



The 'Last Mile'

What we've learnt in Lockdown 3.0

Whitepaper / March 2021



Introduction

In January 2021, 6% of convenience occasions were delivered and for the same period over 30% of eating and drinking out occasions were ordered online/by phone and delivered

Demand has never been so high for delivery services and retailers and operators have increased their supply of these services, whether to capitalise on this increased consumer demand – or as a lifeline when they are unable to operate through their traditional routes to market. Combining our expertise in hospitality and retail, Lumina Intelligence are perfectly placed to quantify the explosion of delivery. Whether referring to foodservice delivery from restaurants, takeaway outlets or cafes and coffee shops; or delivery of groceries – full shops, or increasingly small baskets – we capture data on this critical ‘last mile’.

The [Lumina Intelligence Eating & Drinking Out Panel](#) monitors consumer behaviour across all UK eating and drinking out channels with our continuous data platform, based on 78,000 surveys across the year. Our comprehensive channel coverage includes delivery, takeaway, click & collect as well as dine-in and food-to-go occasions.

Meanwhile, our [Convenience Tracking Programme](#) now comprises an online survey as well as our face-to-face methodology, allowing us to understand de-

livered and click & collect on demand convenience missions, as well as those made in store.

Based on data for January 2021 (during lockdown 3), we can quantify that 6% of convenience occasions were delivered and for the same period over 30% of eating and drinking out occasions were ordered online/by phone and delivered. This is huge! In this whitepaper, we will unpick this behaviour and hypothesise on what it will mean for 2021 as restrictions ease. Will consumers retain these habits or go back to their old ways... and what does this mean for operators? This is something we will continue to track with our continuous data sources.

In this paper, we will cover four key themes – the 4 C’s of the last mile:

1. **Convenience:** the primary motivation for delivery
2. **Customer:** who is the delivery customer?
3. **Competition:** who are the key players in the delivery space and how is this likely to evolve?
4. **Costs** – the ‘downside’ of delivery, the last mile adds cost to operators and consumers

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Convenience: The primary motivation for delivery solutions, accelerated by the pandemic

The coronavirus pandemic has resulted in online accelerating at a pace nobody could have expected, due to consumers limiting time spent out of home and looking for quick, convenient treat

The coronavirus pandemic has accelerated new routes to market with consumers shifting to online due to it offering a convenient solution while consumers limit trips outside, as well as offering a quick way to get a treat or pick-me-up.

“Almost one in five consumers have changed their primary method of grocery shopping to online in the last year, resulting in demand for delivery from supermarkets outstripping supply in Spring 2020.”

Through the course of 2020 we saw online grocery delivery penetration increase by +10pp, from 29% in March 2020 to 39% in December 2020. Almost one in five consumers said they changed their primary method of grocery shopping to online in the last year, resulting in demand for delivery from supermarkets outstripping supply during the spring, which in turn created an opportunity for convenience stores and sparking growth in ‘On Demand Convenience’. Retailers also innovated with the introduction of bundle boxes and subscription offers, providing much needed inspiration and solutions for shoppers.

Not limited by what they can physically carry – and in some cases needing to meet minimum spend thresholds or justify a delivery fee – shoppers inevitably spend more when using online delivery. From our [Convenience Tracking Pro-](#)

[gramme](#) data, we can see around a 200% premium in the value of delivered baskets vs. those made in store.

“During lockdown 2.0 in November 2020, delivery accounted for around a quarter of ‘out of home’ meal occasions. In January 2021, delivery had increased to 32% .”

From our Eating & Drinking Out Panel data we can see the increasing role of foodservice delivery in consumers repertoires as restrictions continue. During lockdown 2.0 in November 2020, delivery accounted for around a quarter of ‘out of home’ meal occasions, with a further 16% sourced via click & collect and 56% ordered and bought in venue. In January 2021, delivery had increased to 32% of occasions – showing that with limited options for out of home dining, consumers are increasingly turning to delivery.

