



How the store of the future is sweating existing space

This is the future." Four fateful words wielded by ex-Tesco CEO Philip Clarke as he unveiled a radical reinvention of his Watford Extra in August 2013. The most high profile launch of a supermarket in years, the £12m refit boasted a brand new layout with low-slung fresh produce aisles and a sleek F+F concession sprawled across 80,000 sq ft.

It also featured Clarke's latest acquisitions displayed under one roof: the modern-rustic Euphorium bakery, the charming Harris + Hoole coffee shop and the bright and colourful Giraffe restaurant. Ten months after posting Tesco's first profit drop in 20 years, Clarke had hedged all his bets - wagering a reported £12m - on this Watford vision.

But it didn't deliver. After an initial spike, sales "slipped back into negative like for like" says Bryan Roberts, global insights director at TCC. And within a year of the Watford launch, Clarke had been booted out, setting off a chain of events that ultimately saw new CEO Dave Lewis slash capital expenditure, call a halt to the space race, cancel several projects and close a number of existing stores.

With Tesco's big four rivals also in retrenchment mode the property sector is the quietest it's been for years. But that doesn't mean developers have had to shut up shop. So who's building what, where and why? And how have Tesco and its rivals evolved their stores in Watford's wake?

Tellingly, many features Clarke pushed through at Watford have been adopted elsewhere by Tesco. Low level fresh produce counters now appear in revamped Tesco Extras nationwide and non-food has followed Watford's lead by adopting a more "John Lewis" approach, says Roberts, with a slicker, less commoditised look. Bigger health and beauty departments have also popped up offering in-store treatments.

Stripped back electrical ranges are now more commonplace thanks to the trial store, adds David Gray, senior analyst at Planet Retail, with a greater focus on higher margin categories like homeware and clothing. Click & collect kiosks equipped with digital touchscreens have also been rolled out.

Lewis has also pushed forward with Clarke's plan for more concessions. With 248 hypermarkets in its portfolio (three times more than Sainsbury's and nearly eight times as many as Asda) Tesco has more reason than its rivals to reinvigorate out-of-town stores as destinations and Clarke's approach was a "good proposition" adds Gray. Concessions "increase dwell time, customers stay in store longer, and in theory you increase sales".

Rollout has been limited but steady. Fourteen Tesco stores now have Giraffe restaurants, 29 have Harris + Hoole coffee shops and 63 have Euphorium bakeries. In October 2015 Lewis signed a deal with Arcadia to open Dorothy Perkins, Burtons and Evans concessions in Tesco, and earlier this month took control of Harris + Hoole in a move that put paid to rumours he would ditch the coffee business.

As an "innovation test bed Watford has been incredibly useful" says Roberts, even if commercially it fell short of expectations.

With sales still declining at the big four - albeit at a slower rate in the case of Tesco - it's no surprise that repurposing existing store space remains the major trend across the big four,

according to Mark Noonan, customer development director at shopfitter Simons, which has worked with Asda, Morrisons, M&S and Waitrose. "They don't build things any more, they tinker with existing space," he says. "There's a clear push on what I would describe as the offer and the intensity of the use of the sales floor. We all know big hypermarkets are now overfootaged so there's a real drive to consider what that space is used for. So we're seeing much more inclusion of concessions, ranging from physically cutting space off a building and implanting another retailer alongside, to Asda getting rid of their in-house butchery counters and replacing them with McGee's."

Utilising existing space avoids upfront capital investment in a concept store where return on investment is less predictable. And with margins squeezed by an ongoing price war, ROI "is becoming an increasingly important part of the conversations we're having" says Tony Lock, MD of retail design agency Sherlock.

At Sainsbury's CEO Mike Coupe has again championed concessions with plans to fill much of the grocer's 25% of dead floorspace with one of 12 partner businesses, including the Centre of Dentistry, Jessops, Starbucks and - most controversially - Argos.

Ten Sainsbury's stores from Keighley to Crayford trialled Argos concessions, which were from 1,000 to 5,000 sq ft. They proved such a hit Coupe bid £1.3bn for parent company Home Retail. If the deal goes ahead - and with the prospect of a bidding war looming after Steinhoff made HRG a better offer last week, it's a big if - analysts speculate Coupe will take advantage of leases shortly up for renewal on half the Argos estate to move in concessions to far more stores.

