

HOW LOCAL SHOPS ARE NAVIGATING THE **COST OF TRADING** CRISIS

A report by the Association of Convenience Stores

Introduction |

COST OF LIVING

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UK consumers are experiencing an unprecedented cost of living crisis, with the rising cost of goods, fuel and utilities in the news almost every day.

The cost of running a convenience store business, especially in the midst of the long recovery from the pandemic, is also skyrocketing. Convenience retailers are seeing huge increases in their energy, employment, product and supply chain costs, and are struggling to hold back further price increases from consumers.

This report explores how we got to this point, the challenges that convenience stores are facing, what retailers are doing to respond, and how shopping in convenience stores can benefit consumers looking to manage their money.

Wider Context

Informed by a Bank of England / ACS Roundtable and the Bank of England Monetary Policy Report (May 2022)

Pressures on Doing Business

Informed by an independent retailer Focus Group (January 2022)

How Are Retailers Responding

Informed by an independent retailer Focus Group (May 2022)

How Local Shops Can Help

Informed by new consumer polling with Yonder (May 2022)

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Part One: Wider Context

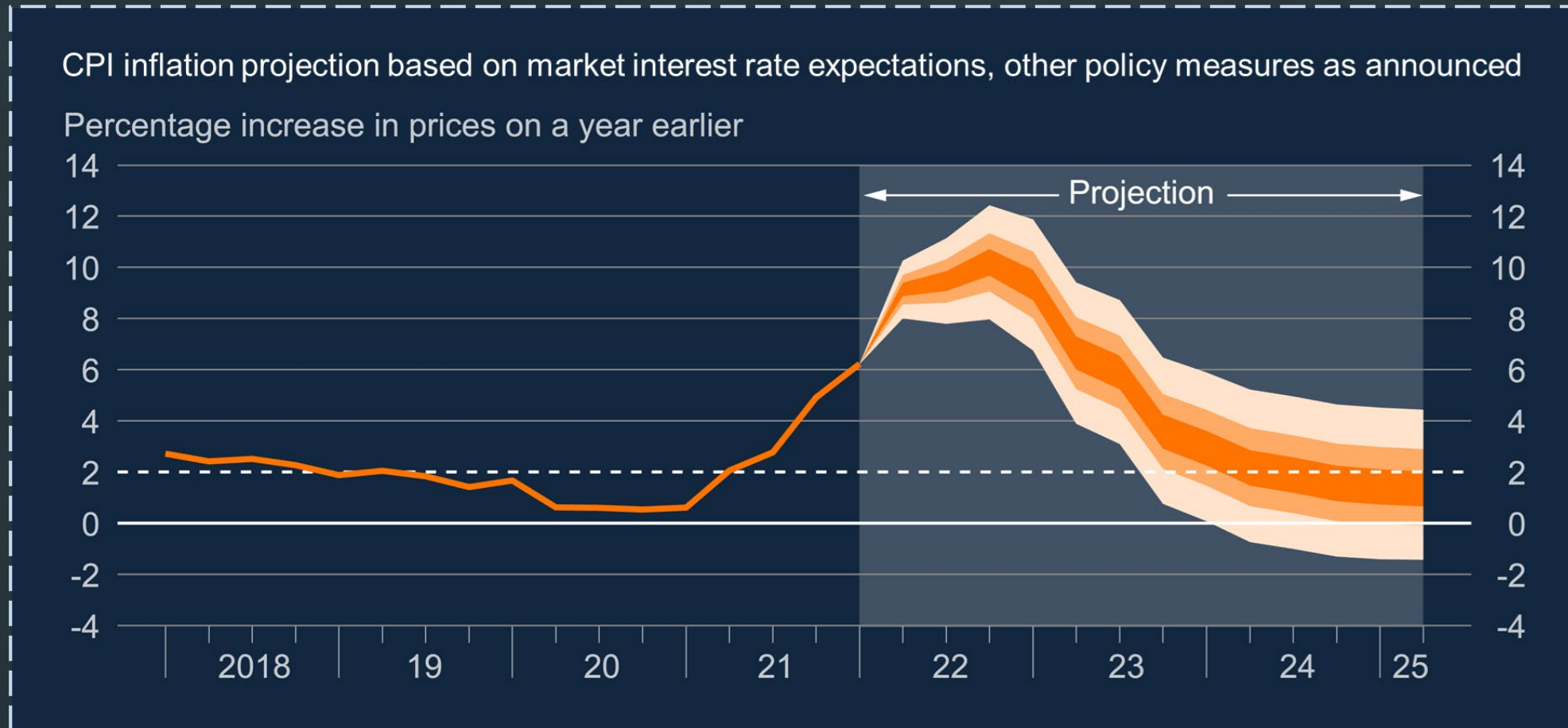
Informed by a Bank of England / ACS Roundtable and the
Bank of England Monetary Policy Report (May 2022)

