

BMA302
Strategic Management

Semester 5, 2008

This unit will be offered in:

Hobart

The lecturer responsible for this unit is:

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<http://www.utas.edu.au/mgmt/student.htm>

Introduction to the Unit

By now you will have studied and be familiar with those units concerning management of the resources which are available to a business or organisation. In economic terms, these resources (or factors of production) are all the natural, manufactured, and human resources that are used in the production of goods or services. The process of strategic management looks into the full set of decisions and actions required for an organisation to achieve a long-term competitive position in the global environment. Therefore, the study of strategic management processes acts as a guide to formulate, implement, and evaluate strategies more effectively in all kinds of profit and non-profit organisations.

In a formal sense, strategic management may be described as a process of identifying, choosing and implementing the most effective (profitable) means of ensuring long-term compatibility between the internal skills and resources of an organisation, and the competitive, economic and social environments within which that organisation operates.

This, then, is what strategic management is all about. As the unit is normally taken by students in the last Semester of study, you are encouraged to bring to it the insights and expertise you have gained in your prior studies, together with your own life experience – strategic management is an opportunity for you to bring all of those resources to bear on beginning to deal with real world problems faced by organisations. In this sense the unit will give you the opportunity to test the theories you have encountered so far with the experiences of real world organisations.

You also need to be aware that this unit includes insights and arguments that are not in the textbook. The lectures will include extra material that is examinable and attendance at lectures is therefore strongly recommended.

We welcome you to the unit and hope you find the material relevant and thought-provoking.

Enrolment in the unit

Unless there are exceptional circumstances, students should not enrol in BMA Spring School units after the end of the first week of classes, as the School cannot guarantee:

- that any extra assistance will be provided by the teaching team in respect of work covered in the period before enrolment; and
- that penalties will not be applied for the late submission of any piece or pieces of assessment that were due during that period.

Learning Outcomes

On completion of this unit, you should be able to:

- Demonstrate and apply knowledge of the framework, main theories and conceptual approaches related to managing organisations strategically
- Analyse and evaluate factual situations presented in case studies to inform strategic options
- Justify recommendations for strategic options to achieve organisational goals
- Communicate in written form (including reports)

Generic Graduate Attributes

The University has defined a set of generic graduate attributes (GGAs) that can be expected of all graduates (see <http://www.utas.edu.au/tl/policies/index.htm>). By undertaking this unit you should make progress in attaining the following attributes:

Knowledge

- Understanding the main theories, concepts and frameworks in strategic management
- Applying strategic management principles to present or future work experiences
- Integrating conceptual approaches to strategic management and writing about real world experiences

Communication Skills

- Presenting well reasoned arguments in written communication
- Listening to and evaluating the views of others

Problem Solving Skills

- Conceptualising problems and formulating a range of solutions
- Identifying critical issues facing real world organisations
- Finding, acquiring, evaluating and using relevant information using a range of resources

Global Perspective

- Demonstrating an awareness of the local and global context of strategic management issues

Social Responsibility

- Acknowledging the social and ethical responsibilities of organisations and the link to strategy formation and implementation

Prerequisites

Successful completion of any four level 200 BMA units (ie 50% of level 200) in a relevant major.

Texts

Prescribed Text

Hanson, D., Dowling, P.J., Hitt, M.A., Ireland, R.D. & Hoskisson, R.E. 2008. *Strategic management: Competitiveness and globalisation* (3rd ed.). Victoria: Thomson Learning.

School Publications

Students must obtain the following electronic publications which are available from the School of Management website: <http://www.utas.edu.au/mgmt/student.htm>

Writing Assignments: A Guide

School of Management Referencing Style

Recommended Reading

The publications listed below are highly recommended for further reading on the topics covered in the unit.

Books

- Belanger, J., Berggra, C., Bjorkman, T. & Kohler K. 2000. *Being local worldwide*. USA: Cornell University Press.
- Chandler, A., Hagstrom, P. & Solvell, O. 2000. *The dynamic firm*. USA: O.U.P.
- Clegg, S., Hardy, C. & Nord, W. 1996. *Handbook of organisation studies*. London: Sage.
- Costain, H. (Ed.). 1998. *Readings in strategic management*. Sydney: Dryden.
- De Wit, B. & Meyer, R. 2004. *Strategy: Process, content, context*. London: Thomson.
- De Rond, M. 2005. *Strategic alliances as social facts*. Cambridge: Cambridge University Press.
- Dess, G.G., Lumpkin, G.T., & Taylor, M.L. 2004. *Strategic management: Text and cases*. Sydney: McGraw Hill.
- Francis, I. 1997. *Future direction: The power of the competitive board*. Melbourne: Pitman.
- Grant, R.M. 1998. *Contemporary strategy analysis*. Oxford: Blackwell
- Hanson, D., Dowling, P., Hitt, M.A., Ireland, R.D. & Hoskisson, R.E. 2005. *Strategic management: Competitiveness and globalization* (Pacific Rim 2nd ed.). Melbourne: Thomson.
- Harvey, D. 1989. *The condition of post modernity*. Blackwell: Oxford.
- Hendry, C., Arthur, M. & Jones, A. 1995. *Strategy through people: Adaptation and learning in the small-medium enterprise*. London: Routledge.
- Hubbard, G. 2004. *Strategic management: Thinking, analysis and action* (2nd ed.). Sydney: Prentice-Hall.
- Johnson, G., Scholes, K., & Whittington, R. 2005. *Exploring corporate strategy*. Harlow: Prentice Hall.
- Joyce, P. 2000. *Effective strategic change in the public sector*. London: Wiley.
- Klein, N. 2000. *No logo*. London: Scribe.
- Lewis, G., Morkel, A., Hubbard, G., Davenport, S. & Stockport, G. 1999. *Australian and New Zealand strategic management*. Sydney: Prentice Hall.
- McKiernan, P. (Ed.). 1996. *Historical evolution of strategic management—Volumes 1 & 2*. Sydney: Dartmouth.
- Mintzberg, H. 1994. *The rise and fall of strategic planning*. New York: The Free Press.
- Mintzberg, H. & Quinn, B. (Eds.). 1998. *Readings in the strategy process* (3rd ed.). Sydney: Prentice-Hall.
- Porter, M. 1990. *Competitive advantage of nations*. London: MacMillan.
- Porter, M. 1985. *Competitive advantage*. New York: The Free Press.

- Porter, M., Taeuchi H. & Sakakibara, M. 2000. *Can Japan compete?* Hampshire: MacMillan.
- Segal-Horn, S. 1998. *The strategy reader*. Blackwell: Oxford.
- Stacey, R.D. 1996. *Strategic management and organisational dynamics*. Sydney: Pitman.
- Tapscott, D. 1996. *The digital economy*. New York: McGraw-Hill.
- Viljoen, J., & Dann, S. 2003. *Strategic management* (4th ed.). Frenchs Forest, Sydney: Prentice Hall.
- Wheelen, T.L., & Hunger, J.D. 2004. *Strategic management and business policy*. Sydney: Prentice Hall.

Journals and Periodicals

Apart from books, you will find it valuable to get into the practice of reading relevant articles from journals and periodicals (including newspapers and magazines).

Academy of Management Journal

Academy of Management Review

Administrative Science Quarterly

Australian Journal of Management

California Management Review

Corporate Reputation Review

Greener Management International

Harvard Business Review

Journal of General Management

Long Range Planning

Sloan Management Review

Strategic Management Journal

Learning Outcomes/Generic Graduate Attributes Matrix

Assessment task 1	Essay			
Assessment task 2	Case study report			
Assessment task 3	Final Examination			
Learning Outcomes:				
1. Demonstrate and apply knowledge of the framework, main theories and conceptual approaches related to managing organisations strategically		√	√	√
2. Analyse and evaluate factual situations presented in case studies to inform strategic options		√	√	
3. Justify recommendations for strategic options to achieve organisational goals		√	√	
4. Communicate in written form (including reports)		√	√	
UTas Generic Graduate Attributes:				
Knowledge		√	√	√
Communication skills		√	√	
Problem-solving skills		√	√	
Global perspective		√	√	√
Social responsibility		√		√

Spring Semester Structure

The Spring Semester consists of two compacted study sessions. The first session runs from 8 December to 12 December—with 3 hours per unit per day. The second session runs from 12 January to 16 January—again with 3 hours per unit per day.

