

CONVENIENT TRUTHS



The convenience sector is the new battleground for food retailers with above average growth prospects and only 20% of the market taken up by the big supermarkets.

Even for the larger players, building the store base quickly poses challenges...

- The market for suitable sites is highly competitive, dynamic and fragmented
- Location and operational factors are more critical for convenience stores than they are for supermarkets
- Capital cost has a bigger impact on the overall ROI per site
- The effort needed to pull schemes through varies - one size does not fit all.

The traditional supermarket production line must work differently for convenience stores. We identify four key factors in achieving success.

1. Make your own market for convenience sites

The traditional 'see what's out there via the agents' approach will not generate the required quantity or quality of sites on its own. Additional acquisition channels include; speculative approaches to independents, pump-priming developers, sponsoring development directly, picking up sites at auction, and business-to-business strategic plays (think of bank disposals or receiverships). The volume and speed at which the front of pipeline must operate is higher for convenience stores than it is for traditional supermarket new builds and the appraisal and design process must gear up accordingly. Acquisition must operate both tactically (kissing enough frogs to find the princes) and strategically (to get the quantum deals).

2. Get acquisition, feasibility and delivery working as a unified force

To make a big impact on sales, major convenience retailers must increase their store base by several hundred i.e. multiple store openings week in, week out. Whilst project team heroics might support a quick year end push, sustaining that level of growth requires well-resourced teams, slick processes, robust performance management and strong supporting infrastructure, such as programme office, supply chain and Management Information Systems (MIS). Easy to say, hard to do in practice. The most developed 'production lines' are twice as effective as the least developed. The best operation we have seen has the whole team in one, open-plan war-room. Close integration and shared ownership between acquisition, feasibility and delivery is an absolute must.

3. Manage out complexity and over-engineering fast

The management investment required to craft a £15 million supermarket development three years in the making is clearly not what is needed for a six week convenience conversion. The store design and investment appraisal has to be managed down to the absolute fundamentals: trading performance; operational viability; capital spend; lease costs. Anything else is a luxury convenience developments can not afford. Stakeholders throughout the production line need to be managed accordingly, changes and tweaks which take you off course should not be the norm. What good looks like, is the production line collaborating to drive month on month achievements to simplify and eliminate tasks whilst reducing management attention.

4. Get the supply base playing to your tune

Like it or not, £100,000 (US\$ 150,000) of fit-out costs can be the difference that makes the difference on convenience schemes. Minor delays due to individual supplier failure can soon combine to create the year end log-jam so familiar to retail Programme Managers. These risks can be mitigated by adopting a value based approach to fit-out procurement, and implementing robust supply chain management with main contractors and tier two and three suppliers, ensuring each area is considered holistically and not in isolation. In the current construction market, finding willing suppliers and negotiating prices down is relatively straightforward. Selecting and maintaining the few that can perform consistently well on an industrial-strength convenience programme is not.

In summary, driving a substantial increase in the convenience store base requires two rare qualities: wisdom to recognise and accept the inconvenient truths, and courage to undertake the fundamental re-work of the property production line that is required.

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