

# The retail and uk grocery supermarket sectors



Gill and Johnson (2002) indicate that research project assessment criteria usually require researchers to demonstrate awareness of the current state of knowledge in the subject and its limitations. In order to have a reasonable understanding of a whole research topic, it is necessary to interpret the terms and core concepts. As this research aims to examine the financial impact of the current recession on UK Supermarket Industry, especially the grocery market sector, this chapter focuses separately on the twin aspects: Supermarket industry and Recession. All the data and information in this chapter are from books, academic articles and professional websites. The chapter begins with a general outline of the UK retailing and then focuses on Supermarket industry, especially the grocery industry sub-sector.

## **2. 1 Retail Industry in General**

As per Cox and Brittain (2004), retailing has been viewed as selling goods to the customers through retail stores. However, retailing today should be viewed as being rather broader. Retailing is the sale of goods or services to the ultimate consumer for personal, family or household use. Thus retailing involves more than tangible goods. It includes purchases of intangible services such as a hair cut or a dry cleaning. Purchases for Business or Industrial uses are not usually considered to be retail transactions but may take place at supermarkets, especially re SMEs.

Despite the wider definition of retailing suggested above, the retail sector particularly is important because it is usually final stage of production that begins at the extractive stages going through the manufacturing processes and by the distribution of the goods (or services) to the final consumer. In

the UK some of the important latest statistics from the British Retail Consortium (2010) relating to the retailing industry are:

In 2009 UK retail sales were over £285 billion.

The retail industry employed over 2.9 million people as at the end of December 2009. This equates to 11% of the total UK workforce.

9% of all VAT-registered businesses in the UK are retailers, with the total number currently at 192,600.

In 2008 there were 293,510 retail outlets in the UK.

More than a third of consumer spending goes through shops.

The retail sector generates 8% of the UK Gross Domestic Product

Source: British Retail Consortium (2010)

Therefore the retailing industry is an important but very large area to research. Consequently, it is deemed pertinent to focus on a representative sub segment, namely the supermarket industry.

## **2.2 Supermarket Industry**

From a variety of definitions of the supermarket industry, the following provide a useful basis for this research:

BusinessDictionary.com broadly defines a supermarket as “A large store that sells a variety of food and household items to customers”.

Profilefacts.com adds more detail, stating:

<https://assignbuster.com/the-retail-and-uk-grocery-supermarket-sectors/>

“ A supermarket, a form of grocery store, is a self-service store offering a wide variety of food and household merchandise, organized into departments. It is larger in size and has a wider selection than a traditional grocery store, also selling items typically found in a convenience store, but is smaller and more limited in the range of merchandise than a hypermarket or superstore.

The supermarket typically comprises meat, fresh produce, dairy, and baked goods departments, along with shelf space reserved for canned and packaged goods as well as for various non-food items such as household cleaners, pharmacy products and pet supplies. Most supermarkets also sell a variety of other household products that are consumed regularly, such as alcohol (where permitted), medicine, and clothes, and some stores sell a much wider range of non-food products.” (<http://profilefacts.com/2010/12/supermarket.html>)

However, as this study aims to explore changes in consumer behaviour during the current recession, it will concentrate on regular purchases. These represent autonomous rather than discretionary expenditure, i. e. “ the amount spent in an economy that is independent of fluctuations in income” ([encarta.com](http://encarta.com)). It is widely acknowledged that discretionary expenditure reduces during recessions, so it could distort an analysis of consumer loyalty. Therefore, for this study, it is pertinent to concentrate on the grocery market trends as these purchases, unlike non-grocery purchases, cannot usually be deferred.

## **2. 2. 1 What is the size of the UK grocery market?**

The grocery market represents a substantial proportion of autonomous expenditure; i. e. "the amount spent in an economy that is independent of fluctuations in income" (encarta. com) . This high proportion is evidenced by The Institute of Grocery Distribution (IGD) statement

" The grocery market was worth £150. 8bn for the calendar year 2010, an increase of 3. 1% on 2009; Food and grocery expenditure accounts for 53p in every £1 of retail spending; 21p in every £1 spent in food & grocery is spent in convenience stores" (<http://www.igd.com/index.asp?id=1&fid=1&sid=17&tid=0&folid=0&cid=94>)

## **UK Grocery Market Performance**

UK Grocery Market Performance graph

Source: IGD Research 2010 (<http://www.igd.com/index.asp?id=1&fid=1&sid=17&tid=0&folid=0&cid=94>)

The IGD data above shows that during 2009 UK grocery market performance faltered, and then dipped substantially in 2010.

