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# Grocery Retail 2020

## Outlook and perspective

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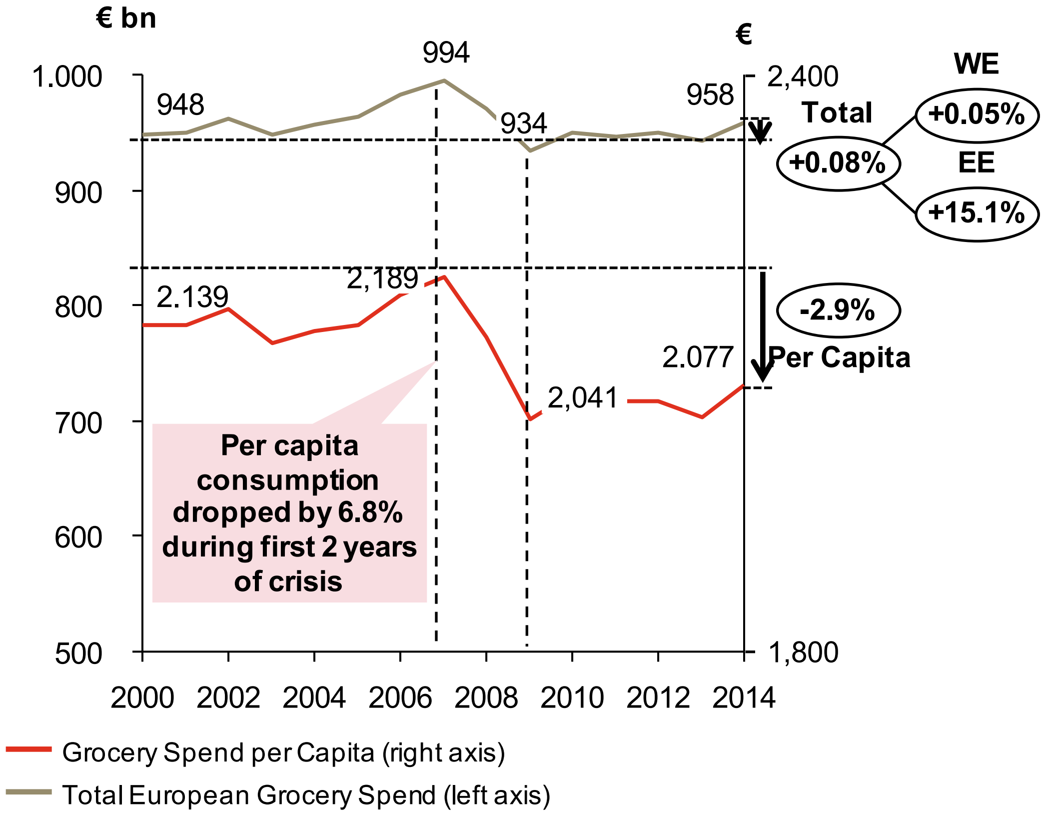
pwc

# Grocery spend has been stagnant, while per capita consumption has declined

## Real European[1] grocery spend – total and per capita 2000 – 2014, € bn, € per capita



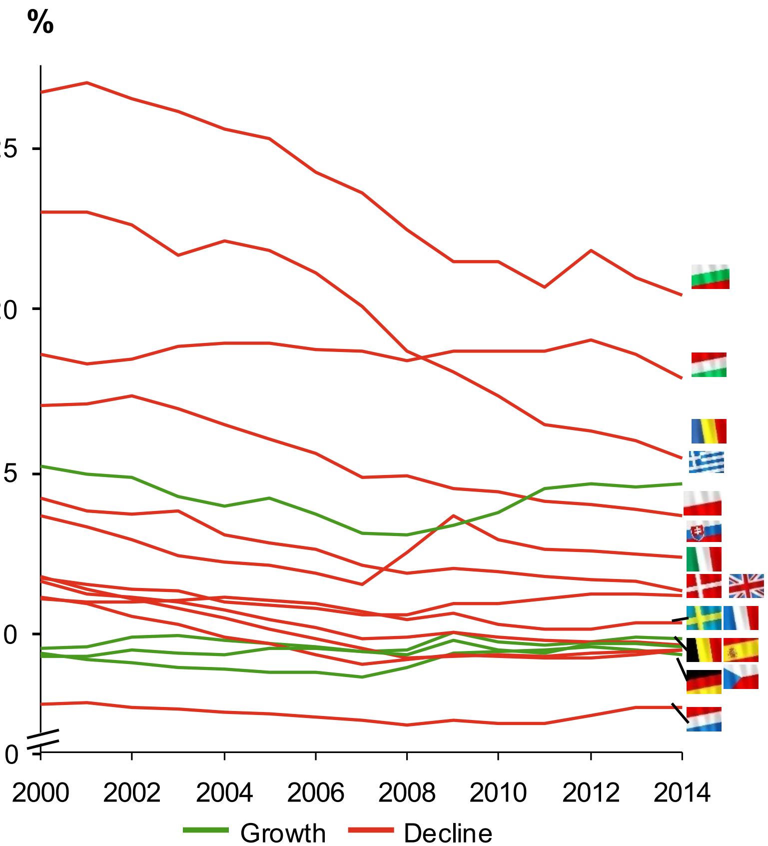

1) Includes UK, GE, FR, IT, NL, ES, DK, BE, SE, GR, CZ, HU, PL, RO, BU, SL
Source: Planet Retail, Strategy& analysis

