

# Aldi australia is a new entrant marketing essay



**ASSIGN  
BUSTER**

Aldi Australia is a new entrant of Australia grocery Market through its purpose: “ All people, wherever they live, should have the opportunity to buy everyday groceries of the highest quality at the lowest possible price”. Aldi has apparent strength in low price and high quality products, and simultaneously, it still has significant weakness in financial profitability. In the currently, the significant opportunities are the slowly economic growth and the increase of interest rate. However, the globalization and concentrated structure of Australia grocery market are the growing threats for Aldi.

## **Introduction (Background)**

Privately held by brothers Theo and Karl Albrecht, Aldi Group is Germany’s leading grocery store chain and a top competitor in the global retail food industry with more than 7000 stores over 18 countries and has an estimated annual turnover of more than 36 billion euro(Wikipedia, 2008). Founded in 1913 in Germany, Aldi has been in business about 90 years. Aldi Australia belongs to Aldi Süd who operates in Australia UK, Austria, USA Australia German, Slovenia, Ireland, and Switzerland. In 2001, Aldi Australia opened its first shop. From then on, it has expanded about 200 stores across Australia.

“ Cited by some as Europe’s largest retailer, the chain has found success by going against virtually every standard of super marketing, from its legendary reticence to the “ Spartan atmosphere” of its stores.”[ii]

This Report is structured according to PEST and SWOT analysis and detailed in external aspect and internal aspect. We will also describe the current competitive strategies of the company, put forward some advisable

competitive strategies to prosper the development of Aldi Australia in the future years and recommend helpful strategic management accounting techniques correspondingly.

## **2. External environments analysis**

### **2.1 General environment**

#### **Economic**

According to the International Monetary Fund, it expects that the economic growth in Australia will increase to 3.0% in 2010, which means this year Australia's economic has out of economic recession in 2009.[iii] On the other hand, Australia's bureau of Statistic also reported a Consumer Price Index growth rate is 3.1% in June 2010,[iv](Figure 2) such high inflation and moderate economic growth, which means there will exist strong competitions among business.

#### **Social-cultural factors**

Australia is a country of immigrants, pursuing multiple cultures with a broadminded liberal and comprehensive society. The social-cultural factors can influence the buying behavior of consumers by the diversified demography, culture, social class, reference groups, family and geography.

#### **Technological**

The technology offer consumers more innovative services and products such as the self-serve checkout machine. The technology allow for services and products to be cheaper and a better standard of quality.

## 2. 2 Competitive Environment

The main two food retail industries in Australia are Woolworths and Coles. The data from the report of NARGA in 2007 indicates that Australian Market was dominated by these two giants at 78% to 79% of the market share (Figure 1). They have had 1439 stores nation wide. Other competitors include IGA, Food works, Ritchie's and other independent retailers around 6, 183 supermarket and grocery retailers operate across Australia. They totally form 20% of the market share.[v]

## 2. 3 Threat and Opportunities

In Aldi's external environment, there are some threat factors of endangering the company's profitability and market position. Company managers should be promptly recognized the threat and make assessment and take appropriate strategic action to offset or mitigate their impact.

External threats of Aldi have:

Globalization will attract more competitors enter the market, like Lidl, which got similar operation approach, decides to follow Aldi to Australia.

Slow population growth of Australia means reduce of demand

Medium Bargaining power of supplier post potential threat of supply chain problem

Concentrated structure of Australia grocery Market

Mergers and acquisition of big supermarkets weaken Aldi's market share

Market opportunities are significant factors affecting the Aldi's strategy.

Company managers should confirm that every opportunity to evaluate the growth and profit outlook, and gained a competitive advantage.

Potential development opportunities of the Aldi have:

Increasing interest Rate lead more customer to choose cheap and good

Unique Geographical and demographical nature of Australia keeps many competitors away

Low threat of new entrants due to high barriers to enter

Trend towards a widening customer base or product market segments

Strong growth in market demand for fast expansion

### **3. Internal environment analysis**

#### **3.1 Tangible resources**

##### **Financial**

As Limited-assortment stores, exact number on Aldi's financial performance are not available. This kind of stores in general is known to garner gross margins of about 10%, which is 16 % lower than average supermarket. Aldi hold "Just in Time" inventory policy, making up for this low gross margin by stocking only fast-moving products, in order to making inventory turnover rate more than a typical supermarket. However, Aldi's ability and capability to borrow money is limited, as a privately owned company, its borrowing function from public such as shares haven't been used. Thereby the Aldi's financial problem when requiring large fund is quite clear.

