The Omnichannel Grocery Report: Leveraging Digital Purchasing Channels To Boost Conversion, a PYMNTS and ACI Worldwide collaboration, details how the broader shift toward digital commerce has changed the way consumers shop, pay and acquire their groceries as well as how grocers must adjust their digital offerings to meet consumers' omnichannel preferences. We surveyed a census-balanced panel of 2,066 U.S. consumers to learn how their usage of digital shopping channels has changed since the COVID-19 pandemic began, gauge their interest in using digital payment methods to pay for their purchases and identify the demographic groups that show the strongest interest in using these digital shopping and payment options to buy their groceries.

NOVEMBER 2020

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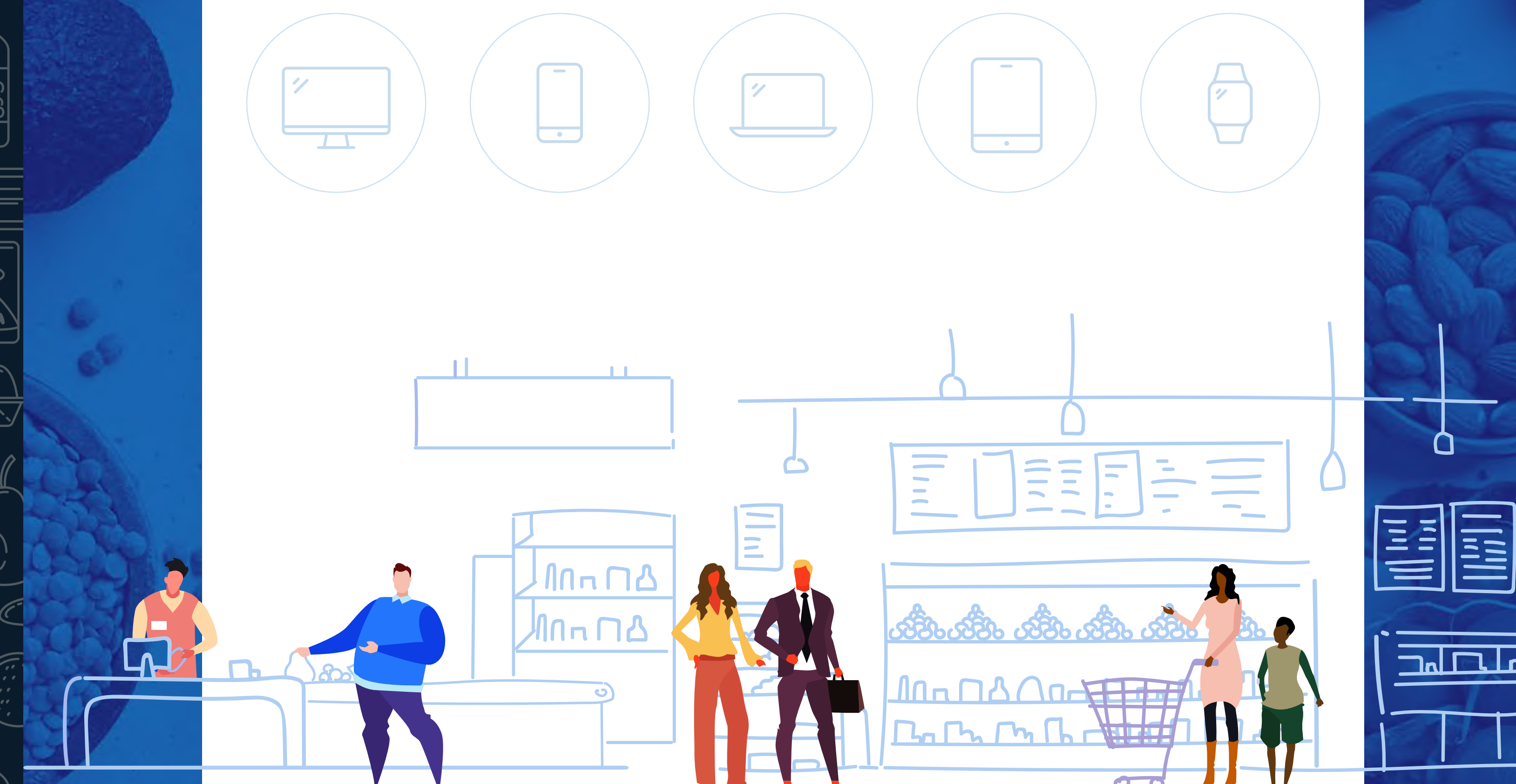
OMNICHANNEL GROCERY REPORT



LEVERAGING DIGITAL PURCHASING CHANNELS TO BOOST CONVERSION

OMNICHANNEL GROCERY REPORT

ACKNOWLEDGMENT

The Omnichannel Grocery Report: Leveraging Digital Purchasing Channels To Boost Conversion was done in collaboration with ACI Worldwide, and PYMNTS is grateful for the company's support and insight. PYMNTS.com retains full editorial control over the following findings, methodology and data analysis.

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INTRODUCTION

Dublin, California-based brewing company INC 82 was hit hard by the initial COVID-19 outbreak. The brewery was forced to close its tasting room under shelter-in-place orders to slow the spread of the virus, leaving it in what at first seemed like dire financial straits. The business found new life when it converted to an online grocery fulfillment center, however, stepping in to help fill the massive influx of online grocery orders that had grown too numerous for Instacart, Safeway and Amazon Fresh to handle alone. The refrigerator that had been used to store home brews was transformed into a stockroom for breads, meats and produce that consumers could order online and have delivered to their doorsteps.

INC 82 was not the only business to make the transition to grocery order fulfillment, either. Many restaurants and food sellers, including California Pizza Kitchen, Lazy Dog Restaurant & Bar, Panera and Edible Arrangements found themselves in similar positions in the early days of the pandemic, pivoting away from the restaurant business in favor of grocery delivery instead. This transition helped them not only find a use for what would otherwise have been resting capital and expensive commercial real estate but also deliver, so to speak, on their customers' rapidly growing demand for online grocery shopping.

Eight months have passed since the pandemic's onset in the United States, and consumers continue to order groceries in far larger numbers than they ever did before the pandemic began. Even more have shifted to ordering their groceries online over time, in fact, as 15.7 percent of all grocery shoppers now say they are buying fewer groceries in stores and more online than they had prior to the pandemic — roughly four times more than the 3.9 percent who had shifted back on March 6.

The demand for in-store grocery shopping has not disappeared, however. PYMNTS research shows that 78.6 percent of all grocery shoppers still prefer to buy at least some of their groceries in stores, in fact, signaling the rise of a new brand of grocery shopper with an omnivorous appetite for both brick-and-mortar and digital purchasing options. How can grocers ensure that they are providing these omnichannel consumers with the shopping and payment experiences that match their eclectic purchasing habits?

