PREPARING FOR SUCCESS IN THE

OMNI-CHANNEL RETAIL WORLD

Coca-Cola
RETAILING RESEARCH COUNCIL
Research by Retailers • Latin America

CONTENTS

EXECUTIVE SUMMARY

In developed markets, retail is undergoing a fundamental transformation like never before, particularly driven by the shift to digital.

In Latin America, where customers are starting to change[1], ecommerce is only just in a nascent stage. Certain countries in Latin America appear more ready than others for a digital shift (Chile, Brazil and Argentina in particular while customer readiness in Mexico may prove a barrier) with the rest of the region not far behind. This means that grocery retailers should consider embracing digital or face having their core business model disrupted. This report explains the key factors to success.

In the most developed online grocery markets in the world (UK and France), the market has grown rapidly and now sees new entrants changing the rules of the game (e.g. Amazon Fresh/PrimeNow, Hello Fresh, etc.). This is spurring the existing players to enhance their propositions and try to create points of difference. A key factor in their thinking is how to become truly omni-channel – how best to leverage the existing physical assets they have to compete effectively and provide a winning proposition for customers.

Most retailers are opting for a transactional online presence but a digital shop window approach could work for less developed markets (as a stepping stone to eventually being transactional).

Digital provides retailers with a better opportunity than ever to engage with customers. The difficulty lies in quickly building the capability to use digital channels in the right way – typically this requires hiring of skills from outside the traditional business and leveraging relationships with third party agencies.

Note: [1] See previous CocaCola Retail Research Council LatAm report

EXECUTIVE SUMMARY

The mission for most customers when purchasing groceries online is to replace the "full shop" mission they used to conduct in store.

With this in mind, it is recommended that the full store range of products be put online. Range extension may happen in the future but the short term focus is to provide the items the customers need on a daily basis. The price for products should be the same as those in store – although for less popular products, there could be a product price premium charged (in part to help with the economics of picking and delivery). Continued investment needs to be made into the online customer experience – in much the same way as in physical stores.

The delivery or collection options provided to customers are a key battleground in developed markets. Collection tends to be a cheaper route to serve customers (as there is no subsidy required as on delivery) but delivery may be more popular depending on customer expectations. There are many operational models in use to fulfil customers grocery orders. In our experience, the store pick model is always the cheapest given the low incremental fixed costs. However, depending on store size, volume or service levels there may be a need to move to a dedicated warehouse-like facility.

Retailers should be careful not to over-invest in these facilities and focus on achieving operational efficiency whilst fulfilling the customer promise.

Technology is naturally a crucial area of focus for online grocery and requires continued investment. Not many mid-tier platforms have extensive credentials in grocery but all-in-one solutions are available and should be considered. As the business grows, moving to a more complex solution (either custom or commercial) may be required.

EXECUTIVE SUMMARY

Traditional businesses will need to invest in building the capability for running a successful omni-channel business – both in terms of headcount as well as the skills and tools required.

During the early years of running ecommerce it is strongly recommended to keep the online team separate from the main business, ideally with a reporting line into an executive team member. Over time, and as the business becomes more omni-channel, duplication of roles will reduce as the teams become integrated.

Making a profit from selling groceries online is difficult to achieve but possible – typically where the business has achieved sufficient scale to cover the fixed costs. In regions like Latin America where the labour costs are relatively low, achieving profitability will be different from European countries where productivity is the key focus. Naturally operations need to be efficient but service quality needs to be the focus to ensure customers are happy and return to shop again. Cost allocation is typically a big discussion point for online grocers. Ideally all costs should be shared between online and offline to ensure true profitability is understood.

However, it is often overly complex to get to this point and a more pragmatic approach (e.g. focusing on incremental cost only) could be used. Constant monitoring and use of KPIs is required for online and retailers should ensure that top level management are discussing online regularly in the same way they discuss stores.

Finally, reaching profitability takes time after starting from zero - typically 5 years for a well-planned store-pick model. The management team need to give online enough time to achieve its true potential and ensure that customers can shop in a truly omni-channel way.

02 Online readiness in Latin America

LATIN AMERICA PRESENTS A SET OF DISTINCTIVE MARKETS EACH WITH THEIR OWN SPECIFICITIES

The size and shape of the Latin American market makes comparison across the region difficult.

The LATAM countries represented in this study account for almost 500 million people (in 2014) and range in size from Costa Rica (4.8m) to Brazil with a population of over 200m inhabitants. Economic conditions vary widely across the continent from the Dominican Republic with a GDP per capita of a little over $13,000[1] to Chile with around $22,000.

The total grocery market is valued at approximately $800bn and remains dynamic across the region with spend per capita growing at 5% per annum fuelled by increasing standards of living and growing middle classes.

The contrast of consumer wealth within an individual country is vast with 10% of people in Brazil having access to over 40% of the country's income, while the poorest 10% receive only 1% of the income. This contrast of wealth within a population leads to a different requirement of stores, with many low income households in LATAM heavily reliant on traditional stores and needing to be able to purchase individual products rather than buy items in bulk.

Many of the LATAM countries have experienced both political instability and the resulting high inflation challenges leading to a more turbulent environment for retailers. In particular it has a significant effect on investment decisions, with a natural focus on the short-medium term horizon.

This section explores how Latin American retail markets have evolved in recent years, in particular with respect to the evolution and modernisation of store formats, evolving customer habits and the digitalisation of the Latin American consumer. Developing an omni-channel grocery proposition in any of these markets will not only require a thorough understanding of ecommerce fundamentals but also clear strategies to adapt to the local market environment, in line with customer needs and expectations and accounting for local trade specificities.

Sources: Equity trust, Forbes, Euromonitor, Javelin Group analysis

Note: [1] Measured at Purchasing Power Parity

A METHODOLOGY FOR ASSESSING ECOMMERCE READINESS

Country ecommerce readiness has been assessed based on metrics pertaining to:

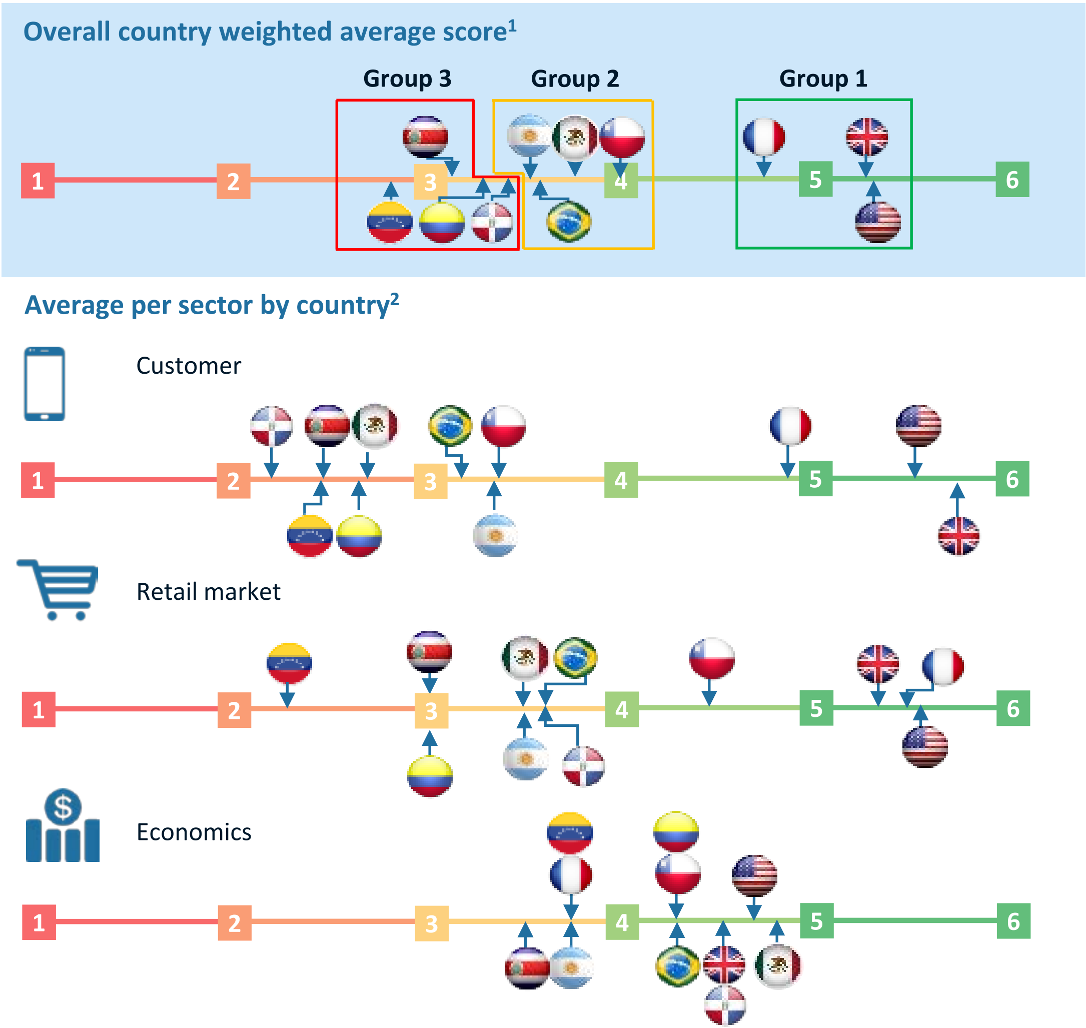
- **Customers**
- **Retail markets**
- **Economics**

All these metrics are assessed at a country level but results may differ significantly when cutting across different segments of the population. Regional supermarket operators may wish to focus their attention on the populations in their catchment areas while up-market grocers may wish to focus on higher socio-economic groups within a country.

These indicators are contributors to an ease of doing ecommerce grocery. While they provide an overall country score they should be looked at individually in order to understand the specificities of a country and to assess the most appropriate omni-channel model to develop.

Sources: Shaping The Future Of Online Grocery, Coca-Cola Retail Research Council Europe; Javelin Group analysis

OVERALL COUNTRY PERFORMANCE



As part of the analysis, we have included three developed economies outside of LATAM – the USA, UK and France (Group 1) - both of the latter have long established online grocery sectors.

The results show that Group 1 countries are significantly ahead of their LATAM peers – largely due to levels of internet access, customer wealth and the maturity of the grocery retail industry in those countries.

Across the LATAM countries two groups are distinctive. Chile, Mexico, Brazil and Argentina appear to be the most ready for online grocery – although customer readiness in Mexico may slow this down.

The remaining countries (Colombia, Venezuela, Costa Rica and Dominican Republic) are not that far behind which may illustrate that there are some opportunities for retailers to launch online – although a widespread national service is less likely. Indeed this is a key question for retailers to consider with online grocery – do they need a national service or should they just focus on more urban centres?

Notes: [1] Continuous Scale [2] Values within segments are equal and independent of flag position
Source: Javelin Group analysis

03 Lessons from developed markets

THE GLOBAL GROCERY MARKET BUSINESS IS RAPIDLY CHANGING; CONSTANT INNOVATION AND NEW THREATS

WIDE RANGE OF DIGITAL FOOD BUSINESSES IN THE MARKET PLACE DISRUPTING TRADITIONAL MARKET AND LEADING TO INCREASED COMPETITION FOR RETAILERS

Gousto
SNACKLY
curious tea
FRESHOLOGY
Zesty
BOXED
KOPI
Google Express
deliveroo
DESKbeers
diet chef
HUBBUB
Abel & Cole
Simply Cook
good eggs
MARLEY SPOON
Kitchensurfing
graze
naturebox
Just Add Cooking
Plated.
jenny craig
COOK
Jinn
THE SPICERY
Pact
shuttlecook
JUST EAT
igourmet.com
brown bear
MOUTH
Bean & Ground
orogo
relayfoods
THE FOOD ASSEMBLY
Mindful Chef
bodychef
the fresh 20
instacart
Riverford farm shop
Sam's Club
OUT OF THE BOX COLLECTIVE
farmdrop
sprig
SOUS CHEF
Blue Apron
DOORDASH
UBER EATS
POSTMATES
EatBig.co.uk
PeachDish
Hello FRESH
LUNCH BXD
flypay
natural selection
SPOONROCKET
curbside
GRUBHUB
EATFIRST
caviar
MUNCHERY
MAPLE
Chefday!
Pepperplate
PLAN TO EAT
amazonfresh
CITY PANTRY
dinein.in
COOKING simplified
LUKE'S LOCAL

DISRUPTIVE MODELS FROM NEW AND MAJOR PLAYERS ARE ENTERING AN ALREADY COMPETITIVE MARKET

The ecommerce grocery space is highly competitive with innovative new companies constantly developing new business models to disrupt the current market. New entrants to the market are appearing across the full spectrum of the grocery space and many companies are approaching this from a variety of different levels of 'produce readiness'. From grocery delivery to prepared dinner boxes, right through to sending the consumer a chef with the ingredients to cook a meal in their house, the market is constantly changing.

This dynamism reiterates the importance of a clear unique selling proposition (USP) for online grocery retailers to ensure they can differentiate themselves in the market. For larger corporates going online, the assortment and delivery proposition will be key if they are to carve out the market share they require to make the investment worthwhile.

LATAM IMPLICATIONS

This is perhaps the major area of concern for LATAM retailers – given the number of pureplays entering the market. Even to pick Brazil as an example market, the likes of Mambo, Pão de Açúcar and eFácil all represent significant threats to the incumbent retailers.

When considering their response, LATAM retailers should consider whether they are willing to give up "share of stomach" with these newcomers or whether they have to react with an offering of their own to counterbalance their impact.

BUSINESS MODEL 1 - ONLINE GROCERY RETAILER

Companies that source and sell products online are providing direct competition to the large grocery players. There are large and small players in the market from Amazon Fresh who offer a full proposition, to Riverford Organic Farms, who sell and deliver products straight from their farm directly to the consumer.

BUSINESS MODEL 2 - 'LAST MILE' DELIVERY SERVICE

The 'last mile' delivery service businesses create a link between the retailers and the consumer when the retailer does not offer a delivery service. These allow more grocery retailers to move online, increasing competition within the space. Examples include Instacart, Google Express, Hubbub and Farm Drop.

BUSINESS MODEL 3 - READY TO COOK, SUBSCRIPTION BOXES

A subscription model that delivers a box to your house, with all the ingredients in the correct portions ready to cook, along with instructions on how to do so. This reduces the need to go grocery shopping for dinner and can make life considerably simpler.

BUSINESS MODEL 4 - PREPARED MEALS DELIVERY

No time to cook? No problem! These businesses allow you to get dinner at a click of a button. From traditional takeaway and restaurant partnership deliveries, to providing a chef to visit your house and cook. There are many start-ups taking consumers away from needing to shop for groceries online.

