

REGIONAL GROCERY: NEW DIGITAL PATHWAYS TO CONVENIENCE, VALUE AND MARGIN GROWTH

Grocery shopping habits change slowly—but make no mistake, they are indeed shifting. Guiding these changes are considerable investments in digital grocery offerings. Successful regional grocers are paying close attention to shoppers' needs in order to navigate what lies in the immediate road ahead.

To better understand the complex nature of online grocery shopping and the choices ahead, Mercatus analyzed grocery shoppers' opinions and preferences based on over 50,000 U.S. grocery shopper surveys. An additional survey of over 2,000 U.S. consumers rounded out our insights.

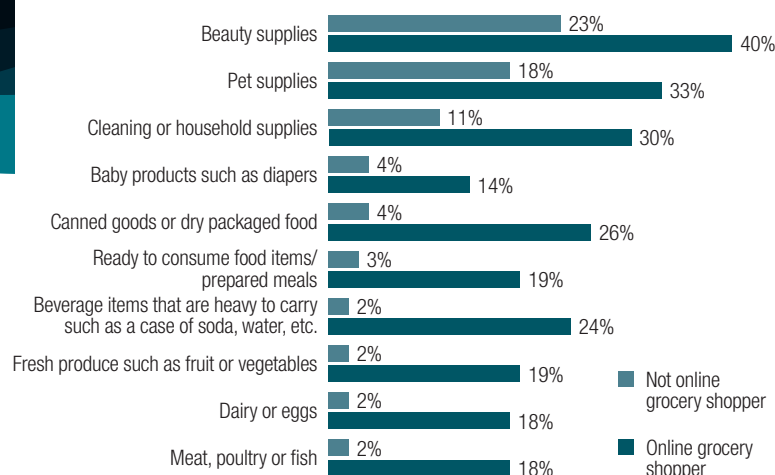
Our findings make the case for strategic, deliberate adoption of eCommerce as well as caution against pitfalls in the new era of digital grocery.

QUANTIFYING THE OPPORTUNITY

Findings of the Mercatus 2018 Shopper Surveys discovered that on average, 26% of regional grocery shoppers consider themselves online grocery shoppers, and 52% claim to have done at least some online grocery shopping in the past month. Online is a supplement to—not a replacement for—in-store shopping.

Even those shoppers who claim not to grocery shop online still do purchase certain items online that could be bought in a grocery store, such as beauty products and pet supplies. The danger for grocers sitting out the eCommerce trend is that their customers' basket size and mix might be slowly shrinking incrementally as shoppers turn to online offerings instead. At some point, shoppers reach a tipping point when they realize they can greatly expand their online purchases in the interest of value and convenience.

ONLINE PURCHASES MADE IN THE PAST THREE MONTHS: ONLINE VS. IN-STORE ONLY SHOPPERS



Source: Mercatus US Consumer Poll

The market for online grocery appears to be at an inflection point, as most online grocery shoppers are recent entrants. 70% of shoppers we surveyed said they have been doing so for less than two years, and 45% have just started within this past year.

The reality is that online grocery sales are growing by 75% year-over-year.¹ The primary driver behind this surge is click-and-collect, which increased from 18% in 2016 to 48% of all online grocery sales in 2018.²

To quantify the rewards of diving into the eCommerce journey, Mercatus commissioned independent research from EKN, a leading market intelligence firm. [The EKN case study](#) found that stores that went from no eCommerce to a fully integrated online store experienced the most dramatic impact. The study found these stores experienced:

- A 10.3% increase in overall weekly shopping revenue
- A noticeable shift in shopping patterns; specifically, stores saw a spend-per-trip decline (< by 5%) which was then offset by an increase in trip frequency (>7%).

These results prove that there is a tangible effort-reward dynamic when it comes to eCommerce adoption. Online offers and convenience drove new shopping trips that grew both top-line revenue and bottom-line profitability.

1. State of Grocery. (2018). Retrieved from https://1010data.com/https://info.1010data.com/rs/952-BWM-648/images/State_Of_Grocery.pdf?alid=12561454

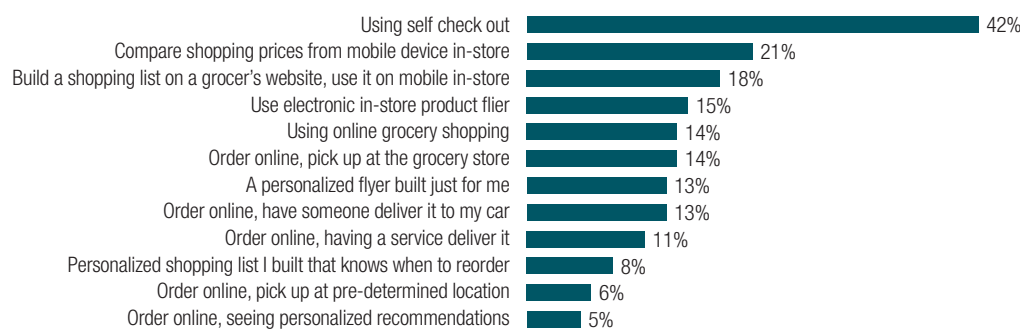
2. Hallett, L. (2018, March 10). How much are consumers really spending online? Retrieved from <https://retailleader.com/how-much-are-consumers-really-spending-online>

CHANGES AT THE STORE LEVEL

Even those customers who have shunned online grocery shopping often appreciate the convenience of looking at products and prices online prior to heading to the store.

Research found the following appetites for new technologies among our large shopper sample:

DESIRED TECHNOLOGY ENHANCEMENTS



Source: Mercatus 2018 Shopper Surveys

Much of digital demand from shoppers involves enhancing in-store experiences: shoppers want mobile price checking, shopping lists and in-store product navigation. Services such as personalized flyers, ordering ahead and pick-up or delivery have particular appeal for online shoppers and millennials.

