

Trends in Foodstore Non-Food Retail

In recent years the big four (Tesco, Sainsbury's, Asda and Morrisons) have all been seeking to expand their in-store non-food offers.

The trend towards larger, new stores and the opportunity to add mezzanines in the run up to the change in planning legislation has provided the operators with the opportunity to add lots of new space which could be committed to non-foods. Non-food space in stores is forecast to double in the decade to 2009:

Non-Food Selling Space

	Million sq ft
1999	13.3
2004	18.2
2009	26.0 (est)

Source: Verdict and Oxford Retail Consultants

The attractions of providing a non-food offer have been:

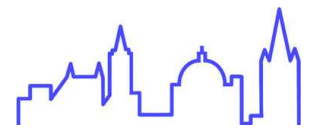
- a wider assortment, providing customers with more reasons to visit and shop
- the high volume of customers generated by food sales provide foodstore operators with a golden opportunity to expose their customers to their non-food offer
- a way of countering negative inflation in food

Much has been written about high margins being a good reason to sell non-foods, but this is usually compensated by lower sales densities than those achieved in food, so that gross profit per square foot is a whole lot less impressive.

Asda, of course, led the way in non-food sales and the success of the George brand is well catalogued. But even Asda now recognise that they still need the footfall generated by food to maintain George's sales, although George's integration into the Asda Living format provides a relatively low cost environment from which to sell.

The rush to expand non-foods is not at the expense of food space: there is no evidence to suggest that space given over to food is being sacrificed to non-foods – it is just that as new space is added a higher proportion is committed to non-foods. This is particularly true of mezzanines which do not lend themselves to food sales.

In non-food sales, it's Morrisons which lags behind the others, having appointed a Home and Leisure Director only a year ago, following two years of bitter wrangling inside the board which stalled their opportunity to capitalise on the Safeway acquisition.



So, what of the future? The credit crunch will no doubt be causing the Big Four operators to rethink their strategies. One of the main reasons for expanding non-foods was negative price inflation in food. This has evaporated as these operators now see:

- high price inflation in food
- price deflation in non-foods and decreasing sales densities as customers spend less

The graph below shows how serious the issue of price deflation has been for the operators with price deflation of 9% between 2002 and 2007:

Changes in real food prices



Source: CC analysis based on ONS Retail Price Index data.

It has been this price deflation in food which has allowed consumers to shift more of the expenditure into non-foods. Until a year ago. Now, the imperative to feed the family has taken over and high hopes of non-food growth running at 2½ times the rate of growth in food have evaporated.

The balance of profit opportunity has, therefore, swung back towards food & drink and away from non-foods, for the next few years at least.

The Big Four Operators must be reviewing the balance between their food and non-food assortment and will adjust the mix in favour of food & drink to maximise profit.