

GROCERY RETAILERS FACING REAL CHALLENGES RETURNING TO PRECOVID LEVELS WITH CONSUMER PURCHASING POWER HIT BY INFLATION

Navigating the Market Headwinds – The State of Grocery Retail 2022 report, launched today by **McKinsey & Company** and **EuroCommerce** takes a comprehensive look at the key trends that will shape the grocery industry in the coming years. The report analyses the results of exclusive interviews with 60 European grocery CEOs and a survey of more than 12,000 consumers across nine European countries.

Even before the impact of the Ukraine invasion on energy prices and cost of certain key commodities, grocery retailers expected market conditions to worsen in 2022. This reflected the drop in sales after the effects of the pandemic receded, pressure on pricing and competition (including from a maturing online market). Inflation was already creating real challenges to grocery retailers in Europe, now exacerbated by the Ukraine invasion and likely to further intensify consumer price sensitivity

The common theme emerging from all these future trends is increased margin pressure on grocery retailers over the coming years with the need to cater for broader consumer demands, growing price pressure and increasing multi-channel complexity. These include:

- **Strong pressure on margins** through costs rising and consumer purchasing power being squeezed, with households seeking cheaper alternatives and promotions;
- **Polarized demand**, with higher income consumers having maintained growth in healthy, sustainable and premium products, while lower income households have been trading down;
- **Slower online growth with more differentiated offers:** consumers splitting their purchases across an increasingly fragmented online market with new emerging offerings
- **Retailers looking for new sources of profit** in their core business, through advanced analytics and artificial intelligence, or entering new revenue streams (e.g. using loyalty card data to sell advertising space).
- **Skills and talent a growing challenge** with shortages of skills needed to meet the new business demands (e.g., digital and sustainability transformation)

Daniel Läubli, Global Head of Grocery Retail at McKinsey, said: *"Having prospered through the pandemic, Europe's grocers are facing a tough year ahead. Inflationary pressure, price sensitivity and increased competition are poised to reverse many of the positive trends they have experienced. On the other hand, these changes also offer opportunities for grocery retailers that take bold actions and keep investing in a great private label offering, online, new profit pools, healthy and sustainable products, as well as people."*

Christel Delberghe, Director General of EuroCommerce, said: *"Retailers provide an essential service to consumers and can offer a strong basis for the European economy as Europe's largest private employer. They are facing new challenges arising from increased competition and spiralling costs in many parts of their business: the energy they use to run their stores and logistics, suppliers seeking to pass on the rising cost of their inputs, and disruption in supply of certain products. Retailers will need to find the resources to invest and remain competitive in the digital, sustainability and skills transformation of their business models."*

This report is the second in a series of reports aimed at shedding light on the state of grocery retail now and in the years to come. The research was undertaken before the war in Ukraine started and the insights, therefore, do not account for its present and potential future impacts.

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 *Navigating the Market Headwinds – The State of Grocery Retail 2022* report.](#)

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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

EuroCommerce is the principal European organisation representing the retail and wholesale sector. It embraces national associations in 28 countries and 5 million companies, both leading global players such as Carrefour, Ikea, Metro and Tesco, and many small businesses. Retail and wholesale is the link between producers and consumers. Over a billion times a day, retailers and wholesalers distribute goods and provide an essential service to millions of business 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.

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ANNEX – DETAILED INFORMATION

The report identifies five key trends that will shape the industry this year and beyond:

- 1. Pressure on margins:** Inflation will increase retailers' costs and shrink consumers' disposable incomes. The return to normal sales levels after higher sales during COVID and further pressure on consumers' purchasing power will drive consumers, particularly with lower incomes, to seek cheaper products and promotions. Discounters and players with competitive entry-level prices and private-label products likely to gain market share in this situation.
- 2. Greater divides between consumers:** Consumers' responses suggest a wider gulf between households and their choices. Principally high-income consumers, younger generations and larger households are planning to buy more of healthy, premium, and sustainable products. On the other hand, consumers, particularly in lower income households have indicated much greater price sensitivity, with many more saying (even before the current crisis) that they planned to trade down to cheaper products compared with 2021. The report concludes that grocers will need to consider trimming the middle of their assortments and further strengthen their entry-price and premium products to cater for this divide in consumer needs.
- 3. Slower online growth with more differentiated offers:** The online market is becoming increasingly fractured with new and emerging offerings, the most prominent being instant delivery. Online growth in 2022 is likely to slow or pause for a year in many markets, accompanied by increasing differentiation (e.g. larger assortments, local or organic offerings, or a lean value proposition). As a result, consumers will start to split their online purchases across different online shops with a range of online formats competing for basket space.

4. **The search for new profit pools:** With their core business under pressure, many grocery retailers are looking for new profit pools - either within their core business, through advanced analytics and artificial intelligence, or outside of their core by tapping into new revenue streams (e.g. using loyalty card data to sell advertising space).
5. **Talent becomes a key bottleneck:** 39% of grocery CEOs saw attracting the right talent as one of their key challenges. Employee attrition in grocery retail globally continued to increase last year alongside rising demand for new skills mainly driven by automation, analytics, and e-commerce.

The report also recaps the **industry developments in 2021**, with European grocery retail shaped by the lingering effects of the pandemic, the emergence of instant delivery players and price inflation.

- **Sales decreased** by 0.6 percent compared to the previous year, a level that was still almost 10 percent higher than 2019
- **Volumes decreased** by 2.1 percent. This was partially offset by 0.2 percent uptrading and a **significant food price inflation** of 1.3 percent. While uptrading dominated in Q1-Q3 of 2021, in Q4 inflation took over
- **Online players and discounters continued to outperform** the market with online revenues rising by 8.8 percent across Europe compared to 2020. However, despite falling sales in physical stores, retailers kept expanding their store networks, with available sales space increasing by 2.4 percent. Discounters increased their sales slightly (+0.3 percent), whereas supermarkets lost 1.2 percent and hypermarkets lost 2.6 percent in revenues
- **Instant delivery expanded rapidly** fuelled by massive inflows of funding. The top 15 players in Europe opened more than 800 dark stores by the end of 2021. Significant numbers of traditional grocery retailers also formed partnerships with instant delivery companies to extend their offerings beyond bricks and mortar. However, the instant delivery market still accounts for less than one percent of the total market, but with an annual growth rate of several hundred percent.

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