

Supermarkets analysis report examples

[Business](#), [Marketing](#)



Introduction

Business operations are increasingly facing dynamic markets that determine their success and efficiency. That has resulted from the increasing globalization and other key factors such as regulations, economic conditions, and political environment as well as social factors. All those factors affect consumer behaviors, their purchasing power as well as the firms' efficiency. In that respect, businesses such as supermarkets and retail stores increasingly face changing environment such as competition that is also shaped by those factors. Thus, businesses adapt competitive strategies that suit the environment, and this analysis seeks to demonstrate industry operations' and their response to factor changes. To achieve the objective, the analysis refers to the Supermarkets and food products with a focus on the UK market. The analysis begins by explaining the price and quality difference between the leading supermarket brands and emerging brands. It then explains the effect that growths of online stores have had on the street stores. Further, there is an explanation of the economic, legal and political factors' roles in making supermarkets dominant in the supermarkets food market. Finally, the analysis evaluates whether the dominance of a few firms in the market has had a negative effect on competition.

Analysis

- Comparing Aldi and Lidl's quality of food and price with the big four supermarkets

There is growing competition for supermarkets with well known and established brands experiencing increased competition from upcoming

brands such as Aldi and Lidl. In the UK, the big four supermarkets including Tesco, Asda, Sainsbury and Morrison's face declining margins owing to the discounters growth in market share of the food market. In that respect, the discounters are increasing competition pressure through price and quality of their products. (Beardsworth, 2014) Their products are relatively cheaper and positioned to offer better value that is in line with consumers' changes. According to Moody's, other established stores such as J Sainsbury and Tesco are following suit with price cuts as means of warding the increasing competition pressure from Aldi and Lidl brands. (Euromonitor, 2014)

The discounters already hold 12 to 15% market share in European markets and an 8% the two holds in UK that is a growth from the 2012's 6.7%.

However, the price cuts by the four big brands are more likely to have negative effects on them as they are unlikely to offset the effect on their already low margins. That could result to a fall to historical margins of 2.5% compared to the previous 3%. Further, the price cuts in the markets by the discounters that are resulting to the big four following suit has already had negative impacts on the big competitors with the credit agencies changing their outlook and downgrading them. A good example is the Moody's downgrade of Morrison and Tesco to Baa2 as well as Wal-Mart, Asda and Sainsbury. (Beardsworth, 2014)

In addition, the price war that was set by the discounters has resulted to a decline in The Big four's sales and market share. In response, the four have resulted to a price war with massive price cuts. A good example is Morrison that declared that it would cut its prices to match the Aldi and Lidl prices. In addition, Sainsbury has cut its prices matching with Asda. (Beardsworth,

2014)

In terms of food product quality, the merging brands including Aldi and Lidl have business models that seek to respond to changes in consumer behaviors. That is because they are still at development stage and can easily accommodate change in product offerings compared to the big four brands. Thus, although all the businesses entails offers of relatively similar products as shown below, the big four lack behind in responding to changing market needs hence their relatively low quality products for the current market.

Aldi and Lidl: The brands have organic food products that are relatively well positioned compared to the other brands whose models have not changed towards natural and organic foods.

Tesco: Its groceries entail fresh food, bakery, cupboard food, frozen food and drinks. (Tesco, 2014)

Asda: Its offer contains fresh food, frozen food, cupboard food and drinks.

(Asda, 2014)

Morrison: Its food brands entails butcher products bakery, cake shop greengrocer, fishmonger, oven fresh and Deli. (Morrison's, 2014)

Sainsbury: Sainsbury food brands entail fruit and vegetables, bakery, dairy, eggs and chilled as well as meat and fish products. In addition, there are frozen, cupboards and drinks. (Sainsbury, 2014)

The four leading competitors' food products are relatively less competitive in terms of quality compared to Aldi and Lidl. That is because they are still based on food products that are rely on artificial ingredients against the current market needs for organic brands. (Sengupta, 2005)

- Effect of online supermarkets sites on the high street

Online business platforms have a competitive advantage in the current market that is marked by more technologically savvy consumers. In that respect, businesses adapting the use of their sites as a strategy to enhance distribution can easily reach the markets for two purposes. One purpose is the provision of products information that enhances consumers' comparison of products hence an effective marketing tool for the products. The other purpose is to provide a platform through which consumers can access the products, compare and order for their delivery. (Sengupta, 2005)

Thus, an online platform is one of the three concepts that are shaping the supermarkets and retail stores in the global and UK market. The others are discounters and convenience stores. In the year 2013, there was a strong growth of the convenience stores as well as online stores confirming the development trend that emerged in 2012. That resulted with UK consumers being increasingly less likely to make major shopping for food items within a week rather opting for smaller weekly shopping that is then topped up through small grocers and online stores supplies. Thus, the consumer behavior is greatly shaping the market in favor of online and convenience stores. The trend has been informed by the rising inflation and the need to reduce food waste that is easily manageable through convenience and online shopping. In addition, it is driven by the need to reduce costs related to shopping such as fuel. (Euromonitor, 2014)

