



SHOPPING FOR
GROCERIES:
What if online
retail was bigger
than Tesco?



THE ONLINE FMCG CONUNDRUM

New technology, new markets

As shoppers we are increasingly exposed to the internet and it is undoubtedly changing the way we live, learn, consume media and shop.

Consequently, it's not surprising that many FMCG companies are concerned with understanding and optimising performance within the online channel. It follows that many are also shifting upwards of 15% of their marketing and research budgets in order to win in e-commerce.

It's important, however, to keep some perspective on the current market and channel dynamics. Only 22% of households actually shopped online for groceries over the past 12 months and even these still spent 75% of their money in an off-line environment.

The online channel is certainly the fastest growing – increasing revenues over the past 12 months by 18.7%, but it remains only 5% of grocery spend (see Fig. 1). This means that shoppers are still choosing to spend the overwhelming majority of their money in bricks and mortar environments. Furthermore, if we look at how this has grown over the past few years (see Fig. 2) it seems hard to see how this will significantly change in the short to medium term. An entry into the market place from Morrisons (recently

announced to be in 2014) could potentially add another two percentage points. Otherwise, at current pace, it could be another 10 years before online takes even 10% of households' grocery spend.



Challenges ahead

So, amidst the excitement, the following question is still a valid one "Why is the internet so small in FMCG?"

Contributing factors naturally include household demographics, the commitment to time slots and related cost of delivery, UK coverage and confidence in the product selected and delivered.

Consequently, there are some pretty differentiating e-commerce performances when looking beneath the overall 5% share. For example, online plays a much bigger role for households with a combined income of over £60k, taking a 10% share of their grocery spend. It is also important to note that some categories perform better online than others, with laundry products, for example seeing over 7% of sales going through this channel.

The overwhelming driver, however, to the arguably low share of grocery spend seen

by the online channel is the way, as shoppers, we prefer to shop. We tend to shop in smaller baskets, with two thirds of grocery spend coming from trips on which we spend less than £60. E-commerce has a 1% share of these trips (see Fig. 3).

Shopper missions (see Fig. 4) are another useful tool in describing the performance of e-commerce and the challenges it faces if it is to significantly grow in salience.

As shoppers, our behaviour does not fit comfortably with the online model. A typical household does one main shop every fortnight and replenishes or tops-up five times over this period. In fact, nine in 10 trips that shoppers make are not what they'd describe as their 'main shop'. But typically households turn to online retailers for their larger, routine shopping trips. If operational parameters remain the same for the online channel then it is hard to see how this will change.

What does this mean for companies now? The most successful ones of course will be winning on all missions and in all channels, and efforts should be scaled accordingly. However, keeping a keen eye on the future is, as ever, a prudent approach to have.



Fig.1: Where we are spending our money on groceries

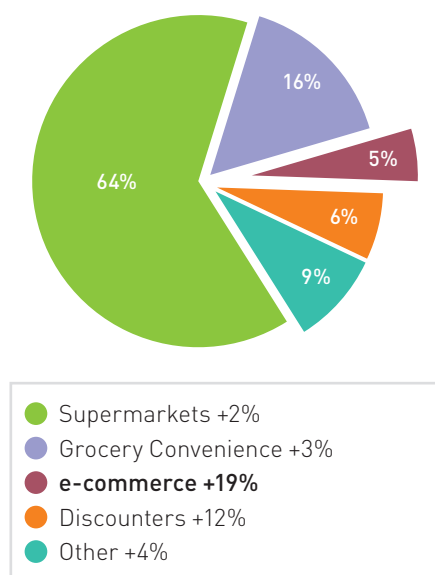
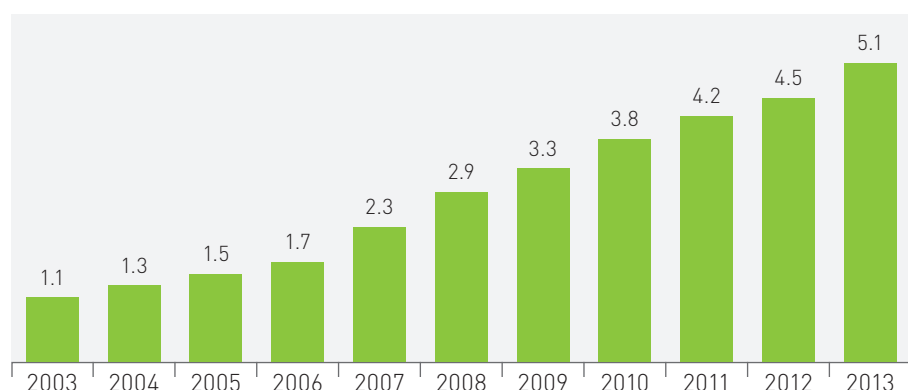


