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Multiple and Symbol Operators: the Battle for Market Leadership in the Irish Grocery Market

Edmund O'Callaghan
Technological University Dublin, edmund.ocallaghan@tudublin.ie

Mary Wilcox
Technological University Dublin, mary.wilcox@tudublin.ie

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Edmund O'Callaghan
Dublin Institute of Technology, edmund.ocallaghan@dit.ie

Mary Wilcox
Dublin Institute of Technology, mary.wilcox@dit.ie

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Edmund O'CALLAGHAN, School of Retail & Services Management, Faculty of Business,
Dublin Institute of Technology, Mountjoy Square, Dublin 1. Ireland
Tel. 00 353 1 4024201 - Fax 00 353 1 4024296 -E-mail edmund.ocallaghan@dit.ie

Mary WILCOX, School of Retail & Services Management, Faculty of Business,
Dublin Institute of Technology. Mountjoy Square, Dublin 1. Ireland
Tel. 00 353 1 4024218 - Fax 00 353 1 4024296 - E-mail mary.wilcox@dit.ie

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ABSTRACT

The Irish grocery retailing market, one of the most competitive in Europe, has undergone a metamorphosis in recent years. The demise of many small grocers, an increased concentration of multiples and the galvanization of the independent sector through symbol group participation has intensified competitive rivalry. The two largest multiples ie. Tesco Ireland and Dunnes Stores continually vie for number one position nationally. In recent years, Musgrave have galvanised the independent sector and are now in a position to challenge the top multiples for the prized pole position in the market. Recent results show that sales were up 15% vear-on-year, on top of 20% growth in 2000. The company has continued to out-perform the national grocery market, which grew by approximately 8-9% during the period. This case presents the current position in the Irish grocery market and profiles the three contenders for market leadership.

PROLOGUE

Barry contemplated the mountain of paperwork that surrounded him. Reading into a brief was never easy, but he was satisfied that he now had a good grasp of the various corporate strategies. This was a great job - he loved working as an assistant market analyst for one of Ireland's top companies. His boss had just given him his first solo assignment – that showed that his analytical abilities were being appreciated!

A well-regarded trade journal had commissioned a comprehensive report on the Irish grocery sector; there was no shortage of material! What a volatile business – there was no resting on your laurels in that industry. He was conscious of the comments made by

Scammell-Katz, head of ID Magazine - that the retail market is changing and that retailers are failing to respond to the challenges in the marketplace. Anyway, he'd read through the material one more time. It was time to make a start on writing the report…..

A PROFILE OF THE IRISH GROCERY SECTOR

The Irish grocery market is currently estimated to be worth in the region of €7.6billion (IR£6billion). The sector has three principal operator categories: multiples, symbol group stores and independents. It is a highly concentrated market, with the top five operators[1] controlling in excess of 70 per cent of the market. The CSO estimates that growth in grocery sales was in the region of 7.3% during 1999. 2000 growth is put at 9.2%. Gross margins in the grocery sector are improving. The industry average in 1987 was 16%. This increased to 20% in 1991 and the most recent figure available reports grocery margins at 22.5% in 1997. Operating margins for Irish retailers are estimated to be in the region of 3.5 per cent to 5.0 per cent.

Three multiples control 49 per cent of the market with around 2 per cent of grocery outlets. The multiples dominate the grocery market in a number of key areas, e.g. they have significantly larger stores than either symbol or independent operators. In 1998, 46 per cent of multiple stores exceeded 20,000 sq. ft. and 32 per cent were in the 10,000-20,000 sq. ft. category. In contrast, 92% of symbol stores were less than 5000 sq. ft.

Symbols groups, many of whose outlets are franchised, are reputed to have 35 per cent of market share across 20 per cent of outlets. The primary symbol groups are Musgrave and BWG. BWG operates the Spar, and Mace franchises, Musgrave operates SuperValue and Centra. Several other symbol groups have a lesser presence in the market. The remaining 'independent independents' have something in the region of 20 per cent market share.

Disputes surrounding market share are a common feature of the market: one estimate puts Dunnes Stores and Tesco almost neck and neck at 23.5/24 per cent and Superquinn nudging10 per cent. Both Musgrave and Spar dispute market share statistics. Musgrave argues that the available market share statistics under-estimate its' true market share. It says that when its cash and carry operation is taken into account that it serves 25 per cent of the total Irish grocery market. BWG also questions the accuracy of the market research statistics which give Spar a 3 per cent share and suggests that its' true share is closer to 6 per cent. In March, 1998 The Committee on Enterprise and Small Business raised the question of grocery market share. The response given by Maurice Pratt (then managing director Tesco Ireland) to the Dail committee illustrates the extent to which compilation of market share figures is hotly contested in the market:

> 'Taylor Nelson conducts market research on approximately 50 grocery categories. It is not truly representative of the true market

[1] Multiples: Dunnes Stores, Tesco Ireland and Superquinn. Symbol Operators: Musgraves and BWG

> shares of the categories in which our business trades in Ireland. Our true market share for the goods we trade would be less than 20%. Our share per the Taylor Nelson method would be in the region of 24.3 to 24.5%'.

