# Business strategy and planning of costcutter

The corner shop or convenience store, as it is sometimes labelled, has been a feature of retail life in cities and towns from Roman times, if not earlier.

To be sure, the Romans articulated the role of the convenience store in everyday life, developed its corporate identity and regarded it as an enterprise that operates optimally within the range of footfall. The Roman streetscape was littered with these stores, most engaging prominent positions, some even corner positions, but all dominating the facades of the masonry buildings they occupied. A characteristic of the Roman convenience store was its integration into the local market, sourcing locally grown farm produce, supplying locally refined products and distributing this merchandise at a local level.

With the passage of time, the convenience store began to infiltrate the New World, and remained a characteristic feature of retail life in countries such as Australia, Canada and the United States, until well after the Second World War. But from the 1960’s, as the economies of the industrialised world entered a rapid phase of expansion, the supermarkets emerged as the dominant players in the retail grocery sector. Yet, the convenience store managed to survive as a viable economic entity. Nowadays, even supermarket giants such as Tesco and Sainsbury’s here in the United Kingdom, have begun to penetrate the lower echelons of the retail grocery sector with their own version of the corner shop. Using this concept as a launch pad, Tesco has already made inroads in the United States, though with varying degrees of success. Moreover, Tesco harbours further ambitions to establish its convenience scale outlets in such emerging economies as South Korea.

On the face of it, very little appears to have changed over the millennia since the Romans devised the concept of the convenience store. Neighbourhood stores, if they form part of a larger national chain, are still obsessed with such issues as corporate image and identity, not to mention their strategic role in the local market. 1

What has changed, however, is the largely oligopolistic nature of the retail grocery sector. By 2010, the major participants in this sector – Tesco, Sainsbury's, Asda and Morrison's – controlled 65. 4 per cent of a grocery market valued by industry analysts at a staggering £118. 2 billion2. Given the strongly oligopolistic character of this market, it is hardly surprising to observe that these key players have developed planning strategies that virtually anticipate their competitors' next move. In other words, their behaviour is very much retaliatory! There is evidence, too, to suggest that this behaviour is being emulated in the convenience store segment of the market, where the hallmarks of oligopolistic competition are just starting to appear3.

## COSTCUTTER

Costcutter is one of the United Kingdom's leading convenience store chains.

Although the majority of the stores trading under its banner are based here, Costcutter also operates outlets in Northern Ireland and Poland. As a typical grocery retailer, Costcutter stocks a comprehensive range of groceries, alcoholic products, tobacco and confectionery. However, Costcutter operates two distinct retail store models : (a) the directly owned outlet; and (b) the independently owned franchised outlet. Both models benefit from economies of scale, so that as the organization grows, so too, does its purchasing power. Yet, those outlets that are independently owned tend to operate along the lines of a retailers' cooperative.

Costcutter has developed a high profile corporate image, which is bolstered by its own range of branded products. Groceries bearing the company brand name are often shelved alongside those of Nisa Today – Costcutter's warehousing and distribution affiliate. The company's headquarters are based in Yorkshire. As of December 2006, ownership of Costcutter is vested in James A Barry & Co. 4

## COMPANY HISTORY

Costcutter was founded in 1986 by Colin Graves, a former sales employee of the SPAR grocery group. In the short space of just 12 months, Graves set up seven stores in Yorkshire. By 1991, Costcutter had opened its first outlets in Scotland and Northern Ireland. In 1992, the company established a grocery distribution centre in Barnsley. It was then keen to develop its corporate image and identity. By the mid-1990's, Costcutter operated some 500 outlets throughout the United Kingdom, the majority of them franchise-owned.

In 2004, Costcutter merged 50 of its outlets with the MURCO fuel distribution group. Thereafter, the Costcutter convenience store found its way onto the forecourts of an increasing number of MURCO petrol filling stations. In addition to their grocery lines, these stores stock car care products and accessories. Exponential growth followed. By 2007, largely driven by a successful franchise recruitment campaign, the total number of outlets under its corporate banner, grew to 1500. Sales turnover exceeded £600m in 2010, making the company one of the most significant players in the grocery retail sector.

For all that, Costcutter is not unlike the other key players in the convenience store market. Costcutter stores occupy prominent high street positions with a typical catchment area covering a radius of a quarter mile. The company continues to enjoy solid growth, though recently its development strategy increasingly promotes direct ownership of outlets. At present, more than 1200 stores in the chain are independently owned by franchisees. 5

## Business models, concepts and tools in business strategy and planning of costcutter

At an early stage in its corporate history, Costcutter put growth at the centre of its retail development strategy. Indeed, the company conducts an aggressive retail recruitment drive to enlist new franchise owners. Ideally, the company seeks existing operations which engage high footfall volumes and occupy floor space of between 1, 000 to 1, 500 square feet. By contrast, the typical Sainsbury's Local or Tesco Express occupies a floor space of between 2, 000 to 6, 000 square feet. Costcutter does not regard the absence of car parking as an issue.

