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ERIC VAN DEN STEEN
DAVID LANE

Aldi: The Dark Horse Discounter

ALDI may not be the only store you shop, but it should be the first. Our customers find they can do 90% of their weekly shopping at ALDI.

— Aldi U.S. website [1]

Despite estimated 2012 sales of $73 billion from nearly 10,000 stores operating in 17 countries,[2] Germany's privately-held Aldi remained one of the world's least-known discount grocers in 2013. Its low profile was due in part to Aldi's penchant for secrecy, a legacy of its reclusive founders, Karl and Theo Albrecht, and to Aldi's limited advertising. Aldi entered the U.S. market in 1976 but remained relatively unknown there nearly 40 years later, even with some 1,200 stores in 32 states[3] selling a limited assortment of predominantly private label household items and groceries, including dairy and fresh and frozen fruit, vegetables, and meats.

Aldi's U.S. marketing materials asserted that its "unique operating model makes it almost impossible for competitors to match price and quality,"[4] and the company in December 2013 announced plans to open 50% more stores by 2018, increasing its U.S. retail presence to nearly 2,000 stores and accelerating its pace of expansion from 80 to 130 new stores each year.[5] As yet the U.S. had few similar grocers, with the possible exception of the more upscale Trader Joe's chain, which Aldi owned (but did not manage). Yet U.S. discount grocers had strengths of their own. Warehouse club stores such as BJs, Costco, and Walmart's Sam's Club format all offered low prices on branded goods that U.S. consumers already knew and loved. Walmart had a market presence, buying power, and breadth of inventory that Aldi could not match. Despite Aldi's role in Walmart's exit from Germany in 2006 and driving U.K. grocery chain Asda into Walmart's arms in 1999, it remained unclear whether Aldi was capable of sustained growth in the U.S., Walmart's home market.

Aldi History

Aldi traced its roots back to 1948, when German brothers Theo and Karl Albrecht took over their mother's Essen grocery store[6] and began selling basic items at low prices. Few consumers in war-ravaged Europe had money to spend, and little but essential products was available.[7] The Albrechts planned to expand the limited product range once the economy improved.[8] However, while other grocers indeed increased product selection as the German economy recovered, the brothers realized they could maintain lower prices than their competitors if they did not follow suit but continued to limit their own product selection to basics.[9] Choosing to focus instead on low prices and efficient

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operations,[10] the Albrechts by 1958 owned and operated 300 outlets across Germany, with revenues exceeding 100 million Deutsche marks (DM).[11]

Reputedly due to a disagreement over whether to sell cigarettes (which incidentally were prone to theft),[12] the Albrechts in 1960 split the company in two: one division in northern Germany (Aldi-Nord) run by Theo and one in southern Germany (Aldi-Sud) run by Karl.[13] Dividing the company allowed each brother to make some independent decisions, though they still shared information, including cost and performance metrics, comparisons of vendors, and some purchasing agreements.[14] The only data they never compared were the annual profits of the brothers' respective divisions.[15] Combining the family name "Albrecht" and the word "discount," the first store with the Aldi name opened in Germany in 1962.[16]

A devotion to frugality seemed to permeate the brothers' business: Theo was said to take notes at executive meetings on both sides of a sheet of paper, using pencil stubs less than two inches long; he turned lights off during the day whenever he deemed natural light sufficient, and he criticized excessive spending. Once asked to inspect the plans for a new Dutch store, Theo responded, "This layout is very good. But there's just one thing—this paper you're using is too thick. Use thinner paper to save money."[17,18] Transferred to the business model, the brothers' frugality resulted in savings by doing without many expenses that other retailers took for granted as normal operating procedure (see **Exhibit 1**). According to Dieter Brandes, formerly general manager and managing director of the Aldi-Nord executive board, the Aldi culture also stressed simplicity, focus, and a desire to serve the customer (see **Exhibit 2**).

