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E-strategy in the UK Retail Grocery Sector

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Abstract: After a decade of Internet trading, retailers in the UK have experienced mixed fortunes with their Internet-based ventures. Online shopping success stories include; Tesco's, which has positioned itself as a world leader in online grocery retailing by providing an Internet-based home delivery of over 40,000 products and making the service available to almost 95 per cent of UK residents. Similarly, Sainsbury's offers 71% per cent of UK residents the opportunity to shop online however the company does not have the same international recognition. Waitrose too has expanded its Internet-based shopping services, aided by its acquisitions in OCADO. By contrast, Somerfield, and more recently Iceland have stopped their Internet shopping operations due to poor trading results and economic difficulties, despite the fact that Iceland was the first grocery retailer to offer online shopping to the majority of the UK mainland. The key aims of this paper are to explore how major grocery retailers coming to the one line market; to consider why some are more successful than others and to develop an understanding of the role of strategic thinking in online retailing. More specifically, the paper will initially, investigate the strategic options open to retailers developing activities online and finally, discuss the extent to which e-strategies represent a long-term approach to planning. The paper presents a literature review, which provides the conceptual foundations for investigation of the significance of e-strategy development within retailing. This model is then compared with evidence from secondary data sources and business results from leading UK grocery retailers in order to debate and analyse the likely importance of e-strategies in the success of online grocery retailing in the UK.

Introduction

Evidence suggests the consumers' appetite for purchasing groceries online is growing. During the Christmas period 2005 around 1m customers shopped with Tesco.com and annual sales have risen to almost £1 billion generating profits of around £56.2 million (Tesco, 2006). Sainsbury's and Waitrose have also seen increases in usage for online shopping and as a result are expanding

their provision of home shopping. Perhaps the key questions for retailers are how best to satisfy the demand effectively, efficiently and profitably, what is the size of the consumers appetite and to what extent will online retailing replace physical retail operations (Burt and Sparks, 2003; Ring and Tigert, 2001). This paper explores the strategic options which multiple grocery retailers might adopt when operating online. Initially, the paper looks at e-strategies from a theoretical perspective in order to determine the strategic options available to retailers. This discussion is followed by an examination of available case evidence from leading grocery retailers: Tesco, Sainsbury's, ASDA, Waitrose, and Morrisons. The evidence is analysed in order to provide insight into the chosen strategic solutions adopted by each retailer. The final section considers possible future strategies for online grocery retailing and the extent to which they represent sustainable strategic options.

Strategic Options

This section aims to outline the strategic options available to retailers developing an online presence utilising existing literature. However, before discussing specific strategic options it is useful to acknowledge there is a gap in understanding, between the impact of well-established strategic frameworks presented within the strategic marketing literature i.e., Porter's (1998) generic strategic options for creating competitive advantage on performance and current strategic applications of Internet technologies. It has been suggested that successful Internet ventures break the *golden rules* of traditional strategy creation by pursuing both cost and quality simultaneously (Jelassi & Enders, 2005). Furthermore, in order to follow such an ambitious strategic option a company's ability to understand Internet technologies becomes as important as its understanding of the needs and wants of the customer. Doherty and Ellis-Chadwick, (2006) continue this line of enquiry by asking what strategic resources are required for successful online retail operations but conclude that it is largely unclear from literature as to the specific type of strategic resources, capabilities and competencies that are required to achieve such success. Other researchers emphasise the importance of competitive advantage and the need to establish a very clear strategic positioning (Ragan & Adner, 2001, Min and Wolfinbarger, 2005) and the goodness of fit between the characteristics of the target users and the company's online offering (Doherty and Ellis-Chadwick, 2003) in order to achieve longer term strategic goals. Porter,

(2001) has argued that there are six principles of strategic positioning that are applicable for the effective uptake of the Internet: the '*right goal*', a clear '*value proposition*', a '*distinctive value chain*', the accommodation of '*trade-offs*', an appropriate strategic '*fit*', and the '*continuity of direction*'.

