# BEATING THE DISCOUNTERS
# MYTH-BUSTING AND THE £4 BILLION OPPORTUNITY IN GROCERY

NEWTON

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# JUSTIN KING CBE

Back in 2004, the consensus view was that after 10 years of losing market share there was only one direction of travel for Sainsbury's. Its mid market positioning was squeezed on price by the likes of Asda and quality by M&S leading to inevitable decline, so the argument went.

The turnaround of Sainsbury's demonstrated that a consensus view can be dangerous for those that hold it, and that excellent execution born of deep customer insight can lead to a very different outcome than the consensus expects.

I have long argued that the consensus view on the growth of the discounters and the inevitability that this continues needs to be challenged. So I welcome this report, its approach to myth-busting and the insight it therefore provides into the opportunity that exists, to change the competitive landscape.

# FOREWORD

## ABOUT THIS PAPER

Over many years of helping some of the UK's most successful retail organisations and their supply chains, we've heard an array of opinions on the rise of the discounters. Yet, through our work, we've observed that perception often doesn't match reality.

Our approach at Newton allows us to 'myth-bust', to challenge some of the assumptions and to join the conversation on ways the multiples can 'beat' the discounters. This paper is by no means a complete and final answer to how the likes of Tesco, Sainsbury's and Asda can win back market share from Lidl and Aldi. It's designed to share our first-hand experiences, research and primary investigations, and to ignite debate.

We know opportunity for improvement is everywhere – even within the world's top organisations. We've enabled the likes of Nissan, Dyson, Rolls Royce, local government and the NHS to take steps forward in their performance and we've consistently seen the best organisations striving to improve and be better. This paper explores the scale of the opportunity for retailers and identifies areas where they can differentiate themselves from arguably their biggest current threat – the European discounters.

Using data to source facts, rather than collect opinions, is at the heart of the way Newton works. So is the need for pragmatic solutions, not theory. Our programmes typically add millions of EBIT while improving quality and service. They've saved hundreds of £millions within grocery alone, allowing us to put 100% of our fees at risk against successful delivery – leaving little welcome for non-evidenced theories.

We believe the whole retail landscape could be thrown on its head before the end of the year. Retailers have the potential to eradicate the biggest card the discounters hold, while leveraging the most powerful drivers of shopping habits that the discounters just can't compete with. The opportunity exists not only to stem the flow, but to win back what's already been lost to the discounters.

If you'd like to add your voice, you can contact us at insight@newtoneurope.com or any of the authors directly as detailed on the back of this paper.

**PAUL HARVEY**
PARTNER

# EXECUTIVE SUMMARY

**ADDITIONALLY, THERE IS AN ESTIMATED £4 BILLION[1] IN UNTAPPED OPERATIONAL-IMPROVEMENT COST-SAVINGS CURRENTLY SITTING WITHIN THE GROCERY INDUSTRY.**

European discounters (Aldi and Lidl) have been stealing a march on all the multiples, from the big-hitting Tesco, to the 'low cost' Asda, aggressively enticing shoppers in through their doors with lower prices and basket-beating deals. And with the positive perception of their brands rising – Aldi and Lidl were recently named the UK's top brands[2] – they've even managed to challenge the shopping habits of premium customers at Sainsbury's and Waitrose.

But with research showing that price is only the fourth-biggest driver behind shoppers' choice of retailer and with 94% of customers who shop at a discounter also frequenting a multiple[3], there's a huge opportunity for the multiples to fight back.

The most important motivators to a shopper are location, range and habit – which the multiples already deliver to a superior level. Quality of comparable products[4] is another factor. This means the big four have an opportunity to finally myth-bust the perception that comparing products between the discounters and the multiples is fair.

If the multiples want to put price at the front of their customer strategy, they can make impactful operational changes and re-invest these savings to differentiate themselves – further challenging the discounters.

This paper uses many different data sources, combined with Newton's scientific approach and primary research, to outline the scale of opportunity for the big retailers. It also details how, by simplifying tiers, offering comparable products, promoting areas where they already differentiate and by myth-busting customers' perceptions, retailers can regain market share and finally beat the discounters.

## THE MULTIPLES FOCUS ON PRICE, BELIEVING THAT THIS IS THE BIGGEST DRIVER BEHIND THEIR LOSS IN MARKET SHARE.

# REGAINING MARKET SHARE

Consumer shopping habits have changed. After the recession, shoppers had an eye for a bargain that provided a platform for the likes of Lidl and Aldi to present their products as equivalent to the multiples. The British media supported this cost-conscious drive, with the news agenda focusing on the long- term financial impact of the recession for consumers and a rise of programmes detailing how consumers can save money.

Now the discounters have moved up a gear and are capturing the hearts and minds of shoppers. For example, their campaigns feature British farmers stressing the importance of British produce and quality, that has given customers a reason to feel passionate about their shopping experience and moved their brands into the mainstream to compete with the multiples. Crucially, they now have the consumer's trust, resulting in a seismic shifts in customer shopping patterns across most market demographics[5], leaving each of the big four retailers reeling as their financial performance directly suffers. The 12 weeks to November 2016 showed continued growth for discounters Aldi and Lidl (10.2% and 6.1% respectively) whilst the multiples struggled to keep their heads above water.

