



Living with and responding to uncertainty

The State of Grocery Retail

2023

- Europe -



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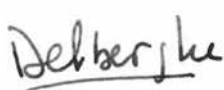
Foreword

For the European grocery sector, 2022 was all about inflation and growing consumer price sensitivity. This led to the biggest decrease in the margins of grocers in five years. In real values, turnover dropped by 7.1 percent, driven by intensified downtrading across income brackets. While margins are decreasing, interest rates and capital costs are rising. As a result, many grocery retailers see the challenge is financing the investments both in sustainability and technology that are necessary to reduce emissions, build resilience, and drive future growth.

This year's report takes a comprehensive look at the key trends shaping the grocery industry in the coming years. How will the fact that consumers plan to save more money on food affect different formats, channels, and categories? Will grocery retailers need to look for further economies of scale to better deal with rising costs and increased margin pressure? To what extent are grocers equipped and resolved to leverage analytics and automation to drive productivity? As e-grocery largely retains the uplift observed during the pandemic and meal delivery grows, will more online offerings reach break-even in 2023? Finally, will more grocers join the ranks of the pioneers who already engage their suppliers to reduce greenhouse-gas emissions that occur during food production?

The State of Grocery report is an annual global publication covering three continents, with dedicated reports for Asia, Europe, and North America. This year's report, "Living with and responding to uncertainty – The State of Grocery Retail 2023: Europe," is a continuation of a partnership between McKinsey & Company and EuroCommerce, designed to provide executives with a comprehensive view of the market and future trends. In preparing the report, we surveyed more than 12,000 consumers across eleven European countries and almost 50 grocery executives from more than 20 countries across Europe. In addition, we interviewed three industry thought leaders and pioneers. We combined EuroCommerce's policy and sector knowledge with McKinsey's global expertise and analytical rigor.

We hope this report will offer new insights and perspectives that will help grocers navigate a time of considerable uncertainty and set their companies up for future growth.



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Living with and responding to uncertainty

In 2022, European grocery was characterized by unprecedented inflation and increasing consumer price sensitivity. Consumers traded down, and grocers experienced substantial cost pressure. The impact of the COVID-19 pandemic on the sector had largely concluded by the end of the year.

In the second half of 2023, we expect European grocery to start recovering. Key trends that will shape the sector this year include a gradual normalization of price and volume, a search for cheaper food, continued margin and cost pressure, a race for economies of scale, profitable online growth, retail media expansion, accelerated technology deployment, and intensified collaboration of grocers with their suppliers to drive sustainability.

by Christel Delberghe, Anton Delbarre, Richard Herbert, Franck Laizet, Daniel Läubli, Rickard Vallöf, and Thomas Rüdiger Smith

Did anyone say inflation?

Inflation was the leading topic on the minds of consumers, grocery retailers, and suppliers throughout 2022. General inflation in the European Union increased from 2.9 percent in 2021 to 9.2 percent in 2022, reaching a peak of 11.5 percent in October. Food inflation was even higher—in some countries, as much as twice as high as general inflation. Household economy experienced a significant pressure as expenses increased much faster than disposable income.¹ In response, many consumers traded down.

Overall grocery sales in Europe³ grew by 2.9 percent in 2022 compared with 2021. This growth was the result of 10.7 percent higher prices, a decrease of 3.6 percent in volume sold, and a downtrading effect of 3.6 percent (Exhibit 1). This implies total grocery volume at 2.3 percent above 2019 levels, with significant variations among countries (see “Food and grocery market KPIs,” pp. 36–7)

Across Europe, consumer downtrading has led to substantial growth for private labels. Compared with 2021, the value share of private labels increased by 1.9 percentage points. However, only 0.8 percentage points of this increase can be explained by same-store downtrading. The remaining part is caused by faster-than-average price increases for private-label goods (0.8 percentage points) and above-average growth of the discount channel, which has a higher private-label share (0.3 percentage points).³

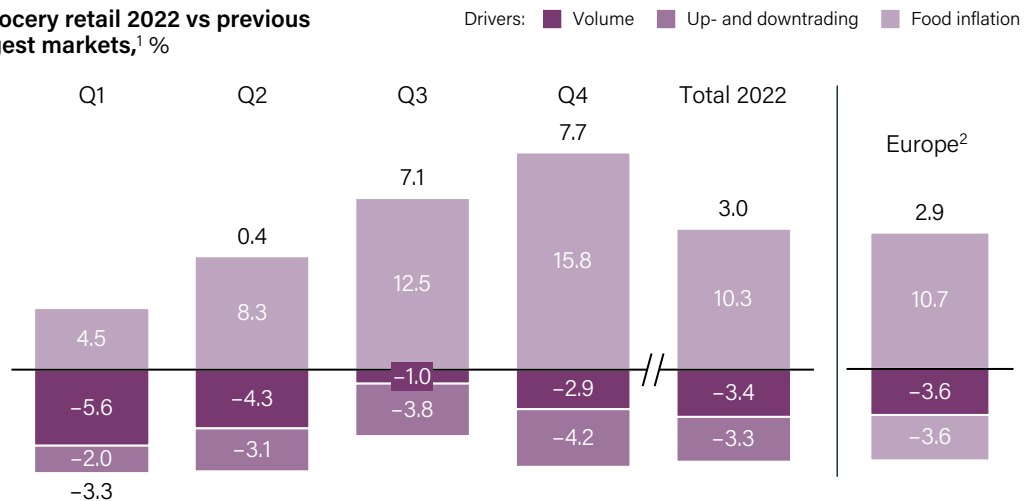
“In 2022, we were dealing with soaring inflation and an overall disruption of the supply chain in Poland, as well as with the impact of the war in Ukraine, our biggest neighbor country.”

– Luís Araújo, CEO, Biedronka

Exhibit 1

European grocery retail market dynamics were characterized by high inflation, volume decline, and trading down.

Growth of grocery retail 2022 vs previous year in 5 largest markets,¹ %



Development vs 2019, Indexed Q1 2019 = 100

	Q1	Q2	Q3	Q4	Total 2022	Europe ²
Market size	111.4	111.6	115.0	115.6	113.4	113.4
Volume	105.0	102.7	102.5	101.8	103.0	102.3

Note: Figures may not sum, because of rounding.

¹ France, Germany, Italy, Spain, and United Kingdom.

² Includes Belgium, Czech Republic, France, Germany, Italy, Netherlands, Poland, Portugal, Spain, Sweden, and United Kingdom.

Source: Europanel (volume and up- and downtrading); Eurostat (inflation)

¹ Disposable income based on Oxford Economics data.

² Includes Belgium, Czech Republic, France, Germany, Italy, Netherlands, Poland, Portugal, Spain, Sweden, and the United Kingdom.

³ Based on Europanel data.



Discounters gained 1.4 percent in market share in Europe relative to 2021. This was largely driven by a combination of aggressive footprint growth in recent years, recovery from the pandemic-related sales dip, price inflation faster than market average and an increase in price sensitivity in the market. Discounters grew at the expense of all other channels: traditional trade declined by 0.8 percentage points, hypermarkets by 0.2, online by 0.3, and supermarkets by 0.1. Online penetration mostly stagnated in 2022, except for the United Kingdom and Sweden, where it declined by about one percentage point.⁴

Because of cost inflation, lower volumes, and more price-sensitive customers, the margins of many European grocery retailers came under substantial pressure. Between 2019 and 2022, the average margin of European grocers decreased by three percentage points, our analysis shows. The EBITDA margin decreased by one percentage point, while the EBIT margin stagnated.

2023: Are we out of the woods?

Consumer confidence is returning as inflation eases, although it is still below prepandemic levels. According to most forecasts, inflation in Europe will continue to abate over the course of 2023. Consumer confidence

in the EU has been rising for five consecutive months; the level measured in February 2023 (-20.6, compared with -29.8 in September 2022) was the highest since the beginning of the war in Ukraine. That said, consumer confidence is still lower than it was in January 2022, before the war in Ukraine (-10.9) and much lower than it was in January 2019, before the pandemic (-5.9).

Grocery CEOs also remain cautious. According to our survey of 47 European grocery CEOs, 44 percent expect 2023 to be worse than 2022, and 33 percent think it will be as challenging as 2022. Only 23 percent believe 2023 will bring an improvement in market conditions (Exhibit 2). Respondents agree that the key themes for 2023 are rising costs and margin pressure, downtrading, and an increased focus on private labels.

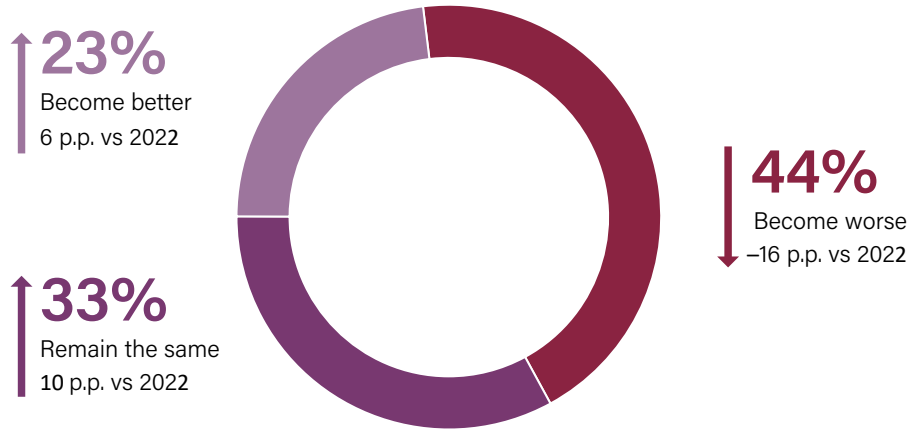
Drawing on our consumer research (Exhibit 3), CEO survey (Exhibit 4), and market analysis, we identified eight trends (Exhibit 5) that we believe will shape the grocery landscape in 2023 and beyond. Some of these themes represent an acceleration of trends we outlined in last year's report, while others are new and will likely prompt grocery executives to reassess and adapt their existing strategies.

⁴ See "Food and grocery market KPIs," pp. 36-7.

Exhibit 2

European CEOs are less pessimistic about market conditions in 2023 compared with last year.

