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# Supermarket Chains and Grocery Market in the UK

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## Exchange Research Report

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### **Topic: Supermarket chains and grocery market in the UK**

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I have chosen this topic for the following 3 reasons:

Firstly, as a former employee of a FMCG company, I have already formed a habit of walking around all supermarkets I can reach to judge their qualities and compare their differences;

Secondly, as my EMBA mentor is a founder and current president of a successful supermarket chain in Ningbo, Zhejiang province, I am also very curious about how small supermarket chains like Waitrose or M&S could survive and even become more prosperous under the huge pressures from supermarket chains which are much more bigger and stronger than them, like Tesco, ASDA, and Sainsbury;

Thirdly, as a consumer who enjoys shopping in supermarkets, I have noticed some very good operation practices in supermarkets in the UK. Here I also would like to share them with our local supermarket chains in order to help them increase their competencies;

#### **A quick look at the UK grocery market**

Based on IGD research, for the past ten years, in general UK grocery market has been increasing stably (Exhibit 1). The total grocery market has grown from £93.3bn in 1998 to £146.3bn in 2008. However, in the recent years, UK grocery market has faced more and more uncertainties, such as the financial crisis, high unemployment, tight household budgets, and so on. Although UK grocery market could not completely get rid of the impacts of those uncertainties, it still has acquired reasonable growth rate.

The grocery market was worth £146.3bn for the calendar year 2008, an increase of 4.8% on 2007. Food and grocery expenditure accounts for 52p in every £1 of retail spending. 21p in every £1 spent in food & grocery is spent in convenience stores.<sup>1</sup>

There are 92,796 grocery stores in the UK,<sup>2</sup> which can be split into four sectors: Convenience store; Traditional retail; Hypermarket, supermarkets & superstore; and Online channel.

Hypermarket, supermarkets & superstore is the largest sector among all the 4 sectors, and in 2008 accounted for 73% of the total grocery sales. Convenience retail is the second largest sector, and in 2008 accounted for around 21% of the total grocery sales. Traditional retail has faced fierce competition from the above two sectors, and its market

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<sup>1</sup> <http://www.igd.com/index.asp?id=1&fid=1&sid=7&tid=26&folid=0&cid=94>

<sup>2</sup> <http://www.igd.com/index.asp?id=1&fid=1&sid=7&tid=26&folid=0&cid=94>

share has declined to less than 5%. Online channel also only has a very small market share in the grocery market. (Exhibit 2)

The 4 biggest chains in the UK are Tesco, ASDA, Sainsbury, and Morrison's, and they accounts for 67.9% of the grocery market. (Exhibit 4) Tesco has 28% market share, followed by ASDA (15.2%), Sainsbury's (14.3%) and Morrison's (10.4%). After the Cooperative purchased Somerfield, this group now has 8% market share (Cooperative at 6.3% and Somerfield at 2.7%). Other UK supermarket chains include Waitrose, M&S, Iceland, and so on.<sup>3</sup>

The UK also has one of the most advanced private label markets in the world (valued at around \$100 billion).<sup>4</sup> For the grocery market, private label has already occupied around 55% market share in 2008 based on Nielsen's research.

Almost all supermarket chains in the UK have its private labels. And their private labels are no longer only the copies of branded products, but an important strategic tool to diversify product ranges and develop new revenue streams.

However, strong private labels are also partly due to the retailing oligopoly in the grocery market in the UK, as only under this situation those main supermarket chains could build up those high consumer trusts to their brands.

### **Main supermarket chains in the UK grocery market**

#### 1. Tesco

Tesco is a UK based international grocery and general merchandising retail chain. It was founded in 1919 in London. It is the largest British retailer and the 3rd largest global retailer based on revenue (2nd based on profit). Tesco group sales were £59.4 billion (\$95.1 billion) in 2008 which was an 11.1% increase on the previous year. They employ 287,000 people in the UK.<sup>5</sup>

Tesco has been a market leader in the UK grocery market for the last 25 years. One important reason for Tesco's success is that it has been leading the industry change. It's Tesco which first introduced the club card; it's also Tesco which first started online-selling; it's still Tesco who first tried non-food stores.

Tesco has 2282 stores in 6 different store formats which are Extra stores, Superstores, Metro stores, Express stores, Home Plus stores, and One-stop stores. (Exhibit 5) This multi-formats store strategy has also greatly contributed to Tesco today's success, as they let customers assess Tesco as easy and convenient as possible.

