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Foreign Competition is Re-Shaping the US Grocery Industry

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Abstract

With little early competition Walmart grew and achieved a global scale which assisted in lowering costs and lowering prices. This allowed Walmart to leverage their brand and attract new customers. Most competitors were regional and lacked the scale and efficiency of Walmart. The only stores operating coast -to coast were Costco, Target, and Kroger. Regional brands included Giant, Lucky, Publix, and Wegmans. The stores competed by offering a wider product selection, scale, and customer service. Aldi, Lidl, and Trader Joe's are German owned grocers that have found success in the US. While Aldi Nord (Trader Joe's), Aldi Sud (Aldi) and the Schwarz Group (Lidl) were unknown compared with Costco, Target, and Walmart, they were among the top ten retailers and grocers globally. The competition among the three similar but different European controlled grocers has disrupted the industry by not only changing buying habits but presenting a challenge to the giants of the industry as well as the manufactures of branded products. European grocers with their strategic commitment are prepared to stay in the US and with their limited selection, private labels, low prices, robust supply chains, and plans to expand coast-to-coast, they will help to re-shape the US grocery industry

Keywords: *Walmart, U.S. Grocery Industry, Retail Competition, European Grocery Retailers, Private-Label Products, Supply Chain Efficiency.*

Introduction

With little early competition Walmart grew and achieved a global scale which assisted in lowering costs and lowering prices. This allowed Walmart to leverage their brand and attract new customers. Most competitors were regional and lacked the scale and efficiency of Walmart. The only stores operating coast -to coast were Costco, Target, and Kroger. Regional brands included Giant, Lucky, Publix, and Wegmans. The stores competed by offering a wider product selection, scale, and customer service.

In the US, the stores have a footprint of 34,000 to 36,000 square feet. This size allows the USA supermarkets to offer a stock selection of over 41,000 products. The store scale created the ability to offer the latest brands. Stores also carry more non grocery items, clothing and health and beauty items. The grocery stores in the USA offer a wide selection of items with about 80% as branded products. While store brands or private labels have grown steadily on average, they accounted for about 20% of sales by 2023. Store staffing ranges 40 to 50 on average. Consumers tend to visit five different retailers per week (Seminara 2023).

While Europe has well-known stores such as Ahold, Marks and Spencer, and Waitrose, the shopping experience is different. Most European stores had a footprint of 10,000 to 12,000 square feet and stock about 2,000 items of which store brands dominate over 50% of sales. Stores usually operate with minimal staffing. While value selection is minimal, private labels sell consistently at lower prices but with the approximate same quality as branded products. Due to population density store locations tended to be in close proximity with minimal parking. With fewer grocers, consumers in Europe visit less than two retailers per week (Seminara 2023).

Foreign Competitors

Aldi, Lidl, and Trader Joe's are German owned grocers that have found success in the US.

With higher inflation competition for food dollars has grown, both from formats that compete on value, such as Costco and Walmart, and on convenience, such as Amazon. The smaller footprint discount grocer was typified by Aldi, Trader Joe's, and Lidl. They offered a smaller selection of products, often private labels, and had lower overhead costs (Wall Street Journal 2022B).

Aldi began as a single grocery store in Germany in the early 1900s. Decades later the company split geographically into Aldi Nord (North) and Aldi Süd (South). The two companies both own and operate various Aldi's across Europe and the United States but do so separately (Kitchin 2019). Trader Joe's began as a convenience store in California in 1958. In 1979 Aldi Nord acquired Trader Joe's. Aldi Süd operated Aldi locations in the United States. The United States is the only country in which Aldi Nord and Aldi Sud directly compete (Hill 2020). Lidl like Aldi and Trader Joe's was a German discount grocer that looked to rapidly expand in the US and compete directly against Walmart, Costco, and Kroger. The US grocery industry was highly fragmented with strong regional brands: Publix, Wegmans, and Safeway. Only Walmart, Costco, Target, and Kroger achieved scale and operated coast to coast. Foreign grocers/retailers Tesco (UK), Carrefour (France) and Loblaws (Canada) failed to establish a significant US presence. Aldi, Lidl, and Trader Joe's rapidly expanded and succeeded (Retail Week 2022) (Getty Images 2020).

While Aldi Nord (Trader Joe's), Aldi Sud (Aldi) and the Schwarz Group (Lidl) were unknown compared with Costco, Target, and Walmart, they were among the top ten retailers and grocers globally. They achieved this through a similar strategy of lower prices and selling a limited selection of store private labels (Kantar, 2020 https://images.app.goo.gl/vzix6nspz5nQGEKL9).

