

The shifting battleground on price



Tesco announces a new price initiative and the media proclaim a price war. Is this really the beginning of a period of intense price competition, in which rivals repeatedly undercut each other?

The test is not actually Tesco's initiative, but possible reactions by others in further reducing prices. Of course, they might match Tesco's prices, and Tesco could reduce further. As they say, this way madness lies.

There is little evidence of this happening so far. Tesco moreover claimed that it was investing £500m, but that none of this would fall through to profit. A cost-less price campaign?

Funding is coming from dropping double points, fewer promotions and cost cutting. The stock market took this announcement stoically and the grocers' share prices barely wavered.

If Tesco had wanted to start a war, it could have announced that it intended to be cheaper than Asda. However, Asda would have had to respond in kind. Alternatively Tesco could have announced that it was investing its initial £500m, but was willing to invest more if necessary to remain cheapest.

In fact, Tesco's announcement made no mention at all of price versus competitors. It was all PR-speak of selflessly giving families help with their weekly shopping.

In the 1990s there was much talk of Tesco being a 'price policeman', not allowing anyone



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“TESCO IS DIVERTING VALUE FROM TIRED DOUBLE POINTS AND MANUFACTURER-LED PROMOTIONS”

to undercut them, following competitors' prices down, so there was no point in any rival trying to be cheaper. I'm not sure what the OFT would think of that concept these days, but Tesco would probably be unwise to suggest it.

Tesco says that it is cutting prices on more than 3,000 products "that customers need to buy every day". They may have spent too much time on holiday as one of the illustrations in-store is Tuscan Bean Soup, not an everyday essential for most families.

1,000 of these cuts are own-brand, which rarely seems to improve customer price perceptions, as prices of national brands do. However, own-brand suppliers are the easiest to squeeze to contribute to the cost.

Tesco's price reductions are real, but not earth-shattering. Tesco is diverting value from tired double points and manufacturer-led promotions. It is signalling to the competition that this is a consumer initiative, rather than a competitive price challenge, and that it wants to cap the cost at its initial budget. And it is signalling to the City that this is largely rebalancing its marketing investment by indicating that profit downgrades are not necessary.

So no price war indeed. Of course it's still open to others to retaliate and up the stakes further. However, there seems little appetite for this, and indeed in a high stakes oligopolistic market, textbooks argue that rivals should refrain from direct retaliation and instead fight on other grounds. The great 3p baked bean wars of 1996 seem unlikely to be re-enacted over Tuscan Bean Soup.