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UK Neighbourhood Retailing 2008

Fresh food and store environment: opportunities and challenges

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Verdict's analysts and consultants work closely with retailers, suppliers, consultancies, investment banks and property companies to identify the key issues, sector and company data and strategies driving the changing retail market.

Our research identifies how retailers can enhance product, store and brand performance as well as the factors that determine future retail success. Our specialist in-store auditing team continuously collects price and product data across locations, brands, fascias, ranges and retail sectors.

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>
> **Sir Stuart Rose**
>
> Chief Executive of Marks & Spencer

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Our in-house retail expertise and rigorous research methodology ensure our reports provide complete and accurate analysis of the major players, issues and trends together with a detailed examination of the strategic implications for the retail market.

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In addition Verdict regularly appears in the international media. News sources quoting Verdict analysts and data include CNN, the International Herald Tribune, The Australian, Los Angeles Times, and New York Times.

UK Neighbourhood Retailing 2008

Fresh food and store environment: opportunities and challenges...

The neighbourhood market has become a key area for retailers, with consumer demand for convenience shopping growing and the fragmented market presenting growth opportunities. The leading grocers have continued their aggressive expansion in 2007, opening more outlets, improving their like-for-like sales growth and gaining market share. This strong performance has forced symbol groups to look at their operations and find ways to compete more effectively with the leading grocers.

This new report published by Verdict provides a definitive guide to the UK neighbourhood market. It also provides information on market sizes and current developments, profiles on the key retailers as well as commentary on their performance, key issues and outlook assessments. A robust, sales-based market share analysis is also included.

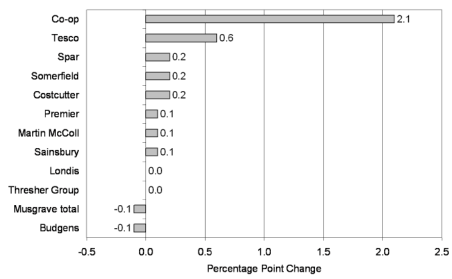
12 Key Retailers featured

Co-operative Group	Spar
Costcutter	Tesco
Musgrave	Martin McColl
Premier	Threshers Group
Sainsbury	Alliance Boots
Somerfield	Lloyds Pharmacies

Quantify the growth potential of the neighbourhood retail channel, discover how the key players have performed and the future challenges they face with this new report...

The biggest change this year has been the Co-operative Group becoming the market leader, increasing its share to 7.9%...

Market share changes for leading neighbourhood players - 2007e on 2006



Source: UK Neighbourhood Retailing 2008

"...this is an increase of 2.1 percentage points on last year, by far the greatest growth in share. This puts the Group 1.9 percentage points ahead of the second largest retailer, Tesco. This sudden leap in share has been driven by the acquisition of United Co-operatives in July 2007. This acquisition added over 550 new outlets to the group..."

- **Make informed strategic decisions** using 10 years of historic data to track how the market has evolved.
- **Benchmark your performance against your competitors in the neighbourhood market.** Key operating statistics and unique market share data allow users to compare their performance to the market and their competitors and plan accordingly.
- **Gain understanding about the market's current performance and future challenges.** With analysis of the market's key issues, the trading performance of the major players and Verdict's outlook and recommendations for each key retailer, users will obtain a total understanding of the current state of the market as well as the ability to develop growth strategies to capitalise on where the market is going.
- **Develop more effective strategic responses** using this report's actionable recommendations for how retailers must cope with the changing UK neighbourhood retail market.

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UK Neighbourhood Retailing 2008

This report answers key questions including...

- How has the UK neighbourhood market been performing in 2007 and what has been driving this performance?
- How has the UK neighbourhood market evolved over the last 10 years?
- What are the current issues in the UK neighbourhood market?
- How did the UK market's leading players perform in 2007?
- Who is in the best position for future growth in the UK?
- What opportunities and challenges are UK market segments, such as food specialists and off-licences, facing?
- How are symbol groups responding to the expansion of major grocers in to the UK neighbourhood market?

Key Retailer Data

Market shares of major operators

Key operating statistics

Sales per sq ft

Trading record

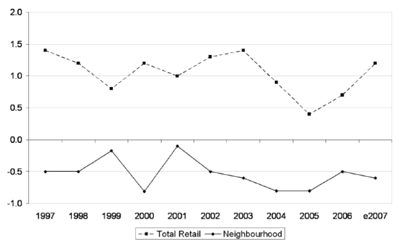
Operating margins

Store portolio analysis

Key issues examined in this report...

