

Running Head: ASSIGNMENT

Global Strategy Development of Lidl

Name of the Student

Date

DISSERTATION ASSISTANCE UK

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## ***Introduction***

The purpose of this article is to demonstrate the overall strategic development of multinational companies in the UK. Lidl from the UK was selected for the study and the company is a retailer and has been chosen as the most lucrative target market for various retail products. The first part gives a brief overview of the company and its international development. The following sections describe the potential markets of the company worldwide and the reasons for their selection. The last two chapters describe possible difficulties related to the operating conditions of subsidiaries in selected markets and provide appropriate advice based on the problems that have been reported.

## ***Company Overview***

Lidl is the largest grocery store in the world and it opened in Ludwigshafen, Germany in 1973. Initially, there were only 3 people and only 500 types of food. Lidl planned to leave Germany after 1990, but opened stores in Europe (Tomasevic and Spasojevic, 2018). After 1990, the company enjoyed its greatest success for many years when it opened its own store in the UK (Tsene and Briana, 2019). By 2000, their market in the UK had become established. After that, Lidl did not have to look back and the company is popular in Europe and the UK. Lidl opened its first store in the United States in 2017 with the slogan “Quality, low price”.

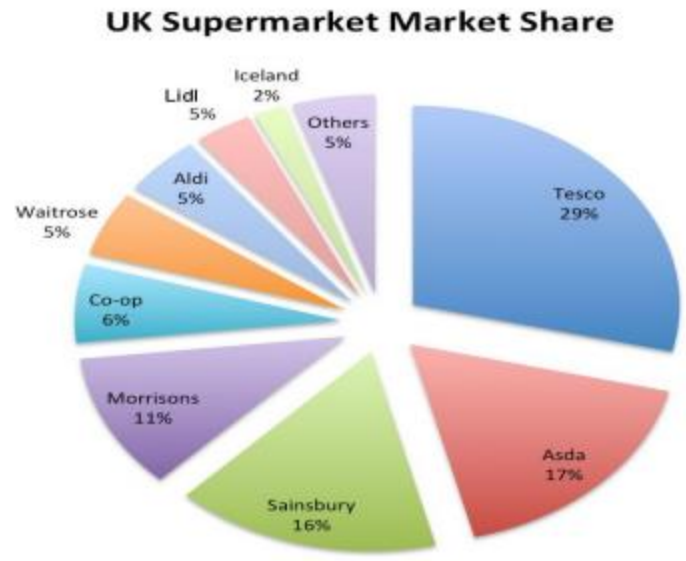


Figure 1 Supermarket share of UK

Source: (Śmigielska, 2018)

Lidl continued to be the best-selling discount seller with 12.5% growth and a market share of 6.1% (Śmigielska, 2018). One of Lidl’s main concerns is the competitive market. There are other companies in the world that also operate in the grocery store. Aldi, Walmart, Carrefour are Lidl’s competitors in the grocery market. Lidl has recently expanded to the United States. However, there are already major difficulties in this area due to poor policy-making. Lidl operates 53 stores in the United States but did not achieve its goal due to a lack of productivity growth. Lidl can only grow if it considers its business strategy and how it competes. Lidl faces political and environmental challenges while doing business in Pakistan. These difficulties can be overcome by making appropriate strategic management decisions.

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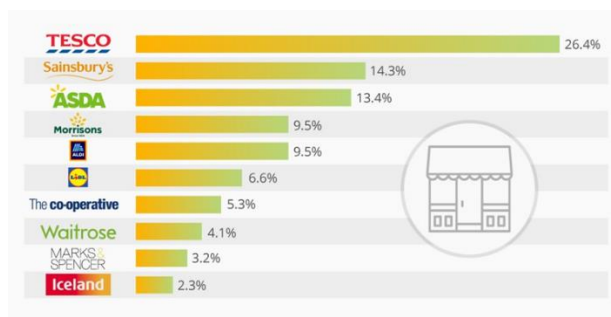


Figure 2 Landscape of the UK supermarket

Source: (Syed, 2020)

### *Expanding internationally*

There are now local retailers in the UK as there are fewer international retailers than in other sectors. In this context, companies need different options to thrive globally in profitable new areas: The first advantage of global expansion may be that new markets are affected by different business variables (Schmid et al., 2018). To increase its business, Lidl has the opportunity to form new consumer groups abroad. Entering a new market will help companies in their industry increase their global market share. In addition, companies can quickly enter open borders into non-competitive markets.

