The UK’s grocery delivery market is the most developed and sophisticated in Europe – so much so, it’s used as a model for US retailers entering the market. And at this time of year, it really ups its game…

Significantly increased basket sizes and an influx of new and occasional customers – the kind who only shop online for special events like Christmas – place additional pressure on pickers and the distribution network. The winter weather makes operating and delivery conditions challenging.

Yet in spite of this, the Christmas period is seen as a great opportunity to build brand loyalty, convert occasional customers to regulars and increase market share. Last year Waitrose, relative newcomers to the grocery delivery arena, took a massive £728m in the five-week period ending 3 January 2015. It seems there’s still plenty of room for growth.

In this report, we take a look at trends and developments in the UK’s online grocery industry as it enters its most lucrative trading period. What do customers want from a home delivery service? How can operators maximise profit? How has technology changed the landscape of the market? The last 12 months have seen significant change in the sector. We look forward to seeing what 2016 brings.
Given they are the most established player, it’s not particularly surprising that Tesco held 39% of the online grocery market in 2014. However, Ocado and Waitrose are nipping at Tesco’s heels…

Even though its lack of store network means Ocado only covers 74% of the country, the retailer’s steady growth is well-documented, while relative newcomer Waitrose’s online grocery business is showing impressive growth. Gross sales were up 54% in the first half of 2014/15, and overall it’s estimated that they grew their share of basket by 0.8% in 2014, to 5%.

Changes in food shopping habits see a move away from out-of-town superstores

Research shows that consumers are rejecting large out-of-town superstores in favour of shopping online and using their proximity store instead. This has boosted online grocery sales – they’ve more than doubled since 2009 – and is a customer trend that could explain why Tesco recently closed around 13 of its huge superstores, including 6 Homeplus non-food outlets.

The big three all offer almost universal UK delivery coverage, through a combination of physical and dark stores

“I spend a lot less when shopping online as I don’t have my youngest boy nagging me for everything (as he normally does in-store). Plus I don’t get tempted by end-of-aisle offers that I don’t really need.”

Female, 25-34, C1

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The most developed online grocery market in Europe – but in-store sales still dominate

Almost 22 million people in the UK shop for groceries online

17% of adults shop for groceries online - yet only represent 5.1% of supermarket sales

The UK’s online grocery market is the most developed in Europe, with 17% of adults doing all or most of their food shopping online in 2014. The nation’s top five supermarkets – Tesco, Sainsburys, Asda, Morrisons and Waitrose - all offer a home delivery service and, together with Ocado, they account for 89.2% of the online grocery market.

However, only 5.1% of all grocery retailers’ sales are via online channels – online shoppers under-index in value sales – and even though the market is predicted to grow, online sales will still only account for less than 10% of total sales by 2019.

Lower value baskets delight shoppers and frustrate retailers

Many customers buy their food online to help manage the household budget. 24% of shoppers say it’s easier to stick to a budget and 20% feel they save money travelling to and from store. This isn’t great news for retailers, however. Comparatively low visibility of ‘end of aisle’ offers and a reduced tendency to impulse buy means basket sizes tend to be lower online than in-store – though it should be noted that many customers report popping in to a physical store to do a mid-week top-up shop.
Could Aldi’s entrance to the online market be a game-changer?

Discount retailers Aldi and Lidl are the fastest growing grocers in the UK, together representing 10% of the total market and rising.

At the moment, neither offers an online shopping service, but this is set to change in spring 2016, when Aldi is launching home delivery for wine in the first instance, followed by non-grocery items shortly after.

How long before customers can order food from Aldi – and what will this do to the UK’s online grocery landscape, given the store’s impressive offline growth?

The online grocery market will be worth £13.8 billion by 2019, which represents a 66.5% rise in real terms.

Major online grocers continue to squeeze specialist retailers out of the market

Specialist retailers – including food box companies like Graze and wine companies like Naked Wines – are struggling to hold their own against the major online retailers and their share of the market is expected to continue to decline, accounting for just 8.4% by 2019.

