

# Aldi Accelerates Growth

THE GERMAN GROCER'S ONWARD MARCH CONTINUES AND WITH FEW VISIBLE WEAKNESSES, COMPETITORS SHOULD BE CONCERNED. > By **Gina Acosta**

Warm, soft lighting shines on the organic apples and asparagus. Boxes of gourmet European chocolates beckon near the aisle of Mexican and Kosher foods. Shoppers pick up refrigerated Thai-style meal kits, designed to feed two people, and put them in their new, oversized carts. Cruising around an assortment heavy on organics and premium foods, one might expect the shopping carts at this store to be labeled “Whole Foods Market” or “Mariano’s.” But the shopping cart handles say “Aldi.”

Welcome to the new Aldi. It's nothing like the old Aldi. The dingy floors, dim lighting and long lines have been replaced by a shopping experience that could be called “Whole Foods lite.” At a recent Aldi opening in Tampa, Fla., characteristic of Aldi's latest store design and merchandising approach, shoppers strolled past fancy flat-screen signage focusing on fresh items. Robust produce, dairy and bakery sections complemented the quick and easy checkout lanes.

The new and improved shopping experience is part of the retailer's new value proposition for the U.S. consumer: Aldi is betting \$5 billion it can win over Americans by offering nicer stores that are bigger, but not too big, and a tailored assortment of inexpensive quality private label products. The formula represents a huge competitive challenge, although it is one that receives less attention than Amazon and the recent revelation about having more than 100 million Prime members.

Discount retailers such as Aldi and its aggressive plans for growth have created a new competitive dynamic. And like Amazon, it is altering shopper expectations around price, brand, assortment, and service. It is a scenario that has played out in Europe where competition from the likes of Aldi as well as Lidl is being credited as a driving force behind Walmart's decision in April to merge its Asda divisions with Sainsbury's. The deep-discounters have disrupted the U.K. supermarket sector severely begging the question of whether the U.S. market is next.

“Aldi is the most underappreciated solid performer in retail,” said Diana Sheehan, VP, Retail and Shopper Insights Retail, Sales and Shopper Practice, Americas, Kantar. “They have a unique value proposition that is fundamentally founded in price-based value.



▲ Jason Hart, CEO of Aldi U.S.

And yet the value of that small format, easy-to-shop store is in and of itself an undervalued benefit to who they are.”

Aldi, which includes Aldi Sud and Aldi Nord, today is one of the biggest retail groups in the world, with more than 10,000 locations, businesses in 18 countries and estimated 2017 annual revenues of \$88 billion, according to Kantar Retail. Aldi Sud operates Aldi stores in the U.S. Aldi Nord owns the Trader Joe's chain, which has fewer stores than Aldi but is better known in the U.S. Concentrated in the eastern half of the U.S., the company has been opening stores in California and other western states since 2016.

Last June, Aldi announced a \$5 billion plan to remodel or expand its U.S. footprint by nearly 50% to 2,500 stores by the end of 2022. It ended 2017 with approximately 1,750 stores, up from about 1,200 five years earlier, and expects to have 2,000 stores in operation by the end of this year. The initiative — which will make Aldi the nation's third-largest food retailer by store count, serving more than 100 million customers per month — is bringing a modern design to new and existing stores, with open ceilings, natural lighting and environmentally friendly retail practices, such as energy-saving refrigeration and LED lighting.

Aldi's timing couldn't be better. Its new format is expanding at a time when time-starved, convenience-minded U.S. shoppers are drawn to smaller format stores.

## DOING 'SMALLER' BETTER

Aldi's key point of differentiation has always been price. On a basket of 30 typical household items, Aldi's prices are on average almost 17% lower than Walmart's, according to a 2017 study conducted by Customer Growth Partners. Aldi's reliance on private label makes such comparisons inherently difficult but it also reveals a key insight that value conscious shoppers trust the retailer as much, if not more, than the brand and are willing to substitute.

