

## IMPACT OF LOW-COST SUPERMARKETS ON THE CONVENIENCE SECTOR

### Introduction

CCD Properties are a small elite team, who have over 35 years of Retail Property experience, and work with a well - established nationally recognised professional team to help provide strategic and practical advice based on experience to cover all commercial markets.

Identifying early-stage potential development opportunities is one of the things that sets CCD apart, where our methodology is a carefully “risk controlled” management approach linked to active occupiers and a clearly defined exit route established at the outset.

We have been collectively involved in over 20,000,000 ft.<sup>2</sup> of development projects. Experience, contacts, and an in-depth understanding of the market from both a design and occupancy perspective has allowed us to find and deliver creative solutions for owners, investors, and developers.

CCD have been instructed by Milton Keynes City Council to provide a report on the impact of low-cost supermarkets when sited near smaller, local convenience stores with specific regard to the proposal to site a low-cost (discount) supermarket at Galley Hill.

In preparing this report, we have reviewed industry research from a variety of sources and industry analysts, including SiteWorks, Savills, Avison Young and Kantar Retail Research.

The report covers three key areas:

1. Change of shopping habits
2. Retail Market Overview in the Grocery Sector
3. Case Study: Differentiators between low-cost supermarkets and convenience stores.

### 1. Change of Shopping Habits

Everyday shopping habits are changing influenced by the pandemic and more recently, the sharp rises in the cost of living. While there will always be a market for a ‘traditional’ weekly shop, many more consumers are now shopping more frequently, but buying less on each occasion. In addition, the profile of goods in a weekly shop has changed, with a strong preference for heavy or bulky items to be bought less frequently, and with fresh produce topped up during the week.

In turn, the grocery industry has responded to provide more but smaller stores in convenient locations to supplement the supermarket model.

#### 1.1 Modern UK Shopping Framework - Commodity vs. Specialty Retail <sup>1</sup>

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<sup>1</sup> Commodity / Specialty analytical framework developed by SiteWorks founder Nick A. Egelanian and first published in 2012 in the Urban Land Institute's Professional Real Estate Development: The ULI Guide to the Business, 3rd Edition.

a) **COMMODITY RETAIL:** Primary Funds and Necessities driven by price and convenience.

Commodity retail goods and services are defined as those goods and services purchased and consumed on a regular basis using primary household funds. As such, consumers most often purchase Commodity retail goods and services at retail outlets offering the combination of low price and convenience best suited to the need and purchase in question.

Commodity retailers range from local convenience stores to grocery, big box, and general merchandise stores and warehouse clubs. Successful Commodity retail shopping centres are designed and constructed to offer Commodity retailers and consumers efficiency, functionality, and cost effectiveness.

The selection of preferred Commodity retailers and shopping centres by consumers, while involving the establishment of trust by the consumer, generally do not require the delivery of a shopping experience or the development of an emotional attachment to the place of purchase by the consumer.

b) **SPECIALTY RETAIL:** Discretionary Time and Income driven by Product and Place.

Specialty retail goods and services are defined as discretionary or aspirational goods and services purchased using the consumer’s discretionary funds (and discretionary time). As such, consumers most often purchase Specialty retail goods and services at retail outlets offering the best aspirational product assortment in the most appealing shopping environment.

Consumers develop preferences for Specialty retailers and shopping centres based principally upon positive emotional reactions to the shopping experience.

<b>Commodity Retail</b>	<b>Specialty Retail</b>
Primary spend	Discretionary spend
Value for money	Disposable income expenditure
Essential purchases	Indulgence purchases

Retail destinations are now split into locations which provide opportunities for the commodity retailers who primarily focus on the household income purchases whereas the speciality retailers focus on the discretionary income purchases.

A commodity location is now all about price and convenience whereas the speciality location is all about a sense of place of where people want to spend time and dwell. The increasing trend for internet shopping for a range of goods spans both commodity and specialty purchases.

**1.2 Commodity Shopping Locations**

There are six (five physical locations plus the internet) commodity shopping formats which range from most convenient and highest price to least convenient and lowest price.

The reason for the different trading formats is due to each one focusing primarily on a different consumer sector of the market which is driven by an individual correlation of “time and money”.

Simplistically, each consumer will make their choice on where to purchase an item on whether they are time rich and money poor or at the other end of the scale, time poor but financially more comfortable.

The graphic below shows where each of the commodity locations fits within the time/cost model.