**Insights**

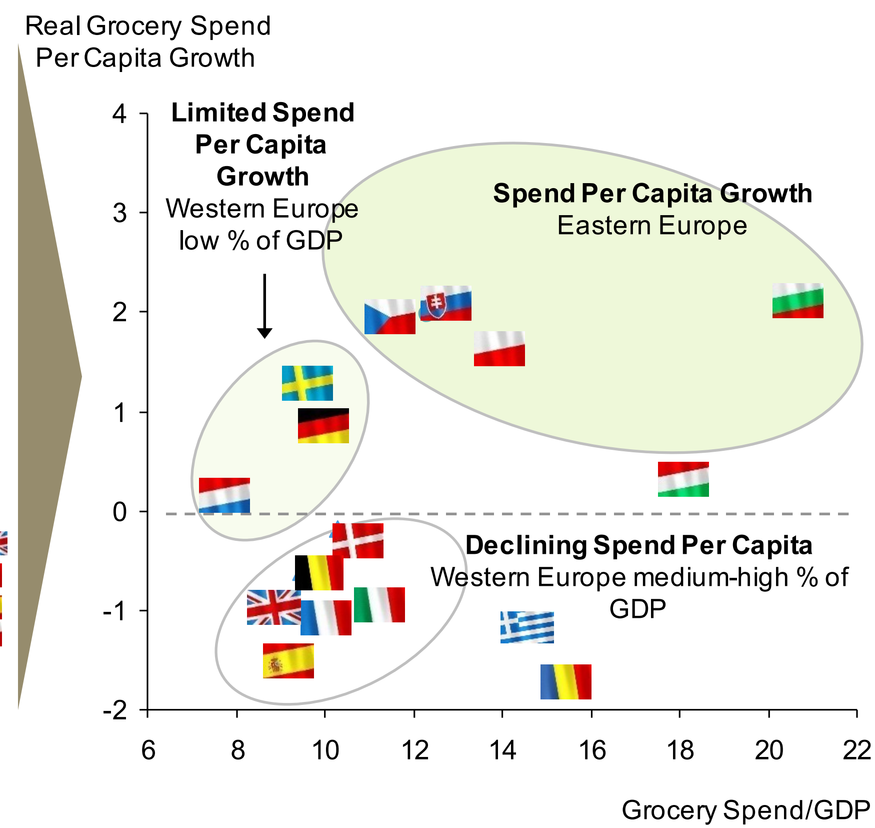
- Total real grocery spend barely changed since 2000, while per capita grocery spend decreased by 2.9%
- Before the credit crunch, spend per capita grew by 0.3% per year…
- …only to suffer a steep drop of 6.8% in 2008 and 2009…
- …destroying €60Bn
- Per capita spend has grown by 0.35% per year since 2009

