

Buying groceries online is becoming more popular as consumers become comfortable with this shopping option. To serve these customers, some supermarket retailers have been offering grocery e-commerce for some time, while others are testing various services or considering getting involved.

It's no wonder why. Online grocery shopping is one of the fastest-growing retail channels. According to Rockville, Md.-based Packaged Facts, the annual growth rate will result in a market of nearly \$100 billion in 2019. So grocers need to get their fair share of this business. They need to determine the best way to assemble online orders and deliver groceries while ensuring prompt service at a reasonable price.

Online grocery shopping certainly can offer a competitive advantage for traditional food retailers, according to Graeme McVie, VP of business development for Toronto-based Precima, a retail analytics solution owned by LoyaltyOne. This is especially true if companies can successfully integrate a loyalty program that rewards their best customers.

"It is a highly engaged medium," he says. "Since shoppers are apt to share products, recipes and experiences socially, online grocery shopping can also play a unique role in helping the retailer build its brand both in brick-and-mortar as well as in digital forums."

But if grocery e-commerce offers so many benefits to grocers, what's preventing some from embracing it and gearing up for a growing part of the business?

"It's a pure cost play, and the logistics behind it," says Lee Peterson, EVP of brand strategy and design at Columbus, Ohio-based WD Partners, citing the costs of picking ordered groceries, trucks, gas and delivery people. "If you're a grocer with three stores in Sacramento, that's a tough one. That's why you might use an outside resource."

And there are several outside resources from which to choose. For example, San Francisco-based Instacart, which operates in 15 cities across the country, enables shoppers to browse through the online catalogs of partnering supermarkets and then deliver selected orders to users' homes. Some of the grocers using this service are Whole Foods Market, Costco and Harris Teeter.

Ahold recently launched grocery ordering and delivery in the Harrisburg and York, Pa., markets through its Giant Carlisle and well-known and successful Peapod divisions. Consumers can create personal shopping lists, read nutrition information online, and sort products rapidly by price or nutrition criteria. Giant Bonus Card users can quickly get started with their first order online, from a list of items they've bought at their local store, by entering their card number online.

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Getting Started Now

What's the best type of service for online grocery?

By John Karolefski



“It’s all about making it easy for our customers to shop for their groceries,” says Giant President Tom Lenkevich. “With the launch of Peapod by Giant, our customers now have a full range of shopping options. Whether it is shopping in our stores, ordering online and picking up, or having their groceries delivered to their home or office, Giant customers truly can shop when, where and how they want.”

Controlling the Threat

Meanwhile, experts believe online services from Amazon and Walmart are the two biggest threats to supermarkets. Seattle-based Amazon began expanding its grocery service, called AmazonFresh, in the second half of last year to California, while Walmart, based in Bentonville, Ark., is running tests of its Walmart to Go service in San Francisco and Denver. Both have the resources and national footprint to become dominant players in grocery e-commerce.

Some larger grocery chains understand that threat and therefore might want to have complete control of the process rather than rely on a third party. Naturally, this requires considerable IT investment — plus supply chain, marketing and CRM integration on the back end. Beyond that, grocers will need to put time and effort into the user experience.

“Shoppers want an easy-to-use service that can be accessed by a mobile device, so they can shop on the go, as well as [via] tablet or desktop,” says McVie. “So out of the gate, it’s critical to make sure you have platforms for all devices. Let’s not forget the delivery experience. Consumers will have an expectation that you are paying attention to this level of detail and that they can count on you to not only get them what they need with the push of a button, but that it will land at their door packed as though they packed it themselves. The challenge on that front is on the ability to knit online with delivery.”

For chains that want their own e-commerce services, McVie lists critical operational decisions that must be considered thoroughly and managed effectively:

- How do you revamp management and back-end systems that span a vast array of business-critical logistics?
- Do you have the same prices online as in-store?
- How do you manage inventory and the supply chain to minimize out-of-stocks?
- How do you manage the picking/delivery workforce?
- Where do you do the picking — in current stores during slow hours, at “dark” stores or at warehouses?
- How do you manage the delivery fleet and plan delivery routes?
- How do you manage images and product information?

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Get the Onliners In-store

The increasing popularity of online grocery shopping makes this channel a priority for grocers. There’s a problem, however: Many customers are quick to “abandon” their carts before checkout. Recent data indicate that almost seven in 10 consumers do so when shopping online.

This is an issue for online and brick-and-mortar retailers alike. However, the latter have an edge, according to new data from LoyaltyOne, which revealed a way not only to get consumers to complete their online purchases, but also to enter the brick-and-mortar store.

The survey of 1,000 American consumers nationwide points toward a simple answer: Offer a discount to the online purchaser who’s willing to pick up his or her purchase in-store.

For instance:

- 73 percent of consumers say a discount for picking up the online purchase at the closest retail store would make them more likely to complete the online purchase.
- 68 percent would visit the store to pick up their online purchase for a discount of 15 percent or less.
- Respondents reveal a strong desire to avoid shipping costs. Nearly seven out of 10 (69 percent) say that simply avoiding shipping fees alone would entice them inside a retailer’s doors to pick up their online purchase.
- Receiving additional loyalty program points was also a driving factor, influencing more than 40 percent of respondents to go in-store.

