



# How should Aldi strengthen their position in the U.S. market?

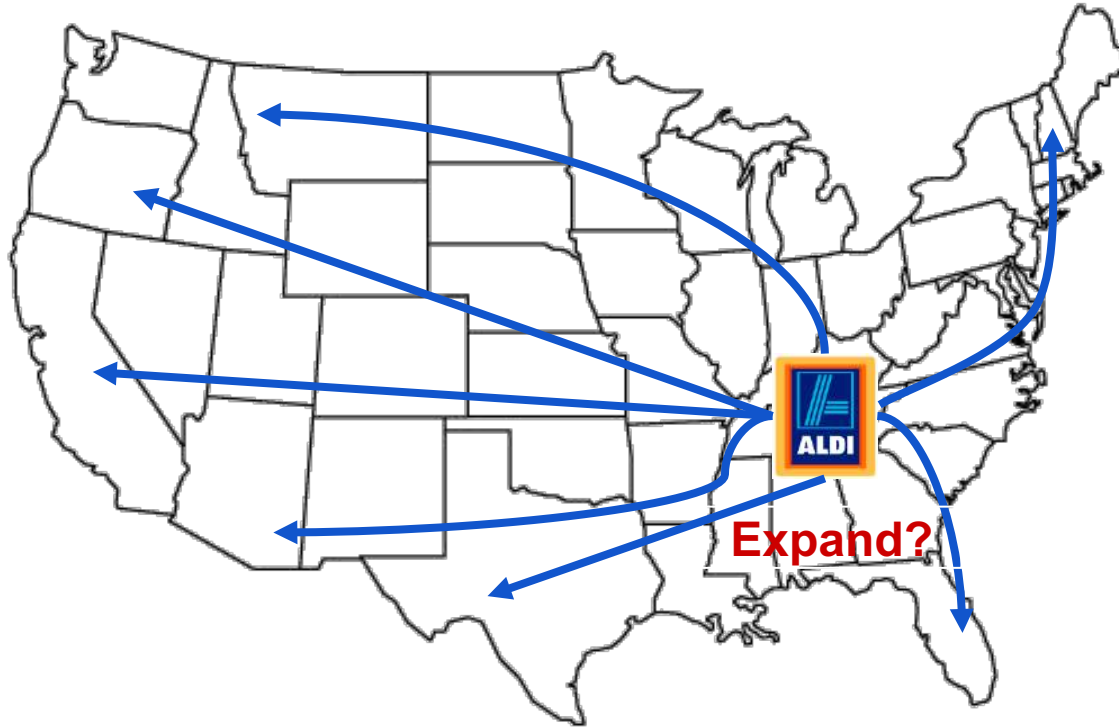
Case Study: Aldi

30th Oct 2017  
Zürich, Switzerland

Group A2:  
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Tseng, Thomas  
Xu, Hong  
Yang, Xingyu  
Yang, Xuechun

# Our Problem Statement

How should Aldi strengthen their position in the U.S. market?



Fierce competition in U.S. retailer industry



Which segment of the retailer industry should Aldi focus on for their expansion ?

How should Aldi compete in the U.S. market?

# Presentation Overview


1. **Introduction: U.S. Retail Industry**
2. **Grocery Store Industry**
  - a. KPIs and key characteristics
  - b. Porter's 5 Forces
  - c. Industry Overview
3. **Department Store Industry**
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4. **Comparison Grocery vs. Department Store**
5. **Aldi**
  - a. Aldi in the Grocery Store Industry
  - b. Aldi SWOT Analysis
6. **Recommendation**
  - a. Strengthen Grocery Store Presence
  - b. Store Location
  - c. Online Presence
  - d. Organic Food Line
  - e. U.S. Customer Behavior
7. **Summary**





## Introduction: U.S. Retail Industry

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  - U.S. Customer Behavior
- Summary**

An aerial photograph of a city, likely Zurich, Switzerland. The foreground shows a large, modern, multi-story building with a flat roof and many windows. In the background, a body of water (Lake Zurich) is visible, surrounded by green hills and mountains. The city's architecture is a mix of modern and traditional European styles.

## 7. Summary

# Introduction to Retail Industry in the U.S.

## Definition and performance

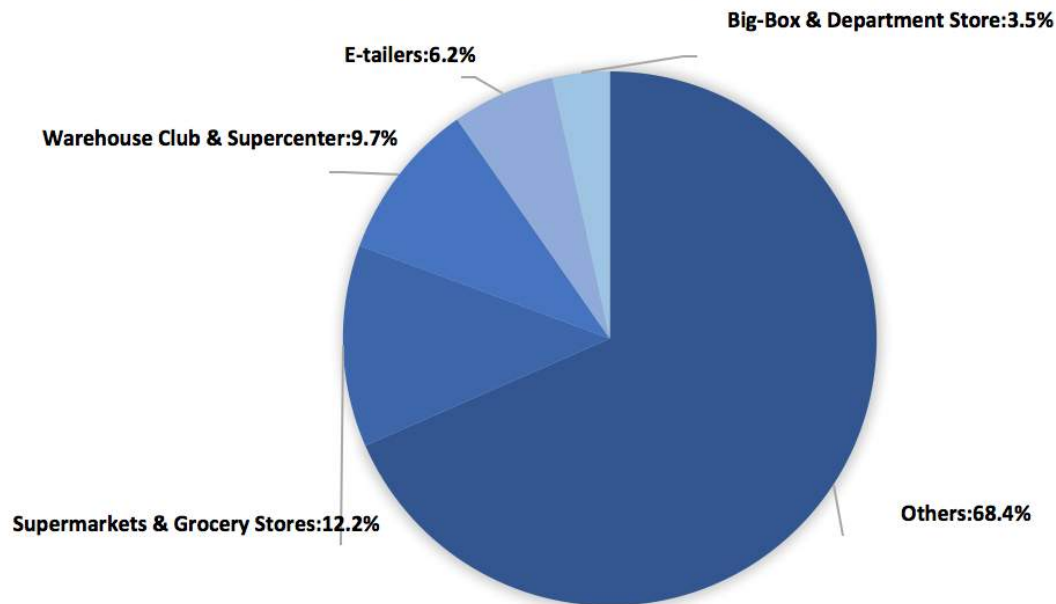
### The retail industry

is a sector of the economy that is comprised of individuals and companies engaged in the selling of finished products to end consumers.

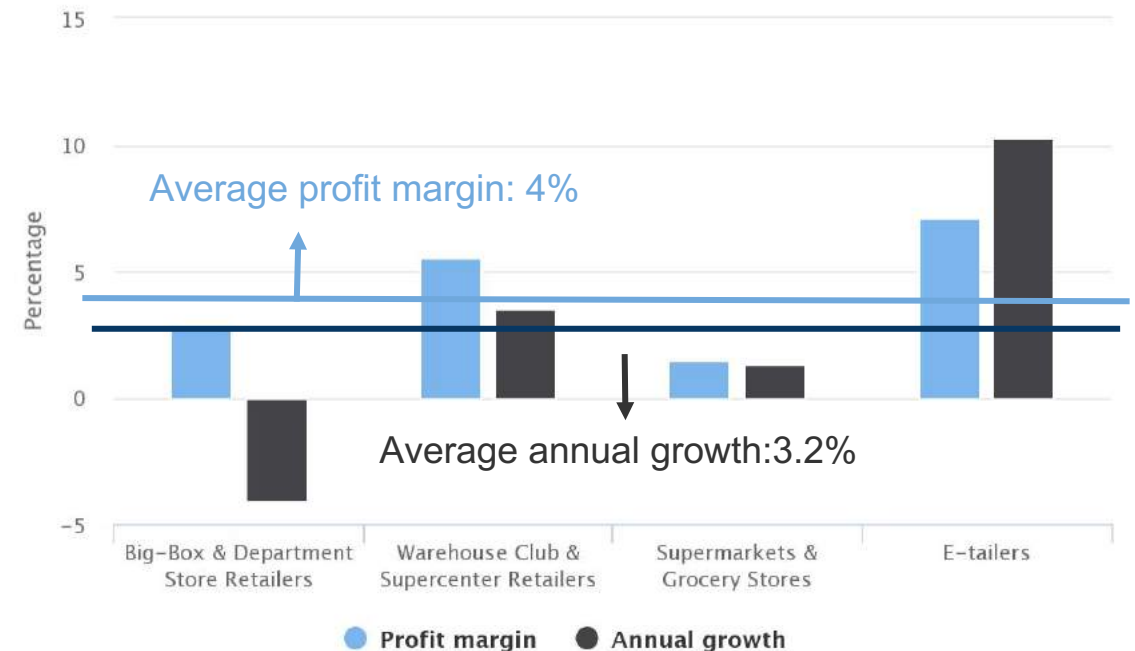
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features the largest number of large, lucrative retailers in the world. In 2016, U.S. retail sales reached **\$4952.63 billions**, **20.8%** of worldwide retail sales.

RETAIL INDUSTRY MARKET SHARES BY SEGMENT IN THE U.S., 2015



Retail industry performance by segment in the U.S., 2015



Source: Anon, (2017). "2015 Retail Industry Report". [online] Available at: <http://www.globalmna.com/assets/2015retailindustryreport.pdf> [Accessed 29 Oct. 2017].