Students are expected to have completed the relevant reading prior to attending the study sessions. Students are also encouraged to devise a study schedule involving progressive reading of textbooks in preparation for class work and assignment requirements.

Flexible Learning: MyLO

MyLO software has been incorporated into the delivery of this unit to enhance the learning experience by providing access to up to date course materials and by allowing for online discussion through this web-based environment.

To access MyLO from your own computer you will need the appropriate software, and hardware to run that software. See *Learning Online* <http://uconnect.utas.edu.au/> for computer software you will need.

Note: Older computers may not have the hardware to run some of the required software applications. Contact your local IT support person or the Service Desk on 6226 1818 if you experience difficulties. The School of Management has prepared a MyLO Information Sheet which includes access guidelines and contact information. It is available to download as a Word document from the School of Management website:

<http://www.utas.edu.au/mgmt/student.htm>

Privacy Policy and Notice

The School of Management takes the utmost care to protect the privacy and security of your personal information and to ensure its accuracy.

If you have any concerns about your privacy in MyLO please contact the lecturer-in-charge of this unit or view the University of Tasmania MyLO Privacy Policy Statement available from the university website on <http://www.utas.edu.au/coursesonline/privacy.htm>.

Assessment

In order to pass this unit you must achieve an overall mark of at least 50 per cent of the total available marks. Details of each item of Coursework are provided in the Assignment Topics section.

Method of Assessment	Value	Due Date	Length*
Coursework			
Assignment - Essay	10	12 th December	1000 words maximum
Case Study Report	30	12 th January	2500 words maximum
Examination	60	Exam Period	
Total Marks	100		

* **Word Limit:** The word count includes such items as headings, in-text references, quotes and executive summaries. It **does not** include the reference list at the end of the assignment.

Examination

Format

There will be a three hour examination at the completion of the semester. No materials may be taken into the examination room. The examination is worth 60 marks and will be in two parts. In Section A students will choose three from five essay questions with each essay question worth 10 marks. The total for Section A is 30 marks. In Section B students must read a strategy case and answer two compulsory questions, one worth 20 and the other worth 10 marks.

Scheduled date and place

Your final examination for this unit will be held during the scheduled examination period as indicated by Student Administration in correspondence to you.

Examinations will normally be scheduled Monday to Saturday inclusive. Examinations may be held during the day or evening and students should consult the university information which will be made available towards the end of semester.

You are advised to make any necessary arrangements with employers now for time off during examination period to sit this examination. Your participation at the scheduled time is not negotiable unless there are exceptional circumstances.

Note that you will be expected to sit the examination at your recorded study centre.

Supplementary Examination

Except in special circumstances and on the recommendation of the lecturer-in-charge or the Head of School, a student who fails will not be granted a supplementary examination.

Special Consideration and Student Difficulties

If a student is experiencing difficulties with their studies or assignments, have personal or life planning issues, disability or illness which may affect their course of study, they are advised to raise these with their lecturer in the first instance. Students may also contact the Catalyst Officer, who will be able to help in identifying the issues that need to be addressed, give general advice, assist by liaising with academic staff, as well as referring students to any relevant University-wide support services. The Catalyst Officer is located in room 318a in the Commerce Building in Hobart and is contactable by phone on 6226 1916. There is also a range of University-wide support services available including Student Services, International Services and Learning Development. Please refer to the *Current Students* homepage at: <http://www.utas.edu.au/students/index.html>
Should a student require assistance in accessing the Library visit their website for more information at <http://www.utas.edu.au/library/>

Students who have completed their examinations and who feel that they have been disadvantaged due to illness or other circumstances affecting their study, may fill out a form to request that their lecturer takes this into consideration when marking the examination. Forms should be submitted directly to the relevant school, accompanied by appropriate supporting documentation, as soon as possible after the completion of the examination. Granting of special consideration is at the discretion of the lecturer and school. The relevant form can be found at the following website:
http://www.studentcentre.utas.edu.au/examinations_and_results/forms_files/index.htm#eits

Students with a non-English speaking background may be permitted to take a bilingual dictionary into an exam. This dictionary must not be annotated, that is, must have no notes written in it. In order to use a bilingual dictionary students must request permission from the Student Centre.

Submission of Coursework

Lodging Coursework

All Coursework must have the School of Management Assignment Cover Sheet and Title Page attached. Both of these are available as a blank template from the School of Management website: <http://www.utas.edu.au/mgmt/student.htm>

All assignments must include the tutor's name on the assignment Cover Sheets when they are handed in. If this is not done the assignment will not be accepted and therefore marked.

Please remember that you are responsible for lodging your Coursework on or before the due date. We suggest you keep a copy. Even in the most 'perfect' of systems, items sometimes go astray.

Note that you may also be required to submit an electronic copy of your Coursework. More details of this will be given in Lectures.

Hobart students: Lodge in assignment box next to room 321, Level 3, Commerce & Economics Building.

All coursework must be handed in by 2.00 p.m. on the due date.

Late Coursework

Written Work

Extensions will only be granted on medical or compassionate grounds and will not be granted because of work or other commitments. Requests for extensions should be **made in writing** to the lecturer-in-charge prior to the due date. Medical certificates or other evidence must be attached and must contain information which justifies the extension sought.

Late assignments which have not been granted an extension will, at the lecturer's discretion, be penalised by deducting ten per cent of total marks for each full day overdue.

Assignments submitted more than six days late will normally not be accepted by the lecturer-in-charge.

Tests

Students who are unable to sit a test on medical or compassionate grounds (work or other commitments are not considered 'compassionate grounds') may request that they be permitted to submit alternative Coursework.

Please do not expect a special test to be held for you if you choose to go on holidays or undertake other activities on the scheduled date. If you do need to request alternative Coursework, you should do so in writing to the lecturer-in-charge prior to the due date. Medical certificates or other evidence must be attached and must contain information which justifies the request. The telephone number of the doctor should also be included.

Return of Coursework

Coursework will be returned during classes or it can be collected from the lecturer's or tutor's room at nominated times; it will not be available from the School's offices.

Plagiarism

Plagiarism is a form of cheating. It is taking and using someone else's thoughts, writings or inventions and representing them as your own, for example:

- using an author's words without putting them in quotation marks and citing the source;
- using an author's ideas without proper acknowledgment and citation; or
- copying another student's work.

If you have any doubts about how to refer to the work of others in your assignments, please consult your lecturer or tutor for relevant referencing guidelines, and the academic integrity resources on the web at <http://www.utas.edu.au/tl/supporting/academicintegrity/index.html>.

The intentional copying of someone else's work as one's own is a serious offence punishable by penalties that may range from a fine or deduction/cancellation of marks and, in the most serious of cases, to exclusion from a unit, a course or the University. Details of penalties that can be imposed are available in the Ordinance of Student Discipline—Part 3 Academic Misconduct, see <http://www.utas.edu.au/universitycouncil/legislation/ord9.pdf>

The University reserves the right to submit (or to require you to submit) assignments to online plagiarism detection software, and might then retain a copy of the assignment on its database for the purpose of future plagiarism checking.

Occupational health and safety (OH&S)

The University is committed to providing a safe and secure teaching and learning environment. In addition to specific requirements of this unit you should refer to the University's policy at: http://www.admin.utas.edu.au/hr/ohs/pol_proc/ohs.pdf

Assignment Topics

Essay

Due Date: 12 December 2008

Length: 1000 words maximum

Value: 10 marks

Write an essay on **one** of the topics from the following list:

Topic 1

Why is an integrated understanding of the external and internal environments essential for firms to understand the present and predict the future?

Topic 2

Why is a business level strategy important to a firm's success?

The essay must be analytical and must go beyond merely stating the views of various writers: students must examine the various arguments, look for strengths and weaknesses in each and draw logical conclusions. The application of theory to practice should be demonstrated. Students will need to have consulted a sufficient number of texts and academic journals in preparing this essay.

Case Study Report

Due Date: 12 January 2009

Length: 2500 words (+ or – 10%)

Value: 30 marks

The requirement

Analyse the *Aldi in Australia Case* (see below)

The case analysis should follow the case study method discussed in the Lectures and must cover the following:

- External analysis (including an industry and competitor analysis)
- Internal analysis
- Description of the present strategies of the Company
- A SWOT analysis and an evaluation of the overall conclusions arising from it
- Using strategic management theory identify and evaluate the strategic options open to the Company
- Your recommendations as to what strategies the Company ought to adopt in order to prosper over the next five years

Presentation

1. The case analysis should be presented in **report** format. You may use headings, and sub-headings in the report, and, so long as they are properly introduced, dot-points may be used where their use assists in communicating your analysis. Excessive use of dot-points will be penalised.
2. The case study material need not be referenced (either as part of your reference list, or, in text).
3. Marks may be deducted for failure to comply with presentation standards outlined in this Introductory Outline and the School's *Writing Assignments: A Guide* which is available at the School's website at: <http://www.utas.edu.au/management/student/.htm>.

