Don't Be Left Behind: Omnichannel Grocery Retail Platform

Grid Dynamics

Online shopping for the grocery market is coming. Start developing a unified omnichannel platform that helps you engage with shoppers no matter where they are.

Today's online share of the grocery market is tiny. According to estimates, online grocery orders will struggle to reach 4 percent of the 2014 $568 billion grocery market in the U.S.[1] However, it's a growing market and represents the future of the grocery business. Practically all grocery market studies predict explosive growth with one study estimating that online grocery shopping will double every five years for the foreseeable future.[2]

If seized upon, this is a great opportunity for brick and mortar grocery chains, but lessons must be learned from the mistakes that retailers in other market segments made a decade ago when an upstart online retailer called Amazon entered the market. Walmart, Borders, Barnes and Noble and Best Buy foolishly underestimated the head start that Amazon built in the online market. All paid the price to varying degrees—Borders, now defunct, paid the ultimate price.

There is a striking similarity between the current situation in the grocery segment and the situation that department stores faced ten years ago, yet most brick and mortar grocery chains are slow to development online sales offerings and continue to underestimate the potential of online retail. Meanwhile, online giants are persistent in their attempts to go after the grocery market. Amazon has experimented with fresh grocery delivery since 2007 and has announced plans to roll out its service to 23 cities across the U.S. Google has also entered the grocery market by launching Shopping Express, and WalMart is experimenting with delivery in San Jose and San Francisco, planning a gradual introduction of its new online services.

Online retail for the grocery domain is inevitable, although its consequences, opportunities, and threats still remain largely unrecognized even by big players. If we have learned anything from department store conversion to online retail, it is that late recognition of the problem and slow adoption of digital strategies by grocers represents a huge risk—not only in terms of missed opportunities but also for business survival.

Time for eGrocery

Since the first online grocery delivery services popped up in the 1990s, the development of the market has gone very slowly until recently. Only a few players like FreshDirect and PeaPod have managed to stay in business by operating mainly in densely populated areas like San Francisco and New York. However, several factors are pointing toward a huge market upswing in the next several years.

Online Encroachment: Online shopping for electronics, tickets, clothing, and other household goods is now ubiquitous. Why not groceries? Booz&Company reports that only 4 percent of groceries are bought online but 54 percent of shoppers have purchased groceries online at least once.[3] The market is clearly nearing a tipping point.

Technology Enablement: According to Brick Meets Click, the majority of shoppers own smartphones, visit grocery retailers' websites, and receive marketing emails from grocers.[4] Buying groceries online will soon become an accepted practice.

Improving In-Store Merchandising: Traditional in-store product advertising techniques are losing their effectiveness as more customers become attached at the hip to their mobile devices. Merchandisers need

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1 Hamstra, Mark. Supermarket News. 2014 Prediction #3: Online Grocery Nears 4% Sales. December 2013. http://supermarketnews.com/online-retail/2014-prediction-3-online-grocery-nears-4-sales#ixzz3EuxHADiy.
2 Hartman Group. The Online Grocery Shopper 2013. February 2013. http://www.hartman-group.com/downloads/online-grocery-shopper-report-product-sheet-2013.pdf.

3 Booz&Company. Four Forces Shaping Competition in Grocery Retailing. 2012. http://www.strategyand.pwc.com/global/home/what_we_do/industries/consumer_products/cp_thought_leadership.
4 Brick Meets Click. Digital Check-Up for Groceries. June 2013. http://www.brickmeetsclick.com/stuff/contentmgr/files/0/768003869efb4be0e475df607d9c5355/pdf/bmc_nga_digital_checkup_61013final.pdf.

to look for advanced and highly-targeted marketing techniques that can turn this tide. Omnichannel and online channel customer data analysis helps grocers cultivate customer loyalty, streamline merchandising efficiency, and ultimately increase revenue.

Wide eRetail Adoption: Online grocery lags behind other retail market segments by almost a decade, allowing the grocery business to take advantage of best practices that have been developed over the last 15 years. Moreover, grocers probably have little choice because the vast majority of consumers have gotten used to modern online retail experiences provided by Amazon, Apple, and other e-retailers, and they will expect the same level of service for grocery shopping.

Importance of Omnichannel

The concept of omnichannel commerce has become a de-facto standard in modern retail, and the principles are fully applicable to the grocery domain. An effective omnichannel solution represents a set of fundamental services that interact with customers through different channels such as web, mobile applications, physical stores, email, call centers, and shopping assistants. Harmonization and consolidation of the services and data behind the scene helps to achieve a seamless customer experience across all channels while efficiently integrating third-party services and data providers.

Grocery retailers should look at solutions that include data warehousing, integrated inventory, and unified transaction processing.