The Omnichannel Grocery Report: Leveraging Digital Purchasing Channels To Boost Conversion, a PYMNTS and ACI collaboration, provides an overview of how grocers can improve their digital shopping offerings to enhance the customer experience. We surveyed a census-balanced panel of 2,066 U.S. consumers to learn about how much of their groceries they buy online and in-store, where they prefer to shop, how many of them would be willing to switch grocers to access digital payment options and which options grocers can provide to meet current customers' expectations while also attracting new ones.

[1]Nielsen, K. Local businesses fulfill grocery orders as online delivery service overwhelmed during pandemic. CBS. 2020. https://sanfrancisco.cbslocal.com/2020/04/08/coronavirus-grocery-delivery-businesses-fulfill-orders-services-overwhelmed-pandemic/. Accessed November 2020.

This is what we learned.

01

Eight out of 10 consumers still grocery shop in stores, but many are open to shopping online, especially for nonperishable products.

Typical consumers use several different purchasing channels to buy their groceries. Shopping and paying in physical store locations is still the most common way for consumers to buy their groceries, but a strong majority of consumers buy at least some of their groceries online. Our survey shows that 79.6 percent of all consumers who buy groceries report purchasing them in-store, while 63.9 percent make at least one of their routine grocery purchases online.

How consumers go about buying these items depends on the types of products being purchased, however. Consumers like to shop in stores, but they are willing to purchase many items online — especially pharmacy goods and alcohol. Our research shows that 36.6 percent of respondents buy nonfood items like cleaning products online, and 28.4 percent do the same with pharmacy products. They are less willing to purchase perishables online, but 16.9 percent and 18.7 percent of consumers do purchase fresh fruits and vegetables and meat online.

02

Ordering home delivery is how nearly a quarter of consumers buy groceries, and the next most popular method is ordering online for curbside pickup.

Consumer usage of digital shopping channels has surged in no small part due to the pandemic, as 17.2 percent of all consumers have switched from grocery shopping in stores to doing so online since the health crisis began. Ordering groceries online for home delivery has become particularly popular, as 23 percent of U.S. consumers — 57 million individuals — say they are ordering more groceries online for home delivery now than they did before the pandemic's onset. Twenty-one percent of consumers, or 53 million individuals, are now ordering online for curbside pickup more than they did before the pandemic began, and 12 percent of consumers, or 30 million individuals, are now doing the same for in-store pickup.

03

Grocers could win over 65 million new customers by offering touchless payment options.

Many of the consumers who grocery shop in stores are not only interested in using touchless payments at the brick-and-mortar point of sale but would be willing to leave their favorite grocers if other grocers offered touchless payment options that they want to use. More than one-third of consumers who buy groceries — 65 million individuals — would be willing to switch to grocers that offer touchless in-store payment technologies, such as digital wallets, QR codes, cards on file and POS credit options. This presents a major opportunity for grocers to attract new customers by adopting the touchless payment options that consumers want to use to pay.

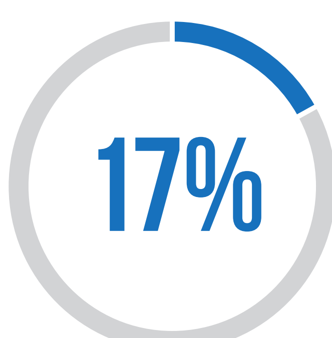
[2]Touchless payments may refer to any payment options that allow consumers shopping in brick-and-mortar stores to transact without making physical contact with cash, card readers, keypads or any other surfaces. These include contactless cards, QR codes, digital wallets, POS credit and cards on file.

04

The draw of touchless payment experiences is strongest among the 63.9 percent of consumers — 120 million individuals — who use both in-store and online purchasing channels.

Grocers' biggest chance for gaining new customers lies in focusing on delivering digital payment options to the 63.9 percent of omnichannel consumers who regularly use a combination of both brick-and-mortar and digital channels to buy groceries.

The remaining 36.1 percent of shoppers do not use digital channels at all. These consumers are the digital holdouts who prefer traditional shopping methods but still have a strong interest in trying digital payment options. Our research shows that 43.5 percent of consumers who have never purchased groceries online would be "very" or "extremely" interested in using digital payment options, in fact, and 37.4 percent would be "somewhat" interested in doing so. This signals that there is great opportunity for grocers to pick up new customers among consumers who have never before used digital purchasing channels.



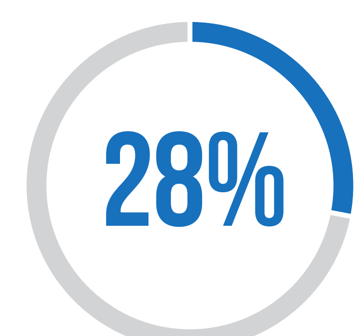
of consumers are grocery **shopping in stores** less and online more since the COVID-19 pandemic began.

05

Digital ordering and payment capabilities can help small grocers boost conversion.

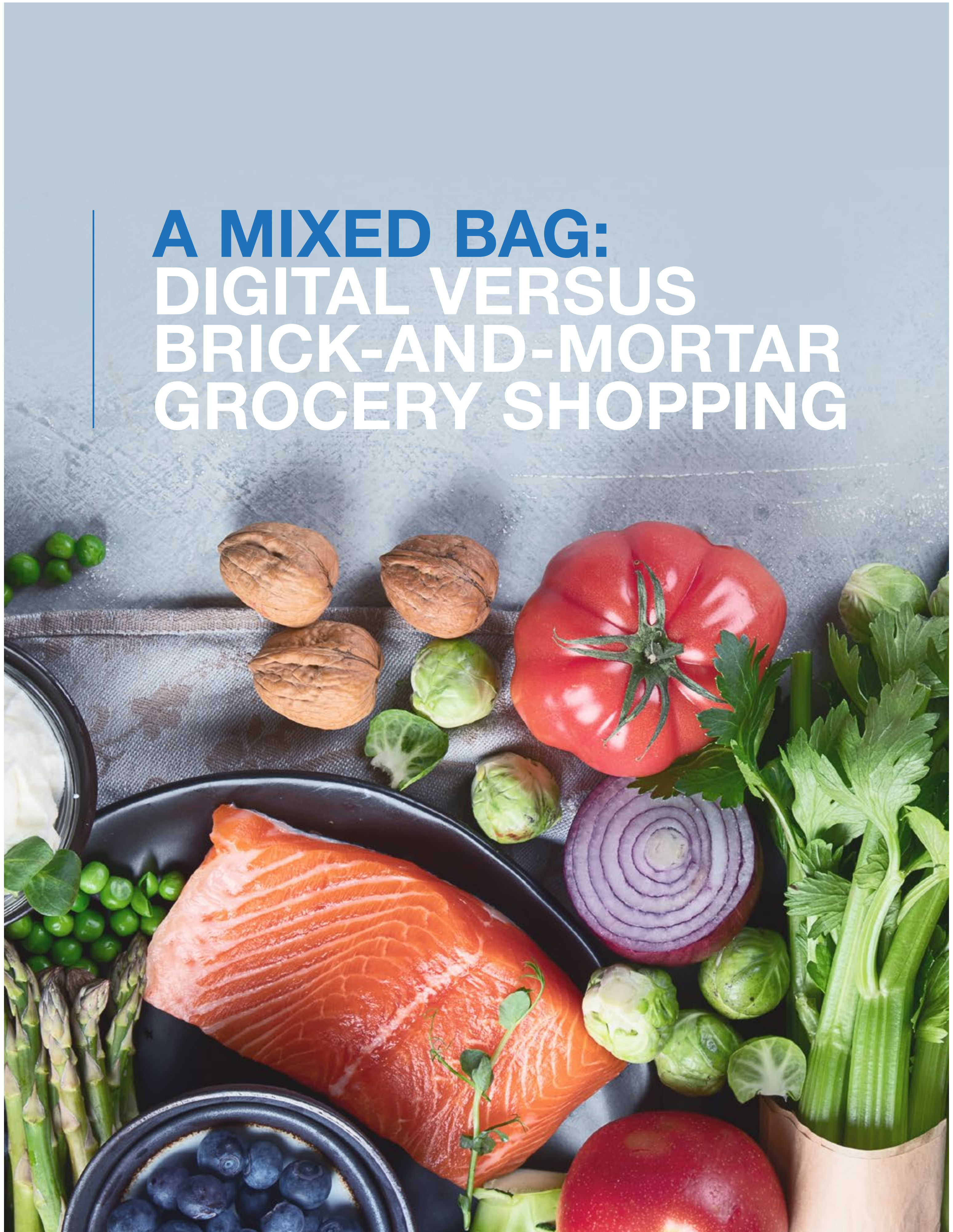
Our research reveals that 38.6 percent of all consumers prefer grocery shopping with large national chains. Walmart is the preferred merchant for 27.8 percent of all consumers, and the next most popular chains are Target and Costco. This finding does not mean that consumers do not prefer shopping with small merchants or cannot be swayed away from big grocery chains.

