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THE NEWSLETTER FOR FOOD & BEVERAGE INDUSTRY PROFESSIONALS

Unstoppable ALDI: Walmart's Biggest Threat?

ALDI continues to be the most underestimated grocery retailer in the U.S. market. In CPG circles, it is easy to understand why. ALDI is a control label retail operator, selling primarily, if not entirely, their own privately branded knockoffs of established American foods. CPG companies track retailers they can sell to, not those they can't.

ALDI's retail strategy has combined a control label National Brand Equivalent (NBE) portfolio with an equally impressive deletion of conventional supermarket services:

- There are no counter service departments; everything is packaged and everything is self-service.
- No shelving means no stockboys to hire; product is wheeled in on pallets by forklift, unwrapped and quickly signed.
- Carts must be paid for by deposit (25 cents) and returned by the shopper to eliminate staff needed to wrangle shopping carts.
- There are no baskets to manage.
- The only staff in an ALDI store are: forklift operators bringing in new pallets, a cashier (or two) and possibly a third-party loss-prevention agent.

Normally, one might assume that reducing service for NBE products would just create an annoyed shopper who can't find what they want. Except that it actually creates an ecstatic shopper. Why? Because, by deleting brand as a shopping variable (including the deletion of brand-based shopper marketing), ALDI focuses the entire shopping experience on a simple aggregation of cost savings, a slow and steady cartwheeling trade-down ritual whose foundation, price leadership, has been rigidly defended in virtually every market they've entered.

The deletion of brand as a shopping variable is something that ALDI has perfected like no other store label program in the U.S. They accomplish this by simulating the color scheme and front panel symbolism of their NBE-equivalent UPCs in very exacting detail. In doing so, they trigger near instant equivalency between a name-brand, iconic, UPC and the one they are selling as a replacement.

Examples of ALDI's Classic Product Design Approach

- **ALDI NBE** 17oz: $1.59 (limited-time pricing)
- **Frosted Flakes at Walmart** 19oz: $3.38 (www.walmart.com)
- **Frosted Flakes at Stop & Shop** 19oz: $5.69 (www.peapod.com)

ALDI is not simply focused on yesterday's products. It is vigorously chasing emerging products and foods as its network expands. In the following case, they have knocked off a Nature Valley granola SKU that is quite recent:

- **ALDI NBE:** $2.99
- **Nature Valley at Walmart:** $3.98 (www.walmart.com)
- **Nature Valley at Stop and Shop:** $4.49 (www.peapod.com)

Putting ALDI in the Context of Shopping

ALDI has accidentally reinvented pantry stocking in America by subversively eliminating the variable brand and the shopper marketing that goes along with it. They have also eliminated the variable of price, for there are no price comparisons in a store with only one offering in every category. They have made it radically simpler, cognitively, to execute a shopping trip. No thinking about brands, BOGOs, deals, price comps, coupons, sudden endcap promotions or in-aisle shopper marketing. The trip is also super fast, because the stores are only about 18 -20,000 square feet.

Ironically, the only variable left in the shopping trip is: *the food*. This a powerful disruption for highly utilitarian shopping trips where shoppers just want to get the stuff on their list and get out.

Who Are ALDI Shoppers?

For those Americans who still need/desire to have packaged foods on hand, ALDI has reinvented the art of pantry stocking and saved ordinary middle-class Americans a significant amount of money where they operate. We say ordinary middle-class Americans deliberately. That's because the ALDI proposition is not one that uniquely orients to struggling, downmarket consumers. In fact, its primary shopper base looks virtually identical to Walmart's.

Comparing Shoppers

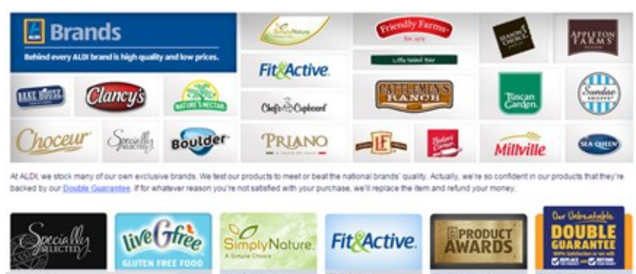
	Upmarket *BA + >=$100K HH income*	Midmarket *Everyone Else*	Downmarket *High School only + <=$35K HH income*
Walmart Primary Shoppers	8.2%	63.3%	28.4%
ALDI Primary Shoppers	7.9%	63.9%	28.2%

Source: Hartman Eating Occasions Compass Database; 2012-2014 data; n= 10,404 Walmart Shoppers and n= 1160 ALDI shoppers; Which of the following stores do you consider to be your PRIMARY store for buying food and beverages?

