

Trends in the number of convenience stores and specialist grocery stores

Summary

1. This appendix evaluates trends in the number of convenience and specialist stores, over time. Our analysis of these trends contributes to our competitive assessment of the UK grocery market, as set out in Section 5 of the main report.
2. We have evaluated a number of data sources in reaching our conclusions on the trends in the numbers of convenience and specialist stores. In this appendix we observe trends in the number of convenience stores in the UK (paragraphs 6 to 16) and specialist stores (paragraphs 17 to 21). In Annex 1 we review submissions put to us on these issues and the extent to which the data available from Verdict Research, the Knowledge Store and IGD, Experian Goad and the ONS is suitable for the purpose of tracking trends in the numbers of convenience and specialist stores over time.
3. We conclude that analysis published by the ONS is the only consistent data that allows accurate comparison over time. This data indicates that the number of convenience stores operated by small businesses has increased by 3 per cent from 2003 to 2007 and the number of these businesses has grown by 8 per cent. Overall there are approximately 34,505 convenience stores in the UK in 2007 compared with 33,394 in 2003. This total is unlikely to include a number of stores that are included in databases published by IGD/the Knowledge Store and is unable to be reconciled because different definitions are used for 'convenience store' as set out in paragraph 47 of Annex 1.
4. In addition, we observe a long-term and significant decline in the number of all specialist stores, except off-licences, since the 1950s. The number of specialist stores in 2007 range from around 1,270 fishmongers to 7,955 off-licences (3,575 greengrocers; 7,110 butchers; 6,510 bakeries).¹
5. We find that the number of convenience stores has not declined in recent years. Our conclusion is in contrast to a widely-held view that there is broad-based decline in the number of convenience stores across the UK. We consider that the view that the sector is declining arises from the significant changes currently being experienced within the non-affiliated independent part of the convenience store sector.

Trends in convenience stores

6. During the course of our investigation we have received submissions that imply that our analysis of the convenience store sector should be limited to considering trends in the number of non-affiliated independent stores. However, our analysis is based on a general definition of grocery stores which we further analyse to identify those with a small number of employees and also those that are smaller than 280 sq metres.²

¹This is consistent with the trends shown in the data we have analysed from Experian Goad (see Appendix 5.2).

²The ONS uses a Standard Industry Classification (SIC) to classify different types of businesses. SIC 52.11 includes businesses that undertake retail sale in non-specialized stores with food, beverages or tobacco predominating. We note that IGD further classifies convenience stores into: non-affiliated independents, symbol groups, co-operatives, forecourts and multiple owned stores, and we use these classifications in our discussion of the IGD/Knowledge Store data in paragraphs 28 to 47(d) of Annex 1.

7. To observe trends in convenience store numbers, we have used two separate data sources from the ONS: the Annual Business Inquiry (ABI) and the Inter-Departmental Business Register (IDBR) and IGD data on the total number of mid-sized and larger stores. The ONS methodology is discussed in more detail in paragraphs 41 to 46 of Annex 1 and the differences between the ABI and IDBR number of stores databases is discussed further in paragraphs 48 to 52 of Annex 1. We note that the ONS compiles data on the number of stores in the food sector in aggregate and cannot separate its database into the various classifications used by other data providers, such as IGD, when measuring the number of stores in the sector. We discuss differences between the Knowledge Store/IGD published figures and those published by the ONS in paragraph 47 of Annex 1.
8. The ACS has submitted that it is not appropriate to rely on the ONS publication of stores and considers that we should instead rely on the information published by IGD/the Knowledge Store and other industry sources. In Annex 1 we review the databases published by Verdict, IGD/the Knowledge Store and Experian Goad and the extent to which they are suitable for identifying trends in small store numbers. Our analysis shows that the ONS data is the only database with sufficient comparability across years with which to identify trends in the number of convenience stores (see paragraphs 15 to 53 of Annex 1). The other databases that are available have either insufficient coverage or have revised their methodology to such an extent that data is not comparable between years.
9. Although there is no direct connection between the physical size of a store (which we have used as part of our market definition of convenience stores) and the number of grocery stores that are measured by the ONS, we have used two different methods to reflect the convenience store sector within the total number of non-specialized stores that are recorded by the ONS. In paragraphs 10 to 13 we observe trends in the number of stores grouped by the number of employees and turnover of businesses (as measured in the ABI). We consider that the change in the number of stores operated by businesses employing small numbers of employees and with low turnover are likely to closely represent the trends in convenience stores. In addition, in paragraphs 14 to 16 we observe the trend in the number of stores less than 280 sq metres in size by subtracting the number of mid-sized and larger grocery stores (as published by IGD) from the total number of stores published by the ONS.

Trends in convenience stores categorized by number of employees and turnover

10. According to the ONS, more than 90 per cent of non-specialized grocery retail businesses in 2007 employed fewer than ten staff and had turnover below £1 million.³ The number of grocery stores recorded by the ONS is shown in Table 1. The table shows the number of stores according to the number of persons employed by the store operator.⁴ The ABI data allocates the number of stores, taken from the IDBR data within each employment size band.⁵
11. Table 1 suggests modest growth, of around 1 per cent a year, in the number of stores for convenience-store businesses employing fewer than ten staff between the

³ONS, *UK Business Activity, Size and Location, 2007*, number of enterprises SIC 52.11.

⁴The table includes all the local units of almost all VAT-registered businesses in class SIC 52.11, taken from the IDBR, but excludes likely erroneous records, such as businesses with neither employment nor turnover, some larger businesses (20+ employees) where the turnover information is known but the employment information is not. In addition, as we note in paragraph 47 of Annex 1, SIC 52.11 will not include a number of stores that are generally included in other databases such as petrol forecourts, food halls within department stores, or market stalls or roadside pitches that are not geographically fixed.

⁵The sizes of non-surveyed businesses are imputed from the characteristics of those that are surveyed.

years 2003 and 2007. The table shows that convenience store businesses, which we consider are likely to be represented within the first category (businesses employing fewer than ten employees), operated 28,645 stores in 2007 compared with 27,760 stores in 2003. This first category is also likely to include, for example, independently-owned symbol group stores and co-operative stores and is unlikely to closely represent non-affiliated independent convenience stores. It should also be noted that stores operated by large grocery retailers will register in the final category (businesses with more than 250 employees). Thus, the first columns of the table exclude those stores operated by large grocery retailers (for example, Tesco, Sainsbury's and CGL).

