

Is Asda stuck in a growth cul-de-sac?

David Muir

Introduction

WPP and Millward Brown are committed to developing ways in which BrandZ™ can be used to tell better stories. To that extent, we have been trialling in the UK a fusion of the BrandZ™ data set with TGI. In this white paper we use the fusion to explore whether the UK grocer is stuck with the “wrong” customers and could become stuck in a growth cul-de-sac.

Genghis complains about Attila

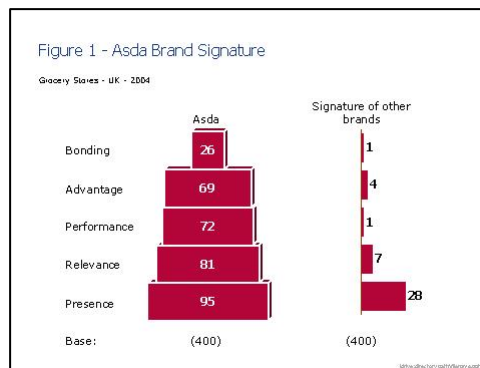
In the summer of 2005, Asda launched a complaint about Tesco to the UK regulator OFT (the Office of Fair Trading). It claimed that with 30% of the grocery market, Tesco had in fact become a monopolist.

As one commentator put it, it was akin to Genghis Khan complaining about Attila the Hun.

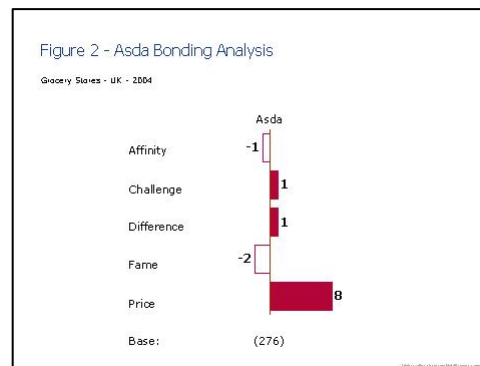
What it does suggest is that Asda has been rattled by Tesco’s spectacular success in the last year. According Taylor Nelson Sofres, Asda’s share of market has declined by nearly ten percentage points from 26.6% to 16.7%. A sudden and dramatic decline. In the same month Goldman Sachs proclaimed Tesco as the price leader within the UK, the first time Asda had lost price leadership since 2001.

What BrandZ tells us about Asda

Asda is the personification of classic brand, strong presence and it performs well across all other levels as displayed in this Brand Signature.



Asda performs well in bonding with consumers (although not as well as Tesco). Looking at what is driving this loyalty we can see from BrandZ™ that the major driver for loyalists of Asda is its “past” leadership on price.



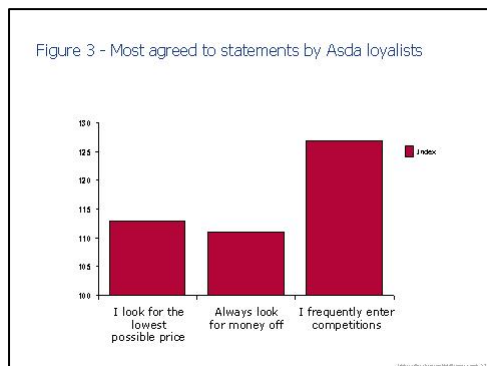
As already discussed in a previous BrandZ™ white paper¹ brands that rely upon price for the loyalty of their customers, frequently come unstuck.

With recent advances made with BrandZ™ we were able to fully understand the role and importance of price for Asda loyalists by looking at these loyalists and their lifestyle attitudes as captured by BMRB’s TGI survey.

¹ WPP BrandZ White Paper July 2005 – “Trade on price at your peril”

As can be seen in the diagram below some of the highest ranking statements agreed to by Asda loyalists is that they look for the lowest possible price when shopping, are always like to look for money off and frequently enter promotions.

Very simply, the Asda loyalist loves a deal.

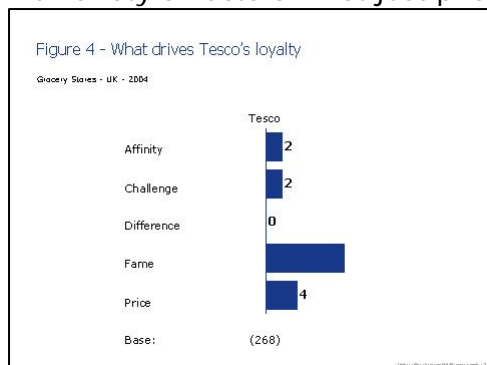


As Asda finds it harder to fight on price, one can clearly see that the brand and business is likely to see erosion from loyalists who move over to Tesco, or brands that they perceive to be much better at delivering a deal.

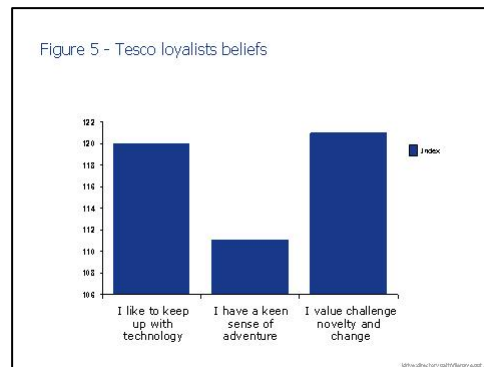
It can be argued that Tesco is fully benefiting for increasing returns to scale. In other words as it gets bigger, it gets better deals from suppliers, which then allows it to pass on cheaper prices to customers.

As the full impact of these increasing returns take hold Asda, it is argued, could lose loyal customers – regardless of the fact that Tesco is not positioned around price.

From the diagram below you can see that BrandZ™ shows us that the strength of the Tesco brand is that loyalty is derived from a variety of factors – not just price.



The BrandZ fusion with TGI also adds further insight into the motivations and attitudes of the Tesco loyalist. While price is important you can see that the Tesco loyalist is extrovert and outward looking – they value diversity and challenge.



Greater focus – greater emotional appeal

The challenge facing Wal-Mart/Asda in the UK is a dominant player in Tesco sucking up customers who are functionally but not emotionally bonded to Asda. In addition to this Asda faces a challenge from small focused budget players like Lidl who are now upping their marketing efforts.

Unless very careful, Asda could find itself stuck in a growth cul-de-sac where it loses price conscious customers and with the customers it has finds it harder and harder to trade them up.

From this paper it appears, that Asda should focus on broadening its appeal. The introduction of the George range was a major innovation which spoke of more than just budget clothes – it showed innovation and expressed a key difference. What is needed now from Asda is to rediscover this innovative past and in so doing develop a positioning which is broader and less functional than price.

David Muir is CEO of The Channel, WPP's global co-ordination unit that advances thinking and insight on media and media related issues.

BrandZ is the WPP funded global brand equity study available to clients and potential clients via WPP owned companies. It is validated against sales and quantifies and diagnoses the strengths and weaknesses of brands.