**What drives shoppers' supermarket habits?**

- **48%** Location
- **40%** Range of products and services
- **39%** Habit and familiarity
- **34%** Low evertday prices

Source: TCC Global

**94% of customers who shop at a discounter will also shop at a multiple – so the opportunity is huge**

However, the opportunity for the multiples to regain market share is as big as ever, with 94% of customers who shop at a discounter also shopping at a multiple in a four-week period.[6] Customers who can be targeted by the multiples make up four-fifths of the market, with the exception being those who only shop at the high-tier supermarkets. But, even shoppers who almost exclusively use upmarket stores should be potential targets, considering the multiples stock many competitive premium products– so it's clear that the opportunity for the multiples to regain market share is not what's holding back delivering like-for-like growth.

# THE PRICE WAR

This is reflected by their marketing focus and has recently triggered another round in the ongoing price war[7]. During early 2017, Tesco announced a new price pledge[8] to match price and quality of its own-label products with at least 60% of Aldi and Lidl's.[9] This has further forced the hand of competitors to compromise their margins in order to maintain anything close to their historical market share and comes in response to the disruption of the traditional market dynamic caused by newer players jostling for position.[10]

In reality, price is not a customer's primary concern. Recent research has shown that price isn't a single pivotal point for customers when choosing where to shop.[11] The top four drivers of a shopper's supermarket selection are in fact: proximity (location/convenience), selection (range/choice) and habit, with price fourth (everyday low prices, value for money and promotional offers). Also included in the top 10 are availability, ease of shop (including familiar layout) and service.

# CHANGING SHOPPING HABITS

It's important to consider how the traditional 'big shop' is now often supplemented or sometimes replaced with a modern alternative: spreading grocery spend across a variety of retailers. In addition to the 94% of customers who shop at a discounter and a multiple in a four-week period, a growing number of shoppers will also undertake a smaller shop at a convenience store. These new spending habits could be due to an increase in convenience for UK shoppers. In fact, convenience has become the main driver for choice for 50% of all UK shoppers. While the 'little-and-often' shopping trend has disrupted the market, there are other factors that are causing the multiples' loss in market share.

Although a small proportion of shoppers are switching to the discounters completely, most are not leaving the multiples entirely – suggesting that the discounters rarely satisfy a shopper's every need. There is significant opportunity for the multiples to capitalise on this need and compete with the discounters for the rest of a customer's shop.

Some of the drivers for a customer's choice of supermarket can be addressed in the short-term, while others will need a longer-term viewpoint. For example, customer habits are formed through long-term repetition of similar shopping behaviours, whereas poor availability can have an immediate and long-lasting impact.

Newton has used publicly-available information in combination with our own wide-ranging assessment of the operations of Aldi, Lidl, Tesco, Sainsbury's, Morrisons and Asda – to reveal some surprising insights on these customer drivers and what the multiples can do to regain market share.

# PRICE AND THE PERCEPTION OF QUALITY

## IN BLIND TASTING, THE MID-TIER RANGES OF THE BIG FOUR WERE PREFERRED WHEN COMPARED TO LIDL AND ALDI PRODUCTS.

Price is currently the biggest battleground in grocery. Advertising budgets for the multiples are focused on driving down price on products and enticing customers back through the door. But for multiples to compete for market share, they cannot compete on price alone.

The discounters consistently achieve prices that are 5-25% better than their big-four competitors at both category and basket level. For an average multiple to reduce their prices on their entire range down to the level of the cheapest discounter – Aldi – they would take a profit hit of approximately £1 billion.[12] So, what other options do the big four have?

# PRODUCT RANGE

In order to tempt back the shoppers who've switched to the discounters because of price, the big four need to reach near-parity with discounters on the products that 'overlap' with the range on offer. When looking at range, a typical Aldi or Lidl store in the UK will stock fewer units, with Aldi stocking 1,350 SKUs (Stock Keeping Units) at any given time.[13] Aldi provides an even simpler offering of around 1,000 products to its European consumers. This is in stark contrast to the 90,000 items that could be found in a Tesco Extra[14], before its recent range-reduction programme. Similarly, Asda's, Sainsbury's and Morrisons' product ranges top out at 35,000.

So their focus should be on the price of the similar products that can be found at the discounters, since market share has been lost in this area – not to each other.[15,16]

Lidl's marketing budget increased by nearly 500% between 2012 and 2015 to £78 million, marking it as the UK retailer with the biggest traditional media budget. The overarching theme of this marketing push was value for money; better-than-the-competition quality for better-than-the competition prices, bringing an impressive shift to customer perception.

## MYTH-BUSTING ON QUALITY: TASTE-TESTING

Our research showed that the cheapest of the pack, at just £4.30 per kilo, was the winner with our blind taste-testing panel: Asda Smart Price Cheddar Cheese was liked by 96% of participants and ranked first by over half of the panel.

This is a great example of the fact that price tiers can have more to do with perception than quality. So, if the big four can market both the quality and price of their basic ranges in a similar way to the discounters, this will resonate with consumers.

