Analysis of uk retail market and morrisons

With the increasing global society, many organisations cannot afford to exist with the false impression that their current domestic markets will forever be strong. As a result many businesses now choose to participate in markets abroad. By taking a retail business into international/ and or global markets, the company can compensate seasonal variations in sales in order to increase profits through exposure to better and sustainable market prospects. Such expansion can reduce a company's risk through diversification of its investments potentials. This study however seeks to provide an advice to the board of directors of Wm Morrisons` supermarket on the possibility of having an active participation in the national and global markets. The study highlighted on the various strategies underlying internationalisation and globalisation of corporations with particular reference to the most acceptable option for Wm Morrison supermarket.

Background of Wm Morrison supermarket

Wm Morrison Supermarket is the UK`s 4th biggest retail super market founded in 1899. The company distributes goods, owning and operating around 120 supermarkets and larger superstores. These are mainly based in the north east of the UK, although the company has been expanding into the south. The majority of its supermarkets also have petrol stations on their forecourts, offering discount fuel to customers. In addition, the company offers an in store discount card, Morrison Miles, allowing customers to collect points on their groceries and claim discounts on fuel at these stations. The company has a number of subsidiaries, including Farmers Boy Limited, Holsa Limited, Neerock Limited, W. Todd (Potatoes) Limited, Farock Insurance Company Limited and Wm Morrison Produce Limited. The principal activities of its subsidiaries include the manufacture and distribution of fresh food products, insurance services, polythene bag manufacturing, produce packaging, fresh meat processing and market trading. It displays more than twenty thousand assorted products in its stores, including an extensive own label range. Majority of the brands it sells are its own amounting to 55%. With the acquisition of Safeway, Morrison is expected to gain around 425 stores throughout the UK. Due to the differing nature of Safeway's estate, Morrison will expand its store format to incorporate mid-sized and smaller stores, retaining the Safeway brand for convenience stores. Certain acquired stores will also be selected to gain the Market Street format seen in the Morrison store. The company has an annual turnover of £14 billion, 10 million customers, 15. 6% of the UK grocery market and 124, 000 employees. (DATA MONITOR 2004)

Overview of the company`s strategy

Wm Morrison's supermarket has three distinct strategies which are:

Value- Keeping costs low to ensure the prices are competitive. This is done by offering to all its consumers with an exceptionally best price everywhere they are.

Freshness- the company offers more freshly prepared food than any other retailer. This is achieved through " vertical integration" because it manages nearly every aspect of its business functions internal, involving meat processing, fresh food, fresh fruit, vegetables and transport. The company does all the distribution of its products bought in its stores to customers. Fresh products are delivered into its warehouses under a controlled temperature and plants for packing local and abroad, set for forward despatch to their stores nationwide. The company has its own purpose built fresh food plant (factory) called Farmers boy that produces pizzas, cooked meats, pies, packing cheese, sausages and bacon. It also has facilities of processing its meat before sending them to their stores. It manages its own transport fleet.

Service- Ensuring the right product is always available, the system of great selling and service for customers` adherence (http://www. morrisons. co. uk).

In Michael Porter`s generic strategy terms the company embark on low cost strategy Porter (1980). But in Ansoff product matrix term the company uses penetration strategy, i. e. existing products and markets with an improvement and streamlining of processes in order to compete. In terms of expansion strategy the company uses organic growth in that it sets up factories and farms to produces everything it sells.

Assessment of the company current strategy

Growth in excess of the market

Measuring of success

2007

2008

2009

Sales growth (exc-fuel)

5. 2

4. 6

7. 9

Market growth rate

4. 0

3. 5

5. 6

Sales growth in excess of the market

1. 2

1. 1

2. 3

Underlying basic earnings per share (pence)

2009

16. 7

2008

14. 4

2007

8. 3

Total dividend (pence per share)

2009

5. 8

2008

4. 8

2007

4. 0

SWOT Analysis

Morrison has benefited substantially from the introduction of the Market Street format to its retail outlets. Its revenues have recorded strong increases for a number of years. However, increased regulation of the grocery market and intensifying competition pose significant future threats.

