

GROCERIES 2.0

by **FIELD AGENT**[®]

The Rise of Online Grocery Shopping

“If any industry is ripe for disruption by online shopping, it should be the grocery business.”

Dan Mitchell, *Fortune Magazine*

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The Changing Landscape

The Internet has radically transformed retail, both how companies sell and how shoppers buy. Products from music to apparel to bobbleheads have made the transition to the Internet age with relative ease.

But then there's groceries.

Groceries often feel like the category lost in time. While many other products caught the e-commerce bus on time, groceries were running behind, gasping for air, and yelling, “Slow down! *Gasp.* Let me catch up!” Even when they caught the bus, they felt like they were on the wrong one.

And some commentators believe it's high time the grocery industry jumped onboard: “If any industry is ripe for disruption by online shopping,” wrote Dan Mitchell of *Fortune*, “it should be the grocery business.”

Of course, to be fair, groceries are in a class all their own; they have characteristics that make them uniquely challenging to sell online. Grocery products have comparatively low profit margins and value-to-weight ratios (i.e., shipping disadvantages). Food and beverage products also require careful—and costly—warehousing and handling. And when it comes to produce, shoppers often prefer to scrutinize their groceries before buying them—to thump that cantaloupe and analyze that expiration date.

Despite these formidable challenges, developments such as grocery pickup and grocery delivery, as well as various forms of grocery tech (e.g., smart products that reorder groceries), suggest the industry is no longer willing to be confined by brick-and-mortar barriers. As Bill Bishop of retail consultancy Brick Meets Click said,

“We are seeing the emergence of the next generation of food distribution system.”

In effect, we're witnessing the advent of Groceries 2.0.

To the victor go the spoils, of course, and what a huge prize awaits retailers that establish dominant positions in this new era of grocery shopping and buying.

According to Austin Carr of *Fast Company*, “As much as e-commerce has impacted consumer shopping, the last frontier is arguably the largest: the \$638 billion market for groceries and ‘convenience’ goods.” Some estimates value the total grocery market as high as \$1 trillion.

With so much market potential out there, the Groceries 2.0 era could pave the way for several head-on collisions between retailing juggernauts—perhaps most notably, Walmart versus Amazon. Naturally, as Walmart adds more clicks to its bricks, you can expect Amazon will add more bricks to its clicks, and vice versa.

The stakes are high. The players are hungry.

