

# Grocery

## retail



Companies in the **Grocery Retail** sector sell perishable and non-perishable foods (“edible grocery”) to consumers via retail outlets (stores – including membership-only retail stores – or online). The world’s largest grocery retailers sell both non-food products (“non-edible grocery”) and food. According to retail industry analyst Edge by Ascential, worldwide consumer spending on retail food & beverage totaled \$8,271 billion (US\$8.3 trillion) in 2020.

### Sales of Leading Grocery Retailers, 2020

Rank	Company (Headquarters)	Edible Grocery Sales 2020 US\$ million	% Market Share of Top 10 Grocery Retailers
1.	Walmart (USA)	271,937	29.70
2.	Schwarz Group (Germany)	121,155	13.21
3.	Kroger (USA)	81,497	8.9
4.	Costco (USA)	79,910	8.7
5.	Carrefour (France)	63,205	6.9
6.	Aldi Süd (Germany)	62,164	6.8
7.	Tesco (UK)	60,389	6.6
8.	Seven & I Holdings (Japan)	60,374	6.6
9.	Ahold Delhaize (Netherlands)	58,669	6.4
10.	Rewe Group (Germany)	57,477	6.3
<b>Total Top 10</b>		<b>916,777</b>	
Total Global Consumer Spending on Grocery, 2020		<b>8,270,580</b>	

Source: Edge by Ascential

- The top 10 grocery retailers control approximately 11% of global consumer spending on groceries, about the same share as in 2018.
- Walmart accounts for almost one third of sales by the world’s top 10 grocery retailers.
- In 2020, global consumer spending on food and beverage topped US\$8 trillion for the first time.

**Introduction:** The consumer-facing, global grocery retail sector is more varied than other sectors of the industrial food chain, selling its wares via multiple channels (e.g., corner stores, supermarkets, convenience stores, big box/discount clubs, online outlets). *The Economist* claimed, early in 2021, that Covid-19 gave grocery retailers “a crash course in reinvention,”<sup>1</sup> but grocery retailers didn’t re-invent themselves; more accurately, one of the sector’s channels – e-commerce – got an unexpected and timely boost at the expense of other channels. Or, as the *Wall Street Journal* put it, “The pandemic packed 10 years of consumer e-commerce adoption into a single quarter, and forced every company that wasn’t Amazon... to scramble to offer consumers new and better ways to shop from home.”<sup>2</sup> In fact, the food giants – even e-commerce giants – continue their fight for “omni” channel dominance.

### Trends: chew on this

ETC finds that while 2020’s sector trends are recognizable from our earlier research, in some cases, the global coronavirus pandemic intensified them:

1. The **long-standing consolidation trend** continues in most major markets (except where national regulators step in to limit it).
2. Retailers are increasingly **investing in ways to bolster online grocery sales**. ETC highlighted that trend previously, but hadn’t anticipated that folks would be stuck-at-home under lockdown – self-imposed or otherwise – in 2020, and many would rely on e-commerce (and delivery) almost exclusively. Amazon, Alibaba, Walmart and JD.com dominate in grocery e-commerce, but all major retailers are looking ahead toward a “seamless” integration of on-line and off-line grocery shopping.
3. At first glance, the global grocery sector’s relatively low level of market concentration may suggest healthy competition. But **competition in this sector is illusory**. The world’s largest asset management firms (e.g., Blackrock, Vanguard, State Street, etc.) are among the largest institutional shareholders of the leading grocery retailers. High levels of “horizontal ownership” (as well as concentration at national levels) discourages competition.<sup>3</sup>

**Consolidation** in the global grocery sector remains an ongoing trend, though India and China have recently seen some pushback. For example:

**India:** India’s national grocery retail sector is estimated to be the third largest in the world (after China and the United States); according to Euromonitor International, India’s grocery retail sales reached US\$410 billion in 2020.<sup>4</sup> Neighbourhood mom-and-pop shops – known as kirana stores – dominate, accounting for an astonishing 90% of India’s grocery market.<sup>5</sup> According to Mumbai-based app-developer Ashish Kumar, early in the pandemic (February 2020), fewer than 9% of kirana stores had an online presence, but people felt most comfortable buying from small stores that didn’t require them to leave their neighbourhoods.<sup>6</sup> So shop owners improvised, introducing digital buying on the fly via websites, WhatsApp groups and digital payment apps. With the pandemic fueling 10% growth in India’s grocery sector in 2020,<sup>7</sup> it’s no surprise that large tech firms crave a bigger slice of the country’s retail pie. They see e-commerce expertise as the way to make inroads and, ultimately, diminish the market power of corner-shop outlets.<sup>8</sup>

