

CUSTOMERS' VIEWS OF THE UK GROCERY SECTOR (8 JUNE 2007)

1. INTRODUCTION

1.1 The Competition Commission (the *CC*), in its Emerging Thinking documents and subsequent working papers, has not focused in any great depth on what is for Tesco the central feature of the market, namely the customer (although we have now seen the *Grocery Shoppers' Characteristics and Behaviour Working Paper*, we will describe separately how we believe this suffers from a number of flaws which mean that it cannot be relied on.). By contrast, in its 2000 *Supermarkets* inquiry the CC carried out a consumer survey and discussed the high levels of consumer satisfaction in its final report.¹ With this submission, we hope to redress this imbalance and to draw the CC's attention to the fact that, despite some newspaper headlines to the contrary, there is a **high level of customer benefits and satisfaction** with the sector (even greater than the CC found in 2000), which should not be jeopardised, and to highlight the extent to which **customers regulate the market** and so ensure that it will continue to be characterised by tremendous competition, dynamism and rivalry.

1.2 Of course, like any other business, Tesco will not get everything right all the time. As market leaders we can expect to be singled out for criticism (and we explain in Section 3 below that there are many reasons for the adverse publicity which we sometimes attract). However it is important to put that criticism into its proper context. What we hear from our customers is not what we read from our critics: our extensive customer research shows that the views of the vast majority entirely outweigh the limited and sometimes self-interested criticisms which receive wider coverage. The judgment being passed daily by millions of people throughout the UK suggests how Tesco is viewed – and valued – by the silent majority. Our customers may not always have the loudest voices, but their actions speak louder than words.

1.3 The overwhelming evidence is that customers (of whom we have 20 million a week) are very satisfied, have derived huge benefits from the intense competition in the sector, and – where a retailer fails to meet their high expectations – will vote with their feet to regulate the market. Not one of these 20 million customers is forced to shop at Tesco. The fact that, in recent years, we have been able to win and retain customers is powerful evidence that our offer is one that is popular with customers and it is customers who should be the ultimate judges of whether competition is working. In order to satisfy them, the market has delivered very significant benefits and – left unhindered – it will continue to do so.

¹ *Supermarkets* (CC, 2000), 2.79-2.83.

2. CUSTOMER BENEFITS AND SATISFACTION

Benefits

2.1 As we have previously demonstrated to the CC, the grocery market is fiercely competitive, a fact on which commentators and the vast majority of those who have submitted evidence to the inquiry agree.² We do not intend to repeat here the list of massive benefits which been produced for customers by intense competition. For present purposes, we simply remind the CC that:

- (a) in respect of the 2000 inquiry, the CC's former chairman stated that "*in relation to what is for customers their single biggest weekly item of expenditure, competition has been hugely successful*". With prices having fallen by 7.5% since then, that is even truer today; and
- (b) it has been the major multiples, and the intense competition between them, that has produced these benefits all over the country. As a recent paper by a retail think tank commented, "*the supermarkets have played a key role in the development of the UK retail sector in the past decade, introducing innovation and new business practices which have benefited the sector as a whole. UK retail is more competitive and more efficient now than it has ever been.*"³

2.2 Please do not take these benefits for granted, or as a given. They are absolutely critical to understanding the strength of competition, and to explaining how the market has delivered for customers, but are all too easily overlooked by the so-called "chattering classes", who tend to be less price sensitive and more nostalgic for small, independent retailers. However, for many of our customers for whom grocery shopping accounts for a very large part of the household budget, these benefits have been sensational. And for those nostalgic about the old corner shop, it is worth recollecting what many of these were actually like – basic products, poor range, expensive and closed by 5:30pm: hardly compatible with modern family and working life. Supermarkets, on the other hand, have responded to these modern market conditions, and have brought very significant benefits to the average customer. This has raised the bar in the sector more generally, and the better small stores have responded by further improving their own offers. As described in greater detail in Section 4 below, the battle to retain these customers and win new ones has in turn brought yet further benefits to the customer.

