



THE IMPACT OF COVID-19 ON ONLINE GROCERY

Why the coronavirus pandemic in 2020 will change the grocery industry forever in the United States

FabfIC

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INTRODUCTION ⁰³



TODAY

Unprecedented demand ⁰⁴

How grocers are rising
to the challenge ⁰⁶

THE FUTURE

Demand will continue
to skyrocket ⁰⁷

Online sales
penetration forecast ¹⁰

CONCLUSION ¹²

The online share of grocery sales will approach and could even exceed 10% this year, 4 years sooner than previously forecasted

We are living through truly historic times, and the Covid-19 pandemic is transforming the world in ways that still remain to be seen over the coming weeks, months, and even years.

One thing we do know for certain: the crisis is causing an unprecedented surge in the demand for online grocery in the U.S. While most other businesses have been shuttered, grocery stores have become the lifelines of their communities, and the new necessity of social distancing and self-isolation has spurred consumers to turn to online grocery shopping in droves.

In the days leading up to Covid-19 pandemic, the online share of grocery sales in the U.S. was close to 5% and was on track to reach around 6% by the end of this year.¹ But the rapid spread of the coronavirus has kicked the adoption of online grocery into hyperdrive, leading many consumers who had previously been strictly loyal to brick-and-mortar shopping to try online grocery services for the first time.

Apptopia found that downloads for Instacart, Walmart Grocery, and Shipt saw surges of 218%,

160%, and 124% respectively, comparing average daily downloads in February to mid-March.² Instacart reported grocery orders were 10 times higher than usual—20 times higher in places like California and New York.³ And average daily traffic to Walmart's online grocery site reached 1.1 million between March 1 and March 20, according to SimilarWeb—a 55% increase on average daily visitor numbers during the previous two months.⁴

According to our research, it now appears that online sales penetration is on track to approach and even exceed 10% as soon as this year.

To learn more about this shift as it happens in real-time, we surveyed 1,000 consumers, young and old, across the U.S. to learn exactly how their behavior has changed and what this means for the future of online grocery. It should come as a surprise to no one that when it comes to grocery shopping — as well as many, many other facets of daily life — things will never be the same.

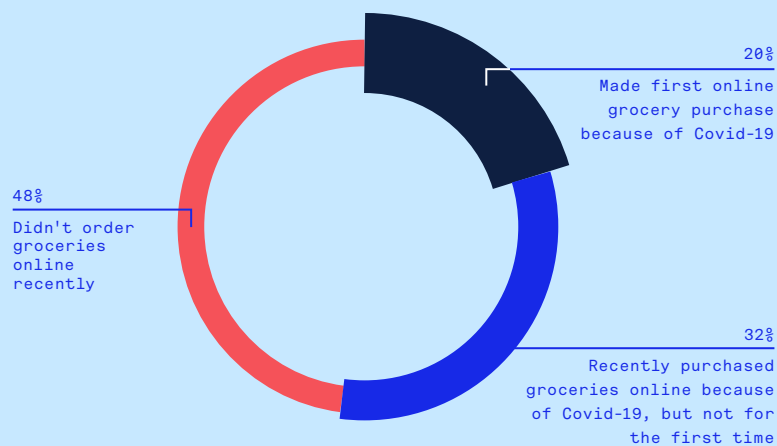
¹ Deutsche Bank, "Food Fight Round 2: Convenience & Digital Gaining Ground," 12 November 2019

² Apptopia, "Instacart and grocery delivery apps set consecutive days of record downloads," March 16, 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

52% of U.S. consumers have shopped for groceries online recently because of the Covid-19 pandemic and 20% are first-time shoppers



Source: Fabric consumer survey, March 2020

As the Covid-19 pandemic has spread across the United States, homebound consumers who have been encouraged to shelter-in-place and self-quarantine have turned to online grocery shopping in droves, according to our consumer survey.

More than 50% of consumers have purchased groceries online over the past few weeks because of Covid-19, and 1 in 5 consumers have recently ordered groceries for the very first time.

This latter number is particularly remarkable, indicating that Covid-19 is a force majeure that's propelling a new cohort of consumers towards online grocery shopping much faster than would have happened otherwise. We expect this to have a formidable and long-lasting impact on online sales penetration.

