IGD – What we do: Delivering insights and best practice
Some of our 1,000+ members
Contents

- Shopper Confidence & Inflation
- Grocery Shifting Dynamics & Channel Implications
- Future View
Challenge 1: The economy and the impact on cost of goods
Lets remind ourselves of the size of UK Grocery...

- UK Grocery retail 2016: £179bn
  - Non-Grocery: £13bn
  - Grocery: £166bn
    - Tobacco: £20bn
    - Non-tobacco: £146bn
      - Food and drink: £114bn (ish)
      - Food and drink at foodservice: £48bn (ish)
      - Non-edible: £32bn (ish)
  - Frozen Category: £8bn
    - £5.7bn: Retail

This division is becoming increasingly blurred.
The UK economy is in growth

UK real GDP value (£millions, quarterly)

© IGD 2017     Source: ONS September 2016
Brexit Impact on GDP and Inflation in 2017 & 2018 but returning to pre-Brexit forecast from 2019

Source: Economic & Fiscal Outlook, Office for Budget Responsibility, March and November 2016
Inflation forecast to accelerate

Food & Drink catching up with CPI inflation

Consumer Price Inflation forecast (OBR)

- Food & Grocery

CPI

Source: ONS data to February 2017 and CPI forecast by OBR March 2017
Shoppers anticipate higher prices

Grocery Price Expectations – Next 12 months - %
But it is disposable HH income that will be impacted

Source: *Economic & Fiscal Outlook*, Office for Budget Responsibility, March and November 2016
But Shoppers showing resilience in turbulent times...for now

Personal Finance Expectations - %

- Better off
- Worse off
- No difference

Jan'11 to Apr'17

Source: IGD ShopperVista, personal finance expectations, 1,700 UK shoppers
Challenge 2: grocery share of wallet is declining
Grocery spend by household has slowly declined

Average household spending (£ per week) on selected categories at 2014 prices

© IGD 2017     Source: ONS December 2015
Grocery’s share of wallet is under pressure

Average household spending (£ per week) on selected categories at 2014 prices

- Transport
- Recreation & culture
- Food & non-alcohol drinks
- Restaurants & hotels

© IGD 2017     Source: ONS December 2015
Disposable income is being spent elsewhere

- **Holidays** 49%
- **Savings** 48%
- **Home improvement** 31%
- **Eating out** 22%
- **Cars** 18%
- **Clothes** 18%
- **Treats** 17%
- **Food and grocery** 15%

Source: IGD ShopperVista, October 2016 (Products/services shoppers would spend more on if they had more disposable income), 1,700 UK shoppers
Food-to-go is growing 16 times faster than grocery

Food-to-go: +6.5%
Grocery: +0.4%
Food-to-go will continue to grow

2016 £16.1 bn

+35%

2021 £21.7 bn
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Massive lifestyle changes are underway

Cities will expand as population increases

Living and retail space will become more of a premium

Life expectancy will continue to rise

Technology will continue to impact the everyday
Massive lifestyle changes are underway

More single person households

More dual income households

People will be working longer as retirement age rises

Health consciousness will rise
Shoppers Health concerns are around Sugar. Whilst weight loss is important, Wellbeing is key.
Manufacturers are turning to natural ingredients, reducing “nasties” through reformulation and looking to reduce pack and portion sizes.
Shopper’s truths becoming Hygiene Factors…

Value  Convenience  Quality  Health
Shoppers have started to re-interpret Value away from Price towards Quality and Ease

- Sometimes I'm tempted to spend a bit more on better QUALITY products: 67% Agree, 22% Neither, 11% Disagree
- Sometimes I spend a bit more on products as they are EASIER to cook / prepare: 44% Agree, 30% Neither, 26% Disagree
- Sometimes I go to the NEAREST store to me even though I know it's a bit more expensive: 42% Agree, 34% Neither, 24% Disagree
- I try to save money grocery shopping but sometimes it takes too much effort so I choose the EASIER or more expensive option: 35% Agree, 33% Neither, 32% Disagree

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How loyal are Shoppers today?

