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Executive Search & Board Advisory

STATE OF PLAY OF GROCERY RETAIL IN THE UNITED KINGDOM



"Excite the mind, and the hand will reach for the pocket."

— Harry Gordon Selfridge

Grocery in the United Kingdom:

Grocery Retail in the UK has always been a tough business; thin margins, high fixed costs and intense competition. It is a market with so many local variables; what would work in the United Kingdom (UK), may not necessarily work in the United States or Asia. The UK market is different as it was a very early adopter of online grocery retail and it was very late to appreciate the impact of the growth of the European discounters. These discounters have now cracked the formula in the UK and are continuing to eat up market share fast.

Due to this intense competition, there is pressure on revenue which has led to cost-cutting, this has in turn hampered innovation, creating a downward spiral. One of the ways grocers have been bucking this downward trend is by improving employee productivity through technology. Automation and robotics are featuring more prominently, not only in the back office but in stores.

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Retail is taking its lead from financial services, one of the early adopters of automation technology. Grocery retail has a lot of its time taken up by repeatable process. If a high percentage of those can be automated, a greater percentage of time could be spent on activities that add value to the business. Amazon Go in the United States, have taken this one step further, as opposed to looking for ways to take time off the checkout, they have removed it completely, reducing labour costs significantly. UK grocers will have to adopt similar innovations, in order to remain competitive.

The Landscape Today:

German discounters Lidl and Aldi continued to expand last year, and now control 13 percent of the UK grocery market. Lidl was once again the UK's fastest-growing retailer. The discounter experienced a market share increase of 0.5% and saw their sales climb by 16.3% in 2017. It saw its fastest growth among its branded products. Aldi increased sales by 16.2% to hold a market share of 6.9%, up 0.7%. In particular, Aldi experienced growth in its "Specially Selected" range, which saw Sales increased by £26 million. However, we could start to see this pace of expansion slow down as profits come under pressure from the cost of building more stores, rising wages and inflation.

Sainsbury's could face challenges over the coming year as it relies more heavily on the additional sales from its Argos takeover, this has so far flattered it's lower than expected grocery numbers. There are question marks over Asda's position in the market, with shoppers continuing to abandon the retailer for German discounters Lidl and Aldi. Recently appointed CEO Roger Burnley may not be given the tools necessary to revive the sleeping giant, as the radical action that is needed might not be supported by US parent Walmart. Once one of Walmart's prized assets, Asda has been "gutted" by their parent over recent years. Asda was previously seen as the cheapest grocer but is now around 15 percent more expensive than both Aldi and Lidl. It has been suggested that 2018 could be the year that Walmart makes the call as to whether they should continue owning Asda, as their focus shifts to fighting Amazon in America.

At the other end of the scale of the UK grocery market, Marks and Spencer and Waitrose are facing tough times. Food sales have been slow for the past year, as shoppers continue to look for value over quality. Both retailers are looking to improve their food offering this year. Marks & Spencer will look to align itself to the family shoppers, moving away from the dine-in couple deals and the commuter convenience food. Waitrose will aim to become the even more high-end grocer, to monopolise this area of UK retail.

The Future:

Store Innovation

In the past ten years, there has been a dramatic increase in online food engagement. People are more interested in what they eat than ever before, and groceries need to capitalise on this. They need to help customers rediscover the joy of shopping. This means significant innovations are needed in store. As mentioned earlier, price pressure has led many grocers to respond by taking the joy of discovery out of their store. Retailers need to return to it, but more cost-effectively. Online is not the place for food discovery; this must happen in the

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store. Consumers have switched to buying staples online; this frees up shelf space for more “exciting products” like fresh, exotic or artisan foods.

Due to the constant time pressures consumers face there is also a demand for immediate food. The UK needs to replicate what is happening in other European countries such as the Netherlands, where groceries offer recipes for easy meals, with all the components displayed in one place. It will allow customers to do their food shops quickly and conveniently when needed.

Go Local

Although consumers are globally minded, there is now an expectation for food products to be locally or regionally sourced. For example, in 2017 Tesco signed up to the National Farmers’ Union’s “fruit and veg” pledge. It highlights the importance of reducing food waste, treating suppliers fairly and buying more British fruit and vegetables.

App Assistance

Home-based assistants from Amazon, Google and Apple, could have an impact on grocery retail. Consumers can ask these virtual assistants to place orders across various retail websites. Grocers have to continue to improve their digitalisation to keep up with these growing trends.

Home Delivery

As growth in online grocery continues, changes will occur in the supply chain model for online. Technological advances will reduce the cost of collecting and delivering a person’s groceries. In a bid to resist the continued expansion of Amazon, retailers will have to continue to increasingly innovate how they deliver products to your door. Albert Heijn, in the Netherlands, is currently piloting a rapid delivery system called Rappie. Orders are placed via an app and deliveries are made within two hours. They are also piloting fifteen-minute deliveries for food to go items via bicycle courier.

In this increasingly competitive time for UK grocery retailers, to remain on the front foot grocers will be looking for small innovations that accumulatively will have a significant impact.

BACKGROUND

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