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Aldi: A German Retailing Icon

“The next Wal-Mart?”

Cover story on Aldi, *Business Week*, April 26th, 2004

“I love my Aldi – good quality at rock-bottom prices. Why do I need ‘brands’ when all they do is rip you off?”

Long-time Aldi customer, driving a BMW

“Discount means to leave away everything that is unnecessary.”

Dieter Brandes, former Aldi executive

Introduction

In 2005, Aldi, a German-based grocery store chain, was turning heads throughout Europe, Australia and the United States with its rock-bottom prices, efficient store operations and growing global network of limited assortment stores. Founded in the German town of Essen, with antecedents dating back to 1946, Aldi had revenues of €37 billion (\$44 billion US)¹,

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and over 7,200 stores across 15 countries. In the United States, Aldi's prices were approximately 6.6 per cent lower than Wal-Mart's private label offerings². Based on a 1,000 square meter stand-alone store, the typical Aldi had four aisles, a three-to-seven-person and approximately 700 different SKUs – a far cry from the typical supermarket, which had 10 to 20 aisles, over 30 staff and 15,000 or more SKUs³.

Many observers questioned how a chain of stores that offered only a fraction of the average supermarket's selection and that broke many of the golden rules of retailing could be so successful and profitable. Aldi's answer? Focus only on the necessary and give the resulting savings to the consumer.

The Company

The words “self made” were emblazoned beside the Forbes profiles identifying Karl and Theo Albrecht as the world's 8th and 20th richest individuals respectively⁴. With personal fortunes estimated at €28 billion (US\$34 billion)⁵, the Albrechts had started building the Aldi chain of supermarkets in 1946, when they ran a 100-square-meter shop on the outskirts of Essen. In 1948, the brothers made a conscious decision to add the principle of low prices to their concept⁶. The business grew to multiple locations, and in 1961 the brothers split the business into two units: Theo Albrecht took the north (Aldi Nord) and Karl Albrecht took the south (Aldi Süd). The southern unit was based in Mülheim an der Ruhr and the northern unit was headquartered out of Essen, only 30 kilometers away. The separation did not mean that the brothers did not cooperate; the two frequently shared the details of their business operations with the exception of their annual profits⁷ (see Exhibit 1 for a map of the Aldi divisions and their logos). The first store branded with the Aldi name (an amalgamation of the name Albrecht with the word discount) opened in 1962 in the town of Dortmund⁸.

From the beginning, neither brother was interested in speaking to the press. Aldi required that all of its employees remain “tight-lipped” to external sources. This desire to lead a private life was heightened when Theo Albrecht was kidnapped for ransom for 17 days in 1971. While this event led the Albrechts to further shun the press in subsequent years, they remained committed to expanding their businesses in Germany and internationally. In doing so, they followed the key principles of simplicity, high quality, frugality and confidentiality.

The Aldi Value Chain

The concept of the Albrechts' approach to food retailing had remained largely unchanged since the late 1940s. Aldi's philosophy was to focus on the indispensable and avoid the unnecessary (see Exhibit 2 for Aldi “doing-without” list and secrets of success). The core approach of Aldi was to offer a limited assortment of quality daily basic food items at the lowest possible prices. In a rare statement to the press in 1953, the Albrecht brothers commented:

“Since 1950 we have adhered to the principle of low prices as well as that of limited selection. This was also a matter of necessity. If we did not want to offer customers a wide range then we had at least to offer them some other advantage. We sold our products for decisively less. I am convinced that these two principles, narrow product range and low price, cannot be separated.”⁹

Product Selection

Aldi carried 700 items at Aldi North¹⁰ and 900 items at Aldi South¹¹. The limit to the number of products was determined by what Aldi’s management felt would provide high turnover and fulfillment of basic customer needs. One former Aldi executive talked about the challenge of selecting the right product assortment of 900 SKUs or less: “[The limit] can only be drawn arbitrarily, and then it must be strictly enforced. But one thing is clear: every additional item certainly causes increased expenditure.”¹²

Over 80 per cent of the products were dry goods, with the remainder being made up of refrigerated products (10 per cent), frozen foods (5 per cent) and other (5 per cent) (see Exhibit 3 for a breakdown of the goods and their delivery source). Only 5 per cent of the products fell outside the company’s own portfolio of private labels. In recent years, the most prominent brand outside of Aldi’s private label portfolio was Medion computers. Aldi began carrying the Medion computer in 1997, when it offered a 100 megahertz Cyrix Pentium computer packed with high quality components for 999 euros, a price 25 to 35 per cent below comparable computers at the time¹³. Aldi’s approach involved selling a limited number of computers per store, advertising the time of the sale through flyers and selling off the entire stock as quickly as possible: on a given Monday morning in May 2005, 200 laptops would be piled up in Aldi branch in the Barcelona area, and 90 minutes after opening the store to the public all the laptops would be sold, cash payment. Aldi’s sales method led to it becoming Germany’s leading retailer of computers with an estimated 10 per cent of the private market as of 2005 – and made its brand of computers the second most widely sold in 2005 (after Fujitsu-Siemens). For computers and other merchandise such as bicycles or electrical heavy tools, it was not uncommon for massive queues to build up in anticipation of the sale.

All regularly sold items were Aldi group private labels, or branded products for which Aldi could determine the prices. This made Aldi a *hard* discounter, i.e., a company that sold all products in its portfolio at a discount. While the private label names of Aldi North and South were different, the suppliers were usually the same. Coffee was the sole product that Aldi made itself¹⁴. Each of the regular items in the shop was usually available in only one standardized size.