# MATCHING PRODUCTS

Customer feedback tells us that the biggest single driver of the improved perception of Aldi and Lidl is the value for money they offer. This is due to customers perceiving their goods to be of similar – or even better – quality to Sainsbury's, Asda and Morrisons, while retaining a price point nearly 20% lower. Despite legal action being taken several times in recent years, from brands such as Coca Cola[17], Aldi continue to package their products to imitate the leading brand, creating a positive perception of quality in store. 'Which?' asked more than 7,000 shoppers to rate supermarkets in 13 categories: Asda, Sainsbury's and Morrisons were ranked equal to Aldi and Lidl on "Quality of own-label" and "Quality of fresh products". Interestingly, quality was an overall strength noted by consumers for Aldi and Lidl, while the multiples were instead recognised for their range, customer service and special offers.

'Big Four' mid-tier ranges vs. discounters


'Big Four' entry-tier ranges vs. discounters


Source: Newton research

But how good is the discounters' quality when put head-to-head against the multiples? Blind tests across produce and meat show that the multiples typically win on taste, texture and appearance (behind M&S and Waitrose). Studies conducted by Good Housekeeping[18] found that the multiples ranked higher than discounters in 10 out of the 16 categories, including dairy, fish and grocery, and were on par in two categories, including bakery. It won't come as a surprise that our own blind taste-testing found that Sainsbury's Taste the Difference and Tesco Finest were preferred against Aldi and Lidl products.

However, the big surprise was that when 40 people tested products from eight supermarket ranges (including dairy, confectionery, juice, produce, meat and fish), comparing both the multiples' entry-tier and mid-tier products to Aldi's and Lidl's, the results showed a greater percentage of people still ranked the multiples' entry-tier and mid-tier products above those of the discounters.

A critical point is that customers consider the discounters' own-brand products to be comparable to mid-tier products at a multiple. With discounters winning the price war against mid-tier ranges but not against entry tiers, the big four have two options: match price on mid-tier products or match quality-perception on their entry-tier range.

If the multiples were to price-match on mid-tier products on their limited assortment range, they would need to sacrifice an average of £180 million from EBIT into their fresh division to match Aldi prices. As branded goods are not a focus for the discounters and brand doesn't play any role in many areas such as produce, this is the biggest battleground for the multiples in the price war. If the big four extended this price investment into overlapping own-brand ambient and non-edible goods, the price cuts would take a further £80 million from EBIT. By having to compete on mid-tier items, the entry-tier product range has become irrelevant in the 'price war'. Interestingly, the multiples' pricing on their entry tiers is already highly competitive, with Asda even coming out as 1% cheaper compared to Aldi's only tier.

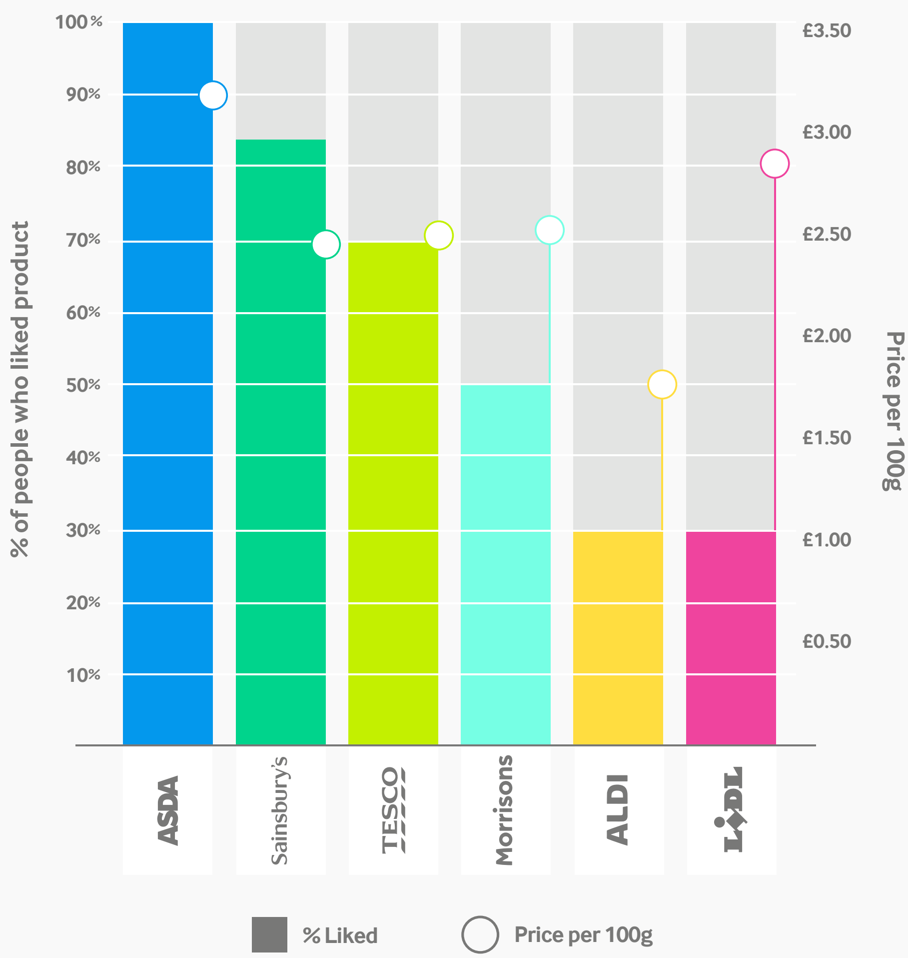
However, even if it is assumed that customer perception can be changed on the comparable quality of the entry tier, the marketing costs to do this could be even more significant.

