European Commercial – April 2021

SPOTLIGHT
*Savills Research*

# European Food and Groceries Sector


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• Consumer trends • Occupier demand • Food sector trends • Investment activity

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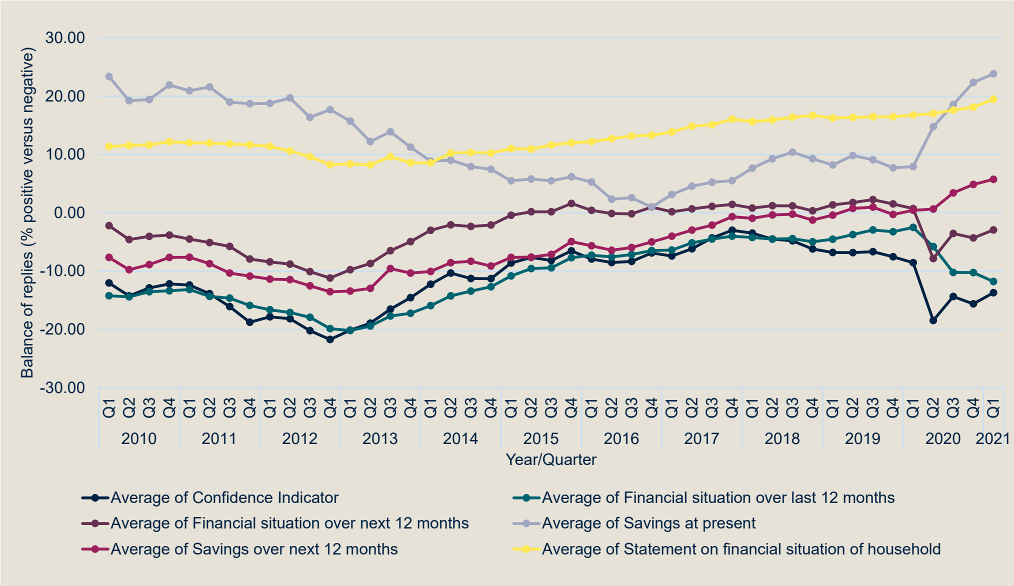
**Figure 1: Consumer confidence** remains downbeat whilst precautionary saving remains high




**Source:** European Commission Directorate-General for Economic and Financial Affairs

# Grocery performance bucks wider consumer trends

Consumer confidence remains suppressed; however, the grocery sector shows strong resilience. The key question remains, how to predict consumer behaviour in the new normal.

**Consumer confidence at its lowest point since the global financial crisis (GFC), but sentiment tentatively improves**

Since Covid-19 took hold in March 2020, we have seen **consumer confidence** fall into negative territory across Europe, akin to levels last seen in 2012 during the GFC. In Q2 2020, at the onset of the pandemic, figures dropped by close to 1,000 basis points to -18.5%, from -8.6% we saw the previous quarter. This is the lowest it has fallen since Q4 2012, in the midst of the last global recession when consumer confidence stood at -21.73%.

The decline in confidence has, unsurprisingly, been matched by **consumer sentiment** with regard to the financial situation across each of the European nations. At the outset of the pandemic, sentiment fell by 8.6% from a positive outlook of 0.7% to a negative feeling at -7.8%. However, at the end of Q1 2021, consumer opinion on national finances has shown a marked improvement and currently stands at -2.9%. This suggests that consumers across Europe believe we are perhaps through the worst of the pain financially, in response to Covid-19, and that financial security should improve somewhat, albeit tentatively, as the difficulties associated with the pandemic continue to linger into this year.

**Savings ratios rise, improving consumer perception of personal finances**

In response to the trepidation toward national finances and the fall in consumer confidence brought about by Covid-19, it has been of no surprise that precautionary **saving** has also dramatically increased over the last 12 months. Average 'Savings at present' rose considerably from a position of 7.9% in Q1 2020 to a decade high of 23.8% by Q1 2021; the financial difficulties associated with the global recession clearly living long in the memory, resulting in consumers opting to err on the side of caution with regard to their personal finances.

One positive upshot of this

> "We could see a portion of consumers opt to spend more enthusiastically, driven by the pent-up demand following the last 12 months of heightened savings."

**At the end of Q1 2021, consumer opinion on national finances has shown improvement and stood at -2.9%.**

**Average 'Savings at present' rose considerably from a position of 7.9% in Q1 2020 to a decade high of 23.8% by Q1 2021.**

**Despite the sharp decline of retail sales growth across Europe in 2020, food and grocery sales increased by 7.5%.**

**The online growth rate of the grocery sector went up from 19.5% in 2019 to 56.1% in 2020.**

**The online share of Food & Drink jumped from 3.4% to 5.3% on average across Western Europe and is projected to reach 12.6% by 2025.**

behaviour, however, has been the consequential effect of the financial security of individual consumer household finances. It may seem counter-intuitive, but in the period where both consumer confidence and perception of national finances fell, the average statement on the **financial situation of households** continued to rise steadily, as it has been doing for the last few years. Consumer perception was at 16.8% at the start of the pandemic and has risen to 19.5% by the beginning of the New Year. Although only a modest climb, the continued gradual upward trajectory suggests that with a dramatic increase in precautionary saving, brought about by long periods of national lockdown and a reduction in our daily expenditure, overall consumers believe their personal finances have somewhat improved, despite the financial difficulties in their wider economies and the subsequent retraction in the confidence of the consumer.

**Unemployment expectations are high, but pent-up demand will drive consumer spending**

We could, therefore, witness **consumer spending** behaviour swing in two directions this summer as the vaccination programme continues across Europe and lockdowns begin to ease. Low consumer confidence and job uncertainty are expected to uphold high personal saving ratios until well into 2021, fostering a much more cautious approach to spending for some. Figure 2 highlights how average **unemployment** expectations rose exorbitantly in Q2 2020 as Covid-19 became globally apparent. The balance of public perception more than tripled from 16.2% at the beginning of the year to 57.8% by the beginning of March. Although this position has been steadily falling ever since, as European governments introduced their own measures of financial support for businesses and their working populations, it still remains high at 47.4% at the end of Q1 2021.

Conversely, that being said, we could see a portion of consumers opt to spend more enthusiastically, driven by the pent-up demand following the last 12 months of heightened savings, as we steadily relax lockdown and social distancing measures throughout Europe. As a result, GlobalData is anticipating **European consumer spend** on all retail goods to increase by 0.8% in 2021, compared to the year prior. When it comes to consumer spending behaviour, we are, in reality, therefore much more likely to see a 'normal distribution' in statistical terms, rather than a full swing in either direction that favours either a position of caution or one of avidity. The majority of consumers will undoubtedly tighten their belts and restrict spending in some sectors, only to increase their expenditure in others, thus sitting somewhere between the two extremes of the consumer spending spectrum.

**Retail sales – opposite fortunes for groceries and fashion**

It is fair to say, however, we have indeed seen a significant polarisation in trading results by subsector over the previous 12 months. While spend across more pandemic sensitie segments such as fashion, travel and eating out have been suppressed, it has fostered growth opportunities across other sectors, with grocery emerging as one of the biggest beneficiaries. Figure 3 highlights a decline in total **retail sales** growth across Europe in 2020 as the impact of the pandemic took hold and consumer confidence began to fall. The average growth rate across all European area countries fell by more than half, from 3.9% in 2019 to only 1.7% in 2020. By comparison, clothing and footwear sales have been one of the worst affected

**Figure 2: Average of unemployment expectations in Europe** over next 12 months have been faling but remain high


**Source:** European Commission Directorate-General for Economic and Financial Affairs subsectors, sales falling from a position of 2.8% growth in 2019 to an -18.7% decline in 2020.

Nevertheless, food and grocery sales have very evidently bucked that trend and posted the complete opposite change in fortune over the last 12 months; sales growth in the sector increased by four-fifths, from 4.2% in 2019 to 7.5% in 2020. This makes sense when you consider that foodstore operators are considered to be an essential retail operator and have been allowed to continue trade across Europe throughout the pandemic. Furthermore, with the hospitality industry closed for large periods and national lockdowns in place throughout the continent, consumers have been servicing nearly all their meals from home, with the exception of local takeaway services, which has meant supermarkets have been even more pivotal than they would ordinarily be in feeding the public during the last 12 months.

Analysing this trend on a country by country basis, all European nations saw an increase in food and grocery sales in 2020 from that seen the previous year, with the only exceptions being Bulgaria, Poland and Portugal. 18 of the 23 countries analysed saw sales growth in 2020 exceed the average across all of Europe for 2019. Those nations where food and grocery sales growth was most prominent in the last 12 months include Greece, Hungary, Norway, Romania, Russia, the Slovak Republic, Turkey and the UK, exceeding the 2020 European average in each case.

