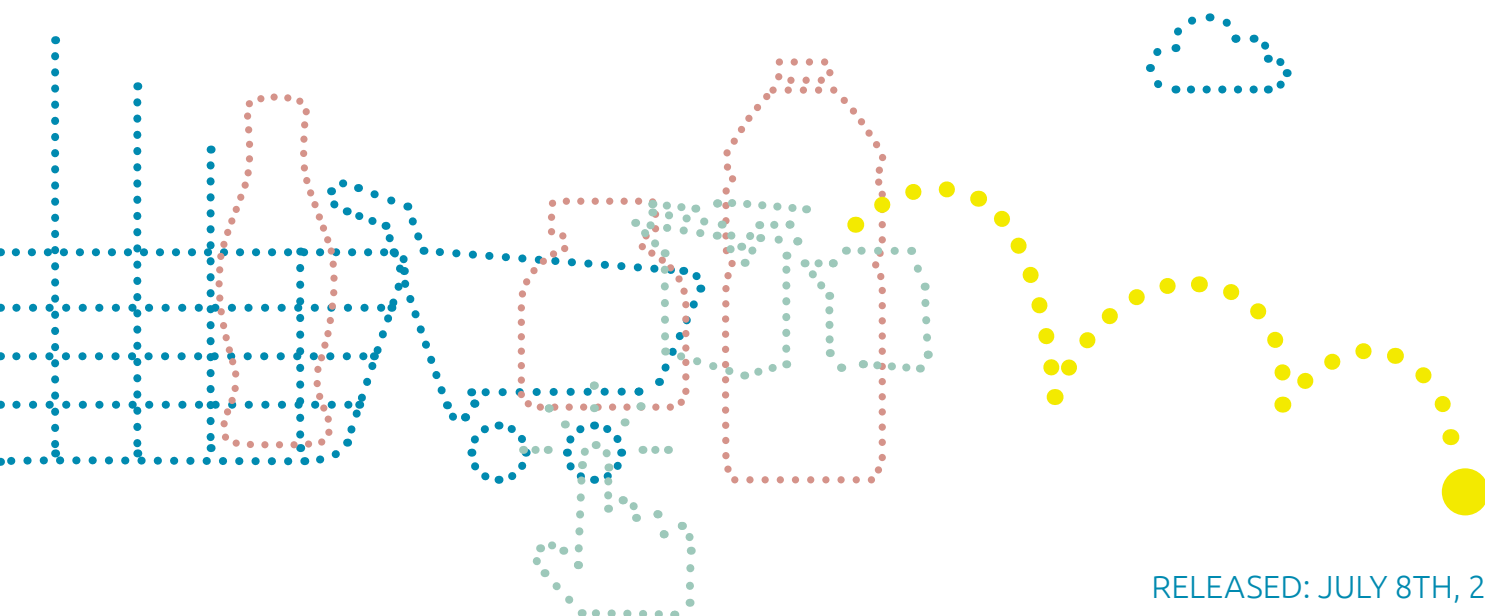


# THE STATE OF ONLINE GROCERY RETAIL IN EUROPE

AN EXTENSIVE GUIDE FOR RETAILERS AND FMCG  
BRANDS ON KEY EGROCERY MARKET DEVELOPMENTS  
AND TRENDS ACROSS EUROPE AND THE US



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# Introduction

Last year the research team at Syndy (formerly SyndicatePlus) showed that the global egrocery market was heating up fast. However, consumer penetration and online grocery sales were still at an early stage.

Today, consumers in Europe and the US increasingly turn to online grocery stores for their shopping. The online channel is expected to grow to €80BN+ by 2018, with consumers noticing the benefits online brings, like higher convenience. For retailers and suppliers the growing egrocery market offers many opportunities, but cracking the code still proves difficult.

Our latest report - The State of Online Grocery Retail in Europe 2015 - has been written for every egrocery player: forward-thinking as well as conservative retailers and suppliers. Vast resources have been put to use to build the report, which is full of refreshing insights about today's market.

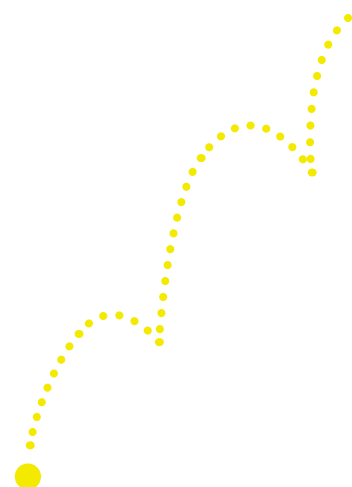
The report studies the four most developed egrocery markets in Europe as well as the US; the largest egrocery market in the world. It also looks at India; one of the fastest-growing, and potentially largest egrocery markets of the world. Last but not least, Syndy's research team interviewed several industry experts and picked their brain about the market.

We hope this study proves useful to retailers and suppliers as they prepare, or continue to build their online businesses.

Feel free to contact us if you have any questions.

Kind regards,  
Pieter van Herpen

CEO Syndy



# Executive Summary

This report presents an extensive study of the online grocery industry across the most advanced markets in Europe. It focuses on the United Kingdom (UK), the Netherlands, France and Germany, as well as the United States (US) and covers key market trends and developments within the competitive landscape. Moreover, the report includes a special read about India, an emerging market showing rapid growth in the online grocery domain triggered by high adoption of new technologies and innovation. Following extensive research, this report identified key developments in the egrocery market across 2014:

## 1) DOUBLE-DIGIT GROWTH IN WESTERN EUROPE AND THE US

The four European countries and the US each showed remarkable double-digit growth of online grocery sales last year. The Dutch market grew fastest, with +55% growth. The French market grew slowest, but still reached an impressive +25% growth. The German and the British markets grew 38% and 26% respectively. Penetration increased significantly across all countries. In 2014, 16% of European consumers bought groceries online, compared to 13% in 2013. With market value and consumer adoption growing at accelerated rates, the egrocery market has achieved significant progress. This was driven by the surging popularity of new business models and new players appearing on the horizon. The role

of online giants like Amazon also increased, not just in the US with AmazonFresh, but also in Europe (where consumers are limited to ordering Non-Food products only). Amazon has invested millions into its online grocery business, and traditional retailers, both large and small, have decided to invest resources into their own online offerings too.

## 2) "THE LAST MILE" REMAINS THE BIGGEST CHALLENGE IN GROCERY DELIVERY

The expanding pick-up point network in Europe was one of the highlights of the year. For example, the Netherlands saw an extraordinary +680% increase in the number of pick-up points compared to the beginning of 2013. Throughout 2014, most traditional retailers moving online chose the pick-up point delivery model for their roll-outs. At the same time, established players continued to grow their pick-up point networks, with the goal to expand their reach in less populated areas. For retailers, the pick-up point model makes most economic sense, yet consumers prefer home delivery since "convenience" is the key driver behind online grocery shopping. Retailers are therefore searching for new ways to offer home delivery at minimal costs, or even for free. Membership schemes like Amazon Prime give consumers access to unlimited home delivery in return for a fixed monthly fee. These plans are growing in

popularity across consumers and retailers.

In search of best practices, retailers are fine-tuning their grocery delivery models. Too often they offer both home delivery and a pick-up point network. The success criteria for delivery models varies across countries and cities, with geographic conditions, population densities and economical health driving decision-making. The most viable model will be a balance of economic feasibility and consumer demand; a strategic mix of delivery models tailored to a market (a city or country). So far home delivery reigns in densely populated big cities, with high average purchasing power while pick-up points do best in “spread territories”, where home delivery is too costly for retailers.

### 3) NEW EFFICIENCIES THROUGH UNIQUE RETAILER PARTNERSHIPS

Across 2014 competition became increasingly intense, with both traditional and pure online players pushing innovations and driving operational excellence. Interestingly, some of the biggest traditional retailers looked for new ways to shortcut costly IT developments. They did so by outsourcing key business capabilities to third parties. For example, in the United Kingdom Morrisons (traditional retailer) partnered with Ocado (pure player) to benefit from their 15 years of ecommerce and online distribution experience, and so

advance its online venture. Clearly the partnership was beneficial to both parties; it allowed Ocado to create an additional stream of revenue which enabled its first year of profits. In the US, Whole Foods partnered with Instacart (grocery delivery startup) to learn from the startup’s mobile expertise and avoid costly logistical and platform developments. Following successful pilot schemes, the partnership is now expanding across the US.

In further developments, research shows that online players - big and small - increasingly target cities, instead of countries, for their rollouts. Both Amazon and Google launched their online grocery ventures in New York and San Francisco. These online players are targeting specific areas that meet the conditions for their business models to work. Following this trend, country’s egrocery ecosystems will vary across cities that are densely or sparsely populated.

# Grocery retail at a digital tipping point

The grocery industry comprises one of the largest segments in global retail, in which established international players lead the way with significant market share. Nonetheless, the state of the industry is changing rapidly. Traditional grocery retailers must deal with increasing price wars, reducing margins and growing consumer appetite for organic health food. Simultaneously, digital trends are forcing retailers to adapt their business models. In 2014, the global grocery market was valued at €3 trillion (Figure 1), making it 3x larger than the global apparel industry<sup>1</sup>. In 2014, the grocery market in Western Europe was valued at €936 billion, with the UK alone representing 55% of total retail sales<sup>2</sup>.

The grocery industry is reaching a digital tipping point, with much of its growth expected to come from online. In fact, some FMCG<sup>3</sup> brands are already claiming 20-50% of sales from online purchases<sup>4</sup>. A combination of factors is responsible for this growth; expanding online offerings, new technologies, increased efficiencies and consumer preferences for convenience are among the most important ones<sup>5</sup>.

The global egrocery market is growing fast, with a value of €80 billion expected by 2018<sup>6</sup>. Today, grocery retailers that are successfully selling their products online are creating immense value, especially compared to retailers that are not (yet) online. Consumers that are happily ordering their groceries online will likely have a preferred store, due to the time spent creating a profile, searching for products and adding billing information. This represents a huge threat to grocery retailers that have not yet emerged online, - but have the ambition to do so. Winning over the hearts of consumers who already have a preferred online store will be a challenging task.

<sup>1</sup> Data Monitor (2014)

<sup>2</sup> IGD (2014)

<sup>3</sup> Fast Moving Consumer Goods (2014)

<sup>4</sup> Dunhumby (2014)

<sup>5</sup> Nielsen (2014)

Euromonitor International (2014)

<sup>6</sup> BCG (2013)

Figure 1: GROCERY RETAIL MARKET SIZES (2014)

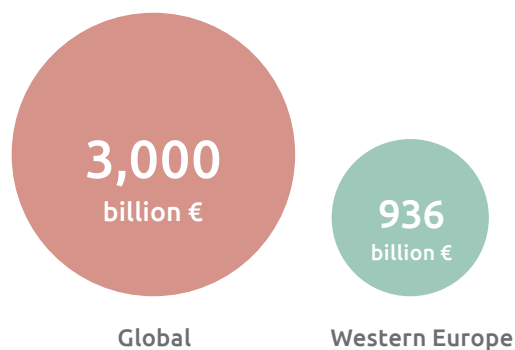


Figure 1

Sources: Plunkett Research (2015), GIA (2012), PlanetRetail (2013), RetailMeNot-Centre for Retail Research, Forrester Research.

# Egrocery: 4 trends that are shaping the industry

## TREND 1: BUSINESS MODEL DIVERSITY EXPANDS IN EUROPE

As the egrocery market develops and expands the diversity of business models also increases. Business models that proved successful in countries like the US and the UK are now being replicated and adopted globally. Traditional retailers are competing with pure online players and established global ecommerce companies are entering the online grocery domain. As a result, the market includes a rich diversity of players, each with different capabilities to compete within the market. [Table 1](#) shows an overview of the different types of players competing in the egrocery field.

## TREND 2: OMNI-CHANNEL REMOVES BOUNDARIES AND TIME-FRAMES IN GROCERY RETAILING

To help them shop smarter, consumers draw information from more channels and devices than ever before. In response retailers are creating new touch-points to feed growing consumer appetite for shopper information. The omni-channel revolution underway aims to remove boundaries and time-frames from the shopping experience. Companies are innovating to make the online-offline barrier as seamless as possible; from drone delivery and physical pick-up points in universities, to the Amazon Dash; a button consumers push to order certain products, and receive them at their door.

The omni-channel trend is very much present in grocery shopping. In the online channel, rich product information, product

photography, videos and interactive digital content, like recipes, take the consumer on a richer grocery shopping journey. In-store retailers can connect with consumers using mobile. For example, certain retailer apps allow consumers to browse all products while shopping or creating shopping lists on the go. The challenge lies in satisfying shoppers' needs wherever and whenever they want to shop, and understanding their motivations, which can be divided into convenience and experience seeking. There is no longer a linear purchase journey, as consumers are constantly switching between channels and devices and expect nothing less than a seamless shopping experience.

## TREND 3: MOBILE TRANSACTIONS GAIN MOMENTUM, ACCOUNTING FOR 1 IN 5 ONLINE GROCERY ORDERS

The omni-channel revolution involves the integration of the mobile channel, in which the number of transactions is increasing day-by-day. Today, 3 out of 10 online transactions in Europe are completed via a mobile device<sup>7</sup>. It is estimated that global mobile purchases will be worth €100 billion in 2015<sup>8</sup>, equivalent to 8% of total ecommerce sales. In online grocery, an average of 20-35% of orders come from mobile<sup>9</sup>. Ocado exceeds this average, with its mobile orders corresponding to 45% of the total amount<sup>10</sup>. Because of this trend, many companies have decided to enhance mobile user experience and focused their resources on mobile apps and websites. There is no doubt that a sound understanding of how consumers use mobile devices in their purchasing journey will provide retailers with a significant advantage when fine-tuning their online offerings.

.....  
<sup>7</sup> Adyen, 2015

<sup>8</sup> Dyn, 2014

Table 1: TYPES OF ONLINE GROCERY MARKET PLAYERS

| CATEGORY           | TYPE  |  |  |  |
|--------------------|---|--|--|--|
| Traditional        | <b>RETAILER WITH A DEDICATED ECOMMERCE BUSINESS UNIT</b>  | <b>RETAILER IN A PARTNERSHIP WITH ANOTHER PARTY</b>  |  |  |
|                    | <ul style="list-style-type: none"><li>• Develops both: brick-and-mortar and ecommerce businesses.</li><li>• Focuses on the omnichannel offering.</li></ul> <p><b>Examples:</b><br/>Tesco (UK),<br/>Walmart (US),<br/>Albert Heijn (NL).</p>   | <ul style="list-style-type: none"><li>• Outsources its ecommerce operations.</li><li>• Do not need to invest in infrastructure and capabilities.</li></ul> <p><b>Examples:</b><br/>Morrisons &amp; Ocado (UK),<br/>Whole Foods &amp; Instacart (US).</p> |  |  |
| Online-Only        | <b>PURE ONLINE PLAYER</b>   | <b>CONCIERGE SERVICE</b>   | <b>PRODUCER</b>  | <b>NICHE / CATEGORY SPECIALIST</b>   |
|                    | <ul style="list-style-type: none"><li>• Sells products online-only.</li><li>• Dedicates all resources and capabilities to the online channel.</li></ul> <p><b>Examples:</b><br/>Ocado (UK),<br/>Peapod (US).</p>  | <ul style="list-style-type: none"><li>• Leverages a network of personal shoppers to deliver groceries from different stores.</li><li>• Highly flexible due to no inventories.</li></ul> <p><b>Examples:</b><br/>Instacart (US),<br/>Shopwings (DE).</p>  | <ul style="list-style-type: none"><li>• Delivers straight from the suppliers.</li><li>• Responds to the organic and healthy trend.</li></ul> <p><b>Examples:</b><br/>FreshDirect (US),<br/>Abel &amp; Cole (UK).</p> | <ul style="list-style-type: none"><li>• Focuses on one specific product category or segment.</li><li>• Offers unique assortment.</li></ul> <p><b>Examples:</b><br/>HelloFresh (EU),<br/>Blue Apron (US).</p> |
| Category Expansion | <b>GLOBAL TECHNOLOGY, LOGISTICS OR ECOMMERCE COMPANY</b>  |  |  |  |
|                    | <ul style="list-style-type: none"><li>• Have global presence and state of the art capabilities in IT, logistics, ecommerce and/or other areas.</li><li>• Expands its reach into online grocery, using existing capabilities and networks.</li></ul> <p><b>Example Technology:</b><br/>Google - Google Express (US),</p> <p><b>Example Ecommerce:</b><br/>Amazon - AmazonFresh (US),</p> <p><b>Example Logistics:</b><br/>DHL - Allyouneed Fresh (DE).</p> |  |  |  |

Syndy Model.

