

# Overview of the Grocery Market in the United Kingdom

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# INDEX

- Context: consumers and the economy
- UK Grocery Market
  - Channels
  - Retailers

# Context

## Consumers and the Economy

# Economy and Consumer.

The UK's economy is recovering: GNP grew 2.6% during 2014 and is already at higher level than before the recession.

Consumer trust grows :

- There is more employment, although the new labour contracts are of less quality (e.g. shorter term).
- Inflation around 0% for some time keeps expenses flat, at the same time salaries are slightly growing.











At home food expenditure is approx. 9% of household income.

Grocery inflation has been around -2% p.a. for the most of the last year. However, during the last 10 years, the price of the grocery shopping basket has grown 44% and salaries only 21%.

# Economy and Consumer.

## Asda Income Tracker Dashboard: August

Dashboard

Indicator	Annual percentage change	Recent trend
Regular earnings growth (July)	+2.9% (excl. bonuses)	
Employment growth (July)	+1.3% (+413,000 employment on year)	
Unemployment rate (July)	5.5% (-0.6% points on year)	
Net income	+3.2%	
Mortgage costs	-0.9%	
Food & non-alcoholic drinks	-2.4%	
Vehicle fuels	-12.9%	
Home electricity, gas & fuel	-3.5%	
Essential item inflation	-0.3%	
Family spending power	+10.7%	

KEY

IMPROVING TREND 

NO SIGNIFICANT CHANGE IN TREND 

DETERIORATING TREND 

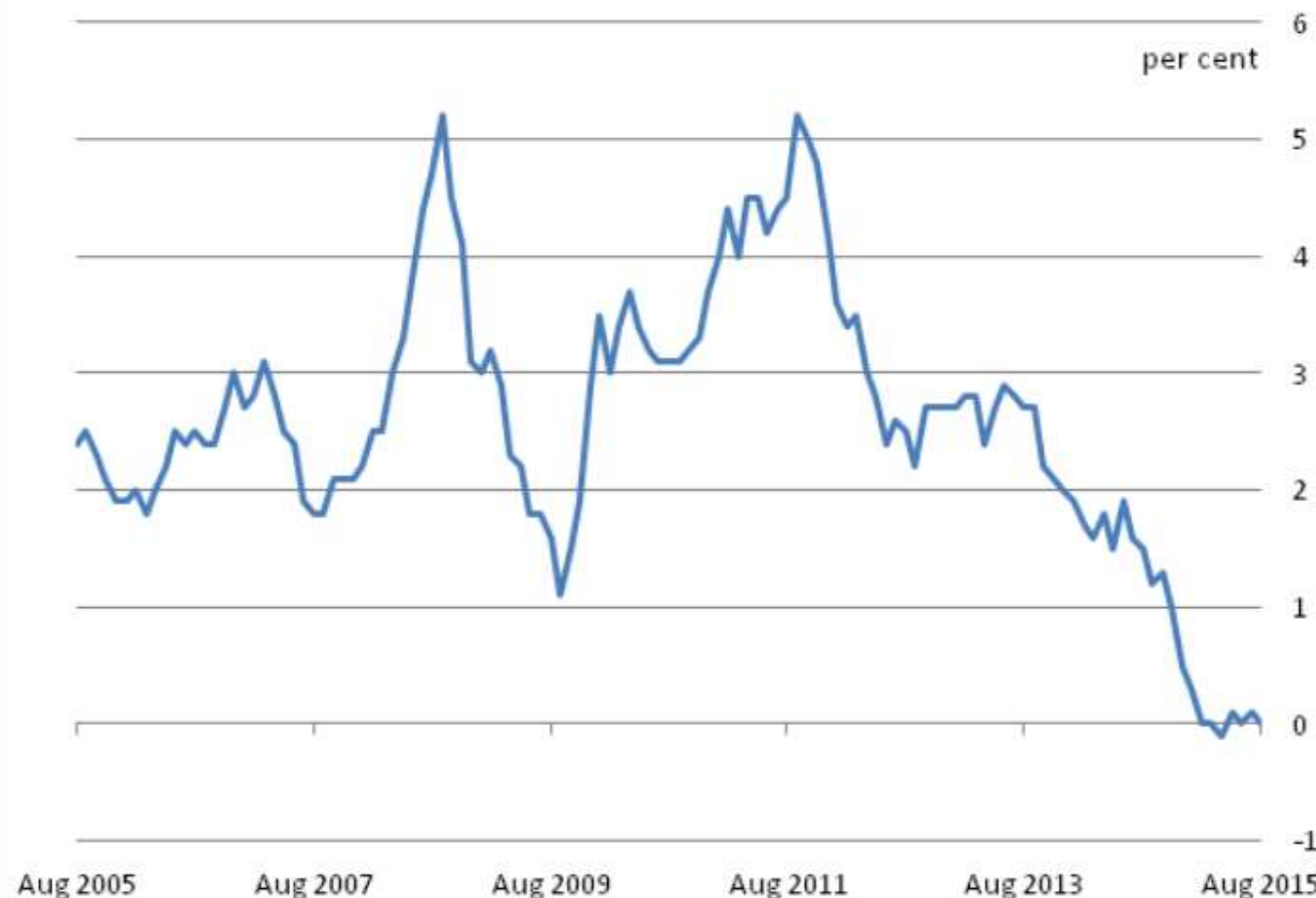
\* three-month average, to month stated

\*\*unemployment rate for three months to month stated

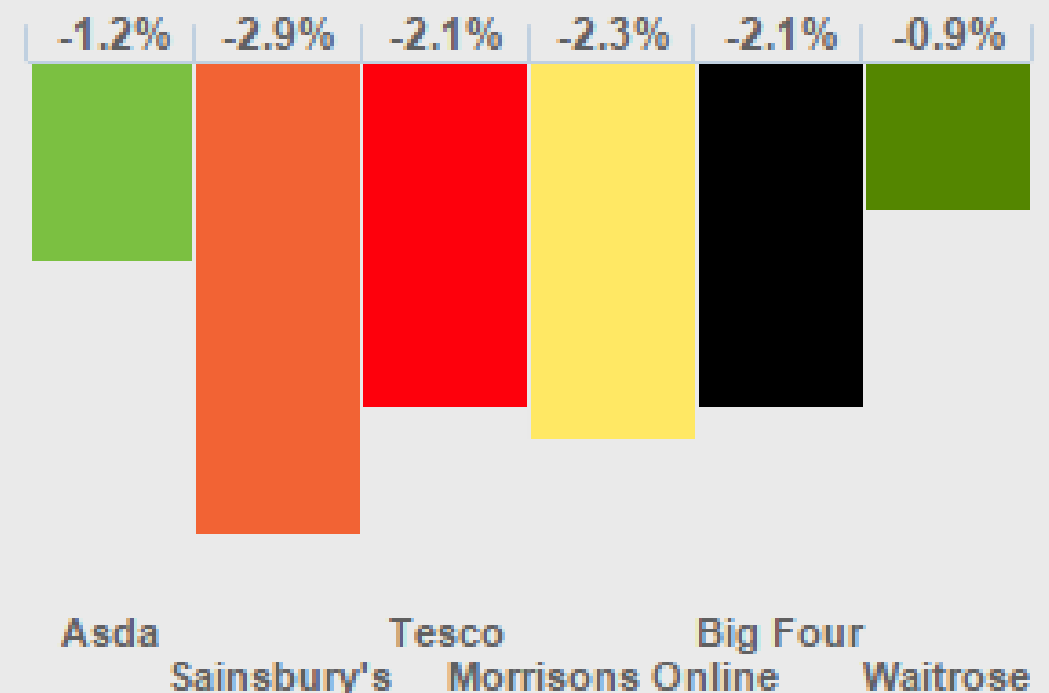
# Economy and Consumer.

CPI: Annual inflation, last 10 years.  
Until August 2015

Grocers' inflation  
sales growth +/-%



## Annual Inflation





# Consumer

During the debt crisis, a new type of consumer emerged and flourished!

- Smart: plans shopping, compares prices, looks for promotions, and is “savvy”.
- Active and resourceful: uses technology to look for information and share experiences.
- High expectation on everything (services, guarantees, prices) because is well informed.

Grocers' response has been:

- Offer value and price to shoppers.
- Protect margin, until the price war.
- Try to keep USPs relevant in front of shoppers (communication, Private Label, multiple channels, etc.).



# Consumer

But the crisis hasn't changed completely shoppers' behaviour.

	2010	2015
Visits / year	256	256
Frequency of Main shop	Every 13,1 days	Every 13,0 days
Frequency Top up shop	Every 1,6 days	Every 1,6 days



# Health and Wellbeing (H&WB).

H&WB is a very important element in products search and purchase and the value proposition is in constant flux.

From low fat and low calories, now consumers appreciate a more complex offer: clean labels, zero added sugar, new but simple ingredients, non-meat proteins, etc.

Sugar is penalised, it is the new tobacco. Manufacturers and grocers are innovating, reformulating, delisting products, changing labels. There is a lively debate around taxing sugar.

Growth is positive in product ranges that talk about health, wellbeing, exercise, and are able to bring together health and convenience (e.g. on-the-go breakfast).

Free from is another winner. There are more and more shoppers that are buying gluten free and lactose free products for their health halo more than because they need them (allergies).

# Shopping with Values.

Price is the main factor when shopping, but there are some other elements that are influential, especially those linked with “experience” credentials.

These comprise a group of attributes that every individual shopper weighs up in their own way: e.g. local products, organic, fair trade, animal welfare, sustainability, waste, or supporting charities.

This has allowed Sainsbury's to gain a point of differentiation in a crowded market, by supporting fair trade, animal wellbeing, etc., in their own branded products. Waitrose, too, is communicating intensely these elements, that resonate among their core shoppers. But discounters are also taking ownership of these values, and it seems likely that slowly all will become industry norms rather than key differential elements. In short, the “green bar” is being raised. In the future, being “green” won't generate a premium – failing to be “green” will be rewarded by a discount!

# Organic Products

The market looks better for organic products, after few adverse years, and reached £1.86bn of sales during 2014 (2.8% growth). The main drivers of growth have been shoppers increasing purchases per trip and shopping frequency, rather than reaching more families.

Organics lost sales during the crisis because shoppers traded down, and also grocers were reducing their organic offer, and/or giving them less shopping space. Now, with a pick up in confidence, and also an average price drop during last year, growth has returned.

The typical organic shopper comes from affluent families, and from young and senior couples.

For some categories organics is the norm (baby food, premium chocolates) and dairy represents almost half of total organic sales.

By channel, organic box schemes (11.7%) and independent retailers (5.7%) lead the growth.

Sainsbury's, Waitrose and Tesco together comprise 75% of the organic grocery market.

# Fair Trade

Taking an opposite path to organics, fair trade products didn't have bad times during the crisis but, now, sales are declining. According to the Fairtrade Foundation, retail sales fell 3.7% during 2014, to £1.67bn.

Sugar, one of the main products, is currently under pressure in the UK, as it is seen as a principal source of health issues.

Sainsbury's has 30% of Fair Trade share, and is the pioneer in offering all the products from a private label range (like bananas, coffee, etc.) to be fair trade. Some other retailers have followed their lead.

The Cooperative, the other important grocer for Fair Trade, with 12% market share, has announced that is going to focus more on lowering prices than on more esoteric social issues! This reflects the drubbing the Coop has experienced recently in the market.



# The UK Grocery Market

## Channels and Retailers

# Sluggish growth, but not for everyone.

According to IGD, the grocery market reached £174.5bn on April 2015 but, year-on-year showed the worst growth in recent years, with only +1.7%.

The grocery market is very concentrated, with the Top 4 supermarkets holding 75% of share. Tesco is the dominant retailer in every channel.

From March 2014, the Top 4 triggered a price war against discounters, that is resulting in more volume sales, but decreasing value. In one year £10bn has been wiped off the market.

The market is polarised: Discounters are growing, Aldi and Lidl together have 10% and the premium supermarkets (Marks & Spencer and Waitrose) have about 7% share.

