



ICM

JUNE 2016

CONTEMPORARY STRATEGIC MANAGEMENT – PRE-ISSUED CASE STUDY & GUIDELINES

The following provides details on a case study involving **LIDL**. Candidates should read this case study carefully in preparation for the examination.

Note: A copy of this case study will be available in the examination. Therefore, you will NOT be allowed to take this case study into the examination room. Candidates are allowed to take into the examination a maximum of two pages/four sides A4 of draft working notes which should be handed in and attached to the answer script.

DRAFT WORKING NOTES GUIDANCE [15 marks] – to be handed in with answer script.

Researching, preparing and understanding the case study and compiling these notes provides the essential case preparation necessary for all candidates to be successful.

The draft working notes (maximum of two pages/four sides A4) should be handed in and attached to the answer script. They should be word-processed (min. word size 12 pt) and contain key headings and areas relating to the strategic analysis of **LIDL** and should provide the analysis underpinning required to answer the examination questions.

The notes will be assessed as follows:

- Evidence of a good level of secondary research and understanding of the case [5 marks]
- Outline of FOUR strategic models relevant to the case analysis [5 marks]
- Report structure, readability and legibility [5 marks]

N.B. Whilst it is hoped that all, or most, information required to analyse and evaluate this case study is contained in the case, it is recognised that this might not always be the situation as information relating to most companies is sometimes changing on a daily basis. It is suggested that secondary information (facts, figures, etc.) contained in this case should be utilised first. If the student still considers there is an absence of information in a particular area then it is quite reasonable for material external to the case to be gathered and utilised. External sources mentioned in the report should, of course, be referenced.



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CASE STUDY – LIDL

Introduction

Lidl is a German discount supermarket chain that operates over 7,200 stores across Europe, with plans to expand into North America. The company's full name is LIDL Stiftung & Co. KG. It belongs to the holding company Schwarz, which also owns the store chains Handelshof and Kaufland. Lidl is the chief competitor of the similar German discount chain Aldi. Lidl are growing fast, growing about 12% annually, which is worrying for the supermarket chains such as Tesco and Sainsbury's.

Background and History

Lidl's history goes back to the 1930s when the company was founded in Germany as a grocery wholesaler. Today, Lidl is one of the largest grocery retailers in Europe.

The first Lidl stores were opened in 1973 and by the 1980s Lidl was a household name throughout Germany. During the 1990s Lidl started to open stores outside Germany and today Lidl stores can be found in nearly every country in Europe. Lidl is now well established as a major European food retailer and their extensive network of stores is unmatched in the discount sector.

Lidl takes pride in providing top quality products at the lowest possible prices to all their customers across Europe. The stores are operated by a network of dedicated store staff, helping to establish and further develop the success of the company. Lidl continues to play a major role in the exploration of new markets in Europe and beyond. Since establishing the company in the UK in 1994, Lidl have grown consistently and today have more than 600 stores, and, according to the company, there are plenty more to come.

During wartime the company was destroyed in 1944, and a ten-year reconstruction period soon started. It wasn't until the 1970s that Lidl began to focus on discount markets, larger supermarkets, and cash and carry wholesale markets.

The first Lidl discount store was opened in 1973, copying the Aldi concept. The management rigorously removed merchandise that did not sell from the shelves and cut costs by keeping the size of the retail outlets as small as possible. By 1977 the Lidl chain comprised 33 discount stores.

Since launching in the United Kingdom in September 1994, Lidl has grown consistently. While it is still a small player in the United Kingdom, with a grocery market share of less than 5%, its importance, along with that of continental no-frills competitor Aldi is growing, with half of shoppers in the United Kingdom visiting Aldi or Lidl over the 2015 Christmas period.

The Retail Industry

The retail market is one of the most competitive markets and in Britain there are four main competing supermarket chains. These are, in order of market share, Tesco, Asda, Sainsbury's and Morrisons. It is now very hard for other businesses to find a gap and penetrate the market. The barriers to entry, and indeed exit, are very high.

Asda has been the winner of *The Grocer* magazine's 'Lowest Price Supermarket' Award for the past 12 years, and uses this to promote itself across the UK. Tesco challenges Asda's ability to use the claim that it was the cheapest supermarket in the country, by complaining to the Advertising Standards Agency. The A.S.A. upheld the complaint and ordered Asda to stop using it, citing that *The Grocer* magazine survey was based on limited and unrepresentative evidence as it examined the price of just 33 products, and that the survey did not study low-cost supermarkets such as Lidl and Aldi. As a result, Asda no longer cites itself as 'Officially Britain's lowest priced supermarket', instead using 'Winner: Britain's lowest price supermarket award'.

