White Paper Food

How can an Online Supermarket Still Become the Market Leader Today?

How an Offline Champion can Become
a Pioneer Online as well

Spryker

Content

01 Intro

Groceries seem to be the last thing that people still largely buy offline today - but the digital transformation is becoming apparent here as well. Although it's happening more slowly than in other retail segments, this is exactly what gives grocers the chance to position themselves as pioneers in the e-food industry today.

According to the industry association bevh, online sales of food in 2018 grew by around 18 percent to around 407 million euros - and the trend is still rising.[1]

Anyone looking for pasta, wine, or coffee online usually first turns to a search engine to compare prices and customer ratings. Only 19 percent of consumers who order groceries online immediately start shopping in an online shop. And of that 19 percent, more than half say they compare prices on Amazon first. 10 percent of those surveyed even named Amazon as the first point of contact for buying groceries on the Internet.

Market shares in food retail will inevitably be redistributed in the future. The reason: e-food retailers must adapt to changing target groups and new demands, because more and more competitors are trying to get a piece of the pie. What does that mean for food retailers? **Now is the right time to position yourself among the top players in the e-food market.**

In this white paper, we want to get to the bottom of the following questions:

- – What target groups are there?
- – What customer requirements must be met?
- – What can you learn from innovative pioneers?
- – How can the breakthrough succeed?

02 The five major e-food target groups

Who actually buys groceries online?

E-food is a hype in Europe - it's one of the last bastions in e-commerce where there is still a lot of market potential. Due to the high demands surrounding logistics, goods handling, and delivery, such as compliance with the cold chain, only a few players have dared to approach the topic of online grocery retail. Skepticism among consumers also seemed to be high in many European countries, especially in Germany.

Supermarket shopping: a nice experience for some but an annoying necessity for others. One growing alternative is buying groceries on the Internet. The e-commerce options are growing rapidly, and so is the demand for grocery shopping on the Internet. It's not just large supermarket chains like REWE and retail giants like Amazon who are relying on online grocery retailing. A lot of innovative "niche providers" are now entering the market and standing out from the mainstream with more special products.

Target group 1: The DINKs[2] - Double earners with a lot of stress but little time

For this group of buyers, the great added value of buying groceries online is convenience. They have no time on workdays, and Saturday is used for their rare leisure time rather than for weekly shopping at the supermarket. This target group is ready to pay for the right service and added value - from quality to delivery fees.[3]

What is especially important to them?
– Quick and simple ordering processes

– The possibility of ordering via mobile touchpoints

– Flexible selection of delivery slots

What makes this target group attractive for e-food providers?
Despite the shortage of time, this group is focused on food quality and sustainability in addition to convenience. DINKs are a prime target group for subscription models such as cooking packages and recipe boxes. They can be combined well from the supplier's perspective. This is also confirmed by Picnic's entry into the cooking box market in the Netherlands.

Target group 2: Families - price sensitive, but large shopping carts

A family's shopping cart is usually larger than that of singles or couples, which means things such as a minimum order value play a rather minor role. Convenience is the greatest added value here as well.

What is important for this group?
  – Prices that are no higher than when shopping offline

  – Free delivery

  – Large selection

What makes this target group attractive for e-food providers?
The cost per delivered item is lower for the provider due to the shopping cart size. This target group is also more flexible in terms of the time window for delivery. So less popular delivery slots can be used for this group.

However, the main reason for shopping in an online supermarket is convenience: extensive family shopping with bulky items such as drinks, detergents and diapers is ultimately difficult to transport home.[3]

Target group 3: Older customers - limited mobility requires higher service

"Weekly shopping with transportation home" can be a major obstacle for this customer group. When you think of e-commerce, you don't necessarily think of seniors as your target group. They should nevertheless not be forgotten because they are ready to invest in good service as well as groceries.

What is important for this group?

– Convenience

– Service

– Straightforward ordering processes

– Intuitive UX with simple processes such as cash payment on delivery

What makes this target group attractive for e-food providers?
The needs of this target group give you as a service provider the opportunity to convert this group to regular customers for regular purchases by focusing on convenience. The prerequisite for this group is that the purchasing process is simple and intuitive.

Target group 4: SMEs - too small for B2B purchases, too big for efficient offline shopping

This target group includes offices such as agencies, law firms, and medical practices, as well as organizations such as day care centers. For these enterprises, ordering online is the easiest way to meet their daily needs - whether it's coffee or milk for the office or snacks for events.[3]

What is important for this group?

– High availability

– Fast delivery

– Good quality

What makes this target group attractive for e-food providers?
For e-food providers, delivering to this target group offers two major advantages: comparatively large shopping cart volume with a high order value and regularly recurring orders.

Target group 5: The niche buyers - on the hunt for products that brick-and-mortar supermarkets don't offer

Niche buyers don't do all their weekly shopping online but are looking for certain specialties that they can't get easily at brick-and-mortar stores without a long lead time.

