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Turning a corner

The State of Grocery Retail 2024

South Africa



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Foreword

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The grocery retail market in South Africa has been under sustained pressure for several years, but in 2024, there are early signs that it may be turning a corner.

Over the past decade, persistent macroeconomic headwinds, including low economic growth, high unemployment, infrastructure challenges, and high interest rates, have affected consumers' disposable income, leading them to prioritise basic necessities over discretionary spending. This, in turn, has affected grocers' costs and margins.¹ Even before the COVID-19 pandemic, McKinsey research shows that South African consumers were feeling the pinch, and they remain among the least optimistic about the economy and the most cost-conscious globally, with a high propensity to look for savings.²

This year, the data indicates signs of a turnaround, with fewer South African consumers in high- and low-income groups focused on saving money and more looking to buy premium products. We have also observed rising demand for convenience, with more shoppers turning to online channels and buying food-on-the-go products. High-income consumers are also increasingly placing a premium on buying healthier and sustainable food.

The market is more interesting and dynamic than ever. Our 2024 State of Grocery research in South Africa looks at the market's exposure to global trends as well as its unique aspects and dynamics. We identify several opportunities, including growing online and discounter formats, the use of AI, and emerging frontiers such as retail media.

¹ "Stretched South African consumers put health and sustainability on the shopping list," McKinsey, March 24, 2022.

² Ibid.

About QuantumBlack, AI by McKinsey

QuantumBlack, McKinsey's AI arm, helps companies transform using the power of technology, technical expertise, and industry experts. With thousands of practitioners at QuantumBlack (data engineers,

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technology development and client innovation, which has been driving cutting-edge advancements and developments in AI through locations across the globe.

The global context: Signs of recovery as consumer confidence returns

Globally, the grocery sector has faced a challenging business environment in recent years. In much of the world, volatile inflation was the dominant theme in 2023. In Europe, for example, inflation reached historic highs of 10 percent headline inflation and 19 percent food inflation, which had a knock-on effect on grocery volumes and margins throughout the year.³ Volumes dropped by 2.0 percent, and the industry experienced a downtrading effect of 1.8 percent as consumers tightened their belts, buying fewer groceries and opting for cheaper products.⁴ Concurrently, real wages continued to contract throughout most of 2023, further straining household finances. A similar story played out in North American and Asian markets.

Macroeconomic uncertainty has persisted into 2024, and margins and costs in the global grocery sector continue to come under pressure. Nevertheless, leaders are slightly less pessimistic than in previous years, with early signs indicating a possible return to growth.⁵ McKinsey's 2024 CEO and consumer surveys, along with other research, highlight eight common trends shaping the global grocery market this year (Exhibit 1).

South Africa's grocery market: Potentially turning a corner after several challenging years

In common with the rest of the world, margins and costs have remained at the top of the grocery CEO's agenda in South Africa over the past few years. Persistent low economic growth, high unemployment, rising interest rates, and inflation—compounded by variable electricity supply and degrading transport infrastructure—have created challenges for consumers and retailers alike.⁶ South African shoppers are also among the least optimistic in the world, and pressure has been mounting for several years. In 2021, just 21

percent of consumers in South Africa believed that the economy would rebound, compared with 40 percent in the United States and 30 percent in Germany and the United Kingdom.⁷ By 2022, 87 percent of South African consumers—more than any other market surveyed—reported feeling the pressure of their economic situation, with 42 percent saying they had to make financial adjustments to cope.⁸

This year, though the pressures have not gone away, there are signs that the market is starting to shift. Our consumer research shows that in 2024, consumers will continue to search for value but are also more likely than before to trade up. We surveyed more than 1,000 consumers and spoke to several grocery executives in South Africa to get their perspectives on key challenges and priorities facing the sector. It's clear that in a dynamic and shifting market where technology is quickly advancing, new opportunities are opening up in the grocery ecosystem. The opportunities span growing online and discount formats, innovative consumer offerings, and emerging frontiers such as retail media.

While South Africa's grocery sector largely tracks the global market, it is also shaped by the country's unique economic, cultural, and demographic contexts that affect consumer choices and contribute to trade fragmentation in the market. Our research identifies eight local trends shaping grocery retail.⁹ These trends are grouped into three broad categories: market and channel, consumer preferences, and growth beyond the core (Exhibit 2).

1. Discounters: Dashing ahead

As South African consumers continue to look for ways to save in a challenging economy, discounters are gaining ground.

South Africa's discount retailers are growing twice as fast as the total market. Pick n Pay's Boxer and Shoprite's USAVE grew at a combined CAGR of 12 percent between 2019 and 2023, compared with

³ Nils-Gerrit Wunsch, "Inflation rate for food in the European Union (EU) from January 2016 to April 2024," Statista, June 12, 2024; *Signs of Hope – The State of Grocery Retail 2024: Europe*, McKinsey and EuroCommerce, January 2024.

⁴ *Signs of Hope*, January 2024.

⁵ Ibid.

