

# WILL 2016 SEE A STABLE GROCERY MARKET?



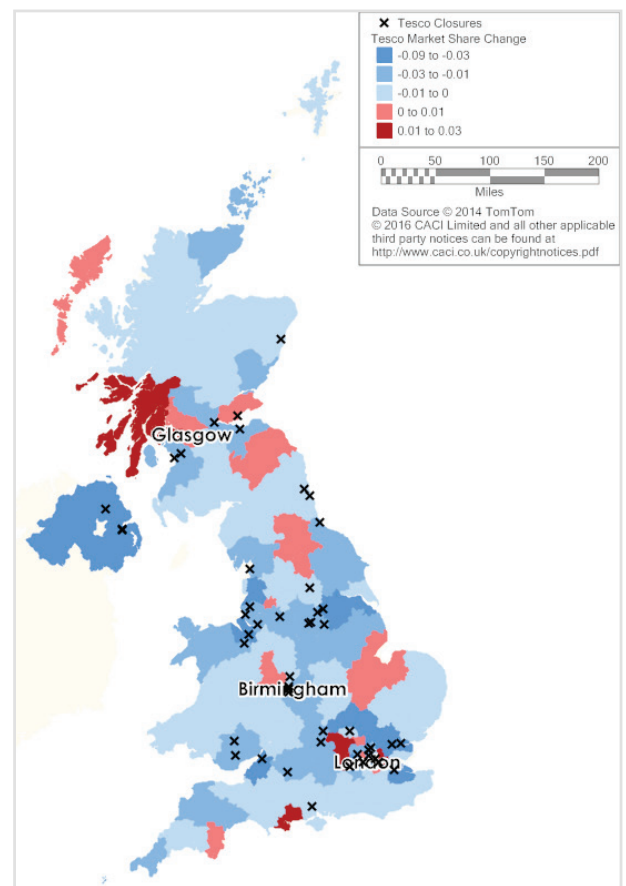
Throughout 2015, updates from the UK grocery industry told a familiar story: a grocery market shrinking under the weight of a debilitating price war, stagnant or declining like for likes from the 'Big 4' and the continued double-digit growth of the discounters, Aldi and Lidl. However, the flat or positive results released by Tesco, Sainsbury's and Morrisons for the 2015 Christmas period have surpassed most analysts' expectations and surprised many commentators on the sector. Whilst 2015 was one of the most turbulent years in the past decade for the grocery sector, are these results a sign that 2016 will be the year the UK grocery market finally stabilises?

## GROCERY IN 2015

Arguably, the retailer happiest to see the back of 2015 was Tesco. The highest losses ever recorded by a British retailer, mass store closures and falling like for likes culminated in significant losses in market share for Tesco. According to Kantar, Tesco's market share dropped from 29.1% at the start of 2015 to 28.3% in January 2016, the greatest loss of any of the grocers. A look at Tesco's market share change during 2015 epitomises the struggles of Britain's largest retailer, with the swathes of blue highlighting market share losses according to CACI's grocery catchment model, ProVision.

Whilst other members of the Big 4 have also felt the pinch from their deep price cuts and the discounters' continued expansion, the combination of falling like for likes and store closures has resulted in the number of postcode areas dominated by Tesco falling from 69 in 2014 to 62 in 2015 (and down from 88 in 2008).

