

# How consumer shopping habits reflect concern about supermarket power



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Retailing has been defined as business activities involved in selling goods and services to consumers for their personal, family or household use (Berman and Evans, 2001). The word “Retailer” comes from “Tailor” (one who cut pieces) but today retailing goes well beyond breaking bulk and providing services to the ultimate consumers (Kotler, 1991). Even though retailing has been around for millennia, initially there were small Stores, the friendly neighbourhood stores selling every day needs. The 20th century witnessed a lot of alteration in the retail sector, especially in the developed countries. Modern formats retailing the goods and services changes to department stores, discount stores, supermarkets, convenience stores, fast food outlets, speciality stores, warehouse retailers and hypermarkets have emerged (Mulky and Nargundkar, 2003). Over the last fifty years grocery shopping in the United Kingdom has been transformed from small stores to the rise of the supermarkets. These supermarkets brought more benefits to the consumer by bringing prices of food low and improve choice to the plenty and other see them as destroyer of many towns and neighbourhoods and who now manage too much of consumer purse. This study examines the consumer attitudes and beliefs towards grocery shopping and the outlets which they use and not. When consumer chooses the grocery shopping it indicate the better role and value of supermarkets in today’s economy and society.

### **The Rise of the Britain supermarket:**

The food industry in the United Kingdom and other European and western part has progressed rapidly since the end of the 2nd World war. Since then, advancement in technology and personal wealth and changes the societal

norms to make grocery store into big retailing industry by the end of 20th Century. (Exeter University, 2007). By 1965 supermarket store were raised by 2000 and today there are at least 4500 supermarket. (Competition commission, 2000).

Most of the stores of the 1960s and 1970s would probably be unrecognisable by today's standards. The free market of the Thatcher years fuelled development of large out of town stores that provided customers with a "one stop shop" that met their needs for convenience and choice (Competition Commission, 2000). In the 1980s and 1990s the widespread use of electronic inventory and supply chain management allowed supermarkets to offer a wider mix of products from around the world and benefit from economies of scale. The typical UK supermarket is now around 25, 000 sq ft and carries over 8, 000 different product lines (Competition Commission, 2000).

During the period of expansion of supermarket, grocery retailing increasingly dictated by the few number of multiple retailers. The 12 largest food retailers in UK own a quarter of 33, 000 supermarkets and convenience stores. These stores pick up around 73% of grocery store sales. Top Five owners of the superstores generate around 62% of all grocery sales (Verdict, 2006). Four out of five shoppers now use one of the Big Four grocers – Asda, Morrisons, Sainsbury or Tesco – for their main food and grocery shop (Verdict, 2006a).

## **1. 2 Research Issue**

Traditional market studies are based on the economic principles that limited choice results in inefficient allocations of resources, as consumers are unable

to discipline the market through switching supplier (Poiesz, 2004).

Supermarkets may offer shoppers lower prices, broader product ranges and improved service, but there is increasing concern that this comes at too high a price for the economic diversity of the UK and ultimately, therefore, consumer choice.

This study seeks to understand the extent to which consumer shopping habits and attitudes reflect concern about supermarket power. The key thing, the benefits of having low priced goods, one-stop grocery outlets overcome any concerns there may be about the practices and power of supermarkets in the UK? If consumers are not interested in alternative suppliers then this may be evidence that the market is regulating itself efficiently and Government intervention is unnecessary, from a consumer perspective. This study does not seek to examine the economic implications of a restricted market, only the influence it has on consumer choice, attitudes and behaviours.

## **Report Structure**

This report is not the economic study but a Consumer attitude and behaviour analysis. These are influence by the market structure of the grocery industry in the UK and therefore it necessary to understand structure and the economics concerns for government. The initially report will give an overview of the structure- conduct-performance model, since most of the government use to analysis the market.

The next section will review the grocery market in the UK, particularly about its market and also about conducting and performance of the mayor players.

