

Reimagining Retail: Online grocery-buying habits, and can Uber and DoorDash push further into grocery?

Audio

On today's episode, in our "Retail Me This, Retail Me That" segment, we discuss the changes in how US consumers buy groceries, strategies for building future growth in grocery, and who has the best shot at winning. Then in a newish segment, "Loyalty Point, Counter Point," we present arguments both in favor of and against Uber and DoorDash being able to push even further into grocery. Join our analyst Sara Lebow as she hosts analyst Blake Droesch and director of content Becky Shilling.

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Episode Transcript:

Sara Lebow:

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Learn more about how to save time and get by and faster at insiderintelligence.com. Hello, listeners. Today is Wednesday, August 16th. Welcome to Behind the Numbers: Reimagining Retail, an eMarketer Podcast. This is the show where we talk about how retail collides with every part of our lives. I'm your host, Sara Lebow. Today's episode topic is grocery e-commerce. First, let's meet today's guests. Joining me for today's episode, we have Senior Analyst Blake Droesch. Welcome back, Blake.

Blake Droesch:

Hey, Sara. Good to be here.

Sara Lebow:

Good to have you. On the retail pod for the first time is Senior Director of Content, Becky Shilling. Hey, Becky.

Becky Shilling:

Hey, Sara. Thanks for having me.

Sara Lebow:

Thanks for joining us. Okay. Let's get started with free sample, our Did You Know segment where I share a fun fact, tidbit or question.

Today's question is do either of you know what the first self-service grocery store was? Bonus points for if you know when. Cricket sound effect can go here.

Blake Droesch:

I'll take a complete stab in the dark and just go off personal experience that I think my local Stop & Shop had self-checkout, going back to [inaudible].

Sara Lebow:

Wait, point of clarification, not self-checkout, self-service, so not a butcher counter. Think way further back, like a shopping cart, shelves situation.

Blake Droesch:

That's right. I remember the antidote that it really confused people that they had to go and pick their own items off the shelf. It was a long time ago, but I don't remember who the retailer was.

Becky Shilling:

Was it Piggly Wiggly?

Sara Lebow:

Yeah. Becky had an advantage because we put this in our newsletter once a year ago.

Becky Shilling:

Did we?

Sara Lebow:

Yeah. It was Piggly Wiggly in Memphis in 1916. Soon after the advent of the self-service grocery store, came the invention of the shopping cart. Around this time, consumer-packaged goods also started getting unique branding and labeling to stand out on the shelves, which to me is the most interesting part.

Everything we talk about in relation to the digital grocery shelf and retail media and standing out as a brand, started out with picking up your products yourself instead of asking the butcher to go get it for you. Now it's time for our next segment, Retell Me This, Retell Me That, where we discuss an interesting retail topic.

Today's topic is grocery e-commerce. Growth in digital grocery sales is outpacing growth in the number of digital grocery buyers in the US. The overall digital grocery sales will increase by close to 20% according to our forecast, while the number of digital grocery buyers will increase by just 2%.

That means that the people who are buying groceries online, are spending more money. Blake, can you expand a bit on what we can learn from this forecast?

Blake Droesch:

Yeah, sure. Just to frame things a little bit, the industry narrative around digital grocery has been very much tied to the pandemic that, of course, you had this small but fast-growing sector of e-commerce that really took off during 2020 and 2021. Since then, a lot of the conversation around digital grocery has been really benchmarking the demand against where it was during the pandemic.

But the industry since then has really moved beyond that, because sales growth is no longer being driven by new adopters like it was during the pandemic. It's being driven by heavy digital grocery users. From, of course, a retail and marketing standpoint, that completely changes the game from retailers and delivery platforms that are looking to court new adopters.

Versus the current circumstances is that the retailers and delivery surfaces that are fighting for growth in this really competitive market, are now catering to these heavy users.

Sara Lebow:

You're trying to grab more share of the existing users. Are they still trying to adopt more users?

Blake Droesch:

I think slowly but surely, there's always going to be a little bit of an increase in adoption. We see growth in digital buyers in general in our forecast on an annual basis in that low-single digit percentage. Yes, there's of course, always going to be new buyers coming into the market.