Dependent upon where you sit on this spectrum, an individual who is time poor will, in most cases, choose the most convenient location to purchase commodity goods whereas an individual who is time rich will tend to find the cheapest location. There are of course a range of shopping habits and drivers for selecting locations to purchase goods and so this general rule of thumb will not apply to all consumers.

Clearly, there are a lot of trading crossovers, however this is one of the primary reasons why different locations and operators can work independently but also in close proximity. To add to this, there is also the change in consumer habits where consumers are more than happy to buy different items in different branded stores and locations.

The result over the past 10 years is the growth in discount and convenient shopping store locations where the established brands, to include the likes of Tesco, Co-op and Sainsburys have been opening smaller trading units up to 3500 square feet to match this requirement and offer 7 days opening.

The growth in convenience store sector has majored on this factor as you will often find the highest commodity price point for a product is found in the most convenient store location.

The discount food market on the other hand, has really established itself over the last five years due to customers becoming increasingly discerning over price. This is particularly prevalent in the post Covid era and lately the impact of rising food prices due to inflation.

The methods these operators use is a combination of being locally convenient plus being extremely efficient in how they bring their products to market. The benefit of this to the consumer is equivalent quality of offer but at a much more cost-effective price.

To counterbalance this trend, it's clear that all the leading operators of food stores have looked at price matching or ways in which they can operate to meet local needs. At the end of the day a trading location success depends on the retailer matching their target audience as customers are a lot more discerning in how and where they decide to spend their money.

The retail market and preferred trading locations will continue to evolve as shopper habits change hence why a lot of the successful retailers are using multiple channels to meet their shoppers needs.

Tesco are a great example of this being the largest retail operator in the UK controlling over 27% of the food market<sup>2</sup> by operating the following formats:

- Full Price Supermarkets trading as Tesco and Budgens.
- Convenience food stores trading as Tesco and Londis.
- Cash and carry stores trading as Makro
- Internet -based sales coupled with the facility of click and collect.

As explained different retailers target different trading locations to match their sector of customers, which can often result in different brands providing similar products trading near to each other.

To place this into context is to consider a quote made by the former CEO of Co-Op, the largest operator of convenience store locations – Steve Murrell in December 2018, when he was talking about a range of topics, he commented that discounters including Aldi and Lidl are “bulk top-up” shopping destinations whereas the Co-op stores are “convenience top-up” and, that the two “complement” one another.

*“The discounters in food is an interesting one, because, the discounter model is what you would call a bulk top up shop, our convenience model is a convenience top up shop, and they complement. Gone are the days where you used to go to one retailer for your weekly or monthly shops. Customers are far more savvy now during austerity.”*

## 2. Retail Market Overview in the Grocery Sector

In terms of a grocery market overview, at Appendix 1, we attach Savills Annual Grocery Reports from 2022 and 2023.

In collaboration with Kantar Retail Research specialists, some of the key structural changes and messages identified in the Grocery sector are:-

1. Sales at the discount food stores are growing far more than the rate at the traditional “big four” grocers.
2. Both Aldi and Lidl are taking more new stores than the other retailers
3. 2022 saw 160 new store openings in the out-of-town grocery market, above the decade average of 144 Significantly, 63% of those units opened were done so by value-orientated or discount brands (78% on a sq ft basis).

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<sup>2</sup> Source: Kantar Retail Research

4. In September last year Aldi overtook Morrisons to become the fourth biggest supermarket in the UK in terms of market share.

In a Retail Week study in February 2022 by Walnut Unlimited also found that 82% of UK consumers are likely to switch their shopping to value and discount retailers across essential categories as rampant inflation and surging energy prices deepen the cost-of-living crisis.

### 3. Case Study: Differentiators between low-cost supermarkets and convenience stores

In appendix 2 we attach an example document prepared by Aldi entitled Investing in Your Community – Planning Opportunities and Benefits which sets out their corporate position on the Economic, Social and Place making benefits of having a store. Other operators have prepared similar supporting documents.

