BS6100

Strategic Management: Group Assignment

UK Convenience Grocery Retailing

Year: 2013/14

Word Count: 3346

Participated Students' Name and Number

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Executive Summary

The purpose of this assignment is to answer the important question; why national retailers are returning back to town centres and joining hands with local convenience stores in UK. This report has been reproduced by an autonomous group of working students in the university.

Analysis for this report include the evaluation of influence of macro-factors on UK retail convenience sectorthrough PEST Analysis and determining competitive forcesacting onUK retail convenience sectorthrough Porter's Five Forces analysis.

The major findings through the two analyses help to answer the main question in the context. The analyses of macro-factors showed that the Government regulations and Political Forces of UK are re-fuelling the development of local convenient stores after the Competition Commission identified the monopolistic and unfair anti-competitive nature of out-of-town large supermarkets. Moreover, environmental regulations and land tightening act also restricted development of large supermarkets due to which now the supermarkets are consolidating with local convenience stores in town centres. Economically, the financial crunch has a positive effect on retail convenience sector development.

Porter's Five Forces Analysis showed that though convenience sector is slowly gaining popularity and increasing their market share, but still they have weak buyer power, weak supplier power, and weak threats of new entrants but heavy competition from rival competitors and heavy threat of substitutes. In this scenario, the shape of the industry looks slanted but still promising as large supermarket chains have joined hands as multiples which will strengthen their market position.

It is clear from this report that the trend of large out-of-town supermarkets which started in 1990's and flourished thereafter is slowly declining and now retailers are refocusing back to local convenience stores in town centres due to Government rules and political strategies. This will obviously encourage growth and development of UK retail convenience sector which was experiencing a downward trend after the flourish of large supermarkets.

1. Introduction:

During 1990s the small local convenience outlets were replaced by large out of town supermarkets in UK. But recently, the demand for convenience retailing has upsurged, as more retailers are refocusing back into local stores and joining hands with them. This is due to more incomes with increased significance on busy lifestyles (Euromonitor, 2013). Convenience stores are those, which stocks up only necessary items and are small in size (3,000 sq.ft. ground spaces) compared to large super stores and are open 24 hours. They include 'co-operatives, multiples, symbol groups, non-affiliated independents and forecourts' (IGD, 2009) (Fig.1).

