

Overview of grocery retailers

1. This appendix reviews the major retailers in the UK grocery market. The following summaries provide some insight to business strategy and sales mix, store number and size distribution, sales share, turnover and profit.
2. The following data on the major retailers in the UK grocery market has been derived from publicly available information from Verdict and IGD Research and supplemented with responses to the main party questionnaire. Where we have been required to convert data from imperial to metric, to meet reporting standards, this has been noted. In some instances estimates have been reported and this is also noted where this has occurred (e). Finally, for some retailers we have reported on some criteria with information sourced from different information providers. This has enabled a degree of comparability between retailers and has been noted where this has been done.
3. Generally we have chosen to use the information from a particular provider on the basis of the form of the information presented, and retailer share of grocery sales is an example of this. The measurement of grocery sales shares is generally a difficult undertaking due to the way that different retailers report data and varying definitions of retail sectors and product categories. We have selected the Verdict data series in this particular instance as it provides an indication of relative sales shares including that of smaller retailers represented as 'Others' and all the retailers considered in the provisional findings report. The Verdict data is based on ONS data. However, this series is broadly comparable to the trends in sales share information calculated by IGD Research which is based on TNS consumer survey information.

TABLE 1 Grocery sales share of UK grocery retailers

	<i>per cent</i>					
	2001	2002	2003	2004	2005	2006e
Tesco	18.8	19.6	21.6	23.0	24.5	26.0
Asda	10.9	11.9	12.4	12.9	12.9	13.2
Sainsbury's	12.6	12.4	12.1	12.2	12.3	12.5
Morrisons Group	0.0	0.0	0.0	9.9	9.2	9.1
Safeway	8.1	8.0	7.6	0.0	0.0	0.0
Morrisons	3.5	3.7	4.1	0.0	0.0	0.0
Somerfield Chain	2.8	2.8	2.7	2.9	3.3	3.5
M&S	3.1	3.2	3.2	3.3	3.3	3.5
Waitrose	2.3	2.4	2.5	2.7	2.9	3.1
CGL	2.5	2.6	2.9	2.8	2.6	2.6
Iceland	1.7	1.6	1.5	1.4	1.4	1.4
Aldi	1.1	1.1	1.1	1.2	1.2	1.3
Lidl	0.9	1.0	1.1	1.1	1.2	1.3
Kwik Save	0.0	1.9	1.8	1.5	1.3	0.7
Netto	0.4	0.4	0.4	0.4	0.5	0.5
Others	<u>31.3</u>	<u>27.4</u>	<u>25.0</u>	<u>24.7</u>	<u>23.4</u>	<u>21.3</u>
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Verdict, UK Grocery Retailers 2007, December 2006.

Note: Department stores and M&S's sales share relate to food sales only.

TABLE 2 Major UK grocery retailers, UK sales area, 2000 to 2006

	<i>UK sales area sq m '000</i> <i>('000 sq ft)</i>						<i>Change over</i> <i>(%)</i>	
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	1 yr	5 yrs
Tesco	1,632 (17,564)	1,734 (18,667)	2,025 (21,800)	2,155 (23,200)	2,287 (24,615)	2,408 (25,919)	5.3	47.6
Sainsbury's	1,246 (13,413)	1,307 (14,067)	1,412 (15,199)	1,465 (15,770)	1,521 (16,370)	1,575 (16,957)	3.6	26.4
Asda	943 (10,153)	983 (10,584)	1,050 (11,300)	1,133 (12,200)	1,179 (12,688)	1,396 (15,024)	18.4	48.0
Safeway	952 (10,249)	957 (10,304)	977 (10,514)	996 (10,718)	N/A N/A	N/A N/A	N/A	N/A
Somerfield	1,030 (11,087)	1,014 (10,914)	995 (10,710)	949 (10,220)	989 (10,642)	907 (9,767)	-8.2	-11.9
Morrisons	364 (3,917)	383 (4,120)	394 (4,241)	420 (4,526)	1,158 (12,468)	988 (10,633)	-14.7	171.5
M&S	1,156 (12,440)	1,136 (12,229)	1,147 (12,349)	1,187 (12,782)	1,198 (12,896)	1,216 (13,093)	1.5	5.2
Waitrose	220 (2,364)	222 (2,386)	246 (2,650)	251 (2,707)	294 (3,166)	329 (3,543)	11.9	49.9
Iceland	344 (3,700)	344 (3,700)	339 (3,645)	336 (3,613)	344 (3,701)	311 (3,343)	-9.7	-9.7
<i>Total</i>	<i>7,883</i> <i>(84,847)</i>	<i>8,096</i> <i>(87,142)</i>	<i>8,585</i> <i>(92,408)</i>	<i>8,894</i> <i>(95,736)</i>	<i>8,969</i> <i>(96,546)</i>	<i>9,130</i> <i>(98,279)</i>	<i>1.8</i>	<i>15.8</i>
Morrisons + Safeway	1,316 (14,166)	1,340 (14,424)	1,371 (14,755)	1,416 (15,244)	1,158 (12,468)	988 (10,633)	-14.7	-24.9

Source: IGD, *Grocery Retailing 2006*.

Notes:

1. Conversion to sq metres from sq feet was undertaken by the CC.
2. N/A = not available.

TABLE 3 Product range and volume throughput by company

Company	% of total throughput %	Annual case throughput	Total warehouse space sq m (sq ft)	% share of total %	Product range	FMG %	SMG %	Frozen %	Non-foods %	BWS %	Produce %	Chilled & fresh meat %
Asda†	21.50	1,300,000,000	844,461 (9,090,000)	16.30	65,000	26.60	9.50	3.80	25.20	4.50	8.50	21.90
Budgens	0.70	32,900,000	27,591 (297,000)	0.60	6,600	42.00	7.00	3.00		6.00	9.00	33.00
CGL	6.00	287,966,380	260,586 (2,805,016)	12.50	15,201	26.43	16.38	6.24	0.44	7.16	11.73	31.62
Iceland	2.50	118,400,000	89,184 (960,000)	2.50	3,420	32.40		30.50	5.30	3.80	5.30	22.70
Londis‡	0.70	33,454,262	36,417 (392,000)	1.90	6,300	69.80				16.40		13.80
M&S (Food)§	3.40	172,284,000	79,708 (858,000)	4.40	5,000	28.70		1.70			69.60	
Nisa-Today's	2.00	95,300,000	81,288 (875,000)	1.90	12,900	20.30	27.70	7.10	1.20	14.80	1.00	27.90
Palmer & Harvey McLane	3.80	185,013,000	103,769 (1,117,000)	9.40	12,000	82.53	3.05	4.93	1.78	3.61	0.05	4.05
Sainsbury's¶	18.10	875,000,000	521,355 (5,612,000)	13.10	26,000	30.00	20.00	4.00	1.40		12.00	33.00
Tesco	37.10	1,785,532,000	833,033 (8,966,987)	17.50	44,000	30.70	9.40	4.70	11.20	5.50	13.30	25.10
Waitrose	<u>4.20</u>	<u>202,000,000</u>	154,121 (1,659,000)	<u>5.00</u>	<u>24,500</u>	<u>31.50</u>	<u>3.50</u>	<u>2.30</u>	<u>9.70</u>	<u>5.30</u>	<u>19.40</u>	<u>28.30</u>
Total	100.00	4,902,149,642	3,289,624 (35,410,375)	100.00	255,921	31.60	11.00	4.90	10.50	4.30	13.10	24.70

Source: IGD Research, *Retail Logistics 2007*, December 2006.

*Alliance Boots volumes are single unit throughput and have been excluded from the total figure.

†Asda volumes include grocery and non-food, but exclude clothing units.

‡Londis FMG includes SMG lines.

§M&S FMG includes both SMG and BWS lines; product range is between 4,500 and 5,000 food lines.

¶Sainsbury's BWS is included within FMG and SMG lines.

Note: FMG = fast-moving grocery lines; SMG = slower-moving grocery lines; BWS = beers, wines and spirits lines.

Product range includes general merchandise and non-food lines.

Summary profiles of UK grocery retailers

Asda

4. Asda categorizes itself as a one-stop supermarket operator. It carries the same groceries range that all large supermarkets carry (see Table 4). In addition, it sells a wide range of non-grocery products. Sales space is allocated primarily to grocery products.

TABLE 4 Asda sales mix

<i>Product category</i>	<i>%</i>
Ambient groceries	18
Grocery non-foods	4
Tobacco	4
Chilled	7
Frozen	7
Meat and fish	7
Produce	8
Bakery	3
Delicatessen	2
Beer, wines and spirits	8
Subtotal	68
Clothing	8
Health and beauty	7
Other non-food	8
Subtotal	23
Petrol	8
Cafe	1
Subtotal	9
Total	100

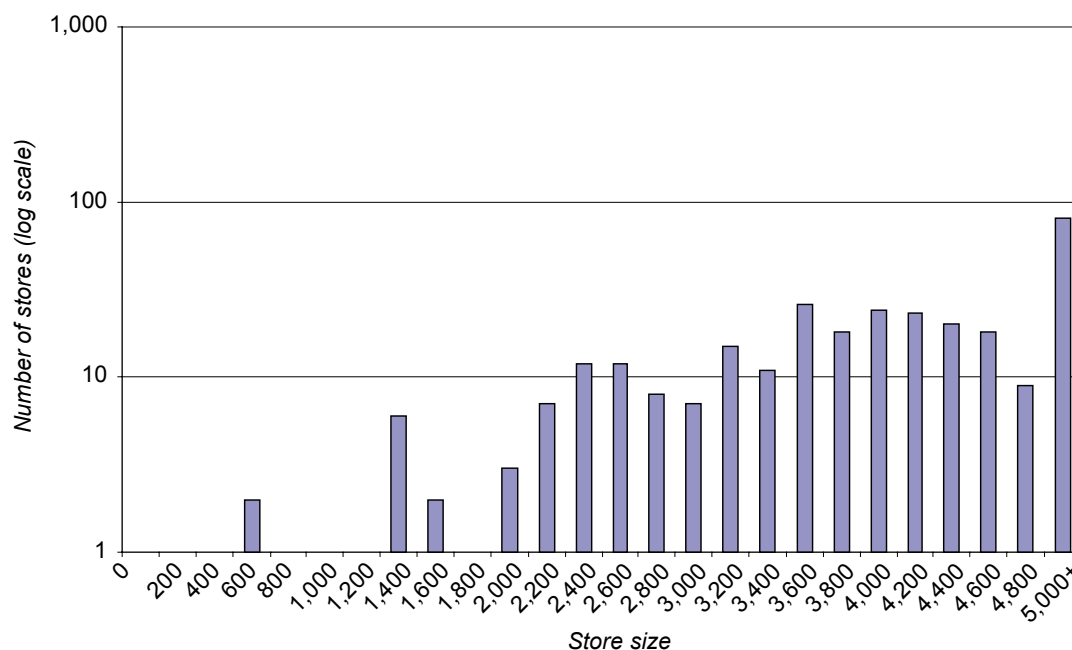
Source: Verdict, *UK Grocery Retailers 2007*, December 2006.

5. Asda generally operates a large store format (see Figure 1). Asda also operates a small Internet sales operation and a financial services business. Asda told us that it opens stores in town-centre locations although it can find this difficult for various reasons. Nearly [X] per cent of its stores are located in town centres (and just over [X] per cent are in district centres) and five of the nine stores that it plans to open in 2007 are in town centres. Fewer than [X] per cent of Asda's stores are in edge-of-centre locations, [X] per cent are out of centre, and less than [X] per cent are out of

town.¹ Consistent with Asda stating that it finds it difficult to obtain new sites with planning permission, there has been a relatively modest number of new Asda stores over the period since 2000 (see Table 5). However, sales area has experienced consistent growth as a proportion of its overall sales area.

FIGURE 1

Asda store distribution



Source: CC analysis of main party questionnaire.

TABLE 5 Asda store profile, 2000 to 2006e

Year to Dec	Store numbers	Sales area '000 sq m (sq ft)	Year-on-year change %	Average size '000 sq m (sq ft)	Sales /sq m £ pa (sq ft)
2000	241	954 (10,267)	7.6	3.96 (42.60)	10,592 (984)
2001	250	1,010 (10,867)	5.8	4.04 (43.50)	10,936 (1,016)
2002	258	1,065 (11,462)	5.5	4.12 (44.40)	11,754 (1,092)
2003	265	1,112 (11,974)	4.5	4.20 (45.20)	12,239 (1,137)
2004	271	1,194 (12,850)	7.3	4.40 (47.40)	12,422 (1,154)
2005	300	1,298 (13,976)	8.8	4.39 (47.20)	11,926 (1,108)
2006	315	1,345 (14,473)	3.6	4.38 (47.10)	12,034 (1,118)

Source: Verdict, *UK Grocery Retailers 2007*, December 2006 and updated by Asda.

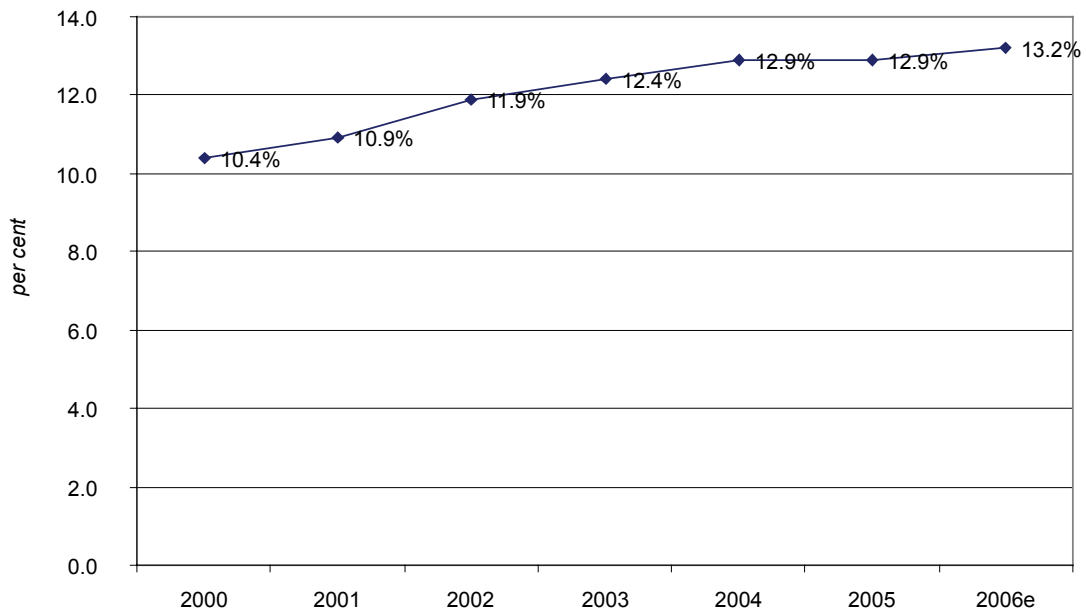
Note: Conversion to sq metres from sq feet was undertaken by the CC.