# Per capita growth has stagnated in most Western European countries – grocery spend/GDP is converging across Europe

**Grocery Spend/GDP** 2000-2014, %



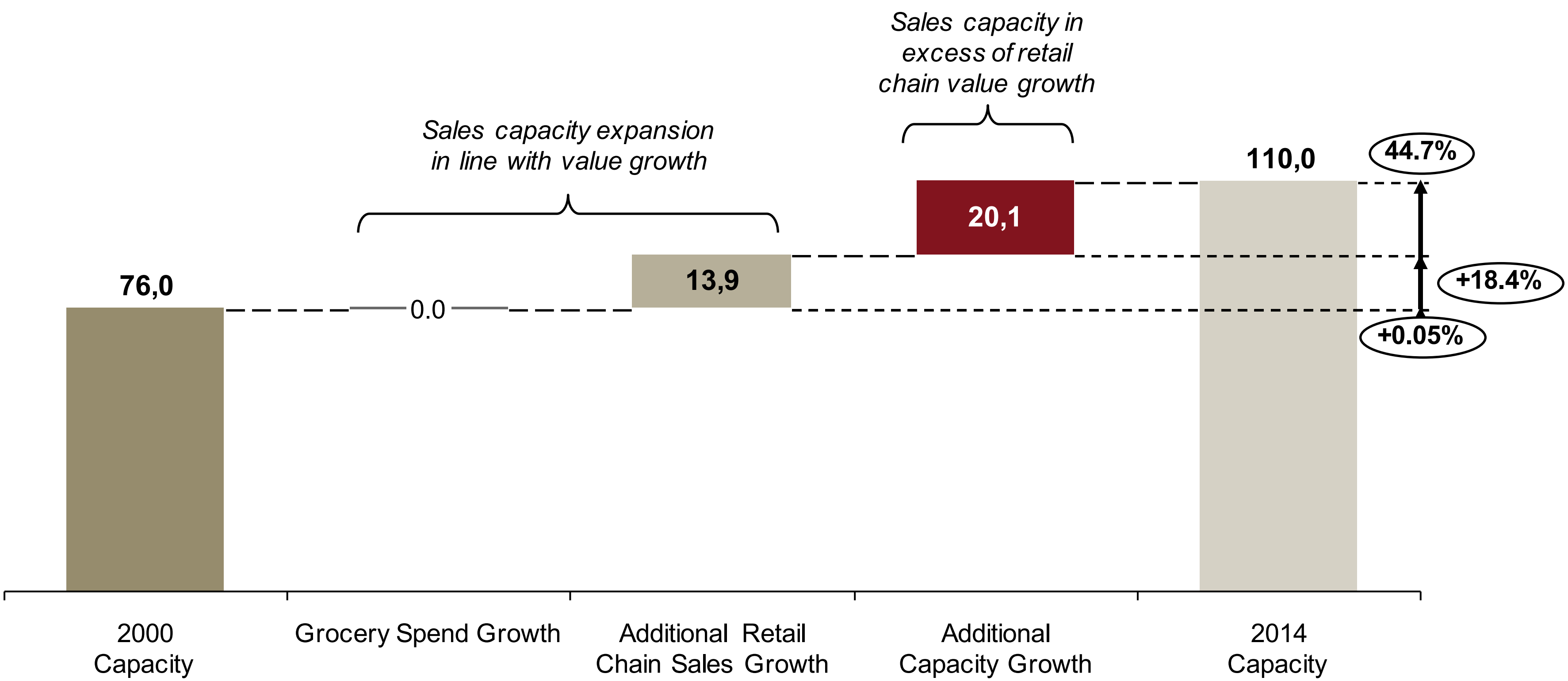

**Real Grocery Spend per Capita Growth vs. Grocery Spend/GDP** 2000-2014, CAGR (%), %




*Source: Planet Retail, Strategy& analysis*

# *Grocery chains have added more capacity than they added value*

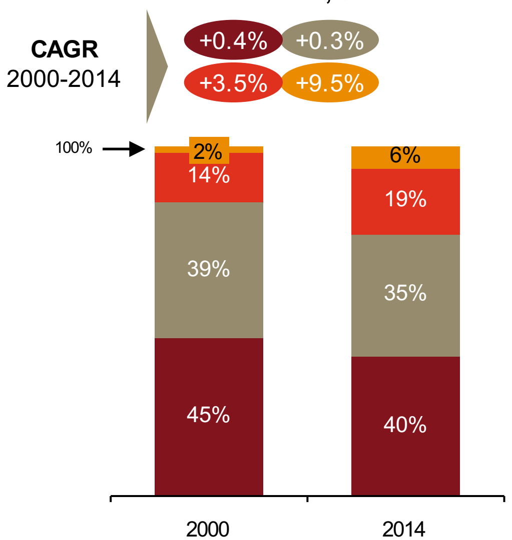
**European[1] Retail Chain Sales Capacity** 2000-2014, Mn $m^2$



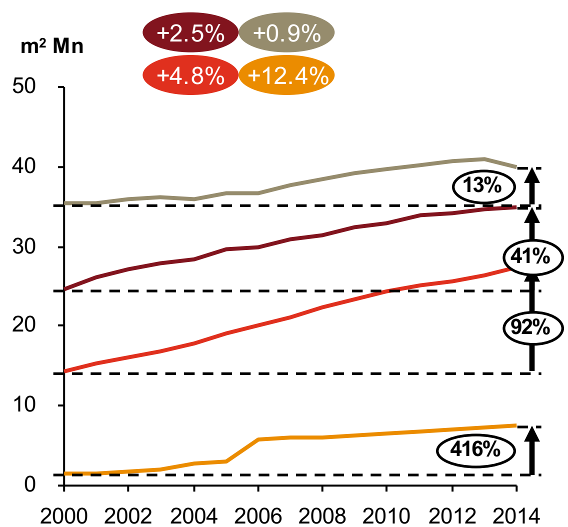

*1) Based on western European countries GE, NL, UK, IT, ES, FR, BE, SE, DK, GR*
*Source: Planet Retail, Strategy& analysis*