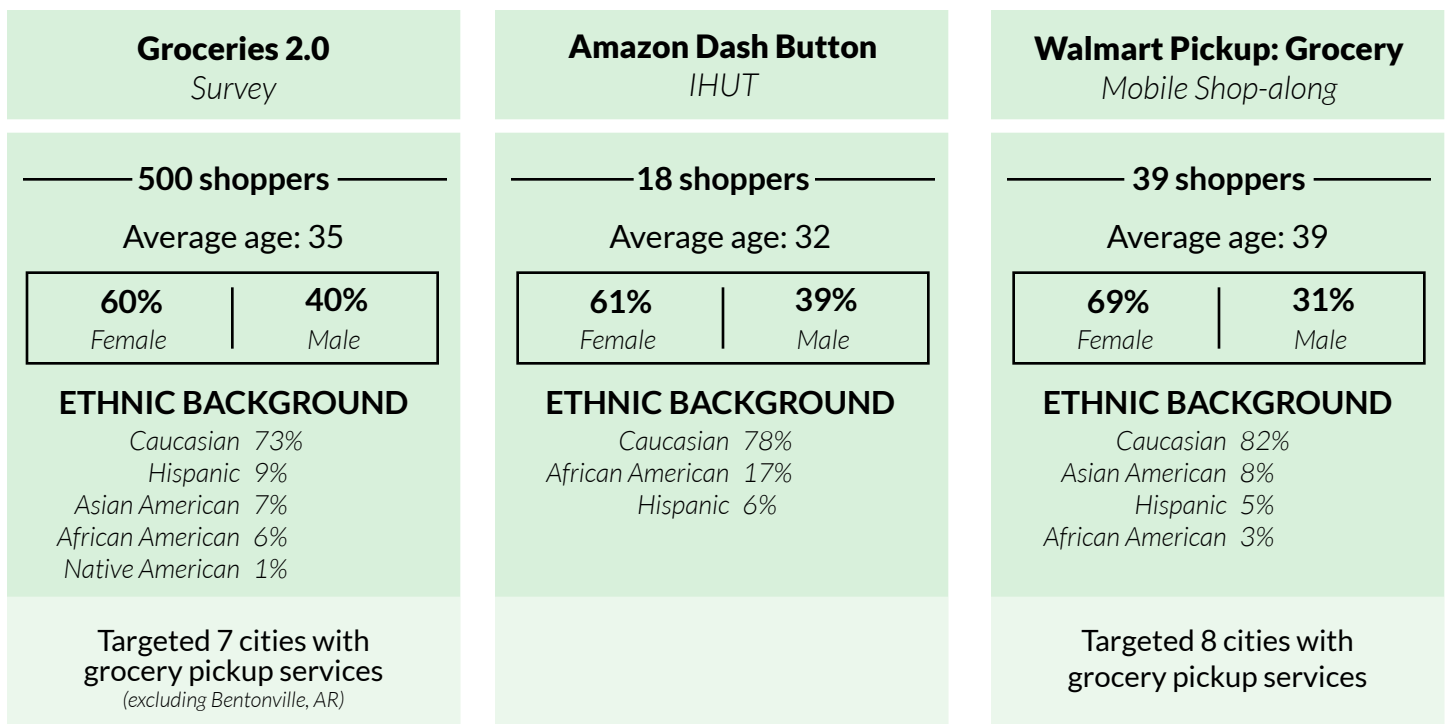
Groceries 2.0 has potential to dramatically change the way we shop for and buy groceries.

About this Report

To shed light on various Groceries 2.0 developments, particularly the grocery pickup phenomenon, Field Agent conducted surveys and mobile shop-alongs with over 500 shoppers. We wanted to understand the changes occurring in the grocery industry, *purely from the shopper's point of view*:

- What are shopper attitudes toward traditional, in-store grocery shopping?**
- Are shoppers eager for change?**
- What are usage rates for grocery delivery, grocery pickup, and, in general, new Groceries 2.0 developments?**
- What matters most to shoppers as they consider buying groceries online?**
- What's specifically holding shoppers back?**
- What is the customer experience for Walmart's new grocery pickup service?**
- What do shoppers think about the rumored Amazon grocery pickup service?**
- Are shoppers interested in new forms of grocery shopping tech (e.g., Amazon Dash Button)?**

We conducted three studies to get to the bottom of these and other questions:



Shopper Sentiment toward Traditional, In-Store Shopping

Before we can appreciate where grocery shopping is headed, we first have to understand where it is. As seen, the grocery industry today appears to be charting a new and different course. But what is the current state of grocery retail—as shoppers see it?

Field Agent assessed the attitudes of 500 shoppers on five different dimensions of traditional, in-store grocery shopping:

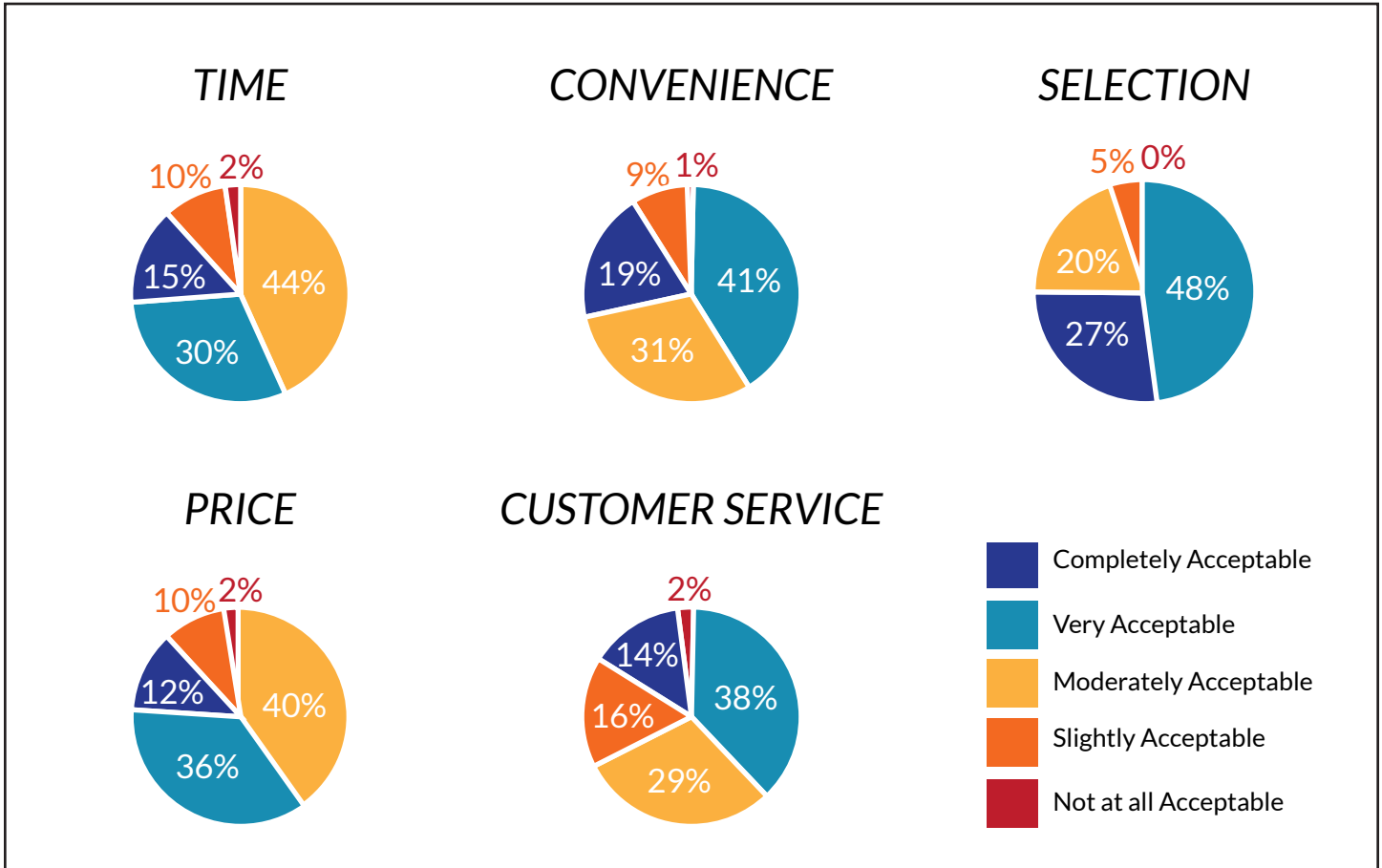
Time - How long it takes to shop for and buy groceries in stores

Convenience - How easy it is to shop for and buy groceries in stores

Selection - Assortment of grocery products offered in stores

Price - Cost of groceries in stores

Customer service - Knowledge and helpfulness of store employees



On the surface anyway, the shoppers in our survey appear to be relatively content with traditional grocery shopping. Respondents were asked to rate the acceptability—from “completely acceptable” on one end to “not at all acceptable” on the other—of the five dimensions above. Not a single characteristic of traditional shopping was judged to be “not at all acceptable” by more than 2% of respondents. There really were no strong negative reactions from shoppers.

Respondents seemed most pleased with the selection/assortment afforded by in-store grocery shopping. 75% identified the product selection offered in stores as either “completely” or “very” acceptable, while not a single respondent said it was “not at all acceptable.” Shoppers were also relatively pleased with the convenience of shopping in stores, with 60% rating it either completely or very acceptable.

As companies strive to convince consumers to give online grocery shopping a go, time (i.e., how long it takes to shop for and buy groceries in stores) may represent the strongest appeal. Fewer than half (45%) in our survey rated the time commitment associated with in-store grocery shopping as either “completely” or “very” acceptable.