Product Pricing and Promotion

Many of Aldi’s private label products led market share categories. In Germany, Aldi held a 16.7 per cent market share of total food retail sales¹⁵ and approximately half of all private label sales in the country. The company had 51 per cent of the German fruit juice market and half of the processed meat and sausage market¹⁶. To achieve these



high market shares, the company's prices were often 20 to 30 per cent below those of regular supermarkets¹⁷. As of 2005, the average price of a food item on Aldi's website was 1.47 euros with the entire basket of 900 items costing 1,327 euros¹⁸. The sales price of each item was regarded as an essential decision and was made by Aldi's top administrative board and general managers¹⁹. While Aldi employed an everyday low price strategy, the company frequently put forward "surprise buys"²⁰ (called "Aldi Aktuell") stocking limited quantities of a certain item. Aldi promoted special offers once (Aldi North) or twice (Aldi South) per week and advertised through their weekly flyers only available in store or via the Aldi website (www.Aldi.de). Out-of-store advertising was almost non-existent, except in some situations when promoting the opening of a new location.

Product Quality

Aldi strictly enforced quality tests for all lines of products, both to keep customers happy and to meet legal requirements: under German law, for private label products, the responsibility of product returns, warranties etc. was with the retailer who sold the products – not the manufacturer. To ensure quality, Aldi performed daily taste tests of its products and was one of the first supermarkets to perform intense laboratory tests on eggs using an egg lamp to determine freshness thresholds²¹. The company had been the recipient of many tasting awards for private label beer, whisky, wine and coffee. And recognition of Aldi's quality was celebrated across German households; people held Aldi-themed parties at which all the attendees had to adorn themselves in Aldi clothing and partake of an exclusive menu of food and drink purchased at Aldi²². A cookbook with recipes using only Aldi foods had sold over a million copies²³. External accolades and awards however did not lead the company to seek out quality certifications such as ISO 9000 or total quality management. A former manager commented, "We did not need 'ISO 9000' or 'total quality management' (TQM) to make us think it was good idea."²⁴ In a surprise visit to one of Aldi's fresh produce suppliers in Southern Germany, the case authors could see that incoming shipments were meticulously checked, pallet by pallet, case by case. In one instance, a pallet of tomato boxes had been damaged during transport. The employees took the pallet aside, unloaded the 120 boxes and checked every tomato in every box, replacing them with undamaged tomatoes when necessary. They commented that "these tomatoes go to Aldi, so we have to deliver quality". The statement was confirmed by an independent fruit expert who, looking at the merchandise, acknowledged that one could hardly find better tomatoes at this price.

Finally, Aldi accepted all customer returns without question.

Store Operations

Store Sizes and Locations. Aldi stores averaged 1,000 square meters in Germany, but could be smaller elsewhere (e.g., 660 square meters in France, due to legal requirements). Each Aldi store had a small storeroom of 150 to 200 square meters. Industry observers thought that preferred store locations were in low cost districts,

implying that Aldi stores were often on the outskirts of town. It was estimated that Aldi spent less than 2 per cent of total sales on occupancy costs²⁵. Aldi purportedly preferred to purchase land for its stores, and was one of the largest property owners in Germany. In some instances, however, Aldi rented stores which had been built to its specifications. Industry observers felt that an Aldi location actually boosted the business of nearby fruit and vegetable markets and other specialty shops since Aldi carried only a limited selection of basic items²⁶.

Payment terms and Consumers. Even in 2005, Aldi permitted only cash, charge cards (the EC-Card, a form of payment only found in Germany) and food stamps²⁷. Credit cards were not accepted. All European Aldi stores charged three-euro cents per bag and required a one euro cent deposit to use the grocery cart. These conditions did not put off consumers, who spanned a wide demographic range. At one time the store had been known to appeal to people on a tight budget, but since the early 1990s it had become just as common to see consumers arriving in luxury sedans as people arriving on public transport. By 2005, a new *Zeitgeist* had developed in Germany, giving credibility to stinginess²⁸. Aldi clearly benefited from this trend.

Store Design. A typical Aldi store had four wide aisles where all the products were displayed in their original shipment boxes. Emergency exits were clearly marked as were all prices and product descriptions. Aldi stores were kept very clean. All store fixtures were seen to be purely functional. There were no in-store decorations, and economic building materials were used for flooring, ceilings and shelving. Stores had one telephone, only to be used for communicating with the distribution center. Store telephone numbers were not listed and personal staff calls were forbidden. One-way mirrors were installed in parts of the store so that employees could keep an eye out for shoplifters²⁹. Shrinkage at Aldi was estimated to be 0.5 per cent of sales in contrast to 1.7 per cent for the retail industry at large³⁰. See Exhibit 4 for pictures of an Aldi in-store model as well as in-store snapshots.

Staffing. Aldi stores were staffed with an average of three to seven people: the store manager and two assistants. All employees were required to unload stock, clean the store, watch for shoplifting, ring through the customer's order and operate mechanical equipment such as the cardboard baler and electric pallet jack (see Exhibit 5 for the required duties of all levels of Aldi's staff). Store managers were actively involved in all store operations and would help with customer check-out at times of peak demand. Since established stores were hectic, staff members were required to move efficiently and quickly – and were paid approximately twice the amount of individuals working at conventional supermarkets. In Germany, this amounted to 2,500 euros before tax per month for a store assistant³¹. Personnel costs in store were approximately 3 per cent of sales versus 9 per cent for a conventional supermarket³². Aldi discouraged union activity and in some countries this led to dissent. One example was in Ireland when six workers were reportedly fired after joining a union. Aldi acknowledged unfair dismissal, but some believed the damage had been done³³.

