RETAIL INSIGHTS

September 2018

THE CHANGING RETAIL LANDSCAPE

Welcome to the first in a series of reports from AHDB's Retail Insight Team, focusing on some key topics relating to the UK's retail landscape and looking at the implications for the agricultural industry.

The UK's retail sector has undergone enormous structural change over the last decade or so, with e-commerce and digital technology transforming the retail landscape. In turn, lifestyle changes, coupled with more fluid attitudes to shopping, have led to some key behavioural shifts around where and how we shop. The recession has undoubtedly had an impact on purchasing patterns, but this is not the only influence. Technology has driven shopping online in significant volume. According to the Office for National Statistics (ONS), internet sales as a percentage of total retail sales rose from just 3.4 per cent in 2007 to more than 16 per cent in 2017. Although e-commerce was certainly a factor a decade ago, it had yet to reach the habitual proportions of today. We have also expanded our use of other digital technologies in the last decade, embracing social platforms and the online world for everything, from dating to finding a hotel room. This has inevitably had an effect on shopping, whether a regular grocery shop or purchases such as clothes and shoes. Looking at ONS data, mobile phone ownership and internet penetration is at saturation point, so it seems inevitable that retailers will increase their focus in leveraging these technologies.

It would appear that the days of doing a single weekly 'big shop' at a single store are long gone. Indeed, according recent research by IGD (June 2018) consumers claimed to have used just over 4.6 channels and almost 12 different stores to do their shopping in the last month. More than half of shoppers said they thought they were shopping frequently for food and groceries, even if for just a few items at a time. Indeed, the shopping experience has changed dramatically and retailers have increasingly evolved their offering to accommodate these trends. Retailers have also had to evolve as a means to differentiate themselves from the competition – the traditional levers of competing on price and promotions are no longer enough of a selling point for today's consumers.

Then, of course, there is the uncertainty of Brexit and its likely implications on prices. Potentially higher input costs, on the back of increased costs of labour and raw materials, coupled with continued pressure on real incomes, could lead to consumers seeking products that offer value. This will likely further strengthen the position of the discounters (such as Aldi and Lidl). Looking to the future, higher labour costs could also lead to retailers having a greater retailer focus in areas such as artificial intelligence (AI) and robotics, which would affect jobs in the retail industry.

In this first report, we take a broad look at some key themes that have and will continue to have an effect on the UK retail landscape in years to come. These include:

- **What has shaped how and where we shop?**
- **Convenience beyond location, including the rise of online shopping**
- **Retailer consolidation, including potential supplier implications**
- **Future trends – what is likely to shape future shopper behaviour?**

WHAT HAS SHAPED HOW AND WHERE WE SHOP?

While we talk about changing consumer shopping habits and lifestyles, it is key to understand that the fundamental consumer wants and needs behind these trends have always been prevalent. The two main ones are convenience and value for money. Historically, these needs can be linked to the very reason that brought supermarkets into being. The introduction of supermarkets allowed consumers to self-serve a wide variety of food products in one place, rather than having to visit several more expensive serviced independents, such as butchers and bakers. Starting in 1947, the first London-based Co-operative grocer shaped the way in which people of the future shopped. Therefore, we want to explore how these two trends – and the expectations relating to them – have evolved over time and how retailers have reacted.

A convenient location is the number one requirement

The number one reason for choosing a grocery store destination is the proximity of the store location. Convenient access is the reason why 57 per cent of consumers chose the last store they visited (IGD ShopperVista, Mission and Channel Choice Report, June 2018). This shows that physical availability is as important as mental availability (the probability that a shopper will think of a retailer in buying situations) and no matter how well retailers differentiate themselves, the core requirement of access is vital to a consumer and to a store's success.

As consumers have become less and less inclined to travel to shops, retailers have aimed to grow their footprint in order to dominate enviable locations for consumer convenience. In 2016, the top nine retailers had 11,644 physical stores across the UK, compared to 7,010 in 2006, covering a massive sales area of approximately 12.3 square miles (IGD Retail Analysis). While this huge footprint means most consumers now have several choices of nearby shops, it also means retailers have had to become more competitive. As a result, convenience must now mean more than just location and we have seen consumer expectations evolve in terms of ease, choice, range and availability, as explored further on.

Value perceptions are the number two driver of store choice

The introduction of supermarkets initially meant that consumers saw a fall in prices compared to what they were used to in independent shops, resulting in a highly competitive retail landscape. The 2008 banking crisis and subsequent recession challenged retailers to further innovate to offer value for money. Forty-three per cent of consumers chose the last store they visited because it saved them money, making price the second driver of store choice (IGD ShopperVista, Mission and Channel Choice Report, June 2018).

This need for 'value' has resulted in three key changes in the market over the years:

1. International discounters entered the UK

Aldi opened its first store in the UK in 1990, closely followed by Lidl in 1994, introducing a new concept for shoppers. While UK discounters such as Kwik Save and Safeway existed at the time (both with a market share of around 10 per cent each in 1995 – Kantar Worldpanel Till Roll 12 w/e 21 May 18), the cut price model of the two German-owned discount supermarkets offered a stripped-back approach to groceries, which – after initial caution – lured UK shoppers in, particularly when the recession hit. A price index (normalised average) of around 75 (so 25 per cent lower than the average) for these hard discounters (Kantar Worldpanel 12 w/e Total Grocery data to 31 Dec 17) highlights their unique positioning in terms of price but, coupled with this research by IGD, ShopperVista cites quality as another key reason to shop at these discounters.

Both retailers have expanded rapidly since opening. Now accounting for 12 per cent of UK physical stores in 2016 (IGD Retail Analysis, UK Country Presentation, August 2017, based on the top nine retailers), Aldi plans to open a further 1,000 stores by 2022 and Lidl about 50–60 per year. Their popularity is reflected in market share, with the two discounters stealing from traditional supermarkets over the years. Now netting out at a combined share of 12.7 per cent, together this makes them bigger than the third biggest supermarket giant Morrisons (Kantar Worldpanel Till Roll 12 w/e 21 May 18). The effect on existing discounters is also clear, with Kwik Save going in to administration in 2007 and Safeway being acquired by Morrisons in 2004.