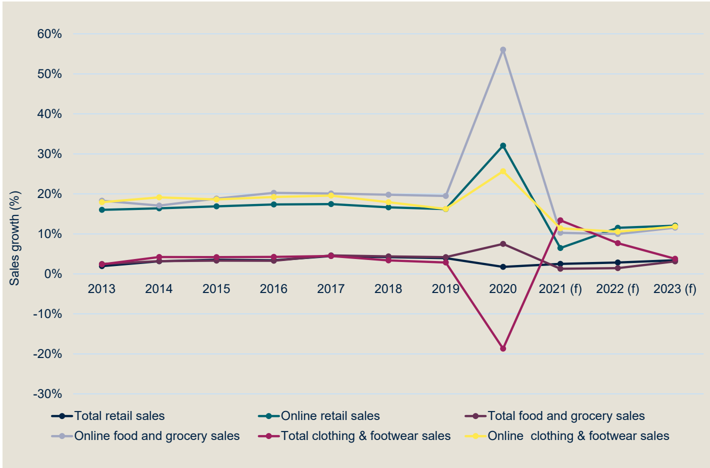
### Sharp increase of online groceries sales

The exponential pattern of consumer spend growth for food and grocery has been even more considerable when we look at online sales in isolation. We inevitably saw a decline in total retail sales in 2020 as many physical stores were forced to shut for large periods. However, **online retail sales** grew in contrast, as consumers were forced to make a number of purchases they would typically make in-store over the internet. Total online sales climbed from 16.2% growth in 2019 to 32.0% in 2020. Even online clothing and footwear sales grew despite a fall in sales in the market overall; those purchases that were made were largely done so online, and thus e-commerce fashion saw growth of 16.2% in 2019 rise to 25.6% in 2020 across Europe as a whole. Grocery, however, once again saw the most positive uptick in performance. The online growth rate went from 19.5% in 2019 to nearly three times greater at 56.1% in 2020, highlighting a huge increase in the number of consumers across Europe ordering their groceries via the internet during the pandemic.

All European countries saw an improvement in their **online food and grocery penetration rates** in 2020, with all except Bulgaria posting an above-average rate of growth compared to the average for Europe the previous year. The Netherlands, Norway, Sweden, Turkey and the UK all saw particularly marked growth, exceeding the average for Europe in 2020 also, with Germany and Spain two other notable economies coming very close to it (figure 4).

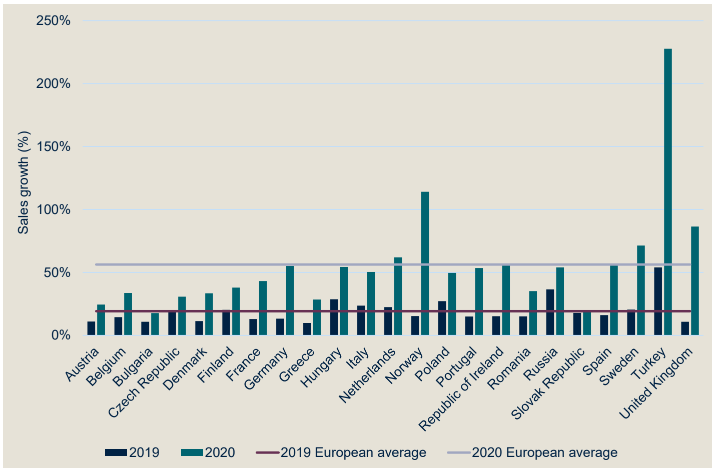
In the UK, the ability to rapidly increase online food and grocery sales in this way was possible due to the mature and extensive geographical coverage of the country's key foodstore operators, each with an pre-existing online purchase and a delivery offer in place. However, even in less mature markets where food retailers had less developed online networks, they invested rapidly in upgrading their online ordering and delivery service in order to keep up with demand. Moreover, evolving consumer needs and habits have underpinned the expansion of new concepts, such as Q-commerce and the growth of pure players (see section 'Pure players and new concepts').

**Figure 3: Annual European retail sales growth**
Online food and grocery sales saw the highest rise




**Source:** European Commission Directorate-General for Economic and Financial Affairs

**Figure 4: Online food and grocery sales growth by country** (2019 versus 2020)




**Source:** European Commission Directorate-General for Economic and Financial Affairs

Forrester predicts that the online share of Food & Beverage will rise from 5.3% in 2020 to 12.6% in 2025

### WILL THE NEW CONSUMER HABITS STICK?

**Despite the dramatic growth of sales and online trading, foodstore profitability remains restricted by low margins and rising logistics and staffing costs. Operators are looking for ways to reduce costs through automation, delivery outsourcing and last-mile delivery optimisation (see section 'Mini-logistics hubs'). Additionally, it is still uncertain to what extent new consumer behaviours will become the norm post-pandemic. When the economy reopens it is likely that grocery retailers will start losing market share of food and drink spending to cafes, bars and restaurants, putting further pressure on their profit line. According to a recent (McKinsey/ EuroCommerce – March 2021) survey, the net intention of consumers is to continue spending more money on groceries post-pandemic than they did pre-pandemic. Besides, as the number of new online buyers will continue to rise, so will the online retail sales and the online grocery sales accordingly. Forrester predicts that the share of online buyers (as % of total population) will rise from 67% in 2020 to 75% in 2025. With regards to Food & Beverage online share specifically, Forrester forecasts a rise from 5.3% in 2020 to 12.6% in 2025.**


# United Kingdom: Strong occupational growth set to continue

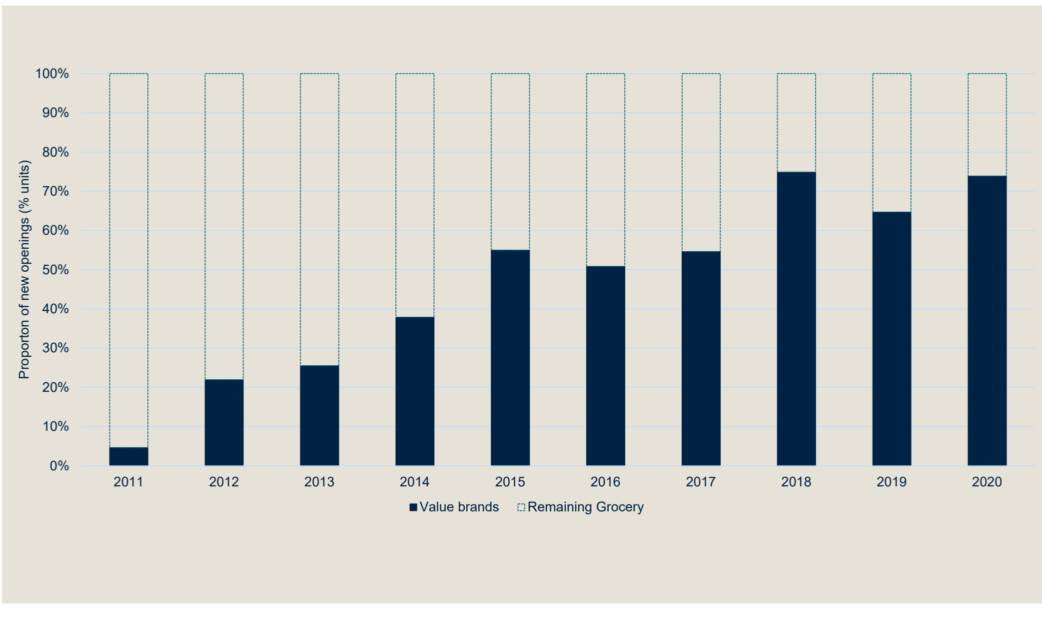
With a significant pandemic-related uptick in grocery spending, strong annual portfolio growth is set to continue, particularly from the value-orientated brands.

The grocery sector has been recording well above the decade average for new **foodstore openings** in recent years, particularly in the retail warehouse segment. 2018 saw 179 new grocery stores in the out-of-town market, whilst 2019 saw as many as 221, a record high for the last ten years and well above the average at 143. What is even more encouraging is this strong growth performance continued in 2020, despite the pandemic and the obvious disruption to trade across the wider retail market. By the end of Q4, new foodstore openings accounted for 153; this pattern has continued into 2021 with 55 new foodstore outlets opening in the market, more than a third of the way toward the decade average with three quarters of the year remaining.  As a result of this activity, grocery units accounted for more than a fifth of new retail warehouse openings in 2020, the first time it has done so since 2011.

A look at the top 12 most acquisitive brands in the retail warehouse market for 2020 draws attention to the aggressive strategy of portfolio expansion for each of the **value grocers** in particular, even against a background of weak consumer confidence amid the global pandemic. The immediate post-GFC period showed that if consumers swing into belt-tightening mode, then it is the value end of the spectrum that benefits most. This suggests that whatever the political and economic outcome of the recent pandemic, the strong growth in demand from the value retailers will very likely be sustained. By way of an example, Lidl opened 46 new stores in 2019, totalling over 84,000 sq m. 2020 saw them open 55 new stores, equating to just over 90,000 sq m . Aldi and Iceland have continued to pursue strong growth strategies also, opening 42 and 18 stores, respectively, all at over 1,100 sq m gross. Since 2015, value-orientated brands have in fact accounted for more than half of all new grocery openings each year, and as much as three-quarters of all supermarket acquisition in 2020 (figure 5).

