Title: Business Strategies in the Retail Supermarkets Industry: A Comparative Case Study Analysis of Costco and Aldi

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Degree: , Southern Institute of Technology

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Year: 2021

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Business Strategies in Retail Supermarkets Industry
- A Comparative Case Study Analysis of Costco and Aldi

by
Lavanya Sarisa

Research Project Submitted in Partial Fulfillment of the
Requirements for the Degree of
Master of Applied Management

in the School of Business
Faculty of New Media, Business and Arts

SOUTHERN INSTITUTE OF TECHNOLOGY
(An affiliate of the New Zealand Institute of Skills and Technology)

Supervisor: Dr Robyn Hill

Due Date: 26 March 2021

Word Count (excluding Table of Contents, References and Appendices): 21,948
Abstract

This exploratory research aimed to study business models and strategies adopted by international retailers – Aldi and Costco in Australia and investigate their relevance in the New Zealand supermarket industry. Existing literature on the concepts of business model, strategy and competitive advantage was explored. A case study approach was taken to study business models and strategies of the selected cases and inductively derive key business strategies to break structural barriers and position competitively. Data was collected from multiple secondary sources to ensure the authenticity of the information while several strategic management models and frameworks were applied in the data analysis to overcome the reliability issues. The findings of this study suggested how Aldi and Costco have gained power over buyers and competitive advantage using their unique business models and strategies. Based on the findings, a cost leadership strategy with a cost-efficient operations style business model was recommended to break the structural barriers and position competitively within the New Zealand supermarket industry. Furthermore, the significance of organisational culture, building customer loyalty and continuous innovation to support business model and strategy was emphasised for a sustainable competitive advantage.

Keywords: Industry structures; Business model; Strategy; Frugality; Stewardship; Competitive advantage
Dedication

I dedicate this work to my parents Mrs Gunasri and Mr Venkata Ramana. My mother motivated me throughout her life teaching the significance of education and women empowerment. My father aspired to my higher education and sacrificed a great deal of his hard work and dreams.
Acknowledgements

This research project would not be a possibility without the philosophical and academic contributions of my research supervisors and professors. I would like to thank and show my profound gratitude to my research supervisor, Dr Robyn Hill for her excellent guidance, feedback, patience, empathy and collaboration throughout the research.

I would also like to thank my professors – Hufsa Kazmi, Eric Tan, and Sanjeev Acharya who have introduced me to the strategic management concepts, and to Dr Sally Bodkin-Allen and Dr Claudia Gonnelli who made me realise the essence of research methods in the field of applied management. Furthermore, I appreciate the SIT academic planners and programme coordinators who designed the MGT910 Research Project module in a highly practical and collaborative manner.

Finally, I would like to appreciate the contributions of all the academic researchers and practitioners in the field of strategic management from those I could draw inspirations for this research project.
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<th>Description</th>
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<tbody>
<tr>
<td>AI</td>
<td>Artificial Intelligence</td>
</tr>
<tr>
<td>BCG</td>
<td>Boston Consulting Group</td>
</tr>
<tr>
<td>CCNZ</td>
<td>Commerce Commission New Zealand</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>EFTPOS</td>
<td>Electronic Funds Transfer at Point of Sale</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>HBR</td>
<td>Harvard Business Reviews</td>
</tr>
<tr>
<td>IoT</td>
<td>Internet of Things</td>
</tr>
<tr>
<td>JIT</td>
<td>Just in Time</td>
</tr>
<tr>
<td>MIT</td>
<td>Massachusetts Institute of Technology</td>
</tr>
<tr>
<td>NRF</td>
<td>National Retail Federation</td>
</tr>
<tr>
<td>NZ</td>
<td>New Zealand</td>
</tr>
<tr>
<td>NZFGC</td>
<td>New Zealand Food and Grocery Council</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>PwC</td>
<td>Price Waterhouse Coopers</td>
</tr>
<tr>
<td>SCP</td>
<td>Structure, Conduct and Performance</td>
</tr>
<tr>
<td>SDS</td>
<td>Smart Device Sensors</td>
</tr>
<tr>
<td>SKU</td>
<td>Stock Keeping Units</td>
</tr>
<tr>
<td>SWOT</td>
<td>Strengths, Weaknesses, Opportunities and Strengths</td>
</tr>
<tr>
<td>USDA</td>
<td>United States Department of Agriculture</td>
</tr>
<tr>
<td>VRIO</td>
<td>Valuable, Rare, Imitable and Organised</td>
</tr>
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</table>
### Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amalgamation</td>
<td>The action, process, or result of combining or uniting</td>
</tr>
<tr>
<td>Tacit collusion</td>
<td>An implicit agreement between two or more firms to weaken competition</td>
</tr>
<tr>
<td>Assortment</td>
<td>Portfolio of certain products</td>
</tr>
<tr>
<td>Unobtrusive</td>
<td>Unnoticeable or inconspicuous</td>
</tr>
<tr>
<td>Frugality</td>
<td>Prudence in avoiding waste</td>
</tr>
<tr>
<td>Stewardship</td>
<td>Carefully supervising something on behalf of others</td>
</tr>
<tr>
<td>Duopoly</td>
<td>Two firms dominate the entire market or industry</td>
</tr>
<tr>
<td>Oligopoly</td>
<td>Few firms dominate the entire market or industry</td>
</tr>
<tr>
<td>Paradigm</td>
<td>A distinct set of concepts or thought patterns</td>
</tr>
<tr>
<td>Superfluous</td>
<td>Unnecessary things that do not add any value</td>
</tr>
<tr>
<td>Speculation</td>
<td>Forming opinions without firm evidence</td>
</tr>
<tr>
<td>No-frills</td>
<td>Eliminating non-essential features to keep prices low</td>
</tr>
<tr>
<td>Detrimental</td>
<td>Causing harm or weakening the impact</td>
</tr>
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Chapter 01: Introduction

1.1. Introduction

The retail supermarket industry has been evolved from traditional street-side grocery stores to today’s modern retail chain supermarkets. Over time, the industry has witnessed significant changes in its structure, size, innovation, and operations in many ways (Mayo, 1996). New business models and strategies were developed and adopted from a business perspective, such as discount models, product differentiation, no-frills stores, and subscription-based or membership club models. On the other hand, the industry has added more features and convenience from the customer perspective, such as digital payment methods, self-check-out services, and the latest click-and-collect services. Moreover, as Bulmer et al. (2018) suggested, these in-store technologies are critical to retailers' success as they offer convenience and significantly influence customer shopping preferences. While international expansion, economies of scale, and technological innovation reflect today's global retail picture, ever-changing consumer preferences will drive the industry's growth and future trends (Deloitte, 2020; RetailNZ, 2019).

The retail supermarket industry's overall outlook is uncertain due to weak growth in consumer spending and low inflation rates globally (Deloitte, 2020). Besides, market disruption due to digital commerce growth and the customer’s accessibility to product information has challenged retailers, including large international retailing brands such as Walmart, Tesco, and Carrefour. Consequently, the retail supermarket industry is losing its capacity to be lucrative due to price wars, sinking margins, and high competition (Mourdoukoutas, 2016). As a result, many international retailers had to sell or withdraw from some of their overseas operations. Examples include Walmart’s withdrawal from Germany and Brazil (Moraes, 2018), Tesco’s failure in the US and France (Geeter, 2019), and Carrefour’s plans to sell major stakes in Germany and China (Keohane, 2019). These uncertain conditions further have been fuelled by the impact of the COVID19 outbreak (Deloitte, 2020).

In these uncertain conditions, businesses are forced to continually evaluate their business strategies and business models to align with the new developments. A winning business strategy yesterday could be a losing proposition today; therefore, business strategies and
models must be monitored and evaluated to make adjustments as and when deemed necessary (Alshakhoori et al., 2016). Therefore, this research project is designed to conduct a qualitative analysis of contemporary business strategies adopted by international retailers.

1.2. Statement of the problem

The major problem that has motivated this research study is the lack of understanding and knowledge of contemporary retail strategies and models that can be adopted and applied in the NZ retail industry. Therefore, before formulating any business strategies, managers, practitioners, or entrepreneurs need to acquire an in-depth understanding of business issues such as industry structure, competition, customer receptiveness, and supplier relations. For example, how customers would respond to a new business in a highly concentrated market. What kind of barriers that new players should take into account before setting up the business? How hard would it be to secure supplier arrangements in a market that is mostly controlled by cooperative farming communities?

Moreover, as Teece (2010) argued, developing an innovative business model alone is not sufficient for businesses to sustain competitive advantage. Core elements of any business model are easily imitable by competitors; therefore, to create a competitive advantage, the model should be coupled with reliable business strategies. Choosing or adopting an appropriate business strategy is a much more critical task than developing a business model and requires a critical examination of industry dynamics and competition (Teece, 2010). Furthermore, to create a sustainable competitive advantage, business strategies should add value to each other and, at the same time, make the whole strategy hard to imitate (Ovans, 2015). Therefore, strategy analysis is recommended, which involves systematic gathering of information to analyse market situations, formulate feasible business strategies, and choose the most appropriate strategy (Khan & Khalique, 2014; Teece, 2010; Wheelen & Hunger 2012).

1.3. Significance of the study

Prior studies have highlighted some of the current issues in retail businesses and suggested relevant strategies to address these issues. Examples include customer receptiveness (Alexander et al. 2010), cultural differences (Frasquet et al., 2018), communication strategies (Buame & Acheampong 2015), operational strategies (Yu & Ramanathan 2012), and
domestic competition (Hanell et al., 2019). Also, some researchers have attempted to compare the business models and retail strategies of Aldi vs. Walmart (Chatterjee, 2017) and Costco vs. Target (Alshakhoori et al., 2016). Although a considerable amount of literature is available on retail business strategies, it does not suggest how a new start-up retail business can compete with leading competitors in the retail sector. Therefore, robust research is needed, especially when planning a retail start-up business in the highly concentrated retail landscape of NZ.

Industry experts, academics, and political parties have long been demanding a market study and reform of the NZ retail supermarket sector (Carroll, 2020). The retail supermarket industry in NZ is highly concentrated and largely dominated by two leading brands: Foodstuffs and Woolworths (Parsons & Wilkinsons, 2014; USDA, 2020). Both retailers promote themselves as low-cost; however, there are growing concerns over the industry’s duopoly dominance and rising grocery prices over time (Foxcroft, 2020; Pullar-Strecker, 2020). It is suggested (Foxcroft, 2020) that high grocery prices are due to the smaller size of the market, a geographical disadvantage due to NZ’s distance to global supply chains and accessibility, and the highly concentrated market structure. On the contrary, several international retailers such as Costco and Aldi have successfully expanded their operations to Australia, which has similar market structures and geographical limitations as New Zealand (Bankwest, 2019).

Foodstuffs is a 100% NZ owned business controlled by a group of three regional cooperatives. It owns approximately 439 stores across NZ under NewWorld, Pak’nSave and FourSquare brands (Foodstuffs, n.d.). Progressive Enterprises, the main competitor owned and controlled by the Australia-based Woolworths group, is operating 243 stores under brand names of Countdown, SuperValue and, FreshChoice (Woolworthsnz, n.d.). According to a report published by the Office of Agricultural Affairs of the USDA (2020), Foodstuffs and Woolworths have about 47% and 32% of the market share in NZ’s retail supermarket industry, respectively. A detailed analysis of the industry will be conducted in later sections of this project.

A systematic analysis and study of business models and strategies adopted and applied by existing players in their respective markets could contribute to the domain knowledge. Furthermore, this research study and its findings could be a valuable addition to both the
researcher and other entrepreneurs interested in setting up their retail businesses in NZ and Australia.

1.3.1. Who will benefit from this research?

The researcher is a management studies student working on setting up a retail chain start-up business in NZ. The proposed retail start-up aims to differentiate its low-cost business model by developing a unique combination of economies of scale, technology, data analytics, and waste management. First, it will be a ‘no-frills’ store model. Products will be procured and stacked up on a massive scale in electronic bays while effectively eliminating costs associated with repeated shelving. Second, the setup will include adapting new era technologies such as the internet of things (IoT) and smart device sensors (SDS) into the store’s day-to-day operations. When combined with lean management techniques such as just-in-time (JIT), these new technologies help with optimal inventory management. Next, the product portfolio will be integrated with data analytics using machine learning and Artificial Intelligence (AI) applications, which help predict customer requirements and make pricing decisions. Finally, combining technology with operations, the proposed business aims to reduce costs and wastage effectively and to pass on the savings to customers in the form of reduced prices.

1.4. Research aims and objectives

The researcher believes that studying business models and strategies of existing retailers in NZ is not a logical approach as the market is highly concentrated and primarily dominated by two retailers. This research, therefore, aims to explore successful retail business strategies adopted by two leading international retailers, Costco and Aldi, to develop relevant business strategies to support a new retail start-up in NZ. A comparative case study analysis method will be used to study the business strategies and models adopted by these retailers in Australia.

The main objectives of the study are outlined below:

- To review the competitive position of Aldi and Costco in the Australian retail supermarket sector.
• To identify and examine retail strategies and business models adopted by Aldi and Costco in Australia.
• To derive reliable business strategies for new retail start-ups to compete in the highly concentrated retail sector in New Zealand.

1.5. Research design

This exploratory research is designed with a qualitative research approach based on a comparative case study analysis using secondary sources. A robust literature review is conducted to gain in-depth knowledge about competitive advantage, an appropriate business model, and business strategy. Information will be extracted primarily from peer-reviewed journal articles, including the Harvard Business Reviews (HBRs), and supported by recent and specific academic works on business strategy and strategic management.

A qualitative comparative case study analysis on Costco and Aldi will be conducted based on the literature review findings. This comparative analysis is divided into three sections. First, generic business strategies and business model aspects adopted by these two companies related to store format, customer segmentation, product variety, supplier relations, and employee relations are discussed. Second, the two organisations' competitive position is analysed using the SWOT model (strengths, weaknesses, opportunities, and threats), the competency-based VRIO model and Porter’s Five Forces model. Finally, an in-depth analysis is carried out to compare how differently these two companies compete within the industry and gain a competitive advantage. Throughout the process, discussions are linked back to the below research questions:

• What are the key retail strategies and models adopted by Costco and Aldi?
• What is the competitive position of Costco and Aldi in the Australian supermarket industry and how they are gaining a competitive advantage over their competitors?

Finally, findings from these three sections are structured into various categories and analysed in the NZ context to answer the overall research question: “What retail business strategies are relevant to the NZ supermarket industry and how these strategies can be applied in the NZ?”
1.5.1. **The rationale for choosing Aldi and Costco**

There are two main reasons for choosing Aldi and Costco and their Australian operations to be part of this comparative case study analysis. Firstly, both have different business models – Aldi is a low-cost, no-frills retailer, while Costco operates with its unique membership model. Second, New Zealand and Australia share many similarities in market structures, lifestyles, demographics, and geographic features (USDA, 2018; USDA, 2019). This study will be based on information collected from multiple secondary data sources such as annual reports, press releases, industry reports, news articles, peer-reviewed journal articles, published customer survey results, and prior case studies. The online databases such as Proquest will be used to search for information related to this study using search terms such as “Costco”, “Aldi”, “Business Strategy”, “Retail Business Strategies”, “Australia Retail Supermarket Industry” with a timeline filter from 2010 to 2020.

