J. Sainsbury plc and the UK food retail industry

This long case builds on issues introduced in Minicases 4.7 (p.192) and 10.8 (p.478) and covers themes from the whole book. There are four accompanying questions and five associated tasks which require you to use the Internet. Naturally your insight into the issues would also benefit from a visit to a Sainsbury's store. A commentary on the four questions is provided later.

BACKGROUND

Founded in 1869 by John James and Mary Ann Sainsbury, J Sainsbury plc has become one of the largest food retailers in the UK. Its origins date back to one of the poorest regions in London and it gained its reputation for selling high quality products at low prices. It was as far back as 1882 when its strategy of high quality products at premium prices in more affluent areas began to develop. Facing serious competition from larger chains, the founder expanded threefold between 1890-1900 so that he could benefit from purchasing economies of scale and compete with contemporary rivals such as Liptons. From then on the company, still under family control grew from strength to strength. By the 1970s it had reached the scale of operation that merited public status and as such was the biggest ever flotation on the stock market in 1973. Family descendant John Sainsbury was Chairman during this period – he remained in control from1969 until 1992. During his stewardship the company pursued a strategy of growth through market development into new geographic areas and new store development in the shape of large out of town outlets, beginning with Telford and Cambridge. It also expanded into the north of England and Northern Ireland. These new formats allowed for a much larger product range and spurred on new product development and innovation - for example, Sainsbury was the first in the market with own branded wines. In a ten year period to 1994, its product choice had more than doubled and included product ranges to suit changing consumer tastes such as exotic fruits, reduced fat products etc. Its strategy of innovation also utilised the development of technology through computerised stock control, in store scanning and sales ordering, all of which enabled the company to gain a competitive advantage and become the number one food retailer in the UK. Table 1 below provides a summary of Sainsbury's current store portfolio in the supermarket sector to date.

However Sainsbury's has been unable to sustain its position of market leadership. In part this was stronger competition, mainly from a rejuvenated Tesco. But it could also be argued that Sainsbury's plight has not been helped by strategic leaders who have not appeared to be as strong as their predecessors. In recent years Sainsbury fell to number three in the market behind Tesco and ASDA (itself acquired by US-giant Wal-Mart) but it does appear (in the early months of 2005) to have now regained second position, albeit several percentage points adrift of the leader.

Table 1

Retail statistics

Number of outlets	2004	2003	2002	2001	2000
Over 40 000sq ft sales area	157	152	121	86	61
25-40 000	163	162	184	209	225
15-25 000	77	79	84	93	99
under 15 000	186	105	74	65	47
Sales area (000 sq ft)	15570	15199	14349	13746	13055
Net increase	2.4%	5.9%	4.4%	5.3%	3.9%
New store openings	35	39	25	27	20
Sales intensity Per sq ft (£per week)	17.04	17.56	17.54	16.79	16.98

Source: J. Sainsbury company profile September 2004 (http://www.sainsbury.co.uk)

By March 2004, the company was comprised of 583 supermarkets throughout the UK and beyond. In August 2004, the company extended its entry into the convenience sector by purchasing Jacksons with 114 stores and 2350 staff. This gave Sainsbury a presence of just over 250 convenience stores but branded under different names, operating as a separate business under existing management. Its convenience portfolio then comprised 54 Bells stores, 67 Sainsbury's local stores and 22 outlets in partnership with Shell.

THE FOOD RETAILING ENVIRONMENT

Market size

In 2002 the UK food retail industry, defined as food, alcoholic beverages and tobacco was worth £88 billion. Adding health and beauty, newspapers and magazines to this gives a total of £108.7 billion. Throughout the 1990s there had been a steady increase in sales and profits of the leading supermarket chains but by 2002 signs of slowdown were apparent. The market has matured and is saturated - meaning growth is only achievable by taking share away from established players. Despite developments in new store formats, and new products, Mintel (2003) (see http://www.mintel.co.uk) suggest that these are unlikely to encourage people to spend more on food and therefore grow the market overall. Food products are less susceptible to the economic cycle and whilst in a recession there might be some trading down by consumers. On the whole consumers will tend to make cuts on discretionary items and not on the basic food items. Keynote (see http://www.keynote.com) however, have forecast that retail sales of food in supermarkets will grow substantially from 2003 to 2007.

One way forward in increasing share of retail sales is through the development of non food sales, a strategy which both Tesco and ASDA have pursued aggressively. A key challenge for all competitors in food retailing is to generate growth when their core food product is slowing or falling. Retail Corporate watch UK estimate a 15% year on year growth of sales of non food items through supermarket stores (http://www.corporatewatch.org.uk).

Competition

As can be seen in Table 2 competition in food retailing is intense with 4 big players battling it out in a slowing market. The only means of increasing market share in food sales is by taking share away from other players.

Table 2: Size of key players

Company	***Market share (%)***
Tesco	28.3
ASDA	16.7
Sainsbury	15.5
Morrison/Safeway	13.2

Source: Observer December 05 2004

Tesco has been increasing its lead in this industry, having overtaken Sainsbury, who had dominated food retailing for many years. Ten years ago Tesco was the third largest food retailer in the UK, now it is number one in the UK and the third largest globally. Tesco and ASDA are strong players in this market and with ASDA having the backing of its US parent, Wal-Mart, behind it, competition between the two is likely to intensify. ASDA first overtook Sainsbury as the country's number two food retailer in July 2003 (http://corporatewatch.org.uk/profiles/ASDA/htm) Clearly, Sainsbury have lost ground in the industry and lost their competitive advantage.

