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# The future of grocery shopping

**Grocery shopping will change significantly in the decade ahead – traditional food retailers must adapt fast**



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## EXECUTIVE SUMMARY

**Two years of pandemic disruption caused a surge in online grocery shopping. However, there is no sign of a return to pre-Covid shopping habits, even amid weakening economies, surging inflation and rising interest rates. These challenges may slow the growth of eGrocery in the short term, but demand for online services from food retailers and the corresponding digitalization of their operations is not going away.**

As a result, grocery shopping will be significantly different in the future and the winning business model will be omni-channel. Food retailers will need to fully integrate their physical and digital channels. Consumer expectations and behavior will shift as digital natives become a leading retail customer segment and all age groups increasingly embrace online shopping. eGrocery market share will rise significantly: by 2030, Britons are expected to buy up to 26 percent of their food online. In the Netherlands, we expect 25 percent online purchases by 2030, in France 23 percent, in Germany 11 percent, and in Turkey 10 percent.

Based on a survey carried out by Strategy& in July, grocery industry experts expect the market share of online grocery shopping to increase to between 35 percent and 50 percent in each of the five countries by 2050.

Future technologies will increasingly enable the development of different business models and experiences adapted to the shopping occasion and product category. A range of eGrocery business models will coexist, each serving the specific needs of different customer groups and diverse cultural demands, in specific regions. Highly convenient, ultra-fast deliverers may succeed in metropolitan areas, while highly cost-efficient providers, using a milk-run or similar model (using a timetable set by the retailer rather than time slots picked by the customer), or delivery based on autonomous fleets, will also thrive.

Consolidation will undoubtedly occur, especially in the intensely competitive quick commerce landscape as high rates of cash burn caused by the race for scale drive mergers and acquisitions. Revenues of in-store retailers will decline and profits could fall by more than 80 percent, survey respondents estimated, if they fail to adapt to the new market.

Technological developments such as automated warehouses will enable a surge in online grocery offerings and an increase in market share, facilitating profitable operations. Meantime, customer interactions with grocery retailers will change significantly as automation, digital loyalty programs and targeted personalized offerings that leverage customer data become increasingly important. Younger shoppers will expect retailers to be more transparent about their supply chains and demand more ethical food production.

## What are the implications for bricks and mortar retailers?

Retailers that wish to keep or grow their current market share by becoming leading omni-channel players need to launch eGrocery offerings early to gain the necessary expertise. They must prevent competitors from building massive barriers to market entry by consolidating market share, leading in automation and developing better customer access and reserves of data.

Retailers will also need to rethink their logistics and supply chain, IT infrastructure, product lines, organizational set-up and talent attraction. As they become omni-channel retailers, they will need to integrate their online and offline supply chains to realize synergies – and become cost competitive.

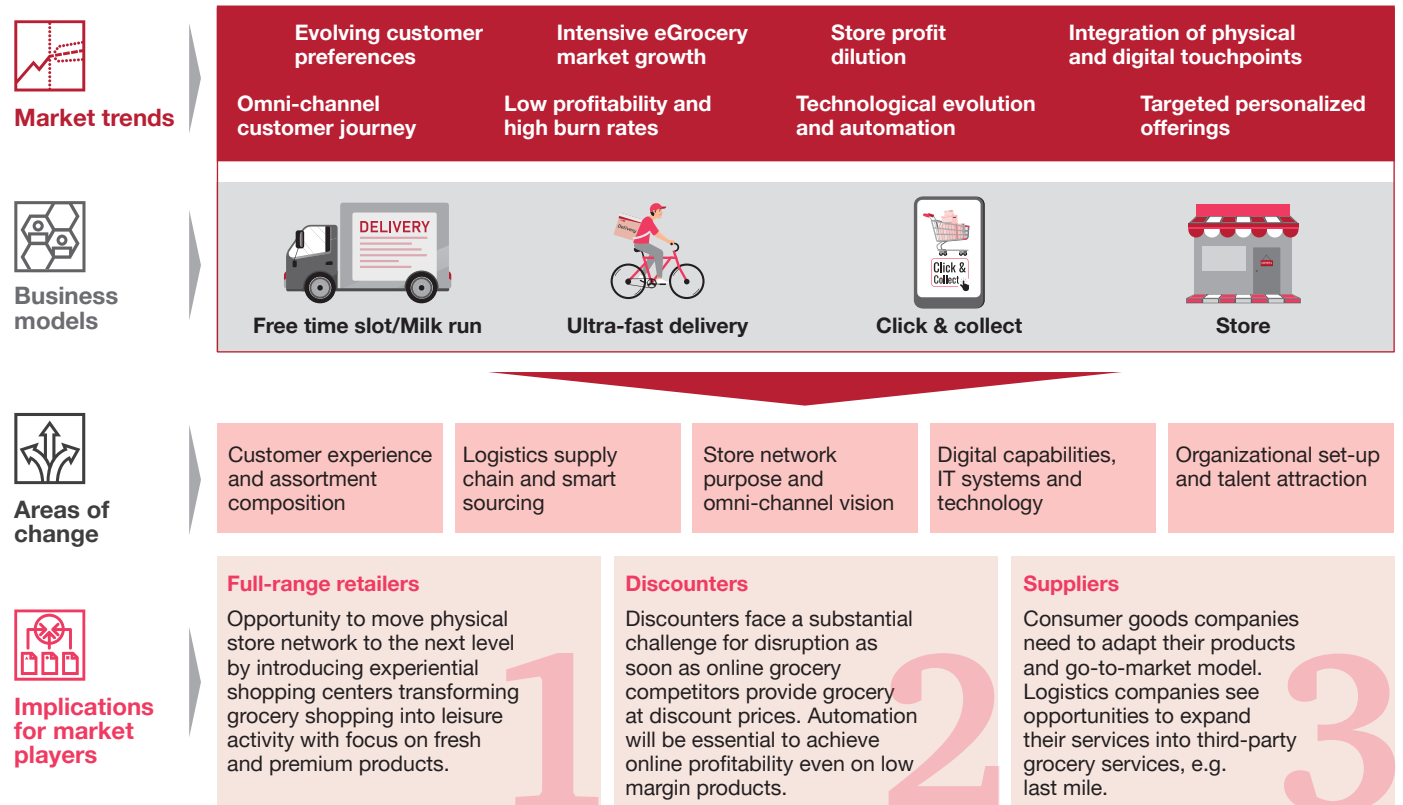
Full-range retailers and discounters will each face different challenges and opportunities arising from the development of online grocery retailing and must develop specific approaches to remain successful.

Full-range retailers should develop “experience shopping,” combining education and pleasure into leisure activity – contrasting with the basic-necessities offer of discounters. For their part, discounters are likely to need a stronger eGrocery offering to maintain or expand their market share. Given their customers’ focus on shopping for necessities, they risk losing a large part of their sales to competitively priced online rivals if they don’t. But they are also perfectly placed to disrupt bricks and mortar businesses through their cost-driven mindset, which should help them find the recipe for eGrocery profitability.

Suppliers will also need to adapt their products and interactions with retailers to meet the demands of an omni-channel model (see *Exhibit 1*).

**EXHIBIT 1**

eGrocery is bringing new business models and integrating digital channels – with implications for existing players



Source: Strategy& analysis



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## SECTION 1

# What will the future digital grocery shopping journey look like?

The Covid-19 pandemic and successive waves of lockdowns spurred accelerated growth in online grocery retailing as consumers sought to minimize human interaction. This was accompanied by the emergence of new online business models and market entrants. That growth has been maintained: everywhere, across all categories, ages and regions, consumers are increasingly shopping digitally.

The start of the war in Ukraine in February 2022 has coincided with a recovery in consumer demand even as the supply of many goods and services remains constrained by capacity cutbacks during the pandemic and supply-chain disruption around the world holds up deliveries. Combined with the war-related spike in energy prices, this has triggered uncontrolled inflation worldwide for the first time in decades.

With the combined squeeze on their incomes, consumers are alarmed. In May, a survey by PwC Deutschland<sup>1</sup> found that many German shoppers are scaling back non-food purchases, turning to cheaper products in stores and making even more use of online retail and price-comparison sites. The result: retailers in Germany and elsewhere face mounting pressure on margins, as they work to contain price rises and cut costs.

At the same time, consumers are becoming ever more demanding. PwC's June 2022 Global Consumer Insights Pulse Survey, questioning more than 9,000 consumers across 25 territories, found that after prolonged frustrations, patience is wearing thin and expectations in terms of quality, choice and service are higher than ever.

It also found that environmental, social and governance (ESG) factors increasingly influence the choices of younger consumers – a trend where Europe, with its aging population, lags the rest of the world.

This stormy backdrop, in which powerful new social and technological currents encounter blustering economic headwinds, will force food retailers to focus squarely on what customers want, develop new channels and business models, prioritize profits and ensure they have a clear plan to survive and prosper.

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<sup>1</sup> <https://www.pwc.de/de/pressemitteilungen/2022/konsumentenbefragung-krisenzeiten-bremsen-kauf lust-in-der-non-food-branche.html>

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### **So how is the grocery market changing?**

- eGrocery start-ups are entering the market and some are growing rapidly. They range from instant delivery/quick commerce (Gorillas, Flink, Zapp, Gopuff/Fancy, Getir, Yemeksepeti) to fast delivery (Knuspr, Flaschenpost, Istegelesin) to milk-run deliveries on a regular round (Picnic)
- Some bricks and mortar retailers are increasingly moving online (REWE, Tesco, Sainsbury's, Auchan, Carrefour, Albert Heijn, Migros)
- Platform aggregators (Bringoo, Instacart, deliveroo, UberEats, Hepsiburada Market) are trying to conquer the eGrocery market and rapidly gain share – a model that worked well for e-commerce platforms such as Amazon and Airbnb in other consumer sectors
- Tech players are encroaching: witness Amazon's move into the grocery market (via its own services with Amazon Fresh and in co-operation with retailers including Morrisons in the UK and Tegut in Germany)
- Specialized providers of specific product assortments are also going online (Flaschenpost, zooplus, mymuesli)

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### **New business models are reinventing grocery shopping and meal preparation**

- New ways of cooking using meal kits (HelloFresh, Blue Apron) allow consumers to save time and cook as an experience. In-store ghost kitchens (Kroger) allow consumers to order cooked meals online and collect them at their local grocer
- Direct-to-consumer (D2C) distribution models (Hipp, Nespresso) excel on pricing by sourcing directly from farmers and controlling the entire supply chain
- Subscription-based delivery (Gousto, Abel & Cole) have efficient, regular relationships with consumers and enhanced operational profitability

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### **Sustainability is becoming more important than ever**

- Farm-to-fork thinking stretches from sustainable production, processing and distribution to consumption, as firms strive to tackle climate change
- eGrocery can be a catalyst for sustainability, for example by optimizing packaging to minimize waste

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### **Rethinking point-of-sale practices increases customer value and business efficiency**

- Smaller, local retail chain grocery shopping options are expanding (REWE to go, Tesco Express, Albert Heijn To Go, Migros Jet, Carrefour Express)
- Non-food “special buy” products in stores are being scaled back and moved online to make room for high-end food and snacks with high margins
- Automation is being extended at the point of sale (PoS) to pare staff numbers (self-checkout terminals, shelf-scanning robots, automated micro stores)

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## The speed of change varies across Europe

Traditional grocers in the UK, the Netherlands and France have been shaping the future of the eGrocery market, but most German traditional grocers have been slow and cautious. In Turkey, both traditional retailers and new online-only platforms are pushing the expansion of the market.

### UK

The UK online grocery market is well developed and bricks and mortar players such as Sainsbury's, Tesco and Waitrose offer full product selections online. Ocado is the dominant online pure player with a significant share of the total grocery market<sup>2</sup>. Both Tesco and Ocado claim their online operations are profitable, although definitions of profitability vary. Customer acceptance is high<sup>3</sup>: more than 30 percent of the population have ordered groceries online and the number regularly buying groceries that way has doubled in the past decade.

### Netherlands

Retailers in the Netherlands have also adapted. Albert Heijn is the leader, but gradually losing market share to pure players Picnic and Jumbo, while being challenged by PLUS and Coop<sup>4</sup>. Many consumers prefer home delivery (51 percent) to click & collect (12 percent)<sup>5</sup>.

