2        RETAILers: The Dutch grocery sector in 2030
BACKGROUND

Roland Berger and EFMI Business School have recently conducted a joint study to gain insight into the future of the Dutch grocery sector and to understand how the industry could transform itself over the next 10 to 15 years within the context of a rapidly-changing world. In order to capture accurate insights from within the sector, we organized roundtable discussions with CEOs and senior management of a wide variety of players active in the food and retail industry – both incumbent companies and innovative newcomers. In addition to the insights gained from these roundtable discussions, EFMI and Roland Berger conducted an in-depth food industry survey in which 150 Dutch executives from retailers, fresh food companies, brand- and private-label manufacturers gave their views on the future of the grocery sector.

In a series of tales we aim to give an impression on what the industry could look like in 2030. Selected focus areas include the future of the brick-and-mortar store, the impact of digitalization and the social impact of these developments. In this third tale we discuss the impact of online grocery shopping on retailers (Figure 1).

In this third tale we discuss what we could expect from the future of online grocery shopping

Figure 1: RETAILes: The Dutch grocery sector in 2030
KEY TAKEAWAYS OF TALE 3: ONLINE GROCERY SHOPPING

- Online is an important growth driver for groceries, but value share is still limited.
- Dutch online grocery sales lag behind the UK, France and some Asian countries.
- Our industry survey suggests that Dutch online groceries will develop into a high-value channel in the next decade.
- Grocery players need to develop their online capabilities to leverage the long-term potential of online.
Online grocery shopping is an important growth driver for groceries, but value share is still limited

Online grocery shopping is one the main growth segments in the grocery industry. Online grocery sales showed an impressive growth rate of more than 50% in the Netherlands between 2015 and 2018. Incumbent food retailers are developing their e-commerce proposition and are increasingly offering home delivery and click-and-collect services. Pure online players, such as PicNic in the Netherlands, have entered the market, expanding their business and challenging the traditional players.

The total value share of online grocery shopping in the Netherlands is however still limited. In 2017 2.5% of Dutch grocery sales (EUR ~1 bn) were sold through online channels\(^1\). These figures are in contrast with total e-commerce sales, which have taken off at a significantly higher pace (the online value share of consumer goods totaled 12% in the Netherlands in 2017\(^2\)).

Dutch online grocery sales lag behind the UK, France and some Asian countries

Large differences in online grocery sales exist between countries, both within Europe and inter-continentially. Differences can largely be attributed to country-specific market characteristics, variation in online shopping adoption rates and retailers’ belief in online grocery shopping (Figure 2).

The UK and France, for example, the leading European online grocery markets. The early introduction of drive-through pick-up points (PUP’s) (a model in which consumers order online and pick up their purchases at a local store) underpinned the expansion of online grocery retailing in France. Market characteristics of countries such as France – a supermarket-heavy country that has a large component of shoppers doing their groceries by car – have contributed to the local success of click-and-collect. The UK is a country where home delivery took off, relatively later PUPs were introduced there. In the UK, companies such as Tesco, Asda and Waitrose have installed click-

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1 EFMI (2017)
2 Thuiswinkel.org; GfK (2017)
and-collect facilities at stations in London to enable consumers to save time by picking up grocery orders on their way home. Consumers in the UK demonstrate serious commitment to online grocery shopping, with those who shop online doing so at least once a month. South Korea is the world leader in e-commerce groceries. According to Kantar Worldpanel, 16.7% of total fast moving consumer goods (FMCG) products were purchased online in 2017. The online market in Asia is traditionally more developed than that in Europe. The digital economy is embedded in the Chinese and South Korean culture. This can be illustrated by online shopping penetration rates, which totals more than 60% of the population, compared to around 30% in Europe. In the Asian market, home delivery models are more widely adopted than click-and-collect.

The Dutch and German online grocery markets lag behind other European markets like the UK and France. The slow start of Dutch online grocery shopping can be explained by the high density store network. Most consumers have one or multiple grocery stores in their direct environment and stores are easily accessed by foot or by bike. In Germany, the strong presence of discounters has held back online sales.

**Our industry survey suggests that Dutch online groceries will develop into a high-value channel in the next decade**

The key question is whether online grocery sales in the Netherlands will develop into a significant value channel, following the lead of other European and Asian countries, or if Dutch market characteristics, such as a high density store network, will constrain the growth of online grocery shopping. The results of the EFMI and Roland Berger in-depth industry survey provide an answer to this question. Responses from the 150 Dutch food executives that participated in this survey indicate that online groceries will grow by an annual rate of 14%, and is expected to reach a total market value of EUR ~7.7 bn in 2030 (Figure 3). In terms of impact, survey respondents indicated that online will have the most impact on the traditional grocery landscape of all the trends assessed in the survey.
Main drivers of online growth are a maturing market, technological developments, wider target audience and increased competition. First, a maturing online market will address online grocery shopping neophobia, or the fear of people to use this new and unknown shopping method. Many of the concerns that consumers who have not adopted online grocery shopping have, are expected to be addressed in the near future. For example, the most mentioned reason by people for not purchasing their groceries online is the inability to check (fresh) product quality. A maturing market is expected to solve this issue by careful product selection and fresh-proof transportation. Second, technological developments, such as the rise of automated fulfillment centers and new delivery solutions will drive delivery speed and further help to position online as a convenient and fast solution. Third, small businesses and institutional target groups (e.g. daycare centers) are increasingly purchasing groceries online. Today, approximately 25-30% of online sales come from this segment. Foodservice wholesalers are facing increasing competition from the online operations of grocery retailers. Finally, competition for online market share is expected to result in lower minimum order sizes for free delivery and new solutions for the last-mile network, which will further reduce consumer costs and increase the accessibility of online products.

**Grocery players need to develop their online capabilities to leverage the long-term potential of online**

Although it is also a legitimate choice for retailers not to be active online (e.g. Nettorama), retailers that choose to be active in online groceries should focus on developing the right capabilities to continue to effectively serve their customers. In the online delivery model, for example, various players are pushing for faster and more flexible delivery solutions. In order to stay competitive in this developing environment, grocery retailers need to further optimize their fulfillment process (e.g. automated distribution centers) and think about innovative solutions for last-mile delivery (e.g. third-party delivery).

It is critical that grocery players develop the right capabilities to continue to effectively serve their customers through online models.