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Reaching for the top

Lidl aims to be Europe's top private label grocer.



Lidl's rise has been nothing short of awe-inspiring. In less than 50 years, the German discount chain, headquartered in Neckarsulm, has expanded from a few dozen stores to more than 10,000 across Europe, and, in 2015, the retailer won the sought-after "Grocer of the Year" award at the Grocer Gold Awards. Also last year, it was rated the best quality private label retailer in Germany based on assessments by digital consumer magazine *Vergleich* in conjunction with consumer organization Stiftung Warentest. Lidl's road to the top has been the result of hard work and perseverance, with one eye always on improving its products and services.

Lidl's history extends back to the 1930s, when the Schwarz family launched the company as a food wholesaler. The company was positioned for success when World War II broke out, but in 1944, the company was destroyed, leading to more than a decade of reconstruction efforts.

Lidl says it opened its first stores in 1973, advertising itself as a discount store operator to rival fellow German discounter Aldi. Owner Josef Schwarz was committed to keeping costs down by removing unsold merchandise from shelves and keeping stores small. By 1977, Lidl had already expanded to 33 retail outlets, and by the 1980s, Lidl had become a household name in Germany.

Today, Lidl operates more than 10,000 stores in 30 countries,

according to several sources, with more than 3,000 retail outlets in Germany, some 1,500 in France and more than 630 in the UK. Claiming 75 per cent of market share in the European grocery private label sector, Lidl counted an annual turnover of €59 billion in 2014, making it the second-ranked supermarket in Europe in terms of its total private label turnover.

Hermann Sievers, a Germany-based partner of the International Private Label Consult, says the discount supermarket chain is giving



Aldi — the current European leader in private label turnover — a run for its money.

"I'm expecting in four years' time that Lidl as a store brand will become market leader in Europe," Sievers says. "They're becoming a very important factor in the European supermarket industry, not only in Germany."

Due to such success, Lidl is widening its presence, announcing in 2015 that it would establish its first U.S. headquarters in Arlington, Va., with a first store pegged for 2018.

But Lidl's road to success hasn't always been smooth. In 2008, the company was marred by scandal when the German magazine *Stern* reported Lidl had been spying on staff. Since then, the retailer has made strident efforts to improve its public image.

"This scandal actually made the company better," Sievers says. "It led to a turnaround with the community and changed their behaviour towards their employees and the public."

This was the point, says Sievers, when Lidl was propelled to put more effort into the quality of its products and services. Since then, the company hasn't looked back. It has invested in television and radio advertisements; refurbished stores with wider, well-lit aisles; and is moving towards independent manufacturers.

"Lidl is committed to delivering our customers the highest-quality products at the lowest possible prices," says Jan Ribbeck, head of corporate communications for Lidl International.

EXCEPTIONAL PRODUCTS AND SERVICES

One of Lidl's star services is its baking stations, created in 2012, which offer fresh bread, rolls and other confectionaries. Unique from other discount retailers, the service has done wonders to improve the store's image.

"It really stands out," says Denise Klug, a Germany-based retail analyst for London-based Planet Retail. "Everything smells like fresh-baked products when you walk in the store."

With products such as Maple & Pecan Plait, Pain au Chocolat, Goat's Cheese & Pesto Focaccia or piping hot baguettes, how are customers resisting? According to statistics, they're not — 2014 sales figures collected by London-based market research firm Euromonitor show that Lidl's bread is in the top-five largest markets for private label globally.

This is good news for Lidl, which has turned to its bakery category to gain loyalty among heavy shoppers. According to the January 2015 "Private Label & National Brands" report from Chicago-based Information Resources Inc. (IRI), marketers must continue to grow the share of spending among their core shoppers. Lidl has tackled this challenge not only by expanding its bakery



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category, but also by putting more emphasis on quick and easy mealtime solutions such as its Indian Meal For Two.

The company has equally focused on its wine department, putting not only up-market wine on shelves, but also spirits, alcohol and craft beer. According to the same IRI report, this category has helped create loyalty among wealthier shoppers who are seeking value but don't want to scrimp on quality.

In addition, Lidl has pushed its premium range, Deluxe, which has proven especially successful amongst shoppers during holiday periods. The range got an extra boost in 2012 when Lidl doubled the number of items in the range after seeing its sales increase by 200 per cent between 2011 and 2012, relays a 28 November, 2012 *RetailWeek* article.

In Germany, the UK, Switzerland and Austria, Lidl has used prominent chefs to endorse store brand products and write recipes to project a premium image. In 2015 in the UK, Lidl hired Kevin Love, former head chef of the Michelin-starred pub The Hinds Head in West Berkshire, to help enhance the quality in its private label food ranges.

Recently, Lidl has made improvements to its non-food offerings, with a push towards clothing to rival discount

retailers such as Primark, as well as a push towards private label cosmetics. While shoppers in Germany and France have proven less likely to purchase cosmetics at a discount operator, Lidl's Cien range has done particularly well in Spain.

"In Spain, private label cosmetics are very popular," Klug says, adding that the ►



Spanish market has utilized celebrities in advertising to promote health and beauty products.

"They also use lighting to make that area of the store look pretty and premium."

The Cien line has proven so successful, in fact, that Spain's Consumer and Users Organization (OCU) named Lidl's Cien Crema de Dia Spain's most effective wrinkle cream in 2014.

