

European Grocery Retail Seeking for Growth in a Challenging and Dynamic Environment



by *Cosmin TĂNASE*
An Honorary Member of the Romanian Distribution Committee

Abstract

In an uncertain environment shaped by geopolitical pressures, inflation, and rising energy prices, cost efficiency is essential. 2024 was a year of mixed emotions for European grocers. Volume grew again, albeit slowly, some consumer segments traded up, and AI has been creating value for some grocers. Now, looking ahead to 2025, cost pressure remains high, some supply chains are highly volatile, and many shoppers are still cautious as economic pressure persists. The previous year was mostly a period of stabilization for the European grocery sector with the first signs of recovery in some markets. Despite stabilization, 2024 remained a challenging year for European grocers. Economic pressure persisted, which led to cautious consumer behavior as well as restrained spending. Grocery sales grew by 2.4 percent in Europe, slightly above the food price inflation rate of 2.3 percent. Discounters and private labels continued to gain market share, although at a much slower pace than in 2023, largely in line with a longer-term trend observed in previous years. On average, across Europe, there was almost no net effect from up- or downtrading. The 25 percent of consumers who traded up to more expensive options in 2024 were balanced by a similar proportion of consumers trading down - a clear stabilization after two years of strong downtrading. In 2025, the recovery is expected to gain momentum. Grocery retail CEOs in Europe are slightly more optimistic than they were last year. Nevertheless, the next few years are expected to remain challenging, with low volume growth and sustained pressure on profitability. To thrive in this competitive landscape, grocers could double down on pockets of growth through differentiation, focus on execution efficiency, meet the needs of the consumer of the future, and leverage data, AI, and technology.

Keywords: *Grocery Sales; Purchasing Power; Healthy Food; Innovation; Private Labels; Profitability;*

Customer Interactions

JEL Classification: C88; D83; L81; M31; O15; O32

After unprecedented shifts in the market between 2019 and 2023, 2024 was widely perceived as a year of stabilization in a challenging environment. Now is the time not only to reflect on 2024, but also to consider the state of affairs after the ups and downs of the past five years. Grocery sales in Europe grew by 2.4 percent in 2024. This growth was the result of 2.3 percent food price inflation, a downtrading effect of -0.1 percent, and a volume growth effect of 0.2 percent. This means that grocery sales increased for the first time since 2020 in real terms (adjusted for inflation). However, inflation-adjusted sales are still 4.1 percent below sales recorded in 2019. This decrease was driven by a volume increase of 0.8 percent and a decline of the price per item in real terms by 4.9 percent. With an overall downtrading effect of -0.1 percent, the market stabilized in 2024 after two years of strong downtrading. While the net downtrading effect was small in 2024, this was due to a balance of some consumers trading down and others trading up. In 2024, 25 percent of consumers traded up by switching to more expensive alternatives, mainly driven by high-income consumers.

Since 2019, the share of discounters and private labels increased significantly. Discounters and private labels continued to gain market share in 2024, although at a slower pace than in 2023, largely in line with the longer-term trend observed in previous years. Discounters gained 2.4 percentage points of market share between 2019 and 2023, followed by an increase of 0.2 percentage points from 2023 to 2024, reaching a share of 23.2 percent. The private label share has expanded in every analyzed European market since 2019, with an increase in volume of 3.8 percentage points between 2019 and 2023, and 0.3 percentage points from 2023 to 2024.

Despite ongoing cost and margin pressure, grocery retail CEOs were slightly more optimistic at the start of 2025 than they were in 2024. While 55 percent anticipate stability in 2025 (up from 39 percent in 2024), only 29 percent expect worsening conditions (down from 36 percent). None of the participating CEOs in Central and Eastern Europe expressed optimism this year. This result mirrors the expected volume decrease for this region of -0.3 percent a year until 2030. The 2025 grocery CEO agenda reflects the improved overall outlook at the start of the year. While “cost and margin pressure” and “downtrading of consumers” are still among the top three priorities, IT modernization and supply chain resilience gained prominence. Also, private labels remain important to European grocery CEOs. Consumer behavior is stabilizing. While consumers intend to increase spending on health, freshness, and high quality, they plan to decrease spending on frozen food, meat, and several other categories.

