

Asda business strategy



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ASDA is the UK's second largest supermarket chain, holding a 17.2% market share in the UK over 2013/2014 (Kantar Worldpanel, 2014). It was purchased in 1999 and became a wholly-owned subsidiary of the US Public Limited Company, Walmart. In order to analyse the business environment, this essay will first consider the ASDA Group's internal environment, including their objectives, policies, organisational structure and reputation. The second focus will be the external environment; first the range of competitors in the market, followed by a PESTLE (Political, Economic, Socio-cultural, Legal, Environmental/Ethical) analysis, to develop a holistic summary of the external environment. Where appropriate, several sections of the PESTLE analysis have been merged to create a more accurate summary of the external environment.

Internal

Objectives and Policies

ASDA's primary operations consist of retail of food, apparel, general merchandise and other services (ASDA Group Ltd, 2013). Their strategic objectives are to provide high quality products, exceed consumer desires and reduce costs (ASDA Group Ltd, 2010; ASDA Group Ltd, 2013). They have an additional series of sustainability objectives designed to reduce environmental impact and reduce operating costs simultaneously.

Walmart, ASDA's ultimate parent company, are focused on the opportunities provided by the e-commerce market (Walmart, 2014). To that end, ASDA provides both online shopping and delivery services and a "Click and Collect" programme, allowing customers to order products online for collection from a local ASDA branch (ASDA Group Ltd, 2013).

ASDA have developed a growth strategy, combining expanding reach online and physically, with reduced operating costs overall. They have also identified the need for innovation and expansion into new product ranges, expanding their brand identity. As part of the Walmart group, they benefit from the research and development of other Walmart subsidiaries (ASDA Group Ltd, 2013; Walmart, 2014). In 2013, in the midst of the recession, ASDA continued to open 15 new stores and has opened more in 2014 (ASDA Group Ltd, 2013).

Structure

Walmart purchased ASDA in 1999, demonstrating a strategy of growth by acquisition. Following this, ASDA has used its core competencies of providing low-cost, good-quality products to gain market share and has become the second largest supermarket brand in the UK.

As a subsidiary of Walmart, ASDA is provided with certain benefits. ASDA particularly benefits from the IT expertise from its parent company, in addition to benefitting from the research and development of other Walmart group members (ASDA Group Ltd, 2013). Walmart also benefits by adopting best practices developed by ASDA from their online grocery shopping service (Walmart, 2014). Members of the Walmart group are also able to take advantage of intercompany loans to provide internal financing opportunities.

ASDA has over 500 locations in the UK, ranging from ‘supercentres’ down to ‘supermarkets’. This range of shopping facilities is designed to meet customer needs at different levels (ASDA Group Ltd, 2010; Euromonitor International, 2014). They have implemented a price guarantee, ensuring

prices remain consistent across ASDA stores, regardless of their size; this is intended to challenge other brands with higher prices in smaller, local supermarket branches (ASDA Group Ltd, 2010).

Reputation

ASDA have also been able to leverage the reputation of their US parent company and were the first major UK retailer to introduce a 'Black Friday' shopping event in 2013. This was repeated in 2014 by many retailers and drew many customers to take advantage of the low-cost goods.

ASDA's reputation for low-cost, high-quality goods can also be leveraged in their growth strategy. Their efforts to reduce operating costs and subsequent price reductions for consumers is intended to be appealing to price-conscious consumers (ASDA Group Ltd, 2013). As detailed below, this is a growing attitude among the UK supermarket customer-base and provides a possible avenue for growth.

External

Competitors

ASDA faces direct from ALDI and LIDL, two supermarket chains who share similar core competencies to ALDI, in that they offer low-cost, high-quality goods. Unlike ASDA, however, ALDI and LIDL offer a range of limited availability products, alongside their food retail. ASDA, by contrast, offers a wider range of general products, available via their online services and in their larger hypermarkets.

ASDA is second of the UK's four largest supermarkets. Tesco holds the largest UK market share with 28. 7%, and Sainsbury's and Morrisons are next with 16. 4% and 11. 1% respectively (Kantar Worldpanel, 2014). ALDI and LIDL have grown significantly in recent years (Ruddick, 2014), it has been predicted that the profit margins of larger supermarkets, including ASDA, will have smaller profit margins in the short term (Beardsworth, 2014).

Political, Legal, Environmental & Ethical

The House of Lords released a report in early 2014 challenging food waste in the EU and particularly in the UK (Harriet, 2014; House of Lords European Union Committee, 2014). In their report they argued that retailers, including supermarkets such as ASDA, bear significant responsibility for preventing food waste. Specifically, retailers have a responsibility to ensure that customers are aware of how to store food, ensure date labelling is appropriate, avoid cancellation of grown food orders after it has been produced (Harriet, 2014; House of Lords European Union Committee, 2014). Additionally, it explicitly stated: “ It is clear that retailers must assume a far greater responsibility for the prevention of food waste in the home. Retailers must ensure that incentives and promotions offered to consumers do not transfer waste from the store to the household. (House of Lords European Union Committee, 2014, p. 26)”.

The House of Commons Business Select Committee also considered investigating reports of supermarket aggression when dealing with suppliers, using their market power to demand prices that suppliers cannot sustain (Armitage, 2014). This was motivated by reports of behaviour from Tesco, a competitor of ASDA.

