GROCERY

RESPONDING TO EVOLUTION AND DISRUPTION IN GROCERY ECOMMERCE

Manhattan
Associates®

During the last few years, the grocery industry has changed more quickly than it did over the past few decades. The reason? An explosion of ecommerce, evolving consumption habits, and cutthroat competition. These disruptive forces are just the start, and grocers have no choice but to evolve their supply chains.

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THE CHALLENGES WITH GROCERY ECOMMERCE

Grocery ecommerce is taking off, little by little

THE AVERAGE AMOUNT SPENT PER ORDER FOR ONLINE GROCERY SHOPPING IS

$92[1]

47%

OF INTERNET USERS HAVE ALREADY BOUGHT GROCERIES ONLINE[1]

77% of grocery product purchases are made using a computer. Smartphone orders account for a far smaller percentage (16%) and tablet orders a smaller percentage still (8%).[1]

7% of all [U.S.] shoppers said they order groceries weekly online.[2]

1. Fevad/Médiamétrie, April 2018
2. Supermarket News, May 2018

Increased consumer demands

59% OF CONSUMERS WOULD CHANGE BRANDS IF THEIR PREFERRED GROCERY STORE DID NOT MEET EXPECTATIONS REGARDING DISPATCH AND ESTIMATED DELIVERY TIME.[2]

Some impediments remain

77% of non-purchasers are prevented from taking the plunge by their inability to test product quality by sight or touch.[1]

24% of non-purchasers consider the inability to check the freshness of food a remaining barrier.[1]

The "click and collect" concept: a maturing but risky ecommerce model

40% OF U.S.CONSUMERS WHO SHOP ONLINE USE CLICK AND COLLECT.[3]

69% of U.S. consumers say that home delivery is the preferred grocery ecommerce fulfillment option.[3]

37% of North American consumers make additional purchases in-store when picking up click and collect items.[4]

57% of U.S. click and collect users only used the service once in the past year.[6]

8% IS THE RATE OF CLICK AND COLLECT PURCHASES FOR FOOD AND GROCERY RETAIL – THE LOWEST RATE ACROSS ALL RETAIL SECTORS.[7]

$72 IS THE AVERAGE SPEND OF U.S. CONSUMERS PER CLICK AND COLLECT ORDER.[5]

1. Fevad/Médiamétrie, April 2018
2. YouGov survey sponsored by Infor, April 2018
3. Nielsen and the Food Marketing Institute (FMI) 2018
4. OrderDynamics, July 2018
5. GlobalData, 2016-2017
6. InfoScout, August 2018
7. Packaged Facts, August 2018

THE LOGISTICS OF THE FUTURE

Bob Howell, Vice President of North America for Manhattan Associates, responds to our questions about the evolution of ecommerce logistics for food products and outlines future business models.

What are the major consumer behavior trends that are currently impacting grocers? And how are they responding to meet these demands?

Consumer behavior has moved toward instant gratification. We expect everything faster than we did 10, even five years ago. There has been a sharp growth in omnichannel shopping across retail, which has now moved into the grocery industry. The traditional grocery model, where all customers come to the store, shop the available inventory, and bring their items home, has changed. Today, one of the biggest trends affecting grocers is major growth in ecommerce and fulfillment options, including shipping from stores, store pickup, and variations of buying online and picking up in-store (BOPIS), like drive-up-and-go and click and collect. All of these convenient options put valuable time back in the consumer's day. Over the next few years, I expect this behavior to grow, and grocers must continue to evolve to meet customer needs. In fact, I think consumers are going to keep expecting more from grocers, faster, and for a lower cost. Grocers who can keep pace with these demands will win out over competitors.

How has the development of curbside pickup and "click and collect" options changed grocers' strategies?

We're still very early in the process, but one aspect that may evolve is the design and layout of stores. Until now, it's always been about in-store presentation, with goods strategically placed to maximize sales and margins. The traditional store layout does not take ecommerce orders into account. As stores become omnichannel fulfillment centers, we may see their layout at least partially change to meet the growing online business. Moreover, the responsibilities of store associates will evolve to meet the demands of both in-store customers and online orders; this may require additional training and coaching to ensure all needs are met effectively and efficiently. Attention to detail will become even more crucial for customer satisfaction.