Whilst all of these principles likely to affect online strategy appear to be eminently reasonable, it is not clear whether these are all both necessary and sufficient for the effective introduction of electronic retailing (Doherty and Ellis-Chadwick, 2006). A possible implication of this gap in understanding is that parts of the strategic pathway an online retailer might follow is vague and unclear, which could be a partial explanation as to why retailers adopt different routes to providing an online shopping channel.

The remainder of this section examines strategic options for developing an online presence for retailing. By far the most popular method of introducing the Internet as a channel option is to take an *incremental approach* to strategy development gradually moving through a series of now well-defined stages of Internet adoption. Doherty *et al.*, (1999) introduced the idea there are a number of critical factors which affect whether a retailer has low involvement with the Internet or sees it as a major channel to market. Teo & Pian, (2003) identified various levels of adoption from use of just email through to full business integration of web-based sales, communications, and front and back office systems. Their work also raised the issue that level of involvement was not only contingent on a company's trading situation and resources but also the strategic contribution expected from its involvement with the technology. The key advantages of this approach are likely to be control of costs and limitation of risk, which is a key concern of certain retailers in the early stages of Internet adoption (Doherty *et al.*, 1999). The disadvantages are missed opportunities and allowing gaps to appear in retail markets, which may easily be filled by new entrants as Internet markets are highly dynamic and fast moving. The flip side of the incremental approach is the *format-based* approach. In this approach, retailers assess their existing market offer and consider how well-suited their products and services are for delivery through an online operation. Dennis *et al.*, (2004) discuss how strategic options based on format are derived from analysis of how readily a company's products and services lend themselves to

online retailing. As a result of this analysis a retailer may choose to adopt a combined approach integrating on and offline activities e.g., bricks and clicks; alternatively retailing takes place solely online i.e., pureplays. Min & Wolfinbarger, (2005), argue that *brick and clicks* retail combinations offer key advantages derived from established distribution and supplier networks, trading reputation. and better levels of customer service. For these retailers trading online provides an opportunity for augmenting the existing business. The third strategic option is the *objective-driven approach*. Strategic objectives pursued by online retailers vary from less quantifiable goals such as creating ‘early mover’ advantage (Min & Wolfinbarger, 2005) and competitive advantage, (Nicholls & Watson, 2005), through to very tangible goals i.e. creating economic gains (Vijayasathy and Tyler, 1997).

In addition, there are key areas which are likely to influence the retailer’s choice of any of the three strategic options proposed above. Doherty & Ellis-Chadwick, (2006) provided a useful discussion of the three most significant areas affecting strategic choices examined within the literature:

1. The *potential of the Internet as a channel to market*. Mathwick et al., (2001) argue that for retailers to be successful online, they must understand the “fundamental difference in the experience delivered by multi-channel retail environments”. Furthermore, they must understand how the technology can deliver benefits and the likely growth and dispersion of online markets is fundamentally important (Pavitt, 1997; Ellis-Chadwick et al., 2002). Moreover, changing channel relationships creates potential opportunities through changing power structures within the supply chain as power shifts towards the consumer (Priluck, 2001).
2. *Factors affecting the adoption of the Internet*. Many researchers have sought to explore the situational factors that might explain these differing levels of adoption (Doherty et al., 2003; Teo and Pian, 2003; Ashworth et al., 2006). Indeed, it has been suggested that there are a variety of factors that have a significant effect on the level and extent to which retailers use the Internet as a channel to market. For example, the fit between company product and target market (O’Keefe et al., 1998); the company’s knowledge and resources (O’Keefe et al., 1998; Doherty et al., 2003; Lee and Brandyberry, 2003); and a wide range

of operational factors (Ellis-Chadwick et al., 2002) have all been found to influence adoption levels.

3. *Managerial challenges.* As the Internet's potential has become clearer, and the online revolution gathered momentum, it has been recognized that retailers need guidance on how to confront the many managerial challenges that it poses (Reynolds, 1997; Swinyard, 1997; Grewal et al., 2004). Various operational and logistical solutions have been explored individually: streamlining of the home delivery concept (Punakivi and Saranen, 2001); service provision and online service quality (Drennan and McColl-Kennedy, 2003; Forbes et al., 2005), relationship management (Geissler, 2001, Wang et al., 2000) and restructuring and the management of the supply chain (Simons et al., 2002; Rabinovich et al., 2003). Of particular importance in the context of online operations are studies of the order fulfillment process, as it has been found to raise a number of significant logistical difficulties for the retailer, particularly in terms of the picking, packing, delivery and receipt of the selected goods (Punakivi and Tanskanen, 2002).