¹Asda transcript of second hearing, 4 July 2007, p49, lines 18–19, and p51, lines 13–18.

6. Asda told us that it aims to be the market leader on price and value. The company operates an every-day-low-price/every-day-low-cost (EDLP/EDLC) strategy, which involves offering constantly low prices across the range of products. Asda's grocery sales share has grown over the period since 2000 and been maintained more recently (see Figure 2). This is reflected in Asda's turnover over the period (see Figure 3).

FIGURE 2

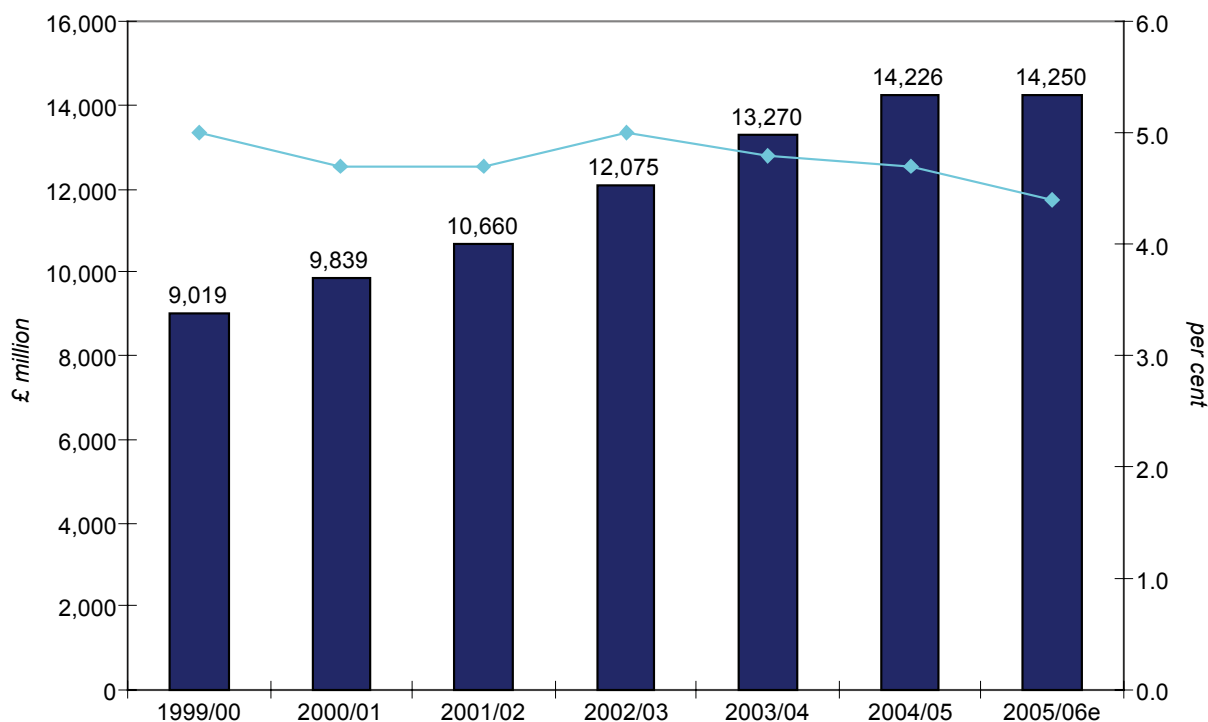
Asda grocery sales share



Source: Verdict, UK Grocery Retailers 2007, December 2006.

FIGURE 3

Asda UK turnover and operating profit



Source: IGD Research, *Retail Logistics 2007*, December 2006.

Note: These figures include non-grocery and petrol sales.

CGL

7. CGL is the largest co-operative food retailer in the UK. The majority of its outlets are convenience stores and this is reflected in its sales mix (see Table 6).

TABLE 6 CGL food division sales mix, 2005/06

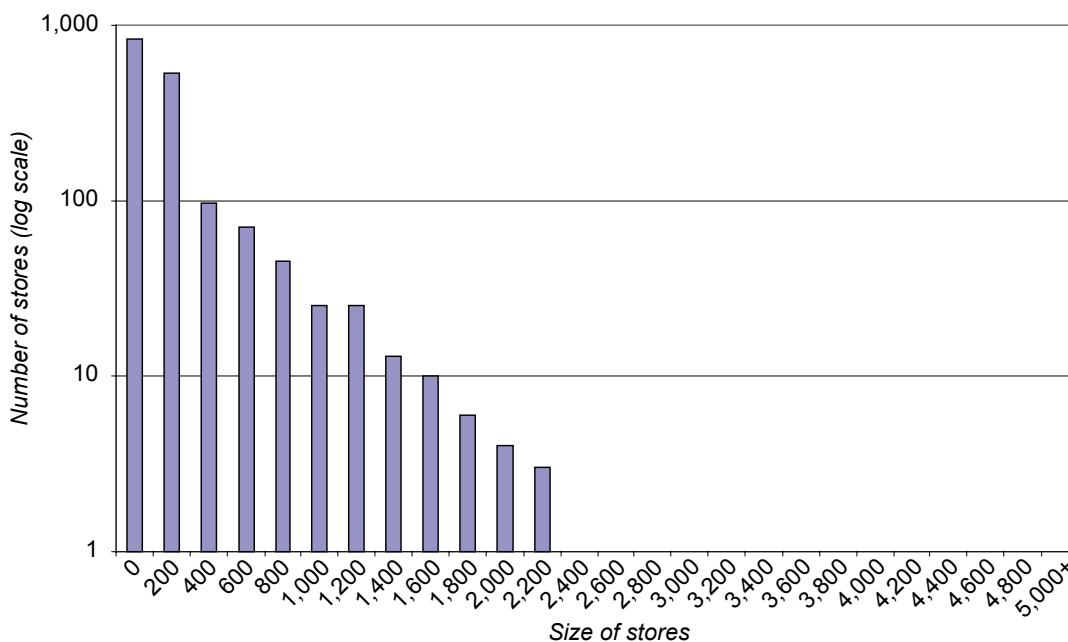
Product category	%
Chilled food	16
Impulse grocery	13
Beers, wines and spirits	12
Tobacco	14
Produce	7
Grocery non-food	5
Ambient edible grocery	7
Meat and poultry	5
Bakery	6
Frozen food	3
Newspapers and magazines	4
Delicatessen	1
Health and beauty	3
Other non-food	4
Total	100

Source: Verdict, *UK Grocery Retailers 2007*, December 2006.

8. CGL told us that the Food Retail division of CGL intends to create a more robust and profitable food retail business, with a core chain of shops between [✂] and [✂] sq metres (see Figure 4). It told us that this reflects a long-held core strategic aim to be market leader in convenience and top-up shopping. The merger in 2000 between Co-operative Wholesale Society and Co-operative Retail Services resulted in a total of 1,100 food outlets. After further rounds of acquisitions, the CGL now has around 1,650 outlets and merged on 29 July 2007 with United Co-operatives Limited to add approximately 600 additional food outlets, although average store size has diminished over the period (see Table 7).

FIGURE 4

CGL store distribution



Source: CC analysis of main party questionnaire.

TABLE 7 CGL store profile, 2000 to 2007 (excluding United Co-operatives Limited)

Year to Jan	Store numbers	Sales area '000 sq m (sq ft)	Year-on-year change %	Average size '000 sq m (sq ft)	Sales/sq m £ pa (sq ft)
2000	640	294 (3,166)	-2.9	460 (4,947)	4,768 (443)
2001	1,084	509 (5,476)	73.0	469 (5,052)	N/A
2002	1,071	481 (5,178)	-5.4	449 (4,835)	4,865 (452)
2003	1,720	558 (6,002)	15.9	324 (3,490)	5,048 (469)
2004	1,719	586 (6,311)	5.1	341 (3,671)	5,382 (500)
2005	1,764	590 (6,350)	0.6	334 (3,600)	5,177 (481)
2006	1,713	537 (5,785)	-8.9	314 (3,377)	5,296 (492)
2007	1,659	526 (5,667)	-2.0	317 (3,416)	5,748 (534)

Source: Verdict, *UK Grocery Retailers 2007*, December 2006.

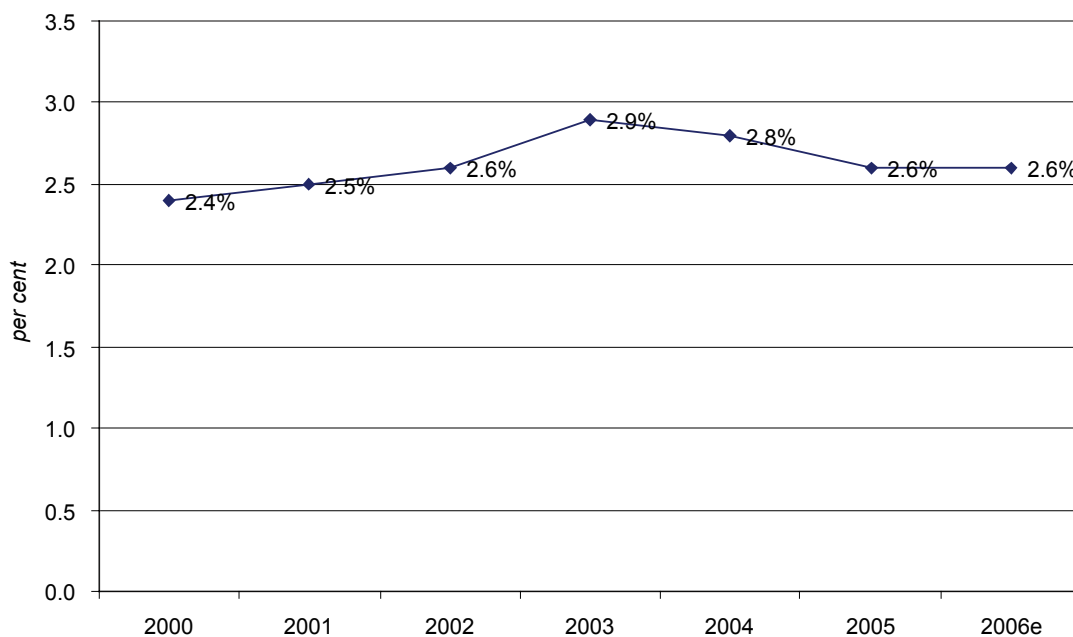
*Includes VAT.

Note: Conversion to sq metres from sq feet was undertaken by the CC.

9. The grocery sales share of CGL peaked when a large number of stores were being acquired in the period 2002 to 2004 (see Figure 5). [✂] These same factors are reflected in the operating profit, on the back of relatively consistent turnover (see Figure 6). The recently completed merger with United Co-operatives Limited has been reported as likely to boost grocery turnover in the coming financial year to over £4 billion.

FIGURE 5

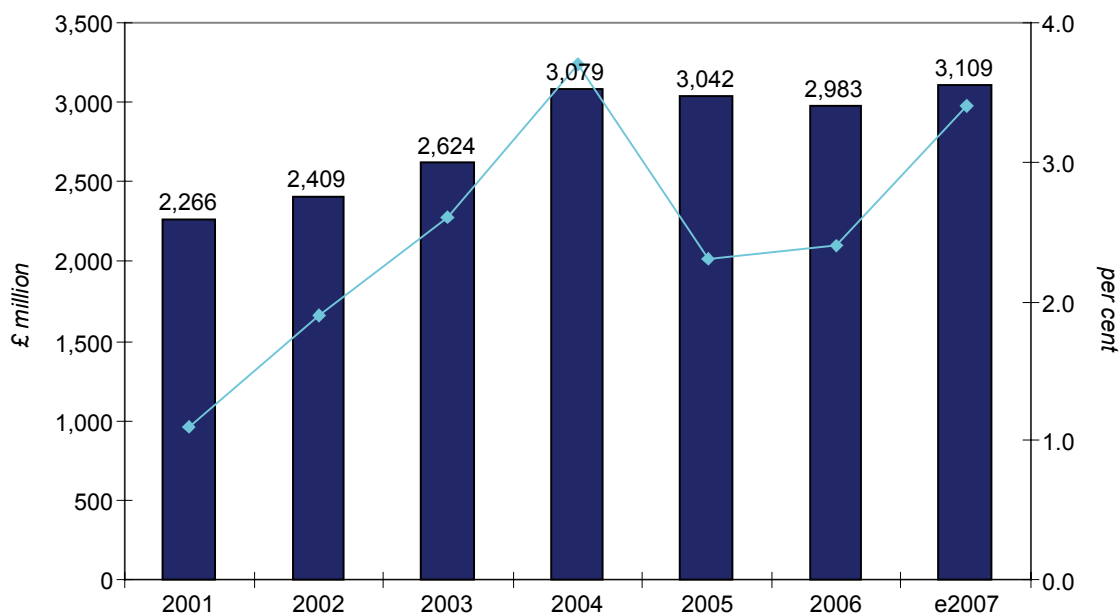
CGL grocery sales share, 2000 to 2006e



Source: Verdict, UK Grocery Retailers 2007, December 2006.

FIGURE 6

CGL grocery turnover and operating profit, 2001 to 2007e



Source: Verdict, UK Grocery Retailers 2007, December 2006.

Note: This graph is not directly comparable to other similar graphs in this appendix because it has a different data source. However, it is expected that the trends are broadly comparable with the other graphs.

Iceland

10. Iceland is a food retailer specializing in frozen food. Iceland's strategy is to be known as a good-value frozen food specialist with only a limited range of non-frozen products (see Table 8).