Strategically, we've also seen some interesting partnerships and acquisitions, some of which may work better than others. A little over a year ago, Amazon bought Whole Foods, and so far there's been a reduction in prices – which has led to increased sales – but we still haven't seen the monumental impact this combination could have. Safeway and Albertsons have set an ambitious goal of boosting ecommerce business to $1 billion. To that end, they acquired a meal kit company, they're expanding home delivery and partnering with Rite Aid as well. Actually, Manhattan is getting firsthand experience in implementing these changes. We're currently helping leading grocers improve execution of home delivery, curbside pickup and click and collect. Our technology helps grocers overcome challenges like inventory management and item availability, inaccurate order fulfillment, and inefficient in-store picking. Solving each of those issues is critical if you want an end result of on-time, accurate order fulfillment and a positive customer experience.

As ecommerce continues to grow, how can grocers better anticipate and prepare for these orders? What impact do ecommerce orders have on their supply chains?

There are three major approaches to executing ecommerce in grocery. The first is with a dedicated ecommerce distribution center. A second is to use existing stores to handle online orders. The third is leveraging a "dark store," which is a store location that looks exactly like any other grocery store, including the same layout, but that is used solely for ecommerce fulfillment and is not open to customers for shopping. There is not one "right" approach for everyone: the right solution will depend on each grocer's location and resources, as well customer expectations and behavior.

The challenge in this industry is that unlike fashion retailers, margins are notoriously tight at only one to two percent. No matter what change grocers are making, it's going to take either more resources or more technology to support the new requirements, as well as new skills and responsibilities for your employees. In order to make ecommerce profitable, operational efficiency, order management, and inventory optimization are more critical than ever.

With so many emerging competitors, how do grocers continue to offer a competitive advantage?
Gaining a competitive advantage – either compared to other grocers or other food options like restaurants, delivery apps, such as UberEats or Postmates, or meal kits – will come about in two ways. The first is ecommerce, which is all about price, availability, and keeping your promises in terms of fulfillment. Whether it's same-day delivery, click and collect, or any other form of online commerce, grocers need to crack the code for how to execute while maintaining margins.

The second aspect is in-store shopping, which is all about the customer experience. Grocers are experimenting with different models in stores, such as offering meal kits or an in-store dining experience. Regardless, it's about knowing your customers and giving them what they want in terms of convenience, expertise, and experience.

Ultimately, flexibility may be the biggest competitive advantage of all. Being able to offer and effectively execute both online and in-store shopping is important, but continuing to adapt to evolving consumer behavior is key to succeeding.

What does the future of grocery distribution look like to you?
Grocers today face a challenging reality. They need to adjust to consumer behaviors, but as new technology accelerates the pace of change, what works today might not tomorrow.

Grocery has always been a driver of automation in the warehouse, and that will likely continue. Similar to the retail space, I think we'll see growth in the click-and-collect and home delivery spaces. Once online orders reach a certain level, we may begin to see grocers start to fulfill and deliver orders – specifically non-perishables – direct from the warehouse. Perishables pose both a significant challenge and an opportunity. Delivering fresh fruits, vegetables, and meats to online customers in a way that both meets customer expectations and is profitable for the grocer is key. Whoever does that the best will have a major advantage.

The only certainty is that customer expectations for convenience and speed are going to grow. Younger consumers in particular, growing up in the digital age, are going to keep demanding more convenience, more product variety, and more visibility into ingredients. Grocers who optimize processes, technology, and resources – while providing great products, service, and experiences – are going to be the ones who win.

How is Manhattan Associates uniquely positioned to serve the needs of this industry?
The majority of grocery trends are centered on omnichannel, and that's where Manhattan Associates excels. We're already helping the world's leading retailers succeed. No matter what form digital commerce takes in grocery, Manhattan leads in warehouse management, transportation management, order management, and store fulfillment. Our warehouse management is unmatched in terms of handling ecommerce and orchestrating the workforce with automation. Manhattan's TMS is virtually custom-made for grocery, handling transportation for the entire grocery lifecycle in one holistic solution. Our omnichannel technology leads in terms of order management, inventory management, store fulfillment, and customer engagement.

