



RETAIL CONVENIENCE OUTLOOK

SUPPORTING IRISH RETAILERS

Despite a tough number of years, the Irish retail convenience sector has proved itself to be resilient in recent years. While it faces a number of challenges, there are also opportunities, according to RGDATA's Director General, Tara Buckley.

The independent convenience retail sector in Ireland is a vital component of the economy, employing in excess of 90,000 people who collectively earn in the region of €2.07bn while the sector contributes around €3.6bn (equivalent to 1.9% of GDP) to the exchequer annually and over €100m to local authorities in the form of commercial rates.

The lifeblood of many towns, villages and

communities throughout the country, around 89% of independent retail stores are family-owned with 47% of them owned by first generation retailers and as many as 22% owned by a third generation family member.

While independent retailers have proved to be remarkably resilient in recent years, there should be no room for complacency says Tara Buckley, Director General of RGDATA, the representative association for over 3,500 independent grocery/convenience retailers in Ireland.

"There is no doubt that over the last five years, Irish retailers have had a torrid time. The independent grocers that RGDATA represents are surviving today because they have rigorously cut costs and made their businesses more efficient. They have also adapted to the changing consumer habits and the highly competitive marketplace while showing great commitment to their customers and staff and overall demonstrated significant resilience," she says.

According to Tara, the sector faces a number



Tara Buckley
Director General,
RGDATA

of challenges, some of which are beyond the control of retailers.

"The biggest challenge our members face is the day-to-day cost of running their stores. Managing their overall business costs is vital to ensuring that they have a margin," she says.

"Independent retailers source the majority of their products from local suppliers."

"Over the past twelve months, many of our members have been focusing on driving efficiencies, trialling new innovations in their stores and ensuring that every section of >>

INDEPENDENT RETAILERS

CONTRIBUTE **€3.6bn** TO THE ECONOMY

EMPLOY **90,000** STAFF

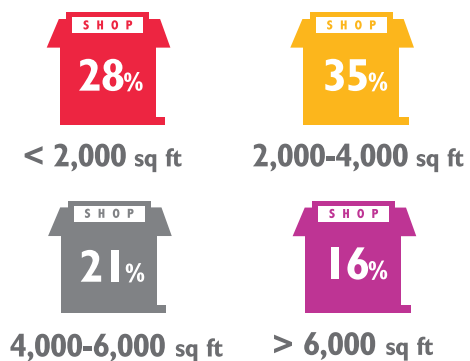
ANNUAL WAGE BILL **€2bn**

OWNER MANAGED STORES **89%**

89% PART OF A SYMBOL GROUP

FIRST GENERATION FAMILY **47%**

AVERAGE SHOP SIZE (SQUARE FOOTAGE)



Source: RGDATA

the store is delivering to the bottom line," she adds.

"The grocery and convenience market is extremely competitive with small Irish businesses pitched against the biggest players in the world on a daily basis. This means constant monitoring of wage costs, waste, shrinkage and all other business costs," she says.

"Many of our members have been focusing on driving efficiencies and innovation in their stores and ensuring that every section of the store is delivering to the bottom line."

"In particular, there's a lot of concern among our members about wage expectations. This is not realistic for most small businesses but the expectations are there. The starting wage is the minimum wage and once people move up and become more senior, they also move up on the pay scale. Indeed, research by RGDATA shows that 89% of staff in our members' shops are being paid above the minimum wage."

She also points out that rising insurance costs over the past year have also become a major concern for many retailers.

"Insurance costs are spiralling for independent supermarkets with premiums increasing by anything up to 40% for some stores in 2016. This is completely unsustainable and Ireland's ongoing 'compo culture' must be tackled by policy makers and regulators to ensure that insurance is affordable for the genuine case," she says.

Research carried out for RGDATA this year by independent economist Jim Power, showed that 43% of independent retailers source the majority of their products from local suppliers while as much as 48% sourced between 10%-50% of their products from local producers.

The competitive nature of the marketplace in which independent retailers operate also means that many of them are keen to invest in their business.

"The research also shows that 60% of our members have invested in their shop in the past year with as many as 42% investing in excess of €100,000. Independents are continually maintaining and upgrading their premises and this investment acts as an important stimulant to the local economy as our members employ local tradespeople and services," says Tara.

But the sector is also looking to the future with many retailers seeking to invest in their stores and developing new offerings for their customers.

"Looking forward, 73% said they intend to invest in the future. Based on their stated

intentions, investment in the sector could be as high as €1.8bn over the next five years. This ambition needs to be supported by our banks and credit institutions," she adds.

