

GROCERY INFLATION – Your strategy to tackle rising food prices

September 2022

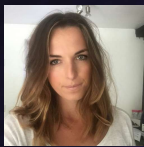
Just when retailers thought they had weathered the worst of the turbulent trading climate following the coronavirus pandemic, the grocery sector has been hit by another perfect storm of challenges.

Soaring energy costs, shortages of goods and materials, Brexit red tape, supply chain snarl-ups and the fallout from Covid-19 and the war in Ukraine have combined to disrupt the UK economy in ways that will define the rest of this year and much of 2023. Households have been hit by a major cost-of-living crisis as inflation rockets to record highs and consumer confidence slumps to record lows.

We know from speaking to you on an almost daily basis that navigating this challenging environment — making difficult decisions around costs and price increases at the shelf edge — is the biggest headache grocery retailers are facing right now. Businesses are having to take tough calls every day that maintain relationships with key suppliers, while keeping a keen eye on value propositions. Retailers are working relentlessly to make the right trade-offs and keep a lid on rampant food price inflation.

In this report, our data and analysis cuts out the noise, hysteria and alarmist headlines often heard in the mainstream media to paint a clear picture of food price inflation across key categories; explore which retailers are employing the best strategies and which categories are most impacted; and offer our blueprint for success in an ever-changing market.

Ultimately, it is a combination dynamic and versatile own-label ranges, simple but attractive loyalty propositions, and marketing campaigns focused on health and value for money that will allow retailers and their customers alike to weather the storm.



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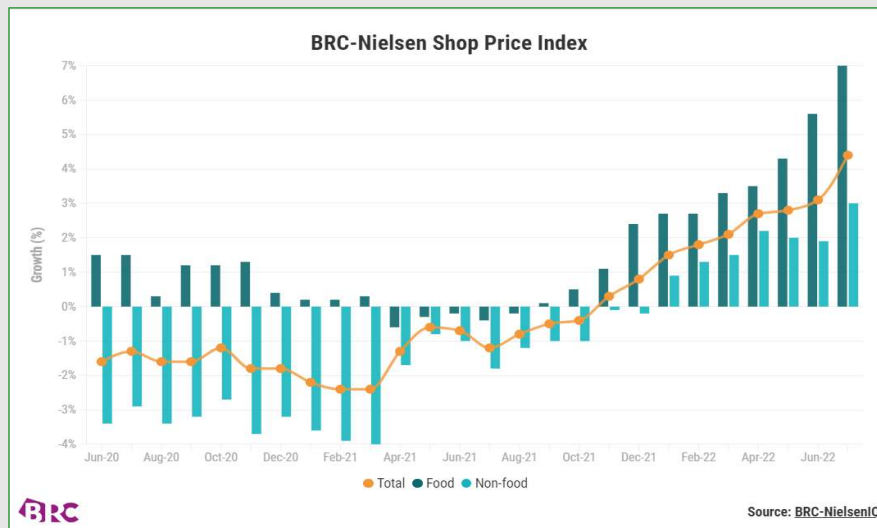
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ECONOMIC BACKDROP



Economic challenges and inflation major concerns

- The second half of this year and much of 2023 will be defined by external factors disrupting the UK economy
- Households have been hit by a major cost-of-living crisis driven by rising inflation; wages are not keeping pace
- Businesses face crippling increases in overheads (related to transportation, fuel, staffing, manufacturing, Brexit)
- Consumers cannot afford to pay more, giving retailers difficult choices and a need to partially absorb costs



Prices rising since September 2021, with food outpacing non-food

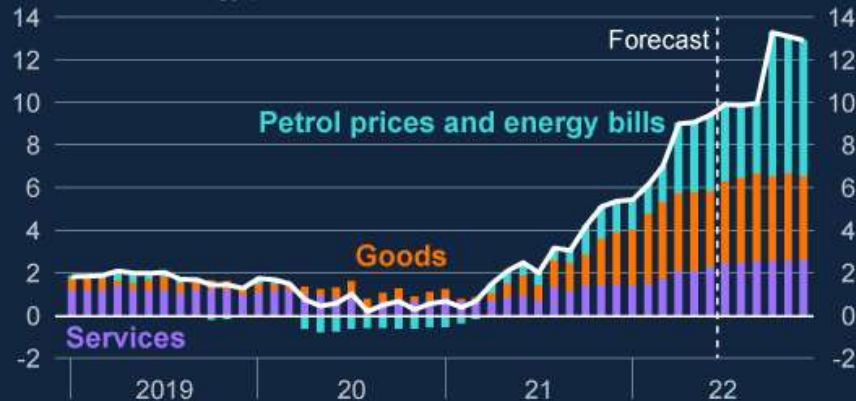


UK consumer confidence has hit an all-time low (lower than lockdown and the 2009 recession)

UK to enter recession by Q4 into 2023 with inflation at 40-year high

Higher energy prices are expected to push inflation to 13% later this year

Annual inflation rate (% change) and the contribution of goods, services and energy prices



Source: Bank of England, August 2022

The Bank of England's monetary policy committee predicts inflation to reach 13% before the end of 2022 and expects the UK to enter recession during the fourth quarter.

This will significantly increase pressure on retail in the golden quarter and throughout next year.

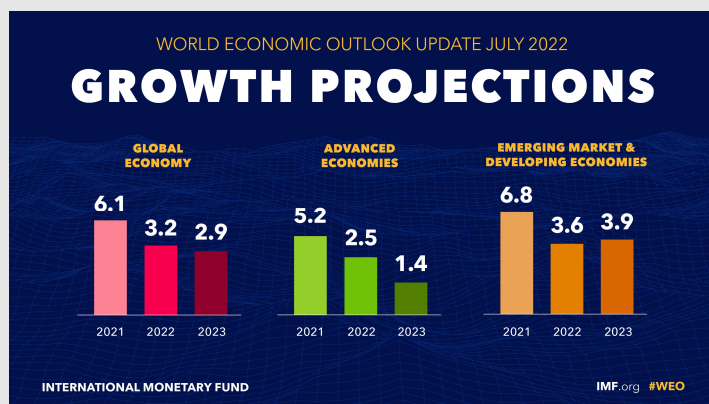
Real household post-tax income is projected to fall sharply in 2022 and 2023, while consumption growth turns negative.

The Bank of England's latest forecast has tough implications for retail:

Retail will be competing with other sectors for spend, at a time when consumers will be very sensitive to price.

Christmas will come at the worst possible time as inflation enters double-digits, consumer spend declines and will be spread over a longer period.

IMF outlook 'gloomy and uncertain', with UK weakest of advanced economies



(real GDP, annual percent change)	2021	2022	2023
World Output	6.1	3.2	2.9
Advanced Economies	5.2	2.5	1.4
United States	5.7	2.3	1.0
Euro Area	5.4	2.6	1.2
Germany	2.9	1.2	0.8
France	6.8	2.3	1.0
Italy	6.6	3.0	0.7
Spain	5.1	4.0	2.0
Japan	1.7	1.7	1.7
United Kingdom	7.4	3.2	0.5
Canada	4.5	3.4	1.8
Other Advanced Economies	5.1	2.9	2.7

The International Monetary Fund expects the global economy to face an 'increasingly gloomy and uncertain outlook' in the coming year.

Its growth projections for 2023 anticipate higher-than-expected inflation across the US and Europe and global output impacted by the ongoing slowdown in China.

Of the advanced nations, the UK's growth outlook for 2023 is the weakest at just 0.5%.

Rising food and energy prices could cause widespread food insecurity and social unrest, according to the IMF.

As price becomes a major battleground, retailers will need to be agile in adapting to competition and changing shopper habits.

Source: International Monetary Fund, July 2022

Consumers are reining in spend as cost of living bites

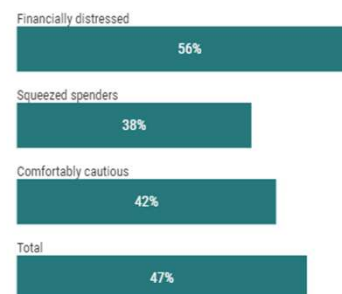
The top five sectors where households plan to cut spending

Rank	Sector	% of all households cutting back	% of household spend being cut in category	Total cutbacks
1	Grocery	51%	-12.9%	£13.9bn
2	Fashion	47%	-10.6%	£3.7bn
3	Hospitality and leisure	44%	-9.3%	£8.5bn
4	Media subscriptions	35%	-6.1%	£1.6bn
5	Holidays	33%	-7.8%	£5.6bn

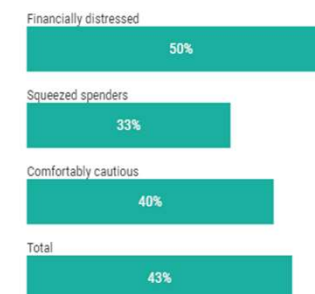
Research from Retail Economics and accounting firm Grant Thornton predicts that **£24.9bn will be wiped from discretionary spending in the UK economy during the financial year to April 2023 – a drop of £887 per annum for the average British household.**

How households plan to cut spending

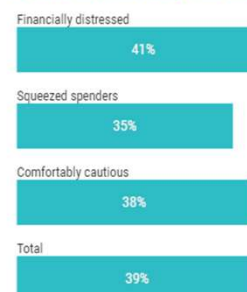
I plan to switch to cheaper brands or retailers



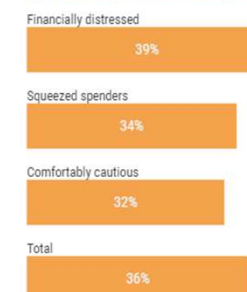
I plan to go shopping or spend on non-essentials less often



