

Aldi case study analysis



**ASSIGN
BUSTER**

Aldi is a well established German company and is famous for offering high quality products for low costs. Aldi entered the Australian market in 2001 and by 2004 it has achieved around 2.5% market share.

This report includes a PESTLE and Porter's five forces analysis which identifies the opportunities and threats available within the Macro-environment in Australia and the grocery industry. Even though the opportunities and threats are balanced to a certain extent, the industry analysis has proven that the existing grocery industry is turning out to be less profitable due to the high intensity among the competitors and the bargaining power of customers.

All most every firm follow a high quality, low cost strategy. However, Woolworth and Cole-Myer who has captured more than 2/3 of the market share, has a wide product range and a nationwide distribution and wide product range. Therefore, it is important for Aldi to find means and ways to differentiate themselves and achieve sustainable competitive advantage.

By analysing Aldi's tangible/intangible resources and capabilities, this report has list down strategic strengths, strategic necessities, and strategic weaknesses under the internal analysis which would be an assistance to determine the Sustainable Competitive Advantage factors. In addition, the Value Chain Analysis illustrates that Aldi is focused in creating value by reducing the cost and improving the quality of the products in each of its primary and secondary activities which is ultimately proven as only strategic necessity.

Therefore, it is important to read through this analysis before developing any future strategies for Aldi.

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1. 0 Overview of Aldi australia

Aldi South opened the first Aldi store in Sydney in January 2001 and by 2004, Aldi owned 44 stores in New South Wales which is 5% of total packaged grocery expenditure in NSW, 20 in Victoria which is 2. 5% and 08 in Queensland which is 1. 4% respectively. The future prediction of ACNielsen is that Aldi could own more than 300 stores and capture 10% of the Australian packaged grocery dollar market by 2010. However, there are few major competitors in the market such as Woolworths, Coles-Myer and Foodland Associated which would be a threat for Aldi Australia.

Therefore it is important to study the current situation within ALDI Australia which we would consider the year 2004/2005. This document will focus on the external aspects that can affect Aldi's performance. The strategies used by ALDI have been successful so far. However, there are still rooms for improvements that needed to be manifested. We will be conducting a Macro-environment analysis by using the PESTEL model to determine the factors that influence the industry and the firms within it, a comprehensive industry analysis using the Porter's five forces model and a competitor analysis using the Strategic grouping model.

It is important that Aldi differentiate themselves to maintain or increase their market share. In this report, we will be conducting a comprehensive Internal Analysis using the Value Chain Model and identify Aldi's current strengths

and weaknesses which will be an assistance to develop strategies in the future.

2.0 Macro-environment Analysis

The general environment an important aspect to investigate since the effort should result in recognition of environmental changes, trends, opportunities and threats in the political/legal, economical, socio-cultural, technological, and ecological segments. (Hanson et al, 2008)

2.1 (P)olitical/Legal Segment

Legal System –

Australian's follows the "Common law" legal system derived from English law. This is relatively challenging for Aldi since it is German company and they are used to the "The Code Law". (Refer appendix 2)

Political Parties

There are two political groups that have a serious chance of forming government in Australia and both believe in social democracy. (Refer appendix 3)

Governments might change or new political parties might be elected, but the concern of the multinational corporation is the continuity of the set of rules or codes of behaviour and the continuation of the rule of law regardless of which government is in power. (Cateora et al, 2007)

Australian Retailers Association (ARA)

The ARA has been encouraging, promoting and protecting retailers by providing education, support and mentoring for the past 100 years. The Federal, State and Local Governments regularly seek the opinions and views

of the ARA when they undertake new projects, act to change existing law or implement new legislations. (Government Submissions, n. d.)

2. 2 (E)conomic Segment

The case study states that there may be a number of economic factors which would influence consumer confidence and consumer spending over the next few years. These factors include:

- Low national rate of saving, low household rate of saving (refer appendix, figure 1)
- Falling house prices
- High oil prices and it continues to rise. (refer appendix 1, figure 4)
- Declining of GDP from 2003 onwards (refer appendix 1, figure 2)
- High levels of household debt (refer appendix 1, figure 3)
- These are likely to have a negative impact on consumer spending patterns. However, there are few positive economical factors which would be beneficial for businesses and have a positive influence on customer spending patterns.
- There is a continuous decrease in the unemployment percentage during the past 10 years. (refer appendix 1, figure 2)
- Declining of the inflation rate during the past 2 years. (refer appendix 1, figure 2)

2. 3 (S)ocio-Cultural Segment

The population is continuing to grow within Australia and currently it is around 20 million. (refer appendix 1, Figure 5) As per the projections of the

Australian Bureau of Statistics by 2031 it is expected to grow up to around 25million.