"Independent retailers are focussing on the things that independents do better than anyone else – top class in store bakeries, great meat, fish, cheese and deli sections, outstanding customer service and making sure that they are the very best at selling fresh Irish food by providing choice, quality, value and convenience," says Tara.

"RGDATA members include the most innovative local entrepreneurs in the country who are constantly striving to improve their business. They never rest on their laurels and are always seeking new ideas and new services that will drive

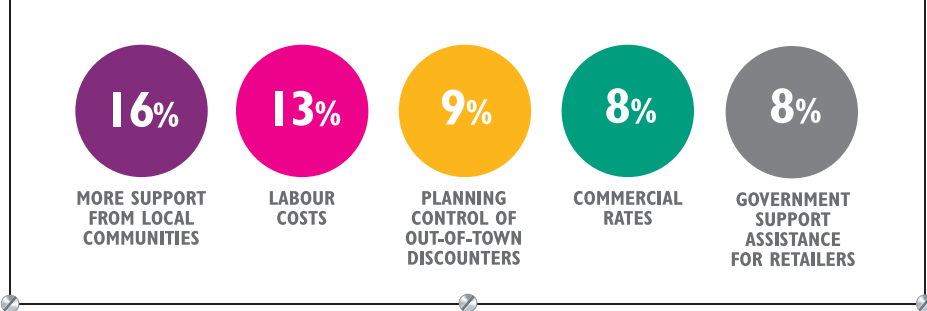
"Every euro spent on Irish produce in a locally owned Irish store is worth four times more to the local community, so it's important that we remember that every time we go shopping."

footfall to their stores. They recognise that there are great opportunities for local family owned shops to meet the changing needs of Irish consumers – more local fresh food options; gluten free products; ingredients for those who want to cook quality food from scratch; food to go offers that suit busy professionals; healthy options, developing pharma/healthcare offerings to provide a one stop shop for all their customer's daily needs whatever their life stage.

"A successful independent retailer will always be seeking new ideas, new products, new services and watching national and international trends that can be adapted into their business," says Tara.

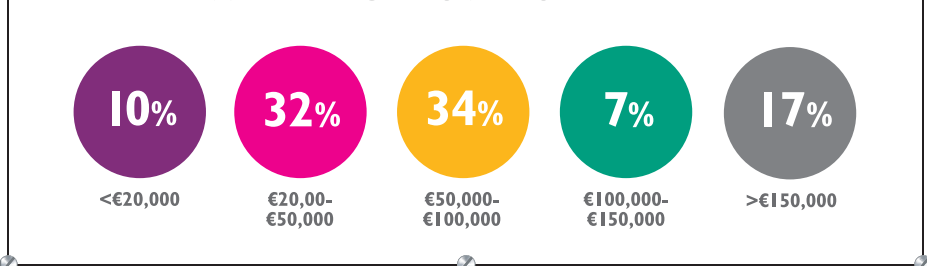
"As Ireland emerges from recession it is vital for Ireland and for local towns, villages and communities that independent retailers survive and thrive. Independent family shops are the heart of vibrant communities. Every euro spent on Irish produce in a locally owned Irish store is worth four times more to the local community, so it's important that we remember that every time we go shopping," she concludes.

TOP 5 ISSUES FOR INDEPENDENT RETAILERS



Source: RGDATA

WEEKLY TURNOVER OF RETAILER



Source: RGDATA

RIISING TO THE CHALLENGES

Increasingly, Irish consumers are shopping around and retail brand loyalty is declining. This presents opportunities for convenience retailers to win them over.



Simon Healy
Retail Sector Specialist, AIB

On the back of buoyant consumer sentiment, the Irish retail market continues to grow with sales in the grocery market alone up by 3.5% year-on-year during the 12-week period to August 14 according to the latest Kantar Worldpanel figures for the Irish grocery market.

While impressive, these growth rates are not being experienced nationwide, according to Simon Healy, Retail Sector Specialist, AIB.

"There appears to be a two-pronged recovery at play within the sector with Dublin retailers benefiting from increased spend and a return to growth while the outlook in many regions outside of Dublin remains sluggish," says Simon.

"Overall, however, competition remains intense as the larger multiples and symbol retailers continue to invest both in an enhanced retail shopping experience and by offering value in key categories. This comes at a cost to smaller retailers who are continuing to see stagnant sales growth while their margins remain under pressure," he says.

