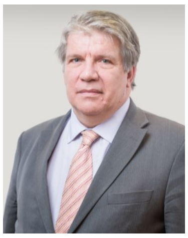
NEWSLETTER: MARCH 2018

Food Retail Update



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The 2017 food retail market was characterised by the ever decreasing results and an allied lack of expansion amongst the traditional big grocers, possibly with the exception of **Co-Op**. Then on the other hand, there is the seemingly non-ending expansion for the budget chains **Aldi** and **Lidl**.

Market share

Early signs in the First Quarter indicate a steadying of market share:

	05.11.17	03.12.17	28.01.18
Tesco	28.0%	28.2%	27.8%
Sainsbury's	16.2%	16.3%	16.2%
Asda	15.3%	15.0%	15.4%
Morrisons	10.4%	10.6%	10.7%
Aldi	6.7%	6.9%	6.9%
Co-Op	6.1%	6.0%	5.8%
Waitrose	5.3%	5.0%	5.2%
Lidl	5.1%	5.1%	5.0%

Christmas 2017 gave stores a welcome festive boost, with sales up according to Kantar's statistics. This was possibly driven more by seasonal and 'one off' offers rather than on underlying improvements in core sales.

The move to acquire wholesale businesses, **Co-op/Nisa** deal along with **Tesco** merging with **Booker**, opens up new opportunities for the convenience market to provide wider product ranges and mitigate the threat posed by the discounters and reach new markets.

A convenient truth

Tesco have made noises heralding a different strategy for dealing with this new dynamic, announcing their own 'plan' for a range of discount stores. The example of **Sainsbury's Netto** venture provides a stark warning however. To ensure a discounter programme gets off the ground, there is a requirement for a critical mass of stores to build profile and brand loyalty. It is worth bearing in mind that **Lidl** opened its first UK store in 1994, with market penetration only really mushrooming in the last 10 years or so and possibly assisted by economic conditions.

Simultaneously, the top end of the market is also under pressure. **Waitrose** are re-evaluating their optimum store size to better align their bricks-and-mortar footprint with the reality of trading conditions. **Booths** being put up for sale also confirms that the premium end is under intense pressure and that a critical mass of stores is necessary to defend against it.

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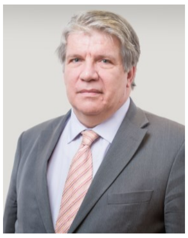

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Right sizing

As so-called 'right sizing' continues across the board there is still a legacy of sites where retailers are seeking to extract themselves from commitments, with it becoming clear that there was a degree of overstretching in the hypermarket boom years. An obvious source of new sites has been connected sites where the 'hypermarket' model is no longer required. Alternative uses, such as residential or a discount food/discount store mix have been sought, yet these sites could easily and equably be occupied by the Big Four. At the same time, the challenging retail environment has seen several businesses fall into real financial distress, most recently **Toys R'Us**. These company's portfolios are potential investment opportunities for food retailers.

eCommerce calling

Everyone in the market continues to wait for **Amazon** to make a move. Clearly, the eCommerce giant is watching developments too and sizing up the opportunities. There doesn't appear to be an active requirement for supermarket sites as yet, but that may change as **Amazon** gets its ducks in a row. It is likely that when a move is made, it will be a wedge-type manoeuvre in a key market, perhaps using its logistical might and growing network of urban satellite delivery systems, to establish a ready-meals service for example. Or, alternatively, we may see an acquisitive move for a business such as **Iceland**, which, despite the growth of **Ocado**, probably has the most efficient delivery network.

For more details, comments or advice do not hesitate to get in touch with **Richard Curry,** Partner, **Rapleys Retail & Leisure Group**.