With the rapid change in grocery, it's essential to have a flexible, adaptable partner like Manhattan. Because we're investing more in supply chain R&D than anyone else in the industry – much of it to drive digital fulfillment – grocers can rest assured that as shopping habits change, Manhattan will help keep them ahead of the curve.

VINCENT CRIMALDI TRACES THE EVOLUTION OF GROCERY RETAIL AND ITS LOGISTICAL ADAPTATION

Vincent Crimaldi, Cap Gemini's grocery practice lead for North America, has spent 15 years in the retail space across most of the food sectors (including grocery, drug stores, convenience stores and restaurants).

How has the grocery market changed within the last couple of years?
The grocery market is undergoing a massive disruption and transformation. For the first time this past year, consumers spent more in restaurants than in grocery stores on food. This is an amazing stat in terms of how consumer behavior is changing. What's driving this is the hunger for convenience in the form of 'I want my consumption to be within my lifestyle,' but at the same time fresh, clean and high quality.

Grocers have to move to meet this challenge, and they have a lot of other players that are going the same route including: startups such as Hello Fresh and Blue Apron; Amazon whose in its own category; convenience store players like 7-Eleven and Wawa; discount stores like Aldi; the big box stores like Walmart and Target; and then restaurants such as Panera and Fridays where you're getting an option for delivery and pickup.

Grocers are meeting these challenges in different ways, but it all starts with online ordering, which is about 30% of the grocery business this year. Cap Gemini predicts it will move to about 70% by 2025. This is a monumental shift in how consumers interact with their grocers, and the journey of how they do that within their lifestyle and their desire to control how, where and when they order is really going to be the key to unlock this for grocers going forward. The convenience services can range from simple delivery to meal kits and prepared meals, and all the enabling services that integrate the store and online experience, such as click and collect, scan and go, and pickup.

Another important trend is that consumers want their grocers to know who they are. 63% of shoppers today feel that their grocers do not know them. This is a huge opportunity to drive increased loyalty, while using the leverage of convenience services as a driver. Winners will be the ones that figure this out. At the same time there is a significant fresh movement going on, which is driving not only the store layout and also the supply chain itself. Small formats are becoming a big success, and this is something that many of our grocers are looking at to compete head to head with the convenience stores and enter the urban space in a more concentrated way. Finally, in-store dining, offering the restaurant experience in grocery stores, as well as prepared meals for takeaway, is an important element that also creates upsell opportunity.

With Amazon Fresh and their acquisition of Whole Foods, would you say that Amazon is in a better position to get to know their customers better?
Absolutely. This was a bold move that has the potential to really disrupt the grocery industry. But the reality today is they're very small in the total pie of the market, around 2-3%. The Whole Foods acquisition helps and the Amazon Fresh offering is powerful. But we'll see how they bring the elements of Amazon Go and automation, as well as convenience services, to the Whole Foods physical operation. Those are the keys to Amazon really making an impact on the market. Regional players know they have that emotional connection with their consumers, but Amazon can disrupt this if they can bring it at a profitable price point.

As we see grocers move toward click and collect and delivery options for their customers, are they able to keep up with the fluctuating demand or are they struggling to offer it to their customers?

Grocers are struggling somewhat in offering these services in several ways. First, their systems are not modern enough to offer a single view of inventory, which creates a challenge for grocers to convey to the consumer what is actually available at the local store from an online point of view. Without that visibility, all those convenience options become challenging. Many grocers are investing in optimizing those services. The second hurdle is profitability. There's a cost to operating those complex fulfillment models, whether it's from the store, warehouse or using a partner for delivery. Delivering products in a profitable way is a struggle and it's forcing grocers to consider whether to charge a premium for those services. Solving for the commercial models, and optimizing the operational models, will be key for grocers to staying competitive on convenience.