The latest Kantar Worldpanel figures for the 12-week period to October 9th show that SuperValu is the biggest grocery retailer in the market. With most of its stores independently owned, its share of the market amounted to 22.4%, followed by Dunnes Stores on 22%, Tesco on 21.6% while the discounters Lidl and Aldi accounted for another 11.6% and 11.4% respectively.

"It is only a matter of time before we see the discounters overtaking the three major players in terms of market share. This is a major concern for the smaller convenience retailers who are being squeezed locally between multiples and discounters," says Simon.

"In the face of this continued growth, smaller convenience retailers, many of whom have invested in their businesses over the last 12 months, find themselves challenged on all fronts," he adds.

"It is important, however, that they continue to present their stores to the highest standards, invest time in training their staff to provide a high standard of customer service while at the same time ensure profitability by controlling costs and looking to enhance margins at every opportunity particularly in their hot beverage and food to go offer," he says.

"Most importantly, they should strive to

differentiate their retail offering to ensure that they are the local specialists in at least one area of their business. Many retailers around the country have already done this whether it's with their coffee offer, their bakery, their butchery or their customer service. The important thing is to be a local champion, be different and most of all do what they do better than any other retailer locally."

"Most importantly, they should strive to differentiate their retail offering to ensure that they are the local specialists in at least one area of their business"

"Consumers are becoming less loyal to a single retailer but at the same time, there is an opportunity for the smaller retailer to attract the 'floating shopper' through an attractive retailing experience," he says.

According to Simon, product availability and quality are increasingly becoming the most

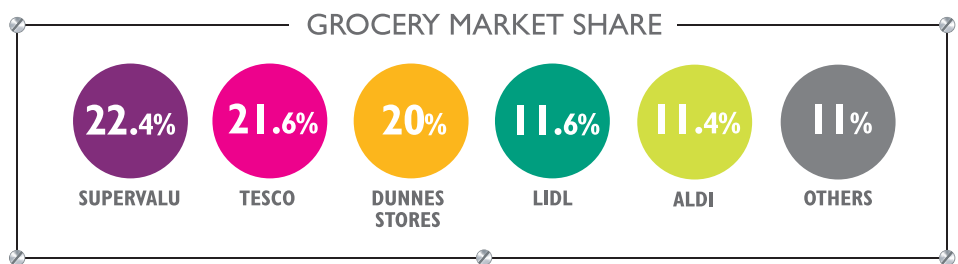
highly influential factors when it comes to where Irish shoppers choose to buy their groceries from.

"Research carried out by Nielsen found that 60% of Irish shoppers cite the products they want regularly being in stock as 'highly influential' in choosing which retailer to buy from, narrowly ahead of having high quality fresh produce (59%) and good value for money (58%)," says Simon.

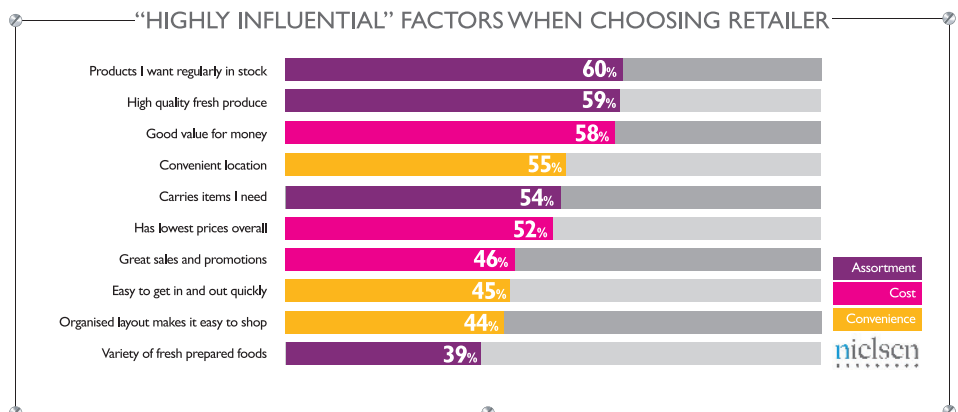
"Irish consumers are more interested in the right ranges of quality products than pure low prices. Value for money is more important than a low price, which is why the discounters do well as they offer good quality in addition to just low prices," he adds.

There are other factors at play within the retail sector and the recent UK referendum on Brexit has brought with it a degree of uncertainty, particularly in the border counties.

Further reductions in the value of Sterling would also mean that Irish retailers in the border regions would be very vulnerable to their customers crossing into Northern Ireland to shop for everyday items such as groceries, fuel and pharmaceuticals," says Simon Healy.