“If used smartly, in-store pickup may just be the edge retailers need to combat serial cart abandoners,” says Graham McVie, VP of business development for Toronto-based Precima, a retail analytics solution owned by LoyaltyOne, “as well as providing an additional touchpoint in the consumer experience by getting the online shopper in the store.”

“The accuracy and availability of this product information is the first step in giving shoppers the confidence they need to buy groceries online, and a pivotal first step as grocers’ e-commerce strategies evolve,” notes Sue Sentell, president and CEO of Lisle, Ill.-based Gladson. “To get started on meeting shoppers’ online expectations, grocers need to begin with a foundation of digital product content to power their online strategies and e-commerce engines. This includes a consolidated resource of product images and comprehensive product details, ranging from ingredients and marketing claims to nutrition facts and package size, to give buyers a true ‘digital representation’ of each product.”



COMING THREAT
AmazonFresh presents a challenge to brick-and-mortar grocers.

Same-day Challenges

According to a recent LoyaltyOne survey, 21 percent of consumers say an additional fee is worth the convenience of same-day delivery for their online purchases. Also, 27 percent say an additional fee is worth the convenience of having the grocery products they need ready for pickup upon their arrival at the store.

Same-day delivery is obviously an attractive option. But it's challenging, explains Victor Allis, CEO and co-founder of Quintiq, a Netherlands-based software company servicing the logistics needs of such customers as Walmart and DHL. To illustrate the difficulty, he urges retailers not to become like a pizza delivery service, in which a courier goes out, delivers to the house and comes back.

"That's very inefficient, because you can only make one delivery by only one person," says Allis. "With same-day delivery, the question is how to deliver to many people within the narrow windows they are going to require, and still be on time and efficient."

On the other hand, the click-and-collect option — shoppers order groceries online and then pick them up at the store — solves logistical issues and the delivery expense. There are other advantages to this service that many experts say is the way to go.

WD Partners' Peterson points out that getting the shopper to enter the store prompts them to purchase fresh food, especially produce. Grocers need to protect this business from niche online players such as Relay Foods, Door-to-Door Organics and others that are delivering produce to homes.

"The real benefit of in-store pickup is the opportunity for additional unplanned, high-margin impulse purchases [in the store]," says Professor Emeritus Richard George, of the Haub School of Business at St. Joseph's University (SJU) in Phila-

delphia. "Consumers use the amount of items in their shopping cart as a heuristic of their spending. Since the online items will be deposited directly into their car, they can visit the store with an empty basket. In addition, research has indicated that persons shopping both online and in-store spend more than those shopping online only and in-store only."

By contrast, he adds, the number of Europeans ordering groceries online has grown 60 percent in the past five years. Britain leads the way, with 22 percent of its population ordering groceries from a desktop. In these markets, the preferred delivery model is click-and-collect.

Millennial Movement

The industry consensus is that online grocery shopping will continue to grow because younger consumers will accept this option more. Also, the group starting families that will account for big grocery bills will be Millennials, "a demographic 80 million strong that checks smartphones on average 43 times per day," says Gladson's Sentell.

"My recent national research on Millennials — those 18-34 years old — underscores the sense of urgency for traditional brick-and-mortar retailers to enter the online space," says SJU's George, noting that:

- Only 56 percent of Millennials have shopped for groceries in the past 30 days in a regular or full-service supermarket.
- 24 percent of Millennials have shopped for online groceries in the past 30 days.
- Millennials shop 4.5 times per month online, versus 3.9 times per month at a regular or full-service supermarket.

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“Millennials may eventually behave like their parents and older consumers,” says George. “However, at this stage of their life cycle, their attitudes, lifestyles and behaviors are sufficiently unique to suggest the development of specific marketing strategies and tactics by food marketers that will capture a greater share of total food needs. Traditional food retailers need to develop a strategy that makes online shopping a capstone of their organization’s efforts and investment, rather than simply an add-on form of distribution.”

Precima’s McVie acknowledges the importance of Millennials as the primary online grocery shoppers of the future, but he points out that it’s important to build a strategy to serve current customers while also looking forward.

At the same time, he advises grocers to tie their online efforts to a loyalty program to reap several benefits:

- Tracking demographics
- Seeing the products most popular by demographic and psychographic
- Tailoring offers and specials
- Hypertargeting marketing across age segments



“This strategy builds loyalty with current customers and helps to build loyalty with up-and-coming customer segments,” stresses McVie.

“As Millennials become even more of the overall revenue stream, you’ve cultivated them into the fold and have shown them you can deliver exceptionally customized experiences.”

Whether they settle on an online grocery service with or without a loyalty component, using a third-party partner, developing a home-grown service, or click-and-pickup or click-and-deliver-home, WD Partners’ Peterson urges grocers to get started now.

“You have to try it,” he affirms. “You need to learn as much as you can. Walmart and Amazon are so far ahead of the curve in what they will be able to deliver. They have the logistics to basically go nationwide right now to at least deliver center store groceries. If you don’t understand the model, that’s a problem. You have to start testing. Then you get the kinks out.” **PG**