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SUPERMARKET NEWS

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NEWS ANALYSIS
WHAT'S NEXT
FOR ALBERTSONS
AND RITE AID?

CATEGORY MANAGEMENT
RETHINKING
THE CONDIMENT
AISLE

CASE STUDY
DELIVERING
GROCERIES TO
RURAL ALASKA

2018 RETAILER OF THE YEAR

ALDI OPENS UP

An ambitious
expansion
program
highlights
the chain's
year.

RETAILER OF THE YEAR

38

Aldi Firing on All Cylinders

Amid industry upheaval, the fast-growing chain wins over shoppers with more than low prices.



DEPARTMENTS

SHOPPER INSIGHTS / 11

11

CONSUMER TRENDS

Walmart winning with pet owners; plant-based products keep growing; Americans passing on online grocery.

17

OUTSIDE INFLUENCES

New convenience concepts pack healthy, high-end products into tiny spaces.



INDUSTRY INSIDER / 21

22

NEW PLAYER IN DELIVERY

Kroger launches Ship, an online delivery service.

25

UN-DONE DEAL

What's next for Albertsons and Rite Aid after the merger that wasn't?

26

DRIVING INNOVATION

From delivery to customer pickup, retailers find applications for self-driving cars.

29

BIG NUMBERS

Walmart, Target hit new highs in second quarter.

30

HEALTHY & NATURAL

New store formats focus on shoppers' healthy lifestyles.

32

CASE STUDY

In rural Alaska, an online grocer goes the distance.

34

SUPPLY CHAIN

How big of a problem is online out-of-stocks?

36

NEW PRODUCT TRENDS

Alternatives to traditional milk are taking root in the dairy case.

CATEGORY MANAGEMENT / 49

49

FRESH

DELI/PREPARED FOODS

Delis offer solutions for the new "blended" dinner.

53

MEAT/SEAFOOD

Spotlighting the nutritional side of beef can win customers.

57

BAKERY

When a gluten-free bakery isn't an option, partnerships make sense.

59

PRODUCE

Regional and hybrid tree fruits are bringing variety to the category.

63

CENTER STORE

Changing tastes are redefining the condiment aisle.

57



49



IN EVERY ISSUE

8 EDITOR'S LETTER

74 CHECKOUT



CONGRATS, ALDI!

*Ambitious expansion plans just one reason for
Retailer of the Year nod*

At this time last year Amazon and Lidl were the hot topics, and if you asked me then who our 2018 Retailer of the Year would be, I would have bet money on one of the two taking home the prize. But when the editorial team at *Supermarket News* sat down to debate this year's winner, a different "A" and a different German retailer came to the top.

We're proud to name Aldi as our *Supermarket News* 2018 Retailer of the Year. For the past two years, Aldi has been at the top in sales growth in our annual Top 75 Retailers and Wholesalers list. The company posted 22.1% sales growth in 2016-2017 and 17.4% growth last year. While other brands posted larger increases, Aldi's accomplishment lies purely in growth of its own stores and not with the purchase of other chains.

And don't expect that growth to slow down at all. The company is in the middle of a \$5.3 billion, five-year expansion program that will see the company's store base grow by almost 50%! That's backed up with a \$1.9 billion remodel plan that will take place at more than 1,300 stores by 2020.

Aldi's growth is fueled by the chain's desire to expand its customer base and move beyond those who are simply looking for a good deal. The store is increasing its fresh assortment by 40% with items like ready-to-cook and organic meat, more organic product, and new vegan and vegetarian options.

If you haven't seen one of Aldi's quirky commercials, get ready. "You could look at the map on where we cover, and there are a couple of holes that we'll fill in," said CEO Jason Hart.

From all of us at *Supermarket News*, our sincere congratulations to Aldi and its team of associates, and our best wishes for continued success. You can learn more about Aldi's selection as Retailer of the Year on page 38.