Wider Context | CPI Inflation and Projections

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Inflation expected to peak toward the end of 2022 after the next energy price cap increase in October

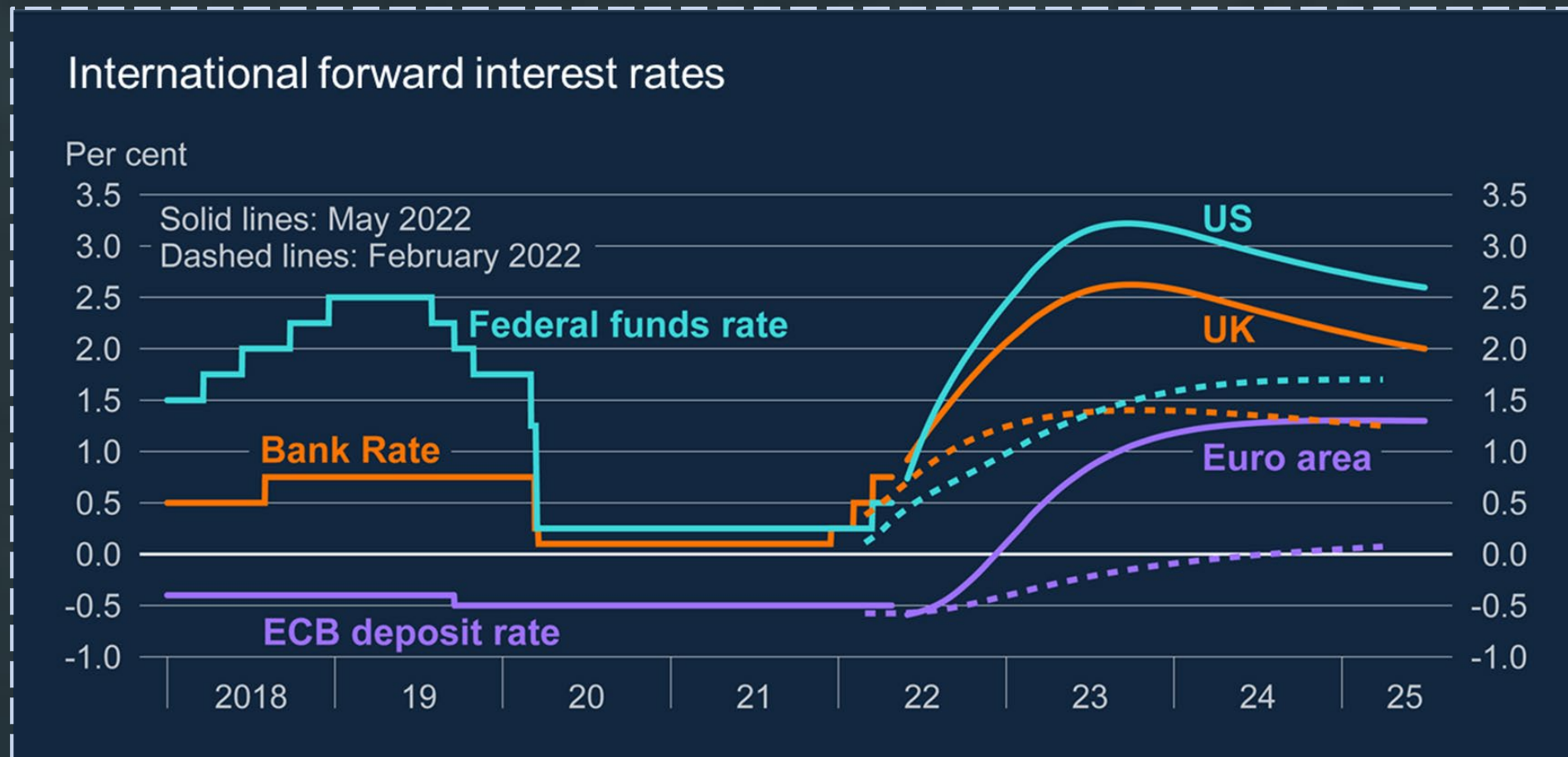


Wider Context | Interest Rates

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Interest rates are rising across the globe to try and bring down the rate of inflation (current UK rate: 1.25%)



Wider Context | Consumer Confidence

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Consumer confidence has taken a significant hit in 2022, tracking in line with income growth

