Grocery shoppers getting no-frills choices

Ann Merrill
Star Tribune
Published 07/25/2003

They're not pretty, but they're cheap.

Welcome to the world of limited-assortment grocery shopping -- stores where shoppers bring their own bags, select from a narrow array of products and slice at least 30 percent off their grocery bills.

The concept, particularly appealing during tough economic times, is growing in the Twin Cities. German grocery giant Aldi Inc. intends this year to open its first of several planned Twin Cities stores, joining four Buy-n-Save stores that Edina-based Nash Finch operates here. Eden Prairie-based Supervalu Inc., the leader in the limited-assortment niche with nearly 1,200 Save-A-Lot stores across the country, has pledged that it, too, will open stores on its home turf.

The additions will add fuel to the fire of an already intensely competitive local grocery marketplace.

"Aldi will do very well in the Twin Cities," said David Livingston, a supermarket consultant based in suburban Milwaukee. "In my opinion, they are the lowest-priced supermarket in the country."

Lisa McIntyre loads groceries at an Aldi store.

Glen Stubbe
Star Tribune

Playing on price

The appeal of the stores is indeed price.

"I come here weekly," said Lisa McIntyre of Boyceville, Wis., shopping this week at the Aldi store in Menomonie, Wis. McIntyre said she does pretty much all her grocery shopping at the store, stopping elsewhere only for roasts or a particular produce item she can't find at Aldi. "I've got a husband and two boys. If I spend $100 here, I get more for my money than I would elsewhere."

A trip to an Aldi store quickly drives home the price message: Shoppers must pay a quarter deposit on grocery carts and can complete their purchases with cash or debit cards, but not credit cards.

Aldi stores, at about 16,000 square feet, are small compared with a typical Twin Cities grocery store. Aldi stores usually carry 700 to 1,000 items; most local grocery stores carry 25,000.

Much of the merchandise is private label, packaged specifically for Aldi, but national brands found in the store include Jell-O, Hershey's, Pine Sol, Quaker, Oscar Meyer and Dole. The company carries as much private label merchandise as possible and is striving to build loyalty to its store brands, said Atty Klingensmith, acting manager at the nine-month-old Menomonie store.

The store features a limited produce section; a small fresh meat case, where ground beef sold for $1.69 per pound this week; and a dairy case, with butter at $1.49 per pound. Tall freezers held a variety of meat items, including pork chops and cornish game hens.

More competition

The Aldi stores will add competition to the Twin Cities, but existing grocers hope Aldi sales will come out of someone else's hide, not theirs.

"It does bring a different dimension to the marketplace," said Dale Riley, head of Edina-based Rainbow Foods, the area's second-largest grocer, recently bought by Roundy's Inc. "But Aldi is different from us in size, selection and in-store shopping experience," he said. "It all comes down to what they [shoppers] are looking for."

Riley points out that customers seeking to save money but desiring a larger selection and in-store experience can turn to store brands offered by Rainbow and other grocers.

A 24-ounce bottle of chocolate syrup that sells for 99 cents at Aldi, for example, can be found under Roundy's store brand at Rainbow for $1.29 and under Cub's label for $1.33. Those store brand prices are as much as $1 cheaper than the national brand prices.

Gordy Farrington, president of Stillwater-based Cub, agrees with Riley's assessment: "We offer competitively priced national brands alongside our own high-quality Cub Foods store brands. At Cub, consumers have a choice when they are filling their shopping carts."

In recent years, consumers increasingly have been willing to try store brands as quality and selection have improved, said Brad VanAuken, founder and president of BrandForward Inc., a consulting firm in Rochester, N.Y., that specializes in brand-building. In 1994, a survey indicated that 67 percent of consumers agreed that it is risky to try a brand they're not familiar with, he said. By 2000, that percentage had slipped to 50 percent, and in 2002, the margin was 46 percent.

Manufacturers of national brands "have their hands full," but can thrive if they can differentiate their product, innovate or create a strong customer experience, he said. Typically, consumers are loyal to a brand because it provides shopping simplicity, he said. "They find something they like and stick with it."

Brands also have strong emotional ties: A couch potato might be drawn to the Nike swoosh because he wants to be like Tiger Woods; a coffee-drinker might prefer Starbuck's in search of coffee-shop ambiance; and a grocery shopper might buy Skippy's because of links to her childhood, he said. "Brands have value."

Geographic sense

Closely-held Aldi, founded in Germany some 40 years ago, is owned by brothers Karl and Theo Albrecht, considered Europe's richest men with a fortune worth an estimated $41.3 billion. There are about 5,000 Aldi stores in more than a dozen countries, including 685 corporate-owned units in the United States.

Aldi's move into Minnesota makes geographic sense, given that dozens of stores already are open in Wisconsin and Iowa, said Kela Luers, an executive assistant for the Burlington, Iowa, division of Aldi.

The first local store to open will be at 6600 Cahill Av. in Inver Grove Heights' Village Square Shopping Center. The company also intends to open in Champlin and is scouting sites in Brooklyn Park and St. Paul. Luers declined to reveal how many stores Aldi plans for the Twin Cities, but confirmed multiple stores are in the works. Product initially will be shipped 300 miles from a warehouse in Burlington.

The keys to Aldi's success are cost-controls and efficiencies, said Livingston, the consultant. On the labor side, for example, the stores typically employ fewer than a dozen workers, paying them above-average wages and offering benefits, he said. "Aldi [also] has a good track record of promoting women and minorities into management positions."

Nevertheless, the arrival of nonunion Aldi raises concern for the local grocery union, already frustrated with nonunion SuperTargets, Whole Foods, Sam's Club and Costco.

The union is planning a response to Aldi's entry, said Don Seaquist, president of Local 789 of the United Food and Commercial Workers Union. "We've got 300 members who work at nearby stores. We may give them a supplement [to leave their existing jobs] to try to get jobs there to get a union started."

The small roster of employees at Aldi is par for the course in the limited assortment category and is part of the misconception about the segment, said Bill Moran Jr., president at St. Louis-based Save-A-Lot. "Others have tried it as a sideline and underestimated all the pieces. People see it as a simple-looking store, but this is not a business model that's driven by poor quality, cheap labor and low rents. It's about procurement and efficiency."

The concept "is a huge deal" for Supervalu, Save-A-Lot's parent, serving as the flagship retail growth concept for the company, said Eric Larson, analyst at U.S. Bancorp in Minneapolis. It's been much less of a factor at Nash Finch, he said.

Nash Finch got into the limited assortment game in 1999 and has been quietly testing a handful of stores in Minnesota, targeting households with incomes below $35,000. "The reaction of the test markets has been good. As far as the future, we continue to evaluate our existing stores," said Greg Sandeno, vice president of retail operations.

About 70 percent of the Save-A-Lot stores are licensed operations, a strategy that has fueled rapid growth, Moran said. The company, which continues to expand west, is testing 50 stores that combine groceries with dollar-store merchandise. Typical Save-A-Lot customers, he said, "want to get the most for their money."

Ann Merrill is at amerrill@startribune.com.