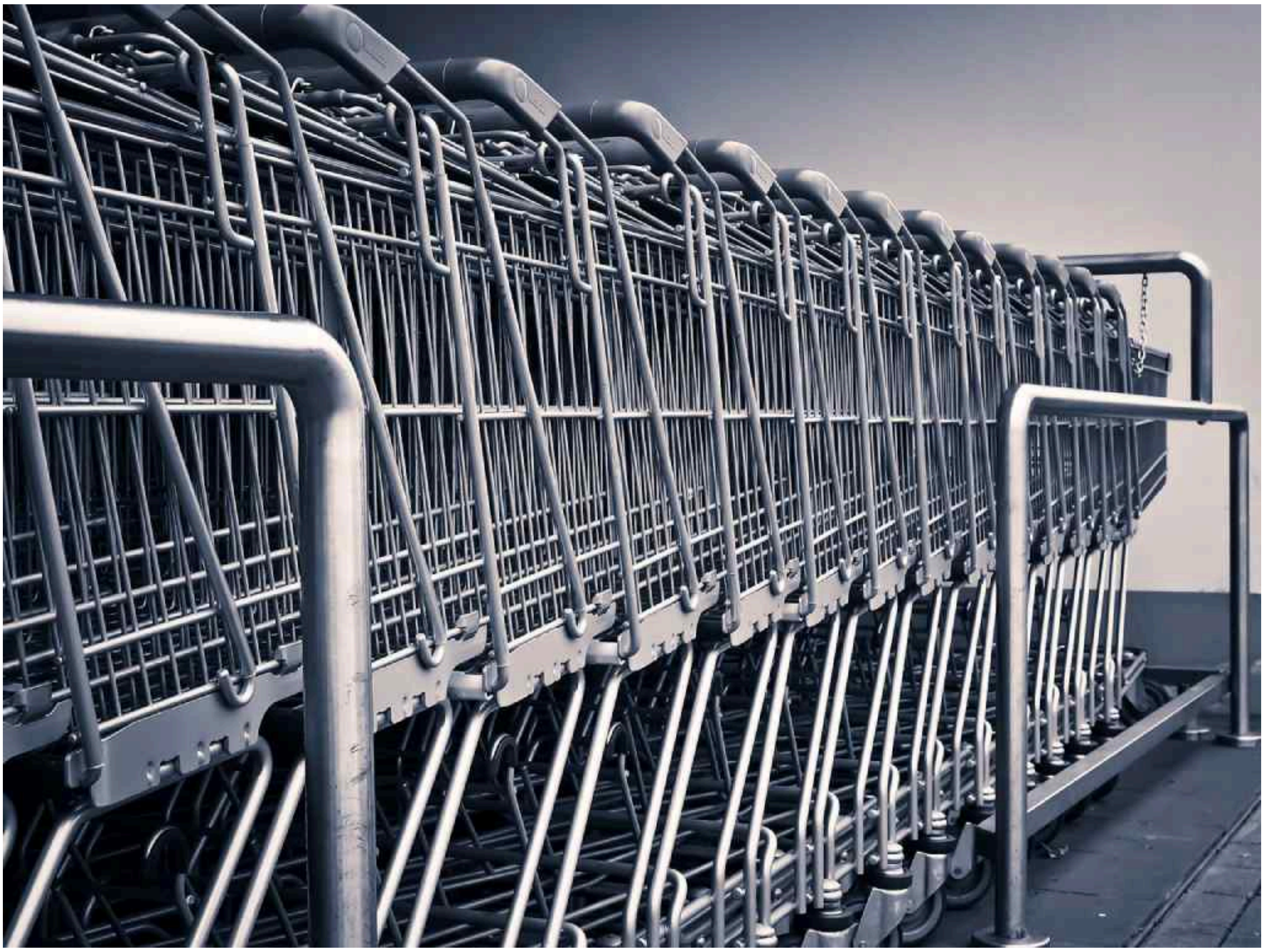
Aldi: a supermarket with a reason to celebrate

Aldi's competitive advantage may lie in its operations. This case study explores this successful German supermarket chain, including its store operations, distribution center and corporate functions, as well as its international strategy.



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You might have attended some zany themed dinner parties in your life, but have you ever attended an Aldi party? At this affair, all food and beverages must be purchased at the German hard-discount supermarket Aldi whose aim is straightforward: to offer rock bottom prices on a limited number of high quality basic food items. Forget the designer cake and the pricey bottle of wine; all that's required at this party is Aldi's tikka masala sauce that costs 99 euro cents or an award-winning wine for just 2.99 euros.

Though the party idea is a novel one, Aldi's founders really do have something to celebrate: They are now at the top of *Forbes*'s list of the world's richest people.

