

US Online Grocery Snapshot: Q4 2022

TRENDS REPORT

Research Data Shows Online Grocery Trends Emerging Post-Pandemic

Summary

Online grocery sales continue to grow, but the growth rate has slowed substantially compared to the outlier year 2020. In this research, we assess grocery in the current economy amid inflation, supply chain challenges, and competition. This report highlights the growth of grocery subcategories, the distribution of online grocery delivery formats, and the competitive landscape for e- grocery retailers.

Online Grocery Is Still Growing, But Momentum Continues To Decline

Online grocery sales in the US continue to grow. However, seven out of eight subcategories (excluding alcohol/liquor) that research tracks have lower growth now than they did one year ago (see Figure 1). It is important to note that this year-over-year (YOY) growth is even further impacted by rising inflation and the fact that consumers buy most grocery categories in-store.

Since the pandemic started in early 2020, conventional wisdom has been that online grocery gained years of growth in a few months and that it would forever transform grocery e-commerce. The truth is that in most categories, most grocery sales still occur offline (i.e., primarily in stores). Research predicts that 91% of food and drink sales will occur offline in 2023. That said, we predict that online food and drink sales will grow to \$100 billion in the US in 2023, a 45% increase when compared to 2021 food and drink sales. In the current state of grocery:

- **Growth rates decelerated across nearly all categories.** The online grocery was split into nine major subcategories: general merchandise, home care, health, beauty, refrigerated items, frozen items, general food, and beverages (as well as liquor products). All categories experienced double-digit year-over-year growth in October 2021. As of October 2022, those growth rates have drastically decreased for every category except beauty. For comparison, the YOY growth for refrigerated foods plummeted from 34% in October 2021 to 5% in October 2022.
- **Food retained its share of grocery e-commerce.** Before the pandemic, food items (edible non-perishable and edible perishable) made up 26% of online grocery; that share increased to 37% in October 2021. However, the October 2022 data shows that food has plateaued at 37% market share (see Figure 2). The lion's share of e-commerce sales continues to be in non-food, shelf-stable products.
- **Amazon and Walmart dominate.** Research data shows that Amazon makes up two-thirds of non-food grocery sales online (see Figure 3). The vast majority (94%) of these purchases tend to be fulfilled by delivery services to consumer homes. By contrast, Walmart's online grocery shoppers tend to buy food items: More than one-third (36%) of total US edible perishable online sales were purchased through

Walmart.com. Shoppers are also much more likely to pick up their online food purchases in-store via some form of click-and-collect as opposed to their nonfood purchases in-store.

- **Consumers still buy most categories offline.** Eighty-five percent of US online adults buy groceries in a physical store. Edible food categories (both perishable and nonperishable) have the lowest online penetration rates (which haven't significantly changed from their 2021 penetration rates) (see Figure 4). In 2021, 34% of US online adults who ordered groceries online did so because they felt safer during the pandemic; this percentage dropped to 26% in 2022 (see Figure 5). Placer.ai data indicates that store traffic for the grocery industry grew 7.5% year-over-three-year from pre-pandemic levels (i.e., November 2019) to November 2022. In-store shopping still has some additional conveniences: 45% of US online adults agree they shop for groceries in-store to see and touch the products.