What is important for this group?
– Very specialized offerings

– Short delivery time

– Simple searches

What makes this target group attractive for e-food providers?
This target group is less price sensitive than the other customer groups above. Foodies and niche buyers are usually willing to pay a higher price to purchase rare foods and beverages - which has a positive effect on margins. Their shopping carts are rather small in relation to the number of items - but the order value is comparatively large.

To sum things up:

As a retailer, you should define your main target group(s) in advance and focus on them as customers. Convenience is a common denominator for all customer groups, but their other needs are very different.

In the e-food sector, this means providing a range that is tailored to the target group and additional services that create added value and long-term customer loyalty. These are the only means e-food retailers still have to differentiate themselves from the (brick-and-mortar) competition.[3]

03 How does invoicing for delivery fees work for e-food retailers?

Delivery prices can be decisive in the struggle to gain customers: free, sliding scale, fixed or individual prices - there are different models for delivery fees. How are these different models calculated by e-food providers and what are their advantages or disadvantages?[3]

Sliding scale for fees depending on the shopping cart volume

Everyone is familiar with this model from the fashion industry: delivery fees vary depending on the value of the shopping cart: the higher the value, the lower the fees - right up to free delivery. The Swiss supermarket Coop is an example of this fee model (Case study starting on p. 16). The sliding scale ranges from a minimum order value to free delivery via four thresholds.[3]

Demand-oriented yield management

Yield management is a strategy that contributes to the calculation and control of company turnover. This concept is aimed less at gaining new customers than at maximizing profit. That means yield management is a kind of demand-oriented supply management that is particularly effective for products or services that have an expiry date and lose their value after this time. That is why it is also known as "dynamic pricing." It can also be used in e-food to determine the price of delivery fees. Calculations can be carried out more efficiently and delivery costs can be covered better on this basis. Using this model, available delivery slots can be offered at different fees: Popular delivery slots in the evening are more expensive, and the rather unattractive windows during general

business and working hours are cheaper. In the best case, this model promotes the full and efficient utilization of the delivery service and harmonizes with the preferences of the customers, their income groups and time availability.[3]
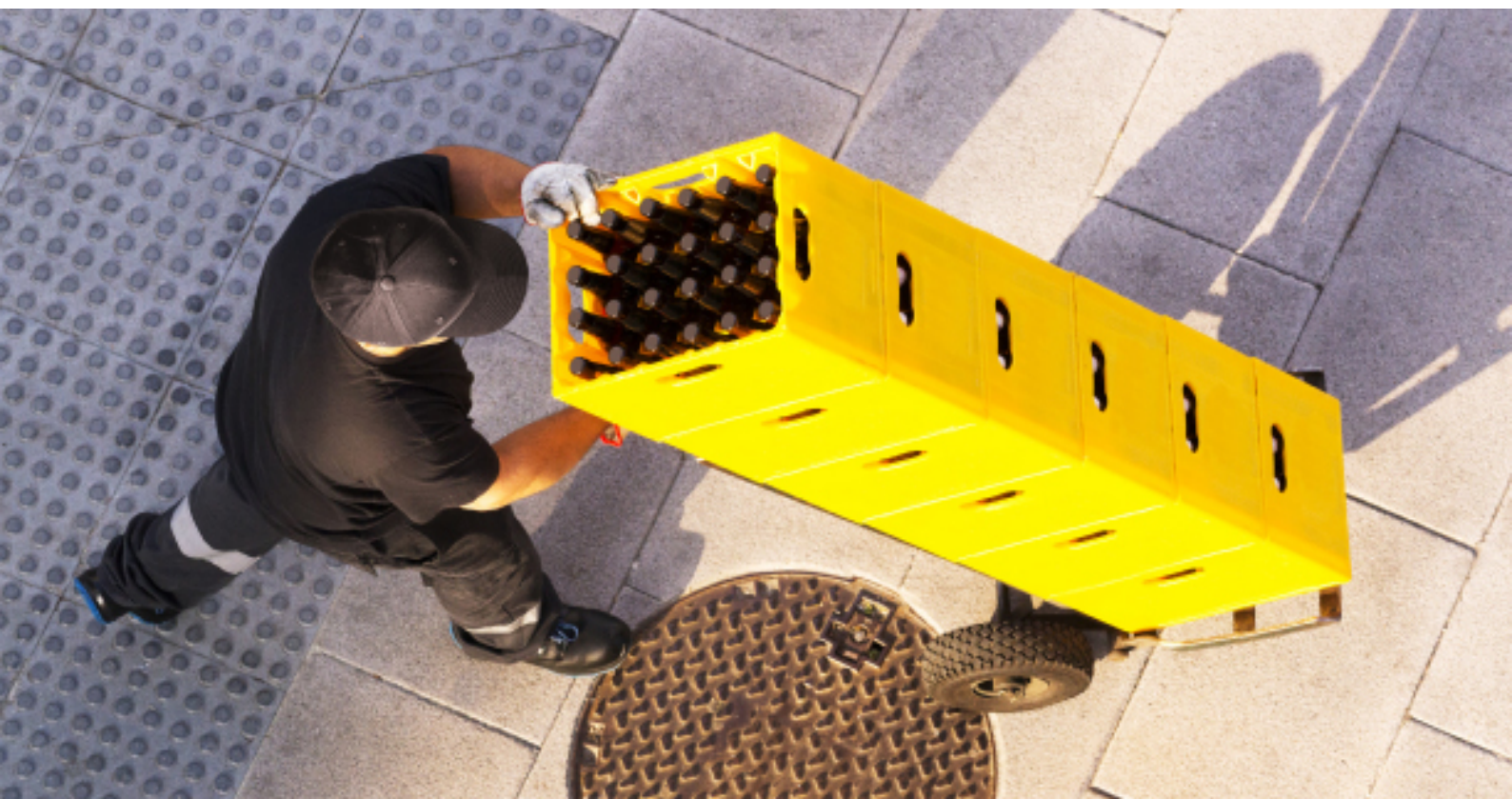
Free delivery as a unique selling point