NEW ENTRANTS TO MARKET CREATE FRESH THREAT FOR GLOBAL RETAILERS E.G. INSTACART AND AMAZON

instacart

- Instacart's delivery proposition can tap into growing customer demand for hyper-convenient services
- Start-up background allowed innovative online grocery model to flourish – and eliminate the complication of supply of goods
- Instacart's major financial backing means it can pursue rapid geographical expansion without a focus on generating profit – recent direct investment from Whole Foods
- Represents both a threat and opportunity to retailers

amazonfresh PrimeNow

- Amazon already sells to a high proportion of retail customers with their general merchandise proposition
- Amazon has major ecommerce infrastructure (technology and logistics) already in place
- Amazon able and willing to pursue grocery market in multiple countries regardless of short-medium term profitability concerns
- Network may not be a national model – more focused on urban
- May also represent an opportunity for retailers to supply products – or use the sales channels of PrimeNow

- Both companies have ***major financial resources*** and ***little concern over short-term profitability***
- Both offer propositions focused on ***satisfying customer needs*** that no other retailer really currently covers
- Both are ***changing customer perceptions and expectations***

These two players are fundamentally changing the competitive landscape for traditional US retailers

PROPOSITIONS ACROSS ALL CHANNELS ARE EVOLVING RAPIDLY IN THE FACE OF THESE THREATS

DELIVERY PROPOSITIONS

Same day delivery option

Increasing use of **click and collect** – including same day offers

Grocers offering **unlimited delivery** packages for a fixed fee

Increasing use of **"Drive" pick up** in France

CHANGING STORE FORMATS

Convenience/proximity stores gaining importance, as shoppers want more, better quality top-up shops

Increased discounter impact (particularly in the UK) with Aldi & Lidl gaining significant market share

Reduction in **hypermarket demand**

PRODUCT PROPOSITION CHANGES

Recipe box deliveries, **gain popularity** due to convenience

Restaurant delivery services creating additional competition in grocery space

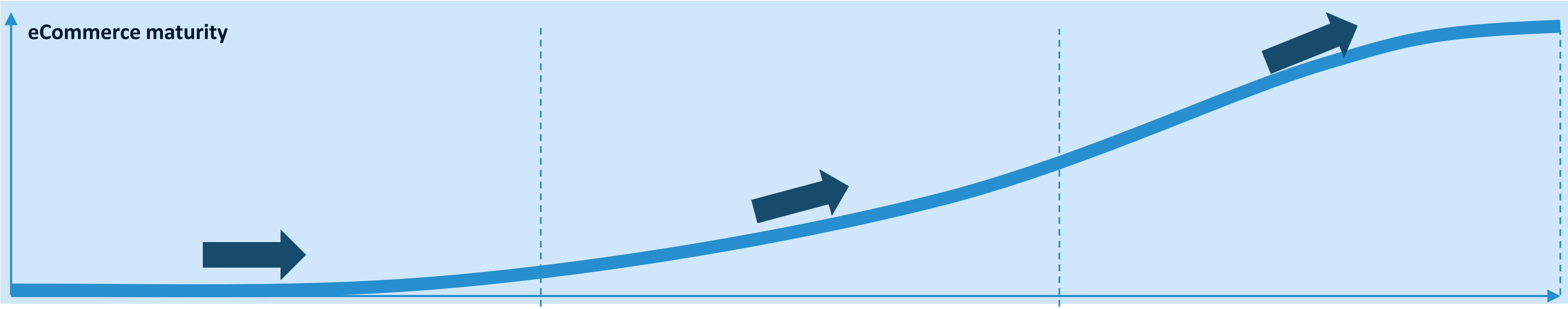
Online grocers entering market to compete with **traditional grocers** e.g. Amazon fresh

Increasing range of grocery propositions

04 What is omni-channel retailing?

Omni-channel retailing is about allowing a consumer to **seamlessly move across channels** to purchase **whatever** they want, **whenever** they want, **however** they want and **wherever** they want

SUPERMARKET RETAILERS SHOULD SELECT A STARTING POINT AND EVOLVE THEIR PROPOSITION OVER TIME



1 DIGITAL SHOP WINDOW

- Focus on engaging with customers through digital channels
- Product catalogue available online (ideally with local pricing) with non-product content (recipes, etc.)
- Digital marketing campaigns to drive customers into store

2 SIMPLE PROPOSITION

Building on Digital Shop Window with…

- Simple ecommerce platform showcasing full local assortment (all temperatures) with local prices & promotions
- Pick-up service offered at some stores – basic drive-thru set-up
- Test & learn approach as business gets used to online channel

3 ENHANCED PROPOSITION

Building on Simple Proposition with…

- Sophisticated ecommerce platform with full assortment of grocery products
- Extended assortment of products available via drop-ship
- Pick-up via drive-thru offered at most stores
- Home delivery offered in high density areas
- Non-product content highly socialised and interwoven into website experience

PROPOSITIONS SHOULD BE DEVELOPED SO THAT THE ELEMENTS ARE CONSISTENT WITH THE MAIN BUSINESS

	1 DIGITAL SHOP WINDOW	2 SIMPLE PROPOSITION	3 ENHANCED PROPOSITION
Purpose of investment	**Support existing store business via digital; creating brand awareness**	**Offers consumers basic online solution; stay competitive without large investment**	**Creates great consumer experience; additional revenue + market share**
Online customer proposition	▶ Product catalogue available online (with local pricing) with non-product content ▶ Digital marketing campaigns to drive customers into store (e.g. seasonality) ▶ [3rd parties used for delivery services]	▶ Simple ecommerce platform with full store assortment (local prices & promos) ▶ Pick-up service offered at some, not all, stores ▶ More sophisticated online marketing	▶ Sophisticated ecommerce platform with full / extended assortment of products ▶ Drive thru and home delivery offered ▶ Non-product content highly socialised and interwoven with website experience
Benefits for retailers +	▶ Establishes a digital presence, improves brand and connects shoppers with the store – improving their existing experience ▶ Needs only relatively small team to run	▶ Some incremental sales from online ▶ Support stores with additional sales (e.g. halo effect) and improved stock data	▶ Incremental sales (online & store) ▶ Full digital presence harness more loyal customer base
Risks for retailers -	▶ Does not satisfy customer needs for convenience of shopping online ▶ Risk of losing sales to competitors offering grocery online ▶ Hard to track return on investment	▶ May be restricted in terms of the proposition / customer experience ▶ May be harder to scale the business without significant further investment ▶ Potential risk if competitors provide more advanced propositions	▶ Significant upfront investment required ▶ Requires a large team to build, operate & constantly improve proposition/execution ▶ Complexity of technology systems and operational requirements presents a risk to the business
Overall rationale	**Good way to offer and learn about digital experience before further investment**	**Good option to "test & learn" before major platform investment**	**Best option if facing significant online and offline competition threatening base**

Sources: Company websites, Javelin Group research and analysis

IN A MARKET WITH NO SIGNIFICANT ONLINE GROCERY ACTIVITY, IS IT BETTER TO BE FIRST OR FOLLOW LATER?

FIRST MOVER?

Pros
- Can dictate the "rules of the game"
- Significant learning
- Gain access to "early adopters"
- Brand benefits

Cons
- Need to invest more money to educate customers
- Lack of digital talent
- Need to maintain agility
- Risk of distraction

TESCO

Tesco launched online shopping service in 1997. Now the world's largest online grocery home shopping provider with c.$5bn of sales online

FAST SECOND?

Pros
- Lower investment required as customers educated / talent available
- Learnings from first mover
- Concentrate on other areas of business

Cons
- May lose customers to new channel / missed sales opportunity
- Overall brand may be impacted

E.Leclerc

Leclerc launched their online grocery service in 2004 after Auchan – now the largest player in France having started slowly and then ramped up having learnt lessons from others

SLOWER THAN SECOND?

Pros
- Fewer early mistakes
- May be able to skip intermediate stages or move to latest model

Cons
- High risk
- High investment in customer acquisition from incumbent

Morrisons Since 1899

Morrisons (UK) launched online in late 2013 through outsourced venture with pureplayer Ocado with a significant investment, which many analysts felt was overpriced. Now growing very quickly and partnered with Amazon Fresh

THIRD PARTY PARTNERSHIPS CAN OFFER BENEFITS TO RETAILERS WHO DO NOT WANT TO INVEST IN DELIVERY CAPEX

ONLINE FULFILMENT OPTIONS

A third party fulfilment service is an external operator that can provide the pick, pack and delivery service for a retailer. Effectively outsourcing the online channel to another party.

POSITIVES

- ✓ Lower investment in online grocery infrastructure (e.g. no van fleet, dark stores)
- ✓ Minimal interruption to store operations
- ✓ Store picking model reduces waste management challenge
- ✓ Full online grocery service offered quickly
- ✓ Fast delivery for customer convenience
- ✓ Shared marketing responsibility
- ✓ Customers offered good web experience

NEGATIVES

- × Diminished relationship with customer
- × Either no or limited access to customer data
- × Loss of brand control / customer service
- × No control over substitution process
- × Still need to build product information
- × Limited / no control over online user experience
- × No control over service proposition (e.g. fees)
- × May reduce capability to build / focus on self-run online grocery function

Third party providers represent a potential opportunity for retailers to test demand for online grocery in the short term. However, the importance of being fully in control of the customer experience, operation and revenue stream mean that retailers should choose carefully in the longer term

Google Express

Peapod

05 Driving customer engagement through digital

AS CONSUMER EXPECTATIONS AND HABITS CHANGE WITH TIME, DIGITAL MARKETING IS RESPONDING

62% of Millennials feel that **online content drives brand loyalty**[1]

45% of Mexican Internet users **follow a brand on social media** and the most popular reason for doing this is to get discounts (January 2015)

54% would consider ending their relationship with a retailer if they are **not given tailor-made, relevant content and offers** [2]

Companies in Latin America that are using **inbound techniques** spend **63% less** to **acquire new leads** than those that do not[5]

89% of marketing leaders expect **customer experience** to be their primary **basis for competitive differentiation**[4]

Most **Brazilian newspaper readers** (79%) prefer to read **them in print** form, while only 10% prefer reading newspapers online

Smartphone users on average **check their phones 150 times a day**[3]

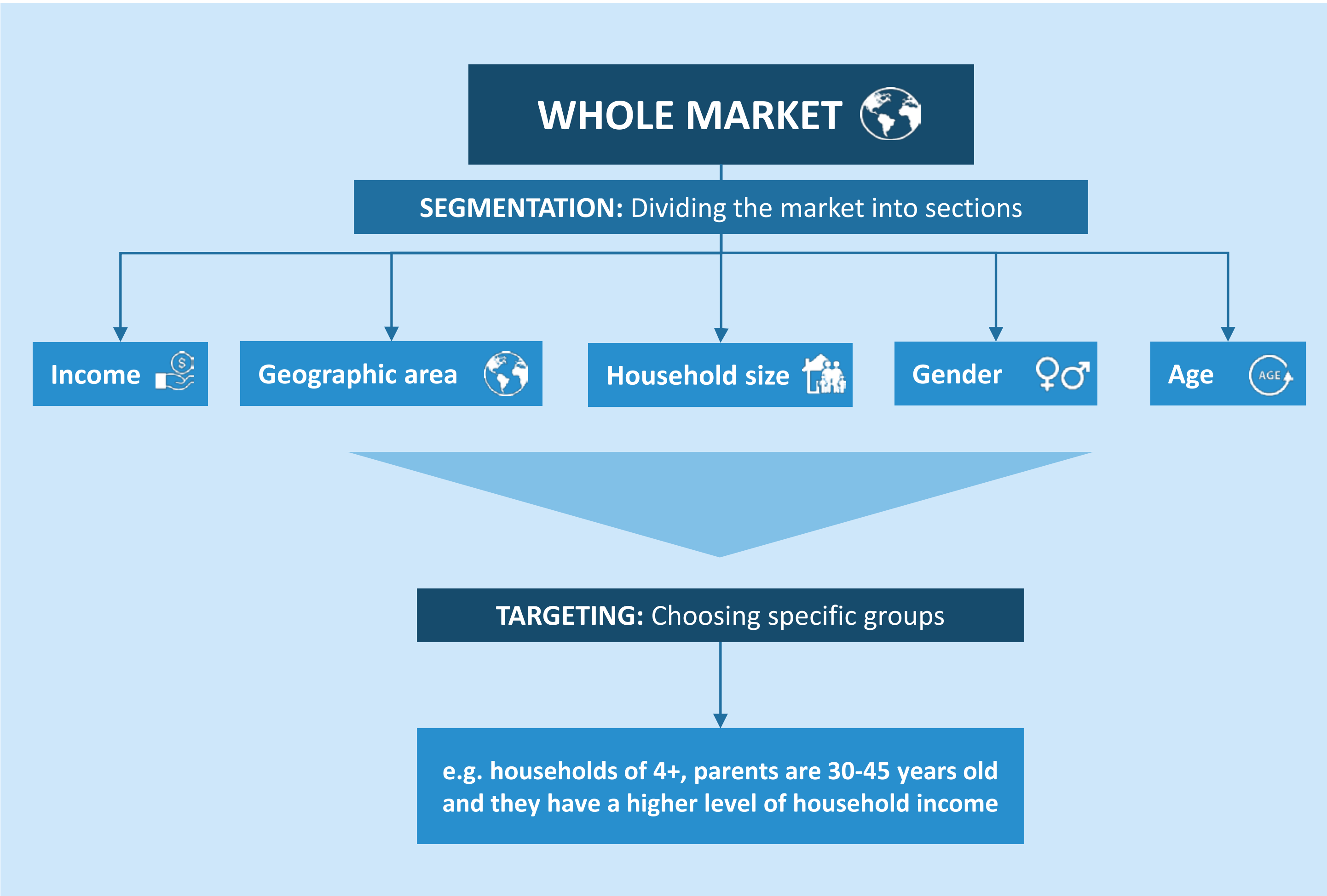
In 2014, **Brazil's ad spend** reached US$22 billion, making it the **world's #5 advertising market**

Notes: [1] 38 Powerful Customer Experience Stats for 2015 [2] 13 Alarming Stats About Retail in Digital [3] Festival of marketing 2015
[4] Key trends for retail technology in 2015: the rise of hyper-personalisation [5] How Marketing Is Evolving in Latin America
[6] Are Latin America's Smartphone, Tablet Users Snapping and Sharing on Instagram?

THERE ARE 7 KEY DIGITAL MARKETING CHANNELS; BROAD MIX SHOULD BE USED & ALIGNED WITH OFFLINE ACTIVITY

	DIGITAL MARKETING CHANNEL	DEFINITION
1	Direct	Customer types in URL, going direct to retailer's site
2	Natural search / Search Engine Optimisation (SEO)	Refers to unpaid listings of a search engine (e.g. Google); rankings here are improved through search engine optimisation. "Free" or "organic" search
3	Paid search / Pay Per Click (PPC)	Brands purchase keywords related to their products & services on search engines, e.g. Google, on a pay per click (PPC) basis
4	Email	Brands email customers within their database, can range from mass emails to highly personalised emails
5	Social	Marketing via social networks e.g. Facebook, Twitter, YouTube, Instagram & Pinterest
6	Display / retargeting	Appears as banners on 3rd party sites e.g. newspapers, often based on previous search history ("retargeting")
7	Affiliates	Brands pay companies (i.e. affiliates) for exposure on their sites (i.e. affiliate networks) to drive sales, normally on a cost per acquisition basis

SEGMENTATION AND TARGETING REQUIRED TO DRIVE MORE RELEVANT AND PERSONALISED MARKETING



SEGMENTATION

Segmentation is the process of **dividing a customer base** into smaller groups who have a **certain profile and demographic**. This allows the company to more precisely target the consumers with particular products and offers.

TARGETING

Targeting is **marketing to these certain customer segments**, which is important because your product/service will appeal to certain segments of society more than others. For example a high end food brand, with expensive gourmet products, is more likely to appeal to consumers who are very interested in food and who have high disposable incomes.

DIFFERENT STAGES OF EMAIL MARKETING; AIM TO BUILD CUSTOMER PERSONALISATION & CONVERSION

Email marketing can be a very powerful tool, as it is a more 'personal form' of communication. However, the huge volume of emails consumers receive every day means personalised, targeted content is vital. There are 4 main stages in the development of email marketing as explained below, from general mass marketing, whereby everyone is sent the same message to behavioural marketing, which aims to adapt and adjust the content and promotions depending on how you have behaved, e.g. last interaction with a company, which products were viewed and based on previous purchases.

Doing this correctly leads to significantly more personalisation and is therefore more likely to be positively received by customers. These emails are likely to have a much higher click through and conversion rate – but personalising effectively requires greater investment, data manipulation and complexity.

