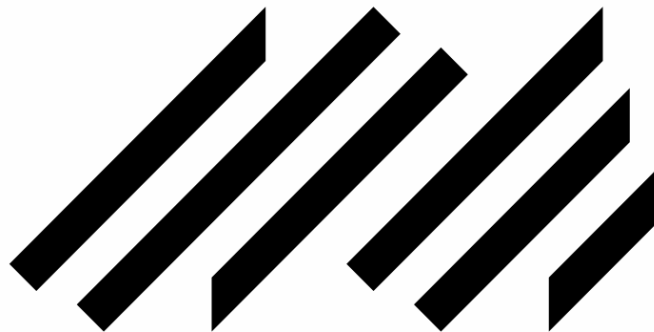


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The Waitrose Modular MBA in Retailing Management
Waitrose Stores and its Key Management Decisions

Waitrose



A Guide for Trainee Graduate Retail Managers
and Middle-Level Managers
March 2003

by

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

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Abstract

Waitrose's differentiation strategy, and its competitive industry were analysed. The selection of the location can be identified as one of the most influential decisions in the life of a store. Various methods are described in order to help identify the most suitable location. Factors influencing the selection of the Waitrose in Kingston are identified. Own brands are important products because they give retailers high level of control of these products and generally have a higher profit margin. The merits and problems of online shopping are explained and it is regarded as too early to evaluate Waitrose's performance in this segment.

Terms of Reference

Our section, the Store Corporate & Management Training and Development Department, has been asked to produce a draft of a report to be used by the trainee graduate retail managers and middle-level managers who are taking Waitrose's own Modular MBA in Retailing Management. It is called "The Waitrose store and its key management decisions". The draft has to be handed in by March 3rd 2003 to the director of our section.

Introduction

Waitrose is operating as a grocery retailer in the UK market. 'Retailing is an activity of enormous economic significance to most developed nations. In Britain, 2.5 million people are employed in retailing, comprising 10.5 percent of all employees (National Statistics, 2001a) [...] In spite of its scale and importance, the retailing industry was not initially at the forefront in embracing the marketing concept¹ Manufactures of fast-moving consumer goods were playing this part. It is only in the last two decades that many retailers have taken an enlightened and proactive approach towards their management activities. In the competitive environment of the retail industry it has become increasingly important to know all tricks of the trade. Competition has intensified yet Waitrose always opts to play fair and provide quality products.

This hand book will explain the basic decisions surrounding evaluation of location and what factors to consider in order to make an informed decision.

Note from the writing team:

Since most documents referring to the grocery retail industry are focused on the major players in that industry (Tesco, Sainsbury's, etc.) it was often difficult to find the same information/statistics for Waitrose and depressing to realise that such information was not available for Waitrose. The fact that Waitrose Ltd is a private owned partnership means that they are not obliged to disclose as much information as their public plc competitors.

UK Grocery Market

The Market consists mainly of the major chains, led by the big four Tesco, Sainsbury's, ASDA and Safeway. Together with Somerfield, Iceland and Waitrose these companies take by far the largest share of the market (see table).

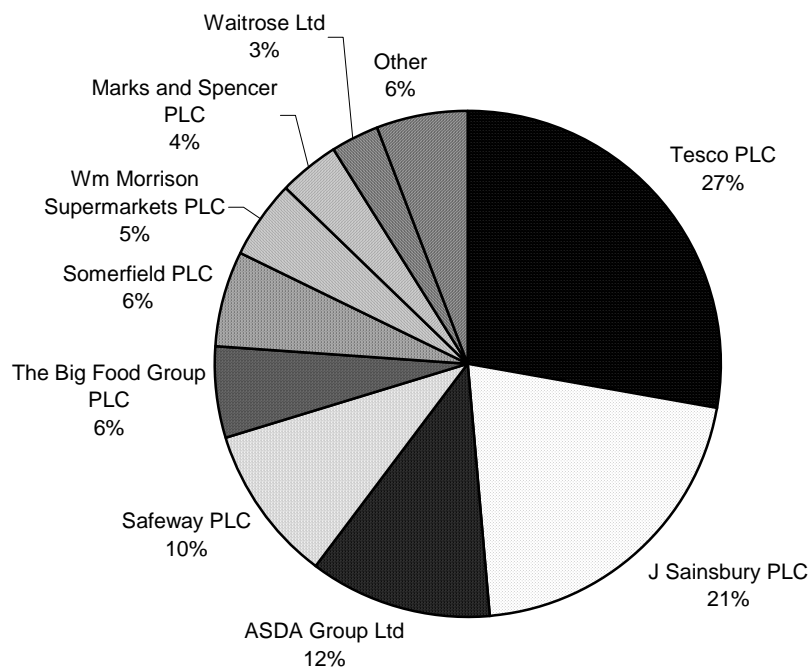
The food and grocery market is typically very robust and recession proof. Food sales are at the core of the supermarkets and spending on food has been growing year on year since 1990. Non foods sales account for an increasing share of Supermarkets income.

New planning legislation introduced by the Labour government means that out of town superstores are increasingly more difficult to realise. Therefore retailers concentrate on smaller convenience stores. The liberalisation of opening times has resulted in later opening hours. Most retailers now also offer online shopping.

Figure 1

UK Supermarkets by Market Share by Value (%), 2001

source: Key Note



History

Waitrose was founded in Acton in 1904 by Wallace Waite, Arthur Rose and David Taylor. When it was acquired by the John Lewis Partnership (JLP) in 1937 the chain comprised 10 small full service food shops and generated a turnover of £150,000. Self Service was introduced in 1951 and four years later the first Waitrose "Supermarket" was opened in Streatham (South London). Rapid expansion took place in the 1960s and 1970s and was supported by the opening of a technically advanced automated high bay warehouse at Bracknell in 1972. Bracknell is also the headquarter of the partnership.

In 1994 the first Waitrose 'food & home' opened. These larger outlets sell a full range of foods along a selection of household goods from John Lewis department stores. There are now four 'food & home' stores and further stores planned.

In 1996 Waitrose took over the wine merchant, Findlater Mackie Todd Ltd, that now trades in mail order wines as part of Waitrose Direct.

In 2001 Waitrose acquired 11 Somerfield stores, which have been refitted and now trade as Waitrose.

In February 2003 the roll-out of Waitrose's redesigned corporate identity has begun. The former brown was replaced with two shades of green. Stores are now being refitted and the completion of the roll out is expected for 2005.

With currently 140 stores, Waitrose now accounts for more than half of the Partnership's total business with a turnover exceeding 2 billion pounds (£60m profit for the year ending 26/01/02, +133%, 27,000 staff).

Strategy

Waitrose's aim is "to provide the convenience of a supermarket with the expertise and service of a specialist food shop"; Its watchwords are "freshness, quality, choice and value".

Waitrose is recognized for its focused differentiation strategy targeting the upper market with a wide range of quality and fresh products.

Indeed Waitrose has a good reputation for stocking quality products but this has led to a perception of being quite expensive ("honestly priced").

Waitrose has concentrated on the food and drinks market, choosing not to diversify as much as the big four retailers. Their market share cannot really be improved dramatically unless they build more stores all over the UK. It can be argued that the key to Waitrose's continued success will be expansion of their current markets.

