Change of consumer habits over the economic recession

Ladislav Bém, Dis.

Bakalářská práce
2009

Univerzita Tomáše Bati ve Zlíně
Fakulta managementu a ekonomiky

Univerzita Tomáše Bati ve Zlíně
Fakulta managementu a ekonomiky
Vyšší odborná škola ekonomická
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ZADÁNÍ BAKALÁŘSKÉ PRÁCE

(PROJEKTU, UMĚLECKÉHO DÍLA, UMĚLECKÉHO VÝKONU)

Jméno a příjmení:	**Ladislav BĚM**
Studijní program:	**B 6208 Ekonomika a management**
Studijní obor:	**Marketing**
Téma práce:	**Změna chovaní zákazníka (spotřebitele) v době ekonomické krize**

Zásady pro vypracování:

1. Proveďte výzkum současného britského trhu a hospodářství, dejte jej do historického kontextu s většinovým zaměřením na maloobchodní řetězce a maloobchod.

2. Na základě sekundárních údajů a informací analyzujte chování zákazníků.

3. Interpretujte a průběžně monitorujte data o chování, nákupu a spotřebě produktů a služeb spotřebitelů z panelu o velikosti 25000 domácností ve Velké Británii.

4. Charakterizujte největší maloobchodní řetězce a jejich pozici na trhu v porovnání s konkurencí ve specifických kategoriích maloobchodu.

5. Z pohledu analytika trhu stanovte závěry slabé pozice na trhu 4 největších řetězců v některých sektorech ovlivněných ekonomickou recesí a navrhněte postup a řešení pro zlepšení.

Rozsah práce:

Rozsah příloh:

Forma zpracování bakalářské práce: **tištěná**

Seznam odborné literatury:

[1] THARAVANIJ, Piyapas. Capital market, frequency of recession, and fraction of time the economy in recession. Monash University: Department of Economics, 2007. ISSN 14415429; no 34/07.

[2] ALLEN, Roy E. Financial crises and recession in the global economy. Cheltenham, 1999. ISBN 1-84064-087-1.

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[4] CLARKE, Simon. Marx's Theory of Crisis. Basingstoke, 1994. ISBN 0333542827.

[5] KINDLEBERGER, Charles P. Maniacs, panics and crashes: A history of Financial Crises. 1978. ISBN 0333257162.

Vedoucí bakalářské práce:	**Michelle Bates** EXT.
Datum zadání bakalářské práce:	**24. února 2009**
Termín odevzdání bakalářské práce:	**28. dubna 2009**

Ve Zlíně dne 23. března 2009

UNIVERZITA TOMÁŠE BATI VE ZLÍNĚ
Fakulta managementu a ekonomiky
STUDIJNÍ ODDĚLENÍ
4

L.S.

PaedDr. Josef Rydlo
v zast. děkanka

doc. Ing. Jaroslav Světlík, Ph.D.
v zast. vedoucí katedry

ABSTRAKT

Tato bakalářská práce s názvem Change of consumer habits over the economic recession (Změna chování zákazníka (spotřebitele) v době ekonomické krize) popisuje v teoretické části jednotlivé fáze a průběh ekonomického cyklu, kde se převážně orientuje na finanční krize a recese. V praktické části dále pokračuje charakteristikou mezinárodní společností zabývající se výzkumem trhu TNS a analýzou britského maloobchodního trhu. Tato část se také snaží zjistit změny chování spotřebitelů, jejich dopady na daný trh a navrhuje řešení pro některé slabé stránky 4 největších maloobchodních řetězců.

Klíčová slova: ekonomický cyklus, recese, finanční krize, maloobchodní řetěze, potravinářský trh

ABSTRACT

This thesis called Change of consumer habits over the economic recession describes each period and process of the business cycle mostly financial crises and recessions in the theoretical part. In the practical part it carries on with characteristics of the international market research company TNS and British Grocery market analysis. This part also tries to find out changes of consumer habits, the impacts on the market and suggests solutions for some of the big four retailer’s weaknesses.

Keywords: business cycle, recession, financial crisis, retailers, grocery market

Poděkování

Ze všeho nejvíc bych chtěl poděkovat vedoucí bakalářské práce Michelle Bates za pomoc a návrhy k této práci a společnosti TNS a Kantar za povolení použití dat Worldpanelu. Dále bych chtěl poděkovat doc. Ing. Jaroslavu Světlíkovi, Ph.D., který byl mým konzulatantem, a celému kolektivu zaměstnanců VOŠE Zlín a Univerzity Tomáše Bati ve Zlíně.

Motto

'In a recession, you have to make your marketing and advertising work harder with less money, which means you have to do a fabulous job on the critical things.'

(Mark Simpson, marketing director of Ford of Britain)

CONTENTS

INTRODUCTION

Unfortunately, the current economic climate will continue to be very difficult for both individuals and companies. However, to survive and prosper in these tough times you will need to have positive thinking. For companies in particular this period of economic uncertainty must be faced and approached as series of challenges.

This thesis describes the change in UK Grocery consumer habits caused by the economic recession. It aims to show how the recession was caused, what consequences it has on consumer habits and analyses the business cycle and recessions in the past.

I am using the TNS Market Research Company for the analytical section; this looks at UK Grocery market share and performance of the biggest retailers. To quantify this, calculations for Market Share and Year on Year Change are used. You can also find the history of each retailer's performance.

For a closer look at the change of consumer habits, TNS Customs data is essential because TNS Worldpanel only provides quantitative market research solutions. I decided to use the Anxiety Index segmentation because it perfectly describes the level of consumers' anxiety. It shows each segment's shopping behaviour according to their income, region, social class, age and also shows behaviour changes during the economic downturn.

I have used Switching analysis to show Consumer Spend flow among the retailers. It enables Worldpanel to map which particular retailer is gaining or losing to other retailers.

In summary, the main aim of this thesis is to find out what exactly has been happening in the British Grocery market for last 2 years: how consumers react to such an environment and how it affects the retailers. It tries to give some suggestions to the retailers, based on the findings within this thesis, how to maintain or boost their market position before the recession ends.

I. THEORETICAL PART

1 THE BUSINESS CYCLE

To understand what economic crisis is, it is essential to know that it is a part of a term ‘business cycle’. This term, which is also known as the Economic cycle, stands for economy-wide fluctuations or economic activity within long-term period (months or years). Real gross domestic product - GDP (see more below), is used as a measure.

1.1 Brief history of the cycle

In the middle of the 20th century several typologies of economic cycle according to its periodicity were proposed. However it was Clement Juglar, French economist, who analysed and identified the presence of economic cycles 8 – 10 years long in 1860.

1.1.1 The mid-20th century proposers:

- the Kitchin inventory cycle of 3–5 years (after Joseph Kitchin)
- the Juglar fixed investment cycle of 7–11 years (after Clement Juglar)
- the Kuznets infrastructural investment cycle of 15–25 years (after Simon Kuznets)
- the Kondratieff wave or long technological cycle of 45–60 years (after Nikolai Kondratieff)

1.2 Cycle or fluctuation?

In recent years economic theory has moved towards the study of **economic fluctuation** rather than business cycle - though some economists use the phrase 'business cycle' as convenient shorthand. For Milton Friedman, who was an American economist, statistician and public intellectual, and a recipient of the Nobel Memorial Prize in Economic Sciences, calling the business cycle a "cycle" is a misnomer, because of its non-cyclical nature. Friedman believed that for the most part, excluding very large supply shocks, business declines are more of a monetary phenomenon. However I decided to be a part of the lazier group and the term cycle will be used within this thesis.

2 COMMON PATTERNS

Most of the financial crises and recessions in the modern history have quite similar patterns. Initially a country benefits from expanded quasi-money or **near money** (Assets that are easily convertible into cash, such as money market accounts and bank deposits), which are created from **the narrow base** (only banknotes, coins and commercial banks reserves with the central bank). The financial sector expands as it captures profit from new opportunities allowed by globalization. These assets encourage consumption, business investment, borrowing and sometimes government expenditures and economic growth is well supported.

Let's take a look at quite simple looking equation.

$$\mathbf{m \times v = p \times q}$$

m = the supply of the narrow base (base money)

v = rate of circulation

p = GDP price level

q = volume of current production

'Then, typically, the supply of the base money (m) times its rate of circulation or velocity for GDP purposes (v) contracts, and so therefore does the equivalent nominal GDP. The decline in **nominal GDP** is usually split between its 2 components, **real GDP**, which is the volume of current production measured in constant prices (q), and the **GDP price level** (p)'[1].

