



Consumer needs not being met by UK grocery market

A British Brands Group research publication

Competition Commission – UK Grocery Market Inquiry

INTRODUCTION

The British Brands Group provides the voice for brand manufacturers in the UK. It is a membership organisation, with member companies ranging in size and supplying a variety of branded goods including food, drink, household, toiletry, cosmetic, pharmaceutical, DIY, clothing and sports goods.

BACKGROUND

The Competition Commission is currently investigating the UK grocery market, examining whether there is an adverse effect on competition and, if so, whether this has a detrimental effect on consumers.

In March the Competition Commission issued its 'Emerging Thinking' document ahead of a final deadline for submissions next month (September 2007). This 'Emerging Thinking' document outlined a healthy picture of the UK retail grocery environment with sales increasing and prices continuing to fall.

However, the British Brands Group, which represents brand manufacturers in the UK, was struck by the lack of weight being given to consumer data in the document and the wants and needs of a variety of shopping groups. They were interested to get a clearer picture of the consumer's perspective, including the extent to which consumers have access to the shops of their choice and whether the available choice of retail service meets their needs.

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The voice for brands

The UK's four largest multiple retailers control over 70% of the grocery market and the number of stores in the ownership of the Big Four has more than doubled since 2000. With their growth empirical evidence indicates that the range of available shops has diminished. At the same time the structure of consumer society is changing leading to an increased demand for a more varied retail structure.

So, in urging the Competition Commission to look more deeply into any possible gap between consumer wants and the offer provided by existing stores, the British Brands Group commissioned a study into the nature of consumer shopping requirements and the extent to which the existing grocery retail structure meets consumer needs. This study, which has now been submitted to the Competition Commission, reveals a very different picture of the UK retail grocery market.

Four groups of consumers were identified that are both significant and growing in size (currently 32.8% of the adult population in aggregate) that are disadvantaged by the decline in independent and specialist stores – older people (>70); wealthier shoppers; ethnic groups; and single parents with dependent children.

The research discovered that 4.4 million people in the identified four groups feel that there is not a good choice of different shops in their area. This is equivalent to 7.4% of the UK population, and 9.1% of the UK adult population (aged 16 and over). 6.8 million people in the identified four groups felt that there is not a good choice of different specialist stores in their area. This is equivalent to 11.4% of the UK population, and 14.1% of the UK adult population (aged 16 and over).

John Noble, Director of the British Brands Group said: "Supermarkets meet basic needs well but, for many, other factors have to be compromised in order to benefit from the convenience of "all under one roof". With an increasingly diverse UK population but an increasingly homogenous retail offer with declining numbers of specialist and convenience stores, these surprisingly high levels of dissatisfaction are only set to increase."

Other key findings were:

- ▶ Supermarkets play a very important role in grocery shopping, with almost all shoppers having used a supermarket in the last month. However, convenience stores and specialist stores also play important roles. The vast majority in all groups use convenience stores and specialists in addition to supermarkets. For example, over three quarters of lone parents have used convenience stores in the last month.
- ▶ Being close to home and ability to walk to the store are key reasons to use convenience stores. The majority in each consumer group think it's good to have a local convenience store nearby. Although the majority of the population use cars to carry out their shopping, there was still 27% of the population in households without the regular use of a car in the latest UK census. There were no cars in almost half of lone parent households with dependent children, and in 69% of single person households where the householder is over the state pension age.
- ▶ The majority of shoppers accept the store choice available, but a substantial minority are unhappy with the choice of stores for grocery shopping. In particular, 45% of the elderly, 40% of the wealthy, 27% of the ethnic and 38% of the lone parents groups feel they do not have a good choice of specialist stores.
- ▶ The majority in all consumer groups agree that continued supermarket growth would lead to the closure of local independent stores. The majority in each group agree this would have a negative impact on friendly / personal service and would damage the local community.
- ▶ The majority of those with a view in each group wish that there were more specialist food or drink shops nearby.
- ▶ Quality and range are key drivers for use of specialist stores.
- ▶ Shoppers are not homogeneous, with different attitudes/needs across different consumer groups.
- ▶ Price is an important driver of store choice, but is not the only reason for any group of consumers, and is a secondary reason for many shoppers. Quality, range and access are other key factors.

It is clear that supermarkets alone cannot meet all grocery shopping needs, and that it is in the interests of shoppers to have a thriving local convenience and specialist retail sector.

