McKinsey & Company

EuroCommerce
Retail & Wholesale

Signs of Hope

The State of Grocery Retail 2024

– Europe –

© Getty Images

Contents

Foreword

For the European grocery sector, 2023 was all about inflation—again. European food price inflation averaged 12.8 percent in 2023, reaching its highest level since the end of the Second World War. While unfavorable market conditions put a strain on consumer wallets and margins are pressured by rising costs, there are signs of hope: inflation has stabilized, real wages are recovering, and fewer consumers indicate an intent to trade down, with some groups even inclined to trade up.

This report examines the most prevalent trends that will influence the grocery industry in 2024 and beyond. How can grocers mitigate further cost increases and improve their margins? Will uptrading return and propel grocery sales again? What does the future hold for food to go? Will sustainability targets be reached on time? What needs to happen for players to get ahead in the online grocery market? How can grocers develop retail media businesses that support profitability reliably? Where should grocers invest in AI and advanced analytics to achieve the highest impact? Finally, in a world of tight labor markets, how can grocery retailers attract and retain the right talent for future growth?

The State of Grocery Europe is an annual publication. This year's report, *Signs of Hope—The State of Grocery Retail 2024: Europe,* is a continuation of a partnership between McKinsey and EuroCommerce, and it is designed to provide executives with a comprehensive view of the market and future trends. In preparing the report, we surveyed more than 12,000 consumers across 11 European countries and more than 30 grocery executives from more than 15 countries across Europe. In addition, we interviewed four grocery CEOs. We combined EuroCommerce's policy and sector knowledge with McKinsey's global expertise and analytical rigor.

We hope this report will offer new insights and perspectives to help grocers navigate ongoing uncertainties and take advantage of future growth opportunities.

Delberghe D. Läubli

Christel Delberghe
Director general
EuroCommerce

Daniel Läubli
Head Food Retail
McKinsey & Company

Editors

Christel Delberghe

Christel is director general of EuroCommerce, the European organization that represents five million retailers and wholesalers.

Anton Delbarre

Anton is EuroCommerce's chief economist and leads research on the role of retail in the European economy.

Dirk Vissers

Dirk is responsible for the development of global insights at Europanel.

Daniel Läubli

Daniel is a senior partner at McKinsey leading the Food Retail Practice globally.

Franck Laizet

Franck is a senior partner at McKinsey leading the Retail Practice in Europe, the Middle East, and Africa (EMEA).

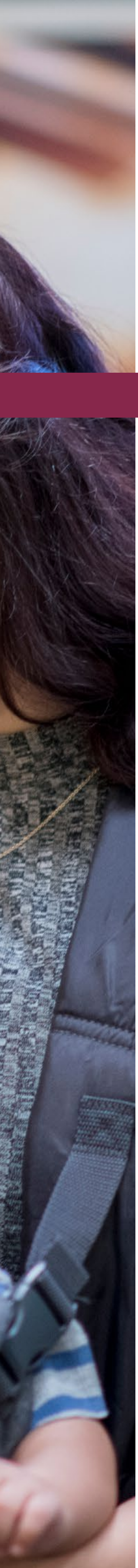
Rickard Vallöf

Rickard is a partner at McKinsey and a lead editor of the report; he leads the Food Retail Practice in Europe.

Alexandre Kleis

Alexandre is an associate partner at McKinsey and a lead editor of the report.

Getty Images



State of Grocery Europe 2024

Signs of Hope

For the European grocery industry, 2023 was a challenging year. Inflation led consumers to tighten their belts, leading to a drop in volume and significant downtrading. As a result, industry growth was significantly below food price inflation. Food price inflation in Europe was 12.8 percent in 2023,[1] while grocery sales grew at a rate of only 8.6 percent.[2] Discounters and private labels benefited from this market environment and were yet again the winners of the year.

In 2024, we expect macroeconomic uncertainty to persist, but at the same time, our research indicates the first small signs of recovery. The pressure on margins, costs, and prices remains a key concern for grocery retail CEOs, but leaders are less pessimistic than they were in previous years. In addition, thanks to initial signs of economic recovery and wage increases in many countries, consumer confidence is returning. Still, our consumer research shows that recovery of consumer behavior is very polarized for 2024. While most consumer segments are still price sensitive and trading down, some segments show an increased appetite for uptrading and innovations.

by Christel Delberghe, Anton Delbarre, Dirk Vissers, Daniel Läubli, Franck Laizet, Rickard Vallöf, and Alexandre Kleis

---

[1] Based on Eurostat data, January 2024.
[2] Based on Europanel data.

2023: Again all about price

Grocery sales in Europe[3] *grew by 8.6 percent in 2023.* This growth was a result of 12.8 percent food price inflation, a downtrading effect of 1.8 percent, and a 2.0 percent volume decline. This implies that grocery sales in real terms (that is, adjusted for inflation) declined again in 2023 and are now 4.5 percent below 2019 levels. This decrease from 2019 is driven by a small volume increase of 0.3 percent and a decline of the price per item in real terms by 4.8 percent.

While inflation eased significantly over the course of 2023, it was still the dominant factor affecting the industry. Overall inflation came down from a historic high of 10 percent in October 2022 to a stable 3 percent at the end of 2023. European food price inflation was even higher, reaching a 19.0 percent peak in March 2023 and an average of 12.8 percent for the full year. Producer prices in the European Union started to decline in early 2023, following agricultural prices with a delay of six months. Food prices for consumers saw minimal decline at the time, in part because grocery retailers' price contracts with suppliers remain in effect and labor costs increased significantly.[4]

Real wages were compressed during 2022 and most of 2023. This has put severe pressure on many household budgets and curbed consumer purchasing power. Wage increases of 6.3 percent in the EU-27 in the second half of 2023 brought some relief for consumers, but not all countries returned to 2019 wage levels in real terms. For instance, real wages are still below 2019 levels in France, Germany, Italy, and the Netherlands. On average, real wages in the EU-27 were 1.2 percentage points below 2019 levels at the end of 2023.[5]

As a result, consumers traded down significantly in 2023, and private labels and discounters benefited. The private label share increased substantially by 1.8 percentage points, to 38.0 percent of sales in 2023 from 36.2 in 2022 (see "Food and grocery market KPIs in 2023," page 25). Discounters gained another 0.8 percentage points in market share on average, and at least 1.0 percentage point in Belgium, Germany, Poland, Sweden, and the United Kingdom. The overall market share of supermarkets remained stable at 37.2 percent in Europe. Supermarkets in Italy, the Netherlands, Portugal, and Spain found strategies to succeed despite high price pressure and even achieved market share

© Getty Images

---

[3] Includes Belgium, Czech Republic, France, Germany, Italy, Netherlands, Poland, Portugal, Spain, Sweden, and the United Kingdom.
[4] Eurostat, January 2024.
[5] Economist Intelligence Unit (EIU), January 2024.

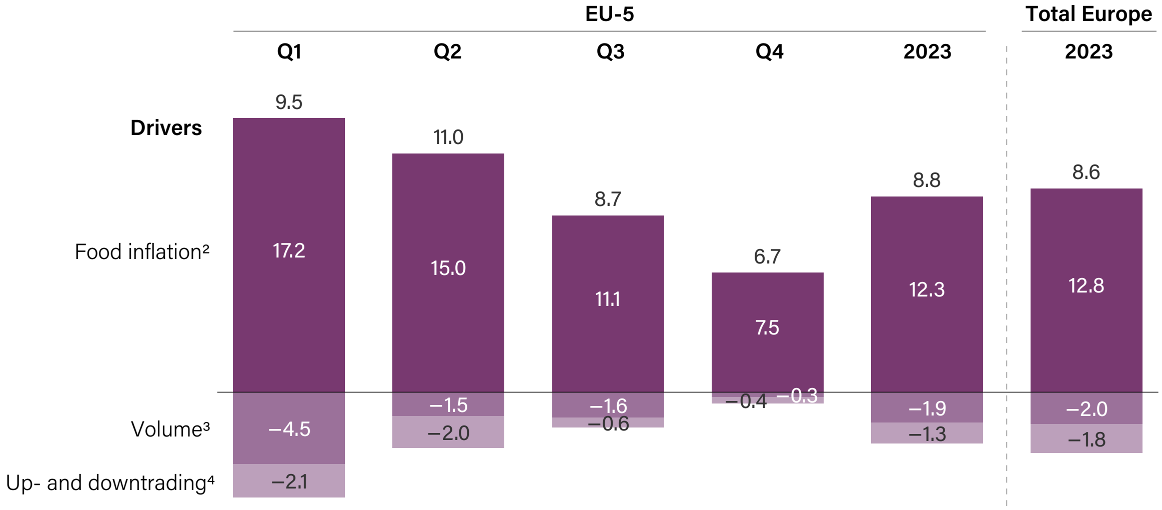
increases of 0.5 to 0.8 percentage points. Online sales remained stable at 6 percent of total grocery sales, with significant differences among countries. France had the highest online gain with 0.5 percentage points, while the online channel lost market share in Sweden (–1.2 percentage points), the United Kingdom (–0.7), and Italy (–0.5), as well as in Belgium, the Netherlands, and Portugal (–0.2).[6]

With inflation easing toward the end of the year, the development of the grocery market also improved. Downtrading and declines in volume slowed from quarter to quarter and came close to zero in the fourth quarter of 2023 (Exhibit 1).

Exhibit 1

Europe’s grocery retail market improved during 2023 as inflation slowed.

EU-5[1] retail sales vs previous year, by quarter, %



Development vs 2019,
Indexed Q1 2019 = 100

	Q1	Q2	Q3	Q4	2023	2023
Market size	122.6	124.5	125.9	125.5	124.6	123.1
Volume	100.6	101.6	101.2	101.3	101.2	100.3

[1] France, Germany, Italy, Spain, and United Kingdom.
[2] Changes in prices for food and beverages as collected by national statistics offices. Note that Europanel calculates “prices paid” instead of using official food inflation; thus value growth displayed does not match value growth collected by Europanel.
[3] Volume change is defined as the change in number of units sold.
[4] Downtrading refers to customers switching to lower-value items.
Source: Europanel (volume and up- and downtrading); Eurostat (inflation)

---

[6] Europanel, March 2024.

2024: Signs of hope?

Our data shows signs of hope for 2024. While the first few months of 2024 may still be challenging as the economy contends with the aftereffects of high inflation, the fundamentals are slowly improving. Overall inflation is expected to stabilize around 2 percent, with food inflation slightly below in the short to medium term. Real wages are expected to grow. Grocery volume stopped decreasing toward the end of 2023 and even started to increase in some markets. In addition, in our survey, consumers tell us that they plan to trade down less than they did in 2023, and a few consumer groups even intend to start trading up again (Exhibit 2). If this trend holds, we expect grocery volume in Europe to return to growth in the second half of 2024.

Our data also shows large differences among countries and consumer segments. In some countries, including Germany, consumers report a strong intention to reduce downtrading and to start trading up again selectively. In other markets, consumers are still less optimistic about the future (for example, in Italy and Switzerland). We therefore expect market performance in Europe in 2024 to be quite heterogenous, with significant differences between countries. We expect the same to be true for consumer segments. For example, low-income households are still trading down, while high-income households intend to trade up again on specific occasions or in selected categories.