# Expansion in new store formats has contributed to the sector-wide decline in productivity (Europe)

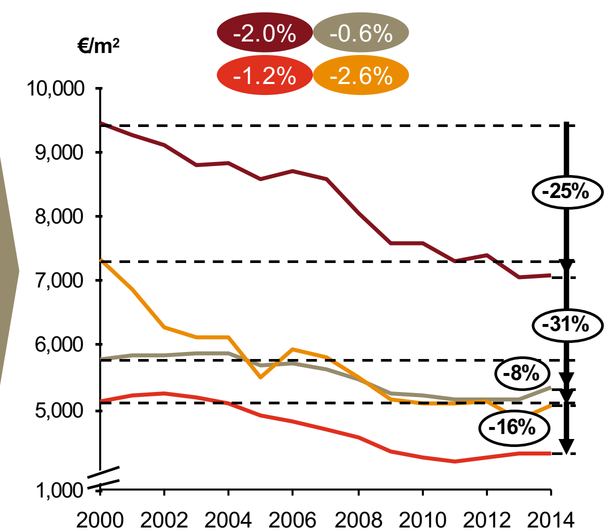
**Real revenue split per format** 2000-2014, % of sales




**Sales capacity per format** 2000-2014, m² mn




**Real floor productivity per format** 2000-2014, €/m²

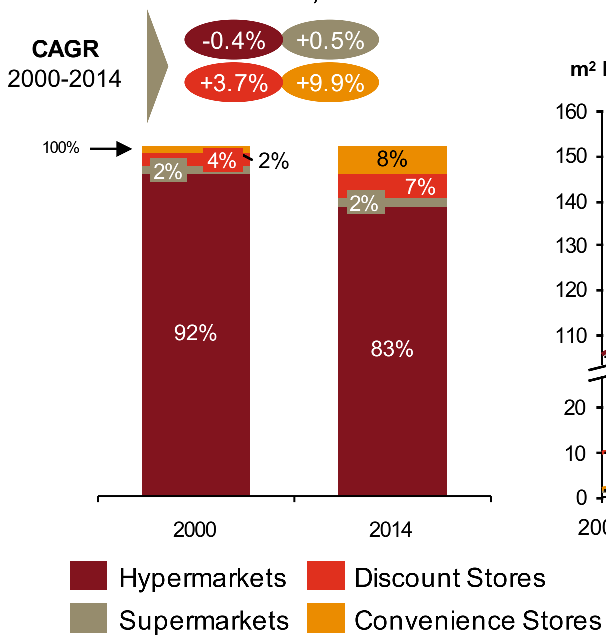



Hypermarkets | Discount Stores
Supermarkets | Convenience Stores

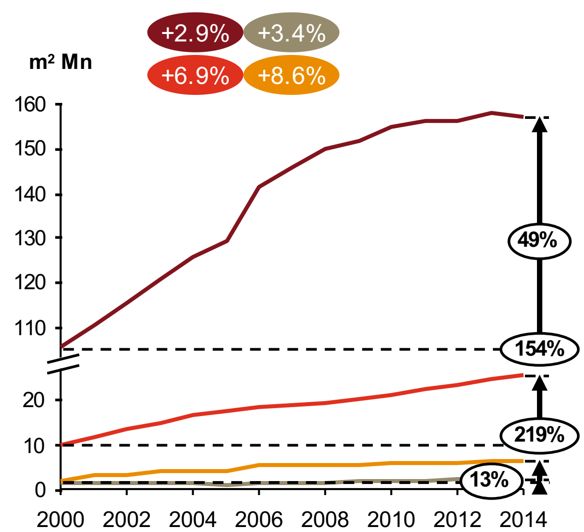
*Note: Analysis based on western European retailers included in planet retail, includes GE, NL, UK, ES, IT, FR, SE, BE, DK, GR*
*Source: Planet Retail, Strategy& analysis*

# *We have seen similar trends in the US*

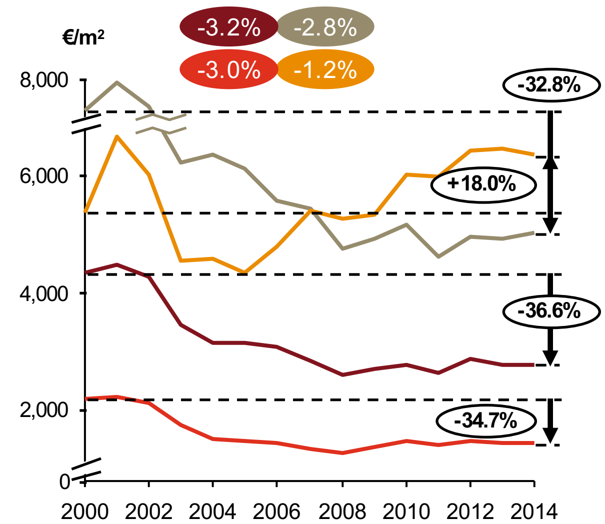
**Real revenue split per format** 2000-2014, % of sales




