

Lessons Learned, Challenges Ahead

Winners will provide convenience and outstanding service.

By John Karolefski

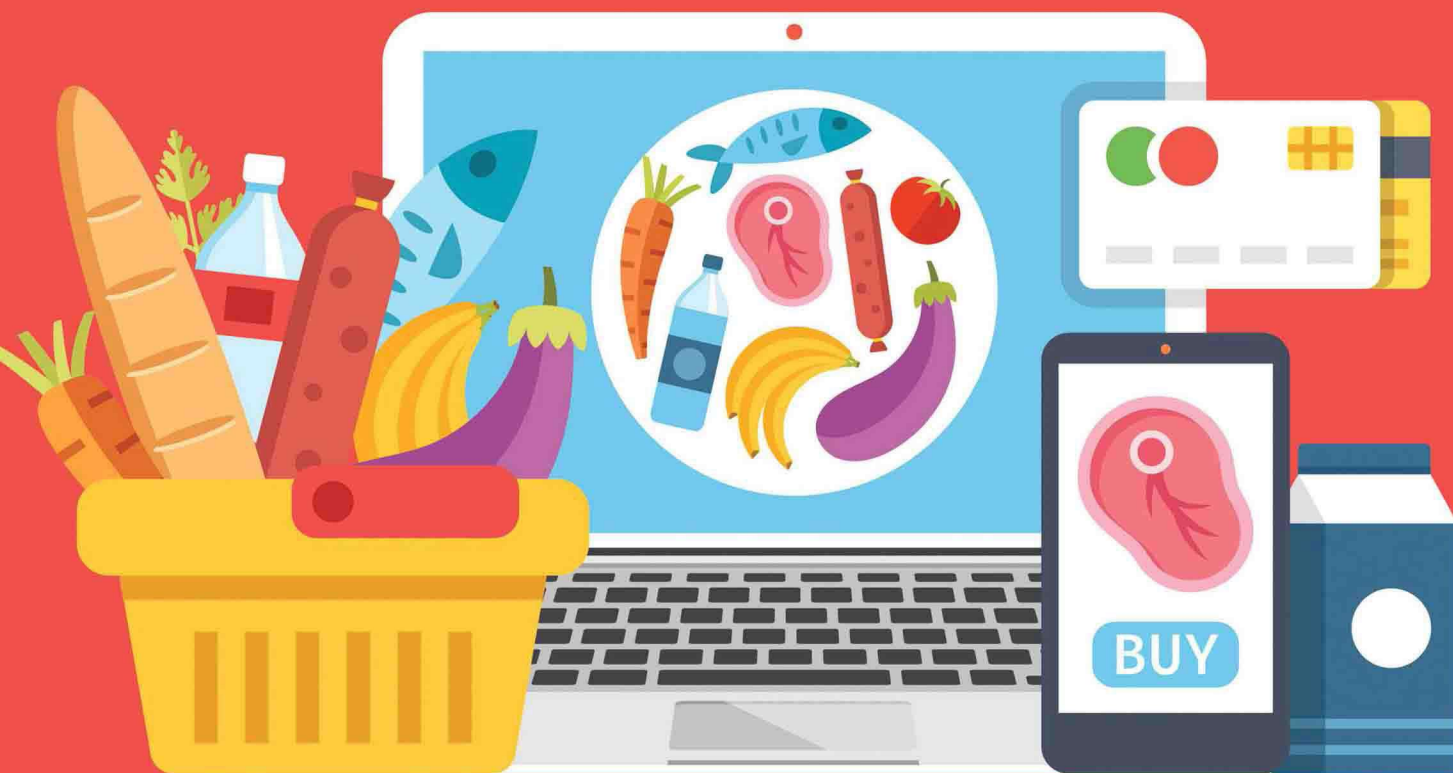
The beat goes on for online grocery shopping. The daily grocery news continues to chronicle the growth of e-commerce:

- Kroger's Atlanta division launches a ClickList service that offers customers the ability to place orders online and get their groceries at a pre-selected pickup location.
- Whole Foods Market is expanding its ordering and delivery service via Instacart to new markets this year, adding to the 17 cities where shoppers now use the service to obtain groceries from the natural food retailer.

- Buehler's Fresh Foods, in Ohio, has launched the Click Load & Go online shopping platform, which enables customers to order online or through a mobile app and then pay online or at the store's curbside pickup location.

As more retailers make grocery shopping available to their customers, two key questions emerge: What have been the lessons learned so far from their experience with grocery e-commerce, and what challenges do they face?

Most analysts who study this segment of the retailing industry agree with the view of Robert Howard, partner and practice leader at Boston-based Kurt Salmon Digital: "We are currently at the very beginning stages of grocery e-commerce. It is essentially where retail e-commerce was 15 to 20 years ago."