TABLE 8 **Iceland sales mix, 2006**

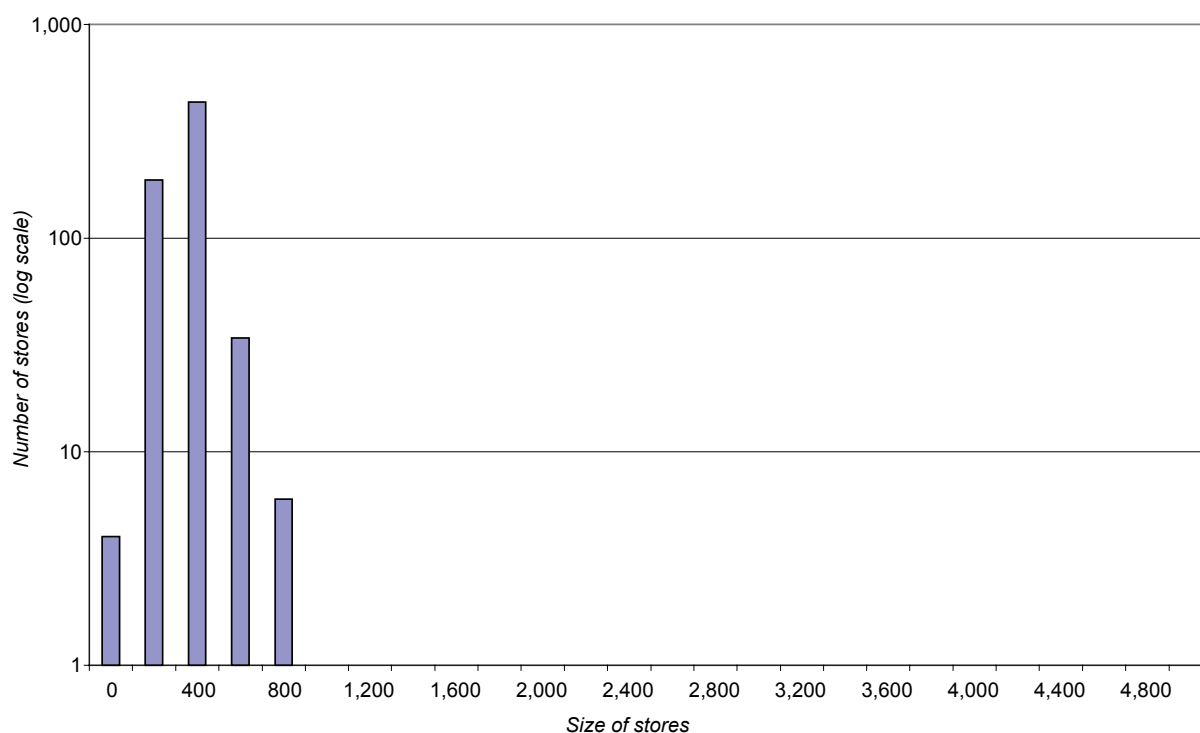
<i>Product category</i>	<i>%</i>
Frozen	37
Chilled/fresh	29
Ambient grocery	28
Beer, wines and spirits	3
Appliances	<u>3</u>
Total	100

Source: Verdict, *UK Grocery Retailers 2007*, December 2006.

11. Iceland does not operate internationally and its policy is to operate nationally through one fascia and one store format. It has 667 stores that average 465 sq metres of sales space and has increased its sales per sq metre since 2000 (see Figure 7 and Table 9).

FIGURE 7

Iceland store distribution



Source: CC analysis of main party questionnaire.

TABLE 9 Iceland store profile, 2001 to 2007e

Year to Dec	Store numbers	Sales area '000 sq m (sq ft)	Year-on-year change %	Average size '000 sq m (sq ft)	Sales/sq m £ pa (sq ft)
2001	766	341 (3,669)	0.9	445 (4,790)	4,844 (450)
2002	759	338 (3,639)	-0.8	445 (4,795)	4,682 (435)
2003	754	336 (3,615)	-0.7	445 (4,794)	4,478 (416)
2004	748	333 (3,583)	-0.9	445 (4,790)	4,618 (429)
2005	752	335 (3,610)	0.8	446 (4,801)	4,306 (400)
2006	667	300 (3,230)	-10.5	445 (4,785)	4,661 (433)
2007	670	309 (3,326)	3.0	445 (4,785)	5,188 (482)

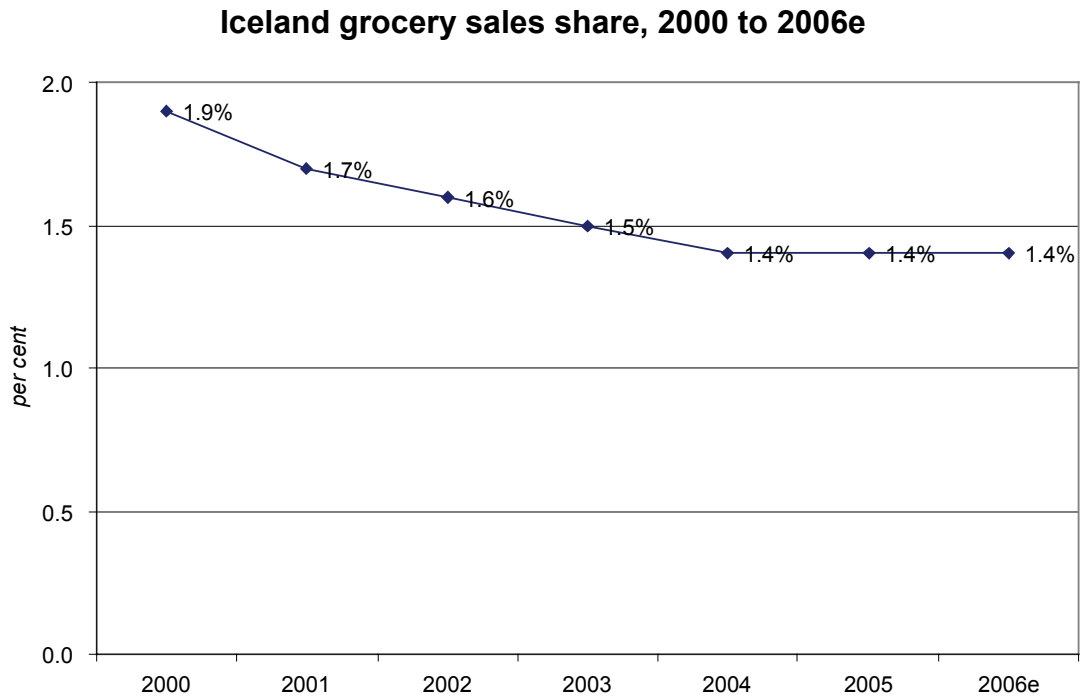
Source: Verdict, *UK Grocery Retailers 2007*, December 2006 and updated by Iceland.

Note: Conversion to sq metres from sq feet was undertaken by the CC.

- Iceland has been experiencing falling grocery sales share since 2000 for a number of reasons. The main factors are that it now has fewer stores, and has had to compete

for grocery sales share with strengthening offers from convenience stores. This can be seen in Figure 8. Falling operating margin and to a lesser extent turnover reflect the same trend seen in its grocery sales share (see Figure 11).

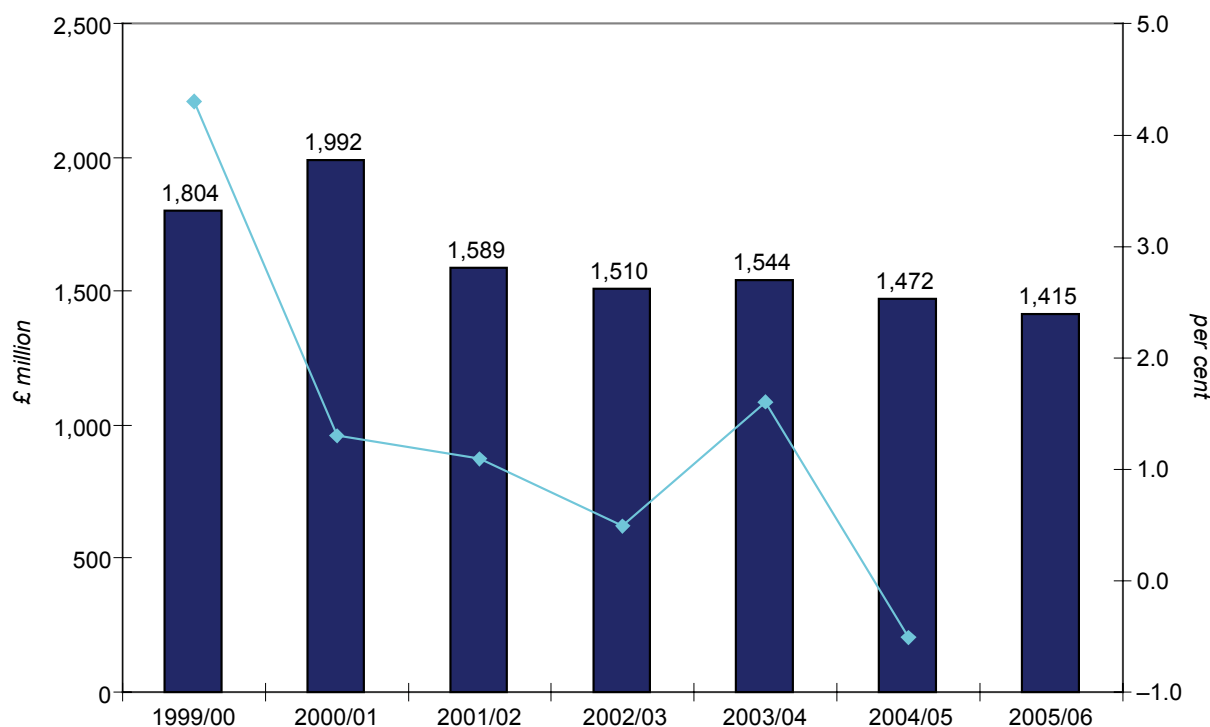
FIGURE 8



Source: Verdict, UK Grocery Retailers 2007, December 2006.

FIGURE 9

Iceland turnover and operating profit, 1999 to 2006



Source: IGD Research, *Retail Logistics 2007*, December 2006.

M&S

- The Food Division of M&S sells food, wines and non-food essentials. It told us that it aims to provide innovative products of the highest quality and freshness, which are ethically sourced and represent value to the customer, where 'value' denotes both quality and price. M&S considers that it now offers a similar range of the core grocery products to the main supermarkets (see Table 10). However, it does not offer the same variety within those product lines, as its products are exclusively own-label and not marketed with other brands.² M&S has approximately 7,000 product lines which provide a range across the key product segments. The strategy for the product range offered by M&S is to stock a single M&S brand for a product segment. This strategy can be contrasted with the strategies of other retailers which often offer up to six different versions of a product (and cite a much larger product range).

²Other than in BP stores where they are sold alongside some branded products.

TABLE 10 Estimated M&S grocery sales mix, 2005/06

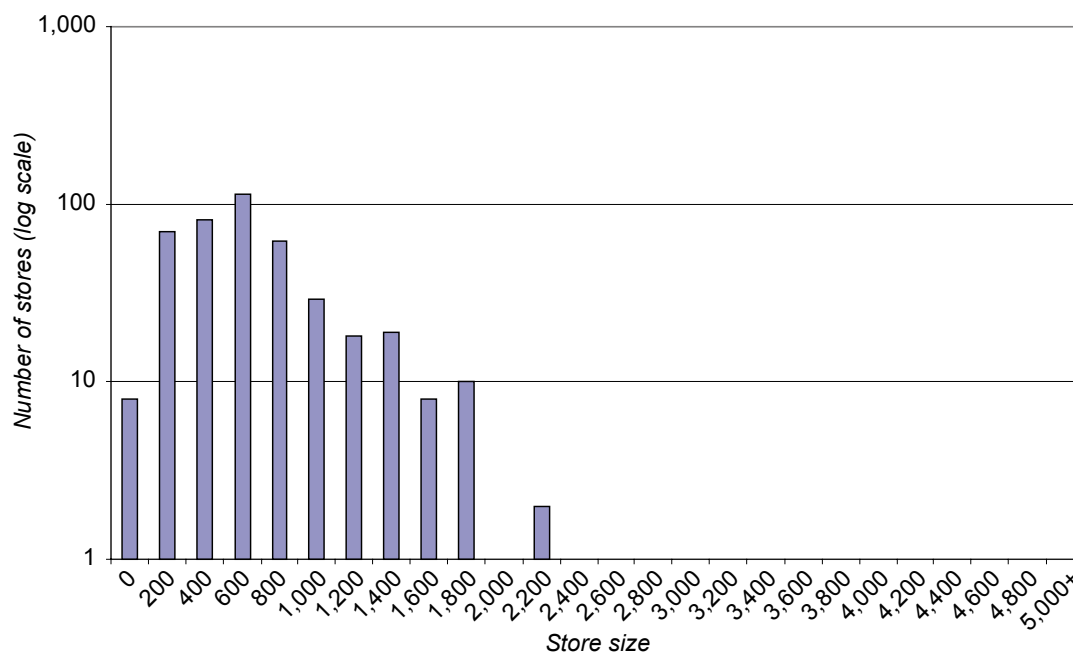
Categories	%
Ready meals	22
Other chilled	20
Produce	16
Ambient groceries	15
Meat/fish	14
Beer/wines/spirits	8
Frozen	2
Subtotal	97
Grocery non-food	3
Total	100

Source: Verdict, UK Grocery Retailers 2007, December 2006.

14. M&S operates 205 stand-alone Simply Food stores (including 61 franchised units), compared with 23 in 2000. The majority of its Simply Food stores are 280 to 1,000 sq metres and all are less than 2,000 sq metres in size and sales per sq metre have increased since 2000 (see Figure 10 and Table 12). M&S told us that it now intends to develop [X] sites of [X] sq metres in contrast to its earlier strategy of [X] sq metre sites.

FIGURE 10

M&S store distribution



Source: CC analysis of main party questionnaire.

TABLE 11 M&S store profile, 2000 to 2006

Year to Mar	Store numbers	Sales area '000 sq m (sq ft)	Year-on-year change %	Average size '000 sq m (sq ft)	Sales/sq m £ pa (sq ft)
2000	296	1,139 (12,265)	2.6	3.8 (41.4)	5,759 (535)
2001	302	1,152 (12,400)	1.1	3.8 (41.1)	5,490 (510)
2002	312	1,133 (12,200)	-1.6	3.6 (39.1)	5,759 (535)
2003	323	1,139 (12,255)	0.5	3.5 (37.9)	6,189 (575)
2004	367	1,187 (12,782)	4.3	3.2 (34.8)	6,275 (583)
2005	422	1,198 (12,900)	0.9	2.8 (30.6)	5,899 (548)
2006	451	1,215 (13,080)	1.4	2.7 (29.0)	6,028 (560)

Source: Verdict, *UK Grocery Retailers 2007*, December 2006.

Notes:

1. Store and sales data includes all UK M&S outlets including M&S Simply Food. Given that most of the space that has been added to the M&S store portfolio, since 2000, is grocery space, the growth rates above may be smaller than actual growth in grocery sales area.

