

Factors that determine the success of supermarkets



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4. 1 The general factors that determines the success of supermarkets

Supermarkets are using all kinds of tricks to attract customers from introducing to new offers to give them loyalty discount. Supermarkets are providing all kind of incentives to customers. And starts of online shopping of grocery service by Supermarkets have created more convenience for the consumers to order their groceries from the comfort of their home. Here the author is discussing the success factors of the Supermarkets.

4. 1. 1 Range of choice

The Supermarkets sells range of products. Consumers have wide variety of choice to select the product they want. It is important for the supermarkets to keep all the products in stock otherwise consumers will move to other supermarket or retailers. Consumers are very sensitive on what they buying. They always like that the supermarket they shop should keep the products in stock all the time. Supermarkets always monitor the consumer buying trend and always keep the certain products in stock all the time. It is also important that supermarkets should keep all the products in stock at all their stores. Now supermarkets even sells the ethnic foods like, Indian, African to attract ethnic customers.

4. 1. 2 Products must be on shelves

Products should be on stock is important but what more important is to they must be on shelves. All the products must be properly displayed and the product mix must be adequate so it becomes easy for the consumers to choose the products. Supermarkets monitors what consumer buys most with

the particular product or what he/she would like to buy with that product and then they display those products in the store next to each other. It makes easy for the consumers to choose products easily. It is also been seen that Supermarkets always display basic necessity products like Milk, Bread etc. in the last corner of the store so consumers have to reach there by passing and looking at all other products which attracts them and persuade to buy.

4. 1. 3 Effective Marketing

Supermarkets use all sorts of marketing strategy to attract the customers. Their adverts are more customer centric which they like attract. For e. g., Asda attracts customers with the slogan ' Always low price'. Tesco slogan is ' Every little helps' as they wants to attract a large economical consumer group which cannot afford premium supermarkets like Waitrose and John Lewis. Marks & Spenser (M&S) and Waitrose attract the premium customers and also create their own brand values. Sainsbury's and Morrison's attract a medium range customer who wants quality food at competitive range. Sainsbury's slogan is ' Try something new today' while Morrisons message is ' Better than half price at Morrisons, Great savings on big brands at Morrisons'. This is the reason Marks & Spenser slogan for the food range is ' This is not just food, it is M&S food and same way Waitrose slogan is ' everyone deserves quality food'. However, supermarkets try to focuses the consumer group they like to attract.

4. 1. 4 Pricing Strategy

Price is the major factor which influence to consumers to switch to other supermarkets or retailer. Supermarkets compete with each other to sell the products at the best rate to the consumers. Tesco and Asda is the biggest
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competitor in the economical consumer range. They are trying to sell the products to best price to retail the customer loyalty to supermarket. Many supermarkets offers price comparison on their website so the consumers can see how much they have saved on their shopping. Most supermarkets also show the competitor's price next to products in their shelves in order to make it easy for the consumers to compare. It is the biggest success factor of the Supermarkets.

4. 3 Tesco's Success During the Recession – A Case Study

Tesco has presence in 14 countries and have 4300 stores across the globe. It has declared 10% increase in its profit to £3. 5bn. According to Sir Terry Leahy, a Chief Executive of Tesco, Tesco is stronger than it was before recession. It now accounts for more than £3 out of every £10 spent on food by British shoppers, while its non-food sales, (clothing, home wares) have topped £10bn. (Guardian, 2010)

Tesco's belief is to look after the customers. It also believes that if we sell more we can get better buying terms and those results in to lower price and higher profit margins. Lower prices can bring large sales volume and the cycle continues. Its rewarding Club card is another mile stone in success of Tesco. Tesco has succeeded in making itself largely classless, with price ranges designed to cater across the board. (Guardian, 2010)

According to Sir Terry Leahy, Chief Executive of Tesco, during the recession when customers everywhere are feeling the economic strain, Tesco is responding to their changing needs by lowering prices, introducing more

affordable products and offering even sharper promotions. (Tesco PLC, 2009)

Here the author has discussed the success factors in detail.

4. 3. 1 Lower Price

During the economic downturn consumers tends to limit on their spending and looking for the cheap bargain products. Tesco has large consumer group. It is easy for them to buy large quantity to meet the demand in order to meet the consumer requirement at a lower price. So they can offer the products at a lower price to customers. Consumer can also compare the price of the products they buying to make it easy for the consumer to select the products.

4. 3. 2 Affordable Products

Tesco sells various brands products. During the recession, consumer looking for the more economical solution to of those of the branded products. Tesco grab the opportunity and offered its own brand product which are same in the quality but at a cheap price. It bagged huge success for the Tesco. Now Tesco sells all ranges of its own brand from packed food to toiletries.

