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Ten ways grocery retail will change for good

From the death of loyalty cards to double-decker stores, Luke Jensen predicts the future of grocery

Sainsbury's former group development director Luke Jensen (pictured) spent six years helping to steer the grocer through the downturn and ensuring it emerged unscathed from the difficult years. But the food sector is facing new challenges as the discounters continue to steal market share. Here he lists 10 predictions for the sector.

"IT'S TIME TO WAKE UP. THE WORLD HAS CHANGED"
Luke Jensen

1 Four should become three

After years of capturing sales from a soft underbelly of independents by doing the job of grocery more efficiently, the big four are running out of space to grow. In most markets, consolidation would occur and value would be created through cost rationalisation and scale.

The competition authorities have taken an approach to grocery that makes this almost impossible, with highly stringent local fascia count tests and a dogmatic view that four shouldn't go to three.

It's time to wake up. The world has changed. The inroads made by Aldi, Lidl and Waitrose and the now declining combined share of the top four make one thing clear: we have in this country a vibrant, competitive and open grocery market where smaller players can successfully take share from the largest.

It's high time for the competition authorities to revisit their definition of the grocery market, paving the way for consolidation among the top four that will unlock efficiency and bring better value to the UK consumer.

2 Grocery will return to healthy growth within 12 months

The grocery market has over the past four years been negatively affected by two exceptional trends.

First, there has been a decline in volume per capita grocery consumption (by over 8% over the period), the like of which had not been seen since the Second World War.

The ever-expanding waistlines of the British population point to the fact that this has been achieved by reducing waste (it was estimated in 2010 that we were throwing away 30% of all the food we buy).

The second factor has been deflation driven by a mix of increasing promotional participation – now reaching a record 45% – and trading-down.

For the first time since the beginning of the recession, we are now seeing real growth in disposable incomes. While consumers may not reverse the habits they have acquired, history indicates they will start loosening their belts, which will deliver volume growth.

Furthermore, all long-term trends are driving to an increase in underlying food inflation, caused by changing eating habits in the fast-growing BRIC countries.

The grocers have been swimming against the tide, but the time will come soon for an easier glide.

3 The space race must end

Over the past 10 years the big grocers have collectively invested more than £35bn in new space and the total incremental profit generated has equated to 5% – well under anyone's cost of capital. So why have they continued to plough that doomed furrow?

First, the like-for-like 'con'. New space, whether in the form of maturing shops or store extensions, flatters like-for-likes. With like-for-like-obsessed analysts, no wonder it's tempting.

Second, there's the supertanker effect – the property pipeline takes five years to build, and it takes 10 years to unwind.

Finally, the 'prisoner's dilemma'. If a competitor is going to build a store in your backyard, you're better off build-

The market share gains made by the likes of Lidl show that there is a competitive grocery market in the UK

Click-and-collect could remove the boring element of picking essentials, leaving people time to browse 'fun' items

Sainsbury's Scan & Go trial shows how technology can be used to gain valuable data

ing it first because you'll lose less. But you'll still lose.

We have the opportunity of a truce brought on by Tesco's woes, and Tesco itself and the others should seize it. Without this, any long-term return on capital expenditure accretion will remain a pipe dream.

But remember, disarmament only works if everyone plays the game.

4 Things will get tougher at the top and the bottom

Waitrose at the top and Aldi and Lidl at the bottom have had a fantastic run for the past two years. Lack of competition at both ends – a sleepy M&S and a lack of proper UK discounters – have made these gains relatively easy.

It's now the time of gains being made in hard yards as share is being taken from the big four. Tesco's Finest and Sainsbury's Taste the Difference ranges have been revamped and are enjoying strong growth, and Whole Foods Market finally seems to be getting its act together in the UK.

The big four are also now very focused on addressing the value challenge.

Combine that with retail's law of diminishing returns – you start with the best locations and work your way down the list – and you can anticipate a slowdown in what has looked like easy gains at both ends.

"THE CO-OP'S ONLY REASONABLE CHANCE OF SURVIVAL IN GROCERY IS TO RETRENCH"
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5 The Co-op will retrench to a viable position

Though we all have a bit of a soft spot for the Co-op, it is clear that it has fallen way behind in an increasingly sophisticated grocery market.

The acquisition of Somerfield looks not just like a case of overpaid hubris but also like two drunks propping each other up – or in this case bringing each other down. The main common factor between the Co-op and Somerfield is that they had both been delivering surprisingly poor value to largely unsuspecting customers.