It's also worth noting that the results were evenly distributed across all age groups. It signals that **online grocery shopping is no longer a habit exclusive to millennials, early adopters, or city dwellers**; the Covid-19 crisis has made the service an indispensable necessity for all.

The volume we were seeing was something we expected in 2 to 4 years.

We just didn't expect it to happen in 2 to 4 weeks.

— Apoorva Mehta, Instacart CEO ⁵



⁵ The Information, "A 'Crucible' Moment: Inside Instacart CEO's Covid-19 Playbook," March 28, 2020

Retailers across the U.S. are expanding their offerings to meet this unprecedented surge in demand for online grocery

March 17



H-E-B waives fees for next-day grocery pickup and pharmacy delivery

March 17



In response to crushing demand, **Amazon** announces plans to hire 100,000 warehouse and delivery workers

March 18



SpartanNash announces it will extend curbside pickup and delivery hours from 8am to 9pm to meet surging demand



March 18

Hy-Vee announces that grocery deliveries will now be fulfilled by third-party providers Shipt and DoorDash so in-store employees can focus on pick-up orders

March 20



H-E-B launches a dedicated grocery delivery service, powered by Favor, for customers aged 60 and older all across Texas



March 23

Instacart announces it plans to hire 300,000 more workers to meet the surging demand for grocery delivery within the next 3 months

March 23



Walmart announces it will hire 150,000 associates



March 26

Kroger converts a Cincinnati store into a dark store to fulfill curbside pick-up only orders

March 27



Ahold Delhaize has doubled Peapod's server capacity, so the website will be able to handle much higher order volumes⁶

March 27

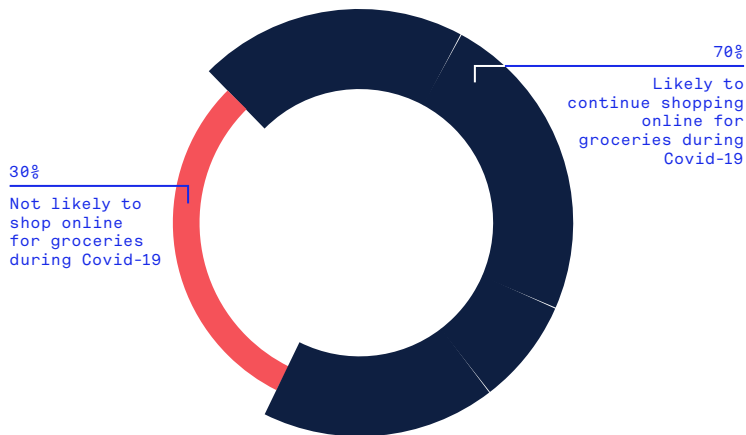


DoorDash waives delivery fees for customers aged 60 and older

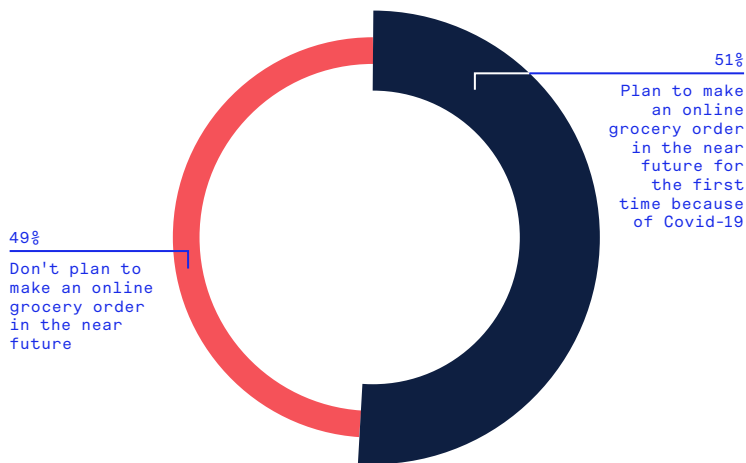
Source: Grocery Dive, "Tracking grocers' response to the coronavirus," March 30, 2020

⁶ The Wall Street Journal, "Online Grocers Are Getting a Preview of Their Future," March 27, 2020

The biggest wave of consumer demand for online grocery is yet to come



70% of consumers said they're more likely to continue shopping online for groceries because of Covid-19



Of those who have never ordered groceries online before, 51% plan to do so in the near future because of Covid-19

Source: Fabric consumer survey, March 2020

While the acceleration of online grocery adoption has already been staggering, our survey results give a strong indication that the biggest surge is yet to come.

