GROCERY RESTRUCTURING

As changing consumer habits take their toll, the giant grocers are streamlining store and head office teams. **Luke Tugby** reports

Big change

Sainsbury's made it a big four full-house last week when it followed Asda, Tesco and Morrisons to unveil sweeping structural changes to its in-store management structure.

The grocer is poised to axe around 800 department and deputy management jobs as it aims to realign its focus to meet changing customer demands. And observers have forecast that the restructuring across the grocery market is only just beginning.

Asda was the first of the big grocers to take the plunge. *Retail Week* revealed last July that the supermarket giant would "radically" restructure, resulting in 1,360 redundancies and 5,670 new in-store roles. At the time, then-chief operating officer Mark Ibbotson said there would be more of the same across the industry.

"We are about 18 months ahead of our competitors – they're all going to have to do this at some point," Ibbotson declared. It has taken less than a year for his prophecy to come true.

Tesco's new boss Dave Lewis wielded the axe on up to 10,000 roles across the grocer's head office and in-store operations, wiping out in-store management layers to simplify the staffing structure. He also unveiled plans to close its Cheshunt base.

Earlier this month, another new man in charge, David Potts, followed suit at Morrisons. He culled 720 head office roles and pledged to invest in 5,000 new customer-facing staff across the estate.

It has been a tumultuous period, not least for the thousands of employees involved in consultation processes. But the stark truth is many observers believe such changes should have been implemented years ago.

Kantar Retail insights director Bryan Roberts says: "Sad though it is for the individuals affected, it's probably long overdue. Sainsbury's is the last of the big four to make such a move.

"Asda was first out of the blocks with its restructuring and it was very clear about why it was doing it, which was an acknowledgement that the way shoppers want to shop for

Asda was the first of the big four to restructure roles

groceries has already changed and will continue to change.

"Stores have become less productive over time as more volume goes online, into discounters or into convenience, so it's an acknowledgement really that you can get away with a leaner structure."

Managing director of consultant firm Boxwood Insights Paul Martin says the grocers contrast with John Lewis, a retailer that "took the change and took the pain very early" when it restructured its business in 2007/2008 to adapt to the evolving omnichannel market, while the big four "layered on complexity".

But Martin says the big grocers were perhaps delayed because they "had to do a lot of learning and a lot of investing to actually understand the customer" while also ploughing cash into establishing and developing click-and-collect and ecommerce services.

He suggests the grocers have now taken advantage of other "bad news" to make structural changes. "If you look back three or four years ago, Morrisons was one of the stars, delivering quite significant quarter-on-quarter uplifts. Sainsbury's had 30-odd straight quarters of growth, so it was difficult for them to change when the good news was there," Martin says.

"Now that the bad news has started to come in, people do expect certain moves."

Reasons for change

Martin pinpoints three key reasons for the changes across grocery: the need to react to evolving customer demands, particularly around multichannel; improving levels of customer service driven by fierce competition; and the cost pressures on the big four that have resulted from the discounters' unprecedented growth. Aldi and Lidl now have a combined share of 10% of the UK grocery market and the big four have strained under heavy costs as they invest in price to stave off the attack.

Martin says the move to omnichannel has had "significant implications" for organisational structures, and duplicate roles across online and offline operations that created a "parallel environment" are now being consolidated.

"What is happening is not a surprise," he says. "They've all been impacted by the evolution of the consumer and they've all been heavily impacted by the rise of the discounters.

"Their initial reaction was to invest in price, which is automatically a margin destruction game. When you become less profitable, unfortunately one of the variables is to restructure your organisation and cut people costs."

International trend

It is not just UK grocers that are overhauling store management structures. The world's largest retailer, Walmart, unveiled plans two weeks ago to remove a layer of management to improve customer service and give frontline staff more say over how their departments are run.

Similar initiatives by the big four will "empower store staff to take more individual decisions that don't have to go through various layers of management", Martin adds.

But will it work? Roberts suggests the big four are on the right track. "It's hard to say there are any winners in this process," he says. "A lot of it is necessary change and reflecting the fact that the way we shop is changing. The competitive pressures are a lot more intense than they used to be.

"Asda did quite a job of handling its own transformation exercise, Morrisons has done a very rigorous job as well, but the whole structure industry is changing.

