

Retail Practice

# The state of grocery retail around the world

A survey of more than 30,000 consumers and 100 grocery CEOs reveals the challenges—and opportunities—that grocery retailers face today.

*by Bill Aull, Dymfke Kuijpers, and Daniel Läubli*



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**Changes to the global grocery retail market** are happening fast. Trends that emerged during the pandemic are persisting, reshaping the industry. Consider this: in December 2019, the percentage of e-commerce grocery sales in the US market was slightly under 4 percent; it's now in the low teens and is expected to reach roughly 25 percent by 2030. The adoption of online grocery is expected to be even higher in parts of Europe.

In this episode of the *McKinsey on Consumer and Retail* podcast, three McKinsey experts share insights from their latest research on the global grocery retail industry. An edited transcript of their conversation with host Monica Toriello follows.

**Monica Toriello:** Today we're going to hear about the state of grocery retail all around the world. McKinsey's Retail Practice has undertaken a huge research effort that encompassed surveys of more than 30,000 consumers and more than 100 grocery CEOs globally about what's happening in grocery and what the future of the sector might look like. We'll hear from the regional leaders of this research to tell us about what they're seeing in Asia, Europe, and North America.

First up is Bill Aull, a partner who leads McKinsey's office in Charlotte, North Carolina. Bill has expertise in a number of retail and consumer packaged goods (CPG) topics, including merchandising, category management, and strategy. Bill, thanks for being here—and tell us one or two things that you get at every trip to the grocery store. For me, it's seltzer water and some kind of dried fruit. What is it for you?

**Bill Aull:** Great to be here. At the grocery store, I always get cream cheese, eggs, and some sort of grainy bread.

**Monica Toriello:** Next up is Dymfke Kuijpers, a senior partner who leads our Consumer Practice in Asia and our work in consumer tech in the region. Dymfke is a Dutch national who's been based in Singapore for the past five years. Dymfke, nice to have you with us. And tell us one thing you can't leave the grocery store without.

**Dymfke Kuijpers:** Very nice to be here, Monica. I never leave the grocery store without stone berries.

They're the best indication of the supply chain of the grocer.

**Monica Toriello:** That's good to know. Last but not least, Daniel Läubli is a senior partner based in Zurich. He leads McKinsey's work in grocery globally and coleads our Retail Practice in Europe. His areas of expertise include strategy, store operations, and advanced analytics. Welcome to the podcast, Daniel, and tell us what your grocery must-have is.

**Daniel Läubli:** Monica, great to be here. My grocery must-have is dark Swiss chocolate. I eat at least a pack a day, so whenever I go shopping, I need a lot of that.

## How consumer behavior has changed

**Monica Toriello:** All of us, to some extent, are grocery shoppers; we're all consumers. So let's start this conversation with the consumer. Broadly speaking, when consumers shop for groceries these days, they notice that prices are higher. And they're trying to stretch their budgets, so they've become more value conscious, as your grocery reports have said—but you've also said they want to eat healthier and they care about sustainability. There's some tension between those things, because healthier foods and sustainable products tend to be not the cheapest options. Bill, let's start with North America: Is the picture that I've painted an accurate picture of the consumer?

**Bill Aull:** It is. The bar is raised in terms of what grocers have to do to deliver on value, and the consumer really isn't willing to sacrifice what they perceive to be value in fresh goods. The challenge for many grocers is to figure out how to deliver on that. The bar's higher, and it costs more to do business.

One thing you didn't mention is that, at least in the US, consumers continue to accelerate their demand for e-commerce and e-commerce services, which adds expense for grocers. That demand is just as high as the desire for value and freshness.

**Dymfke Kuijpers:** If you look at Asia, we always say there's no such thing as Asia. There are distinct countries and big differences in consumer optimism

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—Dymfke Kuijpers

and consumer spending, with northern Asia typically less optimistic than, say, India. Consumers in India are the most optimistic about economic recovery after the pandemic and have the highest willingness to spend. That said, to your point, inflation is hitting, and unlike at the beginning of the pandemic when people were just worried about availability of product, people now care big time about value. That's number one.