TABLE 1 Number of stores categorized by the number of employees in a business

Year	Number of employees					Count
	<5	<10	<50	<250	250+	Total
2007	22,195	28,645	38,170	39,885	1,165	41,050
2006	22,210	28,620	38,015	39,780	1,180	40,955
2005	21,205	28,380	37,500	39,550	1,190	40,735
2004	20,745	27,790	36,390	38,355	1,175	39,535
2003	19,900	27,760	36,655	38,655	1,135	39,790
2002	19,865	27,770	36,130	38,100	1,015	39,115
2001	19,560	27,210	35,190	37,125	910	38,035
2000	18,870	26,350	33,760	35,760	925	36,680
1999	18,470	25,705	33,075	34,980	890	35,875
1998	18,020	24,560	31,630	33,460	850	34,305

Source: ONS, IDBR data—from *UK Business: Activity, Size and Location* 2003–2007, with the same criteria applied to unpublished data from earlier years.

Notes:

1. From 2003, excludes some larger businesses (20+ employees) where the turnover information is known but employment information is not.
2. Counts are rounded to avoid disclosure.

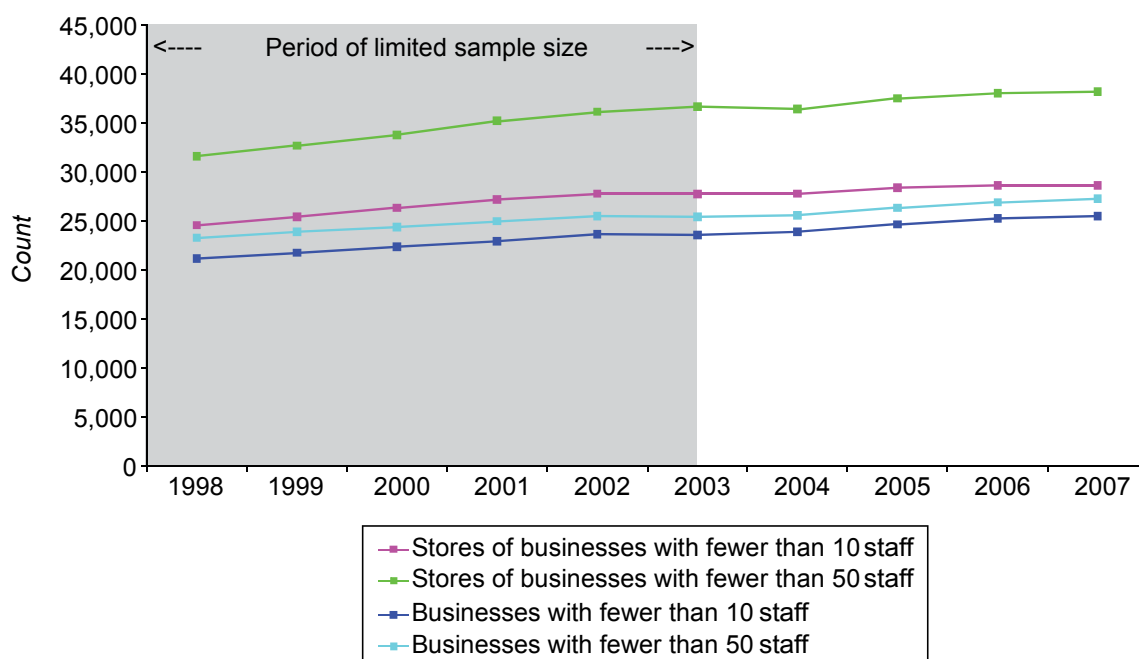
12. We note that we were told by the ONS that the data in Table 1 shows a period of strong growth during the late 1990s which has slowed in more recent years. While the criteria that counts the number of stores held by each business was replicated exactly from 2007 backwards, it is likely that improvements to the coverage of the register in the late 1990s is reflected in the data we observe.⁶ Unfortunately, it is not possible to quantify or distinguish the impact of 'coverage change' from that of a 'genuine' increase in that period. However, the ONS has told us that it is only aware of small changes since 2003. Prior to 2003 the figures appear less reliable, even though they were provided by the ONS from identical methodology, because of improvements to coverage of the data. Given that the growth in the number of businesses prior to 2003 is of the order of a few per cent, estimates of annual growth in this period may be unreliable and we do not rely on this data for the purposes of our analysis.
13. Figure 1 charts the number of businesses and the number of stores operated by businesses with fewer than 10 and fewer than 50 employees (as shown in Table 1). From 2003 to 2007 there was a 3 per cent increase in the number of stores operated by businesses with fewer than ten employees and a corresponding increase in the number of businesses of this size of 8 per cent. Figure 1 also shows similar trends for

⁶Specifically, as more stores are included within in the ONS local unit count this leads to a natural increase in the number of stores published. The ACS has also suggested that this may be a flaw in the ONS data (submission dated 29 February 2008).

the number of stores operated by businesses employing fewer than 50 staff (4 per cent) and the number of businesses of this size (7 per cent).

FIGURE 1

Trends in the number of stores and businesses



Source: ONS, IDBR data—from *UK Business: Activity, Size and Location 2004–2007*; the same criteria applied to unpublished data from earlier years.

Note: Prior to 2003 the ONS has suggested that the data may include growth arising from improved coverage of the IDBR. Coverage has not changed since 2003 and is stated to have a statistical error of 0.1 per cent.

Trends in convenience stores categorized by size of store

14. Total store numbers published by the ONS includes convenience stores as well as mid-sized and larger stores. Mid-sized and larger store numbers are generally more accurately measured than the number of stores smaller than 280 sq metres because there are fewer stores to count, and because the majority of those stores are operated by comparatively few retailers. Table 2 shows the number of mid-sized and larger stores recorded by IGD since 2000.
15. We subtracted the number of stores provided by IGD from the total number of stores recorded by the ONS to obtain a total number for convenience stores. Table 2 shows that in 2007 there were 34,505 convenience stores in the UK. This can be compared to 33,394 stores in 2003. This is an average increase of around 0.8 per cent each year since 2003.

TABLE 2 **Mid-sized and larger store numbers (greater than 280 sq metres)**

Year	Total stores	Less large stores >280 sq m	Number of convenience stores	% change
2007	41,050	6,545	34,505	0.0
2006	40,955	6,401	34,554	1.2
2005	40,735	6,578	34,157	3.4
2004	39,535	6,507	33,028	-1.0
2003	39,790	6,396	33,394	

Source: Total number of stores published by ONS, *UK Business: Activity, Size and Location 2003–2007*; Large stores supplied by IGD; CC analysis of the number of convenience stores and percentage change.