Strengths

Substantial northern presence and expansion of manufacturing capabilities

Long-standing management team

High service standards

Weaknesses

Dependency on UK

Uncertainty over long-term outcome of

Merger

Lower quality Safeway estate

Labour intensive Morrison model

Opportunities

Diversification

Synergies from Safeway merger

Convenience store expansion

Threats

Competitive environment

Restaurant expansion

Price wars

Share price performance

MORRISON Share Graph

http://www. lse. co. uk/ShareChart. asp? sharechart= MRW

2. 0 NATIONALISATION AND GLOBALISATION OF Wm MORRISON SUPERMARKET

The decision to nationalise retail supermarket like Wm Morrison and further to the global markets is very significant since it is a means of expanding the company`s operations, diversify its investments as a source of risk reduction strategy and increase in profitability. However, consideration has to be given with regard to the nature and the type of strategy (ies) to adopt in these environments. It is for instance necessary to consider what type of product

(s) to produce and send, and whether these products will be acceptable in these markets. The company needs to be familiar with the target communities and the countries it wants to enter. The conditions of the market must be assessed to ensure that Wm Morrison can win a share of both national and the foreign markets. Issues such as the economic environment of these markets which could be ascertained by the use of PEST (PESTEL) analysis, the competitive nature of the markets which five forces model can be adopted (Porter 1980), as well as Tariffs, duties and compliance with rules and policies are other vital issues to be considered also. Wm Morrison will have to conduct its own organisational audit with the use of SWOT analysis to assess it strengths, weaknesses, opportunities and threats so that strategies could be developed geared that.

The development of a required organizational processes and allocating of appropriate resources to national and global effort normally requires creating an independent departments (for export) within the organization. Though, this may be expensive when overheads and other liabilities are considered. It may take a considerable number of years to develop a sizeable market share. As a consequence corporation in a form of strategic alliance with other retail supermarkets could reduce dramatically the timing to establish in these foreign markets

3. 0 COMPETITIVE ADVANTAGE

The concept and interest of competitive advantage started many years ago but never became popular until the 60’s of the twentieth century that the concept spread out when Edmund Learned & Kenneth Andrews mentioned SWOT analysis denoting strength as a competitive advantage (Schendel, 1994). Competitive advantage as an organizational competence and ability to perform in one or many ways that other competitors find it difficult to imitate now and in the future (Kotler, 1997: 53; Kotler, 2000). Nevertheless, For the Wm Morrison supermarket to compete in the global market, it has to develop a strategy that will be unique and difficult to be imitated by other players in the global markets.

Porter (1985) recognized competitive advantage as a strategic goal; that is a dependent variable and the rationale behind this is that the good performance is related to achieving a competitive advantage (Read & Difillipi, 1990: 90). Others see competitive advantage as an ability to produce products or offer services different to what competitors do, by utilizing the strengths that organizations possess so as to add value in a way that competitors find it difficult to imitate (Pitts & Lei, 1968: 68). It can be assumed that competitive advantage is a relative quality that organizations claim to possess through which they can exceed their rivals' performance, and achieve long lasting benefits as perceived by clients. It is believed that the framework presented by Michael Porter is one of the most well-known tools that are used in theoretical as well as empirical research, since it pays attention to all activities carried out by an organization with respect to its external environment.

Competitive business strategy

Competition in Global environment which was written and later on edited by Michael Porter Porter (1986) is a means to study and an attempt to systematizing global business development. Porter analyzes a firm`s global strategic options by concentrating on two concepts: allocation and coordination. By allocation he meant globally distributing and allocation of the value chain activities. On the other coordination refers to the coordination amongst the distributed bases.

He explained global strategy as “ a strategy to achieve a global competitive advantage through concentrated allocation or coordination of distributed activities, or both” (Porter 1986, p. 35) and indicated that “ for proper understand of competitive advantage concept of a global strategy or the cause of globalization of a firm, Mw Morrison should identify the circumstances for achieving cost diminution or differentiation by globally focusing on the operations or coordinating the distributed activities”. He emphasised that such situations are: (1) immediacy to markets; (2) economies of scale and experience effect; (3) effective consolidation and coordination of activities; and (4) comparative advantage of each country.

Global competitive strategy gives a company with the ideas to generate an offensive and / or defensive position in the global markets whereby yielding greater returns on its investments. According to Porter a company must adopt a competitive strategy to win advantage competitively over its rivalries. Competitive advantage is something that gives a business an edge over its competitors in the products/ services it provides (offers). Companies have unearthed different approaches to this end, and the most significance of the strategy for a particular company is eventually a unique design reflecting its special situation.

Competitive National business strategy

Ansoff matrix for strategy

New

Market

2. Market Development

4. Market Diversification

Current Market

1. Market

Penetration

3. Product Development

Current Product

New Product

Ansoff's Marketing Model

Adopted from Ansoff (1957)

According to Ansoff (1957), Wm Morrison supermarket may decide choosing one of the four product-market growth strategies which are shown on the diagram above. They consist of market penetration, market development, product development (diversi¬)cation). But Ansoff however suggests that the safest of these growth strategic options is to adopt a market penetration strategy. With this strategy Wm Morrison could gain more usage from its existing consumers and moreover seeks to attract new ones in their existing market.

