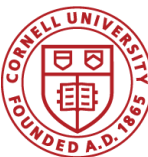# Retail Omni-Channel Strategies: Implication for the Produce Sector

Miguel I. Gómez
Dyson School of Applied Economics and Management
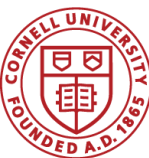Cornell University

Amsterdam Produce Summit 2018
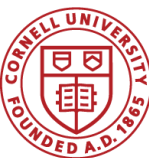*Amsterdam, November 13, 2018*

Agenda

- Background: omni-channel vs multi-channel

- Drivers of omni-channel strategies

- Consumer behavior and omni-channel strategies

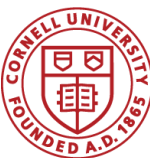- Retailers' omni-channel strategies

- Final comments

I. Background
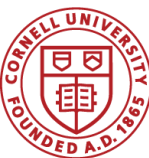
Omni-Channel vs. Multi-Channel

- Retailing has changed dramatically in the last two decades

- Many new online players inducing a shake-out among traditional travel intermediaries.

- In food-retailing and produce, this impact was less disruptive initially, but this has changed dramatically in the past 5 years

- Many retailers initiated multi-channel strategies –The design, deployment, coordination, and evaluation of channels to enhance customer value through effective customer acquisition, retention, and development

Omni-Channel vs. Multi-Channel

- Multi-channel strategies - channels developed and managed separately within firms, with only limited integration

- **Omni-channel strategies** - the synergetic management of the numerous available channels and customer touchpoints, in such a way that the customer experience across channels and the performance over channels is optimized

Omni-Channel vs. Multi-Channel

	Multi-channel	Omni-channel
Channel focus	Interactive channels only	Interactive and mass-communication channels
Channel scope	Store, online website, and direct marketing (catalog)	Same, plus mobile channels (smart phones, tablets, apps) and social media Customer Touchpoints
Separation of channels	No overlap	Integrated channels providing seamless retail experiences
Brand vs channel customer relationship	Customer – Retail channel focus	Customer – Retail channel – Brand focus
Objectives	Channel objectives (i.e., sales per channel; experience per channel)	Cross-channel objectives (i.e., overall retail customer experience, total sales over channels)

Source: Verhoef, P.C., Kannan, P.K. and Inman, J.J. (2015)

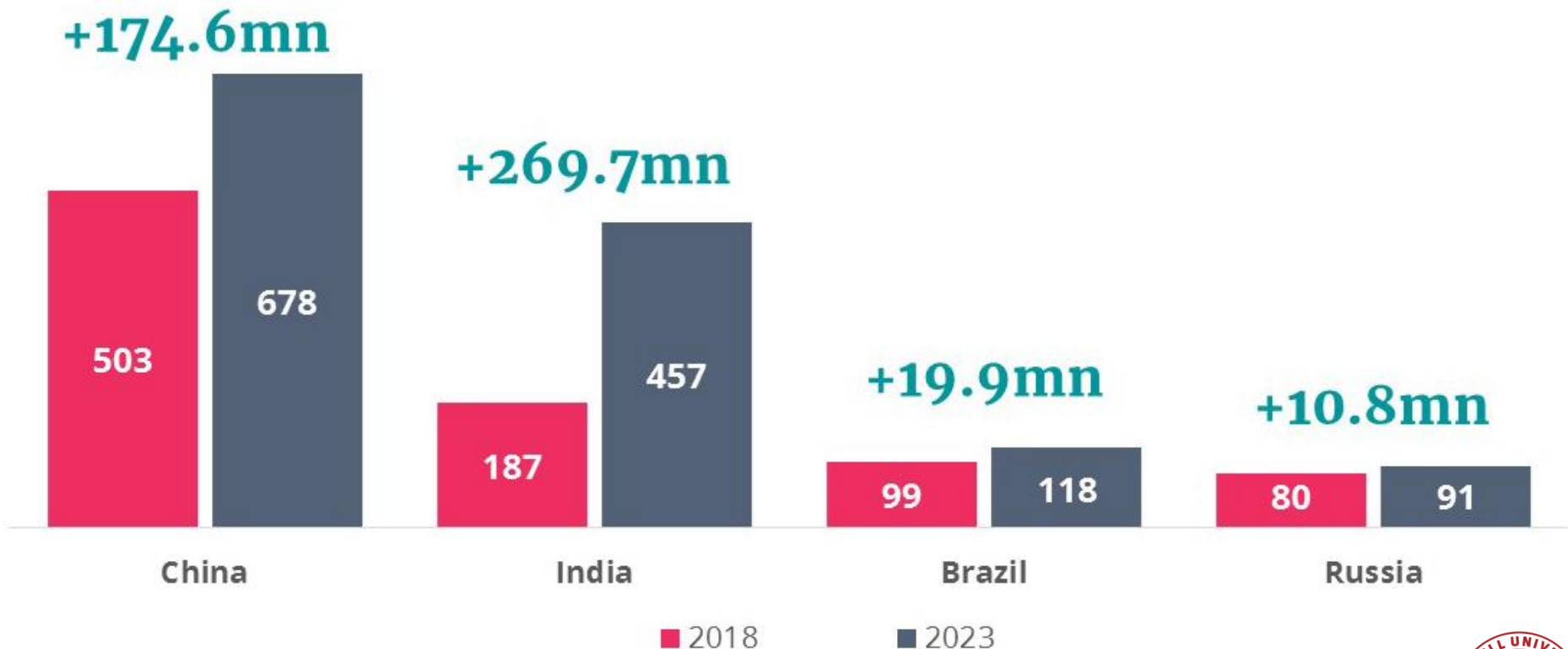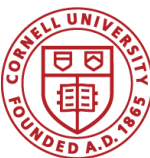# Omni-Channel vs. Multi-Channel
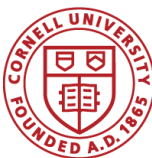
II. Technology & Disruption

The world's digital population rapidly expanding

Technology is opening up new consumer segments

Digitally Addressable Population, 2018-2023 (mn)

- China: +174.6mn (503 → 678)
- India: +269.7mn (187 → 457)
- Brazil: +19.9mn (99 → 118)
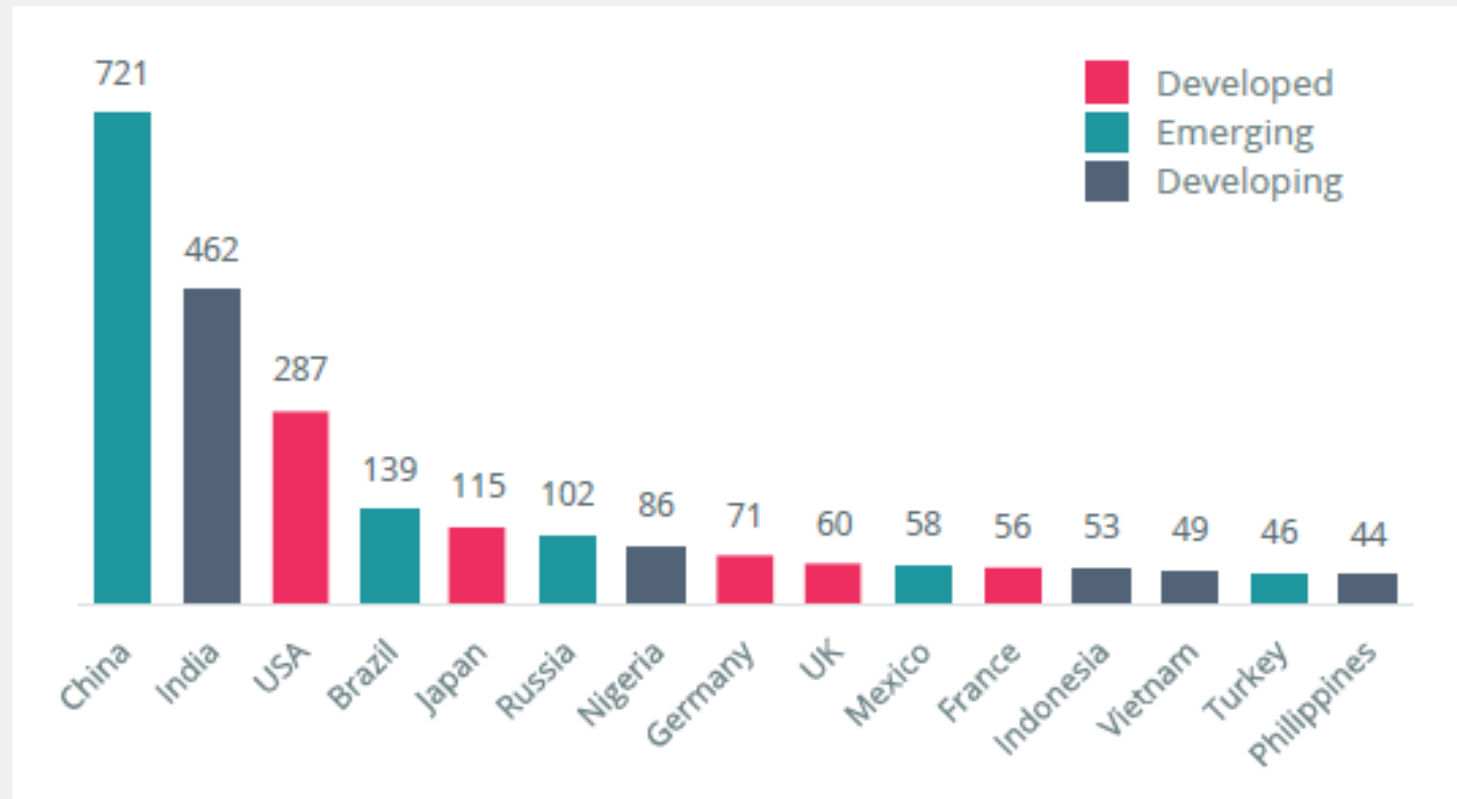- Russia: +10.8mn (80 → 91)

