Strategic changes that reversed sainsburys fortunes management essay

In the last two decades of the twentieth century the UK supermarket chain, Sainsbury's, suffered from an almost continuing decline in its corporate fortunes, which its management of the time seemed unable to stop. Not least important of these events was the loss of its competitive position within the UK supermarket sector. From a position of being the market leader by 1995 Sainsbury's had relinquished this spot to its rival Tesco (Johnson, Scholes & Whittington, 2005) and even this second position was lost to Asda, a brand that had been strengthened as a result of its takeover by the American giant Wal-Mart.(BBC News, 2006). As a result of the corporation's problems, during the early part of this decade it began to look very likely that the Sainsbury's brand would either disappear from the UK or be acquired by new owners as investors became increasingly disheartened with the business returns and performance.

Justin King, the current CEO of Sainsbury's, joined the business in March 2004 (Sainsbury's 2005), at a time when, due to lack of competitiveness and poor performance in comparison with rivals, Sainsbury's had become a constant target for potential takeover bids (Hutchings 2004). Contrary to expectations at the time of his appointment, during the course of the past five years King has been seen as responsible for the reversal of Sainsbury's fortune, which can be evidenced by the fact that a 2007 takeover bid valued the business at £10. 6 billion, more than twice the £5 billion bid considered three years earlier (Mail online 2009).

It is the changes in Sainsbury's fortunes that form the focus of this essay. The intention is to both analyse and evaluate the strategic choices the corporation has adopted under King's leadership in order to improve its response to changes that occur within the industry and its marketplace.

Strategic changes at Sainsbury's post 2004

Research into corporate strategy, once concerned mainly with the internal operations of the business, has now been extended to include the impact of external forces and events (Johnson et al, 2005). Thus as Johnson, Scholes & Whittington (2008) observe, it can be defined as " an organisations abilities to renew and recreate its strategic capabilities to meet the needs of a changing environment." In this respect corporate strategy within supermarkets such as Sainsbury's, was focused upon the creation of competitive advantage (Porter, 2004a), a position that was deemed as being achieved " whenever it outperforms its competitors" (Pettigrew, Thomas & Whittington, 2002, p. 55). However, as Grant (2004) and others have suggested, simply achieving competitive advantage is not sufficient. To sustain its success, a business has to continue to build upon its advantage to ensure is does not lose out to other competitors in the future, a situation which the management at Sainsbury's had failed to address prior to 2004.

On his appointment as CEO, King reviewed the current business strategy and introduced changes in several key areas as part of his three year programme aimed at turning the business around (Sainsbury's 2005). The first task to be faced was to identify the core areas of potential business growth, which was deemed by King to be the UK market. This led to the sale of Sainsbury's US supermarket chain and the use of the proceeds to acquire a number of Morrison stores that were sold as a part of regulatory conditions attached to its purchase of Safeway, as well as a planned expansion into the convenience store sector. As King said at the time, this was needed “ to strengthen our market position and deliver future growth” (Food & Drink Europe, 2004, para3).

The second task was to decide where and how the business should refocus its drive for competitive advantage, which as Grant (2004) indicates, meant using either cost and/or differentiation as the main strategic drivers for success in terms of adding value for the customer and shareholder. It is clear from the latter part of this explanation that to create such an advantage it is important for the Sainsbury’s brand, to be seen as sufficiently different from those of its competitors so as to establish its own “ brand identification and customer loyalties” (Porter, 2004b, p. 9). In other words, as Tyreman (2009 para10) indicates within his study on marketing, the key and essential element of brand design and promotion is for the corporation to ensure that the chosen strategy of “ differentiation must be unique” enough to enable it to stand out from its competitors. This is especially important in a case like Sainsbury’s which is competing for market share within a UK supermarket and grocery sector, which is considered by many people to have reached a position of saturation over a decade ago (Q Finance, n. d. para15).

In terms of cost, both Tesco and Asda had overtaken Sainsbury’s in the sector as a result of their low-price strategy. In addition, their quality of service and differentiation was perceived by the customer to be superior to the Sainsbury’s brand, which meant that Sainsbury’s new management team needed to develop a strategy that would address both of these issues.

In relation to low-cost the business and marketing strategy was changed to concentrate more upon reducing prices. In addition to this impacting upon recognised brand goods, this led to a change of direction, which included the expansion and promotion of its low-price own brand alternatives within its stores, an area where competitors had built a significant advantage. To ensure that this approach did not have an adverse effect upon the financial performance of the business and the value being added for shareholders, this also meant that the business had to introduce a cost reduction and efficiency programme across the supply chain (Porter, 2004a). Improvements were therefore made to the supply chain processes, which included the introduction of new technology aimed at increasing cost efficiency, such as the implementation of IT knowledge and data management systems (Mari, 2009). As an integral aspect of this process the relationship with suppliers, and their influence upon the supply chain, particularly product design, cost and distribution were also re-evaluated in an effort to lower costs and improve delivery to the customer, for example with the adoption of a system geared towards the JIT inventory model (Just in Time). The effect of these changes was to aid the lowering of in-store prices whilst at the same time continuing to retain and grow business value. However, on their own these changes would not provide the change in fortunes required by the business unless they were accompanied by a process that would improve the relationship and brand image that it was promoting and marketing to both existing and potential customers (Wilson & Gilligan, 2005). In terms of quality of service, this also meant that the business would require the commitment of its employees.

