> The supermarkets will locate themselves near the independents and they will just go out of business
>
> **Chris Keen, CBRE**

The big food fight

As Sainsbury's small store portfolio overtakes its supermarkets for the first time and Tesco, the Co-op and Morrisons aggressively expand their convenience portfolio, the hunt for small space is intensifying. **Ben Cooper** investigates

ALAMY

Worth more than £35bn a year, UK convenience retail is dominated by the symbol groups and independents. Only 30% of the spend goes through the big supermarket chains. But with aggressive expansion plans by the big-name grocers well underway, that isn't likely to last.

As the year progresses, confidence returns and occupancy increases, competition can only intensify. Tensions are rising in the grocery wars.

So with the grocers braced for tough competition, what is driving the push for small format space and where will the key battlegrounds for the convenience market be?

When Sainsbury's revealed in January that the size of its small store portfolio had overtaken its supermarkets it might not have seemed significant for some retailers. But for the convenience sector it was a bold and unmistakable declaration of its support for small format space.

By 2016, Sainsbury's expects to have 1,000 convenience stores, almost double its present number, and it is preparing to go after every pound of that lucrative market as it expands.

Sainsbury's is not alone. Convenience sector leader the Co-operative plans more than 400 new stores in the next three years, Morrisons is adding 100 a year, Tesco is ramping up its expansion and, after a successful Christmas, discounters Aldi and Lidl are hungry for more space.

It's becoming a heavily crowded market but thanks to the changing trends in shopper habits, Sainsbury's director of convenience Simon Twigger says there is still plenty of room for growth.

"Lifestyles are changing. More people are shopping locally, customers are looking to do top-up shops and they're being flexible about where they want to shop," he says.

> **Lifestyles are changing. More people are shopping locally and customers are looking to do top-up shops**
>
> **Simon Twigger, Sainsbury's**

The supermarkets have actively shifted their priorities from the larger stores upwards of 80,000 sq ft towards smaller local sites, which they have been busy investing in, according to Colliers International head of retail leasing Steve Burnaby.

"The big bulk purchases aren't done as much anymore. What the main grocers have been doing is vastly improving the quality on offer in their convenience stores to tap into this," he says. "In a lot of towns and villages there is nothing better than a small corner shop. It's more about capturing market share than increasing the market."

Margin calls

As the economy recovers in 2014, occupancy increases and competition intensifies, values and rent are bound to increase. And with a relatively narrow margin of 3% to 4%, convenience stores can't afford to pay too much to be in a property, however perfect it is.

Once the property market heats up again, a drive for more efficiencies will begin. And here lies the real opportunity for the big-name grocers. While they are way behind the symbol groups in terms of market share, they are battle-hardened from chasing profits in one of the world's most competitive grocery markets.

"As the big supermarkets make convenience more and more profitable through economies of scale they will put more pressure on the groups like Costcutter and Nisa. There will be a breaking point. There will be corporate acquisitions and consolidation," predicts Chris Keen, director in the supermarket team for CBRE.

Over time the UK is likely to become a tougher market for the symbols for a number of reasons, not least because of the way they are structured. Retail Remedy lead consultant Phil Dorrell says: "Symbol groups will come under serious pressure from the big four coming in and fighting tooth and nail. They fear it more than anything else – they will have to up their game.

Morrisons is starting to gain a convenience foothold

"And because they don't own all of their sites the ability to make strategic decisions are far harder. This is the key difference between them – the big four are much more fleet of foot."

The fractured ownership of the symbol groups can also be negative when it comes to competing with chains that can deliver consistency and savings on a mass scale. And this, claims Co-op head of acquisitions Stuart Hookins, is where the established grocers might take serious ground.

He says: "Convenience stores are becoming bigger, more diverse and more fresh food-focused. The independents have a large chunk of the market and it's fair to say that we see that as an opportunity. Where we see a lack of quality convenience with small stores with limited fresh food, we will look to squeeze them."

Competing on quality is one thing but, from an acquisition strategy point of view, adding upwards of 100 stores a year one by one will be a laborious process as the market becomes stronger. For Asda, for example, which is well behind the game, it would be almost impossible to catch up via single deals alone.

While it is keeping its cards close to its chest on the convenience front, Asda acknowledges the need to expand its presence. This year the retailer unveiled a strategy to increase customer access to its stores to about 70% of the UK market by 2018 across the range of available formats.

Asda executive director for property and format development Karen Hubbard says: "As part of the research to inform the strategy, we identified that 47% of people do not have easy access to a physical Asda store, yet demand is high for our products and services in those areas where we are under-represented.

"We will open far fewer bigger stores than we used to because customers are increasingly shopping across several channels including online. However, we still have requirements for new 40,000 sq ft to 50,000 sq ft stores."

There is also another approach to acquisitions. When Jessops and then Blockbuster went into administration within a few months of each other, Morrisons scooped up more than 50 of the shops. And while former camera stores and a movie rental chain might not seem like the obvious places for a grocer to set up shop, they have given Morrisons that vital foothold in the smaller format market.

As competition heats up between the grocers, and more retail chains potentially fall by the wayside, MMX partner David Justice says similar solutions might well present themselves.

"If there was a business going into administration the supermarkets could well look into picking it up. When Morrisons took over a whole host of convenience stores, that put them on the right growth curve. Asda might well think they need to do that," he adds.

Symbolic victory

Of course, the symbol groups are one thing, but there are thousands of small independent grocers, newsagents and independent convenience stores that the supermarkets will also be competing with. Every town, village and neighbourhood could become a battle ground, but not, says Keen, leading to the big acquisitions that the symbol sector could be facing.

"I don't see the big supermarkets taking over independents as much. That would be too piecemeal," he adds. "I see the independents being acquired because they have gone out of business. The supermarkets will locate themselves near the independents and they will just go out of business."

There is another driver behind the big rush for space that Keen is sure will become a game-changer of the future. With a wide web of small stores in strategic locations, there is a great opportunity to take convenience to a whole new level.

Keen says: "By having a lot of convenience stores you can effectively run a multichannel offer because you have so many pick-up points. This will also allow for multichannel click-and-collect points for other businesses to use.

"Some of the big supermarkets will have a stronger delivery network than Royal Mail."

With this added factor in play, the opportunities are clear to see. Perhaps the biggest shake-up in grocery for a generation is underway and ,with so much to gain, it is a battle likely to rage for many years.

As CACI consulting partner Paul Langston says: "The reality is that we'll never hit saturation. The weaker ones will fall out and the strong ones will refresh their stores; expansion will continue."

The drive for growth and market share will be followed by a period of consolidation and drive for efficiency as the big brands seek to establish themselves on every corner. And in the process they could usher in a whole new form of shopping, far beyond groceries, with local supermarket-based multi-brand fulfilment hubs leading the way. With the prize so plain to see, the battle has just begun. ■

> **"Where we see a lack of quality convenience, with small stores with limited fresh food, we will look to squeeze them**
>
> **Stuart Hookins, Co-op**