



THE GREAT  
GROCERY  
REVOLUTION  
What is really  
happening to  
Britain's  
supermarkets?

Kantar Worldpanel's **Thoughts On...**  
the British grocery market

# THE BRITISH GROCERY MARKET

## All change

In 2014 the austerity-busting pattern of growth that British supermarkets enjoyed since the financial crisis of 2008 came to an abrupt halt.

Between the years 2008 and 2013, the grocers averaged annual revenue growth of 4.7%. In 2014 this fell to just 1.3%. In November the market actually contracted for the first time this century. It was a watershed moment which prompted a lot of soul-searching within the industry; what has gone wrong?

Many have speculated the answer to this question. On the basis of anecdotes, personal experience and claimed shopping behaviour, a narrative has been constructed that says Britain is undergoing a revolution in shopping habits. This narrative follows that consumers are shopping more frequently, buying smaller baskets, rushing to convenience stores, and shopping around to seek out value. Some have declared that the weekly shop is dead, others that we are now shopping 'like the Germans'.

These assertions are headline grabbing, but are largely based on hearsay. Evidence matters, and Kantar Worldpanel's continuous panel of 30,000 British households provides data which is the most accurate read of what is actually happening in the grocery market. Based on this evidence, this paper will set out the changes that are actually occurring, dispel a few myths, and ultimately paint an accurate picture of how the British shopper is behaving.

## No revolution in shopping habits

One of the most popular explanations for why the grocery market is changing is that British people have fundamentally altered the way they shop. A particularly well-worn phrase is that we are now heading to the tills 'little and often'. However, in the past five years there has been remarkably little change in how people buy groceries.

Shoppers have, unambiguously, not made the move to shopping more frequently. The annual number of supermarket trips per shopper is unchanged at 221 per year since 2010. Neither is there any indication that shoppers are becoming more promiscuous. The average household visits five different supermarkets in a typical 12 week period, almost exactly the same as this time last year.

The number of items put in each basket has also remained stable at just over 10 per trip. With shoppers not buying fewer groceries, not shopping more often and not even shopping around more, the evidence hardly supports the theory of a shopping revolution.



## Shopping like the Germans?

Just because UK shoppers are more open to German chains Aldi and Lidl doesn't mean they have become more Germanic in their ways. Discounters take a massive 37% of grocery spend in Germany. This is well ahead of the current 9% share in Britain and far beyond even the most dramatic share forecasts for the UK. Germans also support a thriving independent sector, where as in Britain independent stores only make up 2% of sales. Germans visit the shops marginally less often than the British [217 trips per annum compared to 221], but their frequency of shopping has tumbled in recent years, down 20% since 2001.

### 2014, a year of firsts

**February:** Tesco sales fell for the first time ever

**March:** Total sales at the 'big four' negative for the first time ever

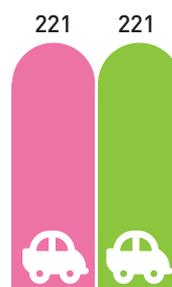
**March:** Aldi and Lidl's combined share reaches 8%

**October:** Like for like grocery products see deflation for the first time, -0.2%

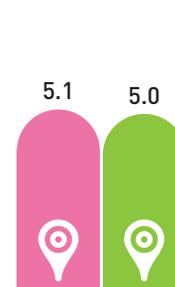
**November:** Grocery market contracts by -0.2%

### No revolution in shopping habits

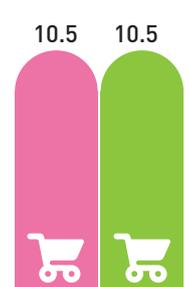
● 2010 ● 2014



Number of supermarket trips pa.



Number of supermarket fascias visited in 12 weeks

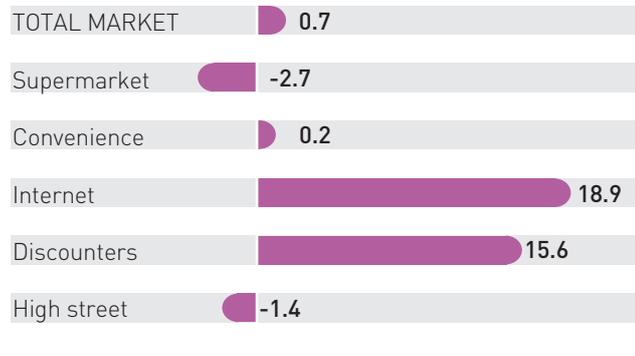


Grocery items per basket



### Channel growth

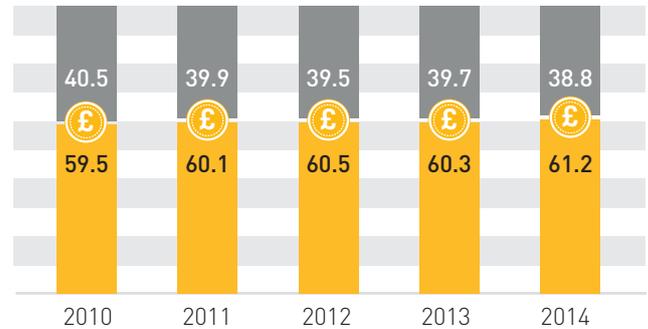
Convenience growth has been nowhere near as strong as the hype would suggest.



● % Spend growth 2014 vs 2013

### Top up and Main shopping trips

Since 2010 there has been a slow movement of spend towards more 'top-up' trips rather than the 'main shop'.



● % of Spend at Top up    ● % of Spend at Main Shop

## The convenience reality

Another trend which finds its way into the headlines is that British shoppers are flocking to convenience retail. Even a casual observer will have noticed that the number of smaller, convenience format supermarkets on the high street has increased over the past few years. Based on this observation it is easy to conclude that sales must be booming.

