Sector spotlight:

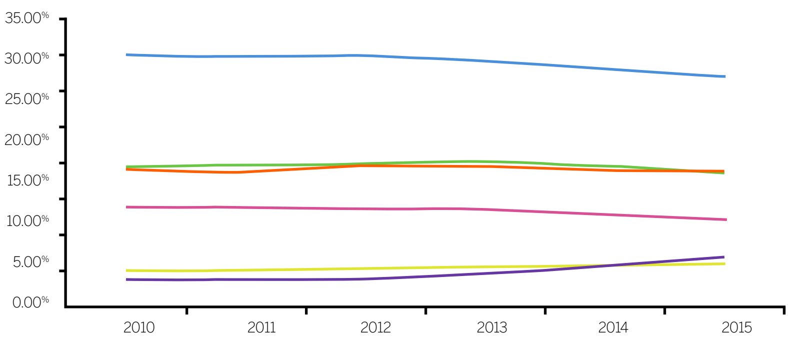
Grocery retail in the UK

Introduction: The big supermarket shake-up

This year's study explores this theme by taking a deep dive into a topical sector – UK grocery retail. We conclude with some observations for both the sector and brands in general. Grocery retailing in the UK has in recent years been dominated by the 'Big Four' major players: Tesco, Sainsbury's, Asda and Morrisons. A major part of their commercial success has been largely due to highly disciplined operations and predominantly big box, out-of-town hypermarkets. But the wheels are coming off some big supermarket trolleys. With an unprecedented level of change affecting businesses in this sector and beyond, brand thinking evidently helps mitigate risk and improve resilience.

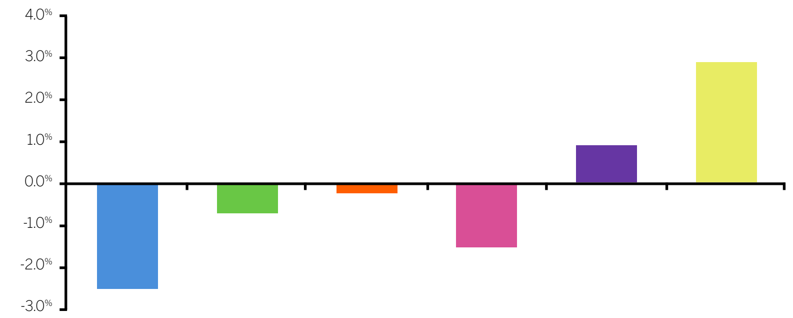
Market share 2011-2015

Source: Kantar Report



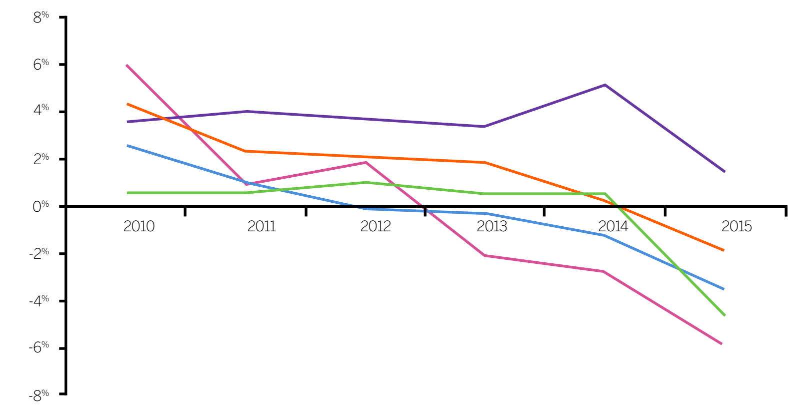
Market share (pp change 2010-2015)

Source: Annual Report



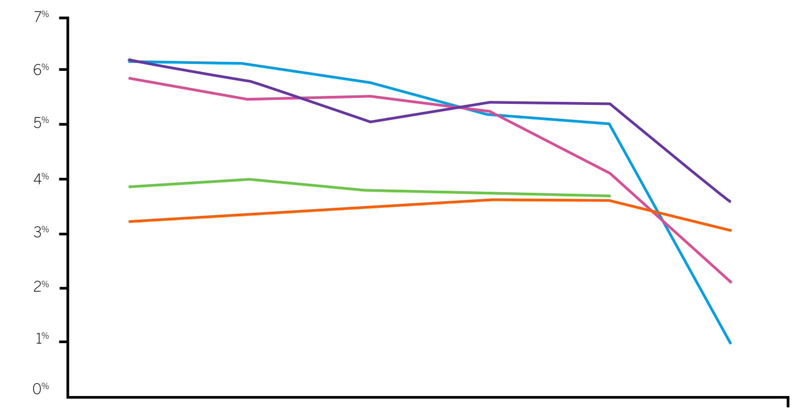
Like-for-like sales growth (2011-2015)

Source: Annual Reports



Operating profit margin (2011-2015)

Source: Annual Reports



Key: Tesco, Asda, Sainsbury's, Morrisons, Waitrose, Aldi

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Market share:

As aggressive discounters such as Aldi continue to grab market share from the weaker players such as Morrisons , Tesco and Asda the more compelling proposition from Waitrose is holding firm.

