UK ONLINE GROCERY MARKET BY QUARTER, MARKET SIZING

5 September 2017 v1.0

ResearchFARM

TESCO
ASDA
ocado
MORRISONS
Sainsbury's
Waitrose

September 2017

UK ONLINE GROCERY MARKET 2017: INTRODUCTION

The UK online grocery sector is highly innovative and disruptive - and it provides a template to the rest of the world. Online is - hard discount and convenience apart - also the only meaningful growth driver in UK grocery at the moment.

While the sector is dominated by Tesco, Asda, Ocado and Sainsbury's, the recent entrance of Amazon threatens another upheaval. Providing the most professional platform the pureplay and its marketplace could become the choice of route to market for many FMCG companies and has the potential to truly change the nature of the game once again.

Online grocery UK 2017 features in depth analysis and data on online grocery sales, orders, and customers for each of the UK's main grocers (Tesco, Asda, Ocado, Sainsbury's, Waitrose and Morrisons). It also provides exclusive analysis on the rest of the sector and a forecast.

KEY QUESTIONS ANSWERED

- Who is the biggest, who the smallest online grocery retailer by sales? How have the rankings changed and what will they look like in future?
- How many orders and customers have the six profiled retailers on a quarterly and annual basis? What are their average basket sizes and frequency?
- Who has the highest number of customers/orders? Whose customers shop most frequently with their online retailer? Who has the greatest churn and most of the promotion chasers as shoppers?
- Who is the fastest grower, who the laggard? Is this all down to funding through vouchering or also a function of backend logistics set up?
- Which retailer has seen its first ever y-o-y decline in online grocery turnover?
- Who has lost customers? An unthinkable event in online grocery only a couple of years ago
- Who leads in click & collect? Why is this a perfect tie up with the specific customer base of this retailer?
- Who leads the pack in terms of mobile ordering?
- How big of a threat is Amazon?
- How successful will 1/2 hour deliveries be? As basket sizes in general and convenience/top up shopping become more of the norm, is ultra fast delivery the right answer?
- Which logistics and fulfilment model is most economical? Will it be centralised (Semi) automated fulfilment centres, dedicated dark stores or in store picking?
- Who is profitable now, how will this change in future?
- What is the future outlook and the forecast for each of the retailers?
- Who is leading the competition in fulfilment options, click & collect, lockers, drive throughs?
- Who is furthest ahead in exploiting data for advertising purposes, personalisation, a single view of the customer and selling this on to suppliers?
- What about the non food opportunity online? Which retailer has cracked this – without having to make a major acquisition?

- **Tesco** – After Direct and F&F have been integrated decisions will need to be made how to integrate online grocery with the non food offer better in future, in back end logistics and also on the front end. And what will Tesco do about its marketplace? Is the retailer ready for 1-2 hour delivery? Should investments focus much more on "goods to person" automation? And what exactly is the right minimum amount for delivery charges for the Tesco customer?
- **ASDA**– why is the industry leading click & collect estate the perfect fit for the company's customer profile? Will Walmart's Jet acquisition and new modus operandi online radically alter Asda's proposition? What can the retailer do to drive up basket spend? What else can the retailer do to grow george.com?
- **Ocado** – will the centralised logistics model, the innovations around the fully automated robot warehouse (the hive), driverless cars and the Alexa integration make its structural advantages count? Or is it all about renting out IT capabilities and logistics set up and finding new partners abroad? Sainsbury's has been overtaken already, now Asda is clearly in the pureplay's sights
- **Sainsbury's** – the focus on the Argos acquisition should not distract the company from keeping its eye on the ball in online grocery. The company has done much better in b&m than in online recently. Has the retailer relied on picking from stores for far too long, despite the boom in click & collect? Can learnings from Argos be adopted in the grocery side of the business, or is non food know how irrelevant for online grocery at Sainsbury's?
- **Waitrose** – what can the partnership do after being the only retailer who has seen a first ever sales decline in online grocery? Arguably there has been too much distraction from John Lewis click & collect offers in the Waitrose store estate. Should the partnership tackle the online logistics across both businesses and move from separate set ups to creating synergies? What should the company do about the Ocado break clause?
- **Morrisons** – as the latest entrant into the sector the retailer's cooperation with pureplays such as Ocado and Amazon is radically different from the approach of the competition. Will it be more successful? Why is being vertically integrated and its agricultural footprint such an asset for Morrisons? Why has the company made so little of this so far? And how big is the Nutmeg opportunity?

