

Business essays - morrison supermarket business



**ASSIGN
BUSTER**

Morrison Supermarket Business

Introduction

This report will analyse one of the UK supermarkets, Morrisons plc, discussing its business and service strategies, beside that what is the strategy they uses for customer retention, how much that strategy is stabile.

Company Profile

Wm Morrison (Morrison) was founded in 1899 by William Morrison, an egg and butter merchant. In 1958, the company opened its first counter service store in a small town centre shop in Bradford, UK. Morrison opened its first supermarket in Victoria, in 1961. Morrison started trading on the London stock exchange in 1967. In 1978, the company acquired Whelan Stores and Morrison began operating in Lancashire, UK. Morrison's wholly owned subsidiary, Farmers Boy, began operations, in 1980.

The company opened its first distribution centre, Wakefield 41, in 1988 (morrison.co.uk). Wm Morrison Supermarkets (Morrison) is the fourth largest grocery retailer supermarket chain in the UK. The company is primarily engaged in the operation and management of over 370 stores across the UK. The company provides a range of low-price and special offers on grocery, fresh foods and alcoholic products.

Morrison's fresh food counters offer a selection of fish and meats; pizzas, pies, salad, cakes, British and continental foods and light snacks; fine and traditional wines, spirits and ales; and fruits, vegetables, fresh- flowers, shrubs and plants. In addition, Morrison operates and manages a range of in-store pharmacy products and services which provide private consulting, an

extensive range of over-the counter medicines, and prescription collection services. The company also offers petrol filling stations, dry cleaning and photo processing services.

Morrison manages its commercial operations in-house through its wholly owned subsidiaries including: Wm Morrison Produce, Farmer Boy, Bos Brothers Fruit and Vegetables and Neerock.

Wm Morrison Produce buys packs and distributes fruits and vegetables sold in its stores. Fresh produce is delivered into Wm Morrison's temperature controlled warehouses and its packaging plants in Cheshire and Yorkshire. They are then dispatched to its stores across the UK. The company also owns and operates a fresh food factory, Farmers Boy, which produces pizzas, pies, cooker meats and sausages, as well as packing cheese and bacon.

Products & Services Analysis

Wm Morrison Supermarkets specializes in the retail and distribution of goods through a network of supermarkets. For the fiscal year ended February 2003, the company reported revenues of £4.3 billion (\$7.2 billion). Operating profit of £262 million was 14.2% higher than last year. Sundry income, which included £20 million from tenants, rose by 15% to £36 million. Staff costs continued to rise faster than sales, as did overheads and depreciation. Other operating charges include £3.5 million of non-recurring costs in relation to the offer for Safeway Plc.

Store sales comparing the company's 2003 fiscal year with that of 2002 sales increased 5.3% with new stores helping to increase total supermarket takings by 9.5% to £4,595 million. Marketing and promotional efforts have

<https://assignbuster.com/business-essays-morrison-supermarket-business/>

also aided in expanding sales. Weekly customers per store rose by 2.3% and with transaction values rising by 3.6%, average store takings (excluding petrol) went up from £630,000 to £667,000 (MarketWatch, 2006, pp 25-30).

The grocery chain will increase its store count to about 550 supermarkets from just 125 when it incorporates the stores of the newly acquired Safeway. Petrol sales at year-end the company operated 98 filling stations, contributing 13% of total sales, or £559 million.

Business Strategies

Having established how effective the management of each company is, in regard to the various short term aspects i. e. stock, debtors and creditors of the businesses. One can take the analysis further and investigate a company's ability to operate profitably, in relation to the equity, debt and total assets employed in the company. This examination of the two businesses being more beneficial to the long term investor, as it enquires whether their money is being put to good use.

The Return on Shareholders Funds, tries to identify the profit and therefore the return due to the shareholders of the company. Taking into account that Morrisons do have to pay non-equity dividends, the return on ordinary shareholders funds, plus reserves has seen a reduction from 14.51% in 2001 to 13.95% in 2002.

Also as expected due to Morrisons having no long term debt, the same decline is concluded for the Return on Capital Employed, even when a reduction in non equity share capital has occurred. The reason behind this deterioration is largely due to the increase in the retained profit & loss

section of the shareholders equity. This in turn may suggest that the Morrisons management is retaining more profit than is required and justified.

Wm Morrison is unique in the UK food retailing sector in that it is a regional business which has successfully competed with the much larger leading national supermarket chains. It has succeeded despite the notion that the economies of scale enjoyed by the largest chains make it impossible for smaller businesses to compete.

One of the keys to Wm Morrison's success is its strong base in its core regional markets, primarily in the cities of South and West Yorkshire. In these regions its main competitors are often Asda, Kwik Save and the Continental discounters such as Aldi and Netto rather than Tesco, Sainsbury's and Safeway (MarketWatch, 2006, pp 25-30).

Another important factor is that Wm Morrison trades to a very large extent from superstores: the majority of its stores are 25, 000 40, 000 sq ft in size, with fewer than ten smaller than 25, 000 sq ft. The predominance of superstores in its store portfolio helps keep down operating costs and to increase its competitiveness. Wm Morrison targets in particular customers in the C1C2 bracket with a strong value for money offer.

