

## THE RISE OF ALDI IN THE SUPERMARKET WORLD

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Aldi is now Australia’s most profitable supermarket and Coles and Woolworths will find it hard to stop, according to analysis by UBS. Since 2001, the German discount chain has grown to 410 stores, generating \$7 billion in sales, doubling from 2013.

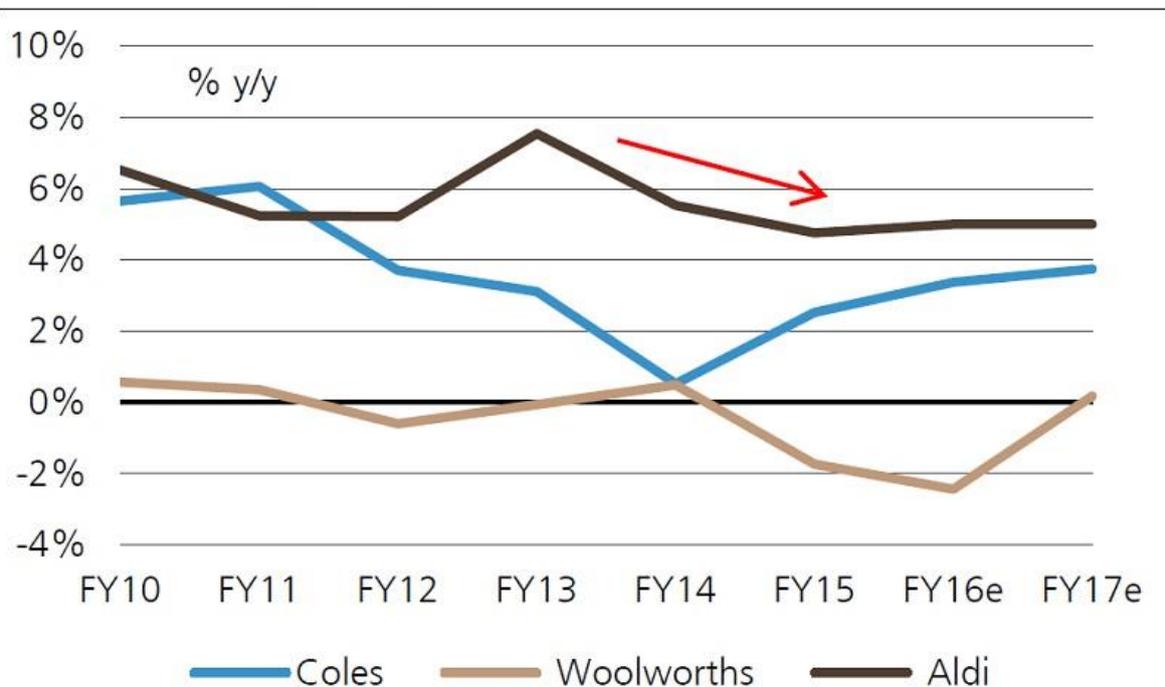
“We estimate Aldi holds 11% share of the East coast grocery market and has reached a tipping point, with customer acceptance and share of main shops rising at an accelerating rate,” says UBS.

“Aldi is now the most profitable major supermarket chain in Australia, generating PBT (profit before tax) margin of c5.2% in 2013, and is, in our view best positioned to win a price war.”

*“Aldi’s national market share is forecast to reach at least 10% and as much as 16% by 2020.”*

Aldi has better growth in productivity per square metre of floor space in its supermarkets than its main competitors Coles and Woolworths, as depicted in the chart below. This could be due to Aldi’s more flexible workplace arrangements.

**Figure 9: Sales per sqm growth: y/y%**



Source: WES, WOW, UBS Estimates

“Our feedback suggests, however, that productivity has slowed in recent years, reflecting heightened competition from both the major chains on ‘value’, particularly Coles,” UBS says.

UBS surveyed 600 shoppers to assess how Aldi performs. The survey found that shoppers believe Aldi is good for some things but not as a main shop.

“Aldi is nearing a tipping point, but needs to get fresh right,” says UBS. “The key to lifting this will be fresh perception, which remains the #1 category for improvement.” The UBS research found that Coles is doing a very good job of combating Aldi’s growth but Woolworths has been the universal giver of sales over the last 12 months.

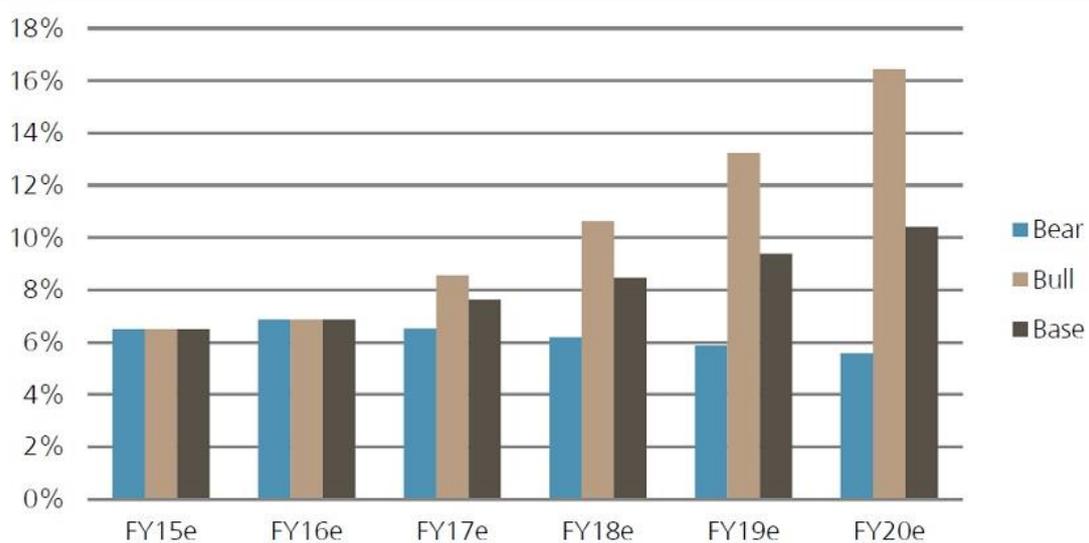
“Woolworths has lost its way and this has been reflected in it losing share of main shops, shopper frequency and weekly spend,” UBS says. Sales at Woolworths are flat as the chain restructures this year but Coles is showing 5.9% growth.

UBS estimates the listed supermarket players — Woolworths, Metcash’s IGA and Coles (Wesfamers) will lose between \$209 million and \$476 million of sales a year to 2019.

“That said, we believe Aldi’s LFL (like-for-like) growth has slowed over the past 12 months, driven by Coles’ Every Day Value strategy. UBS expects Aldi to hit \$10.6 billion of turnover by 2019.

Aldi’s national market share is forecast to reach at least 10% and as much as 16% by 2020, as this chart shows:

**Figure 49: Aldi market share – Australia wide**



Source: UBS Estimates

“Aldi is winning new shoppers at an accelerating rate, and 73% of families say they would spend more at Aldi if it were closer,” UBS says. UBS believes Metcash is at most at risk to Aldi because it has a less nimble business structure.

“That said we expect IGA to lose share to Aldi at a slower rate going forward, reflecting the stronger operators in SA/WA,” UBS says.