

Capturing the Online Grocery Opportunity

After years of promise, online grocery is starting to hit its stride. How can food retailers win in this fast-growing market?



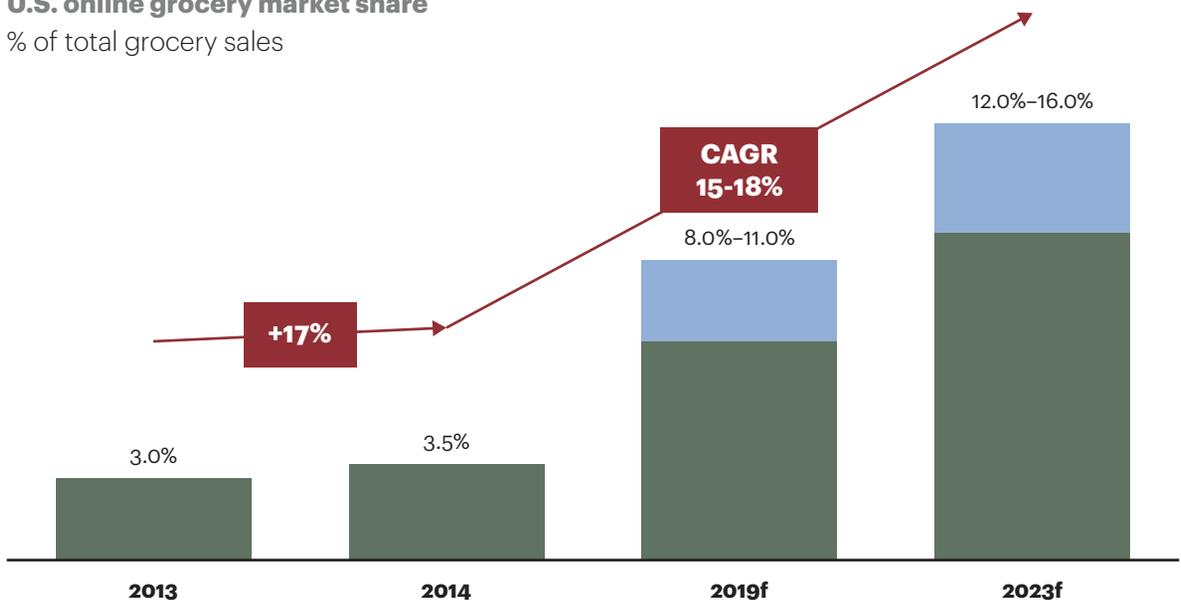
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Online grocery is finally reaching an inflection point. After years of promise but limited growth, American shoppers are finally warming to buying food and beverages online. According to our latest study of the online grocery market, more than one-third of primary grocery shoppers have purchased groceries online in the past 12 months, a sizeable increase from last year. Moreover, the movement online is led by shoppers from particularly attractive segments—urban dwellers, Millennials, and those earning more than \$75,000 per year—and their online grocery spending across categories is going up.

In the relatively low-growth, low-margin business of food retail, online grocery is one of the largest sources of growth for retailers and consumer product manufacturers alike, with sales growing five to six times greater than conventional channels. Growth of 15 to 18 percent is expected over the next decade, which would give it 12 to 16 percent share of the total market (see figure 1).

Figure 1
The online share of the U.S. grocery market is growing rapidly

U.S. online grocery market share
 % of total grocery sales



Sources: Packaged Facts; Brick Meets Click; A.T. Kearney analysis

We set out on our second study of online grocery in the United States to understand who is shopping online, analyze online shopping preferences, and find strategic recommendations for grocery retailers.¹ As we conducted the study, it quickly became clear that this is a market poised for dramatic growth—and one where retailers have a prime opportunity to delight customers and improve results. This paper looks at the findings of the study and the implications for retailers and consumer product manufacturers.

¹ The study is based on a July 2015 survey of 1,341 grocery shoppers who say they are the primary household grocery shopper. Ninety percent of respondents are female, 34 percent live in urban areas, and 54 percent live in suburbs. The average household size of our respondents is 2.9 people.

Who's Buying?