Digital payment methods can help these smaller grocers attract new customers, especially as many of these consumers already shop with them for certain items. We found that 28.4 percent of all consumers shop at small, local grocery stores, and 13.8 percent buy from the convenience stores down the street. We also discovered that 25.4 percent buy their groceries from online grocers of all sizes, signaling that small grocers can also reach new potential buyers on the web.

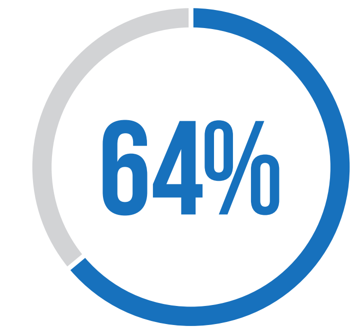


of consumers prefer grocery **shopping with Walmart.**

A MIXED BAG: DIGITAL VERSUS BRICK-AND-MORTAR GROCERY SHOPPING



The most common way shoppers purchase their groceries is by going to brick-and-mortar stores, but the majority of consumers also buy at least some of their groceries online. Our research shows that 79.6 percent of consumers buy their groceries in-store and 63.9 percent buy them via some digital channel, whether it is a traditional desktop website, mobile app or aggregator.



of consumers are using digital channels for **making grocery purchases.**

FIGURE 1:

Which channels consumers use to buy groceries
Share of consumers making grocery purchases through select shopping channels

Source: PYMNTS.com

Consumers who do their grocery shopping online have many ways of acquiring their digital purchases, with the most common being at-home delivery, which is used by 42.2 percent of all consumers. We found that 39.7 percent order their groceries online for curbside pickup and 35.2 percent order them online to be picked up in-store.

Consumers' enduring preference for brick-and-mortar grocery shopping stems from their affinity for purchasing perishable products in stores, where they can examine them before buying them. This is evident in the fact that consumers are far more likely to buy produce, dairy products and meat in-store than they are to buy with nonperishable products. Our research shows that 83.1 percent of grocery shoppers who buy fruits and vegetables buy them in-store. We also discovered that 81.3 percent of consumers who buy fresh meats buy them in-store, and that 77.3 percent of shoppers who buy dairy products buy them in-store.

TABLE 1:

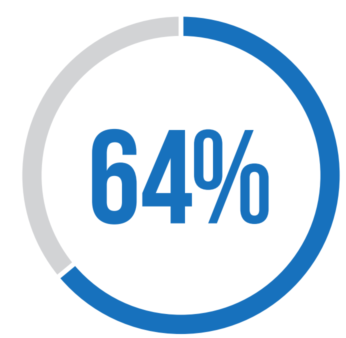
How consumers purchase different types of grocery products
Share of consumers purchasing select grocery products through select channels

			ONLINE			
	Percentage of grocery shoppers who buy select items any way	Visiting the store	Buying online and having products delivered	Buying online and using curbside pickup	Buying online and picking up in the store	Online shopping
• Nonfood items	98.9%	63.4%	21.1%	12.0%	3.5%	**36.6%**
• Packaged food products	98.6%	68.2%	14.3%	13.6%	3.8%	**31.8%**
• Milk and cheese products	98.0%	77.3%	8.6%	10.6%	3.4%	**22.7%**
• Fresh fruits and vegetables	98.0%	83.1%	6.1%	7.4%	3.4%	**16.9%**
• Pharmaceuticals	95.0%	71.6%	15.0%	5.8%	6.7%	**28.4%**
• Fresh (not frozen) meats	94.9%	81.3%	7.8%	8.2%	2.6%	**18.7%**
• Alcoholic products	72.8%	80.0%	7.6%	7.6%	4.8%	**20.0%**

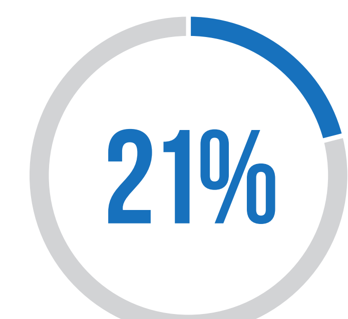
Source: PYMNTS.com

Our survey also reveals that 68.2 percent of grocery shoppers buy nonperishable, packaged food products in-store, and 63.4 percent of those purchasing nonfood items buy them in-store. This is likely because once consumers are in brick-and-mortar stores to buy perishable goods, it becomes easier and more convenient to pick up nonperishables as well.

