Converged Retailing.

The Channel-Agnostic Imperative for Grocery Retailers to Maximize Value from Digital Strategies.

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RESEARCH PARTNER

Naveo Commerce

Grocery's Digital Transformation Moment Has Arrived

A New Customer Experience Benchmark

The likes of Amazon, Uber, Apple and Netflix aren't just leaders in their own categories, they are reshaping consumer expectations of convenience, seamlessness and personalization. The ubiquity of such experiences means consumers now expect these to be the norm, not the exception, across all their needs – from banking to shopping.

How consumer habits are transforming entire industries

Tablets now account for

40%

of the total
Personal Computing market,
up from 5% in 2010

2 in 3

US online adults shop
online at least monthly

4 in 10

Americans have not
visited a bank branch in
the last 6 months

Slow to Adopt, Grocery's Digital Tipping Point is Here

Long considered the last bastion of brick and mortar retail, this reshaping of consumer expectations is rapidly disrupting the foodservice industry. Globally, fresh online grocery adoption is expected to rise from 21% to 34%[1] in 2016. The ramp up is starkest in the US – from 8% to 26% - making grocery the fastest growing among all retail categories. Add the fact that groceries account for almost 20% of all consumer spend on retail, and you have the textbook definition of "Tipping Point".

[1] *Morgan Stanley's "AlphaWise eCommerce Survey: Here Comes Online Grocery"*

Grocery's Digital Transformation Moment Has Arrived

Rapid consumer behavior change will give rise to new business models, a new set of competitors and require a refresh of grocers' strategic capabilities.

Disruptive Players in the Foodservice Industry

BIG BOX GROCERY DELIVERY	PUREPLAY GROCERY DELIVERY	GROCERY DELIVERY PARTNERS	PREPARED FOODS / RESTAURANT DELIVERY	MEAL KITS	CONNECTED HOME OR KITCHEN DEVICES
Vertically integrated delivery	Direct to consumer	Third party delivery services for stores	Third party delivery services for prepared meals	Curated ingredient kits for home cooking	Connected devices with shopping capabilities
Walmart	Peapod	Google Express	UBER EATS	Blue Apron	amazon echo
Kroger	freshdirect	instacart	seamless	Plated.	Google HOME
HomeShop	amazon fresh		DOORDASH		
SAFEWAY			POSTMATES		

New Game. New Rules.

Past the tipping point, grocery retailers must prepare for the impact of increased consumer adoption of digital experiences in foodservice, and pay special attention to 4 key areas of transformation:

- **With convenience redefined, stores will need a new context:** Stores will need to re-invent themselves as part of a broader, richer customer experience, offering shoppers a larger narrative for their continued loyalty.

- **Delivery will be table stakes and expand grocers' share of the customer's wallet:** As delivery replaces or augments the convenience previously offered by a store-visit, grocery retailers can either view it as a threat, or embrace it as an opportunity to vie for a larger share of their consumers' wallets (e.g. online ordering of prepared meals).

- **The linear path-to-purchase will die:** With mobile, consumers have an "uber-channel" that has collapsed traditional boundaries. Is it a physical or digital experience when a shopper uses their smartphone in the store? As consumers traverse the physical and digital with ease, so must retailers converge how they operate channels.