Despite the fuzziness of market share statistics, the independent sector in Ireland is acknowledged to be comparatively healthy when judged against the 9 per cent share which the independents have in the UK and similar single digit figures in most mainland European markets.

Symbol groups have had a major impact on how the grocery sector does business. They introduced extended hours and Sunday trading and Spar was first to market with the 'food-to-go' concept that is now widely imitated. The symbols also act as a powerful lobby group that gives a voice to the independent grocery retailer. Their association, RGDATA, has been instrumental in influencing Government legislation. The Groceries Orders Act (1987) which inter-alia forbids below-cost selling and retailers demanding 'hello' money from suppliers, was renewed in 2000, despite reservations from the Competition Authority and representation from the multiples. The legislative cap on supermarket size, associated with Tesco's entry into the market, limits grocery store development to 32,000 sq. ft. in Dublin and 30,000 sq. ft. for the rest of the country. Following a recent report from the Competition Authority that showed a mark-up of 50 per cent by retail pharmacies on private prescriptions, the Government has announced plans to deregulate the retail pharmacy market. Supermarket groups have responded positively to this announcement. Tesco, with 209 pharmacies, is already a big player in the retail pharmaceutical sector in the UK. Boots, who control 29 chemist outlets in the Republic, said it was carefully considering whether it would use the opportunities presented by deregulation to expand further.

In recent years, several international retailers have entered the Irish market and their entry has resulted in the introduction of new trading formats and innovative practice. Iceland introduced its specialist frozen food format to the market in 1996, Tesco entered 1997, and Aldi and Lidl introduced the discount format in 1999 and 2000 respectively. Aldi now operates 9 stores and Lidl operates 25. The advent of *Wal-Mart's* acquisition of *Asda* in the UK in 2000 generated industry speculation that this move pre-heralds entry into the Irish market, possibly through the acquisition of *Dunnes Stores*. However, the process of internationalisation is not all one way and some Irish retailers have equally embarked on a strategy of internationalisation.

The total population of the Republic of Ireland in April 2000 was estimated at 3.79 million, an increase of 1.1 per cent on the previous April. The total population has increased by 7.4 per cent between 1991 and 2000, mainly due to net migration and an improved birth rate. In spite of its growing population, Ireland continues to have one of the lowest population densities in Europe at 52 persons per sq. km. The distribution of the population has undergone a major shift during the second half of the 20th Century. The rural population has declined from 53 per cent of the total population in 1951 to 35 per cent by 1996. The CSO forecasts continued growth for the larger towns and cities allied to a decline in rural population**.** The price of property in the Dublin market has increased the attractiveness of adjacent counties that are within commuting distance of the capital. Although population density is relatively sparse, food outlet density in Ireland is significantly higher than in the UK and Northern Europe. There are currently some 107 inhabitants per outlet in Ireland compared with the UK market where there are some 183 persons per outlet.

The Irish economy grew more strongly than any other OECD country in the 1990s, and has consistently recorded the highest growth rate among EU countries. GDP growth for 2000 was almost 10%. Disposable incomes have also been rising since the early 1990s principally due to cuts in personal taxation, decreased interest rates and increased rates of employment, in addition to salary increases. IBEC estimates that average wages increases ran at 10 per cent in 2001. Economists point out that the speed of economic growth created an ever-widening infrastructural gap, that labour shortages had become endemic, inflation was rising and property prices were exploding. Despite the current slow-down, the ESRI is forecasting average annual growth of 4.8 per cent until 2005 and 4.3 per cent annually for the following 5 years.

The rate of unemployment for the year 2000 was 4 per cent; this represented a decline of 1.5 per cent on the previous year and a decline of 7.5 per cent since 1996. In early 2000 the government introduced a system of work permits and visas for suitably qualified and skilled non-EU nationals wishing to live and work in Ireland. From fewer than 5,000 in 1997, the number of non-EU nationals with permission to work legally in Ireland rose to 18,000 in 2000 and to 26,000 for the first nine months of 2001.

Consumer spending increased from IR£31 billion in 1998 to an estimated IR£40 billion in 2000. The ESRI forecast a further increase to IR£45 billion in 2001. (The value of food consumption increased from IR£2.9 billion in 1991 to IR£3.7 billion in 1997, an increase of 25 per cent). However, growth peaked at the end of 2000 and a combination of external factors - the downturn in the US economy, the cost of guarding against foot-and-mouth disease and the crisis in the Japanese economy were significant factors in causing the slow-down. World events since 11 September have created a climate of uncertainty and undermined the feel-good factor. Many international companies, particularly Hi-tech computer companies have been cutting-back on staff and in some instances withdrawing from Ireland, with a consequent effect on unemployment figures. The rate of inflation has fluctuated considerably in the past number of years, from a low of 1.8 per cent in 1998 to 5.6 per cent in 2000. Annual inflation for 2001 was 4.9 per cent, but food inflation for the year was 6.5 per cent (CSO, December, 2001).

Changes in lifestyles are reflected in consumption patterns and in trading formats, e.g. between 1991 and 2000, the number of grocers with off-licences increased by 67 per cent, the number of hairdressers/beauty salons increased from 2,778 to 4,144 and the number of garages with shops increased from 1,1846 to 2121. Scammell-Katz suggests that internationally, the trend is towards more frequent shopping and that the modern consumer is choosing to shop 2-3 times a week rather than the 1.5 times of ten years ago.

