

National and local competitive initiatives

Introduction

1. The retail offer by a grocery retailer can be evaluated from its combination of prices, product range, product quality, and service levels. These factors can be changed relatively easily and quickly compared with other aspects of a store offer, such as parking facilities, which are more difficult to alter. These headline variables are also made up of a number of parts that a retailer can vary to develop its points of difference from its competitors.
2. Given the multifaceted nature of the retail offer in grocery stores, we were told that efficiency can be gained from setting large parts of the retail offer as uniformly as possible at a national level. We were told that this practice also assists in ensuring that customers encounter a retail offer that is consistent over stores of the same fascia. Pricing is probably the most important aspect of the retail offer and it is currently set uniformly across stores by most of the major grocery retailers.¹
3. Most other aspects of the retail offer are more difficult than pricing to set uniformly across a store network. This, in part, reflects the fact that many stores are unique in certain respects. For example, the number of car-parking spaces is a key part of the retail offer that is fixed when the store is first built and may be varied only in the longer term. Physical constraints can mean that grocery retailers are unable to provide the same level of car parking uniformly across outlets.
4. These less uniform but important aspects of the retail offer are generally set centrally by the grocery retailers and varied at a store level according to predetermined factors such as store size and local demographics. Specifically, promotions, product range, product placement planning and staffing levels might be adjusted on the basis of predetermined rationale. We review the extent to which different retailers vary their retail offer in respect of these factors in paragraphs 6 to 10.
5. We also review the evidence of store-level adjustments being made by grocery retailers to their retail offer in response to the strength of local competition. Examples of these store-specific initiatives include vouchering, localized leafleting and marketing, improved product ranges, product availability initiatives, increased or improved staffing and store refits. In a significant number of cases it seems that store-level adjustments to the retail offer are made in response to a change in the local competitive environment, namely the entry of a new store by a competing retailer. We review the evidence of how different grocery retailers vary the store-level retail offer in response to changes in the local competitive environment in paragraphs 11 to 24.

¹Asda, M&S, Morrisons, Sainsbury's, Tesco and Waitrose generally set their prices on a national basis. However, Sainsbury's and Tesco do set different prices for their smaller stores. Further, we understand that for a number of these grocery retailers, uniform national pricing for their stores larger than 1,400 sq metres has only been introduced since 2000, and that prior to this, a number of these retailers engaged in a greater degree of localized price setting (or flexing). A degree of localized pricing continues to be practised by CGL and Somerfield, which predominantly operate mid-range stores.

Variation in the store-level retail offer due to factors other than competition

6. Asda, Sainsbury's and Tesco provided us with information on how they vary their retail offer on a local level according to centrally determined criteria. These grocery retailers have the most widespread store networks across the UK. We considered four areas of the retail offer for these three retailers. All the examples that we reviewed provided insight into how these retailers reconcile local influences within a decision framework applied on a national basis.

Promotions

7. Asda told us that it generally extended promotions [X]. Sainsbury's told us that it had a national promotional programme that was set centrally. Tesco told us that it planned product promotions centrally for all its stores, and each store would run promotions from a national promotions list according to the size of the store and the range of products stocked.

Product range

8. Asda told us that it selected the number and choice of products stocked in a store from the total range available according to [X]. However, it would review the range available in a store when [X]. Sainsbury's told us that it determined the range of products available in a store to take account of store size, region, affluence and ethnicity. Tesco told us that it had a central system to provide a variety of ranging options for each group of products that were located together in-store. This then varied at a store level according to store size and layout. For example, Tesco told us that a review of its new store in [X] showed that it was underperforming in part because it had underestimated the strength of local competition and the appeal of their food ranges, particularly to upmarket customers.² Tesco told us that following the review it planned a number of changes at the store, including increasing the space and range for fresh produce and adding specialist counters to the store.³ However, it should also be noted that other of Tesco's internal documents that we have reviewed do not take account of local competitive conditions.

Product placement

9. Asda told us that it developed different planograms to take account of [X]. Sainsbury's told us that it developed planograms for two formats, supermarkets and convenience stores. Tesco told us that it allocated shelf space to products in each store from its national product list on the basis of 'ideal' store layouts that were adjusted for the physical characteristics of the store and local consumer research.

