IGD Special Analysis, April 2013

DEVELOPMENTS IN CLICK AND COLLECT (DRIVE) FOR GROCERIES

Why does Click and Collect matter?

- The way people shop for groceries is **changing fundamentally**. Retailers operating in developed markets are under pressure to catch up with shoppers expectations
- However, this has opened up opportunities to operate in a smarter, more agile way through **true multi-channel solutions**
- **Online** grocery is a **high growth channel**, in some instances it offers an incremental growth opportunity; in others its rate of growth means it makes a big contribution to like for like sales
- **Click and Collect, or Drive**, for a full grocery shop exists in different forms in different markets, although France is the most developed and has expanded rapidly over the past 12 months
- As grocery online scales to become a material part of the total market, understanding how retailers are **growing capacity** will become business critical

What to expect in this presentation

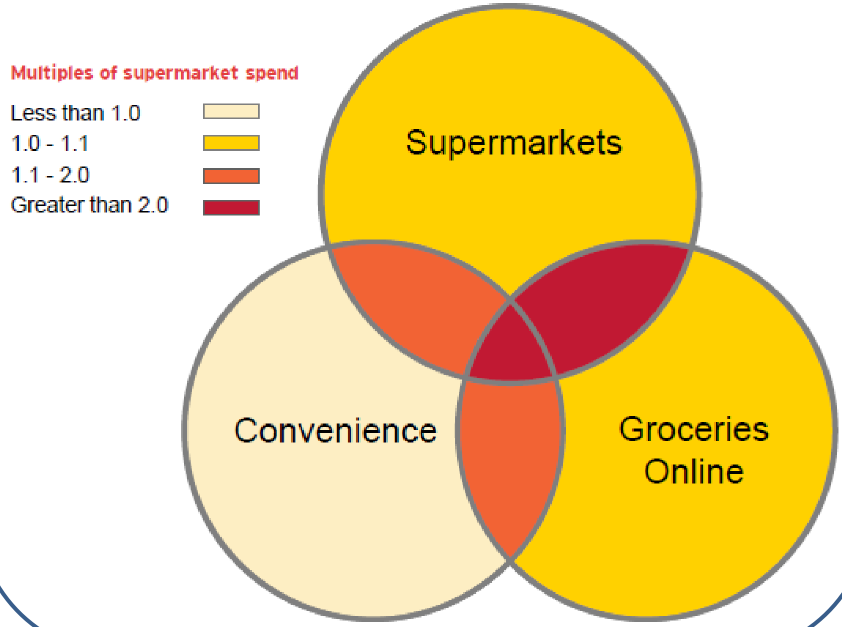
- This presentation identifies the different models operating, as well as their **current and future growth potential**
- We look at how the concept is developing in **France** to accelerate efficiency for retailers and increase loyalty with key shoppers
- A look at Ahold's eCommerce plans show how the Click and Collect concept is developing in **other grocery markets**, namely Europe and the US

Multichannel can deliver incremental sales

- The internet and technology is **empowering shoppers** and changing their purchasing decisions in a fundamental manner
- Online and convenience are two growth channels: the real goal for retailers to **accelerate a true multichannel, multiformat** offer that drives shopper loyalty and total basket spend
- **Click and Collect** (or **Drive** as it is known in some markets) is one model for online grocery shopping and a route to grow multi-channel sales. It takes various forms, and is most advanced in France. This presentation maps out how it works and its growth potential

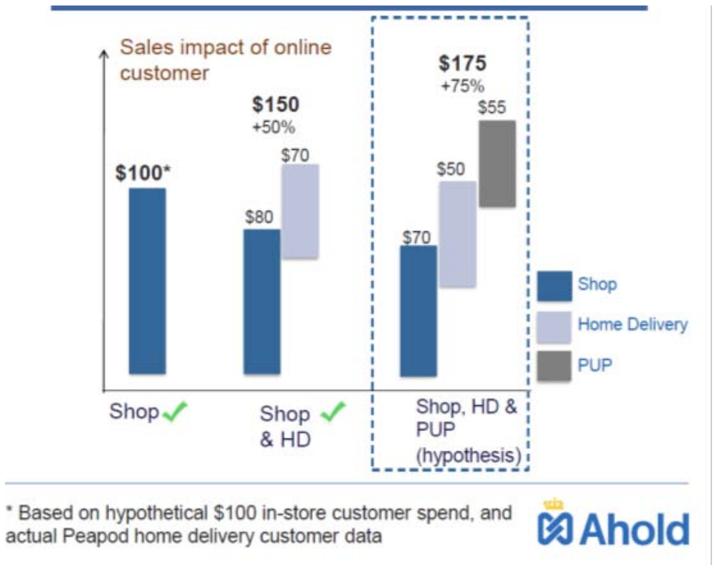
Sainsbury's, UK

- Sainsbury's chart below shows that shoppers buying across its three core formats are its most valuable:



Ahold, USA

- Ahold has stated that online drives total basket growth as part of a multi-channel solution:



What is the future for online grocery shopping?