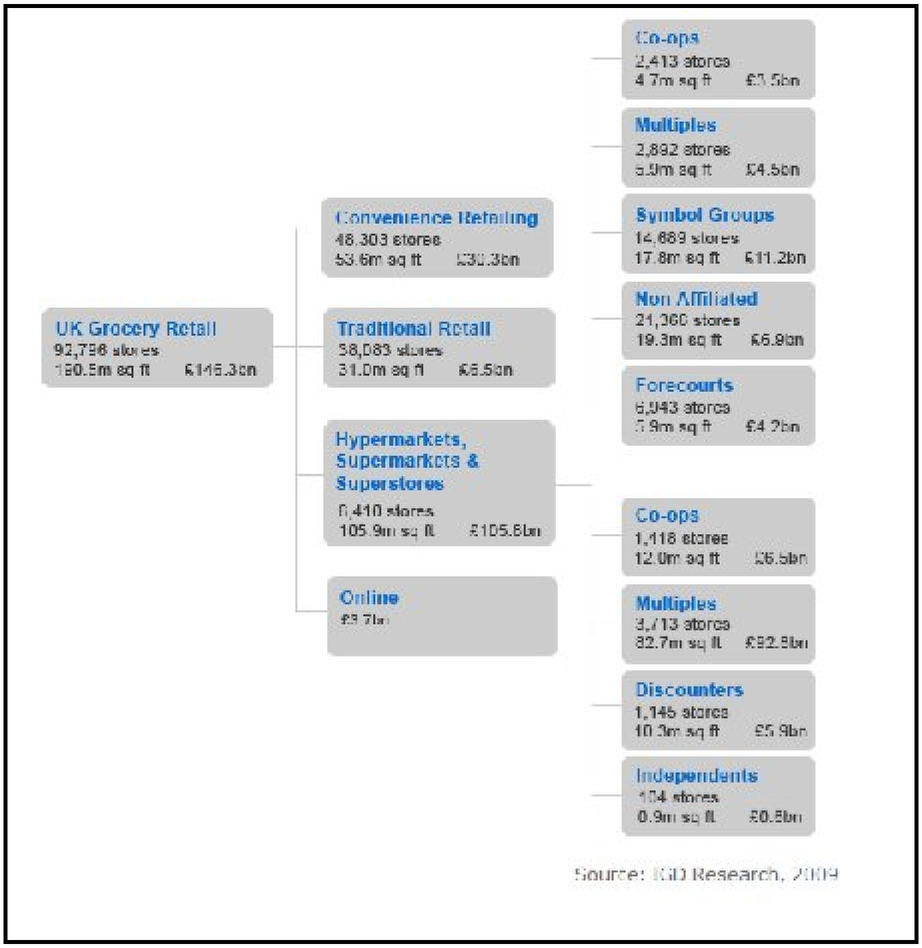

Figure 1: Arrangement of UK Convenience Retail Sector in the UK. Source: IGD (2009)

Some symbol groups and large supermarkets are now investing in consolidating with convenience stores (For example, Tesco contains 1,200 small convenience stores in its assortment). In this initiative,others likeMorrison, Sainsbury and Asda, group have also joined (Euromonitor, 2013).

The convenience bang has made the survival strategies of big giants successful against the market competition. These corporations are involved in such actionsbecause their limitations are far superior in the convenience group, but rivalry is strained and is ruled by loss-leader theory like discount propositions(*ONS*, 2010).

In spite of a continuous growth, the number of large and independent supermarket stores out of town centres has declined since 2008 (*The*

Competition Commission, UK, 2008). The survey of the Competition Commission showed that national retailers are now recentralizing back to town centres and local areas with small convenience stores which increased the town centre developments.

Due to its consolidating nature,the multiple combining factors in UK retail convenience sector have started to strongly act against the large supermarkets. Hence according to IGD reports (2010), the percentages of convenience stores are increasing (*IGD European Grocery Retailing,* 2010).

There are number of factors which are forcing retailers to concentrate back on convenience stores in town centres. While the portion of sales has glided in favour of out-of-centre retailers and e-retail (Fig.2, 2007), the 'town centre convenience stores' has slowlyenhancing its portion of over the precedingperiod, especiallybecause ofregulation strategies by UK Government to prevent these sector from the monopoly of large retailers (Fig.3, 2007) (Keyne, 2008). .

Thesubsequent paragraph investigates the influence of macro factors on UK retailing convenience sector by PEST analysis and the competitive forces which brought a change in structure of UK grocery retail industry.