# Retail Industry Segments

## Grocery store



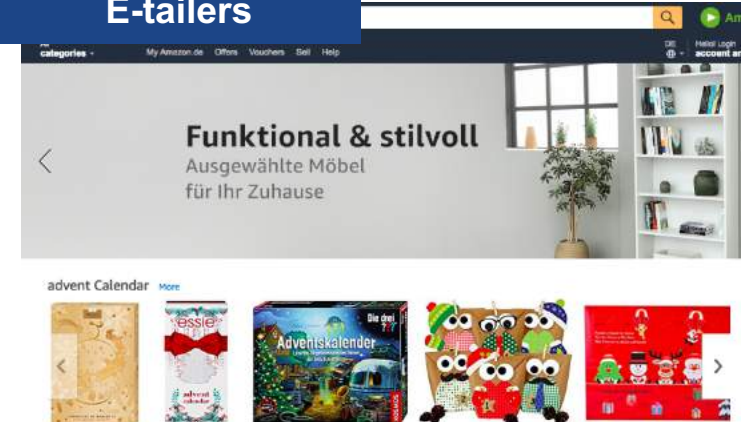
## Department store



## Supercenter



## E-tailers



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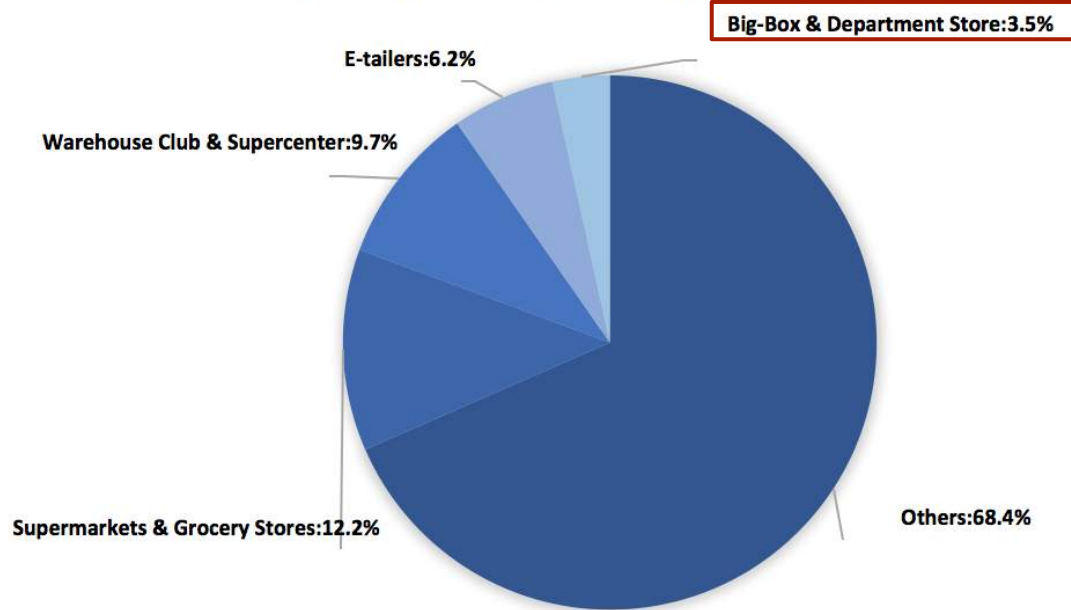
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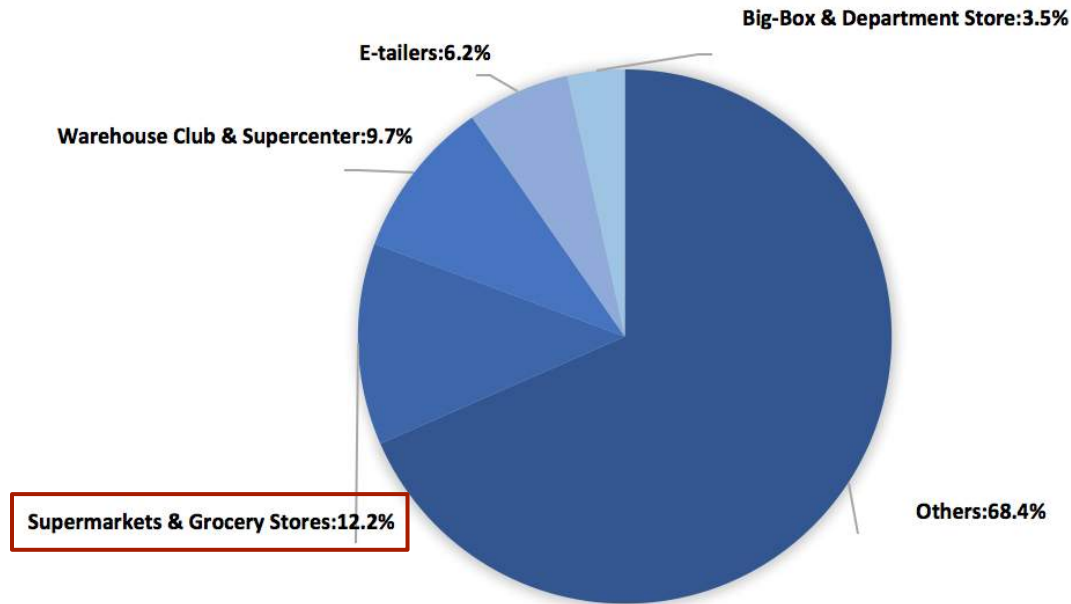
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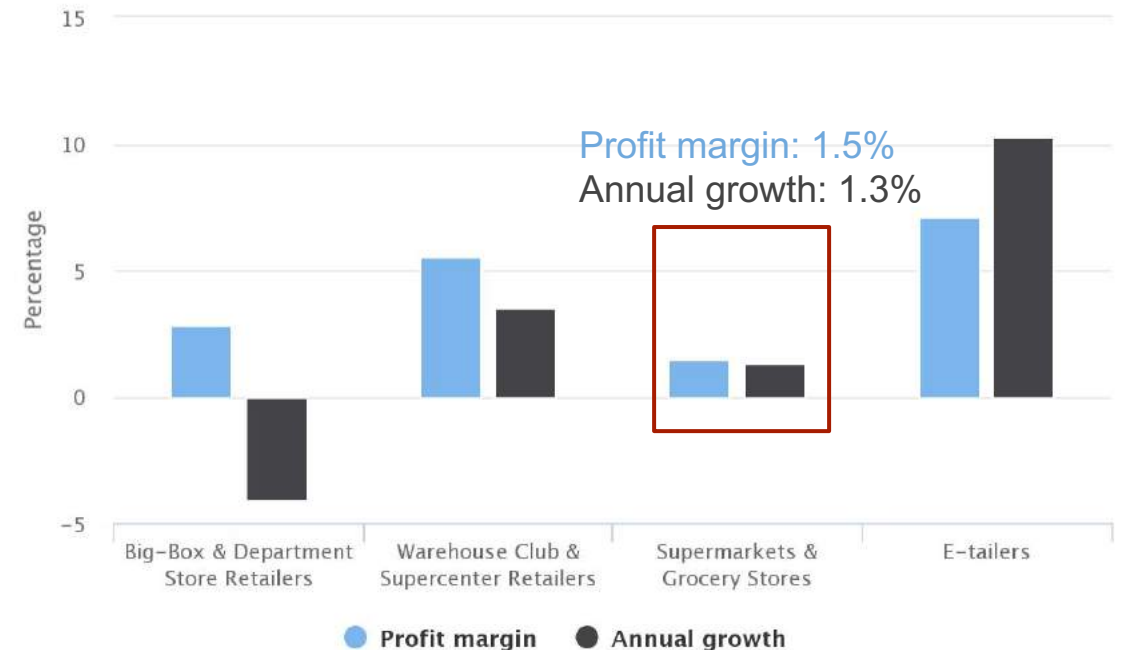
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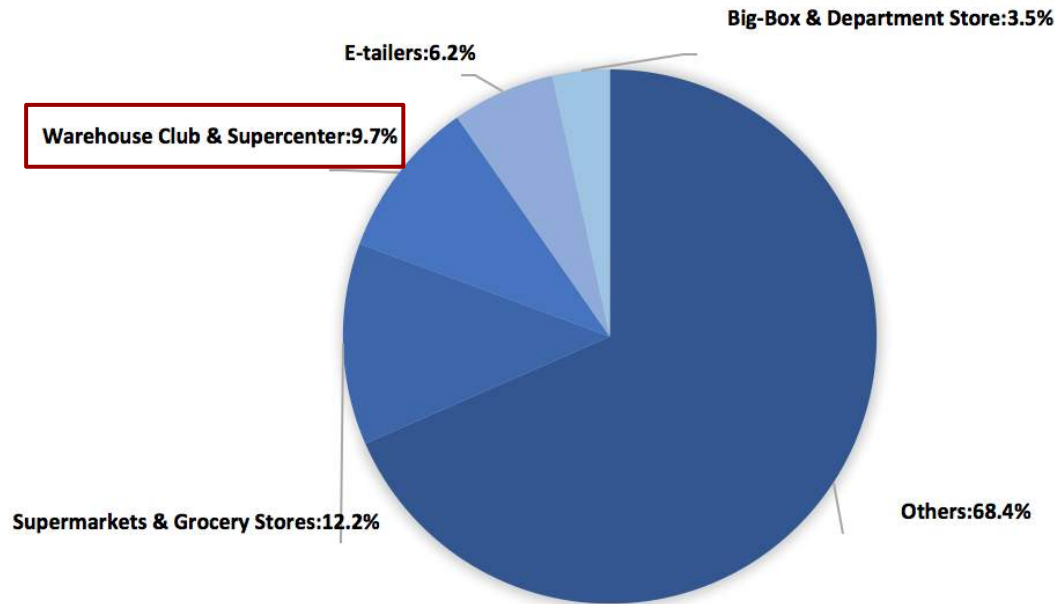
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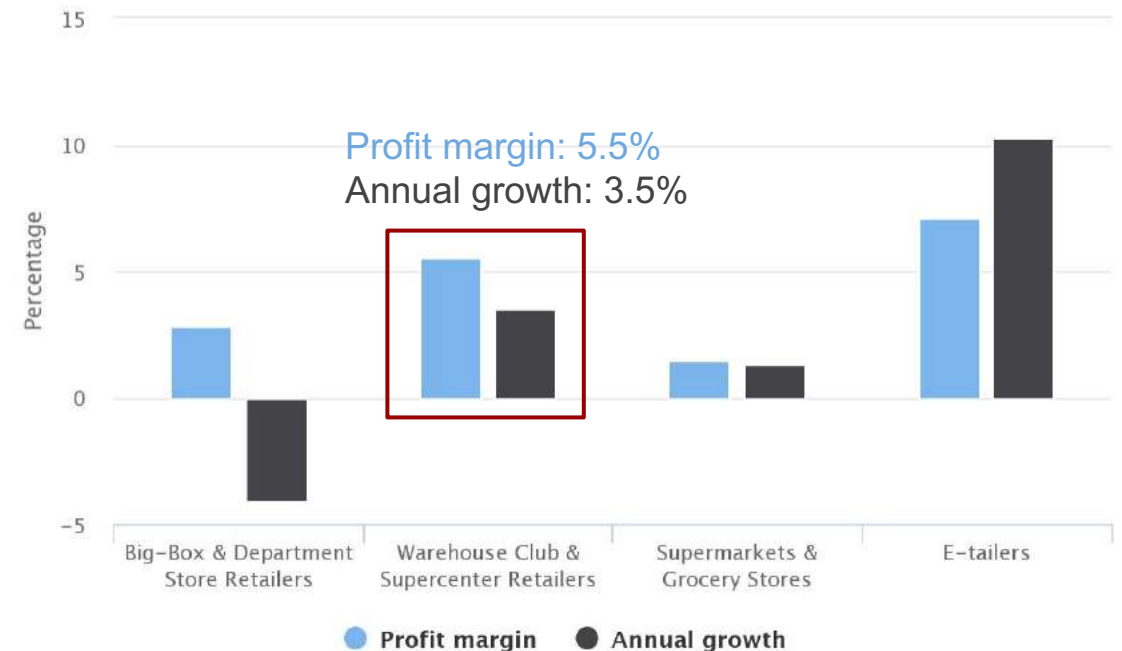
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# Grocery Store Industry Analysis

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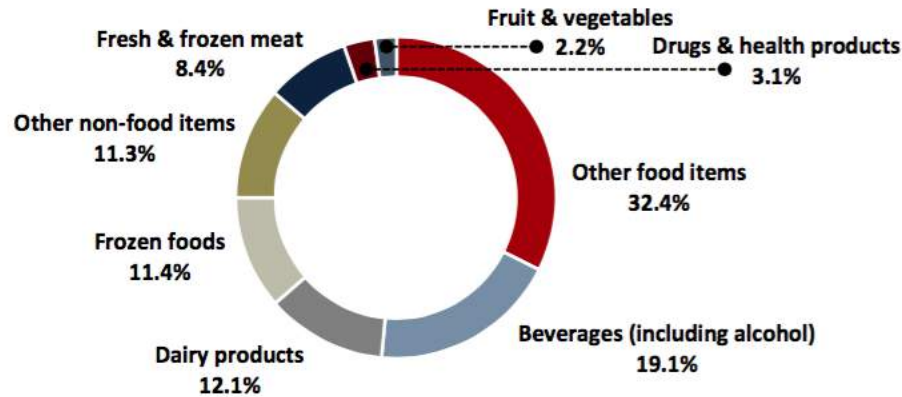


# Grocery Industry in the U.S.

Grocery store is a retail store that primarily sells food

Grocery stores in the U.S. accounted for **90%** of the country's food and beverage store sales.

