



**MARKET ACCESS SECRETARIAT
Global Analysis Report**

Grocery Retail Trends in the United Kingdom

April 2016



EXECUTIVE SUMMARY

In 2014, the United Kingdom's (U.K) grocery market was worth US\$294.0 billion (Planet Retail), representing an increase of 7.9% over 2013. In terms of grocery spending, Britons spent US\$4,447.0 per capita an increase of US\$308.0 over the previous year.

The median British household income was US\$56,455 in 2014. This was a relatively high figure for Western Europe, exceeded only by Switzerland, and Norway, consequently a strong disposable income makes the U.K a promising retail market for high-end grocery retailers, discounters, and private label makers.

Planet Retail forecasts that between 2015 and 2030, the U.K. median income per household is projected to rise by 20.9% in real terms, as the economic recovery continues.

British consumers are shifting their buying criteria to demand more value, better service, and greater convenience. Grocery retailers are being forced to adapt their services and products to meet these evolving consumer needs and to promote brand loyalty. Product mix adaptation to consumer's busy lifestyle, household composition, the growth of discounters and the further emergence of private label ranges, have all helped drive retail sales.

The U.K. market is categorized by high concentration of grocery retailers, with the top five retailers accounting for almost 55% of all consumers spending on groceries. The saturated nature of the market means retailers increasingly have to look to innovation on all fronts to consolidate or grow their market share.

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COMPETITIVE LANDSCAPE

Planet Retail data shows that there were 86,239 grocery stores in the U.K. These are split into four categories. **Supermarket** chains have a sales area of 3,000-25,000 square feet and sell a broad range of grocery items. **Superstores** are defined as stores that have a sales area above 25,000 square feet, selling a broad range of grocery and non-food items. **Convenience** stores have sales areas of less than 3,000 square feet, are open for long hours, and sell products from at least eight different grocery categories. **Traditional** retail and developing convenience stores have sales areas of less than 3,000 square feet, and include newsstands, green-grocers (produce market or fruitier), liquor stores and gas stations.

Top Ten Retailers in the United Kingdom by Total Grocery Banner Sales in 2014

Retailers		2014				
		Total Banner Sales US\$	Total grocery banner sales US\$	Total grocery market share %	Total outlets	Banner sales CAGR* % 2009-14
1	Tesco	76,568,074,769	57,751,476,921	20.13	3,520	3.5
2	Sainsbury	42,592,280,234	32,760,094,633	11.42	1,309	5.2
3	Walmart (Asda)	42,346,686,085	28,826,747,983	10.05	589	4.7
4	Morrisons	29,356,060,601	20,601,246,702	7.18	667	2.8
5	Co-operative Group	13,179,778,116	12,091,936,797	4.21	2,778	2.3
6	Marks & Spencer	16,750,181,159	7,669,181,016	2.67	846	2.9
7	Booker	10,269,675,721	7,762,049,920	0.93	3,316	8.6
8	John Lewis (Waitrose)	10,719,532,279	8,328,454,315	2.90	333	6.7
9	Aldi	9,167,499,460	8,353,425,508	2.91	557	29.2
10	Schwarz Group (Lidl)	6,719,367,587	6,037,351,777	2.10	658	12.8

Source: Planet Retail, August 2015. *GACR: Compound Annual Growth Rate.

Over the last decade, the U.K.'s leading retailers have created a landscape with multiple channels, from convenience and hypermarkets that cater to a variety of shopping needs to thriving virtual stores. These key players listed above have broadened the offering of grocery retailing to embrace both discount and premium prices, enabling them to capture consumers from a wide spectrum of incomes and allowing them to compete with retailers across the market.

These sophisticated retailers have used extensive data, collected through loyalty cards, to track consumer preferences and demand. This data has allowed these retailers to target their marketing programs, which has been fundamental to their success.



GROCERY RETAIL LANDSCAPE

The U.K. grocery market is highly diverse, with a wide range of formats, from convenience stores to hypermarkets, warehouse clubs and online stores. According to Planet Retail's data, the market is currently led by five grocers (Tesco, Sainsbury, Asda/Walmart, Morrisons and the Cooperative Group), accounting for almost 55% of grocery retail banner sales, while the remaining 45% is attributed to hundreds of outlets scattered throughout the country. Over the years, large players have continued to expand, both in terms of size, product range and services, increasingly taking market share from their smaller competitors.

