



The Rise of the Discounters:

Do the Big Four have anything to fear?

MSc International Business and Management

Shabaz Ali Mahmood

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Statement of Originality:

This dissertation is an original and authentic piece of work produced in fulfillment of my degree regulations. I have fully acknowledged and referenced all secondary sources.

The dissertation has not been submitted in whole or part for assessment in another module at this or any other university. I have read the Academic Regulations and am fully aware of the potential consequences of any breach of them

A handwritten signature in black ink, appearing to be 'K. M.', is written above the signature line.

Signature:

Date: 25th August 2017

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The following research could not have been completed without the profound support of my friends and family, and with special thanks to both my advisor Mr Michael Brightman and course leader Mr Bob Milward

Abstract:

Research Motivation: Since the year 2000 the UK's supermarket sector has been dominated by the big four supermarket chains, culminating in 71.3% of market share in 2017. Though, in recent years this dominance has been challenged by the successful market entry of the discounters. **Research Focus:** The focus of this research is to explore the impact of the discounters on the big four and premium segment, identify at who's expense such an entry has been achieved and the significance of the economic crisis of 2008/09 on accelerating the growth of the discounters. **Research Method:** Utilising empirical data, the paper has analysed and illustrated these objectives via the Tableau software. **Findings and Conclusions:** The research shows ASDA and Tesco to be least negatively affected by the growth of the discounters, while Sainsbury's and Morrisons are most negatively affected, in terms of store expansion. Similarly, M&S Simply Food are least affected by the growth of the discounters when compared to Waitrose. Finally, the research found the 2007 crisis to have had a delayed but positive impact on expansion for the discounters. The research also found differing links between reduced revenue and store expansion for each of the organisations.

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1. Chapter One: Introduction

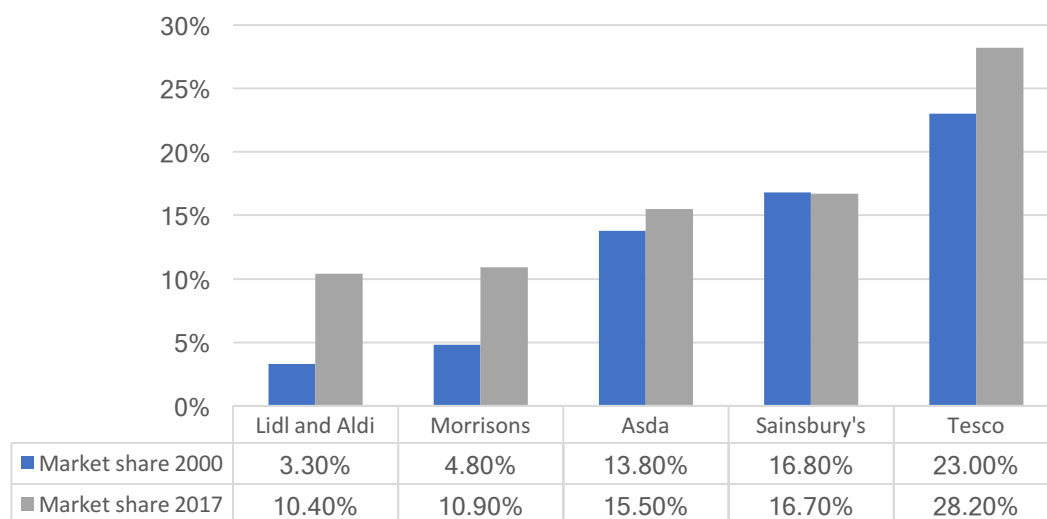
1.1 Introduction:

The following is an introduction to the topic and context of this paper. This chapter offers an understanding of the philosophical background relating to the chosen topic, which is an exploration of the UK's supermarket sector. Correspondingly, this chapter also defines the key objectives and issues which have been explored. Further, this chapter defines the key questions to be investigated by the proposed research and offers an initial guide to the significant topics the proposed literature review shall address. Finally, the chapter comments upon the overall structure this paper has adopted, along with brief comments on each of the chapters and their respective contents.

1.2 Background:

The basis of the present thesis is founded upon an exploration of the current condition of the UK's supermarket sector. Particularly taking account of the recent rise of discount retailers Aldi and Lidl.

