The new grocery landscape:

Online opportunities and challenges in Europe

PayPal

Suddenly, everything was transformed

Change tends to be gradual. Rivers meander, slowly and imperceptibly rewriting the edges of their banks. Markets evolve, step by step.

But every once in a while, something happens that upends everything. Flash floods can instantly turn tranquil villages into wastelands, erase roads, reshape rivers, and rewrite the future of the area. The pandemic has had a similar effect on grocery purchasing.

Online ordering of groceries—a small slice of the pre-pandemic grocery market—had been showing respectable but modest growth in recent years. But with the coming of the pandemic, online buying surged, becoming a lifeline for some. Post-pandemic, the landscape of online grocery shopping has been transformed forever.

Change creates new winners and losers, as some players move lightening quick to adapt, while others struggle to forge a path forward through newly transformed terrain.

The surge in online ordering of food—whether for delivery or to "click and collect"—started out as a safety measure, but it was not long before it became a matter of convenience and an opportunity for savings. With companies scrambling to expand their online offers, consumers had to grapple with new user experiences, while seeking trusted, easy-to use, solutions for crucial elements like payments.

To help companies find a better path forward, PayPal sent out a team of surveyors to map out this new grocery landscape. Drawing on interviews with industry experts, studies of over 5000 online food purchasers in France, Germany, Italy, Spain and the United Kingdom, and a myriad of other data sources, we plot the key contours of these new marketplaces, with a focus on fresh opportunities and challenges.

A new grocery landscape

55%

The pandemic increased European online grocery purchasing around **55 percent** over the course of 2020[2]

Source: McKinsey & Company, Disruption and Uncertainty – The State of Grocery Retail 2021: Europe, powered by Europanel data and insights.

The pandemic increased European online grocery purchasing around 55 percent over the course of 2020, compared with an average gain of about 10 percent in 2019, according to McKinsey, a consultancy. The highest online growth rates—above 60 percent[2]—occurred in the UK, Spain, Italy and Sweden, they reported[2].

This growth has come from first timer users, but also from continued and increased use by the existing user base—PayPal polling reveals.

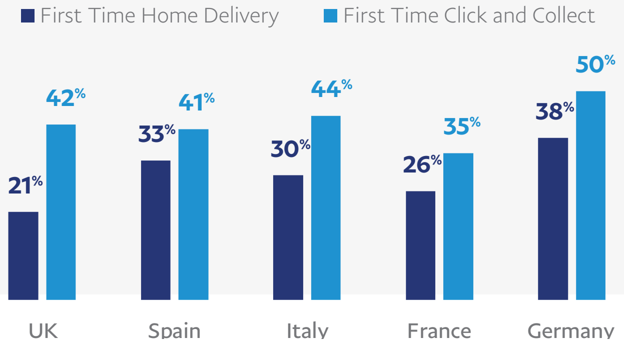
In the UK, which historically had a somewhat more developed online grocery market, just 1 in 5 were ordering online for delivery for the first time, whereas the number of first-time delivery buyers in Germany was nearly double that[1].

> “After 2020, we have seen something that never happened before in Italy. People started to use e-commerce and to pay directly.
>
> Ciro Marciello, Manager, Carrefour Italia