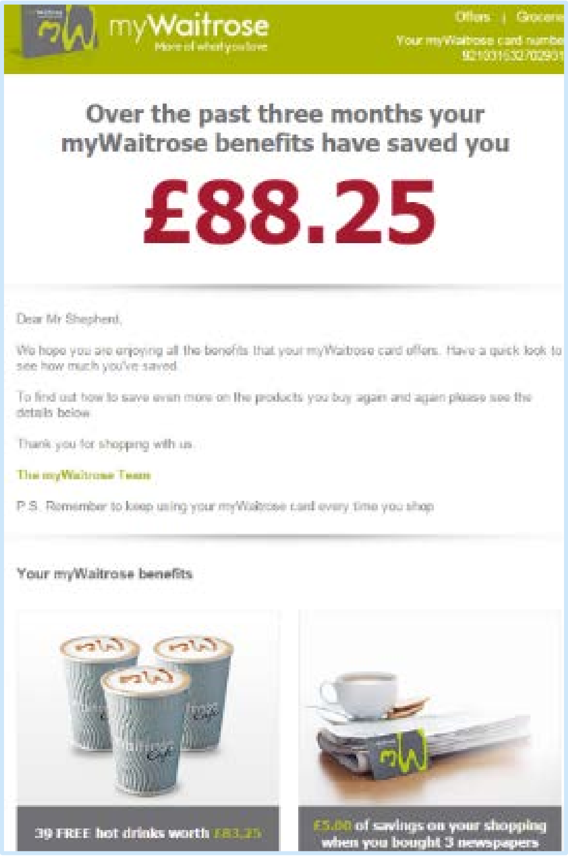
DEVELOPMENT OF EMAIL MARKETING

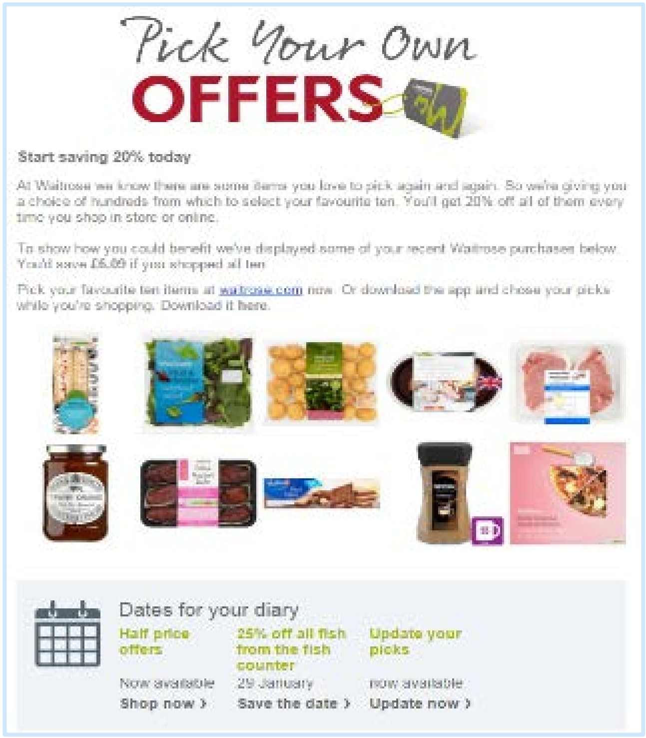
1 MASS MARKETING	2 PERSONALISED MARKETING	3 CUSTOMISED MARKETING	4 BEHAVIOURAL MARKETING
Same email to everyone on the mailing list	Basic customisation e.g. name, 'Hello Mark'	Marketing to you based on preferences and content that interests you	Content, products and promotions that are based on your past behaviour

SIGNIFICANT UPSIDE OPPORTUNITY

- **Segmenting email database** by customer type and history will **enable emails** to **better drive revenue** through:
    - Increased **engagement** of **highest value repeat customers**
    - Increased **upsell** and **cross-sell of relevant products (i.e., selling of complementary products – for example, that pair well with a customer's favourites)**
    - Increase chance to inspire customers based on consumers' interests

LEADING PRACTICE CUSTOMISED EMAIL OFFERING; PERSONALISED EMAIL SHOWING CLEAR BENEFITS AND SAVINGS





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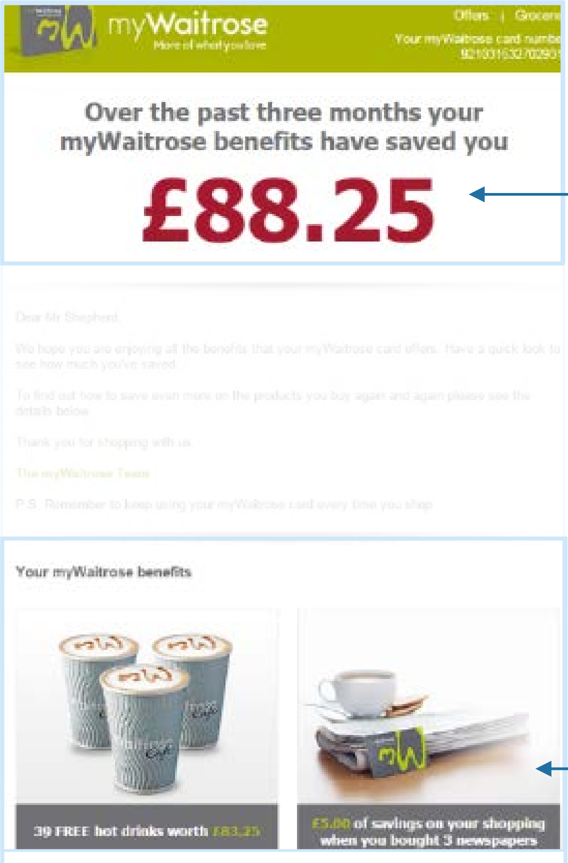
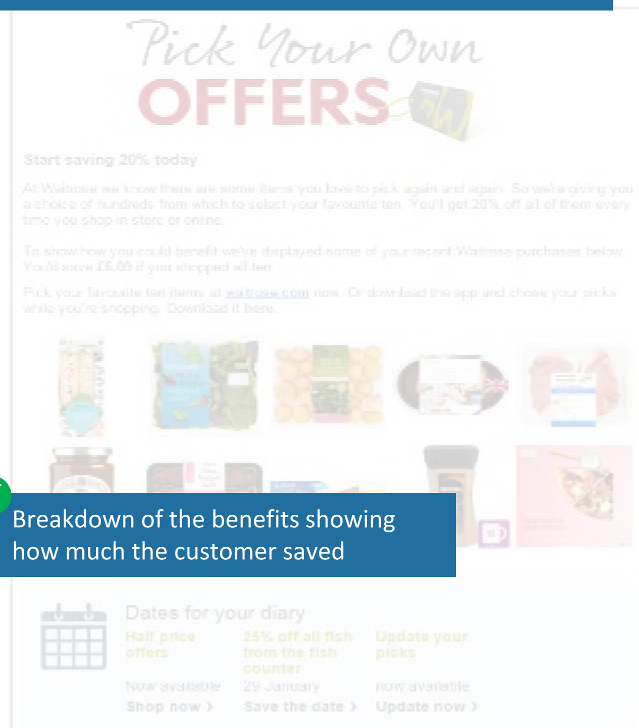
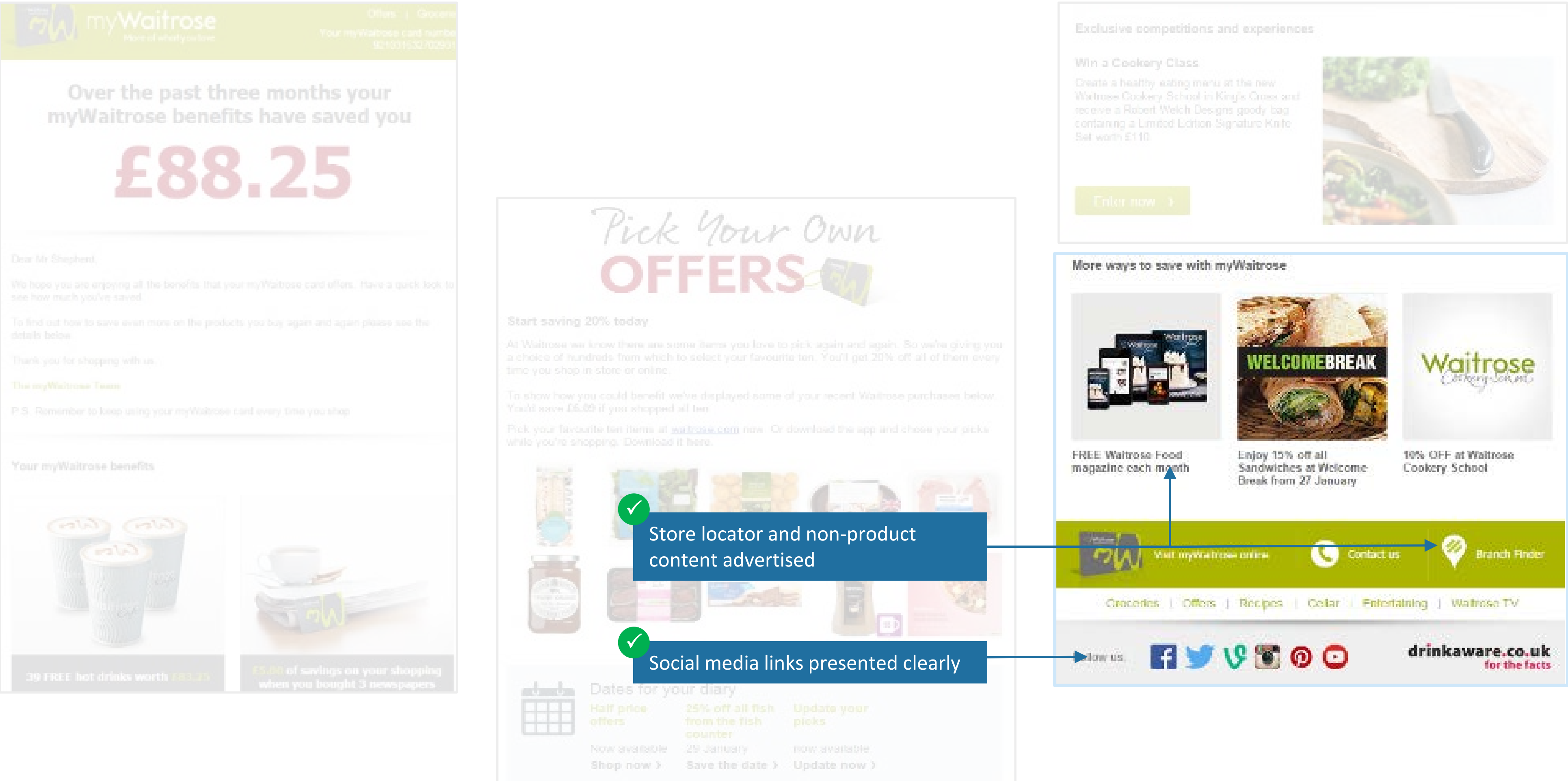


Email is personalised and uses data obtained from myWaitrose loyalty card to explain how you have benefited from the card



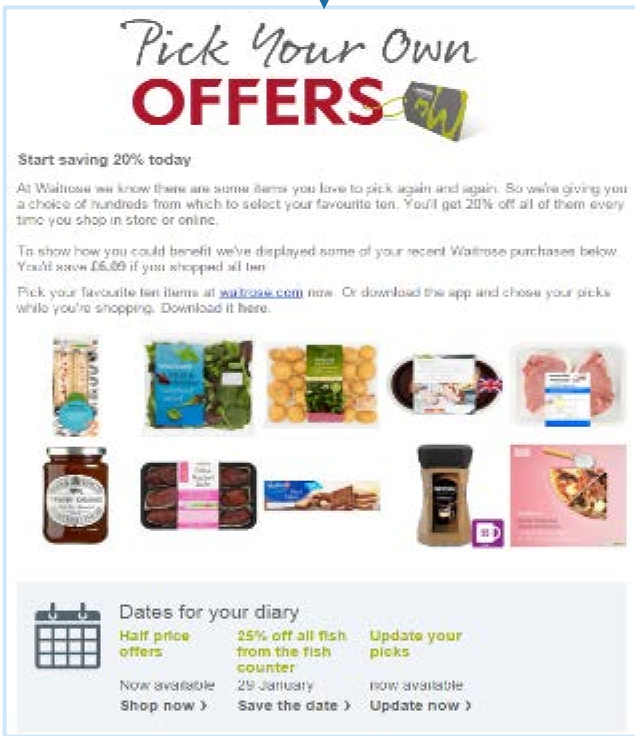
Breakdown of the benefits showing how much the customer saved

LEADING PRACTICE CUSTOMISED EMAIL OFFERING; PERSONALISED EMAIL SHOWING CLEAR BENEFITS AND SAVINGS

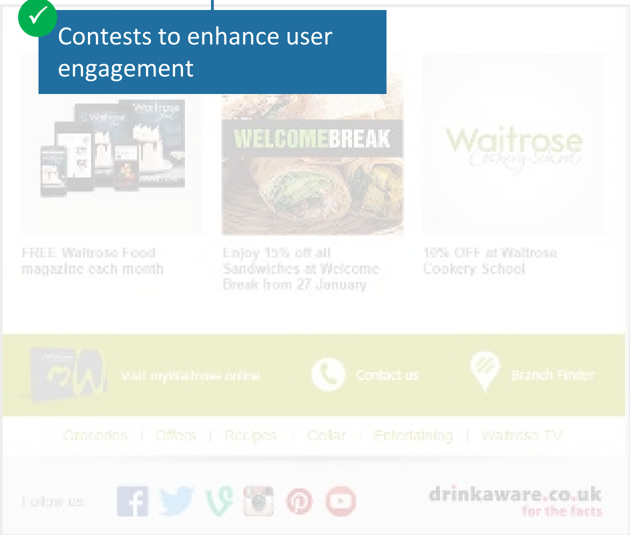


LEADING PRACTICE CUSTOMISED EMAIL OFFERING; PERSONALISED EMAIL SHOWING CLEAR BENEFITS AND SAVINGS

Information about future events and more perks to entice the consumer



Contests to enhance user engagement



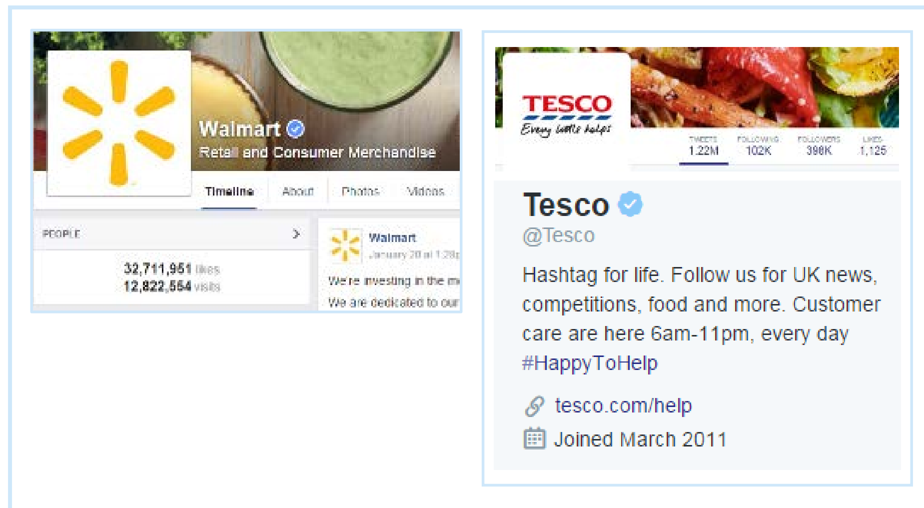
SOCIAL MEDIA IS GAINING IMPORTANCE; VITAL CHANNEL FOR RETAILERS TO TARGET CUSTOMERS

Social media is gaining importance in Latin America and as it becomes an integral part of consumers lives, there is an ever increasing need for retailers to use this channel to keep up with the competition and stay relevant to their customer base. As its importance in advertising, customer service and non-product content increases, retailers needs to make sure they are in a position to handle and deliver the content expected by consumers.

- Social media needs to be considered in six areas:
  1. Social media as a customer service channel
  2. Social media as a traditional marketing channel – driving trade
  3. Social media as a digital, ‘Word of Mouth’
  4. Social media going viral
  5. Social media as a non-product channel
  6. Social media as a means of promotion – couponing or deal offering

Benefit for grocery retailers?

Grocery retailers can benefit substantially from all of these ideas if executed correctly – leading to higher engagement and increasing brand loyalty as a result. As Latin American consumers transition to a greater use of social media and online shopping, this connection with customers will become increasingly crucial for retailers to maintain their competitive position.



Note: [1] 42 Percent of Consumers Complaining in Social Media Expect 60 Minute Response Time

GROCERY LOYALTY PROGRAMMES HELP TO DIFFERENTIATE THE OVERALL OFFER – DIGITAL NEEDS TO BE A KEY ELEMENT

How to deliver a successful loyalty programme?

When designing a loyalty programme it is important to consider what benefits you are offering to the consumer to differentiate from competitors. The challenge within the grocery is relative homogeneity – i.e., selling either identical brand products, or generic products such as fruit and vegetables. Strong general merchandise brands such as Apple who have a strong following do not need to have a loyalty scheme.

How does digital play a role?

The simplest means of using digital within loyalty programmes is to have a website and mobile app which is integrated into the overall omni-channel experience. Retailers have often struggled to provide loyalty in a true omni-channel sense – e.g. having different coupons for each channel. Customers will not understand this discrepancy and increasingly expect to be treated equally in channels – especially if retailers want to earn their long term loyalty.