He says that ‘even in hypermarkets, 60% of people are using it as a convenience store.’ However, retailers’ perception is that the customer is ‘somebody with a trolley doing a weekly shop. Only 25% of people in the store are doing that’.

Traceability and transparency are key concerns for better educated consumers. The Food Safety Authority has played its part in raising consumer awareness of food safety and hygiene issues. A recent (November 2001) *Market Research Bureau of Ireland* (MRBI) survey of Irish consumers, commissioned by *Checkout* magazine, indicates that hygiene is a top priority for 96 per cent of Irish shoppers. According to the survey, Irish shoppers are not price conscious; good value and prices are ninth on the list of factors that influence shoppers to shop at a particular store. Factors such as convenience, car-parking, level of stock, helpful staff, hygiene and layout rank higher. Demand for prepared and convenience food is rising and more Irish consumers are seeking cosmopolitan and international style foods. The population is increasingly weight and cholesterol conscious and low-fat food alternatives proliferate.

The organic sector is beginning to blossom as genetic modified food (GMF) causes concern among sectors of consumers. A report by *Bord Bia* in Summer 2000 identified significant opportunities for Irish organic suppliers and 61 percent of Irish shoppers want to see more organic foods in supermarkets. However, an ‘Attitudes and Actions’ national survey undertaken in 2000 as part of a campaign to influence consumer shopping behaviour in favour of the environment has dismal findings. The survey highlighted that many Irish people do not consider the environment while shopping or are not aware of environmental choice within product categories. Only 42 per cent ever pay attention to labelling on goods when making purchases and only 31 per cent ever pay attention to the amount of packaging prior to purchase. However, 78 per cent felt they needed clearer labelling on shelves or products in order to help them make more environmentally friendly choices.

Independent research indicates positive trends in internet home shopping (*Amarach*, 2001). Focus group participants described grocery on-line shopping experiences as ‘faultless’. The research also indicated that almost 33% (895,000) of Irish adults, currently use the internet. *Amarach* estimates that the value of Ireland’s consumer e-commerce market will be close to €127m this year, rising to €330m in 2003.

Own-brand penetration has been slow in the ROI, although it is improving. It was estimated to be around 12% in 1997 (Amarach 1997). In the UK own-label is a major part of the grocery market. According to *Shelflife*, approximately 45% of Tesco’s UK sales are own label while at Sainsbury’s the figure is nearer to 60%. Irish supermarkets offer more brand alternatives per product than is the case in the UK (Financial Times 1999) and, as a result, Irish grocery operators never gained quite the power in the supply chain that their UK counterparts had. Neither did they benefit from the better margins that come from retailer brands. It has now become an accepted tenet that Irish consumers are brand loyal and adverse to retailers' own brands. However, MRBI’S 2001 survey found that 74 per cent of customers would like to see more Irish sourced and produced products on supermarket shelves.

Logistics expenditure for Irish food retailers is higher than the European average. Logistics expenditure as a proportion of turnover by Irish food retailers is estimated at 6.8% of sales. This compares with 5.2% for the UK and an EU average of 5.8%. The condition of transport infrastructure in Ireland has, in the past, been cited as a factor contributing towards this higher expenditure.

In the UK, central distribution and huge out-of-town superstores are commonplace. The move towards central distribution in the Irish grocery industry sector has gained momentum, with most key players at various stages of implementation. A 1998 report by Deloitte and Touche commented that the level of sophistication of the Irish grocery supply chain was comparable to the 1970 UK position. However, in 2001 industry sources claimed that a substantial part of that gap had been closed and Ireland was then considered to be only ten years behind the UK; in the next five years the industry is expected to become significantly more advanced. A report from The National Institute of Transport and Logistics (NITL) points out some of the effects of central distribution - employment among suppliers would fall by 25 per cent as new central distribution systems take effect, rural areas may be neglected, and supermarket groups may find it more economical to source products from companies abroad.

Most of the principal players have invested heavily not only in point of sale systems and scanning technology, but also in data capture and communications facilities. A number of trade bodies have been established with the objective of furthering the adoption of IT among both suppliers and retailer operators. *ECR Ireland* was established in 1997 to promote the adoption and the philosophy of Efficient Consumer Response (ECR) practices and most major retailers and many food manufacturers are members. The ECR concept which originated in the United States, seeks to be responsive to consumer demands while simultaneously reducing costs in the supply chain. EDI, planograms, category management, and efficient replenishment systems are associated with ECR.

Overall, the state of IT adoption by Irish based grocery retailers and suppliers lags behind their European counterparts. For example, electronic shelf-edge labelling (ESL) that can be used to communicate information to staff and category managers about stock levels or the number of facings a product must have to adhere to planograms is currently being trialled by Superquinn, and being considered by Musgrave. However, several hundred stores in France are kitted out with ESL and the technology is also becoming more widespread in the Netherlands and Germany. Even Electronic Data Interchange (EDI), e-commerce and e-procurement up-take is very low in Ireland relative to European standards. A survey conducted by EAN Ireland in May 2000 found that among a total of 435 food-trading companies (both suppliers and retailers), only 40 per cent are trading via EDI technology.