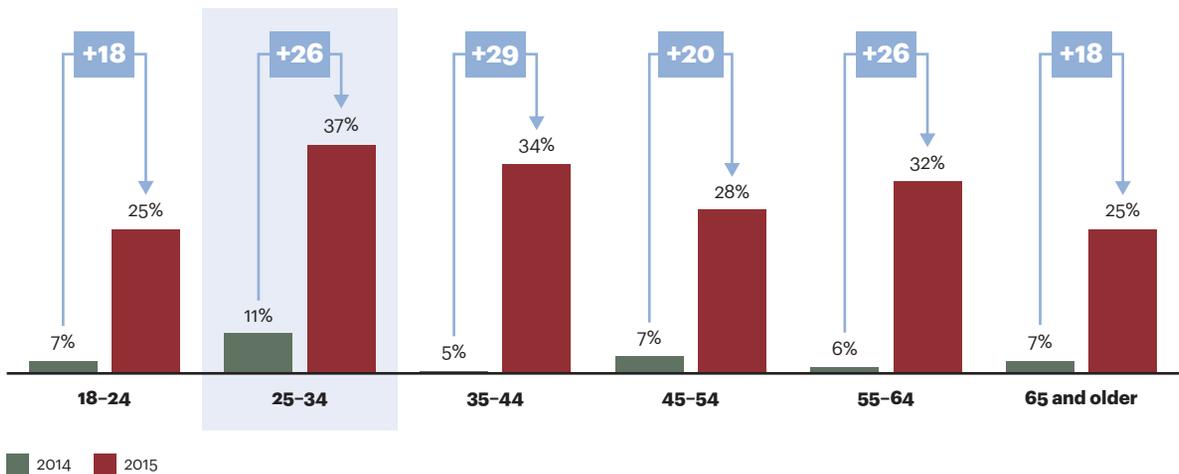
The number of people buying groceries online increased over the past year across all sectors. While some population segments are buying more online than others, the overall increase in online grocery use crosses all age groups, income levels, and regions. Some of the major trends include:

All age groups are embracing online grocery. Buyers in the 25–34 age group (37 percent) have the greatest percentage of shoppers who say they have bought groceries online, but penetration increased by more than five times in some other segments. For example, one-quarter of shoppers 65 and older say they bought groceries online in the past year (see figure 2). Demographically, urban dwellers (41 percent) and people earning more than \$75,000 (22 percent) also are shopping more online than suburban and rural people and lower income levels.

Figure 2
Online penetration increased across age groups in the past year

Respondents who bought groceries online

(% respondents selecting a website as a channel that was “used,” “frequently used,” or “most used”)



Source: A.T. Kearney 2015 study of online grocery shopping

Shoppers are still using websites as mobile grows. Online shoppers use both websites and apps to shop for groceries, with some increased activity on social media, as it becomes a more available option. However, among older shoppers, websites continue to be the focus, while non-website options for online shopping (such as apps and social media) are less popular. That said, as smartphone adoption continues to accelerate, we expect mobile and social to play increasingly important roles in online grocery. The challenge now exists for app developers to tap into mobile and social to create a more immersive and engaging experience for shoppers.

Some of the old barriers remain—but they are eroding. Even as online grocery becomes more widespread, some of the market’s long-standing hurdles to growth remain. Nearly

two-thirds of respondents say they would buy more groceries online if they could guarantee the quality and freshness of products; 58 percent say that prices that better compete with those in stores and free or low-cost delivery would also drive online buying (see figure 3). “I’m worried about the freshness of food,” one respondent says. “Who’s picking it out?” As a result, the most popular online categories are non-perishables: personal care, beauty, packaged foods, and baby food (see figure 4).

That said, even as buyers continue to express concern about perishables’ freshness, some of these views are softening. Andrew Nodes, the head business development lead for the East at Instacart, an online grocery delivery service, says, “Customer perception and customer action are different things. Customers believe they shouldn’t be buying perishables online due to freshness, but they actually do. Perishables are among our top performing categories.” The

Figure 3
The inability to judge product freshness and higher costs are keeping people from grocery shopping online more

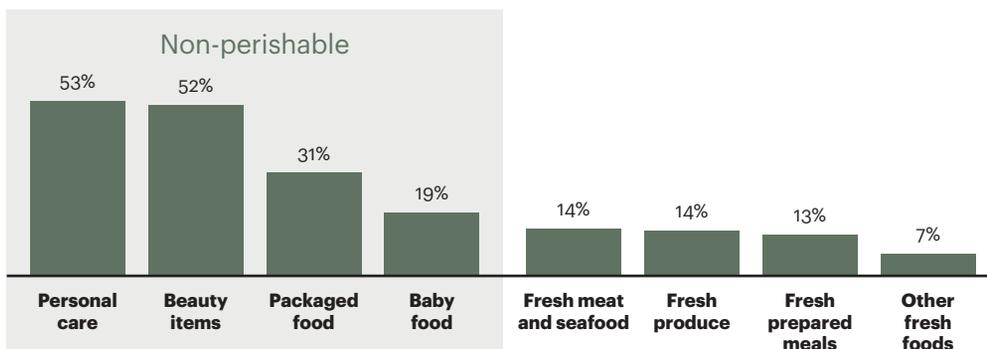
“I would buy more groceries online if I were offered...”
 (% of respondents)



Source: A.T. Kearney 2015 study of online grocery shopping

Figure 4
Non-perishable items, perhaps unsurprisingly, are most popular for online purchases

