COUNTERCULTURE

Shelf life: the irrepressable growth of supermarkets

INSIDE

The rise and rise of supermarkets

A look at the factors driving supermarkets' growth

Format fragmentation and brand convergence in UK and Europe

A review of trends in supermarket branding across Europe

Supermarkets on the defensive

How supermarkets are using their brand and value offers to survive the recession

Retail '09 – The story so far…

Some of the star performers and biggest casualties in 2009

ISSUE 2 – October 2009

in association with VERDICT

Introducing Counter Culture

Counter Culture is our quarterly update for anyone in the retail sector – identifying trends in consumer behaviour.

In each publication we will review current trends and issues in the retail sector, offering comment supported by relevant retail data and examples.

We also want to stimulate ongoing debate, to inspire change and help with future sector development. We'd like you to become part of that process, to comment on trends and issues and question our views.

To facilitate this and to keep you fully up to date with new material, the Counter Culture website will give you access to further information and insights, allow debate and discussion from others in the sector and enable you to post comments of your own.

Join the debate...

...at www.cculture.co.uk

We look forward to hearing from you.

Counter Culture is produced by Conran Design Group with the support of Verdict Research. Conran Design Group is a leader in consumer branding and design – from naming and brand creation, through marketing communications to the customer experience. Verdict is the UK leader in retail research and analysis, and brings additional understanding and observations on the sector.

The quarterly retail review from Conran Design Group

COUNTERCULTURE

CONTENTS

Introduction	0
The rise and rise of supermarkets	2 – 3
More than their fair share?	4 – 5
Format fragmentation and brand convergence in UK and Europe	6 – 9
Supermarkets on the defensive	10 – 13
Retail '09 – The story so far...	14
The future of shopping	15
Managing the corporate image	16

Introduction

Our second edition focuses on UK supermarkets, a now ubiquitous retail force and one of the most dynamic areas of growth in UK retail. While supermarkets attract controversy because of their power and size, an ever growing number of shoppers are using them because they cater so well to modern consumers' requirements.

However they are facing a new stage of growth evolution, set against a backdrop of market maturity, food price inflation and recession, and this not only applies to UK supermarkets but also those on the Continent.

We have looked at several of the key developments; how supermarkets have developed their businesses, the future trends, their positioning, format fragmentation and recessionary tactics and how other retailers on the high street are defending themselves from the onslaught of supermarkets into non-food. One clear message coming through is the importance of having a clearly defined brand proposition, being customer-centric and being able to adapt quickly to a changing retail environment.

There are signs that by the New Year edition we will be at the beginnings of a recovery in the economy. That said, 2010 is still going to be a tough year for those retailers that have managed to trade through the recession, and one of the main issues they will have to tackle is corporate social responsibility. Long since just a paragraph at the end of the annual report and accounts, it is an integral part of a modern retailer's trading strategy. We will be concentrating on this in the next issue, but as a trailer, Dan Rees of the ETI gives their views on the importance of tackling ethical sourcing for retailers.

We hope you enjoy this issue of Counter Culture and please do contact us with your thoughts.

Many thanks

Lee Hoddy
Creative Partner, Conran Design Group

Buy one
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The rise and rise of supermarkets
Shaping our shopping habits

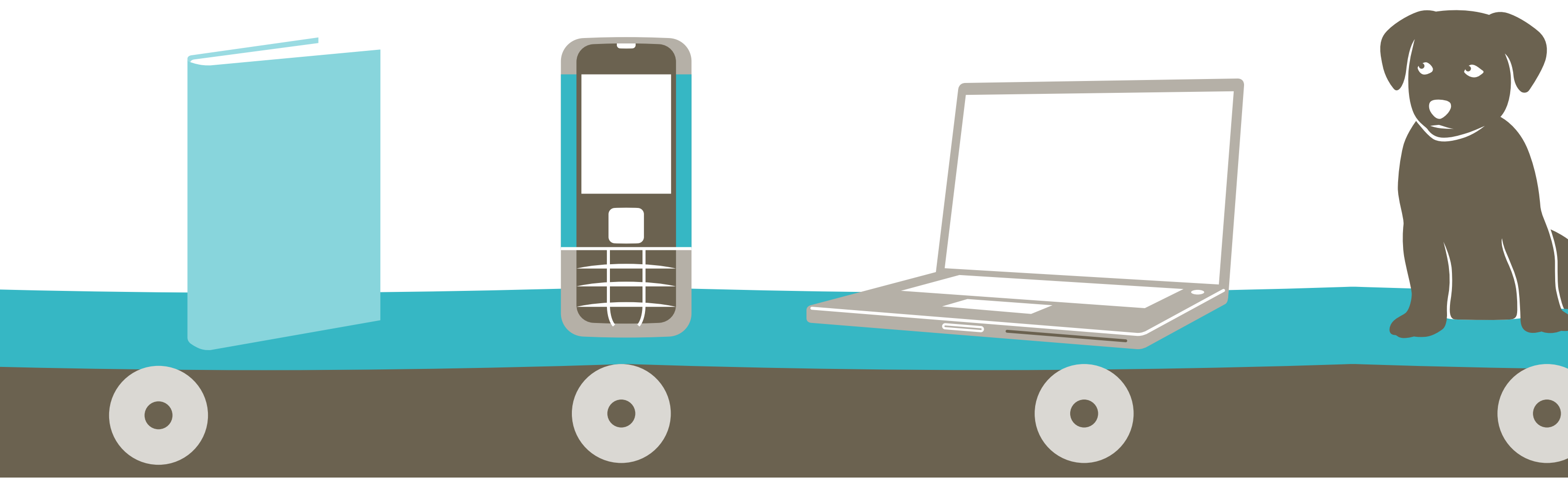
Over the past decade supermarkets have grown much faster than the rest of retail, resulting in a significant increase in share of both our food & grocery and total retail spending.