No surprises: this model is the most popular among customers. One provider that has been delivering free of charge in Germany since 2018 is Picnic (Case study starting on p. 14). The minimum order value with Picnic is 25 euros. In contrast to the classic sliding scale model, the shopping cart volume doesn't matter if it is above the order value. From a retailer's point of view, this model also carries a certain risk: picking and delivery are the biggest cost factors but are not noticeably redistributed to the customer in this model - the prices of some products may be higher. Anyone who wants to remain economical in this business in the long term needs to retain both regular and new customers and plan the delivery routes as efficiently as possible - for the customer, this means a limited selection. Delivery takes place via fixed routes within an area - which means that a higher number of customers can be reached, making the process much more cost-effective.[3]

Subscription delivery flat rate as an incentive for customer loyalty

In this fee model, the customer pays a certain fee once and can receive deliveries free of charge as often as desired within a period. The delivery fees for the customer are covered in the booked period.

The great advantage of this model is that it creates a so-called lock-in effect, which aims to keep customers in the provider's own procurement system and to have a lasting impact on the frequency of orders and loyalty - Amazon Fresh is a successful example of this model.

Direct comparison of the models

Delivery fees model	Advantages	Disdvantages	Who uses it?
Sliding scales	– Easy to calculate – Transparent and understandable for the customer – Shopping cart volume is usually higher – Customers are willing to order more to reach the next fee level – Higher turnover	– With small shopping carts, high delivery charges can be an exclusion criterion from the customer's point of view	Coop@home[3]
Free	– Good for the customer because no additional costs on the purchase value arise – The customer's willingness to test the service is therefore significantly higher – Opportunity to gain regular customers if they have a positive experience – Higher reorder rate than with sliding scale delivery fees	– The average shopping cart volume is smaller – Greater effort in relation to the value of the goods → The company has to recoup the costs elsewhere, for example through a higher product price	Picnic[3]
Yield management	– More efficient distribution of delivery slots by redistributing less popular delivery times → Cheaper delivery as customer incentive – Profit through higher willingness to pay for popular slots – Generates additional income	– Complex presentation in the online shop – Delivery fees can be regarded as unfair and non-transparent by the customer	Bringmeister (Edeka)[3]
Subscription model	– Creation of "lock-in" effects – Higher reorder rate – The delivery fee as an ordering hurdle is eliminated	– Danger of lost revenue → Customers have a monetary advantage compared to individual orders	Amazon Fresh, Rewe

04 Four factors that determine the market

1. The range

2. The freshness

3. The delivery area

4. The timing

1. The range

An irrefutable fact in e-commerce: customers want choice - this also applies to the purchase of food. For e-food providers, this means: the customer expects a similar assortment as in the supermarket next door.

Supermarkets have an average of 20,000 articles, so the customer is used to seeing more at the supermarket than they actually need. They expect the same from the online supermarket: if any of the articles they want is not available there, the customer usually stops shopping and switches to the offline supermarket.

It is more important that something is offered from the butter category, for example, and less important that a certain brand of butter is available. The breadth of the assortment is more important than the depth and a huge selection within a category.[3]

2. The freshness

Freshness is a critical issue for e-food providers - because in brick-and-mortar retail the customer is used to being able to check the degree of freshness of the goods by touching them. But how can "tomato squeezers" be converted to online customers? - By letting them choose between product variants, such as the ripeness.

How can e-food retailers take advantage of the freshness issue? The faster throughput of goods in the online business means that fruits and vegetables are usually even fresher than in a brick-and-mortar supermarket. Providers can differentiate themselves from brick-and-mortar retailers as well as online competitors through the freshness of their products. However, this also increases the pressure on suppliers, because different product characteristics also mean special requirements for the cold chain and packaging before and during delivery. Freshness as a USP is therefore primarily suitable for retailers who have their own delivery fleet and can control the storage of fresh items from the warehouse to handover.[3]

3. The delivery area

The thing almost all e-food providers have in common is that the delivery area is often limited to metropolitan areas - deliveries are often only made in large cities such as Hamburg, Munich or Berlin. The reason for this is the combination of two aspects: the shelf life of the items and the length of the delivery routes. It is difficult to guarantee freshness and, especially with longer delivery routes, to ensure legal regulations are observed such as keeping the cold chain. Another reason for many e-food providers not supplying rural areas is that fewer residents in contrast means lower demand, for whom the logistical effort is simply not worthwhile.