Number two, to your point about sustainability and health, there's a lot of stated behavior. For example, 62 percent of Indonesian consumers claim to consume products that are healthier and to think about their diet and their health when they're buying stuff. I can tell you that was not the case before the pandemic. I can also tell you it's not reflected in the actual purchasing behavior just yet. So, there is still a disconnect between stated behavior and purchasing behavior when it comes to sustainability and health.

Third—and I probably should have started with this—is e-commerce, which, as Bill mentioned, is a big trend. It is really the biggest shift we've seen. It has penetrated parts of the population that were not online—particularly the elderly. And it's here to stay; we don't see a reversal of people going back to the store.

And finally, because of the pandemic a lot of consumers had to try new stuff and new brands, and they figured out, “Hey, they're not so bad.” So, the ability and the willingness to try new stuff has disproportionately grown in the past few years.

**Daniel Läubli:** In Europe, many of the developments Bill mentioned are also evident. Three main trends are driving the industry. One is inflation, labor cost increases, general cost increases. The second is that volumes are lower as we come out of COVID. The third is what you mentioned, which is the polarization of the consumer.

What's happening is that, on the one hand, consumers are trading down, becoming more price sensitive, and buying more private label, but on the other hand they're buying more sustainable, healthy, and premium products—and we see both happening at the same time. It's mainly the lower-income households that are trading down and reducing costs; they are becoming much more price sensitive and looking more for promotions and cheaper options. But other households are still accelerating their spend on healthy and sustainable products. So basically, the bottom and the top end of the assortment are growing the fastest, while the brands in the middle tend to lose.

### **From browsing the aisles to browsing the web**

**Monica Toriello:** Of course, when we talk about grocery shoppers, we're not just talking about people standing in a physical store, walking up and down the aisles; we're also talking about online shoppers. As you said, online grocery shopping skyrocketed during lockdowns, but it's been pretty sticky behavior—people are continuing to do it.

Daniel, in the more advanced online grocery markets in Europe—like the UK, France, and the



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Netherlands—your most aggressive forecasts show that online could account for up to 30 percent of the food-at-home market by 2030. In the most bullish scenario for the UK, online grocery with scheduled home delivery could be the largest channel in the UK by 2030—larger than supermarkets. That is astounding. But online is not an easy business for grocers, right? Profitability is elusive. What are the most important things that grocery retailers need to be doing today when it comes to e-commerce?

**Daniel Läubli:** Online is indeed a big challenge and a big opportunity at the same time. We believe that online grocery sales will at least double again by 2030; in the most aggressive scenario, it will grow even more than that. The most important thing for a retailer to do is to size this opportunity correctly and really go after sales.

Indeed, as you say, profitability is a challenge. There are very few players in Europe that have made money in grocery e-commerce. There are several elements needed to make this work. One is that the value proposition online must become much more differentiated. While in the past just being online was the main offering, we now see players offering much more specific value propositions: Is it all organic? Is it more local? Is it a convenience offering? Online grocery is starting to develop into different formats and banners, like what we’ve seen happen offline. And we see consumers spreading their purchases across several online shops, like they do offline as well. It’s important to sharpen the value proposition and target a certain customer segment and certain shopping occasions.

Operational excellence and automation is another important lever to increase profitability. Another one is retail media—where the retailers sell advertising space on their websites to CPG companies, using all the consumer data they have to allow for greater targeting. We now see some of the best players achieving 10 percent of their online sales through these advertising sales, which have become an important contributor to their bottom line.

**Bill Aull:** What’s interesting is that in the US, Canada, and Mexico, the development of e-commerce looks so different. You mentioned scheduled delivery perhaps taking the largest portion of share; that is certainly not the trend in the US. Instead, there’s a push toward instant delivery. That’s where the growth has been.

You’re seeing the merger of grocery delivery with the DoorDashes and the Grubhubs of the world. Many grocers in the US are now having to face the decision of, “Do we try to build this ourselves? Or who do we partner with?” During the pandemic, a significant number of grocers accelerated their partnerships with Instacart and Shipt and others. They’re taking a step back now to say, “As we think about where this goes, how much of this do I want to own and how much do I want to have a partner lead for me?” Who owns the customer data? And who controls the customer experience? Because, ultimately, that’s a big portion of the repeat traffic and loyalty that we see in the US.

