

SHOP. FULFILL. PERSONALIZE.

*3 key ingredients to driving omni-channel
success for grocery retailers*

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Executive Summary

'Omni-channel' has almost become an overused buzzword in retail. However, that does not change the importance for the grocery retailer of embracing true omni-channel capabilities. These capabilities are required for retailers as they strive to meet the cross-channel shopping expectations of consumers by providing a seamless experience across all channels. Many retailers feel these expectations will continue to evolve. As shopping behavior changes, consumers shop in their chosen channel at any particular time, and with their choice of technology. This consumer-driven expectation drives the realization that grocery retailers require omni-channel capabilities.

Despite the requirement, grocers appear to have been slower to adopt omni-channel functionality. For general and specialty retail, the value of omni-channel is more apparent as consumers move seamlessly between ecommerce, call center, and store channels. Their customers shop with mobile and other devices, often blurring the lines between channels. The shopping experience differs in grocery from other segments because of aspects such as freshness and perishable items. The grocery segment also has significant value in local relationships. The local nature of the segment provides both logistics constraints as well as opportunities due to local store fulfillment and different fulfillment expectations across channels.

These differences highlight the grocery omni-channel focus on cross-channel sales and fulfillment processes that provide assurance and trust in the quality of product. As the retailer responds to threats in the marketplace, embracing omni-channel capabilities is an opportunity for the grocery retailer to meet rising consumer expectations and increase the relevance of physical stores. In the end, improving the consumer shopping experience and driving loyalty creates value for the retailer.

Threats in the marketplace

Threats to the grocery retailer exist from substitutes as well as competitors. The threats of substitutes are significant as the grocery segment focuses on products perceived as commodities and replenishment items. And competitors challenge the retention of customers with loyalty and rewards programs, differentiated product attributes and unique store experiences.

Substitutes

Consumers shop based on different needs that include replenishment, quick convenience, and special occasions. The need for replenishment drives consumers to shop on a periodic basis to re-stock their pantries for center of store items, often perceived as commodities, and is more likely to be influenced by price competition. Retailers like Walmart, the largest grocer in the US, force grocery retailers to respond with lower prices. Online threats provide competition regarding replenishment. Amazon Fresh offers same-day delivery in four markets and Instacart exists in fifteen markets. When value overcomes the need to have something instantly, "instant enough" gratification meets consumer needs in the form of home delivery. Providing flexible fulfillment options may be required to retain customers who are considering alternative grocery sources.

The immediate need creates a force where the consumer desires to fulfill an order with more urgency and often accepts higher prices in the process. This has protected the grocery segment in the past. However, as other segments have crossed into grocery, they see opportunity within the immediacy need. Some drug stores and convenience stores provide a large assortment of groceries and threaten to capture a portion of this consumer spend by expanding their merchandise categories. This improves in-store traffic for their main business focus.

'Instant enough' gratification

The proliferation of technology and a realization that people today have many demands for their time has consumers striving to find alternatives that provide them an ease of interaction during shopping while saving time. Customers often complain about lines at store checkouts, having to search for items on shelves, or needing to drive to a store at all. "Instant enough" gratification replaces instant gratification when value overcomes the need to have it instantly. Consumers accept having an item delivered within 2 days or even 3 hours if it means they can use their time more wisely and if the costs of delivery do not dissuade them. Instant enough gratification creates a threat to segments that focus more on commodities and are traditionally protected by instant gratification.

Loyalty and rewards

Grocers have historically had local relationships with consumers which resulted in long-term loyalty. Competitors entering these markets sought ways to attract consumers to their stores. One way has been through price but this only retains loyalty as long as the prices remain lower. Loyalty and rewards programs also attract consumers without relying completely on price. These programs can provide the opportunity for a competitor to build a relationship with the consumer and reward them for their loyalty through points or targeted promotions.

Product attributes and store experiences

Some consumers shop outside of traditional grocery because of the importance of freshness, local, and organics. While other consumers seek out a unique shopping experience. In response to the shift in consumer desires, competitors such as Whole Foods and Trader Joes create differentiation to attract their target market demographics. By providing focused quality products and creating an appealing shopping experience (e.g. cooking classes and personal shoppers), retailers drive more consumers to these stores.

