



Report on Aldi's potential international expansion

*Frederik Unser,
Groß-Gerau, 16th February 2018*

Abstract

This Report will consider potential international countries for an expansion of the European based discounter Aldi. During this the countries will be reviewed using the PESTEL framework, the most promising one will then be analysed in terms of its competitive forces for the food and retail market. Aldi itself will then be reviewed in a value chain analysis to understand the strength / advantages that it possesses. The report will close with a conclusion on how Aldi could have the best chances to establish itself in the new market selected to be most suitable for an international expansion. For this the theoretical possibilities are evaluated and the most perceived feasible selected.



Contents

1. Comparing the macro-environmental factors and market selection	3
2. Competitive analysis of the market	4
a) Five-Forces model for grocery retailers in the selected market.....	5
I. Supplier power	5
II. Buyer Power	6
III. Threat of substitution	6
IV. Threat of a new entry.....	6
V. Rivalry between existing competitors	6
b) Summary of Five Forces	7
3. Aldi - A value chain analysis for the new market	8
4. Possible modes of entry for Aldi’s new market	9
References	11
Appendix.....	13
a) Appendix 1A: PESTEL for the Czech Republic.....	13
b) Appendix 1B: PESTEL for New Zealand.....	15
c) Appendix 1C: Colour indications / Agenda.....	16
d) Appendix 1D: PESTEL Conclusion.....	17

Word Count: 3120

The word count excludes the following:

- Cover page
- Contents page
- References
- Tables
- Diagrams
- Appendices



1. Comparing the macro-environmental factors and market selection

The two countries selected in this report are New Zealand and the Czech Republic as they have both similar Gross domestic products (GDP) and Population (Schwab, 2018).

As shown in the Appendix 1A and Appendix 1B, the two markets were analysed and rated using PESTEL diagrams for their positive or negative factors in the macro-environment.

After this exercise the rated winner was the Czech Republic (CZ). The preference of the Czech Republic over New Zealand and why the factors mattered will be discussed in this chapter.

Both countries vary in their political past, the Czech Republic was part of the Soviet Union until 1993 while New Zealand's constitution was passed in 1852, however both have developed into stable democratically governed countries, very suitable for trading and commerce. In 2004 the Czech Republic has joined the European Union (EU) (Anonymous, Dec 2004), making it every easy to trade goods within Europe, the Homebase of Aldi. The CAGE Modell in Appendix 1D and Figure A.1D.2 show the different distances from the German home market.

New Zealand has established a new trade agreement with the EU in 2017, it does not cover most of the food and retail components as it was setup to trade dairy and meat products (Asebey, Nov 17, 2015). The goods could still be imported, but given that the focus is on food and groceries (MarketLine, 2016), the transportation cost out of the current locations where Aldi is operating would make products less attractive due to added cost in comparison. In addition, some products may need to be gathered locally, where established companies could have already established delivery partners and therefore a high advantage.

The Czech Republic is in central Europe at: 49 45 N, 15 30 E, with a border to Germany, allowing Aldi to easy transfer fresh groceries and alike to the new market in a timely manner and without high transportation costs. The Roadway and railway network per square kilometre are high and thus helps to distribute goods quickly within the country (Pompeo, 2018)

The Czech Republic has good credit rating, indicating the country will have a foreseeable wealth in the future. The retail market has grown over the last years, and also the consumer spending has been rising over the last 4 years (Trading Economics, 2018). In Addition to the EU membership since 2004, the Czech Republic is working towards an EURO adaption, protecting the Aldi invests and incomes from currency losses/instabilities, and the Czech currency (Czech koruna) is stable to the EURO Exchange rate with no change higher than 18% over the last 9 years (XE, 2018).

The positive trading balance that the Czech Republic possess is representing a long-term wealth of the country and a GDP of \$193 billion in 2016, making it a good target for a new business. To use last year's GDP from the Czech Republic as a growth factor would not be representing a growth throughout all social layers. In 2017 the World Economic Forum presented the Inclusive Development Index (IDI) to reflect a growth within all social layers, reflecting GPD combined with examples given a state's debt, poverty rates and Gini to show how well wealth is shared among the society. In this index the Czech Republic scored very high, especially since more than 50% of nations have a decreased IDI. (Schwab, 2018).

