

ASDA: Competitive Strategy in U.K. Retail Market

"To be Britain's Best Value Retailer Exceeding Customers Needs Always!"

ASDA's Mission statement.

In 2005, £14,748 million²--ASDA was the second³ largest supermarket chain in the United Kingdom (U.K.). Positioned as a value for money store, it operated 280 outlets including 19 ASDA Supercenters and 10 standalone George clothing stores. The stores sold groceries, apparel, CDs, books, videos, and other household items. In 2005, ASDA won the 'Lowest Price Supermarket' Award⁴.

ASDA, which had been taken over by Wal-Mart in 1999, had been using the plank of Every Day Low Prices (EDLP) to push itself aggressively in the British retail market. The initiative had bolstered the bottomline for a few years, but had stopped yielding results as competition increased. The year 2005 saw stagnant sales, while market share fell from 16.7% in 2004 to 16.5% in 2005. ASDA launched several initiatives and expanded its non-food offerings to generate growth. Would ASDA's initiatives yield results?

Background Note

In 1965, J.W. Hindell⁵ set up 'ASDA stores Ltd', a retail store in Yorkshire, England. It sold a wide range of food as well as non-food items at low prices. ASDA started increasing its strength by opening more stores across U.K. and by 1978, there were around 60 ASDA stores. In 1980, the company's sales had crossed over £1 billion. Soon, the company added carpets and furniture⁶ to its product portfolio through mergers and acquisitions. The debt raised to enter into these deals had put too much of a financial strain on ASDA. In 1987, ASDA de-merged and sold its stake in MFI to MFI's managers. After the sale of MFI and Allied carpet, the company changed its name to ASDA Group plc.

In 1989, ASDA opened its first outlet in south Britain. In 1990, it launched its own private clothing label called George across its 65 stores in an effort to strengthen its clothing segment and compete with Marks&Spencer⁷. The following year, it acquired Gateway stores⁸ for £705 million, putting a severe strain on its financial resources. Analysts believed that ASDA had overpaid for these out of town outlets and for the second-class sites. As profits came under pressure, ASDA began to raise prices, moving away from the low price strategy on which its earlier success was based. It was unable to cope with the intense price cuts and the tough competition posed by players like Tesco⁹ and J.Sainsbury¹⁰.

¹ www.asdacares.gpalm.co.uk.

² 1.00 GBP=1.88285 USD.

³ www.scottishfoodanddrink.com.

⁴ In 2005, Grocer Magazine awarded ASDA for the past 9 years. www.en.wikipedia.org.

⁵ J.W. Hindell was a Yorkshire dairy farmer who led a number of his fellows in the creation of Hindell's Dairy Farmers Limited in a 1920. The purpose was to acquire or build both wholesale and retail outlets for their milk, in that way securing for themselves a steady market and a floor price.

⁶ It bought the Allied Carpets chain in 1978 and merged with the MFI furniture group in 1985 to form the ASDA-MFI group

⁷ Marks&Spencer was a British retailer. It was one of the most iconic chain stores in the UK and was the largest clothing retailer in the UK by turnover, as well as being a multi-billion pound food retailer.

⁸ Gateway stores were a name of some stores of Somerfield supermarkets operating in the United Kingdom.

⁹ Tesco plc was a United Kingdom-based international supermarket chain. It was the largest British retailer, both by global sales and by domestic market share, and the fourth largest retailer in the world

¹⁰ J Sainsbury plc was the parent company of Sainsbury's Supermarkets Ltd, commonly known as Sainsbury's, a chain of supermarkets in the United Kingdom. The group also had interests in property and banking.

In 1991, ASDA appointed Archie Norman¹¹ (Norman) to turn the ailing company around. Norman reverted ASDA to its original version as a food retail chain and made its products more affordable than its rivals by concentrating on low prices rather than loyalty schemes. It raised money by going to the public both in 1991 and 1993. In 1999, ASDA reported profits of £405 million on sales of £8 billion.

In 1999, Wal-Mart¹² was looking for more venues to expand and decided to enter the British retail market. It purchased ASDA for 220 pence per share. The acquisition was expected to have a significant impact both on financial markets and the retail industry in U.K. ASDA had already adopted low price strategies to attract British consumers, so post acquisition ASDA faced no problems in pursuing Wal-Mart's philosophy of low prices.

Retail Industry in U.K.