ALDI still orients to those who are OK with processed, packaged foods and simply want to save on familiar product experiences introduced to them by name brands years ago. Our data suggests that, among those for whom ALDI is their primary food store, the brand has an above-average draw with those living alone, with households three or greater in size and also with downmarket consumers.

Yet all is not what it seems. ALDI is adapting from its roots without losing focus on absolute price leadership vs. NBE.

1. **Premium Foods:** ALDI's strong reach among midmarket and upmarket consumers, who are more connected to urban food trends, has not gone unnoticed by the chain. ALDI's expansion into premium control label is a sign of its growing reach midmarket and upmarket. ALDI has no intention of letting emerging food trends steal share as it grows. It is incorporating gluten-free, natural and more culinary offerings under specialized control labels.



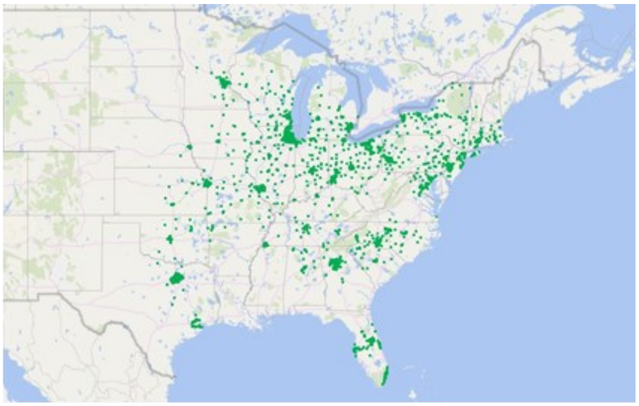
2. **Targeted Merchandising of Name Brands:** While ALDI has deleted brand as a variable in shopping, it has actually begun to selectively add in name brands in specific categories, presumably where they have been unable/unwilling to invest in a NBE knockoff. The Hutchinson, KS, store we track routinely, for example, is selling Pringles, Snickers, Naked Juice, Steak-umm and Gardetto's this week. In other ALDIs, our ethnographers have uncovered

Amy's frozen pizza and Bolthouse juices, among other name brands.

Expansion

ALDI has been opening over 100 store locations annually for some time now. Its network has entered suburban zip codes significantly in the past decade. However, ALDI has yet to reach the Rocky Mountains or westward. That means that roughly 78 million Americans, or 25 percent of the U.S., have no access to ALDI yet.

ALDI Locations



Attempts by midmarket retailers, like Delhaize's Bottom Dollar, to open up competing hard discount brands in markets where ALDI has already entered have not succeeded. And we are not surprised. The ALDI operational formula requires a level of financial discipline largely alien to midmarket grocery chains with their large head counts, large corporate overhead and expensive service mix. Stripping all that away with confidence and financial discipline is much harder than ALDI makes it appear.

The hard discount channel has two fronts in the U.S. The super cheap, hard discount packaged-goods emporium (ALDI, Grocery Outlet) and the full-service hard discount grocery store (FOOD 4 LESS, Winco, etc.). The latter model has potential in an increasingly bifurcating food culture, where shoppers trade up or down but are fleeing the middle. But we remain convinced that the portion of the U.S. population most aligned to traditional processed, packaged food will find ALDI a seductive option for years to come.

Many managers of brand-dominant categories (chocolate, cereal) may overlook ALDI easily, given that traditional datasets suggest the appeal of private label is weak. Nevertheless, due to the extremely low pricing on NBE products at ALDI, most CPG players should be monitoring ALDI's penetration of their categories, somehow, to make sure that it is not overturning conventional wisdom about the appeal of private label.