

The Key To Launching A Successful Online Grocery Store

Who Will Benefit From This Report

This grocery industry report was developed to meet the information needs of a wide range of supermarket executives. The consumer target audience includes almost every American who shops for food, so this report is equally applicable to a C-Suite executive at a regional or national supermarket chain and an owner of a single location grocery store.

There is a tremendous amount of business data available on the subject of online grocery sales and home delivery, but it tends to be scattered across a wide range of resources from trade publications to digital magazines to published secondary research to proprietary primary research. Our aim was to compile this disparate information into a single source document to help grocery executives achieve two outcomes regarding an ecommerce grocery platform. First, it will help them evaluate their options in the digital space. Second, it will help them formulate their strategies, if they decide to launch a new platform or upgrade an outdated system.

In this document you'll find an overview as well as the primary areas to explore in order to determine if an online grocery platform is the right move for your business, in the near future or in a few years.

Grocery Industry Trends

In 2014 only 3% of US grocery sales were generated via an online shopping website, but industry trend analysts predict this number will increase from 3% up to 12% by 2019. This would represent \$100 Billion in annual online grocery sales within 4 years.



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'Always On' Generation

Brick-and-mortar supermarkets that have already launched an online store are reaping the rewards. They see increased basket size and increased loyalty, which translates to a higher lifetime value (LTV) per customer.

Plus they see the demographic profile of their customer base start to shift. The digital space attracts a younger, more tech

savvy, higher value clientele comprised of younger working families. These people describe themselves as “always on”, “always connected” and “always plugged in”.

The key forces motivating this younger prospect are value, speed and convenience. And a digital grocery store caters to all three motivations.

Truck delivery to home or business locations is a growing trend in most major metro areas

WebVan Fiasco

WebVan declared bankruptcy in 2001 (only two years into their launch), because 15 years ago we lacked a strong base of early adopters to support this new grocery distribution channel.

At the time of the millennium we were still struggling with Y2K issues, and most Americans weren't ready to embrace online food shopping.

The grocery industry has transformed exponentially over the past five years. Every week our grocery trade publications, and even the nightly news, report on new developments in online grocery shopping or grocery delivery services.

Amazon Expands Its Online Offering

Amazon has established itself as the leader when it comes to innovation. They recently announced FAA approval to test drone deliveries for smaller orders.

These are the “immediate need” or “instant gratification” purchases like diapers before the baby wakes up, or Gatorade for a jogger about to head out for their run.

Amazon also announced the new Dash Button, which is a line extension on the Dash food ordering hardware token. The Dash Button is a reminder device with an instant order feature. It only works for one SKU per token, and the full line of tokens only includes 18 SKUs.

The original Dash hardware provides more utility, because it supports a broader functionality. The consumer can scan a barcode off any product package in their home or out-of-home environment, order instantly with the click of a button, and save the product details to their favorites list for express re-order. Amazon keeps the credit card and delivery address on file for a truly one-click grocery shopping experience on all re-order purchases.

The profit potential is very large. Customers order as a need or want arises at any time of day or night, and this one-off ordering activity tends to increase their total weekly basket.

Over time these purchases will likely undercut local supermarket sales, because this behavior reduces the number of items on their shopping list for the major trip to the brick-and-mortar supermarket.



Competitive Landscape

We may need to wait a few more years for widespread drone delivery, but truck delivery to home or business locations is already a prevalent trend in most major metro areas as well as many mid-size cities across the nation.

FreshDirect is already a fixture in many New York City neighborhoods. Bright green AmazonFresh trucks have taken to the streets of San Francisco as well as towns in Washington State, California and New York State.

Walmart has launched delivery service in five states with plans for a nationwide rollout. This focus on delivery service is not a surprise, since 50% of Walmart revenues are now attributable to groceries and consumables.

In addition to big box fleet delivery, there are smaller local services popping up around the country with Uber-like independent employees who pick-up and deliver a variety of products and packages.

DoorDash just received a \$40 Million infusion from Silicon Valley investors. They launched a few years ago with deliveries for restaurant take-out, but they'll soon be dropping off groceries for people who call in an order to their local market.

Instacart is another new delivery entrant with 4,000 "personal shoppers" in 15 cities who are on-call via their smartphone app. They were named "America's Most Promising Company" in January 2015 by Forbes magazine. And the company was valued at \$2 Billion during a recent Series C funding round.



The Increasing Value of Convenience

FreshDirect customers enjoy an array of membership options, ranging from one month for \$13, six months for \$69, or a full year membership for \$119 with unlimited deliveries. In many locations they offer a next morning delivery service, if the order is placed by 11 p.m.

Another long-standing player in the online grocery business is Peapod. They deliver to 13 states, including New York, Massachusetts and Illinois. Peapod's shipping charges vary by region and size of transaction. For example the delivery fee in the Northeast is \$7 for purchases above \$100. Peapod spokesperson Peg Merzbacher says their website makes it easier to shop for healthy foods than a brick-and-mortar store, because customers can sort products by nutritional facts like sodium, cholesterol, fat and fiber.