The business has neither the skills nor scale to face the combined technology and value challenges that are today's battlegrounds.

The Co-op's only reasonable chance of survival in grocery is to retrench to the only thing it truly does well: convenience retailing in remote communities that cannot be effectively served by others. Recognising this would pave the way for disposing of most of its estate – this process has of course started but is far from complete – meaning the proceeds could be used to shore up its balance sheet.

6 Adiós to the stock market

Retail, with its high operational gearing driving relatively volatile earnings, is not well suited to the short-term pressures of the stock market, as highlighted by analysts' obsession with like-for-likes.

Many of the world's most successful retailers are private (or largely privately controlled). Think Aldi, Ikea, and Auchan, which have all been able to invest for the long term, but also choose to hold back when the times are not right. How much easier Dalton Philips' job would have been away from the glare of the stock market.

The recent rush to the market of many smaller retailers is likely to end in tears. When debt markets come back – which they will – we should anticipate a spate of public to private transactions.

7 Check-in will become the new check-out

In the early days of mass retail, customers were an anonymous mass. With the advent of loyalty programmes, retailers came to understand what their individual customers were buying.

There is, however, one fundamental weakness in how loyalty works today: you need to wait until your customers have finished shopping to find out who they are as they swipe their card at the

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checkout. Think of the world of possibilities if you could 'check-in' your customers as they enter your store.

You could help them find the products on their list, offer them highly relevant promotions while they shop and, potentially, if combined with the right self-scanning technology, dispense with the hassle and cost of checking them out at tills.

This is the next step in mass retailing and it's just around the corner – look at Sainsbury's mobile Scan & Go trial or Walmart's equivalent in the US.

Mobile technology has suddenly catapulted this vision from expensive and cumbersome to affordable and practical. Those who get there first will take a leap ahead of the competition.

Could loyalty cards disappear or Amazon buy Ocado as Jensen predicts?

8 Loyalty cards will soon be a thing of the past

Loyalty used to be all about collecting points. Today it's about using your transactional data to tailor offers or highlight full-price but highly relevant products.

The ability to collect transactional data is becoming ever more critical to retailers, but the means by which they can do so are broadening by the day. Does Amazon need a loyalty programme to understand its customers better than most retailers? Consumers have been educated by the web to understand that they are better served by retailers who have access to their transactional data.

The time is upon us for bricks-and-mortar retailers to rethink how they collect data from shoppers, and mobile technology is providing the tools. Loyalty management has never been as critical, but cards and points will soon look like very expensive ways of collecting data.

9 The advent of the 'double-decker' store

Half your grocery shop is fun and engaging: picking fresh food, browsing the cakes, visiting the deli counter. Half of it is brain-numbing: stacking packs of nappies and cans of Coke into your trolley, only to lug them out at the till and then stack them back into the trolley.

Grocery click-and-collect services in store car parks are starting to offer the opportunity to dispense with the boring part of your shop, even if you then pop into the store to buy fresh food.

However, in the UK where real estate is at such a premium, a further step could unlock massive value both for shoppers and operators, particularly in high-cost urban areas: the 'double-decker'.

"SMALLER PLAYERS CAN SUCCESSFULLY TAKE SHARE FROM THE LARGEST"
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Think a great fresh food store with a 'dark store' on top of it, covering dry grocery and household products. While you do the fun part of your shop on the ground floor, the boring part of your shop is being done above your head, largely by automated picking and based on a list of your favourites that you will have validated beforehand on your mobile. This will be ready to be loaded into your car by the time you have finished shopping.

Not only have you just made your customers happy but you have importantly halved the footprint required for a full supermarket and, with quicker shopping trips, also massively reduced the need for parking spaces.

10 Amazon will buy Ocado

Amazon has been surprisingly slow to properly take on grocery. It's fair to assume, given the speed at which Amazon usually rolls out winning concepts, that its pilots on the US West Coast to deliver a grocery offer to customers haven't been a roaring success.

Most seasoned grocers could have pointed out that ours is a difficult business. And Amazon could have noticed that Ocado, despite having had a ready-made fresh food range through Waitrose, has yet to turn a profit.

The recent launch of Amazon Pantry appears much more up its street. But there is little doubt that it will creep towards an ever-increasing share of the grocery basket.

While Ocado's market cap looks pretty rich to us mere mortals, it would be small change to Amazon. The UK is the most advanced online groceries market in the world measured by share of total grocery, slightly ahead of France and far ahead of the US, and Ocado is the biggest pure-play in the world. At some point Amazon will give it the nod.