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The Aldi brand: private-label Success in australia[[1]](#footnote-1)

Tania Bucic and Aura Garcia wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In 2016, ALDI Stores (Aldi) posted its first downturn in annual growth in Australia. Since its entrance into the Australian market 15 years earlier, Aldi had cultivated a strong market position as the preferred grocery retailer for value-conscious, discount grocery shoppers. The chain had recorded growth every year, spurred by a weaker post–global financial crisis economy, which had seen more consumers looking to limit outgoing day-to-day expenses. Coles Supermarkets Australia Pty. Ltd. (Coles) and Woolworths Limited (Woolworths), the market leaders of Australia’s supermarket industry, had adopted reactive tactics and a reinvigorated focus on private-label branding after their respective market shares had started to decline. Could Aldi sustain its trend of success beyond 2017, as incumbent retailers and newcomers pursued the sector even more aggressively?

The Decision

When Aldi entered the Australian retail sector, opening its first supermarket in 2001, its positioning was unique: a discount retailer defined by a low-price value proposition, offering limited lines dominated by private labels that sought to meet the needs of value-conscious consumers. This strategy was in sharp contrast with the prioritization of national brands that was prevalent among its industry rivals at the time.

Defying most expert predictions, Aldi cultivated a newly defined market segment to become one of the most popular retailers for Australia’s value-conscious consumers. Its growth was spurred by the relatively weak national economy in the years following the global financial crisis, which led many consumers to seek ways to reduce their daily expenses and improve their value-for-money spending. Aldi’s successful business model, built on scale, enabled the continued pursuit of a discount strategy that focused on providing good quality products at consistently low prices, as well as the opening of more stores around the country. Thus, in the years following its entry into Australia, Aldi stirred up the industry, forcing rivals to stop and listen, and prompted major changes to the Australian retail industry. For incumbent retailers, the ongoing concern was how to counter the threat posed by Aldi nearly two decades after its entry.

For Coles and Woolworths, the market leaders of Australia’s supermarket industry, the strategy was to adopt reactive tactics, but only after their respective market shares started to decline. In particular, they developed a private-label strategy, similar to Aldi’s strategy. The private labels of these two market leaders had grown in strength over time, yet Aldi enjoyed a firm position as the preferred brand for value-conscious, discount grocery shoppers. Furthermore, Aldi had carved a clear pathway to success in the retail sector using a private-label strategy that offered higher margins for the supermarket, greater control over the product, and significant cost savings for both the consumer and the retailer. However, as incumbent firms and potential newcomers pursued the sector, the path to success had transformed into a race to the bottom.

To maintain its success in Australia, what strategy should Aldi adopt, relative to both the reactions of major retailers and the threatened entrance of other disruptive players, such as Amazon Go? Was there room in the Australian market for other discount competitors, such as discount supermarket chain Lidl Stiftung and Co. KG (Lidl)?

Aldi’s History

The story of Aldi began in the German town of Essen, where the Albrecht family opened a grocery shop in 1913. In 1946, the Albrecht brothers took over the store and expanded by opening several more stores nearby. The name Aldi, introduced in 1962, represented the shortened combination of the name Albrecht with *diskont*, the German word for discount. After its initial expansion, the chain underwent a period of strong growth, and went from operating 13 stores in 1950 to operating more than 300 stores by the 1960s. However, in 1960, a dispute between the Albrecht brothers led to a decision to divide Aldi into two separate, independent companies: Aldi Nord and Aldi Süd. After the split, Aldi moved internationally, first expanding throughout Europe. By 2017, with more than 10,000 stores worldwide, including over 470 stores in Australia (since 2001),[[2]](#endnote-1) Aldi had earned the market position of leading discount supermarket in Europe and 18 other countries, including Australia.[[3]](#endnote-2)

Competitive pricing had long been central to Aldi’s business; it was the first German company to have adopted a self-service retail structure, which helped it to offer high-quality products to consumers at competitive prices.[[4]](#endnote-3) Moreover, Aldi’s success was well recognized as an example of how a market entry strategy and a clear understanding of market segmentation could appeal to price-conscious consumers. Aldi’s philosophy had reflected this notion from the beginning, and remained consistent: “All people, wherever they live, should have the opportunity to buy everyday groceries of the highest quality at the lowest possible price.”[[5]](#endnote-4)