In 2021, Tata Group acquired a majority stake (64.3%) in BigBasket, India’s biggest e-grocery player, buying out Alibaba’s 30% stake. That means Tata is now a competitor to Amazon Fresh, FlipKart (majority-owned by Walmart) and JioMart (subsidiary of Jio Platforms, which is owned by Reliance, the Mumbai-based multinational conglomerate).<sup>9</sup> Facebook invested US\$5.7 billion in Jio Platforms in 2020, focusing on JioMart-Whatsapp interoperability for grocery e-commerce.<sup>10</sup> Google, which launched its “India Digitization Fund” in mid-2020 (committing US\$10 billion over 5-7 years) and Reliance are both backing Dunzo, the newest ultra-fast grocery delivery darling operating in “the complex micro-ecosystems” of India’s cities.<sup>11</sup> At the same time that e-commerce titans are upping their game, Swiggy, one of India’s two dominant food delivery apps, shifted its business focus away from prepared foods and towards grocery.<sup>12</sup>

**China:** During 2020’s lockdowns, China’s consumers also embraced buying groceries online – including fresh food – with convenience-store owners or apartment-complex managers organizing group buying, commonly using Tencent’s ubiquitous WeChat messaging. China’s biggest e-commerce players saw an untapped market and were willing to burn cash to beat out competitors. Pinduoduo, along with titans Alibaba, JD.com and Meituan, quickly upped their grocery game, especially in smaller cities.<sup>13</sup> Alibaba bought a controlling stake (72%) in big box/supermarket chain Sun Art for US\$3.6 billion. JD.com, reportedly with China’s most sophisticated logistics network, adapted to handle fresh produce.<sup>14</sup> Pinduoduo, which incorporates gaming to attract users (it’s “both Costco and Disneyland” according to its founder and CEO)<sup>15</sup> and gets almost all of its revenue from ad sales (sellers on the platform buy ads to attract buyers), raised US\$6 billion in 2020 for grocery operations.<sup>16</sup> Another group-buying behemoth, Meituan, the world’s largest food-delivery company and China’s third largest internet company after

Tencent and Alibaba, launched its grocery group-buying app in mid-2020. A few months later, Meituan announced it was expanding to more than 1,000 towns across the country, with plans for even further expansion.<sup>17</sup>

Beginning late 2020, China’s antitrust regulator began investigating the country’s big tech companies for potential harms to competition, consumers and workers. In December 2020, the Communist party newspaper published a commentary scolding China’s Big Tech for its cut-throat competition: “Don’t just think about a few bundles of cabbage, [or] the online traffic driven by a few pounds of fruit,”<sup>18</sup> which pretty much sums up the e-commerce business model in the rest of the world. In 2021, China’s State Administration for Market Regulation fined Alibaba an unprecedented US\$2.8 billion for pressuring sellers to use its e-commerce platform exclusively; Meituan was subsequently fined US\$530 million for similar antitrust violations.<sup>19</sup> Given that the levied fines represented well below 5% of each company’s annual domestic sales, it’s not yet clear what lesson they will learn from their formal rebuke.

**Other Consolidation Moves:** In most of the rest of the world, mergers, acquisitions and sell offs moved forward – less hindered and in more expected ways:

- Ahold Delhaize (# 9), Europe’s largest publicly-traded grocery seller, is also one of the largest players in the United States and is looking for more acquisitions there, focusing on smaller stores that lack the capital to invest in e-commerce. Ahold Delhaize already earns three-fifths of its revenue in the U.S.<sup>20</sup> In 2020, the company bought a majority stake (80%) in FreshDirect, a pure-play (ie dedicated) e-grocer headquartered in New York City, for an undisclosed price.<sup>21</sup>
- In early 2021, Walmart (#1) sold its majority stake in Asda Group (the UK’s 3rd largest grocery chain) to an investment firm and UK billionaire brothers Zuber and Mohsin Issa for US\$8.8 billion. Walmart retained a minority stake and a seat on the board,<sup>22</sup> but some analysts believe the move indicates that Walmart is shifting focus to its domestic tussle with Amazon for retail dominance.<sup>23</sup>
- Out-bidding other private equity firms in a competition that came down to a frenzied, one-day auction, US-based Clayton, Dubilier & Rice bought Wm Morrison Supermarkets, the UK’s 4th largest grocery chain (founded in 1899), for US\$9.4 billion in October 2021.<sup>24</sup> Private equity firms are now eyeing Sainsbury’s, the UK’s 2nd largest grocery chain (behind Tesco, #7 globally), as a possible next target.<sup>25</sup>
- Apollo Global Management, the private equity firm that bought Smart & Final in 2019, sold the big box grocery chain operating in the southwestern U.S. two years later, to Bodega Latina, a subsidiary of Mexican retailer Grupo Comercial Chedraui, for US\$620 million.<sup>26</sup>