It may be simple to pick up an additional, nonperishable item or two at the grocery store, but many consumers have also discovered that it can be just as convenient to order their nonperishables using digital methods. Our research shows that 21.1 percent of all consumers who buy nonfood grocery items such as shampoo, first-aid items and cleaning products do so online, for example, while 14.3 percent who buy packaged food products do so online. This strongly suggests that consumers enjoy the experience of buying groceries online, save for those products that they feel they need to inspect in person before buying. It also highlights an opportunity for grocers to expand their customer base.



of consumers **buy at least some of their groceries online.**



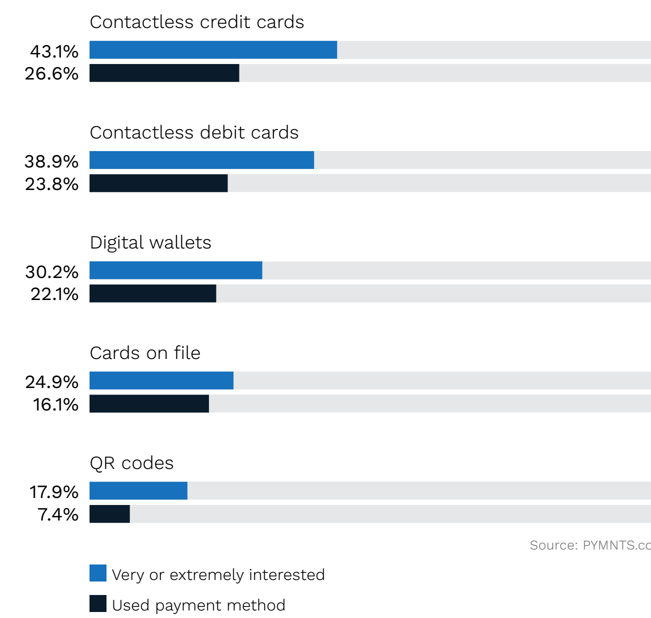
of all consumers who buy nonfood grocery items do so online.

CLOSING THE TOUCHLESS PAYMENTS USAGE GAP

FIGURE 2:

How demand for select payment methods compares to usage

Share of consumers who are either "very" or "extremely" interested in using or currently using select payment methods



Brick-and-mortar grocery shopping may have its benefits, but still roughly 120 million consumers — 63.9 percent of the population — make use of digital channels to buy at least some of their groceries online. It is among these omnichannel shoppers that grocers see an opportunity to gain new customers, and touchless payment capabilities can help them.

We observe high levels of interest in using touchless payment options at the brick-and-mortar point of sale among consumers who have shifted to buying some of their groceries online, whether they use contactless credit and debit cards, digital wallets, cards on file or another digital method. Far fewer consumers are actually using these methods, however, suggesting an untapped demand for them. Our research shows that 16.5 percent fewer consumers use contactless credit cards than would like to, for example, and 15.1 percent fewer use contactless debit cards than would like to.

There is also an 8 percent and an 8.8 percent gap between the usage and demand for digital wallets and cards on file, respectively.

TABLE 2:
How demand for select payment methods compares to their usage
Share of consumers who are either "very" or "extremely" interested in using or currently using select payment methods, by generation

	Generation Z	Millennials	Bridge millennials	Generation X	Baby boomers and seniors
• Contactless credit cards	27.0%	17.8%	23.3%	21.2%	10.2%
• Contactless debit cards	19.7%	15.6%	18.7%	17.5%	12.1%
• Digital wallet	-3.6%	12.0%	11.9%	11.0%	5.8%
• Card on file	3.3%	9.5%	10.4%	12.6%	6.8%
• QR codes	6.9%	14.6%	16.7%	14.3%	5.8%

Source: PYMNTS.com

This gap between consumers' demand for and usage of touchless payment methods is even greater among bridge millennials and Generation X consumers. Our research shows that 23.3 percent of bridge millennials and 21.2 percent of Gen X consumers who would be "very" or "extremely" interested in paying in-store with contactless credit cards do not use them. We also find that 11.9 percent of bridge millennials and 11 percent of Gen X consumers would like to pay in-store using digital wallets but do not. Grocers have the biggest chance of attracting new customers from these age groups by offering in-store access to contactless payment options. Merchants also stand to drive touchless payment option adoption by better educating customers of the options' availability in brick-and-mortar store locations.

Consumers' interest in touchless in-store payment options is more than just theoretical. Our research shows that 35.3 percent of them would be willing to leave their favorite grocers for other players that will allow them to pay in-store in a touchless manner. Consumers who have already used touchless payments in-store are even more willing to make the switch, as 40.6 percent of them say so.

FIGURE 3:

Consumers' likelihood of leaving their favorite grocers for those offering touchless options
Share of consumers who would be more or less likely to shop with grocers that offer in-store touchless payment options, by use of digital channels