The next five years will likely be economically challenging, with low volume growth and sustained pressure on profitability. The projections indicate low volume growth of around 0.2 percent annually across Europe through 2030. Additionally, grocers are facing growing costs that arise from food inflation and labor shortages. Passing these costs on to consumers remains difficult because of the highly competitive market. In combination with low growth, these cost increases put pressure on grocers’ profitability (earnings before interest and taxes). The sector’s competitive landscape is likely to shift, with underperforming grocers potentially becoming the targets of takeovers. Operational excellence, a relentless focus on profitability, and building a differentiated offering for which customers are willing to pay could increase the chances of grocers performing well in this environment.

KEY TRENDS THAT ARE EXPECTED TO CHARACTERIZE THE EUROPEAN GROCERY RETAIL MARKET IN 2025 AND BEYOND

1. Low Volume Growth. The grocery retail sector experienced low volume growth in 2024. While this trend is expected to continue in the next five years, there are a few promising pockets of potential growth. Volume growth was low in 2024 (0.2 percent since 2023), and this trend is expected to continue, with up to 0.2 percent volume growth annually through 2030 across Europe. As far as channels are concerned, the shift from traditional trade to modern trade is expected to drive net growth of 0.1 percent annually through 2030, especially in Central and Eastern Europe, as well

as Southern Europe. Meanwhile, the shift from grocery to foodservice is expected to lead to a decline in volume of 0.3 percent annually. The largest positive effect is population growth, with a net growth of 0.2 percent annually in Europe, yet negatively impacting Central and Eastern Europe. Calorie consumption per capita is expected to increase by 0.1 percent a year, reflecting three developments: an increase in daily calorie intake (0.15 percent per annum), a growing share of older people who have lower calorie intakes (−0.04 percent per annum), and the potential uptake of weight loss medication (with a potential −0.01 percent decrease per annum). Despite low overall growth, there are pockets of potential growth in certain countries, channels, and categories. Northern and Southern Europe are projected to grow at 0.4 to 0.5 percent annually, respectively. Western Europe can expect a slight growth of 0.1 percent a year. In contrast, volume will likely decrease in Central and Eastern Europe (−0.3 percent a year). Among channels, online is expected to see the highest growth (2.0 percentage points above average), followed by discounters (0.8 percentage points above average). Categories that are expected to grow the most include fresh foods, healthy foods, and functional foods, such as power bars, protein-rich options, and sports drinks. Convenience and food-to-go categories are expected to be major growth pockets, too. For the third consecutive year, cost and margin pressure are a top priority for grocery retail CEOs. The two key factors driving this continued pressure are low volume growth and the fact that grocers may not be able to fully offset growing sourcing costs by increasing consumer prices due to high price sensitivity and competitive pressures.

2. From private labels to private brands. Private labels gained additional market share in 2024, and retailers increasingly position them as differentiated alternatives to A-brands. The private label share of total grocery sales value in Europe increased by 0.3 percentage points from 2023 to 39.1 percent in 2024. *Although consumer downtrading decreased in 2024, most consumers are not reverting back to A-brands from private labels. In a 2025 survey, 84 percent of consumers say they will continue buying private label products even if their purchasing power grows.* The sales share of private labels could reach 40 to 42 percent by 2030, up from 39 percent in 2024. The lower end of this range (40 percent) is based on the growth rate observed between 2014 and 2019, while the higher end (42 percent) is based on the growth rate observed between 2014 and 2024. Private labels are an important driver of market share growth for grocers. Retailers that have an above-average private label share have a 2.8 times greater likelihood of gaining market share than their peers. Those with top-quartile private label product quality have a 1.6 times higher chance than others to gain market share (Figure 1).



Figure 1 – Consumer preferences
Source: IGD; McKinsey Consumer Survey 2025

Grocers who create not just private labels but private brands, similar to A-brands, can gain significant market share. These grocers have established their own product development, concept, design, and packaging departments to

differentiate their offering. Rather than adopting cross-category brands, they often use category-specific brands designed to evoke specific emotions and appeal to different customer groups.