More than half of consumers who have never ordered groceries online before plan to do so in the near future because of Covid-19...

and 70% of all consumers plan to continue shopping online throughout the duration of the coronavirus pandemic.

This is truly significant, given that a recent U.S. federal plan warned that the pandemic "will last 18 months or longer" and could include "multiple waves."⁶

That means that this surge in consumer demand is hardly a blip on the radar or an anomalous, one-time event; consumer demand for online grocery will stick for the duration of this crisis, and as we explore on the next page, likely forever thereafter.

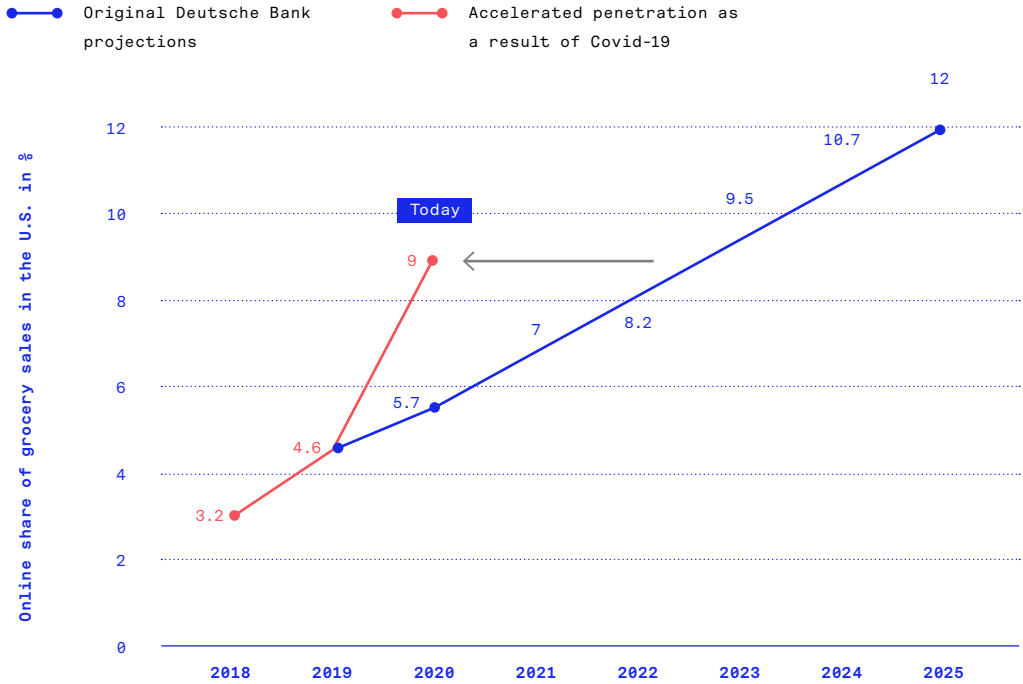
⁶ New York Times "U.S. Virus Plan Anticipates 18-Month Pandemic and Widespread Shortages," March 17, 2020

Online grocery spend in the U.S. has already nearly doubled as a result of the Covid-19 crisis

According to our survey, consumers have increased the proportion of their online grocery shopping by 95% during the Covid-19 crisis, nearly doubling their online spend.

We thus estimate that online grocery sales penetration in the U.S. is currently around 9%.

The Covid-19 effect on online grocery sales today in the U.S.



Sources: Deutsche Bank, "Food Fight Round 2: Convenience & Digital Gaining Ground," 12 November 2019
Fabric Consumer Survey, March 2020

However, we expect the shift towards online grocery to further accelerate & believe online spend could triple or even quadruple

This will be driven by both increased consumer demand as well as increased supply by retailers.

