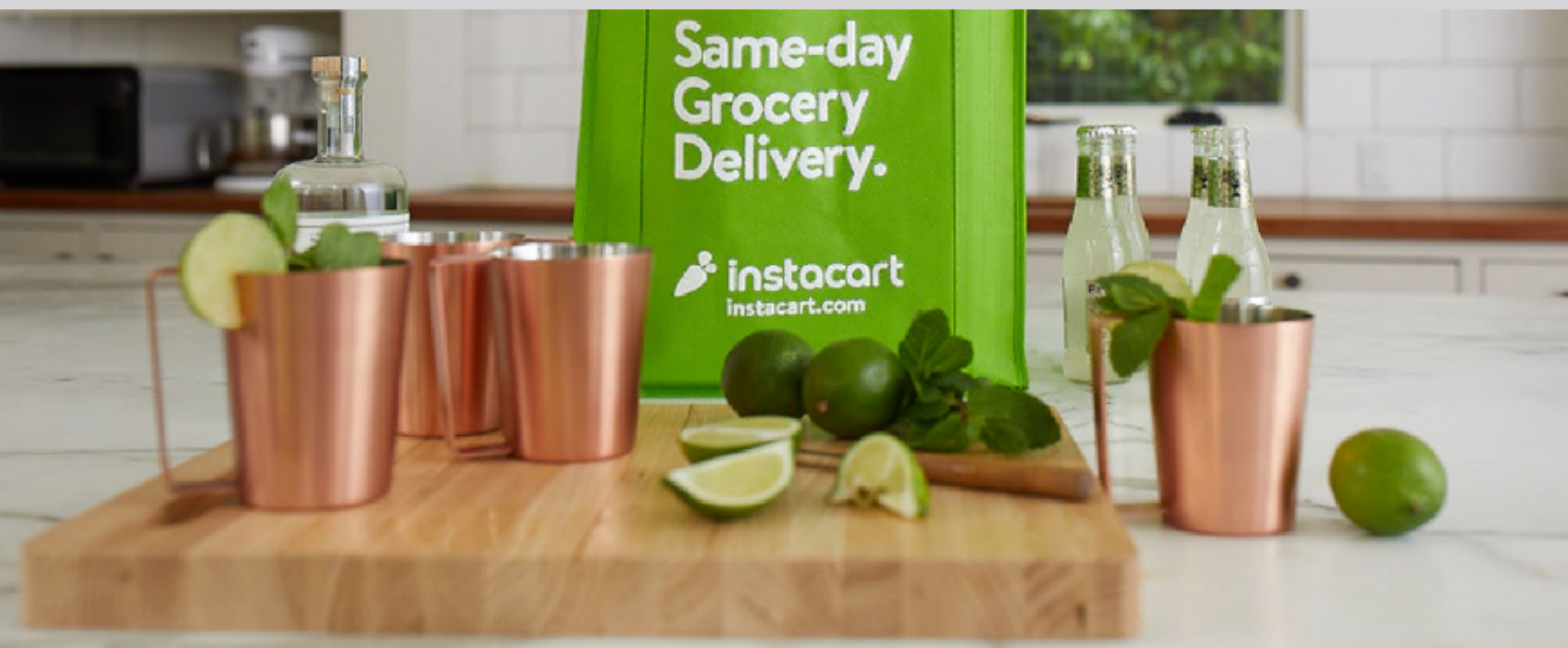




US Online grocery 2021

Ultra fast delivery start ups taking the sector by storm: from GoPuff to Fridge No more



The future of US Online Grocery 2021

- **Alongside the trends to much greater digitalisation, reduced contact through more self check outs, automation and a more cashless society, the ultra fast start ups could be one of the enduring legacies of the Covid-19 era impacting retail in a future post-pandemic.**
- This report does not deal with the online grocery battle between Amazon and Walmart in the US, as we have written elsewhere extensively on this. This analysis is also not about Kroger and Ocado's out of town sheds versus Ahold and in store mini fulfilment centres, or where click & collect versus home delivery is going in the US. **The sector will develop strongly on the back of the Covid push and all these players will benefit from a rising tide lifting all boats.**
- Rather **this report deals with the ultra fast delivery start ups, attracting record levels of investment, shoppers and interest.** The pandemic has boosted a new dynamic in online grocery, reflected in the rise of GoPuff and its various clones. These players are first and foremost about serving the immediate shopper need and trip mission, that used to be the distressed convenience shop in the analogue world. Of course the trailblazers for rushed deliveries were the restaurant and take away meal delivery companies (GrubHub, Just Eat etc). Instacart and the various Instacart clones (basically a third party pick and delivery service) had an outstanding year, as had the grocery divisions of deliveroo, Uber Eats, everli and glovo. But these players are now being disrupted by a new

breed of online grocery players which are all about speed and convenience, the rapid convenience store delivery apps such as GoPuff, Getir, Gorillas, Fridge No More and many others. The ultra rapid players have their own mini dark stores/depots in urban catchments and cut out the retailers for sourcing products. The hyperlocal nature of their business model enables them to pick for and reach customers' households within 10-15 minutes, in many cases being quicker than the shopper going to the store themselves. In the right circumstances such as a distressed shop late at night for OTC products, essential ingredients or the like this can be a very attractive offer.

