How the Changing Consumer Will Reshape the Grocery Business

Highlights from June 2019 Webinar
Featuring Grocery Experts
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Setting the stage

The grocery business is without a doubt in the middle of unpresented disruption and is being reshaped by the consumer.

Technology has empowered the consumer and changed the game forever but there are other factors too that need to be built into consideration:

- **Lifestyles** have changed dramatically today with most adults in each household working outside the home.
- **Expectations** are surging and this is fueling the demand for better in a continuous way.
- There has also been a shift to **consumer centricity** which has replaced the product focus and changed the way retail has really looked at the market.
- And finally **organizational alignment** - everyone pulling together is key to success.
Goal

Today we’ll highlight the four key changes that we see consumers wanting and needing something different in the market.
Major consumer behavior change drivers

1. Increased importance of product choice
2. Greater demand for relevance
3. Growth of online grocery
4. Shift to mobile driving digital influence

The challenge is responding
Some organizations will - others will not.
1. Increased importance of product choice
Product choice is:

- Changing what’s sold
- Impacting the entire supply chain
- Creating new partnerships

The consumer today has significantly more buying options and is no longer limited to the nearby store and now can align their buying decisions with what’s most important to them.

This has dramatically changed what is sold from process to fresh and clean, impacted the supply chain requirements from selling products to selling meals, and sparked new partnerships to manage the shift from planned to on-demand eating. All significant impacts to the business.

There is also increased emphasis on high quality food that has a direct connection to freshness, taste, health and well being. The consumer looks at food very differently today than they did 10-20 years ago and we don’t expect this to go away anytime soon.
Driven by expectations for brands/products to be more authentic and transparent.

✓ What’s in it (or not in it)
✓ Where it’s been
✓ What’s happened to it

Consumer values are playing a larger and significantly more active role in shopping today. The traditional purchase drivers that we all grew up with, are now being eclipsed by new value drivers such as what is in a product or more importantly what is not in it, where has it been, and what’s happened to it.

Additionally the consumer is no longer accepting at face value claims that are being made by brands. They are really looking and deciding to see for themselves what is happening behind the curtain.

Transparency and trust have become essential to building and maintaining an ongoing relationship.
Attitude towards cooking

This is also more important because most people really don’t like cooking and are looking for products to help them avoid it.

Cooking has become a popular hobby, but it’s not what people want to do every day.

Spending on food

As a result of the lost interest in cooking, households are spending more on “food away from home” than they are on “food at home” and this trend is accelerating.
What to expect?

#1 Increased importance of product choice

- Explosion of new products
  - Most of which will be slower moving and in the long trail which complicates handling issues.
- Integration with meal planning tools – one click ordering
  - Meal planning is a source of stress and customers are looking for help in relieving that stress so tools that help them do that are important.
- Grocery and food service continue to converge
  - The US is one of the few developed countries in the world today where retail and food service haven’t converged but that’s changing as we speak.
2. Greater demand for relevance
Relevance through Personalization

More options >>>

- Greater ability to satisfy a consumer’s need
- But harder for retailers and shoppers

Any household today buys only a tiny fraction of the items available in the supermarket. Research finds that less than 300 SKUs are bought a year by a typical household. What’s more important is the consumers are really only interested in the products relevant to them. And here’s where personalization comes in: It helps ensure relevance.
Relevance

The key to cutting through the clutter.
Effective online search depends on accurate and extensive product attributes.

It’s critically important to have updated, accurate and extensive attributes for your products so the search delivers the right product with the right criteria. There is nothing more frustrating than doing a search and getting unrelated products, and you have to work hard to find or discover the products you’re looking for.

Online searches are only going to grow and get more important. Think of it this way: The brand creates the promise and the attributes connects the promise with the shoppers search.
What to expect?

#2 Greater demand for relevance

Brand proposition will be more responsive in the hyper-connected market

Growth of smaller insurgent brands

Retailers need different capabilities to efficiently handle new products
3. Growth of online grocery
Most growth is online

The exciting thing is most of the growth in the grocery business is happening online. You can see the growth rate we found in our research is 10x faster online than in the store. Retailers and brands have to position themselves to participate in this growth or face the loss of share.

Online grocery sales to grow 10x faster than In-Store
5 Year CAGR ending 2022 (excluding inflation)

Online: 13%
In-store: 1.3%

Source: Brick Meets Click Online Grocery Forecast – 2018
However, in our research from 2018 (US) we saw only a minority of shoppers planning to buy groceries online over the next 3 months. We don’t see this changing from the minority for sometime.
Majority of the “action” in-store

The majority of sales are still captured and happen in-store. It will remain this way for sometime, but they do require digital engagement to be successful.

The Growing Share of Wallet

Online Share of Total Grocery Spending - US
All households – May 2018

Source: Brick Meets Click Grocery Shopper IP, July 2018
Need to solve the online grocery profitability dilemma

Up until now, the profit from online sales has been significantly below in-store sales and this can’t continue.

The good news is that we’re seeing example after example of improvement from automation that is already beginning to reduce the cost of fulfillment, and there is a lot more improvement on the horizon.
What to expect?

#3. Growth of online grocery

- Omnichannel becomes more critical
- Increased focus on “best” customers
- Improved profitability of online grocery sales
- Innovative partnerships redefine the value chain
4. Shift to mobile driving digital influence
The decreasing effectiveness of print
When you think about digital, it’s about increasing share of mind. Based on research we did, we found a direct relationship between the number of digital connections to the percentage of actual primary shoppers.
How to connect with in-store customers?
What to expect?