## **2. 2. 2 How many grocery stores are there in the UK?**

Grocery stores are a heterogeneous subsector. The 16 December 2010 issue of ' Encounter, the magazine for independent impulse and convenience retailers', states that there are 91, 509 grocery stores in the UK. These are split into four sectors, which are defined as follows:

Convenience stores:

<https://assignbuster.com/the-retail-and-uk-grocery-supermarket-sectors/>

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, (e. g. SPAR, Co-operative Group, Londis).

Traditional retail:

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

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)

Online channel:

Sales via the internet

**Source: ‘ Encounter, the magazine for independent impulse and convenience retailers’ (16 December 2010 issue)**

### **2. 2. 3 How big is each sector?**

The chart below, from IGD. com, shows how many stores are within each sector and how much each sector is worth. This data aids understanding of the structure and therefore the nature of competition within this industry.

## **UK Grocery Retailing – Store Numbers & Sector Value**

Grocery retailing store numbers 2010

Figure 2: UK store numbers chart

Source: IGD Research, 2010 (<http://www.igd.com>)

### **2.3 Porter's Five Forces Analysis**

To add theoretical underpinnings to the analysis of the competitive factors for this industry it is important to refer to the work of Porter. Porter (2008) points out that the concept of competition is much wider than many managers realise, stating that besides existing rivals, the powers of “customers, suppliers, potential entrants and substitute products” must be considered. This extended model of competition is known as ‘Porter's Five Forces’ and is widely used to analyse the arena of competition in any industry and the factors driving its competition so it is valid for this study. This model is shown diagrammatically below:

Figure 3: Porter's Five Competitive Forces

Source: Harvard Business Review, 2008

### **2.3.4 Threat of substitute products and services**

It is difficult to find alternatives to groceries; as they are staple products of life this power aspect is low. Instead, it is useful to consider how these items are purchased. The substitutes of major food retailers are small chains of convenience stores, off licences and organic shops which are not seen as a threat to supermarkets like Tesco that offer high quality products at considerably lower prices (Financial Times, 2009). However, Tesco is <https://assignbuster.com/the-retail-and-uk-grocery-supermarket-sectors/>

retaliating by opening Express stores in local towns and city centres to hamper the growth of these substitute venues. This study will try to establish by primary research the extent to which customers are attracted to discounted prices, such as those offered by Tesco (including on-line only discounts) and the threat that poses to speciality shops.

### **2. 3. 1 Threat of entry of new competitors**

New companies can face several barriers when trying to enter the grocery market. Large capital resources are required to purchase industry-standard premises, for which planning permission may also take an exceedingly long time due to appeals. Therefore, it can be difficult to establish a creditable presence to be a threat to established grocers/supermarkets, such as Tesco, Asda, Sainsburys and Morrisons, which together account for 80% of the market (Mintel, 2010). Nisa, the latest new entrant trying to make a UK presence, will either have to offer their goods at exceptionally low prices and/or high quality to gain a foothold. Smaller new entrants have used the convenience store approach to penetrate into this market. However, there is only a mild threat of new entrants becoming a driving force in this industry's behaviour.

### **2. 3. 2 Power of suppliers**

The power of grocery suppliers to bargain with supermarkets is fairly low, as the contracts from the major food and grocery retailers/supermarkets are large and lucrative, suppliers dread losing their business contracts. This power imbalance is borne out by the UK Government's recent introduction of an adjudicator service to resolve disputes between supermarkets and their



suppliers. The Groceries Code Adjudicator (GCA) will sit within the Office of Fair Trading (OFT), but will be independent. (BBC, 2010)

### **2.3.3 Power of buyers**

The bargaining power of buyers is fairly high but this is highly dependent on what buyers required in the longer term. In cases where products have only slight differentiation and are more standardised, the switching cost is very low as the buyers can easily switch between brands, i. e. one grocer/supermarket to another. For example, Sainsbury's has lost their no. 1 spot many years ago largely due to Sainsbury's pricing strategy. It has been proposed that customers are attracted towards the low prices, and with the availability of online retail shopping, the prices of products are easily compared and thus selected.