4. 3. 3 Promotions & Offers

In the recession, consumers looking for better promotions and offers to save money. There would be always various attractive offers in the Tesco stores for consumers. In order to maintain the customer loyalty Tesco tries to sell the products at the same prices or lower than its rivals.

4. 3. 4 Clubcard

Tesco's one of the biggest success factors is its award winning Clubcard loyalty scheme. Clubcard gives rewards to regular customers at the regular interval. Dunnhumby, Tesco co-own research group, analyses the shopping habits of its 16 million cardholders. (Guardian, 2010) Tesco knows more about its shoppers than any of its rivals and can tailor offers to customers. The analysis helps to analyse the consumer regular buying habit and make it easy for the Tesco to locate it easily for the consumers.

4. 4 Effects of Recession on Supermarket Industry

4. 4. 1 Secondary Research

It seems that relatively Supermarket industry to be unaffected by the recession. Companies such as Tesco, Sainsbury's, Morrison's and Lidl are still experiencing growth. Research has shown that Tesco's turnover increased from £47. 3 billion in 2008 to £54. 3 billion in 2009 (Tesco PLC, 2009) while Lidl Ltd. (2009), has experienced a 93% increase in turnover from 2005 to 2009. It was been expected from Lidl, as it is a heavy branded discounter. During times of recession market leaders tend to lose customers to the hard discounters who consumers choose during a recession (Mattioli, 2009).

According to TNS Global World Panel, Sainsbury's market share increased to 16. 1% in 2009 compared to 15. 8% in 2008 and Morrisons was also up and holds 11. 6% market share in 2009. While Asda has shown slight growth and had 16. 8% market shares in 2009. At the same time Tesco has lose 0. 1% in market share but it still counts 30. 8% market share in the industry in 2009.

(BBC, 2009) All the supermarkets are battling to retain the consumers' loyalty. They are trying to attract them with their budget range of products.

In the contrary the local shops have suffered a lot. Because people believe that shopping at local shop would be expensive. In the 2009, Local shop sells was £550mn which was £50mn less than 2008. According to Dean Best, analyst at just-food. com, " local stores can survive if they emphasise the service and the product knowledge that people feel they can't find in the big four supermarkets. (BBC, 2009)

4. 4. 2 Primary Research

To explore the effect of recession Supermarket Industry, the author has done a primary research to find out the consumer behaviour during the recession in order to find out the habit and patterns of the consumers. Author has also tried to find out the impact of VAT increase on the consumer buying behaviour.

4. 4. 1 Questionnaire Research (Appendices 1)

The questionnaire has 15 questions. There were 34 participants. While asking about their annual income only 88% participants were ready to give information while 12% participants didn't want to give that information. Those who gave their income details, 53% salary ranges £10000-£19999, 30% ranges £0-£9999, 10% ranges from £20000-£29999 and only 7% participants salary was £40, 000+. There were 71% male participants and 29% female participants.

Q. 3 Gender

Question 4 and 5 asked about impact of increase in VAT on buying behaviour. We received some interesting results (see figure 4. 2). Out of 34 participants 71% responded that it will affect their buying behaviour while 29% says that it will have no effect as the increase would be very nominal and not noticeable.

As we can see from the figure 4. 2, 35% participants saying that the increase in VAT will badly affect their daily shopping. As they have to do large shopping and overall house budget will increase and savings will be decreased. Some respondents says that they will have to be careful on what they spending now as smaller purchases are not noticeable but they really impact on the household budget. 47% respondents are saying that effect of increase in VAT would be little as the increase is just 2. 5% and the price increase would be few pence. And with surprise, 18% respondents are saying that it will not affect at all.

Question 6 and 7 asked about the money spend on groceries and non groceries each week in UK pounds. The author has received very mixed responses. 29% of participants were spending £15-£29 on groceries while 18% spending less than £15 and another 18% says they spend only £30-£40 on groceries. In non groceries 41% participants were spending less than while another 24% and 18% spending only £15-29 and £30-£44 respectively. This data shows that the participants are spending more money on groceries compare to non grocery product in the recession. While asking them about this difference they replied that groceries are basic needs, demand will be the same whether there is recession or not (however this type of demand

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may change qualitatively). However the non groceries items can be controlled by them during the recession while prices are rising.

