

LIDL's LOGIC

The deep-discount retailer, with its emphasis on **high-quality** private brands, **low prices** and **convenience** could change the grocery landscape for many years to come

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By Lawrence Aylward



It's 7:30 a.m. on a sultry July morning in Norfolk, Va., and about 400 people are gathered in line to be the first to shop in the sleek-looking new grocery store, its massive window-wall façade sparkling in the early-morning sun. Party music is blaring, balloons are dangling over the store's entrance and local government officials are standing by for the 8 a.m. ribbon-cutting.

It's another opening day for Lidl, the 17th of the summer, and Norfolk seems primed for the retailer's arrival. The German-originated deep-discount retailer, with U.S. operations based in Arlington, Va., opened 24 stores on the East Coast this summer. By the end of September, Lidl will have 37 stores open in Virginia, North Carolina, South Carolina, Delaware and Georgia.

Lidl, which has more than 10,000 stores in 28 European countries, has planned its U.S. arrival for several years and aims to have opened 100 stores by mid-2018. Lidl won't say how many stores it plans to open nationwide, but it could be hundreds in coming years.

Lidl's landing has garnered much media attention and notice from its competitors. Shortly after Lidl opened its first stores in June, The Kroger Co., the nation's second-largest grocery chain, announced it was suing Lidl for trademark infringement, claiming that Lidl's Preferred Selection private brand was too close in name to its 20-year old Private Selection store brand. Whether an indictment or a shot across the bow, Kroger's lawsuit, which goes to trial in January 2018, made for great theater in the ever-competitive grocery industry.



By the end of September, Lidl will have opened 34 stores in the U.S. It was not uncommon for hundreds of people to be waiting outside in line on grand opening days so they could shop Lidl's 90 percent assortment of private brands.

Photos by David Hollingsworth and courtesy of Lidl

Lidl is getting noticed because it's different from traditional grocers — and not just because of its stylish building design. It's Lidl's logic that has captured the grocery industry's attention. The retailer promises it will offer high-quality products at the lowest prices through its slew of store brands, which make up 90 percent of its assortment. Lidl also says it will make grocery shopping more convenient for consumers with its 36,000-square-foot stores (27,000 square feet dedicated to the sales area) that consist of six wide and easy-to-navigate aisles, compared to 12 or more at traditional grocers. And Lidl maintains that its product selection, featuring fewer SKUs in each category, reduces clutter and makes buying decisions easier.

"We keep it pretty simple," says Will Harwood, Lidl's U.S. public relations and communications manager.

Lidl has been compared to Aldi, its German counterpart, which opened its first U.S. store in 1976. Aldi also touts low prices through its 90 percent assortment of private brands as well as convenience, with stores smaller than Lidl's. When Aldi first opened and began expanding in the U.S., it was viewed as a low-end discounter, an image it has been shedding.

While Lidl touts the low prices of its private brands — stating that other retailers won't be able to match them — it is simultaneously touting the high quality of those products. Lidl is not viewed as a low-end discounter.

"Lidl has done a good job of communicating quality, which is something that is tried and true to its operating model," says Todd Maute, a brand expert and partner at New York-based branding agency CBX. "While Lidl



really plays up price, what it hasn't done, which is typical in the industry, is scream price as part of its packaging strategy. Lidl screams quality product as its packaging strategy."

Reducing "compromises"

Lidl formally announced in 2015 that it would expand to the United States. Lidl learned from focus groups that U.S. consumers wanted to improve their grocery experience through three "reduced compromises," Harwood says.

"The compromises customers told us they wanted to reduce centered around convenience, price and quality," he adds.

It's Lidl's goal to "over-deliver" on those aspects, Harwood stresses.

There's no doubt that Lidl had millennials on its mind when planning its U.S. expansion. Millennials, those born between 1980 and 1995, comprise the biggest U.S. generation ever and are moving into their prime spending years. Most millennials are brand agnostic and more open to buying private brands than other generations — hence Lidl's large assortment of store brands. Many millennials also grew up during the Great Recession and are careful spenders, often seeking value — hence Lidl's high-quality, low-price approach. And millennials, like many of today's consumers, are time-starved and don't

(Right) Lidl's Will Harwood shows off one of the retailer's 120 listed private brand wines. (Below) Lidl also offers several craft beer selections under its Craft Explorers store brand.



want to devote a lot of time to grocery shopping — hence Lidl's approach toward convenience and limited assortment.

"Lidl is very diligent about the categories it feels it needs to sell," Maute says.

Lidl's entry, with its obvious goal to steal market share in an already furiously competitive market, has triggered reaction among some of its competitors. Consider the timing of Kroger's lawsuit — smack in the middle of Lidl's first store openings — and that Kroger wanted a judge to issue a preliminary injunction order to stop Lidl from selling its Preferred Selection line, a request that was denied. Also consider that Walmart, the nation's largest grocery retailer, was reportedly conducting extensive price tests to make sure it can compete with Lidl's everyday low pricing. And Aldi, coincidentally, announced the week of Lidl's initial store openings that it would expand from 1,600 to 2,500 stores nationwide by the end of 2022, obviously trying to steal a little thunder from the new kid on the block.

