RETAIL GROCERY:
THE FINAL FRONTIER
FOR ECOMMERCE

CLARKSTON CONSULTING

In an age where almost any product or service can be available within hours via a few taps on a cell phone, the modern customer has heavy expectations for eCommerce capabilities from nearly all retailers and brands. Increasingly, those expectations are weighing more heavily for grocery retailers. Online grocery sales are expected to capture 20% of total grocery retail by 2025, nearly $100 billion. As retailers strive to meet their customers online, many can struggle with adapting modern eCommerce capabilities to the traditional grocery business model.

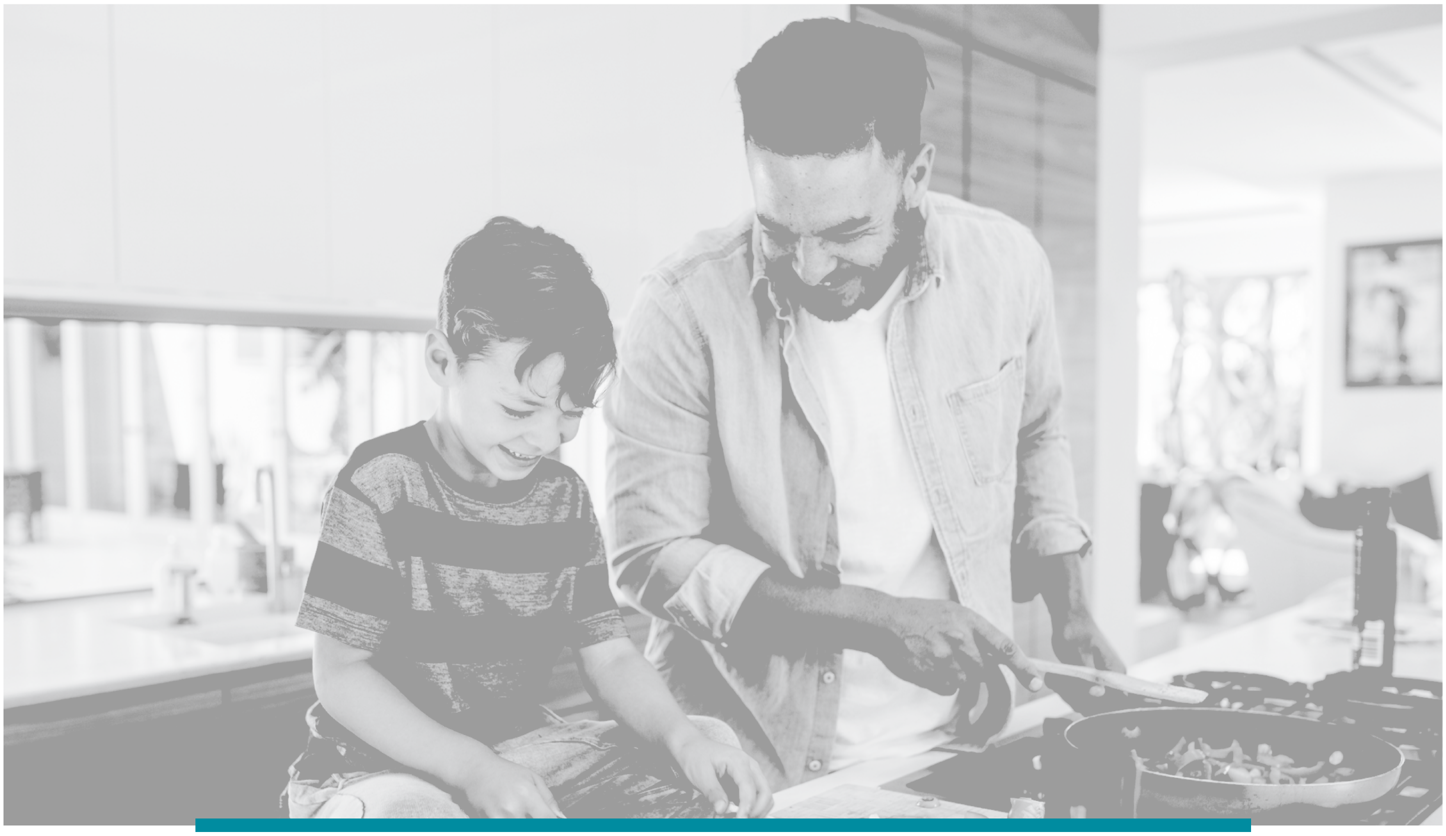
With the industry continuing to advance and evolve in eCommerce, how do retailers know where to start, what to consider, and what to expect?

Today, customers expect convenience – for grocers, this means giving customers the ability to shop digitally and have their groceries delivered to their doorstep within hours. This digital grocery shopping experience can have drastic impacts to the customer purchase journey. Making this experience easier and more efficient for the customer requires continuous innovation by grocers to meet the customers evolving expectations and remain relevant in the market.

