The following provides details on a case study involving Asda. Candidates should read this case study carefully in preparation for the examination.

**Note:** Candidates are allowed to take into the exam a ‘clean’ copy (without annotation) of the pre-issued Asda case study and a maximum of two pages/four sides A4 of draft working notes which should be handed in and attached to the exam script.

**DRAFT WORKING NOTES GUIDANCE [15 marks] – to be handed in with exam script.**

Researching, preparing, understanding the case study and compiling these notes provides the essential case preparation necessary for all candidates to be successful.

The draft working notes (maximum of two pages/four sides A4) should be handed in and attached to the exam. They should be word-processed (min word size 12 pt) and contain key headings and areas relating to the strategic analysis of Asda and should provide the analysis underpinning required to answer the exam questions.

The notes will be assessed as follows:

- Evidence of a good level of secondary research and understanding of the case. [5 marks]
- Outline of FOUR strategic models relevant to the case analysis. [5 marks]
- Report structure, readability and legibility. [5 marks]

N.B. Whilst it is hoped that all, or most, information required to analyse and evaluate this case study is contained in the case, it is recognised that this might not always be the situation as information relating to most companies is sometimes changing on a daily basis. It is suggested that secondary information (facts, figures, etc.) contained in this case should be utilised first. If the student still considers there is an absence of information in a particular area then it is quite reasonable for material external to the case to be gathered and utilised. External sources mentioned in the report should, of course, be referenced.
Introduction and background
Asda Stores Limited was founded as Associated Dairies & Farm Stores Limited in 1949 in Leeds. The adoption of the Asda name occurred in 1965 with the merger of the Asquith chain of three supermarkets and Associated Dairies; Asda is an abbreviation of Asquith and Dairies, often capitalised. It is a British supermarket chain which retails food, clothing, general merchandise, toys and financial services. It also has a mobile phone network, Asda Mobile, and has a head office at Asda House in Leeds, West Yorkshire, UK. In 1999, Asda became a subsidiary of the American retail company Walmart and today it is the UK’s third largest chain by market share after Tesco and Sainsbury’s. As of October 2013, Asda’s share of the UK grocery market stood at 16.4%.

The company took advantage of the abolition of retail price maintenance in order to offer large-scale, low-cost supermarkets, aided by the takeover of GEM retail, including the first out-of-town store in West Bridgford in November 1964. Asda increased GEM’s £6,000 per week sales to around £60,000 per week in just six months. For a short time in the 1980s Asda Stores Ltd was a subsidiary of Asda-MFI plc following a merger between the two companies. Other companies in the group were Associated Dairies Limited, the furniture retailer MFI and Allied Carpets. After the sale of MFI and Allied Carpets, the company name changed to Asda Group plc. The dairy division was sold in a management buyout and renamed Associated Fresh Foods, meaning that Asda has since had no connection with any of the firms from which its name was derived.

With stores mainly based in the North of England, the newly focused food retail group expanded further south in 1989 by buying the large format stores of rival Gateway Superstores for £705 million. This move overstretched the company and it found itself in trouble trying to sell too many different products. As a result it was forced to raise money from shareholders in both 1991 and 1993. It revived under the leadership of Archie Norman, who was CEO from 1991. Norman was chairman of the company during the period 1996–99, and remodelled the store along the lines of the world’s largest retailer, America’s Walmart, sending protégé Allan Leighton to Bentonville, Arkansas, to assess and photograph the systems and marketing which Walmart had successfully deployed.

When Norman left the company to pursue a political career, he was replaced by Leighton. Walmart wanted to enter the UK market so CEO Bob Martin lobbied British Prime Minister Tony Blair on planning issues. Asda, which at the time owned 229 stores, was purchased by Walmart on 26 July 1999 for £6.7 billion, trumping a rival bid from Kingfisher plc. Following the takeover, Asda moved its headquarters to the then newly opened ‘Asda House’. In 2005, amid reported concerns within Walmart about a slippage in market share, partially due to a resurgent Sainsbury’s, Asda’s chief executive, Tony De Nunzio, left, and was replaced by Andy Bond. In 2005, Asda expanded into Northern Ireland by purchasing 12 former Safeway stores from Morrisons. In 2009 Walmart ‘sold’ Asda for £6.9 billion to their Leeds-based investment subsidiary Corinth Services Limited. The deal, which took place in August, was described as part of a ‘group restructuring’ and means Asda remains under the control of Walmart, since Corinth are themselves a subsidiary of Walmart. In 2010 Andy Clarke, a former manager of an Asda store, who was also the chief operating officer, was appointed as CEO. That year Asda bought all of Netto’s UK operations in a £778 million deal. The deal provided the company with smaller, more localised stores, with most Netto stores being only one-fifth the size of the average Asda supermarket. In September 2010 Asda was required to sell 47 of the existing 194 Netto stores following a ruling by the Office of Fair Trading. The rebranding of Netto stores to Asda began in early 2011.

