



ALDI Invades Badger Territory*

Written Assignment

Grocery options continue to increase for Madison area consumers. Most of the area's stores came about due to the expansion of the area's grocery market over the past four years. Among a slew of one-stop shops, supermarkets and grocery stores in Madison are three ALDI stores (as of September 2014).

You have been hired to analyze ALDI's strategy and identify any implications for your client. You have been assigned to a client based on your team number (where there is a list, choose the grocer with which you are most familiar):

- ✓ Teams 1-2: your client is Copp's, Metcalfe's Sentry Foods, or Hy-Vee
- ✓ Teams 3-4: your client is Costco, Wal-Mart Super Center, Sam's Club, or Woodman's
- ✓ Teams 5-6: your client is Whole Foods, Trader Joe's, Fresh Madison Market, or Willy St. Co-Op

Come to class prepared to discuss the following:

- ✓ What might Aldi do differently from your client that lowers its cost structure?
- ✓ How easily could your client adopt these practices? and
- ✓ Recommendations for how your client should respond to ALDI's entry.
- ✓ Have at least one team member visit an ALDI store (Three Madison locations: 3925 Lien Rd, 8222 Watts Rd, or 6261 McKee Rd) and identify the best bargain you can for less than \$10.

* This case study was prepared by Carol Gee, M.A. under the supervision of Russell Coff as the basis for class discussion, rather than to illustrate effective or ineffective management. Adapted from "ALDI Shakes Up Atlanta's Supermarkets" prepared under Robin Cooper's direction and with input from Richard Makadok.

At the start of 2002¹, the world's two richest people were Microsoft founder Bill Gates and investment guru and Berkshire Hathaway CEO Warren Buffett – both very well known to the American business community. However, the world's third largest fortune, estimated at \$26.8 billion, belonged to two German brothers who were virtually unknown in America – Karl and Theo Albrecht.

ALDI's earliest roots can be traced back to 1948, when two German brothers Karl and Theo Albrecht took over their mother's grocery store which was founded in Germany's Ruhr valley in 1913. Over the next five decades the two transformed the family business into the discount grocery giant called ALDI - an abbreviation for "ALbrecht DIscounts." By 2008 the chain had grown to more than 8,000 stores and over \$67 billion in sales. (See Exhibit 1). The company headquartered in Essen, Germany, claims that 75% of all households in Germany shop at ALDI, and a study by Young & Rubicam in 2000 ranked ALDI #1 among the top brands in Germany.

Despite enormous success, Karl and Theo Albrecht remained largely unknown in the U.S. for three reasons: First, ALDI was privately held and attracted little attention from analysts or the press. Second, the Albrecht brothers were so reclusive *Forbes* reported that they "haven't been photographed in decades." Indeed, this low profile would seem to be prudent, especially after an Italian terrorist group kidnapped Theo Albrecht and extracted a substantial ransom.² Finally, the Albrecht brothers were relatively unknown in the U.S. since ALDI entered the U.S. market in 1976 in Iowa – this had grown to over 1,200 stores by 2009.

Wanted – Convenient, One-Stop Shopping and Low Prices

Various grocery store chains are found all around the Madison, Wisconsin area, and all offer a variety of discounts and incentives each week, except ALDI. The European-based chain famous for its generic versions of most consumers' favorite foods does not offer extra discounts or coupons. With 60 stores in Wisconsin, ALDI's prices are already significantly lower than competitors' brands.

Mark Kass of the *Business Journal-Milwaukee* quoted from a rare company brochure in July 1994 that summarized ALDI's philosophy: "When you buy a can of peas at ALDI, you're paying almost entirely for the can of peas. ALDI doesn't need to tack on one penny more to pay for any army of stackers or piped-in music or fancy display or check cashing or gimmicks and games. So your food dollar pays for what it's supposed to pay for ... food." That mindset remains to this day.

What makes ALDI different?