On the other hand, Ansoff indicated that the slightly riskier option will be to take the market-development strategy of attracting new types of customers for the current products of the business from either new channels of distribution, or new geographic areas.

Wm Morrison as an alternate may a strategy of product development, by producing entirely new products, different versions of existing products or different quality levels of existing products to be sold in its existing markets.

The final strategic option in Ansoff terms Wm Morrison can pursue and is also the riskiest strategy overall is the strategy of diversi¬⁾cation. With this Wm Morrison supermarket will have to develop completely new produce for new markets. This is very costly because the company has to abandon what it is producing and selling presently.

In the writings of Hangstefer (1999) in order for Wm Morrison to build growth drive, its managers should persuade innovation in their core strategy. And this should focus on factors such as the re-de¬⁾ning of markets or the development of products and services. Even though Hangstefer`s view is partially consistent with that of Ansoff. According to Hangstefer Wm Morrison should embark on the most basic product-market growth options; by indicating that a more innovative approach would be for the business to employ a growth strategy involving a number of combinations of variables. Hangstefer cited Manchester United PLC as an example, which is the holding company of the Manchester United Football Club. It has pursued growth opportunities related to their core business, as well as through new businesses, for instance Manchester United Merchandising and Manchester United Catering.

Boston consulting group (BCG) growth share matrix

The BCG matrix is a technique use for growth, particularly for multi-divisional or multiproduct companies such as Wm Morrison supermarket. The organisations divisions and or products compromise the firm`s “ business portfolio”. The portfolio`s composition can be crucial to the development and achievement of the firm. The matrix looks at two variables, which are: market growth rate and relative market share. The Matrix evaluates a firm’s position regarding its products range. This will help Wm Morrison to consider its products and/ or services in order to make decisions concerning products and services that need to be kept or removed and additional investments it has to make in furtherance to participating fully nationally. Shown on the horizontal (y) axis is the market growth rate while on the vertical (x) axis is the Relative market share (Henderson, 1979).

The BC Group’s Growth Strategic matrix

Stars

Disaster sequence

Cash consumer

Cash neutral

Success sequence

Invest

Problem Children

(Question marks)

Large negative cash flow

? Analyse

Cash Cows

Large positive cash flow

Milk

Dogs

Cash consumer

Modest cash flow

Divest

Relative Market Share

Adapted from Hedley (1977), p12

Wm Morrison may have to classify its products range according to the quadrant in order to decide the way forward.

Question Marks (High growth/ Low relative market share)

These are Wm Morrison produce which grow quickly and as a consequence lead to high cash consumption, however they don't generate enough cash since they have little market shares. The effect is huge net cash spending. A question mark may have the possibility to grow in market share and turn into a star, and finally a cash cow as soon as the market growth slows. It may turn out to be a dog when the market growth declines, if it doesn’t develop to be a market leader. The company may need to analyse cautiously to decide if they merit the investments it requires to growing market share. These are the strategies to adopt for question marks:

Market penetration

Market development

Product development

These are all extensive strategies /or divestment

STARS

These will be Wm Morrison products that are seen as market leaders in high growth industries. However, it will have to spend to sustain development and to protect the leadership situation. Stars are normally only slightly lucrative but as they attain older position in their life cycle and development slows, proceeds grow to be more attractive. The stars offer the foundation for lasting growth and productivity.

The strategic options for stars may involve integration, forward, backward and horizontal Product development, Joint ventures, Market penetration and Market development.

Cash Cows (Relatively high market share/ but Low growth rate)

Cash Cows are the more lucrative produce in the portfolio that must be “ milked”. The condition is often been boosted by economies of scale which could be there with market leaders. Cash Cows might be used to finance the operations in the other 3 quadrants. It is enviable to sustain the strong stands as much as practically. Product development concentric diversification if the position weakens as a result of loss of market share or market contraction then options would include: retrenchment (or even divestment)

Dogs

Dogs comprise a low market share and a low growth rate and neither provides nor consumes a huge sum of cash. Dogs are however, cash traps since the cash locked up in the business that has little potential. Such products are candidates for divestiture.

