

MODERN DIGITAL GROCERY:

HOW TO LEVERAGE
TECHNOLOGY, ASSOCIATES
AND LOYALTY PROGRAMS
TO MEET HIGH SHOPPER
EXPECTATIONS

retail
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SPECIAL REPORT

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INTRODUCTION

The modern digital grocery customer demands convenience above all else. Two statistics from [MIT Sloan Management Review](#) tell the story:

- If customers can shrink their scheduled delivery window by one hour (for example, delivery between 2 and 3 p.m. versus delivery between 2 and 4 p.m.), they will wait an additional **10.8** hours for their order; and
- All else being equal, they will wait an additional **7.5** hours if the delivery can be received on a preferred day of the week.

But while customers seek delivery on their terms and timetable, the perishable qualities of fresh and frozen foods make the last mile an even bigger challenge for grocery retailers than other product categories.

"I think [retailers] need to understand that speed is not enough, and they need to acknowledge that precision and flexibility are as important or more important," said Pedro Amorim, Assistant Professor of Industrial Engineering at the [University of Porto](#) and co-author of the *MIT Sloan Management Review* article in an interview with *Retail TouchPoints*. "It does depend a lot on a specific customer situation. You actually need to understand that you have to segment your offer, maybe even to the client level or to the instance level, taking into account what this particular customer at this moment is actually expecting."

It's easy to understand the importance of running a digital grocery program that's both precise and flexible, but putting one together poses a challenge for even the most experienced retailers. Some key strategies to keep in mind include:



Enable a convenient experience from start to finish:

The first step in delivering convenience is ensuring both ordering and fulfillment are as stress- and hassle-free as possible — from a convenient ordering platform across different touch points to fulfillment methods that meet the customer's exact needs;



Empower associates to defray costs:

One of digital grocery's key challenges is that it can squeeze already slim margins, but empowering associates with technology can maximize their efficiency and make item substitutions more accurate for better end results;



Drill deep into the data:

Digital grocery programs have a lot of moving parts, so fine-tuning them requires a lot of information — from where, when and how shoppers are placing orders to integrating a range of customer preferences with data from your loyalty program; and



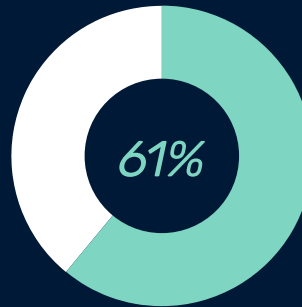
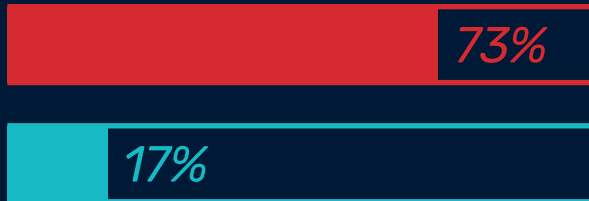
Tie it together with loyalty programs:

Most grocery retailers have loyalty programs, which are perfect for enhancing their digital ordering programs. They provide valuable data and can serve as a convenient base for all of the grocer's omnichannel offerings. Large retailers like **Target** have created a blueprint others can follow.

ONLINE GROCERY SHOPPING HAS INCREASED MORE THAN 4X SINCE 2017

More grocery shopping is happening online than ever before, according to the *PowerReviews Evolution of the Modern Grocery Shopper* study:

73% of consumers had purchased grocery items online in the three months leading up to February 2021, compared to **17%** in February 2017.



61% of consumers do more online grocery shopping now compared to pre-COVID.

The top reasons for online shopping were:

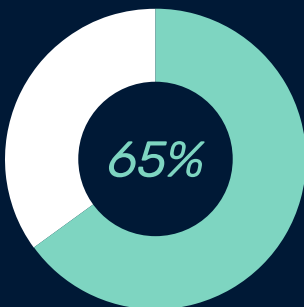
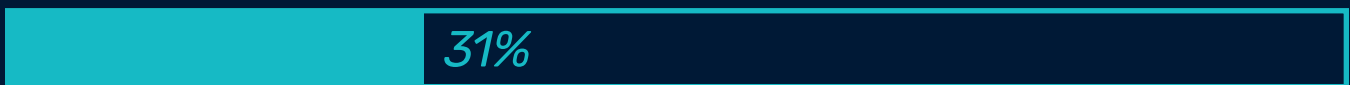
Time savings



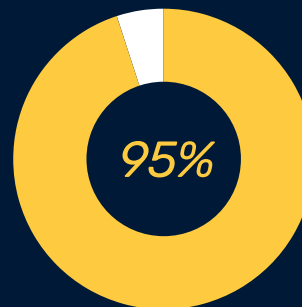
Personal safety



Avoiding impulse purchases



Ordering directly from a local grocery store is the most popular way to shop for groceries online — **65%** of consumers say they've done this.



95% of consumers who shopped for groceries online also have made an in-store grocery purchase within the same time period.