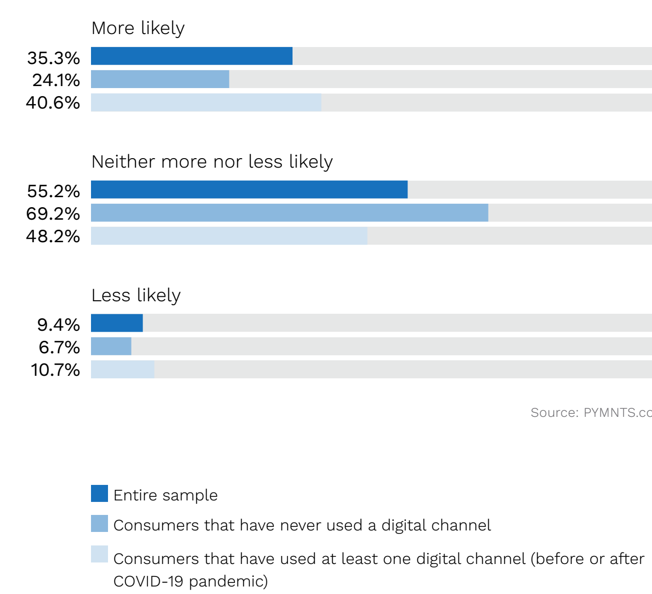
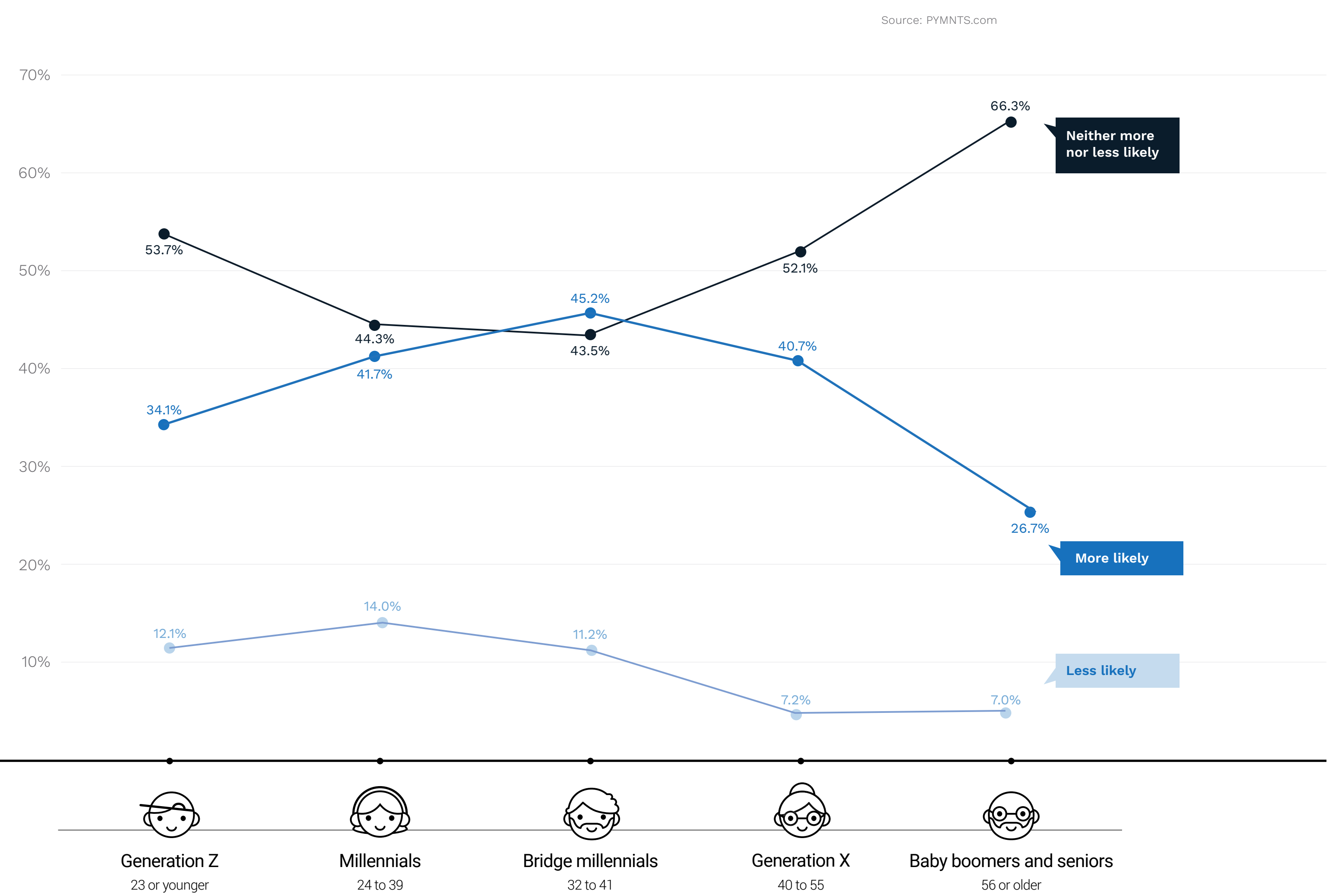


FIGURE 4:

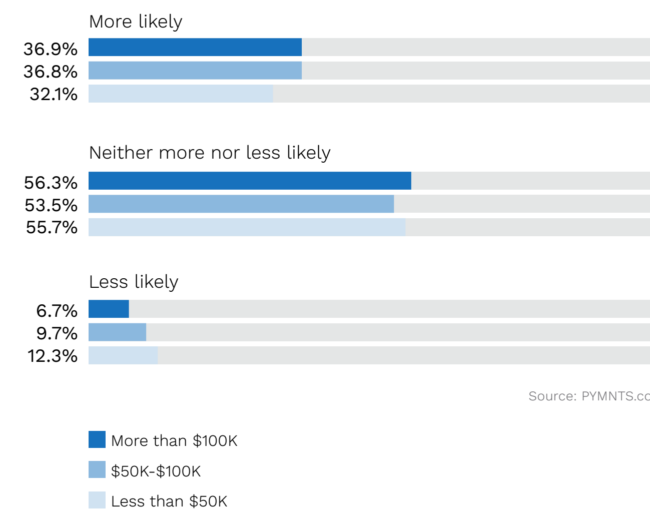
Consumers' likelihood of leaving their favorite grocers for those offering touchless options
Share of consumers who would be more or less likely to shop with grocers that offer in-store touchless payment options, by generation



Bridge millennials and Gen X consumers — among whom we see the greatest unmet demand for touchless in-store payments — are also far more likely than average to be willing to switch grocers for the opportunity to use touchless payment options, with 45.2 percent and 40.7 percent

FIGURE 5:

Consumers' likelihood of leaving their favorite grocers for those offering touchless options
Share of consumers who would be more or less likely to shop with grocers that offer in-store touchless payment options, by income



45%

OF BRIDGE MILLENNIAL CONSUMERS WILL SWITCH GROCERS FOR ACCESS TO **TOUCHLESS IN-STORE PAYMENT OPTIONS.**

being more likely to shop at grocers that offer them. Millennials are also among those who are most willing to switch, as 41.7 percent are more likely to shop at grocers that offer touchless payment options.

Another factor tends to affect consumers' preference for shopping with grocers that offer touchless payments in-store: income. High- and mid-income consumers are more likely to want to shop in stores that provide touchless payments options: 36.9 percent and 36.8 percent say so, respectively. Only 32.1 percent of low-income consumers say the same. This income differential signals that the consumers who are most likely to switch grocers for touchless payment options also tend to be those with the greatest spending power.

[1]Our survey defines high-income consumes as those earning more than $100,000 per year, mid-income consumers as those earning between $50,000 and $100,000 per year and low-income consumers as those earning less than $50,000 per year.