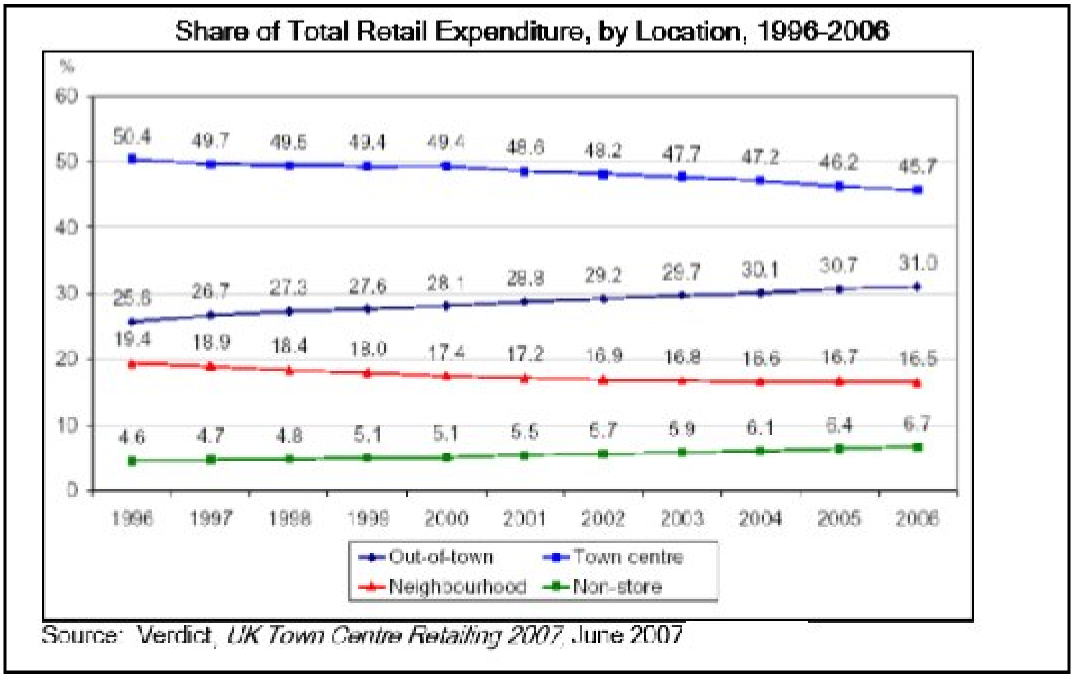

Figure 2 shows how the Town Centre has experienced the growth of convenience stores from the year 1996 to 2007. Source: Verdict, UK Town Centre Retailing (2007), June.

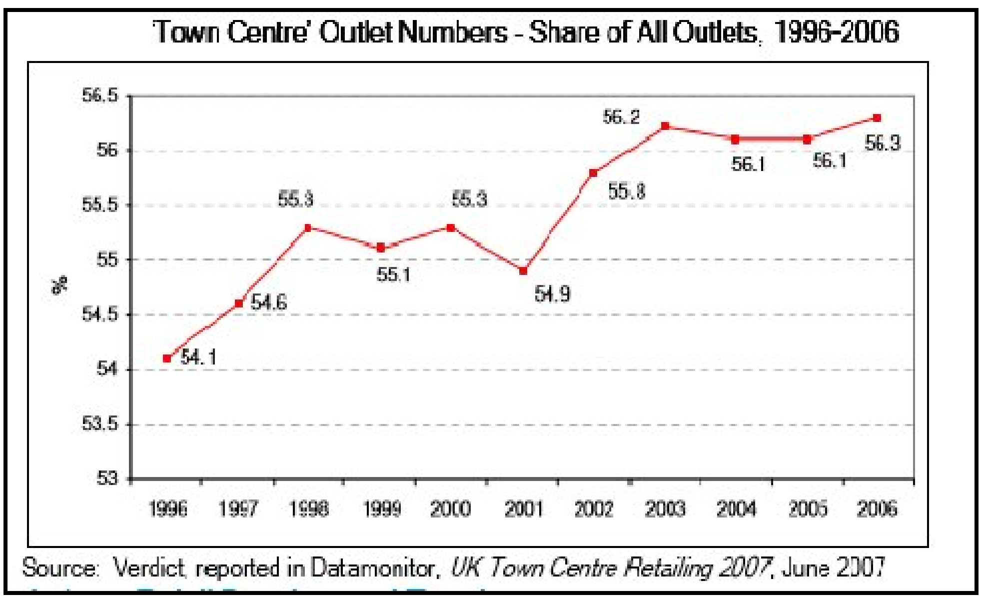

Figure 3 shows how Town Centre Retaining has increased an overall growth from 1996 to 2007 which proves that national retailers are refocusing in town centres. Source: Verdict, UK Town Centre Retailing (2007), June.

2. Macro-Influences on UK Convenience Retailing Sector:

TheUK retail convenience segment is one of the most burgeoning sectorsat present. Currently, thissegment is gaining attraction. Still development is still yet to take place as most of the opportunities remain untapped (Mercer, 2013).

In UK, retail sector constituted a significant segment of the economy, whose worth is 169.7 billion in 2013 and among this convenience stores make up for 35.6 billion Euros in 2013 (IGD, UK, 2012) (Fig.4).