Rural areas are therefore rarely supplied - apart from a few providers such as Picnic (Case study starting p. 14). E-food retailers still have the chance to differentiate themselves from the competition by offering an extensive delivery area.[3]

4. The timing

The receipt of the goods has to be planned by the supplier and the customer. With fresh and chilled products in particular, the delivery time has to be coordinated relatively precisely in advance: The customer needs to be on site and the supplier needs to arrive on time. The approaches to this aspect are varied and range from drones that deliver the purchase to modular delivery boxes that

can keep the contents at the right temperature for a long time. Amazon Fresh, for example, uses the latter. They offer Amazon Lockers, which are boxes that are divided into three compartments with different temperatures, ranging from -25 degrees for frozen foods to +17 degrees for durable foods. Of course, this is associated with additional costs that affect the delivery price - a factor that discourages many potential customers.[3]
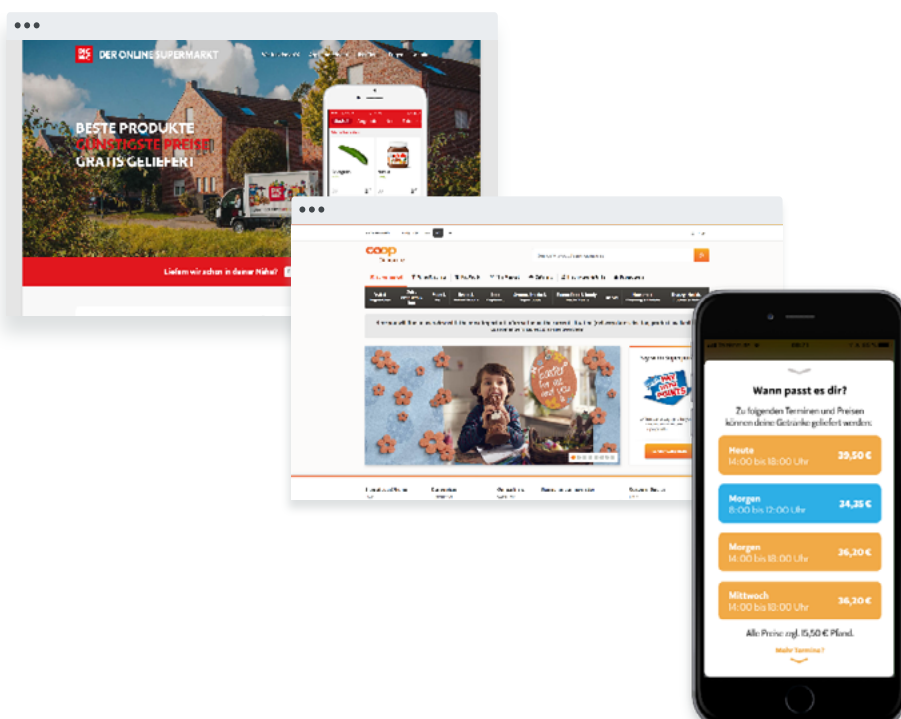
05 Successful players - three best-practice cases

Since the launch of Amazon Fresh in the USA in 2017 and the takeover of Whole Foods in the same year, there has also been a rethink in the European food sector.

