

# Managing the Virtual Shelf

The Rise of Tech-Savvy Shoppers Is Changing the Nature of the Online Grocery Channel

BY SCOTT WELTY



**T**he online grocery business in the United States has not seen significant growth since its inception two decades ago. A study of 8,000 online shoppers by Gomez, Inc., a leading online quality measurement agency, indicated that only 11 percent of shoppers actively purchase groceries via the Web — while an equal percent have tried online grocery shopping, only to abandon the channel.<sup>1</sup>

Despite the lackluster online grocery market statistics, a recent Nielsen study indicates that online grocery sales are expected to grow from \$12 billion in 2010 to \$25 billion by 2014. Solution providers and online stakeholders must react quickly to this anticipated growth to be in a position to capitalize on the channel and compete for controlling market share.

<sup>1</sup> Amrenda Kumar Singh, "Trends of Buying Grocery Online," October 18, 2008.



### The Rise of the Generation C Shopper

Nielsen's prospects for long-term growth are even more promising when one looks at emerging shopper trends. Today's established consumers may not be attracted to online grocery shopping, but a new consumer group is emerging that is ready, willing and able to make the leap. Generation C is generally defined as teenagers or 20-somethings who have grown up with the Internet, smart phones, tablets and other technology platforms as integral parts of their everyday lives. As these connected shoppers mature, they will expect to purchase everything — including groceries — online.

Already, we have seen shifts toward this as companies blur the lines between social and business relationships. Purchasing engines have become part of the Facebook experience, consumer products companies are using social media to push consumer promotions, sell and even innovate new products. We are rapidly approaching a world where a Generation C shopper can simultaneously chat, blog, post photos, download music, make lunch reservations and order groceries for home delivery, all via a single device.

There are special challenges in serving this new generation of consumers, as they have come to expect rapid results. If these new shoppers are dissatisfied with an experience, they are likely to use social media to share their negative review with countless others. Ensuring a consistently high level of service will be critical in successfully serving the growth fueled by Generation C.



## Five Keys to Success in the E-Grocery Channel

Looking ahead, there are five key strategies that industry stakeholders can leverage to successfully serve Generation C shoppers to achieve profitability and growth:

- **Increased collaboration among supply chain partners.** The growth of the e-grocery channel will mean rethinking traditional supply chain relationships. Retailers will likely rely on manufacturers to carry inventory — who, in turn, will rely on logistics providers to quickly move products to the consumer's desired location. A new level of information sharing will be required to ensure that all partners have access to real-time and forward-looking demand data, so they are ready to deliver on short notice.
- **Greater forecasting accuracy.** Because the virtual shelf has no physical space constraints, online retailers may offer a much broader assortment than traditional stores. While this offers obvious shopper benefits, it means demand forecasts must reach a new level of precision. Advanced technology tools can reveal future demand for all products — including highly perishable grocery items, as well as scarce logistics assets like refrigerated and frozen trucks.
- **Sharper consumer focus.** Industry stakeholders must also ensure that they are closely targeting the diverse needs of online consumers, which may vary based on socio-demographics. Assortments, promotions, delivery options, service levels and other characteristics of the online shopping experience must meet highly targeted real-world needs — and drive repeat purchases.
- **Higher product availability.** According to Nielsen, the average online food and beverage purchase is \$80, versus \$30 offline.<sup>2</sup> With more products in their baskets, it's especially frustrating for online shoppers to realize, at checkout time, that key items are unavailable. Generation C shoppers are likely to abandon their entire basket, and click over to a competitor. Not only must logistics providers ensure rapid delivery out of the distribution center, but they must also support fast replenishment that minimizes out-of-stocks.
- **Optimized transportation management systems.** Generation C consumers will not expect to pay a premium for home delivery, despite the enormous distribution challenges. Advanced transportation management solutions can support the tight logistics controls and high level of visibility needed to maximize both profitability and service levels in the online grocery channel. Refrigerated trucks and other valuable resources can generate an optimized return on investment via highly strategic asset management.

The rise of tech-savvy shoppers is changing the nature of the retail industry, particularly in the online grocery channel — which is poised for exponential growth. By leveraging leading-edge technologies, grocery retailers and their supply chain partners can prepare now to meet the high volume and speed requirements of this new retail era. ■



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<sup>2</sup> "Five Things to Know About Online Grocery Shopping," Blog.Nielsen.com, May 31, 2011.