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Consumers Are Going Bananas for Online Groceries

But is it a long-term love?



Introduction

Grocery shopping
is not the same.



The risk of infection by COVID-19 has weighed heavily on the minds of many Americans over the past few months and led to massive disruption within our economy. Unemployment is at 30 million and climbing, and entire industries have been sidelined—airlines have grounded nearly their entire fleets, stores across the nation have closed, and sports have virtually ceased to exist.

But a handful of sectors are benefitting. COVID-19 has led to an explosive growth in online grocery shopping, with consumers using a website or app to purchase groceries from their favorite stores (such as Walmart or Kroger) or via a third-party specialist (such as Instacart or Target-owned Shipt) and having the items delivered to their home. However, many experiences with online grocery shopping have been less than ideal. Many items are out of stock with poor or no substitute options, and long lead times for delivery are forcing many to don a mask and risk going to the grocery store.

Disruption is what Escalent has great experience navigating, so we conducted a survey with 1,500 US shoppers who purchase groceries at least once a week to understand how they are using online grocery services, which services they prefer, their perceived benefits and challenges of online grocery shopping and, most importantly, whether their post-COVID-19 shopping behavior will change as a result of their current experiences.

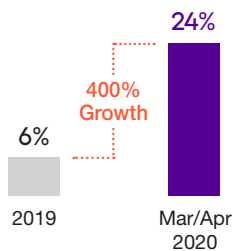
Online Grocery Services Grow by 400%

A Bain & Co. and Google study in 2019 found that only **6% of US grocery shoppers** have used an online grocery service, with a mere 3% of total grocery sales happening online. Considering that 70% of all US consumers have purchased something online, and 25% purchase something online at least once a month, this is substantially below par. But why?

Ian Bogost from *The Atlantic* puts it best: “Online systems have trouble telling shoppers exactly what’s in stock, what looks fresh, what they might like, and what other options exist. Walmart is a \$350 billion company, but no amount of money can determine whether an Instacart shopper would prefer the six bone-in chicken thighs that are available to the four chicken breasts they requested but aren’t available. At some point, you simply have to go to the store.”

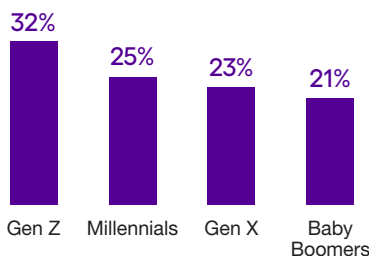
But COVID-19 has changed the game. Shoppers, concerned with venturing out, have turned in droves to online channels for groceries in the last couple of months. As a result, online grocery shopping has grown by 400% over last year.

ONLINE GROCERY SHOPPING GROWTH



Notably, there are very few demographic skews in these data. There is almost no difference (0.2%) between males and females, and growth is consistent across the country—from the northeast through the south and to the west coast. The only significant differences are among generations, with tech-savvy Gen Zers leading the way. It is noteworthy that there is hardly any difference between Millennials and Gen Xers. Even one in five Baby Boomers has bought online groceries in the past month.

ONLINE GROCERY SHOPPING BY GENERATION



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Which Grocery Stores Are Most Successful Online?

With such an unexpected and unprecedented boom in online grocery shopping, the big question is which retailer is taking fullest advantage of it? The clear answer is Walmart, the world's largest grocer.

WHERE CONSUMERS SHOPPED IN THE PAST TWO MONTHS



Nearly half of US online grocery shoppers have purchased from Walmart in the past two months, while one-third have made online purchases from their local grocery chain such as Kroger, Safeway or Publix. This lines up with other recent data that show Walmart is winning **more than half** of new shoppers who are placing an online grocery order for the first time. Walmart, therefore, doesn't just have a dominant market share—it is also increasing its share at a rate faster than any of its competitors.

But what about Amazon? The online giant accounts for 54% of total online sales in the US—more than all of its competitors combined—yet it lags when it comes to online groceries. Amazon owns Whole Foods and offers grocery delivery through multiple channels such as Prime Now, Amazon Fresh and Prime Pantry, with a base of 75 million Prime customers in the US. Yet this isn't converting as easily in the online grocery space, with only one in five online grocery shoppers having used Amazon in the past couple of months. Additionally, just 14% of new online grocery shoppers chose Amazon.