On the one side there are the large and established supermarket chains, which also sell their huge range digitally. Some "only" sell e-food as a supplement to their brick-and-mortar sales channel. And others approach the field with great willingness to innovate and invest.
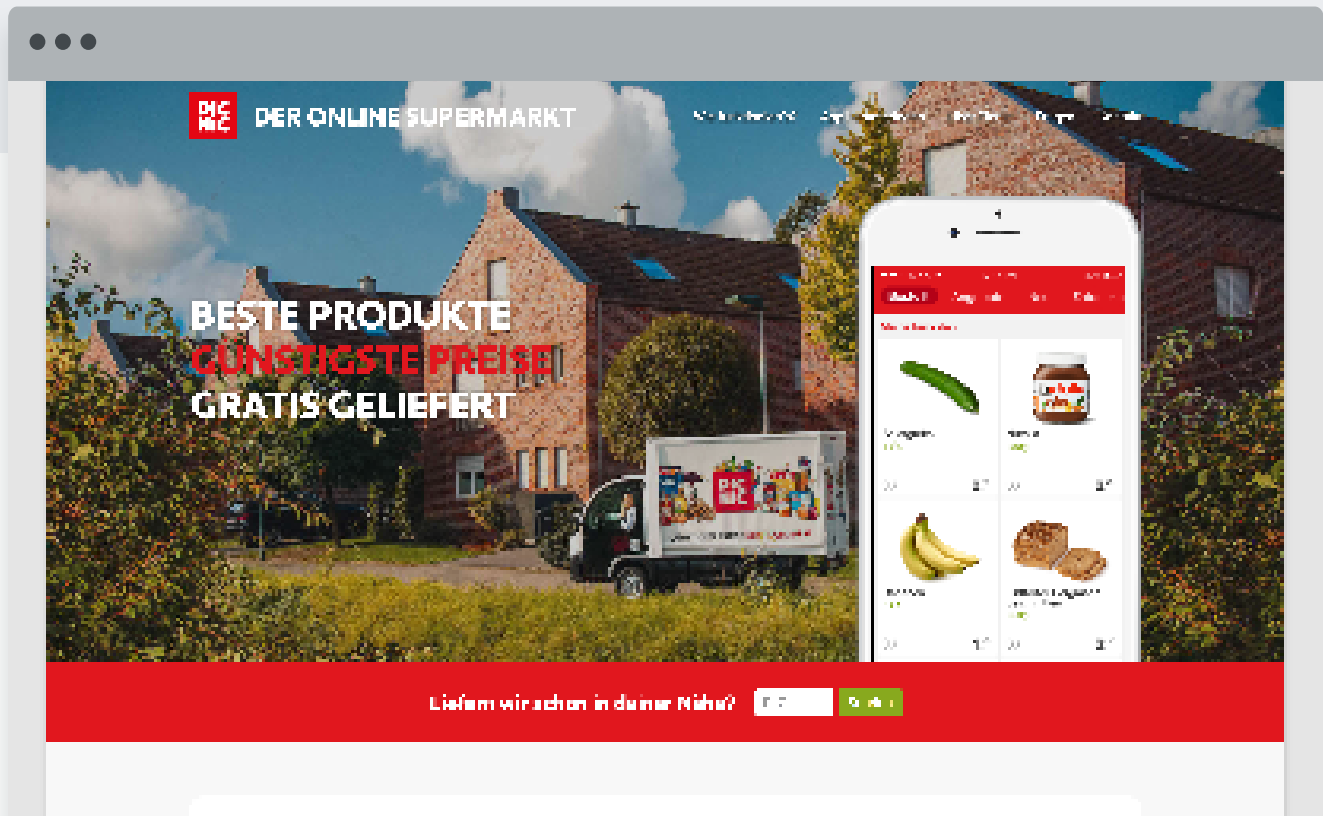
On the other side, there are numerous online pure play start-ups with smart digital strategies that not only profit from e-food but also want to revolutionize the sector.

The players in the European market are pursuing a variety of business models. In addition to established retailers such as the Swiss market leader Coop, which ventured into digital food retail 20 years ago, more and more new players with a start-up mentality like Picnic are appearing on the scene. But how can e-food providers manage to become the market leader? In the following, we compare the digital strategies of two European pioneers - an established supermarket and a pure play start-up.

brings the milkman principle into the online world

<500,000 customers in Germany and the Netherlands[4]	€ 250 million annual sales in 2018[5]	Around 800 delivery vehicles in Germany and the Netherlands	<80 cities and delivery areas[6]	500.000+ app downloads[7]	~ 2,000 employees for delivery, logistics, coordination, marketing, etc.[8]

Picnic was founded in Holland in 2015. The founders were not from the food industry but had recently successfully sold the Fredhopper software company. Picnic has also been available in Germany since 2018.

They focused on the digital mindset from the start, and the Dutch market offered great potential for this business idea: The shift to online retail had started in almost all other retail segments, but the following had not reached the food sector yet: free delivery and returns, a customer-centered

assortment, better service and convenience than in the offline world. E-food suppliers could already be found on the Dutch market, but customers had to pay for delivery and then be on site during a relatively large time window to receive the delivery.[9]

MVP approach based on the motto "It's better to be the first in the village than the second in the city"

In contrast to other e-food providers, Picnic did not start in a large metropolitan area, but deliberately in Amersfoort, a smaller town with a population of around 150,000. Right from the start, the breadth of the range was similar to that of an average supermarket, but with less depth. In the first test run, they were able to determine whether the business model would gain customers at all and how the range could be optimized.

Problem recognized; problem solved

Picnic wanted to eliminate the pain point of efficient delivery slot distribution that other e-food providers experienced: The order is placed via an app, and delivery is free with Picnic provided the minimum order value, which is set very low at 25 euros, is reached. This makes Picnic relevant not only to large-quantity buyers but also for the average single-person household. They simply reversed the delivery slot principle: this approach is made possible with fixed, so-called "milkman" routes. The customer has less flexibility but knows exactly when the delivery will arrive. In essence, there is a 20-minute time window for this, and the delivery can be tracked very precisely via the app.[10]

Efficient supply chain

> *The milkman model is the most efficient delivery model for the last mile. He stops on my street once a day and not several times, as with other delivery services. This enables us to deliver three times more deliveries per hour. And that saves Picnic a third of the costs."*- Frederic Maximilian Knaudt, founder of Picnic Germany

The customer can choose between around 10,000 products in the app; the products are purchased from wholesalers, local supermarkets, bakers and butchers, stored in Picnic warehouses and picked using trolleyslas. Picnic transports the trolleys from the warehouse to the designated hub. The drivers then load the products into the electric vehicles and deliver them there.

