

THINK RETAIL THINK VERDICT



UK Food & Grocery Retailers 2009

Inflation boosts sector

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About Verdict Research

Authorative analysis...

Verdict's analysts and consultants work closely with retailers, suppliers, consultancies, investment banks and property companies to identify the key issues, sector and company data and strategies driving the changing retail market.

Our research identifies how retailers can enhance product, store and brand performance as well as the factors that determine future retail success. Our specialist in-store auditing team continuously collects price and product data across locations, brands, fascias, ranges and retail sectors.

Rigorous research methodology...

Our in-house retail expertise and rigorous research methodology ensure our reports provide complete and accurate analysis of the major players, issues and trends together with a detailed examination of the strategic implications for the retail market.

For key players in the retail industry, our reports are the first source of information on sector forecasts, retailer performance, store and product portfolio developments and trading strategy.

Global, European and UK analysis across nine core sectors...

Verdict Research reports covers nine core sectors, five year forecasts, strategic issues, key locations, How Britain Shops consumer surveys and the main European retail markets. Also available are a daily news service, weekly newsletter and tailored consultancy portfolios to suit individual business information needs.

Over 20 years of experience...

Verdict Research is the UK's leading authority on retailing and publishes unrivalled independent analysis of the retail industry. With over 20 years' experience, Verdict has close relationships with major UK retailers and access, at the highest level, to key executives working in the top 300 retailers to hear their first hand views. Verdict reports provide clients with a complete picture of the retail sector and unique forecasts to help UK retailers, manufacturers, service suppliers, city analysts, consultants and the media with strategic planning.

A key source for independent analysis and comment...

Verdict Research is regarded as a key source by the BBC, ITV, Sky News and the UK's leading broadsheets including the FT, Times, The Independent and Daily Telegraph. Leading trade publications often refer to Verdict's opinion and research including Retail Week, Drapers, DIY Week, Cabinet Maker and The Grocer.

In addition Verdict regularly appears in the international media. News sources quoting Verdict analysts and data include CNN, the International Herald Tribune, The Australian, Los Angeles Times, and New York Times.



“Verdict are the company of choice for any research analysis and insight into retailing”

Sir Stuart Rose
Executive Chairman
Marks & Spencer

UK Food & Grocery Retailers 2009

Inflation boosts sector...

The credit crunch and the subsequent recession, allied with inflation have had a profound impact on consumer behaviour. Polarisation of spend is less pronounced and consumers are switching to private label and trading down to value ranges. At the same time, grocers are investing in lower price point product development, promotions and techniques to trade customers up to higher price points. In addition, competition is intensifying as price saving consumers switch supermarkets to get the lowest prices, often trading down to the Discounters.

This new report published by Verdict provides analysis on all the key players in the grocery sector, assessing the effectiveness of their current strategy and market positioning, the challenges they face and the opportunities available to them. Unlike other reports on the sector, this report includes extensive data for both publicly listed and private UK retailers.

14 Key Company Profiles

Aldi	Netto
Asda Wal-Mart	Sainsbury
Co-op	Somerfield
Iceland	Tesco
Lidl	Waitrose
M&S	Booths
Morrison	Farmfoods

Identify the strengths and weaknesses of the leading UK food & grocery retailers and assess the future competitive threat across key retail sectors with this new report...



"Iceland's impressive recovery is clearly reflected in its market share gains of recent years. Following a number of years of decline, the retailer has added 0.1 percentage points to its share in 2007 and 2008. Improvements are the result of a recovery programme refocusing on its traditional strengths which has delivered outstanding like-for-like sales uplifts and a return to space growth..."

- **Make informed strategic decisions** using this report's 10 year datasets charting market performance and authoritative analysis of key market issues.
- **Benchmark business performance for all the leading players in the food and grocery sector across key operating parameters** using unique market share, comparable sales densities and operating margin data.
- **Compare store portfolios for all leading UK food & grocery players** with 10 year store number, space and sales density records enable you to make informed judgements about each retailer's physical estate.
- **Assess the prospects for individual grocers in 2009** using the insightful outlook sections that summarise the strategic challenges in each retailer profile.

UK Food & Grocery Retailers 2009

This report answers key questions including...

