

comment & opinion

THE SATURDAY ESSAY

Is Morrisons the new trailblazer in grocery?

Now that Dalton Philips has upped the ante, suppliers are adopting a 'Tesco plus Three' strategy

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This is shaping up to be a big year for Morrisons. Indeed, the various initiatives put in place by Dalton Philips suggest that 2011 will take its place alongside 2004 as one of the most pivotal in the retailer's history.

The acquisition of UK e-commerce specialist Kiddicare; a stake in US e-commerce business Fresh Direct; the appointment of an own-label director; the confirmation of convenience retail plans and the planned opening of a sourcing office in Hong Kong are just the highlights of what has gone on so far this year.

And finally, it seems, suppliers are starting to sit up and take notice. Many major fmcg groups have been operating a 'Tesco plus Two' strategy for the last few years, prioritising the market leader and its two competitors from Leeds and Holborn.

What we are hearing in the marketplace now, however, is that many

major suppliers are thinking of a 'Tesco plus Three' approach to the market. And in partnering Morrisons, suppliers can only improve their prospects for rapid growth.

Many of Morrisons' initiatives – such as convenience, lab stores, online grocery, own label – will have direct and largely positive ramifications for suppliers, especially when coupled with its robust store opening pipeline.

The only real exception would be the retailer's plans to drive own-label penetration to somewhere near the levels achieved by its three larger rivals. Achieving that would generate huge extra volumes of private-label sales and, presumably, lead to brands of lower market share being further sidelined.

Regardless of what goes on in grocery, it is in non-food that we see a great deal of potential. The fact that the retailer is opening a buying office in Asia is testament to the ambitions that Morrisons has in this area.

To take on non-food in any meaningful way, a direct sourcing presence in China is a prerequisite.

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Whether the category under discussion is toys, clothing, small appliances, kitchenware or electronics, a direct relationship with suppliers is essential to create a successful non-food business.

The avoidance of intermediaries (or 'margin-takers' as Asda tellingly refers to them) is paramount in non-food merchandising that aims to deliver both low prices for the shopper and decent margins for the retailer. Project Liberate, the plan to release space in stores (which could eventually be equivalent to a whole

year's worth of regular store openings), will free up space across the network and some of this space will undoubtedly be devoted to general merchandise. A recent visit to the excellent new store in Borehamwood indicated to me that Morrisons could be doing a much bigger and better job in areas like toys and homewares across the whole estate if the space were there.

Many issues are yet to be resolved over Morrisons' inevitable move into the clothing market: the Peacocks concessions are reportedly trading well, but the only way Morrisons will achieve substantial share – and make serious cash – out of clothing is by bringing it in-house and rolling out nationally.

What is clear, however, is that Morrisons has major aspirations for both food and non-food in the UK and suppliers in both areas should start paying more attention to an opportunity that might otherwise be overlooked. ■

Bryan Roberts is retail insights director at Kantar Retail UK