16. Finally, we note that the trend in the number of convenience stores recorded by the ONS is broadly consistent with, although much lower than, the trends shown in the data we have analysed from Experian Goad. The Experian Goad database, which is analysed in more detail in Appendix 5.2, shows a complex picture of both entry and exit of convenience and specialist stores since 2000. In general, in the 1,115 high streets and town-centre locations surveyed, convenience store numbers have significantly increased while specialist stores have shown a net decline.⁷

Trends in specialist stores

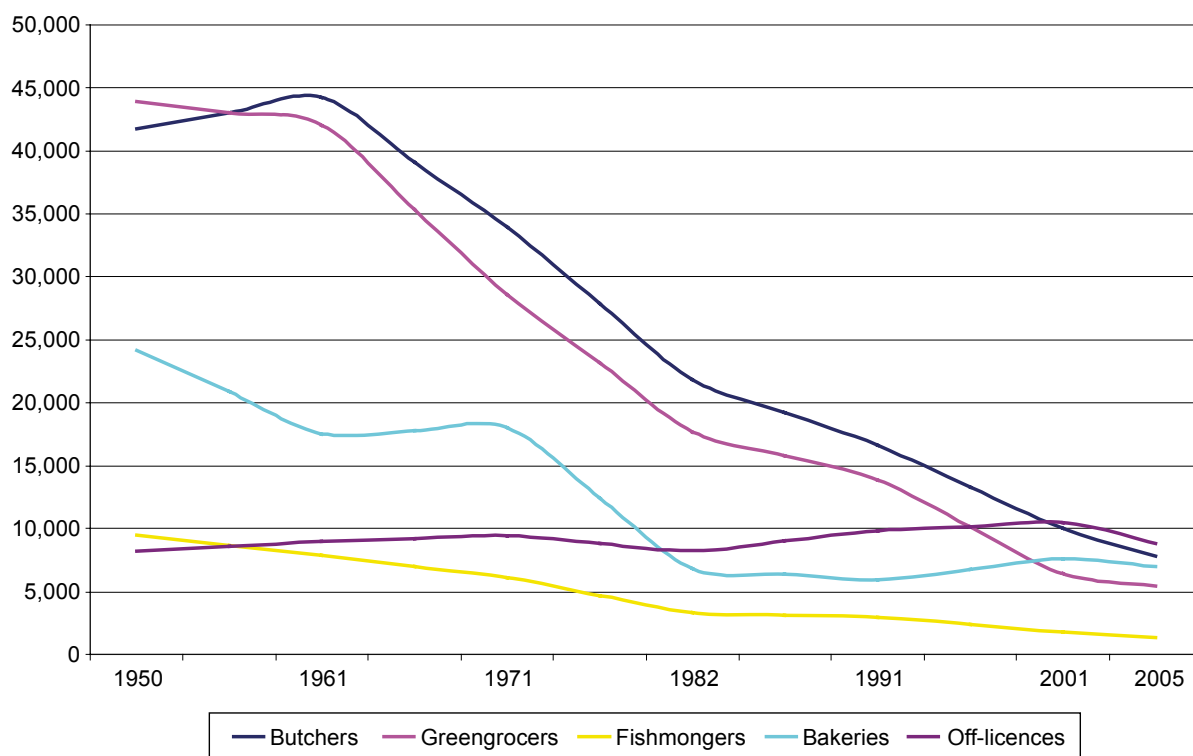
17. In this section we review data from the ONS that shows a long-term decline in the number of specialist grocery retailers. The ONS has tracked the number of stores in the UK through several different publications since 1950. Although they are broadly comparable over time, there have been some amendments to the SIC classifications over this period.
18. Figure 2 shows an ongoing decline in all specialist sectors that we review, although off-licences appear to have maintained their numbers throughout the period and the number of bakeries has remained static since around 1980. We note that the Independent Retailer Confederation has submitted that there is an undisputed decline in the number of independent retailers in the marketplace.⁸

⁷The Rural Shops Alliance has submitted in its response to the provisional findings that the Experian Goad data does not adequately sample rural localities and that 'heavy' reliance on the Experian Goad data is a flawed approach as rural stores are suffering because of large store competition. The ACS has also submitted that reliance on Experian Goad data is not useful when analysing trends in convenience store numbers because it is an unrepresentative sample of the industry. We outline the concerns of the ACS in regard to the Experian Goad data in Appendix 5.2.

⁸Response to the provisional findings from the Independent Retailer Confederation dated 29 November 2007.

FIGURE 2

Long-term trends in the number of specialist grocery stores



Source: 1950 to 1971 based on Censuses of Distribution, 1982 to 2005 on Retail Surveys undertaken by the ONS-ABI.

Notes:

1. Over this period the definitions used for low-level business splits within retail have evolved and are only roughly comparable over the entire period. There are also methodological differences that contribute to differences between the two datasets which make it difficult to directly compare the data over this extended period of time and account for at least some of the variation between the datasets. The SIC received major revisions in 1972, 1980, 1992 and again at the subsection level in 2003 (affecting the continuity of the data). These caveats apply to all the definitions that follow.
2. Butchers are defined as the sale of meat and meat products. Since 1980 this category also includes poultry and game, previously classified with fishmongers. The 1971 figure is a calculated figure obtained from the Monopolies and Mergers Commission report *Discounts to Retailers*, May 1981.
3. Greengrocers sell vegetables, fruit or a combination of these with flowers or fish. In 1950 those greengrocers that also sold fish were classified as fishmongers.
4. Fishmongers sell wet, dried and shell fish. In 1950 it also included sales of fish items with greengrocery (reclassified 1961 to greengrocery). Shops selling poultry and game were classified with fishmongers 1950 to 1971 and reclassified to butchers from 1980 onwards.
5. Bakeries are defined as the sale of bread, cakes, flour confectionery and sugar confectionery. In 1950 this did not include depots from which 'roundsmen' operate which were included in later years.
6. Off-licences are defined as business retailing alcoholic drinks for consumption off premises. Those attached to public houses are excluded.

19. We note that not all exits from the various specializations indicate a closed store. The SIC classifications used by the ONS are based on the predominant activities of a retail store. Therefore, if a store changes its retail offer, from a specialist greengrocer into a full convenience offer, for example, this will show as a decline in the number of stores for greengrocers.