Grocery CEOs remain concerned—although less so than last year. Seventy-six percent of European grocery retail CEOs in our survey remain concerned about challenging market conditions (Exhibit 3). Thirty-six percent expect market conditions to become worse than in the prior year (down from 44 percent in 2023 and 60 percent in 2022), while 40 percent expect them to remain the same (up from 33 percent in 2023). CEOs are particularly concerned about prices and inflation. That said, CEOs in Central and Eastern Europe are somewhat less pessimistic than their peers in Western Europe. Only 29 percent of Central and Eastern European CEOs expect market conditions to become worse, compared with 50 percent in Western Europe.

The 2024 grocery CEO agenda remains similar to last year's. Increased margin pressure and downtrading take the top two positions again, well ahead of other priorities (Exhibit 4). However, four priorities gained between seven and 12 ranks compared to last year: talent, food to go, government regulations, and loyalty programs.

Based on our CEO and consumer surveys and further research, we identified eight trends that we believe will shape the grocery industry in 2024. Some of the trends build on last year's, while others are new and will shape the strategies required to win in the grocery industry in the coming years (see "Key trends," page 13).

© Getty Images

Exhibit 2

In most European countries, shoppers are less focused on saving money in 2024 than they were in 2023.

Net intent¹ of consumers toward grocery shopping, 2024 vs 2023,² %

xx 2024 net intent in %
xx Change in net intent vs 2023

0 | 10 | 20 | 30 | 40+

	European average	Northern and Western Europe								Southern Europe		Central Europe
		Germany	United Kingdom	Netherlands	France	Belgium	Sweden	Switzerland	Denmark	Spain	Italy	Poland
Price consciousness persists but is less prominent than in 2023												
Look for ways to save money when shopping	**48%** **–5**	48% –7	54% –1	47% –7	48% –8	44% –7	51% –6	47% +4	43% –9	52% –5	46% –4	47% –6
Actively research for best promotion	**39%** **–5**	28% –7	32% –2	39% –4	45% –1	39% –4	42% –11	27% –1	41% –7	48% –10	45% +1	42% –6
Buy store's own food brands instead of known brands	**32%** **–4**	36% –10	38% –4	41% –5	34% –2	36% –7	31% –6	34% +3	26% –3	31% –3	30% +4	19% –7
Consumers start treating themselves with healthy, sustainable, on-the-go products												
Focus on healthy eating and nutrition	**31%** **0**	29% 0	30% +5	34% +2	33% –5	29% –4	20% 0	34% –3	27% +2	35% –6	36% –3	29% +7
Pay a higher price to get a healthier product	**1%** **+5**	–5% +8	–11% +6	–3% +10	6% +4	–6% +6	–9% +2	4% –2	–2% +6	6% +3	15% +2	15% +8
Buy products from local producers and farmers	**17%** **+2**	22% +5	5% 0	12% +3	27% –1	14% +3	3% +1	23% –1	7% 0	31% +5	24% +3	20% +7
Buy organic products	**2%** **+5**	2% +14	–10% +4	5% +10	1% +3	–3% +6	–8% +3	3% –6	4% +5	7% +6	17% +3	6% +9
Buy environmentally friendly products	**17%** **0**	21% –4	9% –1	17% +5	16% –6	12% +1	3% –1	24% –3	11% –2	24% +6	27% +2	19% +3
Buy high-quality/ premium products	**0%** **+5**	–13% +8	–9% +3	1% +10	4% 0	–1% +9	–4% +1	–2% +1	1% +5	12% –5	10% +8	4% +14
Buy food from deli counters in stores	**–3%** **+4**	–11% +9	–12% +1	–10% +7	2% +1	–5% +6	–14% +1	–5% –2	–7% +4	17% 0	12% +5	1% +3
Positive attitude toward online³												
Online shopping behavior	**5%** **+8**	1% +6	9% +2	6% +6	12% +7	4% +6	2% +3	–1% –1	1% +1	9% +8	12% +12	2% +5

[1] Net 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.

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

[3] Net intent is calculated as the share of total population who currently shop online (ie, monthly) and will do more of it plus the share of total population who currently do not shop online but will do more (ie, start) minus share of total population who currently shop online but will do less.

Source: McKinsey Consumer Survey 2024, n = 12, 598; Belgium, Denmark, France, Germany, Italy, Netherlands, Poland, Spain, Sweden, Switzerland, and United Kingdom, sampled to match general population aged 18 and above

Exhibit 3

European CEOs are less pessimistic about market conditions in 2024 compared with last year.

European CEO survey results, sentiment toward 2024 grocery market conditions[1] (n = 33)

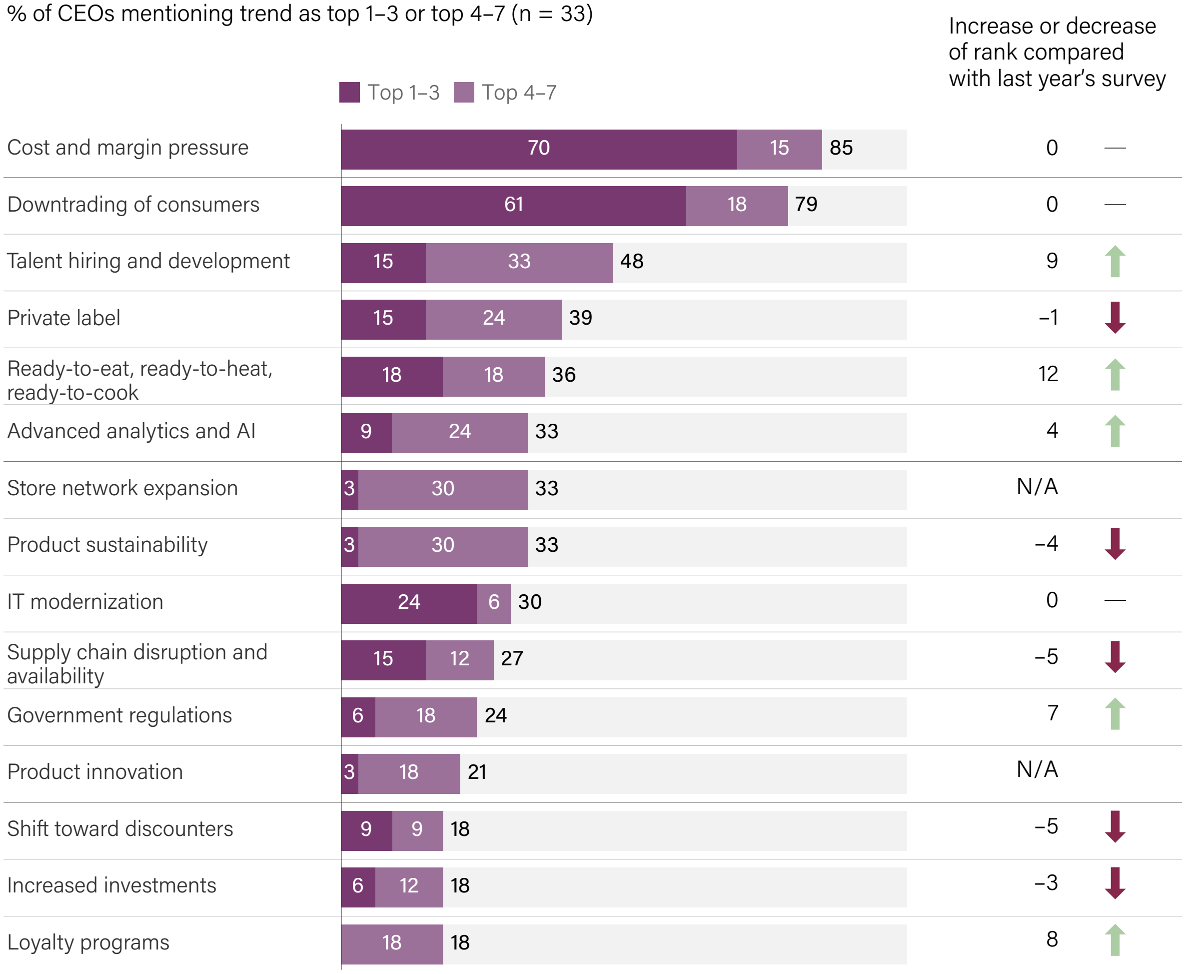
Words describing the grocery industry in 2024[2]

[1] Question: Thinking ahead, how do you see the market conditions for the grocery retail industry evolve in 2024?
[2] Question: Please choose the top 3 adjectives you would use to describe the grocery retail industry in 2023.
Source: McKinsey CEO Survey 2024 (n = 33); McKinsey CEO Survey 2023 (n = 47)

Exhibit 4

Margin pressure and downtrading remain at the top of CEOs' minds.

Top 15 trends mentioned by CEOs for the grocery industry in 2024,[1]
% of CEOs mentioning trend as top 1–3 or top 4–7 (n = 33)



[1] Question: Looking to the near future, what do you think will be the "top of mind" focus areas that will shape the grocery retail industry in the next 1 to 3 years?
Source: McKinsey CEO Survey 2024 (n = 33); McKinsey CEO Survey 2023 (n = 47)

Key trends

Eight trends will characterize the European grocery retail market in 2024.

1	**Cost and margin pressure**	**#1 concern** 70% of surveyed CEOs named addressing cost and margin pressure as a top priority
2	**Return of polarization**	**1 in 5** consumers in Europe intend to splurge on groceries over the next 3 months, while 45% continue to look for ways to save money
3	**Food to go: A wrestling match for share of stomach**	**×2.5** faster growth expected in away-from-home food (~8%) vs overall grocery (~3%)
4	**Sustainability: Progress made, still a long way to go**	**29%** of top 10 retailers have achieved Scope 1 and 2 targets for 2025; however, none of them report progress on Scope 3 targets
5	**Online: Liberation from offline**	**37%** of online shoppers in the UK go to different stores online than offline
6	**Retail media: Click here to boost the bottom line**	**20 out of the top 30** European grocers already have an established retail media business
7	**Conversational commerce: The next wave of analytics**	**6** promising generative AI use cases can unlock 10–20% of the value of advanced analytics and AI
8	**Talent: Making retail a career again**	**29.4%** increase in retail vacancies, up from 1.7% in 2019 to 2.2% in 2023

© Getty Images

Cost and margin pressure

The profitability of grocers declined further in 2023, and the pressure will not go away in 2024.

Margins decreased for both grocery retailers and consumer packaged goods (CPG) companies between 2019 and 2022. While grocery retailers lost 0.4 percentage points of EBITDA margin in that period, CPG companies lost 1.3 points. However, 2023 followed a different trajectory. Retailers were losing another 0.3 percentage points because of additional cost increases, while CPG companies gained back 0.8 percentage points as they passed their cost increases on to retailers (Exhibit 5).

