Context Consulting

Future of Retail.

Research Debrief

October 2021

Contents

1.

Introduction, objectives and context

We spoke with 4 experts, 10 retailers and developed a survey that was completed by 1000 nationally represented consumers

Approach

- In depth Teams interviews with experts associated with the retail industry
- In depth Teams interviews with 10 convenience retailers from around the UK
- Developed and sent a survey to 1000 nationally represented consumers

Expert interviews

- Justin King – ex. CEO of Sainsbury's
- Sabine Benoit – professor of marketing from University of Surrey
- Colm Johnson – Managing Director of Booker Retail
- James Lowman – CEO of Association of Convenience Stores

Business owners

- MJs Premier in (Lancashire)
- Premier Heyside (Lancashire)
- Robert Stores (Surrey)
- Spar Parkfoot (Kent)
- Costcutter (London)
- Local Shop (London)
- Broadway Stop (London)
- Kent Mart (Kent)
- Spar (Surrey)
- Green and Fresh (London)

Survey Sample

- Online survey of 1000 convenience store shoppers
- Natrep sample by age, SEG, and region
- Results also split by rurality (city/town, suburbs, village/rural)

Segment	Sample	Segment	Sample
Male	468	18-34	276
Female	530	35-44	159
AB	290	45-54	171
C1C2	426	55+	394
DE	284		

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C2 General

2.

Executive summary

The majority of small convenience retailers are struggling to adapt to meet the shifting demands of consumers

Retailers	Consumers
Changing consumer demands result in the need to elevate their technology and marketing capabilities	Younger customers more likely than older ones to visit a convenience store for their main shop
Poor margins and limited financial resources affect vast majority of convenience retails	Younger age groups who live in city/town centres would like to see some kind of digital improvement at their store
There are very few early adopters and innovators in the sector, with the majority lagging behind	Many would use delivery services from their local convenience store; most interest in cities and towns and from under-35s
For those that *are* exploring technology, this is mainly internal rather than customer-facing	Four in ten want to see lower prices, and nearly 3 in ten would like to see digital improvements in their local convenience store
Whilst many see the benefit of technology, there is little knowledge of how it can *practically* help them	
Lottery is still considered an important footfall driver	

3.

Expert interview learnings

We spoke with 4 experts from the retail industry who offered a broad perspective

Justin King

- Ex-CEO of Sainsbury's
- Ex head of food at Marks & Spencer
- Senior advisor and investor for retail tech-platform, Snappy Shopper

Key insight

- Polarised opinions on technology: enemy or friend
- Need for channel blindness when meeting customer needs
- Customers are blind to the channel when receiving products

James Lowman

- CEO of the *Association of Convenience Stores*
- Representing 46,000 stores in UK
- Offers advice, events and research to its members

Key insight

- Convenience retail's heartland is housing estates and villages
- Large retailers pose little threat to convenience stores
- Sees technology as bringing benefits to retailers

Sabine Benoit

- Professor of Marketing at University of Surrey
- Member of Department of Retail & Marketing at University of Surrey
- Developed research into the convenience retailing

Key insight

- Small retailers tend to make decisions from 'gut feeling' – but not always correctly
- Immediacy is a growing expectation from consumers
- Technology needs to be cheaper for there to be large-scale adoption

Colm Johnson

- Managing Director of Booker Retail; Booker employee for 34 years
- Manages ca. £2bn business
- Booker Retail own symbol groups Londis, Budgen's, Premier, Family Shopper

Key insight

- More entrepreneurial business owners emerging
- Demand for food to go / food delivery is rising
- More stores now stocking diverse range of categories (e.g., hot food, fresh coffee, fresh meat/veg)

Retailer experts were on the same page, highlighting the growing need for technology, but noted very low rates of adoption across the industry

"There are polarised views on technology and what people think about it. Some are tech-enemies, some are tech-friends" (Justin King)

"The heartland of convenience retail is housing estates and villages, and they're in a good place right now" (James Lowman, ACS)

"Convenience retailers tend to make decisions with a gut feeling, and most of the time they're wrong" (Sabine Benoit, University of Surrey)

"Customers are blind to how they receive a product, regardless of the channel. Retailer are currently making it harder than it should be in dealing with these functions" (Justin King)

"It would be ideal if we could have all the systems in a store talking to one another, but this hasn't happened yet" (James Lowman, ACS)

"More extensive product ranges such as slushy machines and food-to-go build basket spend" (Colm Johnson, Booker)

The majority of convenience retailers seem to be falling short on meeting the needs and expectations of their customers

Polarized opinions of technology

Whilst some retailers and customers recognise the commercial benefits of technology, the majority are late to adopt

Growing need for high quality customer experience

Growing investment in physical features such as lighting, air conditioning, décor, as well as improvements in overall customer service

Product range growing

In order to compete with chains and fellow independents, retailers are looking to extend product ranges on offer to be a 'one-stop-shop' for their customers

Growing need for immediacy

Customers are starting to develop the need for more convenient and immediate shopping experiences

Limited marketing capabilities

In addition to limited time and budgets, there is very little knowledge of how to promote the business beyond point-of-sale discounts

Home delivery is trending sales channel

For those retailers who have welcomed technology with open arms, home delivery is the preferred strategy

Large retail chains do not pose a huge threat

Many small retailers benefit from the same supply chains and wholesalers as large retailers

These insights allowed us to develop some objectives to explore through the retailer interviews

Who are they and what are their reasons for entering into the industry?

Are there any distinguishable typologies when it comes to adoption of technology?

What have retailers done about the growing customer need for immediacy?

Is customer experience important to them, and what have they done about it?

How much of a threat do large retail chains pose?

What marketing do they currently do?

Do they use data / EPOS systems to track stock levels and develop pricing strategies?

5.

Retailer interviews learnings

We wanted to talk to retailers who spoke enthusiastically about the use of technology in their store and fit to at least one of these criteria

Criteria for inclusion – must meet at least one of these …

- Recently refurbished their store
- Use state-of-the-art refrigeration, air conditioning, lighting etc.
- Operate a delivery service
- Operate a click-and-collect service
- Sell a broad range of groceries
- Use EPOS and / or stock management systems
- Own multiple stores

We spoke with a variety of independents and symbol group retailers

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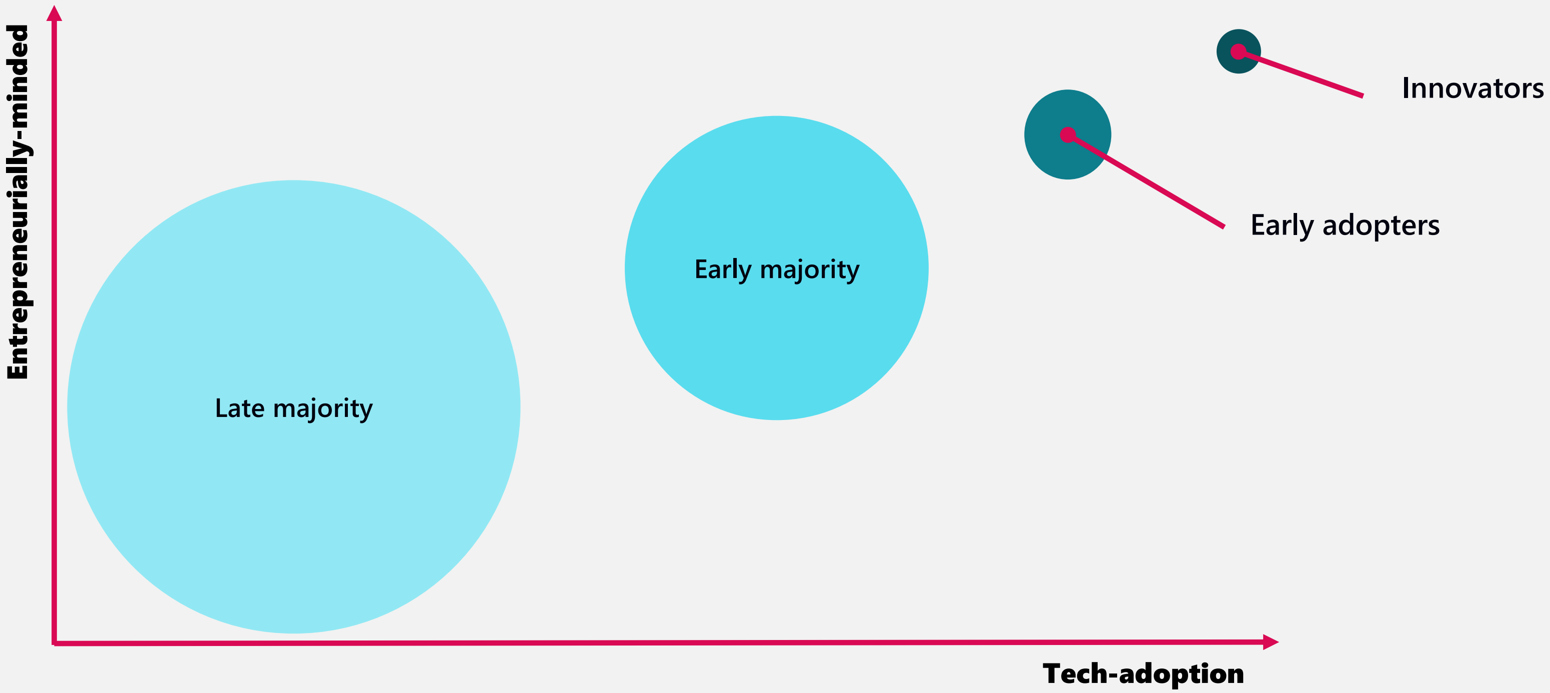
C2 General

The recruitment process for retailer interviews revealed that there are very few early adopters and innovators in the sector



We focused interviews on the most relevant segments, which highlighted some key differences across the groups

Late majority

- Very limited adoption of technology aside from basic EPOS and CCTV
- Account for a large proportion of the industry
- Primarily made up of unaffiliated independents and small symbol group retailers
- Smaller stores with limited product range
- Tobacco, alcohol, confectionary, chilled drinks categories make up majority of sales
- Additional services are limited to Lottery and mobile top-ups

(Largest segment)

Early majority

- Introduction of technology is limited to solutions such as basic EPOS systems, new refrigeration and air conditioning
- Primarily symbol group retailers
- Tobacco and alcohol categories still account for most sales, but growing sales in chilled and canned/packaged foods
- Additional services include Lottery, parcel collection/drop off, and cash machines

Early adopters

- Entrepreneurial mindset that sees benefit in tech adoption
- Likely to have a store website, social media accounts, and will engage in some marketing activity
- In addition to standard categories, have started to introduce more fresh and chilled meat/vegetables
- Store ambiance emerges as an important factor
- Hot food and drink takeaway

Innovators

- Technology seen as a vital driver of competitive advantage
- Entrepreneurs who might own multiple stores
- New store fit-outs seen as vital to building customer experience and driving sales growth
- Heavily resourced with store website, social media accounts, marketing, digital POS screens
- Online ordering and delivery via their own vehicles

(Smallest segment)

Retailer interview sample

Changing consumer demands result in the need to elevate their technology and marketing capabilities

Key Challenges

Competition from large chains

Perception that large retail chains have command over the competition, and there is a preference for consumers to shop there due to more product choice, and favorable pricing

Integration of systems

Many retailers don't have the technology to integrate EPOS, stock management, ordering, click & collect and deliveries all in one place

Lack of marketing know-how

In-store promotions guided by symbol groups, but very little knowledge of how to develop and roll-out a marketing campaign

Limited financial resources

There are clear perks of re-investing into the business, but often these financial resources are very limited, creating a barrier to progress and be competitive

Poor margins

Extended product/service range e.g., Postal services may well meet consumer demands, but don't provide enough of a margin to make it compelling for retailers

Changing consumer demands

The requirements from consumers are ever changing, making it challenging for many retailers to keep up and service their needs

Intensity of challenge

The overall reasons for existing drive attitudes towards technology

Early majority

Meet Amit…

- Husband/wife business
- Sells standard confectionary items
- Stuck in the day-to-day
- Limited resources
- Post Office service
- Loyal customers
- Makes decisions on 'gut' feeling
- Interested in tech, but no ideas
- Frustrated with limited profits

Early adopters

Meet Brian…

- Family business
- In-store experience
- Independent
- Vast range of produce
- Premium fit-out
- Large car park
- EPOS and stock management
- Deliveries = poor margins
- Hesitant feeling towards proposition

Innovators

Meet Sanjay…

- Entrepreneurial mindset
- Delivery services
- Natural marketeer
- Premium fit-out
- Strong financials
- Fresh produce
- Dedicated departments
- Inherent knowledge of technology
- Current tech falls short
- Desire to own data
- Benefits with proposition

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C2 General

Meet Amit, the local store owner and early majority…

Who is he?