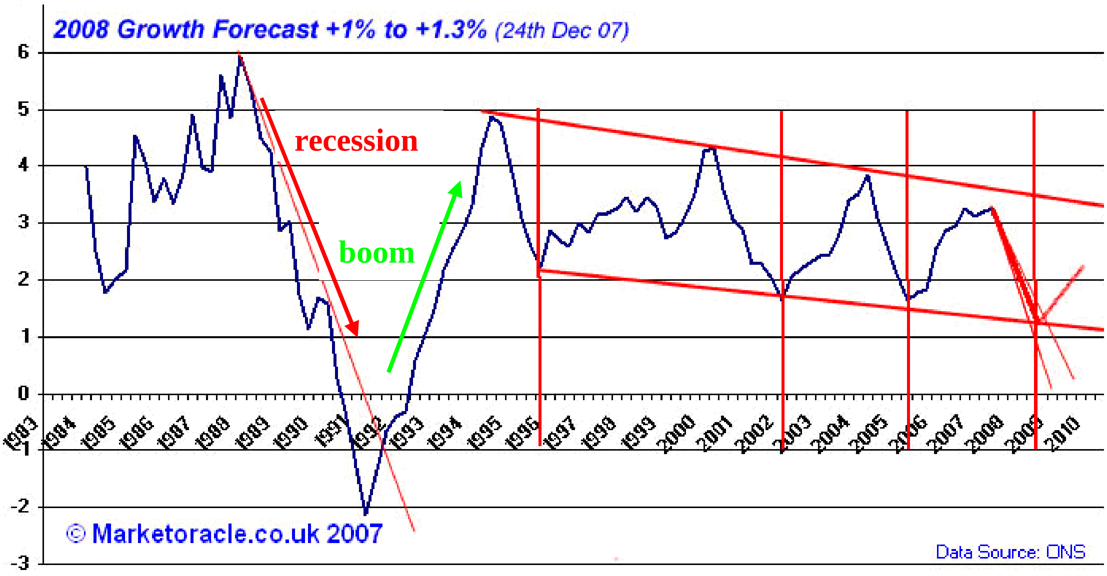
It involves shifts over time between periods of relatively rapid economic growth, which are called **expansion** or **boom**. And periods of relative stagnation or decline i.e. **contraction** or

[1] ALLEN, Roy E. *Financial crises and recession in the global economy*. Cheltenham, 1999. page 99. ISBN 1-84064-087-1.

recession. Recession happens when (q) declines for a particular period (at least 6 month). Or when (p) increases we call it **inflation**.

On the picture below you can see UK GDP Growth prediction from the year 2008 in percent.

UK GDP (at Market Prices) (Quarterly Sept 07)



Picture 1, UK Gross Domestic Product Forecast

Source: http://www.marketoracle.co.uk/Article3186.html

But when there is deflation and the volume of production declines at the same time, monetary policymakers may react by expanding the base money, but it could be little too late. Individuals and institutions might have unpayable debts, banks may be collapsing, and international confidence in the country could already be damaged.

In this pessimistic case the desperate increase in narrow base may lead to inflation or even to hyper-inflation, which is rapid increase in GDP price level, but volume of production would continue to fall. A weak financial system may not be able to maintain the circulation rate for secure currencies for productive activities, especially if people are hoarding money and therefore velocity would decline.

The lack of effective money (m x v) could be caused by monetary authorities or international investors draining money and escaping out of the country or region. There may be another reason for a decline in circulation rate (v). The financial system could be unable to direct money towards productive activities. A contraction in effective money or escape of international investments and companies may have negative effect on equity markets, bank capital, debt markets or government reserves and monetary wealth value lower. This usually leads to political and economic uncertainty, which worsens the situation.

When there is not enough spending and credit and an increased risk attached to business activity scares away investment, interest rates rise. The demand for quasi-money and credit (the need to hold and use insecure monetary float) declines and people try to convert the insecure money into more secure base money – i.e. cash. No banking system can't handle all of the monetary float with secure bank reserves if customers try to withdraw all of the monetary float at once in short-term period. And these attacked financial institutions can collapse. A deteriorating banking sector may not satisfy all of the demand, bad loan problems appear and a 'lender of last resort' such as International Monetary Fund (IMF) needs to be found as soon as possible.

The IMF concludes that approximately three-quarters of its more than 180 members experienced significant banking sector problems of this type during the period from 1980 to 1995.

Generally, these types of episodes can be defined:

a) **a financial crisis –** if there is a significant decline in monetary wealth, which is held by private and public sectors
b) **a recession –** if there is a significant decline in real GDP

3 HISTORICAL DIFFERENT POINTS OF VIEW

3.1 Say’s Law

There were some interesting points of views in the past as one of them is described in this chapter. ‘Say’s Law’. Say’s Law of Markets is attached to French economist and businessman Jean-Baptiste Say (1767-1832), who stated that supply or production essentially creates demand for what is produced. An important part of Say’s Law is that recession does not appear because of inadequate demand or lack of money. According to Jean-Baptiste Say, the production of goods provides the means to the producers to purchase what is produced, and then, demand will grow as supply grows. This means, prosperity should be increased by stimulating production, not consumption. Another implication of Say’s Law is that the creation of more money results in inflation. More money demanding the same quantity of goods doesn’t create an increase in real demand.

3.1.1 Recession, unemployment and Say’s Law

Since the classical economists agreed Say’s Law to be correct, they explained recessions as arising from production not meeting demand in quality; i.e. supply exceeded demand in some segments of the economy.

In general, producers shouldn’t produce more when there couldn’t be any more demand. Some particular products are produced too much and other products too little at the same time. This disproportionality in relation to the consumer preferences would lead to producer’s inability to sell the products at cost-covering prices, which creates losses and several firms are closed. Since demand is ultimately determined by supply, the reduction in supply of these isolated sectors of the enemy will reduce the demand for products in other sectors, causing a general reduction in output.

3.2 Keynesianism and business cycles

Keynesian Theory is a macroeconomic theory claimed by British economist John Maynard Keynes (1883 – 1946). Keynesianism argues that private sector decisions sometimes lead to inefficient outputs. Therefore it is important to delegate active policy to the public sector, including monetary policy actions by the central bank and fiscal policy actions by the gov-

government to stabilize outcome over the business cycle.

According to Keynes, if Say's Law is correct, involuntary unemployment, which is caused by inadequate demand cannot occur. Therefore involuntary unemployment would appear because of changes in the economy. He believed that aggregate demand for goods could be insufficient during economic downturns, leading to high unemployment and losses of potential output. He also claimed that government policies could be used to increase aggregate demand; i.e. increasing economic activity, reducing unemployment and deflation.

Keynes argued that solution to depression was to stimulate the economy (incentive to invest) through combination of two approaches:

a) reduction in interest rates
b) government investment in infrastructure

Government investment injects income, which leads to more spending in the economy. This stimulates more production and investment at the same time. The initial stimulation starts with several events, whose total increase in economic activity is a multiple of the original investment.

'What Keynes really meant. I have called the position to be scrutinized 'Classical Keynesianism'; there is no doubt that it passes for Keynesianism today, as the scriptures for the faith erected in his name. Yet it is possible to think that much of it has little to do with Keynes himself; in many respects his great book is free of some of the elements that have since been taught in his name – even though in some (unguarded? or unsuspected?) moments he may have lent his approval to these interpretations of his own thought system. My own opinion is that he has not been faithfully presented in the typical 'Keynesian' models, and that these are not the most suitable synopses for the transmission of his ideas. Still, I shall make no effort to refer to Keynes even though I think the tenor and the text will sustain me'[2].

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[2] WEITRAUB, Sidney. *Classical Keynesianism, Monetary Theory, and the Price Level.* Philadelphia and New York, 1961. page 2-3. ISBN ((Library of Congress Catalog Card Number 61-7187).

4 HISTORY OF MAJOR RECESSIONS AROUND THE GLOBE

4.1 The Great Depression (1929-1939)

The greatest economic downturn in the 20th century started in the United States of America on 29th October 1929, when the stock market crashed. This day is worldwide known as Black Tuesday.

It literally affected every country, rich or poor. International trade, income, prices and profits dropped by almost two-thirds and cities all around the world were hit hard. Especially those where heavy industry was located.

'The 1929 world depression raises a series of issues for economic analysis and historical methodology which can perhaps be summed up most concisely in the difference of view precipitated in a television debate in May 1969 between two American economists, Milton Friedman and Paul Samuelson. Friedman insisted then, as he has done on other popular and professional occasions, that the depression had a single cause: errors in carrying out monetary policy in the United States. Samuelson maintained it was the result of a series of historical accidents. The Friedman position disposes of a series of lesser analytical issues which emerge if the original question of system v. accident is resolved in favour of system. He finds the origin in the United States rather than in Europe or the periphery; in monetary rather than real factors; in policy rather than in the nature of institutions or in the tasks required of them; in national economy rather than in operation of the international system. Within the limits of United States monetary policy, moreover, which excludes the villain of many other analysis – structural dislocation in Europe after the First World War or the failure of the United States to act like a creditor nation'[3].

Having mentioned, the Great Depression was triggered by a total collapse in the stock market. However it returned to early 1929 levels in the beginning of 1930, though still almost 30 percent below the peak of September 1929. Government and business spent more in the first half of 1930 than in the same period of the previous year. But consumers, many of

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[3] KINDLEBERGER, Charles P. *The World in Depression 1929 – 1939*. London, 1973. page 19. ISBN 0 7139 0312 0.

whom had suffered severe losses in the stock market the previous year, cut their expenditures by 10 percent.

In early 1930, credit was quite easily accessible at low rates, but people were reluctant to add new debt by borrowing. In May 1930, auto sales had declined and prices in general began to decline, but wages stayed steady in 1930 then began to drop in 1931. The situation was worse in farming areas, where commodity prices plunged. In mining and logging areas unemployment was high and there were few other jobs. All of these events pulled down majority of other countries.