But when you look at really what is driving growth and 20% food and beverage, health, personal care and beauty, so these categories that make up the larger grocery e-commerce category, these are some of the fastest growing in e-commerce over the next couple of years.

If you're really trying to capitalize on that growth, your focus at this point is not those new adopters. It's really the people that are existing buyers that are doing more and more of their average weekly grocery shopping online.

Sara Lebow:

Okay. We have that 20% growth in how much those people are spending online. What sorts of things are ticking that growth up by that big a number?

Blake Droesch:

Yeah. I think that's really interesting and that's why a lot of my research now is focused around the buying trends and the habits of consumers, who are buying groceries online more than once per month. Then of course, what can retailers do to turn those casual buyers into heavy users? Because there are certain categories, snacks is one of them, coffee and tea, pantry items, baking goods, condiments, et cetera.

These are high penetration categories at this point. Whereas the majority of people who consider themselves digital grocery buyers, so they buy groceries online at least sometimes, are heavily buying in these categories. But if you isolate those frequent digital grocery buyers, so people who are shopping online for groceries multiple times per month, you're probably go figure, you're seeing an increase in perishable buying.

Fruits and vegetables, frozen fruits, bread and bakery products. What's interesting about those categories, is that they do have a smaller base of people who are buying them, but because they're perishables, the nature of perishables, they're being purchased more frequently. You've got a category like fruits and vegetables where you have fewer people are buying them.

But the people that are buying them are coming back and they're placing weekly orders online, which is having an impact on the way that they buy their other non-perishable goods online and in stores as well.

Sara Lebow:

Okay. If I'm Kroger and I have someone who is, let's do Amazon. If I'm Amazon and I have someone who is buying coffee once a month, my role here is to turn them into that weekly apple and pear buyer as well, but that's totally different, right?

Buying coffee online is a completely different behavior than buying fruits and vegetables, which self-service grocery world, I'm used to touching and picking up. Becky, I'm going to come to you with this one. How can a platform convince people to buy these perishable items online?

Becky Shilling:

Yeah. You have to take away that uncomfortability of not being able to see, touch, smell your produce, your fruits and your vegetables. A couple of things that you can think about would

be photos. Can you put photos up on your website that says, "Look at this banana from ripe to unripe"? Pick which category, which level you would like to go, and our shopper or picker will pick that produce for you.

Or being able to ask a question on how many days from delivery would you like to be able to eat this? Or what level of ripeness do you like? Being able to get some sense of what the customer is looking for. The flip side of that is that you then have to train your employees who are picking, to be able to recognize that and be able to take what the consumer is saying and put that into actuality.

Sara Lebow:

Yeah. It seems really expensive to get a group of people that are now going through all of the bananas to get the correct banana, only for that banana to be a little browner when it goes out the door in an hour.

Blake Droesch:

I think you're right. It's funny when you think about it and you also think about the margins in these types of categories, it does seem almost ridiculous that a whole new product offering and cyber communication tools and all of these different ways of increasing visibility and communication with the digital customer, would be worth it. But I think that there are other also maybe more traditional ways, just including deeper discounts and promotions, incentivizing people.

It's interesting the example that you brought up, because it is obviously there are a lot of people who are just buying their coffee on Amazon. That's completely different to the person who's placing the Amazon Fresh or the Whole Foods order, where you have a shopper going to the store or a warehouse and delivering it, rather than receiving your coffee or your shampoo through the mail. But there are a really large percentage of digital grocery buyers who are using those delivery services.

There could be ways of incentivizing through discounts, like the people who are already having pickers and shoppers go to the store for any number of goods, but they might be holdouts in the fruits or vegetables category because they like to feel the produce. They like to make sure everything's ripe and to the quality that they want it to be, to actually get them to go that next step.

It is a little bit of an incremental game as well, but I do think that some of the tools that Becky was describing could also be really efficient. But yes, it's certainly quite an overhaul.

Becky Shilling:

But you also have to think of sometimes when I go to the store and I'm looking for an avocado and I want a ripe avocado because I want it for that night, five times out of 10, I feel like that ripe avocado isn't available.

It's all about dependency of when the produce is coming in, so it's not a sure game to go in store to get exactly what you're looking for either. Consumers just have to be okay with that.

