

## How it all Started

***“Our only consideration when we are working out a product’s price is how cheaply can we sell it”***

The following statement is the only publicly available description of the ALDI system provided directly by Karl Albrecht, one of the Albrecht brothers<sup>1</sup>:

*“When I talk to you about pricing and about simplifying operations, I’ll tell you about my operation, how it works, because I believe that it is simple.*

*Today, in retrospect, I can say that we only stocked a small number of items out of necessity at the start of our development in 1948 and 1949. We had planned to open more stores and had to be extremely frugal with our cash assets. We believed we would be able to expand our product range later. We wanted our stores to be like other retail outlets, offering a wide range of groceries.*

*But then we did not follow up on this after all, because we recognized that with our narrow range of products we could also run a successful business and that, compared with other businesses, our expenses remained very low and this was due largely to our narrow range of products.*

*This insight became the basic principle of our business. Today our costs stand at 11 percent.*

*Since 1950 we have been adhering to the principle of low prices as well as that of limited selection. This was also a matter of necessity. If we did not want to offer customers a wide range of products then we had at least to offer them some other advantage. From that point on we sold our products for decisively less.*

*I am convinced that these two principles, narrow product range and low price, cannot be separated. Today we can say that this policy has worked extremely well for us. In 1949 our average monthly turnover per store was DM 8.200 (Euro 4.100), in 1951 DM 12.800 (Euro 6.400) and today it has reached DM 20.000 to DM 21.000 (Euro 10.000 to Euro 10.500).*

*This rise in turnover was due nearly exclusively to the principles I have just stated, because we are very tight on advertising. Our expenditures on advertising do not even amount to 0.1 percent. All our promotional efforts are put into discount prices, and they are so effective that customers are even prepared to wait in line. At the weekend lines nearly always form in front of the stores before they open. But business is not only good at the weekend – early in the week we also see good turnover figures.*

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<sup>1</sup> Lebensmittel-Zeitung, 4 September 1975

*To give you an idea of our turnover, I would like to point out that at our strongest location, with a counter length of 5.5 m, we showed a turnover of DM 44.000 (Euro 22.000) last month. At another location, with a counter length of 4 m, our turnover stood at DM 28.000 (Euro 14.000).*

*To make this sort of performance physically possible our shelves and counters are simply designed. The whole range of products is on counters or shelves, visibly arranged for the customers. There are no decorations in the stores.*

*Regarding our product range I would like to add that it amounts to about 250 to 280 items. We take care that we do not offer similar items alongside each other. When we selected items for sale we went so far as to completely exclude whole product categories. The reason for this exclusion:*

#### *Turnover*

*This means that due to the sales rate we do not carry any preserves in bulk, no fruit or vegetables, no salted herrings and due to turnover no canned fruit or vegetables, nor any delicatessen items such as mayonnaise, pickled fish, herring salad, etc. Our range of products is limited to consumer items which sell fast. We do carry legumes, but only one of each sort at any one time; one kind of beans, of lentils and of rice.*

*We do not carry packaged legumes either, since the packaging costs make the product too expensive for us and the overall prices do not fit into our low price strategy. We have discovered that if we package goods in advance this is often visibly more expensive than the total sum of our personnel costs. So we package nothing in advance (author's note: there was no self-service in 1953). Everything must be weighed at the point of sale.*

*Further examples of our product range are:*

*One type of sugar*

*Four types of preserves in jars*

*Five types of pasta which we always sell for the same price*

*Five types of soap*

*The only shoe polish we carry is by Erdal, the only toothpaste is Blendax and the only floor wax in cans is by Sigella, always sticking to those items among the brands which sell fastest. Even in the case of items with tight margins such as oil, fat, and lard we only sell one kind. Adding any more kinds and raising our costs is something we can do without.*

*And selling is substantially easier and quicker for our sales personnel at the point of sale, and the customer can decide much more quickly either to buy or not to buy.*

*In our pricing policy we have fixed costing rates for many items. For the items with tight margins we apply the following mark-ups:*

<i>Margarine:</i> .....	<i>5-7 %</i>
<i>Fat:</i> .....	<i>10 %</i>
<i>Bacon:</i> .....	<i>10-12 %</i>
<i>Lard:</i> .....	<i>10 %</i>
<i>Flour maximum:</i> .....	<i>10 %</i>

*If purchase prices drop we lower our sale prices immediately, even if we have not bought at the new prices yet. We take the position: offensive action is better than defensive.*