Customer views

2.3 We rely on a huge array of information to gain "customer insight" in order to learn what customers want so that we can respond appropriately. Our customer research includes, but is far from limited to, conducting over 100,000 customer interviews every year and holding 800 focus groups. This sharp focus on the

² We have previously provided detailed evidence of the benefits competition has produced for customers, for example in our *Main Submission* dated 22 August 2006 and most recently in our *Overview Response* dated 23 February 2007 to the CC's Emerging Thinking document.

³ "The ongoing and future roles of the supermarkets in the retail sector", KPMG/SPSL Retail Think Tank, February 2007. Available at <http://www.retailthinktank.co.uk>.

customer (including the ability of our business to accept and respond to the need to make improvements) has been one of the key reasons for the success of Tesco in recent years. As our chief executive has said, “*The big change for Tesco came when we stopped being a company with a marketing department, and became a marketing company*”.⁴ This rigour should be contrasted with the insufficient depth of the CC’s paper on *Grocery Shopper Characteristics and Behaviour*.

2.4 We do not think it is an overstatement to say that we do more than any other company of which we are aware, in any sector, to understand the UK consumer. We therefore understand that many customers have views on a wide range of issues relating to the grocery sector. The views of the majority outweigh the very few criticisms but do not necessarily receive the same coverage. While we are never complacent, we know that customer satisfaction both with supermarkets in general and with Tesco in particular has been and remains consistently high.

2.5 The vast majority of what we hear is positive. For example:

- (a) 85% of customers told us that they regarded their shopping experience in UK supermarkets as either excellent or good;⁵
- (b) 85% of customers said that their shopping experience has improved over the last few years;⁶
- (c) 89% are happy with the amount of choice they have when it comes to grocery shopping;⁷
- (d) 96% of Tesco customers have told us they are satisfied with the shopping experience in our stores;⁸
- (e) 79% of Tesco shoppers agree that Tesco brings more choice to shoppers;⁹
- (f) 96% of Tesco customers say the range of products available to them in our stores meets their needs;¹⁰

⁴ Financial Times online interview, “*Ask the expert: Tesco’s Sir Terry Leahy*”, 6 June 2006. Available at <http://www.ft.com/cms/s/5e076152-f0c4-11da-9338-0000779e2340.html>.

⁵ Marketing Sciences Customer and Competitor Pulse (2005) of 3,600 customers and 19,200 competitor customers.

⁶ Simpson Carpenter survey, February 2006. In a recent Omnibus survey (May 2007) the equivalent figure for supermarkets was 72%, which compares very favourably with equivalent figures of 52% for banks and travel companies, and 41% for utility companies.

⁷ Simpson Carpenter survey, February 2006. The figure rises to 92% in response to a similar question in a recent Omnibus survey (May 2007).

⁸ Simpson Carpenter survey, February 2006.

⁹ Clubcard survey of May-June 2006, with over 18,000 customers responding.

¹⁰ Marketing Sciences Competitor Pulse 2006 survey of 3,600 Tesco customers and 19,200 competitor customers.

- (g) 95% of Tesco customers have told us that they are satisfied with stock levels on everything they wanted to buy;¹¹
- (h) 96% of Tesco customers rate the length of wait at checkout as very good or acceptable;¹²
- (i) 95% of Tesco customers rated our staff warm and friendly, and 93% rated our staff as helpful;¹³
- (j) customers are supportive of our new store proposals and often go out of their way to request new stores. At our public exhibitions held in 2005-06 to help us understand how local people feel about new Tesco stores, 86% of people expressing an opinion were in favour – which is remarkable bearing in mind the prominence given in the media to those objecting and the fact that our exhibitions are an ideal forum for such objections; and
- (k) on some of the rare occasions when we have decided to close a store, customers have made it clear that they want us to stay. For example, a public meeting in Mitcham was held in November 2004 to protest against a forthcoming closure. We compromised by replacing the store with a smaller one.