Picnic - more than an e-food provider

Picnic is not just a food retailer but a technology company. Their business model proves that the online food industry also needs courageous thought leaders who can successfully meet customer needs with the right technology and a clever logistics concept.

coop @home

takes the focus on customers to a new level
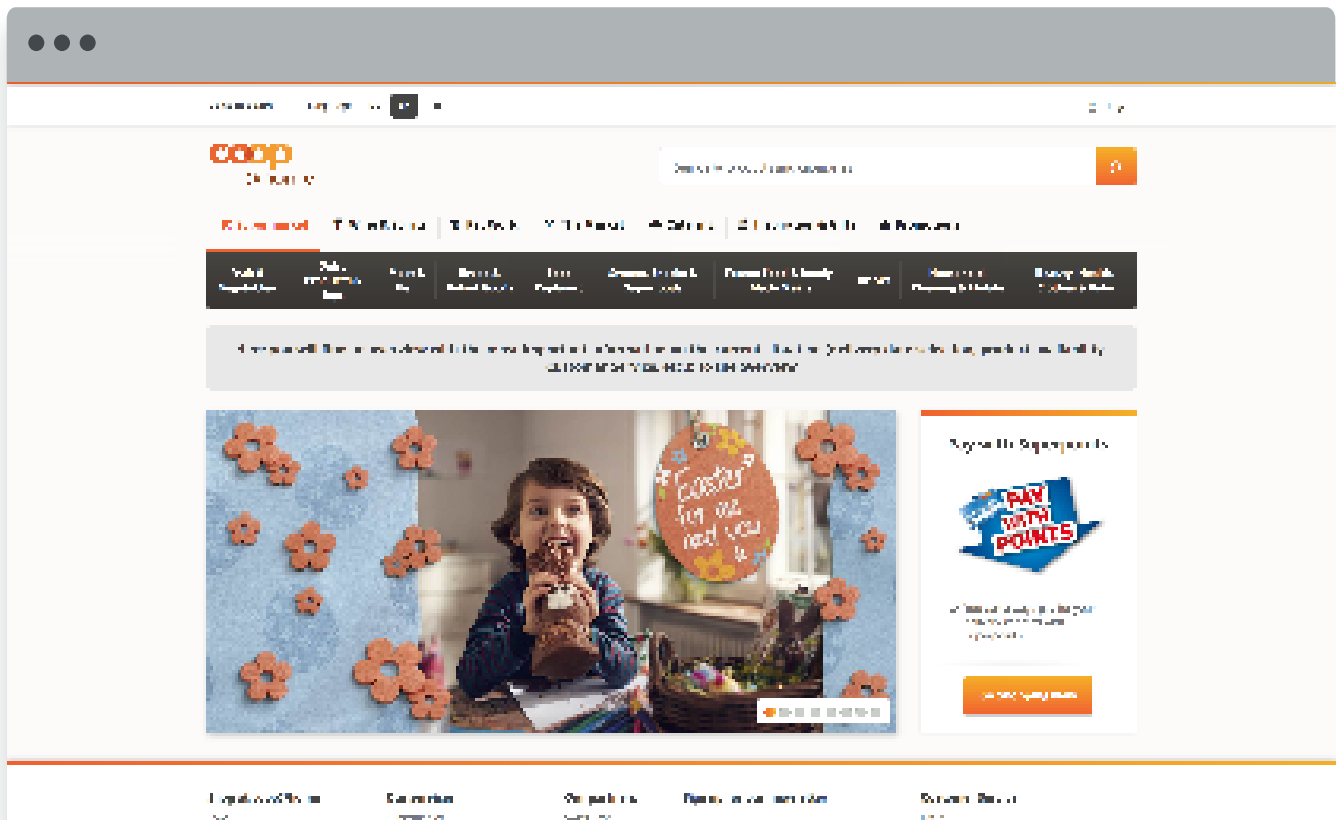
CHF 159 million
annual sales in 2019[12]

13,000
Products

2,000
customers every day

Coop@home is the second largest online supermarket in Switzerland and belongs to the Coop retail group. With 1,800 branches, Coop is Switzerland's second-largest grocer, and with its online presence, coop@home lives up to its motto "We are close to the customer." Coop@home has recorded double-digit annual growth since it went live in 2001. Up to 2,000 customers order daily from the 13,000 available products. Coop@home offers both home delivery and pick-up at drive-through stations. The reason for their success is the excellent service: same day delivery with a guaranteed delivery window of one hour within the Swiss metropolitan areas.