**Sales capacity per format** 2000-2014, m² mn




**Real floor productivity per format** 2000-2014, €/m²



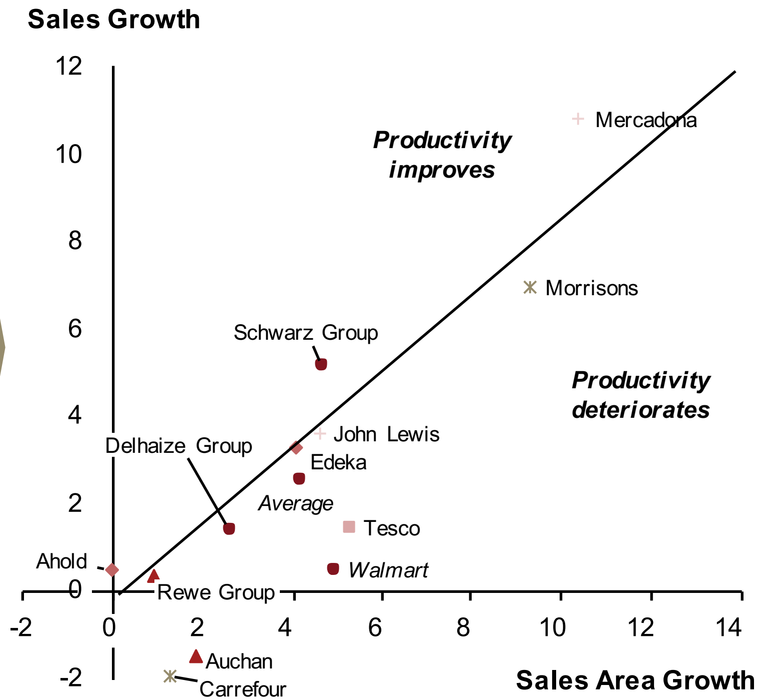

*Source: Planet Retail, Strategy& analysis*

# *Grocers appear to have converged propositions*

### Convergence of Retail Propositions

- Discounters are improving their offering to **include strong fresh propositions**
- All grocery retailers – not just discounters – have started to work hard on their **price image**
- Hard discounters have recently started investment programs to **make their stores look better**
- Most grocery chains have 2 to 4 different tiered **private label** brands
- Most leading European retailers have an **online store** and offer all delivery options
- **Loyalty cards** are omnipresent

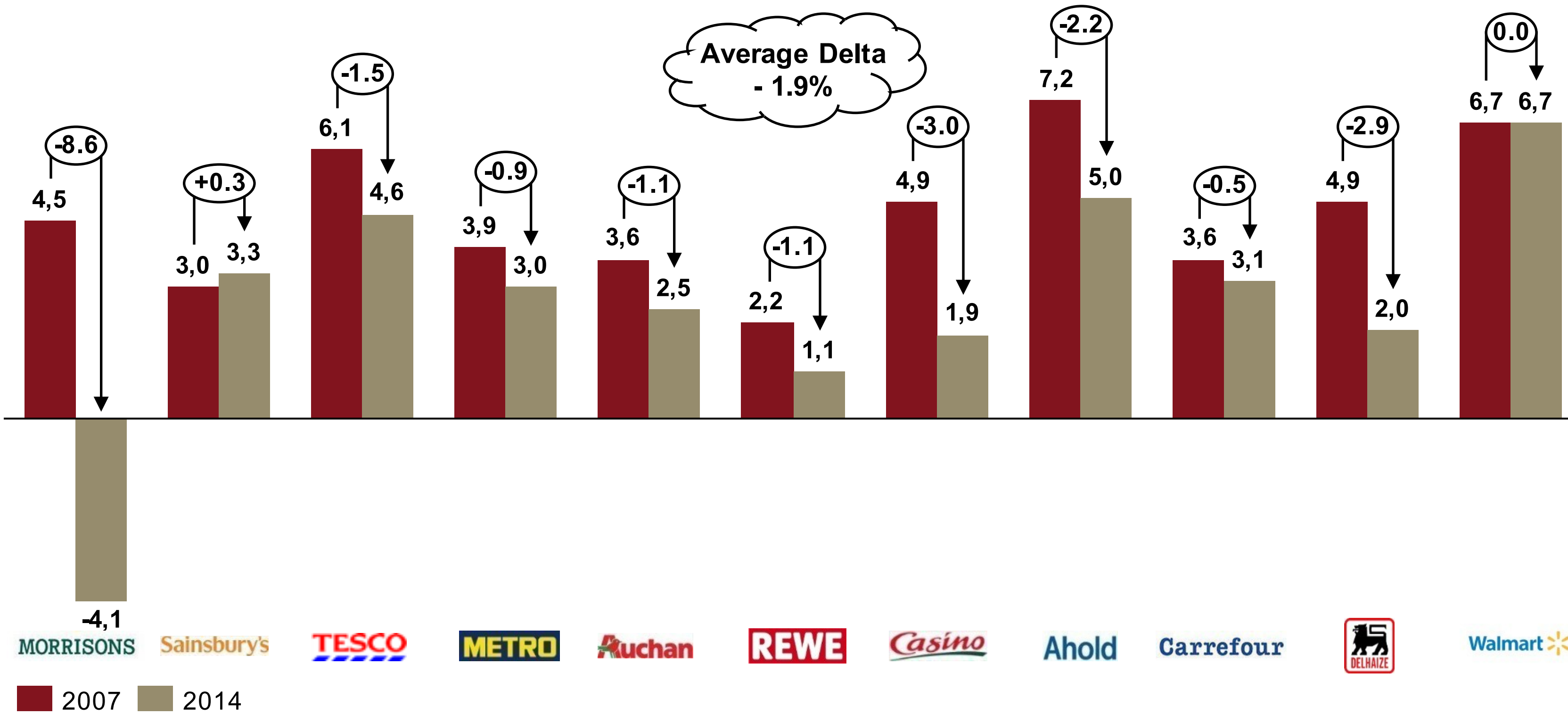
**Retail Chain Real Sales Growth vs. Sales Area Growth**[1] 2000-2014, CAGR (%), CAGR (%)