*It is far too easy to maintain a price even when the purchase price has fallen. But that would have an unpleasant, delayed impact, for the goal which must be achieved is that customers begin to believe that they cannot buy cheaper anywhere else. Once you have achieved that - and I believe that this is true for us - customers will accept anything else. They will even rearrange their schedules to come at the best shopping times.*

*In turn, this allows us to achieve nearly full employment for our personnel. This is an essential factor for low personnel costs amounting to between 3.1 and 3.7 percent.*

*This year we have acted even more energetically on these insights and our results have been more successful than ever before. Our turnover figures show it.*

*In January turnover stood at DM 250.000 (Euro 125.000), in February DM 300.000 (Euro 150.000), in March DM 340.000 (Euro 170.000) and in April DM 394.000 (Euro 197.000).*

*Finally, I would like to mention that our operation is run nearly solely on the principle of low sales prices. No other measures are used to promote business, they are not even discussed. Our only consideration when we are making price-related calculations for a product is how cheaply can we sell it, not how high we can set the sales price."*

Even today, nearly nothing has changed since Karl Albrecht made these statements in 1953 - at that time relating to a concept which did not involve self-service yet - except that the expense ratio has continued to be improved thanks to many years of intelligent work on all the details. Basically, a completely new business model was created along the lines of a discovery in the natural sciences: by accident.

## Less is Better than too Much

Scarcity and necessary frugality demanded the avoidance of waste. The principle was: less is better than too much. This applied to capital, personnel, size of stores. In the end, the result of this “emergency program” was the “ALDI system”. The shortage of these resources inspired creativity and - without exaggeration – resulted in the idea of the century in retailing.

In the German weekly trade magazine for the food industry, *Lebensmittel-Zeitung*, a letter to the editor appeared on May 11, 1980 written by H. Kuhlmann, at that time chairman of AVA/Marktkauf (today part of the Edeka Group). Regarding ALDI he commented: “ALDI is the most successful food retailer of all times.” The former Oetker director, Dieter Baader, a widely respected expert in the German food industry and a frequent panel member at conventions, once worded his opinion at the Cologne/Bonn Marketing Club as follows: “ALDI is the greatest retail-policy driven brand success in the western world.”

## ... Groping Forward in the Dark like Albert Einstein

The ALDI concept was not based on any specific corporate philosophy or strategic marketing study. It was more an adaptation to market forces and the competitive environment. The lessons learned in the process were vigorously applied. The original concept was never changed basically over the course of decades. The only changes were incremental adjustments to a wide range of internal and external developments. That’s why it was nonsense - as the trade journals do on occasion - to speak of the old or the new strategies at ALDI. Only very recently, some fundamental changes applied which lead to the question whether ALDI has left its original business model behind.

The original ALDI system was the result of a dynamic process, driven by intuition and decisions whose consequences were not always foreseeable. Starting out as a “Mom and Pop” store with a “simple concept under compelling circumstances” it became, alongside Walmart and Tesco, the world’s most successful retailer. As so frequently happens in the history of business economics, the beginnings were not an ingenious, academically reasoned project, but rather a good business idea which over the years developed into a solid concept for success. The ALDI system was not a sudden invention. With their first “mini-stores in third-class locations” Karl and Theo Albrecht were literally groping their way forward to their sales system.<sup>2</sup> Not unlike the way Albert Einstein described his own way of proceeding: “*I grope my way forward.*”

During recent years, however, there have been the first indications of significant change. For decades ALDI clung to an extremely limited range of products. Over recent years, ALDI broadened the assortment and even added a large number of commercial brands. Today the stores carry around 1.800 SKUs. Many of them consist of so called mixed boxes with similar but different SKU’s (different flavors but same barcode and price). This could add up to a total number of almost 3.500. In

<sup>2</sup> Hans Otto Eglau, in Die Zeit, 3 July 1970

addition, today in Germany ALDI sells three Non-Food promotions per week, one on Monday, another one on Thursday and a third one on Saturday with up to 100 items in total. Together with leftovers from past Non-Food promotions one can easily find 300 of such products in an ALDI store. Furthermore, ALDI is running temporary price promotions on a number of items, especially lately added commercial brands. The simple reason: ALDI has become very comparable due to the high number of popular commercial brands.

Also other changes can be observed. Despite all the deeply rooted business and leadership principles, every company changes as decision makers and actors change. The ALDI management team is clearly different from the managers of the 60's, 70's and 80's. In these years the mature concept was lived and refined. Strict principles led to its enormous success. Asceticism, discipline, humbleness, attention to details and incredible rigor were the essence of ALDI.