Q. 6 About how much do you spend on groceries each week?

Q. 5 About how much do you spend on non – groceries each week?

Question 8 there are some actions given which normally people do in recession. They are to control spending (stop using services/products, buy less), replace only when needed (or buy smaller packages), do it yourself (homemade food, prepare/organise/make by yourself), shop smarter (buy when promotions and discounts available), seek value for money (comparing prices, search for lower ones). While asking the participants to pick 1 or 2, highest pick the seek value for money (24%), 23% responded that they will shop smarter, 21% said that they will control spending. Only 16% said they will replace when needed and do by themselves like, preparing food at home rather than getting from outside. This shows that there is an effect of recession on participants that is why they are comparing prices, search for lower ones, buy when promotions and discounts available during shopping. However they had few responses on controlling spending like stop using services/products, buy less, use homemade food, prepare/organise/ make by themselves. While asking the reasons they replied that the main reason is regular fixed income. They all are working fulltime or part time, retired participants have their pension income. This shows that the retail stores have to change their marketing style they should get the trust or make the customer believe that they are saving money while shopping in that store. For example many of supermarket also make place of emphasis on providing

value for money. Supermarkets have focused on these consumers and created a lot of special offer to attract them during recession. And the result is supermarkets have done better during the recession than other retail industries.

Q. 8 In terms of the recession what do you prefer to do?

Opinion

Percentage

control spending (for example: stop using services/products, buy less)

21%

replace only when needed (or buy smaller packages)

16%

do-it-yourself (for example: home-made food, prepare/organise/make by yourself)

16%

shop smarter (for example: buy when promotions and discounts available)

23%

seek value for money(for example: comparing prices, search for lower ones)

24%

Table 4. 4: In terms of the recession what do you prefer to do?

Figure 4. 5: In terms of the recession what do you prefer to do?

Question 9 asked respondents to quantify the factors which made them shop. There were choices like important or unimportant, exciting or unexciting, interesting or boring and fun or not fun. Finding suggests that for grocery shopping is important but it's not very exciting, interesting or fun because it is 'regular' basis shopping. However for non grocery items for example electronic goods it is not regular shopping so it is more important, exciting, interesting and more fun. Obviously this small sample suggests that non grocery retailing lot benefit making their product proposition very exciting. The author would also suggest that the same has been and can be applied to grocery retailing.

Q. 9 Shopping for you is

Question 10 asked respondents there is a list of factors which are important for the people while deciding where to do their weekly grocery shopping.

The finding shows 44% of participants have given more importance to Low Price. Second factor which got high importance (78%) is 'accessed' example On Public Transport Route. 44% of participants have given importance to Promotion and Special Offers, 67% to availability of Cash Machine and 50% to Customer Service/Friendly and helpful staff. However the research shows that 25% of participants gave more importance to High Quality while 29% has given a little importance to the High Quality. On the other hand the research revealed that 75% of participants give no importance to Store Loyalty Cards and Schemes. 100% participants give no importance to Online Ordering or Delivery Schemes or Large selection of Organic Goods in respect

of grocery shopping. They said that because of the recession period they are giving more priority to low price products and services, and Promotional offers. Lots of people are travelling by public transport to save money and time that is why they give more importance on Public Transport Route. Highest Quality comes with high price so in this recession few participants give priority to it. When one looks at results, ranking of respondents does it mean the price is now 'order winner' and quality is becoming a more 'qualifier' (a given).

Q. 10 What is important for you while deciding where to do your weekly grocery shopping?

Question 11 and 12 asked respondents which grocery and non grocery chain they usually use (See appendix 1). The study revealed that more participants are using economical supermarket chain like Aldi, Asda, Tesco, Morrisons, Iceland, Co-operative Group and Sainsbury. While very few participants are using Mark and Spencer, Waitrose in their regular shopping. However in non grocery shopping participants express that they use Argos, Asda and Currys most because of their good promotions and offers. While they use very little other chains like PC World, Staples, Comet, etc.

For grocery chains Aldi is obviously the super discounter where as Tesco cannot be classified as such. And the Co operative Group generally has high price compare to other main chains. Our result of the number is the stores in the area. Or it is genuinely due to economics. For non grocery chains this is little bit more obvious; Currys and Argos are definitely non grocery whereas Asda is a grocery store our 23% who shops for non grocery products at Asda; simply buying Asda brand products example George.

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Q. 11 Which grocery chain do you usually use?**Q. 12 Which non-grocery chain do you usually use?**

In question 13 the author has asked to express the participants' views in relation to the supermarket they spend most.

