2020 Grocery Digital Maturity Deep Dive: Commerce Leaders and Best Practices Notes

Participating:
Steve Paro, Co-founder and CTO, ShopperKit
Sylvain Perrier, President and CEO, Mercatus
Jeff Baskin, Executive Vice President of Global Partnerships for Radius Networks (FlyBuy)
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3rd part:

Benchmark study:
Top 90 Banners across US.Canada/western Europe
12 Delivery Service Providers
195 digital attributes studied
50 million data points from Incisiv's industry data pool
48 million data points from Q3 Grocery Shopper Survey (in partnership with Mercatus)

** capabilities extensively across customer journey: research/discovery, ordering, fulfillment, customer service

** Most importantly: Insights from exhaustive consumer survey with over 60,000 respondents in partnership with Mercatus

COVID has recalibrated the adoption of online grocery… from miniscule 3.4% share to 10% this year; projecting market growth to 2.5 Billion by 2025...said only to highlight the acceleration of growth and in general the adoption will continue to grow as retailers scale their platforms, align operating models in order to serve customers better.

Evolution of capabilities and digital platforms is important in order for adoptions and shares of sales to increase.

Panelists to discuss **implications of this digital shift:**

Pre-Nov we were seeing a decline of roughly 5-6% on a weekly basis in the online sales numbers and seeing a number of individuals going back into channel. But at top of month of Nov they're seeing a consistent surge in online sales, roughly 30-35% and that number has remained consistent on a week by week basis. COuld be due to the holidays but as he looks at the data from a geographical perspective it could also be because of the pandemic.

Anticipating that number to stay stable and likely increase. Data shows after average of 4 uses online consumers are sticking to ecomm and baskets have grown from 8-9%... so sees that number only increasing with time.

Jeff: Seeing the more times people use an online platform the easier it is and the more they're repeating as customers. Now because of COVID, they're almost forced to have an ecomm experience where they normally wouldn't they're more apt to come back and do it again… because they've in some cases had a good experience with some retailers. Conditioned as customer to continue to use that platform.

Steve:
Looked like things were settling into less madness but now maybe a perfect storm of holidays and new COVD lockdowns. Going into 2021...on heels of many promising vaccine… while overall numbers will continue to stay elevated, some folks may fall back to regular in store shopping. But the genie is out of the bottle… those who've always been resistant to shopping online already admit they don't see any reason to go back to the same behaviors and patterns… they're hooked on it.

One key fact they're seeing when they hear from customers: grocers NEED to continue to scale the capabilities on digital platforms to continue to meet the ever-increasing customer expectations.

Found in survey: number of satisfied or very satisfied customers was very low across customer journey; research/discovery and fulfillment worst performers when it came to customer satisfactions;

At start of pandemic, most retailers struggled to meet customer expectations… could not find delivery/curbside slots, products they wanted, if they got the wrong product they couldn't return it. So while adoption of online grocery grew from 23% to 44% the loyalty to online platform stayed steady. POINT: online adoption is very transactional… shopping wherever is easiest and they can get what they want. Disconnect between growth and what customers are expecting.

Customer behavior going into 2021 when it comes to the digital platforms and what are some of the implications for digital platforms… and the evolution

Jeff: numbers are very low on customer satisfaction so that's telling retailers they have to improve ecomm and fulfillment capabilities in order to continue the growth. If you look at those who've invested in their ecomm, curbside, delivery, fulfillment packages… they're doing much better than others. For those retailers who think they're doing well because of the growth they don't have nearly as much growth as they SHOULD have had because they're not necessarily doing a "good" job.

48% of Customers who were satisfied with online ordering, the other 52% are going someplace else where they do have good online ordering or they're not going to use ecomm/will figure something else out.

There's still a big investment that needs to be made even though there's been a lot of progress… there's still a long way to go.

Sylvain:
If you look at psyche in current pandemic market we've seen roughly 60% consumers shift their loyalty to a different retailer. It HAS become extremely transactional. Grocers need to keep in mind to keep the level of loyalty/stickiness that represents the numbers that are better than we are seeing today they need to be mindful of search in the sense of enabling consumers to find that are available in store or online. Flexibility in fulfillment is all about delivery… it's also about curbside and click and collect.

Support in the sense that we're seeing older demographic using online today and many UIs aren't designed for that group.

Extreme frictionless and contactless: if you;'re going to do click and collect or delivery in a COVID world, how are you going to do it well?

