Aldi opened its first store in 1913, infamous for its competitive pricing strategy without reducing the quality of its products. Aldi does this by keeping costs down by utilizing efficient business practices; they minimize expenditures by saving space, time, energy, and effort. Aldi’s business model is centered on the principles of lean thinking while other retailers have ornate displays and advertisements. Aldi focuses purely on providing the customer with value and investing profits back into the business to accomplish growth objectives.

Aldi practices lean production. The goal of lean production is to reduce the number of resources used in providing goods and services for its customers. Simultaneously, it is about running the organization to be more efficient. Lean production is all about removing waste and therefore is centered on using less labor, materials, space, and time. The practice of all these factors aforementioned cuts costs and is ubiquitous through all of Aldi.

Aldi cuts costs from its supply chain by sourcing 60% of its fruits and vegetables locally which in turn reduces the cost of transportation. Aldi also cuts costs by training its employees to be able to do a variety of tasks which lowers the need for a large number of staff and staff are able to provide a higher degree of customer service. Aldi sells only a few variations of each product which allows them to buy larger quantities of food than its competitors. This leads to sourcing products more cost effectively. In turn, Aldi reduces its need for large shelf spaces so it can keep its stores smaller, which minimizes expenditures for new locations and reduces costs of upkeep for its current stores.
Aldi minimizes waste by requiring customers to make small deposits for using their carts, which results in less carts going missing and not needing an employee to work cart return. Aldi also has strict operational hours (8am-8pm on Monday-Saturday & from 10am-4pm on Sundays). These lower operational costs make Aldi more productive when they’re open, and it’s energy consumption is lowered when the store is only open at peak business hours.

Aldi lowers the time to process a transaction by making sure that all products have multiple barcodes to help staff quickly locate them. Customers also do their own bagging so that staff can process another order rather than bagging groceries which makes the checkout process more efficient.

Aldi also only holds the stock it needs because holding more stocks than need be is expensive. This means that Aldi doesn’t need to have huge warehouses and employ lots of staff for upkeep. Stock is delivered ready for display and certain items are sold on the pallets that they were delivered on.

Porter’s Five Forces are used to determine industry structure, and they’re a determinant of profitability level and intensity of competition. Each force plays a key role in deciding a company’s competitive strategy. The five forces are threat of substitutes, buyer power, threat of new entrants, supplier power, and rivalry.

The threat of substitutes is strong as Aldis’ products are sold everywhere and the price point of certain high volume products at other supermarkets allow Aldis’ competition to compete. Many other stores feature a more substantial selection of brands, allowing them to charge more overall. Although the threat of substitutes for Aldi is considered strong, it holds a competitive advantage in this regard as well since many of its products can only be found at Aldi
locations. This strategy isn’t unheard of, as Walmart and Target have introduced store-only brands as well. On top of all these factors such as the selection of products and comparable price points that make the threat of substitutes strong for Aldi, big time competitors have frequent advertisements running around the clock, to induce more customers to choose their store.

Some of these factors also play a role in the strong force of competitive rivalry. Other market players such as Walmart, Target, and Kroger etc., sell the same brands for around the same price. Other stores offer a wider selection of items, and have faster checkout times, in which the items are bagged for free (Aldi charges fees for bags). As mentioned above, Aldi cuts costs in terms of everything; it doesn’t even have a marketing team. This gives other superstores the advantage, as Aldi must primarily rely on word of mouth to spread the word of their franchise but this hasn’t necessarily failed for them. Knowing the fierce rivalries between grocers and the factors listed above Aldi has been able to withstand nonetheless.

This brings us to our next weak force, threat of new entrants. The threat of new entrants is weak for Aldi due to the fact that all grocery stores are hard to establish on a level comparative to other well known grocers. On top of that, Aldi’s practices have taken time to develop, and the idea of a similar store popping up might not seem enticing to consumers. Aldi has developed a large name for itself, providing some of the lowest prices next to wholesale goods. Another store, in theory, would have an incredibly difficult time to replicate Aldi’s business strategy.

This leaves us with the other two weak forces, bargaining power of customers and bargaining power of suppliers. The power of buyers and suppliers is the impact they have on the industry (Porter’s Five Forces). When customers walk into Aldi, the odds of them successfully bargaining with the workers to lower the price of their eggs (when they’re already $0.50) are
very slim. This is because Aldi already has low prices as is, and they don’t want to lower them anymore. As for supplier power, this force is weak because there are a lot of suppliers to choose from. Aldi uses Little Journey for their diaper products, and if Little Journey was going to raise their prices, Aldi could easily find another supplier to replace Little Journey.

In order for Aldi to prioritize a Cost-Focus strategy, it needs to develop a minimalistic marketing team designed to inform the general public about their low price, quality products. By educating the public about their competitive advantage over other grocers, Aldi will drive new customers to make it their first option for a grocer. This in turn will lead to an influx of revenue which will not only will return the cost of developing and implementing this minute marketing team, but further increase Aldi’s profit margins. With this newfound revenue, Aldi can develop a social media team and implement a novel social media strategy.

Incorporated, Aldi. “About ALDI.” ALDI, careers.aldi.us/about.