Aldi could be assured that any of their target groups would have sufficient income in the future.

As Aldi is mainly within Europe, the products it is offering would be adjusted to European taste, which could vary slightly from country to country, but is still more similar than an Asian influenced country in food, like New Zealand, thus the company can continue to sell the same products and leverage or even increase cost saving effects like scale effect.

The Czech Republic allows high tax incentives for investing in Technological development (European Commission, 2014), which in turn lead to a good Internet/network availability as show in the Akamai State of the Internet Connectivity report, reaching the Top 15 lists in Europe (Belson, 2017). As most transaction and logistics from Aldi will require such an Internet connection with sufficient reliability and throughput in each logistic hub and market, these facts will ensure connectivity in nearly all location. The Increasing percentage of renewable Energy will allow Aldi to run anything electronically, from such network connections to the lights with a more constant cost as it would not depend so much on fossil or nuclear power plants (Karl Bannör, 2016).

The legal system in Czech Republic is recently established and a new Civil code was enacted in 2014, reflecting a step in in which the country is fighting recent corruption. (Jaromír Mazák & Tomáš Diviák , 2017)

This will, to a broad extend, guarantee that Aldi can conduct business without being exposed or concerned about corruption.

2. Competitive analysis of the market

After the report has now analysed the macro-environmental factors, it will move on to the next level and review the level of competitiveness in the Czech Retailing market using the “Five forces framework” as introduced by M. Porter in 1979, see figure 2.1

The first three of the five forces are the supplier-, buyer- and the competitor-power within an industry, usually establishing a price range between competitors towards buyers and suppliers. The forth factor is a potential new entrant, a new competitor joining the market. The fifth force is substitution which usually threatens the positions of all competitors.

Porter's Five Forces Diagramm

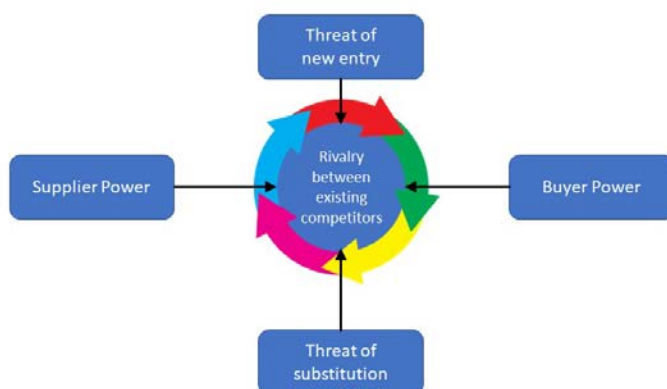


Figure 2.1 Forces driving competition in an industry, source: Author; according to “Competitive Strategy: Techniques for Analysing Industries and Competitors”, Harvard Business Review by Michael E. Porter, 1979

A review of all these five forces will allow to see how strong the forces are within their areas and determine how attractive the market is to join or if, in other cases, the market should be left. The following will examine all five forces, with the focus on the existing competitors.



a) Five Forces model for grocery retailers in the selected market

I. Supplier power

As the Czech Republic is part of the EU, trading of nearly all goods required in food and retail can be procured by the companies within the EU and shipped without any tax impact. Many suppliers have contracts with high switching costs in place, hindering an easy change to the cheapest supplier on a short cycle. To accommodate the taste of the local customers, items typical to the regional market need to be stocked and sold, as well as outside of the country and out of the EU region. Aldi needs to ensure to get supplies they may not have in their portfolio / listening yet. For both, local specialities and the international specialities like US Beef (Hrdlickova, 2015) they need to find new suppliers and as the incumbent retailers will have done so already, Aldi could be challenged with higher sourcing prices as their competitors. Standard goods that Aldi and other retailers can source EU-wide will not allow huge power of the suppliers.

Overall this report rates the supplier power with three points out of five.



