

POISED TO DISRUPT

German grocery chain Lidl is ready to shake up the U.S. market

by SANDY SMITH

Lidl is about to make its U.S. debut, and a massive shift is predicted in the market.

Business Insider touts the German grocery chain's potential to "cripple" Aldi, Whole Foods Market and Trader Joe's. *Forbes* warns other retailers to pay attention. And Slate anticipates "the greatest rivalry in supermarket history."

But it might need to start at a more basic level. Mike Paglia, Kantar Retail's director of retail insights, says the most common question about Lidl is how to pronounce its name. It sounds like "needle," and it may prick commonly held beliefs about the U.S. grocery segment.

"Lidl is going to surprise a lot of folks," he says. "There are a lot of misconceptions around Lidl being a downscale, no-frills, dingy discounter that appeals primarily to a low-income shopper. The reality is, in a lot of markets, they've positioned themselves squarely in the middle of the market. It makes them incredibly nimble and agile. That kind of contributes to their disruptive nature."

Despite the coverage since Lidl announced plans to open 100 stores in the United States by 2018, one aspect is often glossed over: its sheer size. Lidl has 10,000 stores around the world; The Kroger Co., the largest U.S. grocery, has fewer than 4,000.

That's not the only number sure to draw attention. Lidl focuses on smaller concept stores — about a third smaller than a typical U.S. store — and heavily on private labels. If that sounds somewhat familiar, it may be due to another German store concept growing in the U.S.: Aldi.

"Lidl has been a disruptor in a number of markets across Europe, gaining share from traditional supermarket operators," says Stewart Samuel, program director for IGD, an international food and grocery research and training charity based in the United Kingdom.

Retailers have adopted a range of strategies to compete with Lidl, including "sharpening their pricing credentials, investing in their

own private brand ranges and emphasizing their extensive product ranges and service elements as key points of difference," he says.

SHIFTING CONSUMER DEMAND

Discounters worldwide are expected to increase the number of stores by 4 percent between now and 2020, according to Boston Consulting Group. That's compared with 3 percent for traditional supermarkets and 2 percent for superstores. In its 2017 report "How Discounters are Remaking the Grocery Industry," BCG classified the U.S. market as "nascent," meaning discounters' impact is yet to be felt fully.

Phil Lempert, a consumer expert billed as the Supermarket Guru, believes today's consumer doesn't want 100 brands of olive oils, but rather a selection of, say, a California variety, an Italian oil and an organic option.

"That's when consumers become more loyal," he says. "Retailers have more of a responsibility to investigate the best products for the consumer, rather than be a real estate owner who sells a space on the shelf."

Lidl can capitalize on that trend — and on an increasing disloyalty among shoppers. (Lempert notes there are exceptions: "Wegmans and Publix customers have fierce loyalty. It comes back to them doing something extra for their consumers.")

Paglia believes more grocers will opt for the smaller format store to keep up with consumer demand. "You're starting to see shoppers who, instead of wanting to go to a store that has everything under the sun, they want to go to a smaller store that has items for [them]. Lidl is an accelerator of that trend."

Rotational product strategies have proven popular; Paglia points to U.K. markets where the entire wine assortment is rotated quarterly. "That keeps the assortment fresh and interesting and exciting for the shopper. That's meant to get them back in for that treasure hunt, a sense of discovering what's new."

The assortment also captures a local flair, says Danielle Dolinsky, research analyst for RetailNet Group. “Lidl specifically curates its store assortment and online marketing to meet the demands of each market,” she says. “Within each market, Lidl’s stores also often vary to target the local population. Increasingly, Lidl attempts to source products locally/within the market of operation and is adept at communicating its ‘localness’ to shoppers.”

In Spain, a bakery section features signs in Catalan, a local language. Lidl’s U.K. website features a “Pick of Scotland” section with Scottish recipes. One of Lidl’s Polish stores has loose candy, which is common in the country’s grocery stores.

Private label fills in the remainder of the assortment, accounting for up to 80 percent of the offerings.

BEYOND PRIVATE LABEL

Lidl’s strategy is similar to Aldi; the companies are familiar foes across the globe. “I don’t think we’ll see them go head-to-head across street corners,” Lempert says. “But if I take a look at the landscape, this format is ... perfect for Millennials who are not as brand loyal as we’ve seen and for Gen Z who looks for value.”

Both Aldi and Lidl do well with that format, though both “aim to be the price leader in the market,” Samuel says. “This is underpinned with an everyday low cost operating model, which places an emphasis on supply chain and store efficiencies.”

Savings come from smaller staffs who operate across multiple departments. Products are

packaged to allow for easy replenishment, and customers bag their own groceries.

“However, the key difference between the two retailers is that while Aldi’s range is almost entirely 100 percent private brand, national brands will typically account for around a third of Lidl’s offer,” Samuel says. “Lidl has also been introducing bakeries into its stores, something which Aldi does not offer.”

Lidl packs a lot into its smaller store sizes, offering a wide range of non-food categories in addition to consumables, Dolinsky says, including clothing, outdoor gear and do-it-yourself items, home goods and linens, furniture, health and beauty products and flowers.

Still, the company isn’t easy to pigeonhole. “Whereas some of the other discounters tend to be geared more toward that low-income shopper, Lidl is very adept at appealing to shoppers up and down the income ladder,” Paglia says.

“They’re able to provide relevant value for somebody who is financially constrained and looking for the lowest price on milk, or they’ll have higher-end products that are just a really great deal, appealing more toward that affluent shopper. They’re able to speak several dialects of value at the same time.”