As Sainsbury's had learnt, through loss of market share, the relationship that a business builds and develops with its potential customer is essential to the long term success of the business and its ability to expand its share of the market(Lancaster & Massingham, 2001). As Kotler (n. d. P. 159) observes, the organisation that develops and implements the best tools to enable it to " forecast where customers are moving, and to be in front of them," will be the one that gains the competitive advantage from these processes. Having failed to maintain its advantage in this respect, it was apparent that the existing approach to customer relationships at Sainsbury's was another area of corporate strategy that King needed to address.

Three main strategic changes were made within the business with regard to its relationship with customers. The first of these was to improve the communication process that existed between the business and its potential customer base, so that it could gain the required feedback that would help the business to understand the changing demands and needs of the customer (Lancaster and Massingham, 2001). This was achieved through a programme that included additional market research, which included in-store and external surveys and questionnaires. In addition, the management team was encouraged to spend more time in the corporation's stores, talking to customers as well as employees in order to gain a better insight into how the business service and quality was perceived (Blackhurst, 2005). Secondly, driven by the results of this feedback, the business improved its employee training processes, particularly in the area of service quality, with the focus being on improving the customer shopping experience within their stores.

One crucial element of strategy aimed at improving the customer shopping experience is reliant upon the management of the human resource function (Grant, 2005). In simple terms Human Resource Management (HRM) is defined as a “ strategic and coherent approach to the management of an organisations most valued assets-the people working there who individually and collectively contribute to the achievement of its objectives”(Armstrong, 2006. p. 2.). It is the considered opinion of most academics that the type of relationship that business management has with its employees will have an important effect upon the success of its aims and objectives (Grant, 2005). Therefore, in keeping with other competitors within its own and other retail sectors, Sainsbury’s has had to review its HR policies and processes as part of the strategic changes required following the appointment of King in 2004. This review included both the internal aspect of human resources as well as the benefits and disadvantages these will have upon the external business environment. One option that was immediately chosen was to increase the number of employees by 3, 000; most were engaged in customer facing positions (Sainsbury’s, 2005).

In addition the internal HR processes were changed. As Armstrong (2006) observes, there is generally considered to be two alterative options to HRM in business. These are the ‘ hard’ approach, which considers the management of employees should focus solely upon the effect that the individual or group of employees have in terms of assisting in the achievement of corporate goals, in other words what value the employee adds to the business. Alternatively, there is the ‘ soft’ approach, which is based upon employee involvement and motivation (Armstrong, 2006). With this approach the business seeks to understand and address the needs of the employee as well, primarily because it is considered that this will improve motivation and, as a result, increase quality and productivity.

In Sainsbury's it had already become apparent by 2004 that its major competitors, Tesco and Asda, had embarked upon a process of employee involvement which, using an appropriate approach to leadership and team building, was enabling these businesses to improve the success of their respective businesses in the area of human relationship management (Pettigrew et al. 2002). As Armstrong (2006) indicates the chances of successful adoption of a corporate strategy are much improved if the business has developed a relationship with the workforce that encourages involvement and participation at all stages of its development and implementation.

It is not surprising therefore, that King and his management team decided the corporation needed to introduce a more robust HR regime and system; one that paid more attention to the importance of employee involvement and satisfaction within the decision making process of the business. Taking into account that it is the business front line employees who have the closest contact with the customer they therefore designed a strategic change that was designed around the soft approach. This change was achieved to a large extent by copying their competitor's systems. In other words, they made management more accessible to the employee, involved them to a greater extent in business decisions, through a process of individual store and regional meetings and encouraged the employee to submit innovative and new ideas to their management team at all levels (Sainsbury's, 2005).

Finally, Sainsbury’s made significant changes to its approach in relation to the marketing and promotion of the brand. As Lancaster & Massingham (2001) rightly observe, when any change in strategy is introduced it is important to communicate that message to the existing and potential customer. Therefore a new style of campaign has been developed by the corporation over the past four years that has concentrated upon delivering a message that focuses upon the low-price and customer service quality of the business offerings and shopping experience. This focused upon two main areas of the new strategy. The first, using a low-price approach, which concentrated on the promotion of its value brand and ‘ Meal for £5,’ emphasised its commitment to a low-cost approach. The second, using celebrities such as Jamie Oliver to provide advice to customers about meals, using the company’s products and portraying the friendliness of its employees, sought to reaffirm and build the business relationship with the customer.

