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# Will Consumers Stick With Online Grocery?

## The Post-Covid World of US Online Grocery Growth

### Summary

In this report, we analyze the long-term impacts of Covid-19 on the penetration of online grocery, offering critical context to retailers and brand owners as they contemplate how to invest in the future of their business.

We built a simple model to project quarterly online grocery sales in the US through 2021. While our model suggests that a wide range of outcomes are possible, we feel the direct, long-term impact of the pandemic on US online grocery sales will be fairly modest, with the most likely scenario leading to a 12- to 18-month acceleration in online grocery penetration compared to a scenario in which the pandemic never occurred.

Even if the growth from Covid-19 is short-lived, we believe the recent increase in focus and investment in e-commerce is justified. While there are exceptions, many food & beverage companies have stalled e-commerce investments for so long that there is little risk of an over-adjustment.

#### **Section I - Grocers Struggle to Meet Surging Demand**

- The pandemic has forced millions of consumers to order groceries online for the first time. Getting that first order is the biggest hurdle for growing the online grocery business.
- For retailers, this represents a massive customer-acquisition opportunity, and the biggest opportunity they will ever have to take a lead in the omni-channel world.

#### **Section II - What Will Drive Long-Term Grocery Adoption?**

- We review how the dynamics of the crisis impact online grocery penetration in the long term.
- *Increase penetration:* More first-time users | high intensity of use | length of the crisis.
- *Decrease penetration:* Bad user experience | limited capacity | demographics of new users.

#### **Section III - Modeling the Future of Online Grocery Growth**

- According to our model, e-commerce could represent anywhere from 4.8% to 9.1% of total sales by Q4 2021, but we feel the most likely scenario will result in around 6.4% of sales moving online.
- Without Covid-19, e-commerce would have reached 4.7% of sales by Q4 2021.

#### **Section IV - Should Our Model Change Your E-Commerce Strategy?**

- While the direct impacts of the crisis are somewhat muted, the historical lack of investment means there is little risk that companies will overinvest in their digital operations.
- Ultimately, the investments made by retailers in response to the crisis will be the most important change resulting from Covid-19 and should accelerate the growth of e-commerce once the pandemic is over.

## Grocers Have Struggled to Meet Surging Demand

While overall grocery sales have started to drop from the heights of March's stock-up boom, online sales have been much more resilient (see Table 1). As long as social distancing measures and fear of the pandemic remain a part of daily life, there will be elevated demand for online grocery services. This massive influx of demand, however, has brought fulfillment infrastructures to breaking point – particularly for delivery services (see Figure 1).

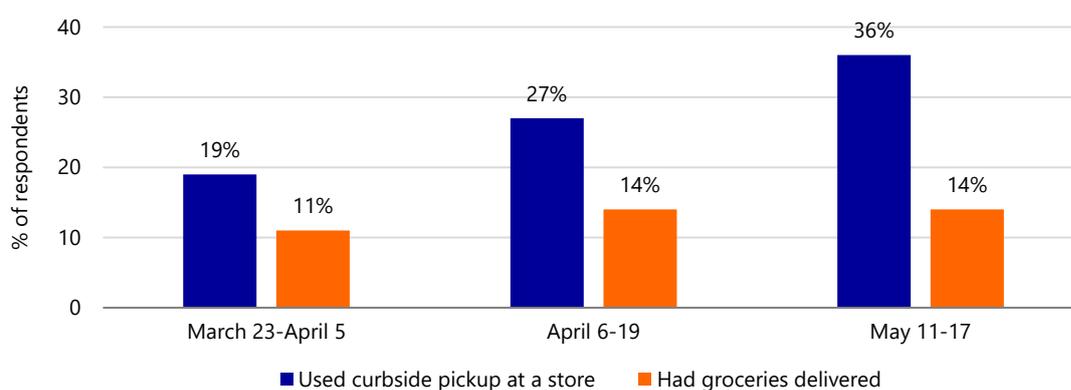
**Table 1: Measuring e-commerce growth is not easy**

Retailer / Geography	April YOY growth
Instacart	450%
Albertsons	374%
Target*	282%
Costco*	85%
Total US - BMC**	350%
Total US - Earnest Research	150% to 200%
Total US - IRI***	73%

Source: Company statements, Progressive Grocer, IRI, BMC, Earnest Research, Rabobank 2020  
\*not only grocery; \*\* compared to August 2019; \*\*\* four weeks ending April 19, 2020

Over the past three months, many US grocery chains have had to cut marketing support for their e-commerce services and have taken other measures to reduce demand and avoid being overwhelmed. At least one retailer chose to [temporarily shut down](#) their e-commerce offerings all together! Things are improving, but this lack of capacity left huge numbers of would-be first-time users – and existing customers too – unable to order groceries online.