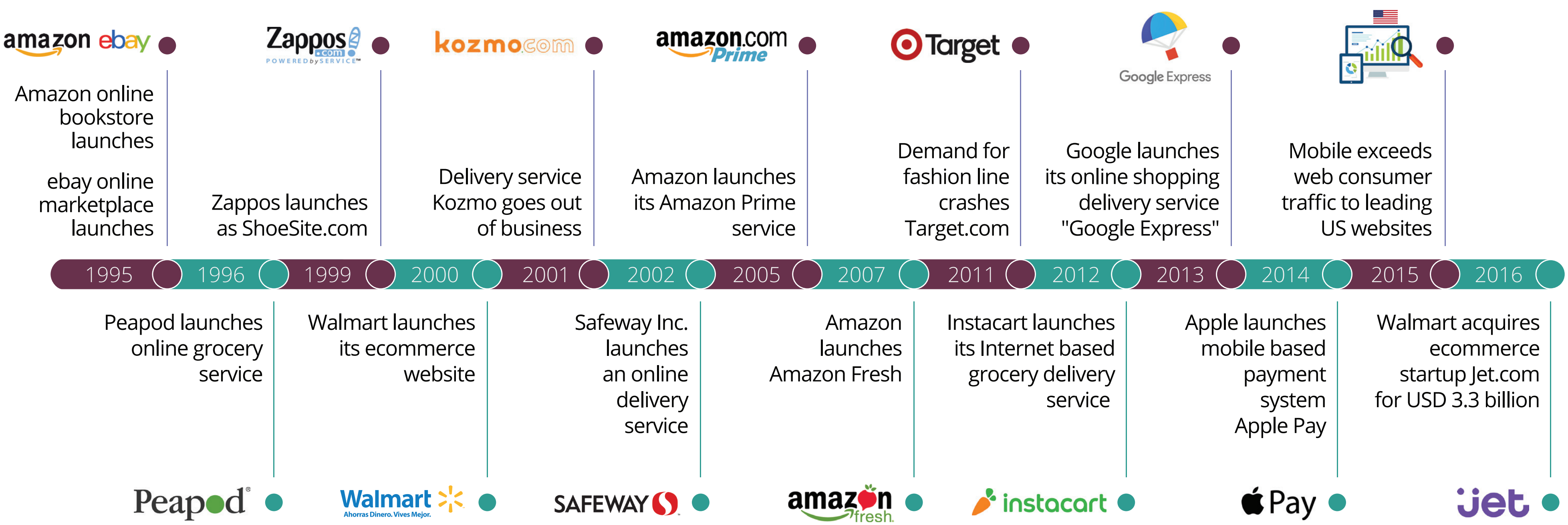
- **Competition will move from formats to categories:** In addition to competing against brick and mortar retailers nationally or regionally, grocers will need to contend with vertical leaders within specific categories – from fresh foods (Fresh Direct and Peapod), prepared foods (restaurants with online ordering), to home and personal care (Amazon, Jet.com).

When the game changes as much, so do the rules. Grocers have no choice but to evolve.

A Second Chance at Being First Time Right.

Big-box, general merchandise and specialty retailers are in the second (and in a few cases the third) generation of their digital transformation initiatives. They have more than two decades worth of strategic, organizational and technological experiences that can inform grocery retailers' first foray into digital and help them avoid known pitfalls.

A timeline of key ecommerce milestones across retail formats



A Second Chance at Being First Time Right.

Digital isn't a channel. It is to be woven across the fabric of the enterprise. Retailers who considered digital primarily a channel are now struggling to unlock the true power of cross-channel influence. Grocers must approach digital transformation as a fundamental overhaul of their customer experience and operations.

Pitting channels against each other creates friction within the organization and makes growth a zero-sum game. Even retailers that have grown the share of ecommerce and mobile sales as a percentage of revenue (between 12% - 20% on average for brick and mortar retailers) are now realizing that is a myopic metric that focuses on channel share rather than overall business growth.

Measuring ROI is hard if you can't measure customer lifetime value or the cross-influence of channels. Grocers embracing digital initiatives must clearly define what success entails and how they'll measure it.

It is critical to have a core foundation of **business processes, people and systems ready** before scaling digital initiatives. Retailers that failed to do so suffered significant inventory and labor related operational issues. In a low margin industry such as grocery, any operational missteps can be deadly.

EKN Research, in partnership with Naveo Commerce, conducted a survey of 45+ grocery retail executives to benchmark their perception, priorities and preparedness related to the digital transformation in grocery.

Benchmarking the Grocery Industry's Digital Readiness

The research followed a hybrid quantitative and qualitative methodology that allowed EKN's analysts to delve deeper into sensitive aspects of organizational change that are critical to understanding any transformation. Executive summary findings are presented in this report. Detailed findings are available by request through EKN Research or Naveo Commerce.

Research Demographics

45
US grocery retail executives

62%
from retailers with more than $500 million in annual revenue

38%
VP or CXO level

27%
Director or Sr. Director level

72%
from Marketing, Merchandising or Omnichannel functions

Revenue by Channel

	Stores	Online	Mobile
2016	91%	7%	2%
2020	78% ↓	14% ↑	8% ↑

Survey question asked respondents their company's 2016 revenue distribution by channel and their expectation of revenue distribution by channel by 2020

Signs of the Me-Too Syndrome

What's driving grocery retailers' digital strategies? Unsurprisingly, a majority cite the pressure they're feeling from the lack of growth, increased competition and heightening shopper expectations.

For **1 in 3**	**2 in 5**	**3 in 4**
retailers the central driver of digital strategy is driving overall growth	cite competitive pressure or guest expectations as the primary driver of digital strategy	rate themselves as being behind industry leaders in terms of digital maturity

While broader shifts in consumer behavior and the emergence of newer competitors must instill a sense of urgency in grocery retailers, they must also ensure the pursuit of a digital strategy isn't shaped by competitive parity alone. More importantly, when prioritizing digital capability building investments they must look first to what furthers their customer experience strategy rather than blindly following competitors.