% respondents who have purchased products online in past 6 months



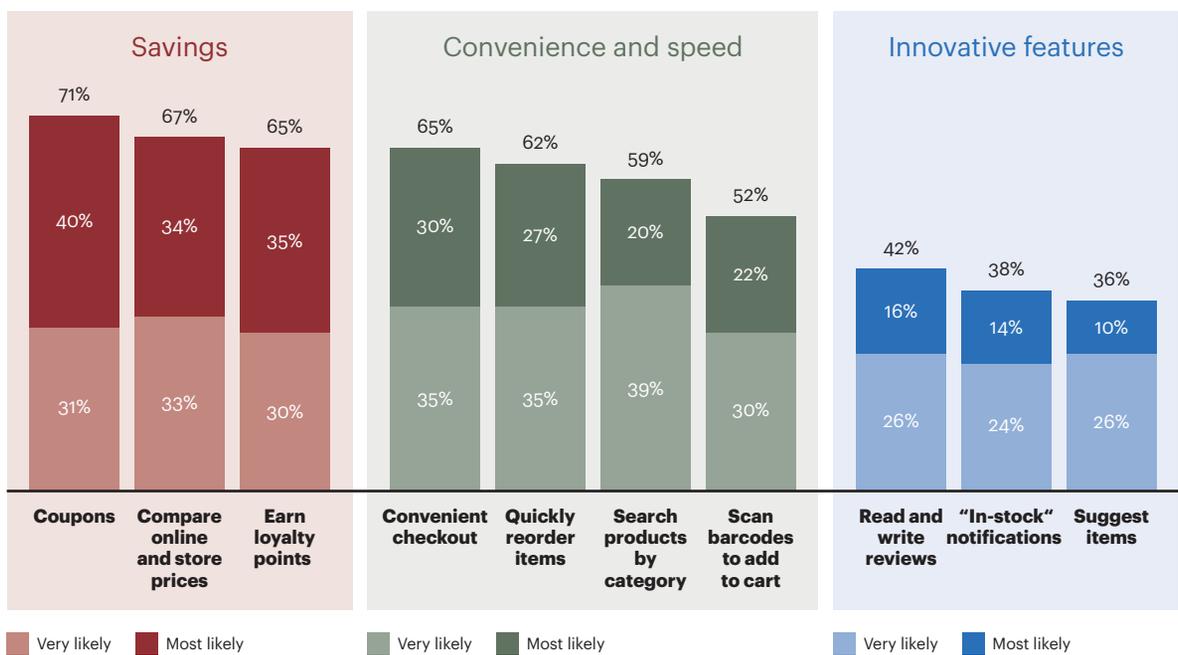
Source: A.T. Kearney 2015 study of online grocery shopping

bottom line is that the online food market’s existing barriers are starting to erode and will continue to do so as buyers gain experience and confidence buying food online, and retailers continue to improve their capabilities.

Shoppers want value, but will pay for convenience. When it comes to cost, many customers say they still avoid online grocery because of a perception that costs are higher. Our respondents say they want savings—coupons (71 percent of respondents), price comparison between stores and other sites (67 percent), and loyalty programs (65 percent) (see figure 5).

Figure 5
Savings and convenience are most important for drawing grocery shoppers online

How likely would you be to return to online grocery shopping if you were offered the following features?



Source: A.T. Kearney 2015 study of online grocery shopping

At the same time, they want convenience and speed. Nearly two-thirds of respondents say they would shop more online if they were offered convenient checkout and had the ability to quickly reorder items. Furthermore, many are willing to pay more for the convenience of not having to go into a store. Eighty percent of respondents say they are willing to pay for home delivery instead of going to the store for pickup—particularly when it comes to same-day service—even as the majority still are visiting the store to shop. Nodes comments: “We’ve seen [that home delivery is preferable to pickup] and have heard from grocers that they are having trouble with getting traction on pick-up.”

Mobile apps can enhance the store experience. Apps that enable price comparisons, the ability to search for and find items in stores, and scan for faster checkouts are cited as features that could increase in-store convenience and positively impact the shopping experience.

Harnessing the Online Opportunity

As consumers continue to adopt technology into their lives and as more move to cities and suburbs, online grocery is becoming easier and more appealing—for both consumers and retailers.

Below is a look at how both retailers and consumer packaged goods firms can create an online grocery strategy.

Retailers. An online food strategy touches on three key areas:

- **Segmentation.** To deliver a viable, on-point online food strategy to their most receptive customers, identify high-population, high-density markets and target customer segments within these markets that represent the best opportunities. Online segmentation can go after specific shoppers, such as new parents (with an integrated total baby offering across food and nonfood) or back-to-school shoppers (including clothing, school equipment, and food needs). Personalizing offerings with dinner suggestions, shopping lists, customized pricing, product options based on recently purchased items, and online sampling for new products can help draw in buyers. Treating delivery as a unique channel offers retailers the ability to provide a degree of personalization and flexibility that they cannot via their traditional channels.
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Retailers can interact with omnichannel shoppers with **personalized offers, pricing, and promotional strategies** tied to shopping preferences and past purchases.