4.2 The 1982 Recessionary Period

‘In the early 1980s, just as the international financial markets began to expand rapidly and create the new global economy, French President Francois Mitterrand embarked upon an experiment in economic socialism. At the same time, newly elected leaders Margaret Thatcher in England and Ronald Reagan in the US were pursuing conservative policies aimed at restoring a more capitalist tradition’[4].

Each of these economic experiments failed to notice the new structure of the global economy. And the consequence was that every experiment created bad economic situation within one to two years.

4.2.1 The US Experiment

Ronald Reagan became president in January 1981 and his administration was determined to stimulate the US economy with a policy of large tax cuts. The aim was to significantly increase government defence spending which was supposed to be offset by a cut in government non-defence spending. To reduce the inflation, which was around 10 percent, the Federal Reserve Bank accelerated its enacted policy of reducing the growth rate of the US money supply.

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[4] ALLEN, Roy E. Financial crises and recession in the global economy. Cheltenham, 1999. page 102. ISBN 1-84064-087-1.

4.2.2 The UK Experiment

The British economic experiment of the 1980s emphasised reduction of the growth rate of the money supply in order to reduce inflation and eventually interest rates. And, as in the United States, these missions were accomplished between 1980 and 1983. Inflation was lowered from 16 percent to 10 percent. Nevertheless, also as in the US, these goals were achieved at an unexpected cost to the economy in terms of unemployment and lost output. During the first year of Thatcher's administration the growth rate of the British economy fell to -2 percent and continued to fall trough 1981. In 1982 the unemployment increased to 12.3 percent, the highest among the major industrialized countries.

4.2.3 The French Situation

While the American and British monetary experiments were implementing above mentioned policies, Francoise Mitterrand began enacting policies which were designed to stimulate the French economy.

Increased government spending, as announced by Mitterrand's socialist revolution, boosted the economy growth to 1.7 percent in 1982. The same year when economies in the US and West Germany declined by 2.1 percent and 1.1 percent. From the group of major industrial countries except France, only Japan realized slight economic growth in this recessionary year. Instead of rushing in a period of economic prosperity relative to its trading partners, French try to overcome the recessionary trend of the global economy ultimately ran into serious difficulties. The strong French economy imported more while the weaker economies purchased fewer products from abroad.

5 MARKET RESEARCH AND ITS ROLE DURING THE RECESSION

Or marketing research is a method of collecting data which will make businesses and companies more aware of how shoppers and customers, the companies hope to sell to, will react to your products or services. Market research answers questions such as:

- What price would potential customers be prepared to pay (this normally helps when you set up your pricing policy)
- Whether your products or services are needed
- What age, sex, occupation are the people I want to sell to
- How well your products or services might sell (it could be worse or better than what you expected)
- Who won't buy what you hope to sell (this will help the promotional plan as it enables the companies to target the right people)
- How much demand there is for what you hope to sell (you might need to increase or decrease your production)

It is generally divided into 2 categories:

- **Consumer marketing research –** studies the buying habits of individual people
- **Business-to-business –** investigates the markets for products sold by one business to another

5.1 Marketing research process

Marketing research process involves problem definition, development of an approach to the problem, research design formulation, field work or data collection, data preparation and analysis, report preparation & presentation and every part of this process is important. Problem or opportunity is identified or defined and then we decide what information is needed to investigate. Finally, the findings, implications and recommendations are highlighted in a format that enables the information to be used for management decision making. It should be emphasized that market research is conducted to assist management in decision making.

5.1.1 Problem definition

The first step of a market research project is to define the problem and the researcher should be aware of the purpose of the study, the relevant background information and how it will be used in decision making. It involves discussion with the client, interviews with industry experts, analysis of secondary data and some qualitative research might be needed as well. Once the problem is defined, the research can be designed and conducted.

5.1.2 Development of an approach to the problem

This part of the process includes formulating an objective, analytical models, research questions, hypotheses and identifying factors which can influence the research. It is normally guided by discussions with management and industry experts, analysis of secondary data, qualitative research and pragmatic considerations.

5.1.3 Research design formulation

Design formulation details the procedures necessary for getting the required information and is relevant to design a study that will test the hypotheses, find out possible answers to the research questions and provide the information needed for decision making. It also includes conducting exploratory research, designing appropriate scales to measure them and precisely defining the variables. The issue of how the data should be obtained from the respondents must be addressed (conducting a survey or an experiment). There is also need to design a questionnaire and a sampling plan to select respondents for the study.

5.1.4 Field work or data collection

This step four involves a field force or members of staff who operate either in the field, from an office via telephone or through mail. Field operations are taking place in the case of personal interviewing (in-home, store intercept or computer-assisted personal interviewing). By telephone means phone or computer-assisted interviewing and mail panel surveys are sent through mail.

5.1.5 Data preparation and analysis

Data preparation includes the editing, coding, transcription, and verification of data. Each questionnaire is inspected and if necessary corrected. Numbers or letter codes are agreed to represent each answer to each question in the questionnaire or observation form. The data from the questionnaires is transmitted into the computers and verification of the data needs to be done. Verification ensures that the data from the original questionnaire was accurately transcribed. Then the data analysis gives meaning to the data that had been collected.

5.1.6 Report preparation and analysis

The whole project should be documented in a written report which addresses the specific research questions, describes research design, data collection and data analysis procedures and presents the results and the main findings. The findings should be presented in a comprehensible format so that they can be readily used in the decision making process. In addition, an oral presentation should be made to management using tables, figures, and graphs to provide better insight.

5.2 Marketing research methods

- **Qualitative research –** is generally used for explanations, has normally small number of respondents and uses techniques such focus groups, in-depth interviews and projective techniques
- **Quantitative marketing research –** is mostly used to draw conclusions, tests a specific hypothesis and uses sampling techniques so they can be transformed to the population. It also involves a larger number of respondents and includes surveys and questionnaires.

5.3 Primary and secondary information

Primary research enables the use of immediate data gathered from surveys, interviews and focus groups. Whereas secondary research uses reprocessed and reused collected information.

In secondary data, information relates to a past period which sometimes results to unsatisfactory value. Primary information is more accommodating as it shows latest information. Secondary data is obtained from business and government sources, commercial market research companies, and computerized databases as it is an economical and quick source of background information. Analysis of available secondary data is an essential step in the problem definition process. Primary data should not be collected until the available secondary data have been fully analyzed.

II. ANALYTICAL PART

6 SOME FACTS ABOUT TNS

6.1 History

In 1960s five companies, which were the heart of the Taylor Nelson Sofres (TNS) group, were established. Their head offices were spread in four countries around the globe:

- Intersearch in the USA (1960)
- AGB in United Kingdom (1962)
- Sofres in France (1963)
- Frank Small Associates in Australia (1964)
- Taylor Nelson again in UK (1965)

During 60s, 70s and 80s these companies grew significantly, offered wider range of products and solutions to higher number of clients and used the latest technology which lead to more offices and acquiring businesses around the World. In 1990s the clients started demanding international service and the following events took place:

- Taylor Nelson joined with AGB (1992)
- Sofres combined with FSA (1995)
- Sofres acquired Intersearch (1997)
- Taylor Nelson AGB and Sofres merged (1997)
- TNS acquired NFO[5] (2003)

In late 2008, TNS was acquired by the WPP/Kantar group.

6.2 About Kantar Group

Kantar Group is one of the global largest all kinds of research, insight and consultancy networks. Its current Chief Executive Officer is Eric Salama and this Market Research, Information and Consultancy Division of WPP Group plc was founded in 1993.

[5] NFO MBL India - Indian Market research company which operated in India and Sri Lanka

It currently employs around 26,500 employees across 80 countries. Kantar's services help clients, which almost half of them are among Fortune 500 companies, to make the right business decision. 19 brands are under the wings of this group. TNS have recently joined names such as Kantar Media Research, Zimmet group, Millward Brown Research International.

6.3 TNS and recent past

TNS Global had global sales of £1.068 billion in 2007 and has currently offices in more than 80 countries worldwide. It employs more than 15,000 full-time staff. This international company provides different research methods:

- **Ad hoc –** not regular requests from clients mostly based on sudden business events such as market share drop within certain category or a surprisingly good YoY competitor growth.
- **Continuous** - regular reporting
- **Qualitative**
- **Quantitative**
- **Custom –** TNS is worldwide No 1 in custom research business. It can offer clients tailored research solutions from the most innovative online methods to the most traditional.
- **Syndicated –** projects to group of prospective participants such retailers, telecom companies etc.

6.4 TNS Global Industry Sectors

Picture 2, TNS Industry Sectors

Source: Worldpanel

FMCG – Fast Moving Consumer Goods, (Consumer Packaged Goods)

One of the largest sectors is market research or continuous measurement and analysis of consumer behaviour for FMCG manufacturers, brand owners and retailers worldwide.

Automotive

Expert solutions and insights to match complex market research and needs of major automotive manufacturers, component suppliers, oil companies and repair specialists across the world.

Media – TNS Global Media Research

Internet, TV and Radio audience measurement, which gives advertisers, broadcasters and media planning agencies actionable and insightful information.

Finance

TNS delivers market research insights to banks, investment companies and insurers.

Healthcare

Consultancy services to the pharmaceutical, medical device and diagnostic industries.

Technology

Market research, understanding and insights for the world's leading IT, consumer electronics companies and telecoms.