II. Buyer Power

In the grocery retailer industry, the customers are usually the ultimate consumers, consuming the good bought, any behaviour (example given, the attitude towards their corporate social responsibility) or a lack of good could risk their loyalty. The Czech Republic is an emerging organic food market, developing a taste for higher product standards (Zagata, 2012), and it is easy for them to change the retailer as there is no switching costs for them, so grocery retailers should ensure to move with this and every other trend their consumers show. Aldi can benefit from the effortless change from the customers and if offering a similar product listing could quickly gain a customer base. As Aldi has its own organic brand, this would help to acquire a customer base. Further, customers should be offered incentives to revisit Aldi, e.g. with weekly changing specials in terms of price, product listening, incentive vouchers (for the next visit) or a loyalty scheme like a Tesco Clubcard (Turner, Dawson, & Tregear, 2012).

Overall this report rates the buyer power with four points out of five.

III. Threat of substitution

For a retailing company like Aldi, a substitute could be online shopping combined with home delivery. The Czech online retail market grew 15% in 2015, showing an upcoming risk for retailers (MarketLine, 2016).

Most of the sold products in Grocery Retailers is still food but, in theory, this could be replaced with restaurants (MarketLine, 2016). Due to the possibly increased costs and health risk especially from "Fast Food" (Powell & Han, 2011) the risk of a complete substitution seems to be low.

Overall this report rates the threat of substitution with two points out of five.

IV. Threat of a new entry

The Czech Republic has a population of 10,5 Million and is a small market compared to Germany (85 Mio inhabitants), but continuous and constant growth of a new capitalist country would be beneficial to a possible new entrant. The market has a lot of international retailers (Hrdlickova, 2015) and already a retailer (K-Mart) needed to withdraw the market and sell its stores to Tesco (Boland, 1996).

Any new entrant to the market would be most likely an international retailer who has the value chain establish in Europe and finances to start a retailer store network in the country.

Overall this report rates the threat of a new entry with three points out of five.

V. Rivalry between existing competitors

For Aldi, all companies that run types of stores that are a supermarket, hypermarket or a discounter would count as a rival. As mentioned under the buyer power, the buyer can switch between retailers, as there is little differentiation between the offered goods. This in turn means that the retailers can mainly fight to, example given, gain market share, via a lower price. Currently there are eight large retailers in the Czech Republic: Albert, Penny, Lidl, Kaufland, Globus, Billa, and Tesco (Hrdlickova, 2015).

The table 2.2 shows the major retailers in the Czech Republic. As retailers have different selling approaches, example given small to medium discounter stores versus large supermarkets or "hyper stores", the pure number of stores does not sufficiently reflect the market / sales power due to the difference in store size.

<u>Company</u>	<u>Entry year</u>	<u>Amount of retail stores</u>	<u>Mother organisation and head office country</u>
Albert	1990	301	Ahold, Netherlands
Penny	1997	353	REWE Group, Germany
Lidl	2003	230	Schwarz Gruppe, Germany
Kaufland	1998	119	Schwarz Gruppe, Germany
Globus	1996	15	Globus Hypermarket Holding, Germany
Billa	1991	221	REWE Group, Germany
Tesco	1996	240	Tesco PLC, United Kingdom

Table 2.2 – Key Data of major retailers in the Czech Republic

The first western store chain joining the market was Albert. The Albert brand belongs to the Ahold Delhaize company, based in the Netherlands, allowing it, like the other mentioned above, to trade within the EU and reuse the existing central supply chain where appropriate.

When correlating the number of retail stores to the entry year, it is not reflecting which company entered the market earlier, suggesting that a later entrant was successfully growing. This suggests entrants were relieving incumbent retailers of its customers possibly with cheaper prices and due to easy switching of the buyer, creating a high level of competition in the country.

Overall this report rates the rivalry between existing competitors with four points out of five.

b) Summary of Five Forces

The overall depiction of the Czech retail market is a mature market, where buyers have a lot of power and retailers need to watch costs (Hill, 2012). However, the low level of the substitution force on retailers, suggests that the sector itself will remain attractive to most companies. The summarised ratings as shown in table 2.2 are visualised in a radar diagram (Figure 2.2) and in the case of five forces, the more surface, the least attractive is a market.