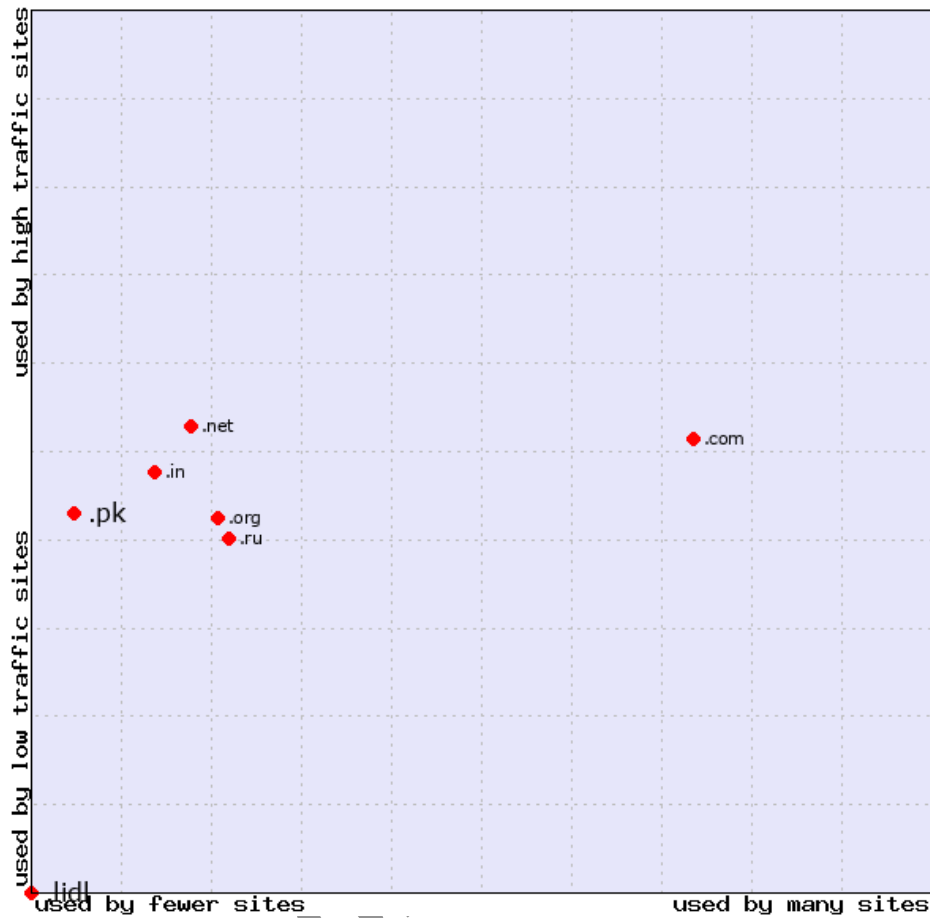


Figure 3 Pak vs Lidl market

Source: (Cantaragiu, 2019)

Another important benefit of global expansion is local talent in target markets.

Companies cannot find qualified and professional employees in their country who are available in the target market (Lídl, 2020). These employees can add value to the company and help it gain a competitive edge in the market. Another advantage of a multinational outreach company is that the company continues to grow. By entering foreign markets, the company can expand its global reach to new consumers. This increases the company's brand awareness and its international appeal. Goodwill is an important intangible asset that a company can easily acquire through



global growth.

There could be competition in the same industry, another reason for global growth. Research shows that retailers manufacturing and distributing household appliances have not experienced significant growth in international markets (Cantaragiu, 2019). In this case, Lidl will be able to gain a leading position in the market thanks to international growth. Providing reliable and convenient service to foreign customers can be another important reason for international expansion. Trading abroad reduces operating costs. This is because the target market offers cheap labour, infrastructure and capital.