EXAMPLES OF LOYALTY SCHEMES IN THE UK

MODERN LOYALTY SCHEME: MYWAITROSE

BENEFITS

- Free tea or coffee everyday
- Free newspaper (>£5 spend weekday / >£10 weekend)
- Save 20% on top 10 'Pick your own products'
- 10% off cookery school lessons
- 5% off dry cleaning

STRATEGY

- Instant gratification and actual savings on chosen products

4X MORE TRADITIONAL LOYALTY SCHEME: TESCO CLUBCARD

BENEFITS

- 1p per point (1% return)
- Clubcard boost, allowing 4x value multiplier (effective 4% return)
- Personalised vouchers and discounts on products
- Competitions

STRATEGY

- Couponing, points per pound + multipliers increasing value

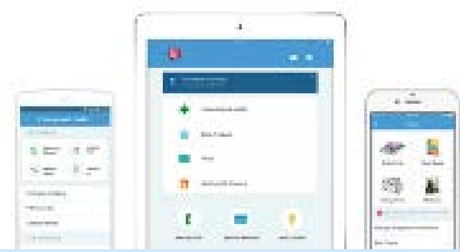
GROCERY APPS FOCUS ON COUPONS & SHOPPING LISTS, POTENTIAL TO LEARN FROM MORE INNOVATIVE APPROACHES

The Safeway app has a range of features that can be beneficial to the consumer:

- Load ‘Just for U’ digital coupons and personalised offers
- Check the latest weekly ads and deals
- Use online shopping feature
- Create in-app shopping list and then sort the list for faster shopping

The Walgreens app has transformed the shopping experience for consumers bringing the digital world instore and making daily tasks simpler:

- Access weekly ad and coupons and add them to the balance rewards card
- Use the app in store to access the reward card and clip coupons
- Search for products, keep track of purchases and reorder favourite items
- Get points for being healthy, by connected the Walgreens app to the Apple health app



The Starbucks app has been wildly successful because of the benefits of speed and efficiency that it brings to a customer’s journey buying coffee. Simplicity in the user experience is key in achieving this. **The online and offline processes work seamlessly** together to create a highly efficient journey for both sides.

WALMART HAS USED TECHNOLOGY IN GROCERY STORES AND MOBILE TO IMPROVE THE CUSTOMER JOURNEY

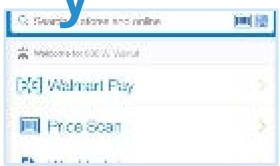
WALMART PAY APP

Walmart Pay

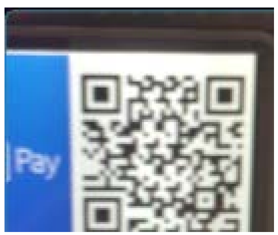
Walmart Pay is a fast, easy and secure way of paying with a smartphone.

22 million customers actively use the Walmart Pay app each month.

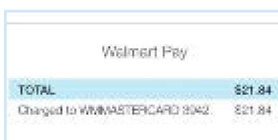
Ranked in the top 3 retail apps in Google and Apple App stores.



Step 1 Select WM pay

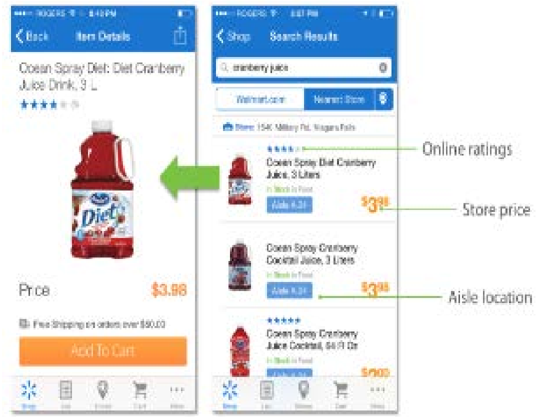


Step 2 Scan QR code



Step 3 Order charged to card

WALMART APP DETAILS AND NAVIGATION

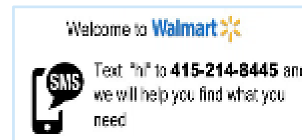


Walmart app is comprehensive with a wide range of features:

- Savings catcher: compare prices
- Pharmacy: order, transfer and tracking
- Wishlists, including sharing
- Faster pickup, once checked in
- Find locations, in-store inventory, aisle locations and store hours

TEXT LOCATION IN STORE

Walmart's 'Simple Text' was announced during the tech crunch hackathon and won first prize.



1 By texting 'hi' to the store number, the user is connected to the automated system

2 After texting a product name to the number, it informs the user where the product is.

Video Link

DIGITAL SCREENS IN STORE PROVIDE POTENTIAL FOR IMMERSIVE AND INTERACTIVE USER EXPERIENCE

Digital screens can be very effective in store for a wide range of uses as the content can be regularly changed to suit the time of day, trends, fashions and even to advertise excess stock. Display screens and digital touchscreens can be used in store, with the display screens being a particularly cost effective way of making the store experience more engaging.

Remembering that people are in store looking to purchase, inspirational integrated product content through digital screens could help change their purchasing habits, increase average basket sizes and make the shopping experience much more engaging. Whole Foods is a great example of a business using digital in store to drive improved customer engagement.

PRODUCT INSPIRATION / UP-SELL

Unsure what to cook for dinner? Let the digital screens throughout the store provide inspiration to the consumer, adapting to the weather, time of day and trends. Use the pre-produced non product content from the websites in store.

EXTENDED PRODUCT RANGE

Ability to create infinite aisles with touchscreens in store by listing non-stocked products (e.g. speciality items not in smaller stores) – works better as an assisted sales device.

PRODUCT ADVERTISING

An immersive way to advertise new products as well as gain revenues from suppliers for prime in store advertising spots.

INFORMATION

Digital signage provides a simple way to inform consumers of store information (e.g. opening hours, events instore) and presents a modern brand image.

INTEGRATING ON AND OFFLINE

Integrating across channels, by using interactive screens. Forgot your shopping list? Look it up in store. Don't want to carry the wine home? Add it to your online order while in store.

LATAM IMPLICATIONS

As with most countries, LATAM countries have yet to exploit the potential of digital screens and signage in grocery stores. This may well change in the coming years as the software improves, the hardware prices decrease and the need for greater differentiation in the market increases.

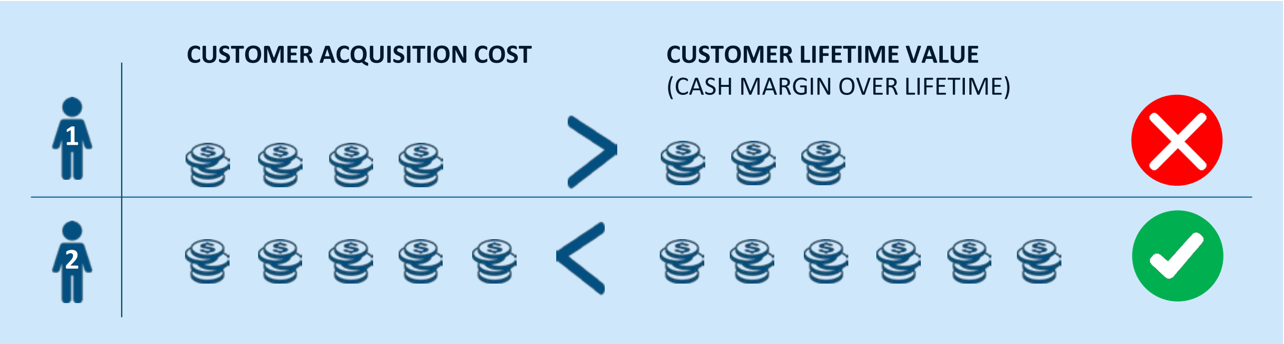
There is a significant opportunity for further development in this area – particularly with a view to being able to more effectively test customer appetite for products / promotions etc. based on signage and screens. Any investment made in content would be able to be shared with the online team to ensure that returns are maximised.

KEY MARKETING METRICS CHANGE DEPENDING ON THE LEVEL OF DIGITAL MATURITY IN A BUSINESS

WEBSITE TYPE	PRIMARY PURPOSE	WHAT ARE THE KEY METRICS FOR RETAILERS?
1 DIGITAL SHOP WINDOW	CUSTOMER ENGAGEMENT	**Net Promoter Score** – How the company is perceived by its customers **Dwell time** – How long a visitor spends on the site **Brand advocacy** – How strongly a consumer feel about the site and brand **In store sales** – Conversion to go instore and purchase
2 SIMPLE TRANSACTIONAL SITE	CUSTOMER EDUCATION / AWARENESS	+ **New customer numbers** – How many new customers are obtained per week/month etc. **Retention of customers** – Are customers returning for repeat purchases **Traffic** – How many website visitors a day/week/month **Sales** – Value of the sales through the website
3 ENHANCED TRANSACTIONAL SITE	CUSTOMER LIFETIME VALUE	+ **Lapsing rate** – How long before a customer lapses **Retention rates** – Number of customers that are retained **Quantum margin / Customer lifetime value** – The value of a customer over their lifetime with the firm

CONSIDERATION OF CUSTOMER LIFETIME VALUE IS CRUCIAL; TARGET MOST VALUABLE CUSTOMERS

It is important when considering a customer to realise that not all customers are equal to a company. The customer's lifetime value (LTV) is an important consideration, allowing the company to evaluate the overall profitability of the entire future relationship. Put simply this is the effective monetary value of a customer over their lifetime with the retailer. For example, if it takes £50 to acquire a customer through marketing, and the future revenues streams generated by that customer result in a profit contribution >£50 then the investment was worthwhile.



Once a retailer has an understanding of a customer's LTV and assesses their characteristics, then they can gain a better understanding of where to invest future marketing spend. If a new consumer is expected to have a very low LTV then it is important to reduce the acquisition spend, as it is very likely the retailer will not see a return on investment.

An important tool to manage and target customers in today's omni-channel world is the systems to allow a 'single view of the customer'. This means that a customer is uniquely identified across channels, so that the retailer can evaluate the whole value of the customer, by attributing revenue and cost from every interaction.

LATAM IMPLICATIONS

Taking an analytical approach to customer lifetime value would help LATAM retailers catch up with grocery retailers in other countries – who are generally aware of the theory but have yet to fully grasp the application.

Focusing on the customers that truly matter to the bottom line will drive significant improvements in profitability and also ensure that any future investments in marketing are targeted at attracting the customers with potential for the highest lifetime value.

CUSTOMER TYPE	LTV	ACTION
Existing	High	Invest – particularly if potentially lapsing
Existing	Low	Don't invest anymore
New	*Expected to be High*	Actively target
New	*Expected to be Low*	Do not target

06 Effective online ranging

CUSTOMERS EXPECT GROCERS TO CARRY AN ONLINE ASSORTMENT SIMILAR TO THAT OF THE STORES

Customers typically use an online grocery service to be able to replace their "main" shop – i.e., a large shop across all categories. With this in mind, retailers should assume they need to offer an online assortment across all three temperature regimes, which will have implications for storage and how products will be delivered.

1 AMBIENT

2 REFRIGERATED

3 FROZEN

GROCERS PROVIDING 1 TEMPERATURE PRODUCTS

AMBIENT

shop organic
It's where I buy... MyBrands
ShopFoodEx.com Delivering groceries to your door since 2002!
amazon.co.uk
Grocery Run
Google Express
THE FRESH MARKET

GROCERS PROVIDING 2 TEMPERATURE PRODUCTS

AMBIENT + FROZEN

Schwan's
eismann

GROCERS PROVIDING ALL 3 TEMPERATURE PRODUCTS

AMBIENT + REFRIGERATED + FROZEN

mygofer
Carrefour
Greenling
Harris Teeter
Casino drive
freshdirect
淘宝网 Taobao.com
Market District
Auchan:Direct
amazonfresh
Woolworths
good eggs
Sam's Club
Lowes Foods
ValuMarket
Walmart Grocery
TESCO
ocado
Costco Wholesale
Peapod
instacart
Waitrose
Hannaford

Notes: Both Schwan's and Eismann stock very limited ambient assortments.; audit conducted in 2015

GROCERY RETAILERS NEED TO PROVIDE A SUFFICIENT ASSORTMENT TO LET CUSTOMERS DO THEIR FULL SHOP

OVERALL QUANTITY OF SKUS

A sizeable number of SKUs in each category are required to offer a 'main shop' proposition. In addition, a broader assortment allows for more effective substitutions to be available when required – very important to provide a comprehensive, high quality of service.

LATAM IMPLICATIONS

Clearly the number and range of SKUs that need to be provided by grocers will need to be dictated by local market conditions. In fact, in many developed markets, grocers reserve some flexibility to differentiate their range away from a central or national range to be able to compete effectively.

Regardless of the channel or market, the key is to meet customer needs as efficiently as possible. This may mean ensuring that a wide range of products is offered online despite the local competition being relatively weak. Customers want to use online as a source of convenience, to save them time from their typical weekly shop. If retailers operate a store pick model, then customers will expect to have those products they would see available in their store available to them online.

If retailers decide to operate a narrower range then explaining to customers what is available and why would make sense. Similarly using analytics to understand what customers are searching for could drive the future range strategy.

RANGE OF SKUS

When launching an online service, retailers should consider what customers are likely to buy. It is recommended that the full store assortment is offered online, as consumers have broad needs and varying preferences. It is vital to offer a wide range of products because typically over 50% of online customers buy an item from the slowest selling 50% of SKUs. It is possible that if a retailer does not stock certain SKUs that a consumer may become disenchanted with the offer and move provider.

RETAILER	~ # SKUS STOCKED
Safeway	30k
Peapod	12-18k
AmazonFresh	15k[1]
Relay foods	15k
Walmart Pickup[2]	10k
Coborn's Delivers	10k
FreshDirect	8.5k

RETAILER	~ # SKUS STOCKED
Auchan Drive	8k
Leclerc Drive	6.5k
Carrefour Drive	8k

RETAILER	~ # SKUS STOCKED
Tesco[3]	26k
Sainsbury's	26k
Waitrose	12-15k
Ocado	30k

Notes: [1] AmazonFresh offers 15k grocery SKUs. However, including general merchandise items, it offers 500k SKUs; [2] Walmart Bentonville drive-through number of products available; [3] Tesco as available on Tesco.com, which is online grocery website. General merchandise available on Tescodirect.com
Sources: RetailNet Group, Supermarket News, High Jump, Ahold, Time, Internet retail operations, Javelin Group analysis

CONSISTENT LOCAL PRICING ACROSS CHANNELS IS LEADING PRACTICE IN ONLINE GROCERY

1 SINGLE PRICING ACROSS ALL CHANNELS

PRINCIPLE

Selling price should be the **same in stores and online**

Local pricing changes should be **reflected online**

RATIONALE

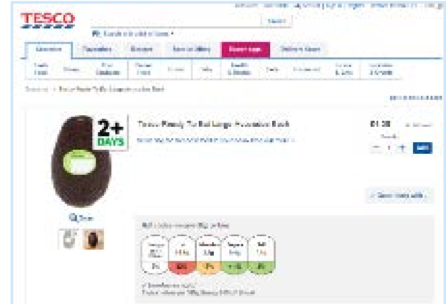
When creating an omni-channel business it is important that the customer experience across channels is consistent. In regards to pricing, this should mean that the price is the same in any channel. Discrepancies are easy to notice, because customers have easy access to online channels while in store.

In many countries around the world, local or regional pricing is used. If local pricing is used then online users should be encouraged to select their location, so that the local pricing is reflected across channels and there is no discrepancy across channels in the same region.

If they do not choose their location then clear messaging should be used to display a national price which may change when the user selects their location.

EXCEPTIONS

Sometimes there may be exceptions to omni-channel pricing – for example in France, prices are currently cheaper for the online Drive services than in the hypermarkets – similarly for home delivery there is a price premium on products. In Australia there is a mixed approach with Known Value Items (KVIs) being maintained at competitive store levels but other items having a premium applied. Although it is not a truly omni-channel approach, customers are seemingly willing to live with the premiums as a price to be paid for the overall service they receive from online grocery retailers.



