

Budget operators seek to secure customer retention

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Households are shopping at budget grocers instead of mainstream supermarkets, ordering takeaway pizza rather than splashing out at restaurants and opting for holidays at campsites over exotic resorts.

The claim has become a familiar one from consumer-facing companies - and their City spin machines - eager to portray themselves as among the few winners from the economic malaise.

Many analysts agree there is growing evidence to support the claim that people are trading down, eking out cheaper alternatives to regular consumption.

However, a more fundamental - and debatable - issue is whether companies benefiting from the "Aldi effect" can retain the customers they appear to have won.

When Andrew Higginson, Tesco's finance director, claimed the discount supermarkets were having their "moment in the sun", he touched on a widespread suspicion: that their improved performance is a temporary phenomenon.

When the inevitable recovery begins and confidence returns, why should consumers continue to forgo the relative luxuries they sacrificed during hard times?

Yet the stark findings of retail sector research by Bain & Co, the consultants, illustrate what is at stake for executives plotting their strategy in the coming months.

Twice as many companies lose or gain market share in a downturn than in a stable growth period, it says. Moreover, three-quarters of the winners and losers in the slowdown have retained their position four years on.

"Customers are actively thinking about where they spend their money and that causes them to consider change," says Nick Greenspan, head of Bain's UK retail practice. "To keep them coming back when times get better, you have a real opportunity because that customer is coming into your shop or restaurant - you are getting the footfall."

As one might expect, many companies are optimistic about their ability to win longer-lasting loyalty.

"A lot of people don't believe how nice our products are until they try them," says Sir Michael Darrington, who stepped down as managing director of Greggs, the north of England-based baker, this week. "If we do it right we should be able to hang on to quite a bit [of market share]."

Meanwhile, Butlins, the budget holiday camp operator, has enjoyed a 15 per cent rise in bookings this year. Richard Bates, managing director, estimates that at least 60 per cent of those new customers will return within three years.

The holidaymakers' experiences are not "going to be anything like what they think it's going to be like", he says.

Yet several analysts are sceptical of the prospect of long-term gains for discount operators, particularly for Aldi, Lidl and Netto, the grocers.

Clearly, their challenge is formidable. As Nick Bubb, analyst at Pali International, notes, the British supermarket sector has some of the best-managed retailers in the world.

James Amoroso, the food consultant, says he does not "quite buy yet" the idea that the budget grocers can retain their market share after the downturn. It reached a record in July, according to data compiled by TNS Wordpanel. "They're actually not nice stores to go into," he adds. "It's not a pleasurable experience."

Jonathan Pritchard, analyst at Oriel, says: "When we're talking about organic and healthy eating and things like that - when that's on the agenda more than pinching the pennies - they are going to struggle."

However, he adds: "There will be some [customers] who change their shopping habits [in the downturn] and don't change back."

To emerge victorious during this crucial period, Mr Greenspan says retailers should avoid the industry obsession with short-term like-for-like sales and focus instead on underlying customer trends.

Other, apparently counter-intuitive, strategies he suggests include securing improved long-term rent deals and on-the-cheap acquisitions if their balance sheets can support them.

For now, however, most retail executives are simply worrying how bad things can get - in between panicking about next week's trading figures.