Executive summary

It's a momentous time for the UK food and grocery sector. New technology, increased consumer choice, fiercer competition and game-changing industry consolidation have all led to a big shift in power between wholesalers, retailers and consumers.

Disruption is now the new normal across the sector. To become more profitable and fit for the digital age, retailers have had to keep up with customer demands and expectations. This has led to innovative strategic partnerships that no one thought possible just a few years ago.

Technological innovation is driving increased consumer choice.

The union of the UK's largest retailer and wholesaler with Tesco's £3.7bn acquisition of Booker started the ball rolling in 2017. There's also a potential £7.2bn merger between Sainsbury's and Asda up for approval from the CMA (Competition and Market Authority) though the CMA has confirmed it requires further investigation. Add to the mix Amazon's foray into the online food market, plus the rise of the discounters and it's not surprising to see retailers taking measures to adapt to these new market forces. At the time of writing, the latest of these measures is Tesco's launch of its new discount fascia, Jack's. As retailers and wholesalers continue to form closer partnerships, it's likely that consolidation, and the formation of strategic partnerships, will continue to ripple through the sector, including down the supply chain.

Technological innovation is also driving increased consumer choice as takeaway and online options change the way people buy and consume food. Environmental considerations are also important as shoppers look to shop closer to home, buy produce from local suppliers and be more ethical with what they put in their basket. They're also looking for a wider, more pleasing shopping experience.

Playing out against the backdrop of these developments is the UK's future relationship with the EU. How will British businesses trade with the rest of the world and at what cost? Companies need to be aware of how the challenges and opportunities for each scenario will impact on their business and put contingency plans in place.

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could be imposed on food and drink imports from the EU

In this report, we've included an overview of the food and grocery sector since the turn of the century in Part 1 and looked at current trends in Part 2. Part 3 focuses on the different Brexit outcomes and what this is likely to mean for the industry when it comes to costs and tariffs over the five-year post-Brexit period.

For example, a hard or no-deal Brexit could mean:

- New tariffs* of £9.3bn per year imposed on food and drink imports from the EU
- A new average tariff of 27% for food and drink supply chains compared to a 3–4% non-food average tariff
- Every consignment of goods from the EU will require a customs declaration which starts at a minimum of £50
- The average cost of complying with SPS (Sanitary and Phytosanitary Rules) on imported food and drink from the EU could be equivalent to an additional 8% duty.

No-one has a crystal ball when it comes to the future. But looking at the history of the food and grocery sector, it's likely that it will continue to rise to the challenges of this fast-evolving landscape.

Ian Gilmartin
Head of Retail and Wholesale
Barclays Corporate Banking

*For details of individual product tariffs, and how this might affect your business or subsector, please see the appendices at the end of the report.

Checking out the shop landscape: Trends to watch

To help the UK food and grocery industry, Barclays conducted a thorough analysis of the changing consumer landscape from both a buyer's and seller's point of view.

Consumers are shopping more often, but buying less – visits to the store went up by 14.3% from 2013 to 2018, according to data from Nielsen Homescan. This could be an opportunity for retailers to attract more casual shoppers.

Demand for lower prices has led to less brand loyalty. As a result, the Big Four market share declined to 68% in 2018 from its peak of just over 77% in 2011.[1]

Takeaway food platforms are taking off. The market has grown by 34% since 2009, almost twice the rate of the retail food sector over this period.

Tighter margins and tougher competition are leading to some of the bigger brands joining forces. This includes Tesco's £3.7bn acquisition of Booker announced in 2017, and the Co-op's £143m takeover of NISA a year later. The industry is also getting creative with partnerships, looking both abroad – for example, Tesco and Carrefour's 2018 partnership – and into new sectors. And Amazon has entered the supermarket arena with its acquisition of Whole Foods in the US.

In general, the online food market has increased by 12% on average each year since 2010, and online food sales are expected to rise by 48% between 2017 and 2022.

Shoppers expect retailers to do better, and be better. Convenience and good value is one way to attract customers, but a delightful experience – with extras like free coffee and sushi bars – can have a big impact. Customers also want to shop at places that care about the things they do, such as healthy living and sustainability.

[1]Kantar World Panel.