

PERSPECTIVE

Re-thinking Grocery – Driving Consumer Centricity



The increasingly 'digital' lifestyles of consumers today has impacted the way they shop – from apparel to shoes to almost everything. Grocery is not far behind. Consumers expect convenience, personalization and more. Grocers, on their part, have taken a number of steps to drive consumer centricity but have a long way to go. It is essential for them to understand that consumer centricity is not a function of the marketing department, but all groups within the company have to actively contribute and participate. This needs to be augmented through the right organizational change management and technology tools. In this paper, we attempt to present the changes that are required across functions within the company.

Introduction

Recent studies indicate that the traditional consumer expectations – convenience of shopping, cleanliness in stores, quality products at lower price points, and more – still persists. At the same time, technological innovations have created new consumer expectations from grocers for personalization, peer validation, shop anytime, anywhere, getting it fulfilled as per their convenience, and more.

The digitization of retail has led to the omni-channel consumer whose shopping journey is complex spanning multiple channels and touch points. For instance, the consumer starts his shopping journey online, researching the products, creating shopping lists, getting advice from their peers on Facebook, going to the store, downloading personalized digital coupons

on their mobile in the store, and finally paying at the mobile PoS at the store. The advent of the digital consumer has meant that grocers need to rapidly innovate to remain competitive.

Traditionally, grocers have been demand focused, with consumer demand shaping all aspects of the value chain including supply chain, merchandising and store operations. The rapid evolution of consumer centricity, driven by digitization has caught the grocers off guard. Grocers have prioritized investments in upgrading their digital capabilities. Unfortunately, this has come at the cost of completing transformational business and technology roadmaps. Today, grocers are the only members of the industry to still operate non-integrated, inflexible, legacy

technology solutions without a line of sight to integrated ERP platforms.

Recognizing this opportunity, traditional super stores and club stores have stepped up their game and are clearly emerging as the new competition in the grocery space. These retailers, while new to grocery, have the distinctive advantage of leading digital transformations. Even pure play online retailers such as Amazon are leveraging their strong digital credentials to enter the direct-to-consumer grocery delivery space.

This changing landscape has necessitated the need for grocers to rethink business processes, organizational capabilities, and technology tools across all functional areas, updating roadmaps to better align with a consumer-centric vision.

Current state for grocers

Over the last decade, grocers have focused on demand-driven models to drive consumer centricity. They have leveraged “aggregated demand” to drive changes to processes and technologies for improving demand forecasting, promotion planning, and assortment management across the complete supply chain. They have found additional ways to listen to voice of the consumers using focus groups, conduct market research, and leverage mystery shoppers. Grocers have leveraged consumer information with market data and demographic information to drive consumer segmentation and tried to gauge individual buying behavior through use of loyalty card information. They have also invested in technology to mine the

transactional data from point-of-sale systems.

Over the last few years, grocers have introduced several capabilities to engage consumers better, some of which are:

- Online research tools for health and wellness, nutritional information, recipes
- Ability to create shopping lists integrated with prior purchase history
- Enhanced digital coupon management with seamless execution at retail POS
- Mobile applications for price check, product information, shopping lists, digital couponing
- Consumer selected programs for college savings and charities, such as Upromise

- Order prescriptions online with pickup at store
- Endless aisle product offerings leveraging bolted-on capabilities

Thus, grocers have taken a number of steps to drive consumer centricity but have a long way to go towards integrating the digital and in-store shopping experience. Grocers need to understand that consumer centricity is not a function of the marketing department, but all groups within the company have to actively contribute and participate. This needs to be augmented through the right organizational change management and technology tools.

Below we look at the changes required to make grocers consumer-centric.

Omni-channel

One of the most significant trends in retail over the last decade has been the evolution of omni-channel. Omni-channel retailers leverage 'single view of consumer' in coordinated and strategic ways to improve consumer experience across all their channels. Consumers experience the retailers' brand irrespective of the channel they are shopping in. Retailers are able to leverage an integrated view of the consumer across all their touchpoints - stores, web, mobile, social, and consumer service. They use this view to send relevant and context sensitive content, promotions and provide seamless shopping experience (buy anywhere, fulfill anywhere, return anywhere) to the consumer. Thus, omni-

channel retail is present for the consumer when they want it, where they want, and in a manner that is most convenient for the consumer to research, buy, return or interact with the retailer.

