



| REPORT

Aldi, Lidl

Their Different Trajectories in the U.S. and How Each Should Still Scare Competitors Going Forward

dunnhumby

Executive Summary

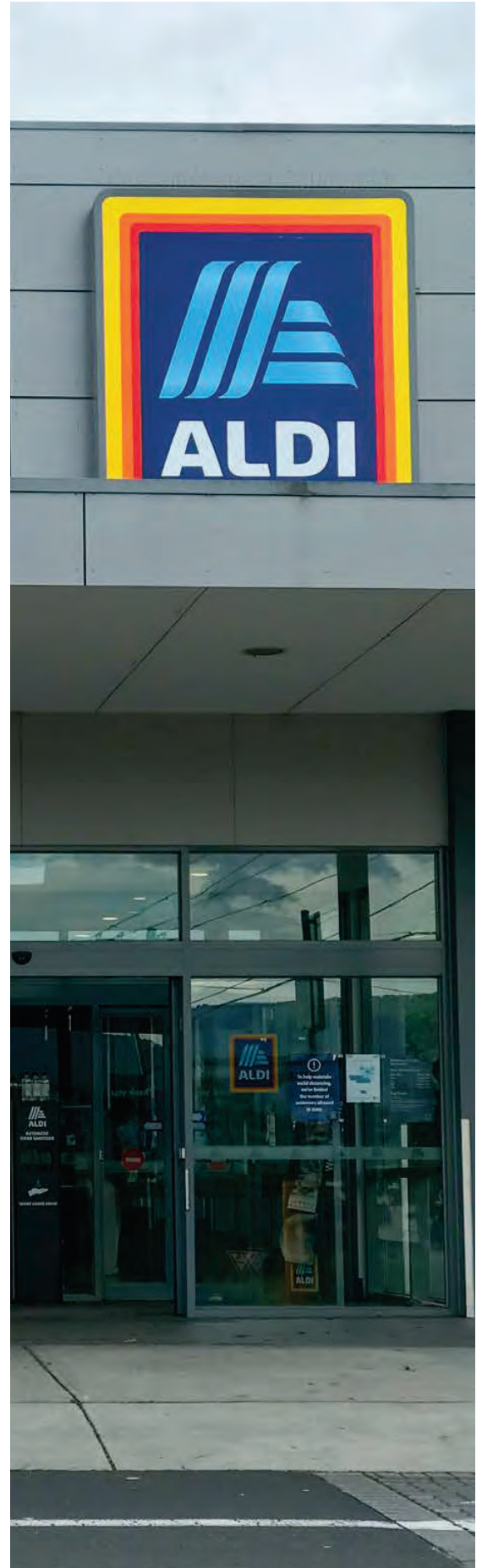
Aldi has grown more than any other major retailer in the past three years and is in the national headlines again because of its acquisition of **Winn-Dixie**. This special report dives into the [dunnhumby Retailer Preference Index](#) database, as well as other insights and research about **Aldi**, to discuss what this acquisition means for **Aldi**, the competition, and consumers. Also, with **Lidl** in the headlines right now due to what some call their “*stalled expansion*,” this juxtaposition begs the question, what explains the different trajectories between the two German retailers in the U.S., who globally are nearly equal in size? **Aldi’s** edge in both base prices and elements of store experience, better ability to deliver on assortment relevance – along with superior natural/organic variety – gives them a stronger offering on what matters most to grocery shoppers.

- **Aldi** had a more favorable environment than **Lidl** to establish a beachhead in the US, due to differences in grocery market competitive dynamics between the 70s, 80s, and 90s and the past several years.
- Not only did **Lidl** not avoid going head-to-head with **Aldi**, they tried to run straight at them, choosing to launch in **Aldi’s** east coast footprint. This makes it harder for **Lidl**, the relative newcomer, to differentiate on its core competency of rock-bottom base prices and its unique assortment of private brands.
- The acquisition of a very different type of retailer in **Winn-Dixie**, in a state where **Aldi** has already established a dense store base, is surprising for this typically strategically conservative retailer. Despite that Florida is a big prize (3rd most populous state and one of the fastest growing in the US), **Aldi** still doesn’t come close to matching **Publix’s** 876 stores. In addition, **Publix** isn’t the only retailer to have circled **Aldi’s** wagon in Florida (see **Dollar General** and **Walmart**). It’s clear that **Aldi** needs more stores in Florida if it wants to capture the big prize.