CONTENDER PROFILES

Dunnes Stores

Dunnes Stores is a family owned, private limited company and one of the Republic's wealthiest companies. The company, which began trading in Patrick Street in Cork City in 1944, was established by Ben Dunne Senior. During the 1990s, this business was plagued by family scandals and bad press. In 1996 *Dunnes Stores* moved away from relying completely on family control and appointed various directors to the Board e.g. a Chief Operating Officer, a Director of Store Operations, and a Director of Food.

Dunnes Stores is probably the Republic's best known retailer with outlets located in almost every sizeable town. The company entered the Northern Ireland market in 1971 and in 1998/99 its market share was estimated at 5%. It entered the UK market in 1986 and it also has a small presence in Spain. It currently has 85 stores in the Republic, 25 stores in Northern Ireland, 11 in various parts of the UK and 3 in Spain. In January 2002, Dunnes closed its anchor store at the Richmond Centre in Derry, Northern Ireland. Subsidiary companies include a meat processing company and a manufacturer of frozen foods. *Dunnes Stores Ireland* is owned by the *Dunnes Stores Holding Company*, which in turn is owned by a Trust. The Group employs 18,000 people.

Dunnes Stores (Henry Street), a division of *Dunnes Stores Holding Company,* consolidates the results of the retail operations in Northern Ireland, the United Kingdom and Spain as well as the manufacturing operations. Consolidated results filed in March 1999 for the year ended January 31, 1997 show that turnover for that period rose by 15.7% to £278.8 million, making the Henry Street company responsible for approximately one quarter of the group's total turnover. Group turnover for 1997 is IR£1.5 billion.

The company trades strongly in textiles and household goods and is a major grocery multiple, although not all stores sell food. Store size varies widely, with average size across the group reported at 2,000 sq. metres, but some stores exceed 10,000 sq. metres. The company has begun trading in a convenience food store format in Dublin's George's Street and North Earl Street. The company has reformatted a number of stores to provide for convenience departments beside the front entrances.

Traditionally, *Dunnes Store*'s competitive strategy focused on low price and value for money and on several occasions it initiated the price wars that waged in the Irish grocery sector. Its slogan is 'Dunnes Store better value beats them all'. Since Tesco's entry into the market, the company emphasises its Irish origins with 'The difference is, we're Irish'.
In the recent past, *Dunnes Stores* has invested in staff training to improve customer service and made substantial strides in up-marketing and modernising its image. New stores in prime locations have helped reposition the company, as have refurbishments and up-graded product offers; in May 2001 *Dunnes* opened its new 60,000 sq. ft. flagship store in Swords. This store offers an innovative service with monitors located in the food and textiles areas where parents can see their children in the crèche.

Its well-known own brand label, *St. Bernard*, founded in 1956, runs to over 700 lines and in 1996 was said to account for 29 per cent of sales**.** *Insight* estimates that 7-8 per cent of *Dunnes*' food sales are under the St. Bernard label; other industry commentators put a higher figure on own-brand food sales. The quality of the own-brand offer has improved steadily over the years. *Dunne Stores* operates a number of subsidiaries manufacturing own brand products. It has not yet implemented central distribution.

Despite its size, the company was relatively late (1996) in introducing scanning technology into its stores. VALUEclub, its loyalty card scheme, was introduced in 1997 shortly after *Tesco's* arrival in the market. The company claims that over 900,000 people use the card regularly. In late 2110, Irish Shell discontinued its VALUEclub marketing alliance with Dunnes. VALUEclub members had previously been able to obtain points for motor fuel purchases in Shell stations throughout the Republic and Northern Ireland. *Dunnes Stores* has no immediate plans to introduce an on-line shopping facility.

Although the company now has an in-house Communications Department, it publishes very little information and is extremely secretive about its operations.

Musgrave Group

Musgrave is a family-owned company founded over 125 years ago in 1876. The group is now among the two largest private companies in Ireland and the fifteen largest corporations overall. Musgrave pioneered voluntary group retailing in the Republic of Ireland. Musgrave *SuperValu-Centra* (MSVC) owns the franchises to the *SuperValu* group of 203 supermarkets and the *Centra* group of 320 foodstores. These franchise stores, both launched in 1979 are largely independently owned by the retailers who operate them. In 1996 MSVC acquired six supermarkets in Northern Ireland, with a combined sales area of 4,000m2. The company now operates 29 *SuperValu* supermarkets and 30 *Centra* stores in Northern Ireland. MSVC employs 1,600 people directly in Ireland and a further 17,500 people are employed by franchisees in MSVC stores.

