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## THE LAST BASTION OF STATIONARY TRADE IS FALLING - THE EVOLUTION OF THE E-FOOD MARKET IN GERMANY

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### Abstract

For a long time, food retailing seemed to be the last stationary bastion in Germany that online retailing has not been able to penetrate. Due to the Corona pandemic, however, even this bastion seems vulnerable. The stationary supremacy of the food retail trade over decades, however, led to the fact that the stationary major players largely ignored the currently strongly growing e-food market, which could already take its revenge today and even more in the next few years, as more and more new, pure-online retailers enter the market and set the market in motion.

In the context of the thesis, the development of the German e-food market since its origin is examined by analyzing the market composition over the years on the basis of the prevailing business models and market participants. For this purpose, all existing e-food business models in Germany were first identified and classified according to their own logic in order to be able to clearly differentiate the individual retailers from each other.

The analysis shows an increasing degree of maturity of the e-food market and the first signs of incipient consolidation and strategic cooperation. These will be pushed even more strongly in the next few years due to strong growth and an enormous density of market participants. Currently, no "winning model" is recognizable. The market is large enough and growing strongly, so that there is currently still room for several different business models.

**Keywords:** E-Food , Food Commerce, Online Food Retail, Quick Commerce, E-Commerce

**JEL classification:** up to 5 codes from the Journal of Economic Literature (JEL)  
<https://www.aeaweb.org/jel/guide/jel.php>

## Introduction

Hardly any other industry has made as many headlines in the recent months as online food retailing. There is rarely a week that goes by without new headlines on the topic of e-food<sup>1</sup>, new competitors on the market or imminent consolidations. This is no surprise, because after all, food retailing in Germany has an annual market volume of over 200 billion EUR and every lost percentage of turnover to the competition can have far-reaching consequences in an industry with tightly calculated margins.

More than 10 years ago, the first full-range digital e-food business models were launched in Germany. Since then, a rapid development has taken place and even without the disruptive push due to the COVID-19 pandemic, the importance and perception of e-food has increased. In addition, market movements such as strategic participations or consolidations have developed, so the market in total is showing an increasing degree of maturity. Online food retailing is also becoming increasingly popular with consumers, fuelled by the expansion efforts of both long-established players and the new online pure players, who are discovering e-food as a playground and field of expansion for themselves.

But where does e-food really stand in Germany today and how will the market develop in the coming years? What impact will this development have on the stationary food trade in Germany? This paper will show the development stages of online food retailing in Germany from 2010 onwards. Different business models on the market will be identified and classified. Finally, an outlook on the next few years and the associated effects on traditional, stationary retailers will be given.

### 1. The food retail market in Germany

Food retailing is one of the largest industries in Germany with a market volume of more than 220 billion EUR (IFH Köln, 2021). For many years, however, the online world did not manage to secure a corresponding share of this large sector. While other sectors such as fashion or electronics have an increasingly high online share, the online grocery sector struggled for years with a share of well under 1%.

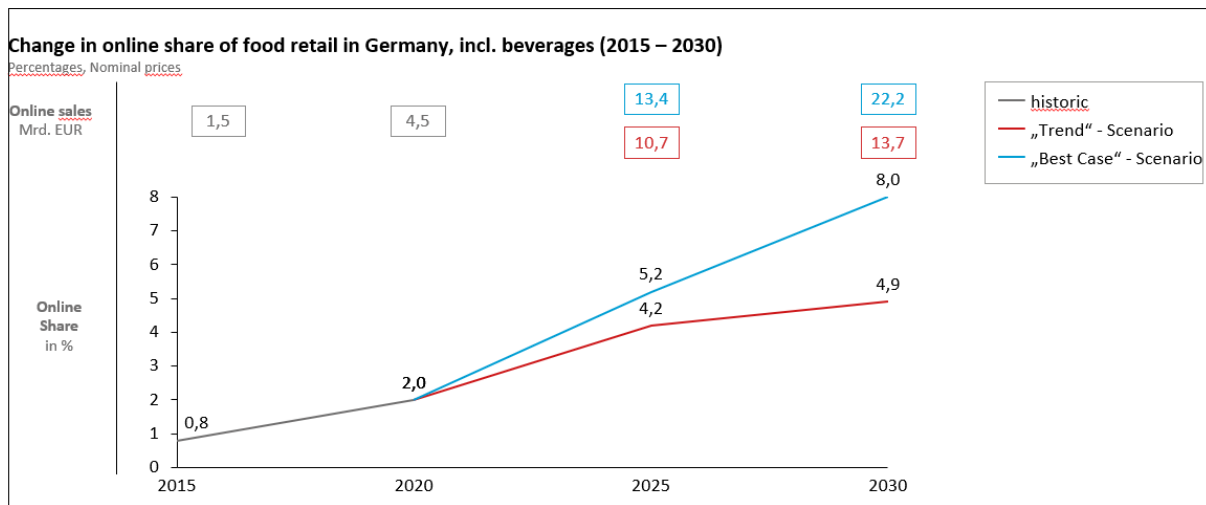
Looking at today's market shares in the online grocery trade, they are still very small compared to the stationary, classic grocery trade. And prognoses regarding the significance of e-food also vary widely, some euphoric, some more cautious. Nevertheless, one thing is certain: the grocery sector is one of the last analogue bastions of retail, which offers a lot of disruptive power and diverse development opportunities - both from the retailer's and the customer's point of view (Oliver Wyman, 2020).

