Settling for Second Best? Reflections after the Tenth Anniversary of Wal-Mart's Entry to the United Kingdom

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Structured Abstract

Purpose - This paper evaluates the comparative progress of Asda in the UK since its surprise takeover by Wal-Mart in 1999. Wal-Mart expected to become the #1 retailer in the UK and many commentators saw massive problems ahead for local retailers. These expectations were not met; this paper investigates why.

Design/Methodology/Approach - Asda's progress is considered through a brief discussion of the company's history to 1999, an investigation of the changes Wal-Mart subsequently made to Asda's operations, the comparative impact of these changes and then a consideration of the restrictions on impact deriving from organisational, competitive and environmental factors.

Findings - Despite the strong rhetoric on entry, the commercial reality has seen only moderate success for Asda, and a widening gap to the market leader, Tesco. Explanation for this includes competitive strategy and reactions, market restrictions particularly in land-use planning, and unwillingness by Asda (Wal-Mart) to alter their focused store format strategy in line with competitor actions and market directions.

Research Limitations/Implications - The analysis is at a macro corporate and national level, drawing mainly on published data. Research implications include the rebalancing of considerations of organisational competence and market environment factors on international success. A focus on political and non-market activities is suggested, though an unwillingness of companies to reconsider strategic directions is also indicted as a key factor.

Practical Implications - Implications for national and international strategic decision making at the corporate and governmental levels are identified. Businesses can use the findings to re-consider their positioning and actions. Reflections on hyperbolic reactions to takeovers might also be provoked.

Originality/Value - No other paper has considered the market level changes in connection with Asda since its take-over by Wal-Mart and sought explanations for the relative (lack of) performance. The conclusion, that Asda has not been as successful as reported in the literature and the media, is original.

Keywords Performance, Asda, Tesco, Competition, Internationalisation, Strategy

Paper Type Research paper

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1. Introduction

By 1991, Wal-Mart was the world's largest retailer, had considerable expansion plans within the United States and was introducing its then new format, the Supercenter. Like many leading North American retailers however, it had not opened stores outside its home country. This was in stark contrast to many of the leading European retailers, which had internationalised from an early stage. Wal-Mart's comparative insularity began to change in 1991 however when it started to move beyond the USA.

Wal-Mart's internationalisation process can be divided into three phases (Burt and Sparks, 2006; Palmer, 2005). In the first phase from 1991-1994, entry to adjacent markets was undertaken (Canada, Mexico and Puerto Rico). The second phase (1994-1998 after the formal establishment of Wal-Mart's International Division), was essentially a world markets focus whereby a variety of markets were entered (Hong Kong, Brazil, Argentina, China, Indonesia, Germany and Korea) using various methods and approaches and developing different formats. All seemed to involve putting 'a toe in the water' in each country rather than establishing a dominant position. It is hard to avoid a sense that this effort was essentially haphazard 'flag planting'. In the third phase (since 1998), a more considered approach was developed, being more financially and results oriented and with a focus on strategic planning and performance. The earliest examples of this were in the United Kingdom (1999) and Japan (2002) and in both instances the approach was to take over a large, sound retailer and seek to convert their operations to the 'Wal-Mart model'. Subsequently there has been an emphasis on buying and building strong market positions in South and Central America and Asia, particularly China, but combined with notable market withdrawals where performance was insufficient (e.g. Germany and Korea).

The entry to the UK has perhaps a special significance (Burt and Sparks, 2001). It was the first strategic market entry where the intention was to quickly become the market leading retailer. It also represented Wal-Mart's first **major** foray into the European market, containing strong food retailing based competitors. Success in the UK was a key component of Wal-Mart planning for a strong position across Europe.

Wal-Mart's entry to the UK took place in June 1999, when Wal-Mart intervened spectacularly in an agreed merger between Asda and Kingfisher by paying £6.7 billion to buy Asda (then the number three British food retailer) outright. Reactions to this takeover were often hyperbolic (see the review in Whysall, 2001); this was a nightmare coming true, the death-knell of British retailing and the salvation of British consumers through massive price reductions. Tesco's share price fell by 7% on the news; Gielens et al. (2008) calculate that the market value of competing European retailers fell by over a net $4.2bn on the takeover announcement. Wal-Mart was going to show British consumers what all the fuss had been about and show British retailers where they were going wrong. High-priced, exploitative British retailers were going to be put in their place, helping the government in its search for a low price Britain. Wal-Mart was the answer to Rip-Off Britain (Sparks, 2002). Ten years on however, Asda are number two in the market, but the gap to the market leader, Tesco, has widened not narrowed. So it is timely to ask; What Wal-Mart effect? Why are they not market leaders? What went wrong? Why did the reality fail to meet the rhetoric?

This paper reflects on the 1999-2009 period of British food retailing and the comparative performance of Asda. It builds on previous work on the topic predicting and monitoring specifics of Asda's impact (e.g. Arnold and Fernie, 2000; Burt and Sparks 2001, 2006; Hallsworth and Clarke, 2001; Fernie and Arnold 2002; Fernie et al 2006; Pioch et al., 2009). It aims to draw some lessons about internationalisation, regulation, space and operations by providing a considered macro overview of performance and impact. This is achieved by first considering briefly the background to, and position of, Asda prior to takeover in 1999, secondly focusing on what Wal-Mart has actually done to Asda, and the impact of these changes, before examining what they have not been able to achieve and why not, and then drawing conclusions.

