

An Analysis of Lidl's Internationalization into the United States of America

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Executive Summary

Internationalization is a dominant phenomenon in the 21st century. Globalization and digitalization have made it easier for companies to enter into foreign markets and grow their businesses. A similar imitative has been taken by Lidl the largest grocery retailer in Germany, to capture the rich and highly competitive retail market of the United States after it has marked tremendous success in Europe because of its discount prices. However, it is not a wise decision to replicate a similar model in the United States as consumers' preferences and market conditions are a lot more different than those in Europe. In this regard, the following report critically analyses the competitiveness of Lidl in this international market along with highlighting the fundamental attributes of the American market to investigate as well as recommend growth strategies for Lidl.

Introduction

The food retailing industry is one of the world's predominant economic sectors, with a total sales volume of around €994.9 billion for the topmost grocery retailers in 2014, with an average 3% increase in sales as compared to that in 2010 (Schmid, 2018, pp.81-98). Retail internationalization is a dominant trend that has a great influence on the food supply chain (Knezevic and Szarucki, 2013). Moreover, discount food retailing has also a strong impact on the European retail industry, which has observed a significant expansion in the last decade (Thompson et al., 2012). However, only a few numbers of discount retailers have been successful in capturing the domestic and foreign markets (Colla, 2003). Lidl is one of these giant discount retailers that have a very firm market position in Germany and Europe. It has brought several changes in the grocery retailing industry with its no-frills approach and has challenged several other companies operating on different models, such as hypermarkets and supermarkets (Felsted, 2014).

This enormous success of discount retailer companies has become their source of motivation and determination to examine foreign markets. Financial Times reported in 1995 that the disruptive spread of the discount retail industry is the primary driver for the companies to investigate as well as capture the cross-border markets (Schmid, 2018, pp.81-98). However, the success of international retailers not only depend on their retail model but also on the characteristics of the host market, which makes it essential for them to be more efficient and attractive in terms of their services as compared to their local competitors and rivals (Páll, and Hanf, 2013). Otherwise, the companies can

risk their fundamental competencies by neglecting the host market conditions.

Therefore, the direction of retail internationalization is an important determinant of the success of any retail industry and its adaption in the host country, which also influences the company's decision to enter a specific market (Páll and Hanf, 2013). In this regard, the following report presents an insightful analysis of Lidl's internationalization into the United States of America and describes its core competencies and attributes of the host market to evaluate the effectiveness of this decision.

Lidl's Background

Lidl is a grocery retailer that is well-known for its competitive prices and called a "discounter". It stocks only a limited type of private label products and offers them at much cheaper prices to its customers (Zomkowsi Salvi, 2020). These competitive prices are the primary source of Lidl's domination in the market and its much-increasing share in established grocery chains over the years (Ladd, 2018). Aldi was founded in 1946 by two brothers, Karl and Theo Albrecht when they were handed over the grocery business by their parents (Schmid, 2018, pp.81-98). The post-war era was a major challenge for them to sustain the existing model of a diverse range of products in grocery stores, and consequently, they decided to limit their products. They did not even change their model after 1950, when the economy began to improve gradually. Finally, in the early 1960s, considering the tremendous success of limited product offering grocery stores, the two brothers opened the first Aldi grocery discount store in Germany (Schmid, 2018, pp.81-98).

However, many experts argued that this model is relatively ineffective as compared to the predominant store structure that offers a wide range of products. But soon both brothers established hundreds of other stores not only in Germany but in many other European countries as well as proving the experts wrong with their successful and competitive model. This way, Aldi has become an integral component of the global retailing industry marking a huge national and international success (Schmid, 2018, pp.81-98). Moreover, this is the primary reason why Aldi was interested in entering the United States. The following sections further highlight the attributes of the host market and Lidl's motives behind its internationalization.

Host Market's Conditions

It is always risky to enter any new market because the success of a business in one country does not necessarily ensure success in another (Cuervo-Cazurra, Maloney and Manrakhan, 2007). This makes Lidl's internationalization decision into the US market a very ambitious step, but it is not free from financial risks for the company. The fundamental reason is the different tastes, habitual buying patterns, and preferences of consumers in different countries, while in the grocery sector, the stereotypical priorities of the public to buy local goods is also a potential factor for companies' turbulent position in the host markets (Low et al., 2020). In this regard, Americans are significantly

different from their European cousins, being more upbeat, sensationalist, social, and emotional.

