



Rethink Grocery Retailing? **Lidl** Comes to America

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America's teeming food-retailing landscape is going to get even tighter. Lidl and ALDI, two of Germany's keenest discount retail competitors, are poised to continue their longtime intense European rivalry in the U.S. marketplace with the opening of Lidl's first 20 stores in North Carolina, South Carolina and Virginia in the spring of 2017. The chain will add another 80 stores by mid-2018, establishing a strong footprint with which to go head-to-head with ALDI and pose a formidable threat to many of America's established food retailers. What this means for U.S. consumers is they are about to add yet another retailer to the growing array of food retailing options. And Lidl's low-pricing strategy will be a significant draw.

While low prices may be sweet music to consumers' ears, it's not a tune many U.S. food retailers want to be playing — but one they may be forced to find a conductor for if they have any hope of retaining market share. To counteract the aggressive growth plans of Lidl and ALDI, Walmart, for example, has been retooling its deep-discount pricing strategy. But is low pricing alone enough for shoppers?

Most likely not, and Lidl understands there is more to shopping than the allure of the bargain.

With Intense Emphasis on Low Prices, Shopping for Food in America Is About to Get a Whole Lot More Interesting — and Competitive

During our “Great Recession” (circa 2008), a good deal of discussion centered on how Americans were going to rapidly “trade down,” and big things were predicted for bargain-driven retail formats that sold groceries as shoppers theoretically flocked to discounters like Walmart and Dollar General. Instead, consumers seemed to enjoy including yet more discount options in their ever-broadening food shopping habits and, rather than embrace any one “kind” of retailer, chose to shop all types of food retailers ranging from discount to fresh-format premium — and everything in between.

Post-Recession, virtually all of today's leading discount retailers have taken the food-laden history lessons of iconic discount merchandisers and embraced them in their own operations, specifically as a key tool for driving traffic to their stores.

ALDI has been in the U.S. since 1976 and has seen the ebb and flow of economic conditions and shifts in shoppers' behaviors and consumers' preferences. From our perspective, ALDI has accidentally reinvented pantry stocking in America by subversively eliminating the variable brand and the shopper marketing that goes along with it. ALDI has also eliminated the variable of price, for there are no price comparisons in a store with only one offering in every category. An ALDI shopping trip is therefore radically simpler: no thinking about brands, BOGOs, deals, price comps, coupons, sudden endcap promotions or in-aisle shopper marketing. ALDI's smaller-footprint stores also make for a quick shopping trip.

As we concluded in past assessments of the ALDI shopping experience, ironically, the only variable left in the shopping trip is: the food. This is a powerful disruption for highly utilitarian shopping trips where shoppers just want to get the stuff on their list and get out.

Our own [Food Shopping in America 2017](#) report details how the consumers' path to purchase, across all channels, has become more complex and multifaceted and has logistically veered off its previously well-traveled route.

Which brings us to Lidl's entry into the U.S. food-retailing landscape.

Lidl's parent, the Schwarz Group, is the world's largest grocery discounter and is globally recognized as a hard discounter. Lidl has outpaced ALDI in many other global markets, so it would not be too much of a stretch to think that the Schwarz Group was not going to let ALDI get the better of them in the U.S. marketplace. That said, ALDI does have a formidable presence with over 1,600 stores across 35 states.

While it's far too early to make any predictions of wins or losses, our overall conclusion is that Lidl could very well disrupt the U.S. discount grocery market in a big way, given its proven track record of discount retailing success. It's little wonder, then, that retailers across America, not just ALDI, are keeping a close eye on the types of stores and operations Lidl rolls out in the coming months — and the impact it will have on their own business.

Our Take on the Lidl Experience

In July 2017, a few weeks after the unveiling of the first Lidl stores in America, we devoted a week to careful study and analysis of Lidl stores in Virginia and North Carolina. To get a sense of how consumers might respond to Lidl, we visited four Lidl locations in Virginia and North Carolina. Here's our take on the Lidl shopping experience.