### France

The French<sup>6</sup> market is also far ahead, with many offerings from retailers including E.Leclerc, Carrefour, Auchan and Intermarché France. French consumers seem to favor click & collect more than shoppers elsewhere: Auchan introduced grocery drive-through in France back in 2000 and by some estimates, click & collect accounts for 90 percent of online grocery sales in the country. Today, 9 percent<sup>7</sup> of French groceries are bought online.

### Germany

Germany has a mature non-food e-commerce market, with close to 50 percent of both electronics and fashion sales happening online. Until the pandemic, eGrocery was a very modest market. However that has changed, with new ultra-fast delivery services such as Gorillas and Flink entering the market in 2020 and shaking things up. REWE remains the market leader in online groceries, offering home deliveries at set time slots, but international players are also pushing into the relatively undeveloped market, including Picnic of the Netherlands, which offers a milk-run service, and fast commerce companies Knuspr of the Czech Republic and Norway's Oda. Amazon Fresh is limited to the largest cities, including Berlin, Hamburg and Munich. Long-established retailers including Lidl and Aldi have no online fresh food grocery offering yet.

### Turkey

Since the pandemic, 60 percent of people in Turkey have shopped for grocery items online through a supermarket platform. Relatively low wages help make eGrocery more financially viable than in some other countries and both supermarkets and discounters have launched online sales channels. Migros, one of the pioneers in Turkey, has been selling groceries online for more than 20 years and recently expanded into fast delivery with its Migros Hemen service. Getir is also a strong performer. Discounters such as Şok and A101 offer scheduled delivery of grocery items, whereas BİM provides a limited assortment online and focuses instead on using its online channels to announce special sales in stores.

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2 <https://www.statista.com/statistics/280208/grocery-market-share-in-the-united-kingdom-uk/>

3 <https://www.statista.com/topics/3144/online-grocery-shopping-in-the-united-kingdom/#dossierKeyfigures>

4 <https://www.statista.com/statistics/659373/leading-online-supermarkets-based-on-share-of-shoppers-in-the-netherlands/>

5 <https://www.statista.com/statistics/672219/preferred-delivery-type-when-ordering-online-in-the-netherlands/>

6 <https://www.statista.com/forecasts/998270/online-grocery-shopping-by-store-brand-in-france>

7 Global Data



## SECTION 2

# How will grocery shopping in European markets evolve by 2030?

### Shopping with Susi – the retail journey of a fictitious customer in 2030



Source: Strategy& analysis

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## Susi's grocery shopping journey in 2030

Susi now buys most groceries online, although she used to go to the supermarket several times a week. Today is Monday, so Susi does her weekly grocery shop on her mobile phone, adding lemons and two bags of pecans to the products automatically included in the basket of goods that she orders every week. Selecting a delivery slot between 5pm and 6pm this evening, Susi completes her shop in three minutes.

At 5:30pm, Susi receives a notification that her order will be delivered in 10 minutes, then at 5:40pm sharp, the driverless electric van stops at her doorstep. Retrieving her bags, she pops a return package inside containing a T-shirt ordered online that proved disappointing.

On Wednesday, returning from work, Susi remembers her brother's birthday. Locating the nearest mini market online, she uses its app to put cake ingredients into her online shopping basket, then walks round the corner to collect her order at an automated till.

Arriving home, she finds a bag on her doorstep containing two bottles of oat milk – reordered by her fridge during the day.

When Saturday dawns grey and rainy, Susi heads to her nearest specialty grocery showroom with her friend Martin. Browsing for fun, they find a premium cooking oil Susi's mother would love. Using her smartphone camera, Susi scans the can, following a link to purchase the oil. It will come in a can personalized with her mother's initials and be delivered directly to her mother's house the next day.

Come Sunday evening, Susi debates visiting her local grocery shop next week to profit from the fresh food counters, live cooking demonstrations and vegan coffee shop in the food court. But putting on her virtual reality (VR) glasses to watch a TV series, she sees the latest ad from her grocery retailer. Its metaverse store will allow you to stroll in as your avatar, with other shoppers, guided by a shopping assistant. As you shop from virtual shelves, nutrition facts, recipe suggestions and sourcing details pop up, including a photo of the farmer who grew the fresh produce. Checking out online, you choose your delivery method and time. She chooses the metaverse experience over visiting the store in person.

Today, customers are showing growing interest in and acceptance of new business models. Many younger people have already adopted the habit of buying groceries online. Now older consumers are set to do likewise, after embracing other forms of e-commerce.

Younger people are often less frugal and price sensitive, and much more willing to pay for convenient services and additional benefits. In the UK, 81 percent of consumers aged 54 or younger intend to continue or increase their online grocery shopping; in the Netherlands 65 percent; in France 70 percent and in Germany around 61 percent<sup>8</sup>.

The adoption of voice-based online shopping, using voice assistants and smart home devices (Amazon Echo, Google Home), is increasing, with the highest adoption rates in Germany and the Netherlands (11 percent), followed by France (9 percent) and the UK (6 percent)<sup>9</sup>. Metaverse and VR devices are beginning to offer the characteristics of in-store shopping, from home. We are on the brink of a multi-channel revolution.

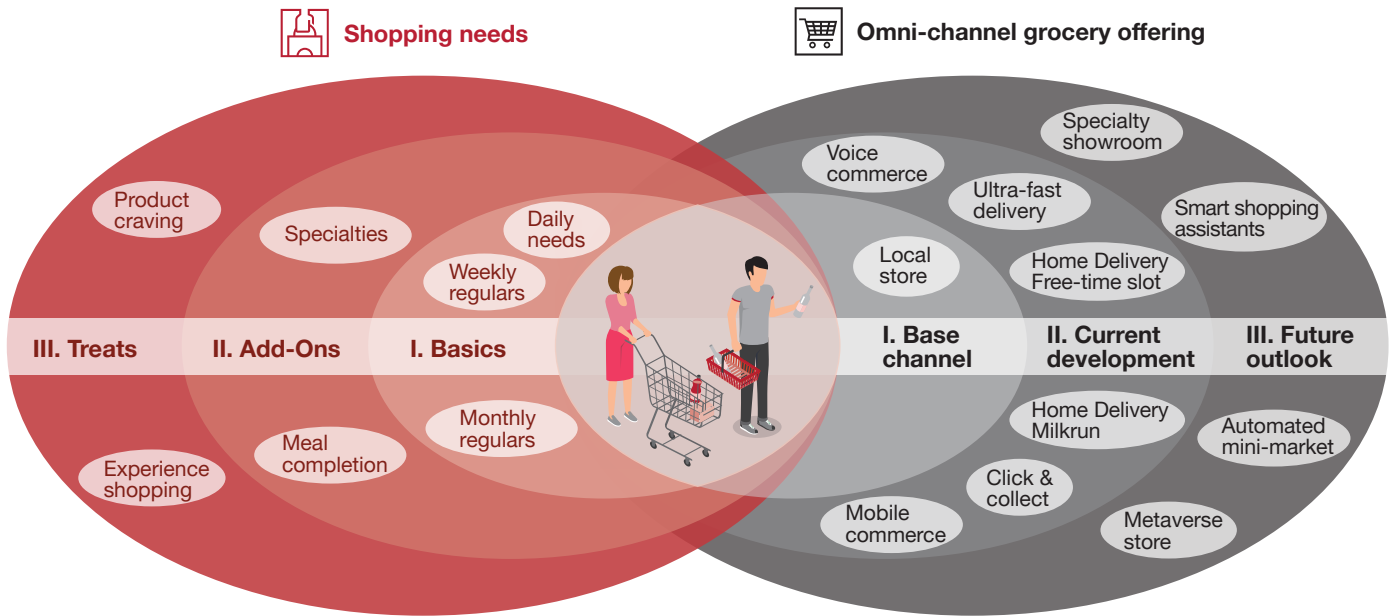
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<sup>8</sup> Global Data 2022

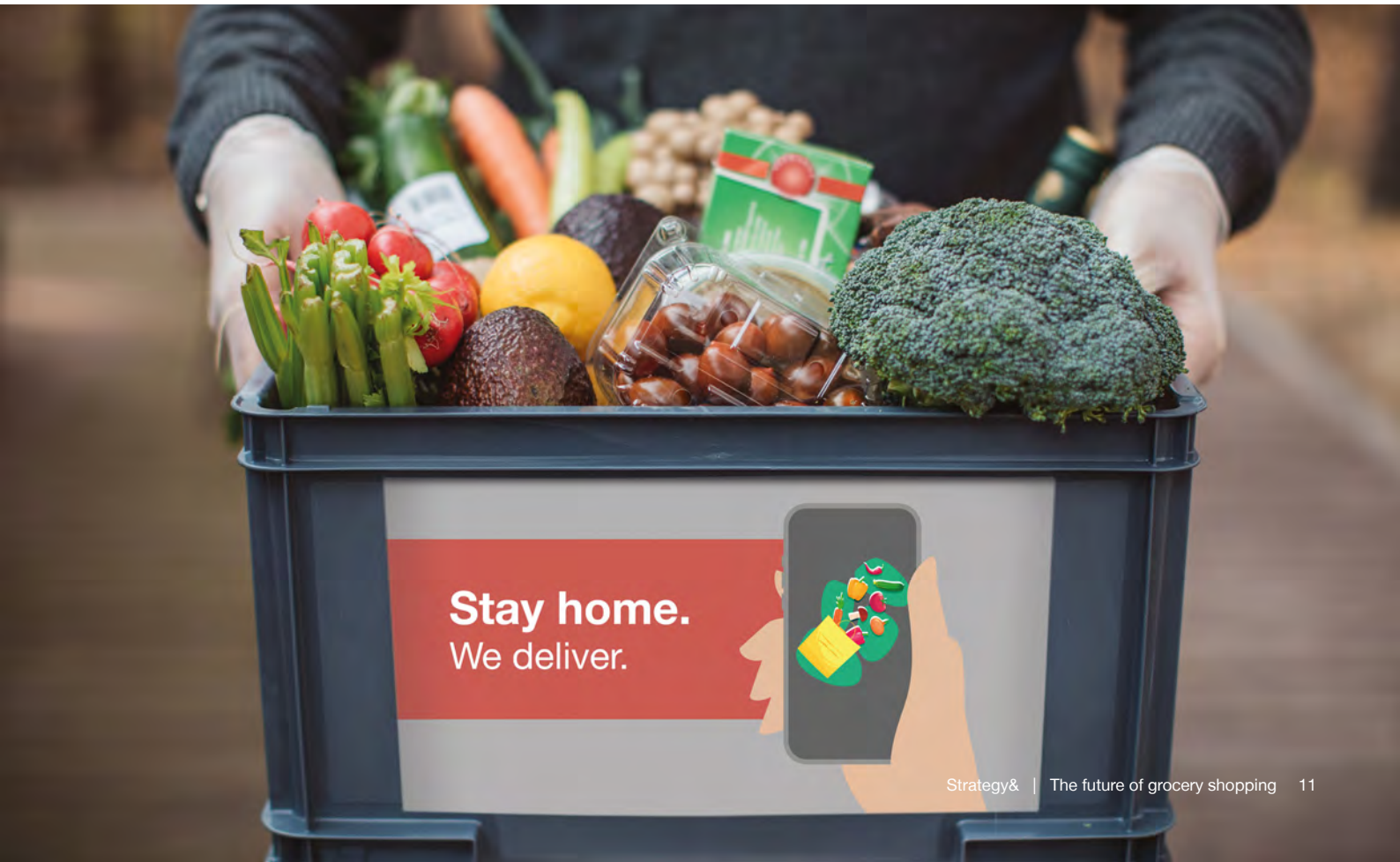
<sup>9</sup> <https://www.pwc.de/de/handel-und-konsumguter/die-digitalisierung-krempelt-den-einkauf-um.html>