Figure 1

Online Grocery Categories Are Growing, But Growth Has Slowed From October 2021

Year-over-year growth by category for e-commerce sales

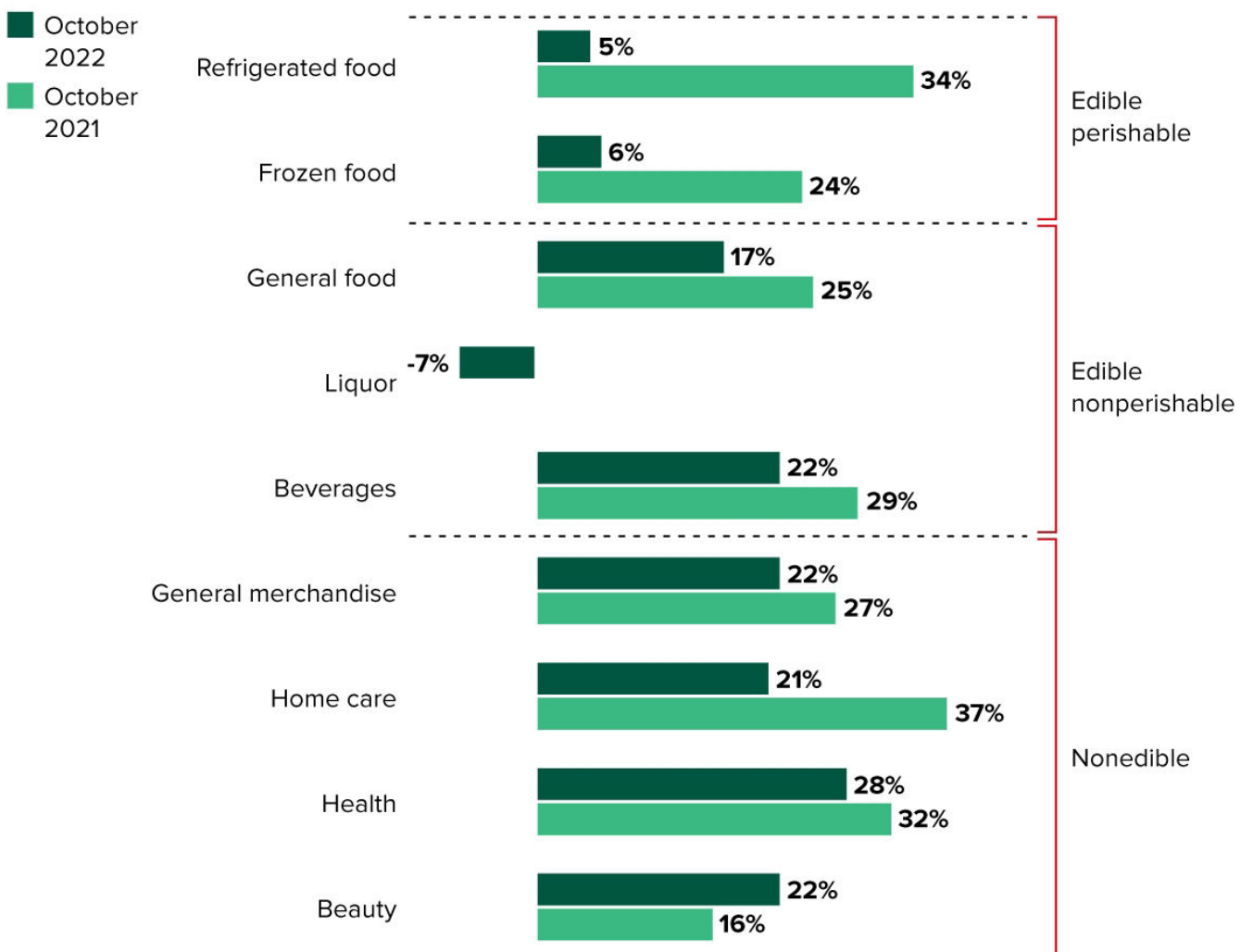


Figure 2

Edible Grocery Constitutes 37% Of Online Grocery Sales

Breakout of e-commerce grocery

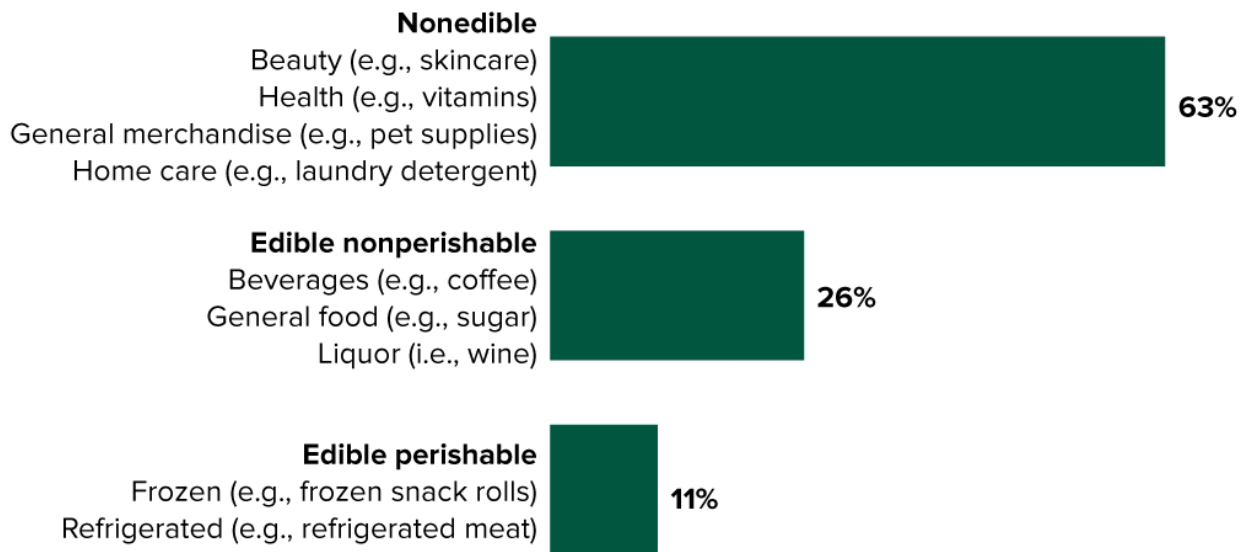
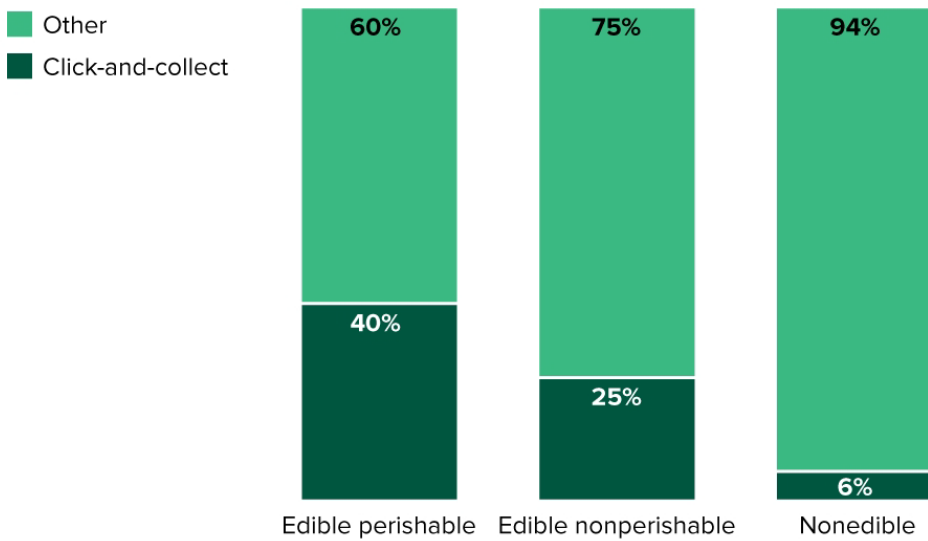