So, as mentioned already, the results seem to suggest shoppers are generally content with traditional grocery shopping.

But, appearances can be deceiving.

Are Grocery Shoppers Hungry for Change?

Are shoppers really content with the status quo, or do they actually want companies to pioneer new methods of grocery shopping? Field Agent asked all 500 respondents to what extent they agree with the statement: “I want retailers to develop alternatives to traditional, in-store grocery shopping.”

Fully 71% agreed with the statement to one degree or another—meaning, yes, for the most part, shoppers do want change. Moreover, only 11% said they disagreed with the statement.

Online Grocery Shopping

Presently, online shopping represents only a small slice of the overall grocery pie. According to Forrester Research, in 2013 online grocery shopping accounted for only \$15 billion of an otherwise enormous \$1 trillion market. Forrester also projected that online grocery shopping would reach \$21 billion by the end of 2016. Nice growth, but still only a drop in the bucket.

This discussion raises a question: Is online grocery shopping making gains among shoppers—particularly in areas with access to grocery delivery and grocery pickup services?

Field Agent surveyed 500 shoppers in urban areas designated as pilot cities or test markets for grocery pickup services: the greater San Jose, Phoenix, Denver, and Huntsville, AL areas.

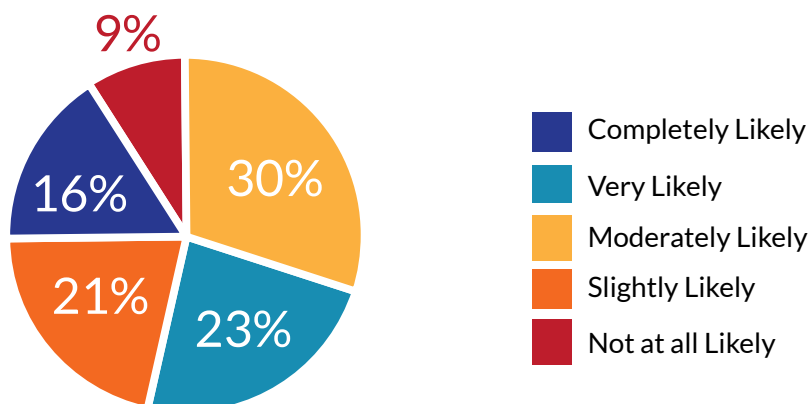
We asked them to identify the purchase-checkout processes they have used in the past to buy groceries. Not surprisingly, traditional (i.e., staff-operated) checkout and self-checkout dominated all other choices, with virtually everyone in the survey saying they had used both checkout processes.

On the other hand, 20% of respondents indicated they had used grocery delivery, and 12% had used grocery pickup, to shop for and purchase groceries in the past.

Peering into the Future

Together, these results may offer some insight into the incidence of grocery delivery and pickup, but they tell us little about where online grocery shopping is headed. So, after explaining the concept of grocery pickup to study participants, we asked them, “What is the likelihood you will use a grocery pickup service in the future?” In all, 70% indicated they are at least moderately likely to use grocery pickup in the future—a fairly healthy number for this stage in the game.

What is the likelihood you will use a grocery pickup service in the future?



Inside the Minds of (Would-Be) Online Grocery Shoppers

The success of Groceries 2.0 initiatives, from grocery pickup to grocery tech, will ultimately depend on how well retailers understand shoppers. Here at Field Agent, one of our primary objectives in conducting this study was to understand the values and attitudes of shoppers toward online grocery shopping. Such insights, we believe, will form the foundation of successful e-grocery strategies.

1) The inability to see/touch/smell groceries is one major reservation among potential online grocery shoppers.

As seen already, 70% in our study said they're at least moderately likely to use a grocery pickup service. However, among these same respondents, **67% agreed the inability to see/touch/smell groceries would make them less likely to use a pickup service in the future.**

We phrased more or less the same question in another way. Respondents were also asked how important it is to see/touch/smell groceries. 73% answered "completely" or "very" important. In fact, 91% said it's at least moderately important.