Between 1980 and 2005, the UK retail industry had changed significantly with large retailers expanding their activities at the cost of small retailers. In June 2005, the retail industry employed 2.9 million people or 11%, of U.K.'s total workforce¹³.

In early days, retailers had expanded their business through out-of-town developments, but by the turn of the century this was not feasible in part due to planning laws¹⁴ and lack of suitable space. Big stores like Tesco and J. Sainsbury particularly in the food retailing sector, were finding other ways to increase their market share. They were expanding their product range by moving in to pharmaceutical products, newspapers, financial products, petrol and clothes. Some were also developing outlets that targeted a specific segment of society such as the smaller neighbourhood convenience stores for people who wanted only a few items. Some large supermarkets had started offering cheap products and no-frills service. Located in town centres, these provided an attractive and powerful brand image and offered a home delivery service. Some had even set up factory outlets that sold goods at low prices and very low margins.

Competition had increased in the retail sector mainly after the arrival of multinational companies in U.K like ASDA, Tesco, Sainsbury, and Morrison etc. The competition from the domestic players and overseas retailers led many retail businesses to close their business and those who continued to operate struggled to withstand the competition. To keep up with competition, the retail companies had upgraded their technology¹⁵, which in turn helped them innovate. Forced to cut down prices to sustain levels of sales, retailers suffered even with a minor economic downturn as they had already reduced their profit margins. However, due to usage of upgraded technology and reduced prices sales started increasing. In 2005, overall retail sales rose by 3.6% compared to the year before¹⁶.

Business Strategy

ASDA positioned itself as a value for money store. To maintain its competitive prices, it focussed on a relatively small range of goods and tried to limit its costs as much as possible. ASDA kept updating its products. It was named as Britain's best value retailer by the Guardian¹⁷ newspaper.

¹¹ Norman was the chief executive at Kingfisher, a leading retail store in Britain

¹² Wal-Mart Stores, Inc. was an American public corporation, founded by Sam Walton in 1962 and first incorporated on October 31, 1969, and listed on the New York Stock Exchange in 1972. It was the largest retailer in the world and the second largest corporation in the world.

¹³ www.prospects.ac.uk.

¹⁴ Planning laws in UK were laws relating to land use planning of a wide area like Tokyo Metropolitan area. Land-use planning, in large part, focusses on urban planning. Increasingly, land-use planning is done at larger scales and involves multiple issues.

¹⁵ All supermarkets in U.K. upgraded their technology. Like Asda, had invested over £3 million in M series scales from Avery Weigh-Tronix to convert its entire estate to the latest counter service technology.

¹⁶ <http://www.retailevents.co.uk>.

¹⁷ The Guardian was a British newspaper owned by the Guardian Media Group. It was published Monday through Saturday.

ASDA was also known for its customer service. ASDA positioned its stores as a 'one stop shop' where customers were provided value for money.

Soon after being acquired by Wal-Mart in 1999, ASDA engaged in an aggressive price war. The tagline 'every day low prices' (EDLP) was used to convey its USP (unique selling proposition) in promotions. As a part of the EDLP strategy, the retail chain offered certain products at low prices to customers throughout the year. To maintain its price leadership, ASDA was constantly working towards reducing its costs by improving the supply chain and inventory management. The same year, ASDA also launched asda@homeservice¹⁸, an online grocery store. The idea was to tap those customers who were not visiting super markets. By the end of the year, ASDA's store count increased to 241 units while sales grew from £7.01199 billion in mid-1999 to £7.70251 billion. The same year, ASDA's sales represented 45% of Walmart's international sales.

Till 1999, ASDA stores were more of a supermarket, primarily stocking more of food items. Realising that non food items promised better profit margins, ASDA decided to change its stores to the supercenter format¹⁹ to increase its profitability. In line with the new strategy, it employed additional staff to provide better service to its customers and installed new rails²⁰ and hangers in its stores to stock more clothes and accessories. George – its value for money clothing brand offered garments for men, women and children, as well as accessories, footwear and lingerie.

In its bigger stores, ASDA decided to follow Wal-Mart's concept of devoting significantly larger space to non-food items and increased the sales area by removing stockroom space. By the end of 1999, ASDA acquired 14.8% of market share. In July 2000, ASDA supercenters officially replaced the ASDA supermarket. The layout of the existing stores was changed. The old store devoted about 70% of its floor space to groceries and rest for general merchandise. In the new format half of the floor space was reserved for groceries and the other half for general merchandise. To demarcate the areas, a separate food entrance was made on the left-hand side of the store while the right-hand side led customers to non-food products, including household goods, toys and sporting equipment.