20. We also note that some commentary that we have reviewed seems to indicate that the decline may have slowed in at least one of the specialist sectors, although this is not reflected in the data that we have reviewed from the ONS. For example, *Meat Trades Journal* states: 'Supermarkets and other retailers have taken business away and brought a more intense level of competition into the meat retail sector. However,

that decline in the number of butchers seems to have slowed, if not halted. Butchers are beginning to hold their own on the high street once more.⁹

21. In addition to the long-term trends, ONS (IDBR) data shows the total number of stores in each of the specialist classifications since 2003. In 2007 there were 3,575 greengrocers, 7,110 butchers, 1,270 fishmongers, 6,510 bakeries, and 7,955 off-licences (see Table 3). Although Table 3 and Figure 2 are based on different databases (ONS IDBR and ONS ABI data respectively), the declining trend in the number of specialist stores that we find in paragraph 18 is true for both. In paragraphs 48 to 52 of Annex 1 we discuss the differences between the ONS IDBR and ABI databases in further detail.

TABLE 3 Number of specialist stores

	2003	2004	2005	2006	2007	% change
Greengrocers	4,710	4,340	4,150	3,865	3,575	-24.1
Butchers	8,720	8,165	7,780	7,390	7,110	-18.4
Fishmongers	1,640	1,505	1,400	1,325	1,270	-22.6
Bakeries	7,120	6,900	6,710	6,405	6,510	-8.5
Off-licences	9,690	9,425	8,880	8,050	7,955	-17.9

Source: ONS IDBR: www.statistics.gov.uk/StatBase/Product.asp?vlnk=933.

⁹Ed Bedington, editor of *Meat Trades Journal*, 29 February 2008.

Review of alternative data sources

1. In this annex we address submissions from parties on the data we have used to analyse trends in the number of convenience and specialist store numbers (see paragraphs 3 to 14). We also evaluate the methodology of each of the databases published by Verdict (see paragraphs 18 to 22), Experian Goad (see paragraphs 23 to 27), the Knowledge Store/IGD (see paragraphs 28 to 40) and the ONS (see paragraphs 41 to 47), and their suitability for the purpose of tracking trends in the numbers of convenience and specialist stores over time.
2. Most of the submissions we have received on trends in the number of convenience and specialist stores have been based on figures published by the IGD, which are largely obtained from a publishing company called the Knowledge Store.¹⁰ The ACS has also referred to a number of other data sources to support its view that the number of convenience stores, and particularly the number of non-affiliated independent stores, has declined since 2000.

Submissions from parties

3. The ACS has said that the convenience store sector of the grocery market has suffered a substantial decline as a result of the growing dominance of the large grocery retailers. It also said that the decline was continuing and that the number of convenience stores could not have risen because larger stores had continued to gain grocery market share since 2000.
4. In support of its position, the ACS cited IGD data (based on research undertaken by the Knowledge Store) that shows a declining number of convenience stores. In addition, the ACS cited Verdict data which shows a decline in the number of mid-sized, larger and convenience stores compared with growth in the number of super-stores.¹¹ The ACS also cited Verdict which shows that the share of grocery retail sales is falling for stores other than the large grocery retailers. We discuss the Verdict methodology further in paragraphs 17 to 22. However, we note that IGD shows the share of grocery retail sales from convenience stores (including multiple stores) to be growing at a faster rate than that of the sector as a whole (in 2007 convenience store sales grew faster by 0.9 percentage points, 1.0 percentage point in 2006 and 0.7 percentage points in 2005).¹² To some extent, this is likely to reflect the fact that multiple retailers such as Tesco and Sainsbury's also operate smaller store formats and are a growing part of the convenience store sector.
5. The ACS also refers to the 'day to day perception of business development seen by individual businesses'. In particular, the ACS refers to a decline in the number of convenience stores served by the cash-and-carry wholesaler [redacted] and a tobacco industry source.
6. [redacted] is cited by the ACS to have observed a decline in convenience stores registered with it from [redacted] in 2003/04 to [redacted] in 2006/07 (a decline of [redacted] per cent). In Appendix

¹⁰The Knowledge Store is part of the William Reed group, which publishes a number of trade journals, including the *Grocer*.

¹¹Verdict defines supermarkets and convenience stores as those with less than 2,230 sq metres (25,000 sq feet) net sales area. The sub-category definitions used by Verdict are not sufficiently aligned with our definitions of convenience, mid-sized and larger stores to be useful in our analysis of convenience stores.

¹²IGD, *UK Convenience Retailing*, April 2007.

5.5 we evaluate the profitability of the wholesale sector and we observe that in the period 1996 to 2006 the cash-and-carry sector has experienced a decline in revenue of 2 per cent, in contrast to growth of 65 per cent in the delivered wholesale sector. In Appendix 5.5 we also suggest that this decline in revenue was related to the decline in the number of non-affiliated convenience stores which tend to purchase from cash-and-carry wholesalers such as [X]. The ACS stated that the decline in [X] customer numbers could not be solely attributed to the decline in non-affiliated independents, which generally purchased from cash-and-carry wholesalers, because [X] registered customers include 'other' symbol groups which use the [X] network for delivered services. However, we do not consider that [X] customer base is likely to be representative of the convenience store sector as a whole.

7. [X] is also cited by the ACS as an example of having a falling number of stores in the period 2003/04 to 2007/08 (a [X] per cent decline from around [X] to [X] stores). However, the table provided by the ACS also shows that [X] has around the same number of stores in 2007/08 as it did in 2000. In addition, the Knowledge Store told us that there was intense competition between the various symbol groups which resulted in significant movement between fascias from year to year, and this made the sector difficult to measure accurately. Consistent with this statement, in the remedies hearing with the ACS ([X]) the ACS stated that large increases and decreases in store numbers was a result of chains of stores being 'recruited' by [X] and then in turn being acquired by other multiple or cooperative chains. On this basis, it seems unlikely that the experience of a single symbol group retailer is representative of the convenience store sector overall.
8. The ACS has also referred to a tobacco industry source ([X]) that holds a register of shops selling at least three brands of cigarette and which are visited by company representatives (the ACS advised us that virtually all convenience stores would sell at least three brands of cigarettes). The ACS stated that a number of trends concerning independent convenience stores (including stores operated by symbol groups) and convenience stores operated by large grocery retailers could be identified from this database. Between 2001 and 2007 the ACS stated that the number of independent and symbol group stores in this database had fallen 17 per cent in total. This number included stores selling primarily cigarettes, tobacco and newspapers (CTNs) (16 per cent decline); grocers¹³ and off-licences (12 per cent decline); and petrol station forecourt stores (41 per cent decline). This database also suggests that the number of convenience stores operated by large grocery retailers has declined by 3 per cent in total including CTNs and off-licences (20 per cent decline); grocers (5 per cent decline); and the number of forecourt stores and co-operatives has risen 11 per cent and 41 per cent respectively. However, we consider it unlikely that a single supplier will be representative of the convenience store sector and this database seems to reflect a number of specialist store operators, in addition to stores larger than 280 sq metres, which we have separated from our analysis of convenience stores in this appendix. However, to the extent that this database represents a decline in specialist stores, it seems consistent with the figures we observe from the ONS database.
9. The ACS has also provided a further submission on the number of convenience stores in the UK grocery sector.¹⁴ The ACS relies on published IGD information to explain the growth in the number of convenience stores operated by large grocery retailers and by symbol groups, and the decline of non-affiliated independent stores. The ACS said that, based on estimated store turnover figures, Tesco was the largest

¹³The ACS told us that 'grocers' in this context included convenience stores and supermarkets with the general activity of selling groceries.