The number of people living alone is projected to increase from 1. 8million in 2001 to between 2. 8million and 3. 7million in 2026 due to ageing population, delayed marriage and increases in divorce and separation.

(Australian Bureau of Statistics, 2005) This would create a demand for more household items such as furniture, kitchenware, and gardening items etc.

English is the primary language. Yet their colourful vocabulary, accent, phonetics system and slang can take some time to get used to. (Australia - Culture, Customs and Etiquette n. d.)

Australia is a multicultural society. After World War II there was heavy migration from Europe, especially from Greece, Italy, Germany, the Netherlands, Yugoslavia, Lebanon, and Turkey. Currently there is a heavy migration from the South Asian and South East Asian Countries as well.

(Australia - Culture, Customs and Etiquette n. d.)

Australians are very down to earth and value authenticity, sincerity and relationships. (Australia - Culture, Customs and Etiquette n. d.)

2. 4 (T)echnological Segment

New Communication Technologies: The Internet and e-commerce have boosted the international competitiveness of Australian businesses. Many Australian firms are now using internet technology to expand into new foreign markets. Australia is today well connected, both domestically and internationally, with a modern fiber-optic backbone, satellite coverage and

an extensive mobile network. (Department of Foreign Affairs and Trade, n. d.).

Australians are more concerned about Quality & Standards – It is important to improve the efficiency and quality of the products. A non-government organization named “ Standards Australia” has been charged by the Commonwealth Government to meet Australia’s need for contemporary, internationally aligned standards and related services. (Standards Australia, n. d.)

Focused on Innovations, new businesses and improvements – It is relatively easy and encouraging to start a new business in Australia since most processes are online and it is very convenient. The organization, Innovation and Technology, Australia was established by the Federal Government to help the innovators and inventors develop, protect and commercialise new ideas. (Innovation and Technology, Australia, n. d.)

2. 5 (E)cological Segment

Australia is the driest inhabited continent on earth, with the least amount of water in rivers, the lowest run-off and the smallest area of permanent wetlands of all the continents. Australian soils are highly dependent upon vegetation cover to generate nutrients and for stability. (Department of Foreign Affairs and Trade, n. d.).

Australia is one of the most urbanized and coast-dwelling populations in the world. More than 80 per cent of Australians live within 100 kilometers of the coast. (Department of Foreign Affairs and Trade, n. d.).

Human activity continues to exert pressure on marine environments. Pollution is the most serious problem and the vast majority of marine pollution is caused by land based activities-soil erosion, fertilizer use, intensive animal production, sewage and other urban industrial discharges. (Department of Foreign Affairs and Trade, n. d.).

3. 0 INDUSTRY ANALYSIS

Based on Porter’s Five Forces Model analysis we would be analyzing the grocery industry within Australia.

3. 1 Porter’s Five Forces Model

Threat of New Entrants – High

Aldi is operating within the grocery industry and it is a promising area and with the increasing population the demand would also continue to increase in the future. In addition, the Australian government is encouraging new businesses and innovations to the market and often looks towards increasing the competition.

However, small scale retail stores would have difficulties entering the market since “ Economies of scale” plays a major role in this industry and they would require a considerable amount of capital and technology to survive. But as described in the case study large scale companies such as Tesco will have very less barriers to enter the Australian market.

Retail Turnover (excluding vehicle and petrol sales) over the year to June 2004 reached \$189billion, the highest level on record and growing at 8% per

annum. (AC Nielsen Grocery Report, 2004) which would attract more competitors.

Bargaining Power of Buyers – High

Almost everyone is a potential customer for the grocery industry the demand is relatively high. Since grocery products are low or medium involvement products buyers would be bargaining for the high quality products and greater levels of service for the lowest cost. If they do not get it there is a possibility of customers switching to another company since there is no high switching cost involved.

Most grocery products are undifferentiated or standardized. Therefore, the buyers pose a threat if they were to integrate backward into the seller's industry. (Hanson et al, 2008) Furthermore, by retailing via the Internet, consumers tend to increase their bargaining power.

