**Bonus case: *Asda: a winning formula***

Asda was the first company in the UK to invest in large, out-of-town superstores, selling food and related products, and offering ample free car parking. Asda was created as a subsidiary of Associated Dairies. It started business by opening a string of large discount stores in converted mill and warehouse premises. In the early days, shoppers were offered a limited range of competitively priced products. When Asda went public it was the third largest food retailer in the UK, selling an ever widening range of products. Its success continued to be based on high volumes, low margins and good value for money.

**A change of strategy: the pursuit of higher margins**

Three years after going public Asda began to shift towards a new strategy focused on raising margins. A range of new initiatives involved seeking efficiencies to reduce costs and introducing more high-margin products such as prepared foods and a wider range of non-food items. There was also a drive to expand in the south of England where customers had greater spending power. However:

*  This expansion policy was slow to get off the ground, partly because planning permissions for large retail developments were more difficult to secure in the south, since the price of land was significantly higher and many of the best sites were already being developed by competitors.
*  Sales were less than anticipated because Asda’s value-for-money image and its somewhat austere store layouts tended to be unattractive to relatively wealthy southern customers who were used to shopping in more upmarket stores. Asda attempted to brighten up some of its stores and further distance itself from its ‘pile ‘em high, sell ‘em cheap’ image but this did not generate the anticipated contribution to operating profits.
*  Long-standing customers in the north appeared to be confused by what Asda was beginning to offer them and many switched their allegiance to new cut-price retailers who were more focused on offering value for money.

**Diversification**

Around the same time senior manager began to consider the possibility that saturation may limit future growth in food retailing and took the decision to diversify into non-foods by acquiring other companies. Some of the most notable acquisitions included Wades Department Stores, with over 70 prime high-street sites and Allied Retailers (Allied Carpets, Ukay Furniture and Williams Furnishings); unfortunately this acquisition did not make the anticipated contribution to profitability because a recession led to heavy discounting. Ukay furniture fared worst and was eventually sold. While the recession hit Allied Carpets, it continued to make modest profits and improved to the point where it was decided to expand this side of the business.

The next big move was a merger with the MFI furniture group, but this merger, the biggest in British retailing up to that point, was another disappointment. Asda-MFI attributed the poor performance to one-off problems, such as a new range of kitchens that failed to sell. It was anticipated that the problems would be short-lived but performance failed to pick up as expected. Finally, Asda launched Asdadrive, a car retailing business at sites adjacent to six of its superstores, with the intention of rolling it out to about 75 per cent of all sites.

**Refocusing on the core business**

Following the merger with MFI, Asda-MFI’s shares significantly underperformed. This prompted the company to surprise the market with a major change of strategy. Instead of continuing with the policy of diversification, it decided to refocus on the Asda superstores. The Asda-MFI merger ended with a management buyout of MFI, although Asda then bought a 25 per cent stake in this new company. Asdadrive and most of the associated fresh foods business were also disposed of and it was the intention to get rid of the Allied Carpets business. However, following the collapse of the equity market, it proved impossible to obtain the anticipated profit from the sale of Allied Carpets, so the business was retained and later expanded with the acquisition of Marples.

In order to develop the core business, it was decided to invest up to £1 billion over a period of three years. Most was earmarked for accelerating the opening of new stores, especially in the south, but there were other demands. Asda had lagged behind its competitors in a number of areas:

*  *Own-label products:* They had all invested heavily in own-label products, which offered higher margins and better value to customers, whereas Asda had only started to introduce them in the mid-1980s, and on a much smaller scale.
*  *Computerized point of sale equipment:* Competitors had invested heavily in technology that improved stock control and provided better customer service at checkouts.
*  *Centralized distribution networks:* The competition had also developed centralized distribution networks for fresh foods that pushed down costs, enabled stores to receive fewer just-in-time deliveries from vehicles carrying full loads, and reduced the requirement for store-related warehousing space.
*  *Store refurbishment:* Asda had neglected many of its stores, which were beginning to look tired and in urgent need of refurbishing.

Asda recognized the need for investment in all these areas

**A leap forward that contributed to a major debt problem**

A consortium that was planning to buy Gateway agreed that, if its bid was successful, it would sell 62 superstores to Asda for £705 million. This was seen as an attractive proposition by Asda because it offered the possibility of making up for lost ground and regaining its old position as the third largest British food retailer. It also promised to double the number of Asda stores in the south of England and contribute an extra £1 billion to sales.

However, following the purchase of the Gateway stores, Asda’s performance was poor. Profits were down and Asda’s stake in MFI contributed a loss. Allied-Marples was also in trouble. Asda had net debts of over £900 million. Asda’s share price began to slide compared with major competitors and then it dropped a further 29 per cent. The announcement of a rights issue (an invitation to existing shareholders to purchase additional shares) led to another massive fall in the share price.

**The appointment of Archie Norman**

Archie Norman was offered the role of. By the time he arrived, Asda was fast running out of cash. He found a company that was bureaucratic, hierarchical and highly centralized. There was a large HQ located in the new custom-built Asda House. Directors had little contact with their subordinates. The culture was risk averse. People at all levels appeared to be intimidated by their bosses and told them what they thought they wanted to hear. They also seemed reluctant to take any initiatives that would call attention to themselves. Morale was low.

Norman also found that the trading department was dominant. Buyers, located at Asda House, determined what the stores would sell but they had little contact with store managers. The new CEO had concerns about the quality of management and the apparent unwillingness, throughout the organization, to make best use of the talent that existed. Store managers felt ignored and found it impossible to have any meaningful input to thinking at Asda House. There were also problems within stores themselves. Vertical communication was poor and customers were not valued.

**If you had been Archie Norman, what would have been your strategy for change?**