With varied markets ranging from Belgium and Bulgaria to Serbia and Romania, Lidl has found success by assessing each individual market and creating country-specific private label ranges, says the company.

"Lidl is proud to be a customer-focused company that



adapts to meet the needs of the individual communities and countries in which we operate," Ribbeck says. "This extends to our product offerings, services and goals for the company."

A LOCAL — AND INDEPENDENT — FOCUS

Part of that commitment to local communities means directing efforts towards local suppliers. At present, Lidl remains a centralized organization — especially regarding private label — with a large amount of international sourcing. As the company looks ahead, it will be hoping to change that, Sievers notes.

"Local sourcing will be more of a focus," he says. "They'll be looking to the needs of people in particular countries."

The company also has started launching its own manu- ▶



LIDL UK OVERHAULING STORE DESIGN

Last November, Lidl UK said it would be opening the doors to the first of its brand new concept stores, which the British supermarket has named Lidl of the Future (LOF). The retailer is overhauling its store design to create a cutting-edge style that brings it further in line with the expectations of the British consumer.

The state-of-the-art glass-fronted design is the first of its kind to open in Great Britain and forms a key part of Lidl's expansion programme, which will see all future planning applications for Lidl stores designed in the same way. The first store, which opened in Rushden, Northamptonshire in November 2015, has a sales area measuring 1,424 square metres, along with an enhanced welfare area for employees, Lidl said. Each new LOF store will see an investment of over £2 million per store.

The launch coincides with Lidl's announcement of a new expansion investment of more than £1.5 billion across the next three years, aiding its ambitious growth plans.

"We are extremely excited about our brand new concept store, which represents the future of Lidl UK," said Ingo Fischer, Lidl UK's board director of property and expansion. "This is yet another milestone for us in providing the infrastructure needed to manage our increasing market share and the expectations of our growing and incredibly valued customer base, who have, quite rightfully, come to expect the very best of us."

facturing plants for specific categories to gain profitability and independence. It currently runs its own factories to manufacture chocolate and confectionaries, and also operates a bakery. And for the last 10 years, Lidl's subsidiary MEG has operated a mineral water source and soft drinks production facility in Germany that is rivalling the Coca-Cola company, counting 2.5 billion fillings annually. The company also says it plans to expand its own-label production facilities to ice cream in 2017.

"Private labels play a significant role in the entire business concept; as such, and because of their profitability, Lidl can gain independence from brand manufacturers," Klug says. "They're really striving for independence from everyone."

Always striving to improve its image, Lidl has been committed to promoting events — primarily sports competitions — in local communities. In September 2015, the company announced that it would become an official sponsor and supplier of the French National Handball League; it also formed a three-year partnership with Italy's governing body in soccer, the FIGC. And in September 2016, Lidl Slovenia will become an official sponsor of the Summer Paralympic Games in Rio de Janeiro, Brazil, in an effort to raise awareness of para-sports.



But a majority of Lidl's team-building efforts are starting from within, with several initiatives to improve conditions for employees — for example, creating rest areas and training rooms for staff and increasing salaries. These attempts at togetherness are certainly paying off — at German public fairs where Lidl is participating, employees can be seen wearing their staff shirts with pride.

"To show that they're part of this company wouldn't have been possible 10 years ago," Sievers says. "A person wouldn't

have expressed where he was working, but now he is rather proud."

Lidl employees certainly have a reason to boast. Lidl stores across numerous markets have seen success in the last several years. In the UK, Lidl is performing so well that the chain is overhauling its store design, investing £1.5 billion in the next three years in new store expansions (see sidebar, p. 12). Perhaps it's no surprise — Lidl is the UK's fastest growing supermarket, according to January 2016 figures from London-based consumer insights firm Kantar Worldpanel. Its annual turnover in 2014 topped £4 billion.

In March, Lidl Spain announced that it would raise the minimum wage to €8.50 per hour, making it the highest in the sector.

But Lidl's biggest success story is still Germany, where approximately one-third of the chain's retail outlets are located. It boasts a turnover of €20.79 million, up 1.6 per cent from 2014, according to data from Nielsen-owned Trade Dimensions. And it is ranked the No. 1 supermarket chain in Germany in terms of total private label turnover, with Aldi Sud and Aldi Nord coming in second and third, according to Sievers.

As Lidl looks ahead to its undoubtedly bright future, it will be using its recent successes as a starting point. Already, Lidl continues to climb in sales revenue across markets. According to grocery share figures from Kantar Worldpanel for the 12 weeks ending 28 February 2016, Lidl's sales grew 18.9 per cent, pushing ahead of competitor Aldi by 3 points. And its efforts to revamp its image are paying off — the stores have become attractive to young families looking for big discounts without sacrificing quality or corporate responsibility.

A youthful image, proud employees and a steadily climbing global annual revenue — it's everything Lidl has come to stand for and what it hopes to promote in the future. ■



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"They want to improve their image and become an integral part of society," Sievers says.

While these efforts may be altruistic, there can be big benefits for companies that invest in their communities and demonstrate corporate responsibility. A 2015 global survey by marketing research firm Nielsen showed that 66 per cent of respondents were willing to pay more for products and services from companies that were committed to creating positive social change.