1.6. **Limitations of the project**

One of the major limitations of this comparative case study analysis is that the study will be focused on the Australian market while applying the findings to the NZ market. However, Australia and New Zealand both share many similarities in terms of geographic distance from global markets, market structures, and lifestyle preferences. Therefore, findings from this study can reasonably be attributed to the NZ market. Another major limitation of this study could be an attempt to apply the business strategies of established international retailers to a new start-up. Industry experts believe that the NZ industry structure is hard to crack for new players, including international retailers like Costco, Walmart, and Aldi (Carroll, 2020). In such a scenario, the researcher’s aspirations on her start-up plans may lead to a biased interpretation of the study's findings. However, the feasibility of the proposed business plan and its financial viability are out of this study's scope.

1.7. **Structure of the project**

Chapter Two of this research will discuss the theory underpinning the retail industry used for this research. It is followed by a detailed industry analysis of NZ and Australia using contemporary strategic models such as Porter’s five forces and SWOT analysis. In Chapter Three, a robust literature review will be conducted to gain an in-depth understanding of the concepts related to a business model, business strategy and competitive advantage. Chapter
Four informs about the overall research philosophy, research design, data collection methods, and data analysis techniques used for this research will be discussed. In Chapter Five, information collected from all the data sources is summarised and systematically analysed to answer the research questions. The final chapter includes conclusions reflecting the overall research and its contribution to the domain knowledge, followed by limitations of this study and the scope for further research in this subject area.
Chapter 02: Theoretical Constructs and Industry Analysis

2.1. Introduction

This chapter provides an in-depth analysis of the New Zealand (NZ) retail supermarket industry. As this research aims to identify reliable business strategies for a retail start-up that can be adopted and applied within the NZ retail supermarket industry, in-depth research on the industry dynamics is critical to this project's success. It emphasises that industry structure drives the competition within a market setting; thus, the choice of a business strategy or business model is dependent on industry structure. The theoretical analysis section provides a brief discussion on the theoretical constructs on which this exploratory research project is designed. Next, detailed industry analysis is presented, which includes a brief overview of the NZ supermarket industry, followed by an analysis of the industry structure using the SCP (structure – conduct – performance) model. After that, the attractiveness and profitability of the industry are discussed using Porter’s Five Forces model. A brief analysis of the Australian supermarket industry is also provided to compare and contrast differences between NZ and Australian supermarkets. A comparison between these markets is critical as this research intends to study business strategies adopted by Aldi and Costco in the Australian market and their suitability in the NZ supermarket industry. The last section summarises all the critical insights to use and apply in the case study analysis.

2.2. Theoretical analysis

The theoretical constructs chosen for this industry analysis are industry structures and competition. Theoretical constructs are critical to research, generate and refine the theory, and understand the underlying phenomena of existing theories and models (Udo-Akang, 2012). The theory underpinning the retail industry concerning this research study is the industry structure and competitive positioning. These constructs will help the researcher study and understand how Aldi and Costco have broken into the heavily concentrated Australian supermarket industry’s duopoly structure and emerged as competing forces. Therefore, these findings play a vital role in deriving business strategies for a retail start-up to break the NZ duopoly market structure and gain a competitive advantage.

In this study, the theory will be developed through the insights derived from a full literature review and the findings of a comparative case study analysis based on two underlying
theoretical constructs: industry structure and competitive positioning. Developing a business model or formulating a business strategy relies on the level of existing competition primarily driven by the underlying industry structure (Lee, 2012; Witteloostuijn & Boone, 2006). This research investigates the role of business models and strategies adopted by Aldi and Costco in breaking the highly consolidated Australian industry. Therefore, an in-depth analysis is required to measure their significance in Aldi and Costco’s success based on the theoretical constructs.

The industry structure – conduct – performance (SCP) model is applied in this analysis to understand underlying market structures. This model was first introduced by Mason in 1939 and later refined by Bain in 1951. As Lee (2012) stated, the model states that competitive conditions could determine the industry structure, and firms would position themselves accordingly, while these changes affect their performance. However, Witteloostuijn & Boone (2006) suggested that the industry structure is both a determinant and consequence of competition among the rivals. On the whole, this model highlights the significance of industry structures in developing competitive strategies. Next, Porter’s five forces model is applied to highlight the five forces that determine the level of competition within the NZ supermarket industry. This model helps researchers measure attractiveness and profitability while studying the practical implications of the underlying industry structure (Rothaermel, 2015).

2.3. Industry analysis

2.3.1. New Zealand Retail Supermarket Industry

The NZ retail supermarket industry is a highly concentrated grocery market globally and accounts for about NZ$ 22 billion in revenue (USDA, 2020). The industry comprises two leading retail giants - Foodstuffs and Woolworths, independent grocers, and other small convenience stores. Progressive Enterprises, a wholly-owned subsidiary of Australian-based Woolworths Limited, has played a significant role in consolidating the supermarket industry with several mergers and acquisitions. The company owns and operates 243 stores under brand names: Countdown, SuperValue and, FreshChoice (Woolworthsnz, n.d.).

On the other hand, foodstuffs is a New Zealand-owned supermarket chain controlled and operated by three regional cooperatives under brand names: PAK'nSAVE, New World, and Four Square (Foodstuffs, n.d.). Foodstuffs and Woolworths owned more than 800 stores
together out of 3317 grocery stores across NZ. Apart from backward integration and developing private labelled products, these supermarket chains in NZ have changed very little in their operations and store formats in the past few decades (Parsons & Wilkinson, 2014).

2.3.2. Industry Structure – Conduct – Performance (SCP) Model

The Structure-Conduct-Performance (SCP) model helps to analyse and conceptualise a given industry's competitive conditions by examining the underlying structure and its impact on the conduct and performance (Panagiotou, 2006). Early advocates of the SCP paradigm (Bain 1952 & Mason 1939 cited in Lee, 2012) stressed that a market's competitive conditions could alter the industry's structure, and existing firms would eventually adjust themselves according to the changes. Eventually, these changes would impact their economic performance. Simultaneously, the industry structure also influences competition among the players (Witteloostuijn & Boone, 2006). The SCP model structure refers to the industry's external environment that describes the level of consolidation, product differentiation, entry barriers, and market shares. Conduct refers to firms' behaviours within the industry structure, including pricing conduct, investments, supplier relations, promotions, competition, tacit collusion, and mergers. Performance is the impact of market structure and the conduct on the industry’s economic performance in terms of profitability, innovation, technological advancements, pricing, allocation, quality and quantity. Therefore, these three factors are quite interrelated and profoundly impact each other (Lee, 2012).

NZ supermarket industry is one of the world's highly concentrated markets while having an unusual duopoly industry structure. As Rothaermel (2015) argued, traditional economic theories assume that market structures evolve overtime along the continuum from monopolistic to duopolistic to oligopolistic to perfect competition structures primarily depending on the product differentiation and entry barriers (Figure 2.1). For example, when the product is unique or highly differentiated, the market structures tend to be either monopoly such as Intel or duopolies such as Coke and Pepsi (Rothaermel, 2015). On the other hand, products and services such as the food and grocery industries should naturally evolve to perfect competition structures overtime (NZFGC, 2019). Thus, the NZ supermarket industry, by its duopolistic structure, is quite unusual and less competitive.
As suggested by Witteloostuijn & Boone (2006), an industry's structure is a consequence of competitive rivalry and a determinant of competitive behaviours among the participating firms. Eventually, the number of firms and their size in terms of market share determines the industry's competitive positioning. Competing firms in duopolistic or oligopolistic market structures tend to use tacit collusions to exercise power on both suppliers and buyers (Jones, 2014). Participant firms understand that competition among rivals will eventually force them to price products at marginal profits while losing control over suppliers. Therefore, in heavily consolidated industries, players can use tacit collusions to set agreeable market shares among rivals, thus maintaining high profitability and dominance over suppliers.

In the NZ supermarket industry, Consumer NZ suspects that pricing tactics and promotional offers of Foodstuffs and Countdown markets appear to be misleading. A recent price survey conducted by Consumer NZ gives the impression that these two companies implicitly make pricing decisions to weaken competition. They noticed that these supermarkets selling products at special or discount prices are actual prices that they sell across the year, and they are almost identical among these two competitors (Castles, 2020). In a recent discussion paper (2019), the New Zealand Food and Grocery Council (NZFGC) has raised several concerns and complaints regarding supermarkets' conduct with their suppliers. They argued that with the kind of power these two supermarkets wields, they could strongly influence customers about what, when, and how to buy. Furthermore, NZFGC was concerned that the industry's unfair pricing practices were limiting supplier firms' ability to invest in new technologies and be competitive (NZFGC, 2019).
In summary, the NZ supermarket industry reflects a duopolistic market structure with two large retailers having a significant market share. Consequently, the industry is attractive with high-profit potential and low competition while heavily protected by high entry barriers resulting from high consolidation. However, there are growing concerns over these supermarket chain’s increasing dominance and a widespread perception that the duopoly is driving grocery prices higher year over year (Pullar-Strecker, 2020). Significant population growth in New Zealand makes it an attractive market for international retailers such as Aldi and Costco; however, industry experts believe that the supermarket industry is hard to break for new entrants due to the structure and the duopoly dominance (Foxcroft, 2020). Given the substantial entry barriers and initial set-up costs, entry of large international supermarket chains such as Aldi, Lidl and Costco or online-only supermarket chains only can change the industry’s dynamics.

2.3.3. Porters Five Forces Analysis

Porters five forces model helps practitioners to analyse the underlying market structure in which it exists and to assess the competition and profitability against each of the five forces: competitive rivalry, power of buyers, power of sellers, the threat of substitutes and the threat of new entrants (Figure 2.2). The model distinguishes five forces that drive competition within the industry, thus determining overall profitability and attractiveness (Porter, 1980 cited in Rothaermel, 2015). The below sections provide an in-depth analysis of each of these five forces concerning the NZ supermarket industry structure, competition and profitability.

Figure 2.2. Porter’s Five Forces Model in the Macro Environment

(Source: Rothaermel, 2015, p.214)
**Competitive Rivalry**

Competition in the NZ supermarket industry appears weak and insufficient due to Foodstuffs and Woolworth’s dominance (NZFGC, 2019). Both these groups have claimed that the industry is intensively competitive, and they are working hard to cut down the prices (ODT, 2020; Pullar-Strecker, 2020). Despite these claims, it is reportedly believed that the lack of competition is driving up grocery prices year over year (Pullar-Strecker, 2020; Foxcroft, 2020). Jessica Wilson, head of research for the Consumer NZ, quoted in Coughlan (2020), stated that the NZ supermarket industry is one of the most concentrated grocery markets globally. Consequently, consumers have to pay more than they should for their grocery needs (Coughlan, 2020). With a combined market share of about 79%, the duopoly alleged to driving up the grocery prices in NZ, making up most of the New Zealanders spending next to real estate (ODT, 2020). A market study has been announced recently by the commerce commission to test its competitiveness and ensure the prices are fair and competitive (Pullar-Strecker, 2020).

**Bargaining Power of Buyers**

Foodstuffs and Woolworths primarily dominate the retail supermarket industry in NZ with significant market shares; thus, there is little or none bargaining power that the buyers can exercise. In a duopolistic industry structure, both the dominant players understand that they lose or gain market share if they priced above or below the competitors’ price and eventually forced down to price at marginal cost. Therefore, players in such industry structures strive to set agreeable market shares among the rivals, thus eliminating price disruption (Jones, 2014). It appears to be the case of NZ as it has the highest grocery prices among OECD countries, especially when compared with Australia (Edmunds, 2018). Due to the lack of competition, buyers end up paying high prices than usual, as Consumer NZ claimed. Moreover, Consumer NZ warns retail consumers not to fall for promotions such as special prices or everyday low prices as advertised by these two groups, which according to Consumer NZ, are misleading practices (Carroll, 2020). On the whole, buyers have no bargaining power in the supermarket industry in NZ.
Bargaining Power of Suppliers

Industry structure and competition play a vital role in the industry's supply dynamics by controlling production levels and pricing (Jones, 2014). As the duopoly primarily dominates the industry, they exercise significant power over suppliers and decide what to reach their shelves. Participant suppliers in the industry are relatively large business groups in terms of revenue and size, but still, they are mostly dependent on supermarkets to access the consumers. Several manufacturers and suppliers in the food, beverage and grocery industry have raised concerns over the mistreatment and unfair trading practices in the industry as per the New Zealand Food and Grocery Council (NZFGC, 2019). A discussion paper by NZFGC (2019) has provided several instances of unfair commercial practices by supermarket chains, such as demanding retrospective cash payments, little scope for price negotiations despite increased costs, and imposing promotional costs on suppliers. As noted by the Consumers International report, supermarkets exercise significant power over suppliers and have a strong influence over consumers on what, when and how they buy. This report complained that supermarkets are acting as gatekeepers instead of passive transmitters of consumers' wishes, impacting both consumers and suppliers alike (Nicholson, 2012).

The Threat of Substitutes

The existence of substitutes can significantly impact pricing decisions and help create a competitive trading environment. However, in the food and grocery industry, the threat of substitutes is shallow as the products are day-to-day essentials. Though other alternatives such as independent grocers and convenience stores exist in the NZ food and grocery market, they cannot compete with supermarket chains in terms of scale and pricing. However, few online food retailers have emerged during the COVID19 lockdown, such as Service Foods and Bidfood, which supplies food and grocery on a wholesale basis, can pose a little threat of substitute to the supermarkets (Taunton, 2020). It would appear, the supermarket industry in NZ has little or no threat from substitutes.

The Threat of New Entrants

The threat of new entrants in the NZ supermarket industry is significantly low due to the high concentration and duopolistic dominance. Experts and academics believe that the NZ supermarket industry is highly consolidated, meaning that entry barriers and exit costs are
immensely high for new entrants (Foxcroft, 2020). For example, entry into the supermarket industry requires huge investments and set-up costs in real estate and infrastructure, which seems to be a huge barrier for new players (Carroll, 2020). Even if a new entrant emerges as a potential competitor and offers products at competitive prices, existing players can collude to out-compete the new player by putting pressure on suppliers and pushing down the prices to marginal costs (Jones 2014). Eventually, new players find it hard to compete at reduced prices and recoup their set-up and operational costs (Foxcroft, 2020).

2.3.4. Australian Retail Supermarket Industry

The Australian supermarket industry is one of the most highly concentrated and most fiercely competitive markets globally (Mudditt, 2017; USDA, 2020). The industry is primarily dominated by two supermarket chains: Woolworths and Coles, with a combined market share of 68% as of 2018 (USDA 2020). Aldi and Costco’s entry into the Australian retail landscape has forced the industry to evolve from a duopolistic market structure to an oligopolistic market structure. The entry and rise of these new retailers have changed the industry dynamics significantly and forced both Woolworths and Coles to reduce prices and expand their product ranges (Mudditt, 2017). They prioritised market shares over the profit margins, and as a consequence, the profitability of the industry has been reduced significantly (Kampen & Kirkham, 2020). Costco is relatively smaller than Aldi but plans to expand and gain significant market share in the upcoming years (Mudditt, 2017). In summary, the Australian supermarket industry is still highly concentrated but sufficiently competitive. Competition in the industry is driven by moderate entry barriers, low supplier power, high buyer power, low threat of substitutes and intense competitive rivalry.