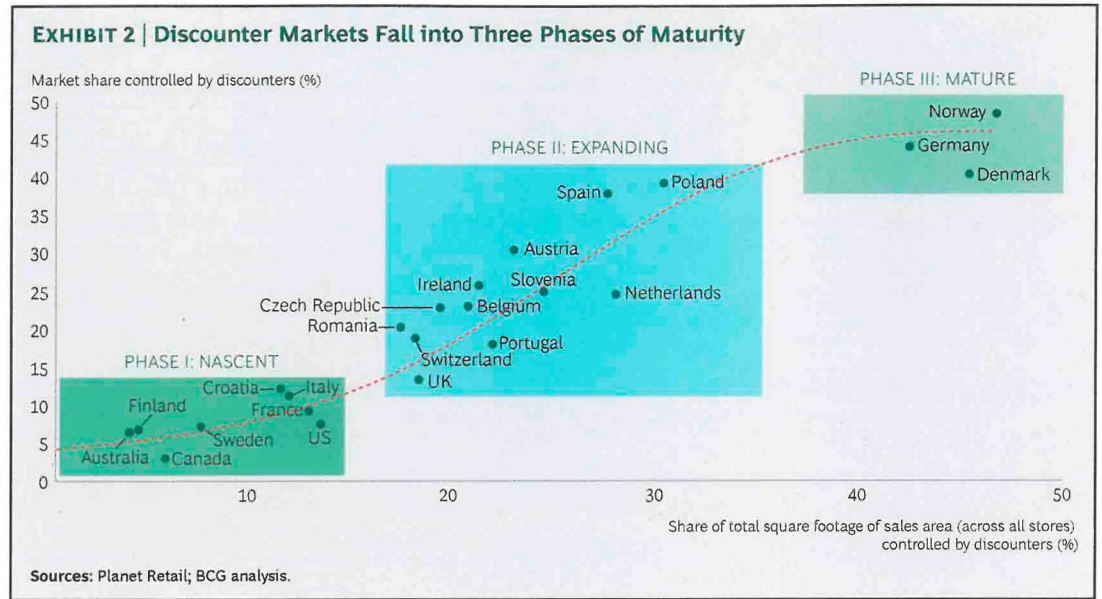
CAPITALIZING ON COMPETITION

European retailers have tried to enter the U.S. market with mixed success — Tesco’s Fresh & Easy concept comes to mind — but Lidl seems to have learned from their mistakes.



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“While Tesco entered the U.S. market with a new format and banner which it had not operated anywhere else previously,” Samuel says, “Lidl is bringing a format which has seen significant success across Europe.”

Tesco made other mistakes, Dolinsky says, including tackling the highly competitive California market first — and coming to the U.S. in 2006, before the recession. It shuttered its U.S. stores in 2015.

Tesco also entered the market quickly; Lidl began hiring U.S. employees in 2015 in anticipation of opening stores here and will center its first 100 stores up the Eastern seaboard.

The U.S. grocery market is one ripe for opportunity for Lidl — and its competitors. Aldi is planning to open 650 new stores, bringing its total to 2,000 by the end of 2018. Aldi is also investing \$1.8 billion to update stores.

Walmart won’t cede its spot as a favorite destination for discount shopping, grocery included. Kroger has its own value chains — Ruler Foods and Food 4 Less — operating throughout the U.S.

Paglia believes Lidl is looking more to its history with Aldi than with other U.S. shopping experiences.

“They’re coming into markets where Aldi has already been successful. From Lidl’s perspective, Aldi proved the test case that small, value-oriented shopping works,” he says. “‘If it worked for Aldi, it will work for us.’ They feel comfortable competing against Walmart. They’ve done that in the U.K.”

“Amazon is probably scarier than Lidl and Aldi,” Lempert says. “When you take all three together, it changes the landscape quickly and dramatically. We’ll see traditional stores closing, new formats coming up that try to hone in much more specifically to that area. It’s going to be the most exciting time that we’ve seen.”

Grocers wanting to fend off Lidl need to “take an early and aggressive stance against Lidl,” Dolinsky says. “In the U.K., a late response to discounter growth enabled Aldi and Lidl to gain traction in the market.”

U.S. grocers are already discounting, with most announcing price cuts recently. “Price cuts, as opposed to price-matching schemes and promotions, have helped grocers in European markets compete with discounters due to their simplicity,” she says.

“Investment in online (an area underpenetrated by food-selling discounters right now), simplifying product ranges, improving private label, reducing store costs and improving supplier relationships have also proved successful in Europe.”

ADJUSTING TO CHANGE

Still, if Lidl’s entry into the U.S. is as disruptive as experts seem to think it will be, someone will pay a price. “Everybody is going to feel some impact, but not everybody will feel it equally,” Paglia says.

“If you think about these stores and retailers that are already there, there are a lot of mediocre retailers in some of these markets,” he says. “These are all retailers that have been vanilla, haven’t updated their stores and offering for years. The performance is lukewarm. I think they’re really poised to leak the most shoppers and the most volume over to Lidl.”

Other retailers may feel a pinch on a market-by-market basis, Paglia predicts. And he anticipates increased measure around value and low prices. “Kroger is operating from a position of strength... Without a doubt, I’m sure they’re watching Lidl closely as well and will make adjustments as they see fit.”

It likely won’t just be competitors who are watching Lidl closely. Consumers stand to benefit from the pricing pressure. Now, if they can just learn to pronounce the name. **STORES**

Sandy Smith grew up working in her family’s grocery store, where the only handheld was a pricemarker with labels.