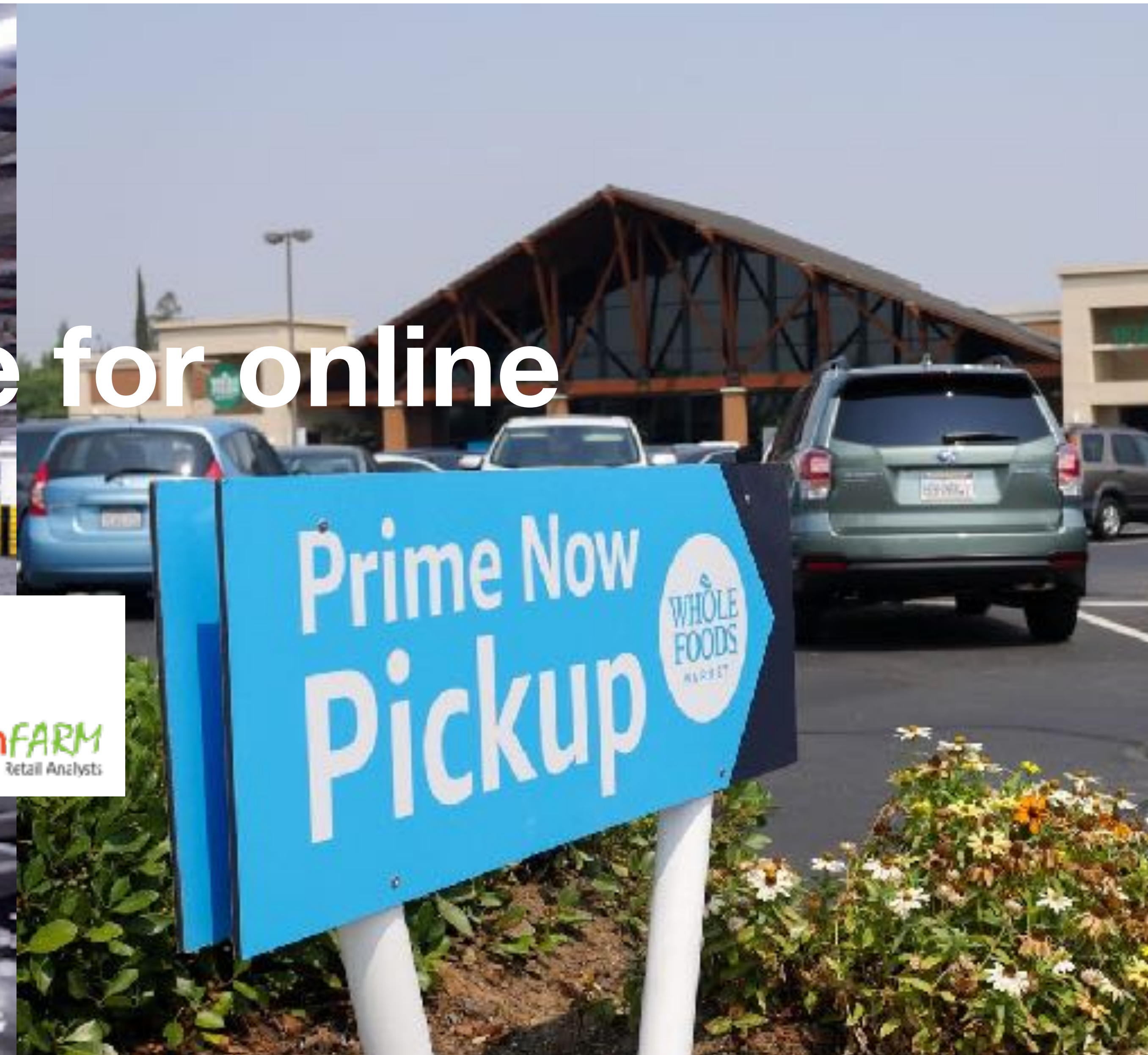
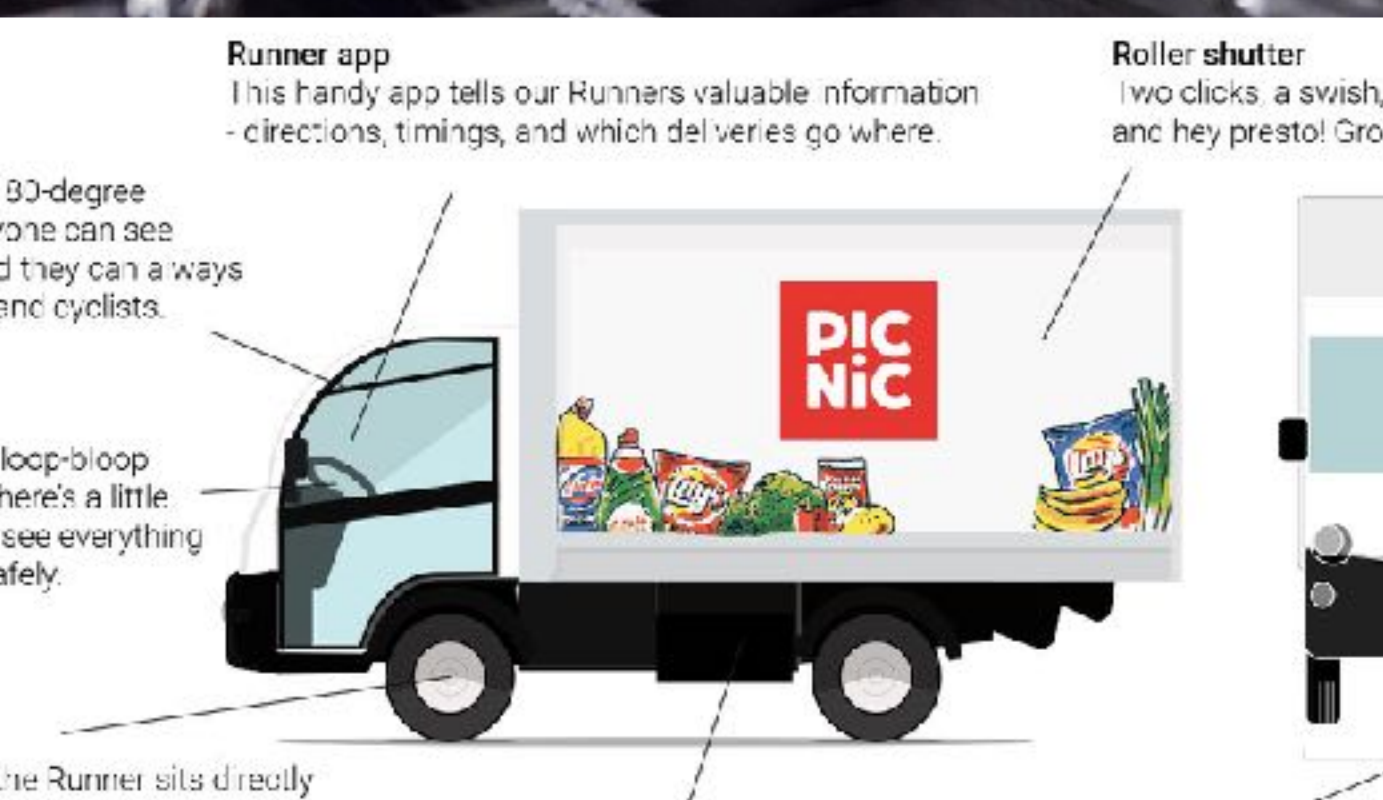
