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# The state of grocery in North America

As the industry looks beyond the pandemic, grocery retailers must determine which trends will endure. A focus on five areas will separate the winners from the rest of the pack.

*by Bill Aull, Anuja Desikan Perkins, Sajal Kohli, and Eric Marohn*

**The COVID-19 pandemic** left no industry untouched. Grocers in North America, along with those in other regions of the world, served as essential businesses and critical players in ensuring food supply during a time of great uncertainty. Customer behaviors shifted dramatically and rapidly during the pandemic, forcing grocers to adapt in kind. To prepare for what lies ahead, North American grocers must understand the new industry baseline, the nuances of key consumer shifts observed over the past year, and the behaviors and preferences that will endure once the pandemic abates. Our research suggests the next normal will be shaped by five factors in 2021 and beyond.

## **The radical shift in grocery-shopper behavior**

Grocers gained significant “share of stomach” during the pandemic as consumers across North America shifted to living, working, and learning at home. In an industry that has traditionally seen growth of 1 to 2 percent a year, North American grocery grew by approximately 12 percent in 2020, offsetting significant reductions in food away from home.<sup>1</sup>

The initial disruption of March and April 2020, marked by initial lockdowns and closures of all nonessential businesses, saw consumers choosing to visit grocers outside their traditional primary destinations. This trend, influenced primarily by proximity, store cleanliness, health, safety, and in-stock products, was a notable deviation from historical purchase drivers such as price, service, and in-store experience.

As the world began to see the pandemic as a crisis measured in months, not days, behavior shifts continued to shape an

evolving sector. We have observed several key themes.

### **A five-year acceleration of online penetration in a matter of months**

In late 2019, e-commerce penetration in North America hovered around 4 percent of sales—an important channel for consumers but still niche with certain segments (for example, younger, urban consumers). By late spring in 2020, e-commerce penetration had reached 10 to 15 percent of sales overall, with some regions (such as high-density urban areas) topping 20 percent (Exhibit 1).

Adoption accelerated significantly in demographics not typically considered tech-savvy, such as baby boomers, as they sought fulfillment channels that limited health risk.

This shift in behavior toward e-commerce appears to be quite sticky. Overall, shoppers have been pleased with experiences provided by grocers for both click-and-collect and delivery. Across categories, consumers indicate a continued preference of shopping online, even in traditionally hard-to-crack categories such as fresh meat and produce (an increase of five percentage points in net intent versus prepandemic).<sup>2</sup> Shoppers also indicate that their interactions and experiences with grocers’ digital interfaces will meaningfully affect their primary grocery choices in the future: ease of selection and checkout, quick access to past orders and reordering, and transparency into in-stock products will be the most important factors to consumers.

### **Moving to ‘one-stop’ shopping**

For years prior to the pandemic, grocery shoppers had been increasing both their

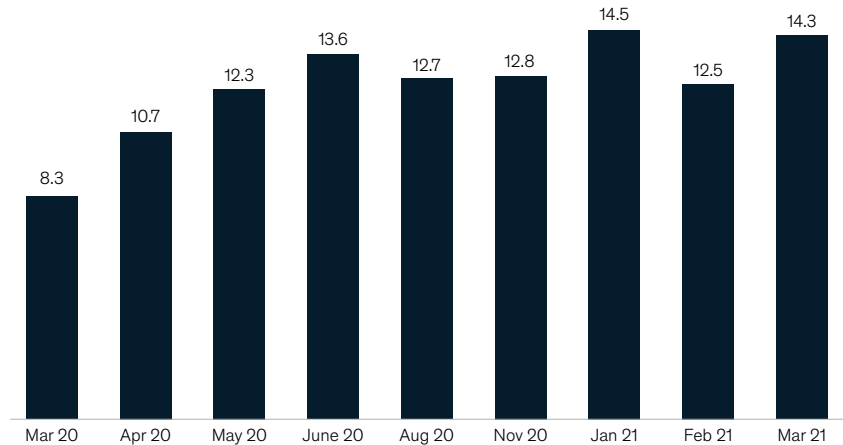
<sup>1</sup> Kantar Retail IQ database.

<sup>2</sup> McKinsey analysis of Brick Meets Click data.

