OPI — How Grocery Shopping is Changing in the time of COVID-19

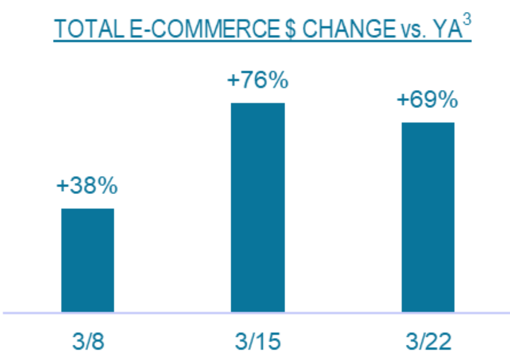
OPI…

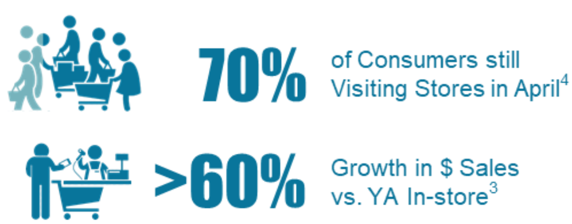
> **O**nline
> **P**ick-up
> **I**n-store

…the three modes of shopping for groceries are evolving as we speak. The task of shopping for groceries has become the focus of many families since the start of the 'shelter in place' orders began in March. As it became harder to find key household and food items, and as going to the store became viewed as risky, shoppers began to change where and how they shop. Understanding these new behaviors, shoppers' experiences in these shopping modes, and overall shopping demands, are all critical for predicting how shoppers will behave once this is all over.

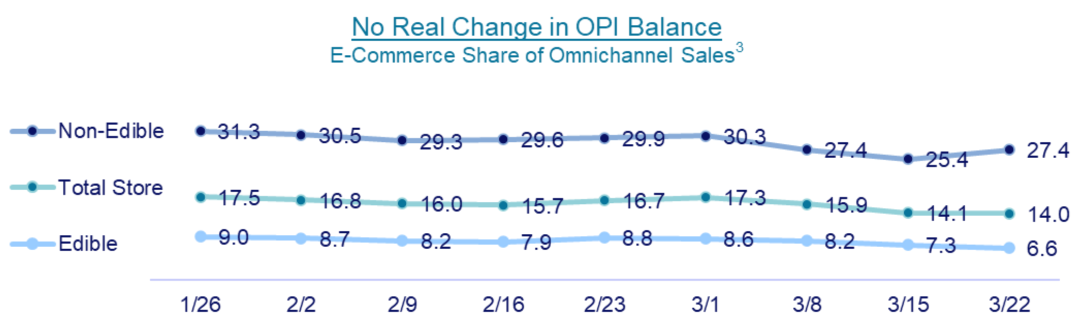
One of the most widely reported changes in shopping behavior has been the uptick in online grocery shopping. As 'stay at home' orders were put in place in March, Online orders increased +192% vs. August 2019[1]. Online orders for both pickup at the store and delivery saw increases. Importantly, both the number of customers ordering online (+146%) and the size of orders (+233%) increased over this time[1], meaning it wasn't just existing customers stocking up, but also new shoppers using online platforms for the first time. In fact, there were 20-25 million new online shoppers[1], many of whom may stick with the platform after the pandemic resolves. This is confirmed by the increase in downloads of online shopping apps. Downloads of the Instacart app increased 218%, the Walmart Grocery app increased 160% and the Shipt app increased 124% on March 15, vs. year ago[2].

But this increase in trips and basket size is not only about online purchasing. As the 'stay at home' orders remain in place, both Brick & Mortar and Online grocery trips have continued to grow. IRI reports total e-commerce dollar % change vs. YA continues to grow, as does Brick & Mortar (MULO) sales.





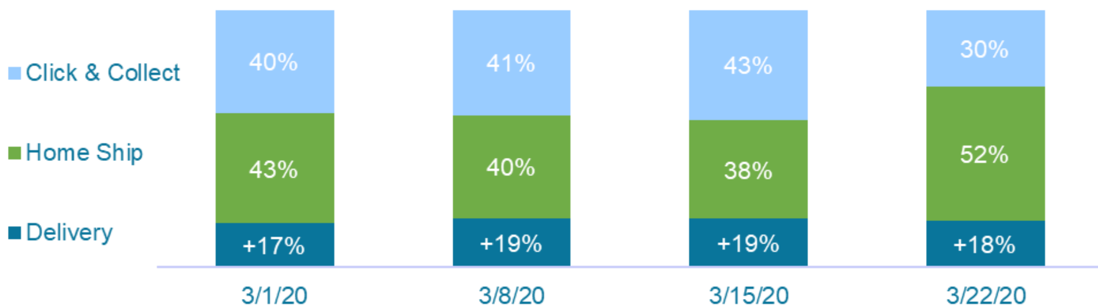
As a result, while gaining new users, e-commerce is not necessarily increasing its share of omni-channel sales.



This may seem counter-intuitive. Isn't it surprising to see such huge gains in new online shoppers (remember that number of 20-25 million new online shoppers?) while the e-commerce share of omni-channel sales has not changed? Well, consumers are having a hard time finding the products that they need. For now, they appear to be shopping at multiple outlets, using multiple platforms to obtain the products they used to get on their stock-up trips. As Rodney McMullen, CEO of Kroger confirms, "We are seeing meaningful pickup in both physical stores and digital."[5]

The type of online platform shoppers choose is also not changing much during this phase. Except for the most recent period, Home Ship and Click & Collect account for roughly the same proportion of e-commerce orders for Edible products as they did before the pandemic, while Delivery remains relatively stable.