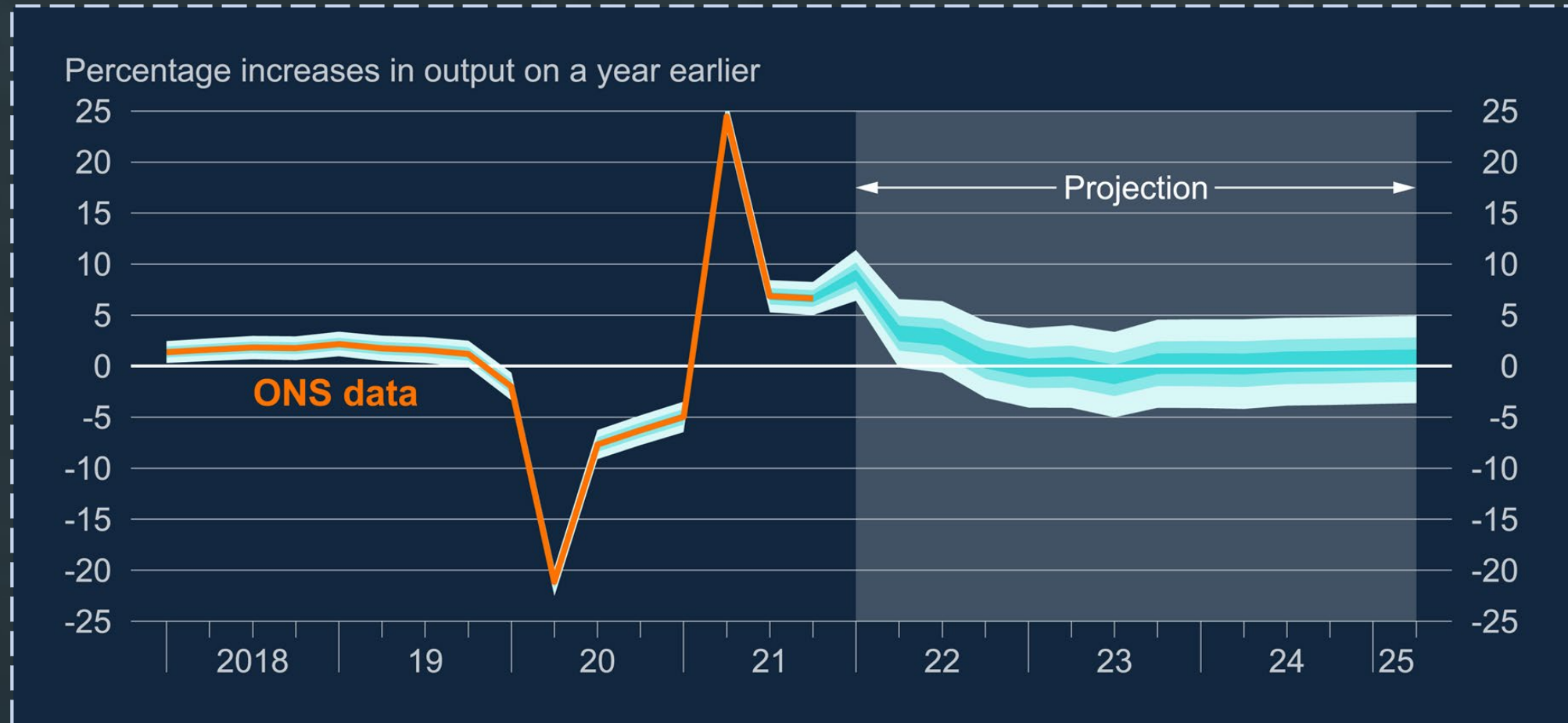


Wider Context | GDP Growth

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The post-Covid spike in GDP growth has been short lived