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<sup>3</sup> 12weeks to 13th June 09, Nielsen Homescan

<sup>4</sup> Gain Report - United Kingdom RETAIL FOOD SECTOR 2009 released on 11/13/2009

<sup>5</sup> Gain report - UK Supermarket Chain Profiles released on 11/13/2009

Around 900 Tesco stores are Express stores. Over 500 One-stop stores and nearly 450 Superstores make them the 2<sup>nd</sup> and the 3<sup>rd</sup> largest store formats for Tesco. Tesco also has around 180 Extra stores and Metro stores. Home Plus store is Tesco newest store format. The difference between Home Plus store and other store formats is that there is no food sold in Home Plus stores. Tesco has opened 10 Home Plus store on a trial basis.<sup>6</sup>

By positioning itself to lower prices and to keep a competitive agenda, Tesco successfully markets itself to all segments of the UK population, although its main customers are still middle income.

## 2. ASDA

ASDA is the 2<sup>nd</sup> largest supermarket chain in UK with 15.2% market share. ASDA Stores Limited was founded as Associated Dairies & Farm Stores Limited in 1949 in Leeds, and became a subsidiary of the American retail giant Wal-Mart which is the world's largest retailer in 1999. Although ASDA is Wal-Mart's largest non-U.S. subsidiary, and accounting for almost half of the company's international sales, ASDA still has retained a very British feel in-store and a distinct identity separate from its parent company.<sup>7</sup>

It has its largest presence in the North of England, has expanded South due to acquisitions and new store development. Unlike other leading chains, ASDA doesn't have a convenience store format. Instead, it concentrates on large format stores and has developed successful hyper-markets across the country. It currently operates around 343 stores. Also, it doesn't have club card as its competitors usually do.

ASDA targets the lower-end of the mass market. And as its strap-line "Every day low price" said, it largely competes on price. The low price strategy with the support of Wal-Mart's global buying power contributes a lot to ASDA's success in the UK.

## 3. Sainsbury's

Sainsbury's is the No. 3 supermarket chain in the UK with 14.30% market share. It was founded in 1869 by John James Sainsbury and his wife Mary Ann (née Staples), in London, England. The Sainsbury family still owns around 15% shares of the company. It was once the largest UK retailer until 1990's and pioneered the self service retailing and development of private label goods in the UK. It has strong market position in London and the South East.

In 2007, Sainsbury's identified five main areas for growth. These were: "great food at great prices", increasing number of complimentary food ranges, reaching more customers through additional channels, e.g. home delivery, growing supermarket space and active property management. These initiatives have helped Sainsbury's keep its number three position.<sup>8</sup>

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<sup>6</sup> Gain report - UK Supermarket Chain Profiles released on 11/13/2009

<sup>7</sup> Gain report - UK Supermarket Chain Profiles released on 11/13/2009

<sup>8</sup> Gain report - UK Supermarket Chain Profiles released on 11/13/2009

Sainsbury's only has two store formats – traditional supermarkets and convenience stores. In 2009, among its 792 stores, 502 of them are supermarkets and 290 of them are convenience stores.

Sainsbury's main strap-line is "Try something new today", and since 2000 Jamie Oliver has been the successful face of Sainsbury's. It is a member of the Nectar loyalty card in conjunction with other retailers such as Debenhams and BP.

#### 4. Morrison's

Morrison's is the fourth largest supermarket chain in the UK with 10.4% market share. It is originally founded by William Morrison in 1899, and started out as an egg and butter stall in Rawson Market, Bradford, England. The Morrison family currently still owns around 15.5% shares of the company.

Until 2004, Morrison's store locations were primarily focused in the north of England, but with the takeover of Safeway in that year, the company now has a total of 417 superstores across the UK.

Although the company claims that its strategy more focuses on offering unbeatable customer service and a pleasant shopping environment, however, because it targets at the mid-lower end customers, it still generally competes on price, special offers and multi-save promotions.

Another point which makes Morrison's stand out is its "market street" feature. To better utilize this point and differentiate itself from the fierce competition, now it concentrates its message on being a food specialist for everyone, and its current strap-line is "Fresh Choice for you".

#### 5. Waitrose

Waitrose is the 7<sup>th</sup> largest supermarket chain in the UK with 3.5% market share. It is the food division of the British leading department store chain and worker co-operative the John Lewis Partnership.

As of November 2009, Waitrose has 221 branches across the United Kingdom,<sup>9</sup> and most of them are based in the south of the UK.