Checkout and Barcodes. Originally, all cashiers were required to know the price of each item in the store. Aldi's Dutch affiliate ran a quick experiment in the 1980s whereby all cashiers would memorize a three-digit code instead of a SKU's price (quick experiments



of this nature were encouraged within the company). The experiment showed that a time saving occurred, since the cashiers did not have to learn new prices every shift. Subsequently, Aldi rolled out the three-digit code method to the rest of Aldi North's operations³⁴. Following the switch to the euro, Aldi South implemented the scanner system in 2001. Instead of placing the barcode in just one spot (as was standard in retailing), Aldi required that suppliers place it in four different parts of the package to decrease checkout time³⁵. Furthermore, it required barcodes to have a specified size, often with one larger barcode across the package, so that cashiers did not have to waste time looking for the barcode. Some observers believed Aldi's checkout to be among the fastest in the industry, with one source stating that Aldi clerks could check out 42 items per minute versus 15 items per minute in a conventional supermarket³⁶. All Aldi barcodes began with the number 24, and had eight digits: 24 0 XXXX N³⁷. The Xs identified the price and product and the N denoted the lot number³⁸. The use of eight digits varied from the industry standard of 13 digits, with the exception of Lidl who also used an eight-digit code beginning with the number 20³⁹.

Inventory Flow. Depending on the turnover of the store goods, shipments of goods arrived five to six days a week to the store with an average lead time ranging from one to four days from order placement to delivery at the store⁴⁰. All shipments were unloaded directly from the truck (arriving either directly from the supplier or from Aldi's distribution center) to Aldi's small storeroom (approximately 20 to 25 per cent of the store space)⁴¹ located between the selling area and the reception dock. However, the storeroom rarely held goods for more than one day; it was used as an unloading buffer enabling the staff to shelve the stock later in their workday necessary. The goal was to avoid any out of stock for standard items and to have the selling space filled with stock (items up to eye level) with the back storeroom as empty as possible. The storeroom also contained a press which compressed used cardboard boxes, which were sold subsequently to recycling companies.

With goods in the storeroom, one of the three in-store staff would use a small electric forklift to lift the pallet (60cm by 80cm) from the storeroom and place it directly in the store. In some situations it was necessary for the store clerk to cut through the plastic wrap, but often products were shipped in open boxes from the supplier. It was estimated that a pallet of goods could be prepared for sale within three minutes, counting the time from the storeroom to the selling floor⁴². All products stayed in their original shipment boxes until the supply was depleted. No item was to be moved individually. It was estimated that Aldi turned over its inventory about 50 times each year. Refrigerated and frozen items were ordered from suppliers in standardized boxes which could be directly placed in the freezer or refrigerator without unpacking. Originally, Aldi had not carried refrigerated and frozen items. It added cold chain products only when suppliers were able to match Aldi's stringent requirements on box dimensions, allowing for efficient handling and stacking⁴³.

Inbound Shipments and Reordering. Stock levels were controlled by both the central warehouse and the in-store staff. Shipments frequently arrived at stores without having been ordered by in-store staff, being dispatched from the region's DC⁴⁴. Reorders were placed by one of the staff four times a week, e.g., on Mondays,

Tuesdays, Thursdays and Fridays⁴⁵. Order sizes for each store (whether initiated by the central warehouse or the in-store staff) were determined by a computerized system that analyzed the existing inventory and automatically produced a report listing the items that were needed for restocking⁴⁶. Store employees were required to verify that the inventory report was correct by counting the items. Items were ordered by pallets (milk, sugar, salt), trays (canned products) or units (cereals and bottles of alcohol)⁴⁷. In-store IT systems were rather basic: all check-outs had scanner systems and there was at most one computer per store, which was used to control sales and ordering processes. In-store inventory checks and controls were performed every day by the store manager. Additionally, inventories were checked on a monthly basis and periodically during surprise visits from other Aldi managers⁴⁸.

Supply Chain Operations

To improve logistics, Aldi's operations were organized in cells. One cell consisted of 50 to 80 stores in a given region and had one distribution center. Aldi generally created separate legal entities ("Aldi Gesellschaft") for each cell. Each of these cells generated its own financial statements and no consolidated financials were published. However, some observers stated that the rationale for creating the cell structure was not solely to take advantage of German regulatory loopholes, but rather to follow the key Aldi principles of decentralization, less complexity and lower costs overall⁴⁹. In Germany, Aldi had more than 60 separate legal entities under the combined Aldi North and South umbrellas⁵⁰.

When a new cell was created, a distribution center was either opened or redirected to serve the new group of stores. Aldi used a hub-and-spoke distribution system and aimed to have each distribution center servicing 60 stores within a radius of 50 kilometers. The size of a typical distribution center was 25,000 to 40,000 square meters⁵¹, equipped with 20 reception docks and 20 shipping docks⁵². It had a fleet of 25 or more trucks that delivered approximately 95 per cent of the stores' inventory. All products except bread and frozen goods flowed through these distribution centers. Five to six per cent of an Aldi store's inventory was delivered directly from the supplier's warehouse. Aldi's delivery trucks were also responsible for retrieving the empty pallets from the stores. To reduce the cost of the truck fleet, Aldi retreaded tires and placed wind deflectors for better gas mileage⁵³. Exhibit 6 shows pictures of Aldi's distribution center and shipping docks.