## CASE STUDY
BIG FOUR MID-TIER RANGES
VS THE DISCOUNTERS

When comparing the mid-tier smoked salmon ranges at the big four to the discounters' offerings (per 100g), Aldi and Lidl scored the lowest percentage of people who stated that they liked the product, with Asda's SmartPrice range coming out top.

Although Lidl's 'deluxe-range' smoked salmon costs more than at Tesco, Sainsbury's and Morrisons, it came joint bottom with Aldi in our taste-testing, with just 30% of people who tried it stating that they liked it.

Big Four mid-tier ranges vs. the discounters: smoked salmon satisfaction and price




Source: Newton research

## CREATE TWO TIERS, MYTH-BUST PERCEPTION AND PRICE-MATCH

- Create just two tiers where possible: a mid-tier and a high-tier
- Increase the perception of the mid-tier so customers feel passionate about these products
- Match price on the 1,500 SKU's comparable to the discounters to become competitive

# PASSION

The perception argument goes even further with customers. Multiples are better than the discounters in just about every area – although virtually every report, study and opinion piece over the past five years would say otherwise.

For example, staff at the multiples are generally expected to take a customer directly to a product they might be looking for when asked; at the discounters staff generally point customers in the right direction and carry on with their primary job. So, when surveyed, why are customers happy with the service at the discounters, yet often criticise the service at the multiples? The simple answer is expectation-setting. When you expect a 'low-cost' level of service, and then sail in and out of Lidl because the range is small and it's easy to find what you want, even if the checkout line was a bit long, you leave feeling pleasantly surprised. When you spend time in Tesco, looking for the Extra Special Organic Barley Flour on your list, only to discover it's out of stock, and then you wait two minutes for an extra till to be opened even though there's already more than one person in front of you, you leave feeling like you've been short-changed on service quality.

If customers really knew and emotionally engaged with the fact that there is a far superior range, better service, shorter queues, more time for better service at checkouts, fresher products, better taste and the same like-for-like price at a multiple, why would they ever go to a discounter?

Customers feel proud to recall the surprise bargain they found at a discounter, so the multiples need to give their customers a reason to feel passionate and tell their friends a story about their positive shopping experience at a multiple.

**CASE STUDY**
MYTH-BUSTING PERCEPTION
TESCO FARM RANGE

The multiples need to inform customers that their entry-level range is of equal, if not greater, quality compared to the discounters' offering. The majority of customers now consider the discounter's private labels to be of the same quality or better than the standard supermarket private label.[19]

A high-profile success story is Tesco's farm range, which brands itself as higher in quality than their previous entry-tier, at a price point that competes with the discounters. Here they have tackled the gap in perception between the multiples' budget-branded entry-tier products and the discounters' primary offerings, that tests have shown are of the same or poorer quality. With this tactic, the discounters' packaging that mimics popular brands is 'myth-busted' and perception becomes more of a reality.

This is smart marketing by Tesco, leveraging a tactic that the discounters have done brilliantly to give many people a reason to feel enthusiastic about their shopping decision.

# AVAILABILITY

**THE MULTIPLES OFFER A MUCH WIDER RANGE OF PRODUCTS, BUT THEY MUST FOCUS ON IMPROVING AVAILABILITY WHERE IT MATTERS MOST TO CUSTOMERS.**

Shoppers are quick to notice when a supermarket has availability issues with out-of-stocks being a significant irritant. Well-stocked shelves are a key determinant of where they choose to shop[20] and the IGD's 'three strikes-and- you're-out' theory, detailed to the right, backs up the importance of getting this right. Therefore, availability of products needs to remain a key driver for store performance to retain market share.

It's not unusual for a supermarket to miss out on at least 5% of sales due to poor on-shelf availability. In addition to impacting sales, poor availability means dissatisfied customers and poorer financial performance over the long-term.[21]

In store, Aldi and Lidl have made a conscious and noticeable decision to improve availability at the expense of freshness. This is evident by both Aldi and Lidl not displaying the best-before date on their packaging causing the customer to be unaware that their chosen product may be coming to the end of its life. This, combined with their smaller range, allows them to give the perception of freshness on fully stocked shelves.

To increase availability and improve perception, the multiples need to reduce their use of blanket availability targets across an entire section such as fresh or ambient. Instead, a more tactical approach needs to be deployed to focus on the key products where poor availability affects customer perception. Increasing the availability for the key products needs to be done through a concerted effort by the supply chain and stores to ensure the right data is being used, as this will lead them to resolve a large proportion of their supply issues.

### IGD'S 'THREE STRIKES-AND-YOU'RE-OUT' THEORY

**When customers are repeatedly faced with the inability to buy a product from a certain store because it simply isn't on the shelf, the shopper will change their purchasing behaviour as follows:**

The first time, shoppers are likely to make a substitute purchase, a different brand or pack size

The second time, shoppers are equally likely to make a substitute purchase as they are to make no purchase of this product at all or change to a different store

The third time, a shopper is far more likely to make no purchase at all or change to a different store, which could be a different retailer, than they are to make a substitute purchase


Source: IGD

# MATCHING AVAILABILITY WHERE IT COUNTS

With a smaller SKU count, discounters have an inherent advantage over the multiples in availability. Despite this challenge, it's still possible for the multiples to match the discounters on availability where it matters.