Amit and his wife Melissa runs a small convenience store in their local town. They moved from the nearest city to take on the lease of the store and live on the premises

Mentality and reason for existing

- Amit runs the store as a lifestyle business for him and his family to live off
- He's not a natural businessman, but just about makes it profitable through the support of the symbol group
- He has ambitions to grow the business but is regularly stuck in the day-to-day operations
- Decision-making is based on gut feeling rather than historical evidence and data

The store

- Part of wider symbol group
- Small shop in small town, but with good footfall
- Basic product offering with typical convenience items such as confectionary and packaged foods
- Large proportion of sales come from cold drinks and alcohol
- Post Office service
- No parking

Key resources

- Limited financial resources
- Regularly pulls on family members to cover shifts
- One of the few local stores in the area so has a loyal customer base

Tech and pain points

- Hesitant and reluctant to adopt too much technology too quickly
- Needs help with generating insights and knowing what to sell and for what price
- Post Office service requires significant resource, and also has very tight margins
- Limited commission on wider services such as postal, dry cleaning, cash machine
- Considering digital screens rather than posters for in-store promotions

"The Post Office service is very manual and hands-on, so it is frustrating when a member of staff could be serving someone else" (Robert Stores, Surrey)

Meet Brian, the proud shop owner and early adopter…

Who is he?

Brian runs a family store in the outskirts of a town. He took it over full-time once his parents retired and has been slowly growing it into a successful business

Mentality and reason for existing

- He wants to deliver a great in-store shopping experience
- Unlikely to expand his operation beyond one store, rather he has ambitions for this store to be a daily and weekly shopping destination

The store

- Large independent store seen as a 'one-stop-shop' for everything
- Premium fit-out with state-of-the-art refrigeration, lighting and signage
- Large array of fresh groceries
- Deli counter with fresh meats and cheeses
- Hot food-to-go, prepared in the on-site kitchen
- Experimented with deliveries and click & collect
- Postage pick up / drop off
- Large car park

Tech and pain points

- Stock management software and EPOS sales data
- Use of social media channels for marketing
- Invested heavily in state-of-the-art hardware such as refrigeration, lighting and air conditioning
- Doesn't see the benefit of deliveries due to poor margins

Key resources

- Loyal customer base who regularly visit for big shops
- Strong financial resources
- Natural ability for business and to develop a strong product
- Independent, therefore can make decisions and act quickly

"With more people shopping local than ever before, they are demanding more fresh and chilled foods, so we knew we had to reinvest" (Costcutter, Oxfordshire)

Meet Sanjay, the entrepreneurial innovator…

Who is he?

Sanjay describes himself as an entrepreneur. He has previous experience working as a manager for a technology retailer but entered convenience retail because he saw the opportunity to benefit from his inner commercial drive.

Mentality and reason for existing

- Acceptance of poor margins and an attitude to drive volume
- Willingness to experiment and re-invest
- Natural marketeer and 'front-man' for the store

The store

- Located in densely populated residential area
- Member of wider symbol group
- Premium fit-out with state-of-the-art refrigeration, lighting and signage
- Fresh vegetables, fruits, meats and cheeses
- Hot food-to-go, prepared in the on-site kitchen
- Self-serve hot/cold drinks counter
- Offers delivery services, employing his own drivers in branded vehicles
- Postage pick up / drop off
- Car park

Tech and pain points

- Knowledge of technology is an inherent capability
- Stock management software and EPOS sales data
- Use of social media channels for marketing
- Application for online ordering for delivery / click & collect
- Limited options to integrate systems such as EPOS and delivery apps
- Services such as Snappy Shopper do not fulfil needs due to delivery costs, which discourages the completion of online orders
- Huge cost of building their own delivery and click & collect mobile applications

"We analyse the delivery data to understand how well each of our drivers are performing, but this information does not integrate with our tills" (Premier Heyside, Lancashire)

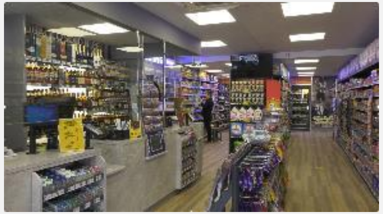
Key resources

- Diverse team of capable family members and employees
- Dedicated marketing team
- Strong financial resources

Singh's of Sheffield leads the way for innovation within the sector…

"Footfall has grown over 20% to 6,500 customers per week"

"Margin is up 6%, moving to 28%, with basket spend now up to an average of £9"



"Our sales have grown from £38k to £56k per week and are still going strong"

"Singh's drop is a great new home delivery addition, with sales now over £15,000 per week"

NB. Clips from promotional video.
Full video has been sent separately.

"We have used social media to push this, and are very proud to have 30,000 followers as a result"

6.

Consumer survey learnings

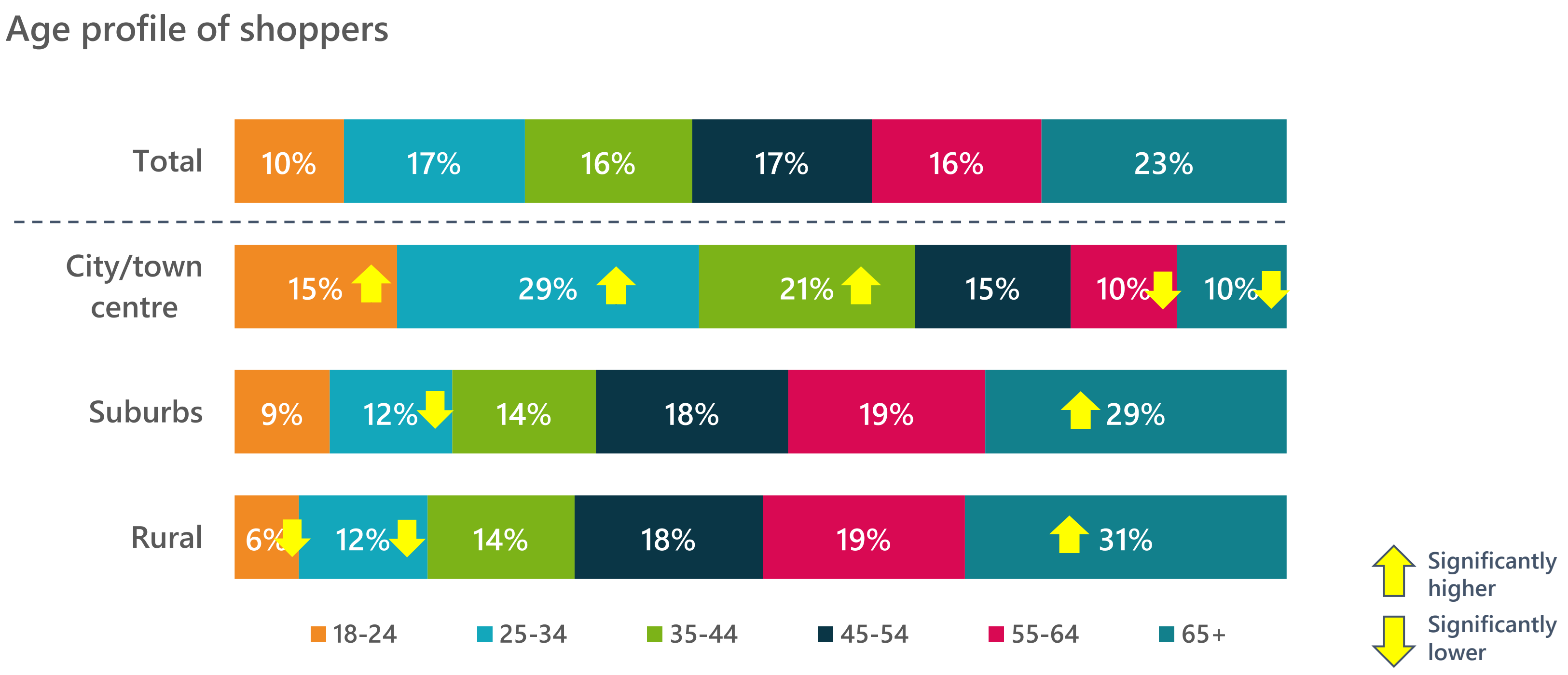
Quantitative survey sample: 1000 online interviews, all had to have shopped in a convenience store in the last month

Segment	Sample
Male	468
Female	530
18-34	276
35-44	159
45-54	171
55+	394
AB	290
C1C2	426
DE	284

Segment	Sample
City/town centre	317
Suburbs	454
Village/rural	229

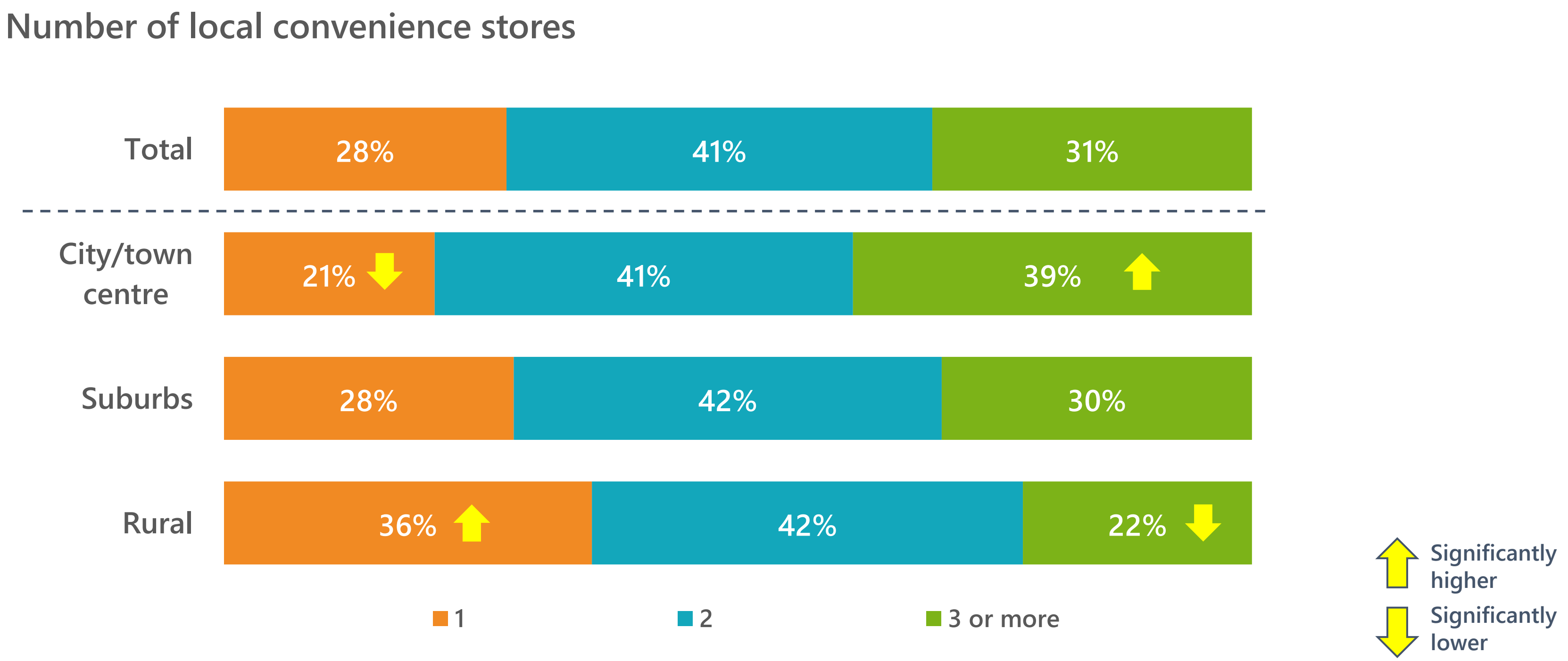
Segment	Sample
Scotland	86
Northern Ireland	31
Wales	48
North East	36
North West	123
Yorkshire and the Humber	85
West Midlands	93
East Midlands	61
South West	85
South East	138
East of England	86
Greater London	128

Two thirds of city and town centre convenience shoppers are aged under 45, while suburban and rural stores have a much older age profile