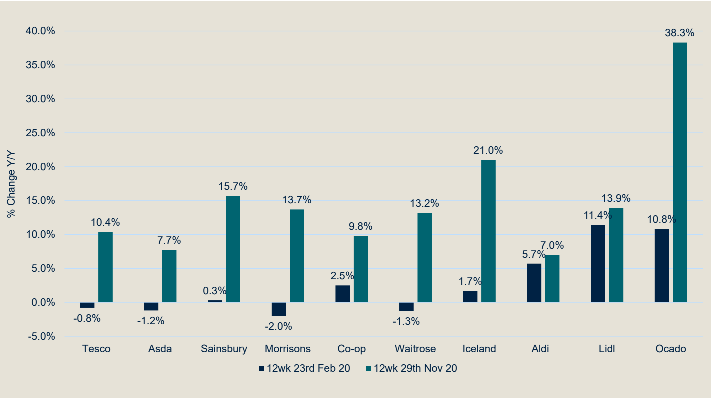
During the pandemic, consumers have turned to grocery operators in the absence of hospitality and food service locations, with food sales set to outperform the total market

**Figure 5: Value-orientated brands as a proportion of new foodstore openings** accounts for as much as three quarters of activity by the end of Q3



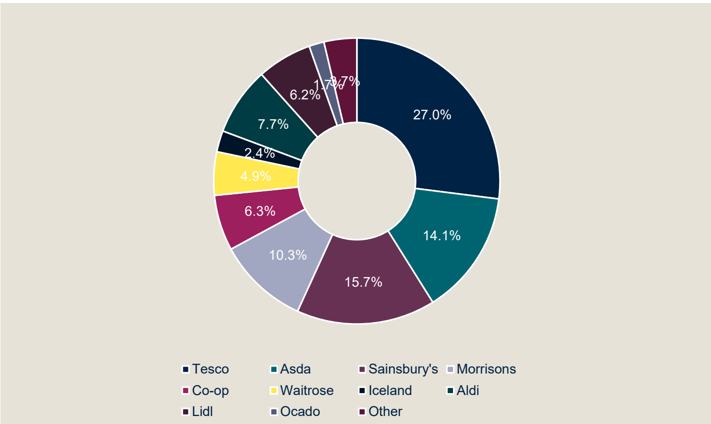

**Source:** Savills

**Figure 6: Gross sales (% change year on year)** sees dramatic improvements across all the UK's major grocery operators




**Source:** Kantar

**Figure 7: UK Market share by brand**




**Source:** Kantar

for the first time since 2017. As a vaccination programme is rolled out and the UK consumers once again begin to visit restaurants, pubs and food service outlets in significant numbers, food and grocery sales are expected to retract somewhat. We saw a glimpse of this in mid Q3, when the grocery market resumed some semblance of normality, with the government's Eat Out to Help Out scheme encouraging shoppers to spend on food and drink at non-retail locations. That said, overall food and grocery expenditure is not expected to return to the levels we saw pre-pandemic, highlighting a noticeable and permanent improvement in advance of the sector's normal growth trajectory. As a result, the growth rate will naturally show a decline, estimated at -5.3% for 2021, but is expected to return to normal levels of growth by 2023.

Supermarkets and convenience stores have, of course, been considered essential throughout the pandemic. Out-of-town foodstores accounted for more than a third (35%) of all the essential retailers permitted to trade immediately following the government sanctions in March 2020. As a result, we have seen significant sales improvements for individual brands, echoing that in the wider market as a whole. Figure 6 shows that Tesco's year-on-year gross sales increase from -0.8% in the 12-week period up to 23 February 2020, to 10.4% in the 12-week period to the end of November. The online supermarket Ocado has unsurprisingly seen the most significant sales growth, from 10.8% in the same 12-week period in February, to 38.3% in the same 12-week period in November, resulting in a market share of 1.7% of the UK grocery market as a whole (figure 10). Meanwhile, Lidl reached a new record market share of 6.2% (figure 7), and Aldi's sales were up by 7.0%, with a 7.7% share of the market, demonstrating the strong consumer demand for value-orientated operators and underpinning the strong acquisition activity they have continued to demonstrate this year.

> “Since 2015, value-orientated brands have accounted for more than half of all new grocery openings each year, and as much as three quarters of all supermarket acquisition in 2020.”

# France: COVID-19 has seen significant improvement in performance for the top 10 foodstore operators

With significant pandemic-related improvements in trading results across all major foodstore operators, there has been little shift in their market share positions nationally.

The top 10 foodstore operators in France are a mixture of international and local brands with either a mass-market or value-orientated focus (figure 11). All operators have seen an uptick in their fortune in 2020 with an increase in overall sales, fuelled predominately by the more significant growth in the sale of food and grocery products and online shopping.

Food and grocery sales have understandably seen a greater degree of growth than overall sales, that includes non-food items. With the restrictions on our freedom and the absence of hospitality and food service locations, consumers have had to turn to grocery operators in order to be self-subsistent. That said, like with all markets across Europe, online has seen the largest positive change. With the exception of Super U, Lidl and Aldi which don't have online offerings, each of the remaining top 10 operators each has seen online sales increase by a third or more.

Casino Supermarkets are the one exception to the rule - they saw their food and grocery sales remain flat in 2020, despite being the brand with the most significant improvement in online sales, increasing by half at 50.9%. This in fact meant they saw a slight decline in their overall sales total for 2020. However, this could still be considered a favourable performance for the brand. Casino Supermarkets are predominately a convenience-led city-centre operator, with an average store size of 52 sq m. With much of non-essential retail across Europe closed for large periods, and the working population encouraged to stay at home to avoid social contact in town and city centre locations, the brand will have missed much of the daily passing trade it would typically have captured in the days before Covid-19. For larger format out-of-town brands this is less of a problem, with many such brands actually benefiting from the fact larger hypermarket destinations allow better social distancing, an important factor in the public's consciousness with the potential spread of the virus. However, for a convenience-orientated brand that has seen a significant reduction in the daily footfall it typically relies upon, a performance with no prominent loss in sales is undoubtedly a positive one.

With improvement in sales performance across the board for France's major grocery operators, 2020 has seen very little shift in market share for any one retailer. Carrefour saw food and grocery sales increase by nearly 5% over the last 12 months, with online grocery sales improving by as much as 48.1%. They have therefore taken the opportunity to speculate and have taken as many as 111 new stores since the beginning of 2019, seemingly purusing a strong acquisition strategy whilst the going is good. Most of the top 10 have, however, been more modest in their approach, choosing to only make a handful of new openings or indeed remain with the status quo as they wait to see what impact the pandemic will have on their finances going forward. Intermarché, Auchan and Casino Supermarkets have actually taken the opportunity to somewhat rationalise their portfolios and dispose of a small number of stores that they feel are surplus to requirements.

Interestingly Super U have taken a similar approach to Carrefour, opening 64 stores in the last 12 months, despite no online offer to support their sales growth since the onset of the pandemic. As an organic superfood brand, they offer a unique point of difference for the consumer that appears to be particularly relevant in an increasingly health-conscious society, especially in a time when the majority of our meals are serviced in our homes, and health and well-being is at the forefront of our minds.

**Figure 8: Top 10 foodstore operators** performance and growth statistics for 2020

| | | | PERFORMANCE | | | | | | | | GROWTH | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Retailer | Pitch | Brand position | Overall Sales (inc tax) | | Food & Grocery Sales | | Food & Grocery Online Sales | | Food & Grocery Market Share | | Nationwide Portfolio | | | |
| | | | Euros (millions) | % Change | Euros (millions) | % Change | Euros (millions) | % Change | National % | % Point Change | Store Count | Additional Stores 2019 - 2020 | Total Space ('000 sq ft) | Additional Space ('000 sq ft) |
| Carrefour | Mass | International | €36,201 | **1.7%** | €30,015 | **4.9%** | €1,692 | **48.1%** | 10.7% | 0.0% | 5,006 | 111 | 5,599 | 212 |
| E.Leclerc | Mass | Local | €34,919 | **4.4%** | €28,350 | **6.0%** | €3,150 | **41.7%** | 10.1% | 0.1% | 1,934 | 0 | 2,303 | 0 |
| Intermarché | Mass | International | €26,068 | **4.3%** | €24,241 | **5.3%** | €560 | **33.4%** | 8.6% | 0.0% | 1,832 | -3 | 4,096 | 12 |
| Super U | Mass | Local | €22,685 | **3.5%** | €18,746 | **5.1%** | €0 | **0.0%** | 6.7% | 0.0% | 1,665 | 64 | 2,285 | 95 |
| Auchan | Mass | International | €18,844 | **4.8%** | €13,824 | **7.0%** | €1,654 | **44.2%** | 4.9% | 0.1% | 512 | -5 | 2,534 | 5 |
| Lidl | Value | International | €10,063 | **3.6%** | €8,789 | **4.6%** | €0 | **0.0%** | 3.1% | 0.0% | 1,514 | 0 | 1,861 | 0 |
| Casino Supermarkets | Value | Local | €10,179 | **-1.2%** | €8,590 | **0.0%** | €430 | **50.9%** | 3.0% | -0.1% | 3,325 | -5 | 1,890 | -35 |
| Cora | Mass | International | €4,547 | **4.0%** | €4,091 | **5.4%** | €62 | **43.2%** | 1.5% | 0.0% | 62 | 0 | 790 | 0 |
| Aldi | Value | International | €3,509 | **4.4%** | €3,297 | **5.2%** | €0 | **0.0%** | 1.2% | 0.0% | 900 | 0 | 990 | 0 |
| Monoprix/ Monop' | Mass | Local | €3,360 | **5.2%** | €2,777 | **6.8%** | €354 | **44.7%** | 1.0% | 0.0% | 312 | 2 | 521 | 3 |

Source: GlobalData

# Spain: Mercadona remains dominant in the market in what has been a positive year for all foodstore operators

Pandemic-related uptick in trading results has been felt across all brands and sectors; however, independent retail operators have gained traction in the market in a year where consumers have stayed at home and increased their local grocery consumption.

Mercadona is the dominant foodstore operator brand in Spain with more than 14% of the market. Only DIA and Coviran have a larger portfolio of stores, however, both these brands are convenience operators, whereas Mercadona is the country's most prominent mid-size to large format operator (average store size is just over 2,000 sq m). Mercadona chooses not spend capital on advertising or marketing campaigns, but instead dedicates much of its resources to eliminating unnecessary costs in its packaging. This allows them to pass the savings on to the consumer without necessarily compromising on the quality of the products, which means the brand is considered to be a popular value-orientated local success story.