2018   2023
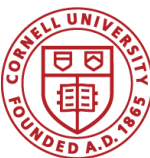
Source: PlanetRetail RNG, 2018

Digital influence, not ecommerce, will have the greatest global impact

Share of Internet Users / 100 People, Select Emerging & Developing Markets

- Developed
- Emerging
- Developing

| Country	Value
China	721
India	462
USA	287
Brazil	139
Japan	115
Russia	102
Nigeria	86
Germany	71
UK	60
Mexico	58
France	56
Indonesia	53
Vietnam	49
Turkey	46
Philippines	44

Source: PlanetRetail RNG

- India will add over 583 million additional internet users by 2021, and Nigeria will add over 77 million internet users.
- Thailand and South Africa will each add about 15 million internet users by 2021.
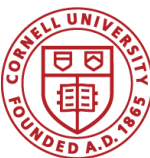
Source: Planet Retail RNG (2018)

Mobile devices are changing commerce as adoption rates rise globally

Mobile Subscriptions vs PC Computers by Development Stage

■ Mobile Subsriptions (per 100 people)   ■ Personal computers (per 100 people)
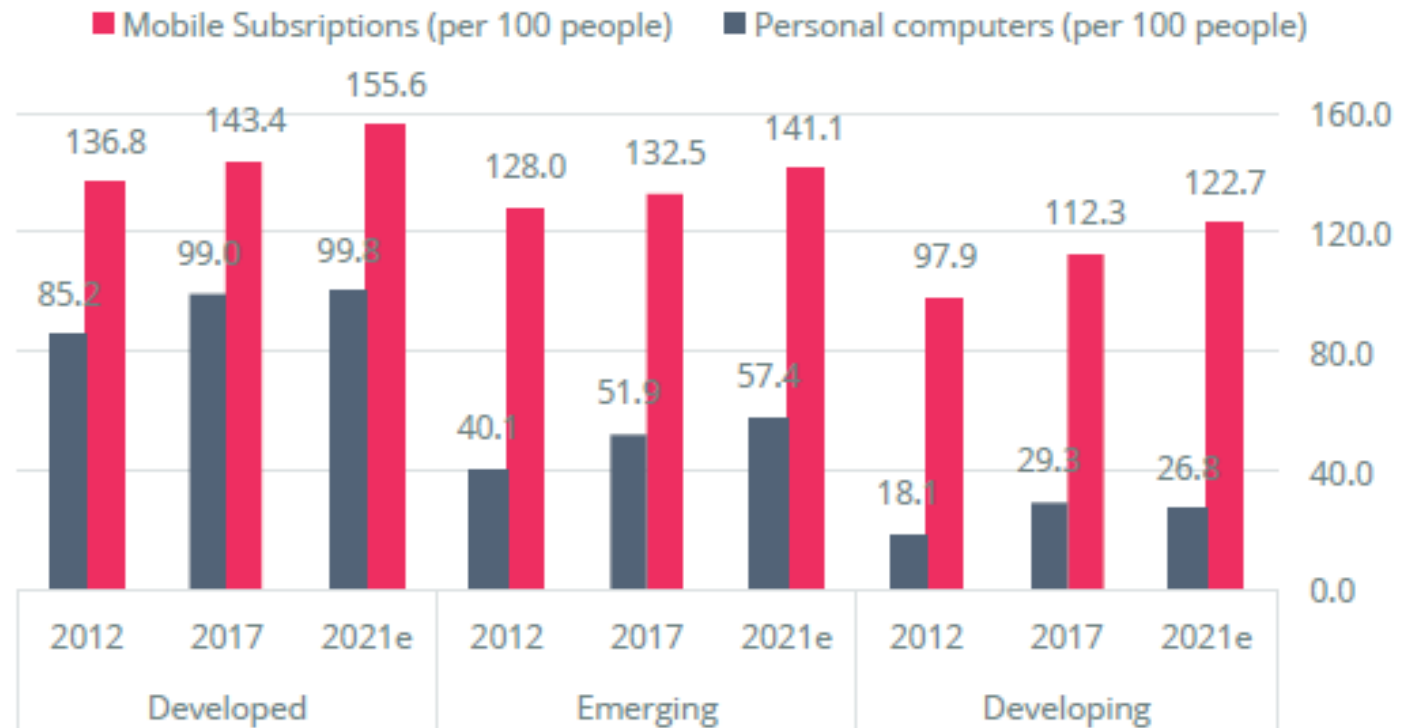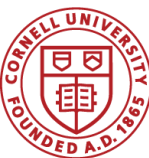
Source: Economist Intelligence Unit

- Developed markets average nearly 1.5 mobile subscriptions per person, with consumers possessing multiple mobile devices for work, personal, international and other uses.
- In developing markets, mobile devices outnumber PCs nearly four to one.
- In total, Cisco predicts that there will be 3.4 internet-connected devices per person by 2020.

Source: Planet Retail RNG (2018)

Internet of Things

- Enabling frictionless retail engagement between retailers, suppliers and shoppers

- Networked sensors can provide real-time shopper engagement to improve Conversions

- Smart devices create more consumer touchpoints and opportunities to enhance brand visibility and loyalty

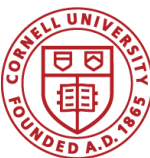- Retailers and brands can maintain out-of-store relationships with shoppers

Blockchain has potential to enhance the transparency, security and speed of digital retail processes

Walmart Enhances Food Safety with Blockchain

Source: IBM

- In partnership with IBM, and a consortium of retailers and brands, including Dole, Kroger, Nestlé and Unilever, Walmart has launched a trial initiative to track the origin and supply of food products using blockchain in order to improve food safety.

Robotics Replace Merchandising

- Brand value on Amazon is built on search, customer reviews and sales.

- The retail mechanics of placing the right product on the right shelf are almost gone. Merchandising is now replaced with automation.

- Yet many established brands built their success on merchandising. Amazon is replacing traditional mechanics of commerce with data and AI.
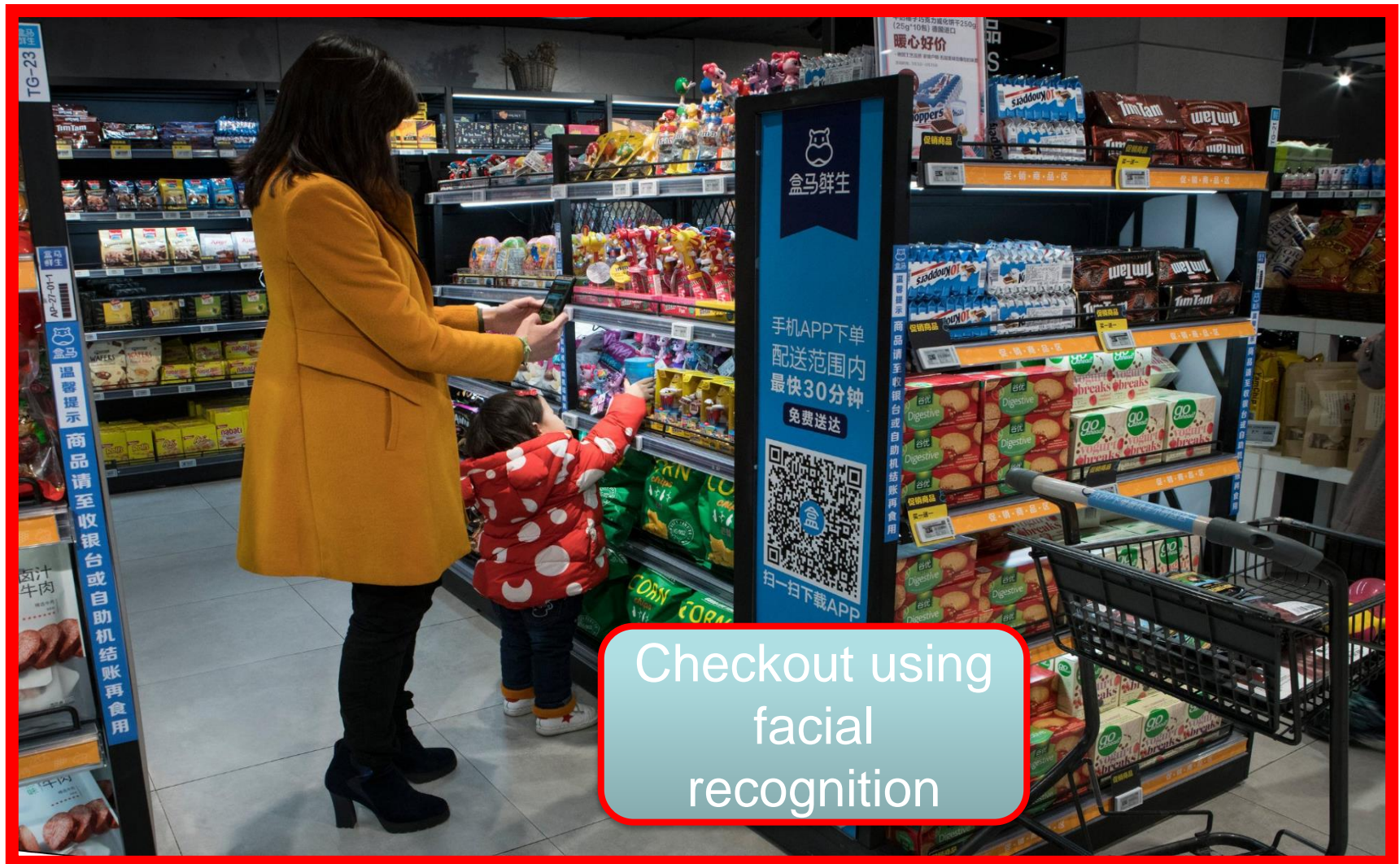

