*Conor Carroll, University of Limerick*

# Netto, Lidl, Aldi - The Rise and Rise of the Limited Range Discounters

Discounters are powering ahead with their expansion plans throughout Europe and beyond. Their formula of low prices and offering a limited assortment of products on their shelves appears to be a winning pan-European formula for retailing. Tesco, arguably Europe's most successful retailer, moved away from its original discounter tactic of "*pile them high, sell them cheap*" mantra and evolved into becoming a traditional supermarket retailer. Now others are adopting this hard discounter philosophy. The retailing concept was pioneered by German hard discounter Aldi, and has now been successfully duplicated by other discounters such as the German Lidl and Danish Netto chains. These "Limited Range Discounters" (LRDs) believe that success can be achieved through offering high quality products at low prices, and stocking minimal assortments that match consumer's basic needs, such as staple items that consumers regularly buy. Success is achieved through the generation of high volumes, their ability to communicate to consumers, their price gaps with traditional retailers, and placing costs at the forefront of all their business activities. Their continued success has led to dramatic changes within the retail sector, leaving manufacturers with difficult decisions as to how to effectively supply these LRDs, whilst not damaging their brands, and relations with other retailers. So who are these LRDs, and how do they operate?

Discounters have an estimated 18% market share within European retailing, which is expected to grow even further. Countries like Norway (40%) and Germany (38%) have high levels of discounter activity, whereas countries like the UK (6%) and Ireland (8%) have very low levels. Hard discounters have four central planks in their operating philosophies. Firstly, they stock a very limited product assortment (less than a 1000 stock keeping units), whereas a traditional store may have up 10,000 different product variants. These are typically fast moving, high rotation items. Typically a shopper can buy only one type of brand from a category. Secondly, these stores are very simple in layout, design, and in operation. They require lean management, and very few employees to operate. A hard discounter will typically have longer queues, which people bear for greater savings. Thirdly, the retailers have a low cost and highly efficient supply chain infrastructure, utilising large regional distribution centres to service their retail outlets. Lastly and most importantly these stores operate on the principle of EDLP or Every Day Low Prices.

Competition between discounters is rife. Price wars are common between these retailers. If they stock similar products, they typically stock different size variants, and at different prices, to ensure differentiation. Apart from rapid growth expansion attributed to new store openings, it has yet to be seen whether discounters are making substantial inroads in international markets, due to strong competition from incumbents. Some consumers view these discounters as too frugal and downmarket to give them their custom. Also LRD's decision to locate in socially deprived areas has contributed to this image even further. Open pallets, lack of assortment, and lack of extra value added services alienate some shoppers. However in Germany, where many of these discounters initially emerged, wealthy Mercedes drivers typically frequent these retailers. In some European geographic markets, consumers are still in love with their brands, and not extremely low prices for good quality produce.

**Table 1 – LRDs: A Profile - A Comparison of Netto, Lidl, & Aldi**

| *Netto* | *Lidl* | *Aldi* |
|---|---|---|
| Owned by Danske Supermarked, Part of A.P. Moller–Maersk Group | Owned by Schwarz Group, Privately owned | Owned by Theo & Leo Albrecht, Privately owned |
| Stores in the UK – 136<br>Stores in Denmark - 362<br>Stores in Germany – 223<br>Stores in Sweden – 59<br>Stores in Poland - 97<br>Total No. of Stores - 863 | Stores in the UK – 330<br>Stores in Sweden - 40<br>Stores in Germany – 3,500<br>Stores in France – 1,070<br>Stores in Ireland - 58<br>Total No. of Stores – 5,238 | Stores in the UK – 300<br>Stores in Denmark - 235<br>Stores in Germany – 4,190<br>Stores in USA – 700<br>Stores in Ireland - 22<br>Total No. of Stores –7,329 |
| Not known | Sales of €16 Billion | Sales of €29 Billion |
| Stocks 1,100 products | Stocks 1,100 products | Stocks 700 – 1,000 products |
| Stocks favoured brands | A third of products are branded items | Over 95% are private label |
| Typical Store Size – 1,100 sq metres | Typical Store Size – 400~600 sq metres | Typical Store Size – 760 sq metres |

Netto is operated by Dansk Supermarked which, in turn, is owned by A.P Moeller–Maersk group. It is Denmark's' most successful discounter, having roughly 9% of the Danish grocery retail market. From these origins it has become one of Denmark's most recognised and respected brands. Netto proclaims that it is part of Europe's largest buying groups and passes on these savings to customers. Netto stores resemble large warehouses, with items stocked on pallets. High quality merchandise presentation is not top of the agenda for Netto: costs are. Stores are run with very few employees, and the stores do not accept credit cards so as not to incur any transaction charges. A large portion of Netto produce are well known retail brands (stocking brands such as Coca Cola, Nescafe, Persil etc.) stocked at discount prices. The company takes advantage of large bulk buying and supplier discounts. On the downside, customers may be faced with longer queues, no master butcher is available, and favourite brands may not be in stock if no promotion is available that week. In addition the company does stock Netto own branded products. This formula made it appealing for many customers, who wanted their favourite brands. The first Netto store opened in 1981 in Denmark. Since then the company has rolled out in other international countries such as Germany in 1990[1], the UK in 1990, and Sweden in 2002. It successfully entered the Swedish market, through a 50:50 joint venture with leading Swedish retailer ICA, and other markets like Germany through joint ventures. Ironically it was created by Dansk Supermarked, Denmark's leading supermarket retailer, as a response to Aldi entering the Danish marketplace.