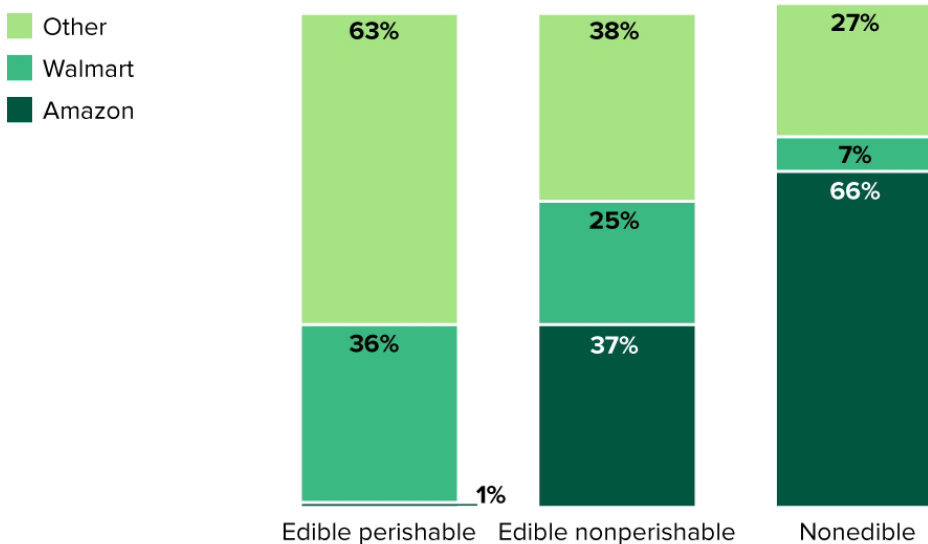
Figure 3

Click-And-Collect Is Higher For Edible Perishable Than For Other Grocery Categories

3-1 Click-and-collect versus other (e.g., home delivery/ship)



3-2 Share of e-commerce sales: Amazon versus Walmart versus all others



Note: Percentages may not total 100 because of rounding.