- What impact has the economic slowdown had on UK Grocers' strategies?
- How do UK food & grocery retailers plan to develop their multichannel offers?
- Who are the main gainers and losers in terms of market share in the UK food & grocery sector?
- What are the prospects for hard discounters in the UK?
- How can UK grocers capitalise on changing consumer preferences?
- What are going to be the main drivers of growth over the next 5 years?

Key Retailer Data

Market shares of major operators

Key operating statistics

Trading records

Operating margins

Store estate metrics

Key issues examined in this report...

Farmfoods key operating statistics 2003-2008e

Year to December	2003	2004	2005	2006	2007	2008e
Total Sales (ex VAT) £m	354	421.3	414.9	415.2	383.1	436.7
Sales Y-o-Y Change %	39.3	19	-1.5	0.1	-7.7	14
Operating Profit £m	9.2	10.2	3.8	1.5	6.2	—
Operating Margin %	2.6	2.4	0.9	0.4	1.6	—

Source: UK Food & Grocery Retailers 2009

"Farmfoods is a frozen food retailer focusing predominantly on value, even more so than its largest main competitor, Iceland. From 2000 turnover grew rapidly, recording double digit growth for the three years between 2002 and 2004. Since 2004, sales have levelled off and then fell into decline in 2007 when sales dropped 7.7%. Over 2008, the retailer is estimated to have performed very well, helped in large part by an increasingly value conscious shopper mindset..."

- **Price to dominate 2009.** With recession lasting, Verdict believe, throughout 2009 and into 2010, price will remain the pressing issue for consumers over the next year as they seek to save money where they can. Its importance will be exacerbated by additional inflationary pressure due to a weaker pound pushing up the price of imported produce.
- **Discounters thrive.** Few businesses have benefited from the recession as much as hard discounters Aldi and Lidl. These players have both substantially increased their advertising expenditure over the last couple of years and have been busy opening new stores to increase their market share while consumer sentiment is in their favour. Whereas hard discounters have previously struggled to make inroads in the UK, they are now attracting many new customers, including a proportion of more affluent ABC1 shoppers.
- **Non-food dragged in 2008.** Previously the engine of growth, for Tesco and Asda particularly, the non-food market has been hit hard by the weakening economic environment. While people still have to eat, thus helping guard food spending against the downturn, non-food purchases are typically discretionary. Consumers are cutting back or deferring purchases until the economic situation starts to improve.

UK Food & Grocery Retailers 2009

Pages 200

Figures 16

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Price Tops Agenda

- Analysis of Verdict's most recent How Britain Shops data shows how far price has moved up the customer agenda over the past year. Across all major grocers a higher proportion of visitors mentioned that price had been a key loyalty driver in 2008, compared with 2007. This was particularly the case at more upmarket Sainsbury where 43% of visitors mentioned price in 2008 – a rise of almost 10 percentage points over the previous year.
- There is no doubt that price will dominate throughout 2009 as GDP continues to contract, unemployment rises further and a weaker pound pushes up the price of imported goods – particularly out of season fruit and vegetables.



Consumers Plan Meals More Carefully

- Customers are planning their meals more carefully and are increasingly cooking from scratch to save money. Retailers have noticed strong sales uplifts in basic ingredients as consumers are reaching for cookbooks to help prepare every day meals.
- Grocers need to educate consumers through the provision of inspiring recipes and to communicate the benefits of using higher quality ingredients. This is a real opportunity for retailers to encourage customers to trade up in ingredients while still saving money compared with buying prepared and ready meals.
- Inhouse magazines and recipe leaflets play an important role here. Also, players like Sainsbury and Aldi make use of celebrity chefs (Jamie Oliver and Phil Vickery respectively) to promote quality ingredients and encourage more scratch cooking.

Retailers Repond to New Challenges

- There is no doubt that food retailers are better placed than their non-food rivals in a recession – fundamentally people have to eat. Nevertheless, we believe that grocers as a whole have been proactive in their response to the downturn, boosting sales performance and protecting margins.
- What is important over the next year, 2009, is that grocers keep their eye on the radar, looking for further changes in consumer behaviour and market dynamics to maintain their proactive stance.

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