⁶ "Stretched South African consumers," March 24, 2022; "Unemployment in South Africa: A youth perspective," Statistics South Africa, May 17, 2024.

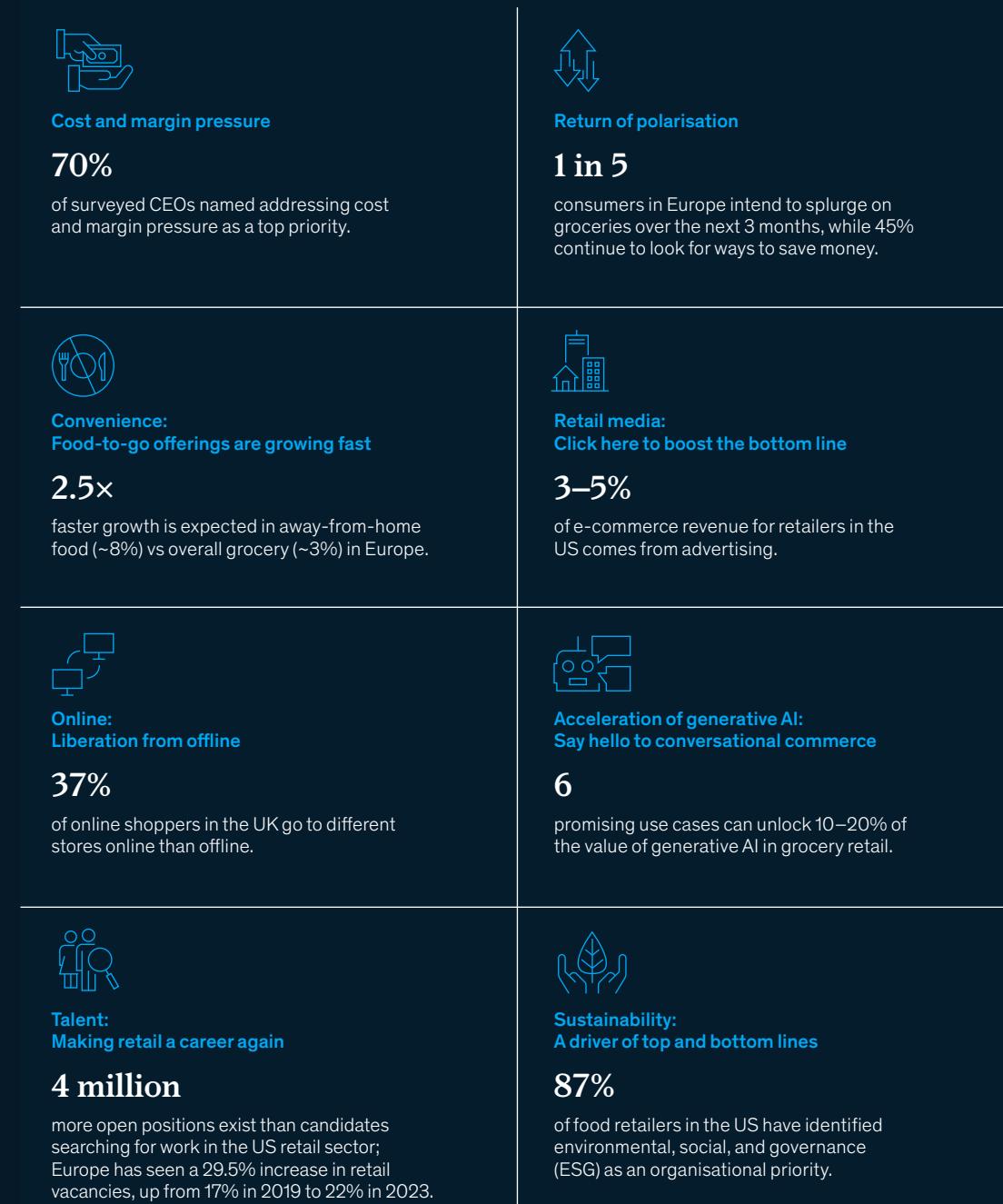
⁷ "Stretched South African consumers," March 24, 2022.

⁸ Ibid.

⁹ McKinsey Consumer Survey 2024, n = 1,014; South Africa, sampled to match general population aged 18 and above.

Exhibit 1

Eight trends characterise the global grocery retail market in 2024.



Source: *Signs of Hope—The State of Grocery Retail 2024: Europe*, McKinsey and EuroCommerce, January 2024; "The state of grocery in North America 2023," McKinsey, September 25, 2023

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Exhibit 2

Eight trends are shaping South African grocery retail in 2024.

