NEW REPORT

US ONLINE GROCERY REPORT 2018

4 horse race between Amazon, Walmart, Instacart and Kroger

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DECEMBER 2018

Overview

This report looks at the retailers in the sector:

- Data on sales, market shares, basket sizes, orders of the Top ten US players (Amazon, Walmart, Instacart, Kroger, Peapod, Costco, FreshDirect, Albertsons, Target etc)

- Thorough, deep dive business model analysis of the major players in the US context with the relevant data

- A complete overview of the US online grocery market, risers and fallers, innovators and laggards

- Detailed statistics on the online grocery sector in the USA including our forecasts

- Future outlook assessing meal kits and robots in warehousing/supply chain and last mile fulfilment.

- The state of play in fulfillment: home delivery, click and collect and drives. .. and the future of fulfillment:

- Proprietary Amazon data, Amazon grocery sales figures, Amazon Fresh figures, basket sizes, spend, number of items ordered, Amazon tracker data and annual best sellers in the grocery

- Strategic recommendations and forecasts, insights and recommendations to the FMCG industry, retailers and suppliers over a ten year horizon, based on face to face conversations with Amazon executives, fresh food suppliers, 3P traders and logistics providers

Companies profiled:
Amazon, Walmart, Instacart, Kroger, Peapod, Costco, FreshDirect, Albertsons, Target, Blue Apron, Hello Fresh, Postmates, Uber, Lyft, Shipt, Google, Whole Foods, Nuro, Ocado, Auchan, Eleclerc, Aldi, Asda, Deliv, DoorDash, Jet.com, Sam's Club, Publix, Ahold Delhaize, H-E-B, Loblaw, Wegmans, CVS Health Corp., eBay, Trader Joe's, Sprouts, Harris Teeter, Walgreens, Boxed, Home Chef, Campbell's, Kraft Heinz, Barilla, Green Chef, Carrefour, Casino, Cdiscount, Toogooodtogo

Introduction 1/2

The sector is going to witness an epic four way battle between Amazon, Walmart, Instacart and in future Kroger.

(I)

Amazon is betting on rapid delivery with Prime Now. This means Amazon's online grocery business will be all about Whole Foods. The bricks and mortar retailer, champion of the organic movement, was a perfect fit for Amazon but also a very opportunistic acquisition. The retailer will provide Amazon with the trust levels and brand strengths and the full grocery proposition, so it should actually raise basket sizes at Amazon. This has been the perennial problem of Amazon Fresh's offer.

As the company goes for a rapid delivery in the Prime Now mould and a focus on convenience and speed and have less of an emphasis on Amazon Fresh in future, this means very challenging low basket sizes going forward.

Apart from the marketplace, and its other online grocery businesses (from pantry to Alexa, Ring, Nest etc), Amazon also operates the Go stores and of course the drive locations. Undoubtedly, Amazon will launch other verticals in this space and throw new models into the mix. How they then all sit and fit together is a very different question.

The prime benefits and discounts will be key. Many more shoppers are likely to begin online grocery shopping now that it is offered via Amazon Prime. And prime drives repeat shopping.

(II)

To catch up, Walmart will need to sweat its assets and really make its drive option work hard. Its drive stations will need to handle 8m deliveries a year to make a meaningful contribution.

For Walmart to add $500m to its online grocery sales would mean that each of its click & collect points would need to serve 10 orders a day at an average basket size of around $70. If the retailer wants to catch up to Amazon its home delivery service, Jet.com and any other future initiatives will need to fire on all cylinders too.

Obviously even the double (20 orders per day) would not be an operational hurdle at all, the question is rather whether the demand will be there as anticipated by Walmart management. In the UK Asda's big bet on click & collect famously did not come off.

Moreover, taking half a billion USD in sales off competitors in a mature grocery market will not be easy. It would imply a significant market share shift and the loss of many smaller b&m independents we believe.

(III)

Instacart looks like a brilliant model for smaller grocers. They will be able to share the same logistics platform, online capabilities, delivery drivers etc through Instacart. Sharing front to back end and especially the expensive last mile enables grocers to launch their e-commerce activities without the huge upfront investments and sunk costs otherwise required. In this sense Instacart has become a shared infrastructure for grocery retailers as they defend against Amazon.