**EXHIBIT 2**

Retail options are being tailored to needs and desires

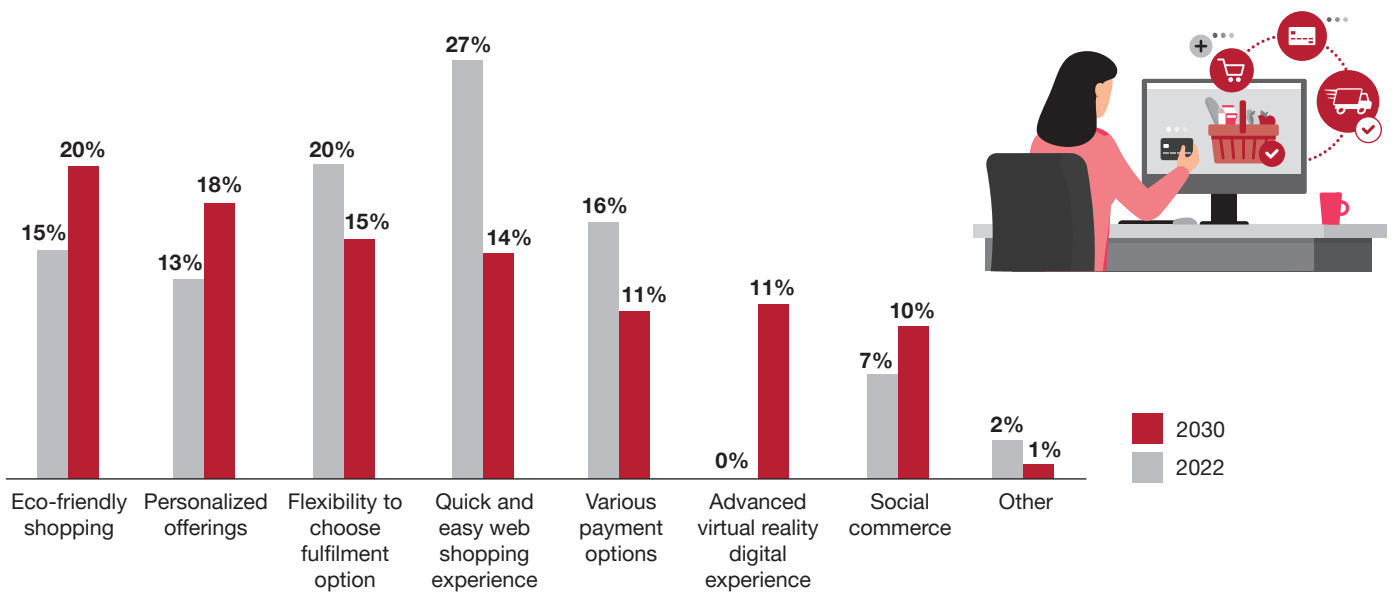


Source: Strategy& analysis



In July 2022, we surveyed 57 grocery industry experts, mainly based in Germany, France, the UK, Turkey and the Netherlands, about the changes they expect to happen in the market between now and 2030. A small number of responses from Spain, Switzerland, Austria and Belgium were also gathered. We found that customer expectations are growing significantly. Customer will become especially more demanding regarding eco-friendly shopping, personalized offerings and virtual reality experiences (see *Exhibit 3*).

**EXHIBIT 3**  
Customer expectations 2022 vs. 2030



Survey question: "What do you think customers currently expect (in 2022) from online grocery shopping and which expectations do you think customers will have in 2030?"  
Source: Strategy& analysis and Strategy& industry expert survey July 2022

**Customers want a seamless and flexible multi-channel customer journey, offering:**

- Omni-channel online and offline options
- One-stop shopping options
- Efficiency and speedy service during purchase, checkout, delivery or collection
- Constant availability
- Availability on a smartphone
- Diverse payment options

**They also seek personalized digital experiences, such as:**

- Discounts, recommendations and loyalty programs
- Human contact online, including conversations with customer service personnel via phone, chat or augmented reality

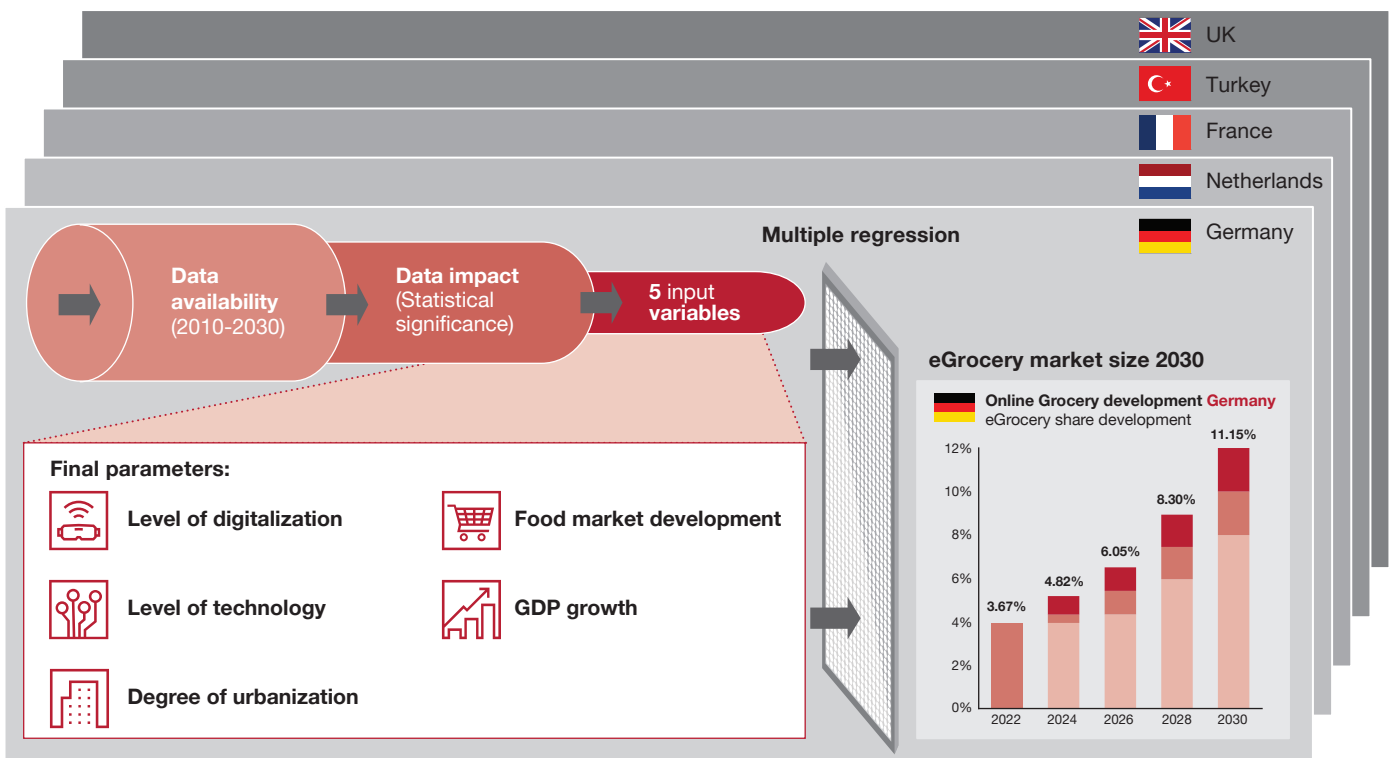
- Immersive experiences via the metaverse, including virtual reality stores and communication with store staff avatars
- Shopping via social networks, including digitally integrated community reviews of products, and shoppable photos and videos
- Ecological awareness and sustainable shopping, with traceable origins and low-waste packaging
- A section of Fair Trade and local products
- Premium products to satisfy high-income groups that want fresher, higher-quality products

### How big will the market be?

Applying a wide variety of parameters, we used multiple regression analysis to build a model that projects the likely growth of the eGrocery market in the UK, the Netherlands, France, Germany and Turkey between now and 2030. We identified five factors shaping the pace of growth: the level of digitalization, the level of technology, the degree of urbanization, the level of food market development and GDP growth (see *Exhibit 4*).

#### EXHIBIT 4

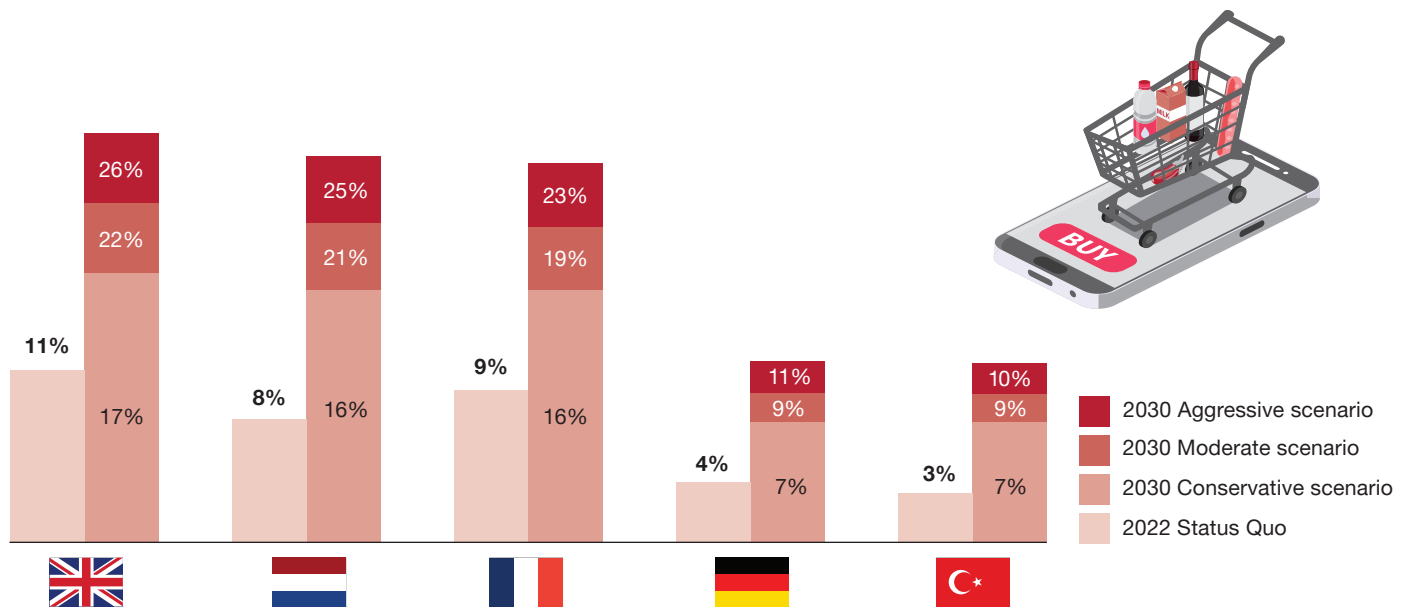
Market model: Using multiple regression analysis to estimate future eGrocery markets



Strategy& analysis and Strategy& market model July 2022

## EXHIBIT 5

eGrocery market share projection by country in percentage of total food market for the years 2022 and 2030



Source: Strategy& analysis and Strategy& market model July 2022

Our model projects that over the coming seven years the online share of total grocery sales will rise to around 26 percent in the UK (from 11 percent today), 25 percent in the Netherlands (8 percent), 23 percent in France (9 percent), 11 percent in Germany (4 percent) and 10 percent in Turkey (3 percent) (see *Exhibit 5, page 14 and Exhibit 6, page 15*). Sales in existing stores are forecast to decline – respondents said they expect sales per store to fall by an average of 19 percent by 2030.