2. Conversion to sq metres from sq feet was undertaken by the CC.

15. M&S's grocery sales share has been steadily increasing over the period which is consistent with its high number of new store openings (see Figure 11). M&S has stated that local market shares now vary from less than 1 per cent to as high as 15 per cent. UK grocery retail turnover and operating profit is shown in Figure 12. M&S intends to develop its online shopping facilities and aims to have a limited grocery range available to at-home shoppers by Christmas 2007.³ Over the next five years M&S intends to double the number of Simply Food stores to more than 400, including franchise stores at stations, airports and motorway services. In addition, it will extend its partnership with BP by adding Simply Food stores at up to 200 BP Connect sites.

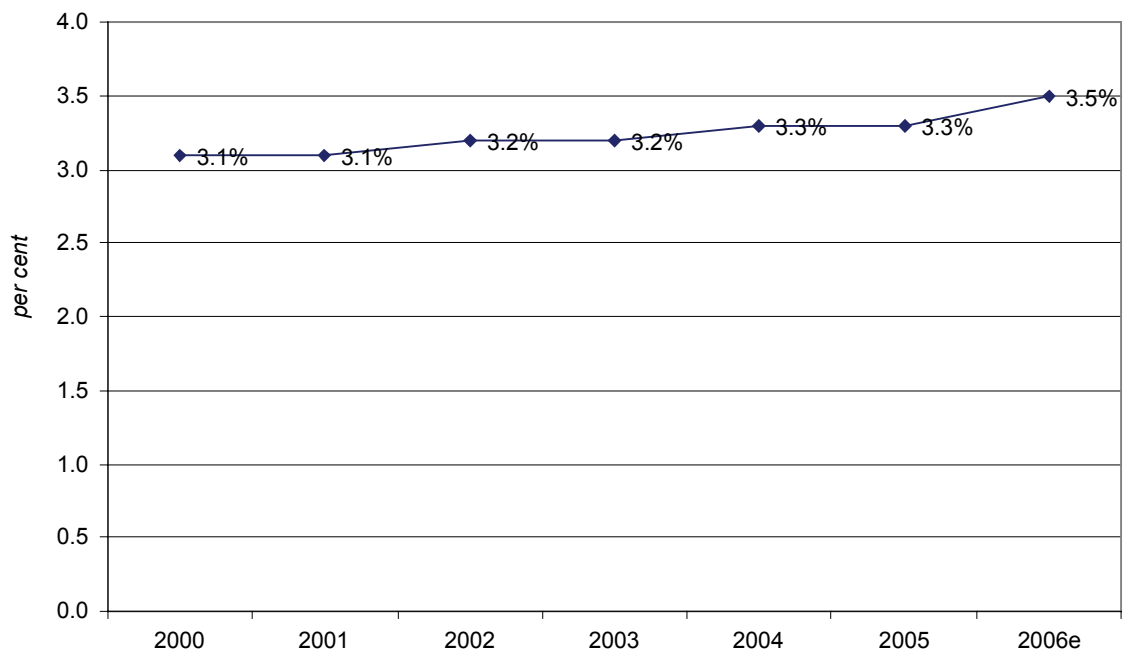
16. Internationally, product is sold in 219 franchise stores, in 34 territories around the world, predominantly in Europe, central Asia, Asia Pacific and the Middle East. In

³M&S Annual Report 2007.

2005/06, these stores, along with eight wholly-owned stores in Hong Kong, generated a turnover of £610 million and had an operating profit of £87.5 million.

FIGURE 11

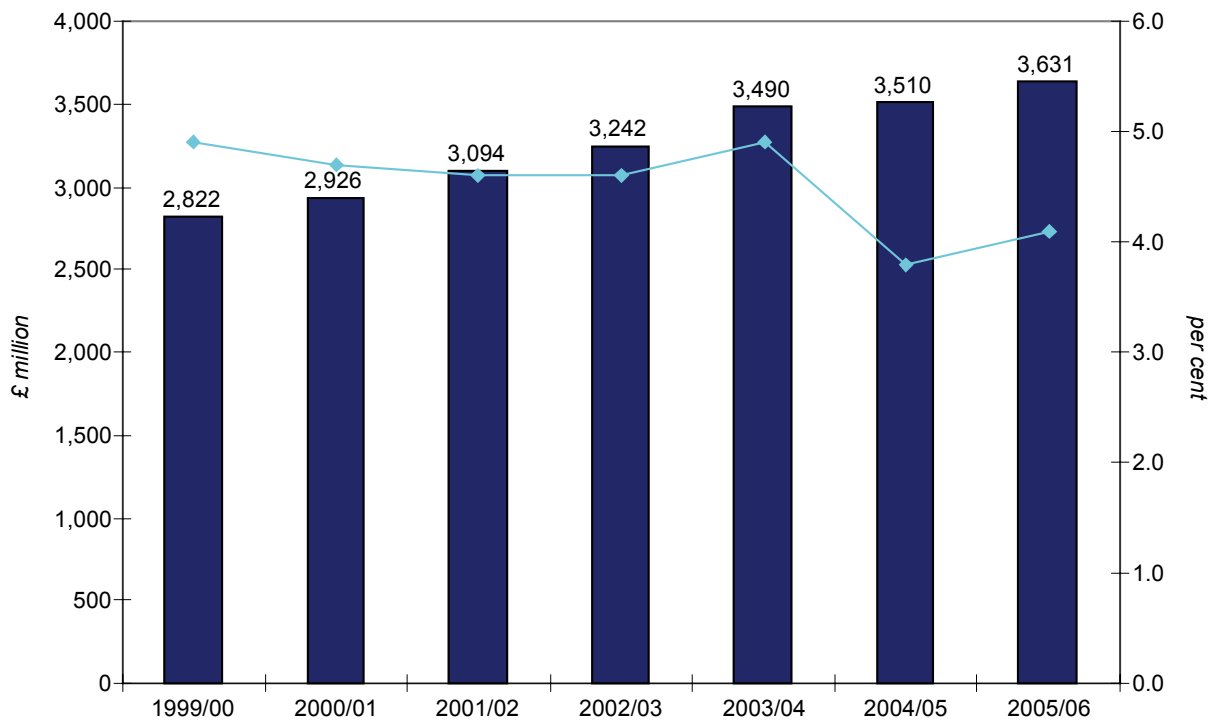
M&S UK grocery sales share, 2000 to 2006e



Source: Verdict, UK Grocery Retailers 2007, December 2006.

FIGURE 12

M&S turnover and operating profit, 1999 to 2006



Source: IGD Research, *Retail Logistics 2007*, December 2006.

Note: M&S food division is an IGD estimate.

Morrisons

- Morrisons is a grocery retailer that also processes and packs various fresh food products for its own stores. Morrisons told us that it operates one-stop shops and, where possible, has a petrol filling station alongside the supermarket. The product range is tailored to individual store sizes (see Table 12).

TABLE 12 Estimated Morrisons grocery sales mix, 2005/06

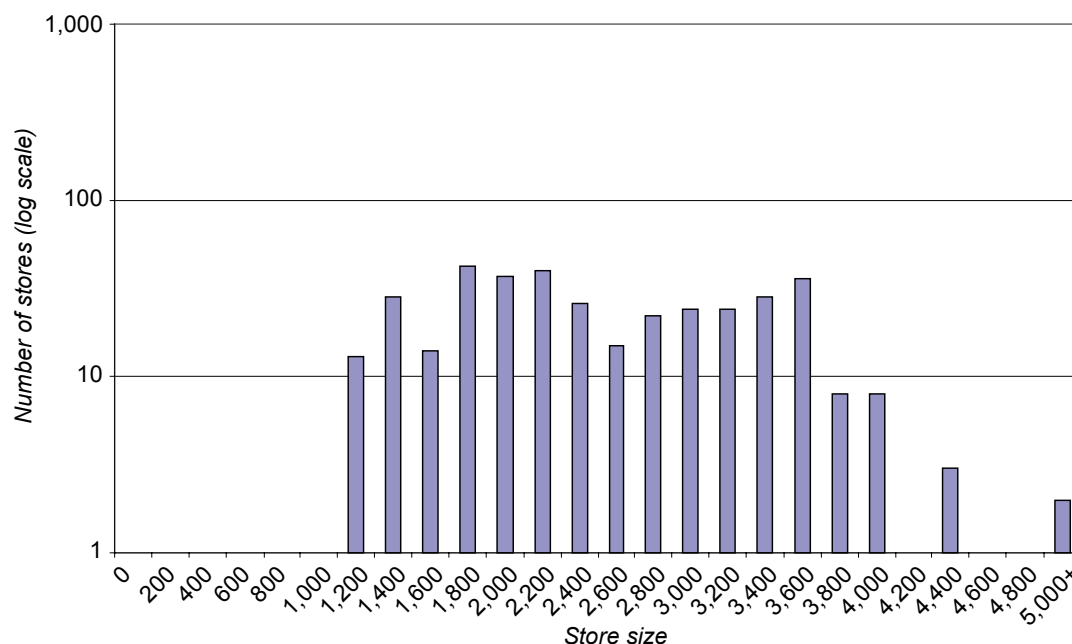
<i>Categories</i>	<i>%</i>
Ambient groceries	18
Grocery non-food	4
Tobacco	4
Chilled	7
Frozen	5
Meat and fish	<u>9</u>
Produce	7
Bakery	3
Delicatessen	2
Beers, wines and spirits	<u>9</u>
Subtotal	68
Clothing	0
Health and beauty	7
Other non-food	<u>5</u>
Subtotal	12
Petrol	18
Cafe	<u>2</u>
Subtotal	20
Total	100

Source: Verdict, *UK Grocery Retailers 2007*, December 2006.

18. In 2004 Morrisons acquired the grocery retailer Safeway and quadrupled its store numbers with the acquisition. Morrisons told us that its strategy is to offer a full food proposition, at consistent value, throughout its 360 stores in the UK (see Table 13). Morrisons also told us that its ideal store size is a sales area of 3,250 to 3,700 sq metres, although a substantial number of its stores are smaller than this (see Figure 13). Having adequate parking facilities and choice of goods is considered by Morrisons to be important to its overall offer. The extent of the Morrisons' non-food offer is scaled to be relative to individual store sizes.

FIGURE 13

Morrisons' store distribution



Source: CC analysis of main party questionnaire.

TABLE 13 **Morrisons store profile, 2000 to 2007e**

Year to Jan	Store numbers	Sales area '000 sq m (sq ft)	Year-on-year change %	Average size '000 sq m (sq ft)	Sales/sq m £ pa (sq ft)
2000	101	332 (3,572)	5.1	3,286 (35,366)	9,171 (852)
2001*	110	363 (3,907)	9.4	3,300 (35,518)	10,075 (936)
2002	113	375 (4,039)	3.4	3,321 (35,743)	10,613 (986)
2003	119	394 (4,241)	5.0	3,311 (35,639)	11,151 (1,036)
2004	125	420 (4,526)	6.7	3,364 (36,208)	12,142 (1,128)
2005	498	1158 (12,468)	175.5	2,326 (25,036)	N/A
2006	378	987 (10,622)	-14.8	2,611 (28,101)	11,291 (1,049)
2007e	370	972 (10,464)	-1.5	2,627 (28,281)	12,561 (1,167)

Source: Verdict, *UK Grocery Retailers 2007*, December 2006.

*53 weeks.

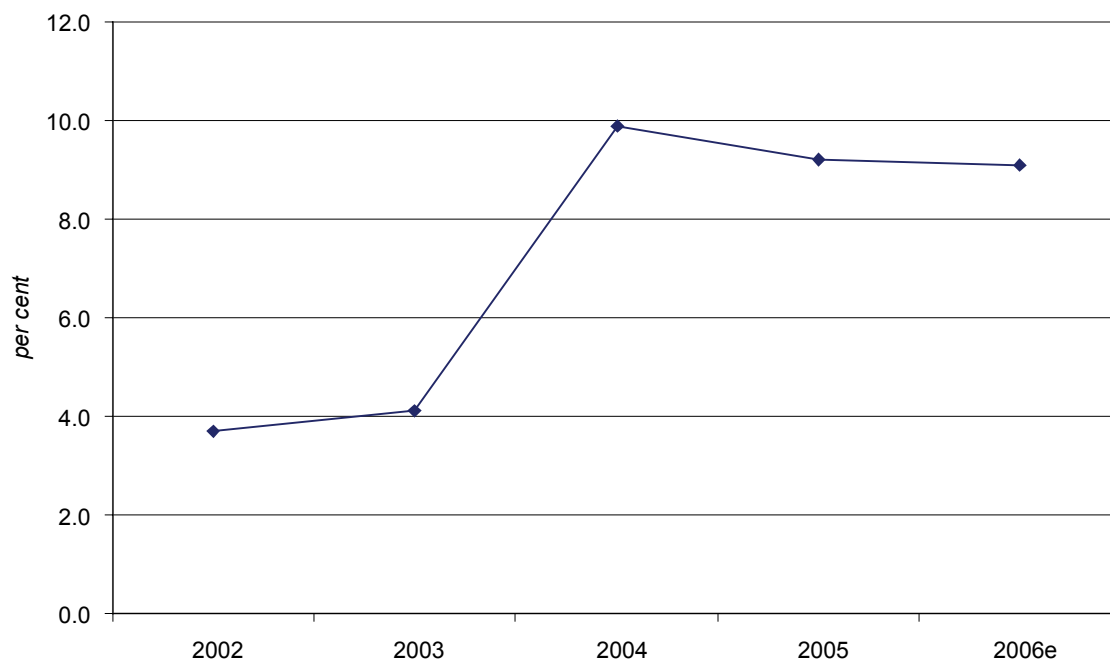
Note: Conversion to sq metres from sq feet was undertaken by the CC.

- Morrisons significantly increased its grocery sales share with the acquisition of Safeway (see Figure 14). It told us that since the acquisition it has been focused on integrating 'back-office' functions, converting 220 stores to the Morrisons format and

fascia, and divesting those stores which it was required to divest as part of the transaction, or which did not meet size or location requirements. It is currently seeking to increase profitability which has significantly decreased recently (see Figure 15), through volume of sales and business efficiency.