2. Asda: a brief history to 1999

Asda was founded in the North of England in the mid 1960s, although its origins can be traced back further to the 1920s when Hindells Dairy Farms Limited (a group of Yorkshire farmers) began to develop wholesale and retail outlets for their milk and milk products. By 1960 a chain of approximately 150 small shops had been established under Associated Dairies and Farm Stores (Leeds) Ltd., selling the company's own products. In 1963 the company's name was abbreviated to Associated Dairies Ltd. In 1965 they were approached by a local butcher, Peter Asquith, who had formulated the idea of selling a full range of grocery items at discounted prices in what had formerly been a local cinema. This seemed a way of re-focusing the business away from the increasingly problematic small stores, through the competitive advantages of low price and large scale. Asda Stores was created to do this.

In 1966 Asda acquired an 80 per cent share (later increased to full ownership) in the GEM discount stores at Leeds, Preston and West Bridgford, Nottingham, having been approached by the American owners anxious to quit British retailing because of consistent losses. These unconventional stores had an average floorspace of 58,000 sq feet, at a time when the average supermarket operated from no more than 4,000 sq feet (Whysall, 2005). They provided the Asda management with invaluable experience of large-scale volume trading.

Asda, from its base in Leeds, found a large and profitable market in the northern England metropolitan districts where supermarket penetration by southern England based multiples such as Tesco and Sainsbury was limited. From these urban areas Asda expanded gradually into Scotland, Wales and the South-West of England; these were areas where the general quality of grocery retailing was limited (Jones, 1981; Davies and Sparks, 1986).

However, despite their impressive growth in terms of sales floorspace and number of superstores, by the early 1980s Asda had some problems. First, out-of-town superstore growth was being held up by land-use planning restrictions, which slowed down new store openings. Moreover Asda faced increasing levels of cost and competition in attempting to move into the more expensive but more profitable and populous South-East of England. Secondly, Asda were very proud of the fact that they did not have the large management infrastructure of other retailers. Yet the inability of managers to accept delegation and participation was threatening to halt the pace of the company's growth. Thirdly, Asda, despite spending considerably (when it could) on new store capital expenditure, was a cash generating business and this cash pile needed a home. A merger/takeover between Asda and MFI (a major flat-pack furniture retailer) was announced in 1985 (see Davies and Sparks, 1986). However, this proved to be a drain on resources (including management) and in 1987 a management buyout brought divorce from MFI.

In hindsight the merger with MFI was a reflection that Asda had lost its way. The business had too little store space, unevenly distributed across the UK and away from some of the major markets. Asda had not invested in central distribution or in retail branding (private-label), both of which had given significant advantages to competitors. Additionally, Asda's low price position had been somewhat lost as it focused on profits not consumers, and prices drifted upwards.

The most serious long-term problem, the lack of space, was ‘solved’ by purchasing 60 large stores from Gateway in 1989 at the (perceived) very high price of £700m. The high price paid and the need to make a return on this space, together with the eventual major investments in centralised distribution and retail branding overloaded the business and management. Asda became more uncompetitive and was in dire trouble by 1991. There was a real danger of debt default. After a series of profit warnings and a share price collapse, there was a shareholder revolt and the management team left.

This history of Asda is crucially important for the Wal-Mart story. In 1991 a new Chief Executive, Archie Norman and a new Marketing Director, Allan Leighton took over. They set out to refocus and rebuild Asda as an organisation and as a brand. At the heart of this turnaround was a conscious imitation and series of borrowings from Wal-Mart (for example Every Day Low Prices (EDLP), Rollback, Huddles, Greeters, Smileys). There was a huge cultural change in the organisation as communications were opened up and ‘colleagues’ were encouraged to be entrepreneurial, customer-focused and to celebrate achievements. All this was designed to create a new price-led, customer-centred, colleague-driven superstore/hypermarket value business. Success came quickly: Asda became ‘the best operator of value for money fresh food and clothing superstores in Britain’ (Seth and Randall, 1999). The mention of clothing is important. One of their few successful innovations of the 1980s was the introduction of the ‘George’ clothing brand. Recruited after a boardroom coup in Next (a leading clothing retailer in the UK), George Davies set about creating a value-conscious ‘fast fashion’ clothing brand for Asda. This proved enormously successful with brand sales approaching £1bn per annum by the late 1990s.

One of the key issues for Asda was a lack of investment in new stores. With high debts in the early 1990s, store development finance was slashed and store development sites with planning permission were even sold to rivals (including Tesco) to raise money. The turnaround focused primarily on existing stores, operations and culture, so Asda's store numbers and floorspace began to fall behind the competition. In addition, from the mid 1990s the planning regime turned increasingly against large and out-of-town superstore development, restricting site availability even further. In 1997, secret merger talks with Safeway (the number four food retailer) were mounted, collapsing as the talks became public and differences over the merger came to light, including whether the competition authorities would allow it. Scale and floorspace expansion thus remained a problem. It is in this context that Asda looked to merge with Kingfisher (a leading non-food retailer).