Despite the changed format, ASDA was keen to retain its earlier food and grocery customers. It spruced up its food offerings and made sure that its bakery products were fresher than that of its rivals. Apart from the core lower- and middle-income shoppers, the Supercenters tried to lure higher-income consumers with their organic food, new store designs and improved private label selections. The prime location of the stores helped in attracting the well heeled shoppers. As stores became crowded, car parking became a problem. ASDA added to the car parking space by making it a two/ three level car park with elevator facilities and that too free of charge.

After changing the store format, ASDA decided to carry Wal-Mart's value for money strategy a step further. A basket of 400 food products were selected and offered at a discounted price. Under this 'smart price' strategy, ASDA had collectively reduced the price by £52 million in 2001. Later, 200 more products were added to this basket of economically priced products.

In 2002, ASDA added 5,000 new items to its general merchandise line taking the total number of non-food items to 12,000, out of which 8,000 were owned jointly by ASDA and Wal-Mart. These new items boasted of unprecedented low prices (in the UK market). While toasters, kettles and

¹⁸ asda@home service was online home shopping service of ASDA. At its launch, it offered 6,000 items over the web, quickly building that online product list to 14,000.

¹⁹ Supercenter was a retail concept selling both perishable and non perishable grocery items and general merchandise in a store of approximately 200, 000 square feet.

²⁰ Rail was defined as a bar or pair of parallel bars of rolled steel making the railway along which railroad cars or other vehicles can roll. Rail was poised for future market penetration as the impacts of further road congestion, the Working Time Directive and HGV driver shortages bite. ASDA created 2,000 new jobs in its George clothing division. It had installed new rails and hangers in its stores so that it can stock more clothing. <http://news.bbc.co.uk>.

irons were priced at below £8, pillows could be bought for less than £2.50, and microwaves came at a throwaway price of £35. The strategy was a huge success and sales of non-food items increased by over 25 %.

To further attract customers, ASDA started offering home delivery service at its 32 locations in 2002. Soon it was handling over 9,000 orders a week. Customers could enjoy home delivery of over 14,000 food and non-food products. To improve the efficiency and speed of its home delivery service, it upgraded the technology and introduced handheld computing solutions and RFID²¹ tags. The new system reduced number of customer complaints by half. In 2003, ASDA decided to reposition its value for money brand George as a purveyor of trendy high street fashion. The George line was divided into two parts – the seasonal collections where the products were replaced every four to six months and fast fashion category-- which had new products introduced every 4-6 weeks. By mid 2003, ASDA's market share increased to 17% and it managed to overtake rival Sainsbury to become the second largest retailer in the U.K. However, Tesco continued to be the leader with a 28% market share. In 2004, ASDA extended the home shopping facility to 21 other outlets, covering 40% of the U.K. market. This expansion was very successful and added significantly to ASDA's bottom-line in 2004.

With planning rules frustrating its attempts to open new supermarkets, ASDA decided to open an exclusive non-food store where obtaining planning permission was far easier. Called as 'ASDA Living' - the new format encompassed, out of town stores which boasted of a mezzanine floor displaying George clothing, jewellery, and accessories and a ground floor selling homeware and electrical appliances. After a successful 18 month trial, ASDA launched the first ASDA Living store in October 2004. It was a combination of brand-extension, real estate and competitive strategies to prove that the company could evolve beyond its supermarket positioning. This was the company's first 'general merchandise' store, containing all its non-food ranges including clothing, home electronics, toys, home wares, health and beauty products. Seasonal products, such as Christmas decorations and gifts were also offered at the store. ASDA Living offered substantial discount and a vast variety of choice.

Trouble at ASDA

In August 2004, Bank of England raised interest rates from 3.75% in November 2003 to 4.75% in August 2004. The adverse impact on the economy immediately showed on ASDA's bottom-line. What was strange was the fact that the impact on ASDA was worse as compared to rival Tesco. As shoppers had reigned in spending in response to higher interest rates and the stalled housing market.

