***Students Scientific Conference***

# The fight for the customers: an Aldi and Lidl case study

*(A Belgian and Hungarian comparative market analysis)*

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# Content

# Fight for the customers

## Introduction

If we mention the phrase marketing most of the people think about commercials. First of all I would like to clarify the phrase. If we consider in narrow meaning it is a business activity which analyze the market in order to satisfy the customers' needs. It also determines products and services, prices and organizes the sales and affects customers. If we would like to speak about it in wide meaning it is a philosophy because it emphasizes the comparison with customers. In expanded meaning it is exchange of product, services and ideas.

If we would like to approach in international way it is very important we have to see the customers, their needs and habits in different eyes. First of all we have to know the cultures because there are differences between two countries' cultures and they have influence on marketing processes. We have to also know the habits of the customers and their decision-making mechanism. If we are ready we get a sharper picture. There are other factors for instance institutions and habits which have influence on marketing. Wedding dresses and gifts depend on cultures or religions.

## My chosen topic: Belgium

Why exactly Belgium? Many people can think about it. The main reason why I've chosen this country is that I was an Erasmus student during one semester. I feel it was enough time to see the differences between Hungary and Belgium. I think I've became more open-minded and I can draw conclusions.

In Belgium the retail network evolved from a small grocery shop over the years. In fact these small businesses which are formed the basis for today's network, are near the extinction now because customers are turning to the supermarkets. The main reason is they find all articles, goods in one place what they need and there is bigger choice as well. In recent decades various discount stores appeared in the Belgian market, such as Lidl, Aldi, Colruyt, Delhaize or Carrefour. They offered their own brands at very low prices. Amongst them Aldi was the fastest grower and Lidl appeared later. Initially the range of buyers of these chains was those people who had low income, large families and / or lower level of education. This is the reason why many people were ashamed to buy food in Aldi or Lidl.

It's interesting that in Belgium some people still think if they buy Aldi it is degrading socially because they consider  these shops the "poor’s businesses". However we can meet with people who do not care about it specifically, even if they have enough money and they could pay more for quality.

Aldi and Lidl are highly competitive with each other in Belgium and also in Hungary. If we compare the two countries it should be noted that in the Hungarian market the competition is not so intense. The target customers are the same in both discount stores and their prices, their products are similar.

The opinion of the customers is very difficult to notice because there is not so much information about it. The 'Test aankoop' magazine deals with this topic and with the standard own-price products research. In 2010 they examined the annual rates for the supermarkets. From this it can be said that Carrefour, Delhaize, Euro Spar are those supermarkets which are more expensive with 10% than the Colruyt. It is very important that in 2008-2009 when the financial crisis was started, customers were more price-sensitive than ever before and this has impact on today. This is especially true for the fixed costs such as energy, insurance, and current expenditure, such as food.

Lidl has appeared in Hungary first in 2004 and in 2006 Aldi has set up its own logistics centre Biatorbágy. In contrast in Belgium it happened counter. This is the reason why it is so surprising that now Aldi is losing market share continuously because of the aggressive advertising strategy of Colruyt.

2010 was an important year in the Belgian retail market. This was the year when the Delhaize and Carrefour showed his fighting spirit and their ability to fight their customers again. In spite of market fluctuations the same three chain stores dominate the retail trade. The Colruyt, Delhaize and Carrefour control more than 70% of the Belgian market. Despite the impressive efforts of the opponents it is not probable that this will change soon. Aldi and Lidl have more than 10% market share from the whole Belgian market.

## Customers

The stores have many factors to consider in order to gain more customers.
An interesting fact is the demographic evolution because the group of people over 50 is growing rapidly. So the supermarkets, shopping centres should pay special attention the buying habits of elderly people because they have special needs while they are shopping. This is so important because these people want to see the information of the prices with bigger printed letters and better illumination because the readability is easier in this way. The anti-slip floor is also a very important factor for them. The first supermarket for the category of people who are over 50 has opened in Salzburg, Austria. The purpose of these innovations is of course to make shopping easier and more comfortable.

