

ALDI STRIPS COSTS OUT, KEEPS PRICES LOW.

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BATAVIA, Ill. - The efficiency for which German engineering is renowned is evident in the food-retailing model of Aldi, the global limited-assortment chain that makes its U.S. headquarters here.

Essen, Germany-based Aldi Group, which is the largest food retailer in that country, has carved a niche for itself as one of the lowest-price food retailers in the United States. Its 600 U.S. stores feature a bare-bones offering of about 700 stockkeeping units, most of which are custom brands stacked warehouse-style on pallets.

"Aldi is probably the world's most efficient retailer, bar none," said Neil Stern, senior partner, McMillan Doolittle, Chicago. "They are more efficient than Wal-Mart, Carrefour - anybody in the world."

Analysts said the company strives for gross margins in the range of 12% to 15% - half of what traditional supermarkets aim to achieve - and passes the savings through to consumers. Net margins are about 2% on annual sales of \$5 million to \$6 million per store, according to analysts.

Officials at Aldi could not be reached for comment.

The chain offers retail prices about 25% to 30% below the best deals offered by traditional supermarkets, and in general its prices are much lower than both club stores and supercenters, analysts said. A recent study by Willard Bishop Consulting, Barrington, Ill., found that St. Louis-based Save-A-Lot, a division of Supervalu, Minneapolis, offered slightly lower prices than Aldi on a sample of 69 items, although both offered considerable savings over traditional supermarkets.

Aldi achieves its low prices through its high sales-per-stockkeeping unit model, which enables the company to purchase enormous quantities of products in only one variety at the expense of offering multiple brands for its customers to choose from. The system simplifies both warehousing and store operations.

While Wal-Mart and the clubs invest in huge properties and build massive stores, Aldi finds secondary locations for its boxes, which at a maximum of about 8,000 square feet are not much larger than convenience stores. Aldi also saves money by buying its sites rather than leasing, analysts said.

And while Wal-Mart spends money on newspaper and broadcast advertising, Aldi stores shun such promotional expenses, relying on free word-of-mouth publicity.

Aldi stores are open limited hours - most are open 9 a.m. to 7 p.m. weekdays and closed on Sundays - and are often staffed with just a few cashiers and one manager. In recent visits by SN, store managers were often seen slicing the sides of boxes open and stacking them on pallets - Aldi also cuts costs by limiting expenses on such unnecessary store fixtures as shelving. Customers bag their own groceries and either bring their own bags or buy them for 10 cents each at the cash register. The use of grocery carts requires a 25-cent deposit.

"It's kind of like taking the traditional model and figuring out every possible area where

you can take costs out," said Stern. "They can run the store with a skeletal staff, labor is lower, there are no bag costs, no credit card transaction costs. You just look at everywhere where a traditional supermarket has cost of business, and you strip that out of there."

Aldi stores focus predominantly on center-store items - about 50% of the SKUs in its U.S. stores are consumer packaged goods - and devote little space to perishables. About a third of its SKUs in the United States are perishables and frozen, according to a report by **Coriolis Research**, Auckland, New Zealand,

which conducted a global analysis of Aldi's operations in 2000 in anticipation of the chain's entry into Australia.

"Perishables start to interfere with the simplicity of the model," Stern explained. "The more perishables you have, the more complex they are to handle from a distribution standpoint. It complicates the store exponentially."

More than 90% of Aldi's products are custom brands - such as Beaumont coffee and Happy Harvest canned vegetables - made to the company's specifications by manufacturers. The company handles all delivery of product itself from its own warehouses, each of which serve about 50 stores, according to a local press report in Atlanta, where the company recently found a site for a 400,000-square-foot depot.

Jonathan Hauptman, vice president, Willard Bishop Consulting, said Aldi recently has improved the labeling and packaging of its products so that they are of similar quality to those of national brands. Aldi also offers a guarantee on all its products.

The guarantee "reduces the risk that some consumers perceive in buying a brand that they might not have heard of," Hauptman said.

He also said the stores have improved their ambiance and appear to be gaining appeal among a broader range of consumers.

"Aldi's not just for lower-income consumers anymore," he said. "Middle-and even upper-income consumers are now found in Aldi's quite frequently."

Stern of McMillan Doolittle said Aldi often serves as the primary shopping destination for low-income shoppers - a spokesman for the chain recently told a local newspaper that consumers can do 70% of their weekly shopping at the stores - while other consumers use Aldi as a fill-in shopping trip to take advantage of bargains on certain items.

Hauptman said the chain was "making a concerted effort" to expand its perishables selection, although it appears to be doing so carefully to keep operating costs at a minimum.

Stern also noted that Aldi has been adding more in-and-out general merchandise - items such as home electronics - which it sells at cost to create in-store excitement. That model also has been successful for the chain in Europe, he said.