The oligopolistic power of food retailers has been something of a contentious issue in the industry generally. It has been suggested that sustained and continuing consolidation in food retailing is likely and that whilst the home market might be saturated, it is clear that many are looking at taking their product offering and services into the global market.

They are also looking to develop their share of the retail sector overall by extending and developing larger stores. This gives them the opportunity to expand their range of food and non food items and gives them advantages over non food retailers in the following ways:

Convenience – long opening hours, everything under one roof (one stop shop), local and good parking

Scale and systems – this gives them a cost advantage which allows them to charge low prices for good quality products

Innovative – new types of food products are developed and they have developed good quality own branded products which reduces some of the power of the larger suppliers

Range – smaller stores are unable to match the range of products they have on offer or the prices at which they are able to sell them given their buying economies.

Whilst the leading players are still looking to develop large stores, there is also a push to develop different format stores, depending upon location and consumer characteristics. For example both Tesco and Sainsbury have developed a high street and city centre presence through the development of Sainsbury Local and Tesco Metro and Tesco Express, whilst ASDA has developed stand alone George clothing outlets. Convenience stores are seen as one of the growing areas of food retailing.

New entrants have managed to overcome the barrier of concentration in the form of discounters (mainly international players who have entered the UK market offering non branded products at low prices) and established players in global markets such as Wal-Mart through its takeover of ASDA in 1999. Wal-Mart, the world's largest retailer, is an interesting arrival and could have a substantial impact on the competitiveness of food retailers in years to come in terms of pricing, profitability and sales. It is unlikely that a completely new entrant would be able to break into this market given the scale of operation required and access to land and planning permission as well as relationships with suppliers. Relatively high share prices might also act as a deterrent to established overseas retailers looking to break in on the back of acquisition. Profits have begun to fall because competition between retailers has increased, and this in itself might act as a deterrent to new entrants by potentially decreasing the overall attractiveness of the industry.

A key issue facing food retailers has been the problem of differentiation. It seems that no one store has anything truly distinctive to offer the customer. Whilst fresh food and convenience foods were seen as a competitive battleground and stores developed mini bakeries and fishmongers etc within their stores, any such move has been easily copied by rivals. One area which might be seen as offering competitive advantage has been through the use of IT. Tesco, for example, has used the power of IT and information gained from their loyalty card to effectively target consumers and work towards their core purpose 'to create value for customers to earn their lifetime loyalty' (See: Annual Report and Accounts - http://www.tesco.com/corporateinfo/).

They have used this to understand the needs and wants of consumers and effectively deliver through their marketing mix. Sainsbury had clearly fallen behind in this innovation and eventually launched their own card called Nectar. This has been run in alliance with Barclaycard, BP and Debenhams, and the company claims has resulted in an increase in turnover for its stores. They are using data from the scheme to reorganise and redesign new store formats. Whilst reports suggest an increase interest in loyalty cards, Keynote report that price and convenience are still the most important factors to customers.

General environmental trends

Consumers become ever more demanding. They are more aware of price variations and product quality. As such, loyalty to certain stores appears to be diminishing as it is easy for consumers to switch from one store to another in local areas, depending upon availability and special offers. Responding to customer requirements and improving customer service remains a key challenge for industry players and can be seen as critical for competitive advantage. Food retailers are responding to these increasing demands through their marketing activity in better targeting of individual needs and wants. They are doing this through different formats of stores in different localities and are clearly targeting the convenience sector. This is a segment of the market which is growing and is, as mentioned earlier, an opportunity which Tesco and Sainsbury appear to be exploiting through Tesco Express and Metro stores and Sainsbury's Local. Table 3 illustrates the differences in socio economic characteristics of food retail consumers.

Table 3: Socio-economic characteristics of UK food retail consumers July 2003

	Tesco %	ASDA %	Sainsbury %
All	27	18	13
Men	26	16	13
Women	27	19	13
15-19	19	24	7
20-24	24	19	9
25-34	29	18	15
35-44	27	23	12
45-54	29	15	16
55-64	24	13	9
65+	28	15	17
AB	26	15	22
C1	26	15	17
C2	32	20	9
D	27	23	5
E	20	18	10

Source: BMRB/Mintel (2003)

Clearly, there are differences between store and consumer profiles. There are also trends in the size of households, with two person households counting for the largest share and single households increasing steadily as they are in other parts of Europe such as Germany and France. This segment tends to be dominated by women pensioners. The biggest share is taken by both male and females in the 0-19 year age range, followed by females aged between 35-44 and 65+.

Technology is shaping the competitive landscape of the industry, for example Tesco has become the biggest global online retailer (Financial Times 2000). Could the Internet further facilitate greater economies of scale for the key players? Will consumers be willing or keen to purchase their basic everyday commodity items in this way? If so, then prices amongst the big players could well become more transparent and consumer loyalty could diminish even more. Obviously IT has the capability to provide the retailer with up to the minute information, and make the organisation better informed and better equipped than ever before. Technology in the form of home and Internet shopping makes switching between retailers easier for the consumer.

Food retailers have, however, been accused of using their power to dictate prices to their suppliers and manufacturers which led many to complain to the Office of Fair Trade (OFT). As a result of such complaints an investigation was launched in 2000 and a Voluntary Code of Practice was established to control their buying power. Terms of their relationships should now be transparent and advance notice given of any changes. The supplier has only a limited choice of organisations to whom it can sell its products (i.e. the food retailers). However, the investigation did not reveal that supernormal profits were being achieved by these retailers. Pressure on suppliers might be further exacerbated by more varied buying patterns by the retailers who now source through international suppliers. Given this level of activity, supermarkets are often accused of bullying their suppliers with an increasing number of complaints being made of this nature. According to Lyons and Tooher (21/03/05, see http://www.thisislondon.co.uk/news/business/articles) plans are being discussed at government level for the establishment of an independent watchdog to oversee and handle the ever increasing number of complaints against them. Many complaints centre around suppliers having to wait too long for payments, being forced to pay towards marketing costs and a constant fear of being blacklisted if they do complain to the relevant authorities. A further contributing factor for sourcing from around the globe is the instability of food prices in the UK which results from variations in harvests.

