

5 Lessons Learned From Takeoff's Research Report On eGroceries

by Chris Walton

To close out 2019, I predicted that the amount of activity surrounding hyperlocal microfulfillment would increase three to fourfold in 2020. Recent events, however, have indicated that this prediction, while bold at the time, was likely far understated.

Hyperlocal microfulfillment is about to come to grocery at an even faster pace. COVID-19 has forced retailers and consumers to change their habits, and, as such, supply chains have been pressed to get more flexible, and concepts like grocery home delivery, curbside pickup, and pickup-only stores are now all a growing part of the post-COVID grocery lexicon.

Simply put, more people are shopping online and demanding more from their retailers.

When Takeoff Technologies published a new research report on online grocery, "How to Win in Online Grocery" last week, I seized the opportunity to provide a measured perspective on what the report means for the future. As much as hyperlocal microfulfillment lies at the intersection of profound retail change right now, there is much to learn about its applicability and about where and how it can best be utilized in both the short- and long-term.

My five key lessons learned from Takeoff's latest report are:

1

Online grocery vs. physical grocery is a false dichotomy

One of the most important aspects from the report is something I had never placed in the right context. Online grocery isn't solely about people getting their groceries delivered to their homes. It's about a new way for consumers to shop in a manner that is most efficient for them.

This new way could include delivery, but it could also include checkout-free stores, curbside pickup options, or even shopping the same way people have since [Piggly Wiggly first introduced the modern grocery store back in 1916](#).

According to the recently released research, grocery shopping consists of three trip types — the monthly stock-up, the weekly fill-in, and the quick trip. It is ludicrous to think that traditional e-commerce will ever be the answer for all these. Psychologically it doesn't make sense. People need different things at different times and at different places in their lives.

Online grocery, therefore, is not an either/or equation between going to the store and not going to the store. There is much in between these two extremes.

2

Now is the time for retailers to drive change

The report states that 48% of American consumers have never shopped online. This figure is staggering, and, while there are a whole host of reasons for it — namely, generational issues with technology, the inability for SNAP recipients to use their benefits online, and even pure habit — now is the time

for old habits to die hard.

COVID-19 is a hall pass for experimentation. It is the unstoppable force against what was the immovable object of habit. Now the mental calculus of how one wants to shop is different. Routine comfortability has taken a backseat to safety.

Grocery delivery, order pickup, curbside pickup are all safer, more contact-less forms of grocery shopping. So, while consumers still have different trip types to make, the relative weight and importance of opting for a digital-first approach, via these means, is stronger than it has ever been.

Retailers can try to push against this force, but the only real option is to give into it and to give consumers what they demand -- safe and flexible shopping. All of which means more picking, packing, and delivery, and all of which also raises the overall costs of doing business.

New techniques and ways of doing fulfillment have to step to the forefront.

3

Consumer expectations around price and speed necessitate a new approach

Another striking element from the report is what it elucidates about consumer expectations around pricing and delivery speed.

By way of a conjoint study, the research report notes that charging a service fee for delivery, say \$4.95, had “the most negative impact” of any studied retail decision (over service, speed, product variety, etc.). In addition, while there was little variability in consumer sentiment between delivery in 1 to 2 hours versus same day delivery, there was a starkly negative impact if delivery timing grew to next day or more.

Taken together, these two variables are important because they speak to a new normal -- Consumers will neither want to pay extra for the flexibility they desire nor will they be willing to accept a delay in delivery gratification.

This places both third party in-store picking services and fulfillment from large warehouses in a bind. Consumers will likely not want to pay an up-charge for delivery once we reach a new normal, while centralized picking, packing, and delivery could also end up being too slow.

4

Curbside pickup will soon be a weaponized part of grocers' pricing and promotional strategies

COVID-19 is pushing online delivery and curbside pickup to new heights. From a retailer perspective, the latter is far better than the former.

As the report highlights, curbside pickup at scale costs grocers \$2 per order, while delivery can cost anywhere from \$9 to \$18 per order. The study also asked consumers, 40% of whom said they would prefer to go to a grocery store over using any other digital option, whether they would try curbside pickup if given a discount.

Astonishingly, 6% of the respondents who said they would never shop digitally said they would try curbside if offered just a 5% discount. And, this data was all collected prior to COVID-19!

As a result, the long-term opportunity for grocers following the outbreak is staring them in the face. If they can get customers comfortable with curbside pickup now, they have a weapon — i.e. price — in the fight against their own more expensive delivery costs, as well as against Amazon who doesn't have physical stores with a mass market product assortment upon which to fall back.

If grocers can operationalize picking and packing onsite against the speed expectations of their customers and create any stickiness with their customers while the outbreak is going on, then they have a legitimate weapon to take a price war, by way of curbside pickup, directly at Amazon for the long-haul.

5

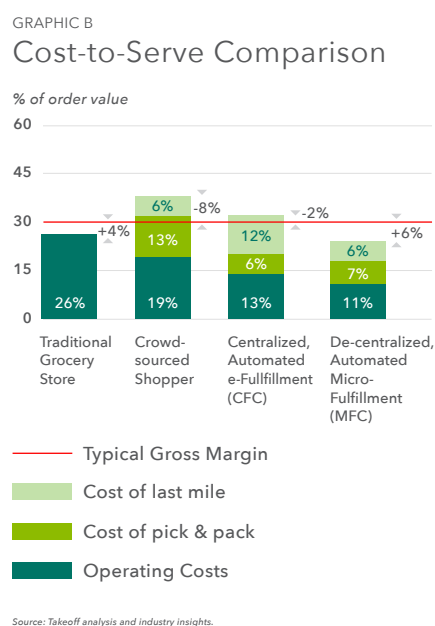
The case for hyperlocal microfulfillment is now even more clear

The beauty of hyperlocal microfulfillment is that it is inherently flexible. The idea of placing tried and true picking and packing automation onsite at or near a grocery store means that grocers can still meet every consumer's conceivable need.

Grocers can use such a setup to pack orders for delivery, for BOPIS (buy online, pickup in-store), and for curbside or pickup anywhere else because the center of operation is already near the consumer.

The quantitative economics of other alternatives don't stack up (see chart to the right) and neither do basic assumptions when we bring back into the argument everything we just discussed above.

First, the onsite nature of microfulfillment allows grocers to get scale and ROI from similar activities all happening in the same place. Grocers can operate off of one pool of inventory, bifurcated on location for both in store



and online activity, and leverage automation and proximity to lower overall operating costs.

Second, microfulfillment also passes the rationality test. If consumers are going to demand their groceries the same day for delivery or order pickup, without paying extra for it, how can a centralized facility or a third-party service ever meet the needs of the consumer from a timing and price standpoint, let alone stack up economically?

Neither can.

Sure, people will put up with delays and item cancellations during the height of the virus, but once they get accustomed to the convenience of buying online they likely won't go back and they won't be as forgiving either. In fact, if the data from Takeoff's report shows anything, it is that their expectations on speed, price, and convenience may even exceed the levels at which they are now.

As is the case with so much related to COVID-19, anything outside of a hyperlocal approach is thus a mere stop gap or a bilge pump. The grocery industry can try to bail the rushing waters of changing consumer expectations to stay afloat, but the answer is still the same.

The ship still needs a whole new hull.