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The literature review look after consumer decision making and studies of attitudes, behaviour and choice including studies looking at grocery store choice. The primary research section of the report comes next and contains a methodology review and analysis and findings. The report closes with conclusions and recommendations

## **2. United Kingdom Grocery Industry**

From last 55 years in the UK grocery shopping has been renovated by the growth of the supermarkets. Lots of changes has occurs in the last 15-20 years with reported 30, 000 independent food, beverage and tobacco retailers closing during the past decade (House of Commons, 2006). This chapter re-evaluate the structural change in the market identifies the range of outlets and that could form the choice set of any grocery shopper.

### **Market Structure**

The total worth of UK grocery market was £114. 4 billion in 2005 and it is estimated to rises to £119. 6 billion by the end of 2006 (Verdict, 2006). The market consists predominantly of supermarkets and grocers operate a variety of store types designed for different customer segments. In addition to that there are various ranges of food specialists such as butchers, green grocers, bakers etc and many several Non -food retailers that specialise in the key product areas important to grocery such as Tobacconists and off licences (Competition commission, 2007). According to Competition Commission 2007, the total market size of grocery market is £123. 5 billion.

Huge Supermarket in UK dictates the grocery retailing market with 50% shares of sales by value. This sale by value has been rises from 43% in 1996.

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Smaller supermarkets and grocery store accounts for further 36% of the market share but it has been reduce from 3% in 1996 (Verdict, 2006). The Competition Commission divide the definition of market in sales between supermarkets and convenience stores (Competition Commission, 2007).

Food specialists like butchers, green grocers, bakers etc makes around 7% to 8% of market and their proportion of sales has remained relatively steady over the last 10 years. Combined these grocery sector outlets make up as analysis in this study. During the period of 2000 and 2006, sales of supermarkets increased by 26% and sales of convenient stores increased by 19%. On the other hand a sale for specialist store goes up by 1% in the same period of time. The top four largest grocery retailers accounted nearly  $\frac{3}{4}$  of all grocery sales from supermarkets and convenience stores (Competition Commission, 2007).

### **Size and Number of Firms**

According to report of The Competition Commission 2007 there are more than 102, 500 grocery store outlets in the United Kingdom. See table below:

2000	2006	OUTLETS	Sales	OUTLETS	Sales
			(£ Bn in Prices)		(£ Bn in Prices)
		Supermarkets			
		6542			
		70. 8			

6401

89. 2

Convenience Stores

55, 798

21. 0

51, 526

24. 9

Retail Chains

2, 715

2. 4

2, 427

3. 1

Co-Operatives

1, 236

1. 1

2, 334

2. 6

Group Retailer

6, 961

4. 4

13, 035

8. 2

Independents

35, 500

9. 7

25, 893

7. 3

Forecourts

10, 061

3. 5

7837

3. 7

Specialist grocery store

40, 351



7. 8

37, 521

7. 9

Bakers

—

2. 1

—

2. 3

Butchers

—

2. 4

—

2. 6

Fishmongers

—

0. 2

—

0. 2

Greengrocers

—

1. 4

—

1. 3

Other

—

1. 6

—

1. 6

Other outlets

11, 471

5. 9

7, 063

1. 5

Total

114, 162

105. 7

102, 511

123. 5

Source: CC Analysis of IGD and Verdict data

More extensive changes in grocery outlets numbers over time emphasize even more significant losses in the specialist and convenience sectors since the 1980s and 90s. These add more feature to growing power of the UK supermarkets (Blythman, 2005).

The Biggest players in the UK grocery Industry are:

Comparing Growth

Company

1998

2008

TESCO

21. 8%

31. 4%

ASDA

12. 1%

16. 9%

SAINSBURYS

18.9%

16.4%

MORRISONS

13.3%

11.5%

INDEPENDENTS

5.7%

2.5%

OTHER

27%

19.1%

Source: TNS World panel

The UK Supermarket sector is dominated by Tesco, Asda, Sainsbury's and Morrisons which are the only chain which operate on full scale supermarket of 40,000 Square feet or more. There are no regional supermarket chains left in the United Kingdom which operate supermarket, just a few small ones which operate smaller stores. The Big supermarket like Tesco, Asda, Sainsbury's and Morrisons had a combined share of around 75% of UK grocery market according to retail analysts TNS Super panel.