Hypermarkets are losing sales (-2.7% last year) and grocers have started closing down unprofitable stores and not opening new ones. But they are still key in the sales figures, as they are the main channel, with 40% of total grocery sales. The growth is in online and convenience which are both less profitable channels for retailers.

The CEOs of three of the top 4 chains have changed in the last year (Tesco, Sainsbury's and Morrisons) and Waitrose is going to change on April 2016. The new CEOs have brought new analysis and development plans. They need to implement them fast, particularly Morrisons and Tesco!



# Sluggish growth, but not for everyone.

The UK grocery scene changed when shoppers accepted discounters, and the grocers have had to react and change to the new reality. During the crisis, prices were growing 4-5% p.a. while families were struggling to make ends meet. Shoppers looked for helpful food stores and found allies in the hard discounters, Aldi and Lidl.

The fastest growing channels (together with discount) are online and convenience. They are important for the present and the future, but at the moment much less profitable (if at all) for the mainline supermarket retailers.

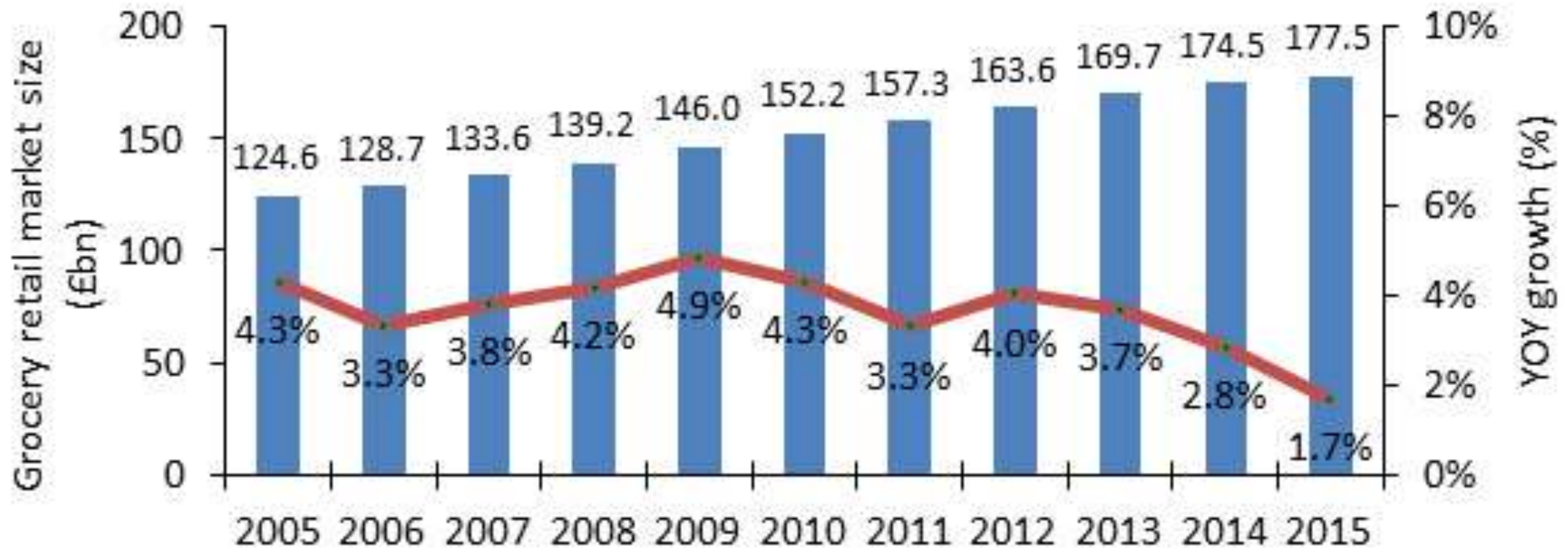
Government has passed new legislation to increase the minimum wages employees should pay. This is going to have a big impact on small and independent grocers, and will bring considerable additional cost for the big chains. With these extra costs plus the price war, commercial margins will continue to be squeezed.

The main trends for products and services are health and convenience. Shoppers value increasingly freshly prepared products that are quickly being adapted to their special needs (wellbeing, special diets, intolerances, physical activities). Grocers see fresh/prepared as an excellent means of differentiation in a crowded market with exclusive private label ranges.

Social values are important in this market, in spite of the war of prices. Fair Trade, organic products, local products, waste management, etc., are normally well accepted.

# Grocery Market Sales Figures

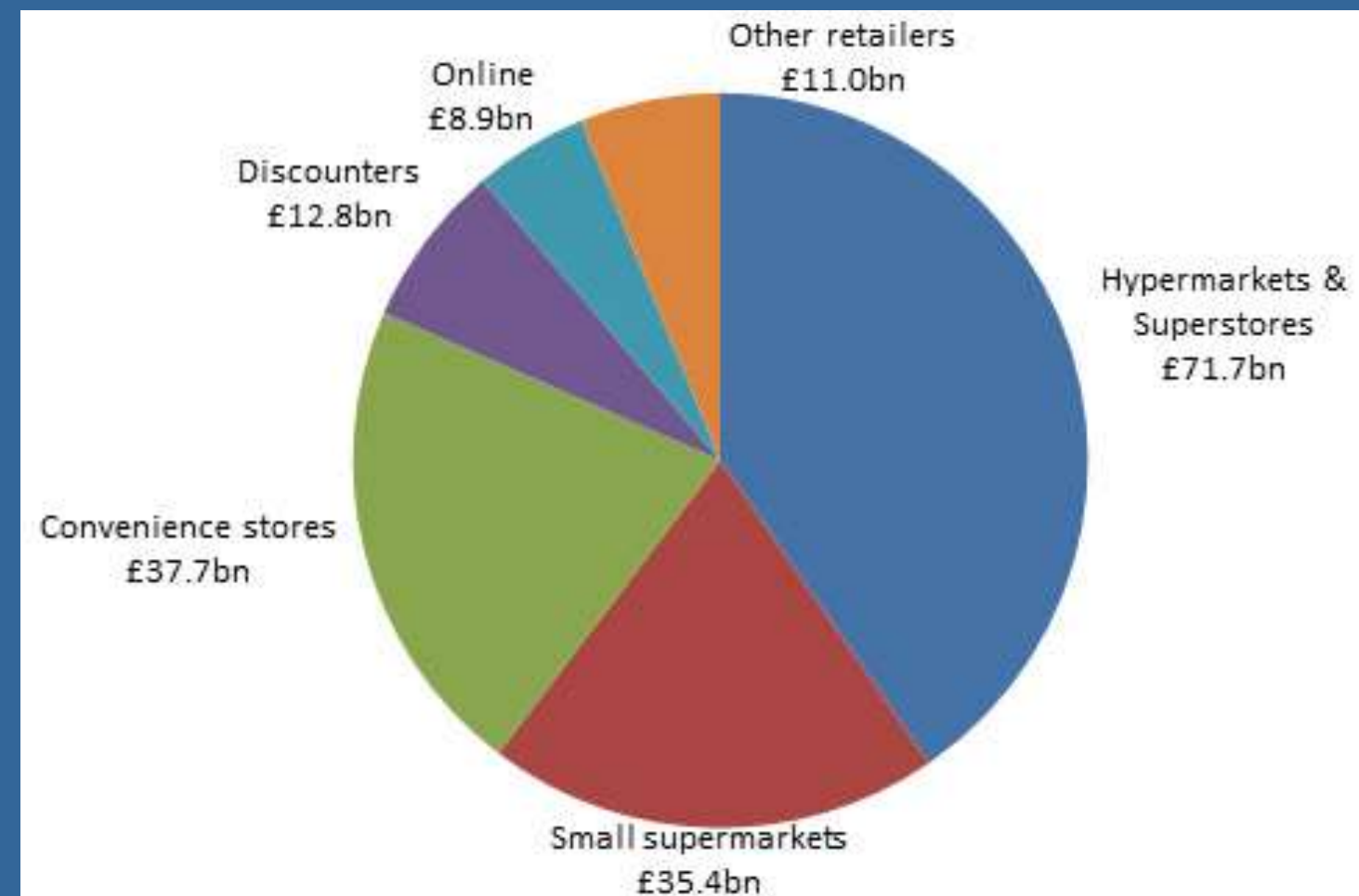
(£bn. and year-on-year % sales growth)



# Market by Major Retail Channels

## Year-on-Year sales growth

Hypermarkets and superstores	-2.7%
Supermarkets	0.3%
Convenience shops	0.8%
Discounters	18.5%
Online	15.6%

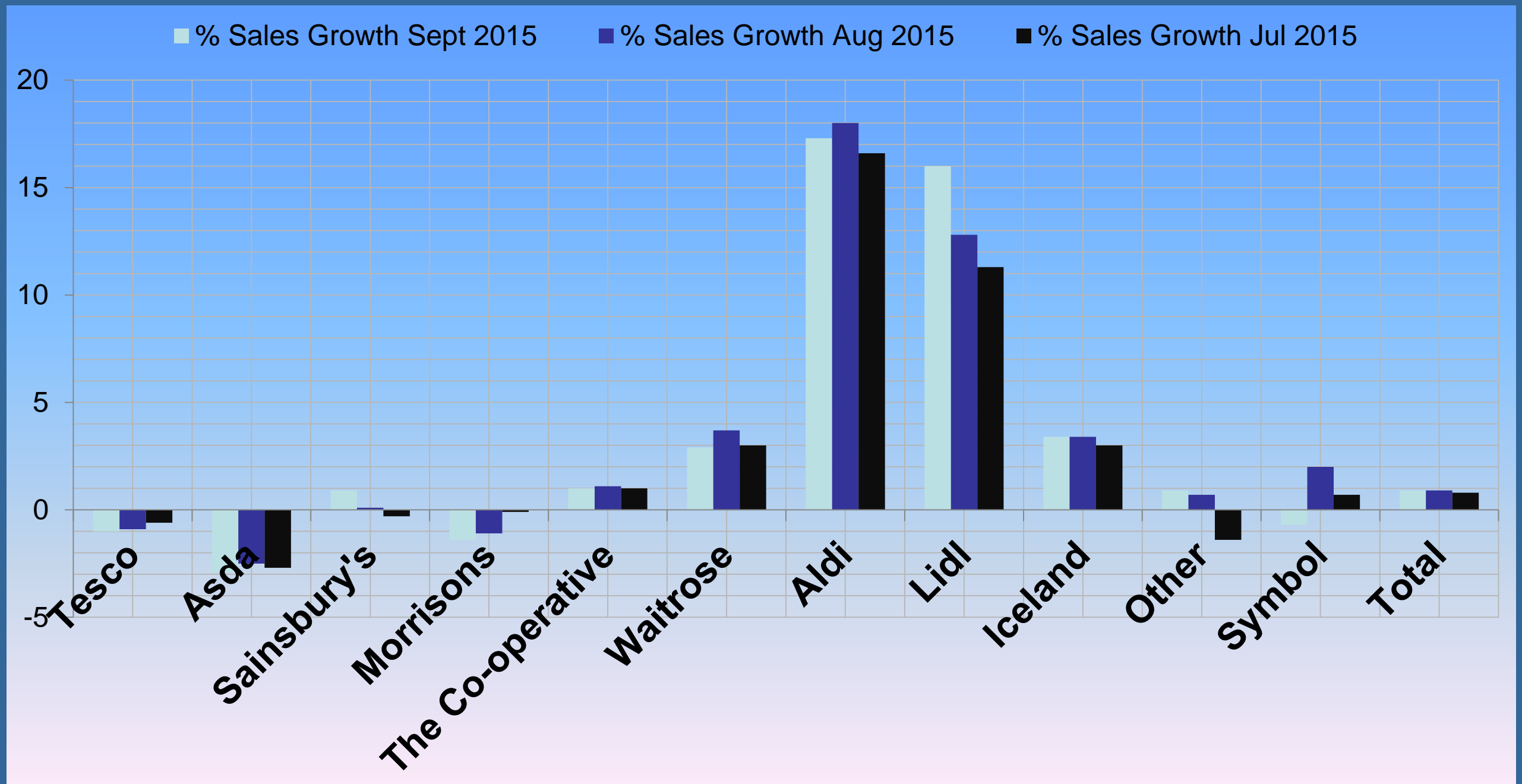


Big Box sales are contracting, and it is difficult for them to get more customers.

