

A look inside a hard discounter essay sample



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When gas prices soar, most consumers have to reduce their spending on other things. If they could buy a \$3.50 box of cereal for \$1.39 or a \$2.99 package of tomatoes for \$0.99, and get the same or better quality, the supermarket might be the easiest place to start for frugal consumers. Some consumers don't have the skill to evaluate products of different prices, simply choosing higher-priced items on the assumption that higher price means higher quality. Other households have enough discretionary income that price increases for gasoline don't affect the purchase of other items. This is the environment for a food fight—the battle for consumers' food dollars. The stakes are high because all consumers must eat. Some retailers, such as Whole Foods, Wild Oats Market, and The Fresh Market stake out a “lifestyle” or “quality” position with niche-oriented strategies appealing to consumers who value gourmet, organic, and specialty products. Others compete on location or convenience, such as Kroger, Publix, and Albertsons, with neighborhood locations across the country. Last, some compete on price, with Wal*Mart looming as the ten-ton gorilla in this arena.

A rising star in the battle to appeal to frugal consumers, however, is Aldi. Traditional grocery retailers are caught in the shrinking middle of the market, which some consumer analysts see as an unsustainable strategy, outflanked by competitors at polar ends of consumer demand. Kroger, Albertsons, Safeway, and others tackle the price issue with promotional programs while also offering a differentiated shopping experience. For Cincinnati-based Kroger, the nation's number-two grocery retailer, the tagline is “Right Store, Right Price.” Boise-based Albertsons, with 2,500 stores, tells consumers it “Helps make your life easier,” but it has also

invested heavily in a shelf tag program dubbed “ Compare.” Consumers may be asking, “ Can the nicest stores in town really have low prices?” Low Costs = Low Prices

“ You can’t lower prices without lowering costs” might be the conclusion of consumer analysts. And if anyone knows how to lower costs, it’s Aldi, one of the largest grocery chains in the world and one of the fastest-growing in the United States and other countries. Aldi is based in Germany, part of a type of retailing known as a “ hard discounter.” The brand name Aldi is derived from “ Albrecht” and “ discount.” The company was founded in 1946 by two brothers, Karl and Theo Albrecht, and was split into two chains in 1962 over a dispute over whether cigarettes and other tobacco products should be sold at the checkout. Today, Aldi consists of Aldi Nord (Aldi North) and Aldi Sud (Aldi South), and both of the brothers are annual members of the Forbes list of the world’s ten richest people. The chains initially covered different regions of Germany, but today operate in many parts of the world. Check the company’s website (www.aldi.com) for geographic coverage and the locations of stores nearest you. Aldi Nord operates in northern Germany, Belgium, the Netherlands, Luxembourg, France, Spain, and Denmark;

Aldi Sud operates in southern Germany, the United Kingdom, the United States, Ireland, Australia, and Austria (under the name Hofer). Despite Aldi’s marked emphasis on very low prices, most independent consumer reports suggest that the quality of Aldi products is as high, and sometimes higher, than manufacturers’ brands. Aldi carries some manufacturers’ brands such as Tyson, Hershey’s, and M&M’s, but most of Aldi’s products are supplied as Aldi private brands by contract manufacturers using the same formula as the

number-one selling manufacturer's brand, sometimes actually by the manufacturer of the better-known brand. Aldi's "strictly no frills" approach is evident everywhere in typical Aldi stores. Stores don't decorate aisles or even stock shelves for that matter. Pallets of products are parked by forklift trucks in the aisles, and the "stocking" function is performed by customers picking products out of the boxes and then picking up the emptied boxes to transport their groceries to their homes, eliminating most labor expense in the store. At checkout, customers place all items on the belt and push the cart to the other end, enabling cashiers to simply scan and transfer the items back into the cart. There's no bagging, no credit cards, and no checks, making the system fast and very inexpensive.