Given Walmart's strength, followed by that of local grocery brands, it is clear that when it comes to online grocery orders, consumers' first instincts are to turn to the nearby brick-and-mortar brands that they normally visit each week. Given that 90% of Americans live within 10 miles of one of Walmart's more than 11,000 stores, Walmart has a massive advantage in this regard.

However, there is space in the market for independent grocery options. One-quarter of consumers have shopped with Instacart, which has reportedly seen a **450% growth** in purchases from December 2019 to April 2020, leading to it declaring its first ever profit. Clearly, there is a role for third-party and independent services that allow consumers to select their preferred grocer (such as Kroger vs. Publix) or combine multiple shopping trips (such as to Petco, CVS and Costco). But lacking the infrastructure of a Walmart or Amazon, both Instacart and Target-owned Shipt have faced challenges with scaling to the demand, with **workers striking** and spikes in **customer service concerns**.



How Are Online Grocery Brands Performing?

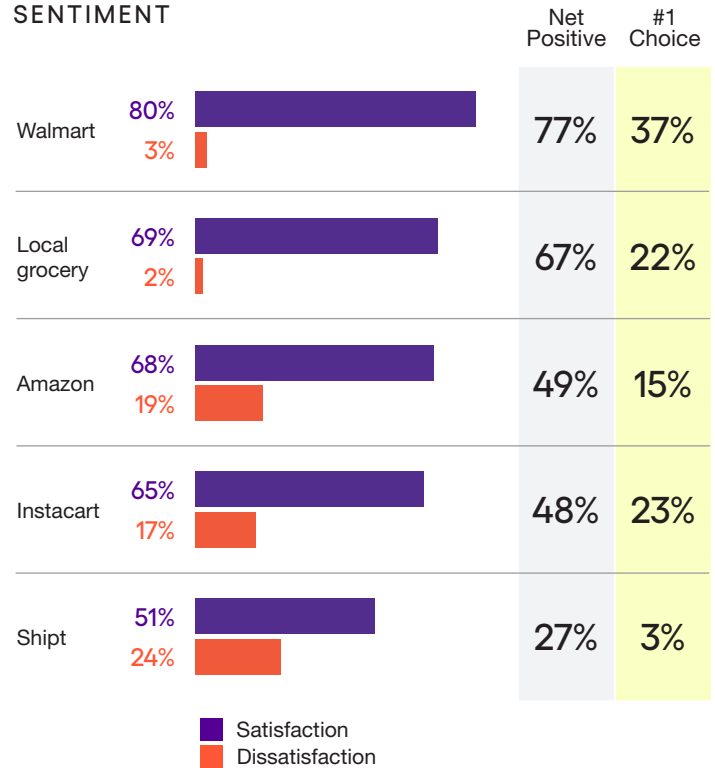
Our research dug deeper into shopper sentiment toward online grocery brands, asking shoppers to rate their level of satisfaction with each and to select their favorite service. Again, Walmart leads the pack.

Key findings of the sentiment analysis include:

- Overall, satisfaction with online grocery services is high, with a majority of consumers across all services being somewhat or very satisfied.
- Walmart was the first-choice brand for more than one-third of consumers. With four in five shoppers feeling positive about the service and only 3% expressing dissatisfaction, Walmart has the highest net positive score as well.
- Local grocery stores are also performing strongly, with more than two-thirds of their shoppers feeling satisfied. Local grocers also have the lowest levels of dissatisfaction.
- Amazon, despite having a lower market share, has similarly high levels of satisfaction. However, the one in five who is dissatisfied will be troubling for a brand that traditionally excels above all others when it comes to satisfaction scores and NPS.
- Instacart also has reason to smile. It has a net positive score similar to that of Amazon, and the fact that Instacart is the #1 choice for nearly one-quarter of shoppers—which is close to its market share of 24%—suggests that its longer presence in the online grocery segment has built it a base of loyal customers.