As can be seen, there have been enormous changes in food retailing, with supermarkets coming under intense competitive pressure. Sainsbury's have clearly suffered in this changing business environment in which food retailers have had to operate.

Question 1. What do you see as the key environmental factors in the external environment of the food retailing industry?
How might these factors impact upon key industry players?

Relevant at end of Chapter 4

Analysis of key competitors

Tesco

Tesco is the leader in grocery retailing in the UK and is fast becoming a big player on a global scale in countries as far afield as Thailand and Poland. It has initially entered new markets largely on the back of acquisitions, and then grown organically from that base and knowledge. Whilst 45.4% of its retail space is outside the UK, only 18% of sales are generated there. However, this compares favourably with only 5% just six years ago and it now stands as the number three retailer globally behind Wal-Mart and Carrefour. Similar to Sainsbury's in being part of the retail establishment in the UK for many years, it was only in the 1990's that it began to blossom. After the recession in the 1990s the group (under new strategic leadership) deliberately embarked on a strategy to differentiate itself from the then market leader, Sainsbury. It positioned itself to appeal to the mass middle market and developed its stores and products in line with this. Of the 40 000 lines it carries, around 25 000 of those are food. Half of all new space added in 2002/2003 was for non food products but food remains the core of their offering and what initially attracts consumers to their stores in the first place. It has invested in and delivered its own brand labels. Even within own brands it appeals at the lower end through its value brand and the upper end through its finest range, therefore offering a competitive alternative to the offerings of its nearest rivals ASDA and Sainsbury respectively. In a relatively short period of time it has overtaken Sainsbury as market leader. It has shown particular strengths in information technology (and is now one of the leading online retailers worldwide) and logistics and its loyalty card has been one of the most successful launched and uses the customers information on purchase patterns in developing its relationship marketing program. Its expertise in technology is leading partnerships globally, with, for example, Safeway in the US to whom it is licensing its technology for online store shopping. They have matched the onslaught by ASDA on price competition and challenged them on one of their core product successes, namely clothing by the launch of its Cherokee and Florence+Fred brands. It has also seized the opportunity to exploit the opportunities in convenience retailing through its acquisition of T&S stores, other CTN stores and the opening of 277 Tesco Express outlets. Reporting in the Observer Newspaper (05/12/04 - for related links see http://www.observer.co.uk), Sarah Ryle sums up the position of Tesco by saying:

'Tesco is on course to make £163.2 billion profits this year. It has more than 28 per cent of the groceries market. It has 6.5 per cent of the more fragmented non-food market. It is one of the top three sellers of music, films and electronic games in the UK. It sells more beauty products, in volume terms, than Boots. Its banking arm wins 90 000 more customers every month. There can be few consumers left who do not know that Tesco tills take one in every eight pounds spent in our shops'.

It sees non food as a scale business and very attractive in international markets where hypermarkets are being developed. It increased its share of the non food market from 5-6% in 2003/04.

ASDA

ASDA has been owned by Wal-Mart, the American retail giant, since 1999. Originally formed in 1965 by a group of farmers in Yorkshire it has grown in the last five years under the ownership of Wal-Mart from 13 to 16 per cent of the market to become the UK's number two food retailer for a period. ASDA has in the past differentiated itself from the other three big players, Tesco, Sainsbury and Safeway (now under the control of Morrisons) by being significantly cheaper, concentrating on prices rather than loyalty schemes.

ASDA operates three different store formats. There is a standard format with average selling space of 42 000 sq ft. There are also ASDA/Wal-Mart Supercentres and a smaller format for tackling the convenience sector, called Fresh stores, where the focus is on a fresh food range. Their successful range of George clothing is now also being developed in the high street with stand alone George fashion outlets, a business worth one billion pounds. Wal-Mart's stated intentions are to open about 15 new ASDA stores in 2005 with a £500 million investment, creating 6000 jobs (Guardian 18/02/05). A key advantage for ASDA in having Wal-Mart as its parent appears to be in the sourcing of non food items, which in the UK is a growth sector for food retailers. The number of non-food lines is constantly growing. In pursuit of non-food market share they are opening what they call 'ASDA Living' stores which sell household, electrical and clothing products. They also intend to take their George brand global through existing Wal-Mart stores. According to the Guardian (25/05/04), the firm has created a new department called George Global which will manufacture and source clothing products for up to 5 000 Wal-Mart stores globally. In doing so, the brand has the potential to reach up to 10 million customers every week. What creates a problem potentially for the likes of Wal-Mart in the UK, along with their competitors, are the tight planning laws. This makes growth, other than through extensions of existing stores, fairly difficult.