Although Convenience and Online are growing, they are less profitable than Big Boxes.

Hard discounters (Aldi and Lidl) are growing between 15 to 30% p.a.

# Grocers' Growth, last three months.

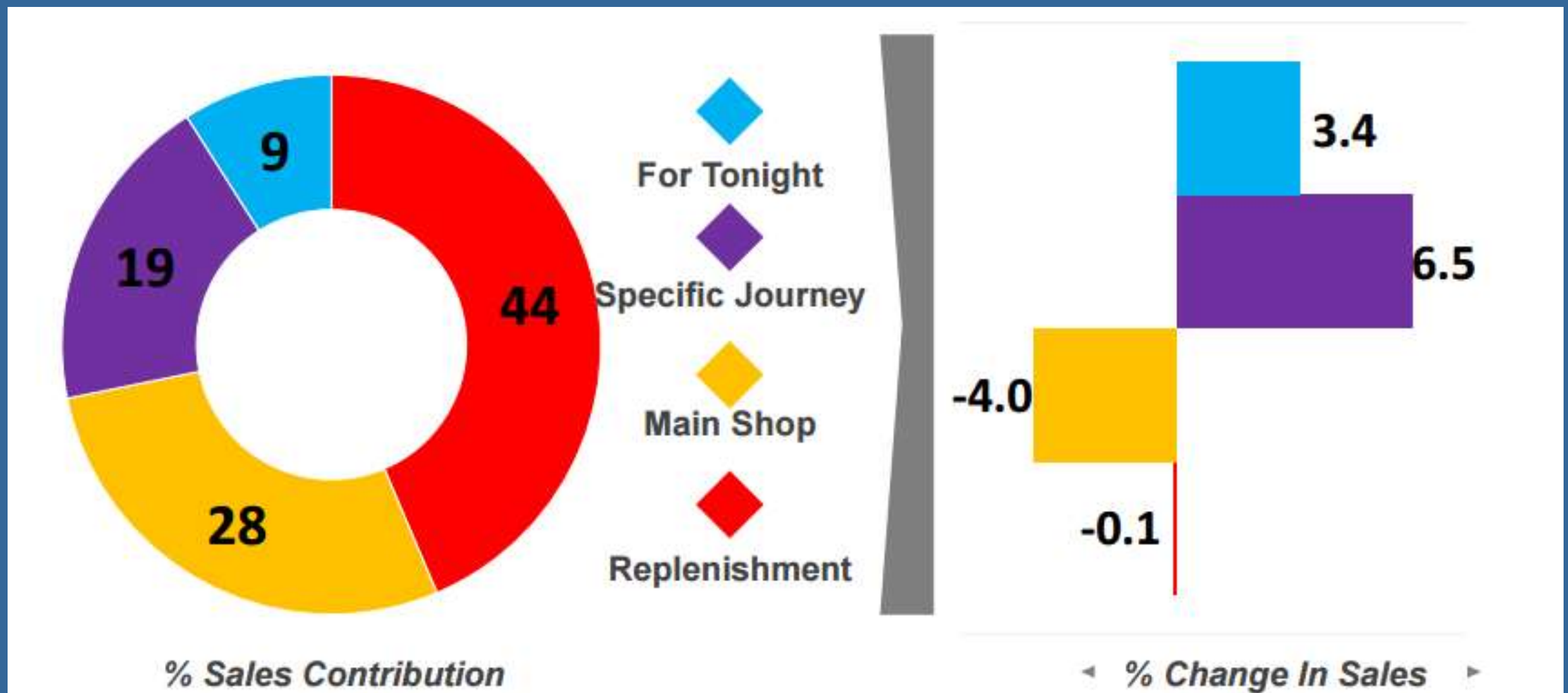


# Retailers Market Share (Nielsen)

Retailer	Market Share (%)
Tesco	27,7
Sainsbury's	15.9
Asda	15,6
Morrisons	10,8
The Co-Operative	5.8
Waitrose	4,2
Aldi	6,4
Lidl	4,3
Marks & Spencer	3,1
Iceland	2,0
Other	4,3



# Shopping Trips





# Chanel

# Hypermarkets and Superstores

This channel loses sales because shoppers are visiting less often and spending less there of their weekly shop. This has happened mostly because of the economic crisis (avoiding big bills, avoiding spend on petrol) and the ongoing lifestyle changes (lack of time).

Tesco is probably the retailer more active in the search for solutions for this. They want their shops to be a destination, a place where families can spend time, enjoy, and spend money. They have bought some other businesses they think can complement their offer, or have agreed some sort of collaboration with others:

- Family Restaurants (Giraffe, Decks)
- Premium bakeries and coffee shops (Euphonium, Harris + Hoole, The Bakery Project)
- Gyms Xercise4less
- Improving non food offer with more assortment and more products to taste
- More services in the shops: bigger mobile phone shops, opticians, beauty parlours,

Asda and Sainsbury's are also renovating their non food offer and opening concessions with business such as Argos, Jessops, Decathlon, etc., in their stores.

Morrisons, in the middle of big changes, try to focus on their expertise in fresh products and the ones they manufacture themselves, to attract customers by its fresh food offer & expertise. From November, Morrisons will make sandwiches in their stores, again, to add freshness credentials to the products.



Beauty parlours within the stores, to give more reasons to shoppers to spend more time in the store.

Year-on-Year Sales Growth 15/14

Market Share	Growth
40%	-2.7%

# Convenience Stores

Convenience stores comprise 20% of the market and are expanding.

The multiples are opening almost 300 stores per year, and recently, with the sale of Morrisons of their convenience stores, it has been shown how difficult is to master convenience retailing and make it profitable.

The main grocers neglected the channel for many years, but since the end of the 1990s they are back with a vengeance. They have 20% of convenience sales, 8% of the stores, and grew 16.3% in sales last year. Independent grocers are disappearing.

They get shoppers that want to buy to eat on the go or on the next occasion at home, or to replace something finished at home. Shoppers buy there more often and in less quantities so they can control better what they buy, they buy fresher products, and they avoid waste at home.

Grocers focus in delivering solutions for shoppers' problems, either by offering more services in the stores, adapting the range to the local population, and learning from shoppers about the reasons why they go to the store. (Tesco for example combines their loyalty data with demographic data to find which is the best range of products).

The online purchases delivered to the store are a great traffic generator. Particularly succesful for Waitrose (purchased from the John Lewis catalogue) and good idea of The Cooperative to let Amazon install lockers in their stores.

Aldi is also opening stores in the convenience channel, the Aldi City format, with food to go ranges and fast checkouts.



Sainsbury's opens 100 new convenience stores every year.

## Year-on-Year Sales Growth 15/14

Market Share	Growth
20%	0.8%



# Convenience Stores

It is very important the speed at which your customers can shop. And grocers achieve this by combining a relevant range, a layout consistent with the shopping missions, and technology.

- Ranges
  - Focus on the reasons why the shopper goes to the store and offer a limited but relevant range. Why shopper goes to the store? To buy dinner? Is it a soccer match today? Or to buy breakfast to eat while walking to the office? Display complementary products together and use prominent in-store communication.
  - Prepare products in the store, to improve the fresh image, blurring shop and restaurant images under one roof.
  - The price perception of the store is part of the grocer's overall strategy. Some promise convenience and will have the same prices as bigger stores, but it is not normally the case and some SKUs will have a price premium over the regular supermarkets.
- Offer services like ATMs, collect online purchases, etc.
- Shops with only self-checkouts, and even cash only to be used in one or two checkouts, the rest credit card, contactless, mobile.
  - Pay with the mobile phone. Some grocers have already Apps that allow scanning and paying for products with them and include the loyalty card details.

However, it is difficult now to find good locations for new stores which have enough traffic, population density, physical characteristics, etc., so it seems reasonable to think that the growth will slow down over the next years (but what about mini-stores in apartment blocks?).

# Online

One of the channels growing fastest. It is 7% of the market, and it will reach a minimum of 10% by 2020.

Mostly all the grocers have an online shop, and offer customers different ways to receive the product: at home, in the shop, in lockers, drive, in parking lots of busy places, etc. Grocers look for a balance between offering flexibility and options to customers, and saving costs.

Online shoppers tend to be families and those more affluent. Purchase patterns are getting very similar to the weekly shop done at hypermarkets, not only goods in packs, frozen and bulky, also fresh products. More shoppers are using the channel for their main weekly shop: according to IGD 11% buy almost everything online, and 27% use it once a month.

Many grocers still prepare the online orders by picking the goods in the store. However, Tesco, Sainsbury's and Waitrose are building or have already online order warehouses, called dark stores, where the products are placed in a shop style display, adapted for the automatization of many operations in the picking process. Ocado, the pure player, is the pioneer in this system, with intense use of technology for automation.

The way of delivering goods is also changing fast. From traditional delivery at home (in 30 minutes slots) to collect in drive and pick-up stations, or in temperature controlled chillers conveniently located.

Amazon wants to enter this business too, They have started to offer chilled and frozen products in some cities of the UK, with a probable launch in London of a service similar to Amazon Fresh in USA.



Sainsbury's now offers to customers the choice of driver that will bring their online shop to the home.  
Source Sainsbury's

## Year-on-Year Sales Growth 15/14

Market Share	Growth
5%	15.6%



# Hard Discount Stores

Clearly, this is the channel that is growing fastest, between 15 and 30% p.a.

They have moved from a no frills offer with small number of SKUs to a complex range with fresh products and tiered private label, sophisticated communication and promotions that create traffic.

They have improved their offer in key areas where they were failing, crucially fresh products, and others like wine, bakery, etc. So now shoppers can do a full basket shop. Middle class shoppers are now attracted to them, as part of the savvy shopping fashion. Only a few years ago, discounters were shunned by the middle class as “shops for poor people”!

Fresh products are key for them, adding credentials to the mix (local, organic, sustainable) and using promotions to drive traffic (like Aldi's Special Six).

They are stealing market share from the Top 4. Only Sainsbury's has managed to minimize the loss, thanks to their value communication and quality proposition.

Big 4 grocers have a number of initiatives to counter the impact of the discounters, like Discount Private Labels, Discount Zones within the shop, aggressive promotions, etc.

Poundshops are the shops where all the products are at the same price (usually at £1), another variation of discounters, and that is also capturing marginal but still important market share in a mature market.

Recently Sainsbury's has announced their joint venture with the Danish discounter Netto, to open 15 shops in the United Kingdom. The shops have a discounter feel, with the fresh products know-how from Sainsbury's.



## Year-on-Year Sales Growth 15/14

Market Share	Growth
7.2%	18.5%



# Channels are blurring.

Discounters are entering the convenience market:

- Aldi is testing in London small shops called Aldi City. The shops have a special range, with some convenience products (sandwiches and other food to go, cold drinks) and fast check outs.
- Aldi and Lidl also are improving their ranges to appeal to frequent shoppers, like fresh products and more importantly, bakery and coffee machines.
- Booker, the wholesaler with several symbol fascias, has launched Family Shopper, a convenience discounter for rural areas.

Foodservice and supermarkets are converging in their meal and snack offers :

- Freshly prepared food in the store gaining momentum. It is a key element to be different and avoid direct price comparison with competitors, but it is very difficult to master quality hot food-to-go.
- Key ranges (like food to go, delicatessen) should follow quickly the trends that consumers are adopting, like protein diets, paleo foods, etc.
- Group products together to make a promotions, like ready meals and side dishes that can form a dinner, or group of ingredients to be able to cook from scratch a complete dish.
- Packaging should help to prepare the products. Customers don't mind cooking at home as long as there is zero fuss and there is no waste, so there are more and more packaging that can be heated up directly in the oven, microwave, etc. Biodegradable packaging is firmly on-trend.
- Adapt the products to the surrounding shopper demands: healthy foods, take away meals, ethnic products, etc.
- Offer personalisation. In some stores, customers can prepare their own pizza choosing toppings that are cooked in the store.