In 2015 - when the first movements in the market were already visible and established to the masses through, for example, the REWE delivery service - online sales were at 1.5 billion EUR or a share of roughly 0,8% (IFH Köln, 2021). This should not change in the next few years,

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<sup>1</sup> The term eFood (electronic food) is largely used to describe the online trade in food, which can be both fresh, such as fruit and vegetables, and processed.

even though new formats have entered the market over the years, such as Amazon Fresh or Uber Eats.



**Figure 1: Change on online share of food retail in Germany**

Source: IFH Köln (2021), own illustration

In the wake of the Corona pandemic and the lockdown restrictions that occurred in some cases, online food trading matured abruptly. Within only 2 years we see an increase of the market volume to more than 4.5 billion EUR or roughly 2% market share

Compared to the rest of the industry, food retailing is still in its infancy at 2%, but this is where the relevance of this industry becomes apparent. The market is huge, the potential is there and customers are increasingly familiar with buying food online. In addition, new business models have been added to the market in the course of the last 2 years.

This results in market dynamics that the large, stationary retailers can no longer ignore. In particular, the outlook on the further growth of the industry is exciting.

The IFH Cologne forecasts an online share of just under 5% (Trend Case) in 2030, which would correspond to almost 14 billion EUR. In their "best case assumption" they even assume 8%, which corresponds to a substantial 22 billion EUR.

## 2. The e-food market in Germany: players & business models

In the last years, several new competitors have been able to position themselves in the German e-food market and to take a relevant position there. In this paper, different market participants and their respective business models were identified and differentiated from each other. This classification is important for a basic understanding of the e-food sector, as the individual models and competitors satisfy different customer needs and occasions for purchase and therefore must be considered separately from each other. Within the framework of the classification, the parameters "purchase occasion", "assortment size", "delivery time" and "logistics" were analysed in more detail:

**Table 1: Classification of different business models in German E-Food market**

Business Model	Purchase occasion	Assortment size	Delivery Time	Logistics	Players (extract)
Full range delivery service	<ul style="list-style-type: none"> <li>Weekly shopping</li> <li>Bulk shopping</li> </ul>	Full range (7k – 20k SKUs)	> 120min	<ul style="list-style-type: none"> <li>Fulfillment Center</li> </ul>	Rewe, Picnic, Knuspr
Quick-Commerce	<ul style="list-style-type: none"> <li>Spontaneous buying</li> <li>Impulse buying</li> </ul>	Daily consumption (1k-2k SKUs)	< 15min	<ul style="list-style-type: none"> <li>Mini Hubs</li> </ul>	Gorillas, Flink, Getir
Instacart	<ul style="list-style-type: none"> <li>Weekly shopping</li> <li>Impulse buying</li> </ul>	Full range (7k – 20k SKUs)	< 60min	<ul style="list-style-type: none"> <li>Picking in store</li> <li>No own logistics</li> </ul>	Bringo, Bringman
Platform model	All occasions combined	<ul style="list-style-type: none"> <li>Restaurants</li> <li>Daily consumption</li> <li>Full range</li> </ul>	< 60min	<ul style="list-style-type: none"> <li>Picking in store</li> <li>Picking up from store</li> <li>Restaurants</li> </ul>	Lieferando, Doordash, Amazon