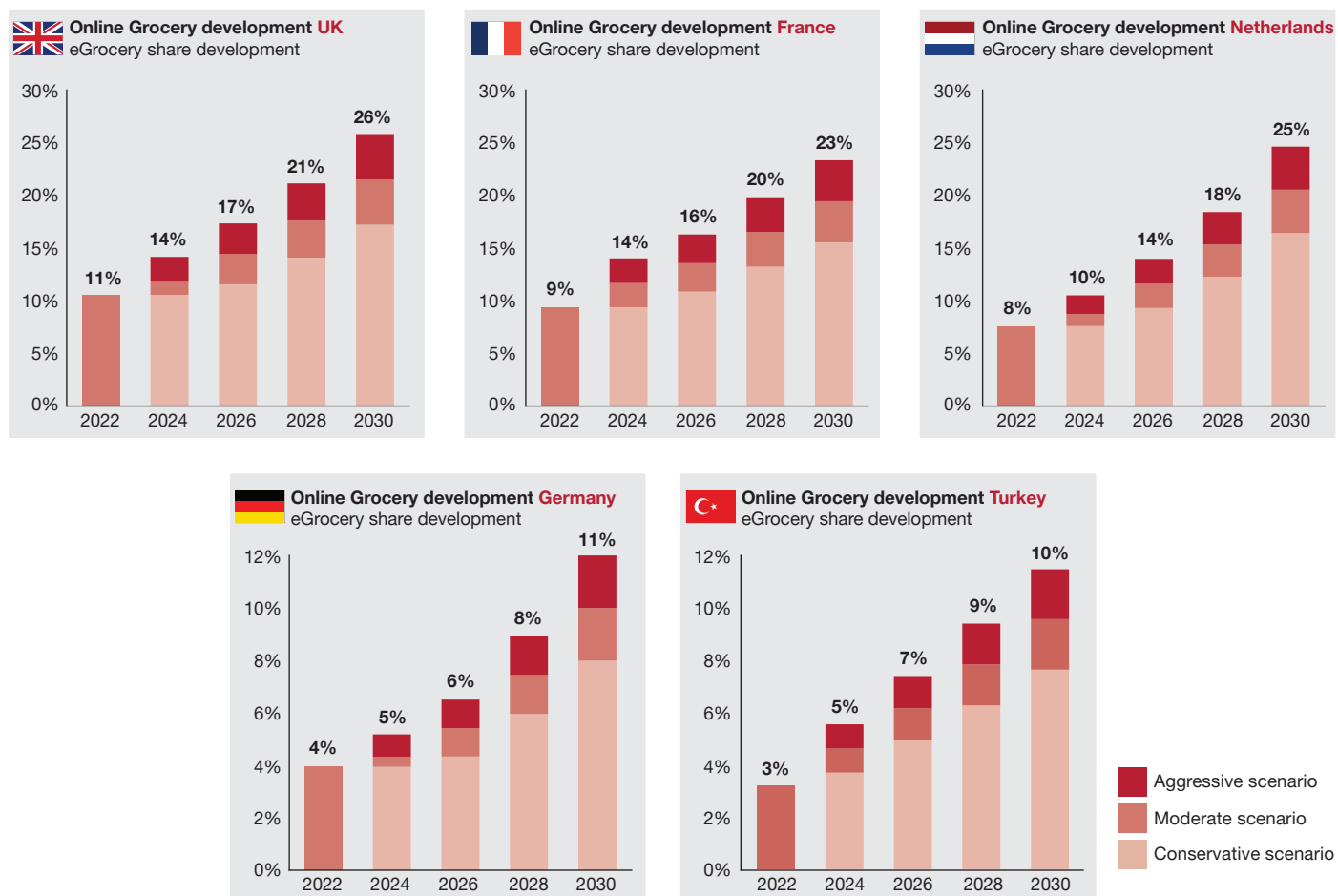
Looking out as far as 2050, a higher degree of uncertainty is reflected in the wide variations in responses. However, respondents expect the market share of online grocery shopping to increase to between 35 percent and 50 percent in each of the five countries by that date. On average, respondents in Germany expect the market share there to be 43 percent by 2050 – a tenfold increase.

The growth of eGrocery is slowed by the complexity of logistics chains, which need to be able to handle dry, chilled and frozen goods, and by the sensory appeal of shopping for food in person, allowing customers to feel, smell and taste produce before they buy. Nevertheless, some 95 percent of respondents said online grocery shopping will have a ‘significant’ or ‘rather significant’ impact on the traditional grocery market, reflecting the need for retailers to take action now.



**EXHIBIT 6**

Projected growth of eGrocery sales in selected countries as percentage of total market



Source: Strategy& analysis and Strategy& market model July 2022



The eGrocery share is expected to grow significantly in all assessed countries, which will have heavy implications on the entire industry with profitability challenges, required reassessments of store and logistic infrastructure and new capabilities needs.”

## SECTION 3

# Picking the most promising eGrocery business models

Grocery retail as we know it today will continue for some years, anchored by stores that offer fresh food, sensory and human interaction, and by their capacity to act as a showroom. But lots of new business models are pushing into the market, such as Gorillas, which promises “groceries at your door in minutes” in major cities across Europe – a very different business model to that of traditional players such as Lidl (see *Exhibit 7*).

### EXHIBIT 7

Current and emerging eGrocery models – by retailer type, delivery model and supply area

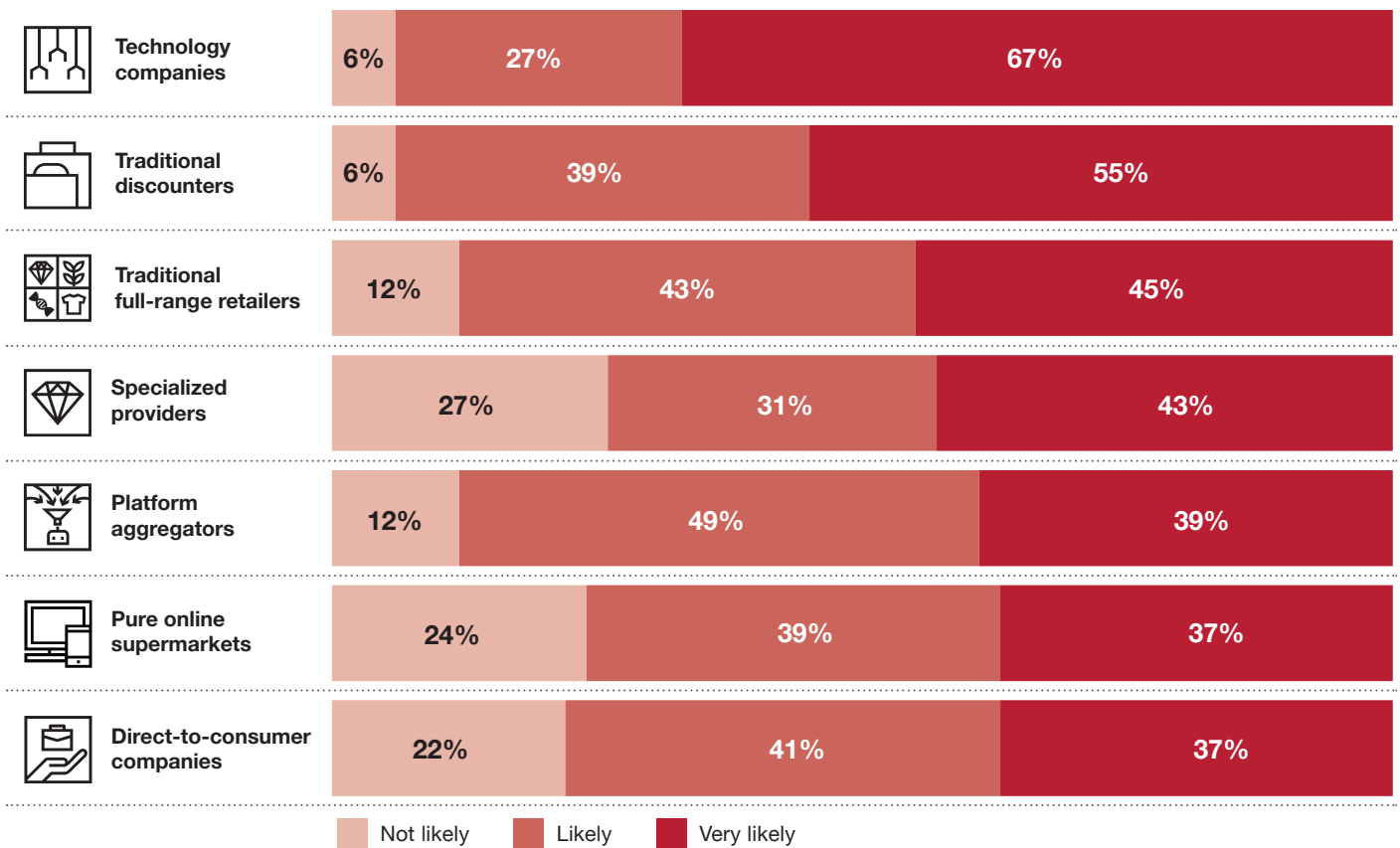
Supply area by number of inhabitants	Home delivery				Click & collect		
	Ultra-fast commerce	Fast commerce	Free time slot	Milk run (fixed time slot)	At stores	Others (e.g., self-service lockers)	
	City (> 100,000)				Town (> 20,000)		
	Village (> 5,000)		Rural (< 5,000)				
Bricks and mortar retailers		Tesco Migros	REWE Sainsbury's Waitrose ASDA Carrefour Auchan Tesco Monoprix Migros		REWE Auchan Waitrose ASDA Tesco Albert Heijn Sainsbury's Migros	REWE ASDA Auchan Tesco Albert Heijn	
Online supermarkets	Gorillas Flink Zapp Getir Yemeksepeti	Knuspr istegelsin	Ocado Bringmeister Crisp Amazon fresh myTime	Picnic eismann bofrost	Getir		
Niche players		flaschenpost	HelloFresh Ekoplaza		Ekoplaza		
Platform aggregators		Bringoo Deliveroo Trendyol GO Uber Eats hepsiburada	Amazon hepsiburada Trendyol GO				
Technology companies	SAP	Ocado Obsess	Swisslog Spryker	Amazon	Alphabet	Dematic Microsoft	Takeoff

Source: Strategy& analysis

When we asked which business models will be most likely to prevail in the long term, respondents predicted that traditional discounters and full-range retailers would endure alongside technology companies. But they were divided on the prospects for pure online retailers: 37 percent think they will very probably thrive, while 24 percent doubt their long-term success (see *Exhibit 8*).

**EXHIBIT 8**

Business models prevailing in the long term



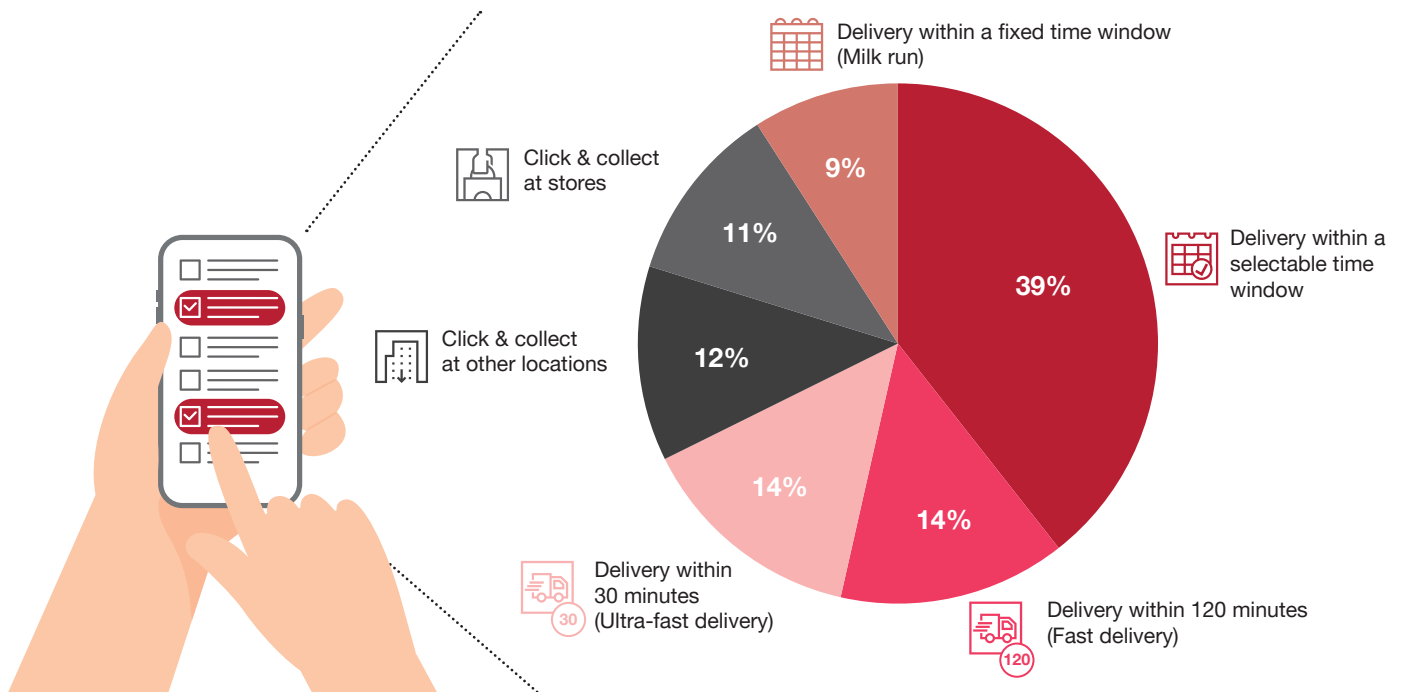
Survey question: "Which types of business models will be most likely to prevail in the long term?"  
 Source: Strategy& analysis and Strategy& industry expert survey July 2022

Click & collect is available almost everywhere, but the range of eGrocery options tends to decline as population density diminishes. Ultra-fast is available only in major cities, but regular milk-run deliveries like those offered by Netherlands-based international retailer Picnic may also work in smaller cities and suburbs.