Sara Lebow:

Yeah. But the difference is that when I don't see that ripe avocado, I'm like, "There was no ripe avocado." If I'm asking someone else to buy the ripe avocado and they gave me an underripe avocado, I'm like, "They didn't pick the right avocado." It is like a psychological difference there.

Blake Droesch:

Yeah, that's really interesting. I don't know, maybe these delivery companies need to just they go pick your groceries, and then they just drive around with a crate of avocados so you can go see it yourself.

Sara Lebow:

They bring the groceries to you. We can invent the fruit cart. All of these companies competing in this arena are all going at it in different ways.

Who do you think has the best shot at winning future growth in digital grocery? Becky, why don't you take that one first?

Becky Shilling:

I'm going to do two because it's my first podcast and I'm going to break the rules a little bit.

Sara Lebow:

Yeah. No one ever breaks the rules on... I said Blake's the rules on a podcast.

Blake Droesch:

Is that a Freudian slip?

Sara Lebow:

Maybe.

Becky Shilling:

My first one is Instacart. I feel like one of the biggest challenges of retailers setting up any online grocery business, is the logistics and the operational background. Grocers work on such thin margins that it can often be very prohibitive to try to add new services where they're not seeing the bottom line benefit. I think Instacart is a company that can help grocers do that. I also think Instacart just with its business itself, has really great promise and really great growth opportunities.

My second one is going to be Amazon, and I know I've been down on them a little bit lately, but they are really trying to turn around their grocery business. If you see some of the moves that they've made just in the last week or so, allowing non-Prime members to purchase fresh items for delivery, opening up hundreds of Whole Foods private labels for sale on Amazon. Then allowing customers to place items from Whole Foods, Amazon Fresh and amazon.com in the same carts.

They're really trying to make some fresh inroads into their fresh delivery or their fresh grocery program, and I think that we might see a little bit of growth from them coming in a positive direction.

Sara Lebow:

Becky, I love you saying, "I know I've been down on Amazon a lot recently." The podcast listeners are joining your opinion forming already in progress.

Becky Shilling:

I know.

Sara Lebow:

Yeah. Instacart at the start of the pandemic, had 230% growth according to our forecast in US grocery sales. That's crazy high, but it's still pretty high. It's still at 15% growth.

Next year, we expect that to be a bit higher at 15.2% growth. Well, that's about the same, but they're still healthy in terms of grocery sales. Blake, who do you see as winning grocery share?

Blake Droesch:

Yeah. I think that there's a strong case to be made that Walmart can really run away with some serious share. They're already the market leader in terms of having the largest share of US grocery e-commerce sales. According to our forecast, they surpassed Amazon, I want to say in 2019. But there are two reasons, and one is tied to this conversation about fresh and frozen foods, and having shopper communication tools.

Walmart really, they deliver all of their groceries, so they rather than companies that use third-party intermediaries like Instacart. I think Walmart, because of the fact that they control the fulfillment of the orders, all the way down to the delivery, the gathering of the items in stores and in the warehouses, the packaging, the drivers, the people who are actually doing the delivery, they control that whole fulfillment chain.

They really could train their associates to pick the produce that is of the best quality, and that is of the preferable ripeness according to what the customer wants. They're then able to create a little bit more assurance around the quality of the products they're delivering, and could help to win over some of the digital grocery customers who are maybe buying non-perishables but are still holdouts for perishables.

The second reason is just the fact that they are the clear leaders in click and collect. When you look at what's going to be driving digital grocery growth over the next couple of years, a lot of it is coming from sales growth and click and collect, not delivery. Walmart just very simply has the largest brick and mortar footprint.

They have the largest customer base of physical store grocery shoppers. I just think that when it comes down to brass tacks, it's that very simple advantage of just having a large customer base and a large brick and mortar footprint.

Becky Shilling:

A new report from Brick Meets Click that just came out backs you up on that one, Blake. They reported today that the US online grocery market was down 7% in July year over year.

However, repeat intent rate for mass over grocery, is 18 points higher. Mass would be Walmart in this instance, so they're saying exactly what you're saying.

Sara Lebow:

We didn't even get into click and collect. That's a whole separate episode. Before we move into the next half, just one thing that all three of those companies, Instacart, Amazon, and Walmart, especially Amazon and Walmart have in common, is a big and growing ad business supporting their slim grocery margins.