Political and Social

Information and analysis to public institutions, the news media, political parties and research centres.

6.5 Data

6.5.1 Four week sales growth data

TNS always publishes 'Till Roll' and 'Grocery' sales data for a four week period. From this a four week sales growth rate is calculated. For example, in July 2008, the sales growth rate is calculated as follows: ((sales in four weeks to 13 July 2008)/(sales in four weeks to 15 July 2007) – 1.)*100.

6.5.2 Twelve week sales growth data

The data is essentially a statistical survey and therefore becomes more reliable. In fact TNS is uncomfortable with the four-week data being used and prefers to look at twelve-week periods. This also helps to lower the impact of any unusual calendar effects (eg the timing of Easter in March 2008 (versus April 2007) meant that March 2008 sales growth was flattered and April 2008 growth was depressed.

6.6 About Worldpanel

TNS (changing to Kantar) Worldpanel continuous market research measures consumer purchasing and consumption behaviour. When you combine this with customised insight from TNS Consumer, they provide a better insight into the FMCG and consumer market place. TNS Worldpanel is the world's leading provider of syndicated continuous research solutions, which measure consumer grocery purchasing and consumption behaviour for brand owners, retailers and manufactures in the Global FMCG industry. Among its clients also are advertising and media agencies. In terms of Worldpanel's data and insight they can make more effective business decisions. Over 500 worldwide clients rely on the information from large and growing consumer panels.

Future Kantar Worldpanel has over 30 years of experience in consumer panels and is the world largest supplier of consumer purchasing information with branches across 52 countries in the world through the Europanel network. It has 96% coverage of GDP in Latin America, 92% in Europe and 78% in Asia Pacific.

In 2007 the size of the British panel has been increased up to 25,000 households, which makes Worldpanel the largest continuous consumer panel in Europe. That is pretty impressive, but the actual question now is, what this consumer panel is and how it works.

Consumer panel is an ongoing survey using a sample of consumers designed to represent a target population in terms of their purchasing behaviour. The sample is demographically representative, which is based on age, region, social class, household size and presence of children and these panellists are chosen from consumer and direct marketing databases. Interested homes are contacted by post and then phone. If the Household agrees they are sent a device called Clicker, which is used for product barcodes scanning, codebook and instructional video. Panellists use the codebook for making records of products without barcodes they bought, such as in-store bakery products, loose fruit, vegetables etc. The instructional video is essentially a guide explaining how you as panellist should make a record of purchased products. This information is then retrieved via modem/internet.

Panellists also send their receipts which TNS match to their purchases. For each trip using the Clicker TNS know:

- Retailer
- Total shop spend
- Shop address details
- Price details by product
- Promotions

6.7 Basic Measures explained

To understand how especially retailers and manufacturers perform on the market, few of the measures and terms need to be explained.

6.7.1 Shoppers and Baskets

Shoppers are people who go shopping and baskets are their actual purchases. Basically you can grow a brand by attracting new shoppers or increasing the amount they spend on your brand/number or times they buy it within specific period.

6.7.2 Penetration

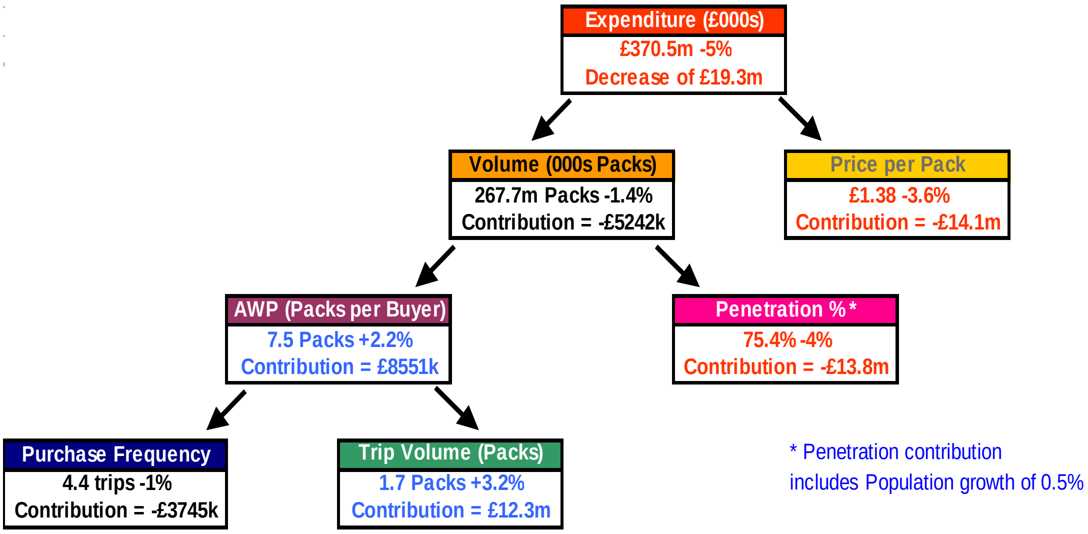
This measures the percentage of GB Households (total is presently 24.5 million) that bought your brand at least once in the specified time period or how many shoppers is the brand reaching. To benchmark closer look at each category needs to be done. Among the categories with highest penetration are Fruit & Vegetables (99.5%), Wrapped Bread (99.3%), Cheese (98.3%).

6.7.3 Average Weight of Purchase (AWP)

The average amount (Volume or Spend) bought of the Market/Brand by each household which purchased the Market/Brand in the specified time period. AWP is calculated with Brand Spend or Volume / Buyers of Brand.

6.7.4 Frequency

The average amount of occasions the Market/Brand is bought by each household which purchased the Market/Brand in the specified time period. The simple calculation for this measure is Number of occasions / Buyers of Brand.
For example you can gain increased baskets by encouraging people to buy the category more often, which means more baskets over a particular time period. Or you can stimulate shoppers to buy more of the category each time they shop (i.e. bigger baskets). And when you link these measures together you get Measure Trees (see below).



Picture 3, Measure Tree

Source: Worldpanel Uncovered presentation

Measure Trees help you to understand what is driving changes within your market or brands. The measures in the above tree are linked by the arrows to show you how they relate to each other. Spend is driven by how much buyers are purchasing (total volume) and the average price they paid for this (price per pack).Total Volume is then driven by the number of buyers purchasing (Penetration) and how much on average these buyers purchase (AWP). Average Weight of Purchase (AWP) is the result of how often these buyers are purchasing (Frequency) and how much they have purchased in a specific trip (Trip Volume).

The movement of these measures has a contribution to the overall change within a market. It helps you understand why a market is in growth or decline to then use this information to focus future plans and spot opportunities. It also identifies opportunity sectors within a market and puts the performance of your brand in context. Understanding the category can then give you direction for further investigations behind market performance:

- Which retailers/sectors/brands are driving the performance?
- Are they Brands or Own Labels (Tesco Value, Sainsbury's Basics etc.)
- Where should the focus for further growth be?

In terms of that there are 6 questions to be answered:

1. Causes of brand growth/decline?
2. Winning from; losing to?
3. Who buys my brand?
4. What else do my buyers buy?
5. Is my new brand going to succeed?
6. Which buyers are causing the changes?

TNS Worldpanel has got answers to these questions. 6 analyses called:

1. **Grow –** tracks consumer measures over time, asses past performance and gauge future performance
2. **Switch –** a rolling analysis that tracks causes of gains and losses over time.
3. **Who –** a consumer profiler utilising demographic descriptors to help differentiate market & brands
4. **Compete –** establishes the overlap between brands to identify client's competitor set
5. **Launch –** an evaluation & target setting tool for client's NPD which benchmarks against other market launches
6. **Repeat –** emphasises how important new buyers can be even for the biggest brands

6.8 Till Roll and Grocery figures

Till Roll

Overall measure of all consumers purchasing which continuously tracks retailer performance and provides a share of trade measure.

Retailer Share Track (RST or Grocery data)

Markets are covering Ambient Groceries, Fresh and Chilled, Frozen, Alcohol, Household, Toiletries and Healthcare.

7 UK IN RECESSION

But there had been several moments which have been written into annals of world economic history!

It was beginning of 2007 when real estate companies in the United States of America started to realise that it is becoming harder to sell a real property. This was the beginning of the collapse of the housing market and start of the economic downturn in the world which is known as late 2000's recession.

Not a very long time after this event Americans were desperately watching how their banks are having problems. Names like Washington Mutual, Bear Stream and Lehman Brothers declared bankruptcy.

Unfortunately mortgage firms were not immune to such a huge disaster. In fact, many mortgage lenders and associates were made redundant as well as the recession dragged on.

7.1 Credit Crunch in the UK

First of all, before you read about the British Credit Crunch itself it will be better to define the term Credit Crunch. It is a period of time when there is a sharp reduction in the availability of finance from banks and other financial institutions. This usually appears during a recession or tough economic times.

In the summer of 2007, it was clear that the housing market in the US was in free-fall and that mortgage-backed securities were worth less - a lot less - than those holding them imagined. With nobody sure how big the losses might eventually be, the markets lost the two ingredients important to keep them working - confidence and trust. Banks first stopped lending to each other, then sought to repair their finances by cutting back on lending to their customers. Borrowing became harder, more difficult and more expensive - the classic definition of a credit crunch. Cheap and easy credit had been the energy for both the US and UK economies in recent years; without it they have started to seize up.
The second big problem for policymakers, not just in Britain but around the world, was that they were fighting a war on two fronts. Central banks and finance ministers were fighting not just the credit crunch, but also rising inflation. On 9th August 2007, crude oil was trading at just over \$70 a barrel and one year after it peaked at more than \$145 a barrel.