Also notable is that the traditional brick-and-mortar retailers have almost no dissatisfaction versus their more online-dominant counterparts. There are two key drivers here: delivery times and providing convenient delivery windows. Walmart and local grocery stores are clearly better at leveraging their formidable real-world infrastructure to get produce to consumers quicker, fresher and more conveniently.

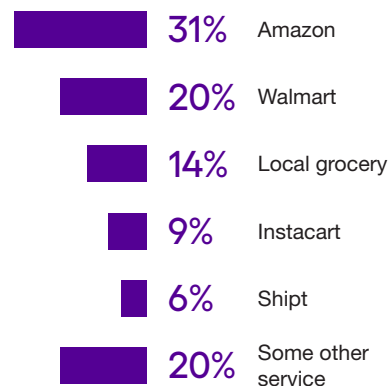
ONLINE GROCERY SERVICE SENTIMENT



Shoppers Are Evaluating Their Options

More than one-quarter of consumers (27%) have used two or more online grocery services in the past month. This suggests that a significant number of consumers are shopping around before settling on a service that fits their needs. So we asked consumers what other online grocery service (aside from their favorite) they would most likely try next.

OTHER SERVICES CONSUMERS WOULD MOST LIKELY TRY



Amazon surges into first place as the next most likely service to be used by nearly one-third of consumers. It's not a surprising alternative, but it does make it clear that while Walmart is leading the segment and local stores currently hold strong value, both face growing competition from a massive rival that knows better than anyone else how to execute in the online world.

Additionally, 20% of consumers said they would choose some other online grocery option, which clearly indicates there is still space in the segment for smaller players and new entrants that consumers are willing to consider.



How Do Online Grocery Services Drive Loyalty?

Given that online grocery services have an unprecedented opportunity to convert new online shoppers but face strong competition and consumers who are willing to experiment with other players, how do online grocery services increase the loyalty of their faithful and not-so-faithful customers?

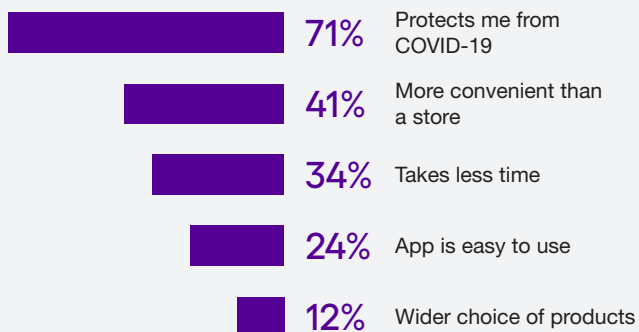
Clearly, online grocery services need to accentuate the advantages of their service while mitigating some of the challenges that their shoppers currently experience. Right now, shoppers see the main advantage of online grocery services as protecting them from COVID-19. This has been the key driver of the exploding growth in use and, when the threat of COVID-19 recedes, the future of online grocery shopping will likely be shaped by customers' current experiences.

In a "normal" environment, convenience and time-savings are the big advantages—so online grocers are well advised to accentuate these positives during these boom times while they have a captive audience. But the rapid increase in use has also created a catch-22 as retailers scramble to meet the demand, leading to longer than normal lead times on delivery and inconvenient delivery windows. This is the biggest challenge for half (49%) of today's online grocery shoppers, and one-third (31%) are concerned with how online grocers will overcome the costs of delivery.

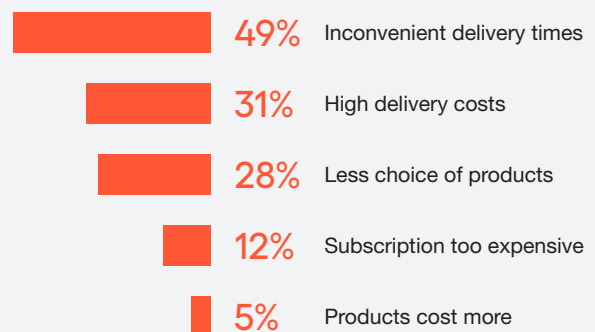
It is common to see four-day to a week (or more) lead times. Often, you can shave a few days off with a night delivery, but if you want your food to arrive in daylight hours, you will need to plan well to make it work. This experience negates the "convenience factor" advantage. In a world where Amazon has made free two-day delivery the norm—and with prompt delivery of fresh produce making speed even more critical—delivery is the number one challenge to tackle if the segment wants to retain its value proposition.