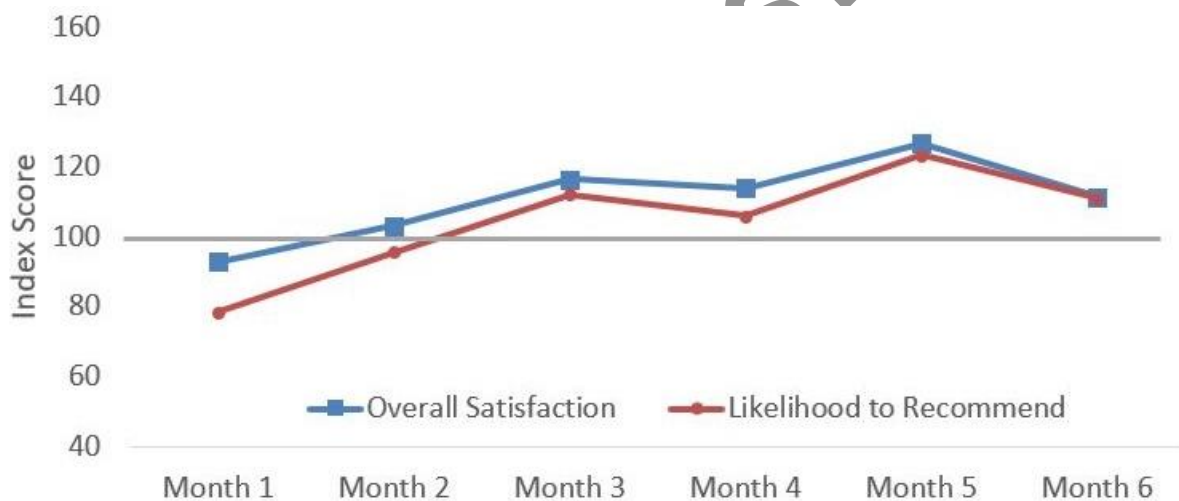


Figure 4 Trend of customer index of Lidl

Source: (Cantaragiu, 2019)

### ***Parent company availability of strategic choices***

Before choosing a target market for growth, companies can consider two main aspects of the target market through the expansion process. The two requirements that Bartlett and Ghoshal propose in their evolutionary theories may include international integration and local response.

According to Domański (2018), companies with strong international integration seek to reduce costs with economies of scale. In all countries, these companies offer one product. On the other hand, local companies adapt their products and services to the tastes and wishes of local consumers. In the light of Lidl's global development, four approaches can be applied: international, transnational, global, and multi-international.

#### International

This approach works well when companies decide to export their marketing strategy. The company manufactures and exports products to consumers in its home country. Subsidiaries often act as a local way to sell products to end users.

#### Multi-domestic

This approach works when companies opt for minimal integration and responsiveness. They respond to the wishes and needs of local consumers and adapt their products accordingly. These companies hardly need to standardise their products because their subsidiaries operate independently and have full power (Helmold and Terry, 2021). Nestlé's operations have their own sales and marketing strategy in each country and are an example of international growth. The company has a free subsidiary around the world, an approach that has made great strides internationally.

#### Transnational

With this approach, companies are often very integrated and responsive. International trade is a fusion of international trade and international trade (Palea, 2020). These companies create flexible value chains and adaptable local sales and marketing practices for example, Unilever.

## Global

This approach is suitable for companies that need strong international integration and a weak local market response. In all countries, these companies produce goods. Merge all subsidiaries to achieve common goals. The activities of each subsidiary are centralised and closely linked. The parent company is the main party that manages the subsidiary's operations. The pharmaceutical company Pfizer is a great example of this approach (Palea, 2020).

With all of the above options, the company's potential markets could be Mexico, Pakistan, the United States, Norway, the Netherlands and Chile. All of these countries face multinational corporations with other corporations because of their good business characteristics. These countries are very lucrative for retailers, especially in consumer goods and other similar products. The strategic decision to enter the market depends on individual country variables. Based on current market research, Pakistan is probably the most lucrative target market due to favourable trade variables (Ahmed, 2021). The company chooses an international strategy to enter the Pakistani food market and produce its favourite products locally. As a result, the company will be able to be more competitive in the local Pakistani market and increase its local market share.