In 1971, Theo was kidnapped and held 17 days before being released for a ransom of $4 million that he himself negotiated. Theo later demanded (and received) tax relief on the payment, claiming it as a business expense.[19] Thereafter, the family went to great lengths to avoid relations with the media on both business and family topics.[20] In fact, *Forbes* at one time described Theo as "more reclusive than the Yeti."[21,1] Forgoing publicity was both a conscious choice and an important cost-saving element of Aldi policy.[22] The company did not release financial information,[23] and Aldi managers "were forbidden not only to talk to the press but even to colleagues in other districts."[24] Outsiders were forced to make do with piecemeal information, and many estimated figures in trade publications were later found to be incorrect, and had misled competitors.[25]

International Expansion

In the late 1960s, Aldi stores expanded to Austria, and by the mid-1970s stores were operating in Belgium, Denmark, and the Netherlands.[26] The company made a large impact in these first foreign forays, and by the early 1990s held a 5% market share in the Netherlands, and generated an estimated $1 billion in sales from its 260 Belgium stores by 1992.[27] As of 2000, Aldi led German grocers with a 40% market share[28] and had inspired a rival in Lidl, owned by Germany's Schwarz Unternehmens Treuhand, which copied every aspect of the Aldi operating model. (See **Exhibit 3** for Aldi's ranking among leading global retailers, and **Exhibit 4** for the countries Aldi served and number of stores in each.) Having already captured 90% of German shoppers,[29] however, the company turned to other markets for growth, entering the U.S. in 1976, and the U.K. in the late 1980s.

United Kingdom Although Aldi was larger than any U.K. hard discount chain when it entered the British market in 1989, the company had to overcome several unexpected challenges. Brand loyalty among U.K. consumers led Aldi first to reduce its heavy reliance on private label goods[30] and begin stocking some national brands in 1990.[31] Second, Aldi initially found a relentless competitor in the local

[1] The Yeti was a mythic human-like creature akin to Bigfoot, whose occasional sightings also never were confirmed.

discount chain Kwik Save, whose CEO pledged to match Aldi's prices[32] and purchased 100 existing retail stores to limit possible locations for Aldi's expansion.[33] Aldi responded in 1991 with an agreement to open Aldi outlets at existing Gateway Foodmarket sites in the hope that Aldi's low prices would entice new customers to Gateway, which offered better selection than Aldi.[34] In its first five years in the U.K., Aldi opened 100 stores, about half of its rumored goal of 200.[35] Aldi persevered, however, opening new stores at a compound average rate of 36% between 1990 and 1999.[36] Surviving a U.K. supermarket price war during the mid-1990s without compromising its operating model helped assure Aldi's place. Leading U.K. supermarket chains had all launched low-priced private label product lines of their own by 1995, each containing some 125 items,[37] and subsequently slashed prices on basic items including baked beans, bread, butter, and frozen turkey to defend against Aldi and other newly-arrived hard discounters.[38] U.K. hard discounter Kwik Save was the leading casualty, along with four other weak U.K. discounters.[39] Aldi emerged unscathed, while Kwik Save went bankrupt in 2007.

In 2013, Aldi's U.K. product assortment remained limited to approximately 1,000 items (stock-keeping units, or SKUs), compared with the 10,000 SKUs carried by the typical U.K. supermarket,[40] and Aldi's successful private label focus had prompted local giant Tesco to create its own tiered range of private label products.[41] Late in 2013, Aldi held a historic high 3.9% share of the U.K. grocery market, while the "big four" supermarkets—Asda, Morrison's, Sainsbury, and Tesco—for the first time all lost market share over the same period, although they remained much larger.42 Aldi also led all rivals in its growth rates, according to market research firm Kantar Worldpanel: "The number of shoppers visiting Aldi increased 16% year-on-year at the same time as the average basket size has swelled by nearly 15%."[43] In contrast, U.K. grocery sales growth averaged just 3.2% for the period, Kantar reported.[44] The reason why, asserted one observer, was that, "Aldi has been found to be 40% cheaper than Waitrose—and an annual saving of £1,700 isn't to be sniffed at. That's two weeks [of vacation time] in Spain."[45] (Waitrose held a 4.9% market share in late 2013 but was rated the U.K's best grocer in one consumer survey; Aldi ranked second.[46])