FIGURE 14

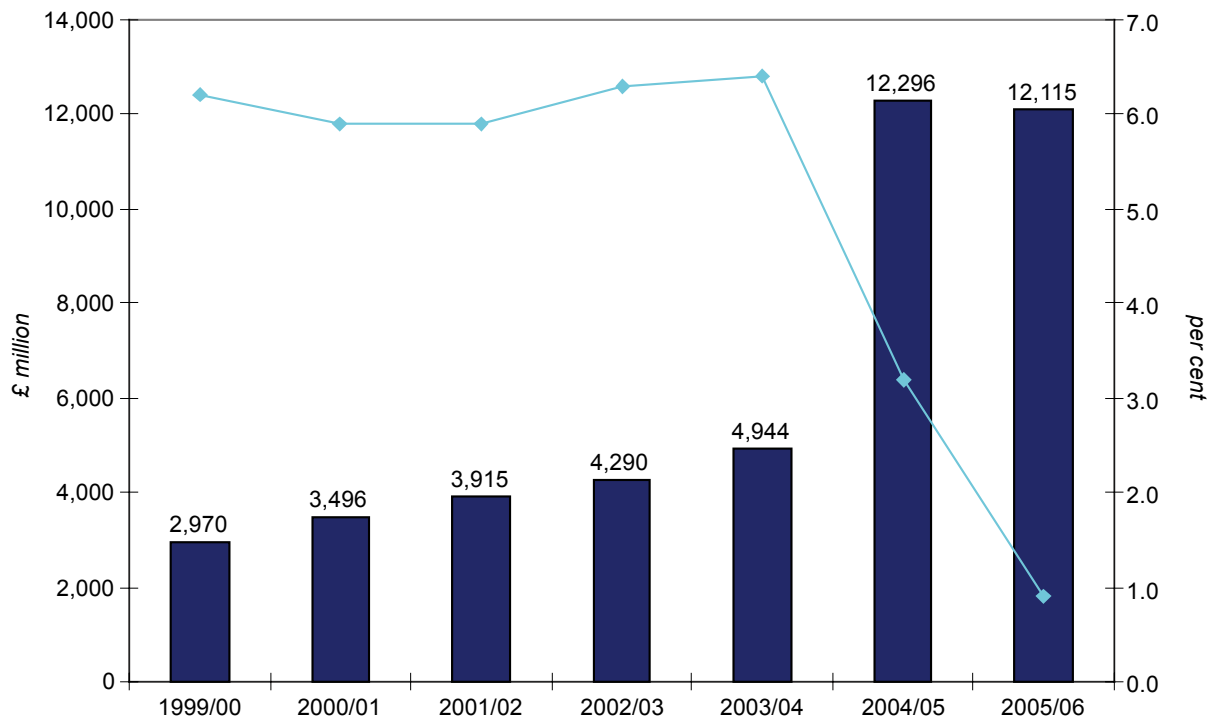
Morrisons UK grocery sales share, 2000 to 2006e



Source: Verdict, UK Grocery Retailers 2007, December 2006.

FIGURE 15

Morrisons turnover and operating profit, 1999 to 2006



Source: IGD Research, *Retail Logistics 2007*, December 2006.

Sainsbury's

20. Sainsbury's is a UK grocery retailer (which includes the provision of general merchandise, clothing and fuel—see Table 14) through 490 supermarkets and 298 convenience stores (see Figure 16 and Table 15). Additionally, it operates a joint venture in retail banking (Sainsbury's Bank), with HBOS.

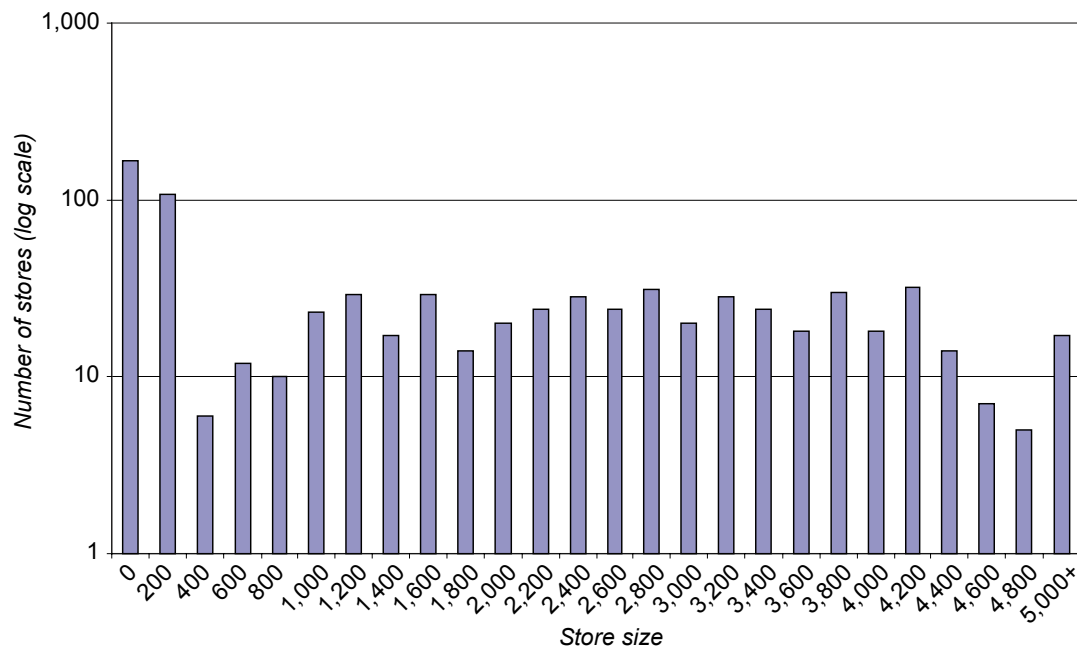
TABLE 14 Estimated grocery sales mix of Sainsbury's, 2005/06

Categories	%
Ambient groceries	17
Grocery non-food	5
Chilled	9
Frozen	3
Meat/fish	9
Produce	9
Bakery	4
Delicatessen	2
Beer/wines/spirits	8
Tobacco	<u>3</u>
Subtotal	69
Clothing and footwear	1
Health and beauty	7
Other non-food	<u>6</u>
Subtotal	14
Petrol	16
Cafe	<u>1</u>
Subtotal	17
Total	100

Source: Verdict, UK Grocery Retailers 2007, December 2006.

FIGURE 16

Sainsbury's store distribution



Source: CC analysis of main party questionnaire.

TABLE 15 Sainsbury's store profile, 2000 to 2007e

Year to Mar	Store numbers	Sales area '000 sq m (sq ft)	Year-on-year change %	Average size '000 sq m (sq ft)	Sales/sq m £ pa (sq ft)
2000	432	1,213 (13,055)	3.9	2,808 (30,220)	10,376 (964)
2001	453	1,277 (13,746)	5.3	2,819 (30,344)	10,387 (965)
2002	463	1,333 (14,349)	4.4	2,879 (30,991)	10,602 (985)
2003	498	1,412 (15,199)	5.9	2,835 (30,520)	10,140 (942)
2004	583	1,447 (15,570)	2.4	2,481 (26,707)	9,946 (924)
2005	727	1,521 (16,370)	5.1	2,092 (22,517)	10,053 (934)
2006	752	1,555 (16,737)	2.2	2,068 (22,257)	10,226 (950)
2007e	787	1,597 (17,189)	2.7	2,029 (21,841)	10,613 (986)

Source: Verdict, *UK Grocery Retailers 2007*, December 2006.

Note: Conversion to sq metres from sq feet was undertaken by the CC.

21. Sainsbury's told us that it developed a convenience 'Local' format in recognition of the change in consumer trends and the growing market for convenience retailing. This was added to in 2000 with the trial of 'Local' sites on Shell forecourts, and was significantly expanded later in 2004 through its acquisition of Jacksons, Beaumonts, and Bells stores, and by the acquisition of Shaws stores in 2005. A store breakdown is provided in Table 16.
22. Since 2004 Sainsbury's has turned around falling grocery sales share and has increased turnover (see Figures 17 and 18). Earlier overseas expansion was divested in 2004 (Shaw's in the USA) in order to return value to shareholders and re-invest in growing the UK supermarket business.

TABLE 16 Sainsbury's store breakdown

	Over 3,700 sq m	2,300– 3,700 sq m	1,400– 3,700 sq m	<1,40 0 sq m	Total
Convenience*	-	-	-	298	298
Supermarket	178†	163	91	58	490
Total stores	178	163	91	356	788

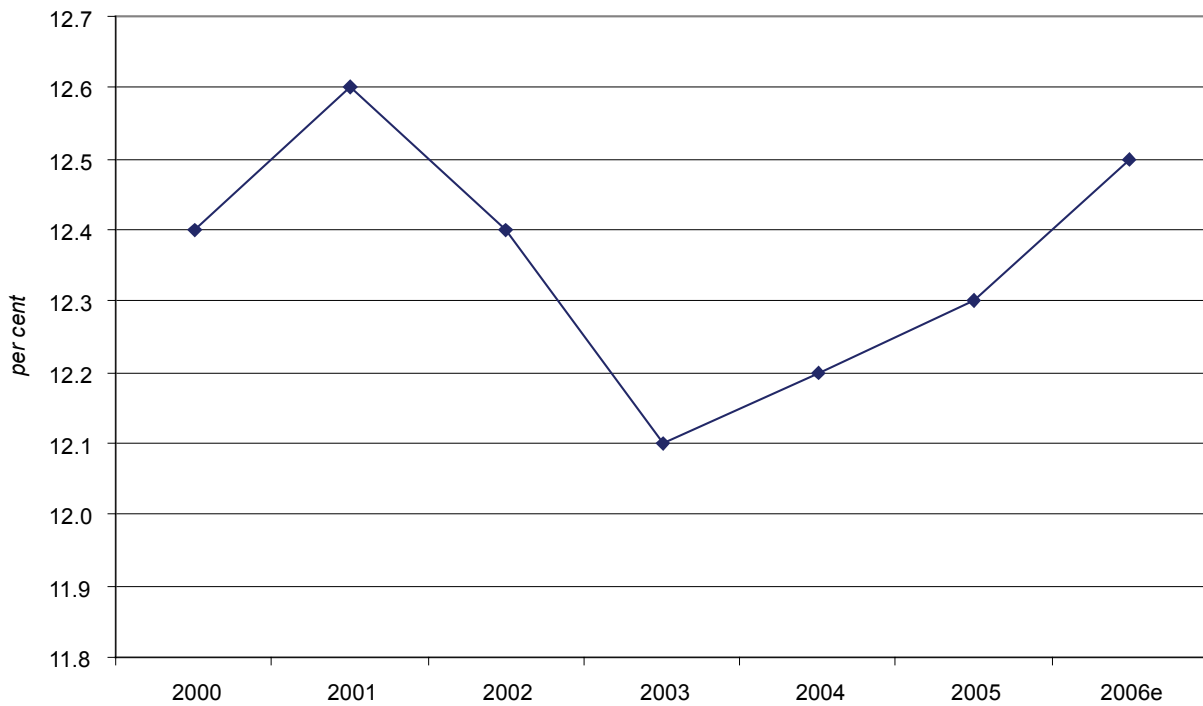
Source: J Sainsbury Annual Report 2007.

*These stores defined as 'convenience' are not necessarily less than 280 sq metres in net sales area, as this term is used elsewhere.

†This includes two superstores greater than 5,100 sq metres.

FIGURE 17

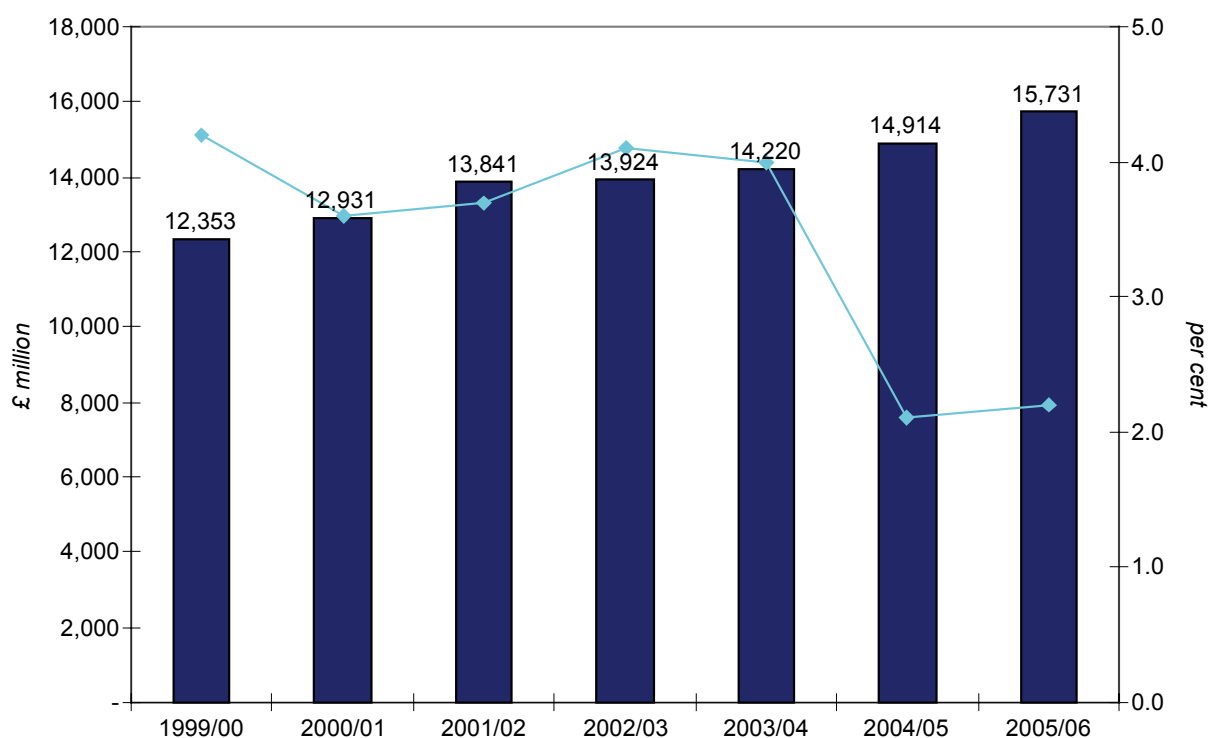
Sainsbury's grocery sales share, 2000 to 2006e



Source: Verdict, UK Grocery Retailers 2007, December 2006.

FIGURE 18

Sainsbury's turnover and operating profit, 1999 to 2006



Source: IGD Research, *Retail Logistics 2007*, December 2006.

Somerfield

23. Somerfield sells a range of food, drink and household products (see Table 17). Somerfield told us that it aims to provide products at reasonable prices, ensuring market-leading freshness and a high level of service. Somerfield sells only a limited range of non-grocery products and told us that it is reducing the size of this segment in future as management focuses on becoming a local grocery shopping chain.