Virtual shopping walls

Already in 2009, when the mobile wave was just starting, coop@home recognized the relevance of smartphones and new touchpoints long before responsiveness was the norm. Smartphones are still relevant in e-commerce today. However, a mobile-optimized shop is no longer enough to differentiate a company from the competition.

The aim of coop@home is to create a revolutionary mobile shopping experience that enables customers to buy goods using their smartphone in an innovative and convenient way. This also includes the use of virtual shopping walls that are set up in locations such as train stations in Switzerland. Passers-by can scan a product with the coop@home app here and do their shopping online as they pass.

Coop is reinventing the mobile customer journey

The coop@home app has been a great success since its launch in 2010. The mobile shopping app for iOS and Android increased from less than 5 percent of coop@home's annual sales at CHF 77 million in 2011 to 20 percent and over CHF 114 million in 2014. Over 25 percent of coop@home customers order their purchases using mobile devices. Today, coop@home's mobile shopping walls can be found all over Switzerland and at many top locations, such as the Zurich Main Station and Google's European headquarters, and offer a new "shop window" shopping concept.

Durst

with technology ownership from greenfield to platform
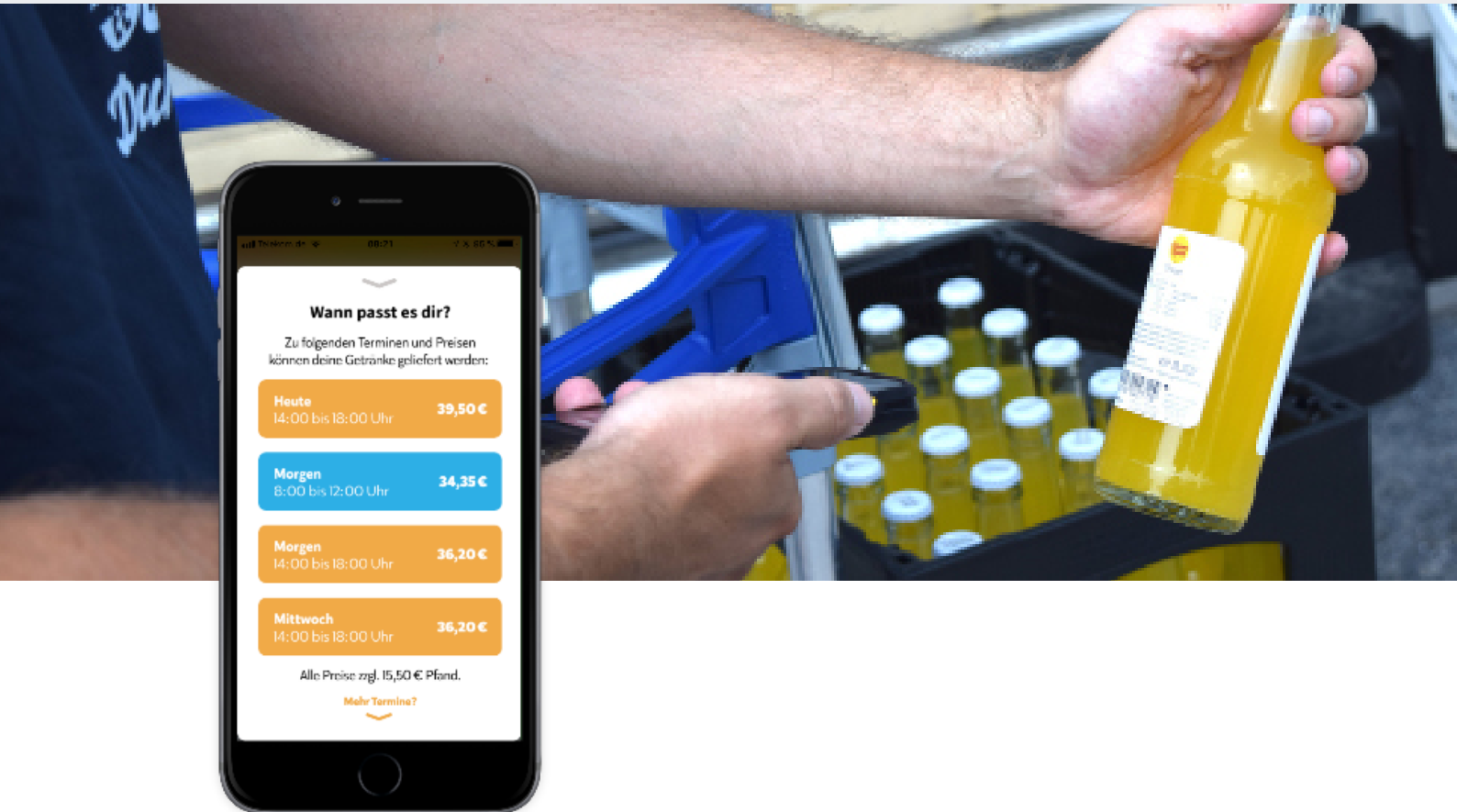
For many beverage retailers and manufacturers, setting up their own online sales channel is time-consuming because beverage delivery is a very regional business model. Durst's goal: to help retailers make their products available digitally and offer end customers an additional order channel with the Durst app.