However discount stores should pay attention to the social environment because the number of people who live alone is also growing rapidly and the number of kids is decreasing. This is important because we can say people who have different marital status have different shopping habits. For instance people who are single do not buy food so often, spend less money and eat more often in a restaurant.

In Hungary the tendency shows that the number of single people is growing rapidly. As you can see in the table the number of marriages is decreasing and the divorces' number is increasing during the years. These two factors caused that there are more and more single men and women.

| **Marital status** | **2007** | **2008** | **2009** | **2010** |
|---|---|---|---|---|
| **Single** | 30,5 | 31,1 | 31,7 | 32,3 |
| **Married** | 48,0 | 47,2 | 46,5 | 45,7 |
| **Widow** | 11,4 | 11,4 | 11,3 | 11,3 |
| **Divorced** | 10,1 | 10,3 | 10,5 | 10,7 |
| **All** | 100,0 | 100,0 | 100,0 | 100,0 |

Table1. The Marital status of population over 15 years in Hungary between 2007 and 2010 (%)

Source:www.ksh.hu

| Marital status | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| **Single** | 42,79 | 43,19 | 43,62 | 44,16 |
| **Married** | 42,79 | 42,28 | 41,65 | 40,98 |
| **Widow** | 6,78 | 6,71 | 6,63 | 6,55 |
| **Divorced** | 7,64 | 7,82 | 8,10 | 8,21 |
| **All** | 100,00 | 100,00 | 100,00 | 100,00 |

Table2. The Marital status of population in Belgium between 2007 and 2010 (%)

Source: www.statbel.fgov.be

There is only one problem when we compare the two tables. The information of the KSH's website is about the people who are over 15 years, this does not contain children but in contrast the table of the Belgian population is complete.

As you can see when you compare the tables the proportion of single people is increasing in Hungary and also in Belgium. The number of marriages declined steadily and the number of divorces increased at the same time in both countries.

We can't compare the tables perfectly but we can draw the consequence that supermarkets, discount stores have to pay attention to the people's marital status because as I mentioned customers with different marital status have different shopping habits.

In 2007 the Median Public Opinion and Market Research Institute made a survey concerning of shopping habits in Hungary. Before the spread of supermarkets the Hungarians bought food in small shops. In those days 55 % of the people preferred to buy food in small shops. 30 % of the population went to do their shopping in a store which has wider choice. 15 % of the people went to the supermarkets. Of course these percentages depend on the type of the place where they live and the development of the infrastructure as well.

We can say that it is more important for a Hungarian to make sure there is enough food at home than to eat or cook some fresh meal. In 2007, 66% of the respondents said that they do not go so often to buy food and during a shopping they buy larger packs because they want to make sure there is enough for everything at home. Other customers do shopping more often and they buy as food as sufficient for the next few days. It is interesting if we examine the respondents' sex we would expect that women and older people prefer to keep more food at home but it is not true. According to the research it is the men's and younger customers' habit.