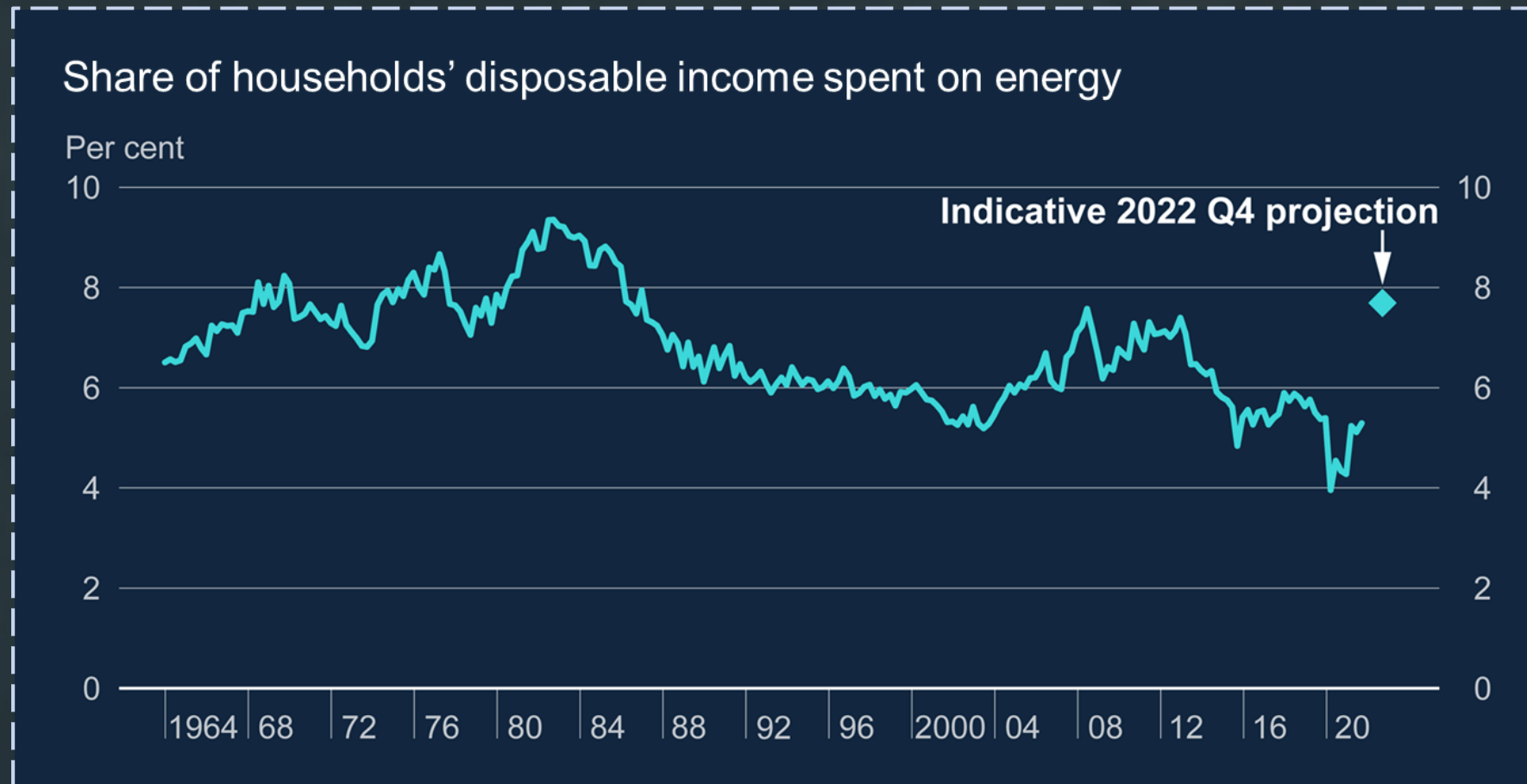


Wider Context | Consumer Energy Costs

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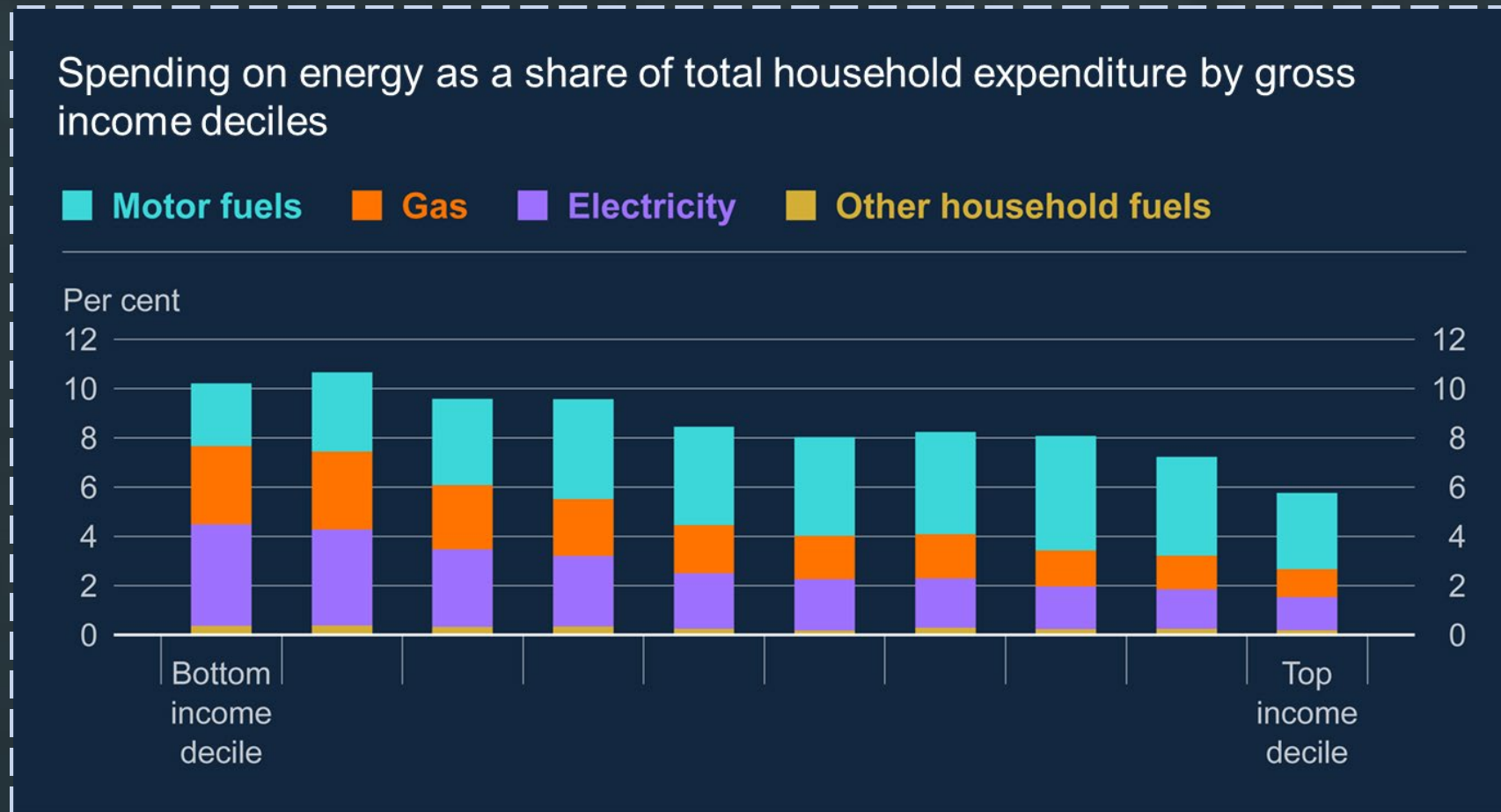
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Households may spend close to 8% of their disposable income on energy costs by the end of 2022