The other important context of the mid and late 1990s in the UK was a massive government-encouraged campaign over high retail prices in the UK. 'Rip-off Britain' was a slogan pioneered by politicians, the media and others from 1995 onwards (see Sparks, 2002). It eventually culminated in a major competition authority investigation of the multiple retailer supermarket sector (Competition Commission, 2000). Asda by pushing an EDLP policy borrowed from Wal-Mart and by focusing attention on low prices and a colleague-focused culture, had transformed the market. If Asda could obtain more sales space then it would be able to inflict more price pressure on the sector. In essence Asda tried to mimic the Wal-Mart 'market spoiler' effect (Arnold et al., 1998). When Wal-Mart took it over, the general view therefore was that Asda was Wal-Mart 'ready' (Whysall, 2001; Burt and Sparks, 2001).

As Fernie and Arnold (2002) note, Asda was the best strategic fit for Wal-Mart in the UK, due to its high average size of store, high proportion of non-food and its overt cultural, pricing and promotional borrowings from Wal-Mart. For £6.7 billion, Wal-Mart obtained the then number three food retailer in the UK, with almost 230 large (in British terms) superstores and hypermarkets, totalling 9.6 million sq.ft. of sales space and taking in c£8.0 billion per annum in sales. Focused in the main on food retailing, its non-food range was somewhat weaker, although within this, the George clothing brand was increasingly strong.

3. What Wal-Mart Did To Asda

After takeover, Wal-Mart moved to improve Asda's performance, despite Asda's previous "copying" of Wal-Mart. Using the structure outlined in Burt and Sparks (2001), four elements of this are considered:

(a) Store portfolio

Whilst the Asda **store portfolio** at takeover had received a little investment, including some store openings, store investment had not been a priority for Asda in the debt-ridden early 1990s. The store portfolio also remained spatially biased away from the important market of the South of England. Despite the considerable size of the store portfolio on acquisition, Wal-Mart needed to expand both store and total floorspace to gain sales volume, to allow their non-food expertise to be introduced and to impact the competition. Three main methods were used to expand floorspace.

First, reconstruction of the supply and distribution channel allowed for changes to the internal store floorspace. The ratio of sales:gross floorspace in Asda's stores at takeover was approximately 52.5 : 47.5. At Wal-Mart in the United States, the sales floorspace was 84 per cent of the total floorspace. By improving the supply systems and re-examining the layout and operations at store, considerable sales floorspace was created from gross and under-employed space. Given that Asda stores were already substantially bigger on average than those of the competition, this was a large benefit.

Secondly, the opportunity was taken at some stores to expand the physical store space itself. As stores were renewed and redeveloped, so opportunities were taken where possible to expand the size of the 'box'. In some cases this enabled the store to be redeveloped and opened as an Asda/Wal-Mart Supercentre i.e. a larger hypermarket with more non-food space and service areas than the standard Asda superstore. In addition, Asda began to exploit a loophole (subsequently closed) in the land-use planning system whereby a mezzanine development within a store was classified as an interior alteration and was thus not subject to planning permission. Asda quickly realised that in some stores the sales floorspace could be considerably expanded through the introduction of a mezzanine floor.

Thirdly, Wal-Mart sought to expand the actual number of stores in the Asda chain. Some organic growth has been possible. This space however has not necessarily been in the chain's preferred locations and some of these are replacement stores. Asda have found planning permissions very hard to obtain in London, the South East of England and East Anglia, all areas where, as noted above, they are under-represented for historical reasons. Planning permissions generally and for extensions have become more problematic, under revised and stricter government interpretations of national planning policies to protect town centres (see for example Wood et al., 2006; Guy, 2007). Asda's floorspace growth has thus been restricted by the UK land-use planning system. The then CEO of Asda commented in 2004 (Sunday Times, 17th October 2004, p11):

> What is frustrating is that we cannot get new sites. We have a business model that works. There is demand out there. But we cannot get planning consents

The other method of increasing the store portfolio is by acquisition. In 2002 Asda entered the bidding war for Safeway (the number four food retailer), after Morrisons (the number five food retailer) had made an agreed offer. After an investigation by the Competition Commission (2003), Morrisons was allowed to purchase Safeway, subject to selling off some of the newly acquired stores. Asda was ruled out of buying Safeway by the Competition Commission on the grounds of too great a reduction in competition and potential adverse effects on consumers and prices.

This refusal to allow Asda's bid was a grievous blow to Asda as it effectively fossilised a view that there has to be four main competitors in the superstore market. A combined Asda/Safeway in 2003 would have been a close number two to Tesco in grocery but bigger than Tesco in terms of all revenue (Competition Commission, 2003). Critically, the Asda/Safeway combination would have directly confronted Tesco in over 64 per cent of Tesco's store catchments, as opposed to only 42 per cent with a direct Asda to Tesco confrontation. If regulators wanted a strong direct competitor to Tesco, then allowing Morrisons, not Asda, to buy Safeway was not the best way to go about it (Burt and Sparks, 2003). With the problems in getting new store planning permissions, the Competition Commission decision effectively forced the competition to be between existing large stores. Asda did purchase twelve stores in Northern Ireland from Morrisons (as they retreated to core business after the Safeway takeover), which were their first in that area, but that was scant consolation for not acquiring Safeway.

(b) Efficiencies

The Wal-Mart revamp of Asda has produced **efficiencies** in the business. Wal-Mart have taken opportunities to reformat the distribution operation. These have brought benefits in effectiveness and allowed new enhanced volumes to be handled. Similarly, the introduction of the Wal-Mart information technology systems to Asda has made them more efficient. With better systems and distribution, allied to enhanced merchandise mix and store use intensification, the cost base has been driven down and productivity has been increased. In essence Asda has become a better retailer, increasing store productivity and continuing to lead on low prices.