2. Growth of own-label and product tiering

According to a report sourcing TNS data[1], approximately 22 per cent of packaged grocery value sales in 1981 were own-label products in the top four supermarkets. Over the years, retailers have increasingly developed and marketed their own products rather than solely concentrating on brand names. Using a tiering system has allowed retailers to meet the evolving needs of consumers at differing price points by offering cheaper lines (with prices being just over 50 per cent cheaper than brands) as well as premium products for trading up (prices being 22 per cent more expensive than brands) (Kantar Worldpanel data below[1]). As a result, now more shoppers than ever are choosing own-brands from supermarket shelves, with own-label accounting for 50 per cent of UK grocery sales in the 52 weeks until 20 May 2018 (Kantar Worldpanel). Research published by Nielsen indicates that growth in this area has been aided by favourable consumer perceptions around private label in terms of quality, price and range (The rise and rise again of private label, Feb 18).

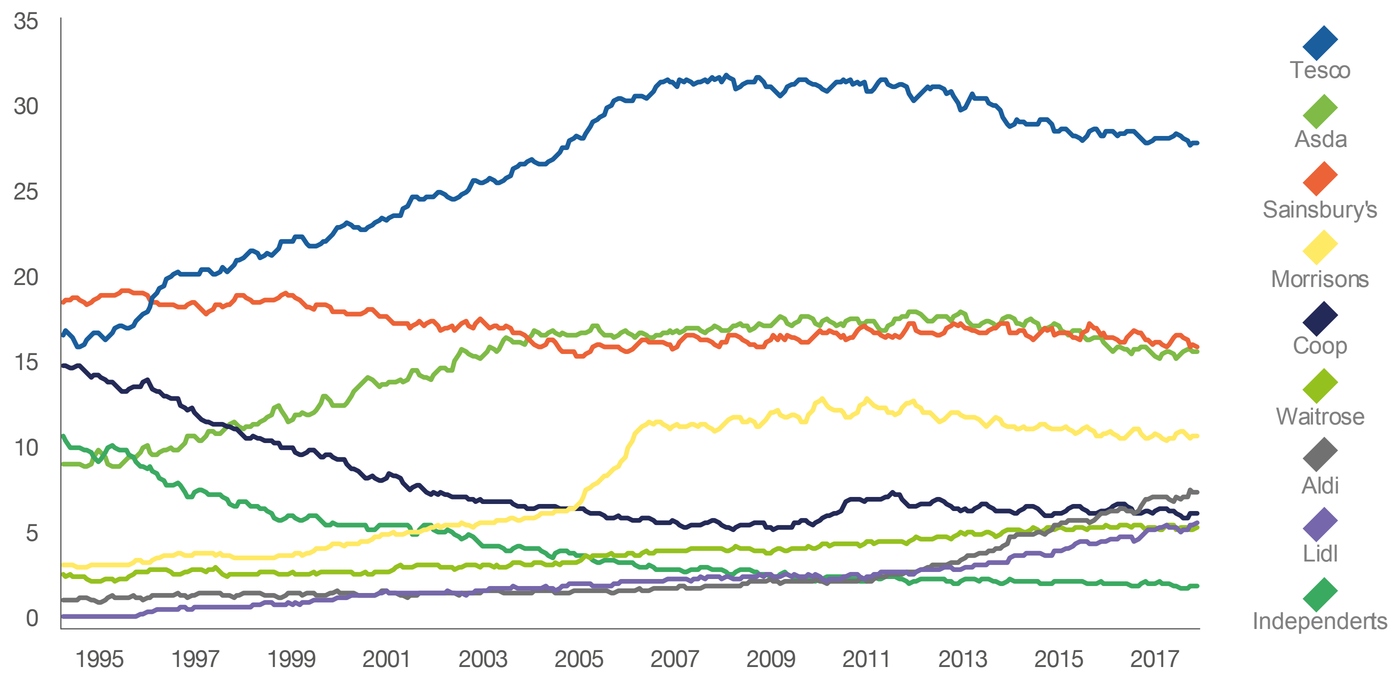


Figure 1. Retailer market share evolution 1995 to present (% spend share)