2.4. Summary

The NZ supermarket industry is highly concentrated and primarily dominated by two players. There is a widespread perception that the industry is less competitive due to the duopoly’s dominance, leading to drive up grocery prices (Foxcroft, 2020; Pullar-Strecker, 2020). This industry analysis has identified that New Zealand and Australian supermarket industries share similarities in industry structure and competition. In the Australian supermarket industry, it is apparent that Aldi and Costco's entry has changed the industry structure from a duopoly to an oligopoly and the existing competition. This analysis has also helped the researcher understand the significance of underlying theoretical constructs, industry structure and
competitive positioning, and their significance in deriving business strategies. Therefore, evaluating business strategies and models adopted by Aldi and Costco in the Australian supermarket industry can help the researcher to address the research question in two ways: (1) How these business strategies can help a retail start-up to break the structural barriers, and (2) how they help gaining a competitive position in the NZ supermarket industry.
Chapter 03: Literature Review

3.1. Introduction

This literature review discusses three critical strategic management areas: business model, business strategy and competitive advantage. Twenty-three peer-reviewed journal articles, including Harvard Business Reviews (HBRs) published in the strategic management area from 2010 to 2020, were collected for this review. However, the discussion will be generic and not specific to the retail supermarket industry. The primary reason behind taking this approach is that before conducting a comparative case study analysis of two multinational retailers, the researcher needs to gain an in-depth understanding of these subject areas. Therefore, any ideas or findings discussed in this chapter may not be linked back to the research questions or objectives; however, it may help identify gaps in the literature that shall support and complement the overall research concern. As a result, findings from this review shall act as a reference guide for the researcher to analyse findings from the subsequent case study analysis. For example, while this section summarises the significance of a business model or a business strategy to gain competitive advantage, subsequent case study analysis shall discuss how have the business models and strategies adopted by Costco and Aldi achieved competitive advantage in the Australian supermarket industry.

3.2. Business Model

3.2.1. Business Model as a Concept

The business model concept is highly complex but still an under-researched topic in management research. Despite several efforts made by early scholars and researchers, there are no generally accepted definitions of the business model, thus allowing different interpretations (Peric et al., 2017). To address this gap, some authors (Dasilva & Trkman, 2013; Mass et al., 2017; Zott et al., 2011) have conducted extensive literature reviews on the business model concept and its constituents. However, the term business model is not yet defined uniquely and often confused with other business management related terms (Dasilva & Trkman, 2013; Peric et al., 2017).

Some scholars have attempted to define the term business model briefly and its core elements; however, it appears that each of these definitions stemmed from different management perspectives. The most common themes that emerged from earlier studies are a
value-based perspective (Roome & Louche, 2015; Teece, 2010) and an activity-based (Mass et al., 2017; Zott & Amit, 2010) perspective. In an activity-based perspective, the business model is defined as "a system of interdependent activities that transcends the focal firm and spans its boundaries" (Zott & Amit, 2010, p.216) and, as a "description of an organisation and how that organisation functions in achieving its goals" (Mass et al., 2017, p.2). On the other hand, the value-based perspective suggested that "a business model articulates the logic, the data and other evidence that support a value proposition for the customer, and a viable structure of revenues and costs for the enterprise delivering that value" (Teece 2010, p. 179) and refers to "the way firms do business, creating and capturing value within a value network" (Roome & Louche, 2015, p.4).

3.2.2. Business Model and its Core Elements

Peric et al. (2017) have attempted to extract a common theme from emerging studies and suggested that a business model acts as a conceptual tool to represent a businesses' core logic that explains how it creates, captures and delivers value. While value makes the core element of a business model, other constituents of a business model frequently cited in earlier studies (Casadesus-Masanell & Ricart, 2010; Mass et al., 2017; Peric et al. 2017) include a value proposition, products/services, customers, cost structures, profit potential, resources, revenues, technology, processes and stakeholders.

Teece (2010) proposed three core elements of a business model: value proposition, value creation and value capture. Casadesus-Masanell & Ricart (2010) adopted a different approach and identified two different sets of elements: management's choices about how the business operates and the consequences of these choices. The choices may include pricing policies, compensation practices, procurement contracts, design, choice of locations, the extent of vertical integration, and sales and marketing initiatives (Casadesus-Masanell & Ricart, 2010).

Ranjith (2016) proposed that value proposition, strategic resources and dynamic processes are integral elements of a business model. A study by MIT cited in Ranjith (2016) identified four primary business models with sixteen specialised variations out of a sample of the largest thousand enterprises in the United States.
3.2.3. Evolution of Business Model as a Management Concept

The term business model first appeared in journal articles in the late 1950s, and the subsequent usage was relatively low until the 1990s. In the late 1990s, many companies were led to poor financial performance and eventually to bankruptcy, primarily due to the lack of understanding of the relationship between their business activities and market requirements (Dasilva & Trkman, 2013). Therefore, a need to define the business model representing an enterprise's activities through which it generates revenues has emerged.

According to (Dasilva & Trkman, 2013; Mass et al. 2017; Peric et al., 2017), the widespread usage of the term - business model, is linked to the growth of the internet and technology-based companies. With the advent of the internet in the 1990s, thousands of technology-based companies were born out of nowhere. Unlike traditional businesses with a reasonable basis for valuation, these so-called dot-com firms would not have tangible assets or prior history of revenues (Dasilva & Trkman, 2013). Therefore, they were needed to develop models representing how their enterprise generates revenues in the future to pitch their business plans to attract funding from investors. As a result, the term business model has gained massive popularity in the business world (Peric et al., 2017).

3.2.4. An Emerging Need for Business Model Innovation

While tech-based companies dominated the early stages of the evolution of the business model concept, a generic approach has emerged to define the concept to represent a business that focused more on a business's strategy and operational dimensions (Peric et al., 2017). Slowly, the business model concept has emerged as a tool to address changes focusing on innovation (Roome & Louche, 2015). Besides the rise of tech-based firms, redefining the business purpose using a business model appears to become a strategic priority for many enterprises to achieve above-normal returns (Mass et al., 2017; Peric et al., 2017).

Moreover, extraordinarily profitable business models were on the rise and gaining investors' attention during this period. For example, Xerox Inc. chooses to lease its machines rather than selling, enabling the model makes it the most profitable company of that time (Mass et al., 2017). Other examples include Apple Inc., Southwest Airlines and Dell Inc., which created novel business models and achieved superior financial performance (Purkayastha & Sharma, 2016). Furthermore, the rise of technology and globalisation led to lower entry
barriers and, consequently, to intense rivalry, forcing businesses to understand and redesign their business models to survive the new competition (Dasilva & Trkman, 2013; Mass et al., 2017). Zott & Amit (2010, p. 216) believed that designing a business model from traditional thinking that can break the barriers and fit into the future is the most critical and crucial task, especially for new firm entrepreneurs.

3.2.5. Business Model - Criticism

Early scholars in the strategy domain such as Porter (2001) cited in (Mass et al., 2017; Dasilva & Trkman, 2013) criticised the concept of the business model as a "loose conception of how a company does business and generates revenue", that serves nothing but "an invitation for faulty thinking and self-delusion". According to the findings from Dasilva & Trkman (2013), the primary culprit is the lack of understanding and misuse of the term - business model. Several failures in the dot-com bubble era highlighted poor management practices adopted in the name of a business model. When business models alone were used to speculate future value assumptions, outcomes appear to be uncertain and misleading (Dasilva & Trkman, 2013; Peric et al., 2017). Finally, the fuzziness associated with the term business model with other management philosophies such as competitive advantage and business strategy has created so much confusion and resulted in contrasting opinions among scholars concerning its usefulness in management research (Dasilva & Trkman, 2013; Mass et al., 2017). Despite the criticism, scholars and practitioners have a growing consensus that business model and innovation are critical for a business's competitive success (Peric et al., 2017; Zott et al., 2011).

3.2.6. Business Model – A Growing Consensus

It is widely perceived that the business model's adoption is one of the primary reasons behind the rise and growth of many successful corporations such as Walmart and Microsoft (Dasilva & Trkman, 2013). Although there is no consensus among scholars about a business model's concept or its importance as a management philosophy, most of them accept that it is all about value (Peric et al., 2017). Another common theme that emerged from recent studies is the distinction between a business model and strategy. Most scholars in recent studies have portrayed the business model as an independent concept, and they suggested that a clear distinction should be made between business model and business strategy (Casadesus-Masanell & Ricart, 2010; DaSilva & Trkman, 2013; Peric et al., 2017). Proponents of the
business model as a separate field acknowledge the overlap with strategy; however, they suggest that both are distinct constructs and require further research in isolation and combination (Mass et al., 2017). Likewise, many scholars and practitioners have accepted the term – business model as a reference to the ways of doing business by an enterprise (Dasilva & Trkman, 2013).

As far as a business is concerned, business strategy is considered more of a guide (Peric et al., 2017). On the other hand, business models include many strategic elements that focus more on value creation and act as a competitive advantage source from a strategic perspective (Peric et al., 2017; Teece, 2010; Zott et al., 2011). A business model does not equate to a strategy but plays a vital role in implementing selected business strategies, thus complementing each other. While strategy reflects the long-term perspective of a businesses' purpose and existence, a business model describes how a business aims to create value (DaSilva & Trkman, 2014; Peric et al., 2017). Besides, a clearly defined business model can help managers deal with complex challenges, such as adopting and including sustainability concepts within their business mission and vision (Peric et al., 2017).

Ranjith (2016) argued that businesses with a single business model appear to have difficulty dealing with turbulence than competitors with multiple business models. He also suggested that value proposition drivers change significantly for firms with multiple business models to strike competitive advantage; thus, business model innovation becomes a strategic necessity (Ranjit, 2016). Many consulting companies now offering services in developing or innovating business models, and surveys also indicated that businesses actively seek advice on innovating their business models (Casadesus-Masanell & Ricart, 2010; Dasilva & Trkman, 2013).

3.3. **Strategy**

3.3.1. **Business Strategy**

Conventionally, a business strategy's core aim is to produce value generally in terms of economic profitability. To that matter, business strategies aim to create value for a particular group of stakeholders – primarily owners and shareholders (Long, 2019). However, as contended by Jack Welch, the former CEO of General Electric cited in (Hahn et al., 2010), creating value for shareholders is not a strategy but a result of the strategy. This narrow view of economic value creation is now expanding to a broader group of stakeholders, including
society and the planet (Long, 2019). Parnell (2010) suggested three levels of strategy: corporate level, business level and functional level. While strategy at the corporate level provides a broader direction of a firm in terms of growth and stability, the business level strategy outlines how a business competes within the industry. On the other hand, the functional level strategy deals with business tactics that managers employ to achieve their day-to-day objectives (Parnell, 2010).

3.3.2. Evolution of Business Strategy

Historical development of strategic management, including business strategy, can be traced back to the first half of the twentieth century (Parnell, 2010). As a research philosophy, the strategy has emerged to answer how some firms perform superior to others and how it can be sustained and improved further (Ghezzi, 2013). However, Ghemawat (2016) identified that developing new ideas related to strategy frameworks dropped from its peak in the mid-1990s. According to the Boston Consulting Group (BCG) cited in Ghemawat (2016), eighty-one strategy frameworks are available for businesses, and most of them were developed before the 2000s. However, the field of strategy has evolved substantially in the past two decades (Casadesus-Masanell & Ricart, 2010). It shows that new research in the strategic domain focuses more on existing frameworks than inventing new ones (Ghemawat, 2016).

3.3.3. Strategy Frameworks

Porter’s strategy framework and Miles & Snow typologies are the two most dominant and peer-reviewed strategic management frameworks (Slater et al., 2011). Porter’s framework suggested that a business either can pursue a cost leadership strategy or a differentiation strategy, both accompanied by focusing on a given market niche for superior performance (Parnell, 2010; Slater et al., 2011). Porter's works proposed that the business strategy outlines how a firm creates a competitive advantage and defines market coverage scope, such as focused markets (Slater et al., 2011). On the other hand, Miles & Snow's work identified four types of strategies: prospectors, defenders, analysers, and reactors. These four strategic types explain how businesses perceive the level of uncertainty and stability in the market place and their actions regarding innovation and efficiency (Parnell, 2010; Slater et al., 2011).
3.3.4. Cost Leadership vs Differentiation

Most studies (Ghezzi, 2013; Khan & Khalique, 2014; Parnell, 2010; Yuliansyah et al., 2017) witnessed a positive relationship between strategy and performance. However, while some studies supported Porter's notion that firms must seek to adopt either the cost leadership or the differentiation strategy for superior performance, others supported a combination of both strategies to be optimal for some businesses (Parnell, 2010). Cost leadership strategy's value proposition lies in the business's ability to possess cost advantages that competitors cannot easily duplicate (Parnell, 2010). On the other hand, the differentiation strategy's value proposition is based on a complete understanding of its customers; thus, it can create value only if it differentiates itself from the competitors by offering superior products/services (Slater et al., 2011).

According to Porter, both these choices are mutually exclusive and therefore, combining the two approaches can be detrimental for the business (Parnell, 2010). Ovans (2015) explained that for Porter, both these approaches – competing on price by using fewer resources, i.e., cost leadership; competing by offering different product/service, i.e., differentiation; both can be successful but are not equivalent economically. However, by competing on price, the industry's profitability will diminish eventually; therefore, to gain cost advantage, businesses need to improve efficiency and reduce resource usage (Ovans, 2015). For example, Walmart's state-of-the-art information system monitors and controls inventories and supply channels more efficiently than its competitors, which Walmart has turned into a cost advantage (Robbins & Coulter, 2012). On the other hand, a differentiation strategy targets potential customers by developing a complicated set of interdependent activities that are hard to replicate by competitors, thus creating a unique competitive advantage (Ovans, 2015).

3.3.5. Digital Strategy

Over the last two decades, information technology has been considered a functional level strategy that has supported making decisions related to business strategies and designing innovative business models. However, with the rapid growth of information technology and data analytics, information technology is becoming more closely aligned with the business-level strategy, thus playing a critical role in transforming strategies and business models (Bharadwaj et al., 2013). Improving value proposition with the help of information – knowing
the customer, will be a prerequisite for businesses to stay in the competition and provides a competitive edge for incumbents over new entrants (Hagiu & Wright, 2020).

3.3.6. Strategy vs Business Model

While a business model refers to the firm's underlying logic about how it operates and how it creates value for its stakeholders, business strategy refers to choosing the business model that a business employs to compete in the marketplace (Casadesus-Masanell & Ricart, 2010). A business strategy is more concerned with the business's choices in achieving competitive advantage, whereas a business model focuses more on creating value (Slater et al., 2011). Parnell (2010) suggested that a strategy's success can be assessed based on its financial performance in terms of revenues and profitability while withstanding market pressures and competition, thus establishing a relationship between strategy and business model. Other works include Ghezzi's (2013) strategic framework constituting a business model, value network and resource management as tools to help businesses execute the chosen strategy.

3.4. Competitive Advantage

A business model must be designed to meet particular customer needs rather than just a literal description of how it operates to create a competitive advantage. Having a differentiated and hard-to-imitate strategy and, at the same time, an effective and efficient business model is essential to gain a competitive advantage (Ranjith, 2016; Teece, 2010). Combining strategy analysis with the business model is an essential element of strategic management to protect the competitive advantage that results from the design and implementation of innovative business models (Teece, 2010). Recent literature shows that organisations have recognised the value of business models in sustaining competitive advantage and responding to challenging business environments (Purkayastha & Sharma, 2016; Ranjith, 2016).

A business strategy's success depends mostly on the organisation's supportive culture and behavioural aspects of employees; therefore, culture can be a source of competitive advantage when it allows the business to implement and execute the chosen strategy effectively (Slater et al., 2011; Yuliansyah et al., 2017). Furthermore, by building business models that support the transition from merely delivering products or services to building customer communities, businesses can unlock extraordinary competitive advantage (Bussgang & Bacon, 2020). Ranjith (2016) asserted that a deliberate combination of strategic
resources and firm capabilities makes a business model more effective to strike competitive advantage. Recent studies (Purkayastha & Sharma, 2016; Ranjith, 2016) on multiple businesses case studies showed a strong relationship between business models and competitive advantage. Ranjith (2016) suggested that firms with multiple business models have a higher chance of gaining a competitive advantage.

