

19 April 2023

GROCERY RETAILERS TO EMBRACE A YEAR OF NEW DYNAMICS

For the European grocery retail sector, 2022 was all about inflation and growing consumer price sensitivity. This led to the biggest drop in grocers' margins in five years. Adjusted for inflation, turnover dropped 7.1%, driven by intensified downtrading. While margins decreased, the need for investment in technology, sustainability and talent continued to grow. Combined with rising interest rates, this has led to new challenges for retailers as they need to finance their investments with more-expensive borrowed capital. In general, however, the e-grocery gains seen during the COVID-19 period have remained strong in most countries with exceptions in the UK, which saw a -1 p.p. correction and in Sweden, which peaked during the pandemic period.

Living with and responding to uncertainty: The State of Grocery Retail 2023, launched today by **McKinsey & Company** and **EuroCommerce**, takes a comprehensive look at the key trends shaping the grocery retail sector in the coming years. The report is based on interviews with CEOs, a survey of around 50 European grocery retail leaders, and a survey of more than 12,000 consumers across nine European countries.

The common theme emerging from the 2023 report is the increased market pressure on retailers. This is decreasing both online and offline margins and increasing the need for business innovation, economies of scale and investments in future-proofing the business.

Key trends include the following:

- **Consumer behaviour in 2023 will continue to reflect a cautious approach resulting from the knock-on effects of the economic uncertainty, seen over recent years.** Retail volumes will likely stay flat for the rest of 2023 due to the difficult economic climate. Amongst consumers, 53% plan to save more money on food, and polarisation between higher- and lower-income groups is decreasing as all segments become more price-sensitive due to increasing costs of living.
- **Continued margin pressure will likely intensify the race for economies of scale.** Producers' prices, wage increases and growing interest rates will continue to have an impact on grocery retailers' profitability. Continued margin pressure is resulting in private-label growth, increasingly tougher negotiations with suppliers and delays in developments in digitalisation.
- **With only moderate future online growth predicted, making online retail more profitable will be a key objective.** Pure online players grew faster than inflation in 2022 and some reached profitability. Meal delivery is growing faster than e-grocery in value and market penetration, and some players may possibly break even in 2023.
- **Technology and automation are likely to accelerate.** Additional required investment in technology is estimated at €45-55 billion until 2030. Advanced analytics is becoming crucial, with the potential to improve bottom lines by up to 1 p.p., and Generative AI is emerging as a new frontier for marketing and customer support.
- **The industry will continue to intensify efforts to accelerate decarbonisation.** With the number of large retailers in Europe committed to the Science Based Targets initiative (SBTi) increasing from 56 to 110 in 2022, the pace of decarbonisation is rising. Retailers have an essential role to play in working with both suppliers and consumers to address Scope 3 emissions – those not directly generated by retailers or their energy suppliers (constituting about 90% of all emissions)

Daniel Läubli, Global Head of Grocery Retail at McKinsey, said: *"Despite the challenges ahead, these difficult moments offer opportunities to those who act boldly. If retailers provide cheaper alternatives for their customers and double down on efficiency, that will leave room for investments in growth and sustainability which increases the chance of coming out of this crisis stronger."*

Christel Delberghe, Director General of EuroCommerce, said: *"Shielding consumers from inflationary pressures and rising energy costs has been a huge challenge for retailers and wholesalers in Europe, adding further pressure on already very low margins. And they did so while having to invest in sustainability, digitalisation and skills. These are essential for the future competitiveness of European grocery retail, as is evidenced by this report."*

This report is the third in a series of studies aimed at shedding light on the state of grocery retail now and in the years to come. Details of the report's findings on these issues and data on developments in the industry are set out in the attached annex.

Download the full [Living and responding to uncertainty: The State of Grocery Retail 2023 report here.](#)

- END-

NOTES TO EDITORS

About McKinsey & Company

McKinsey & Company is a global management consulting firm committed to helping organizations create Change that Matters. In more than 130 cities and 65 countries, our teams help clients across the private, public and social sectors shape bold strategies and transform the way they work, embed technology where it unlocks value, and build capabilities to sustain the change. Not just any change, but Change that Matters – for their organizations, their people and in turn society at large.

About EuroCommerce

EuroCommerce is the principal European organisation representing the retail and wholesale sector. It embraces national associations in 27 countries and 5 million companies, including leading global players and many small businesses. Over a billion times a day, retailers and wholesalers distribute goods and provide an essential service to millions of businesses and individual customers. The sector generates 1 in 7 jobs, offering a varied career to 26 million Europeans, many of them young people. It also supports millions of further jobs throughout the supply chain, from small local suppliers to international businesses. EuroCommerce is the recognised European social partner for the retail and wholesale sector

For press inquiries, please contact:

Julia Büntig Julia_Buentig@McKinsey.com +49 175 318 4976

Joanna Inglis Inglis@EuroCommerce.eu +32 476 60 71 35

Daniela Haiduc Haiduc@EuroCommerce.eu +32 473 562 936