Definitely any place that you can get other revenues is going to be helpful when building out grocery. Becky and Blake, are either of you digital grocery buyers?

Becky Shilling:

Yes. I'm a heavy grocery buyer based on Blake's report, two to three times a month from FreshDirect.

Blake Droesch:

Funny enough, I'm not a frequent digital grocery buyer. I probably place one order a month for coffee and some other household essentials that I buy on Amazon, but I like going to the grocery store.

I'm one of those people. I think it's just because I like to cook, so I like to go poke around and see what's new, and shop more on instinct than on restocking, which I think is still more conducive to physical stores.

Sara Lebow:

Yeah. I'm not a digital grocery buyer at all. Honestly, I probably could afford to be. I think that I would have much better stocked shelves if I got into that, but I'm stubborn. It took me until last week to set up Apple Pay. It'll take me another couple years before I get into digital grocery.

Okay, let's keep moving. It's time for our next segment, Loyalty Point, Counterpoint where our guest debate two different sides of an issue. Today, Blake is arguing that Uber and DoorDash will push even further into grocery, while Becky has the counterpoint that consumers won't adopt intermediaries for grocery. Blake, why don't you lay out your opening arguments here first?

Blake Droesch:

Yeah. I think plain and simple, both Uber and DoorDash already have really, really big customer bases, primarily through their restaurant delivery and Uber with their rideshare services. Both are very set on basically creating a flywheels of their own through their paid memberships, DashPass and Uber One, that will get their customers to use the platform not just for their core utilities, but for other services that they provide.

Whether it's non-grocery retail partnering with retailers that sell sporting goods or home goods or office supplies, but grocery is really the biggest piece after their core utilities. In DoorDash's most recent earnings call, they reported their best quarter ever, and a lot of it was attributed to their grocery orders, which they say increased 25%. If you look at some of our consumer surveys, DoorDash in particular, is actually getting a good amount of use in terms of people who have said that they've used the platform to order groceries specifically.

I think that they occupy a very small share of digital grocery sales right now. But because of the fact that it can help drive revenue in DoorDash's case, I think it's just an area that they're going to lean into in the coming years. It's going to be a real focus to get their existing customer base to start buying groceries on the app.

Sara Lebow:

Okay. Uber and DoorDash, you have a bunch of people who already have the apps on their phone, are already used to the drivers showing up at their door with some offering, and could be easily convinced to buy groceries within the platforms. Becky, what is your counterpoint argument here?

Becky Shilling:

While I agree with what Blake said, and I do think that both of those companies are smart to go after the grocery sales, I don't think that the e-commerce grocery business is going to see the uptick from getting sales from these two companies. The reason I don't think so is because I don't believe that consumers are going to adopt that behavior.

The main reason I don't think that is the searchability. Consumers do not need to go to an Uber or a DoorDash to find out what their local grocer is. They know what that grocer is. I would project that they will go to the Kroger website or to the Stop & Shop and order directly from them. They don't need to use that app to get their grocery.

Sara Lebow:

Did you make the same argument when these apps were starting off as food delivery apps, that people already know their local Chinese food restaurant and they're not going to go to the app?

Becky Shilling:

No, I think that's completely different. I think you know some of the restaurants within your radius, but I could not tell you the restaurants that are three blocks away from me. I think that that's what a Seamless or a DoorDash or an Uber Eats does really, really well, is that it puts all of that at your fingertips. It makes it discoverable for those restaurants, you know that this restaurant is going to deliver for you.

You know what the menu is, you can order, you can pay, you do everything through that app. Whereas ordering from a restaurant where you have to call them, because most of these restaurants pre-pandemic, did not have delivery set up through their websites. It's a whole nother ballgame when you have to call the restaurant, put in your order with a person, pay over the phone or pay with cash for those of us who pay with cash still.

It's a completely different environment and atmosphere, and it's not conducive for convenience, which is what I think that these apps are really, really great for. But I don't think that the convenience necessarily translates into the grocery shopping experience the same way that it does for the restaurants.