When we asked which delivery model, from click & collect to ultra-fast delivery, was likely to lead the market in 2030, 39 percent of respondents said delivery within a selected time window. As *Exhibit 9, page 18* shows, this is the option with by far the highest expectation of success.

**EXHIBIT 9**

Business models prevailing in the long term – by delivery model



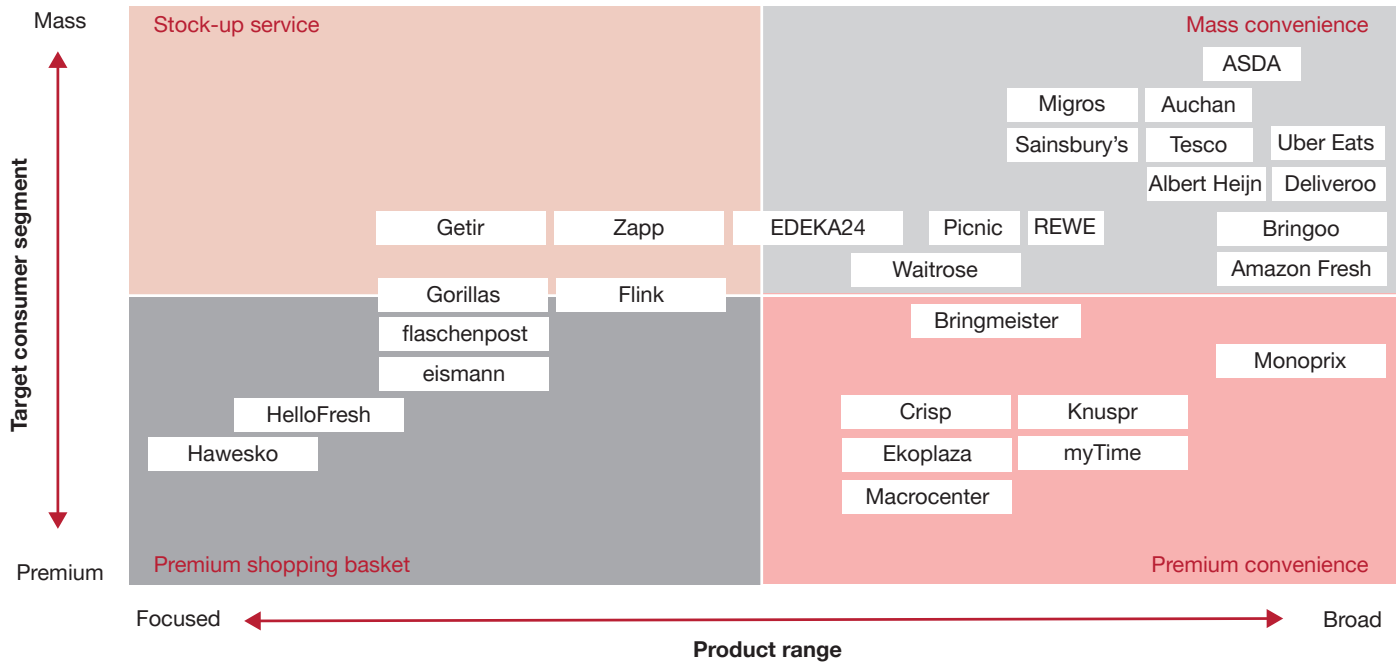
Survey question: "Which of these business models do you think will account for the largest market share of online grocery in 2030?"  
Source: Strategy& analysis and Strategy& industry expert survey July 2022

eGrocery business models differ not only according to what they offer and where they are, but also in their product range and the customer segments they serve. For now, traditional retailers serving the mass market and offering a broad product range occupy the most crowded sector of the online grocery market, as *Exhibit 10, page 19* shows:



**EXHIBIT 10**

Current and emerging eGrocery models – by target consumer segment and product range



Source: Strategy& analysis

As technology develops, online retailers will be able to develop business models tailored to different situations and products. Some will target:

- **Spontaneous cravings** such as sweets, snacks, drinks, ice cream or wine, fulfilled by ordering via an app from an ultra-fast delivery eGrocer – but at a price
- **Top-up products to complete a meal** such as sauces, toppings and herbs. These are another target for ultra-fast delivery eGrocers or click & collect models using robotic local mini-markets, especially in urban areas. If consumers switch from a large weekly order to frequent top-ups, supermarket revenues may decline
- **Daily needs for differentiated products.** Though some shoppers may continue to visit favored supermarkets for fresh vegetables and organic meat, these can also be ordered online for delivery or collection
- **Weekly regular product needs**, such as pasta, bread and milk. These are ideal for supermarket in-app features like pre-built shopping carts based on previous purchases, for regular collection or delivery. Smart fridges or shelves, re-ordering automatically, might render store visits obsolete for some customers
- **Monthly regular product needs** such as toilet paper, detergent and cleaning supplies. These could be delivered via a subscription model or ordered by voice command via Google or Amazon. That could affect brand loyalty and facilitate a shift to buying the cheapest option. However, such a change could also free up space for retailers to focus on higher-margin products

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To prosper, ultra-fast online suppliers and digital start-ups will need to focus on dense urban areas where delivery can be cost-effective. Meanwhile, pure online supermarkets can attract those short of time, including parents, by delivering products to their homes during fixed time slots. Many supermarkets have moved into home delivery and click & collect to defend market share against online-only rivals. However physical stores are well placed to develop an omni-channel strategy, because a dense store network and a sophisticated multi-temperature national and local logistics network can offer a competitive edge.

Studies have shown that omni-channel customers tend to spend more on every shopping occasion than their pure online/offline counterparts<sup>10</sup>. We believe this holds true for the grocery market too because omni-channel players have a close customer relationship and ample information about the breadth of customer needs. They also provide customers with established and trusted channels to resolve any problems that arise. Collaborating with online players can provide traditional grocery chains with the new capabilities they need and speed their expansion into becoming omni-channel players.

Quick commerce is also a much riskier business model, both financially and reputationally when it comes to issues such as labor policies, so working with an existing player may be a less dangerous approach for store-based retailers than starting to build their own service from scratch.

REWE's collaboration with Flink is a good example. REWE has already built up a strong home delivery and click & collect business, on top of its existing stores. Now the retailer is increasing its range of home delivery options and becoming more of an omni-channel player, with the ability to offer delivery of a range of products within one day, or ultra-fast bike delivery by Flink.

Platform aggregators and tech companies meanwhile certainly have the technology and skills to grab a slice of the eGrocery cake. Offering existing customers grocery delivery too seems an easy extension of their business, at least for dry goods, though weight could be an issue and the logistics of delivering chilled foods are more challenging.

Niche players, which offer a specific assortment of premium-quality products for a very focused target group, can do well, either locally or by supplying premium branded products such as health supplements and coffee capsules.

What is undeniable is that more and more companies are entering the online grocery market. *Exhibit 11, page 21* shows what survey respondents believe the competitive landscape will look like in 2030:

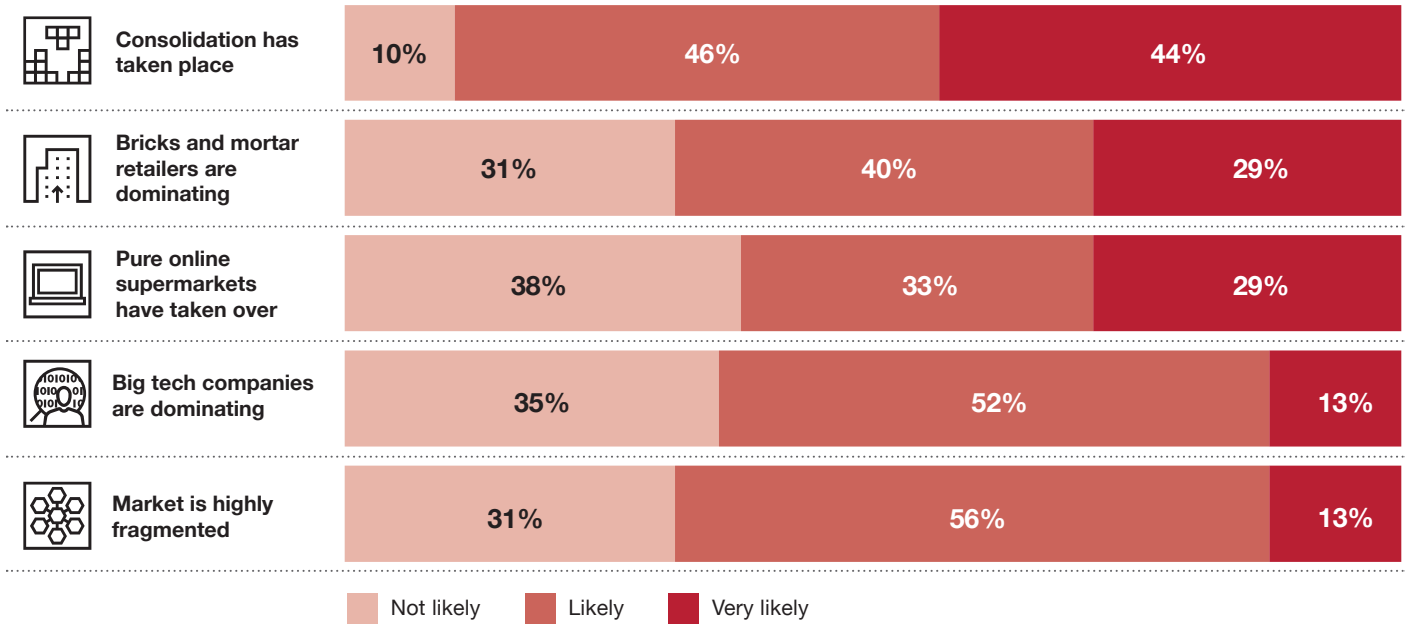
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<sup>10</sup> <https://hbr.org/2017/01/a-study-of-46000-shoppers-shows-that-omnichannel-retailing-works>



**EXHIBIT 11**

Likely eGrocery player trends by 2030



Survey question: "What will the competitive landscape look like in online grocery in 2030?"  
 Source: Strategy& analysis and Strategy& industry expert survey July 2022

**The road to 2030**

The grocery market is vast and we believe there is space for many online business models to coexist, some local, others national or international, attuned to different shopping occasions and customer preferences. Consolidation may be focused upon particular areas such as quick commerce, which is unprofitable, highly competitive and likely to see the type of concentration that already happened in meal delivery (see *Exhibit 12, page 22*).