Supermarkets account for 86% of our spending on food & grocery, so it's unsurprising that there is so much controversy regarding their dominance every time a new one is opened. Yet despite this we continue to flock to them because they cater for all our needs and fit our modern lifestyles.

This strategy, combined with more stores and a wider product range, has attracted more shoppers. Indeed, according to Verdict's annual survey of UK shoppers, 'How Britain Shops', over 8 million more UK consumers regularly shopped at supermarkets in 2008 than in 1998, double the four million growth in the overall population. This means 8 out of every 10 adults shops in a supermarket, an almost 10% increase from a decade ago, highlighting their growing role in our shopping habits. Furthermore, the biggest increase is among men – 5.3 million more of them are shopping for food & grocery now than 10 years ago, a reflection of lifestyle and attitudinal changes. The female family shopper is no longer the 'typical' target for supermarkets.

SUPERMARKETS' SHARE OF UK RETAIL EXPENDITURE 1998 & 2008

Source: Verdict Research



Factors affecting supermarket growth

The unprecedented growth of supermarkets over the last 10 years can be attributed to a number of different factors and trends within the sector.

SPACE GROWTH:

Over the past decade, the Top Five supermarkets (Tesco, Asda, Sainsbury, Morrisons and Somerfield) added just under 3,500 stores and 43 million sq ft to their store portfolios. There has been a degree of consolidation in the sector, for instance Morrisons taking over Safeway and the demise of Kwik Save. A strong brand can turn under performing, loss-making stores of a weak brand into productive space in terms of both sales per sq ft and profit.

FORMAT DEVELOPMENT:

Tesco alone has added 14 million sq ft of new sales space and over 1,600 stores in the UK, the latter being largely influenced by its acquisition of T&S convenience stores. This strategy of segmenting the store portfolio by location to include a range of formats and locations, from local convenience stores to large out-of-town hypermarkets, is extending supermarkets' reach and access (see Format fragmentation in UK and Europe on page 6).

PRODUCT EXPANSION, PARTICULARLY NON-FOOD:

The expansion of supermarkets into non-food areas has led to them becoming major players in markets such as clothing, health & beauty and entertainment, and provided more reasons for shoppers to visit and spend.

SERVICES EXPANSION:

Insurance, banking, utilities, telecommunications – supermarkets have strong brand trust and consumers are happy to buy services from them rather than traditional suppliers – especially following the banking crisis.

CHANNEL GROWTH:

Online shopping is another key factor driving supermarket growth – the food & grocery sector is the second largest online market after electricals with more shoppers choosing home delivery to save the time and effort of visiting stores. In 2009 we estimate 24% of total online spending will be on food & grocery. However at £5.2bn it is still a tiny part of the £119bn annual spend in the sector and supermarkets are still struggling to make a profit on the delivery service. However online shopping has other benefits – it drives traffic to the supermarket websites and enables retailers to communicate both immediately and more directly with customers.

Supermarkets are also advancing fast in non-food online. Asda and Tesco are in the top ten for online book purchasing and Asda is in the top ten for clothing online. Sainsbury and Tesco also plan to launch transactional clothing websites which will be more competition to clothing retailers, especially as online purchasing overcomes some of the drawbacks of supermarket clothing shopping, e.g. the uninspiring presentation and lack of changing rooms.

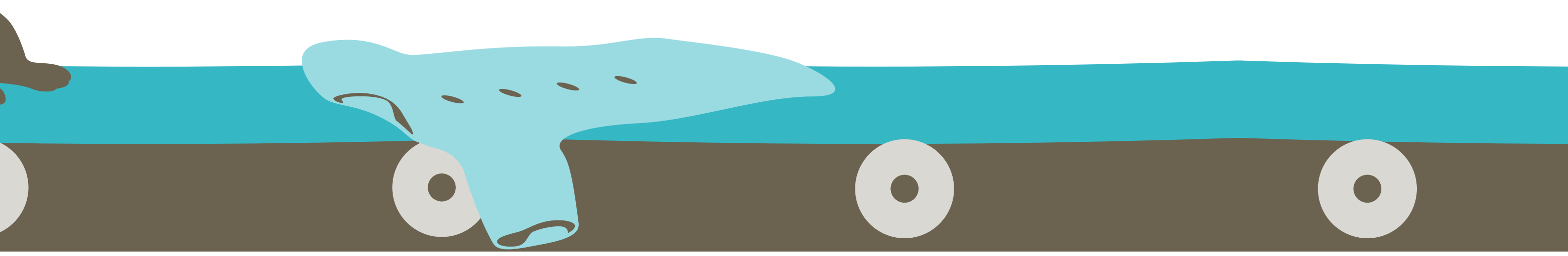
The Tesco Direct catalogue is already a real threat to Argos and traditional catalogue companies such as Littlewoods (Shop Direct) and the Otto brands, Grattan and Freemans, even Next Directory. It offers all the benefits of multi channel shopping with its options of ordering and collecting from stores as well as home delivery.

CUSTOMER RELATIONSHIP MANAGEMENT:

The loyalty card has become ubiquitous with retailers but goes beyond engendering loyalty – Tesco in particular now has an enormous amount of data on customers which it uses to tailor its proposition and marketing – ensuring frequent return visits and spending at its stores rather than at competitors'.