MEASURING THE SHIFT TO DIGITAL-FIRST GROCERY SHOPPING

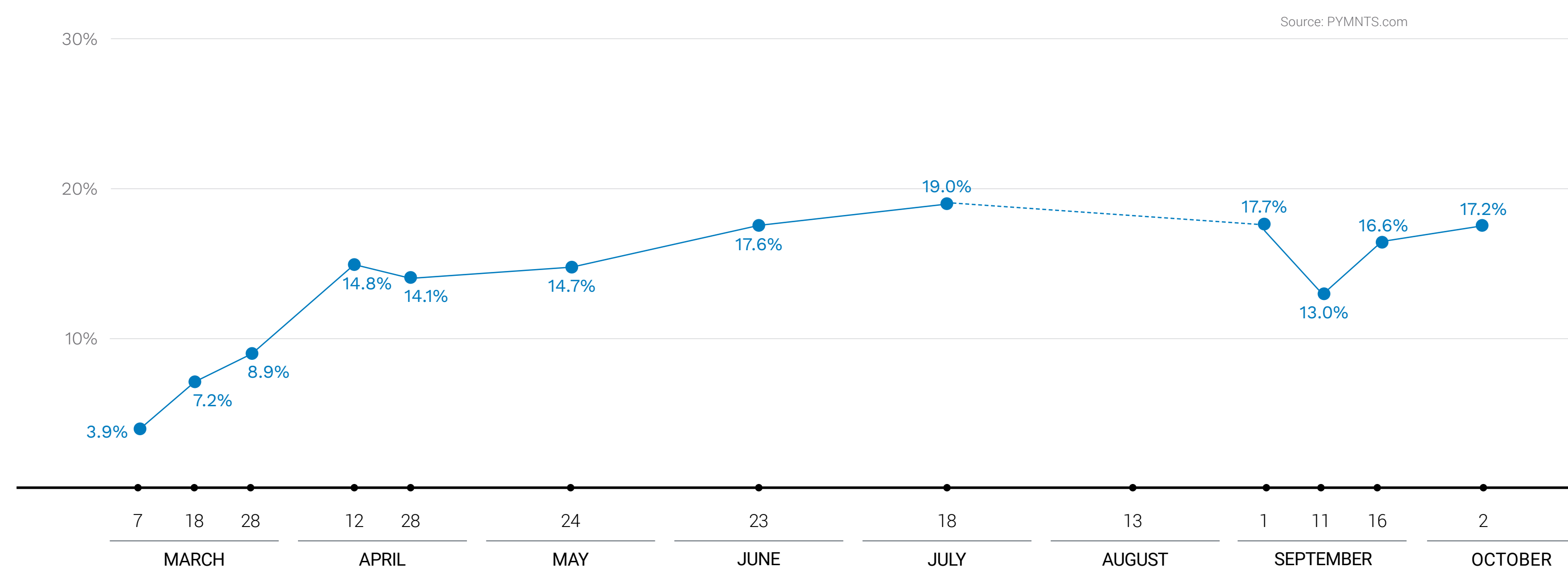
Understanding different consumers' shopping preferences is critical to providing them with the types of shopping and payment experiences that will earn their trust and loyalty. It is particularly important to understand the group of consumers who are grocery shopping less in stores and more online since the pandemic began, as they represent a growing part of the digital-first economy that has emerged amid the pandemic.

Our research shows that 36 million, or 17.2 percent of grocery shoppers (14.3 percent of the U.S. population), are now shopping for groceries online and shopping less in stores due to the pandemic. The portion of the population that reports going to stores less and online more to buy groceries since the pandemic began has actually remained largely stable for the past four months. This shows that even though consumers continue to grocery shop in physical stores, digital channels have become an important part of their grocery routines.

FIGURE 6:

How many grocery shoppers have made the digital shift

Share of grocery shoppers who have shifted to shopping for groceries online

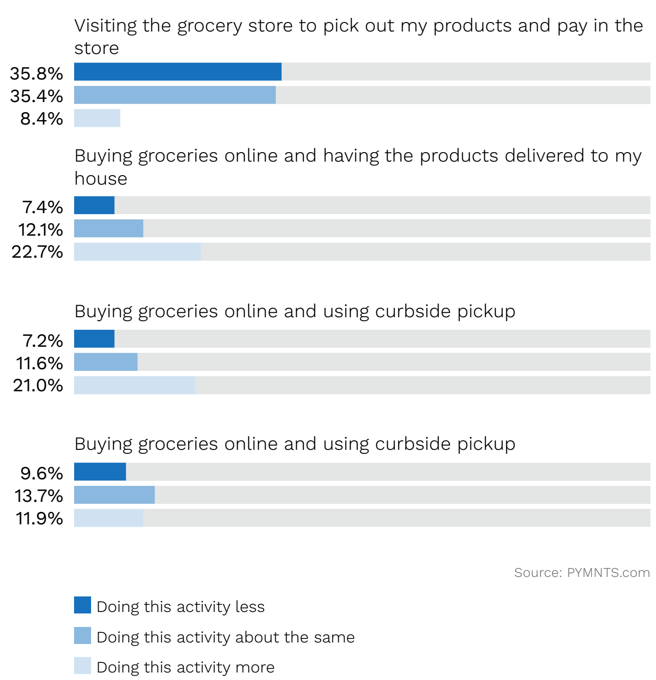


Certain digital shopping and delivery options have seen more growth than others since the pandemic began, however, and the greatest growth has occurred in consumers' propensity to order groceries online for at-home delivery. Our research shows that 22.7 percent of grocery shoppers are ordering groceries online to be delivered at home more now than they did before the pandemic began, and other digital shopping methods are not far behind. Twenty-one percent are ordering grocery for curbside pickup more than before, and 11.9 percent are ordering groceries online to be picked up in-store more than they did before.

FIGURE 7:

How consumers' shopping habits have changed since the pandemic began

Share of consumers using select shopping channels more or less often now than before the pandemic began

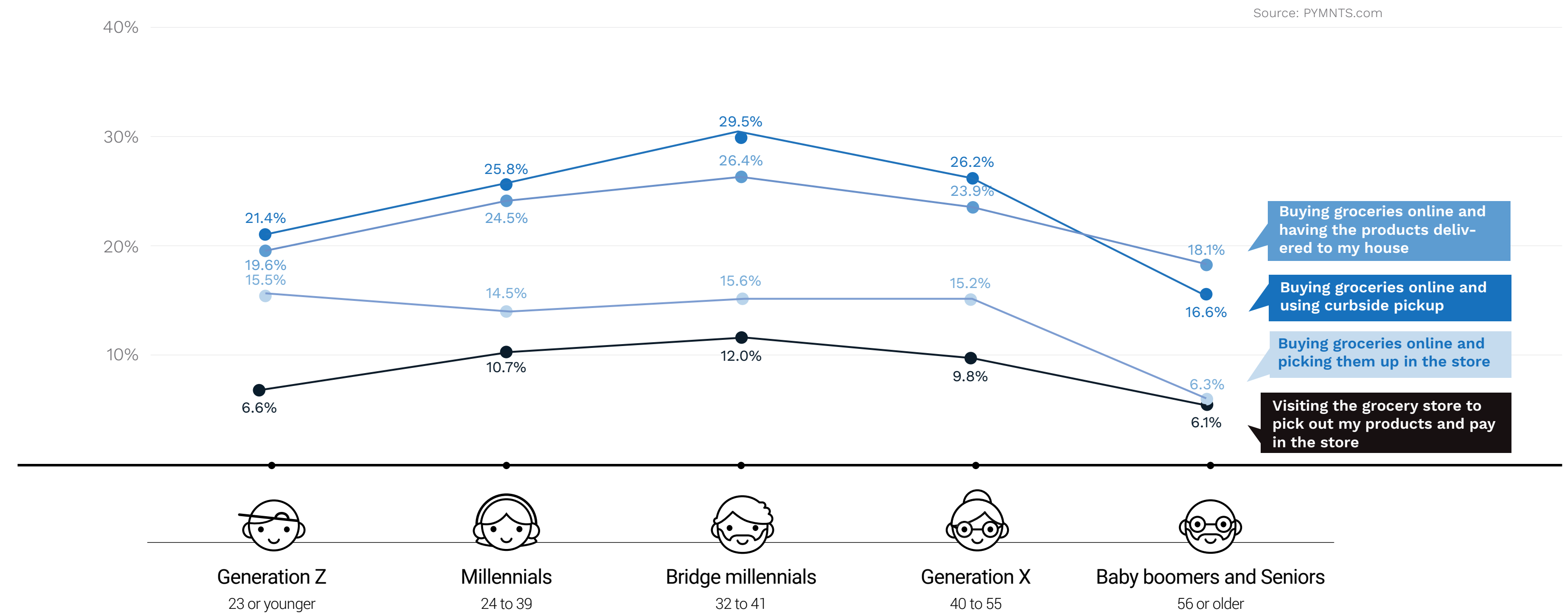


23%

OF GROCERY SHOPPERS ARE ORDERING GROCERIES ONLINE TO BE DELIVERED AT HOME MORE NOW THAN THEY DID BEFORE THE PANDEMIC BEGAN.