Aldi in Australia

Aldi first opened its doors to the public in Australia in 2001,[[6]](#endnote-5) with a store at Bankstown Airport, followed by a store in Marrickville (both in Sydney, New South Wales). Through expansion, Aldi grew to more than 400 stores throughout Australia,[[7]](#endnote-6) serving an estimated 5.3 million customers every month.[[8]](#endnote-7)

Aldi’s 2001 entrance into the Australian market was timely and benefitted from the woes of the embattled local supermarket chain Franklins. Arriving at just the right time, Aldi fit into the niche created by the demise of Franklins, which previously had occupied the discount segment. With its growth, Aldi became a strong employer in the Australian economy, providing gainful employment for around 10,000 people throughout its stores, distribution centres, and administrative offices.[[9]](#endnote-8) Aldi’s Australian growth occurred quickly; since 2007, its market share in the grocery category had increased from 5.5 per cent to 12.1 per cent in 2016.[[10]](#endnote-9) The market share gap between it and the two big players shrunk, as both Woolworths (from 40.9 per cent to 37.3 per cent) and Coles (from 33.7 per cent to 32.5 per cent) had lost some of their respective market share (see Exhibit 1).[[11]](#endnote-10)

What set Aldi apart, allowing it to undergo such rapid growth while its competitors suffered losses? In times of economic change, such as the aftermath of the 2008 global financial crisis, the key to explaining this shift was the notion of adding customer value. With its strong and consistent focus on the discount market segment, Aldi demonstrated its skill in capturing consumers who were looking for good value for money by offering private-label brands. In addition, Aldi focused on minimizing the breadth and depth of the product assortment to reduce associated stocking, logistics, and distribution costs.

A change in consumer perceptions of private labels came about when retail stores began to offer products whose quality and appearance were similar to those of conventional national brands, but at a competitive price. The shift in consumer perceptions—from private labels having been viewed as cheap and inferior in quality—had been relatively swift, with 76 per cent of consumers believing that private-label products were “good quality.”[[12]](#endnote-11) The trend translated to changed consumer shopping behaviour; in the space of just half a year, the number of consumers in Australia who bought private-label brands rather than national brands increased from 44 per cent to 65 per cent.[[13]](#endnote-12)

As of 2016, 90 per cent of Aldi products were private-label offerings, and the majority was sourced from Australian manufacturers. Only if Aldi could not find a local supplier that could reach the strict product quality requirements it had established would it source the product from an overseas supplier.[[14]](#endnote-13) Relationships with suppliers were regarded as partnerships. Aldi collaborated with its suppliers to develop and improve its products to match those of market-leading brands but at significantly lower prices, thus providing alternatives for Australian consumers. Through such partnerships and collaborative processes, Aldi’s suppliers grew alongside Aldi, benefiting from the success of the retail channel.

For its growth, influence, and market-leading policies, Aldi won several industry awards, including the latest round of awards in 2016: Supermarket of the Year (Roy Morgan Australian Customer Satisfaction Awards),[[15]](#endnote-14) Retailer of the Year (ARA Australian Retail Awards),[[16]](#endnote-15) and Most Satisfied Customers for Supermarkets in Australia (Canstar Blue).[[17]](#endnote-16)

Private-Label Disruption of the Australian Supermarket Retail Industry

According to IBISWorld,[[18]](#endnote-17) private labels represented 30 per cent of the grocery market share in Australia in January 2017. This level was predicted to reach 35 per cent in Australia by 2020–21, which still offered considerable room for growth in the sector, if the retail environment in Europe, where private labels accounted for 53 per cent of all supermarket sales, was to be used as a benchmark.[[19]](#endnote-18)

Aldi’s successful and innovative branding strategy, based on private labels and delivering value, allowed it to gain a position in Australia, but Aldi was not the first to introduce the concept of private labels to the country. Woolworths and Coles already had their own private labels, “Homebrand” and “Smart Buys,” respectively. However, since its arrival in the country, Aldi had played an important part in changing consumers’ perceptions of private labels.