There are a number of advantages which Costcutter offers its franchise owners:

an association with a well-established high profile retailer

continuous retail training and technical support generous profit margins

a loyalty scheme which rewards franchise owners for centralised purchasing

improved credit terms both within the group and externally

the cost benefits of group purchasing power

fast and cost-effective Epos accounting and inventory control

an efficient and reliable supply chain cycle

a robust business development strategy deploying the services of a range manager to maximise profits and sales turnover

extensive national, local and in store advertising6

As an adjunct to this, each franchised outlet is indelibly stamped with the Costcutter corporate identity. All newly franchised premises are refurbished to the Costcutter specification, though refits are tailored to a range of budgets. The process of nurturing company image is achieved through:

a conspicuous company logo which largely resembles a banner

distinctive company fascia advertising

the use of a thematic colour palette to harmonise the in-store ambience

the use of a standardised in-store lighting format

in-store radio providing a continuous voice for product promotion

the shelving of Costcutter branded products extensive advertising

The cost of a Costcutter franchise is between £70, 000 to £100, 000. Annual management fees amount to £1880. Projected first year net profit for a typical outlet is in the region of £100, 000. 7

## THE BUSINESS DEVELOPMENT STRATEGY

At the heart of Costcutter's retail development strategy is growth itself. It improves market share and even allows new products to be sold. Above all, growth promotes economies of scale. Such economies are reflected in the company's burgeoning purchasing power and presence in the wholesale distribution markets.

From its inception, Costcutter has enjoyed continuous year-on-year growth, despite predatory competition from the huge multiples. Growth has been achieved through:

the setting of annual expansion targets

a vigorous franchise recruitment program, as noted above

the defection of other franchisees from the ranks of competitors – notably, from the SPAR group

the direct acquisition of small groceries

the purchase of other outlets under administration8

Continuous expansion of the Costcutter chain remains a development priority.

Not surprisingly, Costcutter has devised an ambitious overseas expansion drive, which at present has targeted such emerging powerhouse economies as India and Pakistan. But such proposed international development is to be accompanied by further consolidation of its core business in the United Kingdom. 9

In recent years, Costcutter established a close relationship with Nisa Today, the leading independent wholesale distributor of groceries throughout the UK. Critical to the company’s development is the vertical integration of wholesale grocery distribution. Costcutter’s affiliation with Nisa Today partly achieves this objective. But in 2007, the Bibby Line group, a direct competitor to Nisa Today, acquired a 51% shareholding in Costcutter. In the event, Nisa Today has retaliated by establishing its own retail outlets. 10

Despite this, the growth strategy of Costcutter remains the same. That approach incorporates a number of other marketing facets:

the development of new lines, especially fresh, locally sourced products

promotion of the concept of value for money

a narrowing of the cost profile between its outlets and those of the huge multiples

promotion of the concept that Costcutter can deliver quality food as needed, thereby avoiding the arduous weekly shopping event

an increasing investment in technology, especially as its relates to online marketing the promulgation of a company ethos, culture and set of values, as noted below11

## Appraise processes of Costcutter to identify their goals and values

## THE COSTCUTTER ETHOS

Not unlike Tesco, Costcutter espouses a human relations approach that values its customers and staff. The company prides itself in the marketing of fresh, quality products. But unlike Tesco employees and management, Costcutter's staff are versatile individuals, well versed in product knowledge across its full range.

In addition, all staff together with franchise owners, benefit from continuous retail training. All franchise owners undergo a rigorous induction course. Furthermore, the company has established its own academy to equip store managers and their staff with cutting edge retail techniques. The development of customer loyalty through harmonious relations and rapport is central to the company ethos. 12

## ANALYSIS OF THE COSTCUTTER GROUP

Central to the development strategy of the Costcutter group is its continuing growth. Using the convenience store model it has developed for the UK market, Costcutter is poised to make significant inroads into the emerging markets of Asia.

But it is here in the United Kingdom, that Costcutter has reached a mature stage in its evolution. At the top end of the grocery retail sector, leviathans such as Tesco and Asda compete for market share, in what is overwhelmingly an oligopolistic market. Retaliatory marketing techniques are a conspicuous feature of such markets, as these companies clearly demonstrate.

Yet, as companies like Costcutter continue to expand, even the bottom end of the retail grocery sector is beginning to display oligopolistic behaviour. Second guessing the competitor's next move is par for the course. Nevertheless, Costcutter seems well positioned to fare better than most of its competitors, as it signs up an increasing number of franchisees, attracted by its generous profit margins and reduced overheads.

# 4. 0 CONCLUSION

The convenience store has endured as a potent force in the retail grocery sector, despite increasing competition from the huge multiples, such as Tesco and Sainsbury's. Indeed, the blue print for the convenience store has largely remained the same since the Romans articulated its role in everyday life.

Costcutter remains a robust example of the convenience store concept. The floor space of the typical Costcutter outlet is less than one quarter that of its major rivals – notably, Sainsbury's Local and Tesco Express. In this way, the typical Costcutter outlet manages to reduce its overhead costs, and at the same time, benefit from the substantial purchasing power of the Costcutter group itself.

As a convenience store chain, Costcutter lacks the bureaucratic structure of the huge multiples. Instead, it fosters a more flexible and independent approach to its management. Such flexibility enables its local outlets to purchase outside the central distribution arm of the organization. In recent times, this has allowed the company to stock more local fresh produce. Thus, Costcutter can be perceived as a highly evolved and adaptable form of enterprise, and one which is not just sensitive to the tastes and preferences of the local market, but in some instances, equally sensitive to its ethnic composition.