3.5. Summary of Findings

The business model concept is gaining more and more attention from scholars and practitioners alike in recent years. A business model describes the underlying logic of how an enterprise operates. It also defines the competitive strategy, optimal processes, and how it derives and captures value from its products or services (Long, 2019). Businesses either implicitly or explicitly employ a particular business model that outlines the aspects of value proposition, value creation and value capture (Teece, 2010). Both scholars and practitioners agree that firms need to develop novel business models. They also suggested that challenging market conditions, technological advancements and demands from social enterprises have motivated recent business model innovations (Casadesus-Masanell & Ricart, 2010). Every organisation has a business model that makes up some choices, and each choice will have consequences, and the choice of components in the business model determines the success of the overall strategy employed (Casadesus-Masanell & Ricart, 2010; Ranjith 2016). However, every organisation does not necessarily have a strategy to address different contingencies arising from uncertain market environments (Casadesus-Masanell & Ricart, 2010).

Recent management literature is more concerned with innovation and redesigning business models than strategy innovation, which is quite complicated and challenging to practice. Therefore, Casadesus-Masanell & Ricart (2010) suggested that understanding how strategy and business models interconnect and affect each other helps managers to find new ways to compete in the market place. Despite the growth of information technology and innovative business models, there are only two fundamental strategies for businesses to choose from – cost leadership and differentiation (Martin, 2015). Either of these strategies can be adopted, provided that the business develops a unique business model of interdependent activities, resources, and processes that are hard to imitate, thus creating a competitive edge (Ovans, 2015; Parnell, 2010; Slater et al., 2011).
Three significant gaps emerged as part of this literature review. First, most of the articles reviewed in this section suggested the importance of a business model in current market environments; however, no single study has suggested what constitutes a successful business model or how to build one. Second, it is suggested that business model and strategy together complement each other and create a sustainable competitive advantage; however, none of these studies suggests how this can be achieved. Finally, the researcher finds it challenging to collect scholarly work on competitive advantage, and it appeared that it is a relatively under-researched area among the three areas covered in this literature review. Furthermore, this literature review has found two new ideas to be included in business model innovation and strategy development – organisational culture (Slater et al., 2011) and community building (Bussgang & Bacon, 2020) which can be a sustainable source of competitive advantage in current dynamic environments. The identified gaps, new ideas and other relevant findings from this review shall act as a reference guide in the case study analysis.
Chapter 04: Research Methodology

4.1. Introduction

This chapter aims to introduce the overall research philosophy and research methods adopted for this comparative case study. The first section details the research paradigm on which this study has been constructed and the approach chosen for developing theory around the research objectives. The following section accounts for the overall research design, including research approach, methods of analysis, and brief analysis of merits and demerits of the data used for this research. The research methods section explains the research strategy, data collection techniques, data organisation techniques and data analysis methods used for this study. The final two sections discuss the study's limitations, reliability issues and ethical considerations, followed by a summary of this chapter.

4.2. Research Philosophy and Design

4.2.1. Research Philosophy

Research philosophy is a system of beliefs and underlying assumptions concerning knowledge development. These assumptions include ontological assumptions – about realities, epistemological assumptions – about human knowledge, and axiological assumptions – about the researcher’s role. These assumptions altogether guide the researcher in developing appropriate research questions and choosing the correct methodology, strategy, data collection and analysis techniques (Saunders et al., 2019). Therefore, an in-depth understanding of the chosen research philosophy was crucial since it will substantially impact the research findings’ quality and robustness (Creswell, 2009; Kamasak et al., 2017; Saunders et al., 2019). Table 4.1. below shows the overall philosophical approach and design on which this study has been constructed.

Table 4.1. Research philosophy and design

<table>
<thead>
<tr>
<th>Research Philosophy</th>
<th>Research Approach</th>
<th>Research Design</th>
<th>Research Method</th>
<th>Role of the researcher</th>
<th>Kind of data collected</th>
<th>Data Analysis</th>
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<td>Pragmatism</td>
<td>Exploratory</td>
<td>A comparative case study analysis</td>
<td>Qualitative analysis</td>
<td>External</td>
<td>Secondary data</td>
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**Philosophical Paradigm:** According to Saunders et al. (2019), business and management research can be based on the philosophy of either positivism or interpretivism paradigms. On one end of the spectrum, proponents of positivism believe that knowledge advances when based on empirical observations, and general statements are inducted based on these observations of unbiased facts. On the other end of the scale, researchers of interpretivism believe that social sciences have unique characteristics such as pre-interpretation and conceptualisation to clarify values, concepts and meanings of social themes (Saunders et al., 2019; Wang, 2019). The pragmatism paradigm falls somewhere between the positivism and interpretivism paradigms about the nature and source of knowledge; therefore, pragmatic researchers can combine both viewpoints within the scope of single research depending on the nature of the research questions being investigated (Saunders et al., 2019).

Within this study's research scope, the researcher believes that multiple realities exist, existing knowledge can be tested, and her knowledge may interfere with the interpretation of the research findings. According to Saunders et al. (2019), pragmatic orientation accepts differing viewpoints of reality, assuming that a single viewpoint cannot explain the entire research aspect. Moreover, it supports the research when the research problem requires interpreting multiple areas of knowledge and adopting different analysis methods (Saunders et al., 2019). For example, strategic theories such as cost leadership strategy suggest adopting cost-efficient operations, but there are no frameworks to test if a business is the cost leader. A differentiation strategy suggests that the business is supposed to deliver unique products or services to a niche segment of consumers but does not inform how the uniqueness can be sustained. Therefore, this study was constructed on a pragmatic paradigm, and the research question was the most critical determinant of the research approach.

**Approach to Theory Development:** Saunders et al. (2019) emphasised the significance of choosing an approach to theory development in three ways. First, it helps the researcher to make an informed decision about data collection techniques and analysis methods. Second, it helps the researcher identify which research strategies and methodological choices could achieve the research objectives. Finally, it enables the researcher to adopt a research design that caters for constraints such as research gaps, limited access to data and lack of prior knowledge in the subject area.

There were three approaches available for researchers in theory development – deduction, induction and abduction, and the choice depended on the nature of the research topic and the
chosen philosophy. Positivists tend to adopt deduction and researchers with an interpretive viewpoint to induction, while others, such as pragmatic researchers, tend to choose abduction. A deductive approach is appropriate where there is a wealth of literature available to describe what is happening, while an inductive approach seeks to understand why something is happening. An abductive approach is required when there is a wealth of information in one context but very little in other contexts that the researcher is seeking to explore (Creswell, 2009; Saunders et al., 2019).

This study was based on an inductive approach to theory development, based on exploring data and answering research questions. This approach was crucial for this study as there is considerable literature on business models and strategies, but very little is known about what constitutes a successful model or strategy and how they contribute to creating competitive advantage. For example, from the theoretical framework studied in the literature review, Aldi and Costco's business strategies can be identified as cost-leadership and differentiation strategies, respectively; but identifying a strategy does not answer how these strategies help achieve competitive advantage. Moreover, as Saunders et al. (2019) suggested, the inductive approach enables the researcher to explore the data, develop theories from them, and relate to the most relevant literature. This approach, when employed effectively, could lead to new findings and theories or could open new avenues for further research (Saunders et al., 2019).

4.2.2. Research Design

Exploratory Research: Creswell (2009) suggested conducting exploratory research when there is limited research available, variables are ambiguous, and the researcher seeks to build a theory based on existing research. For example, prior studies emphasised the significance of business models and strategies, but no frameworks were developed to identify or test the critical aspects of these models and strategies. Therefore, the researcher aimed to explore underlying elements of strategies and business models of the selected cases and to build a theory on how these companies have gained a competitive advantage within the context of strong oligopolistic industry structures. One of the key advantages of exploratory research is that it allows the researcher to change the direction as and when new data appears in the exploration of literature and new insights that occurred to the researcher (Saunders et al., 2019). For example, several new sources of competitive advantage were identified during the literature review that inspired the researcher to examine if similar patterns existed in the cases
selected for this study. Furthermore, this approach also helped the researcher to start with a broader perspective that became progressively narrow as the study progressed.

**Qualitative Analysis:** One of the main reasons for taking a qualitative approach for this study was that it is exploratory, meaning that there is no much information available about the business models or strategies of the cases being studied. Therefore, the researcher sought to study the cases and build an understanding based on the available information around these topics. Furthermore, quantitative analysis was ruled out for this research as measuring a given business model’s effectiveness is not viable. Quantitative variables such as sales, number of stores or market share cannot explain the effectiveness of a business model or the strategy due to the nature of selected cases. For example, in Australia, Costco has 12 stores while Aldi operates more than 500 stores, so their sales and market shares are not comparable and cannot explain the research questions.

In the field of business research, when an emerging need for understanding a particular concept or phenomenon arises, it calls for a qualitative approach. Moreover, qualitative research is exploratory in nature and is a valuable analysis method, especially when the researcher is not fully aware of which variables to investigate (Saunders et al., 2019). Furthermore, in a qualitative research approach, researchers consistently use the existing literature with the assumptions of learning from the participants or cases instead of prescribing the questions to be answered from the researcher’s standpoint (Creswell, 2009).

Creswell (2009) suggested that a qualitative approach is crucial when the topic of interest is under-researched, and existing theories may not explain the phenomenon with the particular sample or group required for the study. For example, the researcher sought to identify business models and strategies of the selected cases. However, as identified in the literature review, no research was conducted to identify elements that constituted a successful business model or business strategy. Therefore, the researcher attempted to identify and separate critical elements of the selected cases’ business models and strategies from the data collected.

**Secondary Sources:** This research study was conducted using secondary data sources. Three secondary data types are used in business research – documentary, survey and multiple data sources (Saunders et al., 2019). According to Saunders et al. (2019), secondary data can be a useful source to answer the research questions fully or, in some cases, partly. For this
qualitative study, secondary data was collected from multiple sources available to access online without any cost to the researcher.

**Advantages and Disadvantages of Secondary Data:** Obviously, there are many advantages and disadvantages to use secondary data in business research. It consumes less time and resources for the researcher to use secondary sources (Saunders et al., 2019). Since the data was already collected, summarised and presented in the secondary sources, the researcher could spend more time analysing and interpreting the data. On the other hand, the secondary data was collected for a different purpose and might not have appropriate for the researcher's purpose. Moreover, if the data was insufficient to answer the research question, looking for other alternatives could be time-consuming. However, Arzuaga et al. (2014) showed how to work around the secondary data collected for different purposes and integrate within the research context using highly reliable constructs.

Secondary data that originated within the organisations have the advantage that the data is already collected and provide an unobtrusive measure. Besides, it allows the researcher to undertake longitudinal studies and comparative studies, especially when research objectives require drawing regional and international comparisons, as is the case with this research study (Saunders et al., 2019). Moreover, this type of data enables the researcher to triangulate their findings within a more general context. Nevertheless, the major disadvantage of secondary data is relevance. The data may have been collected a few years earlier and may not be relevant to the current scenario that the researcher seeks to analyse (Dawson, 2009; Saunders et al., 2019).

Arzuaga et al. (2014) argued that the benefits of using secondary data are overshadowed by its limitations. Furthermore, secondary data often leads to unforeseen discoveries such as emerging trends, which were not the intended goals when the data had been collected in the first place. Finally, research conducted using secondary data provides a permanent source of data meaning that future researchers can easily access the data, including the research findings (Saunders et al., 2019).
4.3. Research Methods

4.3.1. Research strategy - Comparative Case Study Analysis

The researcher chose a comparative case study strategy to achieve the research objectives of this study. Creswell (2009) described that case studies are a research strategy of inquiry that allows the researcher to conduct in-depth analysis about a specific program, event, activity, or process. It involves an empirical investigation of a specific phenomenon using multiple information sources. The chosen cases were bounded by time and activity; therefore, the researcher needed to collect detailed information over a sustained period of time using a wide variety of data collection procedures (Saunders et al., 2019).

Moreover, the case study approach supports theory-building and can be extremely useful where existing theories or frameworks are inadequate (Dul & Hak, 2008; Ponelis, 2015). Furthermore, Saunders et al. (2019) suggested that the case study strategy has considerable ability to generate answers to research questions ‘what’, ‘why’ and ‘how’ and, therefore, preferable in exploratory studies. They further suggested that case studies are likely to be used and triangulated multiple data sources, including documentary analysis.

Prior studies (Alshakhoori et al., 2016; Chatterjee, 2017; Kim, 2019; Minahan et al., 2012; Tai, 2014) have used qualitative methods in the form of case studies to investigate an in-depth, rich account of how retail companies have developed business strategies to break industry structures and gain competitive advantage. Despite the unscientific feel that a case study strategy renders, Saunders et al. (2019) argued that it could be an advantageous way of exploring existing theory. Besides, a well-constructed case study strategy can challenge an existing theory and provide a source of new research questions (Dul & Hak, 2008; Saunders et al., 2019).

**Comparative Case Study:** The rationale for using multiple cases in a study is to establish whether the findings are consistent across all the cases selected and the need to understand the generalisability of the findings. Therefore, multiple case studies may be preferable unless there is a strong justification for a single case study choice (Saunders et al., 2019). Goodrick (2014) suggested that comparative case studies aim to analyse the similarities and differences involving two or more cases to identify patterns within the scope of shared goals. Moreover, the comparative case study approach enables the researcher to simultaneously study multiple
aspects of the subject area across multiple data sources (Bartlett & Vavrus 2017; Goodrick, 2014).

Exploratory studies lead to self-selection sampling, meaning that the researcher can choose the sample population to be used in the research depending on the research purpose (Saunders et al., 2019). Two cases were selected for this comparative study – Aldi and Costco. Both these companies are international retailers having a strong foothold across many parts of the world.

The rationale for selecting particular cases was linked to the research objectives (Goodrick, 2014). There were multiple reasons for selecting Aldi and Costco for this study. First, both companies have managed to break the Australian supermarket industry's structural barriers and gained substantial market share over time. Interestingly, they represented an entire population of foreign retailers in Australia as the market is highly concentrated and primarily dominated by two domestic players. Finally, both companies have their unique business models and strategies compared to traditional supermarket chains. Therefore, studying their business models and strategies provided a tremendous opportunity to draw recommendations for a new retail start-up to compete against traditional players.

**Methodological Approach:** In a comparative case study analysis, two or more cases were compared to draw similarities or differences until the researcher found factual information to answer the research questions. As the research progressed, it required the researcher to move back and forth between data sources and the literature review (Dawson, 2009). Nevertheless, this study was not really interested in finding similarities or differences between Aldi and Costco as both companies are evidently different in many aspects, such as size, strategy, model, and segmentation. Instead, the researcher’s primary focus was on comparing how differently these companies position themselves in the competition using their unique models and strategies.

The researcher chose the inductive approach to study these differences and build theory around retail practices for the new retail start-up to develop a competitive business model and functional strategies to break into the NZ supermarket industry. Throughout the process, the research findings were conceptualised and triangulated with the literature review and industry analysis findings. Triangulation refers to using different data collection techniques within one
study to ensure that the data explains what the researcher thinks they are explaining (Saunders et al., 2019).