In 1998 MSVC pioneered fresh, chill, and frozen Central distribution in Ireland at a cost of £22m. The introduction of central distribution for fresh, chilled and frozen foods substantially changed store operation procedures. When the concept was originated, MSVC carried 950 lines. Because of the emphasis on innovation, this is now close to 3,000 lines including Frozen and rising. Musgrave's IT Department researched and selected the Management Information Systems that connect the warehouses and the stores. Retailers have a complete ordering screen that allows access to the full range of fresh and chilled products. Musgrave has direct access to store tills and can check whether stores are selling at recommended retail prices and how actual sales compare with expected sales. The company also knows what products each store buys and sells, and the amount of space dedicated to product categories. All MSVC stores use a planogram to maximise merchandising and category management. Delivery frequency is determined by store turnover. However, the company guarantees that stores will receive a minimum of 3 chill deliveries a week. Two chilled warehouses operate on a 24 hour basis.

MSVC retailers were particularly nervous about the impact of central distribution on their local fresh food suppliers. Buying local and supporting the community had been the essence of MSVC's marketing strategy and the retailers feared a backlash from suppliers with a knock-on effect on customers. Obviously, the introduction of CD also had major implications for other suppliers. While approved suppliers have access to all 500+ group stores nationwide, as against the previous system where most could distribute their produce only within a limited local area, they must meet product specification, have traceability in line with current food legislation, and be capable of complying with the company's requirements regarding supply efficiency. Musgrave knows the savings that suppliers will make by distributing centrally and knows the extra costs involved. The company expects supplier to share savings which it in turn shares with franchisees. Initially, only major suppliers were on line via Electronic Data Interchange (EDI), but Musgrave is insisting that all suppliers be EDI capable.

Since 1986, *SuperValu* Stores have been competing for Hygiene Awards in a programme adjudicated by *Excellence Ireland*, the organisation which operates the National Quality and Hygiene Mark. *SuperValu* claim to be the only major supermarket group in Ireland to operate a hygiene programme to this level. MSVC was very pleased that its *SuperValu* Stores scored almost 6% higher than the European average in a 2000 MRBI study undertaken as part of the European Customer Satisfaction Index.

In 2000 *SuperValu* entered a trading agreement to supply the supermarket division of *Roches Stores* in the Republic of Ireland. The nine outlets were subsequently re-branded *SuperValu at Roches Stores* at a cost of £15 million. Through this arrangement, Musgrave added 200,000 square foot of food and grocery retailing area to the *SuperValu* stores. Both Musgrave and *Roches Stores* see themselves as strong supporters of branded products.

Musgrave is a member of *NISA*, the biggest buying consortium in Britain and Ireland and is also a shareholder in *European Marketing Distribution* (EMD), the largest pan European buying group. The company buys in bulk for the stores and in addition to distribution, it provides a range of support services to the independent retailers, including marketing, technology, location strategy, store design, financial management systems and visiting professional advisers. It also operates an ongoing development programme with its retail franchisees. The franchisees invested IR£70 million in capital projects in 1999, which included new store development, extensions, revamps and refurbishment across 130 stores. A retailer development spend of £82 million was recorded in 2000. Although MSVC does not operate a loyalty card scheme, *SuperValu* runs a series of promotions based on customers collecting vouchers which when cumulated to a certain number entitle them to items of kitchen ware, furniture, and holiday breaks at discount prices.

According to Musgrave its Mission Statement is articulated to 'provide a clear sense of purpose and express the values held important in achieving this purpose'. Its aim is:

To strive to create and share exceptional added value, through:

> *Food distribution businesses which are different and better*
> *Close involvement with customers and suppliers*
> *Empowerment of staff*

In 2000, the Musgrave Group entered into a £60,000 three-year sponsorship agreement with The Organic Centre in Rossinver, Co. Leitrim, to support the work of the Centre in developing the organic sector in Ireland. It also published an environment charter. This charter stated its intention to be the 'first Irish privately owned company to produce an annual environment report to international standards'. In its latest environmental initiative, Musgrave introduced Ireland's first totally degradable plastic carrier bag. This bag will start to degrade after 18 months, as opposed to the standard plastic bag that has a potential life cycle of hundreds of years.

MSVC is currently developing a 'Home Meal Replacement' (HMR) range aimed at the increasingly popular and profitable 'food-to-go' market. A range of own-brand fresh food products, 'Country Harvest', is in place and progressively developing. Employees regularly work on cross-functional teams e.g. there is a Home Meal Replacement team, an Environmental Impact Team, and Brand Development teams for both *SuperValu* and *Centra*. Both direct and indirect employees are encouraged to engage in industry related further education. Long-term employees share in the fruits of the Musgrave Group through a Free Share Scheme and to date employees own 15% of the company.

In 1999 sales by *SuperValu* stores grew by 19 per cent to IR£1.06 billion and sales in *Centra* stores were up 24 per cent to IR£355 million. 2000 retail sales of £1.25 billion were recorded for *SuperValu*, and *Centra* stores topped £440 million. *SuperValu* and *Centra* retailers account for 22% of the grocery market in the Republic of Ireland and for 72% of Musgrave Group sales. *SuperValu* accounts for 10% of the Northern Ireland market. The company claims to be the only Supermarket serving every one of the thirty-two counties of Ireland. Sales in 2001 were up 15% year-on-year, on top of 20% growth in 2000. The company continued to out-perform the national grocery market, which grew by approximately 8-9% during the period.

