

FOOD

'They're playing the long game': Why Lidl took a £76m loss amid supermarket price war

Lidl says it's keeping a promise to customers by making prices low. But it's not just a nice gesture

GREG BARRADALE

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Lidl's sales have risen, but the supermarket made a £76m loss in the UK. What's going on?
Image: Greg Barradale/Big Issue

Budget supermarket Lidl has [just announced a £76 million](#) loss over the past year, which it attributes to its efforts to keep prices low. But despite a rosy picture of supermarkets taking the hit to keep our shopping affordable, there's more to it than meets the eye.

The German retailer spent £100m on prices and £50m on wages, meaning that despite an 18.8% rise in sales it made a loss.

"We've always had a clear commitment to offer the best value to our customers and that is a promise we will always keep, even in uncertain economic times," said Ryan McDonnell, Lidl's chief executive in the UK.

Why has this happened? Are they just being really nice? We asked experts and all came to the same conclusion – it's a canny long-term strategy to keep you shopping there.

"By taking a modest hit now to invest in price, new stores and staff retention, Lidl clearly wagers that it will reap the rewards in the medium to long term," said Graham Soult, founder of retail consultancy Canny Insights.

"And for now, headlines about how Lidl is 'keeping prices low for customers' don't do any harm at all to its brand perceptions."

The cost-of-living crisis is seeing Lidl increase its market share – it rose from 7.1% to 7.6% in the year to September. Lidl's German rival Aldi is planning expansion, with [its sights set on opening another 500 stores](#). Soult predicts the trend to continue.

"We already saw discount rival Aldi leapfrog Morrisons into fourth place last year, and by the end of next year I would expect Lidl to have overtaken Morrisons as well," he said.

The pressures we're all facing when going to the shops play into Lidl's hands, and it's a smart move to try and change shoppers' habits, Dr Amna Khan, senior lecturer in consumer behaviour and retail at Manchester Metropolitan University, told The Big Issue.

"They can attract more consumers, if their prices are competitive, as consumers switch supermarkets to create value," Khan said.

"When the consumers build habits of buying products which are cheaper than rivals they are unlikely to return to the supermarkets when finances are not squeezed."

Trust matters when you're shopping, and if you get into the swing of shopping somewhere you're likely to keep going back.

"Consistency in pricing is essential to maintain trust with shoppers. Even in a heavily inflationary environment, discounters will tend to take the margin hit before passing any cost on to the customer," said retail analyst Natalie Berg.

"They're playing the long game. A cost-of-living crisis is the perfect time for budget supermarkets to acquire new customers and ensure they're meeting the needs of existing ones."

Lidl can afford to do this in a way other supermarkets can't. Whereas companies like Sainsbury's and Tesco are traded on the stock market, Lidl is a family-owned business.

And as Allyson Stewart-Allen, an associate fellow at the University of Oxford's Saïd Business School explains, that gives them way less room to do things like this.

"Most family businesses can afford to take the long view, as Lidl is," Stewart-Allen said.

If a company is on the stock market, it will usually need to meet quarterly earnings targets for its shareholders.

“The ecosystem puts companies under pressure to hit the quarterly targets, and if they don’t hit those quarterly targets then the pension funds divest,” said Stewart-Allen.

There’s a warning for the future, too. Stewart-Allen warns that the deep discounts might not last once the customers are converted.

“Once you have critical mass – you have in other words enough people now shopping in your stores – you can go back to normal pricing,” she said.