¹⁴ACS submission dated 10 January 2008.

single retailer in the convenience store sector (with around 15.8 per cent sales share). However, IGD estimated that the total turnover of the convenience store sector was £26.1 billion and convenience stores operated by multiple retailers (including Tesco) represented around 13 per cent of that turnover (£3.47 billion). Our own analysis and that of Verdict suggests that Tesco has around 9 per cent sales share of the small store sector.

10. The ACS submitted that an analysis of market share of grocery sales conducted by TNS also supported a view that the number of convenience stores was in decline. The ACS stated that the market share of unaffiliated independent stores had more than halved over the past decade, falling from 5.7 per cent of grocery sales in the 12 weeks to the end of January 1998 compared with 2.5 per cent in 2008. The ACS stated that it was highly unlikely that this decline would take place if the total number of convenience stores was growing. We agree with the ACS that the number of non-affiliated independent stores seems to be declining based on the information published by IGD. However, our analysis of convenience stores is intended to be broader than the non-affiliated independent store sector of convenience stores.
11. The ACS has put to us that there are flaws in the ONS data methodology which means that this source may not be appropriate to use in the convenience store context.¹⁵ Specifically, the ONS business register does not count very small businesses which may suggest that many convenience stores are not included. The ACS has suggested that there are two ways that small convenience store businesses may be excluded from the ONS database:
 - (a) First, the ACS submitted that working proprietors and unpaid workers including family workers may not be recorded because there would not be PAYE records for these stores (ie 'mom-and-pop' stores). However, because the IDBR relies on VAT registration, the only organizations that are not held on the IDBR are private households and businesses with turnover below the VAT threshold. We consider the turnover threshold of VAT registration next.
 - (b) Secondly, the ACS submitted that a number of low turnover businesses would not be included in the IDBR because they were below the VAT threshold and that many of these may be convenience-store business. We consider that almost all convenience stores are likely to be VAT registered.¹⁶ The IDBR data is based on VAT-registered businesses and the VAT threshold in real prices has been constant since 2000 and applies to very low turnover businesses (for the financial year 2007/08 it is £64,000). The ACS previously estimated from an accounting model that a small convenience store had a turnover of at least £300,000. In addition, the Knowledge Store told us that the majority of convenience stores had a turnover of £260,000 to £520,000 per year and that a very small convenience store would have a turnover of around £150,000. The ONS data also shows that only a very small percentage (around 2 per cent) of businesses within the SIC 52.11 classification have turnover of less than £50,000 in 2007.

¹⁵The ACS also suggested that the improved coverage of the ONS database over the years could explain the increased number of outlets shown in the survey and that this change in coverage could be masking the decline in convenience store activity. We refer to this point further in paragraph 12 of the appendix above.

¹⁶Food is zero rated for VAT but not exempt. Moreover, there is an incentive for food retailers to register for VAT because they can claim back VAT on their costs.

Other submissions

12. A number of symbol groups and wholesalers told us that there was a broad-based and ongoing decline in the number of convenience stores.¹⁷ These views are based principally on IGD/Knowledge Store statistics and in many instances supported by their own experience of independent store retailing. We consider the IGD/Knowledge Store database further in paragraphs 28 to 40.
13. We received a further 19 submissions after our provisional findings from independent symbol group store operators, based on a form letter, that among other points stated that it was 'incorrect to say that there is no evidence that convenience store numbers are in terminal decline' on the basis that IGD/the Knowledge Store data clearly shows that independent convenience stores have reduced in number. However, these submissions do not appear to have noted the distinction we draw between non-affiliated independent stores (which we agree seem to be in decline) and the convenience store sector as a whole (which includes large grocery retailers, co-operative and symbol group operators).
14. There were another eight submissions after our provisional findings that supported the independent store sector generally and considered that larger store competition was resulting in fewer small independent stores continuing to trade. We discuss the changes in the composition of the convenience store sector further in Section 5 of the main report.

Review of available data sources

15. There are a number of published sources which use different methodology and definitions when counting convenience stores which can lead to differing absolute numbers of stores. As can be seen from this appendix, we have relied on that information published by the ONS. Each different source is likely to be correct for the purposes that the data is collected, but not all databases that are published have been collected with the purpose of being statistically comparable over time.
16. The ACS, and most of the other submissions that we have received on the issue of small store numbers, have suggested that we should rely on IGD/the Knowledge Store data and other industry sources. However, we have some concerns that this data may not be appropriate to identify trends in the number of convenience stores. The ACS also cited Verdict in support of its view that the number of convenience stores was in decline, and suggested that the ONS data, and that of Experian Goad, was unsuitable for drawing conclusions on the total number of convenience stores. In this section we look at the methodology behind each of these databases and provide some overall conclusions on each source of data.

Verdict Research

17. In its report *UK Grocery Retailers 2008*, Verdict defines supermarkets and convenience stores as those with less than 2,230 sq metres of net sales floorspace (25,000 sq feet). In that report it states that the number of stores in this category has decreased from 34,438 in 1997 to an estimated 31,958 in 2007 (a decline of approximately 0.9 per cent a year). Verdict data also indicates that the rate of decline in numbers has approximately halved for the five-year period 2002 to 2007 (2.5 per cent) compared with 1997 to 2002 (4.8 per cent). Since 1997 the number of super-

¹⁷Response to provisional findings, Spar, Costcutter, Musgrave, Lakeside Group, Lowries, Parfett's, FWD, Proudfoot's.

stores (greater than 2,230 sq metres) has grown from 1,084 to 1,480 (an increase of approximately 3.2 per cent a year). We note that this suggests that there is a total of approximately 33,500 grocery stores of all sizes (excluding specialist stores) in the UK, which is substantially less than the total number of stores published by the ONS (41,050) and the Knowledge Store (48,693 excluding forecourts).