Wider Context | Consumer Energy Costs

Those on lower incomes are disproportionately affected by rises in energy costs

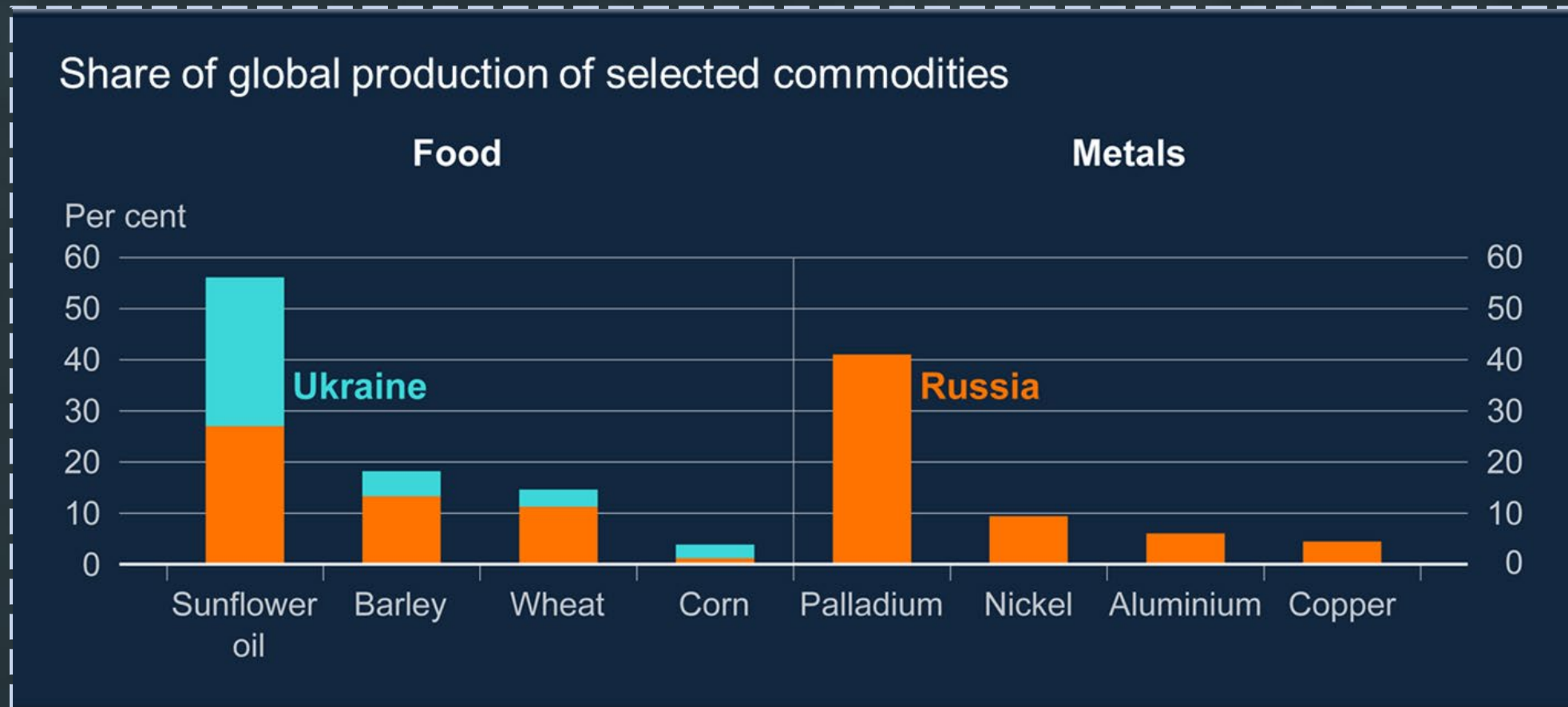


Wider Context | Commodities and Ukraine

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The ongoing war in Ukraine is causing supply chain issues with products like sunflower oil, barley and wheat



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Part Two: Pressures on Doing Business

Informed by an independent retailer Focus Group (January 2022)

Pressures on Doing Business | Inflation

- ⚠ Wholesale product costs rising on a frequent and unpredictable basis
- ⚠ Risk of customers being alienated by increased prices of staple items like milk and bread
- ⚠ Traditional models of stores operating with a gross percentage margin in the low 20s being reconsidered
- ⚠ Retailers aren't passing cost increases on immediately, so they're playing catch up all the time
- ⚠ Cost of doing business increasing at a time when business rates bills are about to be reintroduced

Retailer Voices

“The price of products is going up so frequently at the moment that it's very difficult to focus on the strategy of the business, we're spending our time focusing on making sure that we're getting enough margin on each product line.”

Pressures on Doing Business | Investment

- ⚠️ Urgent need to invest in reducing costs can take up resources that would otherwise be spent improving the offer for customers
- ⚠️ Businesses rethinking their plans for the coming years to focus on staying afloat rather than improving and developing their stores
- ⚠️ Experienced retailers are falling back on established relationships, credit lines and knowledge of how to find ways round problems, but this is very difficult time to start a business in the sector

Retailer Voices

“We’ve invested in refrigeration and lighting, we’re looking at ways to reduce our costs, but we’ll get to a point where we’ve exhausted all of that and we’re not sure where we go next.”

Pressures on Doing Business | Energy Costs

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- ⚠️ Significant rises in gas and electricity costs across the board
- ⚠️ Making the business more energy efficient is expensive, and only pays back after several years
- ⚠️ Uncertainty over future rises, so difficult to fix costs over a period of time, which then impacts on other decisions
- ⚠️ Cost of utilities affecting service and product availability in store

Retailer Voices

We're looking at how we can generate electricity on site by investing in solar. We invested in the equipment two years ago and are still paying it off. Before Christmas this year, the cost of electricity has led to us offering less frozen product because the cost of running the freezers strips out all of the profit.

Pressures on Doing Business | Supply Chain

- ⚠️ Minimum order numbers increasing for wholesale deliveries, as well as additional levies on deliveries being introduced
- ⚠️ Higher prices on products at wholesale
- ⚠️ Less frequent delivery schedules being forced on retailers, especially those in rural areas
- ⚠️ Less frequent deliveries are not practical for retailers without space in store
- ⚠️ Ranges had already been cut back during the peak of the pandemic and supply issues have meant that retailers still aren't operating with full ranges

Retailer Voices

“Regulations like Natasha’s Law are that much harder to comply with because of a lack of availability of good quality alternative suppliers in my location.”

Pressures on Doing Business | Employing People

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- ⚠️ Rising National Minimum Wage and National Living Wage rates
- ⚠️ Higher expectations of pay and hours from new employees
- ⚠️ Harder to find new colleagues in the current market
- ⚠️ Ongoing isolation issues with colleagues leading to issues with cover in store
- ⚠️ Crime in stores continuing to affect morale of colleagues

Retailer Voices

There's a new expectation that the wages some bigger companies are paying are available everywhere. It's difficult enough to get people in for an interview, and when they do come in they're dictating what they're going to be paid.

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Part Three: How Are Retailers Responding


Informed by an independent retailer Focus Group (May 2022)

How Are Retailers Responding | Energy Costs

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Know Where You Stand With Your Gas and Electricity Contracts




“Some energy companies will offer a fixed rate, but will have a clause in the contract to increase that rate during the term at their discretion. We’ve taken the option to pay a slightly higher fixed rate, but with a guarantee that this won’t be changed during the contract term.”

How Are Retailers Responding | Energy Costs

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Consider Green Investment Opportunities



“When looking around at finance options with banks, it’s almost a requirement now that the investment goes on something green. Our plans to introduce solar on our forecourt canopy are expected to pay back within three years.”