*1) Based on sales and sales area in the retailer's home country only*
*Note: Schwarz Group includes Lidl and Kaufland; John Lewis includes John Lewis and Waitrose*

# This struggle is reflected in small and declining margins

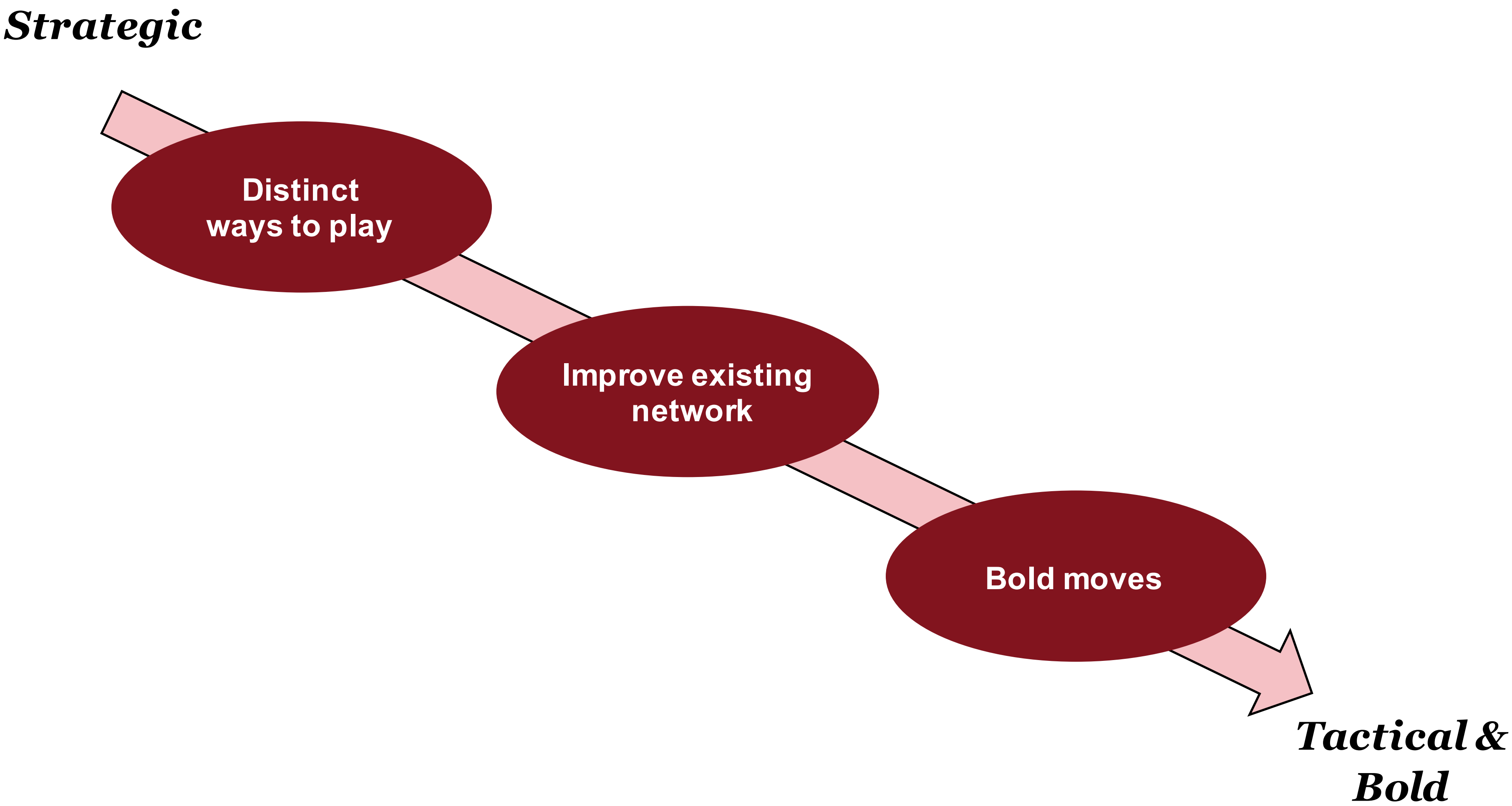
## Operating margin EU and US Grocery retailers 2007-2014[1)], %