Rising food prices also pushed up the cost of living, making it harder for central banks to justify cuts in interest rates - traditionally the first line of defence in a credit crunch.
Then in the middle of 2008 other events, quite similar to those mentioned above, started to appear. Some of the British banks such HBOS, Barclays etc., began to realize that there business strategies weren’t that brilliant as they had thought. Almost every day during the period we could watch spectacular falls in share prices. At the end of July 2008 HBOS shares slumped more than 70% from previous year peak and it was rumoured to be a possible takeover target.

And what was rumoured, have been implemented into reality. HBOS, the Britain’s biggest mortgage lender was in bad condition at that time. Lloyds agreed to takeover HBOS after it ran into serious financial trouble. Gordon Brown, the Prime Minister, personally helped to secure the deal by rewriting competition laws to allow it to proceed.

7.2 Nationalisation

Northern Rock got itself into financial difficulties last year because its business model wasn’t enough prepared for the global credit crunch. Its rapid growth was driven by relying on world markets to borrow most of the cash it loaned as mortgages. This meant that when the credit crunch hit, fears over potential losses linked to high-risk US mortgages, the banks which Northern Rock had relied on were less willing to lend money. Those who would loan did so at higher rates, meaning that Northern Rock's borrowing costs rapidly increased. Other mortgage lenders were not so badly hit because they were less reliant on money markets, instead drawing heavily on saver's deposits to fund their mortgage loans.

On 18^{th} February 2008 the Chancellor Alistair Darling announced that the troubled Northern Rock bank is to be temporarily nationalised. He ruled out two rescue bids put forward by Virgin and the bank's management, saying that they would not provide best value for money for the British taxpayer. And what this nationalisation is? Nationalisation involves the government taking a business from its shareholders into public ownership. The last time it occurred in the UK was in the 1970s, with firms such as British Leyland.

%Change in GDP in the UK

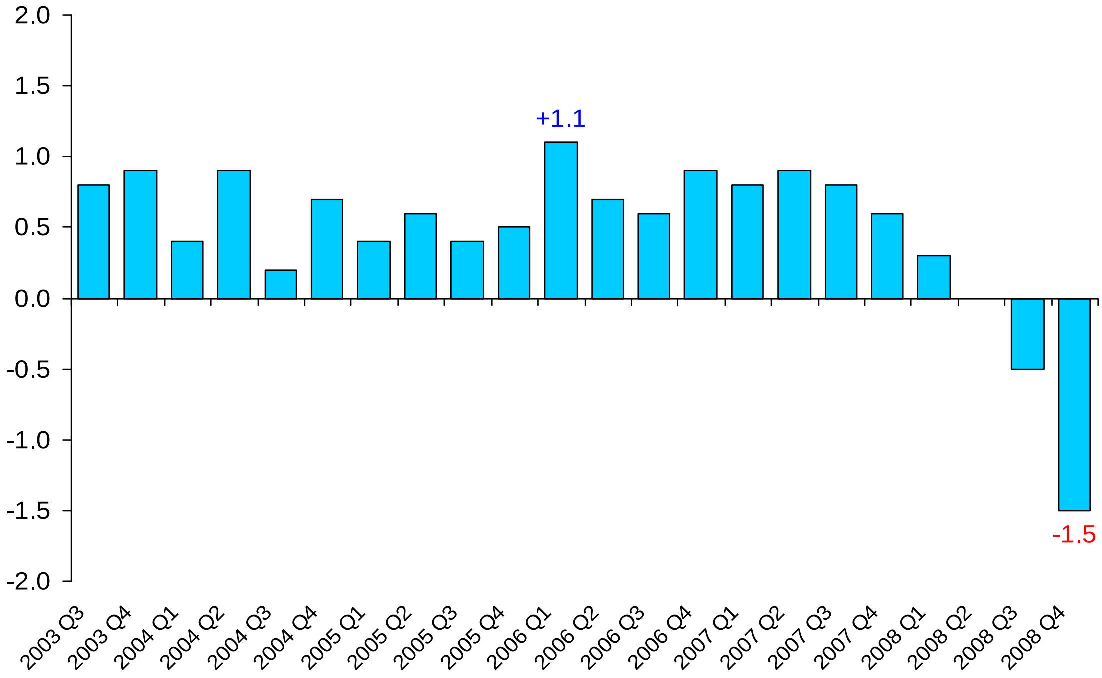


Chart 1, Change in GDP in the UK

Source: Worldpanel

As you can notice in the chart above Great Britain had experienced 2 consecutive periods of GDP decline at the end 2008 and was officially announced in recession on 23rd January 2009.

8 UK GROCERY MARKET AND ITS KEY PLAYERS

According to Worldpanel data the total grocery market value for year 2008 was £85,534,340,000. Let me introduce some of the key players which have the major shares from this huge amount of money.

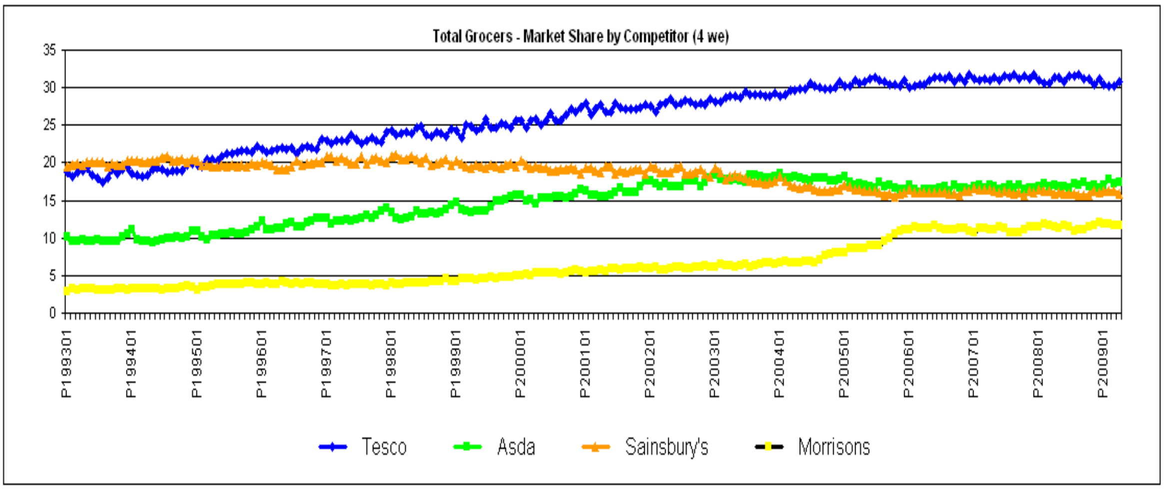


Chart 2, Till Roll Market Share by Competitor

Source: Worldpanel

8.1 Tesco

Tesco plc owns 100% of Tesco Stores Ltd, its principal operating subsidiary in the UK. It is the leading food retailer in Britain and the country's largest independent operator of petrol filling stations with around 400 on-site petrol stations. With seven retail formats, Tesco caters for a wide range of consumer's grocery and non-food shopping needs. Its online shop is the most successful grocery home shopping business in Britain.

Product differentiation is boosted through its private label range, while its loyalty card helps Tesco monitor its consumers whilst rewarding their spending with money-off vouchers. Private labels are important component of Tesco's business, helping to create a point of differentiation and to fill strategic price gaps. The range covers some 12,000 product lines, from economy-priced Value lines, to the standard-priced Tesco range and premium Finest options. Private labels account for around 50% of sales

In September 2008, Tesco launched a new range of some 350 discount products under the umbrella name of Discount Brands at Tesco as part of the retailer's strategy to name itself as 'Britains' Biggest Discounter. Using brands such as Trattoria, Oat Oaties, All About Shine and Market Value. The brands cover 10 categories including meat, dairy, bakery, beer, household and beauty. The Discount Brands are designed to offer better quality than Tesco's Value range at prices cheaper than the leading brands. All these new products with the exception of Market Value are phantom brands, being Tesco own label products without the Tesco logo present on the packaging.

Tesco have extensive financial services offers which include a branded credit card, banking facilities, personal loans, savings accounts, mortgages and insurance policies. By March 2006, Tesco stated that its Personal Finance division had over 5 million accounts with 1.8 million credit cards in operation and 1.4 million insurance policies.

In 2007, Tesco launched a financial services comparison website branded tescocompare.com. The site enables users to compare hundreds of products and prices and was developed with Tesco Personal Finance's partner, Royal Bank of Scotland. The sites provides users with links to both Tesco and competitor's sites for loans, home insurance, online grocery shopping, car insurance, life assurance, online shopping, broadband and credit cards.

Tesco also offer a number of in-store foreign currency kiosks with plans to increase the number over the next few years.