In general, each retail chain focuses on specific market segments. For example, Tesco targets the middle market, providing both economy and upscale products. Sainsbury's is positioned slightly up-market of Tesco, with Asda/Walmart slightly down-market. Morrisons do not compete at the same level as Asda/Walmart.

Brick and mortar presence

Tesco: remains dominant but followed closely by Asda as both grocers battle for the same customer segment. Tesco has changed its fidelity card "club card points" strategy in order to concentrate on bigger high profile discounts in response the economic climate.

Asda (Walmart): is still losing market share. The strategy of cutting quality in favour of low prices back fired. Asda started to lose customers at the beginning of economic downturn, and has failed to regain them. But its customers are those who have been hit hardest by the downturn and Asda is the retailer most vulnerable to competition from discounter such as Aldi and Lidl.

Sainsbury: may be the most successful in riding the economic downturn, by subtly shifting its emphasis to the value its offers to loyal followers, but without compromising its brand strengths. It is also worth noting that with an older, more upmarket customer base it has been less affected by the economic turmoil according to Mintel.

Morrisons: manufactures and distributes fresh food products; and engages in fresh meat processing. The sharp consumer decline in recent years has stabilized. However the consumer profile is still old according to Mintel, thus limiting its consumer base.

United Kingdom's Top Four Leaders in Grocery Retailing - Historic Edible Grocery Sales, US\$ million

Retailers	2010	2011	2012	2013	2014	2015 ^E	CAGR* % 2010-15
Tesco	40,675.81	44,899.26	45,335.47	44,802.19	47,444.10	45,524.45	2.3
Sainsbury	21,603.22	24,058.53	24,887.60	25,385.23	26,607.75	25,419.98	3.3
Asda	18,762.59	20,790.38	21,738.63	21,879.05	23,588.17	21,511.96	2.8
Morrisons	16,874.78	18,041.86	18,076.51	17,387.83	17,742.13	16,629.22	-0.3

Source: Planet Retail, 2015.

E: Estimate

*CAGR: Compound Annual Growth Rate.

United Kingdom's Top Four Leaders in Grocery Retailing - Forecast Edible Grocery Sales, US\$ million

Retailers	2016 ^F	2017 ^F	2018 ^F	2019 ^F	2020 ^F	CAGR* % 2016-20
Tesco	46,631.26	47,921.14	49,342.45	50,821.69	52,714.03	3.1
Sainsbury	25,858.12	26,505.27	27,381.20	28,338.32	29,163.07	3.1
Asda	21,811.06	22,300.52	22,746.96	23,092.49	23,555.30	1.9
Morrisons	16,482.15	16,478.85	16,607.03	16,759.45	16,753.34	0.4

Source: Planet Retail, 2015.

F: Forecast.

*CAGR: Compound Annual Growth Rate.



Online presence*

**Information sourced from Planet Retail*

The U.K. is witnessing a remarkable shift in how and where consumers choose to buy their food. Online grocery shopping is rapidly growing; the boom in sales of tablets and smart phones has meant more access to online shopping for those previously without access to computers. As more and more British consumers gained access to broadband internet, so increases the trend of online grocery shopping.

Tesco, the leader in online grocery shopping, announced in 2014 that 'digital' is the heart of their new company strategy. Controlling 38% of the online market, the company is at the forefront of innovation in every area, aiming for Omni channel leadership, meaning that every arm of its business will feature a digital aspect. In fact, it is cutting back on physical store openings to focus on the online channel. In an attempt to improve the Omni channel experience for its shoppers, the company is expanding its pick-up point network and increasing capacities through dark stores (*warehouses generally used to facilitate click and collect services*).

Asda, with 15% of the online grocery market share, announced a plan to almost triple online sales by 2018. Aggressively expanding its pick-up point network, Asda plans to roll out up to 1,000 locations, and make same-day procurement the norm.

Sainsbury, who also has 15% of the online grocery market, has optimised its online infrastructure by building new dark stores, opening new pick-up points and expanding home delivery reach. With a current two-year (2014-2016) plan, Sainsbury aims to put personalisation at the center of its online experience.