## **Organizational**

“ On Organizational point of view Aldi has effective strategic planning process, excellent evaluation and control system such as the PDA in store ordering system, unique in-store layout and low turnover inventory system, These organizational presses and control system are strength of Aldi.”[vi]

## **Physical**

As to the physical resource of Aldi Australia, we focus on its property and facilities. Different from other supermarkets like Coles and Woolworths, Aldi stores are correspondingly small – about 8, 000 to 15, 000 square feet and they often purchase second-rate location as part of its cost-cutting strategy. Besides, Aldi stores do not use self-serve checkout machines. They only use simple machine for checking out which need cashiers to memorize price lists, post a sign with the price nearby and open them. At current, these are the Aldi’s advantage because it saves money, but for long-term development, these will become the threat.

## **3. 2 Intangible resources**

### **Human resource**

About human resource assets, Aldi adheres to fewer but better principle which meets its current scales of development. The valuable human resources assets and consistently recruiting talent people are strength of Aldi within the industry. Like Aldi states, “ we want the best and we’re willing to do what it takes to keep you...” (ALDI, 2010)

## **Innovation and creativity**

“ Innovations like unit pricing, commitment to the same low price in every store, online shopping list and front of pack nutrition labeling, to provide complete transparency for our customers.” Aldi is “ the first supermarket in Australia to introduce a private label range of certified sustainable seafood.” “ In July 2010, Aldi announced they had completed the reformulation of their exclusive branded food items which are zero of artificial food colors now.”[vii]Such intangible assets are precise strength. But weakness appears as lack of innovation on advertisement, market research and customers’ service.

## **Capability**

### **Logistics**

Aldi has a world-class logistics system. As it is said, “ Aldi will have the capacity to easily service a mooted 100 stores in its initial thrust into New South Wales ...”( Barry Flanagan, 2000) which proved that strong strength.

### **Marketing**

Advertising, relying on catalogues, website, and local press which contain product-oriented messages, highlight the discounted prices and new “ surprise buys”. Aldi usually does not spend much money on market research, Instead, Aldi’s employees and managers investigate what customers may need and then make up the order on a trial basis for three stores.

### **Product development**

Low priced, high quality private label is the key to Aldi’s strategy of product development.

#### **4. Current competitive strategies**

Aldi operates grocery business as “ limited-assortment” stores or “ hard discounters” who features low costs and restricted choices, to its leanest, meanest extreme. Aldi insists on holding about 700 items at its stores, including dry goods or packaged grocery. “ Such a limited number of items is in stark contrasts to a standard supermarket which carries between 25000 and 30000 products.”[viii]In addition, Aldi offers “ surprise buys” for some products which changes every week and are only available as long as these stocks last.

The restricted quantity of items makes Aldi leverage its impressive buying power and control the cost of its products by buying in a large amount. According to Brandes, Aldi has 30 to 100 times the buying power of Wal-Mart.[ix]Moreover, fewer products need smaller warehouse and making shipping and handling easier, and the quality can be controlled more strictly. As ALDI declared, they recognize the world leading Global Food Safety Initiative auditing standards and reference these with all factories which produce ALDI food products. They undertake regular inspections at every stage along the supply chain to guarantee the safety and quality of all their exclusive brands.[x]

In Aldi, more than 90% of the products are their own brands, except a few national brands such as Vegemite, Milo, Nescafe and Kellogg’s breakfast cereals. Approximate 80% of their products are Australian made and manufactured by well-known food companies, who sell to Aldi cheaply in different packages. According to Walker, it is believed that Aldi’s supplier include George Weston’s Tip Top Bakers, Arnotts, Murray Goulbourn, Golden  
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Circle and so on. As Aldi website states, they focus on their own brands in order to remain independent, establishing them to avoid high marketing costs often associated with national brands and to set their own price, product and quality policies.[xi]

Aldi's critical competitive strategy is to minimize cost at every level of the value chain. "Aldi stores are correspondingly small- about 8, 000 to 15, 000 square feet-compared to the 50, 000 to 150, 000 square feet typically used by competitors who has larger catalogues of items." Different from other supermarkets like Coles and Woolworths, Aldi stores often purchase second-rate location as part of its cost-cutting strategy.

Aldi's style of controlling labor costs is to hold it to a calculated 4% of store sales, compared to 10% to 15% for most of other supermarkets. They do not employ specialists such as bakers or butchers, because these products come pre-packed. Also, Aldi's opening hour is relative shorter than other supermarkets. Aldi in Melbourne, for example, the trading hours are about 30 hours less per week than other typical supermarket, which means they can have a significant saving in labor costs.

Aldi also do not "waste" money on providing customers free shopping bags. They "offers only polypropylene bags for purchase - preventing the disposal of around 150 million plastic bags - and uses coin-operated trolleys to minimize theft and dumping." [xii]

Aldi saves money on marketing as well, like Aldi does not have marketing department and its marketing budget is only about 0. 3% of revenue.[xiii]

## **Recommendations**

Using a fighter brand to survive on price war and obtain success. A fighter brand is a lower priced offering launched by a company to take on, and ideally take out, specific competitors that are attempting to under-price them.

Launching own label brands of liquor in the Australian market and gaining market power.

Enter into shopping centre, breaking the monopoly and competing with big retailers in a fairer level.