3. Growing appetite for healthy food. Consumers, particularly Gen Z, increasingly seek healthy and functional foods—a growth opportunity for grocers. The demand for healthy options is growing, especially for fresh, functional, and “clean” food. *Healthy options and foods that offer additional health-related benefits, referred to as functional foods, are growing rapidly. The net intent of European consumers to buy more high-quality, fresh products has increased by two percentage points since 2024. At the same time, some consumers are concerned about certain ingredients that are often found in processed foods.* Gen Z is the group seeking healthy options the most. Gen Z has the highest growth as a group of shoppers, and this group also has the highest intent (45 percent) to focus on healthy nutrition among all cohorts. **Compared to last year, the net intent of Gen Z shoppers to focus on healthy eating increased by seven percentage points. In addition, one in three members of Gen Z indicated a willingness to pay a premium for healthier products. Healthy eating preferences vary across generations, in line with what health means to different age groups.** Baby boomers focus on reducing salt and eating less processed foods to promote heart health and prevent or delay age-related conditions. In contrast, Gen Z shoppers and millennials prefer options that are high in protein and low in calories. Consumers are dissatisfied with the healthy options available at their main grocers. Only 35 percent of consumers say that their main grocer offers the right assortment of products for a healthy diet. And, while some consumers are prepared to pay a premium for healthy products, there is also a sizable group of shoppers who will or can buy healthy food only if it is affordable.

4. Unlocking a new level of customer engagement. High levels of engagement and personalization are key drivers of customer loyalty, and retailers are turning to gen AI to capture this opportunity. Evolving customer behaviors and expectations require retailers to rethink their approach to customer engagement. Consumers now view personalization as the standard for engagement: 56 percent say they will likely become repeat buyers after a personalized experience, especially Gen Z members (Figure 2). These shoppers also want comprehensive product information, especially around sustainability, and they have high expectations around product availability, channel integration, and speed. In a nutshell, they want everything, everywhere, all at once. Currently, only one in four customers thinks that retailers are performing well as far as personalization is concerned. In response to the increasing focus of consumers on health, pioneering grocers are augmenting their offerings with digital health services, in-store pharmacies, and partnerships with healthcare providers, such as optometrists and laboratory testing facilities.



Figure 2 – Personalization insights

Source: IGD; press; Twilio “State of Personalization 2023”

Gen AI might fill in the gap and unlock a new level of customer engagement. Major European grocers have started implementing gen AI-based chatbots for customer service. A few pioneers are offering highly personalized shopping experiences with recipes and product recommendations. Others are piloting chatbot-based online shops that allow shoppers to fill their virtual baskets via a dialogue with the chatbot. Grocers are redesigning their loyalty programs to provide a more personalized experience. Personalized content and promotions are gaining importance as traditional

“earn and burn” shopper rewards lose effectiveness. In response, eight out of the ten largest European grocers restructured their loyalty programs between January 2024 and February 2025 - a development that is expected to continue. Despite the growing importance of digital interactions, the human touch stays important. According to the analysis of growth champions, “friendly and helpful staff” is the most important factor for a pleasant in-store experience.

5. European consolidation. European grocery consolidation is expected to accelerate in the next five years as multinational grocers increasingly succeed in achieving cross-country synergies. Margins are under pressure for most European grocers. The average EBITDA margin of European grocers has decreased from 6.9 percent in 2019 to 6.2 percent in 2024, resulting in an average EBIT of 2.8 percent. Large grocers have more capacity to invest in procurement capabilities, supply chain automation, tech, and AI. Additionally, scale is needed to develop and produce private labels efficiently. Grocers double down on capturing European synergies. The number of M&A among European food retailers has increased by 31 percent, from 16 percent in 2019 to 21 percent in 2024. Additionally, multinational retailers have implemented initiatives to increase cross-country collaboration. Practices observed at large European grocers include centralizing procurement for parts of the assortment at the European level, centralizing functions such as private label development, and centralizing IT systems across Europe. Retailers and buying alliances seek to negotiate more on the European-level for better sourcing conditions rather than relying solely on additional rebates. Consolidation is expected to accelerate further within and across countries in the coming years. Given the need for scale to counter margin pressure and the additional potential of cross-country synergies, there is a high probability of further consolidation through M&A, as well as further collaboration between retailers in buying alliances.