Major competitors include Tesco, Sainsbury's and especially Marks and Spencer who also target the upper market.

Consumers will generally buy their groceries at the most convenient place with the lowest price, and since the products they buy are identical in every chain they don't mind which shop they buy their goods from.

Whereas retail chains competing primarily on price are trying to establish switching cost by the introduction of reward/ loyalty schemes/ cards, Waitrose tries to build up brand loyalty by offering differentiated, high quality products. Although Waitrose has an account card in place it is not advertised very much does not include monetary benefits to the extent others do. Instead the account card will enable customers to receive "Foods Illustrated" or to receive tickets for concerts at reduced prices, which indicate its upmarket target market.

They are not renowned for reaching really broad target audiences unlike Tesco for example. Waitrose focuses on in-town stores, offering a wide range of food products and attracting the upper socio-economic groups. These target audiences can be linked with those associated with John Lewis.

Waitrose is undertaking a range of activities to maintain their green image (e.g. Bag For Life, Environmental Report, Fairtrade Bananas). A wide range of social programmes are sponsored. Waitrose actively promotes its commitment to providing British products and offers products through partnerships with farms and dairies.

Being part of the John Lewis Partnership means that profits generated are paid back to all employees.

The whole partnership proactively operates as environmentally friendly, honest, fair and ethical as possible.

Location

Waitrose is located mainly in the south east of the UK with stores only as far north as Newark. The typical Waitrose Store is located in town centres next to other major shopping facilities.

The average Selling Space of a Waitrose Store is under 1500 sq meter, which is fairly small. However newly opened stores tend to be of at least 2000 sq meters and preferably 2500 sq metres. With the introduction of its 'food & home' store format, Waitrose has also started to build in out of town locations, however, these account for only a very small share.

Figure 2: Waitrose Market Share (%), 1998/99

source: CC from Company Data

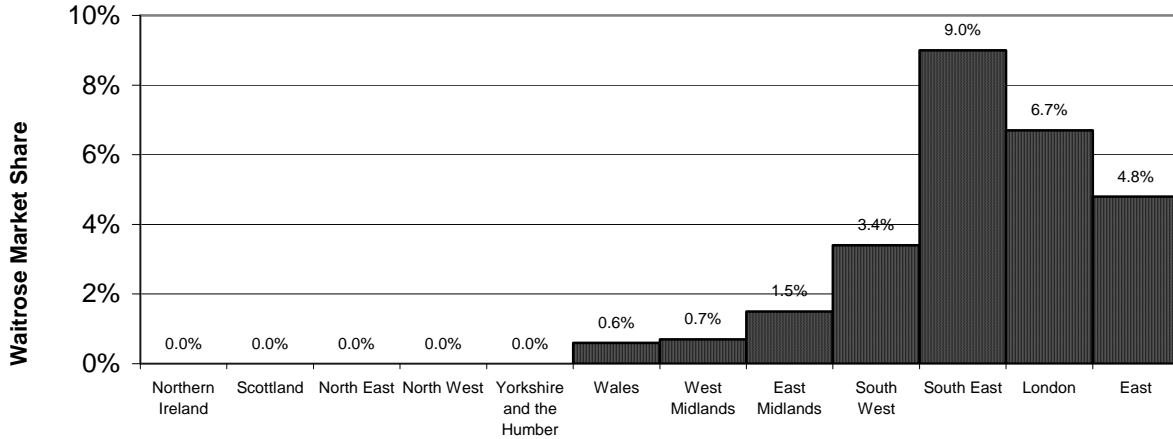


Figure 3: Region Market Size (£m), 1998/99

source: CC

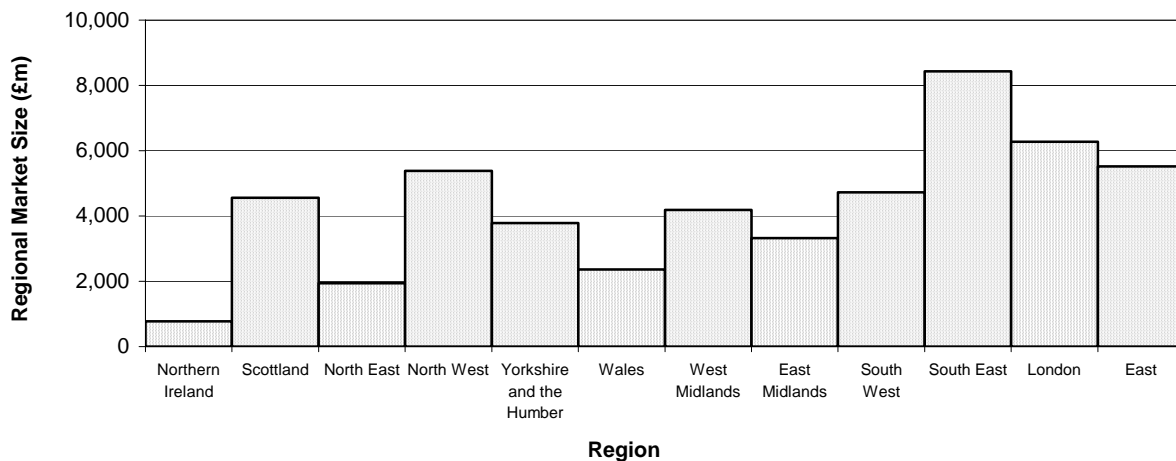


Figure 2 above illustrates the regional distribution of Waitrose stores in numbers across the UK. Waitrose's UK average Share in the retail market amounts to 3.3%. However Waitrose operates mainly in the south east area and has a considerable presence there (Southwest: 9%, London: 6.7%, East Anglia: 4.8%, Southwest: 3.4%, see Appendix for explanation of each region and full tables). This is important because it shows that in the markets that Waitrose actively competes in it can achieve a much higher share than the UK average of 3% might make one think.

Figure 3 states the individual market sizes and shows that Waitrose's strongholds are already in the biggest markets. It also shows which markets offer the greatest potential for expansion.

The Map on the next page shows the geographic distribution of Waitrose stores in the UK. Waitrose is currently bound to its south east location because there are only two major regional distribution centres in place (Bracknell & Northampton). Although further expansion north and west is planned, Waitrose has no plans to expand overseas, unlike its bigger competitors.

Figure 5: Grocery Retailing Industry, PEST Analysis, Overview

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"> • 2002 UK Supermarket Food Sales: 83.9£bn • Relative Recession proof industry • Intensified Competition, fewer but bigger player • Globalization
Socio Cultural	Technological
<ul style="list-style-type: none"> • Organics and healthy eating • Greater demand for exotic & ethnic foods • Eating out, take-away & Convenience • Environmental conscious • 70% of women working • >¾ of shoppers travel by car 	<ul style="list-style-type: none"> • EPOS • Communication/ IT • Supply Chain Optimization • Transport/ Cool Storage • Bar Code/ Stock Management • Online shopping

Political

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.’ (Key Note, 2001, Supermarket Services) 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 therefore might order changes.