Instead of targeting at the middle or low-end customers like the 4 biggest supermarket chain do, the company differentiates itself from its competitors by offering high quality food and emphasising customer service to better serve the upper middle customer base.

Compared to other competitors, its stores are often medium-sized, and located in areas where customers with higher than average disposal income live. The Company also gain

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<sup>9</sup> <http://en.wikipedia.org/wiki/Waitrose>

a Royal Warrant to supply groceries, wine and spirits to Elizabeth II, which greatly help itself build up its brand image as a premium food retailer.

### **Suggestions to Chinese supermarket chains**

#### 1. Clear & differentiated positioning

After China joined WTO, more and more international supermarket chains have entered China ambitiously. Local Chinese supermarket chains are facing increasingly intense competitions. Many Chinese local supermarket chains either died or have been merged or acquired by their foreign competitors. Actually the market concentration of supermarket chain in the UK are even higher than in China, however, some small chains like Waitrose still live healthily and further prosper. And the key is that Waitrose has a very clear and differentiated positioning from all its competitors. It targets at the upper middle class consumers, and provide high quality products and services to better serve their needs. With the support of other communication methods, it has successfully built up its brand image as a premium supermarket chain.

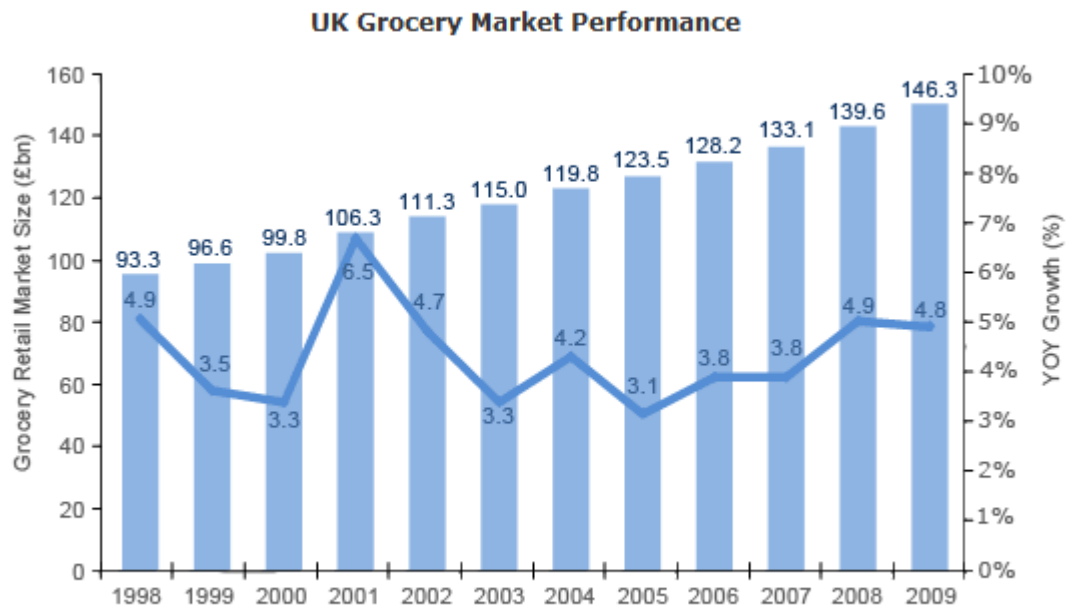
#### 2. The utilization of private labels

Private labels have acquired a huge success in the UK. But we have to understand that behind this huge success there are certain conditions. One of them is that almost all supermarket chains in the UK have already successfully built up their strong brand images and their customers' trusts toward their brands. However, in China, almost all local Chinese supermarket chains have their private labels without evaluating the supports their private labels could get from their brand images. And often the qualities of their private labels are low, and the only selling point for those private labels is low price, which may further damage their already not that good brand images, and forms a vicious circle.

#### 3. The store format decision

Tesco has 6 store formats; ASDA has 1 store format; and Sainsbury has 2 store formats. All these 3 chains are very successful. So how many store formats Chinese supermarket chains should have and which store format(s) they should use should depend on what is their positioning and how they can best serve their target consumers.