Fig.2: e-commerce share of grocery spend





LOOKING FORWARD

Overcoming barriers

So, what could the future look like? In other sectors, e-commerce plays a far larger role in sales – over a third of CD and DVD purchases are made online. In grocery, could we ever see a channel landscape similar to that seen in the entertainment sectors? If we do, it is worth considering the implications. What if e-commerce was bigger than Tesco within groceries? That's to say, what if the online channel had a 35% share of household grocery spend?

In order for this to happen, as with any growing brand, retailer or channel, there needs to be significantly more shoppers choosing to adopt it within their repertoire. The question is how might they adopt it? If there was no delivery cost, would we see shoppers using it as a genuine alternative for doing smaller trips? This could see faster growth for the channel and is one of the main objectives of 'click and collect'.

It's too early to tell if Amazon can make a success of same-day grocery delivery (at relatively high cost to the shopper).

Therefore, maybe a more likely scenario is that shoppers would see it as a convenient way of doing their main shop. The implications of such a channel shift for main shopping could be significant.

The shopping landscape would be sufficiently different that the marketing and sales decisions – both of retailers and manufacturers – would need to be based upon a very different set of parameters. From a retailing perspective, the way we shop when we're in stores would change and from a marketing perspective, such a shift in channel distribution would require a serious shift in strategy.

Some categories perform better online – 7% of laundry products are bought online

Fig.4: Shopper Mission share of channel

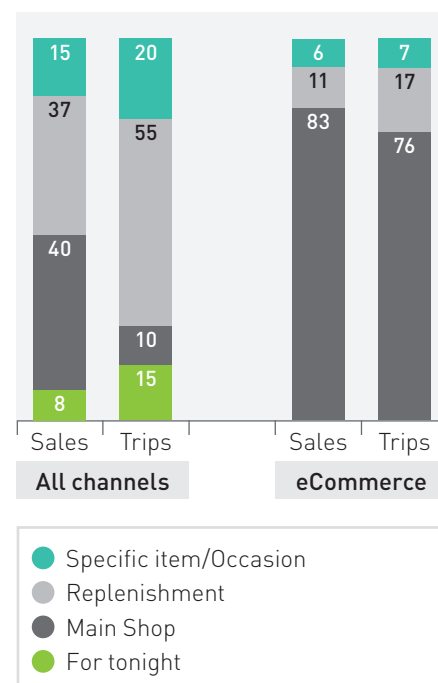


Fig.3:	Share of shopper spend (all channels)	Share of shopping trips (all channels)	eCommerce value share of baskets
Baskets under £60	67	95	1
Baskets over £60	33	5	12

METHODOLOGY

All the primary data used in this report comes from our grocery shopper panel, on which we continually measure the purchasing of 30,000 demographically representative households in Great Britain (England, Scotland and Wales). We collect information on what they are buying, where they have bought it and why - to develop a detailed picture of the British retail market. This report details the landscape at a grocery (what), channel (where) and mission (why) level to illustrate how these key factors relate to each other and may develop in the future. The potential level of detail available on the panel goes way beyond that used in this report to help manufacturers and retailers within the industry really understand their performance at a granular shopper level.



WHAT IF E-COMMERCE WAS BIGGER THAN TESCO WITHIN THE GROCERY SECTOR?

Here are five things that would have to happen for e-commerce to be as big as Tesco:

1. We would physically go and do a main shop 30% less than we do today. Consequently the supermarket channel would drop in share significantly.

Currently we spend nearly two thirds of our grocery money in supermarkets, this could drop to less than half (see Fig.5). In share terms, of course, all channels would take a hit but naturally the impact on supermarkets would be the greatest.

