

# SWOT ANALYSIS

Tesco and Holland & Barrett have penned a shop-in-shop partnership as the grocer continues its drive to make better use of excess space, says **Luke Tugby**

## Will Tesco's tie-up with Holland & Barrett be a success?

*Retail Week* runs the rule over the tie-up, analysing the strengths, weaknesses, opportunities and threats arising from the deal



### Strengths

#### Bolsters 'destination' status

Like its rivals Sainsbury's and Asda, Tesco has been searching for ways to drive footfall into its larger stores and keep them relevant to modern, time-pressed consumers who have become obsessed with convenience.

Sainsbury's has teamed up with Jessops and will install more Argos concessions across its estate once it completes a £1.4bn acquisition of Home Retail Group, while Asda is piloting Decathlon shop-in-shops and installing other services to bolster the proposition in its bigger sheds.

Tesco, which already has similar deals in place with Costa Coffee and Arcadia, has given shoppers another reason to visit its Extra stores by linking up with Holland & Barrett.

Although the grocer has its own healthy living ranges, Holland & Barrett carries more specialism and a greater range in the health and wellbeing sector that will no doubt prove popular to a high proportion of Tesco's customer base and complement its existing offer.

#### On trend

As the grocers increasingly seek their perfect retail partners, bosses will no doubt be considering rapidly changing consumer habits when deciding who to get into bed with.

And as far as current food trends go, the move by consumers towards healthy eating

ranks alongside eating on the go as one of the biggest changes in grocery shopping habits over the past decade.

Planet Retail analyst David Gray says: "There is a whole trend in the UK – and in other European countries – of more consumer demand for healthy food, healthy living.

"Putting Holland & Barrett into stores plays to that consumer trend, which can only be a good thing for Tesco in terms of driving footfall and sales."

#### Balance sheet benefits

Earlier this year, Tesco called time on its Nutricentre health and wellbeing business, shuttering 12 standalone stores and 11 concessions across its supermarket estate.

Replacing the Nutricentre concessions with Holland & Barrett shop-in-shops brings a host of advantages, not least the reduced costs.

Tesco will no longer need to invest cash into product development and will actually reap financial benefits in the form of rental income from Holland & Barrett.

As well as fitting in with Tesco chief Dave Lewis' drive to improve the competitiveness of its core supermarket business, the deal also plays a part in other key pillar of his strategy – to protect and strengthen the balance sheet.

### Weaknesses

#### Small-scale trial

Tesco is hedging its bets, in the same way it has done with Arcadia, by initially committing to roll out Holland & Barrett concessions to just a small number of larger stores.

However, while that minimises the financial and logistical impact on the grocer should it opt to can the partnership further down the line, it may not provide a representative sample of its core customer base and whether or not the tie-up is working.

Gray explains: "I don't think there is a glaring weakness. On paper, it sounds quite logical because of the consumer trends and what Tesco is trying to do in larger stores.

"But six stores is not a very big sample. I think they should trial it in a broader

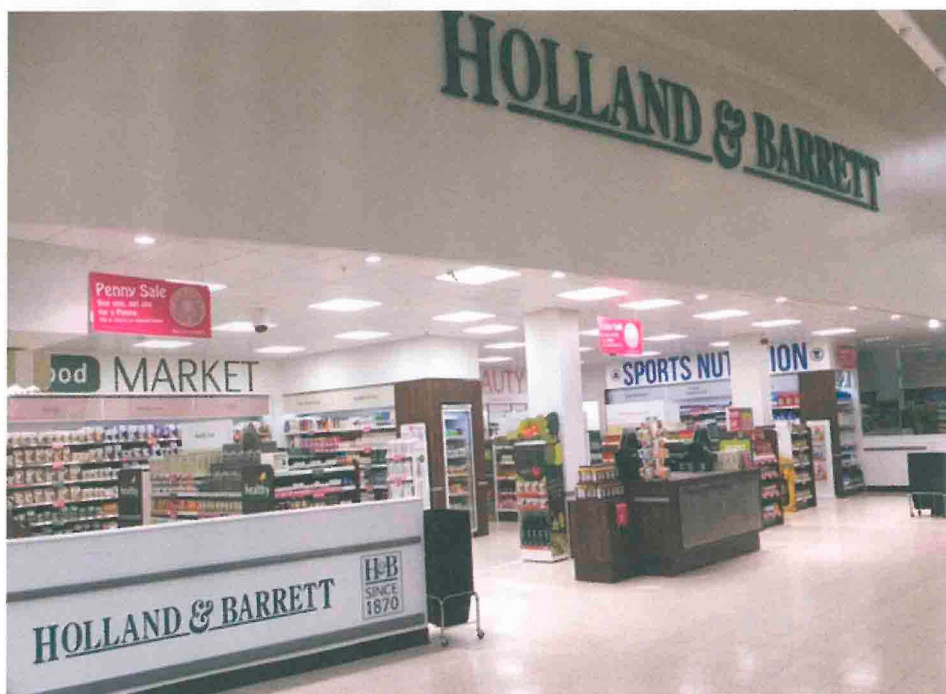
**"There is a trend in the UK – and in other European countries – of more consumer demand for healthy food, healthy living"**