While unknown in the US, Aldi, Lidl, and Trader Joes's were among the top ten retailers and grocers globally (Kanter 2020). They had achieved this scale through a common strategy of lower prices, a limited selection of store brands (private labels) and laser focused cost cutting (Stein 2019).

Exhibit 1: World's Largest Retailers



Private Labels

Private brands were a way for stores to differentiate themselves from competitors and build customer loyalty. For the German discounters in house products outnumbered branded goods about four to one and underscored the mass appeal of affordable alternatives (Wall Street Journal 2023). While store brands made up around 21% of sales in the $1.17 trillion US grocery industry, they were most sales at the German discounters. (CNN Business 2022).

Store brands (also known as private labels, or white labels) have become an attractive option during periods of inflation. Manufacturers had little incentive to reveal that their name brands were available under a private label, but more than half of brand manufacturers made private goods (CNN Business 2022).

Manufacturers of national brands often had excess capacity on their production lines and produced private labels to create additional revenues. Manufacturers used private

labels as an inducement for better shelf space and placement for manufacturers branded labels (CNN Business 2022). Grocers avoided the advertising, distribution or markup costs embedded in the price of national brands. The German discounters developed their own private labels to lower costs. (CNN Business 2022). Walmart. Costco, and Kroger private labels dwarf the national brands (Wall Street Journal 2022A)

Conventional supermarkets stocked 20,000 and 30,000 branded products. The German discounters sold only a tenth of the items, and most were private labels. Private labels lowered costs and their lower prices generated revenue to open stores and meet customer needs. (Economist 2017). Aldi, Lidl, and Trader Joe's reputation was based on selling a limited selection of quality products at lower prices. The discounters developed a supply-chain infrastructure to meet the replenishment needs of stores and meet the growth of store count to generate a return on its supply-chain investment (Taste of Home 2022) (Financial Times 2017).To achieve rock bottom prices, Aldi rigidly adhered to a supply-chain-driven approach to operations and a minimalist approach to merchandising (CNBC 2020).

The low-price approach was all about efficiency. The checkout process was lightning-fast to reduce checkout time (Times Union 2022). Most stores were staffed with five employees and 15-20 on the payroll. They had learned that spending to acquire and keep talent was a sound investment. Efficiency, limited selection, and private labels produced lower costs and lower consumer prices. The selection of items underscored the brilliance of limited-selection, high-turnover model (Fortune 2010).

The discounters addressed the needs of their loyal customer base. The discounters each developed their own loyal consumer groups (Forbes 2011).

The small footprint, limited selection and low prices continue to attract a growing customer base.

Competition in the Industry.

The German discounters are the **fastest**-growing store count in the industry. They will maintain this position if they can maintain low costs and offer low prices.

In 2026, with 2647 stores, Aldi was the third largest grocery store in the US behind Walmart's 4000 plus locations and Kroger's 2800 locations (Gogola 2022) (ScrapeHero 2026). Lidl reached 193 locations in 2026 (ScrapeHero 2026). With an expectation of expanding to two thousand stores coast to coast, Lidl's supply chain was constructed to service 1500 stores (Kumer 2022). Trader Joe had 647 locations across the U.S. and 10,500 employees (Huddleston 2021) (ScrapeHero 2026).

Competition

The competition among the three similar but different European controlled grocers has disrupted the industry by not only changing buying habits but presenting a challenge to the giants of the industry as well as the manufactures of branded products. The discounters have succeeded in and created a space between the brand name grocers (Wegmans Kroger and Publix), the mega grocers (Target, Walmart, and Costco), the specialty grocers (Whole foods, and Sprouts, and the online grocers (Amazon and Walmart).

Walmart, in response to this challenge, has pulled back from international locations to focus on its domestic business both delivering products to consumers both in store and at home. While Amazon has grown home delivery, their Whole Food locations have struggled. While inflation has benefitted the German discounters, the impact of US tariffs remains uncertain. Reciprocal tariffs globally have adversely impacted on US food producers and their ability to sell outside of the US. The food producers were already suffering from federal policies of buying food products for distribution within and outside of the US. The combination of these events has produced an excess supply of US food products (Peterson 2023). One certainty is the European grocers with their strategic commitment are prepared to stay in the US and with their limited selection, private labels, low prices, robust supply chains, and plans to expand coast-to-coast, they will help to re-shape the US grocery industry.

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