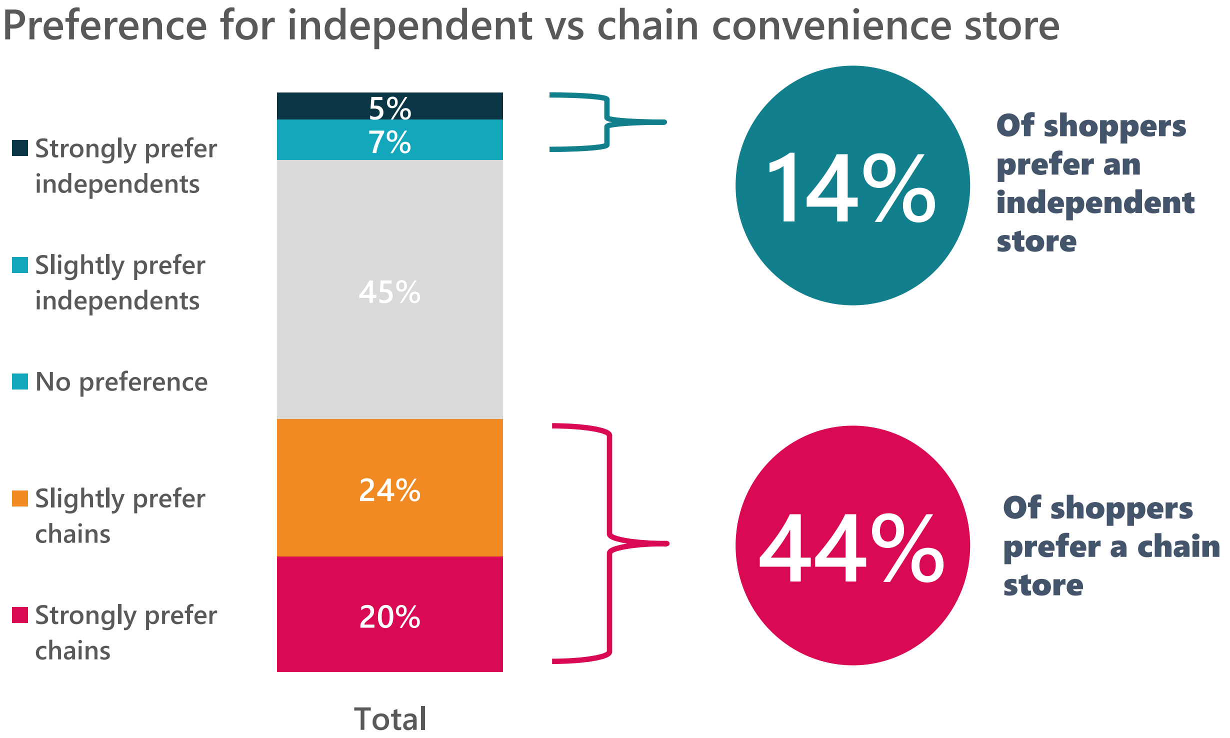
Q2: Which of the following age brackets do you fall in to? Base: Total n=1,000; City/town centre n=317, Suburbs n=454, Rural n=229)

Wider choice of convenience stores in city and town centres while a third in rural areas have only one local store



Q19: How many convenience stores do you have that you would describe as local to you? Base: Total n=1,000, City/town centre n=317, Suburbs n=454, Rural n=229

Overall, 44% of convenience shoppers prefer a chain store while only 14% prefer independent stores



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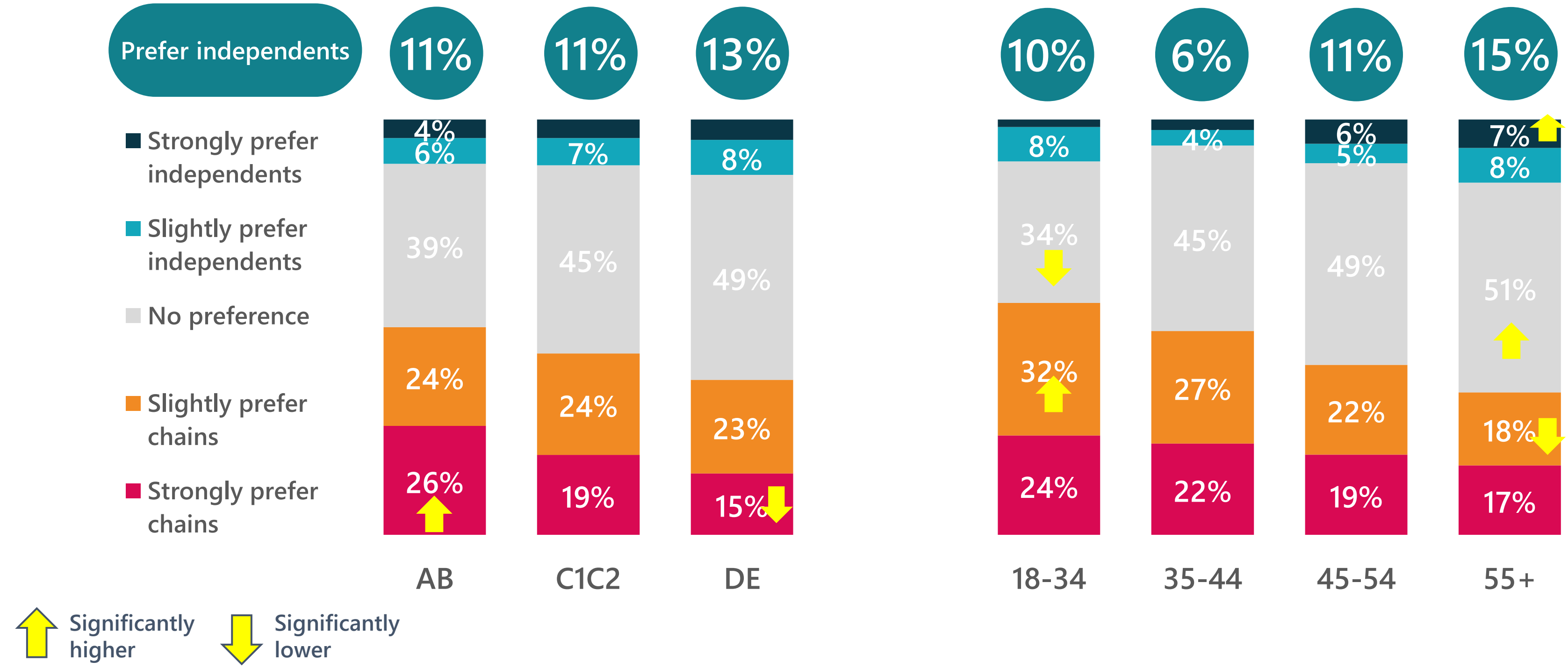
Q20: When it comes to convenience stores do you prefer to use chains or independent stores? Base: Total n=1,000

Preference for independents highest in 55+ group, while well over half of 18-34s prefer chains; chain preference strongest in ABs

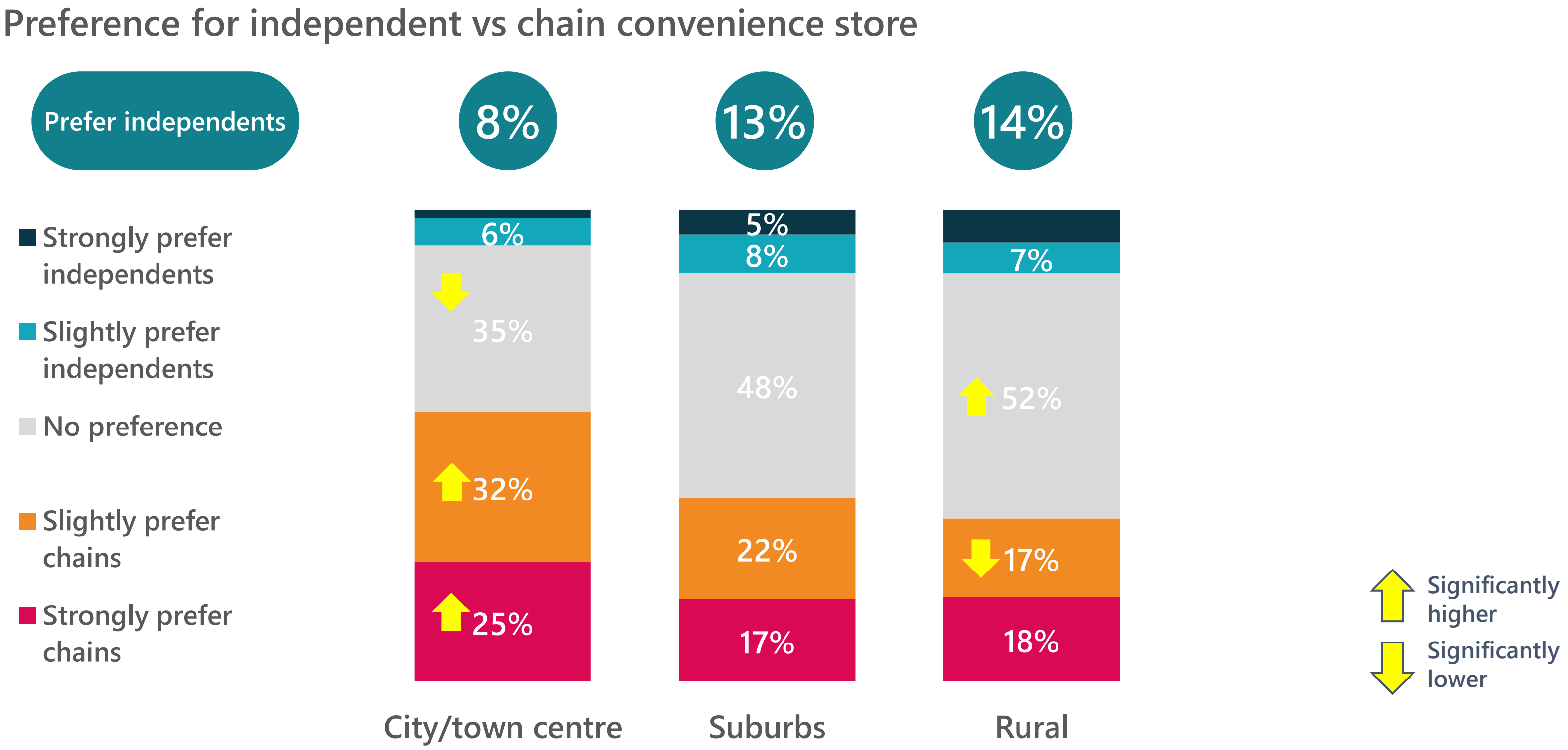
Preference for independent vs chain convenience store



Context Consulting

Q20: When it comes to convenience stores do you prefer to use chains or independent stores? Base: Total n=1,000; AB n=290, C1C2 n=426, DE n=284; 18-34 n=276, 35-44 n=159, 45-54 n=171, 55+ n=394)

Preference for chains much stronger among city and town centre shoppers



Q20: When it comes to convenience stores do you prefer to use chains or independent stores? Base: Total n=1,000; City/town centre n=317, Suburbs n=454, Rural n=229

Location and price are key factors in convenience store choice

Key factors in choosing convenience store

Q22. What is most important to you in deciding which convenience store to visit? Base: Total n=1,000