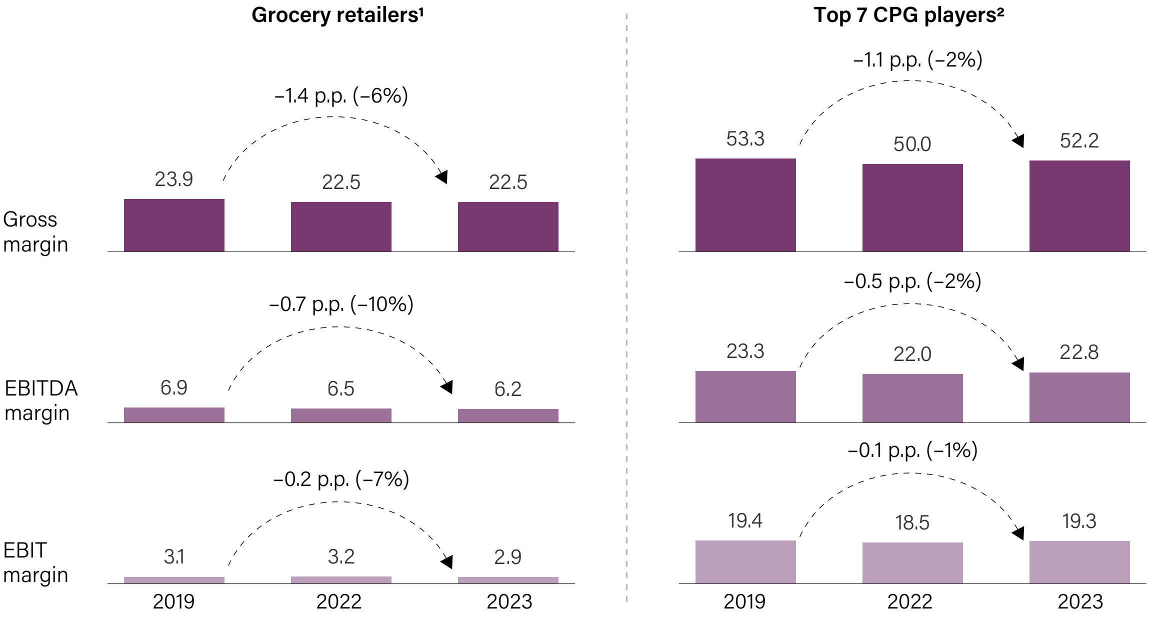
In 2024, grocery retailers will continue to feel margin pressure. The main driver in 2024 is rising rent and labor costs. According to our CEO survey, cost and margin pressure is a top three priority for 70 percent of CEOs (compared with 67 percent last year).

To improve their margins, retailers are expected to intensify supplier negotiations, buying-alliance activity, and consolidation efforts in 2024. In 2023, we saw intense supplier negotiations during which some leading products were temporarily not available in stores. This year we expect to see even more intense negotiations. Buying alliances are gaining strength, and selected new ones are emerging—such as the recently announced partnership between Auchan and Intermarché. "This will be a real game changer," Auchan CEO Yves Claude told us during an interview (see page 28). Meanwhile, M&A activity is expected to stay high as retailers seek economies of scale, building on the 2023 record of 21 transactions in Europe,[7] including Reitan's acquisition of the majority of the ALDI store network in Denmark.

Exhibit 5

Compared with 2019, margins in 2023 were lower for both retailers and consumer packaged goods companies.

Margin performance, %



Note: Figures may not sum to totals, because of rounding.
¹Companies in the sample: 9 European grocery retailers (Ahold Delhaize, Carrefour, ICA, Axfood, ELO S.A., Kesko, DIA, Jeronimo Martins, and Sonae Retail).
²Companies in the sample: Top 7 consumer packaged goods companies (Nestlé S.A., P&G, PepsiCo Inc., the Coca-Cola Company, Kraft-Heinz, Mondelez, Kellogg).
Source: Company reports; Corporate Performance Analytics by McKinsey

---

[7] GlobalData, March 2024, data available for past ten years for Europe.

The return of polarization

Most consumer groups still intend to trade down in 2024, while high-income households are starting to trade back up.

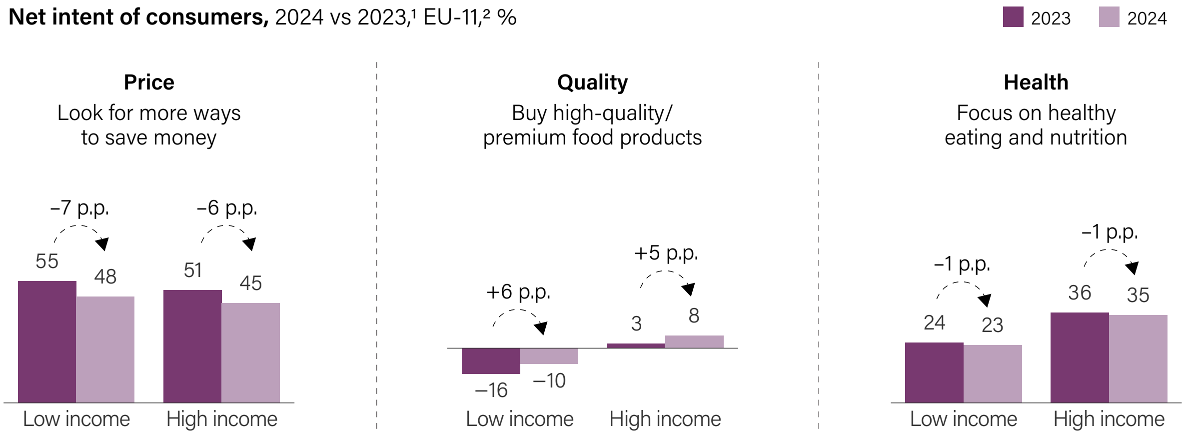
More than 45 percent of respondents to our European consumer survey said they are still looking for ways to save money when shopping in 2024. Still, this number is lower than it was last year, while it continues to be similar across income groups (Exhibit 6). While downtrading is still highly prevalent across low-income households, we saw initial signs in 2023 that high-income households are uptrading again. The net intent of high-income households to buy more high-quality or organic products further increased at the beginning of 2024 and is now clearly positive. We therefore expect to see downtrading and uptrading at the same time, depending on the consumer group and the geography. The consumer survey results vary greatly across countries, leading us to expect significant differences in market development across Europe.

Private label growth continues and is expected to persist, even if the economy improves. Both private labels and discounters experienced strong growth across Europe, gaining 1.8 and 2.9 percentage points, respectively (see "Food and grocery market KPIs in 2023," page 25), and consumers continue to have positive experiences with private label offerings. According to our consumer survey, 83 percent of consumers rate private label products of equal or better quality than branded options. Therefore, we do not expect shoppers to switch back even if the market environment improves.

The quest for health and longevity is the only premiumization trend that has not been negatively affected by inflation. The intent of shoppers to buy healthier products has remained constantly high for several years. According to our consumer survey, consumers also prioritize products perceived as "good for myself" over those "good for the planet." Functional food claims such as "boosting energy" and "supporting health" continue to gain traction.

Exhibit 6

Consumer intent to save money has declined but stays high, with increased interest in quality and stable interest in health.


Net intent of consumers, 2024 vs 2023,[1] EU-11,[2] %

[1] Question: Think about 2024. Are you planning to do more, less, or about the same of the following? Percentage is calculated as net intent (% of people intending to do more of the activity minus % of people intending to do less). Sample sizes for low- and high-income consumers in total are 2,600 and 5,500 respondents, respectively.

[2] 2023 and 2024 both cover EU-11 (UK, DE, FR, IT, ES, NL, CH, PL, SE, BE, DK).

Source: McKinsey Consumer Survey 2024 (n = 12,598), 2023 (n = 12,777), Belgium, Denmark, France, Germany, Italy, Netherlands, Poland, Spain, Sweden, Switzerland, and United Kingdom, sample to match general population of aged 18 and above

Food to go: A wrestling match for share of stomach

As consumers spend more time on the move, the food-to-go market is surging.

The food-to-go market declined during the COVID-19 pandemic, but it has recovered and continues to grow. Food to go encompasses various channels: prepackaged ready-to-eat meals, ready-to-heat convenience meals, counters and kiosks, restaurant takeaways, and meal delivery. The growth of these channels is driven by the return of workers to offices and consumers' increasingly busy lifestyles. According to our CEO survey, food to go is one of the top five trends for 2024; CEOs expect food to go to drive traffic, raise margins, and generate cross-selling opportunities.

Foodservice providers such as restaurants, takeaway players, and meal delivery services are gaining share from grocery retailers. Despite the inflationary environment and consumers trading down, the foodservice industry outpaced the grocery retail industry by nearly three percentage points. While foodservice grew at 11.5 percent,[8] grocery achieved a growth rate of only 8.6 percent last year. France and Italy now have higher foodservice volume compared with prepandemic levels, while Germany and Spain are still below those levels.[9] Going forward, food to go is expected to grow at roughly 8 percent per year over the next five years in Europe,[10] while the grocery retail market is expected to grow at roughly 3 percent.

> *"In Paris, half the population now lives alone, so they prefer packaged meals and smaller portions. Our new concept stores will help us gauge the demand for ready meals.'"*
>
> – Yves Claude, CEO, Auchan Retail

Grocery retailers are expanding their food-to-go offerings to capture this growth. Grocers are expanding their offerings of traditional ready-to-eat, ready-to-heat, and ready-to-cook products. They are also increasingly experimenting with foodservice offers such as hot food to go, cafeterias, and seated restaurants, either through third-party concepts or by offering them directly.

© Getty Images

---

[8] Eurostat foodservice turnover.

[9] Eurostat, February 2024; McKinsey, growth in sales value adjusted for change in Harmonised Index of Consumer Prices for catering.

[10] GlobalData: Away-from-home food in retail channel 2023, sample of 23 European countries.

Sustainability: Progress made, still a long way to go

A step change for sustainability in grocery requires bold actions from retailers; our 2024 consumer research does not show increasing pull from consumers.

In fact, the share of consumers who want to buy products that are more sustainable in the next 12 months decreased by one percentage point from 2023. Also, the intent to buy more alternative-protein products remains stable at the low levels of 2023. Only members of Generation Z and millennials signal a high intent to buy more environmentally friendly products in 2024.

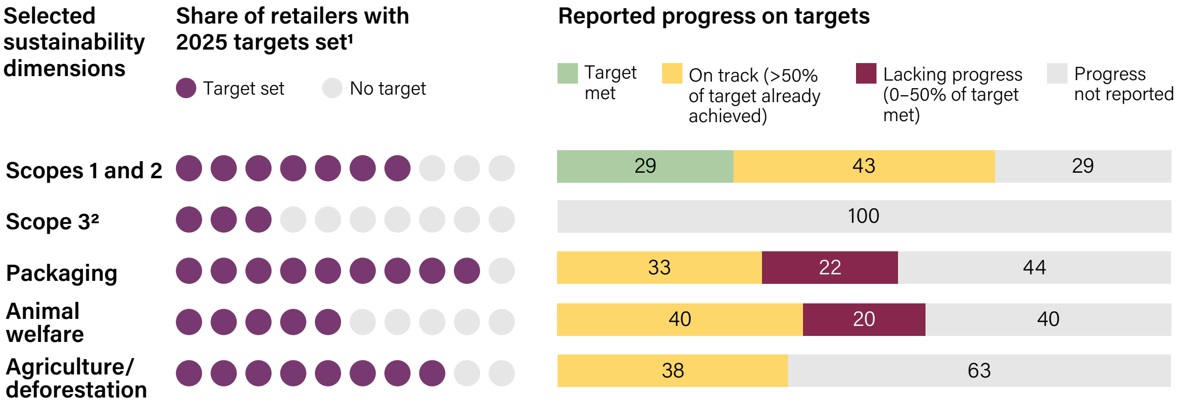
The window of opportunity to reach 2025 sustainability targets is closing. All of the top ten European grocery retailers have set sustainability goals for 2025, covering a variety of sustainability dimensions (Exhibit 7).[11] Many of the dimensions still have sizable gaps to close to reach these targets. We therefore expect to see accelerated sustainability efforts across the industry in 2024. For targets on Scopes 1–3,[12] working toward these presents a dual opportunity to reduce carbon emissions and capture cost savings; we have found that, depending on the category, up to 40 percent of emissions can be reduced in a way that also reduces cost.

