Successful trading next to multiples: lessons from other retail sectors

Dr Steve Wood
School of Management,
University of Surrey

Sight Care

Outline

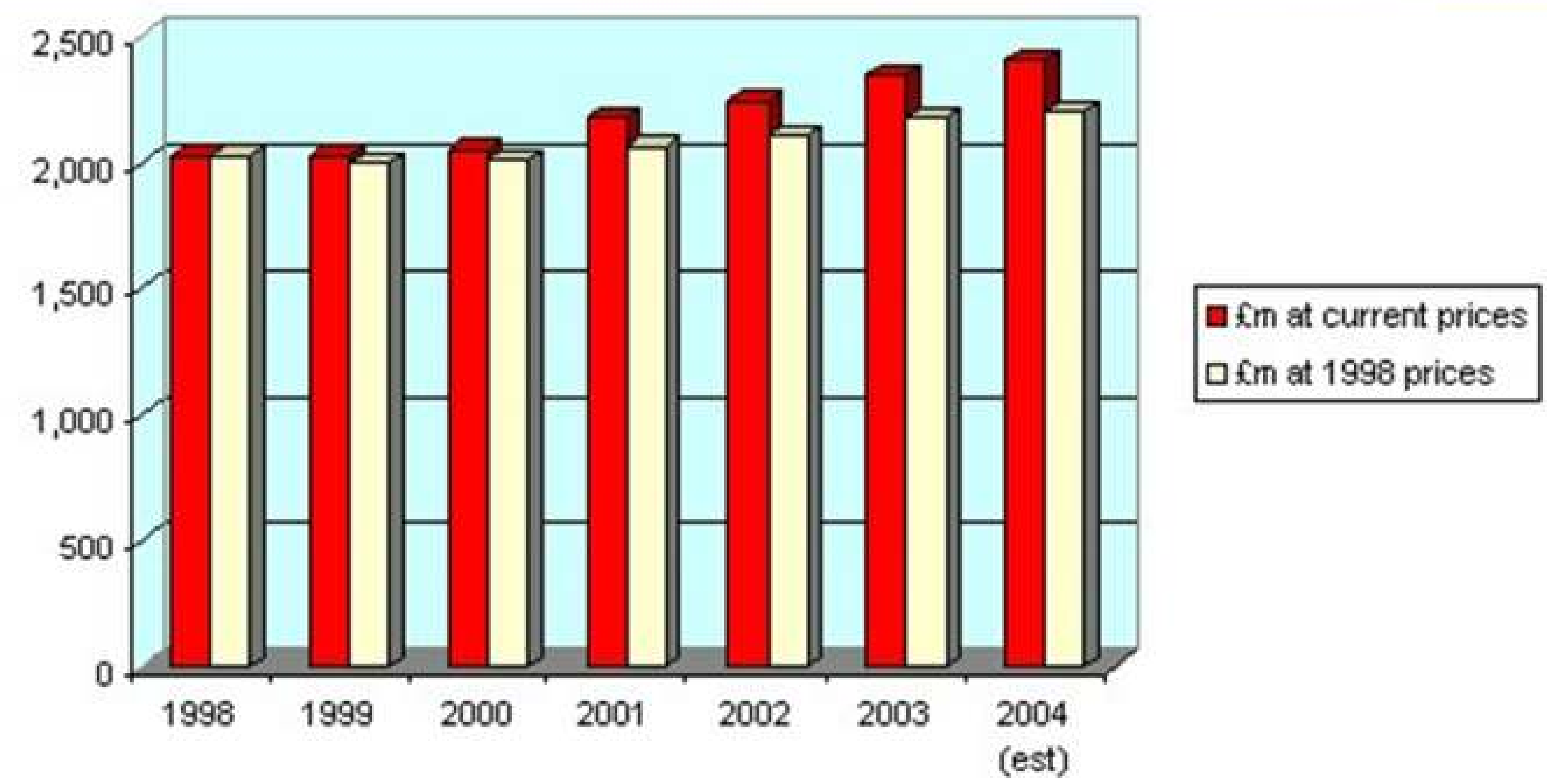
- A perspective from the outside the sector
- Independent retailers – the wider picture
- The strengths of multiples & their brands
- The grocer’s entry into the optical sector
- The strengths of the independents
- Understanding the competition
- Understanding the customer
- The “customer-facing end”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