Growth in the specialist market is expected to remain below total market levels until 2019 with sales growing by 30% in real terms between 2014 and 2019.

- For major online grocers, Gross Domestic Product (GDP) has the most influence on the market value.
- For specialist online grocery retailers, the CPI (Consumer Prices Index) has the most influence on the market value.

Majors vs specialists: market share 2009-2019

<table>
<thead>
<tr>
<th>Year</th>
<th>Major online grocers</th>
<th>Specialist online retailers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>88.2%</td>
<td>11.8%</td>
</tr>
<tr>
<td>2010</td>
<td>88.6%</td>
<td>11.4%</td>
</tr>
<tr>
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<td>2018</td>
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<td>8.7%</td>
</tr>
<tr>
<td>2019</td>
<td>91.6%</td>
<td>8.4%</td>
</tr>
</tbody>
</table>

Source: Mintel

Cost vs convenience: delivery is a key battleground for online grocers

What are the biggest drawbacks of online food shopping?

- Delivery charges: 38%
- Waiting in for a delivery: 20%

“Making delivery free would encourage me to shop more online.”

Female, 25-34, AB

“Having to do a bulk shop every time is a disadvantage as I don’t like to plan meals that far ahead.”

Male, 35-44, AB

Along with nervousness about the quality and shelf life of fresh food selected by other people, price and convenience are the biggest barriers to online uptake. Interestingly however, 52% of customers are willing to forego a one-hour delivery slot and wait in for an extended period if it means they pay less for delivery.
What kind of innovations around delivery are consumers interested in?

More than half of consumers would like better communication from retailers on the day of delivery.

There is definitely scope for online grocers to adopt best practice from other home delivery experts – couriers DPD lead the way when it comes to keeping customers informed about the progress of their delivery, staying in touch by text and email and offering in-flight options to change the time and location. Meanwhile, delivery firm Shutl allows customers to watch their delivery wind its way to them on a GPS-enabled map, for to-the-minute precision.

“I’d like it yesterday, please.”

Even though most online grocers offer one-hour delivery slots and the cut-off point for finalising a shop for next day delivery is getting later and later, customers still want more. Same-day delivery looks set to be the next challenge multichannel food retailers need to rise to – currently, online operator Ocado is the only major player to offer a same-day service, though not in all the areas it covers.

Personal shopper, Madam?

Is there an opportunity for UK retailers to emulate a premium service emerging in mainland Europe, where consumers shop online and a third party contractor selects it from the shelves and delivers same day?

Iceland completes roll-out of nationwide free delivery

By the middle of 2015 Iceland had completed the roll-out of their free delivery offer for all orders over £35 – the retailer now can deliver to 85% of homes in the UK. Waitrose also offers universal free delivery across their delivery calendar, but the minimum order is significantly higher at £60. As the cost of delivery is seen as a significant barrier to uptake, could other grocers boost online sales by taking a leaf out of Iceland’s book and opening up free delivery across all of their time slots?

Greater customisation could be the answer for consumers and retailers

Some consumers need to pay less for delivery and are happy to wait at home for a larger delivery window as a consequence. For others, waiting in for an hour is too long – they’d be willing to pay for tighter, 30-minute delivery slots.

How can retailers cost-effectively meet consumer needs?

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Retailers respond to increased uptake and expand their Click & Collect services

Driven by the increase in consumer interest and uptake – from 5% of all online sales in 2013 to 7% in 2014 – all the major online grocery retailers have committed to increasing their capacity for Click & Collect orders.

- Tesco said it would double the number of Click & Collect sales in 2014/15.
- Asda – one of the first supermarkets to offer drive-thru Click & Collect – states it would like to operate 1,000 collection locations by 2018.
- Sainsbury’s entered the Click & Collect market in March 2015 and ended the year with over 100 stores offering Click & Collect facilities.

Greater emphasis is placed on non-store collection points...

