

# RAPID DELIVERY

# 2022

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All those scooter drivers whizzing round towns in a variety of colourful jackets to bring food and shopping to your door strike many people as something new. In fact, rapid delivery from established grocers has been with us for a while in the UK in a limited form. Sainsbury's Chop Chop, Waitrose Rapid, Ocado Zoom and Tesco Now all launched between 2016-19. But delivery economics meant they were geographically circumscribed, typically operating only in London, and hard to scale as standalone propositions - indeed Tesco Now closed in 2019.

However, the last 18 months has seen a big expansion in the sector, driven by two different models. First, supermarkets have partnered with the platforms Deliveroo and Uber Eats to provide last-mile delivery with much greater coverage than their own operations. Second, a set of new on-demand grocery delivery specialists have launched, backed by billions in VC funding.

In a survey conducted by YouGov in October 2021, we found that 8% of GB adults had used a rapid grocery delivery provider in the last four weeks, with adoption slightly higher in London (14%) where there are more options available. Overall, compared to customers who don't use rapid grocery deliveries, customers who do are more likely to shop online for groceries, to be a member of Amazon Prime, to have a food box delivery subscription of some form, to order takeaway regularly, to be younger, and to have children in their household.

Judging by the shift in customer preferences revealed by the survey, there is a lot of scope for rapid delivery to grow. Two in five adults had shopped for groceries online in the last four weeks (either entirely online or a mix of online and in-store), half had eaten takeaway in the last four weeks, while almost six in ten now have an Amazon Prime account. Many people have clearly adopted online options for their shopping and ordering.

Deliveroo and Uber Eats were early entrants in the market. Leveraging their existing platforms built on hot food delivery, they are now the choice of 40% and 49% of rapid grocery delivery customers respectively. That puts the pair well ahead of their on-demand grocery rivals, in part due to a much wider geographic reach, plus their partnerships with established grocers such as

Sainsburys, Morrisons, Asda, Aldi and Co-op. New entrants are also starting to partner with grocers. For example, in a tie-up that has the potential to scale, Gorillas and Tesco offer a joint service that combines the Tesco grocery range and store estate with Gorillas' rapid delivery expertise.

Not all customers are loyal to a single platform – some customers commonly order from more than one, a practice known as “multi-homing”. For rapid grocery, 35% of the customers who used rapid grocery at least once in the 4 weeks covered by our survey bought from more than one provider during that time. By comparison, the equivalent figure for multi-homing across the more mature hot food delivery platforms was lower at 20%.

In nascent markets such as this, the structure of competition is likely to change quickly, characterised by entry, exit, partnerships and consolidation. Indeed, all these have already been observed. Which competitors stay the course will be determined by which can develop a sustainable economic model before the VC funding tap switches off – based on which customers they are able to win and retain through consistent innovation and brand building, which geographic markets they can make work and which they can't, and how costs will ultimately be shared between customer, investor and retailer. As with other retail sectors that have migrated online, the on-demand grocery delivery market has lots of room to grow. The trick is to come up with the right proposition.

A successful business model will balance what customers are willing to pay against the role the service is seeking to fill. Are customers looking for an emergency meal for tonight, where the alternative could be more expensive delivered hot food? Or do they need last-minute ingredients, where the alternative is a dash to the local store (or better planning in the weekly shop)? How much are customers prepared to pay for speed and range? How do they respond to delivery charges? Pricing along this demand curve is reflected in the bundling of products, geographic differences and the ways in which platforms are working to engender loyalty, notably via subscription services like Deliveroo Plus (now bundled with Amazon Prime) and the potential expansion of Uber Pass to the UK.

In addition to commercial uncertainties, providers will also need to face up to the numerous policy challenges that have threatened both platform businesses and grocery delivery. In the case of Deliveroo and Uber the biggest headache is clearly the employment status of their delivery riders and the associated costs. But firms also need to grapple with matters of tax treatment, their carbon footprint, health regulations and supply chain issues. How platforms navigate the policy landscape and work out the models best suited to customer trends will in tandem determine how the market shakes out.

What then is in store in 2022? Expect more innovation, more investment, more expansion, and more consolidation. Providers will broaden their range and move into more towns and cities. Rapid delivery is here to stay in some form. The main issues now are how fast and how far the market can grow overall; how the competitor shakeout will take place through consolidation and exit; and who will be left at the end. The question of which models will prevail, or how the main policy challenges facing the sector will resolve, is unlikely to be settled any time soon. Everything is very much still to play for.

## AUTHORS

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**TIM BLACK**

Associate Director

**SARAH PENNINGTON**

Consultant

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[WWW.FRONTIER-ECONOMICS.COM](http://WWW.FRONTIER-ECONOMICS.COM)

[HELLO@FRONTIER-ECONOMICS.COM](mailto:HELLO@FRONTIER-ECONOMICS.COM)

+44 (0) 207 031 7000