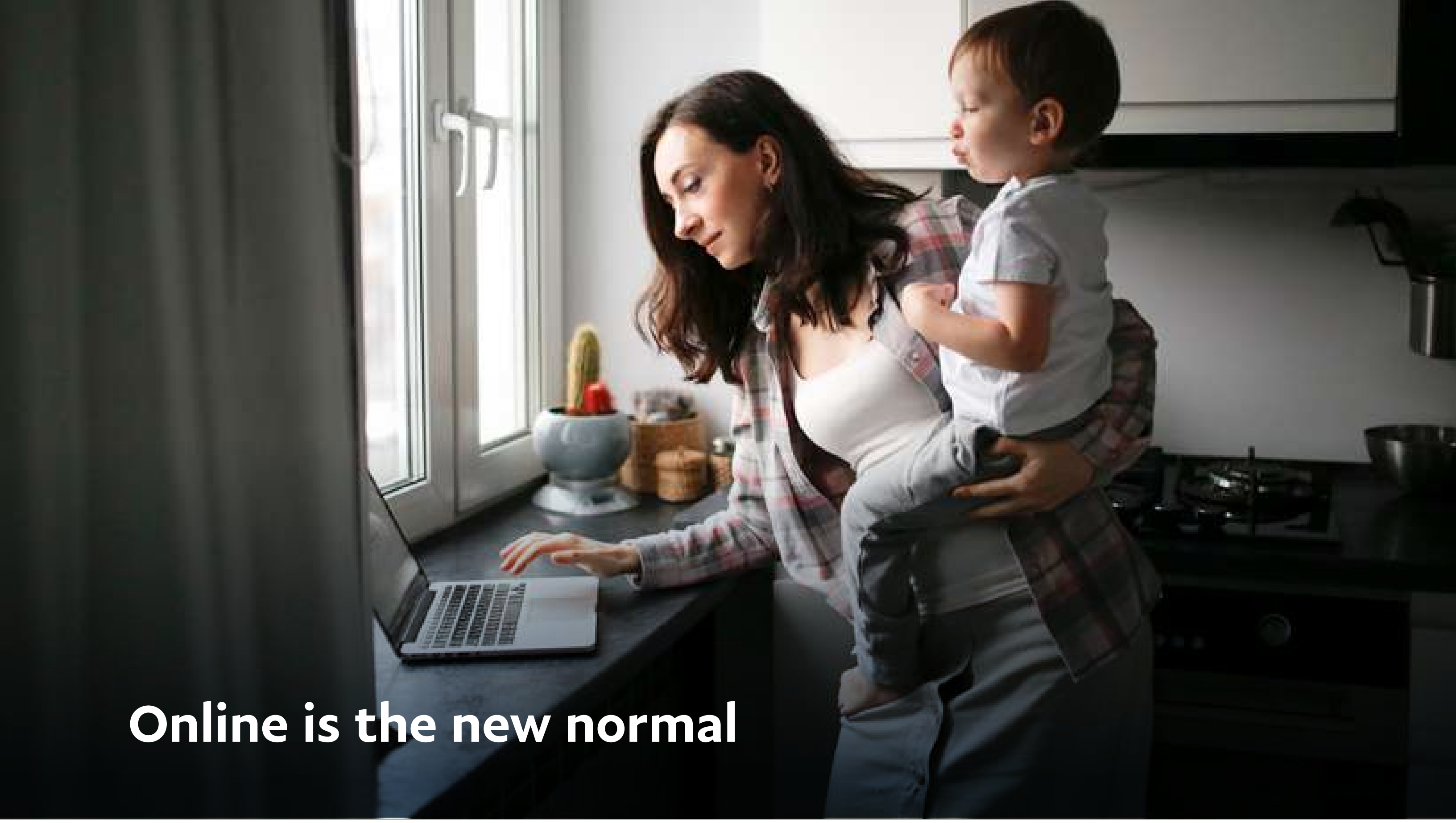
Buying online and then picking up in store (“click and collect”) is a new post-pandemic activity for more people. Across Europe, roughly 4 in 10 were trying click and collect for the first time this past year, with that number reaching 50% in Germany[1].

> “COVID allowed us to find some markets that didn't use the app before. For instance, older people, or people who are not used to buying online.
>
> Pablo Nieto, senior delivery expert

First time users of home delivery and Click and Collect, in past 12 months[1]



Source: Online grocery & food delivery trends across the UK & EU – Survey conducted by Maru/Matchbox, commissioned by PayPal, June-July 2021.[1]



Online is the new normal

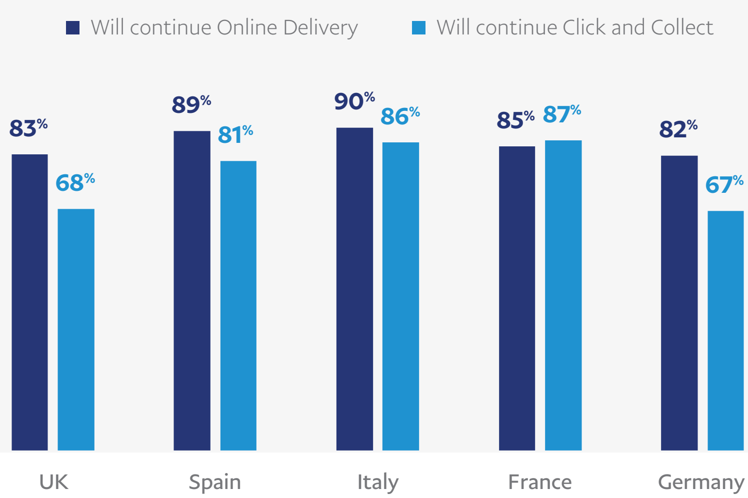
As companies scrambled to build the infrastructure to support and extend their online grocery offers, the questions nagging at every CEO were: "Will this change last? Will we eventually get our investment back? Did we do the right thing?"

The good news is people expect these new behaviours to stick. The grocery landscape has been transformed.

Those who have been using delivery services are particularly likely to carry on. Over eight in ten or more in Italy, Spain, France, the UK and Germany expect to carry on with online grocery ordering with delivery[1].

Click and collect, which involves going to the store whether you are doing your own shopping or not, is proving slightly less sticky—particularly in the UK and Germany.

Intend to continue ordering groceries online[1]



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The Delivery Challenge

While consumers are very happy to carry on with delivery, it does pose a formidable challenge for grocers. Delivery—especially last mile delivery—is expensive. But consumers have got used to introductory discounts and delivery offers that are loss leaders. That's challenging to maintain, especially when some offer delivery for "free."

"The cost of shipping is a big barrier in e-commerce in general," remarked Pierre-Yves Calloc'h, Chief Digital Officer at Pernod Ricard, a drinks manufacturer. "With Amazon Prime, it becomes a little complex to compete."

