

Strategic Management Assignment 1 2019 –

Strategy Analysis of Lidl -Based on Porter's Generic Strategies Theory



NOVEMBER 2019

MODULE NAME:	STRATEGIC MANAGEMENT & SUSTAINABILITY (M3X9111)
NAME:	HONGLI SHANG
STUDENT NUMBER:	1904764

CONTENTS

TABLE OF CONTENTS

1. EXECUTIVE SUMMARY.....	1
2. INTRODUCTION.....	2
2.1 Report Remit.....	2
2.2 Background of the Organisation.....	2
2.3 Definitions of Major Concepts.....	4
2.3.1 Definitions of Main Terms.....	4
2.3.2 Analysis of Porter’s Generic Strategies.....	4
3. MAIN BODY.....	6
3.1 Implementation of the Strategy.....	6
3.1.1 External Actions.....	6
3.1.2 Internal Actions.....	7
3.2 Advantages & Disadvantages of the Strategy.....	8
3.2.1 Advantages of Cost Leadership.....	8
3.2.2 Disadvantages of Cost Leadership.....	9
4. CONCLUSION.....	11
4.1 Recommendations.....	11
5. REFERENCES.....	12

CONTENTS

LIST OF FIGURES

FIGURE 2-1 TURNOVER OF LIDL IN THE UNITED KINGDOM (UK) FROM 2012 TO 2018.....	3
FIGURE 2-2 MARKET SHARE OF GROCERY STORES IN GREAT BRITAIN FROM JANUARY 2015 TO SEPTEMBER 2019.....	3
FIGURE 2-3 FOUR GENERIC STRATEGIES OF PORTER'S MODEL.....	5

LIST OF TABLES

No table of figures entries found.

1. EXECUTIVE SUMMARY

Hard discounters, like Lidl, Aldi are taking over the retail market shares of their traditional powerful competitors. Among them, Lidl is one of the largest retailers in the world which owns over 10 thousand stores in 29 countries. This report seeks to analyse Lidl's business strategy based on Porter's Generic Strategies Theory which is divided into three main parts.

The first part is an introduction of Lidl, including its history, turnover in the UK, mission and market share. Besides, four main professional terms are explained as well as Porter's Generic Strategies Theory.

In the second part, the detail information of Lidl's strategic choice which is the cost leadership is specially discussed. The organisation which follows this strategy aims to offer products at the lowest costs possible. Because its selling price is not necessarily the lowest, it can enjoy a higher profit margin than competitors. When it comes to the implement actions of Lidl, there are five main actions which can be divided into the external part and the internal part. They are: 1) Wide range of private labels, 2) limited types of the same commodity and low stock [external actions], 3) avoiding expensive floors, furniture and decorations, 4) crossed trained employees and 5) displaying products in shipping boxes [internal actions]. Moreover, there are respectively advantages and disadvantages of practicing this strategy. The discussed advantages are: 1) Be attractive to customers, 2) rapid development in market and 3) establish barriers to entry. However, the disadvantages of cost leadership are: 1) Low level of customers' loyalty, 2) potential price war and 3) quality misunderstanding.

In conclusion, the strategy of cost leadership is carried out successfully in the case of Lidl but there are still methods that need to be improved. In the third part, three specific recommendations are given to improve its market performance: 1) Develop new market, 2) provide premium collection and 3) take advantage of selling online.

2. INTRODUCTION

In this part, a brief introduction about Lidl will be given, including its history, mission, turnover and market share. Meanwhile, the definition of the main concepts and the aim that the report is seeking to achieve will also be emphasised.

2.1 REPORT REMIT

Lidl concentrates on providing commodities at the cheapest cost possible (Morschett, et al., 2016). This report will explore how its strategy of cost leadership has been implemented after the analysis of Porter's Generic Strategies. Moreover, its advantages and disadvantages will also be considered. Finally, three recommendations will be given to promote Lidl's performances.

2.2 BACKGROUND OF THE ORGANISATION

The brand of Lidl was founded in Germany acting as a food wholesaler in 1930s. As one of the largest grocery retailers in Europe, Lidl now owns over ten thousand stores around the world of whom are over 760 in UK (Lidl, 2019) with a turnover of £ 474.5 million in 2018 (see Fig.2-1) and over 22,000 employees (Lidl, 2019). Although its market share in UK is comparatively small with around 5.9% (see Fig.2-2), the outlook of its development in UK is still positive. According to British CEO Christian Hartnagel, 230 stores will be opened in the next three years and by 2023, there will be 1,000 outlets of Lidl in UK (Chambers, 2019).