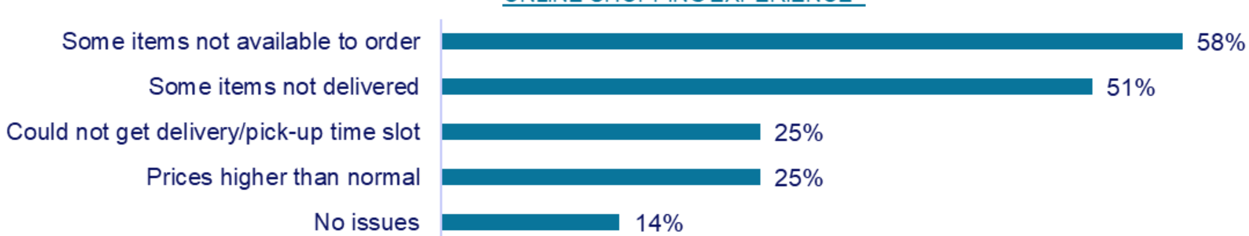
ONLINE PLATFORM % E-COMMERCE SALES (EDIBLE)[3]



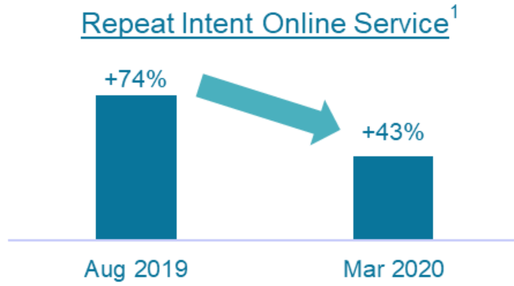
All of this is interesting, but what does this tell us about what we need to do to prepare for the future? The real lesson here is all about OPI. Online, Pick-up and In-store will all remain valid shopping/delivery methods that retailers will need to balance if they want to provide the right shopping experience for their customers.

This balance will depend on few factors. User experience during the pandemic, how long the pandemic lasts, incentives and motivations for shoppers to continue to use new methods of shopping, and economic environment and ecommerce cost structures following the pandemic will all shape shopper behaviors once the dramatic forces of COVID-19 recede. User experience during the pandemic is a two-sided coin. Good experiences can cause people who had not previously considered ordering online, to accept this mode of shopping as a viable alternative after 'stay at home' orders have been lifted. However, disappointing user experiences, due to the over-burdened system, may cause new shoppers, who might have been open to online shopping during normal times, to reject using ecommerce platforms once the pandemic is over. And it appears that this negative outcome is the prevailing experience. There are a range of experiences that have left consumers with an underwhelming impression of these services. The Instacart strike certainly caused delivery issues and slowdowns, and #Instacartfail was a trending hashtag on twitter in the first few weeks of the pandemic. Stories of missing items, undelivered orders and unexpected product substitutions were noticeable on social media. An IRI shopper study noted that more than half of online shoppers experienced online out of stocks and items that were ordered but did not arrive. Over a quarter of shoppers could not get an adequate delivery time or prices were higher than normal. Only 14% reported that they did not have any issues ordering online!

ONLINE SHOPPING EXPERIENCE[6]



Many of these problems may result from the overburdened system. With increases in volume running in the triple digits, online providers had a hard time ramping up their operations. Whether it was having adequate numbers of pickers/delivery people or having adequate product inventory, the sudden increase in volume caused problems maintaining service levels and meeting shopper expectations. As a result, intent to use the same service again was significantly lower in March than it was last year.



All this means is that it is important for retailers and manufacturers to keep their eyes on OPI. What is the future balance of shopping modes? All three modes—Online, Pick-up and In-store—will be important for retailers to manage. Retailers will need to have a holistic OPI approach to meet the needs of shoppers. Shoppers are going to associate their online shopping experience, including the delivery method with the retailer they ordered from. Controlling fulfillment, including not only product availability and correct order fulfillment, but also consumer interaction and delivery efficiency, will be critical to maintaining customer loyalty, regardless of the OPI mode. And managing costs of delivery and pick-up will be critical to maintaining margins overall.

During the pandemic, shoppers have not been overly discerning about offerings across modes, but that will change once shoppers are back into more traditional shopping occasions, and as economic uncertainty drives shopping decisions. Manufacturers will need to focus on category management efforts in different OPI modes. This should include price pack architecture to ensure that the right pack size is offered at the right price for each OPI mode. Finally, trade planning will need to reflect the benefits and trade-offs of different OPI modes. Correctly allocated costs to deliver the right product for different OPI modes should be taken into account when offering fair and compelling trade funding to retailers.

While On-line and Pick-up grocery shopping have certainly received a surge in exposure during the COVID-19 pandemic, there is no guarantee that shoppers will continue to use new modes of shopping once 'stay at home' orders are lifted and people feel they can approach grocery shopping with a less frantic and risk-averse mindset. Retailers and Manufacturers will need to offer the right experiences to shoppers to make sure that they can leverage the new experiences shoppers had to garner loyalty in a new OPI world.

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Sources:
[1]Brick Meets Click/Shopper Kit Online Shopping Survey, March 23-25, 2020
[2]Nathaniel Meyersohn, "Coronavirus will change the grocery industry forever," CNN Business, March 19, 2020
[3]IRI eMarket Insights Model, March 2020
[4]Harris Interactive/Toluna Poll April 9-14, 2020
[5]"Kroger's Rodney McMullen: 'Way too early to speculate on consumer behavior'." Supermarket News, April 17, 2020
[6]"Covid-19 Impact on CPG Retail: Anticipating Life After Covid-19," IRI, April 17, 2020