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Aldi: The Dark Horse Discounter

Background

Aldi is a global chain of grocery stores that employs a low cost strategy. It started in 1948 when two German brothers Theo and Karl Albrecht took control of their mother's grocery store and started to sell groceries at low prices (Van den Steen, Lane, 2016). The Albrecht brothers implemented the low cost strategy because at the time, Germany's economy was in poor shape. However, once the German economy recovered, Aldi's competitors returned to selling a wide variety of products at a higher cost, but Aldi kept its low cost strategy. In the end, this strategy allowed Aldi to outperform its competitors throughout Germany. By 2000, Aldi had the highest market share out of all German grocers at 40% (Van den Steen, Lane, 2016).

Aldi quickly grew and expanded its business from Germany to most of Europe. In the 1960s and 1970s, Aldi opened and operated stores in Austria, Belgium, Denmark, and the Netherlands (Van den Steen, Lane, 2016). Aldi's low cost strategy performed extremely well in these countries. By the early 1990s, Aldi held a 5% market share in the Netherlands and generated \$1 billion in sales from its stores in Belgium (Van den Steen, Lane, 2016).

Aldi expanded its business to the Midwest region of the United States in 1976. By the mid-1980s, it operated about 150 stores in Illinois, Indiana, Iowa, Kansas, Missouri, and Wisconsin (Van den Steen, Lane, 2016). By 1989, Aldi had a sales revenue of half a billion dollars and rapidly expanded by opening more stores in the East and Midwest region of the

United States (Van den Steen, Lane, 2016). In 2009, Aldi's U.S. revenue reached \$6.5 billion, which comprised 10% of its \$67.7 billion total revenue (Van den Steen, Lane, 2016).

Aldi has been successful in the United States because "ALDI operates nearly 1,400 stores across 32 states and employs more than 19,000 people" (Aldi Corporation). While Aldi has opened many stores in the Eastern and Midwest regions of the United States, they have not opened many grocery stores in the western region. However, in March 2016, Aldi opened eight stores in Southern California, which means that Aldi has not expanded its grocery stores to the entire Western region of the United States (Li, 2016).

Aldi's Expansion Opportunity

Since Aldi opened its grocery stores in the United States, it has established itself in the Eastern and Midwest regions of the United States and recently in Southern California. Therefore, Aldi has the opportunity to expand its grocery stores throughout the entire Western region of the United States. This expansion would be beneficial for Aldi because it will be able to target major cities like Salt Lake City, San Francisco, Seattle, Portland, etc. This will increase Aldi's revenues and market share in the United States.

Expansion Strategies

In order for Aldi to successfully expand its grocery stores and become able to outperform leading grocery stores throughout the West, Aldi needs to advertise heavily. By properly advertising its grocery stores, Aldi will show future customers the real Aldi experience, which consists of selling a small amount of high quality products at the lowest possible price. A consumer research done by *Time's Magazine* showed that consumers tend to presume that cheap prices equate low quality. Moreover, the research labeled this as a "naïve theory" due to the fact that, "consumers can't know everything about a product, we fill in the gaps with our own (naïve)

theories to help us make decisions about whether the cheaply priced product is a terrific deal or a piece of junk” (Tuttle, 2012). Research shows that consumers who read the following passage were more likely to perceive that cheaper goods equate good quality:

Remember that more expensive does not always mean better. Take bamboo for example: it is cheaper than other exotic woods, but it is resistant to wear and very stylish. You need to consider your needs carefully in order to get ‘more bang for your buck.’ When the time comes for reselling, a good value for the price will guarantee a better return on investment than expensive products. (Tuttle, 2012)

Therefore, advertising its grocery stores will help Aldi break the stigma between consumers that its cheap products are low quality.

Aldi should put an emphasis on operational efficiency and customer experience to help penetrate the Western region of the United States. Aldi’s stores use simple tactics to increase operational efficiency. For example, “Aldi offered only a limited selection among its limited assortment - two brands of toilet paper, one brand of pickles - in only one or two container sizes. The idea was that selling just one type of most items made it easier for a customer to decide on their purchases, speeding up shopping trips” (Van den Steen, Lane, 2016). On the other hand, similar grocery stores such as Walmart and Costco overwhelm customers with an abundance of choices. Therefore, Aldi’s operational strategy gives customers a unique experience while shopping at Aldi, because it makes the shopping experience quick and simple. By employing this strategy, Aldi is able to keep costs low for customers. Aldi should continue implementing and improving this strategy in the Western region of the United States in order to differentiate itself from competitors and keep costs low for customers.

Best Strategy

The strategy Aldi needs to implement in order to expand successfully its grocery stores throughout the Western region of the United States is mass advertising. This will give Aldi the opportunity to show future customers the real Aldi experience. Furthermore, mass advertising in these states will also increase Aldi's revenues and market share in the United States because Aldi will be able to target major cities like San Francisco, Seattle, Portland, etc. In addition, according to InfoPlease, each of these cities has more than 500 thousand residents; this would give Aldi the opportunity to target different types of socioeconomic groups (InfoPlease, N.D.). Finally, advertising its grocery stores will help Aldi break the stigma between consumers that its cheap products are low quality.

Program Performance Metrics

Some intermediate metrics Aldi can use to track the performance and success of the expansion process are the number of new customers, brand awareness, and customer satisfaction. For the first intermediate metric, Aldi can track how many new customers shop at its stores each day and compare the numbers on a monthly basis to make sure Aldi is increasing its customer base. For the second intermediate metric, Aldi can measure brand awareness by using social media analytics. For example, websites like Keyhole, AgoraPulse, and Brandwatch can measure the number of times social media users mention the word Aldi or use other Aldi-related keywords. For the third intermediate metric, Aldi could use social media as a way to interact with its customers and gather customer feedback about their shopping experience. This feedback will help Aldi conduct industry research, measure customer satisfaction, and improve customer service.

The final conclusive metric for Aldi's expansion strategy is to lead the grocery store market among low and middle-income individuals in the Western region of the United States. Aldi can track its success by measuring its revenues and market share to determine whether the expansion process is being successful. A great way to ensure Aldi is staying ahead of its competition is to compare its financial statements to other leading grocery stores in the west. A way to analyze Aldi's market share is to compare Aldi's total earnings to other leading grocery stores throughout the west. Aldi's strategy will be successful when it has the highest revenue and market share among its competitors in the Western region of the United States.

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