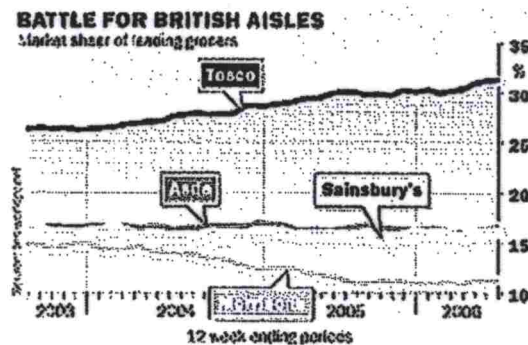
Industry observers remarked that ASDA's stores were older; more crowded with smaller car parks and it's out of town locations worked to its disadvantage in a depressed economic condition (Most of 289 stores were located in out of town areas). Rivals Tesco and Sainsbury, who had a wider range of stores – centrally located smaller convenience stores in addition to out of town super markets were less affected (the convenience store format had been very successful). Industry observers opined that that shopper liked excitement and lots of deals in the stores, and ASDA's standard 'every day low pricing' strategy made for a boring shopping experience. In the long run, ASDA's growth prospect had been hampered by the policy of EDLP.

In 2005, there was no significant increase in the sales and ASDA's market share fell drastically while its profits started decreasing. Intense pricing competition forced ASDA to cut margins, but its already low prices made it difficult to sustain price cuts. Since ASDA had only focussed on the price aspect, it had neglected the all important value for money proposition.

²¹Radio Frequency Identification Device", referred to systems that allow a device to read information contained in a wireless device that was commonly called a tag, and provides a method to transmit and receive data from one point to another.

One of the aims of starting a price war was to buy out the smaller players. The price-rollback strategy²² had facilitated consolidation and had paved way for mergers and acquisitions of weaker retailers in the British retail industry. But as ASDA's size increased, the Competition Commission²³ laid down stringent regulations²⁴ and prevented ASDA from buying underperforming rivals and also from opening new stores. The planning restrictions and competition rules disabled ASDA's spread to the rest of the country. Some analysts believed that ASDA was slow to react to British planning laws while Tesco had been quick to capitalise on them by using different formats - from large superstores to small convenience stores. Rivals like Tesco and J.Sainsbury had successfully lowered and sustained their prices to improve their competitive edge. Tesco had developed a very successful online retail sales model, which accounted for 1 % of its total sales.

Exhibit I
British leading retailers market share.



Source: *business.timesonline.co.uk*

To cut costs and boost its flagging profits, ASDA was forced to reduce the strength of its workforce. Thus, in July 2005, it laid off 1400 managers. ASDA even went for a top management shuffling in July 2005 which analysts²⁵ interpreted as a reaction to lower growth results. Meanwhile, rival Tesco explored its business through extensive customer research. It used the information collected from the customers and responded to their needs. Rewards coupons, data derived from previous purchases--information etc. helped Tesco designate customers as Mainstream, Finer Foods, Healthy or Price Sensitive. On the other hand, ASDA concentrated only on low prices and not on customer service. It also gave less importance to promotional activities. In June 2006, a news item in 'The Independent'²⁶ reported that ASDA was putting food hygiene at risk²⁷ which generated a lot of negative publicity and adversely impacted sales. Some employees at ASDA alleged that it allowed frozen products to sit in the open air for up to two hours²⁸.

TNS Superb, a research firm, pointed out that ASDA's market share decreased to 16.5% in the first quarter of 2005 from 16.6% in the first quarter of 2004 and J.Sainsbury was expected to

²² Price Roll back strategy was one of those price reduction strategies under which prices of several products were slashed. Rollback was a permanent reduction in price unlike a discount which was seasonal and temporary.

²³ The Competition Commission was an independent body responsible for investigating mergers, market shares and conditions and the regulation of United Kingdom companies. It was a non-departmental public body (NDPB) under the Department of Trade and Industry.

²⁴ According to the planning restrictions and competition rules the company could not get planning permission for new stores or buy underperforming rivals.

²⁵ http://www.solarnavigator.net/solar_coia/super_markets_stores/asda_supermarket_chain.htm.

²⁶ The Independent is a British compact newspaper published by Tony O'Reilly's Independent News & Media.

²⁷ <http://web.ebscohost.com/ehost/detail?vid=13&hid=113&sid=9708b9eb-c744-47eb-a681-d6924af8a638%40sessionmgr102>.

²⁸ *ibid*