18. We discussed the methodology behind Verdict's small store statistics with it. Verdict said that the number of convenience stores was extremely difficult to measure with accuracy. Its data is an estimate derived from information obtained from the ONS, verbal information and statistics from the ACS and its own data collected from convenience store multiples. Specifically, Verdict looks at the total number of stores owned by the large grocery retailers and symbol groups and aggregates the results. Since larger players are gaining sales at a faster rate than the market as a whole, Verdict estimates a relative decline in the unmeasured, independent stores (which are assumed to be losing sales to the larger retailers on the basis that smaller operators have lost market share over the period). These calculations are derived from sales data and relative sales densities that are calculated from published company records. Verdict also noted that its data, along with media coverage and other anecdotal evidence, suggests that the number of convenience stores is in decline.
19. Verdict confirmed that its data was insufficiently precise to be refined into smaller store size brackets and hence it could not identify the numbers of convenience stores as we defined them in our analysis (ie floorspace of less than 280 sq metres).
20. Verdict stated that its analysis showed growth in branded convenience stores, particularly symbol groups and the large grocery retailers of Tesco and Sainsbury's, but that it appeared difficult for non-affiliated independent convenience stores to grow at present. Some non-affiliated independent convenience stores appear to be joining symbol groups and the decline in non-affiliated independent stores may be somewhat balanced by the increase in multiple and symbol stores.
21. Verdict uses ONS data in its analysis and considered that it was a reliable source in respect of store outlet numbers. Verdict reports specialist store numbers that are unmodified from the published ABI data. It noted that it was difficult for the ONS to identify franchises or mixed purpose stores such as department stores with a food court.
22. We have defined the convenience store sector as those stores with floorspace smaller than 280 sq metres. As the Verdict analysis relates to stores less than 2,230 sq metres in size, we have not used it directly in our own analysis of trends in the convenience store sector. Verdict has confirmed that it is unable to further refine its research into smaller store size brackets because it uses a degree of estimation when establishing the number of smaller stores. On this basis, the research published by Verdict does not help us to determine the number of convenience stores in the UK or recent trends in this part of the UK grocery market. In addition, the Verdict data relies on the ABI outlet data that we consider will not provide further insight into specialist store numbers or trends compared with that provided by the IDBR data which we consider to be more appropriate for our analysis.

Experian Goad

23. The ACS and others have said that any reliance on the Experian Goad data is flawed and unhelpful when analysing the convenience store sector because those parties consider that it covers only a small proportion of convenience stores in the UK.

24. Our analysis in Appendix 5.2, based on Experian Goad data, shows that between 2000 and 2006 there has been considerable entry and exit of convenience and specialist stores in all categories. Our analysis shows that in 1,115 high streets and town centres the total number of convenience stores operated by large grocery retailers or symbol groups has increased from 400 to 647 (62 per cent increase), and the total number of independent non-affiliated convenience stores¹⁸ has increased from 476 to 844 (77 per cent increase). Total convenience stores in these areas has increased from 876 to 1,491 (70 per cent increase). Notably, the growth seen in convenience stores owned by large grocery retailers is mirrored by the growth of non-affiliated independent convenience stores.
25. This data does not help us to determine the total number of convenience stores in the UK grocery market. However, the Experian Goad data suggests that there is strong growth in non-affiliated independent, multiple and symbol group convenience stores in some areas of the UK. This supports the possibility that overall the number of convenience stores may be increasing across the UK, although because it is only a sample of some locations this data should be subject to confirmation from more complete databases.¹⁹
26. We note that we have previously received submissions from Tesco and the GeoData Institute, University of Southampton, stating that the Experian Goad data is indicative of wider trends in the number of convenience stores.²⁰
27. A view that the number of convenience stores is increasing is also consistent with analysis compiled by the Advanced Institute of Management Research, *How does UK retail productivity measure up?*, November 2006. In that research the type of stores opened by the four large chains (Tesco, Sainsbury's, Asda and Safeway/Morrisons) was compared over the period 1980 to 2003. It showed that since 1999 there has been a significant increase in the number of smaller store formats, such as convenience stores, being opened relative to larger stores and other larger store formats. In addition, it found that more stores are being opened in high street and neighbourhood locations, rather than at edge-of-town sites.

The Knowledge Store

28. The ACS, and many other submissions that we have received on this issue, consider that the IGD data, based on research undertaken by the Knowledge Store, is the most comprehensive database available and should be relied upon as the principal source of information, supported by other industry statistics. This database shows a large decline in non-affiliated independent stores between 2000 and 2007 (35,500 to 24,526)²¹ and convenience stores generally (55,798 to 50,814), across the UK.
29. The Knowledge Store provided us with its data on store numbers which shows the change in convenience store numbers since 2000 (see Table 1). We note that these numbers are the same as those published by IGD since 2005 (*UK Convenience Retailing*, April 2007). Prior to 2005, IGD appears to have modified the number of stores, in the various categories and in total, when compiling the data received from the Knowledge Store.

¹⁸Convenience stores that are not owned by a multiple retailer or affiliated with a symbol group.

¹⁹We note that the Experian Goad data is explicitly targeted at shopping centres and high streets. As such, despite the fact that rural areas (eg Sheringham) are included in the data, isolated shops in villages or estates will not be included in its dataset. On this basis, we do not expect that Experian Goad is necessarily representative of trends in the number of convenience stores in the UK grocery market.

²⁰www.competition-commission.org.uk/inquiries/ref2006/grocery/index.htm.

²¹As noted in paragraph 37, this decline does not represent the closure of non-affiliated independent stores over this period.

TABLE 1 Knowledge Store convenience store numbers

	Co-operatives	Multiples	Symbol groups	Independents	Forecourt multiples	Forecourt independents	Less joint venture forecourts	Total stores
2007	2,488	2,510	13,760	24,526	3,521	5,185	1,176	50,814
2006	2,334	2,427	13,035	25,893	3,676	5,288	1,127	52,653
2005	2,321	2,379	12,400	26,873	3,877	5,424	1,189	53,274
2004	2,129	2,213	12,742	28,220	4,643	4,758	1,026	54,705
2003	1,977	2,186	7,794	32,900	5,405	4,502	902	54,764
2002	1,381	2,804	7,371	33,787	5,798	4,484	845	55,625
2001	1,297	2,756	7,175	34,250	5,720	4,309	662	55,507
2000	1,236	2,715	6,961	35,500	6,001	4,060	675	56,473

Source: Knowledge Store.

Note: This data does not match that published by IGD prior to 2005.

