

THINK RETAIL THINK VERDICT



UK Retail Futures 2013: Food & Grocery

Annual forecasts to 2013



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About Verdict Research

Authorative analysis...

Verdict's analysts and consultants work closely with retailers, suppliers, consultancies, investment banks and property companies to identify the key issues, sector and company data and strategies driving the changing retail market.

Our research identifies how retailers can enhance product, store and brand performance as well as the factors that determine future retail success. Our specialist in-store auditing team continuously collects price and product data across locations, brands, fascias, ranges and retail sectors.

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Our in-house retail expertise and rigorous research methodology ensure our reports provide complete and accurate analysis of the major players, issues and trends together with a detailed examination of the strategic implications for the retail market.

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In addition Verdict regularly appears in the international media. News sources quoting Verdict analysts and data include CNN, the International Herald Tribune, The Australian, Los Angeles Times, and New York Times.



"Verdict are the company of choice for any research analysis and insight into retailing"

Sir Stuart Rose
Executive Chairman
Marks & Spencer

About Verdict Retail Futures 2013

Verdict Retail Futures 2013 reports are designed to provide an accurate and detailed five year forecast for each retail sector. Each report complements Verdict sector reports by providing a detailed market outlook for the forecast period by analysing a host of economic, social, political and technological factors that determine demand. In addition they take account of factors like fashion, changing consumer preferences and the influence of the media.

As the only provider of forecasts exclusively for the UK retail industry, Verdict is uniquely equipped to give thorough and reliable projections and analysis on its future development.

Retail Futures 2013

The Retail Futures 2013 series of reports provide a complete overview of UK retail...

It provides 5 year forecasts for 73 categories...

Provides accurate projections of market demand and price pressures...

A unique and reliable forecasting tool...

Categories examined by the Retail Futures 2013 series...

CLOTHING & FOOTWEAR

- Women's Outerwear
- Women's Underwear
- Men's Outerwear
- Men's Underwear
- Girlswear
- Boyswear
- Infantswear
- Accessories
- Footwear

FURNITURE & FLOORCOVERINGS

- Upholstery
- Beds/Bedroom
- Kitchen
- Living/Dining
- Home Office
- Other Furniture
- Carpets
- Vinyl & Linoleum
- Hard Floorcoverings

HEALTH & BEAUTY

- Babycare Products
- Bathroom Toiletries
- Cosmetics
- Dentalcare
- Haircare/Skincare
- Men's Toiletries
- OTC Medicines
- Paper Products
- Perfume
- Other Health & Beauty

DIY & GARDENING

- Non-decorative/ decorative materials maintenance repair
- Tools, equipment & accessories
- Household utensils & lighting
- Fitted kitchens & bathrooms
- Flatpack furniture
- Floorcoverings
- Garden Structures
- Garden Tools
- Garden Utensils
- Outdoor Living
- Greenstock & Growing Media

HOMEWARES

- Glassware, crockery, cutlery & silverware
- Lighting
- Non-electric kitchen utensils
- Miscellaneous household items
- Bathroom & table linen
- Bedding/Bed linen
- Furnishing fabrics & curtains
- Other household textiles

ELECTRICALS

- Audio-visual Equipment
- Games Consoles & Software
- Photographic & Optical Equipment
- Major/Minor Household Appliances
- Information Processing Equipment
- Telephones & Fax Equipment

FOOD & GROCERY

- Bakery & Cereals
- Dairy Products
- Fruit & Vegetables
- Meat & Fish
- Oils & Fats
- Pets, Petcare & Petfood
- Sugar & Sweet Products
- Other Food
- Alcoholic Drinks
- Beer/Spirits/ Wine
- Soft Drinks/Hot Drinks
- Tobacco
- Non-durable Household Goods

BOOKS, MUSIC & VIDEO

- Books
- Newspapers & magazines
- Personal stationery & cards
- Music & Video

UK Retail Futures 2013: Food & Grocery

The food & grocery market will significantly outperform the wider retail market, the recession is resulting in an unprecedented change in consumer behaviour...