Assessment

A detailed performance benchmark rubric, listing all assessment criteria and explaining the grading standards for each can be found on Pages 23-25.

Aldi in Australia

By Ingrid Bonn, Graduate School of Management, Griffith University

Background

In 1948, the brothers Theo and Karl Albrecht opened the grocery store 'Albrecht Discounts' (Aldi) in Essen (Ruhr Valley), Germany. The store had a simple layout and offered a restricted number of products at a low price. The company grew rapidly, owning 13 stores in 1950 and about 300 stores in 1961 across Germany.

In 1961, Theo and Karl divided the company into Aldi North (run by Theo) and Aldi South (run by Karl). The reasons for this division, according to Dieter Brandes, a former managing director of Aldi in Schleswig-Holstein, Germany, were different views about how to develop the business. However, the brothers regularly exchanged information about a range of issues such as performance and cost figures, current and potential suppliers and they also conducted joint negotiations with suppliers¹. In 2003, Theo and Karl stepped down as CEOs. Theo's son, Theo Albrecht Jr., now runs Aldi North, and Ulrich Wolters and Norbert Podschlapp run Aldi South.

¹ D Brandes, '*Konsequent einfach: Die ALDI-Erfolgsstory*', 3rd ed., Campus Verlag, Frankfurt, 1998.

By the end of 2003, Aldi had become one of the world's biggest global food retailers with over 7000 stores worldwide and estimated annual turnover of 36.2 billion Euro (see Table 1). Aldi's main market is Germany, which accounts for about two-thirds of sales and where Aldi has a 40 percent share of the grocery market².

Table 1: Top 10 Global Food Retailers 2003

Position	Company	Country of origin	Turnover 2003 (billion Euro)	Number of shops	Number of countries
1	Wal-Mart	USA	226.8	5045	13
2	Carrefour	France	70.5	10364	31
3	Ahold	Netherlands	56.0	8925	24
4	Metro	Germany	53.6	2478	28
5	Kroger	USA	47.6	3740	1
6	Tesco	Great Britain	44.5	2325	12
7	Rewe	Germany	36.2	14364	13
8	Costco	USA	36.9	419	7
9	Aldi	Germany	36.2	7088	12
10	Intermarche	France	33.4	11347	8

Source: <http://english.lz-net.de/retailers/rankings/pages/show.prl?id=83> (accessed 6.1.2005).

Today, Aldi still operates in two divisions. Aldi North, based in Essen, manages operations in northern Germany, Belgium, Denmark, France, Luxembourg, Netherlands and Spain. Aldi South, based in Muelheim, manages operations in southern Germany, Austria, Great Britain, Ireland, Switzerland, USA and Australia³.

In Australia, the first Aldi store opened in Sydney in January 2001. The company came with \$750 million in paid-up capital and plans to invest profits in further growth⁴. This all-cash approach to expansion keeps Aldi's risk levels low. In 2004, Aldi owned 44 stores in New South Wales, 20 stores in Victoria and 8 stores in Queensland. With these stores, Aldi captured almost 5 percent of total packaged grocery expenditure in New South Wales, 2.5 percent in Victoria and 1.4 percent in Queensland⁵. According to ACNielsen, Aldi could own over 300 stores and capture 10 percent of the Australian packaged grocery dollar market by 2010, if it achieves its planned store rollout program⁶.

Aldi's business strategy

Aldi is a typical 'hard discounter', pursuing a cost-leadership strategy (see Figure 1 for characteristics of hard discounters). Its approach is to offer a limited number of good quality products at low prices. Aldi stores stock about 700 products of the most popular everyday grocery and household items⁷. Such a limited number of items is in stark contrast to a standard supermarket which carries between 25 000 and 30 000 products. Aldi's products include frozen food, meat and dairy products, canned food, bakery products, household supplies, health and beauty products, nappies, cleaning products and a selection of fresh fruit and vegetables. In addition to household staples, Aldi also offers a selection of 'surprise buys', which change every week and are only available as long as the stocks last. These items include highly discounted hardware, electrical items, clothing, sports equipment and toys.

Figure 1: Characteristics of 'hard discounters'

Less than 1200 lines Focus on dry grocery, although new categories are being added

² 'ALDI group', http://www.hoovers.com/aldi/--ID__54910--/free-co-factsheet.xhtml (accessed 21.12.2004).

³ 'Welcome to ALDI Australia', <http://australia.aldi.com> (accessed 20.12.2004).

⁴ J Walker, 'Inside Aldi', *Business Review Weekly*, July 17-23 2003, pp. 41-45.

⁵ ACNielsen, Grocery Report, 2004, www.acnielsen.com.au/files/GroRptCon04.pdf (accessed 20.12.2004).

⁶ Ibid.

⁷ 'Welcome to ALDI Australia', op. cit.

Focus on own brands and 'exclusive' labels

Limited national brand presence

Strict focus on price

Limited in-store fixtures, product often bulk stacked on pallets

Source: igd.com/cir.asp?cirid=463&search=1 (accessed 6.1.2005)

Aldi stocks a few national brands such as Vegemite, Kellogg's breakfast cereals, Milo and Nescafe, however, 95 percent of the products are Aldi's own brands. More than 80 percent of its products are Australian made and many of its home brand products are produced by well-known brand manufacturers. However, manufacturers seem reluctant to be openly associated with Aldi, fearing that they may jeopardise their relationship with other retailers. According to Walker, it is believed that Aldi's suppliers include George Weston's Tip Top Bakers, Arnotts, Goodman Fielder, Green's Foods, Kellogg Australia, Cadbury Schweppes' Cottées division, San Remo, Murray Goulburn, Golden Circle, Berri, Peats Ridge and Carter Holt Harvey⁸.

The Aldi website states that they focus on their own brands in order to remain independent, enabling them to avoid high marketing costs often associated with national brands and to set their own price, product and quality policies⁹. According to Shoebridge, however, house brands are attractive for grocery retailers because they cost 5-20 percent less than national brands, depending on the category. In addition, a retailer's profit margin on house brands is about two percentage points higher than the margins on a national brand¹⁰.

The limited number of products enables Aldi to leverage its impressive buying power and to control the cost of its products by buying in large quantities. According to Brandes, Aldi has 30 to 100 times the buying power of Wal-Mart¹¹. Fewer products also mean that warehouses can be smaller, that shipping and handling is easier, and that the quality of the products can be controlled more rigorously. Aldi's products are tested and sampled on a regular basis, both in-house and in independent food laboratories. The in-house tests involve blind tests by managers who compare their own products with those of leading brands. Aldi's website states that they would withdraw any product immediately if there were the slightest cause for concerns¹².

Minimising costs at all levels in the value chain is the key to Aldi's business strategy. Aldi stores are usually 1200 square metres in size, the biggest Coles supermarkets, by comparison, are about 5000 square metres¹³. The small size of the stores makes new sites cheaper and easier to find, compared to other supermarkets with their jumbo-sized stores. Aldi usually starts with locations in lower middle-class suburbs that have full employment. Once a store is profitable and attracts many customers, Aldi tends to open another store close by. Stores in Australia are either stand-alone or located in shopping centres, as opposed to Aldi's European stores, which are mostly stand-alone.

Aldi stores typically have only four or five employees per shop, compared with about 15 at a standard supermarket. They do not employ specialists such as bakers or butchers, because these products come prepacked. According to Michael Kloeters, group managing director Australia, Aldi pays store assistants \$19.10 an hour plus bonuses, compared with the industry award rate of about \$15 per hour. Employees are permanent full time or part time and have signed Australian Workplace Agreements. There are no casual staff or junior rates of pay¹⁴. However, despite the above average pay rates, the smaller number of staff results in Aldi's labour costs being about 6 percent of revenue, compared with about 12 to 16 percent at a standard supermarket¹⁵.