**David Gray, Planet Retail**

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spectrum of stores to get a better indication of whether or not it’s resonating with customers.”

### Customer alignment

One key question that hangs over the move is how much of an overlap there is between the customer bases of the two retailers.

Tesco is investing in everyday low prices, and launched its Brand Guarantee initiative to ensure that its shoppers don’t pay more for their branded goods than they would at Sainsbury’s, Asda or Morrisons.

But by comparison, Holland & Barrett positions itself as a more upmarket retailer, with higher price points than the average Tesco shopper has become accustomed to during the Dave Lewis era.

For the partnership to be deemed a success, the grocer’s customers will have to part with a little more cash than they are used to spending during their Tesco trip within the Holland & Barrett concessions.

## Opportunities

### Expansion

While the partnership may be small scale at this stage, there is clear potential for Tesco to roll out Holland & Barrett concessions across scores of its larger stores, should the first tranche of six shop-in-shops prove to be a hit.

The grocer operates 478 superstores and 252 Extra stores – its largest format – and could implant Holland & Barrett concessions relatively quickly and cheaply into locations across that 700-strong estate.

Should that come to pass, Tesco will be giving its shoppers more reasons to visit even more of its stores on a more regular basis – and could win custom from big four rivals Sainsbury’s, Asda and Morrisons.

After the latest Kantar data revealed that Tesco registered its slowest rate of market share loss since March 2014 in the 12 weeks to July 17, that’s a thought that could strike fear into the bosses of its closest rivals.

### Supply agreement

Not all of Tesco’s stores will be large enough to house a Holland & Barrett concession, but the retailers could negotiate that by widening its partnership to include a supply agreement.

Holland & Barrett-themed aisles and gondolas stocking its products could fit seamlessly into a Tesco supermarket or even a smaller Express or Metro convenience store.

Although Holland & Barrett already has its own ecommerce business, it could open that net to wider audience by also allowing its goods to be sold on Tesco’s grocery website.

While there is no indication from either party that this could be in the pipeline, it

could prove to be a logical expansion to the partnership in years to come.

### Knock-on opportunity

If the Holland & Barrett implants prove successful in driving consumers into Tesco stores, the grocer could see a knock-on benefit on sales of its own ranges.

Holland & Barrett customers could be tempted into purchasing Tesco’s private-label healthy eating lines, particularly within categories such as ready meals where the supermarket giant boasts a much more comprehensive range.

Tesco also carries an extensive general merchandise proposition in its larger stores, including health and wellness-related lines such as gym attire, yoga mats and weights.

If Tesco positions the Holland & Barrett stores strategically, or even signposts customers to its healthy food and general merchandise aisles, it could reap the rewards of sales uplifts on more niche lines such as those, as well as its core grocery offer.

## Threats

### Suppliers

Tesco already stocks healthy food options from a number of proprietary brands and the Holland & Barrett deal could potentially ruffle a few feathers within those businesses.

Graze, for example, supplies healthy snacks to Tesco, which are sold across the grocer’s estate from its largest supermarkets to its smallest convenience stores in central London.

Companies such as those may prefer to pen supply deals with other mainstream grocers instead, should they feel that a presence in a Tesco store will see them competing directly with Holland & Barrett.

### Rivals’ response

Tesco will be seen as a first mover within this space in that it is the first mainstream grocer to pen such a deal with a specialist health and wellbeing business, but its big four rivals are almost certain to respond.

Sainsbury’s has sold its in-store pharmacies to LloydsPharmacy and could potentially expand its proposition to rival Holland & Barrett in food.

Asda already has Decathlon shop-in-shops in a handful of its larger stores, stocking sports equipment and attire, and may seek to build its healthy food proposition to complement that partnership.