So far, none of the top ten European grocers are reporting any progress on Scope 3 emission reductions.[13] This is mainly because measuring these emissions accurately is very difficult. However, pioneering retailers have started to build Scope 3 accounting capabilities that use actual emissions by product and supplier instead of global averages across all suppliers. This shift will enable grocers to measure and reduce their Scope 3 emissions more effectively. For example, by understanding the real emissions associated with each supplier, grocery retailers can switch to suppliers with lower emissions or agree with suppliers on concrete reduction targets.

Regenerative agriculture[14] *could become the new 'organic.'* Most of grocery retailers' greenhouse gas emissions are driven by agriculture. About 50 percent are driven by dairy and meat alone. Regenerative agricultural practices are therefore the key to meet the net-zero ambitions proclaimed by many retailers. Introducing regenerative agricultural labels in their assortment as an alternative to organic labels can be a big opportunity for retailers to differentiate their offerings while working toward their sustainability targets.

Exhibit 7

The top ten European grocers are on a final sprint to meet their 2025 goals.



Note: Top 10 European grocery retailers: Schwarz Group, ALDI Süd, Ahold Delhaize, Tesco, Edeka, Rewe, Leclerc, Carrefour, Sainsbury, Casino.
[1]Some of the retailers have multiple targets per category. [2]Including supplier goals.
Source: Company sustainability reports; company websites

---

[11] The top ten European grocers are Schwarz Group, ALDI Süd, Ahold Delhaize, Tesco, Edeka, Rewe, Leclerc, Carrefour, Sainsbury, and Casino; Euromonitor, accessed February 2024.

[12] Scope 1 is direct emissions generated by an organization. Scope 2 is emissions generated by production of purchased energy. Scope 3 is indirect emissions from up and down the value chain.

[13] Scope 3 refers to all greenhouse gas emissions that happen in the value chain before or after grocery retailers (that is, suppliers and consumers).

[14] Regenerative agriculture includes farming and grazing practices that improve soil health, crop resilience, nutrient density, water management, and biodiversity, as well as the livelihoods of farmers.

Online: Liberation from offline

Online grocery is returning to growth, and it is increasingly evolving into an independent, profitable format with its own differentiated value proposition.

Online grocery lost market share in 2023, but consumers are starting to return as spending power recovers. The net intent of consumers to buy more food online has returned to positive, increasing by eight percentage points in the first quarter of 2024. We expect e-grocery to grow faster than the overall grocery market over the next years. Meal delivery from restaurants might grow even faster than e-grocery (Exhibit 8). Pure players in particular show extraordinary growth rates as they expand into new regions. For instance, Picnic grew at more than 30 percent per annum over the past five years,[15] driven by rapid expansion.

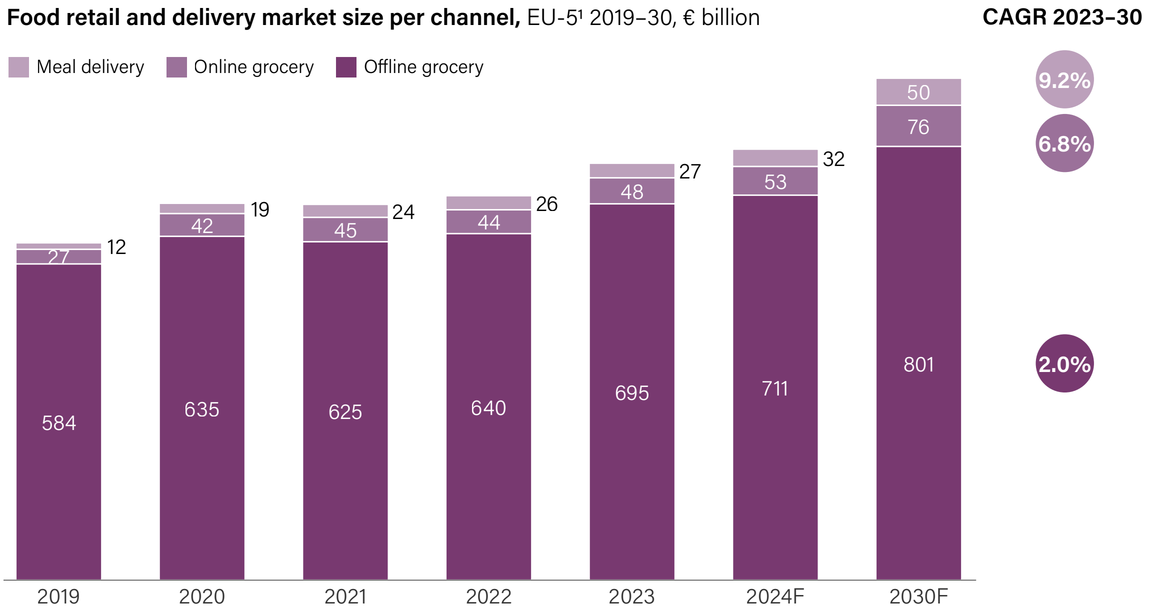
Pure players are starting to reach profitability. For instance, Rohlik is profitable.[16] Picnic claims to be "operationally profitable in mature markets,"[17] and Ocado returned to profitability in 2023. Moreover, leading meal delivery players have also reached breakeven (DoorDash and Deliveroo over the course of 2023), thanks to a successful shift of priorities from growth to rightsizing.[18]

Increasingly, consumers expect different value propositions from online and offline channels. 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 2023) always shop at a different banner online than offline because they exhibit different needs by channel. In addition, UK consumers see promotions as more important than price for offline store selection, while for online, price is more important than promotions.

Exhibit 8

Online grocery and meal delivery are expected to outpace offline growth.

Food retail and delivery market size per channel, EU-5[1] 2019–30, € billion



[1]Includes Germany, France, Italy, Spain, and United Kingdom.
Source: Europanel; Euromonitor; Statista; McKinsey analysis

---

[15] Picnic company accounts, February 2024.
[16] Zosia Wanat, "Brunch with the founder of Rohlik — a profitable disruptor of a trillion-dollar grocery industry," Sifted, December 12, 2023.
[17] "Online supermarket Picnic gets €355 million capital injection from shareholders," *NL Times*, January 9, 2024.
[18] Company financials; Corporate Performance Analytics by McKinsey, March 2024.

Retail media: Click here to boost the bottom line

Retail media (RM) undoubtedly remains a substantial profit driver for grocery retailers, with 20 of Europe's top 30 grocery retailers now active in the market.

Grocers view RM as a fundamental driver of profitability. In Europe, the RM market was worth €11 billion in 2023 and is expected to grow at a rate of 15 percent annually in the coming years. With EBIT margins reaching 65 to 70 percent within three years of launching, RM presents an attractive opportunity for grocery retailers.[19] In our survey, grocery retail CEOs confirmed this opportunity, naming RM as one of the top five opportunities for the year ahead.

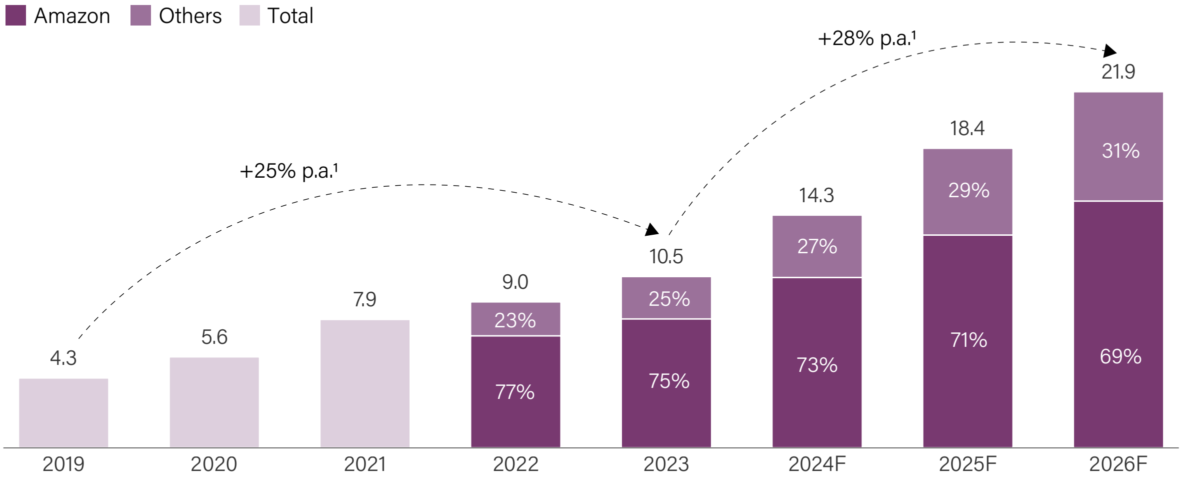
2024 will be marked by a bold expansion of retailers' RM footprint. The name of the game for RM is scale—only the largest players are expected to remain relevant for CPG advertisers in the long run, especially in light of Amazon's large share in the market (Exhibit 9). This will prompt smaller players to consolidate and form partnerships to maintain relevance in the RM world. Alliances, such as the Unlimitail partnership between Carrefour and Publicis, and the growth of ad network aggregators such as Amazon Ads are expected to shape the market this year.

Standardization, impact measurement, and ad diversification are critical for engaging CPGs on RM. Regulatory changes have increased the difficulty of targeted digital marketing, boosting the appeal of RM for CPG companies to engage with consumers at the point of purchase. Transparency and standardization of impact metrics, such as return on ad spending, are essential for RM success, and CPG companies rank these as the top barrier to further investing in RM.[20] To address this, Ahold Delhaize, for example, has launched a self-service platform for suppliers to manage and track the impact of RM campaigns. Moreover, retailers are expected to expand their offerings beyond classic paid search and website banners to include video, connected TV, shoppable (video) content, and innovative in-store activations in order to stay relevant to CPG advertisers.

Exhibit 9

Retail media continues to grow; Amazon remains in a league of its own.

Digital retail media ad spend in Europe, € billion



¹Per annum.
Source: Euromonitor; IAB Europe

---

[19] IAB Europe, Statista, January 2024.

[20] Retail Media Standards Survey 2023, IAB Europe, 2023.

Conversational commerce: The next wave of analytics

Advanced analytics and traditional AI still account for most of the impact, but conversational commerce enabled by generative AI has the potential to reimagine how we shop.

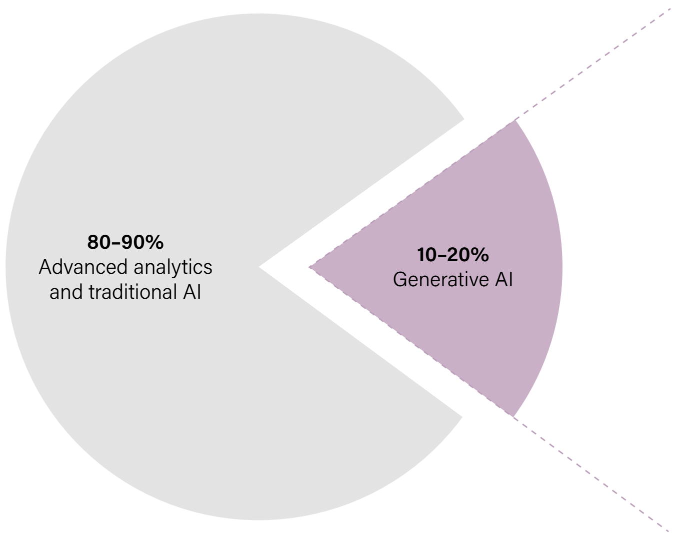
Retailers have started to experiment with generative AI but have yet to unlock real value. From the total advanced analytics and AI impact pool in grocery retail, an estimated 10 to 20 percent of value potential stems from generative AI. In grocery, six revenue-enhancing and efficiency-driving use cases are expected to drive value: hyper-personalized content, smart search, copilots for category management (for example, supplier negotiations), copilots for support functions (such as software development), content creation, and conversational commerce (Exhibit 10). By engaging shoppers with a human-like chatbot as a personal shopping assistant, conversational commerce can significantly improve the on- and offline shopping experience. For instance, US-based Walmart launched its Text to Shop proposition last year, allowing consumers to shop for groceries by texting. They can also get inspiration for recipes, make restocking suggestions, and schedule delivery or pickup times.