TABLE 17 Estimated Somerfield grocery sales mix, 2006

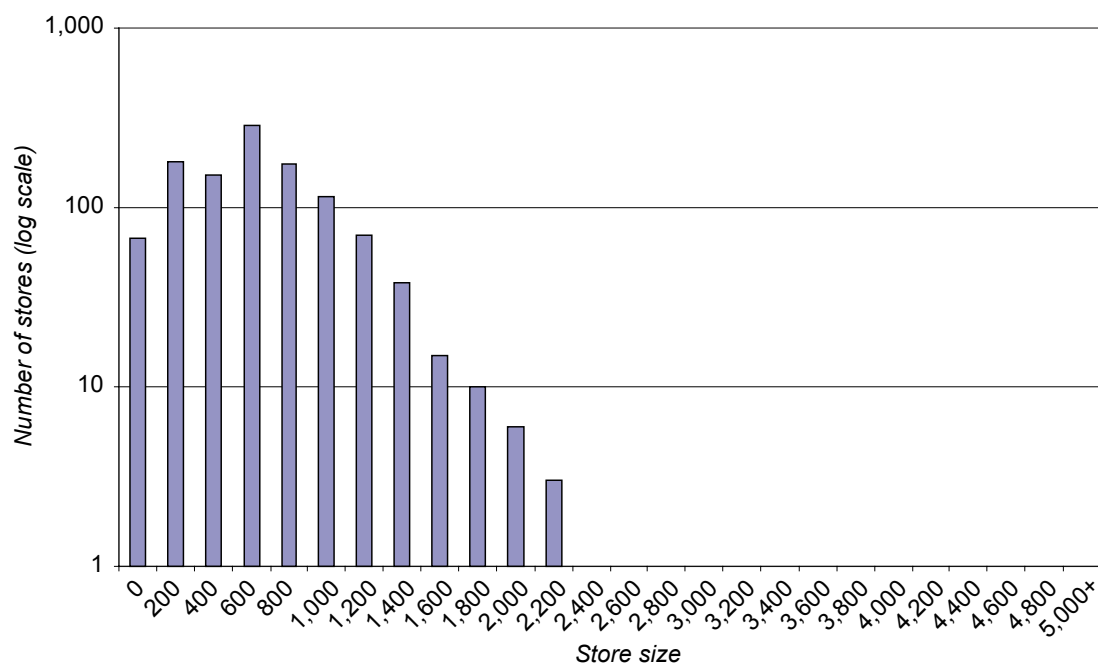
<i>Categories</i>	<i>%</i>
Ambient groceries	25
Chilled	17
Produce	10
Beer/wines/spirits	8
Tobacco	8
Meat/fish	7
Frozen	4
Grocery non-food	5
Bakery	4
Delicatessen	<u>4</u>
Subtotal	92
Health and beauty	5
Non-food	<u>2</u>
Subtotal	7
Petrol	<u>1</u>
Total	100

Source: Verdict, *UK Grocery Retailers 2007*, December 2006.

24. Somerfield purchased 115 stores from Morrisons (ex-Safeway), rebranded 102 and sold 248 Kwik Save stores since 2000. Most Somerfield stores are less than 1,900 sq metres (only 2 per cent being larger) and store numbers have decreased in the period since 2000, although sales per sq metre have increased (see Figure 19 and Table 18).

FIGURE 19

Somerfield store distribution



Source: CC analysis of main party questionnaire.

TABLE 18 Somerfield store profile, 2000 to 2007e

Year to Apr	Store numbers	Sales area '000 sq m (sq ft)	Year-on-year change %	Average size '000 sq m (sq ft)	Sales/sq m £ pa (sq ft)
2000	1,371	1,073 (11,550)	-8	783 (8,425)	4,898 (455)
2001	1,319	1,030 (11,087)	-4	781 (8,406)	4,306 (400)
2002	1,306	1,018 (10,963)	-1	780 (8,394)	4,532 (421)
2003	1,269	980 (10,549)	-4	772 (8,313)	4,489 (417)
2004	1,268	949 (10,220)	-3	749 (8,060)	4,682 (435)
2005	1,308	988 (10,640)	4	756 (8,135)	4,822 (448)
2006e	1,048	732 (7,874)	-26	698 (7,513)	5,856 (544)
2007e	1,003	698 (7,509)	-5	696 (7,487)	5,608 (521)

Source: Verdict, *UK Grocery Retailers 2007*, December 2006.

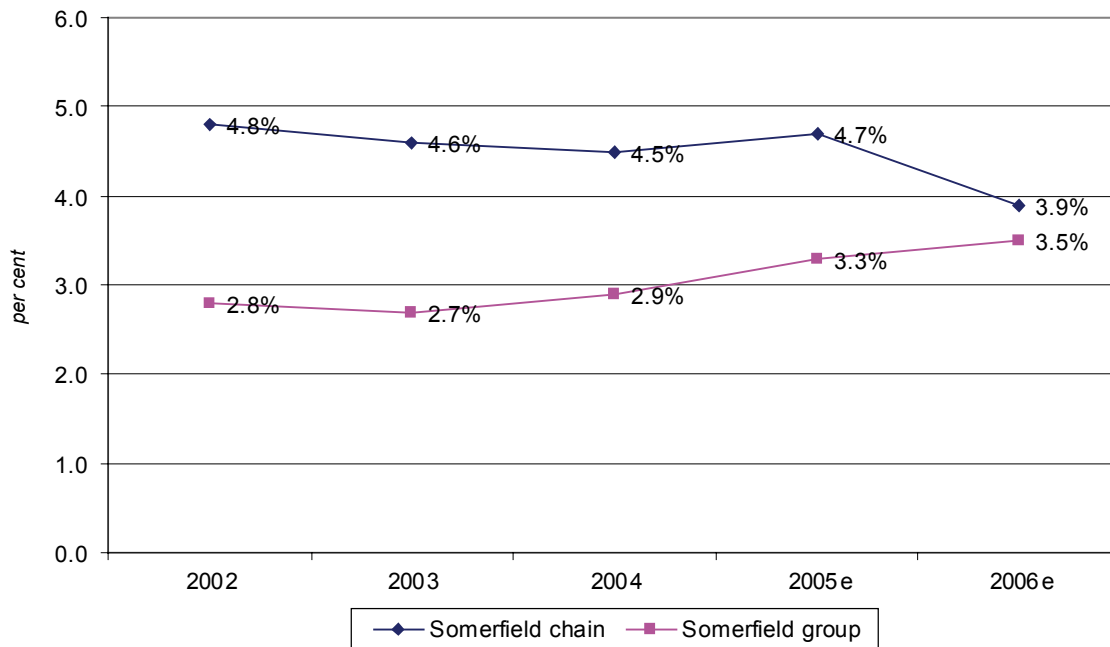
*These figures include the Safeway, Texaco and Kwik Save fascias.
 Note: Conversion to sq metres from sq feet was undertaken by the CC.

25. Somerfield has experienced a period of rationalization that has reduced its share of the grocery market (see Figure 20). Turnover has fluctuated and profit margin has

suffered, which has been publicly reported as largely due to the effect of difficulties with the Kwik Save fascia (see Figure 21).

FIGURE 20

Somerfield grocery sales share, 2002 to 2006e

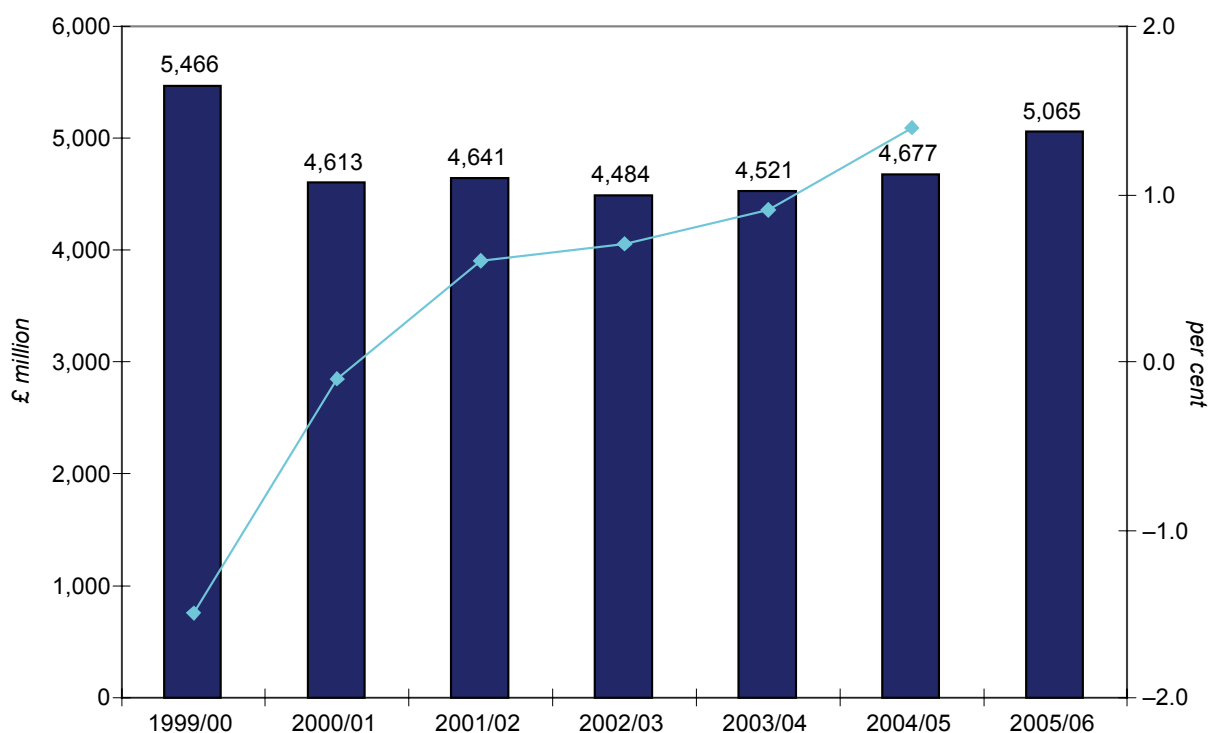


Source: Verdict, UK Grocery Retailers 2007, December 2006.

Note: Somerfield chain includes forecourt stores purchased in 2005 still trading as Texaco.

FIGURE 21

Somerfield turnover and operating profit, 1999 to 2006



Source: IGD Research, *Retail Logistics 2007*, December 2006.

Tesco

26. Tesco operates a large portfolio of stores and sells products in every category of the grocery market (see Table 19). It has a broad mix of store sizes (see Figure 22 and Table 20). Tesco stated that its sales of non-food are growing significantly faster than the rate of food. It has undergone significant expansion into the convenience store segment as shown by its purchase of 870 T&S/One Stop stores in 2003 and 45 Adminstore outlets in 2004.⁴ It opened 30 new Extra stores in 2006 (generally by extending its existing Superstore format stores) (see Table 21 for the growth in the number of stores) and plans to open 28 in 2008.⁵

⁴These stores defined as 'convenience' are not necessarily less than 280 sq metres in net sales area, as this term is used elsewhere.

⁵Tesco website 'Core UK Factsheet' www.tescocorporate.com/publiclibs/tesco/CoreUK.pdf and additional submission 2 August 2007.

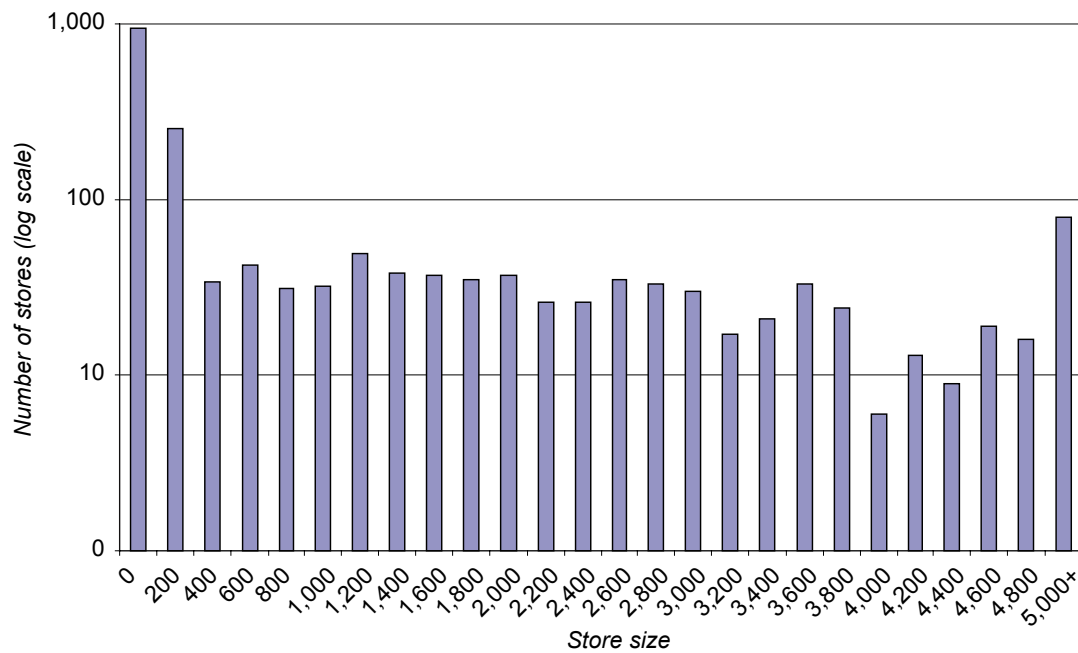
TABLE 19 Estimated Tesco grocery sales mix, 2006

Category	%
Ambient groceries	17
Grocery non-food	4
Chilled	8
Frozen	4
Meat/fish	8
Produce	8
Bakery	4
Delicatessen	2
Beer/wines/spirits	8
Tobacco	<u>4</u>
Subtotal	67
Clothing	3
Health and beauty	9
Other non-food	<u>7</u>
Subtotal	19
Petrol	13
Cafe	<u>1</u>
Subtotal	14
Total	100

Source: Verdict, UK Grocery Retailers 2007, December 2006.

FIGURE 22

Tesco store distribution



Source: CC analysis of main party questionnaire.
 Note: The size distribution includes One Stop stores.