²Tesco told us that customer feedback showed that once it opened, its [X] store underperformed in part because its food range was smaller than that of several competitors, which was exacerbated by the extension of Sainsbury's store in [X] that Tesco had not been aware of when designing the store. The feedback also indicated that fewer customers than expected were travelling to the store by car, that the standard Tesco superstore layout/range was not working in that location and that customers were unclear what the store stood for. Tesco told us that the evidence from customers demonstrated that it had underestimated the strength of the local competition and the appeal of its food ranges, particularly to upmarket customers.

³In order to improve the store's performance and in response to its customer research, Tesco told us that it planned a number of changes to the store to make it more appropriate to the customers in the area, including increasing the space and the range of fresh produce, adding specialist counters, highlighting upmarket ranges more effectively (a strategy that Tesco subsequently told us was part of a national plan), reducing the space for snacking lines and relocating them, and altering the layout of the store to ensure that its two entrances both look like a food shop. Finally, Tesco decided that it had overestimated the degree of car-borne trade and the impact of compromised car parks on its competitors in this type of location. Tesco submitted that these were small variations, and contended that the number and extent of those variations that it applied locally was very limited.

Staffing levels

10. Tesco told us that it determined a proportion of its staffing level at each store through a detailed consideration of the characteristics and needs of the store in question. This included an assessment of [REDACTED].

Variations in the store-level retail offer due to the competitive environment

11. From a competition perspective we are interested to understand how retailers might vary their offer on a local basis to compete with other local stores. There are several aspects of local activities that we have reviewed from information provided by the major grocery retailers in the UK. In particular, we have reviewed information on how CGL and Somerfield have adjusted pricing to take account of local competition.
12. In the following paragraphs we also review examples of retailers' short-term responses to local competition, including local vouchering, staffing and associated services, range including fresh produce, store environment and staff capability, and additional promotions. We also review examples of responses over the longer term, including store refurbishments, the addition of specialist food counters within a store.

Pricing

13. CGL operates a pricing policy that is significantly different from the other major retailers and explicitly takes into account local competitive conditions.⁴ CGL's pricing system uses a system of price bands. The price band to which a store is allocated depends on store format (convenience or not) and local competitive conditions. Somerfield defines price tiers for its stores according to the cost to serve customers, local demographics and competitor intensity and it has a system of determining or varying the format of a store according to these conditions. Its system will default to the 'standard' format for any store facing highly competitive conditions whilst stores in less competitive areas or areas that are expensive to service or operate (eg the Scottish Highlands and Islands) might become 'premium' or 'convenience' formats.⁵

Local vouchering

14. Asda, Morrisons, M&S, Sainsbury's, Tesco and Waitrose have all told us that they engage in this activity.
15. Asda told us that it used voucher schemes on a regional or local basis and issued vouchers at [REDACTED]. Asda may also [REDACTED]. However, the extent to which Asda engages in local vouchering has [REDACTED].
16. Tesco, while stressing what it considers to be the *de minimis*⁶ nature of its local vouchering, told us that it spent nearly £[REDACTED] million on local vouchering between June 2003 and June 2006. Tesco told us that the majority of the local vouchering

⁴CGL told us that 98 per cent of its stores are placed in one of four bands. Additionally, Northern Ireland has a discrete band and there are two pilot bands. Of the four principal bands, three are designed for convenience stores and separate 'core estate' from acquisitions which are in the course of transitioning to the lower pricing of the core estate.

⁵Other local price adjustments are described in our market definition working paper (January 2007) (www.competition-commission.org.uk/inquiries/ref2006/grocery/index.htm).

⁶We discuss the significance or otherwise of local vouchering and other local competitive initiatives in the retail competition working paper (August 2007) (www.competition-commission.org.uk/inquiries/ref2006/grocery/index.htm). However, we note that Tesco's average annual expenditure on local vouchering over the period 2003 to 2006 was, for example, greater than Sainsbury's annual expenditure on national television advertising (£[REDACTED] million).

was associated with the opening of a new Tesco store or the extension or refurbishment of an existing Tesco store.⁷