Advanced analytics and traditional AI are still the largest sources of technology-driven value creation in retail. Eighty to 90 percent of future value creation for grocers is driven by advanced analytics and traditional AI. For grocers, assortment, pricing, and promotion optimization are the largest opportunity areas. Rigorously leveraging advanced analytics and traditional AI across the organization has the potential to improve EBIT margins in retail by up to one percentage point. Most large retailers in Europe have adopted a range of advanced analytics use cases by now and started to capture a significant share of that potential. The remaining opportunity resides in expanding to further use cases, increasing adoption of use cases, and using the new capabilities to localize and personalize the offering for each store and consumer.

Exhibit 10

Generative AI accounts for 10 to 20 percent of the value potential from analytics in grocery retail, with the most value coming from six use cases.

Analytics impact potential,
% of total EBIT impact from analytics



Generative AI use cases in grocery retail that add the most value

● Revenue-enhancing ● Efficiency-driving

1 Conversational commerce

2 Hyper-personalization

3 Smart search for grocery

4 Copilot for category management (eg, supplier negotiations)

5 Copilot for support functions (eg, software development)

6 Marketing content creation

Talent: Making retail a career again

Grocers across Europe face an unprecedented number of job vacancies, and the average employee tenure is shrinking.

Vacancy and fluctuation rates are high. In the third quarter of 2023, 2.2 percent of all retail jobs were vacant, a 29.4 percent increase from 1.7 percent prior to the pandemic.[21] While retailers work hard to fill open positions, they are also confronted with high turnover rates—especially in frontline positions. In addition, there is a shortage of skilled talent, particularly in supply chain activities, as well as for jobs that require digital and technological know-how. The aging of the population further exacerbates the situation. The number of citizens of working age in the EU-27 will decline by approximately one million people per year going forward. Hiring and developing talent is one of the top three priorities of European grocery retail CEOs, according to our survey. Yet only 21 percent of retail employers in Germany say they have a professional retention program in place, and even fewer—11 percent—say they have the tools in place to survey employee satisfaction regularly.[22]

As automation and digitalization progress, the roles and job profiles of retail employees will change significantly over the next decade. Social, emotional, cognitive, and technological skills will become more important as the need for physical activity decreases. Our analysis shows that by 2030, the time workers spend using social or emotional abilities will increase by 32 percent, and the time they spend leveraging technical skills will increase by 64 percent. Physical and manual activity, on the other hand, will decline by 17 percent as a result of technological advancements.

Attractive grocery employers offer careers, not just jobs, in combination with the right work–life balance. Forty percent of retail employees in Germany and 33 percent of retail employees in the Netherlands are considering changing their jobs.[23] Respondents cited unmet needs of applicants, compensation, and working times among the top five factors in ongoing retail vacancies in Germany. Flexible work arrangements and a multitude of career paths gain in importance. Yet only 16 percent of retail employers in Germany say they offer work–life benefits to frontline retail employees, and more than 50 percent of retail employers in Germany say they do not offer individual career opportunities to their employees. In the United Kingdom, the retail sector ranks in the bottom third in terms of offering career progression opportunities compared with other sectors. Meanwhile, retailers such as Walmart have started acting on these developments by offering different types of career paths and trainings depending on employee preferences.

© Getty Images

---

[21] Eurostat EU-27 countries.

[22] *Study: Talents4Retail 2023/24*, EHI Retail Institute, January 2024.

[23] McKinsey HR-Monitor Germany 2024; Distrifood 2023.


© Getty Images

Implications for grocers

The state of grocery continues to present challenges, but—supported by stronger consumer sentiment—there are opportunities for executives to build new sources of competitive advantage. We see three strategic priorities for grocery retailers that will help them strengthen their assortments, increase profitability, and leverage the momentum for RM networks.

Future-proofing the assortment

Confronted with polarized consumer behavior, grocers seek to balance affordability with value-adding products while rationalizing the assortment to optimize costs. To defend their market share, supermarkets and hypermarkets will want to keep strengthening their private label offerings. At the same time, growing demand for healthy products and for food-to-go, ready-to-eat, and ready-to-heat options provides further opportunities for uptrading consumers. Retailers that can differentiate assortment by store depending on local needs will be best positioned to win in this market environment—especially given that different countries, regions, and neighborhoods will show varied recoveries in 2024.

Driving nontrivial efficiency savings

As margin and cost pressure remains high, grocery retailers need to take rigorous mitigating actions to achieve cost savings. With low-hanging fruit already captured, cross-functional and nontrivial cost positions need to be addressed in 2024—for example, operating model redesign, end-to-end supply chain optimization from supplier to store, rent renegotiation, or design-to-value for private label assortment.

Monetizing retail media

When it comes to building and scaling a RM business that drives profits in 2024 and beyond, grocers have no time to lose. To go from good to great in RM, players need to think like ad agencies and secure the right leadership commitment, business autonomy, and resources dedicated to RM business development. Grocery retailers enjoy a privileged position in today's media landscape. However, to remain relevant to advertisers over time, RM players should consider improving their impact measurements, as well as continuously enhancing and renewing their advertising offerings.

© Getty Images

Food and grocery market KPIs in 2023

Year-over-year (YoY) growth in 2023 vs 2022 and 2019, %

		Northern and Western Europe						Southern Europe			Central Europe		
		Germany	United Kingdom	Netherlands	France	Belgium	Sweden	Spain	Italy	Portugal	Czech Republic	Poland	**Weighted average[1]**
Food market—segment growth													
Grocery retail value growth[2] percent change	vs 2022	+7.6	+9.2	+7.1	+8.8	+9.0	+5.9	+10.1	+7.8	+8.2	+7.2	+11.7	**+8.6**
	vs 2019	+23.3	+23.3	+24.9	+18.5	+23.0	+27.1	+21.7	+22.4	+24.2	+23.1	+37.0	**+23.1**
– Modern grocery retail value growth[3] percent change	vs 2022	+8.6	+8.5	+7.9	+9.6	+8.4	+5.4	+12.1	+8.2	+8.2	+7.0	+13.2	**+9.2**
	vs 2019	+28.0	+23.6	+25.4	+19.5	+22.0	+29.1	+27.3	+30.8	+25.4	+27.8	+50.8	**+26.7**
– Other grocery formats value growth[4] percent change	vs 2022	+3.5	+12.6	+1.6	+4.2	+11.3	N/A	+3.8	+6.2	+8.2	+7.6	+8.5	**+6.2**
	vs 2019	+5.1	+21.6	+22.1	+12.8	+26.7	N/A	+5.3	–2.5	+17.6	9.2	+13.1	**+11.3**
Grocery retail deflated value growth[5] percent change	vs 2022	–4.7	–4.8	–4.5	–3.3	–4.4	–6.4	–1.5	–2.3	–2.0	–4.6	–3.9	**–3.8**
	vs 2019	–8.0	–4.0	–1.0	–4.3	–3.1	–1.9	–6.4	–0.5	–3.1	–11.3	–4.2	**–4.5**
Foodservice value growth[6] percent change	vs 2022	+7.7	+11.3	+13.0	+11.0	+11.0	+7.8	+9.2	+14.6	+14.2	+18.0	+16.4	**+11.1**
	vs 2019	+8.8	+29.0	+31.0	+29.2	+33.8	+22.8	+5.9	+21.8	+15.9	+30.9	+59.4	**+23.8**
Modern retail—revenue breakdown													
Total[2] percent change	vs 2022	+8.6	+8.5	+7.9	+9.6	+8.4	+5.4	+12.1	+8.2	+8.2	+7.0	+13.2	**+9.2**
	vs 2019	+28.0	+23.6	+25.4	+19.5	+22.0	+29.1	+27.3	+30.8	+25.4	+27.8	+50.8	**+26.7**
– Hypermarkets[7] percent change	vs 2022	+6.8	+6.6	N/A	+8.8	–2.8	+3.4	+12.3	+5.4	N/A	+4.6	+1.3	**+6.8**
	vs 2019	+14.0	+4.8	N/A	+12.4	–1.2	+16.4	+23.0	+3.6	N/A	+16.5	+8.6	**+11.0**
– Supermarkets[8] percent change	vs 2022	+6.2	+7.7	+7.9	+8.8	+6.6	+5.5	+11.5	+9.2	+9.5	+5.3	+11.1	**+8.2**
	vs 2019	+28.9	+14.2	+19.0	+16.9	+16.9	+20.8	+25.2	+30.2	+23.1	+20.9	+33.9	**+22.8**
– Online[9] percent change	vs 2022	+13.5	+2.6	+4.4	+14.9	+3.6	–14.3	+10.1	–10.2	–0.4	+7.2	+23.5	**+7.5**
	vs 2019	+85.0	+78.4	+116.6	+76.8	+121.5	+70.5	+75.6	+45.7	+14.3	+73.1	+161.6	**+83.3**
– Discounters[10] percent change	vs 2022	+10.5	+18.3	+9.9	+9.8	+12.3	+12.8	+14.9	+9.7	+4.7	+10.8	+16.4	**+12.4**
	vs 2019	+28.2	+58.3	+26.6	+18.5	+24.3	+55.8	+34.1	+50.9	+36.4	+42.3	+69.5	**+37.1**
Modern retail—space breakdown													
Total percent change	vs 2022	+0.5	+1.3	+1.1	+1.7	+1.0	+0.9	+1.6	+4.5	+2.1	+1.5	+3.9	**+1.8**
	vs 2019	+0.4	+3.3	+6.0	+4.4	+3.4	+4.8	+3.5	+4.4	+14.1	+6.9	+16.0	**+4.1**
– Hypermarkets[11] percent change	vs 2022	–0.5	–0.2	N/A	+1.4	0.0	+2.3	+1.3	+1.0	N/A	+1.1	+0.8	**+0.6**
	vs 2019	–7.4	–0.1	N/A	+2.0	0.0	+3.9	+4.6	–6.6	N/A	+1.6	–9.7	**–2.0**
– Supermarkets[12] percent change	vs 2022	+0.8	+0.3	+1.1	+1.5	+1.4	–0.7	+0.8	+1.0	+3.0	+1.1	+2.6	**+1.0**
	vs 2019	–0.2	–0.2	+4.9	+2.3	+3.4	+2.5	–1.0	–0.7	+21.7	+6.9	+7.5	**+1.5**
– Discounters[13] percent change	vs 2022	+0.7	+2.2	+1.0	+0.4	+0.7	+3.3	+8.4	+13.1	+0.9	+3.4	+4.4	**+3.5**
	vs 2019	+4.6	+19.3	+7.6	+2.5	+4.2	+19.5	+33.0	+19.0	+11.8	+22.5	+35.4	**+13.5**
– Convenience[14] percent change	vs 2022	+3.1	+5.6	+2.9	+4.0	+1.1	–0.1	–0.2	+2.4	+2.4	+0.8	+6.7	**+3.3**
	vs 2019	+20.2	+7.9	+41.0	+19.6	+3.5	–0.3	+3.8	+23.7	+11.6	+3.5	+27.3	**+16.3**
Sales/m² percent change	vs 2022	+8.0	+7.1	+6.7	+7.7	+7.3	+4.5	+10.3	+3.5	+6.0	+5.5	+9.0	**+7.3**
	vs 2019	+27.6	+19.7	+18.3	+14.4	+17.9	+23.2	+23.0	+25.2	+9.9	+19.5	+29.9	**+21.7**

