Deliverable B

In 1961, the first Aldi store opened in Germany as the first discounter store in the world. Aldi's headquarters in the United States are in Batavia, IL. In 1976, it began operations in the United States with their first store in Iowa. Since then, the company has opened more than 1,500 stores in 34 different states all over the United States.

Aldi is a discount grocery store that sells food and general merchandise. It divides its products into five categories: Fresh Meats, Fresh Produce, Wine Cellar, Beer and Home goods. Fresh Meats comprises of beef, pork, and poultry items using names like Roseland, Fit and Active, and Cattlemen's Ranch, and more. The Fresh Produce section comprises of fruits and vegetable sourced from local farms. Alcohol is found at the Wine Cellar and Beer sections, and comprises of many types of wines and beers sourced from several different brands such as Burlwood, Landshut, Sangriana, and many others. The Home Goods section comprises of kitchen appliances, household items, skincare and beauty products, outdoor materials, and toiletries. Although it offers popular brands, 90% of its products are private brand items. The company focuses on non-bulk packaging allowing the company to manage its inventory easily. Aldi is also widely known for providing shoppers with everyday low price items from a wide variety of options, including healthy and organic options such as USDA Choice Beef and gluten-free products.

Although Aldi was the first discounter store in the world, since 1961, many companies have entered the discounter store market. Therefore, it is important for the company to analyze its competitive environment. Michael Porter’s Five Forces analysis allows the company to do so by looking at five factors that act not only on Aldi, but on any brand/company: the power of customers, the threat of substitution, the power of suppliers, the threat of new entrants, and the rivalry. Although these are different forces, they do sometimes intertwine and affect each other.

The bargaining power of customer relates to the customers ability to drive down prices. The number of buyer, or customers, a company has, the significance of each buyer, and the cost of switching companies affects the power of customers. In the grocery industry the power of customer is high because customers are price sensitive, switching costs from one store to another
is relatively low as Aldi’s competitors have similar prices to Aldi, and Aldi relies on customer purchase in order to profit.

The threat of substitution relates to the ease of switching from one brand to another. The threat affects the competitive environment in an industry and the organization's ability to profit because at the end of the day, customers chose to purchase from a competitor instead of Aldi’s product, for instance. The threat of substitutes is high when customer switching costs are low, and substitute product may be cheaper and superior quality compared to Aldi’s products. In Aldi’s case, the threat of substitution is high because Aldi offers a limited number of products and a limited number of brands. Aldi’s stores are relatively small, and as a result, the number of products offered at each store is limited. Therefore, more items offered by larger stores offsets possible substitution. Stores like Walmart and Target, for example, provide shoppers with numerous products at a low price. Customers do not simply rely on Aldi to provide them with specific products as a customer may go to a store to buy groceries. Substitution also threatens suppliers ability to raise prices. For example, if Aldi were to raise its milk price, it would be very easy for customers to drive an extra mile and buy milk from Kroger instead.

The bargaining power of suppliers relates to the supplier's ability to drive up the price of goods and services. Similarly to the power of customers, this force is affected by the number of suppliers available, the uniqueness of products and services offered, and the cost of a switching suppliers. When a supplier has the power to influence price on the market, the supplier is able to raise the quantity or quality of a product further giving the buyer power freedom to choose the product. Therefore, the power of suppliers in Aldi’s case is low. There are many competitors in the grocery store market and the cost of switching suppliers is low. Also, the power of suppliers actually relates to the threat of substitution since the availability of substitutes in the marketplace is a factor in supplier’s power. The supplier bargaining power is high if substitutes are unavailable in the market. A customer may not always rely on Aldi to buy ketchup since so many other other grocery stores sell the same product.

The more money and time it takes for a company to enter the market, the lower the threat of new entrants. High threat of entrants can occur in cases where the industry has a simple, common technology base or little loyalty awareness. The threat of new entrants is low in
industries, such as the grocery industry because the acquisition of patents are necessary and high brand loyalty is notably present. Fortunately for Aldi, the threat of new entrants is low due to the high competitive environment and the cost of entry existent in the market. There are already many grocery stores with strong brand loyalty and establishments in the market already, so the competition in the industry is already high. The cost for a new brand to establish itself is high as well. It takes years and a lot of money for a brand to build a strong network, acquire patents, and build stores, factories, etc.