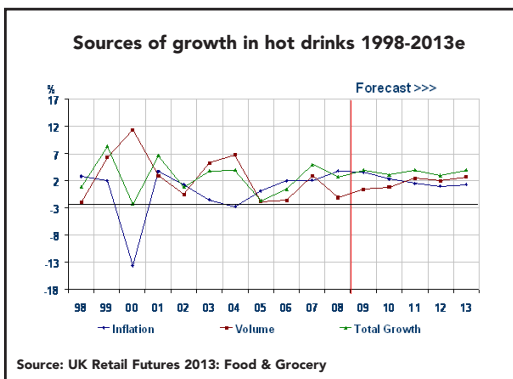
Grocers are focusing more effort on developing their own-brand offers, either through lower prices or through the introduction of new ranges to build scale, increase choice, promote value credentials and boost margins. Going forward, Verdict expects grocers' own-brand collections to form the cornerstone of their price agendas.

UK Retail Futures 2013: Food & Grocery is a new report published by Verdict Research that provides detailed and extensive forecasts of the food & grocery market for the next 5 years. This report includes detailed market outlooks for the forecast period by analysing a host of economic, social, political and technological factors that determine demand.

Categories Analysed

Alcoholic Drinks	Pets, Petcare & Petfood
Bakery & Cereals	Sugar & Sweet Products
Dairy Products	Other Food
Fruit & Vegetables	Tobacco
Hot & Soft Drinks	Non-durable household goods
Meat & Fish	
Oils & Fats	

Identify and understand the key drivers of market growth and gain insight into the channels of distribution...



"Food & grocery enjoyed its strongest year of the past decade in 2008, with total expenditure growing 5.5%.

Outpacing total retail by 3.4 percentage points, the market was given a major boost by inflation in 2008, which averaged 6.4% during the year, leaving volumes negative at -0.9%. Inflation was the most severe in commodity prices and fuel, pushing up the cost of basics such as bread and meat. In 2009, Verdict expects inflation to remain strong but lower than in 2008, driven by a weak pound pushing up import costs..."

- **Understand how the economic downturn will effect the UK food & grocery market** with consumers taking a more cautious and conservative approach to expenditure long after the recession has ended.
- **Discover which categories look set to outperform.** Compare projected growth rates of the key categories to assess new opportunities going forward and make strategic decisions based on category information.
- **Assess the future prospects for the food & grocery market** using key operating statistics and unique market share data such as changing consumer attitudes in the face of recession, retailers responses and the forecast for the market beyond the recession.
- **Identify which retailers present the greatest threat to supermarkets** based on this report's analysis of unique channels of distribution and strategic tactics of key players.

UK Retail Futures 2013: Food & Grocery

This report answers key questions including...

- How will the food & grocery market change over the next 5 years?
- Who will be the key winners and losers in the market?
- Which categories will record the strongest growth and how much will they be worth by 2013?
- What growth rates will the market achieve over the next 5 years?
- How will non-food sales affect the market?
- Which retailers will gain or lose market share in 2009?
- What are the key issues for food & grocery retailers and how should they respond?

Key Market Data

Total food & grocery expenditure

Food & grocery forecasted growth until 2013

Grocers, food & off-licences: sales, store numbers, space growth & sales densities

Food & grocery channels of distribution
Category expenditure and growth prospects until 2013

Market share for the major retailers

Key issues examined in this report...

Trading opportunities past the recession

2009 - 2010	
Fragile consumer spending	Consumers curb their spending, trade down to cheaper product
Discounters gain share	Aldi and Lidl continue to take share. Achieve record gains
Supermarket own brands take larger share	Grocers promote their own ranges, launch new products
2011 - 2013	
New strategies of differentiation	Grocers differentiate their offers and compete on more than just price
Green retailing higher on the agenda	Grocers reassert their green credentials

Source: UK Retail Futures 2013: Food & Grocery

"Price will remain high on the agenda, but as consumer confidence grows there will be new opportunities to gain competitive advantage. Consumers will become more concerned with quality and service and we expect grocers that have steered their propositions towards price to relax their strategies in this direction. Verdict expects that grocers with a heritage for championing quality and service such as Waitrose and, to a lesser extent, Sainsbury to be among the first to soften their price message..."

