THE DIGITAL CONSUMER’S JOURNEY IN THE WESTERN EUROPE GROCERY MARKET
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EXECUTIVE SUMMARY

In an increasingly connected world, there’s no denying the growing influence of e-commerce. Consumers are rapidly adapting their lives to keep pace with digital advances, and Nielsen anticipates a wave of consolidation, polarization and even some saturation in the consumer packaged goods (CPG) space across Western Europe as e-commerce gains momentum.

The speed of adoption and acceptance will vary across countries, but each is headed in the same direction. And as European consumers move forward on their e-commerce journeys, we see three distinct factors of adoption that each country will experience along the way.

1. **Increased information integration.** Technology has been the enabler over the past five years, with tablet and smart phone apps now simplifying the online grocery shopping experience. Consumers are taking control of their own and highly personal shopping experience, shopping in the way they want to and engaging only with the brands and retailers that they want to engage with.

   In the future, information will be better integrated, and consumers will have increasing opportunities to act now across their devices.

   Future technological developments will include “no touch interfaces face recognition,” which consumers will widely adopt. These advances will not only change our entertainment patterns (e.g., Netflix rather than a Cinema visit) but will increase the digital consumption of media and affect our understanding and use of brick-and-mortar spaces.

2. **Generational divides in shopping.** Consumer motivations and intent to shop online has reached a tipping point in many countries. Much of this is due to generational changes in how we shop. For example, older consumers are living longer but thinking younger, while younger generations and more affluent consumers are prepared to be more adaptive and flexible in how they shop. And as the youngest generation matures as a consumer demographic, its shopping behavior will be completely unique.
3. **Shifts in e-commerce spending.** Industry business models will ultimately determine the amount of e-commerce spending across the major European economies in the next five years. At some point soon, CPG companies will seek a compelling return on investment (ROI) from their online sales as they attract new shoppers and this will influence how distributors fulfil orders. For retailers with an oversupply of stores during a time of falling or weak demand, the digital path to purchase could be a game changer.

Economics will play an even greater role in retail. That is, the model that companies have followed to drive store sizes and number of locations has reached that cartoon moment when the character looks down and realizes the road is no longer under their feet... and they fall to the bottom of a canyon far below.

### HOW ONLINE IS CHANGING WESTERN EUROPE’S GROCERY LANDSCAPE

It’s clear that improving technology is a key e-commerce growth driver.

For example, the increasing use of the web and rise in smartphone ownership are strong contributors to e-commerce growth. Additional enablers include the growing level of trust in buying online, the desire for convenience, the lower cost (products and delivery charges) and changes in car usage and urbanization.

The iPhone was a key catalyst in the digital revolution just seven years ago. Today, the revolution continues with advanced mobile technology like 4G and broadening band width, which are helping consumers take control and will shape the e-commerce landscape. Most shoppers are digitally savvy and can research products and offers to make sound and conscious purchase decisions. They can then proactively plan and control their spending—and saving.
More than an additional one billion consumers will use smartphones across the world in the next five years, so digital presents a new and significant opportunity for retailers in the most developed e-commerce countries to grow their sales. In fact, we expect marketers to allocate 30% of their advertising spend to digital channels, including social and mobile, over the next five years.

Technology isn’t the only growth impetus, however. Consumer behavior will play a role as well, particularly as the paths of an aging population, multi-culturalism, and digital native grocery shopping converge.

Given the pace and breadth of change, retailers can’t afford to only focus on younger e-commerce shoppers. Individuals aged 60 or older are active online as well, and actually make up the demographic with the most disposable income.

Retailers also need to be aware of what consumers are shopping for both on and offline, because physical baskets don’t necessarily mirror virtual ones. Consumers often spend more online, but the content they purchase can be different from what they buy offline.

For a notable and growing minority of consumers in Western Europe, online grocery shopping is now mainstream. And given the groundswell, we expect the reach of e-commerce to extend significantly over the next five years.

**E-Commerce Adoption**

In addition to the growing adoption of e-commerce, it’s important for retailers to anticipate how easily shoppers will adopt e-commerce, particularly in light of choice, convenience and value.

After five years of weak consumer demand, which held back CPG demand, digital will be a springboard for future growth. While many consumers are more optimistic about economic prospects today that they have been in some time, the majority of European consumers are still in search of less-expensive grocery brands.

Online breaks the rules of brick-and-mortar retailing. Online technology, combined with the ease of mobile connectivity, allow consumers access to instant information, choice and speed. These are prime motivators for consumers, and the online realm gives them the ability to make informed purchase decisions in real time. They now have the power to understand product offers, proactively plan and control their spending and saving money when they can.
Nielsen expects two dominant behaviors to shape online grocery spending:

- **Consumers will demand an integrated offline-online-mobile shopping experience** that enables them to shop—and have their requirements fulfilled—in a way that’s convenient for them and fits in with their busy lives. This is already happening in the early adopting countries of the U.K. and France, where the online share of all grocery spend is the highest in Europe, at 4.4% and 3.9%, respectively (source: Homescan 2013).