<u>Forces</u>	<u>Five forces rating</u>
Suppliers	3
Buyers	4
Competition	4
New Entrants	3
Substitutes	2

Table 2.2

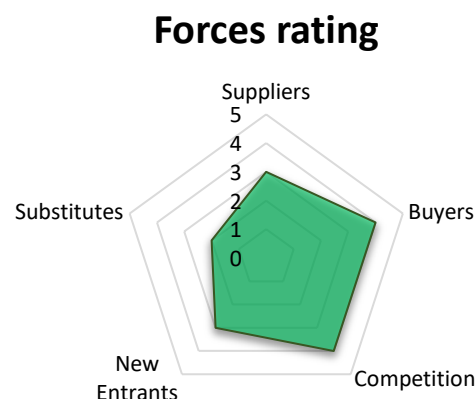


Figure 2.2

3. Aldi - A value chain analysis for the new market

A value chain analysis can be used to show how value to the customer or buyer is generated within a company. The activities are split into the *primary activities*, which can be directly mapped to a product or service and the *support activities*, which overlay all the primary activities. The figure 3.1 show the activities (red) that will most likely give Aldi a competitive advantage over existing retailers in the Czech Republic.

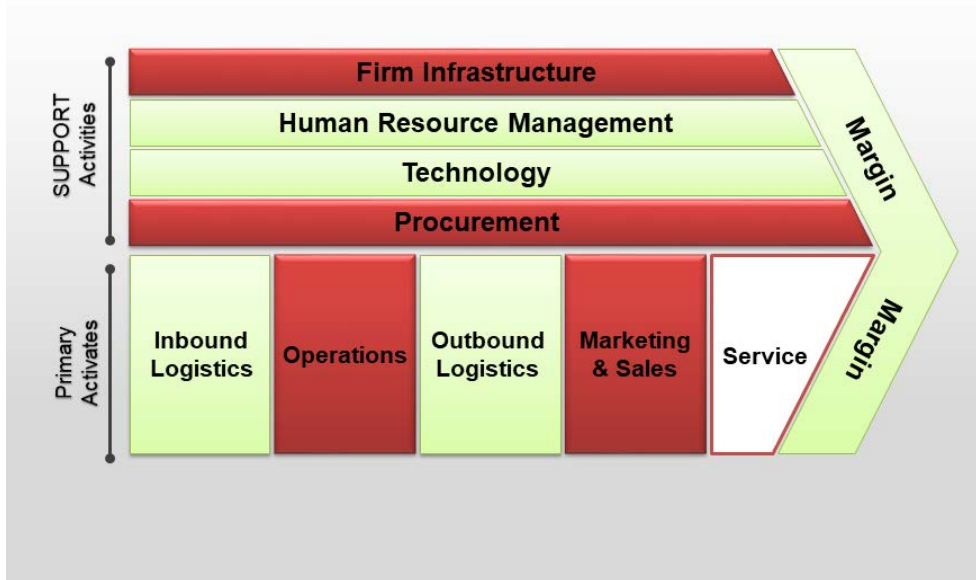


Figure 3.1 – Value Chain - Activities coloured in red for Aldi's importance on a potential entry into the Czech Republic; According to "Competitive Advantage: Creating and Sustaining Superior Performance" by Michael E. Porter, 1998

The new Czech stores would possess the parenting advantages of a vision on what the strategic intend is and a clear customer facing image, using either the Aldi or Hofer name and their shared Logo which is known throughout Europe.

The **Aldi's Infrastructure** has recently upgraded its Information Technology (IT) system (Kleemann, 2011) allows precise stock management and establishing filled shelves without creating waste at the end of the expiry date, allowing a lean (waste free) operation of the new stores.

While Human Resources and Technology (Development) are required and can be leveraged to some extent use standardized trainings and reward systems, these functions would need local representatives and specialists, in example given labour laws, in summary Aldi would not do anything to differentiate itself from the current retailers.

The Inbound and outbound Logistics are key to source and distribute goods, but Aldi is not doing anything other than running their own logistic fleet in some countries, which upside is controversial (Kleemann, 2011). Due to the low cost "no frills" Strategy, service is a low factor in Aldi or any discounter (Tackett, 2014), however the clear presentation of goods and supermarket layout is of much value to the customer (Morgan, 2016) and would also be beneficial in the Czech Republic.