4.3.2. Data Collection

Data Sources: This research study was based on multiple-source secondary data. Data sources used for this study includes information published in company websites, company reports such as annual reports, press releases, reports jointly developed in association with market research institutions, peer-reviewed journal articles, case studies, industry reports, market surveys by independent institutions, correspondence by domestic and international agencies, government statistics and news articles.

One of this study's primary objectives was to investigate business models and strategies adopted by the selected cases. Companies rarely publish information about their business models and strategies explicitly in their websites and annual reports. For example, in its latest annual report, Costco suggested that they stand out from its competitors by driving huge volumes and operating at relatively thin margins. They do not mention explicitly that their business is based on a membership-based differentiation strategy. Similarly, Aldi claimed that they thrive on driving down costs to provide the lowest prices for their customers instead of saying directly that their intended strategy is low-cost leadership.

Moreover, company websites, annual reports and press releases provide an excellent source of information about their business practices, forming the basis for the researcher to identify business models and strategies within the theoretical framework. However, unlike Costco, Aldi is a privately owned organisation, meaning that its annual reports are not publicly accessible. Therefore, Aldi’s business practices related information was collected from an industry report jointly developed by Aldi and Price Waterhouse Coopers (PwC).

Peer-reviewed journal articles published and case studies conducted on either Aldi or Costco were collected and used for this study. Most of these works were published by prominent international publishers in the subject domain such as Strategy & Leadership, Journal of Strategy and Management, The Journal of International Management Studies and Long Range Planning. Findings from these prior studies helped the researcher identify the key elements central to Aldi and Costco’s business models and strategies. They paved an implicit framework to guide the researcher to build a theory concerning the research questions.
Furthermore, this research has attempted to analyse the efficacy of Aldi and Costco’s business models and strategies in terms of growing market share, customer penetration and customer satisfaction ratings. This information has been collected from market surveys conducted by independent research organisations in Australia, such as Choice and RoyMorgan.

This study's other research objective was to examine Aldi and Costco’s competitive position within the Australian supermarket industry. This information was collected from various industry reports, business news articles and strategic management journals to develop inputs for the strategy frameworks such as SWOT, VRIO and Porter’s Five Forces. Finally, information published by domestic and international agencies such as USDA, NZ commerce Commission, and NZ food and grocery council was collected to study and recommend retail strategies relevant to the NZ supermarket industry.

Data Organisation: The data was identified and collected based on their relevance to the research objectives and the cases – most of the data collected was published from 2010 to 2020. However, depending on the research requirement, some of the data were collected outside of the chosen time horizon. After that, the data has been organised into three categories: data related to Aldi, data related to Costco and data related to the external environment, such as industry reports, market surveys and agency reports. Company reports, journal articles and case studies were downloaded and archived separately for Aldi and Costco. Critical information related to the company history, business models and business strategies was highlighted and summarised separately for each company. Industry-related information and macro-level information was also summarised in chronological order.

4.3.3. Data Analysis

Identifying Models and Strategies: As a first step in the process, the researcher collected, highlighted and summarised the information related to Aldi and Costco’s history and background. Even though this analysis was not relevant to answer the research questions, it was essential to understand how the companies have evolved and investigate whether the chosen strategies and business models were altered or modified. This information was gathered from company websites and business news articles and case study journals. The primary purpose of this analysis was to identify the roots on which business models and strategies were developed or refined.
The first objective of this study was to study the business models and strategies of the selected companies. However, as identified in the literature review, a business model represents a unique set of activities applied to capture value. Therefore, to identify or characterise a given business model, these unique activities must be identified first. The researcher has adopted an inductive process that starts with identifying key activities, categorising similar activities into an element, and finally building a set of elements that constitute the given business model. For example, Aldi’s practices to drive down costs such as refusing to offer free bags, charging for trolleys, and energy-efficient lighting were categorised under a ‘no-frills’ option that forms part of Aldi’s business model elements. Five critical elements were identified for each case, and critical findings were summarised for further discussion.

Another part of the first objective was to study the business strategies of the selected cases. According to the literature review findings, there were two generic strategies – cost-leadership and differentiation strategies, for businesses to choose from. Unlike the business model, the business strategy is explicitly communicated and visible in all sources. For example, Aldi strives to drive down costs, and hence its strategy is cost-leadership. On the other hand, Costco is open to members only and thus serves as a differentiation strategy. However, the researcher's objective here was to investigate how this business-level strategy has been ingrained into activities and practices that these companies have developed over time. Therefore, an inductive approach has been taken to identify functional-level strategies and practices from the underlying business-level strategy. For example, Aldi’s cost-leadership strategy has been integrated into functional-level strategies such as private label development that helps to reduce brand-related costs and, at the same time, to support local businesses. Similarly, Costco’s differentiation strategy is reflected in its member-only privileges and rich shopping experiences. Three categories of functional-level strategies were identified from each case's underlying strategy, and findings were summarised for further discussion.

**Strategic Models and Frameworks - SWOT, VRIO, Porter’s Five Forces:** This study's second research objective was to investigate Aldi and Costco's competitive position in the Australian supermarket industry. In other words, the aim was to examine how Aldi and Costco were gaining a competitive advantage within the competition. As noted in the literature review, competitive advantage is gained when elements of the business model and
strategic activities complement each other. Three strategic models and frameworks – SWOT, VRIO and Porter’s Five Forces were applied to examine this competitive advantage aspect. Inputs for these models were collected from the summarised findings of the business model and strategy analysis.

SWOT analysis refers to identifying internal strengths, internal weaknesses, external opportunities and external threats of a business. This model helps researchers to develop strategies to exploit strengths and opportunities and overcome weaknesses and threats within the industry. However, this study's main objective was to investigate where the competitive advantage is coming from rather than developing strategies to gain a competitive advantage.

VRIO analysis refers to a framework in which a business's resources and competencies are analysed to see if they are valuable, rare, inimitable and organised to achieve sustainable competitive advantage. Competencies identified in the earlier sections were collected, categorised and used as variables in this framework.

Porter’s Five Forces framework is a strategic analysis tool to examine the external environment or the industry. This framework was already applied in the industry analysis section (Chapter Two) to analyse the NZ and Australian supermarket industries. However, it was reapplied here to examine if whether their strategies could help manipulate some of these five forces in their favour to gain a competitive advantage. For example, this study has identified that both Aldi and Costco could exercise high power over buyers, which is very low for the overall industry.

4.4. Limitations, Credibility and Generalisability

Each research has its own limitations regardless of what methods are employed. However, as Saunders et al. (2019) suggested, the researcher must recognise each research strategy and methods' limitations before embarking on the journey.

One of the main limitations of this study may have been the total dependence on secondary data sources. The purpose of the data presented in the secondary sources might be influenced for several reasons. For example, company reports may be manipulated or tweaked to satisfy their investors or shareholders. Similarly, news reports may emphasise certain aspects of the data collected to gain attention from their readers. Therefore, the control over the quality of
secondary data is limited, and hence the researcher needs to be prudent when evaluating secondary sources (Saunders et al., 2019). However, given the scope and extent of research questions, secondary data was considered appropriate for this study's requirements.

Another limitation was the lack of accessibility to high-quality data, such as market research reports published by prominent industry experts. Market research reports are developed using primary and secondary data sources that include questionnaires, interviews, and focus groups data from both the organisation's internal and external stakeholders. As a student, the researcher could not afford to buy such reports, and they were not available in college libraries. Nevertheless, most of the sources used for this research were from credible publishers, including the companies themselves; therefore, this study's findings are reliable and relevant to current times.

This study’s overall objective is to recommend reliable strategies for the new start-up in the NZ retail landscape. However, the researcher had to choose to study Aldi and Costco in the Australian industry because no international retailers or new retail chains operate in NZ. These two countries may share certain similarities geographically, but the economies are invariably different. These geographical and economic differences could be a significant limitation of the study and may arise generalisability issues. However, this research was primarily based on two theoretical constructs – industry structure and competition, which are stunningly similar in NZ and Australia.

4.5. Ethical Considerations

This research is purely based on secondary resources; therefore, while there was no requirement to submit an ethics application for the research, all appropriate ethical considerations are considered. Moreover, all the secondary sources used for this study are available online and open for public scrutiny. The researcher’s role in this study was external and unbiased towards the data collected. All the secondary sources used for this study were evaluated thoroughly and used in good faith. However, as suggested by Creswell (2009), researchers conducting secondary data might be biased and probably lean towards earlier studies' findings. Therefore, this study adopted more than one analysis technique to verify the accuracy of findings across multiple data sources.
4.6. **Summary**

This exploratory study was designed within the pragmatic paradigm using qualitative analysis methods. An inductive approach was adopted to develop a theoretical framework for the outcomes of the study. The research strategy chosen for this project was a comparative case study analysis using multiple secondary data sources. The researcher was aware of the limitations of using secondary data and qualitative methods. Multiple data sources and several data analysis techniques, including contemporary strategic models and frameworks, were used to overcome limitations, credibility, and bias-related issues.

The following chapter (Chapter Five) presents the findings of the analysis of the case studies.
Chapter 05: Findings and Analysis

5.1. Introduction

This chapter aims to analyse the information collected for the comparative case study analysis and present findings in order to answer the research questions. First, a brief introduction has been provided on the history and background of the cases selected for this study – Aldi and Costco. It includes a brief analysis of the industry structure and competition within the Australian supermarket industry when these companies were entered. A detailed analysis of business models and business strategies adopted by these two companies is presented in the subsequent sections. After that, SWOT, VRIO and Porter’s five forces analyses were presented in the competitive advantage section, followed by a critical discussion on analysing the source of competitive advantage for these two cases. Later, all key insights were summarised and presented in Appendix B to enable the researcher to draw conclusions for the discussion part. The discussion section is aimed to answer the research questions, which started with analysing similarities and differences between Aldi and Costco’s strategy and business models. It followed by a brief review of the selected cases' competitive position. Finally, several business strategies were analysed with relevance to the NZ supermarket industry, followed by a precise summary of this chapter.

5.2. Case Study Analysis of Aldi and Costco

5.2.1. History and Background Information

Aldi’s History & Background

Aldi’s humble beginnings started in 1913 in Essen, Germany, as a small grocery store. Inherited the first store from their mother, brothers Karl and Theo Albrecht expanded the business into a retail grocery chain within a short period from four stores to about a hundred stores spread across Germany (Huddleston, 2019). The brother’s intense desire to reduce wastage and minimise costs was stemmed from the need to meeting the everyday survival needs of their country’s desperately frugal post-war consumers (Chatterjee, 2017). They refused to spend money on advertising or in-store decorations and ruthlessly removed poor-selling items from their inventories – a “no-frills” business model, the founding stone for their now billion-dollars global business (Huddleston, 2019). In 1961, they changed the name from Albrecht to Aldi – trademarked as ALDI, a shortened name for “Albrecht Discount”
Inspired by the rapid growth and colossal consumer loyalty in Germany, the Aldi Sud group started expanding into the major western markets such as the US, UK and Australia, while Aldi Nord expanded throughout mainland Europe (Huddleston, 2019; NRF, n.d.). Since the first Aldi store opened in Iowa in 1976, Aldi has experienced steady and remarkable growth in the US, with more than 2000 stores spread across 36 states (Aldi, n.d.). Aldi’s popularity has exploded in the US, attracting nearly about 40 million shoppers a month and aims to increase this loyal base up to 60 million by 2020 (Chatterjee, 2017). Analysts believe that much of the growth came from the credit-crisis of 2007 and subsequent recession, that the company had turned into an opportunity when American shoppers were looking out for better deals. The company is investing in its US chain to take on the mainstream grocers and aims to be the third-largest grocery chain in the US by 2022 (Chatterjee, 2017; Huddleston, 2019).

According to the Forbes and National Retail Federation (NRF), as of 2019, Aldi was the world’s 8th largest grocer operating in 18 countries with approximately $109 billion in sales and more than 11,000 stores worldwide (NRF, n.d.; Russell, 2020). Aldi currently employs about 200,000 people worldwide as of 2019 (Aldi, n.d.). In the last two decades, Aldi has gained substantial market share in other major markets such as the UK and Australia. Aldi’s international operations constitute about 70% of total revenues shows its increasing popularity and customer base worldwide (Huddleston, 2019). As of 2019, Aldi was the fifth-largest grocery retailer in the UK with 8% of market share (Sweney, 2019) and the third-largest grocery retailer in Australia with a 12% market share (Aldi, 2016; RoyMorgan, 2020). This study further focuses only on Aldi Australia’s operations in the subsequent analysis.

Costco’s History & Background

Costco is one of the largest subscription or membership-based grocery retailers in the global supermarket industry (NRF, n.d.). James Sinegal and Jeffrey Brotman founded the company in 1983 in Seattle, Washington. In 1993, Costco and Price Club were merged to form Price-Costco, which later renamed Costco Wholesale Corporation in 1995 (Kim, 2019). According to Costco’s annual reports (2020), the company is currently operating in 12 countries outside the US and managing 795 warehouses (retail stores) worldwide. As of 2020, Costco employs
a global workforce of 275,000 employees, including both full-time and part-time and generating $163 billion in revenues globally (Costco, n.d.). Costco ranked as the third-largest retailer in its domestic market, i.e., United States, and globally as of 2019 (NRF, n.d.; Russell, 2020).

In addition to grocery, Costco offers a wide selection of merchandise, including home appliances, electronics, furniture, health and beauty aids, apparel, pharmacy, office supplies, fitness products and many other ancillaries (Costco, n.d.). Costco offers its members low prices on a limited selection of nationally-branded and private-label products in a wide range of categories through its membership warehouses. Costco warehouses are open to members only and offer three variants of subscription-based memberships: business, gold and households. Each membership requires the customer to pay an upfront subscription fee in order to access Costco’s warehouses. As of 2020, the company has 105 million active members with a 91% renewal rate in its domestic market and an 88% renewal rate worldwide. In addition to the membership fees, Costco generates revenues through huge sales volumes and rapid inventory turnover (Costco, 2020). Costco’s global revenues of $163 billion from just 795 stores shows that its wholesale business model is undoubtedly generating high volumes (Costco, 2020; Russell, 2019). However, according to the National Retail Federation’s statistics, about 70% of Costco’s stores and 73% of sales were generated within the domestic market (NRF, n.d.). This study further focuses only on Aldi Australia’s operations in the subsequent analysis.

*Aldi’s Entry into the Australian Supermarket Industry*

Aldi entered the Australian supermarket industry in 2001, owned and operated by Hofer KG, part of the ALDI Sud Group, to provide grocery products of the highest quality at low prices to the Australian consumers (Aldi, 2015). As of 2018, ALDI has established a strong network of more than 550 stores and eight distribution centres operating across all the states and territories of Australia and present in both city-suburban and regional locations. Aldi Australia currently employs over 12,500 Australians in permanent part-time and full-time roles and partners with about one thousand local businesses and suppliers. Aldi claims that its operations have contributed to a whopping $3.2 billion to Australia’s GDP and resulted in more than 11,000 indirect jobs through local business partners across Australia (Aldi, 2019).
The entry of Aldi into the Australian supermarket industry has had a significant impact on the industry structure, which is one of the most highly concentrated and most fiercely competitive markets globally (Mudditt, 2017; USDA, 2020). Until 2000, before Aldi entered the Australian supermarket industry, the industry was primarily dominated by two leading supermarket chains, Woolworths and Coles, with a combined market share of approximately 72%, according to Coriolisresearch (2000). Over the last 20 years, Aldi grew significantly and gained a notable market share of about 12%, bringing down the duopoly’s combined market share to 60% as of 2019 (RoyMorgan, 2020). Apparently, the industry's evolution from a duopolistic market structure to an oligopolistic market structure is a consequence of the direct competition between Aldi and the two leading competitors. Moreover, Aldi appears to be a viable and compelling alternative for many local businesses to bring their product into the market place. Furthermore, Aldi’s growth has challenged both Woolworths and Coles and forced them to reduce prices and expand their product ranges (Mudditt, 2017; RoyMorgan, 2020).

