



Retailers draw the battle lines in the grocery price war

The relentless growth of discounters Aldi and Lidl has prompted some of the biggest grocery price offensives in recent years. But as well as slashing prices, grocers are taking other action to retain and win custom. Retail Week looks at the strategies being adopted



“NOW THE FOCUS IS ON PRICE AGAIN AND WE’RE SEEING COMPETITORS TAKE STEPS BACK ON IN-STORE STANDARDS”

Justin King, Sainsbury’s

SAINSBURY’S

Sainsbury’s chief executive Justin King insisted last week that the gap on quality and business values that differentiates the grocer from competitors will only widen as rivals continue to focus on price investment.

King, who departs in July when commercial director Mike Coupe takes over, said Sainsbury’s values are “more, not less relevant than they’ve ever been”. He said that while the grocer will always be competitive on price, its distinguishing characteristics, such as provenance, are still important to customers. “To think value is purely about price completely misreads where the customer is,” he maintained.

Sainsbury’s long-term strategy is about points of difference. King said that when the economic crisis started in 2008 “everyone said there would be a headlong race to the bottom and price was the only thing that mattered”.

But he maintained that his rivals had stopped investing in stores and quality, that “the gap widened between them and Sainsbury’s” and “we’re seeing this happen again now”. He added: “Now the focus is on price again and we’re seeing some of our competitors take major steps back on in-store standards and stores, so the gap will only widen again.”

Sainsbury’s has been investing in own-brand. It has relaunched its By Sainsbury’s range and has developed

its online proposition. It also believes in the power of its price comparison initiative, Brand Match, to reassure customers that it is not more expensive than the competition.

Coupe has said that when he takes over there will be continuity of strategy – so it is unlikely Sainsbury’s will wade into any price war.

THE CO-OP

After a calamitous few months for the Co-operative Group, which has been dogged by headlines about in-fighting and alleged drug abuse, retail chief Steve Murrells is determined to awake the sleeping giant he is convinced the retailer can be.

Price was already on his agenda before the advent of the present grocery price wars. The retailer’s customer research showed shoppers thought it was out of kilter and, following 1,000 price cuts last year, the Co-op will lower food prices by £100m this year. The initiative was kick-started in earnest last month under the ‘Fair and square prices’ banner.

Murrells says his price cuts are “real” and not part of any phoney war, but is adamant that the Co-op cannot re-establish its appeal on price alone. He told *Retail Week* last week that he was not engaging in a “race to the bottom on price”.

The Co-op is also devoting attention to improving its product range. It has relaunched its Loved By Us own-brand



and made in-store improvements to enhance its convenience appeal, such as highlighting lines by demand-type such as ‘food for tonight’.

A new store model has delivered sales growth ahead of the bulk of the retailer’s estate and Murrells hopes to double sales per square foot at the grocer to match the £25 typically achieved by c-store rivals.

Because the Co-operative Group has been embroiled in scandal and boardroom rows it remains uncertain



Morrisons has slashed prices of 1,200 products (left). Tesco is also cutting prices and is investing in leisure and multichannel as well with its Hudl device (above)

to what extent that might hinder its retail ambitions.

MORRISONS

Morrisons has been the hardest-hit of the grocers as Aldi and Lidl have grown. Last week it posted a first-quarter like-for-like sales slump of 7.1%.

Boss Dalton Philips is confident that the aggressive slashing of prices of more than 1,200 products unveiled last month and a restructuring of the

“OUR COMPETITIVE PRICING WILL BE A COMPELLING PROPOSITION”
 Dalton Philips, Morrisons

business, including selling off its underperforming Kiddicare brand, will help get the grocer back on track.

He said: “Our competitive pricing, the quality of the fresh food we make ourselves and the level of service will be a compelling proposition.”

Alongside price slashing, the retailer is developing a multichannel strategy, a convenience store business and a rewards programme to drive customer loyalty and abate the loss of share to the German discounters. But is this enough to turn around the struggling grocer?

Conlumino consultant George Scott questions how quickly Morrisons can deliver on its promises. “The strategy is relevant but the execution is still quite slow,” he says. “The convenience fascias have been very stop-start and Morrisons is playing catch-up on pricing.”

He observes that the grocer has been notably strong on product because of its vertical integration and as a result its own label is very reliable, but it needs to deliver that in a more compelling way if it wants to recoup share loss.

OCADO

The online grocer has not made any radical changes since the price war kicked off but it is continuing its price match with Tesco.

Ocado offers customers a voucher for the difference if Tesco is cheaper – so a serious price war could have grave consequences for the etailer.

Broker Shore Capital last month warned that Ocado’s gross margin could come under pressure unless it removes its price-matching pledge.