(c) Suppliers

The previous two elements have been essentially internal and have had little outside implications beyond that on competition. Wal-Mart however has had an impact on Asda's **suppliers**. Suppliers have been subjected to the Wal-Mart vendor process. Some have been replaced as the merchandise mix has changed. Multinational suppliers have seen their position strengthened through their existing Wal-Mart arrangements and changes which have brought purchasing for all of Wal-Mart together, and including a re-vamp of Asda’s retailer branding. Asda have followed the competition in adopting a tri-level retailer product brand price strategy encompassing Asda Extra Special, Asda and Asda Smart Price. The pressure to reduce prices and costs has been immense on suppliers (“Asda told us that most of the investments it had made in price reductions had been funded by suppliers” Competition Commission 2003, para 2.270). This is both exacerbated and enhanced by the ability of Wal-Mart to purchase in huge volumes from countries such as China.

Wal-Mart has had a particular effect on non-food pricing. The emphasis on non-foods in Wal-Mart and the scale of its global buying has impacted on the prices available in Asda. Non-food and clothing products have had their entry prices in Asda stores reduced remarkably. Additionally, Wal-Mart has emphasised the pre-existing George brand in Asda. The George clothing line was already a successful clothing brand in its own right, though this received a re-launch in 2008. Wal-Mart has put more emphasis on George, not only in the UK. As a result of adding George to Wal-Mart stores in other countries and expanding its scale in the UK, often through sharp price reductions for products due to Wal-Mart chain buying, this operation and brand has grown considerably. The George office in the UK is now the global sourcing hub for fashion for Wal-Mart.

(d) Merchandise

Finally, the **merchandise** mix in stores has changed. Much was made in the press about the scope for Wal-Mart to bring lower prices and to affect competition (Whysall, 2001). This is undoubtedly true, but the strength of Wal-Mart was historically away from the core Asda food business. Service areas have been expanded considerably in the Asda stores and Supercentres. Wal-Mart's impact has been felt on many non-food sectors, and in particular on retailers in sectors as diverse as pharmacy, film processing and clothing. Asda have also expanded into financial services. As former Chief Executive, Allan Leighton, indicated at takeover (In Business, BBC Radio 4, 27 September 1999) many Asda food prices were already at USA levels and the Asda food offer and processes were better than food in Wal-Mart, but in non-food items (including health and beauty) there was massive scope for price reductions, range extensions and enhanced coherence. The introduction of a strong, cheap non-food merchandise mix and sharp reductions on existing non-food items brought customers to the stores. As non-food sections are shown to work in Asda/Wal-Mart Supercenters, so they have been inserted into existing smaller Asda superstores.

[FIGURE 1 ABOUT HERE]

4. The Impact of Wal-Mart on Asda and Asda's Impact on the Competition

There is no doubt that Wal-Mart has had an effect on Asda. However, the extent and impact of this, as seen by the competition and consumers, is open to question. Figure 1 records the core business performance of Asda over the last decade. There has been a steady rise in turnover and an increase in operating profit. However, as the figure shows, the net margin has declined in the company. This latter result might have been anticipated given the standard operating model for Wal-Mart and its reinvestment of savings or cost reductions into lower prices. However this might have been expected to have generated a further growth in turnover and perhaps profit. There would appear to be benefits in profit terms from 2002-2005 (as the full effects of efficiency and operational gains came through). Since then, the performance stagnated somewhat (particularly in 2005-7).

[FIGURE 2 ABOUT HERE]

This increase in sales volume enabled Asda to take over the number two spot in the UK grocery rankings from Sainsbury (Figure 2). Figure 2 shows that there was an upwards trend in market share prior to takeover, though this was not maintained. As the changes to Asda took place, so momentum was re-established and Asda overtook Sainsbury, who at this time had huge internal problems of their own (as is shown by their declining market share). Figure 2 however also shows two other things. First, the momentum for Asda slowed. Asda has maintained its position but not moved closer to Tesco. Secondly, Tesco has continued to power ahead and to widen the gap between itself and Asda. Some of Tesco's growth has been achieved by (controversial) takeovers in the convenience store market, and it benefitted from the problems at Sainsbury. However, it is clear that Tesco's multi-format, multi-brand offer, with strategy and operations heavily informed by their Clubcard 'loyalty' scheme (Humby et al., 2007), has proved a huge success with consumers. Notably Tesco entered smaller market towns with smaller store formats earlier and found planning permission easier than for larger superstore/hypermarket formats and operators such as Asda. It is only in the last three years or so that Tesco's market share growth has tailed off slightly, reflecting the re-emergence of Sainsbury, the stability of Asda, the new power of Morrisons fully absorbing Safeway and the dynamism of Waitrose, as well as in 2008 the strong performance of some of the hard discounters in the economic crisis.