United States Aldi opened its first U.S. stores in the rural Midwest in 1976; U.S. headquarters and an accompanying warehouse were sited in Batavia, Illinois. By the mid-1980s, Aldi operated roughly 150 stores in the states of Illinois, Indiana, Iowa, Kansas, Missouri, and Wisconsin.[47] Distribution centers were built in Kansas, Iowa, and Missouri, and two additional warehouses were established by the close of the 1980s in Indiana and Ohio. Estimated U.S. sales reached the half-billion dollar range by 1989,[48] at which point the pace of U.S. expansion quickened, with new stores added both in the Midwest and on the East Coast. Analysts estimated that U.S. stores nearly doubled from about 200 in 1990 to nearly 400 in 1993, when U.S. sales reached an estimated $1.2 billion.[49] In 2009, estimated U.S. revenues reached $6.5 billion, nearly 10% of total company revenues of $67.7 billion.[50] This compared to $70.2 billion in sales generated by Kroger, the largest U.S. grocery chain.[51] That year, Aldi ranked 25th among U.S. supermarkets,[52] but the company's accelerating expansion plans—75 stores were slated to open in 2013, well above historic levels[53]—suggested that the company saw plenty of room for growth.

The company's focus on private label products—95% of Aldi's U.S. assortment, compared with 22% of food sales nationwide[54]—remained central to Aldi's value proposition. Its limited assortment of approximately 1,400 SKUs per 17,000 square foot store in 2013 compared to as many as 45,000 SKUs for larger U.S. grocers.[55] Approximately 40% of the store's display space was for refrigerated and frozen items, and some stores sold wine and beer.[56] However, even 1,400 SKUs was a marked increase from the initial 700 SKUs Aldi offered in 2004 in its U.S. stores, and the 1,000 SKUs available in 2007.[57] As elsewhere, Aldi's accepted only cash or debit card payment.[58]

Aldi's prices could be "delightfully, breathtakingly low": three frozen pizzas for $3.24, or a good bottle of wine for $2.36.[59] In 2013 Aldi prices were 15%-20% lower than Walmart's in the U.S. Midwest, and 30%-40% less than regional chain stores.[60] To maintain fresh products and timely delivery as it expanded, one U.S. Aldi distribution center served every 55 stores.[61]

Aldi Operations

A central aspect of Aldi's model was the ubiquity of private label brands in its stores,[62] ranging from Frisco Dent toothpaste to LaMissa hot chocolate mix.[63] Aldi exercised rigorous quality control over its private label items with daily sampling and lab tests, as well as comparisons with other leading brands. Some private label products were manufactured by companies that produced well-known branded items also.[64] The company claimed that, "Every product we sell must meet or exceed the leading national brand in taste, appearance, and/or performance,"[65] though such measurements were inevitably subjective. Yet third party surveys seemed to support Aldi's adherence to this tenet, at least for some products: in a U.K. taste test, Aldi came out on top in 16 of the private label products tested, more categories than leading retailers Marks & Spencer and Waitrose combined.[66] More broadly, in U.S. taste testing by *Consumer Reports*, national brands won best quality in 7 of 21 categories, private labels in 3 of 21 categories, but testers dubbed national and store brands of similar quality in the remaining 11 categories.[67] Bolstering Aldi's own quality claims was its "double guarantee" to both replace and refund any product that did not fully satisfy its buyer.[68] These efforts appeared successful: in 2012, Aldi ranked among the top 20 companies (and was the only grocer) on Facebook with the most loyal fans, defined as those most likely to recommend the company, according to a third-party survey.[69]

Despite consumer popularity, Aldi stores reflected the frugality of their founders, from their second-tier locations to their bare-bones design. Ranging in size from approximately 8,000 to 15,000 square feet worldwide,[70] Aldi stores were generally located in nondescript but well-trafficked locations with limited parking; the company's real estate purchases were made in cash.[71] Engineered for simplicity, Aldi stores were remarkable only for their asceticism. Instead of shelving and aisle endcaps, Aldi products were displayed on store floors in their cardboard shipping boxes, stacked atop pallets (see **Exhibit 5**). Aisles in the U.S. were about eight feet wide on average,[72] and the company worked with suppliers to ensure that consumers could easily open the delivered cases to access the packaged goods themselves when a box ran out.[73] Employees memorized all prices to speed checkout until Aldi introduced scanners in 2001, almost 20 years after Walmart.[74] Before this time, Aldi stores in Germany listed prices in only one decimal point to ease this memorization.[75] Once Aldi converted to scanners, all product packaging came with bar codes printed on multiple faces of each item to ensure that cashiers could find and scan prices rapidly at the register. Store phone numbers were often unlisted to minimize employee interruption.[76] And all employees were cross-trained. As a result, by some accounts, as few as four employees could operate an Aldi store.[77]