Source: Kantar Worldpanel Till Roll 12 w/e 21 May 18

[1]https://www.campaignlive.co.uk/article/own-label-rise-rise-own-label/235086

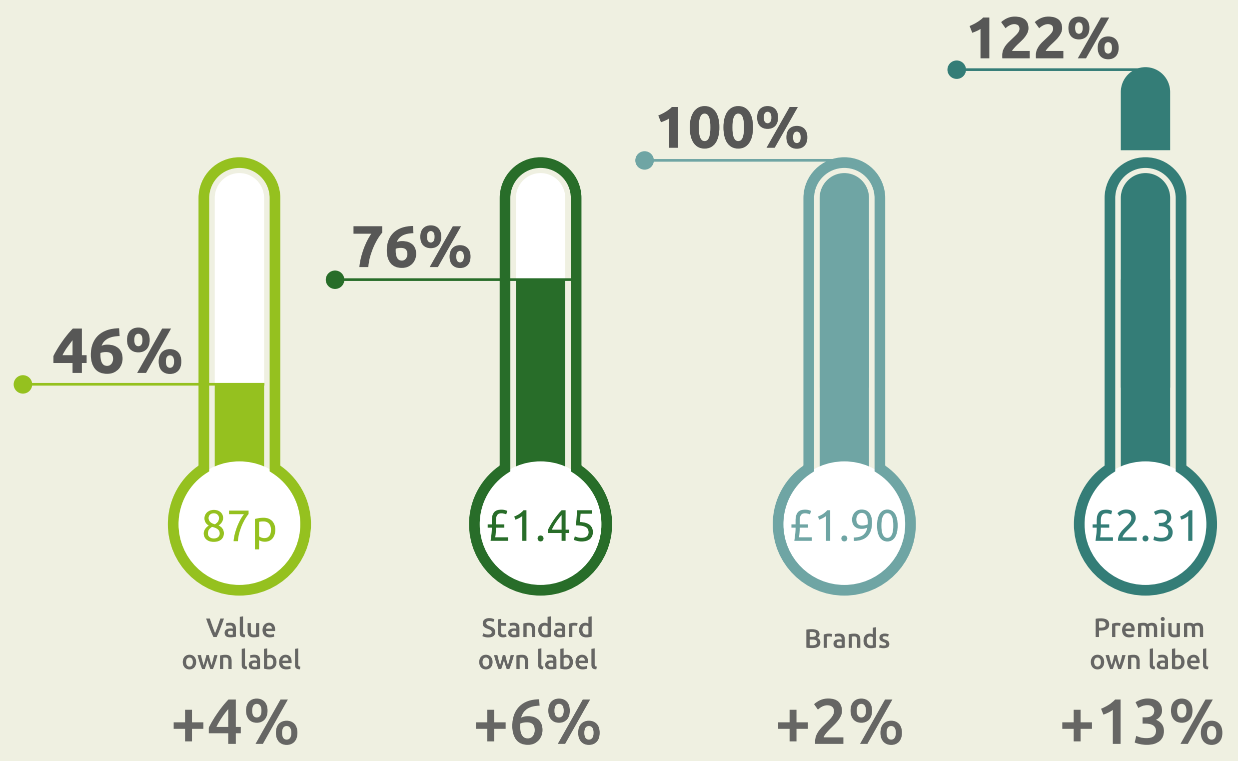


Figure 2. Own-label average price and price index versus brands and growth year-on-year

Source: Kantar Worldpanel 12 w/e 25 Mar 18

Waitrose is a 'quality' retailer and Asda is a 'value' retailer but both play on own-label tiering options to meet the price needs of different shoppers

Implication – Own-label accounts for 80.7 per cent of total grocery fresh red meat sales in the 52 weeks up until 20 May 2018 (Kantar Worldpanel). Own-label and its tiering options allow different qualities and cuts to be utilised to cater to differing price points

3. Reliance on promotional mechanics

As competition has ramped up over the years, retailers have responded with promotions in order to stand out. There is no doubt that price promotions encourage shoppers to enter stores, but there is the risk that retailers can become over reliant on them, hindering efficiency in terms of profit. Currently 34.1 per cent of UK grocery value sales are sold on deal (Kantar Worldpanel, 52 w/e 20 May 18). While this figure is still significant, the market has seen promotional de-escalation since 2014, indicating a reversing retailer strategy.

While promotions are typically seen as monetary deals, other methods are prominent. One example is the loyalty card, which was introduced by Tesco in 1995. Loyalty cards allow retailers to target personalised vouchers or coupons and consumers to collect points – both ways of encouraging loyalty. Other promotional mechanisms include competitions, cashback and gifts with purchase.

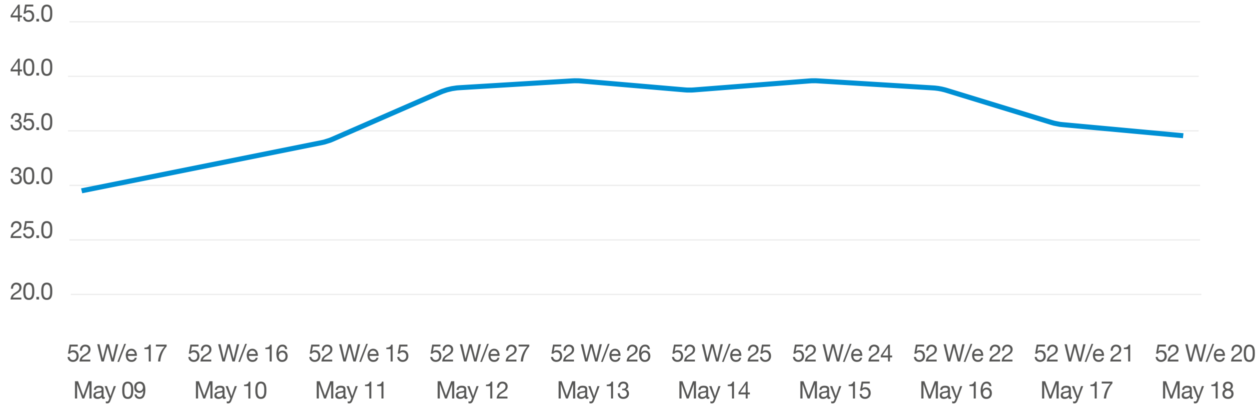


Figure 3. Total market % spend share on promotion

Source: Kantar Worldpanel Spend Share

Implication – 28.9 per cent of UK fresh red meat value is sold on deal, the lowest level of the last 10 years (Kantar Worldpanel, 52 w/e 20 May 18). Retailers have the opportunity to utilise other forms of promotions that encourage loyalty and are personalised to the shopper

CONVENIENCE BEYOND LOCATION

As mentioned earlier, retailers are increasingly thinking about what convenience means for a consumer beyond location. Thirty-seven per cent of shoppers chose the last store they visited because of its choice and availability and 38 per cent because it was quicker and easier, making these the third and fourth store choice drivers (IGD ShopperVista, Mission and Channel Choice Report, June 2018). If we take a step back and think about why these requirements are gaining momentum, they can be linked to evolving shopper missions and changing lifestyles.

Over time, we see consumers leading increasingly busy lifestyles, meaning they have less time to shop and cook. Household dynamics have changed over time, with smaller and single person households having become more prevalent. This has resulted in shopper basket sizes decreasing and shopping frequency increasing, making the top-up shop now as important as a main shop.