The last factor in Porter’s Five Models is rivalry. One key element of succeeding in any industry is the company’s ability to understand its competition. The degree of rivalry varies between industries, and in the market Aldi is in, rivalry is very high due to the number of business competing in the market. Although no other competitor in the US has a similar structure to Aldi's stores, Aldi has many competitors: J. C. Penney Company, Inc., Save-A-Lot Food Stores, Target Corporation, The Bon-Ton Stores, Inc., Trader Joe's Company, and Wal-Mart Stores, Inc. are Aldi’s top competitors. It is relatively easy for customers to switch between products and suppliers; therefore, it is important for Aldi to find ways to focus on their strengths and differentiate itself in the market.

Regardless of forces working against Aldi, the company has been able to find strengths to overlook these forces. One of its biggest strength remains having a strong brand image. Corporate awards and recognitions allow the company to gain customer support and recognition. Some of these awards include being named one of America's top three favorite grocery stores in September of 2015, by Market Force Information, Inc, and placing among the top 5 Best Value grocery stores in the Cashier Courtesy and Fast Checkouts category. By maintaining a strong brand image, the brand hopes to continue its expansion and evolution and expects to have nearly 2,000 stores open in the United States by 2018.

Aldi’s other biggest strength is its ability to provide customers with very low prices. According to Aldi’s website, its main principle is that “great quality shouldn’t come at a high price; rather, great quality should come with everyday low prices”. Low prices not only retain customers but also attracts new customers as well. Also, since most of the products offers are
Aldi-exclusive brands, the company can provide high-quality, low price products without worrying about marketing popular brands.

Although Aldi’s positive brand image and low prices allow the brand to grow as a company, Aldi does compete in the market with many other companies, as mentioned before. One of Aldi’s biggest competitors is Trader Joe’s. They are very similar because both companies offer low prices, private brands, organic and local products, and both companies are turning away from traditional advertising methods. In addition, both companies used to focus on advertising through radio, television, and posters; however, with the growth of social media, they are becoming more focused on advertising through websites like Facebook, Twitter, etc. The audience Aldi and Trader Joe’s follow are also similar as both companies see the increase in younger and younger baby boomers makes both companies want to attract the millennial generation. Although there are several similarities, there are also many differences between the two companies. Aldi offers a limited number of products compared to Trader Joe’s. For example, while Aldi might offer two to three different brands of mayo, Trader Joe’s offers eight to nine different brands. Unlike Trader Joe’s, which has an abundant amount of inventory in-store, Aldi has not much inventory in-store. The brand image of the two companies also differs; Aldi’s focus is on cheap, affordable items while Trader Joe’s focuses on organic, health items.

The competitive strategies that Aldi engages in resides between cost focus and industry-wide differentiation. There are four different types of competitive strategies a company may use: Industry-wide cost, Industry-wide differentiation, cost focus, and differentiation focus. Aldi expects its products to be of high value and low cost. Its goal remains proving last, effective, user-friendly products to customers.

Although Aldi might seem just like others super market stores, if one looks a little bit deeper, the company tries to differentiate itself in several different ways: company focuses on selling private brands, customers bring their own bags or buy reusable bags; customers deposit twenty-five cents for a shopping cart; and store layout is different from its competitors. Aldi’s brands are not seen in the everyday supermarket stores because most of it are privately own brands. Not only these brands provide different, new looks to the products, these products also
come at the cheaper price than popular brands. Nevertheless, the quality of the private brands are have similar quality to popular brands.

Another way of differentiating itself and providing low price products is by reusing store bags and buying reusable bags to save money. Unlike Aldi, most of Aldi’s competitors provide customers with plastic or paper bags to take home with them. Aldi asks the customers to supply their own bags, and as a result, the cost of the bag is translated into driving down the price of its products. Aldi’s differentiation and cost focus strategy is also portrayed through its innovative cart rental system. To retrieve a shopping cart, the customer places 25 cents inside a machine that unlocks one shopping cart. After the customer is finished shopping and using the cart, all he or she must do is place the cart back and get their deposit back. By cutting unimportant budget such as shopping bags and unnecessary employees, Aldi essentially passes on the money that would be needed to pay for plastic bags or another employee to the customer. Lastly, the store layouts are very different than Kroger, Trader Joe’s, etc. The stores are never too large, and instead of spending money on cabinets, large packaging, boxes, are placed on shelves which further allows Aldi to save time and money on stocking and replenishment. As one can see, Aldi is not only differentiating itself in only one segment, but instead, it differentiate itself in every part of shopping process.

Aldi is not try to targeted every section of consumer in supermarket industry. Instead, it targets a consumer who want good quality products but not in a luxury price. This not only helps them to secure large portion of consumers in the industry but also influence other type of consumers in the industry to realize that healthy food or products can be cheap. The brand was born in a small shop in Germany, but its focus on low prices and good quality allowed the company to grow significantly for the past years.