"The 'holy grail' in the food delivery sector is free deliveries," explained Stephen Wynne-Jones, editor of a leading grocery publication. [It is] "not easy to achieve given that delivery services are margin erosive anyway. Some operators are experimenting with reducing their online product offerings in order to drive delivery costs down. It will be interesting to watch this develop."

Further complicating the delivery picture are a multitude of start-up brands who are making speed of delivery the point of differentiation—putting further pressure on costs. Initially, delivery services promised same-day delivery and then one-hour delivery. Now start-ups are promising as little as 15-minute deliveries in some cities, because it is one way of distinguishing themselves.

> "The big focus in food/grocery delivery at the moment is on speed. One operator comes along offering 30-minute delivery, and then another promises 20-minute delivery, and then another promises 15-minute delivery. This is fine if you are looking for one or two items, but I think speed is receiving unnecessary focus at the moment.
>
> Stephen Wynne-Jones

Not everyone thinks this race to deliver on speed is good for the industry - or the only way of standing out. "I say differentiate on product," remarked Charles-Henri Tournier, Head of Finance and Operations at Popchef. "This promise on time delivery is nonsense."

Why they buy: convenience and savings

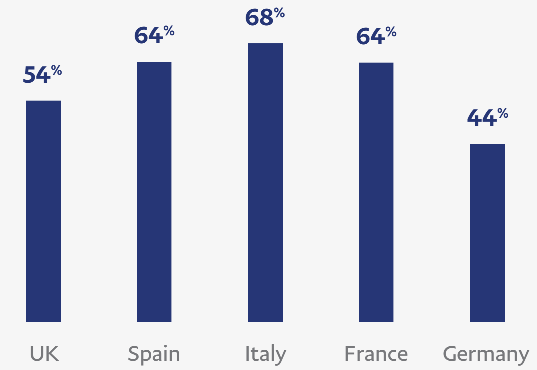
As the pandemic reared its fearsome head, people turned to online grocery delivery for the safe access to groceries it offered. Now that those moments are largely behind us, the reasons for buying groceries online have changed. Convenience and savings are now attracting people.

Over 50% agree "shopping for groceries online helps save time," in the UK, Spain, Italy, and France[1]. Only in Germany was there slightly less than a majority agreeing.

A desire for cost savings, whether through comparison shopping or order consolidation, is very common, most notably in Italy, Spain, and France.

> "Consumers are becoming more conscious about where they spend their money, and I think that COVID has accelerated that.
>
> Franco Fubini, Founder & CEO Natoora

% agree "I think shopping for groceries online helps save time"[1]



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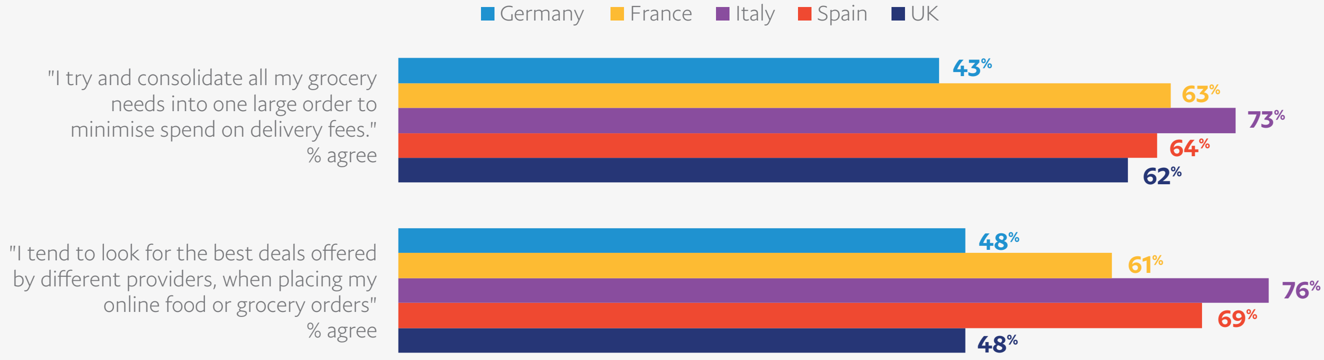
A desire for savings[1]