Market and channel	Consumer preferences	New growth avenues
 <p>Discounters: Dashing ahead</p> <p>2x</p> <p>faster growth was seen for discount retailers versus the total grocery market.</p>	 <p>Constrained consumers: Early signs of hope</p> <p>19 percentage points</p> <p>more high-income earners intend to purchase high-quality, premium food products.</p>	 <p>AI: An engine for differentiation</p> <p>1 to 2 percentage points</p> <p>of potential gain in EBIT margins could be achieved by leveraging traditional AI across the organisation.</p>
 <p>Online grocery: Significant headroom for growth</p> <p>26%</p> <p>of South African consumers intend to increase their grocery spend online in 2024.</p>	 <p>Convenience: Growth in food to go</p> <p>33% CAGR</p> <p>growth in the food-to-go segment was seen between 2013 and 2023, compared with 8% in total grocery.</p>	 <p>eB2B: The spaza market as a source of growth</p> <p>Inefficiencies</p> <p>in the spaza market supply chain are ripe for disruption by digital B2B business models.</p>
	 <p>Health and organic: A tailored taste</p> <p>70%</p> <p>of high-income consumers intend to focus on healthy eating and nutrition in 2024.</p>	 <p>Retail media: Conquering new profit frontiers</p> <p>15%</p> <p>annual growth is projected in retail media globally, with similar opportunities in South Africa.</p>

Source: Euromonitor; McKinsey Consumer Survey 2024, n = 1,014 (South Africa, sampled to match general population aged 18 and above); *Signs of Hope—The State of Grocery Retail 2024: Europe*, McKinsey and EuroCommerce, January 2024; McKinsey analysis

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6 percent CAGR for the market as a whole (Exhibit 3). Boxer reported close to 20 percent sales growth from the second half of its financial year to the end of February 2024.¹⁰

Shoppers intend to continue prioritising value and affordability in 2024. The average monthly cost of household food baskets, which exceeded R5,000 in April 2023, grew by a further 6 percent to reach R5,336 in April 2024,¹¹ while household disposable income grew by only 4 to 5 percent over the same period.¹² As a result, many shoppers continue to look for value. In 2024, 76 percent of consumers said they are more likely to buy products on promotion, while 63 percent have

recently switched to stores' own brands to stretch their budgets.¹³

Cost-conscious consumer behaviour, combined with low market penetration relative to global levels, suggests that the growth of discounters will continue for the foreseeable future. At just under 9 percent of market share in 2023, the discount segment in South Africa is about two-thirds the size of that in countries such as the Netherlands and the United Kingdom, where market penetration is about 15 percent.¹⁴ Furthermore, our research shows that even in these markets, discounters continue to do well, gaining an additional 0.8 percent market share, on average, in 2023 in Europe.¹⁵

¹⁰ *Pick n Pay Integrated Annual Report 2024*, Pick n Pay, June 26, 2024.

¹¹ "Household affordability index," Pietermaritzburg Economic Justice and Dignity, April 2024.

¹² Based on McKinsey analysis of Statistics South Africa data on disposable income per household.

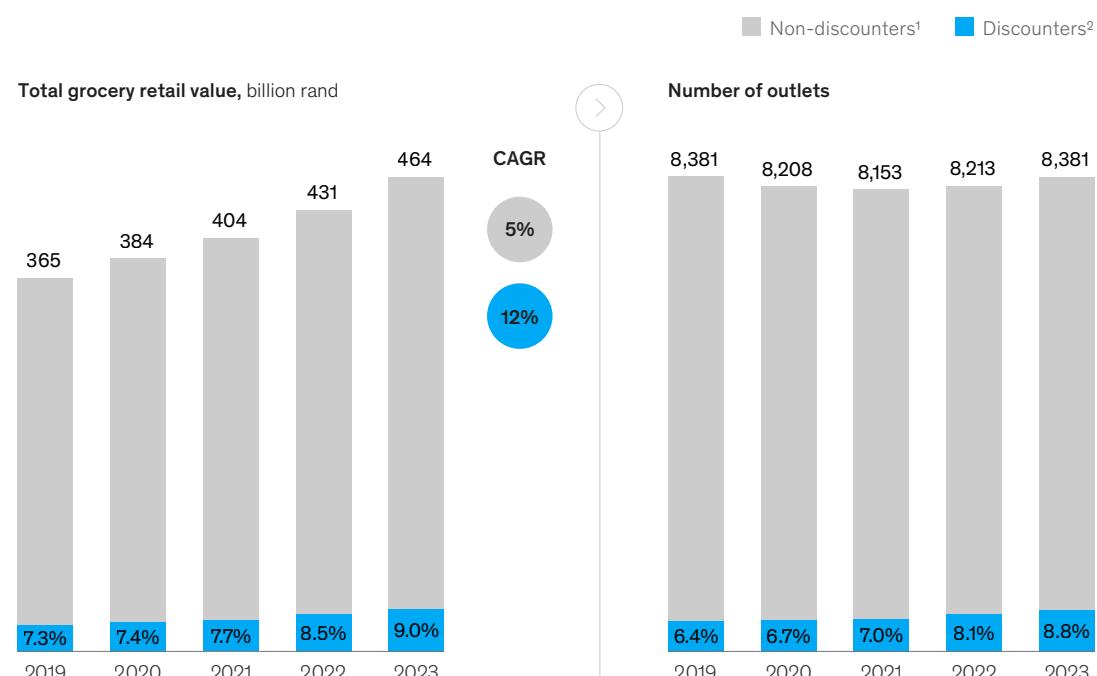
¹³ McKinsey Consumer Survey 2024, n = 1,014; South Africa, sampled to match general population aged 18 and above.