# Online and convenience feed each other.

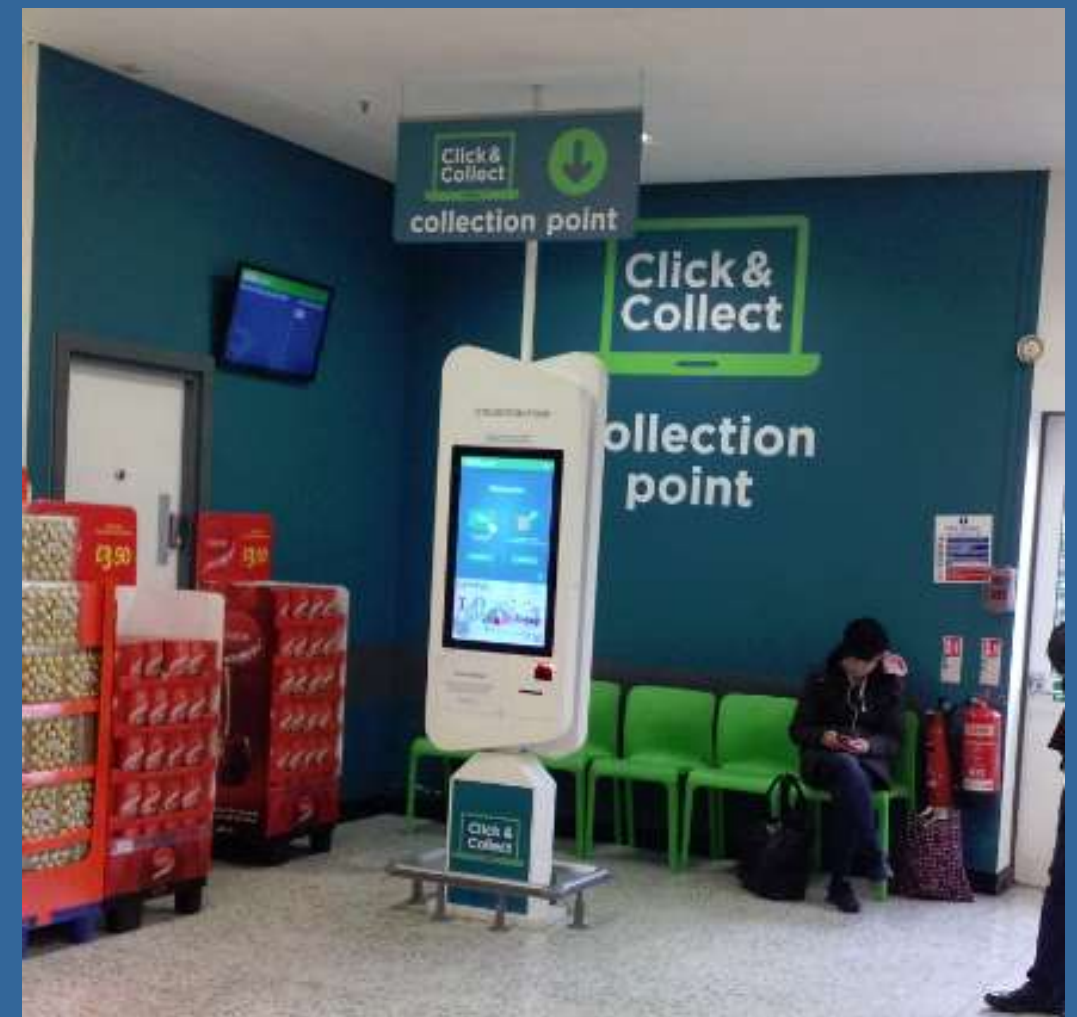
Many convenience shops by Tesco and Sainsbury's have pick-up stations for Click and Collect deliveries.

They bring customers to the shop, and customers feel it is very convenient for them. For most grocers, deliveries are still free, but it seems likely that there will be soon be a minimum size order, or charges per delivery. It is also a good return centre, where unwanted goods can be collected.

The trend is for deliveries to be faster and faster. Normally delivery is next day, but some non food retailers offer already one or two hours delivery slots.

Mobile Apps play a fundamental role in the relationship between grocers and customers. Grocers can send promotional messages, delivery notifications, guide shoppers to the store, send coupons to shoppers, etc.

And there is scope for collaboration between companies. Like The Cooperative and Amazon. The pure player is renting space in The Cooperative shops, so their customers can pick from Coop stores the online orders of Amazon, and if needed, the Amazon shopper can do some last minute grocery shopping in the Coop store.



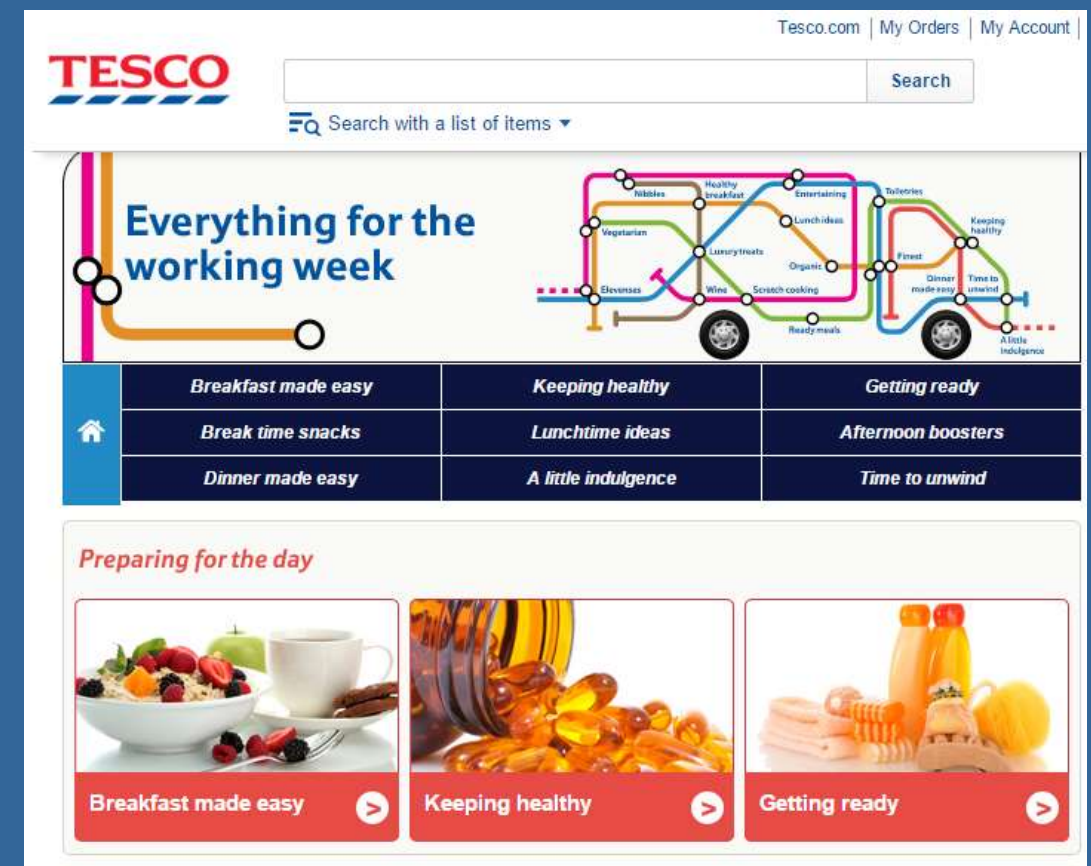


# Pay attention to commuters.

A good example of catering for specific shopping missions is the creative way retailers are looking after time-pressed commuters.

Grocers have developed some initiatives specifically for travellers:

- M&S is the most advanced, with shops in many train stations with a range of products very adapted to this kind of customer and specific merchandising.
- Waitrose is testing the format, with small shops with one corridor where shoppers walk in and shop as they progress through the store.
- Some small grocers fill gaps left by multiples, and have developed small stores brim full of sandwiches, flowers, drinks. Their strong point is a very reduced range, but very relevant products, and a very fast shopping experience.
- Apps can be tailored for these customers, like Tesco did, with a commuter shop that has only few shopping categories, like something for breakfast, something for dinner, relax at home...



# Petrol/Gas Forecourts

Another format gaining momentum, inside the convenience channel where the shopper can fill up the car with gas and themselves with snacks, drinks, papers, cigarettes and even dinner for tonight.

M&S has an agreement with BP, and the petrol company operates over 200 franchises of M&S Simply Food in their stores.



- Waitrose is opening stores in the motorway service stations. They run around 30 stores, and are increasing the product offer and customers can collect click and collect purchases from John Lewis.
- Asda purchased last January 15 petrol stations in London and around. They plan to open more in the south region of England, where they don't have many hypermarkets. The petrol station has a convenience store and chilled lockers where customers can collect grocery online orders. It is a clever development, that gives many reasons for customers to visit the stores.



# Fresh Products

A very important element in the grocer's proposition. They are essential in the shopping experience and for achieving good credentials (origin, sustainability etc.). They comprise approximately 30% of the grocery sales.

Morrisons has tried to occupy the space of the expert for fresh products, with sourcing advantages thanks to supply chain integration, extensive range of fresh products, exclusive promotions and shop floor assistants with good expertise in fresh food.

Waitrose and Marks & Spencer use them as part of their basic range. The majority are in the entry level brand, but with premium products with attributes (like new varieties, exclusive products or seasonal specials).

Sainsbury's is associated with a high level of social values in their offer. They are one of the main retailers for Fair Trade, and their conversion to 100% Fair Trade Bananas was a landmark for the industry.

Only a few retailers have butchers and fishmongers in the store. Basically superstores and hypermarkets, and all the Waitrose supermarkets. Tesco and Asda have halal butchers in selected high Moslem shopper stores.

Fresh produce can be sold packed or loose. The latter has seen an increase as the crisis toughened, and remains thanks to the positive message of controlling waste at home when you buy exactly what you need.





# Ready Meals

Probably, UK is the best place to come to see ready meals in grocery retailers. They sell in excess of £3bn per year, and more than 80% of this comes under the grocers' private brand.

Ready meals and the products “food to go” are one of the elements where retailers can apply more their differentiation tools – emphasising their exclusive sourcing policies, price positioning, lifestyle messages, health, convenience, and innovation image.

Food to go ranges are very developed in the convenience stores. Salads, sandwiches, hot food, etc, are placed at the entrance of the store, many have only one day of shelf life, and can be linked through meal deal promotions, where the customer can buy a group of different products for a fixed price.

Ready meals target different meal occasions: dinners for weekdays, posh nights in, TV dinner day, parties, picnics, etc. And different types of consumers, like the British food lover, the Ethnic food aficionado ,,... And under similar promotions of buying few items together that when combined make a memorable or quick and easy dinner.

Fresh meal solutions are similar products, but normally in the fresh product section. They are meals that need to be cooked, but all the ingredients are ready to cook and portioned inside the pack. Good for busy foodies, it is convenient and avoids waste in the household. All the fuss of preparation is removed leaving the good feeling glow of having cooked it yourself!





# Private Label

Private label (PL) is a key element in the grocer's strategy. It lets them communicate points of difference with others, and determines greatly the image the shopper has of the grocer.

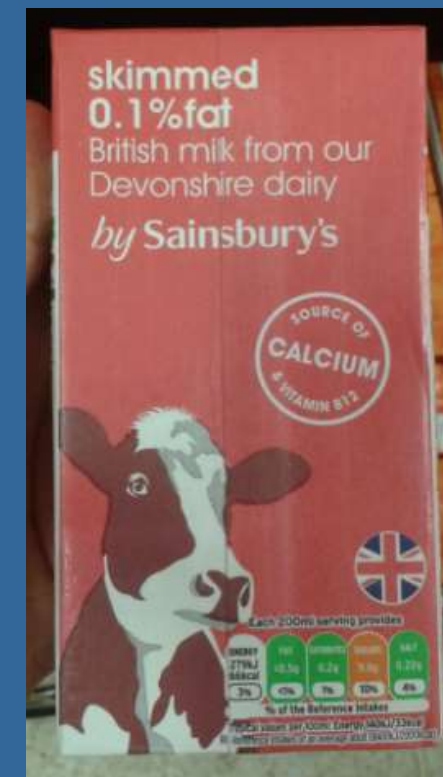
According to IRI, PL sales and PL market share has been growing continuously, and they have achieved more than 51% of the share of the market for packaged grocery.