Introduction 2/2

FMCG on the other hand view Amazon as a welcome route to market that bypasses the big retailers and their private labels and negotiating power. But arguably, such a marketplace should have been set up by the FMCG players rather than giving all the business to Amazon.

One way of looking at the sector in future posits Instacart versus Amazon, or retailers versus FMCG, as their preferred platform and route to market of choice.

In effect this could mean, that Amazon will become the platform the FMCG players will want to push as a counterweight to (physical) retail. On the other hand Instacart will be the platform the established bricks and mortar grocery retailers use to gain a foothold in online grocery.

(IV)

That said, there is a contradiction to the Instacart model. Pick from stores is actually outdated, especially when viewed from an efficiency standpoint and when looking at cost. But the model is being saved by enabling rapid deliveries from central locations.

The most efficient solution will be the robot warehouses as pioneered by Ocado and now sold to Kroger. After all Ocado is the only player profitable on an operational level in the UK. This tie up with Kroger should not be underestimated and Kroger could well be a big surprise in online grocery going forward.

What is holding back the Kroger and Ocado model is despite the speed the robots provide, the huge out-of-town sheds needed for online grocery picking make a rapid delivery very challenging, just because of the drive time from out of town to shoppers' homes. Also if click & collect/pick up becomes more of the norm in US online grocery shopping, then Instacart become less of an attractive partner for smaller grocers.

Key questions answered 1/2

1) Home Delivery or Pick Up?

Will the US online grocery market evolve towards click & collect /pick ups and drives (pushed by Walmart) as in France?

Or to home delivery and a centralised delivery model as in the UK (Kroger/Ocado). Why is Amazon in a perfect position for both outcomes?

Where is the limit to pick up/click & collect/drive in the USA?.

2) Basket sizes

Will grocery basket split into mundane automatic replenished products such as dishwasher tablets, washing powder, nappies etc (ordered by voice and served by subscription as Amazon is betting on) and more exciting fresh produce that still tends to be bought in store?

Will online grocery baskets split between big (bi) weekly shops served by home delivery (Peapod/Fresh Direct) and more frequent pick up/click & collect/drive baskets (which are considerably lower) and served by Walmart or Kroger?

Will online grocery basket sizes trend down as convenience takes over – and so the winner will actually be very fast/rushed deliveries at a premium price provided by Instacart?

3) Players

Will Walmart become a bigger online grocery player than Amazon? And how many orders would the drives need to serve to make a meaningful contribution to the business?

Will Amazon ‘s online grocery business be all about Whole foods and Prime Now? What will happen to AmazonFresh?

Will Amazon keep all grocery options going in future?

And which new business ventures will the online giant launch into the space next? Is the Whole Foods deal actually transformational?

Why is it a good bet to think that Kroger will become the dominant player in online grocery in the USA in future?

Why is Amazon such a great platform for the FMCG majors? And why is Instacart the answer for the grocery retailers?

Why will it be the grocery giants that will win when online grocery takes

Key questions answered 2/2

off? Why is grocery the industry where start ups and indies have less of a chance than in other sectors (clothing/electricals etc)

4) Future outlook

How much of an issue are the meal kits? Are they actually more of a threat to the food service sector or grocers?

What is more promising in automation Amazon Robotics/Kiva/Ocado MHE or last mile developments such as self driving cars or drones?

5) Data

How big is the sector going to become? How big is it now? What is the online penetration of the grocery sector in the USA?

What are the average basket sizes for the various players in the USA? How many orders do they serve each year? What are the omnichannel and online pureplays sales levels and market shares?

How big is the spread between a typical click & collect basket and a home delivery basket?

6) General

How many more acquisition are we going to see in the space?

Do online grocers need a physical presence (in store pick up, lockers, and also pick in store)? Or is the pure play Ocado model better?

Do online grocery players need a combination of stores and online? Does Amazon care about the channel of delivery? What would that mean for FreshDirect?

How influential will voice (and Alexa) be in online grocery?

How will online grocery business models evolve in future?

So what should FMCG players do? Should they partner with Amazon? If so, as a seller or a vendor?

How profitable does online grocery need to be? What should retailers do?