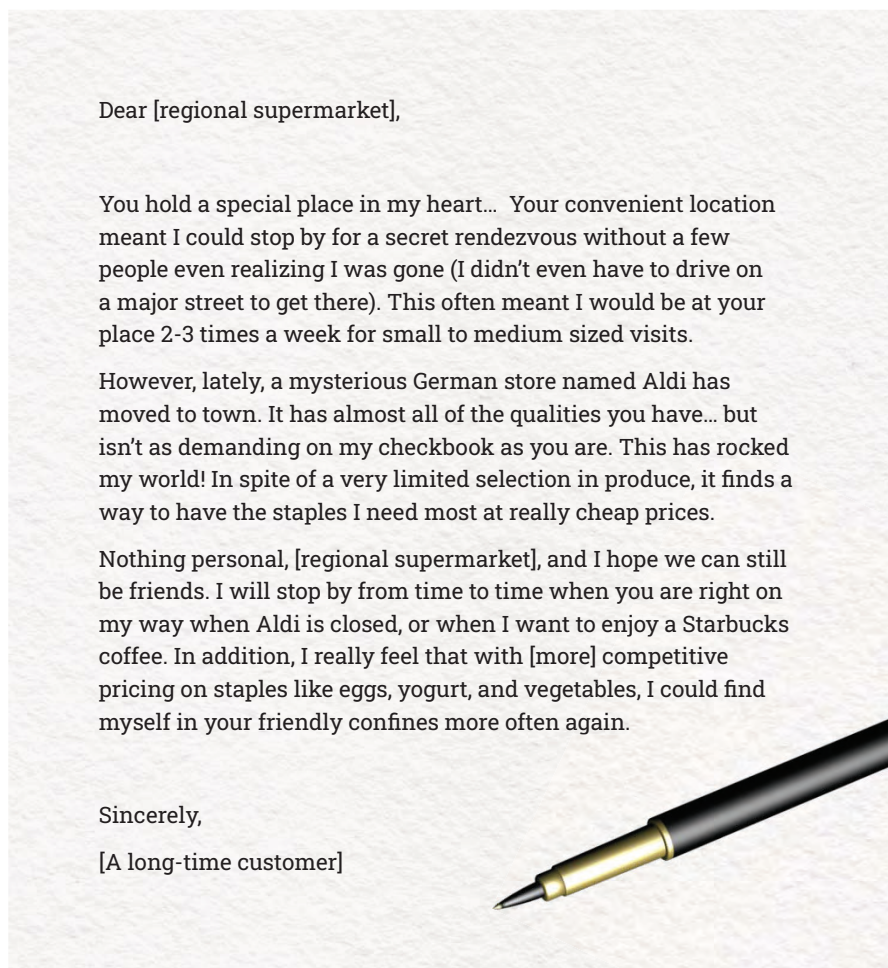
- **Aldi** is likely aware of the myth of “*our shopper*.” Really, any one grocery retailer’s shopper is also many other retailers’ shopper. The typical shopper visits three or four different retailers in a month to accomplish all of their needs, stitching their baskets together with the best of what each retailer has to offer. This is why **Aldi** isn’t just expanding their one banner; in **Winn-Dixie**, they are expanding their management of other types of grocery offerings. **Winn-Dixie** and **Aldi** are different destinations in a shopper’s grocery ecosystem, and both stores are likely going to continue to be a necessity.

- **Aldi's** acquisition of **Winn-Dixie** may mean many good things for shoppers. Depending on **Aldi's** next move, shoppers in the Southeast might have better savings, product options, and omnichannel shopping experiences to choose from.
- **Aldi's** acquisition should also raise alarm bells for retailers not only in the Southeast but throughout the US. Retailers everywhere should be examining their private brand, pricing, assortment, digital, and real estate strategies in response to **Aldi's** move, to build protective moats for an uncertain future.
- Despite its disadvantages to **Aldi**, **Lidl** has strengths to rest on, and it is just getting started on its own US experiment that might spell trouble for competitors in the future. **Lidl**, despite excellent prices and a strong private brand portfolio, does seem to have some slight misalignment between customer needs, assortment, and store experience. In an intensely competitive landscape, where a target has been put on your back and customers are putting you under extra scrutiny as they get familiar with you, slight misalignments are going to matter.
- With a little patience from its leadership as the market reaches some sort of new-normalcy, to the peril of entrenched competitors all over the US, **Lidl** could have a future in the US as bright as **Aldi**. Still, it will need to increase its focus on some areas. **Lidl** will need to capitalize on its personalization engine, revisit its marketing communications with customers to establish a more clearly differentiated, and establish a foothold in the West before **Aldi** does.



Introduction

The following is an actual break-up letter, written by a long-time customer of a regional supermarket. To preserve the dignity of both parties involved in this break-up, the name of the customer, and regional supermarket has been redacted:



The above letter comes from an online focus group, conducted recently by dunnhumby. To get shoppers to emote about their grocery shopping – a typically prosaic routine – we asked shoppers to write a love letter or break-up letter to a certain store they shop at, based on the direction their relationship with the store has been headed lately. This long-time customer is representative of long-time customers of many regional supermarkets who share a town or neighborhood with an Aldi and gives

color to the many data points you hear about Aldi's competitive positioning in the US market.



