

## GROCERY

Despite the growth of the discounters, big grocers bucked expectations to deliver strong Christmas results. **Luke Tugby** reports

# Did Christmas mark the start of a big four fightback?

**DECEMBER 2015** had been billed by observers as the year the discounters would make gains in the world of “mainstream Christmas shopping”.

Aldi and Lidl’s price-driven assault on UK grocery has already led the duo to woo customers from their more established rivals and grow their combined market share to about 10%, while the big four floundered.

In July last year, the German grocers saw a greater opportunity and looked set to step further into mainstream territory, expanding their host of premium lines – including lobster, stuffed crab and luxury flavoured cheeses – in a bid to grab a larger slice of the Christmas pudding.

But the festive season didn’t quite go to script, even though both Aldi and Lidl delivered double-digit total sales growth, according to Kantar. Instead, the three listed members of the big four – Morrisons, Sainsbury’s and Tesco – all reported consensus-busting like-for-like sales during the crucial Christmas trading period, sparking hopes that the big four fightback was starting to bear fruit.

Morrisons kicked off, delivering an unexpected 0.2% uplift in like-for-likes during the nine weeks to January 3 – beating analysts’ predictions of a 2% decline. Sainsbury’s like-for-likes dipped 0.4% across the quarter, better than the predicted fall of about 0.8%.

It was Tesco that drew the most significant line in the sand, posting a 1.5% increase in UK like-for-likes in the six weeks to January 9, when a drop of at least 2% had been estimated.

## ‘Long journey’ ahead

Despite that feather in his cap, Tesco boss Dave Lewis poured cold water on suggestions that the grocers’ collective performance marked the start of a big four comeback.

“We recognise our progress, but continue to say there is much, much more to do,” he said.

That sentiment echoed the words of David Potts, who admitted Morrisons still faced “a long journey” despite its encouraging Christmas.

Planet Retail analyst David Gray met the trading figures with similar hesitancy. “You’ve got to be a little bit cautious,” he says. “A lot of these figures are shorter six-week trading periods and you can’t read too much into those. Tesco, for example, gave a UK like-for-like figure of -1.5% for the quarter.

“Having said that, there’s a lot of evidence that the big four are improving but it’s not just



happened over Christmas, it’s been going on for a few quarters.

“The problem is that the overall market is still in decline. If you look at the latest Kantar figures, the market was in decline by 1.8%. In a market that is shrinking, not everyone can achieve growth. Someone has to lose.”

## Turning the corner

Gray suggests that Aldi and Lidl will continue to be among the winners. He believes they “won’t be too worried” by the Christmas performance of the big four’s three listed companies, because their store expansion plans will allow them to increase sales and market share “no matter what”.

But Shore Capital analyst Clive Black says of the discounters: “Christmas 2015 has been a body blow, particularly for Aldi, because it hasn’t gained the trust of people to do their Christmas shopping with them.

“At the same time, Aldi is opening a lot of stores and isn’t going away. And Lidl, which we felt was better set up for Christmas, is arguably even better set up than Aldi for 2016.

“We do believe that the big four will continue to self-improve so that their businesses stabilise and start to see more solid like-for-like sales. We are seeing the turning of that corner, but it is an awfully long bend that will last for 12 to 18 months at least.”

Gray believes that the big four will need to focus on availability, customer service, speeding up the shopping trip, slashing promotional activity and focusing on everyday low prices in order to tackle that corner head on.

The final member of the big four, Asda, has made its position clear on the latter, pledging to plough a further £500m into reducing its prices and narrowing the gap to the discounters.

However, news this week that Asda is cutting jobs may indicate it is still finding life tough.

Black suggests that “a larger segment of the population” will also begin to shop for groceries in a different way in 2016 as their disposable income rises.

He thinks more shoppers will return to the big four’s “easier parking, superior check-out services, range of brands, fresh food counters and ancillary services” because the discounters’ unique selling point of price won’t be “as attractive as it was”.

There is no doubt that Tesco, Sainsbury’s and Morrisons have laid down a marker this Christmas. But their collective fightback remains very much in its infancy.

**“There’s a lot of evidence that the big four are improving, but it’s not just happened over Christmas, it’s been going on for a few quarters”**

**David Gray, Planet Retail**