

# **Modern Grocery Retailing Impact & Opportunities During Covid-19**

## *May 2020*

### ***Preamble***

In mid-January 2020, the world suddenly came to a halt. The emergence of Covid-19, which was sudden and unexpected, shook the global economies to the core and the impact of the pandemic has proven beyond catastrophic.

Some early estimates from the IMF set the costs to global economies at \$9t over the next 2 years. Global economies are expected to contract in average 3% over 2020. Individual regional growths were also slashed, particularly for Asia to 2.2% from 5.5% estimated in September last year. China's forecast was slashed to 2.3%, over half from the estimated 6% last year.

Some industries have been and will remain highly affected by Covid-19 for years to come. Those include amongst others, transport, tourism and entertainment. Others have been less impacted and could even reap opportunities during these dire times. Those are sectors that have emerged as essential for either human safety or survival. They include for instance, healthcare services and pharmaceuticals but also food distribution & grocery retailing.

Grocery shopping was being redefined pre-Covid-19 due to the emergence and exponential growth of e-commerce along with changing consumer habits. The e-grocery sector has seen an even more significant growth during the pandemic, as people might still fear going to the stores even when restrictions on movements are lifted. However, as we will further develop in this paper, even though e-commerce has witnessed an uptick in traffic when it comes to grocery shopping during these dire times, so did physical stores. It is unlikely, at least for the near future, that consumers will stop shopping in stores and rely entirely on e-commerce for their grocery purchases.

E-commerce or online food shopping & delivery relates to niche customers who can afford the extra costs of pick-up and delivery associated with such type of shopping. Physical shopping for groceries remains the principal means for customers to secure their essential goods (from staple food, to hygiene products and detergents), and is well-entrenched within consuming habits. Add to this that some items (fresh produce, meat and others) are better 'seen' before purchased, hence the need to still go to stores to purchase such items. However, to continue to be viable in the future, modern retailing will have to redefine its offerings to adapt to consumers' evolving needs.

### ***Market Growth Pre-Covid-19***

The leading 20 global grocery markets were set to grow by 28% between 2018 and 2023. The global food & grocery sector reached \$8,045b in 2017 and was forecasted to grow at a CAGR of 6.8% up to 2022. Sales in the sector were expected to grow due to positive economic factors globally, change in spending and consumption habits, inflation in grocery produce, improving disposable incomes, and investment by food & grocery retailers in modern and innovative retail formats.

In Europe, the total turnover of all food retailers in 2018 was €3.5t with France, Germany, Poland and the UK having the highest food retail turnover in Europe. The biggest retail chains are the French Carrefour, German Schwarz Group with the discounters Lidl, and Tesco in the UK. The European grocery retail market was set to add €377.6b in sales between 2018 and 2022.

**Modern Grocery Retailing**  
**Impact & Opportunities During Covid-19**  
*May 2020*

The following table highlights the forecasted growth for different countries in Europe pre-Covid-19. The growth in the region was driven forward by Eastern Europe and Turkey.

	<i>2017 Market Value €b</i>	<i>2022 market Value €b</i>	<i>Growth GAGR</i>
<b>RUSSIA</b>	<b>283.92</b>	<b>359.32</b>	<b>4.8%</b>
GERMANY	239.06	264.37	2%
FRANCE	224.74	249.70	2.9%
UK	216.33	249.56	2.9%
<b>TURKEY</b>	<b>111.85</b>	<b>194.80</b>	<b>11.7%</b>
SPAIN	110.98	124.39	2.3%
POLAND	62.94	73.22	3.1%
NETHERLANDS	48.82	58.41	3.7%
BELGIUM	40.76	47.19	3%
SWITZERLAND	40.44	44.52	1.9%
<b>ROMANIA</b>	<b>33.25</b>	<b>41.91</b>	<b>4.7%</b>
<b>UKRAINE</b>	<b>27.09</b>	<b>39.95</b>	<b>8.1%</b>
SWEDEN	29.60	33.14	2.3%

The largest companies in Europe represent however a small percentage of the total grocery market share. Some retailers have been doing business for many decades but in each sector, other retailers were competing effectively with the established merchants. Most of these retailers exhibiting high success rates in Europe such as Lidl in France and Germany, operate in the discounting segment of grocery retail. Price competition, in combination with adequate services, have been the main contributors to the increase in sales for these competitors. In 2011 the discounters Aldi and Lidl had 6% market share in the UK, and by the end of 2018 it more than doubled to 14%.