A first differential benefit would be the **Procurement**, where scale advantages and existing contracts for standard, non-Czech specific, common goods like dairy could allow Aldi Czech to underbid other retailers (Taverner, 2015). Also, they would leverage the procurement of their constantly changing food and non-food offers to attract customers to come into their



stores on at least a weekly basis. Aldi is hugely varying in these offers, which are perceived as a good value for money, and sometimes brand products, for example this year's perfume specials from Joop, Calvin Klein and Chopard can be purchased for a much lower price than at a perfume retailer (Business Insider Deutschland - CA, 2018). These offers would fit the Czech consumer who is a "Consumer becoming more quality conscious and not just price driven" (Fahy, 2008)

In the **Operations** the goods that would have been bought in bulk, could be re-packaged, creating Aldi's own brands, like the "BIO" in Germany, which is their own organic line. These products will help to differentiate from others, especially something like "BIO", which is offering best value for the price, which is the key strategy of Aldi.

Marketing and Sales: The online sales platform could be leveraged by re-creating it in a Czech Version, and allowing the customers to also use online retailing, where Aldi has established permanent offers for non-food area like mobiles (including mobile service), travel, mobile music apps, food/recipe blogs or information technology (with their own Medion brand). With that Aldi can reply to increasing customer demand for boundary-less interaction channels (physical and digital), giving them an omni-channel experience, facing the customer on all channels with the same branding and product vision (Atorough, 2015). Further, this will reduce the risk of online substitution as mentioned in chapter 2.a.III and speak towards the Czechian internet consumption were 87% of the citizens are online (Belson, 2017).

4. Possible modes of entry for Aldi's new market

To join the Czech market, Aldi would need to select one of the four major entry modes: A plain export, the licensing or franchising mode, some joint ventures or a wholly owned subsidiaries approach.

As Aldi is not a primary producer, an **Export** option would not be a good fit for the retailing market, Aldi would need to rely on online retail only. They would not have any stores; thus, the initial investment would be very low. However, taking the amount of good Aldi offers online (non-food only), this would not be beneficial due to low volume compared to an onsite presence.

While a **Franchise** would be able to establish such an onsite presence, the level of benefits the international Aldi brand can provide in-country is low as all franchisers need to organize sourcing separately. Example given, fresh groceries which Aldi ideally sources in-country to avoid any transportation costs (Aldi, 2018). Also, no IT integration could be done easily, as Aldi is not sharing business information openly and an integration in existing systems would greatly expose some insights into how Aldi achieves cost leadership, this would result in an independent supply exchange that would need to be managed individually by the franchise organisation(s) (UKEssay, 2013).

The **Joint Venture** option would allow an in-country store presence and an integration in the Aldi IT, however a source for the local market would need to be established to be "able to get a better-quality product at an affordable price" (Brooks, 2013). This would offer a medium control in terms of IT, quality and sales, but also burden Aldi with same level of risk and financial commitments as the partner, while needing to share potential key company strategies. As there are no foreseeable upsides like synergies and a suitable partner for such an undertaking would need to be found too, Aldi has done no Joint Ventures and would most likely not benefit from one in the Czech Republic.



This would leave Aldi with the best reasonable option of setting up own stores in a **wholly owned subsidiaries** mode. The investment for the stores would need to be on Aldi's finances, and Aldi would need to organize its own supply chain in-country, it can maximise the use of the Aldi value chain as described in chapter 3. Further, all controls of the technology, quality, marketing and sales can be aligned to the Aldi strategy.

This could be achieved in two ways: Aldi could verify with the incumbent market companies, if they would sell some or all their stores to Aldi, this would be a *foreign direct investment* opportunity allowing Aldi to start quickly with a high number of stores in possibly different locations (Zoltan, 2013).

If such an opportunity would not arise or would be too costly, a *staged international expansion model* would be the next choice to gradually establish market presence of Aldi, starting in just, example given, one city first. After such a trial, Aldi would be able to adjust to local needs from the experience collected with the first shops and create further stores in the country with those lessons learned applied, ensuring continuous, prosperous growth (Erramilli, 1991).