"Although it sounds like a good concept the inability to touch and see the final product is the main reason I would not use [online grocery pickup/delivery]. My idea of what I want in a banana for example is not going to be the same when someone else picks it out."

48-year-old Male, Mesa, AZ

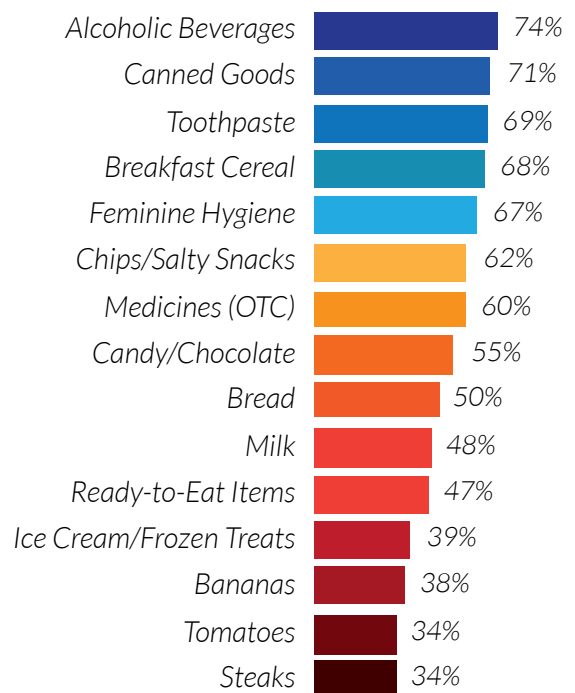
2) Some grocery products translate to online shopping better than others.

Just how willing would shoppers be to purchase specific grocery products online? Our research shows much disparity between products.

Consider an example: Among respondents who purchase alcoholic beverages one or more times a year, 74% said they'd be at least moderately likely to purchase them through a grocery pickup or delivery service. Now compare alcoholic beverages to steaks, which only 33% of qualifying respondents said they'd be particularly willing (i.e., at least moderately likely) to purchase online.

The results, presented in full in the graph, suggest shoppers are far less willing to purchase "fresh" or perishable items from online grocers.

Percentage of qualifying shoppers at least moderately likely to purchase these items through grocery pickup/delivery



"I would like to be assured that the items purchased were the freshest available."

47-year-old Female, Denver, CO

3) Shoppers may be apprehensive to leave behind coupons, in-store discounts, and other sales promotions.

The results highlight yet another major “hang up” among shoppers. 65% of shoppers in our 500-person survey said the inability to take advantage of sales promotions (e.g., coupons, in-store discounts) could deter them from using grocery pickup in the future. Likewise, **a whopping 91% said being able to use coupons, or being able to benefit from other in-store discounts, was either “extremely” or “very” important to them.**

“I would like to be able to use any coupons or other discounts that the store may be offering. The prices online should be the same or slightly lower than in store.”

32-year-old female, Mesa, AZ

“Shopping online is a huge time saver for a busy working person. However, price and the ability to shop sales and take advantage of promotions would be critical to me using the service.”

57-year-old female, Littleton, CO

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Truly, to reach the masses, these results suggest online grocers will need to find ways to include online shoppers in sales promotions, that is, so they don't feel shopping online means sacrificing a good deal.

4) Online grocery shoppers may be particularly sensitive to travel distance, potentially giving an advantage to grocery delivery services and requiring grocery pickup services to be generous with the number of pickup sites.

Just how far is too far to travel for a grocery pickup service? Field Agent asked 500 shoppers this very question. **The mean distance, at which point shoppers would say, “That’s too far to travel,” was 11 miles.** The median was 10 miles.

If would-be online grocery shoppers prove to be overly sensitive to distance, this could give grocery delivery services an advantage over grocery pickup services in the overall Groceries 2.0 war. Moreover, such sensitivity could put pressure on grocery pickup services to adopt an ATM strategy of scattering pickup sites throughout major metropolitan areas. Of course, distance must account for context. An inner city-dweller may consider 10 miles exceptionally longer (and taxing) than, say, a suburbanite.