¹⁴ Based on McKinsey analysis of Euromonitor and Europanel data.

¹⁵ *Signs of Hope*, January 2024.

Exhibit 3

Discounters have grown twice as fast as modern trade in South Africa.



¹Includes supermarkets, hypermarkets, and convenience stores; excludes fragmented segments (eg, spaza shops).

²Includes Pick n Pay Group and Shoprite Holdings discounter stores (ie, Boxer and USAVE).

Source: Euromonitor



2. Online grocery: Significant headroom for growth

South African consumers' appetite for online shopping is still growing, with cost and convenience being the main drivers.

There is strong momentum in online grocery retail in South Africa. Sales have grown by 54 percent annually since 2019 to reach R23 billion in 2023 (Exhibit 4). We expect this growth to continue for the foreseeable future, driven by rising consumer interest and low market penetration. Our 2024 consumer survey reveals that 26 percent of South African consumers intend to increase their grocery shopping online in 2024.¹⁶ This is significantly higher than in global markets, where consumer intent to increase grocery shopping is stabilising.¹⁷ Online consumers are looking primarily for convenience, with their main reasons for shopping online including the time saved from not having to go to the store (43 percent) and the convenience of being able to shop when it suits them (about 30 percent).¹⁸

Online does not have to mean loss-making. Unlike in most markets around the world, several online

grocers in South Africa have already achieved positive profitability as their business models mature and achieve scale. This is largely due to lower factor costs in South Africa, such as lower wages for picking and delivery staff. While the economics of online sales are still not as attractive as offline sales, we're seeing retailers use their online channels to win over new customers from their competitors, especially in the lucrative higher end of the market, making the economic equation for retailers more attractive.

Increasingly, consumers expect different value propositions from online and offline channels. In Europe, where the data is available, it is becoming progressively clear that the two channels satisfy different shopping needs. For example, 37 percent of consumers in our UK survey (two percentage points higher than in 2023) always shop at a different banner online than offline because they have different needs by channel.¹⁹ We see indications of a similar trend playing out in South Africa, where, for example, shoppers care more about low prices than promotions in the offline channel, while the reverse is true in the online channel.²⁰

¹⁶ McKinsey Consumer Survey 2024, n = 1,014; South Africa, sampled to match general population aged 18 and above.

¹⁷ McKinsey Consumer Survey 2024, n = 12,598; Belgium, Denmark, France, Germany, Italy, the Netherlands, Poland, Spain, Sweden, Switzerland, and the United Kingdom, sampled to match general population aged 18 and above. This shows the average net intent of positive attitude to online shopping at 5 percent.

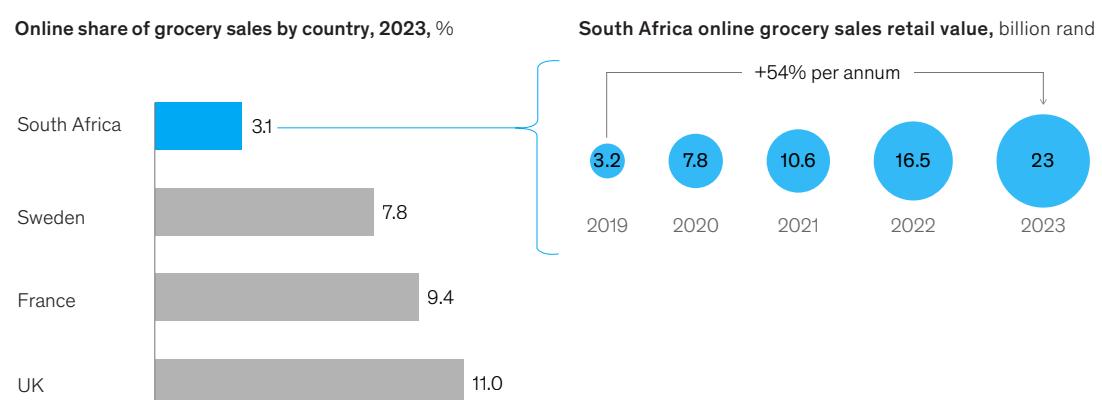
¹⁸ McKinsey Consumer Survey 2024, n = 1,014; South Africa, sampled to match general population aged 18 and above.

¹⁹ Signs of Hope, January 2024.

²⁰ Based on McKinsey analysis of Euromonitor and Europanel data. McKinsey Consumer Survey 2024, n = 1,014; South Africa, sampled to match general population aged 18 and above.

Exhibit 4

Online grocery has grown rapidly in South Africa over the past five years, and low market penetration indicates significant headroom for growth.



Source: Euromonitor; Statista

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3. Constrained consumers: Early signs of hope

South African consumers are under significant pressure compared with consumers in other countries, but there are signs that their appetite for premium products is starting to recover.

