EXECUTIVE SUMMARY

Before the dot.com bubble burst in 2000, online grocers were all the rage. Start-up retailers with ambitious plans were flush with capital, and it seemed that the brick and mortar grocery store might go the way of the five and dime. Of course, we know how that played out: consumers were not ready to abandon the grocery store, Webvan et al ran out of money, and the sole online survivors were brick and mortar grocers able to leverage their offline presence and specialty retailers aimed at niche markets.

A decade later, the vast majority of consumers continue to buy all of their groceries at brick and mortar stores. However, online grocery is beginning to show an organic resurgence, funded not by venture capital dollars, but by sustainable growth plans and increasing consumer interest. While the U.S. online population has nearly doubled (from roughly 100 million to roughly 200 million) since 2001, the online presence of grocers has increased more than 13 times during the same time frame. More than 13 million U.S. Internet users visited a grocery site in July 2009.

Online grocers are proceeding more cautiously this time around, selectively expanding their offerings and geographic availability, even as they address the logistical challenges that plagued their predecessors. On the demand side, the advent of broadband allows consumers to make online purchases with greater ease and speed, and to avail themselves of a growing range of uniquely digital features and functions. The potential of this new generation of online grocers is clear, as online grocery sales have grown at better than a 20 percent compound annual rate since 2003.

Examining Market Drivers and Growth Opportunities

What is driving this increased consumer interest in online grocery shopping? Those who take the plunge and purchase groceries online tend to be satisfied, citing *convenience, selection, and savings* as primary reasons for choosing online grocery over in-person shopping. Despite these benefits, most shoppers continue to buy groceries in-person. Online grocery shopping deterrents include *shipping costs, inability to inspect perishables, and having to wait for deliveries to arrive*, which works against the core convenience benefit. In addition, we strongly suspect many consumers continue to shop for groceries in person out of habit, or due to lack of awareness/availability of online grocery options.

To take advantage of the ripe market timing, grocers can start by creating a strong online presence and ensuring that their Web sites are not only destinations for product reviews and digital coupons, but also resources for health and wellness topics and meal planning. Importantly, the sites should support the in-store shopping experience. Before entering the e-commerce space, grocers must upgrade their sites to the point that shoppers are visiting them regularly. Securing an audience will make the foray into e-commerce more successful if and when the grocer decides to move full steam ahead.
Analyst Spotlight: Online Grocery Market Resurgence

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How Many Are There? Less than one percent of food and beverage sales occur online today. This number is conservatively expected to double by 2013. Less than five percent of consumers made an online food purchase in 2008.

Who Are They? Online food and beverage shopping skews to upper-income “established” adults residing in smaller households. These consumers are more willing to pay the shipping fees and premium prices typically associated with online grocery shopping in exchange for the convenience and other benefits of online. Geographic location is influenced by the regional distribution of online grocers (upscale urban/suburban neighborhoods; Northeast, West coast).

What Else Are They Doing? Those who buy groceries online are more than twice as likely as the average Internet user to go online to read/post product reviews, download coupons and search for recipes. These shoppers are using the Internet as a food resource, from product selection through meal preparation, pointing to a clear opportunity for online grocers to make their Web sites a comprehensive destination. Importantly, mobile is a highly relevant platform for consumers who buy groceries online. Online grocery shoppers are almost twice as likely to access the Internet on-the-go through their cellular phones, presenting grocers with an additional touch point to engage shoppers via mobile coupons and grocery lists (source: Nielsen @Plan, U.S., 18+, Fall 2009 Survey).

Figure 1: Online Grocery Shoppers Demographic Profile

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<thead>
<tr>
<th>Demographic</th>
<th>Online Food + Beverage Buyer Index¹</th>
<th>Offline Food + Bev Buyer Index²</th>
<th>Volume Index³</th>
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Source: The Nielsen Company, Online Panel, Nielsen Homescan

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1Index of Online Buyers w/in Group to Total Online Buyers
2Index of Buyers w/in Group to Total Panelists in Group
3Index of Volume w/in Group to Total Panelists in Group
About the Resurgence of Online Grocery

Online grocery is poised for growth, at the intersection of four mega-trends:

1. **Convenience** – The increase in stress associated with the work-life balance has already transformed the packaged goods industry. On-the-go products are one way to ease hectic lifestyles, and online grocery could become a catch-all of convenience for the food, beverage and personal care categories. Avoiding in-store grocery trips frees up time that can be spent with family or enjoying leisure activities.