		Northern and Western Europe						Southern Europe			Central Europe		
		Germany	United Kingdom	Netherlands	France	Belgium	Sweden	Spain	Italy	Portugal	Czech Republic	Poland	**Weighted average[1]**
Grocery retail—price and volume growth													
Volume[15] percent change	vs 2022	–1.9	–1.5	–2.3	–3.1	–1.3	N/A	–0.4	–1.8	–2.4	–1.6	–3.1	**–2.0**
	vs 2019	–0.3	+0.3	–3.5	+0.7	–1.1	N/A	–3.8	+6.1	+2.7	–1.7	–2.7	**+0.3**
Basket size volume[16] percent change	vs 2022	–5.8	–1.8	–5.0	–4.2	–4.2	N/A	–1.4	–7.7	–8.0	–4.5	–3.3	**–4.3**
	vs 2019	–1.3	+11.9	–4.0	–2.1	+0.9	N/A	–1.0	–6.1	–10.5	+1.8	+12.2	**+0.6**
Frequency percent change	vs 2022	+4.1	+0.3	+2.8	+1.1	+3.1	–0.3	+1.0	+6.4	+6.1	+3.0	+0.2	**+2.5**
	vs 2019	+1.0	–10.4	+0.5	+2.8	–2.0	–2.1	–2.9	+13.1	+14.7	–3.5	–13.3	**–0.3**
Food and beverage price changes (inflation) percent change	vs 2022	+13.0	+14.7	+12.1	+12.5	+14.0	+13.1	+11.8	+10.3	+10.4	+12.4	+16.2	**+12.8**
	vs 2019	+34.0	+28.4	+26.2	+23.9	+27.0	+29.5	+30.0	+22.9	+28.2	+38.8	+43.1	**+29.0**
Up- or downtrading percent change	vs 2022	–2.9	–3.4	–2.2	–0.2	–3.1	N/A	–1.1	–0.4	+0.4	–3.1	–0.8	**–1.8**
	vs 2019	–7.7	–4.2	+2.7	–5.0	–2.1	N/A	–2.7	–6.2	–5.6	–9.8	–1.6	**–4.8**
Other key grocery indicators													
Online channel market share percent, full year		3.9	11.0	7.8	9.4	4.0	5.1	2.6	2.5	2.3	3.8	2.1	**6.0**
Private label value share[17] percent, full year		35.8	51.5	47.0	39.1	40.4	27.6	30.8	32.2	45.4	29.9	23.0	**38.0**
Private label value share[17] p.p. change	vs 2022	+2.1	+0.6	+2.4	+2.4	+1.7	+1.5	+1.6	+1.7	+3.2	+1.8	+1.9	**+1.8**
	vs 2019	+4.5	+1.4	+3.3	+3.1	+2.3	+5.4	+5.8	+4.8	+9.4	+6.9	+4.6	**+3.9**
Promo share percent, full year		22.4	26.1	N/A	14.5	17.0	38.1	12.8	33.1	23.8	55.0	28.6	**23.2**
Promo share p.p. change	vs 2022	+1.9	+0.5	N/A	–0.4	–3.1	–0.2	+1.0	–0.6	–0.6	+1.7	+4.4	**+0.7**
	vs 2019	+4.1	–6.2	N/A	–0.2	N/A	+10.2	–0.1	–8.1	–4.5	+2.9	+5.3	**–0.5**
Consumer indicator													
Consumer confidence points change, full year	vs 2022	+4.6	+9.2	+7.7	+1.7	+7.1	–1.2	+7.3	+4.6	+3.4	+7.6	+8.2	**+5.3**
	vs 2019	–13.3	–16.7	–10.8	–8.4	–1.9	–14.6	–12.7	–4.2	–19.8	–20.9	–12.1	**–11.4**

---

1 Weighted according to total grocery revenues for each country. If for a given KPI group the data is not available for some countries, these countries are excluded from the weighted average.

2 Data measures the value of fast-moving consumer goods (FMCG) and fresh purchases that are taken home (excludes value of purchases that are consumed on the go, at work, etc).

3 Consists of hypermarkets, supermarkets, online stores, and discounters.

4 Remaining store types not covered by "modern retail." Examples include small corner store, pharmacy, drugstore, and open market.

5 Inflation-adjusted grocery retail value growth.

6 Includes food and beverage service activities providing complete meals or drinks fit for immediate consumption (eg, traditional restaurants, self-service, or takeaway restaurants).

7 Large retail outlets under common ownership with sales area >2,500m² (according to Europanel).

8 Smaller retail outlets under common ownership, excluding discounters. Sales area from 450m² to 2,500m² (according to Europanel).

9 Any FMCG and fresh products bought on the internet and either delivered or collected.

10 Limited-range discount retailers such as ALDI, Lidl, Biedronka, Norma, Netto Marken-Discount, Eurospin, Penny, Dia, and Leader Price (according to Europanel).

11 Sales area between 3,000m² and 6,000m²; substantial nongrocery store offering (according to IGD).

12 Sales area ranging from 300m² to 6,000m²; store offering is predominantly food (according to IGD).

13 Sales area from 300m² to 1,500m² (potentially up to 6,000m²); narrow range (<4,000 SKUs) with a focus on everyday low prices. Offerings typically dominated by private label, and stores operate with low-cost business model (according to IGD).

14 Stores typically under 300m², with convenience-focused ranges usually up to 6,000 SKUs and long opening hours (according to IGD).

15 Number of units sold.

16 Average number of units sold per basket.

17 Private label is defined as any brand/product that is owned and sold by an individual retailer and not sold by other retailers. This includes any product with the store name in the brand such as [Store name] Cornflakes and similar. It includes all "brands" sold by discounters or any other retailer that are owned and sold exclusively in their own stores. Fresh products sold with a retailer name/exclusive "brand" on the shopper package/receipt are included; loose no-name fresh products are excluded.

Source: CBS (NL), Europanel, GfK, IGD, ONS (UK)

© Getty Images

Interview

“The customer experience has to be grounded in the warmth of human interaction.”

Yves Claude
CEO, Auchan Retail

Auchan employs more than 150,000 people and operates more than 2,300 points of sale under the Auchan banner in 11 countries.

Q: From your perspective, how did the market conditions for grocery retail evolve in 2023? And how was business for Auchan?

A: Last year was a challenging one for the industry in multiple respects. The French economy went through some difficult times. Things went reasonably well for Auchan during the first three quarters of 2023, but the fourth quarter was more challenging. In addition, our suppliers increased their prices significantly, and with only 8 percent market share in France, we don’t have much bargaining power. We had to pass on price increases to our customers, and many of them traded away to other players.

Q: Did you experience the same challenges in other countries as well?

A: Not as much. In other countries, such as Portugal and Spain, Auchan offers the best prices in the market. This is a real advantage in times of high inflation. Some markets have shown more resilience, both in terms of sales and in terms of profitability, because consumers there are more willing to spend money on groceries. Households in Spain and Portugal have lower average incomes than those in France, but shoppers in those countries will still spend money on good food. In Spain, we also successfully integrated the Dia stores we acquired in mid-2023, subsequent to the acquisition the previous year. That was a big step for us. And in Portugal, we signed the acquisition of Dia stores.

Q: What are your thoughts on inflation?

A: In France, inflation dominated the news in 2023, and it put pressure on our profits. Now, as inflation slows, the sector can return to more conservative commercial strategies. We ended 2023 with an overall price increase of 1 to 2 percent. For some products, we will even lower prices. Overall, and as with most of our competitors as well, our customers bought much more of our private label this past year.

Q: How has 2024 been so far?

A: We're off to a challenging start, with strikes and protests that are affecting our supply chains. But we also see signs of hope. Thanks to the acquisition of the Dia stores, we will be able to double our market share in Portugal in 2024. Another reason for optimism is our ten-year buying alliance with Intermarché and Casino. This will be a real game changer. Together, we have 32 percent market share in France. That makes us a force to be reckoned with.

Q: How are shopping habits changing in the markets in which you operate?

A: In Paris, half the population now lives alone, so they prefer packaged meals and smaller portions. Our new concept stores will help us gauge the demand for ready meals. We will even offer our customers the option to eat these meals on-site. Hypermarkets are still working for families or older customers, but a lot of younger people don't shop there. They prefer to buy their groceries close to their home, in a local store with a human touch. So we must improve the experience to keep these customers coming into our stores. The customer experience has to be grounded in the warmth of human interaction.

Q: What are you doing to promote sustainability?

A: We're a family business. We take a long-term view. We want to make sure that we are responsible. We can't aspire to please everyone; we aspire to stand up for our values. For example, we try to do as much local purchasing as possible. We also want to be long-term partners for our suppliers. We have worked with some of them for over 60 years, and we will stand by them in the quest for sustainability.

Q: How are your customers responding to your commitment to sustainability?

A: Consumers want healthy food, ideally from local producers, but they are also price conscious. We want to offer consumers with smaller budgets quality products that more affluent shoppers buy in small local shops. Our purpose is "#vivre mieux" ["#live better"], and it drives all our decisions. We want consumers to have food sovereignty. To make this happen, we need to communicate clearly about the quality and the origin of the food we sell so consumers can make informed choices. Take chicken. Many grocers import chicken from faraway countries to get better prices. At Auchan, we sell only French chicken. We shrink our margin to do it. We can't turn the tide alone. It takes a joint effort, including the government, associations, and farmers.

Q: How far along are you on the e-grocery journey?

A: The average Auchan shopper has 30 products in their cart, including heavy packs of bottled water, frozen products, and ready meals. That's a lot of variety, and it's hard to handle in terms of logistics. To make things even more difficult for us, most of our online customers want home delivery.

Q: Is click and collect a viable alternative?

A: It could be, but for it to be fully effective, the pickup locations need to be on a consumer's path from their place of work or study to their home. Our current store locations are not always ideal for that type of business.

Q: What about the online experience itself?

A: Customer expectations are very high. They expect a sleek, highly functional website with features such as filtering tools, customer reviews, and videos. We don't have all of that in place at this point. So the online purchasing journey isn't yet as engaging and as seamless as we would like it to be. We're working on it, but we take it one step at a time to get it right. Some parts of our assortment, such as textiles, aren't even available online yet. We will change that soon.

Q: What are your thoughts on format evolution?

A: I don't think more hypermarkets will open in the countries in which we do business, or at least only very few will. Because of changing shopper needs, we expect to see a lot of stores with smaller footprints to open in the future, which will restore balance in the market. To partake in this development, we are working on a franchise model to build a network of small, independent stores run by local entrepreneurs. When we advertised this opportunity internally, many of our employees started selling their Auchan shares to free up capital, start their own store, and be their own boss. This project is very close to my heart because it's about empowerment. It's a way for us to give something back to the people who work for us and expand our network at the same time. We are also now reducing the size of our hypermarkets.