Setting the Stage

Pull into Lidl's new parking lots on a sunny day and the store's enormous glass facade sparkles and radiates light in all directions. The lot itself features modern spaces designed for big SUVs. The store sign offers a bold commandment: *rethink grocery!*



The Entrance Experience



As the saying goes, you never get a second chance to make a first impression. If the retail space wants to signal to shoppers “high-quality food sold here,” then it’s critical for the cues to begin at the entrance to the store. Lidl’s stores easily meet the standard popularized by Whole Foods Market: inviting entryways that feature produce and/or flowers and the aromas of fresh foods. Much like Whole Foods 365, the Lidl experience is quite “spartan.”

The important sensory reality of Lidl’s entrance is that bakery, produce and flowers are all within ten feet of the shopper. That cues fresh very well. More abundantly stacked displays would cue it even stronger. By contrast, the entrance at ALDI is a funnel of packaged, processed food “deals” and strikes a very, very different tone with the shopper.

Any shopping excursion begins with the need for a cart or a basket. While you won’t find baskets at Lidl, you will encounter their innovative shopping carts. These double-decker small carts are easily maneuverable and turn on a dime with one-finger control. Not much pushing with these little buggies.

Produce was prominently featured up front with some stores displaying melons and others English cucumbers. There was a noticeable lack of local organic fruit at the entrance. Given how low their prices are on these items, we would have expected to see these merchandised near the entryway as well.



Where Lidl’s entrance experience stands apart from its American competitors is the innovative location of bakery right up front inside the entrance. In Whole Foods Market, the gold standard for high-quality food experiences, you must walk a good distance into the store to find the bakery. In Lidl stores, the bakery is on the left as you walk in.

Other Entrance Observations

- sight lines are filled with fresh food (not front-end checkout lanes, vending machines, product promo displays, nonfood-related services, etc.)
- the stores are mostly lit from the enormous wall of glass at the front — imagine shopping in a mostly naturally lit store
- the presence of produce staff replenishing items frequently and with more energy than at neighboring stores (consistent across all stores we visited)
- Lidl stores are quiet — not a lot of ambient background noise due to registers, for example (music may have been playing overhead, but it wasn't noticeable)
- no stale air or chlorine bleach odor
- bakery aroma doesn't overwhelm



All in all, Lidl stores have an upscale feel upon entry. The human energy in the entrance area also contributes to this upscale feeling. While the displays are not as copious as at a Whole Foods Market or similar specialty supermarket, there is a noticeably more upscale experience here than at the entrance of Food Lion or even Harris Teeter and certainly more so than at Walmart.

Shopping the Store: Key Department Observations

Bakery

The bakery is stocked with a visually enticing mix of European pastries, American donuts and artisanal loaves of bread. Like Starbucks, they have a contemporary, premiumized baked goods assortment that exudes “fresh” and high quality to shoppers. This points to a broader question on the appropriate reach for midmarket retailers wanting to create ownable differentiation in a diversity of markets where acculturation to food trends is variable. Time will tell how shoppers will respond to the assortment of European-style offerings.



Produce

The upscale promise seemed most apparent here in terms of the large proportion of organic items; however, the actual quality of the produce from the perspective of sophisticated organic shoppers is not clear at this time. Organic blueberries we tasted were sour and flavorless, not what you'd expect at the time of the pinnacle of summer quality in the U.S.

Lidl prominently features organic in the appropriate produce categories where concern over purity at the farm is high (e.g., tomatoes, potatoes, bananas, strawberries and blueberries, bagged salad greens, onions). This is something that neither Walmart nor Food Lion seems to get right in the same trading areas.



The Refrigerated Wall

As you move down the left side of a Lidl store, the human energy rapidly fades away. This is when it hits the shopper that this is not a typical service-counter supermarket. Even the bakery is self-service.

But, compared to ALDI, there is a much, much broader array of value-added, refrigerated packaged foods blending into dairy and wrapping around the back wall before “freezing” into ice cream, meat, frozen entrees.



