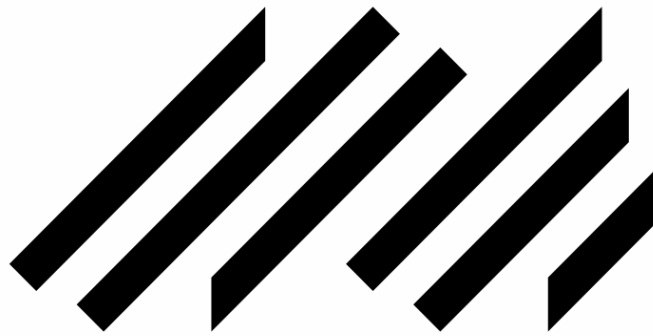


Environmental Fit Analysis

WAITROSE



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prepared by <http://www.andidas.com/>

Working for a management consultancy I have been asked to assist Waitrose in the analysis of its current competitive position and its macro environmental situation in order to aid in deciding possible future strategies.

Waitrose is operating in the UK grocery market, which in 2001 was estimated at £103.4bn. Food sales are the core business of the supermarkets and spending on food in the UK has been growing year-on-year since 1990; The market has proved to be very recession proof. However non-food articles account for a growing share. The market is led by the 'big four' – Tesco, Sainsbury's, ASDA and Safeway. Together with Somerfield, Iceland and Waitrose these companies take by far the largest chunk of the market.

Waitrose, founded in 1904 and owned by the John Lewis Partnership, operates 137 stores, mainly in the south-east of the UK and currently employs more than 27.000 staff. Stores are of small to medium size, conveniently located. The 2001 turnover amounted to £1.98bn (+13%), pre-tax profits to 25.7 million (-15.7%, due to the purchase of 11 Kwik Save stores in 2000). Waitrose is recognized for its focused differentiation strategy targeting the upmarket with a wide range of quality and fresh products.

With the PPG6 it has become difficult to obtain out-of-town planning permissions. This might collide with Waitrose's indicated strategy of opening new Food & Home Supercenters. Customers put more emphasis on healthy eating and organic food and most are opposed to GM-food. Waitrose fully serves this trend with its fresh, quality foods and their 'Perfectly Balanced' own label. Furthermore the public has become more environmentally aware. Waitrose is undertaking a range of activities to maintain their green image (e.g. 'Bag For Life') and publishes an Environmental Report. Along with other chains Waitrose is selling sandwiches and other ready meals that can be eaten on the go. Internet technology has advanced and spread further, more people use and trust online shopping. Waitrose is making use of latest technology to offer good and cost efficient service. Waitrose Kingston offers the "Quick Check" Scheme which, with the use of handscanners, lets customers scan their own shopping, thus saving them queuing to pay.

Waitrose has specialised in the sale of fine wines, delicatessen and fresh food that can be bought from special counters. Waitrose has a high profit margin on this luxury goods. The new Food & Home Supercenters will also sell non-food products and be bigger than the existing Waitrose stores. This will diversify the risk and increase the potential target market. Along with social trends the introduction of a new store format – Mark Four – looks promising (*table3*). Threat comes from competing chains that also positioned their own brand labels targeting the upmarket (eg. TESCO's "Finest") and which can offer their products at lower prices due to economies of scale.

Waitrose is well positioned and in its market segment very competitive. Good progress has been made in setting up an online shopping facility. Waitrose should continue this path, but be careful not to alienate their elderly customer base.

For future growth strategies I recommend a mix of market- and product-development. Next to a constant high standard of products, expansion of the business into the north-west of the UK and (a limited) expansion into the non-food sector is recommended. The partnership with John Lewis will provide expertise and already familiar and tested supply links.

