

# Pest analysis case study

[Business](#), [Company](#)



PEST analysis is basically used to describe components of the macro environment for strategic planning. It considers the political, economical, social, and technological factors of the external business environment. In context of the paper, there are several political, economical, social, and technological factors that affect Aldi within the retail market. Politically, different governments have different political stability, trade tariffs, trade restrictions, environmental laws, labor laws, and tax policies. Aldi supermarket has presence in three continents, North America, Europe, and Asian Pacific. Government interventions in these regions will affect how it conducts business in the local markets. The interventions within these regions differ greatly. In Europe however, most of the laws are standardized under the provisions of the EU.

The company will have to consider the issue of privacy policy, which has a huge difference in the EU and the US. In the EU, the privacy policies are much stricter than in the US. For instance, all activities relating to processing personal information of consumers has to be registered with the EU governments depending with the particular country the company is operating. However, this may not be the case in the US.

Economically, the issues to be considered in the global retail industry include the rate of inflation, exchange rates, interest rates, and economic growth. Aldi supermarket has to take into consideration these economic factors when expanding to new markets. Between the ten-year periods of 1996 to 2006, the company, Aldi, decided to take advantage of the rapid economic growth in Europe for its international expansion. According to the case study, the retail market in Europe was on a growing trend until 2008, just before the <https://assignbuster.com/pest-analysis-case-study/>

recession. The company also took advantage of the different economic levels of different countries in Europe. The economic recession of 2008 affected the retail industry. This meant that the Aldi had to re-strategize according to the consumer needs at that moment. During the recession people are generally budget sensitive and reduce consumption of commodities. The per capita GDP of many economies in the world were also brought down because of the recession impact. The EU which experienced a growing trend in its economies reduced GDP levels by 4%. The purchasing power also matters in making economical considerations of the external business environment. There is a huge difference of purchasing power across European nations.

Socially, the main issues to focus on are the market trends. The company also has to look at cultural aspects that affect its business operations. This may include factors such as career attitudes, age distribution, population growth rate, and health consciousness. The case study provides a lot of trend in the retail industry. These trends have to do with consumption of retail commodities. The company banks its success mainly on the fact that it attracts consumers who are budget sensitive. Generally, consumers would want to get the same value of an item at a cheaper price. The force behind retailing is consumption of essential commodities in the homes. These commodities include electronic gadgets, clothing, and food. The trends in consumption therefore will affect how the company does business. It will affect its profitability and rate of growth. This implies that if the consumption trends are positive, and then profitability prospects are high.

With regards to technology, the retail industry experiences a lot of dynamism and competition. This is because largely because of two reasons; the technological influence to promote prompt services and the consumption trends in the market. Dynamism comes as a result of the fast and growing changes in technological advancement. This in effect, also changes the way retailers do business. For instance, e-commerce is the emerging trend in the retail industry. Food retailers acknowledge the fact that it is easier to reach a wide range of consumers and potential customers in the online market. Sales made on online stores have increased in countries such as the US and other developed nations because consumers find it easy to purchase commodities through the internet. On the contrary, sales made on traditional retail stores have shown significant decline. The company therefore has to ensure that it keeps up with such trends and uses the latest innovation in technology to reach out to many clients. This will eventually translate to profitability and growth within the retail industry.

### **Threat of competition**

The intensity of competition will arise whenever the company identifies opportunity to improve its position within the industry. It will also arise when there is a lot of pressure from other retailers in the industry. These competitions will result in increased customer service, new and modified products, advertizing battles, and price wars. These effects can be seen in the case study. The low price business model has attracted other retailers in the industry. This is because the company's main rivals are trying hard to keep up with Aldi, since it sets the pace for others. According to the case study, the number of discount retail stores in Europe has increased since

when the company began to use the concept. The force of threat of existing competition is therefore a strong force for the company. It has to constantly ensure that it remains competitive within the market.

### **Threat of new entry**

This force is considered to be weak in the retail industry. This is because of existing barriers that preventing new entrants from growing and establishing themselves within the market. The capital required to establish a retail chain large enough to compete with the existing one is very high. The existing companies in the industry enjoy economies of scale which new entrants may not be able to enjoy. The existing companies have also already built their brands among the customers. This puts them at an advantage against any new entrant into the market.

### **Pressure from substitute product**

This force is slightly weak. The reason for this is the fact that large retailer stores offer convenience, fresh variety of products, and cheaper prices than any other small scale independent retailers. These are attributes that most customers prefer. People generally enjoy shopping from a retail stores in which they easily identify with and are willing to be loyal. On the other hand, most people only go shopping because they are generally lazy and a supermarket offers the perfect solution for this habit of laziness. This implies that nothing can stop a consumer from shopping online or shopping at any other place apart from a supermarket.

