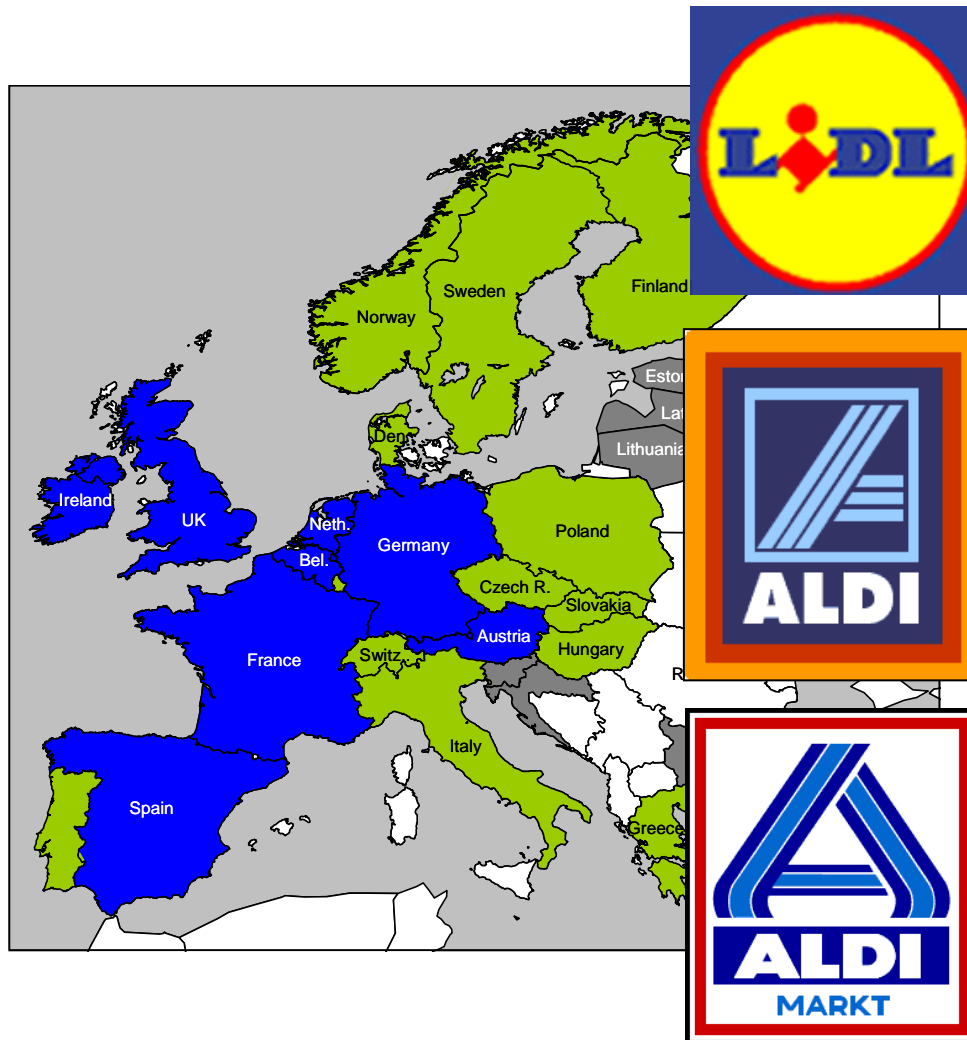




ALDI & LIDL:  
Europe's Hard Discount Threat

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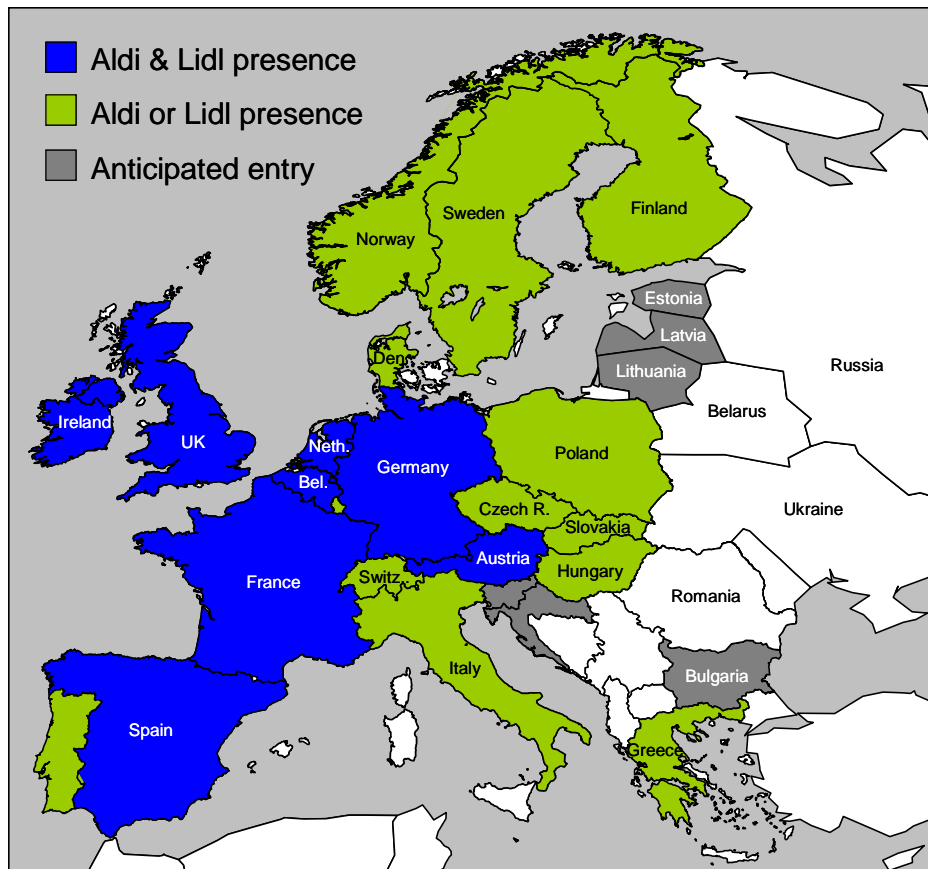
# Europe's hard discount threat



- Aldi and Lidl represent one of the biggest threats to retailers across Europe.
- The two German-based hard discount food retailers are expanding rapidly across Europe.
- Aldi's plans for an apparel brand in the UK highlight a growing impact on non-food categories.
- The hard discount impact may be greater than Wal-Mart's feared European expansion.

# European penetration

Penetration by Aldi and Lidl across Europe



- The companies are both present across Western Europe, including France, Spain and the UK.
- Lidl has led more recent expansion into Scandinavia and Central/ Eastern Europe.
- Lidl entered Norway, Hungary and Slovakia in 2004 with more eastward expansion expected.
- Aldi is moving more cautiously with Switzerland in 2004 and plans for Sweden, Poland, Czech Republic and New Zealand.

# The impact



*KarstadtQuelle is among the retailer's reeling in Germany's super competitive environment.*

- The worst is evident in Germany, where Aldi and Lidl own a big share of the food market and drive a super price-sensitive marketplace.
- Carrefour's recent weak results in France are a result of the growth of hard discounters led by Lidl.
- In other countries such as the UK, the hard discount impact is insidious – growing slowly and unnoticeably.
- The impact is not limited to Europe. Lidl is eying Canada. Aldi's entry has roiled Australia while its US presence grows slowly, but steadily.

# Impact bigger than Wal-Mart?



*A Wal-Mart Supercenter in Germany, where the US retailer has had disappointing results so far.*

- In ways, Aldi and Lidl's impact on the marketplace, notably on suppliers, may be bigger than Wal-Mart.
