Digital Transformation in Grocery
State of the Industry Benchmark
This is an executive summary report based on Incisiv’s State of the Industry Benchmark study focused on online ordering in grocery, commissioned by AT&T.

107 respondents via a quantitative survey.

10 qualitative interviews.

1,000+ data points from Incisiv’s industry data pool.

Unless otherwise specified, all data cited in this report is from Incisiv’s “State of the Industry Benchmark: Online Ordering in Grocery” study.

Chapter 1

**Digital drives growth & competitiveness**

Online ordering is the next battleground for growth and customer relevance in the grocery industry. Online ordering is helping drive topline growth and improve competitive positioning for grocers.

Chapter 2

**The digital grocery business case**

The margin per order for online grocery leaves little room for error, so the business case is built on generating value (attachment) beyond the original order and reducing cost of operations.

Chapter 3

**The 4 imperatives for digital grocery success**

Real-time inventory visibility empowered store associates and improved partner collaboration are key business capabilities for success in online grocery. And, the role of technology is to enable these through agility, intelligence and automation.
Whether the grocery industry will be disrupted is no longer a question. It is being disrupted now.

Consumer expectations are being reset by unfamiliar foes.

The pervasiveness of digital experiences in our lives is such that we don’t compartmentalize our expectations anymore. The expectations grocers have to meet are now set by consumers’ best experiences across categories; often by brands they don’t see as being directly competitive.

As shoppers embrace digitally-driven experiences in all aspects of their life, they expect similar a similarly efficient, transparent and personalized experience from their favorite grocers, including:

- More online ordering and fulfillment options
- Same-day delivery, real-time order tracking and easy returns
- Shorter, more accurate time ranges for in-store pick-up

Grocers no longer compete with just their next-door neighbor.

Not only do grocers have to contend with elevated customer expectations, they battle for consumers’ stomach-share with an increasingly expanding and complex ecosystem.

<table>
<thead>
<tr>
<th>Pureplay Online Grocery</th>
<th>Grocery Delivery by Retailer</th>
<th>3rd Party Grocery Delivery</th>
<th>Food Delivery by Restaurant</th>
<th>Third Party Food Delivery</th>
<th>Meal-Kit Subscription</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ocado</td>
<td>Walmart</td>
<td>Instacart</td>
<td>Domino’s Pizza</td>
<td>Uber Eats</td>
<td>Blue Apron</td>
</tr>
<tr>
<td>AmazonFresh</td>
<td>Kroger</td>
<td>Shipt</td>
<td>Pizza Hut</td>
<td>DoorDash</td>
<td>Plated</td>
</tr>
<tr>
<td>FreshDirect</td>
<td>Roche Bros.</td>
<td>Google Express</td>
<td>Panera Bread</td>
<td>Deliveroo</td>
<td>Home Chef</td>
</tr>
</tbody>
</table>
Digital is the next battleground for customer relevance in grocery. Online ordering drives revenue growth and competitiveness.

As shoppers embrace online grocery, new winners and losers will emerge.

The big players – Amazon (Whole Foods), Walmart (Jet.com) and Target (Shipt) – have placed multi-billion dollar bets on online grocery. And, a new set of digital upstarts such as Ocado (robotics-led automation) and Subziwalla (hyperlocal ethnic assortment) are quickly addressing market gaps.

Online ordering is delivery greater than expected, net-new revenue growth.

Grocery retailers who have offered online delivery for at least twelve months, report an increase of 15.8% in incremental revenue, 30% higher than their pre-launch estimates.

Further, most of this growth is net-new addition to the top line, with only 18% of retailers experiencing cannibalization of in-store sales by offering online delivery.

And, will drive the majority of growth over the next two years and beyond.

Digital grocery sales will double over the next two years, breaching $50B by 2021 before accelerating further to $150B+ by 2025, at which point they will account for 14% of overall sales.

The number of grocers who offer Click & Collect and Third-Party Delivery will grow 150% between 2019 and 2021.
Online grocery delivery is largely unprofitable.

Profit per order has worsened for 3 in 5 retailers who offer online ordering.

While online ordering is driving net-new topline growth, it comes at the cost of profitability in an already low-margin industry. Per-order margins vary significantly based on fulfillment type. Other than fulfilling from distribution centers or vendor drop-ship, all other forms of online order fulfillment are margin negative or neutral.

Most forms of online order fulfillment are margin negative or neutral.

<table>
<thead>
<tr>
<th>Negative Margin</th>
<th>Fulfillment Method</th>
<th>Positive Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>- 0.30%</td>
<td>DC / Drop-Ship</td>
<td></td>
</tr>
<tr>
<td>- 1.20%</td>
<td>BOPIS / Click &amp; Collect</td>
<td>0.80%</td>
</tr>
<tr>
<td>- 1.90%</td>
<td>Reserve &amp; Collect</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Third Party Delivery (e.g. Instacart)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Curbside Delivery</td>
<td></td>
</tr>
</tbody>
</table>

Why? Lack of real-time inventory visibility and increased store operations complexity.