**Costco’s Entry into the Australian Supermarket Industry**

Costco opened its first warehouse in the Australian supermarket industry in 2009 in Melbourne. Costco aimed to turn the demographical and lifestyle similarities between the US and Australian customers into an opportunity to expand into the Australian industry. Initially, Costco struggled to convince Australian consumers due to three issues. First, Costco’s offer works well only with bulk shopping that does not fit well into Australian’s frequent shopping culture. Second, the membership model was entirely new to Australian customers who were reluctant to pay the upfront membership fees. Furthermore, Australian consumers were used to more comprehensive payment options such as credit, debit, EFTPOS and cash, whereas Costco’s traditional business model accepts only cash or Costco card. However, Costco successfully made Australian customers realise the benefits and savings of its bulk offer and membership fees and widened its payment options (Minahan et al., 2012).

When Costco entered the market, the Australian supermarket industry was primarily dominated by Coles and Woolworths while Aldi was steadily expanding and gaining ground. Over time, the duopolistic industry structure has changed to an oligopolistic structure in response to the new competition due to Costco and Aldi’s entry into the Australian supermarkets (Minahan et al., 2012; Mudditt, 2017). As of 2020, Costco operates 12 warehouses for its Australian members and is present in all central locations (Costco, n.d.).
According to the IGD Retail Analysis (2020), Costco Australia reportedly generated more than $2 billion in revenues. Costco currently employs over 2,800 people in its retail operations across Australia, according to IBISWorld (n.d.).

5.2.2. Business Model

Aldi’s Business Model

ALDI stands out from its competitors by offering high-quality products at incredibly low prices. However, Aldi’s ability to drive prices to significantly lower levels comes from two different aspects of its unique business model. Firstly, most of these so-called high-quality products are private labels developed exclusively for Aldi through its supplier-manufacturers partnerships (Aldi, 2019; Chatterjee, 2017). Second, Aldi’s low-cost business strategy has been ingrained at every level of its business operations to deliver substantial cost savings (Aldi, 2015). This study has identified five key elements through which Aldi’s business model has been creating value and driving down in-store prices:

Store Design and Format: Aldi stores are designed to be simple, smaller, and efficient, containing costs. A typical Aldi store still displays groceries in the same cardboard boxes that the store receives from its suppliers. Items will just be stacked on wooden pallets, unlike most large grocery chains that prefer to organise tidily on their shelves (Chatterjee, 2017; Huddleston, 2019; Rice, 2019).

No-frills and Cost-cutting: Aldi’s business model aims to eliminate all unnecessary costs other than product costs, such as saying no to free plastic bags and charging coins for trollies. Also, Aldi asks its customers to pack their bags by themselves to cut down additional labour costs (Chatterjee, 2017). Frugality is core to Aldi’s business model and stressed through their business operations: switching to more energy-efficient lighting, using wind deflectors on trucks to reduce fuel usage, and continually searching for more efficient product packaging (Berman, 2015).

Engaged Workforce: Aldi invests steadily in workforce training to train its employees in multiple areas of store operations. A typical Aldi store will employ about ten employees and train them to perform all business aspects. Aldi employees are highly engaged with multi-tasking skills who can perform as checkout operators, stockers and return handlers, and also
they can clean up spills and answer customer questions as and when required (Chatterjee, 2017; Rice, 2019).

**Limited Product Range:** Aldi’s business model is based on a limited assortment of high-quality private label products. From its beginning, Aldi has always maintained this limited assortment focusing mainly on the everyday needs of its consumer base and ruthlessly removed poor-selling items from its inventories (Huddleston, 2019). Aldi’s product line usually consists of 1,350 to 1400 grocery products on average, compared to 25,000 to 40,000 for a mainstream supermarket (Aldi, 2015; Berman, 2015; Chatterjee, 2017).

**In-store Technologies:** Aldi always has been an early adopter of new and efficient technologies such as self-checkout counters, scanners, logistics equipment and other store-related machinery. For example, Aldi mandates its vendors to put large bar codes on almost every surface of the product packaging so that checkout operators can scan items faster. Another example could be installing electronic lockers on carts not to be removed from the parking lot without a coin, ensuring the customers put the cart back to have their coin returned (Chatarjee, 2017; Rice, 2019).

Using their unique business model, ALDI offers Australian customers a grocery basket savings of 10% compared to a private label basket and 65% compared to major brands of their leading competitors according to independent Choice analysis (Aldi, 2019; Clemons, 2017). A 2020 survey conducted in Australia by independent Choice analysis found that even Aldi’s national brand products such as Coke, Cadbury and Nestle are 20% cheaper than its leading competitors – Coles and Woolworths (Clemons, 2020).

*Costco’s Business Model*

Costco’s warehouse business model aims to offer its members a wide range of high-quality merchandise at prices relatively lower than traditional supermarkets. Costco’s business model generates revenues in two ways. First, it charges its customers in the form of membership fees. Second, Costco offers products in bulk volumes and achieves economies of scale and high inventory turnover, allowing them to operate profitably even at significantly lower margins (Costco, 2020; Kim, 2019; Tai, 2014). This study has identified five key elements through which Costco’s business model has been creating value and offering competitive prices:
**Subscription-based Membership:** A fixed annual membership fee helps Costco to cover its administration and selling expenses. Besides, the membership model helps them build a loyal customer base and gain genuine customer feedback (Tai, 2014). Feedback is then used to improve customer experiences, refine product lines and increase customer engagement. Furthermore, Costco can promote their new offerings directly to its member customers and reduce marketing-related costs (Alshakhoori et al., 2016).

**Wider Assortment:** Costco maintains a product range of 4,000 active stock-keeping units (SKUs) on average which is significantly lower than traditional supermarkets (Costco, 2020). However, while offering products at lower prices than competitors, Costco maintains an attractive mix of international and Australian brands of about 35% to 40% in its product offering along with its private-label products (Kim, 2019; Minahan et al., 2012; Tai, 2014).

**Store Locations and Design:** Costco’s typical warehouse space is about 146,000 square feet, and they are designed to handle sales, merchandise, inventory and parking space efficiently. As a result, most of Costco’s warehouses in Australia are strategically located in suburban areas far from downtown locations. It helps the company reduce real estate related costs and control operations-related costs (Kim, 2019; Minahan et al., 2012; Tai, 2014).

**Rich Shopping Experiences:** Costco stores are designed to include amusement parks, coffee shops and other recreational activities to appeal as a destination store in many locations. Costco has successfully turned the outgoing Australian lifestyle into a rich shopping experience for its member customers (Minahan et al., 2012). Furthermore, Costco provides treasure-hunt like experiences by randomly offering high-quality products at incredibly low prices (Alshakhoori et al., 2016).

**Bulk Purchases:** Costco stands out from traditional supermarkets by offering products in bulk volumes at lower prices. In fact, the majority of its consumable products are offered in cartons, cases, or multiple-pack quantities (Coscto, 2020). Even though Costco allows customers to buy single items in some instances, the bulk purchase of products is central to Costco’s business model and provides value in the price (Minahan et al., 2012).

Costco’s distinctive business model with high turnover and bulk sales combined with operating efficiencies achieved through economies of scale, efficient distribution systems, and reduced handling of merchandise enables it to drive down costs and pass on savings to
customers in the form of reduced prices (Costco, 2020). With its product offer and rich in-store shopping experiences, Costco has gained significant customer loyalty in the Australian supermarket industry. Consequently, the RoyMorgan (2018) survey showed Costco as a leading Australian discount store with an 88% customer satisfaction score while scoring 76% shopper satisfaction ratings in the independent Choice analysis survey (Clemons, 2019).

5.2.3. Business Strategy

*Aldi’s Business Strategy*

Aldi’s core business strategy at the organisational level is undoubtedly cost leadership; however, it is well supported by several business-level and functional level strategies. According to Parnell (2010), cost leadership strategy's value proposition lies in the business's ability to possess cost advantages that competitors cannot easily duplicate. Aldi’s business strategy and other functional strategies together support its business model in creating value. This study has identified several key business strategies implemented by Aldi to achieve its cost advantage.

**Price Trade-Offs:** Aldi’s low-cost strategy mandates to cut costs across all operations and wherever consumers are willing to accept trade-offs. For example, Aldi refuses to offer free plastic bags and asks customers to bring their own bags. Besides, Aldi requires customers to pack their bags at checkouts as opposed to the traditional supermarkets. Moreover, until 2016, Aldi was refusing to accept credit cards to avoid bank transaction fees. Customers need to pay a coin to unlock a shopping trolley, and they must return the cart to the parking lot to receive their coin back. All these actions appear to be customer-unfriendly; however, its ever-increasing customer base shows that customers are willing to accept trade-offs in exchange for a lower price and better quality (Berman, 2015; Chatterjee, 2017; Rice; 2019).

**Cost-Efficient Operations:** Aldi’s core low-cost strategy is deeply rooted and evident in all of its business operations. For example, Aldi often prefers to use low-rental locations and use energy-efficient lighting systems to cut down store-related costs. Besides, Aldi stocks a limited product range of about 1,400 compared to 40,000 stock keeping units (SKUs) at the traditional supermarkets (Berman, 2015). A low product range means lower inventory holding costs and higher turnover of the same products, which helps Aldi keep store staffing levels to a minimum and reduce wage-related costs (Chatterjee, 2017). The combined effects
of Aldi’s low-cost operations, lean inventories, and lower wage-related costs make it the most efficient low-cost model in the industry. As per Berman (2015), Aldi’s total admin and selling costs, including logistics, rents, marketing, and wages, account for 13% - 14% of a product’s cost compared to 28% - 30% costs incurred by traditional supermarkets.

**Product Development**: Aldi stands out from its competitors by offering products at rock-bottom prices without compromising its quality. In fact, Aldi’s products are 50% - 60% cheaper than those offered by its leading competitors (Aldi, 2019; Clemons, 2017). Aldi’s lower prices are primarily attributed to its high concentration on private label products that Aldi and some independent surveys often claim to be of the highest quality or almost similar to the internationally branded products (Berman, 2015). Aldi claims that it focuses mainly on a streamlined private label product range to meet its consumers’ daily essentials while maintaining a distinct variety of choice and the highest possible quality (Aldi, 2018). Aldi partnered with more than one thousand local businesses in Australia to exclusively develop private label products to be sold in their stores. Aldi maintains long-term relationships with its suppliers, allowing suppliers to invest in production and innovation (Aldi, 2015).

**Costco’s Business Strategy**

Despite having many variations, there are only two fundamental strategies for a business to choose from – cost leadership and differentiation (Martin, 2015). A cost leadership strategy characterises Costco’s philosophy (Costco, 2020) to keep costs down by improving efficiency and pass the savings on to their customers in the form of lower prices. However, Costco’s business is primarily based on customers who can pay for a subscription and see value in bulk purchases, which is a critical feature of the differentiation strategy. Therefore, Costco appears to be following a combination of both strategies. This study has identified three key features of Costco’s overall business strategy that helps Costco to compete on price and at the same time to stand out from its competitors.

**Economies of Scale**: Costco’s way of doing business is characterised by ‘selection and concentrate’ strategy and benefiting everyone from consumers to suppliers and its employees (Tai, 2014). Costco business relies on a limited assortment while selling huge volumes necessary to negotiate favourable terms with suppliers and drive down prices (Costco, 2020). Furthermore, membership fees are a significant portion of Costco’s revenues, so as it can
operate profitably with thin margins on high turnover, which is difficult for its competitors to replicate.

**Building Communities:** Bussgang & Bacon (2020) suggested that the transition from merely delivering products or services to building customer communities is a future source of competitive advantage. Using its membership model, Costco is effectively building a loyal customer community. Its growing popularity is evident in its 91% renewal rate in the US and 88% in the rest of the world (Costco, 2020). It also helps Costco to cut down marketing and promotions related costs and increase profitability.

**Long-Term Orientation:** Costco’s store format, membership model, store locations, expansions, and other business features are central to its long-term focus. For example, the retail industry reports (RetailNZ, 2019) predicts that future shoppers may be attracted to destination style shopping with more in-store shopping experiences, and Costco has adopted this format long back. Furthermore, by paying a subscription, Costco's member customers informally commit themselves to a long-term relationship with the company.

5.2.4. **Competitive Advantage**

**SWOT Analysis**

Table 5.1. SWOT Analysis - Aldi Australia

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Cost-efficient operations</td>
<td>- Limited assortment</td>
</tr>
<tr>
<td>- Private label products</td>
<td>- Limited national brands</td>
</tr>
<tr>
<td>- Efficient workforce</td>
<td>- Lack of shopping experience</td>
</tr>
<tr>
<td>- In-store technologies</td>
<td>- Perception of low-cost low-quality</td>
</tr>
<tr>
<td>- Supplier partnerships</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Economic downturns</td>
<td>- The entry of new discounters</td>
</tr>
<tr>
<td>- Customer penetration</td>
<td>- Online retailers e.g., Amazon</td>
</tr>
<tr>
<td>- Impartial customer surveys</td>
<td>- Intense competition</td>
</tr>
<tr>
<td>- Quality demonstrations</td>
<td></td>
</tr>
</tbody>
</table>
Key Findings from SWOT analysis:

Aldi’s core strengths are cost-efficient operations and private label products. Its cost efficiency in operations is mainly attributable to its multi-tasking employees trained to perform all aspects of the business, including checkouts, stocking, cleaning and customer service. Aldi’s strength in private label offer is a result of strong relationships with local businesses and suppliers. Aldi’s main weakness is fewer national brands in its product range. Australian customers value international and national brands and often considers private labels as of inferior quality. In response, Aldi supports its supplier-partners by investing in innovation to ensure their products match national brands. Consequently, Aldi can discount the brand value of national products in its private label product pricing strategies. Recent surveys – RoyMorgan (2018) and Choice analysis (2019) indicate Aldi’s growing customer penetration and improving customer satisfaction. Uncertainty in current markets, inflationary pressures and a weak economic outlook due to the Covid19 pandemic could be an opportunity for Aldi as customers are increasingly seeking value over quality. Online retailers such as Amazon and other hard discounters such as Lidl could be possible threats for Aldi in the near future.

Table 5. 2. SWOT Analysis - Costco Australia

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Subscription revenue</td>
<td>- Limited assortment</td>
</tr>
<tr>
<td>- Loyal customer base</td>
<td>- Need to purchase in bulk</td>
</tr>
<tr>
<td>- Economies of scale</td>
<td>- Accessibility and parking issues</td>
</tr>
<tr>
<td>- Rich shopping experiences</td>
<td></td>
</tr>
<tr>
<td>- Human Resources</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Destination style shopping</td>
<td>- Online retailers e.g., Amazon</td>
</tr>
<tr>
<td>- New stores</td>
<td>- Intense competition</td>
</tr>
<tr>
<td>- Market penetration</td>
<td></td>
</tr>
</tbody>
</table>

Key Findings from SWOT analysis:

The subscription-based membership model is one of Costco’s key strengths. It helps Costco in three different ways. First, revenue from subscriptions covers a significant portion of selling costs; therefore, Costco can operate on thin margins. Second, a loyal customer base
means a commitment to the future business that gives Costco considerable purchasing power, which Costco terms as “pricing authority” (Costco, 2020, p.21.) to achieve economies of scale. Finally, by targeting customers with high purchasing power who are also willing to pay upfront fees, Costco positioned itself in a niche position out of the intense competition. Its competitive positioning helps Costco to counter all its weaknesses like accessibility issues and threats from online retailers. Costco can attract millennials and future shoppers better than its competitors with its destination style locations and rich in-store shopping experiences.