2. **Generation Y** – One of the barriers to entry for the online grocery category is habit; those who did not grow up with the Internet or e-commerce may be hesitant to purchase groceries online, just as consumers accustomed to purchasing fresh produce and meats resisted supermarkets generations ago. Now that Generation Y has approached grocery-buying age, the “habit barrier” may begin to erode. Since making purchases online is second nature for Generation Y, they are less likely to distinguish between online grocery shopping and buying clothing or consumer electronics online.

3. **Broadband** – Almost two-thirds of Americans have broadband Internet access (source: Pew Internet & American Life Project), and these numbers are expected to increase, leaving American shoppers well-equipped to browse virtual aisles and fill their e-grocery carts.

4. **Customization** – Online grocery shopping is conducive to customized recommendations based on previous shopping habits (e.g., serving up product recommendations or promotions for combinations of offerings/kits). Retailers are beginning to take advantage of this by creating personalized e-commerce portals like MySears.com and live, on-demand customer service support (e.g., Zappos). Grocers are in a prime position to follow suit.
What Drives Consumers to Shop for Groceries Online?

Pros: Convenience, Selection and Price (Fig. 2, page 5)

Shopping for groceries online is convenient. The perception of “convenience” manifests in two key ways: being able to fill up a grocery cart with the click of a button any time of day or night and having groceries delivered. Buying groceries online is deemed a timesaver—not only because it allows shoppers to avoid commuting to and from the market and waiting in line, but also because selecting products online is much quicker than navigating aisles and hunting down specific brands or items. Consumers appreciate being able to shop for groceries at any time of day—even while wearing their pajamas—and being able to avoid the unpleasant experiences that can accompany shopping in-person (e.g. crowds, traffic and inclement weather). Lastly, having groceries delivered affords shoppers the ability buy in bulk and stock up on staples without having to lug around heavy packages.

Despite the clear benefits, many still consider online grocery shopping an indulgence—some who enjoy it seem a bit embarrassed, characterizing their decision to shop online as a form of “laziness.”

The Web allows grocers to offer a wide product assortment and in-depth product information—benefits that are especially important for those with special dietary needs. Shopping online allows dieters and consumers with food restrictions and allergies to buy specialty products they cannot find at local retailers. For example, one woman on iVillage.com recommends purchasing a specific brand of dairy-free cookies on Amazon.com to a mother who is breastfeeding a son recently diagnosed with acid reflux and dairy sensitivity. As food allergies and dietary restrictions become more prevalent, this type of scenario will present a growing opportunity. Grocers are in prime position to take advantage of this budding niche market online, where shelf space no longer constrains assortment and product images can serve as portals to a range of relevant content.

Shopping for groceries online facilitates price and product comparisons, while running shopping-cart tallies may help deter impulse buys. Despite potentially having to pay a delivery fee, many shoppers find that seeing the running total in their e-shopping carts helps them stay on budget and avoid unnecessary purchases. This feature can also help weight-conscious shoppers stick to their dietary plans. For those who are more frugal, free shipping or the ability to redeem manufacturer coupons provide a real incentive to shop for groceries online. While convenience and assortment are the main perks of online grocery shopping, price and value are particularly salient in the current economy, and the speed and flexibility of the online platform have allowed some e-grocers to capitalize on this.

In our question ultimate laziness, we tried having our groceries delivered for the first time this week. We have run the gauntlet in every shopping center within a twenty mile radius and hate most of them. The only one that comes close to meeting our needs is Stop & Shop, which is quite a drive for groceries. So I went on the Peapod website and saw that it would cost around $6 to have a unlimited number of groceries delivered right to your door. Once we probably spend that amount of money in gas just driving there. I figured why not. It also helps avoid hunger and impulse buys and makes you think twice about buying unhealthy things. They delivered 16 minutes before they delivery time block that they gave us and everything was there and perfect and they carried all up the stairs. Wow.

LiveJournal: Bailey, 2008-01-31
Figure 2: Reasons for Purchasing Groceries Online

- Avoid crowds or traffic
- Find products I can't find at local store
- Easy
- Special promos, deals
- Save on fuel costs
- Takes less time
- Better selection
- Avoid bad weather
- Less work
- Useful info on the website
- Easy way to stock up
- Stick to a budget/avoid impulse buys

Over 70% of respondents reported having a positive experience purchasing groceries online; only 3% disliked it.

