

RETAIL INTIMACY 2.0 (PART 2)

Winning at Kroger.com

In collaboration with:



Kroger's e-commerce operation is being fueled by the retailer's strength in loyalty and merchandising – and marketers are jumping on board.

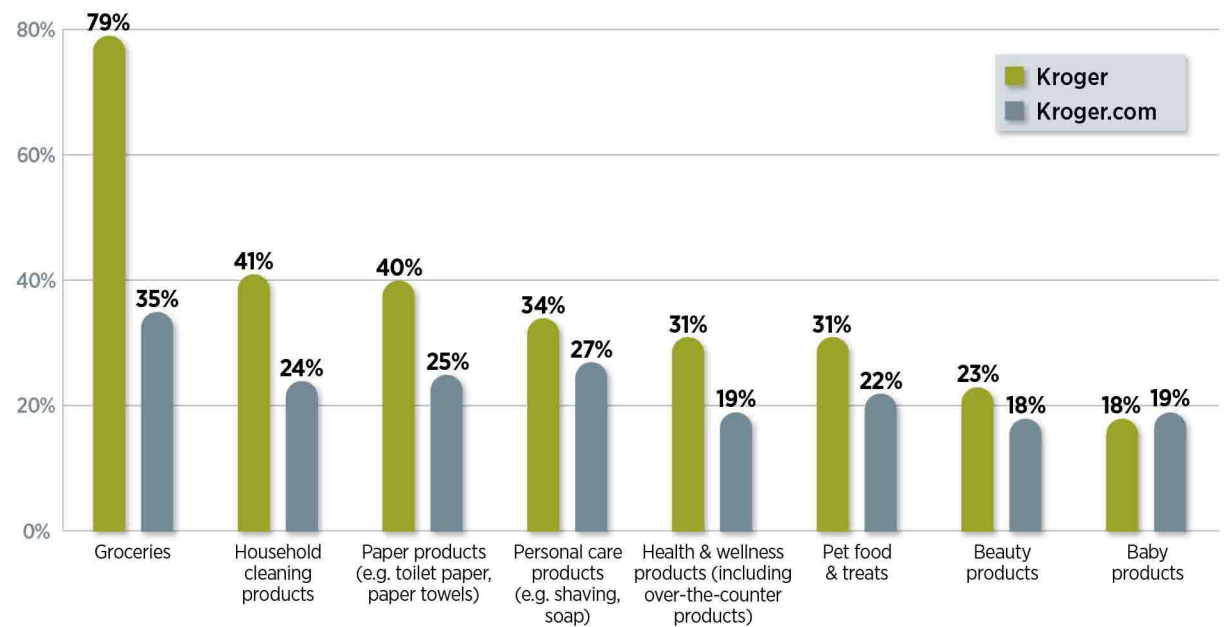
By Michael Applebaum

In the fall of 2016, Kroger sent its e-commerce operation into overdrive when it convened a series of meetings with several of the United States' top consumer packaged goods companies. Included in a long list of challenges presented to the prospective marketing partners were questions about how to make Kroger's digital platforms easier to use, how to reward customers for becoming more digitally engaged with Kroger, and how to deliver a more satisfying "customer first" experience to Kroger's online shoppers.

Today, the vision behind Kroger's e-commerce strategy is coming into sharper focus. Kroger (which also owns the Ralphs, Dillons, Smith's, King Soopers and Harris Teeter supermarket chains, among others) has expanded its click-and-collect service, ClickList, into more than 500 stores (its goal is to reach 1,000 stores by the end of 2017) and is testing home delivery in select markets through a partnership with UberEats. The retailer is also using its powerful data-targeting machine to extend its digital reach by integrating ClickList promotions with Kroger's winning loyalty card program. At the same time, Kroger continues to leverage its merchandising strength – increasing promotion of local and organic ingredients, for example – as it looks to further connect the online and in-store shopping experience.