Embracing Omni-Channel for Grocery

Grocery retailers need to better leverage their most powerful asset, the physical store, by bringing relevance through differentiated experiences. Enabling cross channel services through omni-channel solutions provides the core to deliver these new experiences. The human experience of shopping a physical store cannot be replicated online. Since it holds the relationship with the shopper, the local store needs to be the center of omni-channel experiences such as home delivery, click and collect, and mobile shopping. Consumers need to trust that the same experience they have in their local store will be exemplified in these new shopping and fulfillment alternatives. Doing this will increase customer loyalty and retention and attract new customers.

Enable cross-channel shopping expectations

Enabling cross-channel shopping expectations allows the consumer to shop as they desire. They may wish to start their transaction at home and complete it at the store. Or they may wish to be in airport, place an order, and have groceries delivered to their home or perhaps their car. As time has become more valuable and consumers search for alternatives that provide 'instant enough' gratification, enabling cross channel shopping

can minimize the time impact for the consumer as they interact with the grocery retailer while delivering service and quality. Allowing the consumer to shop and fulfill on their personal terms will optimize their transaction with the grocery retailer.

Create an experience

With the proliferation of information, consumers are often aware of different products and prices across retailers. For many categories, where competitors sell similar or identical products, grocers find it difficult to show true differentiation beyond price. In response, grocers have created in-store experiences for the consumer and now must extend a seamless experience beyond the four walls of the store and deliver consistency across their touch points with customers. This can be accomplished with mobile shopping in the store, allowing consumers to check out as they shop, or allowing consumers to pre-shop in their pantry on a mobile device before even entering the store. Some consumers desire shopping lists and targeted promotions while others want access to a local chef's favorite recipes while shopping. Other consumers may desire a "personal shopper" that they trust to select quality products for them. The important element is that these solutions involve interaction with the retailer. Meeting consumer needs inside or outside the store builds brand loyalty.

Embrace the power of the local store asset

The store has historically held power because of the local relationships with consumers. Consumers build an affinity for a certain grocery store and shop there for that relationship. They have key stores (specific locations) that they trust above others. But market threats entice consumers to shift their allegiance. As a result, the grocery retailer needs to embrace the power of the local store and extend it to their advantage. Local fulfillment options allow a consumer to extend their relationship with a specific store. And, a seamless experience between the individual and their trusted store will strengthen this relationship.

Omni-Channel for Grocery Journeys

To enable these responses to the market threats, omni-channel for grocery focuses on cross channel shopping, fulfillment of orders, and cross channel personalization. The key omni-channel capabilities for grocery create an experience that enables consumers to shop whenever and wherever, and fulfill however. Knowing the individual consumer and their preferences wherever they are shopping drives conversion and loyalty to brands.

Cross-Channel Shopping

Cross-channel shopping is purpose driven in the grocery segment. The consumer determines the channel used to shop based on the intended purpose. For example, the consumer can shop remotely on the web or on a mobile app with the purpose of replenishing a pantry. They can also utilize a mobile device (e.g., their phone) while shopping in store to speed up their shopping process while still being able to hand-select items.

A shopping list is a critical component and more than just a wish list of generic descriptors used to check off items during the shopping process. The shopping list's value increases when it holds a list of items that are then tied to a store's inventory. It can also be a repository of past purchases, substitutes, and recommendations. Due to the functionality desired, the shopping

list requires a direct association with the store POS. This provides flexibility to the consumer as they start with the list and complete their shopping on their terms. For example, true omni-channel enables the shopping list to be sent seamlessly to the chosen local store or if in the store, seamlessly attached to the transaction during the shopping process.

Cross channel shopping also requires alignment with the store's inventory and planogram, enabling retailers to display the aisle location of items on the shopping list, or even provide a guided shopping experience with a best path through the store. Seamless omni-channel accesses product inventory and location within the store. Completion of the transaction in the store or adding items to the transaction while in the store differentiates this omni-channel capability from just an e-commerce order.