Looking at Emerging Markets, in Africa, with a growing young population and rapid urbanization, retail sales amounted to over \$500b in 2018. Key retailing markets in Emerging Markets included South Africa, Egypt, Morocco, and Algeria.

In Morocco, total retail sales increased by 13% in 2016 to \$40b. In the 2017 Global Retail Development Index, published by US consulting firm AT Kearney, Morocco ranked 7th out of 30 countries in the category of attractiveness for retail development. The country fared better than its closest neighbors namely, Algeria and Tunisia which ranked 14th and 24th respectively, and even ranked higher than the well-established retail market of Saudi Arabia (11th). The highest-ranked country in the MENA region was the UAE in 5th place.

Modern supermarkets were expected to account for as much as 30% of food retailing in the Morocco by 2025, according to the US Department of Agriculture's Global Agricultural Information Network (GAIN). Larger cities had attracted the majority of hyper and supermarkets, with Casablanca, Rabat and the surrounding areas accounting for around 50% of modern supermarkets in the kingdom. The number of modern groceries retailing outlets in Morocco was increasing rapidly. Between 2011 and 2016 the number of supermarkets grew from 252 to 316 or 25.4%. According to Le Boursier, the penetration of modern retailing in Morocco is expected to continue its upward trend after the pandemic with an expected 17% further penetration rate.

## **Modern Grocery Retailing Impact & Opportunities During Covid-19 May 2020**

In the Ivory Coast, between 2013 and 2017, GDP growth averaged 8.5% per year. This expansion reflected the impact that both political stability and business-friendly regulations had on the country's economy and its ability to attract foreign investment. Much of this investment has gone into industrial production aimed at the retail and consumer goods markets. The poverty rate fell from 48.9% in 2008 to 46.3% in 2015, according to figures from the African Development Bank, while purchasing power has increased. After an 8% fall in 2011, household expenditure reached 17% in 2015.

At the same time, the urban population has increased to nearly 55% in 2016, leading to an expansion of modern retail operations in the larger cities, with a strong focus on Abidjan, the country's economic capital. In 2017, supermarkets accounted for only a small percentage of urban store numbers with a few brands being well implanted in the region. There was a significant growth potential within this segment given that 35% of consumers shop in supermarkets for weekly and monthly pantry restocking.

However, in the Ivory Coast consumers remain highly price conscious as highlighted by a survey performed by Shopper Trends showing that 42% of consumers are well aware of the prices of most of the items and notice when such prices change. The survey also found that consumers are store-loyal, 46% stated that they seldom change stores but actively look for promotions at the stores they regularly shop at.

### ***Mature vs. Emerging Markets (EM)***

In the past decade, according to Bain, sales growth among large grocery chains in the mature markets of North America and Western Europe has been slow at about 2% for the past few years. The same figures for Africa were 9.8%, an 8.4% in Eastern Europe and South America, and a 6.2% for Asia. This is in part due to high pressure from discount stores. During 2012 to 2017 more than 50% of the economic profit of large publicly traded grocery retailers evaporated.

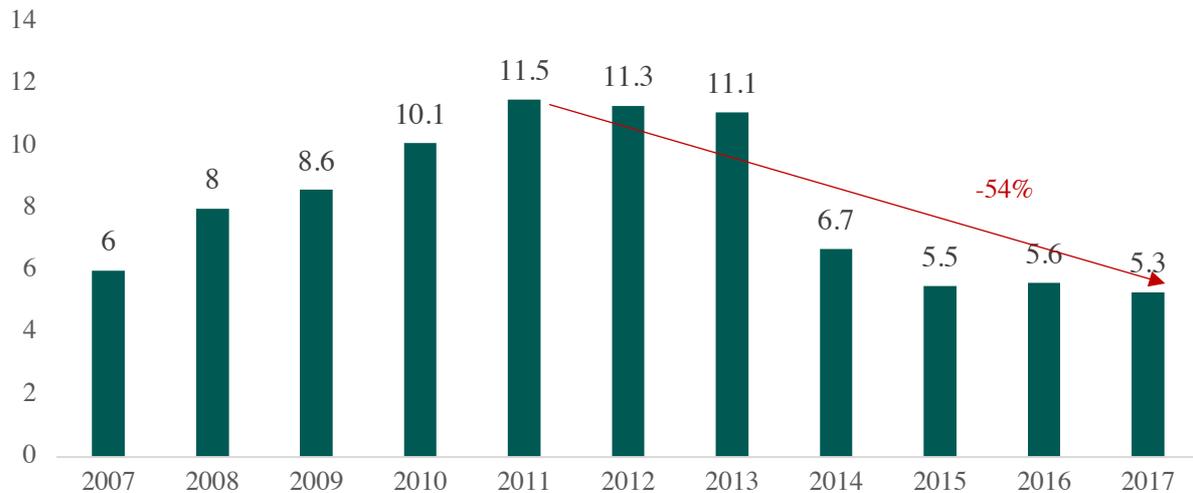
The graph below illustrates the evolution of the economic value-add<sup>1</sup> of the largest 27 publicly traded grocery retailers globally.