### ***Target market selection***

Pakistan is a growing market for Lidl and retail in Pakistan has been one of the fastest growing industries, accounting for almost 20% of Pakistan's GDP. It is the third largest industry and the second largest employer in the country, with 15% of the population (Steenkamp and Sloot, 2018). There are approximately 2 million merchants in Pakistan, including 800,000 modern FMCG and general retail chains, including Kiriyana stores, supermarkets, medical stores, supermarkets, grocery stores and so on. The market potential is great, in fifth place in the world.

As consumption continues to grow, the world's population will reach 220 million (Pelto and Karhu, 2021). Retail sales in Pakistan have almost doubled in the last decade. This continued development has given Pakistan the opportunity to attract foreign brands and investors, and the acquisition of the Dutch giant Royal Friesland Campina from Engro Foods in 2016 has increased the confidence of stakeholders.

The importance of young people in the country is one of the key factors in the development of the retail industry in Pakistan. It is estimated that 35% of children under the age of 15 in Pakistan are among the youngest children in the world (Shaikh, Karjaluo and Häkkinen, 2018). The economy is doing well due to the recent influx of technology and the introduction of the internet. In Pakistan, with 27.5% of the Internet, the total number of broadband users is 46.4%, the lowest in South Asia (Shaikh, Karjaluo and Häkkinen, 2018). However, the current foundation has a lot of untapped potential and the growing popularity of smartphones ensure that the economy stays on track. The data show that mobile phone production in the first two months of 2021 was 1.2 million, 2.1 million units in 2020 and 119,639 units in 2019 (Dănescu and Matei, 2021).

## *PESTLE Analysis*



Figure 5 PESTEL Analysis

Source: (Hardaker, 2018)

### *Political*

Pakistan's foreign trade policy is flexible as this could be an opportunity for Lidl to do business in Pakistan. Pakistan is a country with many terrorist organisations. Pakistan's foreign trade policy is flexible. This could be an opportunity for Lidl to operate in Pakistan.

### *Economic*

Pakistan's economic situation is very fragile. Unemployment is 3.14% and this is because there are too many countries (Saudi Arabia, United States). As a result, Pakistan's economic situation does not support Lidl. But Pakistan is a land of opportunity. The applicable general duty rate is 10.09%. The Pakistani government encourages foreign companies to do business in Pakistan by lowering tariffs. It is therefore an opportunity for Lidl to do business there.

According to the World Bank, Pakistan's GDP in 2019 was 320 billion euros. Pakistan

wants to be one of the 25 largest economies in the world by 2025 and one of the 10 highest-income countries by 2047 (Hardaker, 2018). It is a long way to go and it should be noted that Pakistan has made incredible economic progress over the years as too many countries are heavily indebted. The economic situation in Pakistan is therefore not intended to support Lidl. However, Pakistan is a disaster-stricken country. The Pakistani government is encouraging multinational corporations to do business in Pakistan by lowering tariffs. Lidl therefore had the opportunity to establish a company.

### *Social*

Nothing that conflicts with Pakistani Islamic culture is not marketed. Those responsible for Lidl's policy should take this into account before taking action. Pakistanis do not accept alcohol and food like beer. Muslims in Pakistan ignore everything made from pork. Lidl stores should therefore only offer non-alcoholic products. Pakistan is the fifth most populous country in the world. The total population in March 2020 was approximately 219 million (Pohludka, Stverkova and Ślusarczyk, 2018). The main religions are Islam, where a minority profess Christianity and Hinduism. The main languages are English, Urdu, Punjabi, Sindhi, Pashto and Balochi. There is nothing against Islamic culture in Pakistan. Before a policy is adopted, Lidl's policy managers need to review it. Pakistanis are not allowed to accept drinks such as alcohol and beer. Therefore, Lidl may only sell non-alcoholic products.

