

The Connected Business

Guest Column:

Retailing in Digital Age

By Nicholas Hodson, Thom Blischok, and Matthew Egol

For many urban commuters, grocery shopping is another chore to be shoehorned into an already busy day, taking up valuable time and creating a logistics nightmare on public transportation. Imagine the relief these shoppers would feel if they could just press a button and have their groceries magically appear.

Last year Tesco, the UK grocery retailer, made this a reality, using the walls of a subway station in South Korea to display photos of products for sale, with each item carrying a unique QR code. Shoppers could use an application on their smartphone to read the code and place the selected item in a virtual shopping cart for home delivery after work.

Suddenly, what was once wasted time waiting for a train had become the ultimate in ease and convenience. Tesco has now taken its commuter-friendly shopping wall into the UK market, as has Ocado, an online retailer.

This is just one example of how technology is shaping the way grocery retailers compete for shoppers. New forms of online grocery shopping are also on the rise. These two forces will contribute to significant structural change in the grocery sector over the next several years, and retailers must prepare for it.

Technology-Enabled Shopping

Digital technologies are becoming pervasive in shoppers' lives; smartphones and tablets can now be found in shoppers' pockets, purses and briefcases, and shoppers can log on from their homes, offices or the stores themselves. But the use of mobile technology in grocery

shopping is still in its early stage. It will assuredly increase as shoppers become more familiar with the technologies available and begin using them increasingly to simplify their experience.

More than half of all shoppers now use technology as part of their grocery shopping routine, according to research by Booz & Company. These practices include printing and "clipping" online coupons, checking prices prior to planning a grocery shopping route, or using mobile technology in the store to check prices and find special offers before committing to the checkout line. A full third of shoppers combine two or more of these techniques.

This all adds up to greater price transparency, and shoppers are increasingly in control of value discovery and decision making prior to purchase. Because the price/value trade-off is now easier to discover for any particular product category, technology will expand the segment of price-sensitive shoppers who seek the lowest price combined with the greatest convenience.

Grocery retailers can respond to this trend in several ways. Because increased price transparency is unlikely to increase margins, retailers will need innovative strategies in merchandising, marketing, operating cost management, and the like in order to remain competitive. They will also need to decide whether to participate in these increasingly transparent discussions of price and value by making more store-level pricing available on their website and by avoiding use of unique SKUs (stock keeping units.)

Finally, retailers should carefully consider making

investments in content that can deliver additional value to shoppers beyond lower prices, often in collaboration with brand manufacturers.

Online Encroachment

Over the past decade, online grocery shopping has quietly closed in on the traditional industry; half of all grocery shoppers go online to shop today, albeit for specific product categories or SKUs. Although shoppers are spending only a small proportion of their grocery budget online (around four per cent), it's a natural fit for certain categories of goods they need regularly; an online order for nappies, pet food, cleaning supplies, or automatic coffeemaker capsules lessens the chore associated with these repeat purchases.

Of course, sellers of low-value, low-margin, bulky goods will always struggle to justify shipping costs and logistics, but some grocers are experimenting with direct-from-manufacturer shipping and centralised pickup points, keeping prices competitive for budget-sensitive consumers. As these options become more popular, traditional grocery retailers should take note. The online experience, when designed well, can be simpler, quicker, and, with some product mixes, even price competitive compared to bricks-and-mortar stores.

What's Next?

So what are traditional grocery retailers to do in the face of these technology trends? They need to reassess their 'way to play' - their overall strategic value proposition - on two dimensions. The first is the strategic fit with the evolving psyche of consumers. Grocery

retailers need to clearly communicate how they deliver value to shoppers today, and how they will do so in the future. This requires a careful analysis of the demands that exist in the market and a determination of which are worth fulfilling.

Next, grocery retailers must develop and strengthen the key capabilities they will use to deliver their value proposition. In this new technology-fueled landscape, distinctive capabilities might include a deeper understanding of the shopper, an innovative usage of digital and mobile marketing, a sensitive deployment of multichannel marketing, or an innovative approach to solving problems unique to that retailer or market.

Grocery retailers should also evaluate how they can expand their collaboration efforts with brands, from promotional in-store events to a greater focus on pre-store engagement to win shoppers and 'grow the shopping basket.'

For Tesco, technology met innovation on a subway wall that turned routine grocery shopping into commuter multitasking, but not every grocery retailer can or should reach its customers this way. Rather, each one must get to know its own market, always remembering that comparison shopping, value seeking, and the quest for shopper convenience are only an app away.

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