17. More limited local vouchering is undertaken by the other major retailers. Sainsbury's told us that it sometimes offered vouchers when a large new competitor store opened.⁸ Morrisons told us that it sometimes supported new store openings with vouchers or a similar incentive to encourage people to visit a new store. M&S, while using very limited vouchering, will respond to local entry by offering a special promotion on, for example, wine. Waitrose told us that it sometimes used vouchers to support individual stores, especially leading up to, or soon after, a store opening, extension or refurbishment.⁹

Store refurbishments

18. Store refurbishments are common responses to entry by a competing retailer to improve the offering of a local store in the longer term.¹⁰ A number of retailers, including [REDACTED], M&S, Morrisons and Waitrose, told us that the opening of a new store by a competitor would often cause them to reprioritize the refurbishment of their own store in the area. CGL told us that entry by a competitor would cause it to review a number of aspects of the offer at a local store, including initiatives such as increased stocking of fresh produce, which contributed to additional running costs for a store from additional fridges and increased product wastage.¹¹

Food counter initiatives

19. Food counter initiatives can be built to improve the retail offer in the longer term in stores that face more intense competition. Sainsbury's told us that competition from a Waitrose store might be the 'tipping point' in the decision to add a fish counter to a store, but that it made the decision to add a fish counter based on the demographic profile of customers, whether or not a Waitrose was present. M&S told us that in response to the recent entry by Whole Foods Markets, it had upgraded the bakery counter in its Kensington store, as well as redesign its patisserie counter.

Improved staffing

20. Improved staffing may also be implemented as a localized response to increased competition. M&S told us that the opening of a new competitor store might result in it appointing a more experienced store manager to the store in question. The new store manager would generally have a higher salary than the previous incumbent. M&S also told us that it might respond to new entry by increasing staffing levels and the seniority of staff more generally. Sainsbury's told us that to compete locally, it 'lines up ... resource where competition is toughest'.

⁷Tesco told us that much of the local activity between June 2003 and June 2006 was associated with [REDACTED].

⁸Sainsbury's also told us that local voucher promotion activity was carried out at its convenience stores when a new store was opened, a store was rebranded or refurbished and if there was a specific and significant competitive threat from a multiple—for example, the opening of a Tesco nearby.

⁹Waitrose provided examples of a number of non-price store-based incentives that it had undertaken at the beginning of 2006 to support some new and refurbished stores. These examples included direct mail of vouchers.

¹⁰Other factors [REDACTED].

¹¹CGL told us that in a store refit, it would almost invariably put in more fresh food and that this would increase store running costs.

Other initiatives

21. Other initiatives are undertaken by the major retailers to improve the offer of individual stores that face a particular competitor in a local area. For example, Sainsbury's told us that it had recently developed some trials to improve the retail offer in stores that compete directly with Waitrose. These trials were intended to address customer feedback that Sainsbury's offer did not compete with Waitrose with regard to range, store environment and staff capability. In addition, Waitrose told us that, wherever possible, within its national strategy it would take account of the features and characteristics of local markets—for example, local competing fascias, services such as the availability of bag packers, opening hours, and local/regional ranges and refurbishment cycle.
22. M&S told us that it responded to new competitor openings through price (and other) related activities, such as range, store layout, and possible store refurbishments. M&S would also look at different aspects of the retail offer in a local store according to the identity of the competitor. For example, if the competitor focused on the standards of its fresh produce, M&S would respond in kind, whilst with other competitors M&S was likely to undertake a pricing-focused review.
23. Tesco told us that it undertook a limited amount of short-term local marketing in response to investments by local competitors, such as the refurbishment of a rival store. Tesco would undertake this type of marketing when it identified competitor activity that it anticipated would have a negative effect on sales at its existing store of more than [%] per cent or £[%] sales per week. In addition, Tesco distributes its leaflets *Price News* that are targeted at promoting low-price products and messages in areas around stores identified as 'price sensitive'. In some cases the leaflets are distributed to postcodes that lie between those stores and other retailers with strong price offers (typically Asda, Sainsbury's and Morrisons). Tesco also occasionally runs additional promotions in stores to meet the offers of specific competitors, [%]. These promotions typically involve an average of [%] product lines, and in the first 26 weeks of the 2006 financial year, Tesco expenditure on these competitor-facing promotions was around £[%] million.
24. Other localized competitive initiatives of which we have been told include the [%]¹² and increases in the number of home delivery vans in an area.

¹²For example, [%]