I will do more research and price comparison

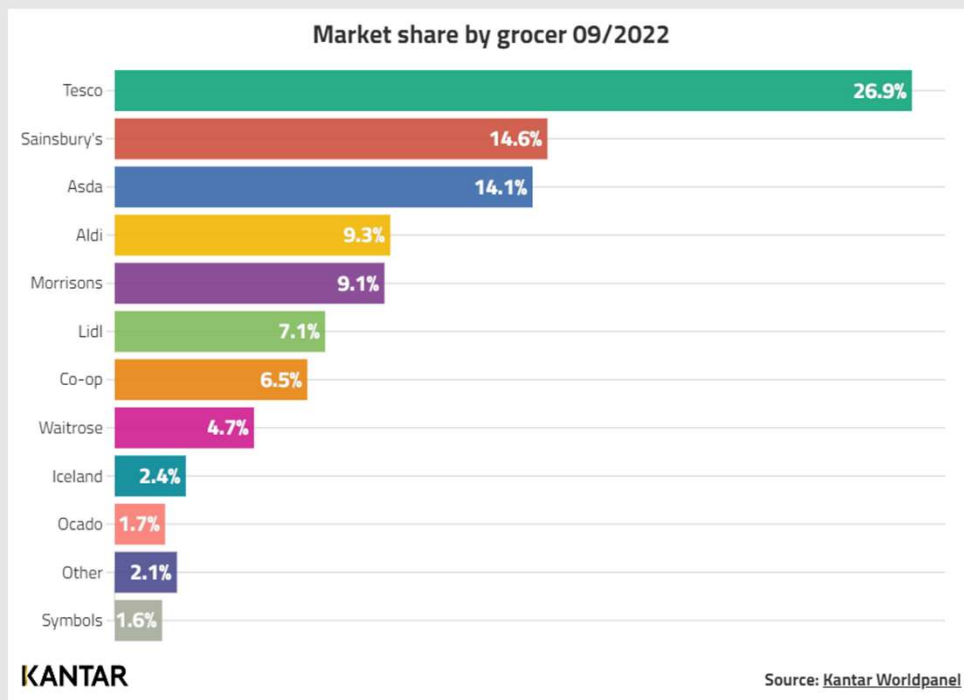


I plan to use loyalty schemes and voucher codes more often

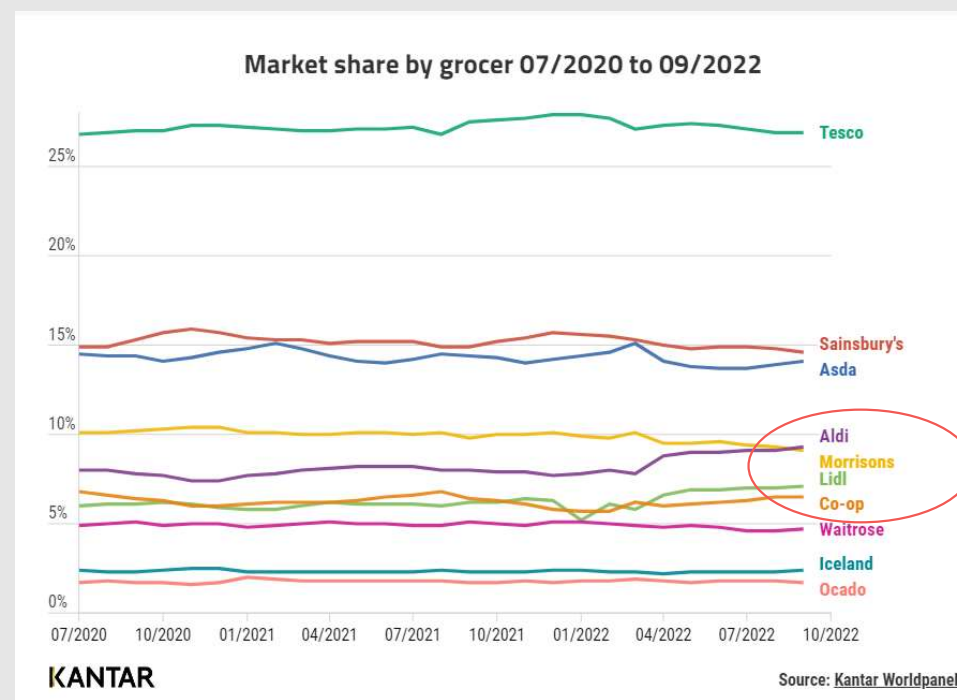


Big four era ends as discounters leapfrog established grocers

September 2022



Last two years



Brand manufacturer price increases are piling pressure on retailers



Unilever sales grew by 8.1% in H1, driven by a 9.8% increase in price. The company said "Price has sequentially stepped up over the past two quarters, reaching 11.2% in the second quarter, which had, as expected, some negative impact on volume."



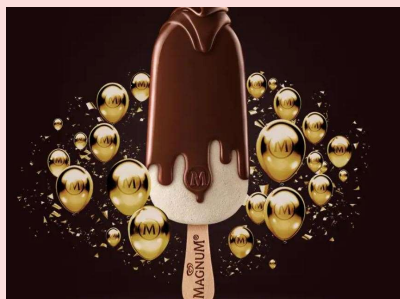
P&G: Pricing added 5% to growth in Q3 2022.

P&G is focused on communicating cost and environmental benefits of its products to consumers. Recent innovations include formula changes to Tide and Ariel focused on cold water washing

Company	Organic sales growth*	Volume growth	Pricing/Mix impact on sales
Unilever	+8.8%	-2.1%	+11.2%
P&G	+7%	-1%	+8%
Mondelez	+13.1%	+5.1%	+8%
Danone	+7.7%	+0.9%	+6.8%
Reckitt Benckiser	-2.5%	-11.1%	+8.6%
Kellogg's	+12.2%	-1.5%	+11.8%
Colgate-Palmolive	+9.9%	+0.5%	+8.5%
Nestle	+8.1%	+1.7%	+6.5%
Kimberly-Clark	+9%	-1%	+9%
Kraft Heinz	+10.1%	-2.3%	+12.4%

**Data for latest reported quarter, August 2022*

Shrinkflation cutting costs but angering consumers



In July, **Unilever** made the size of its Magnum multipacks smaller, swapping 4x110ml sticks for 4x100ml.

This pack size changed at Asda in February 2022, but the price increased from £3.20 to £3.25

Confectionery is a much-criticised category for shrinkflation. **Mondelez** shrunk the size of its 200g Dairy Milk sharing bar to 180g in March; the new bar was sold for £2 (up from £1.60) at Tesco in April. **Mars** cut the size of its Maltesers sharing packs from 180g to 175g.



Tesco is among the supermarkets that have been criticised for reducing the size of its ready meals. In June 2022, its own label BBQ chicken and jasmine rice reduced in size from 450g to 400g and increased in price by 5p.

Great but smaller than before.

★★★★☆ 4 stars

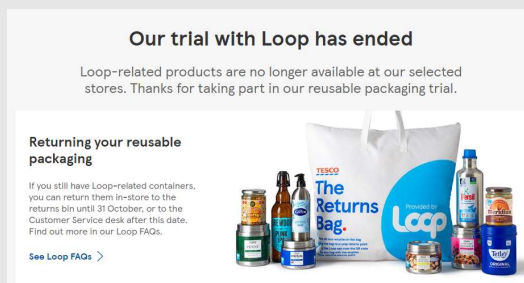
A Tesco Customer 30th May 2022

We enjoy this, but hate that Tesco have increased the price while also reducing the size from 450g to 400g. It's a nice curry though and goes well with a mini naan bread.

Upfield spreads cut the size of its Flora, Bertolli and I Can't Believe It's Not Butter packs in July 2022, blaming "significant commodity cost increases" for the move.



Tough choices by retailers to defend margins and share



Tesco is investing in price, as the impact of inflation already caused UK like-for-like sales to slip in Q1. It has invested in Better Baskets, but ended its 10-store Loop sustainability trial. Low take-up was partly to blame, but also a change in priorities as pricing became a more urgent focus.



Iceland reintroduced palm oil to its products in June, "with regret" as the impact of the war in Ukraine caused a huge surge in sunflower oil prices.

The company also no longer expects to meet its target to become plastic-free by 2023, owing to the "unforeseen crises" it is working through.



Amazon has seen shipping container costs double in a year and rising fuel costs are impacting its business.

In July, it increased Amazon Prime membership fees and earlier in the year added a fuel and inflation surcharge of 4.3% for Amazon Marketplace sellers in the UK.

RETAILER STRATEGIES AND SWOTs



Tesco: Winning formula leveraging Aldi Price Match and Clubcard

- Tesco is working hard to improve value perception and retain loyalty
- Aldi Price Match (650 lines) features in 99% of weekly shops in large stores
- Low Everyday Prices range relaunched (1,600 lines)
- Clubcard Prices now account for 100% of promotions (available exclusively to Tesco's 20 million Clubcard members/9 million active Clubcard app users)
- Clubcard Prices rolled out to all stores including Tesco Express, Ireland, CEE
- In Q1 (to May 28, 2022) distribution of Aldi Price Match and Low Everyday Prices products were up 19% year on year
- Tesco reports 23 consecutive periods of net switching gains, with increased market share on both a value and volume basis



Tesco price matches more lines than its competitors but UK customers already reining in spend

Tesco is on the right track with its strategy, which has allowed it to hold on to market leadership and grow market share over the past two years

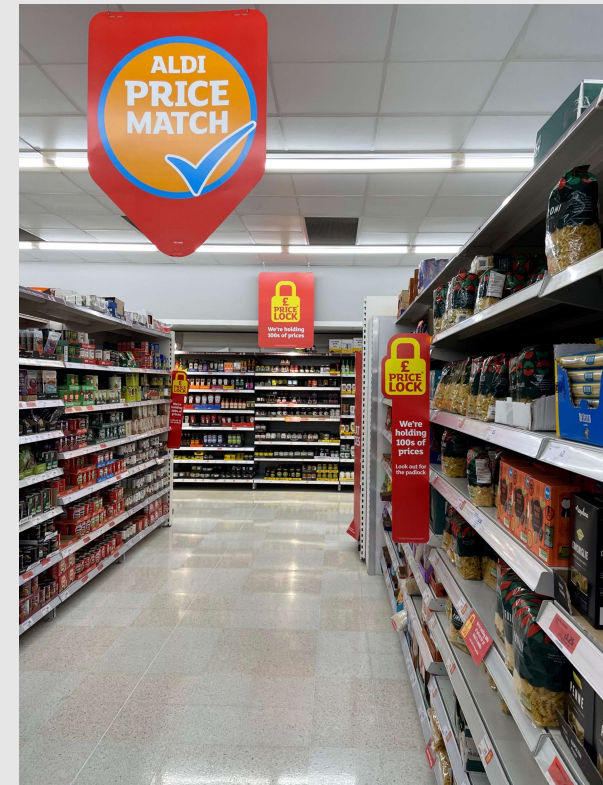
Nonetheless, it reported a concerning change in shopper behaviour in the three months to May 28, 2022 as Q1 like-for-like sales slipped in the UK; market share also edged down in August

Pressure is being transferred to suppliers to shoulder some of the inflationary burden, which caused a boycott in June 2022 (now resolved) with Kraft Heinz