## **Bargaining power of buyers**

Just like most industries, customers have a lot of bargaining power in the retail industry. This makes this force to be weak on the side of the company. Buyers have the power to play one firm against another, implying that they can choose to shift their loyalty from one retail company to another. They can also bargain for high quality of products and more services. The power of buyers is significantly seen collectively. One buyer may not make a difference, but many buyers can easily make a huge difference.

## **Bargaining power of suppliers**

This force is also strong on the side of the supermarket. Suppliers have weak bargaining power against supermarkets even though the tug of war between the company and its suppliers is the same as that between the company and its buyers. The reason behind the weakness is the fact that there are many suppliers for the company to distribute their products. However, this force can be strengthened when suppliers decide to group together to control prices and siphon portion of profits that may be excess. Many governments in Europe and developed countries have regulations in place to control activities of suppliers in order to prevent manipulations.

Aldi has been able to offer incredible discounts to consumers thus for a long time now. Their business model is low prices business model. They promise to provide customers with a smart experience of shopping. However, there are numerous hidden costs that consumers may fail to realize while shopping at the stores. This is one of the reasons why the company has been able to

provide such impressive discounts to its customers. The other reason is the company's business strategy.

Aldi's business strategy is based on its mission " low prices and limited selection". The company stores limited brands and the cheapest in the market. According to the case study, a typical grocery store would stock approximately 30000 varieties and brands of food items. But in Aldi, a single store only stocks around 1400 brands and varieties of food items. There are some products that only have one brand stocked in Aldi's stores. This strategy has given the company a bargaining power over suppliers and contributed to its rapid expansion.

The manufacturers of the brands stocked in the company simply sell the products cheaply making it possible for the company to purchase in bulk and sell also sell at low prices to the consumers. With the rapid expansion of Aldi, suppliers who placed rigid rules had to reconsider, loosen up, and join the list of Aldi's suppliers. The company also used a " no advertising" strategy especially in the home market. This lowered its cost of operation and made it possible to reduce prices of its commodities. Other local supermarkets in Germany had to rely on the power of advertising to promote their products as well as their brands. With the advertising cost to consider, rival companies find it difficult to compete with Aldi in terms of prices. These strategies however, were only viable and successful in the home Germany market. In foreign markets, the company had to use strategies such as advertising. However, it still maintained the low price business model.

The low price business model proved effective for Aldi. The company grew and expanded at a rapid rate. The business model led to price wars among its rivals forcing them to respond by adopting the same model. Some of its main rivals in the local market began the concept of discount stores to compete with those already established by Aldi. By 2010, the total number of discount grocery outlets in the country alone had totaled to 16300. A quarter of this number belonged to the company. Most of the leading rivals entered the market with the same strategy or business model of low prices. In addition, the both Aldi and its main competitors had to use strategies that capture not only the budget sensitive consumers, but also those who were willing to spend extra money for quality goods and services.

This section seeks to explain how Aldi can still maintain the low cost business model using a matrix for market penetration, the market growth matrix. Considering the response by its rivals, the company is facing stiff competition and therefore needs to come up with a strategy to remain competitive in the discount grocery store market. With the use of the market growth matrix, the company is able to gain rival's customers, which implies that they are able to increase their market share. The strategy will also ensure that the company is non users of particular product and convince existing clients to use some of the products more.

Therefore, the company can identify some of its products which can be used more than the current rate of consumption among consumers. For instance, the company could advertise some its products in a manner that attracts excessive use of the product in order to allow customers to make frequent



purchases. With the global economy recovering from the recession, it is most likely that people would go back to consumerism. One such food product could be cereals. The company can embark on advertisements that aim at promoting increased use of cereals more than the normal rate. In this way, sales of cereals can increase while the company still maintains its customer base.

The other strategy for market penetration is promoting a product among non users to begin using it. For instance, health conscious consumers would not purchase certain products. The company can identify these products that are highly unlikely to be sold among this group of customers, and repackage them in such a manner that would convince them the products are good for their health. For instance, ensuring that all such products have labels to show how natural and healthy they are.

In addition, the company could also focus on market development by coming up with new products in the same product category. This applies for food retailers especially when it comes to pastries. The company could bake its own bread or any pastry products and sell them cheaper than some of the brands stocked in the stores. The same concept can be applied in dairy products. Such a concept could help the company to produce and sell products directly to the customers without considering any cost of distribution from the supply chain. Moreover, the company can embark on diversification where they have a variety of products in the same line or category. This is one area where the company has decided not to focus on because it offers limited products at low prices. Diversification also implies

that the company can begin operating in new markets. It can expand to untapped markets and gradually establish its brand within those markets. For instance, the company could expand to markets in fast growing economies in Africa, Asia, and South America.