European CEO survey results,
sentiment toward 2023 grocery market conditions¹ (n = 47)



Words describing the grocery industry in 2023²



¹ Question: "Thinking ahead, how do you see the market conditions for the grocery retail industry evolve in 2023?"

² Question: "Please choose the top 3 adjectives you would use to describe the grocery retail industry in 2022."

Source: McKinsey CEO Survey 2023 (n = 47); McKinsey CEO Survey 2022 (n = 57)

Exhibit 3

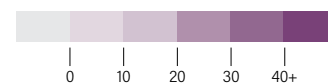
Consumers actively look for more ways to save money across all surveyed countries.

Net intent¹ of consumers toward grocery shopping in 2023 compared with 2022,² %

2023 net intent in %

xx
xx

 Delta net intent to 2022³



	European average	Northern and Western Europe							Southern Europe		Central Europe	
		Germany	United Kingdom	Netherlands	France	Belgium	Sweden	Switzerland	Denmark	Spain	Italy	Poland
Consumers increasingly prioritize price												
Look for ways to save money when shopping	53% +12	55% +14	55% +14	53% +15	56% +13	51% N/A	58% +22	43% +3	52% N/A	58% +10	49% +7	53% +8
Switch to less expensive foods to save money	39% +22	46% +28	43% +24	43% +18	37% +19	39% N/A	49% +36	34% +18	37% N/A	36% +14	27% +19	38% +18
Actively search for best promotions on food	44% +15	36% +24	34% +13	43% +17	46% +13	42% N/A	53% +25	28% +12	47% N/A	59% +19	43% +5	48% +9
Buy store's own food brands instead of known brands	36% +22	46% +27	42% +28	46% +19	36% +25	43% N/A	37% +27	30% +16	29% N/A	34% +18	26% +18	26% +21
Buy high quality/premium food products	-5% -10	-21% -11	-12% -9	-9% -14	4% -11	-10% N/A	-5% -18	-3% +1	-4% N/A	17% -5	2% -7	-10% -12
Healthy and sustainable products become less of a priority												
Focus on healthy eating and nutrition	31% -2	29% 0	25% -3	32% -5	38% 0	33% N/A	21% -8	37% 7	25% N/A	41% -1	39% -2	22% -9
Pay a higher price to get a healthier product	-4% -8	-12% -13	-17% -12	-13% -10	2% -11	-12% N/A	-10% -16	5% -1	-8% N/A	3% -6	13% 0	7% -6
Buy organic/bio products	-3% N/A	-11% N/A	-14% N/A	-6% N/A	-2% N/A	-10% N/A	-11% N/A	9% N/A	-1% N/A	1% N/A	14% N/A	-3% N/A
Buy environmentally friendly products (eg, zero pollution, made of recyclable materials, minimizing packaging)	17% N/A	25% N/A	10% N/A	12% N/A	22% N/A	11% N/A	5% N/A	27% N/A	13% N/A	18% N/A	25% N/A	16% N/A
Online attitudes are stable												
Buy groceries online ⁴	0% +1	-5% +4	7% +3	0% -4	5% +4	-2% N/A	-1% -3	0% +7	-3% N/A	1% +2	0% 0	-3% +3

¹ Share of consumers who want to do more of activity minus share of consumers who want to do less of activity in 2023 vs 2022.

² Question: "Think about 2023. Are you planning to do more, less or about the same of the following? I plan to..."

³ Comparison excludes Belgium and Denmark since they were not surveyed last year.

⁴ New calculation methodology was used: net intent is calculated as share of total population who currently shop online (ie, monthly) and will do more of it plus share of total population who currently don't shop online but will do more (i.e., start) minus share of total population who currently shop online but will do less.

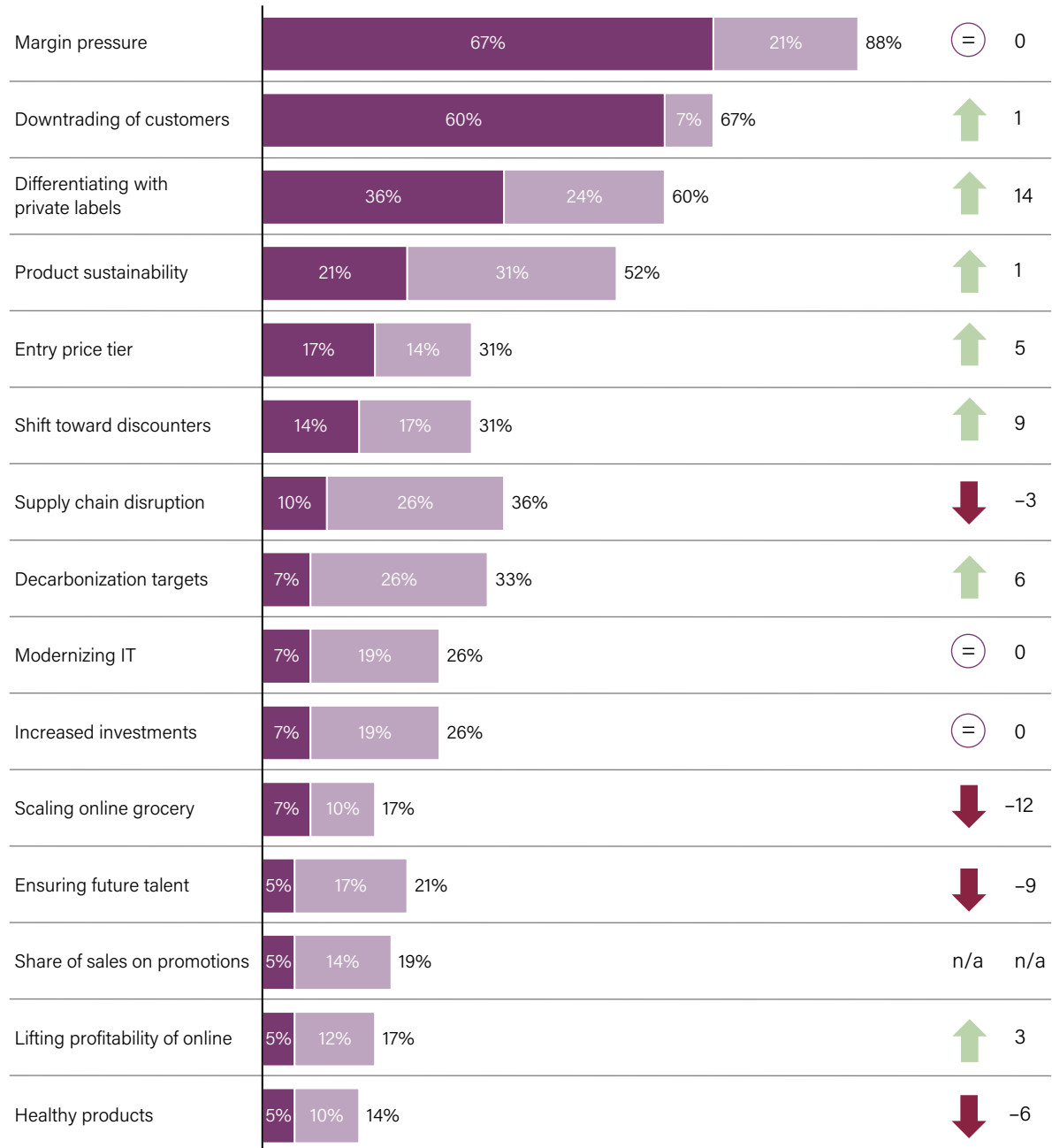
Source: Consumer Survey 2023, n = 12,777, Belgium, Denmark, France, Germany, Italy, Netherlands, Poland, Spain, Sweden, Switzerland, and United Kingdom, sample to match general population of 18+ years of age

Exhibit 4

European CEOs expect inflation, downtrading, and an increased focus on private labels to be the predominant trends in 2023.

Top 15 trends mentioned by CEOs for the grocery industry in 2023,¹
 % of CEOs mentioning trend as top 1-3 or top 4-7 (n = 47)

■ Top 1-3 ■ Top 4-7 ↑ ↓ Increase or decrease of rank compared with last year's survey



Note: Figures may not sum, because of rounding.

¹ Question: "Looking to the near future, what do you think will be the 'top of mind' focus areas that will shape the grocery retail industry in the next 1 to 3 years?"

Source: McKinsey CEO Survey 2023 (n = 47); McKinsey CEO Survey 2022 (n = 57)



Exhibit 5

Key trends

There are eight trends that will characterize the European grocery retail market in 2023.

1 Gradual normalization of price and volume

Retail prices take up to **12 months** to follow commodity price evolution. Commodity prices peaked in Q3 2022, so volume decline should halt as prices normalize in H2 2023.

2 A focus on cheaper food through private labels and discounters

84% of respondents rate private labels similar to or higher in quality compared to branded products.

3 Continued margin and cost pressure

88% of surveyed European executives named margin pressure a top trend for 2023.

4 A race for economies of scale

53% of consumers look for ways to save money when shopping, up from 41% in 2022. This increases the need for economies of scale.

5 The quest for profitable online growth

~75% of UK customers shop online sometimes or always with a different banner than offline.

6 Retail media as a core profit center

+ €11 billion additional annual media spend will go into retail media by 2025.

7 Systematic scaling of automation and technology

1+ p.p. total EBIT margin improvement potential of use-cases in automation, technology and advanced analytics, including Generative AI.

8 Supplier collaboration to solve for sustainability

~50% of value chain emissions of grocers are in the meat and dairy categories.



1 Gradual normalization of price and volume

We expect the first quarter of 2023 to be the turning point after which volume stays relatively stable and inflation gradually normalizes.

In 2022, we saw retail volumes decline across Europe by 3.6 percent compared with 2021. However, most of this drop in volume happened in the second quarter of 2022 because of fading effects associated with the COVID-19 pandemic. In the second half of 2022, volume stayed mostly stable compared with the previous quarters.⁵

We therefore expect that volume will remain stable or slightly decline through 2023 versus the fourth quarter of 2022 run-rate levels, with lower volumes in the first quarter of 2023 than in the first quarter of 2022. Starting in the second quarter of 2023, we expect volume development to be flat or only slightly negative relative to 2022. This would result in a volume decline of 1 to 2 percent for the full year compared with the previous year.