Source: Own research

Depending on the interpretation, four different groups of business models can currently be distinguished in the German e-food market. The first group includes full-range retailers such as REWE, Picnic or Knuspr. These food retailers are partly established in the stationary sales channel (REWE), but are also pure online players such as Picnic and Knuspr. The full-range retailers serve the bulk or weekly shopping of their customers and do this in a delivery time of 2-3 hours. They all have an existing infrastructure such as an automated fulfillment centre as well as their own delivery fleet including drivers. As full-range suppliers, they cover a broad product portfolio, which is picked in their fulfillment centres and made available for delivery. This business model is characterised by high shopping baskets<sup>2</sup>.

The second group “Quick-Commerce” consists of businesses, that sell their products exclusively online and have their USP<sup>3</sup> in the speed of their delivery, first and foremost Flink, Gorillas and Getir. These so-called instant delivery providers satisfy the impulse or spontaneous buying of their customers. The customer has only a limited range to choose from, but the providers convince with a delivery promise of averagely 10 minutes. All these participants have no stationary stores. Their limited assortment is sourced from larger retailers, e.g. through partnerships with larger food retailers<sup>4</sup> or direct relationships with suppliers. Their product range usually comprises about 2,000 SKUs<sup>5</sup>. Their warehouses are mostly urban mini-hubs from which they can deliver their orders to their customers within the shortest possible time.

The Instacart model is characterised by the fact that the competitors take over the stationary shopping of their customers as service providers, i.e. the retailer takes over the commissioning in the supermarket and delivers the basket to the customer. In this model, the market participants do not have to have their own warehouses, as they do not offer any goods themselves. The Instacart model can therefore be classified as low-risk and less capital-intensive, but nevertheless enjoys a high level of acceptance, especially in the USA.

The platform model describes approaches that aggregate several business models and integrate them into a central offer. As an intermediary, one connects supply and demand and generates a commission per order. The intention here is to be able to serve all of the customer's buying occasions by offering a wide variety of offers in its platform app. The operational processes are partly carried out by the connected partners, sometimes platform operators also provide their

<sup>2</sup> According to Knuspr their average basket size is around 80€/order.

<sup>3</sup> Unique Selling Proposition

<sup>4</sup> Flink & REWE entered a strategic partnership

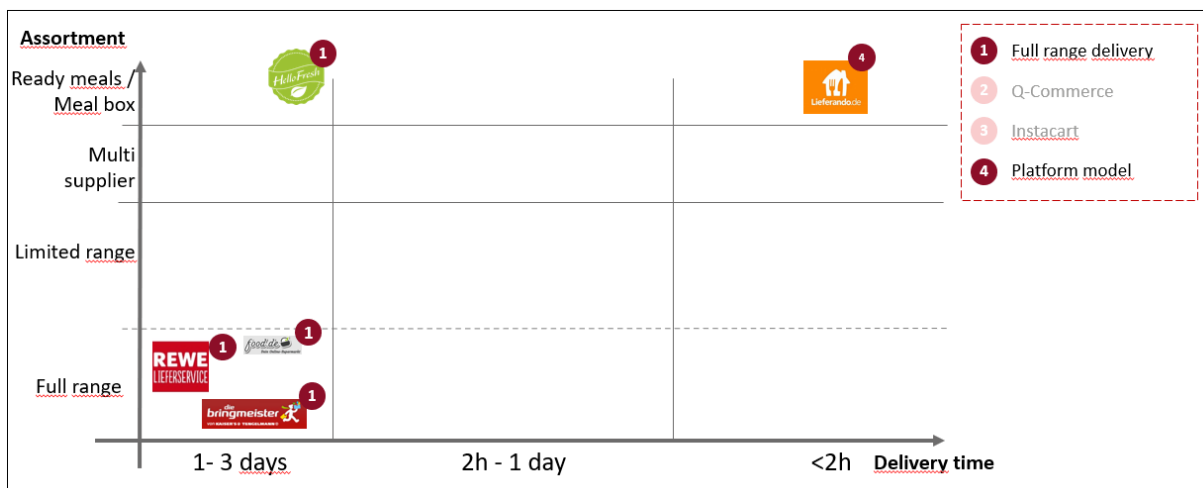
<sup>5</sup> Stock-Keeping Unit

own delivery logistics. An international example of a platform model is Doordash in the USA, which started as a restaurant delivery service and now also integrated the Instacart and Q-Commerce models in its platform. In Germany, similar developments can be seen, for example, with Lieferando or the market entry of Doordash.

