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# Value Revolution

Shopping habits born in the Great Recession have shown no signs of waning as price players gain new shoppers—and outsized influence.

By Jon Springer

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**I**ncreased consumer demand for price as part of the food value equation shows no sign of letting up. The trend is accompanying unprecedented expansion for hard discounters such as Aldi and next-generation retailers such as Amazon, triggering widespread fragmentation of consumer shopping patterns and bringing heavy pressures on the margins of food retailers as they keep up with one another’s pricing and fend off their unconventional competitors.

Observers trace the current phenomenon to behaviors that developed a decade ago in the throes of the Great Recession and an acceleration of trends that gave rise to a new era of private label and simply haven’t subsided, even as the economy has rebounded.

“It’s not just the rise of the discounters we’re talking about,” says Jose Luis Gomes, president of data science firm Dunnhumby North America, which

has global headquarters in London. “It’s really the rise of price as a consumer preference across all food retail.”

Dunnhumby’s research indicates that price overtook quality as the top driver of consumer preference among food retailers as the recession hit in 2008. That trend has continued since, and it has been accompanied by an industrywide decline in margins affected by the mix of items sold—an indicator of fragmenting consumer shopping patterns.

Simply put, consumers are less loyal to particular retailers and are shopping at a variety of outlets where perceived prices hold the greatest attraction, followed by perceptions of quality, which Gomes describes as a mix of assortment and store experience. Retailers that can excel in this combination are realizing exponentially greater growth and financial success than their peers. They include price-focused leaders such

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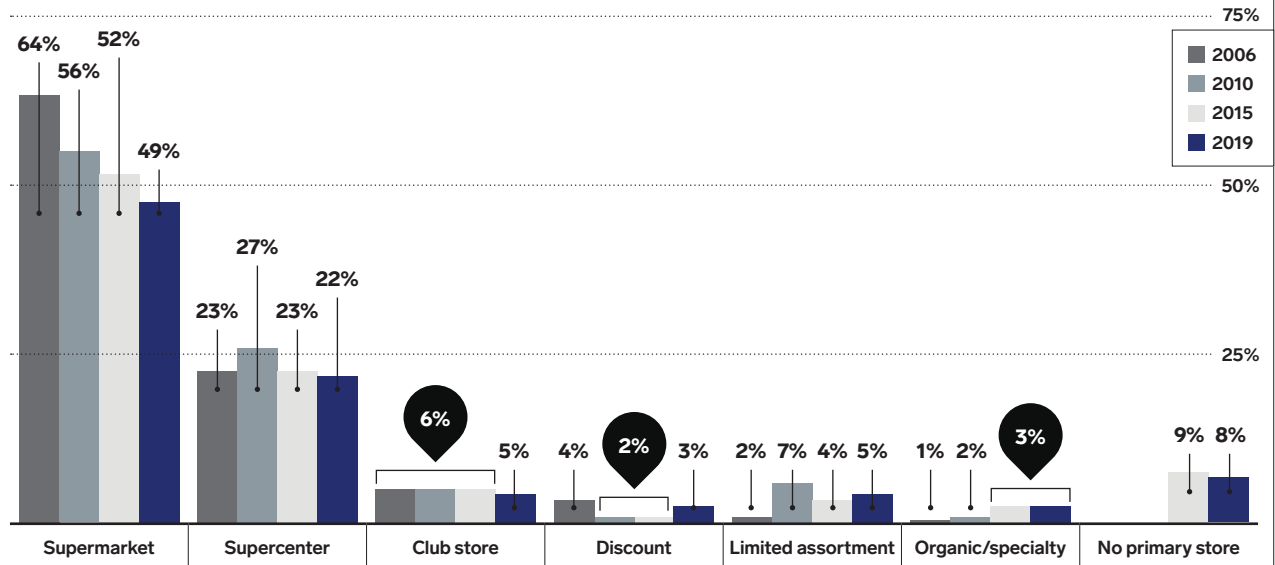


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## Primary Store Choice

Percentage of shoppers  
100%

The supermarket's foundational role in the U.S. food retail landscape has remained stable for the past five years, with about 50% using it as their primary store of choice.



Source: 2019 U.S. Grocery Shopper Trends

Note: Other channels (which include convenience, dollar, drug, ethnic, military and online only channels) selected as primary store not listed above account for 1% of shoppers in 2015, 2% in 2016, 5% in 2017, 4% in 2018 and 5% in 2019.

as Trader Joe's, Costco, Sam's Club, Sprouts Farmers Markets, WinCo Foods, Walmart and Aldi.

