UK Online grocery 2020 by quarter 2017-2020f

The Covid-19 push and the new normal

June 2020

ResearchFARM
Retail Analysts

Sample pages

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Quarterly trend

Quarter	Number of orders	Growth %
Q1, 2017	3,306,000	16.3
Q2, 2017	3,310,000	13.9
Q3, 2017	3,250,000	8.0
Q4, 2017	3,600,000	11.4
	3,500,000	5.9
	3,570,000	7.9
	3,600,000	10.8
	4,000,000	11.1
	3,950,000	12.9
	4,020,000	12.6
	3,950,000	9.7
	4,300,000	7.5

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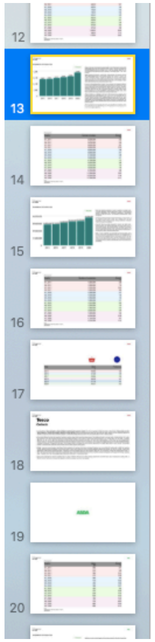

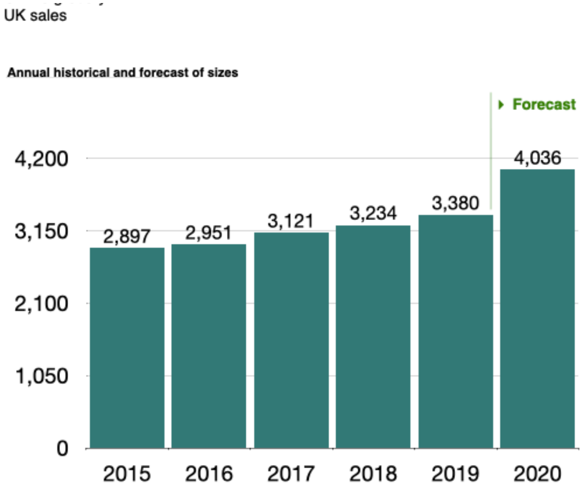

- **Tesco is the clear online grocery market leader in the UK with 2019 sales of well over £3.2bn**. While Tesco has cracked the online model in food and the retailer has claimed profitability since 2012 (though not on a fully cost allocated basis), the non food business was performing poorly, resulting in the shutting down of the direct business.
- **While growth has slowed in recent years, online grocery accounts for around 7% of the business**. Much of the growth slowdown has come as a result of the retailer reintroducing delivery charges and adjusting the minimum basket spend. Tesco do not offer free online delivery (other than a free 1-month trial for 'Delivery Saver' subscription) and do not have promotions online that are not available in store. Tesco have the same prices online as they have in store.
- In terms of differentiating delivery charges, Tesco customers are charged according to the time slot and fulfilment channel they use (ie home delivery or collection), but Tesco does not differentiate these charges between different areas or consumer segments. Despite still picking some online orders from stores (apart from dark stores and the CFC Erith) Tesco don't see sale of groceries online as a constraint on the in-store grocery business, as it is not a substitute for most customers. In other words, some Tesco customers who shop in large stores only shop in large stores.
- **Click & Collect is a relatively small part of the total grocery shopping, it is growing faster than home delivery,** but this comes from a very small base still, and the vast majority is grocery home shopping delivered. But the fact that the much cheaper click & collect option is rising and other efficiency improvements (around SKU picking speed and route optimisation) mean that the economics of online grocery are improving. This gives Tesco optionality about how the company can invest into online grocery in future.
- Tesco's productivity improvements come from a new algorithm around picking, which has enabled Tesco to pick 160 SKUs per hour. Transportation has also improved due to new route logistics algorithms.

Features
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- **Q1 2017 - Q4 2020 data for the leading UK online grocery retailers**
- online grocery **sales (£M)**,
- online grocery **orders/transactions,**
- online grocery **shoppers**
- with a **forecast for Q3,4 2020**, growth rates
- annualised online grocery sales, orders, shoppers
- average **basket sizes, shopping trip frequency** per retailer per quarter/year
- **Q2 2020 analysis - the pandemic boom in numbers and its effect on the retailers' KPIs**
- Analysis of strategic opportunities and threats for every UK online grocery retailer
- based on shopper research, interaction with the retailers and their published material
- Longer term future outlook