The key aspects of omni-channel for grocers include:

Cross channel processes: Need to define cross channel processes and provide training for store operations to fulfill cross channel orders. This includes fulfilling cross channel orders by store pickers, storing them at consumer service area, consumer service fulfillment of cross channel orders, etc.

Cross channel organizational alignment:

Need to ensure organizational alignment within different channels so that they operate as an integrated unit.

Store layouts: Retailers have started on cross channel journeys to discover that they have not allocated enough space to manage in-store cross channel orders or returns. Grocers need to ensure that there is adequate consumer service area in stores for managing cross channel orders and there is clear signage on how to complete their cross channel transactions.

Integrated data: need to set a technology foundation that gives a common view of items, orders, inventory and consumers.

Here are a couple of illustrative omni-channel consumer journeys:

	Engage			Transact		Fulfill	Service
	Entertain	Create	Research	Collaborate	Negotiate	Shop	Customer Service
POS/ Store							
Desktop	○	○	○	○	○	○	○
Mobile	○	○	○	○	○	○	○
Kiosk							
Contact Centers							○
...							

Consumer A: Browsing Facebook - Follows link to Crowdsaver - becomes a fan - retailer lowers the price - shops online - picks up at nearest store

Consumer B: Logs on to Foursquare - notices a coupon for checking in at nearest store - redeems coupon at store; buys other products as well

Let's see an example of consumer delight through omni-channel journey:



Like most people, when the person at the PoS counter starts talking about specials. She almost gets to point of resignation by the time she reaches the sales counter at this chain.



"Ms. Mary, the Teflon skin re-vitalizing cream that you have on your wish list online is on sale here". Mary is pleasantly surprised but is not sure if she wants to get out of that queue again and so he gives her a "that's okay" look.



Now that surprises her completely and she says, "Sure, please do".

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This scenario exhibits the win-win situation for both the consumer and grocer through cross channel integration.



newspapers and giving more weightage to peer recommendations than CPG companies or grocers advertisements. Hence, it is important for grocers to be active in the new-age delivery marketing channels. For instance, if a consumer does not respond to SMS promotions then the grocers need to explore alternatives like ads on social networking channels or e-mails, etc.

Consumer segmentation: Another key aspect of improving personalization and targeting is consumer segmentation. For example, baby boomers, Hispanics and Millennial are the leading consumer segments today. Each of these segments has distinct wants and needs and shopping habits. Millennial are very technology savvy and are leading the digitization of retail. On the other end, baby boomers have huge spending capacity and value the shopping experience. It is possible to segment further based on the information such as brand conscious, value driven, convenience driven, health conscious, families with babies, bulk buyers, and more available.

Mobility: Mobiles are the fastest growing channel for marketing and commerce. It provides marketers the location aware context of the consumer. This allows the marketers to send promotions that are relevant at the right time and right place. For example, consumers can check into a store with their mobile. This allows the grocer to know where the consumer is in the store and then send him appropriate coupons based on past shopping history, preferences, etc.

To sum up, grocers need to step away from mass marketing and do more targeted marketing at the individual level or at the consumer segment level. Grocers should be able to leverage the availability of demand data as a key enabler for marketing-led transformation towards consumer centricity.

Marketing

Grocery marketing has differed from some of the other retail segments in a few ways:

- Typically, grocery consumer shopping trip basket has large number of low margin products constraining the promotion dollars that grocers can allocate to promotions vis-à-vis other retail segments
- Vendor funding is a key part of running promotions and so vendors tend to dictate the items they want to promote and often, the intent is on consumer acquisition than growing loyalty
- Grocers have relied on mail in flyers and TV ads for marketing and promotions

Due to above factors, grocers lacked the wherewithal to do targeted marketing. But rapid digitization has changed consumer expectations. Now they expect the right content and promotion at the right time and context. Take the example of Amazon which is able to recommend content, products and promotions based on preferences, past purchase history, what's in the shopping basket, and what other consumers with the same profile purchased in the past. Today's grocery consumers expect the same level of personalization from their neighborhood grocer too.