TABLE 20 Tesco store breakdown

Store type	Number	Description
Extra	120	(Approximately 5,575 sq metres and above) The first Extra was opened in 1997. The one-stop destination store offers the widest range of food and non-food lines, ranging from electrical equipment to homewares, clothing, health and beauty and seasonal items such as garden furniture.
Superstore	444	(Approximately 1,860–4,645 sq metres) Tesco began to open superstores in the 1970s. In recent years, a number of new non-food ranges such as DVDs and books have been introduced into superstores.
Metro	163	(Approximately 650–1,400 sq metres) The first Metro was opened in 1992 to enter town and city centre locations. Metros offer a tailored range of food lines, including ready meals and sandwiches.
Express	671	(Up to 280 sq metres) The first Express store was opened in 1994. These stores sell a range of up to 7,000 lines including fresh produce, wines and spirits and in-store bakery.
Total	1,398	

Source: Tesco main party questionnaire response to Q54.

Notes:

- As at 1 June 2006.
- The group also has 508 stores under the One Stop fascia.
- Homeplus is a new store format (3,250 to 4,645 sq metres), and there are currently seven stores trading. These stores offer the widest range of non-food, including clothing. Stores are stand-alone or on retail parks.

TABLE 21 Tesco UK store profile, 2000 to 2007e

Year to Feb	Store numbers	Sales area '000 sq m (sq ft)	Year-on-year change %	Average size '000 sq m (sq ft)	Sales/sq m £ pa (sq ft)
2000	659	1,570 (16,895)	5.8	2,382 (25,637)	11,011 (1,023)
2001	691	1,668 (17,949)	6.2	2,413 (25,975)	11,248 (1,045)
2002	728	1,749 (18,822)	4.9	2,402 (25,854)	11,603 (1,078)
2003	1,981	2,028 (21,829)	16.0	1,024 (11,019)	11,894* (1,105)
2004	1,877	2,155 (23,200)	6.3	1,148 (12,360)	11,840 (1,100)
2005	1,779	2,248 (24,200)	4.3	1,264 (13,603)	12,325 (1,145)
2006	1,897	2,406 (25,903)	7.0	1,269 (13,655)	12,884 (1,197)
2007e	2,007	2,589 (27,868)	7.6	1,290 (13,885)	13,293 (1,235)

Source: Verdict, *UK Grocery Retailers 2007*, December 2006.

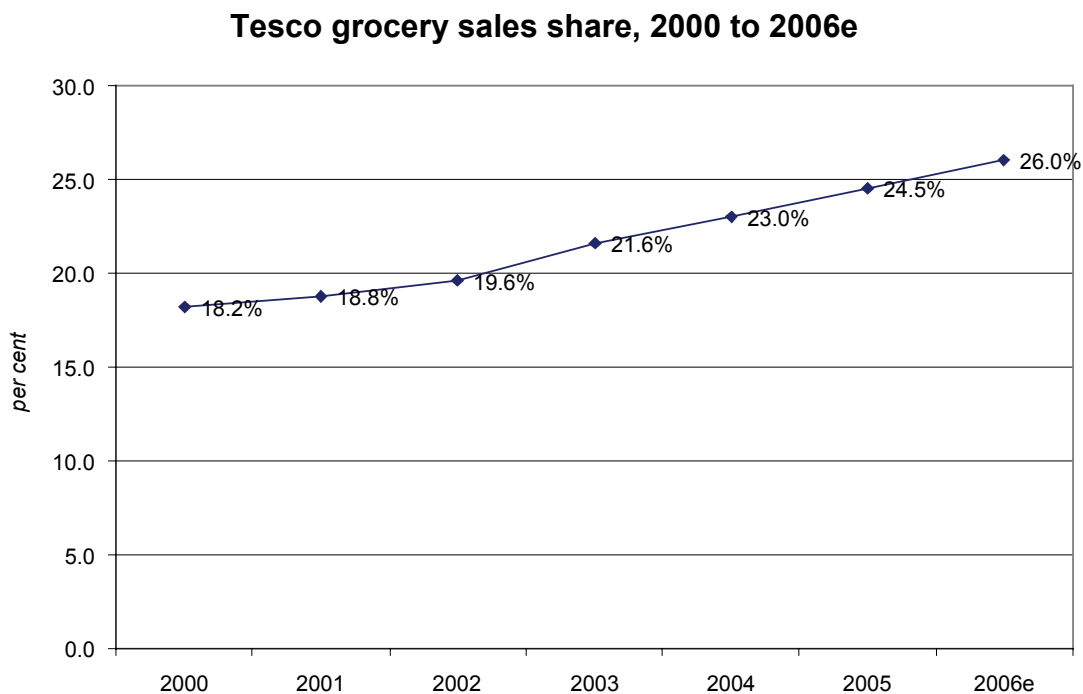
*Excludes T&S Stores in the calculation of sales/sq metres for this year.

Note: Conversion to sq metres from sq feet was undertaken by the CC.

27. Tesco has been investing in new markets overseas since the mid-1990s and now operates in 12 countries outside the UK. Its international operations generate £7.6 billion sales, £370 million profit, and accounts for over half of the group's total

floor space.⁶ Over the period since 2000 Tesco has significantly expanded its grocery sales share (see Figure 23). In the UK, Tesco has experienced rapid growth in turnover and maintained its margin through the period (see Figure 24).

FIGURE 23

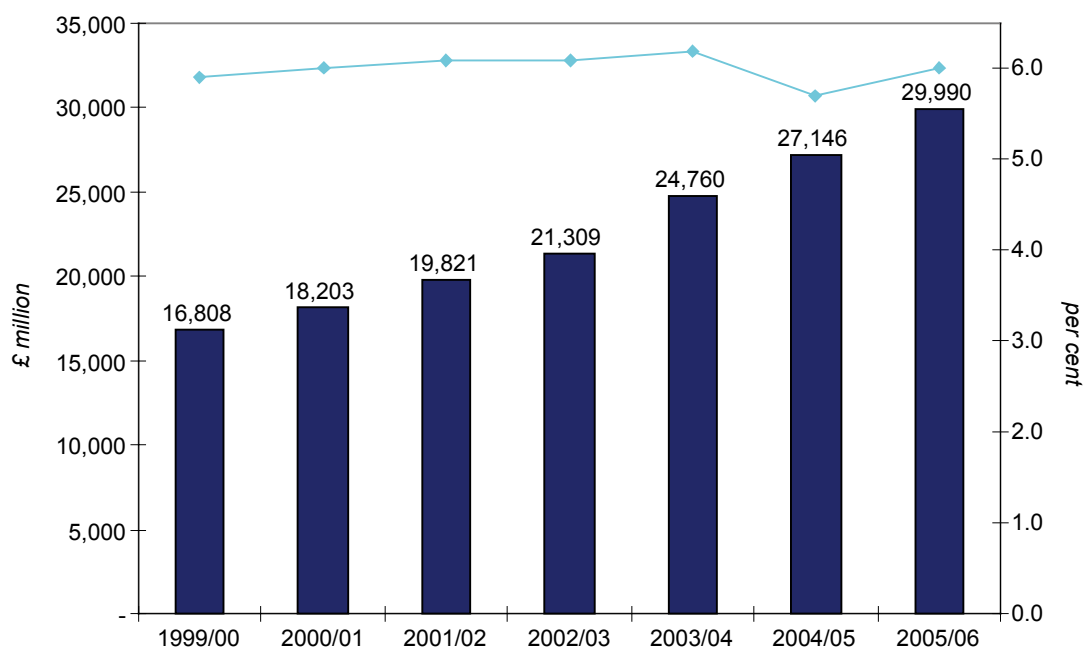


Source: Verdict, UK Grocery Retailers 2007, December 2006.

⁶Tesco website 'International Factsheet' www.tescocorporate.com/publiclibs/tesco/International.pdf.

FIGURE 24

Tesco turnover and operating profit, 1999 to 2006



Source: IGD Research, *Retail Logistics 2007*, December 2006.

Waitrose

28. Waitrose is a national one-stop-shop supermarket operator, operating stores exclusively in the UK grocery market. Waitrose also has e-commerce grocery businesses (WaitroseDeliver and a partnership with Ocado) and an export business. Waitrose exports its products to 23 territories, including Hong Kong, the Caribbean and India. It sells its products overseas through local supermarket chains, and there is an intention to expand this aspect of the business substantially. [✂]

29. Waitrose told us that its strategy is to give customers the choice of a genuinely differentiated offer in terms of a high-quality product whilst remaining price competitive. Waitrose is a food specialist. It has not introduced non-grocery sales to any significant extent in the vast majority of its stores and told us that it does not have any plans to do so (see Table 22).

TABLE 22 **Estimated Waitrose grocery sales mix, 2006**

<i>Categories</i>	<i>%</i>
Ambient groceries	17
Grocery non-food	4
Chilled	12
Frozen	7
Meat/fish	13
Produce	14
Bakery	5
Delicatessen	5
Beer/wines/spirits	12
Tobacco	<u>2</u>
Subtotal	91
Health and beauty	5
Other non-food	<u>3</u>
Subtotal	8
Petrol	<u>1</u>
Total	100

Source: Verdict, *UK Grocery Retailers 2007*, December 2006.

30. Waitrose has only purchased a limited number of stores since 2000 (see Table 23) although it has publicly announced that it intends to invest £800 million into 50 new stores over the next five years and double its network to around 400 stores within ten years. Waitrose generally has a large store format, which it has told us has previously made it difficult to identify suitable building sites (see Figure 25). Waitrose also told us that it is evaluating alternative growth channels such as: [redacted].

TABLE 23 Waitrose store profile, 2000 to 2007e

Year to Feb	Store numbers	Sales area '000 sq m (sq ft)	Year-on-year change %	Average size '000 sq m (sq ft)	Sales/sq m £ pa (sq ft)
2000	123	184 (1,980)	4.2	1,520 (16,364)	10,280 (955)
2001	136	212 (2,280)	15.2	1,558 (16,765)	10,592 (984)
2002	136	212 (2,280)	0.0	1,558 (16,765)	10,839 (1,007)
2003	140	229 (2,460)	7.9	1,632 (17,571)	10,990 (1,021)
2004	143	234 (2,516)	2.3	1,635 (17,594)	11,647 (1,082)
2005	166	288 (3,101)	23.3	1,736 (18,681)	11,324 (1,052)
2006	173	311 (3,346)	7.9	1,797 (19,341)	11,162 (1,037)
2007e	187	345 (3,715)	11.0	1,846 (19,866)	11,259 (1,046)

Source: Verdict, UK Grocery Retailers 2007, December 2006.

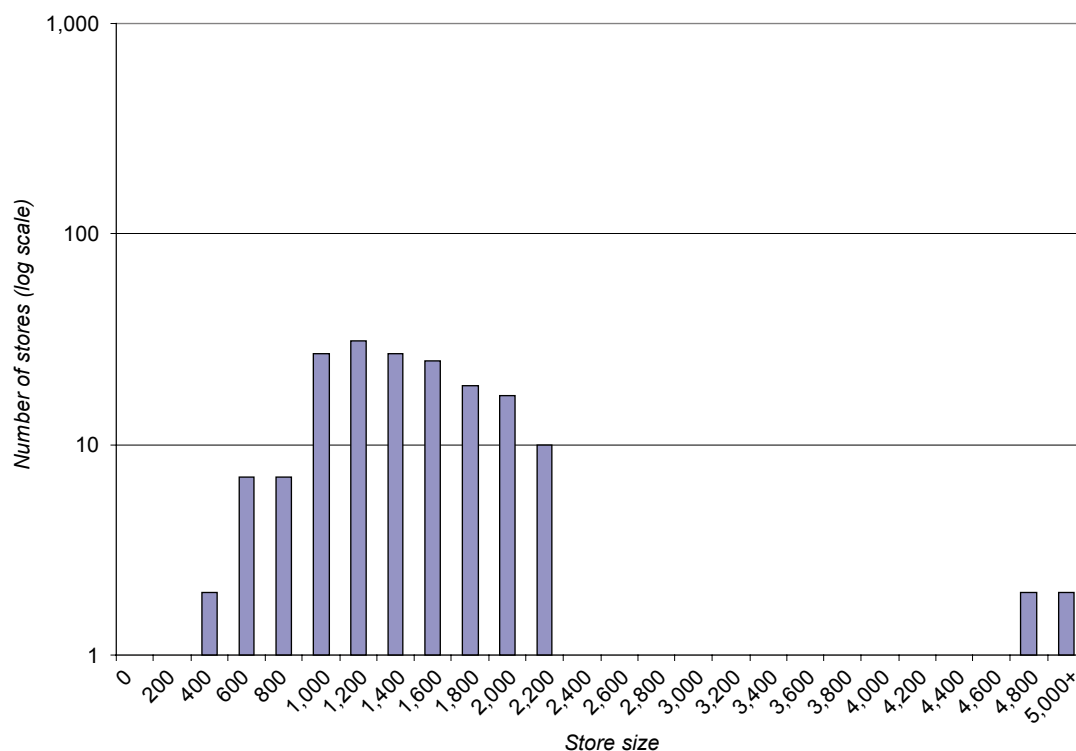
*Includes VAT.

Notes:

1. Sales area, average size and sales/sq metres are estimates.
2. Conversion to sq metres from sq feet was undertaken by the CC.

FIGURE 25

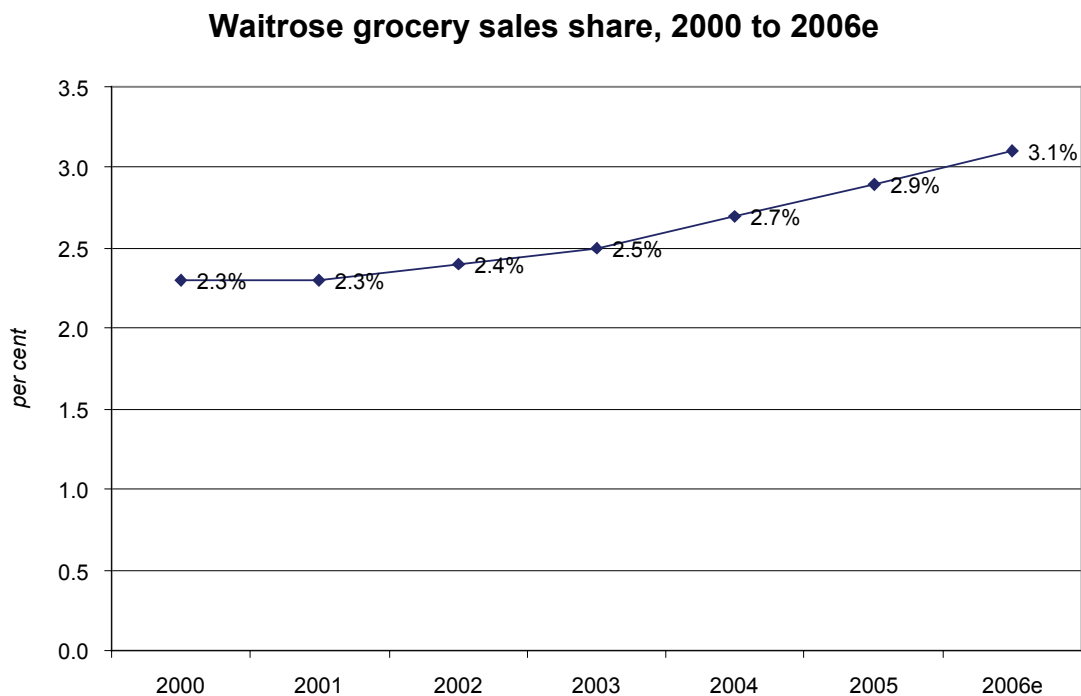
Waitrose store distribution



Source: CC analysis of main party questionnaire.