Sara Lebow:

Grocery shopping is already convenient. You can either go into the aisles and pick it yourself, or there's an existing interface for buying groceries. Blake, thoughts on Becky's argument?

Blake Droesch:

Yeah. I think I agree that it's definitely a bigger push because it is a slightly different business model and service that they're offering, but what sways me on that argument is the cost. Shopping for groceries online comes with added delivery fees, and what companies like DoorDash and Uber are doing is they're not just trying to get people to start buying groceries on their apps. They're trying to get people to sign up for their paid memberships because they're already frequent rideshare customers, or they're already frequent grocery delivery customers.

If you can get them to sign up for that because they're already existing customers, then they're saving money. All of a sudden, now they have a grocery delivery offering where included in that membership fee, they can also get free delivery on groceries. These might be people who don't shop for groceries online, they don't because it's too expensive. They don't want to pay the fees when they can go to the store, but they use rideshare enough or they get restaurant delivery enough, that they were swayed to sign up for these services.

All of a sudden, now they're getting grocery for free, so they might try it. If they do try it, then they're more likely to become loyal and use that platform for grocery buying because of the fact that they're already getting the delivery paid for through these apps. The other thing is that a lot of local grocery stores do not have their own interfaces for ordering groceries online. Instacart has really cornered the market, so it's going to be very difficult for DoorDash and Uber to get in on some of Instacart's business.

Which is primarily based on taking legacy grocers that do not have their own infrastructure, to have an app or a delivery, and they do that fulfillment for them. But DoorDash and Uber have been very aggressive in creating these partnerships, so it's maybe not ideal for people to want to go on and browse an Uber or DoorDash to find their grocery stores. I agree with you in that sense. But it is certainly a way for DoorDash or Uber to get into that market by partnering with some of these local chains.

If they have customers that want to order from these grocers online, and they're promoting in the store that they're on Uber or DoorDash, then that could be another way of sneaking in and getting a little bit of share in this market.

Sara Lebow:

This is a really difficult task for Uber and DoorDash because you're working with grocery, which already has famously slim margins.

Then you're offering free delivery, paid subscription delivery, but still free in some sense, which is really expensive. It seems like a really difficult line for these companies to walk.

Becky Shilling:

Well, it's difficult for the retailers too. Grocery retailers operate on very, very thin margins. Trader Joe's famously does not offer delivery. They tried it in New York City for a little while, and they canceled it in 2019 saying that they was going to have to pass on all those costs to

the customers and saying that we want our in-store experience to be the experience that you have at Trader Joe's.

And even Walmart has said that we have to be really careful about not building out a segment of the business that's going to negatively impact our in-store shopping, which goes back to Blake's whole point about frequent buyers but still coming into the store to get certain items. Because even Walmart recognizes that you can't build something out at the costs of your core business.

Blake Droesch:

Yeah, absolutely. I think that if you're a company like Walmart or even Target, which has made a lot of plans to redesign the stores, so the digital fulfillment does not get in the way of both inventory depleting the resources of the staff. Or in the way of the customer experience, you have shoppers just walking around the stores, have been able to amend that.

But I think if you're looking at it from the perspective of these delivery services when it's becoming very apparent, particularly with Instacart, but with all of them, that advertising is going to be a really, really important revenue stream for them going forward in trying to achieve actual growth. Then it starts to make a little bit more sense why they're willing to take the hit or skirt that line in an industry like grocery, where the margins are so slim.

Sara Lebow:

Absolutely. Advertising and subscription revenue is definitely a thing to watch, as is these companies rearranging their stores, changing things up so that their actual infrastructure can support delivery. That's all we have time for today, so thank you so much for joining us today, Blake.

Blake Droesch:

Yeah. Thank you for having me.

Sara Lebow:

Thanks for being here, Becky.

Becky Shilling:

Enjoyed it. Thank you.

Sara Lebow:

Please give us a rating and review wherever you listen to podcasts, and follow us on Instagram at BehindtheNumbers_Podcast. Thank you to our listeners and to Victoria who edits the podcast and keeps it fresh. Does that work?

Blake Droesch:

I like it.

Sara Lebow:

We'll be back next Wednesday with another episode of Reimagining Retail, an eMarketer Podcast. Tomorrow, join Marcus for another episode of the Behind the Numbers Daily.