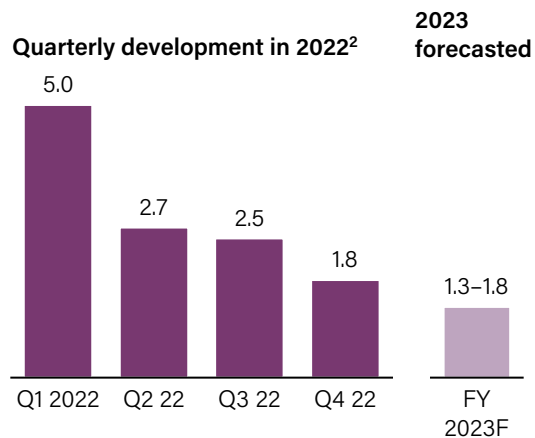
While general inflation declined at the beginning of 2023, food inflation was still rising. However, food commodity prices have passed their peak and decreased significantly in the first quarter of 2023.⁶ At the time of writing, the global agriculture price index was 12.8 percent below its April 2022 peak. Also, the household energy price index decreased by 8.3 percent

in February 2023 compared with January 2023, taking the index 23.9 percent below its October 2022 peak. According to our analysis of historic data, food retail prices adjust to changes in commodity prices with a time lag of about six to twelve months. We therefore expect food inflation to slow down significantly in the second half of 2023.

Exhibit 6

Volume expected to stay roughly stable in 2023 compared to Q4 last year.

Development of volume for 5 largest markets,¹ change vs 2019, %



¹ Includes France, Germany, Italy, Spain, and United Kingdom.
² FY 2022 = 3.0.

Source: Europanel, McKinsey analysis

⁵ See "Food and grocery market KPIs," pp. 36-7.

⁶ "Agriculture price index," updated March 31, 2023.

2 A focus on cheaper food through private labels and discounters

Saving money on food remains a top priority for both high- and low-income consumers in 2023.

All income groups were trading down in 2022, and the difference between income groups diminished. At the beginning of 2022, respondents to our consumer survey who said they wanted to save money on food represented predominantly low-income households. Now, this intent can be observed across income brackets (Exhibit 7). The share of private labels increased across Europe by 1.9 percentage points on average, and the market share of discounters increased by 1.4 percentage points (see “Food and grocery market KPIs,” pp. 36–7).

In 2023, consumers plan to trade down further. According to our survey, 53 percent of consumers say they want to save more money on food, and 36 percent want to buy more private labels than they did in 2022. Consumers also plan to spend less on premium, healthy, and sustainable products to make ends meet. That said, healthy eating remains a key concern for consumers. Depending on the income group, 24 to 37 percent of consumers intend to focus on healthy eating in 2023.

Even if market conditions improve, consumers might continue buying private labels and shopping with discounters. Consumers are highly satisfied with private-label products, with 84 percent of respondents saying the quality of private labels is similar to or better than the quality of branded products. The average consumer is also quite satisfied with discounters. Our survey shows that the weighted average customer satisfaction score in Europe was 14 points higher for discounters than for other formats in early 2023. As a result, we expect that some consumers will not switch back from discounters to supermarkets. As the pressure on household budgets eases, supermarket operators may want to sharpen or upgrade their value propositions to lure target customers back into their stores. In 2022, we saw a strong correlation between market share development and the attractiveness of a grocery retailer’s private labels as perceived by consumers. We expect this to stay true in 2023.

“Once consumers try a private label product, they are often pleasantly surprised by the product quality, and some of them stick with them.”

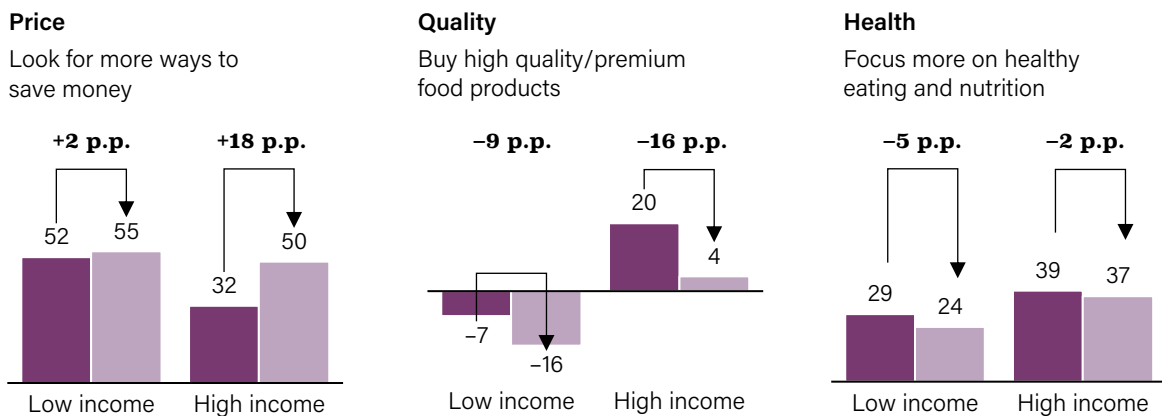
– Nina Jönsson, ICA Gruppen

Exhibit 7

Low- and high-income groups experience similar trends, but at different rates.

Attitude toward grocery shopping in 2023 compared with 2022,¹
net intent of consumers, %

■ 2022 ■ 2023



¹ Question: “Think about 2023. Are you planning to do more, less, or about the same of the following?” Percentage is calculated as net intent (% of people intending to do activity more minus % of people intending to do activity less). Sample sizes for low- and high-income consumers in total are 2,600 and 5,500 respondents, respectively.

Source: McKinsey Consumer Survey 2023, n = 12,777, Belgium, Denmark, France, Germany, Italy, Netherlands, Poland, Spain, Sweden, Switzerland, and United Kingdom sample to match general population of 18+ years of age

3 Continued margin and cost pressure

The profitability of grocers was hit hard in 2022, and the pressure on margins, cash flows, and the cost of capital is likely to stay high in 2023.

Margins decreased for both grocery retailers and food processors (consumer-packaged-goods companies) between 2019 and 2022. The EBITDA margins of grocery retailers decreased by 1.0 percentage point, while the EBITDA margins of food processors decreased by 0.8 points (Exhibit 8).

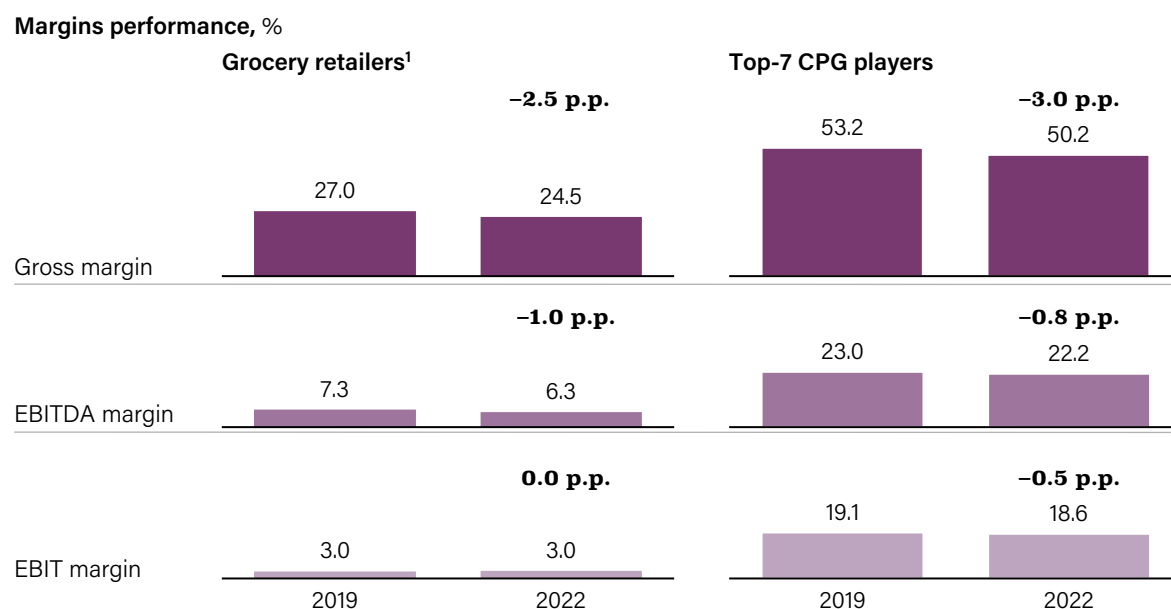
We expect cost and margin pressure for grocery retailers to remain high at least in the first half of 2023 because salaries are likely to grow and many cost increases have not yet reached grocery retailers. According to our CEO survey, dealing with cost and margin pressure is a top 2023 priority for 88 percent of grocery leaders. While energy and many food producer prices peaked in the

third quarter of 2022, it will take time for these increases to affect food processor prices and ultimately reach consumer prices set by grocery retailers. In addition, if governments were to introduce new regulation to limit retail prices, this would put further pressure on the margins of grocery retailers.

At the same time, the level of required investments for grocery retailers is increasing, putting additional pressure on the industry. Between now and 2030, the industry needs cumulative additional investments of €70 billion to €125 billion to drive sustainability, digitalization, IT improvements, and automation—an increase of 25 to 50 percent relative to current levels.⁷ Margin pressure and the increasing cost of capital will make it harder for grocery retailers to finance these investments. The weighted average cost of capital has increased from 2.6 percent in 2021 to 6.7 percent in 2022 because of higher interest rates. This makes it more expensive for grocers to borrow money or raise new capital.⁸

Exhibit 8

Both retailers' and CPG companies' margins face substantial pressure.



¹ Companies in the sample: 12 European grocery retailers (€278 billion total revenue in 2022), – Ahold Delhaize, Axfood, Carrefour, DIA, ELO SA, Eurocash, Groupe Casino, ICA, Jerónimo Martins, Kesko, Migros, and Sonae MC; top-7 consumer packaged goods companies (\$385 billion total revenue in 2022), including The Coca-Cola Company, Nestlé S.A., and PepsiCo, Inc.