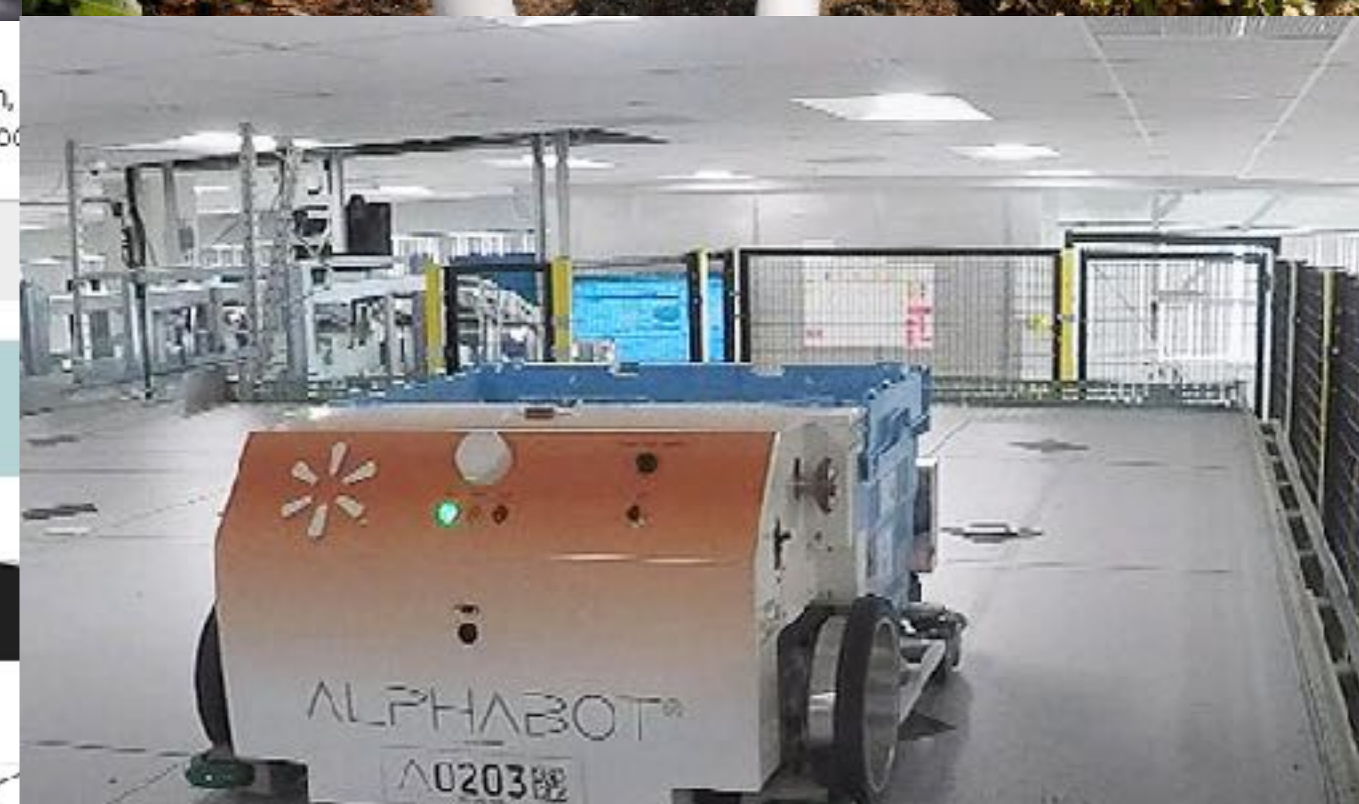
# What is the future for online grocery players?