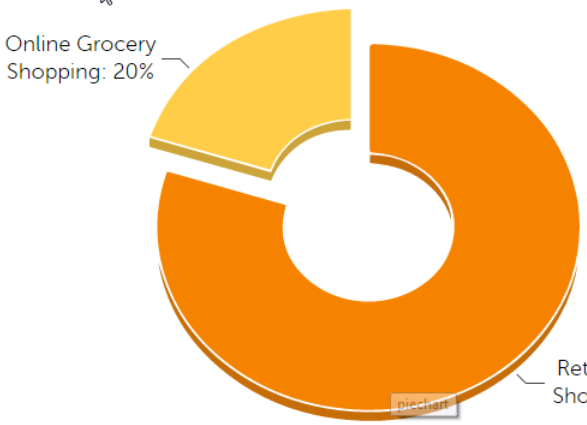Testing Marty the robot at Giant Carlisle

Walmart testing robotics for shelf replinishement

Automation in Stores

Unmanned Shopping

Stores So Far, 35 Hema (Alibaba) & 100 Bingo Box

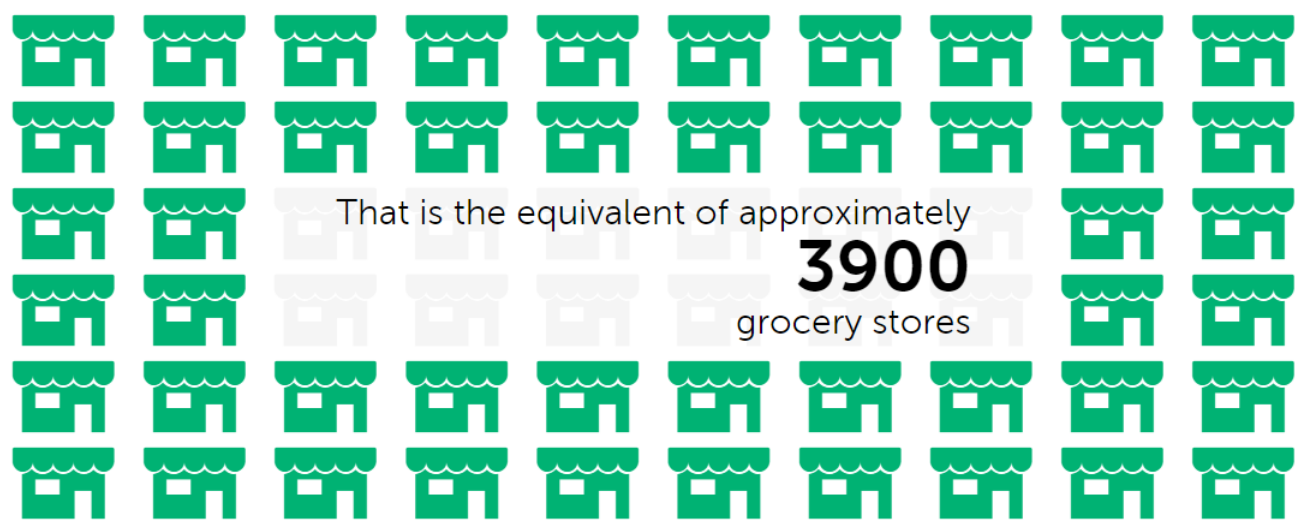Checkout using facial recognition

Online Grocery Shopping: 20%
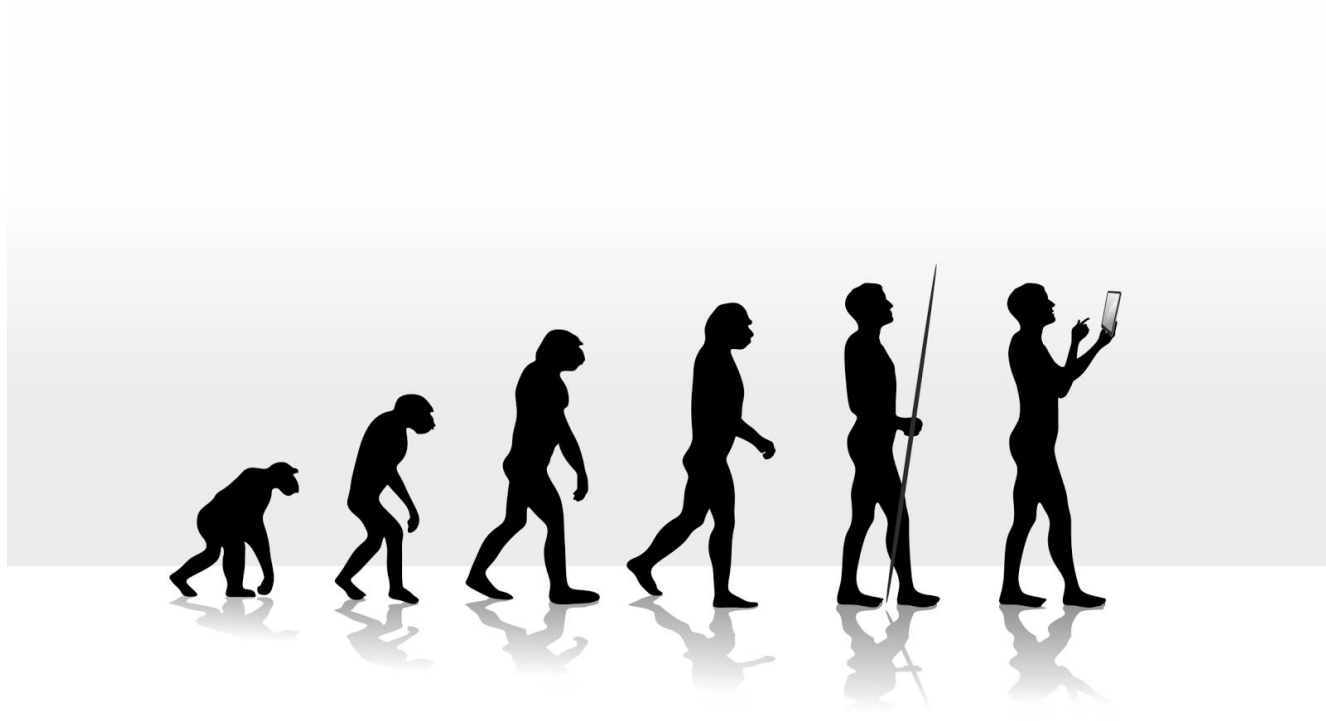
Retail Grocery Shopping: 80%

piechart

By 2025, the share of online grocery spending could reach **20%**, representing

$100 Billion

in annual consumer sales.

That is the equivalent of approximately

3900

grocery stores

40% of center store volume
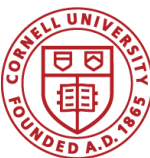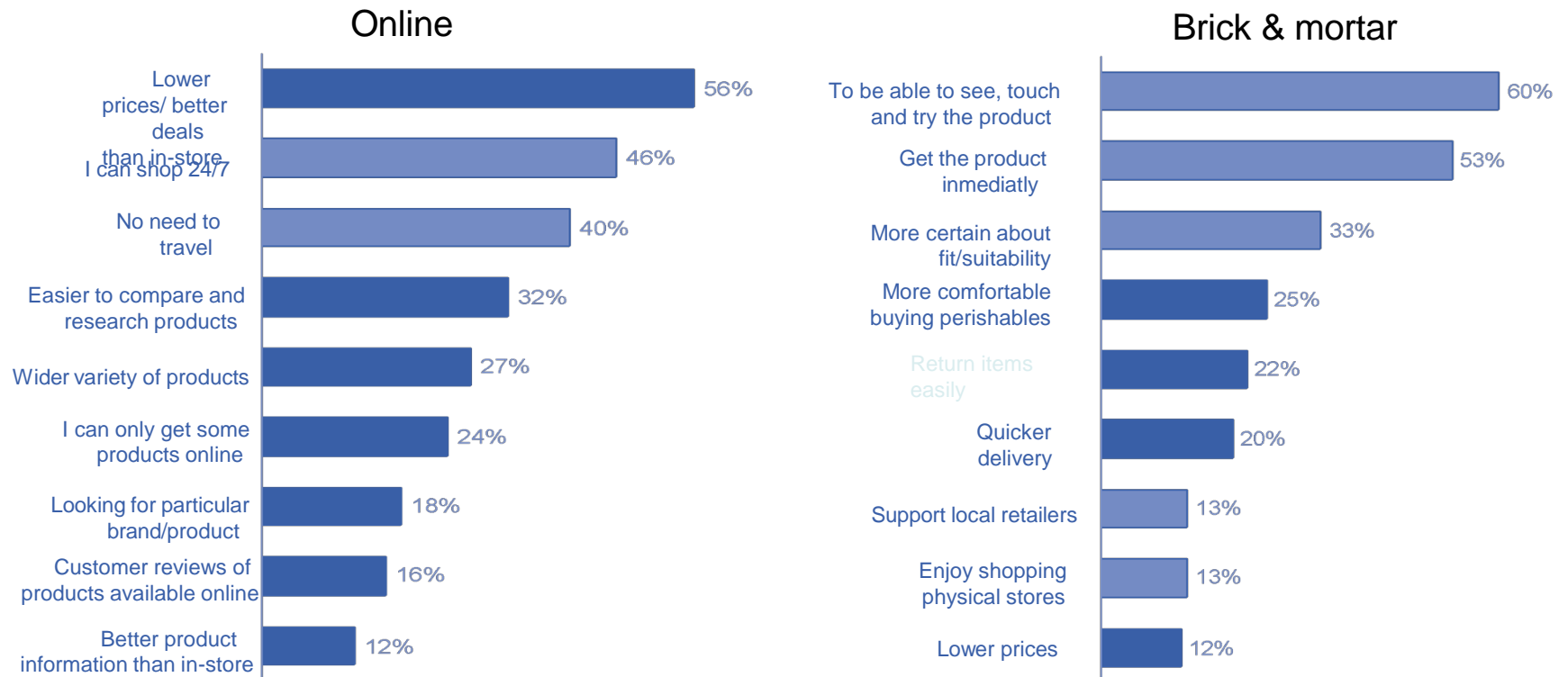
III. Consumer Behavior Changing Rapidly

