

AFTER THE COVID-19 SHAKE UP, GROCERY SHOPPERS DEMAND MORE HEALTH, ONLINE AND VALUE – RESULTING IN ONGOING DISRUPTION AND UNCERTAINTY IN GROCERY RETAIL

Brussels, 25 March 2021: The [*Disruption and Uncertainty – State of Grocery Retail 2021*](#) report, launched today by McKinsey & Company and EuroCommerce, takes a comprehensive look at the long term-trends and effects of the pandemic on the European grocery industry.

The report first **recaps the industry developments in 2020** – it looks at how the COVID-19 pandemic has reshaped the European grocery landscape at unprecedented speed and scale, with government restrictions impacting shopping patterns and accelerating a dramatic shift to online.

- Revenues were positively impacted by the pandemic – based on Europanel data, during the first lockdown in March 2020, grocery sales in Europe increased on average by 20%, and by 10% during 2020 as a whole
- At the same time, costs increased owing to pressure on supply chains and the growing need for additional hygiene measures
- The stricter lockdowns became, the more consumers changed their shopping patterns, shopped at different supermarkets or ordered their groceries online. In total 60% of consumers changed the store they shop in or went shopping online

Disruption and Uncertainty – State of Grocery Retail 2021, based on both the CEO survey and consumer research, identified four key trends that will shape the industry over the next years. These are based on the areas consumers intend to spend more money on and what CEOs see as the key industry-shaping trends, with the majority expecting an increased focus on adjusting to shoppers who want variety, value and online.

1. **Lifestyle agendas drives food demand.** Different consumer groups have increasingly different demands that they expect grocers to fulfil. In addition to the demand for organic and local/regional products, consumers are calling for a wider range of “healthy” (e.g. “free from” foods) and/or “sustainable” products.
 - a. In 2021, across Europe, 50% of customers plan to adapt their grocery spend to better meet their lifestyle agenda: especially towards healthy foods (34%), regional/local (29%) and environmentally-friendly products (23%). These new expectations also go hand-in-hand with a greater demand for value and low prices. 26% of consumers in Europe want both to save money and change their grocery shopping habits to better suit their lifestyle agendas.
2. **Value is king (again).** During the pandemic, consumers spent considerably more on groceries due to the closure of restaurants and office cafeterias. Therefore, despite the economic crisis in 2020, we did not see downtrading for the full year of 2020. The lockdown limited the ability of the consumers to spend money otherwise and allowed many consumers to spend more on grocery, but according to our customer research, consumers are expected to trade down and save money in 2021 compared to 2020.
 - a. In Europe, 37% of surveyed consumers plan to look for ways to save money while grocery shopping in 2021 compared to 2020.
 - b. 76% of grocery retail executives in Europe ranked trading down to cheaper products and an increase in price sensitivity as one of the influential trends for the next 1-2 years.
3. **Online set to become core.** The pandemic has dramatically accelerated the shift to online and this looks set to continue. As a result, winning market share without winning online becomes increasingly difficult. In mature markets like UK, online already captures more than one third of the overall market growth.

- a. In 2020, the online channel in Europe grew by 55% Grocery retailers were forced to adapt at unprecedented speed to not only offer consumers home delivery, but to offer increased variety online, extremely fast access and cheaper options.
 - b. This shift looks set to continue - 50% of consumers who used online channels throughout the pandemic intent on continuing
4. **Restaurants return.** Even though eating out will take some time to return to pre-crisis levels, the report predicts a sharp rebound once restrictions ease, with grocers set to lose a considerable share of their lockdown windfall. While some consumers have indicated they will continue to stick to their (re-)discovered home cooking, the majority will return to ready prepared (and often hot and ready-to-eat) food. This decreasing demand for grocery retail is widely expected by executives in the industry - 49% think that the market situation will worsen in 2021 compared to 2020.

The common theme emerging from all of 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, growth of a so far mostly loss-marking online business and increasing multi-channel complexity.

Christian Verschueren, Director-General at EuroCommerce:

"We have been delighted to work with McKinsey and Company on this important set of insights, and which we hope will be valuable to all senior players in grocery retail. Our sector, recognised as an essential ecosystem for the European economy, has been hit hard in areas of non-food retail and food wholesale, and while COVID has shifted demand away from closed restaurants and hotels to boost sales in food retail, it has also raised costs for retailers, in disruptions in supply, unprecedented demand and the significant costs in keeping our staff and customers safe. The massive growth in online grocery sales has also meant substantial investment in e-commerce which will take some time to become profitable."

Tobias Wachinger, Senior Partner at McKinsey:

"What we see, both in consumer demand patterns and in the grocery industry response, is a new level of discontinuity – and we have no reason to believe that things will cool down soon".

Daniel Läubli, Co-Leader of McKinsey's European Retail Practice:

"The speed and magnitude of these changes will reshuffle the cards and create new winners and losers. Grocery retailers that take bold moves to address major shifts, such as online or health, have a unique opportunity to win market shares"

The **report features** key analyses based on consumer research in 10 countries and a survey among 48 retail industry leaders. Articles focus on key trends and are complemented by 6 in-depth interviews with C-level executives from different parts of Europe.

This report is the first in a series of reports aimed at shedding light on the state of the grocery retail now and in the years to come.

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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 is the principal European organisation representing the retail and wholesale sector. It embraces national associations in 29 countries and 5 million companies, both leading global players such as Carrefour, Ikea, Metro and Tesco, and many small businesses. Retail and wholesale provide a link between producers and 500 million European consumers over a billion times a day. It generates 1 in 7 jobs, providing a varied career for 29 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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