It is through the introduction of all of these strategic changes, culminating with the development of a promotional campaign, which includes the use of household celebrities that Sainsbury’s has sought to reposition the brand and increase its competitive advantage over other market players. The intention of this new approach has therefore been to improve its brand image, incorporating its new low-price focus with an improved range and choice of products and services. The objective being to change the customers previously held perception of the business.

Impact of the Strategic changes

Having analysed and discussed the various improvements that have been introduced at Sainsbury's since King became CEO, the question that remains is to assess how positive the impact of these strategic changes has proven for the business and in this respect an evaluation of subsequent results produces mixed results. As will be discovered from the following comments, not all of these are positive.

In relation to the change in Sainsbury's market share within the supermarket sector, although there has been some improvement in this area resulting from the changes made to the corporate strategy, it still remains in third position (figure 1). This is in spite of the fact that in the past two years Sainsbury's has improved its market share of the industry by almost 1% (BBC News 2006).

Figure . Market Share Comparison

Source: BBC News (2008)

What is equally apparent from the decade comparison is that, when judged against its two main competitors, even taking into account recent improvements, it is noticeable that Sainsbury's has still lost significant ground, in the case of Tesco by over 12%. It therefore follows that, in order to narrow the gap still further, and indeed to re-secure its position as the second biggest competitor in the sector, Sainsbury's will have to continue to develop its strategy in a manner that provides it with a level of competitive advantage that remains superior to that of its rivals.

Another aspect to consider in evaluating the success of strategic changes made from 2004 onwards, is the extent to which the strategic changes have delivered on expectations and predictions made at the commencement of the term of the new management team. In part it is these predictions that were responsible for the failure of the takeover bids being made for the business at that time, as investors considered that, if delivered, the return on their investment was likely to be improved.

In the CEO’s report within the 2005 financial statement, King suggested that the business had embarked upon “ a three-year programme designed to grow sales by £2. 5 billion by the end of 2007/08 and return Sainsbury’s to sustainable growth in both sales and profitability.”(Sainsbury’s, 2005). The subsequent financial results (figure 2) show that, this has been achieved, if one views this improvement from the 2005 results and, furthermore, that the improvement has been continued in subsequent years and, up to the year end for 2009 at least, seems to be defying the impact of the recent economic and financial crisis.

Figure . Sainsbury’s Turnover 2001-2009

Source: Sainsbury’s (2005 and 2009)

This potential improvement can be measured in another way, namely the performance of the share price for the same period of time.

Figure . Sainsbury’s-10 Year Share Price

Source: http://markets. ft. com/ft/markets/interactiveChart. asp

It is confirmed from this comparison that, from its lowly position when King was appointed, Sainsbury's share performance improved dramatically until around the end of 2007, when a new bidder for the business was rumoured to be occurring (Peston, 2007). At that stage its performance almost matched those of Tesco and Morrison's. However, since the 2007 bid was aborted the adverse share performance between Sainsbury's and the others has widened considerably, meaning that shareholders value is now a little more than 15% better than it was five years ago.

Future Focus and Strategies

Since 2004 Sainsbury's has adapted and embraced change to secure its survival and prosperity. In today's challenging trading conditions it continues to focus on capitalising on these changes by identifying consumer trends and forecasting where such trends are leading, always with the end goal of securing trading success (Wilson & Gilligan, 2005).

In this current economic crisis Sainsbury's has shown it has managed not only to ride out the recession but to emerge from it a winner with like for like sales in the quarter to January 2010 increasing by 4. 2% . Analysts in 2010 are now saying that Sainsbury's strong performance shows just how far the supermarket chain has come since March 2004 under King and acknowledge that his strategic changes have broadened the brand appeal of Sainsbury's and turned its future around (Hall, 2010).

With its future plans to focus on estate development and to step up its on-line resources in both food and non food, the support of its suppliers will be crucial to sustain Sainsbury's future growth. To this end in March 2010 a

Sainsbury's Trade Briefing will be held to give all suppliers the opportunity to ascertain how they can work in tandem with the retailer in the testing year ahead to everyone's mutual benefit.

Conclusion

In conclusion therefore, whilst it would be correct to say that the strategic changes made following the appointment of King have, to some extent led to a reversal of its former fortunes, certainly in respect of the comparison of its own revenue streams, in other areas the improvements have not been as beneficial as investors and the management anticipated.

Gains in market share sufficient for the business to recover second position have changed little between 2005 and 2008, which means that the brand image and its promotional message needs to be improved to encourage more customers to choose Sainsbury's in preference to other competitors. Similarly the share performance indicates that the business has still not totally convinced the markets that it can sustain its recovery.