Why is US Food Consumption resisting the Internet?

This week’s M&A activity causes me to revisit a long standing question. In the US, the Food-grocery sector has completely resisted penetration by the internet. The share of US food consumption (eaten in) that is purchased through the internet essentially remains at less than 2%, where it has been stuck for years. Contrast this (in the graph below) with the rapid growth of Internet shares in almost any other sector from 10% up to 30% in just the last 10 years! Attempts by the Food chains to use the internet have generally failed, as have several startups.

One thought would be that much food is non-durable, perishable and a partially differentiated commodity. As such does not survive storage and transit well, and unlike clothing, electronics, books…two units of a given item (e.g. lettuce, steaks) are not identical and so consumer choice benefits from direct inspection before purchase. While this argument has merit, it misses the observation that throughout most countries in the EU, internet-based ordering and delivery of groceries is now thriving and growing just as it is with durable goods. Why is there such different behavior on either side of the Atlantic?

To an economist one obvious answer is the difference in urban travel behavior between the EU countries and the US. In the EU, there are about 500 cars for every 1000 people, yearly auto miles traveled is around 3500 per capita, and public transit carries 35% of all workers to their jobs. In the US, there are 800 cars for every 1000 people, 7800 auto miles are driven per capita and 92% of all workers commute by car. Carrying groceries while walking, biking or using transit can be quite difficult. The car on the other hand makes a perfect carrier of goods.

At a recent MIT Summer Executive course, we had an enlightening discussion about the contrasting styles of grocery shopping. EU students cited a growing tendency to have packaged goods ordered and delivered in large batches at lower frequency, while daily picking up a few perishables in person typically on a transit commute trip. US shoppers on the other hand tended to engage in lower frequency comprehensive shopping – using their car – that involved volumes of goods that could never be carried in person.

If “Clicks” are to ever penetrate “Bricks” in US food consumption, it may require the differentiation of perishable fresh or prepared foods from packaged goods that are bulky, heavy and need not be inspected for purchase. This suggests some kind of hybrid model in which a food “store” focuses on fresh or prepared foods, while at the same time serving as a “display” center for consumers to select and order packaged goods for later delivery. Such a combination might be particularly appropriate in the largest US cities where travel behavior more resembles that in the EU. That said, weaning US consumers from using their cars for just about everything is never going to be easy!