William Morrison

Morrisons' roots go back to 1899 when William Morrison, the father of the current chairman, Sir Ken Morrison, started out as an egg and butter merchant on market stalls in Bradford. From humble beginnings - the first self service shop was opened in the same town in 1958, followed in 1961 by its first supermarket - the company has grown to its position today as the fourth largest supermarket in the UK behind Tesco, ASDA and Sainsbury, with approximately 400 stores. They have achieved this through both organic growth and acquisition, taking over the Lancashire based supermarket Whelans in 1978 and then Safeway in March 2004. Having opened seven new stores in 2004, it plans to open a further seven in 2005 and eight in 2006. Their aim is 'to provide all our customers with the very best value for money wherever they live and uniquely .…. our aim is to offer outstanding value for money, unbeatable customer service and a pleasant shopping experience. Combining low prices with special offers and promotions, we work hard to ensure we simply cannot

be beaten for value for money on everyday grocery shopping' (http://www.morrisons.co.uk/59.asp)
Unlike rivals Tesco and Sainsbury, the company does not offer a loyalty card, preferring instead to discount prices. It also appears slow to compete in the main growth areas of smaller high street outlets and the development of non food items. How damaging this will be in the future battle of the supermarket giants remains to be seen.

The performance of Morrisons since the takeover of Safeway in 2004 has been disappointing. The company announced expected profits for the year ending January 2005 at roughly £40 million less than city analysts were expecting (Telegraph 18/03/05 - see http://www.money.telegraph.co.uk). Despite admitting slowing sales in the Christmas period, the company put the £40 million shortfall down to different accounting procedures between Morrisons and Safeway and as a result might suffer a shortfall from suppliers. This has been seen by some as a major error by the Finance Director who should have identified this difference in procedures. Analyst Philip Dorgan commented in the Telegraph (18/03/05) 'Their programme of converting Safeway stores into Morrisons just isn't working'.

There have been several profit downgrades and continuing controversy over the make-up of the Morrisons' Board of Directors. Deputy Chairman (Sir David Jones, ex of Next) has been tasked with finding suitable non-executive Directors who Sir Ken Morrison believes he can work with.

In addition, at the very top end of the market, the likes of Harrods and Fortnum and Mason sell food products, but these have little impact on high street supermarkets. But the more up-market Waitrose (part of the John Lewis Partnership, but not spread throughout the UK) and Marks and Spencer do. Recently Waitrose has been expanding and M&S has suffered like J. Sainsbury for many of the same reasons.

At the other end are the discount stores like Kwik Save, Aldi and Netto – but are they a direct threat when their product range is much more limited?

Question 2.

What are the key strengths and weaknesses of Sainsbury's?

Relevant at end of Chapter 5

Task A

Evaluate the product portfolio of Sainsbury's and compare it with those of its major competitors. *Relevant for Chapter 9.*

Starting web page:
www.j-sainsbury.co.uk/index.asp?pageid=204

SAINSBURY'S RECENT HISTORY

Mission and objectives

'To meet our customer needs effectively by providing the best quality and choice to meet their everyday shopping needs and thereby provide shareholders with good, sustainable financial returns'
(http://www.j-sainsbury.co.uk/index.asp?pageid=203).

Strategy

'We are focused on our UK business. We must build on the recent investments made to reclaim the market position that belongs to Sainsbury's; great quality food at good value prices is where the company started. It is at the heart of what Sainsbury's stands for and is what our customers still want us to provide'.

Objective,….is to meet our customer's needs effectively and thereby provide shareholders with good, sustainable financial returns. We aim to ensure all colleagues have opportunities to develop their abilities and are well rewarded for their contribution to the success of the business. Our policy is to work with all of our suppliers fairly, recognising the mutual benefit of satisfying customer's needs. We also aim to fulfil our responsibilities to the communities and environments in which we operate'.

Decline of fortunes

In 1992 family member David Sainsbury was promoted from Finance Director to replace John Sainsbury who had 'ruled' since the 1970s. He recruited Dino Adriano as his CEO. David eventually became Lord Sainsbury after resigning from the family business and he joined Tony Blair's government as Minister for Science, something he is passionate about. He was succeeded first by Sir George Bull, and later by Sir Peter Davis, who had replaced Adriano as Chief Executive in 2000. Davis had no experience in food retailing but he had headed up the Prudential life and pension company very successfully. Since 2003 the CEO has been Justin King.

1994 saw Sainsbury's being overtaken by Tesco as the largest supermarket in the UK. In 1998 Sainsbury's had 378 food stores and 298 DIY outlets but sales forecasts were looking bleak and the then chief executive Dino Adriano acknowledged that the store needed to do more to boost its value for money offering. DIY sales were down by 0.9%. This was a fairly historic year for the business at it was the first time a non family member had been at the helm, after Lord Sainsbury of Turville resigned in May of the same year. By April 1999 the press were declaring Tesco as 'the king of the supermarkets' with little enthusiasm that Sainsbury would ever catch them up again. A remarkable decline given that early in the 1990s Sainsbury was the undisputed leader in this market, gaining market share as others were losing it to new entrant discounters. Tesco pushed ahead in getting bigger by buying the Scottish retailer William Low and being innovative in their product offering to the customer.

Their loyalty card was dismissed out of hand by Lord Sainsbury, a judgement much regretted as they were forced to provide a similar product offering in later years due to Tesco roaring success. The media pointed to the old style management culture that prevailed at Sainsbury and a lack of innovation. It seemed that over the next few years Tesco were innovative and constantly first on the market with new offerings and attractions for the consumer. Jobs were being cut at both Savacentre stores and its head office operations. The media reported that Sainsbury had found difficulties in playing catch up effectively due to an old fashioned management culture. Advertising and promotional strategies were a non starter for the company who failed to align their advertising message of cheap offers with a brand name that was historically synonymous with high quality produce. BBC News Online ((April 12 1999) reported a discussion with a city analyst 'Sainsbury's has to do something radical, just sacking managers is not enough – it needs to be more innovative'. By July 1999, Sainsbury had fallen further behind , being relegated to third spot behind ASDA. Tesco retained its lead with a clear 22.9% of the market whilst ASDA had 16.53 and Sainsbury's, 16.5. Whilst these figures referred only to grocery sales and not sales overall, they provided a worrying message that Sainsbury's road to recovery was not working as it should be and given the takeover of ASDA by the American giant Wal-Mart in 1999, urgent action would seem to be needed. Upon his arrival Peter Davis outlined a new three year plan aimed at winning back market share from arch rival Tesco.