DETAILED ANALYSIS

The UK's four largest multiple retailers control over 70% of the grocery market and operate in a broadly similar manner. The overall total number of grocery outlets has declined and the number of stores in the ownership of the Big Four has more than doubled since 2000. The growth of these chains has been based on an adequate appeal across a wide product range to a broad customer base. The question remains whether the quality of retail product supplied by the big multiple grocers is comparable, or simply adequate enough, to deter customers from shopping in more than one location. The consequence of their growth has been a decline in independent retailers and in specialist stores, and this in turn has led to the decline of the specialist wholesale trade.

People are living longer, with 25% more people aged over 75 now versus twenty years ago. Household size is reducing, and the number of single person households has gone up by over a third in the last twenty five years. There is a bigger gap between the wealthiest and worst off in society. The rural population in England has grown at three times the growth rate of urban England in the last 20 years. Ethnic minority groups almost doubled in size over the twenty years to 2001, with very little growth in the white population over the same time period. There is nothing to suggest that these trends will not continue in the future.

The majority of the population use cars to take their shopping home, but there was still 27% of the population in households without the regular use of a car in 2001. There were no cars in almost half of lone parent households with dependent children, and in 69% of single person households where the householder is over the state pension age.

Four groups within society were identified, which are significant in size, have grown over the last twenty years, and may have been adversely affected by the growth of the "Big 4" Grocery chains at the expense of independent retailers and specialist stores. These groups were:

- Older people, over the age of 70 (11.4% of the population), breaking out those in rural areas, and those without access to a car.
- Wealthier shoppers, who may want to access specialist stores such as delicatessens, fishmongers, butchers, etc. – the top earning 10% of the UK population
- People of ethnic (Indian, Pakistani, Bangladeshi, Black Caribbean, Black African, or Chinese) origin, looking for specialist products/ingredients, not always available from the homogenous product offering of the big Grocery chains – 6.7% of the UK population.
- Single parents with dependent children (2.8% of the population), breaking out those without a car.

QUALIATIVE RESEARCH (CONDUCTED BY THE RED HOT GROUP)

Ten qualitative group discussions were carried out amongst respondents in the above four consumer groups between 25th April and 1st May 2007.

The most important factors influencing behaviour, attitudes and choice were location (rural versus urban), access (car versus no car or lift dependent), time (working versus not working), and budget (price versus value).

Supermarkets and convenience stores form the normal shopping repertoire with "main" versus "emergency/top up" usage. Specialists were supported to varying degrees depending on the above factors. For example, the wealthy are able to support them because they have time, access and budget, whereas the older group might wish to support them, but would generally not have access or budget.

There was a widespread view that the growth of supermarkets leads to a reduction in the number of convenience and local stores, as well as specialist stores. The threat of, or actual closure of, Post Offices can result in rural communities being severely affected as the Post Office and local shop are often jointly operated. More than 4,000 post offices have already been closed since 1999, in May 2007, the government announced that another 2,500 post offices will be axed by 2009.

Each group has a distinct set of needs which determine actual and preferred shopping repertoires. Not all shopper needs are being met by the current grocery shopping environment. Supermarkets are able to satisfy basic needs and are viewed as doing this well. However, for many, other factors have to be compromised in order to gain the convenience benefit of "all under one roof". Areas of compromise include the need for low purchase volumes for elderly, the culturally specific produce and cultural experience for ethnics, and product quality for the wealthy.

The degree of compromise depends on the breadth of the individual's need state set. Price is an important factor, but is not the primary driver for all groups; for some e.g. wealthy, the primary needs are quality and freshness, whilst for ethnics it is freshness, service and knowledge. So as different consumer groups have different needs which cannot all be satisfied by one outlet, consumers have to trade off needs based on where they shop.

For those with fewer, more basic and highly defined needs, the trade-off is less pronounced e.g. lone parents highly motivated by price are willing to trade-off other needs with little sense of loss, providing the supermarket is accessible. When access is a problem, there is a significant degree of frustration and most hope that the growth of supermarkets will result in more stores closer to home. However, for those with a more varied, less budget-driven suite of needs, the trade-off encountered when shopping at the supermarket is more complex and results in a stronger sense of dissatisfaction.

The wealthy for example, gain convenience and ease of shopping, but quality and service are compromised significantly. The continued growth of supermarkets is strongly resisted by this group who fear that the grocery retail footprint is already too supermarket biased.

