The secrets to hard and soft discount retailers’ success

In 2025, supermarket chains Aldi and Lidl each had revenues of over $130 billion. Here’s how they stay on top.



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When German brothers and entrepreneurs Karl and Theo Albrecht launched their first Aldi store in Germany in the early 1960s, they could never have imagined that 60 years later they would have over 12,000 stores in 18 countries.

The international boom in hard discounters began in the early 1990s. Today, German retail chains Aldi and Lidl dominate the discount market, with some 20,000 stores worldwide.

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Aldi and Lidl are among the six biggest supermarket chains worldwide. Aldi is undoubtedly the leader in the hard discount sector and serves as a model for competing chains in other countries. Lidl, meanwhile, leads the soft discount market.

Leaders in discount supermarkets

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The amount Aldi and Lidl are each expected to generate in 2026.

Why are Aldi and Lidl so popular? IESE professor Marc Sachon has spent more than 20 years studying the discount model in retail, which aims to provide customers with basic necessities at the lowest possible price while maintaining high quality.

In his most recent work on the subject, he analyzes how the success of this type of supermarket is due to its business strategy, and he identifies four fundamental pillars:

- Limited product range.
- Increased supply of low-priced private label products.
- Good value for money, i.e., high quality at reduced prices.
- Efficient supply-chain operations.

Less variety, more profitability

Offering a limited range of products is the most important pillar of the hard discount model. The strategy is to provide a large volume of basics, such as orange juice, baked goods and toilet paper, allowing stores to reduce both costs and operational complexity while increasing profit margins in the process.

By limiting product categories and the stock-keeping units (SKUs) within each category, hard discount supermarkets save on administrative overhead, simplify forecasting and planograms, streamline replenishment and reduce inventory shrinkage.

These stores also focus on private label products, offering few commercial brands (about 10%

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of the offer at Aldi). In contrast, soft discount stores tend to have a wider range of products that includes more commercial brands.

Advantages and disadvantages of private label brands

Discount stores sell private label brands for two main reasons. First, because the lower costs allow lower prices, and second, because they let stores exert more influence by changing suppliers more easily. It is the discount store that owns the brand, not the manufacturer.

Private labels also allow retailers to bypass intermediaries, choose suppliers selectively and implement the quality controls they want.

But there are drawbacks. Any issues in quality fall on the shoulders of the retailer rather than the manufacturer. And customers may find it harder to recognize or identify with a private label as opposed to an original brand. Both quality and value for money are crucial for producing successful private label brands.

Quality over quantity

Discount stores have adopted the motto “quality, not quantity.” By offering a limited range of products, they can focus on maintaining high quality standards for their private label brands.

Suppliers must pass rigorous quality controls and meet clearly defined objectives or they will be replaced. Retailers maintain a high level of competition or rivalry among suppliers to establish a competitive price-quality ratio.

In fact, one condition that Aldi imposes on its German suppliers is that they participate in the quality tests carried out by the independent magazine *Stiftung Warentest* and that they rank among the top three. This reinforces the message to customers that Aldi products are high quality and strengthens their loyalty to the store.

Efficient operations

Efficient and profitable operations are the backbone of every hard-discount retail model that succeeds. Driven by the objective of achieving fast inventory turnover, these stores often manage their own logistics systems.

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One technique they use is reshipping or “tight flow” cross-docking. At a distribution center, a 20-ton delivery from a supplier is unloaded, broken down and quickly combined with goods from other suppliers. Within hours, a new 20-ton truck carrying mixed cargo is assembled and dispatched to nearby stores.

This avoids storage costs. At Aldi, up to 90% of the products included in the standard product catalog are distributed through reshipping facilities. The remaining 10% includes local products, such as bread.

This attention to detail in operations is also reflected in store space. Unlike other supermarket chains such as Walmart or Tesco, there are no café areas, which encourages customers to shop quickly and not dawdle in the store.

