# Lo-Co (Digital technology)

## Specification topic: Digital technology

### Case Study: Can Lo-Co continue to resist the pressure?

Lo-Co Supermarkets plc is a discount supermarket chain that focuses on stocking a limited range of non-branded goods which are sold much cheaper than their branded alternatives. For example, Lo-Co only sell one brand of tomato ketchup, 'Brumwells'. Price is the key unique selling point for Lo-Co. The company therefore focus heavily on efficiencies in order to keep their costs low, so these savings can then be passed onto their customers. This strategy has been extremely successful with Lo-Co increasing sales and market share, one of their primary objectives, at a time when the leading supermarkets are struggling for sales.

Lo-Co Supermarkets plc has so far resisted the pressure to adopt digital technology within its business operations. The supermarket chain, which consists of over 4,800 stores nationwide, makes little use of data and has so far shunned e-commerce, despite all of the major supermarkets embracing the opportunities that e-commerce brings and investing heavily in digital technology.

Despite their success, the CEO of Lo-Co, Jim Prior is keen for the business to adopt digital technology by investing in Enterprise Resource Planning (ERP) and an e-commerce platform. This view is also voiced by the company's shareholders and customers who are attracted to the convenience that online grocery shopping brings. Market research on the online grocery market also seems to support the view that a move into online is essential, with Jim telling the board of directors that "businesses who fail to invest in e-commerce will lose market share to those businesses that do. It is essential that Lo-Co sell groceries online in order to remain competitive".

However, some of the board of directors are yet to be convinced that this strategy is right for Lo-Co. Many board members have cited that the investment needed to make e-commerce successful will be significant and could distract the business away from its core strategy of focusing on efficiencies in order to keep their costs, and subsequently their prices, as low as possible.

Table 1 – Market Research on the online grocery market

| | **Online grocery sales** | **Store sales** |
|---|---|---|
| **This year** | £6.5bn | £74bn |
| **4 years time** | £14.56bn | £79.92bn |

### Exam-style questions

**1.** Analyse the benefits to Lo-Co of introducing Enterprise Resource Planning (ERP) into the business (12 marks)

**2.** To what extent do you agree with Jim Prior that it is essential for Lo-Co to sell groceries online in order to remain competitive? Justify your view (20 marks)

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Suggested answers:

1. **Benefits to Lo-Co of introducing Enterprise Resource Planning (ERP) into the business**

- ERP will allow Lo-Co to collect and manage data from across the business, for example, inventory management, human resources, marketing and sales
- ERP links data from the different functional areas of the business allowing Lo-Co to make better and more informed decisions
- Better inventory management which can ensure that Lo-Co keeps out of stocks to a minimum and reduce the amount of wastage within the business, in particular perishable stock
- Improved HR operations – ERP can collect data on labour turnover and absenteeism allowing Lo-Co to take action to reduce these and further reduce costs
- ERP can reduce administration costs within Lo-Co by streamlining and reducing time intensive administrative tasks
- ERP allows great financial analysis, for example, more in depth variance analysis, which will allow Lo-Co to improve areas within the business which are impinging on costs
- Marketing and sales benefits – ERP can collect and analyse important sales data which can be used to improve marketing activities within the business

2. **Essential for Lo-Co to sell groceries online**

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Arguments for:

- All of the major supermarkets have invested heavily in digital technology. Could Lo-Co be left behind?
- Significant pressure from key stakeholders to move into online groceries, in particular Lo-Co's existing customers who are attracted to the increased convenience – will they shop elsewhere if Lo-Co fail to meet their needs?
- Market research data shows that online grocery is forecast to increase by 124% whereas store sales are only forecast to increase by 8%. Can Lo-Co afford to ignore this huge potential for growth?
- Having an online presence could allow Lo-Co to increase sales and market share, one of their primary objectives, without the risk associated with opening new supermarkets
- Selling groceries online will allow Lo-Co to sell groceries to customers in locations where they don't have a physical presence

Arguments against:

- Lo-Co have managed to increase sales and market share without an online presence, competing against supermarkets who have adopted digital technology
- The cost of investing in digital technology and in particular, an e-commerce platform is significant. Does Lo-Co have the financial resources to develop an effective e-commerce strategy?
- Lo-Co has a USP of low prices which is achieved by a focus on efficiency and cost control. Investing in e-commerce could increase their costs significantly resulting in a need to raise prices
- Although online grocery is forecast to increase by 124%, the majority of grocery sales still take place in store, with the forecasted data showing that sales in store could be £79.92bn compared to £14.65bn online
- Grocery store sales are still forecast to increase by 8% from £74bn to £79.92bn
- The move to selling groceries online isn't supported by all of the board members. Could this affect the success of implementing an e-commerce strategy?

Evaluation:

- The market research data seems to support Jim's view, as the way that people shop for their groceries is changing with significant growth forecasted for online
- Store sales are continuing to grow, albeit at a slower rate. Do Lo-Co really need to invest in digital technology?
- Lo-Co have shown that not only can they compete with bigger supermarkets, but that they can also increase market share without an online presence
- Depends on the cost of the investment and whether Lo-Co have the financial resources available to develop and implement an e-commerce strategy
- Short-term versus long-term. The shopping habits of grocery consumers is changing, with customers becoming increasingly comfortable with online grocery shopping. This trend will increase further in the future and Lo-Co could lose out to those supermarkets who continue to invest in online

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- Lo-Co risk losing their unique selling point of low prices due to the significant investment needed to develop an online presence. Do their customers value low prices over convenience?