This section of the store is significantly bigger than ALDI's because of the addition of more value-added refrigerated foods the former doesn't sell much of (soup, salads, meals, pasta) but also due to an enormous cured-meat section. In fact, the length of the cured-meat section is almost twice as much as found at ALDI. While we noticed much more shopper browsing in the refrigerated section than anywhere else offering packaged foods, Lidl's offerings of ramen and multiple kinds of prosciutto, coppa and mortadella reflect the global flavors and ethnic foods that are increasingly becoming part of everyday food choices for most Americans as today's consumers are exploring authentic, global food experiences.

Center Store

This is the section of the store where Lidl most resembles ALDI. The merchandise is stacked in packaging cartons, not shelves. The big marketing difference, which we doubt that most shoppers notice, is the lack of a branded identity on most items. There is a smattering of CPG brands thrown in (but not entirely the same products as found nearby at ALDI stores) but for unclear reasons.

More importantly, this is the part of the store where we found the least amount of foot traffic in the four stores we spent time in (as mystery shoppers).

From our observations at the times we were in the stores, it would appear that Lidl shoppers are strongly favoring the perimeter of the store, based on its design visually highlighting the perimeter but also based on the greater likelihood that American shoppers will explore non-name-brand food in categories that have always had private label dominance (categories that dominate the perimeter of most grocery stores).

And, in a brief survey of past-30-day Lidl shoppers in North Carolina (where the majority of current stores opened on June 15), we discovered that traditional center-store packaged foods or beverages were the least likely to have been purchased with shoppers purchasing from perimeter departments: produce, bakery, meat and dairy items (Figure 1).

Figure 1. Lidl Food Buyers Skew Fresh Perimeter



Source: Hartman Lidl Survey; past-30-day shoppers of food/beverage at Lidl in North Carolina only

While there is noticeable bias toward the fresh perimeter food categories, center-store packaged foods and snacks show up in respectable amounts. Lidl appears to be selling broadly throughout the store, despite the observed traffic patterns. Actual sales volumes are not known and may reveal that sales volume is indeed skewed toward the fresh side.

Our observations of 20 carts exiting the checkout revealed that about 80 percent were filled mostly with produce and meat only. Carts with center-store aisle items were in the minority, suggesting that many of these shoppers are *not* fluent ALDI shoppers and are experiencing the same aversion to the center store that upmarket retailers have struggled with for years.

The center aisles are also where we noted the least quality innovations. With the exception of select organic offerings and the oversized “Italian Foods” section, they seemed to be equivalent in flavor, product and quality standards with value-oriented private label at Walmart or Food Lion (but not necessarily equivalent in price).

The Non-Food Space

During our dwell time in four stores, we saw very few shoppers browsing these areas of the store. It may be that at this early juncture, this sector of the business hasn’t yet caught shoppers’ attention and is not the primary driver of the shopping trip. Over time, this part of the store may evolve and become more grocery-oriented as Lidl further adapts its European format, which is, like Walmart, mostly not groceries. The items found here were an assortment of categories (shoes, apparel, home goods, hair dryers, etc.) one would associate with stores like Target, Bed Bath & Beyond, Payless and Ross in the U.S. market, items that can be just as easily purchased online.

The Role of Brands

Lidl is clearly exploring the intersection of premium and value. As they articulate on their Lidl U.S. website: “You’ll notice while shopping at Lidl that most of our assortment is our own private label — around 90% of our products, in fact. This means we’ve especially developed these products to match our high standards and allows us direct oversight of product integrity. Each product undergoes a rigorous testing regimen, which includes taste, quality and sensory testing.” Sound familiar? Sort of like ALDI and Trader Joe’s, but different.

While Lidl offers more branded products than ALDI or Trader Joe’s, their merchandising mix heavily skews toward private label in support of their statement about product assortment.



The private label mix is a blend of unbranded with its own premium-branded labels, such as Italiamo and Preferred Selection.