5) Shoppers may also be particularly time-sensitive when considering online options like grocery pickup and delivery.

In all, **84% of respondents in our 500-person survey said same day delivery would be “extremely” or “very” important in considering whether to purchase groceries online.**

Virtually everyone, 95%, indicated that receiving their orders before the end of the day would be at least moderately important.

Furthermore, more than half (53%) said it would be extremely or very important for e-grocers to operate 24-hours a day. An additional 27% claimed it would be moderately important.

Though it took years for the grocery industry to reach where it is now, shoppers may expect online grocery services to instantly provide the same sense of immediate gratification and the same level of all-day access they’ve come to expect of brick-and-mortar grocery stores.

“Time and convenience would be major. Immediate pick up would be the biggest factor, I believe. For instance I need one or two ingredients but I don't want to go inside for it. I think a drive thru would be great. Zero wait time would make me highly consider it.”

28-year-old Female, Phoenix, AZ



Agent Photo

6. Grocery tech may have potential to contribute to the revolution in how customers shop for and purchase groceries.

In addition to grocery pickup and delivery, we also wanted to understand what role, if any, grocery-shopping tech (i.e., smart technology) could potentially play in the Groceries 2.0 era and beyond.

In our survey we identified 409 shoppers who “often” or “sometimes” purchase general merchandise from Amazon.com. We then presented this subset with an image and description of Amazon’s new gadget: the Dash Button. Dash Buttons allow Amazon customers to reorder a single brand/product configuration with just one simple push of a button. Amazon currently offers several buttons featuring grocery products, including Kraft Mac & Cheese, Gatorade, Larabar, Maxwell House, and Smartwater, among others.

After hearing a description of this device, **64% said they’d be at least moderately interested in using Amazon’s new gadget to buy groceries.**

See what Amazon Dash Button owners think about buying groceries with their new gadget

CLICK HERE

amazon dash

7. The rumored Amazon.com grocery pickup service could eventually become a strong player in the Groceries 2.0 era.

Field Agent also asked this subset of 409 Amazon customers whether they'd be interested in using the rumored Amazon grocery pickup service. In July, *Silicon Valley Business Journal* reported that the world's #1 online retailer was experimenting with its own grocery pickup concept.

But are Amazon customers primed? **78% said they would be at least moderately interested in an Amazon grocery pickup service.** Overall, 43% indicated they'd be either "extremely" or "very" interested. If nothing else, such numbers probably wouldn't discourage Amazon from stepping off on a grocery pickup service—that is, if their intentions are serious.

"The e-commerce giant is developing a new drive-up store concept in Silicon Valley...If confirmed, the project could signal a new distribution strategy for Amazon, the world's biggest online retailer, while adding an additional threat to a grocery industry already in the throes of change."

Silicon Valley Business Journal

8. Grocery pickup has potential to win the hearts—and dollars—of many shoppers.

As the case study to follow will show, we sent almost 40 agents to Walmart Pickup Grocery sites.

At the end of our mobile shop-along with these customers, we asked them whether, if given the choice, they'd prefer to purchase the same groceries from Walmart Pickup or from a brick-and-mortar grocery store.

Overall, **74% of respondents said they would prefer to buy the same order—which had to exceed \$20—from Walmart's grocery pickup service.**

More on this in the case study to follow, but, suffice it to say, such results must be encouraging for Walmart in particular as well as the grocery pickup concept in general.

Case Study: Walmart Pickup

Perhaps the most important development in the Groceries 2.0 era thus far, and maybe the most convincing indicator that the trend toward online grocery shopping should continue, was Walmart's 2014 announcement that it would begin experimenting with a grocery pickup business. The experiment appears to be gaining momentum.

In June 2015, *Supermarket News* reported that Walmart is so far "delighted" with the results from its grocery pickup business. The world's largest grocery retailer is currently testing the concept in the greater San Jose, Phoenix, Denver, and Huntsville, AL markets as well as the company's hometown of Bentonville, AR.

