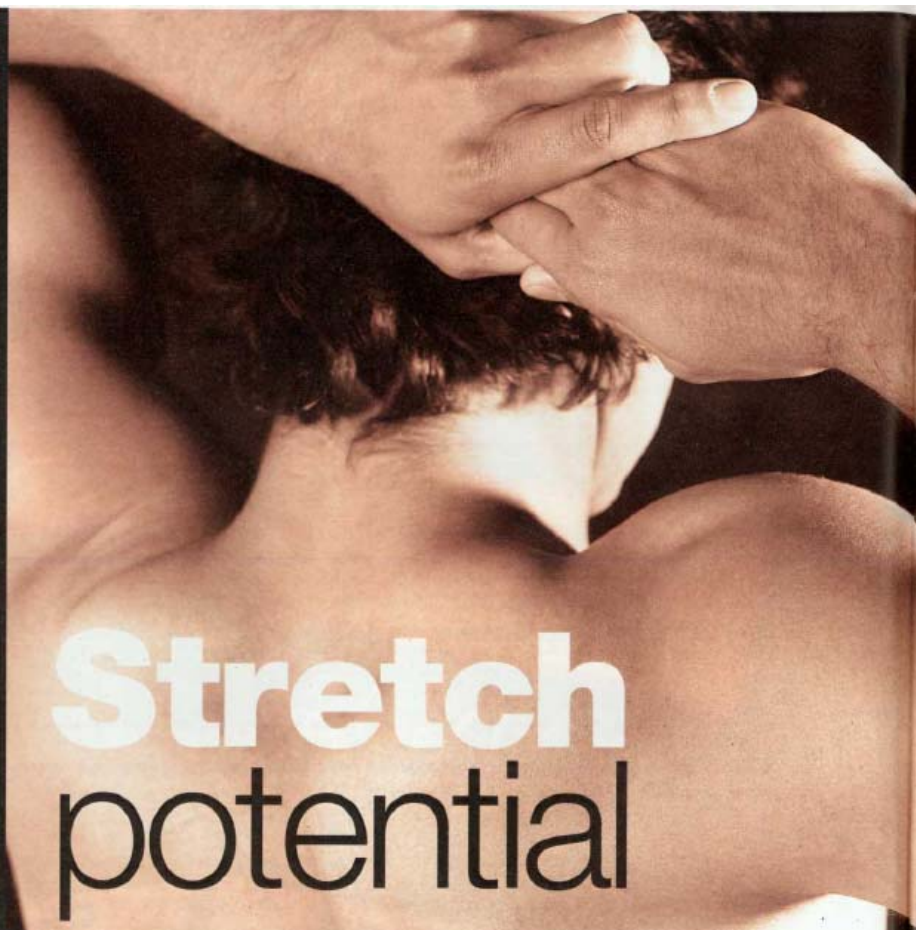


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Are UK supermarket brands fit enough to stretch into new territory? Stuart Whitwell gives them a New Year health and wellbeing examination



Stretch potential

Supermarkets have been the UK retail 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 trip off many tongues. But what does the future hold in store for these retail monoliths and which are best positioned for growth?

The opportunity lies 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. 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, Morrisons, Somerfield and Waitrose – has succeeded in segmenting its customers to target products to distinct consumer groups.

Morrisons, for example, has eight different segments just for food, ranging from The Best range, through health brand Eat Smart to Bettabuy economy products.

The UK supermarkets are also making approaches into international markets, with

Waitrose	80%
Sainsbury	71%
Tesco	53%
Somerfield	51%
Morrisons	47%
Asda	34%

Who's got elastic?

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.

Tesco operating stores throughout Europe and Asia and, of course, Asda is part of the American behemoth that is Wal-Mart.

The next logical step for growth in the domestic market is non-food development – selling new lines to the same market. This has been approached with varying amounts of zeal but, 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.