One of the things that strikes the observant shopper right away at Lidl is that there are a fair number of legacy brands, notably from the portfolios of Danone, Nestlé, Unilever and Coke (all global food and beverage companies). Here’s a list of the brands we observed:

Hellmann’s	Blue Diamond Nut Thins	PBR	Michelob
SPAM	Uncle Ben’s	Bud Light	Miller
Top Ramen	Breyers	Bud	M&M’s
Knorr	Outshine	Powerade	Skittles
Betty Crocker	Pillsbury	Lofthouse	Coca-Cola
Reese’s	Dole	Dunkin’ Donuts	
Honey Nut Cheerios	Jimmy Dean	Gerber	
Kit Kat	Eggo	Kool-Aid	
Snickers	Tyson	Capri Sun	
Hershey	Hot Pockets	Hawaiian Punch	
Oreo	Lean Cuisine	AriZona	
Cheez-It	On-Cor	Coors	
(no sign of PepsiCo products on the shelves in any of four locations visited)			

Contemporary premium brands were absent; we counted only five of these — despite this being the fastest-growing sector in the food and beverage universe: Tate’s, Evol, San Pellegrino, Häagen-Dazs and Ben and Jerry’s.

Lidl’s focus is on selling unbranded product, using its own brands, not external name brands, to sell contemporary, premium-quality items. In the latter, it is acting more like a Trader Joe’s than an ALDI.



Lidl's Merchandising Scope

The scope of branding is important to understand. But even more so is the scope of Lidl's merchandising. Are they trying to sell everything in a regular supermarket? The answer would appear to be: yes.

This then runs up against a major cultural problem in private label sales, which is the aversion to private label in a large assortment of very profitable food and beverage categories. Put together, we call these categories the Branded Fortress (refer to The Hartman Group's Hartbeat Exec: [The Future of Private Label Food](#) publication). Lidl is selling in 40 out of 56 Branded Fortress categories. It has a 71 percent penetration of a grocery segment immune to private label incursions. In the case of soda, like ALDI, this tangential merchandising is taking up 20 linear feet of store space.

Lidl is trying to capture your entire grocery spend. The store is clearly merchandised with this ambition.

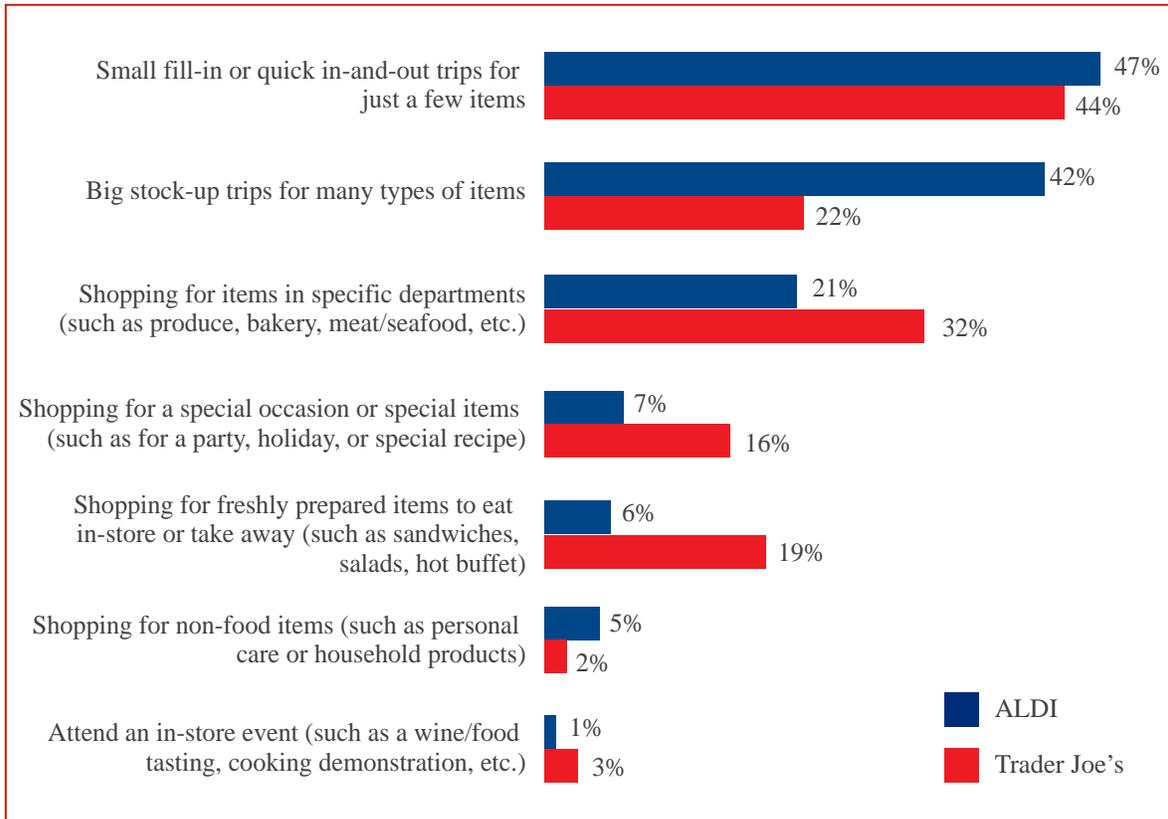
This is where Lidl begins to drift away from the highly focused proposition it appears to be when you walk in. Unlike Whole Foods 365, which is three-fourths fresh perishables by square footage, Lidl is trying very hard to be a comprehensive pantry-stocking destination in a world when urban pantry stocking is heading rapidly toward online shopping. Yet it is asking shoppers to forsake lifelong name-brand affinities in the center store as well as premium name-brand affinities (KIND, Clif, Horizon, etc.).