Both high-income and low-income earners in South Africa continue to look for ways to save money. However, consumer intentions to save declined in 2024 for the first time since we started tracking this metric in 2018. This suggests that shopping habits may, at last, be turning a corner. Seventy-eight percent of low-income earners said they would look for ways to save during 2024, down two percentage points from 80 percent in 2023, while the intention to save in high-income groups has dropped 11 percentage points, from 77 percent in 2023 to 66 percent in 2024 (Exhibit 5).

Consumers in both income groups express a growing appetite for high-quality and premium product purchases. The number of lower-income

earners who intend to purchase high-quality, premium food products rose by ten percentage points, from 16 percent in 2023 to 26 percent in 2024, while the number among higher-income earners jumped by 19 percentage points to 37 percent. This is considerably higher than in other markets. In Europe, just 8 percent of high-income consumers intend to buy more premium goods in 2024, rising by five percentage points from 2023.²¹

4. Convenience: Growth in food to go

As consumers spend more time on the move, the food-to-go market continues to pull ahead of total grocery growth.

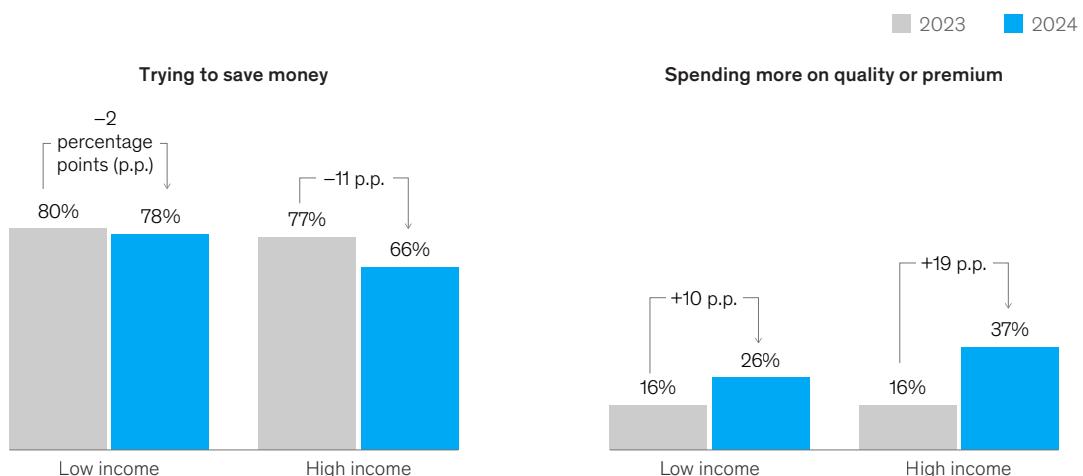
Consumer demand for convenience has sparked a boom in food-to-go sales despite the inflationary environment and downtrading effect. This segment, comprising products such as ready-to-eat meals, takeaway, delivery, or drive-through meals from restaurants, outpaced growth in the overall grocery category, growing at 46 percent

²¹ *Signs of Hope*, January 2024.

Exhibit 5

Grocery attitudes may have turned a corner in South Africa: intention to buy premium products increased and intention to save decreased.

Attitude toward grocery shopping, net intent of South African consumers, 2023 vs 2024,¹ %



Question: Think about 2024. Are you planning to do more, less, or about the same of the following?

¹Net intent represents the share of consumers who want to do more of the activity minus the share of consumers who want to do less of the activity in 2024 vs 2023.

Source: McKinsey Consumer Survey 2024, n = 1,014 (South Africa, sampled to match general population aged 18 and above)



CAGR between 2017 and 2023, versus 5 percent in total grocery. It is also projected to keep growing faster than the grocery market – at an 8 percent CAGR during the 2023–28 period, versus 5 percent CAGR for grocery.²²

CEOs expect food-to-go to drive traffic, raise margins, and generate cross-selling opportunities. According to our CEO survey, food to go is one of the top five trends for 2024.²³ Our research indicates that this trend is driven by increased numbers of workers returning to offices in the wake of the COVID-19 pandemic and driven by increasingly busy lifestyles.

The food-to-go market is still in its early stages in South Africa, and grocery retailers have a window of opportunity to innovate and expand their food-to-go offerings. Options such as ready-to-eat and ready-to-heat or -cook products are gaining popularity, especially among high-end retailers. Looking ahead, retailers have an opportunity to experiment with food service offers such as in-store cafés and restaurants and other cross-selling opportunities as retailers in global markets are already doing. This could also help protect their market share from competing food service providers such as restaurants and takeaway players.²⁴

5. Health and organic: A tailored taste

Increasing appetite for healthy and organic products is creating potential premiumisation opportunities in the market.

