



Retailer Survey Results

Executive Summary

- On average stores stocked around 21 regional and 25 local products
- 66% of retailers see local products as part of both, their core range and as specialist products.
- Less than 10% of retailers had encountered issues such as health & safety, legal, invoicing or quality control.
- Those who did stock products reported back that consumers were very positive towards local products.
- No difficulties in finding suppliers were reported. They were found either through suppliers calling at the store, or through retailers local knowledge and customer suggestions.
- 60% of stores did not currently have local competition selling these products, meaning that they would enrich the local community by offering their store as an outlet.
- There was no clear bias towards certain types of stores, even petrol forecourts were stocking local products, nor were there store size limitations.



Introduction

During October/ November 2006 Appleby Westward retailers completed a questionnaire on regional/ local products they stock. Attitudes and difficulties with these products were also assessed along with local levels of competition for this type of produce.

The survey was split into regional products and local products. The definition of regional is 'any product that can be seen as having been grown or produced/ manufactured within either national boundaries (i.e. Welsh, Scottish etc but not UK wide) or more regional boundaries to a store, e.g. Cornish or Lincolnshire'. Whereas a local product is one 'a product that can be seen as having been grown or produced/ manufactured within 30 miles of a store'.

Regional products

On average stores stocked around 21 regional products but the dedication to this varied greatly with some stores stocking none or only two or three to those who stocked over 300.

There was no clear preference as to how these products were sourced; within SPAR retailers are supposed to source from the wholesaler who owns the brand. As there are 6 wholesalers across the UK with separate geographic territories, they are by definition regional, however in the area in question this is particularly the case as Appleby Westward service the South West up to Bristol and Portsmouth. Some stores sourced 100% from their wholesaler, which shows that within this model there is scope for regional products already. Whereas others used third party suppliers, which often have agreements with the wholesalers to supply the stores, making invoicing and contractual agreements easy.

The nature of many products was as expected: milk, eggs, fruit and veg, wine, beer & ale, cider, cream, fresh and cooked meat, bacon, jams, cheese, sandwiches, honey, pies & pastries, sweets & chocolate.

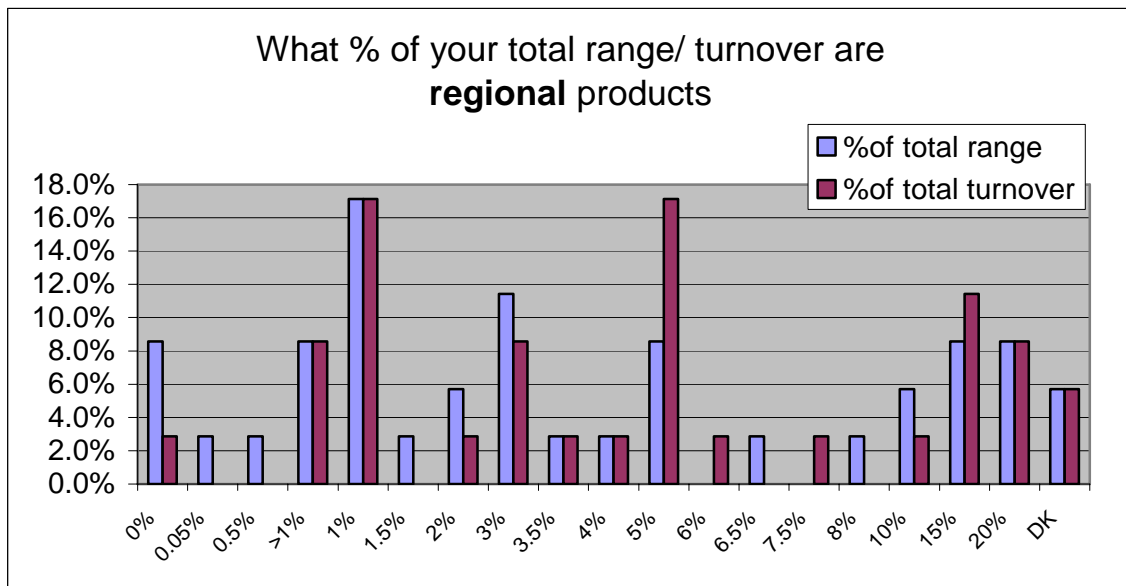
More surprising products were ice cream, chutneys, biscuits, cakes, motor accessories, fire wood, logs, cards, Christmas pudding, cereals, stationary, hardware, crisps, wool, soups, tea & coffee