A look at Lidl

- Lidl operates about 10,000 stores across 28 countries in Europe.
- Lidl arrived in the U.S. this summer and will have opened 34 stores in Virginia, North Carolina, South Carolina, Georgia and Delaware by the end of September.
- Lidl won't say how many total stores it plans to open nationwide in the future, but it could be hundreds in coming years.
- Lidl's U.S. stores are 35 percent larger than its European stores.
- Lidl's assortment is 90 percent private brands.
- Lidl's premium brand is Preferred Selection, which includes packaged meats, cheese, candy, olive oil, sauces, condiments, coffee, fruit spreads, pasta, sorbet and other items.
- Lidl also features limited-time offerings, including several innovative and authentic products under its Italiamo (Italian) and Eridanous (Greek) private brands.
- Lidl also offers a mainstream private brand in food and beverage that has no name.
- In June, Lidl announced a collaboration with international fashion icon and designer Heidi Klum, whose new fashion collection will be available exclusively at Lidl.
- Lidl sports a vast wine selection. The retailer hired Adam Lapierre, a master of wine, to be its U.S. wine buyer.

Products, prices and convenience

The first thing customers encounter upon walking into a Lidl are pleasant smells ... courtesy of the fresh-flower section and the store's on-site fresh bakery, where items such as croissants, donuts, quiche and pizza are prepared several times daily. While leading a tour of the Norfolk store, Harwood picks up a bouquet of flowers, which are sold under Lidl's The Flower Market brand, and explains how they and other products are procured.

"Our buyers look at every aspect of these — how many pedals are on the stem, how thick is the stem and what is the density of the bulb inside," Harwood notes. "They do this for every product we put on the shelves."

When Lidl's buyers began negotiating with potential suppliers, some of the

suppliers told the buyers that the questions they asked about products had never been asked before, Harwood says. “We look at quality rigorously, with an attention to detail,” he adds.

As Harwood strolls down the store’s first aisle, he points to an abundance of specialty products comprising Lidl’s Preferred Selection brand. He holds up a 3-ounce package of serrano dry-cured ham, made in Spain.

“We are able to sell this for \$1.99,” he says. On Amazon, a 3-ounce package of serrano ham sells for \$13.49.

The packaged meats also include prosciutto crudo dry-cured ham, pastrami roast beef, coppa and a line of bratwursts in different flavors, among other products. Next to the packaged meats is Lidl’s vast line of imported cheeses, including manchego, pecorino romano, asiago stagionato, Dutch gouda and others. Eleven of the cheeses received awards at the recent Los Angeles International Dairy Competition.

“If you look at our assortment, 80 percent of our products are sourced domestically, but we also have the ability as a big international company to bring in some of the best European specialties,” Harwood explains.

In addition to packaged meats and cheeses, the Preferred Selection line includes candy, olive oil, sauces, condiments, coffee, fruit spreads, pasta, sorbet and other items. Lidl’s U.S. stores also feature limited-time offerings, including several innovative and authentic products under its Italiamo (Italian) and Eridanous (Greek) private brands.

“These are the exact same products you would be getting if you were shopping at a Lidl in Italy,” Harwood says while standing in front of the Italiamo display.

Lidl sells several nut products under its Just Nuts line of products, including wasabi soy almonds and roasted cashews with spices and chili peppers. Its fresh meat includes top sirloin Black Angus steak (\$4.99 a pound),

(Right) Its Preferred Selection line features premium products, including meat and cheeses. (Below) Lidl offers nut bars under its mainstream line. (Bottom left) Lidl’s on-site bakery prepares fresh products daily.



skirt steak (\$8.79 a pound) and 80-20 hamburger patties (\$3.70 a pound).

The tidy-looking packages feature a logo with an American flag that says “Born and Raised in the USA.”

Lidl also offers a plethora of organic and non-GMO products, including tofu, granola bars, virgin coconut oil and free-range chicken. In the household and personal care category, there are a variety of store brands, including Lidl’s allMan line that features razors, shaving cream and after shave. In June, Lidl announced a collaboration with international fashion icon and designer Heidi Klum, whose new fashion collection will be available exclusively at Lidl.

Lidl’s mainstream line of food and beverage products doesn’t have a name; the back of the packages simply read, “Distributed exclusively by Lidl.” Harwood says Lidl’s mainstream brand includes products as good or better than the national brand equivalents but are priced lower.

Lidl sports a vast wine selection and clearly aims to become a destination for its 120 listed bottles. Lidl hired Adam Lapi-erre, a master of wine, to be its U.S. wine buyer.

“There are only about 350 masters of wine in the world,” Harwood says. “Every bottle that makes it to the shelf has to go through Adam.”