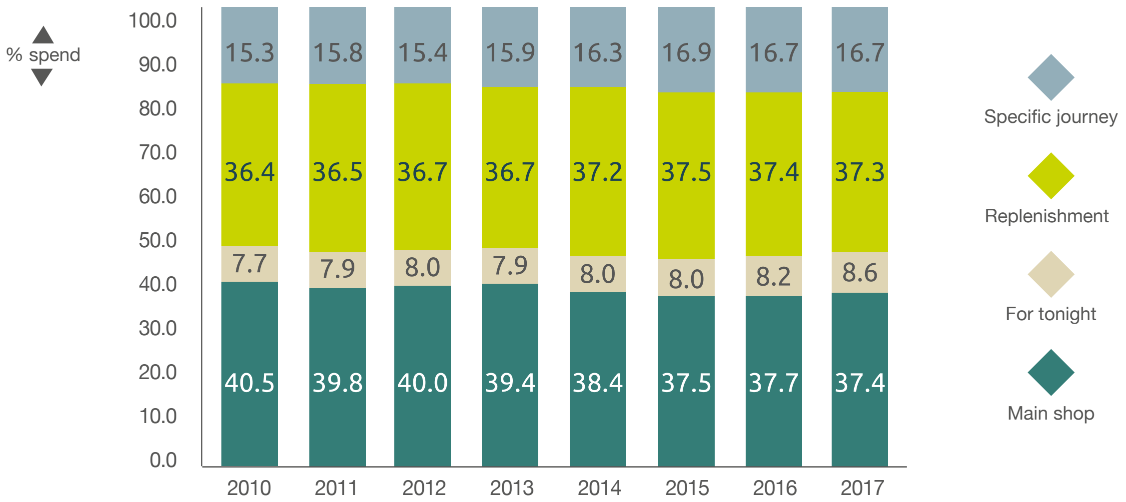


Figure 4. Total market % spend by shopper mission

Source: Kantar Worldpanel 52 w/e 31 Dec 17

Along with this, the types of food being eaten have changed. Gone are the days of meat and two veg for dinner every night – now consumers want a variety of ingredients and cuisines. In addition, consumers are increasingly following trends such as healthy/clean eating, vegetarianism and veganism.

These shopper and lifestyle trends have shaped three key changes in the market over the years.

1. Rise of online shopping

The introduction of the internet transformed the retail environment, allowing for a completely new way for consumers to shop easily and quickly in the comfort of their own homes. The growing accessibility of smartphones and evolving technology now even allows people to do this on the move. While it is still the smallest segment in the grocery sector with a 7 per cent share (Kantar Worldpanel, Till Roll, 52 w/e 20th May), its momentum since launch has been apparent. The channel is expected to enjoy the strongest growth, as will be highlighted in the section on 'Channel forecasts' later on.

2. Introduction of different store formats

As shopper missions evolve, so do store formats, with major retailers introducing convenience formats to tap into the smaller-basket need. According to IGD forecasts, larger format hypermarkets and supermarkets, which currently have 55.4 per cent share of the grocery space, will lose 3.9 per cent share by 2023, while convenience will gain its highest share to date of 21.6 per cent (+0.5 per cent) (IGD Retail Analysis, UK Channel Opportunities 2018–2023, June 2018). Differing formats answer the different needs of shoppers, as charted below.

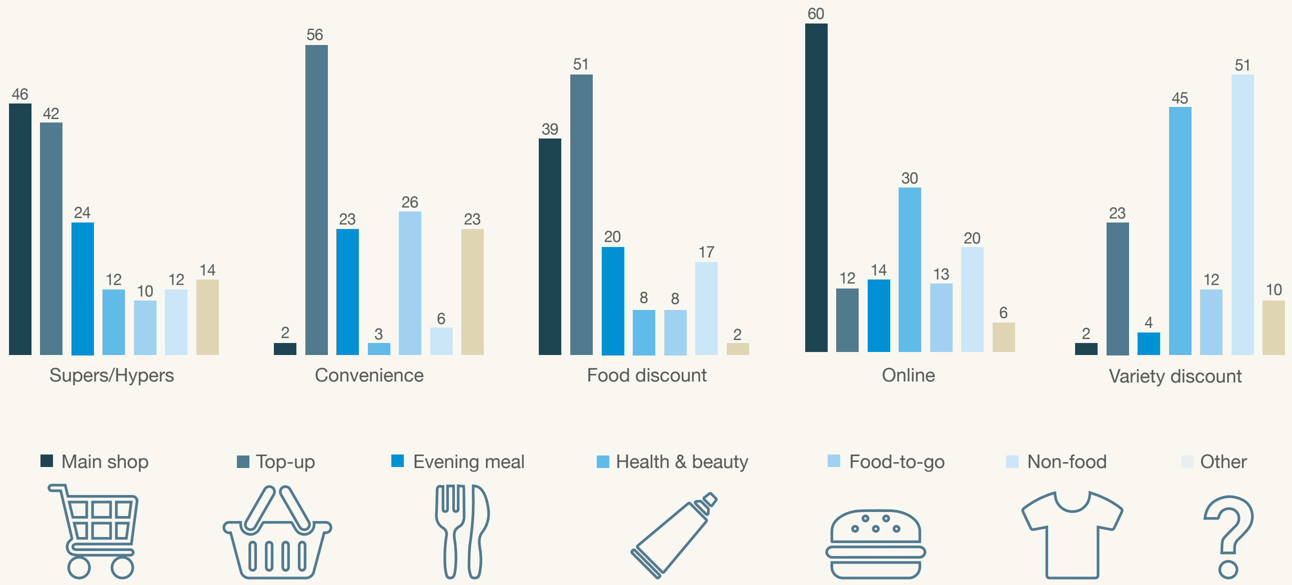


Figure 5. Shopping missions conducted on last visit (%)

Source: IGD ShopperVista, April 2018

3. Improving range, availability and experience

As store formats change, so do their offerings. Retailers are adapting ranges to meet changing eating habits, with the introduction of designated areas for specific cuisines and dietary requirements. They are offering more guidance and signage to enable shoppers to find what they want efficiently, particularly in relation to shopper missions. This adds an 'experience' to a shopper's trip; a way for a retailer to differentiate themselves. Upgrades are a focus for most retailers in the future, with theatre and inspiration being key.