Aldi gets high marks from U.S. customer satisfaction surveys, including the 2018 Harris Poll Reputation Quotient, in which Aldi ranked tenth, behind notable companies such as Amazon, Weg-





Aldi's new format showcases fresh and clearly conveys a value proposition that is problematic for many competitors.

man's, HEB and Publix. Aldi has won more than 200 awards from BrandSpark International for its private brand products ranging from best new product, parent tested and approved products, gluten-free product and private brand wines.

Beyond price and product quality, Aldi is looking to leveraging another key differentiator: size. The company's expansion the U.S. involves opening larger stores that can accommodate expanded assortments, especially in the areas of fresh and Aldi's premium own brands. Aldi has increased its average store size by nearly roughly 30%, communicating to developers a desire for 22,000 square feet locations compared to 17,000 square feet five years ago.

In addition, as consumers have become more concerned with healthier eating, Aldi has made sure its private label range, which comprises 90% of the assortment, are on-trend. Aldi has been stepping up its assortment with new product lines that have quickly become customer favorites, including a fast-growing organic selection, USDA Choice meats, the liveGfree gluten-free product line, the SimplyNature line of products free from over 125 artificial ingredients and preservatives, and the Never Any! line of meats free from antibiotics, added hormones and animal by-products. Aldi also now carries a full line of baby products, called Little Journey, which offers diapers, wipes, training pants, formula, organic food and snacks.

Stores also offer an Aldi Finds section: an area with premium food and household products that are only in stores for a limited time. The Aldi Finds department, while not a unique retail concept, does bring a distinct treasure hunt appeal to the store experience and the limited duration of seasonally relevant offers encourages shopper frequency.

## TURNING THE SHIP

The majority of Aldi's existing fleet of more than 1,750 U.S. stores in 35 states are around 15,000 square feet and were built to stock 1,000 SKUs with a limited fresh offering. The newer stores, such as the one in Tampa, can be as large as 25,000 square feet and stock

around 1,400 SKUs. The company thinks American consumers are migrating toward small, nimble stores instead of sprawling warehouses and supermarkets that take longer to navigate.

"Aldi's format is really about modern convenience," said David Ciancio, Global Customer Strategist at dunnhumby. "The smaller curated assortment of around 1,400 SKUs, the simplicity and the value is really attracting customers."

Aldi leveraging consumer trends is nothing new. The company doubled its footprint in the U.S. in the 2000s to more than 1,000 stores during and after the Great Recession, at a time when many U.S. shoppers were buying based on price and were getting really comfortable with the idea of private label being "just as good as national brands."

According to the Private Label Manufacturer's Association, private brands now make up 17% of total grocery sales in the U.S. Aldi was one of the first grocers to understand that private label brands can provide premium value. Meanwhile the upside for private brands in the U.S., according to IRI, continues to be huge.

"There's a lot of headroom in the U.S. for private label to increase its market share," said Fernando Salido, EVP, Shopper Analytics Consumer & Shopper Marketing Solutions at IRI. "And when you think about which groups are most likely to adopt private brands, it's the millennials and Gen Z who did not grow up with national brands. And these people make up 47% of the U.S. population. Multicultural growth is also a key driver of future consumption trends. Aldi is focusing on these products trying to attract these populations." Aldi is also leveraging another trend supported by recent shopper behavioral data.

"The smaller format is the future of retail. Shoppers are making more trips but buying fewer products per trip, smaller baskets with more visits. The research shows that shoppers are saying that having 45,000 or even 100,000 SKUs, as in a traditional supermarket, is too confusing, too difficult to shop. And if they need more ketchup, there's always the endless aisle online," Ciancio said.

Aldi's assortment strategy not only benefits shoppers but also





▲ A focus on quality has helped Aldi win numerous awards, which it prominently communicates in stores.

the retailer. Fewer SKUs help cut operating costs and generate faster turn.