<p>Strengths</p> <ul style="list-style-type: none"> -Aldi price match (650 lines) - Clubcard ecosystem (20 million households) - All promotions on Clubcard Prices - Clubcard Prices rolled out to Tesco Express -UK market share almost double that of closest competitor 	<p>Weaknesses</p> <ul style="list-style-type: none"> - Pressure on suppliers generating conflict/gaps on shelves eg: Kraft Heinz, Mars Pet - Changing shopper behaviour already noted - Q1 like for likes slipped 1.5% in the UK
<p>Opportunities</p> <ul style="list-style-type: none"> - Continuing to build market leadership as other big-four grocers play catch-up - Tesco has a strong balance sheet and is well positioned to invest in price for the long term - New self-serve media platform for suppliers could generate additional funds to invest in price 	<p>Threats</p> <ul style="list-style-type: none"> - Pressure on suppliers could lead to more disputes/ removal of products from shelves -Aldi Price Match impacting margins - Changing shopper behaviour noted in Q1 - how much more could customers rein in spend? - Amazon introduction of Tesco Clubcard Price Match (although this is also a reinforcement that Tesco is on the right track)

Sainsbury's investing £500m over two years on price

- Food First strategy is focused on grocery
- Investing over £500m over the two years to March 2023 to maintain low prices, funded by cost savings
- £65m of this investment introduced in September 2022, to ease rising cost of living pressure for customers (£60m food, £5m non-food)
- Aldi Price Match campaign on more than 240 products (compared with 650 at Tesco)
- Price Lock activity - fixed the price of up to 2,000 items during the year for at least eight weeks, claims this is the biggest price lock among the big four; added 20% more own-brand lines in September
- Added value aisles and stronger promotional signage in-store
- My Nectar Prices - personalised prices recently introduced for over 1 million regular customers (Nectar digital registrations are now at 9.6 million)
- Donated more than 2.5 million meals through food donation partnership with Neighbourly and extended to Sainsbury's convenience stores



Sainsbury's market share slipping, despite Price Lock and Aldi Price Match

Sainsbury's market share has edged down in recent months as the discounters gain ground

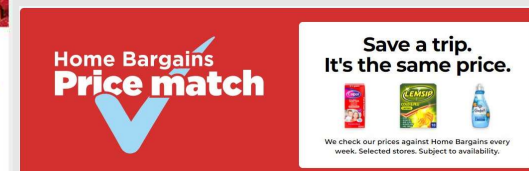
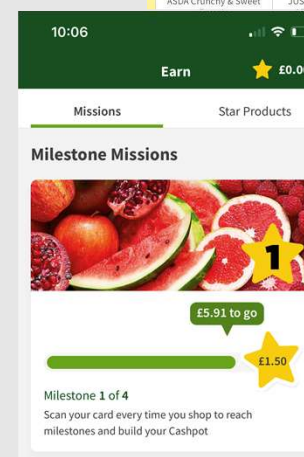
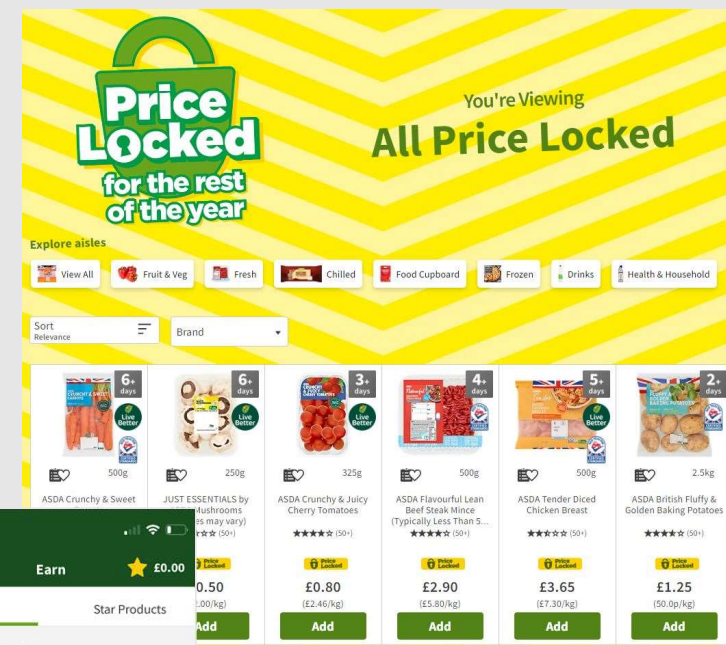
Aldi Price Match scheme applies to 400 fewer items than Tesco

My Nectar Prices rolling out gradually to ecosystem

<p>Strengths</p> <ul style="list-style-type: none"> - Aldi Price Match (>240 products) - Nectar ecosystem - Bias to a more affluent sociodemographic - Private label strategy - almost 2,000 SKUs added last year and Price Lock on own brands 	<p>Weaknesses</p> <ul style="list-style-type: none"> - Price matching fewer products than Tesco - Overall position in the market lacks a USP - Quality no longer a key differentiator - Non-food categories in decline
<p>Opportunities</p> <ul style="list-style-type: none"> - Rollout of My Nectar Prices to entire ecosystem - Additional Nectar loyalty benefits - Increased product innovation eg: Taste the Difference - Chief transformation officer newly appointed in January - Could leverage the opportunity to bring all of its brands – Argos, Habitat, Tu – closer together in stores and digitally to drive sales across the wider group 	<p>Threats</p> <ul style="list-style-type: none"> - Margin impact through investment in lower pricing - Risk of customers trading down/reducing basket size as price increases bite - Argos declines a drain on finances - Less investment headroom on price (eg: compared with Tesco)

Asda ploughs £90m into Just Essentials and 'Dropped & Locked'

- Invested £90m in Just Essentials and 'Dropped & Locked' pricing initiatives
- Just Essentials range introduced in May 2022, comprising 300 products (twice the range of the Smart Price items it replaced)
- 'Dropped & Locked' prices on over 100 basket staples until end of the year
- Home Bargains price match on more than 100 items across household essentials, toiletries, health and beauty
- Asda Rewards loyalty app set to roll out nationwide following a successful trial, allowing customers to build up a 'cashpot'
- Cafes tackling hunger, offering under-16s a hot or cold meal for just £1 during the summer holidays 2022



Asda needs strong leadership to drive strategy

Asda made market share gains in September on the strength of its latest low-price initiatives

Like-for-like sales declines narrowed to 1.9% in Q2 after a difficult first quarter (-9.2%)

Along with other challenges, Asda has faced a recent exodus of experienced senior managers

Its nascent loyalty programme could give it an edge over the discounters in time

<p>Strengths</p> <ul style="list-style-type: none"> -Everyday low price strategy/rollbacks are in brand DNA -Just Essentials range - 300 products by end of August -‘Dropped & Locked’ pricing on 100 basket staples until end of 2022 (longer than competitor price locks) -Home Bargains price match on >100 household and health and beauty essentials -Single pricing strategy across its entire store network 	<p>Weaknesses</p> <ul style="list-style-type: none"> -Fluctuating market share – Asda’s market share has fallen by 0.4% in the past year, eroded by the discounters -9.2% fall in Q1 like-for-like sales, biggest drop among big four grocers although narrowed to 1.9% in Q2 -Customer demographic - Asda’s income tracker noted household disposable income fell to an average of £205 per week, reinforcing challenges for its own customers -Nascent loyalty scheme/ecosystem
<p>Opportunities</p> <ul style="list-style-type: none"> -Loyalty programme could give an edge over the discounters once fully rolled out and established -Forecourts and EG format innovation -Asda Income Tracker monitors shoppers’ ability to spend; data could help Asda to remain agile/predict trends 	<p>Threats</p> <ul style="list-style-type: none"> -Leadership gap remains a concern following departure of former CEO Roger Burnley and a string of senior executives

Morrisons' strategy of price cuts and multi-save promotions

- Price Cuts campaign launched in April - reduced prices on more than 500 products, including ambient, fresh and frozen essentials. Average price saving is 13% with key volume lines being eggs, baked beans and rice
- As part of the campaign, Morrisons cut the price of a quarter of its 235 entry-level products, which include 'Morrisons Savers', 'Morrisons Wonky' in produce and 'Morrisons Essentials' in homeware and health and beauty
- More than 180 additional products were included in new and improved multi-save promotions including a 'Buy 2 for £1.80' on cereals, a 'Buy 2 for £3' on breaded chicken and a 'Buy 2 for £5' on ready meals
- 'Compare & Save' campaign launched to help customers identify the savings that can be made by swapping branded items for Morrisons' own brands
- Partnership with brands including Unilever and Kimberly-Clark on bigger pack sizes, offering better value to customers
- Mid-week dinners for less than £5 in its cafes from June, kids eat free



Morrisons loses big four status as market share dwindles

Morrisons' market share was 9.1% in September 2022, conceding fourth position to Aldi with 9.3% of the market

Of the big four it has lost the most market share in past 12 months

Morrisons is well positioned to control supply and costs through its vertical supply chain

However, new ownership and its McColl's acquisition are key distractions

<p>Strengths</p> <ul style="list-style-type: none"> -Price cut campaign on 500 products since April -Vertical supply chain integration allows more control over pricing strategy -Market Street counters set Morrisons apart for provenance, freshness -Wholesale and partnerships 	<p>Weaknesses</p> <ul style="list-style-type: none"> -Complicated offers for customers – too much complexity, multibuy not favoured by customers -On defensive as big-four rivals cut prices -Supply chain disruption costs of £30m recorded for 39 weeks to end October 2021
<p>Opportunities</p> <ul style="list-style-type: none"> -Private ownership gives Morrisons scope to invest as it chooses -Leverage Morrisons Daily expertise to reposition McColl's into a successful convenience store business -Marketing of Market Street/Market Kitchen 	<p>Threats</p> <ul style="list-style-type: none"> -New ownership by CD&R in a challenging period -Will £182m rescue of McColl's distract/impact ability to invest in price? -Conceded big-four status to Aldi in September

Aldi is the UK's chief disruptor and price benchmark – now also the fourth-largest grocer

- Setting the market benchmark for low pricing
- 'Super Low Prices' in rotation on everyday items
- Quality and value messaging encourages customers to switch
- Specialbuys and Super 6 offers driving customers into stores
- Donating 700,000 meals to school children over summer through Neighbourly scheme

Aldi's market share gains have ended the era of the 'big four' as it leapfrogs Morrisons to hold 9.3% of the grocery market

Aldi gained 1.3% market share over the year to September 2022

Its biggest challenge is protecting its own margins and overheads

Strengths

- Setting the market prices
- Global size gives Aldi economies of scale
- Private label strategy
- Focus on meat-free and vegan ranges
- Specialbuys drive repeat footfall

Weaknesses

- Limited range
- Limited online presence (click and collect, online wine and Specialbuys only; Deliveroo partnership ended)

Opportunities

- Price-conscious consumers switching from big four retailers
- Market share gains – already overtaken Morrisons to disrupt the big four
- Ongoing expansion – expanding reach as it invests £1.3bn in 2022/23 to open 100 stores

Threats

- Margins under threat amid rising costs
- Aggressive store openings leading to higher overheads, lower margins, cannibalisation
- Lidl expanding portfolio at similar pace
- Big four price matching to Aldi to retain loyalty