CONSISTENT LOCAL PRICING ACROSS CHANNELS IS LEADING PRACTICE IN ONLINE GROCERY

2 CONSISTENT PROMOTION ACROSS ALL CHANNELS

PRINCIPLE

Consistent promotions across **channels**

% : SHOP = WWW

Channel specific promotions should be isolated only to **'special' cases**

Promotion timing needs to be clear for customers – **with final price to be charged based on customer delivery/pickup date**

RATIONALE

As with the pricing, it is equally important that the promotions offered are consistent across the channels, creating a consistent omni-channel experience for the consumer. The consumer needs to gain confidence that they can shop across any channel and benefit equally.

The additional benefit is that if the online team have to keep their prices and promotions the same as the stores, it reduces the effort required to adjust pricing and plan dedicated product level promotion.

EXCEPTIONS

- Any exceptions must be very clearly communicated:

1. Web exclusive campaigns, whereby certain products may be on special offer
2. Timing of promotions can be different in exceptional cases for both store(s) and online
3. Trade driving promotions should be in the form of "money off" rather than product led

MANY RETAILERS CONSIDER EXTENDING THEIR ASSORTMENT, WHICH REQUIRES KEY QUESTIONS TO BE ANSWERED

Initial focus should be to replicate the store portfolio online:

- How will any range extension online be made available in stores?
- Why would my business be better if I provided the range? (What competitive advantage do I have?)
- What does the customer want?
- What investment am I willing to make?

Many grocery retailers have moved into new categories via online:

- White label selling of flowers, electrical appliances etc.
- Wine by the case – i.e. selling 12 bottles pre-mixed or selected by the customer
- Personalised gifts etc.

VARIETY OF DIFFERENT BUSINESS MODELS TO EXTEND THE PRODUCT ASSORTMENT IF REQUIRED

1 BUY & STOCK IN STORE

Buy extended assortment and stock in every store that ecommerce orders are picked from

NOT RECOMMENDED

2 BUY & STOCK IN DC; FULFIL SEPARATELY

Buy extended assortment and stock in centralized DC. Carts containing items from both store and DC shipped / delivered separately

NOT RECOMMENDED

3 BUY & STOCK IN DC; CONSOLIDATE

As Option 2 but carts containing items from both store and DC consolidated and shipped together to customer

NOT RECOMMENDED

4 DROP-SHIP MODEL

Partner with drop-ship vendor(s) who typically provide specialty range – price decided by retailer not drop-shipper. Drop-ship vendors ship ordered items to customer directly on retailer's behalf – can cause service issues

POSSIBLE OPTION

5 MARKETPLACE MODEL

Create an online marketplace which allows other sellers to sell to your customers. Attractive given the commission profit flow, but complex to set-up and need to convince sellers to invest time in setting up on your site. Retailer may need to mediate service issues

POSSIBLE OPTION

6 HYBRID MODEL

Combine the benefits of Options 4 and 5 to provide comprehensive range extension (including some overlapping products) – maximum choice for customers

POSSIBLE OPTION

07 Omni-channel customer experience

RETAILERS SHOULD USE CUSTOMER JOURNEY MAPPING TO DESIGN THEIR CUSTOMER EXPERIENCE

What is customer journey mapping?

Mapping the various journeys that customers go on allows an organisation to understand whether they are keeping customers satisfied across all potential touchpoints with the business. The journey is typically split into 6 discrete stages for the interaction between the customer and company to be analysed:

1. Trigger a Visit → 2. Arrive & Explore → 3. Browse & Discover → 4. Decide, Locate & Pay → 5. Receive → 6. Re-consider

Primary consumer research is typically conducted to understand typical types of customer journeys and their relative importance. Three dimensions are used to distinguish key differences:

CUSTOMER SEGMENTS

Typically based on a retailer's existing segmentation e.g.

- Single young professional
- Young married professional couple
- Married couple with one working partner in a low paid job with children etc.

CUSTOMER MISSIONS

Focuses on the purpose of the shoppers visit e.g.

- Top up shop for dinner and tomorrow
- Full weekly shop for the family
- Special party/celebration items
- Stock-up shop of main store cupboard items

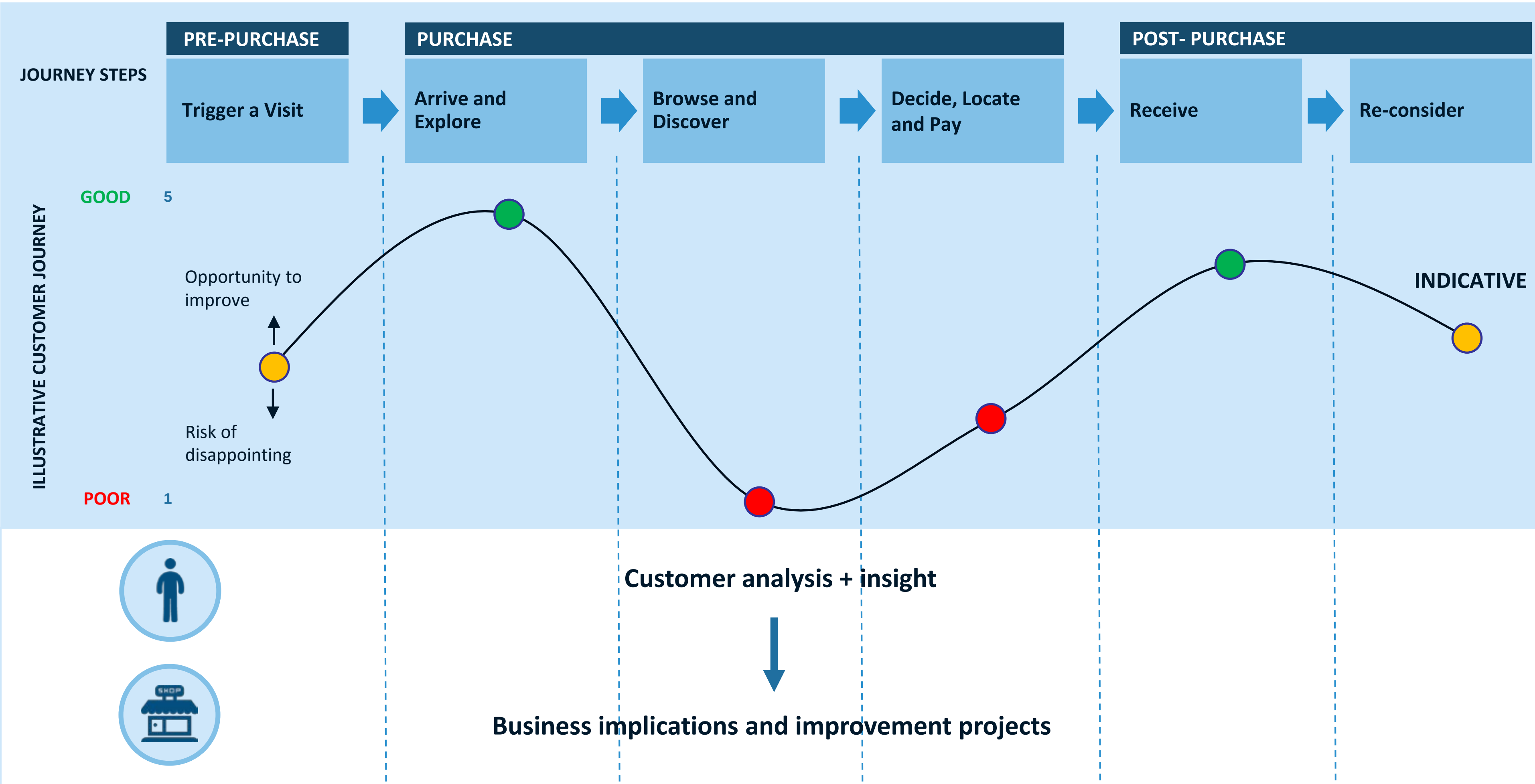
CHANNELS

This looks at which channel the customer uses during their shopping trip e.g.

- Offline
  - Buy in store
  - Order in store for home delivery
- Online
  - Home Delivery
  - Click and Collect
- Device

- This analysis is typically done with a focus on the main missions and key segments first. Once the problems have been analysed and solutions identified (and potentially implemented), further analysis can be done on lower frequency missions, etc.

CUSTOMER JOURNEY; UNDERSTANDING THE CUSTOMERS EXPERIENCE ACROSS TOUCHPOINTS



Source: Javelin Group analysis

FOCUS ON BASIC USABILITY ELEMENTS OF A WEBSITE FIRST TO HELP DESIGN A GREAT CUSTOMER EXPERIENCE

DIGITAL SHOP WINDOW

Homepage

The page the user lands on and the consumer's 'first impression'. It is important to clearly display the retailers USPs and create an easy place for consumers to start their journey, whether their aim is to browse or purchase.

Help

An integral part of the site. Without a fully comprehensive help section, users may exit the site and leave in frustration. Live chat, call back and FAQs are all important features in assisting customers in their journey.

Site search

Site search is vital for consumers who know exactly what they are looking for and want to find a product quickly and easily. Search correction, accurate result refinement and relevance are some of the most important features to find relevant products quickly.

Navigation

The main alternative route to finding products. This is very important for consumers who are browsing the site. Filters, result refining and global navigation are all examples of important and useful features.

Product page

This contains all the product's information. It is important consumers obtain all the information they require, while having clear photos to see the product in more detail, which makes them more likely to purchase.

SIMPLE

Checkout

After choosing a product, a clear and easy to use checkout is the most important feature for a transactional site. Important considerations are a clear add to basket button, available delivery options and secure payment options (taking into account international and local methods).

Customer account

Once a consumer has purchased online, a customer account is important to simplify any future interaction. This can be done by saving details such as delivery, marketing preferences and even payment details allowing for quick and easy transactions.

ENHANCED

Integrated non-product content

Non-product content, such as videos of products, recipes, blogs and content, supports the customers' buying mission without providing direct information about the product. Well integrated non-product content on a website can be very influential in a customer's shopping journey, as it provides inspiration and ideas for the consumer.

Multi-channel proposition

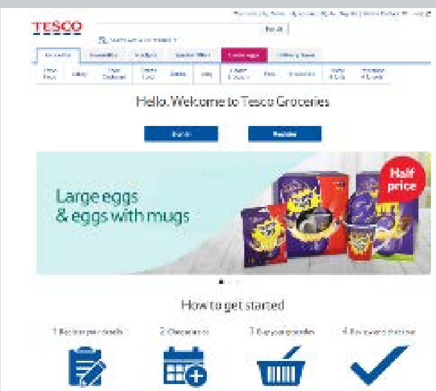
This is a proposition that allows customers to seamlessly shift between the different online and offline channels and still enjoy a consistent experience of the products and services.

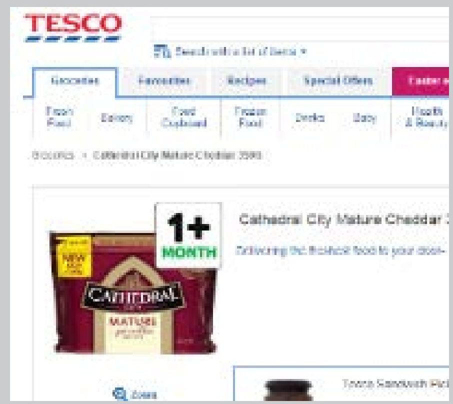
Integrated single customer view

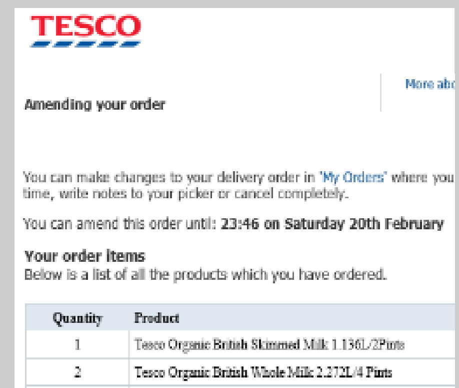
The ultimate goal for retail customer data management. This allows retailers to collate all of their data about a customer across any channel. This can be used to provide a personalised experience to the customer.

MERCHANDISING CAN BE USED TO INCREASE BASKET VALUE AS WELL AS ENHANCE THE CUSTOMER EXPERIENCE ONLINE

HOMEPAGE	SEARCH RESULTS	BASKET PAGE	AFTER ORDERING
▸ Customer visiting the site to browse or to fulfil a specific mission (e.g. to do online grocery shopping, gather information, etc.)	▸ Customer is looking for something specific	▸ Customer has already made selection	▸ Customer is looking for ways for the retailer to re-engage and offer additional services that are beneficial to them
▸ Aim to display breadth and quality of offer – especially to new customers ▸ Showcase hero / new products (supplier funded) ▸ Do not overpopulate the page	▸ Provide accurate search results ▸ Display hero or sale products ▸ Offer private label / higher margin alternative products	▸ Suggest complementary items ▸ Recommend products previously bought ▸ Display promotional items (to encourage impulse buy)	▸ Remind customer of order to be picked up e.g. "not too late to add items" ▸ 'Hook' customer to become frequent shopper (e.g. save shopping list for next time)







Sources: Javelin Group research and analysis

RETAILERS NEED TO OFFER A RANGE OF PAYMENT OPTIONS TO MEET CULTURAL DEMAND IN EACH COUNTRY

BEST PRACTICE INTERNATIONAL OPTIONS
(ALL OF THESE)

- Credit card
- Debit card
- PayPal
- Phone payment option e.g. Apple Pay and MasterCard Mobile Contactless

+

LOCAL MARKET OPTIONS
(ANY CULTURAL IMPORTANT OPTIONS)

- Bank transfer
- Cash on delivery
- Pay in store
- Via Baloto
- Boleto Bancario

+

RETAILERS OPTIONS
(OPTIONS CONSUMERS EXPECT)

- Store card
- Gift cards
- Store financing e.g. Cuotas in Latin America

Important for retailers to consider the right payment options for their market – not offering a particular option could lead to much lower conversion rates. International retailers need to ensure they build systems with flexibility to add local options

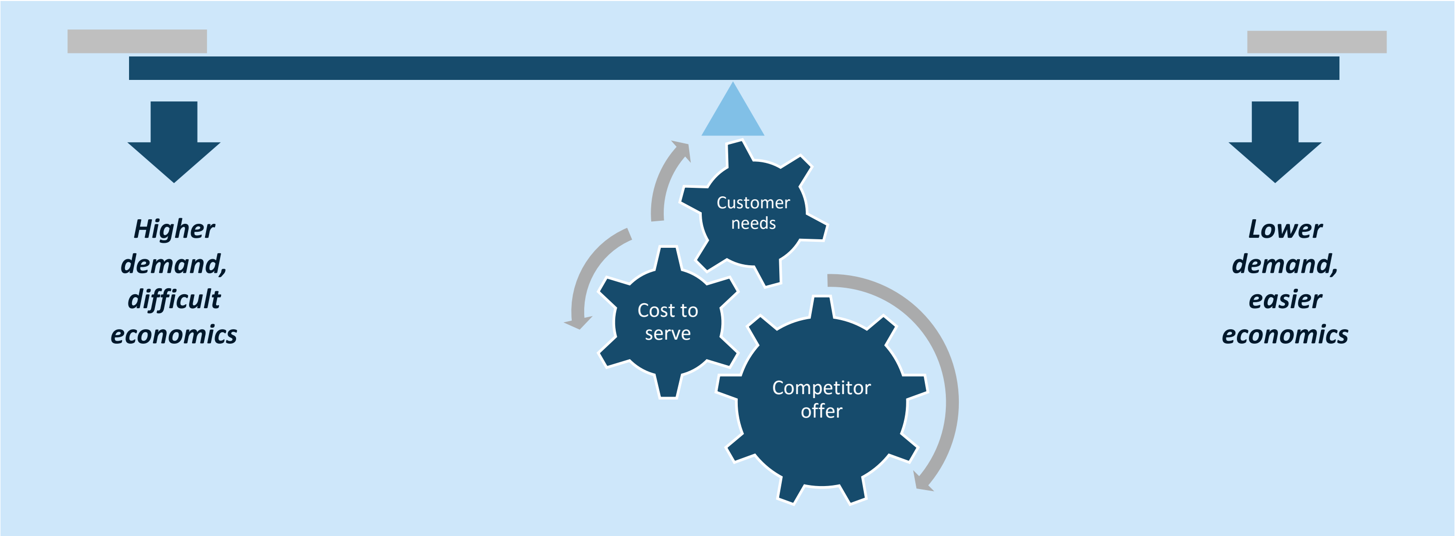
RETAILERS NEED TO DECIDE WHETHER TO OFFER HOME DELIVERY OR COLLECTION SERVICES (OR BOTH!)

