

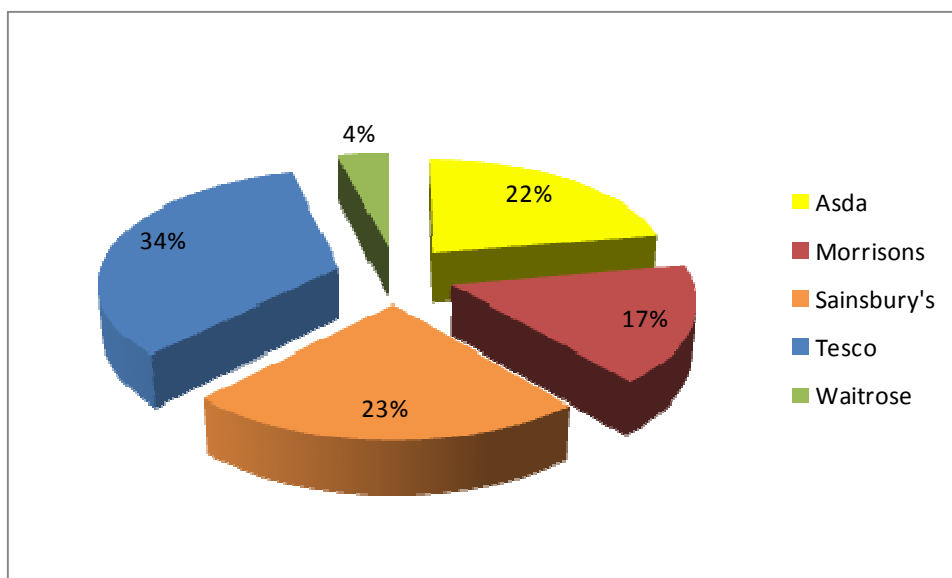
Trends in Medium and Large Format Foodstores

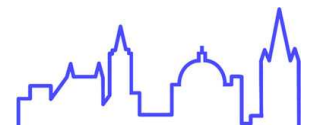
Here, we look at trends amongst the 5 main operators of larger format stores (Asda, Morrisons, Sainsbury's, Tesco and Waitrose) and their growth in stores and space over the last 3 years (2006 – 2008). Although there has been much activity in small format stores, most of the growth in space has come from stores of 15,000 sq ft net sales area or larger. Looking at a split between medium (15 – 25,000 sq ft) and large (> 25,000 sq ft) formats we find that, amongst these operators:

- in 2008 there are 1,826 medium and large format stores in the UK, split 74:26 in favour of large format stores. This provides 68.9 million sq ft of sales space, split 86:14
- Morrisons has continued to rationalise its portfolio, trading from the same number of large format stores and 24 fewer medium format stores
- Asda and Sainsbury's have added the largest number of stores (27 and 28 respectively) with most being of the larger format
- Tesco has added 22 stores, of which 15 are in the medium format

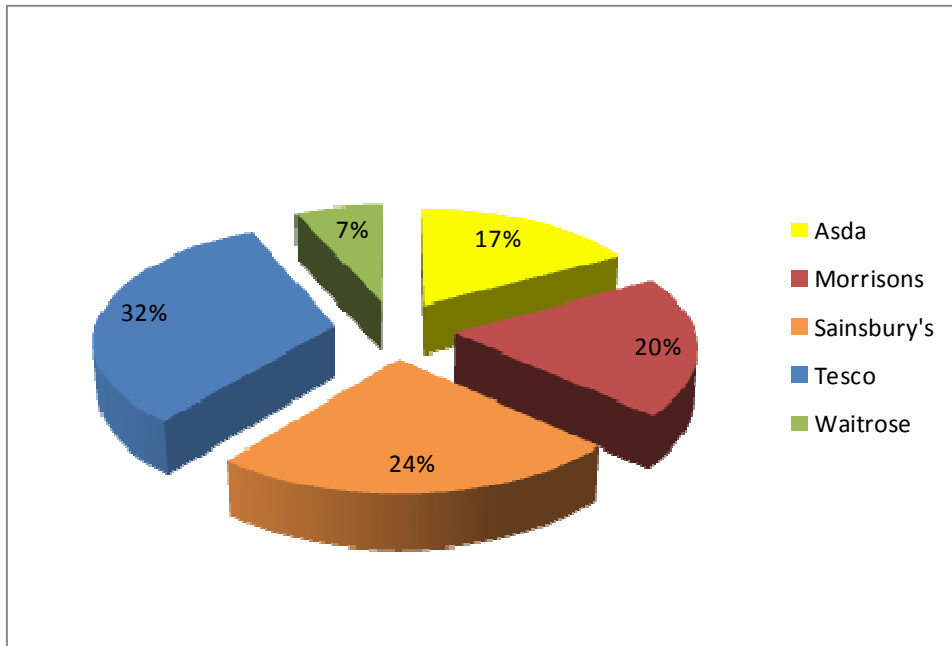
Graphs 1 and 2 show how Tesco continue to dominate larger format foodstore provision in the UK, both in number of stores and space.