**Figure 1: Share of US households that increased use of delivery and curbside pickup services compared to the previous month**



Note: Delivery or click-and-collect online grocery orders only  
Source: Gallup, Rabobank 2020

## Why a Rapid Expansion of Capacity Was and Is the Right Choice

Supermarkets should prioritize expanding their capacity to fulfil online orders for two important reasons. First, online shopping can slow the spread of Covid-19 by limiting close contact between people – the [CDC](#) advises the public to “order [groceries] online or use curbside pickup”. The other reason is that convincing consumers to create a login and complete their first order is the biggest hurdle for growing the online grocery business, and this crisis represents a massive customer-acquisition opportunity.

*“We had some periods in the quarter when we saw as much as 300% growth rates with the [online grocery] pickup business. We slowed our pickup business while we focused on replenishing and restocking stores, then we quickly added back pickup slots. We’re at the highest slot level we’ve ever been, and we are still looking for more ways to innovate to either add more stores or more slots per store.”*

- John Furner, CEO, Walmart US as quoted in The Wall Street Journal

While no retailer was prepared for this crisis, grocers that rise to meet consumer demand will be able to grow their online business at the expense of their more slow-moving competitors. It is not easy to expand capacity amid a pandemic, but some players have found success. Instacart, for example, has hired half a million new workers to pick and deliver orders, reportedly growing GMV by as much as 450% in April. Other retailers have leveraged existing resources to expand their physical infrastructure, using dark stores or adding midnight delivery slots to expand capacity. If retailers are ‘playing to win’ in an omni-channel world, this crisis is the biggest opportunity they will ever have to take a lead. The only other option is to risk falling behind.

## What Will Drive Long-Term Grocery Adoption?

We know that there are millions of consumers using online grocery services for the first time, but will they stick with the service long term? What variables should grocers and brands be watching to track the long-term impacts of this crisis on online grocery penetration? In this section, we look at the variables impacting long-term adoption and explore how the current pandemic has affected each (see Table 2).

**Table 2: How the dynamics of the Covid-19 crisis impact online grocery penetration in the long term**

Increases likelihood of long-term effect	Decreases likelihood of long-term effect
<ul style="list-style-type: none"> <li>• <b>Massive jump in first-time users</b> builds awareness of online grocery offerings</li> <li>• <b>High intensity of use</b> (i.e. frequency and AOV) during the crisis allows first-time users to overcome the steep learning curve, unlock benefits (i.e. shop past purchases)</li> <li>• <b>Length of the crisis</b> could make it easier for consumers to change pre-Covid-19 routines</li> <li>• <b>Existing users</b> are unlikely to abandon the service due to short-term disruption</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Lack of capacity</b> excluded huge numbers of would-be consumers from accessing online grocery services</li> <li>• <b>Situational buying</b>, driven by fear of the virus, is short-lived. Consumers will have to rethink how they use online grocery once the pandemic abates.</li> <li>• <b>Drop in quality/reliability of service</b> leaves a bad first impression with first-time users</li> <li>• <b>Profile of first-time user</b> tends to be older individuals with low propensity for online grocery shopping</li> </ul>

Source: Rabobank 2020

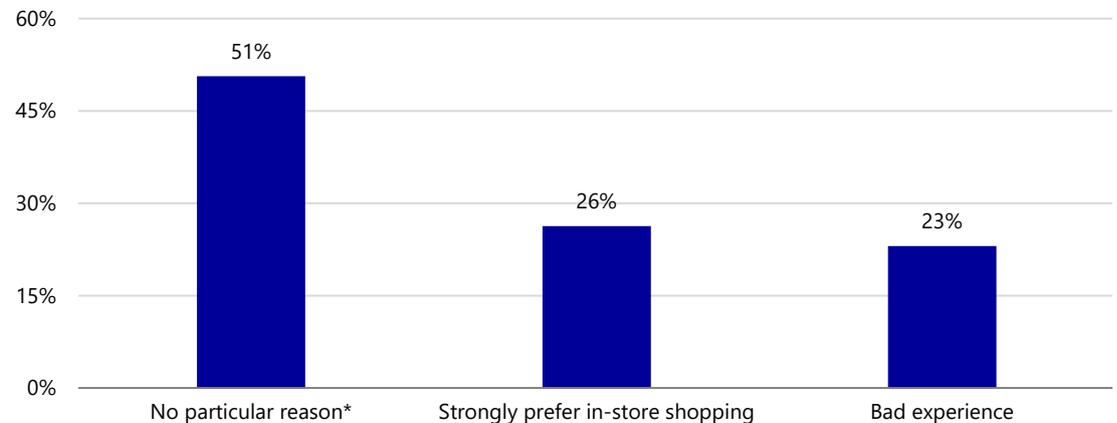
## The Impact of Life-Changing Events

While there is no precedent for this kind of disruption on a national scale, many individuals have been forced to adopt online grocery services by a life-changing event. In fact, a life-changing event may be the most important reason people *start or stop* ordering groceries online (see Figure 2). Consider this quote from a fascinating 2009 article in the [European Journal of Marketing](#):