The first apparent difference about an ALDI store is its small size. At only 15,000 square feet, an ALDI store is about one-third the size of an average supermarket and only slightly larger than an average chain drug store (Exhibit 4 shows an exterior photograph of a typical U.S. ALDI store). The second thing that the shopper will notice is that the store has limited operating hours. ALDI stores are usually open between 9:00 am and 7:00 pm, and they are closed on Sundays. In contrast, many supermarkets open 24 hours a day seven days a week and are only closed on special days such as Christmas and Thanksgiving.

A shopper may then notice that the shopping carts are chained together in a corral near the front door (see Exhibit 4), and customers must deposit 25¢ to release it from the chain. Then, when the customer leaves, he or she must return the cart to the corral to get the 25¢ deposit back. The refund of the deposit motivates almost all customers to return their carts. Even if a customer chooses not to return the cart, another customer will eventually return the cart to get the deposit. This system also reduces ALDI's potential liability for damage that stray shopping carts may cause to cars in the parking lot.

Upon entering the store another difference becomes obvious: There are no shelves! Merchandise in ALDI stores is displayed in rows of open stacked crates and cases – the same crates and cases in which it had been delivered from the supplier. The range of items for sale is also much narrower than typical supermarkets. ALDI stocks only about 1,300 of the most frequently purchased items, compared to over 25,000 items stocked in an average supermarket. Specialty and niche products are not sold at ALDI.³ ALDI typically offers only one package size – the most popular one – for each product. For example, ALDI's private-label Kyder ketchup comes only in a 36-ounce squeeze bottle. Cereals offer a good example of the advantages of this strategy. A typical ALDI's store has about 36 linear feet dedicated to cereal, while a typical supermarket would allocate nearly 60 feet.

A first time shopper at an ALDI's might be surprised to notice that they recognize few of the brand names. About 80-90% of ALDI's items are private-label – though these products do not carry the ALDI brand name. Rather, ALDI gives each product category its own unique private-label brand that may seem vaguely reminiscent of national brands – names like Aunt Maple's maple syrup, Happy Harvest canned vegetables, Breakfast Best cereals, Salad Mate salad dressings, Happy Farms cheese, Rice Bowl rice mixes, Camelot spring water, L'Oven breads, Cookie Shoppe cookies, Morning Gold pancake mix, and Beaumont coffee (see Exhibit 3).

¹ "The Global Billionaires," *Forbes*, vol. 169, no. 6, 18 March 2002, pages 120-148.

² "ALDI Group," Hoover's Company Profiles, April 2003.

³ ALDI's U.S. web site: www.ALDIfoods.com/what_is_ALDI.htm

Quality is not compromised in the private label brands. ALDI, has written quality specifications that equal or surpass government standards (USDA, Grade A, Choice, etc.). ALDI continually inspects products in its test kitchens. ALDI backs up its quality promise with the following guarantee “test any ALDI product against what you are currently using. You will discover just how good low prices can taste! We guarantee you will like our products as much as any national brand. But if you believe that one of our products doesn’t meet your standards, just return it to the store. We’ll replace the product and/or refund your money.”⁴

Another striking difference is the lack of fancy displays and specialty departments. There are no bakery, meat or fish departments, no pharmacy or florist, no deli or prepared foods. All of the food is prepackaged, weighed and bar-coded by the supplier. Everything is ready to sell when it is delivered. Looking around, the shopper will observe very few employees. Usually no more than 2 or 3 employees work at any given time. At off-peak times, only one cashier is on duty, and only one other employee is visible, cleaning the floors or straightening up. If the shopper stayed around for the entire week, they would discover that there are only ten employees in total, including the manager. If they are not at the cashier station, they are taking empty boxes back to the storeroom and returning with new boxes that they then open to display the products.

A final difference observable before checkout is the availability of non-food items at bargain prices (shoes, tools, or other household goods, and sometimes even durable goods like cameras, computers, and furniture). These special items are typically stacked in a separate area of the store and vary visit to visit.

At checkout, another set of differences becomes obvious. First, the cashier’s conveyor belt is twice as long as those in a typical grocery store, so customers have time and room to unload their carts. The cashier keeps an extra cart, usually from the previous customer, to place the items once they are scanned. The customer then takes the cart containing the newly purchased, but still un-bagged items.