Exhibit 1

**Online grocery penetration has risen significantly since the onset of the pandemic.**

**Estimated e-commerce penetration in grocery, %**



Source: McKinsey analysis (with data from Brick Meets Click)

**In the initial stages of the pandemic, grocery shoppers chose where to shop based on in-stock products, store hygiene, and cleanliness procedures.**

number of trips per month and the number of grocers they visited. That trend reversed in 2020, with shoppers indicating their overall trip frequency was only half of prepandemic levels through spring and summer of 2020. While trips did begin to increase in late 2020 and into early 2021, our analysis found the number of trips today is only 35 percent of prepandemic levels and unlikely to fully rebound.

As the pandemic continues, shoppers note that the winners of their primary shopping trip tend to offer affordable options and e-commerce capabilities, ensure products are in stock, and offer a robust fresh proposition (Exhibit 2).

### Accelerating healthy habits

Throughout the past year, medical professionals have consistently emphasized the increased risk of severe complications from COVID-19 faced by people with underlying health conditions. This awareness has, in turn, sharpened the focus on wellness that was underway prior to the pandemic, creating shifts in category demand within grocery (Exhibit 3).

Furthermore, as consumers look ahead to their food consumption in 2021, they are leaning toward “better for you” options. According to our survey, the net intent to focus on healthy eating and nutrition is expected to be up 38 percentage points

Exhibit 2

## Store location will remain relevant in 2021.

### Top factor that will influence grocery store selection in 2021 vs 2020, %<sup>1</sup>



<sup>1</sup>Q: Which of the following factors will be more important to you when deciding where to shop in 2021 as compared to 2020?

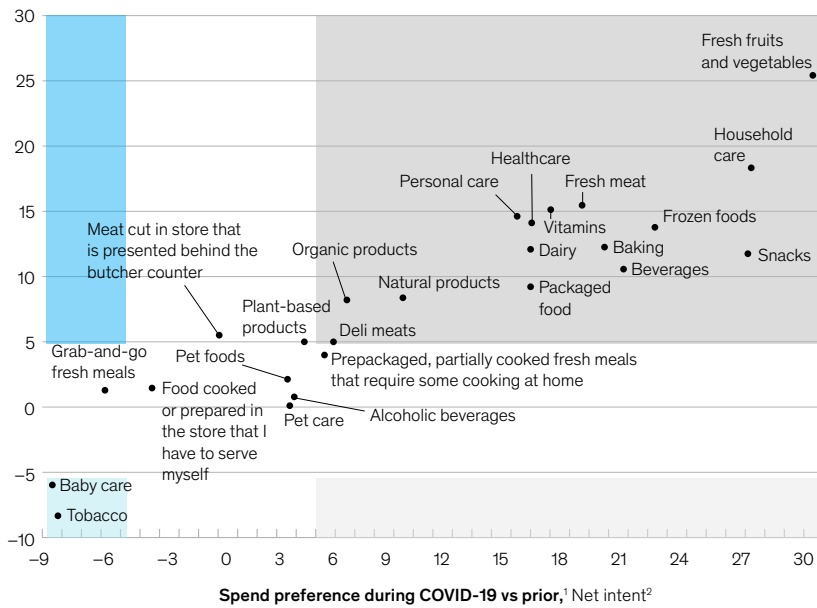
Note: Figures may not sum to 100%, because of rounding.

Source: McKinsey & Company State of Grocery Consumer Survey 1/13–1/25, n = 4,691 sampled and weighted to match the US general population 18+ years

## Demand in certain categories, such as fresh and organic products, shifted during the pandemic and look set to endure in 2021.

● Category (Spending preference during or after)

Spending preference in the next 6–12 months vs prior to COVID-19,<sup>1</sup> Net intent<sup>2</sup>



<sup>1</sup>Q: For items purchased from grocery stores, we want to learn how your spending profile changed during the novel coronavirus outbreak, as compared to before the novel coronavirus outbreak. Please indicate how you expect your household's consumption in the following categories to change in the next 6–12 months, as compared to before the novel coronavirus outbreak.

<sup>2</sup>Net intent is calculated by subtracting the percentage of respondents selecting "significantly increase" from the percentage of respondents selecting "significantly decrease."

Source: McKinsey & Company COVID-19: US Grocery Consumer Survey 9/14–9/16, n = 2,010

over 2020, with consumers specifically seeking out naturally healthy, high-protein, low-sugar, and low-calorie foods.