Q: Looking ahead beyond 2024, what is your top priority?

A: We will push for growth in the markets in which we are already present, rather than enter new territories. Right now, our market share is relatively low in most markets: 8 percent share in France, 6 percent in Spain, 5 percent in Romania, 3 percent in Poland. As a result, our volumes are too low to command attention from suppliers. For suppliers, volume is key, and they prefer exclusivity. Some suppliers shut us out because of this. So growing market share is a priority for us. Our aspiration is to reach a double-digit market share in each market. France, Spain, and Portugal are our priorities right now, but we will pursue market share growth in other countries as well. ●

“To solve for net zero, I expect brand owners to address their Scope 1 and 2 emissions.”

Ole Robert Reitan
CEO, Reitan Retail

> Reitan Retail employs more than 43,000 people and has a network of 3,850 grocery, convenience, and mobility stations across seven countries, including Norway, Denmark, Sweden, Finland, and the Baltic states.

Q: Can you tell our readers a little about the history of your company?

A: My grandfather started it. He opened the first grocery store in Trondheim in 1948, a traditional store with him as the shopkeeper behind the counter. As the owners of the grocery store, my grandparents were at the center of their local community. They knew everyone, from the housewives and the schoolteacher to the priest and the soccer coach. My grandfather worked behind the counter all his life, and I grew up in his store.

Q: How did that store evolve into the company you manage today?

A: That’s where my father comes in. In 1972, he opened his own store. At the time, he and my grandfather had a very intense argument about whether a chain-operated retail model could work. My father envisioned a chain of stores. My grandfather thought that was a terrible idea and argued it would never work. He was convinced that the owner had to be on the shop floor all the time, watching over the customers, the local market, the inventory, the costs—everything.

Q: How did they resolve their disagreement?

A: The pivotal moment was a trip to the United States my father took in the mid-1970s. In America, he discovered the franchise system. McDonald’s and Holiday Inn made a big impression on him. Here was a system that combined the best of both worlds: the accountability of owner–operators and the scale of a chain.

Q: So that was the magic moment?

A: Exactly. It really is a miracle that these two guys with totally different perspectives on life and business found common ground after almost a decade of arguing. The next argument was around the actual concept. So my father took another trip: in 1977, he went to Germany and met the Albrecht brothers, the founders of ALDI. My father was thrilled, and he came home with the plan to create the first Norwegian discount concept. He opened the first outlet in 1979 and called it REMA 600, with an assortment of 600 SKUs. In 1980, he expanded the assortment to 1,000 SKUs, paving the way for the REMA 1000 brand.

Q: And it took off right away?

A: It did, thanks to my father’s focus on low costs, low prices, and high turnover. High turnover enabled him to reduce costs even further, and he passed the savings on to customers through even lower prices that led to even higher sales. It was a strong flywheel.

Q: Let's fast-forward to the present day: what was 2023 like for the Nordic grocery market?

A: Inflation was the main topic. Prices increased by as much as 10 percent. That had a big impact on the market. In early 2023, it was a "wild West" situation in terms of pricing. Competition was fierce, and some prices we saw didn't make sense to me. I just didn't see how some of our competitors could cover their costs with those prices. Later on, it turned out that I was right, and things balanced out toward the end of the year.

Q: How did all this affect REMA 1000?

A: The first half of 2023 was challenging, even for us. But thanks to the price pressure, the market share of discounters grew, so that worked in our favor. As a company, we did well in 2023, especially in Denmark and Norway.

Q: What was your biggest achievement in 2023?

A: That's easy. It was the acquisition of the majority of ALDI's store network in Denmark. There had been similar milestones in the past, such as the takeover of Lidl stores in Norway in 2008, but the fact that the Albrecht brothers had been our idols from the start made this deal very special. So when I sat down with ALDI to sign the agreement in a hotel in Copenhagen, I had to pinch myself to make sure I wasn't dreaming. I'm probably the only person on the planet who has signed such acquisition agreements with both Lidl and ALDI.

Q: How do you expect the grocery market to evolve in the Nordics over the coming years?

A: Because of the challenging macroeconomic situation, shoppers will keep looking for ways to save money. I think there is still room for growth for discounters, especially because they offer such high quality in the Nordics. In the big cities, supermarkets will have a hard time competing with soft discounters, at least for regular shopping trips for 90 percent of the population.

Q: What is your aspiration for 2024?

A: We want to be the market leader in discount grocery, and we are well positioned because we are the most efficient player thanks to simplicity, franchise, and standardization. We have only one grocery brand, REMA 1000, with one concept and one assortment. That creates a slim and efficient value chain all the way from sourcing to distribution. And thanks to the franchise system, we also have a slim administration.

Q: And what is the biggest challenge you are facing in 2024?

A: The biggest challenge is the integration of the stores we have acquired. In a normal year, we recruit 15 to 25 new franchisees. Now, we have to onboard 70 franchisees and 2,200 employees in nine months. With all these new people coming in, it won't be easy to uphold our strong culture. But the ALDI deal has given the entire organization an adrenaline rush, so I'm confident we can pull it off.

Q: What is your perspective on sustainability?

A: Our credo is to offer the highest quality at the lowest price, delivered in a responsible way. We have a commitment to cut our carbon emissions in half by 2030, and that is a demanding task. We work with 10,000 suppliers from 200 countries, so the complexity is considerable. But what makes me optimistic is that I expect brand owners to address Scope 1 and 2 emissions. If everyone follows the same logic, it's going to work.

Q: Do you think retailers will have to change the way they run their business to promote sustainability?

A: No doubt. Until now, you had the operations and an ESG [environmental, social, and governance] department. In the future, you have to put the ESG department in the heart and the mind of every employee. At Reitan, we are glad that we started working on sustainability years ago. Thanks to that head start, we have answers to some of the increasingly difficult questions consumers are asking today.

Q: What are your thoughts on meat and dairy?

A: Everyone is talking about reducing red meat and dairy. But you have to replace it with something. So you have to get creative with new production methods, new tastes, new recipes, new category management solutions, and new formats to entice shoppers to try plant-based alternatives. Food producers and food distributors have to take joint responsibility to make change happen. Right now, we are ahead of the policy makers, but if we fail to deliver, they might create an environment that's even stricter than that of today. ●

Interview

“The shift of sales to online channels is inevitable, so I encourage everyone to embrace it.”

Niklas Östberg
CEO, Delivery Hero

Delivery Hero is a food and grocery delivery company that is active in more than 70 countries.

Q: Delivery Hero is a pioneer in the meal delivery space. What factors, capabilities, and strategic decisions have contributed to its success? What were the turning points, if any?

A: One of the key strengths of Delivery Hero was always our willingness to take risks and innovate. Many of our brands were part of the first wave of online marketplaces that digitalized the phone-based meal ordering process, enabled by an online menu. The next stage of evolution was to take end-to-end ownership of the delivery experience. This was a tough and capital-intensive transition, but it was worth it. Our current model brings a better customer experience and stronger long-term economics, in line with our vision: “Always delivering an amazing experience—fast, easy and to your doorstep.”

We started out with meal delivery and added grocery delivery as a second pillar of our business. In the future, we will expand our offering to additional categories, some of which we are already testing, such as health and beauty. While we acknowledge that each category has its own rules, we are confident we can bring the capabilities that helped us win in meal and grocery delivery to bear in new categories, such as building a large customer base, using data to understand customer demands, and establishing efficient logistics networks for delivery.

Q: How important will grocery delivery be for your business in 2024?

A: We believe that the absolute growth in grocery delivery will be slightly higher in 2024 than it was in 2023, and it will be a growth engine for us as customer adoption of our service keeps growing. Because of this, we focus on improving the customer experience in this area with more choice, more affordability, and higher reliability of delivery.

Q: How do you see the different segments of your market evolving?

A: There is still substantial room for growth in meal delivery. We know this from comparing customer penetration in our most mature markets with penetration in markets we have entered only recently. This is why we will keep investing in meal delivery.

In the grocery space, the future will be omnichannel, where customers shop online—much more than today—and visit physical stores for a different experience. We’re betting on quick commerce because we believe this will become the largest share of online grocery, and we see this in just how fast we’ve grown this business over the past four years and how much our customers love it. What matters to them is choice, so our own stores, Dmarts, now have more than 4,000 items on offer. Many of them are offering more than 6,000. And through our marketplace model, our traditional grocery-retail partners already provide an assortment on our apps that is almost identical to what customers find in stores.

Q: You said that choice is very important for customers. What about prices?

A: We are acutely aware of the importance of affordability for both meal and grocery delivery, and I believe our offerings are priced very attractively, given the convenience we provide. We already offer subscription programs in which customers can benefit from attractive discounts on both items and delivery fees. Also, many restaurants and consumer brands are keen to appear on our platform to achieve visibility, and they are prepared to grant very attractive conditions that we can pass on to our customers in the form of discounts.

Q: What will be the biggest challenges for meal delivery companies in the next three to five years? How will Delivery Hero prepare to tackle these?

A: In the current environment of economic and political uncertainty with high inflation, high interest rates, and geopolitical risks, the key challenge is to find ways to create an affordable customer offering. Meal delivery shouldn't be a luxury. To ensure affordability, we work hard to build an efficient ecosystem through data and technology, and we reinvest the savings this efficiency generates into our customer offering.

Another challenge is the need to keep innovating. Ours is a young and dynamic industry, and we need to make sure we stay at the forefront of how it is changing and adapt our business model accordingly. One question we are focusing on is what delivery technologies will look like in five years. To prepare for any future changes, we conduct pilot tests and engage in partnerships with pioneers.

Q: Reaching profitability is one of the keys to success in your industry, and many players struggle with it. In your view, what are the key levers needed to reach profitability in the delivery space for 2024 and beyond?

A: It may sound paradoxical, but the single biggest driver of profitability in our industry is still growth. Our fixed costs don't really increase, so any sales growth improves the bottom line. As far as variable costs are concerned, customer acquisition and the actual delivery are the biggest line items in the profit and loss statement. We know from the data in our most mature markets that there is still a lot of potential to improve efficiency in both areas. As the business grows, the share of sales allocated to marketing can be reduced. And as increasing volume enables us to weave denser delivery networks, delivery cost goes down.

Q: What role do partnerships, such as with consumer packaged goods manufacturers [CPGs] and retailers, play for Delivery Hero?

A: These partnerships are essential. For CPGs, we can be an important growth channel because of the convenience we offer to customers. We are also an attractive advertising partner for manufacturers, given the trove of data we have on customer interest and demand. And the income we derive from retail media advertising helps us improve profitability and maintain an affordable customer proposition.

"Our aspiration is to be the driving force behind all changes that bring better service, even if that comes at some short-term expense."

We are also committed to good partnerships with retailers. In fact, we already generate more sales through retail partners on our platforms than we do through our own stores, and we also see more growth there going forward. For these partnerships, we focus primarily on using data to help retailers grow and succeed on the platform. In addition, we offer technology solutions for seamless order fulfillment.

Retail partnerships also enhance the offerings in Dmarts—for example, by including the private label brands of our retail partners in our assortment. And some stores operate fully under a partner's brand using our fulfillment capabilities.

Q: What advice would you give to CEOs in traditional retail?

A: The shift of sales to online channels is inevitable, so I encourage everyone to embrace it. We want to help traditional retailers unlock those online channels with our marketplace model and tech capabilities, and I look forward to expanding our relationships with traditional retailers in the years to come.