Source: McKinsey CPA; company reports

⁷ Transforming the EU retail & wholesale sector, a joint report from McKinsey and EuroCommerce, October 2022.

⁸ "Cost of equity and capital (Europe)," Damodaran Online, January 5, 2023; "Cost of equity and capital (Europe)," Damodaran Online, January 5, 2022.



4 A race for economies of scale

Structural measures to achieve synergies and economies of scale are likely to intensify as smaller grocery retailers are disproportionately affected by current market developments.

The current environment has placed significant demands on grocery retailers to manage cost. Scale has long been a benefit in the market. For example, bringing large volumes to the table in negotiations with leading brands can lower the cost burden substantially. Similarly, investments in technology and sustainability are easier to absorb if they can be spread and leveraged across a large network of stores. In a situation characterized by increasing price sensitivity, margin pressure, and substantial investment needs, the value of scale will further increase.

In 2023, we foresee an accelerating race for economies of scale. Larger players may pursue more intense M&A strategies or seek to form broader partnerships—strategies that have often proved valuable in times of turmoil. In contrast, smaller players are likely to explore alternative ways of achieving scale, such as through bundle purchasing, joining franchising networks, and forming partnerships for joint investments. Some indications of this trend were already apparent in the second half of 2022. For example, Rewe has announced that it will invest €5 billion by 2025 to expand its footprint in Europe through targeted investments and smaller acquisitions. Ahold Delhaize took on the Jan Linders chain as an Albert Heijn franchisee. Aldi North announced that it will exit the Danish market, while Coop Denmark is merging formats to capture synergies. The Scandinavian purchasing group Coop is teaming up with the French retailer Carrefour to make French, Italian, and Spanish private-label products available in the Nordics.

5 The quest for profitable online growth

After a period of postpandemic stagnation, we expect that e-grocery will return to moderate growth and that players will maintain a strong focus on profitability. Incumbents will face increasing pressure from pure players. Meal delivery will likely overtake e-grocery in terms of market size.

E-grocery penetration stagnated in 2022, but we expect it to return to a long-term growth trajectory going forward. Most EU countries have retained the growth they have seen during the COVID-19 pandemic.

Increasingly, consumers consider online and offline as independent channels with different value propositions. In the United Kingdom, for example, according to our Consumer survey, around 75% of customers shop online sometimes or always with a different banner than offline. Consumers choose the best offline offer and best online offer for respective journeys, and this requires retailers to ensure a strong offer per channel.

Some pure players, such as Rohlík, have already reached profitability and raised additional capital despite the challenging investor environment (see "Interview with Tomáš Čupr," p. 29). In contrast, quick commerce

players (instant grocery) might face another difficult year as economics and investor sentiment remain challenging. In the long run, we still see a market for instant grocery in Europe, but with higher price points than mainstream online supermarkets.

"I believe online can be more profitable than offline, as long as you don't try to be all things to all people."

– Tomáš Čupr, Group CEO, Rohlík Group

The market for meal delivery looks more promising. Meal delivery continues to grow more quickly than e-grocery. If the growth trajectory continues, meal delivery will overtake e-grocery in terms of market size in the next two to three years. Given the higher margins of meal delivery, the potential profitability of this market is also attractive.

Reaching profitability in e-grocery is a challenge, but we see an increasing number of players either reaching a break-even point or on a clear path to achieve it in the next year or two.

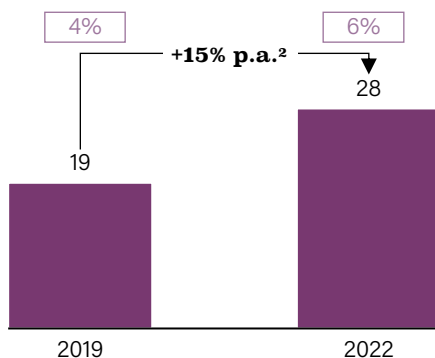
Exhibit 9

The market is growing faster for meal delivery than for e-grocery.

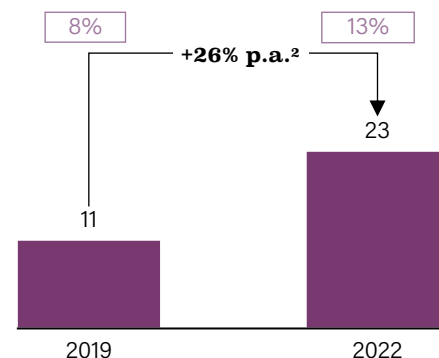
Market size for e-grocery and meal delivery, 2019–22 deflated values,¹ € billion

xx% CAGR 2019–22 xx% Online penetration 2019–22

E-grocery³



Meal delivery



¹ Deflated values; considers Germany, Italy, Netherlands, Spain, Sweden, United Kingdom.

² Per annum.

³ Scheduled and instant grocery.

Source: Euromonitor; Europanel; Eurostat; Institute of Grocery Distribution; Statista

Marketing managers report strong performance and anticipate further growth of retail media.



© Getty Images

Source: McKinsey Retail Media Network Survey Europe, November 2022, n = 140

6 Retail media as a core profit center

Across Europe, top players are either launching or expanding their retail media businesses, which are likely to become a substantial EBIT driver for the grocery industry.

The emergence of retail media (RM) as the third wave of digital advertising puts grocery players in a favorable position to provide targeted advertising opportunities and helps boost their profitability. RM is highly attractive to advertisers because it allows for much more granular targeting than other forms of advertising. In addition, it allows advertisers to measure the return on ad spending (ROAS) much more accurately at the product level by using the retailer's sales and website data. In the United States, RM sales make up to 10 percent of online food sales and yield EBIT margins exceeding 50 percent.

While RM is not a new phenomenon, there is a lot of growth potential yet to be captured in Europe. In 2022,

the European RM market was worth about €10 billion, less than one-quarter of the value of the US market.⁹ The European market is expected to grow to about €21 billion in 2025.¹⁰ According to a McKinsey survey, 90 percent of CPG advertisers plan to increase their spending on RM in the next 12 months, compared with a cross-industry average of about 60 percent. This spending will mostly add to existing CPG spend allocated to grocers. To take advantage of this trend, 18 of the 30 largest European grocers have already launched or started to develop their RM businesses.

Looking forward, RM is likely to become a must-have for European grocers. Leaders are already scaling up their ecosystems beyond the core offering. For example, Carrefour has entered a partnership with Publicis and Citrus Ads to monetize joint capabilities and provide an RM platform for smaller grocery retailers ("RM as a service"). Ahold Delhaize has declared that it will buy stakes in the adtech platform Adhese. Tesco and Sainsbury's have announced TV network deals to leverage their data for tailored TV advertising.

⁹ In 2022, the US retail media market reached \$41 billion and about 12 percent of total media spending, while Europe reached €10 billion and about 7 percent, respectively. Total media spend based on Statista data.

¹⁰ Daniel Knapp, "Retail media – megatrend for the next digital decade?," IAB Europe, May 25, 2022.

7 Systematic scaling of automation and technology

Technology remains an important driver of value creation for the industry, but it will require €40 billion in additional investments by 2030. Generative AI is emerging as a potential next frontier.

The automation of warehouses and stores continues to accelerate. In 2023, the EU-27 automation market for retail was worth €2.5 billion. It is expected to grow at an annual rate of 13 percent in the coming years, reaching about €6 billion in 2030. Grocery retailers increasingly automate their warehouses fully, including through automated picking and depalletizing. Automation is expected to be one of the largest investment categories required to enable the digital transformation of grocery in Europe. Cumulatively, the investment need will total about €18 billion by 2030 across the European grocery retail industry.

At the same time, IT modernization is becoming a key enabler of the technological transformation of grocery retail, and it puts a strain on investment budgets. IT modernization includes the migration of older legacy systems that are no longer supported to new systems,

the acceleration of IT development to keep up with pure players, cloud computing, omnichannel implementation, and the adoption of new analytical tools. These efforts will cost grocery retailers up to €19 billion cumulatively by 2030.¹¹ However, IT modernization also offers a massive opportunity for value creation if it is set up and conducted as a true business transformation.

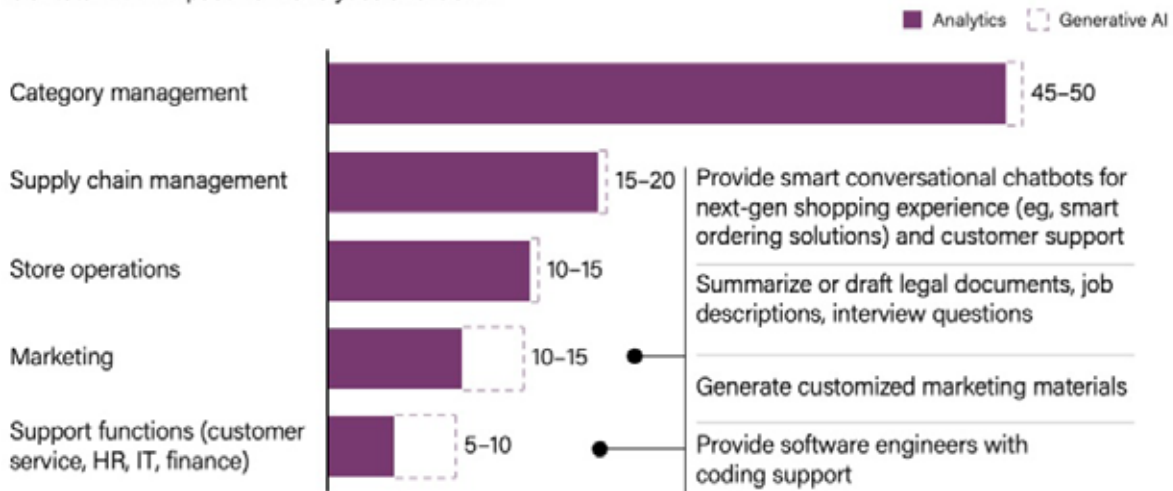
Advanced analytics is becoming more mature, and it is increasingly part of the DNA of grocery retailers. We see more grocers moving beyond exploring and testing to building core capabilities for executing high-impact use cases. The EBIT margins of grocers can be improved by about one percentage point with analytics applications that were ready to deploy at the time of writing. About 80 percent of this potential is linked to ten use cases, including pricing, store-specific SKU selection, and supply chain planning.