A significant proportion of Lidl's merchandise, like ALDI's, is therefore unlikely to sell at any price, because the lack of a brand is a total barrier to the majority of shoppers in those categories. But has this affected ALDI's ability to thrive? Apparently not.

Let's look at ALDI's and Trader Joe's past-30-day shopper trip patterns to understand how well each retailer has done before we predict Lidl's ability to repeat (Figure 2). One diagnostic to justify comprehensive, pantry-wide merchandising is your brand's percentage of big stock-up trips, still a major behavior in the rural and suburban locations that Lidl appears to be focusing on.

We can see from Figure 2 that after 40 years, ALDI has generated its fair share of pantry-stocking behavior, despite the private label barrier. In this measure, ALDI outperforms Trader Joe's (42 percent vs. 22 percent, respectively). In this way, Trader Joe's is much more like a typical specialty, upmarket retailer, but not because of its pricing. It is because Trader Joe's has built itself up in urban, not suburban or rural, locations, like most ALDI stores.

Figure 2. ALDI and Trader Joe's Past-30-Day Shopping Trip Missions



Source: Food Shopping in America 2017 report, The Hartman Group

It is clear that from ALDI's precedent that American shoppers are much more willing to trade down to value private label (or no brand) than they are to trade up to premium name brands they are not familiar with. Even so, ALDI has not had to capture the majority of any home's actual grocery shopping to achieve this amazing trip penetration result. That's because Americans are multichannel shoppers by default and are happy to collect category-based deals across stores and channels.

The Hartman Group's [Food Shopping in America 2017](#) report finds that the undisputed king of pantry stocking is Costco: 69 percent of trips to Costco in past-30-day shopping were focused on this trip mission. In fact, it is the defining mission of the club channel (though for how long is not clear as Amazon moves in to fragment Costco purchasing patterns).

Lidl has a proven precedent for getting nearly half of its trips to be stock-ups, except that our team saw virtually none of this activity in any of the stores we visited — and Lidl opened up in zip codes with ALDI stores already present (in virtually every case). This is where the wisdom of filling the stores with “every category” may waste valuable retailing space better spent on fresh items (like Whole Foods 365).

While winning on discount fresh may work for Lidl, what about the forays into premium quality items that are perhaps more present here than at your average ALDI? Can Lidl plausibly be seen as a purveyor of premium quality food (i.e., natural, organic, culinary, sustainable)?