Sources: Coca Cola Retailing Research Council (2014), GMA, BCG, Google, IRI (2014), BMO Capital Markets (2015).



## TREND 4: DELIVERY MODEL OPTIMISATION CONTINUES IN ONLINE GROCERY RETAIL

Most online grocery retailers offer two options for consumers to receive their groceries: home delivery and pick-up points. Regarding home delivery, 25% of the world's grocery shoppers claimed to have used this service, and 55% claimed to want to try it<sup>11</sup>. However, for retailers the model often makes no economic sense due to low population densities, lack of scale, complicated logistics required for fresh produce, or unwillingness of consumers to pay extra for delivery. On the other hand, pick-up points are more viable in terms of operational costs and initial investments. As a result, grocery retailers are working hard to polish their distribution processes and possess a profitable mix of offerings. [Table 2](#) shows the advantages and disadvantages of the delivery models and several use cases.

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<sup>9</sup> Ocado (2014)

<sup>10</sup> MyWebGrocer (2014)

<sup>11</sup> Nielsen (2014)

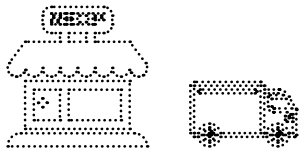





Table 2: DELIVERY MODELS IN EGROCERY

|                                     |    |    |         |
|-------------------------------------|---|---|--|
|                                     | PROS  | CONS  | TYPICAL / IDEAL ADOPTER  |
| In Store Pick-up points             | <ul style="list-style-type: none"> <li>• Small initial investments;</li> <li>• No duplicate stock-keeping;</li> <li>• Low floor space requirement;</li> <li>• Flexible staff planning.</li> </ul>             | <ul style="list-style-type: none"> <li>• Double workload for replenishment;</li> <li>• Challenging data synchronisation;</li> <li>• Faster out of stocks;</li> <li>• In store congestion.</li> </ul>                          | Brick-and-mortar retailers.<br>E.g. WalMart (US).  |
| Stand alone Pick-up points          | <ul style="list-style-type: none"> <li>• Flexible (longer business hours and more locations);</li> <li>• Convenient for consumers;</li> <li>• Increases the number of touch-points with consumers.</li> </ul> | <ul style="list-style-type: none"> <li>• High initial investments;</li> <li>• Lower consumer willingness to use compared to home delivery;</li> <li>• Time intensive;</li> <li>• Involvement of more stakeholders.</li> </ul> | Brick-and-mortar retailers.<br>E.g. Auchan (FR).   |
| Home delivery                       | <ul style="list-style-type: none"> <li>• Preferred by consumers.</li> </ul>   | <ul style="list-style-type: none"> <li>• Very high initial investments;</li> <li>• High maintenance costs;</li> <li>• Requires scale of operations.</li> </ul>  | Brick-and-mortar retailers,<br>Pure online players.<br>E.g. Albert Heijn (NL); Ocado (UK). |
| Home delivery (done by a 3rd party) | <ul style="list-style-type: none"> <li>• Small initial investments;</li> <li>• Flexible - demand driven;</li> <li>• No floor space requirement.</li> </ul>  | <ul style="list-style-type: none"> <li>• Complex stock monitoring;</li> <li>• In store congestion;</li> <li>• Dependence on third parties;</li> <li>• Limited process optimisation.</li> </ul>                                | Brick-and-mortar retailers.<br>E.g. WholeFoods and Instacart (US).                         |

# What's next in egrocery?

Retail expert **Christian van Someren** discusses the state of online grocery in Europe, and what can be expected in the near future as the market continues to expand.



**Christian van Someren**

Christian founded the first online supermarket in the Netherlands - Truus.nl. He has also worked for one of the largest FMCG companies in the world - Procter and Gamble. Currently, Christian advises companies on managing their digital transformation.

- 1. IT IS PREDICTED THAT ECOMMERCE WILL ACCOUNT FOR NEARLY HALF OF THE TOTAL FMCG GROWTH IN THE NEXT FIVE YEARS. HOW DO YOU FORESEE THE ONLINE CHANNEL EVOLVING?

It will further accelerate - globally there are new players stepping into the market. Grocery is the biggest market in consumer spending, and ecommerce is still relatively small when compared to total grocery sales. I think that with players like Amazon being active in this market, online grocery will accelerate very fast in the upcoming years. The market will be divided between those who seek comfort and those who seek a richer experience. Instacart's shoppers seek comfort, having somebody else going to the store and getting groceries for them. Some other people seek the experience, and are willing to engage more with food. Today, people who buy online mainly do so to stock their pantries. For example, in the UK people do online grocery shopping on average 12-13 times a year. This frequency will increase as more people buy fresh products online.

- 2. ONLINE GROCERY RETAILERS EMPLOY DIFFERENT OPERATIONAL MODELS, SUCH AS DELIVERY FROM STORES, DARK STORES, DEDICATED WAREHOUSES ETC., TO SERVE ONLINE CONSUMERS. WILL ALL OF THESE MODELS CONTINUE OR WILL THERE BE A CONVERGENCE?

It depends on geography and growth of the market. If a supermarket is starting in the online grocery retail business, it is by far most efficient to deliver the goods

from existing stores. As the online market grows, you see existing players having in-store pick-up, dark stores, and dedicated ecommerce warehouses. I believe all of them will continue to exist.

- 3. CAN THE PICK-UP POINTS MODEL BE SUCCESSFUL IN COUNTRIES LIKE THE NETHERLANDS?

I think people are more interested in home delivery. We see it in more mature markets. Even in France where the pick-up point concept was invented, people who have tried the delivery of goods to their homes prefer this model by far. As for the Dutch market, I think it is good for retailers to develop the pick-up point networks because it is a low-cost model enabling retailers to sell groceries online. But if you want to be a winner, you have to solve home delivery.

- 4. WILL THE MEGA TREND OF MOBILE COMMERCE AFFECT THE ONLINE GROCERY RETAIL MARKETPLACE? HOW CAN PLAYERS RESPOND?

Yes for sure, and it starts with supplying the right product content on mobile devices. I believe that a lot of parties are struggling with that. Online grocery orders are very large in terms of number of items in a basket, and people take a lot of time to fill in their digital baskets. It would be therefore more convenient for consumers to put items on their mobile devices at the moment when the problem comes up. So they empty their last bottle of milk, and they can immediately put it on

## "RETAILERS NEED THE BEST PRODUCT INFORMATION AVAILABLE, WHICH I THINK SHOULD BE THE FOCUS FOR THIS CALENDAR YEAR."

their shopping list. A good integration with mobile would solve a lot of issues that we are facing nowadays with online shopping.

- 5. ARE THERE ANY INNOVATIONS WE
- CAN EXPECT IN ONLINE PRODUCT
- REPRESENTATION?

I think product representation will change a little. We might go to 360° views of products, virtual reality etc. But I think that the biggest innovation will come from links between products. With the growth of ecommerce, the number of products increases and it becomes more difficult for people to find the products they need. By linking products, people can browse more easily through product sets. But in order to focus on more advanced innovations, connections, and techniques, we need the basics. Retailers need the best product information available, which I think should be the focus for this calendar year. The natural next step is building product relations.

- 6. CAN TRADITIONAL GROCERY RETAILERS
- COMPETE ONLINE WITH ALL THESE
- INNOVATIVE COMPANIES ENTERING THE MARKET?

If traditional retailers are not able to develop an online formula on time, I believe they will have a very big problem. A couple of retailers are already missing out. There will also be a shake-up in the upcoming years: Instacart is completely changing the way in which people are shopping for groceries online since it is making use of an existing channel. Supermarkets will still exist online, but I believe the power will shift to innovative players like Instacart. We see it in a couple of other retail markets; the growth of the online channel has had a big influence on how the market landscape looks. This will happen with grocery retailing as well.

- 7. MORRISONS' PARTNERSHIP WITH OCADO
- IS AN EXAMPLE OF HOW TRADITIONAL
- RETAILERS CAN OUTSOURCE THEIR ONLINE
- OPERATIONS. DO YOU FORESEE SIMILAR
- PRACTICES BECOMING MORE PREVALENT IN
- THE NEAR FUTURE?

Ocado invested around 400 million to get where it is now. The company is under pressure for growth - and for that it needs more volume. On the other hand, there are some retailers that cannot make or are not willing to make such investments, but want to learn and serve their customers online as well. So I think this is quite a natural movement for both sides. Yet there are certain risks as well. Whose customer is it in the end? That is the big question. For example, Morrisons started providing a lot of information about their customers and delivering it to Ocado. In the longer term if people are less loyal, and Ocado has all these customers in their database, sooner or later it can influence customers to order directly from Ocado. In these kinds of collaborations, there are always tensions. I understand that this is beneficial for both parties now, but in the long term it is interesting to know: What will happen?

- 8. AMAZON HAS RECENTLY ANNOUNCED ITS
- PLANS TO EXPAND THROUGHOUT EUROPE.
- HOW DO YOU SEE CURRENT PLAYERS
- SURVIVING THIS AND ACTUALLY BECOMING
- PROFITABLE IN ONLINE GROCERY RETAIL?

There is a fundamental difference between Amazon and other players, since Amazon is always around 0% profitability, purely focusing on growth. It is very difficult to compete with Amazon, yet players have to be more willing to invest and take more risks because the risk of doing nothing, or doing too little, is way bigger. But competition will be fierce, that is for sure.

# Country Focus

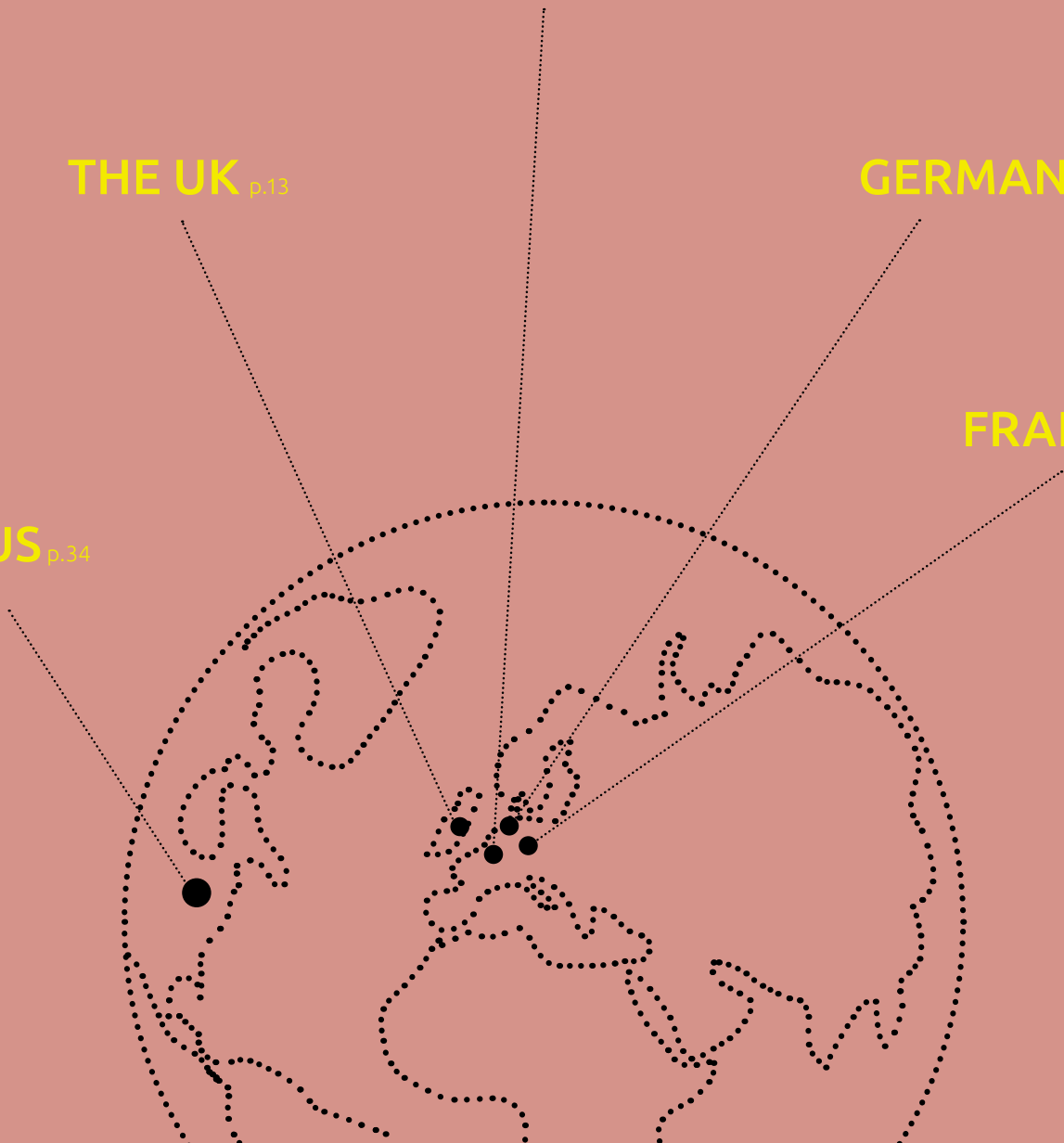
THE NETHERLANDS p.19

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#### UK'S ECONOMY AND ECOMMERCE MARKET

The UK is Europe's third-biggest economy with a GDP of £1.8 trillion (2014). It is also the third-most attractive country for ecommerce in the world, after the US and China<sup>12</sup>, and ranked first in Europe in terms of ecommerce revenues (£45.0 billion in

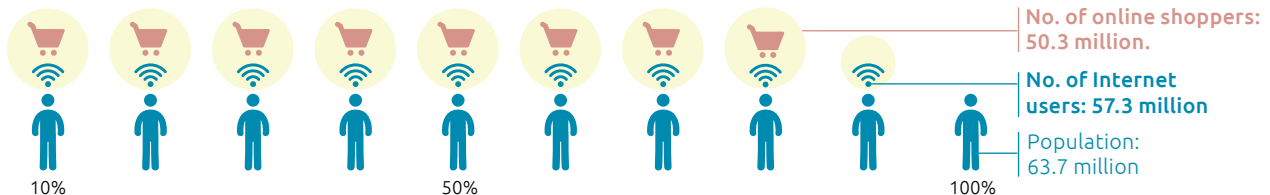
prices to drop by 2% in a year, the highest drop in the market since 2006.<sup>15</sup> Despite these losses, Tesco still leads the way with a 29% market share, followed by Asda controlling 17% of the market.