*[Our findings] establish the importance of situational factors, such as having a baby or developing health problems, as triggers for starting to buy groceries online. Many shoppers are found to discontinue online grocery shopping once the initial trigger has disappeared...*

This suggests that, all else being equal, consumers who increased their online grocery purchasing during the pandemic will stop or cut back when it is over. This is hardly a revelation. We all intuitively understand that the recent surge in online grocery growth is not sustainable – an individual from Forrester Research went so far as to call it “artificial” growth, though “somewhat ephemeral” may be a more accurate characterization.

**Figure 2: Why consumers stop buying groceries online**



Source: European Journal of Marketing 2009, Rabobank 2020

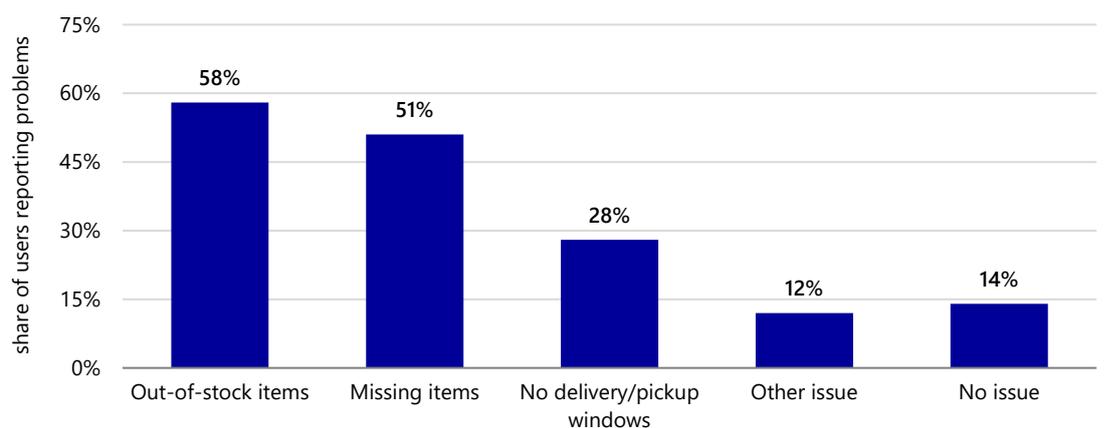
\* “No particular reason” basically means that the consumer’s decision to stop using online grocery services was not a result of consumers being “dissatisfied with certain aspects of the service or with the experience as a whole.” This could be consumers that are just trying online shopping out of curiosity or are changing their behavior as a result of some external factor, such as normalizing routines after a life-changing event.

## Making a Bad First Impression

Consumers who have been lucky enough or patient enough to get a delivery or pickup window are plagued by out-of-stock items, replacements, and delays (see Figure 3). It is bad enough that [Saturday Night Live](#) even had a skit poking fun at the problem.

Many of the issues affecting service quality are a result of overstretched infrastructure. Investments to improve capacity should also improve user experience in the short term, which in turn, should increase how many consumers keep using the service in the long term.

**Figure 3: Share of online grocery users reporting a particular problem during a recent purchase**



Source: IRI survey conducted April 10-12, Rabobank 2020

Some problems, however, like unexpected out-of-stocks and inadequate replacements, have long drawn the ire of consumers and will require investments beyond hiring more delivery drivers. Here is one example:

## No Quick Fix for a Long-Term Problem

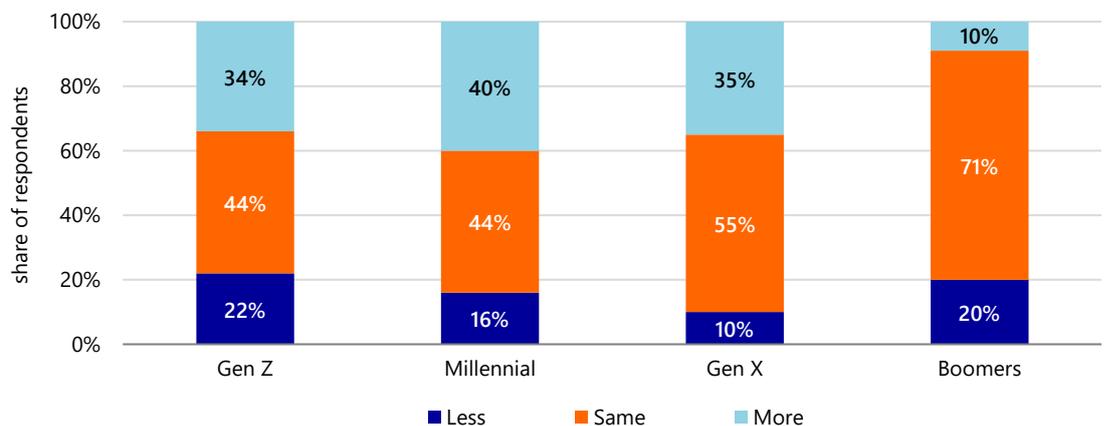
Instacart told Bloomberg that their shoppers' 'found rate' – how often an item that the app indicates is 'in stock' is where it is supposed to be – was hovering around 75% in early May. It would normally be around 90%. Sometimes these 'unfound' items are out-of-stock, but other times, items that the app indicates are 'in stock' are actually in a backroom waiting to be put on the shelves. This problem exists for all retailers, even those that do not outsource fulfilment.

While the crisis has exacerbated the problem, a lack of real-time inventory tracking is the primary cause of the most common and frustrating experience for online grocery shoppers: replacements. Could you imagine buying clothes on Amazon, but after ordering, you get a message that 10% to 15% of the items were replaced with something you never ordered? A red shirt switched for a blue shirt or even a pair of red pants switched for a red shirt? To solve these kinds of problems, grocers not only have to invest in having more accurate, real-time inventory feeds, but must ensure that merchandising is coordinated, recorded, and executed accurately.

## Demographics of First-Time Users: Older, Less Interested

Older consumers represent a disproportionate share of the people using online grocery services for the first time. In May, Walmart's US CEO told the WSJ that "One of the interesting things we've seen is our fastest-growing group of online pickup shoppers is customers over 50." The Food Marketing Institute found that Baby Boomers (individuals born between 1946 and 1964, in case you needed a reminder) actually expect to spend *less of their grocery dollars online* post-crisis compared to their online spend *before* the crisis began (see Figure 4). In other words, older consumers really don't want to shop for groceries online. It literally took a pandemic to get them to start ordering groceries online. It would make sense, therefore, that they are harder to retain once the crisis is over.

Figure 4: How each generation expects their online grocery shopping spend to change when the crisis is over, compared to their online spend pre-Covid-19 (delivery only)



Source: FMI survey (N=1,020) conducted 4/29-5/10, Rabobank 2020

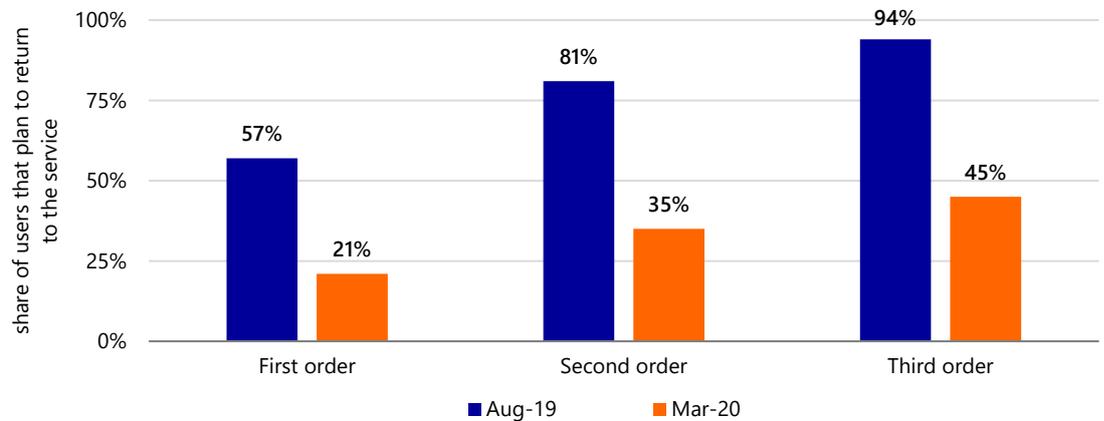
## Exposure Therapy

One major grocery player told Rabobank that the retention rate for their online offering – the share of first-time users that return to use their platform in the next 30 days – has doubled since the outbreak began. This makes sense. The same unique life-altering event (i.e. the pandemic) that forced so many consumers to start buying groceries online is also forcing them to continue using the service, despite the less-than-ideal user experience.