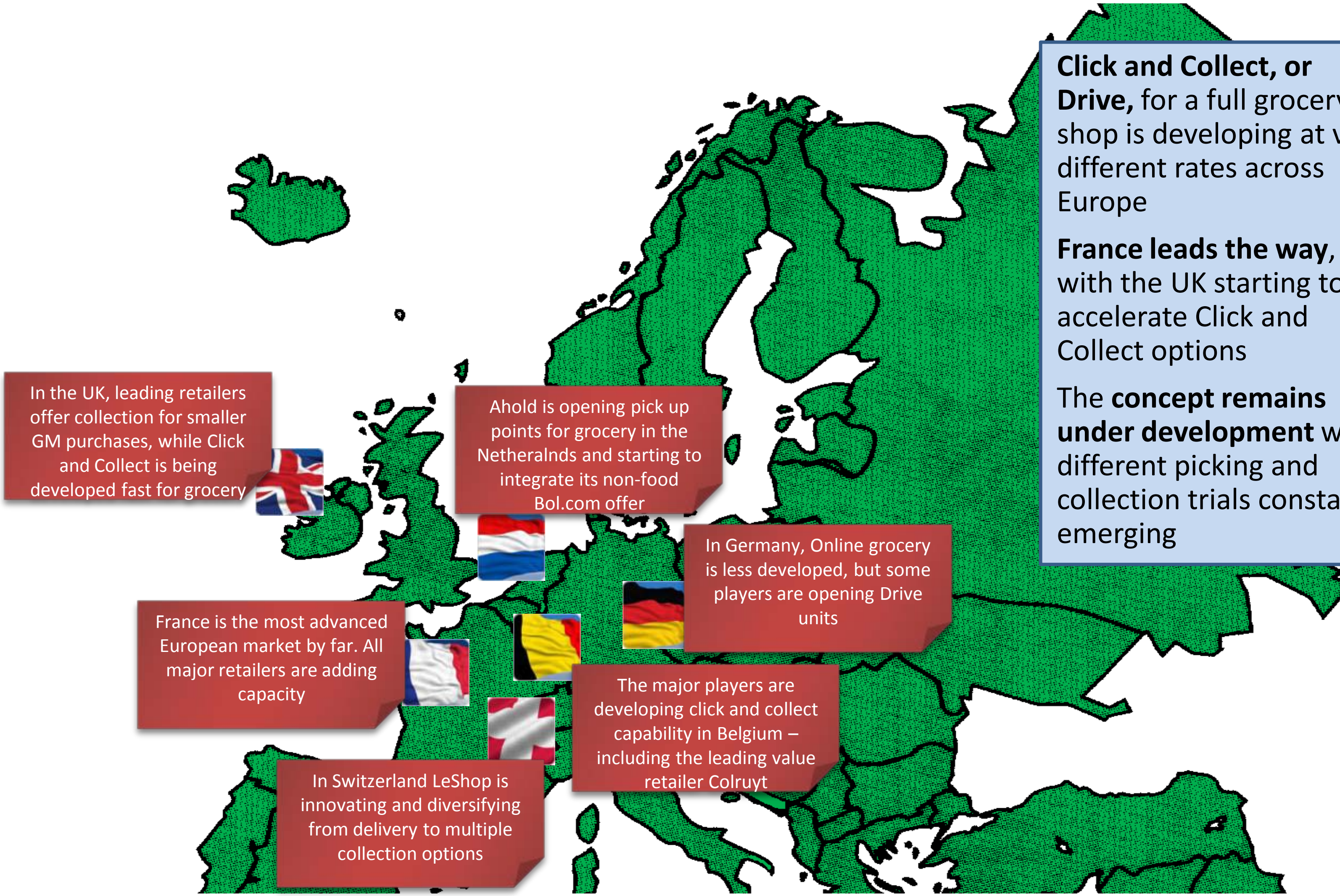
Shopper solution

	Deliver to home	Drive through click and collect *-at store or standalone*	In-store click and collect
SHOPPER ✓	High service level, delivered to fridge	Collect at convenient time	Shop for some items individually
SHOPPER ✗	Waiting in at home and paying for a delivery slot	Have to be passing store/collect point	Time consuming