The second difference is the lower bill. ALDI’s prices are 30% to 50% below leading supermarkets. Exhibit 2 shows a price comparison between an Atlanta ALDI store and a leading Atlanta supermarket. A further difference is the limited number of payment options and the lack of a bonus card program. ALDI stores accept only cash, food stamps, and debit cards – no checks, credit cards, or coupons. David Niekamp, ALDI’s director of real estate explained, “Our goal is the lowest price. [Customers] don’t need frills or bonus cards.”

The need to self-bag is another noticeable difference. After the transaction, the cashier directs the customer to a spacious self-bagging area, so the cashier can ring up the next customer. Customers can either bring bags, or purchase them from the cashier (5¢ per paper bag or 10¢ for a large sturdy plastic tote bag).

A really observant shopper will notice some clever aspects of the checkout process. First, there is no scale for weighing produce since it is all pre-packaged. Second, if more than one identical item is being purchased, a one-touch button eliminates the need for an extra scan. Every aspect of checkout is designed so the cashier can perform all functions without leaving his or her high stool.

There are also some less obvious differences. Unlike typical supermarkets, ALDI stores have unlisted phone numbers. Niekamp explains, “Managers are working on the floor and don’t have time to field calls.” Customers who need directions can go to the web site for a clear and detailed map. Also, ALDI does no media advertising – the only advertising consists of a simple, minimalist web site, and a one-page flyer, available at the entrance or the web site, showing monthly specials at all ALDI stores. Finally, ALDI stores have a stockroom that takes up about 25% of the store’s footprint. This can hold about as much as inventory as is on display. Most super markets rely on direct stocking by vendors and have only very limited inventory space.

‘Healthy Competition’

Madison Area Grocers

Woodman’s grocery store vice president Clint Woodman noted that Madison was one of the most competitive markets because there are so many different players (The Capital Times & Wisconsin State Journal, 2009). The following are a few of the competitors who vie for a share of Madison’s shopping cart.

Copp’s Food Center, www.copps.com an off-shoot of the Roundy’s chain headquartered in Wisconsin, offers its own ‘IGA’ (Independent Grocers Association) brand in almost all goods. It also offers a ‘Key Savings Card’ for additional discounts on brands and ‘double coupon day’ each week.

Sentry Foods, www.sentryfoods.com (or Metcalfe’s Sentry after their owners), is a popular grocery chain for gourmet foods and bakery items. Its full-service deli also has large selection of items. Independently owned and operated, Sentry benefited from the exit of Kohl’s Food Stores and Jewel-Osco from the Milwaukee Market. A few of the former Jewel stores were rebranded Sentry and continued distribution with SUPERVALU. When A&P exited along with Kohl’s Food Stores, the smaller stores were purchased by independent owners, remodeled and reopened as Sentry. Many stores have closed due to competition with Pick ‘n Save, Wal-Mart and ALDI.

⁴ ALDI’s U.S. web site: www.ALDIfoods.com/quality_guaranteed.htm

Hy-Vee, www.hy-vee.com is an employee owned 24 hour grocery store. With sales of more than \$6.4 billion and more than 228 retail stores across eight Midwestern states, Hy-Vee ranks among the top 30 supermarket chains. The name Hy-Vee has become synonymous with quality products, low prices and superior customer service. Hy-Vee, a 91,000 sq foot store that opened in Madison in October 2009, is a touchstone for Midwest consumers' desire for information on diet, nutrition and wellness topics. Its Health Market departments featuring natural and organic products and the store's consulting services of in-store dietitians make it a favorite of many.

Pick N' Save, www.picknsave.com founded in 1872, as a division of Roundy's Supermarket, began as a wholesale grocery warehouse and later became one of the Midwest's premier grocery retailers. In recent years, Roundy's has been named the World's Fastest Growing Retailer and they remain committed to building engaging, interactive shopping experiences for customers. The locations that serve Madison offer a fine bakery, deli and variety of brands. Its shopping card offers convenient price discounts at all of its locations.