Aldi is completely privately owned by the secretive Albrecht family. Its owners are now one of Europe's wealthiest families. The name originated from Albrecht Discount. It pioneered the hard discounter market. The Aldi group from its German base has two main divisions: Aldi Nord & Aldi Sud. Both operate independently and have clearly defined operating markets and different own label brands, but both cooperate in terms of pricing and assortment decisions. Aldi Sud is responsible for Southern Germany, and Austria, and English speaking countries, whilst Aldi Nord is responsible for all other non-German speaking European countries. Aldi has saturation coverage within the German market, and possesses limited growth opportunities. Every German is within a 15-20 drive to an Aldi outlet. As a result the chain is seeking out international opportunities.

The emphasis within Aldi is that of efficiency and productivity. Each store is responsible for its revenues and cost base. Costs are kept to an absolute minimum. By having a basic store layout and design, low staff numbers, non-expensive in-store storage displays, and limited number of products on shelves, it keeps costs to a absolute minimum, which other retailers find hard to compete against. It has built up a reputation amongst its loyal consumer base on the strength of the quality of its product offering. Products are strenuously tested for quality and are only allocated to stores once they are proven to be fast movers. The company has also moved into selling an organic range of produce. Aldi sources products from leading food manufacturers, and sells them under an Aldi own label brand. Its sheer size enables Aldi to save through bulk buys, and through strong price negotiation with suppliers. The company now sells products that are specific to a particular country in a bid to attract local customers. Through its scale it can then source country specific products suitable for market needs. If it still does not have the necessary scale it will import brands into that country. Aldi utilises huge regional distribution centres to service up to 50 outlets at a time. Goods are brought into the store on pallets, and are gradually emptied by consumers before being replenished with another new pallet. Aldi are opening 5 stores a week, and with Lidl opening 6 stores a week, both are experiencing colossal growth. The company is famous for its frugalness and thriftiness at all levels of its operations, utilising a strong decentralised operation, with a focus on simplicity.

The first Lidl discount outlet opened in 1973. It originated as a clone of the successful Aldi format, but has since evolved into having it own strong brand identity. Lidl is achieving first-mover advantages by opening up stores quicker in international markets. Now Lidl is the 14$^{th}$ largest retailer in the world, and is privately owned. It is owned by the Schwarz group, and who are notoriously secretive about its operations. The group own a suite of different retailing divisions such as hypermarkets, traditional supermarkets, and discounters. The company is still number 2 in its domestic German market, but it has been pursuing a rapid internationalisation strategy, hoping to achieve over 70% of its revenues from overseas markets. Its aggressive expansion aims are to establish between 100 and 200 stores in each of their emerging discount markets such as Ireland, Eastern Europe, and Scandinavia. The company utilises a rapid property acquisition programme, and establishes large regional distribution centres to service these new markets. The majority of their stores in international markets are non-unionised; however in some markets they have appeased local interests by allowing trade union activity.

One of the biggest weapons in the armoury of discounters is their “one-off” specials. These promotions typically entail the sale at substantial discount of a non-food item (*e.g. a personal computer, gardening or DIY equipment, etc.*). These specials are promoted on a weekly basis through local press advertising, and leaflet drops. They act as a major inducement and increase footfall to these stores. These heavily discounted items are allocated to stores, where there are only a handful of units per store. This creates a weekly sale frenzy at these stores. The biggest problem with “once off specials” is that it is very hard to estimate demand, and if a special proves unpopular, the stores are left with unsold stock, which can create logistical difficulties and contributes to costs.

One of the main reasons behind their success, and apparent unstoppable growth is their store location strategies. Each of these discounter stores is substantially smaller in size than a typical traditional supermarket. In addition they require smaller property sites, and ancillary works such as car parking and special entry and exit points. This has allowed these LRD's to obtain planning permission at a much faster rate than typical retailers and with enhanced likelihood of success. In France, Lidl achieved rapid growth rates through store adaptation of their business formula, which overcame strict planning laws, through having higher shelves, smaller aisles, and lower product assortments.

The middle tier of supermarkets is under enormous pressure from both ends of the retailing spectrum: the discounters with private label products, and supermarkets offering niche services with specialised products. Their high cost structure, due to their operating philosophies of large assortments, has placed them under enormous strain. The discounters themselves are facing a number of new challenges with the likes of Tesco testing discount outlets in Eastern Europe, and Asda testing discount store concepts. This is a similar strategy to that carried out by continental retailers, in response to the threat of discounters. Furthermore in some overseas markets, sales are plateauing after the initial success of a discounter outlet. Shoppers are still drawn to their traditional supermarket retailers, as consumers have lower loyalty towards these new retail brands. However LRDs are here to stay, and leave both retailers and suppliers with difficult decisions to face – how do we compete? And how do we supply?

**Case Questions**

1. **Discuss the strengths and weaknesses associated with the Limited Range Discounter format.**

2. **What are the advantages associated with the EDLP concept versus Hi-Lo pricing for retailers.**

3. **How should branded manufacturers respond with their pricing strategies if they want to supply a Limited Range Discounter while simultaneously supplying traditional retailers?**

*This case was written by Conor Carroll, Lecturer in Marketing, University of Limerick.* *Copyright © Conor Carroll (2006).* *The material in the case has been drawn from a variety of published sources.*