

# Retail Convenience

## 2020 H1 Insights

Grocery & Convenience sector demonstrated unflinching commitment to customers and communities during unprecedented trading conditions in H1 2020.

### Summary

- **Unprecedented Growth:** Exceptional growth delivered by grocery retailers linked to Covid19 related demand. Shopping behaviour and frequency patterns favoured larger operators in the Irish market.
- **Customer Goodwill:** Sector response to pandemic; supporting communities and vulnerable in society has generated goodwill and trust towards retailers and their staff.
- **Investment:** Store revamp activity was paused for a large proportion of H1 2020 due to Covid19 restrictions. Retailers are now re-commencing revamp and store purchase proposals. Bank of Ireland continues to actively engage and support grocery retailers with investment plans.

### 2020 H1 Key Trends

- Strong growth in take-home grocery sales linked to Covid19 customer requirements and behaviour. Growth of 25% delivered in the 12 weeks to 17 May 2020 per Kantar; the largest growth recorded in 15 years.
- Supervalu, Dunnes and Tesco continued to compete strongly for the no. 1 spot in grocery market share with Aldi & Lidl maintaining a strong foothold in the Irish market. Supervalu is now the largest grocer benefiting from its extensive community focused store network and online capability.
- Covid 19 has driven a large divergence in performance amongst convenience focused operators. Neighbourhood stores (Centra & Eurospar) have reported a strong performance whereas many city/town centre and forecourt stores have seen a significant deterioration in footfall linked to increased working from home practices etc.
- The Irish consumer now expects a frictionless/accessible shopping experience linked to health and safety and progressive retailers are continuing to invest in omni-channel strategies and technology (click & collect/on-line loyalty clubs) to drive improved engagement opposite their customers and employees.

### Sector Developments – H1 2020 Key Numbers

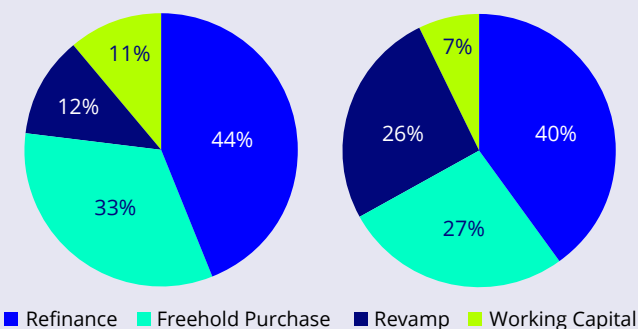
- **25%:** Grocery sales increase in 12 weeks to 17 May 2020 per Kantar.
- **76%:** Increase in online grocery sales v H1 2019. A significant shift in consumer behaviour driven by necessity, albeit from a low base.
- **25%:** Growth in sale of Irish products in-store per Nielsen (May 2020) as Irish consumers become more provenance and traceability focused.
- **73%:** Increase in hair colorant sales in the 12 weeks 17th May – reflecting Covid19 specific requirements underpinning sales growth.
- **1000%:** Sales increase in hand sanitiser in week ended 8th March – health and safety will continue as a priority for the Irish shopper in their store/retailer preferences.

### Key Activity in the Sector in H1 2020

- Despite exceptional demand, the overall grocery supply chain proved robust; a testament to the contingency plans in place by Irish grocery operators/wholesalers.
- Proactive initiatives put in place to protect both staff and customers; Perspex screens, Rota re-alignment, contactless payment increase etc. Strong sector collaboration with Government and Health & Safety Authority.
- Shopping patterns have reverted to the “Big weekly grocery shop”. This has led to a negative impact on gross margin percentage as less impulse/more considered shopping behaviour emerges.
- Retailers are continuing to implement pragmatic succession planning structures to ensure that appropriate long-term value is delivered from their business. Covid19 has been a catalyst for some retailers to investigate future options.