- Their impact is multiplied because of their focus on so few sku's – 700 to 1,200 – compared with 28,000 to 125,000 sku's for Wal-Mart's various formats.
- That means that Aldi and Lidl's purchasing power per sku can be several times that of Wal-Mart.
- As a result, in certain sku's, Aldi and Lidl can eclipse Wal-Mart's ability to squeeze suppliers and cut prices.



# The response



*Carrefour is depending on its new Number One private label to help turn the tide in France.*

- The threat is triggering a wave of strategic moves by competitors to adjust formats, add private label, etc.
- The hypermarket boom has given way to multi-format strategies that span from big boxes to small formats.
- Others, such as Ahold, have pulled out of hypermarkets to focus on core formats such as supermarkets.
- Private label is multiplying, such as Carrefour's Number One, Delhaize's 365, and Ahold's Euro Shopper.
- Direct global sourcing is expanding access to lower cost product.

# Aldi & Lidl in Perspective

## Aldi & Lidl Among Top Retailers Worldwide - 2003

2003 Rank	Company	Home Country	Net Sales (Millions USD)	No. of Countries	% of Sales in Foreign Countries
1	Wal-Mart Stores Inc. <sup>1</sup>	United States	\$ 256,329	11	19%
2	Carrefour Group <sup>2</sup>	France	\$ 79,761	30	49%
3	The Home Depot Inc. <sup>3</sup>	United States	\$ 64,816	3	7%
4	Metro AG	Germany	\$ 60,648	28	47%
5	The Kroger Co.	United States	\$ 53,791	1	0%
6	Tesco PLC <sup>4</sup>	United Kingdom	\$ 50,370	12	20%
7	Target Corp. <sup>5</sup>	United States	\$ 46,781	1	0%
8	Royal Ahold <sup>6</sup>	Netherlands	\$ 44,283	19	76%
9	ITM Entreprises SA <sup>7</sup>	France	\$ 43,453	8	30%
10	Costco Companies Inc. <sup>8</sup>	United States	\$ 41,693	8	18%
.....					
12	<b>Aldi Group</b>	<b>Germany</b>	<b>\$ 36,211</b>	<b>12</b>	<b>33%</b>
24	<b>Schwarz Group (i.e. Lidl)</b>	<b>Germany</b>	<b>\$ 28,664</b>	<b>15</b>	<b>59%</b>

<sup>1</sup>Net sales excludes sales from McLane (\$4.3 billion).