Tesco's store types:

- Tesco – superstores
- Tesco Direct – e-commerce
- Tesco Express – convenience stores
- Tesco Extra – hypermarkets
- Tesco Homeplus – discount superstores
- Tesco Metro – supermarkets
- Tesco Services – services
- Tesco.com – e-commerce

8.2 Asda (Wal-Mart in the United Kingdom)

Asda Stores Limited was founded as Associated Dairies & Farm Stores Limited in 1949 in Leeds. The adoption of the Asda name occurred in 1965 with the merger of the Asquith chain of three supermarkets and Associated Dairies; Asda is an abbreviation of **As**quith and **Da**iries, often capitalised.

Wal-Mart is active in the UK via its wholly owned subsidiary Asda Stores Ltd. Wal-Mart wanted to enter the UK market so CEO Bob Martin lobbied British Prime Minister Tony Blair on planning issues. Asda, which at the time owned 230 stores and had planned to merge with Kingfisher plc, was purchased by Wal-Mart on 26 July 1999 for £6.7 billion.

Asda is seen as one of the more price aggressive grocery retailers in the UK. In mid-2004, it claimed to be 8% cheaper on average than its key supermarket competitors and almost 25% better value than its most expensive competitor. Private label products, which represent around 50% of total sales and 45% of food sales, have traditionally been used by Asda as a mean of offering low priced alternatives to national brands. The company believes that essential to its success is the delivery of fresh, innovative, good value products, which are unique to Asda. Their buying teams, food technologists and marketers are continually searching to improve the quality of the company's products and develop new ideas, many of which are sold under the Asda, SmartPrice, Extra Special and George labels.

Asda also offer a variety of financial services, available both in-store and online. The assorted products are run in partnership with various third party providers although they are all marketed under the Asda brand. The product range includes insurance (car insurance, home insurance, travel insurance, life insurance, mortgage life insurance, etc.), credit cards, loans (homeowner loans and personal loans), savings and child trust funds.

Asda's store types:

- Asda – hypermarkets and supermarkets
- Asda Wal-Mart Supercentre – hypermarkets
- Asda Living – discount superstores
- George – clothing stores

8.3 Sainsbury’s

J Sainsbury Plc was established as a family run business in 1869. Until the appointment of George Bull as chairman 1998, it was run by the Sainsbury family. It is the parent company of Sainsbury's Supermarkets Ltd, commonly known as Sainsbury's (also Sainsbury and JS), the third largest chain of supermarkets in the United Kingdom. The group also has interests in property and banking.

Developing high quality, innovative food continues to be its key business supported by sustainability (local sourcing), ethical trading (Fairtrade) and healthy eating (expanding its organic range and removing hydrogenated vegetable oils and monosodium glutamate from private label products). With Greenfield large store development, Sainsbury’s is becoming more flexible in terms of the type of sites it will look at with town centre redevelopments considered as means of growing its grocery and convenience store portfolio.

By March 2010, it plans to extend a further 75 stores and refurbish 190 outlets. Its target is to grow its total sales area to around 2 million square metres (10% space growth), split between grocery and non-food ranges. In terms of store numbers, this equates to 30 new grocery stores (including supermarkets, superstores and hypermarkets and 100 convenience stores.

Since 2004 JS has grown its non-food business, particularly the TU clothing range, laying-out its first catwalk show in autumn 2007. By March 2008, TU had been expanded into 270 stores with plans to expand further across the store portfolio. The retailer has added other non food offerings including electricals, games and TU Home range in April 2008. The Home range is present at the large stores of Sydenham and Aldbury. By 2010, Sainsbury’s aims to have 60 stores of 18,288 square metre stores with 25% of space dedicated to non-food.

Another part of JS’s strategy includes the growth of its online business with a £15 million investment for the consecutive years up to 2010. The investment aims to expand the online business into non-food allowing customers to purchase TU clothing and other non-food products from the comfort of their own home.

Private label is very important part of Sainsbury’s merchandising strategy helping to maintain its competitive edge and drive margins. Private labels account for some 50% of products sold and help to support its pricing strategy of providing products that are varied as good, better and best. Its house brand, Sainsbury's, is supplemented by a range of sub-brands and lifestyle groups. By the end of 2007, private labels generated sales of £8million annually, accounting for more than half of its overall turnover. The whole range contains around 14,500 products supplied by 1,451 suppliers. New product development is planned three to five years in advance.

JS also provides financial services. Its bank was established in February 1997, as a joint venture between J Sainsbury plc and Halifax Bank of Scotland. It offers a range of internet based services including credit cards, loans, saving schemes, insurance policies and travel services. In June 2007, Sainsbury's launched a new marketing campaign to boost its financial services offer. The campaign is in conjunction with PHD North and it involved a mix of media from TV, radio, press, video streaming and online to highlight its in-store and online banking operations.

Sainsbury's store types:

- Sainsbury Bank – financial and legal services
- Sainsbury's – hypermarkets
- Sainsbury's – superstores
- Sainsbury's – supermarkets & neighbourhood stores
- Sainsbury's Local – convenience stores
- Sainsbury's To You – e-commerce

8.4 Morrisons

On 8th March 2004, shares in the newly enlarged Morrisons (following another retailer called Safeway acquisition) were floated on the stock exchange, reducing the stake of its president Sir Ken Morrison to 18%.

It was originally founded as an Egg and Butter stall in Rawson Market in 1899 by William Morrison in Bradford, England. Morrisons was for many years focused in the north of England. With the takeover of Safeway in 2004, the company expanded southwards, and now has a total of 417 superstores across the UK.

Despite deteriorating trading conditions in 2008, Morrisons reported solid turnover growth. Profits were up 12.8% to £309 million in the first half of 2008. The growth has more or less been attributed to sales of non promoted items and customers purchasing full baskets. New

New shopper baskets were also reported to be as big as existing shoppers. Morrisons gained customers across the whole country performing particularly well in Scotland and the South.

The retailer focuses on three core principles fresh, value and service. As the economic situation has deteriorated, Morrisons has increased its emphasis on value, rebranding its economy range, ‘Bettabuy’ to ‘Morissons Value’ and expanding its economy ranges by 50% in the second half of 2008. Morrisons aim is to push the value principle in the bad times and the freshness principle in the good times.

Morissons even successfully completed its store refresh programme, having completed the work on 370 stores by July 2008. It involved new internal and external signage, improving the look of its filling stations and trucks as well. Thanks to the nature of the inflationary cost environment in the UK, Morrisons is trying to minimise costs to minimise price inflation.

Morrisons’ product range extends to around 30,000 lines having been increased from 28,000 in 2007. From 2007 to 2008, 8,000 lines were relaunched with the removal of all hydrogenated fats and significant reductions in salt in its own labels. Private labels form an important part of the retailer repositioning strategy to present itself as the ‘the food specialist for everyone’. Within its private label ranges it is focussing on the key attributes of value, service and freshness. Around 55% of the company’s volume comes from private labels. Product development and innovation continued in 2008 with most own label products now packaged in the new brand logo and colours.

In February 2005, Morrisons moved into the financial services sector with the launch of a credit card. The branded credit card was being developed with HSBC’s affinity division, HFC Bank, and was sold through Morrisons stores. Marketing of the card takes place via in-store and direct mail activity.

The company also operates a fuel card (Morrisons Miles Card), giving their customers a discount off their groceries when shopping at Morrisons. Through its superstores, Morrisons offer a range of homewares, office stationery and small electricals. Greater emphasis id being given to the non-food ranges which are grouped together in one section, ‘Morrisons at home’. The range focuses on health and beauty and home and leisure. By the end of

2006, new ranges were implemented in health and beauty which resulted in good sales growth.

Store types:

- Morrisons – hypermarkets & superstores
- Morrisons – supermarkets & neighbourhood stores

9 CHANGE OF CONSUMER HABITS

When the Credit Crunch and recession hit the United Kingdom it affected most of the people. Some of them, the lucky ones, haven't changed their consuming and spending habits but the majority has. This part of the thesis is trying to describe and analyse the consumers who have been affected by the current economic environment and had to cut back their spending.

It will also include the analyses of the grocery market and the performance of the biggest retailers in the UK during the downturn.

Nowadays it is essential for companies and businesses to understand the changes on the market and it raises several questions. One of the most important ones is where people are cutting back most.