[TABLE 1 ABOUT HERE]

The extent of this out-performance by Tesco over Asda is shown in Table 1. The differences between the two businesses over the last ten years are clear. On virtually every measure Tesco outperforms Asda, often by a substantial margin. Sales in Tesco are considerably ahead of Asda, as is operating profit growth and operating margin performance. Sales area growth is more closely matched, though more of Asda's space will be in existing stores than in new stores and locations. It is only on sales density increase that Asda performs better than Tesco, probably due in part to the revised mix of store sizes in Tesco, though even here the absolute performance remains in favour of Tesco. Comparisons with Sainsbury are difficult over this period as it has been such a problematic period for that company, but on most measures it is clear to see how Asda has closed the gap and overtaken Sainsbury. Notably in the table, the number of stores operated by Asda is far lower than its multi-format competitors. Asda has increased existing store space but has struggled to add a large number of new stores to its portfolio. Asda has focused attention on developing Asda Wal-Mart Supercentres which are amongst the larger stores in the UK, but these have been more than matched by the Tesco Extra hypermarket format. The core of the portfolio remains the Asda superstore, but expansion of this base other than by store purchases (eg. the 12 stores acquired in Northern Ireland from Morrisons) has been difficult. The result is that despite having larger stores on average, Asda has less total supercentre/hypermarket and superstore stores and floorspace than Tesco and Sainsbury (see Tables 1 and 2). Table 2 also shows how the other leading retailers have adopted a multi-format approach to the market. Asda by contrast (though it is also true of Morrisons) has refused to move into convenience stores, stopped some smaller food store trials (e.g. Asda Essentials discount format), and has struggled to develop non-food store chains (e.g. a standalone George store format), although the Living format is now finally set for expansion (and this is an area where Asda had first mover advantages over Tesco).

[TABLE 2 ABOUT HERE]

The conclusion might be that Asda after takeover took the obvious steps, enhanced efficiencies in the business and obtained good growth for a few years. In the mid 2000s however this growth slowed somewhat as the lack of new store space and Tesco's stronger and broader performance began to take their toll. Recently there has been renewed growth, perhaps linked to the economic crisis. Overall however, Asda has barely matched Tesco, let alone closed the gap as predicted by so many in 1999. Asda has been stymied by the lack of store investment dating back to the 1980s, reinforced by their financial crisis of the early 1990s. Asda has also tended to be single minded about only developing its main format, the large superstore/supercentre, whereas other retailers have been more varied in their operating format abilities. With a smaller land bank and planning permission pipeline than Tesco, Asda's potential to close the gap has been limited. This explains Asda's keenness to takeover Safeway. By failing to be allowed to takeover Safeway, Asda has effectively been forced into a subservient market position. The dominant chain successfully defended itself (Burt and Sparks, 2003).

[TABLE 3 ABOUT HERE]

One might suspect that Tesco has got Asda Wal-Mart worried. Without even the merest hint of irony, Lee Scott, then CEO of Wal-Mart, called on the British government to investigate Tesco because it was 'dominating' the sector (BBC News, 2005). He was reported as saying that the government had to investigate Tesco’s continuing domination because it was so difficult for rivals to try to catch up. This has become the corporate position (Times, 2005):

> one of the unintended consequences of the planning rules is that it is unlikely the competitive landscape will be defined by competitive advantage. It is defined by who has got the land. I would not want to be judged as wanting something uncompetitive but there is a fundamental economic point. Maybe someone should be looking at this in terms of market share and customer choice.

In the initial period after the takeover and as the ‘Wal-Martization’ of Asda was put in place, Wal-Mart saw Asda as a 'model acquisition' and claimed that it was producing desired returns. It was certainly the core of the International Division in the early years after takeover (Table 3). Asda had real significance for Wal-Mart, but was it really performing as well as expected and anticipated? Underperformance has had a cost. The high profile departure of senior executives such as Allan Leighton, George Davies and Tony de Nunzio has been followed by comparatively frequent changes to board and senior managers (most recently again with Andy Bond in 2010). Some of these have been to shore up Wal-Mart in other countries (Germany, Canada) and some moves would appear to have been to transfer expertise around the organisation internationally. Nonetheless there has been perhaps less management stability in Asda than might have been expected. Asda has become a less significant part of Wal-Mart’s international division, as international activity has become more significant to Wal-Mart (Table 3).

5. Discussion and Conclusions

Asda is a strong retail business and there can be no doubt that its contribution to Wal-Mart remains important. However is its performance what was envisaged when Wal-Mart bought

Asda in 1999? Wal-Mart has improved Asda in terms of its performance, building on a model that had copied Wal-Mart for some years. Some of the expertise that Asda had in terms of George and food retailing has been transferred to other countries in the Wal-Mart empire. Asda has benefited from operational efficiencies, technological development and the massive buying power that Wal-Mart can bring, particularly in non-food. Despite all of this however, Asda has not been able to close the gap on the UK market leader, Tesco, and has been reduced to calling for government intervention and for it to be cut down to size. In that respect it is fair to ask what has gone wrong.

One of the key components of this ‘failure’ has been Asda’s inability to obtain new store floorspace due both to the UK land-use planning system and regulation and to Asda’s single-minded pursuit of only large store formats. It now seems probable that Wal-Mart knew when it bought Asda that it needed to do something about the land-use planning environment in the UK. The Freedom of Information Act 2000 has allowed some light to be shed on a mysterious Wal-Mart and (the then Prime Minister) Tony Blair meeting some months **prior** to the takeover of Asda (Sparks, 2008). Much still remains unclear, but Wal-Mart seemed to have been encouraged to enter the UK and their comments on planning were noted. Whether Wal-Mart believed that the planning issue would not be as significant as it proved, or that government would assist it by reducing perceived barriers is uncertain. In subsequent years, Asda have been foiled in their attempts to expand store numbers, both organically via the land-use planning system, and by takeover via their inability to be allowed to buy Safeway. With a more rigid store format model than their competitors and less ability to develop sites for historical reasons, Asda has been unable to compete on Wal-Mart’s (or critically, Tesco’s) terms in the UK.