Steve:
Many retailers have so far benefited from demand-lock situation where consumers are limited because everyone else is fighting for the same timeslots so someone may be willing to tolerate a lesser experience because at the end of the day they need their groceries. As we start to see the world ome out of the pandemic these consumers are still going to be online - at least a significant amount of them will be - and that's where experience differentiation is going to be extremely important. → if you're not doing it already if you're not providing an excellent online experience those consumers you benefited from before you've had available timeslots they're not going to hesitate to go elsewhere. Everyone needs to consider this in order to maintain the demand as we come out of the pandemic and get back to "Normal" life.

Consumer loyalty online cannot be taken for granted and retailers need to up their game on deploying digital capabilities and making the experience more seamless and frictionless. But when we look at customer satisfaction to what is actually being offered by grocery retailers, we see grocers tend to lag behind in the sector. So while some investments have been made in certain areas - like online search - there's still significant opportunities to enhance capabilities for a frictionless experience going forward.

What are some of the differentiating capabilities that retailers have deployed?

Search and discovery is right at the top… there's a strong correlation from this to driving conversion. Found conversion is 33% higher in those who've searched for certain products. Still, more investment needs to be made in making search more intuitive and to provide more capabilities to customers like… advanced filters (like ripeness or weight).

Also social media integration - customer reviews and ratings - not seen a significant uptick here.

Prioritization of feature functionalities by grocers (From visual presentation):

What customers expect:

1. Search: autocomplete and understand misspelled words
2. Homepage: dedicated area for promos
3. Filters: more than 4

Differentiating capabilities that customers VALUE:

1. Search: details on search results in search bar (i.e. ongoing promotions, availability, etc.)
2. Filter: filter for availability of diff pickup and delivery options, dietary restrictions, allergens
3. Listing: inventory and promo call outs (best seller, recommended for you, etc.)
4. Ratings and reviews

So… a lot of enhancements are happening but there's still room for improvement

Why is it that grocery retailers are finding it so difficult to offer best in class search experience when many of these capabilities come built in on a tech platform? Those who are on the same platforms offer significantly different capabilities…

Sylvain:
Harsh reality is that product data for grocery ecomm is considered an afterthought vs all the other priorities when you're getting a platform up and running… and especially when servicing it through a pandemic. The solution isn't as simple as saying… i will license the data. It's forever ongoing and comes with many nuances (like updated product images and synonyms). Search is its own workflow that complements ecomm. It shouldn't be considered an interaction module within a platform… very much needs to be looked at as a separate application.

Jeff:
It's complex. Grocery stores have thousands of SKUs, so inventory piece is just complicated vs your standard retailer. Which is even more of a reason why grocers need to invest in the UI, making sure customers can look and find what they want right away.*The more clicks someone has to make to find what they want to more they're likely to just leave.* If someone can find what they want within just a click the higher the conversion rate will be on an ecomm site.

Steve:
A big part of this is a quality of data problem, but it's compounded by the fact that grocers have so many products. Not to mention if they're employing any endless aisle strategies to their online program. It's a big challenge to understand the data in a meaningful way so we can have the search capabilities that are responsive. But from a consumer point of view, this should be easy.

Business case for enhancing search capabilities is there simply because of the upside it offers for customer stickiness and conversion it can deliver.

Online ordering
In conjunction with fulfillment has seen the most significant investment in the last 6 months. In terms of new tech being deployed, additional function features being made available, and the overall maturity moving forward.

Ability to order from a previous order… high adoption rate.
Promotions being made available in the cart view - one pet peeve: being able to apply coupons in checkout - still remains largely unaddressed

If look at leaders in this space:
What customers expect:
1. Order: enabling online ordering across all categories incl fresh and frozen food, meat and prepared meals
2. Order: Save and use reorder list(s)
3. Fulfillment: option to choose time slots/schedule inrder ins advance (next day/others)

What customers value:
1. Cart: ability to check in-store inventory in PDP/cart
2. Recommend: available coupons on PDP
3. Product requests: ability to make requests for product selection (ripeness, expiry, etc.)
4. Fulfillment: option for express fulfillment (within next 2 hours)

Fulfillment:
Where we saw maximum activity. 20% to 80%....
3 broad areas we saw fulfillment capabilities
- signaling to the shopper we have this available or coming available
- Offering additional fulfillment methods (combo: product availability and delivery option and fee structure)
- Offering Visibility on order status

If look at leaders in this area:
What consumers expect:
1. Availability of options: home delivery, BOPIS, curbside
2. Categories: Availability of all categories incl fresh and frozen foods, deli meats and medines
3. Order status: status visibility and notifications via text/email

What customers value:
1. Safety: contactless pickup and delivery
2. Payments: contactless
3. Notification: Oder status notifications from store to consumer
4. Alerts: Arriving for pickup alerts from customers to store
5. Tracking: ability to track delivery person in real time
6. Membership: special programs for free delivery

7. Return: option to return online purchases in store

What happens when a grocer tries to scale fulfillment exponentially in a short period of time? What happens to profitability? What are some of the issues that are still outstanding in the new digital grocery paradigm?