Product assortment, variety, and pricing were decided centrally, limiting store manager independence. In fact, Aldi offered only a limited selection among its limited assortment—two brands of toilet paper, one brand of pickles[78]—in only one or two container sizes. The idea was that selling just one type of most items made it easier for a customer to decide on their purchases, speeding up shopping trips.[79] Aldi stores turned over their inventory once each week on average, and 90% of Aldi product were directly cross-docked at Aldi distribution centers from the delivering vendor to the distributing Aldi truck without entering inventory.[80]

The essence of Aldi appealed to many shoppers for the same reasons that it repelled others. A 1994 company pamphlet outlined Aldi's philosophy: "When you buy a can of peas at Aldi, you're paying almost entirely for the can of peas. Aldi doesn't need to tack on one more penny to pay for an army of stackers or piped-in music or fancy display or check cashing or gimmicks and games. So your food dollar pays for what it's supposed to pay for: food."[81] But the low-budget ambience put some customers off. As one observer contended, "people charge around the shelves to get out as soon as possible."[82] Another account claimed that Aldi's initial U.K. and U.S. performance was hampered by siting "unattractive" stores with "very few products" and "hardly any" fresh food in low-income neighborhoods.[83] Yet other analysts favored Aldi's approach, insisting that "certain customers are overwhelmed by the large formats and wide selections offered by modern superstores. They are intimidated in large stores and prefer the lack of assortment."[84] Karl Albrecht didn't mind what others thought; he had been quoted as saying, "At Aldi, the customer is not king. We are providing not service, but mass production."[85]

Shopping at Aldi did require some customer education, as its model required more consumer participation than at other stores. Shopping carts were released from racks only after customers deposited a coin—25 cents in the United States; the coin was returned once the shopper had returned the cart to its proper location.[86] Customers packed their purchases themselves at a separate packing station after checkout using bags brought from home, bags purchased at the register, or product boxes Aldi made available to minimize its own trash. Most Aldi stores did not accept credit cards or personal checks, requiring cash or debit cards instead. Manufacturers' coupons were rarely accepted, as few applied to the private label items Aldi stocked. However, weekly "Special Buys" showcased as many as 25 to 30 selected items at appealing prices, ranging from watermelons to bath products to wheelchairs, which were available for a limited time or until supplies ran out.[87] In December 2013, for example, Aldi offered a tablet computer in its U.K. stores for £79, which sold out within 24 hours.[88] Special Buys were published in the Aldi weekly newsletter, the only form of regular advertising Aldi conducted,[89] aside from its online presence. An artefact of its German origins, Aldi limited store operating hours to approximately ten hours per day from Monday through Saturday, ending at either 7:00 p.m. or 8:00p.m.; Aldi stores opened at noon on Sundays, for five hours.

Aldi's private label suppliers reportedly appreciated the company's reputation for reliability: "Once a price has been fixed, Aldi adheres to it relentlessly. Neither seller nor Aldi itself are allowed to rework prices, which gives security to suppliers....This unique loyalty has helped some suppliers to grow with Aldi over the years."[90] The private label brands were Aldi-owned but not immediately associated with the company; customers in some cases believed they were a national brand from another part of the country.[91]

Despite its penny-pinching reputation, Aldi asserted that its U.S. "employees receive generous wages and benefits that are significantly higher than the national average. Employees averaging more than 20 hours a week receive full health benefits."[92] Data from the U.K. bore out these claims. Aldi salaries for U.K. college graduates—who also received an Audi sedan and health and life insurance—started at £40,000 in 2010 and rose to £60,000 within three years.[93] The company's training program for graduate hires ranked third-best in the U.K., behind only two leading accounting firms.[94] As a result, college graduate applicants flocked to Aldi, which enjoyed 12,000 applicants for the 50 positions on offer each year.[95]