ASDA submitted evidence to the House of Commons Environmental Audit Committee summarising their dedication to sustainability and positive mutually beneficial relations with suppliers in 2011 (House of Commons Environmental Audit Committee, 2012). Additionally, they have instituted a policy of minimising food waste by sending no food waste to landfill sites. Instead, food is either given to charities or converted into alternative products.

Another source of difficulty is the Food Standards Agency's year-long survey on campylobacter contamination in supermarket chickens. This bacteria is the most common cause of food poisoning in the UK, however it can be killed via normal cooking processes as long as food is properly cooked.

The interim findings of this survey showed ASDA to have the highest rate of contamination of raw chicken products across UK supermarkets, above the industry average (Food Standards Agency, 2014) ASDA has agreed to install a new steam sterilisation technology to test the efficacy in reducing contamination.

The press have publicised these contamination rates in a pejorative manner, with headlines such as “ Asda exposed as supermarket with ‘ dirtiest’ chicken” (Hyde, 2014) and “ Supermarket chickens: 70% affected by food bug” (BBC News, 2014). This, combined with the condemnation of consumer groups, including Which? (Which?, 2014), poses a significant threat to ASDA's reputation.

This political environment could provide new difficulties for ASDA, with the need to introduce new decontamination facilities in their factories and the

associated costs this entails. Additionally, the pejorative press response could have a severe impact on ASDA's reputation.

The House of Lords' Committee's criticism of supermarket promotions and incentives could also impact ASDA's retail activities. If such promotions are legislated against, ASDA would be deprived of a major means of drawing price-conscious consumers.

Economic & Socio-Cultural

In 2011 Mervyn King, Governor of the Bank of England, announced that the global financial crisis had significantly impacted standards of living and would continue to do so for the foreseeable future (Bank of England, 2011). 2014 was the first time in 5 years that average pay increased more than inflation, suggesting a possible upturn in the economy (Peston, 2014). This has led to a reduction in consumers' disposable income and this in turn has impacted their spending habits in stores. ASDA has been aware of this and has taken efforts to reduce operating costs to offset inflationary pressures on prices (ASDA Group Ltd, 2013).

Traditionally, supermarkets had a close link to cultural identity among UK shoppers, based on the British class system (Wallop, 2013). Supermarkets such as Waitrose and Marks & Spencer were traditionally associated with upper-middle and upper class customers, while ASDA was traditionally seen as a working class supermarket (Jeffries, 2004).

In recent years however, this sense of identity has been disrupted by a combination of the global recession, and the rise of the budget supermarkets ALDI and LIDL. Both brands have been widely accepted by the British middle

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class, and a wider cultural attitude of thrift and pride in finding savings and low-cost products has developed. In the 2014 Christmas season, Aldi and Lidl, the discount supermarket chains drew a significant portion of the market from other supermarket brands (Butler, 2014) indicating that consumer buying decisions are motivated by price over other socio-economic factors.

This could explain ASDA's recent rise to the second largest market shareholder in Britain, due to its core competency in providing low-cost, good-quality products to customers. Where previously, consumers may have had a negative association with ASDA's emphasis on low-cost products, in the recession era, consumers are more concerned with product prices.

Technological

Walmart, ASDA's ultimate parent company, have noted the rising significance of e-commerce and have begun developing this across Walmart and its subsidiaries (Walmart, 2014). In the UK, there has been a particular focus on ASDA's Click & Collect service (Walmart, 2014), through which customers order products online and can collect them from a local ASDA store, widening the range of products they can access. The strategy consultants, OC&C, identified Click and Collect as the probable largest source of growth in e-commerce in 2015 (Felsted, 2014). ASDA's competitor, Tesco, offer a similar service, available in over 350 collection points (Felsted, 2014; Tesco, 2014).

ASDA is well-suited for this focus on Click & Collect and other e-commerce services; as a subsidiary of Walmart, they are provided with IT services from

their parent company, giving them access to the resources of a larger firm, with a wide range of experience in e-commerce (ASDA Group Ltd, 2013).

Summary

Overall, ASDA's external environment is relatively troubled; UK standards of living were significantly reduced by the global economic crisis and only recently have signs indicated that this could improve. This has reduced the disposable income of ASDA's target markets. However, because of ASDA's focus on low-cost products, this could have actually benefitted ASDA, allowing them to become the second largest supermarket brand. The economic crisis has altered the UK's socio-cultural trends, encouraging a savings-focussed attitude, with customers altering their buying habits to pursue better deals.

ASDA has also faced difficulties in its public reputation, particularly due to the Food Standards Agency's survey into campylobacter contamination in chicken. ASDA's chicken stocks and suppliers were found to have the worst contamination rates among supermarkets, above the industry average. This finding was well publicised in the press in late November and its full impact may not have been identified yet.

ASDA have identified the difficult external environment of UK retail and have oriented their policies to suit the situation. They have endeavoured to gain price leadership, charging the same as or less than their competitors for many household products, in order to draw price-conscious customers. Additionally, they have taken efforts to minimise their own operating costs,

using these savings to offset inflationary pressures and passing the savings on to consumers.

ASDA have chosen to diversify their focus beyond store-based services. They have invested significantly into technological development, particularly with their Click and Collect service. External strategy consultants OC&C have identified these services as having high growth potential in coming years.

ASDA have chosen to capitalise on the troubled economic environment by reinforcing their core competency, providing customers with low-cost, good-quality goods, leveraging their reputation as a low-cost supermarket to take advantage of the low disposable income. They have also used this period to advance their technological development, with technical support from their parent company.

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