Whilst literature, highlights the Internet's strategic options which retailers might pursue (Doherty *et al.*, 1999; Levenburg, 2005) and offers discussion of the broad influences on strategic options there is limited discussion of the issue of actual e-retail strategy formulation, the attainment and sustenance of competitive advantage and the alignment of online activities with the traditional store-based operations.

In an attempt to address some of these issues the next section looks for practical evidence of both how leading grocery retailers are creating and developing their online provision followed by analysis how and to what extent there activities are reflected by the finding of the literature.

Case Analysis

This section presents how leading grocery retailers are responding to the challenges of operating online. Both secondary and primary evidence has been examined as part of the case analysis to provide a synthesis of available information. Reports, company accounts and statements and media commentary has been examined to determine market share and operational approaches adopted by each of the case retailers and longitudinal primary data in the form of an online survey has been used to evaluate how each of the case companies are currently using the web for online shopping.

Background to Online Trading in Consumer Markets in the UK

According to the Office of Fair Trading (2006) the online market now accounts for 2.5 per cent of all household spending, an estimated total of 18 billion a year and in 2005 the typical online shopper spent £560 online. Whilst this method of purchasing still represents a comparatively small proportion of the total household spend in the UK it is a growing area of the market of which electrical goods, music and airline ticket account for a significant proportion of online sales. Interestingly, the National Statistics Office (2006) found that online purchasing of goods accounts for more of the total than the purchase of services. But state that in some cases it is difficult to differentiate between on and offline purchasing.

Each of the selected grocery retailer cases are now examined in an attempt to determine their current levels of activity and approaches to developing the online channel. Case analysis of secondary research is followed by primary data produced by the online survey.

ASDA/Walmart:

During the 1990's ASDA was in a difficult financial position, losing market share and struggling with unsuccessful diversification into furniture and carpets and as a result stated the company would not be pursuing 'faddish' activities such as Internet retailing (Owen, 2003). However in November 2000, ASDA@home an online shopping service was launched selling a limited range of goods from 32 stores. Reportedly this approach was adopted as it was believed that customers

preferred to shop offline. Initially, picking of goods was done within the store by specially trained staff. In 2002 ASDA closed two of its online operation's distribution centres in Croydon and Watford after the system was dogged by technical difficulties. Since then it has gone back to the model used by Tesco.com and supplied customers from their nearest participating store. Since 2004, ASDA has increased the online service coverage to 40% of the UK and aims to increase coverage to 60% by the end of 2005 through the ASDA.com home delivery service. The planned expansion comes in response to losing market share to Tesco.com and Sainsbury's, with lack of coverage cited as a key factor. ASDA has reportedly invested more over £7m in developing the online operation as it is seen to represent an ideal way of expanding ASDA's reach without buying further outlets. The expansion is pursuing diversification (including an online entertainment operation, selling compact discs and DVDs) and customer satisfaction (by improving the usability of the service) objectives to improve customer retention rates (BBC News, 2005).

Sainsbury's PLC

In 1995, Sainsbury's promoted the Wine Direct mail order service via the web but didn't support online deliver. However, in 1997 customers are invited to create online shopping lists and home shopping is trailed from 7 stores and by the end of 1998 is expanded to over 30 stores. In 2000, a highly automated picking centre was opened to serve customers living within the M25 area. 2001, saw expansion of the online shopping service using a combination of warehouse and in-store picking systems. This equated to almost 50 per cent national coverage. By 2002, Sainsbury's is established as second in the UK online shopping market with 71 per cent coverage. In 2004, the automated picking centre is closed and servicing online shopping becomes store-based. Currently, Sainsbury's Online currently operates from 97 stores, selling an extended range of food and grocery products. The service also offers over 250,000 books, CDs, DVDs, Videos and computer games, flowers, wine, and electrical goods (Sainsbury's 2006).