But what is essential for ALDI's success, and for many other companies in other industries as well, are the basic insights and methods presented in this book which have remained basically unchanged for many years. They remain up-to-date and are becoming increasingly important at a time when many companies and, in part, whole industries, must reinvent themselves to face global competition. ALDI's insights and methods can help other companies take the top spot in their industry.

If competition had paid closer attention to the words of Karl Albrecht the retailing landscape might have looked altogether different. But even 30 years after 1953 there was still hardly anyone who believed in the success of this concept and so even the *Lebensmittel-Zeitung* concluded <sup>3</sup>:

*“Nearly no other marketing concept has been so thoroughly analyzed, or is so readily accessible - and yet practically a whole industry watched the rise of a company and followed the related growth of this distribution segment without doing anything and without a single creative response.”*

But there was a lot more involved here than a “marketing concept”. Those imitators who tried to copy ALDI apparently ran into the problems described by the poet Marie Ebner-Eschenbach (1830-1916): “Most imitators are attracted by what cannot be imitated.”

And if anyone copied then they wanted to improve on the original. And then they were forced to admit: ALDI's know-how is so simple that nobody wants to believe it. That is the reason why it is so difficult to imitate.

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3 *Lebensmittel-Zeitung*, 4 February 1983

## Confidentiality as a Principle

For many years very little was known about ALDI. Thanks to the intelligent corporate structure ALDI was not required to make its books public. This obligation to disclose accounts had been only applicable if two of the three criteria turnover (at least Euro 125 m.), number of employees (starting at 5.000) and total assets (from Euro 62.5 m.) were satisfied. But today according to new EU regulations, income statements and balance sheets of the regional ALDI operations (in Germany 66 independent companies called “Kommanditgesellschaften”) have to be published. However, because of different sophisticated rules it is hard to really understand the numbers. Example: one of the most interesting numbers would be the margin between purchase price and sales price. But the rules allow to include different sales expenses into the purchase price. Thus the real margin does not become transparent.

ALDI was discussed in a large number of newspaper articles. Competitors, market analysts and brand manufacturers tried to find out more about the company in image studies and highly confidential papers. All their efforts were all limited to speculation. For ALDI these studies, sometimes passed on to them by their vendors or discussed in the trade journals, were useful to find out more about their own sales market, their customers or about the opinions of vendors and competitors, without having to spend any money themselves. ALDI never spent any money on market research. At ALDI, people thought more about what their customers might want, and they acted on this simply by immediately trying it out.

Waiving publicity had been a conscious choice and an integral part of the company policy. This limited the competition’s access to information. If companies publish something about their organizational structure or report proudly about their increases in turnover or their especially high personnel productivity and correspondingly low costs, they only help their competitors. Competitors can use these details to compare and improve their own performance. That cannot be of any advantage to ALDI. As for ALDI’s customers who do not read the trade papers, there is nothing in this for them. Customers want something else, for example good quality at low prices.

The criticism related to “lack of public control” - which periodically arises - overestimates its potential influence: the disclosure of company developments, as reported in newspapers for example, has never prevented large public companies from collapsing or from having internal problems. Let us not forget companies such as coop AG, Bremer Vulkan, Metallgesellschaft, Consumer Cooperative Dortmund or various banks during the latest financial crisis. One of the latest disasters in Germany was the 100 years old famous department store chain Karstadt.

## History and Growth

In 1913 the parents of Karl and Theo Albrecht opened a small grocery store with 35 square meters of floor space in Essen. After their return from prisoner of war camp in 1946 the Albrecht brothers ran a business with 100 square meters in Schonnebeck, a suburb of Essen largely populated by miners. By 1950 this business had

already grown into a small chain of 13 stores. At that time, of course, service over the counter was still provided. Self-service was introduced later. Karl Albrecht says the real business operation actually started in 1948. Two years later the principle of low prices was added to that of narrow product range. The first “genuine” ALDI in today’s terms was opened in Dortmund in 1962 - a creation of Theo Albrecht in the north of Germany which was later adopted by his brother Karl.

In 1961 the brothers divided their small dynasty into their North and South business units. They preferred “individual leadership” to “team leadership”: a principle of decentralization that has had a decisive and positive impact on the Albrecht Group. The basic reason for the separation was that it eliminated the need for continuous agreement on all essential or even non-essential matters. But all details, performance and cost figures were still exchanged, even the conditions of various vendors were compared, and some purchasing negotiations were conducted jointly. The only matter not discussed by the brothers was the actual annual profits of their respective group.