Sight Care

A perspective outside of the sector

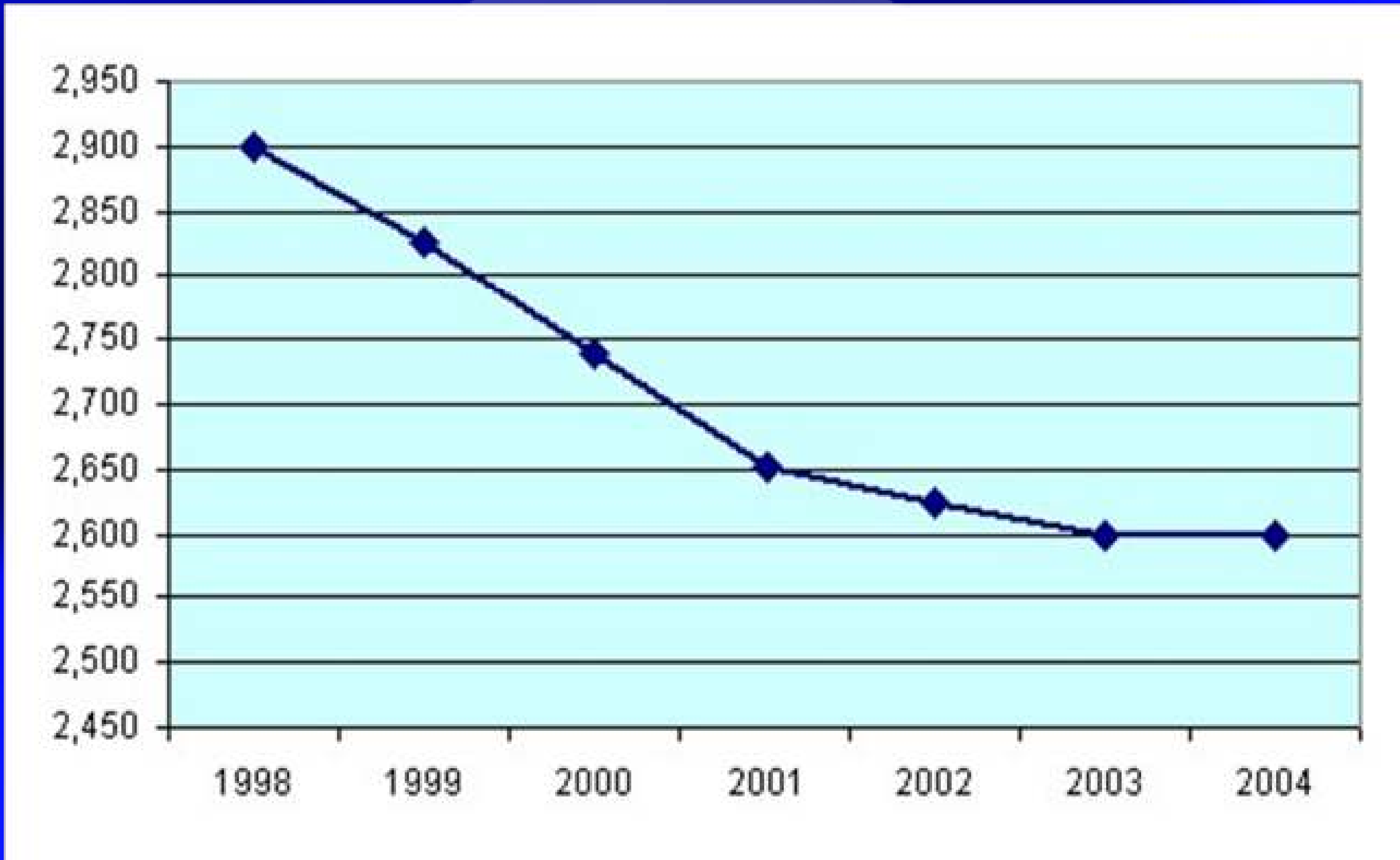
- This is the perspective from "someone outside looking in"
- My background is as:
  - a Retail Analyst at Verdict Research;
  - in the Marketing Department at Tesco plc;
  - latterly as an academic focused on the retail sector
- However, we can see many of the trends in this sector mirrored elsewhere 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 <u>NOT</u> 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*