Left to right: Sainsbury's' 'Tonight's Tea', Tesco's 'World Foods – Polish', Sainsbury's' 'Free From' and Morrisons' 'Meals in Minutes'

Lastly has been the introduction of non-food, foodservice and food-to-go offerings within supermarkets – again answering consumers' need to have everything at their fingertips for ease and convenience.

Left to right: Sainsbury's' 'Pizza Takeaway', Morrisons' Market Street 'Salad Bar', Tesco's 'Breakfast Counter', Aldi Fresh 'Bake Shop'

Left to right: Waitrose and Sushi Daily, Sainsbury's and Juice Bar Crush, Sainsbury's and Zizzi, M&S and Wasabi

Implication – Look at which products are prominent and the marketing in each store format to cater for the relevant shopping needs for that format. Within a store, think about how consumers shop the different proteins and cuts, making them easily accessible and available in the relevant areas. Make the shopping experience for meat more exciting through information and inspiration at the point of purchase. Food-to-go also offers an opportunity to reach consumers through ready-cooked dishes.

RETAILER CONSOLIDATION

As the retail market has evolved, the Big Four have remained on top, allowing them to consolidate with other players. In the last couple of years we have seen Tesco tapping into wholesale with the takeover of Booker and Morrisons expanding into convenience by partnering with McColls. Recently, Tesco and Carrefour announced a joint purchasing tie-up, with the aim of getting better deals from multinational suppliers, cutting costs and combating increased competition in their domestic markets. However, we have never seen a proposed consolidation the size of the Sainsbury's and Asda merger, which was announced in April 2018. While it is yet to be approved by the Competition and Markets Authority (CMA), if it does go ahead it will create a new retail giant. Based on current share, Sainsbury's accounts for 13.6 per cent share of grocery expenditure and Asda 12.7 per cent, meaning a merger would make them the leading grocery retailer in the UK.

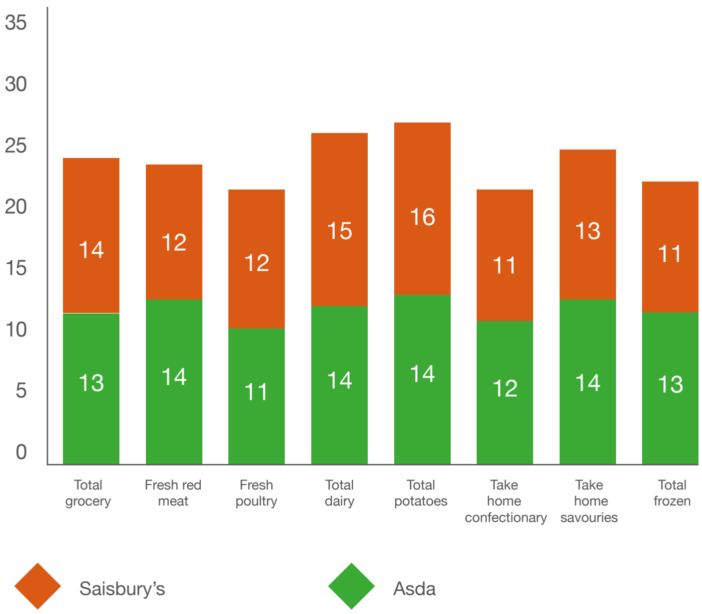


Figure 6. Asda and Sainsbury's spend shares across a variety of key categories (%)

Source: Kantar Worldpanel, Total Grocery 52 w/e 20 May 18
*=Butter, Fresh cream, Fromage frais, Cheese, Milk, Yogurt, Yogurt drink

As we have seen softening retailer share for Sainsbury's and Asda over the past five years, the reason cited for the merger is the increased competition in the retail sector (particularly from discounters). To win back share, the merged retailers hope to better tap into the significant and rapid changes in customer expectations mentioned in this report, allowing a more competitive and resilient business that is better able to invest in price, quality, range and technology.

The impact will not be fully understood until the merger is a done deal. Communications put out so far by Sainsbury's can be found in our article, "The Big Four become the Big Three". However, what is certain is that a new powerhouse would be created. Despite this, it needs to be remembered that the danger for the new group remains the same. Neither retailer has the presence they would like in the online segment and the discounters are still able to steal price-sensitive shoppers from the Asda brand, as well as high-quality shoppers from the Sainsbury's brand. If the merger goes ahead, the new group will have to utilise future trends effectively to make a big impact on the market.

These recent changes suggest that consolidation in one form or another is likely to be a feature of the retail landscape in the years ahead.

FUTURE TRENDS

In this section we look at what the retail landscape might look like in the next five years, who will drive growth in retail and how will this be achieved. Then, we go on to look at some of the key consumer trends that will help shape future retail strategy.

Channel forecasts

IGD predicts modest grocery market growth in the next five years of just over £28bn, mostly driven by grocery inflation, which will make it even more important for retailers and suppliers to understand the dynamics and opportunities by channel. Online and discount will account for more than half of the increase in market value to 2023, but the outlook for larger stores has improved with investments in price, range and the customer experience will help them to better defend their market shares.

The move towards discounters and online is borne out by the latest switching data from Kantar Worldpanel for the year to March 2018. The signs show that these changes are embedded and the trend is likely to continue. Some of the reasons for this are outlined below.

