INTRODUCTION[1]

"... Have you noticed how discount stores just keep popping up everywhere? Have you also noticed how most retailers, both physical and digital, are more and more all about being 'the cheapest'?
Poland, the UK, France, Spain, Russia, Colombia, Italy, Turkey, the USA... Lidl, Aldi, Dollar, X5, D1, BIM, Mercadona, Eurospin, Biedronka, Pepco... It is like price is taking over the world.
It feels like we're living in a 'price-centric era.'"

Laureano Tudienzo. April 2023

Both suppliers and competitors in the retail sector were anxiously observing the growing prominence of discount operators established in numerous European countries and other parts of the world. These operators were redefining the "value for money" relationship with significant price differentials—up to 50% with leading manufacturers and 30% with private label brands—among similar products.

These actors had ambitious expansion plans and the resources—and patience—to realize them. Along with the burgeoning development of e-commerce, they were disrupting the traditional competitive landscape in the sector.

Their business models evolved (hard, soft, smart, happy...) and adapted to different markets with varying degrees of success, but always gaining prominent visibility. They democratized new categories—such as organic products—and became reference brands with many followers—even on social media.
Faced with this situation, key players in the fast-moving consumer goods sector were asking questions such as: What made these operators so successful? How far could they

[1] This is a case of the Research Division of San Telmo Business School, Spain. It has been written by Professor Julio Audicana and and Marisa Martínez Jiménez in collaboration with research assistant Gabriel Ochoa de Zabalegui and is intended as a basis for class discussion only and not to illustrate any judgment on the effective or ineffective management of a specific situation. Copyright © July 2024, Fundación San Telmo. Spain.

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go in terms of market share? How could they compete against them? Was any corporate maneuver possible among apparently similar models? What were the keys to doing business with discount operators? What development opportunities could come from working with these formats? Was it feasible to work with several of them at the same time? And most importantly, who were "they"?

DISCOUNT: THE EVOLUTION OF A BASIC MODEL

The discount format originated in the USA with the emergence of the first private label brands and saw significant development in Germany after World War II. At least initially, this format was based on a short and quality assortment (800-1,000 SKUs), a high share of private label products (80-90% of sales), small stores (8600-16,000 ft^2), and a short and highly optimized supply chain. (See *Discount trends* report 2023. IGD. Februray23)

Along with the online channel, it was the only modern format whose market share was expected to grow in the next five years.

- The discount format will be the fastest-growing modern channel globally. Its market share was estimated to reach 8% by 2027, up from 7% in 2022. This channel could generate around 800 USD billion in 2027 (735 billion EUR), accounting for over 15% of retail growth during this period.
- Europe will continue to be the market where discount formats see the most development, reaching a 22% market share by 2027, up from 20% in 2022. This growth will come from both new store openings and "stealing" customers from other formats.
- This format will continue to be dominated by Aldi and Lidl, whose combined sales were expected to reach 200 billion USD in 2027 (183 billion EUR). (See Exhibit 1: Comparative Evolution of Aldi-Lidl Global Sales and Exhibit 2: Ranking of Food Retail Companies in Europe and Worldwide).
- These global leaders were accompanied by several brands operating in one or more countries; some of them were market leaders, such as Mercadona in Spain or Biedronka in Poland. Lidl, Aldi, and another twenty of these operators were expected to capture 90% of the growth.

The following trends would shape the development of the discount format until 2027:

- "Value superheroes": eliminating any element that did not add value to the product for the customer. Shopping at discount stores was considered "smart shopping," with price and the quality of own-brand products being essential elements to achieve this.
- "Supermarketization": adapting to trends by improving store image and convenience and expanding the assortment to cover as much of the shopping basket as possible. The idea was to turn discount stores into one-stop shops. (See Exhibit 3: Evolution of Lidl Stores).

- Selective expansion: continuing with ambitious expansion while being selective about countries, even exiting unprofitable markets and aiming to maximize the profit from existing stores.
- Simplification of non-food items: reorganizing the non-food section, removing unprofitable products, promoting impulse buying, specialization, and reaching agreements with leading manufacturers that adapt to the multi-SKU[2] format.
- Sustainability: continuing to reduce energy consumption in stores, abandoning paper flyers, increasing the ratio of local products, introducing more vegan products in the assortment, and in general, making stores more sustainable and communicating this to the customer.

LIDL VERSUS ALDI: TWO BUSINESS MODELS AND ONE DESTINY

ALDI: born out of German austerity and reliability

(See the *Aldi profile report*. IGD. August 22)

Aldi was founded in 1946 in Germany by brothers Karl and Theo Albrecht[3], in an environment marked by post-war[4] austerity and shortages. In 1960, due to a disagreement, the brothers divided the company into two (Aldi Nord and Aldi Süd), and they divided the German territory with a dividing line known as the "Aldi line."

Aldi Süd enhanced the original model and improved the spartan stores from the beginnings; they added products to the assortment, adapting to market needs and established a decentralized structure that allowed them to open subsidiaries outside of Europe in countries such as the USA, the UK, and Australia.

Aldi Nord remained more stagnant in the austere initial model and was comparatively less successful. It also internationalized into different countries from Aldi Süd (France, Spain, and the Netherlands...) and entered the USA by acquiring the local chain Trader Joe's (which operated more than 4,000 SKUs).

Aldi Nord and Aldi Süd were independent companies that shared some markets, such as Germany (Aldi Süd ranked fourth, and Aldi Nord, seventh, after Edeka, Rewe, and the Schwarz Group (Lidl)). They also collaborated closely since 2019 in many areas, such as purchasing, suppliers, and own-brand products.

In 2022, Aldi (Nord and Süd) had global revenues of around 114.4 billion EUR, with Germany representing approximately 30% of this total. They operated more than 13,300 stores in twenty countries, with a sales area of over 130 million ft^2. (See Aldi stores, photo gallery)

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[2] Stock keeping unit.

[3] Aldi is the syllabic abbreviation of the name Albretch Diskont.

[4] The brothers were famous for their austerity. It is said that Theo was known for taking notes using both sides of the paper and for turning off the lights in the stores during the day. In December 1971, Theo was kidnapped and negotiated his own ransom, haggling with his kidnappers. Later, he unsuccessfully tried to have the amount paid considered a deductible expense for Aldi.