



# **New Year, New Challenges:** 6 Trends to Expect in 2023







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2022 has been a hectic year in the world of grocery. From the shocking Kroger-Albertsons mega-merger announcement to the stifling impacts of inflation on consumer spend, grocers have had a lot on their plate in recent months.

As we enter a New Year, grocers will continue to have much to grapple with as they work through significant challenges facing the industry. We at Alvarez & Marsal Consumer & Retail Group anticipate a number of trends that will take hold in 2023 that every grocer must consider.

## A&M CRG Grocery Predictions for 2023

The 6 trends that will shape the grocery industry in the next 12-months that executives must anticipate.





01

## Consumers push to value even further, trading down and growing private label



As the country continues to deal with significant inflation and a looming recession, consumers have dialed back spend to adjust to the higher cost of living. We anticipate this trend to continue into 2023, with consumers across demographics and geographies electing to trade down within categories. What does that mean in practice? Expect to see consumers choose ground beef over ribeye, or perhaps a carb-based pasta dish over a protein-based chicken recipe. At the same time, we'll continue to see private label sales dramatically outpace full store growth as consumers opt for value while grocers strive to capture dollar margin.

02

## Non-Amazon grocers will launch Just-Walk-Out in full-size grocery formats



Amazon first introduced its JWO concept to a full-size format in Summer 2021 when the e-comm giant debuted the technology in an Amazon Fresh store in Bellevue, Washington. Since then, the retail mogul has slowly rolled out the technology to other locations including a handful of Whole Foods stores nationwide. With consumers increasingly valuing convenience as they return to in-person shopping, don't be surprised to see one of Grabango or Trigo (or both) launch a full-sized grocery Just-Walk-Out store in conjunction and partnership with a North American grocer. By the end of 2023, we expect to see 5-20 fully functioning non-Amazon Just-Walk-Out stores in North America.



## There will be a continued labor shortage, especially in highly skilled areas



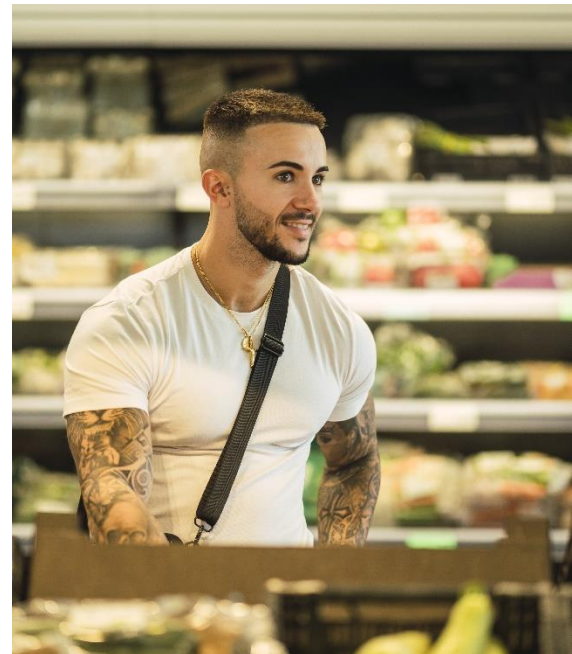
According to a 2022 study by the Food Industry Association, the turnover rate for food retail in 2021 nearly reached 50%, and all signs point to a similar scenario this year.

There is no lack of evidence pointing to a labor shortage in the grocery industry. We expect this **shortage to be particularly problematic in skilled areas** like butchers, fish mongers, and pharmacists where labor pools are more limited. To address these concerns, expect grocery operators to hire temporary workers, increase scheduling flexibility, and offer more competitive pay.

## M&A activity will spike



Kroger and Albertsons recently shocked the retail world by announcing a nearly \$25 billion arrangement that will combine two of America's top grocers. To comply with federal antitrust requirements, the **new entity is expected to divest 650+ stores nationwide**. Other players will salivate at the chance to acquire high-performing stores in a situation where Kroger-Albertsons has no option but to sell. In addition to these opportunities, the broader landscape of smaller, regional grocers will be abundant with acquisition opportunities as these **sub-scale retailers continue to struggle** with inflation, labor shortages, and supply chain obstacles.



## Mega grocers will push for ecommerce profitability in select markets



The pandemic ushered in a new, sustained desire for omni channel shopping that facilitated the explosion of micro-fulfillment onto the scene. For grocers, expanding this capability is a no-brainer: customers value the convenience that MFCs provide while retailers realize efficiencies and cost savings through automation. The obvious benefits have grocers chomping at the bit—Walmart just announced intentions to acquire MFC market leader Alert Innovation while Kroger continues to expand its footprint with [Ocado](#). As this technology proliferates, so too will its commercial models evolve.

Whereas grocers may have been more inclined to accept margin hits to establish these ecommerce offerings - think discounted same-day delivery or no minimum order sizes - we'd expect operators to shift their strategies away from these volume-driving promotions to **enhance margin** and fuel long-term growth.

## Regional grocers will push into retail media networks of their own



Retail media networks are emerging as a valuable tool for grocers to monetize their customer traffic and data, especially in an environment of margin compression. While the large players are further along this journey, like Kroger with its Kroger Precision Marketing offerings, expect **regional grocers to push into this new and lucrative revenue stream**. eMarketer forecasts the entirety of digital retail ad spending to exceed \$50 billion in 2024, and regional grocers have an opportunity to invest in their offerings and take a piece of the pie.

**2023 is sure to be another challenging year for the grocer, but that certainly does not mean it cannot be a successful one. With the right strategy, people, and operating model in place, every grocer can put themselves in a position to win—get ahead now by anticipating what is to come.**



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At A&M, we have the experience and resources to support you during these turbulent times. We are passionate about helping companies achieve their maximum potential and be on the right side of disruption. We look forward to connecting.

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