Just to ground us in the facts: in the US, online penetration in December 2019, before the pandemic, was about 3.9 percent. It’s now in the low

# ‘Retailers are thinking creatively about the career paths of store managers and department managers: What are the step-out roles or special projects that can be offered to them?’

—Bill Aull

teens. And while we don’t see it getting to the level that Daniel alluded to in Europe by 2030, it’s not significantly behind: mid-20s is what we expect to see in the US. And, again, it raises a lot of questions about how to deliver on it profitably: Is now the time to rethink your supply chain? It’s been a fascinating journey and I think it really is the battleground that will shape the sector for the next five years.

I think it’s fascinating, too, to see how many grocers are inserting themselves into new markets without a brick-and-mortar presence. There are a number of grocers doing that. The competitive landscape is going to evolve dramatically; it’ll be fascinating to watch.

**Dymfke Kuijpers:** As for Asia, it’s very different by country. If I take China, for example, the majority of sales are in the next-30-minutes category. There’s some next-day, but most are in the 30-minute delivery window. It’s a very different model from the classic grocery basket in supermarkets, or even from same-day delivery, on which you can make a decent margin.

There are a couple of things to watch. One, for sure, is media monetization: we see the big players very aggressively moving there, and the tech players are already there. A second area is around supply chain, as Bill mentioned. Traditionally, labor has not been expensive in many countries in Asia, but now it’s becoming so. How do you organize that? How do you make your supply chain more resilient to fit your omnichannel model?

Another piece of this is the huge surge in data-driven systems of personalization and, related to that, loyalty. This is in part driven by the unique “Asian-ness” of super apps. With so many different apps, traditional grocery players are saying, “How do we compete against these super apps? How do we create our own ecosystems and put together a loyalty system where we can create a reinforcing loop, so that customers come to us more often?”

By and large, quite a lot of the Asian retailers are still struggling to make money in online sales. I think they’re less developed, from that perspective, compared to grocers in Europe.

**Bill Aull:** What’s interesting, Dymfke, is that everyone’s asking what’s happening in Asia with the super apps and whether that’s what we should be doing in the US. There are probably some learnings around what’s working versus not, and how that would translate to the US.

**Dymfke Kuijpers:** I’d also say that most retailers in Asia are actually no longer just retailers. They’re also payments and fintech players. They’re often also CPG producers. They also have an advertising business or media business. They go into gaming. The “state of grocery” in China, to a certain extent, doesn’t exist anymore from an industry perspective.

## Investing in talent

**Monica Toriello:** Let’s talk about labor and talent, which each of you has brought up. It’s a huge issue in retail: we’re seeing rising attrition, employees

demanding more flexibility, automation changing the types of skills that retailers need, and so on. We can point to many examples of things that retailers are already doing on the talent front, whether it's higher hourly wages, tuition reimbursement, reskilling and upskilling programs, or offering distinct career paths to attract digital talent. But what are you seeing that's actually working?

**Bill Aull:** I do think that is one of the biggest challenges. In the grocery sector, there's not a long list right now that you could point to and say, "Look, this is what everyone should be doing." There's a lot of trial and error. And I would think separately about what's happening to make corporate centers attractive, versus what's happening to make distribution centers attractive, versus what's happening to make stores attractive.

In stores, what's been interesting to see are folks rethinking the value proposition for the department manager in produce or in meat, or for the person driving the customer experience desk. To your point, there's always been a lot of attrition, particularly at the front desk, checkout, and other "daily tasking" roles—but what drives the performance of a store are department managers.

So there have been folks looking at store managers and department managers, and thinking creatively about their career paths: What are the step-out roles or special projects that can be offered to them? What are the ways they can learn and develop through offline learning and training that broaden their skill set beyond just the core of what they're doing today?