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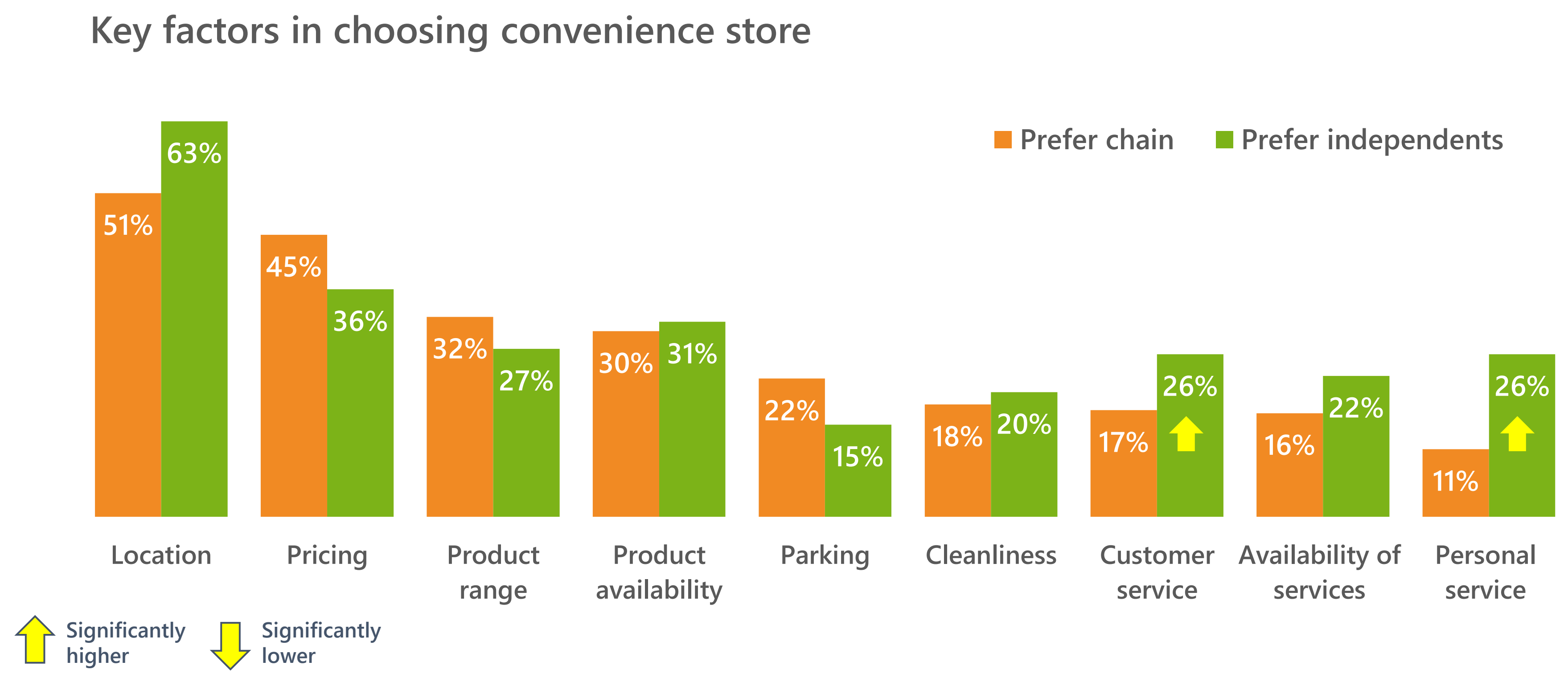
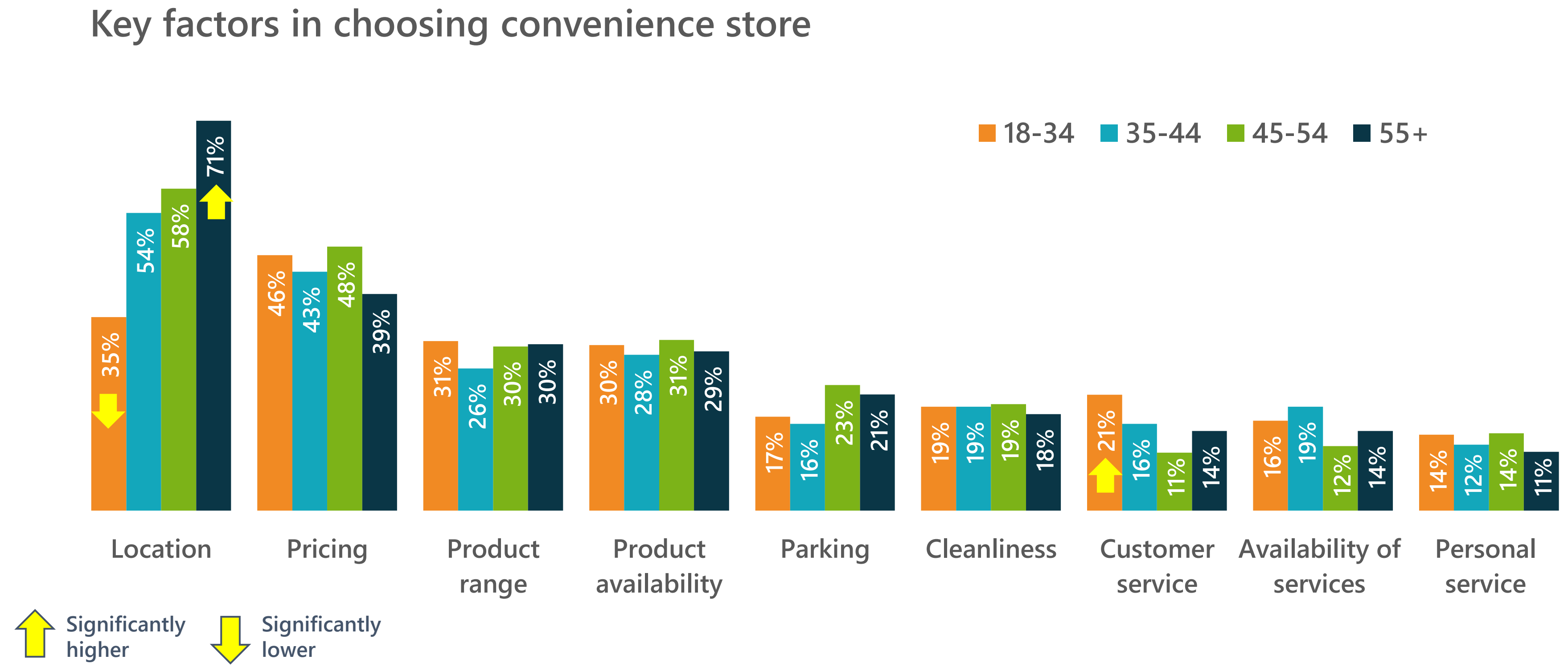
Those who prefer independent convenience stores place more importance on customer service and knowing the staff personally



Context Consulting

Q22. What is most important to you in deciding which convenience store to visit? Base: Prefer chain n=437, prefer independents n=116

Location much more important to over-55s, while customer service more important to under-35s than other age groups

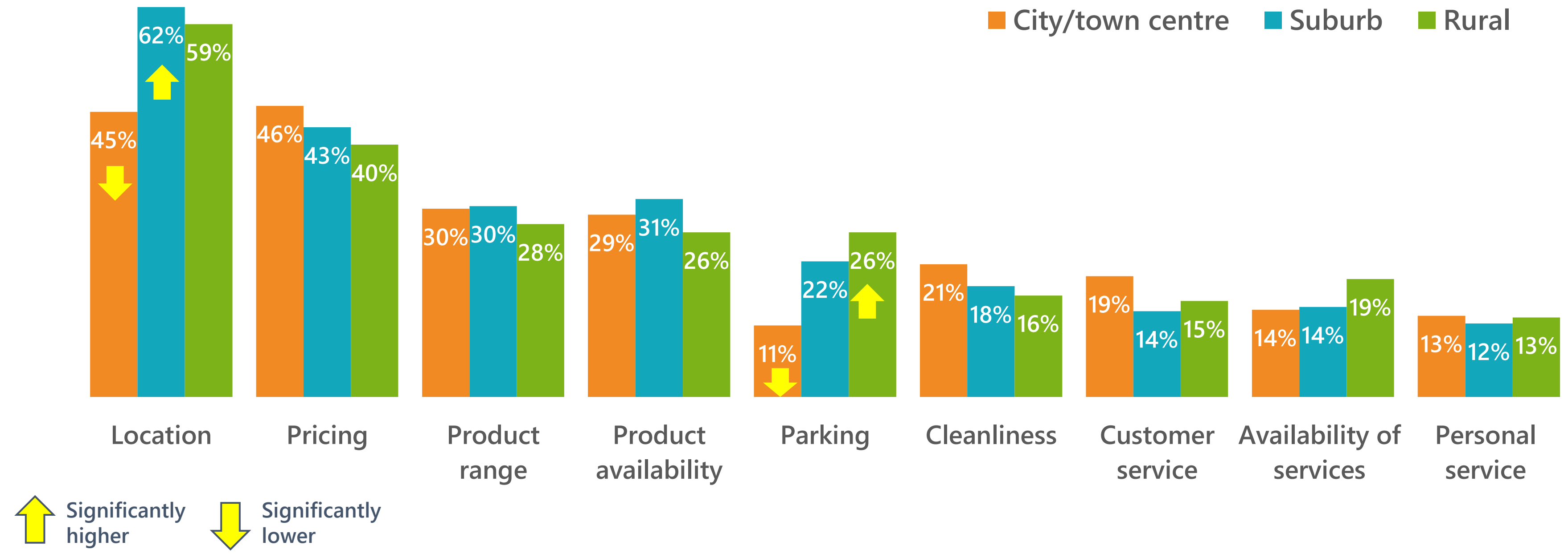


Context Consulting

Q22. What is most important to you in deciding which convenience store to visit? Base: 18-34 n=276, 35-44 n=159, 45-54 n=171, 55+ n=394

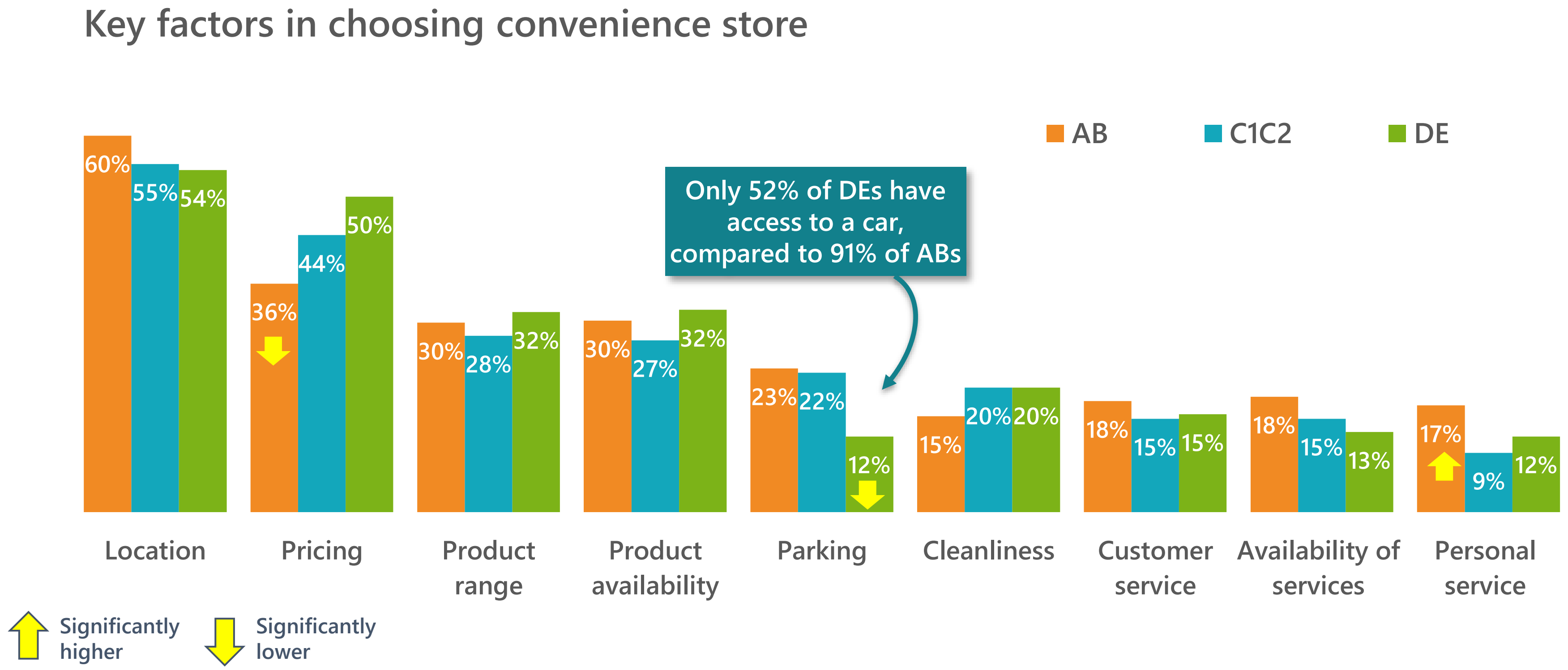
In city centres, where shoppers are more likely to have a choice of stores, location is less important

Key factors in choosing convenience store



Q22. What is most important to you in deciding which convenience store to visit? Base: City/town centre n=317, Suburbs n=454, Rural n=229

ABs less likely to take price into account, for whom personal service more important; pricing matters more to lower socioeconomic groups