“We pioneered a grocery model built around value, convenience, quality and selection, and now Aldi is one of America’s favorite and fastest-growing retailers,” Aldi U.S. CEO Jason Hart is fond of saying in press releases touting the company’s expansion.

A sign of the aggressiveness of Aldi’s plan to grow market share was evident at the new Tampa location: The company built the store in the parking lot of a new Costco warehouse. One of Aldi’s strengths that has eluded many discounters is its ability to draw affluent shoppers (like Costco members) despite its limited assortment. Aldi has accomplished this by cultivating an image of a retailer focused on quality rather than low cost.

“If you look at the cars of shoppers in an Aldi parking lot, it’s higher end cars,” Ciancio said. “They are hitting the higher end shopper more than traditional retailers realize. They are winning on quality all over the world. They are winning taste tests and quality tests at a remarkable pace.”

Yet redesigning its store format and opening new locations are only part of Aldi’s growth plan. The retailer is also laser-focused on innovations such as contactless payments, online grocery delivery and Big Data.

### NO-FRILLS DIGITAL?

With Aldi already moving beyond its no-frills discount roots via fancier stores and enhanced product ranges, digital innovation is the next step along the path of evolving its value proposition. And, like some of the changes before it, the added cost and complexity would appear to be at odds with the everyday-low-cost model of discounters. But like the rest of the retail world dealing with the same operational challenges, it’s innovate or perish.

“Although they continue to drive traffic to stores, they have partnered with Instacart,” Kantar’s Sheehan said. “Which means they are evaluating the U.S. market and acknowledging that they are going to have to compete digitally. In terms of what they will do with online grocery,

it’s not click and collect vs. delivery vs. direct to home. Most retailers, including Aldi, will have to offer one or two of those options.”

To wit, Aldi launched Instacart service last August in Atlanta, Dallas and Los Angeles. Based on what Aldi CEO Jason Hart called an “overwhelmingly positive” response the relationship with Instacart was extended to Aldi’s 200 Chicago area stores in March.

In another major technology initiative that positions the company to serve the preferences of future generations, Aldi rolled out contactless payments. It is a popular method of payment in Europe but has been slower to take hold in the U.S.

Because of its growth plans, Aldi also announced an expanded multi-year relationship with Nielsen last year that includes integrated analytics data around shopper panel, custom retail analytics and advertising effectiveness. The agreement makes Nielsen Aldi’s preferred data and analytics provider just as its growth necessitates access to increasing amounts of effective shopper and advertising data.

### HOW TO COMPETE

New research from dunnhumby’s Dave Ciancio is helping retailers and manufacturers understand what to expect and how to prepare for Aldi’s expansion.

“Aldi knows that consumers are shopping using a number of lists and splitting their shop among various retailers. Aldi recognizes this two or three-list shopping behavior. And they want to capture the first stop shop around the essentials, and they are getting it,” Ciancio said. “They are affecting traditional retailers with that drop in visits. They are grabbing 3% to 5% of the sales volume from traditional retailers. And they are particularly impacting those retailers within about one mile of an Aldi store.”

It is a key reason why Aldi along with Lidl are, according to dunnhumby’s forecasts, expect to account for a combined 10% of U.S. market share by 2021.

Aldi has certainly made a big bet on its value-priced and tailored assortment winning over American consumers. But as other retailers expand and enhance their private label assortments and a growing percentage of center store categories shift online, Aldi has some vulnerabilities that will need to be shored up.

“Aldi will need to overhaul its online offering,” said Ryne Misso, Director of Product Marketing at Market Track. “They could maybe sweep up a delivery startup or another tech startup. They are also lacking a rewards or loyalty offering. When Amazon, Walmart and everybody else catches up to Aldi on the private label front, they will have a big e-commerce problem on their hands.”

Aldi’s strengths clearly outweigh its weakness at this point, and to the extent the company does have vulnerabilities it has also shown itself to be an astute operator capable of moving quickly to close competitive gaps. **RL**