Contributing to Aldi's relatively low labour costs are its restricted opening hours. Aldi in Labrador (Queensland), for example, had the following opening hours in January 2005: Monday to Wednesday 9am-6pm, Thursday 9am-9pm, Friday, 9am-7pm, Saturday 8.30-5pm, and Sunday 10am-4pm. In contrast Woolworths, Coles, Bi-Lo and Action all had the following opening hours: Monday to Friday 8am-9pm, Saturday 8am-5.30pm, and Sunday 9am-6pm. Hence, Aldi's stores are open for 19 hours less per week than the other supermarkets, which equates to a significant saving in labour costs.

⁸ Walker 2003, op. cit.

⁹ 'Welcome to ALDI Australia, op. cit.

¹⁰ N Shoebridge, 'House-brand horrors', *Business Review Weekly*, October 28 -November 3, 2004, p. 59.

¹¹ L Hamson, 'Inside Aldi', *The Grocer*, November 29, 2003, pp. 28-30.

¹² 'Welcome to ALDI Australia, op. cit.

¹³ Walker 2003, op. cit.

¹⁴ Ibid.

¹⁵ E White and S Ray, 'Leadership (A special report); Bare-Bones shopping: Germany's discount retailers are among the world's most successful; Here's how one does it', *Wall Street Journal*, May 10, 2004. p. R6.

The design of Aldi stores is simple and practical and all stores share similar layout and product presentations. The stores are usually bright, modern and have wide aisles. The products are displayed in specially designed cartons that can be stocked directly on to shelves or wheeled into place by using pallets. The placement of the pallets is based on logistic considerations, namely to improve workflow and productivity. Using pallets makes it easy to restock items, staff simply remove the old pallet and replace it with a new one. This approach helps to save on labour costs to stock shelves.

Aldi also saves costs by not providing free shopping bags. Customers are encouraged to bring their own bags or cardboard boxes. Alternatively they can purchase new shopping bags at the checkout. Bags are not packed and payment with credit cards attracts a 1 percent surcharge to cover additional costs. Further, the use of a shopping trolley requires a \$2 coin deposit, which is refunded when the customer returns the trolley to one of the designated trolley bays. Again, this approach saves costs, because Aldi does not need to employ people to collect and return trolleys.

Marketing is another area where Aldi saves costs. Aldi has no marketing department and its marketing budget is about 0.3 percent of revenue¹⁶. Advertising is minimal, relying on catalogues, local press advertising and web updates. It focuses on product-oriented messages, predominantly about price and new 'surprise buys'. Aldi usually does not employ advertising agencies and does not spend money on market research. Instead, Aldi employees and managers explore what customers may need and stock them on a trial basis in three stores. Aldi's prices are uniform across each country, no matter where the stores are located. The prices for the 'surprise buys' are available on the Aldi website each week.

Despite minimal marketing, however, a study on 'best brands' by the 'Gesellschaft fuer Konsumforschung' in 2004 showed that Aldi was the third most respected corporate brand in Germany, just behind electronics giant Siemens and car maker BMW (Table 2). About 89 percent of German households shopped at least once at Aldi in 2003¹⁷.

Table 2: Best corporate brands in Germany in 2004

Rank	Best corporate brands
1	Siemens
2	BMW
3	Aldi
4	VW
5	Adidas-Salomon
6	DaimlerChrysler
7	Bayer
8	Deutsche Telekom
9	Sparkasse
10	Allianz

Source:

<http://www.gfk.de/index.php?lang=de&contentpath=http%3A//www.gfk.de/presse/pressemeldung/contentdetail.php%3Fid%3D543>
(accessed 7.1.2005).

In addition to minimal marketing, Aldi spends zero on public relations. Managers are usually discouraged to conduct interviews relating to Aldi themes. A rare public statement was made by Theo Albrecht in 1971, when he was released by kidnappers after three weeks in captivity and payment of \$13 million ransom¹⁸. At that time, it was the highest ransom ever paid in Germany.

Aldi does not use consultants and spends very little money on the development of sophisticated statistics and reports. Only the most important data are prepared for the internal control and information systems. In addition, there are no budgets or annual planning calculations¹⁹. This scrupulous attention to minimising costs, according to McKinsey & Co., has helped Aldi to achieve an operating margin of as high as 9.3 percent in some regions of Germany²⁰.

¹⁶ Brandes 1998, op. cit.

¹⁷ J Ewing, A Zammert, W Zellner, R Tiplady, E Groves and M Eidam, 'The next Wal-Mart? Like the U.S.-based giant, Germany's Aldi boasts awesome margins and huge clout', *Business Week*, April 26, 2004, p. 60.

¹⁸ Walker 2003, op. cit.

¹⁹ Brandes 1998, op. cit.

²⁰ Ewing et. al. 2004, op. cit.

Aldi's business strategy is based upon an idea by Theo, which was developed into a successful business concept over a number of years. It has changed very little since its inception, except for a number of minor adjustments based upon the changing internal and external conditions. Some of these changes involve the inclusion of milk and frozen products, the introduction of fresh fruit and vegetables and the addition of some non-food action articles. The introduction of new items, however, did not mean an extension of its product range. For example, when Aldi introduced 25 new frozen products, it eliminated 25 products, which were considered as being 'weak', meaning that they lacked demand or did not fit into the product portfolio anymore. This approach ensures that Aldi stays with its concept of a limited product range, but adapts to the changing demands by modernising its product offerings.

Aldi's vision and guiding principles

Aldi does not have a published vision or mission statement. However, there is a clear business philosophy and a number of guiding principles. The business philosophy can be summarised by the following statement: 'Top quality at incredibly low prices – guaranteed'²¹. In its advertising, Aldi elaborates on this philosophy by stating five main principles, namely (1) huge savings, (2) excellent quality, (3) outstanding value, (4) superb special buys, and (5) buy with confidence (see Figure 2).

Figure 2: Aldi's pledge

Huge savings: Our grocery prices are set low and stay low every day. So you pay less on your weekly shopping.

Excellent quality: We ensure that our quality is as good, if not better, than the leading brands and own brands.

Outstanding value: When we combine incredibly low prices with the best quality products, you know that there is no better value grocery store.

Superb special buys: Every Thursday we introduce an exciting selection of "special buys". These are always extremely popular, and of course amazing value.

Buy with confidence: We are so confident in the quality of our products, that every store offers a "total satisfaction or your money back" guarantee.

Source: Advertising flyer by Aldi, 'Specials from 27 January [2005]'.

Aldi's pledge outlines its key philosophy and principles, namely to offer their customers high quality products at low prices. This is achieved by being cost-conscious in every aspect of the organisation's value chain as outlined in the previous section. The approach is simple and clear, and it is well known throughout the organisation.

The second part of Aldi's key philosophy centres around a strong customer orientation. This involves focusing on meeting the basic needs of its customers by providing high quality products. Brandes argues that being credible to the customer is a key issue for Aldi. In his view, credibility involves 'walking the talk', which means that there needs to be a strong alignment between verbal messages, action and reality in order to gain the trust of the customers²². Dealing with complaints, for example, is one way in which to reinforce Aldi's message. If customers are unhappy with any of the products they have bought or if the products do not meet the required quality standards, Aldi refunds the money or provides customers with a substitute.

The third area in Aldi's philosophy involves the establishment of fair relationships with suppliers. Aldi guarantees payment terms of 30 days net and does not require suppliers to fund rebates or discounts, or to pay listing allowances. There are no negotiations after the deals have been made and Aldi does not have annual talks with suppliers, instead issues are dealt with on a needs-basis. Suppliers have access to Aldi's international network, which potentially enables them to take their products to a global market²³. To ensure fair dealings, Aldi managers are not allowed to accept gifts from suppliers. The most expensive gift that they are allowed to keep is a calendar. All other gifts have to be sent back.

Aldi's organisational culture

²¹ Advertising flyer by Aldi, 'Specials for 27 January [2005]'.

²² Brandes 1998, op. cit.

²³ Welcome to ALDI Australia', op. cit.

Aldi's culture has been strongly influenced by its founders. The cultural values and rules clearly reflect the organisation's philosophy, guiding principles and business strategy. Brandes describes Aldi's culture as one of 'simplicity'²⁴. The Aldi model, which is based on a simple concept, namely the provision of high quality products at low prices, is clearly understood by employees, managers and customers. Employees and managers at all levels of the organisation are very cost conscious and pay particular attention to economic efficiency. Waste is not tolerated. The aim is to avoid unnecessary costs wherever possible. For example, Theo is said to personally have switched off lights in offices when there was enough daylight from outside. The concept of 'cost-watching' extends into all areas of the value chain, including the development of new techniques for warehouse management or for the transport of goods.