31. Waitrose's grocery sales share has steadily grown over the period (see Figure 26). In addition, turnover and operating margin have steadily increased over the period (see Figure 27).

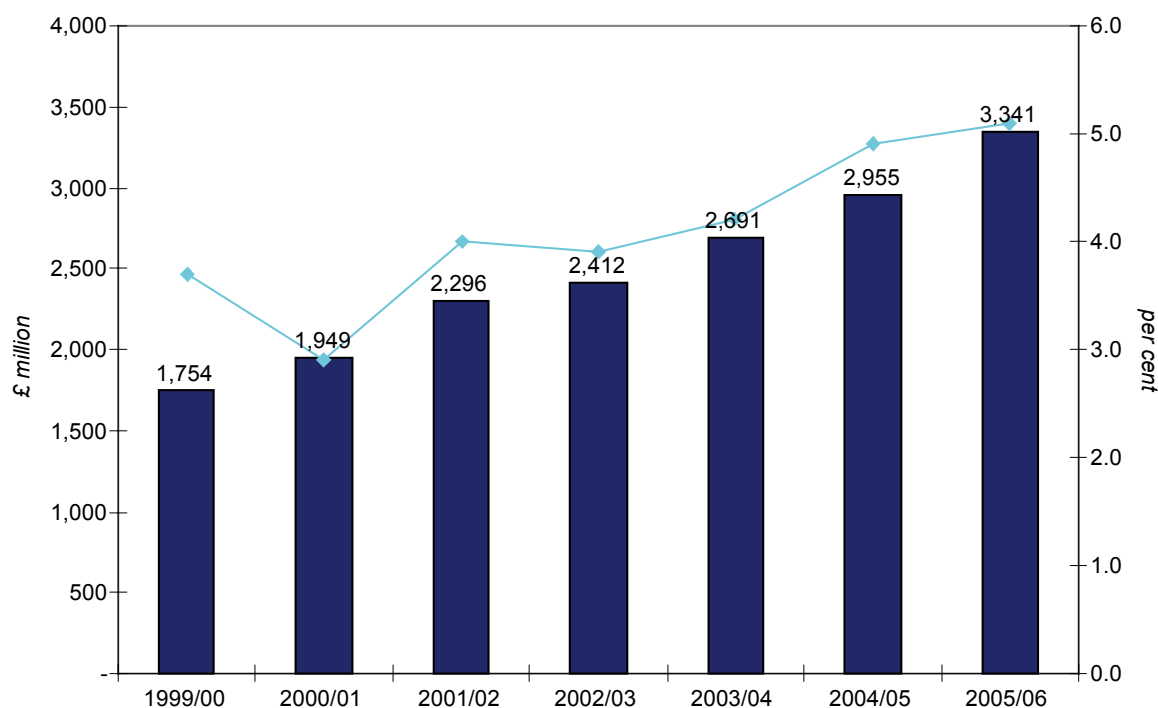
FIGURE 26



Source: Verdict, UK Grocery Retailers 2007, December 2006.

FIGURE 27

Waitrose turnover and operating profit, 1999 to 2006



Source: IGD Research, *Retail Logistics 2007*, December 2006.

Aldi, Lidl and Netto (discounters)

32. The LADs (Aldi, Lidl and Netto) form a small but growing part of the UK grocery retail sector. In 2006, the LADs achieved a national grocery sales share of approximately 3 per cent. The LADs are characterized by a ‘no-frills’ approach, a strong focus on prices, and a limited range of products compared with the other major retailers. Each of the LADs carries in the region of 1,000 product lines in stores ranging from 500 to 1,400 sq metres. Aldi, in large part, carries only own-label goods, while Lidl and Netto both carry larger volumes of branded products.

33. Aldi told us that its strategy is to operate a business model that is simple, efficient and effective, to meet the needs of customers by giving them the best-quality grocery products at the lowest possible prices in clean, hygienic and well-presented stores. This strategy is implemented consistently at all levels in the UK. It has one fascia, one format and the same products (around 850 core SKUs) in every store nation-

wide. The majority of its products are own-label although it does sell a small number of 'iconic' branded products. Since 2000 it has operated a revised strategy to offer a greater selection of premium products and target a wider range of shoppers. It has approximately 300 stores that are typically between 760 and 850 sq metres in size, and a programme of store extensions is under way to increase the size of the majority of its estate to 1,000 sq metres. In addition, Aldi has publicly stated that it intends to open 250 new stores in the UK and Ireland over the next four to five years, which indicates a significant period of upcoming growth when compared with its expansion since 2000 (see Table 24).⁷ Internationally Aldi has more than 7,500 stores with an estimated £31 billion turnover; UK turnover is presented in Figure 29. In its domestic market of Germany, Aldi commands a market sales share of around 20 per cent. Aldi does not consider that it is a direct competitor to the major UK grocery retailers.

34. Lidl told us that its retail mission is to sell quality products at the best possible price. It has approximately 400 stores across the UK and has experienced steady turnover growth over the period (see Table 24 and Figures 28 and 29). It has a very similar strategy to Aldi, although its range is more diverse with around 1,000 different products including a number of well-known brands and a selection of dairy products, frozen foods, sausages, fresh meat and poultry, fruit, vegetables and bread. Also slightly differently to the other discounters, it sells a greater range of national branded and non-food products and sourcing agreements that are based on limited amounts of product. Lidl has almost doubled the number of stores in its network since 2000.
35. Netto has around 180 stores across the UK and all its stores generally have 800 to 1,000 sq metres of sales area (see Table 24). Netto has told us that it intends to

⁷Statement by Aldi UK and Ireland Group Managing Director Paul Foley 'ALDI on expansion offensive in UK', *Planet Retail*, 6 July 2007.

expand its network by 20 or 25 new stores each year for the next five years. It told us that it differentiates its offer from the other LADs by selling a greater proportion of UK brands (around 300 and obtained through employing UK-based buyers). In addition, Netto has recently announced that it intends to reorientate its strategy to expand its product range from 1,100 to 1,400 product lines including up to 40 per cent fresh food, an extension of chilled food, ready meals and possibly tobacco, newspapers and magazines. Additional services such as ATMs and e-topup facilities are also proposed within a bigger average store size up to a maximum of 1,200 sq metres. Netto has told us that it obtains increased sales when situated close to a store fascia with a premium pricing strategy and considers itself direct competition for the major grocery retailers. Figures 28 and 29 show Netto's sales share and turnover for the period since 2000).

36. Aldi and Lidl have slightly grown their grocery sales share over the period, while Netto has maintained its share (see Figure 28). Although margin data is not disclosed by these companies, Verdict states that these retailers are expected to operate a very low-margin business model of around 1 to 2 per cent.

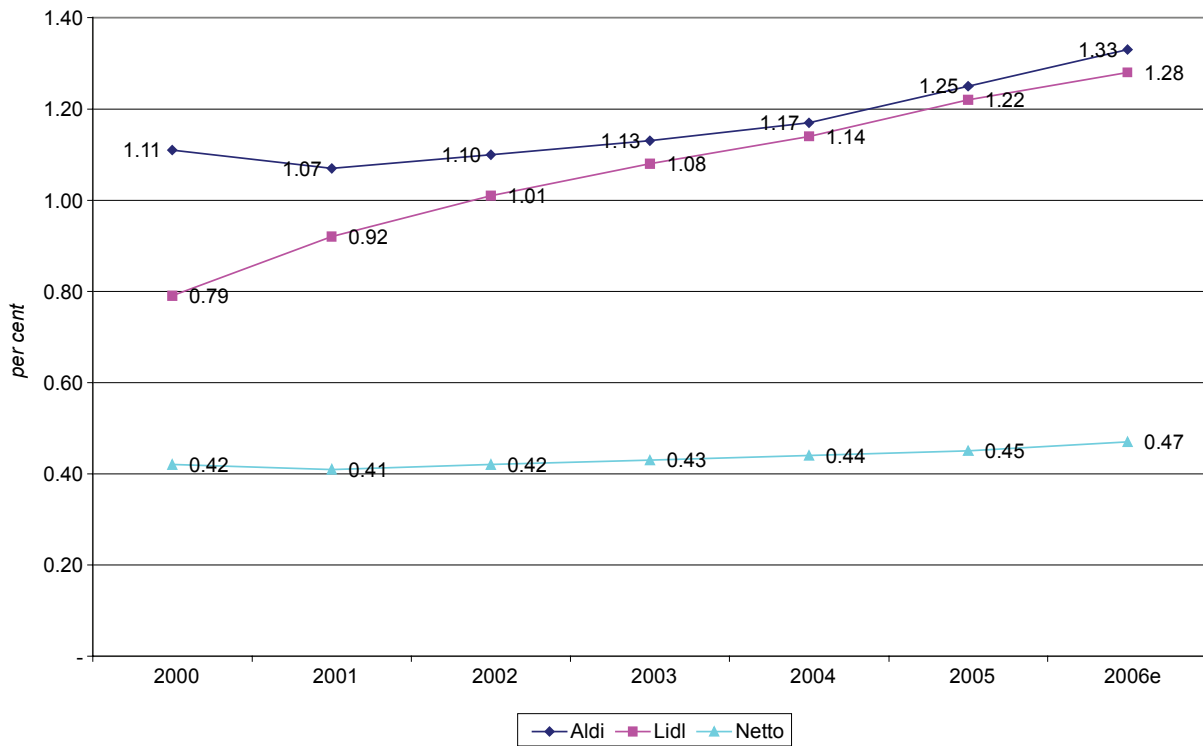
TABLE 24 LADs estimated store numbers, 1995 to 2007e

<i>Year to</i>	<i>Aldi Dec</i>	<i>Lidl Jan</i>	<i>Netto Aug</i>
2000	240	230	124
2001	250	250	125
2002	270	290	130
2003	273	315	135
2004	279	357	137
2005	295	370	147
2006e	320	387	169
2007e	-	406	182

Source: Verdict, *UK Grocery Retailers 2007*, December 2006, and updated by Netto where relevant.

FIGURE 28

Aldi, Lidl and Netto grocery sales share, 2000 to 2006e

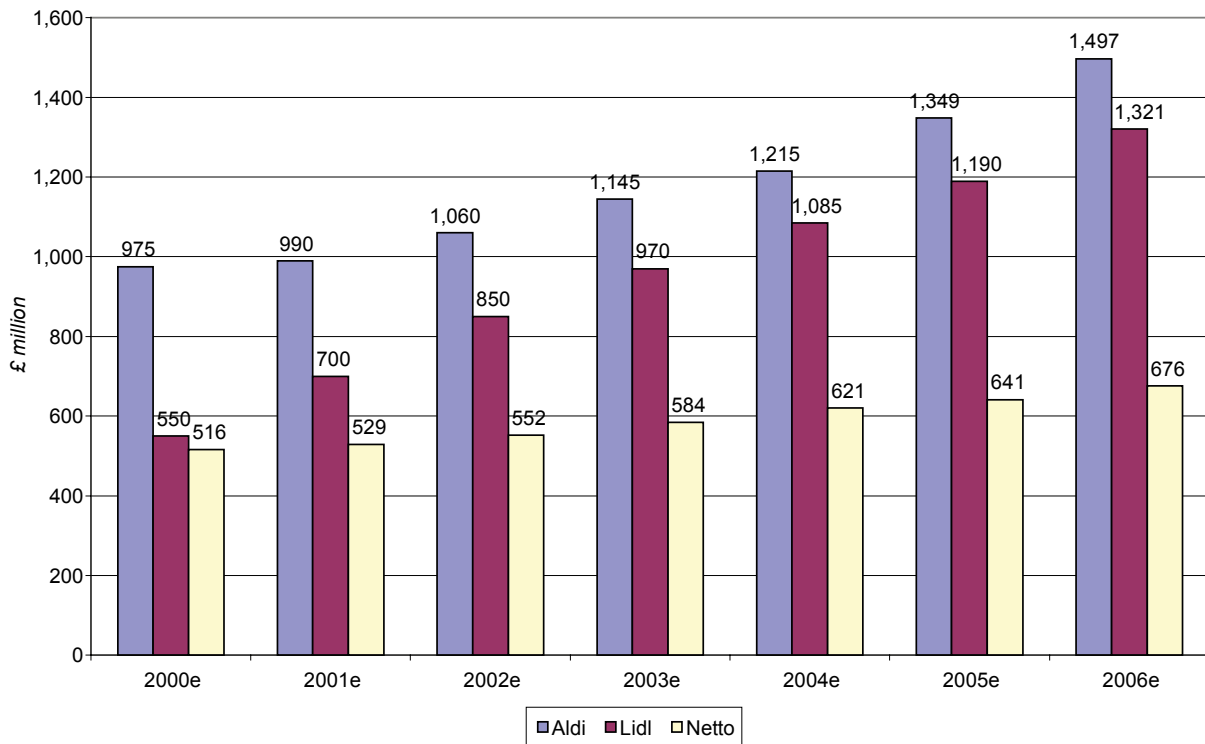


Source: Verdict, UK Grocery Retailers 2007, December 2006.

Note: Netto also cites AC Nielsen data that indicates a grocery sales share of 0.8 to 0.9 per cent over the period.

FIGURE 29

Aldi, Lidl and Netto estimated turnover, 2000 to 2007e



Source: Verdict, UK Grocery Retailers 2007, December 2006 and Netto where relevant.

Note: This graph is not directly comparable with other similar graphs in this appendix because it has a different data source. However, it is expected that the trends are broadly comparable with the other graphs.