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Low-price grocers like Aldi are winning as consumers trade down

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By  Danielle Wiener-Bronner, CNN Business

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New York (CNN Business) — With grocery prices soaring, consumers are changing the way they shop for food. That's great news for discount grocers like bare-bones supermarket Aldi.

Aldi, which requires a 25-cent deposit to use grocery carts, sells mostly store brands and doesn't waste time on elaborate displays, might not be for everyone.

But more than one million new households shopped at Aldi in the year through September, helping rack up double-digit sales growth in that period. Foot traffic across most of its 2,200 US

stores jumped about 10.5% year over year, according to Placer.ai — even as grocery sector visits were about flat.

Aldi's explosive growth is part of a wider trend, experts say.

“We’ve seen a pretty definitive shift in consumers starting to shop at the discounters like Aldi and Trader Joe’s and Lidl,” said RJ Hottovy, head of analytical research at Placer.ai, which uses location data from mobile devices to estimate visits. Given that grocery prices are expected to stay elevated for some time, “I suspect that we’re going to continue to see visitation trends favor these discounters,” Hottovy said.



Aldi has been seeing new customers as inflation soars. (Paul Weaver/SOPA Images/LightRocket/Getty Images)

Stubbornly high inflation, rising grocery costs and shifts in consumer buying patterns are creating a sea change in the industry, said Joan Driggs, VP of thought leadership for IRI, a market research firm.

“This is an absolute pivotal moment,” Driggs said. “Mainstream grocery stores are losing share right now.”

Discount chain Grocery Outlet (GO), who has also enjoyed increased sales in recent months, alluded to that during a recent earnings call: “We’re likely seeing some benefit of the customers shifting from, I’d say, more conventional, more expensive alternatives to the value model or to value shopping,” said CEO Eric Lindberg in August.

Trends align



Aldi displays items in the cartons they were packed in. (Annie Barker/Detroit Free Press/USA Today Network)

High grocery bills are reconfiguring shopping habits in multiple ways.

“Most consumers typically shop at the store closest to home,” said Brittany Steiger, senior retail and eCommerce analyst at market research company Mintel. “Discount retailers are benefiting as consumers branch out more from their neighborhood grocer in pursuit of lower prices.”

More affluent households in particular are driving these changes. The majority of Aldi's new shoppers over the past year have been middle- and high-income households — those who earn \$50,000-\$100,000 a year and \$100,000-plus annually, respectively.

“I think they're discovering value,” said Scott Patton, vice president of national buying and customer interaction at Aldi. “This is a time of consumers looking for solutions,” he added. “Inflation is hitting everyone.”

More consumers are additionally switching over to store brands, also called “private label,” which are often comparable in quality and lower in price. At Aldi, about 90% of packaged goods are private-label.

Aldi nudges shoppers toward its label in multiple ways: Customers who aren't satisfied with a product get a refund and a replacement as part of the chain's “Twice as Nice” guarantee. And it often displays its own brands right next to the national brands it carries in stores, putting price differences in stark relief.

“I don't think you can underestimate the strength of all these private label offerings,” said Heather Lalley, editor in chief of Winsight Grocery Business, a trade publication. “Now we're seeing other retailers trying to emulate them.”

In September, for example, Kroger (KR) announced a new budget private label brand called Smartway, which consolidates some of its other private label brands under one umbrella. Smartway “features the products families need to put an even more affordable meal on their table,” said Juan de Paoli, VP of Kroger (KR)'s Our Brands division, in a statement announcing the launch.

It's an Aldi Thing



Aldi thinks that once customers get to know the brand, they'll stick around. *(Michael Snyder/The Northwest Florida Daily News/USA Today Network)*

Still, if discount grocers want to keep their new customers coming back after inflation moderates, they'll have to make a lasting impression.

Aldi, for one, is rolling out a new tagline to explain what it's all about: It's An Aldi Thing. The tagline, which is already live in some channels, and will launch officially this quarter, is meant to sum up what might surprise customers — like Aldi's displaying items in cartons rather than stacking them on shelves. (It saves money on labor, which Aldi says allows it to keep prices low.)

“The most important thing we can do to attract and keep new customers is to simply introduce them to Aldi,” said Patton. “Once they shop at our stores, experience our products and see how low their grocery bill can be, we are confident they'll be back. No matter what the economic climate looks like, we know customers will still want to save time and money.”

The company also is testing an online shopping service with a select group of customers, and hopes to roll it out more broadly in the future. For now, people who want to shop online at Aldi can do so via Instacart.

Even before inflation began soaring, Aldi had ardent fans including a Facebook group with 1.4 million members who share finds and product reviews. Several recent posts show dogs in Aldi pet hoodies and costumes, and Aldi's wine-themed advent calendar has also made a splash.

As companies like Aldi work to keep up momentum, their mainstream competitors will have to figure out their own ways to make themselves attractive to shoppers, said IRI's Driggs.

"This is a dynamic industry with very low margins," she said. Mainstream "retailers have to rethink their point of differentiation."



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