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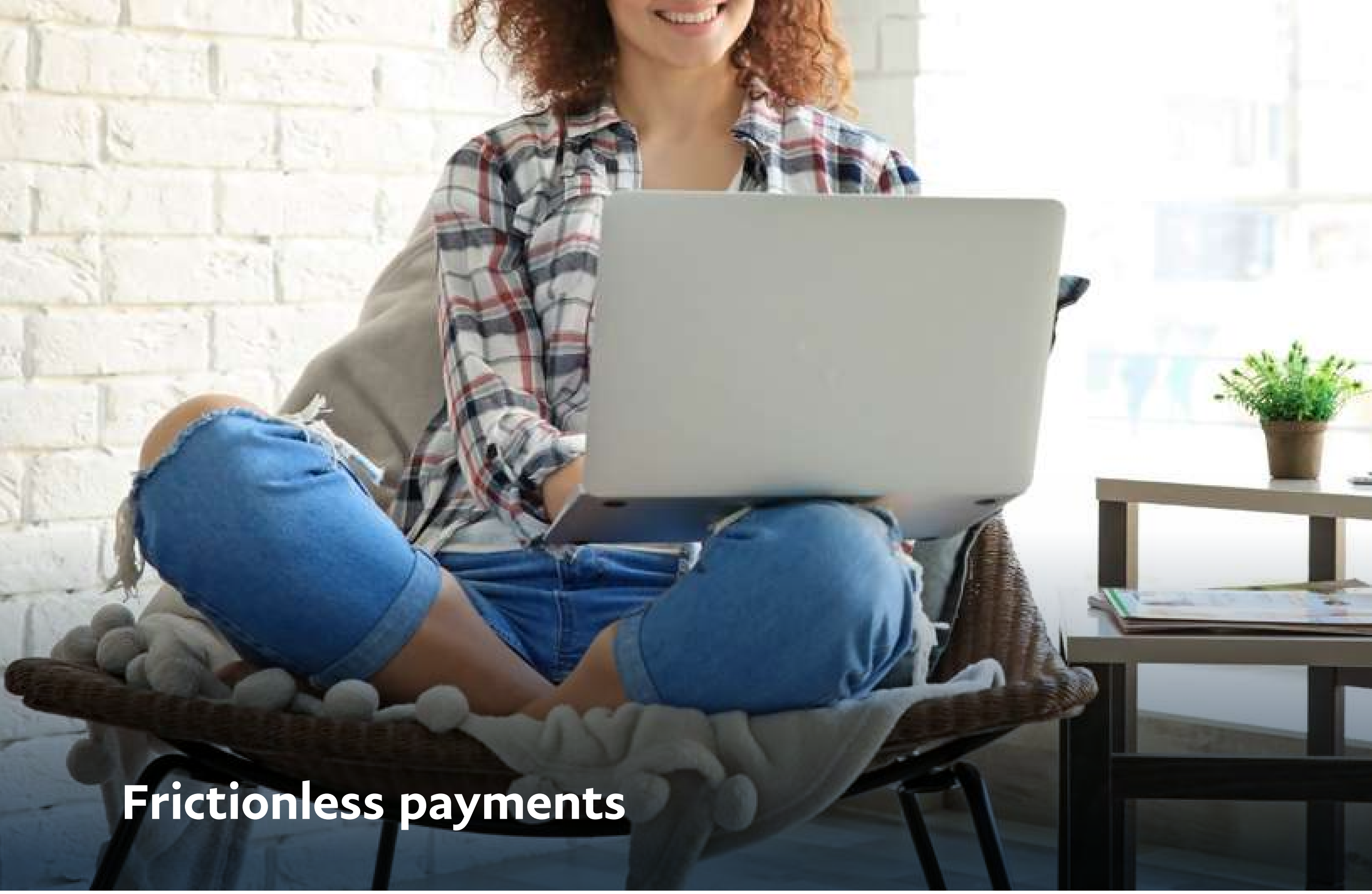
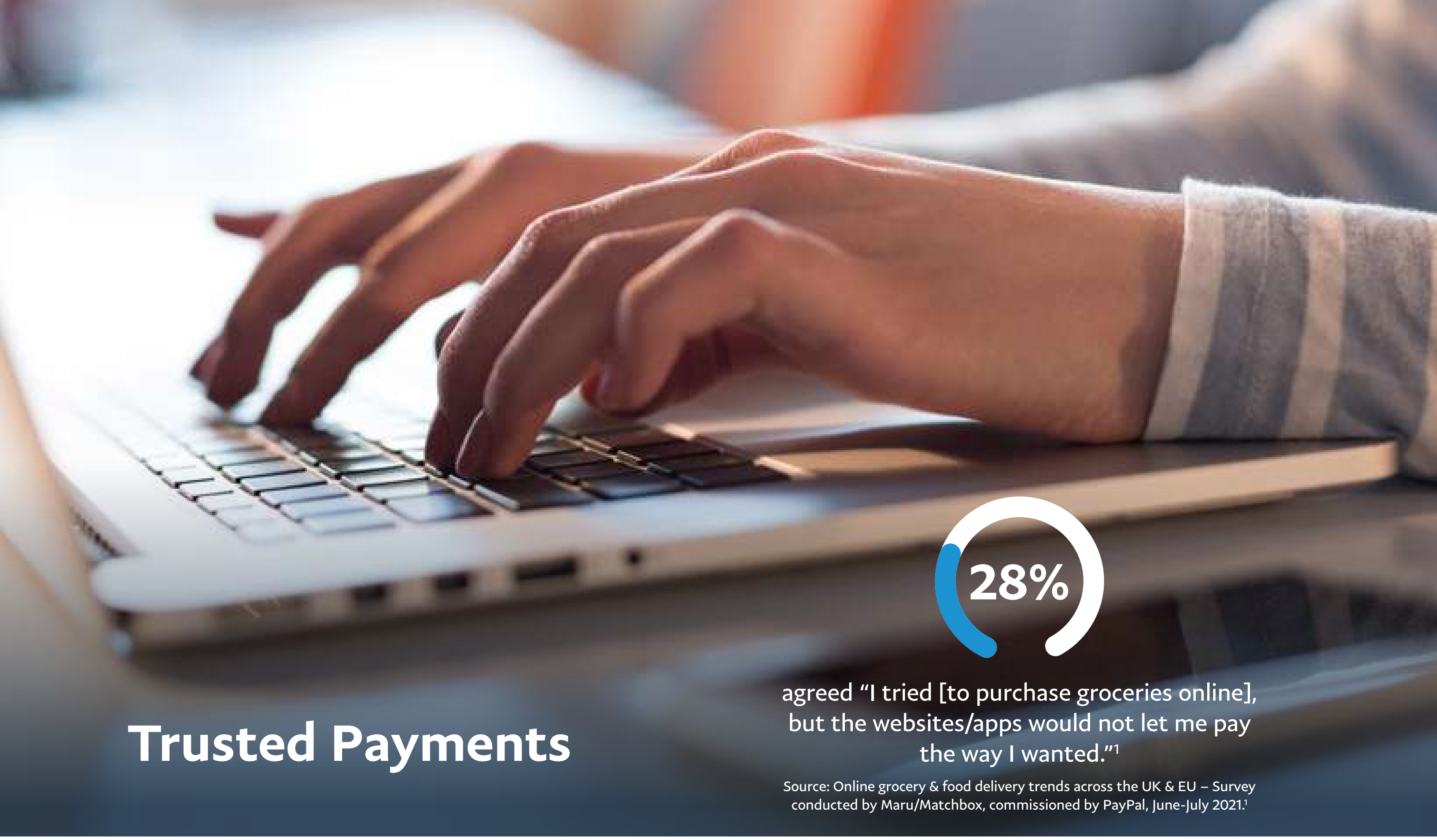