The private labels offered by Coles and Woolworths had started with a small range of items, normally placed at the bottom of shelves, and thus not very visible. In addition, the private-label products were marketed with a “no brand name” strategy and white, plain packaging, which indicated their lower price but also created a low-quality association for the consumer.[[20]](#endnote-19) This perception of low quality was linked closely to the product packaging. Packaging had clear functionality in terms of protecting and displaying the product, but it also was an essential part of the product experience that influenced consumers’ perceptions and evaluations of the product, ultimately contributing to assessments of quality.

Unlike conventional generic methods, Aldi’s business model was built on delivering quality and value to consumers by leveraging the power of private labels. First, it increased the proportion of products being offered as private labels (up to 90 per cent of all products in store) while simultaneously narrowing the variety of products per category (i.e., approximately 1,700 stock keeping units (SKUs), compared with Coles’ and Woolworths’ 20,000–25,000 SKUs per store.[[21]](#endnote-20) Second, to guarantee the supply of top-quality products across its limited product range, Aldi adhered to strict quality control standards, the use of phantom-brand strategies, and high-quality product packaging. Consumers thus perceived the items as high-quality branded items at a more competitive price. Third, the close, partner-style relationship with suppliers dedicated to developing and improving products enabled Aldi to provide the best products at prices that were significantly lower than those of national brands. Fourth, its consistent efforts to reduce costs permitted Aldi to pass savings directly on to consumers.

With its successful positioning in the Australian market, based on innovative, consumer-focused strategies, Aldi generated considerable disruption in the retail industry. For example, changed Australian consumers’ perceptions and preferences, particularly in staple product categories, meant that private labels represented up to 68 per cent of total grocery sales in 2012 for butter, milk, salt, sugar, and other staples.[[22]](#endnote-21) If national brands competing in such product categories failed to provide real, superior value, consumers were willing to switch to the good combination of quality and value offered by private labels. This was also influenced by an increase in immigration to Australia, especially in major cities, because immigrants were less likely to recognize or have long-standing bonds with Australian national brands.

The preference for private-label products in staple product categories had supported the rapid growth of Aldi in recent years. According to Canstar Blue, an Australian financial comparison site, some consumers decided where to shop based solely on the cost of staple products. Almost half (49 per cent) of consumers said that the cost of staples such as milk, bread, and eggs determined where they shopped, a substantial increase from the 35 per cent who had noted this effect only six months before. (The study was based on surveys of 3,000 Australian consumers in June and December 2015).[[23]](#endnote-22)

Coles and Woolworths: Putting up a Fight

Coles and Woolworths seemed to have underestimated the effect of Aldi’s entrance into the Australian retail industry 15 years earlier. Its market share had grown every year since its arrival, so that it had become an important player within the industry. It took the two supermarket giants approximately five years to react to Aldi’s entry into the industry and put an active focus on imitating Aldi’s private-label strategy. Although it was a late reaction, both leaders competed by implementing new strategies and making important changes to their individual private labels, each in their own way.

A Single Private-Label Brand: Coles

Coles’ private-label strategy aimed to replace a substantial percentage of its existing national brand products with products under its own brand, while also reducing the number of SKUs per product category. Coles’ managing director John Durkan explained, “95 per cent-plus of everything we will do will be Coles brand, and we are doing it now because we are at the right time of our evolution to make sure we can push on again in terms of quality and efficiency in terms of our home brand.”[[24]](#endnote-23)

Coles intended to eliminate many of its existing home brand labels, such as Simply Less and Smart Buy, and replace them with the universal Coles brand and Coles Finest, which would be used for certain specialty and seasonal items. Coles aimed to replace 99 per cent of its existing private-label brands with the singular Coles brand in the coming years.[[25]](#endnote-24)

A Multi-Tiered Phantom-Brand Strategy at Woolworths

Woolworths opted to devise a store brand range with three levels: Gold for the highest quality private-label products, Select for the mid-level range, and Homebrand for the low-priced alternative. In product categories for which quality was critical, Woolworths also developed its own brands using a phantom-brand strategy,[[26]](#endnote-25) mimicking existing national brands by incorporating a colourful, premium-packaging appearance that connoted top quality. These products masqueraded as national brands but were actually private-label products that still offered the promise of lower prices.