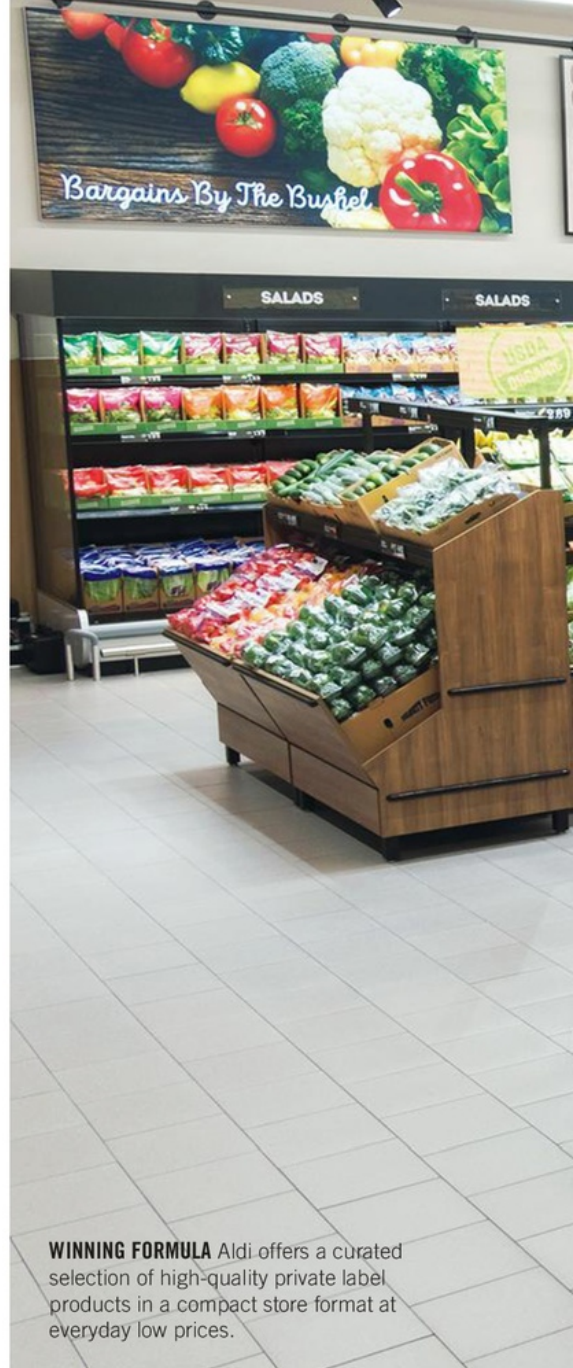
—Becky Schilling,
editor-in-chief



Amid industry upheaval,
fast-growing grocer wins
over consumers with
more than low prices

ALDI IS FIRING ON ALL CYLINDERS

BY RUSSELL REDMAN



WINNING FORMULA Aldi offers a curated selection of high-quality private label products in a compact store format at everyday low prices.



In perhaps the most intense competitive period ever for the U.S. supermarket industry, Aldi stands out from the crowd.

Supermarkets were already grappling with stiff competition from multiple channels — discounters, warehouse clubs and drug, dollar and convenience stores, among others — when in August 2017 Amazon turned retail grocery upside down with its acquisition of Whole Foods Markets.

The e-tail giant's entry into brick-and-mortar grocery led supermarket operators of all stripes to rethink pricing and store counts, enhance their in-store experience

RUSSELL REDMAN



and fast-track plans for online grocery shopping and delivery. Amazon's disruption, too, has clipped grocery retailer stock prices, contributed to store closings and retailer bankruptcies, and pushed industry leaders like Walmart and Kroger to shift gears and step up investment in e-commerce.

Aldi, meanwhile, is sticking to a formula that has propelled rapid growth and lifted the German hard-discount grocer into the top rungs of the U.S. retail grocery market by number of stores.

The retailer, whose U.S. headquarters is in Batavia, Ill., offers a unique, curated

Aldi is more than a year into a \$5.3 billion, five-year expansion program that will enlarge its store base by almost 50%.

selection of high-quality private label products in a compact store format and attracts customers with hard-to-match, every-day-low prices and a simplified shopping experience that eschews promotional frills.

Now with about 1,800 locations in 35 states, privately held Aldi is more than a year into a \$5.3 billion, five-year expansion program that will enlarge its store base by

almost 50% and upgrade most of its stores. Dovetailing with that initiative is a major product expansion, announced early last month, in which 20% of items in every store will be new versus a year ago.

CEO Jason Hart said Aldi has doubled its sales volume over the last five years and expects to double it again over the next five years.



In 2017, Aldi embarked on a \$1.9 billion program to remodel and expand more than 1,300 stores by 2020.

Because of Aldi's brow-raising growth and success with a well-disciplined business model that's resonating with consumers in a time of industry turbulence, *Supermarket News* has named the company its Retailer of the Year for 2018.

"Aldi is really clicking on all cylinders right now. At a time when other retailers are struggling, Aldi is thriving, we're investing and most importantly we're better meeting the needs of our growing customer base. We've always been growing steadily, but more recently we've accelerated our growth plans due to the rising demand for Aldi," Hart told *SN*.

"Customers recognize that the more convenient we can make Aldi and the more products they can buy at Aldi, it saves them more time and more money," he said.

