Supermarkets: Inc Impact of COVID-19 - UK - November 2020

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"COVID-19 will bring a record year for the grocery sector in terms of sales and 2020 will also be the year to mark a rebalancing of the sector. A legacy boost to online will naturally take more demand away from large-format stores and will mean a further rethink about how super and hypermarkets in the UK are utilised by the leading grocery retailers."

– Nick Carroll, Associate Director, Retail Research

This report looks at the following areas:

- **The impact of COVID-19 on grocery shopping behaviour and the impact on channel usage.**
- **How consumers shop and how frequently for groceries.**
- **Retailers used, both in a primary and secondary role.**
- **Satisfaction levels with and perceptions of the leading grocery retailers.**
- **Attitudes to the role of grocery retailers in communities and support for local producers.**

In a period where basket sizes have grown and frequency of shop has fallen, it would be logical to assume that the physical shopping format which best serves big-basket demand, supermarkets, will have seen a significant uptick in sales. However whilst the supermarket sector has seen its strongest growth (+4.3%) in almost a decade, this growth figure lags that of the overall grocery market (+7.6%) and means that large-format grocery stores have once more lost share of all grocery sales – falling to under half (47.5%) for the first time.

Whilst COVID-19 has seen shoppers do fewer 'top-up' shops, a key driver away from larger-format stores in the past decade, this has been replaced by two key trends which have served to limit supermarket sales: more local shopping and online growth. With consumers naturally more confined to their immediate area we have seen localised shopping tick-up, on average 25% have shopped more with local businesses since the pandemic hit, and with many large-format stores in out or edge of town locations this has served to limit demand. However, it is the rapid growth in online sales, which we estimate will grow 72% in 2020, which have served to most limit store-based supermarket sales, with online a channel that also excels in serving big-basket demand.

The longer-term threat to supermarkets is that these purchasing patterns become further engrained. We are expecting online sales to dial back a little once the peak of the pandemic has passed but equally we are expecting a legacy boost to the channel – and this will mean more big-baskets are fulfilled away from larger-format stores. The financial pressures being placed on grocery retailers has also served to see many look to move away from counter-based grocery services, and fill more space with concessionary partnerships. Whilst the latter serves to boost the appeal of large-format stores through 'multi-mission' shops, the latter has the potential to remove one of the USPs of large-format stores in the food and drink sector.

However, there are opportunities for supermarkets moving forward. They will remain the dominant channel and we expect the share of sales moving away from large-format stores to ease. Longer-term working at home practices may give a boost to basket sizes and when concerns around store visits ease, this may allow more opportunities for supermarkets to tap into this. However, to fully capitalise on this, the large-format store must represent the best version of store-based shopping, and this means more experiential and retail-based theatre in-store and a celebration of food and drink. If customers are to be convinced to make the trip to often 'out of the way' stores, there must be reasons and experiences there that cannot be replicated elsewhere for them to do so.

DID YOU KNOW?

This report is part of a series of reports, produced to provide you with a more holistic view of this market

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Sales

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Waitrose has also consolidated its store estate in 2019, down to 338 stores. The premium retailer is focusing on improving its in-store customer experience and investing heavily in its e-commerce operation.

Marks & Spencer witnessed the strongest increase in sales per outlet out of the top 10 leading grocery retailers in the UK. (+5.0%), a solid indication that its strategy of encouraging more big-basket shops in-store is bearing fruit. Waitrose consolidation of its store estate closed poorly performing stores and correspondingly its sales per store have risen 3% in 2019.

While the big four supermarkets publish official figures for their total sales area, the vast majority of other players do not, so this data is limited and estimated in parts. Hence, it is important to emphasise that the below tables should be used as a guide. Nevertheless, the data below provides an idea of how the leading players are growing and developing their estates. The continued growth from Aldi and Lidl underlines how successful their approach has been. On the other side, the decline or stagnation seen in the mid-market, from larger format players, such as Asda and Morrisons points to the long-term shift away from regular weekly shops at larger format stores towards more convenience focused missions.

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