Frictionless payments

Ensuring payment is fast, easy, and trusted is a critical part of ensuring a positive customer experience. “The first thing that consumers expect is a smooth check-out experience and process,” says Pierre-Yves Calloc’h of Pernod Ricard. Payments is a critical part of the process, and one where it is easy for friction to build up.

> People need to see how simple it is to buy in e-commerce—like it is in the shop.
>
> Ciro Marciello, Manager, Carrefour Italia

“There is nothing more frustrating for a consumer than going to the payment and finding the way that you have to enter your credit card details is not the right one, or the autofill elements in Google Chrome or other browsers don’t work properly,” explains Calloc’h. “Then there is the authorisation process. Some of the time you have the two-factor identification/authentication. That part needs to go well, but you also need to be able to bypass it, if you are a returning customer. The customer expects to go as quickly as possible if you have ordered already, by having your credit card stored by a trusted player. People want to go as fast as possible through this part, but knowing that it is processed by one of the key players for payment”



28%

agreed "I tried [to purchase groceries online], but the websites/apps would not let me pay the way I wanted."[1]

Source: Online grocery & food delivery trends across the UK & EU – Survey conducted by Maru/Matchbox, commissioned by PayPal, June-July 2021.[1]

Trusted Payments

Across Europe, many are concerned about making sharing their financial details and making online payments—notably in Spain.

This highlights how critical trust in the payment provider is—particularly in countries where online grocery buying has been less common. "In Italy, trust is very, very important. The people don't find it easy to trust you, because they don't know a lot about electronic payments," suggests Maricello of Carrefour Italia, a retailer.

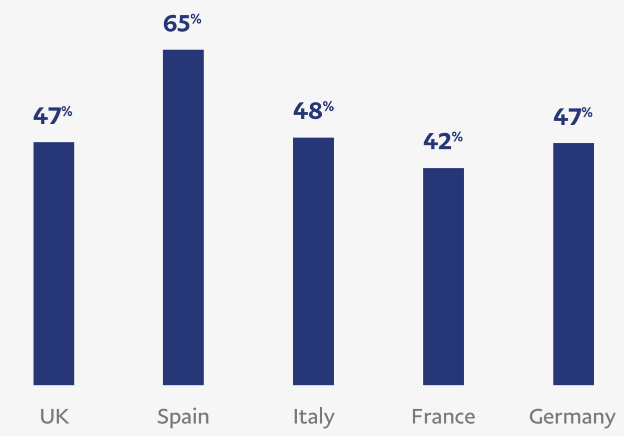
"In terms of payments, for Popchef, the important thing is to have assurance the site is secure, and that it is intuitive for the customer," says Tournier.

> "The player you will use for payment can add trust to your website or, on the contrary, remove some of the trust. It's one of the factors that needs to be looked after when choosing the payment provider.
>
> Pierre-Yves Calloc'h, Pernod Ricard

The payments provider can even make or break a sale. In a sample of people who have ordered restaurant food online, but not groceries, 28% agreed "I tried [to purchase groceries online], but the websites/apps would not let me pay the way I wanted." [1]

Clearly, trusted, and frictionless payments are critical to the success of online grocery providers.