"Being leaner and more nimble is clearly going to be the way forward and all of the big

"We now have thousands more colleagues on the shopfloor with more time serving customers, less time filling forms"

Dave Lewis, Tesco

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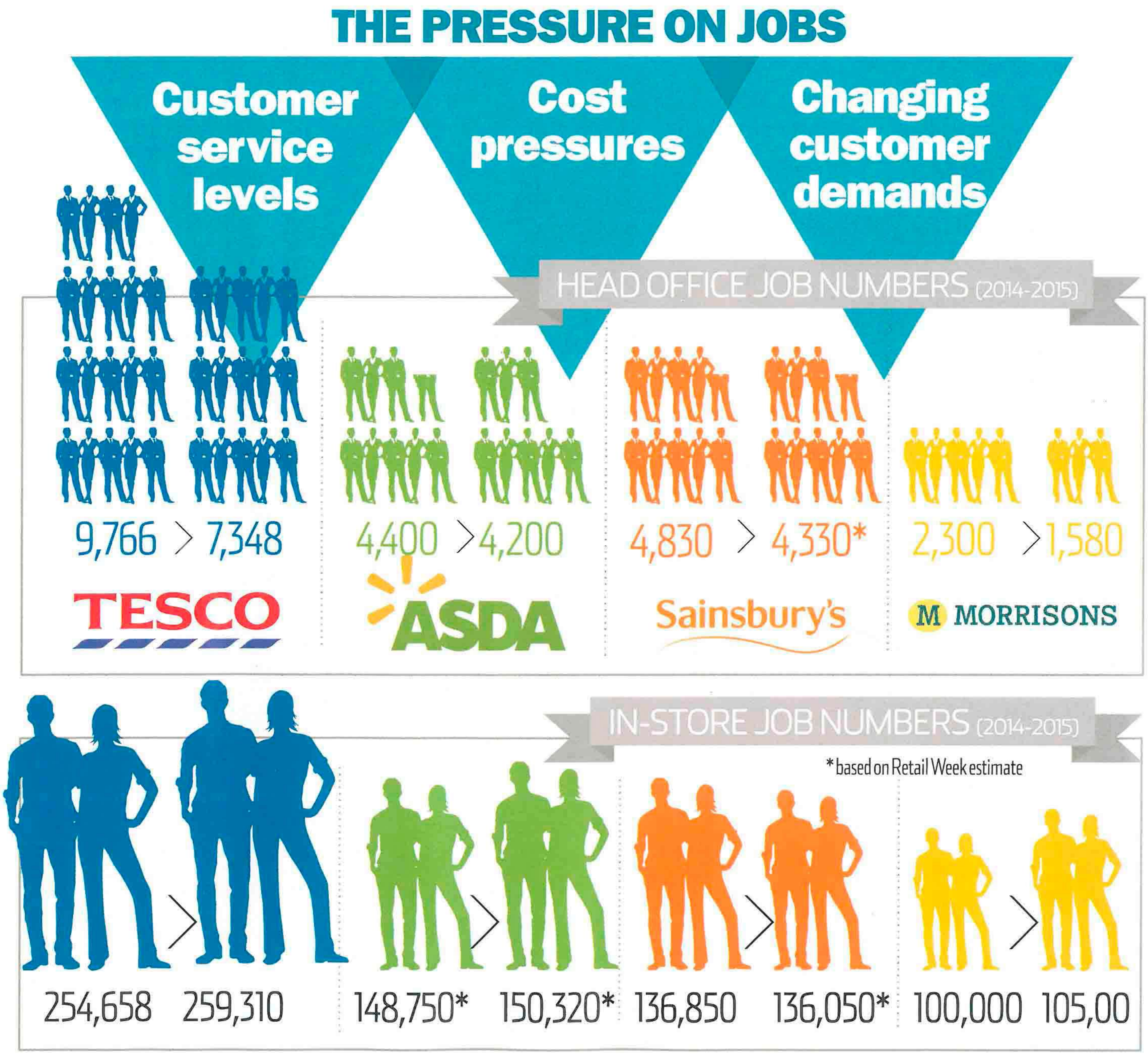
at the big four



supermarkets are facing up to that fact."

But Martin is not certain.

"If someone had the blueprint of what would and wouldn't work, they would probably be a very rich individual," he says. "Removing a layer of management might prove to be a good step but it is very likely that it won't be the silver bullet that will solve all of the issues.

"There's more to come, it will be constant," he maintains. "Because the market is so fluid, you have a model that you constantly have to change. Six years ago, we didn't know the iPad existed. If you look at the impact of that device alone on consumer-facing industries today, that has resulted in a seismic shift. Therefore you are constantly having to reevaluate your organisational structure and I don't think anyone has found the optimal model yet.

"Even if an organisation is performing okay from a financial perspective, the capabilities you need today will be different from those you need in the future. It will need constant change."

That may not be music to the ears of big four bosses or their staff, but in a relentlessly evolving market, they will have no choice but to continue to adapt to maintain their market-leading positions.