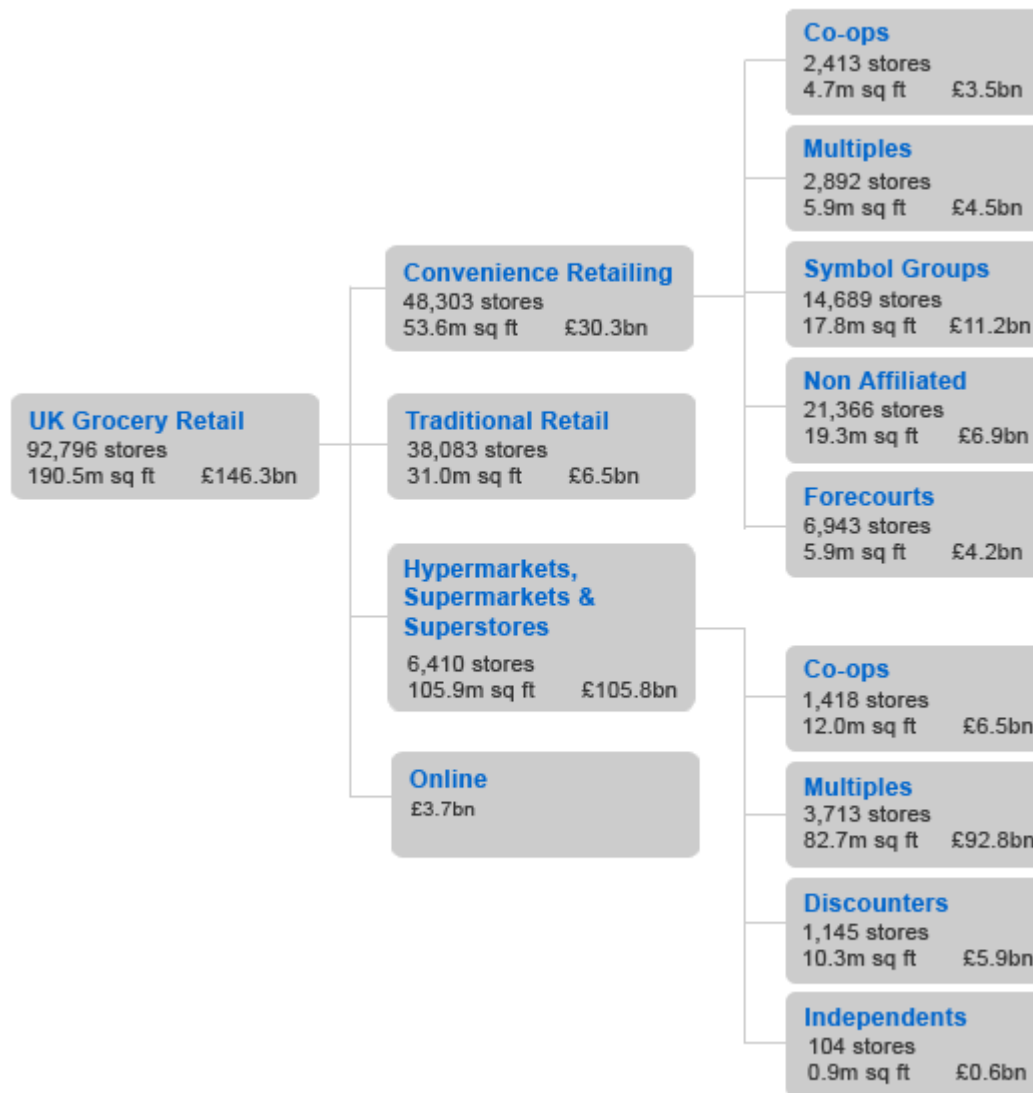
Exhibit 1: UK grocery market performance



Source: IGD Research 2009

Exhibit 2: UK grocery retailing sectors

**UK Grocery Retailing - Store Numbers & Sector Value**



Source: IGD Research, 2009



Exhibit 3: The definitions of convenience stores, traditional retail, hypermarket, supermarkets & superstores, and online channel

1. Convenience stores:

Stores with sales area of less than 3,000 sq ft, open for long hours and selling products from at least 8 different grocery categories

2. Traditional retail:

Sales area of less than 3,000 sq ft such as newsagents, grocers, off-licenses, & some forecourts