As well as its MSVC retail franchise, the company also operates a cash and carry division that accounts for 25% of all cash & carry grocery sales in Ireland. Under a 1999 supply agreement with Irish Shell Ltd., Musgrave Cash & Carry will supply all Shell company owned and company operated outlets with their total grocery requirements.

In 1994 Musgrave acquired a retail and wholesale business based in the Alicante region of South Eastern Spain (*Dialsur and Dialprix*). Dialsur operates a franchise chain of 75 Dialprix retail outlets, the majority of which are owned by the retailers who operate them.

Dialsur also owns and operates a chain of 16 medium-sized cash and carry outlets. In 1999 sales increased by 14.4 per cent to IR£96m.

In 2001 the Musgrave Group expanded into the UK market via a 28% stake in *Budgens*. The company also bought convertible loan stock which will increase its stake to 43.5% at a total cost of IR£115.5m. *Budgens* operates more than 200 supermarkets and convenience stores in the South East of England and has five different store concepts.
In addition to its national and international food business, the company operates the *SuperToys* franchise that comprises over 30 owner-operated specialist toy outlets nationwide. In 2000, Musgrave invested £3.5 million in a specialist children's entertainment and leisure store franchise, *World of Wonder*. The Musgrave Group toy business comprises 61 independently owned franchise stores and accounts for 25 per cent of the Irish toy market, which is valued at circa £130 million.

Tesco Ireland

Tesco Ireland is part of the Tesco PLC international group of companies. *Tesco* was founded in the UK in 1920 and over the years established itself as a cheap, affordable supermarket. In the 1980s, it began a process of strategically re-positioning itself in the UK market to compete with the then market leader, *JS Sainsbury*. At the same time, it expanded organically and through acquisitions within the domestic market. In the twenty- year period to 1993, it significantly reduced the number of stores while at the same time substantially increased average store size. *Tesco* is now the number one UK grocery retailer. Its success is attributed to customer-care strategies, own brand penetration and supply chain efficiencies associated with central distribution. Tesco expresses its core purpose as:

Continually increasing value for customers to earn their lifetime loyalty

The company's first international move was into the Republic of Ireland in 1978 when it acquired a 51% stake in 3 Guys limited, it subsequently withdrew from the market in 1986. Since then, Tesco has expanded internationally via acquisition into Hungary in 1994, Poland, Czech and Slovak Republics in 1995/96, Ireland (second coming) in 1997, Thailand in 1998 and South Korea in 1999. By 1999 it had an international portfolio of stores; 91 stores in the four Central European countries[2], one[3] in France, 75 in the Republic of Ireland, 17 stores in Thailand and 2 stores in South Korea.

Tesco re-entered the Irish market in March 1997 when it acquired Associated British Foods' grocery retailing interests on the island of Ireland. This acquisition gave it national representation and immediate market leadership on both parts of the island. On arrival, the company committed itself to spending one hundred million pounds on store refurbishments and extensions. *Quinnsworth/Crazy Prices* stores were re-badged on a

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[2] Poland, Hungary, Czech Republic and Slovakia
[3] In early 1998, it sold its French subsidiary 'Catteau' comprising 104 stores to Promodes for STG£250. It still retains one store in France, the 'Vin Plus' off-licence in Calais (Mintel 1998).

site-by-site basis with the process being completed by 2001.

All the acquired food stores were medium to large sized supermarkets and traded predominantly from sales areas below 25,000 sq. ft, although some locations had sales areas as high as 40,000 sq.ft. The store network was nationwide with a good mix of urban and rural locations.

On arrival, *Tesco* made several commitments to the Irish government, inter alia, they committed to maintain the purchase of goods from Irish suppliers and also to provide access to *Tesco* stores for Irish goods. The company also co-operated with Irish farmer and processor groups to improve the competitiveness of the sector. Some 90 *Tesco* Ireland brand products were developed within its first year in Ireland. Suppliers of *Quinnsworth/ Crazy Prices* 'Premium Choice' own brands became approved *Tesco* brand suppliers, which amounted to IR£11 million worth of business. Some suppliers with particularly distinctive or unique product lines were offered the opportunity to supply stores in the wider Tesco network. By early 2002, 119 Irish companies had become approved suppliers of Tesco brand products for both home and export markets. A non-food offer, e.g. a range of clothing, mobile phones, and hardware, music and videos, was added to selected stores of appropriate size.

It modernised all acquired stores and sought out new sites for store development. The aim was to bring all Irish stores into line with domestic stores in terms of layout, merchandising, equipment and general ambience. To date it has invested €300million in its store development programme. In February 1998 the company initiated a 'staff familiarisation' programme where 8000 of its Irish staff spent at least one day in a UK store seeing different retail activities. They also started a management twinning programme, with all Irish stores twinned with a comparable UK store.

Almost immediately on arrival, Tesco launched its Irish Clubcard which now has 700,000 members. In the UK, the company developed a sophisticated data-mining package that allowed analysis of clubcard purchases by region, store, product line, or specific customer type. This information was used to target promotions and offers directly to customers. Currently Clubcard has 5 partner organisations, LifeStyle Sports, Esso, Budget Travel Shop, ESAT Clear and ESAT Digifone.