The characterisation of the individual business models in the German e-food market makes it clear that, in general, a wide variety of approaches and types of play are possible in order to approach the online sale of food. Which model is the most promising cannot be generally determined at the present time. It seems that the German e-food market is large enough for several participants.

### 3. The development of the e-food industry in Germany

The e-food market appeared for the first time in Germany in the early 2010s, even though initially very cautiously and with little customer acceptance. The following matrix shows the market landscape at that time with the relevant market participants and the new and active business models on the market:



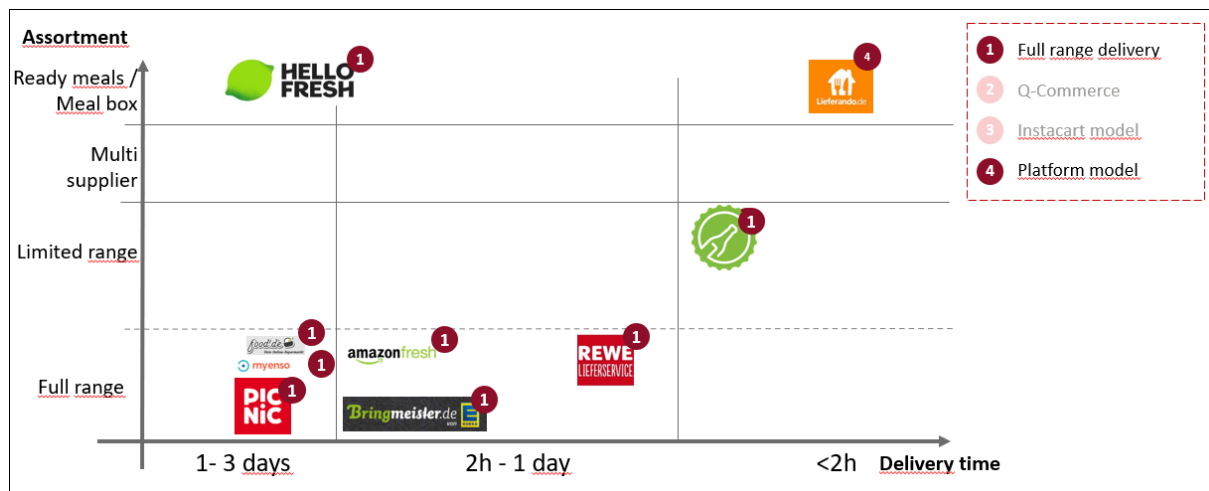
**Figure 2: E-Food market Germany in 2011**

Source: Own research and illustration

One can see that at that time it was still an empty playing field and only few companies were active on the market. In 2011, the food retailer REWE was already kind of a pioneer with its delivery service (Bonrath, 2011). This was a head start that paid off over time, as the company was able to take a position in the market and gain important experience early on. The Bunting Group also started its first steps in online food retailing in 2012 with their online grocery shop “mytime”, which positioned itself close to REWE and others. In addition to these few online full-range stores, small providers in various niches with their very own services also emerged, such as Hello Fresh. However, the market was still very undifferentiated, so that in 2011 only two different business models were recognisable at the time - the classic delivery service and Lieferando as the only platform business in the market

## E-Food irrelevant in the early years

Over the next few years, the e-food industry did not break out of its infancy. Food retailing continued to happen mostly stationary, with online sales remaining marginal. Customer acceptance remained largely absent. While online sales were at 0.7 billion € in 2010, by 2015 they had only increased to 1.5 billion € (0.8% share of the total market). By 2019, the sales volume had not even doubled, so that in 2019 approx. 2.8 billion € of food and beverages were sold online, which corresponded to a market share of a poor 1.4% (IFH Köln, 2021).