Major product segmentation(2015)

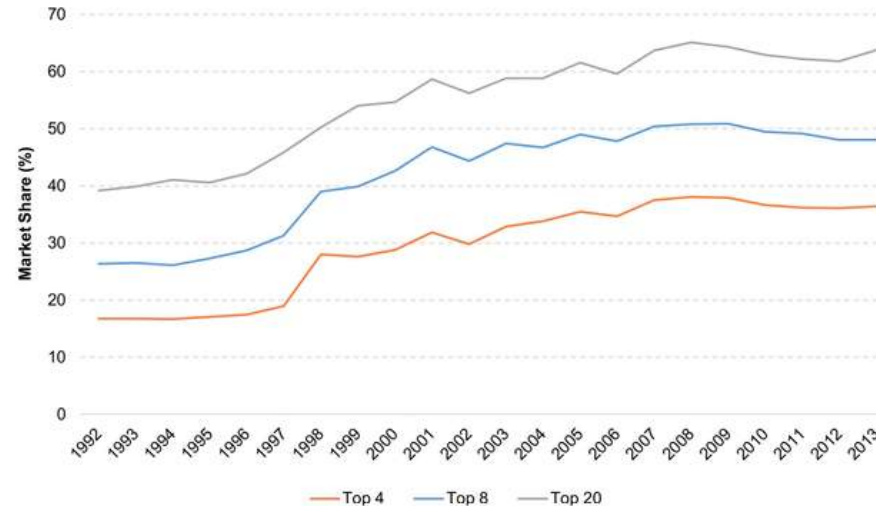


## The grocery industry is mature.

- Annual revenue: 584.3 billion
- Profit margin: 1.5%
- Annual growth: 1.3%
- Stores number: 65, 000
- Employee number: 3.4

Top four players' sales of the total grocery industry has increased from **17%** in 1992 to around **31%** in 2015.

Market Share of Top Firms in US Grocery Segment



Top four players:  
(31%)  
The Kroger Co.  
(15.4%)  
Safeway (6.6%)  
Publix Super (5.5%)  
Delhaize America LLC.

Main players:  
(69%)  
Small- to medium-sized local market operators.

## The grocery industry is fragmented:

The overwhelming majority of these retailers are small businesses.

## In the Future, the grocery industry will be consolidated:

Driven by merger and acquisition activity among the leading operators.



# Grocery Industry in the U.S.

## Porter's Five Forces

### Threats of New Entrants

#### Low barrier to entry

- No license required
- Low taxes, low initial investment

#### New entrants lack competitiveness

- Life cycle stage(mature)
- **Consolidation of market**

### Threats of Substitutes

#### Internal substitute: healthier food

- Local farmers
- **Natural and organic food**

#### External substitute: cheaper, convenience

- Warehouse clubs, **supercenters**
- One-stop-shop

### Intensity of Competitive Rivalry

e.g. The Kroger.Co  
Safeway Inc

Low market concentration.  
Low diversity of competitors.  
Homogeneous products.

→ **Fierce competition**  
→ **Price war**

#### Low bargaining power of suppliers

- **High switching cost of suppliers**
- Agriculture market is fragmented
- Expanding supply chain

#### High customer bargaining power

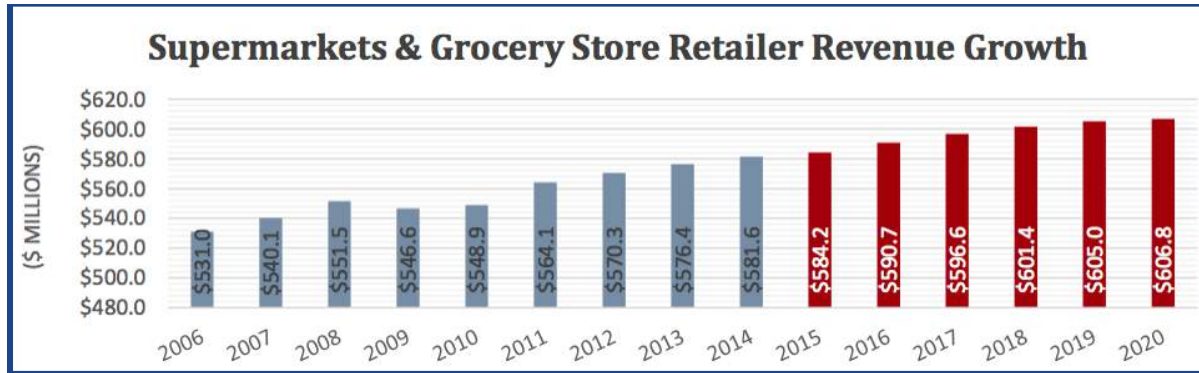
- low switching cost of customers
- Well informed about the product
- **Price sensitive**

### Bargaining Power of Suppliers

### Bargaining Power of Buyers

# Grocery Industry in the U.S.

## Current Trends and Key Takeaways

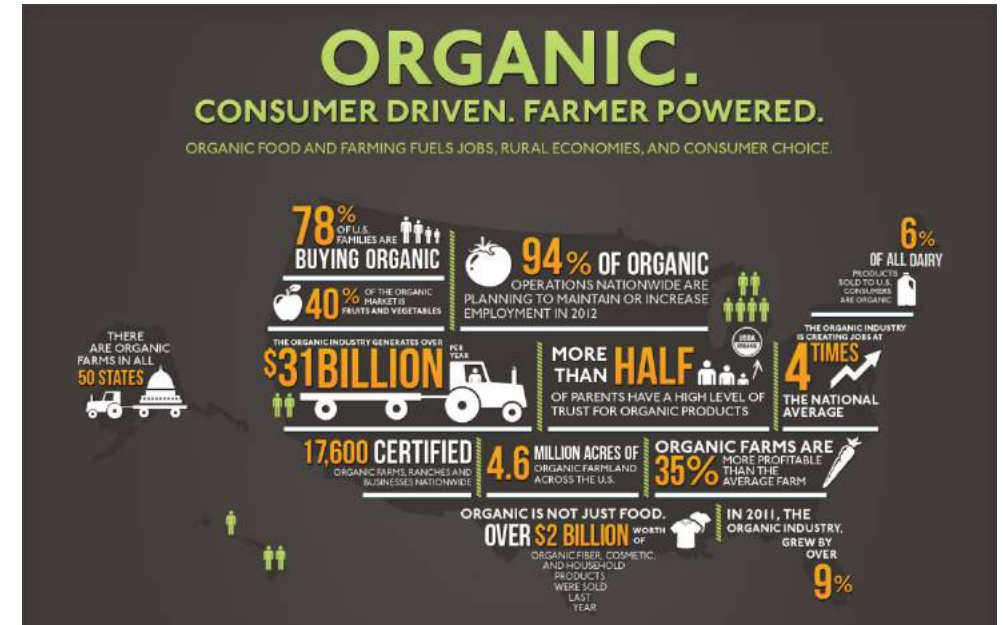


### Retail Trends

- ↓ Average supermarket square feet
- ↑ Natural and organic foods:
  - 7.9% increase from 2015 to 2016
  - 8000 local farms in the USA
  - 50% Americans intend to eat healthier
- ↑ Local food: 53% Americans seek out locally grown foods
- ↑ Online shopping: 4.5% annual growth

### Market Trends

- ↑ Segment revenue: with an annual rate of 0.8%
- ↓ Segment profitability: with increasing promotional activity
- ↑ New entrants growth: with an annual rate of 0.1%
- ↑ M&A activity: to gain economies of scale.

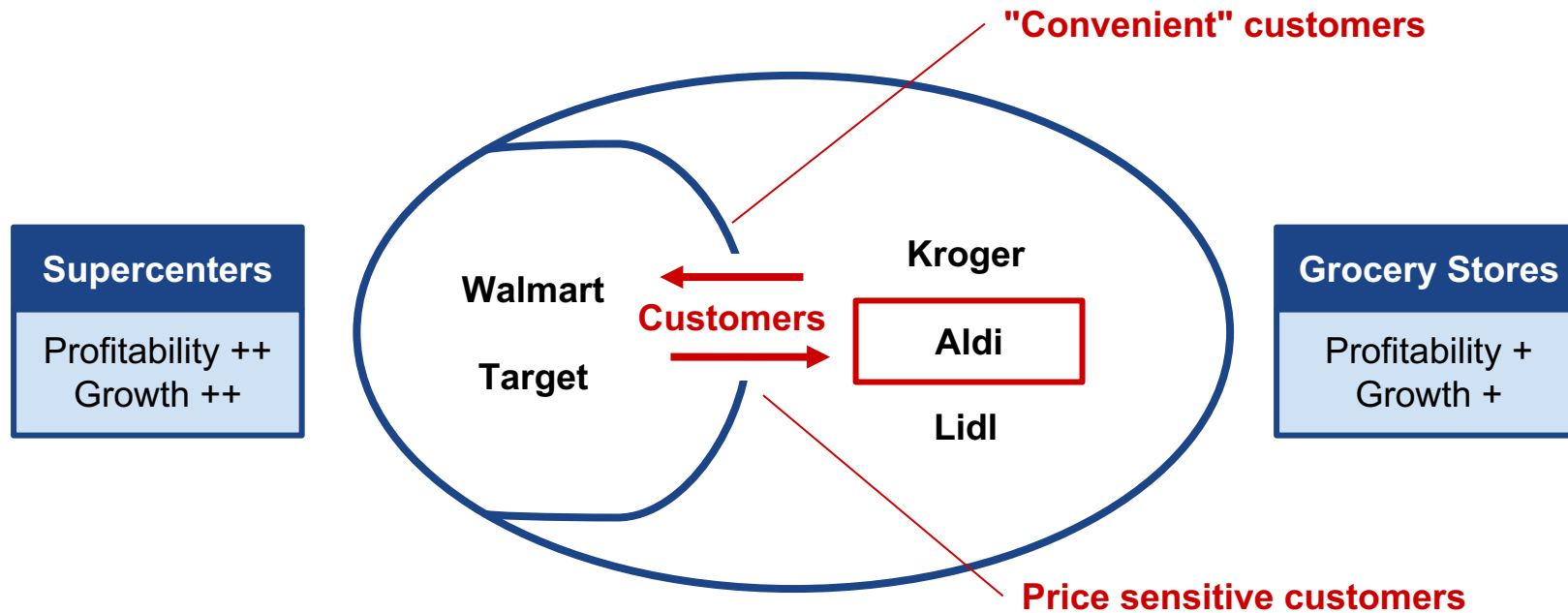


Source: Anon, (2017). "2015 Retail Industry Report". [online] Available at: <http://www.globalmna.com/assets/2015retailindustryreport.pdf> [Accessed 29 Oct. 2017]. ;

Infographic of the Week: Organic Food & Beverage Sales Reach \$29.2 Billion in 2011 Available at: <https://foodtechconnect.com/2012/05/07/infographic-organic-food-beverages-reaches-29-2-billion-in-2011>

# Grocery Industry

## Dynamics



### Challenges of Grocery Industry

- **Supercenters:** They are expanding grocery offerings, becoming one-stop shops. → **Convenience**
- **Grocery stores & discount stores:** PRICE SENSITIVE customers shop locally and in small amounts → **Low price**