### Increasing focus on affordability

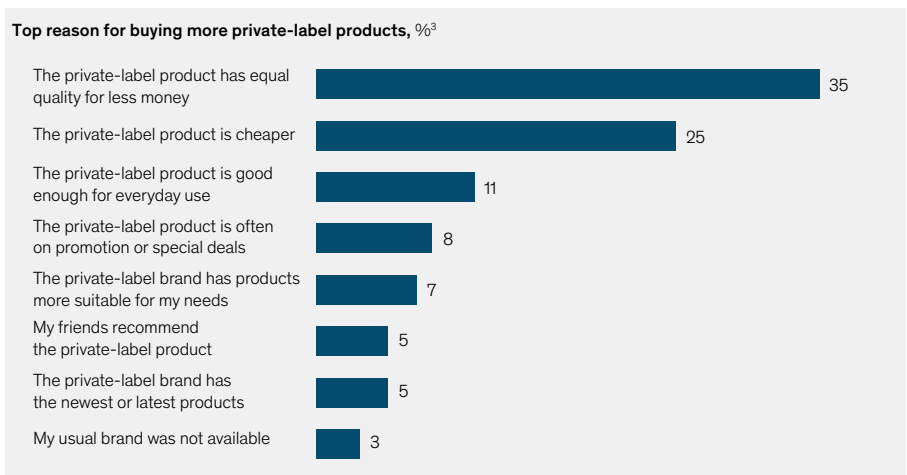
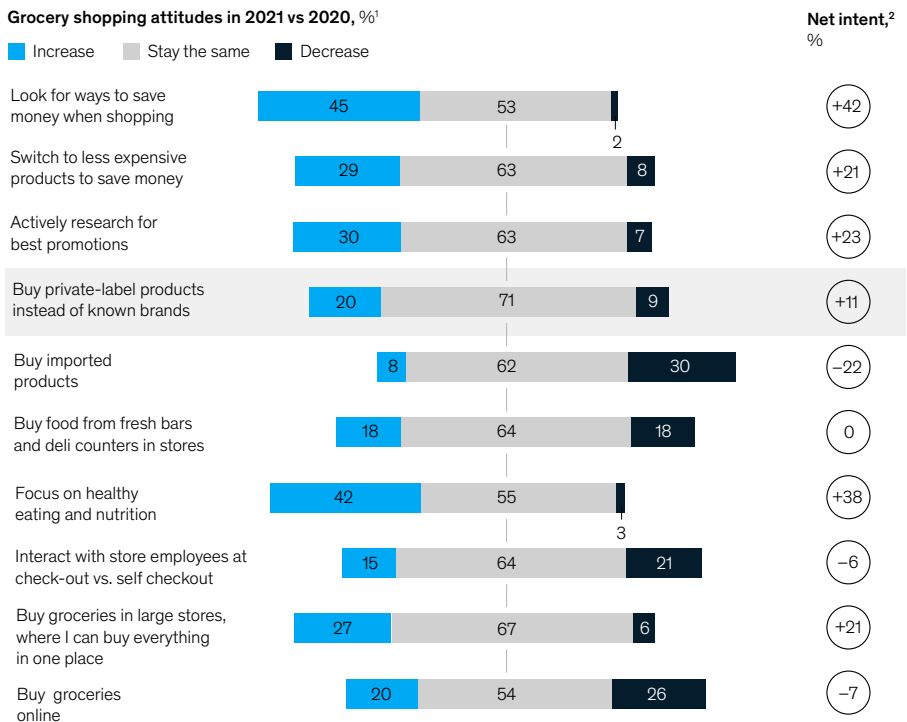
In the initial stages of the pandemic, grocery shoppers chose where to shop based on in-stock products, store hygiene, and cleanliness procedures. As 2020 progressed, however, affordability began to climb the ranks in importance, and 2021 is poised to see consumers demonstrate even more bargain-hunting behavior:

when choosing where to shop, 45 percent of consumers indicate they plan to look for ways to save money, and 32 percent of consumers will seek a price–quality balance in product offerings (Exhibit 4). The emphasis on affordability will also likely serve as an accelerant for private label. The past year saw remarkable growth for leading private-label offerings in grocery. In 2020, for example, private-label sales rose by more than 13 percent at Albertsons and Kroger. This trajectory

Exhibit 4

## Consumers will increasingly look for ways to save money and focus on healthy eating and nutrition in 2021, while still favoring stores that balance price and quality.

Consumers plan to continue purchasing private labels, mainly because they offer equal quality for less money.