### *Technological*

Technology in Pakistan is evolving very fast. It has developed very well in the computer sector. Almost 70% of Pakistani citizens use smartphones and this is an opportunity for Lidl to maintain an automated supply chain in Pakistan (Constantin et al., 2021). Lidl operates online by

creating a dedicated website for Pakistan.

### *Environment*

Pakistan has several desert areas and these places are not suitable for business. Pakistan also lacks drinking water as this concerns Lidl. Pakistan has not suffered any major natural disasters. Lidl has the opportunity to work in Pakistan without risk. Managers should consider this approach when making decisions (Joo, 2018).

### *Legal*

Pakistan's labour and consumer protection laws are very strict. However, it is slightly milder than in the UK and Lidl will not face any legal difficulties. The Government of Pakistan is a prosperous government. Tariffs and duties in Pakistan have been steadily reduced to encourage international investment

### *Entry methods and possible strategic penalties*

Given the particular economic situation, companies can expand the Pakistani market in two ways. Direct export is the first way and the second is joint venture or partnering.

#### Joint Venture/Partnering

Partnership is a method by which a company can partner with a local retailer engaged in similar activities in Pakistan. Partnership, such as a complex strategic partnership or a marketing partnership, can take many forms (Shaw and Shaw, 2019). In this case, companies can form a progressive strategic alliance in which local and international companies share production activities. This approach could have helped Lidl as the cultures of Britain and Pakistan are very different. The company is able to understand the tastes and preferences of Pakistani consumers and produce products suitable for different countries. The company will be able to focus more on

local responses and ensure the independence of subsidiaries within the framework of the system.

#### Direct exporting

This allows Lidl to export directly to Pakistani buyers through domestic manufacturers or agents. This is useful if the company does not need much international integration and little customer feedback. Thus, the company acts as a distribution channel for the parent company and sells the product to end consumers through the retail channel (Ansoff et al., 2019). This approach refers to exporters as export producers and direct exports refer to products delivered in bulk. This approach is very favourable for the parent company because the risk will be much less.

Businesses should also not go through litigation to use this technology.

In order to use this method effectively, the company must contact an agent. Lidl chose to export directly because exports are a small strategic risk that the company considers attractive for various reasons (Chen et al., 2020). First, mature products in the local market can open up new development opportunities abroad. Second, instead of creating new products, some companies believe that exporting existing products is less risky and more profitable.

#### ***Subsidiaries problems regarding managerial and potential organisational***

Various difficulties encountered by the subsidiaries are summarised below.

##### Choosing the right partners

When trading abroad, the parent company faces very important tasks. Sometimes companies can choose the wrong business partners and solve business management problems. Affiliates can take advantage of affiliates because affiliates are new to the market and do not understand the fundamentals of the business (Chen et al., 2020). Therefore, it is very important to choose the right partner to do business abroad.



### Employee management

Another challenge that subsidiaries face is the efficient management of employees through different training methods (Stanciu et al., 2019). This is important to increase productivity and reduce risk. As the employees are Pakistani, the management of the company should treat them positively. The company faces a unified work culture that benefits British and Pakistani workers.

### Talent acquisition

For companies operating internationally, this can be a difficult task. Talented staff are hired by independent subsidiaries to work in the growing corporate sector. It can be very difficult to start a business and develop skills at the same time. This increases the pressure and pressure on the recruitment support team (Stanciu et al., 2019). Before the process ends, the recruitment process may be different from the national process and a recruitment team must be formed.

The concept of transaction costs is an important theory that can be put forward in connection with the globalisation of companies. The idea is to do business with third parties or companies. The theory is that trading should be logical and risk-free (Shaikh, Karjaluo and Häkkinen, 2018). Characteristics, management arrangements, costs and capabilities of all the main activities of the subsidiary and the parent company must be interconnected. Sometimes transaction-specific features add cost, such as accuracy, unreliability, and transaction frequency. To be successful in the market, these factors need to be eliminated.