For some categories, like fresh produce and meat and ready meals, almost all products are private label. Marks & Spencer is virtually 100% private label.

The offer is complex and segmented, and is often renovated. The usual hierarchy is a three tiered system, - good, better and best, and other subbrands targeting segments of the market like organics, kids, free from etc.

Discounters Aldi and Lidl have premium Private Label ranges, whereas Marks & Spencer and Waitrose have their very own entry price private label (Simply M&S and Essentials Waitrose, respectively). Consumers accept them well, and the great majority think they have a similar or better quality level than manufacturers' brands.

Private label is not only following and copying manufacturers' brands. In some cases, they are more innovative, reacting faster to customer changes, and developing new categories for new needs.



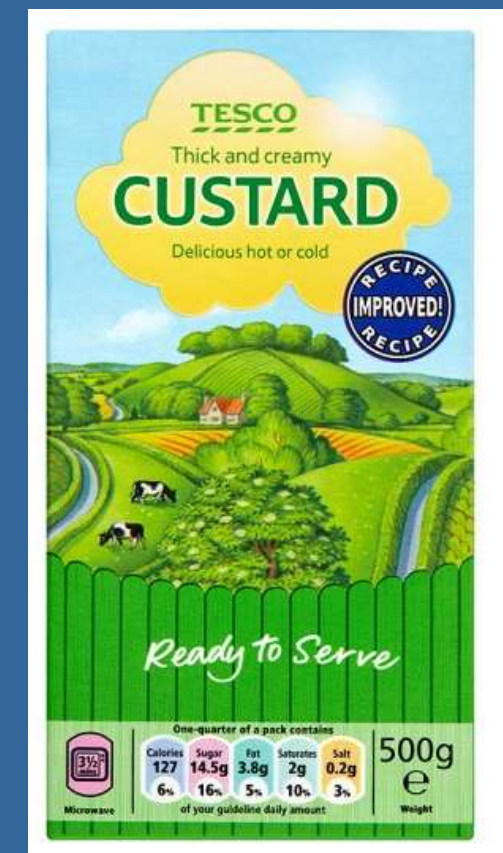
# Private Label

## PL Attributes:

- Exclusive, only found in one retailer.
- Everyday Value, the first price as defense against hard discount.
- Segmentation according to attributes of the product (organic, fair trade) or attributes of the customer targetted (Tesco Kids, Healthy Lifestyle)
- Endorsement by celebrities. Not used much by Tesco, but Waitrose uses it linking their premium range with chef Heston Blumenthal, or Sainsbury's linking their image with brand ambassadors like Jamie Oliver and David Beckham.
- Venture Brands, positioned as a manufacturer brand, same quality just slightly cheaper price. Like Tesco's Chokablok, a product that customers cannot link to Tesco other than it is sold only at Tesco (but not successful for Tesco).
- Quick to bring in innovations and react to customer new trends.
- Control over an extensive range of products, that makes it easier to combine promotional activities, join products together that can form meal dishes, etc.

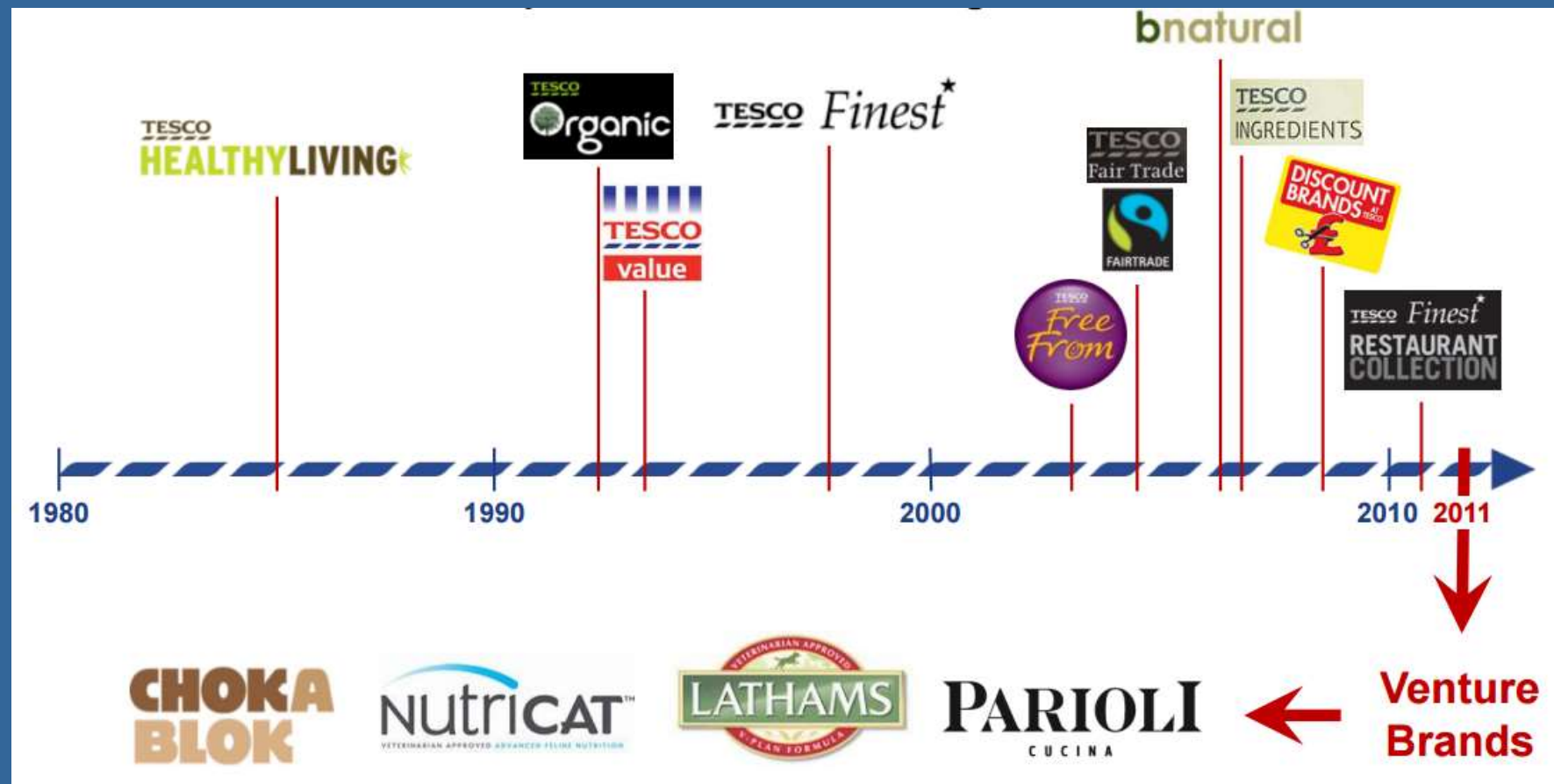


Tier	Share
Entry Level	6%
Standard	88%
Premium	6%





# Private Label. Tesco Example



The image shows the evolution of Tesco's Private Label architecture.

First PL products appeared with attributes like health and organic production, and the next developments were based in the entry (low) price section of the hierarchy.

From here, Tesco developed the Venture Brands (not identifiable as Tesco's) and Discount Brands (with Tesco name, and names and image to imitate Aldi's and Lidl's brand style, discounters) and ranges like Free From (products free of gluten, lactose, etc. targeting customers with food intolerances) and cooking Ingredients (for foodies, customers that cook at home and need a wide range of kitchen requirements).

# Promotions.

Promotional activities in United Kingdom market are very extensive, adding complexity to the management of the shops and for customers to understand what is the price they are paying for the products they buy. Promotions bring customers to the stores, but they can destroy value and diminish grocers' margins so, more recently, mainline retailers have reduced the complexity and frequency of promotions, opting for a more EDLP approach

Promotions will have more chance of success if they are adapted to particular customer's needs:

- Mix and match, end of aisle with a display with fresh meat and fish. Shoppers can purchase three packs of protein and plan their weekly dinners.
- Meal deals, for lunch (a sandwich, a drink and a snack) or for dinner (ready meals and a bottle of wine) for a fixed price. Some can offer more specialization, like dinners with pizza and other take away snacks for a Friday night at home (Asda even included a DVD movie within their "Big Night In" promotion).
- Ingredients to cook at home a certain dish, for a fixed price, too (wok promotions are popular, with a pack of boiled noodle, cut vegetables and a sauce). It takes out the complexity of cooking exotic food at home.

According to Kantar Worldpanel, promotional items count for 45% of the total sales of Tesco, Asda, Sainsbury's and Morrisons. So, it is not only the price war that is eroding margins, the intense promotional activity undertaken by grocers has meant that only about half of the products they sell are at full price.





# Loyalty Schemes

It is an important element that has allowed grocers to understand their customers better and tailor the communication and the offer to each customer accordingly.

There are two main models. The first scheme to appear was Tesco's where through the ClubCard Scheme Tesco can capture customer spend across all its diversified businesses (e.g. supermarket, bank, mobile phone account) in one grocer. Nectar Card is another model, where the loyalty scheme captures data from several retailers (in this case, Sainsbury's, Homebase – a garden centre – BP – petrol stations - etc.). Both models give points to customers according to amounts spent and, later, the points can be transformed into discount coupons in many different retailers or restaurants.

For many years, Tesco has been topping the innovation chart on use of loyalty card data. The retailer has been capturing data for more than 20 years, and used it in very sophisticated ways, like sending personalised coupons and information to shoppers, broadcasting personalised ads on Tesco TV, adapting the range of supermarkets and product offer to the type of people living close to specific stores, etc.



# Loyalty Schemes

Nowadays, the new trend is to offer immediate benefits to shoppers, rather than accumulate points to get delayed rewards. Waitrose leads the way here, with Marks & Spencer following with their recent launch of their “Sparks” loyalty card. Waitrose offers free coffee for customers, and special promotions where they can get a free newspaper, discount in certain categories, or even choose the products they want to buy at a discounted price (e.g. the shopper chooses 10 products s/he wishes to buy each week at a 20% discount on posted prices).

Sainsbury's is also obtaining good results from its loyalty card. Thanks to several initiatives and crucially to the Brand Match scheme (a guarantee for Sainsbury Nectar cardholders of not paying more than their competitors for branded goods), Sainsbury's have changed customers' price perception of its stores and, now, the company is seen as being a good value for money retailer than an expensive one (as before).

One **FREE** regular tea or coffee every day



We think the best person to pick offers for you is you

**NEW**

Pick Your Own  
**OFFERS**



# Grocers

## Facts and Strategies

# Grocery Chain Snapshot.

Grocers	Sales 2014 (£bn)	Store number	Store surface (m <sup>2</sup> )
<b>Tesco</b>	43.423	3.520	3,717,824
<b>Sainsbury's</b>	23.443	1.305	2,119,955
<b>Asda</b>	23.442	589	1,911,105
<b>Morrisons</b>	16.816	667	1,368,522
<b>The Cooperative</b>	7.085	2.796	1,009,908
<b>Marks &amp; Spencer</b>	6.440	852	442,372
<b>Waitrose</b>	6.135	335	544,382
<b>Aldi</b>	5.269	569	470,470
<b>Lidl</b>	3.513	672	598,080
<b>Iceland</b>	2.840	871	398,813
<b>Poundland</b>	1.111	588	282,585
<b>Ocado</b>	0.949	N/A	N/A

Source IGD 2015 Sales without VAT Petrol, and Companies Annual Reports



# The Shopper.

Sales 2014/5	Sales growth	New Shops
£48.2 billion	-1.7%	183

## Value proposition:

Universal and multichannel, and offers a wide range of products and services, competing with any and all other retailers in the country.