Figure 1.1 – The big four's market dominance from 2000 – 2017:



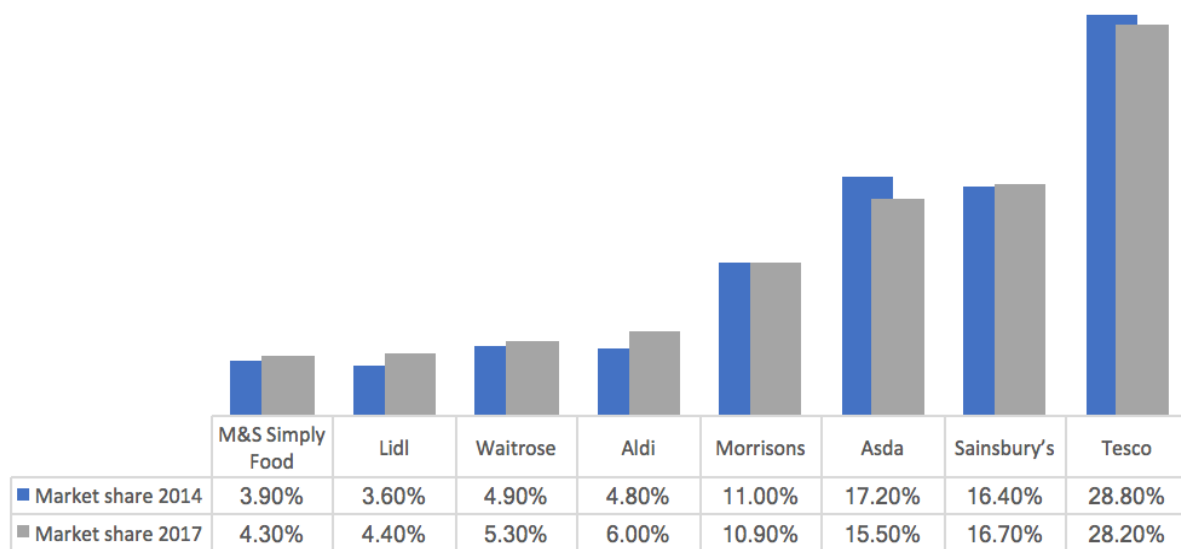
(Adapted from Ruddick, 2014), (Adapted from Kantar Worldpanel, 2017)

The supermarket sector has traditionally been dominated by the big four supermarkets namely, Tesco, Sainsbury's, Asda and Morrisons. In this regard, Figure 1.1 contextualises this clear market dominance by illustrating the respective market share enjoyed by each of the big four, since the year 2000.

An examination of Figure 1.1, also demonstrates the oligopoly enjoyed by the big four supermarkets over smaller rivals. The combined 58.6% of market share in the year 2000, has grown considerably to a combined 71.3% of market share in 2017. However, over the previous two decades, particularly since 2004 when Aldi announced a £500 million expansion drive to add 200 new stores to its UK operations (Guardian Business, 2004), discount retailers have experienced a rapid rise in their respective market shares, led by increased sales (Butler, 2015). The suggested rise in market share has allowed Aldi and Lidl to accumulate and occupy a combined 11.9% of the market despite the big four's apparent dominance (Kantar Worldpanel, 2017).

Furthermore, the two organisations have continued to rapidly expand their market presence, with Aldi adding 1.02 million sq. ft. and Lidl adding 340,000 sq. ft. of available shop floor space in 2015 (Topham, 2015). Given this growing trend of impact that the two discounters are continuing to have on the UK's supermarket sector (see Figure 1.2), the present paper offers a timely and innovative contribution to the limited current literature on the topic in question. Predominantly, the paper contributes to an understanding of the extent of impact the discounters are having on rival organisations, both mid-range and premium brands.

Figure 1.2 – Market share changes from 2014 – 2017:



(Kantar Worldpanel, 2017), (M&S, 2016), (M&S, 2014)

Having examined such changes to the very structure of the UK's supermarket sector, it is clear that herein lays the importance of this paper's contribution. Given that previous and contemporary studies including, Duke (1989) and Thompson (2012) generally focus heavily on location planning and its impact on firm performance. The present paper has then explored the direct effects, if any, of discount retailers on their big four rivals, as well as firms operating in other segments of the market, i.e. premium brands, Waitrose and M&S Simply Food.

1.3 Problem and Objectives:

As suggested, the primary purpose of this research paper is an attempt to explore and illustrate the effects of the discounter's Aldi and Lidl, on established brands such as the big four. The research further looks to understand their effects on premium brands, Waitrose and M&S Simply Food. Thus, allowing for a complete understanding of the impact Aldi and Lidl have had on the UK's supermarket sector. In order to define a cohesive and competent methodology for the exploration of the suggested topic, the

following Objectives section will highlight specific questions which will aid this paper's development.

Objectives:

The primary objective of the research is to illustrate the effects of the discounters on mid-range and premium brand grocery retailers in the UK. In this regard, Table 1.1 offers a view of the current market composition, listing both the organisation suggested for study, and the respective market segment they currently occupy.