The offline wars have quickly transformed the online market into the new competitive

**Figure 2: COUNTRY FACTS**



**Figure 3 : Internet and online shopping penetration in the UK**



2014). With 79% of the British population shopping online, ecommerce is the fastest growing sales channel in the country. It is expected to more than double by 2019.<sup>13</sup> Consequently, the UK is the European benchmark for ecommerce in many different industries.

#### UK'S GROCERY MARKET: DISCOUNTERS GAIN MARKET SHARE WHILE ONLINE KEEPS ON GROWING

The UK's grocery market has been embroiled in a price war for a long time. Tesco, Asda, Sainsbury's and Morrisons, also known as "The Big Four", have been forced to cut prices in efforts to compete with discount chains like Aldi and Lidl. Last year brought bad news for The Big Four, which lost significant market share (from 80% in 2013 down to 72.8% in 2014<sup>14</sup>) to the discounters. Price wars also caused

arena and as a result, most of the industry's players are investing heavily to establish their positions online. In fact, the online grocery channel in the UK is the most developed in Europe, accounting for ca. 4.4% of total grocery purchases - worth £7.7 billion.<sup>16</sup> The UK's online grocery industry also shows incredible potential, and is expected to represent 6.3% of the total grocery market by 2016.<sup>17</sup>

#### THE BIG FOUR FOCUS ONLINE

Price and retail space wars have made the brick-and-mortar market progressively more hostile. As a result, the UK's market leaders were looking for ways to create extra value for consumers. The online channel was offering a wealth of untapped opportunities. This movement towards online caused a significant change in 2014.

**Figure 2, 3**

Source: Eurostat (2014); CIA world Factbook (2014); Statista & IMF (2014); ITU, UN population division, World Bank, (2014); Centre for Retail Research (2014).

<sup>12</sup> A.T. Kearney (2015)

<sup>13</sup> IGD (2014)

<sup>14</sup> Kantar Worldpanel (2014)

<sup>15</sup> The Telegraph (2015)

<sup>16</sup> IGD (2014)

<sup>17</sup> IGD (2014)

Let's start with the market leader, Tesco, which announced 'digital' as the heart of their new company strategy. Controlling 38% of the online market, the company is at the forefront of innovation in every area, aiming for omnichannel leadership (see next section).

Asda, with a 15% of the online grocery market share, announced a plan to almost triple online sales to €3.8 billion by 2018. Aggressively expanding its pick-up point network, Asda plans to roll out to 1,000 locations, and make same-day procurement the norm.

Sainsbury's, who also has 15% of the grocery market, has optimised its online infrastructure building new dark stores, opening new pick-up points and expanding home delivery reach. With a current two-year plan, Sainsbury's aims to put personalisation at the center of its online experience.

Morrisons signed a 25-year agreement with Ocado to outsource its online operations through Ocado's logistics network. Morrisons.com launched in January 2014, closing the year with a 2.6% grocery market share.

#### TESCO, THE DIGITAL INNOVATOR

With a plan to become the master of omnichannel experience, the retail giant has announced that every arm of its business will feature a digital aspect. In fact, it is cutting back on physical store openings to focus on the online channel. In an attempt to improve the omnichannel experience for its shoppers, the company is expanding its pick-up point network and increasing capacities through dark stores. Tesco is also focusing on innovations that will merge online and offline in a seamless experience.<sup>18</sup> For example, Tesco's digital clubcard, being trialled in London, aims to completely personalise consumer experience to increase loyalty.

The program will now reward consumers with personal discounts and coupons that they can redeem through the mobile app.<sup>19</sup> Another effort to make online and offline boundaries disappear is its 3D virtual store, by which Tesco aims to integrate the online experience with the classic in-store look and feel (Image 1).<sup>20</sup>

**Table 3: UK'S ECOMMERCE AND EGROCERY FIGURES (2014)**

|  |              |
|--|--------------|
| Ecommerce market size* (Billion £)                                     | <b>45.0</b>  |
| Ecommerce market as a % of the total retail market                     | <b>13.5</b>  |
| Grocery retail market size (Billion £)                                 | <b>174.5</b> |
| Online grocery retail market size (Billion £)                          | <b>7.7</b>   |
| Online grocery retail market as a % of the total grocery retail market | <b>4.4</b>   |
| Penetration of online grocery shopping (% of total population)         | <b>25.0</b>  |

**Table 3**

Source: Retailmenot (2014); Centre for Retail Research (2014); Eurostat, (2015); IGD (2013 & 2014).

\* Sales of goods, excluding fuel and sales of prepared food in cafes and restaurants. Tickets, holidays, gambling and insurance are also excluded.

#### ALDI TO BEGIN TESTS ONLINE

In the beginning of 2015, announcements in the German media hinted that one of the German discounters, Aldi, was planning to test the online grocery market in the UK. The retailer still had not entered the online market due to the channel's expensive operations, which clash with the discounter's low-cost model. Nonetheless, with the online market expanding at such a high rate and 25% of UK's shoppers already doing their grocery shopping online, Aldi is wary of losing out. Tests in the UK, a

<sup>18</sup> IGD (2014)

<sup>19</sup> PSFK (2014)

<sup>20</sup> Brick Meets Click (2015), IGD (2015)



Image 1 : TESCO'S 3D VIRTUAL STORE



Figure 4: MARKET SHARES AND REVENUES OF GROCERY RETAILERS IN THE UK (2014)

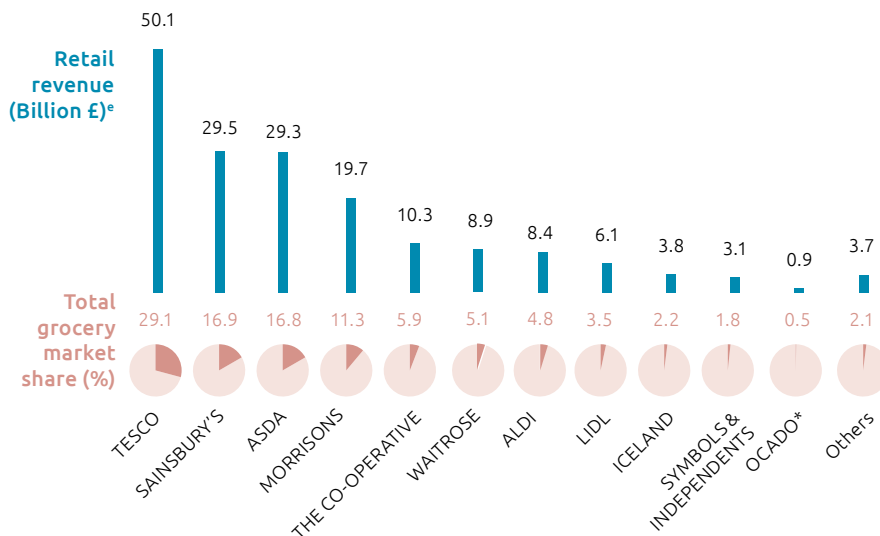


Figure 4

Source: Kantar Worldpanel (2014); Company Reports (2014).

e - Syndy's estimate;  
\* Online-only player.

mature ecommerce market, will determine if the discounter rolls out its online operations in other countries.<sup>21</sup>

#### OCADO'S FIRST YEAR OF PROFITS

Ocado, the world's largest pure online grocery player, reported its first profitable year in 2014. After declaring a loss of £12.5 million in 2013, Ocado announced a profit of £7.3 million in 2014. The egrocer has 43,000 SKUs (Stock Key Units) in its range and boasts a consumer base of 453,000 active users with 183,000 weekly orders. Ocado's mobile apps and algorithms epitomize digital innovation. The Scan & Shop app lets shoppers add items to their baskets by scanning barcodes. Soon, the Apple Watch will allow online shoppers to use voice recognition for it to automatically add items to the list. To further facilitate online shopping experiences, Ocado also offers an Instant Shop function that predicts a consumer's basket based on previous purchases.<sup>22</sup>

Ocado's profitability is primarily due to the company's new supplementary business, Ocado Smart Platform, and its partnership with Morrisons. In fact, Ocado is leveraging its logistical services by offering its

infrastructure and operating capabilities to power third-party online retail enterprises. This way, traditional brick-and-mortar retailers can outsource the development of their online operations and rapidly build scalable and profitable online businesses. Ocado expects new partnerships with international retailers to materialise in the near future.<sup>23</sup> In addition to the milestones achieved in 2014, Ocado promises to keep on growing - now with 12% of the online grocery market (0.5% total market). Ocado's agenda will undoubtedly influence the way online grocery retail develops in the UK and, to a certain extent, the rest of the world.

#### HOME DELIVERY FOR GROCERIES, PICK-UP FOR NON-FOOD

The UK's Big Four are expanding their pick-up point network all over the country. This seems to be an intelligent strategy, given the fact that 73% of UK's shoppers use pick-up points.<sup>24</sup> What's interesting is that while the British seem to love this option, they prefer home delivery for groceries purchased online. Thirteen percent of the British use home delivery as their preferred delivery method, with 49% having tried it before. On the other hand, only 1% of the

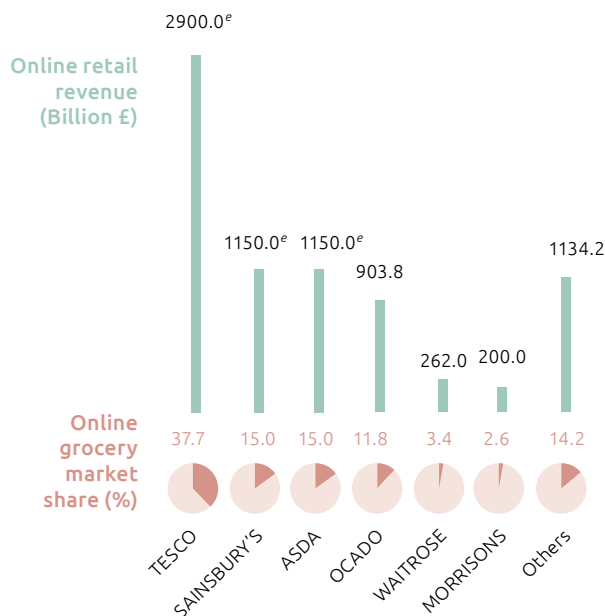
<sup>21</sup> Brick Meets Click (2015), IGD (2015)

<sup>22</sup> Ocado (2015)

<sup>23</sup> Reuters (2014)

<sup>24</sup> Internet Retailer (2015)

**Figure 5: MARKET SHARES AND REVENUES OF ONLINE GROCERY RETAILERS IN THE UK (2014)**



**Figure 5**

Sources: Reuters (2013); IGD (2014); Company Reports (2014); Internet Retailer (2014); Telegraph UK (2014).

e - Syndy's estimate.

British prefer pick-up points.<sup>25</sup>

#### HOME DELIVERY MEMBERSHIP SCHEMES: THE SOLUTION TO ONLINE LOYALTY

For years, ecommerce and logistics experts have endeavored to make home delivery profitable. This delivery model is costly and logistically challenging, and online shoppers are usually the ones who absorb most of these high costs through delivery fees. The situation is therefore unsatisfactory for both online shoppers and egrocers alike. As a result, attempts have been made to make home delivery more attractive, and retailers now offer consumers a compromise via the conventional loyalty model: memberships.

Through membership schemes, online grocery retailers can lower shipping fees and secure returning customers. By allowing the distribution of delivery costs in an annual, biannual, or monthly fees, memberships offer consumers an alternative, which can actually save them money.<sup>26</sup> Currently, 26% of British online grocery shoppers belong to one of the available home delivery membership schemes in the country (Tesco, Asda,

Sainsbury's and Ocado).<sup>27</sup>

The membership model is driving loyalty in the online channel. Once having subscribed to a retailer's membership program, the consumer is committed for a longer period of time and is therefore unlikely to switch to other retailers. On the other hand, with consumers aiming to get the most out of their money, frequency of purchases increases. With growing awareness of membership schemes, almost half of the online grocery shoppers in the UK could be subscribed to one of these programs by the end of 2015.<sup>28</sup>

<sup>25</sup> eMarketer (2015)

<sup>26</sup> Business Insider (2015)

<sup>27</sup> IGD (2015)

<sup>28</sup> Internet Retailer (2015)



# Key takeaways

- Due to intense price wars in the British grocery market, discounters Aldi and Lidl have won market share at the expense of the traditional Big Four - Tesco, Asda, Sainsbury's and Morrisons.
- Ecommerce is the fastest-growing channel in the UK. The country is ranked number one in Europe in terms of online sales. More importantly, online sales are expected to double by 2019.
- Extreme competition in grocery retail has accelerated the development of the online channel in the UK. All players are investing heavily in their online ventures. Accordingly, it is reasonable to expect that the UK will be in the egrocery driving seat for the foreseeable future.
- The UK's egrocery segment is the most developed in Europe, worth £7.7 billion at 4.4% of total the total UK grocery market.
- The UK's grocery market leader Tesco announces digital innovation to be at the heart of its new strategy, indicating the grocer's ambition to further develop its omnichannel presence.
- Pure online grocery retailer Ocado announces its first year of profits. Part of Ocado's success is thanks to the "Ocado Smart Platform" - a new branch of business focused on partnerships with retailers who use Ocado's infrastructure and expertise to operate online.
- Morrisons' partnership with Ocado has proved to be a good example of traditional grocery retailers entering the online arena. With Ocado's infrastructure and know-how, Morrisons scaled its ecommerce business from 0 to £200 million in just over a year, making it the fastest growing online grocer in the world.
- 73% of Brits have used a pick-up point to receive grocery products they've ordered online, yet the UK's shoppers still strongly prefer home delivery over any other model.
- Membership models are becoming more popular amongst retailers and consumers in the UK. In 2014, 26% of all UK online grocery shoppers had subscribed to a home delivery scheme.

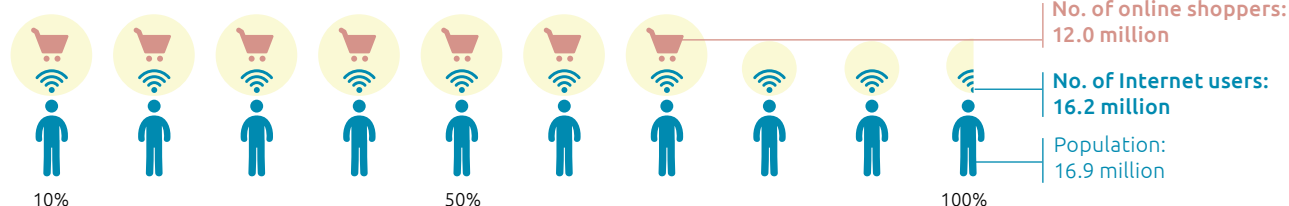


# The Netherlands

## DUTCH ECONOMY AND ECOMMERCE MARKET

The Netherlands is the seventh-largest economy in Europe (16th globally), and despite its small area, it is also the 10th most populated country on the continent. Ninety-six percent of Dutch people have access to the Internet. It explains why ecommerce is so popular in the country.

**Figure 7: Internet and online shopping penetration in the Netherlands**



In fact, 71% of the total population shops online.<sup>29</sup> This makes the Netherlands a very interesting country for online grocery retail. So far, the Dutch egrocery market developed fast compared to the neighbouring countries but did not reach the level of the leading markets like the UK and France.