Marketing
Asda’s marketing promotions are usually based solely on price, with Asda promoting itself under the slogan Britain’s Lowest Priced Supermarket, 16 Years Running. As a wholly owned division of Walmart, Asda is not required to declare quarterly or half-yearly earnings. It submits full accounts to Companies House each October. From 1990 to 1992, it was the sponsor of Sheffield Wednesday FC during two seasons in modern times – when they won promotion from the Football League Second Division as Football League Cup winners and finished third in the Football League First Division (last season before the creation of the FA Premier League). In 1997, the Spice Girls licensed their name and image to Asda for the creation of over 40 different Spice Girls items for Christmas 1997, including goods such as party supplies, official merchandise, and Spice Girl branded kids’ meals in the stores’ restaurants. The Spice Girls reportedly earned £1 million for this sponsorship deal.

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The focus of these campaigns is to portray Asda as the most affordable supermarket in the country, a claim that was challenged by competitors, especially Aldi. In 2006, Asda advertising was themed around singing children and the slogan ‘More for you for less’. This included an advert during the 2006 FIFA World Cup featuring the England football player Michael Owen in an advert with the children singing ‘Vindaloo’. In 2007, the advertising campaign featured celebrities including Victoria Wood and Paul Whitehouse working as Asda employees. For Christmas 2007, Asda reintroduced the ‘That’s Asda price’ slogan as well as the famous ‘jingle’ to some of its adverts. This can also be heard on its in-store radio station ‘Asda FM’. In 2008, the company re-focused on price with a ‘Why pay more?’ campaign both on TV and in stores. Asda TV commercials in April 2009 focused on price comparisons between Asda and its rivals, using information from mySupermarket. The music being used in these adverts is the Billy Childish version of the classic ‘Dad’s Army’ theme tune. The old Asda jingle is not included in these, but appeared in a 2008 Christmas advert.

Asda has been winner of The Grocer magazine ‘Lowest Price Supermarket’ Award for the past 16 years, and uses this to promote itself across the UK. In August 2005, rival supermarket chain Tesco challenged Asda’s ability to use the claim that it was the cheapest supermarket in the country, by complaining to the Advertising Standards Agency. The ASA upheld the complaint and ordered Asda to stop using it, citing that The Grocer magazine survey was based on limited and unrepresentative evidence as it examined the price of just 33 products, that the survey did not study low-cost supermarkets such as Aldi and that their price checker, mySupermarket, doesn’t include Morrisons, which was mentioned a few times. As a result Asda no longer cites itself as ‘Officially Britain’s lowest priced supermarket’, instead using ‘Winner: Britain’s lowest price supermarket award’.

Human Resources and employee relations
Asda has 150,000 employees, whom it refers to as ‘colleagues’ (90,000 part-time, 60,000 full-time). The company has featured prominently in lists of ‘Best companies to work for’, appearing in second place in The Times newspaper list for 2005. It offers staff a discount of 10% on most items (exceptions include fuel, stamps, lottery, gift cards and tobacco-related items). The company was fined £850,000 in 2006 for offering 340 staff at a Dartford depot a pay rise in return for giving up a union collective bargaining agreement. Poor relations continued as Asda management attempted to introduce new rights and working practices shortly thereafter at another centre in Washington, Tyne and Wear. Some compromise was reached by June of that year, when a five day strike was called off after Asda management and the GMB union reached an agreement. Relations have improved since, with both Asda and the GMB marking the death of a worker together on Workers’ Memorial Day in 2010. Tens of thousands of Asda workers across the UK, in 2013, were hit with a tax complication because of an anomaly in Asda’s payroll system. Asda employees receive their pay every four weeks, which means that once every 20 years they are paid 14 times a year rather than 13. Whilst most companies handle this properly, Asda’s payroll system didn’t, which meant that workers had, through no fault of their own, paid less tax for the year than they should have. This resulted in most full-time and a small number of part-time workers receiving a demand from HM Revenue & Customs for between £72 and £160.

Operations
Current stores: Asda originally had a ‘simple and fresh’ store format, which under Archie Norman’s team and the focus on a Walmart-style strategy become more emphasised. The stores are generally white and green, with simplistic layout but built on a Walmart larger footprint format – Asda’s average store is almost 20% bigger than its rivals, but stocks 20% fewer lines. However, the preferred large-format stores have brought problems to Asda’s growth beyond its spurs in both the 1990s and immediate post-Walmart era. With the UK’s tight planning restrictions, the opportunity to increase retail space via new store builds has been limited. Rather than follow rivals Tesco and Sainsbury’s into ‘local’ format smaller-footprint stores, Asda chose to adapt its format to niche stores to retain longer term growth.