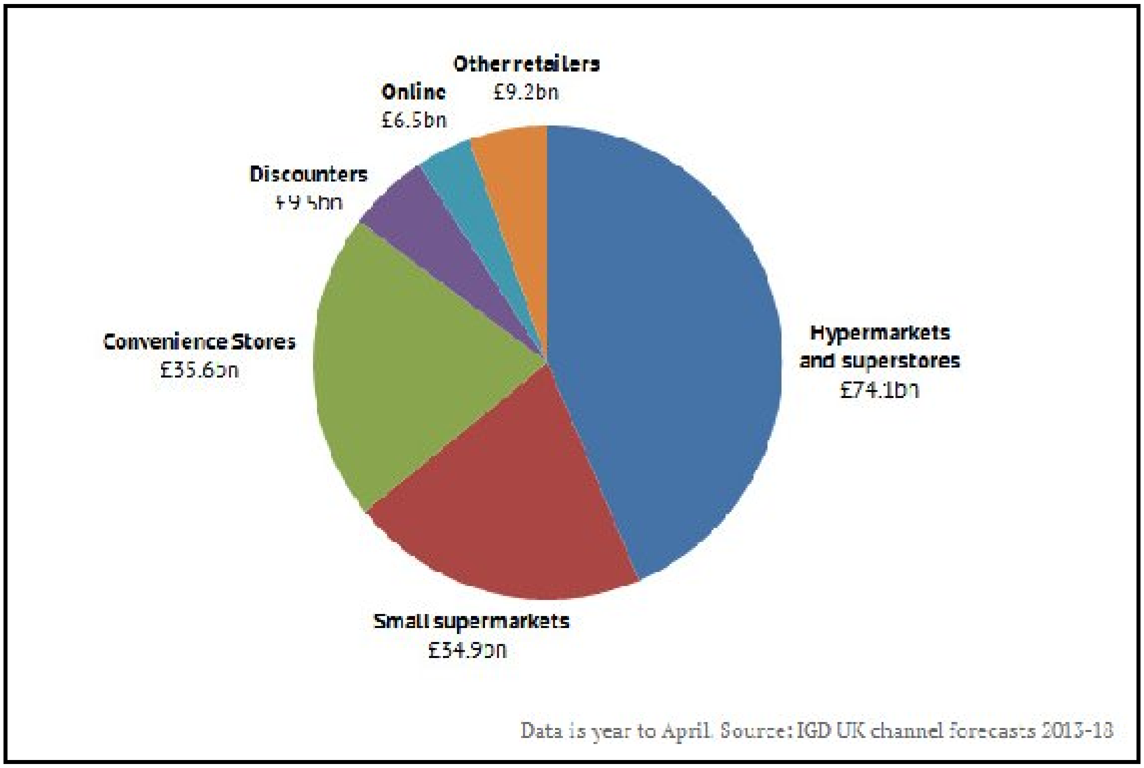

Figure 4: Contribution of Convenience Store Segment in UK in 2013. Source: IGD UK Channel Forecasts, 2013-18.

Every business is influenced by macro and micro factors. The macro factors are those which are remote to a business having greater impact, but over which the industry or business has no regulation (Guy, 2010). There are four predominant macro factors which political, economic, social and technological (PEST) which influence an industry. To analyse the macro factors influencing UK convenience retailing sector, a PEST (Political, Economic, Social and Technological) analysis is given below.

2.1. Political Factors:

Political situation in UK is of stable nature but problems of price rise, rival competition, and joblessnesshave different impact in various sectors. The impact of traditional politicians on native planning events for convenience sectoraffects the total number of such stores all over UK, leading to variation in the number of grants for these stores across indigenous authorities.

InBudget 2012, President Osborne declared a decrease in establishment tax to 24% with additionaldrops of 1% a year until April 2014 resulting in 22%. These had positive effects on convenience sectors (HM Treasury, 2012). In the same year, it is also declared that impendingrises in the nationwidelowestsalary will be below price rises. This has decreased the charge of retaining lower-level workforces such as helping assistants and has been beneficial for convenience sectors. (HM Treasury, 2012).

Legal: Legally for employment regulations, the UK Government inspires retailers to offer a plethora ofemployments ranging from flexible, lower-waged and locally-establishedworks (Burt et al. 2010). As convenience stores operate for longer working hours, employment optionsin local stores increasedin the sector. To supportstudents, senior citizens, and local population, Government made provisions for part time employment in local convenience stores.

The convenience retail establishments mustfollow the health and safety rules in their stores and practice Fair Trade Mark (*Shropshire Council*, 2010). These practices arefixed by the ‘Health and Safety at Work Rule’ established in 1974 along with ‘Workplace rules’ of 1992.

In a recent survey by the Competition Commission (2013), they showed that supermarkets are practicing monopoly and blamed them for being exploitative. In April 2012 they charged nine superstore retailers for unfair anticompetitive tobacco prices. In order to increase fair competition, they diverted the prevailingsupermarkets regulation to aninnovative'Grocery Source Code strategy' (*Institute for Grocery Distribution*, 2010). This code fortified the compression on supermarket retailers to follow severalconstraints and defend the charges of surveillanceassociation.