## THE DUTCH GROCERY MARKET: EGROCERY GAINING SIGNIFICANCE

The total grocery retail market in the Netherlands is valued at €33.8 billion.<sup>30</sup> The market is led by Albert Heijn, which controls 34%. Jumbo Group follows with a 20% market share. The other half of the market is shared by smaller players and the two German discounters, Aldi and Lidl, which are gradually gaining a share of the Dutch grocery market. These two discounters together control 20% of the

market (Figure 8).

In 2014, online grocery retail accounted for roughly 1.3% of the total grocery retail sales in the Netherlands with an estimated value of €450 million. From a market worth ca. €290 million in 2013, the growth of the online grocery segment in 2014 turned the Netherlands from a young,

underdeveloped market into a maturing one that is quickly gaining pace. One of the reasons behind the slow initial development has been a lack of serious competition to the market leader Albert Heijn (ah.nl), which has kept delivery fees high and, as a result, slowed the market's growth.<sup>31</sup> Nonetheless, the emergence of aggressive competition in 2014 accelerated the online channel development. Based on the current growth scenario of the Netherlands, Dutch online grocery retail is expected to catch up with leading countries, like the UK and France, within 2-3 years.<sup>32</sup> This accelerated growth will be partly due to Albert Heijn's continuous attempts to lead in the omnichannel domain. But a larger catalyst for change will be the new players: from giant retailers (such as Jumbo) to smaller retailers (like DEEN), to new start-ups materialising.

## Figure 6. COUNTRY FACTS



## Figures 6, 7

Source: CBS Nederland (2014); Statista & IMF (2014); ITU, UN population division, World Bank (2014); Statista & IMF, (2014), Centre for Retail Research (2014); Eurostat (2014).

<sup>29</sup> Statista (2015)

<sup>30</sup> ING (2015)

<sup>31</sup> Coca Cola Retailing Research Council (2014)

<sup>32</sup> Syndy's discussions with industry experts.

#### ALBERT HEIJN FACES COMPETITION FROM ITS MAIN RIVAL

For years, Albert Heijn has been the only relevant player in the Dutch egrocery business with its ecommerce site ah.nl. But as the market grew, and consumers adopted new technologies, other players joined the party. In November 2014, Jumbo started its journey into egrocery. In just two months, the company opened 28 pick-up points. Through aggressive expansion, Jumbo plans to earn 5% of its total revenue from online sales by 2017.<sup>33</sup>

#### SLOWER ROLL-OUTS FOR SMALLER RETAILERS

Players like Coop, Deen, Dekamarkt, Spar, and PLUS are also investing in online expansion. Choosing to execute this process in phases, these grocers are opening pick-up points in their stores to enable online shoppers to receive products ordered online. Some are also testing delivery in specific areas of the country where they have strong positions. For example, Deen delivers only in the north of the country, quietly developing new capabilities before starting operations on a national level. This play-it-safe strategy could be the smartest move for smaller brick-and-mortar players. This way they move together with the market towards online grocery retail while keeping costs controlled to avoid any negative margin shifts. Another example is Coop. Its efforts in online grocery gave the retailer a 69% increase in online sales in 2014.<sup>34</sup> The results are evident in Coop's recently renewed ecommerce site, which is more user-friendly and conversion-driven.<sup>35</sup>

#### BEST-IN-CLASS EGROcery CONCEPTS ARRIVE TO THE NETHERLANDS

Start-ups, both Dutch and international, are also starting to enter the market. HelloFresh, de Krat, and Bilder & De Clercq (which recently started a cooperation with PLUS), are taking on the meal delivery

sector. In the producer category, Bonativo is taking its much-beloved markets online, delivering food to people in Amsterdam from the farm to the fork. Concierge services are also popping up all over the country, following Instacart's success in the US. Players like UberMart and Poqapp are offering personal shopper/delivery services in certain areas of the country. While some companies will not survive their start-up years, other business models will prove successful and add value to the Dutch egrocery ecosystem. Successful start-ups can become serious competition for traditional retailers, if they have the

**Table 4 : DUTCH ECOMMERCE AND EGROcery FIGURES**

|  |                        |
|--|------------------------|
| Ecommerce market size* (Billion €)                                     | <b>6.0</b>             |
| Ecommerce market as a % of the total retail market                     | <b>7.1</b>             |
| Grocery retail market size (Billion €)                                 | <b>33.8</b>            |
| Online grocery retail market size (Billion €)                          | <b>0.5<sup>e</sup></b> |
| Online grocery retail market as a % of the total grocery retail market | <b>1.5<sup>e</sup></b> |
| Penetration of online grocery shopping (% of the total population)     | <b>15.0</b>            |

**Table 4**

Source: Retailmenot (2014), Centre for Retail Research (2014); ING (2015); Eurostat (2015).

<sup>e</sup> - Syndy's estimate; \*Sales of goods, excluding fuel and sales of prepared food in cafes and restaurants. Tickets, holidays, gambling and insurance are also excluded.

<sup>33</sup> Het Financieele Dagblad (2015)

<sup>34</sup> Coop Financial Report (2014)

<sup>35</sup> Coop Financial Report (2014)

technological expertise and flexibility to stay lean and react quickly to the changes in the market. For example, while some traditional players invested years into their online roll-outs, UberMart managed to begin operations in a matter of months.

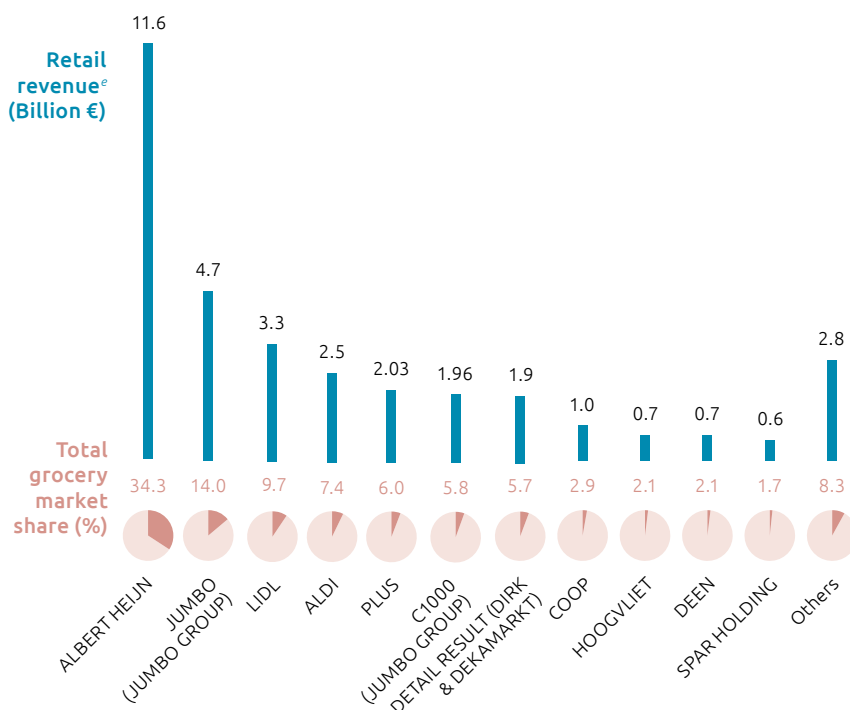


Figure 8

Source: IRI (2015), Nielsen, (2014), Company Reports (2014), Franchise Plus (2014).

e - Syndy's estimate.

**Figure 8: MARKET SHARES AND REVENUES OF GROCERY RETAILERS IN THE NETHERLANDS (2014)**

PICK-UP POINTS POPPING UP EVERYWHERE  
WHILE THE DUTCH STILL PREFER DELIVERY

Over last two years, the pick-up point network in the country has seen extreme growth of almost 680%, increasing from ca. 45 collection points in January 2013 to more than 350 by the end of 2014. With traditional retailers rolling out their online strategies and adding walk-in pick-up points to their current stores, other retailers, like Jumbo, have started aggressive pick-up point expansion. The group plans to open 3-5 a week - reaching a 100 pick-up point quota by the end of summer 2015. These points will be opened in three modalities: walk-in, drive-through and stand-alone.<sup>37</sup>

There are more than 350 designated points for grocery pick-up across the Netherlands (Figure 10),<sup>38</sup> so it could be expected that this delivery model is the most successful in terms of consumer preference and usability. This is not the case, however. Pick-up points might be the retailers' preferred model due to its lower cost structure and higher coverage, but it is not what consumers prefer. In fact, Dutch consumers highly prefer home delivery (80%) and are

willing to pay on average €4 to get their groceries delivered to their doorsteps.<sup>39</sup> Experts suggest that home delivery will be the winning formula to conquer the online grocery segment in the Netherlands, given the logistical feasibility that comes from high population density. While a hybrid formula is a good strategic approach, it is clear that to gain advantage in the Dutch egrocery market, mastering home delivery all over the country is a necessity.

TENSIONS IN FRANCHISING RELATIONSHIPS:  
OPPORTUNITIES FOR NEW ONLINE PLAYERS.

The success of a retailer is highly influenced by the performance of its franchisees. For this reason, communications should always be kept clear and relationships focused on the common benefits for both parties. When it comes to ecommerce activities in the Dutch grocery retail market, the agreements between franchisors and franchisees are often unclear. This lack of detailed arrangements has created tensions in the partnerships that are affecting the growth of egrocery in the Netherlands, especially home delivery. For example, it is ambiguous who should

<sup>36</sup> Levensmidelenkrant (2015)

<sup>37</sup> IGD (2015)

<sup>38</sup> Foodlog.nl (2014)

<sup>39</sup> Deloitte (2014)

Figure 9: MARKET SHARES AND REVENUES OF ONLINE GROCERY RETAILERS IN THE NETHERLANDS (2014)

The Netherlands  
.....

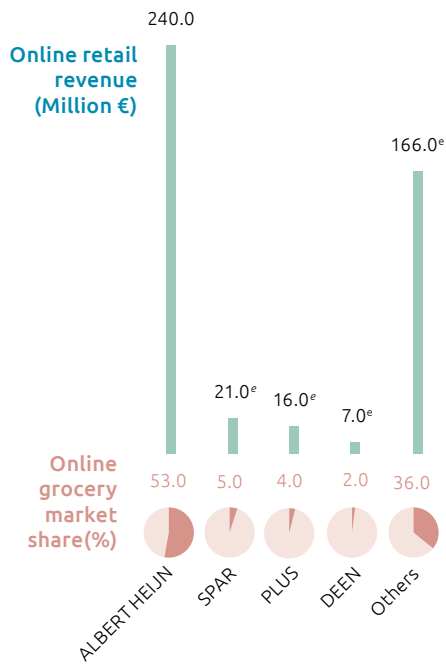


Figure 9  
.....  
Source: Company reports (2014); Franchise Plus (2014); Twinkle Magazine (2014).  
e -Syndy's estimate.

be responsible for activities like delivery when franchisees join a retailer-owned ecommerce network, or how much the franchisees will earn from online orders picked up at their stores. Moreover, new unforeseen costs are causing some franchise holders to resist riding the wave of online grocery, stating damage to profit margins as the reason. Jumbo seems to be the main player in establishing conventions with their franchisees. It has set protocols about the distribution of online sales, the presence of pick-up points at franchisees, and has agreed upon guarantees in case of sales cannibalisation.<sup>40</sup>

In response to this situation, new initiatives are being made by franchisees to take matters into their own hands. An example is [www.AH-afhaalpunt.nl](http://www.AH-afhaalpunt.nl), a private ecommerce network of Albert Heijn franchisees that already counts 33 pick-up points.<sup>41</sup> Opportunities also arise for new players like UberMart. The start-up has a network of personal shoppers who shop in franchised Albert Heijn stores in the Rotterdam area that are not yet a part of the ah.nl network.

.....  
<sup>40</sup> Het Financieele Dagblad (2015)  
<sup>41</sup> Levensmiddelenkrant (2015)

Figure 10: PICK-UP POINTS IN THE NETHERLANDS (2014)

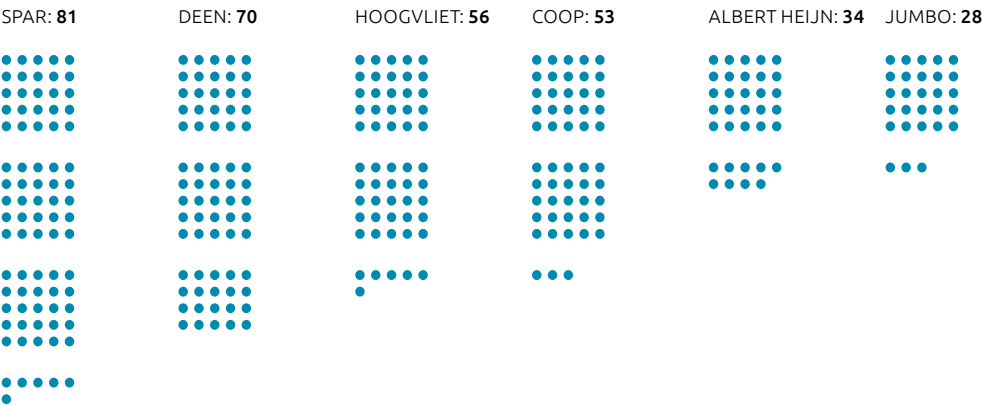


Figure 10  
.....  
Source: Company Reports (2014); Foodlog (2014).



# Key takeaways

- The grocery retail market in the Netherlands is dominated by Albert Heijn (34% market share), followed by Jumbo Group (20%) and the German discounters Aldi (9.7%) and Lidl (7.4%).
- 71% of the Dutch shop online; 15% do their grocery shopping online.
- The Dutch egrocery market experienced the fastest growth of all researched European countries, with an impressive +55% in 2014. Most of this growth came from traditional retailers venturing online.
- 2014 was the year in which traditional retailers like Jumbo and Deen entered the market and rolled out their online services. AH.nl still leads (53% market share), but it is now facing competition.
- Start-ups like UberMart, de Krat and Bonativo are innovating in the online grocery market with flexible business formulas. However, they are still in the very early stages of their development and do not yet have a significant influence on the Dutch egrocery market.
- Pick-up points are the preferred distribution model among retailers, with the total number increasing 680% in two years and currently exceeding 350 points. However, Dutch consumers still strongly prefer home delivery (80%).
- The complexity of ecommerce agreements between franchisors and franchisees has created tensions in grocery partnerships that have slowed the development of egrocery, but also generated opportunities for third parties like [www.AHafhaalpunt.nl](http://www.AHafhaalpunt.nl).





#### GERMAN ECONOMY AND ECOMMERCE MARKET

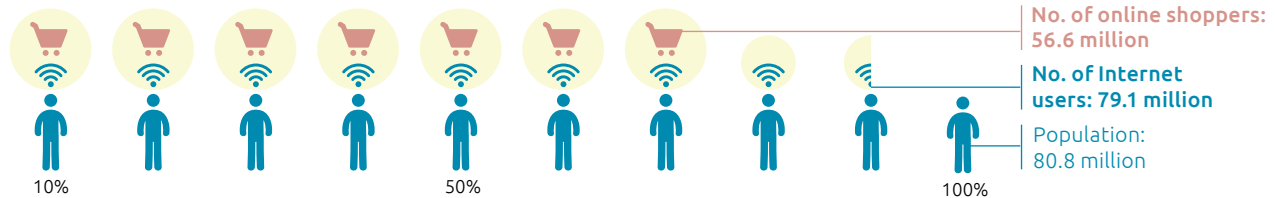
Germany, with a GDP of €3.1 trillion, is the 4th biggest economy in the world and the biggest in Europe. It also represents the second-largest ecommerce market in Europe, after the UK, worth €42.9 billion.

compared to any other market in Europe. This has created a full-on price war in the country where traditional retailers are forced to drastically cut prices in order to stay competitive.

