Too convenient?

When it comes to neighbourhood stores, convenience is all very good, but blanket saturation can be downright detrimental. **Simon Creasey** assesses the health of the sector

Has the UK convenience store sector reached saturation point? That's what a new report published by the Local Data Company (LDC) in June appeared to show. The report, which studied the growth of convenience stores over a five-year period, found that although the total number of stores in the UK had grown from 13,617 in 2010 to 16,426 at the end of 2015, a number of convenience store formats experienced a decline in operational stores. Additionally, 228 UK towns saw a net loss in convenience stores in 2015.

So has the UK convenience store market run out of gas? LDC data shows that of the 14 convenience store fascias studied for the report, five endured a fall in store numbers last year, namely Londis, Tesco Metro, Mace, Budgens and M Local (which was later rebranded My Local). Some of these falls were a result of rebrandings rather than store closures, although the demise earlier this year of the My Local format – formerly owned by Morrisons – underlines how challenging this sector is at the moment, according to Matthew Hopkinson, director at LDC.

"It is not an easy market to enter, as Morrisons discovered to its cost when it opened 140 stores, many in old Blockbuster shops, only to close them all less than two years later," says Hopkinson.

Fierce competition

The sector is extremely competitive, Hopkinson adds, and is now facing new threats from e-tailing. "Competition is fierce, costs are high and increasingly there is talk of a resurgence in online groceries that might be accelerated by Amazon's entry into the UK market," he adds. "There is much jockeying for position and consumer spend among large-format supermarkets, convenience stores and the discounters. Further change and casualties can be expected when everyone has to operate a healthy margin to survive and innovate."

It is a view shared by Louise Etherden, associate partner at location specialist CACI. "The 'c-store' market has definitely become a lot more competitive and the rate of growth has slowed down quite a bit," she says. "Retailers are putting more thought into the locations they're opening, and they are spending quite a »

«

Shelf life: is there still plenty of mileage in the convenience store model, or are its competitors now setting the pace?

lot of time making sure they're getting the right store in the right location and getting the ranging right."

They are also making sure that they pay the right price for locations, according to Richard Curry, a partner in Rapleys' retail and leisure team. "A lot of the recent slowing up is because developers have been paying more and more for sites and the only way they can make this work is to keep bumping up the rent on c-stores," he says. "So I think the c-store operators have decided enough is enough because there is only so much trade to be had out of an area," he says.

Another reason behind the recent fall in c-store sites in some locations is natural portfolio churn, with retailers closing weaker-performing stores when better locations in the area become available. "It is a normal part of the property ownership cycle to churn your estate," says Steve Rodell, managing director at Christie & Co, which acts for McColl's.

"When McColl's put 100 sites on the market last year, everyone was on the phone to us saying: 'What's wrong with McColl's – is there a problem?' But what you've seen happen in the past few months is McColl's has just bought 300 really good-quality Co-op stores and is selling out 100 of its bottom-end confectionery, tobacco and news outlets and some other bits and pieces in between. The grocery retailers are always churning sites."

> "The convenience format with the bigger retailers is here to stay"
>
> **Richard Petyt, Knight Frank**

In demand

A number of retailers, such as Sainsbury's, Spar, Costcutter and the Co-op, are also currently in the market for more c-store opportunities. As a result, Richard Petyt, partner at Knight Frank and formerly of Asda, does not see demand waning any time soon.

"I think the convenience format with the bigger retailers is here to stay," says Petyt. "They've been doing it for a number of years and they are very good at it." However, he says it will be a challenge for these retailers to turn a profit due to the competition from discounters and the fact that their cost base is set to rise as the new minimum wage comes into force.

Petyt expects further c-store openings in locations such as London, where retailer demand is still strong, with fewer openings in weaker locations in regional towns where the demographics are not so promising.

Etherden concurs, adding that CACI's research shows while London is well saturated with c-stores, because there is a lack of superstores and less competition from discounters more money goes through convenience. "Many of the northern cities such as Halifax, Liverpool, Warrington, Wigan and Huddersfield are relatively underserved for convenience, but there is a strong presence from the discounters," she adds.

Don't believe the hype?

Not everyone is convinced that the c-store sector will keep on growing. One naysayer is Fraser McKevitt, head of retail and consumer insight at research and data consultancy Kantar. "In terms of the general pattern of convenience, we think the whole story about convenience being a boom area has been massively overstated," he says. "Where we have seen growth, we've seen a lot of it supported by store openings and those store openings for the big guys are to some degree cannibalistic."

He also says the "media narrative" around consumers shopping little and often and abandoning the traditional big shop in favour of the local c-store doesn't hold water. "Our numbers don't support that," says McKevitt. "What we've found is that people are moving their money out of the big stores, but they are moving their money online, or they're doing smaller shops in the big stores and in the discounters, leaving the convenience sector as a little bit of a sideshow."

At the moment, the numbers don't provide any real clarity as to whether or not the UK c-store market has already reached saturation point, or if we are merely in the middle of a temporary slowdown. But the continued rise of the discounter groups and the lack of strong c-store sites at affordable rents suggest that the future rate of expansion will not be as fast as it has been in recent years. ■