FEATURES

- Quarterly data series from Q1 2010 to Q1/2 2017
- Top 6: Sales, number of transactions, active customers, average basket sizes, shopping frequency, annual sizes, growth rates
- Analysis and forecast for the sector and the rest of the players
- In depth analysis on the respective models and paths to profitability, including non food and fulfilment developments
- In depth understanding of how basket sizes have developed online against the backdrop of deflation and now Brexit inflation in the wider sector
- Data on customer churn and movements

BENEFITS

- Definite, cross checked and validated sizes, as other research providers have published erroneous data on UK online grocery
- For FMCG: CPG companies are given the necessary tools to assess the real size of the key retailer operations, to understand how big the customer base is for any given retailer, and how much they spend. CPGs can then decide who it makes most sense to partner up or even compete with, where to target promotions, to launch new product developments and how to influence pricing levels
- For retailers: the report provides competitive analysis into strengths, weaknesses, opportunities and threats of rivals by providing hard, difficult to obtain data and in depth insight - it provides a perfect benchmarking tool
- The report helps industry players to understand the importance of the data opportunity in online grocery and advertising on the retailers' websites, and shows the respective reach of the players
- Highlights the strengths and weaknesses of different approaches to reach profitability in online grocery and an expert future outlook on where the sector is headed

Methodology

Shopper research data from other market research providers, national statistics for annualisation coefficients

One on one conversations with key retailers and FMCG players including some data sharing agreements

Annual reports, quarterly updates, published accounts, trade press

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SAMPLE PAGES

QUARTERLY FIGURES UK SEPTEMBER 2017

TESCO

Online grocery

UK orders

Annual historical and forecast of sizes

40 000 000
20 000 000
0
Forecast
18 280 000
19 460 000
21 540 000
24 105 000
28 800 000
31 900 000
32 110 000
32 500 000
2010
2011
2012
2013
2014
2015
2016
2017

Quick summary

- Tesco also leads the competition in terms of quarterly and annual orders. This scale represents another opportunity for Tesco to exploit existing customer relationships, from promotions, advertising to new product launches to loyalty and the like – and especially to steer this better across its channels.
- While prior to its downturn in fortunes Tesco tried to copy Amazon with blinkbox (Lovefilm/prime), the delivery pass scheme (prime) and the hudl (kindle), all these initiatives have fallen by the wayside in an effort to stabilise the business. Up to that point Tesco's strategy had been to become an ecosystem and create a walled garden for its customers.
- Then again, Tesco is a real estate based grocer not a digital platform like Amazon or eBay (despite running a fledgling marketplace operation). This means Tesco needs to protect its legacy business – i.e. its hyper and supermarkets and the value tied up in this part of the business.
- That said, Tesco has a great opportunity to make its real estate set up, logistics operation and supplier relationships work much harder and in a more efficient manner. With ultra fast delivery, as pushed by PrimeNow, becoming increasingly important, Tesco could push more fulfilment from the store estate again, and let the online delivery fleet pick up deliveries on the way back to stores, where this [illegible] sense.
- While in fut[illegible] utilising robots [illegible] at the moment [illegible] Erith) and dar[illegible] online grocery [illegible] realised, a mor[illegible] store estate an[illegible] possibility.

QUARTERLY FIGURES UK SEPTEMBER 2017

MORRISONS

Online grocery

UK average basket size and frequency

X times

Quarter	Value £	Frequency Per Quarter
FY, 2014	76.12	2.2
FY, 2015	77.13	3.2
FY, 2016	74.24	4.0
FY, 2017	[illegible]	[illegible]

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