However, a careful look at the facts shows a much more nuanced picture. Convenience sales as a whole rarely grew at more than 1% throughout 2014, slower than the overall market. What has happened is substantial growth from Tesco Express and Sainsbury's Local has taken share from other parts of convenience retail such as smaller chains and independent stores.

The much vaunted move to convenience stores should more accurately be described as a move to the convenience stores of the major supermarkets. There hasn't been a fundamental shift in habits here, simply a change in who is winning.

## Squeezed middle

While convenience stores haven't changed vastly this year, there has been a trend for increasing pressure on mid and large-sized stores. These traditional format supermarkets account for two-thirds of the grocery market but have declined 2.7% this year.

Mid and large-sized stores are being hit on two sides. Firstly, some shoppers are moving their main shopping trip online. Secondly, when they do shop in a store, many people are taking some of their business to the discounters.

This trend represents a major challenge for supermarkets and their suppliers because this declining channel is still the largest part of the grocery market; some 96% of the population visit a traditional medium or large store in any given month. Their aisles are still the primary way shoppers are exposed to brands, a retailer's full range of products, and valuable promotions. So long as mid and large stores continue to struggle, so too will the overall grocery market.

## Long live the main shop

Since 2010 there has been a slow movement of spend towards more 'top-up' trips rather than the 'main shop'.

However, it is important to keep the trend in perspective; over five years the proportion spent on top-up trips has only increased from 59.5% to 61.2%, certainly not heralding the death of the main shop. Interestingly, the driving force has been the amount spent per basket rather than an increase in top-up trips. Top-up baskets are getting bigger, mainly because shoppers are making these trips to larger supermarkets, discounters and multiple convenience stores. Convenience retail has come a long way in recent years and shoppers are taking advantage

of the wider range of products now available and buying more items when they top-up.

Meanwhile, the average size of the main shop is getting smaller. Firstly, due to the increased main shop share of the discounters. Secondly, due to changes in online retail which are almost exclusively the main shop. Efficient click and collect schemes that are more convenient for consumers have lowered website minimum spend thresholds. Delivery passes designed to encourage shopper loyalty have encouraged smaller but more frequent orders. Finally, as one and two person households venture online they continue to spend considerably less each time compared to traditional families.



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## Squaring the circle

How do we reconcile the evidence that British shopper's behaviours haven't dramatically changed in recent years with the obvious restructuring that is shaking the supermarket industry?

The answer can be found in three macro trends. The first, and most discussed, is that Aldi and Lidl have started to move, over the past year, from being niche operators into being considered more like mainstream supermarkets. In terms of shopper numbers, basket size and frequency of visit, the gap has narrowed with the incumbent retailers. The average Aldi customer is now demographically the most similar to that of Tesco's shoppers. As a result of their recent success, Aldi and Lidl now have 8.6% of the grocery market, share they have taken from the major players. This equates to £1.8 billion they have taken from the rest of the market in 2014.

The second trend is the continued growth of online which now accounts for 6.3% of grocery sales. This has led directly to fewer people shopping in medium and large stores. This presents retailers with challenges around fully utilising their store space and selling profitably. One retailer-led initiative that could fundamentally change how people shop would be unlocking the online top-up shop. Currently, internet sales are effectively frozen out of the 61% of spend that is made on small top-up trips due to the logistical problems of fulfilling orders quickly and delivering them efficiently. Solutions are already in the pipeline: deliveries to tube stations and click and collect to local stores for example. If these initiatives work well and become mainstream we could see a rapid rise in online retail and move away from bricks and mortar stores.

The third issue affecting the market this year is grocery price deflation. The price war has driven the price of groceries down this year, meaning that several major grocers may have to contemplate resetting their margin expectations. Price cuts meant £182 million less was spent at the tills over the final 12 weeks of 2014; great news for shoppers but a worrying trend for retailers.

## Looking to the future

With the British consumer seemingly well entrenched in their ways about how – if not where – they like to shop, existing behaviours will continue for the foreseeable future. The average shopper will most likely still make the same number of trips in 2015.

The major 2014 trends look set to continue: more growth for Aldi and Lidl, and a greater uptake of online shopping.

Discounter growth will slow, as sales growth of over 25% year on year are clearly unsustainable in the long term, but even with more gradual progress they will still take market share away from other retailers. Combined Aldi and Lidl share is likely to have broken through the 10% barrier by early 2016. Simply through taking more market share, and selling (non like for like) products cheaper, the discounters will take up to £300m out of the supermarket revenue pool.

The single biggest factor that will affect how the grocery market performs in the next year is the supermarket price war. Taking on the discounters is an expensive business. We expect price competition to continue into 2015 as the larger retailers flex their financial muscle and try to win market share back from Aldi and Lidl. All retailers will continue to find the market tough if they only compete on price – the only certain winner of a price war is the consumer.



## METHODOLOGY

All the primary data used in this report comes from our grocery shopper panel, on which we continually measure the purchasing behaviour of 30,000 demographically representative households in Great Britain (England, Scotland and Wales). All figures in the report refer to 2014 unless otherwise stated.

We collect information on what they are buying, where they have bought it and why. This allows us to develop a detailed picture of the British retail market. The potential level of detail available on the panel goes way beyond that used in this report to help manufacturers and retailers within the industry really understand their performance at a granular shopper level.

Data on shopper attitudes and experiences was collected from our panellists by means of an online questionnaire which focused on 21 different categories. We specifically interviewed shoppers who very recently made a category purchase and asked them to tell us more about it.

**To get in touch with the team behind this Thoughts On paper please contact:**

Fraser McKevitt  
T +44 (0)7943 811 672  
E Fraser.McKevitt@kantarroworldpanel.com  
www.kantarroworldpanel.co.uk