<sup>1</sup> Question: Which of the following statements best describes your attitudes toward grocery shopping in 2021 as compared to 2020? You indicated that you plan to purchase more private-label products (eg, store brand products) in 2021 relative to 2020. Which of the following reasons best describes why?  
<sup>2</sup> Net intent is calculated by subtracting the percent of respondents stating decrease from the percent of respondents stating increase.  
<sup>3</sup> Figures may not sum to 100%, because of rounding.  
 Source: McKinsey & Company State of Grocery Consumer Survey 1/13-1/25 n = 4,691 sampled and weighted to match the US general population 18+ years

could continue as consumers see better value in private-label products.

### Growing expectation of personalization as the norm

Personalization in retail has gained massive traction over the past five years, evolving from a predominantly mass promotion-based approach to segmented, customized, and real-time dynamic offers. Although the definition of personalization can be broad, consumers tend to reward retailers that combine great timing, relevant offers, and attractive pricing. This trend toward personalization is evident in the investments retailers are making. Indeed, 60 percent of leading grocery retailers indicated they had made investments in 2020 to enhance capabilities to better personalize promotions and pricing. In the battle to

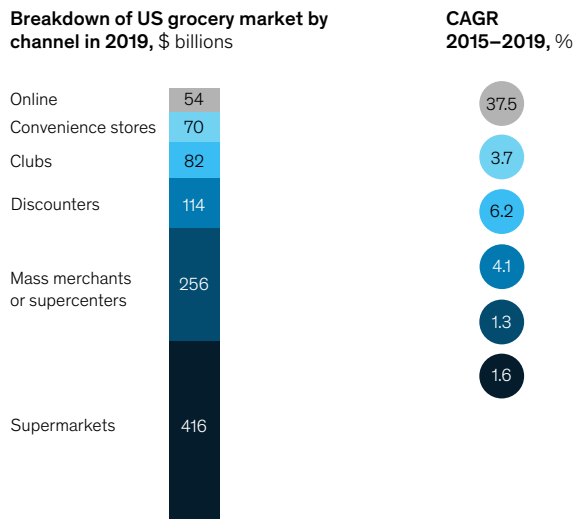
retain market share, personalization and its delivery will likely continue to rise in importance.

### How the pandemic reset the playing field for winners and losers

From 2010 to 2020, North American grocers followed a path similar to that of their counterparts in other geographies. Deep discounters had entered the market and were gaining share aggressively over mass players, supermarkets, and even club players. From 2015 to 2019, discounters grew at an impressive 6.2 percent, far outpacing the growth of other grocery formats, and further national expansion plans are imminent (Exhibit 5). To defend against this threat, mass players and large national supermarkets responded with

Exhibit 5

### Supermarkets and supercenters are losing share in grocery retailing to discounters, convenience stores, and e-commerce.



Source: Kantar Retail IQ

strategies ranging from significant national price drops to store remodels and supply-chain investments. All of these moves came at the expense of smaller, more regional chains. Furthermore, nearly 2,300 grocery retailers closed from 2012 to 2019. The outlook for subscale supermarkets without a differentiated value proposition versus larger mass players or national supermarkets was bleak: in the absence of a defensible value proposition, they were left to compete on price, racing to the bottom with discounters without seeing returns in traffic.

In a reversal from prepandemic trends, supermarkets and mass players benefited from the trends of the past year. Their seemingly endless aisles with a large SKU assortment provided consumers with options when items were out of stock. Their investments in fresh foods were a welcome tailwind as consumers increasingly sought to eat healthier foods. Furthermore, their local store density and historical community roots provided consumers with a sense of trust and confidence in shopping. And several supermarket chains rose to the e-commerce challenge by quickly bolting on click-and-collect or delivery services through third-party providers. Without having to compete primarily on price, the core proposition of supermarkets was once again attractive. Prominent supermarkets reported sales growth of anywhere from 12 to 16 percent in 2020, beating out several club and discount players alike. With consumers indicating that selected pandemic-induced behaviors will remain sticky, the landscape might continue to evolve.

## Considerations for the next normal

As North American consumers begin to adjust to the next normal, we anticipate that the landscape of winners and losers in grocery will cease to be determined by format. Instead, leaders will be defined by their differentiation, innovation, and defensibility across five main areas. (For the CEO perspective, see sidebar, “The view from the C-suite.”)