- **Value proposition.** Converting consumers' interest in online grocery shopping into increased sales depends on how quickly retailers can make features such as same-day delivery and click-and-collect a reality, and whether they can offer customers the same values and prices that they do in stores. To solve the "last mile" issue in same-day delivery, third-party providers such as Instacart and Google Shopping Express (and soon, most likely, Uber) are emerging to provide same-day or scheduled deliveries at minimal cost to retailers. In click-and-collect, many U.S. retailers have already rolled out programs or are testing them, and they are finding success.
- **Shopper engagement.** Engaging today's omnichannel consumer is about much more than using multiple media such as TV, direct marketing, or coupons to reach shoppers; rather, it's about creating a personal, integrated experience for every shopper regardless of where or when they shop or what device they are using. This has to extend the entire purchase lifecycle.

Retailers can interact with omnichannel shoppers with personalized offers, pricing, and promotional strategies tied to shopping preferences and past purchases. They can offer variety to shoppers, by category and across digital touch points, and use individualized promotional offerings and merchandising strategies to increase engagement.

CPG firms. Online sales remains a “black box” for many consumer goods firms, with consumer interaction dominated by retailers. But there are several areas where CPG companies can take control of their online fate.

- **Shopper behavior.** The online shopping journey fundamentally differs from the traditional path to purchase; a basket has many more touches and influences. Consider a mom who starts an online order, then allows her husband and children to add to it over a couple of days before she makes a final review and submits the order. By understanding the online shopper and this unconventional purchase path and finding the target content and ads at the right points in the path to purchase, CPG firms can better influence purchase behavior. Finding ways to integrate social media and other digital assets into the online shopping experience will be crucial to success.
- **Merchandising.** Online commerce is an entirely new world where the traditional shopper marketing tactics, like shelf talkers and special display locations, aren't in play. To win, CPG firms need to develop online-specific promotional mechanisms, create online impulse drivers, and re-think co-marketing (such as co-op retargeting and shared customer databases). CPGs also need to use digital assets in new ways. Ensuring integration with recommendation engines, recipes, and list builders will be important. CPG companies that create compelling 3-D digital images communicating key product claims and product information will drive online share growth. Such capabilities replace packaging online and are a critical marketing vehicle.

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- **Assortment.** Online shopping's “endless aisle” is an opportunity for CPG firms to bring customers variety and to embrace innovation. Traditional approaches to drive trial purchasing, such as coupons and samples, can work online by developing specific strategies based on understanding the online path to purchase, creating compelling, online-specific assortments, and bringing solid new-product-introduction strategies to take to retailers. The “boon” of unlimited shelf space in a digital context can very quickly turn into a curse.
- **Sell in.** As online shopping grows CPG firms need to rethink the structure and capabilities of their sales teams. While separate online customer teams are likely not needed for most traditional retail customers, educating and training existing customer business teams enable CPG sales teams to understand how to deploy new digital capabilities, secure online promotional activity, and develop brands online. Engaging with retailers early will reach customers in this new channel and bring a definitive advantage to capture more than their fair portion of sales.

The Online Grocery Opportunity

As e-commerce becomes the central growth opportunity in North American food retail, winning over tech-savvy consumers depends on meeting logistical challenges of online food sales coupled with an understanding of customer needs and desires. While pure-play online retailers have an edge with their business flexibility and speed to market, a physical presence remains crucial for connecting with customers. Traditional food retailers can take advantage of their existing assets as they build out their digital capabilities and enhance their online offering. Consumer products manufacturers will need to develop online-specific strategies and tactics to capture growth and share, ensuring leverage of digital assets while integrating with retailer web and mobile go-to-market platforms.

Ultimately, the winning online grocery retailers will balance traditional and online capabilities, segment and penetrate the most attractive market opportunities, and deliver a seamless consumer proposition that meaningfully engages shoppers. Winning CPGs will combine online versions of traditional promotion and shopper marketing best practices with new approaches enabled by the digital world. It is no longer a question of whether to enter online food sales—but rather how to build online capabilities that can capture customers’ trust, loyalty, and wallets.

Authors



Randy Burt, partner, Chicago
randy.burt@atkearney.com



Vishwa Chandra, partner, San Francisco
vishwa.chandra@atkearney.com



Shayna Silverman, consultant, New York
shayna.silverman@atkearney.com



Giacomo Tortora, consultant, New York
giacomo.tortora@atkearney.com

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