The revelations of the meeting in early 1999 between Wal-Mart and the Prime Minister illustrate the pressure retailers attempt to put on the government considerations of planning, legislation and regulation (see Pal et al., 2001; Pal and Byrom, 2005; and Pal and Medway, 2008 for other dimensions), due to the significance of obtaining store sites. Certainly in its submissions to the latest Competition Commission grocery inquiry (2008), Asda was clear about the main issue it still faced (Asda Overview Submission to the Competition Commission, 2008, Para 1.2):

> The most significant factor shaping competition in this market …is the planning regime … the planning regulation means that the benefits of … competition are not enjoyed by consumers in all local markets because the planning regime directly impedes entry to local markets.

Whilst this statement reflects Asda's frustration, it is unlikely however that its ancillary comment that "protecting town centres is inherently anti-competitive" (Para 4.5) would find much favour.

This is not to say that there have not been possible moves that benefit Asda. There has been tension at the heart of government between social and economic imperatives, which in this area are reflected in views on whether land-use planning is a brake on efficiency or productivity or a protector of social cohesion and inclusion. A HM Treasury inspired review of the planning system (Barker, 2006) called for changes which would in effect reduce the hurdles for large store development. The Competition Commission's recent inquiry (Competition Commission, 2008) has proposed a 'fascia' or 'competition' test in place of the traditional British land-use planning focus on land-use alone (i.e. the planning process does not concern itself with land or property **ownership**, but with **use** alone), though this has not been introduced in the late 2009 revisions to the retail land-use planning regime for England. These changes have been seen as having the potential to improve the expansion possibilities of leading large format retailers (Hughes et al., 2009). It may be that with such an approach (and proposals had to be modified after legal challenge by Tesco, itself signifying their concerns over the approach), it could allow both an expansion of new large store development and within that potentially more competition to Tesco. This can only be good for Asda and would reduce their complaint that "the planning regime has a substantial restrictive and distortionary effect on competition" (Para 4.1). The change in government in May 2010 complicates the situation however.

What lessons can be drawn from Wal-Mart's foray in the UK? It would seem clear that despite buying a large and strong competitor in the UK, the full impact of the Wal-Mart model has not been felt in the UK. Certainly the dire media prognostications in 1999 (Whysall, 1999) and the stock market reaction (Gielens et al., 2008) have simply proved unfounded. In its decade here, it has been outcompeted, partly because the environment, in terms of store development, has proved less friendly than they may have anticipated. Without a free rein, the Wal-Mart approach struggles and their "market spoiler" effect (i.e. turning consumer perceptions and preferences towards key Wal-Mart dimensions, see Arnold et al., 1998) is less efficient. Although some saw this effect in operation in the UK in the initial period after takeover (Fernie et al., 2006), it does seem it has not operated fully. Convenience in the UK is highly valued (Pioch et al., 2009). Asda, with its less dense and less local store network, suffers therefore in consumers' perceptions, despite its strong low price proposition. Its decade-long unwillingness to embrace smaller convenience, or more convenient stores, restricts its competitive position on a key consumer dimension.

To some extent therefore, Asda has contributed to its own problems by having a more rigid operating model than its competitors. It has maintained this despite all the signals in the UK environment suggesting that this approach is not favoured. More flexible formats and sizes, in various shapes and locations have been used by competitors to penetrate the market and build presence and loyalty. Asda has struggled with this, with the exception more recently, of Internet retailing/home delivery, and to some extent its Living stores. Even here though, Asda has been behind Tesco in both areas, though is now more competitive. Asda has trialled small stores since the mid 2000s, but has never really seemed committed to them e.g. Asda Essentials and standalone George stores. It is unclear if this is due to the operating model and costs in Asda (which some argue mean stores of below 15,000 sq.ft. do not work profitably under current operating practices) or the lack of Wal-Mart willingness to grasp the realities of the UK market.

However there are some slivers of hope for Asda. Tesco has gone 'off the boil' in the UK and there are signs of consumer and business fatigue and a sense of Tesco being 'too ubiquitous' (Simms, 2007). The economic crisis moved the market towards the more price oriented retailers such as the hard discounters, but has also benefited Asda (and Morrisons). Asda may be gaining from a possible commercial turning point in the market. At the same time the wider political debate about planning continues, albeit slowly, to move towards favouring Asda. However, if Asda's store strategy is not more flexible than it has been, then this may not be sufficient.

[TABLE 4 ABOUT HERE]

Towards the end of 2009 there were signs that Asda had finally realised the problematic position it was in strategically, if not operationally (where it certainly matches the competition). A new separate operating division was created for smaller supermarkets under 25,000 sq.ft. and three smaller former Co-operative stores (10-17,000 sq.ft.) were bought to fit into this. Table 4 shows the new store format structure. This was combined with company announcements indicating ambitious plans for these smaller supermarkets (100 stores) and for Living non-food stores (150), with a new stated ambition to be ‘a clear #2 in food retailing within five years and the market leader in general merchandise’.