Mobile apps are also fueling the growth of the online grocery industry. Merzbacher says about a third of Peapod's orders have a "mobile touch," which means the customer used a mobile device at some point in the purchase process.



Quickly Changing Consumer Needs & Wants

Most supermarket executives are familiar with these industry statistics regarding online grocery shopping, but I believe they're worth repeating here.

According to consumer research surveys, 40% of consumers say they'd order groceries online if the option was available.

18% report they "actively dislike" going to the grocery store. And 59% currently use their

smartphone in the grocery store to review a shopping list, refer to a recipe, or access online coupons.

In fact, some of the larger supermarket chains direct their in-store shoppers to online coupons as they walk down the store aisles. The shopper accesses the coupon with their smartphone, using a URL posted next to the product.

Grocery executives who ignore online food shopping trends could be left behind by their competition with little hope of ever catching up

European Grocery Trends

22% of British consumers ordered their groceries online in 2014, and the number of online grocery shoppers across Europe has increased by 60% over the past five years. We like to monitor the European marketplace, because they tend to be a few years ahead of the American markets when it comes to consumer technology. Some industry analysts speculate the US would be on par with Europe regarding online grocery shopping, if we as grocery executives didn't have the WebVan fiasco clouding our thinking about innovation. These analysts are predicting that 12% of US grocery revenues will be generated via online sales by 2019. However, these projections could be substantially under reported if the American markets follow the European trend. A faster adoption curve could represent annual online grocery sales of \$200 Billion within just a few years.

Drug Stores Are Invading the Grocery Arena

Consumers are buying food products from a variety of outlets, in addition to their supermarket or grocery store. We see vitamin shops and chain drug stores devoting as much shelf space to food products as the corner market. They're providing convenience and competitive prices. The Pantry line at RiteAid and the Nice! line at Walgreens are just two examples of drug chains creating their own store brand for food items at price points on par with supermarket store brands. Walgreens has a website dedicated to Nice! products with 534 food SKUs. It offers a 20% discount (plus free shipping) on any product in the Well category when the customer signs up for an auto-ship plan. The local drugstore could soon become a formidable competitor with today's grocery store.

We believe the insight to be gleaned from these collective trends is that grocery executives who ignore this new direction in online food shopping could be left behind by their competition with little hope of ever catching up. Today an online option provides a clear competitive advantage in most geographic areas. Within a few years an online option could become the price-of-entry into the consumer's consideration set when it comes to which grocery store they choose to patronize.

Click-and-Collect

More and more consumers are ordering retail products online, and then going to the store to collect their purchase. Retailers are optimizing this omni-channel behavior by providing buyers with opportunities for incremental impulse purchases, especially from high margin products strategically placed near the order pick-up area. The supermarket industry has a natural advantage with this technique, because our shopper is in an "empty cart" mode as they approach the pick-up area.



Overcoming Obstacles to Launch

There are multiple considerations when evaluating the viability of an ecommerce business model. And grocery executives who don't have experience in the ecommerce arena are naturally wary of diving in to the deep end without a clear understanding of the channel dynamics.

In our experience consulting with new clients we see four consistent obstacles to overcome before we launch a new ecommerce grocery store: providing a positive user experience, evaluating the software platform, choosing the most effective and cost efficient delivery process, and weighing the pros-and-cons of a dedicated ecommerce team vs. outsourcing the program.

Each of these four areas is a critical component, so we'll address them individually.

Providing a Positive User Experience

The user experience is much more than the website functionality. It's an end-to-end process that's similar to a supply chain in many respects, and includes three stages.

The first stage is the website visit, which is discussed in detail to the right.

The second stage is the personal shopper who picks the products off the shelf at the brick-and-mortar location, exactly as ordered online.

And the third stage is an on-time, professional delivery service.

If the process falters during any one stage, then the customer has a negative user experience. They may abandon the idea of online grocery shopping altogether. Or they may explore other online options, like a competing supermarket's website or a monster dot com like Amazon.



Three Elements of the Website Visit

We look at these elements in isolation, but all three must work together as a unified whole to convert a visitor to a shopper.

The first element is the software platform that powers the functionality of the website. The search function must be intuitive for the shopper, so it's quick and easy to find any one of tens of thousands of SKUs. And the website must include additional features to make shopping more efficient over time for those 18% of consumers who "actively dislike" grocery shopping. These efficiency features include functionality like a "favorites list" and "express re-order".

The second element is the advertising that drives customers to the website. This could include local SEO, email campaigns, or in-store promotions.

The third element is on-site usability that's driven by a combination of the search functionality, branding, creative design, product mix, product photography, and easy digital check-out. The quality of usability will determine whether a visitor converts to an online purchaser, a repeat purchaser and a loyal advocate.



Evaluating an Online Supermarket Software Platform

The software platform is the foundation of the enterprise. It's the machinery that drives the functionality, so we can't overstate the importance of choosing the right platform to meet the unique needs of both your customers and your business. The software platform should be enterprise grade, because it's supporting an operation that relies on speed and security with a razor thin margin of error.

Frustrated customers can be unforgiving.