*Fig1: Tesco's market share change based on ProVision 2014 vs 2015*



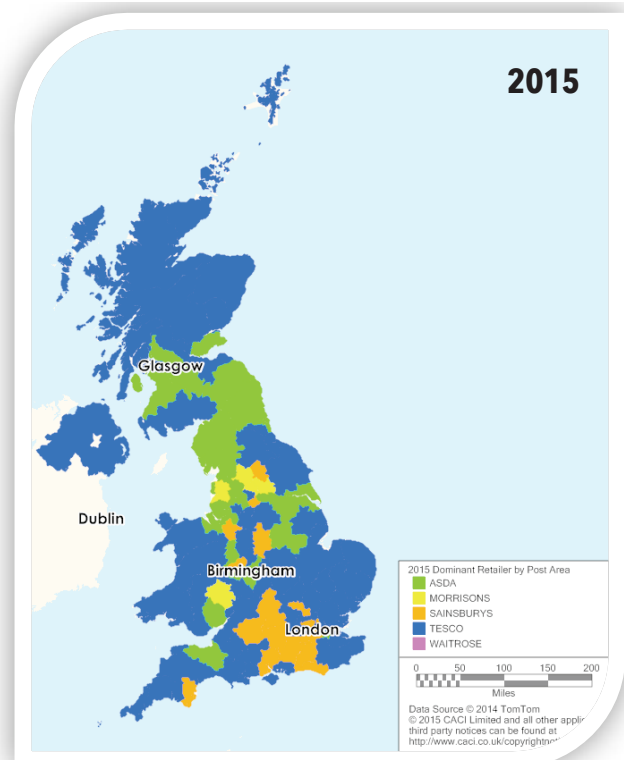
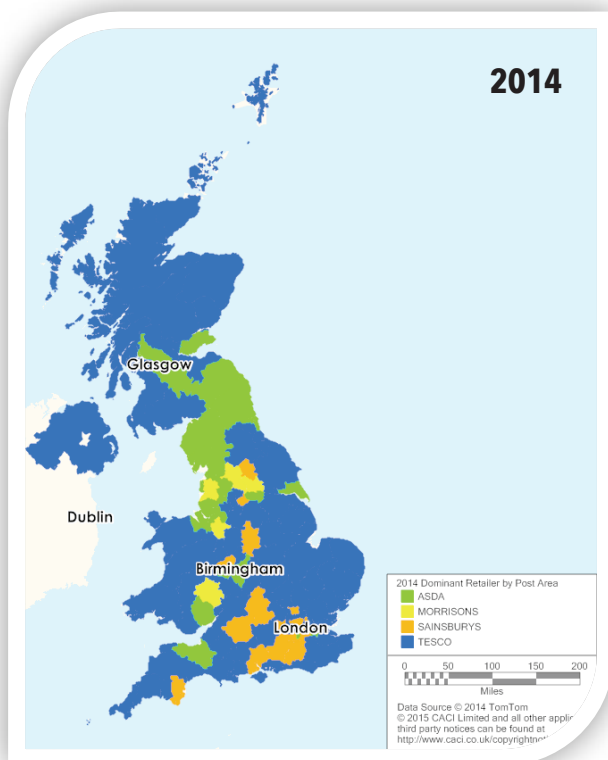


Fig2: Dominant grocer by postcode area (ProVision)

Undoubtedly, the big winners in 2015 were the discounters. With Aldi and Lidl making up the bulk of new store openings in the UK, and both retailers continuing to grow strongly in terms of like for likes, it is unsurprising to see that the combined share of the market going to the discounters grew in 120 (out of 121) postcode areas across the UK during 2015, as shown below.

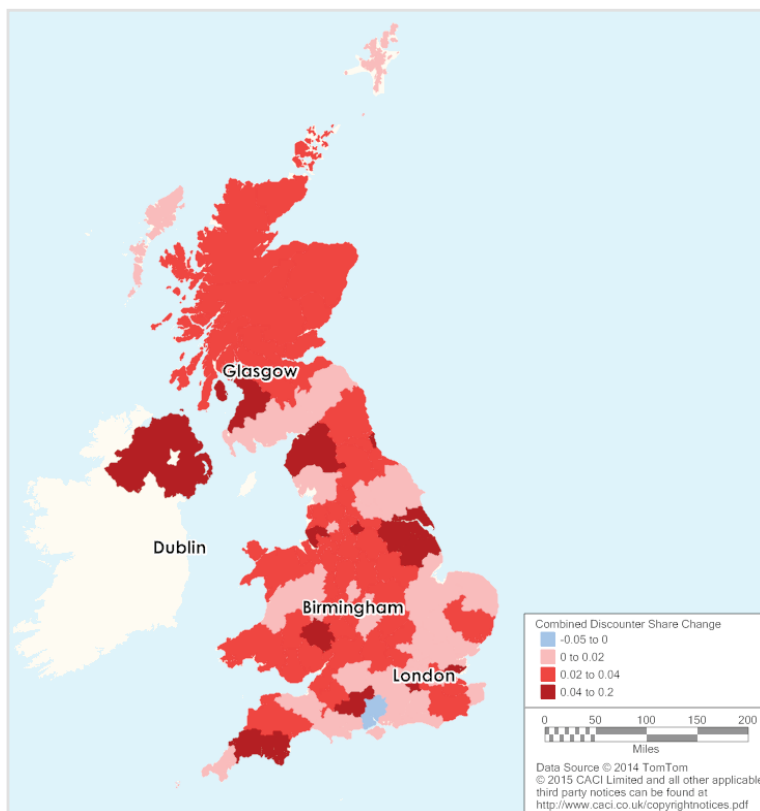
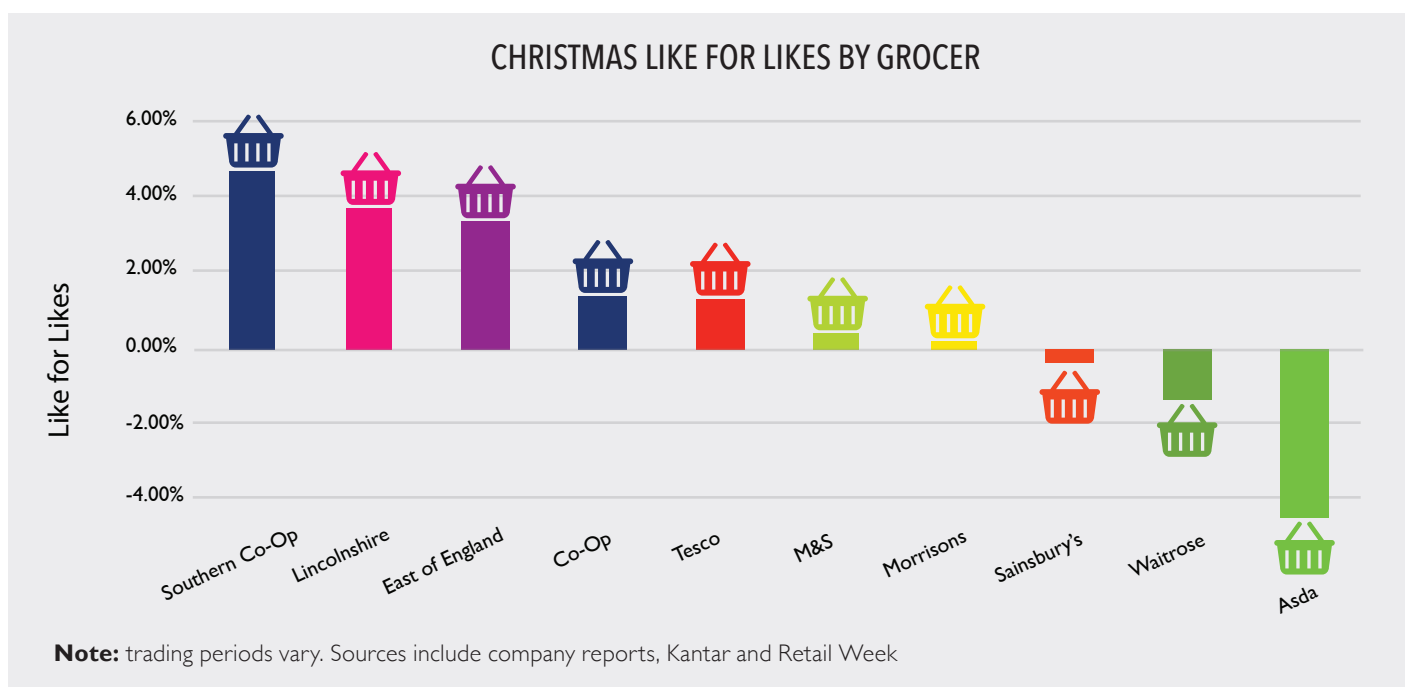