FIGURE 8:

Share of consumers who would be more or less likely to shop with grocers that offer in-store touchless payment options, by generation



Bridge millennials, millennials and Gen X members make up a disproportionate share of the consumers who have shifted online in the wake of the pandemic. Bridge millennials are the most likely of all to be using each of these shopping options more than before, in fact. Our survey reveals that 29.5 percent of bridge millennial grocery shoppers are buying groceries for delivery more, and 26.4 percent buy groceries for curbside pickup more often now than they did before. We also find that 15.6 percent of bridge millennials are buying groceries to be picked up in-store more now than they did before the pandemic. This compares to 26.2 percent, 23.9 percent and 15.2 percent among Gen X, respectively. The gap between the two underscores the value bridge millennials and other digital-first consumers put in being able to order online and how critical it is for grocers to allow them to do so if they wish to earn and retain their business.

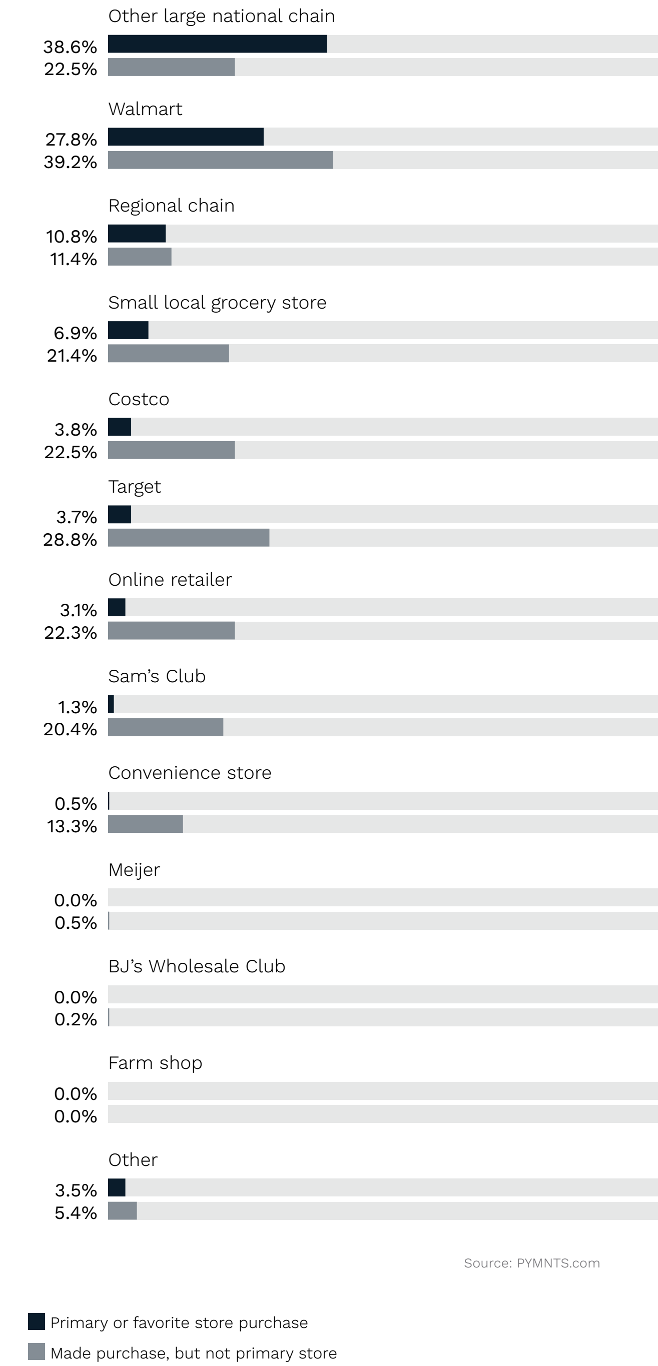
THE LONG TAIL: HOW MAIN STREET CAN PULL AHEAD

Grocery businesses vary widely in type and size, ranging from large national chains like Walmart to local mom-and-pop shops to farmers' markets. The key differentiator among grocery businesses is more and more whether they offer customers experiences they cannot find at other grocers.

The most common stores where consumers buy their groceries are large, national chains — Walmart, in particular. Sixty-seven percent of all consumers buy at least some of their groceries at Walmart, and 27.8 percent say Walmart is their favorite grocer. Many consumers also report shopping with national chains like Costco (26.3 percent), Target (32.5 percent) and Sam's Club (21.7 percent), but none of these are cited as consumers' favorite nearly as often as Walmart.

FIGURE 9:

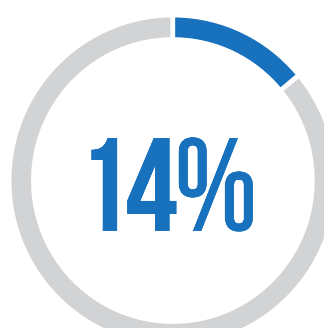
Where consumers buy their groceries
Share of consumers who make grocery purchases with select primary and alternate grocers



Regional chains, local grocers, online grocers and convenience stores are not frequented by as many consumers as national chains, but they are still major players in the U.S. grocery market. Our research shows that 22.2 percent of all consumers shop with regional chains, 28.4 percent shop with small local grocers and 25.4 percent shop with online grocers such as Amazon. We also find that 13.8 percent of consumers buy at least some of their groceries at convenience stores.

The small- and mid-sized grocers that make up the long tail of the U.S. grocery market are currently underperforming with the age and income brackets that are most interested in digital payment and shopping channels, however. Bridge millennials — the most digital-forward age group of all — are far less likely to be shopping with regional chains and small local grocers than they are with big chains. Our research shows that only 20.2 percent and 31.7 percent of bridge millennials shop with regional chains and small local grocers, respectively, but 77.7 percent shop at Walmart and 58.8 percent shop with other large national chains.

of consumers shop with small, local grocers.



of consumers buying at least some of their groceries at convenience stores.