The soft and hard home furnishings mar-

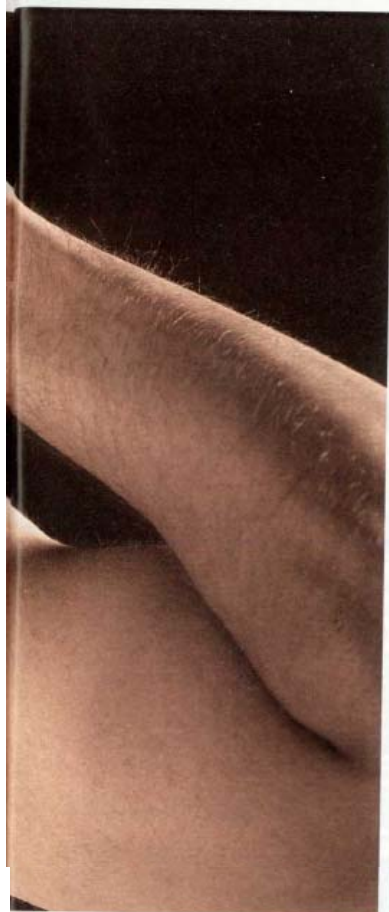
ket is one area just waiting to be given the same treatment as the supermarkets have given groceries.

And, with supermarkets' impressive footfall, store numbers, infrastructure (both on and offline) and complementary product and service offerings, the likes of IKEA, Heals, Habitat and Next really have a lot to worry about.

The fashion market is already proving the case about the potential of the supermarkets to steal sales from traditional high street retailers.

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

Brand extensions into other sectors test a brand's strength and flexibility. 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 labels and this is where the value of core brands can be leveraged.

What becomes apparent from an analysis of the supermarket brands is their polarisation through price positioning and the effect this has on their 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 and Waitrose compete in the premium market and Tesco is currently in a league of its own, straddling both segments.

M&S, now clearly on the rebound, is a potential major threat to the supermarkets if it can satisfy consumer demand and instigate an effective logistics and supply structure then it has the distribution scale and the brand to challenge the supermarkets.

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 phenomena of the next decade.

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TESCO



With profits of more than £2bn on turnover of £34bn in 2005 – a market share double that of its nearest rival – and with 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 extended into complementary sectors such as telecoms, gardening, finance, petrol and even legal advice. Tesco's ability to expand further, therefore, may not be as strong as its competitors – though it may take a while for them 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 belies its true size. Its inclusive brand positioning – alienating no-one and catering for all – stands it in good stead for continued expansion. Intangible Business research rates its relative capability to extend as 53%. Tesco has already extended into so many different sectors and its ability to continue with this success is positive.

MORRISONS



Morrisons has struggled to integrate Sainsbury stores into its portfolio successfully. Some Sainsbury customers,

disenchanted with store conversions and the replacement of premium products in favour of Morrisons products, have migrated to competitors such as Sainsbury 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 downmarket. 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 to Morrisons. 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 the 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.

ASDA



Asda is just about hanging on to second slot in the size league but has the lowest ability to extend into markets such as home furnishings of all the supermarkets, at just 34%. Its main barrier to entry is 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. Retailers with a low price positioning will struggle to compete in high margin product sectors where quality is regarded as more important than price.

SAINSBURY



Sainsbury is the most established brand, having been a high street stalwart since 1869. It may have suffered in recent years but if the product offers match the brand promise and meet consumer expectations, it has strong permission to extend into sectors such as home furnishings. The Sainsbury brand is positioned at the upper end of the market, with advertising emphasising quality. Orange, Sainsbury's corporate colour, is very warming and inviting, combining the physical stimulation of red and the mental stimulation of yellow. Sainsbury's branding lets it 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.

WAITROSE



Although the smallest, Waitrose has the greatest extension capability at 80%. It has one problem though – John Lewis.

Given free access, the Waitrose brand is well positioned to extend beyond groceries. This is largely all it does – with small exceptions such as internet access and petrol. It only provides 19% of the 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 areas with affluent footfall. Its brand is therefore perfectly positioned to enter markets such as gardening, home furnishings and DIY. It also has the purchasing and logistics knowledge of John Lewis but the potential cannibalisation issue appears to have defeated the potential benefits of such a strategy. Waitrose's relationship with John Lewis is potentially stunting its growth when it should be embraced. There is clear, dormant consumer appetite for the Waitrose brand and it has the greatest ability to grow.