During the summer of 1998, *Tesco* consolidated the distribution of fruit and vegetables. It appointed Keelings, a Dublin based firm, to supply produce to *Tesco's* 78 stores, but the company would deal directly with the growers. All buying decisions were made in their Dublin headquarters. In May 1999, *Tesco* bought a 35 acre site in North Dublin for a giant warehouse scheme. The warehouse is a hub for *Tesco's* distribution of fresh, chilled and frozen food around Ireland. Later that year (September), it granted the distribution contract for the facility to *Keelings*. This depot accounts for two thirds of *Tesco Ireland* products by volume, although *Shelflife* claims that 50 per cent of all lines by value are still not centrally distributed. It subsequently appointed another company (Allegro) to distribute its non-food and slow moving merchandise. In 2002, *Tesco* claims to have two thirds of all supplies to *Tesco* stores distributed centrally from five depot locations.

In June 1999, the company introduced the *Tesco* Organic range into its Irish stores. Products included meat, chilled, frozen, dairy, bakery, baby food and main grocery items. Currently stores stock over 250 organic products. An internet shopping service was launched in November 2000. The company invested IR1.5 million (almost €2 million) in the service in the first year of operation, creating 13 centres nationwide. The service was first tested in Cork city and south Dublin prior to the main launch. *Tesco* claims the service currently offers about 15,000 individual product lines, has 75% market coverage, and that average on-line order spend is €130 per order, with on line customers using the service on average every three weeks. The service has 27,000 customers.

RGDATA pursues a vigorous media and lobby campaign against *Tesco's* expansion plans. It monitors all aspects of *Tesco* operations and rarely fails to capitalise on items that could reflect negatively. For example, in August 1999, *Tesco* was fined a total of IR£3800, close to the maximum allowed under the legislation of the period in the Dublin district court. It pleaded guilty to five counts of providing incorrect labelling at a number of Dublin stores. It also admitted a further two charges of failing to provide a price on certain products. This followed as a result of an RGDATA survey in early 1999, which prompted the Director of Consumer Affairs to initiate an independent survey. Following the findings of this survey, the director took a case to court contending that *Tesco* had contravened the Consumer Information act. Most recently, RGDATA described Tesco's price cuts as "hype and bluster" and accused it of making outlandish and inaccurate claims about prices to consumers". The association had lodged a complaint with the director of consumer affairs asking for an immediate investigation. In response, Tesco accuses RGDATA of being 'disingenuous' and of 'cherry-picking a particular selection of products that support their claims'.

CASE QUESTIONS

1. Undertake an environmental and industry structure analysis for the Irish grocery sector.

2. Identify the current critical success factors (CSFs) for the industry. Are these likely to change in the foreseeable future?

3. Using the value-chain as a framework for analysis, undertake a SWOT analysis for Dunnes Stores, Tesco Ireland Ltd., and Musgrave SuperValue-Centra.

4. Suggest an appropriate strategy for each key operator as they battle for market leadership. What resources and constraints will help or hinder these strategies?

5. What other strategic options might the organisations pursue to add value for stakeholders?

Appendix 1 Company Factfiles

Superquinn

- Superquinn is a private limited company
- It is renowned for customer service and innovatory practice
- It operates nineteen stores most of which are concentrated in the Leinster area, most of its recent store openings have been in Munster
- Employs 5400
- The company claims market leadership in the greater Dublin area (20%)
- Its national market share is currently estimated to be around 9%
- The company has ambitious plans in store development over the next three years
- It has a sales area of approximately 40,000 sq. metres
- Since 1993 *Superquinn* is part of a European network of major grocery retailers who combine purchasing and marketing in an effort to improve buying power and reduce costs. The Associated Marketing Services (AMS) group includes the UK multiple, Safeway.
- Its own label *Euroshopper* brand has an 8 to 9% penetration
- It operates an 'open-door' policy for small Irish suppliers who might have new product ideas, and it has a policy of helping small suppliers develop worthwhile innovations
- In September 2001, *Superquinn* was forced to delay opening its central distribution centre by three months because the floor of the warehouse was below standard. The centre, which cost in the region of £35 million is now up and running. When the fine-tuning is complete the frequency of truck visits to supermarkets will reduce by 80 per cent.
- *Superquinn* was the first multiple in Ireland to use its information technology to promote customer loyalty via its 'SuperClub' programme. To increase the attractiveness of club membership, SuperClub Target Marketing was launched as a separate business wholly owned by *Superquinn* and devoted to forming alliances with promotional partners. 24 different corporate sponsors now reward their customers with SuperClub point at more than 350 establishments. The data base is used for targeted and relevant marketing offers, all of which must be pre-approved by SuperClub Target Marketing.
- The company has an 11.5 per cent share in *Buy4now*, the internet shopping site launched in 2000. The site sells goods online from 17 companies including *Superquinn, Arnotts, Atlantic Homecase* and *Easons.* The *Superquinn* on-line service was launched in October 2001 and serves 90 per cent of the Dublin area, as well as parts of Wicklow, Meath and Kildare. The company expressed itself 'pleased with the average amount spent, which had been more than expected'. In a typical week, upwards of 1,500 customers use the facility.
- Operates an on line service for food and wine
- Tusa, its joint venture with TSB Bank closed in December 2001 after 16 months of operation. It is reputed to have lost 2.3m punts

Lidl

- The German 'hard' discounter group Lidl opened its first store in November 2000
- It is understood to be planning to open up to 120 stores in the Republic
- "The current Lidl concept is a retail store of up to 1000 square metres (10.760 sq.ft.) of sales area
- The company sees itself as offering a limited range of high quality products at discounted

prices

- It sells products in 'cut-away cardboard outer packaging so that items can be clearly identified.'