Due to net decline in store numbers, sales space in the neighbourhood has followed a similar downward trend...

Comparison of space growth rates for neighbourhood and total retail 1997-2007e



Source: UK Neighbourhood Retailing 2008

"However, due to new openings by multiples generally being larger in size than many of the store closures, space has fallen at a slower rate than store numbers. Since 2002 sales space has fallen by 3.3% compared to store numbers which declined by 8.6%..."

- **Neighbourhood Outperforms Town Centre.** This was a stark contrast to the previous five year period between 1997 and 2002 when the town centre dominated growth. During this period, the rapid expansion of many high street retailers contrasted with a sluggish neighbourhood location that received little investment and lacked innovation.
- **Symbol Groups Fight to Compete.** One of the biggest areas of focus among symbol groups has been to develop fresh food ranges which have the added benefit of strong margins. Part of this has also been food-to-go lines including sandwiches and hot food products. However, encouraging symbol group members to widen their fresh ranges has proved challenging.
- **Potential Sale of Somerfield.** In early 2008 it was announced that Somerfield's private equity owners had received a number of expressions of interest in regard to the sale of the business. Given uncertain economic conditions and the Competition Commission's latest enquiry into the grocery sector, a resolution is not expected until later in 2008.

Chapter 4: Outlook

Challenges Ahead But Potential for Symbol Group Growth

- The leading symbol group operators Spar, Musgrave, Costcutter and Premier have grown their collective share in the neighbourhood market every year since 2000. This has actually been caused indirectly by the expansion of multiples which has pressurised independent retailers into joining a symbol group to compete better. The presence of the like of Tesco in the neighbourhood has forced symbol groups to develop their product offer and range of services to members which has again helped many of their members grow.

- An advantage of symbol groups over supermarkets is greater flexibility. Many symbol groups have more than one format so they can work with whatever spaces become available, and they can leverage members' local knowledge so they stock items which attract local consumers.

Table 11: Symbol group SWOT analysis 2008

Strengths	Weaknesses
Larger symbol groups achieve strong buying scale	Small store size can restrict product range depth
Independent retailers can tailor their offers effectively to local catchments	Achieving uniform appearances across the estate can be challenging
Store standards are improving across the sector	Integrating new members requires time and resources
Expansion can be rapid through recruitment of new members	Members have limited experience in fresh food retailing
Independent owners are motivated to work hard to improve performance	Symbol group brands can be weak
Opportunities	**Threats**
To extend high margin ranges such as fresh food and food-to-go	Leading grocers are aggressively expanding into the neighbourhood
To introduce premium ranges to encourage trading up	Increasing penetration of online grocery retailing
To capitalise on continuing trend towards cash rich, time poor consumer lifestyles	Competition between symbol groups to recruit new members is fierce in a rapidly consolidating sector
To develop new channels and formats such as petrol forecourts	Supermarkets are extending opening hours where possible
To enhance regional product ranges, sourcing products from local suppliers	As economic conditions worsen, people may focus more on value for money and go to supermarkets

Source: UK Neighbourhood Retailing 2008

- As symbol groups get bigger, they have developed greater economies of scale to source products more competitively. However, this growth of symbol groups has been a double-edged sword as they have struggled to maintain a uniform store appearance. Appearances are important for symbol groups to build their brands.

The Changing Consumer

- Changing demands of the modern consumer will have a significant impact on how neighbourhood retailers operate. The change which has had the most significant effect has been consumers' increasing demand for convenience.

- Increasingly, consumers lead busier lives and aim to do their food shopping and prepare meals as simply and quickly as possible. This means not only the layout of stores but also availability are now even more important than before. A big opportunity for convenience stores is to offer hot and cold food-to-go such as sandwiches, pastries and fresh coffee. Somerfield now offers deeper snack and sandwich ranges and Londis has started to expand its hot food-to-go offer.

- Other neighbourhood retailers aim to provide as convenient a service as possible. Petrol forecourt retailers have broadly expanded their food offer – many developing c-store formats while, in the pharmacy sector, Lloydspharmacy sites now have longer opening hours, some staying open for 100 hours per week and some have opened inside doctors' surgeries.

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