References

- Aldi. (2018, February 14). *Our Supply chain*. Retrieved from Aldi.co.uk:
<https://www.aldi.co.uk/british-quality>
- Anonymous. (Dec 2004, 02 06). Vol.42(4). *Journal of Economic Literature* , pp.1185-1186.
Retrieved from Europa.eu: https://europa.eu/european-union/about-eu/countries/member-countries/czechrepublic_en
- Asebey, E. (Nov 17, 2015). New EU-New Zealand Veterinary Agreement To Increase Trade Of Animal Products.(Brief article). *Mondaq Business Briefing* , oneFile.
- Atorough, D. P. (2015, February 19). Omni-channel operations. Aberdeen, Robert Gordon University, UK.
- Belson, D. (2017). *akamai's [state of the internet] Q1-2017*. Cambridge, USA: Akamai.
- Boland, V. T. (1996, March 06). Tesco to buy Kmart's Czech stores. *The Financial Times*, p. 19.
- Brooks, S. (2013). Local sourcing. *Restaurant Business* , 112(5), 44-55.
- Business Insider Deutschland - CA. (2018, February 09). *Ein Blick in den Aldi-Prospekt zeigt, welche neue Branche der Discounter jetzt pulverisieren will*. Retrieved from Business Insider Deutschland : <http://www.businessinsider.de/aldi-ein-blick-in-den-prospekt-zeigt-welche-branche-der-discounter-pulverisieren-will-2018-2>
- Erramilli, M. (1991). The experience factor in foreign market entry behavior of service firms. *Journal of International Business Studies*, 22(3), 479-501.
- European Commission. (2014). *Progress towards completing the Internal Energy Market*. Brussels: European Commission.
- Fahy, K. (2008). *Czech Republic - Market Overview*. Frankfurt: BoardBia - Irish Food Board.
- Ghemawat, P. (2001). Distance Still Matters. The Hard Reality of Global Expansion. *Harvard Business Review*, 137-147.
- Hill, E. S. (2012). Encyclopedia of Management 7th ed. . In E. S. Hill, *Encyclopedia of Management 7th ed.* (pp. p830-836). Detroit: Gale.
- Hrdlickova, P. (2015). *GAIN Report Number: EZ1506 - Czech Republic*. Prague: USDA.
- Jaromír Mazák & Tomáš Diviák . (2017). Transactional activism without transactions: network perspective on anti-corruption activism in the Czech Republic. *Social Movement Studies*, 1pp.
- Karl Bannör, R. K. (2016). Parametric model risk and power plant valuation*. *Energy Economics*, 423-434.
- Kleemann, F. C. (2011). *Supply Chain Strategy Analysis for Aldi, Supply Chain Management im Einzelhandel: eine strategische Analyse des Discounters ALDI*. Aberdeen, UK: Grin.
- MarketLine. (2016). *Food & Grocery Retail in New Zealand*. London, United Kingdom: MarketLine Industry Profile.
- MarketLine. (2016). *Online Retail in the Czech Republic*. London: MarketLine.



- Morgan, L. (2016). Aldi wins on service for first time. *Grocer*, 20.
- Pompeo, M. (2018, 01 29). *The World Factbook*. Retrieved from The World Factbook - Central Intelligence Agency - Czech Republic:
<https://www.cia.gov/library/publications/the-world-factbook/geos/cz.html>
- Powell, L. M., & Han, E. (2011). The Costs of Food at Home and Away From Home and Consumption Patterns. *Journal of Adolescent Health*, 48(1), 20-26.
- Schwab, K. (2018). *The Global Competitiveness Report 2017–2018*. Geneva, Switzerland: World Economic Forum.
- Tackett, K. (2014). *European Grocery Retailing - Change is the only constant*. London: Planetretail.net.
- Taverner, C. (2015). Aldi points finger at 'other retailers' in the retail milk price war. *Grocer (William Reed Business Media Limited)*, 43.
- The PRS Group, I. (2016). *Czech Republic - Country Report*. New York, USA: The PRS Group.
- Trading Economics. (2018, Feb 06). *Czech Republic Consumer Spending* . Retrieved from Trading Economics: <https://tradingeconomics.com/czech-republic/consumer-spending>
- Turner, J. J., Dawson, J., & Tregear, A. (2012, November 27). *Are Tesco customers exhibiting a more social type of loyalty towards Tesco and Tesco Clubcard? A critical analysis of the nature and type of Tesco customer loyalty to Tesco in Dundee*. Retrieved from ERA: [Http://hdl.handle.net/1842/8018](http://hdl.handle.net/1842/8018)
- UKEssay. (2013, Nov 01). *An Analysis Of Aldi Marketing*. Retrieved from Essays UK: Retrieved from <https://www.ukessays.com/essays/marketing/an-analysis-of-aldi-marketing-essay.php?cref=1>
- XE. (2018, 02 16). *XE Live Exchange Rates*. Retrieved from XE - the World's trusted Currency authority: <http://xe.com/?cn=cz>
- Zagata, L. (2012). Consumers' beliefs and behavioural intentions towards organic food. Evidence from the Czech Republic. *Appetite Vol.59*, pp. 81-89.
- Zoltan, M. B. (2013). Zoltan, M. B. (2013). Foreign-Direct Investment. In K. L. Lerner, B. W. Lerner, & S. Benson (Eds.), *Human Geography: People and the Environment* . *Gale Detroit Vol. 2*, 561-563.