Another important theory related to this context is the idea of globalisation that focuses on the strategic goals of the company. According to this theory, companies are more likely to invest directly in intangible assets as part of the globalisation process (Pelto and Karhu, 2021). After acquiring a foreign company, other companies without knowledge and experience will

profit zero or abnormally. First, the company needs to participate in the local market, that is, to gain fame in the local market before entering the international market. Once introduced, the globalisation process enables companies to reduce costs (Schmid et al., 2018). This type of thinking is often considered dangerous and common in globalisation. This approach involves managing time and attracting resources. The concept of globalisation applies to large companies, such as Lidl, who want to enter markets other than their own.

### *Market expansion strategy*

Companies can enter foreign markets using four methods: direct investment, licensing, franchising and joint ventures. Lidl's strategy managers need to choose a strategy to ensure and maintain a successful marketing campaign. The company is expanding its operations abroad with direct investment. One must meet all government requirements to do business but this policy is dangerous for Lidl. There are several retail stores that offer almost the same services as Lidl. Therefore, if the company does not succeed in gaining market share in Pakistan, Lidl will suffer a huge loss. A foreign company operates a concession operation by granting a license to parties who want to use its trademark and logo. Bright & Beautiful UK is a UK-based franchise company. Lidl can issue licenses to interested concessionaires for a limited time. Compared to direct investment, this is a relatively less risky policy. Lidl pays no taxes or duties when one starts a franchise business in Pakistan.

Companies issue licenses by paying a fixed amount to the government of the country they want to go to. Lidl could issue a permit to the Pakistani government to open a new store in Pakistan. However, licensing is a risky policy for Lidl. As this is a new company in Pakistan, one will not be able to get the profit one wants and they could fail. All payments to the Pakistani state then go into a loss account. Joint venture is the safest way to do business in another country. This

is the company's policy in doing business with companies in the countries it wishes to visit.

Government regulations are very flexible on common obligations. Here, the two companies share the profits. This is a great opportunity for Lidl to establish a joint venture in Pakistan. Managers should choose a reputable Pakistani company for the joint venture.

### ***Recommendations for overcoming these problems***

Lidl had to find solutions to the above problems and challenges and manage its international business successfully through its subsidiaries. The company had to find suitable employees for its subsidiary in Pakistan (Lídl, 2020). The company also needs to solve problems in the establishment and management of foreign subsidiaries and choose a good partner for the company.

Pakistani companies follow the policy of hiring employees from universities and various vocational schools and this method is known as “newly graduated employment”. The company, as a subsidiary of Pakistan, has access to technology (Domański, 2018). New trainees are ready to join the company and can be hired through a special selection process. The selection process can include steps such as written exams and individual exams. The Pakistani partner can assist in this process as they are very familiar with the recruitment process in Pakistan. Before using one, the recruitment team must be able to understand the applicant’s potential.

Each step requires more and more training and management of partners to solve their doubts and problems. Some employees may be ambitious or learn quickly and their workout time can be tedious (Domański, 2018). Companies must provide these employees with professional training. Another typical departure culture is found in Pakistani companies where employees are often transferred from one department to another. Subsidiaries use this method, which allows employees to work from home.

It is very important to choose the right partner to run a subsidiary abroad. A key factor is the ability of partners to provide the parent company with increased capital and opportunities. These resources may include technical knowledge and other similar factors (Tomasevic and Spasojevic, 2018). The company needs to prepare a few talented people and then choose a partner. Companies can analyse their skills and compare them with the capabilities of their partners in relation to the strategic goals of the organisation. Local market information, distribution channels, after-sales support networks, brand awareness and regulatory information are all important factors in choosing a partner.

### ***Conclusion***

Lidl is a well-known British retailer as it accounts for 6% of the UK market. From this discussion, it can be concluded that Lidl can expand its market in Pakistan for profit. As a home appliance retailer, Pakistan can be a lucrative market for the entire company. In fact, consumers are willing to pay for very cheap consumer goods. The company is expanding internationally in Pakistan and producing products to suit local tastes. It is exported directly to the market through exporters or agents in the Pakistani market. In this way, Lidl's strategic leaders can make positive decisions to develop their business in Pakistan. Challenges in the international market that subsidiaries face can be solved with recommended solutions.