Environmental Factors:

Political regulationsin UK also include the development and monitoring of environmental protection laws and codes. The grocery retail sector must follow the laws pertaining to environmental safetyin order to develop to their actions in new places and also to join hands with convenience retail stores. In the previous years, the grocery retailers ventured in the out-of-town regions. The main reasons were fewer prices of the land properties out of town centres and availability of large free space where large supermarkets or hypermarkets can be erected, thus bringing more profits (PCL, 2012).

But, with several advantages, there are some disadvantages like more pollution due to customer's large number of vehicles and non-availability of space for industrialization. These factors made Governments change the rules and tightening the act of land. They wanted more town centres retail stores. In this response, the supermarket chains increased their number of medium and small sized stores reverting back to town centre locations thus joining hands with convenience retailers (Tesco Resources, 2005). But the convenience stores must followthe environmental laws and codesrelated to pollution, aesthetics, and waste management and reprocessing. For example retail sectors' management of plastic bags.

2.2.Economic Factors:

One of the most important macro factors influencing convenience retail sector is the economic factor which includes customer expenditure and earnings, price increases, tax system, interest charges, joblessness, financial problems, and the present economic crunches.

The recent economic downturn has introduced significant changes in the retail sectors all over, including the convenience retail sectors of UK. But, the influence of financial crunch did not decrease customer's demand. According to *Mintel Report* (2009), customers spent more on retail food items as they have curbed spending on food outside.This trend increased at a rate of 5% approximately, especially in food and grocery items (*National Statistics, 2009*; *Mintel report*, 2009).

The chief impact of this behaviour is simply because of recession, due to which customers are curbing their expenditures for food outside and concentrating on cheaper homemade foods. This has increased the need of grocery and convenient items. Moreover, the green practices have encouraged the demand of healthy and fresh organic foods and use of only necessary commodities to save price. (*Mintel report*, 2009).This has againincreased the sales of convenience-own branded products and discount stores which shows that customers.

The economic condition and the rise of CPI (Consumer Prices Index) to 3.5% in March 2013 fuelled price rise of retail commodities and grocery items including food and staples (*National Statistics,* 2009). This has affected the growth of retail superstores and decreased their productivity, but on the other hand the small convenient stores are gaining popularity and showing increased growth because customers bought only those items which are needed.

2.3. Social Factors:

The next factor influencing retail convenience sector is social factors whichinclude demographics, standard of living, and residential developments.

It is evident that with time the UK's populace is getting aged. With time, this ratewill increase with more residents getting pensioned off (*Mintel Oxygen,* 2009). This trend has several consequences to the convenienceretail sector. First of all, aged populationhave a habit ofless consumption than younger population. This is mainly because of their decreasingincomes (*Mintel Oxygen*, 2009).

Due to the out of town location of large superstores, distance shopping becomes a factor for this aged populace. They prefer town-centred local convenient stores who deliver groceries. This will propel growth in convenience sector.

The increasing number of working women has lessened the leisure time to visitlarge supermarkets. Now the demand is forlocal convenient stores where working women fetch the necessary groceries or ready to serve meals for their daily consumption (*International Labour Organisation*, 2008).

2.4. Technological Factors:

The last factor is the influence of technological aspects that are concerned with UK convenience retail sector. The recent technological progress has shaped the retailer industry in several groups consisting customers, ecological, price and circulation, and supply chain management (Sahota, 2010).

In the previous years, it was seen that onlylarge supermarkets usedtechnology and offered unique services of online shopping. But due to growing popularity of convenience sector, they are also advancing trend of online distribution channels, where they display catalogue of products, and store cameras, so that customers do not have to wait in long ques. They presented their local customers with drop and pick facilities within various regions of town centres (Sahota, 2010).Through the innovative measures, convenience stores reduced operational costs. The more the delivery option, the lesser the customers travelled to out of town centres superstores and give rise to environmental pollutions. Hence this strategy has a social impact also (Sahota, 2010).