Looking ahead, generative AI (GenAI) has the potential to unlock new value pools. The most promising examples of GenAI applications are expected to be in marketing (for example, creating personalized creative content and messages) and customer interaction (for instance, enhancing conversational chatbots and virtual assistants).

Exhibit 11

Generative AI creates additional value potential for retailers, with a focus on marketing and support functions.

Expected value of analytics and on-top potential from GenAI
% of total EBIT impact from analytics and GenAI



Source: McKinsey analysis

¹¹ Transforming the EU retail & wholesale sector, McKinsey, October 2022.

8 Supplier collaboration to solve for sustainability

The importance of sustainability continues to increase for grocers, despite the current dip in consumer demand. While the investments required to reduce Scope 1 and 2 emissions are substantial, the necessary actions are clear. In contrast, Scope 3 requires further understanding.

Regardless of the current dip in consumer demand for sustainable products, the decarbonization of grocery is picking up speed, driven by the European Green Deal, the expectations of investors, and a shift to green debt financing. The number of retailers with operations in Europe that have set science-based targets for decarbonization increased from 56 in 2021 to 110 in 2022. Among grocery retailers, this number increased from 22 in 2021 to 36 in 2022.¹²

Retailers have a clear understanding of the initiatives that are required to address Scope 1 and 2 emissions. More than 60 percent of greenhouse-gas emissions in Scope 1 and 2 can be abated in a way that saves

cost and yields a positive net present value (NPV) – for example, investing in more energy-efficient freezers. However, these initiatives require substantial capital expenditures that could total €25 billion to €65 billion by 2030 across the European grocery retail industry.¹³

Since Scope 1 and 2 emissions represent only 7 percent of all emissions associated with retail, engaging suppliers and consumers to reduce Scope 3 emissions will

be crucial to reach net zero. Meat and dairy production should take priority, as these categories represent half of all Scope 3 grocery emissions.¹⁴

To move the needle on Scope 3, retailers are starting to establish joint initiatives with their suppliers. For example, Carrefour has engaged suppliers to commit to reducing their CO₂ emissions by 20 megatons by 2030. Tesco has partnered with a bank to offer preferential borrowing rates to suppliers that disclose carbon data. Programs for consumer engagement are also emerging. For example, Kesko has launched an app through which consumers can set and monitor climate targets for their shopping baskets.

DEFINITION

Scope 1 – direct emissions generated by an organization

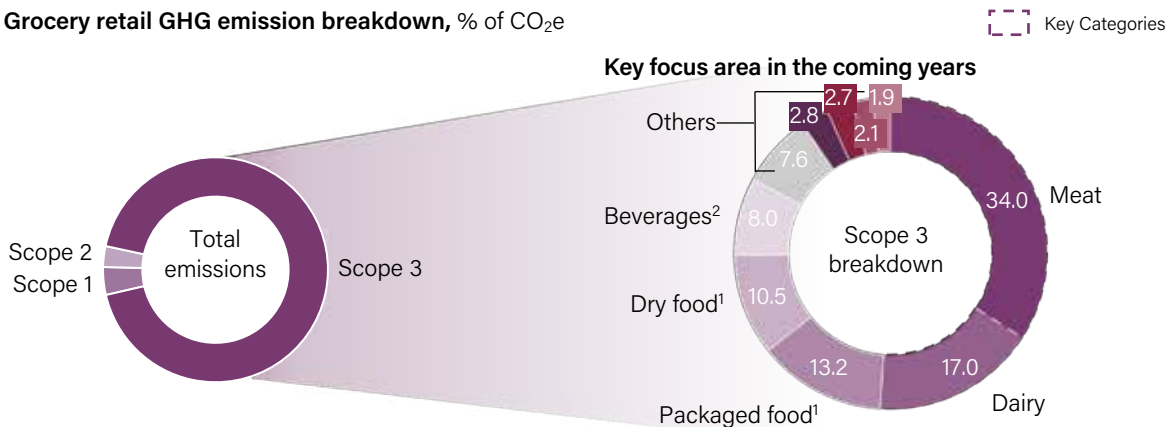
Scope 2 – emissions generated by production of purchased energy

Scope 3 – indirect emissions from up and down the value chain

Exhibit 11

The equation for Scope 1 and 2 is directionally solved and accounts for a minor share of emissions, while Scope 3 remains a key issue.

Grocery retail GHG emission breakdown, % of CO₂e



¹ Processed meat, processed seafood and others (pizza, ready meals, soups, etc.).
² Both alcoholic and soft beverages.
 Source: Euromonitor; Poore & Nemecek

¹² "Companies taking action," Science Based Targets, accessed April 5, 2023.
¹³ Transforming the EU retail & wholesale sector, McKinsey, October 2022.
¹⁴ Bartosz Jesse, Alessa Perotti, and Daniel Roos, "Decarbonizing grocery," McKinsey, July 22, 2022.



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Implications for grocers

The current environment is challenging, but it offers opportunities to grocers that act boldly. According to our research, companies that took decisive action during the global financial crisis of 2007–08 performed better throughout the crisis and experienced higher growth once the crisis was over than those that did not. On average, these outperformers reduced their costs more aggressively than competitors during the crisis, which gave them the capacity to invest in growth opportunities. They also divested nonperforming parts of their business (for example, certain formats) more systematically than their peers. Once the crisis was winding down, these companies were among the first and the most determined to make investments and

acquisitions in attractive growth segments. Looking ahead, we see three strategic priorities for grocery retailers that will help them emerge stronger from the current period of disruption and uncertainty.

Strengthening private-label assortments and capabilities

A stronger private-label capability will help retailers remain attractive while consumers are trading down and during the subsequent recovery period. Our experience shows that a broader and more attractive private-label offering in the lower-priced part of the assortment shows the highest correlation with market share gains in the current market environment. To succeed, grocery

“Digitalization is the most important megatrend. One aspect of that is e-commerce. Another crucial aspect of digitalization is data leverage. This applies both to consumer data and operational data. Advances in analytics, artificial intelligence, and automation will help make our business more efficient.”

—Luís Araújo, CEO, Biedronka

retailers might want to take inspiration from the mindset and practices of leading CPG companies in the way they manage their private-label offerings. Additionally, they should consider building a design-to-win approach that revolves around key consumer needs and global trends such as value, health, and sustainability. To claim their fair share of growth during a potential recovery period in the second half of the year, retailers should also start thinking about innovations in the premium part of their assortment.

A strong private-label design capability will also help to differentiate the assortment offering.

Creating room for investments by acting boldly on profitability

To tackle cost and margin pressure effectively, grocers need to manage operational expenditure tightly. To create the necessary fact base for data-driven supplier negotiations and price setting, grocery retailers will want to examine how the prices for ingredients and other supplier costs (such as energy) are changing and seek to understand how this should be reflected in the purchase price of each product. Taking a cross-functional view of supply chain costs and looking at them end to end from supplier to store can unlock further opportunities to increase efficiency. In parallel, grocery retailers should seek to boost the productivity of capital expenditure—for example, by challenging infrastructure investments and reviewing store footprints. Another important lever to free up funds for investments in future growth is to identify and divest parts of the business (for instance, store formats, channels, or categories) that do not yield enough profit and do not support the company’s strategic objectives. Moreover, grocery retailers will want to accelerate their online ventures’ path to breakeven. For example, they could tailor the online value proposition more to online customer needs, invest in supply chain automatization, and tap into high-margin adjacent opportunities such as retail media and meal delivery.

Investing in future growth

While the two strategic priorities above represent areas of immediate focus for most grocery retailers, it is equally important to look further ahead and invest in future growth drivers such as analytics, sustainability, and e-grocery.

- **Moving from analytics exploration to implementation.** To unlock the full potential of analytics, grocers need to shift gears from exploring and testing use cases to building the required capabilities for implementing them at scale and embedding them into their daily processes. In our experience, 80 percent of the value from implementing analytics comes from ten use cases, so companies should focus their management attention on these.
- **Collaborating across the value chain to reduce emissions.** The required reduction in Scope 1 and 2 emissions is often NPV-positive and should therefore be implemented as soon as possible.¹⁵ But net zero can only be achieved by collaborating across the value chain. Grocery retailers have an essential role to play in helping suppliers and consumers navigate the reduction of Scope 3 emissions, especially in high-emission categories such as meat and dairy. Generally, grocers should ensure that sustainable alternatives are available on their shelves and create transparency for consumers.
- **Gearing up for future e-grocery growth.** While online shopping did not grow in 2022 and is still losing money on average, we believe it will reach profitability within the next two to three years and at least double by 2030. Investing in e-grocery now, and possibly also in meal delivery, might enable grocery retailers to overtake organizations that are currently reducing their investments.

¹⁵ “Decarbonizing grocery”, McKinsey, July 22, 2022.



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“Because of our size, what we do has an impact on the whole market, and we take that responsibility very seriously.”

Nina Jönsson

President and CEO, ICA Gruppen AB

PHOTO: ICA REKLAM

ICA is the leading Swedish grocery retail chain, with 1,560 grocery stores in Sweden, Estonia, Latvia and Lithuania.

Q: Over the past ten years, ICA has been among the most successful grocers in Europe. What are the key drivers of that success?

A: Our biggest asset is the entrepreneurship of our store owners. Originally, ICA was an association of individual store owners who came together to collaborate on things like purchasing, logistics, and marketing. ICA Gruppen was established only ten years ago, and to this day, anything that comes out of our central functions is thoroughly tested in a small number of stores and refined before we scale it up. Our store owners keep their ears close to the ground, and they make sure that we bring only the most promising new products or categories to the market. Additionally, they help us adjust our offering to whatever is required at the local level.

Another important success factor is our evolving ecosystem of adjacent businesses. Next to grocery stores, we also run Sweden's leading pharmacy chain and a bank that has grown out of our customer card. Everything we do revolves around everyday consumption.

Q: What are your expectations on how market conditions for the grocery retail industry will evolve in 2023? What could that mean for a player such as ICA?

