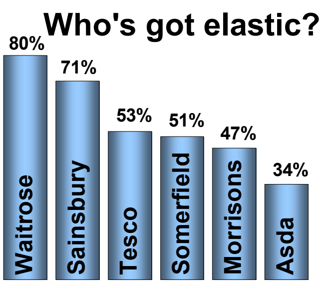
VIEWPOINT

Stretch potential: the supermarket brands

Are UK supermarket brands fit enough to stretch into new territory? Stuart Whitwell gives them a New Year health and wellbeing examination

Supermarkets have been the UK retail success phenomenon of the past decade. Facts such as 90% of us visiting them every month, £1 in every £8 spent in Britain being spent in Tesco and the top six or seven supermarkets controlling at least 70% of the total grocery market, are prevalent. But what does the future hold in store for these retail monoliths and which ones are best positioned for growth? The opportunity lays not so much in their performance to date but in the relative strengths of their brands and the retailers' ability to leverage this brand value into non-traditional core market sectors.

A number of tactics are available to the supermarkets. They have already developed sophisticated market penetration strategies to sell more of their products to their existing markets. Each of the major players, Tesco, Asda, Sainsbury's, Morrisons, Somerfield and Waitrose, have succeeded in segmenting their customers to enable the provision of targeted products offers. Morrisons, for example, has eight different segments just for food including: 'The Best' a premium range; 'Eat Smart', a healthy range; 'Bettabuy', economy products; 'Organic' and the free-range 'Free From' collection. International market development is being tentatively approached with Tesco operating stores throughout Europe and Asia, and Asda becoming part of Walmart. The next logical strategy for growth in the domestic UK market is product development – selling new products to the same market. This has already been approached with varying amounts of zeal and success with Sainsbury, for example, developing Homebase. With the grocery market already saturated this is where domestic growth will come from and where the real strength of the brands will be tested.



Intangible Business research rates relative capability to extend. 100% implies an extremely strong ability and 0% means no ability. This is based on a number of measures such as market share, available products, price, quality, financial information and measures of brand strength.

The soft and hard home furnishings market is one such example of an area just waiting to be given the same treatment as the supermarkets have given the grocery market. With such impressive footfall, existing number of stores, infrastructure (both on and offline) and complementary product and service offerings to their existing range, the likes of IKEA, Heals, Habitat and Next potentially have a lot to worry about. This is already proving the case in the fashion market.

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Asda's George range has its own dedicated stores and has taken market share from retailers like Marks & Spencer. Sainsbury's TU range is also encroaching on this market as is Tesco's Cherokee brand. Entry into the home furnishings market has less barriers than fashion and the high margins make it an extremely attractive proposition.

Brand extensions into other sectors test the brand's strength and flexibility. Interestingly, all the supermarkets have had to create sub brands under the core brand umbrella for fashion. Consumers clearly are uncomfortable wearing clothing with the Tesco or Asda label; the core brand, not being grounded in fabric and design, is not capable of carrying a fashion offer. The home furnishings market is less sensitive to brand labels and this is where the value of each of the core brands can be leveraged.

TESCO

With profits of over £2billion on turnover of £34billion in 2005, a market share double that of its nearest rival and twice as many stores as its nearest competitor, Tesco is clearly the market leader. It offers 90% of the total products and services currently available through supermarkets and has developed a comprehensive segmentation with an economy, value, premium range and everything in-between, above and around.

The brand has already been extended into complementary sectors such as telecoms, clothes, gardening, finance, petrol and even legal advice. Tesco's ability to expand further, therefore, may not be as strong as its competitors – although it may take a while for the competition to catch up.

Tesco's brand has been successfully built up around a very simple proposition that all employees, most customers and the majority of non-customers can repeat: 'Every little helps'. This modest, almost self-deprecating identity bypasses its true size. Its inclusive brand positioning, alienating no-one and catering for all, does stand it in good stead for continued expansion. Tesco has already extended into so many different sectors and its ability to continue with this success is positive, although not as strong perhaps as two other competitors.