By the close of 2001 it looked as though the company's fortunes were seeing something of a revival. Like for like sales growth were up by 6%. CEO Peter Davis believed that a store refurbishment programme and the cutting of operational costs by £150 m that year were contributing factors to improved performance. Availability of produce, reduced queues at checkouts seemed to be leading to an increase in customer numbers, a good starting point for fighting back. 6000 new jobs were created in November 2001 and a further 4000 part and full time positions were being planned in the new year to add to their already strong 142 000 workforce. New staff were to be appointed to existing stores where expansion had already taken place and new outlets.

The firm also launched its new loyalty card called Nectar in September 2002 with 11 million customers taking on a card within the first two months of its launch. The card could been seen as something of an alliance with other retail firms such as Debenhams, BP and Barclaycard, whereby customers earn points on purchases in all of these and other outlets, which can then be redeemed for flights, cinema tickets and vouchers for purchases in Sainsbury's stores. Whilst profits for the six months to mid October were strong and at the top end of what city analysts had been predicting, the firm was being vigorously pursued by third ranked ASDA.

By 2003 Sainsburys' emphasis on making profit created casualties to sales growth. 'With hindsight we probably went too far in reducing promotions and operating costs to achieve profit target, at the expense of sales' commented Peter Davis (BBC News Online 28/3/03). 1.3% growth was poor in comparison to recent times. July 2003 saw a heat wave in sales for other grocery retailers whilst Sainsbury's appeared to be left out in the cold reporting a fall in sales of 0.2% in the three months to October. This compared to increases at Tesco and Morrisons of 6.3% and 9% respectively. Sales remained sluggish in comparison to all rivals over the Christmas period. Rumours began to emerge that Davis might exit the company earlier than planned despite supposedly taking over as Chairman in March 2004. The success of his three year store refurbishment programme was becoming more questionable by the day. The media could see what was happening to the store with Heather Connon writing in the Observer 16/11/03) that

'the real problem is that customers are still not convinced by Sainsbury's transformation. A decade ago, customers were willing to pay premium prices for the cachet of its upmarket offering of fresh pasta sauces, extra virgin olive oil and exotic fruits. Now other chains have caught up on quality and overtaken it on price. It is no coincidence that the three successful chains….all sell themselves as the cheapest'.

Trying to position themselves between the cheaper prices of Tesco and ASDA and the higher quality of Waitrose and Marks and Spencer had led the firm to what Porter (1980) might refer to as being 'stuck in the middle'.

Davis was also playing catch-up in the area of non food items which he originally disliked - yet key competitors were clearly achieving growth in these areas. As a result, homeware, clothing and health and beauty products were added to fresh food provision in different stores under own brand labels.

February 2004 reported shake-ups in the Sainsbury Boardroom to create a new team to lead the store back to success. Shareholders had been unhappy for some time with Sir Peter's leadership, yet in November 2003 it was clear he still had the backing of the largest shareholder, the Sainsbury family. Sales continued to decline into 2004 and a profits warning was announced to its shareholders in March 2004. Just prior to that in February 2004, Sainsbury's bought a chain of convenience stores in the North East called Bells Stores. Whilst they were to be operated as a separate business unit maintaining their existing head office this was seen as a move to increase their expertise in the fast growing convenience sector of food retailing. Further enhancing their position in this sector was the purchase of Jackson's stores in the August of the same year. This acquisition comprised 114 convenience stores in Yorkshire and the North Midlands. The firm stated that its poor performance was in relation to tough levels of competition in the industry, particularly increasing as a result of the takeover of Safeway by Morrisons. It sold its US supermarket operations (branded Shaws), some of the proceeds from this sale being earmarked for improving the UK position. But, by May 2004 both profits and sales were still disappointing.

Sir Peter Davis was ousted as Chairman by shareholders in July 2004 when investors became increasingly disillusioned by his recovery programme - in which sales remained slow. Justin King, an ex employee of ASDA, had already taken over as chief executive. He has embarked on a turnaround strategy which includes axing of head office staff, new shop floor staff hired in order to improve levels of customer service, price cutting across a range of products and an increased emphasis on product quality. King made it clear that that company had lost its customer focus and had not stayed ahead of the game on pricing. Attention to more competitive pricing began a month before key figures on profits and sales were announced. The way forward as identified by the new chief executive is highlighted below.

November 2004 saw the first ever loss for Sainsbury's since it began in 1869. Compared to a profit of £323m a year earlier, the supermarket chain announced losses of £39m in the first half of the year. Sainsbury's appeared to have fallen foul of the price-led and high quality-led players, leading in neither of these two clusters. Commentators typically suggested that mistakes had been made in their strategy by them not investing enough in store refurbishment and updating, as well as falling behind in the race to expand and grow in non food items. Distribution had also become a problem, despite having invested £3bn in automated depots, a key plank of the Davis strategy. This had left stores without stocks at vital times of the year.

Task B

Read through the company's history and decide when you think Sainsbury's was most successful. When, how and why did things go wrong?

Relevant for Chapter 14.

Starting web page:
www.j-sainsbury.co.uk/index.asp?pageid=214

The road to recovery?

