

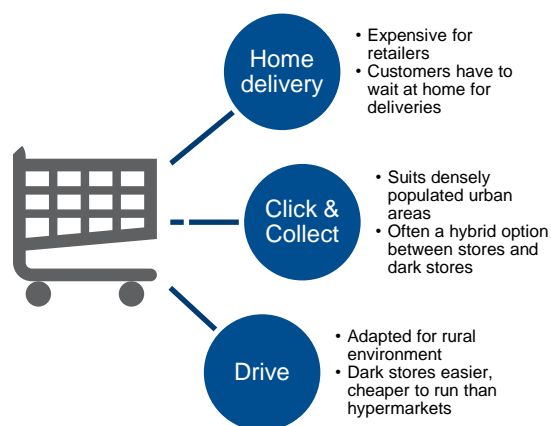
The dark side of the store: French retailers reinforce “drive” channel to boost out-of-town sales



France’s food retailers are successfully developing a drive-through version of “click and collect” shopping which may be vital to help them to defend market share and maintain profitability, says Scope Ratings.

The accelerating roll-out of “dark stores” – stores that mainly serve as hubs where shoppers drive to pick up their online orders – by the likes of E.Leclerc, Auchan S.A., Carrefour S.A. and Groupe Casino S.A. comes as footfall at hypermarkets continues to decline and customer appetite grows for online services. E.Leclerc is the market leader in the segment which for now makes up only 5.5% of food retailers’ sales in France.

Figure 1: Emergence of multiple e-commerce channels



Source: Scope

The rapid development of the likes of AuchanDrive and CarrefourDrive shows how French food retailers have had to adapt their online sales channel to the country’s geography, marked by less densely populated regions outside of the main cities. In contrast, the UK’s higher population density and higher receptiveness of e-commerce makes the country more suitable to home delivery. Online sales make up around 6-10% of the total at Tesco PLC and J Sainsbury PLC compared with 1% at Carrefour.

Scope believes that the drive-through version of “click and collect” will shore up profit margins of French food retailers at least in their domestic market - an important development given the other pressures the sector faces, from sluggish growth to e-commerce competition: See Scope’s negative credit outlook for the retailing sector in 2019 ([link](#)).

The drive, click and collect model has several commercial and financial advantages for the retailers:

- Customers, not retailers, bear the “last-mile” delivery costs;
- “Dark stores” are cheaper to set up and run than supermarkets, reducing the retailers’ capital costs and operating expenses: The stores don’t have to be designed to attract shoppers because the product management is done behind the scenes, out of sight of the consumer;
- The “drive” channel is proving a good way for retailers to promote own-brand products;
- The channel also helps retailers reach consumers in more remote areas outside urban markets.

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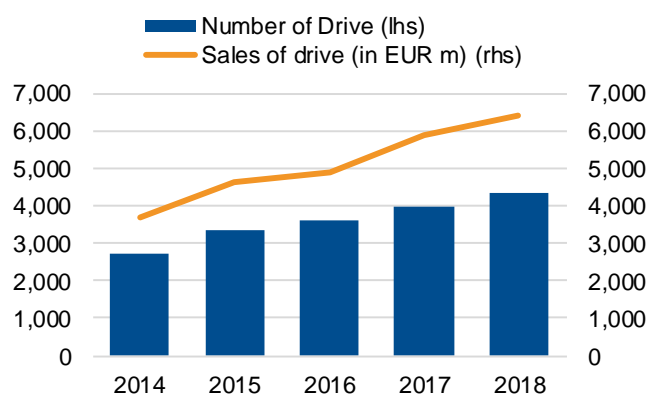
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Consumers benefit too:

- They skip the waiting time at the check-out or at home ahead of a delivery;
- The basket of “drive” goods is cheaper than the equivalent for home delivery, because there are no extra delivery costs;
- They retain some of the advantages of online shopping: scanning products and searching for the best prices.

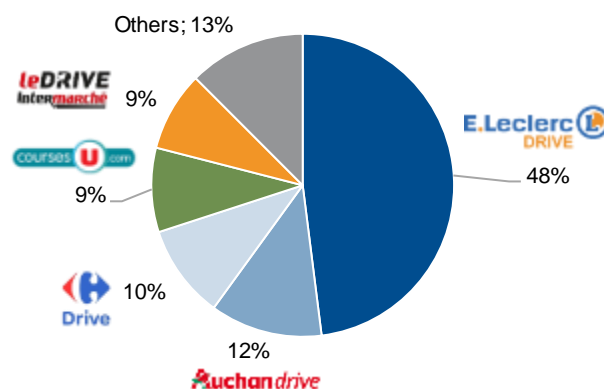
Figure 2: France's food retail sales via drive through

Increasing sales per drive



Sources: Oliviers Dauvers, Scope

Distribution of market shares in France



Source: public information, Scope

The “drive” channel and roll-out of “dark stores” are positive for food retailers, as they enhance their competitive positioning, but growth in the hybrid sales channel is not without its own risks:

- The retailers’ “drive” offering is more limited than a normal hypermarket, leading to less choice of goods and more uniform prices.
- A narrower offering reduces the scale of consumers’ “impulse” purchases compared with browsing shelves in a hypermarket or scanning an e-commerce site.
- Cannibalisation remains a risk, particularly if it accelerates the drift away from hypermarket shopping too sharply.

If there is a risk that the cure that French retailers have found to offset the decrease of footfall in hypermarkets becomes worse than the disease, it is worth remembering that the “drive” channel accounts for only a small proportion of overall food sales in France, at around 5.5% in 2017.

Scope says retailers in other European countries hoping to match the French companies’ success will have to take into account how much shopping habits and preferences can vary from country to country. Given the similarity in the French and the US bricks-and-mortar food-retailing landscapes, with large numbers of hypermarkets and intense competitive pressure in the food-retailing segment, the “drive” sales channel may prove more pertinent on the other side of the Atlantic. For now, “dark stores” remain a bright spot for French food retailing.



The dark side of the store:

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