Like the other top 10 retailers, Mercadona saw improvements in its overall and food and grocery sales, however, the greatest was undoubtedly in its online food and grocery sales, the most significant of its competitors with an increase of close to 60%. The operator's strong network of stores located in towns and cities across the country have clearly given the brand the ability to facilitate and service such a dramatic increase in consumer demand through this channel.

Carrefour has also benefited from the depth of its physical store provision, choosing to take the opportunity to significantly grow its portfolio in the same way it has in its domestic market, albeit to a lesser extent. The grocer has opened an additional 28 stores in the last 12 months after posting an uptick in grocery sales of 4.4%, as well as a considerable jump in fortune in online grocery sales, similar proportionally to those seen for Mercadona. In 2020, Carrefour completed the acquisition of 172 Supersol supermarkets and convenience stores, mainly located in Andalusia and the Madrid region.

It is important to note that despite an improvement in performance in the last 12 months as a direct result of the pandemic, some brands have still felt it necessary to significantly rationalise their portfolios and streamline their businesses. DIA is a convenience operator that has closed 285 of its convenience stores in the last year, reducing its portfolio to 3,800. Eroski reduced their network by just under a fifth to 455. Both these examples highlight how the improvement in fortunes for the grocery sector has only, so far, been short-lived, and a sensible strategy that takes post-pandemic market pressures into account is perhaps a sensible one.

The market share position of each of the top 10 grocery operators in Spain has retracted a little (albeit each by less than 1%). This reduction suggests independent operators outside of the top 10 have collectively gained some ground, taking a small proportion from each of Spain's major foodstore operators. The role of small suburban convenience stores and independent shops, whether standalone or on small shopping parades, has become increasingly prominent since the onset of the pandemic. They allow consumers to make smaller and more frequent, essential, 'top-up' purchases in smaller units close to their homes as consumers attempt to reduce the risk of social contact, potentially long queues and making any unnecessary journeys. As a result, we have become much more reliant on what is local to us in addition to our larger, less frequent supermarket shop.

Despite no internet sales offer, Lidl has gained a foothold in the market growing its presence by 24 stores in the last 12 months. Mercadona's popularity highlights the importance the Spanish consumer places on value. With a mantra similar to that of Mercadona, Lidl have become Spain's only other major value operator with a 2.9% share of the overall market.

**Figure 9: Top 10 foodstore operators** performance and growth statistics for 2020

| | | | PERFORMANCE | | | | | | | | GROWTH | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Overall Sales (inc tax) | | Food & Grocery Sales | | Food & Grocery Online Sales | | Food & Grocery Market Share | | Nationwide Portfolio | | | |
| Retailer | Pitch | Brand position | Euros (millions) | % Change | Euros (millions) | % Change | Euros (millions) | % Change | National % | % Point Change | Store Count | Additional Stores 2019 - 2020 | Total Space ('000 sq ft) | Additional Space ('000 sq ft) |
| Mercadona | Value | Local | €26,000 | **1.9%** | €24,100 | **2.5%** | €328 | **59.4%** | 14.4% | -0.9% | 1,637 | 9 | 35,241 | 194 |
| Carrefour | Mass | International | €9,400 | **3.6%** | €7,800 | **4.4%** | €115 | **59.2%** | 4.6% | -0.2% | 1,154 | 28 | 26,329 | 96 |
| DIA | Mass | International | €5,400 | **5.6%** | €5,000 | **6.3%** | €252 | **49.7%** | 3.0% | -0.1% | 3,800 | -285 | 24,524 | -1,677 |
| Lidl | Value | International | €5,500 | **1.8%** | €4,800 | **3.0%** | €0 | **0.0%** | 2.9% | -0.2% | 600 | 24 | 9,839 | 394 |
| Alcampo | Mass | International | €5,100 | **1.4%** | €4,600 | **2.4%** | €38 | **39.0%** | 2.7% | -0.2% | 339 | 0 | 8,890 | 0 |
| Consum | Mass | Local | €2,700 | **7.6%** | €2,700 | **7.6%** | €160 | **55.0%** | 1.6% | -0.02% | 788 | 33 | 21,205 | 888 |
| Hipercor | Mass | Local | €2,200 | **2.9%** | €2,000 | **4.0%** | €54 | **21.4%** | 1.2% | -0.1% | 391 | -5 | 5,826 | -134 |
| Eroski | Mass | Local | €2,300 | **2.4%** | €2,000 | **3.6%** | €115 | **56.5%** | 1.2% | -0.1% | 455 | -101 | 4,550 | -1,010 |
| Coviran | Mass | Local | €1,800 | **2.7%** | €1,800 | **2.7%** | €0 | **0.0%** | 1.1% | -0.1% | 3,151 | 0 | 5,829 | 0 |
| Ahorramás | Mass | Local | €1,700 | **4.7%** | €1,600 | **5.0%** | €0 | **0.0%** | 1.0% | -0.04% | 264 | 3 | 5,115 | 58 |

Source: GlobalData

# Italy: Domestic brands dominate the market, giving them the confidence to expand as performance improves

In a market where online grocery provision is less mature than in other European countries, it is the domestic operators with the confidence to grow, whilst the international brands take stock and rationalise.

Each of the top 10 brands in Italy has seen positive growth since the onset of the pandemic, both in terms of the overall and food and grocery sales. Online provision, however, is a far less established phenomenon in Italy than a number of other European countries, and as such, only Esselunga, Eurospin and Carrefour have seen any growth in this area in the last 12 months. Being among the first operators to offer online food and grocery shopping, unsurprisingly the growth has been substantial for all three brands at 50% or greater.

Italy's foodstore provision is dominated by domestic brands, which typically have a more intimate knowledge of their local market. As such, there have been a number of domestic brands with the confidence to grow their portfolios over the last 12 months, including Conad (40), Coop (74), Eurospin (60), and Sigma (18). In fact, the only brands to reduce the number of stores they operate were Carrefour (-18) and Spar (-8), both international foodstore operators with a focus beyond that of this particular market.

Lidl has once again seen an opportunity to expand its operations, adding 30 stores in 12 months. The growth of the discout format has been very strong in the last year and has benefited another international brank, ALDI, which entered in Italy for the the first time in 2018 and reached more than 100 stores in two years. Value operators have again recognised that when consumer confidence falls and savings increase, then it is the value end of the spectrum that benefits most.

Photo by Melanie Lim on Unsplash

**Figure 10: Top 10 foodstore operators** performance and growth statistics for 2020

| | | | PERFORMANCE | | | | | | | | GROWTH | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Overall Sales (inc tax) | | Food & Grocery Sales | | Food & Grocery Online Sales | | Food & Grocery Market Share | | Nationwide Portfolio | | | |
| Retailer | Pitch | Brand position | Euros (millions) | % Change | Euros (millions) | % Change | Euros (millions) | % Change | National % | % Point Change | Store Count | Additional Stores 2019 - 2020 | Total Space ('000 sq ft) | Additional Space ('000 sq ft) |
| Conad | Mass | Local | €15,326 | **4.2%** | €14,519 | **4.6%** | €0 | **0.0%** | 7.4% | 0.12% | 2,840 | 40 | 25,913 | 620 |
| Coop | Mass | Local | €14,485 | **3.5%** | €13,338 | **4.7%** | €0 | **0.0%** | 6.8% | 0.11% | 1,316 | 74 | 22,464 | 1,267 |
| Esselunga | Mass | Local | €8,258 | **2.3%** | €7,771 | **3.1%** | €426 | **50.3%** | 4.0% | 0.00% | 159 | 0 | 5,201 | 0 |
| Eurospin | Value | Local | €6,994 | **2.4%** | €6,329 | **3.4%** | €68 | **64.2%** | 3.2% | 0.01% | 1,210 | 60 | 10,181 | 505 |
| CRAI | Mass | Local | €5,862 | **3.2%** | €5,411 | **4.5%** | €0 | **0.0%** | 2.8% | 0.04% | 2,270 | 0 | 12,099 | 0 |
| Carrefour | Mass | International | €4,818 | **0.5%** | €3,901 | **3.1%** | €13 | **51.5%** | 2.0% | 0.00% | 1,058 | -18 | 8,512 | -177 |
| Spar | Mass | International | €4,076 | **3.9%** | €3,654 | **4.9%** | €0 | **0.0%** | 1.9% | 0.04% | 1,232 | -8 | 8,103 | -53 |
| Gruppo SUN | Mass | Local | €3,402 | **2.8%** | €3,226 | **3.3%** | €0 | **0.0%** | 1.6% | 0.01% | 610 | 0 | 6,608 | 0 |
| Sigma | Mass | Local | €3,479 | **6.9%** | €3,155 | **8.8%** | €0 | **0.0%** | 1.6% | 0.09% | 1,444 | 19 | 11,957 | 137 |
| Lidl | Value | International | €3,733 | **5.6%** | €3,034 | **5.6%** | €0 | **0.0%** | 1.5% | 0.04% | 680 | 30 | 8,998 | 397 |

Source: GlobalData

# Germany: Some of the best proportional uplift in operator performance across Europe doesn't convince retailers to expand their portfolios

With a significant pandemic-related improvement in trading results across all major foodstore operators, there has perhaps surprisingly been little acquisition activity from the top 10 retailer operators.

The consumption behaviour of private households in Germany changed significantly in 2020 due to the pandemic. As reported by the Federal Statistical Office, private household consumption expenditure in 2020 fell by 4.6% in current prices and by 5.0% in price-adjusted terms, compared to the previous year. This was the strongest decline since 1970. This development differs from the financial and economic crisis of 2008/2009, when private consumption was less affected and thus had a stabilising effect on the German economy.

