It’s tough at the top as Aldi advances through the aisles

The no-frills model puts the focus on price and has grabbed market share from the two big chains and is eating into their profitability, writes Roger Montgomery

**RESREACHER ROY MORGAN SAYS** that, in 2015, more than 12 million dollars of Australian grocery buyers said “high standards of food safety” were the factor that mattered most to them when supermarket shopping. A similar proportion of those surveyed also cited location, where 54% nominated “good value”, 52% said convenient trading hours and just 5% said “a good range of financial services” (the banks can relax!).

What people say, however, and what they do are often two entirely different things and the growth of Aldi, the privately owned German supermarket chain, here demonstrates price trims almost always be pressure on profit margins.

Citing Roy Morgan again, in 2014, 55.8% of Australian grocery buyers said be Aldi. But as it remains privately owned, isn’t, in our view, an attractive investment. (Sainsbury, Tesco, Asda and Morrisons) and because Aldi focuses its buying on its hard discount offering, it is unlikely the experience, where Aldi landed in 1990. As it continues to open stores and expand its limited supermarket chains, liquor store chains and an industrials division with businesses in chemicals, aned, and Woolies and Woolies is Australia’s largest supermarket chain, with 960 stores. It also operates more than 600 co-branded Cellarbrations liquor stores and online Cellarmasters. It also owns ALH, which supplies, department stores, home convenience stores, home solutions to independent suppliers, department stores, home and Woolworths. As a different business model can do to thwart the advance of Aldi and its rival, Lidl. Here, Woolworths and Coles are following the script. Aldi has written for them – cutting prices and expanding their ranges of private-label, lower-profit products. But despite the lower prices, they aren’t hanging on to their market shares.

Woolies and Coles appear to be simply changing catchup but Aldi is one step ahead. Once Aldi reaches a predetermined number of stores and a predetermined revenue figure, the company reduces its reliance on importing foreign goods and localises the supply chain. This simply means it starts selling Australian-made goods. By doing this, it reduces its freight costs – meaning it can reduce prices even more – and can simultaneously promote the local provenance of its products.

And Aldi is believed to have reached that point during 2014’s Christmas period. Unsurprisingly Aldi’s market share continues to rise. In fact, it has more than tripled from 3.1% to 10.6% over the past 10 years, reports Roy Morgan, at the expense of Woolworths and Coles. Of course, Woolworths still commands the largest market share with just more than 39% – a fall from just over 40% 10 years ago. Coles’s market share has also declined from 37% to 31.8%.

In a relatively short time, Aldi has secured third position with its 11% share. But how you measure share can easily disguise just how powerful the Aldi threat is. In an average four weeks, more than a third of Australian grocery buyers shop at Aldi, and in NSW and Victoria that number is nearly half of all grocery buyers.

As it continues to open stores and expand its hard discount offering, it is unlikely the share prices of Woolies and Coles will stop falling any time soon. And lest you still believe that the fall in Woolies share price represents good value, it is instructive to look at the UK experience, where Aldi landed in 1990. Since then margins and market share have declined materially for the incumbents (Sainsbury, Tesco, Asda and Morrisons) while, after 26 years, Aldi is still building its market share.

In this fiercely competitive industry, if there was one supermarket chain we might consider buying shares in it would be Aldi. But as it remains privately owned, that simply isn’t an option. For Australian investors, considering current prices, there isn’t, in our view, an attractive investment case to be made at current prices.

Roger Montgomery is the founder and CEO at The Montgomery Fund. For his book, Value. Aldle, see rogermontgomery.com.