According to Jane Ewing, Senior Vice President of central operations for Walmart U.S., it's all about providing customers what they want. As Ewing explained to *Supermarket News* recently:

Our customers' needs are changing very rapidly. They're more digitally engaged than ever before. They have more choices than ever before. And they are telling us they want more convenience and more simplicity and that's what we're trying to achieve with this test.

Field Agent recently recruited almost 40 agents to shop for and purchase groceries through Walmart's grocery pickup service. Twenty-six of these participants were first-time users of the service. We targeted every city where Walmart currently operates grocery pickup sites.

Ultimately we wanted participants to take us along with them as they completed the three-stage process of shopping with Walmart Pickup: (1) shopping for groceries online, (2) retrieving groceries from a curbside pickup location, and (3) unbagging the groceries at home.



Shopper Evaluations of Walmart Pickup

The results of our mobile shop-along with customers suggest they are generally impressed with Walmart’s grocery pickup service. As seen already, after experiencing the service firsthand for themselves, 74% of participants said they’d rather purchase the same grocery order from Walmart Pickup as opposed to a store. First-time users felt the same way. Quite a compliment.

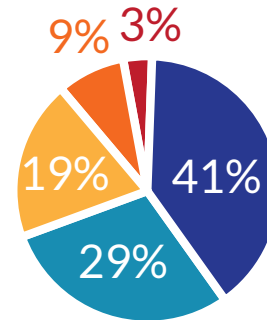
But we also asked participants to tell us the likelihood they would use Walmart Pickup again in the future. 85% indicated they would be at least moderately likely to use the service again. In fact, 69% said they’d be “completely” or “very” likely. Among first-time users, 77% reported they would be completely, very, or moderately likely to use Walmart’s grocery pickup service again.

On this point, the broader survey (n = 500) was even kinder to Walmart. Among the 500 who took our survey, we located 40 agents who said they had previously used Walmart Pickup. When asked the likelihood they’d use the service again in the future, a convincing 93% indicated they would be at least moderately likely (70% completely or very likely). Of these 40 survey respondents, 85% said they were completely or very satisfied with their Walmart Pickup experience, and not a single one claimed they were not at all satisfied.

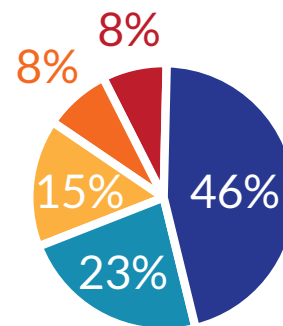
As the graphs suggest, we also asked agents in our mobile shop-along whether they would recommend Walmart’s grocery pickup service to a friend. Again, results were fairly positive.

See the next page for user attitudes toward other aspects of Walmart Pickup.

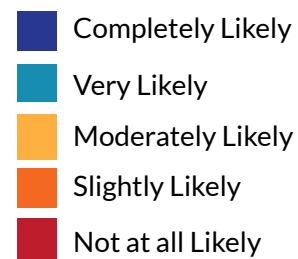
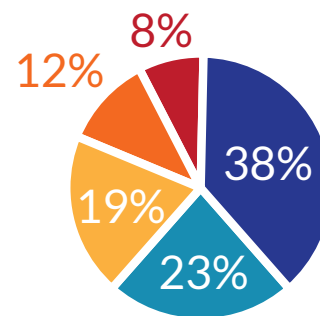
What is the likelihood you will use Walmart Pickup again? *n=79*



What is the likelihood you will recommend Walmart Pickup to a friend? *All users*

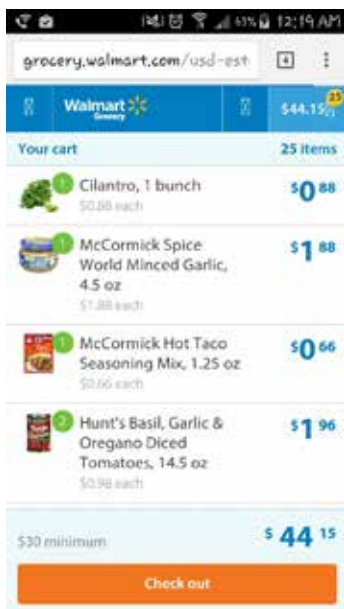


What is the likelihood you will recommend Walmart Pickup to a friend? *First-Timers*