- **Shoppers will become even more price sensitive**, and that will affect the sentiment of shopping via their peer and social network connections (online word of mouth). Shoppers will also use group purchasing to drive down prices. This behavior will also shift shopping dynamics: consumers will ultimately offer to buy products rather visiting retailers offering to sell.

To reach new consumers, strategies need to consider how consumers use technology.

1. They need to create emotion and connect with shoppers.

2. Site search functionality: Shoppers need to be able to quickly identify the item(s) they want to buy and determine the corresponding price.

E-commerce represents a huge opportunity for retailers, both from a communication perspective and as a way to commercialize products.

**Adoption Rates Vary**

E-commerce success rates, shopper acceptance and market shares vary across Western Europe, and the online grocery markets in the U.K. and France appear to be the most advanced in the region.

The reasons behind the different rates of adoption and growth are varied, including factors like trade landscape, urbanization and the development of ecommerce websites, but the pace of change is accelerating. In 2013, 16% of the online population in the five major economies in Western Europe was actively using e-commerce. Additionally, online grocery sales across the region grew 28%.
**ONLINE GROCERY TRENDS WESTERN EUROPE**

- **2.4%** SHARE OF ALL FMCG SALES
- **21%** INCREASE IN THE NUMBER OF HOUSEHOLDS PURCHASING FMCG
- **E COMMERCE SHARE IS GROWING FASTEST**
  - France (4.4%)

Source: Nielsen Consumer Panel Year 2013

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**UK AND FRANCE ARE DRIVING ONLINE FMCG PURCHASING**

**ONLINE SHARE OF TOTAL CPG SALES (BASIS: VALUE SALES)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>BIG5</td>
<td>2.4%</td>
</tr>
<tr>
<td>UK</td>
<td>4.4%</td>
</tr>
<tr>
<td>France</td>
<td>3.9%</td>
</tr>
<tr>
<td>Spain</td>
<td>0.6%</td>
</tr>
<tr>
<td>Italy</td>
<td>0.5%</td>
</tr>
<tr>
<td>Germany</td>
<td>0.4%</td>
</tr>
</tbody>
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Source: Nielsen Consumer Panel Year to December 2013
This could also be an opportunity to engage with consumers—whether to complete the customer journey, improve an experience or provide reasons for them to increase on line spend.

In France, CPG consumers are becoming more loyal to the e-commerce channel, likely the result of a countrywide roll out of click and drive initiatives by the market’s retailers, and we saw continued growth in 2014 that will extend into 2015 and likely beyond. The reasons for the continued growth are plentiful: the number of items available online (promoted and non-promoted) is increasing; customers have access to customized online products specific products/formats that better fit their needs; and retailers are steadily strengthening their customer relationship management (CRM) programs.

In Italy, the trade structure is less consolidated and the framework to buy via e-commerce is less developed (only 0.5% share of grocery sales) even though mobile penetration is the highest of Europe’s “Big 5” countries.

The high density of stores in Italy has historically led the Italian consumer to shop frequently and visit different shops, often making one shopping trip per family every two days.

In contrast, consumers in Spain visit retailers’ webpages primarily to check promotions and compare prices before purchasing at traditional retail stores (74% visit webpages to check promotions, and only 29% buy online). To take advantage of web usage in Spain, new players in the market do the price comparisons for the consumers and then allow the consumers to do their shopping directly with the price comparison site.

There is now a clear digital path to purchase, and one of the biggest challenges for the CPG industry will be keeping up with the continuously changing expectations of consumers. And as consumers acquire new information and more opportunity to seek out the best choice, consumers will likely become less loyal than in the past.

This suggests that retailers need to rethink their marketing mix in a digital way by adapting merchandising, promotions, price (online vs offline) and communication for the web—all of which will lead to a fundamental shift in how consumers shop for CPG in Europe.

As consumers migrate to online shopping, where they can shop anytime, for anything and from anywhere, questions will arise around loyalty to retailer and brands. Will loyalty rise or fall?

It’s no longer just about attracting shoppers to new stores. Today, it’s about getting new products to the increasingly connected shopper.
A NEW BATTLEFIELD FOR RETAILERS AND MANUFACTURERS

Traditional brick and mortar retailers are engaging online and brands are moving fast to meet shoppers’ expectations: they know that to be the first online grocery experience for a given household can be game-changing.

But consumers are not going to shop just online or just offline. They’re going to blend the two opportunities, which means retail competition is now online and offline. Take the behavior of shoppers in Germany after Schlecker Online filed for bankruptcy, for example. After the Schlecker Online closed up shop, most of the former online shoppers switched back to offline shopping rather than finding another online outlet.

Online retailers and advertisers will need to increase their marketing investments to build awareness and bring traffic to their websites. And one way e-commerce players are doing this is by using their marketing budgets toward traditional media, a trend that’s been evolving since the start of 2013.