Contrary to the general decline in private consumer spending, private households in Germany spent 6.3% more on food and beverages in 2020 compared to 2019 (in current prices). The reasons for this are the same we have seen elsewhere in Europe - more work was done from home, stock was bought, and less was eaten out due to the lockdown in the hospitality industry.

As a result, the top 10 German foodstore operators have seen some of the best results in performance proportionally. Both overall sales and food and grocery sales in isolation, have seen yoy improvements of between 6% and 12%. In Germany, all but two retailer operators offer online food and grocery sales to their consumers (including Lidl, who typically don't have an online offer outside of their domestic market). German operators have collectively seen the biggest increase in online food and grocery performance also, with a spread of only 14.3% between the smallest growth, Netto Marken at 59.0%, and the largest, Real at 73.3%.

Despite this performance, most brands have chosen to err on the side of caution amidst the pandemic and not increase the size of their portfolios by any significant degree. Aldi have been the most active, adding 20 stores since 2019. Edeka, however, have done the opposite and reduced their liability by 110 stores in the last 12 months.

**6.3%**

**The annual increase in food and beverages spending of the German households last year**

**Figure 11: Top 10 foodstore operators** performance and growth statistics for 2020

| | | | PERFORMANCE | | | | | | | | GROWTH | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Overall Sales (inc tax) | | Food & Grocery Sales | | Food & Grocery Online Sales | | Food & Grocery Market Share | | Nationwide Portfolio | | | |
| Retailer | Pitch | Brand position | Euros (millions) | % Change | Euros (millions) | % Change | Euros (millions) | % Change | National % | % Point Change | Store Count | Additional Stores 2019 - 2020 | Total Space ('000 sq ft) | Additional Space ('000 sq ft) |
| Edeka | Mass | Local | €43,900 | **8.5%** | €42,100 | **9.4%** | €800 | **61.1%** | 15.8% | 0.3% | 6,824 | -110 | 120,444 | -1,941 |
| Aldi | Value | International | €30,400 | **7.5%** | €28,400 | **9.3%** | €0 | **0.0%** | 10.7% | 0.2% | 4,230 | 20 | 50,084 | 237 |
| Lidl | Value | International | €31,500 | **7.9%** | €27,900 | **10.0%** | €400 | **71.0%** | 10.5% | 0.3% | 3,348 | 0 | 44,304 | 0 |
| REWE | Mass | Local | €23,800 | **8.5%** | €22,800 | **9.4%** | €500 | **71.0%** | 8.6% | 0.2% | 1,220 | -1 | 30,305 | -37 |
| Netto Marken | Mass | Local | €15,600 | **7.7%** | €15,000 | **8.5%** | €300 | **59.0%** | 5.6% | 0.1% | 4,270 | -3 | 32,173 | -23 |
| Kaufland | Mass | International | €15,900 | **7.9%** | €14,100 | **10.0%** | €100 | **66.3%** | 5.3% | 0.1% | 660 | 0 | 39,090 | 0 |
| Penny | Value | International | €8,700 | **6.8%** | €8,700 | **6.8%** | €200 | **66.5%** | 3.3% | 0.0% | 2,169 | 0 | 35,569 | 0 |
| Real | Mass | Local | €7,900 | **7.5%** | €5,800 | **12.3%** | €200 | **73.3%** | 2.2% | 0.1% | 276 | 0 | 20,434 | 0 |
| Norma | Value | International | €4,000 | **7.1%** | €3,000 | **11.2%** | €100 | **70.3%** | 1.1% | 0.0% | 1,345 | 8 | 20,689 | 123 |
| Shell | Mass | International | €3,100 | **6.3%** | €3,000 | **6.9%** | €0 | **0.0%** | 1.1% | 0.0% | 1,749 | 1 | 3,888 | 2 |

Source: GlobalData

# How are food retailers coping with the rise of online?

## Changes in consumer habits and advancement of new technologies have led to one of the greatest transformations in the food sector.

Traditional food retailers were the first to engage in food e-commerce with initiatives that emerged as early as in the 2000s. In the first years, tight margins, poor customer loyalty, lack of IT investments and heavy organisational structures did not help to build a customer-friendly shopping experience.

The pandemic has brought online grocery to the fore. Many consumers who have always shopped in-store have reverted to completing their transactions online to avoid venturing into stores and potentially being exposed to the virus. The surge in demand for home delivery options in March and April was high enough to cause website crashes; however, since then, traditional grocery retailers have been quick to swell capacity to deal with this demand, providing the customers with intuative, innovative and sustainable solutions for online grocery shopping. Customer satisfaction has been key to ensuring loyalty and gaining market share.

Tesco, for example, doubled its online fulfilment capacity in the space of six weeks and launched 'Tesco Groceries' app, which now includes barcode scanning. Schwarz Group is launching its own rival to Amazon Web Services following the recent acquisition of software specialist CAMAO IDC. Aldi has recently launched its click-and-collect service to customers in the UK, and Carrefour is launching a new e-commerce platform developed by VTEX. Smaller players who could not feasibly expand their online business have partnered with pure players and online food delivery platforms (such as Deliveroo and Uber Eats).

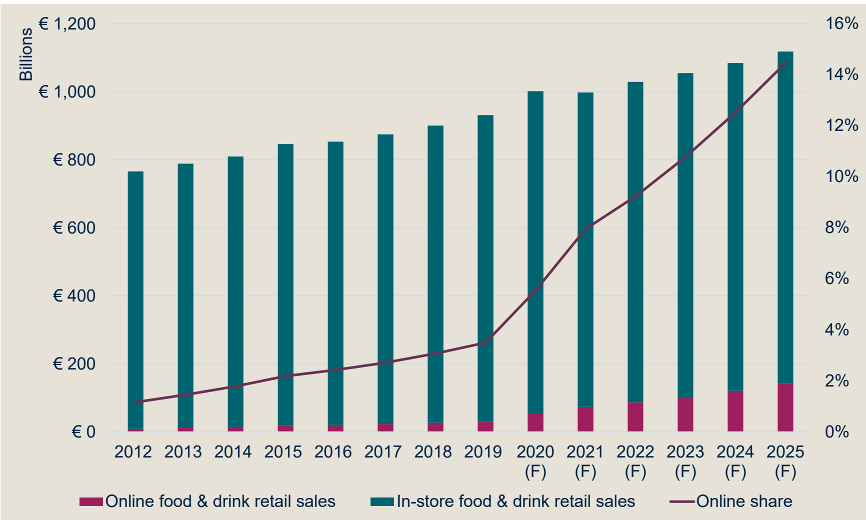
Grocers quickly realised they needed to invest in their online propositions, capabilities and loyalty programmes encouraging shoppers to take more spend online going forward than was the case pre-2020. Their willingness to do so highlights a strong omnichannel approach and actually alleviates the concern of the importance of the physical store going forward. Unlike much of the rest of retail, where the rise of e-commerce can directly impact on the volume and value of goods sold in-store, online grocery orders are typically serviced by the stores themselves. During the pandemic, large food retailers were only able to meet the surge in online demand because of their network or stores. This is where online orders are fulfilled; products are picked, packed and delivered locally – a significant point as it highlights the continued importance and true value of the store network for these brands in meeting the need of their consumers and their last-mile delivery requirements.

Despite the unprecedented performance of the grocery sector in recent months, many analysts might point to the growth of online penetration as a potential threat to the physical store in the years ahead. The channel shift from offline to online has been dramatic in the food & grocery sector in 2020. According to Forrester, in Western Europe, online penetration jumped from 3.4% in 2019 to 5.3% in 2020 - a transference of €21.1bn. Since late May 2020, online spend has been running at double that seen in 2019.

Regardless of the growing influence of internet pure plays, traditional retailers still dominate the online channel. According to Retail-Index, six e-retailers in the food sector are ranked among the top 25 in Europe. Only Ocado is doing all its sales online. At Sainsbury's, 20% of the sales are made online, ASDA (Walmart) and Tesco are doing only 8% and 7% of their sales online, and France-based E.Leclerc and Carrefour 8% and 4%, respectively.

> "Regardless of the growing influence of internet pure plays, traditional retailers still dominate the online channel."

**Figure 12: Food and drink retail sales in Western Europe** Their online share is rising




Source: Forrester

Photo by Maria Lin Kim on Unsplash

# Pure players and new concepts

Pure players are rising their markets share as they compete on price and convenience. New technologies are leading to the emergence of new concepts and players.

In comparison to the traditional brick-and-mortar model, the pure play has clear advantages associated with lower costs of having multiple retail locations, better inventory management and ease of collecting detailed information about their customers' shopping habits. Despite this, the e-grocer model has disadvantages derived from brick-and-mortar consolidated store locations, awareness, and power of attraction of a greater range of clients.

Major players in the e-grocery landscape differentiate themselves by the types of products and services they offer, particularly by their method of order fulfilment and delivery (which is closely related to the types of goods sold), and by the geographical markets in which they operate. 'Eat Now' models such as Gorillas and Flink from Berlin focus on fast delivery, while online supermarkets such as Picnic, from the Netherlands, and Ocado in the UK, as well as the delivery services of stationary retailers, offer the classic supermarket range.

Even though these players do not require physical stores, from a real estate perspective, they have created strong demand for urban warehouses, as they all rely on fast delivery to remain competitive.