#4. Shift to mobile driving digital influence

Consumers and “their things” are even more connected
Quality of digital content becomes an integral part of earning loyalty
Stronger impact of digital reactions, ratings, comments on decisions
More on-demand shopping
Looking Forward
Don’t think first about the tech

Do think about what the customer’s needs and experience first

This means you have to:
• Segment the market to identify your target customers, and do that thoughtfully and precisely
• Define and consistently repeat the message that will attract that consumer.
What is the optimal omnichannel grocery experience?

Separating routine shopping from discovery shopping

Much more innovation coming: It’s a “work in process”

An important first step is making it easy for the customer to separate two types of shopping that could never before be separated i.e. the routine shopping for things that are regularly purchased from discovery shopping, where more time, effort, and the thrill of discovery is found.
Consumers are pulling the industry... towards “Next Gen” grocery/food retail
**Panel Q&A**

**Question:** Is the growth online versus in-store attributed to in-store growth having maxed out?

**Answers:**

- Bill Bishop: What’s really happening here is the online option is expanding the way that shoppers can interact with the retailer. So perhaps the shopper had gotten use to a particular store and now with the option of shopping online they have more choice, more flexibility and as a consequence expanding the way that use that retailer.

- David Gruehn, SAP: The only thing I would add is there has been a lot of discussion if online will cannibalize the in-store segment of your customer base and my research indicates not necessarily. I believe what will be more prevalent here, is the expectation as the baby boomers have now taken second place to millennials in terms of their dominance in both in their numbers and economic buying power, their expectations is going to be “If I don’t have a complete end-to-end brick and mortar, online and everything in between option”, then you could lose market share to the retailers that do.

- Steve Bishop: Good point, consumers are looking for the online option. If you offer it, they will buy it from you. If you don’t, they will go somewhere else. So the question is: Do you want those online dollars to shift to your business or do you want them to shift to a competitor?
Panel Q&A

**Question:** Does more "digital connections" mean they have more devices?

**Answers:**

- Steve Bishop: The digital connections (slide 25) is not tied to devices, but tied to different ways you could connect with a consumer such as a website, email, text, app or so on, so it’s not device specific.

- Bill Bishop: Going forward there is going to be more synergy as devices expand. These touchpoints will multiply. The original research we did was primarily with people looking at their computer.

- David Gruehn: I’d add it doesn’t necessarily mean more devices, although the devices consumers have will become more powerful and prominent as things like artificial intelligence and machine learning continue to ramp in their influence and capabilities.
Panel Q&A

**Question:** Who are the primary grocery customers?

**Answers:**

- Bill Bishop: From a gender point of view, it’s still the female as the most represented although male shoppers have certainly increased, so both men and women are grocery shopping today. From the standpoint of behavior, the grocery shopper today is shopping more frequently and visiting different stores. So more frequently shopping, more outlets to shop, and probably smaller orders.

- David Gruehn: The behaviors you describe continue to change and a lot of it is driven by disruptive technology. I think grocers have a unique opportunity to rethink this entire segment of retail. For example how do they compete with Amazon where you have a company creating their own transportation air fleet to further its supply chain? Well one of the ways is they change what it means to be a grocer. For instance with center isle type commodities going thru subscription services with Amazon such as coffee and cereal, make the epicenter of the store an experiential center – a destination target. For example with nutritional experts or community cooking classes, or whatever depending on how you redefine what grocery means for a shopper that has a high rate of interaction with you, determines who those primary grocery customers are.

- Bill Bishop: That’s a really great point and it allows for almost infinite differentiation following along the lines you’re suggesting.

- David Gruehn: Exactly, differentiation is key and the smart grocers will be going after what we call “customers for life”. You become such an integral part of their life from both a convenience and value add perspective.
Panel Q&A

Question: Do you see increased service fees and the consumers acceptance of those fees to help solve the profitability dilemma or will online retailers keep racing to the bottom?

Answers:

• Bill Bishop: First of all, I don’t think anyone wants to pay more for this except for the very specialized and relatively affluent group. Simultaneously, I don’t think there will be a race to the bottom, but what there will be is a race to efficiency and there will be a number of retailers who will win that race. They will not need to charge anything for this service because quite frankly they’ll be even more efficient in fulfillment and ultimately more profitable than they are in-store.

• David Gruehn: I agree, adding more service fees doesn’t seem acceptable, especially with the Amazon effect which is striving like an 800 pound gorilla to do just the opposite. In my view what needs to happen is to change the model for what it means to be a grocer to your customers. For example maybe you offer your own subscription services, or start to offer food services as part of your assortment. You have SKUs for health experts or families with new babies. That ability to provide a complete end-to-end online to in-store experience is something that pure-plays will struggle to replicate. And to Bill’s point, you drive efficiencies using automation. Automate the things that people have historically done and shift those people into driving and enhancing increased customer experience potential by offering services that just have not existed before.

• Bill Bishop: We have an lookout on Brick Meets Click site about Walmart offering their in-home services now in three markets this fall, they’ll be taking groceries all the way to the refrigerator, and will have built a completely new supply chain taking cost out of fresh food distribution all the way to the home. That by itself could be a radical change even before we get to automation.