

# Key factors affecting the food retail industry

Yue Wang

Southwest Jiaotong University Hope College, Chengdu 610400, China.

---

**Abstract:** During the period 2017-2019, the UK food retail industry has faced many changes and challenges. The study aims to explore three key influencing factors: sustainability challenges, the impact of Brexit on price wars, and technological advances. Using the PESTLE methodology to gain insight into the specific impact of these factors on the UK food retail industry, the study also found that the food retail industry has been continuously improving initiatives to reduce food waste and greenhouse gas emissions. Including government policy and other relevant economic factors also play a role. At the same time, a price war among food retailers and technological developments have also hit the industry. However, the study also presents difficulties in implementing sustainable development strategies and consumer insensitivity to the price of sustainable products. Therefore, future research could explore more effective sustainability strategies and address the associated constraints.

**Keywords:** Food Retail Industry; Sustainability Challenge; Brexit; Technological Progress

---

## 1. Introduction

The UK food retail sector is an important part of the UK economy, with the Food and Grocery Institute forecasting that the UK food and grocery market will grow by 14.8% to £28.2 billion in 2018. However, as globalization accelerates and technology advances, the industry faces many external and internal influences. As of January 2017, the market share of the four largest supermarket chains - Tesco, Sainsbury's, Asda and Morrisons - was 71.1%, falling to 67.7% by December 2019 (Kantar Worldpanel, 2021). In addition, food prices fell between 2017 and 2019 due to the success of the discounters and the impact of Brexit on the price war. However, thanks to globalization and technological advances, online grocery shopping has grown steadily. This sparked our research interest in the UK food retail industry, which is the focus of this study. Finally, this paper will first find out the key factors through PESTLE method, analyze the impact of these factors on the food retail industry, make a summary, and put forward suggestions for future research and practice.

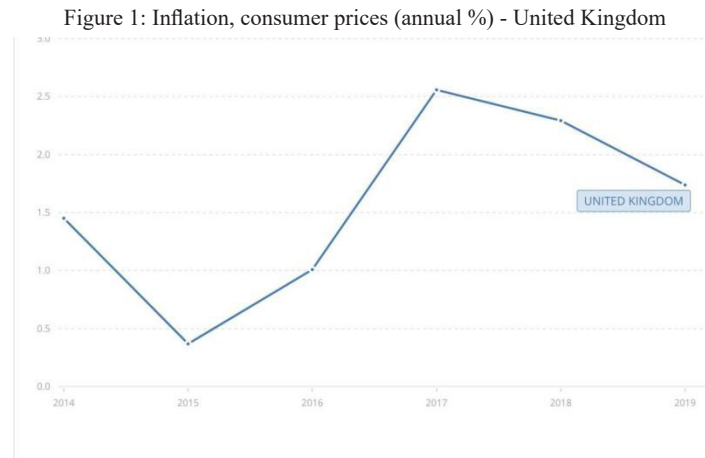
## 2. PESTLE method

### 2.1 Political factors

Global political stability is crucial to the development of the food retail industry, as many top retailers work with domestic and foreign suppliers. It is estimated that around 80% of the products produced in the UK come from continental Europe and EU countries (Walker and Mugudubi, 2022).

### 2.2 Economic factors

The economic situation directly affects the food supermarket industry, which in turn affects the demand and pricing strategies of food retailers. According to the World Bank Group, the UK's GDP grew by 6.7% in 2019 compared with the same period in 2017, and the unemployment rate fell to 3.7%. Inflation in 2017 and 2019 was 2.68% and 1.79% higher than the previous year, respectively. [Figure 1 and Annex 1] Gross National Income in 2019 increased by 0.03% over 2017. That means higher income levels have more disposable income, so you're likely to spend more on groceries.



Source: WRDS (Wharton Research Database Services)

### 2.3 Social factors

During the 2017-2019 period, changes in consumer preferences shifted towards health, sustainability, convenience (the growth of on-line shopping) or ethical considerations. According to Mintel, nearly a third (29%) of consumers are increasingly turning to e-commerce for shopping.

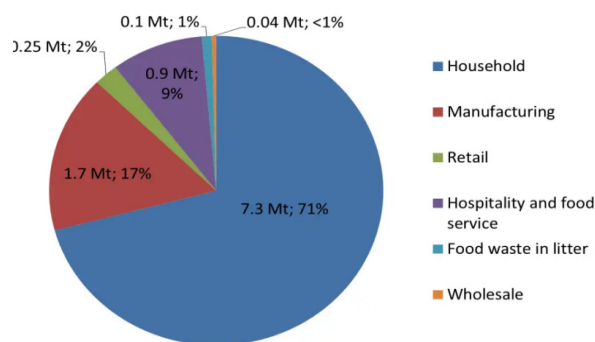
### 2.4 Technical factors

E-commerce and digitalisation have had an impact on food retailing, with Mintel showing that online shopping in the UK grew by 7% in 2017, with sales reaching £11.1 billion, up from £9.9 billion in 2016. However, the lack of skilled IT staff and data loss in physical retail stores and network insecurity also pose challenges. (Logan R. valallandingham, 2018)

## 3. Sustainability challenges

Despite the many challenges facing the food retail industry, sustainability will remain an important issue. In particular, challenges related to food waste, greenhouse gas emissions and increased carbon footprints. In 2017, the UK produced almost 10 million tonnes of food waste each year, with the UK's seven largest supermarkets producing around 200,000 tonnes, or 2% of the total, according to WRAP. However, these figures are conservative, for example, according to the UK Parliament (Office for National Statistics), the UK produced 9.5 million tonnes of food waste in 2018, which is 9% of the total food. This has not only seriously eroded its profitability, but also reduced the sales performance of the entire food retail industry. At the same time, food waste is eating into food retailers' profit margins. According to Teller, C with Holweg, cenen,2018. The average cost UK food retailers face as a result of food waste is around 1.5% of their total turnover, directly impacting profitability. As a result, by 2019, almost all food retailers have committed to halving food waste by 2030 (SDG 12, Target 12.3). In conclusion, food waste poses a serious threat to the economy and resources of the industry.