Source: The Nielsen Company, Online Panel survey
Cons: Shipping fees, Inability to Inspect Items and Waiting for Deliveries (Fig. 3)

Minimum order requirements and shipping fees are not always worth it. Few argue that shopping in-person is easier or quicker than shopping online; however, the delivery charges are a stumbling block for those who cannot justify spending the extra money. Shopping online at grocers with local inventories usually means paying delivery fees and driver tips. For example, Peapod.com requires a minimum order of $60 and charges a delivery fee of $9.95 for orders under $100 and $6.95 for orders over $100. In comparison, retailers like Amazon that do not have brick and mortar locations and instead ship items from national distribution centers tend to offer reduced or free shipping, though wait times can be long and selection is generally limited to dry grocery items.

The inability to hand select perishable items presents a barrier to entry. Some shoppers express concern over the quality and freshness of products—especially produce and meats—and don’t feel confident purchasing foods online.

“Would also miss the smells, sights, and impulse buying of not being there in person. Hard to pick out the fruit and veggies you want... and I am fussy about that...So in reality, I would give it a try, and maybe do it sometime, but would not use it regularly.”

Source: The Nielsen Company, Online Panel survey

Waiting for grocery delivery can be a deterrent, even though the amount of time it takes to go shopping in-person may be similar to the delivery window. For some, having to wait at home for a delivery counters the benefits of buying groceries online: time-savings and flexibility. However, while delivery times vary by grocer, frustration with waiting for deliveries may in part be psychological; shopping in-person offers the consumer a sense of control.

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Figure 3: Barriers to Purchasing Groceries Online

Source: The Nielsen Company, Online Panel survey
Connecting and Engaging with Your Shoppers

Web sites provide a chance to connect with and engage shoppers; value is not limited to grocers that sell products online. Web sites present a variety of opportunities for grocers, ranging from providing shoppers with detailed product information, store hours, online circulars and coupons, to becoming a resource for meal planning and health and wellness. Grocers need not be responsible for all content on the Web site; they should consider enlisting manufacturers to maintain branded or sponsored sections of the Web site. For example, a health-oriented brand could power a calorie counter on the grocer’s site, or an ingredient manufacturer might sponsor podcasts with celebrity chefs.

Online grocery represents a largely unrealized opportunity, but grocers must work to build awareness and establish the value proposition. Grocers must educate shoppers on the benefits of buying groceries online in simple terms that reflect the needs and concerns that shoppers are already expressing: buying groceries online saves time and money and offers a wider variety of products.

Customize, customize, customize! One of the perks to buying groceries online is being able to personalize the planning and shopping experience. Tools such as stored grocery lists, meal planners and automatic reorder options make the checkout process quicker—and more enjoyable.

Some online grocers are making a concerted effort to tailor the browsing experience to the specific needs of the shopper. For example, Peapod.com offers a product sorting service called “NutriFilter” that allows shoppers to narrow down search results by specific dietary needs, such as gluten-free or low sodium. Although some online grocers are already doing this, this remains a largely untapped opportunity.

Online Grocery 2.0: Customer product reviews. Customer product reviews are a staple of large e-commerce portals like Amazon; however, they rarely emerge within the online grocery category. Although there is always a chance that a product will receive negative feedback, consumer reviews are quickly becoming a necessity and online grocers must be prepared to take the good with the bad. Not only does the transparency promote trust and loyalty, but the commentary also provides a valuable feedback channel, allowing the retailer to better understand why a specific product is or isn’t doing well and when it’s time to pull the plug and remove the item from the shelf. Importantly, customer reviews are a necessity for all products, not only those sold online. A few grocers, such as Whole Foods, have already defined the gold standard by encouraging customer reviews, even for products that are only sold at brick and mortar locations.

Online Grocery 2.0: Retailer reviews for perishables. Possibly the biggest challenge for online grocers is shoppers’ sensitivity toward buying foods—especially produce and meats—sight-unseen. Unlike shipping costs that can be waived and delivery windows that can be kept brief, it is difficult for online grocers to compensate for the lack of firsthand interaction between consumers and perishables that accompanies shopping online. Some retailers have taken steps to address this hurdle by providing daily ratings on fresh produce. For example, if the bananas are a bit more bruised than usual, Fresh Direct will give their bananas two or three stars instead of four or five.