All of these activities are intended to arm Kroger with the best offense versus its ever-growing

Category purchases: Kroger brick-and-mortar vs. Kroger.com



competition, which now not only includes grocery rivals but also mass, value and natural/organic retailers, both online and offline. "Kroger knows that it needs to achieve a higher level of digital execution than what was required even five years ago," says Steve Abdo, senior vice president and

Kroger team leader at Catapult. "The Kroger shopper today is seeing a much stronger link between all of the retailer's digital assets, and this is the key to creating a more cohesive and satisfying overall shopping experience."

Using Digital To Increase Loyalty

Kroger is well-known for building customer loyalty and converting sales through its data-targeting machine. Now, it is finding ways to translate those strengths into e-commerce. "Kroger is using its 84.51 data to target shoppers and introduce them to the expanded digital and e-commerce offerings, and ClickList is proving to be an effective vehicle for that outreach," notes Abdo.

Recent promotions illustrate how Kroger is delivering personalized offers via ClickList. In March, previous users of the service received a digital coupon for \$12 off purchases of \$50 or more when using ClickList to buy Annie's crackers or fruit snacks and Simple Truth (Kroger's private label) applesauce. Another March promotion featured a "game day" chips-and-cheese snacking solution



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Tekisha Harvey, director of shopper marketing, Conagra Brands

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with a bundled offer from multiple partners. As part of the offer, ClickList shoppers were given a choice of two free cans of Conagra Brands' Rotel diced tomatoes, one Kraft Velveeta cheese loaf or one package of Kroger/Fred Meyer tortilla chips.

"Kroger remains focused on providing convenience and value-oriented meal and snacking solutions for its shoppers," says Tekisha Harvey, director of shopper marketing at Conagra Brands. "Leveraging Kroger's many digital platforms, including ClickList, affords brand marketers yet another opportunity to build loyalty and motivate repeat purchases at Kroger stores. Plus, it allows us to reach customers in ways that are consistent with how they are shopping and living their busy lives."

With most major retailers now offering an online ordering and curbside pickup service, Kroger has been aggressively promoting ClickList through local market advertising, email blasts and in-store communications. The company is also matching costs and waving sign-up fees for the program in



Kroger can also deliver personalized offers via ClickList, such as this digital coupon for purchases of Annie's crackers or fruit snacks and Simple Truth (Kroger's private label) apple sauce.

markets where it aims to compete directly with Walmart. Plus, it views the expansion of digital services like ClickList as a way to keep Millennial shoppers from flocking to Amazon.com. "Kroger is using ClickList as an acquisition tool to reach younger shoppers and to provide an alternative to paid subscription and delivery services like Amazon Fresh," says Andrew Kiley, management supervisor and Kroger team member at Catapult.

Brands that participate in ClickList promotions have additional opportunities to reinforce their message to consumers. "Currently, there aren't a lot of opportunities for brands to market to their shoppers on ClickList or at Kroger.com outside of specific ClickList offers," notes Harvey. "However, we can certainly add ClickList to our own out-of-store marketing messages to let shoppers know it's a viable channel to purchase Conagra Brands at Kroger."

Attracting Tech-Savvy Shoppers

As Kroger builds on its e-commerce strategy, recent data from Catapult's Shopper Lab suggests that Kroger.com is attracting shoppers who are not only comfortable with digital technology, but are also frequently engaged in e-commerce. According to the survey, Kroger's brick-and-mortar shoppers are similar in demographic composition and demonstrate many of the same cross-shopping behaviors as the respondents overall. However, Kroger.com shoppers have participated in a range of e-commerce behaviors at a much higher rate over the past 12 months than either Amazon.com or Walmart.com shoppers. (See chart on page 14).

"Kroger's efforts are clearly driving some of these digital shopping behaviors," says Abdo. "However, the comparison with Amazon.com needs to be put in context. While Amazon's shoppers have been participating in e-commerce for quite some time, there's more potential upside for Kroger.com."