Tesco PLC

In 1999, Tesco's chief executive, Terry Leahy, is quoted in the Sunday Times as saying: "*We will be the world's biggest online grocery retailer and we intend to become the UK's No.1 e-commerce business*" (BBC News, 1999). A goal quickly achieved as by the end of 2000 Tesco

offered wide range of products to 90 per cent of the UK population. Tesco.com is established and operated 100 per cent as a subsidiary to Tesco PLC. In 2001, the online service diversifies offering a wider range of non-food products and sales increase to £10 million by the end of 2002 (Owen, 2003). Tesco develops a sophisticated semi-automated in-store picking service, which is supported by local refrigerated delivery vans. By 2003, 96 per cent of the UK population can use Tesco.com and in doing so accounts for 65 per cent of the UK online shopping market. Additionally, Tesco.com expands into international (Asia; South Korea) and niche home markets (blind and partially sighted) and offers diversified range of products and services online e.g., financial services and telecoms. Tesco is constantly upgrading its technology in order to streamline services and extend the range of points at which customers can access online shopping. Currently, Tesco.com is the most successful on-line grocery shopping service in the world. Sales continued to grow strongly in the year - up by 31.9%, to reach almost £1 billion. Profit increased by 54.9% to £56.2 million (Tesco Plc, 2006). These results have been achieved by serving a wide range of customers and targeting more international and niche national markets e.g. housebound in UK and Ireland. Streamlining operations; in south east London where there are fewer stores the company has developed a tesco.com-only store and warehouse to offer this service to more customers and builds on our existing capability as the warehouse is designed like a Tesco superstore inside. Diversification and expansion of the online product portfolio: DVDs to your door – a rental service, energy utilities Energy - thousands of customers save money on their gas and electricity bills, getting healthy on-line by using the e-diets service to help customers to tailor their eating plans to what's right for them, taking into account lifestyles, food preferences and health recommendations and Internet telephony.

Waitrose

In 2000, Waitrose began offering Waitrose@work an office-based ordering system targeting a specific niche market. The success of this operation led to expansion of the service. With expansion aims in mind the company began to explore ways in which to extend online services. They acquired a 40 per cent share in LMS e-commerce grocery business in order to expand and eventually create Ocado a warehouse-based grocery shopping. As part of the John Lewis wider aims of re-commerce buy.com acquired. In 2001, the partnership continued to invest in Ocado. In

2002 Waitrose delivery is offered from 33 Waitrose stores. Ocado, working in partnership with Waitrose, started piloting its service during 2002 and currently delivers to London, the South East and The Midlands. The sophisticated technology behind the service differentiates Ocado and enables it to offer the very best customer service available in home delivered grocery shopping anywhere in the UK. By 2005 Ocado, has become the UK's second largest online food retailer covering 40 per cent of the UK and continues to maintain that warehouse-based order fulfilment is more reliable than a store-based format.

In, 2005, the area covered by Ocado is expanding including more areas in the Midlands and the North West.

Wm Morrisons

The company is reportedly the 4th largest supermarket group in the UK since its merger with Safeways. Morrisons, launched its web site in 2003 offering corporate information, company history, PR information and a recruitment feature. The company continues to add information to the web site but does not include any interactive features or email facilities. In 2006, Morrisons developed their "festival of football website" which is quoted as being new territory for the company. The web is becoming an integral part of marketing initiatives and they are gauging customer responses in order to determine how the company's web-based activity will move forward in the future.

Online survey

The online survey evidence used for this work is part of a wider study examining the Internet presence of 1100 organisations operating in the UK retail sector. The overall aim of the wider study is to identify the range of functions and services currently offered to end users by multiple retailers in the UK and to track changes in these offerings overtime. Data has been collected at regular intervals since 1997. The most recent survey was conducted in 2005. The original sample frame was created using the Corporate Intelligence Survey (1995) and the Business Monitor (1996) to help determine the sampling criteria and identify applicable organisations. However, neither source claimed to include all UK retailers. Consequently, the Healy and Baker Retail

Directory (1996, p. 67), which claims to provide “an alphabetical list of all companies operating two or more retail outlets” was used to collate the sampling frame. The 1996 and 1997 directories were used to select all multiples and those retailers with a turnover greater than £5 million. This resulted in a comprehensive list of multiple retailers which formed the basis for data collection. Overtime the Retail Directory has been used to ensure the list remains up-to-date. For this study the five leading grocery retailers were selected as they represent a group of retailers which are responsible for a sizeable proportion of retail turnover in the UK but which also sell products which are arguably the most difficult to sell via the Internet.