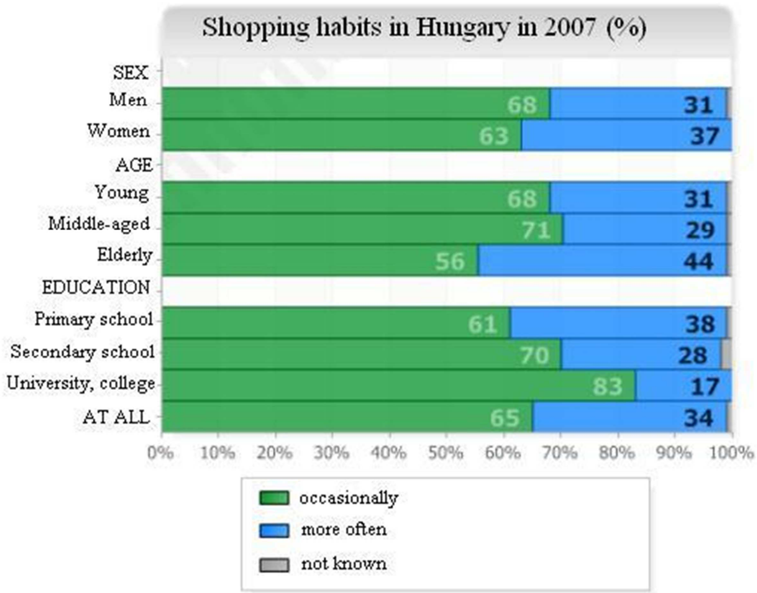


Figure1. Shopping habits in Hungary in 2007 (%), Source: www.median.hu

Technological innovations have an important role today. Online shopping and advertising on internet are more popular in these days. According to my research and an opinion of a Belgian professor if we compare the two countries based on advertising on internet we can say definitely this number is significantly lower in Belgium. It should be noted that the Belgians are much more mobile, because the proportion of the people who have cars are higher than in Hungary. This is so important because people, who do not have a car, mainly buy in local shops and sometimes in supermarkets.

## Aldi and Lidl

In my work I have already mentioned Aldi several times and I found some interesting facts about it. The Aldi started in Germany after the Second World War. This is a store chain that contains two networks but there are situations as if they were one firm only. Aldi Süd is a network which is responsible for the market supply of Hungary and other countries. Aldi Nord is the other network, which present in Belgium and some other countries. Aldi has became successful soon. The reason of this was that they had 3 % discount from the maximum price. There did not sell fresh foods, they left their shop in a small place and they did not use any advertisements in order to advertise. They paid attention not to offer food being not in request. They have different logos which are in different in colours and form but it is almost the same.

The workers, when they enter the Aldi Company, sign a confidentiality agreement, which contains that the employee must not give out any information about the company or its strategy. Aldi's management never gives interviews. It is also banned to enter the store with camera. There is a very strong culture within the company. They are doing research in order to reduce costs and be perfect.

Of course the Aldi group has negative characteristics as well. Services are limited and there are queues at the cash register but as this research shows Aldi’s customers are willing to accept these inconveniences.

In Hungary the first store has opened in 2008. The Nielsen market research company made a survey after the opening. According to the research we can say the prices of Aldi are not higher but in the same time not lower than other chains’ prices. The prices of the private brand products are also the same as other discount stores’ prices.

Aldi preferred quality when its stores appeared and it is still true. Aldi is waiting for its customers with convenient parking places, highly educated workers and its products. Aldi's philosophy is to provide high-quality own brand and they don’t want to have their goods produced by manufacturers who produce goods in the cheapest way temporarily. The range of goods is not so big because they deal with about 1000 products. It follows that the proportion of Hungarian suppliers is much lower so this is the reason why Aldi is attacked by others.

The Nielsen Market Research Company examined Aldi and Lidl in Europe in 2007. It is a very long study but I would like to mention some facts, differences and similarities from it. Despite the fact that Aldi is increasing its presence in the European countries its development is not the same in the markets. In some markets Aldi is successful because it has a significant part of the trade, while in others it is under-represented. In many countries, such as the Netherlands, Germany and Belgium they have high market share. However they are less popular in the French, Irish and the English market. If we analyze the performance in those countries where the retail sales are over 5 % we usually use key parameters such as the number of stores, price policy and strategy.

| | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| **Aldi** | 8,9 | 8,5 | 8,3 | 7,9 |
| **Lidl** | 4,0 | 4,8 | 5,4 | 5,6 |

Table3. Aldi's and Lidl's market share in Belgium according to the Nielsen Market Research Company, in period of 2007-2010

Source: http://www.distrifood.nl/web/Onderzoek/Marktaandelen.htm

According to the table we can observe Aldi is losing market share and in the same time Lidl's market share increases. Lidl's expansion is aggressive and continuous in Europe.