HOME DELIVERY EXAMPLE PROPOSITION

- 7 days a week
- 1 hour time slot, 6am-11pm
- Low price / free above threshold
- High availability
- Order cut off at midnight for next day
- Same day trials
- Delivery into the kitchen
- Unattended delivery (insulated storage)

COLLECTION EXAMPLE PROPOSITION

- 7 days a week
- 1 hour time slot, 6am-11pm
- Low price / free above threshold
- High availability
- Order cut off at midnight for next day
- Same day now increasingly common
- Potential for remote collection pickup
- Vehicle recognition, collect in <5 minutes



RETAILERS NEED TO ADOPT LEADING PRACTICE PICK-UP AND DELIVERY OPTIONS FOR CUSTOMERS OVER TIME

PICK-UP

INCREASE PICK-UP OPTIONS OVER TIME

Introduce longer pick-up hours, faster turnaround of orders for pick-up and same-day pick-up options as the business develops.

RANGE OF PICK UP OF LOCATIONS

Same day pick-up propositions e.g. Hannaford allows ordering until 3pm for same day pick up.

PICK-UP MODELS VARY IN TERMS OF CUSTOMER EXPERIENCE AND OPERATIONAL DIFFICULTY

Simple pick-up: customers collect from store-pick location (e.g. park at store, staff bring out order)

Drive-thru: requires investment in dedicated pick-up technology and area

Temporary remote pick-up: delivery van parks in changing location, customers pick up order

Curbside/remote pick-up: orders stored at fixed location, remote from store-picking location

HOME DELIVERY

IF ECONOMICS PERMIT, OFFER HOME DELIVERY

Initial offering likely to be 2-hour delivery slots, bookable until day before for a limited area. As the retailer gains operational efficiency and overcomes any initial set up problems, leading practice would be 1 hour delivery slots available on the same day. This makes a much more attractive proposition for the consumer but it will take time for the retailer to be able to offer this.

IMPORTANT TO CONSIDER HOW CUSTOMERS WANT TO RECEIVE THEIR ORDERS

Beyond standard home delivery, there has been significant success for companies who have “delivered to the kitchen”. This maximises convenience for the customer to have help unloading the shopping in their house and provides a service delivering that ‘extra mile’. Due to the level of customer interaction the drivers will have, they need to be carefully trained on customer interaction as they will be seen as the ‘face of the company’.

ENSURING FRESH, HIGH-QUALITY PRODUCTS ARE PICKED IS ESSENTIAL FOR BUILDING CUSTOMERS' TRUST

NOVICE ONLINE GROCERY CUSTOMERS SHOP FOR LARGER, BULKY ITEMS FIRST

Once new customers gain trust in the delivery proposition and gain familiarity with the process, they will start to transition their online purchases to fresh produce (fruit, vegetables, fish & meat). Personal choice typically plays a much bigger part in their selection, thus it takes time for consumers to gain enough trust in the retailer to do this.

BUSINESS KPIS NEED TO BE RE-ALIGNED

Replacing a fundamental shopping habit normally takes time to do, so it will take time for consumers to transition to online shopping. Ultimately a retailer needs to convince the customer that they pick the shopping exactly the way the customer would. One clear way to do this is to focus on picking the freshest products for consumers, however the temptation from store managers is to encourage older products to be picked to reduce waste costs. This is counter productive to the overall business – disappointing online customers and creating negative perception issues with the overall brand.

CLEAR COMMUNICATION OF THE PROMISE CAN BE A USEFUL MARKETING TOOL

Guaranteeing freshness and quality is vital for building consumers' trust. A retailer's freshness promise reinforces quality of product in store. Videos can also be used to demonstrate pick routines and promises – generating improved loyalty and reassurance to the customer.

FRESHNESS PROMISE - CREATES TECHNOLOGY AND OPERATIONAL REQUIREMENTS

Make customers a "minimum freshness promise" and then ensure the promise is met. To be able to provide this, the operational processes and technological systems in place are important. For example, there may need to be changes to pick and replenishment routines, extensive training or an additional focus on quality control.

GUARANTEE AND COMPENSATION

It is important that promises are kept by retailer – with potential compensation provided if promise is broken, which will reinforce to the user that the company understands it is not the norm and it believes in its freshness proposition e.g. coupons for next shop, free product, etc.

LATAM IMPLICATIONS

Freshness is one of the final barriers to gain the customer's trust with online grocery shopping. In LATAM, given the relatively nascent online market, it should represent a key area of focus, particularly where the transition away from the traditional to modern grocery format is still taking time.

If LATAM retailers are able to demonstrate through online that their products seem fresher than their competitors then this can represent a major breakthrough. Ensuring that customers understand how products are picked ("like they would pick it themselves") and utilising the digital channel to emphasise freshness (e.g., seasonal campaigns, highlighting new product ranges, provenance etc.) will all help to highlight the retailers capabilities.

Using the "personal touch" could also be a strong differentiator. Getting collection or delivery assistants to reinforce the "freshness message" makes sense as well as giving customers the chance to reject any items they do not deem to be "fresh enough" and providing swift refunds for those products.

IN-STORE CUSTOMERS CAN PICK THEIR OWN ALTERNATIVE PRODUCT…THAT NEEDS TO BE REPLICATED ONLINE

Selecting an alternative must be done in a customer-centric way to avoid frustrating customers

1 MINIMISE OUT OF STOCK PRODUCTS

Customers will be unhappy if their exact product is not available. Leading practice therefore is that retailers should focus on maximizing the availability of products. If the product is not available then substitute with higher quality or a larger size.

2 GIVE CUSTOMERS SUBSTITUTE OPTIONS

Leading practice provides additional freedom to override preference for individual cart items (e.g. Peapod). Relay Foods' customers can leave notes to influence substitute choice e.g. "same brand substitute".

3 LEADING PRACTICE TO OFFER PRICE-MATCH IF MORE EXPENSIVE SUBSTITUTE IS DELIVERED

The retailer should subsidise the practice of price matching substitutes on items that are out of stock. The business should align KPIs so that supply chain and merchandising see the cost of poor availability.

4 COMMUNICATE PRODUCT SUBSTITUTION CLEARLY WITH THE CUSTOMER

Substitutions should be very easy for the consumer to spot (e.g. different coloured bags or stickers). This allows rapid refusal from customers and minimises problems later on with consumers wanting to return items.

5 MAKE IT EASY FOR CUSTOMERS TO GET A REFUND FOR UNWANTED SUBSTITUTIONS

Customers should be able to return goods to staff 'on the door step' and get an immediate refund processed. Drivers need to be trained in explaining and handling substitutions and returns to reduce the level of hassle for disappointed customers.

6 CUSTOMERS SHOULD BE ABLE TO SELF-SERVE WHEN ITEMS MISSING, UPON DELIVERY OR PICK-UP

Retailers should make it easy for customers rapidly self-serve if items are missing from their pick-up. Advance notice of substitutions or missing items would allow customers to plan additional time for their visit.

LATAM IMPLICATIONS

As with freshness, this is probably the major area for online grocers to focus their efforts to overcome deficiencies in service offerings. Customers simply do not understand why retailers cannot substitute products in the way that they would in store themselves.

In LATAM, where often the breadth or depth of stockholding may not be what it would be in more developed markets, substitutions need to be done carefully. Utilising the traditional logic together with a combination of what products are available on the shelf, what margins are available and what the strength of relationship is with the particular brand or supplier should all be factored in.

However, the key point should be that customer needs need to be met. Out of stocks should be minimised (they affect in-store customers as much as online), but if products are not available then a solution which matches as close to their need as possible should be provided.

RETAILERS MUST DRIVE CUSTOMER LOYALTY TO REDUCE ACQUISITION COSTS

Customer loyalty is key for an online grocery business, to avoid bearing acquisition costs on top of an already-reduced margin. However, building loyalty is even harder in the online world because there is less human interaction and lower switching costs. Making life simple for the consumer is important; this means getting the basics right every time and ensuring the customer experience is consistent across channels.

GAIN CUSTOMER LOYALTY THROUGH GREAT SERVICE EVERY TIME

In developed markets grocery retailers believe that c.70-80% of their customer base stays loyal when key elements of proposition are executed consistently… disappoint a customer three times in a short space of time (<10 shops) and they will leave and be very hard to win back.

CUSTOMERS EARN AND SPEND LOYALTY EQUALLY ACROSS CHANNELS

The expectation from customers is that they will be able to use vouchers and coupons wherever is most convenient for them – successful omni-channel retailing should enable this, not prevent it.

CHANNELS SHOULD CROSS PROMOTE TO DRIVE OMNI-CHANNEL ACTIVITY

Existing assets (stores) should be used as a prime means of driving initial online sales (e.g. actively promoting the service in store, using checkout assistants to explain the service) – likewise, websites should encourage users in store by providing store locations, opening times & event info.

CLEAR ALIGNMENT OF ACQUISITION AND RETENTION ACROSS CHANNELS

Many businesses do not have a clear acquisition and retention plan for customers – even in the stores channel. The plan should be agreed for all channels resulting in a better chance of driving the right customers to shop and ensuring they stay with the business.

08 Operational models for ecommerce

THREE PRINCIPAL GROCERY ECOMMERCE LOGISTICS MODELS USED IN DEVELOPED MARKETS

UK Home Delivery Models

90% home delivery

1 Store Model
Up to 3,000 orders a week

2 (Automated) Dark store
10,000 to 40,000 orders/week

3 Automated Warehouse
60,000 to 120,000 orders/week

French "Drive" Models

87% collection

1 Store Model: c.800 stores

2 Attached Drive
1,500 orders/week

c.2,400 stores

3 Standalone
1,800 orders/week

c.500 stores

THERE IS A RANGE OF FULFILMENT OPTIONS DEPENDING ON DEMAND VOLUME AND INVESTMENT APPETITE

1 Pick from store

Picking from store allows for the simplest economic entry to the market – leveraging existing assets.

May need some re-design of store processes and timing to increase product availability.

Also requires enough space in store (wide aisles) and in the back area to store orders for pick-up/delivery.

2 Mini-warehouse (Drive)

May not be possible to pick from store due to space or availability issues – so a small dedicated facility either in the back or adjacent to the store, or even a remote facility could be created.

This will allow the online team to have better control of availability and staffing. Typically results in a smaller assortment being made available to reduce waste/maximise productivity.

3 The dark store

If demand increases, another fulfilment option is the 'Dark Store' (so called because no customers or checkouts are in the store, and the lighting is lower than a real store).

Dark stores are optimised for picking, with the layout and technology designed to handle large quantities of orders through automation. Investment is significant and many implementations suffer due to the level of complexity.

4 Dedicated fulfilment options

Development of large, dedicated fulfilment centers to cover wide geographic areas are cost prohibitive until demand is very high. This is the model adopted by many pureplays (e.g. Ocado in the UK, Ullabox in Spain).

However once scale is reached and volume is sufficient they can offer an efficient supply method.

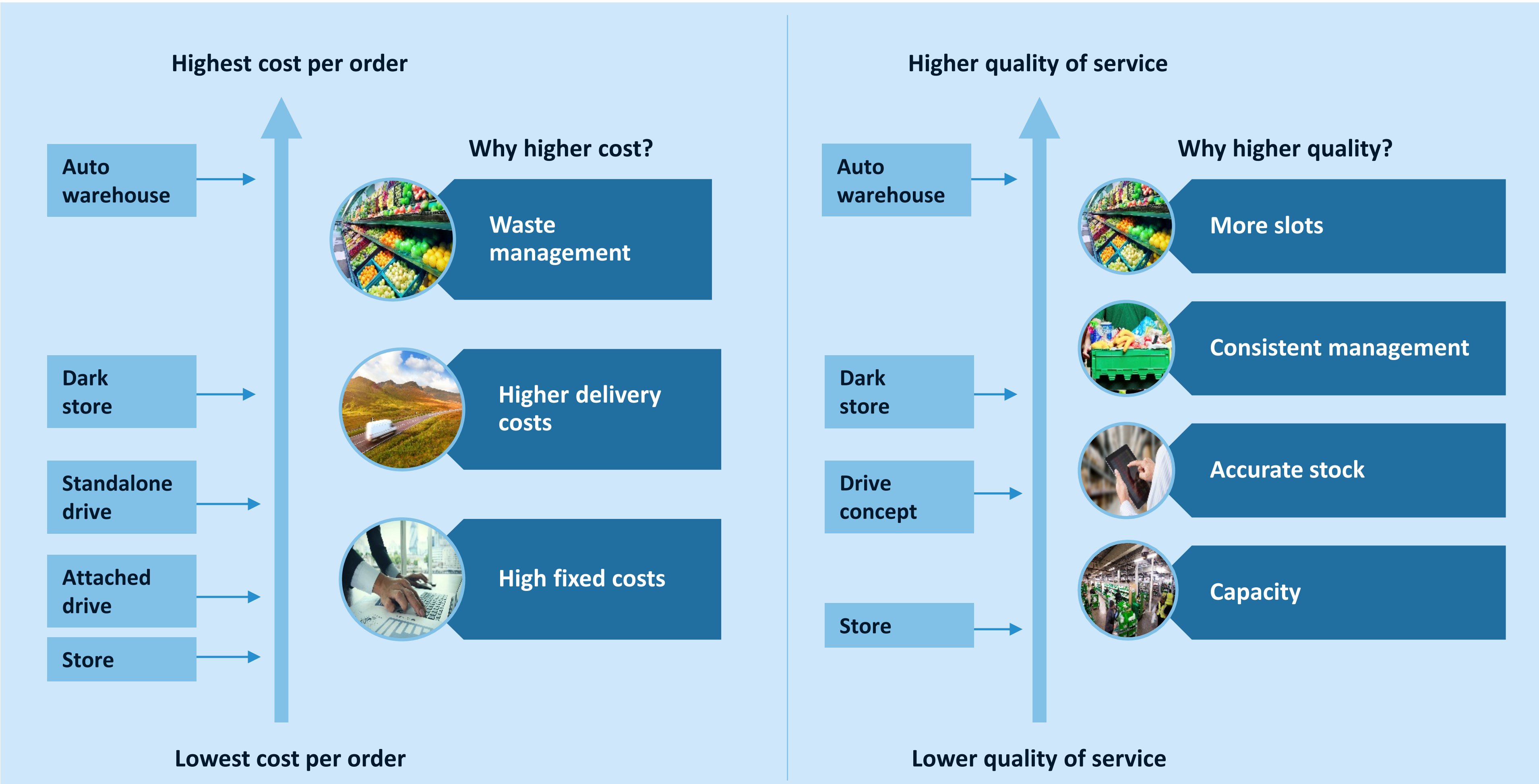
LATAM IMPLICATIONS

Many grocery retailers around the world are keen to launch dedicated pick facilities – typically in the shape of a "dark store" or warehouse. While this may be merited in some cases, there are typically three key areas to be considered: cost per order, capacity to pick in store and quality of pick (i.e., are there a high level of stock-outs in-store which a dedicated facility may alleviate).

Generally speaking dark stores will be more expensive facilities to run than stores – given the additional rental costs, supply chain and management time. Stores already have products sitting on the shelves and make ready-made (if inefficient) warehouses for picking. Smaller picking facilities (e.g., such as Drive in France) can be more efficient but place restrictions on the range that can be offered.

Typically LATAM retailers, with a lower cost base, should not have to focus on dedicated/automated facilities until they reach very significant volumes. In the meantime, store picking should be a key focus – with any improvements in availability of product benefiting both store and online customers.

INCREASING AUTOMATION AND CENTRALISATION LEADS TO HIGHER QUALITY BUT ALSO HIGHER COSTS PER ORDER



KEY OPERATIONAL IMPLICATIONS OF RUNNING AN ONLINE GROCERY BUSINESS

Product

Temperature regimes of grocery and fragile nature of produce requires maintenance of optimum temperature. Otherwise potentially significant costs in waste and damages.

Insulated crates or three-temperature vehicles are typically used to deliver orders and prevent any problems. Temperature control is typically the reason why customers need to be at home to receive orders. Several American businesses have experimented with cold storage box solutions – which may work depending on climate extremes and customer willingness.

Order profile

Grocery market is highly competitive with price wars common, resulting in gross margins being squeezed. Grocery baskets have many low priced, low cash margin items. Biggest cost drivers are the labour due to picking (and delivery), so a relentless focus on efficient picking and delivery is essential if a retailer wants to be profitable.