2.6 These high levels of satisfaction compare favourably even with the findings in the CC's 2000 *Supermarkets* report that 81% of customers rated their supermarket as excellent or good.¹⁴ Tesco was very pleased to be voted Britain's favourite retailer in March 2007 by 15,000 TNS Worldpanel consumer panellists, and as Britain's most trusted food retailer by 1,900 Readers Digest readers (for the seventh year in a row). Referring to the first vote, Tim Danaher of Retail Week commented: "*The results of this poll show that despite the criticism levelled at Tesco from certain quarters, it remains hugely popular with the people who really matter – the shoppers.*"

2.7 We note that certain of our rivals, rather than competing on the merits, appear to hope that the CC will act to restrict Tesco. This might well benefit our competitors, but against a backdrop of intense rivalry in every location in the country, high customer satisfaction, and customers being able and willing to choose where to shop, would certainly not be in the best interests of – as Tim Danaher described them – the people that really matter.

3. THE PARADOX – CUSTOMER SATISFACTION AND ADVERSE COMMENTS

3.1 We noted in our Overview Response to Emerging Thinking an apparent paradox that if the grocery market is working so well for customers, why are adverse comments sometimes made? We responded that this is in part because of the scale of

¹¹ *ibid.*

¹² Marketing Sciences Customer Pulse 2006 survey of 8,400 customers. Figure cited is the average for the year.

¹³ *ibid.*

¹⁴ *Supermarkets* (CC, 2000), paragraph 2.80-2.81.

the industry – it serves millions of customers, and billions of grocery transactions take place each year. While we are never complacent, individual comments – although often valuable, and helpful to improve our offer – need to be seen in this context and kept in proportion.

3.2 We believe that reasons for some of the adverse comments being received by the CC include the following:

(a) This is a high-profile, customer-facing sector with visible impacts on people’s daily experiences. As so many transactions take place each year, consumers arguably have a greater interface with this industry than any other. Furthermore, the CC’s inquiry overlaps with many other public policy issues which also attract a great deal of comment.

(b) Tesco, as the UK’s leading grocery retailer, is a natural focus for adverse comment. The CC Chairman put it well in an interview with the *Daily Telegraph* following the publication of *Emerging Thinking*, where he was quoted as saying:

*“The ‘lightning conductor’ function of a market investigation is very powerful... the counterpart of Tesco being a very successful company is that they attract a lot of interest. They seem to arouse very strong feelings: strongly positive and strongly negative. That is their fate. But it does affect the analysis to some extent, if only to make it irrational, and that is why we want to debate it.”*¹⁵

The possibility that success itself leads to adverse comment has been recognised by some of our competitors. The managing director of Today’s Group, Rodney Hunt, has pointed out that Tesco can be “a victim of ‘tall poppy syndrome’ because its success had begun to make it unpopular with the media”¹⁶.

(c) Supermarkets are an easy and politically useful target for professional campaign groups. We understand the importance of the CC hearing representations from a wide range of stakeholders, and indeed we take their concerns seriously and (for example) have had a constructive dialogue with Greenpeace to reduce our impact on the environment. However, we would urge the CC to seek evidence to support all claims, many of which are unsubstantiated.¹⁷ We of course are happy to provide the CC with any information/evidence that would help the investigation of any such claim.

(d) As recognised by the CC’s own guidelines, effective competition generates uncertainty, turbulence and change. Resistance to change is not an uncommon

¹⁵ <http://www.telegraph.co.uk/money/main.jhtml?xml=/money/2007/01/23/bcnetesco23.xml>

¹⁶ *The Grocer*, 2 April 2007.

¹⁷ For example, some critics claimed we use ‘strong arm tactics’ to manipulate the planning system, a claim which has been entirely refuted by the CC’s LPA survey and our own evidence that we work professionally and with the grain of the planning framework.

reaction. We understand, for example, that local residents can be concerned about the potential impact of a new store. In fact – as the well-publicised studies of towns such as Seacroft, Beverley, Ludlow, and Glasgow (St Rollox) show – a Tesco store can bring new jobs, revive local economies and attract new investment to the area.

- (e) Supermarkets are growing and new store openings allow campaign groups to tap into opposition responses – even though there is often a less vocal majority in support of our proposals. For example, a number of pressure groups co-ordinate local anti-supermarket campaigns with larger national and international organisations. The objectives of these pressure groups are often different to the campaign groups that support them¹⁸.
- (f) There is a natural tendency – well-recognised – for those with concerns to be more vocal than those satisfied with the status quo¹⁹, and an inquiry such as this one provides a natural outlet for the former.
- (g) Finally, the old adage that you cannot please all of the people all of the time remains true. Although we try our utmost, human nature is such that there will always be some – very often not those who actually shop at Tesco – who want to criticise. However, we do take some comfort from the fact that such people are a tiny minority.