Turnover and number of stores of the ALDI Groups in Germany:

Year	Turnover in million Euros*	Number of stores
1955 Germany	15	100
1974 Germany	3.000	1.000
1985 Germany	9.000	2.000
1995 Germany	15.000	3.000
2000 Germany	19.000	3.400
2010 Germany	26.000	4.300
2010 World	55.000	9.300
2017 Germany	30.000	4.140
2017 World	82.000	10.600

*\*) sales incl. VAT, according to the analysis of the trade journals and the authors’ assessment*

In 2000, ALDI already operated some additional 3.000 stores outside of Germany moving goods worth roughly Euro 9bn. Today, in 2018, ALDI’s foreign expansion has increased to some 6.000 stores.

## Clear Structures

ALDI’s business structure is not opaque as has been discussed in some magazines. On the contrary: it is very transparent and, in fact, also very simple.

The “unifier” as well as the leadership and control body of the corporate group is the Executive Board (Verwaltungsrat) which is made up of formally completely independent, “free-lance” managers who had previously been successful as general managers of ALDI’s regional companies. The members of the Executive Board are

not directors or employees of a parent business or holding company. The Executive Board acts as a supervisory board for each of the operative businesses both within and outside of Germany. One characteristic of the ALDI corporate structure is that there is no holding which rules other companies and thus could build a concern with all the related consequences such as union-related co-management and disclosure requirements. Since ALDI is not a concern in the classical sense of the term, there is no corporate-level; a fact which was always criticized by the unions. But what is decisive for this structure is the vigorous decentralization - a core principle of the ALDI corporate leadership.

### **ALDI's Corporate Structure (here example: ALDI North)**

ALDI has a transparent corporate structure which only appears complicated due to the large number of single, regional companies (ALDI North: previously 36, today, 2018, 32. ALDI South: 30).

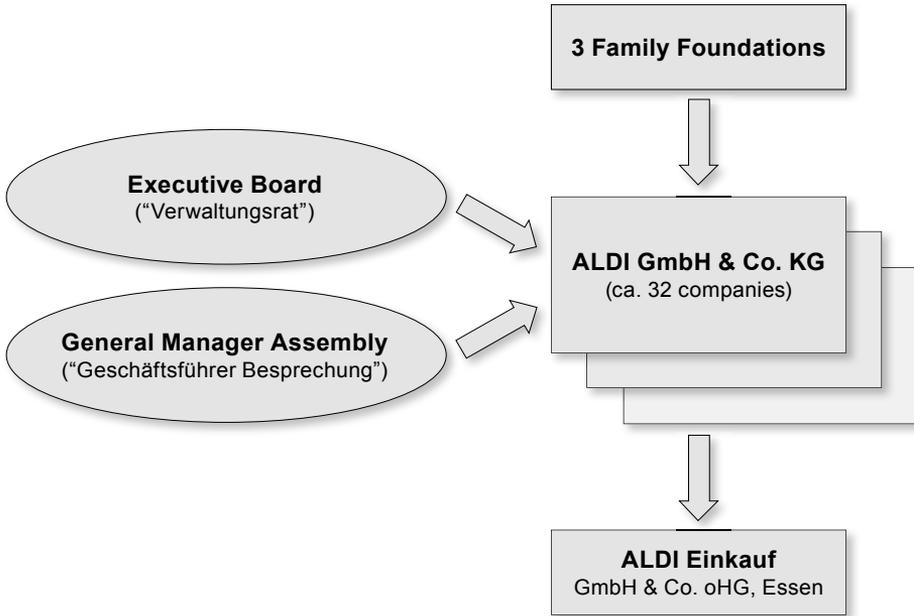
In addition to this basic set-up there is also a small number of important companies which are part of the corporate group: coffee roasteries in the towns of Herten/Westphalia and Weyhe near Bremen, the real-estate companies Albrecht Immobilienverwaltung GbR and A+G Grundstücksvermietungs und -verwaltungs GmbH, as well as an insurance agency called Alva Versicherungsvermittlung GmbH & Co KG. The establishment of the coffee roasteries and the Albrecht coffee brand was an early idea which enabled ALDI to demonstrate its high level of quality. Coffee has remained the sole product which they make themselves. It can be considered a wise principle of inventor of the hard discount system to not have any own production and instead rely on independent suppliers.

In contrast to the publications in the trade journals - the ALDI Einkauf GmbH & Co OHG is not a holding or parent company but a subsidiary which exercises service functions for the ALDI companies, especially central buying.

The property development companies served the purpose of buying and managing their own properties, the insurance company enabled them to take in the usual agent commissions for selling policies.