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ADVANTAGES OF ONLINE GROCERY SERVICES



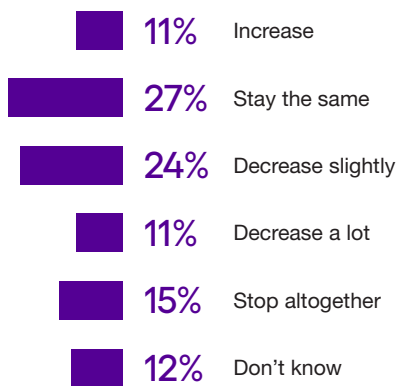
CHALLENGES OF ONLINE GROCERY SERVICES



What Online Grocery Looks Like in a Post-COVID-19 World

Will the current surge in online grocery shopping be sustainable when COVID-19 is behind us? Will shoppers return to brick-and-mortar stores and become less forgiving of online grocery shopping shortcomings? Our findings suggest that yes, online grocery shopping is sustainable and the segment is changing for good.

CONSUMERS' FUTURE EXPECTATIONS OF ONLINE GROCERY SHOPPING



More than one-third (38%) of today's online grocery shoppers believe that their current level of online grocery shopping will stay the same or even increase in a post-COVID-19 world. This indicates that while the service provides a clear advantage today in mitigating shoppers' risk of infection, the other benefits are resonating enough to sustain shoppers as ongoing customers. Furthermore, just over one-quarter of consumers (27%) said that while their use of online services might decrease slightly, they would continue to use online grocery services on a regular basis. Only 24% said that their use of the online channel will decrease a lot or stop altogether.

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The Path to Support a Bright Future Ahead

While encouraging for the future of online grocery services, keep in mind that this is just the tip of the iceberg. The flip side of our research is that just over three-fourths (77%) of US consumers have never purchased groceries online, providing plenty more open spaces for growth if some of the challenges can be mitigated.

The immediate challenge is improving delivery logistics so that order fulfillment truly lives up to the expectations of convenience and fresh produce arrives the same day at low or no cost. Expect to see increased competition between the major players as they seek to drop lead times to hours and trade off delivery costs for loyalty.

From a long-term perspective, brick-and-mortar is not going away. The majority of shoppers inherently prefer the presentation, selection and tactile experience of grocery shopping. Who better than yourself to decide whether an avocado is ripe or what alternative cereal to select when a favorite is out of stock, or to make all those in-the-moment cost-saving decisions that can save you hundreds of dollars a month? Sure, it may be less convenient, but it is also less costly, and let's not forget that few families currently have the luxury of adding more cost to their monthly grocery bill.

The path to success for grocery retailers is, therefore, a blended approach: providing in-store, pickup and delivery options that the shopper can move seamlessly between based on need and at no perceived extra cost. This includes implementing tactics such as replicating the in-store selection online, access to shopping lists and purchase history across channels, and creating an app for consumers that is equally useful in the store, at home or on the move.

Americans will keep shopping as they always have, but the pandemic has forever changed our behaviors, and online grocery services are ideally placed if they can adapt to those changes.

Our **Consumer & Retail** team is tapped into the market and changing forces impacting the grocery segment. If you would like to talk to an expert about navigating the challenges and opportunities presented during this time of disruption, please [send us a note](#).

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TALK TO THE EXPERT



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ABOUT THE RESEARCH

This white paper references data from a research study that Escalent conducted from April 22 to April 24, 2020 via an online survey with a national sample of 1,500 random US grocery shoppers who purchase groceries at least once a week. The data were weighted by age, gender and census region to match the demographics of the US population. The data have a margin of error of 2.5 percentage points at a confidence level of 95%. Escalent will supply the exact wording of any survey question upon request.

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