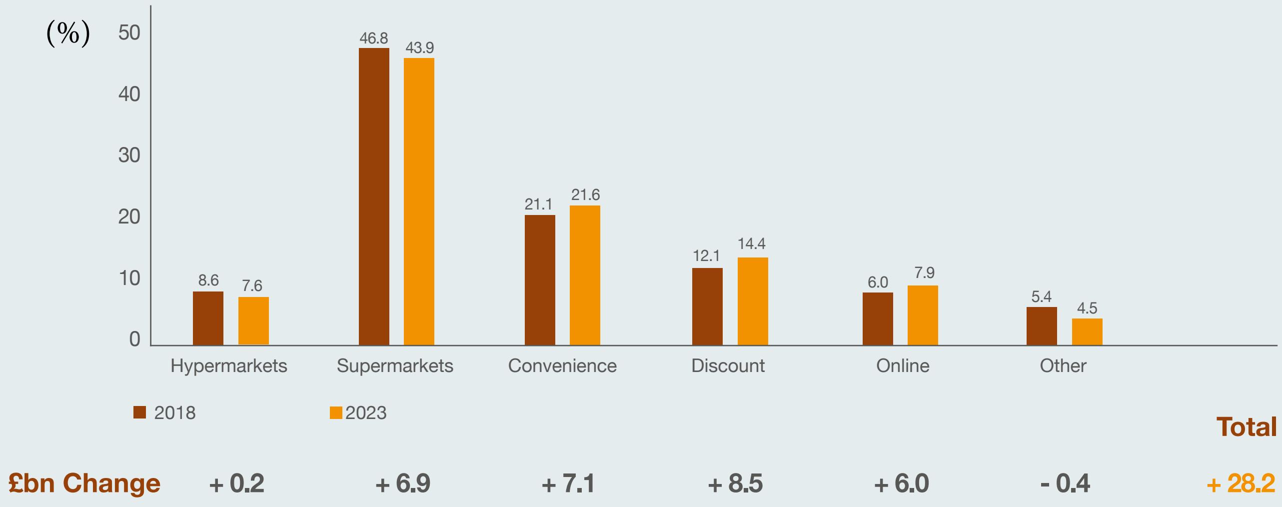


Figure 7. Channel forecasts: 2018–2023

Source: IGD Retail Analysis, UK Channel Opportunities, June 2018

Figure 8. Channel switching (bubble size is proportional to channel sales)

Source: Kantar Worldpanel, Total Grocery, 52 w/e March 2018

Influence of hard discounters

According to IGD, just over one in five people now claim to do most of their shopping in food discounters (June 2018).

Protein sales, in particular red meat, are crucial to continued growth for the hard discounters (Aldi and Lidl), who overtrade in terms of their share of red meat compared to total grocery. Many meat, fish and poultry products are priced very competitively compared to the rest of the market. According to Kantar data in the year to May 2018, beef mince in this channel was, on average, 98p/kg cheaper and lamb chops/steaks £1.17/kg cheaper, compared to the Big Four grocers. This is significant, as Kantar research has shown that, seven times out of ten, when protein is purchased from a particular retailer, the rest of the meal is also sourced from the same retailer.

Looking ahead, the rate of growth is unlikely to be as fast as has been seen in the past, given that the discounters have reached a critical mass in terms of size and now operate more like mainstream grocers. The outlook for larger stores has improved with investments in price, range and the customer experience helping them to defend their market share better. However, uncertain economic conditions have meant that the focus on price and quality is likely to intensify and this, coupled with ambitious store expansion plans, should ensure good growth in the medium term at least. The major multiples are increasingly trying to compete with a change in promotional strategy to one of ‘everyday low prices’ and cutting back product ranges. This is, in part, driven by the need to adopt the simpler and more streamlined approach of the hard discounters to make them more competitive on price.

Online matures

IGD predict that over the next five years the online sector will enjoy 52 per cent sales value growth, remaining the fastest growing channel, albeit at a slower pace. This reflects the maturing of the channel and a stronger priority to ensure profitable sales growth in-store at major retailers.

Smaller and more recent channel entrants will drive growth as they scale up their operations and target emerging shopper needs. More established players will step up their use of web analytics to improve and personalise shoppers’ online experiences. More rapid and flexible fulfilment options will further stimulate growth, supported by greater operational capacity.

While the pace of growth for online is predicted to slow compared to what has been seen in the past, there are opportunities to encourage momentum. For example, innovating the consumer experience and delivery options will allow retailers to tap further in to the consumer requirement for speed and ease. This is especially the case for supermarket e-commerce, which – historically –hasn't had the abilities of pure players such as Amazon. There is also an opportunity area for meal box and courier firms such as Deliveroo and Home Run to increase share and for discounters to enter this space. Examples of current innovations are:

+£6.0bn
Change in value

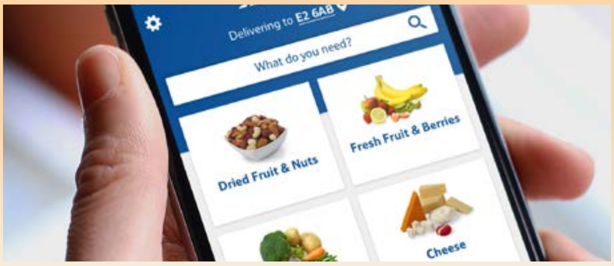
+52.4%
Change in value

Figure 9. Online channel forecasts: 2018–2023

Source: IGD Retail Analysis, June 2018

While the pace of growth for online is predicted to slow compared to what has been seen in the past, there are opportunities to encourage momentum. For example, innovating the consumer experience and delivery options will allow retailers to tap further in to the consumer requirement for speed and ease. This is especially the case for supermarket e-commerce, which – historically hasn't had the abilities of pure players such as Amazon. There is also an opportunity area for meal box and courier firms such as Deliveroo and Home Run to increase share and for discounters to enter this space. Examples of current innovations are:

Quicker delivery – Tesco Now and Sainsbury's Chop Chop app both offer one-hour delivery within an hour of ordering, challenging Amazon Prime



Personalisation – Ocado offers a calorie-saving function and Tesco has paired with Spoon Guru to allow shoppers to select specific dietary requirements

Supporting British – London-based Farmdrop allows fresh produce to be delivered from farms and producers within a 100-mile radius

Implication – While the online share of red meat sales is consistent with total grocery (7 per cent) the challenge for the sector is around the desire for consumers to see fresh produce before buying. This not only highlights the importance of the physical store, but provides an online opportunity to encourage meat purchasing by communicating quality messages; eg high-quality images, provenance messaging and quality guarantee schemes.