Fulfilment solution

	Pick from store	Pick from dark store	Semi-automated pick from dark store	Fully automated large scale warehouse
RETAILER ✓	Lower capital cost	Full range, ability to tailor by catchments, add capacity	Increase items picked per hour	Most efficient picking
RETAILER ✗	Limited capacity, lower product availability	Managing waste, supply chain	Capital cost of build and maintenance	High capital cost and may entail longer delivery network

The Click and Collect landscape across Europe



Click and Collect, or Drive, for a full grocery shop is developing at very different rates across Europe

France leads the way, with the UK starting to accelerate Click and Collect options

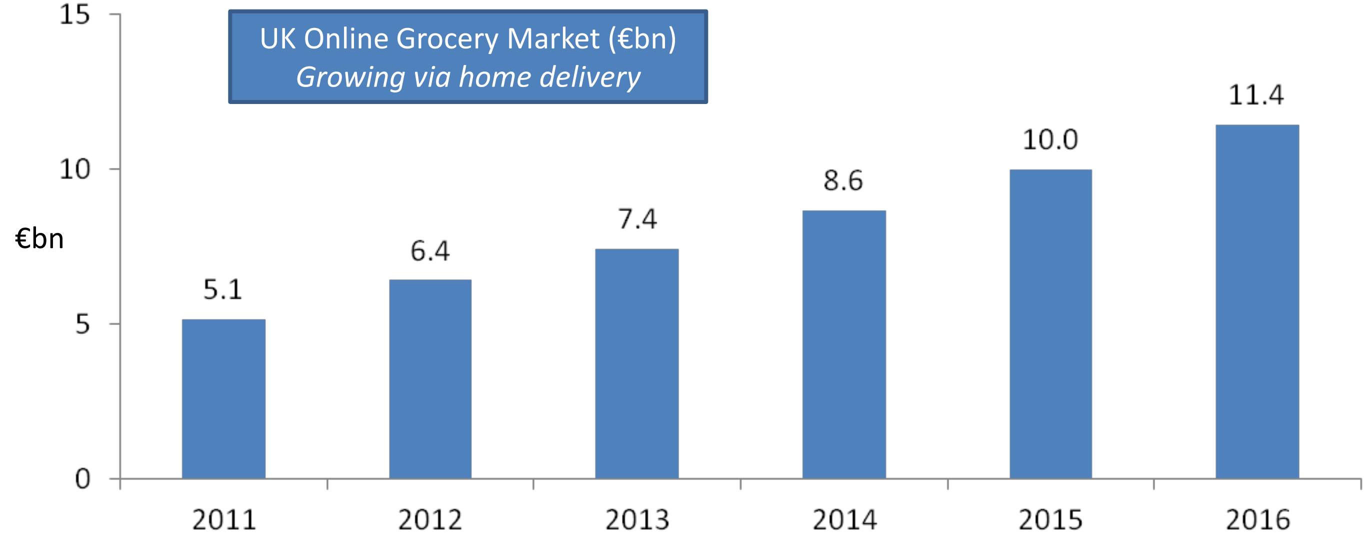
The **concept remains under development** with different picking and collection trials constantly emerging