## Pure play giants

**Amazon Fresh**

Launched in 2016, it is one of several grocery delivery services owned by Amazon. It offers everything you would usually find at a local grocery store; that includes staple items such as fruits, vegetables or raw meat. The client has the option to choose not only same-day or next-day delivery, but also "Doorstep Delivery", a three-hour window in which you are not required to be at home, or "Attended Delivery" a one-hour window that requires you to be available to accept the delivery. You can also use Alexa (Amazon's cloud-based voice service) with a system that learns your preferences. Amazon Fresh currently delivers in more than 2,000 US cities and towns, and the company says it will continue to expand this grocery service.

**Ocado**

Founded in 2000, Ocado is a pure play online grocery business that comprises Ocado.com and two other retail brands: Fetch, the online pet store, and Ocado Zoom, a new one-hour grocery service. It offers a product range of over 55,000 items, and it's estimated that it holds more than 15% of the UK online grocery market and around 2% of the UK grocery market. In 2020, Marks & Spencer and Ocado Group became the joint owners of Ocado Retail. It opened its first two customer fulfilment centres abroad, for Casino in France and Sobeys in Canada. The software-led model, specifically built for e-groceries, is scalable and expected to be adopted by other players in the industry. For instance, in 2017, the company signed a partnership with French retail group Casino to automate its warehousing operations in the region of Paris.

## Weekly groceries providers

Strong tech capabilities are giving way to the emergence of an important number of new grocery players willing to address higher frequency purchasing needs. In Europe, building this model is a challenge given the lower order density, but a correct execution has given companies like Picnic in the Netherlands and Cortilia in Italy the chance to expand their business.

**Picnic (Netherlands)**

Founded in 2015, Picnic is an online-only supermarket from the Netherlands that only operates as a mobile app that has developed a fast-growing, low-cost business model for the mass market. It runs a regular delivery route instead of using on-demand delivery, building waiting lists of interested consumers and adding routes only when there are enough customers to make the new route profitable. The advantage of this positioning is that it attracts enough consumer interest so that Picnic has long waiting lists ensuring the profitability of new routes and reinforcing the cornerstone of its business model. Picnic has shown strong growth in 2020, managing to double its revenue, which is predicted to be worth almost half a billion euros. After the Netherlands and Germany, they want to grow in Spain and France.

**Cortilia (Italy)**

The Milan-based grocery start-up Cortilia was founded in 2011 and intends to fill the online grocery gap by delivering fresh food products to homes in the north of Italy. It is an agricultural online market that links consumers and farmers with the purpose to buy fresh food from the countryside, leveraging a network of local producers to reduce the number of intermediaries. According to the address, users get associated to a list of local farmers that will become their reference agricultural market. The purchase allows the customer to choose from more than 1000 fresh products like fruit, vegetable, cheese, bread, meat, cold cuts, jam, convenience foods and products for body care and home, representing a brand-new way of enhancing the local economy. Currently, Cortilia service is widespread in Lombardy (Milan, Monza and Brianza, Varese, Como, Pavia, Lodi and Bergamo), in Piedmont (Novara and Turin) and Emilia-Romagna (Bologna, Modena), with the aim to expand into other cities in the future.

**Rohlik (Czechia)**

Founded in 2014, Rohlik is a delivery start-up launched in the Czech Republic in 2014, Hungary in 2019 and Austria in 2020. It is active in nine cities, and with home delivery within two hours is currently the leading online grocery service in the Czech Republic. Its product range includes the high-quality, fresh foods you find at local farmers' markets and specialty retailers. The company, which has some 17,000 items in its online store, saw revenues rise 101% in FY 2020 to €300 million, has announced plans to launch its service in Germany. The expansion was originally planned for 2025, but due to the current high demand for online grocery shopping, the start is brought forward. Rohlik hopes to attract customers with short delivery times compared to competitors, charging less for deliveries. The first German service will be offered in Munich.

Photo by Dennis Siqueira on Unsplash

## Quick-commerce

Q-commerce is the natural evolution of e-commerce. Lifestyles are changing, and speed and convenience are becoming more important. The purchases made in Q-commerce are usually of small quantities, but the instantaneousness of their shipments is the most important.

Super-fast grocery delivery is nothing new (e.g. Gopuff in the US and Fancy in the UK), but picking up speed lately with more and more new companies entering the field, and expanding quickly. Gorillas and Flink are not only expanding in Germany, but also in the Netherlands and lately even in the UK. The Turkish company Getir also expanded to London and is currently looking for employees in Berlin. Flink is also planning to open in Paris. Other examples include London's Dija and Weezy, and France's Cajoo. Unlike supermarkets, the provider does not need prime locations with top rents. In addition, there is the possibility of demanding listing fees and advertising subsidies from consumer goods groups, similar to the supermarket chains.

As they collected a lot of venture capital lately, further expansion is to be expected. But as the margin is very low, we expect that very few players will remain (similar to the market adjustment for restaurant deliveries).

**Gorillas (Germany)**

Founded in May 2020, Gorillas delivers groceries within an average of 10 minutes. Unlike gig economy models, it employs riders directly and emphasises its ability to get fresh groceries, along with other household items, to shoppers within 10 minutes, at 'retail prices' and including a delivery fee of just €1.80. The idea is that the start-up can address a large part of the groceries market that falls outside of a weekly bulk shop.

**Weezy (United Kingdom)**

Weezy has positioned itself as the UK's first on-demand supermarket delivering with an app and website in just 15 minutes. Weezy is developing a network of dark stores across London while relying on a rider network to deliver orders to customers. Launched in July 2020, Weezy uses its own delivery people on pedal cycles or electric mopeds to deliver goods. As well as working with wholesalers, it also sources groceries from independent bakers, butchers and markets.

> "The purchases made in Q-commerce are usually of small quantities, but the instantaneousness of their shipments is the most important."

Photo by Henrique Hanemann on Unsplash

# In-store experience and other trends

Today's customers expect more from physical stores. One important opportunity arising from this moment is for retailers to rethink their approach to the customer experience in-store: Robotics, touchscreens, artificial intelligence, stress-free supermarkets, fresh-food offerings, customer service, gastronomic areas or cooking classes are some examples that need to be integrated into the customer journey, improving the overall experience.

## Digital technologies in-store

**Electronic shelf labels**

In order to improve the efficiency of price change, some supermarkets began to use electronic price tags. The electronic price tag is connected to the base station and the internet platform enabling automatic price updates. It also includes QR code, barcode, facilitating interaction between online and offline and giving customers a better shopping experience.
In 2020, Asda installed 23,000 electronic price tags and plans to test QR codes that can display allergen information or LEDs that flash when a home shopping picker enters an aisle to help them quickly locate items.

**Smart shelves**

The audio-visual technology gives supermarkets an opportunity to be more targeted in their campaigns. Large screens with changing imagery will currently highlight the variety of products available. This technology gives brands an opportunity to be more targeted in their marketing and can monitor the performance of the ads throughout 2021.
Shelf-edge Müller digital marketing display showing the latest Müller Corner TV advert went live in Asda stores across the UK at the end of November 2020. This content will be regularly updated to also feature core brands such as Müllerlight and Müller Rice.

**Contactless shopping: Scan & Go**

Scan & Go offers a convenient way to shop without staff interaction, supporting social distancing measures for customers. All the clients must do is scan and bag the items as they shop, using the handset provided, or the Scan & Go Mobile app and pass through the dedicated card checkouts to pay, with no need to unpack the trolley. In 2020, Asda extended Scan & Go Mobile to all stores to encourage contact free shopping.

## Grocerants

Supermarkets are in the process of losing their traditional function by turning into service providers: catering and food come together to create the concept of 'grocerants', a hybrid between a food shop and a restaurant.
Supermarkets with fully equipped dining areas offering a range of fresh and hot meal options allowing customers to enjoy 'in-store dining' before or after doing their grocery shopping; in-store cooking courses and wine tastings are just some examples of how supermarkets are losing their traditional function and becoming into service providers.

**Buying fresh/buying local**

Covid-19 pandemic has increased demand of customers to help their local producers while feeling better about food safety when produce is coming from suppliers they know.
Infarm is a Berlin-based start-up that has built over 700 modular farms inside supermarkets and restaurants. The fresh herbs, leafy greens, lettuces, and microgreens are harvested for consumers at the point of sale, meaning fewer transportation emissions. Among other German retailers, ALDI Süd has also decided to add this solution to its portfolio. By the end of 2020, twelve of its stores will feature Infarm farming platforms. Last year Marks & Spencer launched food boxes with products from selected farms, helping out farmers and reducing waste.

Photo by Cody Chan on Unsplash


Photo by Jeroen van de Water on Unsplash

## Sustainability

Sustainability marks the path of the supermarkets. As a result of the growing concern of the consumer for the environment, more and more people are opting to consume vegetable-origin food, reduce plastic and sell in bulk or consume seasonal products exclusively.

**Packaging & recycling**

Supermarkets have introduced alternatives to traditional shopping, inviting shoppers to bring their own containers to fill up with groceries at the store. Sainsbury's has recently announced that it is trialling an in-store plastic recycling system that could save 7,000 tonnes of plastic a year, helping towards the target of halving its use of plastic packaging by 2025 and becoming net zero by 2024. Walmart announced it is doubling down on addressing the growing climate crisis by targeting zero emissions across the company's global operations by 2040. Asda will this year remove a million pieces of plastic from its stores, finding a sustainable alternative for the shelf-edge labels used in temporary in-store displays and it has opened its new sustainability trial store in Middleton.