The strong focus on economic efficiency is accompanied by a passion for detail. The aim is to find small improvements in all areas and to develop pleasure in achieving small successes. This culture of continual improvement is accompanied by a strong focus on the development and implementation of solutions. Aldi people, according to Brandes, are practitioners²⁵. New ideas and solutions are tried, rather than being exposed to detailed analyses. If they prove to be successful, they are implemented quickly. New products, for example, are not subjected to elaborate market analyses, but are tested in three shops. If they are successful, meaning that they achieve a fast, pre-determined minimum turnover, they are introduced in all other shops.

In addition to its focus on economic efficiency and continuous improvement, the organisational culture is also characterised by determination and persistence. As outlined in the previous sections, there have been very few changes in Aldi's business approach since its foundation. Aldi has consequently pursued its business concept and has resisted temptations such as expanding the number of products, diversifying into other areas or changing its cost-leadership strategy. This is an important trait of its organisational culture, namely to continue doing what they do best.

The organisational culture is reinforced by Aldi's selection and recruitment approach. Aldi tends to carefully select, develop and promote managerial talent from inside the organisation. Important qualities for potential managers are a focus on economic efficiency, fairness towards others, including suppliers, modesty, and reservation towards the public and the press. These behavioural characteristics are reinforced by job descriptions outlining clear goals and competencies. Aldi managers have usually been employed in different parts of the organisation, including the shops and the warehouse. They know how Aldi operates and have ingested the organisational culture. Area managers, for example, go through a 12-month training program in which they learn about the structural and procedural elements of retail management, including store operations and trading rights, administration, logistics and property management. An important part of this program centres on Aldi's management system, including its focus on economic efficiency. The first part of the training takes place in a store where future area managers take over the role of a store manager for several months. This 'hands on' approach aims to acquaint them with Aldi's operations, but also its business philosophy and core values. During the second part of the training, future area managers work alongside experienced colleagues and learn about their role and responsibilities. This includes the tasks of recruitment, planning and organisation of the stores²⁶.

Aldi's organisation structure

Aldi's business concept is supported by a decentralised organisation structure. The first, and probably most important decision to decentralise was when Aldi was divided into Aldi North (run by Theo) and Aldi South (run by Karl) in 1961. This decentralisation created two independent and autonomous organisations and enabled the brothers to pursue their own strategic ideas, rather than trying to compromise. The result of this decentralisation was that, for example, Aldi North stocked about 600 products, whereas Aldi South had only 450 products. Aldi North offered frozen products, but Aldi South waited to see whether frozen products were successful in Aldi North before they included them in their own shops²⁷. Decentralisation enabled the brothers to exchange experience, compare methods and results and to implement the most successful approaches that the other Aldi had tested.

Adhering to the principle of decentralisation, an Aldi corporation looks after between 60 and 80 shops. If this number of shops is reached within one region, a new Aldi corporation is founded. In 2004, for example, there were 65 autonomous regional entities in Germany, 35 in the Aldi North area and 30 in the Aldi South area²⁸.

Aldi's organisation structure is flat and lean. For example, Aldi's headquarters in Germany employs less than 150 staff²⁹. Aldi has no planning department and no central functions such as marketing, human resources, controlling, information

²⁴ Brandes 1998, op. cit.

²⁵ Ibid.

²⁶ 'Area manager', http://uk.aldi.com/recruitment/recruitment_2.html (accessed 6.1.2005).

²⁷ Brandes 1998, op. cit.

²⁸ D Brandes, 'Uncompromisingly simple – the ALDI success story', *ERA packaging Conference*, Freiburg, Germany, October 2004.

²⁹ Walker 2003, op. cit.

systems, or public relations. The responsibility lies with people in line functions who work on practical solutions and who are responsible for their implementation as well as the results. Staff positions do not exist.

The principle of decentralisation is accompanied by a focus on delegation. It is based upon the so-called 'Harzburger Modell', a concept developed by Professor Reinhard Hoehn from the 'Fuehrungsakademie der Wirtschaft' in Bad Harzburg, Germany. This model outlines three issues that should be delegated, namely the task, the necessary competencies to enable task implementation, and the responsibility for implementation and results. Tasks that are delegated are those that (1) can be fulfilled in a better and more cost effective way by others, (2) make the workplace more interesting for employees, (3) include responsibility, (4) are challenging and contribute to employees' professional development, and (5) relieve superiors and allow them to concentrate on core tasks³⁰.

Aldi delegates to the managers who are in charge of implementation. All managers have clearly defined job descriptions specifying the goals, responsibilities and authority of their positions. Control is exercised by random spot checks and by evaluating the results. The control system is also set up to provide information about whether managers comply with the cultural values of the organisation and whether they pass on the values and rules to their subordinates.

Aldi's principles of decentralisation and delegation, according to Brandes, mean that there is less bureaucracy and conflict due to the small size. Problems can be dealt with quicker and knowledge about the local market can be used to improve Aldi's approach. In addition, employees are more involved in the development of the organisation and they have greater potential for career advancement. Finally, the individual Aldi corporations can compete with each other in a healthy fashion³¹.

Aldi's competitive environment in Australia

The main players in Australia's food retail industry are Woolworths and Coles Myer. In 2004, Woolworths' supermarkets division, trading as Woolworths and Safeway, was Australia's leading food retailer with 708 stores nationwide. Woolworths operating revenue for its supermarket segment at the end of the 2004 financial year was \$24,193 million, its earnings before interest and taxes \$960 million. In comparison, the food, liquor and fuel segment of Coles Myer contributed \$21,279 million to its operating revenue and \$678 million to its net profit before interest and tax during the same period³².

Woolworths has about 37 percent of Australia's \$66 billion grocery and retail alcohol market, Coles has a market share of about 32 percent³³.

Woolworths' supermarket division comprises food, liquor and petrol. It also operates Internet food retailing via Homeshop (in Sydney, Melbourne and Canberra) and GreenGrocer (in Sydney and Melbourne). In 2004, the liquor operations included 536 Dan Murphy's, BWS (Beer, Wine, Spirits), First Estate and Woolworths/Safeway attached liquor stores. In addition, Woolworths owned 50 percent of the MGW liquor business (a joint venture with the Bruce Mathieson Group) which has 31 hotels and 110 liquor stores. The petrol division comprised 359 petrol sites including 44 Woolworths/Caltex sites³⁴.

Woolworths general merchandise division consists of BIG W discount department stores and the consumer electronic outlets Dick Smith Electronics, Dick Smith Electronics PowerHouse and Tandy. Other operations include Ezy-Banking, which offers banking products with backing from the Commonwealth Bank of Australia³⁵. Woolworths also publishes three magazines, Australian Good Taste, Woolworths Fresh, and Woolworths Australian Parents³⁶.

Woolworths has positioned itself as the 'The Fresh Food People', aiming to provide a wide range of fresh produce in addition to dry groceries and other merchandise. Many farmers in Australia grow their products exclusively for Woolworths, adhering to strict quality, food hygiene and safety standards. The 'Fresh Food People' strategy has been an important way of differentiating themselves from major competitors, such as Coles. Woolworths actively advertises through magazines, newspapers, television and distributed leaflets, aiming to project an image of providing fresh, healthy and high quality products at a reasonable price. The second purpose of its advertising campaigns is to communicate a series of price specials. Woolworths (similar to other major chains) often promotes 'loss leader' specials to attract customers to the store. Prices are not uniform across Australia, but depend on the location and on the presence of competitors in the specific markets.

³⁰ Brandes 1998, op. cit.

³¹ Ibid.

³² Woolworths Ltd., *Annual report 2004*; Coles Myer Ltd., *Annual report 2004*.

³³ 'Metcash Shareholders Back Foodland Bid', www.xtramsn.co.nz/money/0,,5487-4034756.00.html (accessed 21.1.2005).

³⁴ Woolworths Ltd., *Annual report 2004*.

³⁵ Ibid.

³⁶ 'Online shopping', www.woolworths.com.au (accessed 21.1.2005).

Woolworths' product range includes the 'Fresh Food' offer, well-established national brands, as well as its 'Homebrand' range, which according to the company's annual report in 2004, is Australia's largest supermarket grocery brand by sales³⁷.