<sup>2</sup>Net sales excludes revenue from franchise operations.

<sup>3</sup>Net sales includes wholesale revenue.

<sup>4</sup>Net sales includes share of joint ventures.

<sup>5</sup>Net sales excludes credit revenue.

<sup>6</sup>Net sales excludes sales from divested Golden Gallon stores and food-service revenue.

<sup>7</sup>Net sales is an estimate and includes tax.

<sup>8</sup>Net sales excludes warehouse membership fees.

Sources: Top 200 Retailers Worldwide 2003, Retail Forward Inc.

- Expansion has helped Aldi and Lidl inch up the rankings of leading retailers worldwide.
- Aldi ranked 12<sup>th</sup> and Lidl 24<sup>th</sup> in 2003, according to the report *Top 200 Retailers Worldwide by Retail Forward*.
- The Lidl hard discount chain is the largest division of the Schwarz Group.
- Aldi and Lidl are among the most internationalized retailers, each present in more than a dozen countries.

# Aldi background



← Aldi Sud logo



Aldi Nord logo →

- Aldi, short for Albrecht Discounts, is actually two companies, Aldi Sud and Aldi Nord.
- Aldi Sud manages expansion in English-speaking countries and Austria, which borders its operations in Southern Germany.
- Aldi Nord manages expansion in the rest of Europe as well as Northern Germany.
- The divisions were run by the Albrecht brothers Karl (Sud) and Theo (Nord) until 2003.



# Aldi store characteristics



- Both Aldi companies operate with the same limited assortment, private label strategy.
- A typical store is about 15,000 sq. ft. (1,000-1,500 sq. m.) with as few as 700 products and as much as 95% of it private label.
- Aldi's well-developed private label skill has created a competitive advantage with a combination of low prices at a high standard of quality.

# Aldi by country

## Aldi Stores, Sales & Market Share

By country in 2003

	<u>Stores</u>	(\$US Mil) <u>Sales</u>	Market <u>share</u> <sup>1</sup>
All countries	7,208	36,210	3.0%
Australia	56	225	0.5%
Austria	298	735	4.9%
Belgium	376	575	2.1%
Denmark	200	500	3.2%
France	606	2,700	1.3%
Germany	4,000	24,140	16.7%
Ireland	11	45	0.4%
Luxembourg	10	40	2.5%
Netherlands	388	1,150	4.4%
Spain	80	250	0.3%
United Kingdom	268	1,350	0.8%
United States	915	4,500	1.0%

<sup>1</sup> Total market is retail sales at food retailers

Source: Published reports, EuroStat, country statistics offices, [www.oanda.com](http://www.oanda.com) and Retail Forward Inc.

- Besides Europe, Aldi also is in the US and more recently Australia, which is one of its fastest growing markets.
- Aldi's stores in the US include more than 200 Trader Joe's stores, which extends the Aldi concept to upscale products.
- The Aldi format in the US reportedly aims to grow by 300 stores to reach 1,000 by 2010.
- Aldi's growth has recently been driven outside Germany, where conditions have stagnated.

# Lidl background



- Lidl is the biggest part of the multi-format Schwarz Group. Its Kaufland hypermarkets are also spreading into Eastern Europe.
- Dieter Schwarz is the primary owner of the Schwarz Group, structured largely to minimize union and other legal requirements.
- While the Group dates to the 1930s, the first Lidl store opened in 1973 as a copy of Aldi.

## Lidl store characteristics



- Although developed as a copy of the Aldi concept, over time Lidl has differentiated its concept.
- Lidl is more promotional than Aldi, which uses an EDLP strategy with non-food promotions to boost traffic.
- Lidl's limited assortment is larger (about 1,200 sku's) and relies more on brand products.
- Lidl is known for squeezing suppliers more so than Aldi and reacting faster to new consumer demands.

