GOLD PAPER
VOLUME 3

COMMISSIONED BY ITASCA RETAIL INFORMATION SYSTEMS INC.

Click. *Confirm*. Collect

Online Grocery Requires Inventory Science to Truly Deliver on Shopper Expectation

BY JAMES TENSER

ONLINE GROCERY SHOPPING in the U.S., while still a small percentage of overall sector sales, is growing at a pace of billions of dollars annually, with every sign of expanding as much as ten-fold over the next decade.

By 2016, more than 40% of digitally-connected shoppers had made the jump to buying at least some of their groceries online.[1]

Online grocery ordering has by now garnered between $12 billion and $20 billion in annual sales, in the neighborhood of 2% - 3% of U.S. grocery sales volume for 2016, depending on whose statistics you prefer.[2] This is a stable and growing trend, not a fad:

- AmazonFresh Pickup opened its second drive-up location in suburban Seattle in May 2017, sparking a flurry of speculation in the business media. Two weeks later it followed with the explosive news about its planned acquisition of Whole Foods Markets, which will add 461 physical stores to the Amazon portfolio. These events followed forays into online ordering and delivery of grocery products with its Prime Pantry, Prime Now, and AmazonFresh offerings.
- Walmart, which has opened more than 500 Click & Collect locations to date outside existing stores, and announced its commitment to add 600 more, showed off an automated drive-up order pickup kiosk (really a small building) outside a Supercenter in Warr Acres, OK in May, 2017.
- Kroger reported in February 2017 it had added more than 420 ClickList and ExpressLane locations in 2016, bringing its total online ordering locations to more than 640.

[1]Brick Meets Click Research Study: "How Consumers Are Using Online Grocery and What It Means for Retailers in 2016," March 2016.

[2]FMI-Nielsen, Statista

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Supermarkets feel rightly compelled to offer digital ordering options to shoppers, who are increasingly engaged with mobile and web shopping technology and accustomed to receiving rapid, accurate service in all channels. An online service standard that today's shoppers experience anywhere – accurate and intuitive ordering, rock-bottom prices, fast and free delivery – is expected everywhere. Fair or not, this includes their grocery retailers.

Multichannel shoppers have long been the most valuable relationships in any retailer's customer portfolio. Capturing more of their purchase occasions and larger shares of their interactions and their wallets is the only way to grow in the face of the digital onslaught.

A service standard experienced *anywhere* is expected *everywhere*.

—Tenser's Law of Equivalent Experience

Yes, Grocery Really is Different

For supermarkets, fulfilling orders from neighborhood stores with full assortments is a distinct competitive advantage versus online services that ship mostly packaged products from centralized distribution centers. This is most keenly realized with respect to perishable or prepared products, but bulk and weight can make use of third-party delivery services impractical.

The figures on ordering online for store pickup – a.k.a., Click & Collect – are particularly compelling, where the Grocery Manufacturers Association and The Boston Consulting Group last year reported a 30%-50% spike in sales across all channels versus traditional shopping.

However, order picking in the stores brings adverse consequences on store inventory management, product replenishment and upstream supply chain management. It doesn't matter whether the baskets are destined for home delivery or customer pickup. These challenges add to operating costs at a moment when online price transparency is putting greater pressure on margins.

Traditional store ordering systems are simply not up to meeting this digital challenge. Poor On-Shelf Availability continues to plague the supermarket industry. Only a few retailers have the real-time, store-level inventory management and automated ordering tools in place to keep the right products in stock with a high degree of confidence to support sales in the stores – much less their online orders.

A Plan to Fail

Many grocers appear to remain complacent about being routinely out-of-stock on roughly 8.3% of items in their stores. Astonishingly in the absence of timely store inventory data, ecommerce providers have just assumed that shoppers are accustomed to this degree of service failure. Many sites do not reflect variation in store assortments and rely upon a catalog that assumes items are 100% available at all times! Yet, we hear anecdotally of substitution rates as high as 25% on a per order basis.

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Taking the order is *easy*. Delivering on the promise is *hard*.