Lidl maximising the expansion opportunity – its only real threat is Aldi

- Valued by customers for its value and low price strategy
- Has an advantage over Aldi with its bakery and branded ranges
- Lidl Plus rewards loyal price-conscious customers by unlocking coupons (up to £10 if you spend £200 in a month)
- Middle of Lidl and Flavour of the Week driving customers into store

Lidl has overtaken Co-op and gained 1.1% market share in the year to September 2022

Its only real threat is Aldi, which retains a 2.2 percentage point lead

With big-four grocers price matching to Aldi, Lidl must ensure it maintains a low price perception with customers

Strengths

- Discounter, low-price strategy
- Schwarz Group – global economies of scale
- Own-label penetration
- Lidl Plus loyalty programme
- Branded items and bakery
- Middle of Lidl, Flavour of the Week

Weaknesses

- Limited range
- No online presence
- Competitor Aldi is seen as the UK's low price benchmark

Opportunities

- Price-conscious consumers switching from big-four retailers
- Market share gains – now has 7% market share behind Aldi at 9.1%
- Lidl is targeting 1,100 UK stores by 2025

Threats

- Margins under threat amid rising costs
- Aggressive store openings increasing overheads and eroding margins
- Tesco/Sainsbury's price-matching to Aldi encourages switching to its competitor
- Aldi expanding portfolio at similar pace



Co-op largely avoids price wars, but has lost market position to Lidl

- Co-op focused on provenance, sustainability and convenience
- Reduced/held price of 4,000 items, including 100 most popular
- Honest Value range extended in February 2021 to 100 essential 'value with values' items; in all Nisa stores from January 2022
- Co-op members can select personalised weekly offers
- Limited trial of member-only pricing in store
- Reaching new customers through its ecommerce rollout

Fast-growing Lidl overtook Co-op in March 2022 in market share terms

With 6.5% of the market, Co-op is now the UK's seventh largest grocery retailer

It has largely avoided entering price wars with other retailers, focusing instead on values, loyalty and community

Strengths

- Network of 2,600 local stores
- Ethical and responsible focus
- Co-op membership offers personalised promotions and community donations

Weaknesses

- Low pricing not a key focus
- Perceived as expensive
- Honest Value range not well known
- Exodus of senior leaders

Opportunities

- Stronger marketing of Honest Value range
- New partnerships
- Ongoing ecommerce rollout reaching new customers

Threats

- Growing market competition
- Range reduction limiting consumer choice
- Finances tight – restricting price investment?
- Clubcard Prices now in Tesco Express stores
- Morrisons' potential repositioning of McColl's



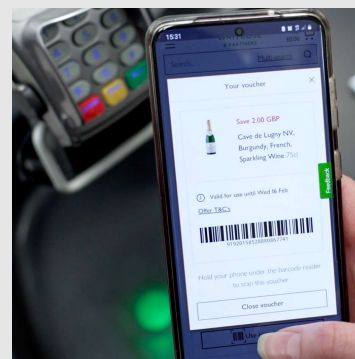
Waitrose market share falling despite wealthier shopper demographic

- Waitrose Essentials range expanded to more than 1,000 items
- MyWaitrose loyalty programme relaunched in February, with more personalised offers, discounts and exclusive savings
- Piccadilly Lights campaign April 25–May 1 showcased Essential Waitrose value - 'Quality you'd expect at prices you wouldn't'
- Great September Savings campaign offering discounts on more than 4,000 branded and own-label items
- MyWaitrose members receive savings at service counters

Waitrose Essentials, personalised MyWaitrose offers and its wealthier shopper demographic are positives for the retailer

Yet it risks customers trading down as the cost of living crisis bites

Strengths <ul style="list-style-type: none"> -Wealthier shopper demographic -Reputation for quality -Waitrose Essentials - 1,000 items -MyWaitrose loyalty scheme - personalised and selectable promotions 	Weaknesses <ul style="list-style-type: none"> -Dropped Tesco price matching scheme -Perceived as expensive -MyWaitrose promotions confusing to many customers
Opportunities <ul style="list-style-type: none"> -Further expansion of Waitrose Essentials -Product differentiation and innovation -John Lewis implants in more stores -Customers switching from eating out to treating themselves 	Threats <ul style="list-style-type: none"> -Risk of smaller baskets/customers trading down as price increases bite -Ecommerce strategy and market share weak -Ocado now partnering with M&S -M&S strengthening food focus



Iceland moves to help cash-strapped shoppers

- Price freeze on hundreds of £1 Iceland Value lines until end of 2022
- £10 discount for new customers on their first online shop; reduced minimum spend for home delivery and deliver from store
- Online deal offers customers certain essential items for just 1p
- Iceland Bonus Card relaunched as an app in September 2021, offering exclusive prices, bonus savings and priority online delivery
- Offers a 10% discount every Tuesday for the over 60s and increased staff discount to help its own workforce
- Supporting Marcus Rashford's food poverty campaign; tie-up with The Rothesay Foundation offering a £30 shopping voucher to pensioners in poverty
- Partnership with ethical lender Fair For offering customers loans of up to £100 paid in £10-per-week instalments
- Energy-saving cooking guidance on packaging from September

Strengths

- Loyalty of core customer base
- Differentiates on price, value for money
- Frozen category leader
- Consistent family run leadership

Weaknesses

- Customer demographic hardest hit by cost-of-living crisis

Opportunities

- Potential switching gains from big four
- Differentiating on values
- Frozen food less costly, less waste
- Food Warehouse expanding customer base

Threats

- Losing customers to foodbanks
- Discounters gaining market share
- Price investment at the cost of company values eg: palm oil, sustainability could potentially damage brand
- UK launch of online store Motatos

Iceland's market share has remained steady and consistent over the past two years and it benefits from a strong, family-run ethos

However, its customer demographic has been hit hardest hit by the cost-of-living crisis and risks losing customers to foodbanks

The banner is divided into several sections. At the top, there are four 'MULTIBUY MADNESS' banners for Frozen, Grocery, Fresh, and Dishes. Below these are four product-specific offers: 24x 7up for £19 (ANY 3), 24x Tango for £19 (ANY 3), 12x Fyffes British Fruit for £4.50 (ANY 3), and 12x Sainsbury's Sausage & Bacon for £4 (ANY 2). At the bottom, a large blue banner offers a 10% discount for over 60s every Tuesday, with a minimum spend of £10. To redeem, customers must show one of the following: Senior Bus Pass, Driver's Licence, The Senior Railcard, or Freedom Pass (London).

Lower basket sizes at Ocado as wealthier shoppers rein in spend

- Ocado private label relaunched March 2021
- 'Price lock' on around 200 items, freezing prices for eight weeks
- Aggressive couponing to attract new customers
- Price matching "aims to beat at least one other supermarket"
- Best-in-class fulfilment

Ocado attracts a wealthier shopper demographic, but this has not protected it from challenges. In the three months to August 28, retail revenue grew just 2.7% despite a 23% increase in shoppers

Average basket size declined by 6% to £116

Average selling price has risen 5% year on year, with a 7% inflationary increase offset by shoppers trading down

As wealthier shoppers rein in spend, Ocado expects to see a FY decline in 2022

Strengths

- Caters to a wealthy demographic
- Average basket size high (but declining)
- Range and availability (more than 40,000 SKUs)
- Own-label entry level range growing (750 items)
- Best-in-class fulfilment

Weaknesses

- No price matching, low price not key focus
- Perceived as expensive
- Single channel retailer
- Capacity not flexible, takes time to build
- Widening losses on tech and supply chain investment

Opportunities

- Ocado Solutions partnerships
- Lower costs, better productivity
- New tech innovations (from 2023)
- EVs and automated deliveries
- Ocado Retail could introduce price matching and heightened value focus

Threats

- Growing market competition
- Footfall returning to stores
- High investment in Ocado Solutions



M&S has broadened appeal with lower price points and Ocado joint venture, but basket size a challenge

- Broadening food appeal with new products and lower prices
- Created 340 'Remarksable Value' lines, now 10% of sales
- £100m investment in price over last three years
- In April 2022, reduced the prices of 60 staple foods in 'Remarksable Value' range, pledged to hold prices for summer
- Introducing Bigger Pack Better Value options
- Introduction of 'always-on' Family Dine In deal for four
- Joint venture with Ocado gives M&S online opportunities to reach new customers

M&S attracts a more affluent shopper demographic, but the cost of living remains a major concern. According to the M&S Family Matters Index for July, 82% of shoppers are worried about the cost of living (+10% since November)

The biggest threat for M&S is reduced basket size and shoppers trading down. Its focus on 'Remarksable Value' is a step in the right direction to maintain shopper loyalty

Strengths

- Caters to a wealthier demographic
- Reputation for quality
- Online presence via Ocado joint venture
- Sparks loyalty programme

Weaknesses

- No price matching, despite lower price focus
- Perceived as expensive
- Online capacity not flexible; time to build

Opportunities

- Further widening of value range/focus
- 'Dine in' category could benefit as customers trade down from eating out
- Ocado widening reach to new customers

Threats

- Cost of living: lower basket sizes, customers trading down
- Reliance on Ocado to deliver online offer



Amazon price-matching Tesco Clubcard, but grocery market share not yet a threat

- Amazon's grocery market share is negligible, despite launching Amazon Fresh in the UK six years ago
- Tie-up with Morrisons, offering free same-day delivery to Prime members and a £10 discount
- Tie-ups with Co-op and Booths
- Amazon Fresh has begun price-matching Tesco Clubcard online

Amazon price matching Tesco Clubcard says more about the strength of Tesco's strategy than it does Amazon's

Amazon is yet to build market share, but the UK is a test market for grocery innovation and Amazon has established strong relationships with FMCG suppliers

Amazon could benefit from undercutting major retailers on price particularly in categories such as ambient and health and beauty

Strengths

- Amazon Prime ecosystem
- Known for range and pricing strategy
- Subscribe and save on repeat purchases
- Global economies of scale
- Invests in innovation eg: Just Walk Out tech

Weaknesses

- Grocery market share weak
- Not top of mind for grocery with consumers
- Amazon Fresh store expansion slowed; not yet winning shoppers

Opportunities

- New innovation and partnerships
- Private label expansion
- Integration of stores and online
- M&A - deep pockets offer firepower to buy an established grocer

Threats

- Tesco's market leadership
- Clubcard ecosystem
- Customers loyal to big four and discounters
- Drop in online penetration since Covid peak
- Rising price of Prime membership could weaken ecosystem

Shop Amazon
grocery brands ›



RETAILER PRICE COMPARISONS



Summary findings and methodology

Retail Week analysed data from Ascential Price + Promotion from June 2020 to September 2022 across the UK grocery sector to understand retailers' pricing strategies and to determine to what extent individual categories have been impacted by inflation.

