

Swot, pestel and five forces analysis



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2. Introduction

The supermarket industry is fierce in terms of its competitors. There are four main firms that have dominant market share but still have the aim to become the market leader and want to be bigger and better for their customers and potential customers.

3. Methodology

In order to conduct my research I used a variety of sources which included economical and contemporary books, additional journals were also used to gain more specific and up-to-date information. The internet was also a valuable source due to its nature and variety of widely available information.

4. PEST Model

The Pest model allows us to see what changes have happened in the industry and how this can affect competition. It allows us to distinguish the not so important compared to what is vital in the industry. For any firm in this industry it is important to create value for its customers, so therefore an understanding of the customer is vital.

To create value, a firm would have to create a form of understanding and a relationship with its suppliers. Also for a firm in this organisation an in depth understanding and monitoring of its competitors is essential in order to be a profitable company and have first mover advantage. This supermarket industry includes the customers, the suppliers and the competition.

An understanding of the pest model allows us to discover comprehensive potential opportunities and threats in the future. I. e. global warming may

not be an issue now but can be in the next hundred years; this could reflect raw materials for food.

4. 2 Political

There is a low level of unemployment this due to the recession; this affects the demand of good being bought as consumers have less disposable income. However, food is a commodity and will always be demanded sue to its nature.

E. g. the price of stock in supermarkets has dropped in last few years with the intention of boosting demand. Its level of custom has also fallen.

There are now restrictions on buying land or buying out another supermarket chain making it more difficult for supermarkets to expand.

4. 3 Economical

Barriers to entry

E. g. Over 5 years it has been reported that 700 hundred supermarket stores have opening ranging from sizes to 3, 000 to 25, 000 square feet. In comparison to this it is going to be hard for smaller supermarket chains to break into this industry due to it competitors. Only 5 new supermarket stores have opened in last 5 years.

As a result of the recession, supermarket chains have to concentrate on the demands of the customer. This could include customers looking at:

Cost

Prices

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Profits

Overall price is very competitive in this industry.

There is also a change in the way consumers shop; supermarket chains such as Tesco have addressed this by giving incentives such as a club card in order to gain brand loyalty and repeat custom.

Larger supermarket chains are quick to eliminate competitors. E. g. Sainsbury's had bought out star Market and then opened stores across Egypt.

4. 4 Social

Supermarkets are continually monitoring changing consumer trends and shopping patterns such as;

Who is buying the product?

When they buy the product?

How they buy their products?

Which products are they buying?

Monitoring these trends and understanding them can create competition in order to be the first to develop products and services that meet changing patterns.

E. g. in the UK, 75% of customers shop twice a week and seven still shop at different chains. This pattern by UK shoppers is known as ' Bulk Shopping' or ' One Stop Shopping'.

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Even though the recession has cut back the number of jobs available, supermarkets still employ a large number of people. This could be due to their flexibility in working times such as part time. E. g. Sainsbury's employs around 150, 000 people in the UK alone. Also there will always be demand for commodities meaning that supermarkets have some level of safety. Some supermarkets use this as a marketing technique, for example Asda aims to create over 7, 500 jobs in 2011 (Tue, 16 Nov 2010 (www.supermarketnew.co.uk))

There is also change in demand regarding taste: organic foods are now much more common in supermarkets due to greater awareness of global warming, fairtrade and many other issues. E. g. there could be health concerns surrounding British beef with BSE.

4. 5 Technological

Technology has become beneficial to customers in supermarkets. With self checkout tills, shopping has become much easier and more convenient for consumers for shoppers. They are also easy to use meaning that all consumers can take advantage of this new technology. Personalized shopping is also being introduced which again makes shopping easier and more convenient. E. g. Waitrose allows you shop with your own trolley gun.

" With the technology available and the number of companies supplying it, explosion is the word for it," said Tim M. Hammonds, senior vice president of the Food Marketing Institute in Washington. " Almost every store is doing at least one experiment."

Tesco are reported to have spent £25 billion in 2005 setting up their on-line shopping website this also helps chains looking at consumer buying habits. Tesco. com is the world's biggest online supermarket and this year the group had sales of over £577 million, an increase of 29% on last year

4. 6 Environment

Cutting waste; fruit and vegetables have less packaging.

Fresh and seasonal produce of a high quality

Introduction to organic foods, governments have supported farmers to convert and grow only organic foods.

4. 7 Legal

Law legislations

Health and Safety

5. Swot Analysis

The SWOT analysis shows the strengths, Weakness, opportunities and threats in the supermarket industry.

5. 1 Strengths

Corporate culture

The supermarket industry is one of the biggest and profitable

Supermarkets are a necessity; people will always need food therefore the demand is always high in relation to other industries.

Customers have different tastes; supermarkets have a wide variety of goods and services making it likely that a consumer can purchase all of their necessities in one place.

Having different stores allowing access to the mass market.

Customer Experiences e. g. in store cafes and facilities.

Giving Incentives: Loyalty cards and point reductions on foods.

Image; this encourages brand loyalty and can keep an environmentalist reputation.

5. 2 Weakness

Recession has impacted on supermarkets; giving better price reductions and deals undercutting competitors to retain market share. Low-cost supermarkets such as Aldi, Netto and Lidl have taken consumers due their much lower prices.

Smaller supermarkets may have to fold due to recession and a very highly competitive market.

Low employee efficiency and high labour turnover.