Aldi's suppliers paid for the shipping to Aldi's distribution centers – or, in the case of baked and frozen goods, directly to the stores. Aldi's distribution centers did not keep the majority of their stock for more than 24 hours: approximately 90 per cent of the volume entering the warehouse was directly cross-docked and put on an outbound truck⁵⁴. There were only two sizes of pallets: 120cm by 80cm (the "Euro pallet") and 60cm by 80cm (the "Düsseldorf pallet"). Aldi South's distribution centers were equipped with re-loaders that were used to separate 40 large pallets (120cm by 80cm) into 80 smaller pallets (60cm by 80cm) every hour⁵⁵. Aldi had also developed a truck forklift system to transport three pallets simultaneously⁵⁶. Stores only received 60cm by 80cm pallets and it was common that the pallets were mixed with different products



to reduce handling at the store⁵⁷. Regular checks were done to ensure quality and quantities. A former Aldi manager explained the process, “Aldi has been practicing this policy for a long time with fast-moving items such as beverages, sugar, eggs – so-called pallet goods... Aldi has always had an influence on easy-to-ship packaging which must be harmonized with the pallet size. Aldi just did not know that this approach was referred to as ‘efficient consumer response’ (ECR)...”⁵⁸

Purchasing

Industry players recognized that Aldi’s buying power was extremely high, allowing it to demand low prices. Aldi was stringent with quality: all products were tested for six to eight weeks in all stores of one, two or three Aldi cells before any formal agreement was made⁵⁹. However, Aldi was reported to virtually never change terms and conditions once a price was agreed upon⁶⁰. One expert described the relationship between Aldi and its suppliers as being symbiotic. He stated:

“A company that produces private labels needs the trust of its clients. This is usually developed over years of business relations. In the beginning, however, there is of course always a sort of ‘coaching’ by Aldi.... One really important point remains – and all Aldi suppliers will confirm this: renegotiations during which attempts are made to upgrade terms and conditions for deliveries which have already been made do not occur. Aldi is interested in the continued survival of capable suppliers.”⁶¹

Aldi paid its suppliers in 30 days and was known for its punctual payment, with some stating, “You can set your watch by its payments.”⁶² When new suppliers were taken on board, they were clearly given all of Aldi’s requirements for shipping, packaging and other logistics. As one supplier said, “If the goods sell rapidly, if they prove popular and Aldi needs additional supplies, the owners have no mercy.”⁶³

Buyers at Aldi central purchasing were typically in charge of 100 items or up to €2 billion annually⁶⁴. They were very quality conscious (see **Exhibit 7** for a list of examples of typical tests). In dealing with suppliers, it was strictly forbidden for Aldi purchasers to accept any gifts larger than a calendar. As one former purchasing manager and administrative board member said, “It seems impossible to minimize potential corruption in advance, or actually to eliminate it altogether... Aldi has not taken any special preventative steps, and I myself cannot see any sensible approach to this because the purchaser requires the trust of his supervisor when he negotiates.”⁶⁵

The Back Office Operations

For each cell (i.e., 60 to 80 stores and one warehouse), Aldi’s management had a general manager and five direct reports: an administrative manager, central warehouse supervisor, sales manager (responsible for all stores in the district), purchaser and property-leasing officer (see **Exhibit 8** for the organization of a typical Aldi cell company).

Aldi North and Aldi South corporate head offices had very few central functions: purchasing, revenue and expense management, central accounting, internal auditing, Aldi did not have any other staff functions – e.g., no Department of Strategy or Marketing – and never used consultants or advertising agencies: it regarded these efforts as adding little or no value to the client's purchasing experience. Technology was kept to a minimum. In some Aldi affiliates, it was not uncommon to encounter employees without their own computers. The company was rumored to discourage email use with the outside world and preferred back-office staff to share computers.

International Operations

As with growth within Germany, all of Aldi's international growth was financed through retained earnings, due to its fast cash-to-cash cycle and solid profit margins. The company had successfully expanded into Austria, Holland, Belgium, France, Spain, Portugal, Luxembourg, Great Britain, Ireland, Slovenia, Switzerland, Australia and the United States (see Exhibit 9 and Exhibit 12 for information on Aldi's international expansion). Aldi's policy of limited selection and prices 20 to 30 per cent below conventional supermarkets remained intact. Types of products varied from country to country. For example, in Spain, Aldi carried omelets that were made by local suppliers, while in Great Britain, the company carried locally-brewed bitter beer⁶⁶. Just like in Germany, international Aldi operations also looked for high quality local suppliers for basic items. A book listing the suppliers of Aldi's 100 top-selling products was a best seller in Germany⁶⁷. In Spain, it was rumored that the well-known dairy company Celta and renowned spice brand Dani produced private label goods for Aldi⁶⁸. It was estimated that approximately 20 to 30 per cent of the products varied by country⁶⁹.

Competitors

Aldi faced competition from a number of sources. The food retailing market was generally categorized by hard discounters such as Aldi and Lidl, soft discounters such as Dia (located in Spain and owned by Carrefour) and Plus (owned by Tengelmann), conventional supermarket chains and large retailers with growing global operations such as Carrefour from France, Ahold from Holland, Metro from Germany and Wal-Mart from the U.S. (see Exhibit 10 for a list of global retailers).

The Global Giant: Wal-Mart

Wal-Mart stood out by its mere size – it was the world's largest retailer with US\$285 billion (€219 billion) in sales and net income of US\$10.5 billion (€8.1 billion) as of January 2005⁷⁰. Seventy-five per cent of Wal-Mart's 5,700 stores were located in the U.S. The company operated smaller Neighborhood Markets, regular Wal-Mart stores, large format Supercenters, and Sam's Club (a wholesaler concept like Metro in Germany). Regular Wal-Mart stores carried about 70,000 items, whereas Supercenters carried upwards of 100,000 SKUs, including more than 20,000 grocery items⁷¹.