### 1. *Winning higher share of stomach.*

Before the pandemic, consumers typically split their share of stomach across more than three grocers. Most consumers had their go-to stores for fresh, center-store, and stock-up products and were willing to add the additional weekly or biweekly trip to fulfill each need. In light of the pandemic, we have observed an undeniable consolidation of trips, and consumer sentiment shows no signs of changing: 88 percent of consumers visited three or fewer stores per week in 2020, and 86 percent of consumers plan to continue this trend in 2021. Forty percent of consumers indicate that they would prefer to frequent stores that sell more than just groceries. And the undeniable success of mass players in 2020 further points to improved consumer sentiment around trip consolidation. This will likely place some pressure on grocers with specialty and niche value propositions—the bar to deliver exceptional products, value, experience, and service will be higher to justify an additional trip. Clarity in what these grocers stand for and flawless execution will be key to retaining share of stomach.



## The view from the C-suite

**In partnership with FMI**, McKinsey surveyed North American grocery CEOs to gather insights on their learnings from the past year and their perceptions of the key focus areas for the industry (and their company) through 2022. Reflecting on 2020, CEOs noted four major themes that shaped the year: safety and regulations, supply chain, e-commerce, and organizational decision making.

After proving their resilience during the pandemic, grocery leaders are now focusing their attention on the next normal. CEOs recognize that some of the shifts during the pandemic will endure through 2021 and 2022. Our survey analysis highlighted three key trends that leaders consistently highlight as most likely to shape the years ahead: the rapid acceleration of digital, shifting consumer preferences, and a greater emphasis on affordability.

More insights from North American grocery CEOs are featured in the upcoming *State of Grocery Retail North America* report.

**2. Credibly competing in the omnichannel battleground.** Before the pandemic, select retailers whose brick-and-mortar stores provided a competitive advantage through differentiated in-store experiences, services, locations, and formats, among other attributes, considered an omnichannel presence a “nice to have” feature. Now, to compete in today’s environment, in which recent McKinsey research finds 52 percent of households shop for groceries online across a spectrum of occasions (top-up, fill-in, full shop), an omnichannel presence is an imperative. Grocers will need to dissect their internal e-commerce operations or third-party models to meet growing consumer expectations for experience (such as site usability, transparency into in-stock products, and better-picked fresh produce), all while ensuring

that the channel increases margins, particularly when it is on pace to account for upward of 20 percent of the overall business.

**3. Elevating pricing and value.** While store cleanliness practices and product availability dictated where consumers chose to shop in 2020, convenience and value will carry the day in 2021. An estimated 32 percent of consumers indicated that a healthy price–quality equation will dictate where they choose to shop in 2021, and 45 percent of consumers will look for ways to save money. The increased momentum in private label further supports consumers’ renewed focus on value. Grocers will need to carefully consider how to invest in pricing and promotions—2020 saw a reduced period of promotional activity owing to the surge in grocery demand, but we

anticipate a return to more strategic pricing and promotional activity in 2021.

4. ***Renewing the focus on fresh, new, and innovative.*** During 2020, a sense of nostalgia made consumers turn to products from their childhood, particularly in the center of the store, and we observed a reduction in the typical innovation-charged new-product releases. However, as fatigue sets in around cooking at home, we expect consumers to demand more innovation across fresh, ready-to-eat, and frozen products. In our sample, 39 percent of consumers want grocers to introduce them to innovative products and experiences, 41 percent want to eat better, and 42 percent plan to continue to cook meals from scratch at home in 2021. These preferences all point to the need for grocers to have a strong fresh program and an assortment across departments that delivers on both better-for-you and new and exciting consumer needs.
5. ***Accelerating personalization.*** While affordability perception continues to be a primary driver of store selection, personalization is growing in importance. Consumers are looking

for simplicity, a sense that the offers and messages are tailored to them, continued innovation in offers, responsiveness to consumer behavior versus a preset calendar, and seamless integration of a retailer's different programs. Consumers want to feel recognized as individuals by grocers, which will have to engage beyond relying on mass promotional activity as the answer to share retention. To meet these expectations, grocers will need to rally their organizations around a strategy and vision for personalization; clearly define an operating model between merchandising, pricing, and loyalty teams; and invest in the technology to support the personalization vision.

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The past year presented one of the most challenging for society at large and produced what will likely be enduring consumer behaviors in grocery. The grocery sector demonstrated an incredible amount of resiliency in 2020 and is poised to continue to serve the most urgent consumer needs, albeit against a drastically different set of imperatives from two years ago.

**Bill Aull** is a partner in McKinsey's Charlotte office; **Anuja Desikan Perkins** is a partner in the Denver office; and **Sajal Kohli** is a senior partner in the Chicago office, where **Eric Marohn** is a consultant.

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