Figure 4

Edible Perishable Is Growing, But It's A Small Percentage Of Total Online Grocery

Breakout of online category penetration

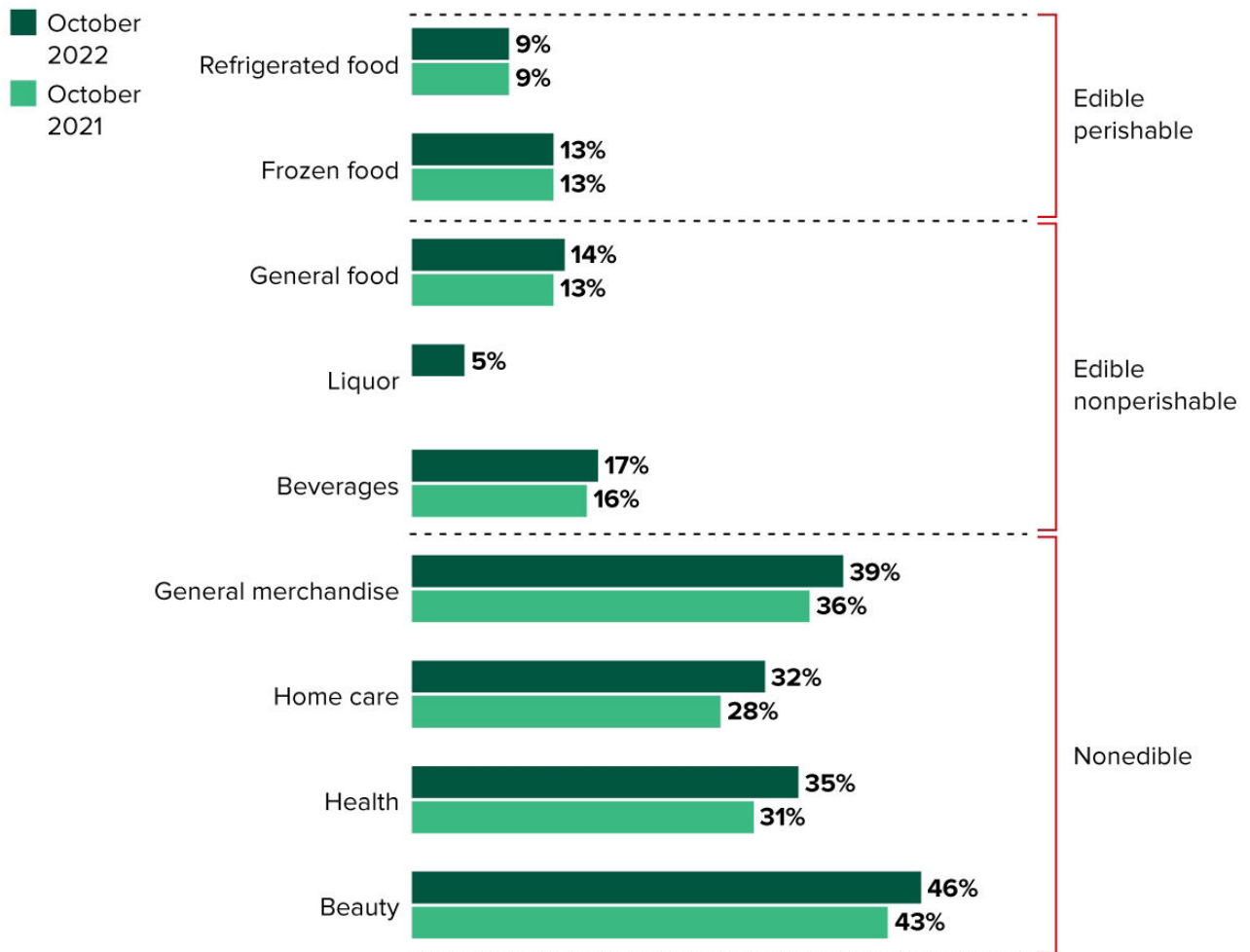
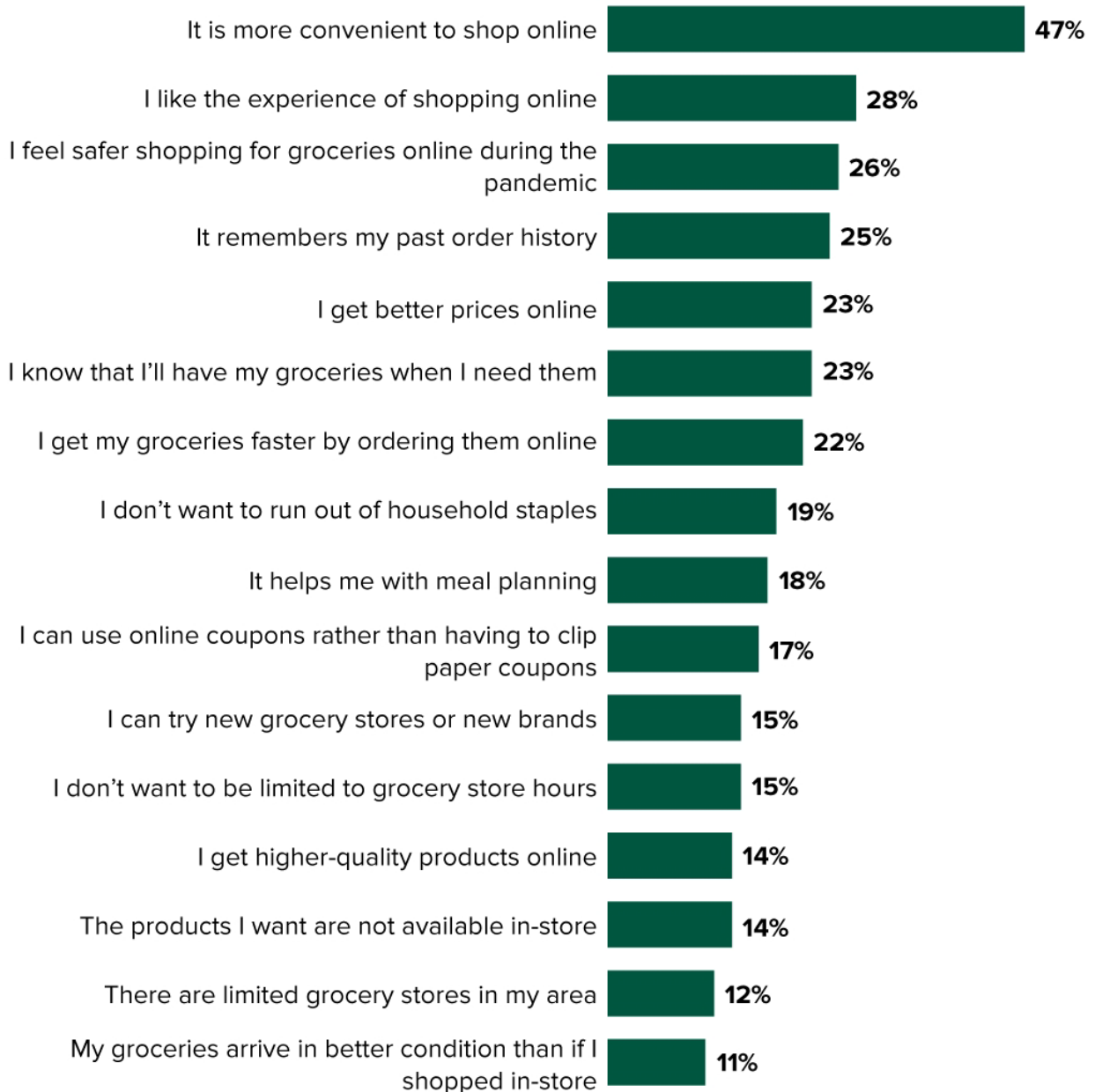