# Department Store Industry Analysis



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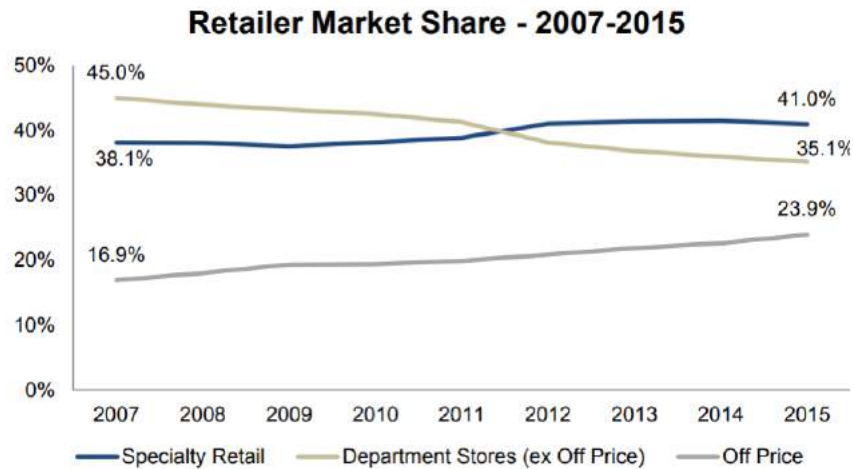
## 7. Summary



# Department Store Industry

## Current Situation

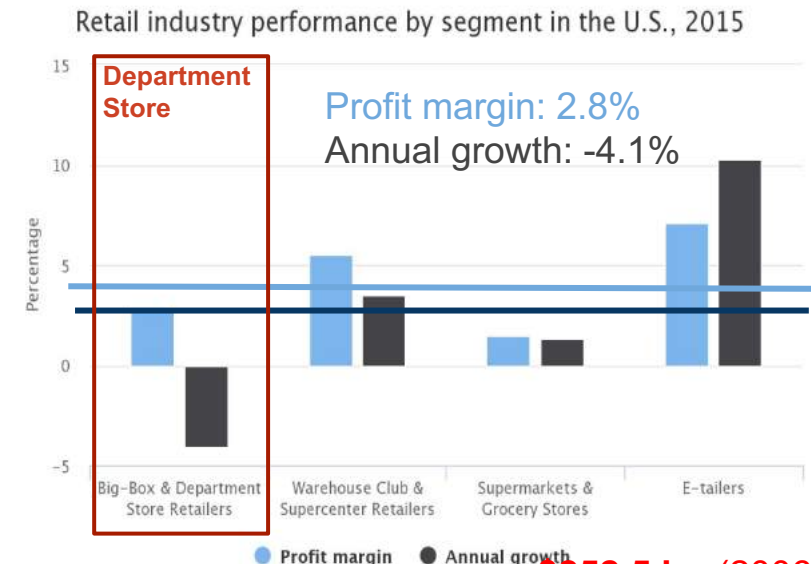
Department store market share **fell to 35%** (2015) from **45%** (2007) worldwide



\*Equity research, Credit Suisse, 2017

**Definition:** A retail establishment offering a wide range of consumer goods in different product categories known as “departments”.

US department store sales have been **declining** for over **10 years**, in total and as a percentage of total retail.



- **Revenue:** **\$252.5 bn (2006) --> \$163.58 bn (2015)\***
- **No. of Employees:** 1.7 mn (2002) → 1.3mn (2016)\*
- **Key players:** Target, Nordstrom, Sears, J.C Penny, Walmart

\*Monthly retail trade report, US department of commerce, 2015 & © Statista 2017

\*U.S. Bureau of Labor Statistics

Source: Anon, (2017). “2015 Retail Industry Report”. [online] Available at: <http://www.globalmna.com/assets/2015retailindustryreport.pdf> [Accessed 29 Oct. 2017].

# Department Store Industry

## Porter's Five Forces

### Threats of New Entrants

- High entrance barriers:
  - **capital requirements** (huge stores)
  - incumbent advantages (experience, positioning, brand)
  - product differentiation

### Threats of Substitutes

- Substitutes:
  - **online shopping** (low switching costs, attractive price-performance trade-off)
  - **supercenters**

**Intensity of Competitive Rivalry**  
e.g. Walmart, Sears, JC Penney

**Price pressure** since:  
high fixed costs  
low switching costs  
rivals are big players

- **Power of suppliers increases:**
  - many players are leaving → harder to make deals with fair prices

- **Increasing bargaining power:**
  - low switching costs
  - consumers more price sensitive since recession

### Bargaining Power of Suppliers

### Bargaining Power of Buyers



# Department Store Industry

## Current Trends and Key Takeaways

### Segment profitability

- **still positive**, thanks to cuts in expenses (workforce, stores)
- **eroded by** fast fashion, discounters and **online shopping** (high product overlap)

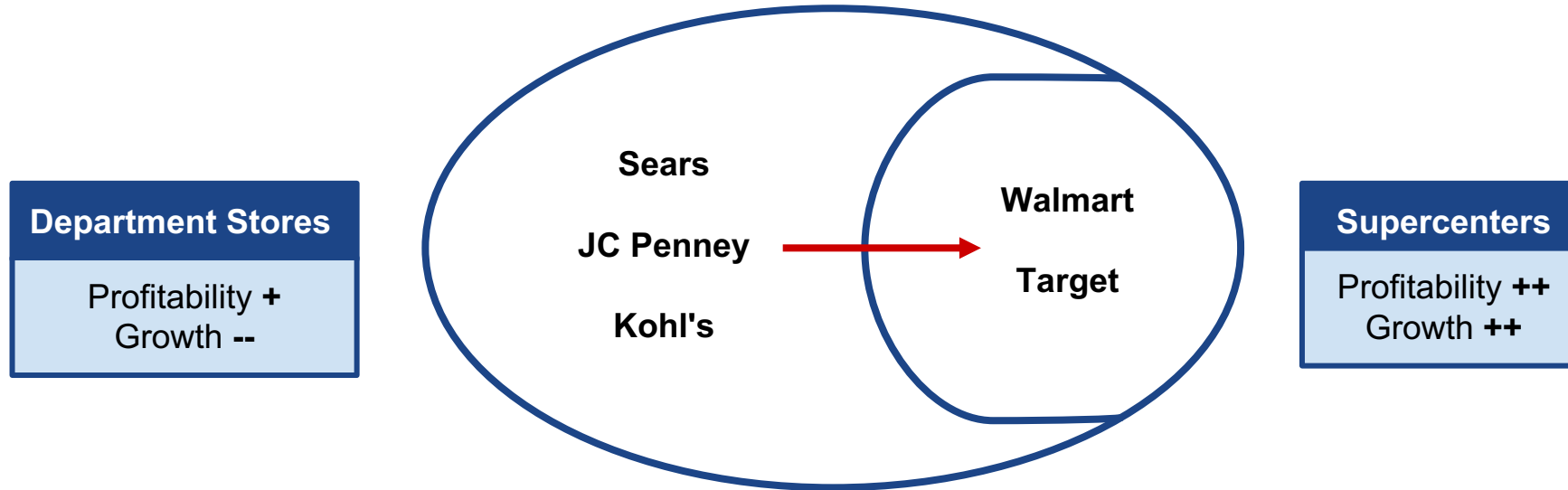
### Trends

- Recession has decreased discretionary spending (not essential)
- Department stores have reduced size and opened outlet versions



# Department Store Industry

## Dynamics



### How department stores are adapting

- expanding **grocery offerings** (becoming supercenters)
- ones with more **differentiated brands** fare better
- improve **online stores**
- reduce real estate
- supply chain efficiency

# Grocery vs. Department Store

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# Grocery vs. Department stores

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		Grocery Store	Department Store
Key features	Profitability	1.5% (2009-14) → < 1.5% (2014-19)	2.9% (2009-14) → < 2.9% (2014-19)
	Annual growth	1.3% (2009-14) → 0.8% (2014-19)	-4.1% (2009-14) → -1.4% (2014-19)
	Market share	12.2% (2015)	3.5% (2015)
Five forces	Competitive rivalry	Intensifying competition → price war	High fixed costs → price pressure
	Threats of entrants	Low barriers but lack competitiveness	High barriers → no entrants
	Threats of substitutes	Internal → healthier   external → cheaper	Supercenters, e-tailers
Conclusion		Stagnant growth and profitability, require cheaper and healthier foods	Decreasing revenues, customers migrate to supercenters and e-tailers