Appendix

a) Appendix 1A: PESTEL for the Czech Republic

PESTEL analysis for the Aldi company, regarding the market of the Czech Republic

<u>PESTEL Area</u>	<i>Total Rating</i>
<u>Political</u>	2
Newly founded in 1993 after splitting from the Soviet Union	
Stable government	
Embedded in European Union	
<u>Economic</u>	6
Stable credit rating	
Growing retail market	
Consumer Spending grew the last 4 years	
Stable currency	
In line for EURO adaption	
Positive trading balance; growth based on exports to mainly EU states	
GDP of \$193 billion in 2016	
<u>Social</u>	3
Target market size of 10 Mio people	
Even growth throughout all social layers	
Middle aged and older still familiar with Communism culture	
European culture	
Median Age is 41.7	
<u>Technological</u>	3
Tax incentives for Research & Development projects	
Fast internet bandwidth availability	
Increasing per cent of renewable Energy	



<u>Ecological</u>	2
Seasonal high temperatures	
Most likely natural hazards would be flooding	
Located in Central Europe at: 49 45 N, 15 30 E	
Railway per Square KM: 0,12	
Roadway per Square KM: 1,66	
<u>Legal</u>	-1
High corporate income Tax	
Reported police corruption	
Civil code enacted in 2014: Western style system of regulation and laws	
<u>Total Score</u>	<u>15</u>



b) Appendix 1B: PESTEL for New Zealand

PESTEL analysis for the Aldi company, regarding the New Zealand market

<u>PESTEL Area</u>	<i>Total Rating</i>
<u>Political</u>	1
Stable Government with two major parties	
Labour party established leaders in the last 10 years	
Target to fade out Tobacco by 2025	
<u>Economic</u>	1
good credit rating	
trading deficit	
Rising exchange rate EUR/NZD over the last 12 months	
Consumer Spending grew the last 7 years	
GDP of \$182 billion in 2016	
<u>Social</u>	2
Target market size of 4,5 Mio people	
Even growth throughout all social layers	
Sophisticated education and training system	
Mixed Ethnicities, with majority from a European background (71%) and high part of native nationals (Maori) with their own language	
Median Age is 37,9	
<u>Technological</u>	1
Low Level of innovations	
Good internet bandwidth availability	
No nuclear energy, targeting >90% Renewable Energy Resources by 2025	
Specialists in geothermal operations	



<u>Ecological</u>	-4
Exposed to flooding, earthquakes and partially to volcanic activity	
Being an island, hard to get infrastructure supplies	
Sensitive to Biodiversity	
Unique marine life	
Located in the southern pacific at: 41 00 S, 174 00 E	
Railway per Square KM: 0,05	
Roadway per Square KM: 1,20	
<u>Legal</u>	1
Increased focus on gender equality	
Strong rules of regulation	
<u>Total Score</u>	<u>2</u>

c) Appendix 1C: Colour indications / Agenda

The colours define, if a macro-environmental factor is considered as an opportunity or threat. Black reflects no foreseeable impact on the market but a key definition of the area for that country.

<u>Colour</u>	<u>Definition</u>
Red text	Threat
Green text	Opportunity
Black text	Key Information defining a country, but not rated

d) Appendix 1D: PESTEL Conclusion

As shown below in Table A.1D.1, the Czech Republic clearly outweighs New Zealand in terms of total summarized positive and negative points.