Its mission is to ensure that all of its products are produced, sold and consumed in ways that benefits producers, people and the planet. These three themes are on the foundation of its strategy (Lidl, 2019). Lidl supplies the same commodities with lower prices which is regarded as a comparative advantage over its competitors. With its focus on maintaining its low-cost position, Lidl is an example of hard discounters (Gijssbrechts et al., 2018).

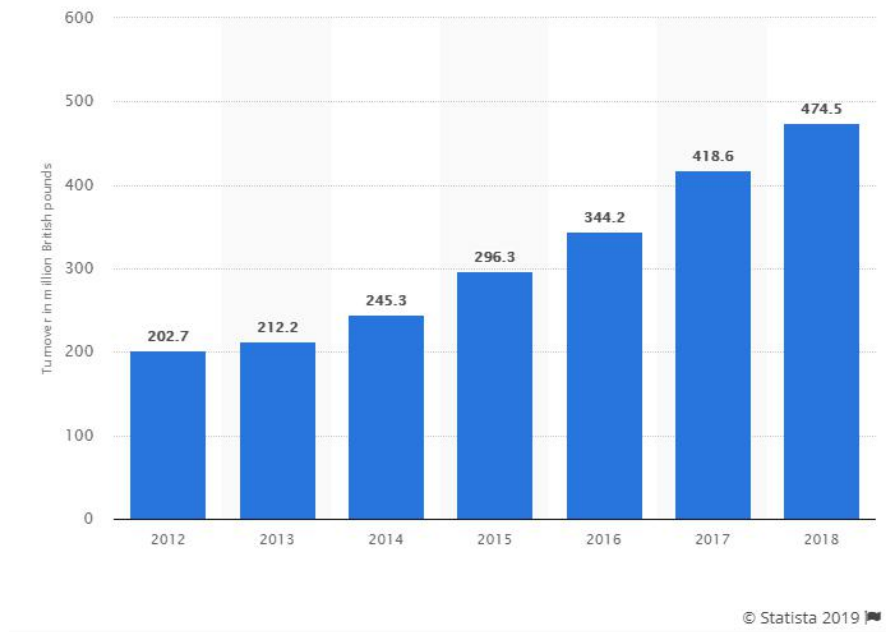


FIGURE 2-1 TURNOVER OF LIDL IN THE UNITED KINGDOM (UK) FROM 2012 TO 2018
(IN MILLION GBP)

Source: Statista (2019)