Advantages: online vs B&M stores
Reasons for buying through channel [% of respondents]

Online

Reason	%
Lower prices/ better deals than in-store	56%
I can shop 24/7	46%
No need to travel	40%
Easier to compare and research products	32%
Wider variety of products	27%
I can only get some products online	24%
Looking for particular brand/product	18%
Customer reviews of products available online	16%
Better product information than in-store	12%

Brick & mortar

Reason	%
To be able to see, touch and try the product	60%
Get the product inmediatly	53%
More certain about fit/suitability	33%
More comfortable buying perishables	25%
Return items easily	22%
Quicker delivery	20%
Support local retailers	13%
Enjoy shopping physical stores	13%
Lower prices	12%

Online vs. Offline Retail

- Customers in online markets are 2x-4x more price sensitive than customers in traditional markets (Boehnke, 2018)

- Urban shoppers are more price sensitive than rural shoppers when shopping online, but the reverse holds when shopping offline

- Convenience and impulse buying is the driving factor for urban consumers when shopping offline

- Customers that shop in multiple channels spend 3x-4x more than a customer that shops in one channel
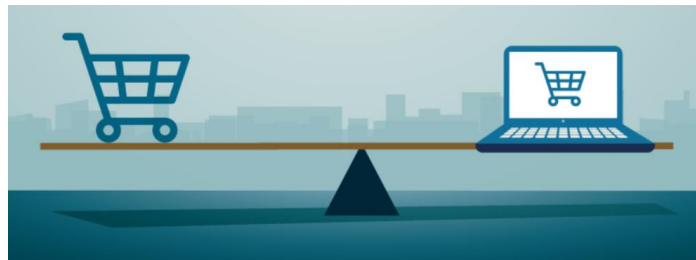
Consumer Online Behavior

Characteristics of online market

- Long tails and superstars
  - In online stores, many products are available, but only a few products dominate the market

Product proliferation

- Given many alternatives, consumers may find it difficult to choose the "right" product for them
  - Online search costs are substantial when multiple alternatives are present on a computer screen

  - Higher product variety reduces search intensity, and results in higher retail prices in the online environment

Consumer Online Behavior

Loyalty and Price sensitivity

- More loyal to popular brands online than offline (Danaher et al. 2003)

- Stick to products that they purchased before at online retail stores (Pozzi 2012)

- Product recommendation system and purchase history lists are very effective in facilitating consumer search (Pozzi 2012)

- Mobile device and sales ranking - rely on ranking information and choose a popular product that appears in the top of the list (Ghose et al. 2013; Wang et al. 2015)
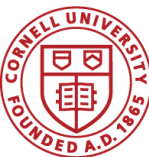
Interplay between Online and Offline channels

- Sensory information (texture, aroma, etc.) is difficult to obtain online; offline touch points can mitigate this problem.

- Consumers who visit a retailer's website tend to buy more at its physical store (Pauwels et al. 2011)

- Multi-channel shoppers tend to choose an online store of their preferred offline store when assortment is similar (Melis et al. 2015)

- Shoppers tend to choose a chain within the online channel, instead of choosing across channels (Melis et al. 2015)

Price Personalization

- Today new technology and rich consumer data are making more feasible to enable personalized pricing strategies

- 64% of retailers say that offering personalized prices to shoppers will be a priority for them during the next three years (Retail Systems Research, 2017)

- Many grocers worry about the potential blowback they will get from offering different prices for different consumers

- At the same time, retailers are increasing their use of personalized coupons and marketing messages, and are employing sophisticated data gathering technology to target individual shoppers

Price Personalization

Sam's Club members Scan & Go!
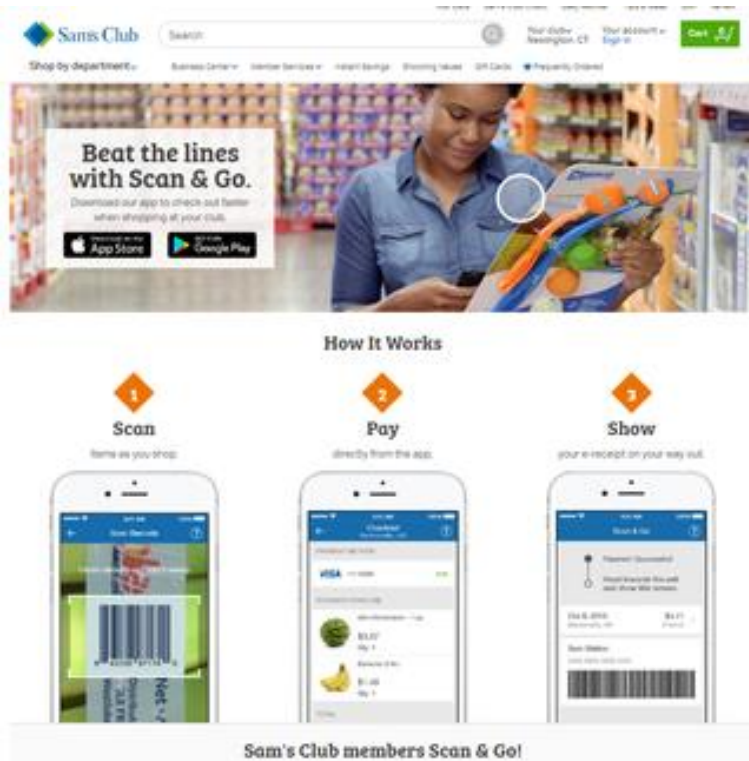
- Strategies that make personalized pricing more discreet (and thus more of a viable option) are being explored

- Sams Club introduced checkout apps that allow to deliver individual prices without other customers noticing

Price Personalization

- Kroger is currently piloting a project called digital shelf edge that uses in-store sensors and analytics to provide product recommendations and custom pricing through mobile devices

Price Personalization

Vampire Strangler 2-DVD Collector's Edition http://camelcamelcamel.com/product/B0013FRZ0Y

Price type	Lowest	Highest
Amazon	$22.93 (Aug 22, 2013)	$39.99 (Aug 8, 2017)
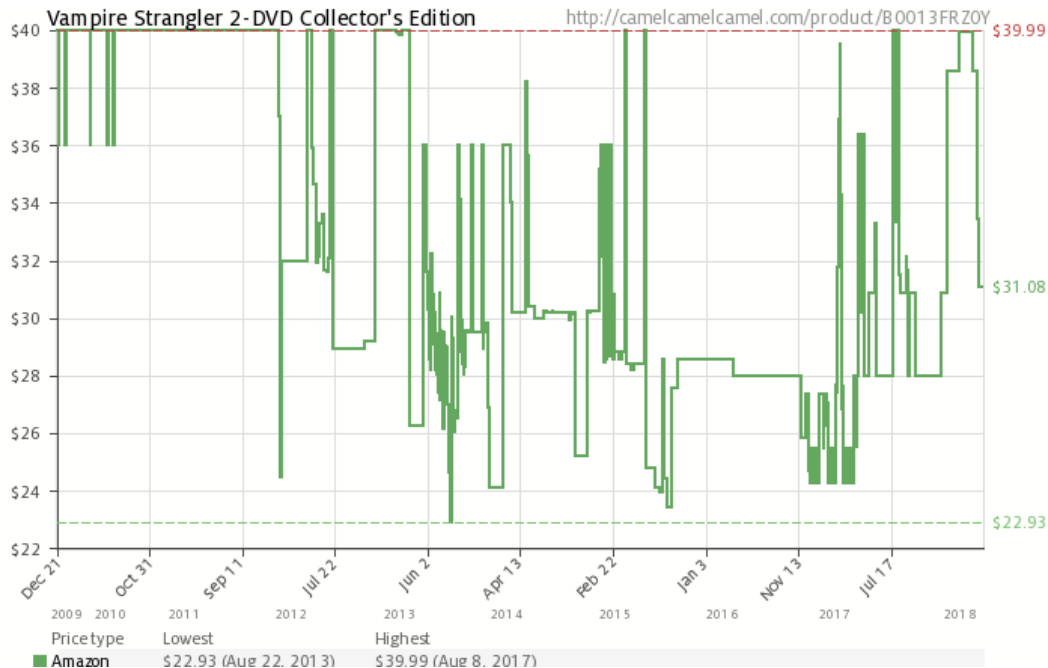
- Amazon is engaged in highly sophisticated price personalization strategies