In an effort to offer customers greater flexibility, coverage and convenience, retailers are expanding collection points out from the store despite the obvious challenges around chilled storage.

- Waitrose were the first UK supermarket to launch temperature-controlled automated collection lockers, located in railway stations, car parks and at a limited number of petrol stations.
- Asda uses petrol stations more widely – a smart move as Mintel research shows that, of those customers that Click & Collect, 12% pick their food up on their travels, a trend they’ve coined ‘transumerism’.
- Sainsbury’s offers same-day collection on orders placed before 1pm, from seven tube stations on the London Underground – again tapping into consumer desire to shop on the go.

Ocado is trialling a shopping centre click-and-collect service at The Galleria in Hatfield, Hertfordshire. Customers using the service have their online food order loaded into the boot of their car at a designated park zone at the shopping centre.

Finnish online grocery store Alepa Kauppakassi delivers to lockers located in the arrivals hall of Terminal 2 at Helsinki Airport – travellers receive a text message containing a code to unlock the locker.

However, consumers are neutral to non-store collection

While transumers are on the rise, retailers still have to demonstrate genuine convenience before customers fully open their hearts and wallets to non-store collection – the halfway house between store-based Click & Collect and home delivery.

I would like click-and-collect to be offered in convenience stores

<table>
<thead>
<tr>
<th>Agree</th>
<th>Neither agree nor disagree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>42%</td>
<td>41%</td>
<td>17%</td>
</tr>
</tbody>
</table>

I would like click-and-collect to be offered at stand-alone collection points, where there isn’t already a supermarket

<table>
<thead>
<tr>
<th>Agree</th>
<th>Neither agree nor disagree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>32%</td>
<td>45%</td>
<td>23%</td>
</tr>
</tbody>
</table>

Source: Lightspeed GM/Mintel

The fact that customers are warmer to collecting from a convenience store – for example, a Tesco Express or Sainsbury’s Local – is both an opportunity and a challenge for retailers. Meeting consumer demand while reducing the number of home deliveries makes commercial sense, but these locations are typically smaller, with less space to store and chill multiple large orders.
Streamlined logistics are required to help maximise profit

Online grocery delivery doesn’t tend to be profitable for supermarkets

However, while consumer demand is there, it’s an area that food retailers need to invest in to maintain their overall market share. Having the most cost-effective and efficient logistics in place helps to maximise the profit from what could be an unprofitable channel.

Maximising uptime is critical

Uptime is the most important factor when it comes to delivering online orders, and many supermarkets hold a spare fleet to be deployed where needed to meet delivery commitments - because each supermarket’s vehicles meet a unique specification, it isn’t possible to hire in replacements from a third party in an emergency.

So too is maximising vehicle weight – which means Euro 6 will be challenging

While most online grocers fulfil customers orders from their network of supermarkets, some use ‘dark stores’. Fewer warehouse locations means greater control over stock, but also longer distances to cover, therefore vehicle weight needs to be maximised.

A safe, efficient driver is worth his or her weight in gold

Fleets can be streamlined, vehicle weight can be finely balanced - but ultimate responsibility for efficient delivery rests on the drivers’ shoulders. Some customers will never set foot in a store, either through choice or because they shop with Ocado, who don’t have stores.

Finding safe, economical drivers that also possess the kind of customer-facing service skills you need to carry your brand’s reputation is not an easy task.

Consumers want more than groceries from their grocery retailer

Is the end nigh for ‘Direct’ websites?

One of the strongest findings from Mintel research is consumer desire for one-stop online shopping: 65% would like non-grocery items to be delivered with their food.

Tesco and Asda shoppers agreed most strongly with this statement, a reflection of the fact that, at the time, they still operated separate ‘Direct’ websites for their non-food products. Sainsbury’s customers were least likely to agree, perhaps because the retailer was starting to unite its food and general merchandise operations anyway.

Combining food and non-food orders isn’t just appealing to customers – it will boost average basket sizes too, and achieve efficiencies when it comes to delivery.