The prevailing philosophy seems to be, "Just get the order and fix the problems in fulfillment." One might label this reactive approach "Click-*Fix*-Collect."

As a statistical consequence, nearly every basket of 12 or more grocery items ordered online will have one or more items that cannot be delivered as ordered or that will require substitution. This degree of failure is built into the service practice by design, and disclaimers are written into the "terms and conditions" and FAQs at every online food retailer we could find. Some solution providers actually boast about how well-designed their substitution processes are, as if attempting to turn an embarrassing shortcoming into a service virtue.

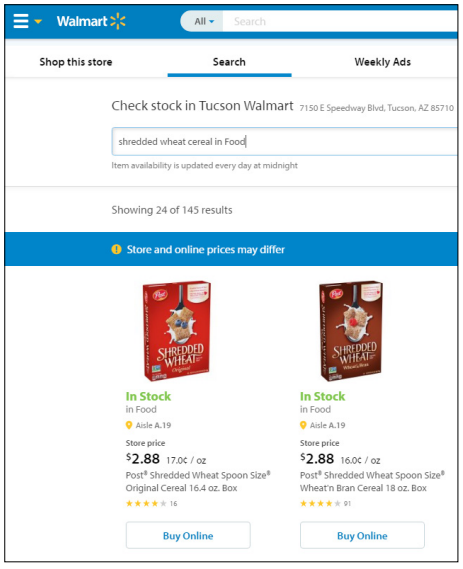
Perhaps worse yet, picking in stores layers another potential damaging consequence upon store inventory accuracy. Items pulled from the shelves and set aside but not rung up in the POS until a late afternoon pick-up are effectively not available for sale, yet could still show as available in inventory. This builds a time-lag into the store replenishment process that may result in inaccurate ordering, creating even more instances of item substitution the following day.

A Plan to Succeed

There are examples, however, of online retailers who have an excellent grasp of store-level inventory and who are able to provide item availability information to shoppers while they are engaged in the digital shopping process.

Walmart.com appears to be on the right track with its online ordering system, which enables shoppers to view and order items by store, including a count of quantities available. The data is not real-time, however, as indicated by the legend: "Item availability is updated every day at midnight."

Similar good practices appear in the home center business, where Home Depot and Lowes Home Centers are able to provide online shoppers with item availability by store, including quantities on hand. If a shopper requires three lavatory faucets of a certain design and finish for a weekend project, she can check if they are available in her local store before leaving the house, or arrange to have them shipped from "long-tail" inventory to her home or to the store for pickup.



This kind of product visibility is essential for online grocery ordering systems, yet it seems to be the exception so far. For supermarket operators who have made the decision to compete in Order & Deliver or Click & Collect, a similar service standard would represent a significant competitive opportunity.

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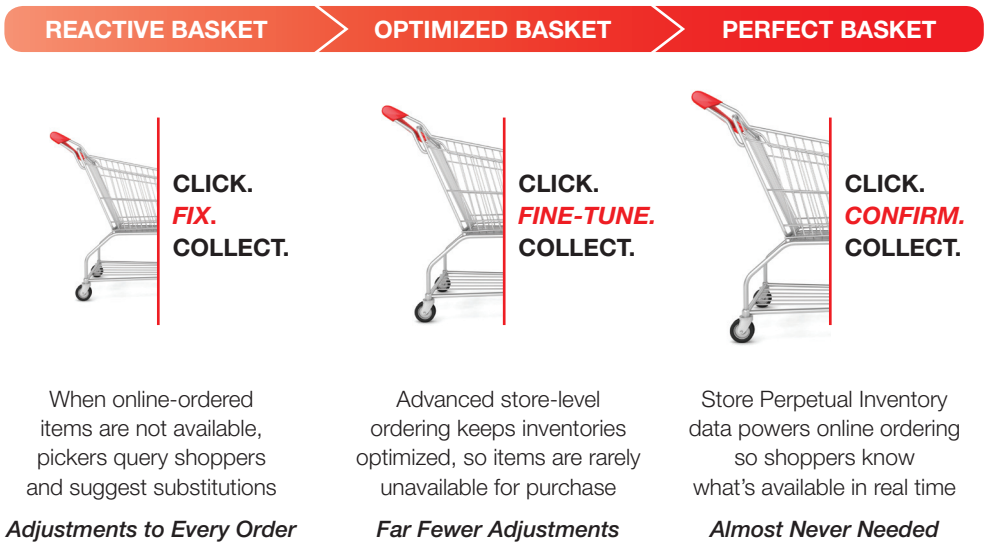
Advanced store-level ordering keeps inventories optimized, so items are rarely unavailable for purchase.