Supercenters had as many as 40 departments, more than 500 employees (referred to as associates) and sales of over \$100 million⁷².

Wal-Mart was known in the U.S. for its slogan, “Everyday low prices” (EDLP) and guaranteed its customers maximum selection of both private label and branded merchandise spanning nearly every category of consumer goods. Grocery, candy and tobacco was the largest category, making up 28 per cent of Wal-Mart’s total sales⁷³. Across all categories, private label accounted for approximately 20 per cent of its overall sales⁷⁴. It was rare to find a particular item at a lower price than Wal-Mart. However, in one test in the U.S., comparing Wal-Mart’s private label goods with Aldi’s, the prices of an Aldi basket of basics was found to be 6.6 per cent lower than Wal-Mart’s⁷⁵. Wal-Mart’s inventory turnover was 7.5 at the beginning of 2005 (see Exhibit 11 for a comparison of prices and key facts on Wal-Mart)⁷⁶.

For stock keeping, control, replenishment and measuring performance, Wal-Mart used a complex information technology system. Handheld computers were linked to an internal inventory system. All information was real-time via Wal-Mart’s private satellite network and permitted in-store staff to reorder and track and chase pending orders⁷⁷. Furthermore, all systems were linked via a secure intranet to suppliers and the company had 100 terabyte database linking geographic, demographic, supplier, consumer and product information to optimize pricing and availability.

In the U.S., Wal-Mart shipped 81 per cent of its goods from 99 distribution centers – 37 were for general merchandise, 34 were grocery distribution centers, 7 were for clothing and apparel and 16 were for supplying specialty merchandise⁷⁸. The rest of the goods were delivered directly to the store from its suppliers. Wal-Mart used its own truck fleet to deliver general merchandise and contracted third parties for grocery deliveries⁷⁹. On average, the size of Wal-Mart’s distribution centers was one million square feet (93,000 square meters). Each distribution point served approximately 150 stores within a 240-kilometer radius and was staffed by 700 associates⁸⁰.

Wal-Mart’s operations in Germany had encountered several stumbling blocks. To enter Germany, Wal-Mart bought the 21-store Wertkauf chain for €1.2 billion, and 74 hypermarkets from Interspar for €560 million in 1997/98. Some observers described this initial phase as “nothing short of a fiasco.”⁸¹ Several problems were cited, such as nearly getting fined by the German government for below-cost selling, as well as strict zoning regulations preventing Wal-Mart from building its typical big stores⁸². A “culture clash” also manifested itself internally, in which American managers did not learn to speak German⁸³. Furthermore, German customers complained that they were being harassed by store employees who were supposed to be ‘store greeters’, following Wal-Mart’s US standard procedure⁸⁴. Wal-Mart reportedly underestimated the German population’s loyalty to established competitors such as Metro, Lidl and Aldi⁸⁵.

Aldi’s Emulator: Lidl

The first Lidl store opened in Ludwigshafen, Germany in 1973⁸⁶. The company had nearly 2,400 locations in Germany, 2,800 in 15 other countries and sales of

approximately \$25 billion (€20 billion) annually. Lidl was owned by the Schwarz Group, which also operated other classes of supermarkets such as Kaufland and Concord. Like Aldi, Lidl's owners were fiercely private, eschewing press and external coverage. Its operations mirrored those of Aldi, and it was generally accepted that Lidl had imitated Aldi's operative approach, with small stores, three to five staff members and a basic assortment priced 20 to 30 per cent below conventional supermarkets. Three main differences were noted by onlookers. First, Lidl carried more branded products than Aldi and often stocked different SKUs per product. Second, Lidl employees were paid 20 per cent less than Aldi's⁸⁷. Third, Lidl's pace of expansion internationally was seen to be faster than Aldi's. Lidl had entered prior to Aldi in ten European markets (Italy, Portugal, Greece, Poland, Czech Republic, Finland, Hungary, Norway, Slovakia, Sweden). Exhibit 12 shows a comparison between the two companies. An analyst tracking food retailers in Europe commented: "[We believe] that Lidl is well-positioned to capture Aldi's European crown and its aggressive expansion across the continent will drive its total European sales ahead of Aldi's by 2012."⁸⁸

Outlook

In Germany, Aldi was a cultural institution. A British reporter declared, "Aldi is more than just another food store. The true character of the German life-style and *Zeitgeist* can be found in much more ordinary places. Aldi is one of them."⁸⁹ Some observers also said that an ageing population and stagnating economy played into the hands of Aldi.

Behind the low prices, quality foods and very loyal customers, were simple, efficient and highly profitable operations: Sales per square meter were estimated to be €8,650⁹⁰, whereas traditional supermarkets came in at €3,960⁹¹. Aldi's gross margins were approximately 11.5%, with total costs of operations between 9% and 10%⁹². Bottom line margins thus ranged between 1.5% and 2.5%⁹³. Retailing experts predicted that together Aldi North and Aldi South earned between €1.1 and €1.3 billion in after-tax profits⁹⁴. All of these numbers indicated that Aldi was rather successful in 2005 – just as it had been for the previous six decades.

A consulting and market research firm specializing in retailing, Retail Forward, reflected the feeling of many of Europe's retailers and suppliers when it entitled one of its 2004 reports "Aldi&Lidl: Europe's hard discount threat." What could traditional retailers do to react to Aldi's and Lidl's rapid expansion in Europe? What would Wal-Mart do in Germany? What would be the future for Aldi? Most of all: what had made this company so successful, six decades in a row?

Note: We would like to acknowledge the project work of IESE MBA Class of 2006, Section A, which greatly contributed to the writing of this case.