The number of South African consumers who intend to eat more healthily and buy a greater volume of organic products is rising. In 2024, about 70 percent of high-income consumers and 60 percent of low-income earners in South Africa said they intend to focus on healthier eating and nutrition, up from 65

percent and 54 percent, respectively, in 2023.²⁵ This is much higher than in selected European countries, where consumer interest in these segments may have already peaked. Between 24 and 40 percent of consumers in Europe signalled their intention to buy more healthy and nutritious food in 2024 (Exhibit 6). In South Africa, interest in healthy and nutritious food is higher than interest in organic food. Only 33 percent of high-income earners and 16 percent of low-income earners intend to buy organic food in 2024.²⁶ However, interest in organic food is growing quickly in the high-income segment. Between 2023 and 2024, high-income earners intending to purchase more organic produce nearly doubled from 18 percent to 33 percent, its largest shift yet.²⁷

Younger age groups are more likely to be interested in healthy and organic brands than older ones. Seventy-one percent of Gen Z consumers and 69 percent of millennials interviewed said they would focus on healthy eating and nutrition in 2024, up 15 percentage points from 2023, while 48 percent of Gen Xers and 42 percent of baby boomers said the same.²⁸

High-quality, fresh, and local produce as well as healthy foods offer the biggest opportunities for premiumisation. Our 2024 consumer survey found that 53 percent of high-income consumers and 55 percent of low-income consumers are willing to pay more than the market average for high-quality fresh produce, while 52 percent and 57 percent, respectively, are willing to pay more for healthy food products. Products from small local stores draw the least interest, with only 28 percent of high-income consumers and 29 percent of low-income consumers saying they would be willing to pay more for these products.²⁹

²² Based on McKinsey analysis of Euromonitor data.

²³ *Signs of Hope*, January 2024.

²⁴ Ibid.

²⁵ McKinsey Consumer Survey 2024, n = 1,014; South Africa, sampled to match general population aged 18 and above.

²⁶ Ibid.

²⁷ Ibid.

²⁸ Ibid.

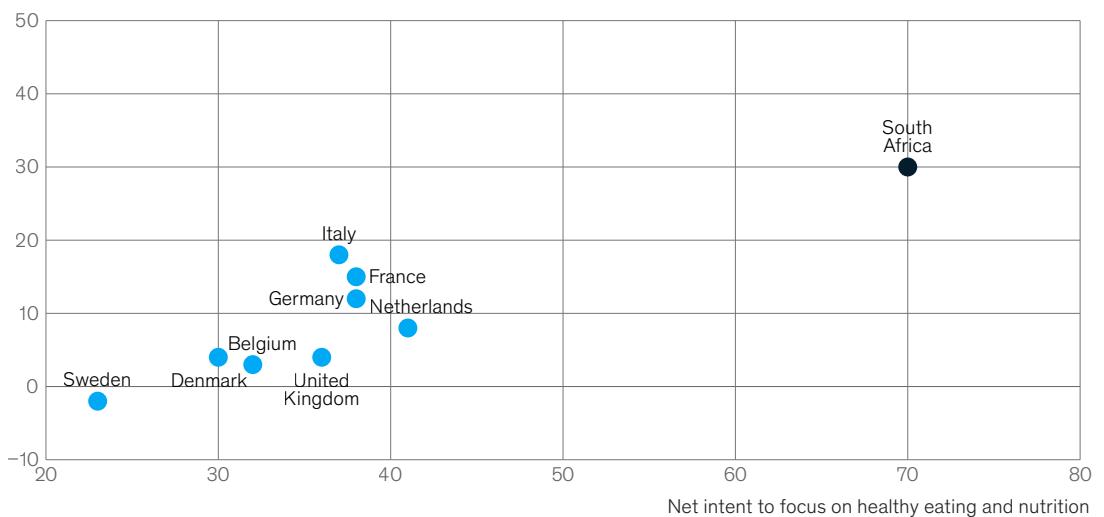
²⁹ Ibid.

Exhibit 6

High-income consumers in South Africa lead in the intent to focus on healthy eating and in willingness to pay a premium, compared with European countries.

Attitude toward grocery shopping, net intent of high-income consumers, 2024,¹ %

Net intent to pay a higher price to get a healthier product



Question: Think about 2024. Are you planning to do more, less, or about the same of the following?

¹Net intent represents the share of consumers who want to do more of the activity minus the share of consumers who want to do less of the activity in 2024 vs 2023.

Source: McKinsey Consumer Survey 2024, n = 1,014 (South Africa, sampled to match general population aged 18 and above)

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6. AI: An engine for differentiation

The race to leverage generative AI (gen AI) has started, but traditional AI still accounts for most of the value in grocery retail in all regions.

Although gen AI has gained significant attention recently, between 80 and 90 percent of technology-driven value creation in retail still comes from traditional AI. Assortment, pricing, and promotion optimisation remain the largest opportunity areas (Exhibit 7). In South Africa, our research points to commercial use cases such as choosing the right assortment for each store and optimising product placement and shelf space, creating the highest ROI as consumer preferences change.