- Pricing algorithms designed to estimate price sensitivity and learn demand

- Intentional and random price fluctuations

- Targeted coupons becoming wide-spread on Amazon

Price Personalization
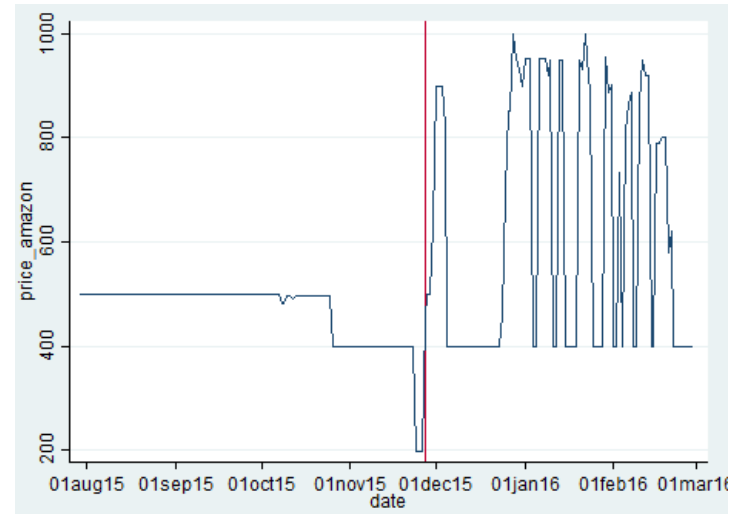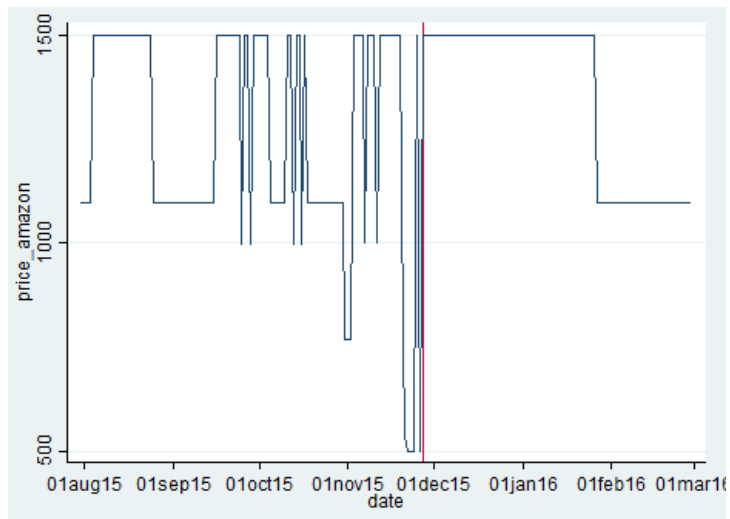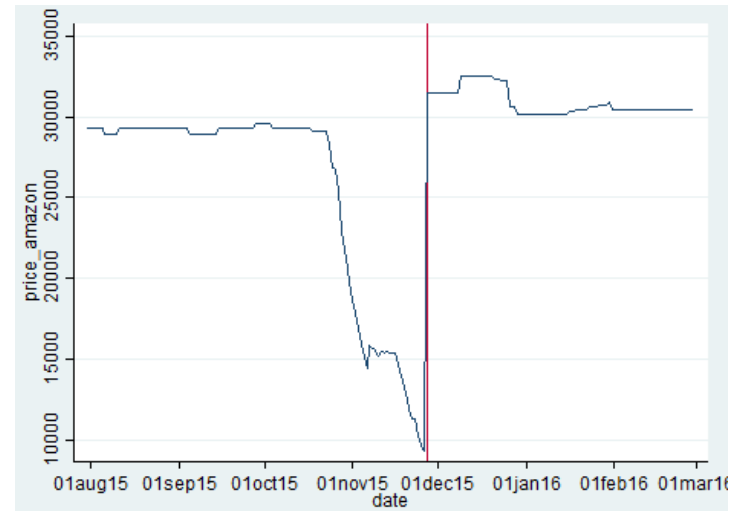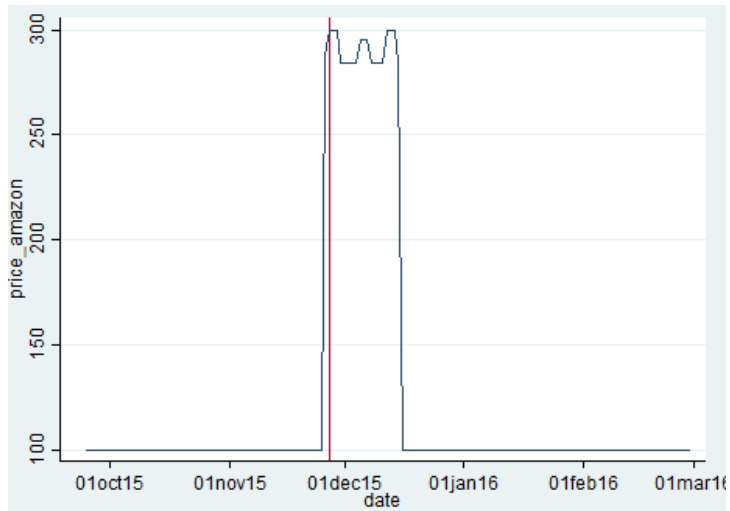
IV. Retailers Adopting Omni-channel strategies