Whatever happens with its HRG bid, in terms of being able to evolve its stores, Sainsbury's benefits from a far healthier property portfolio than rivals, argues Richard Curry, partner at commercial property consultants Rapleys. Its failure to catch up with Tesco's collection of out-of-town sites while the space race sped out of control has turned out to be of benefit to the retailer, he says, which now finds itself with smaller "edge of high street" stores that better cater for changed shopper habits.

As a result the grocer is able to both innovate in existing space and expand its estate while Tesco stalls. It began trialling a future format in six stores in November 2015. These include a 'mission-based layout' with new 'food to go' sections and 30% more space given over to non-food lines. Two types of checkout are being tested including a larger self-checkout option for trollies and its SmartShop handset. "This is very much a trial and we know not everything will work," says Coupe. "But certain elements are already proving very popular and we would hope to roll those out more widely."

As for new sites, the grocer is working on a series of mixed use development projects to "improve the efficiency" of its £12bn in property assets. It plans to open a £500m development incorporating a new store with 27,000 sq ft of retail space in Nine Elms, London in August following a similar venture in Fulham, where a 72,000 sq ft store opened in 2015. And the retailer says it is "actively pursuing" sites for new c-stores.

Bespoke approach

It's a far cry from Asda's strategy. CEO Andy Clarke has put expansion into London and convenience formats on hold to allocate £600m on refurbishing 95 of its existing large stores. "That's where we're going to spend the majority of our time and investment," says Craig Bonnar, VP for store proposition at Asda. "We do have two strong growth channels for the future [high street c-stores and forecourts] and they will remain, but at this moment in time they're a secondary priority"

Revamped stores will be "lighter and brighter" he says, with a focus on fresh produce currently being trialled in Killingbeck, near Leeds. "Some of it's very simple," adds Bonnar. "In produce we'll open up sight lines giving more visibility to the product rather than kit, and feature hero areas such as bananas."

Meat SKUs will be stripped back by up to 25% and frozen items by up to 20% after trials led to an upsurge in volumes, says Asda. Scan & Go will also be rolled out.

"The real step change," adds Bonnar, is "targeting the offer, the use of space on a store-by-store basis to reflect what we think will benefit the customers in that catchment." That will mean different propositions landing in different shops including petrol stations, new health and wellness departments, and a big push on George.

A bespoke store-by-store approach is smart, thinks Noonan. "One of the big things all our major food retailers, possibly with the exception of Waitrose, got wrong was to realise something worked somewhere and stick it everywhere else," he says.

Morrisons attempted to correct that same mistake when it toyed with three 'lab' stores in 2014. After its project M Discount in Preston quietly ended that year, former CEO Dalton Philips launched the three new formats with an offer tailored on store location. Milton Keynes catered to young families with wider aisles, better changing facilities and kids play area. Birtley in Gateshead focused on value and a third in Weybridge rolled out wider fresh offers.

Yet much as Philips' hi-tech misting machines fell flat with Morrisons clientele (the infamous 'Misty Veg' was swiftly withdrawn days after Philips' exit), these more upmarket store ventures are yet to be rolled out.

They "didn't really work as Morrisons' customer base is interested in low prices. They don't attract a huge proportion of upmarket shoppers," says Gray. Instead the retailer has said it's gone "back to basics" with simpler refrigeration and a focus on "traditional strengths" such as fresh food, though it did follow in the footsteps of upmarket rival Waitrose by opening a sushi counter in its Piccadilly Manchester branch (see p32).

Waitrose now has Sushi Daily branded sushi bars in three of its stores with plans to roll out to 50 more in the coming months. Coupled with the introduction of new 'grazing' areas (see p32) the grocer "is clearly trying to increase the dwell time in their stores" says Noonan. And these "niche offers" will "allow them to be seen as something different in the marketplace."

It also plans to keep growing while bulkier rivals scale back, with plans for 14 new stores this year.

It's a similar story at M&S. Although the retailer shut nine stores in 2015 as part of an estate review, it also opened 62 Simply Food outlets and plans to open 90 more this year alongside five larger stores. In existing stores it's trialling bigger food halls (by up to a reported 30%) at the expense of its struggling fashion offer.

Eight stores have been lined up to pilot the scheme over the next six months just as former executive director of food Steve Rowe takes over the reins of the business from current CEO Marc Bolland.

The discounters

With the big four bruised to a lesser or greater degree by a volatile grocery market, store innovation among the major supermarkets has largely been cautious. But the opposite can be said of the thriving discount operators as they mop up new sites abandoned by their

bulky rivals. They aren't only rolling out their tried and tested models either, with new concept formats popping up across their estates.