Source: *PowerReviews*



SHOPPERS' COMPLICATED ORDERING PATTERNS REQUIRE RETAILER FLEXIBILITY

Flexibility may be the single most important aspect a digital grocery program can offer, but it isn't a singular attribute — the term encompasses numerous steps along the path to purchase, from the behind-the-scenes fulfillment process to the ordering page itself. Retailers first need to meet shoppers where they want to fulfill their order, whether that's at home, in the store or at curbside. If you fail to offer their preferred fulfillment method they'll easily find a retailer who does.

"You need to offer a choice," said David Bishop, Partner and Research Lead at [Brick Meets Click](#) in an interview with *Retail TouchPoints*. "The two methods, delivery and pickup, serve two different markets, and there's very little overlap between them. Customers had very strong personal preferences for how they shop online and how they receive, and **even though that may change from month to month, the fact of the matter is a pickup customer is not likely a delivery customer.** If you're only doing one or the other, you're underserving the market."

The need for flexibility carries over to the ordering system as well. As a baseline, ordering off of any platform should be just as easy as shopping in-store. Customers should be greeted with easy navigation, intelligent search functions and simple filters no matter where they choose to place their order. In fact, shoppers expect a similar experience no matter what platform they use to place their order, so adding, removing or changing features across desktop, mobile or other ordering platforms can cause significant friction.

"The ordering experience should be convenient regardless of the channel or the form factor that the customer chooses," said Rob Harrold, Managing Director and Consulting Retail Store Operations Leader at [Deloitte](#) in an interview with *Retail TouchPoints*. "**Whether via desktop computer, a mobile phone or a tablet, having an easy-to-navigate interface, one that's similar across all those modalities, is critical in making the customer feel comfortable.** If they shop in one way on the laptop [but] then they're forced to shop in a different way on the phone, that starts to create some challenges."



DIGITAL GROCERY DEMAND WON'T END WITH THE PANDEMIC

By Mark Fairhurst, VP Marketing, Mercatus



When it comes to whether or not online grocery shopping is going to stick post-pandemic, the answer is an unequivocal yes. As a leading provider of ecommerce solutions to grocery retailers, Mercatus has a front-row seat to the changes in consumer online shopping behavior. Over the last 12 to 16 months, we've seen continued strength and preference for online grocery among consumers.

Despite Online Sales Leveling off, Demand for Pickup Remains Steady

Although there has been a leveling off from the peak of stay-at-home orders, the U.S. online grocery market generated \$6.7 billion in sales in July 2021. As ship-to-home sales declined to \$1.4 billion, the combined pickup and delivery segments remained steady at \$5.3 billion for the third straight month, according to the Brick Meets Click/Mercatus Grocery Shopping Survey.

Despite changing consumer preferences, all fulfillment methods saw significant growth, with sales for pickup/delivery and ship-to-home at 4.5X and 1.8X greater, respectively, than pre-COVID sales in Aug. 2019.

These results clearly reinforce that online shopping has maintained a significant portion of last year's gains, especially for pickup and delivery. A leading satisfaction indicator, "likelihood to use a specific service again," has remained well above 50% since Jan. 2021.

As the shift to online grocery shopping has solidified, curbside pickup has attracted the largest share of monthly shoppers at 53% compared to ship-to-home and delivery. In fact, pickup continues to have stronger consumer demand across all market types compared to delivery. The brick-and-mortar chains that have invested in optimizing pickup services will likely continue to benefit from the high repeat intent rate they've seen this past year. Pickup continues to have the largest monthly active user base, the largest share of orders and even sales during July 2021.

Continual Improvements are Key for Ongoing Success

Like all things, a one-time investment in online grocery and fulfillment isn't enough. Grocers need to constantly be thinking about other near-term improvements that will set them up for ongoing success.

For example, online consumers want flexibility and convenience when it comes to the fulfillment experience, so grocers can attract new and loyal customers by offering both pickup and delivery options. And progressive retailers are winning in this area by reducing operational sources of friction, like the frustration and uncertainty associated with wait times with real-time communications.

At the same time, grocers need to continually focus on better understanding their unique core customer base, to build more meaningful engagements that lead to increased share of wallet.

To learn more about Mercatus, our integrated digital commerce platform, or for the latest online grocery market insights, go to mercatus.com.



EMPOWER ASSOCIATES FOR EFFICIENT FULFILLMENT AND BETTER SUBSTITUTIONS

One of the major challenges generated by the rise in digital grocery is its impact on the bottom line. Last mile fulfillment can be costly, and grocers also need to devote valuable labor hours to pickers and order prep workers at a time when labor is tight. However, empowering associates can both make their jobs more pleasant and improve efficiency, making the entire process more cost effective.

In the past, pickers would assemble each order individually by hand. This led to wasted time as they traveled across the store and risked cold items thawing before the order could be stored for pickup or delivery. However, Bishop noted that modern technology lets associates view orders in a better-organized fashion, enabling a pair of complementary picking strategies:

- **Batch Picking:** Rather than assembling each order all at once, associates can put together pieces of multiple orders simultaneously, to minimize the distance traveled by collecting multiples of the same item or products from separate orders that are located near each other.
- **Zone Picking:** Associates only pick products from a certain section of the store based on temperature, such as fresh or frozen. This ensures items can be held at the right temperature until the order is ready to be assembled, and it lets staff members create additional picking efficiencies as they master the layout of their particular section.