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Operations

There are currently over 15,000 food discount stores in Germany, making it the most overstored country in Europe, and the most competitive. As a matter of fact, there are more discount stores in Germany than there are gas stations. To prosper among the intense competition requires consumer savvy and excellent operations. Aldi and Lidl have mastered both. These leaders in discount retailing have a combined 7,540 units in Germany or 37% of all discount stores. With such ferocious low cost competitors, even the mighty Walmart left Germany in 2006 after just nine years.

Understanding that the customer wants quality, both Aldi and Lidl have traded up their merchandise assortment to higher quality products. In addition each has introduced fresh meat, baked goods, organic fruit, fresh noodles, speciality soups, as well as expanding their non-food assortments. For instance Lidl now carries the *Silvercrest* line of electronics. As a result of these merchandise strategies the stores have become more attractive and appealing to the affluent customer.

With a more upscale offering and image both companies are now expanding rapidly in the European Union where they are just starting to become a factor in a number of markets. In time, they plan to blanket the rest of the world with their stores. Today, Aldi Nord already has 1,188 stores in the United States and 270 in Australia; while Aldi Süd has more than 370 Trader Joe's stores in the United States. Lidl has 11 stores in Cyprus, 5 stores in Malta; while Lidl is not yet in the United States, it is certainly a target market from a strategic viewpoint.

Logistics

The transportation of Lidl's goods is handled by pan-European distribution centres, at which the delivered goods are consolidated centrally. This allows Lidl to import smaller amounts whilst still maximising vehicle capacity to ensure the minimum amount of haulage is required on the roads. Lidl's delivery structure enables them to guarantee the best possible freshness, even of perishable items, as well as allowing the company to organise transportation in the most efficient and environmentally friendly way.

For Lidl to guarantee a stable and continuous supply of goods, the management have been working with German and UK medium-sized businesses within the field of logistics for years, which also takes over the supply of goods between warehouses and stores. For the most part, a well-engineered route plan is used for daily delivery to stores, whereby a full lorry load is taken into consideration as early as the time the goods are ordered by the stores. The lorry loads are optimised by simultaneously returning materials from stores to warehouses. In order to be even more effective, the vehicles delivering to stores also travel to manufacturers along their delivery routes, so as to take goods to the intended warehouses on their return journeys.

Marketing

Like fellow German supermarket Aldi, Lidl has a no-frills approach of displaying most of its products in their original delivery cartons, allowing the customers to take the product directly from the carton. When the carton is empty, it is simply replaced with a full one. Staffing is minimal, so that a profit can still be made even though the prices are low.

Together with Aldi, Lidl has carved out its own niche with this approach. In contrast to Aldi, there are generally more branded products on offer and while Lidl imports many low-priced gourmet foods from Europe, it also sources many local products from the country where the store is located. Like Aldi, Lidl has special weekly offers, and its stock of non-food items often changes with time.

Lidl operates in all European Union countries except for the Baltic States (but it has plans to expand in Lithuania), and also in Switzerland. In contrast to Aldi, Lidl advertises extensively in its homeland of Germany.

In the post-recession era, shopping in Lidl has become a 'badge of honour', rather than a source of middle-class shame – or at least that is the case, according to Arnd Pickhardt, Advertising and Marketing Director at Lidl UK. Speaking recently, in 2015, he argued that the brand has a loyal, almost cult, following.

"Lidl is relevant to everyone," says Pickhardt, who believes the 'Lidl classes' will keep the brand buoyant long after the economy has recovered. Almost 50% of UK consumers have shopped in a Lidl store this year, he claims, and (even to Lidl's own surprise) market research shows that the brand enjoys a 50/50 demographic split between ABC1 and C2DE consumers.

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The 'Lidl classes' were at the heart of the brand's 2015 Christmas marketing activity. In September, it kicked off 'Lidl Surprises', a £20m campaign with a national TV ad showing real consumers unwittingly trying Lidl food in a farmers' market setting and being surprised by the quality. The style is a marked departure from Lidl's earlier, edgier ads, but it has been a success, claims Pickhardt. "Lidl Surprises' has had great feedback," he says, adding that the campaign has worked "not only in the growth of our business, with sales figures and customer count increasing, but also in feedback from the public and even the industry".

Marketing has become much more important to Lidl over recent years, says Pickhardt, and is a priority for the brand's UK managing director, Ronny Gottschlich. In line with this, Lidl has increased its budget this year. The super-discounter is also intending to change its marketing strategy, ditching its traditional reliance on leaflet drops in favour of a national, integrated approach, with significant investment in TV and digital channels.

Brand Loyalty

Social media has fast become a key marketing channel for the supermarket. According to Pickhardt, engagement with the brand is so strong that when a negative comment is made on its Facebook page (which has 698,000 'likes'), fans leap to Lidl's defence.