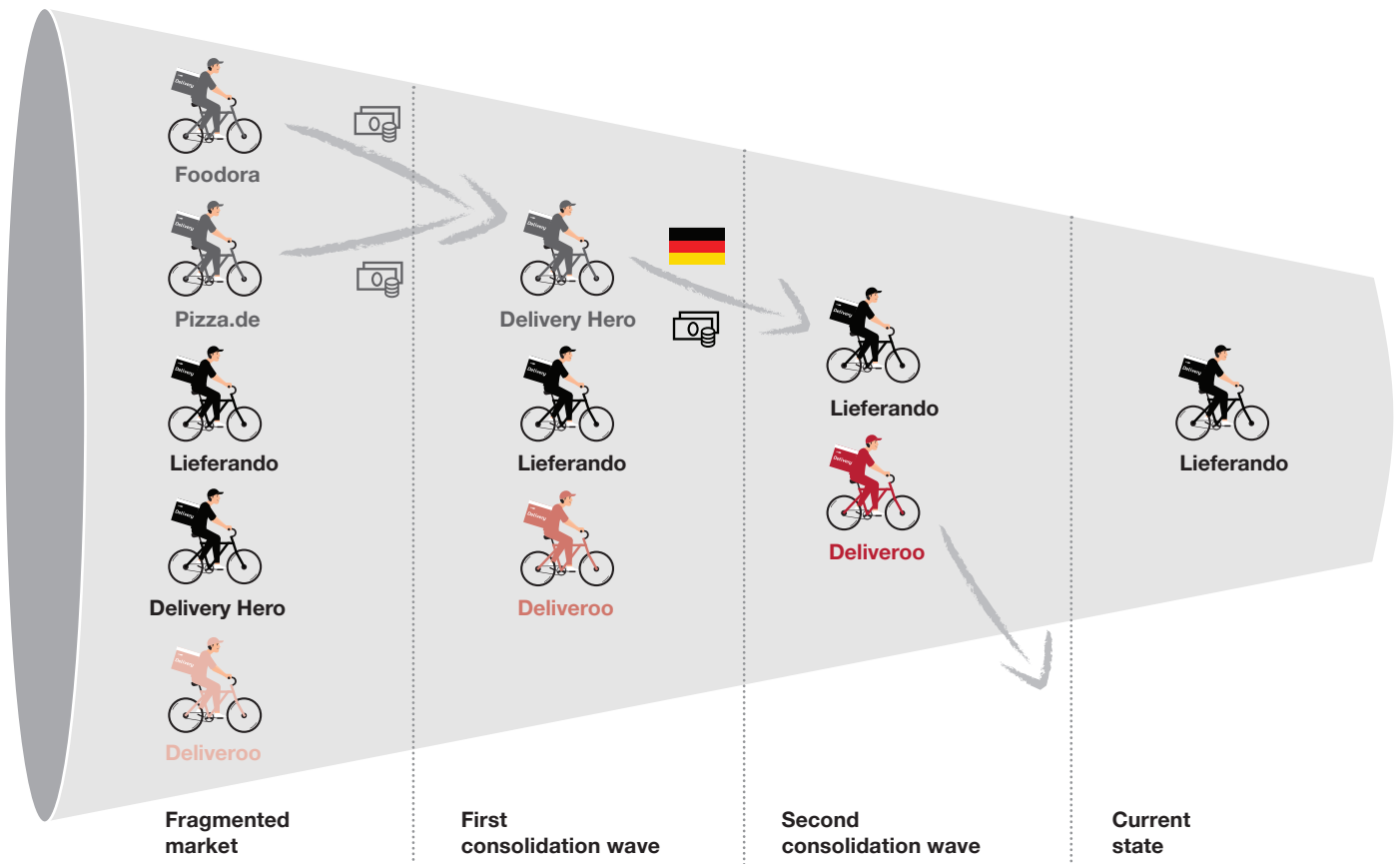
None of the ultra-fast delivery companies we examined was profitable. Now, the war in Ukraine and the resulting political decisions respectively, has been driving up energy prices and inflation everywhere, causing consumer demand for premium products and more expensive services to slump. Massive inflows of seed capital are likely to dry up as interest rates rise: some contenders will lose the race for scale.

In the long term, the profitability of ultra-fast delivery companies will depend on the size of shopping carts, delivery fees, capacity utilization of deliverers, customer loyalty and how often they shop. Ultimately, only one or two big, ultra-fast players and some niche contenders are likely to survive.

**EXHIBIT 12**

Germany's meal delivery market has undergone dramatic consolidation

**A similar development might happen for ultrafast delivery**



Source: Strategy& analysis and illustration of selected market section

Bricks and mortar grocery, however, is already largely consolidated. Developing eGrocery services will be a way for store chains to slow their loss of market share as new online challengers expand. But some will prove better at eGrocery than others and market share might shift between players in different locations. Some traditional retailers might buy pure online grocers before they reach critical size, or partner with platform aggregators, perhaps internationally. This would give them additional customers, technology and vital back-office infrastructure. Similar advantages arise from partnering with retail tech specialists (Amazon, Ocado), permitting labor efficiency gains and access to vast logistical infrastructure and digital capabilities.

Early eGrocery business models have often been country-specific, but the most effective and transferable ways of doing business are now becoming clear. As competitors gain share and learn quickly, the risk of falling too far behind to catch up increases significantly because rivals are already learning how to succeed online and gaining market share. It is time to act: players should start conducting market tests and building expertise in online transactions and delivery to lay the foundations for scaling up.

## SECTION 4

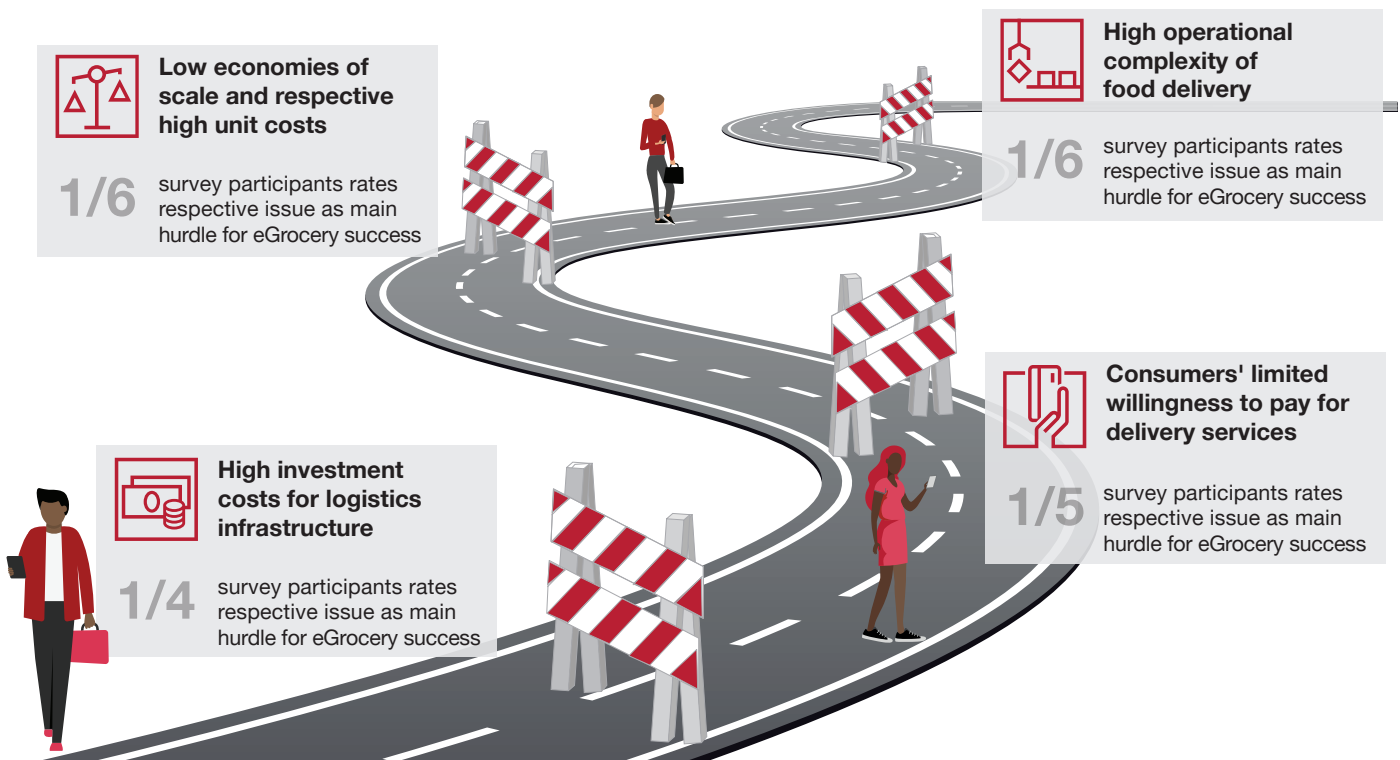
### Searching for eGrocery profitability

The development of online grocery sales has been hindered by low margins, the fragility of some products and weight of others, and the need to keep products chilled or frozen. But now consumers everywhere are used to ordering almost everything else online and are increasingly willing to buy groceries in the same way. Yet many eGrocers are losing money and for omni-channel grocery retailers, online is likely to be margin dilutive. Yet as our survey responses above show, customers want a convenient online delivery service and there are plenty of companies offering that, so retailers cannot refuse to take part without losing market share.

*Exhibit 13* shows the main hurdles to eGrocery profitability today, as rated by our survey respondents:

#### EXHIBIT 13

Current hurdles for online grocery's breakthrough



Survey question: "What are the current key hurdles limiting the online grocery market's breakthrough and financial success?"  
Source: Strategy& analysis and Strategy& industry expert survey July 2022

The good news is that retailers and industry experts expect this situation to change: around 90 percent of our survey respondents expect online grocery to be profitable by 2030. eGrocers have two broad routes to closing the profit gap: they must sell more, at better margins; and they must find ways to cut costs. Looking at each in turn, success according to our survey respondents means (see *Exhibit 14*):

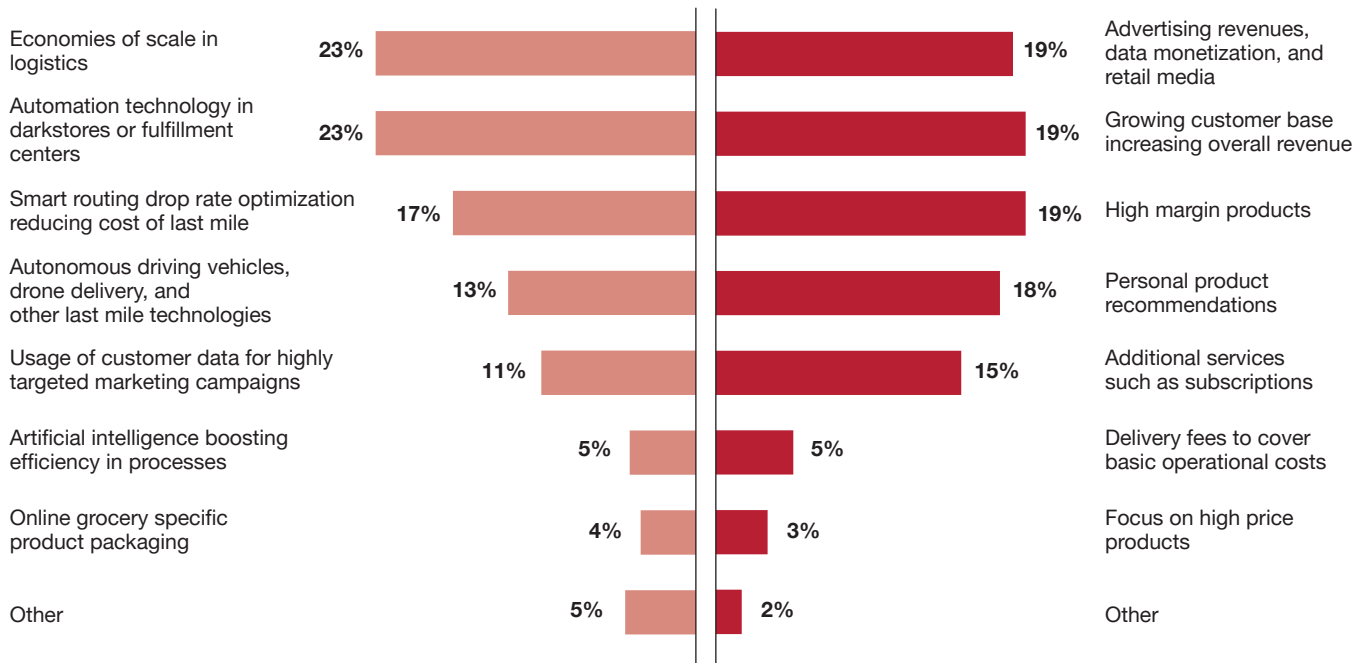
**EXHIBIT 14**

Concrete cost-reducing and revenue-enhancing measures will allow online grocery to become profitable in the future



**Cost-reducing measures<sup>1</sup>**

**Revenue-enhancing measures<sup>1</sup>**



<sup>1</sup> Percentage of respondents who believe the measure is most likely to make online grocery profitable

Survey question:

a) "What concrete cost-reducing measures will allow online grocery to become profitable in the future?"

b) "What concrete revenue-enhancing measures will allow online grocery to become profitable in the future?"

