

The face of out-of-town retailing is changing as discounters take advantage of changes in consumer buying habits and excess space, putting the grocers and other retail giants firmly in defensive mode. **John Reynolds** investigates



The charge of the discounters

The face of out-of-town shopping is changing. A major shift in consumer buying habits – with smaller, regular trips to the shops now preferred over the stack-it-high weekly bonanza – has caught the big supermarkets and other retailers out.

Some of their giant 100,000 sq ft-plus stores have been rendered superfluous, and excess space is affecting their bottom lines. The misfortunes of some retail giants, though, has spelt only good news for the discounters – both food and non-food – which are cashing in on the change in consumer buying habits by hoovering up smaller spaces in retail parks up and down the country.

As Alex Munro, partner at property expert Knight Frank, says: “The discounters are more than just basket shops and sell a wide variety of household good. They are taking advantage of the fact that there is an excess capacity in the out-of-town market and therefore there are plenty of opportunities.”

Drive to any out-of-town retail park in the UK today and discount stores will be aplenty. Poundland, Home Bargains, B&M, Aldi and Lidl will be jockeying for business next to some of the biggest names in retail, such as Next, Boots and Marks & Spencer

The emergence of discounters in out-of-town retail parks is due to a number of factors, underpinning which is an acceptance that discounters are now part of the mainstream.

Rob Pearson, director at consultancy WYG Planning, said: “People increasingly view the discount market less as a dirty habit, more of a value proposition.”

Allied to this is that discounters have been able to take on lease agreements on the masses of available space freed up following the downsizing of retailers such as Homebase and the demise of others. According to Trevor Wood Associates, this has freed up more than 2 million sq ft of floor space over a 12-month period.

Poundland leading the way

Poundland, powered by strong revenue growth, arguably encapsulates the shift that discounters are making from town centre to retail parks.

The single-price retailer is focusing on out-of-town 6,000 sq ft to 12,000 sq ft stores, shifting away from the high street as “bigger

stores result in bigger baskets”, according to a Poundland spokesperson. It has ambitions to grow its estate from 588 stores to 1,000 in the coming years, with many in retail parks.

Poundland acquisition manager Sean Riley says: “A lot of people have faith in the future of retail parks because they are a convenient shopping experience.”

According to Riley, they represent a good fit for Poundland as customers arrive in their cars with the intention of loading up their vehicles with a selection of goods from different stores, including Poundland.

“They do not replace the town centre stores, because it’s a completely different shopping mission,” he says, pointing to the quality of neighbouring stores, catchment and accessibility retail parks offer.

“Certainly in terms of the future, we see retail parks as having good longevity as long as the adjacencies are strong,” Riley adds.

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Sean Riley, Poundland

Race for space

Like Poundland, B&M has changed consumers’ perceptions of its offering. Boasting more than 400 stores, B&M has been prolific in picking up former Focus shops and has been linked to sites occupied by Homebase, which wants to shutter a quarter of its stores.

According to Patrick Heaps, head of retail at BNP Paribas Real Estate, retail parks offer opportunities for retailers such as B&M, ↘

Battle of the discounters – B&M versus Poundland

B&M

Headed up by

Chief executive Simon Arora

Number of stores

417

Mix of town centre and out-of-town

Notable fact

B&M's biggest store is its 42,000 sq ft shop in Great Yarmouth



Poundland

Headed up by

Chief executive Jim McCarthy

Number of stores

588

Mix of town centre and out-of-town. Ambitions to grow to 1,000

Notable fact

Poundland recently acquired rival 99p Stores and has a store in Spain ahead of an expected roll-out across Europe

which are not available in town centres. He says: "The discounters have gone from difficult space in urban locations to taking often hotly fought after space in out-of-town locations."

The competition between discounters for space in retail parks would appear to represent good news for landlords, which have been hit by waves of tenants downsizing and administrations in recent years.

Typically, the likes of Home Bargains and B&M will take lease agreements for between 10 and 15 years on spaces between 10,000 sq ft and 25,000 sq ft, which is longer than Poundland's six to 10-year agreements.

However, it is arguable whether these longer leases are albatrosses around their necks, as on the plus side they can benefit from controlling their capital outlays with five years rental reviews.

But some believe the land grab for retail park space is leaving discounters at the mercy of landlords. Munro says: "Competition amongst themselves often means they are pressured in to signing 10 and 15-year leases. Some landlords want to limit the number of discounters on a park to maintain a retail mix, which also heightens competition."

Big supermarkets caught on the hop

While the discounters are basking in the change in consumer buying habits amidst a backdrop of economic austerity, the big four grocers and other retail giants have been forced

into defensive mode. They have mothballed out-of-town store plans and formed rearguard actions as to how to extract value out of superfluous floor space.

Cushman & Wakefield joint head of out-of-town retail Martin Supple points out: "The problem with the big four supermarkets is they have all got big portfolios. Too many stores and too many large stores not being the right format."

However, Tesco, Sainsbury's, Asda and Morrisons are not undertaking a mass exodus from out-of-town sites, but instead are judging stores on an individual,

case-by-case basis. In fact, some of Tesco's most profitable stores are its 60,000 sq ft retail park sites, which are performing better than its giant out-of-town 150,000 sq ft Extra shops.

Tesco, like its rivals, has looked to combat the change in consumer buying habits by reconfiguring its stores.

For example, it reopened its Watford hypermarket in 2013 and included a Giraffe restaurant, nail salon and "community space" for local groups to use.

Sam Carson, associate director, supermarket landlord advisory at property adviser CBRE, says: "Rather than close these stores, they [the big four] will just change the format of how they work. In many places, the big supermarkets will extend the service area at the back where they can do more online distribution."

2m
sq ft

The amount of out-of-town floor space that has become available in the last year

SOURCE: TREVOR WOOD ASSOCIATES

Sub-dividing space

Like the big four supermarkets, B&Q has found itself playing catch-up on consumer trends. This has resulted in it pioneering a new type of store by sharing floor space with Morrisons in towns such as Stoke and Wigan, and Asda in Belvedere, south London.

Likewise, sports retailer Decathlon is taking space in Asda's Watford store.

Carson believes it is a trend shoppers are likely to see more of, albeit in moderation. He explains: "It is not going to be massively common because there are not going to be that many good opportunities."

However, divvying up floor space does present potential headaches, according to Supple. He says: "The problem you have is, are you competing with that person that comes in alongside you? And a lot of these stores are difficult to sub divide. Also, there are not many people wanting 50,000 sq ft of space."

The charge of the discounters across retail parks shows no signs of abating anytime soon. The likes of Poundland, Home Bargains and B&M are now regarded as a central cog in the mix of any UK retail park, enticed by the proximity to other retailers and plentiful parking, and because of their own transformation from being stigmatised to being celebrated.

Their success has come at the expense of the big four supermarkets and other large retailers, which have been made to look cumbersome and out-of-touch.

But the biggest supermarkets are not the biggest by fluke – expect them to think of innovative ways to fight back against the discounters in the future.