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According to a new report released by Edge Retail Insight, Amazon will overtake Tesco as the UK's top retailer within the next four years.

Though Tesco's current sales are nearly double that of Amazon's (£64bn compared with £36.3bn in 2020), the newer retailer is quickly gaining ground on its competitor. Edge by Ascential, whose research team conducted the study, said that by 2025 Amazon's sales will hit £77.1bn, bettering Tesco's by 3.5%, or £76.1bn.

"The UK is one of the largest retail markets in Europe, and a key market for many brands around the world," Deren Baker, CEO at Edge by Ascential, said.

"Our data shows that e-commerce is expected to grow in the UK over the next few years, and this will be driven by digital marketplace giants like Amazon, and omnichannel marketplace giants like Tesco. Over the past year, Amazon has grown its online retail footprint in the UK and expanded into the high street, with the launch of three Amazon Fresh shops in London."

Still, when it comes to the fresh category, Amazon is fairly far behind. Though it saw a 17.6% growth in sales of fruits, vegetables and other foods because of the pandemic, it remains lower as a go-to grocery option for consumers. Edge by Ascential does expect further growth, however, and said it will move into 15<sup>th</sup> place ahead of Shell, McColls, BP and Wilko by 2025.

Overall, Amazon will account for a third of all UK chain retail sales added between 2020 and 2025, and Edge says compound annual sales growth will hit 16.3% over that timeframe. It also will boast 15% of UK chain retail sales in 2025, up from 9.1% currently.

According to Edge, the lean to online will not go away even after the pandemic subsides. Around a third of all sales are expected to happen virtually, a boost of some 8% from current figures and bettering all other buying options.

In fact, Edge says, online is expected to hit £176.2bn in five years, which would be more than £70bn in growth. Aside from the sharp gains from Amazon, retailers such as Tesco, Sainsbury's and Asda all have enjoyed the online boon. Tesco reported that online sales increased 77% during the pandemic as it doubled capacity.

"The past year has seen online grocery accelerate in the UK, a market which already had one of the world's highest penetration rates for online grocery," said Robert Gregory, Advisory Research Director at Edge by Ascential.

"While Amazon has seen sales grow strongly, so have the larger grocers, with the likes of Tesco, Sainsbury's and Asda all being able to expand capacity for their online services. Tesco recently revealed a 77% increase in online sales during its 2020-21 full year results after doubling its online capacity to 1.5 million slots a week. Growth will also be driven by leading players looking to improve delivery speed, including partnerships with last-mile delivery specialists such as Deliveroo and Uber Eats.

Good news came for Aldi, Lidl and other discount retailers - they are forecast to experience slight growth, while the traditional chain supermarkets are expected to lose market share. Researchers say the foodservice sector is expected to remain level.

According to the report, all of the top 10 retailers in the UK are expected to see increases in sales, though most far less robust than Amazon or even Tesco. Sainsbury's are expected to jump 6.6%, and John Lewis likely will see a rise of 3.9%. Asda (0.5%), Morrisons (1.5%), Co-Op (1.8%) and Marks & Spencer (1.7%) all checked in at less than 2%.

Baker said moving forward that physical stores will be important, but "consumer packaged goods brands must prioritise their online strategies to capture growth opportunities, particularly in mature digital markets." That especially includes the UK.

"That means understanding how to convert shoppers online through digital touchpoints, such as marketplaces like Amazon, where many now begin their purchase journeys," Baker said.

"The next five years will be defined by the ability of CPG firms to leverage the might and skill of marketplaces to acquire customers. This is next-generation retail - Retail 5.0 - marketplaces mastering personalization at scale. CPG brands must focus investment on winning market share through the online platforms most relevant to them."