Inventory shelf life

Due to the nature of fresh grocery, the shelf life of the product is short and therefore dealing with volume predictions and waste management is critical. Both of these elements need to be carefully managed to hit profitability targets.

Out of stock items

Customers expect to be able to get their full shop from the supermarket in one order and therefore the operational challenge of availability & substitution management is critical. If a product is out of stock and unavailable, the substitution process needs to work efficiently (typically driven by systems rather than people) to make sure the customer can still obtain close to what they originally ordered.

Pricing

For grocery items that are charged per weight, this causes complications in the ordering process as the final price of the item is not known when the customer places their order. Systems therefore have to allow for this with the final cost of the order calculated at pick completion (this may have regulatory complications in some countries).

LATAM IMPLICATIONS

The key issue in most LATAM markets will be around maintaining the cold chain to get products to customers in the way they want it no matter what the temperature is outside. This is difficult to achieve but investments in either dedicated vans or insulted crates should solve this issue.

Aside from this the LATAM focus should be similar to elsewhere – operational efficiency and quality levels to be able to satisfy customer need. In some markets where product availability (e.g., Venezuela) are an issue, then maintaining an efficient substitution process and policy will be key. At the very least knowing what customers would accept as an alternative – and being able to provide that – would help with key customer concerns.

COLLECTION IS TYPICALLY THE PRIMARY FOCUS WHEN RETAILERS START – WITH OPTIONS AVAILABLE

	CLICK & COLLECT	DRIVE-THRU	CURBSIDE/REMOTE COLLECTION
DESCRIPTION	Fulfilled orders kept in store. Customer enters store to collect (popular option in the UK) or waits in car park and has groceries brought out to them (current US examples).	Dedicated area next to store/dark store, specially designed and built for drive-thru collection of orders (this is common in France and increasingly the type of service provided in the US).	Order is picked in one location (could be either store or centralised facility), then transferred to a remote holding facility (small hub with temperature control) from where the customer can pick up the order.
EXAMPLE	This is the typical option provided for UK customers – Tesco, Sainsbury's and ASDA all have this option available for customers. It requires some additional work for the customer if they have to enter the store. 	**Walmart** launched trial in 2014. Covered parking lot built beside dedicated dark store. Customer enters order # at kiosk, parks in given spot and staff load groceries into trunk. 	Various retailers have trialed this in the UK (e.g. Tesco at tube stations in London) but it has not proven as popular as retailers expected.
CUSTOMER CONVENIENCE	Medium	High	High
OPERATIONAL DIFFICULTY/COST	Low	Medium	High

Sources: Progressive Grocer, Javelin Group analysis

STORE OPERATIONS WILL NEED TO CHANGE TO ACCOMMODATE ONLINE GROCERY PICKING

- Store picking is typically the model most retailers will begin with for online grocery. Unsurprisingly, given the re-use of assets, existing operations will need to reflect a number of changes
  - Allows for single unit picking from the sales floor and multiple orders are picked at the same time
  - Picking from back of store for fast moving products held in reserve is common to improve availability – this requires additional space to be given up
  - Picking is normally scheduled from early morning (after fresh replenishment work is complete) til middle of day
    - But may continue if same-day services are made available
  - Scheduling of resources and picking needs to be coordinated to carefully avoid peak customer shopping times – need to avoid "cart clash" between pickers and customers – significant customer issue in busy stores
  - Store picking requires ancillary equipment to be provided for pickers – typically carts holding up to 8 or 12 trays (with multiple orders) and handheld "ruggedized" picking unit and scanners are needed
  - Dedicated space is required in the back of store for order management, carts, tote storage, marshalling, etc. – with back door access needed to load delivery vans if this service is provided
- Scheduling of collections and delivery needs to be carefully planned to balance supply and demand. This typically requires bespoke software to create "slots" for orders – with picking and delivery routes then calculated based on the slots selected by customers
- If pick-up is provided for customers this typically requires a special covered area for the drive thru – to provide protection from the weather. Customer typically pulls up, proves identification and then pops the trunk while the order is retrieved. Customers should be made aware of missing items/substitutions and allow rejection or refund

DIFFERENT TYPES OF DELIVERY VEHICLE ARE TYPICALLY USED TO CONDUCT DELIVERIES

When considering grocery delivery it is very important that the goods arrive in the state they are meant to be (frozen, chilled or ambient). Unlike other ecommerce categories, there are also potential health and safety issues and problems of product spoilage if the cold chain is not handled correctly. This creates additional cost for the retailer but needs to be considered as a cost of doing business.

SINGLE-CHAMBER VAN (AMBIENT OR CHILLED)	DUAL-CHAMBER VAN (AMBIENT AND CHILLED)	TRI-CHAMBER VAN (AMBIENT, CHILLED AND FROZEN)
Chilled/frozen products in insulated bags with gel packs	Frozen products in insulated bags with gel packs/dry ice	Racking throughout van to maximise space utilisation
Woolworths Australia's fresh food people, ah, JUMBO, coles	Waitrose, ocado, Sainsbury's	TESCO, Waitrose

8 KEY OPERATIONAL EFFICIENCY DRIVERS USED TO EVALUATE ONLINE GROCERY OPERATIONS AND REDUCE COSTS

KEY EFFICIENCY DRIVERS IN ONLINE GROCERY OPERATIONS

AREA	MEASURE	IMPLICATION
PICKING	Demand smoothing	▸ Balancing workload across week / across the day makes planning easier ▸ Helps optimize vehicle utilization
	Availability	▸ Perfect orders drive customer loyalty and frequency of shop ▸ Good availability reduces cost of substitutions and improves pick rate
	Crate fill	▸ Minimizing number of crates improves transport efficiency by increasing maximum number of orders on a van
	Pick rate	▸ Picking is largest labor cost, faster picking reduces operating cost
DELIVERY	Drops / paid hour	▸ Higher number leads to reduction in variable transport cost
	Drops / van	▸ Better van utilization lowers fixed costs ▸ Multiple trips per day required to achieve good utilization
	On time delivery	▸ Improves customer experience ▸ Reduces customer contacts, in turn reduces gestures of goodwill and cost
CUSTOMER SERVICE	Contacts to order	▸ Lower ratio reduces cost, and generally implies good operational performance

09 eCommerce technology requirements

EFFECTIVE USE OF TECHNOLOGY CAN TRANSFORM A GROCERY SHOPPERS' EXPERIENCE

SEAMLESS OMNI-CHANNEL CUSTOMER JOURNEY	TECHNOLOGY INVOLVED
1. Consumer is sitting at home looking for recipe ideas. She sees a nice recipe for dinner on the retailers Facebook page	▶ Social media presence; Facebook, Twitter, Instagram etc.
2. She emails herself a copy of the recipe / saves it to the app. She see the store has plenty of stock	▶ Website with share and account functionality
3. She arrives in store and opens email/app and gets the shopping list using store Wi-Fi	▶ Instore Wi-Fi
4. The app tells her where her products are in store, so she finds them easily	▶ App with in store product locations and inspirational content
5. She sees in store lots of inspirational content, so picks up a recipe she sees for pudding and tomorrows dinner	▶ In store display screens
6. She realises she needs another product, she searches using the app and is told exactly where it is	▶ App with advanced search functionality
7. The consumer checks out using her phone, on one of the payment tablets	▶ Mobile payment system
8. She is emailed an **e-receipt**	▶ E-receipt option and customer loyalty program

MOBILE PRESENCE IS MANDATORY – APPS WILL REQUIRE ADDITIONAL FUNCTIONALITY TO BE RELEVANT

Whether using a mobile app or website; the most important thing is that retailers have a mobile optimised platform for consumers to use. In the UK, 66% of web traffic to retailers' sites and 51% of online purchases is via mobile (either tablet or smartphone). In the medium to long term, retailers should have both sites and apps available to tailored to each of the different platforms.

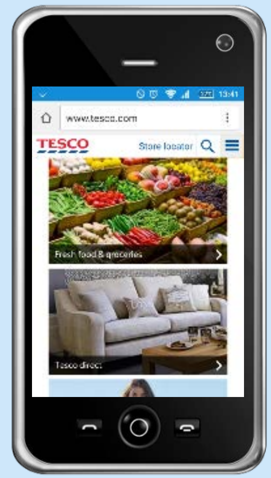
Mobile App

- ✓ Offers ability to use enhanced features
- ✓ Brand visibility on homepage
- ✓ Speed and offline availability

- ✗ No use without downloading
- ✗ Investment in development
- ✗ Required phone space
- ✗ Hard to make into users 'top apps'

Mobile Website

- ✓ Simple access through internet
- ✓ Easy to update content
- ✓ Main features offered



- ✗ Limited level of enhanced functionality

Conclusion: Apps must offer **additional functionality** above what the website can offer (e.g. in-store navigation, coupons or account ordering) such that the **user wants to download it, engages with the app** on a **regular basis** and it is genuinely beneficial

Note: [1] IMRG Capgemini Quarterly Benchmarking Report

ECOMMERCE PLATFORM SELECTION IS COMPLICATED FOR GROCERS

The unique nature of the online grocery shopping journey presents challenges for ecommerce platforms. For example, typically online grocery baskets will contain 40-50 items per basket compared to just a few in general merchandise baskets. Given the wide variety of general merchandise retailers, most ecommerce solutions are focused on serving their needs – with very few 'out of the box' grocery solutions available to choose from.

Given the lack of options with significant grocery experience it is important for retailers to seek specialist advice to ensure that the technology partner they select is suitable and has a sustainable, fit for purpose solution. Furthermore, it is likely a system integrator will be required – they need to have the right credentials required.

International leaders in online grocery have adopted different platform strategies – for example, most leading players in the UK and France have developed custom in-house solutions or are considering doing so. More recently, new options and start-ups have appeared that are specifically engineered for the food experience. MyWebGrocer (MWG) has been widely used across the US grocery industry and Unata and Foodie provide more nimble solutions.

Ultimately the platform decision for retailers will depend on budget and risk profile. Larger platforms typically cost more and take longer to implement but provide a more reliable, proven solution. Smaller platforms or developing in-house may be more agile but represent significant risks. Retailers also need to invest in building the capabilities to use the platform so they can extract maximum value.

Note that although the ecommerce engine often gets a lot of attention, it is just one of the key components of managing an online offer; other important systems include order management and picking.

PICKING SYSTEMS USED BY RETAILERS DRIVE BOTH THE QUALITY AND PRODUCTIVITY OF ORDERS


System driven replenishment


Pick scheduled to fit van routes, pick sequenced for max efficiency


Pick multiple orders together, pick directly into customer crate


Crates & trollies allocated according to volumetrics


System suggested substitutes


Scan items and crates, crates scanned to van

RETAILER USING WMS	
Sainsbury's	UK
ocado	UK
JUMBO	NL
Auchan.fr	FR
Casino EXPRESS.FR	FR
U	FR
SAFEWAY	US
Peapod	US

RETAILER USING BESPOKE	
TESCO	UK
Waitrose	UK
ah	NL
the fresh food people Woolworths	AU
coles	AU

WMS VENDORS

Manhattan Associates

jda.

centric

symphony EYC

DAI

RETAILERS AIMING FOR A BASIC OFFER SHOULD IMPLEMENT A SPECIALIST MID-TIER GROCERY PLATFORM

Ideal solution for retailers wanting a relatively basic proposition to get started would be to select a mid-tier, specialist grocery platform. This could be an out-of-the-box solution with minimal configuration requirements. The timeline to implement would still be approximately 1 year but this would typically depend on the amount of integration required.

Careful selection of the integration partner will also be required. Costs of implementation will vary but would typically be USD1-2m plus annual running costs.

Three key components should be considered with example solutions provided from the US market:

COMPONENT	DESCRIPTION	EXAMPLE SOLUTIONS
Ecommerce platform with basic picking solution and PIM capability	Mid-tier / specialist grocery ecommerce platform	Careful selection from various players including: Foodie, Unata, Mercatus, MyWebGrocer and more
CRM / marketing platform	Customer segmentation & email marketing	SmartFocus
Integration & reporting	Extended integration to POS (orders) & CRM, bespoke reports	Member's own solution

MORE SOPHISTICATED PROPOSITIONS WILL REQUIRE SIGNIFICANT IMPLEMENTATION INVESTMENT

More sophisticated propositions will require a heavier investment in the technology solutions needed to support them. Typically these will take longer to implement and require specialist skills – often only available from third parties. Custom build solutions are a trend among many larger, mature businesses providing more flexibility to customise to the exact needs of the retailer. This would not be a recommended option until internal capability and understanding of online grocery has been developed.

KEY COMPONENTS	DESCRIPTION	EXAMPLE SOLUTIONS
Ecommerce platform	Mid/upper tier ecommerce platform	Hybris, Oracle, IBM Websphere
CRM / marketing platform	Customer segmentation & email marketing	e.g. SmartFocus, SAP CRM
Transport management	Plan scheduling, load & route of deliveries	Descartes
Order management	Order orchestration, management of returns and refunds	Most likely to be a custom build but potential to use Sterling Commerce, Manhattan, etc.
Picking	Warehouse Management Solution to manage inventory & order picking	JDA/Red Prairie, Manhattan or custom build
Digital asset management	Management of digital assets such as images, videos etc.	OpenText, Adobe Experience Manager

10 Omni-channel organisation

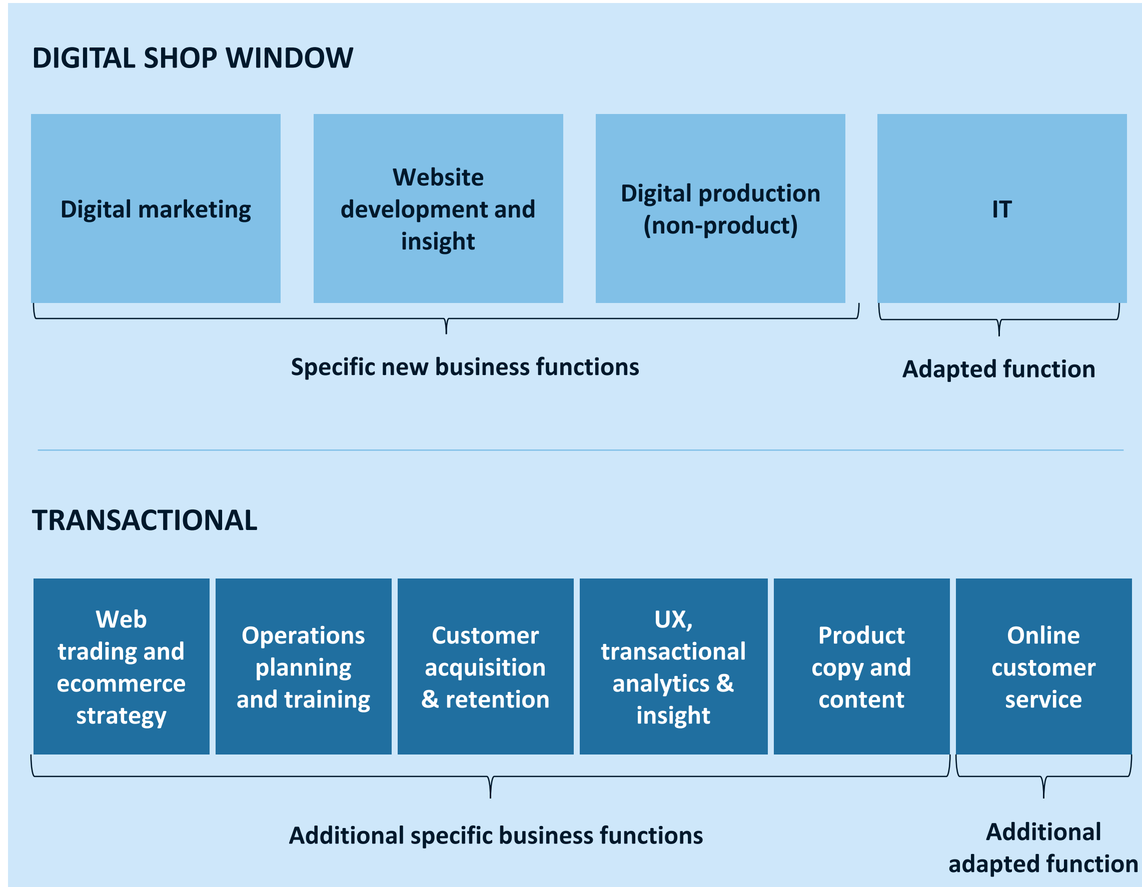
NEW DIGITAL SKILLS AND CAPABILITIES WILL NEED TO BE ADDED TO THE BUSINESS TO RUN NEW WEBSITES

In order to successfully run a website, new skills and capabilities are required to manage the site effectively – often skills which will not exist in a traditional business. Additional skills will be also be required when transitioning between a non-transactional 'digital shop window' website and an enhanced transactional website.