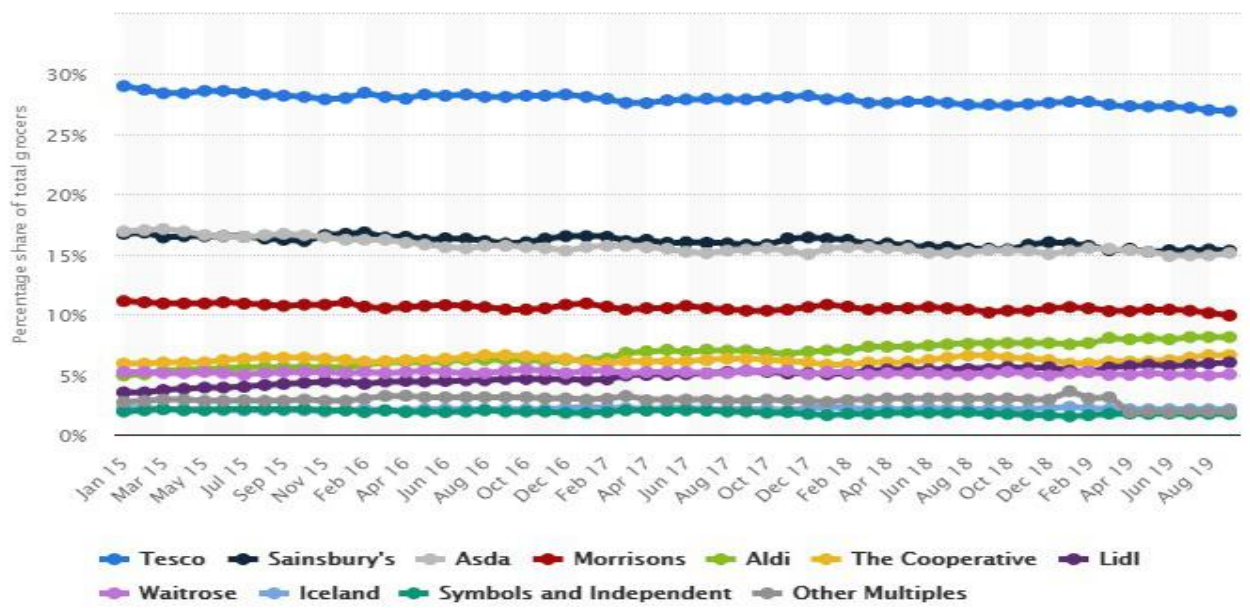


FIGURE 2-2 MARKET SHARE OF GROCERY STORES IN GREAT BRITAIN FROM JANUARY 2015 TO
SEPTEMBER 2019

Source: Statista (2019)

2.3 DEFINITIONS OF MAJOR CONCEPTS

2.3.1 Definitions of Main Terms

Strategy. It is the direction and scope of an organisation in a long term. Through configuration of resources and competences, an organisation can enforce its advantages to achieve expectations of stakeholders (Johnson et al., 2011).

Business level strategy. Being different from corporate level strategy, it is concerned with an organisation's position in the specific industry. It refers to a set of actions taken to provide value to customers and gain competitive advantage by exploiting core competences in specific products or service (Porter, 1985).

Competitive advantage. It generates fundamentally when the value that an organisation offers to customers exceeds the cost that the organisation creates it. Superior value deprives from offsetting lower prices than its competitors with an equivalent benefit or providing diversified benefits than more than offer a higher price (Porter, 1985).

Hard discounter. A hard discounter is a concept relative to a soft discounter, meaning that all benefits are reflected in the price, not through other forms like coupons and private brand is a key part of hard discount model. Currently, they widely spread in Europe, including Lidl, Aldi (Vroergijk et al., 2013).

2.3.2 Analysis of Porter's Generic Strategies

Porter (1985) stated that there are four generic strategies for organisations to achieve their competitive advantages: cost leadership, differentiation, focus cost leadership and focus differentiation (see Fig. 2-3). An organisation has to make a reasonable choice to avoid stuck in the middle (Porter, 1985, p12).

Specifically, an organisation that follows the cost leadership strategy is seeking to supply products at the lowest cost. To achieve comparative advantage, it has to perform an important value chain activity at a lower cost compared with its competitors (Porter 1980,1985). After achieving its goal, the organisation can enjoy higher profitability with

the same price as its competitors or reduce its price to generate more sales (Day and Wensley, 1988).

However, some scholars have criticised this model for being over simplified. For example, some industries, including retailing, requires more specific instructions and allows other comparative advantages (Harris and Ogbonna, 2001).

All in all, after decades of theoretical and practical testing, Porter's Generic Strategies Theory is still effective to analysis a company's business level strategy.

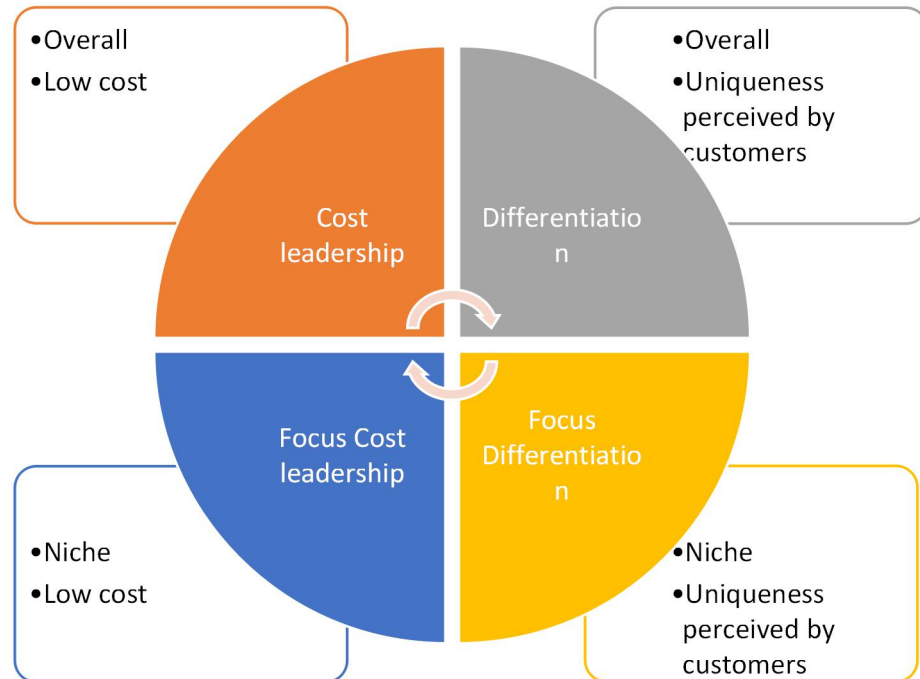


FIGURE 2-3 FOUR GENERIC STRATEGIES OF PORTER'S MODEL

Source: Porter (1980)