# Grocery vs. Department stores

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**More attractive market**

# Aldi

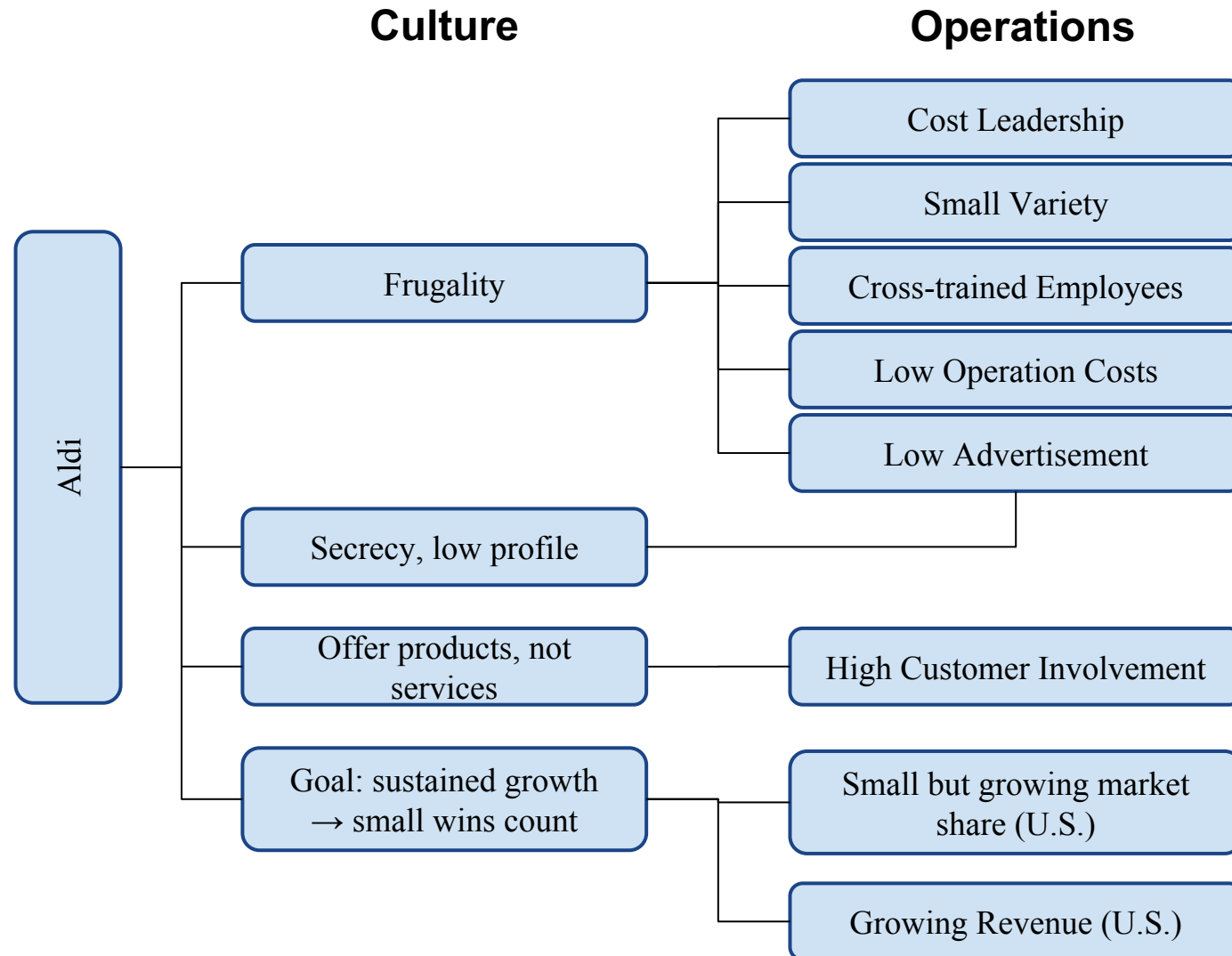


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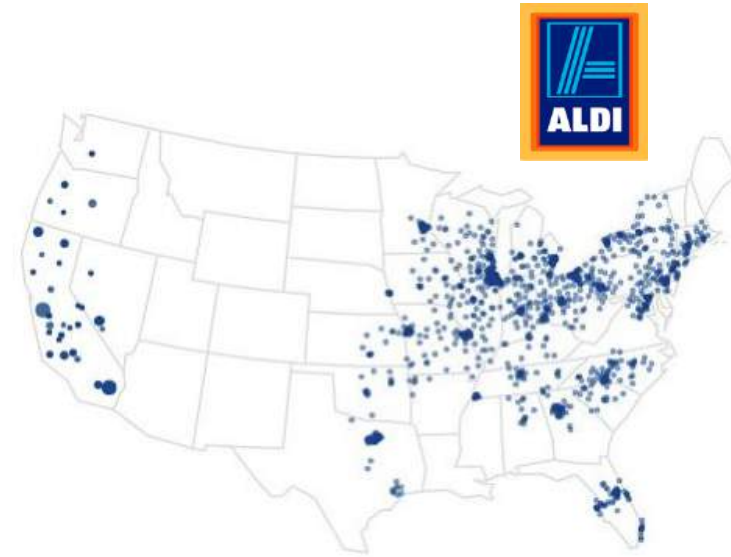
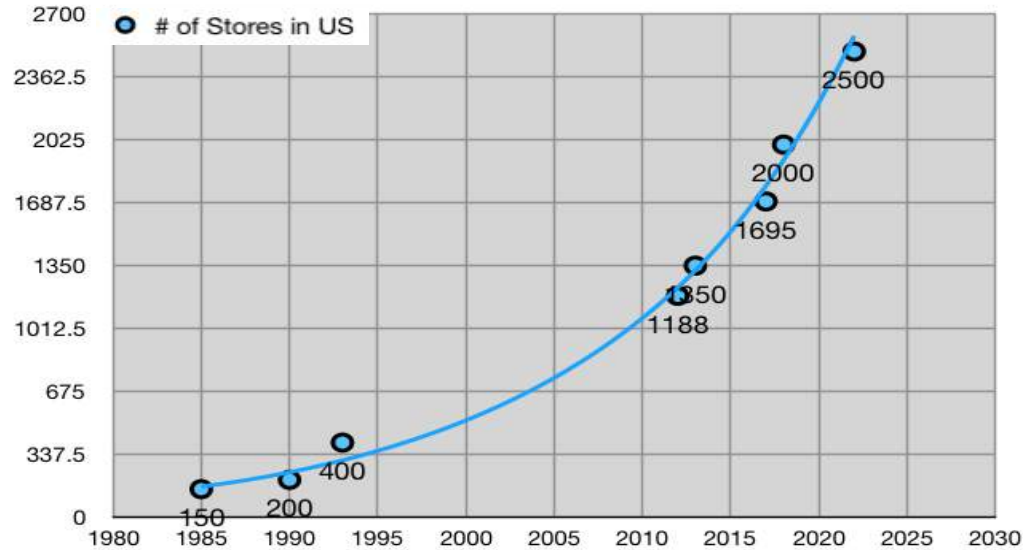


# Aldi Culture & Operations



# Aldi in the U.S.

## No. of Stores and Geographical Coverage in US

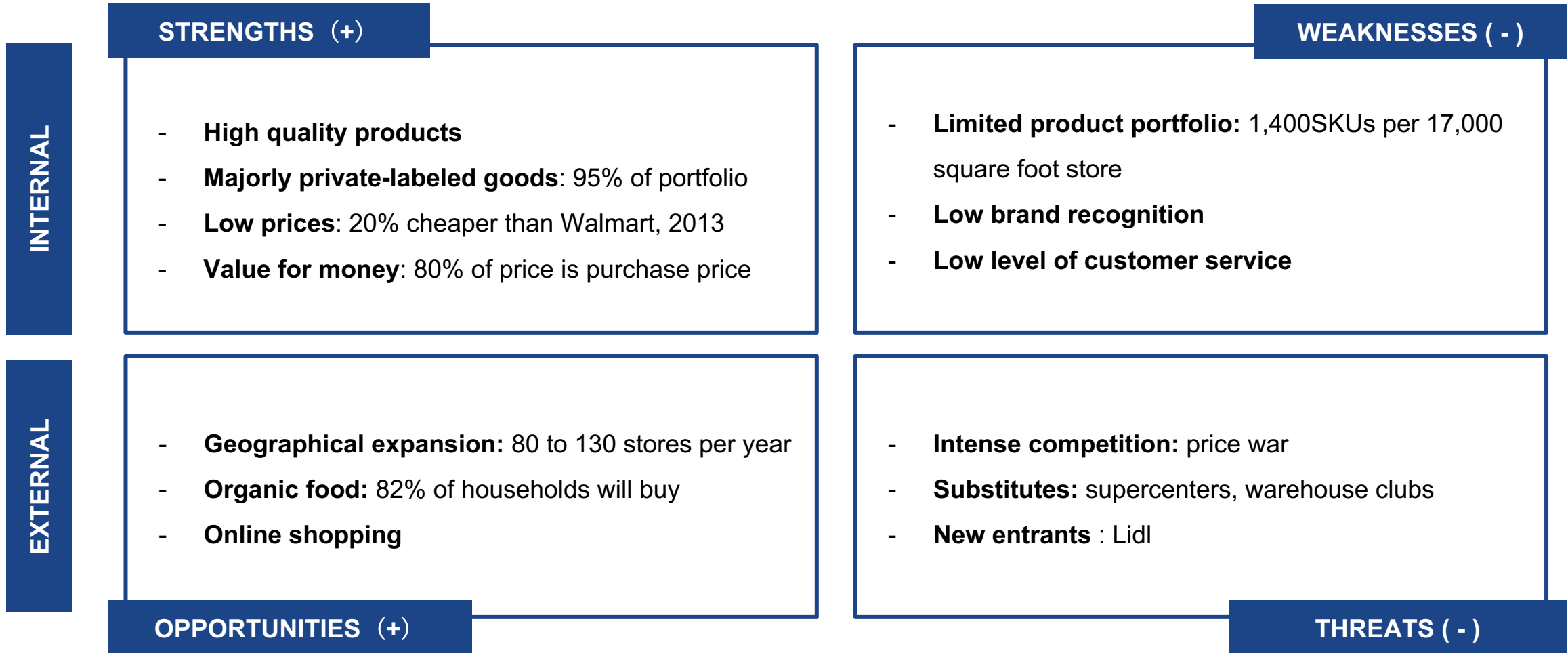


	Aldi	Walmart
Market Share (Grocery, May 2017)	1.5 %	22 %
Sales Growth (Grocery, May 2017)	15 %	2 %
Ranking (Global retailers, 2012)	8th	1st
Competitive Advantage	Cost leadership	Always low prices



\*Based on articles in 2014  
@bigthink

# Aldi SWOT Analysis





# Recommendation for Aldi's expansion strategy

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# Recommendation

## Avoid Department Store Segment, Focus on Groceries

### No Department Stores !

- Differentiation through exclusive brands goes against Aldi culture and competitive strategy
- High service level and costly operations against Aldi culture
- High product overlap with online retailers
- High investment

### Department Stores

Profitability +  
Growth --

### Strengthen Grocery Stores

- Aldi has know-how and experience in grocery store and loyal suppliers
- REAL cost leader in grocery market
- Online retailers lesser threat to grocery stores
- Many growth options: e.g. organic food

### Grocery Stores

Profitability +  
Growth +

### Why Not Supercenters?

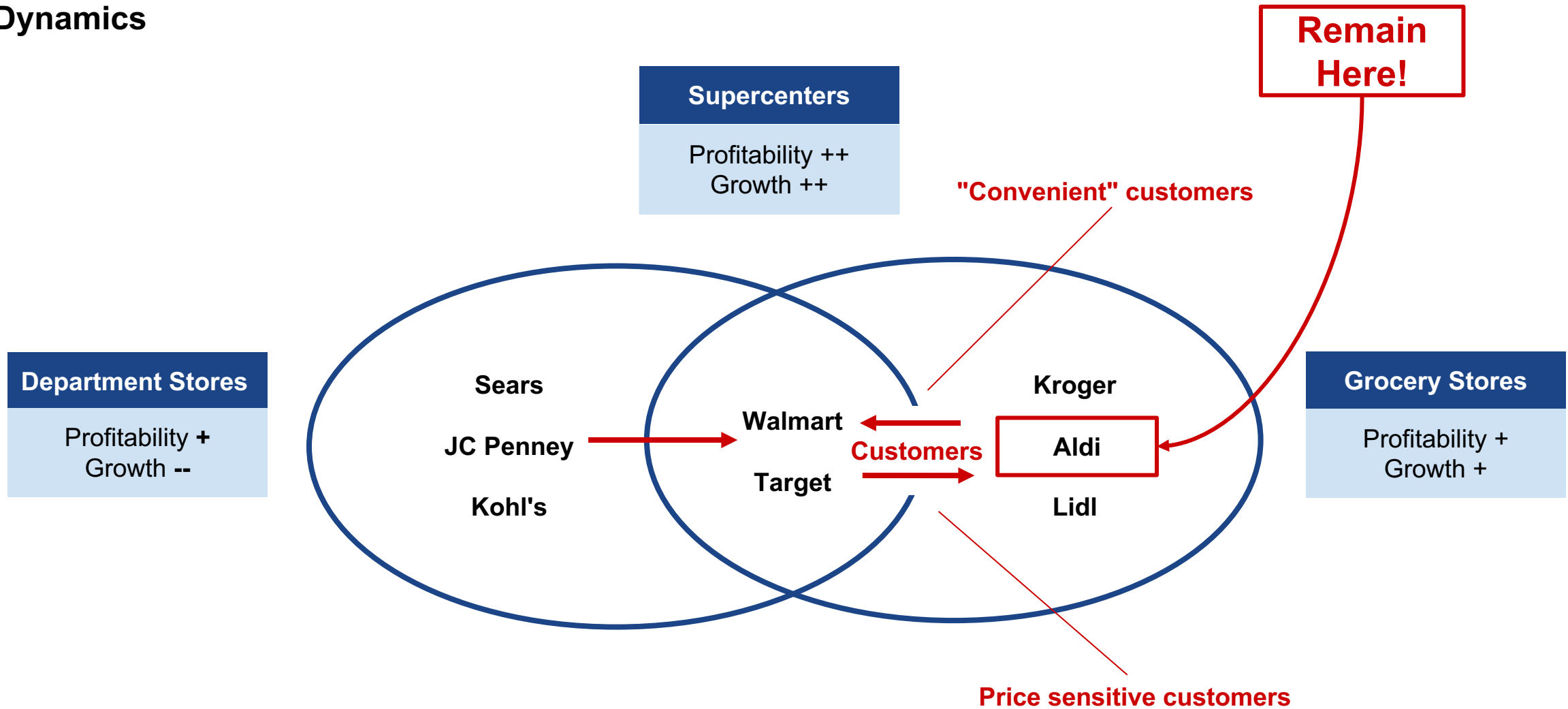
- Extremely high investment, no experience
- Vulnerable to e-tailers
- Can only be supported by high demands
- Aldi's target: low budget, price sensitive customers