30. The Knowledge Store told us that it obtained its data on convenience store numbers through a mixture of weekly magazine distribution records, telephone interviews, volunteered information from events such as trade shows, and information obtained from third parties to characterize the stores on their circulation list.²² This information is verified through personal contact with the stores, suppliers providing product to the stores and in some instances driving around districts to identify stores. The Knowledge Store expected that at the time the data was published in May of each year, it comprehensively reflected convenience store operators in the UK (currently with a margin of error of around 2.5 per cent). The Knowledge Store sells its database and uses it for verification of its publication readership numbers and therefore has an incentive to ensure that it is as inclusive as possible.
31. Over time the Knowledge Store has improved its process to record stores and in 2003/04 it adjusted the descriptions of the range of product categories that a convenience store might stock. At this time the Knowledge Store also changed the process used to classify stores. Previously, store operators classified themselves when submitting information to the Knowledge Store but now this is determined by the Knowledge Store, in accordance with set criteria. At this time, the Knowledge Store also undertook to verify classifications prior to updating the database. Some movement of stores between classifications occurred as a result of this procedural change.
32. In addition to making the process for recording data more robust, some data 'cleaning' has also removed redundant records in the database. This process of identifying and removing duplicates has provided a more accurate database and will have reduced the number of convenience store records over time. The total number of convenience store records in the Knowledge Store database has decreased by around 1.3 per cent a year since 2000, and it is not possible to separate the effect of data cleaning from the overall trends in the number of convenience stores.
33. We also asked the Knowledge Store how new stores are identified for the database. The Knowledge Store explained that it was relatively simple for it to identify a change in business from a specialist store to a convenience store. Further, the Knowledge Store was generally aware of new shopping centres and the composition of stores within those shopping centres. On an irregular basis (generally biennially) the Knowledge Store compared its database with those held by major convenience store suppliers and publications such as the *Yellow Pages*.²³ It also noted that conven-

²²The full list of sources is: (1) telemarketing/telechecking; (2) fax-outs; (3) registration cards and inbound calls; (4) web research; (5) returns; (6) data population companies; (7) data purchases, including from Companies House.

²³We note that the *Yellow Pages* does not restrict advertisers to one classification or one geographical area.

ience store operators were likely to use at least one supply source utilized by the Knowledge Store to check its database against supplier records. In this way, even if a new store opening was missed in a particular year, it was likely to be identified in subsequent years.

34. The Knowledge Store is not a specialist statistics organization although it does expend a great deal of effort to develop a comprehensive database. We consider that the ongoing cleaning of duplicates is likely to go some way to explain the decrease in the number of stores that the Knowledge Store has observed since 2000. We also note that the yearly decline in convenience store numbers is within the margin of error expected by the Knowledge Store with its current collection of records.
35. We also discussed with the Knowledge Store the various classifications of convenience stores and the expected accuracy of those classifications. The Knowledge Store said that some stores were very difficult to identify correctly. In particular, the symbol group organizations did not supply data on their store numbers and so estimates were made from various sources. In addition, independent forecourt stores were not centrally administered or supplied by any single organization and stores regularly opened and closed.²⁴ The large grocery retailers' stores were generally much easier to record.
36. The Knowledge Store defines a convenience store as a dedicated format typically under 280 sq metres in size and stocking a range of products from at least seven product categories. IGD states, in reports that use the Knowledge Store information, that non-affiliated independent stores are defined as less than ten stores under the same ownership that are not affiliated to any symbol or fascia group. Where range data (the product categories sold by a store) for a particular store is incomplete, the store is awarded a probability of a product being present from other records on the database before being allocated an estimated classification.
37. Table 1 shows a large decline in non-affiliated independent stores (a reduction by 10,974 stores) in the period between 2000 and 2007. The Knowledge Store said that in the period between 2003 and 2004, around 3,000 to 4,000 independent stores were reclassified to the symbol group classification.²⁵ When this amount is subtracted from the decrease in non-affiliated convenience stores, this shows that around 1,000 stores each year are moving out of the non-affiliated convenience store classification (a decline of between 3 and 5 per cent each year).
38. We note that the Knowledge Store is the only organization that specifically records the total number of non-affiliated independent convenience stores in the UK. From this data we observe a decline in non-affiliated independent stores that is greater than we might expect would be removed over time through database cleaning and reclassification. We note that the decline in stores on an annual basis (3 to 5 per cent) is only slightly above the margin of error quoted by the Knowledge Store (2.5 per cent).
39. In relation to the number of convenience stores operated by the symbol groups and co-operatives, the Knowledge Store data shows an increase of around 700 stores each year over this period (2000 to 2007). We also observe steady growth in convenience stores operated by large grocery retailers of around 100 stores a year

²⁴The Knowledge Store told us that it generally obtained independent store numbers on forecourts from a consumer organization called 'Price Check'.

²⁵This change in classification recognizes the very close affiliation that these stores have with their symbol group fascia. For example, all independently-owned Spar stores became classified as a symbol group store instead of their previous classification as a non-affiliated independent store.

(except between the years 2002 and 2003 when the Knowledge Store data shows a decrease of around 600 stores).²⁶

40. For the reasons set out above, we do not consider that it is appropriate to use the annual counts of stores published by the Knowledge Store to infer trends in the number of convenience stores overall.

ONS

41. As set out in our analysis of convenience and specialist store trends, we have decided to rely upon ONS data. Further detail about the methodology of this data is set out in this section.
42. The ONS collects data on the number of non-specialized stores with a main activity of retail sale of predominantly food, beverages or tobacco. The ONS counts the number of stores operated by businesses that are classified in the ABI and IDBR by a SIC.²⁷
43. The SIC is used to classify different types of businesses. The classes for grocery retailing are within Division 52, which includes the retail trade, except the motor retail trade. Class 52.11 covers retail sale in non-specialized stores with food, beverages or tobacco predominating, and is the classification relevant to our analysis of grocery store numbers. We note that this definition excludes stores that sell groceries but where the principal activity of the business is not groceries. For example, stores that sell groceries in addition to another primary retail classification or without a fixed address (eg petrol station forecourts, food halls within other stores and market stalls or roadside pitches) would not be included in SIC 52.11.
44. The ONS IDBR is a register of all VAT-registered businesses in the UK. The ONS has data on almost all businesses in the UK by SIC, and we therefore consider that the IDBR is the most comprehensive reference available for UK business activity.²⁸
45. The ONS ABI is a representative survey of businesses identified from the IDBR and has two parts: ABI/1 asks about employment and ABI/2 gathers financial information. The IDBR is updated with the additional information obtained from the ABI sampled businesses, and then using the IDBR the ONS is able to produce business counts by number of employees and by turnover.²⁹ By combining the local unit counts from the IDBR with ABI survey data, the ONS is able to produce business counts by employment size and turnover. This is the most complete and statistically correct evidence available on trends in grocery store numbers.
46. The ACS has suggested that this process of sampling by the ABI may lead to some stores being excluded from the ABI outlet data because it may exclude some smaller businesses and may over-sample larger firms experiencing growth (see paragraph 11(a)). We agree that since small businesses are only sampled for the ABI, it is possible that those not sampled will not be included in its count of outlets. However, the ABI survey data in this context is only used to allocate the number of local units

²⁶For each of these results we have removed the reclassification of non-affiliated independent stores to symbol stores that occurred in 2003/04.

