

ANALYSIS GROCERY



The future of food retail

Sainsbury's former group development director Luke Jensen spent six years helping to steer the grocer through the downturn and ensuring it emerged unscathed from the difficult years. Here he lists 10 predictions for the future of food retail

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 and there needs to be consolidation.

The inroads made by Aldi, Lidl and Waitrose make one thing clear: smaller players can successfully take share from the largest.

2 Grocery will return to healthy growth within 12 months

Over the past four years grocery has been affected by a decline in volume per capita grocery consumption, and deflation.

There is now a real growth in disposable incomes, which will deliver volume growth. Plus, there will be 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.

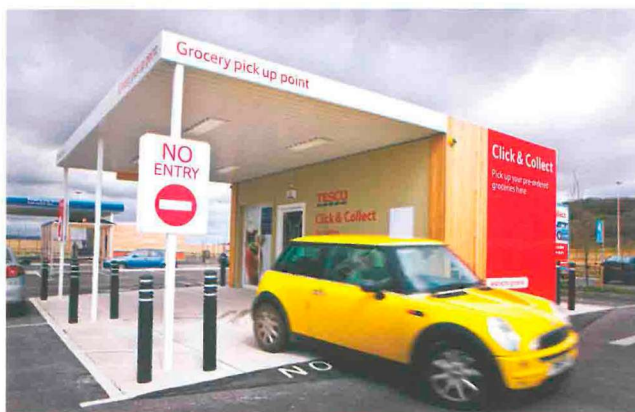
3 The space race must end

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. We have the opportunity of a truce brought on by Tesco's woes, and Tesco itself and the others should seize it.

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. But the big four's premium 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 focused on addressing the value challenge. You can anticipate a slowdown in what has looked like easy gains at both ends.



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

5 The Co-op will retrench to a viable position

It is clear that The Co-op has fallen way behind in an increasingly sophisticated grocery market. 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.

6 Adiós to the stock market

Retail, with its relatively volatile earnings, is not well suited to the short-term pressures of the stock market. Many of the most successful retailers are private. Think Aldi, Ikea, and Auchan, which have all been able to invest in 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.

7 Check-in will become the new check-out

Think of the possibilities if you could 'check-in' customers as they enter a store. You could help them find the products on their list, offer them highly relevant promotions while they shop and, potentially, if com-

bined 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.

8 Loyalty cards will soon be a thing of the past

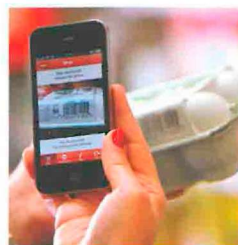
Loyalty used to be all about collecting points. Today it's about using your transactional data to tailor offers or highlight full-price but highly relevant products. The time is upon us for bricks-and-mortar retailers to rethink how they collect data from shoppers, and mobile technology is providing the tools. Cards and points will soon look like very expensive ways of collecting data.

9 The advent of the 'double-decker' store

In the UK where real estate is at such a premium, the 'double-decker' store could revolutionise the weekly shop. 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 you, largely by automated picking.

10 Amazon will buy Ocado

Amazon has been surprisingly slow to take on grocery. 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.



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

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

Luke Jensen

Ocado leads the way in online grocery