**Where are Amazon and Alibaba?** Even with the surge in online grocery shopping due to the pandemic, supermarkets and neighbourhood stores still dominate worldwide food and beverage sales, accounting for about 40% of the total.<sup>27</sup> That dominance is predicted to diminish over the next five years, with e-commerce – no surprise – seeing the highest growth among retail channels.<sup>28</sup>

While the world’s biggest online retailers, Alibaba and Amazon, aren’t among the Top 10 grocery retailers, their e-expertise gave them an edge when the pandemic hit. For comparison, in mid-2021, retail consultancy Edge by Ascential estimated Alibaba’s annual online grocery sales were US\$20.6 billion and Walmart’s about half of that (US\$10.1 billion) with Amazon’s estimated US\$14.5 billion in online grocery sales trailing Alibaba but beating Walmart; however, Edge by Ascential put Walmart’s store-based grocery sales at US\$238 billion.<sup>29</sup> That’s more than *ten times* the value of Alibaba’s online sales, even during a period when online grocery sales got an unprecedented boost due to the pandemic.

Going forward, the distinction between e-commerce and brick-and-mortar will become less and less relevant. As ETC Group pointed out in *Plate Technics*, the goal of retailers is to seamlessly integrate shopping online and offline. Alibaba has been selling groceries out of its Freshippo stores since 2016, and those stores double as fulfillment centers for online sales. Amazon bought the brick-and-mortar Whole Foods in 2017 and customers can shop in-store or buy groceries online from the store’s website or using its app, choosing delivery or curb-side pick-up. In addition, Amazon has been growing its own line of private label products commonly found on grocery store shelves – dog food, snack foods, baby wipes, diapers – and needs retail outlets in order to sell more of them. Since stores like Target and Walmart aren’t keen to provide a “showroom” for a rival’s products – especially one that notoriously undercuts them on price – Amazon is looking to expand its own brick-and-mortar retail space.<sup>30</sup> In 2020, Walmart introduced Walmart Plus, a subscription service modelled on Amazon Prime, which reduces or eliminates shipping and delivery fees. According to *The Economist*: “the grocery wars have barely begun.”<sup>31</sup>

**War or Détente?** While commentators like to use bellicose language suggesting fierce, tactical competition between the giant grocery retailers, it’s important to keep in mind that these rival armies enlist many of the same generals, who may even coordinate battle plans. In many cases, institutional investors (with voting rights) hold shares in more than one company operating in the same sector – an example of “horizontal shareholding” – which incentivizes them to influence those companies to lessen competition in order to increase the total value of their portfolios.<sup>32</sup> Scholars have documented institutional investors’ influence related to corporate governance choices – including board composition and manager compensation – with

an aim to *lower* individual firm efficiency and competitiveness.<sup>33</sup> At the time this report was written, Blackrock, Vanguard and State Street – known as the “Big Three”<sup>34</sup> index fund families – are the top three or are among the top four institutional shareholders for the behemoth US-based, publicly-traded retailers Walmart, Kroger, Costco and Amazon.<sup>35</sup> Vanguard and State Street are also among the top three institutional shareholders of Ahold Delhaize (#9);<sup>36</sup> Vanguard is the top institutional shareholder in Carrefour<sup>37</sup> (#5) and Blackrock is the top institutional shareholder in Tesco (#7).<sup>38</sup> The value of the funds “under management” by the Big Three is staggering and muddles the meaning of “public” in the definition of “publicly-traded.” At the close of 2020, Blackrock had US\$8.7 trillion under management;<sup>39</sup> Vanguard US\$7.1 trillion;<sup>40</sup> and State Street was managing US\$3.5 trillion.<sup>41</sup>

## Notes

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