In 1999 Woolworths launched 'Project Refresh', an Australian-wide program that aimed to improve efficiency and to reduce costs by restructuring the company's supply chain, by adopting new technology and by introducing the new 'Every Day Low Price (EDLP)' strategy into its supermarkets. EDLP involved reducing prices for many national brands, pushing manufacturers to cut their prices. Level 1 of 'Project Refresh' has been completed and has resulted in an accumulated cost savings of 2.85 percent of sales over the last five years. In dollar terms, this means a cumulative savings of \$ 2.5 billion³⁸.

The second stage of 'Project Refresh' is expected to deliver more cost savings over the next five years, in particular through improvements to its end-to-end supply chain program. This program aims to address store supply chain costs, the number, location and operation of Distribution Centres, transport management, process improvements and the development of integrated systems. For example, Woolworths plans to reduce its supermarket Distribution Centres from 31 Distribution Centres to nine Regional Distribution centres and two National Distribution Centres, aiming to reduce costs and stock levels and to optimise network efficiencies.

In addition to the strategies outlined above, Woolworths has also diversified into new sectors, such as petrol retailing and credit cards. Woolworths opened its first petrol outlet in Dubbo, New South Wales, in 1996. Customers who spend more than \$30 dollars in one transaction at a Woolworths store receive a discount voucher of 4-cents per litre petrol. This approach has been very successful; Woolworths had 359 petrol sites across Australia by the end of the 2004 financial year. Its banking service 'Ezy-banking', a joint project with the Commonwealth Bank of Australia, was launched in 1999³⁹.

Coles Myers' largest division is also its food, liquor and fuel segment. The food division includes Coles and Bi-Lo. In 2004, Coles, a full service supermarket, operated about 500 stores throughout Australia; Bi-Lo, a discount supermarket retailer had about 209 stores⁴⁰. Coles also has an online shopping facility, Coles Online, which was available in Victoria and New South Wales in 2004.

Coles Myers' liquor business includes 626 Liquorland, Vintage Cellars and Theo's stores. Coles Express, a commercial alliance between Coles Myer and Shell, was Australia's largest fuel and convenience retail operation in 2004, with a national network of 598 stores⁴¹.

Coles Myers' general merchandise and apparel brands comprise (1) Kmart, a discount department store, (2) Officeworks, a retailer of office and technology products, (3) Myer, a department store offering apparel, accessories, footwear, cosmetics, gifts and homewares, (4) Megamart, an electrical, furniture and homewares store, and (5) Target, a low margin, high volume retailer⁴².

Similar to Woolworths, Coles also is a full-service supermarket, offering fresh produce, dry groceries and other merchandise. Its strategy, however, is less succinct than Woolworths 'Fresh Food People' strategy. In March 2002, Coles announced a major restructuring program, aiming to cut costs by improving its supply chain management, implementing changes to its information technology, and trying to achieve better synergies with the other segments in the Coles Myer Corporation. The supply chain changes include restructuring its distribution centre network and simplifying operations and processes in its stores and distribution centres. In addition, Coles planned to improve its loyalty programs.

Coles' 2004 annual report states three major goals, namely 'Being the Best Team so that we can Delight our Customers and Grow Shareholder Value'⁴³. Delighting customers means ensuring that (1) shelves are fully stocked, (2) most wanted products are available, (3) staff can focus on customer needs, and (4) customers receive more information on product range and special offers.

Similar to Woolworths, Coles' product range includes fresh food, an area that has been improved over the last few years, well-established national brands, as well as house brands. Coles aims to concentrate more on the development of house brands and has set a target of increasing them to about 30 percent⁴⁴. Coles also aims to provide customers with more value

³⁷ Woolworths Ltd., *Annual report 2004*.

³⁸ Ibid.

³⁹ 'Our history', www.woolworthslimited.com.au/aboutus/ourhistory/index.asp (accessed 12.1.2005).

⁴⁰ Coles Myer Ltd., *Annual report 2004*.

⁴¹ Ibid.

⁴² Ibid.

⁴³ Ibid, p. 5.

⁴⁴ R Clow and R Gluyas, 'Food Fight', *Weekend Australian*, 13-14.11.2004, pp. 33 and 36.

for their money through competitive everyday prices and the promotion of price specials. Unlike Woolworths EDLP strategy for national brands, Coles promotes some products (mainly own brands) as EDLP, but still relies largely on its high-low pricing strategy for national brands. Prices at Coles vary across Australia, depending upon the location and on the presence of competitors in the specific markets.

In May 2003 Coles Myer formed an alliance with Shell to match the Woolworths petrol strategy. Similar to Woolworths, customers receive a 4-cent discount per litre petrol if they spend more than \$30 dollars in one transaction at a Coles or Bi-Lo store. By the end of the 2004 financial year, there was a national network of 598 stores, branded both Coles Express and Shell. Coles Myer also formed an alliance with the National Australia Bank to include a credit card facility and revamped the company's long-running Fly Buys reward program.

Bi-Lo, a discount supermarket retailer that is owned by Coles Myer, also aims to delight its customers. Their offer comprises fresh food, national brands and an extensive Bi-Lo house brand range. Their target customers are those who want value for money and Bi-Lo tries to satisfy this segment by offering products at low prices. Bi-Lo's marketing included a 'Why Pay More?' campaign and the use of promotional initiatives such as 'Red Hot Sale'.

In addition to the major national chains Woolworths and Coles Myer, there are also a number of smaller regional players in the Australian food retail industry, namely Action supermarkets (owned by Foodland Associated), IGA and Franklins. They are discussed in the following sections.

Foodland Associated is a retailer and wholesaler of groceries in Western Australia, Queensland, northern New South Wales and New Zealand. Foodland's largest division is its supermarket segment which operated 230 supermarkets by the end of the 2004 financial year. The majority of these supermarkets, namely 149, are in New Zealand. In Australia, Foodland runs 81 'Action' supermarkets, situated in Queensland and northern New South Wales (43) and Western Australia (38). Foodland's operating revenue at the end of the 2004 financial year for its Australian supermarket segment was \$1,329.9 million, its earnings before interest and taxes \$39.1 million⁴⁵.

Foodland's second division is its franchise and supply segment. Foodland is a grocery wholesaler to Western Australian independent supermarket operators including its own franchise banner groups Dewsons, Supa Valu, Foodland and Four Square. Foodland also operates three Cash & Carry branches and 'Foodlink', Western Australia's largest food service operator, supplying caterers, hotels, restaurants, cafes, institutions, schools and mine sites. In Australia, the franchise and supply division achieved operating revenue of \$1,000.9 million and earnings before interest and taxes of \$45 million at the end of the 2004 financial year⁴⁶.

Foodland's main strategies are to satisfy changing consumer demands by combining innovation with value and to reduce costs through greater efficiency and better use of technology. To achieve these strategies, Action supermarkets have upgraded their fresh food departments and continued to develop their own house brands. They have refurbished many of their existing supermarkets, tested new store formats and acquired new sites. In addition, Action has launched a customer loyalty program in Western Australia in November 2003. In Queensland, Action has entered into arrangements that will allow customers of 27 Action supermarkets access to petrol discount offers. Foodland has also agreed to purchase 16 former Mobil service stations in the Perth (Western Australia) metropolitan area. In 2005, Foodland aims to continue improving their fresh food departments, their innovation in store design and their development of exclusive house brand ranges. In addition, the company plans to improve supply chain efficiencies, to make more effective and profitable use of store space and to better use new technologies, both at store and corporate level. Unlike Woolworths and Coles who are centralising their distribution, Action aims to strengthen its ties with regional producers and wholesalers who are close to the regional retail centres and who can provide good quality products at low prices. The purpose of this approach is to save on distribution costs required for long distances and to get quickly to the market with products that are very fresh.

IGA is another supermarket with a regional presence in Australia. It has a market share of about 13.5 percent⁴⁷. IGA stands for 'Independent Grocers of Australia' and was brought to Australia by Davids Holdings in 1988. IGA was originally founded in the US in 1926 and represents an alliance between wholesalers, retailers and manufacturers. By the end of the 2004 financial year, there were 1138 IGA store in Australia, located in Queensland, New South Wales, Victoria and South Australia. Davids' name has changed to 'Metcash Trading Limited' and the distribution side of the business is called 'IGA Distribution'⁴⁸.

⁴⁵ Foodland Associated Ltd., *Annual report, 2004*.

⁴⁶ Ibid.

⁴⁷ S Lloyd, 'Grocery growing pains', *Business Review Weekly*, 22-28 April, 2004, pp. 60-61.