Online Grocery 2.0: Video. Simply searching for “recipe” on YouTube will demonstrate how actively consumers rely on video when preparing food. In addition to transforming the grocer’s Web site into a resource, as opposed to just an e-commerce site, video also presents an opportunity for grocers to team up with brands and market specific products. Drugstore.com, an early, successful adopter of video, has expanded beyond posting their own (and manufacturer’s) content. The online personal care retailer now hosts contests revolving around video and encourages shoppers to submit their own videos.

Online Grocery 2.0: Grocery shopping goes social? Social shopping sites like ThisNext.com have been around for a few years, but the idea has yet to become a full-blown trend embraced by online retailers. Social shopping takes product reviews to the next level by adding back the social component of shopping that is absent once someone opts to purchase groceries online. To take advantage of this trend, online grocers can either create their own functionality or partner with established communities like Zeer that are dedicated to groceries.
What’s Around the Corner in Online Grocery?

Enter: Walmart? Although Walmart and other major offline mass merchandisers have avoided entering online grocery, there are signs this may be about to change. The grocery section of Walmart.com includes e-commerce features, such as electronic shopping carts, though these are inactive. Currently, the site allows consumers to browse groceries to check in-store availability and product details. Walmart already offers “Site to Store” service for many categories. This service provides free shipping for online orders to any Walmart store. Walmart seems to be on the verge of what could be an attractive online offering to its value-conscious customer base: free “site to store” shipping for those who want many of the conveniences of ordering groceries online but do not want to pay the delivery fees. This could be a model for mass merchandisers and other food retailers that are not yet ready to take the full plunge into the online grocery arena.

Alice.com: A new standard in online grocery? The newest major online grocery entrant, Alice.com, went live in June 2009. Led by a strong management team with a successful online track record, Alice addresses a major barrier to online grocery shopping head on: all orders ship for free. In addition, Alice bundles the best online grocery features in one user-friendly interface, which includes product reviews, a social media platform, live “help,” and on-demand price comparisons with other retailers. Alice also promises best-in-class customer service. The site currently offers a limited assortment of mostly non-food items … possibly a sign that Alice’s model of shifting distribution costs to manufacturers is slow to catch on with food companies. In any case, Alice.com is an innovative new player that bears close watching.

The Online Middle Man: WeGoShop.com. Want to shop from a grocer that doesn’t offer an online service? WeGoShop.com has the answer. For a service fee, WeGoShop will do your grocery shopping for you at your preferred grocer. As more grocers come online, services like WeGoShop may be phased out; however, in the interim WeGoShop fills a space in the market by catering to brand loyal shoppers who are willing to pay the fees associated with convenience.

Beyond Clicks: Home scanners. A service that makes online grocery shopping even more convenient, but requires a monetary commitment, is the emerging market of home scanners. One such provider is Ikan, a service currently focused on the New York City area that allows shoppers to scan the products they need to purchase right in their kitchens and upload their shopping list to participating grocers’ Web sites. Although in-home grocery scanners is a niche market and probably too pricey to garner widespread attention (the Ikan scanner costs $400), it is a trend worth keeping an eye on. And for consumers on a tight budget, manufacturers like Unilever and third party providers like Cellfire are beginning to offer digital coupons that shoppers can store in Internet-enabled cell phones or savings cards. At checkout, the cashier scans the cell phone or savings card, redeeming the coupon and facilitating quick and hassle-free savings.
**About this Report: Methodology**

The Nielsen Company leveraged several capabilities to gain insight into the factors motivating online grocery purchasing. Using its BuzzMetrics online “listening” platform, Nielsen tapped into unaided discussion about the Online Grocery channel within blogs, message boards, and social networks. This analysis provided a rich, unsolicited source of online consumer opinion toward buying groceries online.

A survey was fielded through Nielsen’s Online Consumer Panel to help quantify the views expressed in consumer conversations. Nielsen’s Online Panel is a U.S.-based metered Web panel featuring roughly 250,000 individuals. 126 adults (18+) who had made an online grocery purchase within the last 6 months completed the survey.

The analysis covered the timeframe from August 1, 2008 to March 31, 2009.

Additional data points were providing using Nielsen @Plan and Nielsen Homescan Online.

**About The Author**

Since joining Nielsen in 2004, Maya Swedowsky focuses her analytical expertise in social media research, online media and Web measurement. In her role as Associate Research Director, Maya provides insight into how the Internet and social media have transformed the retail and packaged goods industries.

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*Editor’s Note: Please source all data to The Nielsen Company*