COMMUNICATION:

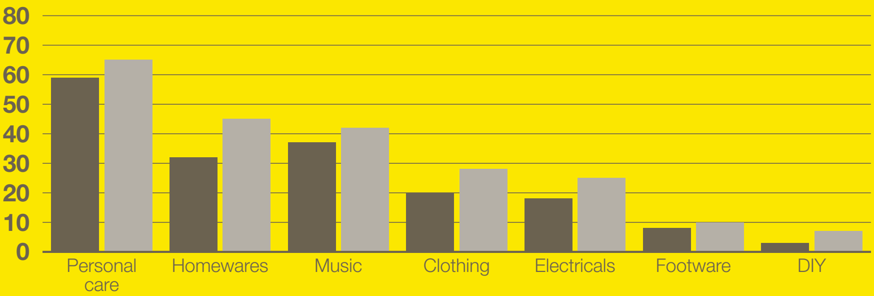
Communication is central to supermarkets' propositions, from in-store displays to TV advertising and online communities. Four of the top five buyers of advertising are supermarkets, spending nearly £0.5bn in 2008. Celebrities continue to be central to major operators' campaigns. They are an easy way of gaining attention but, apart from Jamie Oliver who encapsulates Sainsbury's proposition of good food for everybody through his own career, the ubiquity of celebrities in advertising tends to dilute differentiation. In some cases it can even be detrimental, as Iceland has found recently with Kerry Katona. Co-op and Waitrose have taken a different tack and it is the supplier who is the star of the retailers' campaigns, enforcing food provenance and each retailer's ethical credentials.



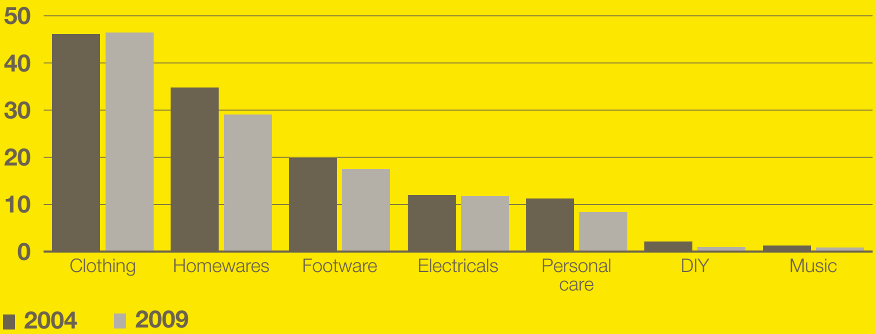
More than their fair share?

We have seen how supermarkets use online channels to muscle in on non-food sectors and as they move into bigger premises they have invested in higher-margin product categories such as clothing & footwear and homeware in-store as well.

SUPERMARKETS' SHARE OF SECTOR SHOPPERS 2004 & 2009 (%)



DEPARTMENT STORES' (INCLUDING MARKS & SPENCER) SHARE OF SECTOR SHOPPER 2004 & 2009 (%)



Source: Verdict Research: How Britain Shops

Is the success of supermarkets built on the apathy of society?

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Asda, with its George clothing brand has become one of the market leaders in clothing with 4.3% of the market. In childrenswear, George and Tesco rank second and third in the sector with 16.7% combined market share.

Meanwhile, Tesco has exploited the opportunities in non-food over the last decade and Sainsbury is catching up fast, while Waitrose is using its connection with John Lewis to enhance its offer. Though none of the supermarkets is a market leader in any one non-food sector, they pose a considerable threat as their combined share is significant – 11.5% of non-food in 2009 and growing. This influence becomes evident when comparing supermarkets' share of individual sector's shoppers.

For instance, 65% of shoppers use supermarkets for their purchases of personal care items. This is a mature non-food sector for supermarkets, but recently they have extended their ranges, stretching their price architecture to include premium mass market brands and developing own brand ranges. This, combined with the convenience of shopping for everything in one's weekly shop, is delivering a substantial share of the sector. Tesco, Asda, Sainsbury and Morrisons account for 67% of all spending on health & beauty products. Supermarkets are extending their reach into health now, moving heavily into pharmacy products and services as well (see box).

Deregulation has allowed supermarkets to expand quickly in the pharmacy market particularly because many are open 24 hours, a factor that makes a licence easier to acquire. Pharmacies help drive footfall in supermarkets and complement their health & beauty sales. The only downside is the operating costs caused by the necessity of trained pharmacists.

Over the past five years supermarkets have added 305 pharmacies in-store. Together, Tesco, Sainsbury, Asda and Morrisons account for 11.6% of the market and growing.

RESISTING SUPERMARKET PRESSURE

With a share of 18.5% of the health & beauty sector, Tesco is a serious competitor for Alliance Boots, the market leader on 25.2%. Boots has been defending its position rigorously by exploiting its brand strengths in pharmacy and health and its authority as a beauty specialist (enforced with exclusive private labels such as No7, Soltan and Botanics). It has even opened a spa as a trial.

Like supermarkets, Boots has segmented its brand according to location and is in the process of rebranding all the Alliance community pharmacies it acquired in 2005 as Your Local Boots Pharmacy to create a more coherent single brand identity. In all stores the focus on customer service and care has been increased to build the retailer's reputation of being knowledgeable, trustworthy and expert in its field. Personal service is a core differentiator from supermarkets where even personal interaction with a checkout person is being phased out and substituted by automatic self-checkouts.