3. MAIN BODY

After the above analysis, it is apparent that Lidl follows the generic strategy of cost leadership. In this part, the detail information about its strategic choice will be given, including how this strategy is implemented and what are the advantages and disadvantages of the strategy.

3.1 IMPLEMENTATION OF THE STRATEGY

There have been a set of specific actions taken in Lidl to maintain a lowest cost position possible. In general, they can be divided into the external part and the internal part according to different relationships that need to be dealt with when Lidl applies for these behaviours.

3.1.1 External Actions

Wide range of private labels. Private brands are significant for the hard discounters (Lourenço and Gijsbrechts, 2013). It is said that over 60% of the products in its stores are private labels (Steenkamp and Kumar, 2009). It means these products are manufactured specially for Lidl (Ozair, 2017). That creates exclusivity and security as well as two significant advantages to cut costs. On the one hand, the group of middlemen is eliminated who always charge additional payments (Ozair, 2017). Thus, the private labels make it possible to avoid paying a premium for products. On the other hand, it is flexible and effective for Lidl to control manufacturing costs as well as their prices. Therefore, it is not necessary for it to mark up the prices of products to keep an ideal profit level (Ozair, 2017). Considering that the cost of private labels is generally lower than the national brands, Lidl is capable of providing items with a considerably lower prices than its rivals (Planet Retail, 2010).

Limited types of the same commodity and low stock (Koistinen and Järvinen, 2009). It means Lidl only needs one or two suppliers to provide it with the same kind of commodity and usually buys them in bulk (Ozair, 2017). Not only can it reduce the negotiation cost with suppliers but also can cut the expenses related to stock, such as reordering cost and holding cost (Pando et al., 2019). Finally, a positive circle of “low cost-low price-high sales- low expenses- lower price” can be formed.

3.1.2 Internal Actions

Avoiding expensive floors, furniture and decorations. These are considered as a “waste” of money in Lidl. On the one hand, the store area of Lidl is generally smaller than its competitors (Marketline, 2014). Not only can it reduce the cost of overhead, such as lighting, floors and decorations, but also requires less employees than much larger stores which is beneficial to reduce the labour costs as well (Ozair, 2017). Therefore, Lidl can maintain its low costs position. On the other hand, Lidl is renowned for its no frill service (Marketline, 2014). Actually, it also spends less money on the ‘bells and whistles of a store’ as much as possible because it is regarded as less efficiency and a reason of extra costs for customers in Lidl (Ozair, 2017).

Cross trained employees. The labour cost is also low in Lidl (Ozair, 2017). For one thing, they employ less staffs as much as possible. For example, customers need to weigh and package their products by themselves because there is not a specific employee to do that work. In other words, customers are expected to serve themselves (Koistinen and Järvinen, 2009). For another, their employees are capable of diversified work rather than specialise in one section. Therefore, the human resource is taken advantage of completely and efficiently (Koistinen and Järvinen, 2009).

Displaying products in shipping boxes. This action aims to speed up its restocking process and save manpower to improve its efficiency (Marketline, 2018). Moreover, using the original package of items can also save the expenses of displaying the

products because there is no need of other expensive and elaborate packages (Marketline, 2018). For example, the milk can be stacked by suppliers by using carts with wheels which are directly displayed in stores.

3.2 ADVANTAGES & DISADVANTAGES OF THE STRATEGY

3.2.1 Advantages of Cost Leadership

Be attractive to customers. The cost leadership strategy makes it possible for Lidl to offer the same commodities with the lower prices than its competitors make it attractive to customers on budget (Ozair, 2017). Taking the non-food items as examples, they are sold at comparatively low prices while stocks last which generates scarcity value (Ozair, 2017). Therefore, customers tend to patronise the shop frequently because of the concern of out of stock.