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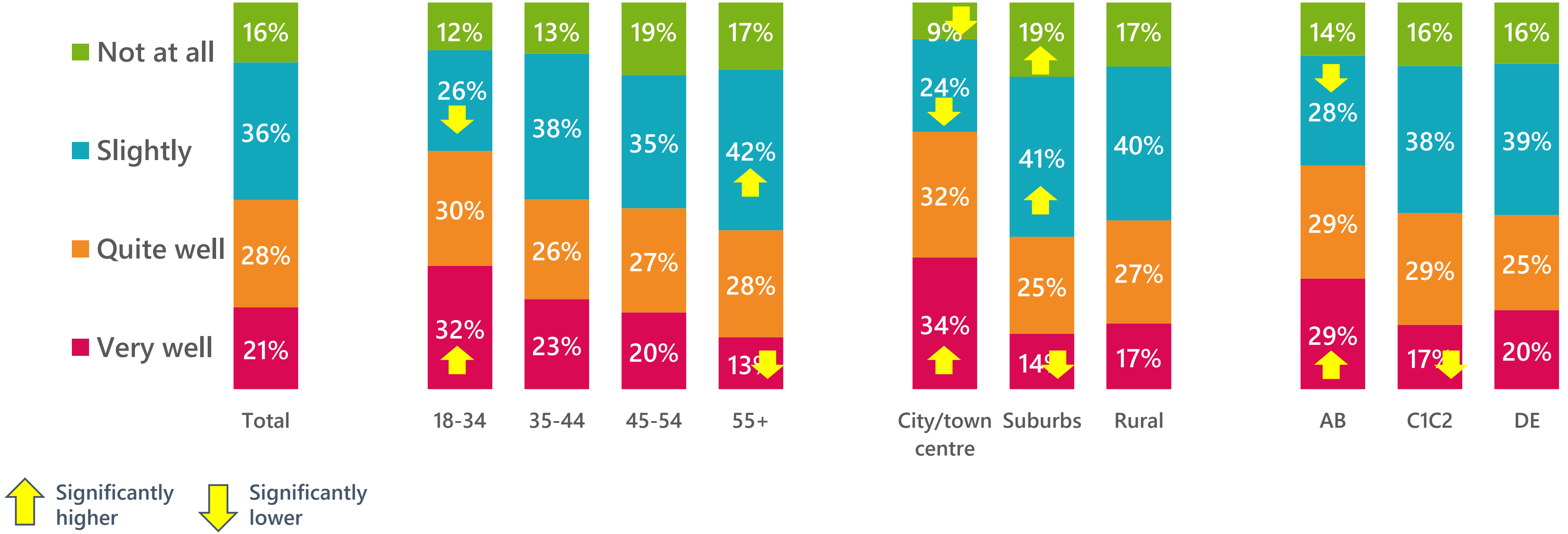
Q22. What is most important to you in deciding which convenience store to visit? Base: AB n=290, C1C2 n=426, DE n=284

Younger customers and those in city and town centres are more likely to know the staff in their local store

How well know staff in local store



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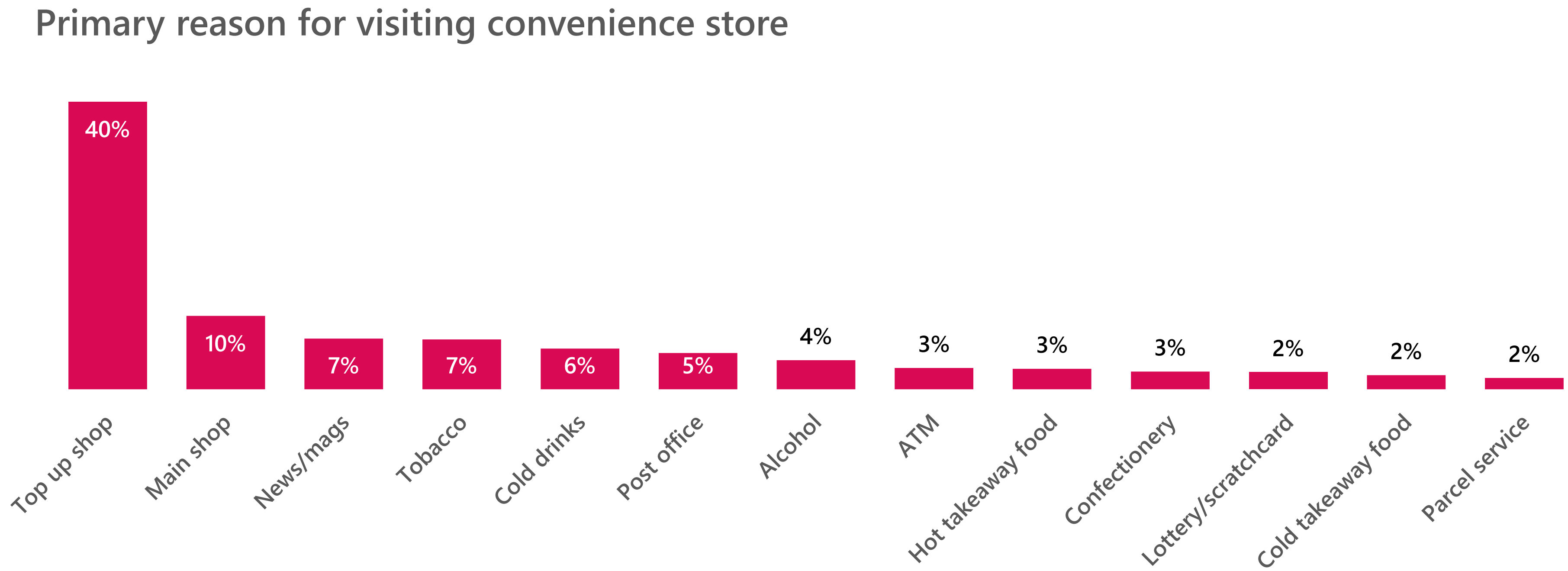
Q27: Do you know the people running and working in your most frequently visited convenience store? Base: Total n=1,000; 18-34 n=276, 35-44 n=159, 45-54 n=171, 55+ n=394; City/town centre n=317, Suburbs n=454, Rural n=229; AB n=290, C1C2 n=426, DE n=284

Top up shopping is by far the main trigger for a convenience store visit



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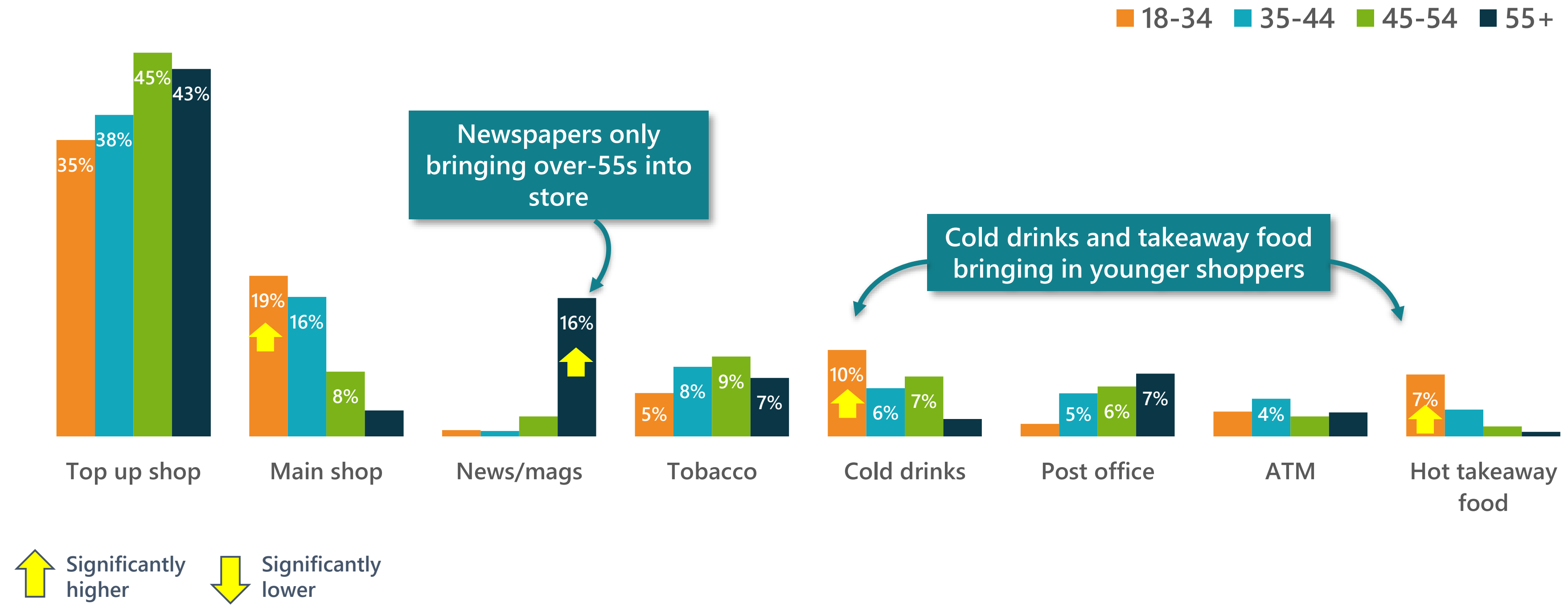
Q24: Thinking about your most recent visit to a convenience store, what was the main reason you went to the shop? Base: Total n=1,000

Younger customers more likely than older to visit a convenience store for their main shop

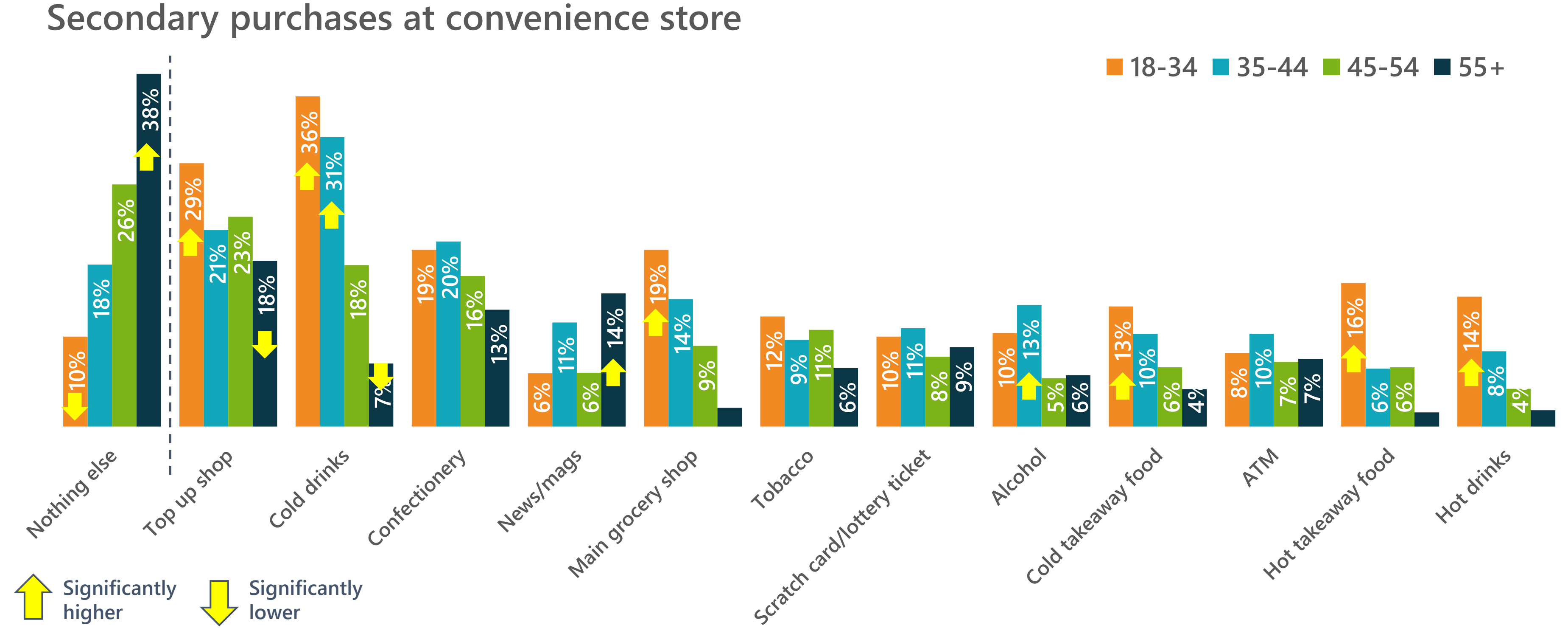
Primary reason for visiting convenience store



Context Consulting

Q24: Thinking about your most recent visit to a convenience store, what was the main reason you went to the shop? Base: 18-34 n=276, 35-44 n=159, 45-54 n=171, 55+ n=394

Younger customers do more shopping once in store, and are more likely to purchase cold drinks, hot food and hot drinks as an add-on



