The Covid-driven surge in online grocery shopping

By Ross Jenvey

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There can be no question that Covid-19 has changed the way the world operates. Some trends are temporary, and some are more permanent, with the common question nowadays being: what will the new normal look like?

As investors in early-stage technology companies, we at Kingson Capital are trying to establish what trends are likely to stick around long term after lockdown truly ends, and identify the right companies to invest into that will benefit.

We believe that e-commerce will permanently benefit from people wanting to, or being forced to, socially distance themselves. One of the sub-sectors in this space is online grocery shopping.

Adoption risk is common in most early stage companies, where new technology is built to change the way things are done, but people are often resistant to adopt the change. However, once forced to try something different, as many people have been in the last six months, the inertia is broken, and they often refuse to go back to the way they did things before.

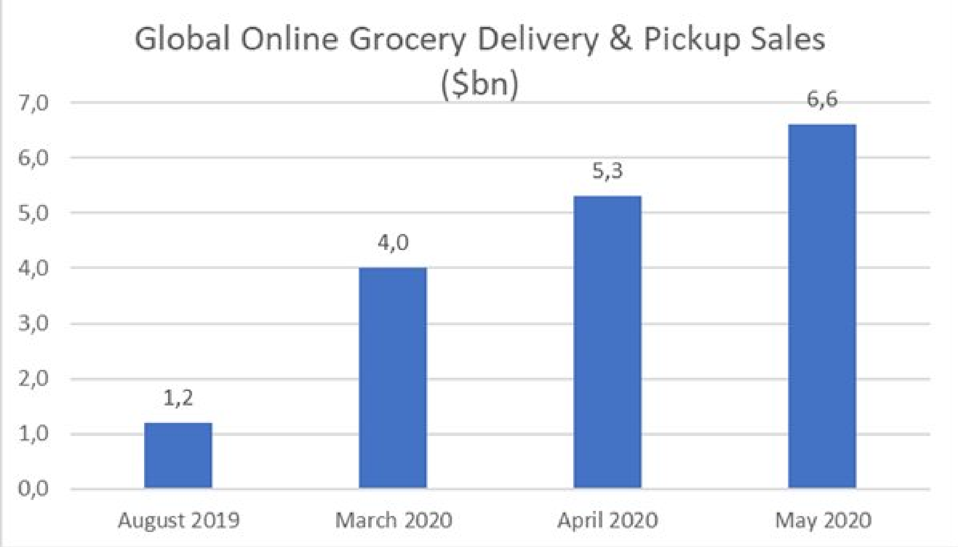
R2m investment helps Yebo Fresh expand township food distribution

30 Jun 2020

Data released by Pitchbook on the US online grocery market shows that the early stages of lockdown in 2020 allowed grocery sales to regain some of the market share it had lost against restaurants and take-aways.

More sophisticated technology, coupled with a slew of online grocery shopping options offered by stores and independent tech companies, have seen global online grocery delivery and pickup increase from $1.2bn in August 2019 to $6.6bn in

May 2020, a 450% increase in just nine months.



Pitchbook Research furthermore predicts that in the US, online grocery shopping is going to grow from 4.9% of total grocery spend in 2019 to 11.6% by 2025, a 2.4x increase in wallet-share. No matter how you look at it, this represents significant growth.

The poster-child of the online grocery shopping industry in the US is Instacart, which raised $225m in a VC-funded round in June 2020, ballooning its valuation from $7.9bn in late-2018 to $13.7bn. Delivery Hero is a similar company, listed in Germany, and in the just over nine months to mid-September 2020, its share price has increased 28% (to a valuation of €18.0bn) as investors continue to take a positive view on this sector.

Checkers Sixty60 creates 800 new jobs during lockdown
16 Sep 2020

Positive local developments

In South Africa, we are seeing equally positive developments. The main local players – OneCart, Checkers Sixty60, Bottles, Quench and Zulzi – have all completed or embarked on funding rounds in 2020 led by JSE-listed companies. The main differentiation between these players is based on multiple versus single retail platforms that a customer can choose from.

We are also aware that several of these players have seen anywhere between 200-500% growth in their daily orders since lockdown was implemented in March 2020. Google search analytics has shown that after an initial surge, the reduction of lockdown restrictions in South Africa has correlated with a reduction in online searches for “Online Grocery and Delivery services”.

However, that search is still roughly twice as popular as pre-lockdown levels, and the growth in order volumes referred to above talks to the stickiness we would expect, as people become repeat customers. This is the kind of growth that usually attracts competition, and one place we foresee it coming from will be UberEats, after Uber bought the Mexican grocery delivery app business Cornershop in October 2019. New apps will also likely spring up.

Covid-19 a shot in the arm for e-commerce
Lauren Hartzenberg 25 May 2020

Acceleration of e-commerce

Research released by the South African Council of Shopping Centres in May 2020 posted an expectation that retail sales will be down as much as 15% from current levels, and there will be slow recovery in shopping centre activity as GDP and employment both contract. Their survey revealed that 22% of respondents were not comfortable with visiting shopping centres and preferred online shopping, and 32% said they were regular online shoppers.

This will likely accelerate the trend towards e-commerce, as retailers try to protect their market share by pushing into this space, to the benefit of the incumbent tech solutions in the market. Interestingly, the major South African retailers such as Woolworths, Pick n Pay, Checkers and Massmart have all recently partnered with or acquired e-commerce on-demand service providers.

The ultimate winners will be the providers that can win consumer trust with consistent excellence in fulfilment and on-time delivery percentages.

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Rael Levitt 18 Sep 2020

Online grocery shopping is likely to be one of those sticky trends which will benefit greatly from the new way the world will work post-lockdown. Pitchbook analysts seem to think this will happen globally, and we think that South Africa will show equally exciting growth, even though we have traditionally been late adopters of e-commerce.

It’s also a sector that is creating jobs, since the shoppers and drivers employed now in this industry are new jobs, and the low skill requirements of the jobs is important in a country like South Africa. Necessity often brings about change, and consumers clearly need to operate differently in the new world they will find themselves in.

ABOUT THE AUTHOR

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