Some of the key factors for targeted marketing include:

Leverage of analytical tools: The advent of digital and better analytical tools to mine data has made it possible to personalize consumer experience by leveraging integrated information available from loyalty programs, in-store PoS transactions, online shopping history, social media footprint, consumer service interactions, and more. Grocers are offering personalization for their digital channel and there is a big opportunity to extend it to in-store consumers. They can leverage the array of loyalty programs and PoS transactions to determine the promotion to send to each consumer. For example, it does not make sense to send a meat coupon if the consumer never buys meat from the grocer. Similarly it is possible to detect typical replenishment cycles to send relevant promotions or content, for example, diapers for moms with babies.

Selection of the right digital channels: It is important to select the right delivery channel to distribute marketing content and promotions. The role of television ads, direct mail and newspaper circulars is rapidly diminishing. Consumer are expanding spend on digital media /

Merchandising

Grocers need to fine-tune their merchandising functions of assortment planning and pricing to drive improved consumer centricity. Some of the factors which drive merchandising include:

Store layouts and assortments: Once the grocers align the store clustering based on consumer segments, they should ensure that the store layouts and assortments are based on the relevant consumer segments. For instance, in a store where the key target consumer segment is interested in value pricing, more space should be devoted to entry level price items and private label items, whereas in an affluent area the store layout should include more organic food, wines, etc. In addition, grocers should make product organizations more consumer-centric by ensuring that shelf layout is based on what consumers would actually buy versus by brand and package size.

Pricing: Mobile technologies have made it easier for consumers to compare competitive product prices. Consumers can easily compare competitive prices in-store, using their mobiles, by scanning the product bar codes and then decide where to buy the products from. Grocers need to leverage online tools to determine competitive prices and ensure that their products are priced competitively across all channels.



Supply chain

Grocers are masters at efficient supply chain execution. Those that have transitioned to demand-based replenishment processes and tools have confirmed the impact to reduction in out-of-stocks, increase in sales, and reduction in working capital. The key supply chain aspects driving consumer centricity include:

Forecasting and replenishment:

Grocers need to adapt to new demand signals including online shopping lists for consumers or digital coupon clippings or impact of online orders picked up instore over in-store market basket, etc. These demand signals must be factored in to improve the forecasting and replenishment models.

Distribution: Consumers are increasingly demanding better quality and fresh products. There are number of steps grocers can take to fine tune their supply chain:

- Grocers need to take more ownership and control of transportation of relevant categories to their stores to drive

consumer centricity. This allows grocers to align their delivery schedules with consumer shopping times improving product freshness. This has a material impact to people, processes and technologies

- The need for more frequent deliveries especially for fresh produce means that leveraging the traditional 40 feet plus trucks needs to be re-considered with smaller transportation delivery options
- Grocers need to consider increased cross docking to cut the time-to-shelf for products. The reduction in lead time would also result in lesser use of chemicals and more healthier food choices for the consumers
- For organic product categories, where the demand is on the rise but supply erratic, grocers need to manage the downstream supply side supply chain better so there is more consistent and predictable supply

Packaging: With increased focus on green initiatives, retailer need to actively work with the vendors to ensure minimal amount of packaging used, minimize

transportation energy consumption, leverage packaging that can be recycled, is bio-degradable and has functional utility.

Cross channel fulfillment: As referenced above, cross channel will be a growing future trend, where consumers will place orders online and collect them at store or have them delivered to their homes (e.g. Peapod, Amazon Fresh). Retailers need to get their fulfillment processes ready to be able to handle these orders, these include in-store processes to pick, pack and fulfill consumer orders, or manage delivery trucks and optimal delivery paths for home deliveries.

eCommerce home delivery vehicle planning and operation: As grocers explore home delivery of e-commerce orders, they need to keep in mind that, it

can become extremely expensive. Ensuring optimum use of driver time, customer doorstep time, vehicle usage, and fleet management is a key to the e-commerce supply chain. These are also critical to improve and satisfy customer expectations. Failure in these areas will lead to late deliveries, poor customer relations and reduced repeat orders. Some of the key factors that need to be considered are:

- Vehicle maintenance, cleanliness, driver smartness, and behavior are important operational components to improve the customer experience
- Vehicle scheduling needs to be highly tuned to ensure customer orders are met within required timeslots while also optimizing use of vehicles / drivers.