**Figure 11: COUNTRY FACTS**



**Figure 12: INTERNET AND ONLINE SHOPPING PENETRATION IN GERMANY**



Clothing is the most popular product category among German online shoppers, while other categories such as groceries show promising potential.

#### GERMAN GROCERY MARKET: DOMINATION BY 5 MAIN PLAYERS

Germany's grocery industry is the largest in Europe, with sales of €247 billion in 2014. The grocery market in Germany is characterised by three factors: First, years of ongoing mergers and acquisitions have created a market dominated by a handful of players. The top five German retailers control 72% of the market.<sup>42</sup> Second, the German grocery market is highly saturated. It is estimated that every German household has 3.5 food stores within a 10-minute radius.<sup>43</sup> Finally, discounters play a more prominent role in Germany

#### ONLINE GROCERY RETAIL IN GERMANY: FEAR OF LOSS PUSHING TRADITIONAL GROCERY RETAILERS ONLINE

For a long time, fierce price competition and high starting costs made the egrocery market attractive for niche players only. To stay cost-efficient, these small and often specialised efood shops focused on urban districts with high population densities.<sup>44</sup> Bigger players saw no opportunity in the online food channel, due to Germans' preferences for low prices and specialised food. Consequently these conditions slowed the market's growth. The landscape changed when international players like Amazon started to gain traction in the German market selling FMCG products online. Afraid of missing out on the online movement, traditional players had no

**Figures 11, 12**

Source: Eurostat (2014); CIA world Factbook (2014); Statista & IMF (2014); ITU, UN population division, World Bank (2014); Centre for Retail Research (2014).

<sup>42</sup> Trade Dimensions (2014)

<sup>43</sup> GRIN Seiz (2014)

<sup>44</sup> GRIN Seiz (2014)

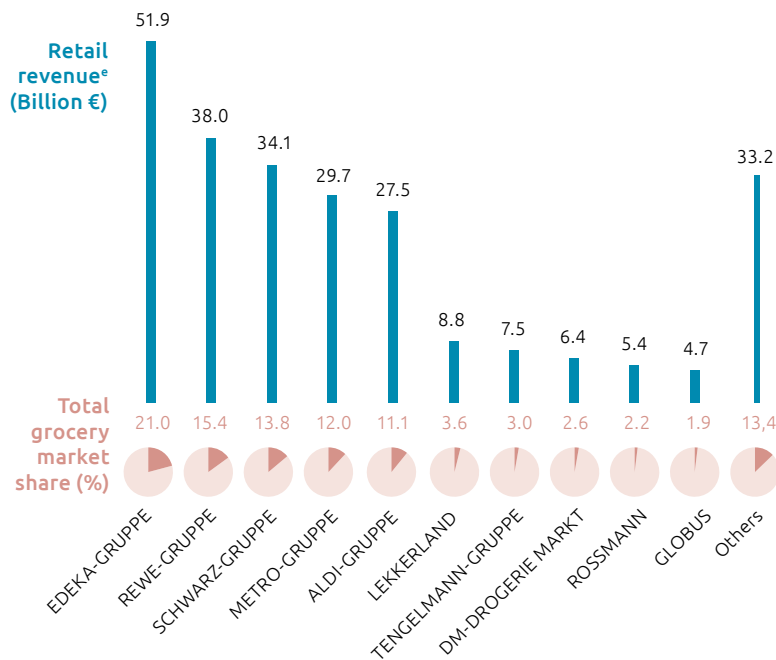


Figure 13

Source: Retailmenot (2014); Centre for Retail Research (2014); Lebensmittel Zeitung (2014); Trade Dimensions (2014); Eurostat (2015).

e - Sydney's estimate.

Figure 13: MARKET SHARES AND REVENUES OF GROCERY RETAILERS IN GERMANY (2014)

choice but to follow and start developing their online ventures.

#### 2014: A YEAR OF EGROCERY IN GERMANY

Egrocery in Germany took a big leap forward in 2014. The market grew 38% from 2013, reaching a value of €2 billion. The growing market - now composed of traditional retailers, online-only grocers, and niche players - has created a trend that urges lagging retailers to develop egrocery strategies. As a result, traditional brick-and-mortar retailers have been investing significantly to expand their online offerings. An example is REWE, which has invested heavily in its online grocery business and now delivers in 63 cities. These efforts made REWE's online sales almost quadruple in 2014.<sup>45</sup>

Start-ups have also started to enter the market, following the success of other companies in foreign markets, but their lasting power in such a competitive market is still to be seen. One case worth mentioning is that of ShopWings, the "German Instacart." The company, with its network of personal shoppers, collected and delivered groceries to consumers in Berlin and Munich within a two-hour

TABLE 5: GERMAN ECOMMERCE AND EGROCERY FIGURES

|  |                   |
|--|-------------------|
| Ecommerce market size* (Billion €)   | 46.3              |
| Ecommerce market as a % of the total retail market size                            | 9.7               |
| Grocery retail market size (Billion €)   | 247.2             |
| Online grocery retail market size (Billion €)                                      | 2.0 <sup>e</sup>  |
| Online grocery retail market as a % of the total grocery retail market (Billion €) | 0.8% <sup>e</sup> |
| Penetration of online grocery shopping (% of the total population)                 | 11.0%             |

Table 5

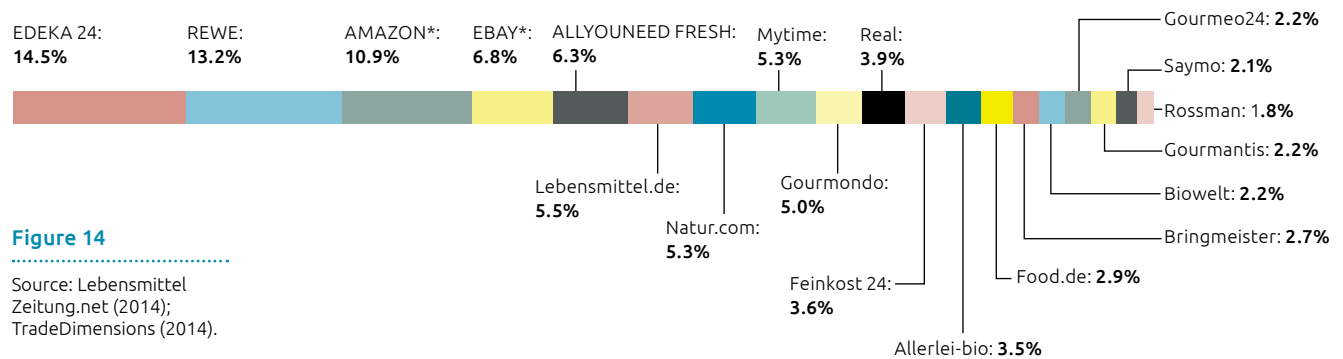
Source: Centre for Retail Research (2014); Lebensmittel Zeitung (dfv Media Group, 2015); Trade Dimensions (2014); Zum Handeln Geschaffen - Das Magazin für Handelswissen (2014); Eurostat (2015).

e - Sydney's estimate; \*Sales of goods, excluding fuel and sales of prepared food in cafes and restaurants. Tickets, holidays, gambling and insurance are also excluded.

<sup>45</sup> Fresh Plaza (2015).

range. ShopWings launched in the German market in late 2014, working to deliver groceries from 6 different retailers, including discounters Aldi and Lidl, giving the company a competitive edge as these

**Figure 14: ONLINE GROCERY MARKET SHARES OF RETAILERS IN GERMANY (2014)**



**Figure 14**

Source: Lebensmittel Zeitung.net (2014); TradeDimensions (2014).

\*Does not sell fresh food.

chains do not yet have an online store. This edge, however, was not enough to establish ShopWings in the German market, and it ceased operations there in July 2015. It does, however, continue to be successful in the Australian and Indonesian markets. Figure 14 shows some of the main players in online grocery retail in Germany.

#### ECOMMERCE GIANTS - AMAZON AND EBAY AMONG THE GERMAN FAVOURITES

Amazon.com and eBay are among the most popular choices for consumers when purchasing food and FMCG products online.<sup>46</sup> These ecommerce giants hold the third and fourth place in market share of food delivery services, despite the fact that they do not offer fresh produce.<sup>47</sup> Consumers prefer these international players because of the wider selection of products, and due to the desire to purchase products online that are difficult to find elsewhere, like foreign food specialties. The strong position of Amazon in FMCG, and its continued intimations about expanding AmazonFresh across Europe, starting with Germany, has shaken the rest of the market. Even if there is still no indication when AmazonFresh will be rolled out, the announcement alone has made traditional retailers react. As a result, a number of new egrocery projects launched across Germany.

#### FOOD DELIVERY 2.0: DHL AND ALLYOUNEEDFRESH.DE

Allyouneedfresh.de is a DHL owned egrocer operating in Germany. Since 2012, the company has been offering an extensive range of products (more than 20,000) with a large offer of organic and fair-trade products. Having its own DHL-operated logistics network since 2014, the products that Allyouneed Fresh sells are claimed to be fresher than those sold at traditional supermarkets. Picked up from the wholesalers' markets in the morning and home delivered that same day, produce goes through a continuous cold chain from pick-up to delivery to ensure, and guarantee, freshness. This reliable delivery network allows consumers to track their orders, personalise their preferences, and have groceries delivered within the same day or during the evening, which is when most consumers are at home. With this network, the company has a 6% share of the online delivery market in Germany.<sup>48</sup> Not content with stopping there, Allyouneed Fresh aims to continue growth and positions itself as the fastest distribution center in Germany. This is food delivery 2.0.<sup>49</sup>

<sup>46</sup> eMarketer (2014)

<sup>47</sup> Statista (2014)

<sup>48</sup> Statista (2015)

<sup>49</sup> Allyouneed (2015)

Table 6: COMPARISON OF ONLINE GROCERY RETAILERS IN GERMANY

|                            | EDEKA 24         | REWE         | REAL                | BRING-MEISTER   | FOOD.DE   | AMAZON                               | ALLYOUNEED FRESH                     | MYTIME  | GOURMONDO<br>(DELICATESSEN)          | NATUR.COM<br>(ORGANIC FOOD<br>& DELICATESSEN)                 |
|----------------------------|------------------|--------------|---------------------|-----------------|-----------|--------------------------------------|--------------------------------------|---|--------------------------------------|---|
| Delivery Areas             | SouthWest        | 63 cities    | Cologne & Troisdorf | Munich & Berlin | 30 cities | Nationwide                           | Nationwide                           | Nationwide  | Nationwide                           | Nationwide  |
| Delivery of Fresh Products | ✗                | ✓            | ✓                   | ✓               | ✓         | ✗                                    | ✓                                    | ✓   | ✓                                    | ✓<br>(specialty)  |
| Product Range              | 5 K              | 9-12 K       | 5                   | 5-8 K           | 16 K      | 471 K**                              | 20 K                                 | 34 K  | 17,5 K                               | 4.5 K   |
| Price Mark-up              | ✗                | ✗            | ✗                   | ✗               | ✗         | —                                    | ✓                                    | ✓   | ✗                                    | ✗   |
| Minimum Order              | € 10.00          | € 40.00      | € 0.00              | € 15.00         | € 0.00    | € 0.00                               | € 0.00                               | € 0.00  | € 20.00                              | € 10.00   |
| Delivery Fee               | € 3.95           | € 2.90-4.90* | € 5.95              | € 2.00-5.00*    | € 5.00    | < € 29.00: € 3.00<br>> € 29.00: free | < € 40.00: € 4.90<br>> € 40.00: free | < € 25.00: € 4.99<br>€ 25.00-65.00: € 2.99<br>> € 65.00: free | < € 29.00: € 3.00<br>> € 29.00: free | < € 19.99: € 3.95<br>€ 19.99-49.99: € 2,95<br>> € 50.00: free |
| Delivery                   | DHL              | Own fleet    | PDP                 | Own fleet       | Own fleet | External providers                   | DHL own logistics network            | PDP / DHL   | Different parcel services            | DHL & UPS   |
| Same Day Delivery          | 1-3 working days | ✓            | ✓                   | ✓               | ✓         | 1-2 working days                     | ✓<br>(pilot)                         | ✓   | ✓<br>(Express delivery)              | SouthWest   |

Table 6

Source: Focus Magazine Online (2015).

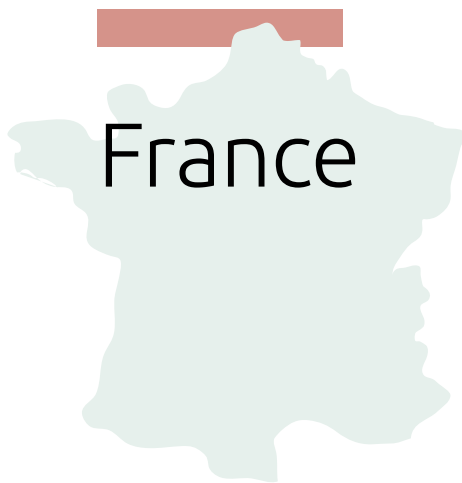
\* Depending on the delivery time;

\*\* Everyday items including food and FMCG products;



# Key takeaways

- Germany is Europe's largest economy; it has the largest grocery market and the second largest ecommerce sector. Still, the online grocery retail segment is at a very young stage accounting for only 0.8% of all grocery retail sales in Germany.
- Price wars, market saturation and high barriers to entry are the main factors that have delayed the growth of online grocery retail in Germany.
- 2014 was a big year for the German egrocery market (38% growth in 2014), with traditional retailers, such as REWE, investing heavily in their online ventures.
- Traditional grocery retailers' efforts to develop their ventures online were driven by the fear of missing out, and threats from giants such as Amazon, eBay and DHL.
- Amazon has not yet rolled out AmazonFresh in Germany, despite the company's previous announcements. Nonetheless, German online shoppers prefer to buy non-consumables and non-perishables on Amazon.de.
- Many innovative startups are entering the German egrocery arena, threatening to disrupt the market and dethrone traditional players. An innovative idea that has achieved success abroad, however, is not always enough to establish a company domestically, as highlighted by the closure of ShopWings' German operations.
- Another German online grocer - allyouneedfresh.de, owned by DHL, is shaking up the German market with its exclusive logistics network fully operated by its mother company. The company claims to offer the fastest, and thus freshest, delivery of groceries in Germany.