ON THE GROWTH TRACK

Last year, Aldi opened 135 new stores, and in 2018 the retailer is aiming for 150 new locations. The company in June 2017 unveiled a \$3.4 billion expansion plan that by the end of 2022 will broaden its retail base to 2,500 stores — serving 100 million shoppers per month, up from over 45 million currently.

"Our plans are to continue on this aggressive growth track by answering consumer demands regarding where, how and what they want to shop for," Hart said.

In February 2017, Aldi embarked on a \$1.9 billion program to remodel and expand more than 1,300 stores by 2020. The remodels bring a more modern design, open ceilings and natural lighting plus more refrigerated space for fresh foods, including enhanced produce, dairy, meat and bakery sections. The chain's stores average 12,000 square feet of selling space and keep the shopping trip simple with only five aisles to navigate.

"We've been investing heavily in our existing network of stores. We're remodeling and expanding our entire network of stores over a three-year time period. What that's doing is giving us a little more space to merchandise our products. On average, it's giving us 20% more salesfloor square footage," Hart explained. "It's also modernizing the shopping experience."



SHOPPER FRIENDLY Aldi's redesign features more refrigerated space for fresh foods and an enhanced produce selection.

SN RETAILER OF THE YEAR HONOR ROLL

SN's Retailer of the Year Award recognizes outstanding accomplishment by a food retailer that boosts its business and serves as an example to the wider industry. SN has recognized the following companies since launching Retailer of the Year in 2003:

2003	H-E-B
2004	Kroger
2005	Hannaford
2006	Hy-Vee
2007	Safeway
2008	Kroger
2009	Stop & Shop/ Giant-Landover
2010	Publix
2011	Wakefern Food Corp.
2012	Hy-Vee
2013	Sprouts Farmers Markets
2014	Mariano's
2015	Aldi
2016	Wal-Mart
2017	H-E-B
2018	Aldi

"We open the ceiling up, bring in more modern LED lighting and create what we call the 'Modern Market' experience in store. And the customer who hasn't been into Aldi before is surprised at how nice the shopping environment is for a discounter."

MORE PRODUCTS, MORE FRESH

The new-product effort — focusing on fresh, organic and easy-to-prepare offerings — will boost the selection of fresh food by 40%. Plans call for the rollout to run through early 2019.

"More and more consumers are coming into our stores, and their demands are changing quite rapidly. They want more products that are healthier for you. They want more fresh, which is leading us to expand exponentially our fresh produce, fresh meat and organic products — anything healthier for the consumer," Hart said in announcing the product expansion last month at Aldi's store in St. Charles, Ill.

With many of the new offerings, Aldi is looking to help customers make meal preparation easier. That includes more ready-to-cook and organic fresh meat; a bigger assortment of produce, including ready-to-eat sliced fruit; more organic produce; and new vegan and vegetarian options.

Hart noted that the product expansion spans

Aldi's range of own brands, including SimplyNature (natural and organic foods), Earth Grown (vegetarian and vegan foods), Specially Selected (gourmet specialty foods), Never Any! (antibiotic-, hormone-, steroid- and animal byproduct-free meat), liveGfree (gluten-free foods) and Little Journeys (baby care).

"All of those are the growing brands at Aldi, and we need more room for them. That's why we're doing this remerchandising," he said.



FOCUS ON FRESH Aldi's new-product effort will boost the selection of fresh food by 40%.

For the new-product push, Aldi engaged in in-depth market and consumer research and tested new items in stores, according to Vice President of Corporate Buying Scott Patton. That effort included the "Aldi Finds" feature, which highlights food and household products offered in stores for a limited time and is intended to lure customers back to check out what's new.

"We want to bring products to the customers that they want. Clearly, convenience, fresh and healthy were the trends that we identified. So that was our focus," said Patton. "In the end, it's not what we think should be in the store; it's what customers think should be in the store."

PRICING PUNCH

Aldi's private label approach underlies what Hart said customers like best about shopping at its

COMPETING WITH ALDI DOESN'T COME EASY

► ALDI'S AGGRESSIVE U.S. expansion will turn up the heat even further on grocery retailers looking to compete on value and convenience, industry analysts say.

It has already been widely reported that Aldi has compelled retailers of all stripes selling groceries to rein in pricing when the hard-discount chain opens stores in their market areas.

But now Aldi is delivering a one-two punch. The company plans to add 700 more stores over the next four years, which will bring the retailer into more U.S. markets and give it 2,500 stores overall. It also has begun a major drive to improve the shopping experience, including more fresh and organic offerings plus a wave of new products.