Benefits

- Calculate the risks and obstacles that need to be circumvented and gain a glimpse into what the future online grocery business model will look like

- Benchmark against the best in class operators, obtain hard to find data

- Gain insights into some of the lesser-known online players that are nevertheless redefining online grocery

- Future proof your business by finding new strategic innovations for home delivery

- Actionable insights and detailed recommendation for FMCG and retail players how to cooperate or compete

- Learn about unique challenges and opportunities that Amazon will face

- Access Amazon insights and data, not available elsewhere

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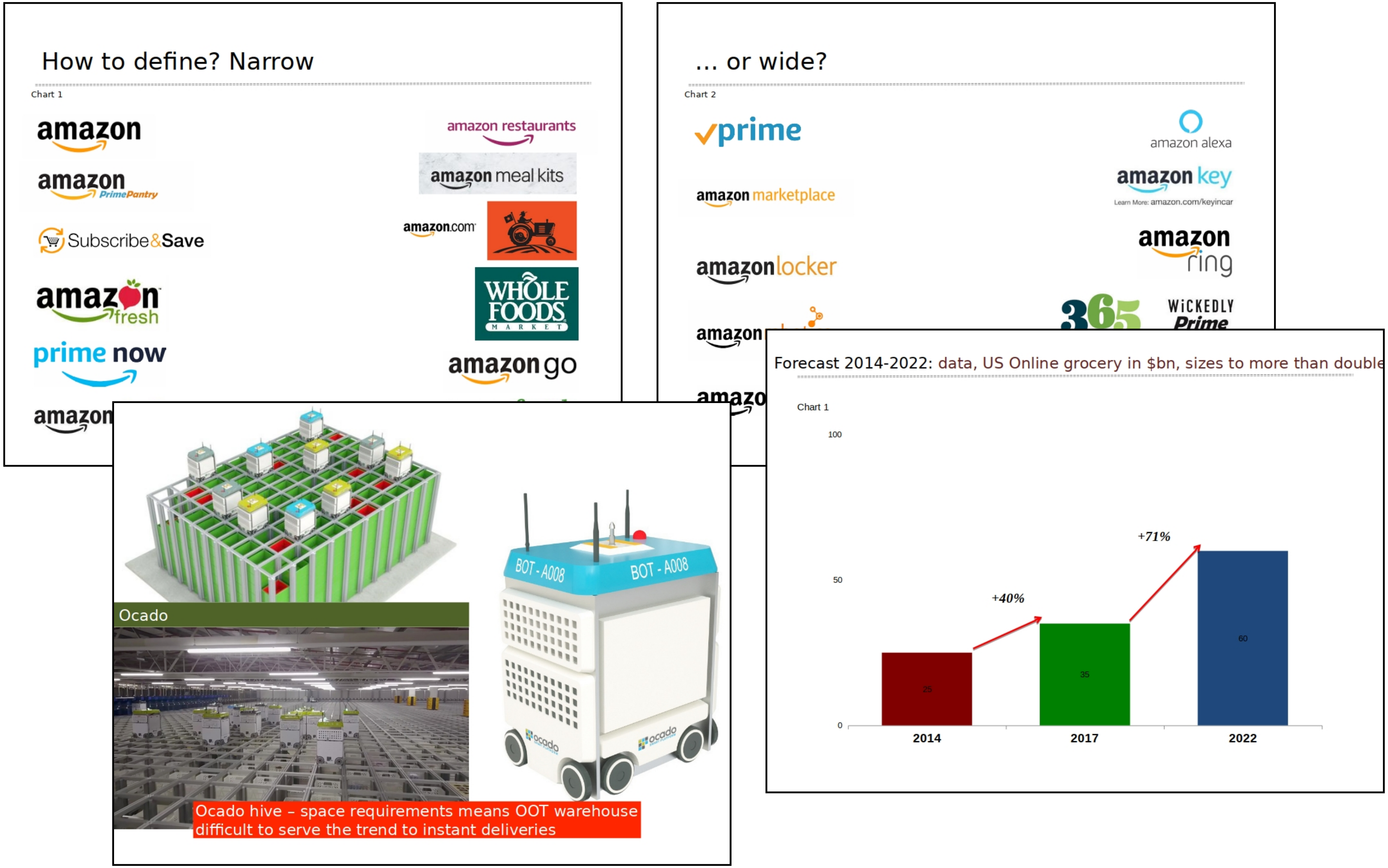

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