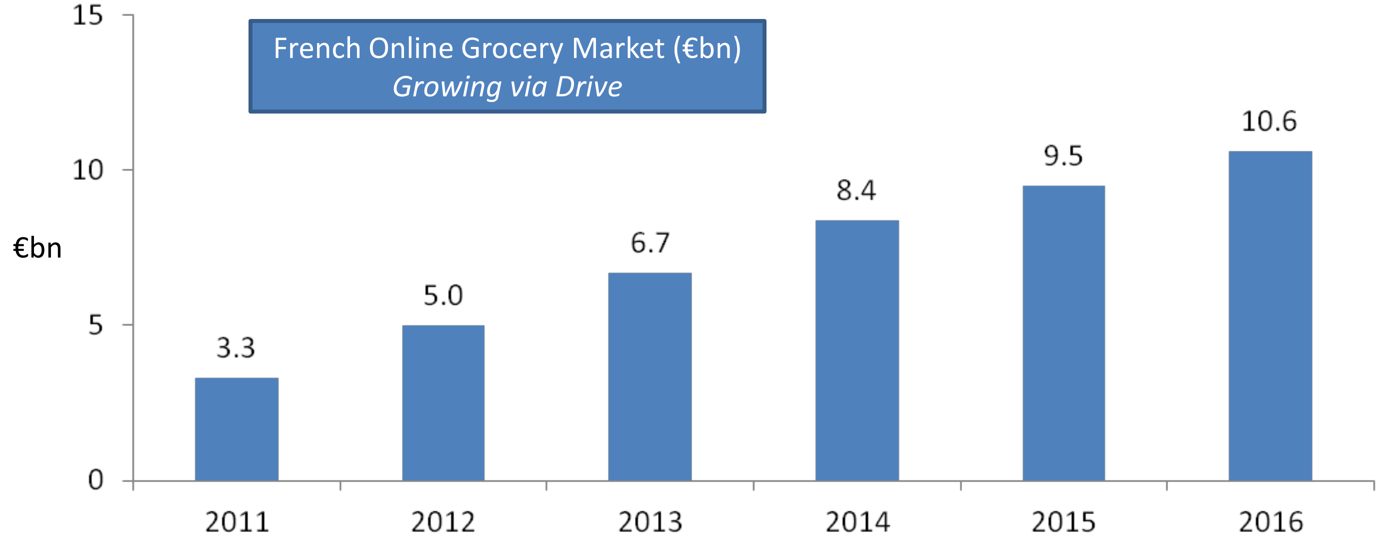
Key markets to watch for Click and Collect

- Online grocery is growing fast in both the UK and France, typically doubling every 5 years
- In **France**, this is **driven primarily by capacity expansion in Click and Collect (Drive)**
- Online grocery development in France has started later than the UK, with **lower population densities** making deliver to home more economically challenging

Implications

- The French market shows Drive can be **rolled out at pace** to grow online sales
- Finding an **efficient and shopper friendly model** will be key for retailers if growth is to be sustained beyond 2020





How do GB shoppers view grocery Click and Collect?

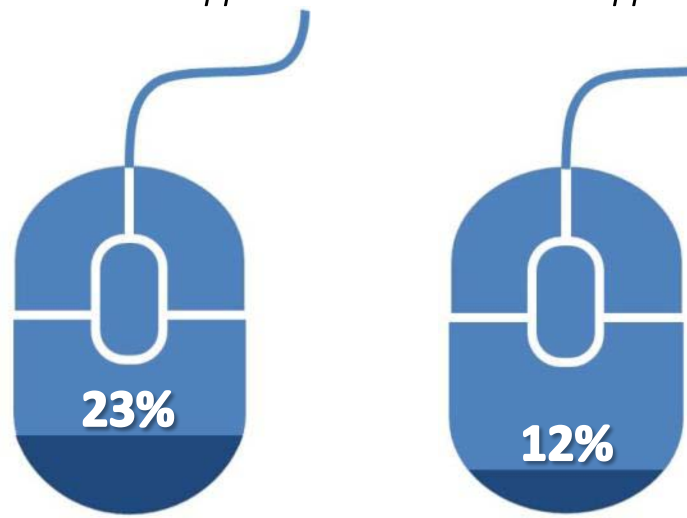
- A **quarter of current** online shoppers are interested in picking up online orders from a store for a reduced service charge, and more than **one in ten of non-users** could be attracted to the channel
  - **18-24** year olds are most enthusiastic, rising to 33% compared to 7% of 55+s
  - These shoppers are attracted by the added **control** and **reduced fee** the model provides versus delivery
- Following initial success, **Tesco** and **Asda** are expanding their click and collect services for grocery shopping
- **Amazon** has launched a service allowing shoppers to collect orders (predominantly GM) from one of almost 5,000 UK **convenience stores** and newsagents

Implications

- While becoming the model for online shopping in France, 'drive-through delivery' services are **still immature in the UK**
- **Further development** of the model can be expected from UK grocers, at store and at standalone locations, helping to attract additional shoppers to the online channel, and encourage existing users into a **more regular online routine**

% who are/would like to use 'drive-through collection'

online shoppers *other shoppers*



How is the UK developing Click and Collect solutions?