If we look a little further and compare the two groups we can mention that Lidl has more aggressive strategy than Aldi. Lidl was present in 23 countries in 2007 while Aldi was present just in 14 countries. But there is a lot in common. The key difference between the two discount stores is in the range of goods. In general, Lidl's selection is much larger than Aldi's.

## The competition in Hungary

Aldi feels that they are more stable financially and treats their employees better than the Lidl. This is the reason why they do not like when somebody compare them with Lidl. However in many people's eyes there is no difference between the two discount stores. In most cases Aldi's biggest competitor is Lidl. Aldi's biggest problem is the communication with its customers because the special promotions what they offer will lost amongst the offers of their competitors. Aldi Nord was clearly a market leader in Belgium and the Netherlands but the main question is how long they will be because Lidl has started to take Aldi's position in the market. When Aldi appeared in Hungary they did not use many marketing channels to advertise as the Lidl did in 2004. But we can't say they do not want to expand in the Hungarian market because the first thing what they did to established a huge logistic center in Biatorbágy. This is the evidence they have long term plans. The Hungarian head of Aldi was talking about the company's future plans in an interview. At the moment they have 75 stores in Hungary and they want to establish 10-15 new stores per year. So according to the plans the number of Aldi stores will be over 110 within 3 years.

Aldi is attractive to Hungarian customers when they offer special promotions otherwise they use similar prices than Lidl. According to some analyzers the competition will be better in Hungary by around 2012-13. Both stores prefer their own brand products and most of their manufacturers are not Hungarian.

**The list of the Hungarian food-retailing chains in 2010**

If we analyze the list of the Hungarian food-retailing chains in 2010 we can realize that Lidl was in the 7th place with 221 billion Ft turnover and Aldi was in the 12th place with 52,6 billion Ft turnover.

| Number | Store chain | Turnover (billion Ft) |
|---|---|---|
| 1. | Tesco | 666,5 |
| 2. | CBA | 555,0 |
| 3. | Coop | 510,0 |
| 4. | Spar | 381,3 |
| 5. | Reál | 360,0 |
| 6. | Auchan | 224,8 |
| **7.** | **Lidl** | **221,0** |
| 8. | Metro | 209,9 |
| 9. | Penny Market | 160,8 |
| 10. | Cora | 96,6 |
| 11. | Dm | 63,7 |
| **12.** | **Aldi** | **52,6** |

As we can see the Lidl's turnover was much higher than the Aldi's in 2010 but we have to mention the fact that Lidl is more widespread.

It is important to analyze the number of the stores. Lidl has 147 stores while Aldi has just 75 stores in Hungary. If we screen the turnover to one store we can see that one Lidl store had twice more turnover than one Aldi store. So it shows clearer their positions in the market.

Table4. The list of the Hungarian food-retailing chains in 2010

Source: http://www.trademagazin.hu/piaci-hirek/boltlancok-stabil-rangsora-tesco-utana-ket-magyar-lanc.html

Penny Market had significant turnover, 160,8 billion Forint but despite of that I did not mention in my paper because in Europe the competition is going on mainly between Aldi and Lidl.

## The future

Some analyzers have a dim view about the fate of these discount stores. They see several reasons why the growth of the discounters will continue if they do not change their strategy drastically.

The first reason is the customers are becoming more price-sensitive, because every cent or forint is important for them. They can save and it can be used for other purposes. Quality is not so important for them because of the expensive prices.

This increase was supported by the fact that some people think private brands are perfectly acceptable for products used on a daily basis. They argue that the higher quality of the foods or other products will only be required for special occasions such a birthday party or a wedding. On weekdays they buy cheaper products and these have lower quality. Customers also are aware that the nice, friendly environment represents the costs that in the end of the shopping are reflected in the price of the products that they are buying. So their main aim is to spend as less money as possible.

In contrast other observers have different opinion. According to them a 15-20 % market share is the maximum that the retailers can achieve because customers are not attracted anymore, they will never buy in these stores.