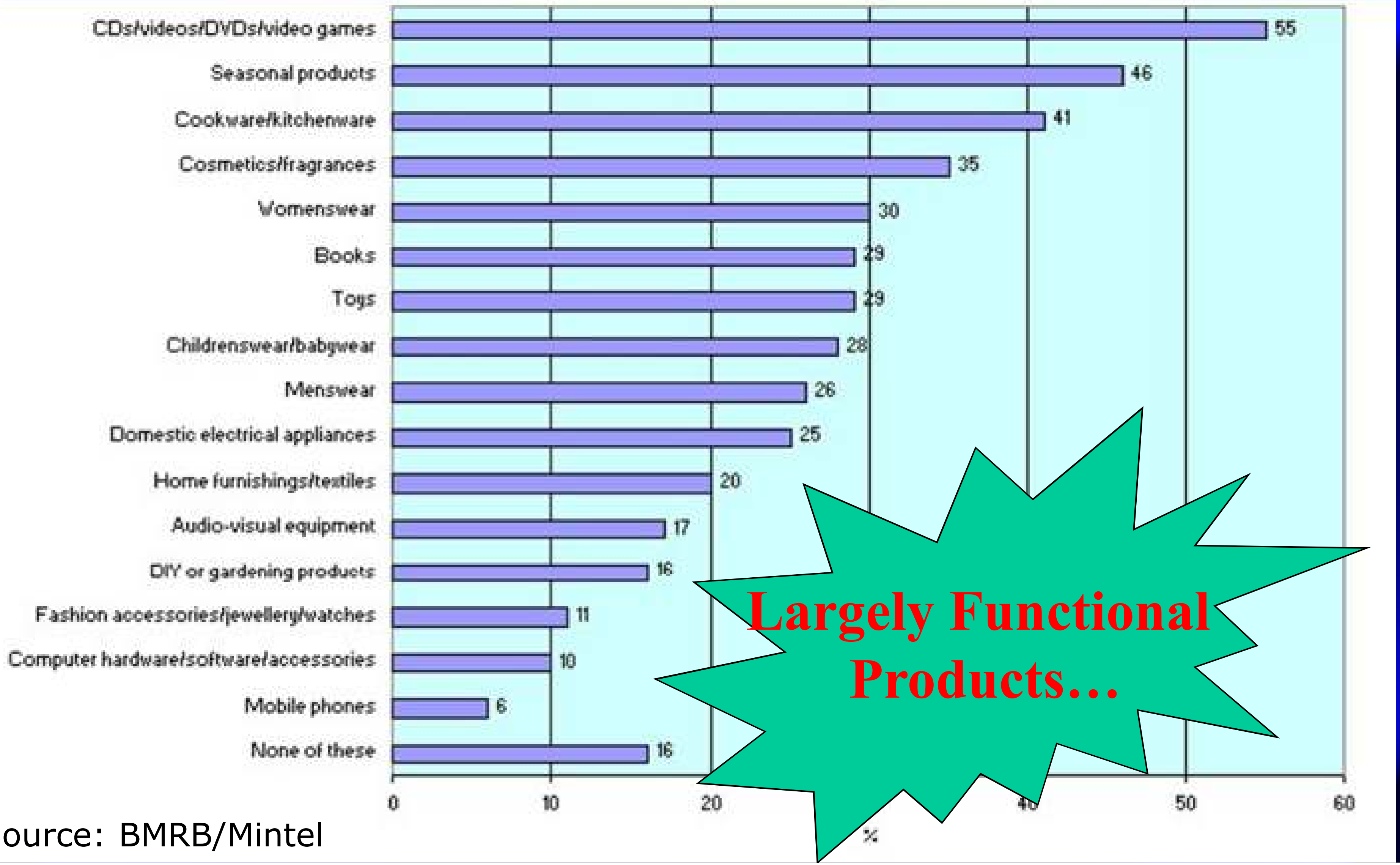
D&A: *Traditional but increasingly price led & promotional*

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



Source: BMRB/Mintel

Current grocer optician coverage

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:

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

- Earning lifetime customer loyalty is <u>your</u> 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