In October 2004, a new sales recovery was announced by the company, this following on from a business review. In delivering their strategy to restore profitable growth, Sainsbury's are now concentrating on three key areas: outstanding quality and choice, delivering great service and competitive costs. The key points of the recovery plan are outlined below have been taken from their website under news releases. The total cost of this is estimated at £550 million:
(see http://www.j-sainsbury.co.uk/index.asp?pageid=1)

- Focus on a sales-led profit recovery
- Grow sales by £2.5 billion over the next three years
- New management team that has retail experience and a track record of success in the industry
- Return to roots of high quality products at reasonable prices
- Change in cost structure
- Investment of £400 million on improving customer offer

- Up to 3000 new staff recruited at store level

- A search for operating efficiencies of at least £400 million with close attention to cash flow an property portfolio

The new Chairman, Philip Hampton, believes that this plan will restore and sustain performance of the ailing supermarket with the key emphasis being growth through focusing on the needs of the customer, something that Justin King believes they have been failing at in recent times. Their past attempts at turning the business around through a transformation programme have been seen to distract from focusing on those customer needs. They believe that they have a unique customer proposition but need to add greater value through improved quality of products at fair prices. They will focus as they have done traditionally on fresh and own branded products attempting to be innovative in both product and quality development. Their sub brands such as taste the difference, be good to yourself etc will all help them, they feel, to differentiate from the other big players in the market.

Question 3. Critically evaluate the competitive strategy of Sainsbury's over the last ten years.

Relevant at end of Chapter 6

Task C

Evaluate Sainsbury's financial returns over the last 5 years.

Utilise the Financial Analysis Supplement to Chapter 7

Details in Company Profile on web site

Implementation issues

- They will offer a basic range of non-food items in most stores such as cards, wrapping paper, DVDs, CDs etc and in the larger stores will extend these non food items to include clothes and homeware. Clothing, through their TU brand, has been attractive for customers and will hopefully grow the non food merchandise in stores.

- Store refurbishment is recognised as imperative in 131 of its stores which have not seen any significant investment for many years. With as many as 20 per cent of the firms customer base shopping in these stores, it is recognised as a priority over the next two years to provide customers with a much improved and more pleasant shopping environment.

- Changes in organisation structure include what is referred to as a convenience division which will pay sole attention to T&G, Jacksons etc so as not to distract from their core supermarket formats.

- IT has been a major problem for the firm and costs of IT have escalated at a far faster pace than any increase in sales. Simplification of existing systems to improve their functionality has been put in place and external consultants are being employed on a greater scale to advise on the selection and implementation of more appropriate systems for the future.

- Morale within the organisation is seen to be low and a number of measures have been put in place to improve this. They include a new reward system geared towards in store standards ands also availability of products to the customer which has been a key failing point in the past. This measure is intended to create an organisation culture where stores, their functioning and the focus on the customer is paramount. Employees also now have the opportunity to participate in a suggestion scheme with rewards and recognition for effective suggestions. The added value of central support is being questioned as costs outnumber those of competitors. Whilst head office count has already been reduced in the past, further reductions of around 750 staff are likely to be made in the early part of 2005.

- Changes in management structure were seen as imperative for restoring the fortunes of the firm. The director of the supermarket business was to step down. King wanted more control over the day to day operations of the business. Whilst King has a history of retail experience with both Marks and Spencer, where he was Director of Food, and at ASDA as managing director of Hypermarkets, the City were still unsure of his ability or experience in turning troubled companies around. Sir Peter Davis had exited after reports that shareholders were unhappy with the £2.4 million bonus he was to receive. However, reporting for the BBC (1 July 2004), Jeff Randall commented that it was not so much the size of the bonus that was creating discontent so much as the poor sales, profits, market share and share price performance. Under Sir Peter the company sunk £3billion into trying to improve the supply chain and distribution. This turned into a disaster as the system failed to deliver and stores were left un-stocked, especially in the run up to Christmas 2003. Martin White, director of supply chain operations was also ousted having been in charge of the implementation of new automated depots. These proved to be a disaster. He was replaced in September 2004 by Lawrence Christensen from Safeway. Maggie Miller, responsible for IT was also replaced in December 2004 by the IT director, Angela Morrison from ASDA. Ms Miller had been with Sainsbury's for four years having being appointed when the firm had just outsourced its It operations to the consultancy firm Accenture.

Task D

Assess the qualities of the current Operating Board.

Relevant for Chapter 10

Starting web page:
www.j-sainsbury.co.uk/index.asp?pageid=389

- These plans are seen by senior management as a radical departure from those previously implemented with a new management team. The focus is clearly the customer rather than the infrastructure of the business which has been the focus in the past. The customer is clearly at the heart of the business and changes in culture and structure have been designed to effect that.

Tesco powers its way onwards and upwards by offering the customer a product range once synonymous with a range of shops on the high street. Competitors like Wal-Mart build hypermarkets, with a product range and prices once unthinkable in a single store in the UK. A huge question remains as to whether Sainsbury can ever regain its position as the number one food retailer in the UK. Will the new strategy outlined above deliver the desired objectives?

Question 4. Comment upon what you see as the key problems the organisation has faced in implementing their strategy over the last five years.

Picks up issues in Chapters 15 and 17

Task E

Read the News Sections on the company web site and consider where you can see examples of innovations and entrepreneurship.

Relevant for Chapter 10.

Starting web page:
www.j-sainsbury.co.uk/index.asp?pageid=418

COMMENTARY

Case questions and analysis

The questions inserted in the case and discussed below have been designed to take you through the major parts of the strategic management process. It is unlikely that any case you analyse will cover every aspect of every part of the process. It is important however to have knowledge of all you have studied so that on reading a case you can easily identify which parts of the process the case is addressing. Whilst the questions below will not incorporate every tool, model, framework or theory addressed in the text book, some of the major issues from each aspect of the process will be addressed in the case. These guidance notes provided are not intended as a model answer but as a guide to help you identify key elements of the theory that the question is addressing, how you might structure an answer to the question and where you might find useful techniques within the text.

