Christie + Co Market Analysis:

A Matter of Convenience

The convenience store sector continues to drive growth in the grocery market, with Waitrose set to become the next supermarket chain to tap into its profitability.

Despite the economic downturn, the UK's convenience store sector continues to drive growth in the grocery market. Opportunities to expand through the rise in the number of pub closures; a more secure future for post offices; and consumers continuing to shop more frequently, are all helping the sector remain resilient in the face of the recession. Whilst the recent news that Waitrose is set to become the latest supermarket chain to expand into the convenience market has also underpinned confidence in the sector.

With the sector forecast to constitute 25% of all store-based food sales by 2012, many believe there has never been a better time to enter the market. However, challenges remain including increased competition from new entrants and discount chains; predicted rises in VAT, mortgage repayments and unemployment; further legislation; and the fear of a "double dip" in the economy.

Compared to other business sectors, noticeably pubs and hotels, convenience stores have remained fairly robust in the eye of the economic storm, and seem better placed than most to ride out the current challenging conditions and grow market share.

The march of the supermarkets part II

Waitrose's announcement that it plans to open up to 300 small stores across the UK highlights the current strength of the convenience store sector however for many existing operators, especially independents, it is a reminder of how Tesco and Sainsbury's made their first moves into the sector over 10 years ago.

Initially entering through forecourt sites, then a number of standalone units and finally the acquisition of a number of national and regional chains, the supermarket giants have since taken a firm foothold in the sector.

Sainsburys has invested £400 million this year to accelerate the rollout of its stores, while Wm Morrison has also said it is looking to increase its number of smaller stores, after creating a smaller format with a large fresh food offer.

With the Co-operative Group controlling approximately 25% of the market following its acquisition of Somerfield, Asda is the only one of the prominent grocery chains not looking to open store in the sector, with Andy Bond, its Chief Executive, reportedly "agnostic" on convenience.

The state of independents

As with the first wave of supermarkets entering the convenience store market, this latest news from Waitrose will provide existing operators, and especially independents, with further opportunities and challenges.

Still accounting for approximately 24% of the market, independent store numbers are in decline, with around 1,250 closing in the last year according to IGD, the retail analyst.

The move by Waitrose will again put many under pressure to survive and will further anger campaigners who believe the continued homogenization of the high street is driving out local independent businesses.

However, many independents, who weathered the initial rush of smaller supermarket formats, again believe that the move by Waitrose can only be healthy for the sector as a whole. Firstly by demonstrating its strength and improving its value, whilst also making them raise their own standards with wider ranges, more diversification and enhanced services.

Capitalising on opportunities

The retail sector has, like all sectors, been affected by the economic downturn however, it has remained more robust with property values falling less than in other markets, such as pubs and hotels. Convenience store operators, apart from one or two examples, have not been part of the wave of administrations that have marked other sectors over the last 18 to 24 months.

The misfortune of others has led to opportunities for national and local operators to expand their estates. The ongoing rise in pub closures coupled with an increased number of vacant units coming to the market, has lead to a high volume of enquires from retail operators looking to convert them to retail outlets.

The location of many of the public houses coupled with ample car parking and the ease in which change of use can be gained without a lengthy planning process is proving attractive to retail buyers, with a number of pubs having already been acquired for retail use over the summer. This trend is set to continue till the end of the year and well into 2010.

The cancellation of the tender process for the Post Office Card Account (POCA) and the conclusion of the consultation process for 'Network Change' has also led to a rise in the interest shown in operating a post office, which can add an important service and destination point for customers to many convenience stores.

The government decided to cancel the tender process for the £1 billion POCA in November last year meaning the contract for the scheme would remain with the Post Office until 2015. The uncertainty over the account and its impact on the future of local post offices had led to a stagnation in sales and a drop in demand for post offices during the months leading up to the government's decision. The conclusion at the end of 2008 of the closure programme has also further enhanced the sense of security across the post office network and revived the appeal of running a post office business.

Conclusion

Increasingly profitable, as it is expanding more quickly than the grocery market as a whole, the convenience store sector remains a big growth opportunity for national and local operators alike.

The start by Waitrose to move into the sector, plus the continued frequency of visits by customers in the face of the downturn, also adds to the position of strength the sector find itself currently in.

Challenges remain, in particular the growth of discount retailers such as Lidl, Aldi and Netto, whilst the squeeze on independent operators continues.

However, for those that have adapted before through the diversification of their offers; the raising of service standards and of their importance to their local communities, the next year and the challenges thrown up can be faced head on.

The sector continues to be robust, those with the right business model will be the ones who can reap the rewards when the inevitable upswing arrives.