2. The 'main shop' would not be the primary source of revenue for supermarkets.

The missions we embark upon in this channel would change (see Fig.6). Currently, half of supermarkets' revenue is from main shop and this could drop to less than a third of sales if the internet grew significantly. With the majority of sales therefore coming from trips that are smaller and more specific in nature, successful supermarket stores will be delivering the appropriate experience to shoppers on these types of trips.

3. Working out how or which deals can work for brands and categories will become increasingly important.

Promotional levels are 10% higher online. In particular, we see that deals that encourage shoppers to buy multiple units play a significantly larger role in an online environment. A successful promotional strategy grounded in shopper behaviour will be even more important in order to optimise incremental sales and reduce cannibalisation.

4. Categories or brands with relatively high levels of impulse purchasing will find it harder to capture shoppers on their main shop.

Categories such as chocolate confectionery, with lower levels of pre-planned purchasing, feature in proportionately fewer main shopping trips made online than in bricks and mortar stores. It will be hard to win on this mission, but the role of these categories in store could provide more opportunity.

5. Categories or brands that rely more on browsing and product interaction will find it harder to connect with shoppers on their main shop.

This mirrors the challenge facing 'impulse' categories, but significant growth in e-commerce could pose a challenge to companies operating within categories with higher levels of shopper 'involvement'.

Fig.5: Channel value share

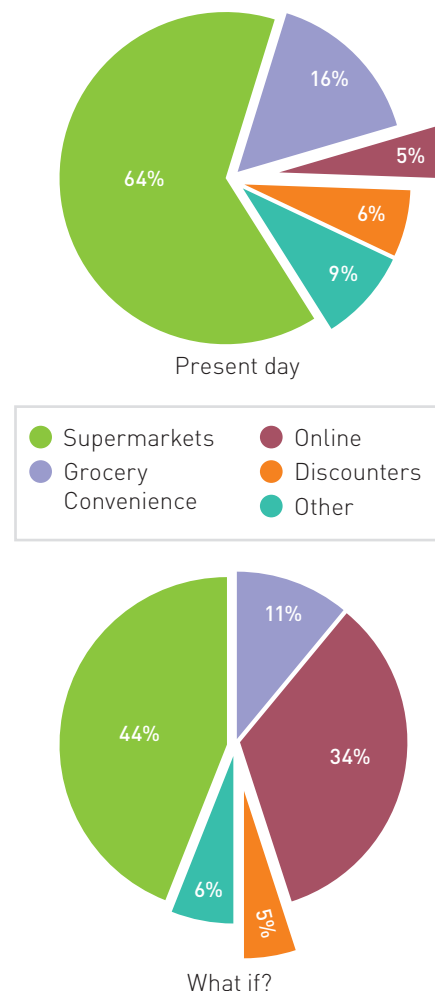


Fig.6: Mission share of supermarkets

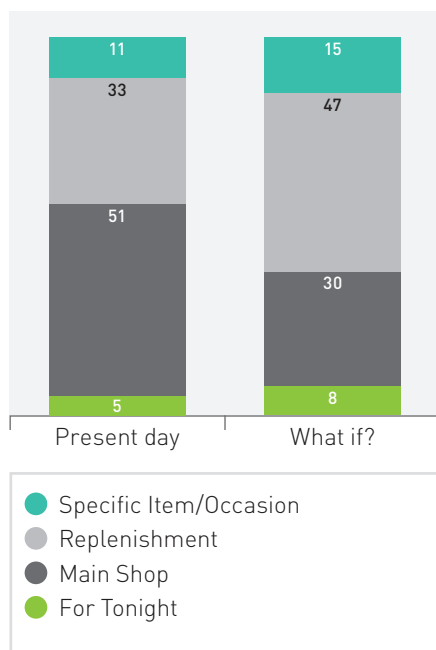


Fig.7: Promotional share of value sales



ACT NOW TO SUCCEED LATER

We can speculate over if and when this scenario could become a reality, but the fact remains that these are challenges that are facing grocery manufacturers and retailers today. In a fierce and changing FMCG landscape, understanding your shoppers' behaviour on all missions and within each channel is vital – winning today will most likely be helping to secure your future.

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