Benefits

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- Understand the most developed online grocery market, its key players, success factors and opportunities and learn what could be in store in other online grocery markets
- **Learn how the impact of coronavirus and the lockdown have hit the UK harder than many other markets and how retailers are coping, treat the UK as a model for one future scenario for your own market**
- Grasp how UK shoppers have reacted, what has happened to average spend and frequency, how many extra shoppers can be expected and how to manage to serve this demand rise with limited capacity (while capacity constraints actually restricted growth in the UK)
- **Witness the rise of (unmanned) click & collect across the UK retailers, chosen by shoppers worried about social distancing in store and as a cheaper alternative (no delivery charge) - preferred by retailers also, as a cheaper option (no last mile delivery costs), and to enable more capacity, as c&c doesn't require delivery van space and driver time**
- Observe the move towards faster 1/2 hour deliveries in UK online grocery, micro fulfillment centres (Tesco and Takeoff), Ocado Zoom and retailer partnerships with 3rd party providers such as Deliveroo, understand the rapid delivery/convenience impact on basket sizes, such as Morrisons' (Amazon PrimeNow)
- **Learn why Ocado - though almost predestined to emerge triumphant from Covid as the only online grocery pureplay - will actually grow slowest through this. Moreover, choosing 2020 to migrate from Waitrose supply to M&S, is a headache Ocado could have done without in the middle of a pandemic.**
- Appreciate why Morrisons is the fastest growing online grocery provider, why having two distinct fulfillment partners, Ocado and Amazon plays nicely into their hands, and why Morrisons products becoming a prime benefit is a great move for the vertically integrated retailer
- **Learn about Sainsbury's unique opportunity around leveraging Argos logistics infrastructure for online grocery and vice versa**

Some Highlights

The Covid-19 push and the new normal

- The market leader Tesco is now the first retailer in the UK to fulfil one million online grocery orders in a week - due to the impetus from the Covid 19 outbreak.
- In 2019 Tesco had a market share of 30.7% in online grocery in the UK, followed by second placed Asda (17.6%), Ocado (15.3%), Sainsbury's (14.4%), Morrisons (4.5%) and Waitrose (3.0%). Other players accounted for 14.5% of the sector. We believe the market was worth around £11bn in 2019.
- In the UK online shoppers used on average slightly more than two different online grocery retailers in 2019 (one alternative on top of their main destination shop). In 2019 the average online basket across the sector was £76.30, which rose by £6 in March 2020 alone. In 2019 Ocado had the biggest average basket with £103.83, followed by Waitrose, Tesco and Sainsbury's. The smallest average basket in 2019 at £72.29 was Morrisons', skewed by PrimeNow and being the cheapest online grocer overall (Amazon influence), with Asda slightly higher, reflecting the socio-economic background of its core shopper segments.
- There's no doubt the Covid-19 crisis has accelerated the move towards online, though capacity constraints kept growth below what could have been. Half a million new shoppers were added to the online grocery sector in Q2 2020, and 7,890,000 extra orders generated, while spend at the major grocers rose by 43% or just under £1bn in Q2 2019.
- Looking ahead, we believe the sector will be worth £14.3bn at YE 2020, with growth of 30% due to the influence of Coronavirus.

Key Questions answered

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- Covid -19 has caused huge rise in demand. Will this lead to better drop densities, higher average baskets, better route optimisation and hence due to the accrued scale benefits will this finally move online grocery into the black? Or are the CV related costs so high that in the round nothing much will change?

- **Which retailer has emerged as best in class? Who has been a laggard? Which retailer has the best set up from picking to delivery for the new normal? Who has the best resilience? Will this be good enough if there is a second spike? Or for the Christmas rush? Will the logistics infrastructure be able to cope?**

- Who is the fastest growing online retailer in the UK? Who is the slowest? Why is this changing throughout the pandemic? Who has been able to add capacity quickest?

- **Who has the highest average basket size/who has the lowest? Whose shoppers come back most often? Who needs to drive up repeat shopping?**

- How many UK online shoppers are there now (Q2 2020)? How much do they shop for on average across the sector? Has the trip mission changed? How often do they shop in a quarter/year now?

- **Is Tesco's shift to micro fulfilment the right move? Why is Asda's click & collect service such an asset now? Why will Ocado underperform? Should Sainsbury's now start the work to integrate Argos and online grocery deliveries? Will Morrisons Amazon cooperation be more fruitful than the Ocado partnership? Will Waitrose manage to entice its shoppers away from Ocado and migrate them to its own platform?**

- Will the discounters follow their US operations in widening out partnerships with 3rd party logistics providers such as Deliveroo, or other Instacart clones? Will the Co-op's Starship robot trials take off? What is Iceland doing well in online grocery?

- **Where will rapid/rushed deliveries go? Is 1 hour the future? What does that mean for replenishment and the back end operations?**

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