Consistently, the two primary motives for meal delivery have been ‘didn’t want to cook’ and ‘treat’. This reflects the desire for a break from food preparation with almost all meals consumed at home and the role that a delivery can play as a reward, particularly at the end of the week or month. What will be interesting is to see how this evolves with the reopening of the hospitality sector: will delivery retain its place as a regular treat, or will this be replaced with a meal out?

Customer: Who is the delivery customer?

19% of branded operators were offering delivery and/or takeaway at the start of the first lockdown in March 2020 whereas in lockdown 2 in November 2020, this had increased to 64%

Continued lockdowns have driven frequency of delivery, particularly amongst younger consumers, who are ordering from a broader repertoire of venues and cuisines. Increased supply in the market throughout 2020 has of course been a driver too – [Lumina Intelligence Operator Data Index](#), which tracks the performance of over 700 leading UK hospitality operators, showed that just 19% of branded operators were offering delivery and/or takeaway at the start of the first lockdown in March 2020 whereas in lockdown 2 in November 2020, this had increased to 64%.

Younger consumers are more likely to order foodservice delivery, with a strong over-index for 18-34's. Meanwhile, over 55's make up just 10% of delivery occasions. Savvy operators will be thinking about how they can appeal to the largely untapped market of older consumers. Unsurprisingly, foodservice delivery has a strong London bias, but the West Midlands and the North-West regions also over-index for this buying method.

Similar to foodservice delivery, on demand conven-

ience has a much younger consumer profile, with the average age of an online shopper at 33 vs. 49 for in-store convenience occasions. There is once again a strong London bias, driven by the greater supply of on demand convenience services, especially via the delivery aggregators. in the capital. This is evolving though as on demand convenience becomes more established, with some 600,000 deliveries now being made from convenience stores each week.

For both grocery and foodservice delivery, we see the importance of brands – offering assurance and familiarity. On demand convenience shoppers are more brand-led than their in-store counterparts and are also more willing to pay more for higher quality. Meanwhile four in ten consumers choose their foodservice delivery based on previous experiences with the brand.

“Younger consumers are more likely to order foodservice delivery, with a strong over-index for 18-34's. Meanwhile, over 55's make up just 10% of delivery occasions.”



Restaurants account for nearly half of all foodservice delivery occasions

“Across all out-of-home channels, restaurants have the highest share of foodservice delivery occasions - accounting for 46%. This is double the market average of 28%.”

Competition: Who are the key players in the delivery space and how is this likely to evolve?

The rapid growth of delivery has seen it extend beyond traditional channels and into others, with discounters, convenience stores and pubs also tapping into the opportunity

The initial lockdown left grocery operators falling short of consumer demand for delivery with retailers including Tesco and Sainsbury's having to notably increase availability. Tesco became the first retailer in the UK to fulfil one million online grocery orders in a week at the end of April 2020, before demand surged again in the Autumn with the grocer delivering over 1.5m orders in the first week of October.

The expanse of delivery has been so widespread that it has extended beyond traditional grocery shopping with discounters and convenience retailers also tapping into the opportunity. Partnering with Deliveroo, Aldi trialled delivery before rolling it out to more than 50 stores across London, Greater Manchester, Cambridge and the Midlands. Convenience retailers including Co-op and Costcutter have partnered with delivery operators Deliveroo and Uber Eats.

Early in the pandemic, the hospitality market felt the loss of major delivery players, including fast food giants McDonald's and KFC. By the second lockdown most were operating, having become well versed in safety precautions and financial pressures meaning it was crucial to maintain some trade through non-dine-in channels.

Operators large and small are now seriously focussed on delivery, with KFC attributing their sales growth in Q4 2020 to the channel and Dishoom opening its first ever delivery-only kitchens, including several outside of London. Delivery aggregators including Just Eat and Deliveroo have enjoyed unprecedented growth over the past 12 months with Deliveroo due to launch its IPO on 8 March. The delivery giant is banking on habitual delivery behaviours learnt in the pandemic to continue even as the hospitality market reopens.