At the moment, many consumers base their supermarket decisions on location, range and ease of shop choice. Over time, online decision making will even replace in-store decision making. Technology and smartphone apps provide an easy way for consumers to compare prices and the cost of a shopping basket across the retail landscape.

And the changing landscape isn’t only going to affect hypermarkets. All types of physical shops will need to reinvent themselves.

The challenge for brick and mortar stores is to manage to coexistence of both worlds—real and virtual.

New Players on the Ground

With the growing influence of the internet, the online grocery market (like non-food) is open to newcomers that struggled to get in on the game after facing strong barriers to entry for decades. Some have already involved, and more will certainly arrive in the future.
Grocery is a new opportunity for e-commerce, but new entrants won’t be limited to grocers. Amazon is a good example of a player from the non-food arena. There are also opportunities for specialists that have strong unique selling propositions (wine, baby, pet). There will also be room for small specialists that offer products to consumer via online marketplaces.

But what about brands selling direct to the consumer? Certainly the advancing e-commerce landscape is an opportunity for brands to re-engage and redefine (or better explain) their core values and value propositions.

**So What’s Coming Next?**

FMCG e-commerce will approach maturity quickest in the U.K., the most developed e-commerce country in Europe. We’ll see maturity here when there is almost universal penetration of mobile/tablet, and this will support the emergence of new e-commerce retailers.

It will remain expensive for consumers to travel to stores and for retailers to deliver to the shopper’s home. In many metropolitan areas, it may become too expensive to pay for big retail space, and so “connected smart cities” will evolve as online retailing accelerates and retailers either consolidate or disappear.

Recent experiences show the future of e-commerce and new possibilities. Shopping walls/cubes in Seoul, Paris and Brussels, for example, let shoppers scan pictures of products (in train and metro stations), which are then delivered to their homes. And more recently, Amazon and other retailers stated their intention to offer pick-up facilities at various stations throughout the London Underground system.

Consumers are habitual, and as technology enhances our lives, we might begin to make more purchases based on previous buying histories. We’re already starting to see signs of this. In the U.K., the Ocado online supermarket focusses on offering customers recommendations based on previous purchase history (personal preferences, inspired choices, diets...).

While it’s clear that e-commerce can considerably extend a retailer’s reach, there are still questions about what makes the most ideal and most profitable business model. Social changes, such as the needs of time-conscious consumers, women becoming more involved in the workplace and men getting more involved in grocery shopping, will shape fulfilment models.

The fulfillment model is key to profitability and growth (e.g., home delivery vs. drive and collect vs. click and collect, and finding the right balance of these options).
Not all markets will develop the same. For example, brick and mortar stores may remain more relevant in some countries for FMCG than for other industries. In big cities, however, e-commerce will become an important source of growth as retailers expand home delivery options. We can expect the same in Spain, and Italy where the e-commerce potential within the big cities (mainly Madrid and Barcelona and Milan) will be much different than it will be for the rest of the region.

In France, click and collect has been the driving force since Auchan opened its first Auchan Drive in 2000. In fact, France now has more click and drive collection points than hypermarkets.

Today, 20% of shoppers in France use click and drive, and it appears that this model is performing much better than the model that relies on stand-alone physical stores.

Adding new services to the concept (fuel, fresh food, fresh bakery, and a service point {locksmith, shoe repairer, parcel reception point}) adds significant cost to the retailer business model. And as a result, the overall e-commerce model may only ever be marginally profitable.

Another way retailers can get involved in e-commerce, aside from home delivery and click & collect/drive, is by working with third parties, such as specialist distributors.

For example, Amazon and eBay now partner with retailers and distribution specialists like FedEx, and they could become key players in the Western European market. The challenge for retailers, however, will be to maximize the geographic reach of brick and mortar stores. They will have greater success with doing so in densely populated countries or regions.

From a consumer demand point of view in CPG, the need to save time could be a strong driver of online growth. At the same time, online could be a great tool for families that want to adhere to their shopping lists.

- In the new world of multi-or omni-channel retailing, the most valuable customers will be the ones who shop in stores and online.
- This will define how retailers interpret loyalty and perhaps online advocacy and “stickiness.” These may even become a better key performance indicators for retail businesses than share of wallet spent. When 60% of your consumers tell their family, friends and colleagues about their experience, there is a new moment of truth.

The current distribution and route to market for bricks and mortar retailing is no longer able to meet all of the consumer needs, and with CPG sales still weak across Western Europe as the hangover from the economic crises of recent years, it’s possible that e-commerce could soon become the catalyst to future CPG growth.
ABOUT NIELSEN

Nielsen N.V. (NYSE: NLSN) is a global information and measurement company with leading market positions in marketing and consumer information, television and other media measurement, online intelligence and mobile measurement. Nielsen has a presence in approximately 100 countries, with headquarters in New York, USA and Diemen, the Netherlands.

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