Brothers Theo and Karl Albrecht founded Aldi in 1946 and it has become nothing short of an institution in its home country of Germany.

The word "Aldi" is an amalgamation of the brothers' family name with the word "discount." In the early 1960s, the brothers split the business. Theo Albrecht took the north (Aldi Nord) and Karl Albrecht took the south (Aldi Süd). The divisions operate autonomously from one another, but the brothers still collaborate by meeting regularly to coordinate activities and to share details of each other's operations. Today, Aldi North and Aldi South post combined revenues of 37 billion of euros with 7,200 locations across 15 countries.

In the case study "Aldi: A German Retailing Icon," IESE Professor Marc Sachon and research assistant Jordan Mitchell explore this successful enterprise, including its store operations, distribution center, corporate functions and the company's international expansion.

At the core of both Aldi businesses lies the fundamental proposition of offering a limited assortment of 900 quality daily basic food items at the lowest possible price. (Most supermarkets carry about 15,000 products). Some analysts have even put Aldi prices below that of the illustrious Wal-Mart. The Albrechts see limited assortment and low price as inseparable. They believe that it is best to eliminate all the extras and to focus on what's necessary. As Theo Albrecht once said, "People live more on what they do not eat."

The Albrechts' approach has often been distilled into four essential attributes: simplicity, high quality, frugality and confidentiality. According to the expert Dieter Brandes, these principles can be translated into 11 commandments that have been key to the brothers' success:

1. Keep it simple
2. Strive to earn your customers' trust

3. Set clear goals and follow them rigorously
4. Improve details daily
5. Don't optimize, maximize
6. Know where you stand, but don't waste time on budgets and figures
7. Test now, perfect later
8. Be fair to your suppliers and help them improve their business
9. Practice management by trust and control
10. Talk in terms that people can understand
11. No matter how successful you are, stay thrifty and frugal

As for the stores themselves, each is approximately 1,000 square meters and 90 percent of the food items available are dry items, such as rice, sugar or flour. All customers must pay in cash, by debit card or with food stamps. Nearly all products are private label. The stores have no furniture or decorations. They are equipped with simple shelving units and a row of freezers. All products are placed in shipping boxes directly on the shelves, in the freezers or on the floor to save labor time.

The stores are staffed by an average of three people: a store manager and two assistants. All personnel unload the stock, clean the store, watch for shoplifting and check customers through. Most Aldi locations are quite hectic and the staff is expected to be swift on its feet. In return, employees make twice that of workers in a comparable supermarket. Even still, Aldi's personnel costs are 3 percent of sales versus 9 percent of a regular supermarket.

Regarding distribution, Aldi is organized by cells and each cell consists of 50 to 80 stores. This structure permits the company to avoid publishing financial results (under German law, companies below a certain threshold in sales do not have to make their financial statements public). It also supports Aldi's quest to decentralize and simplify. Each cell typically has its own distribution center. Using a hub-and-spoke distribution system, the distribution center supplies all stores within a radius of 50 kilometers. Suppliers pay for all the shipping to Aldi's distribution center and approximately five percent of all goods go directly to the stores. Some are even shipped in opened boxes so they can be immediately placed on the floor. About 90 percent of the goods entering a distribution center are immediately cross-docked and placed on trucks for shipment to the stores.

As you might imagine, the purchasing power of Aldi is high. Each buyer is usually in charge of 100 items or 2 billion euros annually. Before settling on any purchasing agreements, Aldi tests out the product for six to eight weeks. If it works well, then a formal agreement is inked. As one supplier said, "If the goods sell rapidly, if they prove popular and Aldi needs additional supplies, the owners have no mercy."

As for international expansion, the company's first international growth came in 1967 when Aldi South purchased the Hofer chain of supermarkets in Austria. Aldi South has since expanded into Australia, Great Britain, Ireland, Slovenia, Switzerland and the U.S. Aldi North has moved into Belgium, Denmark, France, Luxembourg, Netherlands, Portugal and Spain. Most international operations bear the Aldi name with the notable exceptions of the Austrian Hofer and Aldi North's stake in the ship-themed, full-service supermarket Trader Joe's in the U.S.

Without question, Aldi's approach has brought about unbridled success. Retail experts predict after-tax profits to be between 1.1 and 1.3 billion euros. Sales per square meter are estimated to be 8,650 euros, whereas traditional supermarket's sales hover just under 4,000 euros. With a financially solid enterprise and a studied approach to its efficient operations, one might ask if there any challenges ahead for Aldi. Continued globalization and competition lie ahead.

In the meantime, we encourage you to visit an Aldi store to see their efficient operations for yourself. You may not have much of a choice, especially if you receive *that* call to attend an Aldi-themed party.

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