3. Hypermarket, supermarkets & superstores:

Supermarkets have a sales area of 3,000-25,000 sq ft

Superstores have sales area above 25,000 sq ft

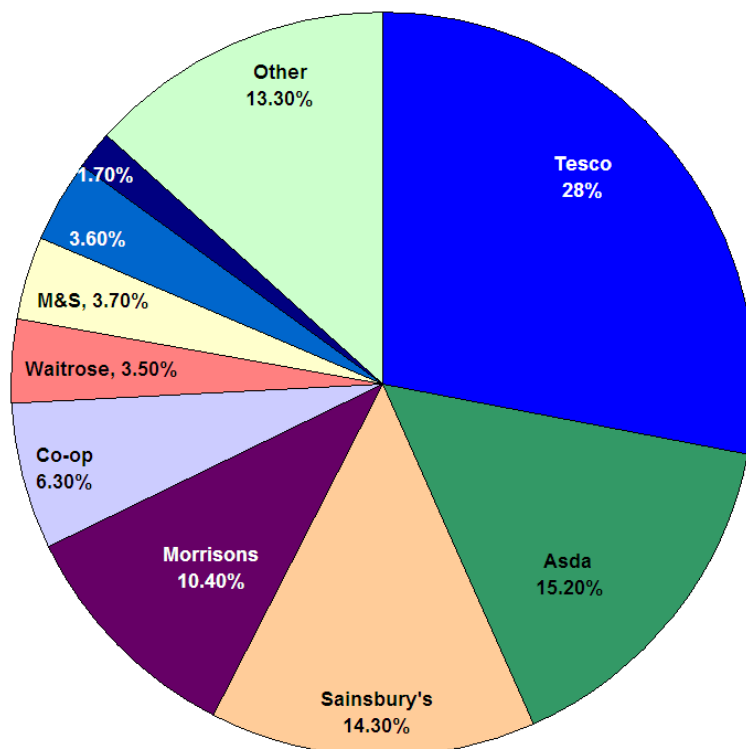
Hypermarkets are over 60,000 sq ft.

All sell a broad range of mainly grocery items, Non-food is also sold (e.g. Tesco, ASDA)

4. Online channel:

Sales via the internet <sup>10</sup>

Exhibit 4: Grocery Market % share by Retailer



Source: 12weeks to 13th June 09, Nielsen Homescan

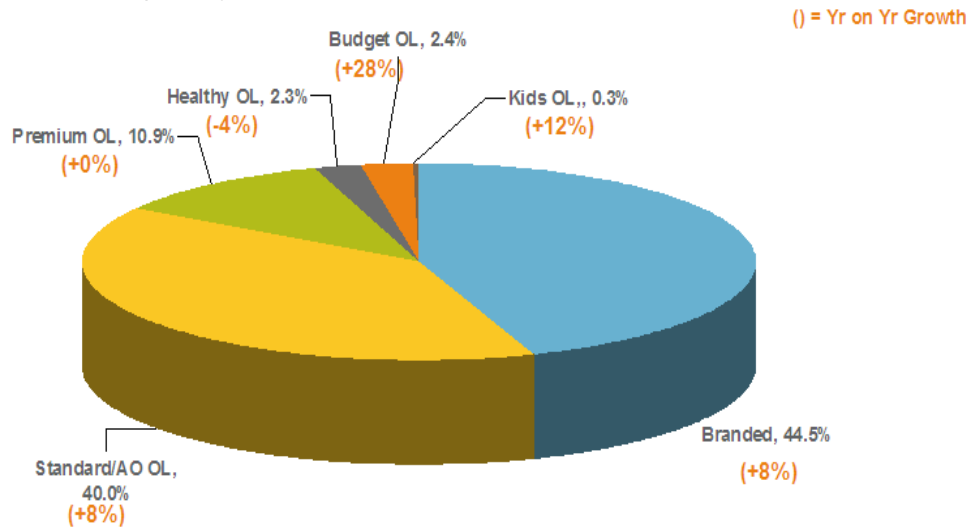
<sup>10</sup> <http://www.igd.com/index.asp?id=1&fid=1&sid=7&tid=26&folid=0&cid=94>

Exhibit 5: Tesco store composition

Type of Store	Number of Stores
Extra	177
Superstore	448
Metro	174
Express	961
Home Plus	10
One-Stop	512
<b>Total Tesco Stores</b>	<b>2,282</b>

Source: Gain report - UK Supermarket Chain Profiles 11/13/2009

Exhibit 6: The UK grocery market shares: branded products and owned label products



Source: Nielsen Scantrack: Grocery Multiples  
 \* Total Defined Food/Grocery Categories = 59% of Total Store Read  
 12 w/e 22<sup>nd</sup> September 2007 vs 12 w/e 20<sup>th</sup> September 2008