## Channels:

Hypermarkets, Supermarkets, Convenience and Online.

## Story:

It is the most succesful grocer in the United Kingdom. The business started as a low cost market stall in London, and after the 1990s became a world player, first achieving fast growth in UK and then expanding internationally until becoming thrid grocer in the world, after Walmart and Carrefour.

Now they have suffered more than others the challenges of the market. They lost sales because of poor service, tired shops, and they have lost their low price image. Moreover, bad leadership brought them more problems, remarkably lack of direction and accountancy issues, which may lead to a serious fine from the Financial Authorities. Tesco's international presence is much slimmed down, now.

Online and convenience channels are growing fast, and the initiatives of the new CEO, with a renovated directors' team and commonsense strategies may soon start to deliver improved results.

## Stores

Format	Number
Convenience	2.577
Superstores	321
Hypermarkets	683





## Strategies:

Recover customers' trust, lowering prices of many products, improving service in the stores.

Simplify shopping (and operations) by reducing range. It is expected that the range will be reduced by 20% approx, to 70,000 SKUs. First categories analysed have also reduced average price of products by 10%.

Improve relationships with suppliers, seriously damaged during the previous CEO reign, now they are trying to improve communication channels, to reduce incident resolution times, and change and simplify their commercial policies.







## Recent developments:

Convenience innovation: they are already one of the grocers opening more stores, and also innovating in the proposition, including new foodservice formats and small shops well adapted to the local area and shopping mission.

Intense use of technology in the new shops (to improve shopping experience), channels (Apps to scan and pay for products in the store or get informations, Hudl, their own tablet device, dark stores highly automated), and supply chain rationalisation and efficiency improvements.

Shop refurbishment to improve their image, and deploy more and better trained staff to assist customers.

Renovating their hypermarket proposal, mixing retail and foodservice (Euphonium, Giraffe, etc.) and leasing space to other retailers that can help to bring more customers to the store.

Targetting customers that left Tesco for discounters. Set “pound areas” in some shops, with manufacturer brands at very reduced prices – to counteract the impact of “pound stores”.

Use ClubCard Data to tailor store range and communication (specifically ads broadcasted by TV screens in the stores) to the surrounding demographics.

Health commitment: get rid of products seen as unhealthy, either from impulse areas and the range (like delisting juices with sugar added, reformulating their private label juices, etc.).

Environmental commitment: they are the only grocer to publish waste data and their objectives to reduce it every year.

New KPIs system to appraise their staff’s work performance. Simpler than the wheel chart previously used, and focused in some of the areas they want to improve.





Price.

Sales 2014/5	Sales growth	New Shops
£23.4 billion	-1.99%	17

Stores	
Format	Number
Convenience (with petrol stations)	2
Supermarkets	189
Hypermarkets	351

### Value proposition:

Hypermarkets with universal appeal, for price sensitive consumers.

### Channels:

Hypermarkets, Supermarkets, Petrol Stations with Convenience Stores, Lockers for Online Orders, and Online.

### Story:

Asda (Associated Dairies) was established in Yorkshire in the 1960's, and at the end of the 1990s the chain was bought by Walmart. They are the Top 4 UK grocer with the strongest low price image, communicated consistently through the store (Price Roll Back, Price Lock, Asda Price Guarantee) and in other media.

They are a grocer with high exposure to the hypermarket channel, but contrary to others, have managed with limited success in the aftermath of the financial crisis, thanks to its low price image and the good reputation of its non-food ranges (clothes brand George is one of the most successful in the UK clothing market)..

However, sales are still decreasing and they have lost customers to discounters. Asda continues to reduce prices and is the closest in price to the hard discounters of any of the mainline supermarket chains. Currently, it is focusing on improving stores and product range., while relentlessly keeping downward pressure on prices.





# Strategies.

Fight discounters with price. They announced to invest £1bn during 2014-18 to reduce prices and fight discounters. Since even this strategy hasn't paid off well for them (they have been losing sales for the last year and are now at the bottom of the Big 4 league), they are going to focus even more on price and slow down other projects like convenience and online.

Improve their quality. They communicate profusely in the stores about the industry awards they receive (just as discounters do). They are investing £250 millions to improve their own brand product quality. The Asda premium own brand is “Extra Special”, and some products have been developed in association with a famous chef’s school (Leith’s Cooking School).

Premiumisation can be felt also in the non food areas, especially the clothes (with the refurbishment of the areas in the stores and launching new brands like Tailor & Cutting) , and the rolling out of the Premium Own Brand “Exta Special” into non-food.

Convenience channel expansion, either via small supermarkets (they have two in London) or via convenience stores attached to petrol stations, and with a online delivery locker. Their plan was to open quickly over 300 petrol forecourts in the short term, but these plans have been postponed.

Keep looking for efficiencies in the supply chain, and apply the savings to reduce prices. During 2014 they have changed store personnel hierarchy, i.e. reducing middle management and producing a flatter structure.





## Recent developments.

It is the cheapest of the Big 4 supermarket chains (by around 8%) and normally the winner of the Grocer 33 competition (Pricing analysis carried out by The Grocer magazine every week). They consider that in two years they have reduced the discounters price gap from 20% to around 10%.

However, they are very sensitive to the “price matching” coupons campaigns carried out by competitors, that attract many of their very price sensitive customers.

Working to improve their credentials as specialists in fresh products, especially fish and meat. They are collaborating with Eblex (the English producer association for the red meat sector) and Halal organisations, to find ways to improve their offer while keeping prices down. Their range of fresh produce carries the brand of “Asda Chosen by Growers”, emphasizing the origin credentials. In their shops you can see many boards and signs with the recognitions they have received, e.g. Turkey Retailer of the Year, Pizza Retailer of the Year, etc.

Develop the online channel and improving the delivery options. They have launched a new store format for small high street stores, where you can pick up online orders. Also, Asda is testing smart pickup stations which are completely automated.

They are very good with seasonal events, with powerful displays and a good selection of affordable products. The corridors are decorated often with games to engage with children.

They are also fast to respond to new trends in consumption, without compromising on price. For example, they have a extensive range of ethnic foods, innovative packaging for fresh produce, and they have a good range of low-alcohol wines, cheaper than regular wine and on-trend in low alcohol content.





# Value and Values.

Sales 2014/5	Sales growth	New Shops
£25.8 billion	-0.2%	106

## Value proposition:

Universal supermarket, with quality and values.

## Channels:

Hypermarkets, Supermarkets, Convenience and Online.

## Story:

Traditionally, the most innovative grocer in UK until the 90s. Sainsbury' (JS) managed to survive well during the financial crisis, but has struggled to maintain profitability, although sales losses have been less than its direct competitors.

Born in London 150 years ago, JS was the inventor of grocery Private Label, when Mr John Sainsbury wrote his name on some of the products he was selling (butter, bacon) as a guarantee of quality. They were also the first grocer to open modern self-service stores in UK in the 1950's. In their prime, Sainsbury's expanded overseas (USA, Egypt), but scurried back home when the domestic business came under pressure from Tesco in the early-1990's.

They have been growing thanks to the quality of their products at good prices, development of non food offer, and investing in the markets that bring them growth (convenience and online). Their image and improvements have helped them to avoid losing shoppers to discounters.

## Stores

Format	Number
Convenience	746
Superstores	320
Hypermarkets	248
Discount (*)	5



## Strategies.

Value and Values. It is likely their most important point, not to talk only of low prices, but of the quality of their private label, the responsible sourcing policies, environmental respect, and also, same prices as competitors for the branded goods. Sainsbury's liaises with celebrities that add credibility to its image, like Jamie Oliver and David Beckham, and support events accordingly, like the Paralympics competition, etc.

They are fighting the price war too, but without the intensity of their competitors, because it would damage their credentials. They are moving towards an EDLP strategy, decreasing the intensity and frequency of their promotions, with the objective of educating consumers not to wait to buy when items are discounted, because the price difference won't be that much.

Nectar. They joined some other retailers (Homebase, BP, eBay etc.) to set up a loyalty scheme. As such, they can gather information in other areas of customers' expenditure, and develop better insights than only having grocery data. Nectar has been of paramount importance in the Brand Match initiative, the price promise for branded products, that allowed them to be seen by customers as a more value-conscious than expensive supermarket.

They are expanding their services and formats portfolio.

- Convenience and online development. They are opening 100 small stores per year, and many will have click and collect services. Both channels are growing at double digit rates.
- Improve other areas of retail where they lag behind competitors, like non food, financial services and mobile phone offer, to gain more expense share from their customers.
- Improve their big stores. As others, leasing redundant space to other retailers that could bring customer traffic (Argos and Jessops), and testing new store layouts around customer shopping missions (something normally more linked to convenience stores).
- Joint venture with Netto, the discounter from Denmark, to open 15 discount stores managed jointly.







## Recent developments:

Communication to change customers' perceptions. Sainsbury's first campaigns centred on "feed your family for a fiver" to be seen as a place to buy food that wasn't that expensive, they moved the focus on from individual product prices to the meal (which makes a lot of sense for customers). And they kept talking about the quality of their own branded products and sourcing credentials. After, with Brand Match, they guaranteed shoppers that the branded products had the same price in Sainsbury's as in Asda and Tesco, and paying the difference if not. The objective was reducing even more the importance of price as a factor to choose your grocer. Now the focus of the communication is that "We are working on Prices", and displaying "Great Prices" messages in the stores.

Development of online and convenience channels have enjoyed great synergies. Mostly all the new convenience stores they open allow customers to collect online purchases (from the JS non-food catalogue) in the Click & Collect stations, so more customers approach the shop. They have some depots to serve exclusively their convenience stores, and are building a dark store for the online orders.

Sainsbury's want to make the use of technology a differentiating element: self scan in the shops, and developing Apps that can help to prepare for the shopping outing (i.e. like old-fashioned shopping lists!), during the shop (maps of the store to guide you, scan the products) and to pay.

The non-food range is quite recent, still deploying it in some big stores. It has helped them during the crisis to keep good growth numbers, and helps to maintain their position of a quality grocer (for example, liaised with celebrity chef Mary Berry for a bakeware range of cooking utensils).

They renew continuously their Private Label. During 2015 they are going to renovate 3,000 references to improve quality. On this range is where they show their credentials - sourcing fair trade products, sustainable, considering animal wellbeing, etc, and helps them to keep a difference with competitors in the Top 4.

There is not much information about the Netto stores. The test period will finish at the end of the year, with 15 stores. It has helped Sainsbury's to alleviate the pressure on the redundant space, as some Nettos opened in Sainsbury's Hypermarkets, or in properties that were not going to become a Sainsbury's store.



# Fresh Products.

Sales 2014/5	Sales growth	New Shops
£16,8 billion	-3.2%	68

## Value proposition:

Supermarket for everyone, expert in fresh products.

## Channels:

Superstores, online and convenience (\*).

## Story:

Morrisons was typically a grocer for the people of the North of England, a simple proposal, good prices and not too luxurious. They were founded in Bradford in 1899 by the Morrison family. The family-owned chain purchased the much larger Safeway Supermarket business which saw them expand from the North of England into a UK business.

When they expanded to the South of the country and tried to appeal to the middle classes, their problems began, as they lost identity and shoppers preferred going to Aldi and Lidl. Together with some questionable decisions about new channel development, they have been in trouble for the last three years

Recently they have changed completely their leaders, and applying new strategies to the business.

The transformation of the business towards a fresh expert made sense, as there was a gap in the market. However, it has created something of a problem in that some stores now look too grand, alienating some of their core customers. The last years also have seen a huge change in the grocer's systems and the way they work, which should yield results in the near future.

## Stores

Format	Number
Convenience (*)	153
Superstores	514



(\*) They have sold all their convenience stores in Sept 2015 and next month they announced a trial with stores in petrol stations.  
Source Morrisons Annual Report.



## Strategies:

Regain the trust of their core customers by fixing the basics in the business.

They are very active in the reduction of prices, and having less promotions. They started a price reduction campaign in May 2014 with 1,200 references at lower prices, which triggered the price war among the retailers. Since then, they have invested even more in lower prices.

