

# From Minor to Major League

WHAT MUST GROCERS DO TO HELP USHER ECOMMERCE INTO THE MAINSTREAM?

By Randy Hofbauer

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lthough it has skyrocketed in channels offering more durable goods in recent years, online shopping in the grocery channel still remains relatively niche.

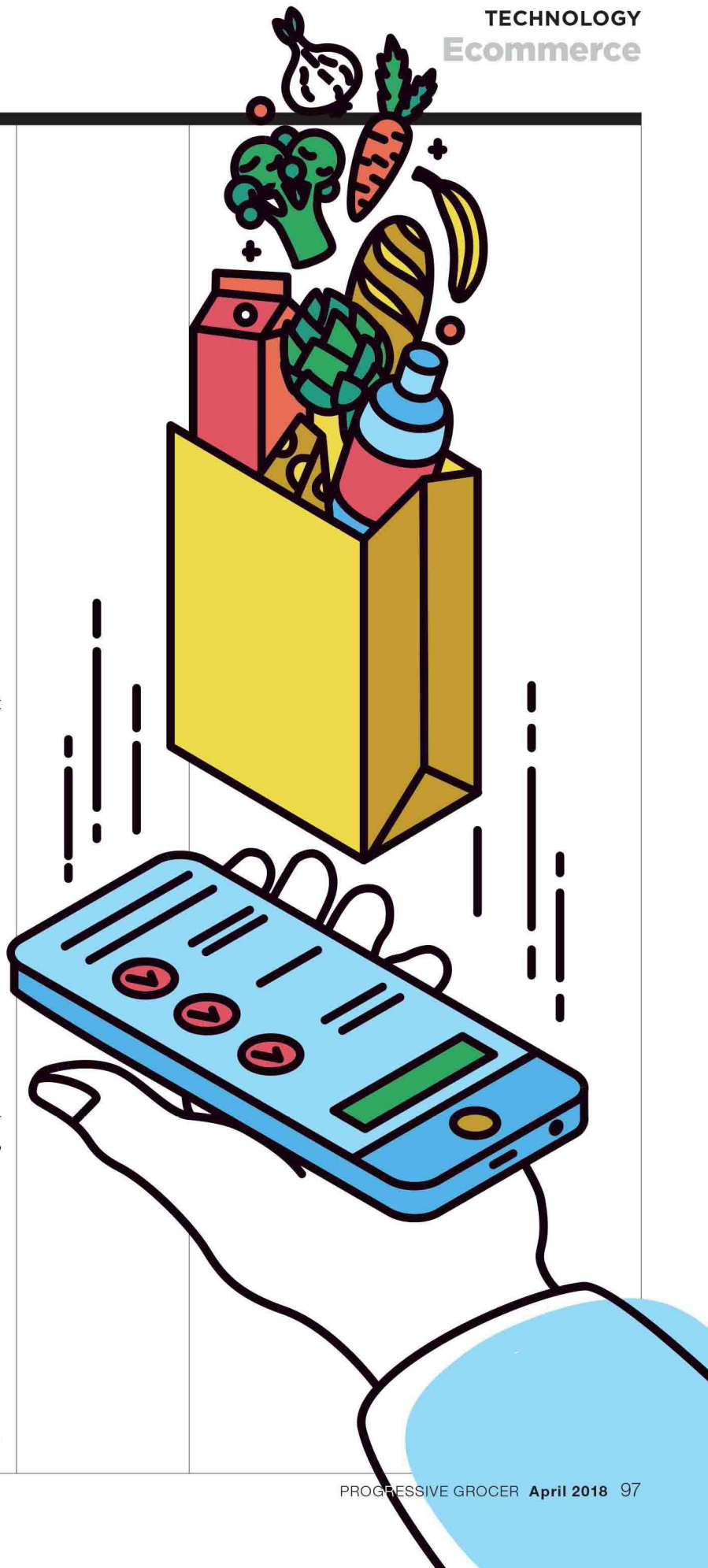
Sales of CPGs online still average only about 3.4 percent of total store

sales for ecommerce-enabled supermarkets — 5.2 percent for those with an ecommerce service for four years or more — according to last year’s “Grocery Ecommerce Supermarket Scorecard Report,” from Barrington, Ill.-based retail consultancy Brick Meets Click.

That’s all going to change soon, though. This year, roughly one in three consumers intend to shop for groceries online, says a January report from Toronto-based ecommerce platform provider Unata — a division of Instacart — and ShopperKit, an Atlanta-based order-fulfillment platform.