Because most products are manufactured and packaged to Aldi's specifications, packages contain barcodes on multiple sides of the package, making scanning faster than in traditional supermarkets where the cashier may have to swipe an item several times before it registers. Only two to three employees may be in the store at a given time, and the cost savings compared to "upmarket" grocery stores are passed on to customers. Aldi was once ridiculed as being "cheap stores selling poor-quality goods," but first in Germany and now in the United States, a kind of cult of upscale consumers has emerged as "fans" of Aldi because of high-quality products ranging from wines to computers at exceptionally low prices. In a related organization, Trader Joe's, upscale consumers flock to stores with similar operating efficiency that carry organic, vegetarian, and other specialty foods, as well as its own brand of wine students sometimes call "Two Buck Chuck." In the United States, Aldi grew fastest in rural areas and lower-income areas

of major cities where food budgets are tight, but today Aldi's stores are opening more suburban locations and are beginning to add a few products under its more upscale private label, Grandessa.

The relationship with Aldi's vendors is unique in that each one, for about 85 percent of products carried, is manufactured specifically for Aldi with product attributes, quality, and packaging nearly the same as the leading manufacturer brand. Through its geographic divisions, Aldi contracts with topquality manufacturers close to the divisional warehouse, minimizing logistics costs and maximizing speed to store. As a consequence, costs are lower than traditional supermarkets, and products in the store are often fresher (and thus last longer in consumers' homes). Aldi is a favorite customer of many vendors because of its policies of no slotting or advertising allowances, lower packaging and warehousing costs, and an "open book" policy to a firm's financial records in which Aldi expects low prices, but also expects its supply chain partners to earn enough return on capital to delivery quality and maintain the manufacturer as one of the most efficient in the supply chain. Aldi also maintains a policy of maintaining two capable suppliers for each product carried.

The entire process works because of "SKU simplification," meaning that the typical Aldi store carries about 700 "stock keeping units," compared to 25,000 or more in the typical supermarket and 150,000 in a Wal*Mart Supercenter. But consumers can satisfy about 85-90 percent of their grocery needs with those 700 SKUs and shop at other stores if they are willing to pay the higher prices associated with wide selection, low inventory turns, and more convenient locations. When walking through an Aldi store, a skilled

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marketing analyst can quickly see why Aldi's costs are lower. Customers perform many of the functions paid to employees in competitive stores. Carts are "rented" by customers for a quarter, but the quarter is refunded when the cart is returned, eliminating major labor and cart deterioration costs incurred by competitors—as well as making the parking lot less congested for customers. Don't bother looking for Aldi in a telephone directory; answering phones is too costly and word-of-mouth and a website does the job more effectively. Most stores are not open on Sundays or after 7: 00 or 8: 00 p. m., concentrating high volume through its highly efficient checkout system with carts filled with one hundred or more items at Aldi compared to smaller quantities at competitors.

Look at the accompanying pictures and you'll see these and other cost-reduction tactics. But Aldi doesn't skimp on paying people— usually a few dollars higher per hour than market rate for cashiers (which yields low turnover of store personnel) and some of the highest starting salaries for college graduates entering its retail training program (\$62, 000 in 2005). Aldi is a very private firm and thus financial results are not public. Analysts who follow public grocery chains and Wal* Mart have studied Aldi, however, and conclude that its total sales worldwide are around \$40 billion and that its profit margins are several times higher than most competitors. An analyst for Bear, Stearns & Co concluded that Aldi's prices were 6. 6 percent lower than Wal*Mart's comparable private labels and 36 percent lower than brand-name equivalents at Wal*Mart and, of course, much lower than the major grocery chains. Signage at Aldi features its " Double Quality Guarantee," which says, " Quality, taste and satisfaction are always Double guaranteed at Aldi. If for

any reason, you are not 100 percent satisfied with any product, we will gladly replace the product AND refund your money,” a promise that may be especially important in getting new customers to try the store.