We would also like to thank Mr. Theo Albrecht (Senior), for his valuable comments and insights.



Exhibit 1

Images from Aldi North and Aldi South



Picture of Early Albrecht Store



Map of Germany - Aldi North and South



Aldi Website Splash Page: Countries of Operation. (Aldi North to the left and Aldi South to the right.)



Aldi North Store in Germany



Aldi South Store in Dusseldorf, Germany

Source: Aldi Corporate Websites, www.aldi.pt, www.aldi.com, Accessed August 1, 2005. Photos of stores by case writers.

Exhibit 2

The Doing-Without Checklist

1. No staff to relieve management of intellectual work
2. No controlling department to provide direction
3. No external market research
4. No work with management consultants
5. No budget forecasts
6. No scientifically cleaned statistics to reveal all
7. No scientific analysis techniques for all questions related to supplying the market
8. No customer surveys
9. No ISO 9000 or TQM
10. No sophisticated system of terms and conditions to squeeze supplier prices
11. No differentiated price policy by sales area or store type
12. No differentiated product mix from store to store
13. No complicated calculation methods for setting prices
14. No games involving qualities to optimize profits
15. No highly complicated engineering for logistics
16. No product placement in stores based on psychological analysis of shopper behavior
17. No luxury in the office, no top-of-the-range company cars
18. No public appearances
19. No publicity
20. No acceptance of gifts from suppliers
21. No acceptance of invitations to dinners from suppliers

Source: Dieter Brandes, *Bare Essentials*, London: Cyan/Campus Books, 2004, p. 44.

Aldi's Secrets to Success

1. Keep it simple
2. Strive to earn your customers' trust
3. Set clear goals and follow them rigorously
4. Improve details daily
5. Don't optimize, maximize
6. Know where you stand, but don't waste time on budgets and figures
7. Test now, perfect later
8. Be fair to your suppliers and help them improve their business
9. Practice management by trust and control
10. Talk in terms that people can understand
11. No matter how successful you are, stay thrifty and frugal

Source: Dieter Brandes, *Bare Essentials*, London: Cyan/Campus Books, 2004, front cover insert.



Exhibit 3

Product Selection

Breakdown of Products at Aldi North

	Items	%
Dry goods delivered from distribution centres	570	81%
Refrigerated products (dairy, sausage, cold cuts) delivered from distribution centres	70	10%
Frozen foods, including ice cream, delivered directly by the suppliers	35	5%
Bread and other baked goods, delivered directly by the suppliers	10	1%
ALDI current specials (non-food)	15	2%
Total Number of Items	700	100%

Source: Dieter Brandes, *Bare Essentials*, London: Cyan/Campus Books, 2004, p. 152.



Flyer from Aldi South, Germany



Flyer from Aldi North, Spain



Cross Section of Products

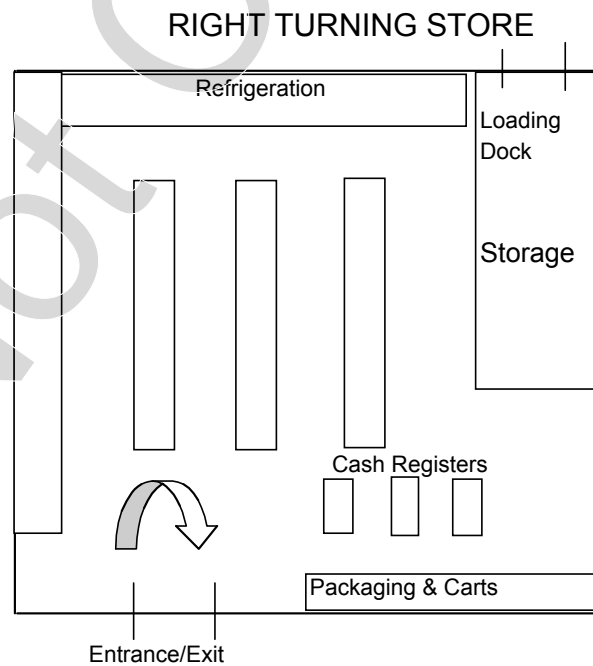
Source: Pamphlets collected from stores. Product selection from Aldi website.

Exhibit 4

In-Store Images



Inside an Operating Store



Typical Store Format



Exhibit 4 (continued)

In-Storage Images



Stacks of Alcoholic Beverages



Reloading Palet in Front of Refrigerators

Source: Photos in stores by case writers and students of IESE MBA 2006, Section A.

Exhibit 5

Staff Duties

General Managers:

- Achieve the highest possible turnover on a long-term basis and strengthen the company's market position by expanding and securing a high-performance chain of stores;
- Clear the best profits possible without endangering the company's future development;
- Apply the principle of economy in its extreme form to consolidate and expand the company's market position.

Sales Managers:

- Ensure that, in their sales area, the highest possible turnover is achieved on a permanent basis.
- The above requires them to ensure that the business runs smoothly in tidy stores at the lowest possible costs whilst delivering the highest possible performance and accurate accounts, in order to maintain and improve the company's competitiveness.
- Staff the stores with managers who meet the demands of the position and ensure that their district managers perform their duties in compliance with the job descriptions.

District Managers:

- Put the right staff in place in the stores to keep them clean and tidy, ensure a smooth sales process and correct inventories, and achieve high sales.
- Ensure that the instructions issued by management are carried out in the same way in all stores.

Store Managers:

- Be responsible for keeping their stores clean and tidy at all times.
- Ensure adequate supplies of merchandise (avoiding both surplus stock and short-falls).
- Ensure that all customers are treated in a friendly and polite manner so that today's regular customers remain regulars and new customers can be attracted.
- Take the greatest possible care to ensure accurate accounts, and achieve the highest possible sales by means of intelligent work management and staff training.