Table 1.1 – Supermarkets ranked by consumer quality perception 2017:

Rank by consumer quality perception 2017			Rank by average price on 20 items 2017		
Organisation	Rank	Market segment	Organisation	Rank	Market segment
Waitrose	1 st	Premium brands	Lidl	...2 nd	Discounter brands
M&S Simply Food	2 nd		Aldi	3 rd	
Aldi	3 rd	Discounter brands	Morrisons	...6 th	Mid-range brands
Lidl	4 th		Asda	7 th	
Morrisons	5 th	Mid-range brands	Tesco	8 th	
Sainsbury's	...7 th		Sainsbury's	9 th	
Tesco	8 th		M&S Simply Food	10 th	Premium brands
Asda	9 th		Waitrose	11 th	

(Chan, 2017), (Nielsen Homescan cited in BT Money, 2017)

Primarily, the aforesaid objective has been explored by establishing key trends on an interactive map of UK supermarkets. This particular element of the research has been conducted using Tableau; a state of the art, business intelligence and data visualisation software. This enables the assembly of multiple layers of data onto a single map of the UK. Which when operated, allows for an innovative and in-depth look at changes certain areas of the UK have experienced and their possible impact on the supermarket sector.

Furthermore, information relating to the financial performance of each of the considered organisations has also been collected via the FAME (Financial Analysis Made Easy) open resource (see Appendices 3-10), which was then analysed via an Excel spreadsheet.

The following are the key questions which the research paper attempts to address in aid of the suggested objectives:

1. An exploration of any reduction in rival store expansions in any particular geographical area of the UK, following the establishment of a discounter
2. Investigate which of the mid-range supermarkets (the big four) are most likely to lose customers to the discounters
3. Explore which of the premium brands are most likely to lose customers to the discounter brands
4. The extent to which Aldi and Lidl boosted their store expansion over the post credit crunch period of 2009-2012, is this period significant?
 - a. Is there any significant difference between the impact of Aldi and Lidl?
5. Which of the supermarket sector segments could be most effected by reduced turnover, in terms of store expansion?
 - a. Is there any significant difference between either of the discounters?

Further to the primary objectives of the present research, the literature review also provides an extensive examination of historic and contemporary literature around the chosen topic. For ease of understanding the key areas of the proposed literature review have been listed below:

1. History of the studies supermarkets
2. Emergence of the big four
3. Rise of the discounters, Aldi and Lidl

4. Failure of Netto in the UK
5. Establishment of premium brands, Waitrose and M&S Simply Food
6. Effects of the 2007 credit crunch, and subsequent recover
7. Discussion

1.4 Outline Structure:

Chapter One – Research Framework:

This chapter offers an introduction to the paper, before highlighting the basis and background of the proposed research. Further, Chapter One documents both the primary problems to be explored, as well as the suggested objectives of the present paper. Finally, this chapter proposes the key questions to be explored via this research, as well as suggesting the key topics of discussion to be considered for the proposed literature review.

Chapter Two – Literature Review:

This chapter offers an in-depth analysis of the UK's supermarket sector since its inception. Highlighting the respective growth strategies deployed by each of the studied organisations, as well as documenting key failures in the market and the prescribed reasoning for such failures. Similarly, Chapter Two also offers an understanding of the credit crunch of 2007, and its impact on the supermarket sector and the sector's subsequent recovery. Finally, this chapter offers a discussion of similar research to the present paper, as well as highlighting differentiating factors.

Chapter Three – Research Methodology:

This chapter considers and articulates the primary methodology to be deployed in aid of the present research. Initially the chapter describes the research paradigm, before

suggesting the research strategy and specific methodology to be deployed. Similarly, Chapter Three highlights the key data sources and datasets, as well as their contents to be deployed in aid of this research, before identifying key tools which have been utilised and any limitation of the adopted methodology.

Chapter Four – Results and Empirical Findings:

This chapter illustrates the basis of the research, given that it explains the key findings of the research in line with the suggested research questions. Firstly, Chapter Four provides illustrations of the research in the form of geographical imaging, before surmising the key findings the data analysis has brought to light.

Chapter Five – Discussion and Synthesis:

This chapter attempts to understand, rationalise and corroborate the findings of the present paper, as detailed in Chapter Four – Results and Empirical Findings, in line with the literature review, detailed in Chapter Two.

Chapter Six – Conclusion and Recommendations:

Chapter Five offers a summation of the present research paper, detailing key elements from each of the chapters, before drawing attention to the core findings of the research in line with Chapter Four. Finally, this chapter offers an understanding of any limitations associated with this paper, as well as commenting upon the scope for future study in this field.

Chapter Six – References:

This chapter consists of a complete reference list in the Harvard referencing style, as well as an Appendices contents page.

1.5 Summary:

Chapter One has provided a detailed outline of the research the present paper has carried out. Highlighting, the primary reasons for the research, i.e. the growth of both Aldi and Lidl in what has now become a highly competitive market. The chapter further illustrates and segments the eight organisations which have been considered for study, into three key categories premium, mid-range and discounter brands. Similarly, the chapter has provided a clear understanding of the core objectives of the paper, topics considered for the literature review, and the specific questions which will be addressed in order to aid the overall objectives of the present paper.