However they are convinced that the customers have emotional link with many articles such as baby stuff or articles for personal hygiene or even clothing. If we examine the market we can see there are three types of customers who have brand loyalty. Some people are brand loyal. There are customers who are brand loyal but in part and there are the brand-leavers. There is a category of customers, who are suspicious of the unknown Aldi products. They are always willing to pay a higher amount for a well-known product so they do not buy in Aldi.

These are the reasons why the other group of the analyzers expects the increase.

## The customers’ opinion: Aldi or Lidl?

The method of my research was a questionnaire-based query. I asked 50 customers. With the help of that I could assess which stores are preferred by the customers, the frequency of purchase and how the goods of Aldi and Lidl are known.

My first question was an open question. I asked the first three ideas that occurred concerning of the stores to the customers. Most of the respondents (70%) said that these stores are cheap. This shows that the large proportion of them is price-sensitive. 64% of the people said there are wider ranges in these stores.

I drew important conclusion from the fact that which stores can be found near-by. According to the respondents we can find both stores, neither or just the Lidl. So there is not such a place where we can find just Aldi in a town. Aldi tries to handle the competition and it creates new stores where the Lidl is present too.

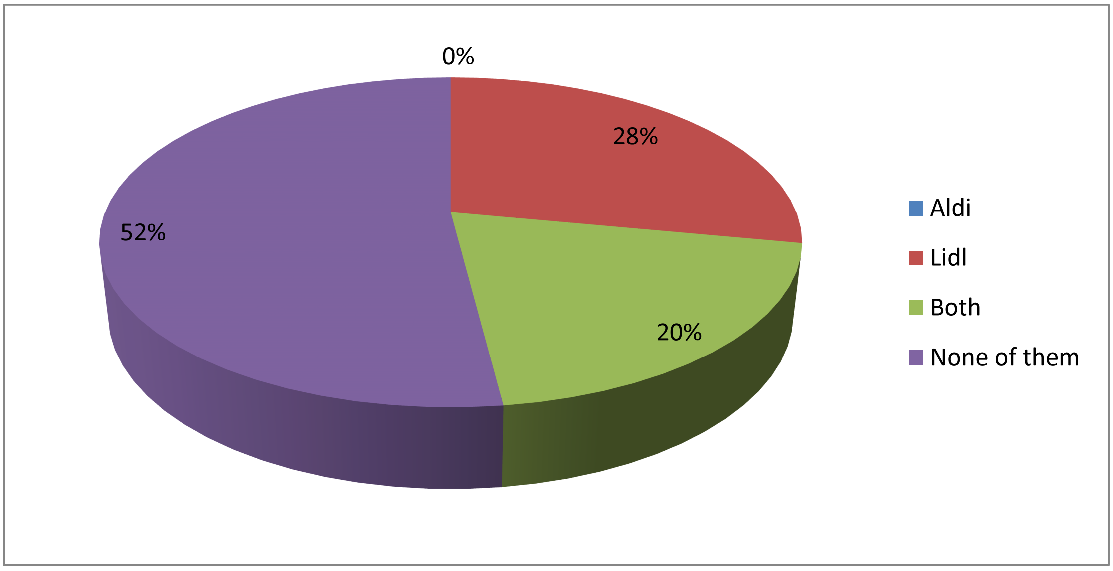


Figure2. Which stores can be found near-by

64% of the respondents prefer discount stores not the small shops. The reason what they mentioned is that they like wider choice, cheaper in many cases and they can find everything in one place. 36% of the respondents prefer small shops because there is not any discount stores near-by. If there is the small shops are closer and it is also an important factor in many customers’ eyes. Of course it is very important that a small shop is more personal than in a big discount store so they can ask for help and the sellers are friendlier.

8% of the respondents prefer Aldi because they go more often and according to their opinion it is cheaper. In contrast 54% of them prefer Lidl because it is well-known for them, cheaper and it is closer. Finally 38% of them do not prefer any of them because they do their shopping in a small shop and according to them the quality of the discount stores’ products is so low.