Data Warehousing: Grocery retailers need to build and analyze a 360-degree view across all channels to enable a variety of data-driven services—both customer facing and back office. The primary sources of data is purchase history, both online and offline, and is complimented by online browsing history, geo location records from mobile devices, personal preferences, demographics, wish lists, and other data sources. The outcomes include different types of personalized offers and intelligent automation for merchandising.

Integrated Inventory: Grocers also need to maintain a unified catalog across all channels that includes real-time availability and product locations broken down by store and by aisle. Inventory data can be enriched by comprehensive metadata (fine-grained product properties, competitor's prices, etc.) and can be integrated with providers of nutrition data, recipe catalogs, and health sites. Integrated inventory and metadata management helps bridge the gap between

online and offline channels and improves merchandising efficiency by providing finely-tuned search and simpler navigation.

Unified Transaction Processing: Historically, many retailers have separate systems for online payment and in-store points of sale. Integrated transaction processing is a major technical capability that is needed for a true omnichannel experience.

eGrocery Use Cases

Each back-end service enables a whole set of use cases for consumers and retailers—many relying on the convenience, quality of service, and financial performance that is provided by a true omnichannel strategy. It is worth noting that as soon as a capability is in place, it is relatively easy to implement additional use cases. If two retailers have similar capabilities, one can quite easily replicate successful use cases pioneered by another. Gaps in capabilities are much more severe.

Cart Abandonment and Location-Driven Follow ups: Send an email or notification from a mobile app to customers when they abandon an online shopping cart or visit a competing site. Real-time remarketing campaigns increase return rates to 26 percent, and shoppers spend 55 percent more when remarketed.[5]

Targeted Offers: Send personalized promotions and special price offers to shoppers when they complete a trigger such as walking by a product on the shelf or scanning a barcode at a competing store. Targeted offers increase sales up to 3 percent[6] and have an ROI rate of five to one.[7]

Digital Receipts: Give customers a unified view of their purchases across channels.

Data-Driven Relevance: Send customers the information they need to make an informed decision. Integration with providers of rich metadata such as growers or manufacturers can significantly improve sales conversion rates.

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5   Nicholls, Charles. Conversation Academy. The Science of Shopping Cart Abandonment. 2011. http://seewhy.com/wp-content/uploads/SeeWhy_eBook_The_Science_of_Shopping_Cart_Abandonment.pdf.

6   The Futures Company/Kantar Retail. The Future Shopper. June 2013.

7   Catalina Marketing. Customer Value Campaigns. June 2014. http://www.catalinamarketing.com/wp-content/uploads/2014/06/Customer_Value_Campaigns.pdf.

Dynamic Pricing: Change online and in-store prices in real time based on current purchase and inventory information.

Demand Prediction: Predict demand and manage procurement more intelligently. Walmart is famous for analyzing rising beer purchases right before hurricanes make landfall.

Performance Analysis: Gain insightful sales and marketing campaign metrics to see what's working and what is not.

In-Store Navigation: Send directions to in-store items and promote store-specific offers and catalogs.

Geo-Based Notifications and Sales Alerts: Notify customers of product availability and special deals as they walk into stores. Grocers can base the notifications on wish lists and historical purchases.

Product Variety: Never miss a sale by informing customers of product availability in other stores or online.

Information and Recommendation Services: Give your in-store shoppers the online experience by allowing them to scan a barcode with their smartphone and receive product information, pricing data, available promotions, ratings, popularity, and rich media.

Buy Online, Pick-Up in Store: Allow your customers to purchase online and pick up at a store, helping them avoid crowds at peak times.

In-Store Services Booking: Provide bookable in-store services such as cooking classes, event room rental, and concierge.

Digital Wallet: Accept payment from mobile devices.

Self-Checkout: Enable self-checkout by creating a scan-by-mobile-device service.

Variable Fulfillment: Allow shoppers to create and check out a mixed shopping cart with products they take home immediately and products that will be delivered later.

Conclusion

Shopping for groceries online is coming, and grocers need to act now to develop a true omnichannel strategy for rolling out their services. These platforms need to enable a variety of data-driven services, integrate inventory information across all channels and unify in-store and online transactions. This multi-faceted approach to engaging with customers will build customer loyalty, boost the effectiveness of marketing and promotions, streamline operations, and, ultimately, increase revenue.

For more information, visit GridDynamics.com.

About Grid Dynamics

Grid Dynamics is a leading provider of open, scalable, next-generation commerce technology solutions for Tier 1 retail. With in-depth expertise in commerce technologies and wide involvement in the open source community, Grid Dynamics helps great companies gain a sustainable business advantage by implementing and managing solutions in the areas of omnichannel platforms, search and personalization, and continuous delivery. To learn more about Grid Dynamics, find us at www.griddynamics.com.

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