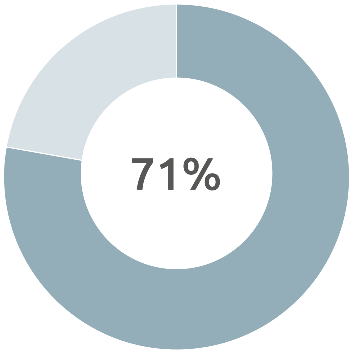
Shopper trends

The retail industry in the UK – and indeed globally – has seen and continues to undergo significant change. The impact of technology has been huge and shopper behaviour has become even more difficult to predict. As a result of all these changes in the marketplace, retailers and manufacturers have had to adapt to remain relevant in this ever-changing environment. History has shown us that standing still is not an option, with retail growth proving harder than ever before.

In the future, retailers and channels that find new shoppers will be the winners. So what are some of the key shopper trends that retailers and manufacturers/suppliers need to be mindful of to succeed in today's challenging market? A recent IGD report claims to have identified five key shopper trends that will have implications for retailers and suppliers alike in the next few years. These are:

1. Time optimisers

Social changes are putting pressure on shoppers to optimise their time. An increasing choice of leisure activities and a growing desire to make the most of these means time left for mundane tasks such as shopping. Making shopping as simple as possible will therefore be key. In years to come, the shopping experience will have to work even harder to justify the time spent shopping.



of 18–24 year old shoppers their lives will be busier in 5–10 year's time

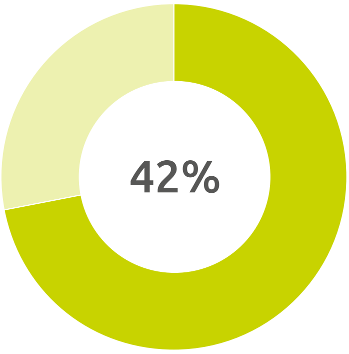
Source: IGD ShopperVista, Shoppers of the Future, June 2018

Time spent buying regularly purchased products could be reduced through automation using AI and/or home delivery. However, there will always be a role for bricks-and-mortar stores.

JD.com has launched an offline supermarket, 7Fresh, utilising smart logistics technology to drive engagement and efficiency in-store. The retailer has introduced sensor-activated product information images, automated suspension rails, payment via facial recognition and smart shopping carts to offer shoppers an efficient and interactive experience.

2. Health conscious

Health and wellbeing are important purchase drivers, especially to younger consumers, and this trend looks set to continue given the ever-growing importance of social media, health-tracking devices, government legislation and so on.



of 18–24 year old shoppers claim that in the future they will be more likely to eat healthily in order to look good rather than just feel good vs 24% for all grocery shopers

Source: IGD ShopperVista, Shoppers of the Future, June 2018

Kantar Usage data shows that meals chosen for health reasons have been growing over time. However, health can come in many guises and one of the biggest and fastest-growing health needs is that produce is more natural/less processed. Consumers are moving away from restrictive forms of healthy eating, such as calorie counting or portion control. Instead, they are choosing more natural and less-processed products that provide health benefits (such as fibre or vitamins), while trying to eat a varied diet. For a more detailed look at health and its implications for the agricultural industry, please refer to AHDB's Consumer Focus report "Health".

Kesko and Oriola have partnered to open a new nationwide chain of stores specialising in products and services that promote health, beauty and wellness.

3. Individual

Personalisation is a hot industry topic at the moment. Shoppers of the future will be open to a more personalised shopping experience, provided there is a clear benefit and that they have to make minimal effort.

Smartphone technology is likely to be a key feature in terms of the in-store environment. Tailored and timely notifications sent to shoppers' devices could help them locate what they want and discover new products and promotional notifications would help them achieve best value in store.

US-based Habit.com will take and analyse your blood samples and create a specific nutritional plan bespoke to you.

4. Experimental

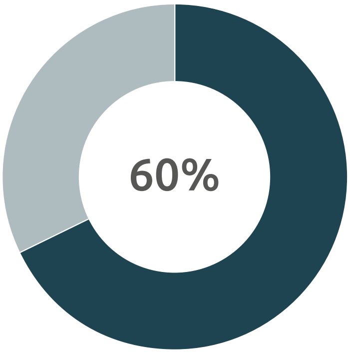
Factors such as changes in population mix, more sophisticated foodservice and greater overseas travel has given us exposure to more non-traditional foods and flavours. In turn, this has led to a desire to experiment more and seek recipe inspiration.

One of the key implications of this for the agricultural sector will be to help consumers replicate the eating-out experience through recipes that showcase authentic tastes and flavours from around the world. Additionally, new product development (NPD) needs to be aligned with changing consumer trends such as healthy eating.

Unilever's Knorr stock cube brand has introducted the 'Eat Your Feed' tool, created by digital agency, Analog folk. This can analyse data on Instagram using an AI algorithm to provide personalised recipes based on users' activity.

5. Socially conscious

Ethical issues have remained prominent because of a variety of factors, including most recently the publicity around plastic pollution. Although shoppers will want to make sustainable and ethical choices, factors such as price and quality will remain key, especially given the current pressure on household incomes.



of under 35s say concern for the environment will be more important to them in the next 5–10 years

Source: IGD ShopperVista, Shoppers of the Future, June 2018

L'Oreal has recently launched a new range of beauty products which are packaged in shower-friendly paper that is both recyclable and compostable.

The agricultural industry will need to take a lead in areas such as environmentally friendly packaging, but also in educating the public on ethical issues including animal welfare and traceability. Promoting the environmental or ethical credentials of products could help consumers feel they are making the right choice, both morally and emotionally.

SUMMARY

Smartphones and faster technologies have meant consumers have access to internet shopping at their fingertips. Digital technology has extended the retailers reach by eliminating the need for shoppers to enter a bricks-and-mortar environment, but physical stores still have a role to play. Despite e-commerce growth, even shoppers in advanced markets still use stores for many missions, such as top-up shops, distress purchases or because they simply enjoy shopping. For many, stores let them see and feel products and give them the instant gratification of being able to buy something then and there.