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<sup>1</sup> Value-add = (Return on Invested Capital – WACC) x Invested Capital

## Modern Grocery Retailing Impact & Opportunities During Covid-19 May 2020

*Value-Add of 27 Publicly Traded Groceries Retailers (\$b)*



Explanations for such sluggish growth are twofold. First, discounters have gained a tremendous amount of footprint in the past decade due to consecutive financial crises which forced people to push for ever lower prices; and second, in mature markets where convenience and time saving is paramount, e-commerce growth has been gaining exponential momentum. Bain stipulates that by 2026, between \$200b and \$700b in revenues from traditional grocery retailers could shift to other formats and channels in mature markets.

For EM however, although discounters are also gaining grounds and price remains the prime factor for consumers, e-commerce on the other hand, especially as far as grocery shopping is concerned, is still lagging behind.

### ***E-Commerce, the Future of Grocery Shopping?***

In 2017, the e-commerce industry surpassed by 10% all global retail sales. E-commerce was a \$2.2 trillion market, and it was expanding at an annual growth rate of 24%, 4 times faster than the global retail sector as a whole. E-commerce was becoming the key growth engine for retail: its contribution rose from 7% in 2012 to 39% in 2017, and it was expected by Bain to exceed 50% by 2020.

However, for both mature and EM, the grocery segment of e-commerce was the least penetrated. Online penetration of the global grocery market remained low at 1.6% or \$130.9b in 2017 although sales through the channel were forecasted to almost triple over the next five years to reach 3.1% due to retailers' investments in response to the changing preferences of tech-savvy and time-poor consumers making their grocery purchases online. Still, the grocery segment was sluggish globally compared to rest of the e-commerce segments.

This could be explained in part because attempts to automate the traditional distribution process have never quite panned out. The whole grocery business remains stubbornly resistant to automation and digital tracking. Online systems have trouble telling shoppers exactly what's in stock, what looks fresh, what they might like, and what other options exist. At some point, shoppers simply have to go to the store.

## **Modern Grocery Retailing** **Impact & Opportunities During Covid-19** *May 2020*

In Europe, with a few exceptions, the online grocery market has been stuck in a vicious cycle: poor supply drives low demand, which in turn justifies the poor supply. A study of 4,500 consumers performed by McKinsey in 2018 shows that consumers will shop for groceries online only if the offer is right and, that they are not willing to sacrifice the trilogy of price, quality, and range of products. Even in the UK, where food retailers lead the way in e-groceries, Tesco is selling only about 5% of its turnover through the Internet.

On the other hand, retailers are put off by selling groceries online which means taking on additional costs—in labor, delivery vehicles, and fuel—that are higher than the fees customers are willing to pay for delivery. According to McKinsey's research, consumers are willing to pay €4 and €7 per transaction per delivery. In France, only about a quarter of consumers who have shopped online for groceries once continue to do so regularly.

For EM and particularly the MENA region, the trends were similar. In 2017, the MENA e-commerce market reached \$8.3b. With an average annual growth rate of 25%, e-commerce in the region had been growing slightly ahead of the global average. The GCC and Egypt accounted for 80% of the e-commerce market, and they had been growing at a 30% annual rate, more than twice as fast as the rest of MENA. The e-commerce penetration of total retail sales averaged 1.9% in 2017 in MENA, with the GCC at 3%.