Source: Kantar Worldpanel. Figures cover period to October 9th, 2016.



Source: Nielsen Global Retail Growth Strategies Survey.

CASE STUDIES Two customers of AIB share their views on the Irish retail convenience market



Michael Smith, **Smith's SuperValu**, Kinsale, Co Cork.

When **Michael Smith** opened a new SuperValu store in Kinsale in 2014, he was continuing a family tradition that stretches back to 1857.

"I am the sixth generation of the family to be involved in the business and we have a long association with retailing in Cork," he says.

"My grandfather was the first to open a self-service

store in Douglas back in the 1960s," he said. An accountant by profession, Michael worked for the Musgrave Group for 16 years before he and his wife opened a SuperValu store on Kinsale's Pearse Street in 2002. While the business took off, it was clear that there was a substantial opportunity to expand it and they bought land with a view to building a new store at The Glen in Kinsale.

Timing, however, was everything and in 2012, when construction costs were considerably lower than they were five years earlier, work began on a €1.3m AIB-supported investment to build an 18,000 sq ft state-of-the-art store

that also included an underground car-park and an overhead primary-care centre.

The new store opened in 2014 while the store on Pearse Street, which they have held on to, was turned into a Centra, a sister-brand operated by the Musgrave-owned SuperValu. Between the two stores, Michael employs over 110 staff.

"It took us a while to settle at first as everything was new and it was a much bigger

"You always have to keep an eye on competition in a town the size of Kinsale and it keeps us on our toes"

store than the one on Pearse Street and people were still getting used to it. But we got there and we are trading very well and people are spending a bit more money. But you always have to keep an eye on competition in a town the size of Kinsale and it keeps us on our toes," he says.

As a new build, the store is A3-rated in terms of its energy efficiency and this has already

saved the business a substantial amount in energy costs, says Michael who also points out that simple things like putting doors on all open refrigeration cabinets has also made a significant difference to costs.

Being part of the SuperValu network has been an important part of the success story for Michael. Apart from the significant marketing and advertising investment SuperValu makes to promote the brand, it is also on hand to advise on everything from fittings and store lay-out to the type of products and special promotions it runs.

"SuperValu has done some really great work with all of the stores and it benefits everyone. Initiatives like the Good Food Karma project which inspires people to cook and eat together, the development of the health and wellness category, and the Food Academy programme, have been a great success and have helped drive customers to the store. I think more and more customers are seeking out quality products and locally produced fresh products. The depth and breadth of our offering and the constant innovation has been very important for us and for SuperValu nationwide," he concludes.



Gary Morton, owner of **Morton's**, Ranelagh, Co Dublin.

Set up 82 years ago, the Ranelagh-based store Morton's has established itself as one of Dublin's leading destinations for several generations of food-loving shoppers.

"The business was started by my grandfather Charles and has been in the family ever since," says **Gary**

Morton who now

runs the family business, which also includes a second smaller store in the old vaults of Harcourt Street railway station which caters for the weekday office trade.

"It's always been about food for us ever since it first opened, particularly fresh food like fruit, vegetables, fish and then in the 1970's we introduced a butchers and delicatessen. Down through the years we have built up a good reputation for our food and this has been one of the major points of differentiation for us," he says.

Operating in the premium end of the retail market, the company resisted the temptation to compete in the more value-driven end of the market during the economic downturn, something which has paid off.

"Our customers expect us to be consistently

"We employ top class food specialists and chefs who create a lot of the food we sell. It's our key point of difference allowing for much more innovation and independence in contrast to dealing with other manufacturers or producers"

seeking and selling quality fresh products. It's important that we stay loyal to our demographic and thankfully they have stayed loyal to us," says Gary.

"Over the last seven years, the market has become very competitive, during the recession it was tough but, with the help of AIB, we got through it. The overall market has changed and it will continue to evolve, and rapidly. While we are seeing signs of sustainable growth and business is good, we will always need to innovate and try and be the best that we can," says Gary.

Fresh food is front and centre of the business, highlighted by the fact that Morton's has its own in-house production kitchen, operating seven days a week.

"Our kitchen, which is over the store in Ranelagh, produces food for both our stores. We employ top class food specialists and chefs who create a lot of the food we sell. It's our key point of difference allowing for much more innovation and independence in contrast to dealing with other manufacturers or producers" he says.

"It has worked well for us in the past and we think it will work well for us in the future," he concludes.

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