Your evaluation criteria should include six areas of consideration:

- Functionality
- Reliability
- Security
- Capacity
- Speed
- Technical support

Speed and load time are critical, because a delay of even a few seconds can substantially depress conversion rate from visitor to shopper

Many Customers Prefer In-store Pick-up

The easiest delivery option is in-store pick-up at your brick-and-mortar location, which is sometimes known as click-and-collect (C&C) or buy-online pick-up in-store (BOPIS). This method is widely used by many retail categories, and it's growing in popularity. The pick-up location can be inside the store. Or it can be located outside in the parking lot where a customer drives up, pops their trunk, and lets a store employee load their order.

Many customers prefer pick-up to home delivery. They can stop by the supermarket at their convenience, instead of waiting at home through an entire delivery window. WalMart is creating around the town kiosks based on this trend. They build several pick-up kiosks in different locations across a city, and online shoppers collect their order without getting out of their car.

Software Platform Points to Consider

The functionality must support all the features you and your customers need today, and the package must include ongoing upgrades (as well as all new software version releases) that adjust to consumer demand as it changes over time. And the search function must be intuitive to the user.

From a business perspective it should integrate seamlessly with POS and inventory control software systems. The hosting must provide 99.99% uptime with off-site back-up systems. It must be secure to protect customer privacy. It must have sufficient capacity to handle hundreds of simultaneous transactions at any hour of day or night. And it must have sufficient capacity to house tens of thousands of SKUs without depressing load time as the customer is browsing for different products.

The speed and load time are critical, because a delay of even a few seconds can substantially depress conversion rate from visitor to shopper. Technical support is key during installation, software upgrades, loading of new products, and accessing reports.

Delivery Options, the Key Final Step

Delivery is one of the biggest challenges to resolve for most online grocery stores. This is the crucial final stage in the flawless user experience. One of the fastest ways to lose online customers to a competitor is by dropping the ball at the delivery stage.

There are a variety of methods for getting an order into the hands of the customer. Many online grocers launch with a simple delivery method like click-and-collect, and then expand their delivery options over time. These options could include contracting with a local delivery company, launching a branded store fleet, or partnering with Uber-like services such as Instacart or DoorDash.



Dedicated In-house Ecommerce Team, or Fully Managed Outsource Solution

Managing an ecommerce website requires a unified commitment from the entire management team in order to ensure an exceptional user experience for your customers.

This requires mastery of all three stages of the process from digital shopping experience on the website to personal shopper in the brick-and-mortar store to purchase delivery. Plus the multiple elements of each major stage.

It's best to establish a dedicated ecommerce team that's fully focused on a successful online launch.

A common mistake by supermarket executives is the idea of a rolling launch with a long-term plan to develop dedicated resources after a successful test period. This is a recipe for failure, because too many details fall through the cracks when the ecommerce platform is a part-time job with secondary focus.

Many supermarket executives choose to outsource all or part of the process in order to leverage the expertise and cost efficiencies of a professional ecommerce team.

It's important to work with resources who are experts in the online grocery category, not just the ecommerce category. You want your resources to understand all the nuances of running a successful retail grocery or supermarket operation, as well as how to transfer a retail operation to the digital space.



Is An Online Grocery Store The Best Move For My Business?

Only you as a grocery executive can answer this question for your supermarket chain or grocery store.

Industry statistics tells us that 40% of consumers would shop online if they had a viable option, and 18% "actively dislike" going to the grocery store. Those results are based on nationwide surveys, so it's important to evaluate your personal long-term goals in combination with the needs and wants of your local community.

A good first step in the evaluation process is to conduct a local survey with your current shoppers and your competitors' shoppers. These results will validate the national trends for your own trading area.

If you determine that there's a local demand, then it might make sense to explore an online option to differentiate yourself from your competition. You'll want to develop a cost-benefit analysis with pro forma financial projections to support your final go/no go decision.

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Expand Your Supermarkets Online



Reaping the Rewards of the Digital Space

Getting it right in the digital space isn't easy, but the rewards are enormous.

When brick-and-mortar supermarkets launch an online grocery store they see increased basket size and increased customer loyalty, which translates to a higher LTV per customer. Plus they start to attract a younger, more tech savvy, higher value clientele.

An online store is normally considered a long-term investment, but many of our clients find their digital venture starting to pay for itself within months after launch with substantially increased overall sales.

Don't worry if your management team doesn't have the time or expertise to launch and manage an ecommerce grocery store, because there are very good, affordable resources at your disposal.

My Cloud Grocer is one such specialist. They provide their clients with a fully managed online solution. Their comprehensive package includes the following components:

- enterprise grade software platform
- branded website design and hosting
- traffic building tactics
- ongoing food item updates on the website
- ongoing software updates and all new software version releases
- technical support for store employees and shoppers
- incremental revenue potential from online advertising space sales
- retail grocery business consulting and digital marketing consulting.

Dan Dashevsky is a co-founder at My Cloud Grocer, which was launched in 2012 to help supermarket chains and grocery stores expand their brick-and-mortar presence into the online space. They have more than 25 years of experience in technology, retail grocery sales and online grocery sales. They offer the most technologically advanced grocery software platform available today.