Appendix:

Table 1 - Grocery Industry, PEST Analysis

Political	Economic
<ul style="list-style-type: none"> • GM-Food • Planning Policy Guidance (PPG)* • Competition Commission** • EU Competition Law*** 	<ul style="list-style-type: none"> • 2001 Market value: 103.4£bn • Relative Recession proof industry
Socio Cultural	Technological
<ul style="list-style-type: none"> • Organics and healthy eating • Eating out & take-away • Environmental conscious • >¾ of shoppers travel by car 	<ul style="list-style-type: none"> • Communication/ IT • Supply Chain Optimization • Transport/ Cool Storage • Bar Code/ Stock Management

*The Department of the Environment, Transport and the Regions (DETR) (2000): "The Government remains firmly committed to the objectives of PPG6, which seeks to sustain and enhance the vitality and viability of our existing city, town, district and local centres and to make them the focus for retail investment" ...means that it is very difficult to get planning permission for out-of-town stores.

**"The Competition Commission's report "The Supply of Groceries from Multiple Stores in the United Kingdom", published in 2000, stated that the leading supermarkets do not operate as a cartel to keep food prices unduly high.³ Although some questionable practices were found (selling product at a loss, lower prices in areas of high competition), the Commission did not recommend any corrective actions.

***EU Competition might not be as generous as the Competition Commission and order changes

Table 2 - Waitrose - Boston Consulting Group Matrix

		Relative Market Share	
		High	Low
Rate of Market Growth	High	Stars <ul style="list-style-type: none"> • Organic foods 	Question Marks <ul style="list-style-type: none"> • Online shopping# • Sandwiches & Sushi • Indian own brand foods • Services
	Low	Cash Cows <ul style="list-style-type: none"> • 'Perfectly Balanced' Own Brand Label Products • Wines & Delicatessen • Counter sales (Fish, Cheese, Patisserie, Meat) 	Dogs <ul style="list-style-type: none"> • Frozen uncooked foods • Flowers • Entertainment goods

Table 3 - Waitrose – SWOT Analysis

Internal	
Strengths	Weaknesses
<ul style="list-style-type: none"> • Own Labels “Perfectly Balanced”* • Work Delivery Scheme • Fresh/ Quality Food (own farms)** • Wide Range of products** • Service 	<ul style="list-style-type: none"> • Online-Shopping# • Expansion is difficult due to existing store coverage • Very dependant on the performance of own labels
External	
Opportunities	Threats
<ul style="list-style-type: none"> • Expansion into the north-west • Retail Partnerships^ • Internet shopping (ocado.com) • Further exploiting the Non-food sector • Mark four stores^^ 	<ul style="list-style-type: none"> • Cheap-chains targeting the high end market • Overseas groups entering the market • Manufacturers are still seeking to legally slow down the penetration of own brands

*After Marks & Spencer Waitrose was one of the first retailers to develop Own Brands. Own brand lines carry over 16.000 products. In 2001 ‘Perfectly Balanced’ was introduced, a new range of 117 lines including cereals, sandwiches and fresh meals. It is promoted for a fresh and healthy lifestyle.

**According to a survey by Which? Waitrose is the leading supermarket chain in food quality and range. Only ASDA was rated better than Waitrose for value for money.

#Although an elaborate internet shopping system is in place Waitrose lags behind in this market share in online shopping (3%). ‘Waitrose incorporated its three existing Internet stations – Waitrosedeliver, Waitrose@work and Waitrose Direct – into an upgraded Waitrose.com portal in August 2001’¹ Since October 2001, Waitrose was testing its proposed Ocado e-commerce venture, which was developed in conjunction with Last Mail Solutions and will commence when testing has been completed.

^Retail Partnership (see Sainsbury’s and Boots) could be applied.

^^a new store format that will concentrate on even fresher food products

Table 4 - Waitrose - The Ansoff Matrix; Growth Vector Components

		Products	
		Existing	New
Markets	Existing	<p>Market Penetration</p> <ul style="list-style-type: none"> • Improve service and quality • Repositioning • Withdrawal 	<p>Product Development</p> <ul style="list-style-type: none"> • Expand Own Brand Labels • Introduce new products • Expand to non-food sector
	New	<p>Market Development</p> <ul style="list-style-type: none"> • Internationalising & Globalization[^] • Expand abroad[^] • Expand north-west of UK • Online shopping 	<p>Diversification</p> <ul style="list-style-type: none"> • Conglomerate • Acquisitions

[^]Waitrose has indicated that they are not interested into expansion abroad

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