

Mini-Case

The Ripple Effect of Supermarket Wars: Aldi Is Changing the Markets in Many Countries

Aldi started as a small, family-owned grocery store located in Essen, Germany, in 1913. Two sons, Karl and Theo, took over the store from their mother in 1946; soon after doing so, they began expanding the business. They emphasized low costs from the very beginning, allowing them to offer their products to customers at low prices relative to competitors. Over time, Aldi expanded to other European countries, and it entered the United States market in 1976. Currently, there are roughly 11,000 Aldi stores located in 20 countries; 1,750 of these units are in 35 states in the United States. In the United States alone, the firm serves 40 million customers on a monthly basis.

Aldi holds its costs down in a variety of ways. It largely sells its own brand-label products in “no frill” stores. The company limits the number of external brands it sells (usually one or two per product), and it has low packaging, transportation, and employee costs. To sell products in its stores, Aldi positions them in ways that are similar to the approach warehouse stores use, for example, placing products on pallets and in cut-away cardboard boxes. In Germany, Aldi advertises very little, but it does advertise in the United States. It produces its own ads in-house (no external agency) and advertises mostly through newspaper inserts and a few television commercials.

Aldi and another discount store, Lidl, have hurt the largest four supermarkets in the U.K. market—Tesco, Walmart’s Asda, J Sainsbury, and Wm. Morrison Supermarkets. Aldi and Lidl have captured market share from these retailers, especially Tesco and Morrison, and held approximately 8.6 percent of the U.K. market in 2016. Aldi plans call for it to reach about 17 percent share of the market by 2021. Tesco has controlled about 30 percent of the discount supermarket market, but it has been declining. Morrison’s recent poor performance has precipitated turnover in most of the firm’s top executives. In addition, the new CEO, David Potts, has been making major changes—largely cutting costs in order to compete on prices. Because of reduced costs, Morrison cut its prices on 130 staple items such as milk and eggs. Likewise, Tesco reduced prices of 380 of its brand

products by about 25 percent. Yet, because of gains in its market share, Aldi plans to invest about \$900 million to open 550 new stores in Britain by 2022.

Aldi is having similar effects on the Australian market. It has gained market share from the two largest supermarkets in Australia—Coles and Woolworths. In response, Woolworths indicated that it plans to reduce its prices to avoid a perception among customers as the “expensive option.” This action does not seem to concern Aldi in that the firm intends to spend \$700 million to add 120–130 stores by 2020 to its current number of 300 stores in Australia.

Aldi appears to be harming some competitors in the United States as well. For example, a rival discount food retailer, Bottom Dollar owned by Delhaize from Belgium, closed all of its stores (located in New Jersey, Pennsylvania, and Ohio) and sold the locations and leases to Aldi. Aldi does have stiffer competition in the United States from Walmart, Sam’s (Walmart’s warehouse stores), and Costco, among other discount food retailers. Yet, Aldi is not only surviving, but also flourishing and growing in the U.S. market as well. In early 2018, Aldi announced that it would spend \$1.6 billion to remodel and expand 1,300 U.S. stores by 2020. Desiring to have 2,500 stores in the United States by 2022, the firm announced in 2018 that it would spend up to \$3 billion to open new stores to reach this target. If reached, a total number of 2,500 stores would result in Aldi being the third largest supermarket chain in the United States.

In addition to affecting grocery store competitive rivalry across country boundaries, Aldi’s actions (and those of others as well) have an effect on wholesalers and other suppliers. For example, wholesale prices have been declining, and some of the major supermarket chains, such as Tesco and Morrison, have been reducing the number of brands on their shelves. Interestingly, manufacturers of popular products, such as Mr. Kipling cakes and Bistro gravy, stand to gain shelf space and increase sales because of stores’ decisions to take some rivals’ products off their shelves. Of course, the suppliers whose products lose their positions on stores’ shelves will likely suffer.

The bottom line is that Aldi is having a major effect on rivals in multiple countries and on many other companies that supply products to the industry. As a result, the grocery industry's competitive dynamics are different today than they were before.

Sources: 2018, Aldi unveils \$1.6 billion nationwide store remodel plan to enhance customer shopping experience, Aldi Homepage, www.aldi.com, February 8; 2017, Motley Fool staff, Setting the stage for grocery industry competition in 2018, Motley Fool Homepage, www.fool.com, December 24; 2014, Aldi targets doubling of UK stores with 600 million pound investment, *New York Times*, www.nytimes.com, November 10;