3.3 As the most successful operator in a high-profile sector, we recognise that we are an attractive target for interest groups and campaign groups, and indeed that some consumers will feel negatively about us. We recognise the importance of listening to all stakeholder comments, but also the need to place such comments in context and to compare them with the many millions of contented customers. They should not be allowed to detract from the extraordinary levels of customer satisfaction, and should certainly not be allowed to imperil the benefits accrued by the vast majority of customers in every part of the country.

3.4 The CC in 2000 received a similar set of consumer comments to that which it has received this time around. Then, it noted that:

“In the context of such a wide-ranging investigation as ours, on a matter affecting most consumers directly, and in view of the media interest in the inquiry, this volume of individual complaints cannot, in our view, be regarded as indicating widespread concern. It tends rather to reinforce the thrust of

¹⁸ *“Of course, sometimes opposition to a supermarket will also be motivated by self-interest. As you may discover, the campaign will bring together strange bedfellows who wouldn't necessarily have common ground on any other issue.*

¹⁹ Self-selection bias, which is possible whenever the group of people being studied has any form of control over whether to participate. Participants' decision to participate may be correlated with traits that affect the study, making the participants a non-representative sample. For example, people with strong opinions or substantial knowledge may be more willing to spend time answering a survey than those who do not.

other evidence we have received of a high level of satisfaction with the supermarkets' grocery offer in the UK."²⁰

We think this was the appropriate reaction, and encourage the CC to adopt the same approach today.

4. CUSTOMERS REGULATE THE MARKET

4.1 Customers do not just pass judgment on us when they are surveyed or polled, but every week when they shop: our same-store sales growth is for us the litmus test of customer satisfaction. Customers have choice – 94% of them have access to three or more different supermarket fascia within 15 minutes (as well as many other retailers), and the average number of stores in any local area is 23. They exercise this choice, and in doing so they have driven the tremendous changes which have occurred in the industry over the last decade. There is a tremendous number of examples of customers recognising the role they play as regulators of the market, of which just a couple are set out below:

*"Tesco is not a monopoly, and if people don't like Tesco then they can choose to shop elsewhere."*²¹

*"It offers good quality, a huge range and value for money. Groceries are not a natural monopoly, let the consumer decide."*²²

*"I do wonder whether the commission is able to do a better job than the normal forces of supply and demand in the provision of groceries?... so far as I know people are free to choose which to use."*²³

*"Customers in the vast majority of the UK still have the choice of shopping at several outlets in their vicinity, every major town in the country will probably have at least two supermarkets and many local independent retailers with which to trade. The fact that consumers are voting with their feet is an indication that they like what Tesco do more than their competitors."*²⁴

4.2 It is because customers are such effective regulators that we (and other retailers) work so hard to identify and respond to their demands. Customer insight has been the starting point for a wide range of innovations which have benefited customers, including creating entire ranges (such as Polish, Asian and Afro-Caribbean), launching groups such as the Baby & Toddler Group, and developing initiatives such as awarding green Clubcard points for re-using carrier bags. Indeed, this last provides a good example of where we have acted on negative customer feedback. We were told by some customers that they were not always being awarded

²⁰ *Supermarkets* (CC, 2000), paragraph 2.83.

²¹ Comment in online BBC discussion, 3 October 2006.

²² *ibid.*

²³ Email to Talking Tesco, copied to the CC, 25 October 2006.