Like-for-like sales growth:

2015 has been a tipping point for grocery retail players, with only Waitrose keeping positive growth trend. Nevertheless, will it be able to sustain is still a question. Looking back to the Waitrose's exceptional growth in 2014, this year looks disappointing. Sainsbury's and Aldi had negative growth for the first time in the past 5 years, while Tesco and Morrisons are in negative third year in a row - clearly a major concern for the companies and their shareholders.

Operating margin:

Following similar trend all major players reported drop in operating profit margins in 2015, with Tesco being the biggest loser with reported 1%.

So what's going on? Firstly, consumer behaviour has changed. We are:

Tight on time and budget

Eschewing the big weekly shop for 'little and often'.

Ease-oriented

Shopping online, on the move, in our lunch hours or on the way home. And looking for simplicity, such as easy meal solutions.

Price conscious

Buying into own label and demanding value without compromising quality.

Savvy

Shopping around and adept at making conscious trade-offs that suit our circumstances. Loyalty is hard earned and easily eroded.

In response, grocery retailers are:

Flocking back to the high street

Opening new convenience formats in fierce competition with others.

Managing overheads

Burdened by big expensive stores and complex operations.

Squeezing margins

Investing in price reductions as the price war rages on.

Polarising their positions

Responding to the growth of the nimble and highly disciplined discounters such as Aldi and Lidl by either raising quality standards and earning a premium or fighting the 'price plus quality' battle.

With the aspirational, experience-driven Waitrose at one end and not-so-scrappy upstarts Aldi and Lidl at the other, all eyes are on the middling performance of the others.

The challenge these retailers face is driving preference – a nudge towards one brand over another – that adds up to competitive advantage. When two brands are equidistant and offer comparable quality and price, other factors come into play. Which brands do we feel more connected to? Which stand for something, and say something about who we are and what we believe? Reason and emotion fight it out, and we vote with our feet.

According to the IGD, the UK food and grocery market is set to be worth £206bn by 2018 with online, discounters and convenience the fastest growing parts. Thriving requires a major rethink for most of the major multiples.

How effectively are these companies using their brands to guide decisions and compete in today's aggressive marketplace? And what does this tell us about their comparative success?

Brand-shaped businesses outperform the market – 'quality partnership' Waitrose, 'price with personality' Asda and disruptive 'quality discounter' Aldi are all faring better than their rivals Tesco, Sainsbury's and Morrisons. While there are signs that Sainsbury's can turn this around, being dragged into the price war is not helping its future prospects. Anticipating future market trends and changes, the better-performing brands are poised not just for survival but also for future growth. Leveraging brand as a strategic asset, these companies will be better equipped to respond to whatever comes next

_BRAND CAP.

Lessons from grocery retail

1. Tune in:

Take time to conduct regular research, to truly understand your target customers' demand drivers. Look into what frustrates people, but also the trade offs they are happy to make. This will help you to maintain relevance, keeping pace not just with changing needs, but with changing desires, preferences and behaviour (e.g. Nokia missed this).

2. Scan for signs and anticipate shifts:

Stronger than average growth of highly-focused competitors might indicate a bigger shift in the market. Scan the horizon and use scenario planning techniques to work through potential responses (e.g. Apple used to be seen as a niche player).

3. Understand the strength of the bond:

Whether B2C or B2B, businesses understand that loyalty cannot be taken for granted. While some customers are truly connected to your brand, others are more easily seduced, having chosen you for more basic reasons in the first place. Shape your own take on loyalty to increase purchase frequency, spend and retention (e.g. American Express uses member rewards to prevent customers shopping around for better rates).

4. Give people reasons to choose you:

In super-savvy, more commoditised markets, buyers can be baffled by choice. Brand can help people navigate the purchasing process, and reassure them that they are making a 'good' decision (e.g. IBM may not have had the best computer systems or pricing, but became the market leader because 'no-one ever got fired for buying IBM'. The trust and relationship was everything and they have transformed their business model).

5. Price smart:

Price cuts, however tempting, can be the enemy of brand building efforts, undermining your value in the eyes of consumers. However, this doesn't mean you always have to charge a premium – competitive, everyday low prices on quality products will always be easier for consumers to buy into than yo-yo promotional pricing (e.g. during its turnaround years in the 00s, Nissan's strategic goals included achieving a 0% discount rate though its vehicles were still competitively priced).

6. Balance brand consistency with a willingness to adapt:

While a consistent, coherent brand builds trust, sticking too rigidly to an outdated formula will sometimes leave you trailing behind the pack. Brands now need to live, breathe and move in the digital world – not static and contained, but online and on the move. If change is required, try to be proactive, ideally making adjustments ahead of competitors (e.g. Google's doodles are a great example of playfulness. ITV recently rebranded to include a more dynamic system).

7. From a board perspective, keep a watchful eye on 'matching' what gets said with what gets done and measured:

Ensure there is a regular dashboard in board papers to monitor how the brand is performing across all operations, products, services, people and processes – and embedded in policies, governance and remuneration (e.g the financial sector could have avoided many issues had it monitored and incentivized long-term customer relationships and internal behaviours).

Anticipating future market trends and changes, brand-shaped businesses are poised, not just for survival, but also for future growth. Leveraging brand as a strategic asset, these companies will be better equipped to respond to whatever comes next.