The Supermarkets industry has undergone radical upheaval over the past five years. Extensive changes in consumer shopping habits and the aggressive expansion of discount supermarkets Aldi and Lidl have shaken the industry. Supermarkets have begun to develop a taste for mergers and acquisition deals now that opportunities for organic expansion are in short supply.

The past 18 months have seen the three largest UK operators—Tesco, Sainsbury’s and Asda—undertake major deals to expand their reach. In January 2017, Britain’s biggest supermarket retailer, Tesco, reached an agreement to merge with Booker, the UK’s largest wholesaler. The £4 billion takeover deal was approved and finalised in March 2018. As a result, Tesco became a major supplier to competing small retailers, serving 125,000 independent convenience stores as well as 468,000 restaurants and pubs. Less than five months later, Tesco announced plans for a strategic alliance with Europe’s largest retailer, Carrefour, in order to secure better deals with suppliers.

In 2016, Sainsbury’s acquired Home Retail Group plc, the parent company of catalogue retailer Argos and furniture retailer Habitat, for £1.4 billion. Sainsbury’s has successfully incorporated concessions into stores, expanding its reach in the wider retail sector and achieving cost synergies. In April 2018, Sainsbury’s entered into talks with Walmart-owned Asda as part of a proposed tie-up between the two retailers. This is due to be completed in the second half of 2019, subject to approval by the CMA. The combined market share of the second and third largest supermarket brands in the United Kingdom is expected to be between 25% and 30%, nearly double the current year estimate for Tesco.

The flurry of merger activity in the industry has not been confined to the traditional supermarket giants. In August 2017, health food retailer Whole Foods was acquired by Amazon, integrating the grocery chain into Amazon’s sales platform. Morrisons also has a tie-up with Amazon to supply products for the company’s Prime Pantry. The CMA also gave the green light to a proposed takeover of wholesaler Nisa by the Co-op Group for £143 million, increasing its scale and buying power of the Co-op brand. The Co-op-Nisa deal was completed on 8 May 2018.

It’s not hard to see why so many brands are choosing to fuse their businesses. The retail sector as a whole has seen an increase in merger activity in recent years as changing consumer spending patterns have led to stagnant sales growth in the sector. Retailers aiming to shore up their position and widen their market share
Stacking up: Supermarkets Fight for Market Share

favour takeovers to boost growth.

Big brand supermarkets have also faced added pressure from the growth of German discounters, Aldi and Lidl, over the past five years. In 2012-13, IBISWorld estimated Aldi’s market share to be 1.6%. Five years later this share had risen to 5.6%, making it the fifth largest supermarket in the United Kingdom. The cost pressure placed on incumbent supermarkets by the growth of these low-cost brands has constrained industry margins, with supermarkets waging a price war in order to defend their market share. Liaisons between groups allow them to achieve economies of scale through lower costs. Joint efforts also have more bargaining power with suppliers, enabling them to negotiate lower prices and giving them the upper hand.

It’s not yet clear what lasting effect the mergers and collaborations will have on the industry. The Asda-Sainsbury’s deal has yet to receive full approval from the CMA as the regulatory body combs over the implications of a supergroup. If the deal gains approval, the newly created behemoth would have 2,800 stores across the United Kingdom, including the Argos business which was previously acquired by Sainsbury’s in September 2016. Analysts and politicians have expressed concern over what effect these major bargaining alliances could have on suppliers. Coordinated negotiating techniques from buyers are likely to put pressure on suppliers to cut prices, ultimately eating into producer’s operating margins or even forcing out smaller operators.

Mergers also infer weaker competition between enterprises. As major players amass power through strategic alliances, smaller independent companies will find it harder to challenge their dominant position. Ultimately this comes at a detriment to the consumer, who previously could benefit from lower prices as Aldi and Lidl expanded.

Going forward, particularly if Asda and Sainsburys are successful in their merger, more grocery retailers are likely to follow suit in order to safeguard their precarious market share in the increasingly hostile retail sector.

**Acquisitions and mergers in the Supermarkets industry**

- **£1.4 billion**
  - Sainsbury’s Home Retail Group
  - Sep 2016
- **£4 billion**
  - Tesco Booker
  - Jan 2017
- **£143 million**
  - Co-op Nisa
  - May 2018
- **£15 billion**
  - Asda Sainsbury’s*
  - 2nd half 2019

*Pending approval

**SOURCE: IBISWORLD**

**IBISWorld Industry reports used in this special report:**

- G47.110 Supermarkets in the UK
- G47.730 Dispensing Chemists in the UK
- R92.000 Gambling & Betting Activities in the UK
At IBISWorld, we know that industry intelligence is more than assembling facts
It is combining data with analysis to answer the questions that successful businesses ask

Identify high-growth, emerging and shrinking markets
Arm yourself with the latest industry intelligence
Assess competitive threats from existing and new entrants
Benchmark your performance against the competition
Make speedy market-ready, profit-maximising decisions

Who is IBISWorld?
We are strategists, analysts, researchers and marketers. We provide answers to information-hungry, time-poor businesses. Our goal is to provide real-world answers that matter to your business. When tough strategic, budget, sales and marketing decisions need to be made, our suite of Industry and risk intelligence products give you deeply researched answers quickly.

IBISWorld Membership
IBISWorld offers tailored membership packages to meet your needs.

Disclaimer
This product has been supplied by IBISWorld Ltd. ("IBISWorld") solely for use by its authorised licensees strictly in accordance with their licence agreements with IBISWorld. IBISWorld makes no representation to any other person with regard to the completeness or accuracy of the data or information contained herein, and it accepts no responsibility and disclaims all liability (save for liability that cannot be lawfully disclaimed) for loss or damage whatsoever suffered or incurred by any other person resulting from the use of, or reliance upon, the data or information contained herein.
Copyright in this publication is owned by IBISWorld Ltd. The publication is sold on the basis that the purchaser agrees not to copy the material contained within it for other than the purchaser’s own purposes. In the event that the purchaser uses or quotes from the material in this publication – in papers, reports or opinions prepared for any other person – it is agreed that it will be sourced to IBISWorld Ltd.

Copyright 2018 IBISWorld Ltd