## 2020 Report

ResearchFARM
Retail Analysts



# Introduction

- Despite the origins in the late 1990s by Tesco, despite Ocado, despite Peapod, despite Amazon's acquisition of Whole Foods, despite Walmart's investments, despite the French drives pioneered by Chronodrive (Auchan) **online grocery has still not been solved**. **So where is online grocery going?**

- **Grocery stores are more and more seeing a transformation towards becoming hybrids for pick up/delivery and shopping and often foodservice too.** Especially players such as Freshippo or JD.com' stores in Asia have been at the forefront of this development, but this is not really groundbreakingly new for the West either. **In the US all the major grocers are rolling out click & collect** (Whole Foods, Walmart, Target, Kroger etc). In the EU - with the major exception of France - this is not a huge story though, with most dedicated drive stations having shut down again.

- There is much activity such as selling via **social media** (especially in Asia, China, perhaps health & beauty lends itself best to this in conjunction with influencers), **subscription models**, and **D2C models** with many FMCGs buying digital businesses (Unilever, Dollar shave club, Graze, Mars and Foodspring, Nestle and tails.com). **However most of this remains quite small scale in the greater scheme of things**.

- **What seems more promising is a new breed of tech players trying to crack online grocery. On the one hand there are new warehousing services providers such as Takeoff or Alert/Alphabot with their micro fulfilment centres.**

- **Looking ahead, we see a battle looming between micro fulfilment centres and the Ocado solution, with the new breed of start ups going for the weak spots of the Ocado robot operated sheds model,** which are set up costs, set up time, high space requirements and inability to serve rapid/rushed deliveries. In a way this battle follows on from the one raging between home delivery and click and collect, with equilibrium coming only after a couple of years and the market finding a mixed solution. For now grocers have Instacart and the various clones as a bridging solution.

- In our view a better solution than Ocado's Hive are Amazon's robotics solutions - we think Ocado stores too much air in their pods (due to standardised sizes of the bins), and that the sheds are too big and too expensive. Moreover should market demand change it is not easy to see how these sheds could be used for something different.