#### FRENCH ECONOMY AND ECOMMERCE MARKET

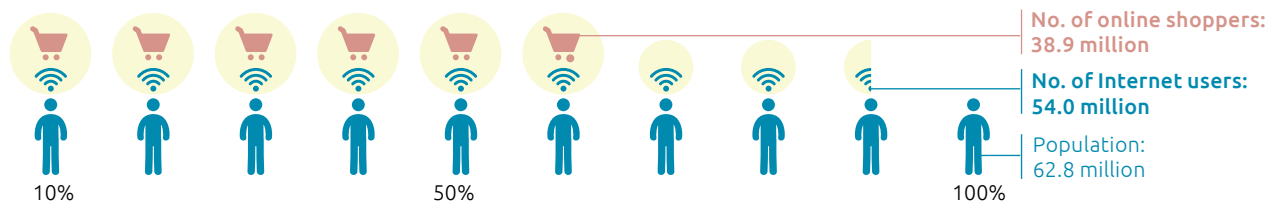
France is the second-largest country in Europe after Russia, and Europe's second-largest economy after Germany, with a GDP of €2.4 trillion in 2014 (5th largest in the world). Out of the 62.8 million people who live in France, 62% shop online. This makes France the third-largest ecommerce market in Europe with total online sales worth €31.2 billion (Table 7). There are around 164,000 active ecommerce sites in France

branded goods - sometimes even through creating alliances with competitors (Casino with Intermarche, Auchan with Systeme U). As a result, a basket of private label brands is 13% cheaper at a French hypermarket compared to a discounter. Branded goods, on the other hand, are only 5% cheaper at discounters (Lidl vs. Carrefour); whereas in the UK, for example, the difference is 20%. Due to these strategic moves by traditional retailers, discounters in France are losing their competitive advantage: low price.

**Figure 16: COUNTRY FACTS**



**Figure 17: INTERNET AND ONLINE SHOPPING PENETRATION IN FRANCE**



with 25 online transactions taking place every second.<sup>50</sup>

#### FRENCH GROCERY MARKET: GROCERY RETAIL GIANTS AT WAR WITH DISCOUNTERS

Grocery retail sales in France accounted for €231 billion in 2014. France is the only country in Europe where discounters have seen a significant drop in market share compared to traditional retailers. In fact, discounters together experienced a 3% drop in market share, from 15% in 2009 to 12% in 2014. This was due to efforts from traditional retailers, which expanded their own budget product lines and worked together with suppliers to cut prices of

Consequently, German discounters Aldi and Lidl decided to close 150 stores in 2013, and the Spanish player DIA even exited the country.<sup>52</sup>

#### FRANCE: THE COUNTRY OF PICK-UP-POINTS

In 2014, 11% of French consumers shopped for groceries online. The grocery market accounted for 3.6% of total grocery sales with a total revenue of €8.4 billion (Table 7). France's large geographical surface area causes low population density with an average of 120 people per square kilometer.<sup>53</sup> This factor, together with the price sensitivity of the French consumers, who don't want to pay extra for delivery,

**Figures 16, 17, 18, 19**

Source: Eurostat (2014); CIA world Factbook, (2014); Statista & IMF (2014); ITU, UN population division, World Bank (2014); Centre for Retail Research (2014); Company reports (2014).

<sup>50</sup> Ecommerce News (2015)  
<sup>51</sup> Kantar Worldpanel (2014)  
<sup>52</sup> Reuters (2014)  
<sup>53</sup> World Atlas (2014)

Figure 18: MARKET SHARES AND REVENUES OF GROCERY RETAILERS IN FRANCE (2014)

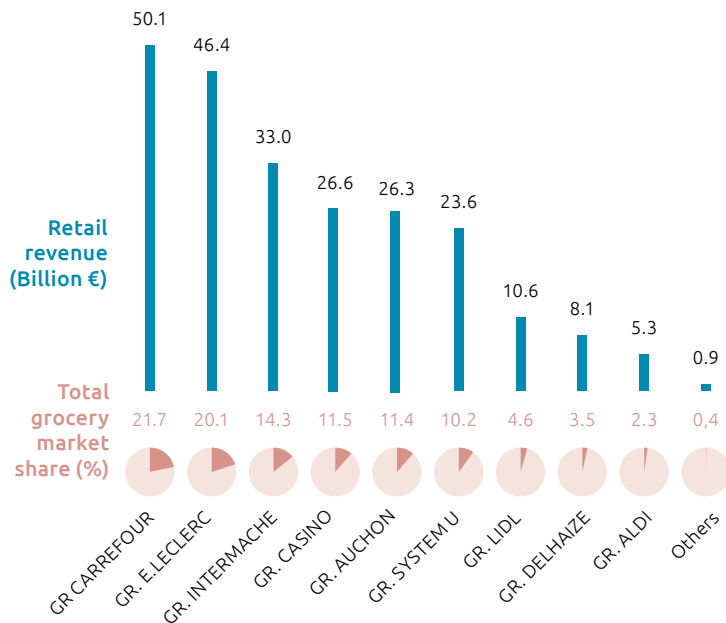
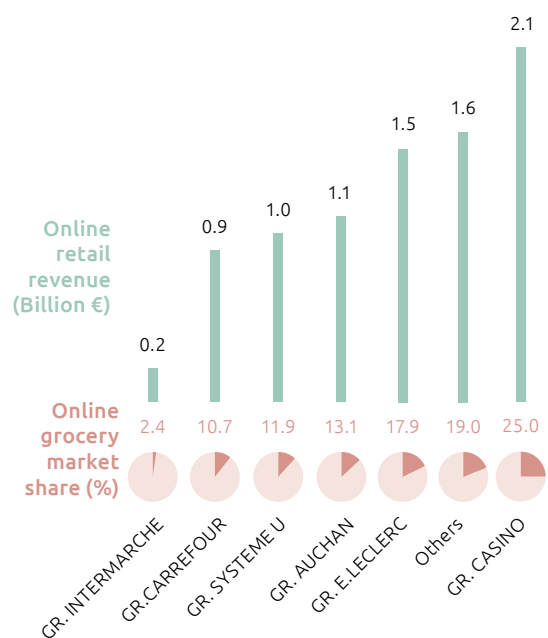


Figure 19: MARKET SHARES AND REVENUES OF ONLINE GROCERY RETAILERS IN FRANCE (2014)



have made home delivery economically challenging. As a result, pick-up points - called "Drive" in France - have been the primary delivery model of online grocery in France since Auchan opened its first Auchan Drive in 2000.<sup>54</sup> Drive points have expanded almost exponentially in France over recent years. Today France has more pick-up locations than supermarkets with a total that exceeds 3000 points.<sup>55</sup> This method is used for 8 out of 10 online grocery orders in France.<sup>56</sup> The network consists of 47% out-of-the-car pick-up points, and 53% stay-in-car points.<sup>57</sup> This extensive network of pick-up points enables 80% of French reach a Drive point within 10 minutes from their home or office.<sup>58</sup>

#### ONLINE GROCERY RETAILERS AIMING FOR HYBRID OFFERS

Casino Group leads the online grocery sector with a 25% market share, followed by E.Leclerc with 18%. The main players have both: out-of-the car pick-up points and stay-in-car points. They also aim

Table 7: FRENCH ECOMMERCE AND EGROCERY FIGURES

|  |                    |
|--|--------------------|
| Ecommerce market size* (Billion €)                                     | 31.2               |
| Ecommerce market as a % of the total retail market                     | 6.9                |
| Grocery retail market size (Billion €)                                 | 231.0 <sup>e</sup> |
| Online grocery retail market size (Billion €)                          | 8.4 <sup>e</sup>   |
| Online grocery retail market as a % of the total grocery retail market | 3.6                |
| Penetration of online grocery shopping (% of total population)         | 11.0               |

Table 7

Source: Retailmenot (2014); Centre for Retail Research (2014); Eurostat (2015); IGD (2014); Planet Retail (2013).

e- Syndy's estimate;  
\*Sales of goods, excluding fuel and sales of prepared food in cafes and restaurants. Tickets, holidays, gambling and insurance are also excluded.

<sup>54</sup> Nielsen (2014)

<sup>55</sup> Nielsen (2014)

<sup>56</sup> Coca-Cola Retailing Research Council (2015)

<sup>57</sup> IGD (2013)

<sup>58</sup> IGD (2013)

|                       | E. LECLERC | CARREFOUR | AUCHAN | CASINO | INTERMARCHÉ | SYSTEME U | HOURLA |
|-----------------------|------------|-----------|--------|--------|-------------|-----------|--------|
| Drive:<br>Stay in Car | ✓          | ✓         | ✓      | ✓      |             |           | ✓      |
| Drive:<br>Out of Car  |            |           |        | ✓      | ✓           | ✓         |        |
| Store Pick-up         | ✓          | ✓         | ✓      | ✓      | ✓           | ✓         |        |
| Dark Store<br>Pick-up | ✓          | ✓         | ✓      | ✓      |             |           | ✓      |
| Home<br>Delivery      |            | ✓         | ✓      | ✓      | ✓           | ✓         | ✓      |

**Table 8. ONLINE GROCERY DELIVERY MODELS IN FRANCE**

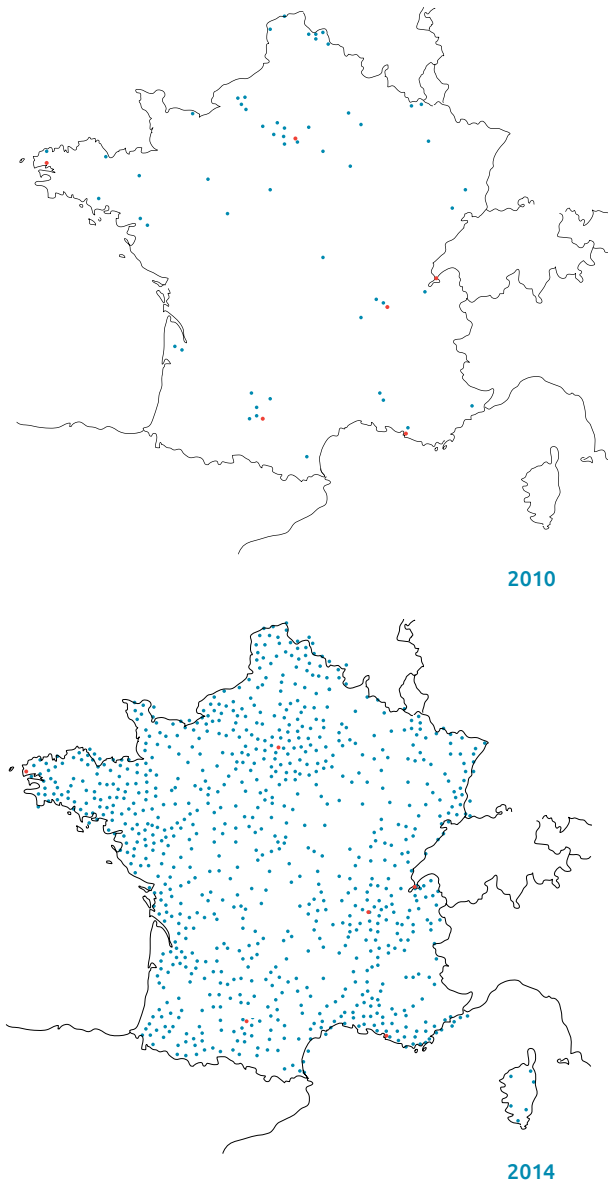
to have a broader reach to consumers by offering home delivery services. The exception is E.Leclerc which, despite being the second in market share both in general groceries and in the online channel, does not offer delivery services. Figure 19 shows the main online grocery retail players in France. Out of all the players, one egrocer stands out: houra.fr. Launched in 2000, it was the first online marketplace for groceries in France. Today, the company claims to offer the largest online grocery assortment in the country with more than 55,000 products. Houra offers 24-hour delivery service in 23 regions of France and has a strong mobile focus.<sup>59</sup>

**Table 8**

Source: IGD (2013);  
Syndy's desk research  
(2015).

<sup>59</sup> houra.fr





**Image 2: PICK-UP POINT NETWORK DENSITY IN FRANCE BETWEEN 2010 AND 2014**

Source: Retailmenot (2014); Centre for Retail Research (2014); Eurostat (2015); IGD (2014).



# Key takeaways

- Contrary to other countries in Europe, discounters in France have seen a significant drop in market share, due to price wars with traditional retailers.
- French online grocery retail sales accounted for 3.6% of the total grocery sales in 2014, with revenue at €8.4 billion.
- Traditional players dominate the French online grocery market. There are only a few pure online players and innovative start-ups operating in this area and their scale is far too small to have a bigger effect on the total egrocery market.
- Price-sensitive French consumers are not willing to pay a premium for home delivery, yet they would prefer this distribution model - if it was offered for free.
- France now has more pick-up points than hypermarkets, topping out at +3000 points.
- Casino Group leads the online grocery segment with a 25% market share.
- Remarkably, E.Leclerc, the second-biggest online grocer in France, is the only retailer not to offer home delivery services to consumers.



#### THE US ECONOMY AND ECOMMERCE MARKET

The United States (US) is the third most populated country in the world, with a population of 322.6 million people. It is also the biggest global economy, with a GDP of \$17.4 trillion. It might come as no surprise, then, that the US is also the world's largest online retail market, with 62% of

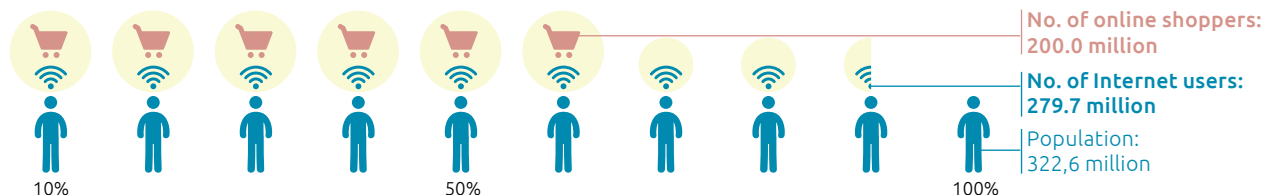
#### EGROCERY: GROWING FOCUS ON MAIN CITIES

Being the number one country in ecommerce attractiveness,<sup>62</sup> it is surprising that online grocery only represents around 3% of the total grocery market (Table 9). In fact, countries like the UK and France are more developed in terms of online grocery market share than the

**Figure 20: COUNTRY FACTS**



**Figure 21: INTERNET AND ONLINE SHOPPING PENETRATION IN THE US**



its population being online shoppers. In 2014 its ecommerce sales corresponded to \$294.6 billion, representing almost 12% of total retail sales in the US (Table 9). Food & drink, together with beauty & personal care items, accounted for 5% of all online purchases.<sup>60</sup>

#### THE GROCERY MARKET IN THE US: 3 MAIN RETAILERS OWN HALF OF THE MARKET

Grocery sales alone in the United States accounted for \$594 billion.<sup>61</sup> Walmart is the category leader controlling 24% of the market, and its stores can be found within 10 miles of 90% of all Americans. Kroger trails with 13% and Safeway & Albertsons, after their 2014 merger, have a 10% share of the grocery market. Together these three groups represent half of the grocery retail market in the US.

US. One of the reasons for this is the vast geographic surface of the country, which allows industry players to operate only in certain areas of the country. Most players choose to start in densely populated areas of higher-than-average socio-economical levels to reach the highest level of scale in the shortest period of time.

