

How Some Retailers Are Innovating in the Digital Grocery Space

Article

Online grocery sales are reaching a tipping point, an unavoidable fact given at the inaugural Groceryshop conference held this week.

The grocery industry **doesn't exactly have a reputation for being tech-savvy**, but according to US food retail executives surveyed by Phononic, 82% believe grocery stores have come a long way in a short time.

US Food Retail Executives' Opinions on Modernization and Technology in Grocery Stores, June 2018

% of respondents

While grocery stores may not be as tech-savvy as other retailers, they have come a long way over a short time

82%

The grocery store layout is changing to accommodate microvisits

72%

If grocery stores do not enter the modern age, more people will look for other ways to get their food

71%

Grocery stores serve a basic function and there is not a great need to change them drastically

50%

Grocery stores haven't yet figured out how to use technology like other retailers have

49%

Grocery stores haven't changed in decades and it's time they started to adapt to the modern age

46%

Note: agree or strongly agree

Source: Phonic, "Food and Beverage B2B Survey Report" conducted by Regina Corso Consulting, July 30, 2018

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Overall themes of digital transformation and the power of the consumer emerged at the conference while **Amazon** was mentioned less often than you might think.

Here are specific takeaways:

Strategic Partnerships Are Powerful

Whether through **partnerships, investments or outright acquisition**, retailers acknowledge that innovation isn't a one-man show. The big news last year was Amazon's purchase of **Whole Foods** to expand its offline footprint and tap into the growing online grocery market.

More recently, **Kroger** has invested in Ocado to harness its automation expertise and bought meal kit company Home Chef to meet **growing consumer demand for prepared foods**.

Retailers and Brands Need Closer Relationships

Meanwhile, there is a need for more collaboration between retailers and CPG companies to share consumer insights and unify digital and physical channels. A presentation from **Deloitte** showed that retailers have low expectations from CPG brands' digital capabilities across the board, particularly for strategic alignment on how to grow categories, consistent and informative insight-sharing and collaboration and timeliness in new product development.

Delivery Is a Differentiator

Two-day delivery might be fine for other categories, but shoppers expect groceries the same day—ideally within hours—and retailers are scrambling to deliver faster through multiple in-store pickup and delivery options. "We're seeing a major focus on offering same-day delivery with many companies partnering with Instacart to scale up quickly, including Aldi. **Target** acquired Shipt, enabling it to move its same-day delivery plans forward by about two years," said Stewart Samuel, program director at **IGD** Canada.

While retailers have traditionally relied on dedicated warehouses for fulfillment, more are focusing on optimizing in-store inventory to pick from the shelves, and many are exploring a hybrid approach and changing store space allocation to house fulfillment and staging areas while using the public-facing space to enhance the shopping experience.

Alibaba's Hema grocery store exemplifies this trend with an on-site restaurant to cook seafood bought at the supermarket, cashierless checkout, delivery orders picked in-store and shuttled to an automated system that allows for 30-minute delivery to customers living within a 3-kilometer radius.

Natural Foods Are Mainstream

Based on exhibitors and presenters like Soylent, a plant-based meal replacement beverage, Dirty Lemon, a line of infused waters that can be ordered and paid for by text and Thrive Market, a membership-based natural foods online retailer, health is big business. Even produce brands are getting digital; Avocados From Mexico announced a partnership with Chicory, an artificial-intelligence-powered shoppable recipe provider, which links to sites like Instacart, Peapod and AmazonFresh.

And it's not just niche players who are harnessing the "conscious consumption" trend. Albertsons launched an ecommerce microsite Marketplace to highlight indie food brands enriched with seller stories. Nick Green, co-founder and CEO of Thrive Market, pointed out that their customer base isn't all coastal millennials. Half of their users live in the Midwest and Southeast, and are middle-income and vary widely in age.

Product Development Is Becoming Customer-Centric

Because of online shopping, brands and retailers have more access to customer data than ever and can tailor products based on consumer demand. Subscription wine company **Winc** developed a best-selling rosé based on gleaned consumer preferences and Alibaba created a lobster-flavored mooncake for this year's Mid-Autumn Festival based on analyzed data.

"Being online, we have unprecedented data that a brick-and-mortar grocery store wouldn't have," Thrive Market's Green said. In addition to simply asking customers on social media what they want to see and using ideas from influencers, a rich source of information can come from analyzing empty search results. "We have an entire report that's dedicated to analysis of our empty search results and parsing out what people are looking for that they're not able to find on Thrive," he said.