Morrisons has signed a 25-year agreement with Ocado to outsource its online operations through Ocado's logistics network. Morrisons.com launched in January 2014, closing the year with a 2.6% online grocery market share.

U.K. ECOMMERCE AND EGROCERY FIGURES (2014), GBP Billion/(US\$ billion)	
Ecommerce market size (billion GBP)	45/(69.5 US\$)
Ecommerce market as a % of the total retail market	13.5%
Grocery retail market size (billion GBP)	174.5/(268.5 US\$)
Online grocery retail market size (billion GBP)	7.7/(11.9 US\$)
Online grocery retail market as % of the total retail market	4.4%
Penetration of online grocery shopping (% of total population)	25%

Source: Planet Retail, 2015. Eurostat 2015.

Over the past years, most online grocery retailers offered home delivery service and pick-up options, however, the home delivery option is an expensive proposition for the British grocery retailers, as it needs expensive temperature-controlled delivery vehicles and relatively short delivery timeframes, as food products cannot be left with neighbours or at the door steps. Consequently, after experimenting with home delivery the grocery retailers are moving to introduce a surcharge to offset cost and to prevent unprofitable deliveries.

According to Euromonitor, 73% of U.K. shoppers use pick-up points. Consequently, the U.K. big four grocers are expanding their pick up points network all over the country. Consumers can order groceries online and stop at a store location for pick-up. However 13% still prefer home delivery for groceries purchased online.



Discounters

The discounters Aldi and Lidl are strong and continue to gain market share year after year. Consumers do their shopping in main supermarkets and discounters, comparing offers and prices. According to thegrocer.co.uk, the main features of discount supermarket shopping are everyday low costs; limited product ranges and a focus on price. Stores are smaller and relatively uniform in size and layout. Stores range from 8,600 square feet to 16,000 square feet.

They carry predominately private label products; however, these are exclusive labels rather than store name. thegrocer.co.uk, also claims that more than a third of British households have visited a discounter store in the January-March 2015 period. The discounters accounted for 6.9% share in grocery spending.

United Kingdom Top Grocery Discounters - Historic Edible Grocery Sales in US\$ million

Discounters	2010	2011	2012	2013	2014	2015 ^E	CAGR* % 2010-15
Aldi	2,059.80	2,785.51	4,017.08	5,373.41	7,307.41	8,076.71	31.4
Schwarz Group (Lidl)	2,942.09	3,325.87	3,615.59	4,278.07	5,267.98	5,665.93	14.0

Source: Planet Retail, 2015.

E: Estimate.

*CAGR: Compound Annual Growth Rate.

United Kingdom Top Grocery Discounters - Forecast Edible Grocery Sales in US\$ million

Discounters	2016 ^F	2017 ^F	2018 ^F	2019 ^F	2020 ^F	CAGR* % 2016-20
Aldi	9,222.13	10,249.41	11,241.92	11,973.74	12,636.82	8.2
Schwarz Group (Lidl)	6,152.53	6,489.60	6,957.09	7,546.74	8,147.33	7.3

Source: Planet Retail, 2015.

F: Forecast

*CAGR: Compound Annual Growth Rate.

MARKET TRENDS

As the sixth-largest economy in the world and Europe's third-largest in terms of Gross Domestic Product (GDP), the U.K. is one of the world's real trend setters, with products and concepts launched in other markets both in Europe and elsewhere.

The UK's population was over 64 million in 2014, and it is predicted to reach 66 million by 2018 according to Euromonitor. A key characteristic of the U.K. is its rapidly aging population that is living longer due to improvements in healthcare and standards of living.

On the economic front, the British consumer has evolved into a price conscious one, because of the economic downturn. Low prices are important; but consumers are still too sophisticated to trade low price for quality. The message from Mintel "British consumer profile", is that they are being more careful, trading down, and cutting back on waste, but are still looking for quality and value for their money.



United Kingdom Retail Market Size and per Capita Spending in 2014

	2014 (US\$)
Total retail format sales	538.75 billion
Total retail format sales per capita	8,296
Food retail format sales	287.61 billion
Food retail format sales per capita	4,429
Total consumer spending	1,789.42 billion
Total consumer spending per capita	27,556
Total grocery spending	27,895 billion
Total grocery spending per capita	4,296
Non grocery spending	796.39 billion
Non grocery spending per capita	12,264

Source: Planet Retail, August 2015.