**Figure 3: E-Food market Germany in 2019**

Source: Own research and illustration

It can be seen that the market environment in 2019 remained relatively weak and no new business models had established themselves in the market. The e-food market seemed to be one of the few analogue bastions in which online retail could not gain a foothold. Certainly worth mentioning is the at that time highly discussed and partly feared market entry of Amazon Fresh. With Amazon Fresh, Prime members in Munich, Berlin and Potsdam can have their weekly shopping flexibly delivered to their homes. The provider Picnic also made headlines with its innovative concept in the market. At Picnic, customers can access a full range of products and do their weekly grocery shopping. However, the order can only be done via app. Picnic is an "online pure player" that has no stationary branches. Deliveries are made according to the "milkman principle", i.e. deliveries always take place at fixed times in the relevant streets (Täuber, 2020). The German supermarket chain EDEKA is said to have already invested more than €300 million in Picnic.

The overview also shows that existing business models such as the "REWE Lieferservice" have been further developed and optimised over the years, so that delivery times could have been significantly reduced in the example of REWE.

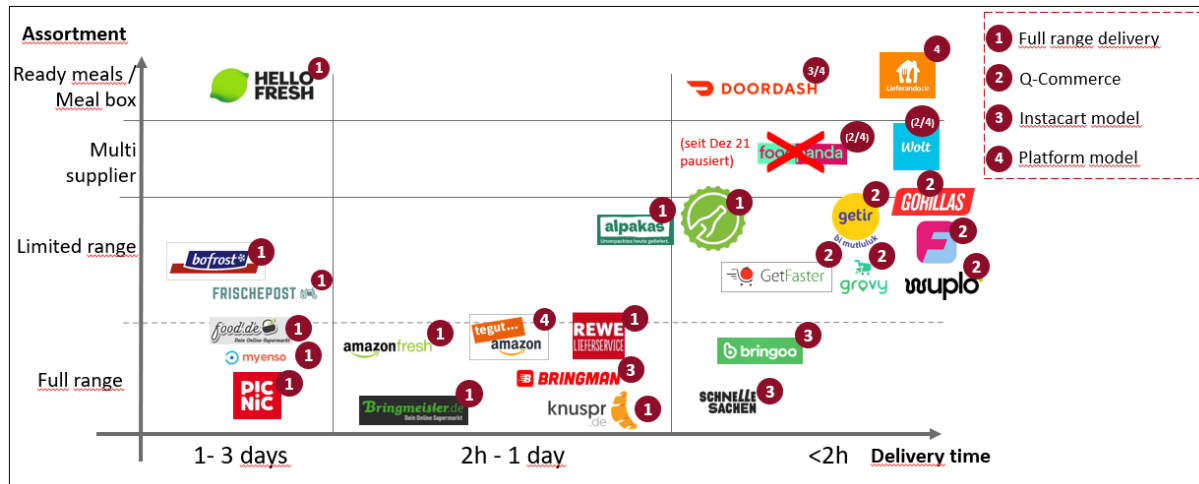
## Covid-19 as a katalystor for the E-Food industry

On 11 March 2020, the WHO<sup>6</sup> officially classified the spread of the Corona virus as a pandemic. As of this date, the pandemic has had significant changes for the online food trade. In general, the pandemic has had far-reaching negative consequences for many

<sup>6</sup> World Health Organization

sectors of the economy. However, the entire food industry in particular – both stationary food retail and e-food - has benefited from the crisis.

It is fair to say that the Corona pandemic acted as a catalyst for the e-food market and leapfrogged its development by several years. Looking at the market, the competitive dynamics in the wake of the Corona pandemic become even more apparent:



**Figure 4: E-Food market Germany in Q1 2022**  
Source: Own research and illustration

While very little happened in the market during the years 2010-2019, in 2020 we see that the market is much more densely populated on the one hand and that new business models have developed on the other hand. In 2020 and 2021, for example, the Q-Commerce and Instacart business models appeared on the German market for the first time and are populating the right-hand side of the matrix in particular. It will be interesting to observe to what extent the market, including the existing business models and market participants, will develop in the coming years. The first nuances of market maturity can already be seen today - there are first consolidations on the market and the market barriers have become significantly larger for new participants. It can be assumed that consolidation will increase in the next few years and that some individual participants will merge (Loderhose, 2020). A first indication of this is the entry of the US delivery service Doordash, which bought the Finnish delivery service Wolt for a sum of 7 billion EUR and thus secured its market entry in Europe (Klug, 2020). At the same time, DoorDash invested almost 400 million USD in the Q-Commerce provider Flink, and there are also rumours of a complete takeover.

