

# State of digital transformation in grocery



The pervasiveness of digital experiences in our lives is such that we don't compartmentalize our expectations anymore. The expectations grocers must meet are now set by consumers' best experiences across all categories, from on-demand movie streaming to seamless ride-sharing services.

Grocery is the latest retail segment recalibrating as part of a digital transformation, spurred by consumers bringing their heightened cross-channel expectations into their weekly food shopping.

In order to adjust to the new demands of seamless customer-centric experiences, grocers are taking hard looks at their operations, the tech powering them, and the customer data that can guide them toward more profitable experiences.

## How Shoppers Will Be Paying for Groceries in 2020 and Beyond

Large ecommerce companies such as Amazon have brought technology muscle to bear, delivering an enhanced digital experience to today's shopper. These companies understand how personalization and convenience are changing customer expectations and are driving innovation across the grocery industry.

New research on shopper preferences for payment methods shows how food retailers can drive growth by closing the physical and digital gap.

While it would be a significant investment to implement new payment systems, it's time for retailers to leverage the big growth opportunity in meeting the demands of today's consumers who are looking for a seamless payment experience.

Blackhawk Network conducted new research to explore how consumers want to pay at POS to provide retailers with greater clarity on how to close the gap of digital and physical shopping experiences. Blackhawk found that the shoppers surveyed are interested in connecting cash and digital payment methods in-store, and that having these options would increase their engagement and spend with retailers.

Findings include:

- Six in 10 shoppers surveyed said they would like to pay for things in-store by applying points they've earned in their loyalty programs, using their smartphones
- Nearly half of shoppers (47%) surveyed reported that they would be more likely to join a loyalty program if they could use their points to pay for things
- Seven in 10 shoppers surveyed said that they're interested in adding cash to an app or digital wallet, such as iTunes, Netflix, Amazon, Uber and PayPal, while in-store
- If shoppers were able to add funds to a digital wallet in-store, 68% of those surveyed reported that they would shop in the store more often than they normally would, and 57% said that they would spend more money at the store than they normally would

These findings are good news for retailers: Investing in new payment methods that marry cash, loyalty and digital at the point of sale can increase shopper engagement and improve wallet share.

As well as improving the shopping experience, expanding the range of payment options enables grocers to optimize payments, allowing for reductions in the total cost of payment acceptance, fees and fraud rates.

## **Big data holds potential for big advantages**

To deliver the best customer experience possible, grocers need insights into what their customers like, what they want, and what their interests are. Online retailers are already harvesting consumer data from page views, clicks and purchases. Brick-and-mortar stores can similarly avail themselves of customer insights through card and mobile wallet purchases, apps, and other scan-and-shop technologies.

Obtaining shopper data affords grocers the insights they need to make important decisions about product placements and more personalized promotions that drive customer engagement and store loyalty. With the right data insights in hand, grocers are able to ensure that store shelves are stocked with the items customers want, and create targeted consumer promotions that deliver desired results.

## Getting the experience right will be crucial

Many grocers are already competing with online retailers using same-day delivery and curbside pickup services to help improve engagement and retention. In the years to come, it goes without saying that successful grocers will employ advanced digital technologies to improve the in-store experience. Leveraging data, optimizing payments, structure and delivering customer choice will help business get their digital transformation right and provide the personalization and convenience for which new generations of shoppers are clamouring.

As shoppers embrace digitally driven experiences in all aspects of their lives, they expect efficient, transparent, and personalized experiences from their favorite grocers, including:

- More online ordering and fulfilment options
- Same-day delivery, real-time order tracking, and easy returns
- Shorter, more accurate time ranges for in-store pick-up

## Online grocery ordering is delivering greater than expected, net-new revenue growth



Photo: flickr.com

- Grocery retailers who have offered online delivery for at least 12 months report an increase of 15.8% in incremental revenue, 30% higher than their pre-launch estimates.

- Further, most of this growth is net-new addition to the top line, with only 18% of retailers experiencing cannibalization of in-store sales by offering online delivery.

And, online grocery ordering will drive most of the growth over the next two years and beyond.

- Digital grocery sales will double over the next two years, breaching \$50B by 2021 before accelerating further to \$150B+ by 2025, at which point they will account for 14% of overall sales.
- The number of grocers who offer Click & Collect and Third-Party Delivery will grow 150% between 2019 and 2021.

But, online grocery delivery is largely unprofitable.

- Profit-per-order has worsened for 3 in 5 retailers who offer online ordering.
- Other than fulfilling from distribution centers or vendor drop-ship, all other forms of online order fulfillment are margin negative or neutral.

Therefore, the business case for online grocery is based on creating value beyond the original online order.

- Online orders that drive store visits – either directly through in-store pick-up or returns, or indirectly through increased loyalty to the brand – give grocers the opportunity to add new revenue to the original online order and increase their share-of-wallet at little to no marginal cost.
- Buy Online, Pick Up In Store (BOPIS) and Reserve & Collect offer grocers the greatest opportunity to attach additional value to the original online order.

Grocers must prioritize tech investments: re-architect IT to be agile, use insights to improve decision-making, and implement automation to transform operations.

Source: Progressive Grocer and AT&T Business