With the digital transformation that grocers are going through, what are some prerequisites that you see for them to be successful?

Unlike other retail segments, grocers communicate their brand values mainly through the store. Ecommerce presents a challenge because there's a significant lack of human interaction, which has been the bedrock of how grocers have been able to run their business. Looking forward, they have to bridge the digital gap by carrying the emotional and generational connection that they've had historically and bring it online. At the same time, they have to build an experience in the store that continues to attract customers and keep that connection fresh. They need a mix of value and services, so when it makes sense for shoppers within their lifestyle to stop by the store they will, and when it makes sense to order online, they'll do that. Grocers have to offer a consistent value proposition across all experiences to enhance loyalty. They'll be rewarded with greater loyalty and opportunities to sell more-profitable products like their private-label brands and meal kits.

What are some key elements that grocers should be thinking about as they go through a digital transformation?

Grocers need to evaluate their current systems and understand how best to modernize them. If they have to do it in parallel with the digital and online transformation, they should go live and then build the integration model to enablement. But over time you have to bring that modernization to your supply chain in order to have a profitable model to offer new, convenient services to customers. Modernizing the core as you're also establishing your digital presence is absolutely critical.

How is the partner landscape evolving in grocery as ecommerce increases?

Partners are still a very critical element. To overcome the initial obstacles of delivering convenience given their current platforms, many grocers use partners as the first stage. You can see that with Instacart and Shipt as two leaders in this space. Over time, grocers are going to want to control the process themselves to be able to own the customer experience and assure predictable profitability of those convenience options. In that sense, they're building those platforms for the future. This will take the form of adopting certain systems and standard platforms in the market but also collaborate with partners to continuously add new innovations and new types of convenience for their consumers.

MANHATTAN UNCOVERS ECOMMERCE BEST PRACTICES

For Manhattan Associates, remaining on the cutting edge of technology is a priority. Within this context, we are investing over $60 million in R&D. This strategy involves constantly innovating and riding the wave of new technologies, while also anticipating the different paths that the new generation of logistics will bring. In this part, we offer some advice about the different approaches to take and solutions that can streamline and enhance these methods.

1. Exploiting capacity in the distribution network by using an order management system (OMS)

A company with a few thousand stores will find itself with a large set of networks which need managing. In the era of omnichannel commerce, this is one of the key problems for players in the large-scale distribution sector. What's more, one important prerequisite exists: having visibility into the stock available for sale in real time.

From this starting point, the OMS is the essential solution to ensure that the whole of an omnichannel supply chain performs well. With numerous storage points, central and offsite warehouses, and retail stores, grocers need to find the best sourcing scenario for the order to meet two different requirements: the requirement of the consumer, and profitability targets for the company.

The OMS allows retailers to meet these two requirements by organizing the global execution of client orders over the whole network throughout the order cycle: from the composition of the basket to its consolidation and delivery. Generally, whatever the goods distributed, the OMS proves even more significant because it groups the information from the client side (such as status, address, delivery preference, and other services available for a client) to display a service proposal in real time that satisfies the client's requirements and increases the distributor's order profitability.

This meets the requirements of the consumer who would like a diverse range of delivery services available, whatever the purchase channel, served within a desired timeframe. According to this criteria, the OMS will define the best place to prepare the orders: in a central warehouse, in a secondary warehouse, in a store, or elsewhere. It may also decide to group or pool the collection of orders using order groups.

2. Diversifying store format management

Today, high-volume distribution specialists utilize a blend of traditional and new store formats that include big box stores, supermarkets, city mini-markets, click and collect, and other formats that also serve as channels. When using a variety of store formats, an OMS benefits warehouses because it can position itself between different order taking systems, sources of stock, and back-office execution systems (such as a warehouse management system (WMS) or transportation management system (TMS). An OMS offers a consolidated view of all preparation capacities but still lacks some important functionality. After the OMS notifies different sources of stock about whole or partial orders that need preparing, the system must then move to execution. How? By using tailor-made order preparation.