The authenticity of the products purchased from convenient stores isguaranteed by the 'Universal Product Bar Code' which is recognized by technical gadgets and customers are rest assured about the quality. Lesser inventory is managed by technological processes which save the convenience retail chains frominevitable losses (Food Marketing Institute, 2010).

Thus, the above PEST analysis has shown the influence of four macro factors on UK retail convenient sectors and why the off-town large superstores are gradually changing their course and refocusing back in town centres to join hands with small convenience stores in the UK.

In order to gain more knowledge about the UK retail convenience sector, it is essential to identify the necessary industry factors and the structure of this industry with the type of competition which it faces from its rival competitors. In order to fulfil this objective, Porter's five forces analysis is conducted below.

3. Porter's Five Forces Analysis of UK Convenience Retail Sector:

Introduction:

Paul (2011) identified that Porter's Five Forces Analysis is that method which helps to analyse the competition of an organization/sector, from the perception of five diverse forces, based on arrangement-behaviour-performance model (Porter, 1980). These five competitive forces are; threat of auxiliary products, negotiating power of purchasers, and negotiating power of vendors, competitive opposition and threat of freshcompetitors. If the natures of these forces are comprehended, then the organization/sector will be able to formulate adept policies to sustain in the competitive market. The mutual power of these competitive forces decides the eventual profit potential in the business (Porter, 1980).

Industry Growth: IGD (2012) evaluates that there are approximately 48,000 convenience stores in UK which consists of co-ops, convenience multiples, symbol groups, non-allied independents. It also reports that this sector has shown an increase in growth rate of 5% in 2011 and anticipates a multiple growth of about 3% in the incoming 5 years. 20% of all grocery sales in UK are coming through convenience stores which show that convenience retail market in UK is slowly and gradually increasing its market presence (Mintel PCL, 2012).

Number and Size of Competitors:

Though the UK retail convenience sector is slowly increasing their market share, but the major position in the competitive market are still occupied by the large supermarket chains like Tesco, which has 25.7% market share, Sainsbury, Morison and Asda, located out of town centres. The remaining market share is occupied by small players like Lidl and Iceland. This indicates that retail convenience sector faces a tough competition from their rival competitors (Mintel PCL, 2012).

3.1. Threat of New Entrants: Weak Competitive Force

The threat posed by new entrants to convenience sectors depend is quite low. Any new entrants will require lot of investment for its establishment in the town centre or out of town centre. Moreover, it will need a considerable time to make its presence in comparison to the already established market stores (Renton, 2011). The land-tightening norms by

UK government have restricted the retail business in some ways. Hence, before investing, any new entrants will think twice. Secondly, theamendment of the Environment Department's'PPG6' which has restricted storage of food and groceries has put several restrictions to retail business. The huge investment which the new entrants have to make for its promotion through USP and brand image is also a matter of doubt. Moreover, new entrants may not be able to compete with rival convenience stores in their pricing policies (Lamb et al. 2010).

3.2. Bargaining Power of Suppliers: Weak Competitive Force

The UK convenience retail sectors have low bargaining power of suppliers compared to their large supermarket chain competitors where these chains exercise huge powers over suppliers because of the massive volumes which they buy from these suppliers (Renton, 2011). The large concentration of supermarket chains in UK retail industry has made their bargaining power stronger than the convenience sector because of large transferring costs and little alternatives. The supermarkets are enjoying large profit percentages by buying supplies at a decreased price from the suppliers and selling these retail products with high prices to the customers. Even when they give reduced price offers they are at profits since the profit margin is so large. The convenience stores on the other hand do not have such facilities as they stock only those items which are necessary and they commodities are charged little higher from other chains. But in convenience stores, the profit margins are less, since these sectors have very little bargaining power over suppliers (*DEFRA*, 2006).

The high bargaining power of large supermarkets has compelled them to follow some anti-competitive practices which spoiled their relations with suppliers. They exploited suppliers with unreasonable terms, and special promotions, which the suppliers are compelled to follow (DEFRA, 2006).