However, this view is challenged by consumer loyalty models which demonstrate that price sensitivity/elasticity can be relatively low in some sub-segments, i. e. those that value quality and/or convenience more highly. It must be remembered that Porter wrote this model before the advent of the Internet, which allows buyers/customers more power of price and quality information via product review facilities, which allows own brands to be judged relatively to known brands on 'value for money' grounds.

Supermarkets have tried to capitalise on this high power with the quality and convenience aspects of their on-line shopping and delivery services. This relates somewhat to the linked 'trust' and 'consumer engagement' models' which have to be largely outside the scope of this limited study. However, it is briefly noted that Berry (1996) stated that trust is "the single most relationship marketing tool available to a company" and Reichheld & Shefter, <https://assignbuster.com/the-retail-and-uk-grocery-supermarket-sectors/>

2000) added that to “ gain the loyalty of customers, you have to first gain their trust” (both are cited in Sirdeshmukh, Sinagh & Sabol, 2002, p 15)

This aspect naturally overlaps with Porter’s section ‘ rivalry between existing competitors’, as detailed below.

### **2. 3. 5 Intensity of competitive rivalry**

The intensity of competition between existing rivals in the food and grocery retail industry appears to be extremely high. Euromonitor data reveals that there is intense direct competition between the ‘ big five’: Tesco, Asda, Sainsbury’s, Morrison’s and Waitrose, which are competing on price, products and promotions. Particularly highlighted is the performance of Asda with an increase of market share from 16. 6% to 16. 8% during 2009/10, along with Sainsbury’s increase from 15. 8% to 16. 1% and Morrisons’ share rising from 11. 3% to 11. 6% through the same period. During this period Tesco’s share fell by 0. 5% (Euromonitor, 2010). Keynote 2010 adds that Aldi and Lidl have increased their market shares by over 25%, and that Somerfield and the Co-op have focused on gaining share in more rural areas, which the big 5 have largely ignored.

Essentially, these increasing market shares in this low and slow growth market demonstrate that market rivalry has intensified and is threatening Tesco’s market leadership position. (Intel, 2010)

Although Porter’s Five Forces model studies the relativity effect of the competitors, it does not consider non-market changes, such as events in the political arena that impact an industry or economic events. Porters defence to this criticism is that changes are implicit in his model, but this study

<https://assignbuster.com/the-retail-and-uk-grocery-supermarket-sectors/>

requires more explicitness on this issue. While it is a very useful analytical tool, it does not give clear and complete information regarding the purpose of this dissertation, as it does not take recession in to account. This provided the author with a valid justification for the primary research questions.

## **2. 4 Recession**

According to Wessel (2006) among others, recession occurs when GDP is significantly below its full employment level. Therefore two types of recessions can occur. The first type is when an economy operates below its potential full output level, so causing unemployment to rise significantly as many workers cannot find work due to the knock-on effect causing consumers and investors to reduce their aggregate spending (Wessel, 2006). The second type of recession occurs when the economy's potential full output level itself falls, such as when efficiency or technological progress declines. Here, the economy is at a lower full employment equilibrium, i. e. there are no vacancies. " The difference between a decline due to output falling below its full employment level and a decline due to full-employment output falling is crucial." (Wessel, 2006, p 101)

## **2. 5 Macroeconomics**

McConnell and Brue (2008, page 6) states,

" Macroeconomics examines either the economy as a whole or its basic subdivisions or aggregates, such as the government, household, and business sectors. An aggregate is a collection of specific economic units treated as if they were one unit."

Therefore macroeconomics tries to gain an overview of economic activity by considering aggregate variables such as total output, total income, aggregate expenditure and general price level. It does not explore the detail of these variables; that is the science of microeconomics.

According to Sherman (2010), if market forces do tend an economy to full employment automatically, then there is no need for government intervention. However, progressive macroeconomics asserts that the current crisis and recession were due to the actions of present economic institutions not market forces per se, so a government policy is urgently needed (Sherman (2010)). In economic terms, an ' exogenous supply-side shock' can be said to have occurred.

As the grocery trade is associated with autonomous aggregate expenditure, the sector as a whole may not be badly affected by the current recession but individual companies may be. This study will investigate this aspect by primary research.