Store segmentation:

- Local pharmacy – small pharmacy-focused outlets in high streets and neighbourhoods with a stronger health & beauty offer than most rivals; aims to build strong relationships with local communities.
- Health & beauty – core Boots stores, typically on major high streets and in shopping centres, selling a wide range of health, beauty and lifestyle products.
- Flagship – the largest stores with full health & beauty offers including premium beauty brands, complemented by non-core categories such as children's clothing and nursery products.
- UK airports – stores with a keen travel focus. Sales mix is skewed towards holiday categories such as skincare and accessories and a large range of travel size products.

DEPARTMENT STORES FEEL THE STRAIN

The nearest concept on the high street to a full line supermarket in its modern format is a department store and it is no coincidence that there have been casualties and consolidation in this sector over the past decade. Allders was the largest to collapse but smaller groups and independents found they were out of step with contemporary shopping trends, and supermarkets' growing share of non-food was yet another nail in their coffins.

Instead of trying to compete with supermarkets on similar product categories the main operators have all differentiated their offers as much as possible – resulting in a polarisation of proposition, with supermarkets occupying the commodity/price end of the market and delivering a utilitarian shopping experience, while department stores occupy the premium and luxury end of the market and deliver an indulgent experience linked to leisure.

Department stores' share of regular shoppers in each sector has fallen in everything except clothing over the past five years. Although supermarkets are building up their share of the clothing market (gaining 2.1 percentage points to 8.8% since 2004), department stores are effectively defending their business with a combination of exclusive ranges, premium store environments and customer service – all of which differentiate them from the commodity style shopping experience of supermarket clothes shopping.

STRENGTH IN PARTNERSHIPS

It is the fall in the housing market rather than competition from supermarkets which has caused John Lewis's sales to fall in the past year. However it is sticking to its core principles of quality and service to trade through the recession. Part of its strategy to deal with the threat of the supermarkets has been to highlight its service credentials and the trust in which the brand is held – staff are well known for their product knowledge and impartial advice and the retailer's five-year guarantee and 'never knowingly undersold' price promise is difficult to match.

It has also been investing in its own brand products which deliver a clear price architecture and maintain margins. So you can buy a John Lewis fridge/freezer from £499 to £2,900, but on top of this it has manufacturers' brands from £279 to £4,739 that widen the architecture even further – there is a price to suit everyone, supported by exceptional service credentials.

John Lewis has also strengthened its position against the major supermarkets through the creation of John Lewis Food departments in a couple of its flagship stores, using the link with Waitrose, and to create a high end 'one-stop shop' in the same way that supermarkets do.

Format fragmentation and brand convergence in UK and Europe

UK supermarkets have developed from small format town-centre stores to large out-of-town superstores on retail parks but now, as they reach maturity, the model is fragmenting again into a range of store sizes and locations.

In the UK, Tesco continues to be the most advanced in format development with its Extra, Express and Metro stores as well as its general supermarkets and Home Plus stores. Sainsbury is close behind with its Local and Central formats. Meanwhile others are at the beginnings of the growth/format trend. Waitrose is moving into a wider non-food offer with its latest link to John Lewis kitchen and home products, as well as developing a smaller high street format and convenience store, but one that encapsulates all its quality and service credentials.

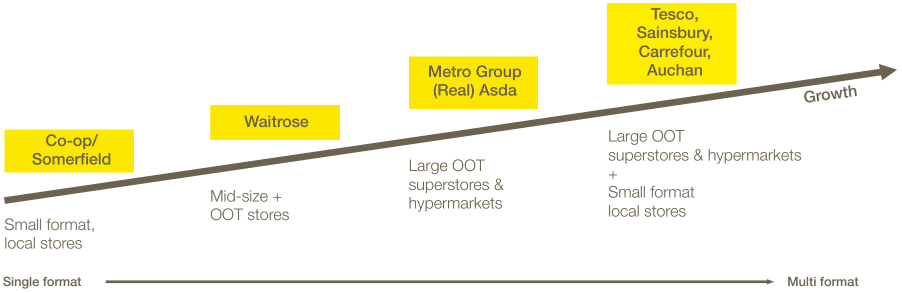
Indeed both Waitrose and the Co-op food stores are developing town-centre stores that focus on fresh food rather than packaged and, particularly with Waitrose, have more of a market/delicatessen feel to them. The Co-op meanwhile is undergoing a rebranding exercise that highlights its fair trade and ethical trading stance as part of its in-store displays.

While Asda and Tesco have both opened non-food stores the progress on these has been slow and the food plus non-food combination formats appear to be more successful and have guaranteed regular and high footfall.

The UK followed Continental supermarkets in developing large out-of-town hypermarkets offering food and non-food but now the Continent is following the UK in developing different stores for different locations, not just in order to find new space opportunities but also to meet future demand from an older and less mobile population.

EVOLUTION OF THE SUPERMARKET FORMAT 2009

From ‘single brand single format’ to ‘single brand multi format’



Source: Verdict Research

What measures can independent retailers take to ensure survival?

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THE CO-OP

The Co-op’s latest rebrand has been an enormous success, seeing growth in brand recognition. The company has also been trialing three formats – Neighbourhood, Community and Food to Go stores.

All the formats have been centrally positioned to embrace the brand’s strong standpoint on ethically sourced food. The brand has moved away from its relatively dated image by updating its colour palette, imagery and packaging to breathe life into a new look and feel. Together with its focus on environmental credentials, the Co-op offers a unique and compelling story which is evident on entering the store. Customers are serviced by compact and efficient shopping categories with ethical and fair trade narratives seamlessly woven into the customer journey, creating both personality and warmth. Combined with a clear ‘every day’ value strategy, the stores create a credible well-balanced experience.

This approach has brought to life a unique positioning backed by integrity that runs throughout the Co-op’s brand operations (e.g. banking). Stores communicate the brand’s drive towards greener operating costs, delivered using subtle communication with a hint of wit.