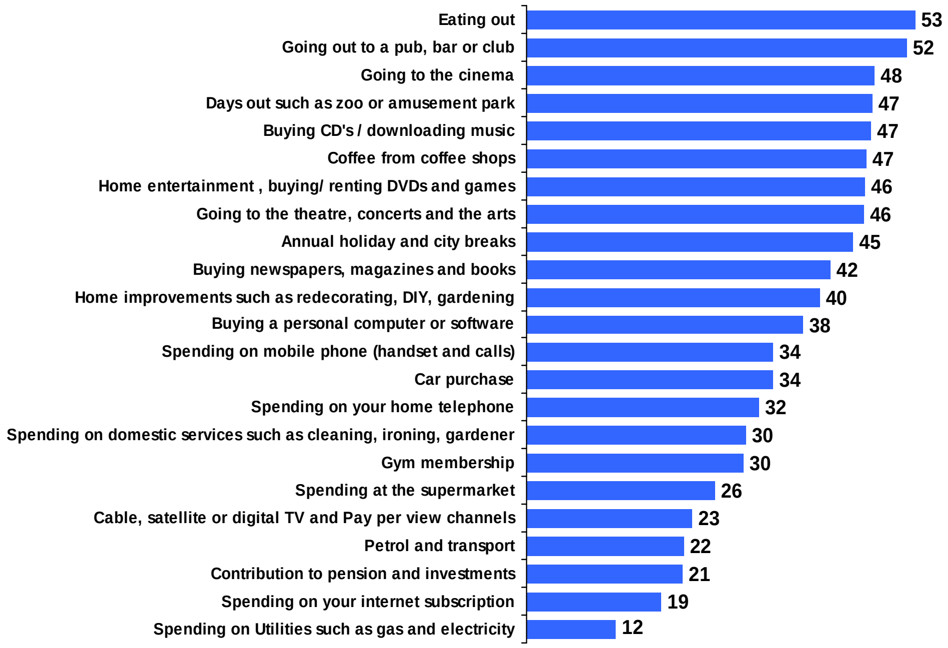


Chart 3, % of GB households cutting back

Source: Worldpanel

In the chart above you can see that evening activities such as and going to the pub, bar or club are suffering the most. However 'only' 26% of them are claiming to cut supermarket spend, but in reality 38% have actually cut back. Having closer look at this group of consumers only 44% of those claiming to have cut back have actually spent less than last year. And the reason for that is the inflation which was 9.3% up to 22nd March 2009.

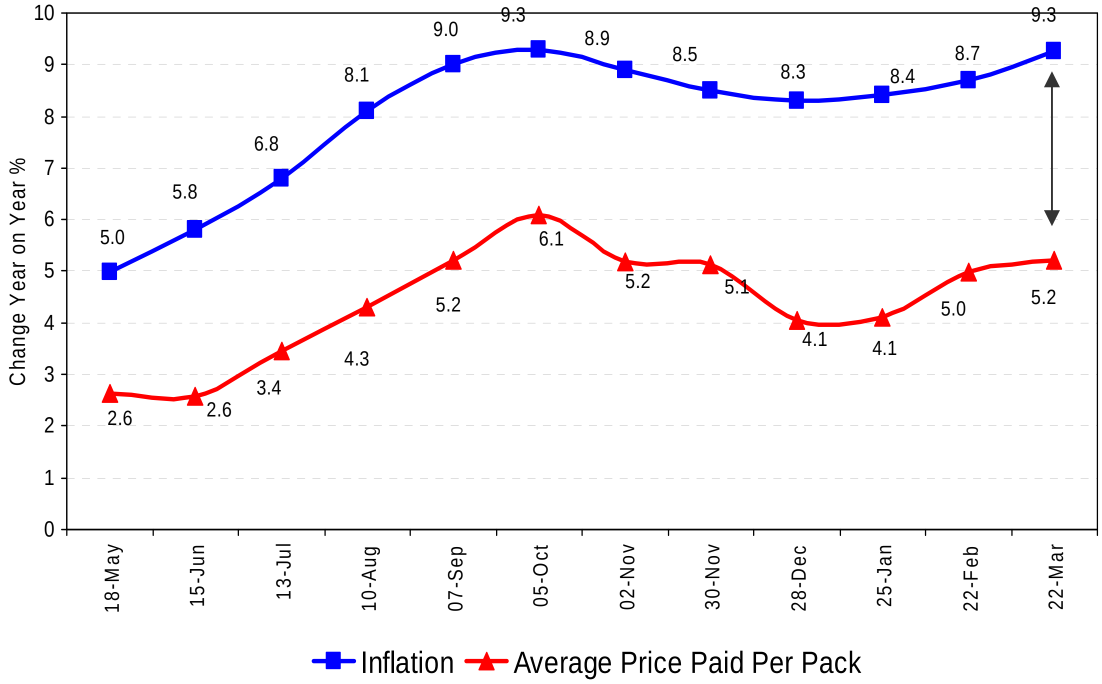


Chart 4, Inflation vs Average Price per Pack Growth

Source: Worldpanel

Who are the customers cutting back most?

According to the TNS demographic data they are:

- Families (especially older families)
- Less affluent Social Class E
- Middle aged (housewives aged 35 – 64)
- Most of them live in South West, North East, Lancashire and Midlands

9.1 Anxiety Index Segmentation

In terms of the major finding in this section there are several profiles of the consumers based on their anxiety about their living during the economic downturn. The 4 major of them are:

- **Placid** – most of them are Social Classes ABC1, their annual income is £40,000+, they pay more for quality, they are pre family & retired and they mostly live in London and Scotland
- **Perturbed** – some are amongst £50,000+ and most of them live Midlands, North East and East

- **Pressured –** they mainly live in Wales & West
- **Panicked –** they are Social Classes D & E, they earn less then £20,000 annually and they live in Yorkshire, South and South West

9.2 Anxiety Index Purchasing Summary

In terms of the Anxiety Index profiles TNS was trying to measure the purchasing behaviour of these segments and these are the findings that came out.

Placid consumers

- 37% of them are spending less on groceries
- They are switching from premium to mainstream retailers
- They switching from Branded Products to Private Labels
- They have increased spend on price reductions
- And they are cutting spend on Health and Beauty

Perturbed consumers

- 38% of them are spending less on groceries
- They are switching from Branded Products to Private Labels
- And they have increased spend on price reductions

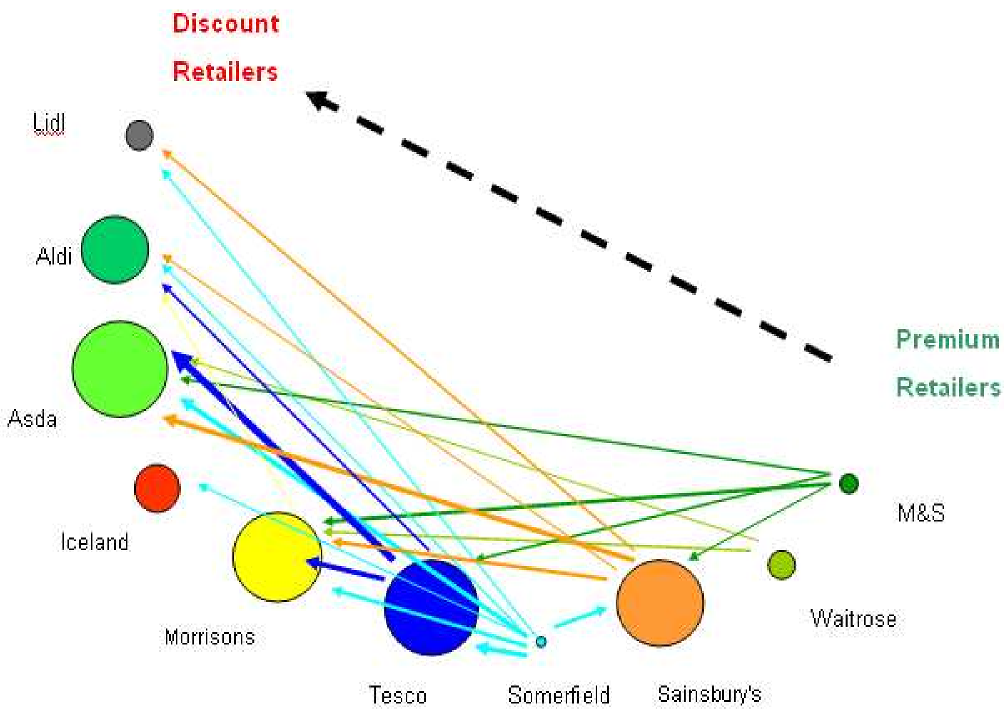
Pressured consumers

- 47% of them are spending less on groceries
- They are more promiscuous
- They are trading down from premium to mainstream and discount retailers
- Asda is gaining most of these customers
- They are switching from Standard PL to Branded Products
- They have increased spend on price reductions
- They cutting spend on Non-food categories

Panicked consumers

- 39% of them are spending less on groceries
- They are less trading down since beginning of this year
- They are switching from Discount to Mainstream retailers
- Big increase of these customers for Morrisons

- They are trading down from Branded Products and Standard Private Labels into Value PL
- And they have increased their spend on Y for £X and price reductions



Picture 4, Switching on UK Market

Source: Worldpanel

9.3 Current situation on the grocery market

In the chart below you can see, that most of retailers are still growing comparing to last year. Some of us might think that retailers are performing pretty well, considering the conditions on the market. However, when we think about the fact that, people have cut back on eating and drinking out and have switched to cheaper food, alcohol and soft drinks from retailers, we can see that Grocery sector is not affected that much by the downturn.

