Successful trading next to multiples: lessons from other retail sectors

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Outline

- A perspective from the outside the sector
- Independent retailers – the wider picture
- The strengths of multiples & their brands
- The grocer’s entry into the optical sector
- The strengths of the independents
- Understanding the competition
- Understanding the customer
- The “customer-facing end”
- Relationships and loyalty
- The local community
- Takeaways
A perspective outside of the sector

✦ This is the perspective from “someone outside looking in”

✦ My background is as:
  ✦ a Retail Analyst at Verdict Research;
  ✦ in the Marketing Department at Tesco plc;
  ✦ latterly as an academic focused on the retail sector

✦ However, we can see many of the trends in this sector mirrored elsewhere and apply these lessons to this retail sector
Optical sales are stable...

Source: Mintel
But the number of optician businesses declines...

Source: FODO/Mintel
Pressure on independents – the wider picture

- The squeeze on independents is nothing new and mirrored across most retail sectors:
  - Food retailing
  - Health & beauty retailing
  - DIY & hardware retailing
  - Electrical retailing
  - Toy retailing

- This is due to a squeeze on price, convenience or range depth (or all three!)
Pressure on independents – the wider picture

- However, where an optician business differs from other retail sectors is that we are dealing with:
  - A health related service **NOT** a commodity
  - Customer trust

- Potentially this makes it easier to defend your turf
What are a multiple’s strengths?
In general: a multiple’s strengths?

- Consistent brand message
- Customer knowledge of the retailer with a high advertising budget
- Economies of Scale and Scope
- Ability to lead on price
- Excellent stock management
- Scope for cross subsidisation
What does the brand mean?

**Specsavers**: Affordable, good value optician with clear pricing

**D&A**: Traditional but increasingly price led & promotional

**Vision Express**: Hi-tech, sophisticated, cutting edge, fashion focus
The grocer’s entry into the optical sector

- Grocers are not likely to be the competitive threat for optical specialists that they have been in health & beauty
- Problematic to transfer the grocer’s expertise in non food to a “medical service”
- This is not selling a DVD...
Non-food items bought from main supermarket in the last 12 months

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDs/videos/DVDs/video games</td>
<td>55%</td>
</tr>
<tr>
<td>Seasonal products</td>
<td>46%</td>
</tr>
<tr>
<td>Cookware/kitchenware</td>
<td>41%</td>
</tr>
<tr>
<td>Cosmetics/fragrances</td>
<td>35%</td>
</tr>
<tr>
<td>Womenswear</td>
<td>30%</td>
</tr>
<tr>
<td>Books</td>
<td>29%</td>
</tr>
<tr>
<td>Toys</td>
<td>29%</td>
</tr>
<tr>
<td>Childrenswear/babywear</td>
<td>28%</td>
</tr>
<tr>
<td>Menswear</td>
<td>26%</td>
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<tr>
<td>Domestic electrical appliances</td>
<td>25%</td>
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<tr>
<td>Home furnishings/textiles</td>
<td>20%</td>
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<tr>
<td>Audio-visual equipment</td>
<td>17%</td>
</tr>
<tr>
<td>DIY or gardening products</td>
<td>16%</td>
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<tr>
<td>Fashion accessories/jewellery/watches</td>
<td>11%</td>
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<tr>
<td>Computer hardware/software/accessories</td>
<td>10%</td>
</tr>
<tr>
<td>Mobile phones</td>
<td>6%</td>
</tr>
<tr>
<td>None of these</td>
<td>16%</td>
</tr>
</tbody>
</table>

Largely Functional Products…

Source: BMRB/Mintel
Asda

- Opened its first optical centre at Bristol Patchway in 2000
- As at March 2005, the retailer operated 80 opticians in its stores
- Strong focus on contact lenses – Internet site
Current grocer optician coverage

Tesco

- Currently, Tesco has 21 opticians in its stores.
- Also 199 pharmacies that can sell contact lenses if a customer has the appropriate prescription/details.

- Both Tesco and Asda’s number of opticians will increase as they take advantage of the “mezzanine planning loophole”
Why will the grocers NOT take over?

- Challenges of competing space demands within stores
- Difficulties with securing larger store consents
- Not a “bolt on” general merchandise line
- Transferring superstore brand equity into healthcare is more challenging
What are an independent’s strengths?

- Individuality – not a “cookie cutter”
- Potentially strong localised brand
- Potential to build loyalty through...
  - Superior personalised service – not a generic and impersonal “model”
  - Excellent expertise
  - Added integrity
  - Ultimately increased degrees of customer trust invested
Understand the competition

- Visit the competition in your locale
- Understand what the customer sees in their decision-making process:
  - What does their brand say?
  - Know what & how they are selling
  - Know what prices they are selling for
  - What type of customers are in their stores?
  - What price points are visible to the customer?
  - How do they merchandise the store?
  - What are their opening times?
  - How does this compare with you?

- What learnings are there for your business?
Understanding the customer

✈ Tesco have the Clubcard to manage their customer information and communication

✈ What about low tech solutions for you?
Managing the customer relationship

- Capture the customer when the relationship starts – the eye exam
- Maintain good customer databases
- Track & encourage customer feedback
- Personalise correspondence – why not send customers a birthday card?!
- Chase “lapsed” customers
- Understand your current customers (demographics; where they live etc).
- Are there any obvious customer types or geographical locations you are missing out on?
Understanding the customer – learning from Tesco

One of Tesco’s stated aims is: “to create value for customers to earn their lifetime loyalty”

They succeed because they place the customer at the centre of all they do

Why not you as well?
A Consumer-centric Focus

- Take a broad perspective on marketing – every action you take to *create, inspire, and keep* customers (Don Taylor, 2005)

- Customers are buying more than the product (especially so with opticians)
  - They are buying *you*
  - They are buying *your service*
  - They are buying *your reputation*
  - They are buying *your appearance*
Improving the “customer facing” end

- **The Practice**
  - merchandising
  - store atmosphere
  - visible price points
  - location

- **The service “relationship”**
  - people

- The “people” element of this service can be the differentiator to chained competitors and certainly the grocers
Customer service as an attitude

- Knowledgeable, attentive & eager advisors
- Ensure employees are informed (e.g. promotions, price points)
- Customer service is everyone’s job
- Empower employees to solve problems
- Keep your promises: communicate throughout the process
- Address customers by name

- When it goes wrong have a “customer recovery plan”
The return of customer loyalty

- In doing so you make explicit the value of the loyal customer:

- **Spectacles**: Spend level £100 per 18 months = £1,000 over 15 years
- **Contact lenses**: £20 per month = £3,600 over 15 years

- Earning lifetime customer loyalty is your goal...
“Become” the community

- Another lever to gain competitive differentiation is to focus on your local catchment

- Analyse low cost promotion opportunities:
  - Become active in the local community
  - Sponsorship of local events/sports teams/roundabouts etc.
  - Become involved in local charities
  - Attend local events – fetes, shows etc.
The Takeaways...

- Analyse the competition
- What is their market position?
- What do their brands & practices say to the customer?
- What can you learn?
The Takeaways...

- Analyse yourself
  - What does your brand & practice say? Is this right?
  - Is there a clear message communicated through the store environment & its people?
  - Excellent service is imperative - the “Achilles heel” of the multiples & grocers
  - The goal is lifelong customer loyalty
  - Analyse your current customer and build a relationship
  - Use databases to aid in generating return behaviour
  - “Become” the community – this is your strength