The success of the single-brand approach

European grocery retailers are also increasingly implementing brand convergence programmes to capitalise on the strength of an established brand name and align their business practices under a core principle and corporate culture.

Following the unmitigated success of the Tesco approach to implementing a multi format, single brand strategy, several of Europe's largest grocery chains, including Carrefour and Rewe, are adopting a similar approach and phasing out weaker brands.

CARREFOUR GOES LOCAL

In 2007, Carrefour, the world's second largest retailer (after Wal Mart), implemented its multi format single brand strategy by rebranding some of its French Champion supermarket stores under the Carrefour Market and Carrefour Express banners. It also adopted a strategy used by UK supermarkets with a trial of a convenience store format in France: Carrefour Contact targeting small towns and villages, and Carrefour City for urban shoppers.

Though remodelling is cost intensive, Carrefour has reaped the benefits from improved sales performances at refurbished and rebranded stores. As in the UK, it recognises that a single brand across multiple formats provides significant scale economies and lower marketing costs. The company aims to leverage the strength and recognition of the Carrefour brand by consolidating its extensive global store estate under the eponymous banner. It aims for 880 supermarkets to be converted to the Carrefour banner by October 2009. Going forward it could also relaunch its existing convenience store chains (Shopi, 8aHuit, Proxi) under the Carrefour banner, similar to its strategy with supermarkets.

Carrefour also owns a discount fascia, Dia. Instead of converting this to the Carrefour banner however, it is maximising its discount positioning and current brand recognition. Conversely, its French discount chain ED has been underperforming at a time when it should be booming. The poor performance has prompted the company to start a rebranding trial under the more successful Dia banner. The company converted two ED stores to the Dia fascia at the end of May which have subsequently registered strong double-digit sales growth and, as a result, 20 French ED stores are being converted to the Dia banner in 2009.

REWE – STRENGTH IN NUMBERS

Rewe, Germany's number two and Europe's number three in grocery retailing, implemented a similar brand convergence strategy at the end of 2006 when it consolidated its supermarket fascias under the Rewe banner. The company then extended its brand simplification to a new format with the launch of a small store concept: Rewe City. The chain targets urban centres and cities with above average purchasing power and focuses on a wide range of fresh and organic produce. This marks another step towards a multi format single brand strategy in Germany.

Outside Germany, Rewe has used both Penny discount stores and its Austrian Billa supermarket fascia as vehicles for its international expansion especially in Eastern Europe. In Austria, the Billa brand has been extended to convenience stores where it currently has 100 stores under the banner Billa stop & shop. The chain is also being extended to every Jet petrol station in the country. The group's Penny discount banner has been adapted to larger footprint stores and includes non-food ranges.

AUCHAN – THE DISCOUNTER THREAT

While Auchan has been less willing to embrace multi format, single brand development than many of its rivals, the French retailer has developed a new supermarket concept branded Simply Market, primarily in response to the discounters. Though the format is not strictly a discounter, the Simply Market concept focuses on a reduced range of low-price food produce, aiming to be the cheapest in its catchment area. The chain's low-price strategy is particularly important in the current climate as the concept appeals to increasingly cost-sensitive customers. As the new concept is proving to be successful and resulting in encouraging sales uplifts, the company has been pushing ahead with the refurbishment of its existing supermarkets in France, Spain and Italy moving the format more inline with the Simply Market concept.

REBRANDING FOR SUCCESS

By implementing a multi format single brand strategy, many of Europe's leading grocers are intending to improve the operational functionality across their European and global enterprises. Companies operating under a single brand across multiple countries and formats benefit from significant scale economies and reduced marketing costs. Operating under a single brand provides an opportunity for retailers to combine marketing efforts and enjoy scale and supply chain efficiencies including using the same private label goods across all formats.

Conran comment

EMOTIONAL CUSTOMER CONNECTION

A clear format strategy has become key to a brand's growth in market share, enabling penetration in new regions and neighbourhoods. An agile approach to selling can move a brand closer to its customers by meeting their demands head on – providing what they want, when they want it.

Key to success is not to treat a format as a pure fascia 'badging' exercise, but as a fully bespoke store experience. Size of retail space, location, layout, assortment ranging, pricing strategy, service levels, pace of shopping, ambience and communications are all variable elements that can make or break a format.

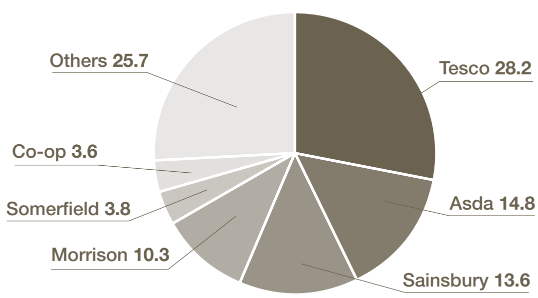
As the European retailers are demonstrating, targeting formats to urban and rural locales and offering products comprised of a third of the brand's private own label, reinforces brand awareness and value. The city format is particularly interesting, operating on a 7am – 11pm opening hours model with a product offer comprising 45% ready to eat and 55% everyday products. The stores enable shoppers to buy and then 'eat-in' in a café-styled seating area, even allowing them to help themselves to a food heating service. The stores exhibit a fine balance between expertise, convenience and value.

This combination of 'on the doorstep' retail formats and innovative shopping options is boosting retailers' sales and footfall whilst attracting the growing numbers of cost-conscious shoppers.