1) Delhaize based on Group P&L; Carrefour on EU P&L; Ahold on NL P&L; Casino on France P&L; Rewe on EU P&L; Auchan on Group P&L; Metro on Cash&Carry P&L; Tesco on EU P&L; Sainsbury's on UK P&L; Morrisons on UK P&L; Walmart on US P&L. 2013 operating margin for Tesco and REWE

Source: Bloomberg, REWE & Metro Group Annual reports Strategy& analysis

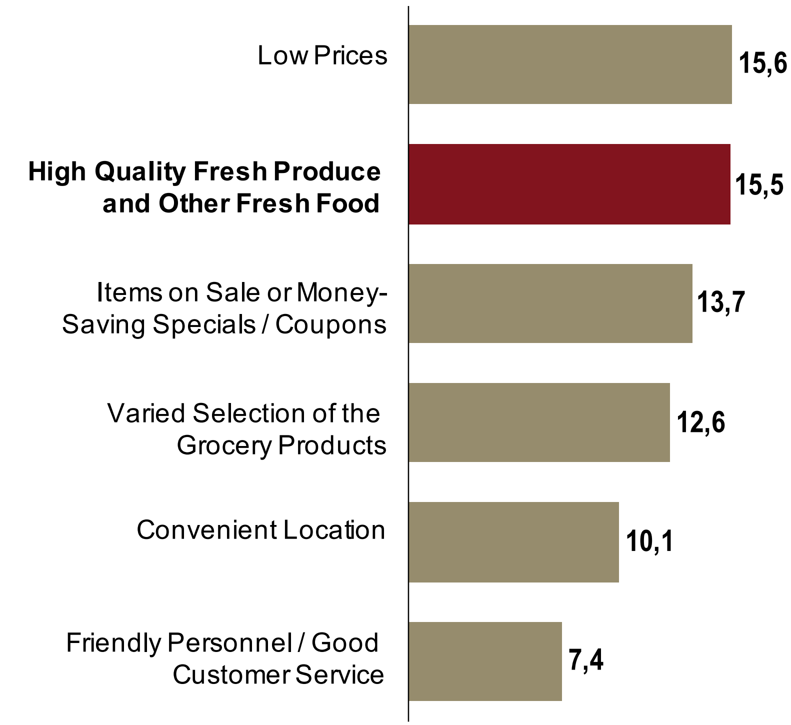
# *What might happen ? What needs to happen ?*



# *Importance of Fresh food will sustain – or even increase*

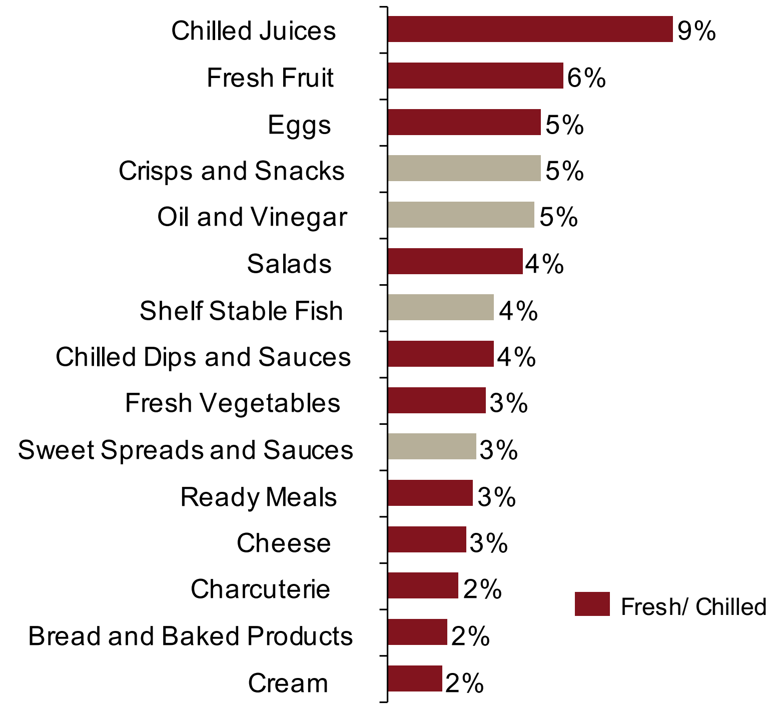
***The fresh food offering is a critical driver of banner selection…***

