

Promotions versus EDLP at Asda



I notice that Asda is once again saying that Everyday Low Prices (EDLP) is driving its volume growth. Apparently £100m annual EDLP investment will prove more sustainable than going for top-line growth through promotions.

EDLP is a pricing strategy that provides the lowest prices all the time, rather than only when products are on promotion. So it's a little surprising that a recent study of grocery promotions showed that Sainsbury's, very much a high-low operator, with 2,400 offers in store, had only 300 more offers than Asda. The latter has actually slightly increased the number of its offers over the past year.

It's estimated that 35% of UK supermarket sales are now on promotion, with an average discount of about 30%, so simple arithmetic suggests that the industry is investing a staggering £16bn per annum.

On about £20bn UK sales, Asda itself is presumably investing some £1.5bn per annum on promotions. Suppliers will be stumping up some of the cost, but that's still the total discount being taken by customers.

Even if, say, 40% comes from supplier funding, then Asda's net cost would be close to £1bn per annum. This puts that £100m on EDLP into some perspective.

Asda could go to its suppliers now and say that it wants to convert that £1.5bn into permanent price cuts, giving the possibility of a 7.5% price reduction on all permanent prices.

The problem is that, even if no one else



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reacted, Asda still wouldn't necessarily be cheapest on all lines, just on everybody else's non-promoted lines.

The average Asda customer's basket cost wouldn't change. However, those who used to buy the most promotions – presumably the most price-sensitive customers – would see their baskets increase in total cost.

Shoppers like promotions, especially in food retail, partly because they give them inspiration and prompt them to select particular product combinations. This is one of the reasons why perishable price promotions are generally more effective than long shelf-life ones.

Of course, not all promotions are the same. Some are basket-building, others customer-driving and many are manufacturer-driven. Basket builders aim to add a few discretionary items to an existing basket. Customer-driving offers are so exciting that those who would normally shop at a competitor will come to you instead. In food retailing, this is particularly attractive because customers might also do a bigger shop at the same time. Manufacturer-driven promotions are those that the supplier does in order to fight a competitor, with perhaps little benefit to the retailer.

Of course, we don't know how the different types of promotion make up that £16bn. And we can only speculate on who gets any return on that money.

So nothing is as straightforward as it looks. Allan Leighton, the former chief executive of Asda, once talked dismissively of the “fog of promotions”. It looks as if that fog is now thicker and more expensive than ever.