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The ability of the largest firms to act against consumers interests and alter the market is a function of how sustainable position is. The most common things in position protection are Product differentiation and barriers to entry.

### **Product differentiation:**

To improve the product dimension in today's world important to attract the customer towards the store through the product differentiation. So retailer has to collaborate with manufacturers to enhance product ranges. The emphasis upon a retail brand product range characterized by high quality, innovative products is a key feature to attract the consumers in British grocery retailing (Laaksonen and Reynolds, 1994). Many new products have been introduced to market under the retailer's brand name rather than manufacture brand (de Chernatony, 1989).

In the UK grocery store the common strategy has been to enhance product ranges not just through the re-labelling of commodity products but by using the retail brand range to emphasize continued product development and innovation which differentiate from competitors (Burt, 2000). All supermarkets sell a very similar range of food products. So retailer has to create brand image and position became more critical competitive and differentiating factors and one that retailers have extended enormously, including into distinct added value consumer segment of the market (for instant children) and non-food product service areas (Burt and Sparks, 2002).

Other grocery outlets tend to be more differentiated particular the specialist food outlets that concentrate on a particular product stream. It is common

for small retailer to operate in niche markets and boarding ranges of product.

## **Barriers to Entry**

The Biggest players in the UK market have the power in their hand and have been growing rapidly over late 20 years. Retailers are adopting aggressive plans for the store extension in 1980s and 1990s which has helped them to create sustainable barriers to other to entry in the UK grocery market (The Competition Commission, 2007).

Company

Sales per sq ft

Tesco

1, 197

Asda

1, 108

Morrison

1, 049

Waitrose

1, 037

Sainsbury

950

Source: UK grocery retailers 2007

From the above table it is clear the top five supermarkets have a significant advantage from other supermarkets and new entry.

Tesco has more retail store space in the whole United Kingdom than any other grocery retailer. In 2006 Tesco added 1.7m sq ft of floor space to its chain through a combination of organic growth and acquisition. This rate of growth is not expected to continue, but considerable floor space expansion of 6% p. a. is expected during the next few years. This is significantly faster than any of their rivals in the sector (Verdict, 2006).

Barriers to entry of overseas competitors barriers to entry of overseas competitors exist by virtue of the ties domestic retailers have built up with retailers and wholesalers, which overseas retailers will find difficult to overcome (Scherer, 1999). In order to obtain a significant grip in the market for any new player would have to compete with large scale of operations (Hallsworth, 1997). Currently there is a restrictive planning regime in the UK related to new out of town development. It limits the growth of existing player in the market as well as prevents new entrants from finding the scale of growth (The Competition Commission, 2007). In UK Tesco is the leading competitors in the market and The Competition Commission are currently investigating how all the supermarket is effecting competition in the sector. Only one new player in market i. e. Wal-Mart able to enter the market through takeover of existing chain buying Asda in 1999.

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## **Firm performs**

The four key element that supermarkets use to build and maintain market power. These are Site Acquisition, Non-Food Ranges, Promotion, Pricing policy

## **Site Acquisition**

Evidence demonstrates the importance of store development as a critical element in retail competition, with the level of concentration in many UK retail markets having increased substantially since the war. In the grocery sector where the major increase in concentration has been fuelled by the combination of internal store expansion, and acquisition and merger activity (Baden-Fuller, 1985; Sparks, 1993). Retail expansion and concentration over the last two decades has been extensively charted by Wrigley, for example, who emphasised the centrality of superstore development in retailer's strategies of spatial market extension and capital accumulation (Wrigley, 1987, 1991). For instant, the role of store development in the drive towards highly concentrated patterns of retail provision in UK, a movement that substantially increasing their market share compared to co-operative and independents.