### Outlook – E-Food market in 2030

The strong dynamics in the market and the financial capital providers make it extremely difficult to make a reliable statement about the future of the market: however, everyone agrees on one thing. The e-food market will continue to grow and gain relevant shares in the coming years (Handelsjournal, 2021).

The capacity utilisation of supermarkets in large cities will decline rapidly due to the new providers, which will lead to a long-term reduction in stationary sales space. What has happened to the stationary retail trade in the last 10 years is now also flourishing in record time for the stationary food retail trade. This is because the number and penetration of e-food providers will continue to grow in large cities and conurbations (Spryker Systems, 2021).



## Conclusion

Although the current market share of the e-food sector in Germany is still rather small in international and European comparison (Schu, 2020), strong growth rates have been recorded in the course of the last few years, especially due to the influence of COVID-19. New competitors and new business models have positively influenced the e-food market and brought new innovations.

Various developments in German society can also positively influence the e-food market. According to Schu (2020) demographic developments, for example, are very relevant for online food retailers and could become a great opportunity. With increasing age, immobility - among other things- will increase, so that older people will most likely want to take advantage of help when shopping grocery. This could lead to an increase in the online ordering of groceries and their delivery to the door via parcel, as many people are no longer physically able to do stationary shopping. At the same time older generations are also becoming more online-savvy and digital, so that retailers can also benefit from this in the future. Furthermore, there is an increasing shift from individual mobility and owning a car to using public transport. If households no longer have their own car and use public transport for the most part, it makes sense to make larger purchases online.

In addition to the social changes that positively influence online grocery trade, the buying behaviour of society is also changing. Convenience, in particular, is an important point and the main driver for ordering food online. According to a study by the US company Kraft Heinz, convenience is more important to 70% of customers when buying food over the internet than a possible saving of money (Nürnbergger, 2020). Thus, online retailing has clear advantages over stationary retailing in terms of time savings and convenience.

With the outlook of an increasing online market share to at least 8% in 2030 (IFH Köln, 2021), the pressure is on for brick-and-mortar retailers - the market is clearly gaining in relevance and is becoming increasingly larger. There are customers who primarily think "online", so for almost 70% of consumers the online purchase of groceries will be at least partly represented in their customer journeys (Spryker Systems GmbH, 2021). Accordingly, stationary retailers have to rethink, become more courageous and try out new things. The market, especially the new participants, have financially strong investors in the background and are not afraid of a duel with the stationary trade. Rohlik<sup>7</sup>, for example, was valued at 1 billion EUR in the summer of 2021, Flink at around 2 billion EUR and Doordash at as much as 34 billion USD. All in all, these are financially strong companies that can exert considerable pressure on the German REWE, ALDI or LIDL.

At this point in time, the market shares in Germany are not yet set and firmly allocated. Moreover, there is no cut-throat competition in the German market, market and demand are still largely unsaturated and the market is growing. This offers long-established retailers as well as the pure online players great scope for development and growth potential, so that we can continue to look forward to an exciting, dynamic market.

The quick commerce sector in particular will see a lot of movement in the next few years: It is a "the-winner-takes-it-most" market and profits can only be made through size in the long run. Consolidation is therefore inevitable, and there are already many signs of this development in

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<sup>7</sup> Rohlik is the parent company of the German delivery service Knuspr



the e-food market: In November 2021, US market leader Doordash acquired Finland-based food delivery company Wolt in an all-stock deal, worth 7 billion EUR at the time and buying themselves access to the German market. But also participations of traditional retail chains such as the REWE Group in Flink leave room for further speculation (Schader, 2021).

It remains exciting to see how the German e-food market - especially in the quick commerce sector - will develop over the next twelve months.

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