Grocery retailers are tackling this challenge in different ways. Some are launching their own eCommerce channels while others partner with or acquire digitally-native organizations to boost their own in-house capabilities.

- Amazon and Whole Foods made headlines in 2017
- Ahold Delhaize's purchase of Peapod has allowed the retail giant to provide online shopping in a number of its banners, and
- Retailers of all sizes are selling their groceries on Instacart.

Beyond simply making the online sale, retailers must also think about fulfillling the last mile to deliver orders directly to their customers. For example, Walmart has tested delivery with Uber before launching its own crowdsourcing delivery platform Spark Delivery. Likewise, Target acquired Shipt – a business currently handling delivery for multiple retailers.



For grocery retailers looking to explore eCommerce capabilities, there are three critical areas to consider when starting this journey:

- What Options are Available for eCommerce Solutions?
- Pre- And Post-Commerce Matters, Too
- New Non-Traditional Competition

#1 – WHAT OPTIONS ARE AVAILABLE FOR ECOMMERCE SOLUTIONS?

While setting up an eCommerce platform is a massive undertaking, the upside is readily evident. Retailers today understand the dire need for an online presence in order to effectively serve their customers. In today's landscape, the longer a retailer waits, the greater the risk of losing customers to competitors with eCommerce options. Because of this, retailers must balance the speed and complexity of implementing a solution with the need for a flexible solution that allows the business to meet the constantly evolving needs of the customer. This balancing act, while complex, is critical to sustainable success in eCommerce.

Turnkey platforms are available that support quick, low complexity implementations. Platforms such as MyWebGrocer, Unata, and MyCloudGrocer offer retailers the opportunity to sell products on their platform. Retailers are quickly able to select the online product availability, set prices, and execute product promotions. Added benefits include access to robust product attributes and images that some turnkey solutions offer to the retailer. This is a great option when speed of implementation is the primary focus.

There are also full service turnkey platforms that not only support eCommerce functionality but also handle order fulfillment options such as click-and-collect and home delivery. Instacart is a market leader in this space. Its crowdsourcing delivery platform provides retailers an army of shoppers and drivers that receive an order placed online and are dispatched to stores to pick, pack, and deliver.

Some turnkey solutions allow retailers to sell on their platform as part of an online marketplace. This "marketplace" approach present multiple retailers on the platform's home page allowing customers to select where they want to shop. Clearly, this can create a major challenge for retailers. Smaller retailers do benefit from the traffic of customers drawn in from large retailers (e.g.,Target,

Costco, and Whole Foods) but concurrently, the barriers for a customer to quickly switch to another retailer are exceptionally low. In the brick-and-mortar world, think of it as being located next door to your competitors.

Advantages: Both platforms allow for quick and low complexity implementations. Some platforms that offer the marketplace approach also provide free marketing to help attract customers. The full-service platforms provide an added bonus by including delivery capabilities out of the box – something that can be challenging to integrate and manage otherwise.

Challenges: Limited ownership of the brand experience and limited flexibility for customization to the platform pose major challenges for retailers. In addition, using the marketplace approach adds another layer of competition.

Retailers looking for full control over their eCommerce offering may consider **enterprise class solutions.** Solutions such as SAP Hybris, Magento, or Shopify offer software that can be configured to meet the specific needs of a retailer while providing the flexibility to address changing customer demands. Built to scale, these solutions can handle large amounts of data supporting retailers with the extensive product assortments commonly found in grocery. With the retail industry evolving to a holistic customer experience, enterprise solutions support seamless integrations to a retailer's ERP system tying in areas such as replenishment, merchandising, and promotion management across both eCommerce and brick-and-mortar. Retailers who use these solutions also enjoy the benefit of having their eCommerce experience controlled in-house and not by a third party.

These solutions often take longer to implement and are more costly than turnkey solutions. In addition, the unique needs of the grocery industry compared to the rest of retail may serve as a challenge when assessing enterprise class solutions, which are often build to handle commerce in general and not specifically grocery. Retailers may run into complexity issues when trying to customize these solutions to meet their needs. Complex grocery business cases may include: purchasing produce items by the pound online but not knowing the exact weight of the item in store, handling product substitutions after the order has already been made, and understanding the grocery path to purchase.

Advantages: Enterprise platforms are highly customizable allowing for tighter alignment to business processes. As the platforms are maintained in-house, they also allow for more effective ownership over the customer experience. Enterprise eCommerce software is also built to scale, ensuring long-term viability.

Challenges: With more capabilities and the ability to customize, enterprise platforms also care significantly higher costs and longer times to implement due to their complex nature, which can also prove a challenge for digitally-nascent businesses.