As Aldi announced again last week, it plans to double in size over the next five years, with 80 stores planned for this year. It has relaxed its rigid 10,000 sq ft requirements with a new standard size of 13,000 sq ft and "we are looking for bigger plots and bigger sites" says chief executive Matthew Barnes.

"We have made no bones about the fact we have a lot of stores that are experiencing very high sales, which brings challenges, so we need bigger car parks, we need more tills, and we need bigger stores," he adds. "There is no doubt the bigger stores we have opened perform above the average sales per store in the business."

New fixtures and fittings will be trialled in stores this year, according to Barnes, with brand new merchandising and point-of-sale fixtures "to help modernise our stores and give customers a more engaging experience". A successful trial that shifted fruit and veg to the front of stores will also be rolled out following "fantastic sales increases and great customer feedback".

Aldi isn't the only discounter to increasingly distance itself from the traditional no-frills format. In November 2015 Lidl unveiled its Store of the Future in Northamptonshire. At 14,000 sq ft the Rushden store is 40% bigger than the standard format with wider aisles, longer tills, customer toilets and a fully glass-fronted façade.

With a £2m price tag the store will now act as the blueprint for up to 50 sites planned for 2016 with up to 150 of its 629 existing sites upgraded to the new concept over the next three to four years.

"Along with its cutting edge design, our 'Lidl of the Future' concept will also go a step further to streamline processes and maximise efficiency," says UK property and expansion director Ingo Fischer. That includes LED lighting and the latest in eco-friendly technologies to cut carbon emissions by 20%.

Rolling out in-store innovation at the same rapid rate they're building new stores, both Aldi and Lidl are abandoning strict utilitarian layouts to emulate the look and feel of the big four. And "the beauty of becoming a more mainstream supermarket is you can get bigger margins as more upmarket customer buy premium own brands" says Gray. "It makes sense as long as they don't alienate their core customers."

Iceland, conversely, is moving out. The struggling frozen food retailer plans to more than double the number of its Food Warehouse stores by March 2017, a format based solely on out-of-town retail parks with on-site parking and an emphasis on bulk buys.

Stores are more than double the footprint of a typical Iceland store, says MD Richard Walker. "It is also designed to operate at a substantially lower cost to sell than the traditional Iceland store model," he says.

The 12 current stores stock the full range of frozen and chilled with additional speciality SKUs such as kangaroo, wild boar and crocodile supplied by manufacturer Kezie, together with value grocery bulk packs.

"All the stores are trading well and the concept is also providing a valuable test bed for initiatives in ranging and store operation that can then be applied across our core estate," adds Walker.

Positioned as a wholesaler, the "superb" concept speaks to a public hungry for value, thinks Roberts.

Yet with the discounters driving down prices, consumers have come to expect great value as a given. And if the big four want to claw back market share they'll need to give consumers a better reason to walk through their doors in the shape of bigger and bolder innovation in store that doesn't cost the earth; a balance that ultimately evaded Clarke at Watford.

Is the space race really over?

The simple answer is yes. According to research by construction analysts Barbour ABI only 32% of supermarket projects submitted for planning permission by the big four have been built since 2010. Of 556 applications over the last five years, only 179 have been completed or had construction begin, with 377 remaining sites left empty.

Tesco bears the brunt of responsibility with the poorest planning to construction ratio of the big four. It's put forward 206 applications since 2010, pushing ahead with just 21% of those sites as Dave Lewis opts for creative use of existing space instead. This slowdown reached a peak in 2015 as the CEO announced the closure of 43 unprofitable stores after shelving plans for another 49, abandoning three times more stores than its rivals put together, according to The Telegraph.

But while the 'space race' is undoubtedly over, the number of planned sites left without a store isn't only a result of retrenchment by the major mults, suggests lead economist Michael Dall. "Perhaps many of the supermarkets were competing for development options rather than actually building new stores," he says, as "defending market share was a key strategy of the big four". In other words even in the midst of the 'space race' the mults didn't intend to build on the majority of planned sites. "Planning approval does not necessarily indicate future development," adds Dall.

Even Sainsbury's, which analysts say has a healthier property pipeline than rivals, has failed to build on 122 sites where it asked for planning permission since 2010, pushing ahead with only 31% of planned sites.

Asda fared slightly better with 35% of its 75 planned sites going ahead but - most surprisingly - a struggling Morrisons boasts the highest planning to construction ratio. It's built or is building on 56% of sites where it gained planning permission for a new store in the past five years.