Organic and Specialty Stores

Whole Foods, www.WholeFoodsMarket.com, founded in 1980 as one small store in Austin, Texas, is the world's leading retailer of natural and organic foods. The chain is known for their 'high-end products' commitment to selling the highest quality natural and organic products available, and satisfying and delighting customers. As of September 2009, the company operated 284 stores: 273 stores in 38 U.S. states and the District of Columbia; six stores in Canada; and five stores in the United Kingdom. Opened in Madison in early 2009, Whole Food views Trader Joe's as a major competitor in many markets. "The way we see it, competition is good for any market," says Kate Klotz, Whole Foods spokeswoman. "Our goal is to increase the visibility of natural and organic products. And we are really proud of our products."

Trader Joe's, www.traderjoes.com is a privately held company and is a store for 'people with caviar taste on a Wal-Mart budget' who eat organic. Founded by Joe Coulombe in California in 1958, Trader Joe's boasts more than 280 specialty grocery stores operating in more than 23 states. Coulombe implemented a nautical theme with store managers as "captains," assistant managers as "first mates," and everyone else as "crew members." In 1988 Coulombe's stores were bought out by the Albrecht families, who also own ALDI Supermarkets.

Ranked by Consumer Reports (2009) as the second-best supermarket chain, Trader Joe's prices are roughly 50% less than upscale grocery stores. Savings stem from dealing directly with suppliers and repackaging items under the Trader Joe's brand. Having one brand of most items also limits wasted shelf space and unsold merchandise. Items are also only acquired when they are available and cheap – as such, items may not always be in stock. They also cut costs by only carrying prepackaged items – there is no meat or deli counter to take up valuable floor space (or butcher or sandwich maker to pay). This strategy helped Trader Joe's rack up \$8 billion in total sales for 2009 giving it a ranking of 21 on the list of "Supermarket News" Top 75 Retailers for 2010.

Willy Street Food Co-Op, www.willystreetcoop was born out what was known during the late 1960s and early 70s as the "new wave" of consumer co-ops set up to fit members' beliefs in equality and social justice and focused on whole, unrefined and bulk foods. These co-ops were pioneers in a growing health-conscious society and in what came to be known as the "natural foods" industry. Anyone can shop at the co-op and everyone is welcome to join. Equity payments are an investment in the co-op and are used as capital assisting with store operations and improvements. Departments of the Willy Street Co-op consist of bulk items, deli, Okinawa Sushi, general grocery, health and wellness, juice bar and bakery, produce and seafood.

Brennan's www.brennansmarket.com, the place to shop for specialty cheeses, wine and bakery items, first came to Madison in 1967. A third Madison store opened in 2004. With its vast selection of freshly picked fruits and vegetables, its relaxed European-style approach to food shopping makes it a great choice for those hard-to-find imported items.

Discount Grocers

Cub Foods, www.cub.com with two locations in Madison was established in 1968 as one of the nation's first discount grocery stores. Cub which stands for 'Consumers United for Buying' provides consumers with the freshest produce, widest selection and greatest value available today. In addition to offering more than 35,000 items in their innovative natural, ethnic and certified organic food sections, most stores also offer in-store pharmacy and banking. For added convenience, most Cub stores are open 24 hours. The organization was purchased in 1980 by SUPERVALU and currently operates 84 stores located in Minnesota, Wisconsin, Illinois, Ohio and Iowa.

Wal-Mart Supercenter, www.walmart.com combines a traditional discount store and a supermarket. This allows the company to leverage its purchasing power and distribution capabilities into the low-priced grocery segment. Typically, Wal-Mart Supercenters modify their centralized distribution structure to buy fruits and vegetables from farms closest to its distribution centers, making shipping easier while cutting down on trucking in produce from outside of the area.