What shoppers think of Walmart Pickup: The Finer Points

- 1** Mobile shop-along participants rated Walmart Pickup a 3.74 for overall online shopping experience, where 5 is “highly satisfying” and 1 “highly unsatisfying.” More specifically, shoppers awarded Walmart Pickup a 4.05 for website navigability and a 3.87 for locating specific items on the website.
- 2** Where 5 is “very easy” and 1 “very difficult,” mobile shop-along participants rated the kiosk system at the pickup site a 4.41 for ease of use. First-time users gave it a 4.17 on the same dimension.
- 3** From the moment they submitted their order to the moment they actually received it, Walmart Pickup shoppers waited an average of 5 minutes to receive their groceries. 62% said this was shorter than they expected, and only 13% said it was longer. There was no marked difference between all users and first-time users.
- 4** 95% of mobile shop-along participants said their order was correct the first time. Meaning only 2 of 39 received something different than what they ordered.
- 5** Of qualifying participants, 96% said they were at least moderately satisfied with the quality of “fresh” items they received. 79% were “completely” or “very” satisfied.



Agent Photos & Confirmation Screenshots

Walmart Pickup: 6 Challenges & Opportunities

1

Although our survey of 500 was distributed exclusively in areas with (more or less) access to Walmart Pickup, **less than half (46%) of respondents said they had actually heard of Walmart Pickup**. Of course, seeing how the service is still being piloted, Walmart may not be eager to become too well known too quickly.

2

Exactly half of first-time users in our mobile shop-along said it took longer than expected to shop for their groceries online. However, only 4% said it took “much longer than expected,” and 31% expressed that it was only “a little longer than expected.”

3

Only 36% of Walmart Pickup mobile shop-along participants found everything they were shopping for online. Yet the average customer purchase came to only \$33.40. In other words, most participants were not buying a large number of items. On the other hand, only 16% said they found less than half of the products they were after.

4

Of those who could not order everything they wanted from Walmart Pickup, 32% (or 8 of 25) said they did not attempt to substitute for the missing items. That is, for the moment, they were lost sales to Walmart. And of those who *did* substitute for items they originally wanted but couldn’t find, more than half (53%) said the items they substituted were *no more* than moderately acceptable.

5

44% of mobile shop-along participants said they would still have to make a store trip following their visit to Walmart Pickup. This means several participants did not see Walmart Pickup as a way to replace or substitute for a trip to the store. It’s doubtful this would surprise Walmart. As reported on *TechCrunch*, the company’s own surveys found that a small majority of shoppers (55%) would use Walmart Pickup not in lieu of a store trip, but as a way to pick up groceries they perhaps forgot while visiting a store.

6

What would make participants less likely to use Walmart Pickup again? While no single aspect of the grocery pickup experience received a response higher than 60%, there were some notable—and familiar—findings, as the graph demonstrates.

Echoing our 500-shopper survey, mobile shop-along participants agreed that (1) the inability to take advantage of coupons and other sales promotions and (2) the inability to see/touch/smell groceries are both reservations that make them less likely to use Walmart Pickup in the future.



The Moral of the Story

The grocery industry is presently undergoing radical change. If grocers underutilized e-commerce strategies in the past, developments such as grocery pickup, grocery delivery, and even grocery tech suggest we're on the verge of a new and exciting era in grocery buying and selling.

The Groceries 2.0 era will be dominated by retailers who truly understand shoppers—their needs, wants, frustrations, and so on. After all, no amount of technological advancement will ever change what grocery shopping fundamentally represents: the means by which *people* around the world feed themselves and loved ones on a day-to-day basis. Ultimately, it will always be about people.

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