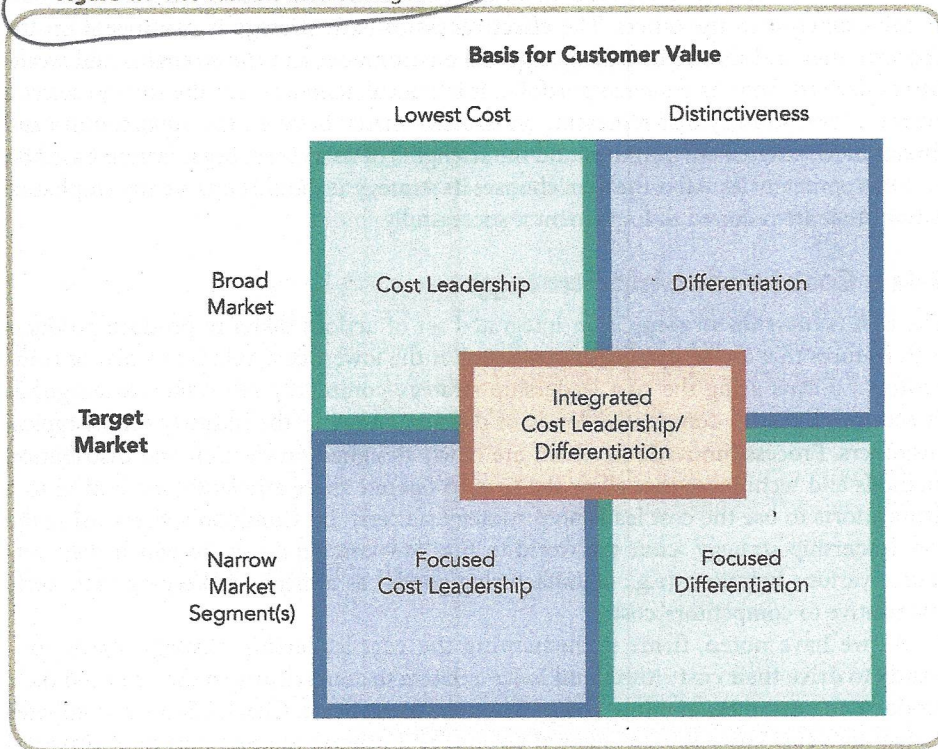
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Case Discussion Questions

1. Using materials in the case and items to which you gain access through a search, describe how Aldi is creating competitive rivalry in the retail grocers' industry.
2. As explained in this chapter's Opening Case, Amazon purchased Whole Foods. How will this transaction affect Aldi as it seeks to expand its presence in the United States? What competitive actions might Aldi take in response to Amazon's purchase of Whole Foods?
3. Using concepts and actions explained in this chapter, decide if Aldi is more likely to respond to any strategic actions Amazon might initiate through Whole Foods or if Amazon through Whole Foods is more likely to respond to any strategic actions Aldi takes. Be prepared to justify your decision.
4. In a competitive rivalry sense, explain the actions (strategic and/or tactical) you believe Walmart and Costco will take to respond to Aldi's intentions to have 2,500 U.S. stores by 2020.

NOTES

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Figure 4.1 Five Business-Level Strategies

Source: Based on M. E. Porter, 1998, *Competitive Advantage: Creating and Sustaining Superior Performance*, New York: The Free Press; D. G. Sirmon, M. A. Hitt, & R. D. Ireland, 2007, Managing firm resources in dynamic environments to create value: Looking inside the black box, *Academy of Management Review*, 32: 273–292; D. G. Sirmon, M. A. Hitt, R. D. Ireland, & B. A. Gilbert, 2011, Resource orchestration to create competitive advantage: Breadth, depth and life cycles effects, *Journal of Management*, 37: 1390–1412.

likelihood a firm will develop an advantage relative to competitors as a path to earning above-average returns.

When selecting a business-level strategy, firms evaluate two types of potential competitive advantages: “lower cost than rivals or the ability to differentiate and command a premium price that exceeds the extra cost of doing so.”⁵⁴ Lower costs result from the firm’s ability to perform activities differently than rivals; being able to differentiate indicates the firm’s capacity to perform different (and valuable) activities. Thus, based on the nature and quality of its internal resources, capabilities, and core competencies, a firm seeks to form either a cost competitive advantage or a distinctiveness competitive advantage as the basis for implementing its business-level strategy.⁵⁵

Two types of target markets are broad market and narrow market segment(s) (see Figure 4.1). Firms serving a broad market seek to use their capabilities to create value for customers on an industry-wide basis. A narrow market segment means that the firm intends to serve the needs of a narrow customer group. With focus strategies, the firm “selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others.”⁵⁶ Buyers with special needs and buyers located in specific geographic regions are examples of narrow customer groups. As shown in Figure 4.1, a firm could also strive to develop a combined low cost/distinctiveness value creation approach as the foundation for serving a target customer group that is larger than a narrow market segment but not as comprehensive as a broad (or industry-wide) customer group. In this instance, the firm uses the integrated cost leadership/differentiation strategy.