

HOW MULTICHANNEL SHOPPING IS CHANGING THE GROCERY INDUSTRY

By Julian Highley

There's no doubt that the online channel is increasing its presence in the grocery sector. There's also no question that it's taken a long time.

While 83 percent of leisure flights were booked online in 2014, Google's Consumer Barometer found, less than 1 percent of grocery sales were, according to Planet Retail. And with Bloomberg Businessweek estimating that online's share of the grocery business could reach 11 percent by 2023, it's understandable to think that there's still considerable time before those in the grocery space need to turn their focus toward online shopping.

However, recent Dunnhumby research has found that the online channel is going to have a profound effect on grocery brands and retailers, with 50 percent of sales in key categories being sold online well before 2023. Planning for this shift needs to start now.

Key Categories for Growth

Established markets' total online sales account for less than 5 percent of total grocery, yet categories such as frozen meat, canned food, baby food and care, and breakfast cereals are seeing almost 20 percent of their sales through online. With online annual growth rates in excess of 20 percent, one-third to half of all sales could easily be online for these categories by 2019. For the most part, the shift from in-store to the online channel is a zero-sum game.

Retailers will need to ensure that they have an online presence to respond to this dynamic. Within the categories that are already well established online, there are a significant number of brands that have close to 40 percent of their sales from online today. In a few years, there will be grocery brands that see the majority of their sales coming from online grocery shopping.

Think Multichannel, not Online

While there are categories that will see sizable shifts to online, for customers it will be about a balance between the online and in-store environments. Even in the most established online grocery markets, those shopping solely online equate to less than 2 percent. Fresh produce, the deli counter — categories where it's important for consumers to gauge the quality and freshness of products through physi-

cal contact — will continue to be dominant in-store.

This will force retailers to think about how they rebalance space in their physical stores and deliver on different customer needs. Using the store as a depot allows retailers to manage the transition of key categories, but it also introduces its own complications. Retailers will need to provide customers the ability to pick up quality produce and food to go, while rapidly innovating the rest of the in-store experience.

Online Merchandising

How shoppers navigate the store online is fundamentally different from in-store. Although devoid of tried-and-true in-store stimulus, online purchasing is significantly healthier than in-store purchases. Also, based on customer behavior, promotions work very differently online versus in-store. For instance, the end-of-aisle display is a staple of trade promotions in the physical world, while the online equivalent contributes to only 6 percent of online purchases. The in-aisle equivalents are far more important online.

While the online behavior of shoppers is profoundly different from in-store, the approach of most retailers has been to translate the physical store online (with some tweaks such as a search function and favorites). The virtual environment is underused by retailers, and moving forward we anticipate much greater use of the freedom that the virtual environment provides — not to the futuristic extent of virtual reality, but more thoughtful and simple ways of improving the online experience.

For example, providing dedicated entry points for specific mission-based shopping (e.g., party planning versus full shop versus stocking up on staples), and the introduction of features like "have you forgotten ..." to remove the frustration of an additional trip to pick up items that were omitted from the original shopping trip.

THE VIRTUAL ENVIRONMENT IS CURRENTLY UNDERUSED BY RETAILERS, AND MOVING FORWARD WE ANTICIPATE MUCH GREATER USE OF THE FREEDOM THAT THE VIRTUAL ENVIRONMENT PROVIDES.

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