Range rationalising, to have less references which will simplify supply chain and store operations, and help them to save money to invest in more price cuts.

Keep their credentials as fresh product experts. They own and keep buying factories to process meat and fish, pack vegetables, etc. They process a number of items in the store, from packing meat and fish trays, to baking some products, and from November, 2015, starting preparing sandwiches in store too. They emphasize this with the “Made By Morrisons” banner, stating freshness and quality.

Continue development of the online channel. It is costly but successful, and their fresh expertise together with online convenience can make a point of difference.

Loyalty scheme was launched with the promise of matching the prices of discounters, but this plan has been abandoned due to poor customer understanding. They have renewed the scheme, being now a classical earn points by purchases, and get discounts sent home by post periodically.





## Recent developments:

To get back the shoppers lost to discounters, they want to become a basics supermarket, discontinuing some of the previous directors' team initiatives. They simplify ranges with less references per category, so they can improve availability, reduce store colleagues' jobs, sell more per unit and have better bargaining powers.

Their online operation is costly, because they developed it with Ocado the online grocer. But in one year they covered 50% of the households in England, and achieved sales of £200 million. They pay Ocado a fee for using its on-line technology, and rent one of the Ocado's dark stores to prepare orders.

Their vertical integration gives them an advantage when communicating provenance and supply chain guarantees. British consumers value local products, and Morrisons can deliver this as they own some of their suppliers. They escaped from the horse meat scandal, as none of their products was contaminated.

They had high hopes in their loyalty scheme Match & More to stop customers that were going to discounters. They offered the guarantee of returning the difference if Morrisons basket was more expensive than discounters, giving points to customers that later would become discount coupons. One year later they stopped this guarantee, as they found customers weren't understanding it (normally comparing yourself with many retailers makes it difficult for shoppers, plus the brands of Morrison and Aldi or Lidl are not directly comparable, they offer different products). Now they have simplified the scheme, so customers earn points simply by shopping at Morrisons.

Morrisons were late starters in convenience channel development, and tried to expand very fast. This led to choosing bad locations, lack of adaptation to the local customers, having to invest heavily in the supply chain for convenience, and lack of expertise in the channel. As the operation was not profitable, they have sold it to an entrepreneur (Green, a well-known retail entrepreneur), and now Morrisons is starting new trials in convenience, this time as a forecourt operator.



Sales 2014/5	Sales growth	New Shops
£7.1 billion	-2.1%	17

## Value proposition:

The local supermarket in the United Kingdom, with stores in all the neighbourhoods, focus on convenience.

## Channels:

Convenience and petrol forecourts.

## Story:

One of the oldest surviving grocers in the country, from 1844, born in the middle of the strong cooperative movement of that time. Now they are the brand for the union of several cooperatives. Although they are different businesses, they use the same fascia and work together on some, if not all aspects (e.g. central procurement of most products).

They have been struggling for a number of years due to lack of direction and obsolete systems, that stymied them from taking advantage of their once dominant position in the fast-growing convenience channel.

They have a special image, as they are very linked with the territory and their consumer owners' origins, plus holding a strong position on social values (environmental friendly, fair trade, etc.).

They used to own farms and, indeed, were the UK's largest farmer. Recently, these have been sold off.

## Stores

Format	Number
Convenience	2796



## Strategies:

Optimize their way of working to become a truly convenience grocer. They are updating systems, store formats and layouts, ranges and products in the stores. All to follow their new motto: Little and Often (i.e. for their customers to “shop little & often”).

The Co-op is: selling bigger stores and replacing them with smaller ones; adjusting the range of products to the surrounding community and the shopping mission of their shoppers; changing the products, to add convenience to them by new packaging, new sizes, etc. The intent is to get customers to come often to the shops, and buy little for the next eating occasion.

They are sharpening their price position, although their farming heritage brings them problems when relating to the price of milk, for example. They have declared that fair trade products will become less of a priority during this price war, in which they have invested £125 millions in reducing the price of 100 reference products.

Improve their private label, especially quality and communication. They want to become more inspiring, more foodie and modern. So they can appeal to young customers that go into stores thinking of buying something “for tonight”.

Increase the store numbers. Even although they still need to renovate many shops, the way to become truly convenience is through increasing their presence in the high streets. They want to open 100 stores every year, until achieving 4,000.



## Recent developments:

The way the business was managed was obsolete, and it was difficult to take quick decisions. Now they are renewing their governance rules, and leading the business is Allan Leighton, former CEO of Asda and many other important businesses in UK and Canada, and one of the legends of retail in this country.

They have recently launched their online shop.

The Co-op Private Label is not specially meaningful, and they are renovating it, developing new range (ready meals, entry level, etc.) and linking products to credentials valued by shoppers (healthy, animal-friendly, etc.).

The new stores are called GEN2 and the layout follows the different missions undertaken by their shoppers. So there is a circuit for convenience, to buy something to eat now, another one for meals for tonight, with fresh products, chilled drinks, and some ingredients, , and the last circuit for shoppers that want to do their main shop.

The Co-op is trialling new initiatives designed to drive customer traffic to the stores, like discount coupons at the till, competitions if you use the Co-op membership card, and their most successful, the Fresh Three, that are three fresh produce items with very attractive price discounts.

Bakery is a key element in their new stores. They prepare the products in the store like other retailers, but they place them at the door of the store, in special racks, so they are very visible (and “smellable”!).

Some of their shops have Amazon Lockers, where clients can collect deliveries by the pure on-line player. It is a good way to increase traffic, and also getting rent income from Amazon.



Sales 2014/5	Sales growth	New Shops
£ 6.5 billion	4.6%	33

Stores	
Format	Number
Supermarkets	283
Convenience	96

## Value proposition:

Premium supermarket focus on offering a wide range of products, with high quality and service.

## Channels:

Stores in Department Stores of John Lewis, proximity supermarkets, convenience stores, petrol station forecourts, online and lockers to collect online purchases.

## Story:

London grocer, 1904, that was bought by the Lewis family owners of the John Lewis Partnership (department stores) in 1937. Now, the workers are the owners of the business, they participate in some of the major business decisions and receive an annual bonus if the company is profitable (which it usually is).. This, they say, explains their superior commitment and customer service.

They are largely located in Southern England, expanding Northwards and in big cities.



## Strategies :

Development of convenience. Special stores, with freshly prepared food, and a layout to appeal to foodies. They have almost 100 convenience stores (Little Waitrose), mostly in and around the London area.

Improve shopping experience in supermarkets, adding grazing areas for shoppers to taste the food and stop for a snack or meal even, enhance the destination categories, etc. To attract traffic and customers spending more time at the shops.

Omnichannel. Excellence in service integration, with the “butler counter” at the entrance of the store, where customers can get online deliveries, order products, and use other services like laundry, dry cleaning, and pick up a cup of free coffee having shown their Waitrose card.

Loyalty innovation. Launched in 2014 a membership club that offers immediate benefits to customers, like free coffee, access to special promotions like free newspaper, 10% discount in some categories, and recently, customer can choose from a list of 700 products 10 where a 20% discount will apply (they call it “Pick Your Own Offers”).

And above all, very high standard of quality in their private label, store standards, service etc., and high on credentials like local products, organics, and supporting British farmers.



## Developments:

They are growing faster than the market thanks to their work in loyalty, Private Label, and new services.

Their Private Label is a symbol of quality. They have three tiers, and they developed Waitrose Essentials in 2011 to offer value to clients that were tempted to buy basic products in cheaper supermarkets. Their Premium tier is often linked to celebrity chefs, like Heston Blumenthal. And they are also stocking Duchy Organics, the brand for the organic products endorsed by Prince Charles.

For Branded products, they have the “Tesco Brand Match”, they guarantee customers that the prices of these products will be the same as Tesco’s.

Waitrose prepares online deliveries within the stores, but are building dark stores to service high volume areas (e.g. in London). They expect online business to break even in the next few years. And they expect soon that 20% of their business will be online.

Their convenience stores are focused on the three meal occasions: breakfast, lunch and dinner. Also, tailored to their type of customer, a bit foodie and one that enjoys cooking more than the average consumer. For example, fruits are in the snacking area, because customers could buy them and eat them the same day. They are testing home barcode readers Hiku, to speed up the online purchase at home.







# Hard Discount.

Sales 2014/5	Sales growth	New Shops
£ 5.3 billion	25.0%	54

## Value proposition:

Hard Discount.

## Channels:

Proximity supermarkets, and developing now a convenience estate.

## Story:

Aldi Sud opened their first store in UK in 1989. Many shoppers didn't like hard discount, so the first years the trade was difficult and didn't grow much.

However, during the financial crisis, the appearance of the savvy shopper gave them a great opportunity to reach more customers. They have used this opportunity with great success to expand, communicate better with a wide range of customers and prospective customers and to accelerate their store openings.

## Stores

Format	Number
Supermarkets	559
Convenience	10





## Strategy:

They have a very strong price image, reinforced with excellent communication and promotions.

Continued expansion in United Kingdom. They want to achieve 1,000 stores by 2020, opening more than 70 this year. Like Lidl, they are going to open stores in more affluent neighbourhoods.

Complete the offer so customers can shop for everything in Aldi, and share less of their shopping basket with other grocers. After developing fresh products' categories, Aldi has been improving the bakery and wine and spirits offer.

Testing a convenience format. They have opened 10 City Stores in London, with food to go, more convenience products, and fast checkouts.

Even although the principal focus is on low price, credentials and local products are also important for them. They have a range of organic products, many of their fresh products (especially meat and fish) are British, and they have signed an agreement with farmer organisations to source from Britain seasonal fruits and vegetables.

Strong communication helps to engage with customers. They launch many campaigns to encourage customers to share their opinions about the quality of the products, how much they save, etc. And they don't need to reward customers for singing their praises – the customers clearly take pleasure in tweeting how savvy they are to shop in Aldi!





## Recent developments:

Customer communication is key for Aldi, they spend much more than mainstream grocers in TV ads and printed media. They highlight the price and quality of their products, and often compare these with their competitors. They also promote the industry awards they receive, from magazines, consumer associations, etc., because these enhance their credentials.

They have improved their offer to make it comparable to other grocers. For fresh products, more items, but also taking into account credentials such as local products, meat with the Red Tractor Label, pledge with farmers to sell seasonal English produce, sustainable fish, etc.. Wine with more premium products. Bakery with an extensive range prepared in the store. This has attracted more shoppers from Asda, Morrisons, etc.

They apply the “treasure hunt / when it’s gone it’s gone” tactic to fresh products, too. For example, they offer a limited edition product, such as Wagyu beef burgers for a low price.

94% of their sales are Private Brand. In Germany they are introducing more manufacturer brands, and seems likely it will happen in Great Britain, too.

They have announced the launch of an online shop in UK during 2016, offering a grocery catalogue to deliver at home or at third party locations.



Sales 2014/5	Sales growth	New Shops
£ 5.2 billion	+3.4%	67

## Value proposition:

Premium supermarkets, focused on convenience, quality and service.

## Channels:

Shops in department stores, proximity supermarkets, convenience and forecourt stores in petrol stations.

## Story:

For many years, M&S was the reference retailer for fashion, but now their food business is doing much better. They have introduced in the life of Britons many of the now common products such as ready meals, high quality convenience foods, snackable cut produce, etc.

Born in Leeds at the end of 19th Century, M&S started as a general merchandise chain of stores selling everything for a penny! From the 1930s, M&S sold food in their department stores, only relatively recently providing a food only offer through its Simply Food proposition..

## Stores

Format	Number
Food court (Department Stores)	348
Convenience	198
Convenience Franchises	306



## Strategy:

Almost all their sales are Private Label. Only a few big brands, mostly in non edible grocery and artisanal foods.

Food innovation. They are continuously improving the quality of their products and the packaging, to add new functionalities and convenience, surprise customers, and to monitor and respond to the changing pulse of consumers with a torrent of new products. 25% of the range has changed in the last year.

Increase reach. They want to open 250 new convenience stores with the Simply Food fascia in the next three years.

