INCISIV

State of the Industry

Unified Commerce in Food and Grocery

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Is this report for me?

Incisiv's 2022 State of the Industry "Unified Commerce in Food & Grocery" presents key findings and analysis from a study of 135+ food and grocery retail executives.

The study was designed to understand:

- Retailers' outlook and attitude towards Unified Commerce as an enabler of key growth strategies
- Their capability maturity across digital, store, fulfillment, and customer service use-cases
- Their challenges related to their current Unified Commerce technology stack, and priorities for their next-generation Unified Commerce investments

You will find this report especially valuable if you are focused on one or more of the following:

- Improving competitiveness by strengthening your business model, driving new revenue streams, and improving profitability
- Unifying digital and physical interactions to offer shoppers unmatched convenience and a differentiated brand experience
- Improving your speed-to-market for new customer experience initiatives by experimenting, innovating, and scaling new experiences quicker
- Developing the roadmap or requirements for your next-generation Unified Commerce platform

Let's dive in.

Are food and grocery retailers' Unified Commerce strategies aligned with their growth imperatives? What are their key priorities and challenges?

Incisiv surveyed senior food and grocery industry executives to understand their outlook towards their Unified Commerce strategy and capabilities.

137

Total respondents

54% from companies with over $1 billion in annual revenue

91% director level or above

Findings from this survey form the basis of the analysis presented in this State of the Industry report. Unless stated otherwise, all data in this report is from the "State of the Industry Survey: Unified Commerce in Food & Grocery". Detailed survey methodology, industries covered, and respondent firmographics are available at the end of the report.

New value propositions and competitors emerge.

Retailers compete with more than just the store across the street. "Quick Commerce" apps such as Gopuff offer near instant delivery of a reduced assortment at a higher price per item.

Pureplay Online Grocers, such as FreshDirect and Weee!, differentiate themselves through larger or specialty assortments. Others such as Imperfect Foods and Thrive Market focus on a sustainable or organic value proposition.

In Asia, Quick Commerce platforms which facilitate 10-20 minutes deliveries are growing **~20%** faster in volumes than the ones making deliveries in 4 hours or longer.

Strategic imperatives for food and grocery retailers combat emerging competition:

Differentiate on brand and experiences.
66% of retailers say it is important to differentiate through excellence in customer experience. Grocers need to create differentiated experiences by amplifying the individual and combined advantages of their physical and digital channels. They must offer shoppers something they can't get anywhere else easily through a unique mix of products, services and experiences.

Make grocery a Swiss Army knife of lifestyle experiences.
49% of retailers consider it important to expand into new categories and markets such as in-store dining or health and fitness. Yet, 63% struggle to pursue such opportunities due to the limitations of their current commerce technologies. As one of the most frequented retail categories, grocers have the opportunity to become a more complete solution provider for a family's needs.

Attack new growth opportunities.
Retailers must look beyond their traditional way and offer a richer commerce experience to shoppers by setting up store experiences that support new services and business models, such as meal-kits, subscriptions, and ticketed in-store events. However, 52% of food and grocery executives are dissatisfied with their current capabilities to pursue new revenue streams.

The customer experience goes dark in the store.

While food and grocery retailers have made significant strides in terms of upgrading their digital and in-store experiences, it is in the critical transitions between the two that the customer experience goes "dark". A lack of foundational capabilities to tie digital and physical experiences together means retailers lose important context when shoppers move from one channel to another, which in turn introduces avoidable friction across the shopper journey.

Only **12%** of retailers offer in-store shoppers the ability to find items from their online wishlist.

Strategic imperatives for food and grocery retailers to unify digital and physical retail:

Elevate experience through unified pricing and promotions.
Retailers need to unify pricing, promotions and payments across digital and physical touchpoints, offering shoppers a personalized, frictionless and consistent experience independent of which channel they engage with them in. However, **65%** of retailers find it difficult to integrate store experiences with digital due to proprietary in-store technologies.

Accelerate relentless innovation.
86% of retailers consider speed of experimentation as their top technology consideration when selecting their next-gen Unified Commerce platform. Retailers must prioritize technology investments that increase the speed of continuous and concurrent experimentation while reducing technology risk by eliminating the need for development "blackouts".

Build experience continuity agnostic of touchpoints.
To provide a unified experience across touchpoints and channels, retailers must simplify the ordering process, integrate data across systems, and centralize order orchestration. However, **82%** lack a unified architecture across digital and physical commerce, and only **14%** offer shoppers a unified digital and in-store basket.

Good enough is no longer good enough.

With the exponential increase in grocery eCommerce adoption, retailers have made significant strides in terms of offering basic omnichannel experiences, e.g., **42%** of retailers now show accurate store inventory online.