Additionally, recent research from the Food Marketing Institute, in Arlington, Va., and Chicago-based market researcher Nielsen shows that number rising further: Second-year findings of the “Digitally Engaged Food Shopper” report predict that seven in 10 consumers will be grocery shopping online as soon as 2022 or as late as 2024. The \$100 billion spend by then will be equivalent to every U.S. household spending \$850 online for food and beverages annually.

So what must grocers do to play their part in ushering grocery ecommerce into the mainstream?





### Focus First On the Customer, Not the Channel

When grocers focus solely on the online channel, retailers imagine barriers of single-channel logistics and economics. If the focus is flipped to what happens from a customer-first perspective, however, compelling facts surface that change the conversation.

For instance, retailers thinking in terms of “channel-first” can believe myths like online sales cannibalize in-store sales. According to David Ciancio, global head of grocery with Cincinnati-based retail analytics firm Dunnhumby, this simply isn’t true.

“The data shows that online sales are 60 to 70 percent incremental business, that click-and-collect drives top-up trips in the store by 20 percent, that multichannel customers are three times more valuable than in-store shoppers alone, and that the average basket size is four to five times larger online than in-store,” asserts Ciancio.

Another myth is that the online channel can’t be profitable, he adds. U.K.-based grocer Tesco and others have learned that a larger basket size and a higher gross-margin product mix online are key to driving favorable commercial results. Canada’s Metro and U.S. grocer Kroger, too, have realized this with a customer-first strategy over one of putting channel first.

### Fix Out-of-Stock Issues

On-shelf availability (OSA) problems are a major hindrance in ecommerce, and grocers must address these before committing to order picking in stores.

“The online experience greatly magnifies the negative perception of out-of-stocks,” says Jamie Tenser, principal of VSN Strategies, a Tucson, Ariz.-based business-to-business content marketer. “While a few out-of-stocks may be tolerated by shoppers in stores, handling ‘substitutions’ in an online order is a major disaster for the customer experience. Any solution vendor or third-party order/delivery vendor who claims otherwise is either ignorant or flat-out lying.”

**If they don’t already have them, food retailers should add meal kits for delivery or click-and-collect, as it allows for new ways to purchase meal solutions without the headache of a subscription.**

It’s critical for grocers to offer an actual, current view of store inventory, not a disconnected global catalog that displays a theoretical assortment. That disconnect is what leads to frequent order-substitution processes that slow the picking process, raise labor costs, torpedo convenience and undermine trust.

“I presently know of three retailers who display store-level inventory on hand for items on their digital sites: Home Depot, Lowe’s and Walmart,” offers Tenser. “The supermarket industry is lagging badly in this regard, but for those who already track store-level inventories in real time, it’s a fairly straightforward data interface.”

Contrary to persistent industry dogma, OSA can be and is significantly optimized with the right store-level perpetual inventory and computer-generated ordering process, he notes. Northeastern grocer Price Chopper, for instance, has been the poster child for this for more than 15 years, as has Canadian retailer Sobeys for more than a decade, and more recently, East Coast supermarket operator Wegmans Food Markets.

### Allocate Space for Store-Level Fulfillment

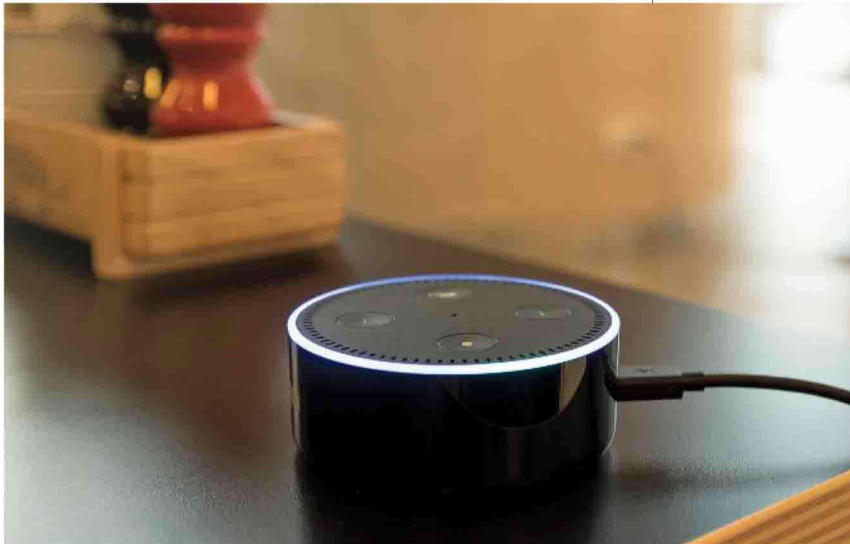
Not all grocers can build drive-through lanes such as those commonly found at European grocers like Carrefour or Auchan — or similar to Amazon Fresh Pickup in the States, points out Tenser. Additionally, grocers might not be ready to expand into concepts similar to the “giant vending machines” that Walmart has erected, as these devices have yet to prove their practicality.