McKinsey estimates that gen AI could contribute between 10 and 20 percent of the total value potential stemming from AI in the grocery retail sector, and retailers have started experimenting with it to get closer to and better understand their customers. Six revenue-enhancing and efficiency-

driving use cases are expected to propel this value: conversational commerce, hyperpersonalised content, smart search, copilots for category management (for example, supplier negotiations), copilots for support functions (such as software development), and content creation. For example, by engaging shoppers with a humanlike chatbot as a personal shopping assistant, conversational commerce can significantly improve the online and offline shopping experience.

7. eB2B: The spaza market

as a source of growth

There are untapped opportunities for large retailers to develop competitive business-to-business e-commerce (eB2B) platforms to support the spaza market.

Despite challenges experienced during the COVID-19 pandemic, the spaza market in South Africa has proven resilient. Valued at about R184 billion, spaza shops,³⁰ mobile traders, and other

small grocery retail businesses have maintained a 30 to 40 percent stable market share for the past decade and are likely here to stay.³¹

The resilience of the spaza market is supported by innovation and proximity. For example, strong and consolidated wholesaler networks have evolved to support smaller traders. Additionally, smaller traders have a compelling value proposition that includes proximity, credit, and free delivery, which is hard for modern retailers to compete with. More than 80 percent of spaza shoppers say they shop there because the establishments are close to where they live, and 34 percent say it's because prices are generally lower.³²

The rapid advance of technology and digital channels has opened new avenues for trade that benefit both spaza traders and modern retailers. By leveraging their established supplier relationships, modern retailers can evolve their core B2C models and develop eB2B platforms that create new revenue streams while adding significant value to the spaza market. For example, in 2024, Shoprite launched an eB2B platform under its Cash & Carry brand, which is similar to AB InBev's BEES.³³ These platforms can improve supply chain efficiencies and reduce risks and costs by providing better access to a broader range of products so that smaller retailers don't have to store excess stock. These efficiencies ultimately flow through to consumers.

³⁰ A spaza shop is a small, unlicensed grocery shop run by independents.

³¹ Shaun Jacobs, "The battle for South Africa's R180 billion spaza shop economy" Daily Investor, June 25, 2024; McKinsey analysis of Trendtype data, accessed June 2024; McKinsey expert interviews.

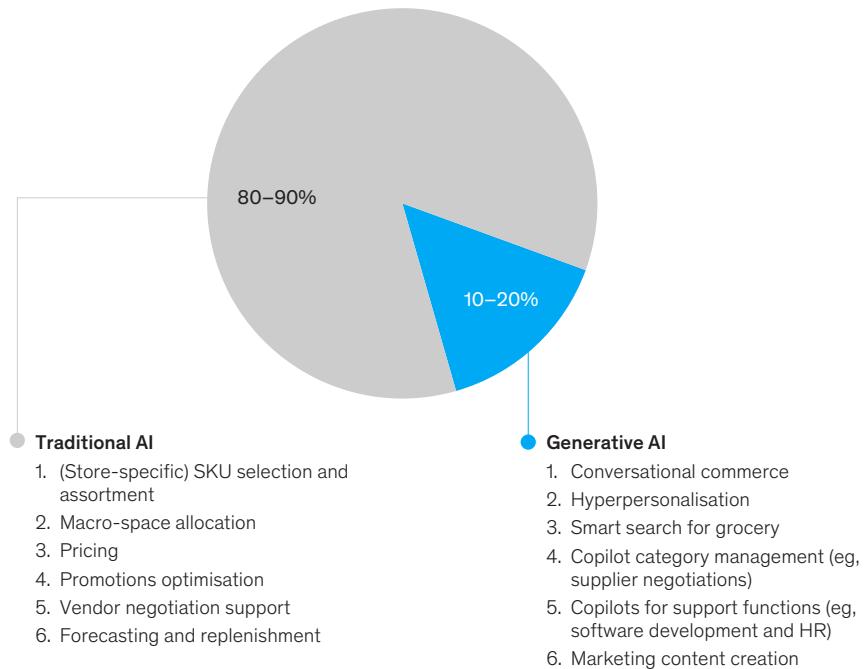
³² McKinsey State of Grocery Consumer Survey South Africa 2023, unpublished.

³³ Seth Thorne, "Shoprite launches bulk online shopping and delivery service," BusinessTech, July 3, 2024

Exhibit 7

The majority of AI differentiation still comes from traditional AI.

Analytics impact potential, % of total impact from analytical or traditional AI



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8. Retail media: A new frontier for profit

Retail media networks (RMNs) are boosting retailers' bottom lines in Europe and North America and could offer similar gains in South Africa.

Retail media (RM), while still nascent in South Africa, is expected to grow significantly in the coming years. In Europe, the RM market was worth €11 billion in 2023 and is projected to grow at 15 percent annually over the next few years.³⁴ While the local data for South African market share is not available, it is likely that grocery retailers, by virtue of their scale and reach, are well positioned to claim a share of digital advertising revenues. The fundamentals are clear: those with the best access to consumers at the moment of purchase can

connect this with broader consumer data and give the best possible insights to brand owners. Thus, scale is important, and only the largest players are expected to remain relevant to consumer packaged goods advertisers in the long run.