In addition, the battle between the street stores and the online sales is influenced by the actors such as consumers' reluctance to order for fresh products from online stores. However, consumers are increasingly becoming accustomed to ordering the other products from the online stores hence the

great competition to the street stores. Further, the growth in online and convenience stores is still expected to remain positive in the short and long run. That is being viewed as a trend with stores seeking to expand their distribution networks to address increasing competition and meet changing consumer needs. That trend has had a great impact on the street stores by reducing consumers spending in the stores. (Euromonitor, 2014) In the next five years, the street stores are still expected to face challenges with consumers increasingly seeking to minimize waste and spending by moving away from street supermarkets, to online sales platforms. (IBISWorld, 2014)

- Changes in the legal framework and economic and political structure that enables supermarkets to become dominant in UK grocery retailing

UK is the sixth largest economy by GDP as well as the purchasing power parity in the world. In that respect, the market is significant and attracts businesses from foreign economies as well as production for sale to other markets depending on its structure and economic conditions. In that view, must the economy to ensure market stability through establishment of suitable structures by the government and other relevant authorities. Thus, there are several legal and regulatory changes that affect business operations in various industries including the supermarkets. In addition, exposure to the global markets and subjects the economy to various factors that influences industry and business operations. Finally, the political environment within the country also plays a great role in determining business environment through policies and market stability. In that view, the retail businesses and supermarkets have been subject to the effects of the three key factors. They have played a role in enhancing the supermarkets

business model to dominate in the UK groceries market as follows.

(Government, 2014)

Legal factors

The Euromonitor reports that UK market is marked by 39% of the population being overweight and close to 25% being obese. In that respect, there have been increasing health concerns over the health effects of food products in the market. Thus, regulatory agencies including the UK Foods standards Agency introduced standards to guide food products quality as the government introduced legislation on food products quality. That has resulted to the brands responding with products that address the increasing health concerns. The supermarkets offer a wide range of varieties and are capable of developing strategic partnerships with producers. Thus, they can deliver organic as well as products that are based on natural ingredients hence have taken up the opportunity to increase their presence and market dominance. (Sengupta, 2005)

In addition, regulations concerning environment preservation have resulted to the supermarkets having a competitive advantage owing to their large size that offer economies of scale in sourcing for their products. Thus, it is easier for them to effectively source for products through strategic partnerships compared to the other relatively smaller businesses in the industry. (Government, 2014)

Economic factors

Although the economy experienced challenges, the UK industry grew in 2013 that was in the face of consumer habits remaining under the influence of the

recession. However, the projected growth in the economy provides an opportunity for growth in consumer spending. The growth in the industry is associated with the year 2013's expectations that the recession effects were receding hence improving consumer confidence. In addition, the large size of the supermarkets enables them to operate at low margins hence the ability to offer products at low price that are competitive compared to the other businesses. That has played a great role in supermarkets dominance when the economy is faced by challenges including high inflation. Low employment and income levels that reduces consumer demand and increased their need for low priced goods. (Euromonitor, 2014b)

Political structure

Political structure determines the trade policies that an economy adapts. In that respect, it determines the markets attractiveness to foreign firms as well as multinational. Thus, the political system in UK that seeks to promote free trade enhances operations of the supermarkets by increasing their access to products and raw materials from various markets. In that respect, the supermarkets can effectively trade with foreign businesses and enhance their dominance in the market. (Sengupta, 2005)

- Leading supermarkets' size effect on market competition.

For the overall UK market, supermarkets are highly concentrated with the market having four significantly large and leading businesses. The four include Tesco, Morrison, Sainsbury and Asda. They all accounted for 59% of the total market in the year 2013; a market share that had remained static since the year 2012. Further, the proportion of the grocery market that is accounted for by the four brands has consistently grown over years.

(Kennedy, 2014)

In addition, the market is marked by a challenging environment that is based on short term promotional activities done mainly through coupons by the emerging and small businesses. However, the strategies by the big four companies using price promise programs reduce the need for customers to shop around as they can easily determine the best prices. Through such strategies, the big four brands have made competition more difficult for emerging brands and possible entrants. The big four's market power is also achieved through their significant market share that provides economies of scale hence significantly low average cost with which they can cut their prices to ward off emerging competitors. Those strategies has been applied with emergence of brands such as Aldi and Lidl, which has significantly lowered margins for the brand and the big four. In that respect, the large size of the dominants brands have been a challenge to market competition.

(McLoughlin, 2014)

Thus, as a third of the UK market is controlled by the four big companies; the same as the case in Germany. In addition, the top four companies in France controls over 56% of the market. In that respect, there is a trend of the top brands having significant markets share in all those markets. In that view, supermarkets' competition is increasingly becoming less with the leading brands seeking to maintain market power hence that negatively affects ability of new entrants to grow. That is achieved through the large firms' influence on pricing and quantity supply. (Gurdian, 2014)

Conclusion

The analysis has demonstrated that Aldi and Lidl have relatively low-priced food products and their products quality is high given that they are emerging brands that are based on a strategy that seeks to address consumers concerns over health effects of food products. In addition, the analysis has established that growth in online sales and stores have had an adverse effect on the street stores owing to the changing consumer behavior. That is as consumers seek to minimize food waste and to spend thus reducing their shopping quantity and rather depending on smaller restocks from the online stores. Further, it has been demonstrated that legal, economic and political factors have played a great role in enhancing supermarkets dominance in the UK food industry. Finally, the analysis has shown that the leading brands in the market had significantly grown and obtained market power that limits competition.

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