Figure 5

US Online Adults Prefer To Buy Groceries Online Because It Is More Convenient

“For which of the following reasons do you order groceries online?”

(Multiple responses accepted)



Base: 1,567 US online adults who ordered groceries online

Inflation And Competition Will Crunch Online Grocery Further

So, where does the current state of online grocery leave us? Several factors have helped to slow (albeit to a still healthy forecasted growth of 45% between 2021 and 2023) the grocery e-commerce boom that the industry experienced in 2020. In the year ahead, online grocery will see:

- **Higher food prices.** Three-quarters of US online adults worry about growing inflation and rising prices. In October 2022, food prices were up 12.4% in the US on an annual basis, per the US Bureau of Labor Statistics. Not surprisingly, 88% of US online adults have recently noticed higher grocery prices. At the same time, grocery store sales increased by 7.5% from September 2021 to September 2022. This data suggests that consumers are buying fewer items overall. The general food category is seeing more growth online than the effect of inflation, but part of the category's growth is due to higher prices.
- **Online growth in dry goods categories.** The majority of online grocery growth is coming from the nonfood categories, which comprise 63% of overall sales and annual growth rates of well over 30%. This growth is much faster than the annual overall growth of Amazon and Walmart, suggesting that low-margin online grocery sales are generating disproportionate growth for these two companies versus higher-margin sectors such as soft goods. At the same time, retail media is growing for both Amazon and Walmart. By pushing CPG brands to allocate more marketing funds to Amazon and Walmart retail media, Amazon and Walmart are beneficiaries of consumer grocery spend, but brands must make difficult decisions about which other grocers to pull trade dollars away from.