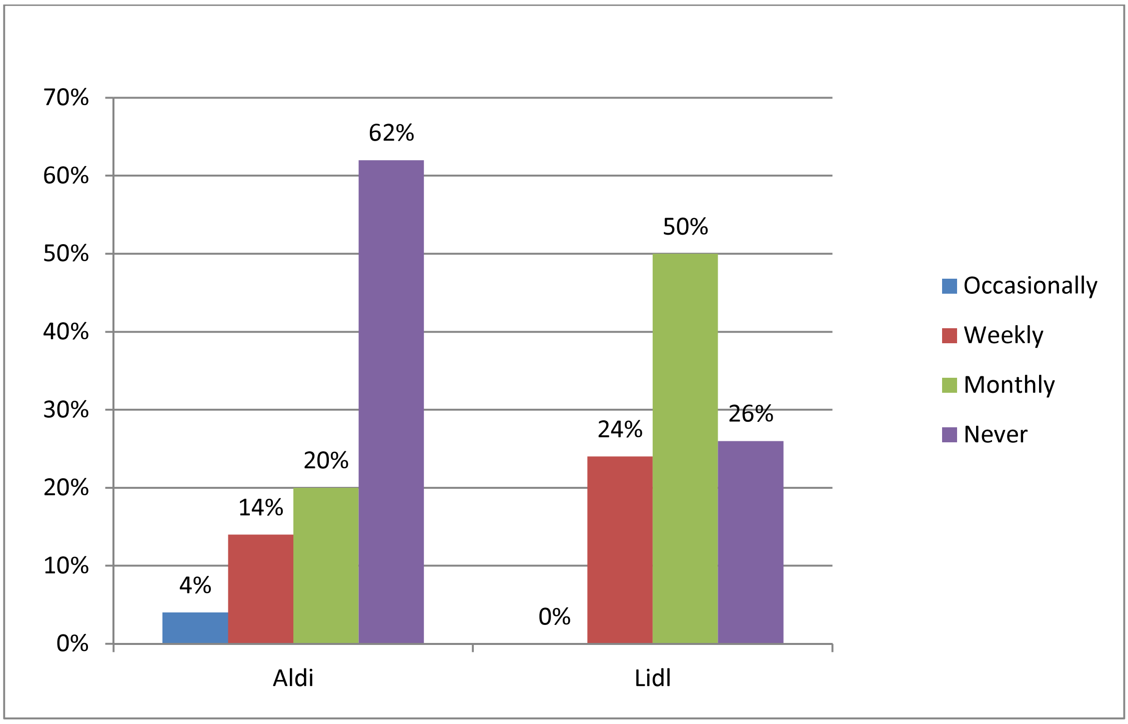


Figure3. The purchasing frequency in Aldi and Lidl (%)

The figure clearly shows that in Hungary Lidl is more well-known than Aldi is and customers rely on Lidl better. 62 % of surveyed consumers don’t buy in Aldi and 26% of them don’t buy in Lidl. You can have a quiet think: will it remain so or is a change coming soon?

