

The future of the supermarket

The retail sector - and grocery in particular - faces a number of challenges. What does the future hold?



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Watching data, listening to central bankers, trying to figure out what on earth is going to happen next with President Donald Trump or Brexit obviously keeps me pretty busy. But I also think it is really important to have a good understanding of what is going on at an industry level. In that regard, I am fortunate enough to be a member of the Retail Think Tank, working with a really interesting mix of independent experts on the retail sector.

We meet once a quarter to discuss what is happening in terms of demand, costs and margins, producing an index measuring the overall health of the UK retail sector. We also publish a white paper which is essentially an in-depth examination of a key issue affecting retail. This quarter's report is entitled: [“In light of consolidation and diversification, what does the future hold for the UK grocery sector?”](#).

As the title suggests, the focus of the piece centres on the UK retail sector, but the themes discussed have implications and applications for retailers right across the globe.

Rise of the discounters

The issues we address in this paper include the rise of the discounters (think Lidl, Aldi etc). The big incumbent supermarkets clearly underestimated the popularity of discounters who have seen their market share more than double in the past ten years to 14%. Given the discounters average a market share of more than 20% in Europe there is still a chance for big domestic retailers to fight back. Indeed, there is a clear sense of "if you can't beat them, join them", with Tesco's much anticipated foray into the world of discounting in the form of "Jack's" – look out for the launch next Wednesday at a revamped store in Chatteris, Cambridgeshire - named after founder Jack Cohen who started the company 99 years ago.

Shifting habits and trends

We are also seeing shifting consumer habits, such as households moving from a big weekly grocery shop to smaller, higher frequency purchases. The growing use of online shopping, which accounts for 20% of total UK retail sales, is likely to mean the need for more flexible ways of selling, but what to do with all of the big out of town warehouse stores?

Indeed, technology - the ever-growing share of internet sales and the challenge from platforms like Amazon - is arguably the biggest threat to the major grocers. However, technology also provides opportunities that could improve customer satisfaction, such as the till-less supermarket.

Then there is the fact that grocery is going through a period of considerable consolidation & diversification (think ASDA/Sainsbury's merger as a case in point). With margins coming under ever greater pressure and competition intensifying there is an argument that developing scale and rationalising supply chains/cutting costs could be the best way to create value for both shareholders and customers.

The white paper goes into all of these topics in much greater detail and provides what I think are some fascinating insights into the grocery sector and retail more broadly. It also stares into the crystal ball to see what the future might hold while providing a nice break from Trump and Brexit... I hope you enjoy it.

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