Even though the e-commerce sector was posting high growth, in reality, MENA shoppers had difficulties transitioning online for certain products. While the average shopper in the US conducted 19 purchases online annually, MENA shoppers did so only 2 to 4 times a year. The low proportion of shoppers who made their last purchase online, 12% in the UAE and Saudi vs. 47% in the UK, serves as another example of the region's low purchase frequency. This trend is also noticeable in the size of the offering from the online platforms. The region's largest e-commerce platform, Souq, offers an estimated 8.4 million products, far fewer than the 550 million offered by Amazon in the US.

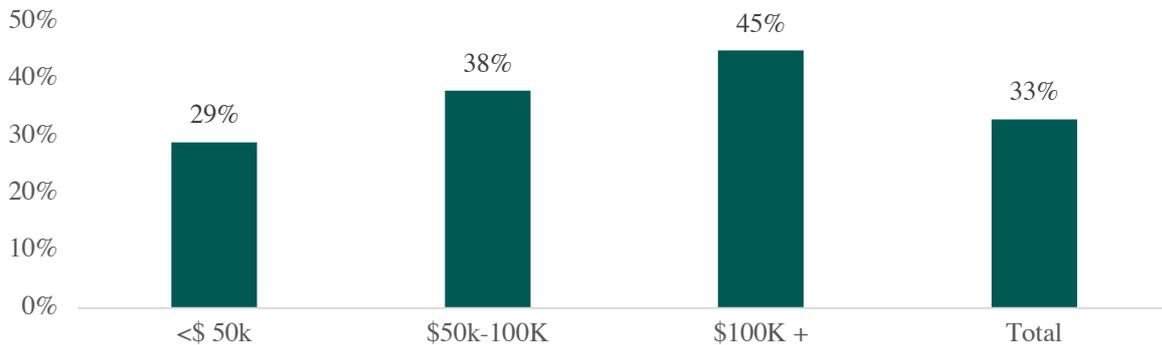
One of the lowest penetrated segments is e-grocery. The e-groceries segment was worth only \$200 million in 2017 in MENA and accounted for less than 1% of the e-commerce market. Nearly 60% of the region's grocery shoppers have never bought from this category online.

One of the major deterrent for e-groceries in EM is income disparity. Even though income per capita is increasing in most of MENA, the majority of the population, particularly in North Africa, remains in the lower income bracket. Shopping online remains costly. For instance, the average basket size online was \$144 which was significantly higher than in-store purchases at approximately \$68. In countries like Morocco for instance, few people can afford the price of the online basket.

This disparity exists everywhere. The below graph represents the US internet users who have ever purchased groceries online as of 2018. It is clear that lower income respondents cannot afford shopping online, they represented 16% less than their upper income counterparts. With an even wider gap and lower income population, particularly in North Africa, this divide can be extrapolated further in EM. As a result, e-groceries remains a luxury.

## Modern Grocery Retailing Impact & Opportunities During Covid-19 May 2020

*Online Grocery Shopping per Income Brackets in the US 2018*



Price consciousness of consumers has been even more apparent during the current pandemic. When looking at grocery stores' financial performances during the pandemic, the discounted and lower price range of the supermarkets did much better than their higher-end counterparts.

The graph below emphasizes this statement. It represents the value percentage change in the price of the stocks of major supermarkets: Costco (in orange), Walmart (in purple), Target (in green), Label' Vie (in blue), Massmart (in red), and Sainsburys (in yellow).



The highly price conscious stores have performed well and recovered faster during Covid-19. In EM, Label' Vie which offers more discounted and price sensitive products through Atacadao, performed at a much higher level than its counterparts in Africa Massmart.

Excluding Massmart's poor performance, all of the price conscious stores performed and recovered better than their higher-end counterparts as Sainsbury's performance exemplifies. The below table highlights the stock price changes and recoveries. The largest recovery is Target with 24.96% of its stock value recovered from the lows of March. Target is considered one of the cheapest alternatives in the US grocery market. Sainsbury, considered one of the high-end stores in the UK, recovered the least well, gaining back only 8% of its stock value since the lows of March.