Lidl is already winning awards in the U.S. for its wines. At the recent Los Angeles International Wine Competition, Lidl ranked No. 1 among all retail exhibitors, winning 101 medals including 16 gold medals and five best-in-class medals. Lidl’s Sweet Red Wine, which received a best-in-class medal, costs \$2.89 a bottle.

Lidl maintains low prices through several means. Because it mostly offers private brands, its manufacturing costs are lower. Because it offers fewer SKUs, and high-volume ones at that, it orders larger quantities of fewer products so it has more buying power.

Consider wine, where Harwood says Lidl has “incredible buying power” because of its number of worldwide stores.

“There have been cases where we have bought 10 percent of the Prosecco wine in the world because we serve so many different countries,” he says. “So we can pass on these amazing prices to our customers.”



Harwood says Lidl has hundreds of “great, small suppliers” in Europe that have grown into major players in the private brand arena.

“We’re taking the same approach [in the U.S.],” he says. “What’s most important for us is establishing a shared vision with our suppliers, which requires agility and flexibility. ... We are always looking for new suppliers. We like to have long-term relationships with them so we can grow with them ... and [create] products that resonate with consumers.”

Lidl’s keep-it-simple philosophy permeates its operation, which also impacts prices. The company cuts costs wherever it can, like not using paper at its Arlington corporate headquarters. And all those windows in its stores? Well, they just allow for more natural light and less use of electricity. Simply, Lidl is big on reducing any kind of waste to pass the savings onto consumers.

Lidl understands the strategy behind private brands these days isn’t just about offering premium products; it’s also about intangibles such as service. Lidl wants to make a name for itself through convenience with its smaller stores and limited

(Right) Lidl’s Just Nuts private brand features several innovative flavors, including roasted cinnamon almonds.
(Below) Lidl’s limited time offerings include Italiamo, a line of Italian products.



assortment. Lidl wants consumers to realize they can shop there quickly.

Eighty-percent of the products that most consumers will purchase at Lidl are in the first aisle, Harwood says. “That way, consumers can get on their way or continue to shop the store,” he adds.

Education also plays a role in convenience. Throughout the store, Lidl uses signage to inform consumers about sustainability and product sourcing. For instance, Lidl’s coffee section includes signage emphasizing its fair trade status. “Fair trade is a global organization working to secure a better deal for farmers and workers that believes that trade can be a fundamental driver of poverty reduction and greater sustainable development,” it reads.

Lidl down the line

Lidl is somewhat mum about its future. Harwood confirms that Lidl is looking in Ohio and Texas to expand, but he won’t comment on what Lidl’s presence might look like in five years. Harwood did acknowledge that Lidl’s first stores caused grocers located nearby to lower their prices to compete.

Many grocers are ratcheting up their omnichannel strategies with an emphasis on online grocery ordering and pickup and online grocery delivery to compete with Amazon and Walmart. While Harwood says Lidl is watching industry trends closely, he notes that the chain’s focus “remains on delivering a superior experience in our physical stores.” But it’s hard to imagine Lidl not getting involved in online grocery considering its emphasis on convenience.

Like Aldi, and unlike other traditional grocers, Lidl doesn’t have to worry about everything that comes with slotting national brands such as trade dollar dependency, which can inhibit the marketing and sales of private brands. As Maute points out, Lidl has made it clear that it doesn’t need the slotting fees and promotional dollars from the national brands to succeed. Maute says Lidl is focused and knows how to succeed with its simple business model.

“It’s a recipe for success,” he adds.

Karen Strauss, a principal with Cadent Consulting Group, a Wilton, Conn.-based firm that monitors shopping

trends, says Lidl will be a key player going forward in a retail environment experiencing dramatic change.

“Lidl is making the investment to make a difference in the U.S. marketplace,” she adds.

Strauss also expects that Lidl’s continued expansion, which will familiarize more consumers with its store brands, will continue to enhance the positive image that store brands in general have gained the past several years.

What do Norfolk consumers who attended the Lidl store



Lidl’s stores are dominated with creative signage aimed at consumers.

opening think of the retailer and its offerings? Lisa Melita says she was “counting the days” for the store to open. Melita has shopped at Lidl before in Europe and is familiar with its products. “Lidl says quality,” the 52-year-old says.

Melita understands why Lidl is popular in Europe.

“European consumers don’t just buy anything,” she says. “Much of their culture revolves around the quality of food. If they trust [Lidl’s] store brands, then they are probably good.”

Norfolk couple Bart and Erin Irwin attended the Norfolk store opening because “we heard a lot about Lidl being different and lower cost,” Bart says. The Irwins are familiar with store brands, having purchased them at other retailers.

“We heard the prices here are better than some of the local stores,” the 42-year-old Bart says, noting that he takes a “trust and verify” approach to store brands. “I’ll try anything once if it’s for a cheaper price.”

A millennial, 36-year-old Erin says she is more brand agnostic and open to purchasing private brands.

“I tend to go more toward a private brand if I see it. I’ve had good experiences for the most part with them,” she says.

Lidl is counting on the good experiences with its store brands continuing for Irwin and consumers alike. **SB**

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