Woodman's, www.woodmans-food.com is another employee owned and family-friendly, one-stop, open 24 hours market. The facility operates on a warehouse model, with stores in the 200-250,000 square foot range, in

contrast to the 50-75,000 square foot size of typical grocery stores. The store's limited investment into store and décor makes prices very competitive and oftentimes unbeatable. Prices at Woodman's are lower than at many large grocery store chains because of their bulk purchasing mode, while the size of the stores also enables a wide-selection of brands and products to be carried. Most items are stocked on the shelves by employees, but special bulk purchases and other items are sometimes shelved in their shipping cases or stacked in the aisles. Woodman's does not publish a weekly circular as prices are often far lower than chains in the area.

Convenience Stores

Convenience stores are defined by the National Association of Convenience Stores based in Alexandria Virginia as shops with off-street parking, extended hours of operation and seven-day-a-week service with more than 500 different items for sale in less than 5,000 square foot of space. Tempting time-starved customers with made-to-order sandwiches, rotisserie chicken, baked goods, walk-in beer coolers and spacious restrooms are just a few of the many consumer attractions of today's convenience stores. Add to that, 20 gas pumps, a double-bay automatic car wash, and you can tell that **Quik-Stops**, www.quikstops.com are getting bigger and flashier.

In 2004, the nation's 138, 205 convenience stores had record revenues of \$394 billion. By comparison, Wal-Mart, the nation's leading retailer had \$285 billion in U.S. sales. In Wisconsin, there are over 2,451 convenience stores and 95 percent sell gasoline. About 60 percent are one-store operations and not chains. Part of the newest trend today is bigger convenience stores with more offerings.

Stop-N-Go www.stop-n-go.com of Madison has 39 convenience stores in southern Wisconsin. The leading Convenience/Gasoline Retailer headquartered Madison, also features Quick Serve restaurants at many locations offering Milios Subs, Blimpie Subs, McDonalds, Little Caesars Pizza, and Hot Stuff Pizza.

Kwik Trip, www.kwiktrip.com, is Wisconsin's largest convenience store. Kwik Trip is unique among convenience stores because it produces and packages a wide variety of products in its own state-of-the-art facilities. The retailer has its own bakery, commissary, dairy, and distribution warehouse and vehicle maintenance divisions. Known for its bargains on bananas, 227 of its 330 stores are in Wisconsin.

PDQ Food Stores, Inc., www.pdqstores.com, started as a family owned company by founder Sam Jacobson, a pioneer in the convenience store industry. The first store opened in 1948 under the name of Tri Dairy which initially sold only dairy items. PDQ stood for "Pretty Darn Quick" – a phrase that had been in vogue during World War I. The company believed that supporting local (family-owned) businesses was essential in creating and maintaining close community relationships, while its primary focus was, and still is, to provide each customer with quick, courteous service, and fresh, quality products in the cleanest, most convenient locations. In 2009, PDQ became 100% employee owned when the founder's son sold the business to the employees. There are now 46 PDQ stores in the Madison area.

ALDI weathers the turbulent economic environment

ALDI's no-frills approach, combined with a growing family of high-quality store brands, is winning over value-minded shoppers across the U.S. While the rocky economy forces other chains close stores, it presents ALDI with a unique opportunity to expand. In 2008, the company opened more than 100 stores, expanding into Florida and Rhode Island. The company also opened at least 75 stores in 2009 and entered Texas in 2010.

A new **ALDI** store is planned in Fitchburg's Orchard Point Development project. "The new store, with about 16,000 square feet will be a new prototype," according to Health Tarczan, ALDI spokeswoman (The Capital Times and Wisconsin State Journal, April 2010).

"Currently ALDI is opening more attractive facilities in higher-income areas," noted David Livingston, principal of DJL Research. "They have evolved from catering to low-income groups to all income groups." Historically, lower and middle income shoppers were the biggest buyers of private labels, according to a survey released by Accenture, but today, even six-figure earners are turning to private labels. What's more, ALDI's new products continue to be more upscale and innovative. A recent online survey found that the average household income for ALDI shoppers was \$65,400. Case in point: The retailer recently entered into the premium skin-care market with the introduction of its Lacura brand – an award-winning product line with European ALDI roots. ALDI's continued strategy is to move into new markets – and to strengthen its presence in the communities it already serves. In April of 2009, ALDI won the Private Label Retailer of the Year for its innovative products and packaging that provide it with it a point of differentiation from its competitors.