Retailers often review and drive availability at a whole-store level, which can drive action in the wrong place. This causes too much time to be spent on lower-selling products. To alleviate this, the multiples need to be sure that the measure of availability drives the right actions. The supply chain and stores need to drive an availability-metric that focuses on the core products that in turn drive availability and perception. By having the entire supply chain, from depot to store, concentrating on specific products, the availability can be more readily impacted.

While the supply changes detailed above help availability, a significant opportunity still exists in replenishing products at the right time. Often it appears that a store has run out of stock, when in fact stock exists in store, but hasn't made it to the shelf. In-store research[22] showed that 25-60% of products that aren't available on the shelf are actually sitting in the storeroom. Most of this issue can be resolved through altering replenishment processes to specifically respond to low levels of stock before they completely disappear. This is in contrast to the most common replenishment methods, that are typically based on routine. Significant staff time is wasted and sales lost due to attempting to replenish stock that is already available on the shelf, while other SKUs simultaneously go off-sale. Tackling this doesn't require large-scale IT changes, but can be done by altering morning and evening routines to separate store stock into 'on-shelf' and 'out-back'. Most modern replenishment systems already have this capability and can be implemented through targeted process improvement.[23]

# SPACE IN STORE

An area that does require a more significant change programme is optimising the available space in store. Throughout periods of growth, the multiples successfully filled the space within their stores by increasing facings and their range of products. However, when sales and market share start to decline, the response of the market has been to reduce range to maintain margins. This means that facings reduce and stock levels drop. In turn, this suggests to the customer that the store isn't full and enhances their frustration when an item isn't available.

To prevent this, the reaction is often to increase the amount of stock sent to store, increasing waste, reducing product freshness and causing inefficient stock handling. This reaction adds costs that reduce margins and prevent further investment in reducing prices. To avoid this reactionary response, the multiples need to create the right shelf plan for the range and sales volume in each category. This requires rigorous analysis of store modules to provide store-specific floor plans. To achieve a sustainable model will require significant capital spend.

**INCREASE AVAILABILITY WHERE IT COUNTS**

- Ensure the whole supply chain concentrates on replenishing the most popular products to customers on time
- Avoid a reactionary response to empty shelves with the right shelf plan for each range and category



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# CONVENIENCE

**1,000 STORES BY 2022**

Aldi's growth plans show a clear target on convenience for their customers.

We know that 48% of consumers list location as the primary factor in their choice of store. Historically, the big four were able to make quick and easy wins simply by building more stores closer to their target markets. With almost 3,500 Tesco stores operating in the UK compared to 630 Aldi stores, and with UK households on average within a six-minute journey of a Tesco store[24], the discounters have a long and costly battle ahead to win ground on convenience for their customers. But this model, increasing space to increase market share, is unsustainable with the UK supermarket footprint reaching saturation point and the industry experiencing minimal growth.

Shopping habits are changing, with customers moving away from large weekly shops to 'little-and- often' purchasing. Both Tesco and Sainsbury's are employing strategies to capitalise on this with continued investment in their convenience stores, Tesco Metro, Express and Sainsbury's Local. Analysis of 300 UK postcodes shows that for 50% of consumers, Tesco or Sainsbury's is the most accessible store, and their overall footprint will only continue to grow with Tesco's merger with Booker Group (which will see their share of the convenience market jump from 17% to 28%). Even with aggressive real-estate growth strategies from the discounters, the multiples will not be overtaken easily, particularly in urban areas where the discounters don't have the competitive edge.

A recent study found that UK consumers have an average of 10 stores 'easily reachable'[25] from their house, with five categorised as 'very easily reachable'. An important factor to consider in the future of the supermarket industry, as consumers become inundated with choice, is that when a shopper has a choice of stores they feel are all equally accessible, location will be removed as a decision point. In this case the consumer will often develop a 'portfolio approach', picking different stores each time based on whether they see price, range, service, or quality as the most important factor for that particular visit. Consumers are currently being given a reason to shop at multiple locations and this is becoming habit.

In conclusion, although it's still an important factor, convenience is not where the 'multiples vs discounters' war will be won or lost in the long-term. Instead, convenience needs to be more broadly leveraged by offering the quality, availability and range that the multiples can more easily provide. Marketing campaigns need to shift focus to target the growing trend of 'little-and-often' and remind customers of the advantages of shopping at one store with a full range, better service, equal or better products and comparable prices.

**WITH ALMOST 3,500 TESCO STORES COMPARED TO 630 ALDI STORES IN THE UK, THE DISCOUNTERS HAVE A LONG BATTLE AHEAD TO WIN GROUND ON CONVENIENCE.**

**PROMOTE AREAS OF EXISTING DIFFERENTIATION**

- Shift strategy away from increasing the number of stores and back towards promoting the superior quality, availability and range the multiples already offer customers

# CHOICE

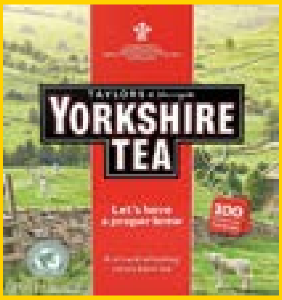
**SAINSBURY'S SHOPPERS CAN CHOOSE FROM 83 TYPES OF DRIED PASTA INCLUDING FREE-FROM, WHOLE WHEAT AND CHILD-FRIENDLY OPTIONS, WHEREAS ALDI AND LIDL OFFER A MAXIMUM OF SEVEN OPTIONS.[26]**

Having a broad product range is the second most important factor for shoppers after locational convenience and, crucially, one of the key differentiators for the multiples. When comparing product categories found on a typical supermarket's shelves, the multiples averaged nine times as many SKUs per product category than the discounters. This number is even greater when comparing the full range of products available in the multiples.