**Throwaway culture**

Founded in 2015 in Copenhagen, Too Good To Go is the largest business-to-consumer platform aiming to provide a solution for food service providers to sell their food surplus which otherwise would have been wasted at the end of the business day. This is via a mobile app where businesses (restaurants, bakeries, supermarkets, hotels and canteens) can add the food surplus they have, and consumers can view the offers available.
Carrefour joined the Too Good To Go community in 2017 saving. In 2019, Too Good To Go helped them save 74.744 meals across their megastores and their chains. This converts to 318,527 kg of CO2 saved since 2017.

**Zero emissions**

Many supermarkets have committed to carbon targets, such as reducing waste and sourcing electricity from renewable sources. In 2020, Sainsbury's planned to invest $1.3 billion across 20 years to reduce its carbon emissions to a net zero by 2040, boosting its renewable energy usage and cutting down on overall energy use. Tesco has announced plans to set up new solar farms, fit solar panels on its stores and bring forward its commitment to reach net zero carbon emissions to 2035. In 2020, Tesco also put 30 electric delivery vans on the road in Greater London, the supermarket chain, Alcampo, has teamed up with a local start-up company, Revoolt, to offer its customers a low-emission home-delivery service in some cities of Spain.

# The impact of changing consumer habits on foodstore operators' space requirements

Rising volume of online orders is forcing foodstore operators to rethink their property strategies and to rebalance their retail and warehousing space accordingly.

**The stores of the future will integrate omnichannel capabilities**

Over the past 12 months, traditional brick and mortar food retailers had to deal with a rapid growth of online orders and deliveries. This has created additional space requirements for warehousing and fulfilment centres. Grocers had to ensure that they will offer efficient but also cost-effective service. Although some of these needs had to be covered by acquiring additional warehousing space, in many cases, food retailers focused on optimising their existing store capacity to create mini-logistics hubs. Investment in digitalisation and technology, rather than additional real estate, has been the key for store inventory management and optimisation.

As shopping migrates online, physical stores will need to focus on in-store experience, quality of service, convenience and trust. Location and broad store network will continue to matter, as easy access from home or well-connected routes offer the convenience that customers are seeking when they need quick service either through in-store shopping or click-and-collect. Innovation in design and fit-out, lighting and communal spaces will be required to accommodate the new trends that focus on customer experience, such as Grocerants, Food courts and in-store customer trials.

In the future, technology will allow supermarkets to create a virtual version of the centre store and free-up space that can become more attractive for customers and increase footfall. Customers will be able to shop virtually some products using digital shopping lists, while products will mostly remain in the backroom storage areas. Effective picking systems will enable the combination of multiple picking centres for a seamless fulfilment of an order, and smart tools and algorithms will support stores' forecasting and ordering decisions. All in all, the store will continue to play a significant role in the omnichannel supermarket of the future.

**Solving the last-mile delivery challenge through mini-logistics hubs: dark supermarkets (CCF) and micro-fulfiment centres (CMF)**

When it comes to e-commerce deliveries to the consumer, there are two key variable costs to consider: the cost to pick the order and then the cost to deliver the order. Both micro-fulfilment centres and dark supermarkets are relatively new concepts that optimise different parts of the grocery delivery supply chain.

Dark stores first appeared in the UK just over a decade ago, with the aim of gaining efficiencies and therefore reducing the cost to pick an order. A dark store is a fully automated large warehouse, located as close to population centres as possible, that fulfils online orders only. Typically speaking, dark store formats are at their most efficient when there is a high onward drop density and traditionally have been located in densely populated areas such as the South East of England.

However, dark stores are costly and time-consuming to set up, and during the pandemic, many grocers concentrated their efforts on using in store picking as a method to increase capacity and build scale in a quicker way. Now that many grocers believe new shopping habits are entrenched, attention is likely to turn to how to gain efficiencies. According to Atrato Group 70% of costs are related to the final leg of distribution meaning that grocers are looking to gain efficiencies in their decentralised omnichannel model.

This is where micro-fulfilment centres come to the fore. Micro-fulfilments centres are smaller, being able to occupy areas from 600 or 800 sq m, up to typically 3,000 sq m, representing a major innovation process in the grocery sector due to the inclusion of automated equipment to assemble and pack orders. Many grocers are looking at the technology that would enable them to utilise space in large-format food stores; this technology will remove most of the manual picking process and then allow the final delivery to be made from store which is, by default, closer to residential areas than a dark store.

UK grocer Tesco is leading the way with this technology and has plans to roll out 25 micro-fulfilment centres within its existing supermarket estate in another blurring of the lines between retail and logistics real estate.

**70%**

**of costs are related to the final leg of distribution. This is where micro-fulfilment centres come to the fore**

**Figure 13: Investment in food and groceries stores** were remarkably strong last year

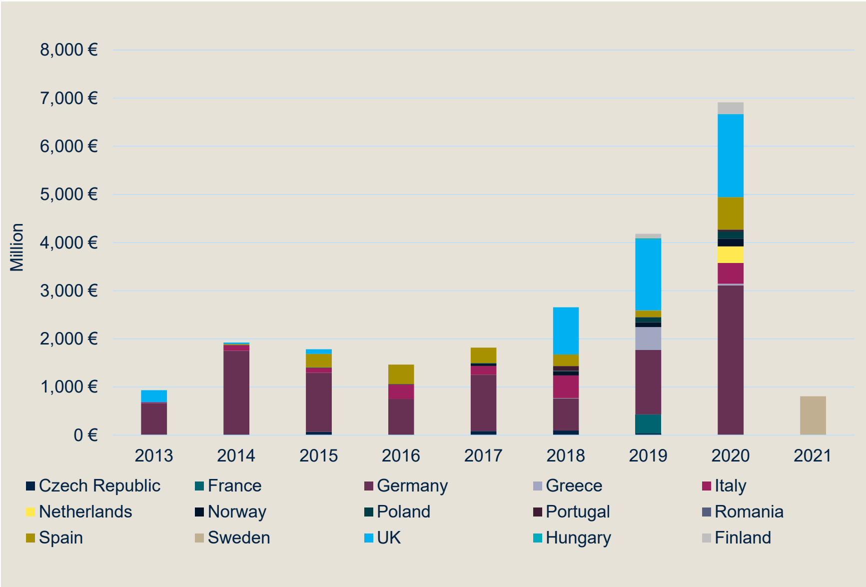
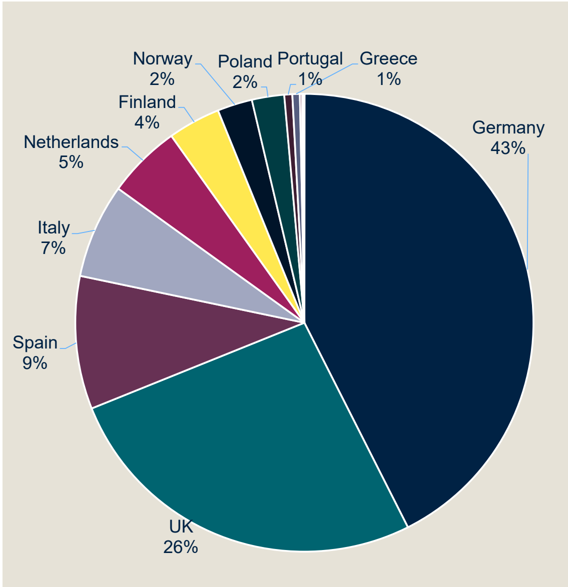



**Figure 14: Food and grocery sector investment by country**




**Source:** Savills

# The food and groceries sector is becoming the new core in retail investment

## The resilience of the groceries sector and the stability of income is attracting rising investor interest.

**Property investors show confidence in the physical foodstores**

While investors are becoming more cautious about retail, the ongoing resilience of the food sector has provided a secure investment alternative. Last year, investment volumes in supermarkets, hypermarkets and discount stores were remarkably strong, considering the disruption to the wider commercial real estate market caused by the pandemic. Investor shift in this market segment was already noticeable for a number of years now. Since 2017, transaction activity has been steadily rising by 46% pa on average. In 2020, investment in the food and groceries sectors of the 16 markets that we monitor was close to €6.5bn, 102% up yoy and 169% above the five-year average. This corresponded to 224 deals, which was 21% below the five-year average. Evidently, the activity was driven by larger portfolio transactions (50 deals). The average deal size was €28.9m compared to an average of €8.6m over the past five years.

Germany was the largest market at €3.1bn, followed by the UK at €1.7bn and Spain at €675m. The markets that experienced the sharpest rise compared to their five-year average were Germany (217%), and Spain (145%).

According to RCA, up to the end of March, the total volume of grocery-anchored retail transactions (completed and pending) was close to €1.33bn across 346 properties, which is equivalent to 28% of the total retail investment turnover since the beginning of the year. Renewed lockdown restrictions across Europe have limited investor mobility and thus market activity, which is more than 50% down compared to Q1 2020. Spain, the UK and Germany have driven the activity since the beginning of the year.

**The share of investment in foodstores reached a historic high**

Last year, investments in supermarkets, hypermarkets and food discount stores accounted for the first time on record for 21% of the total retail activity, up from a five-year average of 7%. Although parts of the retail property market are losing their core status in the eyes of many investors, conversely, the strength of the food sector attracts an increasing number of buyers. The food sector has proven its defensive characteristics during the pandemic, capturing a higher share of consumer spending, as non-essential shops, cafés and restaurants have remained closed in most countries for prolonged periods of time. While we could assume that the reopening of the hospitality industry might mean that this growth could partly reverse, we expect that some of the new consumer habits will remain. The operational resilience of the sector, even during times of uncertainty, has largely eliminated the risk of deferred/unpaid rent payments, offering security to investors.