Product layout is designed to minimize restocking time for employees. This logic is aligned with the discounter strategy of offering a reduced assortment of basic and everyday-consumption products. By contrast, items for special occasions (for example, a birthday party) are usually found in full-range supermarkets, with a broader assortment, although with less efficient operations.

The high inventory turnover — between 40 and 50 times per year, compared with 10-15 for traditional retailers — allows discount supermarkets to operate with negative working capital and reduce payment terms to suppliers to as little as 30 days. This highlights the close link between operational efficiency and economic efficiency.

Another key element is the solid relationship that Aldi maintains with its suppliers. In the long term, it is more beneficial for everyone — suppliers, Aldi and consumers — to bet on stable relationships rather than certifying new suppliers every year.

Product assortment is fundamental to this. Coffee, milk and toilet paper will be consumed 10 years from now, the same as today. It makes sense to build long-term suppliers for such items to reduce administrative costs and gain efficiency.

A final key characteristic of discount retailers is that they keep marketing and strategy departments small or in some cases do without them altogether. Instead of commissioning studies, they test ideas in the marketplace: New ideas are implemented as pilot projects in one or several stores.

In recent years, Aldi has launched and evaluated numerous innovation projects: Green energy through solar panels in its stores, click & collect, digital price labels, scan & go

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systems (checkout-free stores), AI-enabled shopping carts, shop & go (shopping is scanned and paid automatically through sensors and cameras), electric trucks and home delivery, among others.

That said, the final criterion is always the same: to check whether the innovation generates more value than costs. If not, the test is cancelled. Initiatives such as click & collect or home delivery were withdrawn, while renewable energy is now present in almost all stores.

Since the focus is on operations and customer satisfaction, it is not necessary to invest as much in marketing or communication — the products and the operating model sell themselves.

Aldi competes through operational efficiency and through a philosophy based on turning every cent into gold before spending it.

Challenges of the discount model

The discount model is a clear example of strategic consistency: There is perfect harmony between business strategy, operational strategy and daily operations, with each element reinforcing the others. However, despite the stability they enjoy, there are a number of challenges that these retail chains must face.

- **Digitization and online sales.** Having started later than other types of supermarkets, they are very selective with the tools they implement and are careful not to complicate operations or dilute the low-cost model.
- **Demographics and labor.** They seek disciplined and productive workers. To this end, these chains pay above-market wages, which represents an additional cost. In general, the distribution sector is affected by a decline in the availability of talent.
- **Sustainability.** They tend to invest in strategies that help them meet their decarbonization goals while generating energy savings in their operations: energy management systems, heat recovery, route optimization and lots of solar energy.
- **Governance structure.** Without internal cohesion, decision-making processes can be prolonged when the business landscape or consumer preferences change rapidly. On the one hand, the corporate governance system is decentralized into zones, each with a distribution center that acts as headquarters and up to 100 stores under its responsibility. This structure facilitates innovation and logistical optimization at the local level. At the same time, all zones share the same standardized and optimized

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operating model, based on high turnover and high levels of discipline.

- **Technology.** Companies such as Ocado in the United Kingdom are developing new technologies to operate 100% automated warehouses. The combination of these innovations with the arrival of autonomous vehicles could pose a significant challenge to the Aldi and Lidl model.

Since the mid-2020s, few brick-and-mortar supermarket models have continued to grow, but discount stores — led by Aldi and Lidl — are among them. Other companies, such as Biedronka in Poland, Bim in Turkey and some companies in Mexico, have replicated the concept with great success.

The growth of this model is based on its strengths: Simplicity and efficiency that are difficult to match. However, those same characteristics also mark its limitations. Given new consumer expectations, and with operations already refined to such a degree, incremental changes are unlikely to boost profitability.

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Marc Sachon

Professor of Operations, Information and Technology at IESE Business School. He is an expert in retail, Industry 4.0 and mobility, as well as director of the auto industry meeting, IESE Auto Mobility.

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