Discount Retail in the United States

Discount retail emerged in the U.S. in the 1960s and caught on quickly: revenues increased at a compound annual growth rate (CAGR) of 25% over the decade ending in 1970,[96] by which time discounters generated $19 billion in annual sales, a figure that continued to grow throughout the 1970s at a CAGR of 9%.[97] Several factors attributed to this steep growth trajectory, including consumers who increasingly accepted self-service, improved regulation of food safety that boosted consumer confidence in non-branded items, and rising television advertising by manufacturers of retail goods.[98]

Supplementing existing "five and ten" stores—so named because their products had at first all cost around five to ten cents—the companies that grew into the Kmart, Target, and Walmart retail chains all began operating in 1962.[99] All three launched first in the Midwest: Kmart in Michigan, Target in Minnesota, and Walmart in Arkansas. Known for its efficient distribution network, Walmart became the largest U.S. retailer in 1990[100] with a 41% share of the U.S. discount retail market to Kmart's second place[101] 22%. Just three years earlier Kmart held a 34% share of the U.S. discount retail to Walmart's 20%.[102] Over the following two decades, Walmart grew revenues to nearly $447 billion in 2011, far outpacing Target's $70 billion in sales that year.[103] Kmart failed to rival Walmart's low prices and supply chain efficiencies or Target's fashion-forward reputation, and filed for bankruptcy in 2002.[104]

Competing Grocery Formats

Trader Joe's In 1979, Aldi-Nord purchased Trader Joe's grocery stores, a California chain launched in 1967 that initially had featured local wines and specialty foods, including organic products, at affordable prices.[105] Granted total managerial independence, Trader Joe's began opening East Coast and Midwest outlets in 1996 and 2000.[106] Like Aldi, Trader Joe's offered a limited selection of private-label foods and household items, most requiring no refrigeration, though consumer demand in the 2010s had gradually broadened the chain's offerings from frozen prepared food and frozen meats to include a limited selection of fresh produce, dairy products, and prepared foods.

Warehouse Clubs As their name suggested, warehouse club stores were retailers that presented and sold household goods and food items in a warehouse format but, in exchange for low prices, required shoppers to purchase annual memberships and to show their membership card as a condition of purchase. Leading warehouse clubs included Costco (with an average store size of 143,000 square feet), Walmart's Sam's Club (133,000 square feet), and BJ's Wholesale Club (113,000 square feet). Warehouse clubs offered their members access to products from boxes stacked on pallets on the ground level; store employees replenished inventory by moving additional pallets from overhead shelves onto the floor. Warehouse clubs packaged most of their food and fast-moving consumer good products in larger sizes than supermarkets normally offered, or packaged bundled multiple supermarket-sized units together for sale as a single product. The large product sizes were popular with restaurateurs and other small businesses, as well as with consumers. Assortment consisted overwhelmingly of nationally-recognized branded goods alongside private label products in some popular categories, but warehouse stores offered few brands in each product category, typically a handful of shampoo brands, and two or three brands in most other product categories other than fresh food. Shoppers bagged their purchases with their own bags or in discarded boxes after purchase, which was done in cash or by debit card to minimize processing fees incurred by the warehouse club.

Walmart Stores

Sam Walton, founder of Walmart, built the chain in its early days on appealing to farmers, a consumer segment that greatly valued low prices.[107] When siting new stores, Walton initially targeted small rural towns, those with demand just large enough to support one such store.[108] Because these rural towns were less accessible to existing distributors, Walmart built proprietary warehouses to allow for goods to be purchased in bulk at lower prices and stored until they were needed.[109] Walmart's model of building its own warehouses and supporting logistics and IT capabilities to supply outlets far from cities was, however, extremely capital-intensive—to fund its first warehouse, Walmart went public in 1972.[110] IPO proceeds did not alter Walton's devotion to frugality, however: "On buying trips, his rule of thumb was that trip expenses should not exceed 1% of the purchases, which meant sharing hotel rooms and walking instead of taking taxis."[111] The company's motto was "Every Day Low Prices," which meant offering consumers national brands at lower prices than department or specialty stores did.[112] To deliver on this promise, Walmart negotiated hard with suppliers, its bargaining strength aided by its growing market power.