Empowered associates also can help retailers avoid the potentially costly friction of poor substitutions, which can result in returns at best or lost customers at worst. Avoiding out-of-stocks entirely is the ideal situation, but it's not always feasible, so being able to properly deal with this situation is important. This is where understanding the shopper via data and analytics comes into play. Knowing their preferences and prior purchases, and sharing that information with the associate, can help avoid choosing the wrong substitute. For example, some shoppers will accept a bunch of green bananas if ripe yellow ones are unavailable; others will want to substitute a different fresh fruit (or will not accept green bananas under any circumstances).

"Think about informing associates and giving them the right data around substitution," said Harrold. "How can I leverage AI or machine learning to give them more of a predictive and AI-driven set of products when there is an out-of-stock? How do I limit that guesswork of what is the next best thing I need to choose? **If you put two people in the store together, both of them are probably going to recommend different items when there's an actual out of stock, so taking that guesswork away would be a major improvement.**"

DATA GATHERING MUST RECORD CIRCUMSTANCES ALONGSIDE CHOICES

Before a retailer can get the substitutes right, they need to understand their customer base's habits on a granular level. This process also helps retailers narrow down delivery and pickup windows by predicting when repeat shoppers will want their orders fulfilled. It also can reduce out-of-stocks by providing better estimates of how much inventory is needed.

The key to getting great digital grocery data is to go one step beyond simply looking at what shoppers actually end up buying, to also look at what their alternatives and other potential factors were. This additional context is valuable, and once it's fed into a machine learning algorithm it can provide deeper insights than their preferred choices alone.

"Most companies record happenings," said *MIT Sloan Management Review's* Amorim. "Someone chose this time slot at this moment, and they bought this, this and that, and it's recorded. **What you also need to record is the context in which they selected the given choice**, meaning 'What were you seeing? What were the options available for you on that morning?' Based on that, you can then apply your machine learning algorithms to understand what drives customers to pick this instead of that."

From there, retailers can not only get a better understanding of what their customers' preferences are; they can start putting together patterns that let them predict order choices. This information can be used to enhance personalization and grow baskets by adding in relevant promotions and **encouraging convenient fulfillment windows**.

DIGITAL GROCERY BY THE NUMBERS

Total U.S. digital grocery sales reached **\$6.8 billion** in June 2021. Pickup was the most popular fulfillment option.

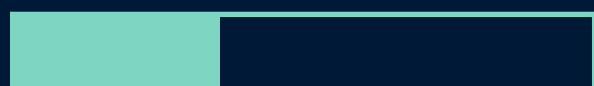
Pickup: **55.1%**



Ship-to-home (parcel carrier): **44.1%**



Delivery (first- or third-party grocery service): **35.8%**



The average digital grocery customer placed **2.7** orders during the month

20.2% of customers ordered groceries online for the **first** time



43.2% of customers ordered groceries online for at least the **fourth** time



Source: *Brick Meets Click*



TURN YOUR LOYALTY APP INTO A ONE-STOP OMNICHANNEL SHOP

Digital grocery can be intimidating for even experienced players, but most retailers have an established tool that's much easier to understand: their loyalty program. Shopper members will have been sharing their shopping preferences for years, and this data can help retailers nail down the right substitutes and preferred pickup windows. Additionally, their familiarity with the interface can turn a well-designed loyalty program into a convenient portal for all omnichannel activity.

"Say I'm 80% brick and mortar, 9% delivery and 11% buy online, pick up in-store (BOPIS)," said Harrold. **"I as a customer may choose all those over the course of the month based upon what's important to me that day, what I need and where I need it.** How do they access all my options, whether it's through the app or it's in-store? How do I best engage with that customer, no matter where they're shopping? **That's the power of a loyalty program."**

When it comes to loyalty integration, and omnichannel grocery in general, Target has established the gold standard other retailers should look to, according to Brick Meets Click's Bishop. The retailer's app serves as a digital ordering tool, a mobile wallet, a list builder and an in-store wayfinder. Geofencing capabilities also double as a tool for streamlining curbside pickup, which enables Target to consistently fulfill curbside pickup arrivals in **two minutes or less.**



"Their experiences with Target and **Walmart** are going to shape and influence their expectations with you, whether you like it or not. That simply means you need to understand how Target or Walmart are performing, not to say you have to imitate them. But you need to be aware that **one quarter** of your customers have had that experience, and that's shaping their expectations with you. In some ways that could be the guiding light to help point you in the direction of where you need to remove the friction." — David Bishop, Brick Meets Click

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Mercatus helps leading grocers get back in charge of their eCommerce experience, empowering them to deliver retailer-owned and controlled, end-to-end online shopping, from store to front door.

1.877.525.5051

emi.takeda@mercatus.com



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201.257.8528

info@retailtouchpoints.com



ABOUT THE AUTHOR

Bryan Wassel, News Editor

Bryan covers the retail industry at large, with a focus on contextual marketing, technological innovation and omnichannel developments.