# Introduction

- **The other challenge in online grocery comes from online grocery start ups such as Picnic, focussing on new customer journeys (app only) and new logistics models** and the new model they pioneer - by radically reducing delivery time/window choice and operating a milk round principle based on AI and machine learning. While reducing delivery options these new start ups offer free deliveries and great reliability of actually delivering at the time when they promised.

- **The concept of reducing choice is also explored by new start ups in the D2C space, which try to reduce range choice by focusing on health & beauty, CBD products, sustainability and other niches.** Again, this approach currently employed by Move and Hungryroot is very difficult to execute and scale and - as the historic record suggests - often doomed to failure (see Brandless).

- **Another reading of the evolution of online grocery suggests that we have entered a new phase.** As the major players have moved from in store picking to dark stores and robot operated warehouses, there has been a separation between well capitalised grocers able to afford a multi and omni channel transformation and those who were not. (The latter group have had the recourse to Instacart like operators or include the discounters which - though extremely well capitalised - are still on the sidelines).

- **This means two things: the big beasts have defended their turf reasonably well** (with Amazon not nearly as dominant in food as in other categories and let's see where Amazon is going to go in grocery).

- **Secondly, in many cases the days of the first generation pure plays look numbered** with Leshop in Switzerland treading water, Peapod being shut down, FreshDirect struggling, some of the smaller scale German online players disappearing (Gourmondo, allyouneedfresh) and Ocado focusing on becoming a service provider - despite what M&S do.

- What would fit into this thesis is that **the online grocery space seems to be fragmenting into even smaller product category niches**. Examples for a fragmenting in online grocery would be niche specialists only offering one product category such as coffee/tea (blue bottle) or the ancient MyMuesli and other D2C models for proteins/meal replacement such as Huel/Soylent.

- **But we do not really buy this reading 100%, simply as growth rates are still so strong and forecasts still get progressively widened - so there will be growth outside the niche too.**

# Key Questions answered

- **Have we entered a new phase of online grocery?**
- Now that Ocado has successfully pivoted to a tech provider model, do the first generation pure plays that are still around such as LeShop, fresh direct still have a role to play?
- **Or will they suffer the same fate as their peers Peapod, Gourmondo, allyouneedfresh and be wound up?**
- Why is online penetration and online grocery so much more developed in South Korea than in the West? What are the local players doing differently? What can be brought to the West?
- **In the west, Amazon's PrimeNow has set a new benchmark with delivery speeds. All the other players are scrambling to compete. But is it now all about Instacart (and the various clones) - despite the obvious negatives such as sharing margins and shoppers?**
- Alternatively, will it all be about click & collect and pick up (even though drives only work well in France). And why have they taken off in France and nowhere else?
- **What are the drawbacks of the robot operated mini fulfilment centres operated by the likes of Takeoff Technologies, Alert and Fabric?**
- Why are they a better solution than Ocado's Hive model? Where does Ocado's model fall down?
- **Is online grocery splitting into two camps? With the big well capitalised players going digital and defending their turf and increasingly smaller niches where start ups can play?**
- Will these niches become so focused on single product categories that they are impossible to scale but for the truly exceptional? Will D2C be only about coffee or protein meal replacement in future?
- **is there space for new tech start ups such as Picnic to revolutionise the sector? By utilising data driven models for logistics and drop densities, electric vehicles, and app only shopper recruitment?**
- What can we expect from Amazon's new chain of stores?
- **Will the conflation of 5G speeds, better service levels through investments by the grocers in delivery fleets and pick up and better modular ecomm platforms create the next major push for online grocery?**

# Benefits

**Comprehensive understanding of the online grocery business model and what lies ahead in the USA and globally**

Deep insights into the leading players' strategy

**Appreciate the challenges facing grocers in becoming omni-channel**

Understand what the new digitalisation strategy is all about from front to back end

**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 recommendations for FMCG and retail players how to cooperate or compete**

Learn about unique challenges and opportunities for Amazon and others

# Features

- Market sizes, penetration levels, order stats, forecasts
- Average basket sizes and total sales of the players profiled
- Deep dive on the French drive sector, sales, outlets, shares, growth, range depth
- Thorough deep dive business model analysis of the major players and service providers with relevant data
- A complete overview of the online grocery market, innovative trends, entries and exits on a global level, innovators and laggards
- Future outlook assessing robot operated warehouses/supply chain and last mile fulfilment
- Future of fulfilment, home delivery, click & collect/pick up and drives
- Strategic recommendations and forecasts, insights to the FMCG industry, retailers and suppliers

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