Fig3: Discounter change in market share: 2014 vs 2015 (ProVision)

## 'Twas the Season to Be Jolly

Whilst many observers were predicting more January blues for mainstream grocers, Christmas 2015 appears to have delivered a timely boost to the likes of Tesco, Morrisons and Sainsbury's. Whilst Sainsbury's built on some encouraging results in the latter half of 2015 to produce like for like results of -0.4% over Q3, Morrisons also fought back to record their first rise in sales for over a year, with like for like gains of 0.2% in the 9 weeks to 3rd January. By far the biggest surprise was the 1.3% like for like gains announced by Tesco, which far surpassed analysts' expectations. In some respects, this can be seen as justification for the store rationalisation efforts made by both Morrisons and Tesco in 2015. However, there is a need to be cautious, as the inconsistencies in reporting periods make it difficult to ascertain whether this is a sustained recovery or a short-term Christmas boost. This is particularly the case for Morrisons and Tesco, whose like for likes are negative when looking at the whole quarter, but in a market struggling with deflation this is undeniably a step forward for these grocers.



Whilst the majority of media coverage has focused on the likes of Tesco, Sainsbury's and Morrisons, there have been some other interesting results released over Christmas. Despite the progress made by other members of the Big 4, reports indicate that Asda has not enjoyed such a successful quarter, with Retail Week reporting declining like for likes of 4.5% during Q3. Clearly, finding ways to reimagine space in Asda's hypermarkets will be a priority for 2016. Further under the radar was Waitrose's announcement of a 1.4% drop in like for likes for the 6 weeks up to January 2nd, highlighting how even Britain's most premium grocer is not immune to the price wars being waged.

To finish on a more positive note, there was good news for the Co-op over Christmas. Over the past few years both group and regional co-operatives have made significant efforts to rebalance their estates and refocus on its core growth markets and they have reaped the rewards this Christmas, with Kantar reporting an increase in market share and sales for the Co-op. Impressively, regional Co-ops Southern, Lincolnshire and East of England all reported strong positive like for likes over Christmas, highlighting the continued growth potential within the convenience sector when stores understand shoppers' mission and tailor their offer towards their local demographics.



**MATT SOFFAIR**  
SENIOR CONSULTANT

EMAIL: [MSOFFAIR@CACI.CO.UK](mailto:MSOFFAIR@CACI.CO.UK)