

Cost Leadership Strategy

One of the key requirements for achieving success as an ongoing price discounter is to create a cost leadership position. That means that the firm has built some cost advantages over their competition.

This activity quickly highlights some of the practices that Aldi Supermarkets (an established German-based discount supermarket chain expanding across the globe) have adopted to achieve a cost leadership position and provide ongoing longer prices to customers.

Some of Aldi's Practices - Designed to Reduce Costs

- They do not pack the groceries into bags – you have to pack yourself
- They do not provide free plastic bags – they sell plastic bags (for about 5 cents each)
- Most of their stores are in 'low-traffic' locations, which enables cheaper rent
- They do not spend much money on the look/design of the store
- They tend to operate their stores with a limited number of staff
- Most of their stores have little/no shelving (reducing set-up costs)
- They have limited packing/handling of merchandise (often leaving products on pallets)
- Most of their stock consists of lesser known (and therefore cheaper) brands
- They sometimes buy and resell liquidated 'clearance' stock
- The store manager tends to have a 'hands-on' role (such as helping sort merchandise).

Student Discussion Questions

1. Do you agree with Aldi's cost leadership strategy or was there a better entry strategy that they could have adopted?
2. What else could they do to strengthen their cost leadership position?
3. Do you think that their approach is simply a price penetration tactic, and they will increase their prices over time?
4. Do you think that the local major supermarket chains would be concerned about Aldi (either now or longer-term)?
5. How can the local major supermarket chains defend against Aldi's threat to their 'budget-conscious' shoppers?