### Supercenters

Profitability ++  
Growth ++

# Recommendation

## Dynamics





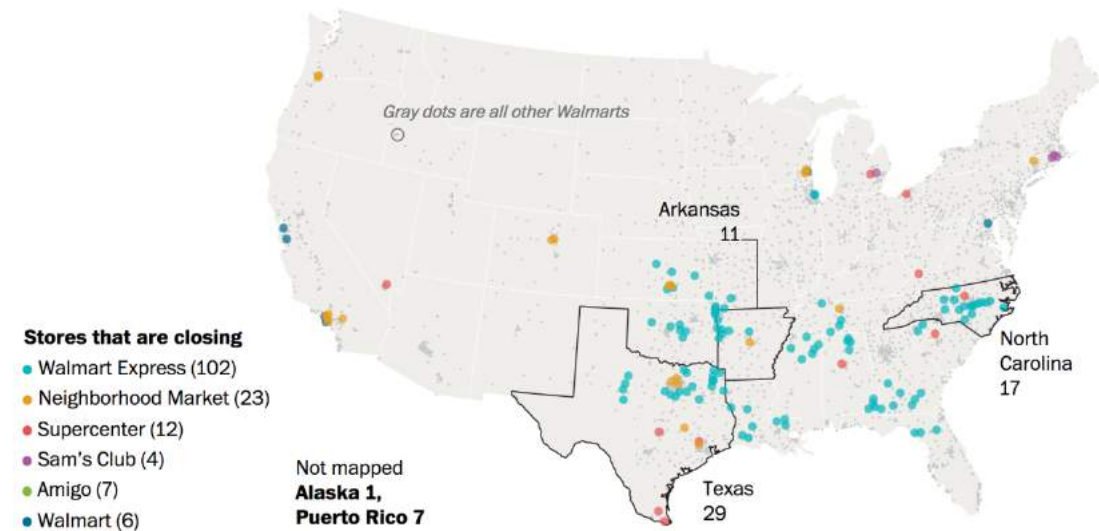
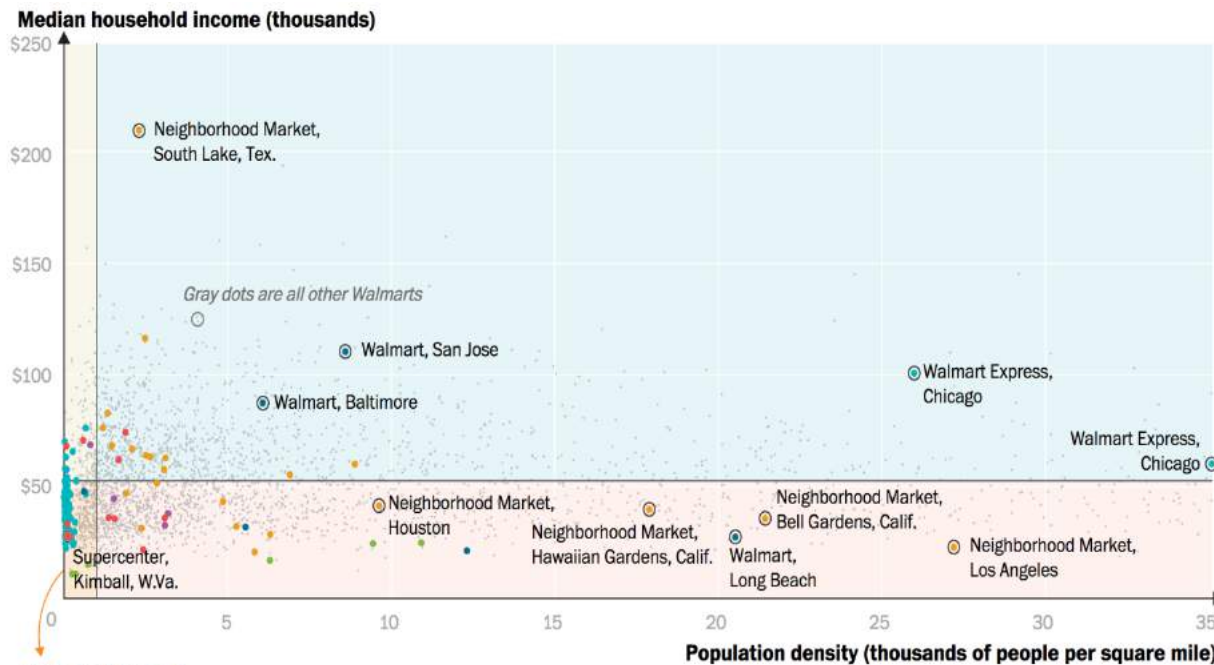
# Recommendation

## Location of Stores

*"Poor, rural areas will be most affected by Walmart closing stores"*

### Lessons to Learn

- Walmart could not compete with dollar stores (low income)
- Supercenters were too big (low density)



### Consumer trends

Low income / price sensitive consumers shop **locally** (high gas prices) and **often rather than big**.

Source: Washington Post. (2017). Poor, rural areas will be most affected by Walmart closing 154 stores. [online] Available at: <https://www.washingtonpost.com/graphics/business/walmart-closings/> [Accessed 29 Oct. 2017].

# Recommendation

## Location of Stores

### Crack Well-guarded Markets

Crack Well-guarded Markets: Attack Weak Spots, than Strongholds

1. **Leverage assets**
2. Reconfigure value chain
3. **Undersupplied niche market**

### Solution

1. Aldi is **cheaper than dollar stores** (Dollar General)
2. Tackle **low income**, both **high and low density** areas as long as demand is sufficient

Gradually target mainstream markets: **Walmart neighborhood stores** (urban areas, high density)



Source: Washington Post. (2017). There really are too many stores. Just ask the retailers.. [online] Available at: [https://www.washingtonpost.com/news/business/wp/2016/04/05/there-really-are-too-many-stores-just-ask-the-retailers/?utm\\_term=.ecf527cd5281](https://www.washingtonpost.com/news/business/wp/2016/04/05/there-really-are-too-many-stores-just-ask-the-retailers/?utm_term=.ecf527cd5281) [Accessed 29 Oct. 2017].

### Share of retail vacancies is greatest in poorer neighborhoods

Of all the vacant retail spaces in the U.S., the largest portion are in areas with the least buying power.

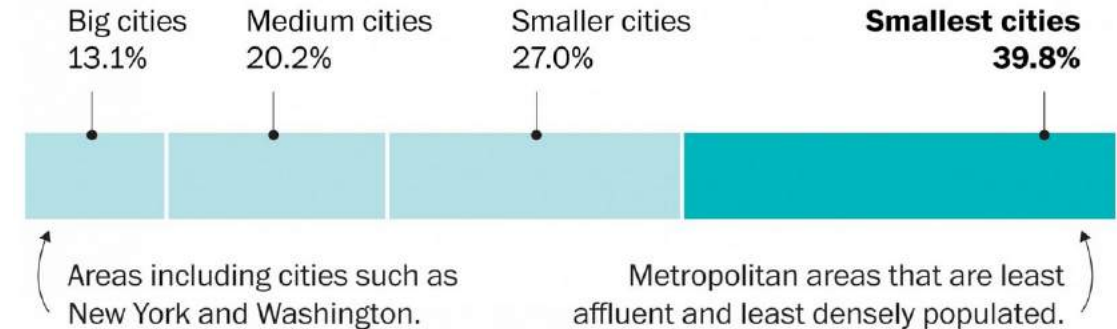


Figure 57: Aldi was Priced Well Below WMT and DG (40-Item Basket)

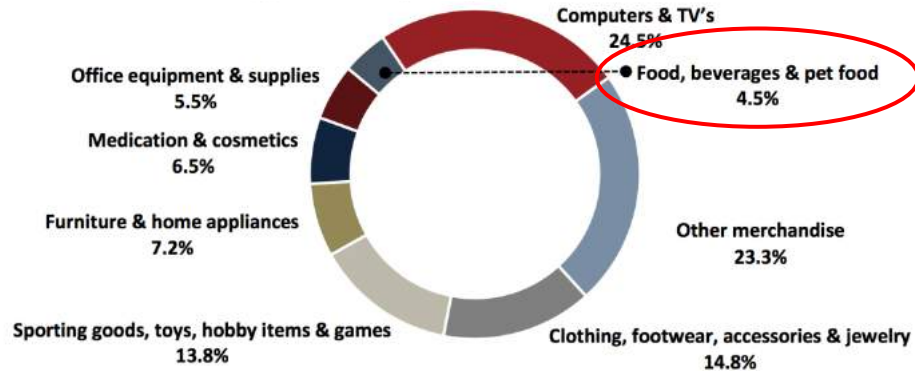


Source: Peterson, H. (2017). Aldi is shockingly cheaper than Dollar General. [online] Business Insider. Available at: <http://uk.businessinsider.com/aldi-is-shockingly-cheaper-than-dollar-general-2016-4?r=US&IR=T> [Accessed 29 Oct. 2017].

# Recommendation

Seek opportunity of online-retail in the long-term

E-tailers' segment portfolio



## In the short run

### No fully online shopping:

- **Less vulnerable to e-tailers:**  
online sales = 4.6% of total grocery sales(2014).
- **E-commerce is not well suited:**  
low price-to-weight ratio, hard to keep fresh.
- **Cooperate with 3rd party delivery**  
Test 1 hour food delivery in three city as the 1st step.

**Current digital solution:** mobile coupons, mobile shopping list.

Expected Growth for Online Grocery Sales



## In the long run

### Online shopping:

- **Big profitability and high growth potential** in the market
- **Future trend:** Millennials has affinity to use E-commerce

**Future digital solution:** search feasible online operation model. e.g. home delivery, in-store pickup, drive-through pickup.



# Recommendation

## Extend organic products line

### Preference towards organic food in the U.S.

- **82%** households purchase organic products
- **5.3%** of food sale is organic, grow at a rate of **7.9%**.
- **25%** of American population is millennials, who have strong affinity for organic food.