Source: Strategy& analysis and Strategy& industry expert survey July 2022

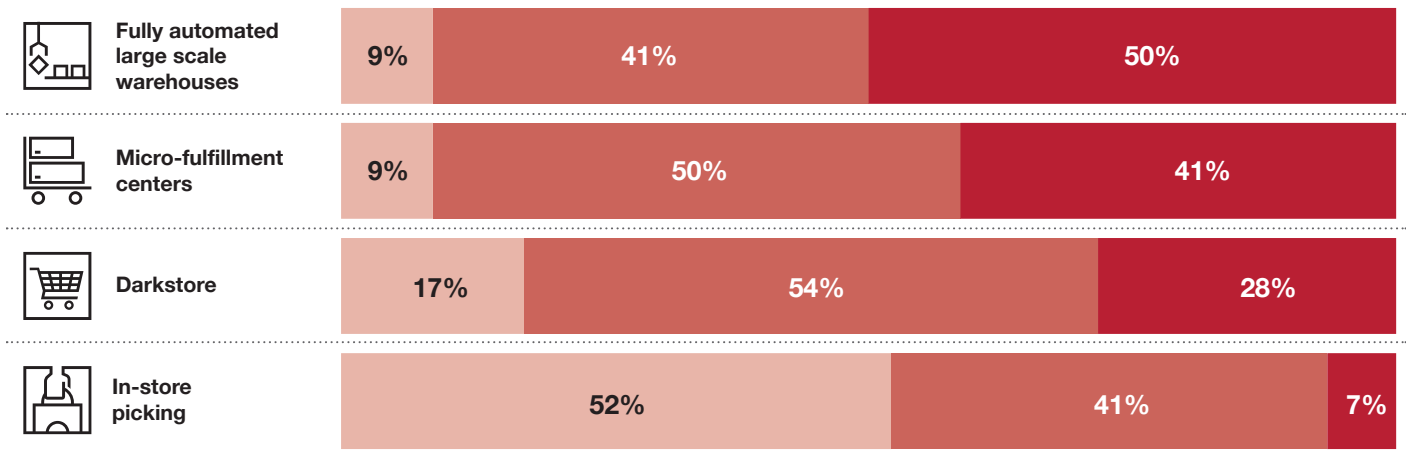
Without exception, companies will need to adapt and upgrade all operations, developing a lean discount assortment and tailored packaging for online order delivery, cost-efficient and automated last mile delivery, automated infrastructure and efficient picking, and low-cost payment solutions.

Automation, robotics and data analytics will play a vital role in transforming the profitability of online grocery shopping (see *Exhibit 15, page 25*). Although self-driving trucks and widespread use of delivery drones remain a distant prospect, there is much that managers can do today to enhance sales, improve operational efficiency and lower costs.

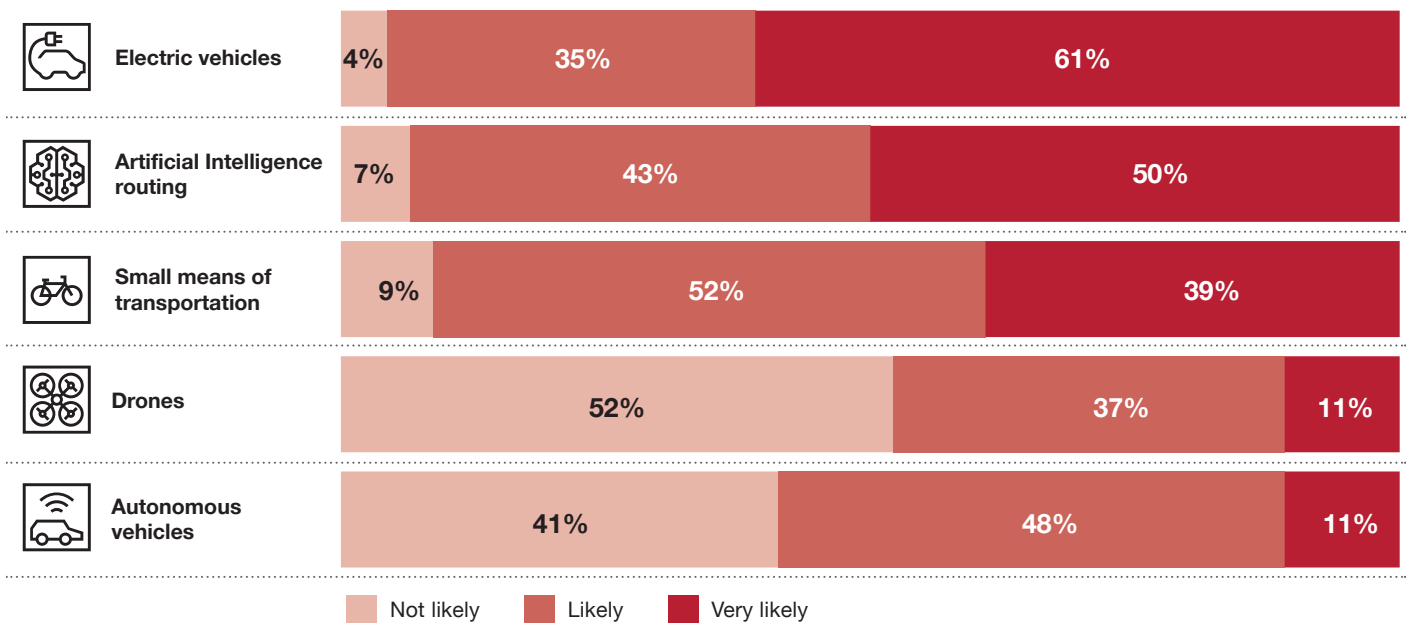
**EXHIBIT 15**

Which fulfillment technologies will most help online grocery become profitable?

**Predominant technologies/models used for commissioning in online grocery in 2030**



**Predominant technologies/processes used for the last mile delivery in online grocery in 2030**



Survey question:

a) "What will be predominant technologies/models used for commissioning in online grocery in 2030?"

b) "What will be predominant technologies/processes used for the last mile delivery in online grocery in 2030?"

Source: Strategy& analysis and Strategy& industry expert survey July 2022

When it comes to assessing profitability, it's important that retailers with both bricks and mortar stores and online sales look at the P&L across the entire enterprise. The benefits also go beyond the profit generated by each transaction: omni-channel customers are particularly valuable because of their loyalty, as described earlier. eGrocery is also attractive because retailers can learn a lot about customers by collecting data, which can be used beneficially across all their channels.

## SECTION 5

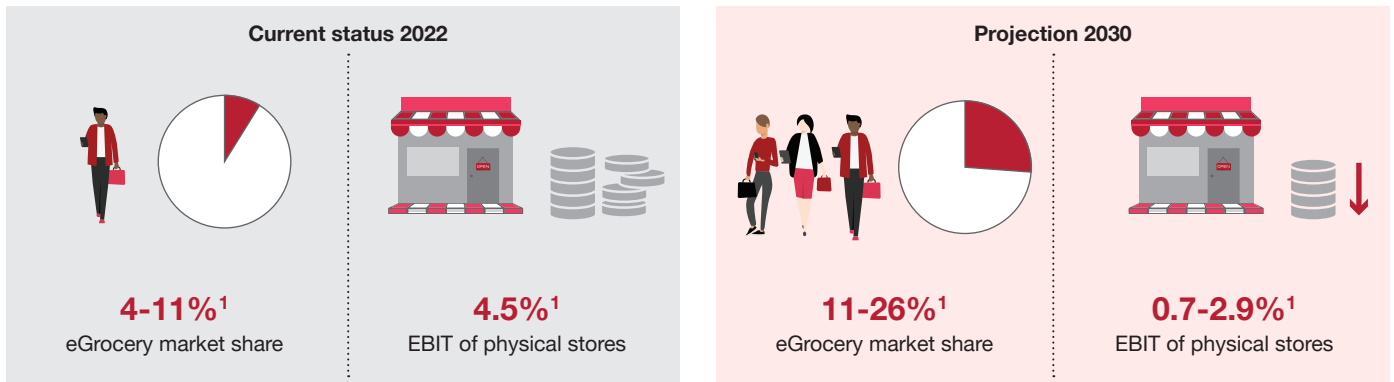
# Time for retailers to act

### Store-based retailers

The core business of traditional, mainly store-based retailers is endangered. Those who fail to adapt risk losing market share, declining footfall and dwindling profits. Those who delay their online launch risk being shut out by early entrants who gain market dominance. The early movers that take a market-leading position will gain powerful economies of scale, making them all but unassailable. They will also build a group of loyal customers who become reluctant to switch suppliers. Ultimately, a head start also enables them to learn and implement best practice in picking and delivery, as well as optimizing shoppers' baskets. Followers will struggle to catch up.

#### EXHIBIT 16

Potential impact of growing eGrocery share on physical stores' profitability



Profits of physical stores might decline by -35% up to -85% depending on the specific country and eGrocery growth from 2022 to 2030. While stationary revenues and variable cost decrease, the store network's fixed cost remains constant and thus squeezes the EBIT margin.

<sup>1</sup> Range across countries in scope (UK, the Netherlands, France, Germany and Turkey)

Source: Strategy& analysis. Indicative calculation for fictitious retailers with store network and substantial fixed cost structure

The continuing growth of eGrocery will likely cannibalize in-store sales. Because these have high fixed costs, their profitability is expected to plummet by up to 80 percent – or possibly more (see Exhibit 16). The bigger the shift to online grocery purchasing, the bigger the decline in profitability of stores:

- Our model predicts that eGrocery's market share will rise from 11 percent to 26 percent in **the UK** by 2030, which risks pushing in-store profits down by 75 percent

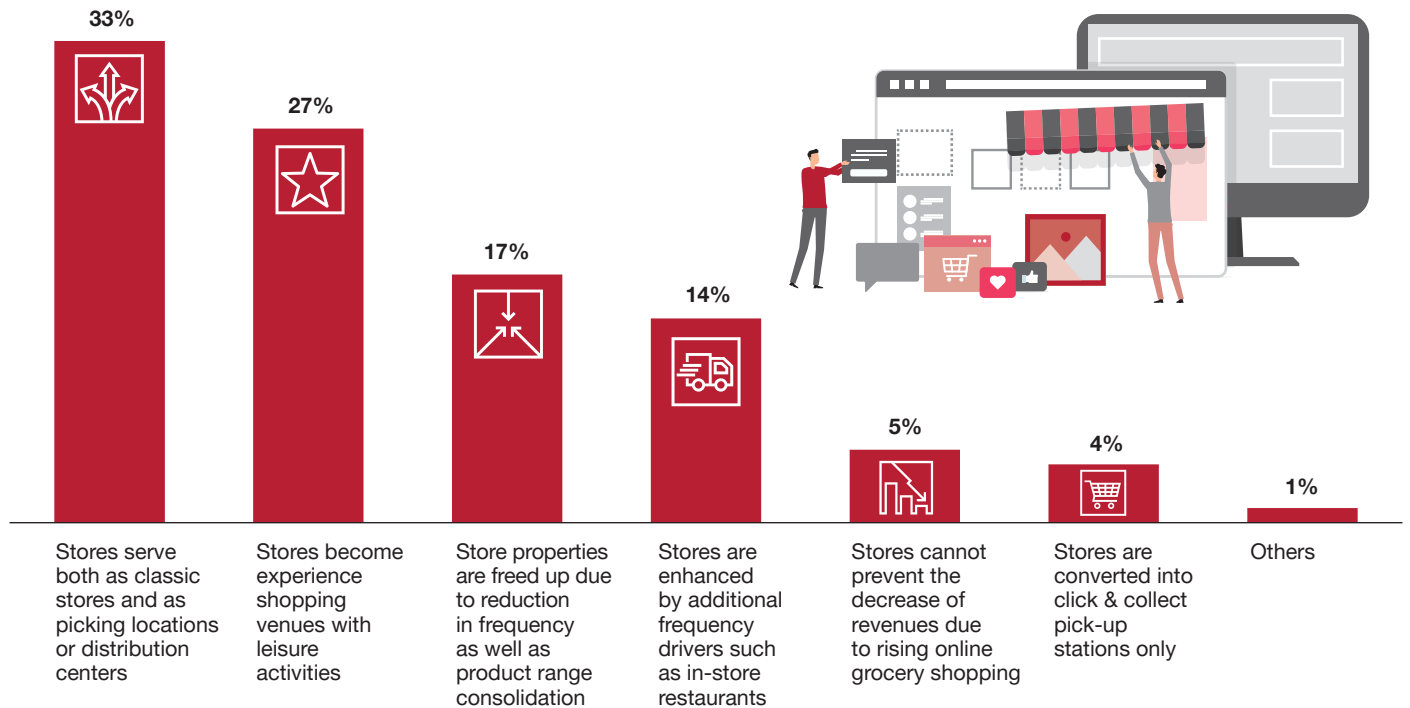


- In the **Netherlands**, the jump from 8 percent to 25 percent would result in an 85 percent drop in in-store profits
- In **France**, the move from 9 percent of grocery sales online to 23 percent could send profits down 70 percent
- In **Germany**, the change from 4 percent to 11 percent could result in in-store profits slumping by as much as 35 percent
- In **Turkey**, eGrocery’s market share will rise from 3 percent to 10 percent, whereas in-store profits will decrease by 30 percent over the same period

To address this threat, firstly retailers can cut costs by shedding their least-profitable stores, reducing size and renting out unused space. They can also minimize staffing, notably by using automated checkouts and shelf-scanning robots. Secondly, they can improve logistics and warehouse infrastructure. Thirdly, they can rethink what their stores offer. Stores can become both picking locations for home delivery and click & collect orders. They can become experience shopping stores, providing leisure activities and focused on fresh and premium products (see *Exhibit 17*).