The learning for regional sourcing is that often the retailer is already using regional suppliers but is either not aware of the region of origin themselves or does not communicate the fact with consumers. Given the consumer interest in regional products it would therefore be advisable to investigate where products are from and to inform the consumer of their regional origin. The above list shows how diverse the nature of products can be. Many often only consider produce as of interest, but heavy weight and bulky items such as wood would cause much greater damage to the environment via food miles.

As stores vary greatly in terms of size the question was asked what percentage of range and turnover the regional products represented.



The important point to note is that these goods often represent a higher percentage of turnover than percentage of the range. While for one quarter of retailers it represented 1% or less of turnover for over 60% it did make up an important part for one fifth as much as 15% or more.



Local products

On average stores stocked around 25 local products but again dedication to this varied greatly with 23% not stocking any and other stores ranging from just a few to over 170.

Whereas for regional products sourcing was a mix between wholesaler and third party for local products there was a clear favour of purchasing the products directly from the supplier. This is partly driven by the nature of the definition a local product has to come from within 30 miles of the store, so only retailers within the radius to the wholesaler could really benefit from having them deliver these kinds of products. However over half of retailers stated that 100% of their local products were sourcing directly.

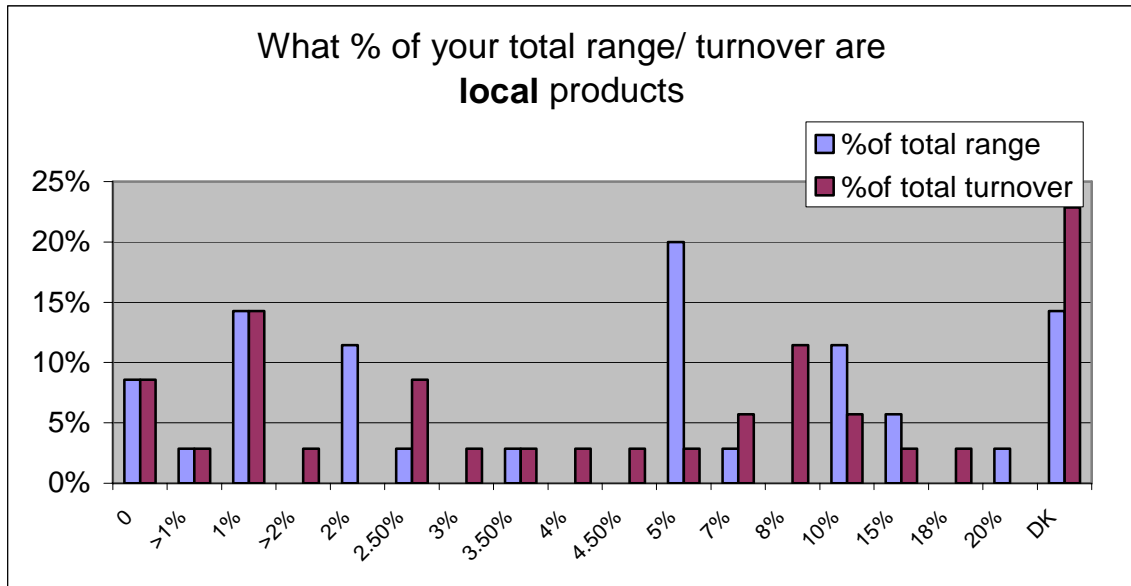
The list of local products was very similar to the regional ones, however there were some surprises such as greeting cards, sheep and goats milk, maps & batteries, paper and stationery, venison, bags, birdseeds, wreaths, flowers, seeds, crisps, sticks, logs, tofu, marinades and ready meals.

What this shows is that SPAR stores can be outlets for all sorts of local produce, artefacts or even services.