5. 3 Opportunities

Market leadership in a highly demanded segments i. e. the growth in organic and natural foods this will establish high economies of scale

Merging or acquisitions gaining market share E. g. Morrison's takeover of Safeway's.

Working with foreign countries help supermarkets break into a new market. Such as Latin America, South East China and South Africa.

5. 4 Threats

Changes in Government Regulations

Recession impacts the economic changes. I. e. Has an impact on customers' spending patterns.

6. Porters five forces

Porter's five forces of competition identify structural variables influencing competition and profitability in the supermarket industry.

6. 1 Threats of Entry

The supermarket industry is dominated by some big competitor chains such as Tesco, Asda, Sainsburys and Morrisons and smaller chains such as Somerfiels, One Stop etc. Bigger Chain competitors have focused more on operation and efficiency and productivity (allowing a wider variety of foods or products, better services etc). This force has left very small and traditional shops like butchers, bakers trailing very far behind. This has made it very hard for new companies to enter the supermarket industry. I. e. it is hard for a new business to raise capital because of the large fixed costs and its in a very much developed market with chains like Tesco have self check out points and their own stock control system. Where as Asda focus on operational tactics, like product development, better promotional activities and concentrating on better distribution.

6. 2 Bargaining Power of Supplier

Because the industry is fierce and is growing to be influenced by the likes of Tesco and Asda they can negotiate better promotional prices in comparison to smaller chains have a fear of losing business. They benefit from purchasing economies of scale. Suppliers are under threat because big food chains can negotiate better deals abroad. There needs to be an effective relationship with the supplier and its seller, this makes for a better profit margin.

6. 3 Bargaining Power of Buyers

To meet customer needs there are many things, lowering prices, wider and better choices, countless promotional activities, consistently bettering customer service. E. g. Tesco club card is most successful to date and has added to Tesco's profitability. Supermarket chains have become more aware of consumer needs and by expanding in new markets banking, pharmacies and clothing. There is also a push on ethical products as consumers have become increasingly aware, they are now available in most big supermarkets.

6. 4 Threat of Substitutes

There is a threat that consumers can switch from one supermarket to another, this can be due to consumers being influenced highly on price, better service or quality. In relation to this bigger chains are buying out smaller chains, and opening them strategically in small towns or cities. E. g. Morrisons takeover Safeway as a method of quick expansion.

6. 5 Bargaining Power of Competitors

The supermarket industry has grown dramatically in size mainly due to bigger chains and continuous growth. This has opened up bigger and better retail concentration, new formats and better customer service. E. g. Tesco retain and build relationship with customers with databases allowing them to see what the consumers have purchased. Companies need to be innovative to keep up with the consumer behaviour such as refocusing on pricing and its values.

6. 6 Competitive Rivalry

Because the industry is dominated by bigger supermarket chains, there is a constant battle for better prices or better reductions. This results to high price wars to all competitors.

Supermarket chains focus on quality and value for the customer in return they could attract new customers of different segments of the market.

By bigger chains spending much more on advertising including celebrity endorsement, E. g. Jamie Oliver being the face of Sainsbury's and Heston Blumenthal and Delia Smith for Waitrose it becomes much harder for smaller chains to compete.

By giving customer price incentives such as Buy-One-Get-One-Free (BOGOF) this again allows supermarkets to retain and maintain customer satisfaction. Loyalty cards are also good example of this.

7. Conclusion

7.1 Smaller supermarket vs. bigger supermarkets

The emergence of a number of smaller grocery stores has increased in the past 12 months.

A number of smaller supermarkets have been grasped by larger competitors.

Morrisons purchase of 39 Somerfield's after Co-Ops disposal programme, led Morrisons to further increase market share in the south east and in the London.

Sainsbury's followed Morrisons vision, breaking into new areas, opening 22 store acquisitions in the north. The stores average from 17, 000 square feet.

Waitrose reached beyond the South east, opening 14 new stores, averaging between 5, 000 square feet under its actual store size.

A recent newspaper headline stated “ Asda goes shopping at Netto in £778m takeover deal” (27. 05. 10, London' evening standard) showing larger supermarkets being able to takeover much smaller chains.

7.2 Strategies Available

During the recession, it is apparent that value for money is most important to the customer. There is little room to negotiate prices as the market is very competitive and each supermarket wants to retain market share.

Food Retailers can look into trends and new technologies to differentiate from the competitors, i. e. smarter shopping carts and better formatting of stores.

Supermarkets are looking into convenience for the shopper. Smaller stores such as Tesco's Express fill the gap between the bigger and smaller stores; they stock ready made meals and supply the basic foods. The sales maybe smaller but they retain market share and overall the business in going to profit.

Organic foods are becoming a strong strategy to pull in new customers. There is a distinctive line between luxurious and affordable prices. The organic Market is worth 340 million annually, this figure has doubled in the last 2 years. Supermarkets have recognised the potential and responded with their own range of organic produce.

Tesco's has market lead and Sainsbury's are planning a huge launch of its own organic range as is evident from the newspaper headline below.

“ Tesco turns itself into a green giant”

(The Sunday Times

May 31, 2009)

Asda will also be taking advantage, a spokeswoman for Asda says: ‘ Organic food is definitely something that can be marketed to the masses. Throughout our stores we have a suggestion box programme called Tuned In. More organics is the number one suggestion.

A sales increase from 3. 1% to 5. 4% in sales. And have increased their organic range from 250 to 400 items with cutting prices.

Supermarkets may not be able to persuade shoppers from its competitors directly but convenience of better food products may sway them naturally.