### Approval Activity Value %

Approval Activity Value % 2020      Approval Activity Value % 2019



### Sector Developments: Investment and Consolidation

- Tesco has continued its contraction strategy by selling its operations in Thailand, Malaysia and Poland in recent months. Cork man, Ken Murphy will take over as Tesco Global CEO in H2 2020. (Source: Checkout Magazine, June 2020)
- Musgrave was granted planning permission in April for a new Supervalu store in Newcastle, Co Dublin continuing the brand's recent expansion in the Dublin commuter belt region.
- A number of key executive appointments have taken place in H1 2020 – Niall O'Connor has been appointed MD of Aldi Ireland & Shane Flynn has been appointed MD of Avoca by its parent Aramark group. (Source: Shelflife Magazine, June 2020)
- Consumers continue to have a key focus on food provenance and healthy options. This demand is being met by expansion/investment from Fresh the Good Food Market and Nolan's of Clontarf amongst others. Musgrave has signed an exclusivity agreement with The Happy Pear for the island of Ireland and BWG has launched a healthy-eating guide in conjunction with the FAI.
- A significant pipe-line of funding activity developed in H1 2020 despite Covid19 impact with revamp / freehold purchase accounting for c45% of approvals as progressive Irish retailers seek to future-proof their business.



# Retail Convenience

## 2020 H2 Outlook

A continued up-weighted focus on customer/staff safety, health and wellness. Margin preservation key linked to change in consumer behaviour.

### 2020 Key Numbers

- **€300k:** Level of investment from Centra to promote “Guaranteed Irish” brands as part of a new partnership.
- **1,200:** The reduction in carbon emission tonnes which Tesco aims to deliver from its partnership with Green Generation, a Kildare based green energy operation.
- **9:** The number of expected new stores unveiled to the Irish market by Aldi in 2020 under the stewardship of new MD, Niall O'Connor.
- **€6m:** Level of Funding raised by Buymie an Irish firm led by Devan Hughes to expand its online grocery platform across Ireland and UK. Recent partnership signed with Co-op stores in UK.
- **76%:** The percentage of people who now use contactless weekly per statistics from the Irish Banking and Payments Federation. (May 2020)

### 2020 H2 Retail Convenience Sector Outlook

- **Robust Outlook:** Overall a resilient sector to economic shocks; no renewed restrictions will be key for footfall re-instatement in high convenience and forecourt stores.
- **Funding Activity:** Strong active pipeline of store purchase and revamp proposals – retailers recognise that customer experience/excellent standards will be key to attract and retain market share.
- **Partnerships:** Increased collaboration/partnership agreements between grocery retailers and producers/restaurants/food-service operators expected.

### Market

- Significant revamp programme rolled out in H2 2020 nationwide by leading grocery operators as the ever more discerning consumer seeks excellence in store standards. Increased volume of activity linked to restrictions in H1 2020.

- 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.
- Increased collaboration/partnership agreements between grocery retailers and producers/restaurants/food-service operators expected as they seek to provide a healthy/nutrition focused differentiation point for the Irish consumer.
- The long-term model adopted by high convenience and Forecourt retailers will be examined – can they effectively pivot towards grocery top-up and/or a hub for people working from home through increased delivery capability?
- Corporate social responsibility linked to sustainable and environmentally friendly in-store activities will be a key area of focus for all retailers – energy efficient equipment, elimination of single-use plastic, improved recycling facilities and reduction of food waste.
- All retail businesses will need to focus strongly on margin preservation in H2 2020 linked to functional/more considered shopping behaviour.

### Funding Activity

- Revamp activity to restart linked to a proactive revamp strategy from progressive retailers nationwide (subject to no further Covid19 linked restrictions)
- Store sale activity primarily linked to succession planning will continue to develop in 2020. Leasehold retailers will continue to see opportunities to purchase the freehold interest of their stores.
- Refinance activity projected in the sector in H2 2020 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 2020.



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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.

**Sources:** Shelflife magazine, Checkout magazine, Kantar, Nielsen, Irish Banking & Payments Federation.

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