If the introduction of the congestion charge is successful in London, it is likely that this kind of scheme will be extended to other big cities.

Economic

The likely takeover of Safeway is an indicator that competition is getting more intense with fewer but bigger players.

Socio Cultural

Demand for organic and healthy foods has increased and most retailers have responded to that trend. Today customers are less prepared to pay a premium price for organic foods, which is why retail chains have started to offer own brand organic products. Waitrose has long been offering these kind of products. Busier lifestyles increased the demand for convenient foods/ ready meals. Also notable is an increasing demand for exotic and ethnic foods from consumers.

The public has become more environmentally aware and Waitrose's strategy fits well into this

Almost 70% of women are working and working times are longer than in any other European Country. However, women are still doing the majority of the shopping.

More than 75% of shopping trips are made by car. Public transport links are even declining as a percentage.

Technological

Online shopping is a major new opportunity for retailers and the UK offers a good market for this with the highest percentage of people online across the EU. And 'already more British food shoppers have converted to online grocery shopping than in any other country' (Keynote, 2001, The Internet Grocery Market) Tesco is now the world's biggest Internet grocer.

Information technology and Communication has enabled more sophisticated store management, with detailed statistics of products sold being made available, thus facilitating the ordering of new stocks. More attributes of the store can be steered centrally such that costs are reduced, margins increased and sales enhanced.

Figure 6: Waitrose Ansoff Matrix; Growth Vector Components

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

'The most' commonly used model for analysing the possible strategic directions that an organization can follow is the Ansoff matrix⁶ shown in Figure 6. 'This matrix shows potential areas where core competencies and generic strategies can be deployed. There are four broad alternatives.'⁶

Market penetration: Following this strategy Waitrose would try to enhance its core competencies by improving their product and service quality. Considering Waitrose's success withdrawal is unlikely.

Market development: This would involve entering new markets, while employing existing products: Waitrose already plans to expand further north-west. Waitrose also entered the online market.

Product development: Waitrose has recently made use of this strategy by introducing their new store format "home & food" in which also non-food goods (from the John Lewis partnership) are sold.

Diversification: This strategy would consist of business growth through new products in new markets, Waitrose is unlikely to pursue this strategy.

Figure 7: Waitrose – SWOT Analysis, Overview

Internal	
Strengths	Weaknesses
<ul style="list-style-type: none"> • Reputation/ Customer Perception • Own Labels “Perfectly Balanced” • Fresh/ Quality Foods (own farms) • Partnership with John Lewis • Wide Range of products (in few segments) • Service 	<ul style="list-style-type: none"> • Expansion is difficult due to existing store coverage • Very dependant on the performance of own labels • Perceived as expensive • Small market share (3%) • Few out of town stores
External	
Opportunities	Threats
<ul style="list-style-type: none"> • Expansion into the north-west • Internet shopping (ocado.com) • Sale of Non-food products • Mark four stores • Retail Partnerships • Increase number of services • Online shopping 	<ul style="list-style-type: none"> • Marks & Spencer's & Tesco's Premium Brands • Overseas groups entering the market • Manufacturers are still seeking to legally slow down the penetration of own brands

Internal Strenghts

Waitrose was the first to introduce self-scanning (Quick Check) in some stores, which demonstrates a willingness to innovate and offer a high service and reducing costs.

The partnership with John Lewis gives Waitrose tested supplier links and economies of scale. The partnership also functions as a conglomerate therefore diversifying risk. The association with John Lewis improves Waitrose’s reputation.

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.

Also Waitrose was the first ever winner of the title Organic Supermarket of the Year and a five times winner of the accolade Supermarket Wine Merchant of the Year

Strong culture of co-ownership: Staff are generally well motivated because they are partners and profits ultimately come back to them. Various other benefits (pension schemes, etc...) along with this make Waitrose a good employer, which satisfied employees.

Waitrose has specialised in the sale of wines, delicatessen, fish and meat that can be bought in store from special counters.

Along with the recent redevelopment of their new corporate identity, a new store image and layout has been developed. Gerry Maverick, Senior Development Manager says: "The changes we have made have given us a fresh new image. The new colour emphasises the quality and freshness of the business and the food we sell."

Internal Weaknesses

In conjunction with the threat of the introduction of congestion charge in other major conurbation areas this appears to be a weakness because it will increase the operating cost and give retailers with out-of-town store an advantage.

Own labels are main segment within their product mix (55%). Thus Waitrose is very dependent on this product range. As are meanwhile most retailers.

External Opportunities

North-west expansion is planned, however, for this purpose a new warehouse has to be built. The north-west is the biggest market not yet entered by Waitrose. (See map and Figure 3)

Waitrose has an elaborate online shopping facility in place, however, this as well is subject to regional limitation.

Sale of Non-food products: With the introduction of the new home & foods store format, Waitrose has begun to sell non-foods products. Those are mainly products that can usually be bought from John Lewis and therefore making the access to the products straightforward.

Retail Partnership (see Sainsbury's and Boots) could be applied. This could help Waitrose to diversify into other non-food products other than those that John Lewis already offers.

Mark four is a new store format that will concentrate on even fresher food products. Yet Little has been seen of this format.

External Threats

Marks & Spencer, Tesco and Sainsbury's have identified the sales of premium own brands as a lucrative segment with high margins. This is a major threat for Waitrose who have built up a major part of their strategy on the sales of these products. However since Tesco and Sainsbury's are also advertising on price they can't convince consumers of their product quality as much as Waitrose.

ASDA has been acquired by Wal-mart and can draw from a waste pool of resources. This has intensified the competition in the UK market. In comparison to the competition from Tesco and Sainsbury's, Waitrose can offer little resistance in terms of bargaining power.

If the congestion charge is introduced successfully in London, it is likely that this scheme will be extended further to other big cities. This would be very threatening for Waitrose since most of their stores are located in conurbation areas. Consequently the cost of travelling to Waitrose via car (car used for 75% of shopping) would increase dramatically, diversifying traffic to out of town stores.

Importance of Store Location

'You can be the best retailer in the world, but if you set up your shop in the wrong place, you'll never do much business. If you operate from the wrong properties, you start with your hands tied behind your back' (Clarke and Rowley, 1995).

Before choosing a location, retailers should take into consideration all of the following: their distribution and warehousing network, target market, availability and cost of labour, competitor location, rent and rates, consumer spending power, population density, transport links and overall accessibility, planned developments, space availability, capital availability, and ease of gaining planning permission.

Store location is so important for Waitrose specifically for reasons such as customer base and proximity to their warehouse/distribution outlets in Bracknell and Northampton. Store location determines the sales that will be generated. The particular location is the key towards maximum sales and ultimately maximum profit. It would be advisable for Waitrose to build a store where it has been established that a large proportion of its target market exists and where there are no or few competitors. It must be carefully analysed to see if sales in the long term are going to exceed the cost of buying the land, building the store, paying the staff etc.