**EXHIBIT 17**

Which fulfilment technologies will most help online grocery become profitable?

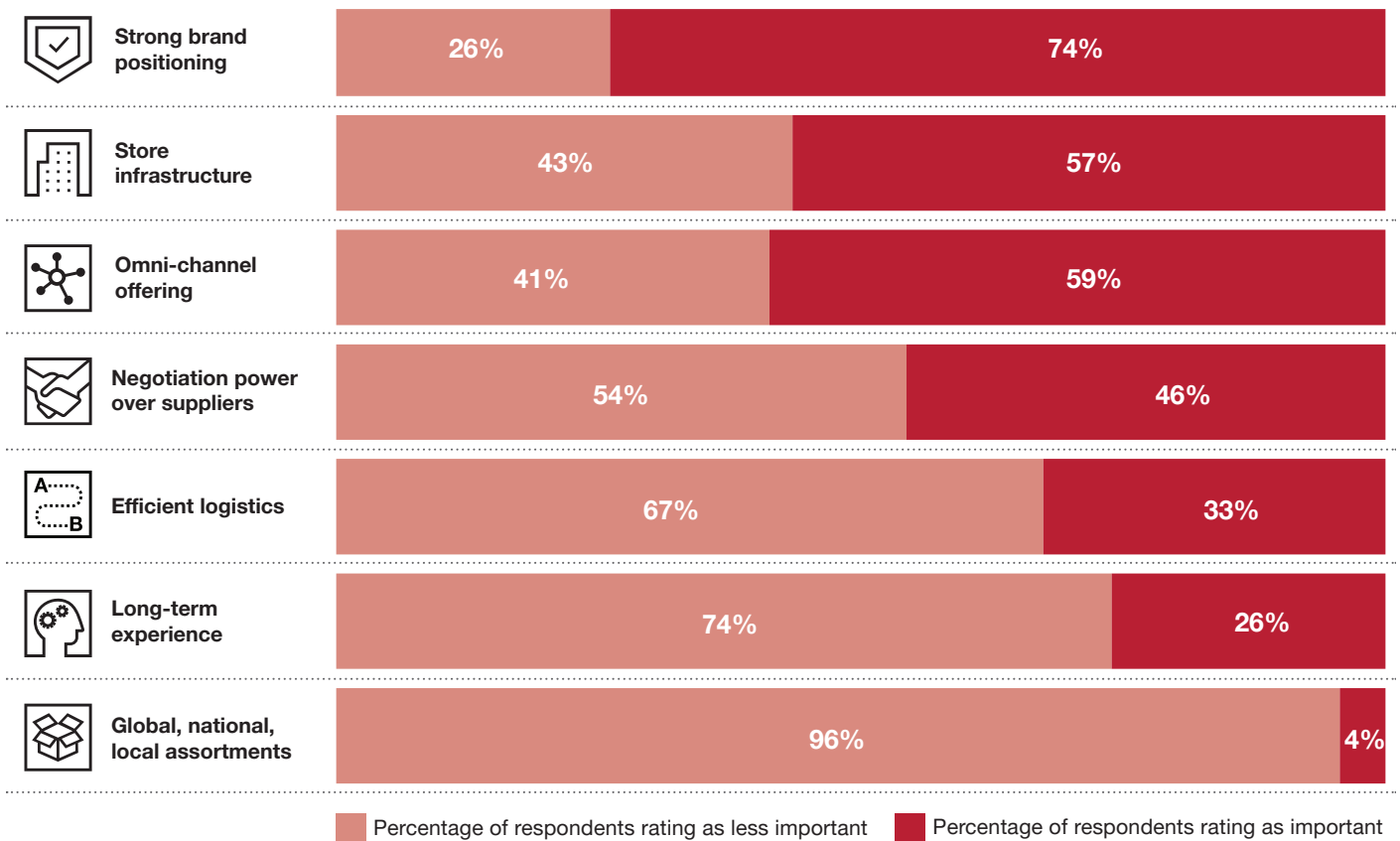


Survey question: “How can bricks and mortar grocers modify stores to mitigate decreasing store profitability due to the growing online grocery market?”  
 Source: Strategy& analysis and Strategy& industry expert survey July 2022

Our survey responses show 33 percent of participants believe stores will serve as both traditional stores and pick-up/distribution centers for home delivery and click & collect orders, while 27 percent think stores will become experience shopping venues (see *Exhibit 18*).

**EXHIBIT 18**

Most important success factors for bricks and mortar retailers' transition to online grocery



Survey question: "What can be key advantages for traditional full-range retailers and discounters compared to online grocery?"  
 Source: Strategy& analysis and Strategy& industry expert survey July 2022

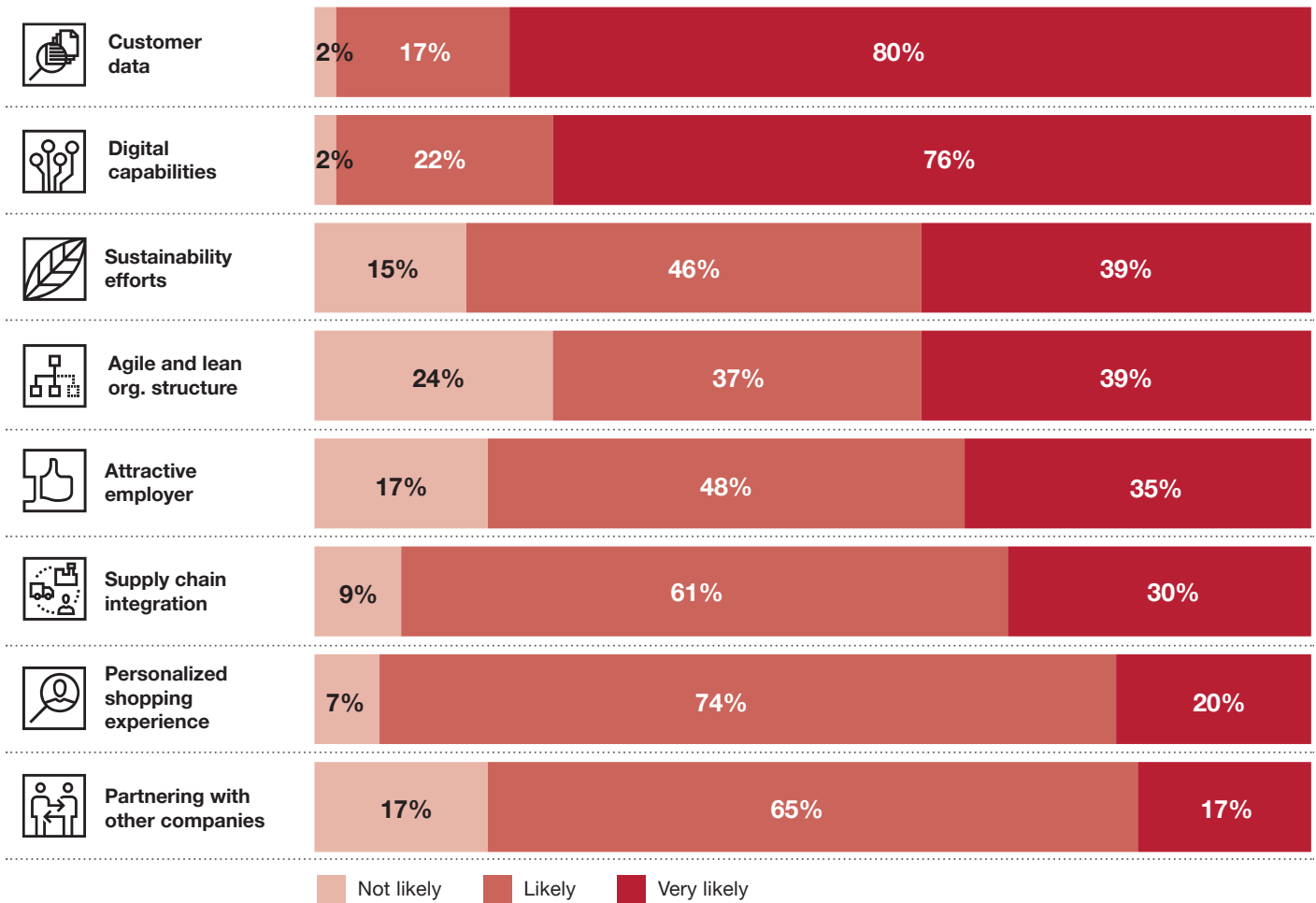
Traditional retailers have many strengths, ranging from strong brands to efficient logistics, experience and an offering that is drawn from national and local suppliers. These are factors that challengers can take years or even decades to replicate.

**Full-range retailers and discounters will each face different types of disruption.** To stay successful, both will need to break down organizational silos, empower employees and become lean, agile and omni-channel. To do so, they will need to invest heavily in digital technologies, automation, talent and training. To attract the necessary skills they must become modern, attractive employers, friendly, non-hierarchical and well led. And they must understand and embrace the global drive for sustainability, overhauling products, packaging and delivery, and creating a single, green, efficient, integrated omni-channel supply chain.

Our survey respondents prioritized the following success factors (see *Exhibit 19, page 29*):

**EXHIBIT 19**

Most urgent changes for bricks and mortar grocery retailers



Survey question: "What changes do existing bricks and mortar grocery retailers most urgently need to make to properly position themselves for the future?"  
 Source: Strategy& analysis and Strategy& industry expert survey July 2022

The executives we surveyed were very clear that bricks and mortar retailers should develop digital skills within the next two years. They need to better leverage their customer data and improve their environmental performance, as well as making their organizational structure more lean and agile.

In the eight years to 2030, the fastest growth is expected to be in home delivery, followed by click & collect, while the number of automated mini-markets is also likely to increase. Sales from traditional stores will continue to decline, however.

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**Full-range retailers** have customers who are less price-sensitive and their products often have higher margins. Combined with their existing purchasing economies of scale and strong logistics, this gives them a competitive edge over pure online players and could help them achieve early online profitability. But delivery speed and customer experience also matter. Finding the optimal balance will take imagination, experimentation and effort. The time to start is now.

**Discounters** face a bigger challenge because their operational and delivery costs are proportionally higher relative to their low-margin products; automation will be essential to achieve online profitability. They are most at risk of losing market share as convenience-seeking consumers increasingly order top-up products from new online players, while full-range retailers and specialized niche players focus on fresh and local products and a pleasant in-store experience to attract premium-paying customers. Discounters must act now if they want to prevent challengers such as Picnic, with slick technology and low prices, from gobbling discount customers and market share. The good news for discounters is that they already operate with a laser focus on keeping costs down, which should help them achieve eGrocery profitability as they establish their online channels. The current period of high inflation and the threat of recession will also play to discounters' strengths, as shoppers become more price sensitive.

During our research we also looked at the implications for logistics operators and grocery suppliers. If you would like to know more about our findings regarding these players, please get in touch.

As our research and survey responses make clear, online grocery retailing will make greater and greater inroads into the traditional market in the decade ahead. While bricks and mortar stores will still have a significant market share, their revenue and profitability will be eroded as consumers take advantage of the convenience of new digital services. The full extent of the change to an omni-channel model and the exact road ahead are still unclear, but the grocery retailers already getting it right online are pointing the way.

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