# Lidl by country

## Lidl Stores, Sales & Market Share

By country in 2003

	<u>Stores</u>	(\$US Mil) <u>Sales</u>	Market <u>share</u> <sup>1</sup>
All countries	5,154	22,622	2.5%
Austria	78	204	1.3%
Belgium	200	356	1.3%
Czech Republic	52	40	0.5%
Finland	41	113	0.8%
France	990	4,640	2.3%
Germany	2,374	11,882	8.2%
Greece	85	217	1.1%
Ireland	43	187	1.6%
Italy	280	775	0.7%
Netherlands	142	441	1.7%
Poland	18	68	0.3%
Portugal	170	385	2.6%
Spain	349	1,154	1.3%
Sweden	11	10	0.1%
United Kingdom	321	2,150	1.2%

<sup>1</sup> Total market is retail sales at food retailers

Source: Elsevier Food International, M+M Planet Retail, EuroStat, country statistics offices, www.oanda.com and Retail Forward Inc.

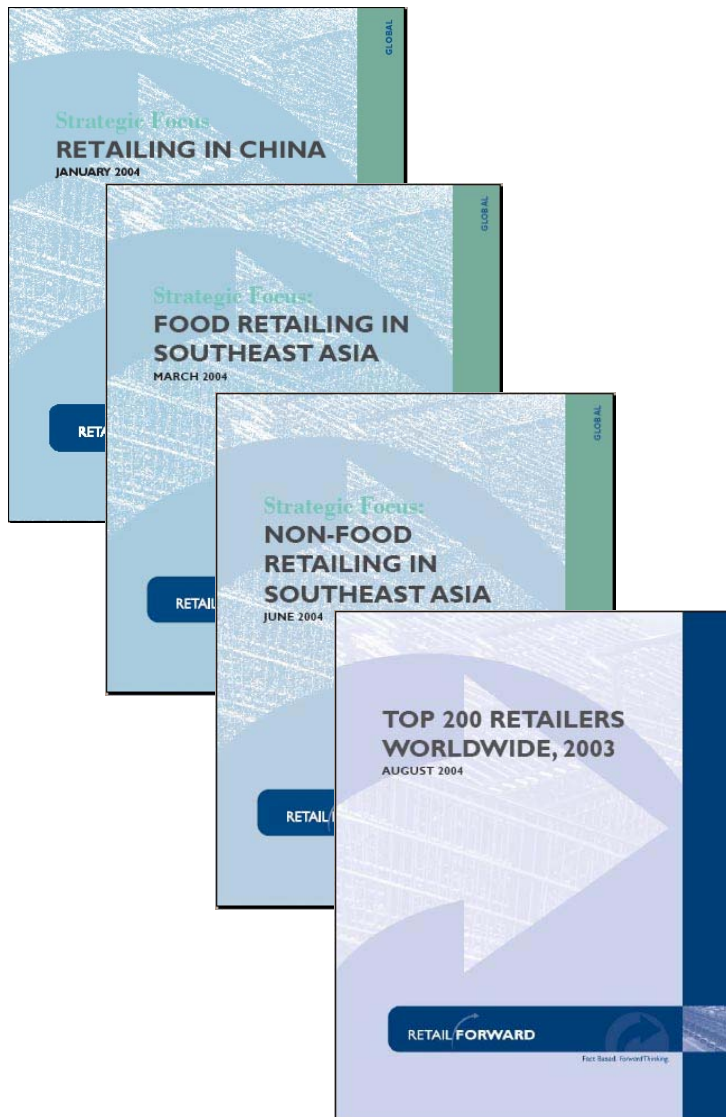
- After Germany, Lidl is most successful in France, where it stuffed its assortment into 300 sq. m. stores to skirt restrictions.
- Lidl has moved into Scandinavia with Finland in 2002, Sweden last year and soon Norway.
- An eastern push began with Poland in 2002, Czech Republic last year and Hungary and Slovakia in 2004.
- Lidl is also looking beyond Europe. Stretched resources kept it from entering Canada this year.

## Looking Forward

- Suppliers will see no let-up to the shrinking space on store shelves and unrelenting pressure to cut prices as hard discounters drive retailers' focus on private label, edited assortments, and active sourcing and brand management.
- The impact of hard discounters will vary to degree by country. Cultural differences mean that the impact of hard discounters will likely never approach the German outcome for most countries.
- At same time, hard discounters have room to make significant gains in most countries around the world, including the US.
- The gains will be driven by an expanding down market in many parts of the world, as economic growth increasingly diverges among the poorest and wealthiest households.
- The impact will also be driven by hard discounters' continuing expansion into apparel and homegoods as they evolve to drive traffic and raise margins.



# About Retail Forward



- The hard discount threat and other issues will be covered in more depth in upcoming Retail Forward reports on Retailing in Europe.
- The reports are part of the global program of the Retail Forward Intelligence System (RFIS).
- Other recent Global RFIS reports include: *Retailing in China, Food Retailing in SE Asia and Non-Food Retailing in SE Asia.*
- For more information, contact program manager Frank Badillo at 614.355.4019 or at [fbadillo@retailforward.com](mailto:fbadillo@retailforward.com)