

DISRUPTIVE DISCOUNTERS

German grocery chains are on track to change the competitive landscape **by LEN LEWIS**

The world's leading discount grocers are poised to do battle in the United States. Germany's Aldi and Lidl have each announced plans for about 2,000 stateside stores in the next couple of years, creating the first nationwide deep discount grocery chains. If estimates of 4,000 additional stores come to pass, they will represent nearly 10 percent of the domestic grocery business — making the chains enough of a disruptor to produce a seismic shift in the supermarket industry.

"I believe that the major expansion of Aldi and Lidl in the United States will affect traditional supermarket operators like Kroger, Safeway and Giant, but will also affect supercenters of Walmart and Target," longtime retail watcher and consultant Walter Loeb wrote in recent *Forbes* commentary.

"These smaller, sharply priced formats provide important incentives for customers to frequently return to their stores."

As for the recent failure of Tesco's Fresh & Easy concept, Loeb believes it won't affect the German retailers' success.

"Both Aldi and Lidl have successfully invaded the United Kingdom in the past five years, affecting sales and profits of major supermarket retailers like Tesco, Morrison and Sainsbury," he wrote. "They have taken their time to study the U.S. market and are now ready to expand aggressively with a full knowledge of the competition and the opportunities."

The power of both chains is most apparent in the United Kingdom: According to Nielsen, the chains accounted for 10.7 percent of U.K. supermarket sales in a recent 12-week period — up 23 percent from the previous year — despite massive price cuts by other major chains.

UPSCALE PRIVATE LABEL

Aldi opened its first U.S. store in Iowa in 1976. Since then the company has expanded slowly and quietly, primarily in Eastern and Midwestern states, shunning the attention paid to upscale counterpart Trader Joe's. Focused largely on private label, Aldi now operates about 1,400 stores across the United States and is trying to expand quickly before Lidl gets here.



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The company has earmarked some \$3 billion for expansion, which includes a regional headquarters and distribution center in Moreno Valley, Calif., that will initially service 25-30 stores in the hotly contested Southern California market, and a total of 45-50 stores by the end of 2016. New divisions in Connecticut, Texas, Florida and Georgia are seen as a prelude to increased growth in these markets.

Aldi's deep discount format gained favor with consumers during the last recession, and low-ball pricing — especially on staples — is key. North American CEO Jason Hart has noted that prices can be as much as 40 percent

below conventional supermarkets and 25 percent less than big-box discounters.

The company has also been moving its private label toward more upscale and organic offerings, making it more than just a cheaper alternative to Walmart. Simply Nature, an organic and natural line, has become Aldi's fastest growing brand and the company is testing items like grass-fed beef and cage-free eggs.

The company may go beyond food to attract customers: Aldi is known for limited-time sales of items like cycling clothes, computers, baby and toddler products in the United Kingdom and Europe.

The chain also recently announced it will launch a music streaming service in

Germany: Aldi Life will feature some 34 million songs, 10,000 audio books and content from about 4,000 radio stations worldwide. There's no indication yet whether this service will be available in the United States.

On the labor front, the chain is likely to become a popular destination for prospective employees. Aldi currently employs about 19,000 people across the country and is likely to add another 1,100 jobs in California, where it announced that its minimum wage will be \$13 an hour.



Aldi has allocated some **\$3 billion** for expansion; Lidl has reportedly earmarked about **\$650 million** for its initial U.S. investment.

LARGER STORE FOOTPRINTS

Lidl is owned by the Schwarz Group, Europe's largest retailer, and operates about 10,000 stores and 130 distribution centers in 26 countries throughout Europe. Its employees are already among the best paid in the U.K. supermarket sector, according to U.K. chief executive Ronny Gottschlich. U.S. pay scales have yet to be released.

Lidl has reportedly earmarked about \$650 million for its initial U.S. investment. Arlington, Va., has been selected as its U.S. headquarters and Lidl's first distribution center will be in Spotsylvania County, Va. These moves alone have a price tag of over \$200 million, according to the company.

Alamance County, N.C., will be the site for another \$125 million regional headquarters and distribution center; Lidl has also been lobbying for rezoning of a four-acre site in Mooresville, N.C., for a 36,000-square-foot supermarket.

U.S. expansion plans are fairly widespread but currently call for about 80 stores in the greater Washington, D.C., market. There is also some speculation that Lidl might be interested in former A&P units that were put up for sale or closed in the Philadelphia region.

These facilities represent the opening salvo for Lidl's U.S. launch, with a minimum of 100 stores opening by 2018, reportedly at sites that are larger than Aldi's 10,000-square-foot average. Early reports were that Lidl executives in Germany wanted to go more upscale in the U.S., but the stores will stay true to their German roots with minimal service and be heavily driven by private labels and a sprinkling of upscale products.

New stores will stock some national brands at heavily discounted prices. This will not only bring in customers unfamiliar with the Lidl name, but will give Lidl a leg up on big-box and dollar stores.

One area in which both Aldi and Lidl are weak and could be exploited by U.S. retailers is their lack of a strong online presence. Some observers noted that any focus on e-commerce sales would not be in keeping with their low-price image, while others say it is a cost of entry into mainstream U.S. retailing. **STORES**

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