Exhibit 1
Geographic distribution of ALDI stores, as of April 2008

Australia	160
Austria	369
Belgium	420
Denmark	244
France	680
Germany	4010
Hungary	20
Ireland	34
Luxembourg	12
Netherlands	405
Spain	130
Switzerland	58
United Kingdom	310
United States:	900
- Arkansas	4
- Connecticut	9
- Georgia	22
- Iowa	31
- Illinois	180
- Indiana	67
- Kansas	21
- Kentucky	14
- Maryland	18
- Michigan	45
- Missouri	64
- North Carolina	47
- Nebraska	3
- New Jersey	18
- New York	71
- Ohio	113
- Oklahoma	13
- Pennsylvania	67
- South Carolina	13
- Tennessee	25
- Vermont	1
- Virginia	7
- West Virginia	5
- Wisconsin	*60

Source: ALDI international affiliate company web sites.

*As of April 2010

Exhibit 2
Product Price Comparison: ALDI vs. a Leading Grocery Chain

Product	Size	ALDI	Leading Retailer	ALDI Discount
Buttermilk Biscuits	7.5 oz.	\$0.25	\$1.49	83%
Frozen Chicken Dinner	9 oz.	0.89	2.49	64%
Citrus Punch	128 ounces (oz.)	1.29	2.69	52%
Ranch Salad Dressing	16 oz.	0.89	1.79	50%
Chicken/Alfredo Noodles Mix	4.3 oz.	0.49	0.89	45%
Potato Chips	12 oz.	0.99	1.69	41%
Shortbread Cookies	11.5 oz.	0.99	1.67	41%
Canned Corn	15 oz.	0.29	0.42	31%
Hot Sauce (see Note 1)	17 oz.	0.59	0.84	30%
Apple Juice	64 oz.	0.99	1.29	23%
Meat/Mushroom Pasta Sauce	26 oz.	0.99	1.25	21%
Condensed Tomato Soup	10.75 oz.	0.39	0.49	20%
Refried Beans	16 oz.	0.39	0.49	20%
Multi Vitamins (see Note 2)	130 count	3.99	4.99	20%
Liquid Detergent	128 oz.	2.49	2.99	17%
Macaroni & Cheese	7.25 oz.	0.29	0.33	12%
Chunky Clam Chowder	19 oz.	1.19	1.33	11%
Canned Ravioli	15 oz.	0.59	0.65	9%
Chunk Tuna in Water	6 oz.	0.39	0.39	0%

Prices were taken on a single day in 2002 and may not reflect long-term averages.

All Leading Retailer prices are based on the lowest price comparable product.
Most Leading Retailer products used were generic or private label products.
Most Leading Retailer prices reflect savings from membership bonus card.

Note 1 - Leading Retailer product was smaller size (12 oz.)

Note 2 - Leading Retailer product was smaller size (100 count)

Exhibit 3

Selected items available at U.S. ALDI stores in 2003, showing private-label “brand names”



89¢



Chocolate Chips
12 oz.



3²⁹
per lb.



America's Cut Pork Chops
random weight



99¢



Beef Bologna
12 oz.



4⁴⁹



Dog Food
20 lbs.



5⁹⁹

Fine Feline
Premium Dry Cat Food
18 lbs.



2⁹⁹

Fine Feline
Scoopable Cat Litter
14 lbs.



1²⁹



Beef Hot Dogs
16 oz.



99¢



Cotta Salami
16 oz.



89¢
each



Skillet Dinners
assorted flavors, 6.4-8 oz.



99¢
each



Sugar Wafers
assorted flavors, 14.1 oz.

Source: ALDI U.S. web site.

Exhibit 4
Exterior photograph of a typical U.S. ALDI store



Source: ALDI U.S. web site.

Exhibit 5
Map of Madison-area ALDI Stores