"In spite of a very limited selection... it finds a way to have the staples I need most at really cheap prices."

This is consistent with what we see in our **Retailer Preference Index (RPI)**, a database of customer perceptions, consisting of ~70,000 customers stretching back six years.

Aldi is in the national headlines again because of its acquisition of Winn-Dixie. So we decided to dive into this database, as well as other insights and thoughts about Aldi, to discuss what this means for Aldi, the competition, and consumers. Also, with Lidl in the headlines right now for the exact opposite reason (stalled expansion), this juxtaposition begs the question:

What explains the different trajectories between the two German retailers in the US who globally are nearly equal in size?



The Recent Results

Aldi and **Lidl**, at similar sizes, have similar access to resources. Combined annual sales from **Aldi Nord** and **Sud** are ~\$120B – and the two sibling companies, despite personal and public family squabbles, admittedly share resources and synergies between the two businesses. **Lidl's** sales are somewhere between \$100B and \$110B.

However, in the US, it's not even close. **Aldi**, present in the US since 1976, is the 13th largest grocery chain in a highly competitive, highly fragmented market, with around \$27B in sales, according to Edge by Ascential. This is a 2.1% share of the grocery retail market share. By comparison, at the banner level, **Dollar General** has 2.4%, **Target** 2.7%, and **Stop & Shop** 1.5%. Banner leaders are **Walmart Supercenters** at 18%, **Costco** at 9%, **Walgreens** and **CVS** both at 8.5%, then **Kroger** at 5%.

Lidl clocks in around 45th, at ~\$4.5B or (0.3% market share).

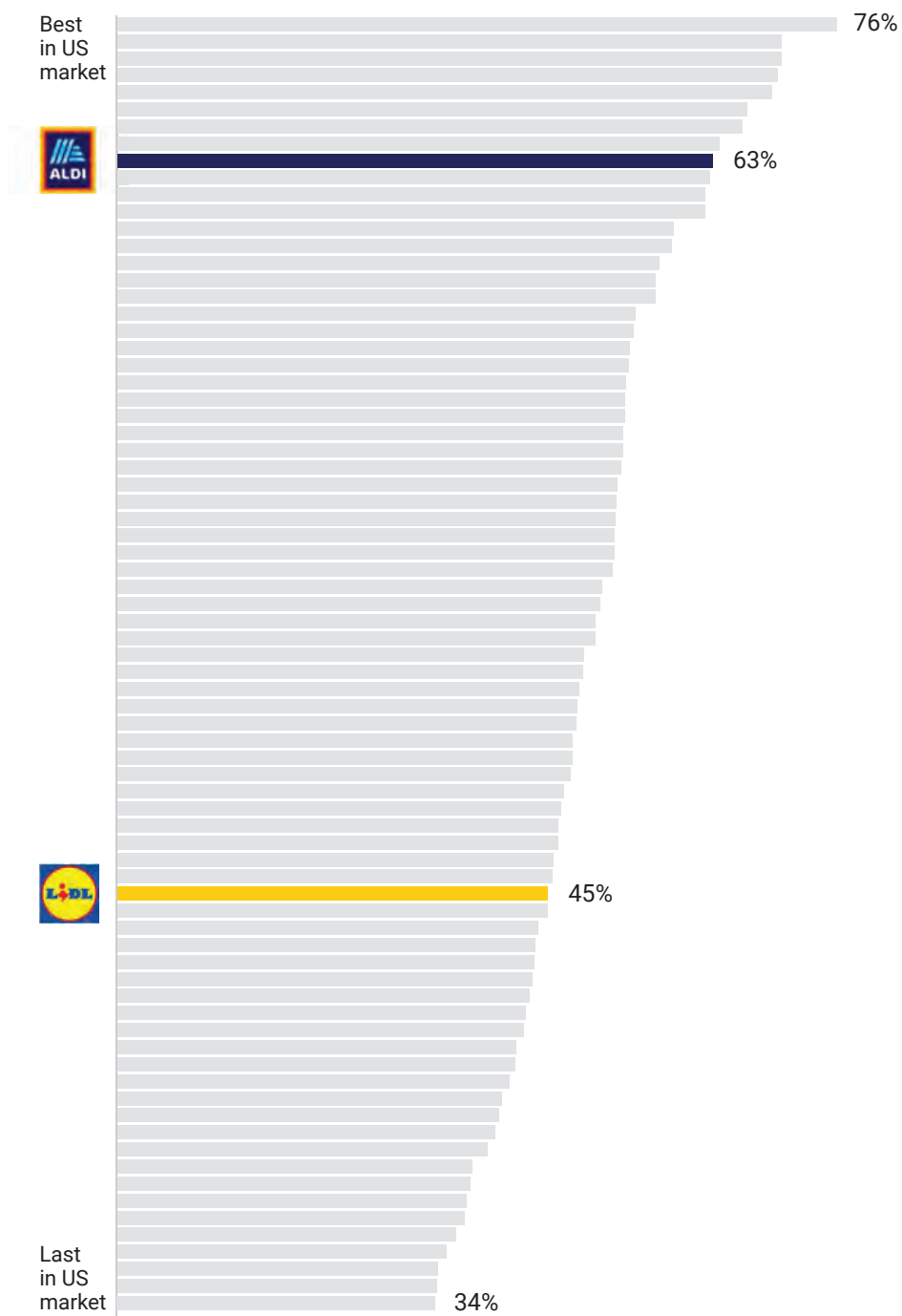
Sure, **Lidl** hasn't been here nearly as long as **Aldi**, but since **Lidl** arrived in 2017, **Aldi** has actually grown more than **Lidl**, in **Lidl's** own US footprint. At the end of 2017, according to data from Placer.AI that was analyzed by dunnhumby, **Lidl's** share of foot traffic in its own footprint was 0.7%, and **Aldi's** in **Lidl's** footprint was 1.6%. **Lidl** grew to 1% (+300 bps), while **Aldi** grew to 2.3% (+700 bps).