For reasons we've already discussed, first-time users during Covid-19 are much less likely than previous cohorts to keep buying groceries online once the crisis ends. The longer the crisis lasts,

however, and the more frequently that consumers order online during the crisis, the more likely they are to stick with online grocery in the long term (see Figure 5).

**Figure 5: Share of consumers planning to continue using online grocery after a given number of orders**



Source: Brick Meets Click survey conducted March 23-25, Rabobank 2020

Consumers that place multiple orders are able to overcome the learning curve, familiarize themselves with the service, and have more opportunities to establish routines and habits. Just as importantly, online shopping is a much better service after the third order because it is at this point that the consumer is able to shop from a robust selection of past purchases.

### Existing User Behavior Will Revert to the Mean

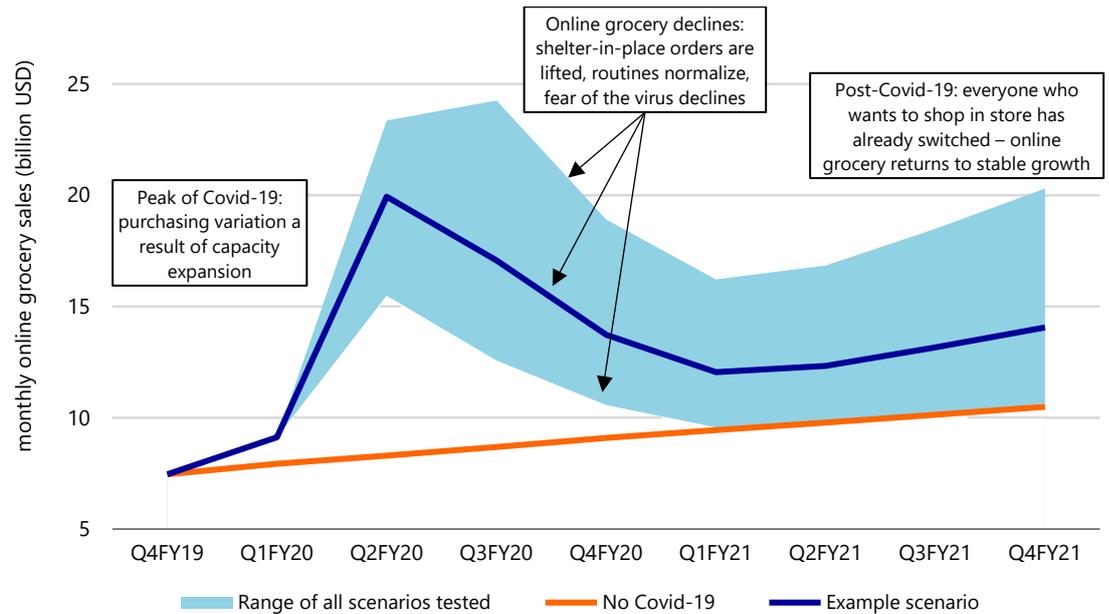
The increase in online shopping isn't only driven by new users. The pandemic forced people who bought groceries online before the pandemic to move even more of their food spending online. As long as going into public is perceived to be dangerous, consumers are incentivized to move 100% of their spending online. This is not how online grocery shopping typically operates.

In 2019, in-store purchases accounted for more than 80% of the total grocery spend of consumers who bought groceries online, according to Rabobank estimates. When the fear of in-store visits disappears and consumers start leaving the house again, the convenience and value proposition of online shopping will be greatly diminished. How frequently consumers order groceries online should decline proportionally, even if they continue using the service. To quote the authors of that rather evergreen 2009 study one more time, "The adoption decision is changeable and influenced by the changes in [consumer] needs... [and] even the convenience associated with online grocery shopping is dependent upon the situation."

## Modeling the Future of Online Grocery Growth

Up to this point, we have offered directional insights into the impacts of Covid-19 on long-term online grocery penetration. It is time to start offering some numbers. We developed a very simple model – a sort of scenario analysis – to estimate the long-term impact of Covid-19 on online grocery penetration. The model we created (see Figure 6) offers a quarterly estimate of US online grocery sales from omni-channel retailers through Q4 2021.

Figure 6: Online grocery growth in a post-Covid-19 world



Source: Rabobank 2020

## The Results: Modest Gains in Penetration Resulting From Covid-19

Knowing how people interpret these kinds of results, we would rather avoid drawing attention to the extremities in our range of estimates. For this reason, we created an 'example scenario' that offers a kind of median outcome – our best guess for the location of the meatiest portion of the probability curve.