6. The race to get tech right. *Data, AI, and tech are higher than ever on the CEO agenda as the gap between leaders and late adopters widens. Data, AI, and tech attract increasing CEO attention and capital expenditure. Four years ago, “modernizing IT” and “adopting advanced analytics and AI” were not among the top seven priorities for grocery CEOs. Today, they rank third and sixth, respectively. This shift is reflected in investment patterns: capital expenditure by 19 European grocery sector leaders increased by 13.9 percent between 2021 and 2023, mostly driven by investments in IT, AI, and automation. The benefits of superior capabilities in data, AI, and tech are substantial. The research shows that retail and consumer goods companies that have above-average capabilities in data, AI, and tech achieve twice the growth and up to 2.9 times the total return to shareholders (TSR) of their peers (Figure 3).*

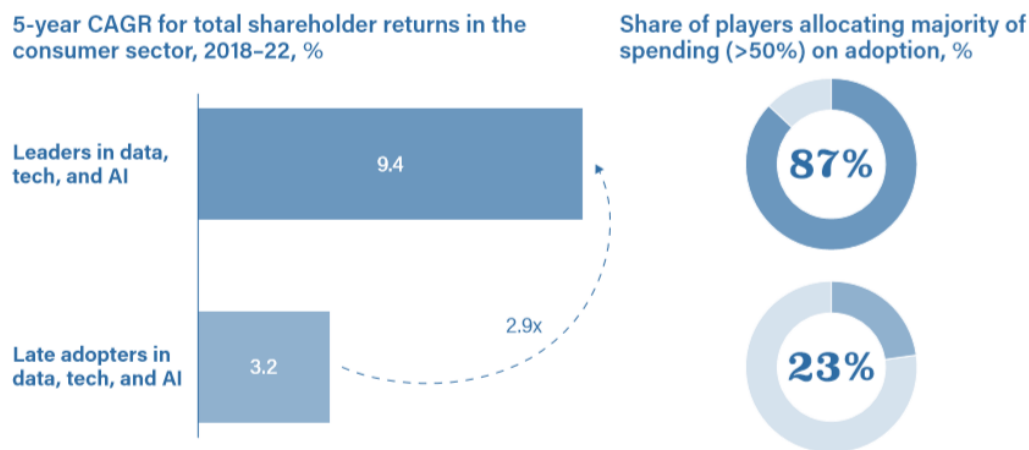


Figure 3 - Financial performance and spending of AI budgets on adoption.

Source: S&P Capital IQ; McKinsey Digital Quotient (DQ) research

Generative AI and agentic AI bring new value creation opportunities. **Recent AI and tech benefits came from improved commercial decision-making (including pricing, promotion, and assortment optimization) and supply chain management (including forecasting, replenishment, and automation).** The next wave of gen AI-enabled applications will likely help increase the productivity of office jobs, enable more personalized customer interactions, accelerate private label innovation, and improve negotiations with suppliers. Despite growing AI investment, few grocers see the benefits reflected in their profit-and-loss (P&L) statements. Nearly 90 percent of AI and tech transformations have not reached scale - many companies lack effective measurement systems and face a productivity paradox, driven by the imbalance between the resources invested in AI and the benefits captured. Investments in adoption are essential to drive value creation with AI. According to the research, 87 percent of data, AI, and tech leaders spend over half of their AI budgets on adoption, compared with only 23 percent among those that generate lower TSR. These leaders typically align the entire organization on the areas of greatest value, they develop domain-specific roadmaps, and they put the right enablers in place, including data, tech, operating model, talent, and risk management.

7. Retail media growth and professionalization. As retail media spending grows, grocers are streamlining advertising sales and diversifying advertising opportunities to take advantage of this important profit source. Retail media spending by advertisers keeps growing fast. IAB Europe expects retail media spending to reach €31 billion by 2028, up from €14 billion in 2024 - a CAGR of about 20 percent. This means that retail media spending could reach €41 billion by 2030. That said, in 2024, the retail media share of total advertising spending is even higher in the United States - by 5.4 percentage points. **For European grocers, retail media is the largest and fastest-growing profit source beyond conventional retail. Grocers are streamlining the way they market retail media to advertisers. Over 50 percent of European retailers have had a retail media proposition for over a year. However, the fragmented landscape has made it hard for advertisers to reach consumers across different retailers.** According to IAB Europe, 60 percent of advertising buyers cite **standardization** as the key to future growth. In response, in 2024, the IAB and the Media Rating Council introduced standardized performance metrics to enable accurate performance assessment across retailers. This could increase the attractiveness of retail media networks for advertisers. The year 2025 will be marked by a diversification of advertising opportunities. So far, retailers have scaled their offerings on platforms they operate themselves, such as advertisements on their websites and in- store screens. Additional growth could be unlocked by extending the reach of their networks and offering their targeting capabilities on platforms operated by others. Examples include third-party websites and social platforms, shoppable video, and connected TV advertising. Gen AI has the potential to make retail media networks more attractive. It can improve campaign creation, campaign optimization, targeting, and personalization.