The 2019 U.S. Grocery Shopper Trends report from Arlington, Va.-based Food Marketing Institute illustrates a similar scattering of shopper trips across channels and, in most cases, trending growth for formats with a strong perceived price image. Today, just less than half of consumers (49%) identify the supermarket as their "primary store" for food, with the remainder split between supercenters (22%), club stores (5%), discount stores (3%), limited-assortment stores (5%) and organic/specialty stores (3%). Another 8% say they have no primary market, while 5% identify "other" channels (convenience, military commissaries, drugstores, ethnic and online). The study defines discount stores as "conventional discount stores such as supercenters without fresh meat or produce." Aldi and Lidl are identified in the limited-assortment store category.

Probably no single retailer has used the awakened consumer interest in price to better advantage than Aldi, which is in the middle of a \$5 billion expansion and remodeling program that will bring the chain to 2,500 stores nationwide by the end of 2022. Aldi today casts a vastly different shadow than it did prior to the downturn. Though not exactly a trend chaser, the tightly held German hard discounter was in position to capitalize on the timing of the economic downturn, observers say.

Brian Numainville, principal of Retail Feedback Group,

Lake Success, N.Y., says that in addition to a continued adherence to Aldi's legendary efficiency—which allowed it to skillfully serve its low-income shopper base during that recessionary period—the discounter under CEO Jason Hart did a few things wisely. Those include improvements to the store atmosphere, to maintain the new shoppers it gained during the recession; and an upgraded assortment, particularly with fresh foods and a new wave of private brands, to draw a whole new breed of shoppers to the franchise.

Figures from the Retail Feedback Group's Supermarket Experience Study released this year indicate that 42% of Aldi shoppers anticipated shopping there more often in the next year, far outscoring conventional supermarkets and even Walmart in that rating. Aldi shoppers were also more likely to recommend the store to friends, the data showed.

"Our research shows that Aldi is indeed doing things that appeal to shoppers," Numainville says. "They have added better-for-you brands, increasingly focused on fresh items; expanded meat to include organic, grain-fed ground beef; incorporated more messaging around well-being; and removed products with hydrogenated oils, artificial colors and MSG from stores."

While Aldi declined to share specific customer data, its VP of corporate buying, Scott Patton, told WGB, "People are very conscious about what they eat and how much they're willing to pay for food. We continue to evolve our products to meet shoppers' changing habits and dietary



# 49%

Amount of consumers who identify the supermarket as their "primary store" for food

Source: Food Marketing Institute

preferences, without driving up price. Our ability to develop exciting new products at great prices allows us to serve more customers than ever before across a wider variety of customer segments.”

Aldi’s 2018 expansion of a vegan private label line called Earth Grown is such an example. It began as an “Aldi Finds” in-and-out special with options such as vegan cheese and soy protein burgers, and it was met with enthusiastic reception, Patton says. “We responded to customer demand and, six months later, we accelerated the nationwide rollout and added more than 15 Earth Grown food items to our everyday product selection. Since 2017, Earth Grown sales are up more than 300%.”

WGB’s Power 25 retailer ranking estimates Aldi will ring up U.S. sales of \$29.2 billion this year. Sources estimate Aldi stores are posting comparable sales in the mid-single digits, indicating its stores are doing more under the changes and presumably have increased share of wealthier shoppers whose perception of hard discount has changed. Walmart, also a price-conscious food retailer riding the value trend, has similarly looked to expand its appeal to wealthier shoppers through a combination of heavy price investment, store upgrades and convenience.

“One of the things that we’ve started to see as a trend in some of the research we’ve been doing is that they’re now growing large baskets really quickly,” Gomes says. “In the past, Aldi [was] picking off people little by little. And now they’re migrating. If you’re a big-bucks retailer and you’re pacing in to get Aldi, and they start to grow big baskets, it’s time to be very scared.”

The recent public stock offering of Aldi rival Grocery Outlet provided a rare look under the hood of a similarly growing—though considerably smaller—rival. Its filings



Walmart is working to expand its appeal to wealthier shoppers.

show that chain has increased comps for 15 consecutive years, including a healthy 3.9% comp growth last year. Its performance also makes no mistake how the downturn in the economy affected sales performance: Comps jumped by 12.3% in 2008 and 14.7% in 2009.

Euromonitor data cited in a recent report from New York-based Coresight Research identifies Aldi as the overwhelming leading U.S. discounter with a 60.2% share of the market, followed by Save-A-Lot at 23.2%, Grocery Outlet at 7.6%, Wakefern’s Price Rite at 4.3%, Kroger (Ruler Foods, Food 4 Less and Foods Co) at 1.9% and Lidl at 1.8%.