Online growth has skyrocketed

- Online grocery spend has already doubled and we're only a few weeks into the crisis; by all accounts, the coronavirus pandemic has yet to peak in the U.S. and could last for over a year with multiple waves

Demand will only accelerate

- 70% of consumers have expressed their intent to continue shopping for groceries online throughout the duration of the crisis, and 51% of consumers who've never ordered groceries online plan to do so in the near future

Grocers are stepping up

- Grocery retailers are already taking unprecedented steps to meet consumer demand, and are highly likely to continue offering new services

And what about after the Covid-19 crisis passes?

Significantly, our respondents reported that they expect to keep up over 50% of their online shopping increase even after the pandemic ends.

In other words, as life returns to a new normal and Americans venture out of their homes and back into brick-and-mortar grocery stores, still more than half of the grocery spend they channeled online during the Covid-19 crisis will stay online.



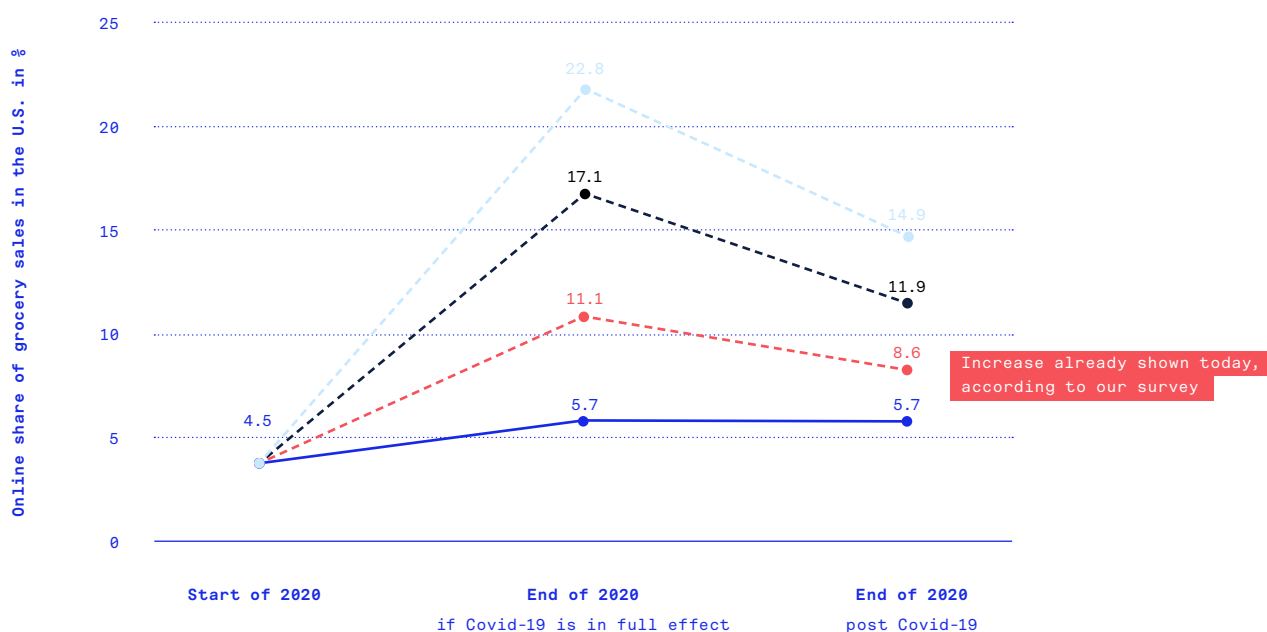
Regardless of how long the crisis lasts, online grocery penetration will approach or even exceed 10% by the end of the year, 4 years sooner than previously forecasted

According to Deutsche Bank, we started this year with online sales penetration at 4.5% and were on track to reach 5.7% by the end of the year. Taking into account the Covid-19 effect, we've mapped out several different scenarios to show just how fast the acceleration has been and could still be.