ASDA

Asda is the second largest UK supermarket with a 10.7% market share according to TNS. Sainsbury's, however, is likely to regain its number two crown in the beginning of 2006 as its share increases to Asda's detriment. Asda has the lowest ability to extend into markets such as home furnishings of all the supermarkets, at just 34%. Asda's main barrier to entry is its price positioning and brand perceptions. Consumers looking for value home furnishings are likely to turn to Tesco's value range or supermarket brands with greater perceived quality such as Waitrose or Sainsbury's. Retailers with a low price positioning will struggle to compete in high margin product sectors where quality is regarded as more important than price.

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SAINSBURY'S

Sainsbury's is the most established of the supermarket brands. It has been a UK high street stalwart since 1869 and the brand has a strong resonance with the UK public. Sainsbury's may have suffered in recent years but if the product offers match the brand promise and meet consumer expectations, the brand has strong permission to extend into sectors such as home furnishings. Homebase was a good example of Sainsbury's brand strength and ability to do this. Unfortunately, however, Sainsbury's sold the chain in 2001 to investment company Permira for £750m amid rumours the struggling retailer needed the cash and needed to focus on its core grocery business. If Sir Peter Davis had been able to keep the chain, Sainsbury's would no doubt be in a better position to compete in today's market. The Sainsbury's brand is positioned in the upper end of the market, with its branding and advertising emphasising the quality of its products. Orange, Sainsbury's corporate colour, is a very warming and inviting shade, combining the physical stimulation of red and the mental stimulation of yellow. Sainsbury's branding enables it to charge a premium for its products and therefore its ability to extend into high margin areas, such as home furnishings, is high, at 71%. If its logistics and operations can be improved to match the consumers expectations of the brand its glory days may yet return.

MORRISONS

Morrisons has struggled to successfully integrate its acquisition of Safeway into its store portfolio. Safeway customers, disenchanted with store conversions and the replacement of premium products in favour of Morrisons products, migrated to competitors such as Sainsbury's and Waitrose. Although its distribution channel more than doubled with the acquisition, the brand's ability to attract new customers has not kept pace. The brand is still deemed slightly down market. Its harsh black and yellow colours do nothing to engage with its audience and consequently its ability for brand extension is limited at only 47%.

SOMERFIELD

Somerfield is in a similar predicament. Somerfield only stocks 19% of the total product and service categories available through the supermarkets, concentrating primarily on its core grocery and FMCG products. Although Somerfield appears to be trying to counter its downmarket positioning with its Market Fresh store initiative, it could struggle to reposition itself in the premium segment. If it is able to do so, Somerfield has a 51% ability to extend into other sectors.

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WAITROSE

Although it has the smallest market share of the major supermarkets, Waitrose has the greatest extension capability with 80%. It has one problem though – John Lewis. Given free access, the Waitrose brand is well positioned to extend beyond groceries. Currently, this is largely all it does retail – with small exceptions such as internet access and petrol. Waitrose currently only provides 19% of the total products and services available through the supermarket channel.

The Waitrose brand enables it to charge a premium for its products and its 168 stores are in premium positions with an affluent footfall passing through its stores. Its brand is therefore perfectly positioned to enter markets such as gardening and DIY and home furnishings both soft and hard. It also has the existing purchasing and logistics knowledge through colleagues at John Lewis but the potential cannibalisation issue appears to have defeated the potential benefits of exercising such a strategy. Waitrose's relationship with John Lewis is potentially stunting its growth when in fact the relationship should be embraced to harness Waitrose's product and brand offering. There is clear, dormant consumer appetite for the Waitrose brand and given permission by the partners, the brand has the highest ability to grow.

MARKS & SPENCER

Marks & Spencer is a potential major threat to the supermarkets. Its brand is positioned alongside Waitrose's, it has a strong heritage and it already competes in several. If Marks and Spencer is able to satisfy consumer demand and instigate an effective logistics and supply structure then it has the distribution scale and the brand to challenge the dominance of the supermarkets.

CONCLUSION

What becomes apparent from an analysis of the supermarket brands is the polarisation of the brands through their price positioning and the effect this has on the brands abilities to extend beyond traditional products and services. Asda, Morrisons and Somerfield occupy the value, mass market segment with low margins and high volume; Sainsbury's and Waitrose compete in the premium market and Tesco is currently in a league of its own, straddling both segments. Brands that add value or are able to charge a premium for their products and services are the most capable of expansion into new sectors – and these will be the retail phenomenons of the next decade.

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