### The Power of Penny Pinchers

The appeal of the discount sector isn’t all about luring wealthier shoppers on board. Core shoppers of the format—a group sometimes referred to as “cash-strapped shoppers”—still make up a whopping 40% of U.S. households and represent \$1.6 trillion in spending power, according to findings of a recent report from Unile-

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— Jose Luis Gomes, *Dunnhumby North America*

## Aldi’s Prescient Beginnings

How a future-focused grocery executive attracted Aldi to Iowa City and crafted “the first new merchandising idea since the supermarket was introduced.”

In late March 1976, a Giant Food store in the Kmart Plaza in Iowa City, Iowa, abruptly closed for renovation.

“The Giant name is being replaced,” Phillip Neally, then the EVP of Giant owner Benner Tea Co., told the Iowa City Press-Citizen newspaper, “and we’re planning an entirely new operation.”

A little more than three weeks later, the store reopened as the first Aldi in the U.S.

The conversion was among dozens of Aldi stores that would suddenly pop up in Iowa, Illinois and Missouri. With the country recovering from a 16-month recession marked by high unemployment and inflation, there were many discount supermarket schemes in the works, but Aldi was a different animal. It took some explaining.

Aldi took out an ad in an Iowa newspaper to explain its discount formula to potential shoppers.

PHOTOGRAPH COURTESY OF WALMART





**Aldi's \$5 billion expansion means the company will have 2,500 U.S. stores by 2022.**

ver, which has U.S. headquarters in Englewood Cliffs, N.J.

The cohorts of the core discount shopper comprise a multitude of smaller groups, including millennials and seniors, who tend to strive to live within the limits of their incomes and as a result tend to be especially savvy and price-sensitive. They are used to making “trade-offs” in their daily lives and plan their shopping trips and lists carefully, Unilever data shows.

Also, lower-income consumer spending is outpacing that of higher-income groups and tends to disproportionately focus on discount products and discount retailers. That, too, helps to explain the growing appeal of megatrends such as private label; the seemingly endless appetite for new stores from focused brands such as Dollar General and Dollar Tree; and an erosion of the customer base for so-called conventional stores, which are losing sales and

trips to retailers perceived as providing better value.

By some definitions, those struggling to make ends meet could be larger—and growing. Consumers making about or just less than 400% of the federal poverty level—criteria to be eligible for federal healthcare assistance, for example—make up more than half of U.S. households and include consumers one might otherwise consider middle class, says Sarah Marion, director of syndicated research for the Hartman Group, Bellevue, Wash.

“It reaches into the middle class a little bit,” Marion says, “but once we saw the data, the shopping patterns are really different once you cross that line. Those households have to make difficult budgeting decisions every day. It’s, ‘Are we going to have health insurance or are we going to send Johnny to camp this year?’”

And as millennials become parents—especially not

An ad in the same newspaper dated April 26, 1976, detailed “10 Reasons Why Aldi Sells for Less,” including some things that were revolutionary for its time and others that are still staples of the hard-discount format. “We have no bags. Bring your own box or bag—we pass these supply savings to you,” was one. Another: “We have no fancy shelving. We sell right from the original carton—less handling means savings for you.”

Back then, the idea that prices weren’t stamped onto every item but rather indicated on signage alongside the display took some getting used to, but Aldi cast it as “labor saved means savings for you.” The debut store carried just 450 items, with prices printed on paper sheets so customers could take with them as they shopped.

The original Aldi store also had no refrigeration equipment or freezers, which limited perishables to onions, potatoes, bread and margarine.

The treasure hunt of the “Aldi Finds” section, coin-released shopping carts and payment by credit card were still in the future, but the idea that U.S. consumers would shop for private label foods in a no-frills environment if the price and quality were there had been established in a way that no store had done before or since quite as successfully.

Aldi expanded to the U.S. from Essen, Germany, via an undisclosed investment in Benner Tea Co., a Burlington, Iowa-based grocer. The company had been first acquired in the 1960s by Charles C. Fitzmorris Jr., who

himself would go on to noteworthy things.

Fitzmorris, known as Charlie, was a 1933 Princeton graduate and former World War II battalion commander who got into the grocery business unloading freight train cars for the Great Atlantic & Pacific Tea Co. Fitzmorris was a brash and ambitious businessman who, according to one source, had proposed that Benner buy Aldi, and not the other way around.