Currently, the more emotional needs required by many are satisfied by local stores and specialists. For others, the limited accessibility to grocery stores per se causes real frustration and compromise in terms of when and how they are able to shop. It is clear therefore that given a hierarchy of needs, supermarkets will either have to start to satisfy higher needs or higher needs will no longer be met.

The current trend in grocery retailing composition is threatening to compromise needs and real choice further.

QUANTITATIVE RESEARCH (CONDUCTED BY IRI)

633 interviews were conducted amongst the four identified groups in May, 2007. Almost all of these interviews were either face to face or over the telephone, but there were also a small number of internet interviews amongst the wealthy sub-group. The 20 minute interviews were designed to understand and numerically quantify the needs and attitudes of the groups towards grocery shopping.

Supermarkets play a very important role in grocery shopping, with almost all shoppers having used a supermarket in the last month. Value for money, range and low prices are the key reasons for using supermarkets.

However, convenience stores and specialist stores also play important roles. The vast majority in all groups use convenience stores and specialists in addition to supermarkets. Convenience stores are particularly important to lone parents with 77% of them using a c-store in the last month versus only 40% for the wealthy group.

The key reasons to use convenience stores are their proximity to home and the ability to walk to the store. The vast majority of all groups except for the wealthy group walk to their convenience store. A clear majority in each consumer group think it's good to have a local c-store nearby – 94% in the ethnic group, 92% in the lone parents, 88% in the wealthy group, and 78% in the older group. Of those who expressed a view, the majority in each group would visit their local community store more often if it sold a better range of fresh produce.

Specialist stores have been used by over 60% of respondents in all groups over the last year. The wealthy are significantly more likely than other groups to have used delicatessens, farmers' markets, farm shops, fishmongers, markets and wine merchants. The ethnic group is significantly more likely than the other groups to have used a specialist shop in the last four weeks, with particularly high usage of ethnic food supermarkets. Quality and range are the key drivers for the use of specialist stores.

The majority of those who expressed a view in each group wish that there were more specialist food or drink shops nearby. And the majority in each group also believe that a local butcher or baker would stock better quality products than their supermarket's meat or bread counters.

Only about one in six respondents in each group get all of their grocery shopping in one regular large trip.

The majority of shoppers accept the store choice currently available, but a substantial minority are unhappy with the choice of stores for grocery shopping. 30% of Elderly, 26% of Wealthy, 18% of Ethnic, 20% of Lone Parents state that they do not feel that they have a good choice of different types of shops in their area. This increases more when considering the choice of specialist stores - 45% of Elderly, 40% of Wealthy, 27% of Ethnic, 38% of Lone Parents do not feel that they have a good choice of specialist stores in their area.

“Freshness of products” gets the highest score amongst all groups on reasons for choosing where to shop. Price is an important driver of store choice, but is a secondary reason for many shoppers. Quality, range and access are other key factors.

The majority in all consumer groups agree that continued supermarket growth would lead to the closure of local independent stores. They also agree that this would have a negative impact on friendly / personal service and would damage the local community.

Trade off analyses showed that across all groups, supermarkets as an outlet type generally only need to offer a medium level of quality, choice and price to be the preferred outlet over convenience and specialist stores, even when competing with specialist stores offering higher levels of performance on these attributes. The benefit of “all under one roof” over-rides other factors, unless there is a significant difference in performance on these factors. Where there are significant differences, quality is the key trade-off attribute for the wealthy, whilst access is the key discriminator for the other three groups.

CONCLUSIONS

- It is clear that supermarkets alone cannot meet all grocery shopping needs, and that it is in the interests of shoppers to have a thriving local convenience and specialist retail sector.
- As numbers of convenience and independent stores continue to reduce, store proximity will reduce further, thus reducing consumer choice and their ability to access local retail provision.
- Supermarkets satisfy needs such as quality, freshness, access, range and price to an adequate level. However, these needs are not being fully met for some significant and growing groups of the population. The benefit of “all under one roof” is driving the growth of supermarkets at the expense of other stores.
- Shoppers are not homogeneous, with very different attitudes/needs across different consumer groups. Price is important to all consumers to a greater or lesser extent. However, as local convenience and specialist stores continue to decline in numbers, consumers are being adversely affected now with respect to quality, range and access – three of the key grocery shopping requirements. Even if the majority benefit from lower prices, substantial minorities are negatively impacted in other ways. As society becomes more heterogeneous and shopper needs follow the same track, it is now vitally important to protect the local convenience and specialist retail sectors.