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Appendix

**VRIO Model**

Is valuable?	Is rare?	Is difficult to imitate?	Is organization organized around?	What is the result?
NO				COMPETITIVE DISADVANTAGE
YES	NO			COMPETITIVE EQUALITY / PARITY
YES	YES	NO		TEMPORARY COMPETITIVE ADVANTAGE
YES	YES	YES	NO	UNUSED COMPETITIVE ADVANTAGE
YES	YES	YES	YES	LONG-TERM COMPETITIVE ADVANTAGE

Figure 6 VRIO analysis of Lidl

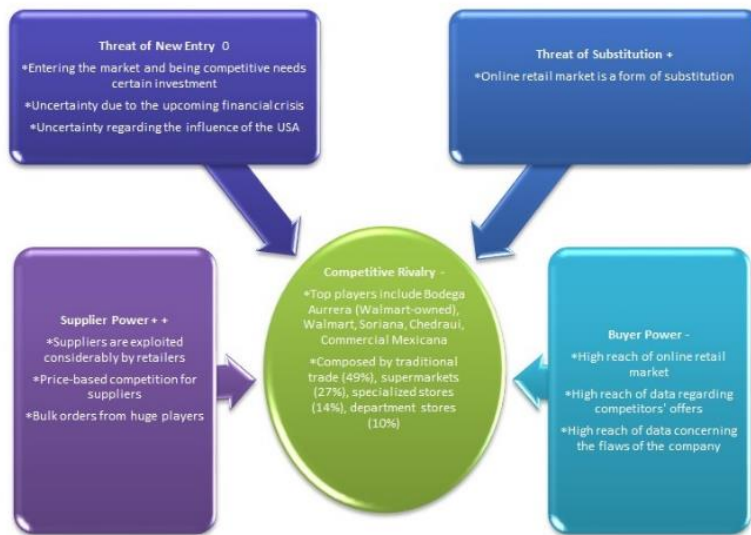


Figure 7 Lidl Porter's five forces



	<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Strong business structure allows them to sell their products at an incredibly cheap price.</li> <li>• Wide range of private labels gives them exclusivity and security.</li> <li>• Has a huge amount of stores across the whole of the Pakistan and Europe giving Lidl great exposure.</li> <li>• Online presence that showcases the products they have and any deals they may be running.</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Does not quite have the market share of the other big supermarkets in the Pakistan. Has not been able to spread their operations outside of Europe very successfully.</li> <li>• As their products are so cheap consumers can often think that the quality is not good enough.</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Potential to expand in the Pakistan and acquire a higher share of the Pakistan grocery market.</li> <li>• Successfully expanding abroad can provide more funds to invest in Pakistan.</li> <li>• Expand their website to actually accept orders and sell products.</li> </ul>	<p><b>SO: Maxi-Maxi</b></p> <p>Funnel revenue back into the Pakistan market by creating more stores across Pakistan.</p> <p>Introduction of new product ranges that cater to an upper-class demographic.</p> <p>Use strong online presence and staff training to expand their website with click &amp; collect or delivery services.</p>	<p><b>WO: Mini-Maxi</b></p> <p>Cooperate with firms operating in the US or Asia to expand operations. Increased revenue could then be funnelled into Pakistan development.</p> <p>Provide more information on their website about product details in order to enforce quality.</p>
<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• If Lidl were to engage with a price war with other major grocery retailers then they could force competitor's prices down.</li> <li>• International expansion of other global brands would cause more competition.</li> <li>• Aldi surpassing their market share and becoming the dominant discount grocery retailer.</li> </ul>	<p><b>ST: Maxi-Mini</b></p> <p>Lidl's own range of private brands can be used to deter price wars and comparisons.</p> <p>Utilise the significant amount of exposure across the Pakistan and Europe to construct barriers of entry for other low-cost grocery retailers.</p>	<p><b>WT: Mini-Mini</b></p> <p>Avoid engaging in price wars and competitive with major grocery retailers on a direct basis.</p> <p>Utilise extensive network in of operations in other European countries to bring new products to the UK.</p>

Figure 8 Recommendations for Lidl