Digging deeper into the behavioral patterns, the survey found some notable differences between shoppers of Kroger's brick-and-mortar stores versus those of Kroger.com. For example, in the past 12 months, 34% of Kroger shoppers researched product information online but bought in a physical store (though not necessarily a Kroger store), and 38% sought out ratings and reviews before buying the product in a store. For Kroger.com shoppers, those figures were significantly higher, both at 54%. Kroger.com shoppers also reported a significantly higher than average ownership of digital assistants, including Amazon's Alexa (40%) and Google Home (35%).

One area that stood out among Kroger shoppers was use of digital coupons: Nearly one quarter (23%) of Kroger shoppers had used a retailer app (not necessarily Kroger's app) to download coupons while shopping online or in-store - 7 points higher than the average of 16% for all other retailers in the survey.

Categories In Play

Purchases on Kroger.com tend to follow the same category distribution as those made at Kroger stores, with one major exception: grocery products. According to Catapult's Shopper Lab results,

THE FUTURE OF ONLINE GROCERY

Among today's food marketers and retailers alike, the sixty-four thousand dollar question is: What role will the supermarket play in the future of online grocery? The answer is a mixed bag, according to a January 2017 report from Nielsen and the Food Marketing Institute, "The Digitally Engaged Food Shopper."

While the report does not envision the demise of traditional brick-and-mortar grocery stores, it does predict some sweeping changes. For example, it sees an expansion of fresh-food areas such as service delis, bakery and meat departments, and a reallocation of center-store space currently devoted to items like canned goods (for which sales are expected to shift faster to online) to the backroom of the store. Currently, about one-quarter of all U.S. households buy some groceries online, up from 19% in 2014, per the report.

Bill Bishop, chief architect at the Barrington, Illinois-based research firm Brick Meets Click, says it is important for marketers to

distinguish consumers who regularly buy groceries online from those who occasionally engage in the behavior for some grocery products that, for whatever reason, they choose not to buy in a store. "Online grocery shopping is increasing in both of these categories, but we see it happening faster in the second one," notes Bishop. To the extent that shoppers are still hesitant about buying groceries online, an established supermarket chain like Kroger might retain a "home field advantage" over other types of retailers, he says.

Forecasts of the online grocery market vary widely. The most optimistic projections have online grocery sales growing at a compound annual rate of 20% over the next five years, reaching as high as \$177 billion by 2022, according to research firm Cowen. That is considerably faster than the average 12% rate predicted for the overall e-commerce category, per Cowen. Its data revealed that consumers age 25 to 34 were the biggest buyers of online groceries last year, and the firm says that trend will continue into the future.

E-commerce behaviors online shoppers are doing somewhat (or much) more frequently than last year

	TOTAL	Amazon.com	Kroger.com	Walmart.com
Buying something from your tablet	19%	24%	46%	30%
Ordering food and/or beverages from an app on your mobile device	19%	23%	50%	30%
Storing and using frequent shopper cards on your mobile device	18%	22%	48%	30%
Buying something you saw on social media	18%	22%	49%	31%
Making purchases with your mobile wallet (where you carry your credit card or debit card information in a digital form on your mobile device)	17%	21%	47%	30%
Using subscribe and save for products (where you sign up and order products to be delivered to your home, on a regular basis)	16%	20%	45%	27%
Subscribing to a food subscription service (e.g., Blue Apron, Hello Fresh, Plated)	13%	16%	45%	24%
Buying something from your tablet	19%	24%	46%	30%
Ordering food and/or beverages from an app on your mobile device	19%	23%	50%	30%
Storing and using frequent shopper cards on your mobile device	18%	22%	48%	30%
Buying something you saw on social media	18%	22%	49%	31%

while 79% of Kroger shoppers purchase groceries at its brick-and-mortar stores, only 35% of Kroger.com shoppers purchase grocery items on the website. Of course, this disparity is not unique to Kroger.com. In general, online grocery sales still lag behind those of other e-commerce categories, although growth rates in the sector are also much higher. (See sidebar on page 13.)