Historic Disruption
June 16, 2017
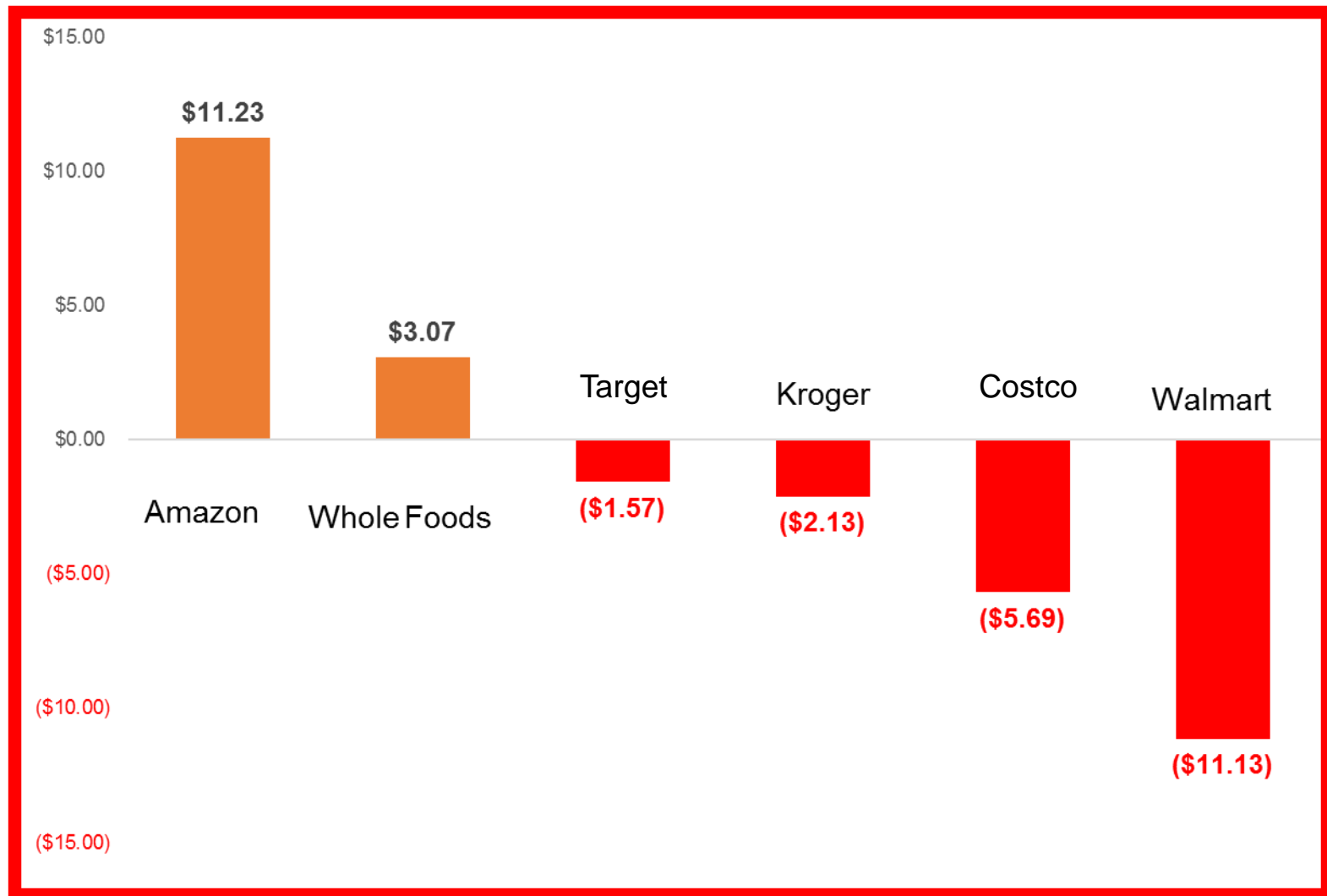
AMAZ-WF Performance
--past 5 years--
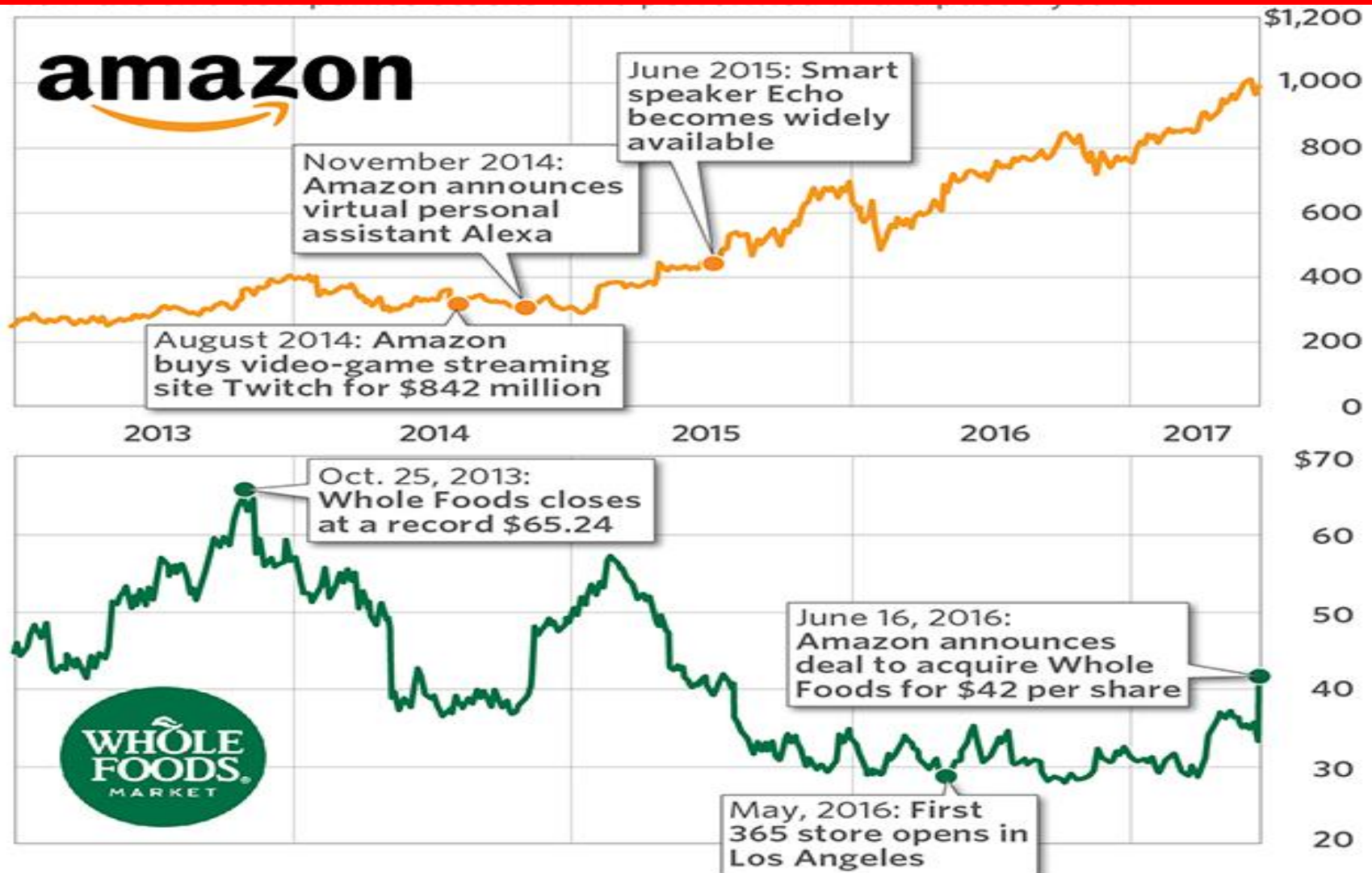
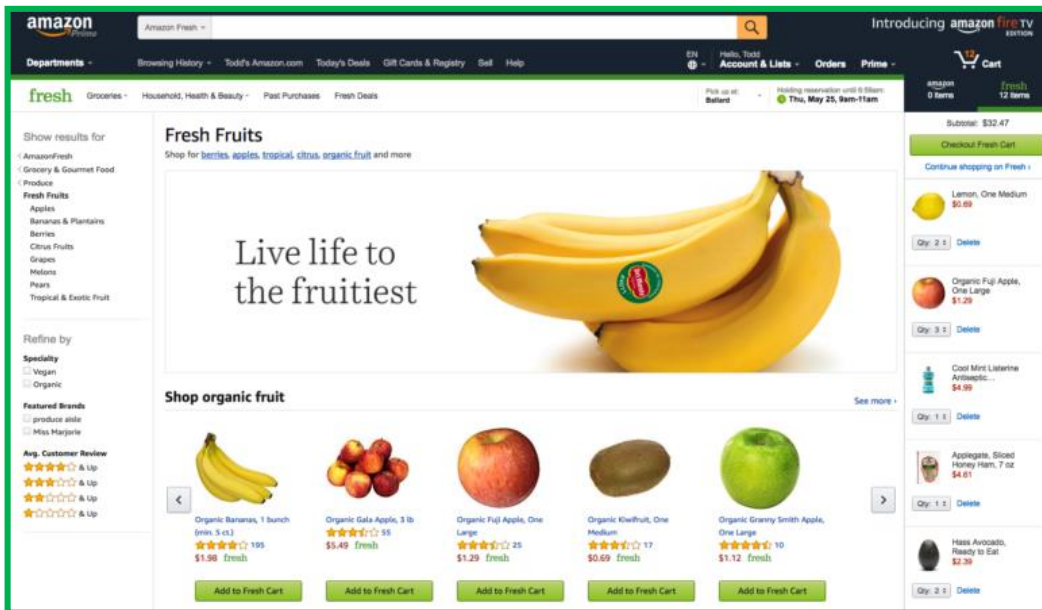Sources: MarketWatch, FactSet

Amazon Effect Strikes
Change in Market Caps ($B)
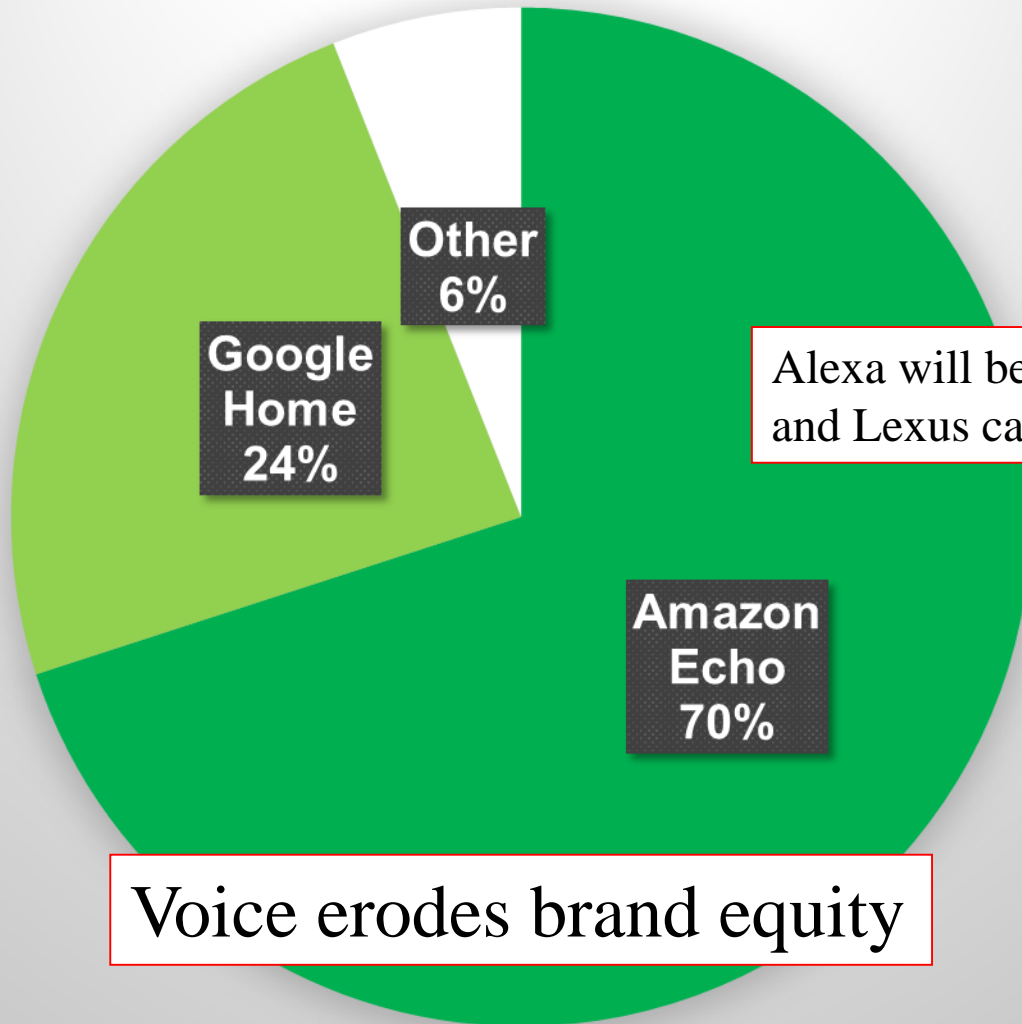## June 15 – June 16, 2017