Fitzmorris trained under Aldi executives in Germany and became the first president of what was then known as the Aldi-Benner Tea Co., before leaving to further pursue the pioneering use of electronics in grocery. He founded Worldwide Chain Store Systems, which specialized in food management software and counted among its clients

nearly all of the largest U.S. grocery chains. It was eventually sold to IBM. Fitzmorris’ Benner Tea colleague, the aforementioned Neally, succeeded Fitzmorris and was Aldi’s U.S. CEO through 1999.

The original Iowa City store did not succeed: It closed at the end of 1977, in part, reports said, because the building was too big to be efficient. Aldi returned to another site near the same intersection in 1985 and now operates out of a replacement that opened about a mile away in 2014.

More than 40 years and nearly 2,000 stores later, it’s safe to say Aldi has succeeded, and quite presciently: Lean, private label-focused small stores are in style and the value shopping trend has never been stronger.

**“Our shoppers want assurances that they can trust what they buy will provide a great value and also taste great.”**

— Bryant Harris, *Save-A-Lot*

wealthy ones, in many cases—value accompanies them as they shop for the other attributes, such as flavor and sustainability, that they demand of the brands and products they buy. Parents of young children, Marion says, are the “holy grail” of food shoppers because they tend to buy the most.

Food is one area of the family budget consumers feel they still have some control over, so they tend to shop purposefully. According a recent report from Coresight Research, young consumers have

a preference for low-price retailers but are not particularly brand-loyal. While older millennials tend to be the peak demographic for traditional-format supermarkets, such as Kroger and Albertsons, as well as Aldi, younger millennials and Gen Z shoppers also exhibit thrifty characteristics. Shoppers under age 30 are the peak demographic for mass merchants such as Walmart and Target.

“The sad story is that for many people, the recession never ended,” Marion says. “The economy’s recovery has been very uneven, and there are still a lot of people who have to stretch their grocery budgets as far as they can. Discount stores deliver to that need.”

#### How Save-A-Lot Sees It

**B**ryant Harris, chief commercial officer of Save-A-Lot, says the St. Louis-based discounter is targeted at shoppers with household incomes of less than \$50,000. Satisfying that group is a challenge but also a big opportunity.

“This group of customers is the fastest-growing in the U.S., and they are looking to stretch their dollar further while also looking for fresh, high-quality meal options that are fast and convenient for their families,” Harris says. “Our shoppers want assurances that they can trust what they buy will provide a great value and also taste great. They also want a seamless shopping experience and a gro-

cery option where they can get everything they need under one roof. Save-A-Lot’s easy-to-shop stores offer a limited assortment where customers can get in and out quickly with high-quality, ready-to-eat meals; great packaged foods; and fresh meat and produce options.”

The key to meeting these needs affordably, he says, is through a private label program that leadership at Save-A-Lot has been quietly revamping since its acquisition by the private equity firm Onex in late 2016. Introductions of these new items, brands, formulations and packages are accompanying an overarching brand renewal, which includes a new logo, a price reduction program introduced late last year and store renovations throughout its home market and at various new sites.

“We have been building a great merchant team committed to improving our processes that ensure we source the best private brand product for our customer. Our vendor relationships also play a critical role,” Harris says. “The simpler and more efficient we can make the sourcing process for our vendors and for us, the better their cost to serve us will be. The benefits of this work are being passed on to the customer. We lowered prices on hundreds of items starting last fall and are continuing to focus on keeping our prices low on the items that matter most to our customer. There is lots of room for further improvement. We are really only getting started.”

Though the U.S. economy has been marked by near-record low employment—typically an environment in which grocers can thrive—there have been indications in the debt market this year that a slowdown or new recession could also arrive soon. That would be another point in favor for grocers with strong value perceptions.

#### Simple for You, Maybe

**F**or a retail concept built on the concept of “simplicity,” mimicking the German hard-discount style epitomized by Aldi has been a struggle—even, it could be argued, for German-bred hard discounters.

Lidl, which arrived two years ago from Germany, appears to have pivoted from its early missteps in site selection and store size while continuing to tout credit for providing a combination of price, quality and shopping surprises that is perhaps the most “Aldi-esque” in the industry today.

Though its expansion has not been as fast as predicted, Lidl has announced at least 25 new stores by this time next year in a move that CEO Johannes Fieber described as a commitment to “long-term growth in the United States.” A Lidl spokesman declined further comment.

Save-A-Lot—now headed up by former Lidl executives—is also facing challenges. Burdened with heavy debts that are complicating its ongoing turnaround, competitive pressures remain intense. Reports indicate the chain could be sold, broken up or recapitalized. “Management has

Private label has been a recent focus for Save-A-Lot.