The results of this scenario? Online grocery penetration is accelerated by 12 months compared to a scenario in which the pandemic never occurred (i.e. the baseline). In percentage terms, online sales increase from 3.1% of total grocery sales in Q4 2019 to 6.4% in Q4 2021. In the baseline scenario, we would expect online grocery to reach 4.7% in Q4 2021.

The huge range of possible outcomes is an indicator of how little data is available and reflects the challenge brands and retailers face as they plan their strategy for the years ahead. The model suggests that the pandemic could accelerate the penetration of online grocery sales from anywhere from 3.5 years in the most bullish scenario tested, whereas it virtually has no impact on penetration in the most bearish scenario tested. (This makes sense if you assume that service quality is bad enough for would-be users to abandon the service.) These are, by definition, extreme scenarios that are possible, though unlikely.

Even if overall online sales revert to the baseline scenario, retailers that took assertive action during the height of the pandemic will not only have had a much larger peak growth than the industry at large, but will be able to deliver the kind of user experience that will help them retain these customers in the long term. Similarly, an individual grocer's ability to retain consumers will vary based on geography and the breadth and quality of their e-commerce offerings. The investments made by retailers and suppliers to build out their e-commerce capacity during the crisis will pay off in the long term, as well. The investments are reflected in the acceleration of online grocery sales growth – relative to pre-pandemic levels – that starts in Q2 2021.

## How to Interpret the Shape of the Model

Perhaps the most important assumption in our model is that online grocery sales are highly correlated to the severity of the Covid-19 pandemic and fear of the pandemic. As a consequence, the model has four phases that we feel will approximately follow the trajectory of mandatory

social distancing measures and the level of concern that consumers feel about the pandemic. We offer a quick break down of the four phases below:

*The first phase* is the pre-pandemic period (Q4 2019). During this phase, all scenarios are in agreement: online grocery sales are growing 20% annually, representing 3.1% of overall grocery sales in Q4 2019. For the baseline scenario, we assume that the annual growth rate continues at 20% in 2020, dropping to 15% in 2021.

*The second phase* is captured by the escalation or rapid growth of online grocery purchasing as consumers shift away from in-store shopping in response to the growing threat of the virus. This phase ends when online sales peak, which we assume to take place between April and June 2020.

*The third phase* is a de-escalation phase. In this period, shelter-in-place and government-mandated social distancing guidelines are lifted, fear of the pandemic begins to subside, and consumers slowly start returning to their pre-pandemic routines. We assume that the decline will continue until all mandatory, government social-distancing measures, and any fear or anxiety of the pandemic that would directly impact grocery shopping, end. In the model, phase three ends in Q2 2021. (This timing will almost certainly prove incorrect.)

*The fourth phase* is defined by normalization. Everyone that wants to shop in-store has stopped shopping online. Online grocery growth returns to steady growth, but the investments made by retailers and suppliers result in an acceleration of the growth rate of online grocery sales relative to their pre-pandemic levels.

## Should Our Model Change Your E-Commerce Strategy?

If our model is correct, the direct impact of Covid-19 on the long-term growth of US online grocery penetration won't be that dramatic. Yet, in response to the crisis, retailers as well as food and beverage manufacturers are moving to invest heavily into their e-commerce capabilities. Our results raise the question of whether that investment is misguided or not.

In most cases, the answer is a resounding "no." While there are exceptions (Trader Joe's will probably do just fine without launching an e-commerce offering), most food and beverage companies have been too slow to invest in their digital capabilities. Here are a few closing thoughts for food and beverage companies.

### Retailers Have a Chance to Drive Long-Term Change

Long before this crisis, we believed there were rewards for retailers that fully embraced the e-commerce channel. Consumers that start shopping online with their primary grocery store actually spend more of their grocery dollars with that retailer – they don't just move their in-store spend online. But e-commerce investments can do much more than boost a retailer's existing business.

Developing an e-commerce strategy goes hand-in-hand with building out your organization's access to data and analytical capabilities. While this may not directly translate to revenues, it will help drive better, data-driven decision-making within your organization. Lastly, the digital environment can enable retailers to disrupt other segments, like liquor (e.g. FreshDirect offering wine and spirits in New York City) and convenience (e.g. goPuff leveraging hundreds of micro-fulfillment centers to deliver a broad assortment of food, beverages, and other essentials, like OTC pharmacy in under 30 minutes), that would not otherwise be feasible.