However, the battleground for experience excellence is moving from the basic to the nuanced, where most retailers are still behind the eight ball.

Only **7%** of retailers allow items to be added to shoppers' digital cart or wishlist via voice.

Strategic imperatives for food and grocery retailers to improve Unified Commerce maturity:

Offer a complete fulfillment flywheel.
Only **16%** of retailers currently offer shoppers contactless pick-up for their online grocery orders. Grocers must be able to launch and scale omnichannel experiences, such as click & collect, click & reserve, and curbside pick-up, easily. They must also customize the store pick-up process to suit their ideal customer experience (e.g., allowing shoppers to do a return during order pick-up).

Deliver nuanced ordering experiences.
Only **18%** of retailers show product availability by fulfillment type (e.g. curbside pick-up, delivery, store-only). A meager **3%** show when an out-of-stock item will be available again. Showing available inventory is now table-stakes. Grocers must now focus on differentiating experiences by offering shoppers an enriched search, filtering, and ordering experience.

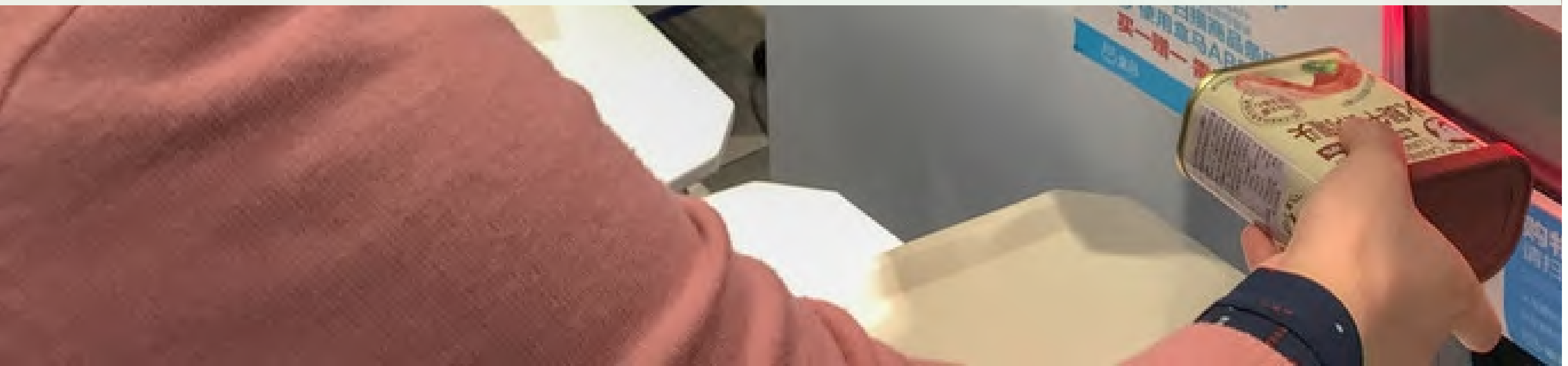
Provide early and accurate delivery promises.
Only **9%** of retailers currently offer less than 15-minute windows for order pick-up. To give shoppers greater confidence while ordering, grocers should provide delivery estimates as early as the search listing page. Then, they must maintain that promise across the product display page, in the cart, and post-purchase.

Grocery convenience 2.0 is around the corner.

Habits formed out of necessity are now the norm. While events of the past few years have conspired to accelerate change, ultimately the ultra-convenience of online grocery has meant sustained consumer adoption.

Further, the likes of Amazon, Hema, and Lotte are redefining the future of grocery. In 2018, there were 350 fully automated stores in the world. There are 5,000 in 2022.

22% of US shoppers bought groceries online in 2018. That number is expected to exceed 64% in 2022, and be **over 80% by 2025**.



Strategic imperatives for food and grocery retailers in the age of hyper convenience:

Offer context-based self-guided or assisted service.
Only 28% of retailers give shoppers comprehensive self-service options. Grocers can give shoppers greater freedom by putting them in total control of their experience with flexible and comprehensive self-guided assistance, regardless of whether they are in-store, online or using a grocer's mobile app.

Rethink checkout & payments.
41% of food and grocery retailers currently offer self-checkout in their stores, and a further 27% are currently rolling it out. Grocers must reimagine checkout to be as seamless as completing an Uber ride, and offer shoppers the widest possible choice of checkout options — from associate-assisted mobile checkout to self-checkout to cashier-less checkout.

Innovate new store formats.
Grocers must rethink stores beyond their own four walls of "my web, my app, my brick and mortar, and my social." They should be able to take stores to wherever shoppers are, e.g. at airports, farmers markets, entertainment venues, third-party delivery platforms, and more. However, only 44% of retailers are currently able to extend commerce capabilities beyond digital and physical channels they fully control.