The US seen as one entire market has only a small part of all retail sales completed online. But the picture is completely different in large metropolitan areas where most of the online grocery players operate. The most attractive cities for online grocery, due to their levels of population density and ecommerce adoption, are New York, Los Angeles and Seattle. These cities are the tier 1 markets for online grocery retailers, with most pilot programs taking place there. Medium-size cities like Denver, San Diego and Portland are the tier 2

**Figures 20, 21**

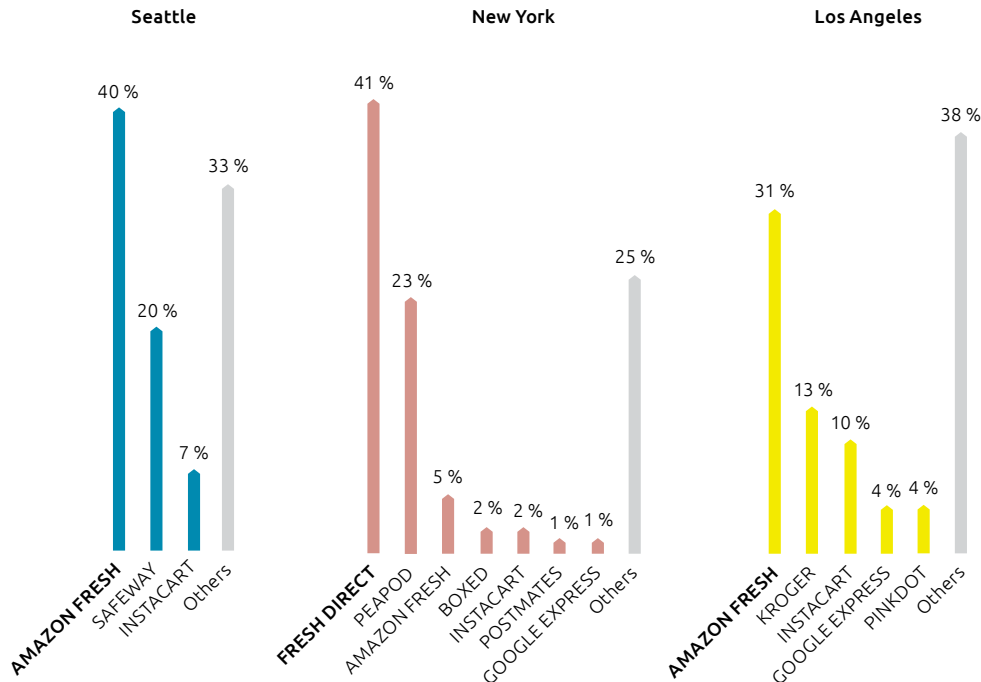
Source: United Nations (2014); Statista & IMF (2014), ITU, UN population division, World Bank (2014), Centre for Retail Research (2014).

<sup>60</sup> A.T. Kerney (2013)

<sup>61</sup> USCB (2015)

<sup>62</sup> A.T. Kerney (2014)

**Figure 22: ONLINE GROCERY MARKET SHARES OF PURE ONLINE PLAYERS IN SEATTLE, NEW YORK AND LOS ANGELES (2014)**



**Figure 22**

Source: BMO Capital Markets (2015).

markets. Having similar characteristics to the tier 1 cities, these markets offer smaller expansion potential for egrocers.<sup>63</sup> The US market therefore should not be viewed as one big market, but rather as a collection of hotspots. Once more egrocers' pilots start to roll out into the tier 2 markets and beyond, faster egrocery market growth can be expected, with estimates reaching a 5% share in 2018 and 10% soon thereafter.<sup>64</sup>

#### TRADITIONAL RETAILERS AGGRESSIVELY EXPAND ONLINE

In 2014, traditional players made significant efforts in the online domain to keep up with the trends in the highly competitive grocery market. For example, Walmart crafted a new digital strategy (planning to invest between \$1.2 and \$1.5 billion in 2015) in order to deliver the best omnichannel experience to consumers.<sup>65</sup> The retailer's efforts led to a 21.6% increase in online revenues in 2014.<sup>66</sup>

Other traditional retailers also joined these

**Table 9: ECOMMERCE AND EGROCRY FIGURES IN THE US**

|  |                   |
|--|-------------------|
| Ecommerce market size* (Billion \$)                                    | 294.6             |
| Ecommerce market as a % of the total retail market size                | 11.6              |
| Grocery retail market size (Billion \$)                                | 594.4             |
| Online grocery retail market size (Billion \$)                         | 18.0 <sup>e</sup> |
| Online grocery retail market as a % of the total grocery retail market | 3.0 <sup>e</sup>  |
| Penetration of online grocery shopping (% of total population)         | 20.0%             |

**Table 9**

Source: Retailmenot (2014); Centre for Retail Research (2014); Statista (2015); Ibisworld (2014); Brick meets Click (2014); Business Insider (2014).

e - Syndy's estimate;  
\* Sales of goods excluding fuel and sales of prepared food in cafes and restaurants. Tickets, holidays, gambling and insurance are also excluded.

<sup>63</sup> BMO CAPITAL MARKETS (2015)

<sup>64</sup> BMO CAPITAL MARKETS (2015)

<sup>65</sup> Internet Retailer (2015)

<sup>66</sup> Internet Retailer (2015)

expansion efforts. Kroger has made a series

Figure 23: MARKET SHARES OF GROCERY RETAILERS IN THE US (2014)

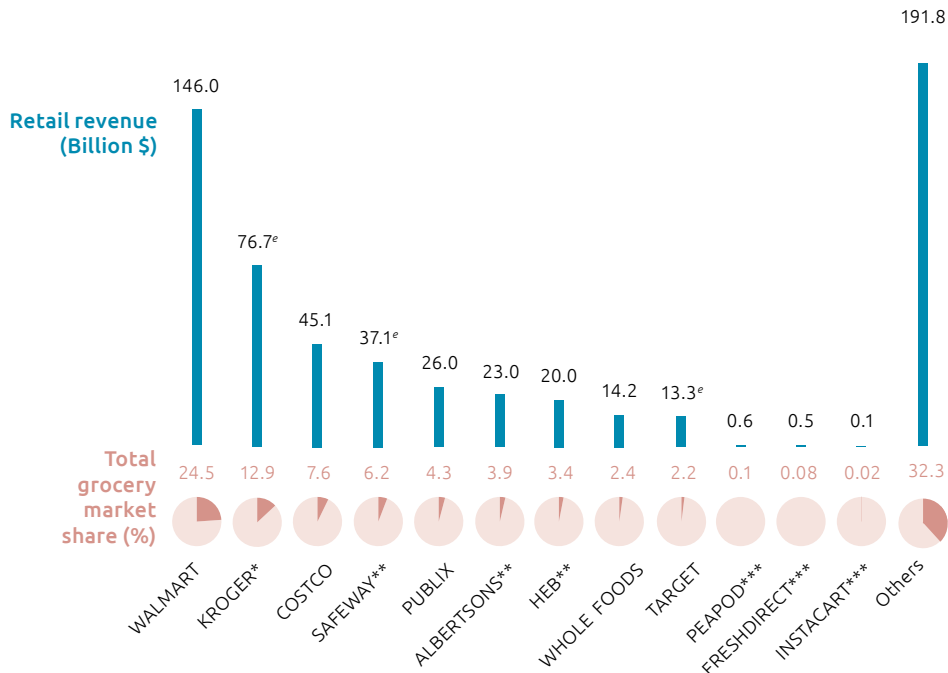


Figure 23

Source: Kantar Retail (2014); Supermarket news (2013); Company's financial statements (2014); Forbes (2014).

<sup>e</sup> - Syndy's estimate;  
<sup>\*</sup> Excluding fuel;  
<sup>\*\*</sup> Total company revenue;  
<sup>\*\*\*</sup> Online-only player.

of acquisitions like Harris Teeter (a grocery chain with a wide pick-up point network) and Vitacost (an ecommerce platform), to gain expertise in both click-and-collect and home delivery. Also, Kroger's products have been made available through Instacart.<sup>67</sup> Fairway and Whole Foods have also partnered with Instacart to sell their products through the platform. Sales made through Instacart already account for 5% of total sales in some of the Whole Foods stores (currently Instacart serves 12% of the chain's stores). Costco is testing same-day delivery with Google Express, and is also offering its products on Instacart and Boxed (a wholesale online-only retailer that has already raised \$32.6 million in three investment rounds.).<sup>68</sup> In 2014 Costco made \$3 billion in online sales.<sup>69</sup>

#### PURE ONLINE PLAYERS DOMINATING ONLINE GROCERY IN NEW YORK, SEATTLE AND LOS ANGELES

Online-only grocers shined throughout 2014, with some gaining online grocery market leadership in the cities where

they operate. Amazon (Pantry & Fresh) for example, has a 40% egrocery market share in Seattle, and 31% in Los Angeles. FreshDirect leads in New York with 41% (Figure 22).

#### AMONG THE PURE ONLINE PLAYER HIGHLIGHTS:

- Instacart raised \$220 million in funding, and received a \$2 billion valuation. The company's revenues grew tenfold in one year, surpassing the \$100 million milestone for the first time.
- AmazonFresh announced its plans to expand coverage from six to 20 markets, which could mean it will reach more than 50% of the US population by 2020 and offer them same-day delivery.<sup>70</sup>
- FreshDirect, which reported a customer base of 600,000,<sup>71</sup> has partnered with Foodily to create POPCART, an app that links blogs and articles to the grocery platform, so people can order ingredients for online recipes directly from

<sup>67</sup> Crunch Base

<sup>68</sup> Fortune (2015)

<sup>69</sup> GMA, BCG, Google, IRI, (2014)

<sup>70</sup> CNBC (2014)

<sup>71</sup> Crain's New York Business (2014)

FreshDirect.<sup>72</sup>

- Peapod, the online pioneer delivering groceries since 1996, and part of the Ahold group since 2000, reported a \$550 million revenue in 2014, positioning it as the largest purely online player in the country.<sup>73</sup>
- Google announced an investment of \$500 million in Google Express and its online grocery strategy.
- Jet.com, a new company backed by Alibaba, vows to be a direct competitor of Amazon. The membership-based delivery network will definitely shake up the industry.<sup>74</sup>

With purely online players leading in main cities and brick-and-mortar retailers developing their online offerings, the grocery market is growing at an incredibly high speed (20% estimated online CAGR vs. 3% offline).<sup>75</sup> As high-density areas start to become saturated, it is not clear if these innovative online-only models will also work in less attractive parts of the country. With existing built-in networks around

Choosing to employ this model brings many benefits to egrocers, ranging from consumer loyalty and the increase of order frequency, to optimisation of delivery operations and steady revenue streams. In terms of shoppers, around 10% of US online grocery consumers prefer this payment option, and those in NYC, LA or Seattle are already accustomed to the system. Around 41% of online shoppers in these cities are already members of Amazon Prime, while approximately 23% have a Costco membership, which is needed if they want to order the retailer's products through Google Express (which has recently also switched to a subscription model). It is believed that these subscriptions are going to disrupt the online grocery market, since members also gain money-saving benefits in delivery fees. Table 10 illustrates the pricing of the egrocers that already offer membership-based delivery services in the US.

**Table 10**

Source: BMO Capital Markets (2015), Fortune (2015).

\* will be launched in Q3 (2015)

\*\* Includes all the benefits of Amazon Prime like movie and TV show streaming and ebook borrowing.

**Table 10: MEMBERSHIP PROGRAMS ACROSS THE US**

|              | AmazonFresh | Instacart         | FreshDirect  | Google Express                         | Walmart*     |
|--------------|-------------|-------------------|--------------|--|--------------|
| Name         | Prime Fresh | Instacart Express | DeliveryPass | Google Express                         | ShippingPass |
| Pricing (\$) | 299/year**  | 99/year           | 299/year**   | 12.99/month<br>69/6 months<br>119/year | 50/year      |

the country, it might be brick-and-mortar retailers' turn to shine online. The question is if they will capitalise on the opportunity before online-only grocers move first.

#### MEMBERSHIPS: THE NEW MODUS OPERANDI OF HOME DELIVERY IN EGROCERY

One factor that drives the increase in adoption of online grocery shopping in the US is the membership model. Many online players are already offering this payment alternative for deliveries, with some even turning into subscription-only services.

<sup>72</sup> Company's Financial Statement (2014)

<sup>73</sup> Business Insider (2014), Forbes (2015)

<sup>74</sup> Business Insider (2015)

<sup>75</sup> BMO CAPITAL MARKETS (2015)



# Key takeaways

- Online grocery accounts for 3% of total grocery retail sales in the US.
- Online-only grocery retailers play a much more prominent role in the US when compared to European countries. In Europe, traditional brick-and-mortar retailers lead the development of the egrocery market, while in the US, pure online players are more active in this area.
- Amazon, with Fresh and Pantry, has reached the leadership position in Seattle (41% market share) and Los Angeles (31% market share) - two most active online grocery markets in the US.
- Pure online players and traditional retailers are focusing on their core strengths to compete in the online domain. For example: Walmart aims for omnichannel leadership, while Amazon wants to dominate the same-day delivery domain.
- Membership-based delivery services have gained popularity in the US. Amazon, Google, Instacart and FreshDirect already apply this modus operandi. Walmart announced a membership model trial period in Q3 2015. Prices for such programs range from \$50 to \$300 a year.
- Peapod, an Ahold company, is the largest pure online player in the US (with \$550 million in sales in 2014).
- Concierge service Instacart has proved its business model and keeps on expanding across the US. Valued at \$2 billion, Instacart grew its revenue more than ten fold this year surpassing the \$100 million milestone for the first time.



# The emerging market: India

In the coming years, 40% of the world's economic growth will come from emerging markets, with India expected to play a starring role<sup>76</sup>. Ecommerce will be a significant factor driving this development.

supermarket chains from entering the market for years. Not until 2012 did India's government finally open up the retail sector to supermarket chains, allowing foreign direct investment (FDI) of up to 51% in multi-brand retail.

**Table 11: INDIA'S COUNTRY FACTS AND GROWTH FORECASTS**

|                                  | 2014 | 2020 |
|----------------------------------|------|------|
| Population (Billion \$)          | 1.27 | 1.35 |
| GDP growth (%)                   | 7.17 | 7.75 |
| No. of Internet users (Million)  | 243  | 600  |
| No. of online shoppers (Million) | 35   | 250  |

GREAT GROWTH  
POTENTIAL

In 2014, egrocery represented only a tiny fraction (\$100 million) of the total grocery retail market in India.

BCG predicts that India's ecommerce market will expand more than four times, reaching \$70 billion by 2020. Grocery products will account for up to 14% of all sales online.

## GROCERY RETAIL IN INDIA: A HIGHLY DISORGANIZED MARKET

The \$365 billion Indian grocery market has strikingly different dynamics to what most would imagine in grocery retail. Market stalls, kiranas (local shops) and kiosks account for 98% of the country's grocery retail sales while modern retail chains control only 2% of the market<sup>77</sup>. There are several reasons why India's grocery market is in its current state today: First, consumers prefer local shops as they are closer to home, stay open longer and offer credit to regular shoppers. Second, legal limitations have hindered foreign

However, by 2020 the market is expected to grow more than 100 fold. Several factors are expected to drive this rapid growth. Importantly, India's population comprises a very favourable demographic for egrocery market expansion since millennials will be the main consumer group driving online grocery sales in the upcoming decade. In 2014, India was one of the youngest societies in the world. Sixty-five % of India's inhabitants were below 35 years old, representing one of the largest segments of potential egrocery shoppers in the world. Moreover, India's immense number of Internet users will be another factor driving online grocery adoption. In 2014, India already had a similar number of Internet users to the US. With the new government's internet infrastructure initiatives, as well as the rise of the smartphone penetration level among younger audiences, the number

**Table 11**

Source: BCG (2015); PWC (2015); Statista (2015).

e - Syndy's estimate.