Work in Progress

That doesn't mean the service isn't evolving and carving out a share of the overall grocery business. Tony Kleiner, of Dayton, Ohio-based Teradata, rightly points to improving customer interfaces, e-commerce infrastructures and fulfillment processes.

He divides progress and work to be done into two areas:

- **Front end:** Customer interfaces using both mobile devices and computers are making it easier for customers to review assortments, create shopping lists, place orders and pay for those orders. Customers can choose how they want to receive their groceries through various home delivery or pickup options.
- **Back end:** Many grocers still struggle with execution issues from a logistics, labor and measurement standpoint.

The volume of online sales today is a relatively small percentage of overall sales for most grocers. "It is important to develop the processes and resources to make

e-commerce profitable and as efficient as possible now, to ensure that it drives and does not hinder financial performance as the percentage of sales grows," says Kleiner, senior business consultant for the provider of data analytics and warehousing solutions.

Randy Burt, partner in the consumer and retail practice of Chicago-based consultancy A.T. Kearney, expects online grocery ordering and delivery to grow five to six times faster than conventional food retailing.

"That is inevitable," he says emphatically. "It has moved from a question of 'if' significant grocery share will shift online to a question of 'how much, and when.' That said, we are still in an experimental stage, with lots of models out there — from Amazon Fresh, Peapod and Door to Door Organics, to Instacart, Blue Apron and the click-and-collect offerings of traditional grocers. While each of these models has unique value propositions, they are rapidly evolving. We expect the landscape to continue to shift as existing models are refined and new models are launched."

Fresh Test

Keith Daniels, a partner at New York-based Carl Marks Advisors, offers this statistical look at the state of online grocery:

- Online grocery sales are now in the high single digits as a percentage of total revenue for grocery.
- They're growing at a 10 percent range, per Australia-based global business intelligence firm IBISWorld.
- Amazon grocery purchases are growing at 25 percent.
- The percentage of consumers ordering groceries online is 30 percent to 35 percent.

"Additionally, 'basket-bandit sites,' that is, those that siphon off a portion of grocery purchases, such as Amazon, as opposed to pure online grocery plays such as Peapod, are generating a steady stream of sales leakage," Daniels explains. "Basket-bandit sites capture 84 percent of all online grocery trips and 50 percent of all online spending. Amazon is remarkably capturing approximately half of all online grocery spending."

In light of these threats, Daniels notes that traditional grocers will need to adapt and evolve to the needs of the consumer to survive. For example, stores need to offer the best pricing while still providing quality goods. They need to focus on fresh food because consumers aren't necessarily ready to buy perishables online, due to concerns about ensuring freshness.

Teradata's Kleiner agrees. "Customers are typically hesitant to allow someone to select their perishable

products for them, particularly produce and meat,” he points out. “Grocers need to establish programs and communications to prove to customers that they will receive the same-quality products as they would select for themselves. If this is not doable, then the grocer should initially focus only on those categories of products that can be executed at a high level, and expand to other categories as the ability to execute evolves.”

Another lesson learned from online grocery, according to Kurt Salmon Digital’s Howard, involves the broad adoption of the curbside pickup model of delivery. One, shoppers are limited to local inventory, and two, it’s not a cost-effective use of a grocer’s resources.

“Stores need to hire ‘pickers’ to walk around the store, identifying and grabbing pre-ordered items for customers,” Howard explains. “Not only is it more expensive for grocers to maintain a staff of pickers, but it is no more efficient than if customers were to shop themselves. These pickers have just as hard of a time identifying products as shoppers, thereby cluttering aisles and possibly outnumbering in-store shoppers. So while this model may be a trend, it’s not a sustainable one. Bottom line: Grocers aren’t profiting, and customers aren’t getting the superior experience they want.”

If Not You, Who?

Graeme McVie, of Toronto-based Precima, tells the story of a grocer who couldn’t make the economics of home delivery work. As a result, he decided to test the removal of the home delivery service from a

single metropolitan area to see the impact. He anticipated that all online sales would simply migrate back into his physical stores. But the result was that a meaningful portion of the online sales simply disappeared, presumably to the competition.

“The lesson the grocer took from this was that if you don’t satisfy customer needs, then one of your competitors will,” says McVie, VP and GM of business development for the data analytics division of LoyaltyOne. “Over time, home delivery with short lead times and defined delivery times is going to become increasingly essential. Any retailer selling groceries will need to develop the operational capability to meet these customer needs, or risk losing sales growth.”