This strategic change received a dramatic boost on 27 May 2010 when Asda bought the 193 Netto stores in the UK from Dansk Supermarked A/S at a (perceived) high price of £778m. Subject to regulatory approval from the Office of Fair Trading, the stores will be converted to the Asda small store format. This provides Asda with a current 0.7% increase in market share, but Asda will look to make the stores work substantially more effectively and efficiently and thus drive up performance and market share. The mainly freehold stores average only 8000 sq.ft. The Netto offer of 1800 lines will be expanded to 10,000 and based on trials at a converted store in Pontefract, Asda believe they can be a great success. Others wonder if these mini-stores (as opposed to Tesco Express type convenience stores) can be operated successfully by Asda at the price points of their superstore chain. There are also concerns over the quality of the locations of the Netto stores, reflecting in part Netto’s much weaker performance than Aldi or Lidl during the economic recession of 2008 onwards. These stores are very different to Asda’s previous expertise and are not a great fit for the store characteristics of the new supermarket division (Table 4). Asda’s track record thus far with small stores is not great, so some see this as the ‘last roll of the dice’ in food retailing for Asda. It certainly answers critics of their thus far uniform store format policy; but now the question is whether it can be made to work?

Ten years after takeover, Asda has not ‘done a Wal-Mart’ on the UK and has struggled to make an impact on the market leader. Asda**’s** CEO until mid-2010, Andy Bond, allegedly accepts Asda’s fate: “The die is to an extent cast – Tesco is twice the size of Asda … My prime objective is for Asda to be the best it can be and you don’t have to be the biggest to be the best” (Retail Week, 2009, p21). This is not what Wal-Mart would have wanted and demonstrates how local market and regulatory circumstances and strong strategic competition can drastically affect outcomes. Asda continues however to try to change the “rules of engagement” and may yet succeed in so doing. It has now also belatedly embraced a multi-format store approach. Settling for second best is not something Wal-Mart envisaged in 1999, but it remains to be seen if they will have to.

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Table 1: UK Comparative Performance 1998/9 to 2008/9 (year ends)

	Tesco	**Sainsbury**	**Asda**
Sales			
Group(£m)	£17158/£54327	£15211/£18911	£8198/£18420
%age Change	217%	24%	125%
UK Grocery Core (£m)	£15835/£38191	£12103/£18911	£8198/£18420
%age Change	141%	56%	125%
Operating Profit			
Group (£m)	£965/£3206	£867/£616	£436/£750
%age Change	232%	-29%	72%
UK Grocery Core (£m)	£919/£2540	£711/£616	£436/£750
%age Change	176%	-13%	72%
UK Operating Margin	5.8%/6.7%	5.9%/3.2%	5.3%/4.1%
%age Change	15.5%	-45.7%	-22.6%
Stores (excl. non-food)			
Number	639/2282	399/792	223/356
%age Increase	257%	98%	60%
Sales Area			
Million Square Feet	15975/31285	11237/18474	9321/16700
%age Change	96%	64%	79%
Sales Density			
£ per sq feet	£21.05/£26.21	£20.71/£20.01	£16.91/£22.55
%age Change	25%	-3%	33%
Index 2008/9	100	76	86

Source: Calculated from Institute of Grocery Distribution (2009), UK Grocery Retail Outlook

Table 2: Store Formats of the Leading UK Food Retailers 2007-8

Retailer	**Number of Stores**
(a) Asda	
Supercentres	29
Superstores	298
George Standalone	12 (now closed)
Living Standalone	13
TOTAL	352
(b) Tesco	
Extra Hypermarket	166
Superstore	433
Metro	164
Express	836
Homeplus	7
One Stop CS	507
TOTAL	2113
(c) Sainsbury	
Hypermarkets	24
Superstores/markets	480
Convenience Stores	319
TOTAL	822

Source: Mintel (2008) Food Retailing – UK.

Table 3: Asda and Wal-Mart's International Division

Fiscal Year End	Wal-Mart's International Division Sales as percentage of Total Wal-Mart Sales	Asda Sales as percentage of Wal-Mart's International Division Sales	Asda Stores as percentage of All Wal-Mart Stores	Asda Floorspace as percentage of All Wal-Mart Floorspace
2000	13.8%	c64%	23.1%	25.6%
2005	19.7%	c47%	21.4%	22.3%
2009	24.6%	c33%	9.9%	11.5%

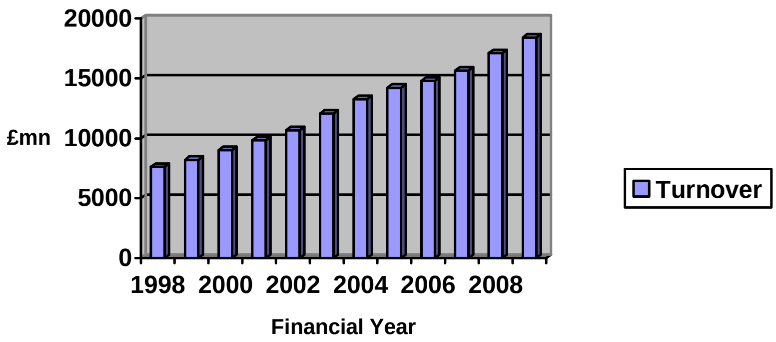
Source: calculated from Wal-Mart 10-K submissions to the Securities and Exchange Commission