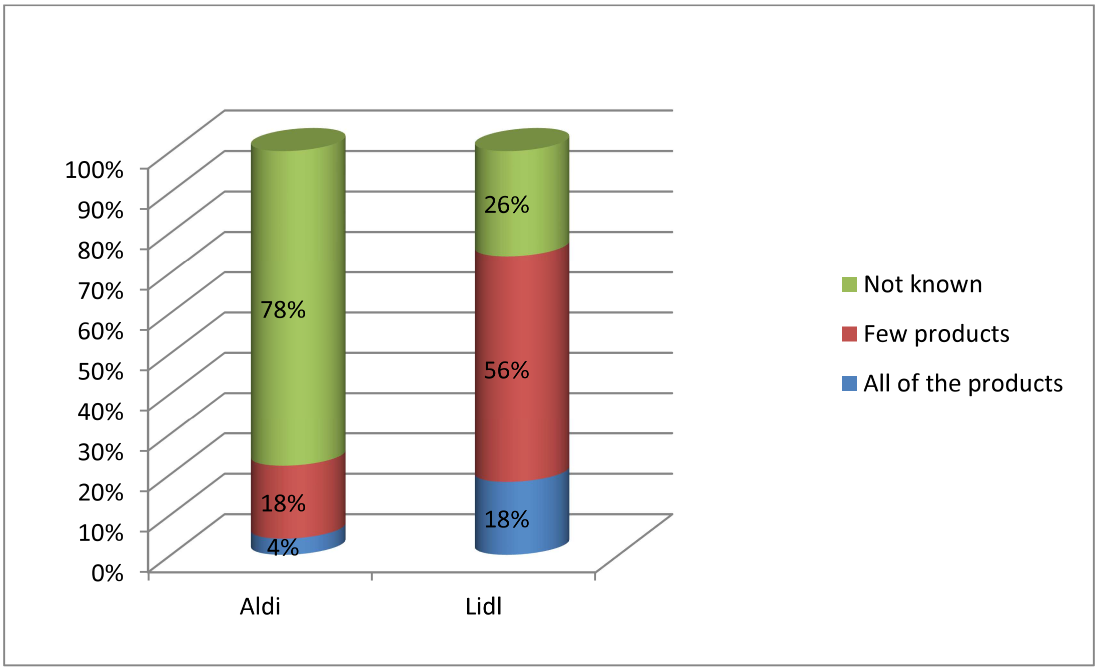


Figure4. The popularity of products in both stores (%)

Aldi's private brand is not so well known. The opinion of the respondents clearly shows that because 78% of them do not know Aldi's products and 18% of them know just a few products. Just 4% of them know all the products and they are regular customers of Aldi. While when we observe Lidl, just 26 % of the respondents said they do not know any of their products and 56% of them just a few and finally 18% of them know all the products. If we compare the proportions it clearly shows that Aldi is not well-known in Hungary.

As I mentioned most of the respondents do not know Aldi's products. The figure shows that in the case when Aldi wants to compete with Lidl, Aldi should promote its stores and products. The biggest problem of Aldi stores is that its promotional offers are lost between the competitors offers. Aldi is attractive to Hungarian consumers when it has discounts.

I asked which the cheaper discount store of them is and the respondents clearly said it is Lidl but 30% said they do not have sufficient knowledge to decide that question.

From the respondents 70% was women while 30% was men. 60% of the customers follow the promotions occasionally, 10% all the time and 30% do not follow.

In consequence I can say that Lidl has been better known and more preferred than Aldi in Hungary nowadays. The question can be asked whether Aldi will become a rival of Lidl and gain more customers in the coming years. According to analyzers the competition will have been sharpened by 2012-2013 and these questions will have been answered as well.

According to me this research can be better later if I use a survey which is more detailed. It would be interesting to examine the interviewed customers' income and we can get clear picture about the main customers of these stores.

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## Abstract

At the moment there are more than 400 specific discount food stores in the Hungarian market. They get more and more market share and because of that small shops keep the competition. In this year the customers have became more price-sensitive because of the 27% tax. Their behaviour is more conscious and mainly determined by the prices and this is the reason why the loyalty of domestic brands would relegate to the background. Those kinds of food that are in daily needs will be bought in discount stores which are disadvantageous to little shops and domestic producers. If we see the Aldi and the Lidl in producers' point of view we can see that because of their hard strategy it is a good opportunity for them.

Maybe the most important factor is that in 2008-2009 when the crisis was starting, consumers were more price-sensitive than ever before and this has impact on today. Aldi has established its first store in 2008 during the crisis. So it was very hard to keep the competition for them. Despite the fact that these giants of the commercial market make their decisions after a long analysis it was very hard to deal with the market position.

Finally you can have a quiet think: what would happen if the Aldi opens its first stores in a prosperous economy and they don't have to deal with the crisis? Will the situation be different? What about the competition? Would be harder to keep their place in the market? Have the small shops been affected by the fact? I think these questions will be unanswered.

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