Conclusions

Consumer preferences are changing and a new generation of shoppers is evolving. And despite low overall volume growth, there are pockets of potential growth in European grocery. Among all the strategic priorities, the most important are: double down on pockets of growth, increase efficiency, win the favor of the consumer of the future, and take advantage of tech opportunities.

In a low growth environment, retailers can improve their position by increasing differentiation to gain market share, accelerating innovation, and driving premiumization. One potential lever is to focus on high- potential categories, such as healthy and functional foods, and fresh products. A second lever is to strengthen the private label offering, not only by ensuring high-quality private labels, but also by building a portfolio of category-specific private brands with distinct value propositions besides manufacturer brands. As a third lever, grocers can reinforce their retail media offering

by diversifying advertising opportunities beyond their own platforms and streamlining advertising sales - for example, by forming joint ventures with agencies and adopting standardized impact metrics.

Retailers can accelerate their cost efficiency programs to gain additional productivity and improve affordability to consumers. Specifically, top performers are expected to double down on sourcing optimization for private labels, consolidate sourcing on the European level, and capture further benefits from buying alliances.

As Gen Z shoppers come of age, a new type of shopper is entering the market for groceries, with different needs and expectations from those of older generations. They do not cook as much as their parents, they want healthy food, and they expect a personalized shopping experience. Reinventing loyalty programs and offering unique, personalized promotions are promising strategies to win them as repeat customers. Gen Z shoppers also expect grocers to have sustainable operations and product offerings, but they are not prepared to pay a premium for sustainability. Therefore, prioritizing the right sustainability initiatives—starting with the least costly ones—could help grocers satisfy the dual demand of tomorrow’s shoppers for sustainability and affordability.

Data, AI, and tech bring many opportunities for value creation in grocery, both in consumer-facing functions and back-end operations. Investments in digital capabilities, decisive tech adoption across the entire value chain, and comprehensive impact measurements can help grocers take advantage of these opportunities. Once the foundations of tech-driven value creation are in place, grocers can explore additional opportunities that gen AI and agentic AI may bring.

References

- [1] Das, G., Spence, M. T., & Agarwal, J. (2021). Social selling cues: The dynamics of posting numbers viewed and bought on customers’ purchase intentions. *International Journal of Research in Marketing*
- [2] Ismagilova, E., Slade, E., Rana, N. P., & Dwivedi, Y. K. (2020). The effect of characteristics of source credibility on consumer behavior: A meta-analysis. *Journal of Retailing and Consumer Services*, 53(March), 101736.
- [3] Johnson, M., Jain, R., Brennan-Tonetta, P., Swartz, E., Silver, D., Paolini, J., Mamonov, S., Hill, C. (2021). “Impact of big data and artificial intelligence on industry: Developing a workforce roadmap for a data driven economy.” *Global Journal of Flexible Systems Management*.
- [4] Khatri, M. (2021). “How digital marketing along with artificial intelligence is transforming consumer behaviour.” *International Journal for Research in Applied Science and Engineering Technology*, 9(7), 523–527.
- [5] Key Trends for European Grocery Retail in 2025. Available at: <https://forecourtretailer.com> [Accessed 9 May 2025]
- [6] Online grocery shopping in Europe: consumer research on the role of innovation and local food perceptions. Available at: <https://www.emerald.com> [Accessed 6 May 2025]
- [7] Trends Shaping the European Grocery Retail Market in 2025. Available at: <https://www.esmmagazine.com/retail/> [Accessed 11 May 2025]