Since the end of 2020 – when we started to pivot away from pandemic/fear-driven shopping and back to the need to solve for more routine grocery issues like out of stocks, convenience, and pricing – **Aldi** has grown more than any of the 40 largest grocery retailers in the US (14% 3 YR CAGR). **Costco** is 2nd at 13%.



Aldi is also beating Lidl from a shopper perspective, not just a financial perspective. According to our RPI database, **Aldi** captures 22% of their shoppers' grocery budgets, while **Lidl** – despite having a wider range of products than **Aldi** – only captures 16%. Also, **Aldi** has a stronger emotional connection with its shoppers than **Lidl** has with theirs. In the perception that “I would be sad if this store closed,” **Aldi** ranks 9th in the US, a virtual tie with Publix at 11th, a beloved regional that **Aldi** competes with head-to-head, thanks to the **Winn-Dixie** acquisition. **Lidl**, meanwhile, is below the US market average, ranked 52nd, on “sad if this store closed.”

% Of Retailer's Customers Who Strongly Agree: "I would be sad if this store closed"

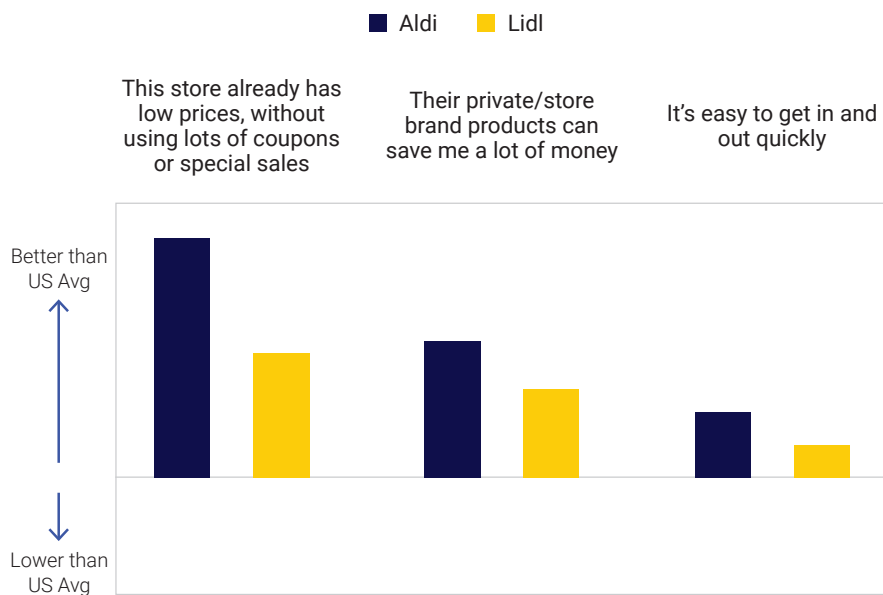


Why?

It's not uncommon to refer to **Aldi** and **Lidl** in the same breath, as the German discounters who are shaking up the US grocery market. And they do share some big similarities:

- Both are following the same playbook when it comes to emphasizing hard-to-beat everyday low prices and private brands.
- Both have north of 80% of sales on private brand, far above the industry standard of 20% - 25%.
- As a result, in our Grocery RPI study, they both rank in the top five in customer perception of "private brands can save me money" (**Aldi** is 1st and **Lidl** is 5th) and in the top eight in "already has low prices without lots of discounts/coupons" (**Aldi** is 1st in this and **Lidl** is 8th).
- They also both do a good job, for a discounter, at minimizing the trade-off on assortment quality. Both rank in the back of the 3rd quartile on assortment quality, behind the market but better than most discounters and better than even some regional supermarkets.