**Top Store Selection Criteria**
Indexed[1]




***…and one of the few categories driving growth across the grocery outlet***

**Top 15 Growth Categories[2]**
2011-2013, real terms




*[1] Consumers were asked to indicate most and least important factors in selecting a store (Based on MaxDiff scaling); [2] Selected European markets NL, France, Spain, Italy, Germany, UK*

*Source: PwC Strategy& 2013 US Consumer Trends Survey; Symphony IRI Retail Databases*

# Strategically, retailers need to define "new ways to play"

**Concept:** inspiring and 'fun' shopping experience where consumer shops, tastes and gets suggestions and advice at the same time. Online and offline presence

**Food Experience Play**

**Concept:** shopping platform for stock-up demands where consumers can get advice and can place orders for both food an non-food items. Predominantly present online

**One-Stop-Shop Convenience Play**

**Traditional Grocery Retailers**

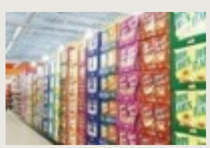
**Proximity Play**

**Concept:** premium priced convenience offering for top-up trips with shallow mostly fresh assortment in close proximity to customer. Online and offline presence

**Low Cost Play**

**Branded Value Play**

**Concept:** No-frills lowest price offering for stock-up trips. Low cost model where consumer is consciously shopping for the lowest price. Offline presence only



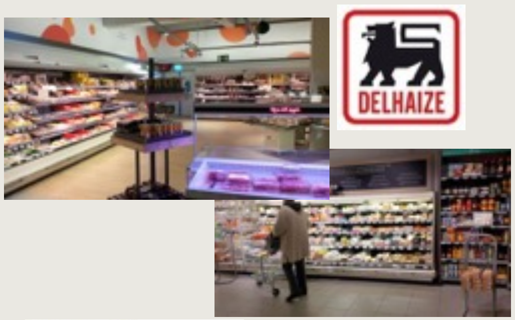
**Concept:** supermarket for stock-up and top-up shopping. Balancing a broad but shallow assortment with a multi tiered good quality private label offering and a pleasant atmosphere. Online and offline presence

*Source: Strategy& analysis*

# Fresh will play differently across formats and channels

## Supermarkets

*Fresh food at the core of experiential supermarket propositions – "from items to ideas"*





## Convenience stores

*Fresh focus as part of the top-up shopping trip proposition, with a heavy focus on ready-to-eat / -cook*



## Online channels

*Evolving consumer expectations (increasing need for pre-packed fresh) – potentially different from in-store offering*



← ***Varying levels of certainty on future requirements and supply chain configuration*** →

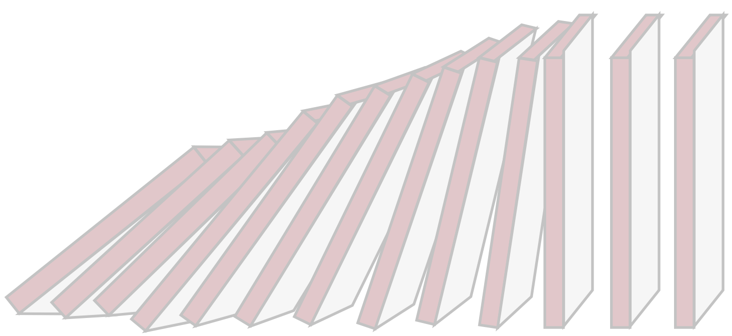
*Source: Store visits, Strategy&*

# *In the near term retailers should take coherent actions to optimize performance of their existing network*

NOT EXHAUSTIVE

**Key Trends**

- Volume growth is under pressure
- Consumer faces abundance of shopping options
- Consumer displays decreased brand loyalty



**Potential Actions**

**Mining the footprint**
- Lower the break-even of individual stores
- Drive-out performance variance

**Choosing a coherent 'store and customer'**
- Customization (local, seasonal and personal adaptation and differentiation)

OR

- Standardization (minimizing complexity)

**Mining the customer**
- Target its customer (segments) more effectively
- Sharpen the positioning (and perception) and optimize margin mix (through e.g. improved pricing&range, smart promotions

# *For some, bold moves will be required …*

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