Experts are quick to identify what grocers need to do to succeed in grocery e-commerce. For starters, they should measure and analyze e-commerce performance the same way they manage in-store performance; namely, labor (pickers), sales, shrink, and shopper value, plus distribution costs, fulfillment and other key e-commerce performance indicators.

“Grocers must gear their programs towards a diverse customer base, with varying degrees of technical savvy and requirements for what an e-commerce program must deliver,” advises Kleiner. “While mobile-savvy Millennials are a common target for e-commerce programs, other less mobile-savvy demographics will become a significant component of sales. Just as grocers have moved towards localized in-store customers and align assortments, schematics and promotions based on analytics, similar approach-

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1 in 3 Americans Buy Food Online

So far this year, 31 percent of Americans have purchased food online, according to a recent poll. That equates to 45 percent of online shoppers buying edibles on the internet, according to officials at Rochester, N.Y.-based Harris Interactive.

This purchase behavior is more common among certain demographic groups: Millennials (36 percent, versus 31 percent of average Americans); college grads (35 percent, versus 26 percent with a high school education or less); parents (37 percent, versus 28 percent of those without kids); and those in cities (38 percent, versus 30 percent suburban and 25 percent rural).



“As manufacturers continue to grapple with the challenges facing their industry around e-commerce, they must ask themselves: How does a consumer making a purchase in a grocery store differ from a consumer making a purchase online?” says Kathy Stein-

berg, director of The Harris Poll, which conducted a national online survey in late June of 1,995 U.S. adults age 18 and older. “Manufacturers will not only want to know differences in what people buy online versus in-store, but more importantly, how people buy online versus in-store.”

The most popular product purchases were snacks (20 percent) and non-alcoholic beverages (17 percent), while the least purchased items were baking products and frozen foods (12 percent each).

Consumers said they go online to purchase products that are:

- Nonperishable or have a long shelf life (49 percent)
- Difficult to find in stores (48 percent)
- Easy to ship (39 percent)
- Needed later on (32 percent)
- Stock-up items (31 percent)

Just one in 10 consumers (29 percent of online food shoppers) said the practice has replaced some or all of their traditional grocery shopping trips. Online food purchasers are most often looking for something special that’s not available at their local grocery store (52 percent).

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es should be taken for e-commerce. For example, product recommendations based on both a customer's purchase behavior and the behavior of similar customers can improve their experiences, drive additional sales and optimize vendor marketing programs.”

On a more practical level, according to Burt, fresh categories call for new processes and well-trained labor to ensure that orders are fulfilled at acceptable-quality levels. In-store picking processes need to be organized and managed so that they don't interfere with the in-store experience of traditional shoppers, while still being extremely efficient to enable the economics to work. From a delivery standpoint, he adds, striking the right balance between the willingness to pay and the cost to serve is critical.

Overall, Burt is bullish on the future because of the opportunity to grow share as more food sales transition online. He expects grocery e-commerce's share to rise from 3 percent to 4 percent today to 12 percent to 16 percent and more by 2023. Burt further predicts that grocers that are able to integrate



in-store offerings with online offerings — “and craft a unique value proposition” — will succeed.

McVie agrees that “e-commerce is going to continue to be an important component to the overall value proposition offered by grocers,” but adds that “there's a big difference between online ordering for products like TVs, where consumers perceive the item price as a key component of the value proposition, and the online ordering of grocery products. For the latter, there is a significant convenience component to the online value proposition that retailers should clearly communicate, which is that the customer can order their goods online from the comfort of their home at whatever time of day is convenient.

“In addition to the convenience factor,” he continues, “grocers will start to make digital suggestions to customers based on their purchases in order to build basket size as personalized offers become a common asset in the online grocery purchase journey. These digital offerings not only act as a driver to utilize the e-commerce platform, but engage the customer online as the grocer would in stores. The world of physical and digital grocery shopping will converge, and consumers will gravitate to whichever best suits their needs.”

But whether it's in-store or online purchases, experts stress that the fundamentals of retailing must apply for all transactions. That calls for unique product assortments coupled with creative selling strategies, suggests Todd Callen, of Aarhus, Denmark-based Stibo Systems. A concerted effort is required to keep assortments fresh and priced to move. To do this successfully, he adds, grocers must develop better sourcing capabilities while improving stock positions, merchandising and pricing execution. This level of agility requires a higher level of operational intelligence.

“To gain the loyalty of today's price-conscious consumers, grocers must carve out a niche based on creative strategies,” says Callen, EVP for the provider of multidomain master data management solutions. “They must create more targeted offers, deploy smarter strategies, provide localized product assortments, and offer the right price to the right target market at the right time. These factors require greater insight into consumer demand, buying habits, inventory levels and product information. Winning over consumers has never been as challenging as it is today.” **PG**