Therefore, the decision to enter into American market naturally accompanies the creative marketing strategies to present the image of the brand that best suits Americans' tastes, desires, needs, and preferences. However, Lidl is always concerned and efficient in meeting the specific wants of the consumers in the host market to add value and provide cheaper products. But to enter and establish itself in the US, which is already a crowded market with more than 38,000 grocery stores, is not an easy task either (Pearson, 2016). Also, several other retailers have started to carry groceries, for example, dollar stores. Therefore, in case if Lidl becomes successful in the United States, many retailers will have to leave the market to create room for the establishment and expansion of the company. Considering all the market opportunities and challenges, Lidl finally made a firm decision to open 100 stores in the United States, expanding from Georgia to New Jersey by 2018 (Staff, 2014).

Analysis of Lidl's Internationalization

Motives

At the time of its entrance into the US, Lidl invested \$77 million in Virginia and around \$120 million in a distribution centre (Pearson, 2016). Lidl has already earned enough shares of discount markets in Europe, and therefore, the next best market it perceived to grow and expand further was the USA. However, before enlisting the fundamental motives behind this decision, it is first important to comprehend the characteristics of the ideal discount markets. According to Pearson (2016), the primary factors that differentiate the discounter markets include the consumers who are very conscious about their spending, a high-wage economy, less than 20% share of the discount market and public trade of competitors on a stock exchange. However, these conditions are not available anymore in Europe, which motivated Lidl to investigate new markets such as the USA.

Secondly, Walmart, which is an established player in the grocery retail industry in the USA, has somewhat loosened their grip in the last five years seeking higher profits for the stakeholders by compromising on its operating strategy of offering the lowest prices (Kaelberer, 2017). Therefore, before 2000, no retail company could earn good returns by offering relatively lower prices as compared to Walmart, but the current situation is significantly different, where Aldi had an opportunity to compete on prices and expand itself rapidly in the United States. This is exactly the competing factor for Lidl as the price benchmark in food retail is at the stage that if Lidl gets enough scale in the United States, it can offer 20% lower prices without comprising on the quality of goods along with having a decent return (Shekhtman, 2017). Therefore, Lidl has adopted the mantra of "high quality at low prices" as its marketing strategy in the USA (Lidl, 2019; Shekhtman, 2017).

Lidl's Competitiveness in Domestic and Foreign Markets

Lidl's has become a global player in the food retail industry after it expanded itself successfully in Europe, having about 9000 stores. This also makes the US a potential market for Lidl's internationalization by relying on its fairly good prices (Simpson, 2020). However, there are some weaknesses as well that hinder the rapid growth of the company, especially in the United States. For example, the damaged image of the company because of intense observation of employees, debatable minimum wages, and low customer loyalty. In the retail market, where competition among mega food retailers is very high, consumers find it very convenient to switch to the next suitable retail industry.

On the other hand, if we look at the market share of 80.02% of supermarkets and discounters in the food retail sector, it is very attractive and promising in the United States. Similarly, the relatively low per capita income in the United States and increasing ratio of poverty will urge consumers to buy low-priced products and thus will shift their focus towards Lidl. But there are some competitors as well, who will also try to capture the same consumer trend. For instance, Walmart and Aldi are following the same strategy of small grocery stores and low prices to stay at the top in the retail sector. Walmart entered Europe but failed (Kaelberer, 2017), and Aldi is the main competitor of Lidl in Germany, which entered into US market in the 1970s and has been so far successful by using a similar discounter model as Lidl, operating around 1600 stores in different States.

This is a great challenge for Lidl to replace its integrated and accepted rival in the US. However, in the words of Michael Paglia, director of Retail Insights at Kantar Retail, "Aldi is very much a cookie-cutter retailer whereas Lidl has a deep history of innovation and evolution, and they are willing to try new things". Therefore, Lidl focused on providing a more satisfying experience to its customers in the US by limiting the product range to a highly curated selection and the size of the store to about 20,000 square feet which is less than the average store size in the USA. This store can carry only 1400 items as compared to Walmart's 30,000 items, which is an advantage for Lidl considering the demanding schedules of consumers who cannot spend hours navigating the desired product from hundreds of aisles. Therefore, James Hertel, who is a senior vice president of Inmar's Willard Bishop Analytics, said, "The smaller footprint of Lidl compared to Walmart could be a real advantage" (Welle, 2017).