#2 – PRE AND POST COMMERCE MATTERS, TOO

Customers can purchase products online, so now what?

Online purchasing is only one step in the customer journey - truly successful companies are prepared and engaged for each step before and after. In grocery, the experience you provide before and after the purchase is critical when looking to fully engage your customer.

Pre-Commerce features such as 'online shopping lists' allow customers to jot down their grocery list and easily add it to their cart. Companies may send meal and recipe ideas to their customers with the ability to add all items to their cart, driving the path to purchase even before the customer has visited the site. Publishing recipes has become a very popular vehicle for connecting with customers. Retailers are building these recipes in house or teaming up with 3rd party vendors such as content creators or manufacturers. Pre-commerce tactics can make the customer-retailer relationship fun, engaging, and personal.

Post-Commerce includes the fulfillment options that a retailer can provide to its customers. In this area, convenience is key. Some customers may want their groceries delivered while others may want to pick them up at the store. It's critical to understand the operational

activities that must take place to fulfill the order and get it in the hands of the customer. When the order is completed online, there must be a system in place at the store to signal the picking process to start. Software vendors such as Shopper Kit are built specifically for in-store grocery fulfillment. They integrate with eCommerce platforms to receive orders and optimize the picking process, helping store associates assemble an order efficiently. Once the order is picked at the store level, retailers must ensure there is a staging area to accommodate any temperature requirements until the items are ready for customer pick-up or delivery.

When it comes to delivery, some retailers may choose to deliver themselves while others partner with a third party. Vendors such as DoorDash and Deliv integrate with a retailer's eCommerce solution to provide delivery to the customer. Other vendors like Shipt and Instacart provide staff to come into stores, pick and pack the order, and deliver the groceries to the customer.

Considerations: Are you providing the pre-commerce activities necessary to drive site traffic? How can you leverage technology to stay engaged throughout the customer journey? Are the right tools and processes in place to efficiently fulfill an online order? Have you considered the tradeoffs of managing the fulfillment and delivery process in-house versus outsourcing it?

#3 – NEW NON-TRADITIONAL COMPETITION

Playing on the digital battlefield lowers the barrier to entry for new and non-traditional competitors in the industry. Once unknown brands are now competing head to head with established retailers. Retailers must carefully track new competition and assess new business models entering the market in order to adjust their own business models or processes quickly.

Innovative concepts such as meal kit solutions are making a splash in the industry and have provided a new source of competition for traditional grocery. If you know what you want for dinner, then why purchase each individual ingredient? Meal kits provide customers a wide variety of meal ideas with everything they need in one order while allowing them to enjoy the cooking experience without fear of waste via excess ingredients.

Meal kit companies like Blue Apron or Hello Fresh target the same customers as retailers, slowly becoming direct competition. In fact, analysts estimate the meal kit industry growth hitting $10 billion by 2020. To address this shift in purchasing habit, retailers are acquiring existing meal kit companies (such as Albertson's acquisition of Plated and Kroger's Home Chef purchase) or building these capabilities in house (e.g., Amazon and Peapod rolling out their own proprietary meal kits).

With the battle for customers taking place online, manufacturers and CPG companies want a piece of the action for themselves. Why sell through a retailer when you can go direct to consumer (DTC)? Organizations are testing the DTC waters, getting their products in the hands of consumers and cutting out the middleperson. Companies such as Nestle announced strategic initiatives to focus strongly on DTC models in order to connect with consumers in the digital space. Retailers must now be prepared to address another layer of competition - this time from their suppliers.

If it wasn't clear before, grocery's eCommerce race has made it so - competition is coming from every angle. eCommerce platforms that are viewed as partners to retailers today may become competitors in the future. Platforms such as Instacart are also in the position to compete with the retailers they serve. Instacart's potential "Trojan Horse" approach to entering the market should not be underestimated. Because Instacart owns the customers and their data for many retailers on their site, they have an institutional playbook for becoming the Amazon of groceries.

Considerations: The influx of innovative competitors makes it important for retailers to consider solutions that are flexible enough to adjust to a constantly changing landscape. As competitors are plugged in at various points of the customer journey, retailers must ensure they are serving customers across the entire journey, pre- and post-commerce.

UNDERSTANDING THE FULL PICTURE

Providing an online shopping and delivery experience for customers is becoming table stakes in the industry. Customers know what they want and are willing to switch to retailers who meet their needs. Retailers are certainly feeling the pressure, but it is important to take a careful, strategic approach to ensure adaptability and sustainability. Only by considering the full picture will a grocery retailer be able to pick the solution that ultimately delivers the best possible customer experience while meeting the needs of the business and its stakeholders.

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To learn more about how Clarkston can help your business realize the benefits of eCommerce, please contact us.

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