Inflation calculations are based on **like-for-like** data, analysing pricing for products sold in both periods.

The **category analysis insight** (slides 33-43) includes range adjustment, reflecting where grocers have introduced new, entry-level (or premium) ranges.

Inflation Summary

All categories have seen average prices increase over the past year. The highest price increases can be clearly seen across essential categories such as **butters and spreads, dry pasta, eggs, milk and poultry**.

Where price increases were seen, the **most notable jump was in March 2022**, clearly showing price acceleration as a result of inflation.

Other categories such as crisps were influenced mainly by promotional activity and shrinkflation. The pasta, ready to eat cereal, and wrapped bakery categories saw a delayed increase **in June 2022**, due to rising wheat prices because of the war in Ukraine.

Impact of inflation by category

	Category	Inflation impact level	Average price in Sep 2022	Price change since a year ago	YoY % change	Price trend
	Butters and Spreads	High	£2.76	+£0.59	27.1%	
	Carbonates	Medium	£2.61	+£0.17	7.1%	
	Crisps	Medium	£1.68	+£0.13	8.7%	
	Dry Pasta	High	£1.49	+£0.27	22.5%	
	Eggs	High	£2.27	+£0.30	15.4%	
	Fresh Fruit	Medium	£1.84	+£0.14	8.4%	
	Frozen Fish	High	£3.82	+£0.45	13.4%	
	Milk	High	£1.64	+£0.24	17.4%	
	Poultry	High	£5.42	+£0.76	16.2%	
	Ready-to-eat Cereal	Medium	£2.67	+£0.16	6.3%	
	Tinned Fish	Low	£2.23	+£0.07		
	Wrapped Bakery	High	£1.55	+£0.18	13.4%	

Aldi is setting the price benchmark, but has been forced to make inflationary increases

**Average price increase YoY (Sep 21 vs Sep 22)
Aldi and rest of grocers**

Category	Aldi price change	Aldi YoY%	Rest of grocers price change	Rest of grocers YoY%
Butters and Spreads	£0.27	24%	£0.63	27%
Carbonates	£0.16	11%	£0.18	7%
Crisps	£0.18	20%	£0.13	8%
Dry Pasta	£0.17	46%	£0.29	22%
Eggs	£0.32	22%	£0.30	15%
Fresh Fruit	£0.12	12%	£0.15	8%
Frozen Fish	£0.30	13%	£0.47	13%
Milk	£0.31	34%	£0.23	16%
Poultry	£0.67	23%	£0.77	16%
Ready-to-eat Cereal	£0.20	17%	£0.15	6%
Tinned Fish	£0.04	4%	£0.07	3%
Wrapped Bakery	£0.13	15%	£0.19	13%

Like-for-like comparison, showing only products sold by the grocers in both periods



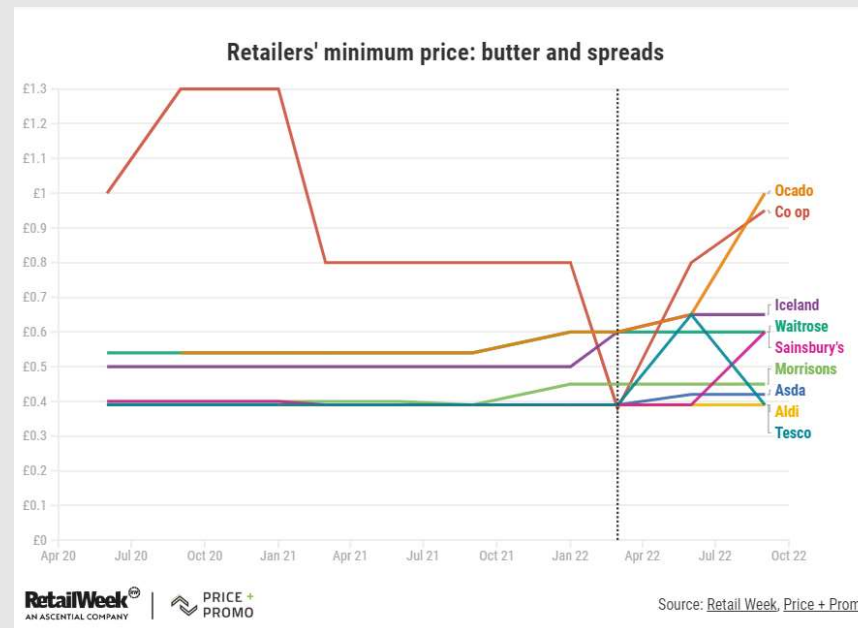
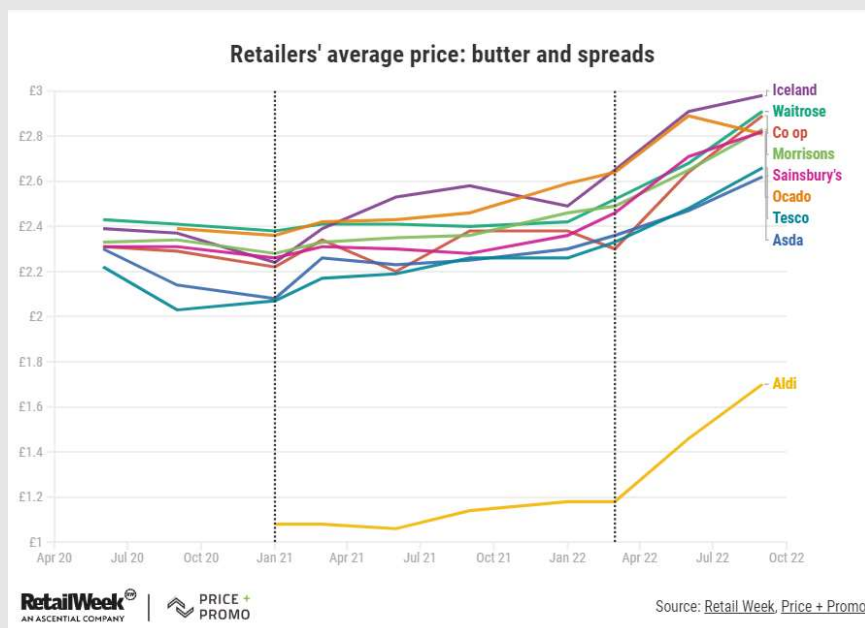
- Aldi's high own-label penetration allows it to determine pricing, while other grocers are more heavily susceptible to branded supplier increases
- Aldi sets the low-price benchmark for the market, influencing Tesco and Sainsbury's, which aim to match it for everyday essentials

**Own label % of the total number of products
Aldi compared to other UK grocers**



Data from Ascential Price + Promotion, analysed by Retail Week Prospect
Grocers analysed: Tesco, Sainsbury's, Morrisons, Asda, Ocado, Waitrose, Iceland, Co-op, Aldi

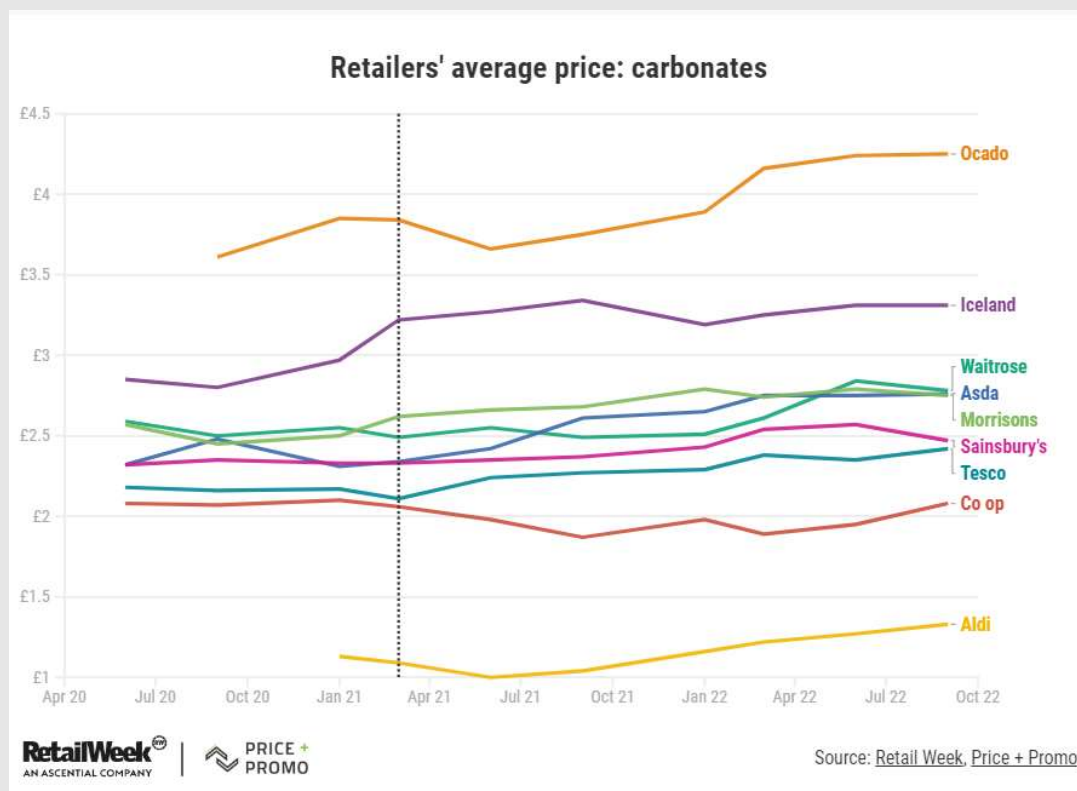
Butters and spreads highly impacted by inflationary rises despite shopper price sensitivity



Grocers analysed: Tesco, Sainsbury's, Morrisons, Asda, Ocado, Waitrose, Iceland, Co-op, Aldi
Category analysis includes new products and range adjustment

- With 75% of this category branded (except Aldi at 16%), these increases are mainly being driven by brand manufacturers
- Minimum, average and maximum prices have all increased since January 2021, with an inflationary boost in March 2022
- Aldi has not changed its minimum price, but has the highest average increase at +49.1% (compared with +20.4% category average)
- Clear price matching to Aldi can be seen by Sainsbury's and Asda on minimum price; Iceland, Ocado and Co-op are not following the trend of other grocers within this category (although spikes in price may also be linked to product availability)

Carbonates has seen steady price increases



- Pricing in this category has been moderately impacted by inflationary pressures
- Most retailers have increased prices steadily since March 2021
- The majority of retailers (78%) are pricing in the £2-£3 range
- Ocado has the highest average price at above £4, while Aldi keeps its average price as low as £1
- Branded items dominate in this category; own brand penetration is only 4% on average, with even Aldi at just 43%