Supermarkets (protecting their position)

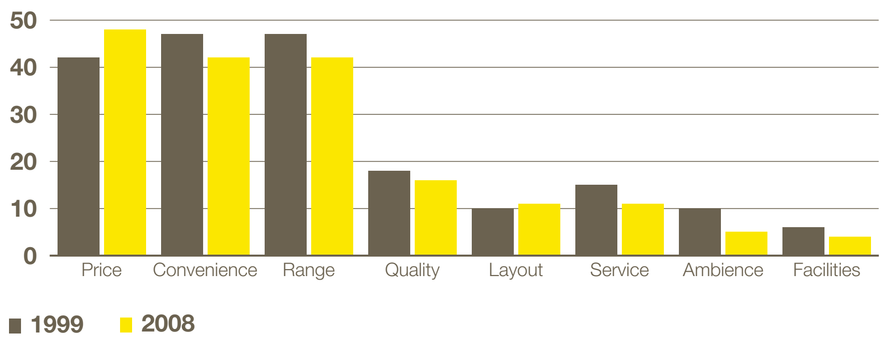
At a time when price is important to all consumers, how do supermarkets use their brand to win new business?

FOOD & GROCERY MARKET SHARES 2008 (%)



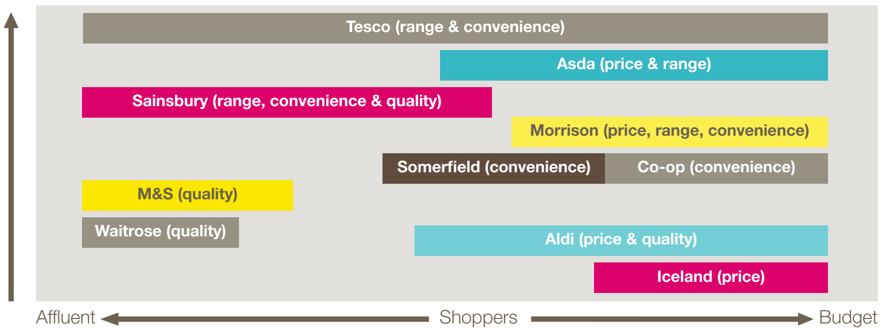
Note: Co-operative acquired Somerfield in 2009. Source: Verdict Research

DRIVERS OF LOYALTY TO SUPERMARKETS 1999 & 2009 (%)



Source: Verdict Research: How Britain Shops

CUSTOMERS & LOYALTY DRIVERS PER SUPERMARKET 2009



Source: Verdict Research: How Britain Shops

Tesco's extensive store estate has meant that it is often the nearest. The exit of the Safeway and Kwik Save brands and Co-op's recent acquisition of Somerfield has meant that now £3.00 out of every £4.00 we spend on food is going to one of the top five supermarkets.

As these players have extended their locations and formats, shoppers are more likely to have a choice of all of the top five supermarkets near them. Convenience thus becomes less of a defining factor and the decision of where to shop is more brand related with values and reputation coming strongly into play.

The positioning map of the top nine supermarkets shows how each retailer has carved a distinctive positioning within a core set of customers. Tesco is market leader by a long lead, but as market leader it has the widest customer base, encapsulating both the affluent and the budget shoppers – it therefore has to convey different messages to different sections of its customer base. M&S and Waitrose, with a narrower customer group, can keep to variations on a single message: quality. Indeed, Waitrose's main shoppers value it for quality above everything else (62% mention this – well above the sector score of 16%). However 80% of its disloyal shoppers cited price as the main deterrent from shopping there.

In 2009 the recession, combined with food inflation, has meant that price has become the main driver of our food purchases – no matter what level of income we have – so supermarkets have had to rethink their strategies. In a mature market, where growth is driven by inflation rather than volume, retailers cannot afford to lose shoppers to competitors, hence the high profile campaigning on price we have witnessed over recent months. The problem is that when everyone competes on price, the lowest is always the winner. Thus brand values amount to nothing.

RECESSIONARY TACTICS

Price

Not surprisingly, considering Verdict's latest research on shopper behaviour was done in the middle of the banking crisis in October 2008, price has replaced convenience and range as the key driver of shopper loyalty. Those with an existing price-driven message – Asda, Morrisons, Iceland, Aldi – were the beneficiaries. Aldi in particular pushed its value/quality message hard with its advertising and became the Primark of the food & grocery world, gaining maximum publicity for its low price, no frills offer.

In addition with food inflation running at its highest level for over a decade, supermarkets have been employing several tactics to demonstrate their value credentials and keep or win shoppers.

Communicating value

- Tactical pricing – supermarkets are pricing Key Value Items (KVIs), such as bread, milk and butter at very low prices while less frequent purchases are showing double-digit increases – often masked by reduced pack sizes, equivalent to stealth price rises. Sainsbury has been creative in tackling the success of stores such as Poundland by grouping products in its Basics range that are under a £1.00. At the same time it underlines its quality credentials by emphasising the Basics range is free from hydrogenated fats and artificial flavour enhancers.

  Volume promotions have also become more prevalent – 'three for two' etc drives extra cash through the tills. This is a key advantage to supermarkets who sell fast-moving products well before payment is due to suppliers, but again consumers are beginning to question the real value of these, especially on fresh products which end up being thrown away.

  Linked spend promotions such as 'buy a certain amount of groceries, and get a discount on petrol', or more recently from Tesco double loyalty card points usually prove to be successful – as long as prices are not inflated to cover them.

- The media price war – the campaign message of 'this many of my products are cheaper' and 'this many of my baskets are cheaper' are arguably ambiguous and deceptive by not being straightforward price comparisons. Retailers should not forget that consumers are far more savvy these days. The internet makes it very quick and easy to compare like-for-like product prices.