A pro forma Web site assessment form was then created to facilitate accurate and consistent collation of information on the range of features and services offered by each of the targeted retailers. Overtime the form has been updated to reflect changes in the online offerings of these leading retailers. The web site review procedure was applied to each active Web site recording contents and online activities. The results of the web site for the five leading grocery retailers that are the focus of this study are presented in Table 1.

Table 1. Web-based Activities of 5 Leading UK Grocery Retailers

	1997	1999	2001	2003
ASDA	Web site: financial company information, recruitment, email, games	Web site: financial company information, store locator, PR feature, recruitment, email, recipes	Web site: financial company information, store locator, PR feature, recruitment, email, recipes PR feature, recruitment, email, Online sales to limited areas recipes	Web site: history extensive range of information, education, food issues, diet, financial company information, store locator, interactive Marketing - sales promotions, customer service feedback PR feature, recruitment, email, Online sales to limited areas

				recipes
Wm Morrisions	None	none	None	Web site: product information, sales promotions, financials and history, recruitment
Sainsbury's	Web site, product, financial and company information, recruitment, email, online sales of limited range of products -nationally	Web site, product, financial and company information, food issues, GM, FAQ search, recruitment, email, email Marketing, check reward points online, gathering consumer data, online sales of extended range of products limited locations (London area) and more limited range of products to wider but restricted postcodes, other features virtual museum, explore a store, links to charities	Web site, product, financial and company information, food issues, GM, FAQ search, recruitment, email, email Marketing, check reward points online, gathering consumer data, online sales of extended range of products - regional area and more limited range of products to wider but restricted postcodes, other features, providing information on food issues, links to charities	Web site, product, financial and company information, sales promotion food issues, GM, FAQ search, kids club education recruitment, email, email Marketing, check reward points online, gathering consumer data, online sales of extended range of products – wider coverage but still restricted postcodes, other features, providing information on food issues, links to charities. Collection of market research data
Tesco	Web site, product, financial and company information, recruitment, email, marketing personal finance, online sales of limited range of products- nationally, recipes	Web site, product, financial and company information, recruitment, FAQ search facility, email, customer services help, check clubcard points online, gathering MR data, selling ISP services marketing personal finance, online sales of extended range of products- limited area, recipes delivery via refrigerated vans	Web site, product, financial and company information, recruitment, FAQ search facility, email, customer services help, check clubcard points online, gathering MR data, selling ISP services marketing personal finance, online sales of extended range of products- limited area, recipes delivery via refrigerated vans	Web site, product, financial and company information, recruitment, FAQ search facility, email, customer services help, check clubcard points online, gathering MR data, selling ISP services marketing personal finance, online sales of extended range of products-greater area of coverage, recipes delivery via refrigerated vans. Interactive marketing features. Interactive shopping lists, express shopper, range of email contacts. After sales services online. Personalised interface.

Waitrose	Web site, store locator, marketing of direct mail services recruitment, email, recipes	Web site, store locator, product information marketing of direct mail services graduate and general recruitment, email, recipes, interactive information resource for schools	Web site, store locator, product information marketing of direct mail services graduate and general recruitment, email, recipes, interactive, online sales narrow range of products offered nationally, information resource for schools	Web site, store locator, product information marketing of direct mail services graduate and general recruitment, email, recipes, interactive, online sales wide range of products offered to limited post codes, information resource for schools. Interactive promotions.
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Table 1 continued

2005				
ASDA	Product info	Order online / pay online	Interactive targeted promotions	
Wm Morrisions	Product info			
Sainsbury's	Product info	Order online / pay online	Interactive targeted promotions	
Tesco	Product info	Order online / pay online	Interactive targeted promotions	Order tracking
Waitrose	Product info	Order online / pay online	Interactive targeted promotions	

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