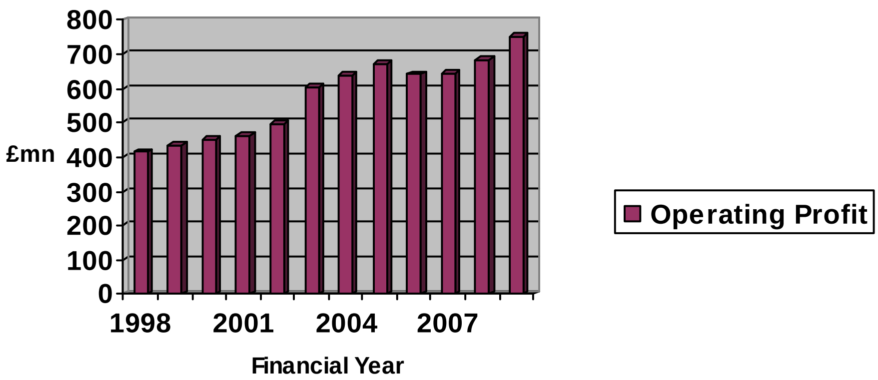
Table 4: Asda's Store Formats April 2010

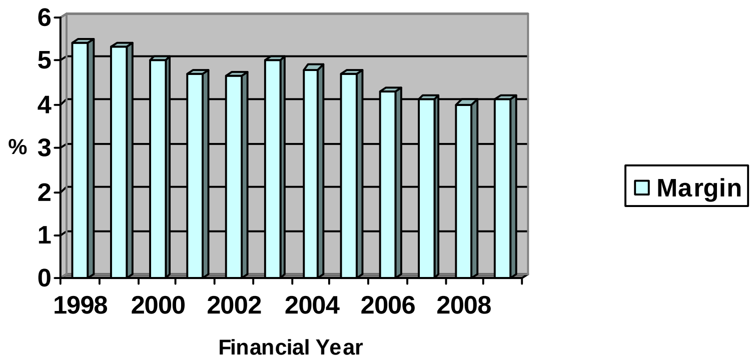
	Number of stores	Average Sales Floorspace (Sq.ft.)	Average Number of Product Lines
Supercentres	29	85,000	40,000
Superstores	296	46,500	35,000
Supermarkets	25	17,000 (Range 8,500 to 25,000)	24,000
Living	24	28,000	23,000

Source: Asda Business Review Pack 2010, downloaded from http://your.asda.com/assets/2010/4/15/2010_business_review_pack.pdf on the 5th July 2010.

Figure 1: Asda Grocery Turnover, Operating Profit and Margin 1998-2009

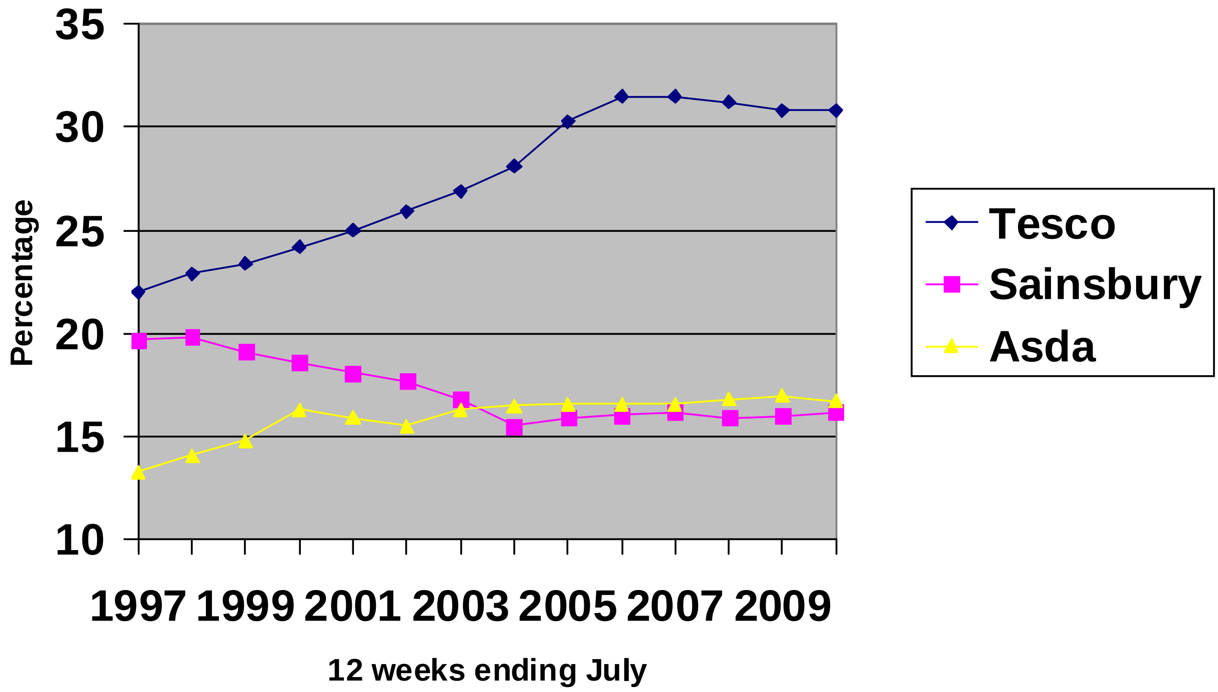






Source: Institute of Grocery Distribution (2008), The UK Grocery Market and Institute of Grocery Distribution (2009), UK Grocery Retail Outlook

Figure 2: UK Grocery Market Shares 1997-2010



Source: Press Releases and Reports on TNS Superpanel (now Kantar Worldpanel) (Note: 2001 is estimated, 2010 is June)