Historic UK rental growth data highlights how the decline in rental value growth for supermarkets has been much less severe than for other areas of the retail market during periods of economic downturn. During the recent cycle, which is also driven by structural change, MSCI reports average yoy rental value growth of -1.6% for foodstores in 2019, whereas it stood at -4.0% for the rest of retail. 2020 repeated this pattern, but the margin had grown, recording a -1.8% yoy rental decline for grocery stores, much more in line with 'all property' types, and significantly less than -7.0% for all of retail.

**5.4%** Across the European markets that we monitor, the average prime achievable supermarket yield has moved in further (10 bps qoq) during the first quarter of 2021

**Since 2017 supermarket transaction activity has been steadily rising by 46% pa on average.**

**The average deal size in 2020 was €28.9m compared to an average of €8.6m over the past five years.**

**The average prime achievable yield for supermarkets moved in from 5.7% in 2019 to 5.4% in Q1 2021.**

**The lowest yields can be found in France (3.5% for urban store), Germany (3.9%) and the UK (4.5%).**

**Last year, investments in food and groceries stores accounted for the first time on record for 21% of the total retail.**

Similar trends have been recorded in other European markets too.

Furthermore, grocery real estate leases typically offer annual indexation and longer terms, often without break clauses, while major grocery chains generally provide strong covenants. This makes grocery real estate attractive to investors looking for longer and more secure income streams. A stable to moderate rental growth outlook, in comparison with other retail asset classes, provides security in a more volatile retail market.

**Sales and leasebacks drive activity, but supply still does not meet investor demand**

The market continues to be dominated by established retail sector specialists, however, diversification away from commercial market segments with increased occupier risk creates more competition. Moreover, the rising allocations in real estate by institutional investors, who look for long-term income streams to match their liabilities, creates further investment pressure in crisis-proof sectors that offer stable cash flows, such as supermarkets and discount stores.

It may prove challenging for supply to meet demand during the course of this year. Some product could come on to the market in the form of sale and leaseback opportunities, which allow food retailers to raise capital to reinvest in order to meet the demands of a changing consumer environment – often to scale their online and click & collect business. These investments are decisive from a real estate perspective too, as they determine the underlying covenant strength of the tenant. Last year saw a number of such transactions, such as Mercadona and Eroski in Spain, Waitrose in the UK, Jumbo in the Netherlands, Netto/Coop in Sweden, Esselunga in Italy, and others.

Investor demand for food markets is expected to continue to rise. In view of the further intensifying bidding war, some established players are also increasingly taking new approaches and securing their acquisition pipeline early on via framework agreements with project developers.

**Prime yields in the food sector are compressing in markets with strong activity**

Transaction evidence from last year shows that the average achieved initial yield across the markets we monitor was at 5.9%, 80 bps below 2019 level, in contrast to the wider retail market, which has been experiencing outward yield movements.

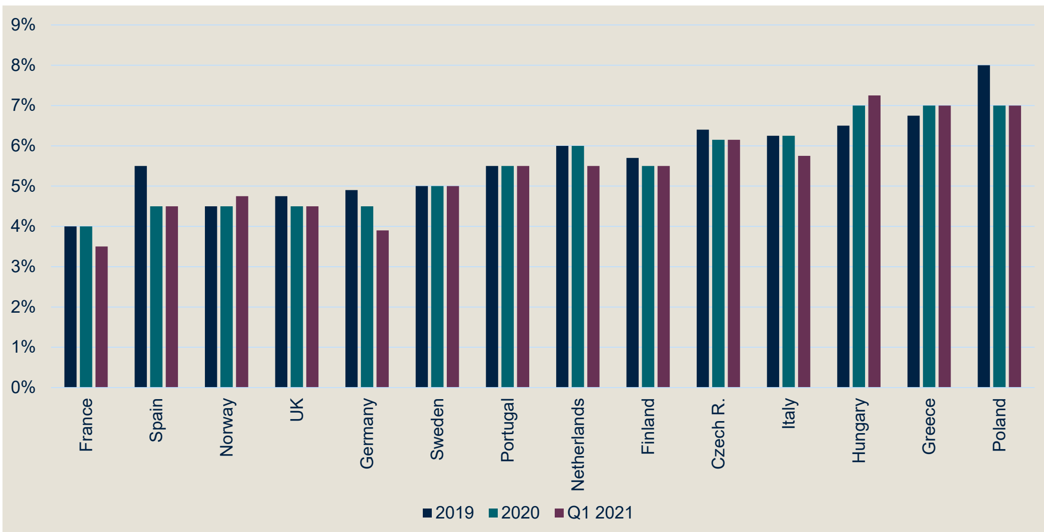
The average prime achievable retail yield has moved out from 4.43% in 2019 to 4.75% at the end of 2020, while the average prime achievable yield for supermarkets moved in from 5.7% to 5.53% over the course of 2020. Last year, yields compressed in Spain -100bps, Poland -100bps, Germany -40 bps, UK -25 bps, Czech Republic -25 bps, while the rest have not experienced significant yield movements yet.

In the first quarter of 2021, strong investor interest in the supermarket sector of Germany, France, Italy and the Netherlands has led to further hardening of prime yields (-50 to -60 bps). In the remaining markets, prime achievable yields remained stable, mainly due to lack of transaction activity, while some experienced some yield softening in line with the overall retail trend (Norway, Hungary).

The lowest yields can be found in France (3.5% for urban store), Germany (3.9%), Spain (4.5%) and the UK (4.5%). Yields are still at 6% or higher in CEE markets.

We expect the operational strength of the sector and the quality of income streams to result in sustained investor appetite and to continue to put downward pressure on yields.

**Figure 15: Prime supermarket yields** The operational strength of the sector sustains investor interest and drives yield compression




**Source:** Savills

## Major supermarket investment transactions in the past 12 months

| Date | Country/ City | Property | Buyer | Seller | Price |
|---|---|---|---|---|---|
| Q1 2020 | Italy | 32.5% of company that owns Esselunga stores | UniCredit | Private (La Villata / Esselunga) | €435m |
| Q4 2020 | Netherlands | Mercurius | Annexum | Jumbo Supermarkten | €302m |
| Q1 2020 | Spain | 27 Mercadona supermarkets | LCN Capital Partners | Mercadona | €180m |
| Q1 2021 | UK | 26 Sainsbury's supermarkets (25.5% interest) | Supermarket Income REIT | Aviva Investors | €135m |
| Q2 2020 | Germany | 6 Edeka supermarkets | Redos | Edeka | €110m |
| Q4 2020 | Finland | Supermarket portfolio | Cibus Nordic Real Estate AB | eQ Real Estate Fund | €102m |
| Q3 2020 | Norway | Mellombølgen - Oslo | Njord Securities | Enigma AS | €65m |
| Q1 2020 | Portugal | Sonae hypermarket portfolio | Olimpo Real Estate Portugal | Sonae | €37m |
| | | | | | |

**Source:** Savills

## SOURCES

- McKinsey & Company, Digital disruption at the grocery store
- McKinsey & Company / EuroCommerce, Disruption & Uncertainty, The State of Grocery Retail 2021 - Europe
- OliverWyman, The Future Supermarket
- Forrester Analytics Online Retail Forecast 2020 to 2025, Western Europe

### Summary and key takeaways

- As the vaccination programme continues across Europe and lockdowns begin to ease, consumer spend is expected to increase slightly, driven by record-high savings and pent-up demand.
- Despite the sharp decline of retail sales growth across Europe in 2020 (from 3.9% in 2019 to 1.7% in 2020), food and grocery sales increased by 7.5%. Forecasts indicate that growth will normalise over the next five years to 2.2% pa, compared to an overall average of 2.7% pa (Forrester, Western Europe).
- The online growth rate of the grocery sector went up from 19.5% in 2019 to 56.1% in 2020. The online share of Food & Drink jumped from 3.4% to 5.3% on average across Western Europe and is projected to reach 12.6% by 2025 (Forrester).
- The immediate post-GFC period showed that if consumers swing into belt-tightening mode, then it is the value end of the spectrum that benefits most. This suggests that post-pandemic, the strong growth in demand from the value retailers will very likely be sustained.
- Unlike much of the rest of retail, online grocery orders are typically serviced by the stores themselves, making the true value of the store much greater than is initially obvious. During the pandemic, large food retailers were only able to meet the surge in online demand because of their network or stores.
- Established pure players have grown and new e-grocers models have emerged during the pandemic, differentiating themselves by the types of products and services they offer and their method of fulfilment and delivery or order. Although they do not require physical stores, these companies depend on near-instant delivery — and rely on urban warehouses to compete.
- Traditional grocery retailers are solving the last-mile delivery challenge through micro-fulfilment centres and dark supermarkets, which are mini-logistics hubs located in high-density urban centres.
- As shopping migrates online, physical stores will need to focus on in-store experience, quality of service, convenience and trust. Location and broad store network will continue to matter. Innovation in design and fit-out, lighting and communal spaces will be required to accommodate the new trends that focus on customer experience.
- The food sector is becoming the new core in retail property investment. Last year, investments in supermarkets, hypermarkets and food discount stores accounted for the first time on record for 21% of the total retail activity, up from a five-year average of 7%.
- The defensive characteristics and the operational resilience of the sector will continue to attract an increasing number of buyers. Some product may come on the market through sales and leasebacks, but overall supply may not meet the level of demand.
- Competition has led to yield compression, with the prime average supermarket yield in Europe moving in from 5.7% to below 5.5% by Q1 2021. In view of the further intensifying bidding war, we expect prime yields to move in further.

**Savills Commercial Research**
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