Customer retention is the new growth mantra.

A disappointed shopper is one click or swipe away from abandoning engagement with a retailer. It has never been more expensive to acquire new customers, and never easier to lose loyal ones.

Retailers must focus on cost effective strategies to acquire new customers, as well as be sharply focused on reducing customer churn.

Muji recently launched its first food and grocery store in Osaka, Japan. The specialty retailer is now able to offer its customers grocery staples, and live cooking demos.

Strategic imperatives for food and grocery retailers to improve customer loyalty:

Create engagement opportunities with the shoppers.
Only **27%** of retailers currently let their store associates message customers directly about orders and offers. As trips to the grocery store become increasingly more pre-planned and transactional, grocers must empower store associates to convert fleeting in-person interactions into long-lasting relationships through digital tools such as assisted-selling, and pay-by-link.

Reimagine loyalty programs to be about more than frequency.
Only **21%** of retailers allow store and service associates to access a unified customer profile. In addition to the personalized service a unified profile would enable, retailers can deepen customer engagement by going beyond the basics of typical rewards programs with tiered rewards, exclusive member experiences, and channel-agnostic earning and redemption to build loyalty and generate stickiness.

Expand the addressable market.
54% of retailers say ease of integration with third-parties delivery platforms is important. Food and grocery retailers can target entirely new sets of customers through food delivery platforms such as Uber Eats and GrubHub, office-going lunch-seekers for instance.

Digital grocery profitability is a tough nut to crack.

The steep acceleration in digital grocery adoption over the last three years is a double edged sword for grocers. While it provides them an opportunity for revenue growth and brand differentiation, it presents significant challenges in terms of achieving operational profitability. According to a study by Incisiv and Wynshop, if the present sales and profitability patterns continue grocery retailers will lose $14 million in gross margin for every billion dollars in sales in 2025,

Whole Foods no longer offers free grocery delivery, even to members of Amazon Prime, charging a flat **$10 delivery fee per order**.

Strategic imperatives for food and grocery retailers to achieve efficient fulfillment operations:

Improve picking accuracy and efficiency.
With increasing online order volumes, retailers must provide store associates with guided interactive maps to make order picking flawless, and improve picking efficiency with dynamic, real-time pick plans. However, only 7% of retailers offer store associates dynamic pick plans, and a further 49% do not plan to invest in such capabilities in the near future.

Enhance store inventory accuracy.
44% of retailers say it is important to improve the efficiency of commerce operations across digital, stores and customer service. However, only 39% are satisfied with their current capability to do so. Accurate, real-time inventory is a foundational capability for Unified Commerce. Retailers must prioritize process and technology investments that help them improve in this regard.

Embrace intelligence to make fulfillment more profitable.
65% of retailers are dissatisfied with their current capabilities to improve profitability of online order fulfillment. Using advanced data science can help retailers drive more effective promotions, make smarter fulfillment decisions, and improve labor utilization. Ultimately, retailers want to be able to deliver an amazing experience while improving profitability.

Survey methodology.

Incisiv conducted a hybrid online + Computer Aided Telephonic Interview (CATI) survey of 137 food and grocery retail executives in the United States. The study was conducted from August 2, 2022 - Aug 19, 2022.

Respondent Distribution by Number of Stores

51 - 200	18%
201 - 500	37%
501 or more	34%
1,001 or more	11%

Respondent Distribution by Annual Revenue

$100 MM - $499 MM	16%
$500 MM - $999 MM	36%
$1 B - $4.9 B	32%
$5 B +	16%

Respondent Distribution by Designation

C-Level or SVP/EVP	29%
VP	32%
Director	30%
Manager	9%

Respondent Distribution by Food and Grocery Retail Category

National Grocer	36%
Regional Grocer	23%
Supercenter or General Merchandise Store	20%
Wholesale Club	12%
Specialty Grocer	9%

ABOUT INCISIV

Incisiv is a peer-to-peer executive network and industry insights firm for consumer industry executives navigating digital disruption.

Incisiv offers curated executive learning, digital maturity benchmarks, and prescriptive transformation insights to clients across the consumer and technology industry spectrum.

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ABOUT TOSHIBA GLOBAL COMMERCE SOLUTIONS

Toshiba Global Commerce Solutions is a global market share leader in retail store technology and retail's first choice for unified commerce solutions. Together with a global team of dedicated business partners, we advance the future of retail with innovative commerce solutions that enhance customer engagement, transform the in-store experience, and accelerate digital transformation. To learn more, visit commerce.toshiba.com and engage with us on Twitter, LinkedIn, Facebook, Instagram and YouTube.