



Bank of Ireland Sectors Team Retail Convenience 2021 Insights / Outlook 2022

January 2022



**Bank of
Ireland**

Classification: **Green**

Retail Convenience: 2021 Review

Summary

- **Robust performance:** Robust performance delivered by the sector in 2021. Shopping behaviour and frequency patterns returned to more normalised trends linked to the vaccine roll-out.
- **Investment:** Store purchase and revamp/refurbishment activity has been strong in 2021 and this trend is expected to continue in 2022. Bank of Ireland continues to actively engage and support grocery retailers with their investment plans.
- **Consolidation:** Increased consolidation became a feature of the market with larger grocery/fuel operators expanding their store network and diversifying their sales mix.

2021 Key Trends

- Strong growth in take-home grocery sales continued. Growth of 10%+ delivered in 2021 v pre-pandemic performance in 2019 per Kantar Grocery market share.¹
- Supervalu and Dunnes continued to compete strongly for the no. 1 spot in grocery market share; Supervalu benefiting from its extensive community focused store network and online capability and Dunnes delivering a strong performance in the Dublin region. Aldi and Lidl continue to solidify their strong foothold in the Irish market.
- 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-centre stores have seen a significant deterioration in footfall linked to increased working from home practices, reduction in tourism/sports events etc. Forecourt stores have delivered an improved performance with many acting as regional top-up stores.
- The Irish consumer now expects a frictionless/accessible shopping experience with strong investment in click & collect services being noteworthy across all leading brands. The provenance/origin of products continues to inform/guide shopping trends and behaviour.

Margin growth and preservation have become an imperative for retailers linked to an increased cost framework driven by personnel, insurance and energy overheads

Sector Developments – 2021 Key Numbers

€4.5bn 
Musgrave group sales for year ended December 2020.²

10 
Number of stores acquired by Tesco from Joyce Group.³

€25m 
Amount committed by BWG in a 4 year sustainability strategy.⁴

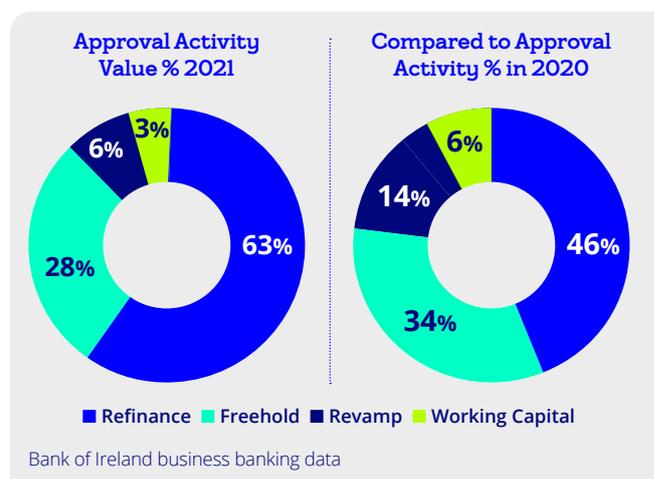
€3.1bn 
Total Irish grocery sales in the 12 weeks to 26 December 2021.

£7bn 
Purchase price paid by private equity firm CD&R for Morrisons Group in the UK.⁵

Key Activity in the Sector in 2021

- Shopping patterns have reverted to more normalised frequency trends linked to the vaccine roll-out. Whilst in-store remains the preferred channel by the vast majority – the level of online grocery sales continues to increase annually.
- Retailers are continuing to implement pragmatic succession planning structures to ensure that appropriate long-term value is delivered from their business. COVID-19 has been a catalyst for some retailers to investigate future options in respect of both ownership and operational models.
- A strong pipeline of store revamps and purchase activity has been generated in 2021. Progressive retailers continue to recognise that in-store investment is necessary to maintain customer engagement and loyalty.

Approval Activity Value %



Sector Developments: Investment and Consolidation

- Supervalu, Lidl, Aldi, Tesco and Dunnes outlined plans for new store openings in 2021 across all regions with a noteworthy focus on satellite towns of Dublin, Cork and Galway.
- A number of noteworthy transactions were announced during 2021: Corrib Oil purchased the H2 group increasing their presence in Munster & Leinster. Circle K acquired a portfolio of Dublin city-centre stores from the Griffin Group and Tesco agreed terms with the Joyce group in Galway. Further consolidation expected within the sector in 2022.
- The £6.8bn acquisition of Asda and the £7bn purchase of Morrison's by TDR capital and CD&R respectively reflects the renewed interest from private equity in the sector globally. Could this act as a catalyst for new entrants/owners into the Irish market in 2022?
- Buymie, led by Devan Hughes has partnered with selected Dunnes, Lidl and Tesco stores to provide same-day grocery deliveries to consumers in Dublin, Galway and Cork. The current low levels (under 5% of total grocery sales) conducted via online demonstrate that a real growth opportunity is available if a frictionless, efficient, reliable service can be delivered. It will be interesting to see if further partnership models develop via Ocado, Deliveroo, Just-Eat or internal 'dark stores'.