Avison Young advise Aldi on Planning Matters and comment: -

ALDI operates as a ‘deep-discount’ or Limited Assortment Discount (LAD) retailer. The term was defined by the Competition Commission in its Groceries Market Investigation Final Report in 2008 which said that LADs:

*“carry a limited range of grocery products and base their retail offer on selling those products at very competitive prices. The three major LADs in the UK are Aldi, Lidl and Netto. Each ... carries in the region of 1,000 to 1,400 product lines in stores ranging from 500m<sup>2</sup> to 1,400m<sup>2</sup> (stores of a similar size operated by a large grocery retailer generally carry about 5,000 products). Aldi, in large part, carries only own label goods while both Lidl and Netto carry larger volumes of branded products”.*

Whilst dated in its references to typical floorspace and product lines, which have both increased, the characterisation of ALDI in the Commission’s report remains wholly applicable in 2023, because it describes an operational model that remains fundamentally unchanged. Whilst ALDI’s preferred trading format has evolved to a limited extent in relation to the product lines that are carried and preferred floorspace requirements, those evolutions are neither material to the description given by the Commission, nor do they in any way reduce the differentiation between LADs and other food and convenience operators.

Essentially, the number of core food product lines stocked within each Aldi store is identical and deliberately restricted to around 1,800 to 2,000. Whilst this has increased from the 1,000 to 1,400 referred to by the Commission, it remains in stark contrast to the 20,000 to 30-000 product lines in a superstore operated by one of the UK’s ‘mainstream’ convenience retailers (Tesco, Sainsburys, Asda and Morrisons) so that the clear differentiation between LADs and those operators remains. This explains why all ALDI food stores are of a uniform size, format, and layout, which supports standardised product display, servicing and stock handling procedures, all of which serve to drive down operational costs. A similar characteristic arises in relation to local convenience retailers which sell a niche / specialist range of products, which is a business model which Aldi do not operate.

The core retail offer within an ALDI store (which accounts for approximately 80% of the net sales area) replicates the most regularly purchased items within a family’s weekly or ‘main’ food shopping trip. The vast majority of products stocked (circa 90%) are ALDI branded, compared with the 10-15%

that may be stocked by the mainstream grocers. They are not limited-line or specialist products, which are found in local convenience and independent stores (which have much higher price-points, due to their limited / specialist nature). This avoids Aldi passing on the cost of brand name marketing to the consumer.

Moreover, because ALDI is concentrating on a limited number of product lines, which it stocks consistently throughout its portfolio of circa 960 stores, it is able to benefit from economies-of-scale so that its goods can be sold at heavily discounted prices, without impacting upon quality. Local independent and convenience retailers have the potential (and often do) change their product lines due to their specialist / niche nature. This is materially different to Aldi stores.

ALDI's focus on the key products that typically make up a 'bulk' food shopping trip means that they do not sell certain ancillary lines that are normally found in mainstream supermarkets and local stores. In addition, there is no staffed butchery, fishmonger, bakery, delicatessen, or hot food-counter and ALDI's food store format does not accommodate customer restaurants or in-store franchises such as a Post Office, dispensing pharmacy, dry cleaning, betting shop, opticians, or photo processing. These factors are important when considering the trading effects of an ALDI foodstore because clearly, in ALDI's case, the potential for cross-over with the offer of independent high-street retailers is far less than it is for 'mainstream' food retailers that stock a much wider range of goods.

Notwithstanding the above the ALDI foodstore, as with all modern supermarkets, also stocks a very limited range of non-food goods (approximately 20% of the net sales area). The range of non-food goods in an ALDI store is ancillary to the food offer in floorspace terms, and it is also significant that the products stocked mirror seasonal demand such that there is a constant variety in terms of range and choice, with no particular type of comparison goods predominating. For this reason, the potential for an ALDI food store to compete with other retailers is extremely limited.

In summary Aldi is keen to demonstrate to councils that it considers all factors in preparing its development proposals for new stores.

In addition to its town centre stores, both edge and out of centre stores continue to provide benefits to shoppers and communities by providing economic, so social and environmental benefits, therefore delivering sustainable development in line with planning policy.

Aldi shoppers continue to shop in smaller, local shops, thus keeping competition alive in the convenience sector of local towns.

## **Conclusions**

To demonstrate to a local authority a retailer will have to meet the sustainable development objectives set out in any local Development Plan, whilst under the National Planning Policy Guidance an operator will have to undertake a detailed Sequential Test and Retail Impact Study to prove there is enough market need to support their use whilst not unduly impacting on other local traders.

As explained in this report the food Store sector and how as customers we purchase essential goods has changed significantly over the past 15 years. This phenomenon has fundamentally been driven by changes in consumer habits and the improvement in smart technology where easy price comparisons can be made between retail brands and locations.

This coupled with the consumer becoming more price sensitive has resulted in the retailers changing tack to focus on the convenience and discount markets where different brands can sit more comfortably alongside each other as they focus on a slightly different customer type.