Aldi

- The German 'hard' discounter Aldi opened its first two Irish stores in November 1999, one in Dublin and one in Cork
- It presently operates nine stores, two in Dublin, three in the rest of Leinster, one in Munster, two in Connacht and one in Ulster
- The company is actively seeking sites with a catchment population in excess of 30,000 for store size 13,500 sq.ft. with parking
- The company plans to open 30-40 stores in the next ten years
- Aldi offers customers own-label brands at up to 30% discount
- Store atmospherics are not emphasised and the overall philosophy would appear to keep costs to a minimum

Marks & Spencer

- The company entered the Irish market 1979 when a 32,100 square foot store was opened in Mary Street in Dublin city centre
- They cater for the upper end of the market and customers who buy M & S food are generally regarded as high income, high convenience buyers
- Grocery sales are a minor part of its Irish operation
- Over the past five years the company has invested over £100 million in the business in the Republic
- New Stores have been opened and existing stores have been expanded and refurbished
- Marks & Spencer's stock is 100 per cent own label, sold under the St. Michael brand name
- The company is credited with introducing quality own label products to the Republic.

Iceland

- Iceland, the frozen food chain entered the market in 1996
- It currently operates 7 stores in Dublin and one in Donegal
- Store size tends to be circa 8,000 -10,000 square feet
- In early 1998, Iceland was reputed to be selling twice as much product per square foot at its five Irish stores than at its 755 in Britain
- High sales have encouraged the group to plan to expand to 70 outlets in the Republic
- Most of the expansion is expected to take place in Dublin and within a reasonable distance of the capital
- Iceland in the Republic stocks 180 products that are wholly or partly manufactured in Ireland. Iceland uses 21 Irish suppliers

BWG

- *BWG*'s ultimate parent company, *Pernod Ricard*, has six operating wholesale subsidiaries with a consolidated company turnover of one billion pounds
- BWG is a symbol group franchise holder for Spar in the Republic and for Mace in Leinster

and Munster (acquired in 2000)

- *BWG* is the symbol group franchise holder for 360 *Spar* outlets, 100 of which are in the greater Dublin area
- Spar outlets have shown considerable growth in recent years as evidenced by the increase in outlet numbers
- BWG operates three Spar fascias- Spar convenience stores, Spar Express (Forecourt format offering 24 hour service) and EuroSpar (Main Shop Format)
- Turnover for the Spar group stores was IR£295 million in 1999 and the company estimated its Spar market share at 6 per cent
- BWG also operates Value Centre cash & carry outlets
- It's cash and carry outlets serve four key areas of the trade: independent retailers, forecourts licensed trade, restaurants, and catering (including pub catering and fast-food outlets)
- Own brand penetration is approximately 4-5 per cent
- Its symbol group customers are seen as wanting top brands and as being willing to pay a slight premium for quality, service and longer opening hours
- Turnover for Value Centre cash & carry was estimated at IR£150 million in 1998
- Other fascias include Nearbuy and XL Stop & Shop
- Both Nearbuy and XL Stop & Shop are independent retail fascias developed by BWG Foods
- A typical Nearbuy store would have a turnover of around IR £5,000 – £10,000 a week, with a size of about 1,200 square feet
- According to the company, turnover continues to grow at a double-digit rate

Appendix 2

Central distribution within the Irish grocery retail sector		
Operator	Volume supplied through central distribution	Current position of central distribution operation
Musgrave	**66%**	• Claims to offer Ireland's first and only centralised distribution network for chilled, fresh and frozen foods that it established in 1998. • Its central chilled system became fully operational in 1999 and resulted in 35 per cent increase in-group sales of fresh, frozen and chilled produce.
Tesco	**60%**	• Chilled and ambient are centralised • Starting to centralise frozen foods • Have 4 warehouses, one of which they operate themselves and a further three of which are operated by third parties. • Plans to have composite frozen and ambient distribution within the next two years.
Superquinn	**Not available**	• **Superquinn centralised its frozen foods in 1999 via a third party service provider.** • **Is currently developing a central distribution system for chilled and ambient foods and will use a third party service provider to manage these functions also.** • **Plans to introduce multi temperature trucks to allow for consolidation of its chilled and ambient foods.**
BWG	**BWG are unable to identify the exact volume of goods distributed through central distribution**	• Have their own ambient central distribution system at three separate locations. • Many of its retailers continue to purchase from local suppliers.
Dunnes Stores	**No central distribution**	• Have not as yet developed a central distribution facility. • Are rumored to be in the process of developing a central distribution strategy over the next six months.

Source : Keegan, O'Callaghan, Wilcox (2001)
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