

Loblaw case summary essay sample



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1. Please give a summary of the case / problem statement • Threat of new entry in industry, company thinks they may need to take some action to either prevent this or stay competitive

2. What environmental components are relevant for Loblaw's external analysis? Why? • Industry: Grocery Retail

- Technological- new technologies (RFID, ECCNet)
 - o Process management, integration of store management
- Demographic – population size isn't great, population distribution, urban area vs rural, low income vs high income areas
- Socio-cultural – customers in Canada are repeat customers(creatures of habit) o Loblaw has a very strong private label, which increases customer loyalty – private brands have a stronger growth rate than regular brands
- Political-legal – there is no real political or legal regulations that affect the supermarkets
- Economic – need to watch for the possible changes and trends in economy that may affect buying habits, such as recession, etc.
- Global – just because Wal-Mart is a global company

3. What is your assessment of general environment?

- See question 2

4. What is your assessment of industry environment (Porter's 5 forces)? •

Threat of New Entrants – Low/Moderate

Is associated with existing entry barriers (see below) & with saturation of grocery retail industry (many players, low profit margin, low growth rate)

Barriers to Entry (here I give you examples of barriers using Loblaw and Wal-Mart; we mentioned most of them in class):

- o Economies of scale: Loblaw has it in sourcing and distribution, but Wal-Mart will have it, too if decides to

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entry Canada

- o Capital requirements: capital is needed to buy physical space, and set up store operations, but not a barrier for a large player such as WM
- o Product Differentiation: (Loblaw's control label products present significant entry barriers; solidifying it across food, non-food, services) o
- o Switching costs: not a significant barrier, even though Loblaw's loyalty program incl. services may be a factor retaining its current customers if WM enters Canada
- o Access to distribution: creates a temporary disadvantage for a large player like Wal-Mart, but can be significant barrier to any smaller/inexperienced new entrant (Loblaw's ownership of real estate assets => have taken good locations => can act as a barrier for WM).

Cost disadvantages independent to scale: short-lasting for Wal-Mart because of its prior history in retail and high economic effectiveness, but may be significant for other new entrants

- o Expected retaliation: can be significant as the market is saturated, and there are few strong incumbents (for instance, Wal-Mart can expect severe retaliation from Loblaw)
- o Just FYI – Entry deterring price: (This one is not from Chapter 2, but rather from Porter's (1980) article – see reference below) Entry deterring price is not a barrier for Wal-Mart. Rewards of entering grocery market in Canada are lower than in the USA as Canada is a highly competitive market; food prices are lower => margins are smaller; Loblaw is a difficult competitor as it is successful in terms of both costs and differentiation)

- Power of Buyers – Moderate/High

Even though individuals have limited power, we may expect that some groups of buyers are more active/organized. There are many choices (grocery stores and variety of products), and if the price goes too high on

products buyers go to another store (low switching costs). • Power of Suppliers – Moderate

National product suppliers have power, but there is a number of suppliers available; for a new entrant it will take time to build relationships. The larger suppliers are able to dictate prices and where to position their product in the store, but the smaller suppliers are at the mercy of the buyers. • Competitive Rivalry – High

There are several closely balanced competitors/grocery chains; the industry is growing, but the margin is low; fixed costs are high; relatively low switching costs; relatively high exit barriers => all together indicates high rivalry. • Threat of Substitutes – Moderate

Busy lives = more restaurant/takeout substitutes; farmer's markets/local farms; also competition from other store formats (convenience, specialty, discount) Is the industry attractive? Based on assessment of Porter's 5 forces, and taking into account the general environment, we can conclude that the industry in general is not attractive. However, for a large and well established company such as Wal-Mart it can still be moderately attractive. For Wal-Mart, there is an opportunity to complement their existing (non-grocery) products and/or target a low-income segment of the market (while many supermarkets target medium-income segment).

5. Evaluate Loblaw's competitors (competitor analysis). • Sobeys

- Metro (quebec)
- A & P, mostly in Ontario (dominion in Toronto)
- Canada Safeway

- Vegan markets, farmer's markets, small online grocery service as well (indirect competitors) Please note that the following is just my opinion (not discussed in class) – you can agree with it or ignore it: All Loblaw's direct competitors pursue product differentiation strategies. They emphasize private brands, focus on particular segments of the market (geographic / price / customer groups). In terms of future objectives, Loblaw's competitors are willing to adapt to the needs and changes occurring in the market, they monitor each others actions, and try to retain or improve their competitive position.

These companies are well established in the market, they have good relationships with their suppliers and customers, stable distribution channels, and ability to sustain unfavorable shifts in market conditions (these are their strengths). At the same time competitors hold noticeably smaller shares of the market, some of them are concentrated in particular regions of the country, and lack national presence/distribution (these are their weaknesses).

Loblaw holds an advantage over its direct competitors in terms of market share, multi-format approach, and an operational flexibility provided by Loblaw's ownership of their stores. Loblaw is keeping up with the changes in its competitive environment; it is financially healthy and thus is able to keep putting efforts in increasing the market share (per store), and being flexible in providing a wide variety of products/services to multiple segments of grocery retail industry (this is the summary of Loblaw's competitive capabilities).

6. Based on external environmental analysis, do you expect Wal-Mart to introduce its Supercenters in Canada? Why or why not?

• YES:

o Same general socio-cultural environment as the US, where Wal-Mart supercenters were very successful + geographical proximity
o Wal-Mart has great technology, which helps control costs
o Wal-Mart expands aggressively, including international expansion
o Growth expectations / pressure to grow from the stock market / shareholders

• NO:

o Industry is not attractive: low margins and the market is saturated (many competitors, many store formats), some entry barriers
o Wal-Mart's overseas attempts are not very profitable (only 2 for 10)
o Wal-Mart has a negative image here
We had different opinions on whether Wal-Mart will enter Canada, and majority of students voted for " YES" option.

7. Should Loblaw be afraid of Wal-Mart? What should Loblaw do to prepare for the entry of Wal-Mart?

- Loblaw should pay attention to WM (strong competitor), and be prepared for its entry to Canada.
- Loblaw should improve their technology in order to increase operational efficiency / get more cost advantages.
- Should continue differentiating. For instance, introduce " supercenter" store format, expand their President Choice brand and use its exclusivity to beat out bigger brands. Loblaw can stress the higher quality of its products. Loblaw may consider targeting middle to high income customers in order to avoid the direct competition in the lower to medium income segment.
- Expand loyalty program creating higher

switching costs • Maintain strong financial position – that will help their retaliation capacity

Another personal note – not discussed in class: In fact Loblaw has already established some strong entry barriers (see Q. 4 above). In addition in terms of performance Loblaw's position is equal or sometimes even favorable comparing to Wal-Mart (for instance, sales per sq. ft and sales per employees are better for Loblaw).

All together – Loblaw should strengthen entry barriers / make Canadian market less attractive; and try to neutralize Wal-Mart's competitive advantages (for instance, introduce price reductions for wide variety of products; increase the store size; expand non-food category; increase cost-efficiencies) technology

REFERENCES

Porter, M. 1980. “ The structural analysis of industries”, Chapter 1 in Competitive Strategy: Techniques for analyzing industries and competitors. NY: The Free Press, pp 3-33. IMPROVE COST EFFICIENCY (use of technology, cost reduction)