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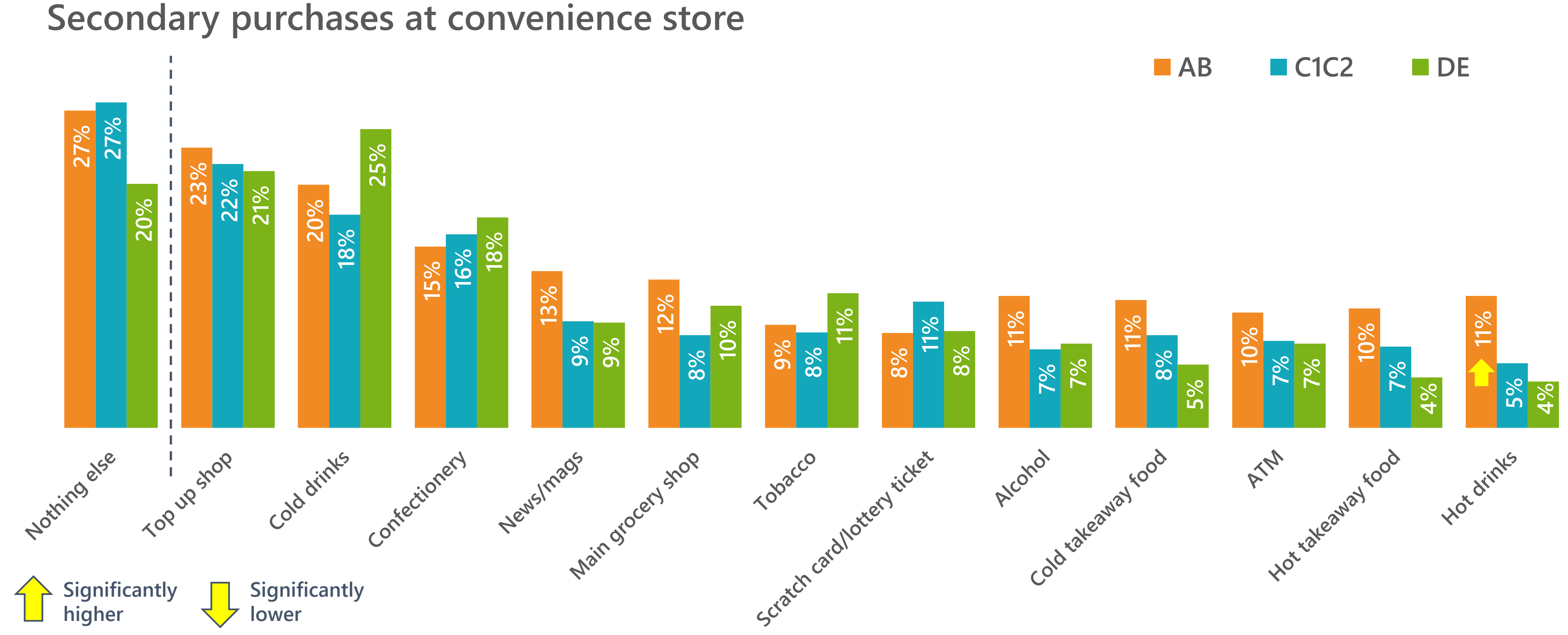
Q25. And while you were there, what else did you buy or do? Base: 18-34 n=276, 35-44 n=159, 45-54 n=171, 55+ n=394

ABs more likely to purchase hot drinks while in store than other SEGs

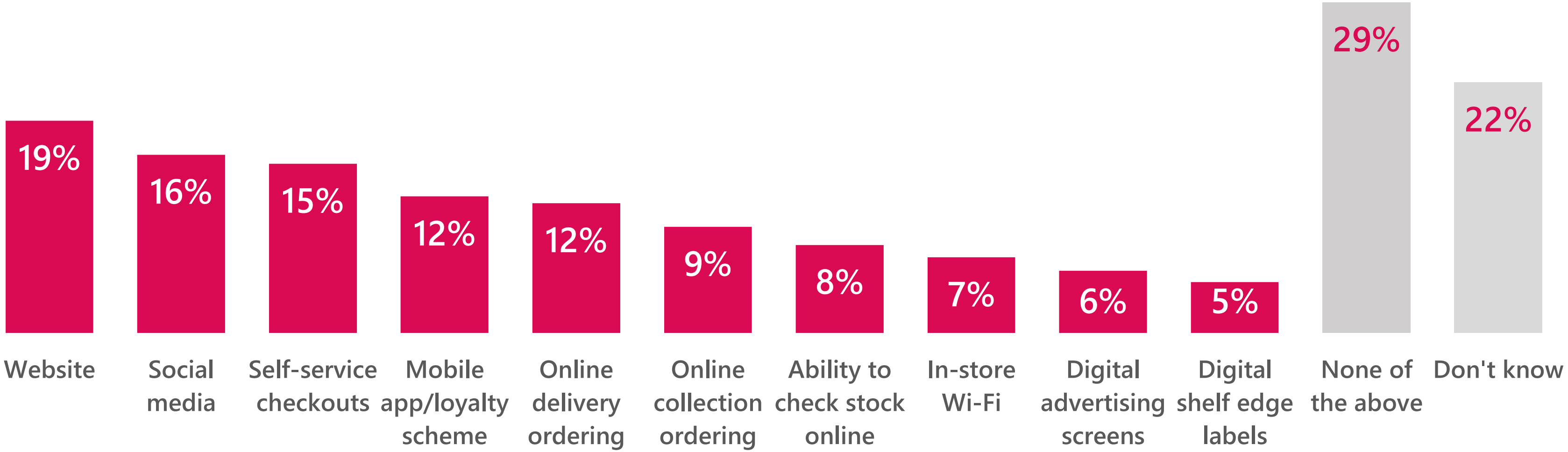


Context Consulting

Q25. And while you were there, what else did you buy or do? Base: AB n=290, C1C2 n=426, DE n=284

Half of convenience store customers say either their local store has no digital tech or they are unaware of what it has in place

Awareness of instore tech



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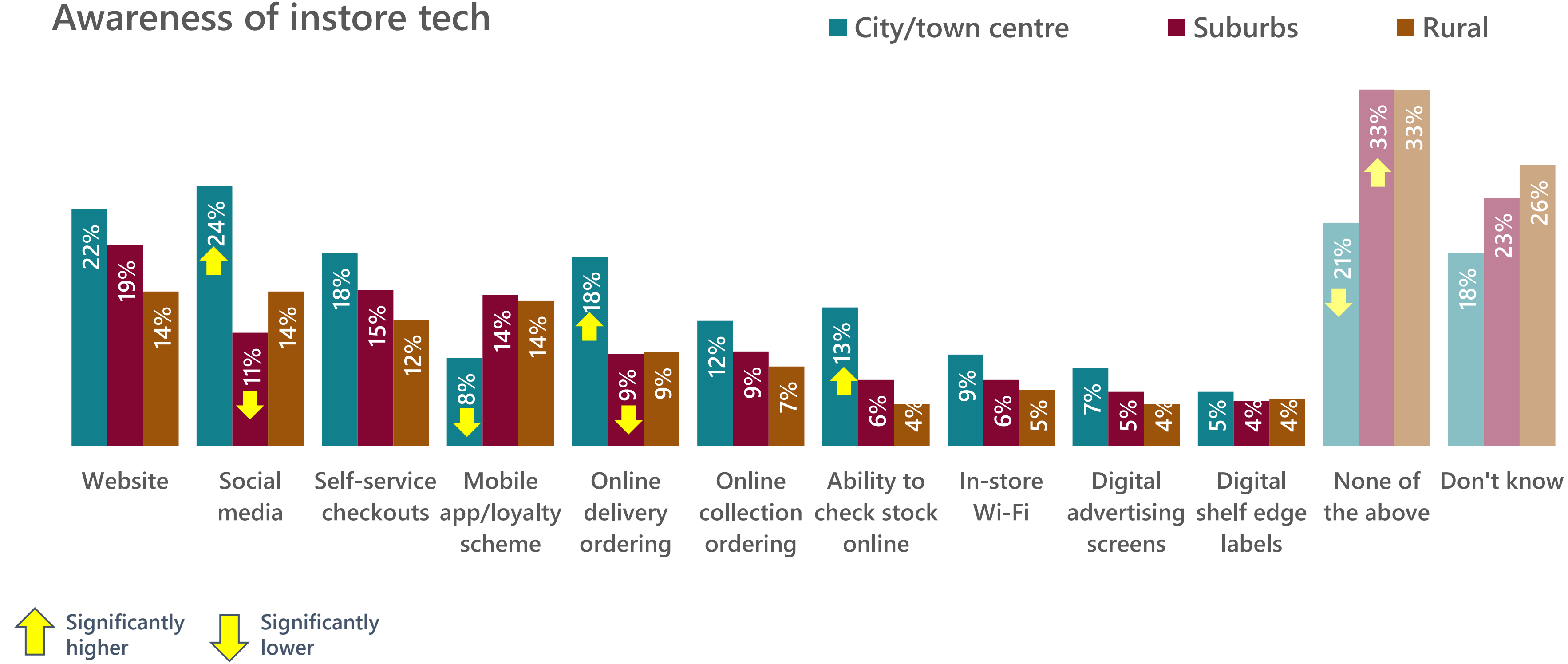
Q29. Does your most frequently visited store have any of the following? Base: Total n=1,000

City/town centre shoppers are much more likely to say their store has a social media presence and offers online ordering and stock check

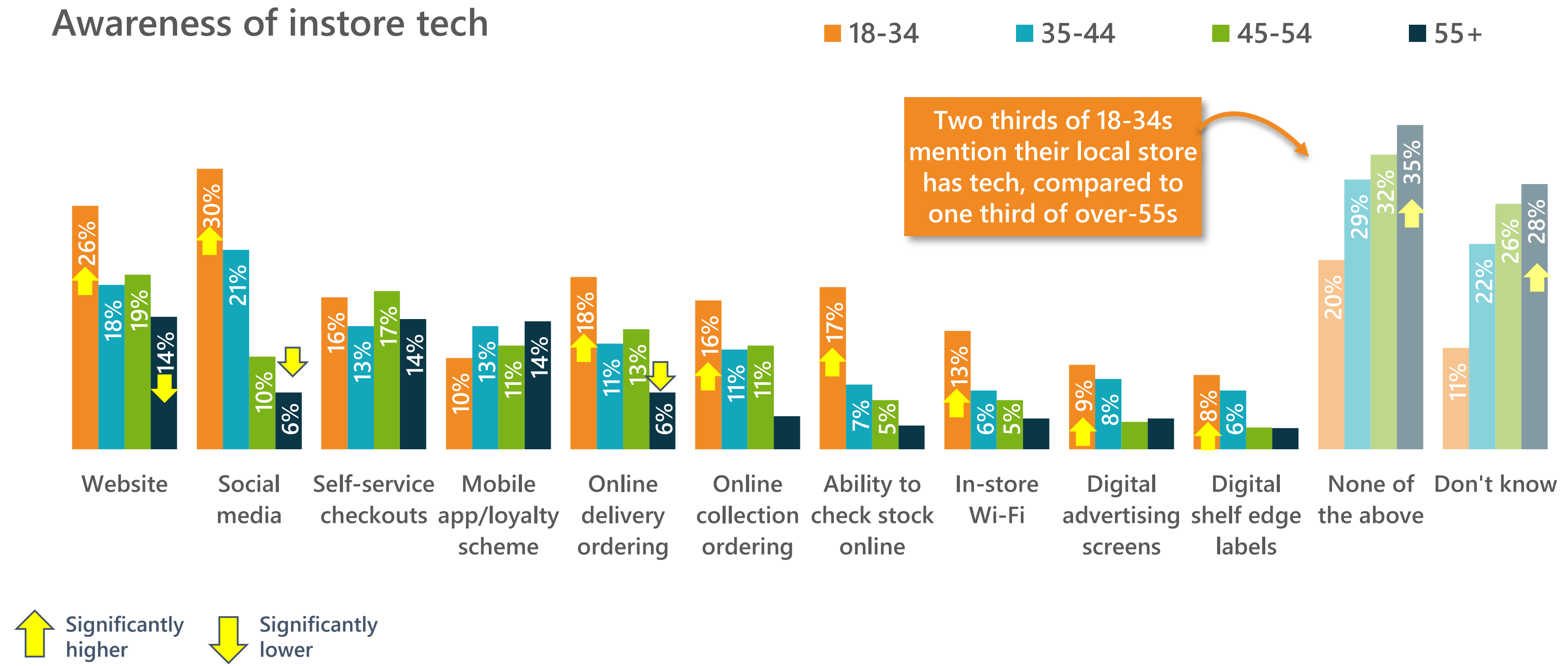
Awareness of instore tech



Context Consulting

Q29. Does your most frequently visited store have any of the following? Base: City/town centre n=317, Suburbs n=454, Rural n=229