Bargaining Power of suppliers – low

In order to be competitive in the retail industry in Australia a supplier should decrease cost and increase the quality of products. The competitive firms focus on reducing cost and therefore the bargaining power of suppliers is considered to be low.

In addition, there are considerable amounts of large companies in the industry with strategies to improve efficiency and reduce costs. For an example, Woolworth's "Every Day Low Price" (EDLP) strategy has involved in reducing prices for many national brands by pushing manufacturers to cut their prices.

Threat of substitute products – high

Large scale supermarkets or shopping malls would be the primary threat for retail stores since the substitute product range in supermarkets would be far greater. They would not only focus on national brands, but will also offer home brands for a cheaper rate as substitutes. In addition, with the advent of new technologies stores or supermarkets would not hesitate to bring forward substitutes for the grocery and other household items available for a lesser cost with greater quality and performance.

Fast food outlets such as McDonalds, Subway would also be substitutes for the food items of the grocery industry.

intensity of rivalry among competitors – high

As stated in the case study there are many equally balanced companies in the grocery industry and they compete well in the market by trying to provide the best quality for the lowest cost.

According to the Coriolis research in 2000, even though they estimated around 3%-5% changes in the existing firms market share by 2005 (Refer appendix 1, figure 6), the battle has lead to a very minimum percentage change which is around 0-2%

Most grocery products are undifferentiated and easy to imitate. Therefore, rivalry intensifies and the purchasing decisions would be based primarily on price and to a lesser degree, service.

4. 0 COMPETITOR ANALYSIS

4. 1 Strategic Group Analysis

As illustrated Woolworths and Coles-Myer has more than 2/3 of the total market share. All the firms included in this diagram follow a high quality, low cost strategy. However, as it is clearly displayed, Woolworth and Cole-Myer has a wide product range and a nationwide distribution which have resulted in achieving a large proportion of the market share. IGA has managed to maintain a 13. 5% market share because of its wide range of products and the advantage of entering the market in 1988. Comparing Foodland associates which has around 2% market share and Aldi who has around 2. 5% market share, Aldi has a better product range than Foodland and it continues to grow with its cost leadership strategy. Franklin has around 11% market share which is mainly because they have been in the market over 50years and it is recognized as Australia’s original discount grocer.

For more details on competitors refer appendix 4

5. 0 INTERNAL ANALYSIS

5. 1 Resources and Capabilities

Based on the “ Competitive Implications from Resources” model (refer appendix 5) there are some resources and capabilities which acts as strategic necessities and some as strategic strengths. The strategic strengths are the superior competencies Aldi posses and it has created a sustainable competitive advantage which leads to earn above average returns. (Ex: Low labour cost, one of the largest food retailers, high buying power and Uniform pricing system).

Strategic necessities (Ex: Provide good quality low cost products, Distribution capability and size of the store) are the minimum skills required to operate in the market and would lead towards average returns.

The resources and capabilities which lead to “ Below average returns” under performance implication column are the strategic weaknesses (Ex: Opening hours, Product differentiation and the reputation in providing customer service)

5. 2 VALUE CHAIN ANALYSIS

Aldi is a typical “ hard discounter” pursuing a Cost Leadership strategy.

Based on the Value Chain Analysis (refer appendix 6) it is clear that Aldi is focused in creating value by reducing the cost and improving the quality of the products in each of its primary and secondary activities.

6. 0 Conclusion

Considering the PESTLE analysis it is clear that there is a balance of threats and opportunities for Aldi within the Australian environment. But most economic factors have turned against companies by affecting the consumer spending patterns.

By analyzing the industry via Porter’s Five Forces model it is clear that the intensity among competitors is very high and there is an emerging threat of substitutes and high bargaining power of customers which would decrease the market attractiveness and profitability in the future.

Most competitors in the grocery industry follow a similar strategy which is to provide the high quality products for a low cost. Currently Aldi possesses the

position as cost leader and continues to battle to maintain it. Competitors such as Woolworths and Coles-Myer have a nationwide distribution strategy and have also started Internet retailing as well. Aldi was a late arriver to the Australian market and therefore posses a disadvantage since already Coles-Myer and Woolworth has captured more than 2/3 of the market share.

In addition, the analysis of resources, capabilities and the value chain has lead to identify the strengths and weaknesses. Even though Aldi is a new entrant to the grocery industry of Australia, they possess a few resources and capabilities which would give the sustainable competitive advantage. However, there are some weak elements which Aldi should overcome when developing new strategies in the future.