B2B meets B2C

Durst concentrates on the service surrounding the beverage order – storage and delivery take place via regional distributors. The Durst platform for retailers ensures that beverage manufacturers can maintain their products themselves and manage delivery areas and conditions. Once an order is received, the distributor receives a notification and initiates the shipment.

From the customer's point of view, the whole thing looks like this: The customer sees the range of different beverages available in the Durst app depending on the location. After putting together an order, the customer is offered various time windows for delivery to their home or to another desired location.

Digitization jump-start for beverage retailers

When Durst started planning a completely new platform, it was already clear what the start-up would expect from its commerce software:

1. Mobile-first as the basis for the customer-centered beverage delivery service

2. A combination of marketplace and multi-interface shop system to meet the expectations of retailers and customers

3. The prerequisite for this was a flexible technical basis for handling the entire process, including logistics, via a reliable platform. An out-of-the-box solution was not enough for these goals, and the focus was on a technically adept approach and the opportunity for platform development. Durst wanted to put everything together in one system – so, in addition to ordering via the Durst app, route planning, empty-container collection, payment and billing can happen with a single system.

A look at the market shows that most drinks are purchased in brick-and-mortar stores. Digitizing this business model and implementing it in its complexity in a user-friendly and intuitive manner requires that the company think ahead to the planning phase of the project before starting.

API first - the new kind of headless commerce

The days when a desktop shop was enough are over: Durst has recognized that customers prefer to order drinks via their smartphone, while stationary retailers can easily integrate products via the platform and offer them for sale via a link to the app.

This deviating API-first concept means a classic web shop with an inseparable frontend and backend is in no longer in the foreground. Different, selected frontends and systems can be flexibly connected to the modular backend via the API. The retail is therefore not based on a pure shop solution but is headless and can be used with a variety of customer interfaces.

In addition to the app, the retailer platform and other third-party systems, Durst also uses a demo shop and various live systems to test different locations.

Standard software is not enough to implement ideas individually and quickly. That's why full technology ownership was particularly important for Durst from the start. Durst established the link between logic and processes behind calculated delivery times in the software.

06 Conclusion

Many retailers today still have difficulty selling groceries online. The assumption is that consumers are still hesitant. But studies by the bevh show that this will change in the near future - the change is already in full swing. Online grocery sales will increase at least five-fold by 2030 - as predicted in a representative survey by Welt. So the question is no longer whether more groceries will be sold on the Internet, but rather how high the increase will be.[14]

The willingness to purchase groceries online is also growing with the target groups mentioned in chapter 02, who are particularly interested in shopping convenience due to their living situation. According to the survey, more than half of people under 40 have already tried Rewe Online, Amazon Fresh, Picnic or another online supermarket or are planning to do so in the near future. The forecast growth rates are no small thing, because the food retail market is huge. An increase in the market share of five percent would mean an increase in sales of seven billion euros. For 2019, the Federal Association of E-Commerce registered an increase of 17 percent in food - that's more than in any other area.[15]

There are various factors that influence the market. The points highlighted in chapter 03 range from the product assortment to the delivery area, the timing of delivery and the delivery price. E-food providers can optimize the customer focus here by fulfilling one or more of these areas and establish themselves as pioneers in the market - whether it's as an established supermarket chain or as a start-up.

The approaches of the pioneers mentioned in chapter 05 vary greatly:

- The Dutch e-food provider Picnic, which has also been supplying some German cities since 2018, applies the "milkman principle," in which it visits several customers on a route free of charge at defined times.

- The second largest Swiss supermarket chain Coop made its own online shop Coop@home the digital market leader thanks to an innovative mobile touchpoint approach.

- The German online beverage retailer Durst relies on a platform that enables B2B partners to take the step into digitization and offers B2C customers a simple and convenient shopping experience via a mobile app.

All of the cases have one decisive success factor in common: a digital mindset and technology that enables them to react flexibly to the market and reach customers where they are:

- Picnic manages this through an efficient, digitally supported supply chain.

- Coop is relying on innovative new touchpoints with the QR scanner included in the app.

- Through its headless approach and technology ownership, Durst secures the opportunity to continuously develop its platform in order to stay close to the customer at all times.

07 Recommended action

E-food providers who want to establish themselves successfully in the market in the future must be able to implement new ideas and customer requirements quickly and become pioneers in the field of digital innovations.

How can you initiate the right steps for tomorrow today?

The basis for successful digital grocery retailing is knowing the target groups and their needs and developing a real customer focus on this basis. That means creating efficient delivery models and developing a platform that is flexible enough to adapt to new market conditions time and again, whether it's by connecting new touchpoints, personalized purchase recommendations, or live delivery tracking.

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Talk to us about your possibilities in a new or existing Spryker Commerce OS Setup.

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