OnLine Case 2.1
Sainsbury's

Sainsbury's – one of the leading supermarkets in the UK - began in 1869 in London's Drury Lane, as a shop which sold dairy products – butter, milk and eggs. Expansion of the stores and the range of products really began in the London area in the 1880s. It was 50 years later when the company moved north into the Midlands. The company was floated in 1973. The first Savacentre (an extra large supermarket which sells non-food as well as food products) opened in 1977 and the first Homebase (DIY and gardening products) followed in 1981. Sainsbury's later acquired Shaw's, a relatively small supermarket chain located in the eastern states of the USA.

After the flotation the Sainsbury family still owned 39% of the shares, and a family member was Chairman of the Board from 1869 until 1998. Sainsbury's became grocery market leader in the 1980s and then lost its leadership to Tesco in the 1990s; Sainsbury's main competitors in the UK retail grocery industry are Tesco and Asda. In the early 1990s Tesco increased its market share through a series of initiatives, including a loyalty card scheme. The leading retailers all reduced the prices of a large number of 'everyday' products. During the 1980s Sainsbury's, again like Tesco, had invested heavily in new superstores. A key challenge, critical for competitive advantage in the 1900s, was – and still is – customer service.

> *Our strategy is about giving better quality, about value for money. Our customers come in every week, perhaps twice a week, and buy a huge range of products. If we are not performing, that is seen very quickly.*
>
> (David Sainsbury, when Chairman)

Sainsbury's began to address service more aggressively in the early 1990s. Head-office jobs were cut, but the number of staff in the stores was increased. Advertising was strengthened. A more extensive customer research programme revealed that shoppers were happy with Sainsbury's products but not its service. The major irritant was 'wonky' trolleys which prove difficult to steer in a straight line, followed by a lack of tills, the consequential long queues at the tills, product locations being changed too frequently, flimsy carrier bags, and fruit and vegetable bags which are difficult to open when they are removed from a roll. There were also complaints that check-out operators were scanning items more quickly than customers could pack them.

Sainsbury's introduced new policies. Once a check-out queue reached a certain size, another till would be opened. Customers asking about the location of a product were to be taken personally to the shelf rather than merely told where an item could be found. Staff were asked to cut the scanning speed from 22 to 18 items a minute.

Staff were involved extensively in the changes and £9 million was spent on retraining over an 18-month period.

However, Sainsbury's lost market leadership to Tesco in 1994 and has not regained it. In fact the gap has widened substantially. Asda (now owned by Wal-Mart) has also overtaken Sainsbury's. Asda, like Tesco, introduced more and more non-food lines. Since its acquisition of Safeway, Wm Morrison has increased its share substantially. Sainsbury's profits have been affected – 1995 proved to be a high point.

Analysts contended that Sainsbury's costs are higher, reflected in margins of just 4%, while its rivals achieve 6%. It had under-performed. They argued that the stores and distribution systems need streamlining. The average age of Sainsbury's retail depots is nearly 25 years, and its IT systems are over 10 years old. Building and opening new stores is not enough.

Sainsbury's cotinued to believe that it must retain a brand which stands for quality and value, and that these must be delivered and be seen to be delivered – but without price cuts which would threaten margins unduly. Whether Sainsbury's can achieve and retain this, and stay a mainstream rather than a more niched competitor, is the key issue and the key challenge. Sainsbury's has been described as a 'mass retailer with a niche market strategy' trapped between the lower prices of Tesco and Asda and the more up-market Marks & Spencer and Waitrose.

Although the Sainsbury family retains a large shareholding in the business, the company is no longer run by a Sainsbury. This ceased when Lord David Sainsbury left (in 1998) to join the Blair government. One year later Sir Tim Sainsbury resigned as a director and for the first time ever there was no family member on the Sainsbury Board. The family then sold three-quarters of its 39% shareholding for £2 billion. The next Chairman was Sir George Bull, recruited from Grand Metropolitan (now called Diageo), the spirits and foods group. Sir Peter Davis (ex-Prudential insurance) was appointed Chief Executive. In 2004 Davis was controversially moved to the Chairman role (many investors would have preferred an outsider) and Justin King recruited to the CEO position. King came from Marks and Spncer, where he headed the Foods Division, but previously he had worked for Asda.

Would he seek to reposition Sainsbury, and if so, how and where? His initial promise was for price cuts in 2004. Profits were falling and its margins remained lower than those of its rivals. The acquisition of Safeway by Morrison's was a further threat and some analysts expected Sainsbury's to even drop another place to fourth position.

One analyst's view was that 'Sainsbury's no longer appears to have a strategy to secure a place in the aggressive new world of grocery retailing'.

An opposing view suggested that 'Sainsbury's is still a strong brand and can be revived if it returns to its roots as a high quality grocer' . . . territory currently held by the considerably smaller Waitrose, a subsidiary of the John Lewis Partnership. This strategy might well require the divestment of Savacentre, Homebase and Shaw's. Both Homebase and Shaw's have subsequently been sold, Shaw's to Albertsons of the US. Meanwhile, in 2004, Waitrose bought a number of stores from Morrisons.