After getting their views it reveals that there should be more special deals in the local grocery stores, they think most supermarkets are same, they want to maximise their return on their spending by getting the best quality at the low price, they are not convince by the supermarket status, they have a lower belief that supermarkets are reliable in the delivery of product and service. However they have trust in their supermarket, they also have concern that the supermarket are concerns for the customer being well, they do not believe that they have relationship with supermarket, they would go to the more than one supermarket rather than sticking to one, they are happy with the customer service provided by the supermarket and they want that supermarket should make more efforts to getting to know their customers that what they like or dislikes.

There are some important issues which arise from data.

Nine of the respondents agree or strongly agree they are not interested in bargain seeking however the stores selected in Question 11 were bargain stores example Aldi, Tesco.

Another contradiction to in the above is that 5 out of 9 respondents agreed or strongly agreed that it was important to keep up special deals at grocery stores because consumers wants to get more from their spending.

All respondents indicated that they always try to maximise quality for the money spend. This seems to correlate with response given about the importance of quality in Question 10.

Perhaps the most impressive agreement was in the survey was that participants did not perceive that supermarket did not make any effort for what they like.

On positive side of supermarket is that most of the participants trust the supermarket they shop at, believe it would not trick them and its reliable for deliver goods and services.

Q. 13 Please indicate your agreement or disagreement with the following statements in the relation to the supermarket you spend most.

Statements

Strongly agree

Agree

neither nor

disagree

Strongly disagree

I have little or no grocery shopping

4

3

7

11

9

I'm not interested in bargain seeking

4

5

4

16

5

It's important for me to keep up with special deals being offered by the grocery stores in my area

3

18

6

7

Most of the supermarkets are all alike

4

18

3

7

2

While purchasing the product I always try to maximise the quality I get for the money I spend

8

18

5

2

1

When people see me purchasing from this store they form an opinion of me

2

4

18

9

1

The supermarket is reliable in the delivery of product and service

1

21

8

3

1

The supermarket in which I shop won't trick me

4

14

11

3

2

I feel the supermarket is concerned about its customers being well

3

10

14

6

1

I trust the supermarket, I shop at

2

17

13

2

I would recommend the supermarket to others

3

16

10

4

1

I am loyal to the supermarket

3

9

13

7

2

I have relationship with the supermarket

2

4

16

9

2

I'd prefer to go to the only one supermarket for my shopping

4

5

7

14

4

Store loyalty cards are not worth having. The supermarket just wants us to think more positive about it

3

10

12

6

3

Being satisfied with the supermarket makes me loyal to it

3

15

11

4

1

The loyalty card makes me to repurchase at the same store

1

8

10

12

3

I'm satisfied with the way the supermarket informs me about its products/services

3

8

18

4

I'm satisfied with customer service at the supermarket

2

14

11

5

2

I'd love the supermarket to make more efforts in getting to know what I like and dislike

7

16

7

3

1

Table 4. 10: The supermarket you spend most

In Question 12 participants asked to give their opinions that which promotions appeal them most. It shows that promotion from Asda and Tesco

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appeals them most. They are also attracted to promotions of Morrisons, Aldi, Marks & Spencer and Sainsbury's. But the promotion from the Waitrose and Lidl has less impact on them. They shop at Tesco, they like Tesco, this seems it appears to be fertile ground for super discounters like Aldi.

Q. 14 Which promotions mostly appeals to you?

Promotions

Percentage

Only 1 pound each! Half price! Earn nectar points too. Sainsbury's. Try something new today.

15%

All the ingredients for a great picnic. (We'll even supply a free rug or cool bag.) Waitrose. Everyone deserves quality food.

6%

Better than half price at Morrisons. Great savings on big brands at Morrisons. Price crunch. Save 4. 5pounds!

10%

Tesco. Every little helps. Half price. 99p each. Its more rewarding with Clubcard

25%

Wider choice. Lower price. ASDA. Saving you money every day.

22%

Lidl. Seriously cheaper! Available in-store now. Sensational Deal! Incredible Offer!

5%

The big deal. Aldi's biggest summer deals. On sale 30th July. Aldi. Spend a little Live a lot. Hurry, once they're gone, they're gone.

9%

Offer ends Sunday. Dine in for two £10. Summer menu now being served. Yours M&S. Quality worth every penny

9%

Table 4. 11: Which promotions mostly appeals to you?

Figure 4. 9: Which promotions mostly appeals to you?

4. 4 Summary

In this chapter has explored how Supermarkets got success during the recession with their strategy. Supermarkets have given a great lesson to other retail industry how to survive during the recession. Supermarkets haven't just survived but they have outperformed. In the next chapter author will give conclusion and recommendation how other retail industry can survive during the recession like Supermarkets.

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