Grocers analysed: Tesco, Sainsbury's, Morrisons, Asda, Ocado, Waitrose, Iceland, Co-op, Aldi
Category analysis includes new products and range adjustment

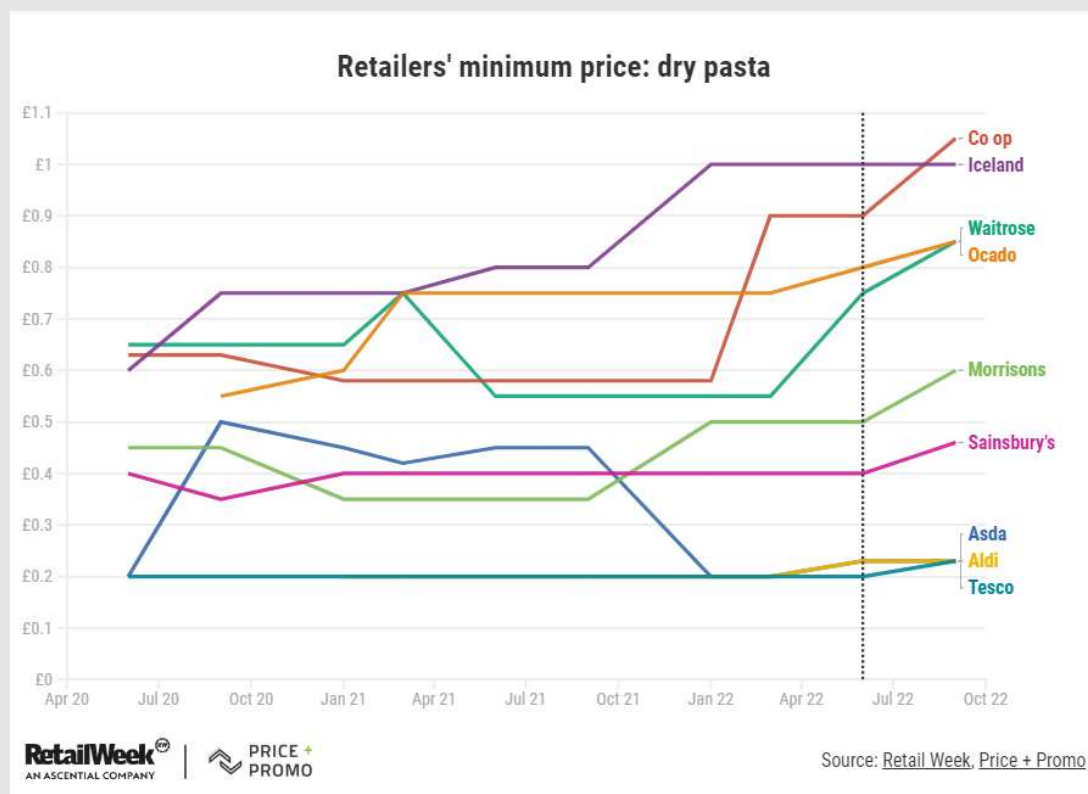
Crisps category highly promotional but has seen an upwards trend in price



- Minimum price for crisps has been on an upward trend since March 2022
- Iceland and Waitrose have the highest minimum price in this category at £0.90; Iceland's range is focused on sharing and multipacks
- Some shrinkflation as well as promotion can be seen in crisps and snacks
- All retailers are fairly consistent in terms of average price

Grocers analysed: Tesco, Sainsbury's, Morrisons, Asda, Ocado, Waitrose, Iceland, Co-op, Aldi
Category analysis includes new products and range adjustment

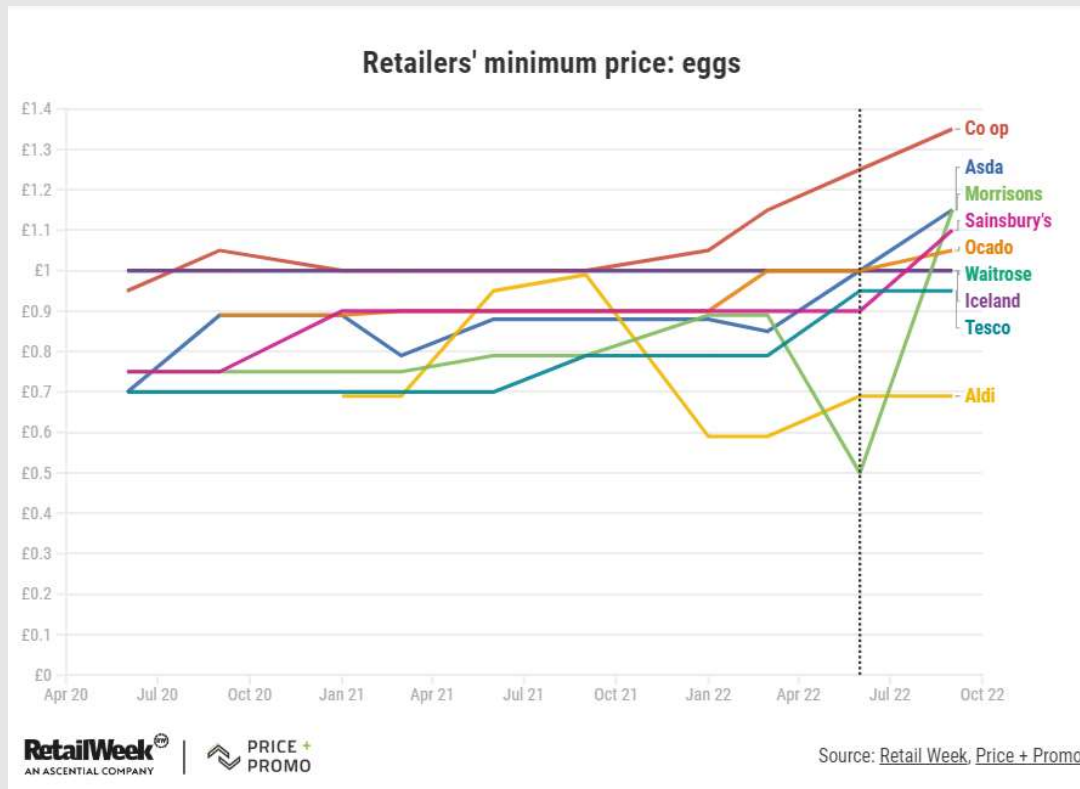
Pasta has seen a delayed inflationary increase, with prices rising rapidly from June 2022



- Tesco and Aldi are the cheapest retailers for pasta and only increased their minimum prices for 3p over two years
- Asda has lowered its minimum price year on year, following its focus on Just Essentials and 'Dropped & Locked'
- Aldi's average price for pasta is consistently lowest, and the only retailer below £1 (compared to a category average of £1.68)
- Own label accounts for 100% of Aldi's range compared with 61% at Tesco, 56% at Sainsbury's, 43% at Morrisons and 47% at Asda
- Despite the impact of the war in Ukraine on wheat prices, the major grocers delayed major price increases in their budget pasta ranges until June 2022

Grocers analysed: Tesco, Sainsbury's, Morrisons, Asda, Ocado, Waitrose, Iceland, Co-op, Aldi
Category analysis includes new products and range adjustment

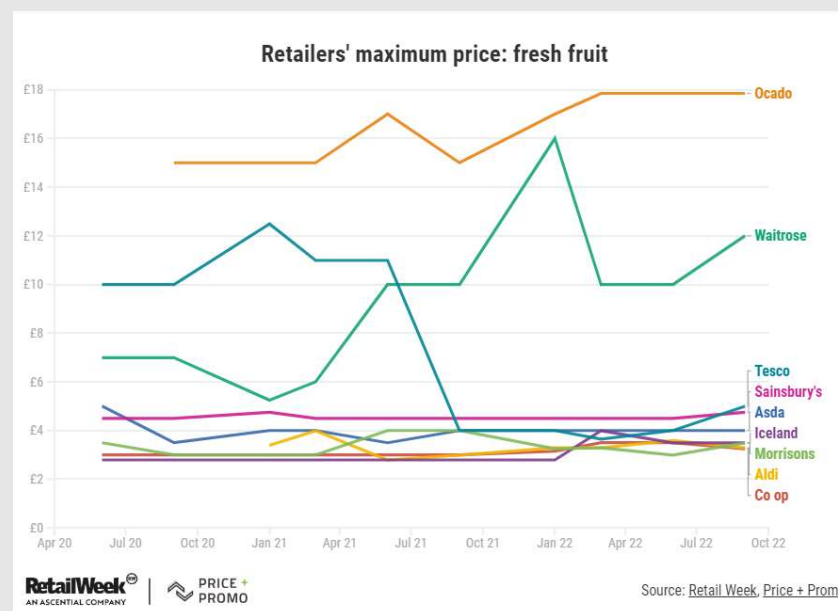
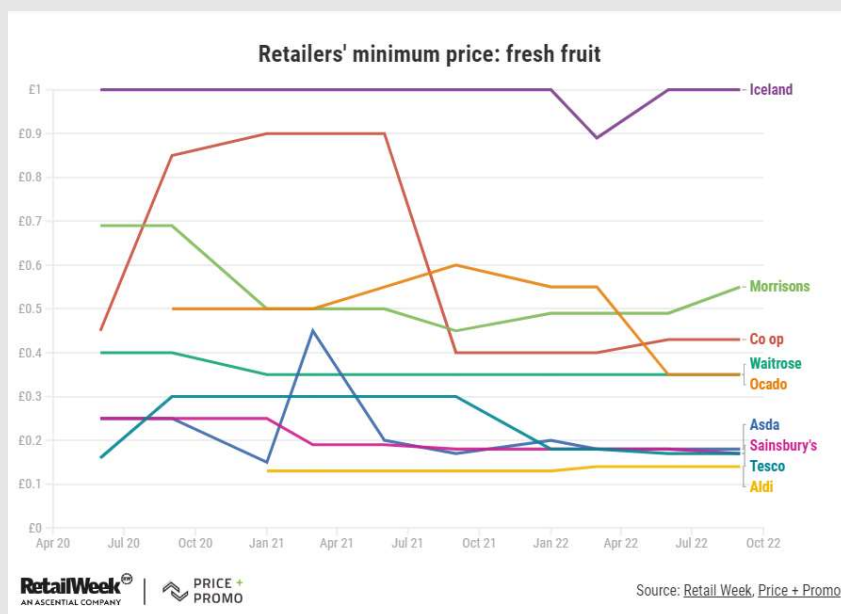
Eggs have seen minimum prices increase as inflation bites