On average its stores have 20, 000 product lines (more than the typical Asda store). The importance of fresh food in the product mix has been increased by the development of the Market Street format, which consists of in-store "shops" for the sale of fresh meat, bakery products etc. Non-food products have also been a fast growth area. Like Asda, Wm Morrison could exploit the

availability of space in its superstores by broadening its offer of non-food products.

Competition has been intensifying for Wm Morrison in recent years. Its response has been to step up its rate of expansion, following a year of consolidation in 1996. It has invested in a new infrastructure able to support its growing network of stores. It is also attempting to break into new geographical markets, particularly by moving southwards.

Wm Morrison does not offer a loyalty card or its own range of banking products. However, it has made a deal with Midland Bank to open in-store bank branches during store openings hours. The first of these branches opened in mid-1997 and if successful the concept could be rolled out across the chain within a few years.

Wm Morrison has petrol stations at about three quarters of its stores. During 1996 it found that underlying petrol sales fell by nearly 10% as the company's petrol stations responded to price competition from superstores and there was widespread price cutting. As a result. It has created a reserve fund of £1. 9 million to cover the cost of the possible withdrawal from petrol retailing in the future if it decides the business is no longer viable.

Strategies which they followed in order to run their business with effectiveness are;

1. Running an vertically integrated operations

This strategy of business made Morrison a unique among UK retailers.

Morrison is the only major retailer to own and operate fresh food

<https://assignbuster.com/business-essays-morrison-supermarket-business/>

manufacturing and processing facilities. The company's operations are vertically integrated in its food category, which allows it to manufacture, distribute and retail the vast majority of its fresh meat and dairy requirements, and process/package the fresh fruit and vegetables. It also produces many of its fresh food own-label products including pizza, sausages, pies, bacon, deli-counter and cooked meats.

Morrison has strengthened and expanded both its manufacturing and distribution infrastructure in fiscal 2006. In manufacturing, it expanded in-house baking capacity through the acquisition of an 80% stake in Rathbones. Its abattoir operation was expanded in early 2005 through the acquisition of a second facility, at Turriff in Scotland. Morrison also extended its fruit packing facilities at Thrapston in Northamptonshire and opened a new vegetable packing house nearby at Rushden. In distribution, Morrison opened a new dedicated regional distribution centre at Latimer Park, Kettering, in October 2005. This centre would serve approximately 70 stores in the Midlands and the South.

The management of the organization chose this strategy because the company's vertically integrated operations provide it with a number of advantages including stability of operations and economies of scale (Data Monitor, 2006, pp 2-10).

2. Extensive range of food

This strategy of Morrison's range of fresh foods is superior compared to its competitors, who primarily rely on packaged foods. This strategy provided some uniqueness to Morrison from its competitors and provided it with good

<https://assignbuster.com/business-essays-morrison-supermarket-business/>

market share in a short time. The store provides a range of low-priced and special offer fresh food products, through its branded and own label products. The company's fresh food counters offer value added services including personal advice, cleaning and preparation of fresh meat and fish according to customer requirements.

In addition, Morrison also offers a range of hot food; a range of ready to eat pies and over 30 different varieties of ready to eat salad; a range of cakes and a selection of British and continental foods; a range of fine and traditional wines, spirits and ales; a range of quality fruit and vegetables; and fresh flowers, shrubs and plants. Morrison's own label products provide a range of calorie, sugar and fat controlled specialty meals; organic foods; and products specially prepared for customers with specific allergies. Morrison's extensive list of specialized food products and services helps the supermarket chain to differentiate itself from its competitors and thereby provides it with an exclusive brand identity.

The reason for choosing this strategy was to have an extensive range of food materials in order to satisfy the needs for individuals in every mean because they wanted that none of the customer leave their store empty handed.

3. Acquisition of stores

Morrison took this strategy to increase its market share through organic and inorganic growth. Morrison launched a program to progressively convert the acquired 331 Safeway stores to Morrison stores in 2004. Pursuant to this, Morrison converted 160 Safeway stores to Morrison stores in fiscal 2006, bringing the total for the program to 220 in the past two years. It also built <https://assignbuster.com/business-essays-morrison-supermarket-business/>

15 new stores during the same period with half of them opening in fiscal 2006, at Hamilton, Auchinlea, Cardonald, Paisley, Livingston, Strood and Gloucester. About 160 stores were converted from Safeway to Morrisons in the year. New store additions provide Morrison with a national (UK-wide) presence and enable the company to expand its geographical reach.

They have chosen this strategy to increase their chain by acquiring different stores and turning their current location to their another super store in another location which helped them in acquiring another location in the city without buying or leasing some building, but just renovating the old and acquired location.

By applying the same strategy for acquiring the Safeway store. The takeover of Safeway by Morrisons could lead to a price backlash as the merged group battles to lift market share which is good news for consumers but not so good for investors in the retail sector.