Rapid development in market. Relying on the considerably lower prices than other food retailers, the hard discounters like Lidl expand rapidly in the market with a continuous increase of market share (Marketline, 2014). Taking the Lidl in the UK as an example, it has offered an alternative choice to the traditional big four in the UK and changed the customers' behaviour since it entered the UK market in 1994. Its market share expands continuously (see Fig.2-2) which puts considerable pressure on the big four. The market share of Lidl in the UK has increased from 1.3% in 2000 (Marketline, 2014) to nearly 6% in 2018.

Establish barriers to entry. Another advantage of cost leadership strategy is that it can provide the implementer with security to establish barriers for potential entrants (Ozair, 2017). For one thing, the existing of wide range of private brands can effectively reduce its costs of purchasing products. Without an adequate economic scale and strong financing support, the potential entrants will suffer a lot to survive in the market (Marketline, 2014). For another, Lidl is a global company which establish its

stores around 29 different countries in the world (Ozair, 2017) which indicates that it can make full use of the beneficial resources around the world. For example, it can choose the most attractive suppliers to maintain the lowest cost position possible. All of these establish considerable barriers for a potential entrant to enter its market.

3.2.2 Disadvantages of Cost Leadership

The loyalty of customers. Besides profit, this is also a significant goal to achieve business success (McKercher et al, 2012) including the customers' recommendation and revisiting. Generally, high degree of customers' loyalty is often related to high perceived value (Bolton and Drew, 1991). However, in retail industry, customers are likely to change their consumption behaviour in consider of price which indicates the loyalty of customers is low, especially for those hard discounters like Lidl. Besides, it does not offer a loyalty card program like other food retailers. Actually, there nearly no loyalty program of Lidl in the UK which is not beneficial to expand its business to some extent.

Potential price war. Price wars are fundamentally different from seeking to an advantageous position of price (Reinmoeller, 2014). They also take place when competitors try to increase their market shares or crowd out their competitors by reducing their prices below its competitors aggressively. Lidl's cost leadership strategy has caused prices wars among its rivals (Ozair, 2017). With its rapid development of market shares, the traditional 'big four' in the UK are faced with great challenge (Marketline, 2014). The big four refer to the four largest food retailers in UK which are Tesco, Sainsbury, Asda and Morrison. In fact, food retail industry in the UK is being consolidated with a declining market value (Marketline, 2014). If hard discounters like Lidl expand continuously, it is evident that the big four will suffer. Under such a circumstance, if the big four compete with Lidl by prices, a potential ground of price war will be approaching. Frankly speaking, price war is always regarded to diminish the

profit of companies. What's worse, the price war has been advantageous to the big four with historic evidence (Marketline, 2014) in considering of their economic scale and abundant capital.

Quality misunderstanding. Another disadvantage of cost leadership strategy is that customers may misunderstand the qualities of the items they sell in consider of that low prices are often related to poor qualities (Siro, et al., 2008). Actually, customers can find desirable products with reasonable quality-price ratio in Lidl (Koistinen and Järvinen, 2009). The underestimated value of its items limits Lidl's capability to expand new market to some extent.

4. CONCLUSION

In conclusion, Porter's generic strategies theory offers a feasible tool to analyse the business model of an organisation as well as assess its market performance. After the analysis towards Lidl based on this theory, it can be concluded that the generic strategy that Lidl conducts is cost leadership. To practice it, Lidl has implemented a set of specific actions, both externally and internally. In terms of its performance, it witnesses a continuously increasing of market share and turnover. However, there are also disadvantages of the strategy, such as the low degree of customers' loyalty, potential price wars and misunderstanding of qualities. Finally, recommendations are given in order to improve its performance in market.

4.1 RECOMMENDATIONS

Develop new market. Convenience stores are thriving (Marketline, 2014) with the changing of customers' behaviour. If Lidl can take a share of this sector, it will increase its exposure and further expand its market share to compete with other supermarkets in an even environment.

Provide premium collection. Actually, Lidl has received a range of award of wines (Lidl, 2019). It can also provide other premium products appropriately through cooperating with brand suppliers (Ozair, 2017) to change customers' negative perspective towards its products.

Take advantage of selling online. Lidl can extend the usability of their website to accept click and collect orders or even delivery (Marketline, 2018). Selling online makes it possible for Lidl to further reduce the operation cost, labour cost and overheads.