Although Walmart rose from humble beginnings to become the world's largest retailer, its U.S. dominance did not often translate directly to foreign markets. In July 2006, for example, Walmart announced that it was pulling out of Germany, having found German hard discounters difficult to compete with, and German shopping, labor, and retail regulation more than it had bargained for.[113]

In the U.S., however, Walmart excelled by investing heavily in distribution logistics and information technology capabilities. Walmart installed point of sale scanners in the 1980s and ran the largest privately owned satellite system in the U.S. beginning in 1987 in order to transmit sales data, inventory data, and credit card approval requests.[114] By 2012 Walmart had the IT capability to check on individual product sales both by country and by store on command,[115]making it essentially the only source of real-time sales data for many suppliers.[116]

In addition to general merchandise, Walmart began selling groceries with the launch of its Supercenter format in the late 1980s,[117] each of which employed an average of 300 people.[118] Although groceries generated smaller margins – with the operating margin on groceries estimated at about half to two thirds of a store's overall operating margin, with the difference mainly due to lower gross margins – they averaged 40% of sales at the typical grocery/discount retailer, drawing in customers to purchase higher-margin general merchandise.[119] [120] By 2012, grocery sales accounted for over half (55%) of Walmart's U.S. revenues of $264 billion.[121] Walmart's global revenues were nearly $444 billion over the same period.[122] Private-label products accounted for 38% of Walmart's offerings.[123] Over time Walmart grew reliant on Supercenters, which sold "electronics, apparel, toys, and home furnishings"[124] in addition to including full supermarkets and even pharmacies, banks, salons, or health clinics.[125] In 2013, Supercenters comprised 3,211 (78%) of Walmart's 4,092 U.S. stores[126] and each offered some 100,000 SKUs within its average 182,000 square feet of floor space.[127] Walmart stores averaged an inventory turn 7.3 times per year.[128]

Walmart had begun experimenting with smaller format stores too. Walmart since 1998 had opened 319 standalone supermarkets, or "Neighborhood Markets," each averaging 38,000 square feet. In 2011 Walmart launched "Walmart Express" stores, each averaging 15,000 square feet and designed to create a presence for Walmart in urban and rural areas that were impractical for its larger format stores.[129] Meant to access dense urban areas or the sparsely inhabited countryside, Walmart Express stores averaged 15,000 square feet and carried a similar product assortment to Aldi, including household items and fresh and frozen food.[130]

Ambitious Aldi

As 2013 came to a close, Aldi announced plans to open 650 new stores in the U.S. by 2018, increasing its pace of expansion from 80 to 130 new stores per year, investing $3 billion in new land, facilities, and equipment, and extending the company's geographic coverage from coast to coast.[131] "We're ramping up our expansion plans to meet growing demand for Aldi from customers across the country," noted Aldi U.S. president Jason Hart. "Recently, we successfully entered new markets such as Houston, and expanded our presence in competitive markets like south Florida and New York City. At Aldi, we believe that great quality is affordable, and we are eager to bring the Aldi difference to new markets like southern California."[132] Hart added that Aldi would soon introduce a line of organic foods.[133] Still unclear, however, was whether Aldi's bet on the U.S. would pay off. (See **Exhibit 6** for a comparison of key Aldi and Walmart data, and **Exhibit 7** for a comparison of the common size cost structure of a typical Walmart and Aldi shopping basket.)

Exhibit 1 Aldi Operating Practices: "The Doing Without Checklist"

1. No staff departments to relieve management of intellectual work
2. No controlling department to provide direction
3. No external market research
4. No work with corporate consultants
5. No budget forecasts
6. No scientifically cleaned statistics which reveal all
7. No scientific analysis techniques for all questions related to supplying the market
8. No customer surveys
9. No sophisticated condition system to squeeze vendor prices
10. No differentiated price policy by sales area or store type
11. No differentiated product mix from store to store
12. No complicated calculation methods for setting prices
13. No games involving qualities to optimize profits
14. No highly complicated engineering for logistics
15. No product placement in stores based on psychological analysis of shopper behavior
16. No luxury in the business offices or company cars
17. No public appearances
18. No publicity, no public relations
19. No gifts accepted from vendors
20. No invitations to dinner from vendors

Source: Dieter Brandes and Nils Brandes, *Bare Essentials: The Aldi Way to Retail Success*, 2nd edition, William Hadfield-Burkardt, trans. (Frankfurt and New York: Campus Verlag, 1999/2011), p. 32.