**VRIO Analysis**

From a resource-based perspective, to generate sustained competitive advantage, a firm's resources must be valuable to exploit external opportunities, be rare within the existing competition, be hard to imitate or replicate by competitors, and be exploitable by organisational processes. These four attributes – value, rarity, inimitability, and organised, can be analysed using the VRIO framework to assess the competitive implications of an organisation (Grant et al., 2013). This study categorised four resources or competencies – financial, human, tangible and intangible, to assess the chosen cases' competitive advantage.

**Table 5.3. VRIO Framework – Aldi**

<table>
<thead>
<tr>
<th>Resources Competencies</th>
<th>Examples</th>
<th>Valuable</th>
<th>Rare</th>
<th>Inimitable</th>
<th>Organised</th>
<th>Competitive Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>Revenues, Market share</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Temporary Competitive Advantage</td>
</tr>
<tr>
<td>Human</td>
<td>Staff Training, In-store technologies</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Competitive Parity</td>
</tr>
<tr>
<td>Tangible</td>
<td>Stores, Infrastructure, Inventories</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Competitive Parity</td>
</tr>
<tr>
<td>Intangible</td>
<td>Cost-efficient operations, Customer satisfaction, Supplier relations, Location advantages, Private labels</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Sustainable Competitive Advantage</td>
</tr>
</tbody>
</table>

(Source: Grant et al., 2013)
Key Findings from VRIO Analysis – Aldi:

Aldi’s financial competencies are valuable – $12.8 billion in revenue, rare to achieve such a healthy market share - 12.4%, and well organised by its efficient operations (RoyMorgan, 2020). However, these competencies are not hard to replicate by new international retailers; thus, Aldi’s competitive advantage is temporary in this category. Human and tangible resources play a vital role in Aldi’s success and are critical to its business model. However, they are quickly replicable and not rare among competitors. Aldi’s intangible competencies – private labels, supplier partnerships, cost-efficient operations, are distinctive and gives Aldi a sustainable competitive advantage.

Table 5.4. VRIO Framework – Costco

<table>
<thead>
<tr>
<th>Resources Competencies</th>
<th>Examples</th>
<th>Valuable</th>
<th>Rare</th>
<th>Inimitable</th>
<th>Organised</th>
<th>Competitive Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>Revenues, High turnover, Market share, Subscription revenues</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Sustainable Competitive Advantage</td>
</tr>
<tr>
<td>Human</td>
<td>Staff training, In-store technologies</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Competitive Parity</td>
</tr>
<tr>
<td>Tangible</td>
<td>Stores, Infrastructure, Inventories</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Temporary Competitive Advantage</td>
</tr>
<tr>
<td>Intangible</td>
<td>Loyal customer base, Cost-efficient operations, Shopping experiences, Location advantages</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Sustainable Competitive Advantage</td>
</tr>
</tbody>
</table>

(Source: Grant et al., 2013)

Key Findings from VRIO Analysis – Costco:

Costco’s human resources are valuable and well organised; however, they neither rare among the competitors nor inimitable. Its tangible resources, such as store infrastructure and inventories, on the other hand, are not very common, giving Costco a temporary competitive advantage.
advantage. Costco’s sustainable competitive advantage comes from its distinct financial competences and intangible resources. With its unique membership model, Costco financially more resilient to competition and has strong bargaining power over its suppliers. Furthermore, Costco’s rich shopping experiences and loyal customer base are rare and hard to replicate by its competitors.

**Porters Five Forces Analysis**

**Table 5.5. Porters Five Forces Analysis**

<table>
<thead>
<tr>
<th>Force</th>
<th>Aldi</th>
<th>Costco</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Threat of New Entrants</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>The Threat of Substitutes</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Intensity of Competition</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Power over Buyers</td>
<td>High</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Power over Suppliers/Sellers</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
</tbody>
</table>

*Key Findings from Porter’s Five Forces Analysis:*

The industry structure in Australia is highly concentrated, and the competition within the industry is intense. As a result, the threat of new entrants is relatively low as they require substantial capital investments while exit costs are very high in the industry. The threat of substitutes is also low as the grocery and supermarket industry serves the essential daily needs of households. Competition in the industry is intense; however, Aldi and Costco have positioned themselves competitively by targeting different customer segments. Power over suppliers is high in the industry as supermarkets are the only means of access to the suppliers to reach their target customers. Finally, both Aldi and Costco have gained significant power over their customers/buyers, which is relatively rare in the industry. This power over buyers gives a competitive edge for these two companies over their competitors.
Source of Competitive Advantage

A firm's resource-based perspective suggests that competitive advantage may require the interconnection of organisational capabilities. Similarly, competitive advantage is derived from the mutually reinforcing effect between critical organisational activities (Palmer et al., 2005). Porter (1996), cited in Palmer et al. (2005), suggested that a firm’s unique system of activities creates a sustainable competitive advantage when these interconnected activities complement each other to enhance value. Such a system is rare and hard to replicate by competitors, thus sustaining a competitive advantage. Teece (2010) suggested that when core elements of a business model and strategy complement each other, they create a sustainable competitive advantage. A business may choose either cost leadership or differentiation strategy or a combination of both, but to create a sustainable competitive advantage, it should have a unique business model of interdependent activities, resources, and processes that are rare and hard to imitate (Ovans, 2015; Parnell, 2010; Slater et al., 2011).

Aldi’s Sustainable Competitive Advantage:

Aldi’s competitive advantage is an amalgamation of its unique business model and its business strategies. For example, Aldi’s business model elements - store format, no-frills, and efficient staff, support its low-pricing strategy by driving down costs. Similarly, a limited product range helps Aldi to focus more on product quality and create volumes. Private label offer is central to Aldi’s low-cost strategy, which is complemented and reinforced by true partnerships with local businesses (Aldi, 2018). Furthermore, Aldi pays employees higher than industry standards, which helps Aldi train, engage, and retain the best staff while keeping the staff levels minimum (Rice, 2019).

Costco's Sustainable Competitive Advantage:

Costco’s competitive advantage stems from three critical features of its business strategy: building customer communities, long-term orientation, economies of scale. By building customer communities through memberships, Costco is capturing a substantial amount of future business. Similarly, by targeting customers with high purchasing power, Costco effectively developed a niche segment and positioned itself competitively. Furthermore, long-term orientation towards locations and infrastructure helps Costco create barriers to
competitors and new entrants. Finally, all of Costco’s strategies complement the business model's key elements in generating revenues and creating a sustainable competitive edge.

5.3. Discussion

Addressing Research Question One: Retail Strategies and Business Models Adopted by Costco and Aldi

One of the research questions this study has aimed to address is identifying the key retail strategies and business models adopted by Aldi and Costco. Before diving into the discussion, it is essential to recall some critical insights from the literature review concerning business model and strategy. As noted in the literature review findings, the strategy is how an organisation chooses to compete in the market place and create value. However, as suggested by Micheal Porter (2018), the strategy is not only how an organisation chose to compete in the market place, but also how an organisation chose to drive down costs by improving efficiency – cost leadership, or offer a differentiated product or service – differentiation, better than their competitors.

Porter (2018) also suggested that strategy is not a plan to acquire a substantial market share or develop the best product, whereas a strategy depicts a long-term plan serving the needs of a particular segment of customers. When looking at it through the lens of Porter’s idea of strategy, Aldi is competing with an efficiency-driven cost leadership strategy, and Costco adopted a differentiated strategy. Both companies are targeting different segments of customers. While Aldi targets wage-earning and value-seeking customers by competing in the price, Costco targets a niche segment of customers who sees value in bulk purchases and shopping experiences.

On the other hand, a business model represents how an organisation aims to capture revenue and economic performance. However, as identified in the earlier sections of this chapter, a business model comprises various elements that help a business capture value. Therefore, a business model can be viewed as a bundle of activities designed to capture the value created by the business strategy, whether it may be cost leadership or differentiation.

This study has identified several critical elements of Aldi’s business model; however, the central aspect of Aldi’s business model is frugality. Frugality is deeply rooted in the
company's foundations, as the founders of Aldi had determined to focus only on the bare essentials of their customers over shopping experiences or national brands. As a result, the aspect of frugality appears in each vital element of their business model. Take the “no-frills” approach; for example, Aldi strives to eliminate any superfluous activity that adds to the costs of products sold. It may be refusing to offer free bags or maybe to ask customers to pack themselves or even make the customers return the trolley into the parking lot.

The limited assortment is another example. Aldi does not see value in stocking up slow-selling or non-essential products, which adds to storage and inventory-related costs. As a result, their product range has been an average of 1400 SKUs compared to the industry average of 25000 to 40000 SKUs (Aldi, 2015). Limited assortment helps Aldi in many other ways related to frugality. With a limited variety, it helps Aldi to manage inventories, reduce slippage and wastage-related costs, and focus more on product quality. Furthermore, Aldi keeps their staffing levels to a minimum at the expense of keeping customers waiting in long queues, who are willing to accept the inconvenience in exchange for a better price.

Aldi’s business model is not just about cutting down the costs; it is about improving efficiency and adding value. Aldi may strive to eliminate superfluous activities in its value chain to cut down costs, but at the same time, Aldi seeks to invest in value-added activities to improve efficiency. For example, Aldi may choose low staffing levels to drive down costs, but it motivates its employees by providing training, career advancement and higher pay than the industry average. In exchange, Aldi gets to retain the best talent and a highly efficient, loyal and engaged workforce to support its business model in capturing value. Another example of value addition could be asking suppliers to provide barcodes on almost all sides of a product packaging, helping checkout staff work faster. On the whole, Aldi’s business model is a unique combination of frugality – driving down costs and value-addition – improving efficiency again to drive down costs, to capture value.

On the other hand, the central aspect of Costco’s business model is stewardship. Like any commercial bank or a hedge fund, which finds the best investment opportunities for their customers in exchange for a commission or fee, Costco acts as a negotiator with suppliers to get the best deals for their member customers who are willing to pay an upfront subscription fee for their services. This aspect of stewardship is seen in all critical elements of Costco’s business model. For example, by locating stores in suburban areas, Costco drives down real estate-related costs and maintenance costs which effectively serve their member customers in
the form of incredibly lower prices. Costco’s assortment is relatively low compared to traditional supermarkets, which helps Costco focus on driving up volumes to offer products at the lowest prices possible. Furthermore, the membership aspect helps Costco cut marketing and promotions-related expenses, which again in their customers' best interests.

Besides playing the steward role for their customers, Costco also offers its customers a lifestyle shopping experience as a value addition. For example, Costco’s stores are designed to accommodate parks, coffee shops and recreational activities, which all together appeal to their member customers as a destination-style shopping centre to spend a day out with family. Costco’s wider assortment with a more splendid combination of international brands than competitors is another example of Costco serving the needs of its member customers who seek lifestyle (Kim, 2019). In a nutshell, Costco’s business model is a unique combination of accountability and value-added services which captures value.

Despite having entirely different strategies and business models, some similarities exist between Aldi and Costco. For example, both companies have their operations streamlined in the most cost-efficient way to offer products at the lowest possible prices for their customers. Both businesses target a particular segment of customers instead of competing to be the best in the industry. They both offer a unique value proposition to their customers in different ways. While Aldi offers value in terms of the lowest price for high-quality private label products for its value-seeking customers, Costco offers value in terms of volume purchases and rich shopping experiences.

Addressing Research Question Two: Competitive Position of Costco and Aldi

A business's competitive position depends on how it defends or manipulate the five forces – the threat of new entrants, the threat of substitutes, competition within the industry, buyers’ bargaining power and suppliers’ bargaining power, to their advantage. As identified in the industry analysis section, the Australian supermarket industry has been a highly concentrated and competitive market. Over time, the industry has transitioned from a duopolistic structure to an oligopolistic structure mainly due to Aldi and Costco's entry. By definition, an oligopolistic industry structure will have few players with the most market share, meaning that it could be very hard for new players to enter the industry (CCNZ, 2020). In addition, the competition within the industry will be much more intense, and as a result, profit margins will erode, so as the industry's lucrative
Furthermore, the industry has little or no threat of substitutes as the products offered are daily essentials. Therefore, the threat of new entrants, threat of substitutes, and suppliers' bargaining power are very low in the Australian supermarket industry, mainly due to its industry structure. On the contrary, buyers will have more power in this industry, as switching costs are low.

However, Aldi is exercising significant power over its buyers both in Australia and its global counterparts. Aldi’s power over buyers is reflected in its cost-efficient operations, where customers are willing to accept little inconveniences and unfriendly customer service such as refusing to offer free bags and charging for trolleys, in exchange for a better price (Chatterjee, 2017; Rice, 2019). Aldi’s power over buyers also reflects in its increasing customer penetration, as reported by Roy Morgan (2020). Similarly, Costco also has significant power over its buyers. Unlike any other supermarket stores, buyers can access Costco stores only when they become members by paying an annual subscription fee. Besides, a 91% membership renewal rate reflects Costco’s growing popularity and power over buyers (Costco, 2020).

Both Aldi and Costco have significant power over suppliers but in many different ways. Aldi exercising power over its suppliers by developing long-term partnerships and offering inclusive growth. Aldi (2018) reported that 90% of its product range are developed exclusively by its supplier-partners in which local businesses in Australia manufacture the majority of products. On the other hand, Costco’s power over its global supplier base, including international brands, lies in its ability to drive huge volumes so as favourable purchasing terms. In a nutshell, both Aldi and Costco are positioned competitively in the Australian supermarket industry. All the five forces favour Aldi and Costco, including the power over buyers, which is not very common in the industry and gives them the real competitive edge over their competitors.

5.4. Summary

This chapter aimed to analyse all the information collected from multiple secondary data sources and answer this study's research questions. A comparative case study analysis has been conducted using factual information gathered and collected from various secondary resources, including peer-reviewed journal articles, case studies, annual reports, industry reports and famous news articles. The analysis includes a detailed investigation of the
selected cases' historical development and their economic performance in global markets and Australian markets. The researcher has analysed the business models and strategies adopted by the selected cases to answer the first research question. This analysis has helped the researcher build theory around Aldi and Costco's critical functional-level strategies and key business model elements. A detailed analysis was followed on how these companies have gained competitive advantage using several strategic management models and frameworks such as SWOT, VRIO and Porter’s five forces to answer the second research question.

The following chapter (Chapter Six) concludes with the most reliable business model aspects and strategies relevant to the NZ supermarket industry. Furthermore, a brief set of recommendations on how these strategies can be applied in NZ will be provided.
Chapter 06: Recommendations and Conclusions

6.1. Purpose of the research

The overall purpose of this study was to explore successful retail business strategies adopted by two leading international retailers, Costco and Aldi, to develop relevant business strategies to support a new retail start-up in NZ. A comparative case study analysis was conducted to study the business strategies and models adopted by these retailers in Australia. Given the similarities between NZ and Australian supermarket industries, the researcher believes that the findings derived from this study are relevant to the NZ industry. The primary objective was to study Aldi and Costco’s business models and strategies in the Australian supermarket industry. The second objective was to examine their competitive position and investigate how they are gaining a competitive advantage.