There are a number of factors that influenced the siting of the Waitrose store in Kingston:

- This particular store is central to many main roads; for example, the A310 to Twickenham, the A308 to Sunbury, the A240 to Surbiton, and the A307 to Richmond. Kingston itself is also within a few miles of the A3 which is a good main road to take if one is coming either from Central London (10 miles away) or from the M25 (8 miles away). Wimbledon is also really close.
- People can Park and Ride from Chessington World of Adventures.
- Another significant advantage is that the central bus stops for Kingston are within easy walking distance. There are 40 bus routes altogether spanning Greater London and Surrey. Heathrow Airport is a 40 minute bus ride.
- Kingston Railway Station operates frequent trains from Richmond, Hampton Wick, Norbiton, New Malden, Berrylands, Surbiton, Hampton Court, Worcester Park, Motspur Park, Malden Manor, Tolworth, and Chessington. The nearest London Underground stations are Richmond and Wimbledon which are within 30 minutes of Waterloo in Central London.
- Kingston is a very popular shopping location.
- Kingston offers ample parking with 1,185 spaces in the Bentall Centre, 710 in John Lewis, and 2,914 in others, making a total of 4,809 spaces.
- Waitrose is situated in the same building as John Lewis, therefore making it an even bigger attraction.
- Kingston is a University town.
- Kingston has a tremendous 'cultural standing'.
- Kingston has a new theatre and a new 14 screen multiplex cinema.
- New Wimpey Apartments, Royal Quarter Apartments and Riverside Apartments all within easy walking distance, Nicholas King Apartments within a 15 min bus ride.
- Kingston is renowned, internationally, for its extensive range of shops, with a justified title of 'Premier Retail Centre within the South East of England'.

- Average incomes in Kingston have risen from £33,700 in 2000 to £36,500 in 2002 which is a change of 8.3% (Wealth of the Nation, 2002). This can be compared to a national average of £26,200 in 2001.
- Kingston has a high population of around 145,000 of which 32% are aged between 15 and 32. This is good for a supermarket like Waitrose since it relies on part-time workers, who are generally within this age bracket.
- Kingston has a workforce of around 70,000 who are of a high calibre with 58% at NVQ level 3 and above (Labour Force Survey, 1998). Also, GCSE results for the area are well above the national average with 58.6% of pupils achieving Grade C and above against a national average of 46.3%. This is good for new recruits since many are highly likely to be of above average intelligence.
- Kingston is the 7th largest retail centre in the UK.
- It is clean, safe, and an attractive setting being right next to the river.
- It has plenty of places to eat and drink stretching to nearly 100. (source of facts: Mintel, 2002)

The key points from the list above are: accessibility, which is justified by the main roads going into Kingston, and the bus and train links, parking facilities, average incomes, citizen profiles, population ages, and new housing developments. All these points clearly justify why Kingston is an excellent place to locate a store.

BMRB International's 2002 Target Group Index (TGI) survey found that '89.8% of households used High Street supermarkets (52.7%) or out-of-town supermarkets (37.1%) for their regular grocery shop'. This is a positive indication for Waitrose since the majority of our stores are high street supermarkets.

Evaluation of Potential Locations

Generally, the search for a location should begin at the 'most general assessments of geographical areas through to the detailed evaluation of specific site characteristics'¹. Bowly et al. (1984) introduced a sequence that could be an ideal strategy for finding a location. However, it must be noted that this method needs certain time and retailers are often not in the position to hesitate with their decision for too long.

1. *Search*: the identification of geographical areas that may have potential for new outlets. (market selection)
2. *Viability*: finding the best sites available within the given areas and forecasting the store turnover that may be derived from these (area analysis)
3. *Mirco*: examination of all the detailed features of a specific site that are relevant to potential store performance (site evaluation)

Retailers have various options as far as the techniques that can be used to evaluate potential locations:

1. *Experience*: Experience can only be gained through practices and longer learning. The first impression of a possible site will certainly be evaluated through experience or 'gut feel', comparison with other cases. Experience can help imagining the changes that might occur and transform a location's future value. It is not scientific, yet used and certainly cheap.

2. *Checklists*: Having been developed 40 years ago this method is quite traditional and unspectacular. Each retailer's checklist tends to be different and there is no standard procedure for this method. Factors important to a retailer will be listed and ticked should the location fulfil the demands. Essentially the checklist is the confirmation of certain conditions that are desirable for a retailer to be present.

3. *Mapping techniques* look at trade area density, competition levels and drive time bands.

4. *Geographic information systems* provide information relating to a particular location. There are four main systems; ACORN, which classifies residential neighbourhoods, CACI, which provides data on road types and congestion levels, MOSAIC, which classifies residential neighbourhoods, and, 'Shopping Centre Planners' that identify competition in a particular area.

5. *The analogue method* is based on actual historical sales performances. It would look at other stores with common features, quantify the key features of these stores, and 'extrapolate from these analogue stores to estimate the likely turnover and profitability of a store at the proposed location' (McGoldrick, 2002).

6. *Multiple regression analysis* suggests that 'there are seven main factors relevant to location decisions: (i) population in the surrounding area (ii) spending power of this population (iii) overall average spending on the product (iv) quality of transport links to site (v) average distance from site to population (vi) competition (vii) average distance from competitors to population' (McGoldrick, 2002). An example of a regression equation is shown below.

$$Y (\text{sales}) = 186835 (\text{constant}) + 0.7822P (\text{population}) - 1.138C (\text{competition})$$

Where Y = retail sales of proposed store

P = population within 20 mins drive time of proposed site

C = competition: the floor space (metres squared) of all stores over 1,000 metres squared within 20 mins drive time of proposed site.

(example adapted from: Bowlby and Foot, 1994)

7. *Spatial interaction models* show that 'the aggregate movements of shoppers are positively related to the attractiveness of a shop/centre and inversely related to the distance, or some other 'deterrence' measure'¹.

"Reilly's Law' (1931) states that the frequency with which the residents of an intermediate settlement trade with two towns is directly proportional to the populations of the two towns and inversely proportional to the square of the distances from the two towns to the intermediate settlement. From this 'law' was derived a formula to describe the 'breaking-point' between two towns, defined as the point up to which one town dominates and beyond which the other is dominant'¹.

$$d1 = d12 / 1 + \text{the square root of } (A2 / A1)$$

Where d1 = the distance, or journey time, of the breaking point 0 from town 1

d12 = the distance, or journey time, between towns 1 and 2

A1.A2 = are measures of the 'attractiveness' of towns 1 and 2

(example adapted from: Reilly, 1931)

Figure: 8

Technique	Cost	Used (%)
Experience	Low	96
Checklists	Low	55
Analogues	Medium	39
Regression	Medium	40
Gravity Models	High	39
Neural Networks	High	16

Source: adapted from Hernandez and Bennison

Figure 8 illustrates the general distribution of methods, including the cost, which also explains why certain methods are rarely used. Generally it is advisable to employ more expensive methods once the 'experience' and 'checklist' tests have been passed. It would not make sense spending large amounts of money on evaluating a site that experience says is totally unsuitable.