1.5 million

When demand for grocery delivery surged in Autumn, Tesco became the first retailer to fulfil 1.5m orders in a week



Costs: The 'downside' of delivery, the added cost of the last mile (to operators and consumers)

Cost remains the biggest barrier for using delivery services, whether that be the cost of delivery associated with grocery delivery or the minimum order quantity applied to foodservice deliveries

Whilst delivery offers the ultimate convenience of receiving groceries or a meal within a designated timeframe, it of course comes at a cost. For the consumer, there is likely to be a delivery fee and, in some cases, prices will be inflated to cover the additional costs incurred. For the retailer or operator, they will need to cover third party fees or additional labour and operational costs to get the products to the customer, which limits profitability.

From our [On Demand Convenience Report](#), we know that delivery costs over £4 are a barrier. Whilst supermarket online delivery fees can exceed this, it would typically be 'offset' by a larger spend, whereas an on demand convenience basket is likely to be smaller (but more immediate). In both cases, the option of a subscription or delivery pass can be attractive and drive frequency of use. Just last month, Deliveroo launched its 'Plus for a family' subscription offering free delivery on orders over £25 for just £3.49 a month, covering both restaurants and grocery shops.

Cost remains the biggest barrier to uptake of foodservice delivery, with 'wanting to save money' the primary reason cited by those who had not had a foodservice delivery. For smaller households, minimum spend requirements (essential to make the service worthwhile for the operator) can be prohibitive. With the UK in recession and the full economic impact of the pandemic likely to last for several years, we can expect discretionary spending to be limited for some time – and therefore this desire to save money is highly likely to remain a challenge.

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For retailers and operators, there is no doubt that delivery comes with a higher cost to serve. Whether that is paying fees to an aggregator or having the hassle and cost of managing a delivery service in-house, delivery is a drain on profitability. For the hospitality industry, it is currently a critical source of income, but will operators want to maintain it ongoing? That will of course depend on many factors including the type of food served, how well it travels, and whether investment has been made in delivery-only dark kitchens.

Meanwhile on the grocery side, many retailers will want to limit the proportion of their business that goes through delivery because of the lower margins. Some (including many in the discount space) will continue to avoid the channel for this very reason. Others may prioritise click & collect which can offer better profitability. When it comes to on demand convenience, the question will be whether bigger, more lucrative baskets make up for the costs incurred; and of course, how great the demand for delivery is in the catchment area.

Conclusion: Understanding the last mile opportunity

The rapid adoption of digital and the growth of delivery is set to be one of the key lasting legacies of the coronavirus pandemic across both grocery retail and foodservice

There is no doubting the evidence that delivery supply and demand has increased significantly, attracting new customers and new operators. Consumer exposure to grocery and foodservice delivery services during lockdown – as well as increased interaction with apps – is set to provide a long-lasting boost to the channel in the future.

To summarise:

Convenience – the primary motivation for delivery solutions

1. Online grocery penetration has increased by +10pp through 2020
2. On demand convenience baskets are high value with a 200% premium vs. instore
3. Primary motives for foodservice delivery are not wanting to cook and treat

Customer – who is the delivery customer, for foodservice and on-demand convenience deliveries

1. Younger age profile for both ODC and foodservice delivery
2. London bias but this will reduce as services expand
3. Importance of brands for assurance and familiarity

Competition – who are the key players in the delivery space and how is this likely to evolve?

1. Increased supply of online grocery retail including Tesco reaching milestone 1.5mn deliveries a week
2. Partnerships with delivery aggregators including convenience and discount retailers
3. Foodservice delivery a lifeline for many and increased investment in delivery-only kitchens

Costs – the 'downside' of delivery, the last mile adds cost to operators and consumers

1. Customers: delivery fees and sometimes higher prices can be a barrier which can be alleviated with subscription options
2. Cost remains the biggest barrier to uptake of foodservice delivery
3. For operators: cost to serve may limit how much of the business goes through delivery

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Get a full picture of out of home food & drink consumption in the UK. Understand consumer behaviour, trends, drivers of change and key perceptions across all UK eating and drinking out channels.

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Get in touch

For further information about how Lumina Intelligence can support your business, please contact:

Holly.Franklin@Lumina-Intelligence.com / 0207 611 0434