- The minimum price of eggs has increased since March 2022, suggesting inflationary pressure
- The average price of eggs has been rising since June 2021
- Average price has increased 12.7% year on year in the category, with the highest rise for Morrisons, which increased its average price by 17.4% over the past 12 months
- Maximum pricing has been fairly consistent across all retailers

Grocers analysed: Tesco, Sainsbury's, Morrisons, Asda, Ocado, Waitrose, Iceland, Co-op, Aldi
Category analysis includes new products and range adjustment

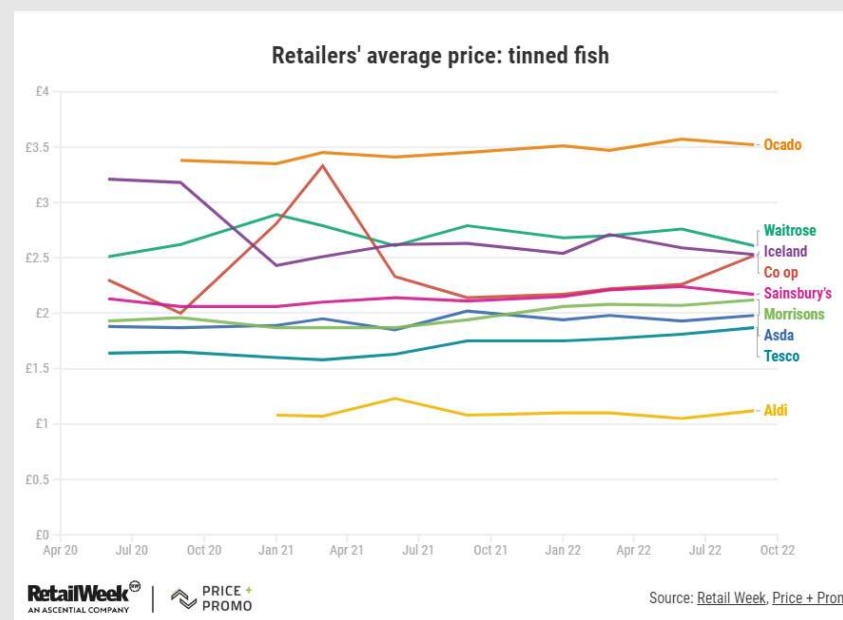
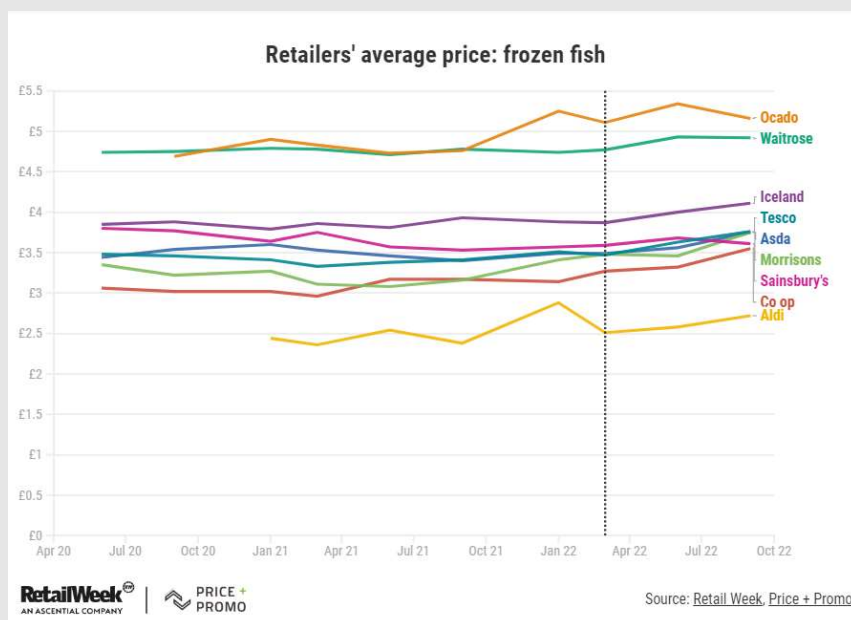
Fresh fruit prices largely stable as retailers encourage healthy eating



Grocers analysed: Tesco, Sainsbury's, Morrisons, Asda, Ocado, Waitrose, Iceland, Co-op, Aldi
Category analysis includes new products and range adjustment

- Fresh fruit is a category dominated by private label lines – 100% at Aldi and 93.9% across the category as a whole
- Aldi offers a changing fortnightly Super 6 promotion in this category, Tesco offers a Fresh 5
- Tesco, Sainsbury's and Asda have followed Aldi with a low minimum price of around £0.18 for fresh fruit items (single lime, or single banana)
- Average prices have remained stable, with no significant increases owing to inflation
- Seven of the nine retailers (78%) have set their maximum price below £5; spikes in price may be linked to seasonal products and availability

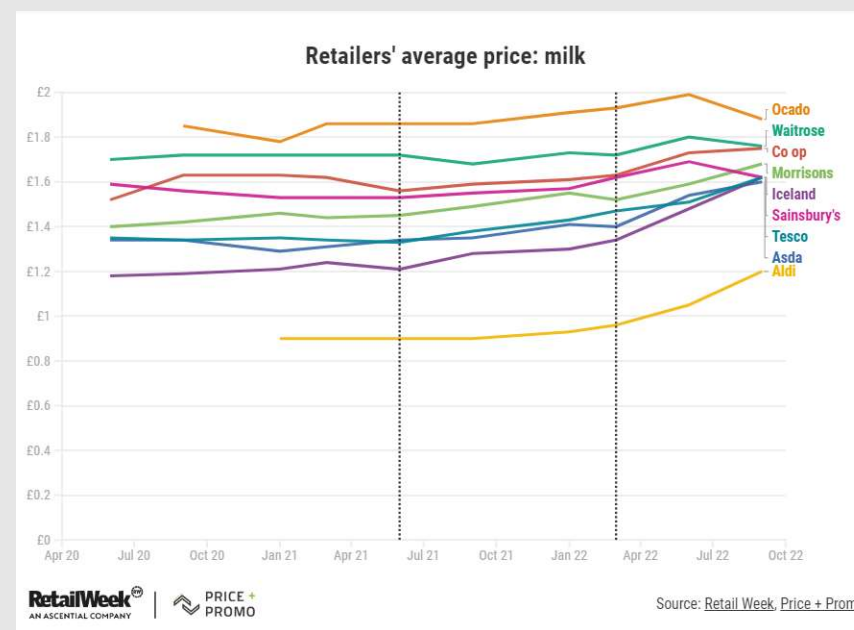
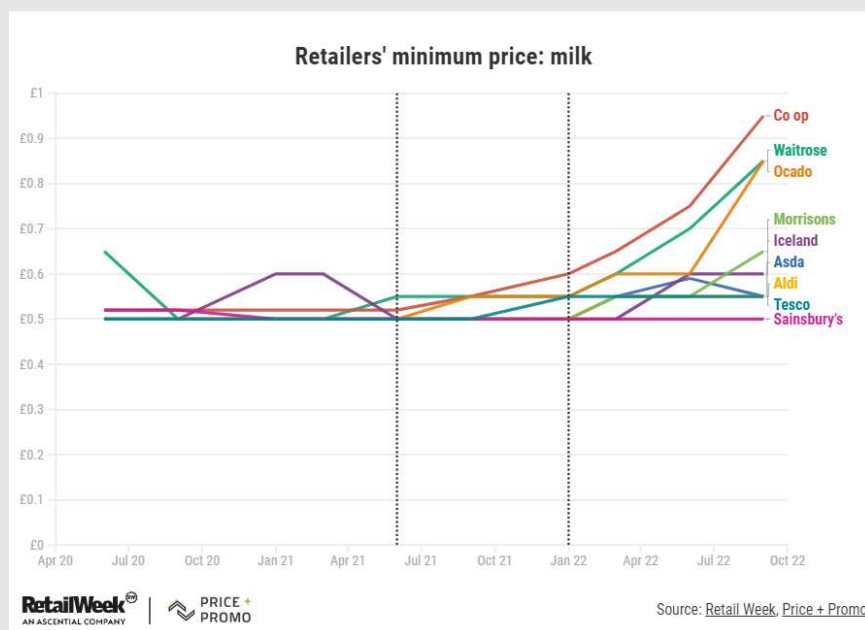
Frozen fish prices rising since March 2022, but tinned fish less influenced by inflation



Grocers analysed: Tesco, Sainsbury's, Morrisons, Asda, Ocado, Waitrose, Iceland, Co-op, Aldi
Category analysis includes new products and range adjustment

- The average price of frozen fish can be seen to increase in March 2022, showing a high impact from inflation
- Until this increase, the big-four grocers were matching each other on minimum price in frozen fish (at £0.69)
- 56% of retailers had no change in the minimum price of frozen fish for two years, but all retailers increased their prices in March
- Inflation has had a lower impact on the tinned fish category, with most retailers' average prices climbing steadily over the past two years
- Unsurprisingly, Aldi is the price leader across both categories with 97% own brand penetration in frozen and 100% in tinned fish

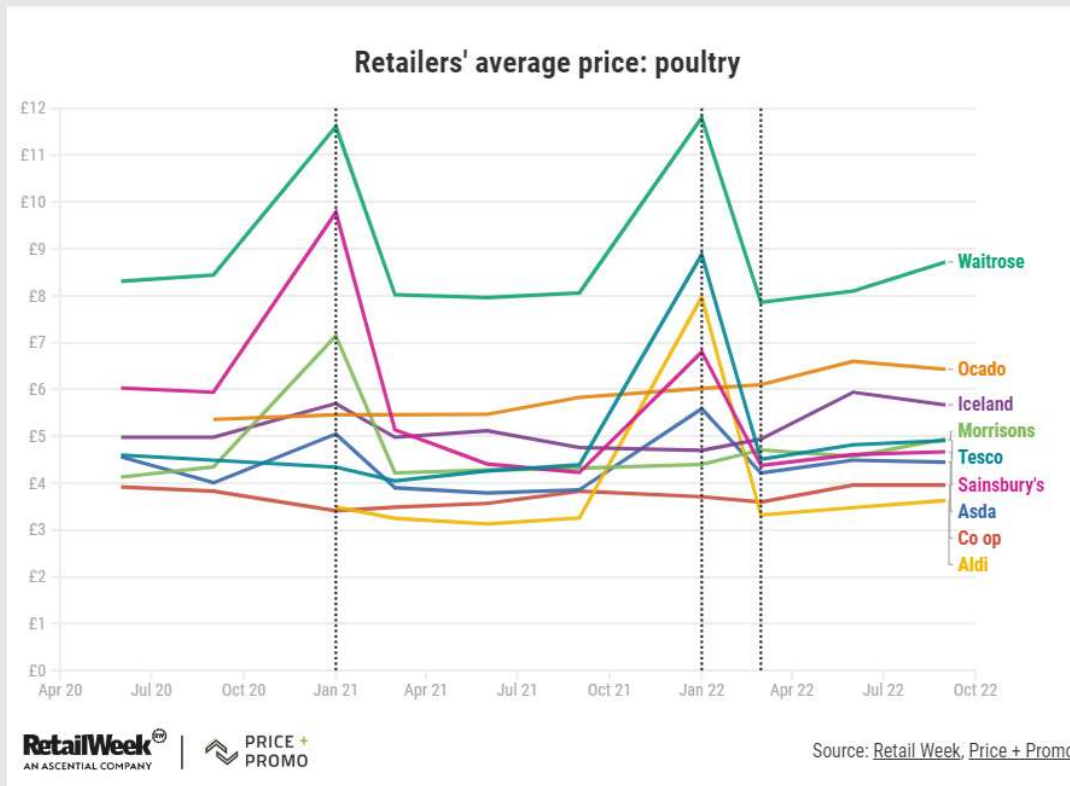
Milk prices have increased sharply, as inflationary pressures accelerate