Quality Standards

We have not interviewed Lidl shoppers to assess how much of the in-store messaging around quality is getting through, but our own mystery shopping reveals the following patterns in quality standards that we know natural-inclined shoppers will quickly notice as well:

- Lidl has no uniform packaged food/beverage ingredient standards (like Whole Foods); most of the food is highly processed by U.S. value private label standards.
- The only uniform product standards we could find were in meat and seafood (but they lacked the nuanced punch of WFM or other specialty food stores).
- Lidl does feature far more organic products than ALDI but less than your average progressive supermarket on the West Coast or in big urban centers.
- Much of the packaged food, like that at ALDI, features lots of synthetics and processed additives that consumers are avoiding more and more in high-volume consumption categories.
- While organic is sporadically present in most areas of the store, it does stand out in produce, where Lidl does a far better job of picking the right produce categories (e.g., the consumer's Dirty Dozen).
- Fresh bakery items look unprocessed and have a high-quality taste similar to what one would expect from specialty food retailers or Whole Foods Market. In fact, the bakery is so good it seems out of place, given that the quality of the rest of the packaged food is not uniformly above average.



In sum, Lidl’s quality standard seems to basically be a slight tweak on ALDI’s and nothing more. It is not clear that heavy organic merchandising in produce plus an impressive self-service bakery can a) divert ALDI’s current shoppers, except on the basis of being literally “on my commute home” or b) stand up to the local presence of either Whole Foods or Trader Joe’s.

But we need to examine a final variable in Lidl’s market-share battle: price. While its quality positioning is not particularly coherent or compelling enough to justify 600 stores or more, perhaps Lidl is doing something with price + quality to create a unique value proposition.

Pricing Analysis

We compared two very different locales: Rocky Mount, North Carolina, and Virginia Beach, Virginia. The former is a classic North Carolina rural town and the latter is an all-American suburb.

We compared two sets of products, premium items and mainstream offerings, and in both cases we compared Lidl against the competitor’s private label offerings (unless there weren’t any, in which case we used the lowest-priced name brand). For CPG brands listed, we compared the exact same UPC at competitors.

Premium Items	Value Private Label Items
<ul style="list-style-type: none"> • organic whole milk (1/2 gal) • cage-free eggs (12) • organic blueberries • vanilla nonfat Greek yogurt • organic bananas (lb) • dark chocolate bar • organic vine-ripened tomatoes • organic baby spring mix 	<ul style="list-style-type: none"> • mac and cheese - box • bananas (lb) • chocolate bar • plain potato chips bag • marinara sauce • spaghetti • bagged spinach • refrigerated hummus • peanut butter (20 oz) • 2 liter 'Coke' soda • 1 lb ground beef • 1 lb chicken breast • Honey Nut Cheerios (17 oz) • Pop-Tarts (each) • Coke 12 pack

Here’s what we found in our face-off, tale of the shopping cart receipt tape analysis of Lidl vs. Walmart Supercenter, Walmart Neighborhood Market, Food Lion and ALDI in these two locations.

Figure 3. Lidl vs. Competitor Pricing

	vs. 		vs. 		vs. 		vs. 	
	NC	VA	NC	VA	NC	VA	NC	VA
Premium Basket	-3%	+15%	-14%	-39%	-10%			-9%
Mainstream Basket	+17%	-25%	+16%	-35%	+7%			-17%
Premium - Median Item Price	7%	0%	-22%	-37%	-1%			-10%
Mainstream – Median Item Price	14%	0%	0%	-11%	0%			9%

Source: Hartman store visits July 11-12, 2017

Lidl is doing very well undercutting Food Lion (Food Lion label and Tastes of Inspiration) and Walmart Neighborhood Market (Great Value) but may be losing the pricing war to Walmart Supercenter and ALDI, which have no doubt been quick to react in the past six weeks (Figure 3).

Interestingly, Lidl is excelling across all competition at undercutting prices on premium foods, especially organic produce, milk and eggs. We know that these items are literally traffic drivers for shoppers new to the world of premium food. They are major gateway categories, and Lidl has the best prices around on them. Given that they operate in markets without Whole Foods Market or Trader Joe’s (the majority of Lidl’s current locations), they may easily take share in this end of the market. If this occurs and builds, Lidl would do well to restructure its merchandising more toward premium items than we saw in our tours. They certainly understand where organic offerings should be made (and where not).