Grocers know how much inventory they have, but not where it is in the store. Further, they are challenged by the increase in volume, velocity and variety of tasks their store teams need to perform to support online grocery operations.

Walmart will reportedly lose USD 1 billion on eCommerce revenue of USD 21 billion this year as it faces challenges integrating its Jet.com acquisition and impact on margin from its next-day delivery operations.1

1. Recode
The business case for online grocery is based on creating value beyond the original online order.

Online orders that drive store visits – either directly through in-store pick-up or returns, or indirectly through increased loyalty to the brand – give grocers the opportunity to add new revenue to the original online order and increase their share-of-wallet at little to no marginal cost.

"Attachment Rate" is the incremental sale a retailer generates from an online order store visit. It is expressed in terms of the percentage increase over the original order value.

BOPIS and Reserve & Collect offer grocers the greatest opportunity to attach additional value to the original online order.

Average attachment rates for online orders or returns:

<table>
<thead>
<tr>
<th>Fulfillment Method</th>
<th>Attachment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserve &amp; Collect</td>
<td>11.7%</td>
</tr>
<tr>
<td>BOPIS / Click &amp; Collect</td>
<td>10.4%</td>
</tr>
<tr>
<td>In-Store Returns</td>
<td>5.2%</td>
</tr>
</tbody>
</table>

Beware the potentially counter-productive online order: third-party delivery and curbside.

With so much of the business case dependent on in-store attachment, third-party delivery and curbside pick-up make it harder for retailers to up-sell online orders. However, these fulfillment methods may yet hold value for grocers. To do so, they must calibrate their online ordering options and fulfillment methods by considering both the margin-per-order and the average in-store attachment rate.
Grocers have two clear imperatives if they are to succeed in online grocery delivery.

Each business is different, so the strategy to extract value from digital transformation must be finely tuned to your business model, ideal customer experience and current digital maturity. There are two key drivers for unlocking greater value from online grocery delivery.

**Increase wallet share**
Up-sell beyond one-time online orders.

**Increase profitability**
Improve profitability by reducing cost of operations

**Wallet-share value drivers**
Increasing online order basket size
Improving in-store attachment
Increasing purchase frequency
Enhancing product curation

**Profitability value drivers**
Improving pick accuracy
Improving picking speed
Real-time inventory visibility
Optimizing last-mile fulfillment
While the mandate is clear, grocers are currently ill-equipped to execute effectively.

81% of grocers do not have a real-time view of inventory.

44% don’t provide customers clarity on where to pick up online orders.

96% don’t have predictive models that trigger just-in-time ordering to keep pace with online orders.

93% are dissatisfied with their online order picking efficiency.

Grocers have to evolve their business operations to compete in this new landscape.

There are 4 imperatives central to driving business value from online grocery delivery.

**INVENTORY VISIBILITY**

Accurate, real-time inventory visibility is the lifeblood of online grocery. Without it, retailers are flying blind into the unknown.

**WORKFORCE TRANSFORMATION**

Grocers can not generate incremental value from online orders or execute profitability without empowered store teams.

**PARTNER COLLABORATION**

Grocers will need to work with an ecosystem of partners to innovate, execute and scale their online ordering operations.

**TECHNOLOGY ENABLEMENT**

Agility, intelligence and automation are key to grocers being able to improve inventory visibility, empower store associates and enhance collaboration.
Inventory visibility

Lack of inventory visibility at the store continues to be a multi-billion dollar problem for grocers.

While most grocers have an accurate view of their overall store inventory, their visibility into on-shelf availability remains low. The lack of visibility contributes to inaccurate and inefficient fulfillment.

The grocery industry loses $2.5B in revenue and $800 million in profit every year due to inaccurate inventory visibility and inefficient fulfillment processes.

Retailers’ top supply chain and technology challenges are both related to a central issue: inventory visibility.

### Grocers’ top supply chain challenges:
- Managing inventory levels: 57%
- Ensuring on-shelf product availability: 52%
- Meeting expected shipping time: 34%

### Grocers’ top technology challenges:
- Inventory data accuracy and availability across systems: 65%
- Implementing or extending order management solution: 51%
- Order status accuracy and availability: 45%
Workforce Transformation

As grocers offer new experiences and fulfillment options to shoppers, it will lead to greater operational complexity.

Grocers must reimagine store processes and empower associates to more effectively support online operations.

Only 1 in 2 retailers have provided their store associates adequate training to support online operations. 92% of retailers are dissatisfied with the labor utilization for online order picking.

Incisiv’s 3V Framework illustrates on store operations through an increase in the volume, variety and velocity of tasks store teams need to perform to support online operations.