“Ocado does not match Tesco’s promotions and so a reallocation of resource by Tesco to price is troublesome to Ocado in our view,” Shore said.

The etailer has ramped up the competitiveness of its service and offers free deliveries on Wednesdays. This should widen its appeal to more price-conscious customers.

TESCO

Tesco’s famous strapline ‘Every Little Helps’ was once its unique selling point. But with the rising popularity of the discounters over recent years, price hasn’t been enough to keep the grocer the nation’s favourite.

Tesco is trying to enact a turnaround of its core UK business – a plan it calls ‘Building a Better Tesco’ – in the face of intense competition. It encompasses various elements across stores, products, value and service.

The creation of a leisure eating offer has been key to revamping stores. Tesco operates coffee shop chain Harris + Hoole and last year acquired restaurant Giraffe. It has been putting



Waitrose has differentiated by focusing on quality, for example, it has installed a tasting area in its Swindon branch

branches of both in some stores.

Since March Tesco has been piloting a pizza delivery service from its Extra store in Streatham, south London, and a hamburger restaurant in Osterley, west London.

It is also understood to be developing a takeaway food concept to take on Pret A Manger and Eat in the lunch-time market.

However, Tesco is still keen to ensure it has a low-price reputation. This month it revealed it has created 'pound zones' in some of its supermarkets as it aims to give the pound shops a run for their pennies. And in February it announced £200m of price cuts.

Tesco has also placed multichannel at the heart of its strategy. Its ambition is to be a global multichannel leader and it is ploughing money into online development. It will launch a new version of its own-brand Hudl tablet device later this year and plans to develop a smartphone.

But Shore Capital director and head of research Clive Black says the cuts it has announced do not go far enough: "It is now being dragged kicking into cutting prices but it's not because of its own strategy, it hasn't led this and customers don't trust promotions. Until Tesco sorts this out,

all the other initiatives really pale into insignificance."

ASDA

Asda pledged to invest £1bn in lowering prices late last year, as part of a five-year strategy to boost market share and help strengthen its online business.

Chief executive Andy Clarke said the grocer aims to "redefine value", playing a long game with a focus on lower prices, regardless of the short-term impact on top-line growth. He remains confident that by measures including the rebasing of prices Asda will be able to increase market share from 2015.

Alongside price cuts, Asda has committed £250m to enhancing product quality, and plans to boost its own-label offer with a more compelling premium Extra Special range.

But Scott questions whether a focus on premium products is the right strategy. He has concerns it will not engage traditional Asda shoppers and it will not differentiate the grocer enough to attract new customers.

But will a focus on sales volumes and 'Everyday low prices', rather than sales values, play out to the grocer's advantage? Scott says Asda needs to look beyond price and at the overall shopping experience.

"WE'RE GOING TO BE EVERYTHING THE DISCOUNTERS AREN'T"

Mark Price, Waitrose

Online is a natural area of growth for Asda. Scott adds that it is the most value-focused of the big four and because Aldi and Lidl have fewer locations in the UK, online could be a key opportunity.

WAITROSE

When Waitrose managing director Mark Price was at business school, he asked his professor whether there was one strategy that seemed to deliver results consistently.

Do the opposite to everyone else was the answer, and it's an approach that Price maintains today. As he showed off Waitrose's new Swindon store a fortnight ago, which is representative of all the initiatives under way, he declared: "We are going to be everything the discounters aren't."

Waitrose of course ensures it competes on price on key lines and has its own value brand, Essential. But it is focusing on differentiated services and its reputation for high-quality food to distinguish itself.

Price described the Swindon branch as representative of "a strategic response to what's happening in food retail". That response includes increased eat-in options – the store has 130 covers – ranging from delis to juice bars, and the piloting of many initiatives that make use of digital technology, such as iBeacons to personalise shoppers' visits.

Customer take-up of the myWaitrose loyalty scheme has proved a powerful weapon in Waitrose's armoury – 70% of sales now go through it.

Price's 'don't follow the crowd' philosophy is delivering results. The most recent Kantar data showed it achieved a record market share of 5.1%.

ICELAND

Iceland has also distanced itself from the grocery price wars and has said it has no intention of getting involved.

Iceland believes its frozen food specialism differentiates it enough from the big grocers for it not to have to engage in the price-cutting that is rife in the market.

Iceland, which is known for its keen prices, will have benefited from consumers gravitating towards value. Scott says it has "piggy-backed" Aldi and Lidl's success.

"Austerity has been a blessing in disguise for it. With widespread trading-downward it has naturally benefited. It has been clever about what it does – a no-frills frozen grocer," he says.