²⁷The ONS refers to stores as 'local units' in its IDBR series and as 'outlets' in its ABI series.

²⁸The IDBR has been the basis for data collection from businesses by the ONS since 1994. The IDBR combines information on VAT traders and PAYE employers with ONS survey data in a statistical register that represents nearly 99 per cent of economic activity.

²⁹The ABI also counts the number of retail stores by SIC division and we refer to this data in the main report. For the reasons outlined in paragraphs 48 to 52 we consider the IDBR data to be more accurate, although consistent with the trends identified from the analysis of the ABI data.

from the more comprehensive IDBR survey within appropriate employee size bands and does not relate to the total number of units. On this basis, the sampling process might only lead to material errors in the number of local units allocated to employee size bands if the imputation procedure systematically misallocates smaller businesses (ie into size categories that are systematically too small or too large). Because the ONS does not rely on the ABI sampling process to count the number of stores itself, such stores will not be excluded from number of local units published by the ONS from its IDBR data.

47. For completeness, we note that there is a significant difference between the total number of stores published by the ONS (41,050 less 6,545 larger stores is 34,505 stores) compared with the number published by the Knowledge Store and IGD in 2007 (50,814 less 8,706 stores on petrol forecourts is 42,108 stores). This difference is steadily decreasing over time as the ONS data shows growing numbers of stores compared with the Knowledge Store's declining overall numbers. We expect that the difference that currently exists might occur for a number of reasons that can be summarized as differing definitions for convenience stores. More specifically:
- (a) The ONS SIC 52.11 classification will not include stores that sell groceries in a situation that might be classified a secondary purpose, for example multi-purpose sites such as forecourts and food halls within department stores. These local units will be classified under their predominant SIC classification although they are likely to be included in the Knowledge Store database. The Knowledge Store has also told us that it can be particularly difficult to classify some stores because they undertake multiple activities and in some instances estimates are made by the Knowledge Store to classify stores with incomplete information on the range of products being sold.
 - (b) The IDBR does not include businesses that are not geographically identifiable such as market stalls and roadside pitches. By comparing the ABI database which does include these stores with the IDBR database we observe that this accounted for a difference of around 3,500 stores in 2005 (44,408 less 40,735). We expect that a number of these stores are included in the Knowledge Store database.
 - (c) The Knowledge Store database has steadily become more accurate since 2000 as duplicate records are identified and removed, although we anticipate that this continues to be a percentage of the database that is not present in the ONS data (the Knowledge Store claims an error level of around 2.5 per cent compared with the ONS claimed error level of 0.1 per cent).
 - (d) Finally, as noted in paragraph 11(b) of Annex 1, there may be up to 2 per cent of businesses with a very low turnover (less than £50,000) which may not be included in the IDBR, although, as we explained, we consider that this is unlikely to apply to very many convenience stores. Because IGD/the Knowledge Store does not use any turnover threshold for inclusion in its database, any stores with a turnover of less than £64,000 are more likely to be included within its database.

Differences between the IDBR and ABI data

48. In paragraph 7 of the appendix we note that the ONS publishes two databases on the number of grocery stores based on the IDBR and the ABI respectively. However, the total number of local units in the IDBR database is smaller than the total number of outlets recorded in the ABI database and this also occurs in each of the specialist definitions.

49. The ONS has told us that the ABI and IDBR data are qualitatively different. The ABI data includes 'outlets' that are not geographically identifiable and includes stores such as market stalls and roadside pitches which would not be included in the IDBR database.
50. Based on ONS advice, we considered that IDBR local unit data was preferable to the ABI outlet data because the former provides a consistent and total population count based on tax information. This count has been undertaken on a consistent basis and is not subject to survey response error which can occur with the ABI data. In addition, the ABI information includes a number of non-fixed outlets, such as market stalls and roadside pitches, which we have not considered to be convenience or specialist stores for the purposes of our analysis.
51. Although the two databases record different numbers of stores, we are confident in the trend observed in Figure 2 which is based on ABI data (the only source available over this time period) given the long period over which the data has been collected and the large decline in numbers that we have observed.
52. In Table 3 we can see that, consistent with the ONS explanation in paragraph 49, the IDBR data on local units has lower counts for each SIC than the ABI outlet data. The Greengrocer category has the most difference in numbers and it seems likely that this category would have more outlets that are not geographically fixed than other categories.

TABLE 4 Difference between ABI and IDBR data on the number of specialist stores

		2003	2004	2005
Greengrocers	ABI	5,830	5,554	5,451
	IDBR	4,710	4,340	4,150
Butchers	ABI	8,783	7,973	7,808
	IDBR	8,720	8,165	7,780
Fishmongers	ABI	1,620	1,421	1,371
	IDBR	1,640	1,505	1,400
Bakeries	ABI	7,139	7,237	7,011
	IDBR	7,120	6,900	6,710
Off-licences	ABI	9,807	8,871	8,854
	IDBR	9,690	9,425	8,880

Source: ONS, ABI: www.statistics.gov.uk/abi/downloads/Retail_Stores.xls;
IDBR: www.statistics.gov.uk/StatBase/Product.asp?vlnk=933.

Note: Only data up until 2005 is available from the ABI at the time of publication.

Conclusion

53. Where we have identified trends that differ between databases, we have found that this difference is likely to be created from changes to definitions and improvements in methods of classification, recording and the removal of redundant records over time.
54. None of the alternative databases that have been put to us can provide data that is statistically superior or more relevant than that published by the ONS. The Verdict data does not align adequately with our definition of convenience stores and undertakes an estimation process for the number of convenience stores that it publishes. IGD/the Knowledge Store has improved its database in recent years which is likely to show as a decreasing number of stores when compared year on year. The ONS database is designed to measure trends over a long period of time to a high degree of statistical accuracy. We do not consider the Experian Goad database to be particularly useful at identifying trends in store numbers although it does have a degree of consistency with the ONS data (albeit the trends it shows are significantly higher than those indicated by the ONS data).