Graph 1: Medium and Large Format Foodstore Space



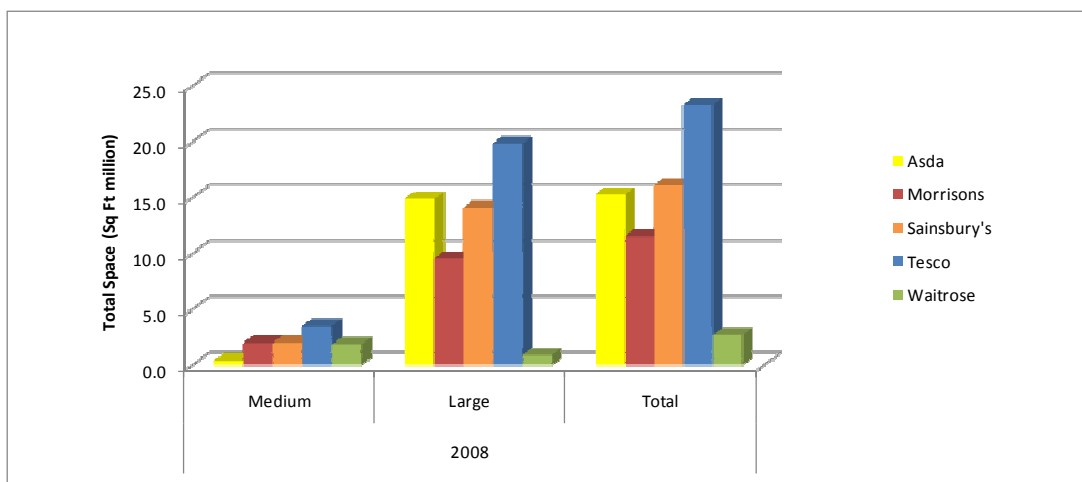


Graph 2: Numbers of Medium and Large Format Foodstores

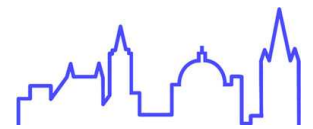


Graph 3 shows how much more space is committed to large format stores than medium format stores

Graph 3: Floor Space by Store Type and Retailer



Over the period, Tesco has lost out in its share of primary shoppers to Sainsbury's as Sainsbury's stages a recovery. Meanwhile, Asda has made the strongest gains, built on its promise of low prices, with Morrisons being the real loser. This has been the consequence of store rationalisation which has continued over the last 3 years, not helped by boardroom battles to keep



their eye off the ball. A turnaround may be in prospect, as they drive sales per outlet up substantially (up £27.6 million/outlet to £33.4 million/outlet between 2006 and 2007).

In general, with current planning conditions, all of the operators are keen to expand any store format they can and it is likely, for the foreseeable future, that it will be planning conditions which determine the rate of expansion in all formats.

And the credit crunch? Well, the flight to value which favours small format discounters may seem like a threat, but small unit sizes (and therefore ranges) and lack of coverage are still their biggest handicap.

These 5 operators have already reacted. Each has been keen to prove that they are price matching the discounters. Sainsbury's claim to be as cheap as Aldi and have seen sales of their budget own brand products increase by 30%. Even Waitrose are now promoting price matching against Sainsbury's and Tesco.

The planning system mitigates against a swift reaction to market changes by the small format discounters and so expect that the wide assortment, keen pricing and better coverage offered by these 5 operators will see them through.