Asda Supercentres: Following the takeover by Walmart, several ‘Asda Walmart Supercentres’ have been opened, creating some of the largest hypermarkets in the United Kingdom. From around 2008 onwards all new Supercentres have been solely branded as Asda Supercentre without the Walmart branding. The first Supercentre opened in Livingston, Scotland, in 2001. The Minworth, Birmingham, store is currently the largest Asda Supercentre with a net sales floor of over 11,000 m² (120,000 sq ft). The Milton Keynes store is currently the second largest Asda Supercentre and the third largest is located in Huyton, Merseyside. Today there are 29 Supercentres in the UK.

Asda Superstores: Asda Superstores are large supermarkets with a non-food offer slightly smaller than an Asda Supercentre. There are currently 231 Superstores in the UK.

Asda Supermarket: The Supermarket division was formed in 2009. There are 26 small format supermarkets, some of which were acquired from the Co-operative. The first three acquisition stores opened mid-2009 in Wellington, Lancing and Pershore followed by Cumnock, Tweedmouth and Kingsheath in 2010. The largest Supermarket format store in the UK is in Highbridge. In May 2010, Asda announced the purchase of the 193 UK stores of Danish discount retailer Netto in a £778 million deal. The stores continued to trade as Netto stores until early 2011, when Asda integrated the stores into its supermarkets division, designated for shops smaller than 2,300 m² (25,000 sq ft).
Asda Smart Price: This is a no-frills private label trade name. The equivalents from the three other big supermarkets are Tesco Everyday Value, Sainsbury’s Basics and Morrisons M Savers. The Smart Price brand originated in the Asda’s Farm Stores brand launched in the mid-1990s, which consisted of products that were offered at a lower price than the equivalent famous name brand product and Asda’s own brand equivalent. The Farm Stores brand originally consisted of a small number of food-only products, largely frozen such as frozen chips and a small range of ready meals. This range later expanded to include fresh food. Smart Price products are almost always the lowest price option (known as Our Lowest Price) in a product category in Asda stores. Occasionally this difference is only a few pence, however in others it is a marked difference. The Smart Price label was originally a food-only brand, however it has since expanded to cover almost every product range in the store, including clothing and furnishings with the George Smart Price brand. Like early generic products in the USA, some Smart Price products lack what can be thought of as ‘frills’ in the modern brand name or supermarket own brand; for example, the Smart Price toothpaste has an old fashioned screw cap rather than the now more common flip cap and the Smart Price range of crisps come in traditional clear plastic bags rather than the foil bags common to most name brand versions. In 2012, Asda changed the Smart Price Label to include nutritional information on the packaging and to match the branding of the Walmart Great Value line.

George Clothing: Asda has its own range of clothing known as George, which was created in 1990. This is marketed as quality fashion clothing at affordable prices. Walmart also sells the George brand in Argentina, Canada, China, India, Japan, Mexico and the USA (and in South Korea until Walmart pulled out of that market). The label is named after George Davies, founder of Next, who was its original chief designer. Davies himself parted company with Asda in 2000 and is no longer associated with the brand. In 2005, Asda stated that the George range was a £1.75 billion business, including sales from Walmart stores in the USA and Germany. Mintel estimate that George is the fourth largest retailer of clothing in the United Kingdom, after Marks & Spencer, the Arcadia Group and Next. Asda was the first supermarket to stock wedding dresses. Part of the George line, they cost £60 while adult bridesmaid dresses ranged between £30 and £35, at launch.

Asda Living: October 2003 saw Asda launch a new format called ‘Asda Living’. This is the company’s first ‘general merchandise’ store, containing all its non-food ranges including clothing, home electronics, toys, homewares, health, and beauty products. With these stores they have linked up with Compass Group who operate the coffee shop Living Café within some of the stores. The first store with this format opened in Walsall, West Midlands. Currently there are 24 stores with an average 2,600 m² (28,000 sq ft) sales selling an average 23,000 non-grocery products in-store.

Loyalty card: The company does not run a loyalty card scheme, stating that “we prefer to invest the money we’d use to set up such a scheme into driving down prices for our customers”. However it did trial the Asda Clubcard in the 1990’s across multiple stores. The Asda-branded credit card (provided by Grupo Santander) offers a points scheme; points can be earned on all spending.

Asda Mobile: Asda also operates a mobile phone network called Asda Mobile, which was launched in April 2007.