- **69%**: Less tied to a single store than previously
- **75%**: Supermarkets are largely interchangeable
GB market shares

-2.3ppts
+0.4ppts
-1.4ppts
-1.6ppts
-1.3ppts
+3.1ppt
+1.2ppts
+2.2ppts
+1.2ppts

© IGD 2017     Source: Kantar Worldpanel 2010-2017
Latest quarterly sales growth

Implied sales growth on last year

Market shares

© IGD 2017
Source: Kantar Worldpanel, 12 weeks to 26 February 2017
Shoppers continue to buy across a variety of formats and channels

Monthly claimed usage

- Larger formats: 98%
- Convenience: 91%
- High street discount: 78%
- Food discount: 60%
- Specialist / ethnic stores: 47%
- Frozen food specialist: 42%
- Online: 41%

Average number of channels claimed to be used in the last month: 4.6
Average number of stores claimed to be used in the last month: 11.8
Channel fragmentation is forecast to continue

2016 vs 2021: grocery retail market, % market share

Hypermarkets: 9.2% vs 8.4%
Supermarkets: 48.4% vs 44.3%
Convenience: 21.0% vs 21.3%
Discount: 10.0% vs 12.7%
Online: 5.8% vs 9.0%
Other: 5.6% vs 4.3%

Sainsbury’s + Argos
Tesco & Booker?
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Future stores focused more on healthy options

What, if anything, do you think will be different about food and grocery stores in 30 years time? (among 18-25s)

1. More HEALTHY options
   Food will stay FRESHER for longer

2. MISSION based layouts

3. More food from around the WORLD
   More products made by LOCAL companies
Future View

Mission focused merchandising

Increased shopper engagement

Omni-channel, little & often shopping
Space is being repurposed to expand basket sizes and reflect healthier living...
Better catering to missions in-store

Mission focused merchandising

Waitrose, UK

Tesco, UK

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Source: IGD Retail Analysis
Better catering to missions in-store

Mission focused merchandising

Metro, Toronto – chilled and ambient pet food

MAD, Cooperivet, Denmark

Tesco, Watford, UK
Food-to-go Accelerating

What’s the initiative?

- Food-to-go grew 16x faster than grocery (% value growth in 2015)
- Retailers are devoting more space to food-to-go and building ranges and merchandising solutions around breakfast, lunch, snack, leisure and drink missions
- M&S Simply Food, Little Waitrose are focusing whole store formats on food-to-go
More & more new entrants are coming into this space including other online specialists and meal solution providers.

Deliveroo = Rapid UK expansion
Moving into Lunch deliveries alongside Dinner

Gousto (UK) provides ready to prepare meal solutions. Gousto has also experimented with 30 minute deliveries in London.
Try before you buy and self-dispense

A great way to engage shoppers and drive penetration for brands

What’s the initiative?

• Metro in Dusseldorf provides an in-store bar where wine shoppers can try a selection of wines before they buy
• As well as driving excitement and theatre in-store, the ability to sample wine lowers the risk of buying the wrong wine for shoppers, making Metro a destination for wine
• Self dispense is a well-established means of adding a level of shopper engagement to specific categories, often positioned as a mechanic for providing better value and choice around purchase quantities

Increased shopper engagement
Investment in hospitality

Increased shopper engagement
Fulfilling anytime, anywhere purchasing demands, simply
Brand led initiatives launched to grow habitual loyalty and repeat purchase
Insights & Implications

1. Higher costs – but impact for all. Shoppers will trade up for Quality

2. Shopping more often and on the go – how can Frozen compete?

3. Retail’s Future: Mission Focussed, Engaging & Omni-channel

4. Food to Go & Home Delivery are growth areas that challenge the current Retail model – what role for Frozen?
Thank you