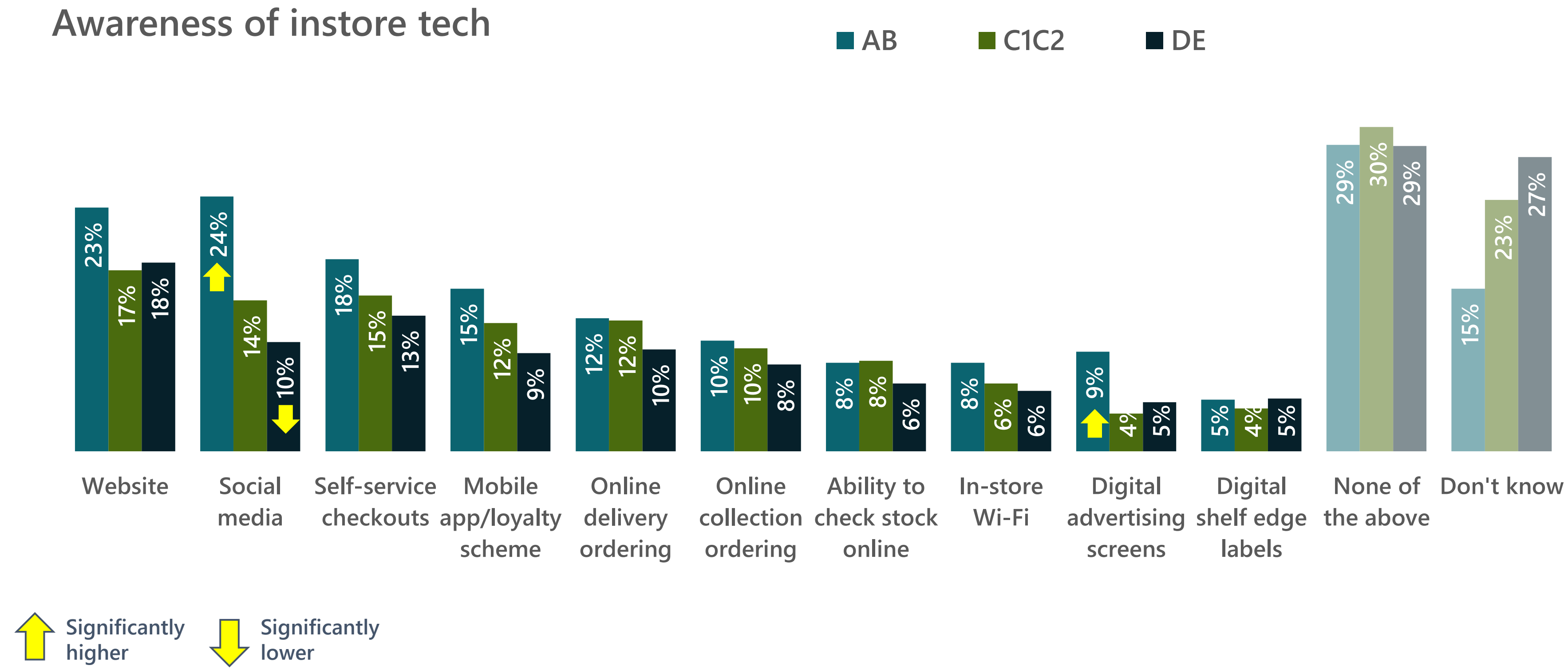
Younger customers are more likely to know their local store has a social media presence and to say it offers tech solutions



Context Consulting

Q29. Does your most frequently visited store have any of the following? Base: Total 18-34 n=276, 35-44 n=159, 45-54 n=171, 55+ n=394

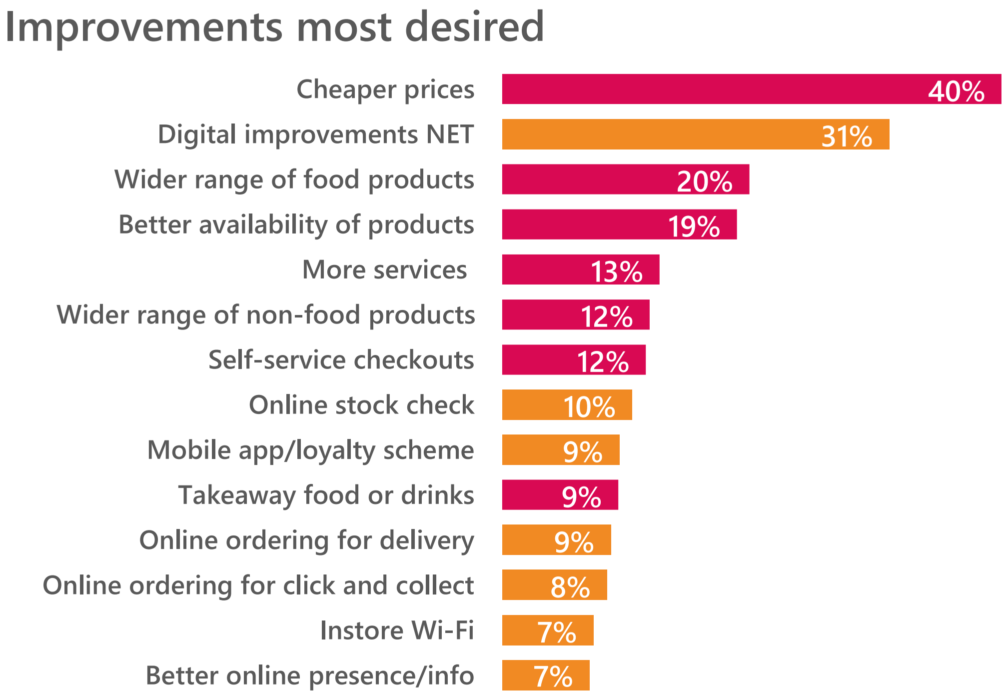
AB customers are more likely to be aware of their local store's social media presence



Context Consulting

Q29. Does your most frequently visited store have any of the following? Base: Total AB n=290, C1C2 n=426, DE n=284

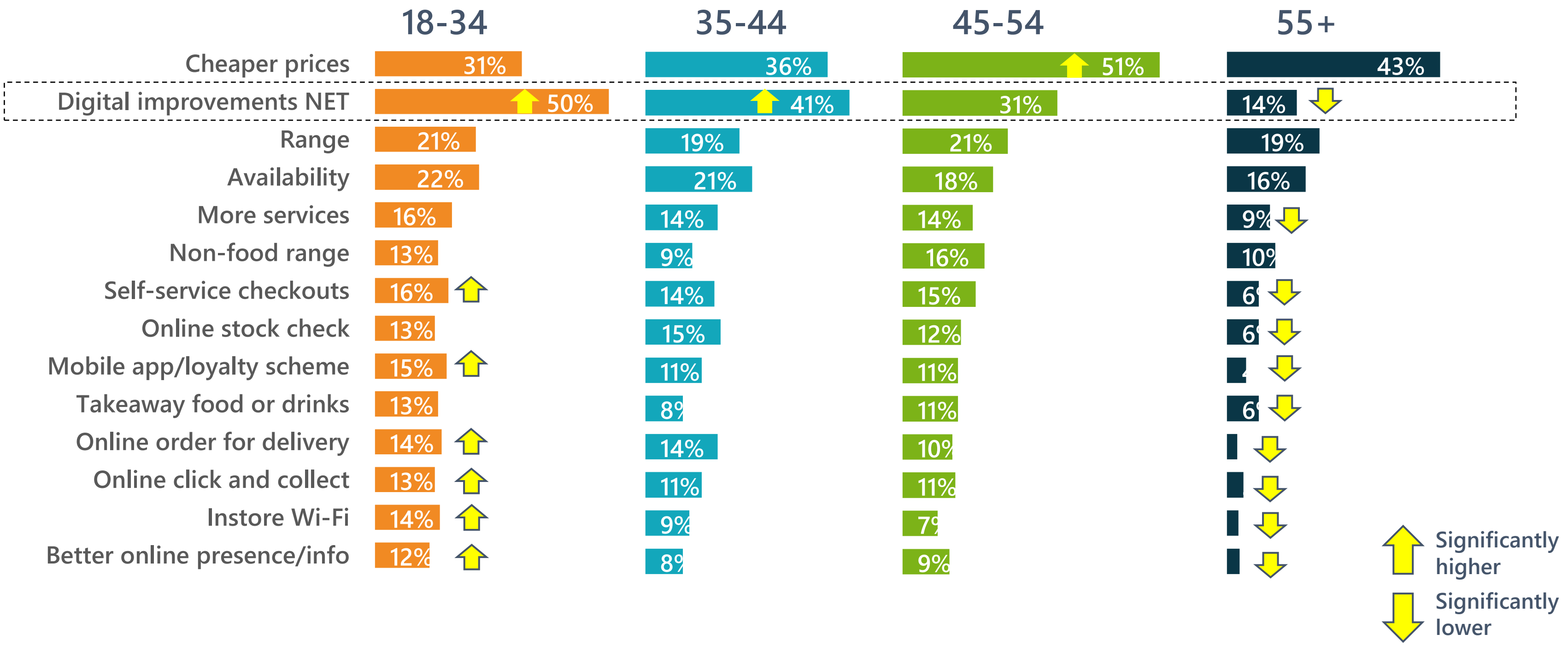
Four in ten want to see lower prices, and nearly 3 in ten would like to see some kind of digital improvements in their local convenience store



Q30. What would you like to see added or improved at your local convenience store? Base: Total n=1,000

Half of under-34s would like to see digital improvements of some kind in their local convenience store – more than want to see lower prices

Improvements most desired



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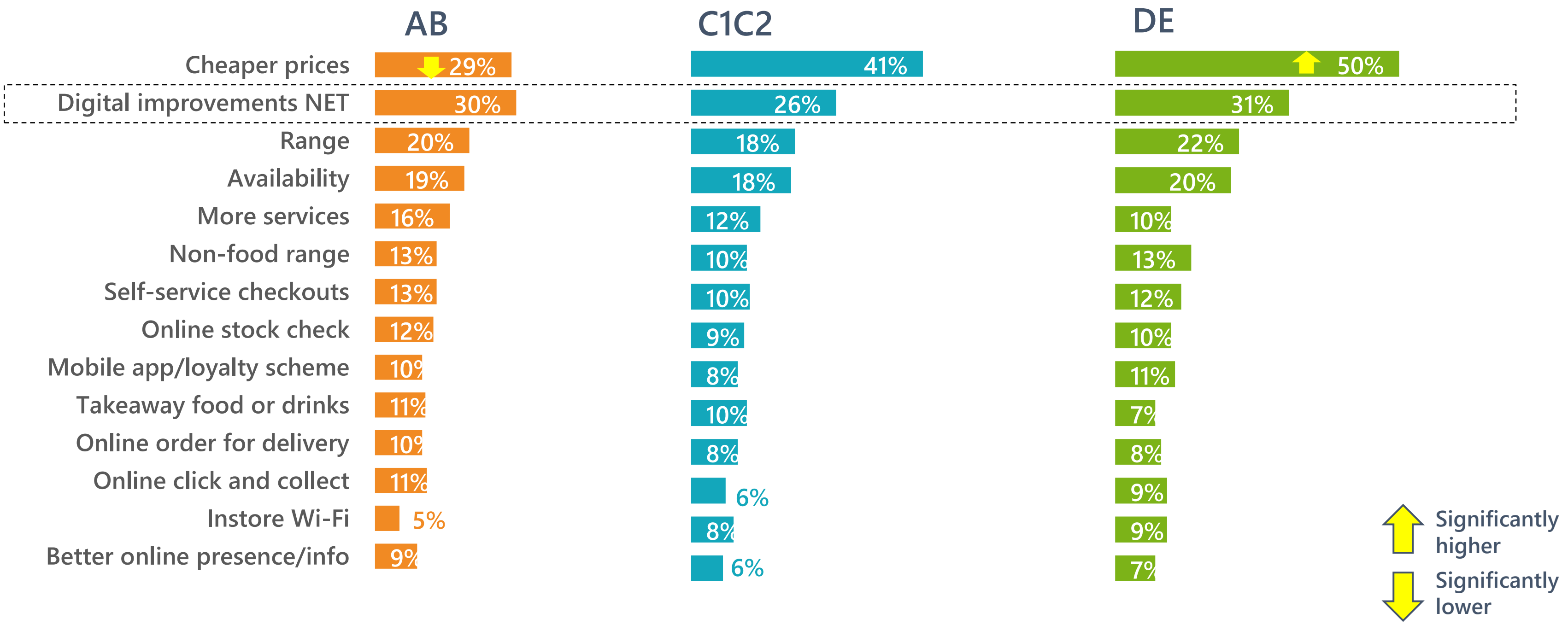
Q30. What would you like to see added or improved at your local convenience store? Base: 18-34 n=276, 35-44 n=159, 45-54 n=171, 55+ n=394