This study is based on two theoretical constructs – industry structures and competition. Both NZ and Australian supermarket industries are highly concentrated, and a few leading retailers dominate the entire industry. Industry analysis suggests that the NZ and Australian industries are duopolistic, and collusion tactics are common to increase profitability and exercise dominance over suppliers. Simultaneously, the industry structure allows the leading retailers to manipulate four out of the five forces – the threat of new entrants, the threat of substitutes, bargaining power of suppliers and the competition, in their favour. In such an industry structure, the role of Aldi and Costco’s business models and strategies to break the structure and compete with leading domestic retailers was the primary research question. The second research question aims to study how these retailers have gained a competitive advantage using their business strategies.

This research study was constructed on a pragmatic paradigm based on exploring existing research inductively to answer research questions. The research strategy was a comparative case study analysis using multiple online secondary data sources, such as annual reports, industry reports, peer-reviewed journal articles, prior case studies, business news articles, and independent market surveys. This comparative case study adopted more than one analysis technique to address ethical considerations, credibility, and bias-related issues.
6.2. **Relationship to previous research**

The researcher found that very few studies are available online about business models and strategies on supermarket retailers. Most of them were developed by private consultants or research organisations for commercial purpose. This study, therefore, can inspire further research in the analysis of business models and strategies adopted by existing businesses. Furthermore, this research study and its findings could be a valuable addition to both the researcher and other entrepreneurs interested in setting up their retail businesses in NZ and Australia.

An in-depth literature review was conducted to understand the fundamental concepts related to this study – business model, strategy, and competitive advantage. The literature review covers a wide variety of definitions and practical implications related to these concepts. New themes have emerged from the literature review – organisational culture to support strategy and build customer communities. Employee engagement, one of Aldi’s strategy aspects, shows how significant an organisational culture is in applying the intended strategy. Similarly, Costco’s membership strategy shows that building customer communities can create a sustainable competitive advantage for a business. One key takeaway message from the literature review related to the amalgamation of the business model and strategy and how they complement each other to gain a competitive advantage. Furthermore, the literature suggests that business practices resulted from an underlying business model, and the business strategy could create a web of activities that is very hard to replicate by competitors and thus creating a sustainable edge. Drawing inspirations from these insights, this study attempted to build theories around retail strategies based on Aldi and Costco's underlying business models and business-level strategies by applying an activity-based perspective.

6.3. **Research Conclusions and Recommendations**

**Key Strategies relevant to NZ:** This research study's overall objective was to identify key business strategies relevant to the NZ supermarket industry. Before concluding and recommending strategies to a new retail start-up, it is crucial to analyse their relevance to NZ because the cases studied in this research operate in the Australian supermarket industry. However, NZ and Australia share similarities in many aspects such as geographical location, demographics, lifestyle and economic features. Moreover, the supermarket industry in both these countries also shares similarities in terms of industry structure and overall competition.
Therefore, the researcher strongly believes that this study's findings are applicable in the NZ context.

Despite the similarities shared by NZ and Australian supermarket industries, a business model similar to Costco and its differentiation strategy is unlikely to fit into the New Zealand supermarket industry for various reasons. First, the NZ population and economy are relatively smaller than Australia; therefore, developing a niche segment of lifestyle seeking customers is not viable. Second, small households and wage-earning customers in New Zealand are unlikely to pay upfront membership costs. Third, due to the rising real estate prices in NZ, households are left with shrinking budgets for groceries and unlikely to afford bulk purchases. Therefore, this research concludes that a business model similar to Aldi with a cost leadership strategy would help the retail chain start-up break the barriers and position itself competitively within the NZ supermarket industry.

**Recommendations for a New Retail Start-up:** Six key retail functional-level strategies relevant to the NZ supermarket industry were identified and presented below, along with recommendations about how they can be applied.

*Strategy One: Store Format*

Demographically, the population density of New Zealand is relatively low at 18 per square kilometre, according to the Worldometer (n.d.). The country is predominantly urbanised, and the majority population is dispersed among twenty major cities across south and north island regions (Worldometer, n.d.). Therefore, a smaller size store format with a broader network of stores could be a strategic option as it requires lower capital investments, and store operations can be managed in a cost-efficient manner. It also helps to reach a wider value-seeking NZ customer base. Acquisition of local conveyance stores could be a possibility; however, it is also essential to standardise across the retail chain in terms of format, size and product range. Further, adapting to advanced technologies such as the internet of things (IoT) and smart device sensors (SDS) will help drive down costs and eliminate wastage.

*Strategy Two: Limited Product Range*

Limited assortment helps the new business differentiate itself among the competitors while gaining ground as a cost leader by driving down the operational costs. According to the
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Commerce Commission market study preliminary paper (CCNZ, 2020), the New Zealand supermarket industry is highly concentrated and dominated by Foodstuffs and Countdown supermarkets. Both these supermarkets have a product range of an average of 30,000 to 40,000 SKUs (CCNZ, 2020). Such a wider assortment carries substantial costs in terms of real-estate, storing and other inventory-related expenses. A smaller assortment helps to drive-up volumes and to negotiate favourable terms with suppliers. Second, it reduces operational complexity at the floor-level and keeping staffing levels at a minimum. Furthermore, it helps the business to focus more on product quality, promotions and customer services. Therefore, it is suggested to adopt ‘no-frills’ type displays and lean operations like just in time (JIT) product shelving supported with in-store technologies.

Strategy Three: Employee Engagement

An efficient, productive and engaged workforce is critical to the success of the new start-up. Employees should be trained to manage all aspects of the business, and they should be well trained to understand and execute the business's overall strategy. Both Aldi and Costco are paying higher wages to their staff than industry standards in Australian markets (Costco, 2020; Rice, 2019). It helps them in many ways. First, they can motivate and retain the best people for more extended periods and effectively reduce hiring and training related costs. Second, paying higher wages will drive-up industry wages forcing cost-inefficient competitors into a more disadvantageous position (Rice, 2019). Finally, a skilled and motivated workforce can work effectively at minimal staffing levels. Therefore, it is suggested to employ a skilled workforce and pay better wages to reap all human resource management related benefits.

Strategy Four: Private Labels

Developing high-quality private label products is a crucial strategy for the new start-up. In the NZ supermarket industry, private labels are not uncommon but often considered inferior quality. Both Countdown and Foodstuffs offer their inhouse brands – Essentials and Value, respectively (CCNZ, 2020). However, private labels market share has been static for years, around 12% to 13% in the NZ market (Harris, 2016). This gap presents a potential opportunity to develop a streamlined private label product range that competes with national brands in terms of quality and other private labels in terms of price. Furthermore, Clark (2015) reported a remarkable shift in the customer perception of private labelled products in
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NZ. This changing perception makes private labels a viable strategic option for new retailers to compete with traditional players and develop strong partnerships with suppliers.

*Strategy Five: Supplier Relations*

Strong supplier relations and partnerships with local businesses are central to the private label strategy. According to CCNZ (2020), suppliers in the NZ supermarket industry are relatively small and mostly dependent on grocery retailers to sell their products. On the other hand, leading retailers have alternative means of access to products so as strong bargaining power over their suppliers. According to the New Zealand Food and Grocery Council (NZFGC) discussion paper (2019), leading grocery retailers in the NZ – Foodstuffs and Countdown were criticised for their unfair practices such as demanding retrospective cash payments, little scope for price negotiations despite increased costs and imposing promotional costs on suppliers with local suppliers. This gap between suppliers and leading retailers could be a potential strategic opportunity for the new start-up to build strong supplier relations and partnerships with local businesses for mutual benefit. Moreover, it helps suppliers and local businesses to invest in innovation and produce high-quality private label products at relatively lower prices. Therefore, it is suggested to devise plans to support supplier network in ways allowing them to invest in technologies and be competitive.

*Strategy Six: Inclusive Growth*

Finally, building a loyal customer base is essential for creating a sustainable competitive advantage in the foreseeable future. Customers will be loyal when the business caters for their needs, delivers value, and makes a difference. Leading supermarket chains in NZ were criticised in the past for misleading customers with false promotions and charging higher prices than advertised, according to Consumer NZ (Carroll, 2020). Therefore, it is suggested to develop a business level mission to improve employee’s life standards, cater to consumer needs, deliver inclusive growth for suppliers and add value to the economy.

6.4. Limitations of the present study

The research could shed more light and add more value if it could include a financial analysis of the selected two cases. Aldi is a privately owned retailer; therefore, its financial information is not available for public scrutiny. Key performance metrics such as revenue per
store, operational costs per dollar sales, and cost of goods sold could help evaluate the business model's effectiveness and strategy in more detail. For example, revenues per store could suggest if store format help generate sales, admin and selling costs could prove cost efficiency, and cost of goods sold could suggest the impact of private labels in Aldi’s success. As a result, the research study was limited to qualitative analysis.

Another major limitation of this study was the use of secondary sources. Despite having many advantages using secondary data in business research, secondary data pose risks of relevance, credibility and applicability of previously published data that may have been collected for different purposes. However, this helped the researcher to collect high-quality data from multiple reliable sources published online during the last decade. Furthermore, the researcher evaluated the data thoroughly and compared it with multiple sources to authenticate its validity and relevance.

6.5. Recommendations for future research and practice

Two significant gaps were identified in the literature review with substantial scope for future research. First, prior studies on the business model concept have not suggested what constitutes a successful business model or how to build one. For example, a recent study conducted by MIT (Ranjith, 2016) has identified four primary business models with sixteen specialised variations out of a sample of the largest thousand enterprises in the United States. However, how to derive core elements central to these business models is yet to be researched. This study systematically analysed business practices and showed how to identify the core elements of a business model. Future research involving more companies in a specific industry to identify common aspects of their business models measured against their performance could add more value to the domain knowledge of business model research.

Second, the literature claimed that the business model and strategy complement each other to create a sustainable competitive advantage and recent studies (Berman, 2015; Chatterjee, 2017) supported this notion. However, no research identified suggests how this can be achieved. Therefore, developing an activity-based framework derived from the business model and strategy could be a future research interest. Moreover, the researcher finds it challenging to collect scholarly work on strategy and competitive advantage, and it appeared that these are relatively under-researched areas with considerable scope for future research.
Apart from the research gaps mentioned above, frameworks depicting how strategy can be ingrained into business activities or practices could be a compelling research interest in the field of applied management. As Porter (2018) argued, many businesses do not have a business strategy or poorly understood the strategy concept. Having a strategy is different from executing a strategy ingrained into all areas of the business. For example, Aldi’s cost leadership strategy can be observed in all their operational activities, while Costco stands out by executing its business activities differently than its competitors reflecting the differentiation strategy. Finally, this study shows how Aldi and Costco’s strategies were refined over time, suggesting the significance of constant evaluation and innovation of business strategies and models to sustain competitive advantage. Future research concerning innovation in these areas could contribute to the existing body of knowledge.

6.6. Conclusion

This exploratory, qualitative study was constructed on comparative case study analysis using secondary sources and achieved all of its aims and objectives. First, the business models and strategies of the selected cases were studied. Second, the competitive position of the selected cases was analysed. It included a brief examination of how they gained a competitive advantage over their competitors. Finally, based on these findings, a set of retail strategies were derived and investigated their relevance to the NZ supermarket industry and provided recommendations on how these strategies can be applied in NZ. A cost leadership strategy with a cost-efficient operations style business model is suggested for the new start-up to break the structural barriers and position competitively. Furthermore, the significance of organisational culture, building customer loyalty and continuous innovation to support business model and strategy was emphasised for a sustainable competitive advantage.
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Appendix A: Research Questions

*Question One:*

What are the key retail strategies and models adopted by Costco and Aldi?

*Question Two:*

What is the competitive position of Costco and Aldi in the Australian supermarket industry and how they are gaining a competitive advantage over their competitors?
# Appendix B: Comparative Analysis of Aldi & Costco

## Key Insights from Comparative Case Study Analysis of Aldi vs Costco

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<thead>
<tr>
<th>Point of Analysis</th>
<th>Aldi</th>
<th>Costco</th>
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<tr>
<td><strong>Global network</strong></td>
<td>Revenues: $109 billion&lt;br&gt;No. of stores: more than 11000&lt;br&gt;Geographical expansion: 18 countries&lt;br&gt;Workforce: more than 200,000&lt;br&gt;World ranking: 8th largest</td>
<td>Revenues: $163 billion&lt;br&gt;No. of stores: 795&lt;br&gt;Geographical expansion: 12 countries&lt;br&gt;Workforce: more than 275,000&lt;br&gt;World ranking: 3rd largest</td>
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<td>(As of 2019)</td>
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<td><strong>Australian Network</strong></td>
<td>Revenues: $12.8 billion&lt;br&gt;No. of stores: 550&lt;br&gt;Workforce: 12,500&lt;br&gt;Ranking: 3rd largest&lt;br&gt;Market share: 12.4%</td>
<td>Revenues: $12.8 billion&lt;br&gt;No. of stores: 12&lt;br&gt;Workforce: 2,800&lt;br&gt;Ranking: N/A&lt;br&gt;Market share: N/A</td>
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<td>(As of 2019)</td>
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<td><strong>Key elements of the business model</strong></td>
<td>Store format &amp; design&lt;br&gt;No-frills and cost-cutting&lt;br&gt;Engaged workforce&lt;br&gt;Limited assortment&lt;br&gt;In-store technologies</td>
<td>Subscription-based membership&lt;br&gt;Wider assortment&lt;br&gt;Store locations &amp; design&lt;br&gt;Rich shopping experiences&lt;br&gt;Bulk purchases</td>
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<td><strong>Key business strategies</strong></td>
<td>Price trade-offs&lt;br&gt;Cost-efficient operations&lt;br&gt;Product development</td>
<td>Economies of scale&lt;br&gt;Customer communities&lt;br&gt;Long-term orientation</td>
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<tr>
<td><strong>Strengths</strong></td>
<td>Cost-efficient operations&lt;br&gt;Private label products&lt;br&gt;Efficient workforce&lt;br&gt;In-store technologies&lt;br&gt;Supplier partnerships</td>
<td>Subscription revenue&lt;br&gt;Loyal customer base&lt;br&gt;Economies of scale&lt;br&gt;Rich shopping experiences&lt;br&gt;Human Resources</td>
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<td></td>
<td>Limited assortment&lt;br&gt;Limited national brands&lt;br&gt;Lack of shopping experience&lt;br&gt;Perception of low-cost low-quality</td>
<td>Limited assortment&lt;br&gt;Need to purchase in bulk&lt;br&gt;Accessibility and parking issues</td>
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<td>Point of Analysis</td>
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<td>Costco</td>
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<td>Online retailers such as Amazon</td>
<td>Intense competition</td>
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<td><strong>Financial competencies</strong></td>
<td>Valuable, rare &amp; organised – Temporary competitive advantage</td>
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<td>Valuable, rare, inimitable &amp; organised – Sustainable competitive advantage</td>
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<td><strong>Human competencies</strong></td>
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<td>Valuable &amp; organised – Competitive parity</td>
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<td><strong>Intangible competencies</strong></td>
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<td>Supplier relations</td>
<td>Economies of scale</td>
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<td><strong>Customer reviews and ratings</strong></td>
<td>74% customer satisfaction score (Choice Survey 2019)</td>
<td>76% customer satisfaction score (Choice Survey 2019)</td>
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<td></td>
<td>Strong growth in Customer penetration (Roy Morgan 2019)</td>
<td>88% membership renewal rate (Costco, 2020)</td>
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