

# SECTOR SNAPSHOT: GROCERY

The grocery industry stands tall as COVID-19 remakes much of the retail landscape and society at large. Costco Wholesale saw net sales and U.S. comparable sales increase by double digits in March. Costco reported total net sales jumped 11.7% to \$15.49 billion for the five weeks ending April 5, compared to \$13.87 billion in 2019<sup>1</sup>. These gains highlight the consumer trend of stockpiling home supplies of essentials such as food and medicine in response to the onset of COVID-19 and widespread shelter-in-place orders. Costco further reported that consumables and health/personal care products experienced the strongest comp sales growth in March.

Outsized performance wasn't limited to wholesales though, as Kroger identical-store sales jumped 30.0% in March<sup>2</sup>, in conjunction with the publicly traded grocery while maintaining its full year of financial guidance. Kroger reported that noticeable changes in consumer behavior began in late February. Sanitizer, cleaning products, water, paper goods, boxed meals, and health-related products all were key product types as sales increased in response to the onset of the pandemic. Kroger additionally offered their observations on the changes of customer behavior: an initial surge in demand characterized by stockpiling, followed by a period when demand declines but stays higher than usual as consumers adjust to new dining and travel restrictions ushering in significant home-based activity.



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**instacart**

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# MAINTAINING SOCIAL DISTANCE

As consumers have adjusted to social distancing, many have sought out online alternatives to grocery shopping. According to a Deutsche Bank report, the online share of grocery sales in the U.S. was 3.0% in Q4 2019, with projected growth in the segment to 6.0% by the end of 2020. As shelter-in-place orders began taking effect in March, platforms that facilitate home delivery of groceries, such as Instacart, Amazon, and Walmart, each saw grocery delivery sales jump by at least two-thirds from the year before, according to Earnest Research. Instacart CEO Apoorva Mehta has summed up this shift succinctly, “The volume we were seeing was something we expected in two to four years. We just didn’t expect it to happen in two to four weeks.”<sup>3</sup>

Average daily traffic to Walmart’s online grocery website reached 1.1 million between March 1 and March 20, according to SimilarWeb – a 55.0% increase on average daily visitor numbers during the previous two months.<sup>2</sup> Walmart additionally benefits from its unrivaled network of brick and mortar locations, as of 2018, the Robin Report claims, “90.0% of the U.S. population resides within 10 miles of a Walmart store.”<sup>5</sup> As a result, stores can offer pickup from store service. Even with the tantalizing growth potential in online grocery, picking and delivery costs are currently less profitable than traditional in-person consumer shopping. Digital grocery will need to innovate further to refine a successful model of operation.

With this massive influx of demand, grocery delivery platforms have felt growing pains. Consumers are normally able to schedule time slots for when they want items to be delivered. This feature has become scarce, especially in high-density metros. Additionally, heightened demand has resulted in the inability to stock certain items. Retailers must integrate appropriate strategies for delivering perishable and chilled items for a delivery-focused retail strategy to complement their physical store offerings.

Ultimately, the grocery component of the larger retail landscape will seek further refinements in an evolving landscape. The inelastic nature of demand for food will encourage those making platform investments now to not only withstand this uncertain time, but potentially come out stronger in a new era of consumer behavior.

1 MarketWatch, “Costco Sales Jumped By More Than \$1.5 Billion as Coronavirus Spread In March,” April 8, 2020.  
2 Supermarket News, “Kroger Sees March Identical-Store Sales Jump 30% Due to Coronavirus,” April 1, 2020.  
3 The Information, “A Crucible Moment: Inside Instacart CEO’s COVID-19 Playbook,” March 28, 2020.  
4 The Wall Street Journal, “Online Grocers Are Getting A Preview of Their Future,” March 27, 2020.  
5 The Robin Report, “Walmart’s ‘Last Ten Miles’—Quicker And Cheaper Than Amazon,” February 21, 2018.

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