## A FULL RANGE VS THE RIGHT RANGE

The discounters are gaining market share because they have positioned themselves as having the right range, as opposed to the largest range. These products are inspiring, interesting and marketed well to the consumer. A large multiple store will in fact be able to offer the same products, but the consumer perception is that the products aren't available at a multiple, largely due to the multiples concentrating on advertising the competitive price of one product, for example a daily staple such as a loaf of bread – as opposed to highlighting the fullness of their range offering.

**Poor packaging makes the multiples product look budget and low quality in comparison. However, premium packaging from the discounters gives the perception of quality, despite the low price.**



It is well documented that the discounters offer a reduced choice of products in favour of focused, efficient buying and ease of replenishment, though they have had to introduce new items and features such as in-store bakeries and expanded produce departments to win some customers over. The sheer breadth of choice offered at a multiple is not well promoted to the consumer. For example, they can walk around one store and find everything they need for their everyday needs – from candles and balloons for a 5th birthday party, to specialist cleaning products or the latest movie on Blu-ray.

The multiples are faced with a choice of whether to differentiate on range or to rationalise their range in an attempt to close the price gap with the discounters. Keeping control of range proliferation will of course be important in keeping costs down, but with Aldi pledging recently to continue their growth through increased product choice, maintaining a range that is clearly differentiated from the anticipation of a bargain that often drives the consumer in through the door, and the story of finding that special deal they will go on to tell their friends about. This is rarely felt in a multiple.

Yet clear tiers, branding and price points are critical to the success of leveraging choice as a differentiator. The discounters have employed a clever strategy on choice by typically stocking a single variant of each product at the multiples' entry-price point, but with almost identical packaging to that of well-known UK brands (see diagram). The multi-tier approach offered at the large retailers however, doesn't really drive choice: it drives value options and brings uncertainty to the buying decision. To compete with the discounters, the multiples need to market their entry-price products as desirable purchases and show they that are in fact comparable to the discounters' products. Taste tests have proved that they are directly comparable or, in some cases, better in quality. The multiples' previous marketing of these products gave them a low perceived quality, therefore encouraging customers to pay the extra for the mid-tier alternative. The multiples have the head start with their breadth of range that, if streamlined, would allow them to reinvest in widening their offering in departments where innovation is paramount to consumers - such as Progrigio, the new prosecco/white wine product offered by Asda - and give customers the clear but varied choice they're looking for.

## PROMOTE CHOICE AS A KEY DIFFERENTIATION

- Market that the customer will find everything they need at a multiple and invest in innovative products

# EASE OF SHOPPING EXPERIENCE AND SERVICE

## AN EASY SHOPPING EXPERIENCE IS SOMETHING EVERY CUSTOMER DESIRES AND A FEW SIMPLE ADJUSTMENTS COULD GIVE THE MULTIPLES A QUICK WIN.

Ease of shop and the service provided are two drivers that are significant to a lot of shoppers when selecting where to purchase their groceries. Although neither may be the number one reason for choosing to shop at a certain retailer, they can easily become a reason to switch away from one.

Despite gearing for efficiency and scan-speed, Lidl and Aldi stores are equipped with a small number of checkouts each with long belts, often resulting in long wait-times and a less-than-relaxing packing experience. The discounters approach to multi-skilling staff works for efficiency, but means you're unlikely to be helped in the aisles during busy periods, leaving customers who need support to find an item frustrated. This approach over the Christmas period led to overcrowding and long waits at the checkouts.

# CUSTOMER SERVICE

Although it cannot always be said that the multiples have short queues and staff aplenty, large shop floors make overcrowding less of an issue and staff allocated to each department means customers are more likely to find someone to assist them. The number of standard checkouts combined with the option of self-checkouts makes for an easier experience with, on average, shorter queue times. Across the board, 'Which?' customer feedback shows that queuing times, tidiness, staff availability and friendliness at the discounters do not match up to the multiples. The discounter model to deprioritise consistently short queue lengths is another area in which the multiples can show a differentiation.[27]

Differentiating on customer service experience on the shop floor is one area that the multiples have an opportunity to achieve with minimal investment in additional hours. Ensuring that every customer is greeted when they are passed by a shop-floor assistant can help towards a positive shopping experience, as well as ensure the customer can find the extra few items for which they came to the multiple. By doing this, the multiple can generate the positive perception of friendly customer service coupled with showcasing the broad range of products.

# THE PERCEPTION OF EXPERIENCE

An area of challenge for the multiple is providing an excellent experience for customers who want to quickly shop and leave. Covering the many hundreds of metres and navigating the dozens of aisles to find the five items you need can be daunting and very time-consuming in a supercentre. Whereas nipping around a comparatively-tiny discounter store, where the customer is presented with a smaller selection to navigate through, is genuinely a much better experience. However, although customers might save time on an individual shopping trip, they will actually waste much more time by having to go to a second store for the several items they couldn't find in the first. The multiples have the opportunity to offer customers all the items they want under one roof at a comparable price. To convince customers that this is an overall more efficient use of their time requires smart marketing, combined with improved ease of finding core products for little-and-often shoppers.