% agree "I worry about making online payments and sharing my financial information"[1]



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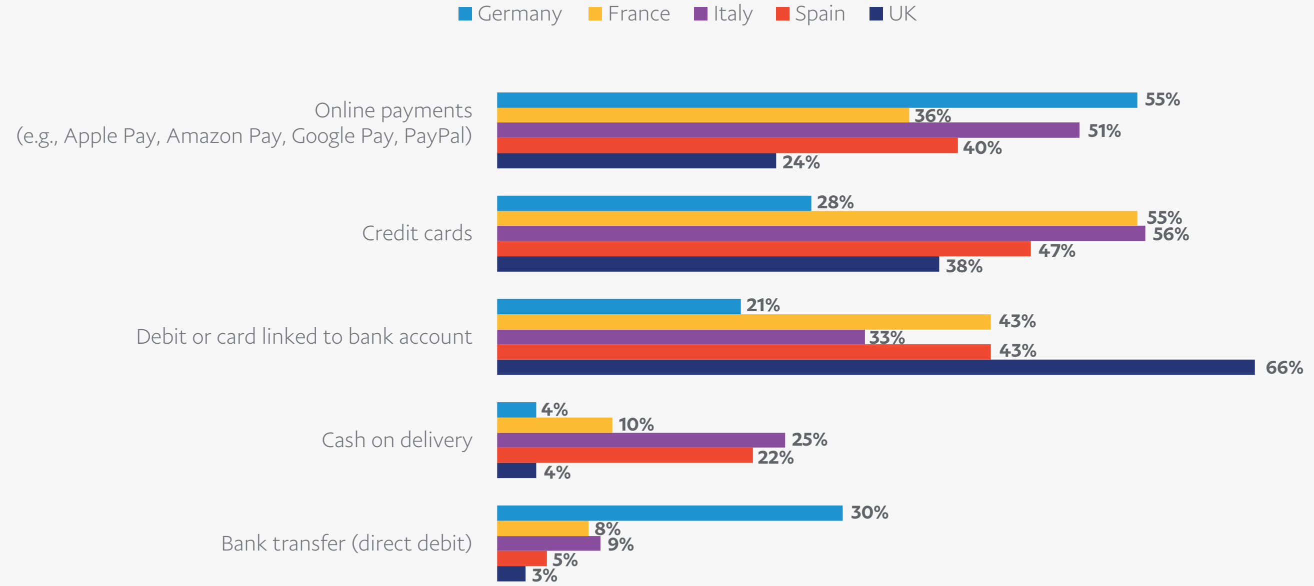
The way they pay

Online payments, such as Apple Pay or PayPal, are commonly used, reflecting the level of trust in these providers. Online payments are used less widely in the UK, however, where the use of debit cards is more prevalent.

Cash on delivery is used somewhat more often in Italy and Spain, but it still the choice of a minority. And bank transfers are used by one in three in Germany.

Payment methods used for online groceries[1]



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Differentiating delivery: three key trends

As the online grocery market matures, it is diversifying. Firms are developing niches that give consumers a reason to pick them from the dizzying array of online grocery options.

Three key trends are fueling this diversification. Each are intertwined, yet present distinct opportunities:

- **PREMIUMISATION/PRICE CONSCIOUSNESS**
- **LOCAL FRESH PRODUCE/SUSTAINABILITY**
- **BEYOND GROCERIES**

Premiumisation

While many companies are competing mainly on speed and price, others are taking a different direction and pursuing premiumisation—the emphasising of a brand or product's superior quality or exclusivity. This split in the market makes it challenging for mainstream brands that are trying to be all things to all people.

"The mainstream segment, with all the local brands, were losing market share due to the consumer wanting to pay a lower price or wanting to have something more premium," explained Gonzalo Rodriguez, Finance Director Business Strategy, Nestlé Waters.

At the bottom end, there is incredible margin pressure. Rodriguez said, "...if you only stay with plain water, it becomes a low-price product." This price pressure compels grocers to increase basket size—which pushes them in the direction of the "beyond groceries" trend.

At the top end, grocers can offer new and unique indulgences, promote sustainability, and be equipped to cater to desires for diverse local offering. There is more margin, but the volumes are smaller.

> "In Paris there are a lot of shops like **La Ruche qui dit Oui!** with seasonal and local products. It's gathering producers in the Paris region to get products directly to the customer. It's not like a classical supermarket.
>
> Charles-Henri Tournier, Popchef

Premium and sustainable fresh local produce

Grocers in the premium end of the market are tapping into a latent demand for fresh local produce in inventive ways, particularly in countries where market shopping has been the norm. PayPal's polling confirms that interest in more premium and sustainable products is widespread, with Italians being particularly enthusiastic[1].

Natoora is a fascinating example of how a premium player can cater to hyper-local wants and needs, while being present in multiple countries around the globe.

"Our mission" the [Natoora website] explains, "is to revolutionise the food system. In order to shape the future of food for the better, we have completely re-envisioned the supply chain.