Referring to those who do as 'Lidlers', he says: "Sometimes we've thought that we don't need to do the communication ourselves because our fans do it already. You don't even have to wait five minutes before we have a reaction from one of the loyalists defending the brand, saying 'You have clearly not understood what Lidl is about'."

The fans may sound like the 'Beliebers' of the grocery world but, cult following or not, there is no denying that shoppers are flocking to Lidl in droves. The numbers speak for themselves, and it is clear that Lidl's marketing strategy has had to shift in light of the meteoric rise of the discounters in the UK.

Lidl and its ilk have altered the structure of the UK grocery market. While Tesco, Sainsbury's and Morrisons have been losing sales, blaming the discounters along the way, Lidl, along with its rival Aldi, has been reaping the benefits. Both businesses have enjoyed consistent year-on-year, double-digit growth, and this year Lidl's sales will top £4bn in the UK.

It has doubled its turnover since 2010 and carved out a 3.6% market share. The secret of its success, Lidl claims, is simple: while the market-leaders have been focusing on cutting costs and lowering prices, it has been improving quality, building up from a low-cost base.

Adverse Publicity

Trade unions in Germany and other countries have repeatedly criticised Lidl for mistreatment of workers, breach of European directives on working time and other abuses. These have been published in the Black Book on the Schwarz Retail Company published in Germany and are now also available in English.

While *The Times* notes that Lidl's managers work excessive hours, being obliged to sign out of the Working Time Directive when starting with the company, both *The Guardian* and *The Times* in the United Kingdom, amongst other allegations have reported that Lidl spies on its workforce with cameras, makes extensive notes on employee behaviour, particularly focusing on attempting to sack female workers who might become pregnant and also forces staff at warehouses to do 'piece-rate' work.

Lidl's senior management has denied the charges. In July 2003, in Italy, a judge in Savona sentenced Lidl for anti-union policies, a crime in that country. Lidl has been criticised in both the United Kingdom and Ireland for not allowing workers to join unions.

In March 2008, the German news magazine *Stern* released a cover story reporting systematic surveillance of Lidl's workers, including the most intimate details of their private affairs.

In November 2014, Lidl's UK staff were forbidden to speak any language other than English – including Welsh. The Welsh Language Society said the policy was "appalling" and the chairman, Jamie Bevan, added that "since the Welsh language bill was passed four years ago, it is illegal to stop staff from speaking to customers in Welsh".

The 'English only' rule provoked protests from the Polish community in Kirkcaldy. The incident was broadly commented on in the press and the policy was ridiculed. Poles complained that they were discriminated against, as they couldn't be served in their native language any more. One of the Polish protesters speaking with the *Scotsman*, said: "I cannot imagine an opposite situation, where a British worker is not allowed to speak to a British customer in the English language anywhere in Europe". Eventually, the policy has been changed under the pressure of the public.

Other Services

Lidl has a history of trying to add diversification to its strategy but not always with success. In 2009 Lidl Movies was launched in the United Kingdom, undercutting Tesco DVD Rental, which had previously been the United Kingdom's cheapest online DVD rental service. The service was powered by OutNow DVD Rental. OutNow went into liquidation in October 2011, taking Lidl Movies with it.

2012 saw Lidl launch and add bakeries in their stores across Europe. They consist of a small baking area with a number of ovens, together with an area where bread and pastries, such as croissants, are displayed for sale.

In 2013, Lidl UK also launched an online photo service, which prints photos and photo gifts at discounted prices.

Corporate Responsibility

Lidl are very conscious of their responsibilities to society and the environment and continually apply themselves to improving in all areas of business: environment, climate protection, employment, community action and product range. As part of Lidl's motto "On the Way to a Better Tomorrow" the management ensure customers and other interested stakeholders are always fully informed of company responsibilities in all areas.

Lidl's management comment that the company is only too aware that it can only fulfil its responsibilities with the help of motivated and committed employees. One of Lidl's primary concerns is, therefore, to remain a responsible and appealing employer.

The Future of the Company

The future of the fast moving consumer goods (FMCG) industry and its key players remains very volatile and uncertain to say the least. As a result the Lidl boardroom will need to fully consider all of the major players and other stakeholders involved to continually monitor the ever-changing external environment whilst building future strategy around the core competences, experience and skills that the company has built up since inauguration. It will not be easy, as consumer tastes and brand loyalty is constantly changing in a fast moving era of social media frenzy, but the future survival of the company will depend on management getting strategy just about right. To date, both Lidl and Aldi have made terrific strides in grabbing industry market share from the giant retail chains. It is very unlikely that these giants will allow things to continue without a fight. Lidl must prepare strategies for various scenarios.

Reference Source: Wikipedia