**PROMOTE EASE OF SHOP AS A KEY DIFFERENTIATION**

- Market that shopping at a multiple is already a more enjoyable time- saving experience for the customer

Tesco has adopted a 'one-in-front' rule, which has recently been replicated by Morrisons, in an attempt to minimise queue lengths.

Interestingly, in the United States, supermarkets tend to put their milk in the furthest corner from the front entrance to force customers to walk past all of the additional offers to reach the most commonly-shopped item. While this model is less prevalent in the UK, as the detriment to ease-of-shop is too high, there needs to be a balance between convenience and making sure customers are intrigued by ongoing offers and sales. Marketing to highlight convenience needs to be part of the strategy to educate the customer on the benefits of achieving a full shop in a single trip.

# OPERATIONAL IMPROVEMENTS

**HISTORICAL IMPROVEMENTS HAVE FOCUSED ON CAPITAL-LED CHANGES OR OPERATIONAL REDESIGN, YET IMPROVEMENTS IN EXECUTION AND CONSISTENCY REMAIN UNTAPPED.**

Even with most multiples having operational-improvement teams in place across supply, distribution and retail, significant opportunities still exist. These teams will need to realign cost into the areas where the multiples can further differentiate their offering. The majority of historical improvements have focused on large, capital-led changes or operational redesign, yet improvements in execution and consistency remain largely untapped.

As an example, one of the biggest contributors is poor visibility of actual hours needed in a department to carry out the daily processes to meet customer demand and achieve excellent service. To this end, shifts are often misaligned to demand across the week and information on the total time needed by department (and total supplied) is unclear. This directs improvement-activity towards the wrong areas, due to a lack of clarity on which department activities are costing the business the most. This reality gap is indicated by the significant difference between the intended store-operating model and what actually happens in store. A serious investment needs to be made to re-evaluate the hours needed at the department level to understand where the biggest losses occur, in both unutilised hours and poor customer service.

While improvement teams are traditionally focused on the balance between service to customers and costs, the real opportunity exists in increasing the understanding of in-store teams. By increasing their understanding of their role and how it impacts the customer, the company and ultimately themselves, they can be equipped with the knowledge of the most effective course of action. This can be accomplished by increasing the visibility of where support, capability and tools are required. For example, every checkout operator should know the best practice for how to serve a customer in an efficient and friendly manner, and when this isn't being achieved it should be clearly visible to their line managers. Once identified, the operator can become more effective in their role through an improvement of their understanding, technique and motivation.

With a lot of focus on capital change, companies are investing money and time on improvements that will often not achieve the desired and necessary payback. Often, a piece of capital equipment is implemented to save a certain number of hours from a businesses' operating model. The equipment is proven in a set of stores before being implemented across the business. The problem comes with the often-complex processes that accompany the equipment. Employees will typically choose the path of least resistance, causing the solution to deliver significantly less than the full benefit, if any benefit at all. This can be mitigated by engaging employees at the shop-floor level to become champions of the change process, alongside truly understanding why the employee is unmotivated and chooses to create a workaround to the preferred process. With the time constraints put on the retail industry to cut costs in the price war, it isn't always feasible to invest the time to gain the right buy-in from employees. This has led to the divide between what a company thinks is happening in their operating model and the reality. To drive the right improvement, to allow further investment in price, the multiples need to remove the complex processes through employee engagement.

# THE SUPPLY CHAIN

Large opportunities for optimisation still exist within retail supply chains. Typically, food suppliers will balance a trade-off between too little stock (causing availability issues and low stock) and too much stock (causing waste, overstocks and lost freshness). While retailers have optimised this at a category or product level, there is significant opportunity to optimise this at the store level each day. For example, a product might have the right balance between too little and too much stock across the chain, region and on average across the week within each store. However, there can still be very significant forecast-inaccuracy at the daily item/store level. With the advent of big data and the tools to handle it, there is the possibility of ensuring that stores do receive the right stock each day. To realise this opportunity, the multiples will need to align their data from forecasting, supply logistics and store sales at an item level.

The barriers to implementing a system to regulate daily stock levels are both the accessibility of data and the large volume of nearly 15 million item/store combinations in a typical multiple chain. Once a business can view where the largest stock-level opportunities are, they tend to find that problems are highly concentrated across a small proportion of items. Typically, 50% of the total loss can be found in less than 10% of item/store combinations. The analysis to identify and resolve the biggest stock issues is simpler than the technical challenges of making the problems more visible. The real challenge lies in the human element to align teams to use this data in the same way across their departments. Some departments will bias a certain way of looking at data to drive a key metric that their department head favours. These key metrics are a balancing act of cost vs sales with the drivers being availability, freshness and waste. By allowing sections of a supply chain to silo themselves in the favoured metric of their department, the multiples risk missing opportunities that can be resolved by aligning the supply chain in one direction.