- Trading down – consumers have been trading down to less expensive options (Sainsbury's 'Feed a family for a Fiver') and from fresh to frozen (evident in the recent success of Iceland and Birdseye). Aldi has been particularly successful due to its high profile advertising. Although recent results indicate this has not been a sustainable trend, it was enough of a scare for Tesco to respond very quickly with its own discount range as a defensive measure.

  M&S at the premium end of the food offer aims to regain customers by emphasising value for money – justifying its price positioning. Its Wise Buys range of items and promotions to increase footfall have hit its profits. The very successful 'Two Dine for £10' offer drives volume but erodes retailer and supplier margins and there is the danger that non-core customers will buy the offer and nothing else. However it is arguably better to get people in store, spending some of their budget with you and using in-store promotions and initiatives to persuade them to buy other items than let them go to a competitor.

- Private label – Already a big part of grocers' business (e.g. Tesco's Value and Finest) and providing a clear 'good, better, best' price and range architecture. Shoppers have been turning to private labels rather than manufacturers' brands even more during the recession – further encouraged by the retailers' promotions such as Sainsbury's Switch & Save campaign. It is easier for retailers to keep customers by encouraging them to shift to private label products than get into price wars on manufacturers' brands, where it is the retailer with the largest buying power that will win out.

The issue for manufacturers now is how they can claw back some of the share they have lost to retailers' brands. They will have to do this by analysing categories, identifying gaps and spending on marketing new lines.

In a recession, the issue is always price for retailers with a broad customer base. Retailers such as Morrisons and Sainsbury who have focused on value are in a better position than those such as Tesco who continue to talk about price alone.

PRIVATE LABEL

Benefits

- Differentiates range
- Segments price architecture
- Provides customers with value and quality
- Builds customer loyalty
- Customers accept private labels
- Delivers scale and margin benefits for retailers

Opportunities

- Post-recession – expand premium ranges
- Develop organic, ethical, environmental labels

Issues

- Manufacturers' brands – building a strategy

What recessionary tactics work for you? Are you attracted by a BOGOF?

...at www.cculture.co.uk

Conran comment

WAITROSE – ESSENTIAL?

Waitrose's launch of its Essentials range in March to enter the 'value' arena was seen as a strange move. Many were curious to see whether this would be a strategic business move or a branding faux pas of gigantic proportions. Could this dilute the very essence of Waitrose or would this be the making of them?

Private label goods help build brand loyalty and encourage consumer up-scaling to 'best and better' range products. However Waitrose's launch into the 'value' market, taking a dive straight into the heart of it rather than a cautious dip has attracted much attention.

The campaign launched a new Waitrose personality with extensive breadth and depth. It didn't matter that some of the lines that fell into Essentials were previously simply Waitrose own brand lines. It was a brilliant move. Positioning their new range as 'Essentials' and not 'value' or 'everyday', ensured that the existing client base would feel at ease with the new venture and it created a perfect brand fit. Key was having just the right amount of 'value' cues without it being overt. Using the visual vernacular of 'value' in their design but with, of course, an air of Waitrose.

Essentials saw an 8.5% increase in sales in the four weeks of its launch – almost doubling the grocery sector's average. And, crucially, they have introduced the Waitrose brand and experience to a completely new client base.

Or lost its way?

Waitrose credits much of its current success to the introduction of its Essentials label where it is selling very high volumes, but with some damage to its margins. This range was introduced to stop Waitrose shoppers defecting to cheaper retailers. Essentials is described as 'everyday shopping items and everyday affordable prices' but with no compromise on quality. This demonstrates the power of branding, because often items in the Essentials range, such as fresh meat, are not noticeably different in price to the core range, and often much higher in price than other supermarkets.

The argument is that the product is much better quality than elsewhere – but when on a tight budget shoppers do start to compromise. Therefore Waitrose may be satisfying its core affluent shopper with this emphasis on value – but it is unlikely to attract new shoppers except where it is opening new stores.

Retail ’09 – The story so far…

NEXT

Taking more risks with fashion, while keeping to its core middle market positioning and a tight hold on operations and stock is producing better than expected profit forecast.

KURT GEIGER

With 15% growth and 7.0% LFL’s in 2008 followed by positive LFL’s for the first six months of 2009, KG proves that if you get the styles and branding right for your market you will prosper, even in one of the most challenging sectors in UK retail; footwear.

HARRODS

Having invested in its iconic Knightsbridge store (£20.4m in 2008/09) and improved the shopping experience, Harrods is reaping the rewards, attracting local shoppers as well as high-spending tourists. The introduction of a loyalty scheme has proved a big hit.

MOTHERCARE

The company has a strong brand proposition with an international appeal that it is exploiting to full effect. The purchase of ELC has complemented and enhanced sales. On top of this the recession is leading to a rise in the birthrate, boosting future growth rates too.

RIVER ISLAND

A mid-market retailer with a very distinct fashion offer, it is attracting shoppers from both ends of the spectrum – value shoppers trading up and premium shoppers trading down.

GAMES WORKSHOP

Being the largest specialist retailer to service a niche market and owning two of the largest brands in the market, Warhammer and Warhammer 40,000, plus the licence to produce a Lord of the Rings table top battle game, has helped the hobby retailer to produce strong LFL sales. Running events and competitions also builds high levels of loyalty.

SUPERDRUG

Despite being in one of the strongest sectors, sales declined in 2008 and it made a loss clearing an abundance of stock. Finding a niche that sets it apart from supermarkets, specialists and Boots is proving hard to do. It intends to concentrate on beauty first, health next – but there will still be plenty of competition to overcome.