Davis had been known as someone with a strong leadership style based on a clear vision for any business he was running, backed up by a personal charcateristic of being known for having a quick temper. As well as divesting certain businesses, Davis also increased the number of non-food ranges, especially developing a clothes range from designer Jeff Banks. This forced major changes to store layouts. Small specialist stores were opened on Shell garage forecourts and the whole supply chain was streamlined. Later this strategy was extended with small stores in selected City centres and the Jackson's chain of local stores. Millions of pounds were spent on overhauling the company's distribution and IT systems. Sales growth reached a ten-year high; Jamie Oliver, the celebrity chef, was recruited for the advertising campaign. But Sainsbury's continued to be less profitable that all its leading rivals.

In the end, and whichever of the two analysts' views might ultimately prevail, there continued to be a real challenge for the new strategic leader. King believed the culture was wrong and that far too many managers opposed change. The communication links between head office and the stores were too fragmented. In 2004 the company was failing to achieve the 2002 level of sales. Profits were much the same as they had been in 1989.

What had gone wrong?

A number of issues seems to have played a part.

- The patriarchal family culture, style and control, so valuable for so long, proved restricting when competition really intensified. Until the 1990s members of the family retained their own private entrance to the company's head office and were deferentially called Mr John, Mr David and so on.
- During the 1970s, 1980s and into the 1990s Lord John Sainsbury of Preston Candover was the strategic leader. A 'true grocer' he was very successful, but he left a huge gap to fill. He had, moreover, been very powerful and autocratic in style.
- By the late 1980s, under his leadership, the stores were trading profitably and to their full capacity and Sainsbury's was market leader but, with hindsight, the expansion plans in place would prove inadequate for a market that was beginning to change. With a new strategic leader of its own, Ian MacLaurin, Tesco was setting new standards. It had seized the initiative for developing large out-of-town superstores with extensive parking, and when the government began to restrain planning permission for new sites, Tesco already owned a number of new sites that it could develop. Sainsbury's lost out by being reactive. Tesco was also developing new IT-based supply-chain initiatives to strengthen its links with its suppliers and distributors. It is an interesting contrast that when Ian MacLaurin retired in 1997 he was replaced by an insider, Terry Leahy, who had been with the company since 1979. Tesco's leaders have been successful at conveying the brand is more important than who runs the company.
- The new Chairman (in 1992), David Sainsbury, who had been Finance Director, was not 'an instinctive retailer' like his predecessor. His style was more consensual and he was more cerebral. 'For the first time he began to ask managers to think for themselves'.
- In 1995 Tesco launched its Clubcard loyalty scheme. David Sainsbury dismissed it as a gimmick, a reaction that came back to haunt him when it proved successful and Sainsbury's had to follow it with their own scheme 15 months later. The press was rather unkind about the U-turn!
- Sainsbury's rivals were now proving to be more innovative in several ways, including 24 hour shopping, smaller specialist stores in the high street to complement the superstores and home shopping. Simply, Sainsbury had become a follower, whose stores and supply-chain infrastructure needed major investment.
- David Sainsbury's initial choice of chief executive, Dino Adriano from Homebase, failed to achieve the turnaround he was brought in to deliver.

But King was determined. He recruited Lawrence Christensen from Safeway to (finally) sort of Sainsbury's supply chain – its warehouses were 'simply not working properly'. Jamie Oliver's role continued and was expanded; the stores received a fresh look. Sainsbury's fresh foods, especially fruit and vegetables, were acknowledged to be 'top quality'. During 2005 and 2006 Sainsbury's enjoyed consecutive quarters of real underlying growth. It was growing faster than Tesco. The company was making real progress but it was still marginally third behind Asda in terms of market share.

2007 saw rumours of takeover bids with some overseas investment in the business. In the end these would come to nothing but one key issue arose. Should Sainsbury's continue to own as much land and property as it did? Would it be better to sell and lease back? If not, should there be a separate property company? When property values began to fall in 2007 and 2008 this was an interesting question.

King's challenge for 2008 was to increase the percentage of non-food business, including the Tu clothing range – with non-food at 10% of turnover, Sainsbury's is less diversified than its main rivals. His task was not made easier when his head of non-food business announced he was leaving to join Tesco.

King introduced a promotional campaign emphasising 'feed your family for a fiver' which featured Jamie Oliver in a series of advertisements. He also targeted switching from the leading brands to Sainsbury's own label products.

When it became clear how significantly the credit crunch was biting, and the economy was heading into recession, Sainsbury turned in a stronger financial performance than its main rivals. It was growing marginally faster than Tesco; at the same time, Marks & Spencer and Waitrose were reporting a slowdown in sales. Maybe the mid-ground strategy was the right one, whatever the critics might say .. ..

But in November 2008, Tesco's market share (at 31%) was almost double that of Sainsbury's.

Questions To what extent do you think Sainsbury's has been able to find and exploit new market opportunities? Do you accept it is now a much stronger competitor. To what extent do you see strategic choice being linked to strategic leadership?