Grocers analysed: Tesco, Sainsbury's, Morrisons, Asda, Ocado, Waitrose, Iceland, Co-op, Aldi
Category analysis includes new products and range adjustment

- All retailers have seen minimum price increase significantly since June 2021, with a further rise in January 2022
- The average price has risen more gradually during the same time period, but has accelerated since March 2022
- The leading grocers are matching Aldi on minimum price in this essential category
- Own label accounts for 96.1% of products at Aldi, compared with 33% at the rest of the grocery retailers
- As an essential grocery item, customers are highly sensitive to price increases in this category

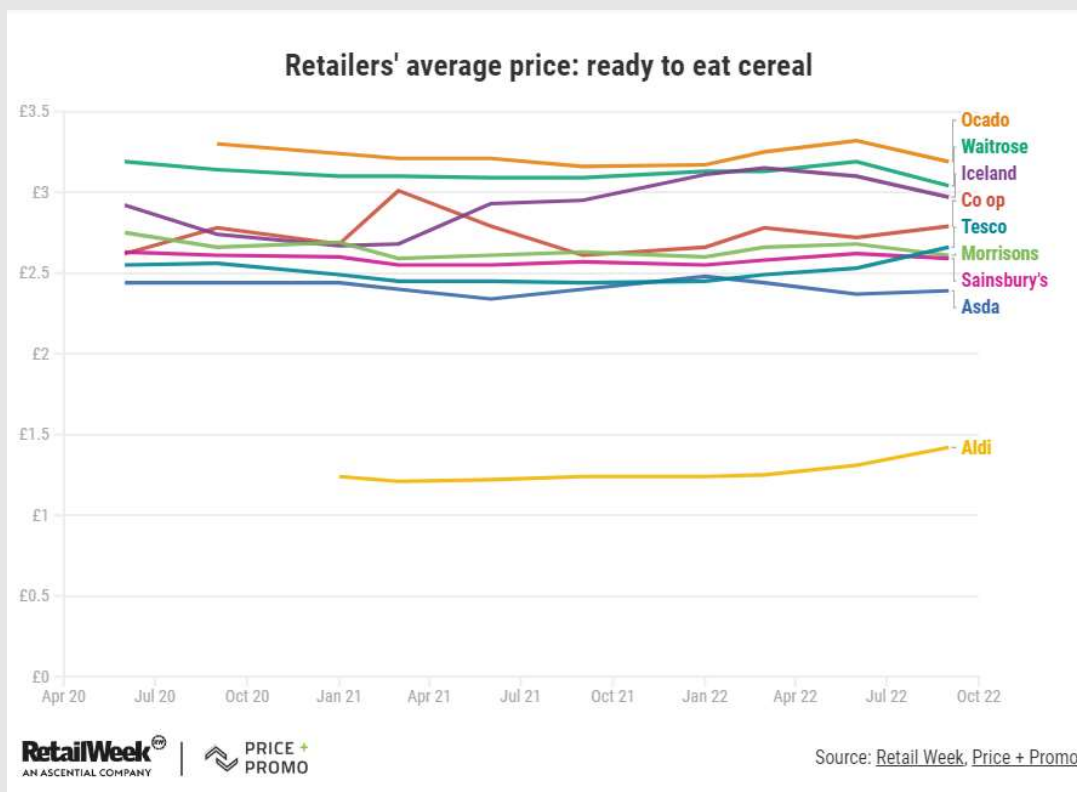
Poultry is dominated by own-label and shows an average inflationary increase of £0.53 year on year



- Overall poultry prices have increased by an average of £0.53 in the last year, showing the impact of higher costs and inflation
- In March 2022, eight of nine retailers increased their average price
- Tesco, Sainsbury's, Asda, Morrisons and Aldi are closely matched and the most competitive in poultry
- In September 2022, Sainsbury's had the lowest entry price in the category; however, all retailers increased price year on year
- A seasonal price peak can be seen in December for most retailers, as Christmas ranges are sold
- Seasonal peaks are less common at Co-op, Ocado and Iceland (perhaps indicating a missed seasonal opportunity?)
- Own label accounts for 93% of range at Aldi and 80% at the other retailers, putting grocers in charge of pricing

Grocers analysed: Tesco, Sainsbury's, Morrisons, Asda, Ocado, Waitrose, Iceland, Co-op, Aldi
Category analysis includes new products and range adjustment

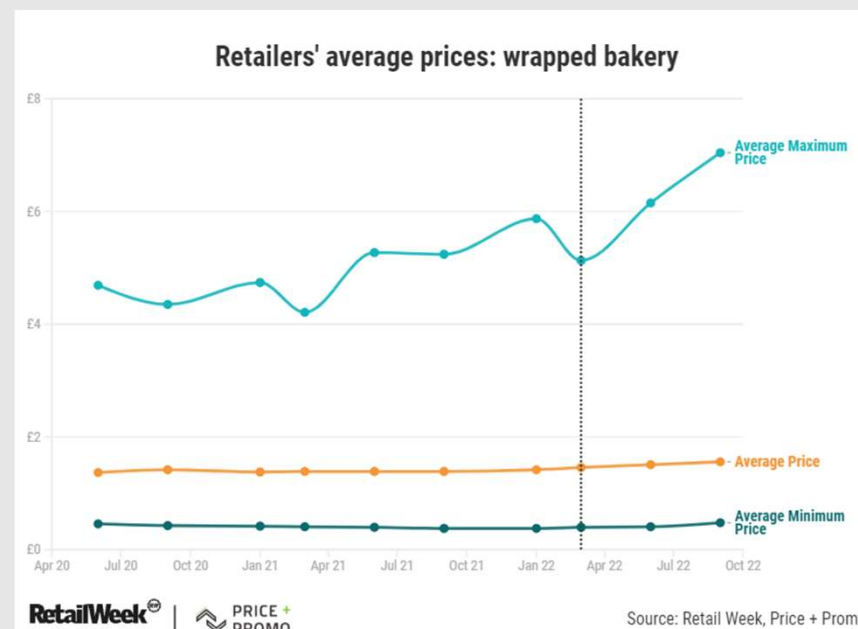
Cereal prices have remained steady, despite inflationary pressure



- Despite concerns over Ukrainian wheat exports, cereal prices have remained largely steady over the past year
- The minimum price is very stable and only two of nine retailers increased their minimum price in June 2022
- Aldi's average price is much lower than the other retailers owing to its limited, predominantly own label range; however, Aldi implemented the biggest year-on-year price increase (17% vs average 6%)
- Branded items constitute 70-80% of the cereal range for other retailers, putting suppliers in control on price
- Of the eight other retailers, three had an average price under £4 and five under £3
- Ocado has the largest range in this category, Iceland has the smallest

Grocers analysed: Tesco, Sainsbury's, Morrisons, Asda, Ocado, Waitrose, Iceland, Co-op, Aldi
Category analysis includes new products and range adjustment

Bakery minimum prices saw sharp inflationary increase from June 2022



Grocers analysed: Tesco, Sainsbury's, Morrisons, Asda, Ocado, Waitrose, Iceland, Co-op, Aldi
Category analysis includes new products and range adjustment

- Average prices have risen by 12.7% year on year in this category, with all retailers increasing average price since January 2022
- Retailers' maximum price items have risen fastest, although these peak for seasonal ranges and occasions
- Minimum price data shows that retailers were investing to protect bread prices for cost-conscious consumers, but the category has seen a delayed but sharp rise since June 2022
- Tesco, Sainsbury's, Asda, Morrisons, Waitrose and Aldi compete at entry level; maximum prices for Aldi, Co-op and Sainsbury's are not in line with other retailers

OUTLOOK AND IMPLICATIONS



Cost of living and inflation concerns will dominate through golden quarter and 2023

- As the inflationary environment worsens, price competition will increase. Our P+P data shows a need for several retailers to **sharpen their price focus**
- Key price battles are waging at **entry level** – Tesco's Aldi Price Match items are in 99% of large-store baskets; Just Essentials in 33% at Asda
- Essential categories** including butter, bread and milk are recording the highest level of price inflation – retailers and suppliers must work together to share the burden
- Shoppers will buy fewer items or switch retailers rather than spend more – price guarantees, value and loyalty/ecosystem incentives will drive retention
- Brand loyalty is waning – our data identifies categories where own-brand innovation could disrupt established brands eg: carbonates, dry pasta, cereal
- Aldi will continue to set the price benchmark

The report data shows that all retailers have at least one category where they can improve their competitive pricing position

Retailers should keep a close eye on Aldi and Lidl, but also Poundland, B&M and Home Bargains as they expand their grocery expertise and market reach

Further acquisition/consolidation within the sector remains a risk



Source: Tesco preliminary results presentation, April 2022

Long-term strategies will drive recovery and growth

- Navigating short-term challenges is non-negotiable, but retailers must also retain a keen focus on long-term strategy to emerge stronger from this period
- As the climate emergency accelerates, sustainability and purpose-led strategies must remain at the forefront - including progress towards net-zero goals; packaging; food waste; healthy and plant-based diets
- Vertical integration, shorter supply chains and other efficiency gains must be prioritised as these increase reliability while lowering costs eg: M&S' acquisition of logistics provider Gist
- Retailers that invest in loyalty ecosystems, innovation and food quality alongside value for money can expect to retain customers for the long term

Privately owned grocers Morrisons and Asda may gain an advantage if they are willing to sacrifice short-term margins to invest in long-term growth

By 2024, retailers must be prepared as consumer priorities gravitate back to sustainability, plant-based diets, healthy eating, quality and provenance

64% of families are worried about how environmental damage will affect future generations

Source: M&S Family Matters Index, July 2022



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