The same analysis in terms of range and turnover that was presented for regional products exists for local products. However here goods represent a higher

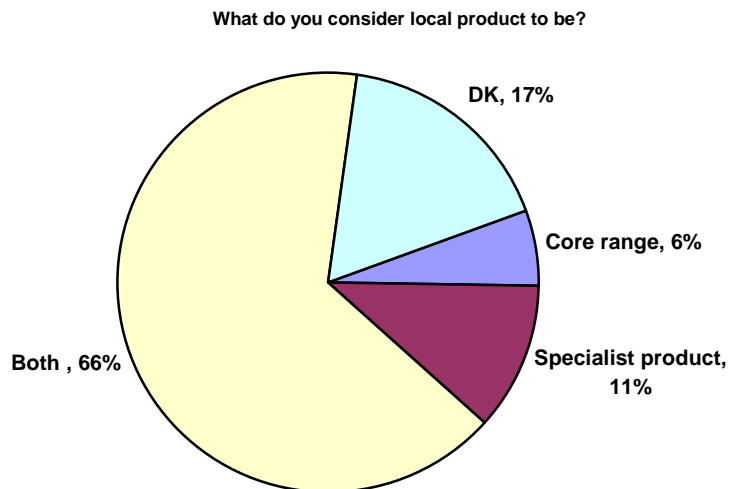


percentage of range than the percentage of the turnover which may not be surprising as some might be low value items such as pints of milk and other dairy products.



The relative importance of local product to the offer

The chart below clearly indicates that local product means much more to retailers than just a 'nice to have'. Almost 6% see it as core to their business while 11% deems these specialist products. Each represents the opposite end of the options. However an overwhelming two thirds see it as both core and specialist, meaning that not to have local products would mean to loose some items core to their offer.





Retailers opinion on the process of finding suppliers and getting the products on the shelf ranged from easy and not a problem to difficult. For some this ease was driven by only choosing products that were available via the wholesaler, this obviously limits the number of products that can be stocked, however it made invoicing easy.

Those retailers who had additional products to the wholesaler’s range found these suppliers through a multitude of ways:

- Word of mouth from customers and/ or knowledge of what’s available locally
- The local suppliers visit/ call the store (cold calling)
- Local farmers markets or specialist shows (Royal Cornwall Show)
- Through specialist networks (e.g. Somerset Food Link, Taste of the West)
- Active searches through local ads, internet, advertising

Potential Issues

Independent retailing is a hard business and introducing local ranges needs to be assessed under the implementation aspect as much as the cost-benefits. Hence the question was asked which of the following issues where encountered 9% did not answer this question which in part is some of the retailers who do not sell local product and therefore are unable to respond. For no issue of the issues below did more than 9% of retailers encounter it.

	% who encountered this issue
Quality Control	6%
Legal issues	0%
Invoicing	9%
Health & safety	0%
Supply shortages	6%
Lack of margin	3%

Retailers were asked who potential or encountered issues could be overcome. The answer was very pragmatic: discuss the problem with the supplier and unless they resolve the issue alternative products would be sourced. Others did suggest that the wholesaler could help with invoicing but there was only the request that suppliers would need to do better demand forecasting. All this suggests that retailers expect their suppliers to have a certain level of business noose.

Almost three quarters of respondents did not state that there were any difficulties in terms of pricing local products. 57% said there were no difficulties at all and a further 17% did not answer the question, which may well mean it was not of concern to them. Those who did answer the question were suggesting that local suppliers should recommend an Recommended Sales Price (RSP) which would form the basis for the pricing decision by the independent retailer.



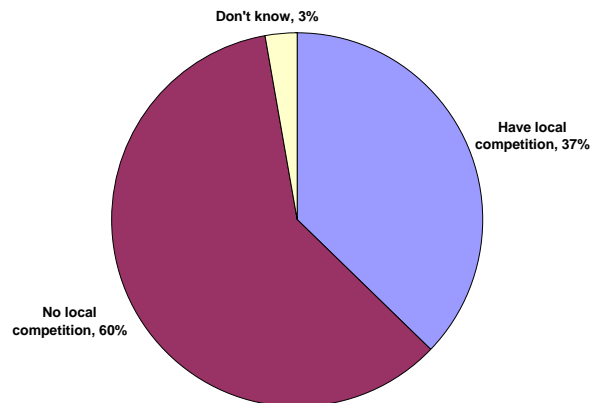
Attitudes towards local product

Overwhelming three quarters of retailers reported that their customers' response to local product is good and positive. Some went into further explanation as to why consumers like things such as being patriotic, liking the choice and variety and wanting more local lines were mentioned. Nobody quoted any negative comments but 14% did feel their customers were indifferent towards these products and a further 11% did not answer the question.

