

GROCERY PARTNERSHIPS

Argos is to open digital stores in Sainsbury's branches. **Petah Marian** asks whether such partnerships could solve the problem of grocers' bloated store estates

Sainsbury's and Argos have become unlikely bedfellows as the multichannel retailer unveils a plan to install digital stores in the grocer's larger branches.

Last year Sainsbury admitted that over the next five years a quarter of its stores will have under-used space. As retailers look to find ways of managing this issue, such collaborations may become more popular. But will it end in a long and happy marriage, or a bitter divorce?

Sainsbury's has been proactive in combatting the problems presented by large store estates, despite being less exposed than some rivals.

Last year Sainsbury's began installing Jessops concessions in some of its stores. But the partnership that has really captured the industry's imagination is the one unveiled last week. It will mean Argos digital stores opening in 10 Sainsbury's supermarkets.

The shop-in-shops will offer 20,000 general merchandise products that consumers will be able to either buy instantly or reserve online for collection within hours.

An Argos spokesman said that the stores would adopt the retailer's existing hub-and-spoke model, in which the 'spoke' stores hold a certain amount of stock that is topped up several times a day to fulfil orders or reservations from its larger 'hub' stores.

The store ties in with Argos's strategy of opening smaller stores in high footfall areas, for example it opened a 650 sq ft store in London's Cannon Street station in November last year. Argos is also seeking to broaden its customer base to more affluent consumers, and the deal will put it front and centre to Sainsbury's largely middle-class consumer base.

Andy Morrey, co-founder of multichannel specialist eNova, which developed Argos's click-and-collect strategy, believes the deal will give Argos access to a large customer base and offer Sainsbury's a much bigger general merchandise range that may attract new shoppers.

"If it proves to be successful, it may pave the way for Argos to exploit its distribution network and reach in general merchandise.

"However, it will need careful managing as many Sainsbury's locations may take footfall away from Argos stores," he says.

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"It may even result in a redefinition of the Argos footprint on parts of the high street or out-of-town superstores."

Mutual benefits

The benefits for Sainsbury's include better use of space, while Argos aims to gain access to a broader range of more affluent customers.

In October last year, Argos launched an ad campaign that it hoped would appeal both to loyal customers and the 30% of UK households that don't traditionally shop with the retailer.

Sainsbury's is no stranger to retail partnerships, having set up the UK's first hypermarket chain SavaCentre in 1977 in partnership with British Home Stores.

Sainsbury's bought out BHS in 1989 and the store format continued evolving until 1999, but it never really reached scale and was blown out of the water by Tesco's Extra formats.

Richard Hyman, retail analyst and founder

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Andy Morrey, eNova

Does the tie-up between Argos and Sainsbury's make sense? Share your views on Retail-week.com/argossainsburys



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of Richardtalksretail.com, is not positive about the prospect of partnerships as a means of managing space. "History shows that the vast majority of them don't work," he says.

Hyman says that "most partnerships are born out of positions of perceived competitive weakness on behalf of the participants".

"A partnership will be focused on a new initiative of some kind. All things being equal, both partners would want to go out and do it on their own, because having a great idea is one thing, but executing it is another thing. Execution is difficult enough when it's only one company, but when you add another company, you're adding many more variables that are difficult to manage."

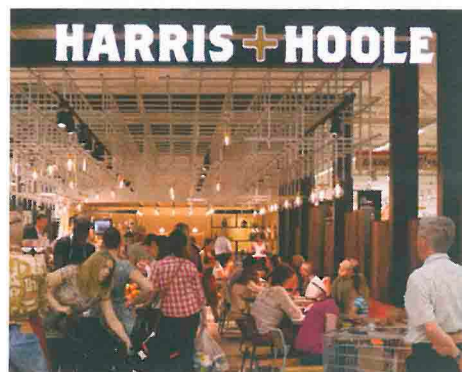
Mintel retail director Richard Perks is sceptical that the Argos-JS partnership will turn into something bigger. "These sorts of link-ups between major retailers very rarely work, they just seem to fall apart: Homebase and Jewson, BHS with Iceland, and Boots' partnership with Waitrose. They never seem to work out, although they look very good on paper," he says.

He suggests that such a deal could mean that Sainsbury's may want to pull out of its extended non-food range and point customers in Argos's direction instead.

Morrey says that in the longer term "one would imagine a clear line to be agreed on what Argos ranges and what items Sainsbury's ranges. Perhaps this would result in less focus from Sainsbury's on core general merchandise products such as toys and electricals and more focus on clothing and stationery".

But a Sainsbury's spokeswoman emphasises that the grocer has no plans to pull out of any of the general merchandise lines it stocks and says there would only be a "small percentage" of overlap in the two retailers' offers.

She points out that the shop-in-shops will only be installed in 10 stores and notes the retailer's "great" home and cookware lines. Sainsbury's will continue to focus on developing its own brand ranges in those categories, but electricals are a "moot point".



Two drivers

Management of excess space is one aspect of a battle retailers are fighting on two fronts. The rise of online has weakened demand in general merchandise departments.

That has led to consumers driving to large out-of-town stores less regularly. Beyond ensuring consumers are shopping the entirety of their stores, retailers need to create reasons for shoppers to dwell longer and visit more often.

Tesco's approach

Tesco is dealing with problems created by its large store space by offering additional services and leisure attractions it hopes will contribute to the shopper experience.

Rather than leave itself open to the challenges created through partnerships, Tesco has grown its services through acquisitions of cafe and restaurant business Harris + Hoole and Giraffe in the hope of turning its hypermarkets into "community hubs".

It has piloted this in its Watford store, where it offers computer terminals that give customers access to the internet and rooms where local residents are invited to take yoga or gym classes.

Assessing the strategy behind these moves, Perks says: "It's very much about thinking about what sort of store you want in the future.

"If you're going to get people into superstores, you've got to make it a more pleasurable experience because you want them to spend longer in the store."

Partnerships offer supermarket operators a way of standing out in what is an otherwise fairly homogenous market. But while some look great on paper, the key remains, as always, in the execution.

Clockwise from above: An impression of an Argos store in a Sainsbury's shop; Giraffe and Harris + Hoole bolster Tesco's offer; Sainsbury's previously ran hypermarket SavaCentre in partnership with BHS