Central Warehouse Supervisors:

- Guarantee adherence to statutory regulations, safety, smooth operations at lowest costs, best performance and minimum inventory losses in their warehouses.
- Keep the warehouse and grounds clean and tidy.

Personnel and Administrative Managers:

- Put the organization and human resources in place in all departments, applying the principle of economy in its extreme form, to enable tasks to be carried out perfectly within the framework of the law and company rules.
- Ensure that the documents and data required by management are available on time.

Relevant to All Staff:

- In the course of completing their duties, supervisors must tap into their staffs' initiative and ideas.
- The leadership principles to be followed can be deduced from the general management instructions.

Source: Dieter Brandes, *Bare Essentials*, London: Cyan/Campus Books, 2004, pp. 91-92.



Exhibit 6

Distribution Center Logistics



Receiving Docks



Shipping Docks with Aldi South Trucks



Aldi Distribution Center in Germany



Reloader for Palets

Exhibit 7

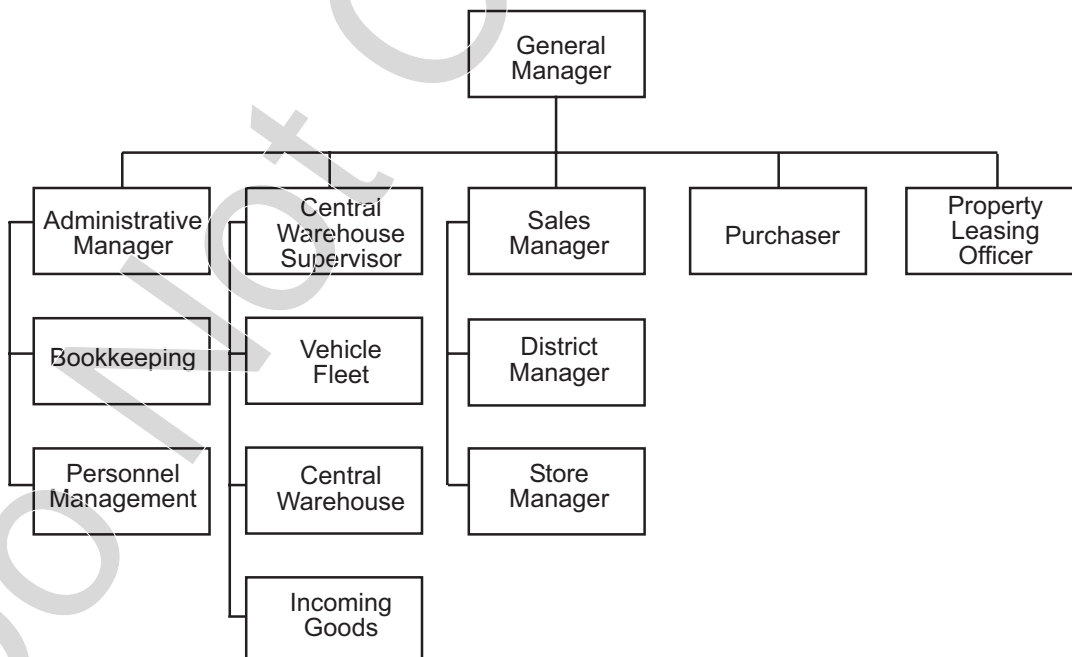
Examples of Quality Checks

- Samples are taken of every shipment of canned fruit, vegetable and fish
- Samples are also taken of each shipment received and individual units weighed
- Each week at least two types of sausages or cold cuts are checked
- Each paper product is tested at least once per month.
- Eggs are submitted to weight and quality controls each time a shipment is received according to special, detailed rules.
- General weight checks take place on a daily basis; for some items this involves selecting a certain number of samples.
- As part of the daily checks, ten items are taken out of the distribution center's inventory.
- Each purchaser carries out quality comparisons with competitive items within his category.

Source: Dieter Brandes, *Bare Essentials*, London: Cyan/Campus Books, 2004, p. 150.

Exhibit 8

Typical Aldi Cell Company Structure



Source: Dieter Brandes, *Bare Essentials*, London: Cyan/Campus Books, 2004, p. 86.



Exhibit 9

International Expansion

Aldi's first international expansion was in 1967, when Aldi South purchased Hofer, a chain of supermarkets in Austria. In the initial stages, the company faced protests from Austrians. An attempt was even made to pass the "Anti-Hofer-Law" since Aldi did not carry certain items and provided the rest of its items at steep discounts. Hofer/Aldi weathered the storm and agreed to stock milk, dairy products and bread⁹⁵. By 2005, the protests were a thing of the distant past; the Hofer name had remained intact and the chain had grown to 300 stores, and sales were estimated at €2 billion⁹⁶.

Operations in the U.S. were kicked off when Aldi South purchased Benner Tea Co. in 1976. The stores were renamed Aldi and the discounter's concept was spread out to over 700 locations in 26 states⁹⁷. Industry experts predicted that Aldi would add 40 stores per year in the U.S. until reaching a network of 1,000 by 2010⁹⁸. A former executive of Procter & Gamble commented on Aldi's threat in the U.S. market, "[Aldi] is kind of bottom-feeding, and nobody notices it."⁹⁹ Another analyst in the U.S. commented, "In our opinion, Aldi shares more in common with the dollar stores, as they both serve the same low-income households."¹⁰⁰

Aldi North purchased U.S. chain Trader Joe's and acquired a 10 per cent stake in the grocery and drug mart Albertson's¹⁰¹. Trader Joe's was a full-service supermarket decorated like the inside of a ship, complete with a European delicatessen and a whacky sense of humor, in which the store manager was referred to as a captain and store clerks wore Hawaiian shirts. Theo Albrecht did not change the concept nor did he integrate it under the Aldi brand. The name Trader Joe's remained and by 2005, the chain had spread to over 200 stores in 19 states across the U.S.¹⁰² Theo Albrecht's other investment, Albertson's, had merged with American Stores and was ranked second in its sector in the U.S. with sales of \$39 billion, 200,000 employees and 2,300 stores¹⁰³.