⁴⁸ About IGA Australia', www.iga.net.au/info/aboutus.cfm (accessed 18.1.2005); Metcash Trading Ltd., *Annual report 2004*.

All IGA stores are independently owned and operated. The IGA network unites formerly independent retailers that traded under many different names under one brand. This has led to better economies of scale and scope, better buying power and consistency in marketing, merchandising, information technology, and store design. There are three types of IGA stores, namely (1) Supa IGA, (2) IGA and IGA Everyday, and (3) IGA X-press and Friendly Grocer IGA. Supa IGA's are full-service supermarkets, catering to customers who want to purchase all grocery and fresh food in one location. IGA and IGA Everyday are medium format stores with a mid-sized supermarket range. IGA X-press and Friendly Grocer IGA are small format stores, which attract a convenience market⁴⁹.

The IGA Distribution business, owned by Metcash Trading, supplies the IGA stores as well as more than 3300 other independent grocers. Major achievements for IGA Distribution by the end of the 2004 financial year were sales of \$3.96 billion and earnings before interest and tax of \$131 million. In addition, IGA Distribution improved its customer service levels, reduced the costs of doing business and developed an innovative 'reverse' fuel offer⁵⁰. Motorists can fill up at a petrol station of their choice and are reimbursed 4-cents per litre when they shop at an IGA store. IGA Distribution plans to undertake further cost reductions over the next few years by overhauling supply chain, distribution and technology arrangements. One key supply chain project for Metcash is setting up mega-distribution centres in each capital city. Previously, Metcash had separate warehouses for liquor, dry groceries and perishables in three different suburbs. Central distribution centres will enable Metcash to take advantage of asset and labour sharing and is expected to result in substantial cost savings. Another major initiative is called 'Project Collaboration' and involves improving and streamlining Metcash's relationship with manufacturers, again with the aim of cutting costs. Finally, Metcash is in the process of implementing a freight movement efficiency program which aims to fill transport vehicles to 95 percent of capacity by consolidating orders, decreasing turnaround times and better managing delivery schedules⁵¹. At the time of writing, Metcash has launched a takeover bid for the Australian section of Foodland Associated. If successful, this acquisition would create Australia's third largest food and liquor chain with an annual wholesale and retail sales of \$18.2 billion⁵².

The third regional player in the Australian retail industry is Franklins, a discount supermarket chain, which was founded in 1941 by Frank Lindstrom. In 1954 Franklins was acquired by Harold Cornock and Norman Tieck and in the late 1970s it was sold to Hong Kong company Dairy Farm International. In May 2001 Dairy Farm International exited the business and many of the stores were sold to other retailers and wholesalers. Pick 'n Pay, a South African retailer, purchased 50 stores and the rights to the Franklins and No Frills brands. Pick 'n Pack relaunched the Franklins chain in May 2002. In the beginning of 2005, there were 77 Franklins supermarkets across New South Wales and in ACT. Franklins' strategy concentrates on providing value for money, quality, friendly service, speedy checkouts and a good overall shopping experience⁵³. Like all the other supermarkets, Franklins also aims to improve supply value chain management and update administration systems.

The above discussion has shown the competitive environment in which Aldi operates. It is characterised by two major national chains, Woolworths and Coles, both full-service supermarkets that are trying to differentiate their product offerings and to provide more value for their customers by adding new retail services such as access to discounted petrol and to banking facilities. They offer house brands as a cheaper alternative to national brands and are aiming to increase the number of products they sell under brand names they own. Both Woolworths and Coles are in the process of overhauling their supply chain management, warehouse and distribution systems in an aggressive bid to cut costs. Price is an important issue and both claim to provide customers with competitive prices and more value for money.

The regional retail operators Action, IGA and Franklins pursue a similar approach. They are in the process of addressing supply chain efficiencies and improving logistic arrangements, also with the aim to cut costs. Similar to Woolworths and Coles, all three regional operators offer house brands and are likely to increase their number over the next few years. Price is also a major issue for the regional supermarkets and they all state that their prices are competitive and that they provide value for money.

Aldi' challenges

Since its entry into the Australian market in 2001, Aldi has been very successful. They have established 72 stores in NWS, Victoria and Queensland and are in the process of opening more stores in these states. Aldi's strategy of cost-leadership seems to resonate with customers and supermarkets in close proximity to Aldi have tried to match their low prices for basic commodity-type items such as milk, flour, sugar and butter. The prices for more 'luxury' items, such as free-range eggs or bananas, however, were not matched, and Aldi was clearly cheaper (eg 12 extra large free range eggs cost \$3.99 at Aldi,

⁴⁹ 'About IGA Australia', op. cit.

⁵⁰ Metcash Trading Ltd., *Annual report 2004*.

⁵¹ Lloyd 2004, op. cit.

⁵² J Whyte, 'Foodland readies response to Metcash', *The Australian Financial Review*, 24.1.2005, p. 12.

⁵³ 'About us', www.franklins.com.au/aboutus.html (accessed 12.1.2005).

\$5.09 at Coles and \$5.65 at Woolworths; 1 kg bananas cost \$1.69 at Aldi, \$2.75 at Coles and \$1.98 at Woolworths)⁵⁴. Since other supermarkets have taken up the price challenge, it is important for Aldi to ensure that its prices are lower or at least equal to the ones of its competitors and that its products develop a reputation for high quality. This is particularly important considering that the competition in the food retailing industry is likely to increase, due to a number of economic factors that may influence consumer confidence and consumer spending over the next few years. These factors include high levels of household debt, a low national rate of saving, falling house prices, high oil prices and possible increases in unemployment and interest rates. These factors are likely to have a negative impact on consumer spending and hence, the competition for the consumer dollar is likely to become more intense.

A possible second challenge is the entry of other global players into the Australian market. According to international experts on global retailing, an entry of international players is unlikely in the short term; however, they predict that in the medium-term, international players such as Wal-Mart (US' largest retailer) or Tesco (UK's largest retailer) might decide to move into Australia⁵⁵. In addition, it is also possible that Aldi's major competitor in Europe, Lidl, decides to follow Aldi to Australia. Lidl, which belongs to the Schwarz Group, has copied the Aldi approach in many aspects. It also offers high quality products at low prices, places great emphasis on economic efficiency and has minimised costs at all levels of the value chain. Apart from Germany, Lidl currently is present in the UK, Ireland, France, Portugal, Spain, Netherlands, Belgium, Finland, Poland, Czech Republic, Austria, Italy and Greece⁵⁶. Due to the similarity of its approach, an entry of Lidl into Australia would clearly present a major challenge to Aldi.

⁵⁴ The price comparison was done by the author on 22.1.2005 at Aldi, Coles and Woolworths in Labrador, Queensland.

⁵⁵ 'Annual report, Global retailing 2004', www.igd.com/analysis (accessed 6.1.2005).

⁵⁶ 'Angriff des Super-Kraemers', *Manager Magazin* 9/03, pp. 38-47.

BMA302 Case Study Assignment - Assessment Criteria

Using information provided in the case study and textbook, the student:

