Online grocery: fad or fate?

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The ongoing covid-19 pandemic has brought the world to a grinding halt in many areas but has re-enforced a significant point – when the going gets tough, we all gather in those lower-most tiers of Maslow's hierarchy of needs. Our physiological needs in particular become paramount and shelter and access to food become the focus of our day-to-day. Discretionary spending takes a backseat and people all over the world look at options that would ensure their families are fed and healthy.

Given the nature of the crisis, where social interaction can lead to the virus spreading faster, it is natural that people look for options to source food without having to physically enter a supermarket. In most developed markets, the concept of online food, either in the form of grocers delivering produce online, or other alternatives like meal kits or online takeaway, was seeing a steady increase in penetration but had not reached critical mass. However, with the current crisis, we have seen these options, particularly related to online grocery delivery and meal kits, really take off, with penetration accelerating in most markets. The logic is clear, you order the produce/meals you need from the comfort of your home, limiting the need for human interaction. The question is will this behaviour continue in a post covid-19 world?

Online grocery penetration historically lagged other verticals

Although the concept of having a heavy weekly grocery shop delivered to your doorstop sounds appealing, online penetration in grocery delivery was lagging most other e-commerce sectors. In the US for instance, online grocery penetration last year was only about six per cent, and it was markedly lower at two per cent in Europe. In comparison, online penetration in verticals such as fashion was as high as 20 per cent in most markets.

Several reasons may have contributed to the lag in online grocery penetration. For instance, groceries are a small-ticket purchase that are impulsive purchases at times, the minimum basket value required by some online grocers could be relatively high, and capacity was still being built out by online grocers. However, we always anticipated that as adoption and familiarity improved, the segment would see robust growth. Prior to the covid-19 outbreak, we estimated that the US online grocery market could see a penetration of about 12 per cent by 2025 with a market size of about $120bn. That equates to a compounded annual growth rate of 28 per cent between 2018 and 2025.

[1] https://scholar.harvard.edu/straub/publications/indebted-demand
[2] https://www.frbsf.org/economic-research/files/wp2020-09.pdf

Social distancing has resulted in a dramatic uptick

Growth in online grocery orders has been phenomenal during the current crisis. Indeed, the average daily sales for groceries online doubled by the middle of March compared with the start of the month in the US according to an Adobe Analytics study quoted by Bloomberg. Anecdotally, we have seen several instances where popular online grocery delivery players had long waiting times merely to access the platform and fully-booked delivery slots for weeks on end. Several grocers who previously did not offer online purchasing options, such as Aldi in the UK, have now started. It appears that the demand for online grocery in the current environment has outpaced the delivery capacities of several of these players in most major markets. Accordingly, there has been a significant uptick in online grocery shopping, with 45 per cent of people saying they purchased groceries online over the past 12 months in April 2020 compared with 28 per cent just six months earlier, according to a dbDIG survey published by our US Retail team. Frequency is also increasing with half of the online shoppers buying groceries at least once per week (up from 37 per cent last October).

Meal kits have gained traction in the current environment

Then there are meal kits. This market is worth $3.5bn today and is expected to triple over the next five years. As a reminder, meal kits are a small, but fast-growing niche within the online grocery value chain. A pure-play meal kit player such as HelloFresh or Blue Apron offers customers a selection of recipes to choose from and delivers pre-portioned ingredients weekly which the customer then cooks. In a proprietary dbDIG survey we published in 2018, we saw that individuals who purchased groceries online were more likely to be meal kit customers and the current covid-19 crisis has only accelerated growth in the market.

Meal kit firms, which have had mixed success over the past few years, have seen a surge in demand since March. Our survey showed a third of Americans used either HelloFresh or Blue Apron in April 2020 compared with just under a quarter last October. HelloFresh, the largest global player in the category, was already on a strong growth trajectory coming out of 2019 as it gained traction in its developed markets. However, in the first three months of 2020, the company reported revenue annual growth of over 60 per cent, significantly better-than-expected. While the company indicated January and February were already strong months for growth, March in particular saw a steep increase in new customer demand as social distancing measures made the concept of a meal kit appealing to thousands of customers.

HelloFresh operates in 12 markets in Europe, North America and Australasia, and most of these markets started partial to full lockdowns starting March. As a meal kit customer myself for the past two years, the appeal is even greater in the current environment. A meal kit box typically comes with three week night dinners which you pick from a collection of 21 options. The ingredients are fresh and are delivered to your doorstep. It takes away the hassle of planning for three nights of cooking at a minimum and with the addition of options such as brunch to the menu, it offers a convenient way of sourcing meals that can be cooked at home in the absence of access to your favourite restaurant. To keep up with the demand, in markets such as the UK, HelloFresh has increased its workforce temporarily by as much as half in its fulfilment centres.

Could the crisis have changed behaviour and made these trends more permanent?

Even as restrictions are eased, how long will it be before people across the globe are comfortable enough hobnobbing with strangers in supermarket aisles or restaurants? Will customers prefer to stick to their online grocery and meal kit purchasing habits? Experts believe it takes several months to change behaviour and we may be resolved to this new reality for some time so it is very possible that the increase in penetration stays at these high levels and continues to expand. Admittedly, there may be some meal kit or cooking-at-home ‘fatigue’ once things normalise completely (and that normal world is one we hope will arrive quickly). However, if consumers have a taste of the convenience that online grocery purchasing provides, and are familiar with dealing with the delivery format, we think the future might see more of the same behaviour.

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