Grocery Digital Leaderboard

** Retailers who were cited by respondents as eCommerce / digital leaders in grocery. Numbers under the retailer logos represent the number of respondents who cited the retailer via an unaided recall question*

Rooted in a Channel-Centric Culture

Even as grocery retailers aim to improve overall growth, competitive differentiation and customer experience through their digital strategies, they are being held back by a deeply channel-centric organization culture.

Digital cannibalizing store sales is retailers' #1 concern

Whether digital initiatives help them create and capture new value, or simply shift dollars from one pocket to another, is grocers' primary concern. This is further exacerbated by an organization structure that impedes digital integration across channels. With separate P&Ls store and eCommerce teams often find themselves at odds with each other especially as relates to the impact of digital initiatives on the supply chain and store labor and productivity.

Existing KPIs Risk Driving Channel-Centric Behavior

As clichéd as it may be, there's strong correlation between "what gets measured" and "what gets done". Unless they clearly define success in terms of customer or operational goals, retailers will be unable to measure how they're doing and whether they're succeeding. Further, they'll struggle to align different parts of the organization to a common goal. Retailers continue to prioritize channel-centric KPIs such as channel sales and conversion, over either customer metrics such as customer lifetime value (CLV) or those that measure the impact of one channel on another.

EKN's Digital Grocery KPI Heatmap*

EKN preferred metric that tracks cross-channel behavior | Channel-centric metric

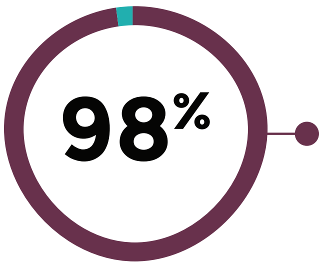
1. Total Retail Sales	2. eCommerce/mobile channel sales	3. Digital customer basket size	4. Customer engagement
5. Digital customer conversion	6. In-store attachment rates for online orders	7. Digital influenced store sales	8. Customer lifetime value

** Ranking based on respondents' selection of the top metrics they use to measure the success of digital commerce initiatives. Green denotes an EKN preferred metric that tracks cross-channel behavior or outcome. Red denotes a channel-centric metric*

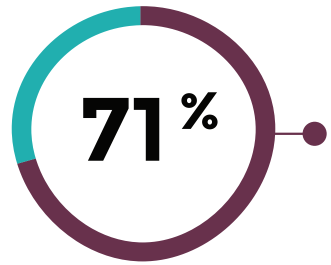
Rooted in a Channel-Centric Culture

Lack of a Unified Commerce Capability Creates Massive Blind Spots

One of the fundamental building blocks of moving to a more integrated experience across channels is the ability to provide a unified experience to the customer be it on the web, mobile or in the store. This is by far the biggest gap between where retailers wish they were, and where they are from a technology perspective.



rate being able to provide an integrated commerce experience as important or very important



are currently not equipped to deliver a unified commerce experience

Aggressive Digital Adoption Will Test Retailers' Operational Readiness

EKN's research reveals grocery retailers' aggressive digital capability adoption plans can be clearly bucketed into two distinct waves – one focused on opening up in-store inventory to digital shoppers, and the other on the trifecta of delivery, loyalty and personalization.

Grocery Retail Digital Capability Adoption Waves*

WAVE 1 (CURRENT INTO 2017)

Where retailers are focusing now including pilots and chain-wide deployments

- Buy online pickup in store
- Reserve online, pickup and pay in store
- Mobile app with in-store mode
- Common brand messaging across channels

WAVE 2 (2017-2018)

Where retailers will focus investments over the next 2 years

- Single cart across web, mobile and POS
- Online delivery
- Content and promotions personalization
- Loyalty integration across all channels

** Top capabilities based on the number of respondents in EKN's survey that indicated adoption investments in a defined timeframe. Wave 1 = Currently offer or will offer in the next 12 months. Wave 2 = Will offer in 12-24 months.*

This aggressive capability adoption will test retailers' operational readiness, specifically testing the agility of their supply chain and the ability to re-imagine their store labor model to support order picking, delivery and returns.

- Profitability of new fulfillment methods is the #1 operational challenge for retailers. 76% **are not equipped to support** multiple cross-channel fulfillment options.
- Impact on store labor productivity is the #2 operational challenge for retailers. 91% believe store operations efficiency to support digital is important or very important, but 60% **are not equipped** to handle currently.