Key driver for this win is the economic environment in which Aldi could operate in the Czech Republic with a total of 6 plus points, those being in detail: GDP of \$193 billion in 2016 (Schwab, 2018), positive trading balance and stable credit rating for providing wealth to buyers and possible outside investments, the growing retail market, especially in discounters, where Aldi could benefit from, the stable currency which would allow easy cross-country financial flows.

In contrast, New Zealand has only one plus point, also it has a good credit rating and the consumer spending grew the last 7 years, the rising exchange rate EUR/NZD over the last 12 months is a worrying trend that could stave the financial flow out of the country or goods import into it.

The biggest negative was in the ecological area of the PESTEL, here the danger of the exposition to flooding, earthquakes and partially to volcanic activity threatens to destroy value and, if an insurance could be found to reimburse for the financial impact, the logistic and value chain would most likely suffer greatly in such an event. Overall, the country has very poor connection opportunity for land transport, especially in comparison with the Czech Republic (see also section 1), most Cargo for long distances would need to be transported via air, increasing costs that would need to be recovered from the consumer via a higher product price.

The combined findings have been visualized in figure A.1D.1, in this figure the more surface one country would be create, the more attractive it would be to join the market. As clearly seen, only Legal is providing New Zealand with an upside, all other environments are better suited for Aldi in the Czech Republic.

Overall Pestel Scores in a Radar Chart

PESTEL Area	Czech Republic	New Zealand
Political	2	1
Economic	6	1
Social	3	2
Technological	3	1
Ecological	2	-4
Legal	-1	1
Sum	15	2

Table A.1D.1

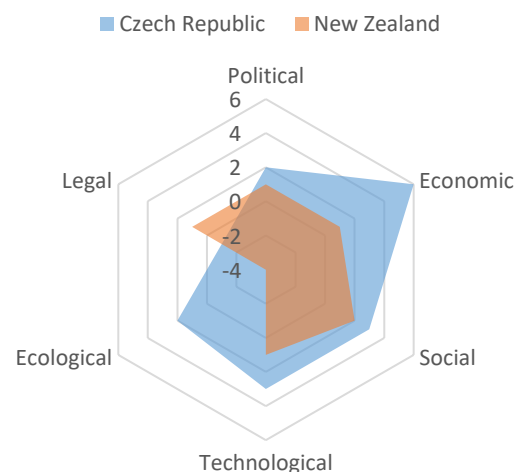


Figure A.1D.1

Further, a CAGE framework can represent the cultural, political, geographical and economical distance from the German home market of Aldi to the Czech Republic and New Zealand (Ghemawat, 2001). Figure A.1D.2 shows such a diagram, using a maximum of five

points to show the difference from the German to the other countries for each of the four factors.

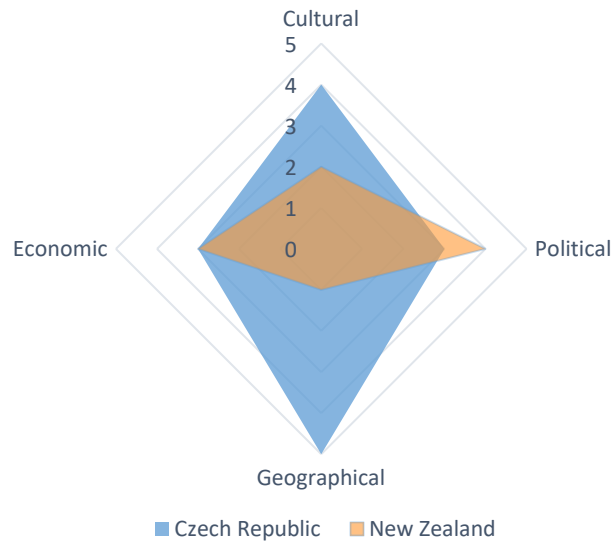


Figure A.1D.2 – CAGE Model showing the countrys CAGE-distances to the German / Aldi's home market

Here the higher surface reveals again that the Czech Republic would be the better market to join. The economic and political distances are similar, the cultural and geographical are clearly in favour of the Czech Republic again, underpinning it for a target market choice.