Options are:

Reduction of expenditure (if it is thought that it could be revitalised)

Liquidation

Divestment (if someone can buy)

It should however be noted that productive products could well go from question mark through to star, to Cash Cow and at last to Dog. Fewer flourishing products which never gain market position may move directly from question mark to Dog (Hofer & Schendel, 1978)

Competitive Global business strategy

Wm Morrison supermarket can enter into the global markets by adopting Porter`s generic strategy which he indicated that a firm may decide to pursue either low cost strategy or differentiation strategy. Porter indicated that companies cannot pursue the two strategies at the same time but rather one at a time.

Cost Leadership Strategy focuses on attaining low costs relative to its rivals. Reducing costs result to lowering prices, that can raise demand for products and /or services, but if the product or services cannot be produced at a lower cost then it will rather reduce profit margins. For Wm Morrison supermarket to compete on cost bases then it must address issues about overheads, materials, labour, and other costs, and to design a system that lowers the cost per unit of its product or service before entering the global markets. Often, the lowering of costs requires extra investments in automated facilities, equipments and employees skill.

On the contrary, Differentiation Strategy concentrates on creating exceptionality products such that the firm’s products and services are obviously distinguished from that of its competitors. In other words, the focus is on creativity and innovation that have long been recognized as crucial for bringing the needed change to obtain the competitive advantage (Dean, 1998). The Porter`s competitive advantage has given rise to Schuler and Jackson (1987) come out with three competitive advantage strategies that Wm Morrison can adopt to achieve competitive advantage by embarking on Quality enhancement, Cost reduction and innovation.

Apart from Porter`s pronouncement of how to enter global markets, there are other means by which Mw Morrison can enter global market for instance, green field, acquisitions, joint ventures, franchising, licensing, etc.

When establishing acquisitions, joint ventures, franchising, licensing, etc. it is very important to locate a reliable partner. Any of these strategies may require a due diligence exercise in the global markets in order to perform checks and balances to ascertain how satisfactory the foreign partners may cater for the needs of both the firm and its customers.

5. 0 STRATGY IMPLEMENTATION

McKinsey, (1980, p. 31) developed 7s model which Mw Morrison supermarket could adopt to implement its strategies. This model will assist the company to assess its strategies, structure, systems, skills, style, staff, synergy (shared values) and where necessary improvement or changes can be made. The current strategy of low cost, freshness and customer service (value), with its systems, structure, skills, shares values, style and staff seem to be working effectively looking at the levels of the company performance from the strategic analysis done above. However, it is assumed that the new and proposed strategies will function appropriately with other elements.

Strategy

Skills Synergy style

Systems structure

Staff

Adopted from: “ Structure Is Not Organization” (1980) “ The Art of Japanese Management” (1981) “ In Search of Excellence” (1982).

5. 1 Challenges of strategy implementation

Wm Morrison`s strategy of competition presently is the use Porter’s generic strategy based on low cost and market penetration which is Ansoff idea, however extending this same strategy to the national markets may attract other competitors to imitate it especially if they see the idea to be effective thereby they losing their market share. On the contrary, the adoption of differentiation strategy may cause additional costs which will lead to the increment of the organisations total costs which they may not have that much to invest.

The implementation of green field, acquisition, joint venture, licensing, franchising, etc., will no doubt change the current business practices. In terms of 7s model, there will be so many difficulties with both markets entries, for instance staff may resist the idea of internationalisation and globalisation with the fear of losing either their jobs, position, modification of working conditions. When it comes to skills, the company may have to institute a program to ensure the employees have the require skills to meet the new strategies. The systems will have to be improved to meet the new demands and the structure will be altered.

6. 0 CONCLUSIONS AND RECOMMENDATIONS

In Johnson, Scholes and Whittington terms of feasibility, acceptability and sustainability, the strategy of low cost seem more feasible in the national markets but it may not be sustainable since it can easily be imitated by other competitors. It is not clear at this whether it will be acceptable by the employees and the shareholders Johnson et al (1988). The other options will be to adopt differentiation strategy that could be sustainable since it is difficult to copy but this option may not be acceptable given the additional costs it has to incur. Another option is the Ansoff (1991) matrix, to pursue new market strategy by using the existing products range to enter the new markets. Since this may be less risky than especially the new market strategy with the development of entirely new products for new markets.

Acquisition strategy involving purchasing and controlling and existing market seem more feasible for the global entry since it is less risky, more receptive to the local customer, involving the use of local expertise, less costive compare to green field strategy of having to set up new factories to produce. Franchising could also be use as another option, however the franchisee may gain portions of the company`s profit and may even set up their own at some point resulting to a total loss of the business to the franchisee. Licensing may pose less threats to also use may be than even franchising.