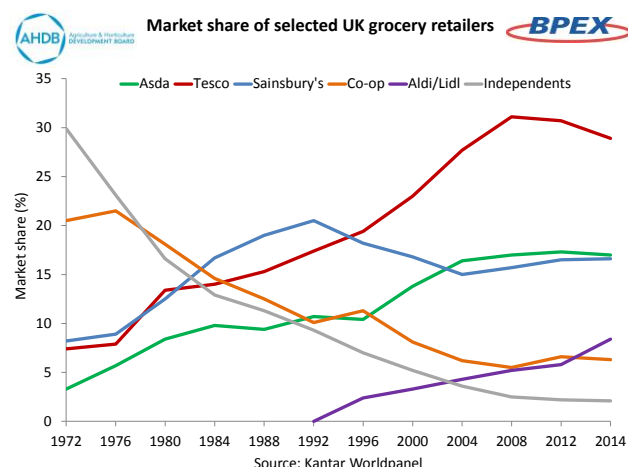


Shopper needs drive long term retail change

Over the last few years there has been much focus on the rise of Aldi and Lidl, the 'hard discounters', and the impact this is having on the 'big four' multiples. The hard discounters have grown steadily since entering the UK in the 1990s. They now have a 7% share of the grocery market (Aldi 4%, Lidl 3%). This article looks at this and other retail trends over the past 40 years. It shows there is on-going structural change in retailing driven by changing shopper needs.

In the 1970's, there was a rapid expansion amongst the major multiples, particularly Tesco, Sainsbury's and Asda. The abolition in 1964 of Resale Price Maintenance (RPM), which allowed suppliers to fix the retail price for their products, enabled retailers to compete against each other on price terms, contributing to a drive towards larger, more efficient self-service stores. The rapid growth in women drivers and 2-car families facilitated a seismic shift to the 'out-of-town' grocery shopping format which we accept as the norm today. Shoppers frequented smaller independent retailers and butchers less as a result.

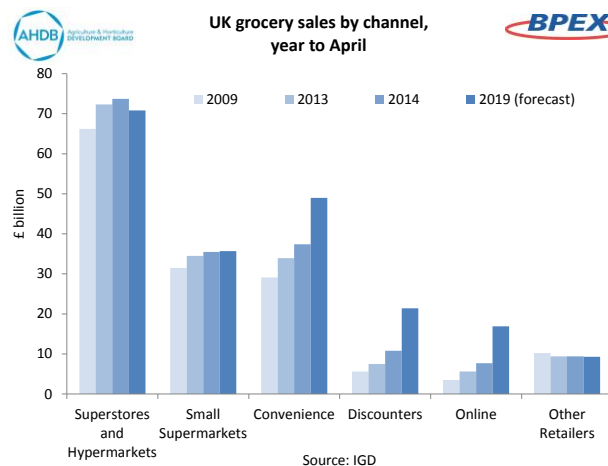


With more than half of all women in full-time work by the 1990s, grocery shopping increasingly became an evening or weekend activity. Longer store opening resulted, including Sunday trading in 1994. The rapid rise in fridge freezer ownership enabled groceries to be bought in bulk, with one weekly 'big shop' becoming the norm. Retailers with larger superstores performed well. Sainsbury's, in particular, benefited from this development during the 1980s, before Tesco and Asda experienced rapid growth later on.

This trend has reversed in recent years; there has been steady growth in smaller convenience stores. Shoppers are moving away from the one-stop, large, out-of-town shop as they shop around looking for the best prices. Instead, they are increasingly embracing frequent top-up trips at smaller convenience stores, which also helps them to avoid wasting money on food which never gets eaten. This trend is expected to accelerate over the next five years. Retail

suppliers need to be prepared for the implications of this new direction in retailing and plan ahead to maximise opportunities and minimise supply chain risks.

Aldi, Lidl and other discount retailers have experienced similar growth, with their smaller store formats having successfully capitalised on the trend towards savvy shopping amongst more affluent consumers.



Online shopping has been another key growth area. It now accounts for close to 5% of grocery sales, having more than doubled in five years. Looking specifically at red meat, it is clear that shoppers have been slower to embrace this new channel. Only 4% of red meat sales are made online, although this figure is higher (6%) for beef mince, possibly because shoppers feel there is greater uniformity in the product, making in-store comparisons less important.

Looking to the future, there is a great deal of innovation in retailing. For instance, virtual stores with large touchscreens to offer consumers a 'virtual shopping experience' already operate in metro stations in Japan. UK retailers are operating systems allowing shoppers to collect purchases from lockers in offices, tube stations and other locations.

The trend of increasing innovation also applies to new product development, with a recent EU wide study showing that the choice of products available at a local level increased by 5% each year between 2004 and 2012. The strongest growth was in the discounters and convenience stores.

This brief look back over the past 40 years demonstrates that the grocery market is continually evolving. Recent trends show that this process is continuing, perhaps even accelerating as new technologies increase the range of options available to consumers. The successful retailers and their supply chains need to understand, and respond to, their customers' needs. Businesses will need to adjust the mix of products available to match the changing retail environment and ensure that their processes allow them to meet customers' expectations on price, quality and availability.