

Sainsbury



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Analyse' and ' evaluate' the business strategy that J Sainsbury Ltd. has pursued using either Bowman's strategic clock or Porter's Generic Strategies framework. Submission Date : 28th April 2012 Word Count : 1841

Introduction Strategy is defined as how an organization and individual achieves its goals. The marketing strategies are altered as well as renewed in companies in the effort to survive and also prosper in an increasing demanding and complex business environment (Grant, 2010, p. 270).

The strategic imperatives have shifted towards a priority emphasis in order to develop a superior capacity to reinvest the business model (Cravens, 2010, p. 20). Sainsbury mission and goal is to become the first choice of its customers in terms of food, deliver products which are of outstanding quality and service available at a competitive cost by means of working in a simpler, faster and together. Sainsbury have made fundamental changes which have transformed the business but in the course of action the company has stayed true to its heritage.

Sainsbury passion towards food at fair prices and its ethical approach have remained central for their success (J Sainsbury Plc, 2012). Figure 1: Business Strategy and Objectives [pic] (Source: J Sainsbury Plc-a, 2012) Accessing Sainsbury's strategy using Bowman Strategic Clock The strategy clock which was coined by Cliff Bowman encouraged the managers to consider competitive advantage with relation to cost advantage or differentiation (figure 1). It focuses on the price of the customers and their perceived value of the goods and services.

It has been argued that Sainsbury pursue a differentiation strategy while others might argue that it has adopted the low cost strategy. It could be

however said that the organisation has adopted both differentiation and low cost strategy and can be termed as “ stuck in the middle” (Mantle, 2012).

Figure 1: Bowman’s Strategy Clock [pic] (Source: Johnson, 2008, p. 243)

Theories and Analysis SWOT Analysis has been performed in order to consider the internal and external factors of Sainsbury (See Appendix 3).

J Sainsbury has been able to tackle the problem as it has been able to build the trust and can have faith on its customers at the worst condition. But the competition is also intense between the top four food retailers in UK and the hard discounters. It has been noted that Tesco and Asda are the top most retailers in UK and they have expanded in almost every part of the globe and this is where Sainsbury lacks and falls behind its current competitors (Mantle, 2012, p. 7).

Sainsbury can try to overcome its weakness by applying its strength and overcome its threat by applying the opportunity. As per the TOWS Matrix, (Appendix 6) Sainsbury has a huge opportunity to tap the emerging nations with its diversified portfolio and with its good corporate image . To tackle the external environment PEST analysis has been conducted. Sainsbury needs to consider the external environment in order to proceed successfully and take measures of the upcoming shortfalls with respect to the external environment (See Appendix 2).

In order to tackle the problem, Sainsbury has adopted the policies of operating in EU and also other parts of the globe. It has joint hands with the British government to tackle the problem of obesity and have pledged to cut about 5 billion calories (Retail Detail, 2012). Sainsbury has diversified its business ranging from food retail to non food retail outlets and has adopted

the differentiation strategy. This adds on to the advantage of Sainsbury and helps to maintain competitive advantage and stay ahead of its competitors.

But at the same time Sainsbury have many competitors who offer the same product (Appendix 5) which shows that the competition among the retail industry is quite high, but Sainsbury with its core competencies and diversified portfolio has been able to gain a diverse customer base. Analysis and evaluation of supporting resources and capabilities The company is trying hard to keep up its competency level by delivering efficient service and timely service. Sainsbury online serves almost about 30, 000 order per week and cover 75% of the UK which adds on to its advantage (Breitenbuch, 2004, p. 22).

With advancement in technology and change in mindset, customers prefer online services rather than the brick and mortar. Thus Sainsbury competency lies with its online shopping service. The capital of Sainsbury resulted in decreases in 2011 (854) as compared to 2010 (1006). But Sainsbury has invested in its R&D and other portfolios which have shown positive outgrowth in the current fiscal year. But a glance at the resources and capabilities have proved that Sainsbury can well compete in the competitive retail market. Sainsbury's unique resources and capabilities underpinning the Value chain Sainsbury had made an investment of about multimillion pounds in its supply chain technology which has helped the company to reduce the amount of un-bought food by 15% during hard times. This technology was created by Sainsbury and helps to reduce wastage of food which would then help in the reduction of emission from CO₂ to about 1400 tonnes. Thus it can be said that the company can react to changes in the buying pattern (Brittain,

2010). (See appendix 9) Value chain has been identified and upgraded in order to widen the system of suppliers, network and the buyers i. e. through the value system, and the importance of each individual and the discrete activities which are performed by the firm to achieve competitive advantage. Sainsbury has developed different supply chain channels to manage the complexity faced due to different store formats such as country town, Sainsbury local. Sainsbury believes in continuous improvement and aims to achieve it in many different ways. Sainsbury recognises the importance of its people who play a major role in delivering excellent business. The logistic staffs of Sainsbury tend to work in flexible and well maintained environment.