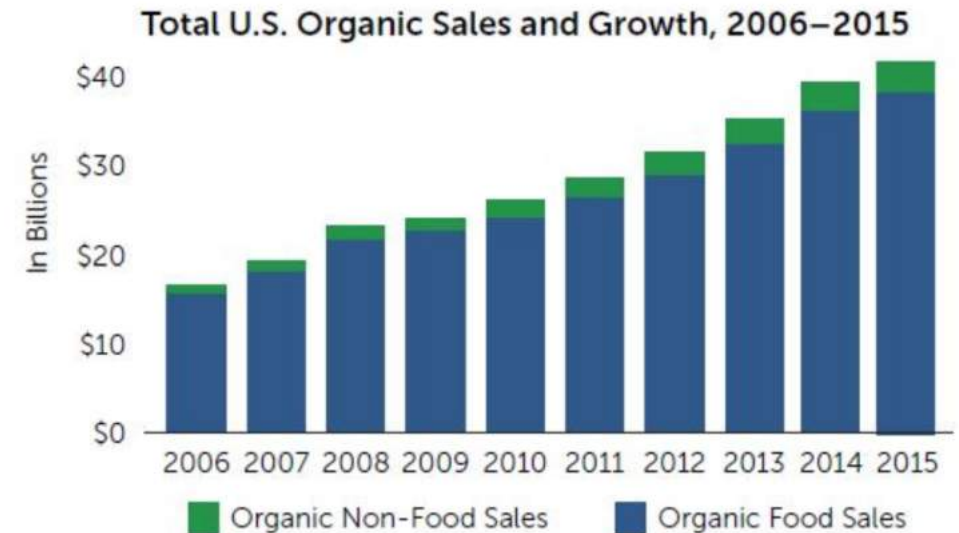
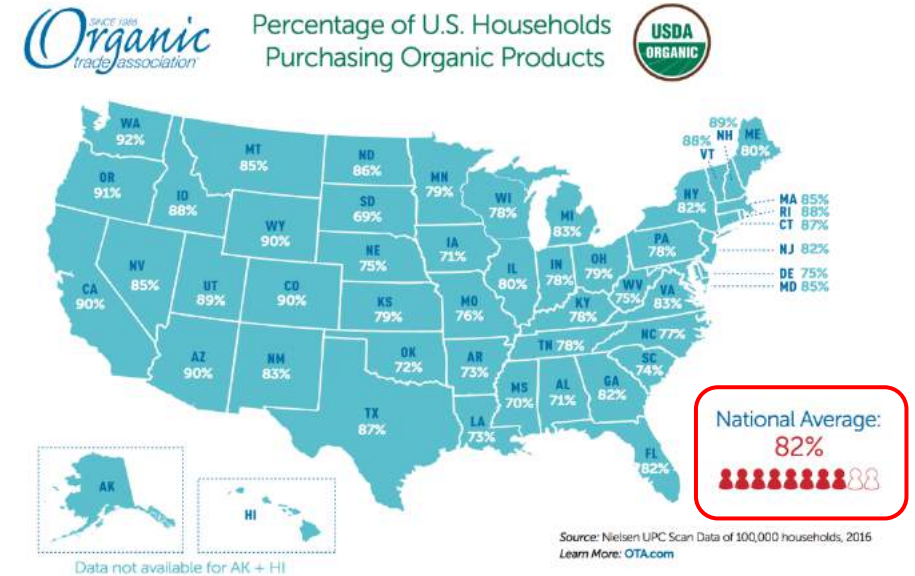
### Aldi's position in organic product line

- **25% cheaper** and **high quality** organic food since 2013.
- **>72 USDA** certificated organic food items at Aldi.
- On the way to go **full organic**.

### Solution

- **Advertise on social media:** promote Aldi organic brands.
- **Cooperate with local farms:** improve organic food line.
- Noticeable organic labeling and layout
- Keep low price competitive advantage

Source: News:  
U.S. organic sales post new record of \$43.3 billion in 2015 Available at: <https://www.ota.com/news/press-releases/19031>



# Recommendation

Adapt to U.S. customer behavior

## Extend Opening Hours



## Expand Product Portfolio (eg. by 5%)



## Make Carts Coin-free

## Focus on Private Labels





# Summary

- 1. Introduction: U.S. Retail Industry**
- 2. Grocery Store Industry**
  - a. KPIs and key characteristics
  - b. Porter's 5 Forces
  - c. Industry Overview
- 3. Department Store Industry**
  - a. KPIs and key characteristics
  - b. Porter's 5 Forces
  - c. Industry Overview
- 4. Comparison Grocery vs Department Store**
- 5. Aldi**
  - a. Aldi in the Grocery Industry
  - b. Aldi SWOT Analysis
- 6. Recommendation**
  - a. Strengthen Grocery Store Presence
  - b. Store Location
  - c. Online Presence
  - d. Organic Food Line
  - e. U.S. Customer Behavior

Summary





# Summary

## Grocery Stores vs Department Stores



- **Department Store** Industry has stable positive profit and **negative growth**, with competition issues
- **Grocery Store** Industry is mature and has **stable profit**
- In general, **grocery store industry is more attractive**. However, some changes have to be made to achieve sustained growth

## Aldi's Opportunities & Threats in US



- + Operations efficiency, **cost leadership** and high quality private-label goods
- Low technology inclination, lack of service dimension, **relatively small player**

## Recommendations for Aldi in US



- | Short term  | Medium term | Long term |
|---|-------------|-----------|
| <ul style="list-style-type: none"> <li>• Forget DS, <b>focus on groceries</b></li> <li>• Corporate &amp; enhance <b>organic food line</b></li> <li>• Adapt to U.S. customer behavior               <ul style="list-style-type: none"> <li>• Open new stores &amp; Tackle <b>price sensitive customers</b></li> <li>• <b>Test</b> food delivery with <b>3rd party</b> <ul style="list-style-type: none"> <li>• Seek opportunity of fully <b>online-retail</b></li> </ul> </li> </ul> </li> </ul> |             |           |

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# Thank you for your attention!

Strategic Management Course

Case Study: Aldi

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30th Oct 2017

Zurich, Switzerland





# Appendix





# Grocery Industry in the U.S.

## Porter's Five Forces

### Threats of New Entrants



Concentration  
Pre-existed relation  
Technology Change  
Life Cycle Stage(Mature)  
Regulation Policy  
Capital Requirement

Barrier to entry is relatively low, but have to face enormous competitors followed

### Threats of Substitutes

Internal Substitutes: Organic, Natural foods  
External Substitutes: Warehouse Clubs, Supercenters

Buyers' propensity to substitute:  
Higher per capita disposable income, Stronger concern towards health issue, Lower Switching cost

Specialized in organic or natural foods and one-stop-shop will become powerful competitors

### Intensity of Competitive Rivalry

e.g. The Kroger.Co  
Safeway Inc

Low market concentration.  
Low diversity of competitors.  
→ Fierce competition

Homogeneous products.  
Low demand for advertisement.  
High information transparency.  
→ Price war

Suppliers switching costs relative to firm switching costs is high due to loss of volume and profitability.

Suppliers concentration to firms concentration ratio is high due to the emerging substitute inputs.

Emerging new distribution channels make suppliers' bargaining power higher.

Customers are loyal to Wal-Mart private label because of their great effort in product development, sourcing, technology and new talent.

Food retail consolidation --lower bargaining power of buyers.

Buyer switching costs mainly depend on the transportation fee and time.

### Bargaining Power of Suppliers

### Bargaining Power of Buyers

# Department Store Industry

## Porter's Five Forces

### Threats of New Entrants

#### high entrance barriers:

- capital requirements: department stores need huge locations and infrastructure. Initial investment is very high
- incumbent advantages (experience, positioning, brand)
- product differentiation: entrants would have to match differentiation of incumbents to be competitive

### Threats of Substitutes

- online shopping (low switching costs, attractive price-performance trade-off)
- Supercenters include all departments of department stores with additional advantage of groceries

### Intensity of Competitive Rivalry

- e.g. Walmart, Sears, JC Penney  
price pressure since:
- high fixed costs
  - low switching costs
  - rivals are big players

- many players are leaving, power of suppliers increases, making deals with fair prices harder

- buyers have low switching costs to online shopping or supercenters
- trend: become more price sensitive due to crisis (groceries represent bigger slice of income)

### Bargaining Power of Suppliers

### Bargaining Power of Buyers



# Grocery Industry

## Summary

### Key features



- ❖ Mature industry  $\longleftrightarrow$  Economies of Scale  $\longleftrightarrow$  M&A activities
- ❖ \$600 B market  $\longleftrightarrow$  Steady growth around 1%
- ❖ Low profit margin  $\longleftrightarrow$  Stable around 1.5%
- ❖ Pre-existed trust and loyalty between suppliers and stores
- ❖ Low entry requirement but hard to compete with key players

### Opportunity



- ❖ Specialized in organic and natural foods  $\longleftrightarrow$  higher premium
- ❖ Investment in promoting private labels  $\longleftrightarrow$  consumers loyalty
- ❖ Investment in online service  $\longleftrightarrow$  changing purchasing method
- ❖ Investment in R&D  $\longleftrightarrow$  technology reduces fixed cost and waiting time

### Threats



- ★ Intensifying competition from alternative competitors: warehouse, supercenters
- ★ Increasing of a variety of retailers: price wars result in stagnating profitability
- ★ Harder to negotiate with suppliers due to increase of stores

# Grocery vs. Department stores

Criteria	Grocery	Department store
Profitability(profit margin)	1.5% (2009-14) → <1.5%(2014-19)	4.1% (2015)
Annual growth rate	1.3% (2009-14) → 0.8%(2014-19)	-4.5% (2015)
Market share (of retail)	12.2%	3.5%
Life cycle stage	Maturity (IVA: +0.6%)	Decline (IVA: -4.6%)
Intensity of competitive rivalry	High → price war	High
Threats of new entrants	High → but with low competition power	Low
Threats of substitute	High → Specialized stores, one-stop-shop, local farmers	High → online stores, specialized retail
Bargaining power of supplier	Low → high switching cost and concentration	
Bargaining power of buyers	Low → customer loyalty and food retail consolidation	<ul style="list-style-type: none"> <li>- Low switching costs</li> <li>- Price sensitive</li> </ul>
Market opportunity	Many: organic food, private label, online store	

# Aldi SWOT Analysis

INTERNAL

## STRENGTHS (+)

- **High quality products** (14 of 21 products equal or better than national brands)
- **Majorly private-labeled goods** (95% of portfolio)
- **Low prices** (20% cheaper than Walmart, 2013)
- Customer ranking (4th best grocery store in the U.S.)
- Operations efficiency → value for money (80% of customer price is purchase price)

## WEAKNESSES (-)

- **Limited product portfolio** (essentials) (about 1,400SKUs per 17,000 square foot store)
- **Low brand recognition**
- Online presence
- Low IT investment (scanners installed 20 years after Walmart)
- Low level of customer service (a coin for shopping carts deposited and returned)

EXTERNAL

- **Geographical expansion (80 to 130 stores per year, from coast to coast)**
- **Organic food** (82% of households)
- **Online market**
- New technology: self-checkout
- Strengthening economy

