

# Retail Convenience

## 2018 Review



The latest CSO Retail sales Index (issued 28 Jan 2019) outlined continued growth in Irish retail sales with an annual increase in sales volume (excluding motor) of c. 4% v 2017 – this underpins a positive outlook for the sector in 2019.

### Summary

- ▶ Continued Growth: Continued positive trend in retail sales volume and value in 2018 linked to strong employment and disposable income data from the CSO/IBEC.
- ▶ Revamp Activity: Significant store revamp activity to continue across all brands facilitating retailers to align their offering to the expectations of the discerning Irish consumer whilst improving store sales and margin performance.
- ▶ Consolidation: Market activity amongst leading wholesalers / retail groups to continue through brand extension / acquisition as they seek to capture increased consumer data / insights and to drive internal efficiencies.

### 2018 Key Trends

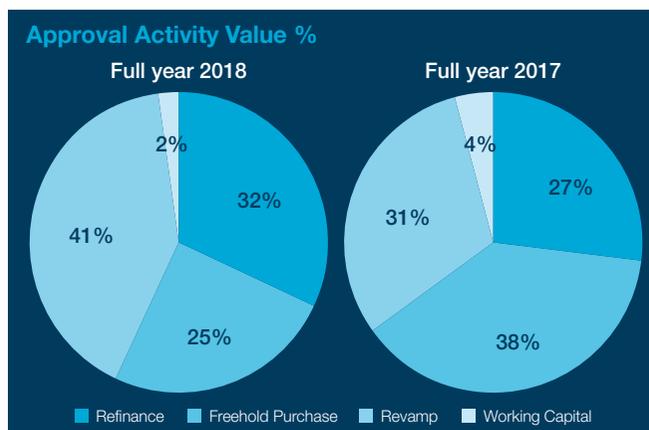
- ▶ While strong price competition for market share between leading symbol brands continued to curb growth in total sales values, 2018 delivered positive growth in both volume (+4%) and value (+2.5%) of retail sales (excluding motor) compared to 2017.
- ▶ Dunnes, Supervalu and Tesco (led by new Irish MD, Kari Daniels) continued to compete strongly for the No. 1 spot in grocery market share with Tesco regaining the top spot during 2018 (for the first time since 2015) driven by a price focused / up-weighted own brand strategy.
- ▶ Convenience retailers, in particular Spar, Centra and Londis, continue to perform very strongly, reflecting improved consumer sentiment and a requirement for convenient, accessible shopping solutions. Growth has been especially evident in revamped stores with sales growth of +5% - 10% and margin growth of + 0.5% - 1% on average post revamp.
- ▶ The Irish consumer expects a frictionless / accessible shopping experience and progressive retailers are continuing to invest in omni-channel strategies (click & collect, online show-room, on-line loyalty clubs) to drive improved engagement and loyalty from their customer base.

### Sector Developments – 2018 Key Numbers

- ▶ 4%: Rate of sales growth volume per CSO
- ▶ €360m: Amount paid by Applegreen to acquire a controlling stake in UK forecourt group – Welcome Break.
- ▶ €1.5 billion: BWG turnover for year-end September 2018 representing a 4% increase in revenue v 2017.
- ▶ 90%: Percentage of consumers that are seeking a reduction in plastic packaging from their grocery / convenience brands per Nielsen research.
- ▶ 5: Number of stores operating under the Donnybrook Fair brand and now controlled by Musgrave group.

### Key Activity in the Sector in 2018

- ▶ A strong pipe-line of funding activity developed in 2018 with revamp / freehold purchase accounting for 60% of approvals as progressive retailers seek to future-proof their business.
- ▶ Consumers are continuing to move up the value-chain with key focus on food provenance and healthy options. This demand being met by expansion / investment from Avoca, Fallon & Byrne, Fresh, the Good Food Market and Freshii amongst others.
- ▶ Retailers are continuing to implement pragmatic succession planning structures to ensure that appropriate long-term value is delivered from their business.



### Sector Developments: Investment and Consolidation

- ▶ BWG have received competition authority approval for the purchase of the Corrib Foods operation from the Lawless family for an undisclosed amount. This transaction facilitates BWG expanding their food-service offering nationwide.
- ▶ The Musgrave Group has agreed terms to purchase Donnybrook Fair from the Doyle family for an undisclosed sum. Donnybrook Fair operates 5 stores in Dublin / Wicklow and this purchase provides Musgrave with an increased presence in the capital.
- ▶ Applegreen has purchased a controlling stake in the UK forecourt group, Welcome Break for €360m in line with their internationally focused growth strategy.



