**[Turn over**

Answer **all** questions.

### Question 1

**Developments in the UK Supermarket Industry**

### Table 1: Market value of UK food and grocery retailers (pounds billion)

|  |  |  |
| --- | --- | --- |
| **Retailer Type** | **2018** | **2023****(Projected)** |
| Hypermarkets | 16.4 | 16.7 |
| Supermarkets | 89.1 | 95.9 |
| Discounters | 23.1 | 31.5 |
| Online | 11.4 | 17.3 |
| **Total** | **140.0** | **161.4** |

Source: *The Institute of Grocery Distribution*, 5 June 2018

### Extract 1: Aldi profits fall by almost a fifth as supermarket price war takes toll

Aldi’s profits have dropped for the third year in a row after the budget supermarket which sells mainly canned food and value-for-money products ploughed money into opening stores and was forced to invest heavily in price cuts in the face of rising competition. The German discounter has been credited with radically shaking up the UK’s food retail market by undercutting the ‘big four’ supermarkets of Tesco, Sainsbury's, Morrisons and Asda on price.

During the recession, which saw droves of cash-strapped consumers flock to its stores, Aldi has sought to open hundreds of new shops while its rivals have scaled back store numbers. At the same time, it has lured middle-class customers with more upmarket products, such as Prosecco and pastrami. "Since 1990 when we arrived in the UK our approach has been based on the long game, not short-term profit," said chief executive Matthew Barnes.

Mr Barnes said that Aldi was widening its appeal to more shoppers by increasing the number of products it sold from 1,500 to 1,800 and adding more premium lines, such as a sirloin beef with porcini, shallot and white truffle stuffing, to its Christmas ranges. The supermarket is also gearing up to invest more in its fresh food offer in a bid to address some customer perceptions that its shelves are only stacked with canned goods.

Source: *Telegraph*, 25 September 2017

### Extract 2: End of fixed prices within five years as supermarkets adopt electronic price tags

Fixed prices for consumer goods and services will be virtually non-existent within five years. "Peak time" pricing where the price of items rises and falls according to demand is set to become commonplace in supermarkets. Unlike paper price tags, so called "e-prices" are linked to shops' computer systems which can move them up or down by up to 90 pence in a day. The technology lets shops react to events during which they can remove offers on sought-after items, for example ice creams and chilled drinks during heatwaves and sandwiches at lunchtime.

Families may soon find themselves spending significantly more or less in many aspects of their lives, depending on what time and day items or services are bought.

Source: *Telegraph*, 24 June 2017

### Extract 3: Asda-Sainsbury's merger

The merger of the UK’s second- and third-largest supermarket chains could hand them control of about 30% of the grocery sales, a similar level to Tesco, meaning two businesses would account for 60% of the market in future.

“The cost savings being promised through this merger must not come through squeezing those further down the supply chain,” warned Conservative MP Neil Parish, chair of the environment food and rural affairs committee.

Parish suggested that the government was “not concerned at all by the scale of these two major retailers that will be totally dominant in the market place”, and suggested “Tesco and Sainsbury’s might decide to get together as the government did not intervene in relation to Asda and Sainsbury’s”.

Source: *The Guardian*, 3 May 2018

### Extract 4: Aldi and Lidl grow despite ignoring the internet

In April, Aldi experimented with a new prototype for a supermarket, with wide aisles, bright lights and low shelves compared to its old cramped, dimly lit, all expenses spared stores. It is the discount giant’s big bet on the future of shopping: defying the conventional wisdom that customers want both in-store and online shopping, Aldi wants to conquer the retail world by ignoring the internet.

However, Kay Rueschoff, Aldi’s director of marketing, acknowledges that low prices, the discounters’ hallmark, are no longer enough. To lure middle-class shoppers, Aldi has to focus on quality, too — hence the shiny stores. In all, Aldi is spending €5.2bn ($6.1bn) on revamping its 4,800 stores in Europe and opening hundreds of new ones.

The discounters reason that whereas their conventional rivals, such as Sainsbury’s, might be able to win some customers online, they will not make much money out of it. Tesco, Sainsbury and others have spent hundreds of millions of pounds on sophisticated internet operations. Yet, these stores are merely “cannibalising themselves”, driving most of their shoppers from their most profitable channel (the store) to the least profitable (online).

Profit margins in the supermarket business are notoriously low, but even lower online — about 3% versus 0.5% or less. Fleets of vans and drivers are expensive but supermarkets dare not charge cost price (or more) for the service as customers expect it to be virtually free.

Source: *The Economist*, 26 October 2017

### Extract 5: Online grocery shopping in the United Kingdom

With the introduction of online grocery shopping, home delivery and click and collect in the nineties, the market was initially made up of the four major players on the British grocery scene: Sainsbury's, Asda, Morrison’s and Tesco. Since then, number of online grocery retailers have increased and online grocery sales have skyrocketed, with the United Kingdom forecasted to become the second largest online grocery market worldwide after China by 2020.

With ongoing increased connectivity and changes to shopping habits, the grocery shopping habits is expected to shift in favor of convenient online platforms at the expense of physical supermarkets. Surveys have found that shoppers are buying less at the physical stores, instead opting for online, with the majority placing an order once or twice a month. As a result, physical stores are increasingly becoming a medium in which to pick up grocery items.

Convenience and speed rank highest in terms of importance when buying food online. Increased connectivity has provided further avenues for online shopping, with more and more consumers completing their shopping on smartphones and tablets. With more available functions and increased ease of use, smartphones are increasingly taking on more aspects of the grocery shopping experience.

Source: *The Statistics Portal*, accessed 5 August 2018

### Questions

1. With reference to Table 1, compare the change in market value of the different UK food retailers between 2018 and 2023. [2]
2. Using a relevant elasticity concept, explain why “Aldi has sought to open hundreds of new shops” during the recession. [2]
3. Explain how “peak time” pricing qualifies as a form of price discrimination. [4]
4. Extract 3 mentions about the merger between Asda and Sainsbury. Explain how this might affect consumer welfare. [4]
5. While supermarkets such as Sainsbury have invested heavily in their online business, discounters such as Aldi have chosen to ignore it.

Discuss whether Aldi should follow the example of Sainsbury and venture online. [8]

1. In view of the market structure of the UK supermarket industry, discuss why non-price competition strategies are preferred over price competition strategies. [10]

[Total: 30]