The most leading fascia in the UK supermarket is Tesco. CACI found that it was the number one supermarket in terms of sales in 68% of UK postcode areas and that in six areas it took over 50% of the supermarket sales (BBC, 2006). Studies have also found that only four postcodes in the UK don't fall into a Tesco catchment area and the only mainland one of those is in Harrogate (BBC, 2007). Expanding the network increase the volume of sales, buying power and economies of scale which maintain the barriers to entry.

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## **Non-Food Ranges**

The UK market have seen major grocery retailer pursuing a policy of brand extension into non-traditional product and service areas. Non-food ranges have increased, mostly in clothing and household product which has huge profit margins. These non-food products are not under the company brand name for example ASDA's "George" range, Tesco's "Items" brand and the Safeway "Kids Own" brand (Burt, 2000). More of these retailer giants have tie ups particularly financial service. Through tie ups with a range of financial institutions an array of financial services are now on offer or promised. Interest paying debit cards, credit cards, personal loans, life insurance, travel insurance, foreign currency services and even mortgages can now be obtained under a retail brand (Burt, 2000).

Non-food ranges have higher margins. The extra income earns through the non food ranges help the supermarkets giants to reduce the price of food and indirect it helps to earns more market share and which helps foe further expansion.

## **Retail promotion**

The main type of promotion most frequently used, in the UK retail market areas follows

Buy One Get One Free – BOGOF. BOGOF – Remains a key part of the retailer's promotional toolkit, perhaps not used as frequently as in the past. Possibly due to a customer perception that unused product is wasted.

Buy One Get Second Half Price – B1G2HP. B1G2HP – Still commonly used, particularly within the Health & Beauty and Household product categories

Half Price. Half Price – for shoppers on a budget, this is particularly popular as it brings down the total value of their shopping. The recent financial crisis has significantly increased the number of half price promotions.

Multi-value – 2 for £X, 3 for £X etc. Nowadays retailer's most popular promotional tool is Multi-value promotion. Retailer encourages customers to increase their spending. For example 3 Fresh Juice for the price of £2, Pizzas two for £1.50. Etc.

Money off promotions – Leaflets, Coupons and everyday low pricing to match competitor activities. When retailers are price matching, they often reduce the retail price by a small discount and show this as a permanent price reduction. Asda's Rollback is the best example of this approach, where they display in-store shelf barker cards displaying new prices

Percentage discounts – 25% off etc. This promotional tool is widely used in every supermarket store. For instance Tesco, Asda and Sainsbury all provide % discount on wine during festival period (Bordbia. com).

## **Retail pricing**

The UK retail market is determined by strong competitive retail pricing forces and gross profitability targets. Retailing pricing is a key element of the strength of its appeal to UK consumers. However, the competitiveness of a UK retailers prices will have a significant effect on its profitability too. As a result, some retailers may work on a price indexing system, which

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determines what level they will price their products, versus their competitors. For example, Retailer A may decide to be at an Index of 101 versus their main competitor. (i. e. they will be 1% more expensive or 99% i. e. 1% cheaper.) (Bordbia. com).

UK grocers divide the pricing policy categories. The most common are Price-led value and Every Day Low prices (EDLP). In addition there are the premium food retailers such as Marks and Spencers and Waitrose and the deep discounters such as Netto and Aldi. Retailers such as Somerfield and Sainsbury have struggled to capture market share, due in part to an unclear pricing policy.

Overall, competition between the major supermarket retailers has led to a decline in real food prices in the UK of over 10% over the last decade. In their 2000 study of UK supermarkets The Competition Commission found that price competition is often restricted to certain frequently purchased products and that multiple grocers generally sell these lines below cost. They believed that this form of price competition acted against the public interest, despite the lower prices, as it may reduce the local competition a supermarket faces from independents and smaller chains. There was, however, no proposed solution to prevent the practice as the possible remedies were impractical and may have had undesirable side effects. The Competition Commission is now re-examining the issue following the expansion of Tesco and Sainsbury in more local convenience based markets and growing public concern over the issue.