CHANGES AT THE SEGMENT LEVEL

Digital grocery innovation, such as eCommerce, is about delivering convenience and value to customers and meeting their needs—when they need it and where they need it. This change is happening one category at a time and will continue until it reaches a tipping point. Bringing that tipping point closer to reality is the growing demand for—and rapid retail rollout of—click-and-collect shopping.

Our national poll determined that over one-third (35%) of U.S. adult shoppers have used click-and-collect and/or delivery options in the past month. Of those who had, 6% had groceries delivered, 10% had used click-and-collect and 19% had used a combination of these options.

Those grocers who respond to these trends by taking a thoughtful, customer-centric approach to technology implementations will have an advantage over those who have rushed in without proper consideration of their customer relationship.

“Regional grocery stores are a community gathering place. There is a reciprocity of giving back to the community that requires special attention and must be guarded, even as new technologies become available that can offer convenience while distancing the buyer from the seller. Careful adoption of new digital capabilities ought to enhance local community experiences,” says Sylvain Perrier, CEO, Mercatus Technologies.

To solve the consumer side of the “last mile” challenge, some grocers are building capabilities in-house, and others are partnering with third party delivery specialists such as DoorDash, Instacart and Shipt, each carrying their advantages and disadvantages for grocers to partner with.

Mercatus’ recent partnership announcements with Shipt and DoorDash illustrate an emerging awareness among grocers about how profoundly important it is to hold on to the customer relationship. While it may be tempting to turn over delivery ownership to a third party, grocers should never do so if it means forfeiting control over their reputation.

Perrier says, “Regional grocers must retain their brand relationship and reputation with their customer in the era of eCommerce. For this, they need to own their customer data and the quality of their grocery order.”

While grocery delivery is still slow in uptake, the speedy growth of click-and-collect in the last year shows a growing appetite for change. FMI has forecasted that 70% of US shoppers could be buying groceries online by as early as 2022.³ Our current results agree. The slow pace of eCommerce adoption in grocery over the past decade may be a poor predictor of the speed of change coming our way.

3: Weinswig, D. (2018, March 03). Online Grocery Set To Boom In 2018 (As Amazon Acknowledges Online Grocery A Tough Market To Crack). Retrieved from <https://www.forbes.com/sites/deborahweinswig/2018/03/01/online-grocery-set-to-boom-in-2018-as-amazon-acknowledges-online-grocery-a-tough-market-to-crack/#7f0188cd520b>

KEEPING PACE WITH CHANGE: FOUR WAYS TO ENSURE SUCCESS

1. OWN THE CUSTOMER

Maintaining a trusted reputation with the local community involves sourcing technology for every eCommerce solution component that makes that relationship stronger, not weaker. Insistence on owning the customer and all of the data associated with them is a must for continued success.

2. OWN THE ENTIRE CUSTOMER EXPERIENCE

Thinking from start to end is critical: Solve the problems that surround the experience of shopping, not just shopping itself. Help build the shopping list, offer personalized deals, teach something new or delight with an in-store experience, prepare the perfect meal to go, let them skip the lines, etc. The next step is to pull it all together into one end-to-end solution. If it takes five to eight apps to get it done, the purpose of value and convenience is defeated.

3. JOIN THE RIDE WITH YOUR CUSTOMERS

Ecommerce is not just about online shopping and delivery. While many shoppers enjoy things such as getting expert advice from the butcher, hand-picking their own produce or attending in-store cooking demos, most do not enjoy the mundane grocery rituals of figuring out what is on sale, seeing how prices compare, getting relevant promotional coupons, etc. Reduce the less enjoyable aspects of shopping while increasing experiences and one-to-one value offerings. That is the name of the new game. Encourage shoppers to preload their shopping list onto a mobile device and track in-store as they shop, for example.

4. BRING YOUR LOCAL STORE TO EVERY SHOPPER'S HOME

Digital marketing should encourage and grow in-store experiences. Digital technology, ironically, allows grocery to return to its roots. Regional grocers can be the trusted solution through the entire shopper journey. Being the local place where customers can shop in person or get their items delivered from a trusted merchant will keep regional grocers thriving for many years to come.



CONCLUSION

The trends we uncovered suggest strongly that consumer demands are starting to take a dramatic turn toward digital solutions and online grocery shopping. Avoiding investment in eCommerce will be to the detriment of grocers who ignore the current trends.

The long game for regional grocers is not to move more shoppers online. Rather, eCommerce is a means for grocers to:

- Eliminate a reason for shoppers to stray to the competition. The staunchly loyal in-store customer who one day decides to buy heavy pet supplies online will soon begin to consider other items.
- Engage and delight their customers when they want to shop, where they want to shop – both online and in-store.
- Drive convenience and solve the last mile problem of getting groceries into the hands of customers, whether in-store, curbside or delivered to their homes.

Denying that eCommerce is a must-have for grocery retailers is foolhardy. However, adopting a quick eCommerce solution that erodes the direct customer relationship may actually be worse. Quick-launch eCommerce platforms that are not branded to the grocer can turn the most loyal customers into opportunity shoppers. As regional grocers navigate these changes, maintaining their local reputations and direct relationships with customers must be core to every digital turn they make.

Regional grocers need to weigh their options and listen closely to what their customers need. With technology at their bidding, they are best equipped to master end-to-end omnichannel grocery experiences to delight their customers.

For those who navigate well, the road ahead holds a great deal of promise.

To learn more about how you can plan to navigate through your digital experience enhancements, visit us at mercatus.com.

