



THE **BIGD** **DEBATE** 2015

6th October 2015, London

#TheBigDebate



**THE
BIGDEBATE
2015**

 **SHORE CAPITAL**
CAPITAL MARKETS

Dr Clive Black
Head of Research
Shore Capital Markets
A Broker's Perspective

6th October 2015, London

#TheBigDebate



The superstores woes go back a long way.

They dug their own graves.

Can they climb out to a brighter place?

A broker's perspective



Hindsight is a wonderful thing!

- **The British superstore groups face a crisis of identity.**
- **They need to work out where and in what form their future lies.**
- **The collapse of earnings is an amalgam of circumstance and self-penalisation.**
- **This paper asks if the past provides an indication of the future for the superstore?**



Today's predicament is deep seated.

- **From a real estate perspective there was over-expansion, particularly by Tesco.**
- **Online & better specialists undermined non-food investment thesis for hypermarkets.**
- **Commercially the superstores problems go back to 2006 and the oil & commodity shock.**
- **Superstore management became drugged on inflation, rising gross margins and 'the cheques'.**
- **Despite reams of 'insight' they didn't understand the lives of their customers.**



Facing the wrong direction.

- **Superstores became self-consuming.**
- **They complicated the offer, diluted scale benefits & thought they were clever than their customers.**
- **Price matching was ineffectual and arguably insidious.**
- **The retailers didn't understand the reality of the 2007-12 consumer recession.**

They let shoppers down in their hour of need.



- **Real incomes collapsed at the turn of the decade (-10% in 2009/10).**
- **Households needed to save money & food became key to household budgets; list shopping, larder de-stocking, lower waste, more trips.**
- **Coupons, vouchers, price pledges, promotions were the superstore response; anything but price cuts....**
- **Managements were out-manoeuvred by the savvy shopper.**
- **The superstores were driven by suppliers and not customers.**

The superstores do not operate in a vacuum.



- **Needy customers, many 'BC' income bands, found new places to shop.**
- **Fascia that they did not know became destinations.**
- **When they shopped those stores, their basket values were meaningfully compressed...**
- **...and the shopping experience exceeded expectations.**
- **'The genie was out of the bottle'.**



The German's day came.

- **European limited assortment discounters (LADs) are not new to the UK; c.20 years.**
- **The LADs saw their opportunity and pounced.**
- **Range development moved into the superstores' manor; fresh & chilled heartlands.**
- **Marketing was in-tune with society - value based but witty still.**
- **Complacent superstores let them in...**



It's far from just about discounters though...

- **Eating out the home is depressing supermarket volumes.**
- **Falling calorific intake is also cutting basket size & changing mix.**
- **A structural reduction in waste reduces food bought to be thrown away..., more volume contraction...**
- **...whilst affordable treats help drive premium retailers, who also outperform.**
- **Convenience and online eat margin from within.**



The perfect storm.

- **Superstore market shares have structurally fallen...**
- **...margins have collapsed...**
- **...asset values have been slashed...**
- **...dividends cut and waived...**
- **...managements' removed...**
- **...sector equity de-rated, bonds downgraded.**



The death of the superstore...?

- **The future is all about the effectiveness of management.**
- **Re-defining the customer relationship in a world where the genie doesn't go back in the bottle.**
- **Re-understanding the meaning of superstore value...?**
- **...knowing what LADs are not...**
- **...doing so in a capital constrained world with cost headwinds (NLW..., rates).**

Mystic Meg time.



- **Discounters will still advance but they will slow; they will face greater scrutiny too...**
- **Online will gain share with stores centrally involved, will growth rates normalise...?**
- **Supermarket convenience may have peaked but neighbourhood, forecourt & food-to-go has not.**
- **Non-food still has to find its time in superstores.**
- **There is no quick fix to all this.**

In a land so close but a horizon far, far away..



- **Residual superstores benefiting from the turn off of the space tap.**
- **UK population & economic growth are powerful medium-to-long term volume/mix drivers.**
- **The world is but one bad harvest from food price inflation.**
- **The discounters price advantage of fresh & chilled food has structurally declined.**
- **Sales & cash profit densities can rebuild, free cash flow could be prodigious...**