5. REFERENCES

Morschett, D., Swoboda, B. and Schramm-Klein, H., (2006). Porter outlines four generic strategies; differentiation, cost leadership, differentiation focus and cost focus (Porter, 1980). *Journal of Retailing and Consumer Services*, 13(4), pp. 275-287.

Porter, M., (1985). *Competitive advantage—Creating and Sustaining Superior Performance*. Free Press, New York.

Porter, M., (1980). *Competitive Strategy: Techniques for Analysing Industries and Competitors*. Free Press, New York.

Day, G., Wensley, R., 1988. Assessing advantage: a framework for diagnosing competitive superiority. *Journal of Marketing* 52, pp. 1–20.

Harris, L., Ogbonna, E., (2001). Competitive advantage in the UK food retailing sector: past, present and future. *Journal of Retailing and Consumer Services* 8, pp. 157–173.

Gijsbrechts E., Campo K., Vroegrijk M., (2018). Save or (over-)spend? The impact of hard-discounter shopping on consumers' grocery outlay. *International Journal of Research in Marketing*, 35(2), pp. 270-288.

Johnson, G., Scholes, K. and Whittington, R. (2011) *Exploring corporate strategy: text and cases*, London: Prentice Hall.

J.S. Lourenço, E. Gijsbrechts. The impact of national brand introductions on hard-discounter image and share-of-wallet. *Int. J. Res. Mark.*, 30 (4) (2013), pp. 368-382.

Steenkamp, J. -B. E. M., & Kumar, N. (2009). Don't be undersold! *Harvard Business Review*, 87(12), pp. 91–95.

Planet Retail (2010). Discounters: Rapid growth or gross myth? *Technical report*, February.

REFERENCES

- Pando, V., San-José, L., Sicilia, J. (2019). Profitability ratio maximization in an inventory model with stock-dependent demand rate and non-linear holding cost. *Applied Mathematical Modelling*, 66, pp.643-661.
- Vroegrijk, M., Gijsbrechts, E. and Campo, K., (2013). Close Encounter with the Hard Discounter: A Multiple-Store Shopping Perspective on the Impact of Local Hard-Discounter Entry. *Journal of Marketing Research*. pp. 606-626.
- Koistinen, K., Järvinen, R., (2009), Consumer observations on channel choices—Competitive strategies in Finnish grocery retailing. *Journal of Retailing and Consumer Services*. 16(2009), pp.260–270.
- Siro, I., Kapolna, E., Kapolna, B. and Lugasi, A., (2008). Functional food. Product development, marketing and consumer acceptance—A review. *Appetite*, 51(3), pp. 456-467.
- Reinmoeller, P., (2014), How to win a price war. *MIT Sloan Management Review Cambridge*. 55(3), pp.15-17.
- McKercher, B., Denizci-Guillet, B., Ng, E., (2012). Rethinking loyalty. *Ann. Tour. Res.* 39 (2), pp. 708–734.
- Bolton, R.N., Drew, J.H., (1991). A multistage model of customers' assessments of service quality and value. *J. Consum. Res.* 17 (4), pp. 375–384.
- Lidl, (2019). *Our history*. [Online] Available at: <https://www.lidl.co.uk/about-us> (Accessed: 12 November 2019).
- Mareketline, (2018). *Food & Grocery Retail in Germany*. Available at: <https://advantage-marketline-com.ezproxy.uwtsd.ac.uk/Analysis/ViewasPDF/germany-food-grocery-retail-72039> (Accessed: 16 November 2019).

REFERENCES

Ozair, N., (2017). Lidl-Collaboration with Heidi Klum as discount supermarket targets new apparel market, *Marketline*. Available at: <https://advantage-marketline-com.ezproxy.uwtsd.ac.uk/Analysis/ViewasPDF/lidl-collaboration-with-heidi-klum-as-discount-supermarket-targets-new-apparel-market-49734> (Accessed: 16 November 2019).

Marketline, (2014). Supermarket Price Wars-A response to the rise of discount retailers. Available at: <https://advantage-marketline-com.ezproxy.uwtsd.ac.uk/Analysis/Details/supermarket-price-wars-a-response-to-the-rise-of-discount-retailers-28085> (Accessed: 16 November 2019).

Chambers S. (2019) Lidl to open 230 stores in challenge to big four supermarkets - German discounter to accelerate the pace of expansion. *The Times*, 10 November [Online] Available at: <https://www.thetimes.co.uk/article/lidl-to-open-230-stores-in-challenge-to-big-four-supermarkets-h9gqggwkv> (Accessed: 16 November 2019).