As highlighted above, e-commerce can offer opportunities for incremental sales growth. Unfortunately, for retailers with less robust e-commerce offerings, investing in their digital capabilities is a matter of revenue protection. Many grocers have understandably been ambivalent about e-commerce sales. Building, supporting, and fulfilling online orders can take a large bite out

of margins. Yet many retailers are finally realizing that a failure to invest in e-commerce will result in lost sales, as consumers move to retailers that meet their needs. A recent Progressive Grocer article put it quite eloquently: "It is tragic that it took a tragedy to wake many food retailers from their slumber."

This crisis has shown retailers the current limitations in their technical and logistical capabilities. US grocers saw they were hardly prepared to support the e-commerce channel if it took a 6% to 7% share of grocery sales, let alone a 10% share. It has also demonstrated how much progress can be made with additional resources, focus, and creativity. Whether it is a smaller supermarket finally pulling the trigger on an partnership with Instacart, Walmart's launch of two-hour express delivery, or Kroger's plans to build three additional automated, customer-fulfillment centers with partner Ocado Group, Covid-19 has helped retailers change their mindset and their business in a way that will make them much more prepared to meet the ongoing and future needs of their consumers.

Ultimately, the greatest impact of the crisis will be the massive shift in retailer preparedness. Once the pandemic disappears, retailer investments in more robust e-commerce offerings in more markets means that consumers are more likely to find a version of online grocery purchasing that will fit their lifestyle. As reflected in the model, we are confident that these investments will accelerate the growth rate of online grocery sales post-Covid-19 relative to their pre-pandemic levels.

## Food and Beverage Companies: Why Did It Take This Long?

Before this crisis, decision-makers at food and beverage companies were able to dismiss the e-commerce channel as too small to warrant major investment or looked at e-commerce growth as 'natural' and, therefore, not requiring additional investment. At Rabobank, we have heard the frustration coming from underfunded e-commerce teams. *A common story before Covid-19: e-commerce is driving 40% of our growth, but because it represents only 5% of overall sales, senior management won't give additional resources.*

This crisis offered food and beverage companies a glimpse of a future in which e-commerce represents an expanded share of consumer food and beverage spending, laying bare just how many companies were unprepared for this massive channel shift. As Warren Buffet said in a 2001 letter to shareholders, "After all, you only find out who is swimming naked when the tide goes out." Even if the crisis had never occurred, the future growth of grocery e-commerce seemed far too inevitable to get caught, well, with its pants down. As with retailers, even if the direct, long-term impacts of Covid-19 are not large, food and beverage companies have stalled their e-commerce investments for so long, there is little risk of an over-adjustment.

## How We Built Our Model

In the interests of transparency, and to help readers better understand the model, in this section, we offer a window into the variables and assumptions that comprise the model shown in Figure 6.

### What Exactly Are We Measuring?

The phrase 'online grocery' is ambiguous, so let's clarify what that means in the context of the model. Basically, our estimates attempt to capture online sales from supermarkets and the equivalent merchandise for supercenters, like Walmart and Target, and warehouse clubs, like Costco (excludes categories like clothing, automotive, appliances, etc.). This means our estimates, with only a few exceptions, capture online sales exclusively from omni-channel grocery retailers that are fulfilling orders locally, i.e. curbside pickup and delivery. We do not consider sales from the convenience channel, independent meal kit services like HelloFresh. A couple of notable pure-play grocery e-commerce platforms that we do consider include retailers like Amazon Prime Now and FreshDirect.

Based on historical data from Progressive Grocer and Nielsen TDLinx, the total sales (online and in-store) from these outlets in 2019 was approximately USD 850bn. Pulling from a variety of sources, including data from Nielsen, FMI, IGD, and others, we estimate that e-commerce accounted for 3.1% of sales from these outlets in 2019, which is just over USD 25bn in sales. This estimate serves as the starting point for our estimates.

### What Variables Did We Consider?

Here are the variables that were considered in the model and a brief explanation for why certain values were tested (for a summary, see Table 3):

**Table 3: The variables used in the model and the values tested**

Variable	Example scenario	Range tested
Peak YOY sales growth (monthly basis)	250%	175% to 350%
Month of peak YOY sales growth	May	April to June
New user retention rate, post crisis	30%	20% to 40%
Shift in average spend per active user during month of peak YOY growth	75%	50% to 125%
Shift in average monthly spend per active user that persists post crisis	30%	20% to 40%
Post-Covid-19 annual growth (YOY)	30%	15% to 45%

Source: Rabobank 2020

*Peak YOY sales growth* is the percentage growth in YOY sales for the calendar month in which online grocery sales reach their peak during the pandemic. This variable is very important. As we stated earlier, convincing consumers to create a login and complete their first order is the biggest hurdle for growing the online grocery business. If the peak growth is larger, it implies that the crisis has forced more consumers to overcome that hurdle.