Amazon introduces…
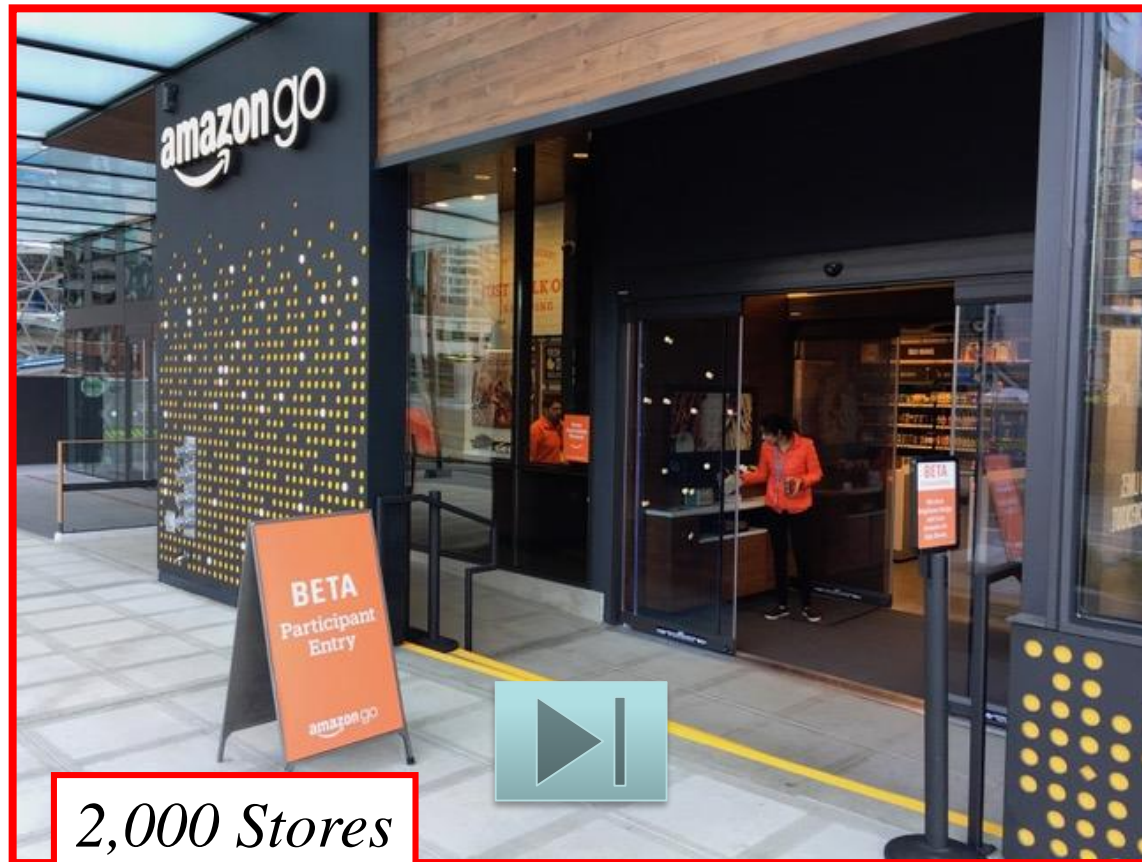
US Voice-Enabled Speaker User Share 2017

Other 6%

Google Home 24%

Amazon Echo 70%

Alexa will be added to Toyota and Lexus cars in 2018

Voice erodes brand equity

Whole Foods

Deluge of Delivery Options

Amazon introduces…

Instacart

For $9.99, contract workers deliver from Whole Foods stores within an hour. In 2016, Whole Foods invested in Instacart and the two signed a five-year partnership. What happens post-Amazon? TBD.

AmazonFresh

Prime members in certain metro areas can pay $14.99 a month for same- or next-day delivery of a wider selection of groceries. There are reports that AmazonFresh and Prime Now could merge.

Prime Now

Prime members can get a selection of Whole Foods products in two hours in certain zip codes for no additional charge. In some markets, Amazon makes these deliveries directly from Whole Foods stores.

Prime Pantry

Another perk for Prime members, this service provides free shipping on non-perishable and household goods like juice or pet food on orders of $40 or more for $4.99 a month. Available in 48 states.

Whole Foods + Prime?

Whole Foods Store Traffic
--from year ago--

Merger completed
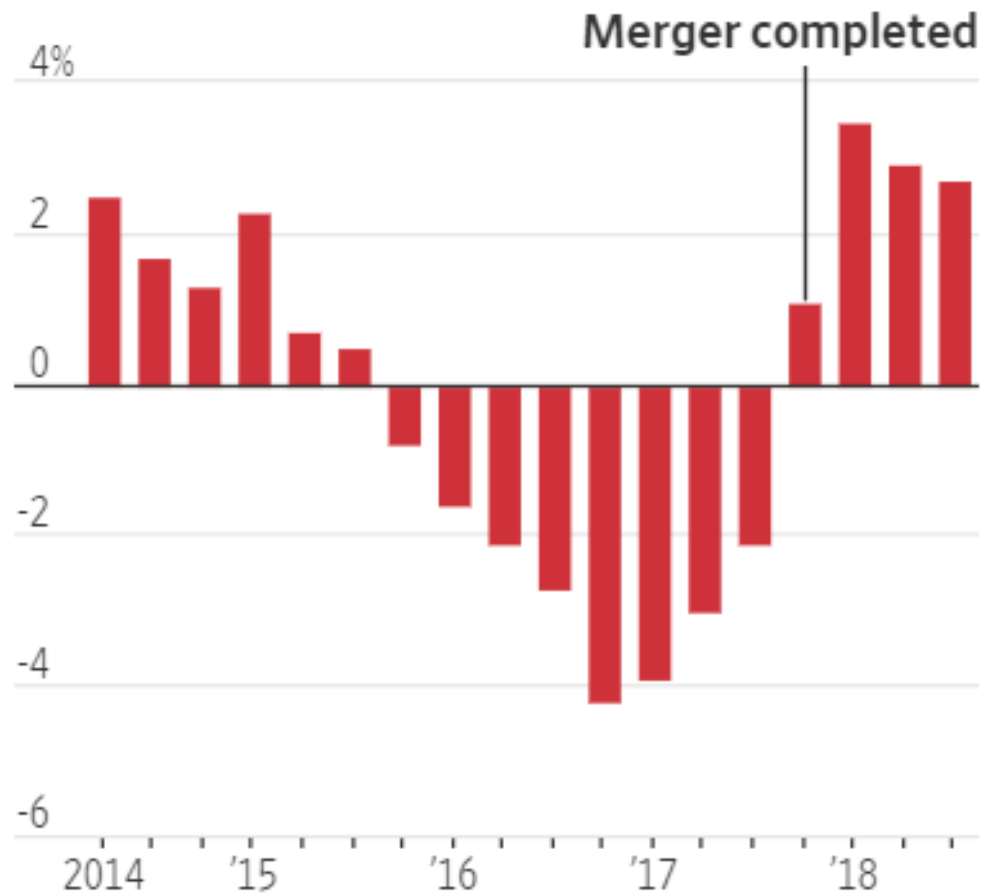
Sources: the company (through Q2 2017); Thasos Group (Q3 2017 onwards)
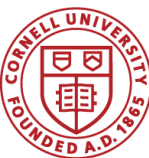
Households That Have Shopped These Retailers in Past 4 weeks (%)
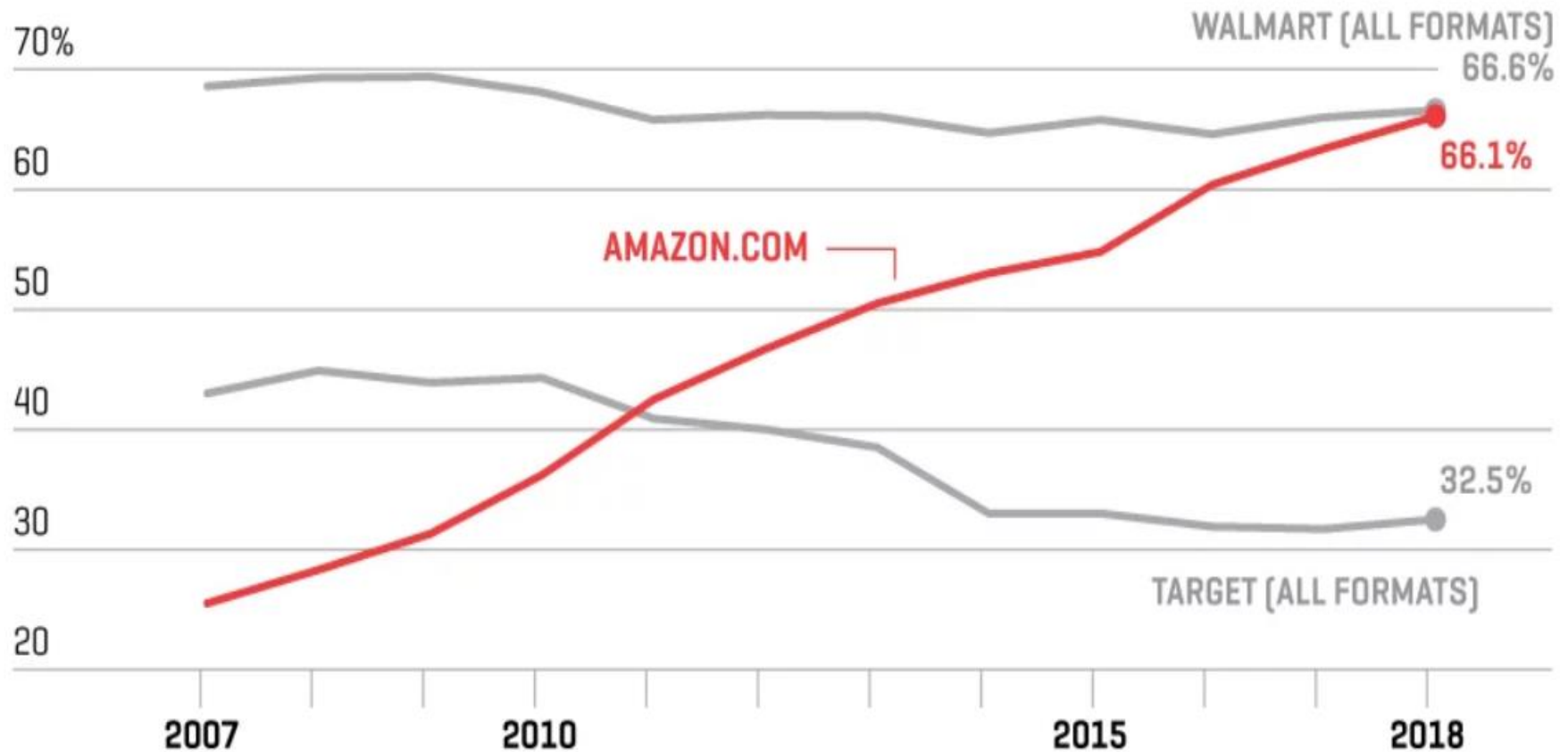
Amazon's strongest competitive feature
--data personalization--