Example 1: Mobile order from home, Pick up in store, Continue shopping, and Pay in-store

Omni-Channel		Traditional
Consumer selects items they wish to replenish on their mobile shopping application while in their pantry. They place an order to pick up their order at 5:00. They arrive at the store, pick up a cart with their dry goods and continue their shopping as they personally select their meat and vegetables and build their basket on their mobile app. They take their entire order to the front of the store and transmit their mobile order to the pay station where they complete the transaction.	Process	Consumer writes items they wish to buy on a sheet of paper. They arrive at the store and have to spend time picking out all of their goods. They take their cart to the front of the store and stand in line at a traditional check out lane to complete their transaction.
Associate receives a notice on their pick application to pick items in the store for pick-up as part of their tasks during a slow period. They use the pick application to scan and keep track of items picked for the order. They place the order at the designated location where it is ready for the consumer at 5:00.	Inventory Management	Customer utilizes their time looking for items and placing them in the cart. They become frustrated when they cannot find certain things and know they forgot something but are too tired to go back and look for it.
<ul style="list-style-type: none"> • Lower labor costs at front-end • Optimized labor time for picking with planning for scheduled times • Satisfied customer • Fast process allows customer to have a positive experience with the retailer and improve loyalty 	Potential Outcomes	<ul style="list-style-type: none"> • Loss of Sale • Higher labor costs to manage front end • Dissatisfied consumer • Slow process that challenges the customer and potentially leads to frustration

Flexible Fulfillment

Fulfillment is another challenge addressed by omni-channel for grocery. Grocery fulfillment is largely a local process due to perishables. In order to be able to fulfill locally, a grocery retailer has to make strategic decisions. In the early stages, having employees store-picking from shelves can satisfy the initial demand.

As volume grows, omni-channel fulfillment begins to impact store operations. The retailer may need a pick area in the back of the store or develop a “dark store” – either in an underperforming location or at a distribution facility (DC) – dedicated to picking for fulfillment. Enabling a store or a DC to be used as a consumer-direct fulfillment center requires that the retailer obtain the shopping request from a consumer and that the consumer has

comfort that the retailer has the item in stock at the location fulfilling. The consumer also has to trust that the item picked will be of a quality that they are expecting. The opportunity for the consumer to select a “personal shopper” that they trust can alleviate some of this concern. This flexibility of fulfillment enables the prospect of delivering the shopping request to the home, to another location for pick-up, or set aside at the store for the consumer to obtain.

Flexible fulfillment options optimize the value for the consumer as the retailer is now fulfilling all or part of a desired shopping request and easing the interaction for the consumer. In the case of store pick-up, the consumer can choose to have part of their shopping list pre-selected and ready for them. This provides comfort that they will be able to select their own perishables while optimizing their time by having part of their list already selected for them.

Example 2: Mobile order, Picked at Local Store, Delivered to the home

Omni-Channel		Traditional
<p>Consumer selects items they wish to replenish on their mobile shopping application. They place an order to have their items delivered to their home at 5:00. They select their local store where they have shopped for the past 20 years because they trust that store's products. Consumer pre-pays with an estimate provided for weighed items. They are refunded any discrepancies.</p>	<p>Process</p>	<p>Consumer calls up their local grocery store where they have been shopping for years. They place an order and ask if an associate can deliver it. The store schedules a delivery for the next day wanting to keep the customer but knowing that this will impact operations in the store. The customer gives their credit card information over the phone.</p>
<p>Store worker receives an alert on their pick application to pick items for an order to be delivered to a home. They pick items from the local store with the assistance of a picking application tied to the store planogram and set the items out as part of the delivery items for the evening time periods.</p>	<p>Inventory Management</p>	<p>An associate utilizes a hand written list to pick the items. He is a new employee and has to hunt for items on the shelves. Once they are picked, he double checks against his list and realizes that he forgot one. He hurries back to get the missing item and puts the order in his car to take to the customer. He delivers the order and knows that he lost time having to do this special request.</p>
<ul style="list-style-type: none"> • Lower labor costs with optimized pick and delivery operation • Optimized labor time for picking with planning for scheduled times • Satisfied customer • Fast process allows customer to have a positive experience with the retailer and improve loyalty 	<p>Potential Outcomes</p>	<ul style="list-style-type: none"> • Loss of sale if not provide solution • Higher labor costs to manage pick and delivery • Dissatisfied consumer • Slow process that challenges the store and impacts operations