For a digital shop window, 3 specific new business functions need to be added - digital marketing, website development and insight and digital production. IT should be an adapted function and must have the skills to cope with the online website and the services required to maintain this e.g. domain and server knowledge.

Transactional websites by their nature require skills that can manage the day to day operations of a digital business – trading, marketing, product copy, operations and customer service.

Again these are skills which typically do not exist in a traditional physical retail business and may need to be hired in from outside rather than upskilling existing resources.



A SEPARATE SILOED TEAM WORKING WITH RELATIVE AUTONOMY LEADS TO BEST RESULTS FOR ONLINE LAUNCH

Initially when a company starts an ecommerce function it is recommended that the ecommerce team is a stand alone function, run as a separate business. This is partly to give the business the agility it needs to move quickly as well as the simple fact that it can take time to generate a profit in ecommerce – and traditional retail management would be tempted to reduce headcount / change strategy to reach profitability earlier.

As the % of revenue that ecommerce represents increases, business functions should become more integrated so that synergy benefits are being shared across business units.

	1st Phase Nascent ecommerce	2nd Phase Mature ecommerce	3rd Phase Omni-channel
% online sales:	~0-2%	~ 2-5%	~5%+
Leadership title:	Ecommerce Director	Omni-channel Director	Chief Customer Officer
Organisational structure:	Standalone ecommerce team run as a separate business	Functions with greatest customer impact and cost synergies integrated	Fully integrated business
	Recommended initial structure		**Current leading practice omni-channel retailers**

In order to create a successful ecommerce business is important that the behavioural and cultural shift of an ecommerce team is fully accepted by all departments

Sources: Javelin Group / BMC research and analysis

ENHANCED TRANSACTIONAL WEBSITE REQUIRES A LARGER, DEDICATED ECOMMERCE TEAM

SUBSTANTIAL TEAM

An enhanced transactional site requires a substantial ecommerce team with different specialisms. To cover all of the areas as in the simple proposition and more, an ecommerce team with 25+ full-time employees is recommended. The combination of higher volumes, more sophisticated proposition and tools will require both more heads as well as new skills (e.g. in a basic model, retailers typically rely on agencies for digital marketing – in advanced models more of the knowledge starts to move in-house).

NEW SKILLS & CAPABILITIES

New skills and capabilities will need to be brought into the retailer from an external source to run and manage the ecommerce team. A dedicated customer experience team would be recommended. To manage new potential delivery options (i.e. home delivery and curbside) additional logistics resources will be required. Additional supply chain and logistics resources will also be required to run the larger in-house team and to oversee third party vendors. To manage the more sophisticated ecommerce platform, a larger IT team with new specialisms will also be required.

THIRD PARTIES FOR EXPERTISE & RISK-SHARING

Retailers may also want to consider using third parties for expertise, cost control or risk-sharing. External suppliers will often have the requisite experience and despite having a higher cost can provide more flexibility and may speed up the implementation time. Furthermore, the expertise should reduce the risk of failure of any project. Typical areas where third parties are used include creative agencies for web design and marketing agencies for digital marketing. Increasingly retailers are also starting to consider outsourcing critical functions such as fulfilment and customer delivery which could act as a means of risk sharing.

LATAM IMPLICATIONS

Accessing these skills and capabilities in a relatively underdeveloped market will be the key issue for LATAM retailers. For many grocers, the focus should be on hiring staff that have experience outside of the grocery world that can be trained in the specifics of the category. This is likely to be much easier than trying to each the existing team a whole set of new skills in the digital world.

Potentially looking at start-ups could be seen as a means of rapidly acquiring the skills and capabilities required to succeed.

Sources: Javelin Group / BMC research and analysis

KEY FINANCIAL ASPECTS WHEN CONSIDERING ONLINE GROCERY

BASKET SIZE (AOV)

Average order values are crucial to economic success – particularly in home delivery models where the cost of delivery is high. Based on the UK market, online orders are typically 3-4x offline basket sizes. Product margins for online are typically the same between channels unless any price premium is applied. The key factor is how much cash margin is generated to contribute towards the variable and fixed cost base. Given the focus on basket size it is important for the online team to do everything they can to encourage higher customer spend – recommendations, improved proposition, higher order thresholds (for minimum or free-spend) will all help boost revenue.

ORDER VOLUME

Volume is crucially important to the online grocery business in order to pay for the significant overheads. This places a focus on driving volume through acquisition marketing which is understandable but retailers should be careful to ensure that their proposition and service levels are good enough to maintain customer satisfaction and reduce churn. When dedicated facilities (e.g. dark stores) are introduced, volume is even more important to cover the fixed costs.

OPERATIONAL EFFICIENCY

Crucial to reducing costs is to ensure operational efficiency is a key focus for the business. Picking productivity in store is typically a key focus given the labour costs and the size of online orders. With higher volumes, store teams typically benefit from better efficiency through experience, zone picking, reduced management time per order etc. Where home delivery is offered, driving down the cost of delivery either through volume, training or process improvement is a significant driver of profitability.

LATAM IMPLICATIONS

While the sector is relatively small there is not much that retailers can do other than to focus on high basket values and driving up the acquisition activity.

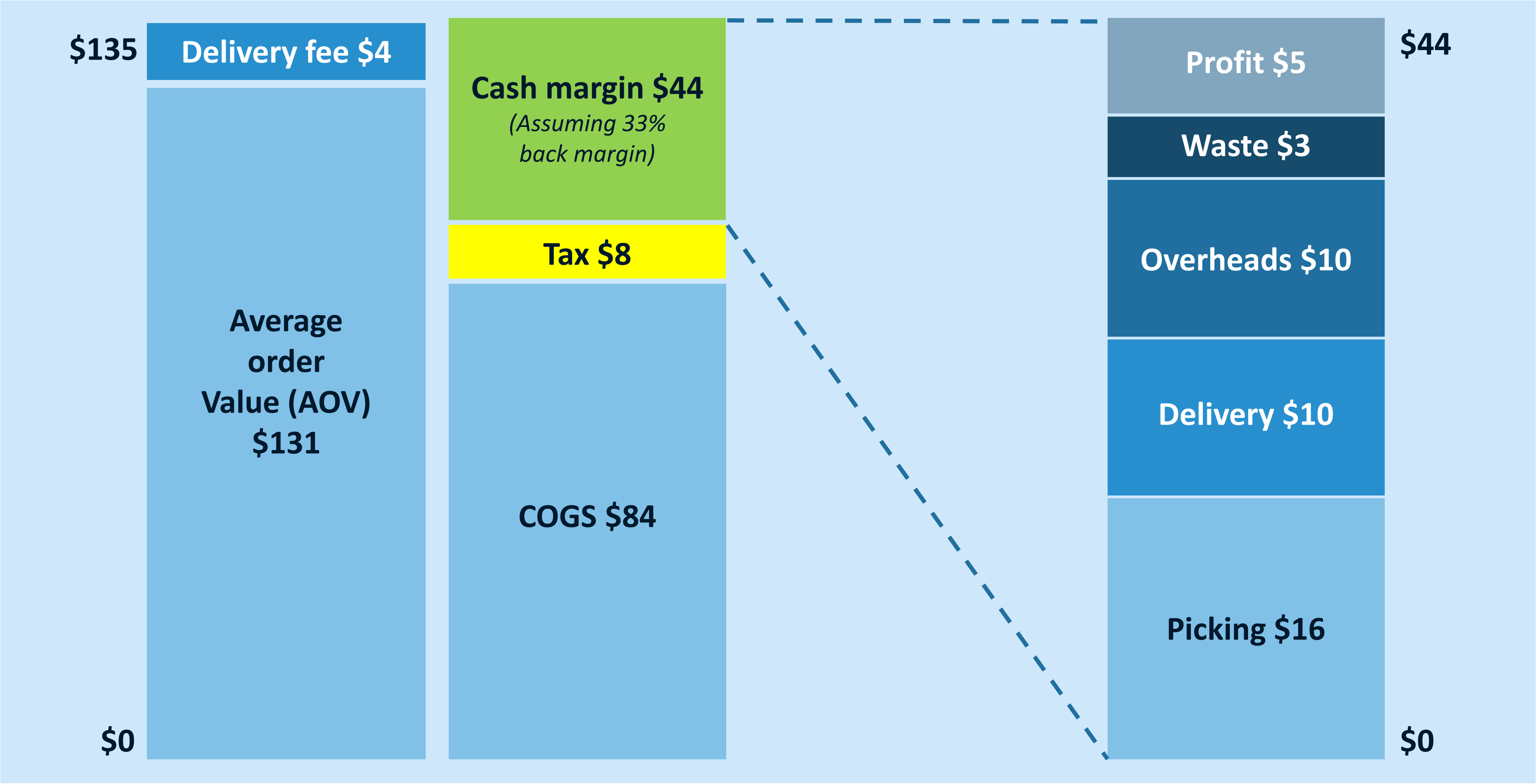
As the business grows, it will take significant time to reach profitability – typically 5-7 years would be common, depending on market and internal conditions.

Only when scale is reached will the operational efficiency focus pay off. This will require a keen attention to detail on labour productivity including picking, drivers and management efficiency.

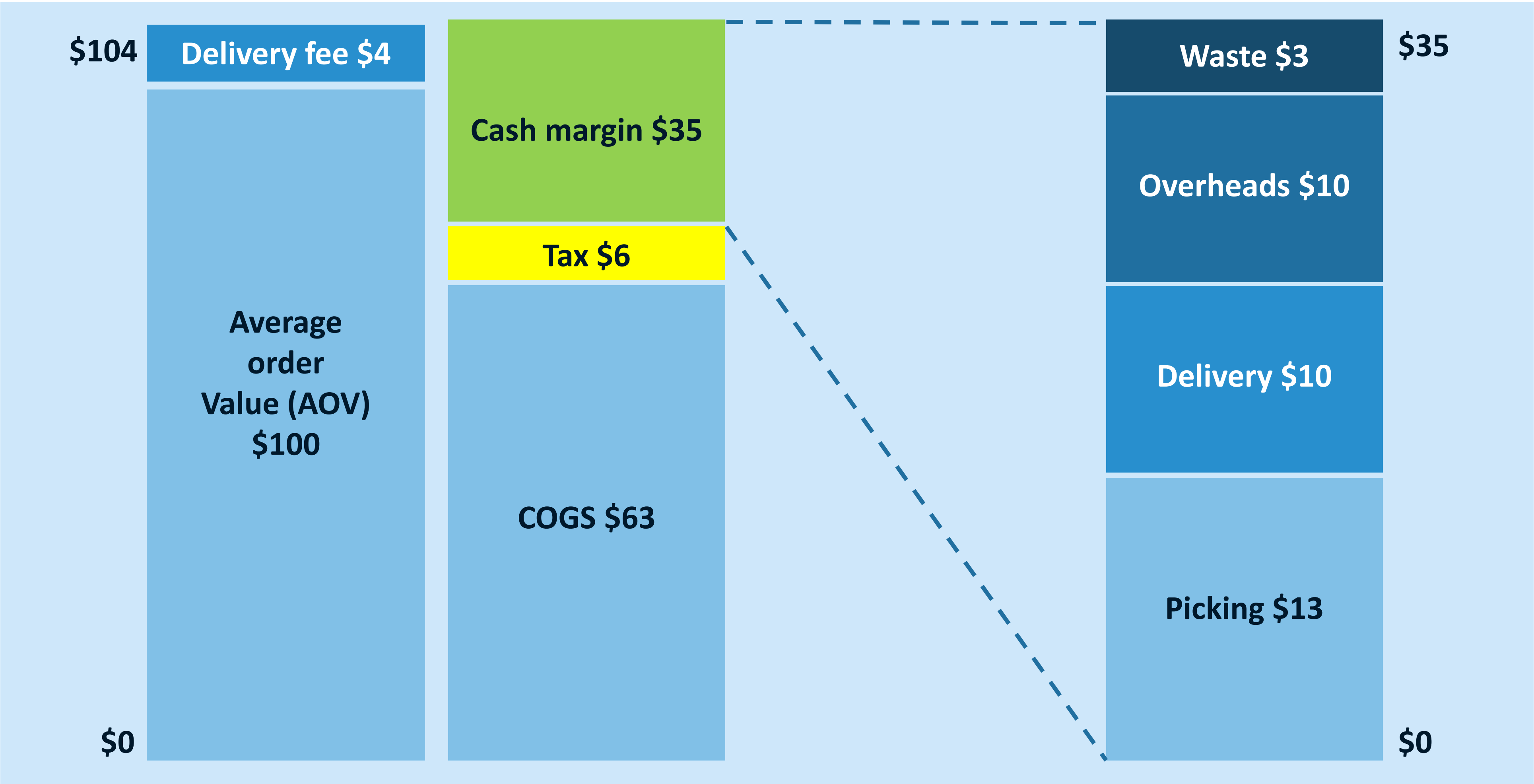
Sources: Javelin Group / BMC research and analysis

11 Making omni-channel grocery profitable

AN ILLUSTRATED EXAMPLE SHOWS HOW LIMITED THE PROFIT POTENTIAL IS IN A DEVELOPED MARKET…



…AND IF THE AVERAGE ORDER VALUE REDUCES TO $100 THEN THE PROFIT IS ELIMINATED



KEY FINANCIAL CONSIDERATIONS FOR RETAILERS WHEN IMPLEMENTING ONLINE

Online grocery is a difficult market in which to achieve profitability. Although the commercial margins are reasonable, costs are high with many low value items typically need to be picked for a grocery order – requiring a lot of labour. Furthermore, if home delivery is offered, the cost of providing this service is rarely fully covered by the customer. In a simplistic way, ecommerce could be seen as a channel with lower profitability than the stores (where customers serve themselves). However, the labour rates for stores and delivery in Latin America are significantly lower – the focus therefore shifts to service quality.

In addition, ecommerce can often be seen as a threat to the offline business channels – with cannibalisation of sales constantly referenced as an issue. Many mature retailers have found that multi-channel customers are typically at least two times more valuable than offline.

However, the digital shift means that if you do not provide customers with an online service, then they may well go to another retailer that does offer the service. Therefore, better to receive the sale through one of your channels than lose it completely (and potentially lose that customer).

Cost allocation is a contentious theme when reviewing the true profitability of the online channel for grocery. Retailers adopt different principles when it comes to allocation, with leading practice being to allocate all costs fully (e.g. including a proportion of store rent, contribution towards replenishment / supply chain costs, etc.). Of course, retailers may only choose to allocate true incremental costs to online.

Finally, timing is crucial – online takes time to reach profitability – 5 years to breakeven would be fairly typical depending on the speed of roll out, market dynamics and investment in infrastructure.

Key financial recommendations:

- Conduct detailed financial analysis when considering online business
- Consider the different order and cost dynamics of each service proposition (e.g. collection, delivery, etc.)
- Measure economic feasibility on a "per order" basis – is there a pathway to profitability?
- Conduct sensitivity analysis on key drivers (e.g. average order values, gross margin, items per order, etc.)

ABOUT JAVELIN GROUP

Javelin Group, part of Accenture Strategy, provides strategy consulting and digital transformation services to the world's leading retailers and consumer brands. Javelin Group helps clients improve their competitiveness by anticipating and responding to the rapid changes in customer shopping habits and retail technologies. For more information about Javelin Group and Accenture Strategy, please visit www.javelingroup.com and www.accenture.com.

ABOUT THE AUTHORS AT JAVELIN GROUP

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ABOUT THE COCA-COLA RETAILING RESEARCH COUNCIL OF LATIN AMERICA

The Latin American Council, which started in 2000, includes retailers from all parts of South and Central America, from the northern tip of Mexico to Tierra del Fuego in the south and the Caribbean Islands. Council members represent all forms of retail including supermarkets, hypermarkets, drug stores, convenience stores and online shopping. If you have any questions about CCRRC please email info@ccrrc.org.

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