- **While there are many unanswered questions, mainly around profitability, for many shopping missions especially in the bigger cities this is probably the future of delivery,** after all, no one wants slower deliveries and once the infrastructure is in place on the front and back end (the logistics set up and the riders) a lot of other services can ride on this too. Other big unanswered questions apart from costs/profitability are whether there are scale benefits, as 10 minutes implies that this is a point to point play in logistics. One simply cannot group trips into the catchment, if the rider has to be on the individual shopper's front door with a 10 minute window. (Perhaps it should be noted that GoPuff works with a longer delivery window, which seems to make a lot more sense economically, though reaching profitability is still challenging)

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- In certain aspects the rise of these new app players is a big threat to click and collect - but definitely for the convenience store sector, which so far had been shielded from online grocery channel shift. We'd advise convenience store operators to have a long hard look at this and perhaps to launch their own service or partner up with an external service provider - but this would have to happen on a hyper local level and is very cost prohibitive.
- A clear advantage the ultra rapid players have is that the ranges are often very tight (around 2,000 SKUs) and not very deep, so storage space is minimised, which also means shorter picking distances. Moreover, the lower average basket value (though a clear drawback) also means more deliveries per hour are potentially possible. We still can't see more than 3 deliveries per hour achieved though, if driving times to and from depot have to be calculated in, as well as the picking times. Most players are calculating an average basket size of between \$30-50. The convenience of the delivery is great for conversion though and will probably generate more repeat buys than standard online grocery deliveries too.
- Now is the time to look ahead, it seems clear that the trend has swung back to more local and faster fulfilment (i.e., smaller local depots and pick from store or store adjacent spaces rather than the big out of town shed), and we believe it will now all be about speed going forward. This requires a reimagining of the role of the store and network, pragmatically deploying digital technology to streamline operations and serve customers better, while reallocating excess space and using data to identify whether some stores should close or become online nodes.
- We expect online grocery to split into various sub channels. Akin to the situation in physical offline grocery, where several channels co-exist, such as hypermarkets, supermarkets, discounters, convenience stores, organic specialists, this will probably be mirrored by online grocery concepts. And maybe even price segmentation will set in (perhaps reflected in different delivery fees and pass options).
- In any case, what will help online grocery in future is this new infrastructure being built by the likes of Amazon, Deliveroo, Uber, Instacart, Glovo, Gopuff and so, even if various players exit the market again, the logistics will have been put in place so the winners can offer other services on them, not just grocery.

Key questions answered

- **Can ultra fast deliveries ever become profitable?**
- Is the sector moving towards a sharing infrastructure used by different operators? Or is this impossible?
- **Will the start ups be consolidated in super apps combined with ride sharing, meal delivery and more?**
- What are the drawbacks of the rushed deliveries model?
- **Are convenience store basket sizes a help or a hinderance for the business model?**
- As the model requires shallow range depth, can the companies manage their OOS and still satisfy shoppers?
- **How good are the ultra fast delivery companies at generating loyalty?**
- Could the start ups stretch their delivery promise from 10 min to 30 min, as GoPuff does? Would this open up possibilities around different charges and a clear fee structure according to time frame and urgency?
- **How much are zoning laws a real obstacle for these hyper urban operators? How will licensing law affect their business model?**
- Born in the crisis, do ultra fast/rapid/convenience online grocery players have a long term future?
- **Just how much demand is there for ultra-rapid delivery?**

Features & Benefits

The future of US Online Grocery 2021

- Online grocery data for the USA, market sizes, average basket sizes, market shares
- Profile of the leading ultra fast convenience players and their latest initiatives
- Analysis of start ups in the 10 minute delivery space from GoPuff to Gorillas, Instacart, etc
- Deep dive into the business models and possible path to profitability
- Strategic recommendations
- Understand how to choose the right online grocery proposition and tech back end for your business, catchment and customers
- Grasp how much to invest in delivery and logistics capabilities (depending on your specific sector circumstances)
- Follow the strategies of stand out performers and incorporate learnings into your own proposition
- Understand whether to take Gopuff/Gorillas seriously and assess the competitive pressure from new entrants

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