PHOTOGRAPH COURTESY OF SAVE-A-LOT





Lidl is looking to open 25 new stores in the U.S. by next year.

launched a number of new initiatives to improve operating performance,” a June report from Moody’s said. “Although these initiatives are a step in the right direction, execution risk is high and success is uncertain.”

The track record of food retailers trying discount concepts on their own in the U.S. is mixed at best. All that’s left of the millions invested by Delhaize in developing its Bottom Dollar discount chain are the 30 sites that Aldi converted to its own banner when it acquired the 66-store chain at an Aldi-like discount—\$15 million—in 2015. Officials reflecting on Bottom Dollar acknowledge the venture provided lessons in brand-building and the importance of price, although they were expensive ones.

Stacey Mack, a former Aldi division president who subsequently spent nine years at Save-A-Lot, was tapped by food distributor Nash Finch (which has since evolved following a merger as SpartanNash) to develop a limited-assortment concept. But the brand he built, known as Buy N Save, was doomed in part by an inability of the parent organization to commit as completely to the ideals of efficiency the concept required.

“It was little things,” recalls Mack, who today runs his own automotive lift business. “For example, we didn’t want to have plastic shrink wrap around the canned goods, and they refused to do it. They said it wouldn’t transfer that way. I said, ‘Aldi does this every day.’ It was simple things like that that they just didn’t know how to do.”

Many smaller food discounters, Mack says, underestimate the role that quality plays as a part of the Aldi formula, showing up everywhere from poorly maintained stores to cheaply produced goods that may provide the price shoppers want but wear away at the brand’s reputation.

The Kroger Co. and Wakefern Food Corp. both operate their own discount concepts, Ruler Foods and Price Rite, respectively, but recent overhauls taking place at each indicate they are still working to perfect the offerings.

Kroger tasked a former Aldi leader, Liz Ferneding, to

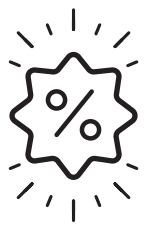
lead Ruler, which has rolled out a new look at many of its 50 stores that emphasizes associations with Kroger’s private brands and makes a better fresh presentation. Ferneding has recently moved to a new position at Kroger’s Cincinnati headquarters, and the company declined to address the format for this story.

Wakefern’s Price Rite chain made a similar move to a new look and feel at redesigned Marketplace stores, which include more fresh foods and “treasure hunt” nonfood items while leveraging Wakefern’s private brands. This followed a decision to deploy the banner strategically within markets where Wakefern and its cooperative members operate full-line ShopRite stores. Previously, Price Rite was seen primarily as a low-cost vehicle to gain food distribution efficiencies in markets outside its ShopRite core.

Observers emphasize, however, that hard discounting is but one way to reach the value shopper. One of the reasons established grocers have found it difficult to simply copy Aldi or Trader Joe’s is that those unique formats come with shopper expectations allowing them to get away with an offering other food stores might not. Trader Joe’s tight product offering and small footprint doesn’t allow it to carry diapers, for example. Coin-released shopping cart corrals have become an almost endearing quirk of Aldi, but it’s one shoppers of other grocery stores wouldn’t welcome nor tolerate. Similar to the branded goods their private labels mimic, these formats depend upon an existing status quo to disrupt. After all, if conventional stores offering high-low pricing and vast selections of branded goods didn’t exist, there’d be little argument for a “limited assortment” alternative, much less a proprietary detergent with an orange, yellow and blue label that vaguely resembles Tide.

“The expectations are different,” says Marion of Hartman Group. “A [conventional store] might not be able to do what Aldi does, even if they wanted to. Because shoppers go there expecting to see a full assortment of brands to choose from.”

Others are showing there’s room for alternatives to the alternatives. While playing on similar fields of limited assortment and thrill-of-the-hunt shopping as hard discounters, Emeryville, Calif.-based Grocery Outlet is a kind of reverse image of Aldi. Its goods are almost exclusively branded, and its stores aren’t centrally managed but owned instead by independent operators selling on consignment. Like Aldi, the “extreme value” retailer owes its pricing muscle to a central buying group, but it specializes in acquiring overruns, discontinued items and products approaching “sell-by” dates at steep discounts. Grocery Outlet officials say there’s also an advantage in independent operators—frequently, husband and wife teams that not only present the positive image of a family business but also an efficient one—marketing and merchandising locally. **G**



**40%**

Amount of U.S. households that are core shoppers of the discount format

Source: Unilever

PHOTOGRAPH COURTESY OF LIDL