- <u>Every</u> single Amazon offer is customized. Consider:
- Amazon received <u>10 million customer reviews</u> in 2017 in all its marketplaces and added <u>1 million+ sellers</u> in 2017 (3,000 per day) from which more data…
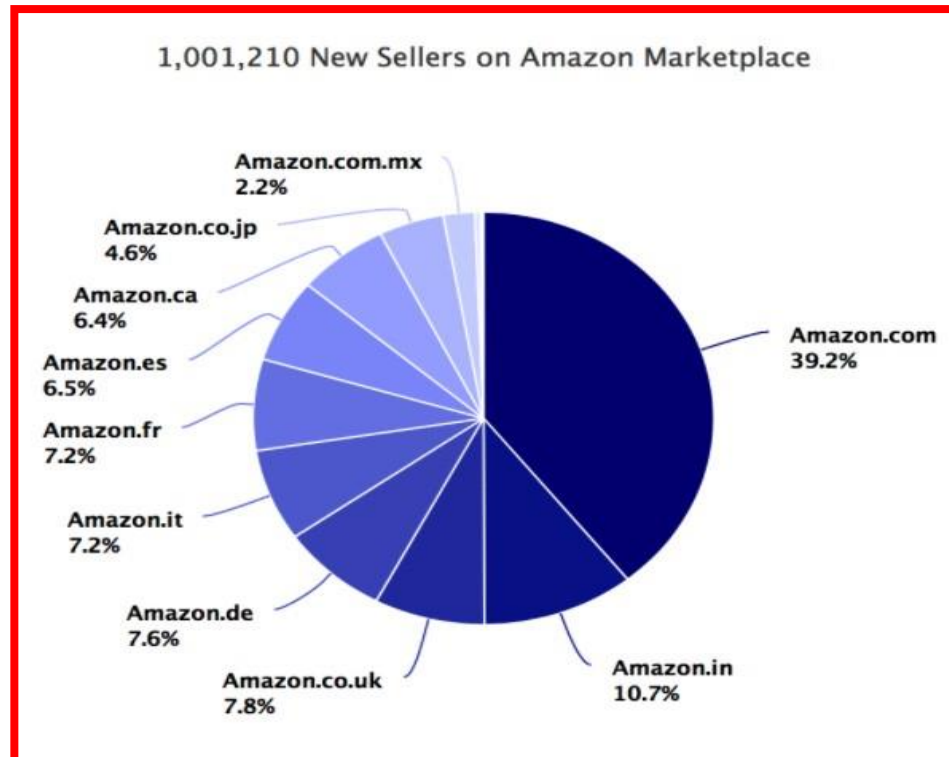
1,001,210 New Sellers on Amazon Marketplace

- Amazon.com.mx 2.2%
- Amazon.co.jp 4.6%
- Amazon.ca 6.4%
- Amazon.es 6.5%
- Amazon.fr 7.2%
- Amazon.it 7.2%
- Amazon.de 7.6%
- Amazon.co.uk 7.8%
- Amazon.in 10.7%
- Amazon.com 39.2%

Tesco

Source: Planet Retail RNG (2018)
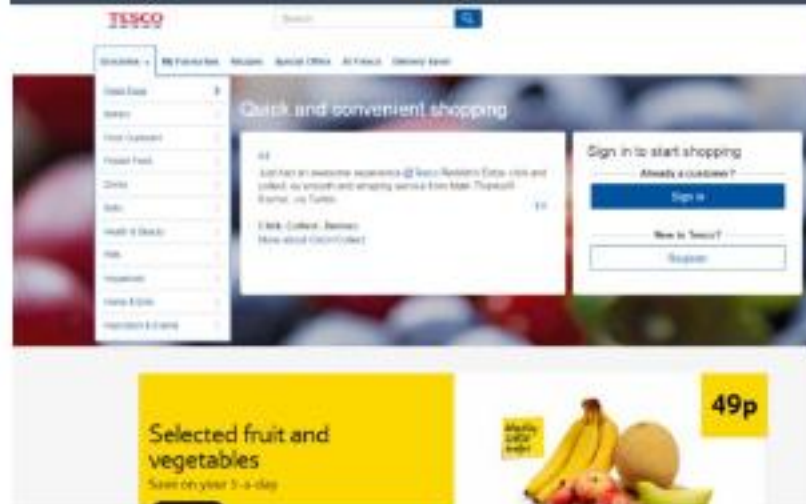
Experiential
- In-store shop-in-shops (BURTON)
- In-store Events

Social
- Coffee shops (HARRIS + HOOLE)
- Restaurants

Frictionless
- Drive-through
- Pay by phone
- Mobile scanning
- Self-scan (Scan as you Shop)
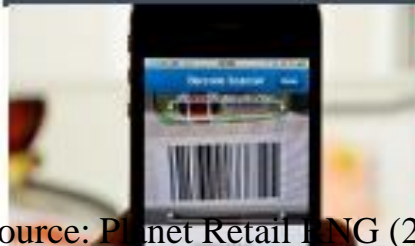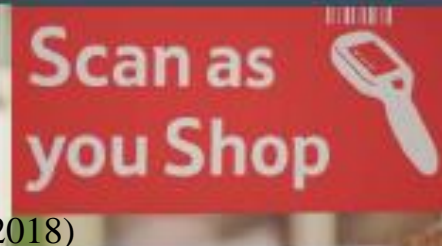
Curated
- Booker bulk ranges
- Ready meals (WICKED)
- Premium ranges
- Healthy eating

Chef **CENTRAL**
SERVING THE PROFESSIONAL CATERER

- Essential food, alcohol & cleaning products for the caterer
- Big Pack Value
- Open 7 days a Week

Chef **CENTRAL**
SERVING THE PROFESSIONAL CATERER

OPENING HOURS

Monday – Saturday
7.00 am – 6.00 pm
Sunday
9.00 am – 3.00 pm

All of our shelf prices include VAT. We are open to the public, however as we sell in bulk, we require a minimum spend of £30.

peas

fresh chicken breast fillets

tomato ketchup

Tesco is also starting to offer some Booker products in its own stores. The company plans to offer bulk items from the Booker range in the aisles of 50 Tesco stores.

gravy granules

Tesco is utilising its Booker catering brand Chef Central to take excess space in-store. It has opened a branch adjacent to an Extra store in Cambridge with a separate entrance. It has also opened a more integrated Chef Central branch at a store in East London – which allows shoppers to pay for Chef Central lines at the main checkout.

Source: Planet Retail RNG (2018)

Source: Planet Retail RNG (2018)

Tesco is getting products to customers in numerous ways

Sources of inventory

- Fulfilment centre
- Dark store (support ecommerce)

Home Delivery

- Next day home delivery (food)
- 1-hour slots
- Longer cheaper slots
- Delivery Saver Subscription

Pickup/Receive Options

- In-store pickup
- Store/kerbside pickup

Trials/New technologies

- 1-hour grocery delivery with Quiqup
- Tesco Now

Case Study – Robinsons partners with Tesco on free Al Fresco box

The Basics

Robinsons partnered with Tesco to offer a free box featuring Robinsons and Tesco products for online customers (alongside their order) during the Wimbledon Tennis Championships.

Supplier ROI

Providing free samples alongside online orders is a good way of getting products in front of customers in a channel where it is notoriously difficult to disrupt the usual patterns of purchasing.

This campaign will allow the supplier in question to be associated with the Wimbledon Championships – positive for the supplier's brand image.

The campaign will, however, need to run for a limited period to ensure there is no long-term incentive for customers to switch from a profitable channel (stores), to a less profitable channel (dotcom grocery).
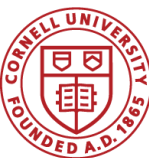
Food & Beverage	Ecommerce and Digital Ecosystem

Robinsons partners with Tesco on free Al Fresco box for online customers

V. Final Comments

Final Comments

- Emphasize relationship with distribution channels that do not employ omnichannel strategies? (e.g. hard-discounters)
  - May not be feasible/attractive given market, consumer, and technology trends

- Produce is critical for the shopping experience and retailer differentiation, online and offline

- The produce industry needs to learn how to be omnichannel too!
  — An omnichannel supply chain might be better termed the *omnifunctional* supply chain

Final Comments

- Need investments on IT to build data analytics capabilities

- Increased pressure to plan in collaboration with re-sellers

- Devise strategies to increase customer touch points
  - Pre-purchase experience (Website, mass-communication channels)
  - Purchase experience (assortment, point-of-sale displays, product performance
  - Post-purchase experience (customer service, product quality, loyalty programs)

- Brand development efforts, including Private Label branding

- Strive to manage integrated channels providing seamless interaction with re-sellers

Final Comments

Selected challenges for the produce industry…

- Ensure outstanding quality, freshness, ripeness, and flavor of fruits and vegetables in the online shopping environment

- Enhanced transparency is paramount both in sourcing and rating current quality of produce items in stock

- Contribute to retail differentiation in an omnichannel context - building credible narrative telling brand story

- Profound changes in supply chain management - more frequent delivery, re-think supply chain network, and inventory management
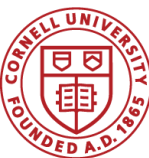
Thank You!
Questions, Comments?
mig7@cornell.edu