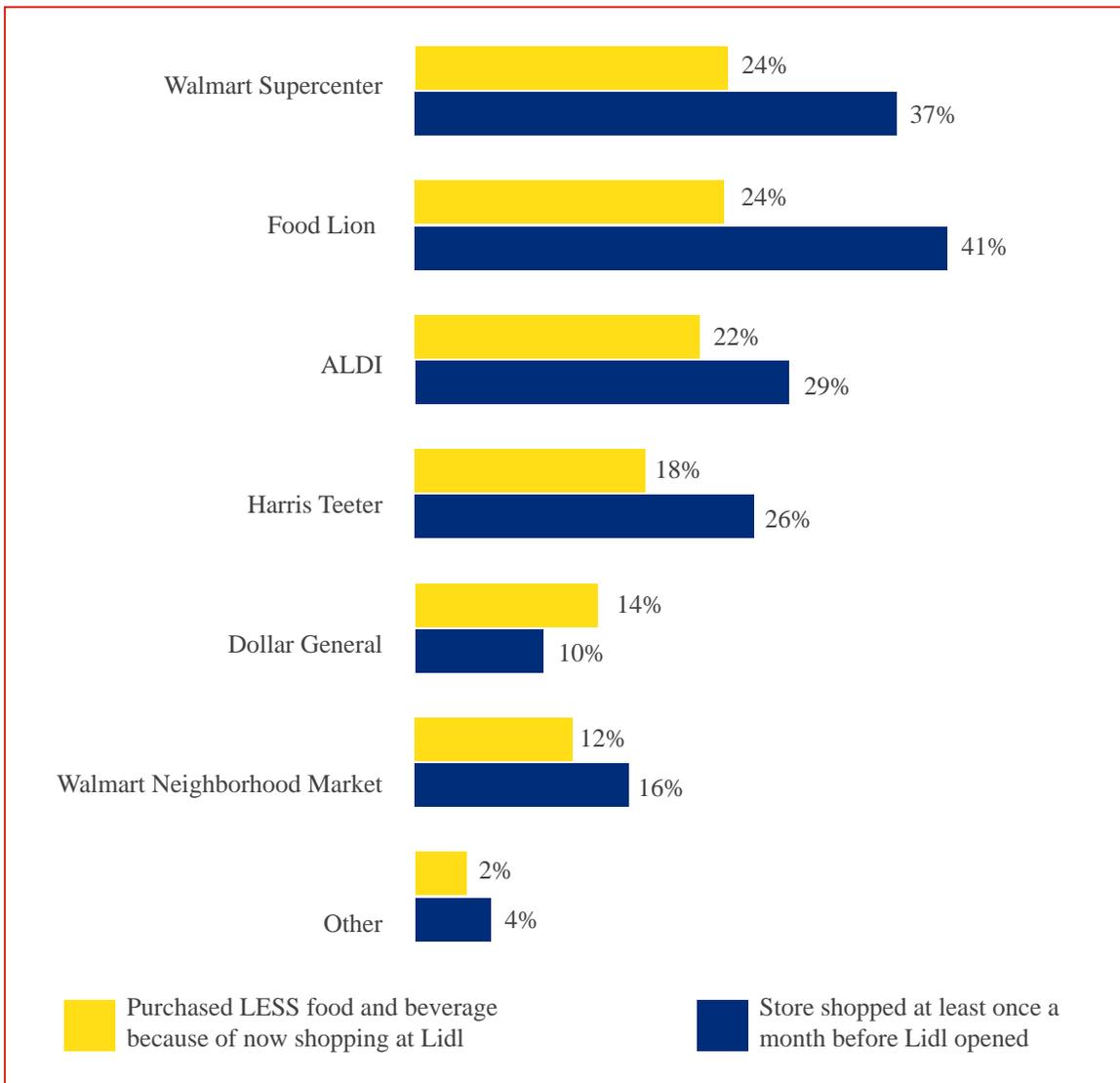
This is perhaps the most compelling competitive wedge for Lidl: its ability to downsell local supermarkets and discounters on fresh, premium foods (and perhaps beverages). It is something retailers should pay attention to as it was part of their publicly stated strategy.