Customer Perception Gaps Between Aldi, Lidl and US Grocery Market Average: Aldi Beating Lidl on Core Competencies

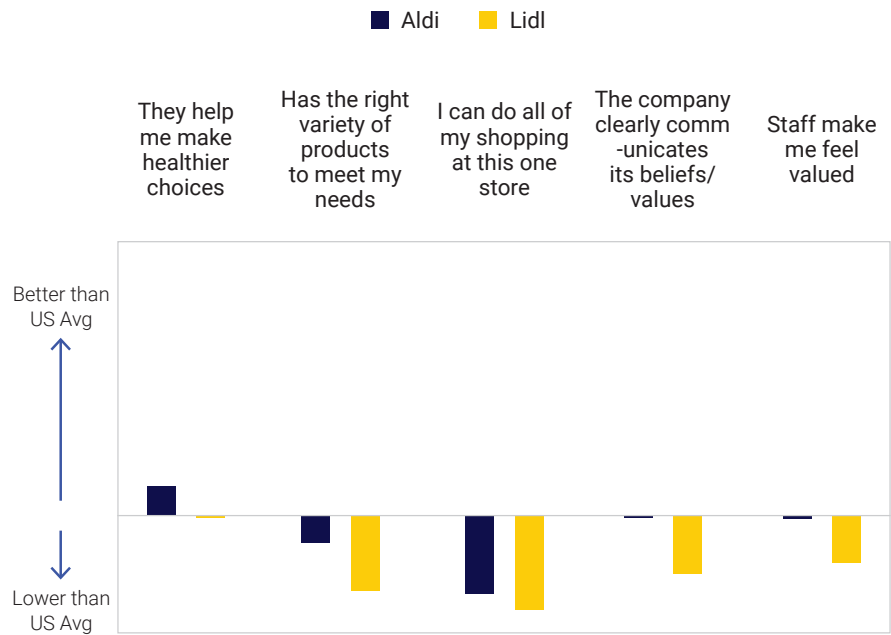


But there are differences which could help explain their different results:

- **Aldi** beats **Lidl** in customer perception of price consistency, staff showing customers they value them, speed of checkout, natural/organic variety, as well as the perception that the retailer helps the shopper make healthier choices.
- Price consistency and speed of checkout are near the top of the US market for **Aldi**, and natural/organic variety/healthier options are right around the market average but improving in recent years. In contrast, **Lidl** is behind **Aldi** on natural/organic variety and has been going backward in recent years.

- Despite having nearly twice as many SKUs as Aldi and a bigger store, Lidl and Aldi score very similarly in one-stop shopability perception, and Aldi edges Lidl in “has the right variety of products for me” (i.e., relevance). Aldi appears to be superior at doing more with less, which makes the shopping experience feel easier and more personalized for customers.
- Meanwhile, Lidl has driven greater adoption of its app than Aldi and has tied it to its rewards program (Aldi hasn't).

Customer Perception Gaps Between Aldi, Lidl and US Grocery Market Average: Aldi Better than Lidl at Minimizing Critical Vulnerabilities in Experience, Values

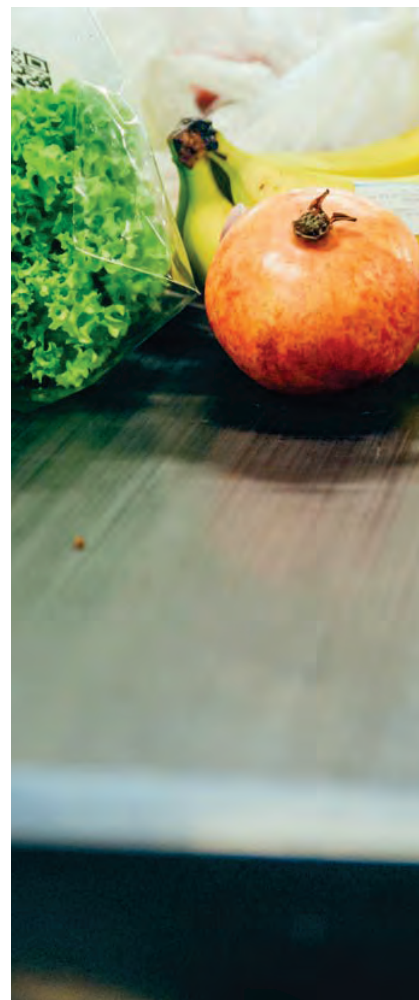


Customer Perception Gaps Between Aldi, Lidl and US Grocery Market Average: Lidl Better than Aldi at Minimizing Critical Vulnerabilities in Digital, Rewards



The result of these differences – Aldi’s edge in both base prices and elements of store experience, better ability to deliver on assortment relevance, and superior natural/organic variety – gives Aldi a stronger offering on what matters most to grocery shoppers.

