

Food Retail update



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The food store sector continues to be a difficult and highly competitive industry with fierce competition for the best locations and diminishing or no interest for lesser sites that previously would have been considered.

From the period April 2016 to October 2016, according to Kantar, the division of the spoils has swung significantly to the discounters Lidl and Aldi, from the big four, and continues to do so. We must now consider that there is the big six.

Market Share

According the Kantar World Panel for the six months ending the 9 October 2016, market share has adjusted to:

Tesco	28.0%	↓ 0.2%
Sainsbury's	16.5%	↓ 0.5%
Asda	16.0%	↓ 0.4%
Morrisons	10.6%	↓ 0.2%
Co-op	6.2%	↑ 0.3%
Aldi	6.0%	↑ 0.2%
Waitrose	5.2%	↑ 0.2%
Lidl	4.4%	↑ 0.2%

being able to acquire the offloaded space or sites that have been made available.

Conversely, the premium brand large format operators have been active, although not immune to the price war and discounters.

Rapleys have recently advised Booker Retail on the disposal of two of its trading stores to Waitrose for its 7,000 sq.ft sales area 'convenience' format store. In addition, they have been committing to a pipeline of larger stores currently under construction. Recently however, it has been announced that 6/7 of these larger store commitments have either been shelved or withdrawn.

M&S has acquired a number of sites for future development in a variety of locations and developments for their Simply Food format and continue to expand their representation in PFS sites.

Supermarkets

For large format food stores, priority has been to consolidate and reorganise existing estates and trading operations. Asda, Sainsbury's, Tesco and WM Morrison have all been looking to offload areas of surplus car parking, for example. Land bank sales, contraction of larger stores, straightforward disposals, or in the case of Sainsbury's, the cessation of Netto, are being prioritised rather than taking on new trading space.

Convenience

Convenience store activity has also suffered, principally due to competitive pricing and tightening margins. The result has been the loss of My Local (following on from M Local) and Budgens being acquired by a wholesaler (Booker) to become its high end brand fascia.

Discounters have not only contributed to this situation but have also benefited as a result,

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Rapleys advised My Local Convenience Group, owned by Greybull Capital, in the sale of more than 40 stores prior to the retailer going into administration. Sizeable packages of stores were sold to Southern Co-Operative, The Co-Operative Group, Midco, Central England Co-Operative and AF Blakemore (Spar).

The Co-Operative Group also acquired 14 trading company owned Budgens stores following Bookers takeover of Musgrave Retail Partners.

Nevertheless, the convenience store market remains active albeit selective. All operators are having to reassess sites on almost a monthly basis due to the high level of competition and pressure on margins.

Similarly to the supermarkets, the convenience operators are refining optimum store size based on range, location and format. We have recently seen the Co-Operative Group not only disposing of their larger stores to Hilco and other traders, but also disposing of all their smaller sites (approximately 220) to McColl's. The current policy being to operate from an estate of stores of approximately 4,500 sq ft GIA.

Acquisition policy appears to be heavily weighted towards the acquisition of existing

trading stores as these not only offer an immediate contribution to EBITDA but also enables the store to 'mature' sooner.

'Virgin' sites are now heavily scrutinised due to higher thresholds needing to be reached—the result of tighter margins. Accordingly, currently Tesco and Sainsbury's have almost no requirements at all.

Rapleys Comment:

It's not all gloom though, there are signs of recovery at both Morrisons and Tesco's larger formats, the discounters remain highly acquisitive and M&S is making positive approaches on a number of new developments. In the convenience sector, The Co-op, Blakemore, McColl's and other independents remain particularly expensive. There are rumours that Tesco Express and Sainsbury's Local are now looking to re-enter the market.

Despite Ocado having been in the online and home delivery market for some time and the announcement that Amazon is to join in, the jury is still out as to whether this sector will deliver!

If you have any questions about the above, please contact Richard Curry richard.curry@rapleys.com or Josh Tyler josh.tyler@rapleys.com.