Rather than buying blind through wholesalers or centralised markets, we source radically seasonal produce directly from small-scale farmers, maintaining real relationships year in, year out."

> "I think the sustainability agenda will not change and may even accelerate in some cases. I think today that all companies are aware of what needs to be done. It's something we cannot avoid doing.
>
> Gonzalo Rodriguez, Nestlé Waters

A "peak season box" from Natoora in the UK might feature Romanesco Cauliflowers from Windy Ridge, Lincolnshire, Bisalta Potatos from Piedmont, Italy, Red Oakleaf Lettuce from Patrice, Loire, and Worcester Pearmain Apples from East Sussex.

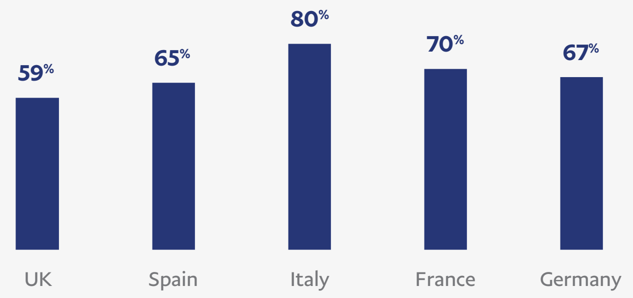
In making this offer available online, the company comes up against entrenched purchase patterns. "The people in Italy are used to buying in the open market in the streets," said Natoora's Fubini. "They want to check the food, and on e-commerce it is quite different because you just see a picture."

Natoora works to overcome this is by providing intimate information on the provenance of the produce. In providing some background on the Worcester Pearmain Apples, for example, they introduce the farmer and his mission.

"John pursues rare and heritage varieties to restore the biodiversity of species within our food system. The Dench family have been growing apples in the Sussex High Weald for over 70 years, where the mild climate creates the ideal conditions for growth. With no more than five or six modern varieties within normal reach, John and his family nurture over sixty, managing each one's micro-season to pick at the height of its maturity and preserve unique flavours."

In providing this depth of information, Natoora takes advantage of an online portal's ability to provide insider information. This creates a sense of connection that would be hard to develop even if you were chatting with the farmer at his market stall. It is playing to the medium's strength, while minimising a weakness.

% agree "I tend to choose products that are sustainably sourced and environment friendly"[1]



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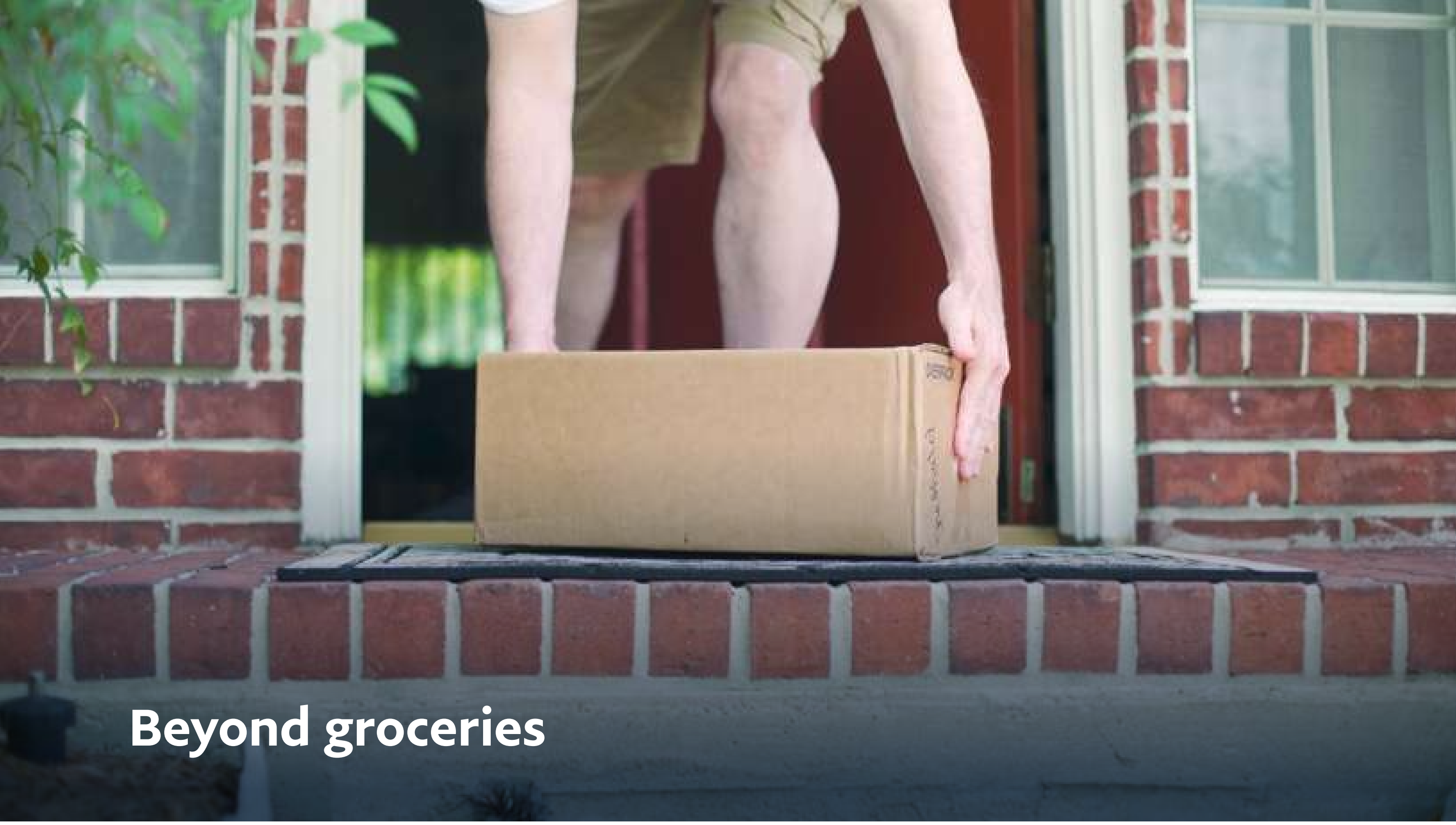