Also important, but not yet quantified, is Aldi’s clearer identity with shoppers. Aldi delivers right along with the average US retailer on “cares about environmental sustainability” and “communicates its values”, while Lidl lags. Neither is strong in “has a close connection to the local community,” but Lidl is dead last on this measure. Taken with Lidl’s relative infancy in the US market, it likely means that Lidl’s lack of identity and reputation is another factor holding it back.



Competitive Intensity Greater Now Than When Aldi Was Establishing Itself

In the 70s and 80s, the regional supermarket was the biggest game in town. National grocery sales share of the supermarket format was hovering around 70%, and today that number has eroded almost by half, to ~40%. Mass merchants, club stores, drug stores, c-stores weren't the force in food that they are today, and regional supermarkets had yet to consolidate to the size of the mega regionals today. So, in the 70s and 80s, competitors weren't as numerous and didn't have the scale and expansive war chests that they do today.

Couple that with the fact that ignoring German discounters back then in one's competitive strategy wasn't yet a cautionary tale (see Europe, where in some countries hard discounters make up 20% - 40% of sales in the market), and you can see how **Aldi** had a more favorable environment than **Lidl** to establish a beachhead.

When **Lidl** came to the US in 2017, **Walmart**, **Kroger**, **Ahold**, and **Aldi** all pounced. In markets **Lidl** entered, the collective competition responded by lowering prices by 10%, on average, and by as much as 50% in certain categories (milk). And these were just responses on base prices. **Kroger**, **Walmart**, and **Ahold** responded with a combination of other tactics at their disposal – from above-the-line advertising, promotions, and loyalty programs. The latter tactic, loyalty programs, was another thing that didn't exist as a competitive foil for **Aldi** during their first couple of decades in the US.

Lidl also entered at a time of a relatively volatile market context. **Amazon** acquired **Whole Foods** in 2017 and fanned the flames of other retailers' digital investments. 2020 and the pandemic fanned those flames even more and made navigating the market difficult for many other reasons, even for the most knowledgeable veterans in the US grocery retail market.

Also, it's worth doubling back to something previously mentioned. **Aldi** was already here when **Lidl** came. **Lidl** could have avoided going head-to-head with **Aldi** by starting on the west coast instead of the east coast, but they didn't. As a result, **Aldi** is cross-shopped by 55% of **Lidl** customers in the US. In fact, **Lidl** sees more customer cross-shop with **Aldi** than all but one grocery retailer in the US. Not only did **Lidl** not avoid going head-to-head with **Aldi**, they tried to run straight at them as well. This makes it harder for **Lidl**, the relative newcomer, to differentiate on its core competency of rock-bottom base prices and its unique assortment of private brands. **Lidl** is essentially a second-mover on a core competency first brought to the market by **Aldi**. This makes it harder to stand out with shoppers.

What Aldi's Big Move Could Mean for Aldi and the Competition

What is remarkable about Aldi's acquisition is that they've been very conservative on strategy, up to this point. They have their small format, narrow range and private label focus, all of which deliver superior savings, a faster experience, and a unique value proposition to customers. They've been banging this drum steadily for the past 40+ years. In acquiring Winn-Dixie -- a grocer that is 3x larger in average store size, with many orders of magnitude more SKUs, numerous CPG relationships, and a good loyalty program -- Aldi appears to be anything but conservative. More evidence of this is the fact that Florida was already Aldi's most penetrated state by store count (210 stores, a tie with Illinois). It's easier to understand a strategy that allows Aldi to expand quickly into a new territory. But there is more to it than that.



Publix isn't the only retailer competing with Aldi in Florida. Dollar General and Walmart also go head-to-head with 90% of Aldi's in Florida, with 2.6 stores within a 4-mile radius of every Aldi. Aldi will need more stores in Florida if it wants to capture the big prize. With so many entrenched competitors, real estate in Florida is likely hard to come by.