Q: What is your most important learning from your journey with Delivery Hero?

A: You can never stand still. Delivery Hero is a young company, and we have already shaped and mastered several transformations. So the value of keeping an open mind, upholding an entrepreneurial spirit, and being able to change course quickly cannot be overstated. Our aspiration is to be the driving force behind all changes that bring better service, even if that comes at some short-term expense.

Q: What legacy do you want to leave behind with Delivery Hero?

A: Two things are very important for me. One, that we build a truly successful business, and that can be done only if we attract and retain amazing people. I want to leave behind a company that offers an attractive environment for the best people in the world.

Two, I believe doing business makes sense only if we also look beyond the things that can be measured in euros and cents. I want us to be mindful of the environment and the communities we operate in, mitigating any potential adverse impacts and making a positive contribution. This is why we started investing in sustainability years ago, and I hope that Delivery Hero will be recognized as a company that truly cares. ●

Interview

"This year will be challenging. We expect the increase in costs to outgrow the increase in revenues."

Lionel Souque
CEO, Rewe Group

> Rewe is a retail group that employs nearly 390,000 people, with more than 10,000 outlets in 21 countries.

Q: What was 2023 like for Rewe? What are the things that stand out?

A: It was quite a good year, especially from a sales perspective, although that was partly driven by inflation, not necessarily by volume growth. Penny, our discount business, did especially well in 2023—even better than our supermarkets. This is partly due to the continuing price sensitivity of consumers.

A major milestone in 2023 was that we put an end to printed leaflets. We were the first food retailer in Europe to do that. We used to print more than a billion leaflets every year in Germany alone, and we stopped doing that as of July 1, 2023. Now all our leaflets are digital, and this hasn't damaged our sales. We're saving more than 70,000 tons of paper as well as CO_2 emissions. Of course, we're also saving money that we're reinvesting in other marketing channels, such as radio and TV.

Q: Would you encourage other players to do the same?

A: Many found our decision risky. After all, the leaflet has been by far the most important advertising medium in the retail industry for decades. However, we can only improve in terms of sustainability if we rethink, question the old, and show courage. I am proud that we have been a first mover in order to improve our ecological footprint. At Rewe, we have a tradition of leading the way toward more sustainable practices. In 2016, for example, we were the first major food retailer in Germany to abandon plastic bags.

Q: Looking ahead to 2024, how do you think it will be different from 2023?

A: This year will be challenging. We expect that the increase in costs will outgrow the increase in revenues in 2024, especially regarding personnel costs and rents, because wage agreements and indexed rents reflect inflation with a time delay. At the same time, food inflation is already declining throughout Europe, especially in Eastern Europe. In fact, some countries there have entered a period of deflation. As a result, prices are going down while some sourcing costs remain high. That will be the big challenge for 2024. On the bright side, we expect fewer supply chain disruptions than in the past few years, so our shelves should be well stocked.

Q: What is your expectation for online grocery in 2024 and beyond? Will you keep investing in e-grocery?

A: I still expect that e-grocery will keep growing—but much slower than a lot of people expected. In addition, the low average price per item in Germany makes it hard to turn a profit with e-grocery. However, we do not only focus on our online delivery. That's why we also focus part of our investments on click and collect. We believe that this might be a very economically viable model in the long run. Home delivery is complex and costly; many customers prefer picking up their orders in their own time to waiting at home for the delivery to arrive. In France, pickup is already the biggest segment of the online grocery market. Additionally, we are selling wine and spirits online through two dedicated shops, Weinfreunde and Kölner Weinkeller, because we think these categories are particularly well suited for e-commerce.

Q: What other growth opportunities do you pursue beyond your core business?

A: One of our fastest-growing brands is ZooRoyal, a pet product retailer. That's a booming market. Unlike Rewe, ZooRoyal started online, but we are opening brick-and-mortar stores as well. We have also replaced private label pet food in Rewe stores with ZooRoyal products. Beyond that, we are offering some of our e-commerce, fulfillment, and payment solutions to other companies, and we are investing in food tech. But these are small ventures at this point in terms of sales and profits.

Q: What about retail media?

A: That's a massive market. Some experts say it will be worth €25 billion in 2026, twice what it was in 2023. Most manufacturers spend the lion's share of their retail media budget on e-commerce platforms, but we have a different proposition, driven by digital technology at the point of sale. We already have more than 3,000 screens in our Rewe and Penny stores that can display ads. That's about as close as you can get to the purchase decision, and manufacturers like that. We have a dedicated team that has been developing this kind of technology for several years, and I am convinced that it will keep growing.

Q: Sustainability is a concern for a growing share of consumers. How does Rewe respond to that?

A: It's not only one of our strategic priorities; it's also in our DNA. Rewe started as a buying cooperative almost 100 years ago, so the social aspect of sustainability was there right from the start. More recently, we have added the environmental aspect. In 2008, we switched all our stores in Germany to green energy. A few years ago, well before the energy crisis, we invested in an offshore wind energy plant that will launch in 2025. The green energy we will receive from the wind energy plant reflects nearly 20 percent of Rewe Group's total energy consumption. Last year, our German divisions Rewe and Penny joined the Science Based Targets initiative, and the rest of the group will follow in 2024. Our ambitious goal is to achieve net-zero emissions as a group by 2050. The focus here is not only on drastically reducing emissions in our own activities but also in our supply chains.

Sustainability matters to our customers, and it matters to current and future employees as well. In job interviews, that's one of the first questions many applicants ask: What are you doing for the environment? And investors ask the same question. That's why we put out a sustainability-linked bond last year. In Germany, we work with the Nature and Biodiversity Conservation Union, a nongovernmental organization for nature conservancy, to restore moors, which can absorb high amounts of CO_2. We will have solar panels on up to 1,000 roofs of stores and warehouses to generate power on-site, and we have already built hundreds of stores that conform to green building standards, with a much lower energy footprint than traditional stores. In 2024, we will open the 400th store of this type.

Q: What about agriculture? How do you think your relations with farmers will evolve in the coming years, especially in terms of sustainable practices?

A: We can and want to play an active role in that, which is why we always seek direct dialogue and joint solutions when working together. But in most cases, we don't have direct relations with those farmers. We as food retailers are only a small part of the overall system. Manufacturers are much more powerful in that respect because they directly negotiate with the producers or farmers.

There are only a few cases where we directly work together with farmers. These are often only small-scale arrangements, in which a farm is supplying a handful of nearby stores. These arrangements are typically very beneficial for farmers because there's a specific customer segment prepared to pay higher prices for local produce, meat, and dairy.

To promote sustainable agriculture at scale and reduce Scope 3 emissions of greenhouse gases, we have established a competence center for agriculture that pools the expertise of farmers, scientists, policymakers, and retailers. The ultimate aim is to reduce the climate impact of the entire supply chain, from farm to table.

Q: To wrap things up, let's talk about talent. Are you having trouble filling vacancies?

A: Last year, Rewe Group received more than 700,000 applications for 65,000 jobs in Germany alone, including temporary and part-time positions. That's more than ten applicants per job. What comes after that is decisive. Attracting, developing, and retaining great people is therefore a strategic priority for us. In retail, great people are crucial. Of course, there are shortages in certain areas, such as IT and data analytics, where many employers are competing for the same pool of people. The good news is that we have a lot of exciting opportunities for these people because of the high potential for automation and data leverage in retail.

Once we hire someone, we do everything we can to retain them. We have very little fluctuation in central and managerial functions. In stores, it's a bit higher. To improve retention, we talk to those who leave. We can see that topics such as the relationship to the direct manager play an important role when deciding to leave the company. This is something we take very seriously. We have set up an awareness program for managers at all levels, with coaching and dedicated training modules. Retail can be a very top-down industry, but we want Rewe to be different. We want it to be a place of respect, appreciation, and empowerment. ●


© Getty Images

Acknowledgments

Lead operational contributors

Sina Sawall

Engagement manager and operational lead, Amsterdam

Maria Siffringer

Retail capabilities and insights specialist, Munich

Marek Karabon

Senior knowledge expert, Wroclaw

Nadya Snezhkova

Consumer and shopper insights expert, London

Bas Vaandrager

Consultant, Amsterdam

The authors wish to thank the following people for their contributions to this report:

We would like to thank industry executives who generously shared their perspectives in interviews:

Ole Robert Reitan, Lionel Souque, Niklas Östberg, and Yves Claude. We also want to extend our gratitude to the members of the EuroCommerce, Europanel, and McKinsey communities for their contributions to this research and their participation in our State of Grocery Retail CEO Survey. The EuroCommerce team played an instrumental role in creating this report, in particular by contributing to all articles and by driving outreach to grocery CEOs.

The authors wish to acknowledge the following McKinsey colleagues for their contributions to the report:

Magdalena Balcerzak, Anita Balchandani, Thomas Bauer, Sina Berlet, Simon Bills, Marco Blöchlinger, Pierre de la Boulaye, Gemma D'Auria, Pavlos Exarchos, Jéremie Ghandour, Cornelius Grupen, Laurens Herfs, Tobias Holmström, Holger Hürtgen, Natalie Kallay, Craig Macdonald, Kamil Marcinkiewicz, Ignacio Marcos, Kathleen Martens, Maria Miralles, Marcin Nowakowski, Thomas von Obernitz, Daniel Rexhausen, Roger Roberts, Frank Sänger, Natalie Slotta, Oleg Sokolov, Alexandra Storakers, Alex Sukharevsky, Emilia Szyszko, Alexander Thiel, and Francois Videlaine.

This report would also not have been possible without the support of:

Elen Guedes and Daniela Haiduc of the EuroCommerce team, as well as Isabelle Senand of FCD and Hélène Hotellier of FEDERDISTRIBUZIONE. We also thank LEFF for editorial services on this report.

Contacts

For questions on the report or further discussions, please contact the following contributors:

First point of contact:

Alexandre Kleis
Associate partner, Zurich
Alexandre_Kleis@McKinsey.com

Main contributors:

EuroCommerce experts

Christel Delberghe
Director general
delberghe@eurocommerce.eu

Anton Delbarre
Chief economist
delbarre@eurocommerce.eu

McKinsey experts

Daniel Läubli
Senior partner, Zurich
Daniel_Laeubli@McKinsey.com

Franck Laizet
Senior partner, Zurich
Franck_Laizet@McKinsey.com

Rickard Vallöf
Partner, Gothenburg
Rickard_Vallof@McKinsey.com

Europanel expert

Dirk Vissers
Consumer insights director
dirk.vissers@europanel.com

For other consumer and retail related inquiries, please reach out to the local team:

Alexandra Storåkers
Partner, Stockholm
Alexandra_Storakers@McKinsey.com

Anita Balchandani
Senior partner, London
Anita_Balchandani@McKinsey.com

Frank Sänger
Senior partner, Cologne
Frank_Saenger@McKinsey.com

Kathleen Martens
Partner, Brussels
Kathleen_Martens@McKinsey.com

Alexander Thiel
Partner, Zurich
Alexander_Thiel@McKinsey.com

Pierre de la Boulaye
Partner, Paris
Pierre_de_la_Boulaye@McKinsey.com

Gemma D’Auria
Senior partner, Milan
Gemma_DAuria@McKinsey.com

Maria Miralles
Partner, Madrid
Maria_Miralles@McKinsey.com

McKinsey & Company

EuroCommerce
Retail & Wholesale

April 2024
McKinsey.com