Thus, both retailers used an imitation strategy, but each pursued the goal in a different way. Coles preferred a single-brand approach, or a one-size-fits-all solution, whereas Woolworths opted for a multi-tiered approach that incorporated phantom-branded labels. Whether connected to these efforts or not, recent industry data indicated that the rate of increase in Aldi’s market share had reversed slightly; during the 2015–2016 financial year, its market share decreased by 0.3 per cent—its first growth decline since it arrived in Australia in 2001.[[27]](#endnote-26) This evidence of slowing losses in market share suggested that the reactionary strategies of Coles and Woolworths might have started to have some effect. Could Aldi regain its growth position? Considering the bitter fight that Coles and Woolworths were putting up, using private-label strategies and making other changes, Aldi would need to continue innovating to ensure that it could provide the value that customers expected.

Potential New Entrants to the Market

The market competition resulting from the arrival of Aldi into the Australian market created a “race to the bottom”[[28]](#endnote-27) for pricing in the grocery industry, with potential effects on the economy as a whole. The new private-label strategies implemented by Coles and Woolworths seemed to ignore being innovative or providing different consumer-centric solutions, creating a scenario in which the points of difference, other than price, were minimal. National brands and supermarkets had to provide superior products and customer experiences to offer consumers real value and justify the higher prices of national-brand products.

Market leaders, including Aldi, also had to anticipate new competitors attracted in part by the success of Aldi in Australia. As of 2015, Lidl, another German discount supermarket retailer, was actively working to enter Australia and planned to open its first store in Melbourne.[[29]](#endnote-28) The Lidl chain of stores had a look similar to Aldi’s, with a small store format and a focus on the discount market.[[30]](#endnote-29) In addition to Lidl, Amazon Go was on Australian retail’s doorstep, with the promise of a radical technological approach to enhance both the in-store and online shopping experience. Amazon Fresh (online) and Amazon Go (brick-and-mortar) were estimated to arrive around September 2017 and were determined to disrupt the Australian retail industry.[[31]](#endnote-30) Amazon Go offered convenience and efficiency benefits; the shopping experience eliminated queues and checkouts by relying on store-deployed sensor technology, coupled with the customer’s own Amazon phone application, to automatically deduct purchases from customers’ accounts as they took items off shelves—literally, a pick-and-go concept.[[32]](#endnote-31) Checkouts and staff were large costs for retailers; Walmart once announced that it could “save $US12 million for every second it cuts from the checkout process in the U.S.”[[33]](#endnote-32) Amazon thus stood to save huge costs through this radical new retail concept, which promised to give it a competitive edge over rivals, including Aldi.

How would Aldi maintain its market share and growth rates in Australia in competition when faced with not only the imitation strategies of Coles and Woolworths but also the radical and disruptive introductions of Amazon Go and Lidl?

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Exhibit 1: Market Share Over Time (Dollar Value)—Australian Supermarket Grocery Market

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| --- | --- | --- | --- |
| **Grocery Market Share** | **2007** | **2017** | **% Change** |
| Woolworths Group | 40.90% | 37.30% | −3.60% |
| Coles Group | 33.70% | 32.50% | −1.20% |
| Aldi | 5.50% | 12.10% | 6.60% |
| IGA | 8.70% | 9.70% | 1% |
| Other | 11.20% | 8.40% | −2.80% |

Note: average 12-month sample = 14,973; base = Australian grocery buyers 14+, weighted to households.

Source: Derived from “Supermarket Sweep: ALDI’s Share of the Aussie Market Still Rising,” Roy Morgan Research, April 15, 2016, accessed September 6, 2017, www.roymorgan.com/findings/6762-supermarket-sweep-aldis-share-of-aussie-market-still-rising-201604142258.

Endnotes

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