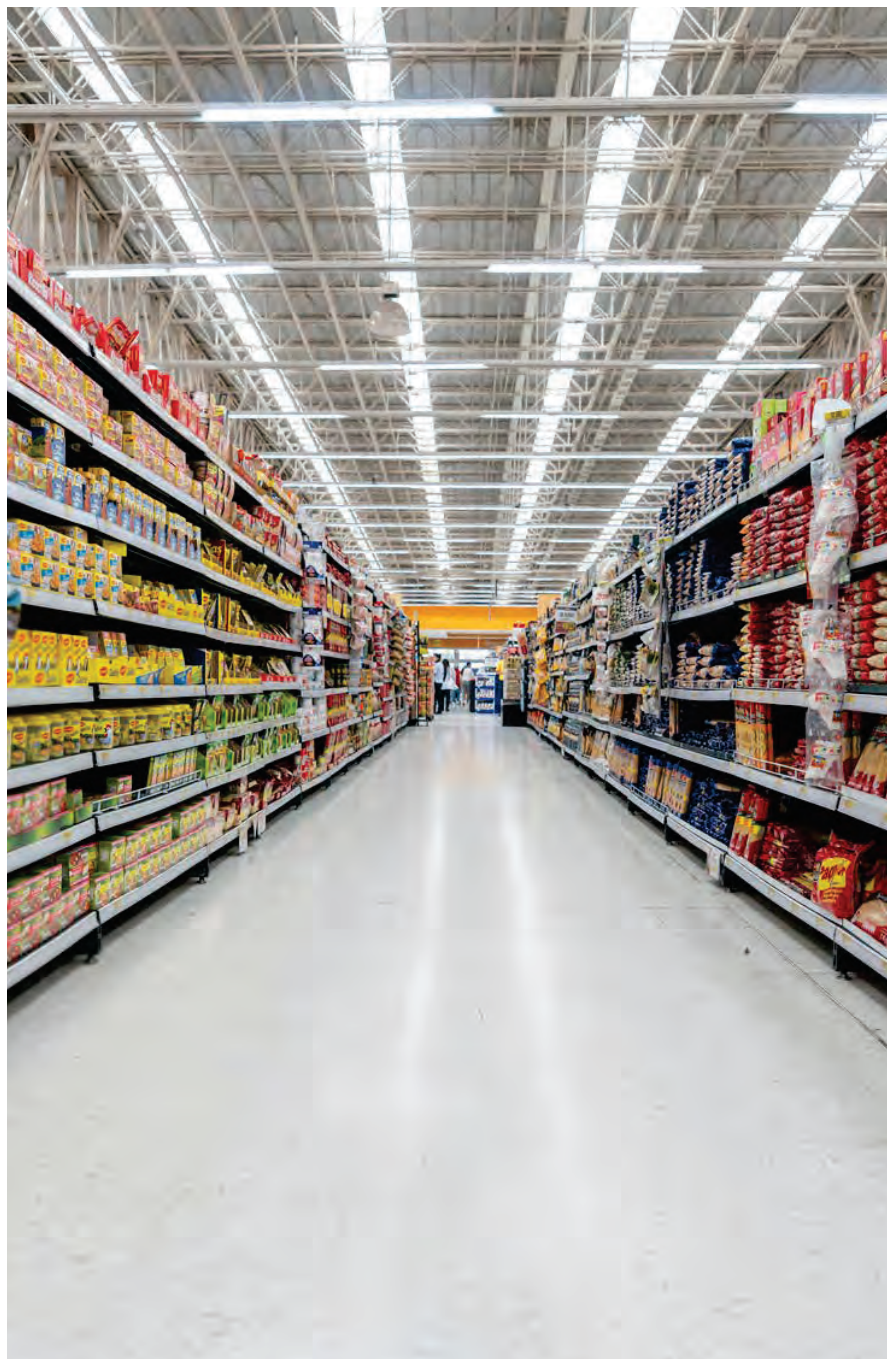
The good news for Aldi is that Publix and other competitors' shoppers in Florida are already no strangers to Aldi. Aldi is the second most cross shopped store for both Publix and Walmart shoppers. This similarly high level of cross-shop from two retailers with very different customer value propositions underscores Aldi's / mainstream crossover appeal to shoppers of all types. In fact, 34% of Publix shoppers in Florida already shop at Aldi, and they're shopping there for produce, dairy, and other fresh items (Publix's wheelhouse), not just packaged food.

It's clear Florida is a big prize (the third most populous state and one of the fastest growing in the US). Despite that, Aldi still doesn't come close to matching Publix's 876 stores in Florida.

- Publix so densely occupies Florida, that it has a store for every 25k residents (compared to Aldi's 1 store for every 100k residents, before the acquisition).
- Also before the acquisition, 100% of Aldi stores in Florida have a Publix within a 4-mile radius (the average distance someone drives to a grocery store in the US). And in that radius around each Aldi store, there are 3.2 Publix locations for every 1 Aldi location.