**Modern Grocery Retailing**  
**Impact & Opportunities During Covid-19**  
*May 2020*

<i>Company</i>	<i>March Value of Stock % Drop</i>	<i>13th May Value of Stock % Drop</i>	<i>Difference</i>
<i>Massmart</i>	-49.45% <sup>2</sup>	-49.45%	-
<i>Label' Vie</i>	-12%	-0.36%	+11.64%
<i>Costco</i>	-8%	+0.64%	+8.64%
<i>Target</i>	-15%	+9.96%	+24.96%
<i>Walmart</i>	-9%	+2.31%	+11.31%
<i>Sainsbury</i>	-15%	-6.98%	+8.02%

Even though Covid-19 may accelerate e-grocery growth, the surge seen in online grocery shopping is believed by analysts to be mainly a reflection of current circumstances. Some households are only using these online services temporarily until they feel comfortable shopping in stores again. As demonstrated in various section of this paper, people are still and will still be drawn to shop in stores for groceries more than they are to shop online, especially for fresh produce. Shoppers won't lose the ability to manipulate the avocados, pick something up on short notice, or just browse aimlessly for meal inspiration.

### ***The Impact of Covid-19***

In some parts of the world, where e-commerce grocery shopping is less penetrated, sales at small Mom and Pop style grocery stores soared. It is the case in India for instance, where Kirana stores saw a jump of 39% in demand during the pandemic. Also, in India, general store groceries purchased from all grocery stores during the lockdown has gone up by 53%, while ordering from restaurants saw a growth of 11%.

In more developed markets, the outbreak has caused an increase in consumer spending in grocery stores. Compared to the same period in the previous year, sales in the 12-week period ending on the 22nd of March have increased by double digits in the UK for Aldi, Iceland, Ocado and Lidl. With the discounter Lidl showing the biggest growth in sales with 17.6%. Morrisons showed the smallest growth in sales with 4.6%.

Using Carrefour as one key reference for the European market, one could not but notice the Covid-19 initiatives that this chain has rapidly adopted using e-commerce as its tool. Carrefour created "Carrefour Essentials" – a new e-commerce service that customers could access via a special mini-website (<https://essentiels.carrefour.fr>), to order baskets of essential food products.

These baskets cost a maximum of €5 per person and per day, and have been designed to ensure that everybody has access to a range of basic essential foodstuffs (orange juice, rusks, cereals, coffee, tea, jam, biscuits, jams, soup, rice, pasta, milk, etc.). People's individual dietary preferences are also catered to, with three main types: vegetarian (a varied selection of vegetables, including lentils, bulgur wheat, etc.), land (cassoulet, sausages, etc.) and sea (tuna, sardines, etc.). Customers can also decide to subscribe, free of charge, to one or several kits, that they will then receive on a weekly basis. Furthermore, Carrefour decided to donate one euro for each order submitted to "Urgence Covid-19 – Aïdons nos soignants", an initiative set up by the Hôpitaux de Paris-Hôpitaux de France Foundation to support medical personnel treating patients with the virus. Finally, Carrefour has set up a telephone ordering service for

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<sup>2</sup> The largest value drop is as of 13<sup>th</sup> of May and therefore remains the same in the table.

## **Modern Grocery Retailing** **Impact & Opportunities During Covid-19** *May 2020*

medical personnel and the elderly. So that elderly people don't have to leave their homes and given that they are less accustomed to placing orders online.

In the US, a survey of more than 2,600 adults performed by L.E.K Consulting and Civis Analytics analyses the situation from the point of view of shoppers. The Conference Board's Consumer Confidence Index sank to 120 in March from 132.6 in February and 80% to 90% of consumers expect a recession within the year due to Covid-19. L.E.K. Consulting's online poll found that most people are spending about 4% to 6% less because of the Covid-19 situation.

Consumers are reining in spending by 40% to 50% on such items as dining out, outside-home entertainment and outside home fitness. The survey revealed significant drops in spending on "go outside" items and services, including consumer electronics (down 25% to 30%), takeout/delivery (down 10% to 15%) and beauty (down 5% to 10%). Meanwhile, Americans' monthly spend is escalating in other areas. Of those polled, spending is up 35% to 40% in at-home fitness, 20% to 25% in medicine and medical supplies, 15% to 20% in at-home entertainment, 15% to 20% in groceries and 10% to 15% in pet supplies. 47% reported stocking up on essential items. Purchases include food items and water (93%), toiletries (74%), cleaning supplies (58%), medicine and health care items (45%) and pet supplies (41%).