## **Strategy recommendation**

### **Reaction to price war**

Price wars are becoming increasingly fierce today, for example, Coles and Woolworths drop the price of home brand products to compete with Aldi. “ It is important for Aldi to ensure that its prices are lower or at least equal to the ones of its competitors and that its products develop a reputation for high quality.”<sup>[xiv]</sup>It is recommended that Aldi Australia can use a fighter brand rather than drop its prices because frequently cut prices, lower cost can diminish consumers’ perceptions of quality and may trigger an unprofitable price war.<sup>[xv]</sup>A fighter brand is a lower priced offering launched by a company to take on, and ideally take out, specific competitors that are attempting to under-price them. There are many different segments of price-sensitive customers existed. Some people buy cheap groceries, and some people don’t care how much they pay for groceries. More important, some people think cheap products are probably of poor quality, and they may not

buy them if the price is too low. This alternative approach can better help Aldi Australia defend itself from the price war because it can meet different price-sensitive customers' requirement.

### **Reaction to the increase in competitors' private labels and opportunity in liquor market**

According to IBIS World, private labels account for nearly one quarter of Australia's \$70 billion grocery market, with their quickly gained 23 % share set to climb above 30% in the next five years.[xvi]IBIS World also predicts that Australia's liquor market will be next one in which private labels make their presence felt, with retail powerhouses Coles and Woolworths behind their forecast rapid rise.[xvii]Aldi should launch its own label brands of liquor in the Australian market as its market power has been much stronger.

Producing its own brand liquor with low cost and high quality can make the company gain the huge benefit from the future liquor market and enable it to compete with two giants in that area of market, which strengthen the company's position in the Australian market.

### **Usage of lease in shopping centre**

The remove of restriction to lease in shopping centre means that the Coles and Woolworths will no longer be able to demand that shopping centers not lease out space to competitors. The move to end anti-competitive practices was expected to open up shopping centre space to Aldi. If so, Aldi Australia will attract supermarket shoppers from a wider geographic area than is typical for other supermarkets and take the big pressure to Coles/Woolworth. Meanwhile, Aldi can compete with these big retailers in a much fairer level.

Finally it may break the monopoly of Coles/Woolworth in the Australian market and make Aldi get bigger market power.

## **6. Recommendation of strategic management accounting techniques**

### **6.1 For current**

Having established that currently in the market of supermarkets that there is a current price war and the major supermarkets in Coles and Woolworths are trying to suffocate the market by reducing prices. Aldi's current strategy of cost leadership until now seems to have worked well as the two majors competitors have seen Aldi as a threat and decided to reduce their prices as well but where to from here. If Aldi were to follow the current trend and try to compete by reducing prices further then in the short run they could stay competitive however in the long run Aldi would suffer considerably due to the fact that competing with companies like Woolworths and Coles on price is next to impossible, eventually it would come to a point where reducing the price of a product below a certain point would no longer be profitable, companies like Woolworths and Coles could compete at this level as making losses on some would not affect their bottom line too much due to the sheer size of their operations. Therefore in order to maintain its current strategy of low cost simply reducing prices will no longer suffice, having established its already low prices, to obtain more of a market share Aldi has to compete by implementing a customer focus strategy, one that concentrates more on the image it has in the eyes of its customers, whilst it does competes on price well it would seem that a generalization that first comes to mind when the name Aldi is mentioned is that their products are of inferior quality which is

the complete opposite to the intentions of their strategy of high quality products, this generalization has not been helped by similar chains like NQR and the late Franklins which also adopted a similar cost leadership approach, whilst the aforementioned companies may have stocked inferior products Aldi uses local suppliers and stocks products of decent quality. However this is not a common understanding amongst potential customers and this can only be changed by implementing or using greater marketing techniques to which the company tends to use very little, to change the mindset and image of Aldi from a low cost low quality supermarket chain to a low cost quality supermarket.

## **6. 2 For future**

The other area of potential growth in the next five years identified before as being the liquor market. In order for Aldi to compete in this market it cannot continue to produce alternative in house labeled products like it does its biscuits and dog food, this is because the liquor market has established brands which customers love and enjoy and it is one of those markets that people will not trade one particular brand for a cheaper priced one. People choose alcohol on what they enjoy and customers will pay the price to purchase the product, therefore to gain market share in the trading of liquor Aldi will have to implement a strategy to improve its supplier relations, this is the only way in which Aldi has a chance of providing its uniform low cost high quality strategy, improved supplier relations can bring about the possibility decreased prices and reduced supply chain management costs which can be brought home to the customer and Aldi can continue its current management strategy. Whilst this would be the plan of attack for Aldi it

should also be noted that the large Supermarket chains have already had a head start in supplying liquor to its customers and Aldi would have to analyze whether it would be profitable to sell liquor, initial thoughts and market conditions would suggest that it would be very difficult to capture a market share.

## **Appendix:**

### **Figure 1**

### **Figure 2**