3.3. Bargaining Power of Buyers: Weak Competitive Force

The UK convenience sector has a low bargaining power of buyers. The buyer power of large supermarket chains has risen since 2000 and it is more than their competitive opponentretailers and convenience buying classes. This could harm customer's choice by damaging the practicality of substitute business models including wholesale distribution of convenience store sector (Office for Fair Trading, 2006). According to the estimates of the Competition Commission (2000), a purchasingstake of approximately 8% issufficient to change both the supplier and retail market (Schoenborn, 2011; *ResPublica*). The supermarket and their multiples have all purchasing share more than 8% which detrimentally affect the effectiveness of some of their suppliers. The consequence is known as 'Waterbed Effect'. The Competition Commission showed that large retailers are paying almost 13% less than convenient sector opponents and in this huge disparity, small convenience stores and independent players are not expected to propagate(Schoenborn, 2011; *ResPublica*).

3.4. Threat of Substitute Products: Strong Competitive Force

The Convenience sector faces a high threat of substitute products from other multiple convenience stores and large supermarkets where customers can easily go and switch into other product options without paying additional prices. Moreover, since the convenience stores only stock necessary items, therefore, customers get other variables in large supermarkets, in which switching costs are minimal. They have an inclination to go for large supermarkets to pile for bulk groceries for monthly necessities (Lamb et al. 2011).

3.5. Existing rivalry between competitors: Strong Competitive Force

The existing rivalries between different types of convenience stores arevery high. Consolidated convenience stores face tough competition from each other and the main competition come from multiple convenience stores (Stonehouse et al. 2004).

Thus Analysis of Porter's Five Forces has shown the various factors shaping the structure of UK retail convenience sector and identified their competitive position. The structure of UK retail convenience sector is quite small in comparison to large supermarkets and constitutes approximately 30% of total sales. But it is showing nominal increase in growth rate which is promising as there are some vital structural changes occurring in this sector (IGD, 2013). The convenience stores are improving their metrics, and increasing their range of items, thus progressing technologically.

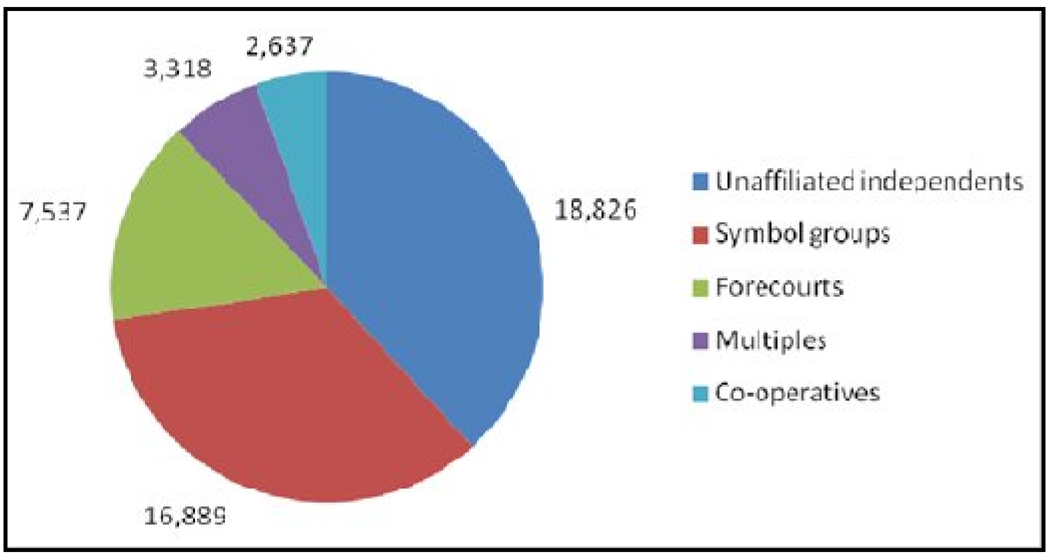

Figure 5: Market Structure of UK Retail Convenience Sector. Source: IGD (2013)

4. Conclusion:

The present analysis answers the question asked in the beginning through PEST analysis and Porter's five forces analysis.The analysesmade it clear that Political and Government strategies,Economic regulations have regulated development of large out of town supermarkets due to their monopoly, anticorruption and anti-environmental effects. UK Government are also promoting local convenience stores, hence, national retailers are refocusing back in town-centred convenience shops in UK. For this reason, some large supermarket chains like Tesco, Morrison, and Asda have joined hands with local stores. The Porter's analysis have shown that large supermarkets are still the market leaders but convenience sector, in spite of having a nominalincrease in growth rate and less market share, seems to have promising future.

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