Distribution including internet operations
Asda has 26 depots all across the UK which distribute across the network of stores. There are depots for chilled foods, clothing and ambient products, such as carbonated drinks and cereals. Asda launched its online retailer service in 1998. It began with a dedicated depot based in Croydon, South London, but this was closed with a number of redundancies shortly after, as sales were lower than expected. It continued the online service, but emulated the Tesco store-based model instead. Since the roll-out of the grocery delivery operation Asda has moved into non-food online retailing. Current categories include entertainment, contact lenses, furniture, travel, electricals, gifts, mobile phones and flowers. In May 2004 it announced an expansion of the service which increased coverage from 30% of the UK population to 35%. January 2007 saw Asda launch www.asda-electricals.co.uk to compete with Tesco’s highly successful Tesco Direct. In October 2008, Asda launched direct.asda.com, superseding its electricals website and also selling several additional product categories such as homeware, garden and toys. This new venture is part of its online business Asda Direct, with more than 3,000 domestic and home electrical products. Asda’s long-term ambition is to capture 5% of the £1.9 billion market by 2014.

Financial performance
Asda has a financial services division, similar to those operated by Tesco, Sainsbury’s and other retailers. Asda simply attaches its own brand to products provided by other companies. Services they offer include insurance (provided by Norwich Union), credit cards (provided by Grupo Santander) and loans (provided by the Funding Corporation Ltd). The financial services division of the organisation does not directly sell these services in store and instead uses the supplier of that product by telephone or online/postal application. Until June 2009 some stores had credit card representatives provided by GE Capital Bank and then Grupo Santander. Marketing and management of financial services is co-ordinated in-house and many stores have a financial services co-ordinator, responsible for promoting the products and ensuring legal compliance. The Financial Services division is also responsible for gift cards, Christmas Saver and Business Rewards.

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Currently Tesco has a 30.4% share of the UK grocery market while Asda’s share is 17.5%, followed by Sainsbury’s at 16.1% and Morrisons at 11.8%. According to CACI, as of 2013, Asda has market dominance in 14 postcode areas of the UK; DY (Dudley), B (Birmingham), CH (Chester), L (Liverpool), WN (Wigan), BL (Bolton), BB (Blackburn), LA (Lancaster), HU (Kingston upon Hull), SR (Sunderland), DH (Durham), NE (Newcastle upon Tyne), G (Glasgow) and AB (Aberdeen).

**Corporate Social Responsibility**

**Charities:** Asda supports six main charities through its stores.

- **Tickled Pink** – Now in its 16th year, this helps two breast cancer charities – Breast Cancer Care and Breast Cancer Campaign. Since it started, they have raised over £29 million.
- **Tommy’s** – funds research to find out why things go wrong in pregnancy and birth, and provides information free of charge.
- **Children in Need.**
- **Everyman** – a campaign charity since 2011.
- **Fields In Trust** – charity partnership since 2010. The Challenge aims to protect 2012 outdoor recreational spaces by 2012, to create a permanent living legacy of both the Queen’s Diamond Jubilee and the London 2012 Olympics.
- **Asda Foundation** – supporting local causes of Asda store workers, with projects supported across the UK.

**Energy efficiency:** Asda was the top performing supermarket in the CRC Energy Efficiency Scheme Performance League Table, coming in at 37 and beating Morrisons at 56, Tesco at 93 and Sainsbury’s at 164.

**Ethical trading:** Asda has signed up to the Ethical Trading Initiative (ETI), which respects workers’ rights for freedom of association and a living wage. Implementing this initiative is difficult, however, because the concept of a living wage varies between countries and the buying strategies of a major importer like Asda have an indirect impact on national minimum wages by obliging governments to set them low enough to stop businesses from going elsewhere. Industry pressure groups such as ‘Labour Behind the Label’ and ‘War on Want’ have argued that Asda and other budget retailers use unethical labour practices in the developing world to keep UK prices low. The National Farmers’ Union, representing UK farmers and growers, has argued that Asda and other major supermarkets have made large profits and kept consumer prices low ‘by squeezing suppliers’ margins to the point where many of them have gone out of business’.

**Controversies**

**Dairy price fixing:** In December 2007 Asda, Sainsbury’s and other retailers and dairy firms admitted to the price fixing of dairy products between 2002 and 2003. The price fixing operation was calculated to have cost consumers around £270 million. Asda commented, “Everyone at Asda regrets what happened, particularly as we are passionate about lowering prices. Our intention was to provide more money for dairy farmers, who were under severe financial pressure at the time.” In total, Asda was fined £18.21 million by the Office of Fair Trading for its part in the cartel.

**2013 horsemeat scandal:** DNA tests revealed that horsemeat was present in Asda’s fresh beef Bolognese sauce, the first instance during the 2013 meat adulteration scandal of horsemeat being found in fresh meat.

**The Future**

The name Asda is synonymous with huge success in the UK food retailing industry. It has achieved this over a number of years, in a highly competitive industry, by innovation, taking risks and largely by adapting strategy when necessary as the external environment is ever changing. The senior management board will need to continue this type of effective strategic management as food resources become more difficult to provide for with an ever-increasing world population. Asda will need to strike a difficult balance between corporate social responsibility whilst maintaining a decent return or dividend for the key stakeholders. It will not be easy to achieve.