

Aldi prepares for competition, not war

Exclusive

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Retailer Aldi has outlined plans to invest another \$700 million building two distribution centres and as many as 130 stores in Western Australia and South Australia, but managing director Tom Daunt has hosed down fears of a British-style price war in the \$85-billion grocery market.

Mr Daunt says Aldi plans to invest between \$400 million and \$450 million in Western Australia and between \$200 million and \$300 million in South Australia over the next few years with the first stores in the states to open in 2016.

The capex, which will be funded

from Aldi Australia's cash flows rather than a capital injection from its German parent, will take Aldi's total investment in Australia close to \$4 billion.

"We have been self funded for a while," Mr Daunt told *The Australian Financial Review* after unveiling the next stage of expansion. "All profits we make in Australia are invested back into the Australian market."

Aldi has appointed South Australian construction firm BADGE to build a 35,000 to 40,000-square-metre distribution centre at Regency Park capable of supplying up to 50 stores and signed a contract with Western Australia's Georgiou Group to build a 45,000 to 50,000-square-metre centre at Jandakot Airport capable of supplying as many as 100 stores.

After entering Australia in 2001, Aldi

now has more than 10 per cent of the grocery market on the Eastern Seaboard, with more than 350 stores and annual sales around \$5.3 billion.

Broker UBS estimates Aldi could almost double sales in five years, challenging Coles's and Woolworths' stranglehold over the \$85 billion market and increasing pressure on independent retailers supplied by Metcash.

UBS analyst Ben Gilbert fears the Australian market faces the same disruption as in the UK, where the growth of discounters Aldi and Lidl has crimped sales at major chains Tesco, Morrisons and Sainsbury and triggered a margin-crunching price war.

"While the discounter model in Australia is still evolving, Aldi Australia has more market share than in the UK [5 per cent] and in many ways given the

higher margins in Australia vs offshore peers Aldi Australia may have even greater opportunity," Mr Gilbert said in report last month.

However, the major chains have played down the threat of a UK-style price war, saying the market dynamics in Australia are different. Tesco, for example, has four formats whereas Woolworths and Coles have only one, so there is less complexity.

Deutsche Bank has also dismissed the threat, saying population growth in Australia is three times that in the UK while new store growth has been lower than that in Britain. "Our analysis suggests that there are a number of differences between the two markets and Australia's more favourable structure should allow both Coles and Woolworths to gain market share for

another 5 to 10 years," Deutsche Bank analyst Michael Simotas said.

Mr Daunt agrees, saying the UK market is more competitive than Australia because the top five chains share about 70 per cent of supermarket sales, similar to the combined share of Woolworths and Coles.

"The discounters Lidl and Aldi are coming off quite a low base, they have less market share than in Europe or Australia – it drives a different competitive dynamic," he said. Mr Daunt believes Australia has already experienced the disruption underway in the UK. "It's taken Aldi and Costco some time to enter the market and get consumer understanding of their business model. But there's now a taste for retail formats other than the traditional full line supermarket," he said.

UBS left to mop up mess