## OPPORTUNITIES (+)

## THREATS (-)

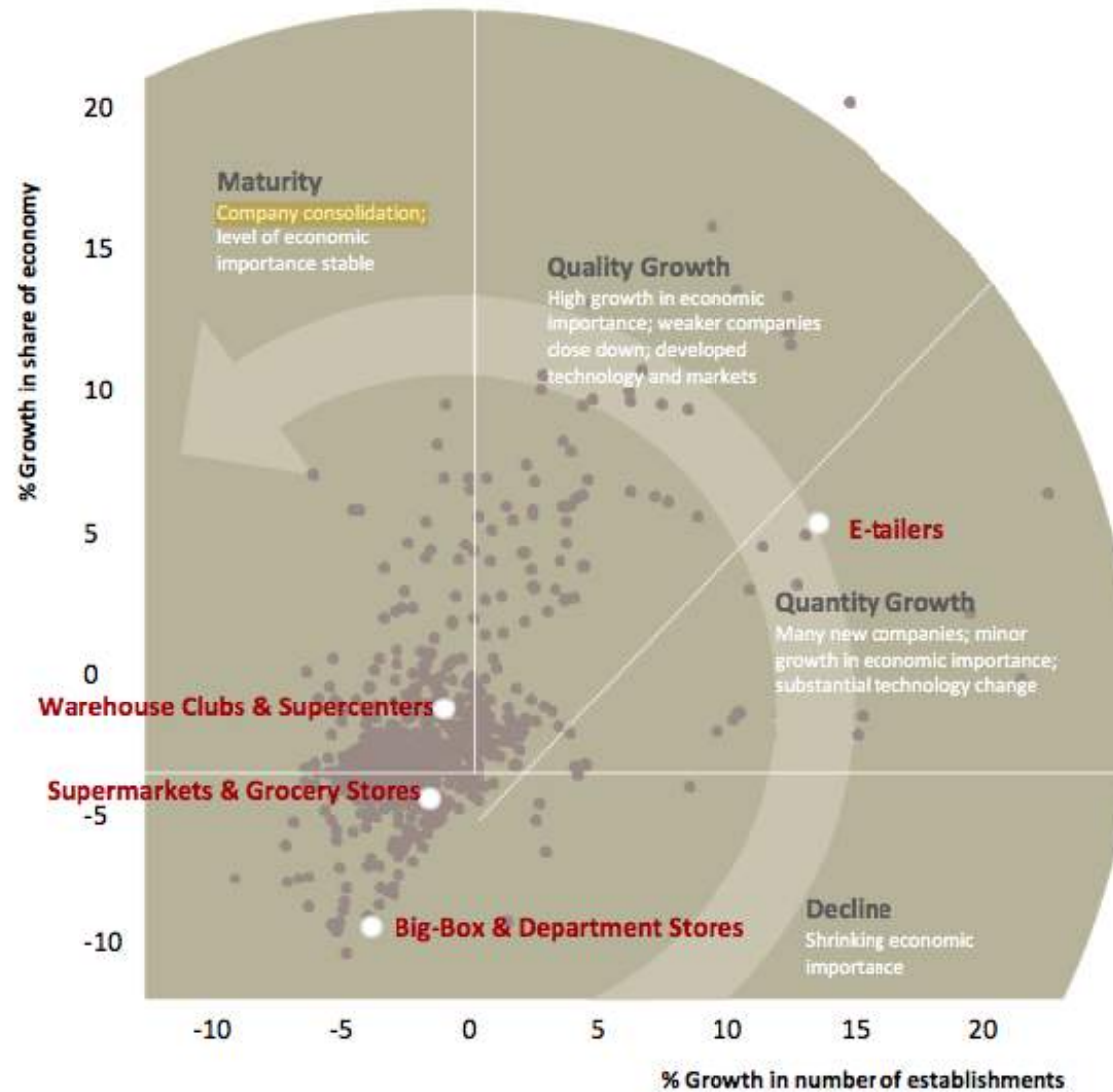
- **Intense competition** → price war
- **Substitutes** → supercenters, warehouse clubs
- **New entrants** → e.g. Lidl



# Segments overview

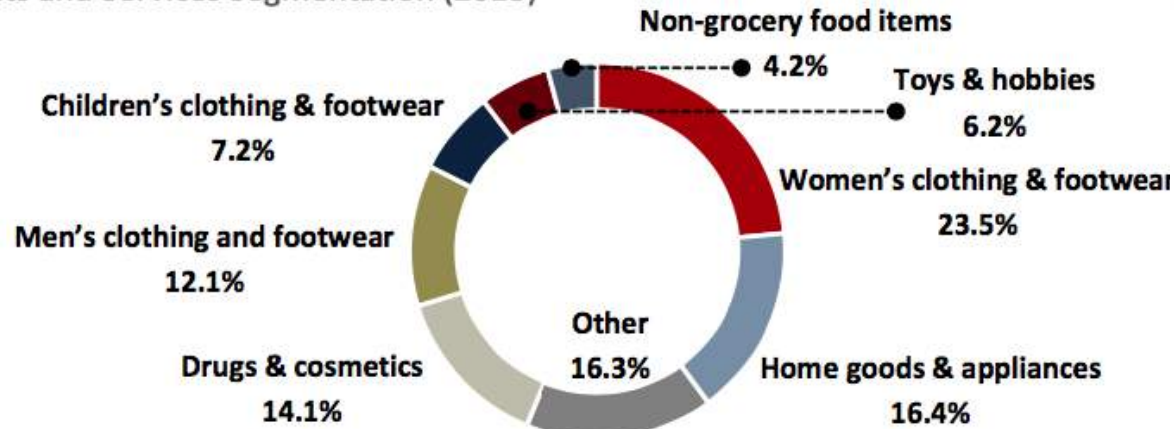
	Revenue (\$billions)	Profit (\$billions)	Annual Growth (2009-14)	Annual Growth (2014-19)	Businesses	Wages (\$billions)
Big-Box & Department Store Retailers	\$166.1	\$4.8	- 4.1%	-1.4%	72	\$19.5
Warehouse Club & Supercenter Retailers	462	25.4	3.5%	2.1%	27	40
Supermarkets & Grocery Stores	584.3	8.8	1.3%	0.8%	42,036	56.7
E-tailers	297.9	21.2	10.3%	5.9%	131,447	18.5

# Segments overview

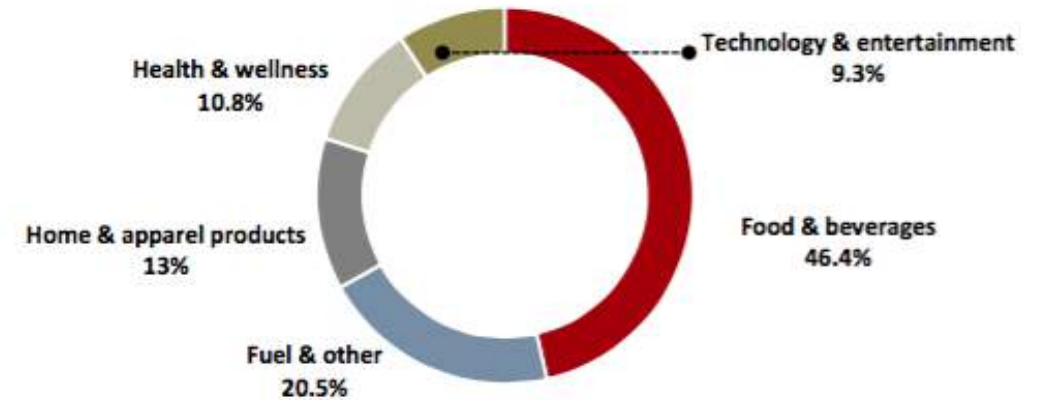


# Segments overview

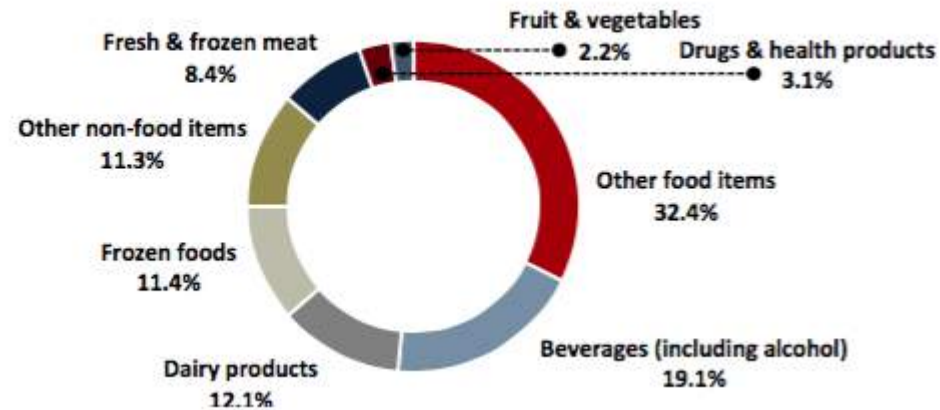
Products and Services Segmentation (2015)



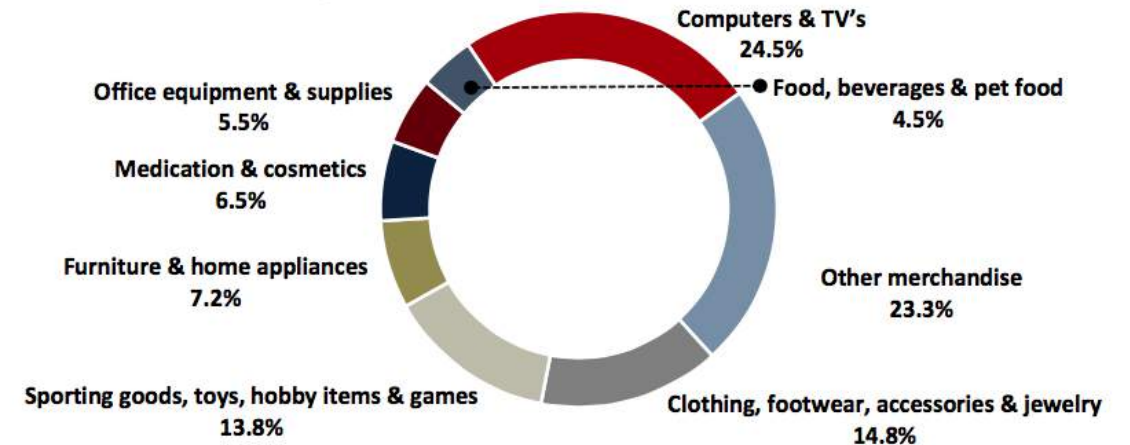
Products and Services Segmentation (2015)



Products and Services Segmentation (2015)



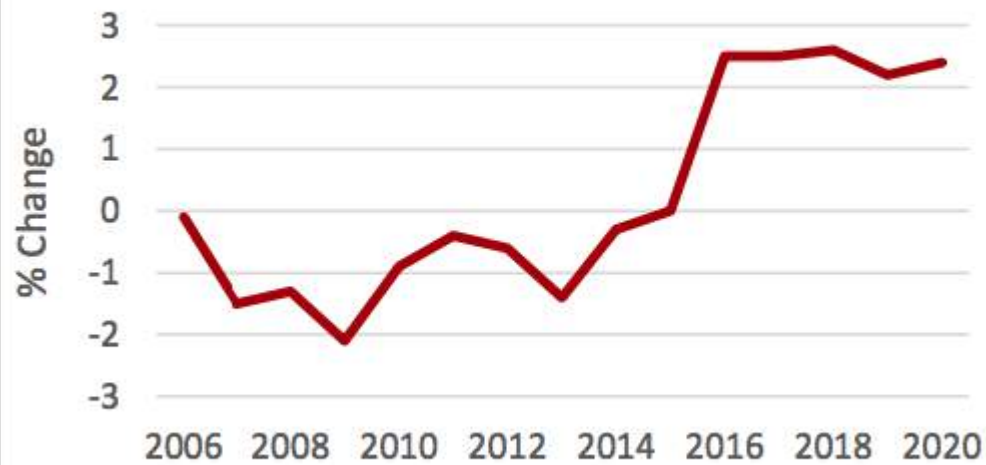
Products and Services Segmentation (2015)





# Macro insights

## Per Capital Disposable Income



## Major Market Segmentation (2015)