Exhibit 2 Characteristics of Aldi Culture

1. *Asceticism and a low profile*: There is no place—anywhere in the hierarchy—for personal vanity. Extreme frugality is a must. Waste is prohibited.

2. *Total customer orientation*: Earning the trust of the customer means no tricks or sales ploys.

3. *Devotion to and passion for detail*: Small wins count. The aim should be to achieve them daily.

4. *Simple systems*: Implement the principle of simplicity and develop the courage to go for simple and rapid solutions.

5. *Rigor in action*: Resist daily temptations and stick steadfastly to a good concept.

Source: Dieter Brandes and Nils Brandes, *Bare Essentials: The Aldi Way to Retail Success*, William Hadfield-Burkardt, trans. (Frankfurt and New York: Campus Verlag, 1999/2004), p.80.

Exhibit 3 Top Ten Global Retailers, 2011

Rank	Retailer (national domicile)	Retail Revenues ($ bn)	Earnings ($ bn)
1	Wal-Mart Stores (U.S.)	447.0	16.4
2	Carrefour (France)	113.2	0.6
3	Tesco (U.K.)	101.6	4.5
4	Metro (Germany)	92.9	1.0
5	Kroger (U.S.)	90.4	0.6
6	Costco Wholesale	88.9	1.5
7	Schwarz Unternehmens Treuhand (Germany)	87.8	n/a
8	Aldi (Germany)	73.4	n/a
9	Walgreens (U.S.)	71.2	2.7
10	Home Depot (U.S.)	70.4	3.9

Source: Adapted from "2012 Top 250 Global Retailers," *STORES* magazine, January 2013, www.stores.org/2012/Top-250-List, accessed December 2013.

Exhibit 4 Aldi Stores by Country, 2012

Aldi Nord	Stores	Aldi Süd	Stores
Germany	2,509	Germany	1,794
France	920	United States	1,188
Netherlands	493	Austria	438
Belgium	452	Great Britain	429
Denmark	255	Australia	270
Spain	250	Switzerland	152
Poland	58	Ireland	90
Portugal	31	Hungary	78
Luxemburg	13	Slovakia	65
Subtotal	4,981		4,501
	Total	9,482	
Trader Joe's	367		

Source: Adapted from Walter Loeb, "Aldi's Trader Joe's Is a Winner," *Forbes*, May 17, 2012.

Exhibit 5 Aldi Store Interior, Washington D.C.

Source: Mark Gail/The Washington Post, via Getty Images, November 10, 2011, accessed January 2014.

Exhibit 6 Selected Aldi U.S. and Walmart Supercenter Data, 2012

Metric	Aldi	Walmart
Global revenues	$73 billion	$444 billion
U.S. Revenues	$7.3 billion	$264 billion
Number of U.S. stores	1,188	3,211
Share of private label products	90%-95%	38%
Average SKU per store	1,400	100,000
Average store size (square feet)	8-15,000	182,000
Average annual inventory turns	52	7.3
Average number employees/store	10	300

Source: Casewriter compilation from case text.

Note: Walmart's fiscal year ends January 31.

Exhibit 7 Common Size Cost Structure Estimate of a typical Wal-Mart and Aldi shopping basket in 2012 (in % of sales)

	Wal-Mart	**Aldi**
Sales	100.0	100.0
Purchase Prices	71.5	80.0
Inbound Logistics	2.5	2.5
Shrinkage	1.0	0.5
Advertising	0.5	0.1
Rental	0.5	1.8
Info Systems	1.0	1.0
Payroll	12.0	6.0
Depreciation and Amortization	1.5	1.1
Other SG&A	2.0	2.0
Operating Income	7.5	5.0
Invested Capital (common-sized as % of sales)	30.0	N/A

Source: Casewriter analysis based on company records, annual reports, case text, and Dieter Brandes and Nils Brandes, *Bare Essentials: The Aldi Way to Retail Success*, 2nd edition.

Note: Pre-tax 2012 WACC for Wal-Mart was estimated to be about 10.1% (Source: Case writer analysis, based on Bloomberg). Numbers have been rounded as much as possible to integers or halves.

Endnotes

1 Aldi U.S. website, "FAQs" September 2006, http://web.archive.org/web/20041203202642/http://aldi.us/, accessed January 2014.

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