**OPTIMISE THE CHAIN SUPPLY**

- Achieve operational savings to price match on the 1,500 SKU's comparable to the discounters by increasing the understanding of the in-store teams and improving supply-chain operations

# WHAT STEPS SHOULD THE MULTIPLES TAKE?

**FROM ANALYSING EACH OF THE KEY CONTRIBUTING FACTORS TO A CUSTOMER'S CHOICE OF SUPERMARKET, THE MULTIPLES HAVE THE OPPORTUNITY TO BEAT THE DISCOUNTERS.**

There are some deeply-held beliefs and real constraints that hold the multiples back. Notably, the historical fight has been with one another. While there has been a relative market-share stalemate for years between the multiples, the discounters have made a significant dent. Still, the multiples are waging the price war amongst themselves and not sufficiently targeting the discounters. In Germany, the discounters' market share is nearly three times than their share in the UK - so now is the time for the multiples to focus hard on the discounters.

Analysing each of the key contributing factors to a customer's choice of supermarket, it's clear that the multiples have the opportunity to beat the discounters while also increasing their long-term profitability, removing price as a unique selling point and building on their existing differentiators.

The idea that large multiples could bring their overall average prices in line with discounters is something that would be prohibitively expensive and unsustainable, considering the discounters' model inherently has lower cost structures. Instead, the multiples need to match or beat the discounters on price, quality and availability of overlapping lines and recover the associated costs through operational improvement. They then need to steer their brand and marketing spend towards building customer understanding of their comparable products.

Recovering costs through operational performance improvement is hard - even harder when there is a need to simultaneously enhance customer experience. Achieving a significant step-change requires relentless drive and a new and ever-more sophisticated approach to continually invent, design and implement these programmes. However, by taking complex operational data and translating it in a practical, physical way across a company from the bottom to the top, one of the UK's largest grocery chains was recently able to rework their processes and save over £100 million while also increasing sales.

Based on the total size of the grocery industry - and on our methodology, that identifies the average percentage of revenue-savings for a grocery client - there is over £4 billion in opportunity that could be delivered to the benefit of customers and companies within 12 to 24 months.

A targeted approach, that matches the entire discounter range of ~1,500 SKUs with a mid-tier is possible; however, at an estimated cost of £260million per retailer. While still substantial, this cost can be recovered through a combination of taking back market share and operational changes across the retailer that don't compromise service levels, removing the discounters' key advantage.

But they also need to go one step further and give customers a reason to be passionate about shopping at a multiple. Why would anyone give up their time to travel to a store that isn't cheaper with one-tenth of the range, poorer quality, longer queues and poorer service? If customers genuinely believe this to be true then there will never be a reason for them to shop with a discounter. So myth-busting these areas will be key.

# THE MULTIPLES' STEPS TO SUCCESS

### SIMPLIFY TIERS

Create tiering where there is a clear quality differentiation between each product tier and communicate this to the customer. Where possible offer a mid tier and high tier with a very clear proposition about what makes the high tier superior.

### OFFER COMPARABLE PRODUCTS

Make the new mid-tier price-comparable to the ~1500 SKUs at the discounter stores.

### IMPROVE OPERATIONS

Pay for the investment in comparable pricing through operational improvements, maintaining customer service whilst reducing costs.

### ALIGN MARKETING CAMPAIGNS

Market the fact that, on average, blind taste-tests say that multiples' quality is higher, combined with the reality that there's nothing you can get in a discounter that you can't get in a multiple.

### MYTH-BUST PERCEPTION

Market all the other customer drivers that are superior at a multiple, for example the wider choice, shorter queue lengths and better customer service.

### INCREASE AVAILABILITY

Focus on the availability of core products so that there's never a time when a customer can't find what they really need – and market this. In addition, be clear on non-core products and why on occasions it's not possible to always have it in stock e.g. cost, freshness, waste, etc.

### CREATE A PASSION

Give customers a reason to be passionate about what the multiples do and what they stand for, so they can be proud to shop there.

### PROMOTE EASE OF SHOP

Remove the final differentiator (the perception and partial reality) that it's quicker and easier to shop in a discounter and promote the fact that a customer's time will be saved by shopping at a multiple. Recently, one of the UK's largest grocery chains achieved both an increase in customer service and product availability, whilst saving over £100 million and increasing top line sales, by taking a practical approach to implementing in-store process changes.

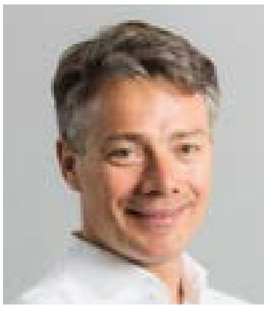
# WE ARE NEWTON

We're a team of the brightest and most curious minds with a fundamental belief that every organisation can be better. We crack some of the toughest business and public sector challenges of the day. Not with reports or copy & paste thinking. But by pinpointing and implementing the changes that will make the biggest difference.

We never start out assuming we know the answer. But we're always certain we'll find it and see it through to the finish. By uncovering the data that means the most important decisions are made with facts, not opinions. By bringing together a group of people who live and breathe delivering results. And by embedding in your organisation this same passion, self-belief and know-how to thrive on any challenge in the future.

We believe so strongly in what we can achieve together that we stand by the founding idea of Newton – guaranteeing our fees against delivering results that are recognised by everyone, from the frontline to the boardroom.

We demand better in everything we do. We think you should too.



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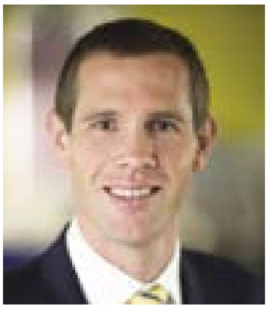

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