What is not clear is Lidl’s ability to sustain velocity in mainstream foods and beverages where its performance is very weak compared to ALDI. Lidl simply does not have the economies of scale to acquire this food from U.S. copackers...yet.

Lidl's Immediate Impact

As Figure 4 indicates, there is strong evidence that Lidl will certainly have a disruptive effect in the markets that it enters. This may be largely driven by fresh-food-oriented trips, where Lidl seems to gather the most self-reported purchases.

Figure 4. Pre-Lidl Shopping and Self-Reported Impact of Lidl



Source: Hartman Group survey of past-30-day shoppers of food & beverage at Lidl, North Carolina only

Our survey also finds that 25 percent of past-30-day Lidl food and beverage shoppers have also shopped there in the past week, indicative of repeat shopping at the chain since it has opened. Given that the gap between awareness of Lidl and shopping Lidl is 62 percent, we see plenty of upside, especially by consumers seeking premium produce, milk, eggs and meats (Figure 5).

Figure 5. Lidl Has Very High Local Awareness and Decent Loyalty

Aided Lidl Awareness	70%
Shopped Lidl P30D	8%
Shopped Lidl in the Last Week	~2%
Awareness-to-Shop	~11%
Loyalty P30D	~25%

Source: Hartman Group survey of past-30-day shoppers of food & beverage at Lidl in North Carolina only

Executive Summary

- Lidl has an upscale retail environment and a premium entrance experience that sets a strong tone of “all things fresh,” including plenty of organic fresh items.
- Its pricing is most consistently undercutting local competitors in premium food and beverage (fresh and packaged), not mainstream American foods.
- Its merchandising scope is even broader than ALDI’s but biased toward fresh, perishable space.
- The chain is generating meaningful loyalty and affecting local discounters the most: Food Lion, ALDI and Walmart Supercenter.
- It is doing all of this with mostly unbranded product.
- The chain feels overly invested in being a pantry-stocking destination, with too much square footage dedicated to processed, mainstream foods that it does not have the scale (any time soon) to compete properly on the basis of price. And focusing on this overlap area with ALDI just exposes it to both media and shopper criticism.

Implications

- CPG companies should resist the temptation to simply extend strong legacy brands into this channel, as it will only undermine margins and sales at Walmart and other established channels without any clear brand-equity boost (Lidl is too young to confer equity on a brand just for being there).
- However, ailing CPG brands not growing in more upmarket or midmarket channels should consider extending in to add a boost of volume that could either aid divestiture or stabilize a business that has little ability to market or innovate its way to growth.
- Lidl's superlative fresh merchandising will accelerate pressure on local supermarkets with less-than-innovative fresh perimeter experiences. It will do so faster than ALDI did, because it appears capable of siphoning off premium, fresh-focused trips that could rapidly chip away at local supermarket \$ share.
- Lidl may be a force that hastens consolidation of the East Coast supermarket sector, which is badly behind the times and poorly positioned for long-term organic growth.
- If Lidl can expand its produce selection, it may be able to create urban or upmarket suburban formats that could go head-to-head with top U.S. grocers. But it will have to develop more than one discount footprint. We believe WFM 365 is a better model to follow if it moves down this path.



The Hartman Group's anthropologists, social scientists and business analysts have been immersed in a 25-year-long study of American food and beverage culture using ethnographic observation, quantitative tracking surveys and deep study of food and beverage trends. What we have learned and continue to uncover allows us to upend many notions of our traditional American eating and drinking patterns, thereby identifying unique opportunities and winning strategies for our clients.

THE HARTMAN GROUP
3150 Richards Road, STE 200
Bellevue, WA 98005

Office: 425.452.0818
Fax: 425.452.9092

Website: www.hartman-group.com