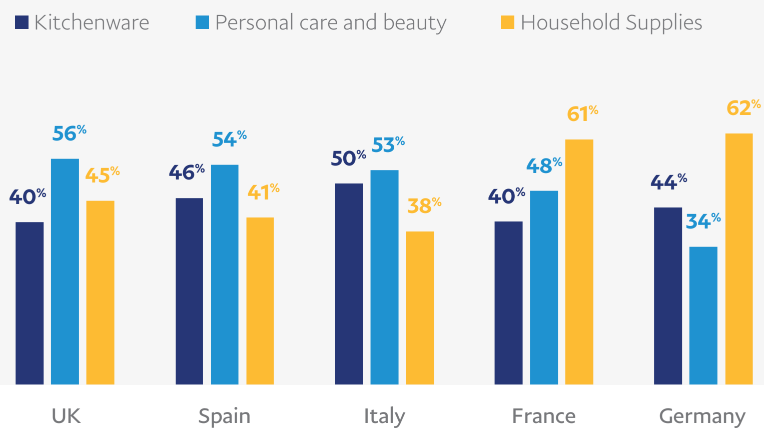
Beyond groceries

The flipside of the premium coin is price competition on the basics. It is where grocers compete against behemoths like Amazon, for whom groceries are but one more thing you could put in your cart. And consumers are comfortable with this approach.

Amongst current online grocery buyers, many are going beyond traditional grocery offerings and are using online grocers to purchase things like household supplies, personal care and beauty products, and even kitchenware.

In this end of the market, efficiency will be the key to success—for both the customer experience and the logistics of fulfilling orders.

Purchased online though grocery channels[1]



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A future of frictionless technology

The ability to stay on top of technological advancements will make or break online grocers, whether they be delivering heirloom tomatoes or deodorant. "Retailers with leading technology capabilities outperform other retailers by 19 percent," according to analysis by McKinsey[2].

Will the future be robots? Advanced analytics to optimise pricing, promotion, and assortment? Delivery drones? Automated mini warehouses attached to stores? The possibilities are endless, and the biggest breakthroughs have yet to be invented.

"I strongly believe the new age of technology has spurred the growth of new business models and new players and changed the consumer forever," said Igor Shekhterman, the CEO of leading Russian retailer X5 to McKinsey[2]. "If you ignore these changes, you risk lagging behind existing and even emerging competition. We have enough examples from other industries showing that underestimating the impact of convenience and availability of a new technology and overestimating a customer habit and loyalty to a traditional brand are harmful to a business. I'm convinced: e-grocery growth will continue to evolve as one of the main trends and give birth to new yet unknown models."

Whatever the future holds, online grocery will be a dynamic and diverse marketplace in the years to come. But the fundamentals will be unchanged. People will want convenience, selection, and frictionless, trusted payment solutions—and, above all, food that tastes great.

Here's to the future of grocery: Bon Appetit!

About the PayPal Poll by Maru/Matchbox

[1]Data taken from a survey that PayPal commissioned to understand *Online grocery & food delivery trends across the UK & EU*. This online survey was conducted by Maru/Matchbox between June 16 and July 30, 2021, among 5,003 participants. Roughly 1,000 interviews each were conducted in France, Germany, Italy, Spain, and the United Kingdom, among those who were household decision makers who ordered their groceries online and/or ordered meal kits or food online from restaurants.

[2]Source: McKinsey & Company, Disruption and Uncertainty – The State of Grocery Retail 2021: Europe, powered by Europanel data and insights.

PayPal has remained at the forefront of the digital payment revolution for more than 20 years. By leveraging technology to make financial services and commerce more convenient, affordable, and secure, the PayPal platform is empowering more than 400 million consumers and merchants in more than 200 markets to join and thrive in the global economy. For more information, visit paypal.com.