A: I think market conditions will remain challenging throughout 2023. The disposable income of consumers has taken a major hit because of the rising cost of living and because salaries are not growing as fast as prices. So there is a lot of price pressure that will lead to further polarization in the sector. In the past, consumers often did all their shopping with us; now, many of them go to discounters, at least for basic items. But at the same time, many people are spending more money at restaurants. So I believe that convenience will still be an important factor in the future. Consumers will always look for ways to save time and make their lives easier, and that is what we offer.

Q: Do you see indications of customers trading down more?

A: Absolutely. For example, we saw a big increase in the share of private labels in the fourth quarter of 2022, and I believe it will continue. Once consumers try a private-label product, they are often pleasantly surprised by the product quality, and some of them stick with private label.

I have no doubt that the share of private labels in the market will continue to grow, and we will keep investing in our private-label offering to take advantage of that trend.

Q: Do you observe any changes in consumer attitude toward sustainability? And how are you driving your sustainability agenda at ICA?

A: Right now, consumers are focused on saving money, so they are buying fewer sustainable products. Our share of ecological products is currently at an all-time low, around 3 percent. But I believe that this is a temporary dip. Consumers care about sustainability, and so do we. We remain committed to our sustainability targets, and we continue to invest in decarbonization.

“Right now, consumers are focused on saving money, so they are buying fewer sustainable products. But I believe that this is a temporary dip.”

For example, we are reducing the packaging material of our private-label products. We also work with local growers as much as we can to avoid transportation of goods over long distances, and also because we know that our customers value local products. At the same time, we have to make sure we stay competitive. For example, when we tried offering only Swedish meat in our stores in Sweden, we found that the high price premium drove some customers to other players offering imported meat at much lower prices. But we are keeping sustainable options in our assortment. If we delist sustainable products now, they may not be available when the demand

picks back up. Because of our size, what we do has an impact on the whole market, and we take that responsibility very seriously.

Q: What about meat alternatives? Is that a big topic for ICA?

A: It's a very big topic. We believe that consumers will eat less meat in the future. We are working with a lot of smaller companies and start-ups that focus on meat and dairy alternatives. We need to have innovative products in our assortment to meet this growing demand. That is why we are committed to developing and offering products that are good for the environment and that taste good.

As vegan diets are becoming more popular, we also see a lot of opportunities for further differentiation and innovation in produce. Our fruit and vegetable department used to comprise just a handful of products. Now, it has around 500 SKUs. Eating green is a huge trend in our markets. That trend will continue, and we will continue to innovate in this area.

Q: Do you observe any variation in performance across different formats? How does ICA's multiformat configuration and overall positioning shape your actions in the context of current trends?

A: We have four different store types, but our customers don't think about that. They shop at ICA. So we will decrease the differentiation between formats somewhat. All our formats need to communicate value for money, regardless of whether it is a supermarket or a hypermarket, and we need to have the best assortment in our catchment areas.

The main shift that I see happening in the market is not between formats but between channels. Channels that communicate exclusively on price have been the winners in the recent past. But not all consumers feel the same price pressure, and proximity is still key. So we focus on that, and we make a point of adjusting our proposition to the local environment in each store.

Q: And what are your observations regarding e-grocery?

A: In Sweden, our main market, our online share is about 3.5 percent of total sales. Most of it is

store pickup, rather than home delivery, because many customers are not prepared to pay for home delivery at the moment.

Now that COVID-19 seems to have run its course, the share of online is actually decreasing, but we believe it will grow in the future. The big spenders, such as families with kids, still want to save time, and online shopping helps them do that. So we will continue to invest in online. We believe it has the potential to reach up to 10 percent of our total sales.

In contrast, instant delivery and quick meals are not a priority for us, at least not at scale. We conducted tests in urban areas, such as downtown Stockholm, and they were relatively successful, but we don't think instant will be a major growth driver for ICA.

Q: How do you deal with margin pressure?

A: We have a major productivity program to achieve improvements in our operations, including logistics, and bring down costs across the entire organization. For example, we will increase the number of robots we use and take advantage of AI to make our operations more efficient. In general, we work on productivity to be able to invest in loyalty and value for money.

On the supplier side, we still see some price increases, but we expect prices to come down in the second half of the year. Energy prices will remain high, though, as the war in Ukraine continues, and that means production will remain expensive, so we have to stay vigilant.

Q: What are the major opportunities for ICA going forward?

A: The vast amount of traffic we attract is a huge opportunity. Not only do we have a lot of shopper traffic in our stores but we are also one of the most popular websites in Sweden. For example, people who search for a good pancake recipe routinely land on our site, looking for inspiration and ingredients. The question is what happens next. What else can we offer them? How can we create pleasant surprises? The opportunities to increase our share of wallet are endless if we play our cards right.

More broadly, our ecosystem is a major source of opportunities. Take our customer card, for example. When banking interest rates were low, we introduced the best savings interest rate in the market in Sweden. Customers rushed to put money on their cards. Within the first two weeks alone, we saw millions transferred into these card accounts, and now customers are spending this money to shop at our stores. That is just one example of how we create synergies in our ecosystem of everyday consumption.

“We will increase the number of robots we use and take advantage of AI to make our operations more efficient.”

Q: Is there anything else you would like to share with your fellow grocers?

A: I'm very passionate about our sector as an entry point into the world of employment for young people. In Sweden, we are one of the biggest employers, and a lot of people find their first job at one of our stores.

As an industry, we have a huge responsibility to model our values, create a good environment, treat the people who work for us well, and create opportunities for them within and beyond grocery stores. ●



“The reason for our continued success is that we offer something that people don’t use out of necessity. They use it because they want to.”

Tomáš Čupr
Group CEO, Rohlík Group

Rohlík Group is a leading European e-grocery retailer active in the Czech Republic, Hungary, Austria, Germany and most recently also in Romania.

Q: Rohlík is a fairly young company. Can you tell us the story of why and how you launched it?

A: McKinsey made me do it. Ten years ago, in 2013, McKinsey published a report on the future of online grocery in Europe. It listed all the barriers that were stopping people from buying groceries online: limited assortments, concerns about reliability, freshness, and speed. When I founded Rohlík in the Czech Republic one year later, in 2014, I made it my mission to clear away all these barriers.

The core of the Rohlík proposition is same-day delivery. When we launched, nobody was doing same-day delivery, at least not in Europe. And we went even further. We brought the delivery window down to 90 minutes, and we created an unprecedented proposition in terms of assortment differentiation, reliability, and service. If customers weren't happy, we just gave them their money back, no questions asked. It was all about being customer friendly, and it really took off.

Q: What about profitability?

A: We broke even in the Czech Republic after four years, in 2018, and we have been profitable there ever since. Our profit margin is well over five percent. The success in the Czech Republic helped us raise venture capital for geographical expansion. In subsequent years, we launched in Hungary, Austria, Germany, and, most recently, Romania. We have proven that the Rohlík proposition is loved all over Europe, and we're on the path to profitability across markets.

In fact, I believe online can be more profitable than offline, as long as you don't try to be all things to all people. We focus on affluent customers in urban areas. Going forward, we will invest in warehouse automation to achieve further productivity gains. We will also make more comprehensive use of AI and machine learning in areas like order planning. We know all our customers, and we know where all of our goods are at any time. For a lot of brick-and-mortar players, that is not the case, and we will leverage that structural difference to boost our profitability.

Q: Was COVID a major driver of growth for Rohlík in the past two years?

A: Not really. We started scaling the business well before COVID. When the pandemic hit, we were already a €200 million business, with venture funding in the magnitude of €5 million. I admit that the lockdowns did accelerate our growth, but fundamentally, I believe that you don't need external events to scale if you have a good proposition. We were growing at a rate of 100 percent before COVID.

Q: And did sales drop off when lockdowns were lifted?

A: No. We continue to grow at more than 40 percent, and it's mostly like for like, because we didn't really add cities. The reason for our continued success is that we offer something that people don't use out of necessity. They use it because they want to. As I said, COVID did bring some new customers, and a lot of them found that they liked this way of shopping, and they stayed with us.

Q: Now that the pandemic is over, a lot of consumers are struggling with the effects of inflation. Do you see indications of customers trading down more?

A: We don't see much of it. The affluent urban customers we target don't feel huge pressure on their wallets. They value our big assortment and the fast delivery we offer. And when people do trade down, we make sure they trade down with us. We make it very hard for them to leave us for another retailer.

Q: How do you do that?

A: Value for money is key. The price per SKU is constantly increasing, so some people are buying fewer SKUs. In effect, they feel that they get less for their money. So to make sure these shoppers stay with us, we are pushing value for money.

Last year, we froze the prizes of basic commodities like milk, rice, and potatoes, about 60 SKUs in total. In some cases, our customers got milk for half of what they would have had to pay elsewhere. So, essentially, we let people feed their families at last year's prices.

“When people do trade down, we make sure they trade down with us. We make it very hard for them to leave us for another retailer.”

Looking ahead, it's obviously a challenge to give consumers a good price without compromising your margin and your profitability too much. It's not a big issue for us, but I see many smaller online players struggling with that, especially those that launched during the pandemic.

Q: The pandemic gave rise to a lot of instant delivery propositions. What are your thoughts on that segment?

A: There is very little room for differentiation in that space. Instant is driven by only a handful of SKUs, mostly snacks and drinks. The locations are tiny, and you have to have many of them. And if we offered the wide, differentiated assortment our customers have come to expect from us in those highly dispersed locations, we would end up throwing much of the stock away. Our share of fresh goods is around 45 percent. So instant is not particularly attractive for us.

Q: As you expand to new countries, do you find that your model is universal? Or does it require a lot of adjustment?

A: You need to have a local assortment, but the structure of the assortment is universal. The key is to focus on affluent urban customers. If you do that, the model will work everywhere. In Prague, we deliver to roughly 25 percent of all households. There are no exact numbers, but we can even reach revenues in the magnitude of 50 to 70 percent of Tesco's offline revenue in

specific micro markets in which we compete with them. That is certainly something worth replicating in other markets.

Q: And how are the big brick-and-mortar grocers reacting to your success?

A: There have been many experiments and discussions, but when it comes to real execution at scale, we don't see many players trying, at least not in the markets in which we are present. One of the big offline players terminated its online trials three times while we kept growing. It's a question of mindset. We would rather disrupt ourselves than be disrupted by someone else.