SIGNET

Parent Signet is losing money on its UK division because of a weak pound – but sales are down despite higher gold prices. The more value-led H Samuels outperformed the premium Ernest Jones. On the bright side competitors are probably faring as badly if not worse and as market leader Signet can pick up market share its competitors will find hard to win back when Signet’s marketing kicks in post-recession.

TOPPS TILES

Sales and LFL’s declining even though competing against weak comparatives. When the housing market does recover life will not get any easier as the likes of B&Q and Wickes at home are expanding their own flooring offers. The weakness of the pound is also damaging its sales as it has 13 stores in the Netherlands.

JJB

Embroiled in a battle with the previous CEO, sales in steep decline, margins hit as it clears excess stock and struggling with its finances, JJB is in a highly competitive market and has yet to carve a niche that separates it firmly from the price-led Sports Direct.

Having a distinctive brand is a common feature of those retailers who will be able to trade through the recession successfully.

M&S

Up against weak comparatives, it should show a marked improvement in the run up to Christmas. Clothing ranges are more inspiring and some stores are segmenting ranges more clearly, but food is still pricey and up against a rapidly expanding Waitrose and more appealing Sainsbury.

GREGGS

Greggs's straight-forward quality and value proposition provides comfort food to the masses. In response to the recession it added a new range of sandwiches and pastries priced around £1 at the same time not neglecting the trend towards healthier eating by removing hydrogenated vegetable oils from its products and pledging to remove artificial flavourings.

CARPETRIGHT

Hit hard by the collapse in the housing market but with a market share of over 21%, it is actively pursuing a strategy to consolidate its position as market leader. Maintaining control of costs while also investing in home delivery, ranging and staffing – a sensible strategy given that the provision of high-quality service is a key customer satisfier in this area.

BURBERRY

Though operating profits have been hit by lower footfall and markdowns, sales are up because of new store openings and store refurbishments. Burberry still has plenty of growth opportunities in international markets and has built up a truly global luxury brand status that will ensure it will recover as the world economy does.

The future of shopping?

In the race to win larger shares of the market and reduce operating costs, supermarkets are at the forefront of developments in the retail sector and the drive to attract and retain customers. The sector is already researching technology which could change our shopping habits forever – we look further at what the future could bring.

- **Smart products** – shoppers who buy a product scan a code with their phone's camera which directs them to a Food To Go mobile site featuring a range of content and a voucher codes to claim against their next purchase (M&S is already trialing this)
- **Smart trolleys** – recognise products and keep running totals automatically
- **Smart shelves** – suggests product accompaniments, menus, gives product information
- **Cashless tills** – pay with mobile phones or with fingerprints
- **Click & collect** – drive-through grocery shopping: order your groceries remotely and pick up when you like (saves costs for retailers as well as time for the shopper)
- **Personal communication** – informing shoppers of special deals that suit them personally: via text, Bluetooth, email etc (constant contact)
- **Fridge and store cupboards become part of the supply chain** – when something runs out, the supermarket reminds you to replace it
- **Personalised shopping lists** – supplied from gaps in the store cupboard, fridge, regular shopping habits etc
- **Green stores** – self-contained stores; stores themselves generate energy (cars driving over plates generating energy for stores); hydroponics or vertical growing products on roofs

Who do you think are the winners and losers and why?

Have your say...

...at www.cculture.co.uk

Managing the corporate reputation

With such a high share of consumer spending, all supermarkets will have higher public profiles and will have to manage public perception very carefully. Our next issue will focus on how retailers are tackling this. In the meantime, the following piece by Dan Rees, Director at the Ethical Trading Initiative, provides food for thought…

THE RECESSION – SHIFTING THE FOCUS BACK TO ETHICS

Reports of the death of ethical trade have been greatly exaggerated.

Only last year, many predicted that recession-hit companies would slash spending on 'unnecessary add-ons' like ethical trade, and that shoppers would ditch their ethical sensibilities in pursuit of a bargain. But over the past two years, our corporate membership has grown at a rate of over 20% year on year and demand for our ethical trade training workshops is increasing.

While many have tightened their belts, consumers appear more concerned than ever about the people who make their products. For example, a recent TNS Worldpanel survey revealed that 72% of British consumers think that 'ethical production' of the clothes they buy is important – up sharply from 59% in 2007.

In fact, the recession has provided a new imperative for companies to trade ethically. The global downturn is hitting the poorest workers in the world the hardest particularly with global food inflation. For example, reports from Bangladesh indicate that an average garment worker spends more than two-thirds of their monthly wage on rice. Smarter companies know that tackling wages and other urgent issues isn't just the responsible thing to do – it will help build the respect of their critics.

Ethical trade also stays firmly on their agenda due to the widespread fury that the credit crunch unleashed about corporate greed. Although the banks were in the direct line of fire, consumer trust in the private sector as a whole – retailers included – has reached an all-time low.

Far-sighted companies know that to rebuild the trust of their customers, they will need to demonstrate greater accountability and transparency about how they conduct their business, including how they manage labour issues in supply chains.

The demand on companies to trade ethically is growing, not diminishing. Progressive retailers, trade unions and NGOs are at the forefront of developing credible and effective approaches to tackling workers' conditions. Independent research has already shown that our retailer members are starting to make a positive difference to workers.

In the current climate, can you afford not to be part of this effort?

We hope you've found the second issue of Counter Culture interesting. We look forward to your comments and feedback and if you have any specific points on Corporate Responsibility that you'd like us to consider in the next issue, please do contact us at **editor@cculture.co.uk**.

Thanks again.

Everything
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GO

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