Criterion	Excellent	Very good	Good	Satisfactory	Needs improving
<p>1. Conducts an external analysis (i.e. general, industry, and competitive environments) drawing on relevant theoretical concepts e.g.:</p> <ul style="list-style-type: none"> • General trends • Porter's 5 forces • Industry lifecycle stages • Market cycles • Strategic groups • Competitive dynamics 	<p>Provides a description of the industry and <u>all</u> of its key characteristics and develops <u>all</u> parameters for the case analysis.</p> <p>Provides a <u>detailed description</u> of <u>all</u> external factors.</p> <p>Provides a <u>detailed and integrated explanation</u> of the strategic significance of <u>all</u> external factors.</p> <p>Presents <u>comprehensive justified theory-driven conclusions</u> that <u>integrate</u> findings. Strategy implications are <u>discussed</u>.</p>	<p>Provides a description of the industry and <u>some of its key</u> characteristics and develops <u>most</u> of the parameters for the case analysis.</p> <p>Provides a <u>detailed description</u> of <u>most</u> external factors.</p> <p>Provides a <u>detailed explanation</u> of the strategic significance of <u>most</u> external factors.</p> <p>Presents <u>theory-driven justified conclusions</u> that <u>integrate</u> findings. Strategy implications are <u>identified</u>.</p>	<p>Provides a description of the industry and develops the <u>main</u> parameters for the case analysis.</p> <p>Provides a <u>basic description</u> of the <u>main</u> external factors.</p> <p>Provides a <u>basic explanation</u> of the strategic significance of the <u>main</u> external factors.</p> <p>Presents <u>basic conclusions</u> with <u>some</u> attempt to <u>integrate</u> findings.</p>	<p>Provides a description of the industry and establishes <u>minimal</u> parameters for the case analysis.</p> <p>Provides a <u>basic description</u> of <u>some</u> external factors.</p> <p>Provides a <u>basic explanation</u> of the strategic significance of <u>some</u> external factors.</p> <p>Presents <u>basic conclusions</u>.</p>	<p>Provides an inadequate description of the industry that is not feasible or practicable for the case study analysis.</p> <p>Provides an inadequate description of external factors.</p> <p>Provides inadequate explanation of the strategic significance of external factors.</p> <p>Presents inadequate conclusions, and/or demonstrates inadequate theoretical knowledge.</p>
<p>2. Conducts an internal analysis of the firm drawing on relevant theoretical concepts e.g.:</p> <ul style="list-style-type: none"> • Strategic mission • Strategic intent • Resources • Capabilities • Core competencies • Value chain analysis 	<p>Provides a <u>detailed description</u> of <u>all</u> internal factors.</p> <p>Provides a <u>detailed and integrated explanation</u> of the strategic significance of <u>all</u> internal factors.</p>	<p>Provides a <u>detailed description</u> of <u>most</u> internal factors.</p> <p>Provides a <u>detailed explanation</u> of the strategic significance of <u>most</u> internal factors.</p>	<p>Provides a <u>basic description</u> of the <u>main</u> internal factors.</p> <p>Provides a <u>basic explanation</u> of the strategic significance of the <u>main</u> internal factors.</p>	<p>Provides a <u>basic description</u> of <u>some</u> internal factors.</p> <p>Provides a <u>basic explanation</u> of the strategic significance of <u>some</u> internal factors.</p>	<p>Provides an inadequate description of internal factors.</p> <p>Provides inadequate explanation of the strategic significance of internal factors.</p>

Criterion	Excellent	Very good	Good	Satisfactory	Needs improving
3. Conducts a SWO&T analysis of the firm (strengths, weaknesses, opportunities, and threats) linked to the preceding analyses.	<p>Provides a <u>detailed description</u> of <u>all</u> of the firm's SWO&T. A SWO&T diagram is presented.</p> <p>Provides a <u>detailed and integrated explanation</u> of the strategic significance of <u>all</u> SWO&T.</p> <p>Presents <u>comprehensive justified theory-driven conclusions</u> that <u>integrate</u> findings. Strategy implications are <u>discussed</u>.</p>	<p>Provides a <u>detailed description</u> of <u>most</u> of the firm's SWO&T. A SWO&T diagram is presented.</p> <p>Provides a <u>detailed explanation</u> of the strategic significance of <u>most</u> SWO&T.</p> <p>Presents <u>theory-driven justified conclusions</u> that <u>integrate</u> findings. Strategy implications are <u>identified</u>.</p>	<p>Provides a <u>basic description</u> of the firm's <u>main</u> SWO&T. A SWO&T diagram is presented.</p> <p>Provides a <u>basic explanation</u> of the strategic significance of the <u>main</u> SWO&T.</p> <p>Presents <u>basic conclusions</u> with <u>some</u> attempt to <u>integrate</u> findings.</p>	<p>Provides a <u>basic description</u> of <u>some</u> of the firm's SWO&T. A SWO&T diagram is presented.</p> <p>Provides a <u>basic explanation</u> of the strategic significance of <u>some</u> SWO&T.</p> <p>Presents <u>basic conclusions</u></p>	<p>Provides an <u>inadequate description</u> of the firm's SWO&T. A SWO&T diagram not presented.</p> <p>Provides <u>inadequate explanation</u> of the strategic significance of the firm's SWO&T.</p> <p>Presents <u>inadequate conclusions</u>, and/or demonstrates <u>inadequate theoretical knowledge</u>.</p>
4. Applying strategic management theories identify, evaluate and recommend strategic options (business, corporate, international and co-operative, and governance/structural) open to the firm linked to the preceding analyses.	<p>Provides a <u>detailed explanation</u> of <u>all</u> of the firm's existing strategies.</p> <p>Presents <u>comprehensive justified theory-driven recommendations</u> that <u>integrate</u> findings. Implementation implications are <u>discussed</u>.</p>	<p>Provides a <u>detailed explanation</u> of <u>most</u> of the firm's existing strategies.</p> <p>Presents <u>theory-driven justified recommendations</u> that <u>integrate</u> findings. Implementation implications are <u>identified</u>.</p>	<p>Provides a <u>basic explanation</u> of the firm's <u>main</u> existing strategies.</p> <p>Presents <u>basic recommendations</u> with <u>some</u> attempt to <u>integrate</u> findings.</p>	<p>Provides a <u>basic explanation</u> of <u>some</u> of the firm's existing strategies.</p> <p>Provides <u>basic recommendations</u>.</p>	<p>Provides an <u>inadequate explanation</u> of the firm's existing strategies.</p> <p>Provides <u>inadequate recommendations</u> for strategy options, and/or demonstrates <u>inadequate theoretical knowledge</u>.</p>
5. Written expression, and overall presentation	<p>Written expression and structure is <u>logical</u> with reasoning and <u>each conclusion</u> expressed clearly and supported by evidence</p> <p><u>No grammar, punctuation or spelling errors</u></p>	<p>Written expression and structure is <u>logical</u> with reasoning and <u>most conclusions</u> expressed clearly and supported by evidence</p> <p><u>Minimal grammar punctuation and spelling errors</u></p>	<p>Written expression and structure is <u>logical</u>, though reasoning and conclusions are <u>not always</u> clearly expressed or supported by evidence</p> <p><u>Minimal grammar punctuation and spelling errors</u></p>	<p>Written expression and structure is <u>logical</u>, though reasoning and conclusions are <u>not always</u> clearly expressed or supported by evidence</p> <p><u>Some grammar, punctuation and spelling errors</u></p>	<p>Written expression is <u>unsatisfactory</u>, with poor structure so that reasoning is not clear and conclusions do not flow logically.</p> <p><u>Frequent grammar, punctuation and spelling errors</u></p>

Scheme to calculate the grade your work earned.

You can determine the grade that you work earned through using the following schema. This scheme weights the Evaluation component of your work more highly than the other components.

Grade	Criteria				
	External Analysis	Internal Analysis	SWOT Analysis	Evaluation and Use of Theory	Presentation
EXCELLENT (HD – 16-20)	EXCELLENT	EXCELLENT	≥ VERY GOOD	EXCELLENT	≥ VERY GOOD
VERY GOOD (DN – 14-15.5)	≥ VERY GOOD	≥ VERY GOOD	≥ GOOD	≥ VERY GOOD	≥ GOOD
GOOD (CR – 12-13.5)	≥ GOOD	≥ GOOD	≥ SATISFACTORY	≥ GOOD	≥ SATISFACTORY
SATISFACTORY (PP – 10 -11.5)	≥ SATISFACTORY	≥ SATISFACTORY	≥ SATISFACTORY	≥ SATISFACTORY	≥ SATISFACTORY
NEEDS IMPROVING (NN - <10)	≥ NEEDS IMPROVING	≥ NEEDS IMPROVING	≥ NEEDS IMPROVING	≥ NEEDS IMPROVING	≥ NEEDS IMPROVING

Note:

≥ means ‘equal to or greater than’

Study Schedule

Semester 5, 2008

Start of Week	Session One Topics	Chapter	Comments
8 December 2008	Introduction; External Environment	1 & 2	Assignment 1 – 12 December
9 December 2008	Internal Environment	3	
10 December 2008	Business Level Strategy; Case Study Workshop	4	
11 December 2008	Corporate Level Strategy	6	
12 December 2008	Cooperative Strategy; Case Study Workshop	9	
Start of Week	Session Two Topics	Chapter	Comments
12 January 2009	Competitive Dynamics	5	Case Study Report – 12 January
13 January 2009	Acquisitions and Restructuring	7	
14 January 2009	International Strategy	8	
15 January 2009	Organisational Structure	11	
16 January 2009	Review		
<p>A Calendar/Study Planner showing dates is available from School of Management website at http://www.utas.edu.au/mgmt/student.htm.</p>			