Question 1 – What do you see as the key environmental factors in the external environment of the food retailing industry? How might these factors impact upon key industry players?

This question essentially concentrates on the theory and frameworks examined in chapter 4 Environmental analysis and strategic positioning. You will be expected to analyse the circumstances to determine how the issues involved will change the industry in the future and what implications this will have for organisations in the industry.

PEST analysis (pp.168-171) – provides a general overview of external factors affecting the industry, largely outside of their control. These are political, economic, social and technological. Sometimes a further two might be added to make a PESTEL analysis encompassing environmental and legal factors. Some of these factors might present opportunities for industry players, whilst others might present problems which will obviously affect decision making within the organisation. Examples might include saturation of the market, impact of new technology on product channels and marketing and planning restrictions. This will largely depend upon the resources and capabilities of the firms competing. In applying this framework try and think through what some of the implications of such factors might be for those firms competing in the industry. This is likely to earn you higher marks from a tutor as it is where your level of analysis comes into play.

http://www.quickmba.com/strategy/pest
http://www.netmba.com/strategy/pest
http://www.thetimes100.co.uk - useful for examples

Hollingsworth, A. (2004). Increasing retail concentration. British Food Journal. Vol 106, issue 8, pp 629-638.

Porter's five forces model (pp172-182) – this is essentially concerned with the nature and intensity of competition in an industry as a starting point to a firm positioning itself and developing a competitive advantage. It is an industry level model, not applied at the level of the firm initially but at the industry level which affects the profitability of an industry. The basic idea is that it is not just direct competitors that have the ability to affect industry profitability, but other competitive forces (buyers, suppliers, substitute products and the threat of new entrants) as well. Thus it expands our traditional notion of competition and helps to identify how attractive an industry is for existing players and also if a firm was thinking of entering into a new area.

http://www.isc.hbs.edu/
http://www.fastcompany.com/magazine/44/porter.html
http://www.quickmba.com/strategy/porter.shtml (lots of associated links, very useful site)
http://www.mngt.waikato.ac.nz/research/ejrot/vol4_1/harfield.pdf (good critique of Porter's work)

You might also want to apply the tools of competitor analysis and strategic group analysis. Firstly, direct comparisons could be made across competitors generally in terms of for example, market share, number of stores, retail space, width of product ranges and store formats and various financial analyses. This might give some insight into why one firm is outperforming another. Strategic group analysis will also help to identify the key bases of Sainsbury's most direct competitors and any potential threats of established players in a different group becoming a more direct player.

http://www.tesco.com
http://www.ASDA.co.uk
http://www.morrisons.co.uk
http://www.ftannualreports.com
http://www.bized.ac.uk – this site offers lots of interesting material on companies and industry sectors as well as current theory in all aspects of business management.
http://companieshouse.gov.uk – you can search this site for companies in alphabetical order. It contains basic company information and accounts can be accessed for a fee.
http://dunandbrad.co.uk – information such as size, number of employees, turnover etc can be accessed. A fee is required for certain types of data
http://www.kellys.reedinfo.co.uk/ - you can search this website by company name, products or services as per the hard copy of the directory.
http://www.kompass.com - searchable by company name, product/service, 1.5million companies across a host of different countries.

On the demand side it is critical to establish who Sainsbury's customer base is and potential future customers to be targeted. It is clear in the case material that there are differences in socio-economic groupings of customers for different food retailers. This has implications for pricing and product mix for example as well as location. However, there are also general customer needs and wants in the market. Delivery of these will be crucial to any retailer. It is necessary therefore to use market segmentation techniques as discussed in chapter as a means of analysing the customer as well as their specific requirements.

http://www.mintel.co.uk
http://www.keynote.com

2 – Identify and analyse the strengths and weaknesses of Sainsbury's

This question relates mainly to those issues discussed in chapter five, Resource-led strategy. In order to identify strengths and weaknesses it is likely that you would undertake an internal analysis. This, as discussed on page 212 is a three stage process involving

- An evaluation of the profile of the principal skills and resources of an organisation

- A comparison of this resource base with the requirements for competitive success in the industry

- A comparison with competitors to determine the relative strengths and weaknesses and any significant comparative advantage.

Whilst subjectivity is likely to play a part in such analysis it is important to appreciate that your identification of strengths and weaknesses are relative to the three things above. They are not strong or weak just because they exist but strong and weak depending upon how they are being managed, controlled and utilised. Areas to consider in undertaking a resource audit from which strengths and weaknesses can be assessed include for example, marketing, production, finance, procurement, HRM and research and development. Examples of things to be audited within each of these functional areas is given on page 213 table 5.1.

More intangible resources can be analysed through Kay's three stage framework of strategic architecture, reputation and innovation (pp215-220). (http://johnkay.com/) Networks and relationships and how people work together are of fundamental importance to an organisations success as is the reputation and branding of the firm, whilst continually improving are all likely to help the organisation excel at what it does.

Another framework to be considered in answering this question is the value chain, developed by Michael Porter. Whilst he talks in similar terms to Kay re the importance of the wider system of networks, suppliers and buyers i.e. the value system, he acknowledges the importance of individual and discrete activities performed by the firm in achieving competitive advantage. This attempts to identify how the organisation actually organises its activities to add value for the customer in one of two ways, lowering its cost base or differentiating its products or services. This is illustrated on page 254 with an applied example to the company YKK on page 260 and discussion on page 261, 5.7.5.