How Are Retailers Responding | Energy Costs

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Review Fridge Temperatures, Especially for Drinks


“We’ve probably kept our fridges too cold in recent years, so we’re looking at what we can do to save money by increasing the temperatures slightly, still keeping products safe but avoiding unnecessary power usage.”

How Are Retailers Responding | Energy Costs

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Keep Air Conditioning Costs to a Minimum



“When I walk into the shop it can be like the Arctic Circle in there as sometimes the staff like it really cold. With costs going up, there’s no need for it, so we’re turning the air conditioning down or off unless it’s absolutely necessary.”

How Are Retailers Responding | Energy Costs

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Make Sure Your Equipment is Performing Optimally



There are often savings to be had from doing simple things like cleaning grills behind refrigeration units, temperature monitoring, and using blinds on fridges when doors aren't available to ensure your equipment is performing as efficiently and effectively as possible.

How Are Retailers Responding | Insurance Costs

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Make Sure the Value of Your Property and Goods are Accurate and Revalue if Necessary

“Insurance costs are going up significantly as the cost of materials and repairs has skyrocketed. We’ve had our premises revalued as the renewal quote had it too low, and the value of the policy wouldn’t have covered the repair costs of a serious incident like a fire.”

How Are Retailers Responding | Insurance Costs

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Manage Risk to Cut Insurance Premiums




If you can pro-actively reduce risk, you can bring down your insurance premiums. You can even apply for a bursary from insurance companies for investments in reducing risk.

How Are Retailers Responding | Employment

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Consider Discounts and Other Benefits for Colleagues Not Just Pay Increases



“We’ve introduced a significant staff discount to support our colleagues and encourage them to shop with us instead of going to a supermarket. We need to demonstrate that we care about our colleagues, and that culture is hopefully more attractive than a slightly higher wage rate elsewhere.”

How Are Retailers Responding | Supply Chain

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Work with Other Businesses to Meet Minimum Order Numbers




“As a rural store, we’re at the end of the line. We’ve encouraged other businesses in the area to band together to be able to meet minimum orders so that everyone benefits and can get the product they need on a timely basis.”

How Are Retailers Responding | Investment

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Make Use of Investment Incentives



The super deduction offers 130% tax relief on new plant and machinery investment until March 2023. Make sure you're claiming this when you file your tax returns and if you go through an accountant, make sure they are claiming this.

How Are Retailers Responding | In-Store Theatre

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Get Creative (and Sustainable) with In-Store Theatre

“For big events like the Jubilee and Wimbledon, we look around to see what we’ve already got that we can repurpose to fit the theme. Creating theatre in store doesn’t always mean spending money on materials, it could just be reorganising ranges. And if you are buying extra stuff, don’t throw it away!”

How Are Retailers Responding | Resilience

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Focus on the Margin, Not Just the Sales

“With the increased cost of products at wholesale, by chasing sales and suppressing margins we’re at risk of becoming ‘busy fools’. We should look at higher margin ranges and accepting that while overall sales may fall, the business will be more sustainable as a result.”

How Are Retailers Responding | Resilience

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It May Be Time to Accept Gaps

“We’re absolutely committed to a fresh offer for customers, but the reality is that we’re going to have to take fewer risks on the range which could lead to gaps on the shelves. Customers are used to it though, as we’ve had a couple of years of supply chain issues.”

How Are Retailers Responding | Summary

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- 1 | Know where you stand with your utilities contracts
- 2 | Consider green investment opportunities
- 3 | Review fridge temperatures, especially for drinks
- 4 | Keep air conditioning costs to a minimum
- 5 | Make sure the value of your property and goods are accurate, and have them revalued if necessary
- 6 | Manage risk to cut insurance premiums
- 7 | Consider discounts and other benefits for colleagues not just pay increases
- 8 | Work with other businesses to meet minimum order numbers for regular deliveries
- 9 | Make use of investment incentives like the super deduction
- 10 | Get creative (and sustainable) with in-store theatre
- 11 | Focus on the margin, not just the sales
- 12 | It may be time to accept gaps in range

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Part Four: How Local Shops Can Help

Informed by new consumer polling with Yonder (May 2022)

How Local Shops Can Help | Managing Money

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Top Three Ways that Customers Use Local Shops to Help Manage their Money

Walking to your local shop saves money on fuel as you don't have to travel as far



65% agree

Local shops allow you to use a range of services in one place, saving on trips



61% agree

Local shops are a convenient alternative to delivery apps like Deliveroo or Uber Eats



57% agree



78%

of consumers agree that using local shops is good for the environment, as they don't need to drive to store

How Local Shops Can Help | Managing Money

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More Ways that Customers Use Local Shops to Help Manage their Money