One of the collaborations of Sainsbury is to focus on the demands of the consumers and maintain a healthy relationship with the suppliers and other partners. Above all Sainsbury is committed in reducing the impact of its operation towards the environment (J. Sainsbury Plc-b, 2002). Appendix 9: Value Chain (James, Rowland-Jones & O'Brien) [pic] An exceptional tangible source resource would be Sainsbury's land bank, they created an agreement with British land in 2008, as a result of losing the combat to Tesco in land management, and therefore currently own 10, 5 billion in real estate (Mantle, 2012)

This gain value and addresses a key decisive achievement factor in the industry (Grant, 2010). As position is important to offer convenience and a deep assortment, an extra unique intangible resource would be their brand representation and customer loyalty, this is vital since it can attract or attract consumers and it could be necessary to build the brand image. Mintel has reported that Sainsbury's achieved top amongst the big four' for the best

brand reputation, improving this by supporting charities such as ' fareshare and active kids(J Sainsbury PLC, 2012)

A core capability would be Their online shopping has evolved over the years and with a change in customers mind set and lifestyle, and is mostly dominated by the major food retailers (Intel, 2011). It is the second largest food online retailer in UK and its business grew by 20% over the years (McGrath, 2012). Sainsbury is also trying to develop a presence in the drugstore category but it would result in huge risk for the company as Boots has already acquired a majority of the market share (Data monitor, 2002).

Has Sainsbury got the potential resources and capabilities?

Feasibility analyse the firm positing of the resources and capabilities necessary for their given strategy (Johnson, Scholes & Whittington, 2008) Sainsbury core competencies and resources (See Appendix 4) have enabled Sainsbury to achieve the third position in UK retail market and strengthen its value chain through investing in new technology (Appendix 9). Sainsbury core capabilities (Appendix 4) lie with their online shopping service which is often regarded as better than its competitors and at the same time hard to imitate.

Other capabilities of Sainsbury include its logistic, loyalty programs and its own labelled products. But the disadvantage lies that its competencies are same as its competitors and are very easy to imitate. Critical challenges that Sainsbury faces in the expansion plan Most critical driver in the grocery industry would be the attractiveness of new rising market, such china whose market was expected by Euromonitor in 2010 to reach ? 418 billion(Johnson,

Scholes & Whittington, 2008). furthermore globalisation is a key factor for merging competitors.

One critical challenge Sainsbury's face is how compatible or distant the national market is with the company, therefore they must consider compatibility before they get into the market(John, Scholes &Whittington, 2008). This can be done using the CAGE model, which looks at cultural, administrative and political geographical and economic distance between the markets. For instance cultural distance is very important in the supermarket industry. As mentioned in the SWOT analysis (Appendix 3) one of the major critical challenge with Sainsbury is the market of UK which has matured over the years. (Grant, 2011)

Sainsbury has adopted both the low cost strategy and also the differentiation strategy. The retail food section of Sainsbury offers food at a cheaper rate and also its product line offers a variety of services and products thus following the differentiation strategy (See Appendix 3). One of the risks involved associated with the hybrid strategy is that the company is trying to diversify into various sectors which might not result in profitability in the long run, may result in failure. This is because Sainsbury is following two generic strategies cost leadership and differentiation strategy and it might result in a drawback in the long run.

Does the strategy adopted by Sainsbury is attractive in terms of financial return and timescale required for its online orders? Sainsbury main rival is Tesco in terms of market share. The market share of Tesco has slipped from 30.7pc to 30.5pc. However the supermarket, Tesco was not being able to keep a track with the level of inflation at the current rate of 6.2c in the

grocery industry. In comparison to Sainsbury, sales growth was recorded 4.2 pc (Wallop, 2011). The financial report of Sainsbury has also shown a positive growth rate in its operating profit which amounted to ? 851million in 2011 as compared to ? 710 million in 2010.

The gross profit recorded for the year end 2011 was also quite impressive as compared to the previous financial years (See Appendix 8). Conclusion Sainsbury strategy has helped it to become among the top retailers in food and non food items in UK and has been able to achieve a decent market share along with gross profit which resulted in a higher rate than its competitors Tesco. But with respect to international strategy, Sainsbury would face challenge from the intense competition from its competitors as they are globally situated and are assumed to be bigger brand than Sainsbury and has captured most of the market share outside UK.

And secondly, due to economic slowdown, consumers have started to cut cost and prefer the small retail shops rather than the giant retail outlets. This would hamper the working of Sainsbury in the process of international expansion. Therefore it can be said that Sainsbury should expand only when the conditions are in favour of the company. Reference Breitenbuch, M. V. , 2004. Online Food Shopping: Consumer Perception and Retailers Market Approach, Contrasting the Markets UK and Germany. GRIN Verlag. Brittain, N. , 2010. Sainsbury's tries something new with supply chain technology. [Online].