- **Restrained spending patterns.** With price now dominating grocers' marketing agendas, at least in 2009, each player needs to be aggressive in promoting its value credentials. However, while we anticipate that grocers will increase their marketing investments, each player needs to find a way to differentiate their communications.
- **Discounters take centre stage.** Discounters will enjoy rapid growth and challenge grocers for market share. The meteoric rise of discounters will have a profound impact on grocery shopping behaviour and the expansion of their footprints will change the grocery landscape.
- **Non-food growth slows, but opportunities exist.** Non-food growth will hold back total sales, but the collapse of other retailers will open the doors of opportunity. Tesco and Asda in particular will experience slower sales growth as a result of their exposure to non-food, but they are in a good position to pick up sales from collapsed rivals.

UK Retail Futures 2013: Food & Grocery

SAMPLE PAGE - CHAPTER 3: KEY MARKET ISSUES (SLIDES 150

TABLES 125

FIGURES 92)

Executive summary

Key issues



ISSUE	SUMMARY		IMPACT ON FOOD & GROCERY
Frugal consumer spending	The recession will force consumers to change their shopping habits	⊖	Consumers will continue to spend and volumes will hold up, but customers will switch grocers or trade down to cheaper product
Discounters take centre stage	Discounters will enjoy rapid growth and challenge grocers for market share	⊖	The meteoric rise of discounters will have a profound impact on grocery shopping behaviour and the expansion of their footprints will change the grocery landscape.
Strong growth in own brands	Grocers will promote their own brands to improve their value credentials	=	Grocers' investment in value ranges will encourage trading down and suppress value growth as shoppers opt for cheaper product. It will also encourage consumers to switch store.
Non-food growth slows, but opportunities exist	Non-food growth will hold back total sales, but the collapse of other retailers will open the doors of opportunity	⊖	Tesco and Asda in particular will experience slower sales growth as a result of their exposure to non-food, but they are in a good position to pick up sales from collapsed rivals.
Aggressive development of non-food after the recession	After realigning their propositions in the recession, grocers will target non-food with renewed vigour	⊕	The majority of new space will be driven by non-food. Grocers will extend ranges and introduce new ones as non-food grabs an increasingly large share of spend.
New strategies for growth	Grocers will differentiate and champion other attributes to gain competitive advantage, but price will remain key	⊕	Price will remain key, but grocers will differentiate their offers and introduce new 'better' and 'best' ranges. Consumers will trade up and the market will become more varied with greater segmentation.
Green retailing will return to spotlight	Green issues will emerge once again as a battleground for grocers.	⊕	Grocers will seek new ways to improve their green credentials. Innovation will be key. The sector will work towards reducing carbon emissions.

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Key market issues

Discount model takes centre stage



Discounters 1990s - 2007

- Slow market share gains
- Steady space expansion
- Single format strategy
- Customer base - largely low income families
- Limited appeal to middle and upper income shoppers
- Poor image for quality
- Limited threat to Big Four



Discounters 2008 - 2013

- Rapid market share gains, but slowing
- Fast space expansion
- Lidl experiments with new convenience format
- Customer base – broad spectrum
- Growing appeal to middle and upper income shoppers
- Good image for quality
- Growing threat to Big Four

Discounters Aldi, Lidl and Netto entered the UK in the early 1990's, but were slow to find their feet. Gradual space expansion ensured sales continued to rise and consumers slowly began to understand the concepts behind the discounter model, which has been hugely popular across the Continent. However, it wasn't until the second half of 2008 that the discounter model really struck a chord with UK consumers. The prospects of a looming recession forced many shoppers to reassess their spending behaviour and seek low prices and value as a priority. Moreover, this growth has not come exclusively from customers in lower socio-economic groups, but also from shoppers in the AB demographic.

The discounters were quick to realise the opportunities ahead and embarked on a promotional drive to raise awareness of their value credentials. Aldi in particular accelerated its expansion programme and more recently has been taking advantage of the glut of new space in the market, following a number of high street casualties. The meteoric rise in popularity of the discounters has enabled Aldi and Lidl to record year-on-year sales rises of 20.0% and 12.0% respectively, with month-on-month rises said to be even higher.

Furthermore, Aldi and Lidl have been working hard to improve their propositions as previously held views of their offers have largely been put to one side – though not entirely. Besides increasing their marketing efforts, the discounters have been investing in their product ranges and increasing coverage of the 'best' element in their price architectures. Stores have been expanded to include more product and the retailers continue to invest in product quality to challenge the Big Four.

The threat they pose cannot be underestimated and, going forward, we believe the discounters will be leading architects in changing the grocery landscape.

The discount model has taken centre stage.

Source: Verdict Research

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