Converged Retailing in Grocery: A Primer

Converged Retailing refers to a shift in retailers' strategy, processes, people and systems from channel-centric to customer-centric by collapsing the traditional walls between disparate channels through seamless integration, cross-channel execution and organizational alignment

As grocery retailers embark on a journey to provide an elevated customer experience to shoppers, they must be careful not to box "digital" into a familiar channel-centric construct, and instead think of it as an enterprise-wide capability that needs to touch every aspect of their operations. They are faced with the unenviable task of transforming large-scale operations at pace, and are held back by decades of channel-centric muscle-memory. The primer below is a prescriptive roadmap to help them get started.

Elevate digital from a channel to a strategy

- Develop a nuanced approach taking into account the unique nature of grocery retail, including building a flexible but resilient supply chain (to support last mile delivery of perishables) and creating new product data (such as firmness of fruit) to aid smarter digital merchandising.
- Focus on overall retail growth, improving customer engagement and driving higher customer lifetime value.
- Organizationally, position digital as a capability across units rather than as a separate P&L.

Eschew a me-too strategy and identify capabilities that will help you differentiate

- As capabilities such as buy online pick up in store become table stakes, focus on experiences that deliver a frictionless, converged experience.
- Accelerate investments in four critical capabilities: single cart across channels, unified pricing and promotions, personalization, delivery and logistics.
- Utilize the higher frequency of customer interactions in grocery (compared to other retail formats) as an opportunity to know more about shoppers and build a stickier experience through personalization.
- Prioritize Converged Retailing use cases that combine the power of mobility and customer data, especially for in-store experiences.

Sample Use Cases of Converged Retailing

SELF SERVICE

Wayfinding in store based on digital shopping cart

Target with it is hybrid indoor positioning system is offering consumers the ability to find the most efficient path within the store based on items in their online cart or wish list.

FULFILLMENT

Pick-up In-Store

Walmart with its smart card model, offers shoppers a discount on online orders that are picked-up in stores.

PROMOTIONS / OFFERS

Personalized promotions based on digital history + location behavior

Kroger leverages analytics to send targeted promotions, weekly offers to specific households based on previous purchases, to strategically grow shopper value; and maximize shopper retention.

LOYALTY

Mobile Card / Wallet / Integrated Payments

California Fresh Market offers customers the ability to scan barcodes on products, add goods to their purchase, and make payment made via credit card or Apple Pay via its mobile app that also integrates with the loyalty program.

Invest in execution readiness as much as in capability adoption

- Prepare the organization for execution excellence by focusing on business processes, training and analytics.
- Focus on three key areas of operational excellence: order picking accuracy & efficiency, store labor optimization, and delivery operations management.

For those that execute well, the potential benefits will drive future growth

Converged Retailing is about creating value for the customer through a thoughtful, integrated approach to how digital experiences are embedded into the retail experience. It isn't about driving growth in any one channel (potentially at the cost of another), rather about driving customer engagement and overall growth.

Impact of "Converged Retailing" on key metrics

13.6% ↑	Total Sales	6.7% ↑	In-Store Attachment Rate
7.6% ↑	Digital Sales Influenced by Stores	6.5% ↑	Customer Conversion

Impact as measured by retailer perceptions of how they expect select key performance indicators (KPIs) to change based on a holistic approach to digital transformation

Grocery retailers are, justifiably, increasing investments in digital strategies and capabilities such as ecommerce and mobile. They must, however, learn from those before them and approach digital transformation as an inclusive, enterprise-wide initiative rather than set it up to be the domain of the few. **Focus** on defining a differentiated customer experience valued by their customer demographic. **Identify** and **aggressively invest** in digital capabilities central to delivering on this experience. **Align** the organization structure and people to be customer-centric rather than channel-centric. **Fine-tune or re-architect** processes and systems to ensure flawless execution, or risk margin hemorrhage. And finally, **deliver** on the promise of Converged Retailing by weaving different "channels" into a unified customer experience.

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Our research agenda is developed using inputs from the end user community and the end user community extensively reviews the research before it is published. This ensures that we inject a healthy dose of pragmatism into the research and recommendations. This includes input of what research topics to pursue, incorporating heavy practitioner input – via interviews etc., and ensuring that the blend of research takeaways are oriented towards a real-world, practical application of insights with community sign-off. For more information, visit www.eknresearch.com.

Naveo Commerce

Naveo Commerce provides a fully customizable SaaS platform for on-demand grocery used by major retailers and brands. For consumers, Naveo provides apps that empowers people to shop online, consume smarter and eat better. Foodie delivers highly personalized food and product recommendations that make every-day shopping easy and fun. For retailers, the platform provides all the tools needed to run modern, on-demand operations including click and collect service and home deliveries. The platform is currently available on web, iPad, iPhone, Android and Windows Phone. Digital Foodie operates currently in North America, Europe and Asia. http://www.naveocommerce.com