Q: Germany is one of your big bets for future growth. How will you address the high price sensitivity in that particular market?

A: People say that Germans are so price sensitive, but we don't really see that. It might be true in aggregate, but our target segment is different. It's a question of how deep you go into the data. You don't want to get lost in the average. There is a big base of affluent, demanding customers in Germany, and we are well set up to serve them profitably. The offline players we are up against in this segment need a high number of locations to achieve scale, and a lot of the high-end SKUs they are offering don't move very fast. We don't have these problems. In Munich, for example, we serve 30 percent of all households out of a single fulfillment center in Garching.

Q: Is it generally easier to succeed in e-grocery as an online-only player?

A: I think it is. You can't just bring offline online. You have to start from scratch. That said, even pure play is far from trivial. It's very hard to execute it well on a daily basis. But for offline players venturing into online, it's even harder. For example, they will always struggle with consistency across channels in terms of assortment and prices. You might have to create a separate brand to solve that problem, and that is going to dilute your profit margin for several years.

“We look for a founder-like quality in the people we hire. The will to innovate drives our success.”

Q: As you keep growing, what kind of people do you hire?

A: We look for a founder-like quality. The will to innovate drives our success in the Czech Republic, and we need more of that as we expand to new markets. ●



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“The core of our value set is our discount mindset. All our decisions are driven by our goal to transfer as much value as possible to our customers.”

Luís Araújo

Chief Executive Officer, Biedronka

PHOTO: LUÍS ARAÚJO

Biedronka is the largest retail chain in Poland, with more than 3,000 stores in over 1,100 towns, and has been present in the Polish market for 27 years.

Q: What are your expectations for the grocery retail industry in 2023?

A: In 2022, we were dealing with soaring inflation, an overall disruption of the supply chain in Poland, and the impact of the war in Ukraine, our biggest neighbor country. Throughout the first half of 2023, the situation will remain challenging. We still face high levels of inflation and supply chain issues. Consumer confidence will remain negative, and private consumption will stagnate at best.

The second half of 2023 will be different. We expect decreasing levels of inflation and a consistent recovery of the supply chain, which will allow for the progressive growth of volumes. In addition, we expect a progressive decline of fuel, electricity, and gas prices. At the same time, growing salaries will offset at least part of the negative impact of inflation on consumption. Currently, there are no signs of a recession. That said, we expect increasing levels of competitiveness in our market. All players will fight for volume and sales growth to neutralize the cost increases driven by inflation in 2022.

Q: What do you think will be the most important trends in the next three years?

A: Digitalization is the most important megatrend. One aspect of that is e-commerce, especially quick commerce. During the pandemic, a growing customer segment discovered the convenience of shopping online. Biedronka is relatively new to e-commerce, but we are determined to turn our late arrival on the scene into a source of differentiation, especially with respect to sustainability, which is in itself an important trend. For example, we try to put as many of our couriers on bikes, rather than in trucks, and have them deliver orders in the proximity of our stores. We are also exploring delivering to delivery boxes, rather than to the homes of customers, to keep routes short and curb fuel consumption. Generally, we aspire to design all e-grocery systems with sustainability in mind.

Q: Do you think digitalization will change the game beyond e-commerce?

A: Absolutely. Advances in analytics, artificial intelligence, and automation will help make our business more efficient. And as digital natives grow up, we will also see a progressive shift of

communication from traditional to digital media, including social platforms such as TikTok and Instagram. We live in a society in which different groups of people align their behavior and follow those that are perceived as trendsetters in their respective peer groups. Going forward, we believe that influencers will play an important role in marketing, and we see this development as an opportunity to promote our brand promise and our value proposition in a new way that will resonate with younger customers.

Q: You mentioned sustainability as an important trend in its own right. How does this trend affect the way Biedronka does business?

A: There is a growing preference among consumers for healthier and fresher food as well as for local production and distribution. In the future, consumers will pay more attention to the origin of products and the transparency of the supply chain. Fruit and vegetables constitute an important sales category for us, and we aspire to increase local sourcing in this area, leveraging the fact that Poland is an agricultural country. Generally, sustainability is one of the top criteria we use when it comes to selecting and giving incentives to suppliers. For example, we reward suppliers that reduce their carbon footprints with higher sourcing volumes.

Additionally, our logistics system is designed to minimize the distance from distribution centers to stores and to maximize the number of stores served by each distribution center. We also have a program to reduce energy consumption and promote green energy all along our supply chain. Finally, we invest in eco-packaging, and we lead the market regarding the incorporation of environmentally friendly solutions in our brands and products. In the future, we will also take the lead on increasing the share of electric vehicles in the fleets we use.

“Sustainability is one of the top criteria we use when it comes to selecting and giving incentives to suppliers. For example, we reward suppliers that reduce their carbon footprints with higher sourcing volumes.”

Q: What does it take for a grocer to leverage opportunities around technology and sustainability?

A: The most important prerequisite is to have the right people. This includes both experienced workers and young talent with the skills that are needed to incorporate software and other analytical tools into the way grocers do business. As the European population ages, labor shortages will increase, and we will have to

make sure we are well equipped to compete for the talent, knowledge, and skills we need to succeed, both at the level of individual companies and as a sector.

More broadly, every grocer needs a vision that is aligned not only with technological evolution but also with the continuous evolution of the value proposition. Because change is expected to accelerate on several fronts, retailers will need agility to anticipate new opportunities and adapt their practices accordingly.

Q: What do you see as the driving forces of Biedronka’s continuing success?

A: First and foremost, it’s the quality of our labor force. Many of our leaders and managers have been with us for more than 20 years. They are fully aligned with the company vision, and they are connected by a set of strong, shared values. The core of our value set is our discount mindset. All our decisions are driven by our goal to transfer as much value as possible to our customers. Efficiency, productivity, and cost minimization jointly form the backbone of a system that delivers the lowest cost possible and enables us to offer the lowest prices in the market.

Q: In the first three quarters of 2022, your sales grew substantially compared with 2021. What were the predominant drivers of this growth?

A: Before the war in Ukraine, basket size was the most important growth driver. When the war began, traffic became the dominant growth driver. When inflation peaked in the third quarter of 2022, consumption and basket size started to deteriorate. Since then, traffic has been the principal driver of growth.

Q: How much of the volume uptake was driven by customers trading down?

A: Downtrading is only a minor factor. We are gaining market share because consumers appreciate our promise to offer the lowest prices in the market, no matter how difficult the circumstances may be. We have the best price perception in Poland by far. The positive effect of this positioning predates the recent crisis. Even if the competition gets stronger, we are confident that customers will stick with Biedronka. Our commitment to efficiency and productivity enables us to protect consumers from price increases more effectively than the market on average. In the early days of the inflation surge, we even implemented an “anti-inflation shield” with a strong commitment to refrain from increasing the prices of the most frequently bought products in the first half of 2022.

Q: That sounds like quite an investment. What was Biedronka’s strategy to address cost pressure in 2022?

A: We accelerated our technological transformation to increase productivity and decrease costs. One example is our investment in renewable energy. We aim to equip more than 2,000 of our stores with solar panels. This is expected to bring energy costs down by about 15 percent, and it will also help to reduce the emission of greenhouse gases.

At the same time, we keep investing in supply chain optimization. Most recently, we opened a new distribution center that helps reduce transportation costs. But the best strategy to deal with cost pressure is to fight for market share gains and volume growth to help dilute costs. This is the core of our strategy, and we will keep doing it. ●

“The best strategy to deal with cost pressure is to fight for market share gains and volume growth to help to dilute costs. This is the core of our strategy, and we will keep doing it.”