Waitrose evaluates potential locations by analyzing population density, the wealth of an area, population profiles, and proximity of customers. The Development Manager within the Development Team at Waitrose Head Office said

that to determine a location 'we would have to analyse consumer food expenditure along with social and geo-demographics'. He also said that Waitrose would be open to any location possibilities whether they be wealthy or poor areas. It would depend largely on the competition levels; for example, if the particular location was essentially untouched by competitors and population density existed then even if it were a poor area the location would be considered. He went on to say that Waitrose evaluates potential locations 'by examining the potential sales that a site could deliver and calculating the financial return. We also account for any impact that there would be on the existing branch portfolio...We use mapping software (i.e. a GIS), geo-demographic data, regression models and the analogue method'.

Waitrose looks at the following things before deciding on a location: distribution network and their relative locations to the existing branch network, our target market, average household sizes, availability and cost of labour, competitor location, rent, consumer spending power, social and geo-demographics, population density, transport links, accessibility, public transport, car ownership, and plans for new housing developments.

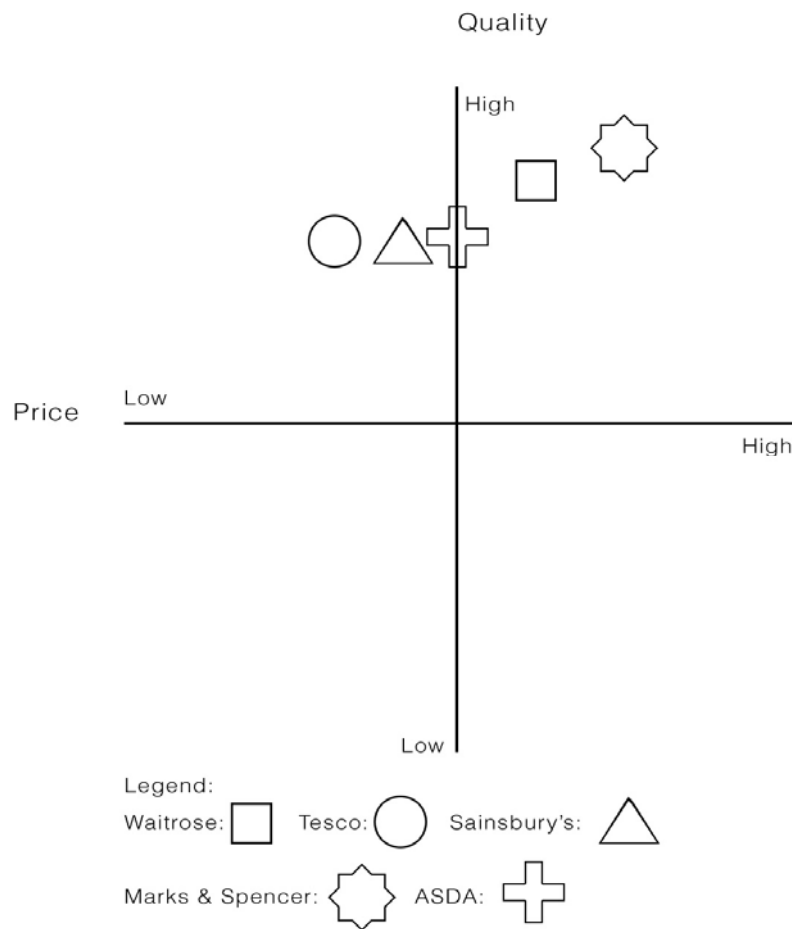
Waitrose has mainly in-town stores, which are therefore small when compared with large out of town supermarkets with easier accessibility and ample parking spaces. However, their stores are ideal for people who walk, live close by and/or use public transport. On the other hand the PPG6 (Planning Policy Guidance) has made it very difficult to obtain out of town planning permission guides, which will concentrate planning and store searching to town centres again. It has already resulted in an increase of smaller convenience stores from various other chains in shopping centres.

Segmentation

Market segmentation allows Waitrose to 'identify different groups of buyers who share similar definable needs and behaviours.' (Debbie Anderson) Whilst Behaviouristic responses are fundamental to segmenting Waitrose's market as factors such as usage rates, impulse purchases, loyalty, and sensitivity to marketing mix factors allow for conclusions and positioning within consumer markets.

Waitrose seems to segment its market based on simple variables such as incomes and geographic's (geodemographics). This has been identified by associating the number of Waitrose stores in the south of England with the average incomes, showing that Waitrose is aiming at the higher income earners at the upper end of the market, and segmenting itself toward the social groups of A, B and C1. There are no Waitrose stores in areas such as Newcastle, Middlesbrough, Liverpool and Bradford, Britain's poorest regions indicating that Waitrose would not benefit financially from these areas. The use of Geo demographics is a fast and efficient way of identifying trends within certain geographical areas, allowing Waitrose to divide a market into different groups based on social class and lifestyle characteristics.

Figure 9: Positioning Map, Major UK Retailer, Quality - Price



The positioning map shows how the main five grocery retailers are perceived by consumers. You can see that Waitrose is positioned quite highly up the quality and price lines, distinguishing our segmentation towards higher income earners. Whilst we would define our market as the higher income earners who are quality conscious, with price being less significant. Thus Waitrose concentrates on providing high quality own brand products (55% of products being own brand), helping to also illustrate the image of exclusivity and elitism.

From the positioning map you can see that Tesco, Sainsbury's and ASDA are all positioned very close to each other indicating the enormous amount of competition through price and quality. All three grocery retailers segment themselves towards new and growing families, as they are huge sector of the market, with much money to be made from. As you can also see Marks and Spencer's is positioned at the top end of the scale for both price and quality, showing that they are perceived as a grocery retailer which provides a high standard of products at high prices, segmenting themselves as an sophisticated grocery retailer.

Life-stage segmentation also plays a vital role in defining and segmenting Waitrose' market because it looks at family characteristics and whether they match that of Waitrose. Whereas Waitrose's competitors focus on new family, post-and pre-family groups Waitrose inclines towards post family, older couple and single groups, as these groups are more able to afford their prices.

One could say that the typical Waitrose shopper is the typical Classic FM listener; affluent, interested in culture, travel, fine foods and wine. The account card, Waitrose and John Lewis loyalty scheme, support this by offering reduced tickets to concerts and invitations to wine evenings for example.

Waitrose's own magazine "Foods Illustrated" also targets this group and functions as an effective PR tool in drawing these kind of customers into the shops.

Waitrose's association with John Lewis also helps to reinforce its segment within the market as John Lewis represents high class giving the perception that Waitrose is also of a high caliber. Waitrose holds a Royal Warrant for their services and supplied goods to Her Majesty the Queen which has been regarded 'as a mark of excellence and quality' (waitrose.com) symbolising Waitrose's stature of high class.

The implications of this definition are that it restricts the market share that Waitrose is able to gain control of. As Waitrose is aiming at more of a niche area (higher income earners) within the market it reduces the number of customers who use and buy Waitrose products. Many people believe that it is cheaper to shop at one of Waitrose's competitors such as Tesco. This can also create a bad stigma and put many people off shopping at Waitrose.

Waitrose forte of providing high quality own brand products to gain its market share is now facing increasing competition from many other grocery multiples as they have started to establish their own premium product lines. This strategy is being employed to obtain more of the market share from the likes of Waitrose and Marks and Spencer.

The implication of the above definition is that Waitrose has to be very careful when evaluating potential locations so as not to target too poor an area.