The online share of grocery sales post Covid-19, assuming retention of 54% of spend gained during the crisis

- Deutsche Bank baseline estimate (pre-Covid-19)
- Spend is triple Deutsche Bank end-of-year estimate
- Spend is nearly double Deutsche Bank end-of-year estimate (behavioral change already observed)
- Spend is quadruple Deutsche Bank end-of-year estimate



As grocery sales increasingly shift online, we believe online penetration could easily be 12% or higher by the end of the year

While no one has a crystal ball and we face much uncertainty over the coming weeks and months, it's apparent that there's no clear path to normalcy and the grocery industry in the U.S. will be forever transformed by Covid-19.

In the graph on the previous page, we explore six possible scenarios for how the grocery industry will be impacted.

If the crisis has passed by the end of the year and about 50% of the dollars that shifted online during the crisis go back into brick-and-mortar stores

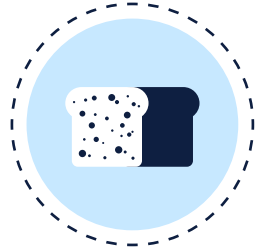
- Scenario 1** · If online spend is almost twice the original end of 2020 projection, penetration will be 8.6%
- Scenario 2** · If online spend is triple the original end of 2020 projection, penetration will be 11.9%
- Scenario 3** · If online spend is quadruple the original end of 2020 projection, penetration will be 14.9%

If the crisis hasn't passed by the end of the year and all the dollars that shifted online during the crisis stay online

- Scenario 4** · If online spend is almost twice the original end of 2020 projection, penetration will be 11.1%
- Scenario 5** · If online spend is triple the original end of 2020 projection, penetration will be 17.1%
- Scenario 6** · If online spend is quadruple the original end of 2020 projection, penetration will be 22.8%

The scenarios of online grocery spend tripling or quadrupling during the pandemic aren't that far-fetched as consumers become accustomed to their new online shopping habits, retailers continue to improve and roll-out new online services, and if the

pandemic lasts longer than a few months. We truly hope that the last three scenarios never come to fruition and that consumers are back in stores before the year ends.



The shift towards online grocery will become the new normal

While many businesses have already been decimated by Covid-19, the grocery industry is in a fortunate position to be an essential retailer with soaring sales.

Yet the pandemic has thrust grocery retailers into the uncharted territory of having to transform their business models practically overnight, and the dramatic rise of online grocery presents retailers with unprecedented strategic, operational, and financial challenges.

This surge of online grocery growth doesn't mean that once this nightmare ends, brick-and-mortar grocery shopping will disappear. But we do expect Covid-19 to usher in a new era of "Grocery 2.0," where retailers will be expected to offer a truly omnichannel experience for consumers that consists of experiential in-store grocery shopping in addition to a robust e-commerce presence.

That means that grocery retailers should work to develop short-term, medium-term, and long-term strategies in parallel to meet this new surge in consumer demand. Starting now, retailers can bolster their manual picking operations to increase efficiency and better manage the sudden spike in online orders. Long term, automated fulfillment will need to be a key part of every grocery retailer's online fulfillment strategy to ensure that they can handle the new levels of volume profitably and at scale.

One profound aspect of the Covid-19 pandemic is the knowledge that once it passes, things won't be the same. For the grocery industry, at least this tragedy presents an opportunity to come out stronger on the other side.

Thank you to all the grocery retailers who are feeding & supporting their communities during this time of crisis.

Fabric

Fabric is making profitable on-demand e-commerce a reality. Its flexible micro-fulfillment solution was specifically designed for fast fulfillment from small spaces, enabling on-demand e-commerce, automated store pickup, and urban store replenishment.

Unlike any other micro-fulfillment solution, Fabric's software-led robotics and modular approach give retailers the flexibility to build the fulfillment center that fits their requirements. With Fabric's micro-

fulfillment centers, retailers can fulfill orders at maximum speed, while ensuring the profitability of their online business.

Founded in 2015, Fabric has raised \$138 million to date and is backed by Aleph, Corner Ventures, Canada Pension Plan Investment Board (CPPIB), Innovation Endeavors, La Maison, Playground Ventures, and Temasek. With offices in New York City and Tel Aviv, Fabric has been deployed commercially since 2018 and is production-proven.

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