Sainsbury's has developed scale in **non-food Click and Collect**, with the service available in 946 of 1,063 stores

During the retailer's busiest Christmas week in 2012, **60% of non-food online** orders made use of the service

Convenience stores are increasingly being used as **collection points**, offering shoppers flexibility as to when they pick up their non-food purchases

Amazon has partnered with **retailers** and **shopping centres** to install collection lockers

Tesco is developing Click and Collect capability for **full grocery shopping** at pace, with plans to double its existing **150 locations**

In addition, **non-food online** purchases can be collected in from over **1,500 locations**

Asda has **over 100 grocery Click and Collect** locations and plans to double these in 2013, in addition to store collection for non-food and clothing purchased online

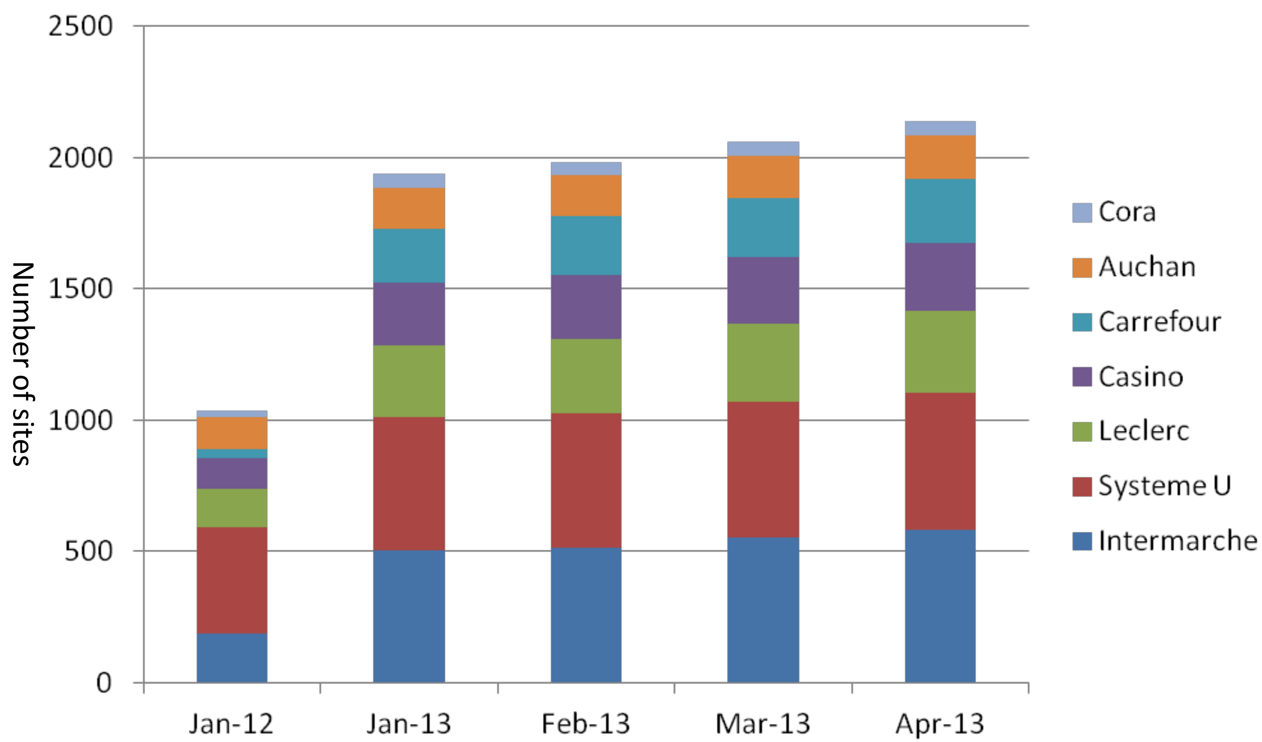
Standalone collection points on forecourts and business parks are emerging

Spotlight on France: rapid Drive development

- Drive outlets have **more than doubled** in the past 15 months in France
- Shoppers order online, drive to a collection point at store or at a standalone location
- They either **get out of their car** to pick up their goods at a designated area (**47% of sites**) or **remain in their car** (**53% of sites**) and have them loaded as part of the service
- Collection typically takes under 5 minutes

Implications

- Order fulfilment is generally **free for shoppers**. If it remains free, **growth is likely to continue**
- **More efficient picking** will be key as the service becomes a major part of retailers' strategies to increase **frequency and loyalty**