### **2. 5. 1 Investment and Profit**

Capitalist economies such as the UK, rely on new business investment, rather than replacement investment to create a higher rate of economic growth. Falling investment creates stagnation and recession. It is the expected profit generated from this investment that drives an economy forward, accepting that there will be a certain time lag before returns from the investment flow in to a company (Sherman, 2010). Therefore those companies that gain market share will invest, so they must gain, not loose,

customers. This shows that customer loyalty is a valid aspect to study when considering the impact of the recession on the grocery/supermarket industry.

## **2. 5. 2 What Causes Every Boom to Turn into a Recession?**

To round this section off, in every economic expansion there is a period when it seems like the boom will go on forever. Higher employment leads to higher income, which leads to higher profits and more investment, which leads to higher employment-sometimes called a virtuous circle or boom. However, the law of diminishing returns explains that ultimately aggregate profit rates decline and aggregate costs increase. This leads to the end of the boom, as the decrease in profit creates lower profit in the future. Lower expectations in profit results cause lower investment which leads to recession. This cycle is repetitive - sometimes called a vicious circle or recession.

The economy rises at the faster rate during mid-expansion period. After the midpoint of expansion, the gross domestic product, consumption, investment, and aggregate profit all tend to rise further, but at a slower and slower pace. The economy does not rise faster and faster to a peak, and then suddenly collapse, so no one should be shocked at the beginning of a recession. (Sherman, 2010) This appears to be the situation the UK is currently in.

## **2. 6 Consumer Buying Behaviour in Retail**

Buying Behaviour is the decision processes and acts of people involved in buying and using products (Berkowitz, 1993). Buying behaviour considers the rationales underpinning consumers' purchases, the factors that influence

their purchase and the dynamic factors in society, as well as the complex mental process. This specialist discipline studies consumers from the perspective of ultimate consumer. A supermarket needs to analyze buying behaviour to find out how a buyer reacts to a firm's marketing strategy, to analyse what, where, when and how customers buy and it will help marketers to predict how consumers will react to future marketing strategies. Consumers exhibit 'routine response behaviour'. i. e. loyalty, when frequently purchasing low cost items, but under changing conditions this automated satisfaction behaviour may change (East, Wright & Vanhuele, 2008). Accordingly, PricewaterhouseCoopers (PwC) have found that 93% of shoppers say they have changed their behaviour as a result of the economic downturn (Economist, 2010). The change in consumer buying behaviour can be analysed via the Maslow's hierarchy of needs theory. This provides strong rationale for the research questions investigated in this study.

### **2. 6. 1 Abraham Maslow's Hierarchy of Needs**

Abraham Maslow first developed his theory of human needs (1954) in an effort to integrate a variety of concepts into a single theory to show that humans actively work towards maximising their health, growth and self-actualisation. These included works by Freud, Adler, Jung, Levy, Fromm, Horney and Golstein, so unlike his predecessors Maslow wanted to study human psychologically via whole people to try identify what made them feel whole. He explored their 'needs profile', which in some aspects would always be unfulfilled. He suggested that people's 'lower level' needs must be met prior to their advancement to 'higher levels' of needs.

“ In other words, as basic human needs (e. g. food and water) become sufficiently satisfied, another category of needs soon emerges to take their place. Then, as those needs are satisfied, they too fade into the background and are replaced by still other needs and so on. Only after the lower level needs are met, however, will the individual be motivated to satisfy the subsequent categories of needs.” (Oleson, 2004, page 85)

This model has been widely used in the area of management and marketing studies, as a basis for examining concept customer value (Chang & Wu, 2010). Its two accepted assumptions: (1) human needs are hierarchical; and (2) humans move systematically onto the next higher level. Below is a diagrammatic representation of this theory.

Figure 4 Abraham Maslow's Hierarchy of Needs

(Source: Mark Oleson, International Journal of Consumer Studies, 28, 1, January 2004, pp83-92)

Several theories are incorporated into the developmental sequence of this implied or stated hierarchy (see Fig. 4), such as Freud's psychosexual theory, Erikson's psychosocial theory, Piaget's theory of cognitive development and Kohlberg's theory of moral development. These theorists do have differences but do agree on suggesting that development comes via a series of progressive changes through the life cycle.