Unfortunately, there is no definitive source for the growth in online grocery sales. Albertsons, for example, saw online sales grow 374% YOY in April, similar to Instacart's reported 450% YOY growth in the same month. A survey from Brick Meets Click suggests that overall grocery e-commerce sales grew by more than 320% YOY in April compared to August 2019, but data from Earnest

Research suggests that sales never reached 200% YOY growth for any week in April. The lowest estimates come from IRI, which show only 73% YOY growth in the four weeks ending April 19.

*Month of peak YOY sales growth* is the month in which the peak of YOY sales growth occurs. For the same reason that it is difficult to measure the size of the peak growth resulting from demand driven by Covid-19, it is difficult to pin down the timing of when that peak occurs. While we acknowledge that a 'second' outbreak could theoretically cause demand for online groceries to surge again in the future, we decided not to factor in that possibility into the model. We are seeing [very modest declines](#) in the share of individuals telling pollsters that they are 'very' or 'extremely' concerned about the virus, following a peak in mid-April (something we assume to be the primary driver of online grocery adoption during the crisis). Therefore, we assume that the peak, if it hasn't already occurred, will take place in Q2 2020.

*New user retention rate post crisis* is the percentage of spending from individuals that used online grocery for the first time during the crisis that persists once the crisis is over. Before the crisis, first-time users represented as much as 10% of the individuals making a purchase on an online grocery platform during any given month. One online grocery player told Rabobank that fewer than one-third of those first-time users make a second purchase in the next 30 days. This is the principal reason we did not test any values over 40% for this variable. The range of values we ultimately tested for this variable is mostly from surveys – both publicly available and proprietary research shared confidentially with Rabobank – and interviews.

Lastly, in determining which values to test in the model for new user retention rate, we did not specifically consider the impacts of a recession, which could force some consumers to reduce their online food and beverage purchasing. One reason for this decision is that there is not much research available on how cross-price elasticities for online versus in-store grocery shopping are affected by income. Another reason is that consumer spending will be affected by government policy (i.e. whether Congress extends expanded unemployment benefits beyond the summer of 2020). We feel that introducing additional variables into the model, which is already built on so many assumptions, could introduce unwanted bias. That being said, we hope that the values we tested in the model are sufficiently broad so as to capture the majority outcomes, including various scenarios for a recession and government policies.

*Shift in average spend per active user during month of peak YOY growth* is the average percentage increase in monthly online grocery spend among active users relative to the average monthly spend of active users prior to the crisis. Once again, the range of values tested for this variable comes mostly from surveys – both publicly available and proprietary research shared confidentially with Rabobank – and interviews. For example, Brick Meets Click conducted a survey last August showing that, on average, active online grocery shoppers (local delivery and curbside pickup only) bought groceries online 1.0 times per month (order frequency), with an average order value of USD 72. In May 2020, order frequency increased to 1.7 times per month, with an average order value of USD 90. That translates to an approximate 113% increase in online spending per user. While this would seem impossible, it is important to remember that, on average, the people that regularly shop for groceries online typically spend more than 80% of their grocery dollars in-store, leaving plenty of room for channel shift.

*Shift in average monthly spend per active user that persists post crisis* is the percentage of the absolute value of the increase in average monthly spend per active user during the month of peak YOY growth that persists post crisis. If the average monthly online grocery spend per user increased by USD 100 during the peak of online grocery spending during the crisis, a 25% value for this variable would imply that average monthly online grocery spend would increase by USD 25 per active user once the crisis comes to an end. This is a reflection of something we mentioned earlier in the report: "When the fear of in-store visits disappears and consumers start leaving the house again, the convenience and value proposition of online shopping will be greatly

diminished. How frequently consumers order groceries online should decline proportionally, even if they continue using the service.”

*Post-Covid-19 growth rate (YOY)* is the annual dollar sales growth of online grocery sales in the US. In our model, this is the rate at which online grocery grows during phase four of the model – Q2 2021 through Q4 2021. The expansion of fulfillment capacity and the expansion of additional fulfillment offerings (delivery, express delivery, curbside pickup) to new geographies, as seen during the crisis, should improve the relative value of online grocery shopping for consumers compared to what was available before the pandemic. For example, a retailer starts offering delivery in a second-tier city, attracting consumers that previously eschewed curbside pickup. The other driver of this accelerated growth is a result of remarketing. The costs of acquiring a customer that previously interacted with your website/mobile app are lower than attracting new customers. If we assume that retailers’ customer-acquisition spend remains constant post-pandemic, relative to pre-pandemic levels, and the costs of acquiring new customers has fallen, then we should see an increased growth rate.

# Imprint

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