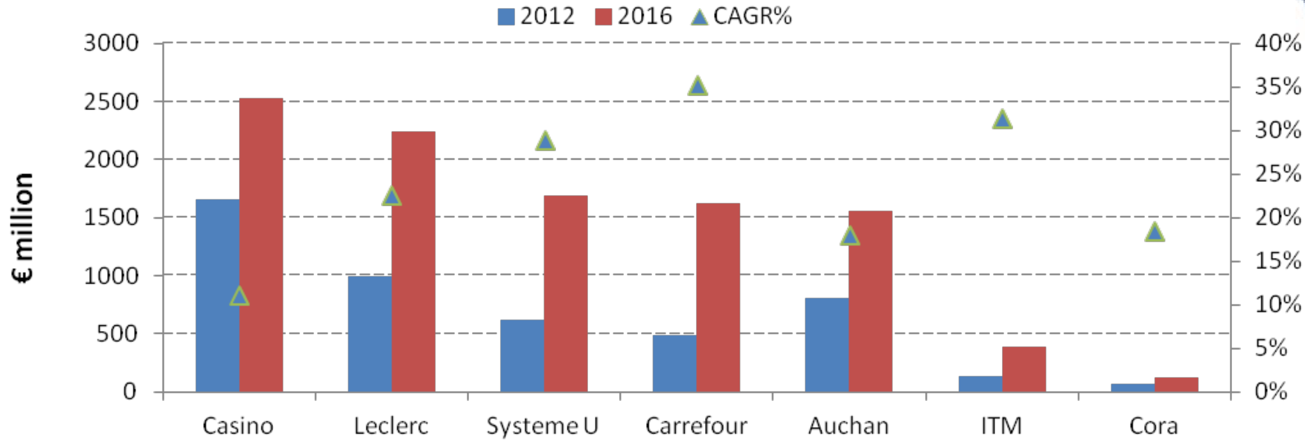


80% of the French population has a Drive within 10 minutes of their work or home address

Drive is used by 20% of the population, with ease of shop and time saving the primary benefit

The different Drive models, from store collect to standalone, can cost between €150,000 and €4m to build

Spotlight on France: retailer online sales



Retailer	Importance of Drive to total online sales	IGD opinion
Casino	Low	Casino has a **significant non-food** business, Cdiscount.com, that makes a major contribution to total online sales. The retailer takes a measured approach to Drive expansion and has developed an **innovative dark store** solution that we have visited, Casino Express
Leclerc	High	Expanding Drive at pace is **a priority for Leclerc**, with our estimates suggesting it **almost doubled Drive sales in 2012**. The retailer has recently opened a dark store that fulfils orders for three separate pick up points
Systeme U	High	Systeme U acquired a deliver to home player Telemarket in 2011, however the majority of its growth will come from Drives. To date these have required shoppers to get out of their cars at supermarkets, but the retailer is reportedly **testing a full Drive solution**
Carrefour	High	Carrefour was a **late entrant to Click and Collect** and is now adding Drives at pace. Although sales contribution today remains marginal our estimate predicts the retailer will scale its Drive capability rapidly. The appointment of dedicated senior management resource will see eCommerce accelerate
Auchan	Medium	Auchan is an innovator online, having **pioneered Drive and dark stores**, while it also has a deliver to home service and non-food online presence. As such, it has a broad online capability that Drive is a key part of
ITM	High	Intermarche has built capacity at pace; the majority of its **Drives are at supermarkets** and require shoppers to exit their cars to collect their goods. The retailer is reportedly testing full Drive solutions that could boost growth
Cora	High	Cora has a portfolio of over 50 Drives at its hypermarkets that offer **a wide range of products** versus peers

Source: IGD estimates, Casino Cdiscount included

Rapid capacity in France, but ranges still constrained

Dominant Drive Collection & fulfilment model & SKU count

	Stay in car	Get out of car	Store pick	Dark store pick	SKU count
Leclerc	✓		✓	✓	**Low**
Carrefour	✓		✓	✓	**Low**
Auchan	✓		✓	✓	**Low**
Casino	✓	✓	✓	✓	**Medium**
Intermarche		✓	✓		**Medium**
Systeme U		✓	✓		**Medium**
Cora	✓		✓		**High**

- **Product ranges** at Drives generally remain **limited**, although this has not limited rapid shopper take up
- Most retailers have developed a **hybrid collection and fulfilment model**, using a combination of store and standalone collection points, fulfilled from stores or dark stores
- According to reports, Intermarche and Systeme U are developing 'full service' Drives so shoppers don't need to leave their cars
- As the channel develops, **building range and convenient pick up solutions for shoppers are likely priorities**. The extent to which technology can play a role here is yet to be seen in France

Case study: Casino Express

Drive through click and collect
-standalone

Pick from dark store

How does Casino Express work?