### **2. 6. 1. 1 Physiological needs**

At the lowest level in Maslow's hierarchy of needs are physiological needs, including basic necessities such as food, water, rest, shelter and other needs

required to sustain life. Maslow categorized these needs as 'pre-potent', meaning that: in the human being who is missing everything in life in an extreme fashion, it is most likely that the major motivation would be the physiological needs rather than any others (Oleson, 2003). A person lacking food, safety, love, and esteem would most probably hunger for food more strongly than for anything else. All other needs may become simply non-existent or be pushed into the background (Maslow, 1954). According to Economist (2010), basic consumer goods, like food, drinks, toiletries etc., were long assumed to be fairly recession-proof as a category, suggesting that even in the recession supermarkets per se have been somewhat protected as a sector, but not individually. Therefore physiological needs links back to autonomous expenditure as noted above.

It is necessary for human to get their basic needs satisfied, and once these needs are satisfied then other needs becomes important.

## **2. 6. 1. 2 Safety and security needs**

Once physiological needs are met, the safety, or security needs (freedom from physical and psychological harm) become predominant. The need to be free of and from danger can have the same pervasive quality as the physiological needs (Maslow, 1943). Infants and children show this need for safety and security strongly, as they often cling to adults for comfort, indicating their need for safety is the preference for routine and structure in life (Oleson, 2003).

People have become more cautious and focused towards their health and fitness of themselves or their families, and there are many TV adverts for



health & fitness products. As well as boosting supermarket sales, this trend has created more awareness in the consumers. Supermarkets now focus on hygiene aspects of food, especially in their relatively cheaper own brand variety of branded products.

### **2. 6. 1. 3 Love and belonging needs**

According to Maslow (1954) the next level to fulfil is to seek social needs such as belonging, companionship and social acceptability. People wish to reassure themselves they are loved and accepted by their immediate family and friends. A person's need to be loved is as important and intense as their need to give affection, as is their need for food and water (Oleson, 2003).

### **2. 6. 1. 4 Esteem needs**

Once the feelings of giving and receiving affection are fulfilled people are motivated to feel respected (Maslow, 1943). People have a general need and desire for status, self-respect, self-esteem, and the respect or esteem of others. Maslow classified these needs into two basic categories: (1) 'The desire for strength, for achievement, for adequacy, for confidence in the face of the world, and for independence and freedom' and (2) 'the desire for reputation or prestige (respect or esteem from other people), recognition, attention, importance, or appreciation'. Satisfaction of the esteem needs leads to feelings of self-confidence, power, worth, adequacy and other feelings of usefulness (Oleson, 2003).

Thus, every person is deemed to want to buy esteem products or shop to for esteem products. Most of those who were not been hit by recession may have still continued their trend of buying autonomous expenditure products

from esteem retailers like Waitrose and Marks & Spencer. In one way it is creating sales for the supermarkets and in another way it is also fulfilling the consumers' esteem needs wishes. This inertia will depend on their degree of customer loyalty to these venues, which validates the focus of this study.

### **2. 6. 1. 5 Self-actualization needs**

With all other lower level of needs are fulfilled, people become motivated to fulfil their potential, i. e. to fulfil their self-actualization needs by becoming as fully self-realized as possible (Maslow, 1943). This need for the development of potential requires the desire to become, or be capable of becoming, or making our behaviour consistent with, what we are. Maslow contends that if we have met the other four basic needs, the need for self-actualization is 'potent' enough to serve as our primary motivator for all behaviour. (Oleson, 2003)

This study will endeavour to uncover, by using the above theoretical aspects and primary research, how and why consumer behaviour may have changed due to the influence of the recession.

### **2. 7 Summary**

In this chapter author has reviewed published literature regarding this topic research, by moving from the general topic of retailing to the more specific are of supermarket grocery retailing, especially its size and structure.

Naturally this led to coverage of Porter's Five Forces model to understand the driving competitive forces in this industry. This revealed that the two powerful and inter-related driving forces: the powers held by buyers and existing rivals. This provided the basis for research questions. Literature on

the complementary aspect of this study, the recession, was reviewed by establishing the current recession type via briefly exploring related macroeconomic theory. A theoretical link between the identified driving competitive forces in the supermarket grocery trade and the recession was provided by a review of literature relating to buyer/consumer behaviour models, specifically Maslow's Hierarchy of Needs model.

This literature review led the author to consider in more depth how the research objectives should be achieved. In the next chapter the author particularly emphasises the research methodology, including why and how the data was gathered, analysed and interpreted in a particular manner.