- Buying little and often from local shops helps customers manage food waste (53% agree / 12% disagree)
- Buying little and often from local shops helps customers manage their money (47% agree / 18% disagree)
- Using local shops to buy food and drink for a 'big night in' saves money compared to going out (46% agree / 16% disagree)

Additional Insights

Consumers in London are most likely to see local shops as a convenient alternative to delivery apps like Deliveroo/Uber Eats

(69% agree)



Consumers in the DE demographic are most likely to see local shops as helpful in managing food waste

(61% agree)



Consumers in the WM region are the most likely to use local shops to save money for a big night in (61%) compared to those in the NE who are least likely to do so (39%)



How Local Shops Can Help | Healthy Start

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- Healthy Start is a government scheme that helps women who are pregnant or have young children buy healthy food and milk and get free Healthy Start vitamins
 - It is a digital scheme that offers a prepaid card to those applying for Healthy Start instead of paper vouchers
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- Owners of the pre-paid card can use it in most shops that sell eligible products
 - Retailers can begin accepting payments via the customer's pre-paid card immediately



How Local Shops Can Help | Our Unique Reach

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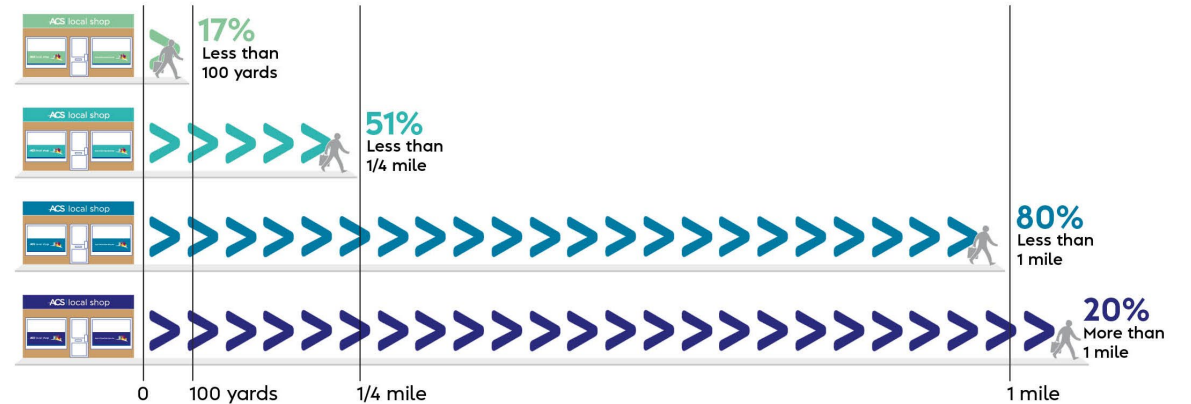
Neighbouring businesses



How customers get to store



Distance travelled to store

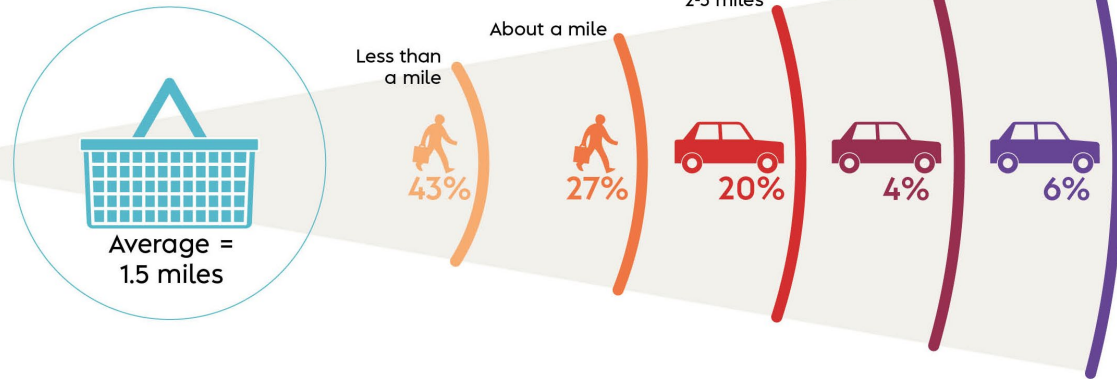


How Local Shops Can Help | Our Unique Reach

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If their local shop was no longer there, customers would have to travel:



Customer's relationship with convenience store colleagues



10% of customers **know** the people running and working in their local shop **very well**

29% of customers **know** the people running and working in their local shop **quite well**

36% of customers **don't know** the people running and working in their local shop **well**, but will **occasionally have a conversation**

24% of customers **don't know** the people running and working in their local shop and **don't interact with them**

Contact Us |

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Let us know what you think about the report, and if you have any other feedback to share:

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