- Casino Express (www.casinoexpress.fr) is a recent **development in Drive** (click and collect) in France. The concept represents an evolution of Drive as retailers seek a shopper friendly, efficient model.
- It is a **standalone dark store that fulfils orders placed online**, for collection at the Express site by the shopper
- A **high level of service** is provided for the shopper, with order collection time under 5 minutes

What are the implications?

- Although the order online, collect at dark store model has been in operation for a number of years in France, this version looks to create a **superior customer experience while improving picking efficiency**
- The model majors on **convenience** and **frequency of shop**, making loyalty a key battleground
- As Drive becomes a material format in France, finding a **sustainable mode of fulfilment** will be critical to profitable growth

Casino Express: the shopping journey

1. Order online

2. Order picked

3. Arrive at least 2 hours after ordering

4. Identify

5. Add extras

6. Proceed to collection bay

Click and Collect beyond France: Ahold in NL and US

Ahold is developing **advanced eCommerce capability.** Pick up Points, another name for Drive, are a key part of its growth plans in both the Netherlands and US

Pick Up Point locations in the Netherlands

How it works

- Shoppers within a **10-mile radius of the store** can order online and pick up later. Initially offered free of charge, the retailer now charges $2.95 per pickup order
- Peapod customers can **create shopping lists, read nutrition information online sort products by price or nutrition** criteria and take advantage of weekly specials
- Shoppers can choose a convenient **one-hour pick-up** window between 8:00 AM and 7:00 PM Sunday to Friday, and 8:00 AM to 5:00 PM on Saturday (in the US) and Mondays through Saturdays from 8.00 am to 10.00 pm in the Netherlands

Where

In a handful of stores...
In the US –Abington and Westborough, MA; Lincoln, RI; Hartsdale and North White Plains, NY; Palatine and Deerfield, IL (*same-day pick-up available only in these stores)*

In the Netherlands – Heemstede, Tilburg and Naarden

Implications for retailers and manufacturers

The context

Drive in France is growing at a rate that **makes a difference to retailer LFL sales**; incorporating online into joint business plans and creating a **dedicated online commercial plan** will help harness the opportunity

How to capitalise

Understand the **shopper and their buying patterns** as well as the **flexibility** dark stores potentially represent to develop bespoke product bundles and event **activation by catchments**. Understand how this fits into a multi-channel approach

The context

Drive is growing in markets **outside France**, especially in Europe. In the **UK**, Tesco and Asda are developing collection points, in **Belgium** Colruyt and Carrefour are leading Click and Collect while in the **Netherlands** Ahold is building capability

What's next?

Leclerc has opened a dark store near Lille that **picks orders for three standalone collection sites** – this is a good example of opening efficient capacity that permits sustainable growth

What lies ahead?

- Over the next five years the focus for Click and Collect, or Drive, in France will be on **adding capacity** and **developing efficient fulfilment models**
- Expect **standalone pick up points** to be tested in many markets – consider the shopper benefit of picking up the week's shopping at a school gate or outside an office
- Click and Collect will open online up to a **broader shopper demographic** and provide a route to grow spend with a valuable group of customers
- **The future of online is likely to be a hybrid model**, from both a shopper and fulfilment perspective:
  - Expect deliver to home to thrive in urban areas
  - Click and Collect, or Drive, will work well in areas where population density is lower but could add new sales in urban areas by appealing to different customer groups
  - Order picking is likely to get more efficient, with automation in dedicated picking facilities where demand is highest and justifies the investment cost
- The **acceleration of m-commerce** and improved mobile shopping experiences will encourage 'on the go', buy anywhere, collect anywhere habits

Conference: Online Grocery Retailing 2013

On 22 October , don't miss the chance to join leading retailers and manufacturers in London to discuss the strategies that are delivering both brand and sales growth, plus a view from experts in the field on the future of online grocery retailing.

Find out more here >>

ASDA TESCO

Sainsbury's mySupermarket Google