<table>
<thead>
<tr>
<th>Volume</th>
<th>Variety</th>
<th>Velocity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>What it means</strong></td>
<td><strong>An increase in the unique number of tasks</strong></td>
<td><strong>An increase in the speed or frequency of tasks</strong></td>
</tr>
<tr>
<td><strong>Examples of tasks</strong></td>
<td><strong>Offer personalized recommendations</strong></td>
<td><strong>More frequent planogram resets</strong></td>
</tr>
<tr>
<td>• Fulfill more click &amp; collect</td>
<td>• Order picking for click &amp; collect</td>
<td>• Replenish from backroom to shelf</td>
</tr>
<tr>
<td>• Perform more mobile checkouts</td>
<td>• Managed last-mile delivery</td>
<td>• Assist shoppers order out-of-stock items</td>
</tr>
<tr>
<td>• Ship more orders from the store</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Impact on store teams</strong></td>
<td><strong>New skills</strong></td>
<td><strong>New business processes</strong></td>
</tr>
<tr>
<td>• Need more associates</td>
<td>• Increased training cost</td>
<td>• Increase in errors</td>
</tr>
<tr>
<td>• Increased labor budget</td>
<td>• Complex schedules</td>
<td>• Competing tasks</td>
</tr>
<tr>
<td>• More overtimes</td>
<td></td>
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</tbody>
</table>

The business case for online grocery is predicated on generating more value (up-selling store visits) and improving operational margin (improving picking efficiency and accuracy). Store associates are absolutely critical to both these value drivers.
As grocers embrace this ecosystem of partners, they will have to evolve their technology infrastructure to be more agile and open. They will also have to carefully balance the value these partnerships provide against the loss of owning the customer relationship. Three things grocers will have to focus on:

**Building an API-first technology architecture**
Grocers will need to re-architect their core commerce and order management applications to be more agile and open. They will likely have to integrate with a variety of different players for different use-cases and markets.

**Protecting and growing the customer relationship**
With the business case for online grocery built on up-sell, grocers must negotiate data-sharing with partners and devise smart strategies to convert third-party orders into customers who create value in the broader flywheel of their business case.

**Managing the cost-to-scale**
With a platform fee + per order commission, the economics of third-party platforms changes as you scale. Further, the inability to forecast demand to better plan inventory and labor are costs hidden in plain sight.

**3 in 4 retailers plan to integrate with third party delivery platforms such as Instacart by 2021.**

**But, 82%**
Rate their current partner collaboration maturity as “poor.”

Partner collaboration

Grocers will need to work with an ecosystem of partners to improve their customer experience and operational excellence.

From third party delivery to shopper location tracking, voice-based assistants such as Alexa to automated replenishment through connected devices: grocers will have to go beyond their four walls and integrate with a large ecosystem of third-parties to be able to deliver a great online ordering customer experience.
Grocers will prioritize technology investments that help increase share-of-wallet and improve profitability.

Grocers are clearly focused on the two key business outcomes that will help them extract value from their investments in online ordering. Process automation will be the single biggest driver of new technology adoption in the store.

**Share-of-wallet improvement**

Use of insights to increase basket size will see the highest adoption over the next 24 months. Grocers will look at solutions that can help them unlock value from all the data that they have.

Adoption of interactive display solutions will continue, and analytics will play a key part in personalizing content and offers on display to help drive an increase in basket size.

**Increasing pick efficiency to improve margin**

Grocers are aggressively looking at ways to improve picking efficiency, and view robotic based picking as the technology with the highest business impact. Though widespread adoption is still a long way off, we will see leaders experiment with robotics and micro fulfillment centers over the next 24 months.

In the short term, most grocers will adopt some sort of mobile picking solutions to drive incremental improvement in pick efficiency.

100% of retailers plan to use advanced analytics to increase basket-size.

8 in 10 retailers plan to use mobile tools to improve picking.
Grocers are pragmatic about new technology, and will invest in mature solutions with a clear ROI.

Associate mobility and advanced analytics have been around for a while, and therefore not seen as the most disruptive. However, grocers are relying on a combination of these to deliver the greatest value there is an increasing expectation that insights and analytics be embedded in new technology solutions so processes can be improved and optimized quickly.

Technologies seen as having the most disruptive impact – robotics and autonomy – are further away from mass adoption, and will be the domain of the largest grocers with the deepest pockets.

**Grocery Retailers' Technology Impact – Adoption Matrix for Online Ordering**

- Robots for in-store picking
- Autonomous last-mile delivery vehicles
- Mobile tools to improve picking
- Automated order pickups
- Analytics to optimize delivery routes
- Automated returns processing
- Analytics to increase basket size
- In-store interactive displays
- Planned Adoption
  - High
  - Low
Online ordering is a double-edged sword for grocery retailers. It offers revenue growth and increased competitiveness while putting further pressure on grocers’ wafer-thin margins.

Grocers must turn one-time online orders into loyal customers, and reduce the cost of operations – by improving real-time inventory visibility, empowering store associates and enhancing partner collaboration. They must prioritize technology investments accordingly: re-architecting IT to be agile (cloud-native and API-first), using insights to improve decision-making and automation to transform operations.

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