Biggest miss

Misty Veg, Morrisons

Nowadays, Dalton Philips probably wishes he'd never heard of misty veg machines. But a few years ago he was very excited about them indeed. And to be fair to the former Morrisons boss, at first the misting machines were symbolic of a brave new world for the supermarket. But by the bitter end, the misty machines became symbolic of the reasons Philips got fired.

Introduced by Philips in late 2012, the Morrisons 'Store of the Future' concept was a radical departure from a traditional Morrisons. Boasting a host of fancy new deli, fish, cake and butchery counters, wine fixtures and other services like a florist offering hand-tied flowers, it was extremely well-received. But nothing wowed the press and public alike quite like the gorgeous fresh section.

The first displays to greet shoppers, the new low level fixtures were beautifully laid out with over 500 types of fresh produce including relatively exotic fare like samphire, kohlrabi and plumegranates. But it was the clever network of pipes and nozzles surrounding the colourful collection that caught the imagination as UK shoppers had their first introduction to 'Misty Veg'. And, at first, the theatre delivered by the machines, which continually sprayed a fine

mist over the produce, was praised by everyone and rolled out to over 300 of the stores 500 branches. "It's a gimmick, but in the minds of the consumer, the mist compounds the sense of freshness," psychologist Dr Neil Martin from Middlesex University told The Grocer shortly afterwards. "It's as if you are trampling through a dew-encrusted farm in the morning. You are immediately presented with freshness and cleanliness and health."

But as Morrisons began to struggle, and the pressure mounted on Philips, Misty Veg became less an impressive bit of kit and more of a stick for Sir Ken Morrison to beat him around the head with. Other critics said Morrisons was trying to go upmarket but was alienating its core customers. They also considered them a waste of money.

As Philips worked out his notice, the pipework was dismantled and quietly taken away by incoming chairman Andy Higginson. A sad end to an exciting moment in shop floor fixtures and fittings.

Concession watch: how the mults are getting creative with floorspace

Tesco & Arcadia

Dave Lewis struck a deal with retail tycoon Sir Philip Green in October 2015 to bring big names from high street fashion into overfootaged Tesco hypermarkets. Shoppers in Horwich, Culverhouse Cross, Chesterfield, and Woolwich will be able to browse clothes racks at Burtons, Evans and Dorothy Perkins, while in a separate agreement the mult will also provide space for Claire's Accessories, Sock Shop and Pavers. It's a deal that analysts say highlights just how much excess space Lewis is dealing with.

Sainsbury's & the Centre for Dentistry

Long before Argos popped up in Sainsbury's stores the Centre for Dentistry were there performing oral surgery on shoppers. The first private dentist's concession opened in a Sainsbury's store in Manchester in 2008 offering everything from a root canal to a polish. Critics were sceptical but eight years later the scheme has been rolled out to 25 large stores across the UK. The appeal, says the practice, are its low prices, which attracts consumers unable to find an NHS dentist.

Asda & McGee's butchers

Installing McGee's butchery concessions in Northern Irish branches of Asda saw sales at fresh meat counters increase eightfold and with that level of success it's no surprise the mult announced in December 2015 its plans to roll out the scheme nationwide.

"Our aim was to introduce the traditional butchery ethos of service and expertise as part of the supermarket shop and this has been a huge hit with our customers," said Michael McCallion, Asda's head of local sourcing for Northern Ireland and Scotland.

Morrisons & sushi

As far back as 2011 Nielsen reported that packs of sashimi, Maki rolls and Nigiri had overtaken the humble sandwich as the UK consumer's lunchtime snack of choice. So it looked like a sensible plan when Morrisons unveiled its first fresh sushi counter this month. Available at one of the mults' few remaining c-stores in Piccadilly Gardens, Manchester, the counter offers a 'pick and mix' sushi selection to shoppers. It's also accompanied by an adjacent fresh wraps offer.

Waitrose & 'grazing'

Waitrose is way ahead of Morrisons when it comes to sushi. Its Sushi Daily counters are now open in three stores in Battersea, Bath and Godalming. But the premium retailer has gone one step further to entice consumers, trialling in-store 'grazing' areas. The first of its kind in Keynsham in 2014 allowed customers to pick from platters of ham, cheese and artichokes with a glass of wine for £7.50 and the concept is now being rolled out to new stores in King's Cross, Horsham, Truro in Cornwall and Swindon.