Furthermore, the excellent strategic alignment of Lidl's commercial and supply chain strategies provides it with an effective tool to balance demand and supply, which also removes the expensive buffers against variabilities across the supply chain. This substantially reduces the supply chain cost and enables Lidl to offer low prices. However, once Lidl becomes successful in the US, it can easily enter Canada, which will allow it to construct a strong network of manufacturers, suppliers, and distribution channels. It will also greatly impact the logistics and transportation costs in the optimization process of its supply chain for North America and then eventually for Mexico, Central, and South America.

Attributes of the Host Market

The USA is one of the most powerful countries in the World for many decades. With one of the richest global economies and a stable political setup, it has maintained its influence throughout the world (Solymossy, 2020). The United States had the second-largest economy in 2009 after the European Union, which is one of the consequences of the economic boom in the late 20th century (Albulescu and Oros, 2020). It makes the United States a very promising place for investment considering the overall share of the country in global gross domestic product (GDP). However, the rapidly increasing ageing population in the country is vulnerable to healthy economic activity due to the shortages of labour and high tax rates.

Another factor that is very significant in the United States is the diverse distribution of income. The increased power gap, on one hand, is the sole cause of increasing poverty in the country; however, on the other hand, an opportunity for businesses to offer low-priced goods to attain a competitive advantage (Carpenter and Moore, 2006). Also, if we look at the different social conditions in the country, the consumers are found to be very educated and well aware-of their consuming habits and preferences. It makes it easier for Lidl to grow in the United States once it has earned a good reputation among very conscious Americans.

Similarly, the United States is leading the world in technological advancements and innovation. It means that high internet penetration and substantial use of technology by the general public a valuable resources for companies who wish to start their business online (Martin-Neuning and Ruby, 2020). Moreover, the retail industry has a very good position in the US economy. Overall, the retail industry in the United States employs 15.9 million people, which is 10 % of total employment (Rahdari et al., 2020). It indicates why the US is the potential choice for global retailers to invest in and expand their businesses.

Corporate Social Responsibility

The retail industry is the interface for business with society as well as a primary driver of manufacturing and production to meet the needs of billions of consumers. Therefore, it is a fundamental responsibility of the retail sector to promote a global sustainability agenda (Tsene and Briana, 2019). In 2015, the top 250 retailers enjoyed sales of approximately 4.3 trillion (Rahdari et al., 2020). However, companies who wish to enter a new market must initiate corporate responsibility activities that will also help them win the consumers' trust (Cantaragiu, 2019).

Considering this element, Lidl has made sufficient efforts in the perspective of CSR by funding local puppy homeless shelters. Similarly, it has launched a new project called "ECO2LOGISCH" to make all stores energy-efficient and sustainable. However, the company needs to initiate more projects on a public level to make an impact in society by influencing the lives of people in a better way. Moreover, it needs to provide more information publicly to remove the stigma of being Geheimniskrämer," i.e.,

mystery monger (Langer, 2004). Previously, the company faced a serious scandal in Germany of supervising its employees which damaged its image throughout Europe in 2008. However, later on, Lidl ensured to revise its policies and maintain healthy workplace relationships and employee privacy.

Recommendations and Conclusions

According to Watson (2018), the low-price strategy of Lidl initially helped it to attract shoppers, however, consumers returned to their normal purchase behaviour within a few months. Moreover, Walmart and Kroger are also using the Strategic Entry Deterrence to beat the prices of Lidl, thus affecting its price advantage. Moreover, Lidl was also unable to generate consistent food traffic in its stores, which were mostly located outside the conventional grocery shopping places.

Also, it heavily deviated from its established store format, making it very expensive to operate larger stores in remote locations. These kinds of errors were previously committed by Tesco, which left the USA in 2013 after losing \$2 billion in just six years and being unable to attract customers. However, the survival and growth chances of Lidl are much higher as compared to Tesco as consumers were satisfied with their shopping experience at Lidl.

So far, Lidl has focused on opening several stores in the USA to build brand image, but it would be an efficient move to establish stores around its distribution centres. It will help it saturate states more efficiently and cost-effectively. However the primary focus should be optimizing the operations, supply chain, and distribution instead of opening as many stores as possible. Moreover, considering the recent trend of e-commerce which is rapidly changing the traditional mode of shopping, Lidl can make its services digital and provide its customers with a better experience of online shopping.

Conclusion

To conclude, Lidl has a very good position in the global retail industry, but it needs to deploy more efficient strategies to strengthen its foundation in the United States. It needs to use out-of-the-box approaches and not just rely on its successful model in Europe to provide a unique value proposition to its customers in the United States.

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