The structure of the family trust was selected to protect and promote the interests of family members. Since a trust as a principle cannot be dissolved, the corporate existence is permanently assured, even in the case of family disagreements and inheritance battles. The family trust can prevent the chopping up of whole companies after many years of litigation. If two sons were sole heirs, they would each have a claim to half of the inheritance. But in the case of a company a complex entity is involved which cannot be simply cut in half like a bank account. Since the family members - the partners Theo and Cilly as well as the sons Theo jr. and Berthold - only own small percentages of the company, its continued existence is assured. Problems, such as those recently seen at Bahlsen, a major producer of cookies in Hannover, can thus be avoided. At Bahlsen, interminable inheritance disputes were necessary before a solution could be found involving the break-off of a central part of the company in the

USA and its transfer to one of the heirs. The trust structure also puts many obstacles in the way of selling the corporate group to a third party. Walter Pellinghusen published a perceptive report on this subject in the August 13, 1998 issue of the German business weekly *Wirtschaftswoche*.



*Legal Structure of ALDI North. ALDI does not have a holding structure or mother company. What often is misunderstood as a headoffice (ALDI Einkauf GmbH & Co. OHG) is in reality a daughter company of the regional companies.*

### Financial Development in Germany

ALDI's profits were always one of the biggest secrets. Many estimates have been published. Over the years these estimates have come increasingly closer to reality since more and more details have been leaked about what is now a very large business. In an internal study the Lever company estimates ALDI's profits for 1994 to be 4.5 percent of turnover, more than three times as high as the profit margin of competitors in the food retail business. All the costs of the company are estimated to come to 9 percent.

From various reports published in the trade papers and from data which occasionally leak out to the media, ALDI's overall performance record looks as shown below. The relative sizes of the numbers in this chart are more remarkable than the precision of the individual figures.

*Monthly Performance Figures in Germany:*

*Average turnover per store:* ..... Euro 500.000  
*Turnover performance per employee:* ..... Euro 75.000

*Costs as a percentage of turnover (incl. VAT):*

*Personnel costs of the stores:* ..... 20 %  
*Personnel costs for administration, logistics and management:* ..... 3.10 %  
*Store rents:* ..... 1.30 %  
*Other:* ..... 2.40 %  
*Total cost of the company:* ..... 11.00 %  
*Margin in % of turnover (incl. VAT):* ..... 15.00 %  
*Profit in % of turnover (incl. VAT):* ..... 4.00 %

ALDI's performance capacity becomes clear if considering that ALDI for many years in the past sold only 450 (ALDI South) or 600 SKUs (ALDI North) and still today ALDI has a still relatively limited assortment of ca. 3.500 items, while other supermarkets and hypermarkets carry 20.000 to 60.000 items. The largest German chain REWE has a sales volume of Euro 40bn - resulting in an average item turnover per annum of 0.6 mil. Euros. ALDI with a turnover of 26 bn Euros in Germany achieves an average item turnover of 14 mil Euros.

These cannot be precise calculations. They are only meant to give the reader a sense of the scales involved. In this context it should be noted that Edeka today, including their different chains, is the largest German grocery retailer by revenues. As far as the volumes by items is concerned, ALDI is 24 times larger than Edeka. These ratios are what Klaus Jacobs meant when in 1986 on the subject of the competitive coffee market in Germany he declared: "Our opponent is ALDI." And at that time Albrecht Coffee was sold in only 2000 stores while Jacob's coffee was sold in nearly every retailer's store, every convenience outlet and every gas station in Germany. With a profit margin of 4 percent – in this dimension each year since at least 1970 – ALDI only in Germany achieved for many years and decades an annual profit of roughly Euro 0.5 bn to 1 bn before tax. These profits were more stable than what can be seen in many other industries. Great DAX companies like Daimler Benz and Volkswagen, Deutsche Bank and Commerzbank have their Up's and Down's and very volatile profits while ALDI continued to achieve such high revenues and profits although competition had heated up considerably. More and more the Non-Food sales became important with currently sales of about 20 percent of total revenue. Today, some 100 different temporary products are offered each week. Once, ALDI generated more than Euro 200 m of sales just from a single promotion of personal computers<sup>4</sup>.

In this context, the increases in personnel costs are not negligible. The extension of the assortment from 600 or 450 items respectively to today ca. 3.500 items and the large amount of Non-Food promotions have a significant impact on cost<sup>5</sup>.

<sup>4</sup> It should be taken into account that at that time, ALDI accepted only cash. Debit and credit cards were accepted much later.

<sup>5</sup> When the first Bare Essentials edition was published in 1998, ALDI Nord had extended the assortment only from 600 items to 750 items.