Consumer attitudes to shopping have changed. Once upon a time, we were happy to drive out of town to do a ‘big shop’. Now, store location is key to where we shop and we are shopping more often with smaller basket sizes. Ease of access means that physical availability is just as important as mental availability. No matter how well the retailers market themselves or focus on our needs, a channel’s ability to deliver on the core requirements of being easy to access and easy to use are vital – anything that doesn’t meet those criteria will not succeed.

The retail industry continues to undergo significant changes. With shopper behaviour increasingly difficult to predict and growth harder to come by, retailers and manufacturers have been forced to adapt. Growth will come from retailers and manufacturers working together to better understand the evolving shopper dynamics at play – and to deliver on these. Shopper experiences that drive emotional engagement will be key for time-pressed shoppers wanting to optimise their shopping routine. For agriculture, some of the key wins will be around developing products for different consumption occasions, better targeted messaging and communications around growing trends such as health and the need for diversity and convenience. Supporting shoppers’ ethical credentials, especially those of younger consumers, will also be key, so factors such as animal welfare and traceability are likely to become more important given the increased availability of information and media coverage.

The latest in-store digital technology promises to radically change the role of bricks-and-mortar stores. Facial recognition and voice-activated technology, together with sensors, will enhance product personalisation. Smart labels and overhead screens look set to better educate consumers on things like origin, nutritional value and the production cycle of products – something the agricultural sector needs to help shape. With two of the ‘Big Four’ grocery retailers discussing a merger and the recently reported planned tie-up between Tesco and Carrefour, the next few years are set to be interesting times for the UK retail industry.

We end by highlighting some of the key forces shaping the UK grocery market, the impact these will have on farmers and growers and how they could respond. There is no one-size-fits-all strategy but there are some obvious factors that must be considered.

OBSERVATIONS	IMPLICATIONS
Growth in the convenience channel will mean limited ranges being offered and need for smaller packs – affecting volume sales.	Industry will need to focus on developing products/meals that meet the consumer need for quick and easy options. They don't want 'stuff', they want meal solutions – and are willing to pay a premium for them.
Further market consolidation through mergers/tie-ups to reduce costs and combat increasing competition is likely to put greater pressure on supplier margins.	Shaped by the needs of their customers, retailer requirements will differ. Ensuring you are aligned to these needs will mean you are best placed to succeed in an ever-changing marketplace. Additionally, explore alternative routes to market such as online. This will mean selling directly to shoppers, thus helping to retain more margin.
Continued range rationalisation will take place in the retail market as major retailers try to cut costs and compete with discounters. This will make it more challenging to win listings and put added pressure on poor selling products. In the red meat sector this could further exacerbate carcase imbalance issues.	New product development will become critical in persuading retailers to take on more products, which should help maintain category interest and drive growth. Industry will also need to identify new opportunities for poorer selling cuts/lines that may be de-listed, such as export or through NPD that provides them with a more attractive consumer proposition, ie, added value through convenience
Growth in the UK retail market will continue to be hard to come by in the foreseeable future.	Look to explore growth opportunities in other markets such as foodservice or by exploring export opportunities. Premiumisation through product innovation can help deliver growth, for example by developing products that bring the out-of-home experience in-home.
Online presents a challenge to fresh primary markets given the importance of product appearance to the shopper.	Work with retailers to make the online offer more engaging and help to ensure the delivery of high quality products – disappointment is a huge worry for online shoppers
A continuing move to fixed price/weight in meat means a greater push for consistency in conformation in cattle/sheep	Therefore, for products such as steaks, it is important for farmers to meet the weight/size specifications of their animals so that these fixed price products can be achieved.
Increasing media coverage and government policy will mean that ethical considerations are more likely to be important to shoppers when making product choices.	Industry should look to lead the way in areas such as sustainable packaging and traceability. Utilising media, for example digital media, stories can be used to create engagement by talking about provenance, authenticity and local industry benefits. However, industry needs to be careful about over-claiming.

Report Author: Sukhvinder Gill,
Retail Insight Manager, AHDB
Sukhvinder.Gill@ahdb.org.uk T: 07474 338505

Sukhvinder works within the Retail Insight team at AHDB and has been with AHDB for more than four years. His current role at AHDB focuses on retailer trends in terms of sales and the key drivers of performance for both the retail sector and foodservice. The Retail team team works closely with the Consumer Insight team which actively tracks, monitors and evaluates consumer behaviour.

Sukhvinder has also worked at Nielsen and IRI in the client service teams and managed a number of high-profile FMCG clients including Heineken UK and Mars.

Report Author: Kim Malley,
Senior Retail Insight Analyst, AHDB
Kim.Malley@ahdb.org.uk T: 02476 478852

Kim works within the Retail Insight team at AHDB and has a number of years of experience analysing retail data as well as tracking consumer shopping habits and market trends. Her current role at AHDB focuses on understanding the performance and trends in retail and foodservice to inform and inspire in a rapidly changing market. To complement this the Retail Insight team work closely with the Consumer Insight team which tracks, monitors and evaluates consumer attitudes and consumption patterns.

AHDB's Retail Insight Team actively analyses retail trends, reporting on the latest sales trends and what they mean for the agricultural industry.

Read more on retail and consumer trends on our website **ahdb.org.uk/consumerinsight/** Follow @TheAHDB on Twitter and Facebook, to be alerted to articles as soon as they're published. Or sign up by dropping us an email: **strategic.insight@ahdb.org.uk**

Ask the analyst

If you'd like any more information on the areas covered or have suggestions for future content, then please email us at **strategic.insight@ahdb.org.uk**

Produced for you by:

AHDB
Stoneleigh Park
Kenilworth
Warwickshire
CV8 2TL

T 024 7669 2051
E comms@ahdb.org.uk
W ahdb.org.uk
@TheAHDB

If you no longer wish to receive this information, please email us on **comms@ahdb.org.uk**

AHDB