Exhibit 10

Global Retailers

Top Retailers Worldwide - 2003

Company	Home Country	Net Sales (Millions USD)	No. of Countries	% of Sales in Foreign Countries
1 Wal-Mart(1)	United States	256,329	11	19%
2 Carrefour Group(2)	France	79,761	30	49%
3 The Home Depot(3)	United States	64,816	3	7%
4 Metro AG	Germany	60,648	28	47%
5 The Kroger Co.	United States	53,791	1	0%
6 Tesco PLC (4)	United Kingdom	50,370	12	20%
7 Target Corp. (5)	United States	46,781	1	0%
8 Royal Ahold (6)	Netherlands	44,283	19	76%
9 ITM Enterprises SA (7)	France	43,453	8	30%
10 Costco Companies (8)	United States	41,693	8	18%
12 Aldi Group	Germany	36,211	12	33%
24 Schwarz Group (Lidl)	Germany	28,664	15	59%

Notes:

- (1) Net sales excludes sales from McLane (\$4.3 billion).
- (2) Net sales excludes revenue from franchise operations
- (3) Net sales includes wholesale revenue.
- (4) Net sales includes share of joint ventures.
- (5) Net sales excludes credit revenue.
- (6) Net sales excludes sales from divested Golden Gallon stores and food-service revenue.
- (7) Net sales is an estimate and includes tax.
- (8) Net sales excludes warehouse membership fees.

Source: Retail Forward Report, "Aldi & Lidl: Europe's Hard Discount Threat", 2004, p. 7.



Exhibit 11

Price Comparison to Wal-Mart

Pricing Survey, Wal-Mart vs. Aldi

Prices in USD	Wal-Mart Private vs. Aldi Private	Wal-Mart Lowest-Price vs. Aldi Private	Wal-Mart Branded vs. Aldi Private
Avg price (per unit)	0.17	0.30	0.36
Median price (per unit)	0.09	0.09	0.10
Average difference	0.01	0.04	0.09
Median difference	0.01	0.01	0.03
Med as % of Med Price	6.6%	8.6%	36.0%
Std Deviation	0.09	0.15	0.15
Count	62	68	47

Source: Christine K. Augustine, Dana L. Telsey and Monika M. Sieber, *A Closer Look: Aldi's Limited Assorted Supermarket Model and What It Means for Wal-Mart and The Dollar Stores*, Bear Stearns Analyst Report,

Number of Wal-Mart Owned Stores

Discount	1,353
Supercentre	1,713
SAM'S	551
Neighborhood	85
Total U.S.	3,702
Argentina	11
Brazil	149
Canada	262
Germany	91
South Korea	16
Mexico	679
Puerto Rico	54
UK	282
Sub-total	5,246
China J.V.	43
Japan (Seiyu)	403
Total	5,692

Source: Wal-Mart Annual Report, www.sec.gov, January 31, 2005, p. 3.

Category of Sales

	%
Grocery, candy and tobacco	28%
Hard goods	19%
Soft goods and domestics	16%
Pharmaceuticals	9%
Electronics	9%
Health and beauty aids	7%
Sporting goods and toys	6%
Stationary and books	3%
Photo processing	1%
Jewelry	1%
Shoes	1%
TOTAL	100%

Source: Wal-Mart Annual Report, www.sec.gov, January 31, 2005, p. 10.

Exhibit 12

Comparison of Lidl and Aldi

Aldi Stores, Sales & Market Share by Country in 2003

	Stores	Sales \$USM	Market Share
All Countries	7,208	36,210	3.0%
1 Australia	56	225	0.5%
2 Austria	298	735	4.9%
3 Belgium	376	575	2.1%
4 Denmark	200	500	3.2%
5 France	606	2,700	1.3%
6 Germany	4,000	24,140	16.7%
7 Ireland	11	45	0.4%
8 Luxembourg	10	40	2.5%
9 Netherlands	388	1,150	4.4%
10 Spain	80	250	0.3%
11 United Kingdom	268	1,350	0.8%
12 United States	915	4,500	1.0%

Lidl Stores, Sales & Market Share by Country in 2003

	Stores	Sales \$USM	Market Share
All Countries	5,154	22,622	2.5%
1 Austria	78	204	1.3%
2 Belgium	200	356	1.3%
3 Czech Republic	52	40	0.5%
4 Finland	41	113	0.8%
5 France	990	4,640	2.3%
6 Germany	2,374	11,882	8.2%
7 Greece	85	217	1.1%
8 Ireland	43	187	1.6%
9 Italy	280	775	0.7%
10 Netherlands	142	441	1.7%
11 Poland	18	68	0.3%
12 Portugal	170	385	2.6%
13 Spain	349	1,154	1.3%
14 Sweden	11	10	0.1%
15 United Kingdom	321	2,150	1.2%

Total market is retail sales at food retailers.

Source: Retail Forward Report, "Aldi & Lidl: Europe's Hard Discount Threat", 2004, pp. 10 & 13



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