Clearly, scheduling more vehicles / drivers within one site / store will reduce risk due to driver illness / vehicle breakdown

- Traffic congestion (long-term road works) and specific events (for e.g., baseball matches) can drastically affect order delivery times and the scheduling software will enable the flexibility to handle these variances and prevent the website from over-committing too many orders
- Scheduling can also be applied to specific addresses (e.g. inner city flats) to enable extended drop times, if required. Some zip codes will be uneconomic or not secure so one will need to be able to select these and block ordering.

Organization management

Organizational change management is one of the most critical elements in the grocers' journey toward becoming omni-channel retailers and in becoming consumer centric. Some of the impacts include:

Omni-channel impact on store operations: Introduction of omni-channel fulfillment requires strong change management. It is vital to success - store managers need to understand that e-commerce can add 5-10% of incremental revenue to their stores business because of the extended reach and it will not cannibalize their in-store business. The small picking and delivery teams need to feel part of the store team and the store manager is needed to lead this. Store managers need to understand how in-store stock availability supports online and how e-commerce availability raises visibility on their targets. It is also important to ensure sales for e-commerce orders that

are picked in store are accounted for within the store reporting and targets. An e-commerce operation utilizing a store picking model poses additional challenges for retail stores. We strongly recommend adopting a "pilot" and sample set approach before opting for a major launch across a wider store-base. This will allow the operational and technical challenges that inevitably arise to be resolved without affecting the core business.

Marketing: Moving towards more 'consumer centricity' requires determining the ownership of the targeted marketing group. This is typically seen resting with the loyalty management group as they are closest to the consumer from an insights perspective.

Vendor management: Increased targeted marketing means that there will be increased back and forth with the vendors to get the right offers to the consumers

and one that aligns with the targeting intent (win back, acquire, reward, etc.) The vendor management team needs to be strengthened to drive increased collaboration with the vendors in this space.

Store planning: Adopting store layouts to align with consumer segments mean there is more customization at store level, e.g., creating planogramming specific to a store means more effort. This needs to be accounted for while designing the store planning teams.

Alignment between information management and marketing teams: There needs to be better alignment between the CMO and CIO teams to ensure that the needs of the marketing team are on an agreed IT roadmap, but at the same time, there is no propagation of standalone un-supported systems to meet short-term goals.



Information Technology (IT)

Information technology can drive a number of key initiatives to provide the right foundation and tools to enable consumer centricity. Some areas include:

Omni-channel foundation: Driving omni-channel behavior necessitates integration of the store and online systems. There is a need to have a single hub for items, inventory, vendors, customers, and orders.

Store systems: Store PoS is one of the key systems to undergo significant changes to meet the demands of consumer-centric retailing. The PoS systems needs to be flexible to accept orders for in-store purchases or orders that need to be placed

for home delivery. The PoS system needs to be capable of accepting mobile enabled digital coupons, mobile PoS enable crowd busting, especially during holidays and for baskets with limited number of items.

Master data management: Poor data quality still remains an opportunity for most grocers as they have abandoned their efforts towards industry catalogues such as UCCNet. Manual entry of master data continues to be a prevalent practice and the source of bad data quality. It is further worsened by integrity challenges of legacy solutions architectures that run grocers transactional systems.

Customer segmentation, offer and campaign management tools: Retailers need to invest in tools that will provide the predictive analytics capability to offer a 360-degree view of the consumer to establish context, so that the grocer knows when, where and how to influence, create correlations, make wise suggestions, or compelling recommendations – to match consumer touch points with the company's personalization plans. This needs to be integrated with the engine that manages the offers (vendor and grocers) and marketing campaigns through the customer's channel of choice.



Conclusion

Consumer-centric retailing is present for the consumer when they want it, where they want it, and in a manner that is most convenient for the consumer to research, buy, return or interact with the grocer. Consumer centric retailing requires change in all aspects of the value chain including marketing, merchandising, supply chain, store operations, e-commerce, and information technology. The impact of organizational change management and technology in achieving these changes cannot be emphasized more.

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