"Consumers enjoy shopping there, because not only do they get value but there's also an element of discovery. They're finding things that are really meeting their quality expectations at a price that others are having a hard time competing with. They are renovating stores so the shopping experience is better, and their smaller store size is easier to navigate for consumers who are often very time-pressed," said Shelley Balanko, senior vice president at The Hartman Group.

"Experientially, Aldi is delivering on some things that traditional grocery retailers haven't been offering," she noted.

In a recent study, IRI revealed that new stores are spurring U.S. consumers to try Aldi, with

40% of first-time shoppers saying they wanted to experience a new store. Customers also like what they see: Eighty percent report high satisfaction with their experience, and 84% say they will shop at Aldi again.

"Aldi already has good value for the money, they already have high perception of product quality, they have the convenience factor and they're improving fresh products and meat, which is a key driver. When they improve the store experience itself, that could be pretty formidable," said Fernando Salido, executive vice president of consumer and shopper marketing at IRI.

The average shopper basket at Aldi is \$40 or less and contains 16 to 25 items, according to Salido. "They have convinced consumers that their products are high quality for a low price. And their basket has been traditionally 10% to 15% lower than other grocers," he said.

The Hartman Group has called Aldi "the most underestimated grocery retailer in the U.S. market."

"There's a lot of folks who want to eat better, higher quality more of the time but just can't because their budgets don't allow it," Balanko said. "So I think that's a real sweet spot for Aldi right now."

—Russell Redman



stores: the ability to save money on their grocery bill without sacrificing quality.

"When they come into the store, they are amazed by the prices and have the 'a-ha' moment at check-out when the cashier hits total and they thought the bill was going to be over \$100 and it's maybe \$55," he said.

"EDLP is the cornerstone of that. We're very transparent and straightforward on our pricing. We don't play the high-low games; the customer gets the best price without conditions. You get peace of mind coming into the store and picking up a jar of peanut butter and knowing that it's a great price and a consistent price — not something where you have to come in for the Friday or Saturday sale or worry about having the coupon or the loyalty card ready."

Hart continued, "We're able to get our selection of products in a store that's much smaller than our competition's — five aisles instead of dozens of aisles — and there's an element of choice with our focused range of products," Hart said. "There really isn't a consumer-driven reason on why you walk to the peanut butter section in a grocery store and see dozens of SKUs. We've done that selection for the consumer. And it's the best quality, it's in the most



MAN WITH A PLAN CEO Jason Hart said Aldi has doubled its sales volume over the last five years and expects to double it again over the next five years.

About 50,000 product variants are tested annually — up 15% to 20% over the last few years.

popular size and it's a great price. That just simplifies the shopping experience for the consumer, and that's something loyal Aldi customers really appreciate."

ALDI BRANCHES OUT

More U.S. consumers will be getting a taste of the Aldi experience. While most Aldi stores are in the middle of the country — with concentrations around St. Louis, Chicago and Cleveland — the retailer has expanded its footprint to Texas, Florida, California, the Carolinas, the Northeast and Virginia.

"The Northeast, Virginia and the Carolinas are where you're seeing the bulk of new units opening up. At the same time, as Aldi has grown in popularity, we've found many opportunities to open stores in more mature markets like St. Louis, Cleveland or Chicago, where we've operated for decades," Hart said. "The newest market that we announced, a couple of years ago, was Virginia. We're getting

ready to open a distribution center there at the end of the year."

Under the current expansion, Aldi will enter some new markets, Hart said, declining to specify. "You could look at the map on where we cover, and there are a couple of holes that we'll fill in," he said.

Aldi also is reaching out to more customers online through Instacart. The retailer piloted the same-day grocery delivery service in the Atlanta, Dallas and Los Angeles areas starting in August 2017 and then in March expanded it to Chicagoland, northwest Indiana and west toward Rockford, Ill.

Aldi is well known where it has a density of stores, while awareness of the banner and its distinct shopping experience is taking root in newer markets, according to Hart. However, the company is bullish that consumers who try Aldi will like it and make it a regular stop on their grocery shopping trip.

"Customers come to Aldi for the first time for the prices. They come back because of the quality," Hart said. "That's something you can't just say to somebody and get them to believe it. They have to experience it or hear it from a friend or family. But the proof's in the pudding. We wouldn't be growing the way we are if our quality wasn't top-notch." **sn**

90%
OF NEARLY
13,000 SURVEYED
CONSUMERS NAMED
ALDI AS OFFERING
THE BEST VALUE FOR
THE MONEY.
SOURCE: MARKET FORCE
AUTOMATION