Food and grocery market KPIs in 2022

Year-over-year (YoY) growth in 2022 vs 2021 and 2019, %

		Northern and Western Europe					Southern Europe			Central Europe		Weighted average ¹	
		Germany	United Kingdom	Netherlands	France	Belgium	Sweden	Spain	Italy	Portugal	Czech Republic		Poland
Food market - segment growth													
Grocery retail value² € billion		181	143	36	176	29	23	83	102	13	17	46	
Grocery retail value growth² percent change	vs 2021	+0.9	+0.9	+4.6	+3.3	+1.8	+3.2	+2.2	+4.6	+1.4	+6.9	+11.4	+2.9
	vs 2019	+14.6	+12.9	+16.5	+8.9	+12.8	+20.0	+10.5	+13.5	+14.8	+14.8	+22.7	+13.4
- Modern grocery retail value growth³ percent change	vs 2021	+3.4	+1.2	+4.5	+3.4	+1.4	+3.5	+4.1	+6.2	+2.2	+8.0	+13.9	+4.1
	vs 2019	+17.9	+13.9	+15.5	+10.0	+12.5	+20.5	+13.6	+20.9	+15.8	+19.4	+33.2	+16.1
- Other grocery formats value growth⁴ percent change	vs 2021	-9.1	-1.0	+5.3	+2.6	+3.0	-2.0	-3.5	-1.2	-3.6	+3.3	+6.3	-1.5
	vs 2019	+1.6	+7.9	+22.6	+3.0	+13.9	+8.1	+1.4	-8.2	+8.7	+1.4	+4.3	+3.8
Grocery retail deflated value growth⁵ percent change	vs 2021	-10.3	-9.1	-5.5	-3.7	-6.6	-7.5	-8.4	-4.3	-10.2	-8.7	-2.7	-7.0
	vs 2019	-3.4	+0.8	+3.5	-1.1	+1.3	+4.8	-5.0	+1.8	-1.2	-7.0	-0.4	-0.8
Foodservice value growth⁶ percent change	vs 2021	+49.6	+33.3	+50.7	+46.5	+43.0	+26.3	+33.0	+42.6	+39.4	+47.1	+32.3	+41.8
	vs 2019	+0.3	+10.7	+15.2	+16.1	+20.5	+14.0	-3.0	+6.2	+1.4	+12.3	+36.5	+10.0
Modern retail - revenue breakdown													
Total⁷ percent change	vs 2021	+3.4	+1.2	+4.5	+3.4	+1.4	+3.5	+4.1	+6.2	+2.2	+8.0	+13.9	+4.1
	vs 2019	+17.9	+13.9	+15.5	+10.0	+12.5	+20.5	+13.6	+20.9	+15.8	+19.4	+33.2	+16.1
- Hypermarkets⁷ percent change	vs 2021	-1.2	-0.1	N/A	+3.6	-1.0	+1.8	+5.3	+1.2	N/A	+6.9	+5.9	+1.7
	vs 2019	+6.8	-1.7	N/A	+3.9	+1.6	+12.7	+9.6	-1.7	N/A	+11.4	+7.2	+4.1
- Supermarkets⁸ percent change	vs 2021	0.0	+0.6	+3.6	+3.0	+1.1	+3.0	+3.8	+5.2	+1.1	+4.5	+11.4	+2.7
	vs 2019	+21.4	+6.0	+10.1	+8.2	+9.6	+10.2	+12.3	+19.2	+12.4	+14.8	+20.5	+13.5
- Online⁹ percent change	vs 2021	+6.7	-9.2	+3.3	+2.2	-2.7	-14.6	-8.4	+4.6	-20.8	+12.8	+41.1	+1.8
	vs 2019	+63.1	+73.9	+107.2	+53.9	+113.9	+95.8	+59.5	+62.3	+14.8	+61.5	+111.9	+70.4
- Discounters¹⁰ percent change	vs 2021	+7.6	+16.3	+9.3	+5.3	+2.6	+12.4	+7.0	+12.7	+11.0	+11.1	+16.0	+9.8
	vs 2019	+16.0	+33.8	+12.3	+11.0	+10.7	+38.1	+16.7	+37.6	+30.3	+28.4	+45.6	+22.6
Modern retail - space breakdown													
Total percent change	vs 2021	+0.4	+0.6	+1.8	+1.1	+1.4	+1.3	-0.1	+2.4	+3.2	+2.0	+5.7	+1.2
	vs 2019	+2.7	+1.6	+5.2	+3.0	+3.4	+3.5	+1.8	+3.0	+12.4	+4.8	+11.1	+3.3
- Hypermarkets¹¹ percent change	vs 2021	+0.3	-0.3	N/A	-2.2	-0.3	+0.8	-4.8	-0.3	0.0	+0.6	+0.7	-0.9
	vs 2019	+3.9	+0.4	N/A	-0.8	-0.3	+2.4	-0.8	-3.4	+2.6	+1.2	-11.9	-0.2
- Supermarkets¹² percent change	vs 2021	-0.6	-0.1	+1.4	+2.3	+1.2	+0.2	+2.2	+2.5	+2.9	+3.2	+4.5	+1.3
	vs 2019	-0.7	-0.6	+3.6	+1.1	+2.1	+2.9	+1.2	+1.1	+13.1	+7.6	+2.3	+1.0
- Discounters¹³ percent change	vs 2021	+1.1	+3.7	+3.1	+4.1	+1.7	+6.6	+1.0	+6.2	+7.5	+5.1	+8.6	+3.6
	vs 2019	+4.4	+14.6	+10.7	+9.1	+5.1	+11.7	+2.8	+9.8	+23.8	+14.1	+28.0	+9.7
- Convenience¹⁴ percent change	vs 2021	+1.3	+1.2	+8.8	+2.9	+2.0	-0.2	+1.6	-3.7	+0.8	+0.1	+7.0	+1.6
	vs 2019	+3.1	+1.9	+25.3	+9.4	+5.2	-1.0	+7.7	+9.2	+7.3	-1.6	+23.5	+7.2
Sales/m² percent change	vs 2021	+3.0	+0.7	+2.6	+2.3	0.0	+2.1	+4.1	+3.8	-0.9	+5.9	+7.7	+2.8
	vs 2019	+14.8	+12.1	+9.8	+6.8	+8.8	+16.4	+11.5	+17.4	+3.0	+14.0	+19.9	+12.4

		Northern and Western Europe					Southern Europe			Central Europe		Weighted average ¹	
		Germany	United Kingdom	Netherlands	France	Belgium	Sweden	Spain	Italy	Portugal	Czech Republic		Poland
Grocery retail – price and volume growth													
Volume¹⁵ percent change	vs 2021	-4.5	-6.1	-4.8	-0.5	-4.0	-7.4	-5.4	-1.0	-5.6	-2.8	-2.5	-3.6
	vs 2019	+1.6	+1.8	-1.2	+3.9	+0.2	+6.1	-3.4	+6.9	+5.2	-0.1	+0.4	+2.3
Basket size volume¹⁶ percent change	vs 2021	-5.8	-7.8	-10.9	-4.5	-5.8	-7.4	-5.3	-3.2	-11.0	-7.4	-3.5	-5.8
	vs 2019	+4.7	+14.0	+0.1	+3.8	+5.4	+8.3	+0.2	+1.1	-2.7	+6.6	+16.0	+5.5
Frequency percent change	vs 2021	+1.4	+1.8	+6.8	+4.2	+1.9	0.0	-0.1	+2.3	+6.1	+5.0	+1.0	+2.3
	vs 2019	-3.0	-10.7	-1.3	+0.1	-4.9	-2.0	-3.7	+5.8	+8.1	-6.3	-13.4	-3.0
Food & beverage price changes (inflation) percent change	vs 2021	+12.5	+10.9	+10.7	+7.3	+9.0	+11.7	+11.6	+9.3	+13.0	+17.0	+14.4	+10.7
	vs 2019	+18.7	+12.0	+12.6	+10.1	+11.4	+14.6	+16.4	+11.5	+16.1	+23.5	+23.1	+14.3
Up/down trading percent change	vs 2021	-6.1	-3.1	-0.7	-3.2	-2.7	-0.1	-3.2	-3.3	-4.9	-6.0	-0.2	-3.6
	vs 2019	-4.9	-1.0	+4.8	-4.8	+1.1	-1.3	-1.7	-4.7	-6.1	-6.9	-0.8	-3.0
Other key grocery indicators													
Online-channel market share percent, full year		3.7	11.7	8.0	8.9	4.2	6.2	2.6	3.0	2.5	3.8	1.9	6.1
Private-label value share¹⁷ percent, full year		33.7	50.9	43.7	37.8	38.7	25.1	29.2	30.5	42.2	28.0	21.1	36.3
Private-label value share¹⁷ p.p. share change	vs 2021	+3.2	+1.3	+2.3	+1.1	+2.0	+1.5	+2.9	+1.7	+3.9	+2.3	+0.8	+1.9
	vs 2019	+2.4	+0.8	+1.2	+0.7	+0.6	+2.9	+4.2	+3.1	+6.2	+5.3	+2.7	+1.9
Promo share percent, full year		20.4	25.7	20.9	14.9	20.1	37.7	11.8	33.7	24.3	53.0	24.2	22.4
Promo share p.p. share change	vs 2021	+1.6	-3.0	-0.4	-0.7	-0.8	+1.8	-0.8	-3.9	-0.8	+0.6	-1.8	-0.9
	vs 2019	+2.1	-6.8	-0.1	0.0	N/A	+9.8	-1.1	-7.5	-1.2	+0.9	+0.9	-1.3
Consumer indicators													
Consumer confidence points change, full year	vs 2021	-14.7	-24.0	-21.8	-11.2	-16.1	-21.8	-13.7	-14.4	-14.5	-17.0	-8.3	-15.7
	vs 2019	-17.9	-25.8	-18.5	-10.0	-9.0	-13.4	-20.0	-8.8	-23.2	-28.5	-20.2	-16.8
Eco-active consumers¹⁸ percent, full year		32.0	24.0	25.0	20.0	20.0	N/A	12.0	24.0	19.0	9.0	24.0	23.2
Eco-active consumers¹⁸ p.p. share change	vs 2021	-13.0	-3.0	+2.0	+1.0	-14.0	N/A	-8.0	-3.0	-5.0	-2.0	-4.0	-5.5
	vs 2019	-1.0	0.0	+8.0	+2.0	-0.4	N/A	-4.0	N/A	N/A	-4.0	+6.0	+0.5

¹ Weighted according to total grocery revenues for each country. If for a given KPI group the data is not available for some countries, these countries are excluded from the weighted average.

² Data measures the value of fast-moving consumer goods (FMCG) and fresh purchases that are taken home (excludes value of purchases that are consumed on the go, at work, etc.).

³ Consists of hypermarkets, supermarkets, online stores, and discounters.

⁴ Remaining store types not covered by "modern retail." Examples include small corner store, pharmacy, drugstore, and open market.

⁵ Inflation-adjusted grocery retail value growth

⁶ Includes food and beverage service activities providing complete meals or drinks fit for immediate consumption (eg, traditional restaurants, self-service, or takeaway restaurants).

⁷ Large retail outlets under common ownership with sales area >2,500m² (according to Europanel).

⁸ Smaller retail outlets under common ownership, excluding discounters. Sales area from 450m² to 2,500m² (according to Europanel).

⁹ Any FMCG and fresh products bought on the Internet and either delivered or collected.

¹⁰ Limited-range discount retailers such as Aldi, Lidl, Biedronka, Norma, Netto Marken-Discount, Eurospin, Penny, Dia, and Leader Price (according to Europanel).

¹¹ Sales area between 3,000m² and 6,000m²; substantial nongrocery store offering (according to IGD).

¹² Sales area ranging from 300m² to 6,000m²; store offering is predominantly food (according to IGD).

¹³ Sales area from 300m² to 1,500m² (potentially up to 6,000m²); narrow range (<4,000 SKUs) with a focus on everyday low prices. Offerings typically dominated by private label, and stores operate with low-cost business model (according to IGD).

¹⁴ Stores typically under 300m², with convenience-focused ranges usually up to 6,000 SKUs and long opening hours (according to IGD).

¹⁵ Number of units sold.

¹⁶ Average number of units sold per basket.

¹⁷ Private label is defined as any brand/product that is owned and sold by an individual retailer and not sold by other retailers. This includes any product with the store name in the brand such as [Store name] Cornflakes and similar. It includes all "brands" sold by discounters or any other retailer that are owned and sold exclusively in their own stores. Fresh products sold with a retailer name/exclusive "brand" on the shopper package/receipt are included; loose no-name fresh products are excluded.

²⁸ Consumers who take the most actions to reduce their environmental impact, such as using their own bags, bottles, and cups and avoiding plastic.

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