- ▶ Brands and retailers are ever more conscious of reflecting the values of their customers. Supervalu, Frank & Honest, Applegreen, Insomnia and Gala have all announced the roll-out / development of environmentally friendly practices via reduced plastic waste, compostable coffee cups, sustainable energy frameworks etc.

# Retail Convenience

## 2019 Outlook

Continued growth in sales volume, competitive pricing strategies employed by all leading grocery brands and extensive store revamp programmes forecast for 2019



### 2019 Key Numbers

- ▶ **45:** BWG have announced plans to add 45 new stores to their Eurospar / Spar network in a €25m investment earmarked for 2019 and 2020.
- ▶ **2.5%:** Percentage of Irish grocery sales purchased on-line. The growth of this stream linked to more comprehensive omni-channel offerings will be monitored closely in 2019.
- ▶ **€9.80:** The minimum wage increased by 25c per hour on 1st January 2019 to €9.80. With unemployment at a ten year low – strategies on the recruitment and retention of staff are high on the radar of all Irish retailers.
- ▶ **€55m:** Investment from Couche-Tard in re-branding their Irish store network to Circle K. Full nationwide rebrand to be completed by year end 2019.

### 2019 Retail Convenience Sector Outlook

- ▶ **Positive Outlook:** Growth in sales volumes and value to continue linked to improving Irish employment levels and disposable income data issued by the CSO/IBEC.
- ▶ **Funding Activity:** Strong pipeline of store purchase and revamp proposals to continue in 2019 in conjunction with re-finance activity.
- ▶ **Competitive market:** Competitive pricing and loyalty / partnership focused techniques along with innovation in store lay-out will continue to be a feature of the grocery sector to maintain market share for leading symbol groups.

### Market

- ▶ Top line retail sales growth is projected in line with improved consumer spending power and sentiment.
- ▶ The partnership model ('Brand within a Brand') will continue to grow as leading retailers incorporate multi-brand offerings in-store (Subway, The Chicken Guys, Frank & Honest, Insomnia, Zambro etc.) to meet the expectations / requirements of a wider consumer cohort.
- ▶ Significant revamp programme rolled out nationwide by Supervalu, Dunnes, Aldi, Lidl and leading convenience brands as the ever more discerning consumer seeks excellence in store standards and access to "fresh and healthy" meal solutions.
- ▶ Detailed analysis pre and post revamp will be an imperative to ensure that maximum return on investment is delivered via sales mix improvement, margin growth and cost saving.
- ▶ Potential legislative developments in the areas of rates, sugar tax, 'Living wage' and inheritance tax / transfer of a business relief will be monitored with interest by retailers and their professional advisors.
- ▶ The retention and recruitment of skilled, experienced staff will continue to be a key focus for retailers in a competitive employment market (running at close to "full employment").
- ▶ Forecourt store category to remain extremely competitive with Circle K, Applegreen and Maxol competing with Spar and Centra forecourt retailers for the convenience / transient shopper. The food to go range, dine-in options and in-store coffee brand are now key differentiators for the Irish consumer in choosing a forecourt store.

- ▶ Brexit: All businesses should be utilising a bespoke Brexit diagnostic tool to analyse potential Brexit exposure and to mitigate same in an effective, proactive manner.

### Funding Activity

- ▶ Revamp activity to remain strong linked to a proactive revamp strategy from Supervalu, Centra, Eurospar, Spar, Londis, Mace and Gala brands.
- ▶ Opportunities for leasehold retailers to purchase freehold title will continue in 2019.
- ▶ Store sale activity primarily linked to succession planning will continue to develop in 2019.
- ▶ Strong refinance activity projected in the sector in 2019 linked to exiting banks and loan book purchasers seeking to deleverage.

### Bank of Ireland

- ▶ As Ireland's leading business bank, we recognise that we have a unique opportunity to support our customers and to enable Irish businesses and the communities we jointly serve to thrive.
- ▶ Our proven financial capabilities and appetite, combined with comprehensive sector expertise, provide us with a strong platform to meet the funding requirements of Irish retailers.
- ▶ We understand the investment cycle, including the need for regular expenditure to maintain growth and profitability in this dynamic sector, and we have a strong appetite to support progressive, innovative retailers in the further development of their businesses in 2019.

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Owen joined Bank of Ireland in 2015 as Head of Retail Convenience. Owen previously worked for Musgrave Retail Partners Ireland where his role involved supporting independent retailers to maximise their profitability and to develop long-term, sustainable business models. During this time, Owen developed significant knowledge of finance, operations and legal / regulatory requirements specific to the retail convenience sector. Owen holds a BA in Law and Accounting from the University of Limerick and is a Fellow of the Institute of Chartered Accountants Ireland and an Associate of the Irish Taxation Institute and previously held roles with Pricewaterhouse Coopers and Deloitte.