But it is necessary for all grocers seeking to handle store-level fulfillment for ecommerce orders to allocate space and design order-holding and -pickup areas with temperature controls. This ensures that the final step of the purchase process is rapid and seamless, he says.

“I think most stores will need to allocate a space near the front of the store to handle the after-work pickup rush, but best practices are yet to be developed,” he observes.

### Ensure One-and-Done Ordering

Customers want orders to be set and done. The more that retailers involve customers after order placement, the more a customer may regret not just going to the store to pick



up the product himself — or, perhaps worse, use a rival grocer's ecommerce platform.

"Things like having a different assortment online compared to on-shelf, having to make interpretations on a poorly described product, or experiencing search results that differ from actual product availability are all viable," says Jason Wirl, director of solution consulting at Itasca Retail Information Systems, a West Des Moines, Iowa-based provider of inventory optimization solutions. "But once the order is placed, the experience [of] trying to rectify the occurrence of an unavailable item completely ruins the reason most consumers use the service: convenience."

### Adopt — and Encourage Use of — Voice-Ordering Technology

As shopper adoption of grocery ecommerce rises over the coming five years, experts are anticipating a rise in shopping via voice assistants, too. New research from global firm OC&C Strategy Consultants reveals that voice shopping is expected to rocket to \$40 billion in 2022, from \$2 billion today. Further, at the moment, groceries make up the most commonly shopped category in voice shopping.

The new research shows that currently, 20 percent of consumers who use voice-ordering technology report ordering groceries through devices. Growth in the voice-ordering sector will be driven by a surge in the number of homes using smart speakers.

This corresponds with the insights of Peter Leech, partner and director of digital and ecommerce at The Partnering Group Inc., based in Cincinnati.

"With 8 percent of U.S. households owning [voice-assistant devices] and a forecast of 55 percent in seven years, we see this as a seedling that will grow fast," asserts Leech.

Consumables and replenishment items, in particular, will become ideal orders through such technology, explains Leech, as devices such as Amazon Echo — which uses the Seattle-based technology and ecommerce company's Alexa voice-assistant software — and Google Home show up in more household kitchens. Food retailers are already employing voice-ordering and encouraging shoppers to use it: Target

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plans to expand voice-activated shopping nationwide through a partnership with Google, Walmart has debuted shopping via Google Assistant, and delivery service Peapod has launched hands-free voice ordering through Alexa-enabled devices.

### Introduce Meal-Delivery and -Kit Services

Retailers and meal kits have been all over the news in the past year. On the partnership side, Chef'd has partnered to sell its kits in Gelson's and Tops Markets stores, and Albertsons Cos. outright purchased Plated. Additionally, Walmart has begun selling third-party meal kits online, including options from Takeout Kit and Home Chef.

Further, in the past year, grocers have introduced and/or greatly expanded their own private label meal kits. Some of the bigger names in this space over the past year include Publix, Walmart and Kroger.

In response, Dunnhumby's Ciancio recommends that food retailers, if they haven't already done so, add meal kits and meal-delivery services for delivery or click-and-collect, as it allows for new ways to purchase meal solutions without the headache of a subscription.

### Embrace Change

For many years, the grocery channel has been one to stick with the traditional. As that changes, retailers that once were afraid of risk now have to make big decisions in a change-or-die climate in which an ecommerce program is now table stakes for playing the grocery game.

But while change can be difficult — and potentially dangerous — the growing number of technology solutions available to speed processes while reducing costs can make it easier to embrace the new. Walmart, Kroger, Ahold Delhaize, Safeway, Target and Wakefern are all examples of retailers that remained traditional for many years but have made tremendous changes in recent times, notes Ciancio.

"New ways of working utilizing zone-picking, handheld pick devices, robots and warehouse pre-packs are speeding up the process and lowering costs," he says. "Delivery options like social delivery — Uber and others — drones, and autonomous vehicles are real options in the very near future." **PG**