Introduction to Own brands

'A brand name owned by the retailer or a wholesaler for a line or variety of item under exclusive or controlled distribution' (Koskinen, 1999)

'Own label products are defined as those that bear the retailers' name, as opposed to the name of the manufacturer, on the product label. Own label brands can also include sub-brands; these are own label products that are given product 'brand' names in order for them to create a brand image [...]'²⁰

During the late 1960s own brands started to spread widely and in 2000 'the UK market for own brand was worth estimated £57.4bn. [...] The market remains dominated by grocery products [...]'¹³ 'The UK has one of the most advanced own label industries in the world'²⁰ Indeed, more than 50% of the sales in grocery retail are own brands, which indicates its importance to retailers' income over all. 'Own brands are no longer seen mainly as low-end product ranges, and there is a growing number of premium own brands which are targeted at upper-mass-market consumers.'¹³

Own brands are desirable products for retailers because they create a double monopoly situation: own brand products can only be bought in the retailer's shops and only under the retailer's brand. The high degree of vertical integration means that retailers can determine the profit margin and the marketing aspect of the product (shelf space, advertising, etc.)

However, since 1998 growth of own brands has slowed down considerably. The main reason for this is that it is believed that when own brand penetration exceeds 50% consumers would be adversely affected and put off by overleaps of own brands in the outlets. Customers feel limited in their choice if there is too much own brand product on offer. It could be argued that at 55% (own brand) Waitrose's has a good balance.

Different types of own brands

Retailers have tried to increase varieties of their services and products. By selling many different product and services categories in own brands, retailers have developed various types of species. These species (as identified by e.g. Bhasin et al., 1995) are developed to fit specific segments and

needs in order to maximise market share. As consumers' perception towards retailers' products, services and image have changed, retailers are no longer the 'loss leaders'.

- *Retailer name brands* – Waitrose standard brand. E.g. Waitrose free range egg
- *Store sub-brands* – carryout Waitrose's name and under sub-brand. E.g. Waitrose's Cabernet Sauvignon red wine
- *Generic brands* – Economic brands under a plain label. Waitrose rarely provide economic products.
- *Exclusive brands* – Distributed exclusively by the retailer but packaged under different names.
- *Exclusive products* – Products selling exclusively to specific retail chain. E.g. Imported Japanese rice.

Waitrose's own brands are essentially based on fresh quality products and hence less economical categories in comparison to competitors. Since Waitrose's outlets are centered in the south, economies of scale are less likely to be achieved especially when they continue to support British farmers and products rather than purchasing cheaply abroad.

Popular Own Brand Categories

A major advantage of own brands is their extremely short maturity process. Since own brands are commonly exact imitates of branded manufacturer's products. They benefit from this, by being immediately familiar with the customer.

Most popular own brand products are those that show little difference to branded products, so-called inferior goods, where there is little room for differentiation.

Retailers have the advantage of tracking market needs fast and react to the change in social life style (take away, healthy eating, alternatives food, exotic, ethnic foods) that encourage expanding in new own brand categories. 'The retailers have often been quicker than the major branded producers to respond to consumers tastes, as it tends to be easier and quicker to alter lower volume, private label products specifications than higher volume manufacturer branded products.'¹³

Figure 10: Ranked List of respondents' Preference 1999

Rank	Categories	%
1	Bread	60
2	Household products	57
3	Toilet rolls/tissue	56
4	Cheese/butter/margarine	51
5	Pasta/rice	51
6	Biscuits	45
7	Yoghurts/chilled deserts	45
8	Soft drinks	43
9	Canned vegetables	41
10	Sauces	35
11	Frozen ready meals	34
12	Coffee/tea	34
13	Chilled ready meals	33
14	Breakfast cereals	21
15	Canned deserts	26
16	Organic products	22
17	None of these	8

Sources: NOP September 1999/Market Assessment

Figure: 11 The economics of own brands

Cost structures:	manuf. brands	own brands
Raw materials	35	35
Packaging material	12	12
Manufacturing costs		
Variable	9	9
Fixed	5	-
R&D	3	-
Sales force	4	-
Ad & promotion	3	5
Transport and distribution	5	2
Other costs	10	10
Operating profit	8	2
Retail Buying Price	100	75
Sales Price	118	75 -118
Profit for retailer	18	0 - 43

Own brands pricing and economies

The most persuasive reason for retailers to stock own brands is the fact that own brands can be bought in more cheaply and can consequently be sold at a higher margin. Figure 11 shows a typical build up of the cost of branded products. It might not be valid for all cases but general tendencies can be spotted. The retailer can save money in several places. Advertising and transport costs can be reduced. Fixed manufacturing, research and development and the sales force cost will decrease. These costs are covered by the wholesaler that supplies the retailer with its own brand products. On average margins tend to be 5-20% higher for own brands.

Source: Adapted from KPMG (2000), based on OXRIM data, and Mendez et al. (2000)

Central Control

Waitrose retains central control over most aspects of retail marketing to ensure an equal level of quality and service throughout its stores. Most customers will quickly feel comfortable upon entering the store and find what they are looking for. Waitrose wants to create a uniform store image. The benefits of this would be increased brand loyalty when people want to re-live the Waitrose shopping experience and don't want to compromise buying in another store.

Furthermore, this way Waitrose will remain in control of margins and profits. Whilst it would be good to involve partners at store level, this would reduce control significantly. Local store managers are only in control of a few factors such as human resource management and merchandising. And, on the other hand, the store managers will function to achieve given targets, report to head office and handle changes at site level.

It can also be argued that senior management have a higher degree of expertise and experience which could result in synergy effects. This goes especially for the management of the supply chain logistics. In fact, most orders will reach the Headquarters electronically and would not even need manual input. It makes more sense for the chain to buy its supplies centrally and on behalf of all its branches in order to achieve economies of scale.

Local Variations

There are many factors that encourage Waitrose to vary its product mix, promotional offers and pricing from store to store.

Although Waitrose tries to operate a uniform national price list (all products sold at identical prices) it does admit to some price flexing to keep in line with its competitors. A variation of prices between stores can be in response to the size of the store, position of a store, regional incomes, and customer preferences, which can all have major affects. To illustrate the picture, a Waitrose store situated in the centre of London may have higher prices compared to a Waitrose store out of town in Surrey. This can be due to the high operating costs of trading within the city centre. Transport costs can also have an affect on prices especially to stores situated in London, as they will now experience the cost of the congestion charge, resulting in an increase in the cost of delivering stock. Also stores may face higher costs because they are remotely located. Yet stores that have a local monopoly, because no alternative shop is located within reasonable travelling distance, may decide to exploit this by setting high prices. On the other hand, fierce competition will see low prices to attract the consumer who would have a choice in this case.

Regional incomes and customer preferences can also have an effect on prices as certain areas may have lower incomes so prices of certain products may have to be decreased to meet the wealth of certain areas.

All these factors have to be considered when Waitrose prices its products. Overall prices within Waitrose tend not to vary as most stores are situated in the south of England so incomes and operating costs are fairly similar.

