

NEWS

For more news and analysis log in to Retail-week.com

ECOMMERCE

How Aldi's wine and non-food offer will make a splash online

BY LUKE TUGBY

During its 25 years in the UK, Aldi has become accustomed to raising eyebrows among grocery analysts.

In keeping with that tradition, the discounter this week unveiled plans to move into ecommerce, with wines by the case and special buys available to purchase online from early next year.

Crucially though, the German grocer has resisted the temptation to extend its core grocery offer on to its transactional website, in which it has invested £35m.

Selling food online is a difficult business to turn a profit from – just ask Ocado's founder and boss Tim Steiner, who slogged it out for 15 years before the etailer reported its first full-year profit this year.

Kantar Retail senior vice-president and knowledge officer Bryan Roberts says: "It's no surprise Aldi is avoiding grocery ecommerce because that doesn't sit well with a number of issues such as its average basket size and its customer demographic.

"You could argue that it would be a quick way to achieve wider coverage, but for the time being Aldi can achieve that by opening more stores because there is still capacity for UK growth."

Aldi's narrow product range would not fulfil the needs of the online customer, Roberts observes. "You can forgive it for that in-store because it's a quick and easy shopping trip, but a narrow range online is the antithesis of what online is about – having the hugest possible range," he says.

Indeed, when it comes to the special buys launch in particular, Cantor Fitzgerald analyst Mike Dennis says Aldi may need to enhance its streamlined product range and sell more branded lines.



Aldi has revealed plans to launch a transactional website next year

"The idea of special buys can be very attractive but it doesn't necessarily drive the long-term loyalty you need as an online business," Dennis maintains.

"Aldi will have to be more like TK Maxx – getting branded special buys in."

Even without a beefed-up, branded range, Roberts believes Aldi will be removing a monkey from its back by taking its non-food offer online.

"One of the main criticisms of Aldi is that some of its non-food items disappear quickly because each store gets a fairly lame allocation of products, which can be frustrating for the consumer," he points out.

Aldi's initial ecommerce launch early next year will be focused on wine.

The discounter has built a reputation for its extensive multi-award-winning wine and its selection starts from as little as £2.99 per bottle.

Roberts believes launching wine online is a "no-brainer" that will prompt the "erosion of market share in the wine category" for its grocery rivals and specialists such as Majestic Wine.

Dennis says Majestic, owner of online-only Naked Wines will be watching Aldi's newest venture with the keenest eye.

Roberts thinks the initiative serves to show the increasing strength of Aldi's hand in the UK.

"What this proves above anything is the growing sophistication and nimbleness from Aldi, which indicates that it isn't going to rest on its laurels.

"It is going to continue driving the business forward, both in a traditional sense and by exploring some of these new avenues."

► City insider, p9

COMMENT

Aldi's online launch could hamper its long-term growth

Viv Craske,
head of digital,
Live & Breathe

ALDI HOPES ITS newly announced online offer will increase sales and lock in multichannel shoppers. But it also has potential to put a halt to its growth trajectory and damage the business in the long term.

The biggest issue Aldi will face will be financial.

Compared with physical stores, online grocery sales have the extra costs of investment in the platform – £35m in Aldi's case – plus costs of up to £80m per warehouse, plus the cost of logistics and a fleet of vans and staff.

These contribute to online grocers having a high breakeven cost due the

erosion of slim supermarket margins.

Aldi's answer to this is to focus on selling wine and non-food items.

The higher margins on these items, combined with the fact that Aldi can source direct from suppliers, make online sales feasible.

If Aldi broadens its offer to grocery, its low margins are likely to be a big barrier to entry in an already crowded market.

An online offer might help Aldi to lock in loyalty in a market where convenience, online and discount store shops are continuing to increase.

But what makes Aldi interesting is the

'treasure hunt' aspect of the in-store experience – discovering a product that wasn't there last week.

It's harder for online shoppers to discover new products. And once that experience is eroded, an online Aldi would have to trade on price.

That cuts into operating profit, which has just declined £1.1m year on year, the first decrease in five years.

In a market grown by Ocado and Tesco and facing disruption from Amazon, it is a close call whether Aldi has deep enough pockets, steely enough nerves and a clear enough position to succeed in online sales.