Surprisingly, the poll demonstrates that fewer than 1 in 4 consumers is making more online purchases, as 76% said they weren't shopping online more frequently. For the week ended March 22, store visits rose 14% compared with the same period in 2019. The winners of this increase in visits were disinfectants (+377% y-o-y), canned and ready-to-serve soup (+369%), powdered milk (+368%), dry hearty soup (+363%), dried beans/grains (+297%), packaged dry dinner mix (+277%), stuffing mixes (+273%) and condensed soup (+272%). Average grocery spending for the week of March 18-23 came in at \$253, up 55% over respondents' normal weekly purchases.

EMeals said 34% of respondents to its survey sent their weekly shopping list to online grocery pickup or delivery services instead of going to the grocery store, with more than half opting for Walmart pickup or delivery, followed by Kroger and Instacart. However, 28% of those using online grocery saw delays or cancellations, and 51% placing online orders had to wait two or more days for delivery, rather than the typical same-day or next-day fulfillment.

Nevertheless, 97% of respondents ordering groceries online plan to continue doing so in the future. Before Covid-19, Instacart, the biggest independent grocery-delivery service, had estimated that 20% of U.S. households would be shopping for groceries online in the next five years. But over the past month, its order volume is up 150%. New downloads of its app have multiplied 7x.

In the MENA region, even though e-grocery had little penetration pre- Covid-19, Dubai has been an exception of e-commerce during the pandemic due to the high urbanization of its population, the middle-class concentration, the advanced Internet and communications system, and the relatively higher purchasing power of consumers.

True to form, in the UAE Carrefour's online orders have spiked 300% year-on-year as a result of people shopping to keep themselves well-stocked at home amid the ongoing coronavirus. The sharp increase has forced the company to transform many supermarkets and hypermarkets into fulfillment centers, according to Majid Al Futtaim Retail CEO Hani Weiss.

## **Modern Grocery Retailing** **Impact & Opportunities During Covid-19** *May 2020*

In an interview with Arabian Business, Weiss said that the increase was a result of increased purchases of basic commodities such as food, as well as hygienic products – particularly soap, sanitizers and masks –as well as a “huge” rise in the sale of freezers, printers and routers. Additionally, Weiss added that there has been a 55% rise in-store purchases in the first two weeks of March.

To cope with the increased online demand, Weiss said that Carrefour has transformed the majority of its supermarkets and hypermarkets into “mini-fulfillment centers” that cater to orders of all sizes. Weiss also said he believes that Carrefour’s customers are unlikely to completely return to their traditional methods of shopping in the aftermath of the pandemic. “In the UAE we have a great opportunity to change customer habits,” he said. “Customers are now used to mobile apps and web stores, and I [foresee] that it will be very difficult for them to come back to enjoy normal shopping experiences as they did in the past. They’ll find [online shopping] much more convenient.”

This increased demand, not just online but also in store, has created some issues because the supply chain and flow of food from producers/suppliers to supermarkets is being disrupted by the Covid-19 virus. A report by Deloitte analyses the supply chain disruption due to the pandemic. They found that farmers are experiencing a shortage of workers who usually come during harvesting time to work in the fields. For instance, Europe’s asparagus growers are dramatically short of staff, with migrant workers from Eastern Europe unable to come to their farms due to border restrictions or fear of infections. Furthermore, food transport is turning into a logistics nightmare because border controls and air freight restrictions are making international transport of fresh goods difficult and expensive. Food processing plants are scaling or shutting down due to containment measures or staff shortages, with their suppliers scrambling to adjust their output. Deloitte found for instance, that in Canada poultry farmers collectively acted to reduce their output by 12.6%.

To remedy some of these issues, the supermarkets have had to adapt and remodel their supply chain quickly. As sourcing merchandise becomes harder, one alternative is to work with a wider pool of suppliers, including regional and local ones, and keep larger strategic stocks. Supermarkets have started to reduce their product range to focus on essentials, resulting in a leaner, more manageable product offering. Reducing the product range, along with managing the distance from suppliers is also important. Supplier and customer loyalty and resilience are pivotal to ensure business continuity and to thrive post-Covid-19.

Even before Covid-19, the shifting consumer demand towards healthier, more locally sourced produce was an ever-growing trend. However, because consumers were also pushing for low costs, managing the balance between locally grown and cost-efficient produce was difficult for supermarkets. Post-Covid-19, these trends are likely to accelerate. Finding the equilibrium of price vs. local quality will be pivotal. The pandemic has shown that local farmers, from fruit growers to meat producers, have been highly affected by falling prices. For instance, the protein supply chain processing facilities are being forced to shutter because of infected workforces in the US and the closing of thousands of restaurants, offices, hotels, schools and coffee shops has dramatically reduced demand for milk, butter, cheese and ice cream in the U.S., Europe and parts of Asia.