Figure 2: Amounts of food waste arising in the UK by sector (total post-farm-gate = ca.10 Mt)\*



source:wrap,2017

At the same time, increasing greenhouse gas emissions from the UK food retail sector are mainly from energy consumption, transport and refrigeration. According to Foster et al. (2018), greenhouse gas emissions from cooling and electricity in the UK are about 141 billion tonnes, or 3.5% of the total. Therefore, implementing energy-saving measures, such as replacing LED bulbs and adjusting heating and cooling systems, is key to reducing carbon emissions. At the same time, an increasing carbon footprint could have multiple impacts on food crops and supply chains. According to (Hasegawa, Tomoko, et al,2018), between 2018 and 2050, future climate change will reduce staple crop yields by 17%, increase market prices by 20%, and reduce associated consumption by 3%. All in all, food waste will not only reduce the sales performance and profitability of the food retail industry, but also lead to economic losses and waste of resources. However, addressing these challenges can lead to better sustainability.

### **3.1 Influence of Brexit on the price war**

Brexit has had some impact on the food retail sector, including a weaker pound and an increase in imported food. As a result, supermarkets compensate for the increase in costs by raising the price of products, which also brings supply problems and price stability. According to (IBIS world, 2017) the depreciation of the British pound will lead to an increase in procurement costs in 2017. However, Dave said inflation in October was more than 11 percent, the highest level in 40 years. However, as the Financial Times reported in 2018, the weak pound and rising import costs have affected some commodities such as butter, which in turn has pushed up food prices. Aside from fresh food shipments from other countries, stocks can be very limited. These may lead to a decline in consumer purchasing power and the disappearance of consumer demand. To attract customers and maintain revenue, retailers may lower prices to become more competitive.

In addition, economic uncertainty and Brexit have led to potential price rises, with the food retail industry facing higher costs, making consumers turn to discounters such as ALDI and LIDL, which saw strong sales growth in 2017, with a market share of 12%, according to Cantor. The combined market share of Tesco, Sainsbury's, Asda and Morrisons increased by just 1.6%. It is clear that Brexit has further intensified this competition. For example, Tesco and Morrisons offer promotions and offers to compete with discount supermarkets. According to Kantar Worldpanel, grocery prices continued to fall between 2017 and 2018.

Increased competition, rising costs and consumers switching to cheaper goods have all had an impact on margins in the food retail sector. According to the analysis of the industry report (IBIS world, 2018,2019), the profit margin in the next five years will be quite narrow. However, IBIS world(2019) highlights that revenues are likely to grow, with industry revenues expected to grow at a CAGR of 1.1% to £192.1 billion over the next five years from 2024-2025. All in all, because Brexit will cause prices to rise, this makes consumers more inclined to buy cheaper goods, and also encourages some retailers to reduce costs.

### **3.2 Technological Progress**

Advances in technology, including the rise of online grocery shopping and the convenience of click-and-collect services, are improving the customer experience in the food retail industry, reshaping customer expectations and changing their shopping behavior. According to Mintel, 48% of Britons will buy groceries online in 2017, up from 43% in 2014, and online grocery clicks are also on the rise. In addition, with the rise of online shopping, retailers will invest in developing user-friendly websites and mobile apps to meet consumer preferences and order groceries easily. It also boosted overall sales. According to Mintel 2017, online grocery sales will grow by 12% to more than £11 billion. As a result, online shopping is becoming more and more popular, with consumers appreciating the convenience and time-saving benefits it offers. This includes showing the latest deals, weekly specials, store locations and more.

## **4. Conclusion**

Through the research, we can draw the following conclusions. First of all, sustainability challenges, the impact of Brexit on price wars, technological innovation and other factors are important drivers of industry development, affecting the competitiveness and profitability of enterprises. However, the study only explores three years of data and lacks a comprehensive picture of changing trends in the industry. Second, the findings may be limited by data reliability and representativeness. Therefore, future studies can expand the time horizon, delve into the long-term development trends of the industry, and combine more data sources to improve the credibility and accuracy of the research. To

provide more effective guidance on sustainability and business ethics. And expand our understanding of sustainability practices across different business units.

## References

- [1] Foster et al., 2018. A. Foster, J. Evans, G. Maidment, Benchmarking of supermarket energy consumption, 5th IIR Conference on Sustainability and the Cold Chain .Beijing, China.Google Scholar
- [2] Hasegawa, Tomoko, et al,2018 “Risk of increased food insecurity under stringent global climate change mitigation policy.” Nature climate change 8.8:699-703.
- [3] Teller, C., Holweg, C., Reiner, G. And Kotzab, H. (2018). Retail store operations and food waste. Journal of Cleaner Production, 185, 981-997.
- [4] Vallandingham, Logan R., 2018 et al. “Grocery Retail Supply chain Planning and Control: The impact of Consumer Trends and Enabling Technologies.” IFAC-PapersOnLine 51.11:612-617.
- [5] Walker, A and Mugudubi, P. (2022) How will Brexit affect UK supermarkets and shoppers? Website:<https://www.kantar.com/uki/inspiration/retail/the-impact-of-brex-it-on-uk-grocery-industry-and-shoppers/> (on January 16 2023 Daily visit)

## About the author:

Yue Wang, 1998.10.20, female, Han Nationality, Sichuan Province. Ya'an, university teacher, master student, Hope College of South-west Jiaotong University, Economics