Improve lagging categories. The last years they have worked a lot in bakery, delicatessen and food to go, as key categories to bring more people to their stores. Now they are working in frozen, an underperforming category for them (and for many competitors).



## Recent developments:

M&S pay a lot of attention to convenience, store ambience and product quality. 40% of their clients go to the stores to buy something to eat tonight and.

They launched the range M&S Simply in 2011 to respond to the increase in savvy shoppers. They are basic products simply priced (low prices, and often, they compare the price with other retailers). So their clients can feel good about the prices they are paying, with all the quality reassurance of the M&S brand.

Their meal promotions for dinner occasions are very popular and sophisticated. They offer for £10 two ready meals and a bottle of wine, for example, and can be themed, like Valentine's Dinner, Picnic Meal, etc.

They offer a wide and innovative range of ready meals answering to the different life styles of their customers. Fuller for Longer and ActiveHealth are targetting health concious customers, but with a new edge as they talk about protein, low carbs, new nutrients, etc. Plus all the usual ranges based on origin (Indian, Chinese, Italian), household (meals for one, for two), and occasions (Christmas food, Summer food...).

They are improving the shops, including better bakeries (they prepare from scratch 20% of baked goods, that comprise 80% of bakery sales), enhanced delicatessen counters (in some shops they make the pasta from scratch, and they prepare sandwiches, etc. in-house), and seating areas to eat food purchased in their coffee shops and convenience shelves.

Working on ultraconvenience, very small shops with coffee shops and reduced food ranges that change with the day.

Their "Plan A" about sustainability targets has made them review their supply chain and store design, in order to become more environmentally respectful. Like Waitrose, M&S is a much-respected food retailer and has performed strongly throughout the tough recessionary period when most of the big supermarket chains have struggled.





# Hard Discount.

Sales 2014/5	Sales growth	New Shops
£ 3.5 billion	+14.5%	52

## Value proposition:

Hard Discount.

## Channels:

Proximity supermarkets.

## Story:

In the United Kingdom since 1994, like Aldi, they went through a slow growth period until the financial crisis gave them their opportunity.

Like Aldi, they have exploited the desire of the British shoppers to buy smartly, and their communication activities in the media, stores and online is a great example of how to be focused on something (good value) and engage customers.

They have a very strong low price image, even as they have expanded their range and added premium products..

## Stores

Format	Number
Supermarkets	672





## Strategy:

Offer enough of a product range to be a “complete basket” grocer. Developing their fresh products’ offer, improving chilled, too (ready meals, more cheeses and charcuterie, etc.) and bakery and wines. They are also bringing in more manufacturer brands.

They have ambitious expansion plans. They open 40 stores per year, testing bigger formats, and also opening in more affluent areas.

Credentials communication through TV, printed media and online, and inviting their customers to be ambassadors for the Lidl brand. Shoppers are more than happy to explain good experiences with Lidl products, as it is cool to be identified as a savvy shopper. They often reproduce the twitter comments of their customers in boards within the stores. They also run successful campaigns comparing the cost of a branded products’ basket in some other retailer and the cost of their own brands showing how much you can save.

Quality of their products. Their Private Label has gained excellent industry recognition, with awards given by The Grocer magazine, or positive articles in Which? Magazine. Every Christmas, they surprise customers with premium products at very low prices (the 2015 product of note is Frozen MSC Whole Lobster for less than £5, from Canada). They do not forget local products, and they transfer the main pledges locally, like selling in Scotland only Scottish Beef, Lamb and Pork.





## Recent development:

Nominated Grocer of the Year 2015 by the magazine The Grocer. They communicate this extensively, and often you can see lorries with a poster saying thank you to clients for making them Grocer of the Year.

They were the first supermarket to adopt the new basic salary legislation passed by government in September 2015, increasing the salary of their staff to fulfil it.

Ambitious enhancement of the Wine Category, where you can find wines up to £20, something that seems surprising in a discounter. Their wines obtain high evaluation marks by wine pundits and sommeliers.

Credentials. They were the first supermarket in removing sugary goods from the impulse areas at the checkouts. Their chocolate suppliers are certified by UTZ.

Testing a new shop format, almost a hypermarket, which is considerably bigger than their usual format.

Some small development work in convenience. A few shops have a coffee machine where you can buy your hot drinks, with the Costa brand (a popular coffee shop chain). They are also displaying meals together, so you can have some ready meals, desserts, ingredients, and wine together – a simplified meal deal offer.



# Iceland

## Soft Discount - Frozen.

Stores

Sales 2014/5	Sales growth	New Shops
£2.7 billion	-0.5%	28

Format	Number
Supermarkets	865
Food Warehouse	6

### Value proposition:

Soft Discount, specialised in frozen products, with a basic range of dry grocery and fresh products.

### Channels:

Proximity supermarkets and online since 2013.

### Story:

The reference supermarket for the frozen grocery. They are the third in sales if we take into account only frozen goods.

They were born in Central England in 1969, originally as 100% frozen food stores. Shops are austere, and the frozen range is organised based on the meal occasion and the type of consumer.

They have struggled with sales, but discounters haven't stolen many customers from them. And now, thanks to improving fresh products, own brand, and new format stores, they are slowly recovering growth and the company's performance is better than the major supermarkets!



## Strategy:

Historically, they have been very innovative, being among the pioneers of online shopping and organic products.

They are a soft discount, and frozen and low price are their two main competitive components. Price communication in the store is very intense, with many round price points (e.g. £1 or £2 per item). But also they try to up their game increasing the quality of their products.

Brands are often heavily promoted, and help them to get traffic. They have special sizes for them at discounted prices, often displayed in the top of the freezers, or in the middle of the corridors.

As part of their slight premiumisation, they are developing their fresh products' offer, which should help them to increase visit frequency. They also have purchased a ready meals factory, and launching more products under their brand, some of them premium, and high on attributes like local, artisanal, etc. With this they want to be able to respond faster to the changes in the market.

They are developing a new store format called "Food Warehouse". The concept is to offer gourmet food at reasonable prices, and is not the typical Iceland that relies on frozen food. It is more like a small Costco.

Online channel is not very big for them. They launched it 10 years ago with bad results. They have re-activated it, preparing orders in the shops, and it is complementary to the service they already offer of delivering to home the shopping done by customers at the store.

## Recent developments:

They have a good price image, and unlike discounters, their shops are easy to shop and navigate.

Their core business is frozen products, with an extensive range of ingredients and ready meals. At the moment they have a campaign called “The Power of Frozen”, to promote the launch of some premium products, where they highlight the quality and credentials, to compare them with bigger grocers’ products.

They understand very well their shoppers and their needs. They segment the store space by price points (round prices to improve price image), the occasion, how many people can eat the product, etc. All this information is very well indicated in their merchandise.

They work together with suppliers and their brands feature prominently in the stores. They also work with other high street brands, like the Baker Greggs, and have products with their brands in the stores. It is a very good alliance, as both share the same kind of shoppers (lower socio-economic C/D/E).

They also have surprising products (at surprising prices). Recently, linked to a TV Show, they have included in their range exotic meat products, like kangaroo burger, etc. These surprises help them in their battle with the hard discounters.

The range Slimming World (products for consumers worried about calorie intake) has been reasonably successful. Tasty ready meals, exclusive to Iceland, and very connected to their customer base, too.

The pressure on food sales not only comes from discounters, but also from the competition of Big Grocers, that are reducing the prices of the basic references, the same that Iceland offers.



Sales 2014/5	Sales growth
£1.0 billion	20.4%

## Value proposition:

Online convenience, quality and reliability.

## Channels:

Online.

## Story:

It is the main pure on-line player in United Kingdom. Pioneering grocery with many innovations in operations and systems.

They started in 2010, when a few ex-finance professionals from “The City” (London) developed the project, and was backed by John Lewis Partnership (Waitrose *et al*) and other high profile partners.

From 2013 they have established themselves as systems’ suppliers to other grocers, to capitalize upon their know how.

Thanks to John Lewis’s participation, they had access to Waitrose Private Label products and range, and had exclusive rights to sell it in London during their first years, helping them to set up a reputation as a premium on-line grocer.





## Strategy:

Ocado ranges 45,000 products, almost double the references they started with in 2011, and they keep increasing choice for customers.

They are stopping the partnership with Waitrose, and developing their own Private Label products.

Development of non-food, to become a hypermarket of the online channel.

Get more clients in areas they already serve, as customer density helps them to be a lot more efficient.

License their systems and sell them to other grocers internationally that want to develop quickly their online channel. They also sell advertising on their webpage.

Ocado IT developments are very important and innovative. They let them optimize many areas of their business, like the operation of the warehouse, the preparation of orders, arranging the delivery routes, and the relationship with clients, specially through the webpage.

Even although Ocado has considerable credentials for quality and premium products, they promise to match the prices of Tesco for manufacturer branded products. If they are more expensive, they return the money to the customer (this guarantee costs them 1% of sales every year).

## Recent developments:

Ocado had been losing money for 10 years and, finally, in 2015 they achieved profits. Their evolution has been very positive even through the crisis, growing sales 15 to 20% every year, much more than the market average.

At the outset, Ocado purchased all the products from Waitrose, Private Label and Manufacturer Brands, and they were the main client of Waitrose. In 2017 they will be completely divorced from Waitrose. This relationship has been key in setting up the Ocado credentials, and in 2009 Waitrose range was 50% of the sales, but only 20% of the number of references.

They prepare the orders from automated warehouses. The first one was in Hatfield, 30.000 m<sup>2</sup>, and later they built three more. From the dark stores they send big lorries to distribution centres, where the delivery vans are based. Non-food orders are prepared in another warehouse of 10.000m<sup>2</sup>.

The new non food ranges are sold through separate webpages other than Ocado.com. They have Fetch.com, a shop for pet products, Sizzle.com for kitchen tools, and another one for gardening products. All these are very important categories for the type of customers they target – i.e. up market customers with relatively high incomes.

They were the first to implement procedures now common in online grocery: e.g. giving customers an opportunity to write reviews of the products on the webpage; import favourite lists from other online grocery sites, development of delivery passes, etc.



Sales 2014/5	Sales growth	New Shops
£1.1 billion	11.4%	50

Format	Number
Supermarkets	588
99p Stores	250

### Value proposition:

Value.

### Channels:

Proximity supermarkets and currently testing online.

### Story:

Poundland is the main grocer in the fixed price grocery sector.

They started the business in 1990, and thanks to the opportunities given by the financial crisis, they have grown at a very high speed. They secured good locations thanks to many other retailers going into administration. Also, customers changed, and started accepting these kind of stores.

Even as the economy is recovering, they are still popular, and growing much more than the overall grocery market.



## Strategy:

Grow. They want to achieve 1,400 stores in United Kingdom and Ireland. This year they are planning 100 stores, and recognise the difficulty to keep finding good places for their shops. They also open stores in retail parks, slightly bigger than their average store, and with more range of products. And in September they completed the purchase of rival 99p Stores, achieving almost 800 stores in total.

They are also building more distribution centres, especially to support their expansion towards the North of England.

Price flexibility without making the offer more complicated. Some products are sold at less than one pound. Also they do promotions, when you can buy at a very discounted price a featured product if you have achieved a minimum shopping basket purchase size.

They are developing their private label offer, filling gaps in their range, and normally, being very succesful.

They have launched an online store in a limited area, to test their capacity, and roll out nationally after the pilot.





## Recent developments:

Because of their limited range, it is not possible to do the whole shopping at Poundland. They don't have fresh products (although they are doing pilots with this) and the chilled products' offer is limited.

Their average basket size is £4.72 .

They are launching new Private Label ranges backed by celebrities that promote the product and put his/her names to the brand. Kitchen tools are backed by Jane Asher, a famous actress, and DIY by Tommy Walsh, a TV presenter and former builder.

In spite of the economic recovery, they believe that their clients won't abandon them, and keep being savvy shoppers, with more money to spend in their shops.

They are very fast to spot new customer trends and offer products for these new needs. They quickly have the new fashionable products for kids, or for the hobbies that are trending in society.