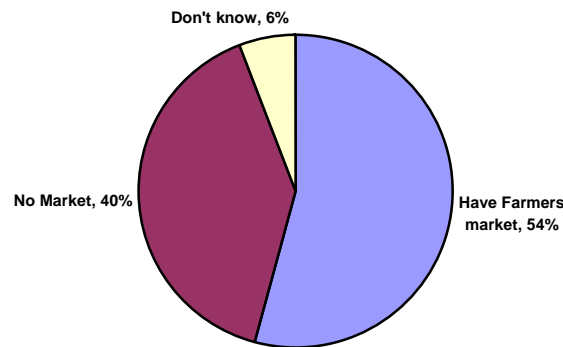
When asked how local product is promoted in store, the response was varied. It would appear that currently some retailers really get behind local product but they fail to use the all communication tools to convey the benefits to the customer. Over one third did not promote at all and that is excluding the 11% who did not answer this question. So in total it would appear that almost 45% did not. Those who did promote did so through tastings, POS including Posters, shelf cards and stickers and/ or Price reductions.

Competition

In terms of the trading environment, 60% of stores did not have any local product competition, which means that there is plenty of scope to use local sourcing as a means of differentiation. For the 37% who did, the type of competition was very different in business nature to SPAR. They were either farm shops, dairies or delicatessen. Only 5% had actual village stores as competition. The products these stores were selling ranged from



More than half of the stores in the survey had a farmers market in their local area. Consequently the local interest exists but is only serviced on those limited days when the market is held.



Potential typologies

The sample is too small to make concrete statements about correlations between the propensity to sell local product and stores attributes. However it is worth while noting the make up of stores who responded to the survey.

The store type would suggest that there is no format that is excluded from stocking local products. Even half of 'Petrol Forecourts' who participated stocked some form. The one City Centre store which replied did not stock any local products, the low response rate from this segment could suggest lack of interest but this is pure speculation.

Store type	
Neighbourhood store	45.7%
Village Store	31.4%
City/ Town Centre	2.9%
Petrol Forecourt	17.1%
No answer	2.9%

Stores of all sizes participated. And there appeared to be no preference between size and if local products were stocked.

Store size	
0 - 999(sq ft)	34.3%
1,000 - 1,999	54.3%
2,000 - 2,999	5.7%
3000+	2.9%
No answer	2.9%

However larger stores stocked more products, which with the low sample size is lacking scientific proof, common sense could suggest that these stores do have more space to dedicate the specialist ranges.

The question of Turnover was raised especially in view of assessing the size of the opportunity. At this small sample size we prefer not to reveal the turnover information and given that many of the statement were percentage estimates rather than the



business figures we will not endeavour to use these to calculate the actual turnover on regional and local product.

85% of respondents were independent retailers with one store. 6% had two stores and one respondent had 7 stores. This clearly shows that it does not matter if the retailer is focusing on one store or on a number of branches local sourcing can be of benefit for all. What has not been assessed is what impact independent ownership versus a managed estate would have.

Conclusion

The above clearly show that from a retailer's perspective there is consumer demand for local products. Retailers also benefit from having these products as a point of differentiation as they are in a position to act as an outlet as for only one third was there local competition offering these products. . There were no restrictions in terms of store format or store size.

Currently regional and local products make up a very small percentage of retailers range and turnover, but retailers to see these as integral part to their offer.

The most positive outcome of looking into local sourcing has been that there is the belief that everybody stands to win from this. Some sales have been reported to be incremental and therefore stocking local products will help local businesses and thereby the local community and economy.