Beside these strategies few more strategy have been taken by the management, which is; launching of a three year' Optimisation Plan aimed at cutting costs to ensure future profit recovery, as well as adapting the smaller Choice format stores below 25, 000 sq ft, representing 40% of the store estate, to fit with local demographic and cultures.

Competitive Environment

The acquisition of Safeway was crucial for Morrisons to keep up with its larger rivals, although the company says that economies of scale and bulk-buying power are far from the only source of competitive advantage in grocery retailing. The company's secret is simple: low costs, low prices, no

added frills and basic and straightforward food retailing. Morrisons eschewed the loyalty cards and extended shopping hours favoured by its competitors as marketing gimmicks.

Nonetheless, Wm Morrison lost some share in 2005 and there was increasing pressure to extend opening hours. Consumers are used to the added benefits offered by other retailers and increasingly expect the same from Morrisons. The recent opening of a superstore may also be a sign that the chain will do more in the future to keep up (MarketWatch, 2006, pp 25-30).

Customer retention programs can be a powerful tool in the arsenal of customer relationship management. Customer retention is important to most companies because the cost of acquiring a new customer is far greater than the cost of maintaining a relationship with a current customer. For many firms, customer profitability is skewed in such a way that losing the most profitable customers has a very serious effect. In many e banks, for example, the top 30 percent of customers (when ranked by profitability) can make up 100-150 percent of total customer profitability.

That's right the bottom eighty percent of customers may provide no profitability or, worse yet, destroy 50 percent of profitability. In addition to saving profitable customers, retention programs allow companies to collect data about their customers. This data can be used to better understand, target, market to, and communicate with customers or to customize future interactions with customers. Retention programs can be a relatively inexpensive means of making customers feel special, increase their purchases and recommend prospects.

Competitive customer retention strategy

The Morrison supermarket plc should creating superior value for customers; it may be the best way to win loyalty. In this view, customer perceived value is seen as part of a hierarchy that links variables affected by managerial decisions to customers' behavioural responses. While there is a fair amount of consensus among marketing academics that customer perceived value impacts such desired outcomes, there is little research that addresses the customer perceived value construct and there is no accepted definition of, and measure for customer perceived value.

Some researchers seem to interpret customer perceived value primarily as a price-quality trade-off. This belief probably stems from their observations of the market where, in the late '80s and early '90s consumers' purchasing behaviour appeared to be driven by price and quality (Data Monitor, 2006, pp 2-10).

Thus a company would be wise to measure customer satisfaction regularly. The company could phone recent buyers and inquire how many are very satisfied, satisfied, indifferent, dissatisfied, and very dissatisfied. It might lose as much as 80 percent of the very dissatisfied customers, maybe about 40 percent of the dissatisfied customers, about 20 percent of the indifferent customers, and maybe 10 percent of the satisfied customers. But it may lose only 1 or 2 percent of its very satisfied customers, the moral: Try to exceed customer expectations, not merely meet them.

Some companies think they are getting a sense of customer satisfaction by tallying customer complaints, but 95 percent of dissatisfied customers don't

complain; many just stop buying. The best thing a company can do is to make it easy for the customer to complain. Suggestion forms and company toll-free numbers and e-mail addresses serve this purpose. Because loyal customers account for a substantial amount of company profits, a company should not risk losing a customer by ignoring a grievance or quarrelling over a small amount. Winning back-lost customers is an important marketing activity, and often costs less than attracting first-time customers.

There are two ways to strengthen customer retention. One is to erect high switching barriers. Customers are fewer inclined to switch to another supplier when this would involve high capital costs, high search costs, or the loss of loyal customer discounts. The better approach is to deliver high customer satisfaction.

This makes it harder for competitors to overcome switching barriers by simply offering lower prices or switching inducement. The task of creating strong customer loyalty is called relationship marketing. Relationship marketing embraces all those steps that companies undertake to know and serve their valued customers better to understand customer relationship marketing, the company must review the process involved in attracting and keeping customers.

Conclusion

Following a year of consolidation, Wm Morrison is now ready to expand. Its new distribution centre will make it easier for it to push into new markets in the South. There is no reason why it should not be able to continue to

compete with its larger rivals although its success in breaking into new markets will be crucial in helping it to keep up momentum.

The next few years will certainly be testing in this respect. Although competition will put pressure on Wm Morrison's profit margins, this will be offset to some extent by the savings of a larger business. It is always possible that one of the larger chains might try to buy Wm Morrison, but its strength in its own right appears to make such a purchase unlikely.

References

MarketWatch (2006) Company Spotlight: Wm Morrison Supermarkets. Food, Vol. 5 Issue 11, p25-30

Official Website, retrieved on 12 March 2007 from the link <http://www.morrisons.co.uk/>

Data Monitor (2006). Company profile: Wm Morrison Supermarkets PLC, pp 2-10

Marketing Week (2004) Safeway banking tie-up with Abbey under threat after takeover by Wm Morrison. Vol. 27 Issue 9, p6-6

M2PressWIRE, (2006) The Company Profile on WM Morrison Supermarket Plc. Elaborates on the Company s Business Structure and Operations, Products and Services, pp 12-18