This highlights the myth of “*our shopper*.” Really, any one grocery retailer’s shopper is also many other retailers’ shopper. A retailer views themselves as an entity unto itself vying for market share with other retailers, but a shopper views this collection of retailers not as a competitive landscape but as their ecosystem in which to forage. The typical shopper visits three to four different retailers in a month to fulfill all of their needs, stitching their baskets together with the best of what each retailer has to offer.

Aldi knows this, and it’s why they aren’t just expanding their one banner. With Winn-Dixie they are expanding into the management of other types of grocery offerings. Winn-Dixie and Aldi are different destinations in a shopper’s grocery ecosystem, and for many both stores are likely going to continue to be a necessity.



What Aldi's Big Move Could Mean for Shoppers

This will all depend on what **Aldi** does. **Winn-Dixie** has relationships with big-name brands and a personalization engine in a loyalty program, and **Aldi** has a house of private brands backed by massive buying power. These are two very different weapons retailers wield to win with customers. It seems like lower prices and better savings at those existing **Winn Dixie** locations – whether they stay **Winn Dixie** or not – will persist regardless of what **Aldi** does.

Some big questions we have:

- Will **Aldi** place its private brands in **Winn-Dixie** stores, making that store's assortment more unique and price competitive to competitors?
- Will **Aldi** rebanner **Winn-Dixie** stores yet keep the same store size, creating a bigger **Aldi** and closing the one-stop shopability gap that it has with competitors?
- Will **Aldi** remodel **Winn-Dixie** stores to cut the box in roughly half, repurposing half the space for other experiments and selling it to a retailer that could help drive additional foot traffic to **Aldi**, such as a retail pharmacy? On the other hand, using the space for micro-fulfillment might help **Aldi** to compete with **Amazon** and **Kroger**, as both of those retailers try to steal visits away with their digital offerings in Florida.
- Is this experiment in the Southeast a signal of a new strategic direction for **Aldi**, one they will use as they expand into other regions and further west?



If the answer is yes to any of these questions, it can only mean good things for shoppers. At the same time, it should sound alarm bells for retailers not only in the Southeast but throughout the US. Retailers everywhere should be examining their private brands, pricing, assortment, digital, and real estate strategies in response to **Aldi's** move, in order to build protective moats for an uncertain future. Regional supermarkets, the subject of the break-up letter at the top of this report, in particular, need to ensure their understanding of shoppers is perpetually current, so they can identify and implement the optimal strategy to profitably differentiate their customer experience, communications, and assortment while remaining competitive with both **Aldi** and **Lidl** on everyday prices and promotions on the products that matter most.

Back to Lidl... What Should They Do?



Despite its disadvantages to **Aldi**, **Lidl** has strengths to rest on, and it is just getting started on its own US experiment. That could spell trouble for competitors in the future. Still **Lidl**, despite excellent prices and a strong private brand portfolio, seems to have a slight misalignment between customer needs, assortment, and store experience. In an intensely competitive landscape, where a target has been put on your back and customers are putting you under extra scrutiny as they get familiar with you, slight misalignments are going to matter.

Yet **Lidl** is uniquely differentiated from **Aldi** – and any other retailer in the US – in its one-two combination of market-leading base prices and solid loyalty program adoption. Typically, you don't see those two things exist together in the same retailer. They have also done a good job driving app adoption. They have a great foundation for a personalization engine and don't have the hurdle of starting customers from higher-than-average base prices. If they can elevate personalization delivery from a little below average to the upper

echelon – creating more relevant communications, promotions, loyalty offers, and assortment for their shoppers – they would have a truly unique value proposition that would place them as a market leader in saving customers money.

With a little patience from its leadership as the market reaches some sort of new normalcy, and with an increased focus in a number of areas – its personalization engine, its marketing communications with customers to create a clear, differentiated, and resonant identity, and a foothold in regions of the west before **Aldi** gets entrenched – **Lidl** could have a future in the US as bright as **Aldi**.

If that comes to pass, someday *"long-time customers"* might write about not one but two *"mysterious but different German stores"* in their break-up letters to their usual supermarket.

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dunnhumby is the global leader in Customer Data Science, empowering businesses everywhere to compete and thrive in the modern data-driven economy. We always put the Customer First. Our mission: to enable businesses to grow and reimagine themselves by becoming advocates and champions for their Customers.

With deep heritage and expertise in retail – one of the world's most competitive markets, with a deluge of multi-dimensional data – dunnhumby today enables businesses all over the world, across industries, to be Customer First.

The dunnhumby Customer Science Platform is our unique mix of technology, software and consulting enabling businesses to increase revenue and profits by delivering exceptional experiences for their Customers – in-store, offline and online. dunnhumby employs over 2,000 experts in offices throughout Europe, Asia, Africa, and the Americas working for transformative, iconic brands such as Tesco, Coca-Cola, Meijer, Procter & Gamble, Raley's and L'Oreal.



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