Product mix may differ from area to area because of varying consumer tastes. For example, the Canary Wharf store is tailored to meet the needs of its affluent customer base as they offer designer breads, a sushi bar, a wine bar, a steak and oyster bar, and an exclusive wine cellar offering vintage wines.

Product mix may also vary in relation to what Waitrose's competitors are doing, as Waitrose may feel they have to supply certain products just to keep up to date and in competition with its competitors. Additionally, Waitrose's product mix may vary due to the size of the store and the space allocation of products. Waitrose may choose to supply certain products in certain areas as they are good sellers and so the bigger store the more they may sell. Sales data is a good way of identifying where certain products should be situated between branches and a process of achieving sales data is by the use of electronic data interchange (EDI). Varying the product mix is part of an efficient consumer response system (ECR). By focusing on the efficiency of the supply system and thereby reducing cost enables Waitrose to offer products tailored to a region.

Waitrose has also been affected by the change in shopping patterns. Changes in opening and closing hours have been a direct result of a change in lifestyles and work practices thereby influencing when people can shop. Not only is Thursday night now a late night but also Friday, as people are now shopping as close to the weekend as possible. Indeed, Friday is now becoming the most popular day for regular grocery shopping as 19.6% (TGI data) of adults shop on this day. Also Sunday opening has now become common practice. A year ago Waitrose in Kingston did not open on a Sunday but due to this consumer demand they now open on Sundays whilst also opening earlier and closing later on Thursday, Friday and Saturday nights.

Promotional offers may differ from store to store for numerous reasons. Promotional offers may be carried out within certain stores to help grow specific lines which do not sell well, in hope of increasing sales, and matching sales targets of other stores, while encouraging shoppers to increase their spend within the store. Another reason for promotional offers to contrast between stores is so that they can compete against their local competitors offers in aim of keeping and gaining (counter competitor

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

activity). A new store may also have promotional offers running at different times to other stores a means of winning customers, and increasing awareness of the new store. Different levels of store traffic can also have an effect on promotional offers, as stores with low traffic may carry out promotional offers in an attempt to increase the number of people visiting the store. An alternative motive for the variation in promotional offers between stores can be to stimulate customers switching to own brand products, as certain stores may have low own brand sales.

The UK Online Market

'More British food shoppers have converted to online grocery shopping than in any other country. [...] However, Internet sales still represent a tiny, although growing, percentage of the overall UK grocery market. Most people use the Internet as a way of gathering information on products and making price comparisons before visiting their local store.' (Keynote, 2001, E-Commerce)

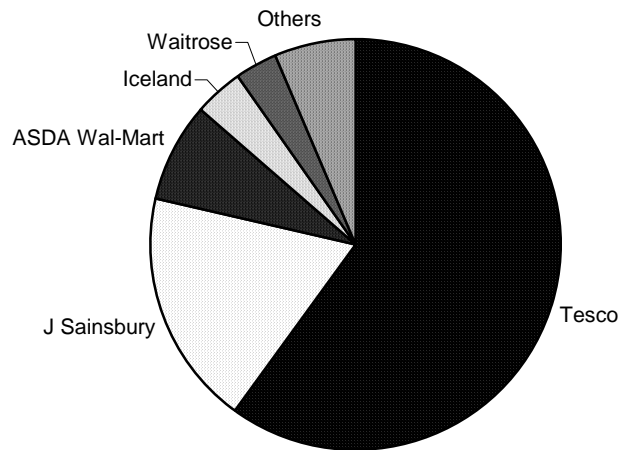
The figure below shows the current market situation. Notably, Waitrose is listed as only the eighth biggest supermarket and the fifth biggest online grocer, even though it has a small share. However, in this new market there are only few players and companies like Tesco are benefiting from this. Tesco was the first grocery retailer to introduce online shopping and is now the world's biggest Internet grocer.

Figure 12:

The UK Online Grocery Market by Company

(£m and %), 2002

source: Company annual reports/ Key Note estimante



	Online Sales (£m)	% of Total
Tesco	356	60.0%
J Sainsbury	110	18.5%
ASDA Wal-Mart	47	7.9%
Iceland	22	3.7%
Waitrose	20	3.4%
Others	38	6.4%
Total	593	100%

Waitrose incorporated its three existing Internet stations – Waitrosedeliver, Waitrose@Work, and Waitrose Direct – into an upgraded Waitrose.com portal in August 2001. WAP (Wireless Application

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

Protocol) has also been installed (in alliance with WapWorld) and allows a limited range of goods to be ordered via mobilphone.

More recently, individual "mircosites" for each branch were launched. They are accessible via the main Waitrose portal. They contain travel maps to that store and other shop-specific news & information such as opening times.

The Waitrose website (Waitrose.com or .co.uk) is very pleasant to look at and immediately tries to communicate the typical Waitrose store image through the use of the typical green colours. Generally orders have to exceed the value of £50 and delivery charges of £5 are raised along with £3 for orders that are collected from the stores.

Like other retailer, Waitrose has teamed up with an existing home delivery retailer service that handles the delivery of the goods. Waitrose holds a 40% share in Ocado, a dotcom company that was setup in 2000. Capital cost, are high to enter this market and return is uncertain.

Target Market of Online Shopping

'Overall, the appeal of Internet shopping now appears to be limited to the more affluent members of society. This is particularly clear in terms of social status and car ownership. E-grocery shoppers are far more likely to belong to the ABC1 socio-economic groups than to others. Households with two or more cars are also much more likely to use the Internet for shopping.' (Keynote, 2001, E-Commerce)

A higher profile of online shoppers would benefit Waitrose who already target the upper end of the market.

Waitrose tended to differentiate between its three home delivery systems; Waitrose Deliver, Waitrose @ Work and Waitrose Direct. Although they are now all available through Waitrose.com they - confusingly - still operate separately. Waitrose Deliver is the traditional, ordinary home delivery service that is now run by Ocado. Certainly Waitrose is targeting those of its potential store customers that are too busy to visit their stores (70% of women that work but are still responsible for the shopping). Or, on the other hand, older people who are not fit to visit the stores anymore.

Waitrose@Work is a scheme that firms with more than 300 employees can register to and that will enable their employees to order their groceries during the work time, which will then be delivered to their work address. Currently 60 companies are subscribed. Again this target busy working people who might not have time to shop after work. The service might generate favourable word of mouth and defer more traffic into Waitrose stores.

The acquired wine merchant Findlater Mackie Todd Ltd (1996) is now trading as Waitrose Direct. This service is targeting people who know what they are looking for. Customers of this service are affluent, interested in culture, travel, like fine foods and wine and are Classic FM Listeners.