Click. *Confirm*. Collect

Accurate store-level inventory and automated ordering empower online fulfillment.



Graphic: Itasca Retail

We have long argued that adopting a store-level, real-time, inventory management system with automated ordering and perpetual inventory is a high-ROI investment on its own. Operating benefits begin with a dramatic increase in On-Shelf Availability (i.e., minimal OOS), far more efficient and timely replenishment ordering, and lower inventory on hand. Benefits propagate back along the supply chain in the form of lower distribution center inventories, fewer and fuller deliveries, and lower levels of inventory capital.

Supermarket retailers who implement this process (and there are a few out there) may also enjoy a secondary advantage when they deploy in-store fulfillment of online orders. Here's break-down of how it can work:

- **The Reactive Basket.** Most online grocery orders are fulfilled this way today in the absence of a reliable store-level inventory and replenishment process. Since the online shopping engine has no information about items in-stock, the interface must assume 100% availability. Retailers (or their online fulfillment partners) anticipate out-of-stocks in nearly every basket and they build in elaborate processes for handling substitutions. The resultant process may be summarized as: Click. *Fix*. Collect.

- **The Optimized Basket.** For the minority of supermarket operators who do business using a true store-level Computer-Generated Ordering (CGO) application, the OOS incidence is already dramatically reduced compared with industry norms. With shelf inventories optimized, orders received from the online process are far more likely to be completed without adjustment. Improved performance on order

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Perpetual Inventory data can enable an online shopping experience where the customer confirms the availability of every item before their order is completed.

fulfillment may be expected to speed the picking process, minimize inaccuracies and largely mitigate the customer experience liability caused when most orders are fixed on the fly. We summarize this as: Click. *Fine-Tune*. Collect.

- **The Perfected Basket.** A future to aspire to, but well within the reach of any supermarket operator using a real-time CGO application. Tapping into accurate real-time store Perpetual Inventory data can enable an online shopping experience where the customer confirms the availability of every item before their order is completed. Since store inventories are already optimized using CGO, disappointments should be very rare, even with promoted items. A simple interface would be required that links store PI with the online shopping engine. We describe this as: A Click. *Confirm*. Collect.

Store Inventory Science

After more than 28 years of industry experience (since Peapod launched in 1989), the online grocery sector has confirmed one fact over and over: Taking the order is easy. Delivering on the promise is hard.

With the application of store-level ***inventory science***, however, supermarkets may move a significant step closer to truly delivering on the shoppers' expectation of unified commerce.

Store pick-up or store-fulfilled delivery – both processes depend heavily upon consistent, reliable On-Shelf Availability. Even if the systems are not electronically connected at first, item substitutions will be reduced to very low levels by eliminating most OOS caused by store-level activities. This will raise service standards to a degree so-far unreachable for full-line retailers in the online grocery sector.

When store level-PI data flows are connected to the back end of the digital shopping system, the potential exists to allow customers to view the ***actual availability*** of items at order time.

Accurate, real-time inventory information transforms Click-***Fix***-Collect into Click-***Confirm***-Collect.

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Author James Tenser is Principal of VSN Strategies, a Content Marketing Strategy consultancy focused on retail technology and solutions, based in Tucson, Arizona. This Gold Paper was commissioned by Itasca Retail Information Systems, Inc., which retains the copyright. Additional information on this subject area may be accessed from the Tenser's Tirades blog: http://tenserstirades.com/what-amazon-whole-foods-wish/

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