Cross-Channel Personalization

Throughout the cross-channel grocery shopping process, the retailer has the opportunity to engage the consumer one-on-one and potentially drive behavior. Consumers who are most comfortable utilizing cross-channel shopping solutions are generally the same as those interested in personalized shopping experiences. Lessons can be learned from past grocery store shopping experiences where customers appreciated the personalized experience when the cashier or the butcher knew their individual preferences. Consumer behavior is shifting to where they desire promotions and interactions that feel targeted to them as individuals. With cross-channel grocery shopping likely starting before a consumer enters the store, the retailer must build a relationship with a shopper outside of the store.

The retailer can bring the store to the consumer's home in several ways: 1) by predicting product consumption and recommending replenishment purchases; 2) allowing the consumer to start their shopping while in the pantry; or 3) by recommending recipes and pre-populating shopping lists with those items. Targeted promotions and recommendations can also be tied to the consumer as they shop, whether at home or in the store. These can be based on current items, past shopping behavior, or predicting desires that the consumer may have. The analysis needs to be tied to the individual consumer and delivers a next best action for the retailer. And retailers can reward consumers with loyalty-driven points and discounts regardless of which channel they used for prior purchases.

Example 3: Shopping List and Recipes, Shop in the Store, Personalized and targeted promotions

Omni-Channel		Traditional
<p>Consumer uses their mobile shopping list to start their shopping process. They look at some past recipes as well as some recipes sent by the grocery retailer that appeal to them. The targeted recipes are exactly the type of food they are interested in cooking. They click the button and the recipe populates their shopping list. The entire list reorders to the store planogram to facilitate the shopping experience. In addition, while shopping, they receive a notification that they have a promotion for an item they are very interested in purchasing.</p>	<p>Process</p>	<p>Consumer gets out some old recipe cards and looks at some coupons that were sent to them. They write a shopping list and head to the store. Many of the coupons seem like mass-mailed coupons and they do not even bother to use them. They search the aisles for what is on their list and head to checkout. They feel disconnected with the store and that they are just there to get some groceries. At the end of checkout they receive some coupons from a machine after they have already paid. They try to remember to save them for next time.</p>
<p>The CRM system scans the past history of the consumer and recommends some recipes based on their past shopping habits. While in the store, the system predicts that the consumer would be interested in a product and sends a targeted promotion to the consumer.</p>	<p>Targeted Interactions and Promotions</p>	<p>Promotions system targets customers by age and gender segments and suggests coupons to mail out. The coupons are sent to consumer homes but are not targeted to the individual, only the segment that the individual resides.</p>
<ul style="list-style-type: none"> • Increased basket sizes and increased frequency of shopping • Satisfied customer • Personalized interaction delivers a positive experience to the consumer and improves loyalty 	<p>Potential Outcomes</p>	<ul style="list-style-type: none"> • Standard basket sizes and lack of increase in frequency of store visits • Dissatisfied consumer • Impersonal, anonymous interactions make the consumer feel the retailer does not really know them



Please Recycle

Summary

Consumers have and will continue to evolve in their interaction with grocery retailers. The next generation of technology-savvy consumers strives to optimize their valuable time. This brings about threats in the marketplace as consumers shop based on replenishment, immediacy, freshness, and product quality needs. "Instant enough" gratification has increased the likelihood that consumers will consider shopping outside of the store for some part of their grocery basket. Recognizing this, grocery retailers need to leverage their stores and create an experience for the consumer that creates value and continues to promote loyalty with the brand.

For more information

To learn more about Omni-Channel, please contact your Toshiba representative or Toshiba Business Partner, or visit the following website: toshibacommerce.com

Additionally, Toshiba Global Commerce Solutions can help credit-qualified clients acquire the IT solutions that your business needs in the most cost-effective and strategic way possible through our global financing partner.

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Brian leverages his fifteen years of experience in strategy, finance, and consulting to provide retail insight and strategy to Toshiba Global Commerce Solutions customers. Brian works with customers to provide strategic vision for the future of retail and also to evaluate retail solutions and understand the strategic benefits. He also helps drive TGCS's strategy, working across functions and assisting teams on developing solutions to meet customer needs.