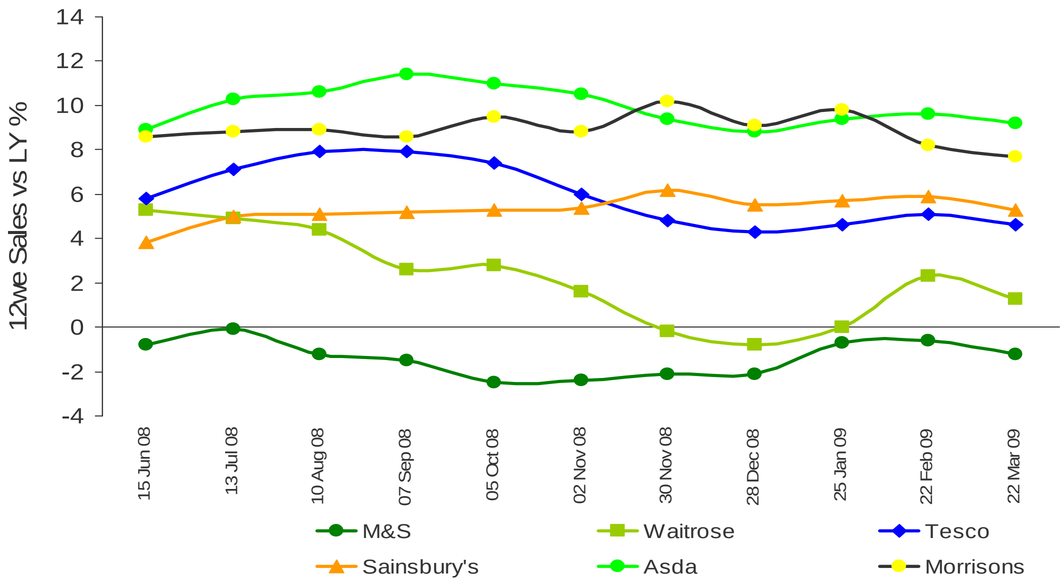


Chart 5, 4we Grocery YoY Sales Growth

Source: Worldpanel

9.4 Latest performance of the Big 4 retailers

9.4.1 Tesco

UK's leading grocery retailer with the Grocery growth of 4.6% (up to 22nd March 2009) is now holding the 3rd position in terms of Year on Year Sales Growth. With last year's launch of the Discounter Brands you would expect that they would have been the growth leader as well. There are several reasons for that but the main is described in the chart below.

Tesco have recently focused to target less affluent and mid-market shoppers and the Discounter Range might the evidence. As a result of that they had taken some of the Branded and Finest PL products off their shelves. Unfortunately, the high income households, which generate 28% of their sales, started looking for other retailers with their favourite products and this may be the main reason of their share drop. My recommendations would be to target again more affluent people with more promotions on Finest and Standard PL and invest more into Discounter Brands propagation, because we can still see switching to Continental Discounters (Aldi, Netto, Lidl) as they are rapidly growing and Tesco is losing to them.

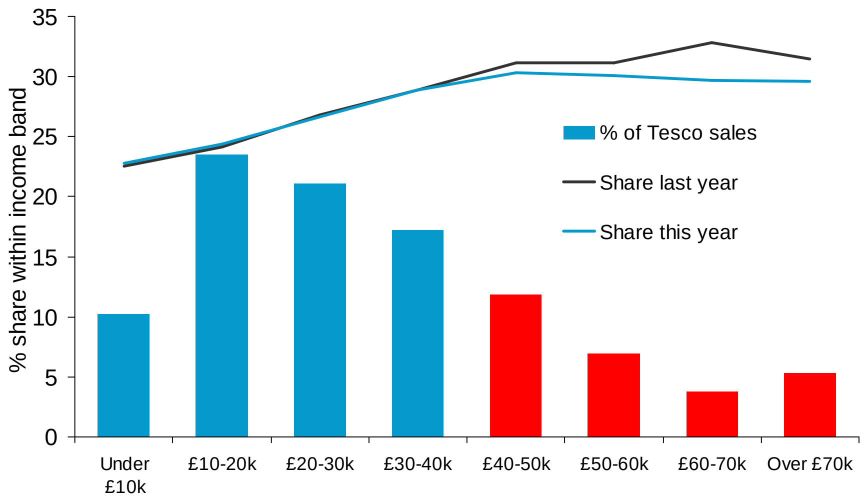


Chart 6, Tesco Share within Income band

Source: Worldpanel

9.4.2 Asda

As the current growth leader, Asda is very happy in this trading environment. Their almost 10% YoY growth has been achieved by aiming at cheaper Private Labels and advertising themselves to be cheaper than other retailers on the British market. Asda's advertising strategy is about price cuts and price comparisons to major competitors, which caused some losses to Tesco as well. However, some of the Own Labels are suffering in categories where Branded products are cheaper and their Non-food ranges are growing behind the market.

For Asda I would recommend to review categories where Private Label sales are suffering, because they are more expensive or the same price. The American owned retailer could possibly add more Temporary Price Reductions within Own Label sector in those categories, which should be offset by a cut in Branded sector promotions. Short-term In-store advertising campaign for Non-food ranges could attract more attention to group of placid, more affluent shoppers who are switching from M&S and Sainsbury's.

9.4.3 Sainsbury's

Looking at the chart below Asda have the highest share of the Value Private Labels, but it is Sainsbury's which have experienced the fastest growth of this price tier. This has been achieved by latest Basics range propagation. In my opinion JS might grow even faster if they supported their Standard PL a bit more as well.

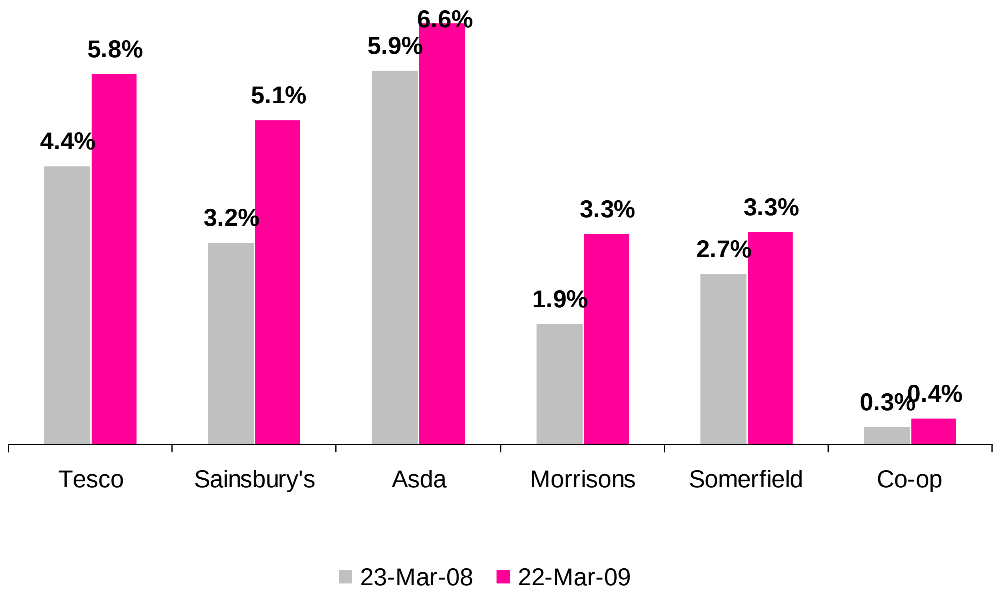


Chart 7, Value PL range Shares

Source: Worldpanel

Despite their ambitious plans, number of convenience stores is still relative small. Comparing to Tesco's Express network Sainsbury's is absolutely small player in the market and should be looking for opportunities in the High Streets when the recession is over.

9.4.4 Morrisons

There are not many Morrisons weaknesses. They have stable growth and they are competing with ASDA in terms of YoY Growth. However, the financial sector could be there opportunity for some new profits. To be more competitive with Asda and Tesco they should invest into large format stores and try to think about NPD within the Non-food sector.

CONCLUSION

In summary it is obvious that consumers have changed their shopping and consumer habits. Some of them may have lost their jobs and they have completely changed their lifestyle, or in the more positive case, they just have to dig deeper in their pockets and they are more selective in terms of product and retailer choice.

According to Anxiety Index Segmentation and Picture 5, they are switching from Premium Retailers (M&S, Waitrose) to Mainstream Retailers (Tesco, Sainsbury's) and from them to Discounter Retailers. During these uncertain times consumers are cutting back and they look more for deals and promotions. Some of them are also trading across from Branded Products to Own Labels.

The current situation in the Grocery market shows that most of the biggest retailers are experiencing growth but this has been mainly driven by the rise of the Price level (inflation) instead of customers purchasing more volume. This means they spend more in the stores but the number of products they purchase is nearly the same. Also if the price level is higher the cost for the retailers will be higher.

Based on this summary, retailers should be even a bit more aggressive to gain as much as possible from the picky customers.

Tesco should be more supporting their Discounter Ranges communication wise. These brands generate 1.1% of total Tesco sales at the moment. Unfortunately, the range, with almost 400 product lines, has replaced some of the products forcing more affluent shoppers to look for their favourite products elsewhere. To bring them back more promotions on Finest and Standard Private Labels are needed.

Asda, the growth leader, is very happy in this environment. However, they should review some of their categories, where Own Labels are the same price or a bit more expensive to improve their performance.

Sainsbury's, the predicted recession loser, have surprised everyone with their latest results. Their number of convenience stores, despite their ambitious plans is still relatively small compared to Tesco.

Morrisons, the Asda direct growth competitor is quite weak within the financial sector in terms of ranges of products therefore NPD in this sector is advised. There is a possibility for them to branch out into other areas such as home insurance and car insurance when the recession is over.

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LIST OF SYMBOLS AND ABBREVIATION

PLC	Private Limited Company.
YoY	Year on Year.
Ltd	Limited Company.
PL	Private Label
AWP	Average Weight of Purchase
FMCG	Fast Moving Consumer Goods
NPD	New Product Developement

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