RM could be a fundamental and rapid driver of profitability for South African online retailers. In Europe, online retailers' EBIT margins reached between 65 and 70 percent within three years of launching their RMNs (Exhibit 8). We have seen that retailers that are able to reach scale and profitability quickly can standardise impact metrics and provide transparency to advertisers, including return on advertising spending and advertising diversification.

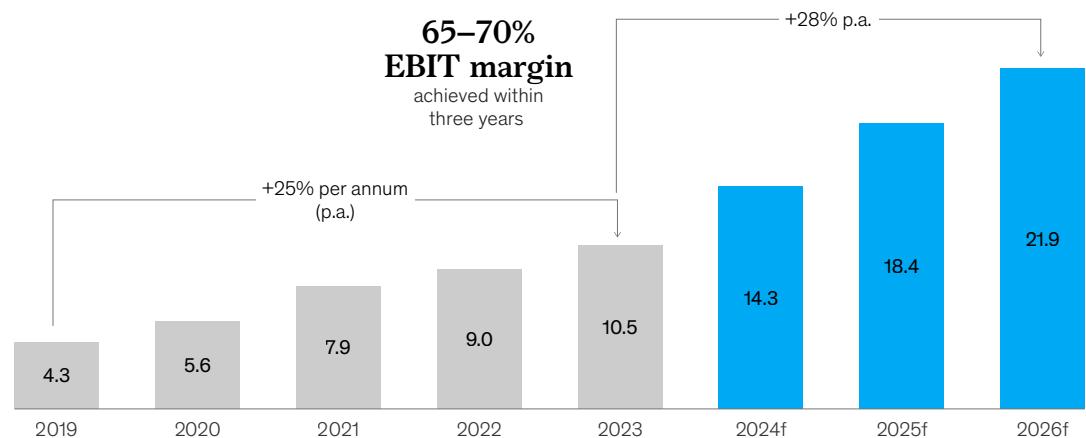
³⁴ *Signs of Hope*, January 2024.



Exhibit 8

European retail media continues to accelerate, indicating an opportunity for South Africa.

Digital retail media ad spend in Europe, € billion



Source: IAB Europe; Statista, January 2024

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Implications for grocery players

We are optimistic that the South African grocery sector is turning a corner. Nevertheless, economic pressures facing consumers and curtailing profitability and growth in the sector will likely remain. To move forward in a challenging environment, we see three strategic priorities for retailers: strengthening assortments, leveraging AI across the core, and pursuing new growth opportunities beyond the core, notably through eB2B networks and RMNs.

1. Future-proofing assortments

Even if market conditions improve, South African consumers will likely continue shopping for value; at the same time, however, appetite for premium products and healthy and organic options is growing. This means that grocers may need to prioritise affordability and provide premium products for those willing to spend more. This requires retailers to take a precise and scientific approach to defining the assortment and

managing costs by leveraging the deep consumer insights only AI can provide. AI can help grocers pinpoint specific shopper needs, understand how effective different products are at fulfilling those needs, and measure the precise “walk rate” for each product.³⁵ AI can also play a critical role in tailoring the assortment to individual stores based on the profile of shoppers in the catchment area—a critical capability, given the vast diversity of South African shoppers across income, needs, and preferences.

Additionally, bolstering private label offerings across the entire price range and growing the range of healthy, organic, and ready-to-eat options will likely play a significant role in enhancing the assortment retailers provide.

2. Leveraging AI across the core

Assortment is not the only area in which AI has a decisive role to play. According to McKinsey analysis, retailers can leverage AI to add an estimated one to two percentage points to

³⁵ The walk rate refers to the likelihood that a shopper will leave the store to shop somewhere else if the product is not available.

their EBITDA margins in areas such as pricing, promotions, and loyalty. For example, analytics-based pricing creates significant value through automated price recommendations at the item level. Similarly, grocers can leverage AI to improve loyalty programmes and make shopping more personal by tailoring promotions to individual customers based on their unique needs and behaviours.

The tools and algorithms to enable AI are already widely available. However, people's ability to work smartly with technology will ultimately be the most critical determinant of success. South African retailers can invest in upskilling their people to work effectively with these tools and in the change management required to embed new ways of working and decision making.

3. Pursuing growth beyond the core

There are two clear white spaces in which to seek new sources of growth in the South African grocery market: building and scaling RM businesses that drive profits and building eB2B platforms to serve the traditional trade more effectively.

To excel in RM, retailers need to start thinking like advertising agencies and securing the leadership commitment, business autonomy, and resources to devote to RM business development. Grocery retailers enjoy a privileged position in today's media landscape by virtue of their reach and scale. However, remaining relevant to advertisers over time will likely require retail media operations to improve their impact measurements and continuously enhance and renew their advertising offerings.

The reach and scale of large grocery retailers also position them well to build competitive eB2B platforms to serve smaller traders in the spaza market. Here, too, retailers would need to act early to source new capabilities and secure the necessary leadership and resources to invest in platform and business development.

This is a South Africa-specific version of McKinsey's [State of Grocery Retail 2024](#) report series.

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