The Benefits of Online Shopping

Figure 13: Major Benefits of Online Shopping to Customers and Retailers

Benefits to Customers	Benefits to Retailers
<ul style="list-style-type: none"> • 24h availability • less travel • more choice • greater price information 	<ul style="list-style-type: none"> • The world is the market place • Cost of running a website lower than that of a store • Offers not restricted to floor space • Cost reductions of doing business • Real-time pricing

Retailer:

'Many companies are finding the Internet a tough nut to crack. It is a very hard area in which to operate and make a profit. Average basket sizes need to be high and delivery costs need to be minimised. Shopping must be delivered to the customer's timescale, which is not necessarily a timescale that is cost effective to the company. Websites need to be constantly updated, stable and offering the right products at the right prices. Benefits do, however, exist. The Internet extends into those households with the strongest purchasing power and with the highest levels of disposable income. Extensive product lines of high-margin bulky goods can be offered, including products such as televisions and even cars which could never be supported given the floor space available in the average store. Getting the formula right will ensure repeat business and a build-up of trust. Online transactions can make poor supply and stock-outs a thing of the past as a confirmed customer base will exist that does not flit from store to store. In the long term, automated reordering systems may draw the consumer even closer into the company.' (Keynote, 2001, E-Commerce)

Consumer:

'The 'cash rich and time poor' consumer of the early 21st century wants convenience. More people are in work now than ever before, and 70% of women now work. These working women, however, continue to take the bulk of domestic decision-making and do not have the time to shop in traditional ways when there are potentially easier home-delivery options. However, care must be taken here. The complaints often levied at commercial websites are their time to load up, their stability (or lack of), and the speed of ordering. In order to fully capitalize on developments, companies need to work on these areas as well as on building a bridge of trust with the consumer so as to ensure online loyalty and revenue growth.' (Keynote, 2001, E-Commerce)

A negative for customers is the lack of security that currently cannot be avoided. Customers are also not able to touch goods or see things from different angles.

Technical Issues

'The market is (and will continue to be) driven strongly by technological advancements. Converging technologies will create multiple routes for access to online shopping, enabling orders to be placed by phone or through DTV (digital television). Penetration of these items into UK homes is particularly high, placing the UK in a strong position in comparison with European neighbours and other global competitors'. (Keynote, 2001, E-Commerce)

The actual creation of the Waitrose website was outsourced which is usual for this kind of highly sophisticated programming. Typically, a strategic partnership with a communications company is formed who then oversee the online presentation.

Commercial websites cannot afford to lose potential customers. The site must be *logical, well structured* and consequently *easy to navigate* as *quick* as possible. The broader the audience the simpler and clearer the navigation has to be. Any form of experimentation or non-conforming will mean lost customer due to confusion.

A study mentioned by Jakob Nielsen in "Designing Web Usability", 2000 suggests that web users will (on average) lose interest in a site after seven seconds of waiting for a site to load. Connection speed may have increased and so has website size, leaving loading times just as long. It is imperative to care for minimum waiting times on the soft side (website optimization) and on the hardware side (sufficient server capacity). The server is a computer on which the Waitrose site is stored and sends the information out once a user requests it (via http, hyper text transfer protocol). This server has to be able to fully cope with the demand in order to respond promptly to requests. Server down times (time in which the site can not be accessed because the server is not running) are to be avoided at all costs, because this situation would be equivalent to having your store closed. It will not only lose business but users will become insecure and they won't be convinced of your reliability.

The first priority when creating a website will be *accessibility* by all users and the *equal appearance* on every user's monitor. However, this is almost impossible to achieve especially when sites are more complex and more advanced actions are to be carried by users. There are standards for web programming (HTML, Hypertext Markup Language) established by the W3C (Web3Consortium). However software manufacturers have not managed to come up with a browser (website viewing program) that will interpret these scripts equally. Microsoft's Internet Explorer will not show the same picture as Netscape's Navigator. Therein lies the main problem and there does not appear to be a solution in the near future. Furthermore certain programming languages will not be executable if certain options have been disabled in the browser. Website appearance will also be altered by the actual machine that is used, primarily the monitor.

To work around this problem several sites are programmed each optimised for a different setting, browser, etc. Then a simple script is employed that will read out the user's configuration upon entering the site and will display the version most suitable for that user.

To offer users an incentive to come back and to build up a community, a site needs to be frequently updated. The brief to the web design agency should include the implementation of a CMS (content management system) that can be easily used by non-programmers within Waitrose.

The implementation of the payment method has to be waterproof without doubt. Once it has been reported that your system has been outwitted and customers have been damaged, no one will want to shop in your online store anymore.

On a less technical level the site has to make a trustworthy impression. This will be one of the main tasks of the online store image. If people don't feel happy giving out their details on your site they won't.

The physical delivery of the goods has been outsourced to Ocado. In efficient delivery of the goods to the customers is the key to the success of the business. Ocado is currently moving into a purpose built warehouse in Hatfield, the largest warehouse in Europe. It has to be noted that warehouse-based online groceries have failed in the USA, but it has never been tested in the UK. The backs of Ocado delivery vans will be packed at the Hatfield warehouse, then loaded onto a larger truck, transported to a different area and reunited with their host van for delivery. The systems work with a one hour delivery slot running at 98% on time.

Success Evaluation of the Online activity

Considerable investments of the Partnership today have made their commitment and belief in a online future of retailing. Indeed, considering the upmarket target group of Waitrose and taking into account that a high percentage of online shoppers are ABC1 this strategy might pay off.

The internet is not complementing the existing business practices, it is a whole new distribution channel. Product margins are very low at best but the potential market is huge and might outweigh the disadvantages.

Figure 12 earlier on showed that Waitrose already holds a relatively high market share of 3.4% considering their short operating time and regional concentration. However, that might be due to the first mover effect. The share could be much higher if more money were spent on advertising and creating awareness of their online offers.

Waitrose's online activities have constantly been rearranged and a proper service has not been in place for too long. The alliance with ocado started business in June 2002, however, that was only the start of the test phase and limited to north London (2.1m households). There have been very positive reactions from customers. Once the new warehouse is in place the whole Greater London (5m households) area will be served (scheduled for the end of 2003).

In a news article in 'New Media Age' (17. Jan 2003) Ocado described their growth as "outstanding" due to 7% percent sales growth week on week. They (and Waitrose) are expecting to operate under profit by the end of the year. However retail analysts from Verdict Research see risks and "think it's still a gamble. Ocado is late in the game" referring to Tesco's and Sainsbury's considerable head start.

Therefore it is too early to evaluate the final success of the Waitrose's online venture.

Conclusion

Waitrose is pursuing a differentiation strategy targeting the up-market. Being locally concentrated in the southwest gives Waitrose opportunity to expand.

'Store location decisions are frequently considered to be the single most important elements of retail marketing. Although a good location is unlikely in itself to compensate for mediocre overall strategy, a poor location can be a deficit that is very difficult to overcome. Even very small physical differences between locations can exert a major influence upon the stores' accessibility and attractiveness to consumers.'¹ Planning the selection process as carefully as possible and using methods described should maximise the success. Waitrose pays particular attention to social and geodemographics, along with consumer spend, before deciding on a location.

Efficient consumer response (ECR) helps Waitrose to respond to local variation in customer taste. Central Control is important to keep a consistent store image throughout the market.

Own brands are desirable products to offer, as they offer lucrative margins and a high degree of control over the marketing aspects of management. Efficient use of these products can increase store loyalty.

Online shopping still has to prove itself as a profitable marketing channel. Waitrose has an elaborate system in place and successfully finished testing the service. However, it is late in the game and it remains to be seen if it can catch up with the other players.

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Appendix