Kroger.com shoppers spread their category purchases fairly evenly across the board. The online retailer is showing relative strength in categories including paper goods (25%), household cleaning supplies (24%), petcare (22%) and baby products (19%). (For a complete breakdown, see chart on page 12.) “Kroger’s expansion of its ClickList program encourages convenience buying behaviors and may further enhance online sales in these low-involvement categories,” says Abdo.

The outperformance of the baby category – it is the one category that registers slightly higher on Kroger.com than in Kroger stores – may be a sign of future growth in related categories such as paper products. “We saw that years ago when Amazon was building its business: Parents don’t

want to run out of baby wipes or diapers and would prefer to order online on continuous replenishment,” says Abdo. “You might start to see the same type of behavior in the paper category on Kroger.com.”

Sean Bishop, senior shopper marketing manager at Georgia-Pacific, says his company is already observing this trend in the larger e-commerce space. “We are seeing shoppers trade up to larger SKUs, both online and in click-and-collect models, which allows them to stock up easily and not worry about taking up space in the cart or the car.”

Linking Back to the Store

One of Kroger’s strategic pillars – “I want to return,” which refers to giving customers a reason to return to the store – has taken on renewed urgency at a time when shoppers are increasingly using digital tools and methods that do not involve physical stores. The retailer has been beefing up its merchandising programs, including a concentrated effort around fresh foods, local sourcing and natural/organic ingredients. Kroger calls out local companies using shelf tags and

uses signage to highlight sourcing of ingredients from local farmers and their families. In addition, Kroger continues to roll out storewide events (e.g., Taste of Italy) to introduce shoppers to new cuisines and ingredients.

Some of this content now appears online at the recently launched website, KrogerStories.com. The idea is to provide a digital outlet with background and insights into the retailer’s operation, one that helps create an emotional connection to the Kroger brand and gives shoppers more reason to come back to the store. “It is an interesting way to highlight their employees online and to try to make that emotional connection for those shoppers who may not be visiting the stores as much as they used to,” notes Abdo.

Apparently, all of these efforts have begun to pay off. According to a March report from investment firm Barclays, Kroger’s renewed push behind its natural and organic ingredients is one of the main culprits behind the recent traffic declines at Whole Foods. The report estimated that Whole Foods lost between 9 million and 14 million transactions over the last six quarters and stated that Kroger is “a direct beneficiary” of those losses. Kroger’s natural and organic product sales in fiscal 2016, which ended in January, hit \$16 billion. That topped Whole Foods’ sales of \$15.8 billion over the past 12 months, according to figures from both companies.

Kroger cannot rest on its laurels, however, particularly with Amazon’s encroachment into grocery set to widen with the rollout of Amazon Go this year. [Editor’s note: A retail intimacy feature on Amazon.com is planned for the August issue of *Shopper Marketing*.] Going forward, Kroger will rely heavily on its strengths – building shopper loyalty and creating a satisfying in-store experience – as it continues to advance its e-commerce program, says Abdo. “They’re aiming for success at a higher level than we’ve seen at any time in the recent past,” he says. SMI



“While Amazon’s shoppers have been participating in e-commerce for quite some time, there’s more potential upside for Kroger.com.”

Steve Abdo, senior vice president & Kroger team leader, Catapult

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Catapult is a conversion marketing agency, where branding and buying are part of a total solution. Catapult’s data-driven approach identifies the core, actionable insights that inspire brilliant creative with the power to convert consumers into shoppers, shoppers into buyers, and buyers into loyal advocates. Catapult delivers channel-agnostic solutions that are brand savvy, retailer smart, and digitally enabled. Catapult is an Epsilon brand. Visit them at www.catapultmarketing.com and on Twitter @catapultmktg.