**Daniel Läubli:** When we ask CEOs what their top concerns are, finding the right talent comes out as number two, directly after inflation. When we asked the same question last year, talent was not even in the top ten. Also, when you look at job vacancies in the European Union in retail, they're at a record high. It's really difficult to find enough talent and the right talent. This includes traditional roles like butchers, bakers, and store associates, but also newer roles like in IT or analytics. In all of these roles, there are not enough people and attrition is at a record high.

Many retailers reacted in recent months by offering higher pay and compensating for inflation to increase the buying power of their employees. But what we find in our research is that higher pay is only part of it, and it's actually not what makes people stay.

What makes people stay is if they have an environment where they like to work, if they get along well with their boss, if they feel a sense of belonging, and if they have good career opportunities, as Bill mentioned. I've seen retailers start to offer training programs for their department managers and store managers on how to lead and how to improve. It's not the solution to everything, but it's one of the most interesting things I've seen so far.

**Dymfke Kuijpers:** I wouldn't say we've particularly cracked that in Asia. In some Asian markets, there's still more labor available than in Europe and the US. That being said, what we see here, interestingly enough, is that some of the best practices are coming from the "hyperscalers." They have programs around how to lead with purpose, how to scale fast, how to foster a founder's mindset.

If I started with two people five years ago and we're now thousands of people, how do I create purpose? What is my purpose as a company, and how do I get everybody excited around that? How do I then make that practical, in the values and in the fabric of the company and in how we work, so that I empower the next generation?

## Where grocery goes next

**Monica Toriello:** You've interviewed many CEOs for these reports, and you counsel many of them on a daily basis. What is the one message that you'd give today's grocery CEOs? If they do only one thing in 2022, what should that one thing be?

**Daniel Läubli:** They should make bold moves to adapt their commercial offering to the current environment. We are seeing dramatic shifts, such as the polarization of consumers. Players that are making bold moves in strengthening their offering—for people who are looking to save money as well as for people who want to pay more for premium-

quality, sustainable, healthy products—will come out much stronger.

**Bill Aull:** My simple answer is to invest in your people. There's such a pull for talent. Given all the things that Daniel and Dymfke have described in terms of evolution of the industry, there's a lot of leadership needed in this sector. I'd encourage everybody to invest in all parts of their organizations, from the corporate centers to the store managers and store employees. That's my big message.

**Dymfke Kuijpers:** I was going to say something similar: invest in capabilities. Invest in digital capabilities and the related “cool” stuff around retail media, but also in core capabilities like cost savings, private-brand development, and store operations.

What I feel very excited about is the speed at which new businesses get built. These things go so fast—from zero to a first version in three months, and then a full-fledged business in 12 months. I would say that's where Asia has something to teach the rest of the world: the speed at which things go. Last year, I was talking to a retailer about retail media being 1 percent of their business. This year, it's 4 percent. I can tell you that's a speed that I never see in the rest of the world.

**Bill Aull:** Maybe the last thing I would say is that Europe has been so far ahead on private label, but what we're seeing now in the US is that it's not just about introducing a cheaper national-brand

equivalent, but actually, “How do we differentiate our stores with a new program or platform that's in the middle tier or premium tier for private label?” That's going to be a fascinating space that transpires in North America over the next two years.

**Dymfke Kuijpers:** The next big category for retailers is alternative proteins. It's a massive thing. It's currently very local—tastes continue to be local—so retailers, just like in ready-to-eat and ready-to-cook meals, will play an incredibly big role in shaping that category. It's still very early days in this part of the world but I think that will be something to watch out for.

**Daniel Läubli:** I fully agree. Alternative proteins are the next battlefield. What people often don't know is that the food system makes up about 34 percent of the total greenhouse-gas emissions globally, and most of it comes from meat and dairy.

We see a lot going on in Europe—a lot of start-ups in the field. There are grocers acquiring alternative protein producers to start building this as a differentiation factor. To Dymfke's point, this is indeed one of the next big waves. It's becoming the next fruit-and-vegetable category: we always say fruits and vegetables are the big differentiator, and alternative proteins could be the next one of that magnitude.

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