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British food industry pledges to cut calories. [Online]. Available at: [Accessed 18 April, 2012]. Verweire, K. , 2004. Integrated Performance Management: A Guide to Strategy Implementation. SAGE. Wallop, H. , Tesco loses market share. [Online]. Available at: ; <http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/8937822/Tesco-loses-market-share.html>; [Accessed 19 April, 2012]. Sainsbury Strategy clock Sainsbury Appendix 2: PEST Analysis Political • Sainsbury adopted the international strategy and thus the political factors along with globalisation have affected the expansion. EU has been stringent in matters of food in order to protect the customers (Pisanello, n. d) and thus the food retailers have to comply with various standards which have affected the profit with is predicted to hamper the future growth. Economical • Affects the buying decision of the customers as with recession hitting the country the residents are likely to cut cost and save for future needs. The people might prefer the next door retail outlet to shop for and this would indirectly affect Sainsbury. • The economic recession has affected the people residing in UK and this has ultimately resulted in affecting the retail food sector.

People will not stop eating due to poor economic situation like global crises or recession but they would obviously cut cost which

- Retail industry prone to negative economic condition and can affect the future growth
- Social trends have been changing with the development in the countries
- High consumer debt level with negative savings rate.
- Technological Adoption of online retailing
- Supply chain management
- Adoption of electronic Point of Sale (PoS)

Appendix 3: SWOT Analysis

Strength

- Sainsbury is the third largest retailer in UK with 16% of the market share (Just Food, 2011).
- Sainsbury has a diversified range of products
- it has a good corporate image

Online shopping Weakness

- J Sainsbury Plc is exposed to the UK business cycle to a great extent.

Opportunity

- Growth opportunity in the online shopping market
- Demand of good quality of food and healthy food
- Growth opportunity in the emerging countries.
- developing presence in the chemist and drugstore category

Threat

- Intense competition from Tesco, Asda and Morrison

Appendix 4: Core capabilities and resources

Figure 2: Resources and competencies of J Sainsbury PLC [pic] (Source: Mantle, 2012)

Appendix 5: Porters Five Forces

Figure 3: Porters five force of Sainsbury

Appendix 6: TOWS Matrix

	Strength	Weakness
Opportunities	Sainsbury is the third largest retailer in UK J Sainsbury Plc is exposed to the UK business cycle to a great extent. Sainsbury has a diversified range of products it has a good corporate image Online shopping Sainsbury being the third largest retailer Sainsbury can overcome its weakness by Opportunities could make use of its corporate image in the utilizing its opportunity and create demand for	
Threats		

Growth opportunity in the online shopping | emerging countries and with the online shopping| its food and non food items. | | market | market it can further strengthen its growth | | | Demand of good quality of food and healthy food| opportunities. | | Growth opportunity in the emerging countries | | | developing a presence in the chemist and | | | drugstore category | | | Threat | With its diversified portfolio it can stay | Sainsbury needs to tackle its problem as it's | | Intense competition from Tesco, Asda and | ahead of its competitors and along with its | too exposed to the UK business cycle and as a | | Morrison | corporate image can easily tap the mature UK | result the rivalry is quite high. | | Mature UK Market | market. | | Appendix 7: Stakeholders Mapping Figure 4: Stakeholders mapping | | | A | B | | Minimal Effort | Keep Informed | | | Shareholders | | | | C | D | | Keep Satisfied | Key players | | Environment, Community | Customers, Suppliers, employees | Keep informed: the shareholders of the organisation should be kept informed about the happenings and decision taken by Sainsbury. It is the duty of the company to make the shareholders know about every step that the company takes. Keep Satisfied: The community and the environment falls under the category of " C" where the company should satisfy these stakeholders.

The community is important as it is a place that Sainsbury operates. The environment is also important as sustainability issue raises with the environment thus it becomes incredibly necessary to keep satisfied these two stakeholders. Key Players: The key players consist of the customers, suppliers and the employees. It is through these stakeholders that Sainsbury is able to operate its business. The employees form an integral part of the organisation. The strategies adopted by Sainsbury will directly affect thee

stakeholders. Appendix 8: Financial Statement of Sainsbury Table 1: Financial performance [pic] (Source: J Sainsbury Plc, 2011) Table 2: Tesco Financial statement [pic] Source: Tesco, 2011) ----- Hybrid Threat of Substitute Low -Medium: Low in case of food items and medium for non food items For clothing is high Rivalry among Competitors High: More competitors such as Tesco, Asda and Morrison Retail market is extremely competitive. Buyers Power High: Many competitors in the industry give the buyer the power to bargain Threat of Entry Low: Requires huge capital investment Sainsbury and other big retail giants accounts for nearly 80% of the retail market share Supplier's power Low: As the position of Sainsbury is strengthen and are able to negotiate to get the lowest price from the suppliers.