78%

OF BRIDGE MILLENNIAL CONSUMERS **SHOP FOR GROCERIES AT WALMART.**

TABLE 3:

Where consumers in different demographic groups buy their groceries
Share of consumers who make grocery purchases with select grocers, by generation

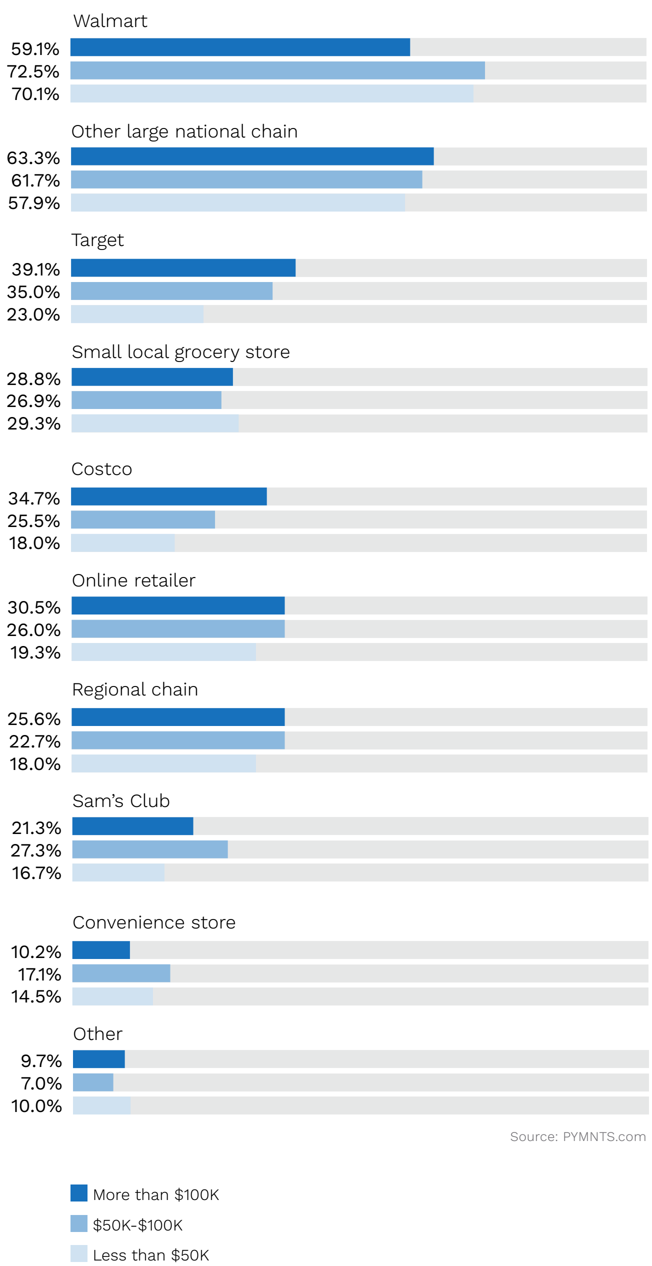
	Generation Z	Millennials	Bridge millennials	Generation X	Baby boomers and seniors
• Walmart	69.9%	72.7%	77.7%	68.8%	61.3%
• Other large national chain	45.5%	60.3%	58.8%	61.0%	64.9%
• Target	53.1%	45.5%	48.2%	34.2%	18.3%
• Small local grocery store	36.7%	31.8%	31.7%	27.3%	25.0%
• Costco	30.0%	32.0%	28.1%	25.2%	22.4%
• Online retailer	38.8%	32.7%	31.8%	26.6%	16.8%
• Regional chain	16.7%	22.4%	20.2%	21.5%	23.7%
• Sam's Club	18.4%	25.8%	27.6%	21.6%	19.7%
• Convenience store	23.9%	21.0%	34.2%	13.2%	7.2%
• Meijer	0.0%	0.1%	0.2%	0.4%	0.8%
• BJ's Wholesale Club	1.5%	0.2%	0.0%	0.0%	0.0%
• Farm shop	0.0%	0.0%	0.0%	0.0%	0.1%
• Other	6.3%	4.8%	5.5%	7.9%	13.1%

Source: PYMNTS.com

FIGURE 10:

Where consumers in different demographic groups buy their groceries

Share of consumers who make grocery purchases with select grocers, by income



63%

of consumers earning more than $100,000 in income shop for groceries at large national chains other than Walmart.

73%

of consumers earning between $50,000 to $100,000 shop for groceries at Walmart.

Mid-sized regional grocers and online grocers have made much stronger inroads among high-income consumers, but they have trouble appealing to customers from the middle- and low-income brackets. Low-income consumers are the least likely of all to primarily shop with regional chains and online grocers, for example, as only 18 percent and 19.3 percent of them do so, respectively. In comparison, 25.6 percent of high-income consumers primarily shop with regional chains, and 30.5 percent of them primarily shop with online grocers.

This is partially because many mid- and low-income consumers tend to be more cost-conscious. They are almost twice as likely as high-income consumers to be primarily shopping at Walmart, which is widely known for selling products at low prices. Thirty-four percent of low-income grocery shoppers and 32.5 percent of mid-income consumers primarily shop at Walmart, compared to just 17.8 percent of high-income grocery shoppers.

It will likely take more than digital payment and shopping options to draw these shoppers away from national grocers, but this does not mean that they cannot select new primary options. Many shoppers today rely on a variety of grocers to buy their groceries, which creates ample opportunities for players large and small.

29%

of consumers earning less than $50,000 shop for groceries at small local stores.

CONCLUSION

Grocery shopping in the U.S. has gone digital, and grocers must follow consumers' lead in order to stake their claim in the emerging digital-first economy. Consumers of every age and income bracket are turning to touchless payment methods like contactless cards and digital wallets when they make their weekly purchases, and they are going online to order nonperishable products to be delivered or picked up. The grocers that are able to adapt and meet their customers' increasing appetites for omnichannel shopping and payment experiences stand to gain a competitive edge in today's developing digital-first grocery market.

OMNICHANNEL GROCERY REPORT

METHODOLOGY

The Omnichannel Grocery Report, a PYMNTS and ACI Worldwide collaboration, is based on a census-balanced panel of 2,066 U.S. consumers. The report assesses how consumers' use of digital shopping channels has changed since the COVID-19 pandemic began and gauges interest in using digital payment methods to pay for their purchases.

PYMNTS.com | ACI UNIVERSAL PAYMENTS.

ABOUT

PYMNTS.com

PYMNTS.com is where the best minds and the best content meet on the web to learn about "What's Next" in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.

ACI UNIVERSAL PAYMENTS.

ACI Worldwide powers digital payments for more than 6,000 organizations around the world. More than 1,000 of the largest financial institutions and intermediaries, as well as thousands of global merchants, rely on ACI to execute $14 trillion each day in payments and securities. In addition, myriad organizations utilize our bill presentment and payment services. Through our comprehensive suite of software solutions delivered on customers' premises, through the public cloud or through ACI's private cloud, we provide real-time payment capabilities and enable the industry's most complete omni-channel payments experience. To learn more about ACI, please visit www.aciworldwide.com. You can also find us on Twitter @ACI_Worldwide.

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