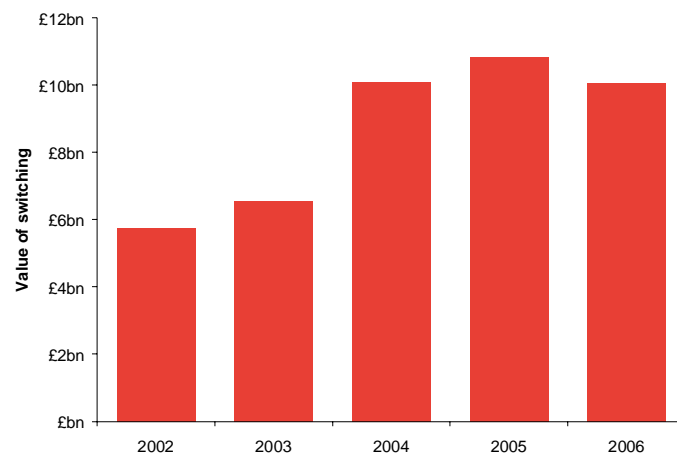
²⁴ Email to Talking Tesco, copied to the CC, 26 October 2006.

Clubcard points for re-using carrier bags. We investigated this and introduced further training to remedy the concern, provided a laminated training card for each checkout and sent a small pocket card to each customer assistant, reminding them what to ask and what points to issue. We also increased the amount of in-store promotional material in order to increase awareness of the scheme, and stores are now measured on this as part of the new community segment on our steering wheel.

4.3 In other words, we are not saying that we are perfect. If the CC studies the more than 700 market research reports that we submitted, it will see that we have presented a warts-and-all picture. However, informed by such insight, we act in order to improve the shopping experience, and seek constantly to increase the overall customer satisfaction levels described in paragraph 2.5 above. Were we not to do this, we would lose custom to our rivals.

4.4 The growing intensity of competition for customers in the grocery retail market can be seen from a number of sources. TNS Worldpanel data recently released showed Asda, Waitrose, Aldi and Lidl with faster-growing sales than Tesco, with Sainsbury only a fraction behind²⁵. The overall level of switching – the rate at which customers decide to change their choice of retailer – is a further indicator. **Figure 1** below, based on TNS data, shows the value of switching between retailers has increased from around £6 billion in 2002 to over £10 billion.

Figure 1: Value of Switching, 2002-2006²⁶



4.5 We have previously explored the extent of switching (including to competitors other than the four largest retailers) and some reasons for it (for example we have previously experienced customers switching away from us due to poor availability, which we sought to address with a series of initiatives to address availability issues). Ascertaining the reasons for switching is not, however, an easy task. It is much more straightforward to ascertain why customers do their main shop where they do than to

²⁵ TNS Worldpanel grocery market share figures for the 12 weeks ending 22 April 2007.

²⁶ Source: TNS Worldpanel. Note that this analysis controls for the fact that Morrisons bought Safeway in late 2003.

ascertain why customers switch if they grow dissatisfied with their existing offer, if a new entrant comes along or if an existing player improves its offer. Our research shows that we have to compete as strongly as we can on our PQRS offering as if we get any element of this even slightly wrong we will lose customers. With so much choice available to customers it is even more important that we learn about, understand and adapt to meet their expectations. Only by doing so can we hope to keep ahead of our rivals. This drives the need for an ever-better offering for customers and it is little wonder that their approval ratings have risen as a result. The issue for us is that, as the offering improves, customer expectations increase thus driving further competition and ensuring that no retailer can afford to be complacent.

5. CONCLUSION

5.1 Successful retailers focus on customers – and in particular, their changing demands – and we have used customer insight to developing a truly rich and detailed understanding of them. This allows us to adapt to customers’ needs and deliver what customers want in response. It also gives us the means to assess whether customers are happy – and it is clear from our insight, and from the simple fact that so many choose to shop with us, that the vast majority are.

5.2 However, we do not sit back and assume that our continuing success is therefore guaranteed, no matter what. History is littered with retailers who have failed properly to listen to customers and have consequently suffered dramatic downturn in their fortunes, as well with examples of players who have started listening again and consequently have regained their previous positions. We do not want to let standards slip, or assume our current market share allows us to raise prices. Quite the opposite: we are aware that it is very easy to disappoint customers, who can act as regulators by taking their business elsewhere, therefore we continually focus on improving our offering. We are constantly required to improve to remain competitive and thus have no option but to compete. In turn, other retailers constantly respond, leading to improved standards and a virtuous circle for customers – the very epitome of a competitive market.

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