Steve:
Focus has been on fulfillment. One of the biggest challenges… impulse buys. How do we continue that for online shoppers? Communication is one strategy. You have more or less a fixed cost as far as labor… pick and deliver orders. To claw back need to focus on adding to basket size through fulfillment directly…. To pull back those dollars otherwise losing.

Additional function enhancements to invest in?
Enabling a direct line of communication from store associate to consumer… proven and effective way of increasing basket size. Once consumers know there's a real person on the other end w a name working for them to shop their order, we see that convert into 2-3 added items per order… just by cultivating a relationship between store and consumer. SMS has proven extremely effective way to create relationship between store and customer and having that actually translate into added dollars.

Jeff:
If you look at delivery and curbside, both are necessities on grocery today. Delivery is more expensive for both grocer and customer so that's why you see growth of curbside happening much faster than delivery at this moment.

We're seeing the fact that some retailers still require customers to go through extra motion of calling or texting upon arrival to be much more cumbersome. The more frictionLESS the more people will repeat. Very little growth or adoption when someone had to manually let a retailer know they were on their way/here without any other sort of data attached. Using location data to determine when a customer will arrive at the store and get updates along the way has been really helpful for retailers. By offering this you get 1) a frictionless customer experience (will let you know when I'm on my way and put my phone away to drive) and more importantly to run profitable curbside experience 2) allows staff to multitask for efficiently. Prioritize order so can meet customers exactly when they arrive. Vs. waiting until they arrive and alert you… will really delay the process by 10-15min… won't be good enough on curbside.

On delivery side, how can we do a better job of communicating with customer? Like Dominos pizza app… see where delivery driver is on the way to you. Tech around fulfillment piece - not olly picking the order to be more efficient and in turn profitable for your staff but also improving the customer experience - is critical.

How do you see the operating models evolve as store models become larger share?
Sylvain: It's a natural tendency for retailers when see order volume significantly fluctuate in positive to want to throw labor at it because it's the easiest things to do… especially if you aren't

using the right tech. To move forward and be profitable, step back and say… what's my operational model? What are the KPIs that I'm seeing pre-surge, and when you look at the levers you can adjust (tied to some sort of ROI model), what can i do to augment to bring in the right partners and tech that are going to give me a smooth cadence toward maintaining or creating profitability? And is that an easy thing to do? It's not in a moment of sheer panic, but retailers have to take a step back to ask what's working/not working… step 1. Both Steve and Jeff have the tech to solve these problems and that's what Sylvain would recommend to look at.

Customer engagement and service: One area where we've seen the investment lag

Lag in loyalty management or don't have a loyalty program in grocery space; customer service features like contact support and return management… returns becoming increasingly important -- at a time when 97% orders in store you wouldn't have this issue. But as more and more orders are delivered/curbside, there's been a significant uptick in return requests or complaints about orders. Differentiating factors…

What customers expect:

1. Store details: locator, timing, events, etc.
2. Account: order history, receipts and ability to save addresses and payment details
3. Customer service: FAQ, phone and email availability
4. Loyalty program: Ability to register, manage account, earn points

What customers value:

1. On demand customer service: live chat and availability on social channels
2. Personalized recommendations: product suggestions based on past browsing and purchase history
3. Shopping assistant: integration with virtual assistants

In order for this online share of grocery to grow, this is one area where investment would need to scale significantly.

In conjunction with fulfillment, enhancements cannot happen in isolation from profitability because it's not just about investment in the platform… a significant investment must also be made in manpower.

How do you see grocers evolving the customer experience and functional capabilities?
Sylvain: It's half tech and half policies and procedures: pre-surge… most consumers if they had a returns or product concern, they'd overlook it and bring it back next time they were in the area of the store. We've seen a lot of retailers just fail and telling customers to keep the product (won't put it back in supply chain) and they'll get a credit for it. That's where policies and procedures really come into play to make it that much easier to get great support.

From tech perspective, how do you use phone staff and consumers to adapt to chat functionalities, email support, etc? The reality is as ecomm continues to grow esp in grocery vertical, you're going to see a swath of consumers who are less about the norm where they can serve themselves and more of a higher touch consumer. Example: some of their retailers have seen a massive increase in older consumers (over 70) wanting to call to get help building their basket because they don't know how to do enter cc or not familiar with search functionalities. There isn't a one size fits all solution. Have to fit it to the retailer and the market they're in… make sure you're leveraging your investments… could be email, chat, etc. to be able to support those consumers.