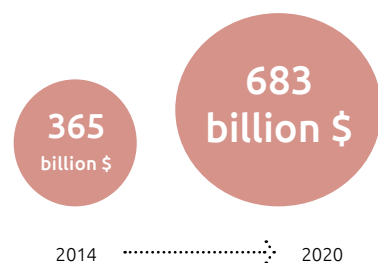
<sup>76</sup> KPMG (2015)

<sup>77</sup> IGD (2014)

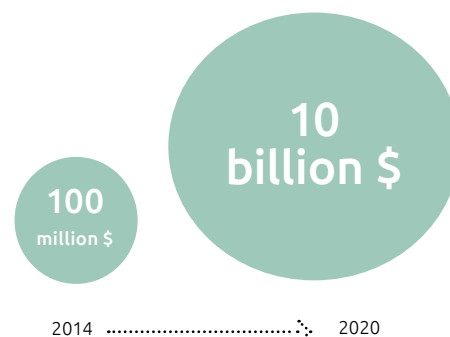


Figure 23

## TOTAL GROCERY MARKET SIZE



## ONLINE GROCERY MARKET SIZE



of internet users is expected to reach 600 million by 2020. Lastly, the most populated cities in India (Mumbai, Bengaluru, Pune, Hyderabad, Delhi, Chennai, and Kolkata) are inhabited by between 4 and 12.5 million people each, and account for 60% of India's internet users.<sup>78</sup> Metropolitan issues like traffic jams and time availability are becoming more of a problem for busy young professionals in India; these consumers are motivated by convenience to shop for groceries online.

## HIGH EGROCERY MARKET FRAGMENTATION

So far, favorable demographic and economic conditions, together with the absence of traditional supermarket chains operating online, have created an opportunity for a number of innovative online-only companies to emerge in the Indian egrocery market. In fact, the number of online food and grocery retail outlets rose to 44 in 2014 from just 14 in 2013.<sup>79</sup> VC funding has been an incentive for so many online-only players to enter the game. Foreseeing great opportunities in the Indian market, VCs invested over \$100 million into egrocery start-ups in the year 2014-2015. However, even though new players are emerging almost every week,

most of them are still very local and run their operations in one city, with only a few companies having a larger scope. The level of competition in the Indian egrocery market is going to change in the near future. India's ecommerce giants Flipkart and Snapdeal have already started adding grocery products to their online ranges and Amazon.in launched a gourmet and specialty food store in October 2014. All of this will accelerate the egrocery market development over the next few years.

## PURE ONLINE PLAYER BIGBASKET.COM LEADING THE WAY IN EGROCERY

BigBasket.com is the largest and best-known online supermarket in India. The pure online player currently operates in six major cities (Bangalore, Mumbai, Hyderabad, Pune, Delhi and Chennai) and had \$40 million in revenue 2014. Its larger competitors are Localbanya and ZopNow. The difference between the three is that BigBasket.com delivers groceries from its own warehouses while Localbanya employs a mix of warehousing and just-in-time deliveries from a host of suppliers including FMCG companies, cash-and-carry outlets and other distributors. ZopNow, which started with its own warehouses,

Figure 23

Source: BCG (2015).

<sup>78</sup> The New Indian Express (2015)

<sup>79</sup> USDA (2014)

Table 11: EGROCERY STARTUPS IN INDIA (2014)

| COMPANY       | REVENUE (Million \$) | ORDERS PER DAY | FOUNDED | FUNDING RECEIVED (Million \$) | VALUATION (Million \$) | ACTIVE IN  |
|---------------|----------------------|----------------|---------|-------------------------------|------------------------|--|
| BigBasket.com | 40                   | 10000          | 2011    | 62 (in 3 rounds)              | 240                    | Bangalore, Delhi, Mumbai, Hyderabad, Pune, Chennai |
| LocalBanya    | 6.3                  | 900            | 2012    | 20 (in 2 rounds)              | N/A                    | Delhi, Mumbai, Hyderabad, Pune, Navi-Mumbai, Thane |
| Zopnow        | N/A                  | 1000           | 2011    | 10 (in 2 rounds)              | 50                     | Bangalore, Mumbai, Thane, Pune, Hyderabad, Gurgaon |
| Grofers       | N/A                  | 500            | 2011    | \$45.5 (in 3 rounds)          | 115                    | Delhi, Bangalore, Mumbai                           |
| Pepertap      | N/A                  | 500            | 2011    | \$11.2 (in 2 rounds)          | 40                     | Gurgaon, Delhi                                     |

Table 11

Source: CrunchBase (2015); The Economic Times (2015); Company press releases (2015); Syndy's desk research (2015).

has pivoted its business model and gone into a strategic partnership with two of the biggest offline retailers in India, Hypercity Retail and Aditya Birla Retail, and currently sources its products from them.

#### ON-DEMAND HYPERLOCAL DELIVERY GAINING TRACTION

Some of the other well-known egrocers in India like Grofers and Pepertap have taken a different approach to egrocery. Instead of owning their own inventories, they use local shops to process their online orders. This is beneficial for local grocery stores, since they satisfy the demand for online grocery shopping. There are more than 14 million kirana shops in India, representing a huge market for this type of service<sup>80</sup>. Interestingly, Amazon has also moved into this business and has recently started its initiative called KiranaNow. It aims to provide local kirana stores with a technological base from which to run their

operations online and help them deliver the goods "within 2-4 hours" using their own logistics, the neighbourhood store's staff, or one of Amazon's logistics partners. With a number of highly innovative and well-funded egrocery companies pushing the boundaries, this should enable India's egrocery market to develop at an increased speed.

<sup>80</sup> Business Standard (2015)



# Key takeaways

- Market stalls, kiranas (mini marts) and kiosks account for 98% of the country's grocery retail sales while the larger retail chains control only 2% of the market.
- 65% of India's population (1.27 billion) was below 35 years old in 2014, making it one of the largest potential online grocery markets in the world.
- In 2014, India had 243 million Internet users. It is forecasted that India will reach a 600 million mark by 2020.
- By 2020, India's online grocery market is expected to have grown 100 fold and have a total value of \$10 billion.
- From 2014 to 2015, more than \$100 million of VC capital has been invested in egrocery companies operating in India.
- BigBasket.com is the largest and best-known online grocer in India. The pure online player currently operates in six major cities (Bangalore, Mumbai, Hyderabad, Pune, Delhi and Chennai) and had \$40 million in revenue over fiscal year 2014.
- The number of online food and grocery retail outlets in India rose from just 14 in 2013 to 44 in 2014.
- Amazon has started an initiative called 'KiranaNow', aiming to provide local kirana stores with the technological platform from which they can run their operations online and deliver the goods "within 2-4 hours" using their own logistics or one of Amazon's logistics partners.

# FMCG in ecommerce

FMCG professional **Tom Lukjaniec** (Heineken) shares his insights about the future of FMCG products online



Tom Lukjaniec

Tom has a proven track record in the FMCG industry. Currently, he works as a category development manager at Heineken Nederland.

- 1. WHAT DO YOU THINK WILL BE THE ROLE OF THE ONLINE CHANNEL FOR FMCG COMPANIES IN 5 YEARS?

5 years is a long time in ecommerce. We are seeing double digit growth on a yearly basis already. So it is obviously becoming more and more important. There are lots of different estimations as to how big a piece of the pie that the online grocery channel will represent in the coming years. I've seen estimations of 15-20% of (food) retail by 2020. In any case it is obviously becoming a huge part of the retail landscape and it is something that both retailers and suppliers are waking up to.

- 2. WHAT CHALLENGES DO YOU FORSEE FOR FMCG COMPANIES ADAPTING TO THE DIGITAL WORLD?

In my role, one of the most challenging issues is retaining control of and distributing consistent and quality product content online. With more or less every retailer having a website or webshop, it is critical at the moment to ensure the consistency of product information. Yet, it is not clear how the digital assets should be best shared. Currently these processes are very diverse and not very uniform, which makes it complex for both suppliers and retailers. There also has to be a shift in the mindsets of FMCG companies because they are used to having products offered through traditional channels only. Online shopper needs are different. There are multiple questions that need to be answered before going online, like: How are you going to change your marketing mix? Will you introduce new SKUs? Have

you thought about new services? How do you integrate the channel into your media spend? It is of great importance to understand the online shopper needs, and I think FMCG brands still have to obtain that knowledge and adapt their approach accordingly.

- 3. WHAT OPPORTUNITIES WILL THE DIGITAL REVOLUTION BRING FOR FMCG COMPANIES?

I think online is a little bit of a buzzword at the moment. There is a tendency for FMCG companies to jump in first without realizing what exactly the market consists of. If you look at it properly, there are definitely opportunities and the first thing that comes to mind is the new services and new products which can be available there. One advantage is clearly assortment, since you are not limited to shelf space in the store. It can therefore really open the door for a company's long tail products. That said most retailer distribution centres aren't elastic so the proposition has to make sense, starting with what fits best for the shopper. A disadvantage of the channel, though, is that you are looking at a small screen and you only have a certain amount of visibility compared to what you see in store. So it's a balance. FMCG brands need to work closely with retailers and push what is best for both parties.

- 4. HOW CAN SHOPPER MARKETING ADAPT TO THE ONLINE CHANNEL?

The online channel already acts as a huge marketing platform. Whilst online grocery sales are still generally small compared to in-store, media value of webshops is

“THERE ALSO HAS TO BE A SHIFT IN THE MINDSETS OF FMCG COMPANIES BECAUSE THEY ARE USED TO HAVING PRODUCTS OFFERED THROUGH TRADITIONAL CHANNELS ONLY”

high in itself. I think what you see is a lot of shoppers browsing online but do their shopping in-store. You're looking at an omnichannel path-to-purchase, not one format or the other. So the influence of the media and shopper marketing online is hugely important because it affects both online and in-store purchases. Though we see it already, I think we'll see FMCG companies deploying increasingly integrated online, in-store and traditional marketing campaigns

- 5. HOW WILL THE SHIFT TO DIGITAL CHANGE
- THE INTERNAL ORGANISATION OF FMCG
- COMPANIES? WHO WILL BE IN CHARGE?
- WHAT WILL THE TEAM LOOK LIKE?

It is very difficult to say. From a beer perspective, you've got multiple sales channels. We're seeing rapid digital transformation of all traditional points of sale, both in the on- and off-trade, so it's important that the organization adapts accordingly to market demands, both internally and externally. This, of course, means that in-house ecommerce capability is a must as the channel affects all parts of the business. Within Retail it is particularly important that retailer-supplier partnerships are formally aligned to the online channel. Furthermore, some FMCG companies have their own ecommerce platforms and sell directly to consumers. Heineken does this with The SUB, an in-home draught system, for example. This means capability must be considered from all angles: IT, marketing, sales, but also logistics. You need multidisciplinary experts who know how to deal with the channel, both commercially and technically. I can certainly see ecommerce becoming its own function, integrated within the company at all levels.

# Predicting the future of egrocery in Europe & the US



Last year was a great year in terms of egrocery market development in Europe and the US. All of the analysed markets experienced year-on-year double-digit growth, showing great growth potential for the future. Syndy expects that egrocery will transform into a much more significant part of grocery retail in the foreseeable future. In this global shift, each of the analysed markets has unique drivers that will push the industry further. Below, Syndy highlights key drivers which will shape the researched markets over the next few years.

## THE UK

The UK's demographic, socio-economic conditions and intense brick-and-mortar price wars all led to fast paced development of the online channel. Introduction of and disruption by innovative business formulas and advancements of operational models will ensure the country's number one position in Europe. In particular, Ocado's recently introduced 'Smart Platform', which allows retailers to outsource their online operations, will be a game changer. This will not only allow Ocado to generate additional revenue but also enable other retailers to leverage Ocado's fifteen years

of experience and technical know-how in egrocery. Additionally, the Big Four's shift in strategy from competition in retail space to online coverage will also positively impact the egrocery market. Last but not least, Aldi's proposed tests in online grocery could be a growth factor that shakes the industry dynamics in the UK. The retailers' offline wars can quickly migrate online, making competition fiercer than ever. Combined, these developments make the egrocery market expansion to €14 billion by the end of 2016 realistic.

## THE NETHERLANDS

The Dutch egrocery market, the smallest amongst the countries analysed, was in fact the market that grew the fastest, at +55% in 2014. Similar growth pace is expected in the upcoming years. It will be driven by increased investments by grocery market leaders Albert Heijn and Jumbo plus the slow but steady roll-outs of the smaller players to the online channel. Furthermore, Syndy sees space for new players to join the online family, since there are currently no strong pure online grocery players operating in the Netherlands. A few companies have already started working towards developing these business concepts, indicating that the competition

online will only intensify. In terms of market size, the Dutch online grocery market is expected to keep growing at an exceptional rate and reach the €1 billion mark by the end of 2016.

#### GERMANY

Germany's once niche-only egrocery market is now showing huge potential for going mainstream. In fact, 2014's performance saw a 38% growth of market size. Consumers are gradually changing their behaviour and accepting online grocery as the new norm, not only for luxury and imported goods but also for day-to-day products. With the heavy investments of traditional players, the strong presence of foreign giants such as Amazon and eBay, the arrival of venture capital-backed start-ups, and the growing presence of DHL's Allyouneed Fresh, the market will very likely exceed a €3 billion mark by the end of 2016.

#### FRANCE

The French egrocery market is likely to grow to €10.6 billion by the end of 2016. As the country's terrain of pick-up points becomes saturated, the industry's growth will be dependent on the development of home delivery models. Consumers clearly prefer this delivery model, yet extremely high cost sensitivity constitutes a strong barrier. Syndy expects that the French

online grocery retailers will be expending considerable effort to lower the cost of the "last mile" so the price of delivery is at a level which French consumers are willing to accept. The first to succeed will very likely win over the favor of online grocery shoppers in France, which will provide a significant competitive advantage over the less successful competitors.

#### THE US

The US egrocery market grew by 26% in 2014. Based on historical growth data and recent market developments, Syndy expects that by 2016, the US egrocery industry will exceed €21 billion. The market will continue to develop at a high speed due to the following reasons. First of all, pure online players like AmazonFresh and FreshDirect have proven their business models. This allows them to expand to other metropolitan cities and scale up operations. Secondly, it is expected that traditional players will make use of their grocery store networks and expand towards unexplored, less attractive regions of the country with their online ventures. The third reason will be the amounts of VC capital being poured into the egrocery industry. A great example is Instacart closing a \$220 million round of funding in the beginning of 2015. We expect more venture capital-backed egrocery concepts to launch across the US in the next few years.





# Country Comparison

|   | NL   | DE    | FR    | UK    | US    |
|---|------|-------|-------|-------|-------|
| Population  | 16.9 | 80.8  | 62.8  | 63.7  | 322.6 |
| GDP (trillion €)                                  | 0.7  | 3.1   | 2.4   | 2.4   | 14.4  |
| Ecommerce market size (billion €)                 | 6.0  | 46.3  | 31.2  | 54.0  | 224.0 |
| Total grocery market size (billion €)             | 33.8 | 247.2 | 231.0 | 225.0 | 500.0 |
| Online grocery market size (billion €)            | 0.5  | 2.0   | 8.4   | 9.9   | 14.9  |
| Online grocery market as a % total grocery market | 1.5  | 0.8   | 3.6   | 4.4   | 3.0   |
| Penetration of online shopping (%)                | 71.0 | 70.0  | 62.0  | 79.0  | 62.0  |
| Penetration of online grocery shopping (%)        | 15.0 | 11.0  | 11.0  | 25.0  | 20.0  |





Syndy is an online platform that enables the web's most efficient exchange of CPG product content. We partner with leading retailers to source exceptional product content from suppliers for ecommerce use.

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