Lower prices are much more important to DE customers, but they also show interest in digital improvements at a similar level to AB and C1C2

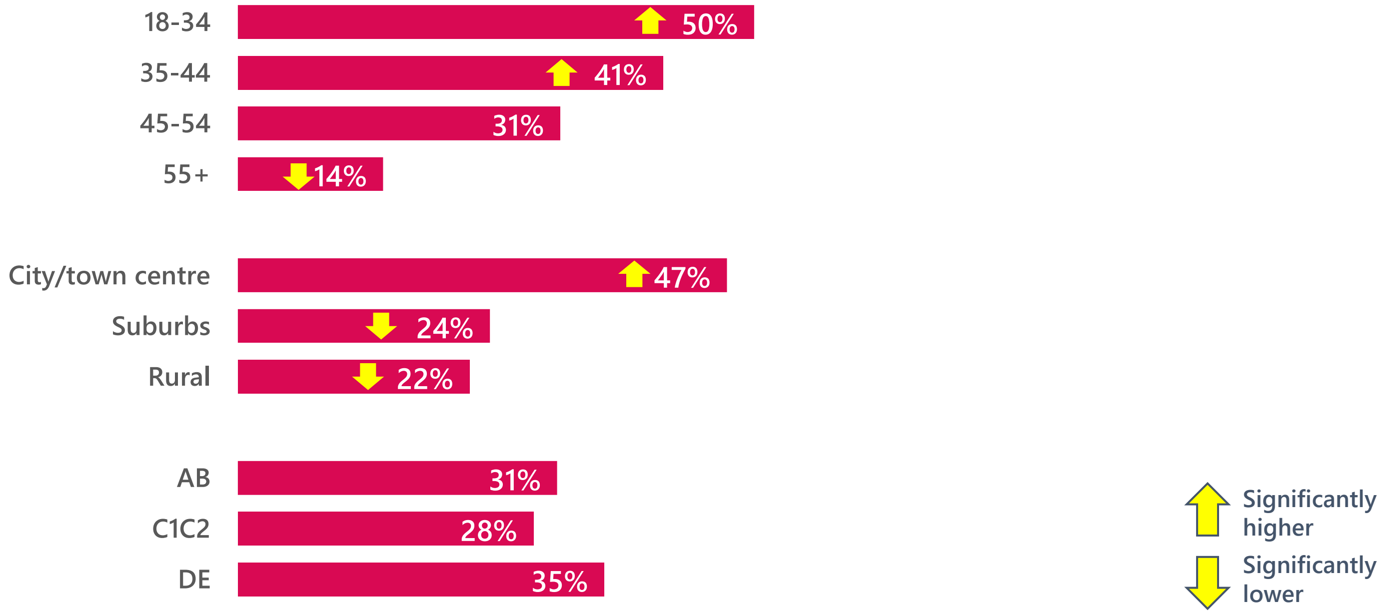
Improvements most desired



Q30. What would you like to see added or improved at your local convenience store? Base: AB n=290, C1C2 n=426, DE n=284

Half of those in the youngest age group and those who live in city/town centres would like to see some kind of digital improvement at their store

Interest in digital improvements at local store

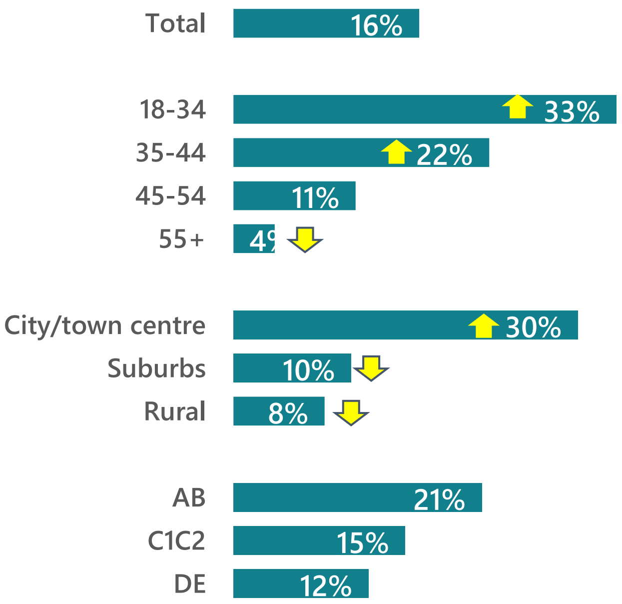


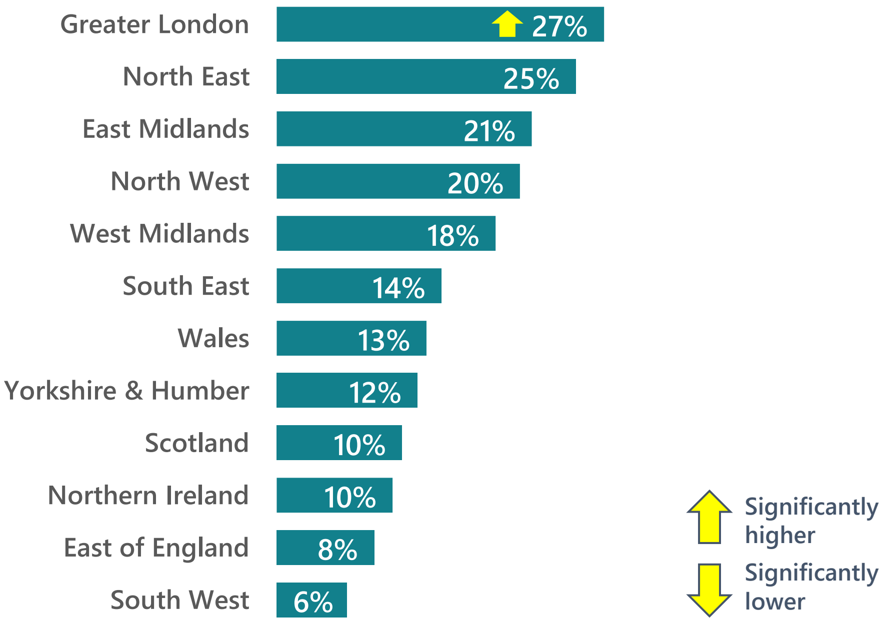
Context Consulting

Q30. What would you like to see added or improved at your local convenience store? Net saying any digital improvement Base: Total n=1,000; 18-34 n=276, 35-44 n=159, 45-54 n=171, 55+ n=394; City/town centre n=317, Suburbs n=454, Rural n=229; AB n=290, C1C2 n=426, DE n=284

One in 6 shoppers say they have shopped from a convenience store using an app or online – rising to one in 3 under-35s

Ever shop from convenience store using app/click & collect

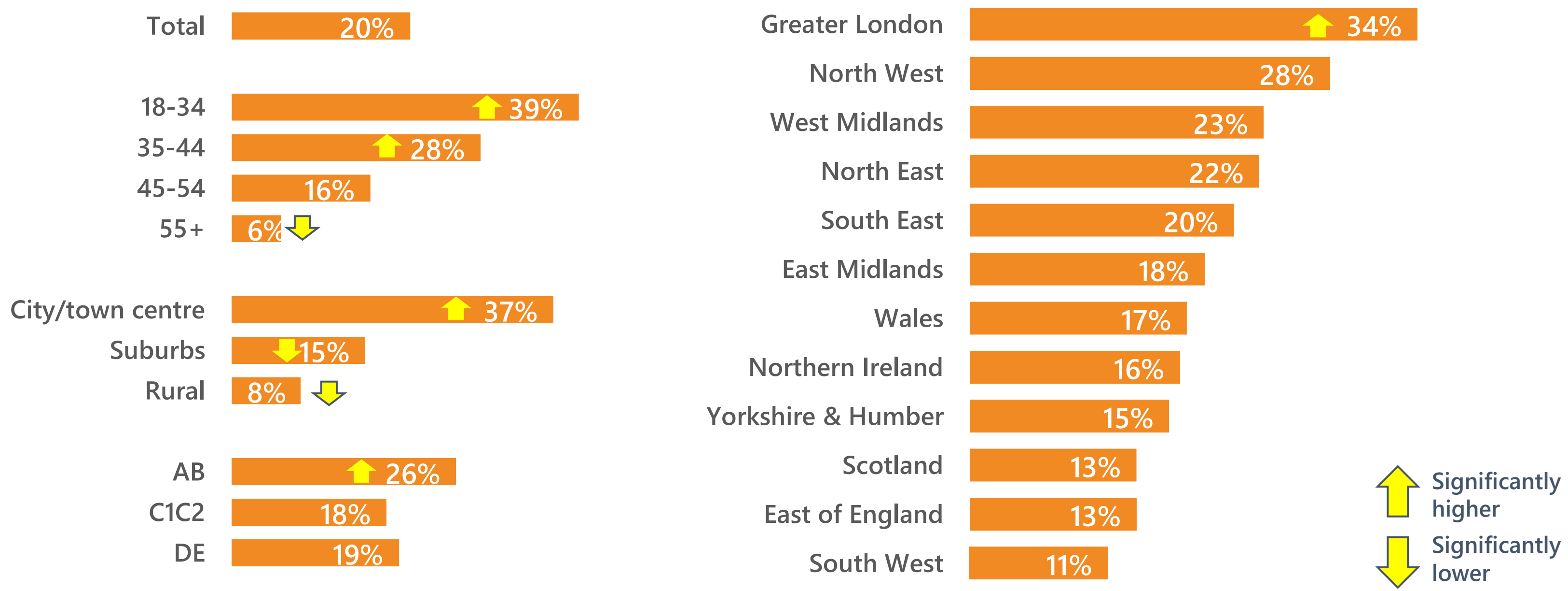




Q33: Do you ever do shopping from your local convenience store using a mobile app/online e.g. click and collect? % saying Yes Base: Total n=1,000; 18-34 n=276, 35-44 n=159, 45-54 n=171, 55+ n=394; City/town centre n=317, Suburbs n=454, Rural n=229; AB n=290, C1C2 n=426, DE n=284; Scotland n=86, Northern Ireland n=31,Wales n=48, North East n=36, North West n=123, Yorkshire and the Humber n=85, West Midlands n=93, East Midlands n=61, South West n=85, South East n=138, East of England n=86, Greater London n=128

One in 5 say they have shopped from a convenience store using a fast food delivery app, rising to 2 in 5 in the under-35 age group

Ever shop from convenience store via fast food delivery apps



Q34: Do you ever shop for convenience items via fast food delivery apps? % saying Yes Base: Total n=1,000; 18-34 n=276, 35-44 n=159, 45-54 n=171, 55+ n=394; City/town centre n=317, Suburbs n=454, Rural n=229; AB n=290, C1C2 n=426, DE n=284; Scotland n=86, Northern Ireland n=31,Wales n=48, North East n=36, North West n=123, Yorkshire and the Humber n=85, West Midlands n=93, East Midlands n=61, South West n=85, South East n=138, East of England n=86, Greater London n=128

Context Consulting

Nearly a quarter say they would use a delivery service from their local convenience store; most interest in cities and towns and from under-35s

Q35: If your local convenience store offered a delivery service, would you use it? % saying Yes Base: Total n=1,000; 18-34 n=276, 35-44 n=159, 45-54 n=171, 55+ n=394; City/town centre n=317, Suburbs n=454, Rural n=229; AB n=290, C1C2 n=426, DE n=284; Scotland n=86, Northern Ireland n=31,Wales n=48, North East n=36, North West n=123, Yorkshire and the Humber n=85, West Midlands n=93, East Midlands n=61, South West n=85, South East n=138, East of England n=86, Greater London n=128

Context Consulting

6.

Summary of findings

The majority of small convenience retailers are struggling to adapt to meet the shifting demands of consumers

Retailers	Consumers
Changing consumer demands result in the need to elevate their technology and marketing capabilities	Younger customers more likely than older ones to visit a convenience store for their main shop
Poor margins and limited financial resources affect vast majority of convenience retails	Younger age groups who live in city/town centres would like to see some kind of digital improvement at their store
There are very few early adopters and innovators in the sector, with the majority lagging behind	
For those that *are* exploring technology, this is mainly internal rather than customer-facing	Many would use delivery services from their local convenience store; most interest in cities and towns and from under-35s
Whilst many see the benefit of technology, there is little knowledge of how it can *practically* help them	Four in ten want to see lower prices, and nearly 3 in ten would like to see digital improvements in their local convenience store
Lottery is still considered an important footfall driver	

Context Consulting

C2 General