With warehouses, for example, this trend moves them toward mechanization, while combining flexibility. Robots are starting to appear in warehouses with undeniable benefits, including agility and scalability. For example, auto-guided vehicles (or AGV) make it possible to move several pallets at once. Goods-to-man robots take the desired products directly to the workers preparing them. Cobots perform repetitive and tiring tasks, such as filling packages. But all of these automatons cannot act alone and prepare orders composed of different product types (such as fresh produce, dry goods, and bulk goods). It's therefore important to find the right balance between manual and mechanical activities. To streamline this process and improve the control of machine and human capacities, Manhattan integrated our Warehouse Execution System (WES) within our WMS.

Responding in an optimized way to urgent or priority orders is also important, which is why warehouses need the option of integrating both wave and waveless picking—known as order streaming—to process both store replenishment and ecommerce orders. Indeed, ecommerce has introduced a sense of urgency, not only in the management of the last few miles of a route but also for management within the warehouse. This approach allows the WMS to take over the processing of orders according to their priority status and maximize the use of resources available within the warehouse, with benefits such as delaying cutoff time.

When ecommerce orders are partially or fully prepared in the store, then the store needs to be considered as another link in the supply chain, in addition to its role as a sales point. Picking and preparation functions within a store may work similarly to the manual operations performed in a warehouse, but key differences remain. Manhattan Associates has enhanced the ergonomics of its tools to respond to the expectations and constraints of store resources, usually of a non-logistical nature, and client requirements in this area.

3. Controlling seasonal spikes, uncertainties, and transportation

Grocers in volume retailing also need to overcome issues related to non-linear activities. This sector sees consumption rhythms and flows vary in accordance with several phenomena:

– Climatic uncertainty (such as interruption of the supply chain due to winter storms)
– Industrial action (such as transportation strikes)
– Management of perishable goods
– Seasonal spikes (greatly increasing volumes up to 10 times higher than normal in November and December)

Many different situations can have a longer-term impact on the supply chain. To address these circumstances, companies need a modern TMS that enables them to plan and react as quickly as possible to all scenarios. That's because warehouse managers are interested in collaborating and coordinating logistics, so that warehouse workload is not only planned as far upstream as possible from the arrival of the goods but also so transportation can be organized to mirror the future requirements of the warehouse or stores as closely as possible.

Also, the information feedback destined for the OMS is crucial to help calculate the available date of the goods for the final client and make a reliable promise to the client by taking all of the sourcing steps for the order into account. Gaining a close level of interconnection between these different systems and having modern systems evolve technically at the same pace is important.

4. Quickly creating and maintaining resources

The activity level of distributors naturally fluctuates, and warehouse managers are often obliged to use additional staff to meet demand. However, the training duration of new workers often affects company profitability. To solve this problem, it is important that a WMS offers two levels of mobility functions:

– **Functions closer to the expectations of today's employees**

  That means more intuitive and tactile user interfaces within applications, such as those used on smartphones. Simplified and more ergonomic functions enable quick handling of tools, which shortens training periods and improves skill retention by creating modern and innovative work environments in the warehouse and store.

– **Functions that permit warehouse managers and flow managers to leave their offices**

  They can leave with the operation performance information they need to steer ongoing and future operations as closely as possible, using that information to detect and remedy problems directly onsite. Also, they can become closer to their teams each day, which is appreciated by millennials, who seek feedback and advice from their supervisors.

5. Respecting promises made to the customer

Amazon has imposed a high delivery standard, and retailers need to keep up. To stay in the running, distributors must ensure fluidity of communication between the different organizational and execution systems of a company. The OMS, as a control tower, promises to make the product available to the final customer by instantly calculating the time required to prepare the order using information sent by the TMS and WMS.

The OMS also takes the professional marketing and commercial principles of the brand into account. Each system then needs to play its part in the most reliable and timely way possible. The TMS guarantees the supply of goods on a promised date. The WMS controls the preparation in the warehouse and store, adapting to different storage arrangements, preparation methods, and staff formats. This is the key prerequisite for keeping the promise made to the customer.

For more information on how Manhattan's solutions optimize supply chains to improve fulfillment efficiencies and accelerate time-to-market of goods, contact us today.

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