Covid-19 has affected the grocery retail industry on many fronts. Even though the growth of demand and revenues demonstrate how essential this service is to our lives, it also highlighted

## **Modern Grocery Retailing** **Impact & Opportunities During Covid-19** *May 2020*

some pressures on the supply chain that were already prevalent pre-Covid-19, mainly the produce range/sourcing/cost equation. With such disruption to local farmers, and pressure on costs from the consumer side, it is yet unclear how the supply chain will end up being affected post-Covid-19. One possible solution would be to render the supply chain less vulnerable through digitalization. Track-and-trace solutions, for instance, help businesses zoom in on supply chain shortages, and the latest tools based on artificial intelligence are reducing both costs and risks.

### ***The Future of Supermarkets***

Even though e-commerce should not be ignored by supermarkets, what needs to be understood behind the e-commerce growth is the consumers' need for convenience at low prices. This will be even more prevalent in EM, where e-commerce for groceries' penetration is still extremely low, and where cost remains a priority for consumers, which means that shoppers are unlikely to change their e-commerce habits and frequency post crisis, and therefore this sector is not expected to show a significant growth as a result of Covid-19. E-commerce will only go so far for grocery shopping but if supermarkets want to keep attracting consumers, they may have to redefine themselves in other ways.

Since convenience has been a consumers' moto for the past 50 years, supermarkets may have to redefine how they trade. It's only a natural evolution. In the past, small Mom & Pop shops experienced less demand due to the arrival of the more convenient supermarkets. The supermarkets were the epitome of convenience and time saving as they aggregated a much larger selection of food items under one roof. In the past decade, supermarkets have also spurred in malls, again with the aim to increase convenience. Shoppers could shop for groceries whilst, at the same time, shop for shoes.

However, mall space has come at a high price for supermarkets. Considering lease rents is one of the major cost components for retailers, the high rentals in malls and shopping centers has affected the profitability of the operators. For instance, a report by Alpen Capital, found that in Dubai, the rents in primary mall locations stood at \$1,268 per square meter in 2017. Due to the amount of retail space that supermarkets require, renting outside of malls is becoming a much cheaper option. Therefore, supermarkets have started a new trend, bringing the mall to their retail space rather than the other way around in order to keep costs low. For instance, it is not uncommon to find deli counters, bakeries, espresso cafés, juice stations and sushi bars inside supermarkets. Most already sell cookware, small appliances, and even apparel. Some states in the US went as far as installing DMV desks (the end-to-end car registration software) or kiosks in grocery stores. Supermarkets will expand those offerings, transforming the superstore into the shopping mall's successor.

Saving on retail space is important because, to remain competitive, supermarkets are doubling up their efforts to attract consumers. Besides increasing product lines, most supermarkets are being more interactive with consumers. For instance, supermarkets are turning to pop-up experiences and special events including cookery classes to drive foot traffic and boost engagement. In 2015, a report by The Wall Street Journal said that retailers such as Origins, which had invested in getting shoppers to linger in stores, have seen sales increase 20% to 40%. These types of initiatives can also pave the way for partnerships, combining two brands and two sets of resources to create a one-of-a-kind experience. For instance, Target partnered with Greek yogurt manufacturer Chobani to host a yogurt bar inside their stores.

## **Modern Grocery Retailing** **Impact & Opportunities During Covid-19** *May 2020*

Another way the supermarkets have invested into increasing traffic in their stores is through aiding product discovery. In a July 2017 article “The future of grocery shopping”, Forbes expects that the grocery stores of the future will display the latest trends across health, ingredients, dishes and cooking styles to make it easier for customers to find the foods they want and get inspiration as they shop. Supermarkets are experimenting with color coding, exciting displays and special areas that tap into a current trend such as promoting healthy family dishes, party foods or vegan meals. As home delivery recipe kit box gain popularity, grocery stores are also trying out their own version of meal kits, where customers can pick up all the components for a meal in one go. In Iceland, supermarket chain Krónan offers customers all they need to make a new healthy recipe every week. The printed recipe, and all the ingredients for the dish, can be picked up in fridges placed everywhere throughout the stores.