Jeff:
Messaging piece is really important in a couple ways. Offering customers the ability to ask questions/get answers AS creating order (via chat or on website). If UI is really good could be ok, but others will need help where the live chat process comes in. Via mobile if doing fulfillment like curbside or as going to store, one of the complexities of grocery is substitutions. Need to be able to communicate to customer when something they want isn't available and ask what they want to do. Also need to be able to offer customer to make last minute additions for a curbside order… while still having same experience. 2-way messaging is really important to get full experience.

Digital leaderboard:
See interesting mix of large and small retailers - do you see a difference in approach based on size going forward when it comes to shoring up digital capabilities?

Jeff:
Some just went directly to an Instacart right away because that allows them to solve a lot of problems a lot faster. Now they're looking at it, want to own customer experience, want to have that data at their fingertips, and they now realize it might not be as expensive or complicated as it may look… might not have to build in-house themselves - plenty of companies (many on call) that can help them manage it themselves. Large and small regional retailers have done a really good job this way to manage their own ecomm, building out their fulfillment capabilities. Many are going this direction already but for those who aren't, look at the statistics in the study to understand what it's going to take to get that digital maturity to drive revenue.

Steve:
The leaders have the benefit of dollars. But... Necessity is the mother of invention - frank zappa. Small retailers have a lot at their disposal: tech companies that can help theses guys catch up with the big guys. But also a lot of small retailers have been innovating - white glove concierge, curbside - well ahead of the big players. Def a path forward… it's just a matter of being creative and focusing on your market and understanding where you're going to spend and get the highest ROI in terms of customer satisfaction, experience and loyalty.

Sylvain:
Reality is… look at tier 1 retailers (north of $10B annual revenue) will use their buying power to go over 2 styles of platforms… monolithic and leverage internal dev teams to extend them over time. Smaller retailers typically co-opted their decision making process and control of customer

data to the hands of marketpplaces which is unfortunate. Seeing this opp to break that cycle and go out into a preferred nation of vendors that can bring to light an interesting solution. Secret weapon they have is the ability to iterate much faster. Being able to test and try things… if it works, great. If it doesn't haven't spent a ton of capital to try. Nothing can be ad hoc in grocery retail… has to be extremely planned.

Regional retailers also benefit from relatively homogeneous market? Yes and no. A little diff from state to state. West Coast can be challenging.

What are the top 3 capabilities/functionalities/solutions that retailers need to implement for future?

Steve:
Coming out of the pandemic, retailers have benefited from having demand because of the reality we're in. Consumers will be far more open to trying new services (less loyal). How are they going to differentiate/ensure they're providing the best experience. COnsumers will pay more if they think they're getting a white glove experience. Retailers need to be proporitizing how they're going to provide best of breed experience in high touch manner that's going to keep customers coming back… not just be price shopping: communication, search and order accuracy, fulfillment process.

Sylvain:
Search is critical to great experience. Visibility into inventory… exceptionally critical (not an easy ask of retailers). Really stands out: *Choice of fulfillment. When you have the right partners like FlyBuy and ShopperKit it goes a long way to making that a possibility.*

Jeff:
You have to meet the customer where they want to be: curbside or delivery or in store. And you have to do it well. That's a lot for retailers to think about and solve for. If they can do all of them well, they're going to do REALLY well. It's complicated… where grocers used to plan for these things in a 2-3 yr road map, this has accelerated tremendously since the start of COVID and there's a race right now between the different grocers to grab that loyalty. Before they DID have that loyal customer… experience may not have always been good but because of location they continued to go there. Now there are customers who are up for grabs. Retailers who solve the 3 things really well can take a lot of marketshare that wasn't there pre-pandemic.

Customer loyalty can't be taken for granted.
Investment in digital capabilities is a must. Has to go hand in hand with evolution of operating models in order to deliver best in class experiences with an eye on profitability.

Built in aspect of loyalty- if paying for service, year long subscription - going to use said service. Retailers doing it well, it opens up order options (don't nec have to place min order sizes), preferred time slots, preferred treatments through ordering and fulfillment experiences. So it's def useful and keeps consumers coming back. Seems to be very popular. Clearly a demand and consumers see the value of these… meaningful path forward to ensuring loyalty.

Optimize Online Ordering
In conjunction with fulfillment, significant investments in terms of new technology have also been made in online order optimization.

The ability to save and order from previous purchases has shown a high adoption rate for online grocery shopping, while customers have also come to expect online ordering across all categories incl fresh and frozen food, meat and prepared meals

1. Fulfillment: option to choose time slots/schedule inrder ins advance (next day/others)

What customers value:
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