With restricted incomes and rising costs continuing to challenge store retailers expansion models, retailers who have concentrated on physical expansion previously are being forced to rethink such strategies.

Furthermore, in recent years, the growth in online sales is making hypermarket bricks and mortar extensions less attractive. The leading grocery retailers are extending their offer to ready meals and to the foodservice sector by re-allocating space to ready meals and re-adjusting non-food space to more profitable products, as measures to maximize current space and by extension profits.

Also, the increased competition in the grocery retail market had the four leading players fighting to maintain market share, and as a means of challenging the growing share of discounters, retailers such as Asda (Walmart) and Tesco expanded and extended their discount lines in addition to their online presence.

A recent study on the U.K. retail scene by the Centre for Retail Research warned that a large number of grocery stores could close in the next five years as online shopping surges. However, there are still opportunities for retailers to increase their market share. This will come not only from the predicted pick-up in consumer spending, but from new markets.

CHANGING CONSUMER TRENDS

Online shopping for groceries, convenience neighbourhood stores and changing consumer buying habits have left the U.K. grocery market at a cross roads, and the majority of the grocers are reconsidering their long term strategies.

Planet Retail notes that the rising popularity of buying staple goods online and topping up at the nearest convenience store is posing a challenge for hypermarkets located in suburbs, and is pushing the largest ones to be reconfigured to reflect the rise of click and collect and the falling sales of non-food items.

Furthermore, the discounters have piqued the interest of U.K. consumers; they now come to expect deals. British consumers are much more savvy and aware and look for and expect value, even in premium products and ranges.

The perception of 'value' has changed amongst U.K. consumers, largely due to the recent recession and increasing level of quality of private label brands. Consumers have been content to trade-down to lower-priced brands, often economy ranges, safe in the knowledge that they can find high-quality products in the private labels. Brand loyalty has diminished somewhat, as consumers seek more for their money.



CONCLUSION

Planet Retail data is pointing toward sustained growth and consumer interest in the convenience of online shopping, as well as improved connectivity available to consumers through smartphone applications and more engaging online experiences. Undoubtedly, most retailers will seek to take advantage of this trend.

As British consumers' trust and comfort levels increase for online formats, grocery retailers will look for ways to intensify consumer spending via their online and mobile platforms as well as remain visible and relevant via their bricks and mortar stores. Grocery retailers will have no choice but to evolve the logistics in the supply chain to fulfill the home delivery or pick-up groceries purchased online.

The growth of broadband internet, mobile commerce and the use of social networks and crowd shopping sites will enable retailers to know more about customers, and by doing so, shifting the paradigm of the traditional loyalty card. At the same time, customers will have access to all sorts of information about retailers and the products they stock and sell. This will create a new grocery purchasing dynamic, where suppliers can sell directly to their customers.

Finally, Euromonitor notes that online retail platforms, the automation trend of the past few years will continue to strengthen, particularly in the convenience channel, as retailers look to cut down on overheads and streamline the paying processes.

FOR MORE INFORMATION

International Trade Commissioners can provide Canadian industry with on-the-ground expertise regarding market potential, current conditions and local business contacts, and are an excellent point of contact for export advice.

- **Overview of Trade Commissioner Services in the United Kingdom**
<http://www.tradecommissioner.gc.ca/eng/office.jsp?oid=36&cid=114>
- **Find a Trade Commissioner**
www.tradecommissioner.gc.ca/eng/find-trade-contacts.jsp

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For additional information on ANUGA 2015, please contact:

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RESOURCES

Centre for Retail Research: <http://www.retailresearch.org/onlineretailing.php>

Euro Stat, 2015 : http://ec.europa.eu/eurostat/statistics-explained/index.php/E-commerce_statistics

Euromonitor International, 2014. *Retailing in the U.K.*

Euromonitor International, 2014. *Consumer Lifestyles in the U.K.*

Planet Retail, September 2015

The Grocer magazine. <http://www.thegrocer.co.uk/channels/>



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