3 – Evaluate the competitive strategy of Sainsbury over the last decade

This question requires you to look at how Sainsbury's have attempted to achieve a competitive advantage over their rivals. Firstly, you must identify what their strategy is and secondly, the question asks you to "evaluate" it. This means justifying, in relation to the theory, what is strong about its strategy and what is weak. This will also be related to the issue of sustainability.

A classification of competitive strategies is provided Porter (1985). These can be seen in figure 6.6, page 287, generic strategies. To identify which generic strategy Sainsbury's have been following then it might be useful to revisit the value chain analysis you undertook in question 2. This will highlight how the firm is adding value in terms of cost or differentiation. You must then decide whether it is a narrow or focussed strategy. Remember however, that most models will have its critics and one such criticism of this model is that Porter believes an organisation should only follow one generic strategy for fear of being "stuck in the middle". Critics claim that there are many examples of firms attempting to follow a hybrid of these. From the evidence in the case and using the suggested tools you would need to decide whether it was following a cost leader strategy, a differentiated strategy or a hybrid. You would also need to identify whether it was focussed or narrowly based.

Having identified the bases of its competitive strategy it is then necessary to evaluate it. This can be done by looking at the advantages and disadvantages of its generic strategy. These must then be assessed in light of the level of sustainability which will involve looking at the underpinning of competitive advantage against people, organisation and technology, as well as against its rivals through for example benchmarking. Clearly, Sainsbury have lost their way competitively and you will need to establish why this has happened.

4 - Comment upon what you see as the key problems the organisation has faced in implementing their strategy over the last decade. Give suggestions as to how Justin King might be able to manage the changes that the implementation of the new strategy requires, more effectively than his predecessors.

This question has two key parts. The first revolves around the problems of implementing strategy whilst the second asks you to make suggestions for how to implement or manage change within the organisation effectively. However, before launching into implementation it might be appropriate to state what their strategy has been in terms of for example, product development, market penetration, market development etc.

The case identifies two key problems with strategy implementation faced by Sainsbury's. These are organisational culture and leadership, with a major point being the nature of family ownership and control. However, a general introduction to strategy implementation might be useful in answering this question. This might include a discussion of some of the following

- Organisation structure
- Management systems such as information and communication
- Policies and procedures
- Budgets
- Management information systems
- Managing risk, are the skills evident?
- Time involved with implementation of new strategy
- Responsibility for implementation and leadership (this should be discussed in depth after your introduction as has been a major history in the development of the company)
- Performance measurement and control.

Having made reference to the above issues in introducing implementation you could then go on to discuss strategic leadership in more depth. There is a distinct section in the case which looks at strategic leadership at Sainsbury's and the theoretical underpinning associated with these can be found in part four of the text from page 440 onwards. A general overview of the importance of strategic leadership would be useful as would be the roles that leaders perform (chapter ten p444-453). Characteristics of effective and ineffective leaders could be identified and comparisons made to the past and current leaders within Sainsbury. One of Sainsbury's problems identified by the media has been the lack of innovation within the organisation. Suggestions could be made as to how a more entrepreneurial culture could/should be fostered through the process of intrapraneurship. This is also outlined in chapter ten pp455-468.

Issues of organisational culture are also evident in this case, particularly given the family nature and control of the business. It is always a good idea with a concept such as organisational culture to define it. Having done this you could then go onto discusses the culture at Sainsbury's. Whilst there are various strategic models you can use to do this, the one outlined in this text is the "culture grid" chapter seven, p336. Miles and Snow's typology p345 could also be useful in answering this question by advising what type of emphasis should be given to strategy formation and implementation by King. If you then go on to argue that the organisational culture is inappropriate for the strategy being proposed you will want to make suggestions for culture change. These can be found in section 7.15, p353.

The second part of the question is looking specifically at the theory of managing change (chapter 17, pp799-844). The key issues in managing change are identified in 17.2 and include forces for change, types of change, why people naturally resist changes and ways of overcoming such resistance. You might want to discuss the nature of change required in terms of incremental or transformational change. Issues that King might want to consider for implementation of the new strategy might include those identified in 17.3, p 823 such as the championing of change programmes, deciding upon an appropriate communication strategy, developing effective teams to tackle reorganisation, declaring short term wins to encourage momentum etc. Power and politics within Sainsbury's is also something which should be on King's agenda in terms of how he could use or change existing power bases to facilitate change more effectively. How should managers within the organisation be allowed to "get things done" and to what extent will external stakeholders have any power to affect the proposals for change and how can or might they use their power?

http://themanager.org/knowledgebase/strategy/implementation.htm

Useful sites for searching by industry or company:

http://www.bbc.co.uk/business - news items, TV programmes
http://www.news.bbc.co.uk/hi/english/business/default.stm breaking news stories with special sections on for example, the economy, e-commerce, companies. Archive material is also available
http://www.businessweek.com/index.html online version of the magazine. Features on American and international industries and companies
http://www.channel4.com/news some good special reports on industries and companies
http://www.news.google.com/news excellent site for drawing articles from many other sites on companies and specific industries
http://www.guardian.co.uk/business good site for business news and archive material
http://www.reuters.com news agency website, editions of which can be changed for different countries. Emphasis on business and financial news. Company information is included
http://www.cnn.com/index.html news and current affairs. Key management issues and debates, good for company searches
http://www.ft.com/ - lots of useful articles which can be searched by sector. Archive material available.

http://www.independent.co.uk/www/
http://www.sunday-times.co.uk