¹ Kantar Grocery market share – 09/01/22

² Musgrave Group annual report – November 2021

³ Tesco press release – November 2021

⁴ BWG press release – March 2021

⁵ Morrisons press release – September 21

Retail Convenience 2022 Outlook

2022 Key Numbers



€8m

Investment from Donnybrook Fair in flagship outlet in Dundrum shopping centre & preparation facility in Clondalkin.⁶



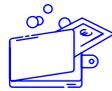
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The number of new stores that Aldi Ireland has targeted in a multi-year investment of €250m.⁷



2.5million

The volume of in-store contactless payments recorded per day as consumers move away from cash based transactions.⁸



€10.50

New minimum wage effective from 1st January 2022 representing a €0.30 increase on previous rate.⁹

Market

- Significant revamp programme will be rolled out in 2022 nationwide by leading grocery operators as the ever more discerning consumer seeks excellence in store standards.
- Detailed analysis pre and post revamp will be an imperative to ensure that a maximum return on investment is delivered via sales mix improvement, margin growth and cost saving. The “localisation” trend will continue with store revamps taking a more bespoke, community focused approach.
- In a competitive labour market – sourcing and retaining the best people is vital to sustain a retail business. A structured employee development plan that incorporates role variety, up-skill opportunities and competitive remuneration needs to be embedded within the culture of the business. The smart use of digital/automation tools can deliver efficiencies within the business which will support this employee focused model.
- City centre stores will need to proactively assess all aspects of their business plan: target customer demographic, margin development, shrinkage, cost base, property costs etc. They will need to focus more on city centre dwellers as opposed to city centre employees – partner with foodservice/restaurants and provide effective delivery options etc to engage a new recurring customer base.
- 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. This will enable an improved cost base whilst meeting consumer expectations in respect of ethical trading. The proposed roll-out of the deposit return scheme in H2 2022 will be monitored with interest.
- Increased consolidation expected in the market with larger grocery/convenience and fuel operators expanding their store network and diversifying their income streams.

2022 Retail Convenience Sector Outlook

- **Robust Outlook:** Overall a resilient sector to economic shocks; Strong sales performance to continue but increased focus on margin preservation and cost management required.
- **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.
- **Investment/Consolidation:** Increased investment in partnership agreements and further consolidation of the market (especially forecourt sub-sector) expected in 2022.



⁶ Musgrave Group press release – Nov 21
⁷ Aldi Ireland press release Nov 2021

⁸ Banking & Payments Federation of Ireland
⁹ Budget 2022 – Department of Finance



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Owen Clifford is Head of Retail Convenience within Bank of Ireland since 2015. Owen is responsible for the continuing development of the Bank's strategy in this key area and has actively supported leading retailers and stakeholders in the sector nationwide to grow and develop their business in a progressive manner.

Owen brings extensive industry knowledge and experience to this role, having worked in the retail sector with Musgrave Retail Partners Ireland where his role involved supporting independent retailers to maximise their profitability and to develop long-term, sustainable business models.

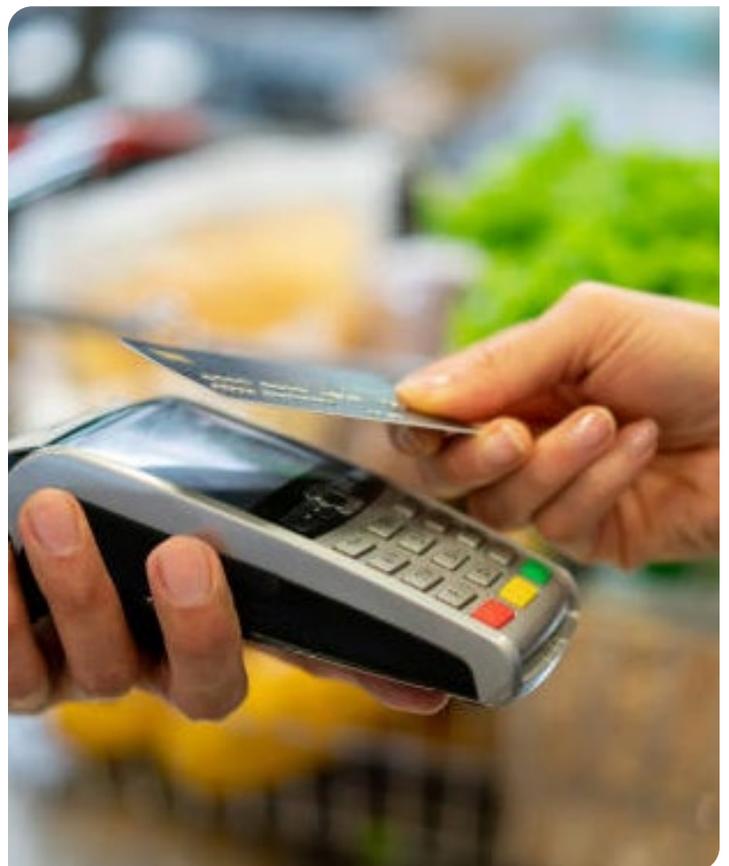
Owen holds a first class honours degree in Law and Accounting from the University of Limerick and is a Fellow of the Institute of Chartered Accountants Ireland and an Associate of the Irish Taxation Institute.

Funding Activity

- Revamp funding to continue linked to a proactive investment strategy from progressive retailers nationwide.
- Store purchase strategies will continue to develop in 2022. COVID-19 has been the catalyst for increased levels of succession planning/retirement which is driving this activity.
- Refinance activity projected in the sector in 2022 linked to exiting banks and loan book purchasers seeking to deleverage.

Bank of Ireland

- In Bank of Ireland 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 2022.



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