Regarding these types of initiatives Carrefour has been a case in point. Carrefour has been expanding tremendously since the mid-90s and has been adaptive in its model, based on the region it operates in and, the types of supermarkets it manages. Carrefour uses a range of techniques to attract footprints.

For instance, Carrefour is collaborating with the Ministry of Health and Prevention and clinical dietician and nutritionist Lama Alnaeli to launch "Healthy Lunchbox" in Dubai. The in-store educational workshops, held in partnership with the said ministry, are led by UAE-based nutritionists who will demonstrate to parents how to prepare healthy lunch boxes for their children. Carrefour is also gearing up students for success with exceptional Back to School offers by offering 50% off on a wide range of products. Furthermore, Carrefour recently launched Mobimart, the Middle East's first grocery bus which brings convenient and accessible shopping to the doorsteps of underserved neighborhoods and communities across Dubai, six days a week. Majid Al Futtaim Group, the operator of Carrefour in the UAE, saw revenues grow by 8% to \$9.4b in 2018, largely due to Carrefour's performance. As a result, the Carrefour brand continued cementing its position and increasing its market share by opening 33 new Carrefour hypermarkets and supermarkets in the GCC during 2018.

In Europe, Carrefour was witnessing a decrease in sales due to more aggressive discounters. As a result, it launched in January 2018, a 5-year plan to cut costs, boost e-commerce investments, and increase discounted offerings. New plans include opening three new types of stores. These include one “low cost” model, focused on cut-price deals and self-service checkouts; another named “Rebond” focused on shops that are losing money - although further details on this have not yet been confirmed. The third is a concept called “Next”, which Carrefour says is “more efficient, unique, and multi-channel”. With the new plans, growth accelerated to 2.7% on a like-for-like basis, up from 1.9% in the fourth quarter of 2018 to the fourth quarter of 2019.

On the other hand, technology has been disruptive to the sector not only in terms of online, but also when it comes to in-store shopping. Technological advances are changing grocery retailing as we know it – and this will have profound implications on the future of the food sector. This comes in the form of:

- 1- Digital shopping experience, where consumer-facing technology making it easier to shoppers to find, research and buy items (though cart-mounted devices or smartphone apps).

**Modern Grocery Retailing**  
**Impact & Opportunities During Covid-19**  
*May 2020*

- 2- Personalized experience, by using shoppers' data to turn commoditized loyalty programs into customized, bespoke ones, based on customers' preferences and behavior.
- 3- Traceability and data, transforming consumers' expectations around traceability. 2018 saw a number of retailers, including Carrefour and Auchan, adopt blockchain technology to provide consumers with access to detailed information on the origin of products via QR codes. This is driven by the growing number of consumers around the world with middle-class income and various lifestyles becoming more aware of food safety

### ***Conclusion***

Covid-19 has highlighted the lasting and vital nature of modern retail both physically and with online presence. Whilst e-grocery is being pushed to the forefront, even during a major pandemic, it has become apparent that people will continue to buy in stores.

Key themes have emerged throughout this paper. These themes are valid across the globe but are even more relevant in EM.

- i) Consumers are highly price conscious preferring discounted brands to either e-commerce or higher-end stores. We can only assume that with the economic consequences of the pandemic this trend will accelerate. This is most obvious in Europe, but EM consumers will follow suit if such aggressive discounter pop-up in their neighborhoods.
- ii) E-commerce and online shopping cannot be completely relegated to time of crisis and pandemics. This type of retail shopping is here to stay and although it caters for a niche market of urban customers, supermarket operators need to delve into this segment and find ways and means of rendering its users recurrent buyers of food and other items, rather than periodic buyers.
- iii) Consumers are looking for extra convenience when shopping, having all their shopping needs in one spot with the idea of the mall moving into the larger store rather than the opposite way. Retailers need to focus on creating events, programs and 'associations' with their communities from 'lunchbox' initiatives to 'healthy meals' experiences in order to attract and retain more demanding consumers as did Krónan in Iceland and Carrefour in Dubai.
- iv) Technology is a determining factor for winners, not only for online shopping, but more so for in-store experience. Retailers will gain from introducing a more efficient, informed and pleasant shopping experience in their brick-and-mortar stores using innovative, technology-based tools.

# **Modern Grocery Retailing**

## **Impact & Opportunities During Covid-19**

*May 2020*

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