Opportunities for lucrative partnerships with non-grocers

In January 2015, Asda announced that customers could now add dry cleaning to their online shop thanks to their partnership with Timpson. This innovative service allows Timpson to piggyback Asda delivery routes - this could be an interesting growth area for other online retailers.

“By imposing a minimum spend for delivery, conventional online shopping fails to cater for the fact that 60% of grocery sales are purchased in ‘top up shops’, which are often unplanned and contain only seven items on average. If it means smaller baskets combined with faster delivery, Amazon Fresh could well grow the overall online grocery market. While you wouldn’t want to bet against Amazon, to succeed against the traditional grocers already trading online, the site will need to differentiate its offer in a genuinely compelling way.”

Fraser McKevitt
Head of retail and consumer insight, Kantar

Yet while consumers want simplicity, retailers are diversifying

In spite of strong consumer support for one-stop shopping, online grocers are continuing to diversify with standalone websites.

- waitrosepet.com offers 9,000 products for pets, including 60 own-brand lines
- waitrosecellar.com is a dedicated wine site offering advice and expertise alongside 1,200 wines and spirits
- fetch.co.uk is operated by Ocado and offers 8,000 pet products
- sizzle.co.uk is also operated by Ocado and sells department-store style kitchen and homeware.

Fashion and beauty magazine Marie Claire has also partnered with Ocado to launch a new online beauty and wellbeing boutique.

Amazon dips its toe into the UK grocery market with Prime Now

The fact that consumers want more than groceries in their online grocery shop doesn’t just create opportunities for traditional food retailers. Online giant Amazon currently offers UK customers a limited number of non-perishable groceries online, but it isn’t an area of business they’ve invested in – until now.

Their Prime Now service – which gives Amazon Prime customers in London and Birmingham one-hour delivery – has been extended to include a select number of chilled and fresh grocery items. Londoners can now order a tub of ice cream at 1pm and tuck in at 2pm – the ‘faster, sooner, now’ mentality of the online shopper has arrived in the food sector.

“I’d like the option for non-food items to be delivered with my groceries.”

Yes

Source: Lightspeed GMI/Mintel
Technology changes the landscape of online grocery shopping

Improving online experience boosts sales and increases retention

Ocado reported a rise in regular purchasing and customer loyalty after making a number of improvements to its online ordering process, including making it easier to register and accepting payments by PayPal. Making sure the user’s online experience is as frictionless as possible will inevitably be towards the top of any online retailer’s ‘to do’ list.

48% of Ocado’s 2014 orders were made on a mobile device

Desktop ordering only just dominates – and mobile use is on the rise

48% of all of Ocado’s orders in 2014 were checked out using a tablet or smartphone – and over 37% of all checkouts were completed via an app. At the start of 2015, Ocado launched a new mobile website to work alongside its mobile apps and capitalise on the UK’s high levels of tablet and smartphone ownership.

Self-scan at home with Waitrose and Tesco

Waitrose has trialled home scanning using a hand-held device with voice recognition capabilities, allowing customers to scan barcodes of products in their fridge and cupboard and add them to their basket. Tesco have taken this idea one step further with the development of an app for Google Glass that allows Glass wearers to do the same, viewing nutritional information and using verbal commands to add to basket.

Sainsbury’s Food Rescue tool aims to reduce food waste...

This interactive mobile and online tool combines mobile voice recognition technology with recipe ideas, giving meal ideas based on the user’s leftover food.

...if it offered the functionality of Popcart, it would be perfect

Thanks to social recipe website Foodily and online grocer FreshDirect, people living in New York can use a service called Popcart to turn any online recipe into a shopping list, delivered the next day. Combining this with Sainsbury’s Food Rescue tool would genuinely help consumers.

Which is your most important internet-enabled device?

- 33% smartphone
- 30% laptop

How long do you spend online every day?

- 1hr 54mins smartphone
- 1hr 9mins laptop/desktop

Source: Ofcom 2015 Marketing Communications Report