

A MADE4NET WHITEPAPER

## RETHINKING GROCERY DISTRIBUTION IN THE AGE OF E-COMMERCE

The lingering impacts of inflation, continued e-commerce growth and the return of the store shopping experience are having significant impact on today's grocers. Grocers must continue to innovate to delight their customers, however the price of innovation is considered table stakes as grocers turn to technology and automation to remain competitive.





**OVER THE PAST THREE YEARS**, the grocery sector has been challenged by fear and safety concerns driven by the global pandemic, roaring inflation and endless supply chain disruptions. The times have not been easy!

These challenging days have taught grocers that the ability to pivot is critical. But many have realized that even when they manage to pivot effectively enough to serve their customers, the cost of adjusting to our ever-changing circumstances can be higher than they are comfortable swallowing. The cobbled-together systems and processes that brought massive shifts in how consumers access groceries weren't built for the long haul in many instances.

Now that the world has calmed down, companies have the opportunity to fine-tune their processes and make sure they're ready for the next big pivot. What can grocers do to ensure consistent profit margins in new delivery options and how can they prepare to tackle whatever comes next?

As is often the case in this day and age, technology holds the key for companies to create new, effective processes, collect and manage data, and expand their offerings as needed. In this dynamic market full of ever-changing consumer demands, static software products may not cut it for long.

## THE PROBLEM

**NEW CHANGES TO GROCERY SHOPPING** and pickup and delivery options are costing grocers too much and are inefficient. These are not just issues for small, local grocers, but for national grocers, too. Even huge companies with massive capital at their disposal have struggled to make it work in the long run.

A study conducted by Incisiv for Wynshop showed that 86% of grocers were dissatisfied with their online profitability. The same study projects a \$14 million margin loss per \$1 billion in sales by 2025 due to the change in revenue mix between in-store sales and online sales.

As consumers continue to opt for online shopping, the issues grocery retailers encountered during the pandemic will only be exacerbated if they don't find a way to improve efficiency and profitability in online sales.

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# BACKGROUND

During the pandemic, demand for online orders skyrocketed, leaving companies scrambling to manage and fill orders in a timely manner. A study by Incisiv found that online order basket size grew by about 70%. While growth has slowed down a bit, experts indicate that grocery e-commerce will remain prominent but with a different growth trajectory. In August of 2022, roughly 68% of all US shoppers said they consider themselves online grocery shoppers. Grocers must continue to improve e-commerce options like pickup and delivery faster while keeping an eye on profitability.

*While many grocers positioned themselves splendidly to adopt new order fulfillment and delivery processes during the pandemic, the systems hastily developed are often lacking in certain areas.*

For one, they tend to be labor-intensive (and therefore expensive). [Incisiv's study](#) found that 92% of grocery retailers were dissatisfied with their online order picking efficiency and 86% of grocers were not content with their labor utilization.

Two, hiring was challenging and continues to be, and being short-staffed exacerbates the problems caused by labor-intensive processes. [A study conducted by FMI](#) showed that 80% of food retailers stated that hiring issues were having a negative impact on business.

Three, the technology many grocers are using isn't built to meet their needs. Lack of inventory visibility is a major issue that online order filling inefficiencies and short supplies shine a huge light on. Despite the technology available to improve visibility, in a survey by Cloudleaf, 97% of respondents in the food and beverage industry stated that they'd experienced at least some product spoilage in their fresh food deliveries.



## **Despite Successful Adaptation, New Processes Aren't Perfect**

COMPANIES FROM THE FORTUNE 500 to the corner market are experiencing similar issues. Fulfillment is too labor-intensive, costs too much, and takes too long. Issues certainly haven't been restricted to companies with capital on hand. Major process and software changes normally require a significant stretch of time to get in place, from R&D or procurement to installation to training and testing. And this is time that's difficult to find while companies are struggling to stay on top of their current workload.

In [Incisiv's study](#), it was discovered that 86% of national grocers reported that their online business was plagued by low profitability. The grocery executives surveyed revealed a laundry list of issues of concern regarding their online sales including:

- Low profitability
- Difficulty managing third party relationships
- Operational inefficiencies
- Inadequate technology



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### Grocers are Making Big Moves

**SOME OF THE MAJOR PLAYERS** in the grocery industry have seen the writing on the wall and they're working towards more sustainable solutions. Here are some examples of big moves companies are making to stay ahead of the curve.

Amazon's grocery division made a bold move by opening brick and mortar Amazon Fresh grocery stores. While they've struggled a bit to get shoppers into their stores, a new strategy and redesigned stores are in the works to turn things around. This includes adding hundreds of new name brands, more quick meal options, and smart shopping carts that allow customers to scan groceries as they shop and check out without waiting in line. Amazon also said it will offer online grocery delivery for shoppers who are not Amazon Prime members in an effort to broaden its customer base.

A growing number of retailers are teaming up with Instacart to provide authentic and differentiated online shopping experiences to their customers. And new upgrades to their e-commerce platform will now allow grocers to customize their digital storefronts with shoppable campaigns, create custom landing page, and build dynamic homepage content.

In late 2022, Walmart entered a definitive agreement to purchase micro fulfillment center (MFC) developer Alert Innovation as an effort to fulfill e-commerce

orders more efficiently against a backdrop of a tight labor market.

Countless grocers are looking towards the future, aiming to insulate themselves and their revenues from supply chain uncertainty and the ever-changing demands of consumers. Are you?

### What Will the Future Look Like?

**ACCORDING TO GROCERY DIVE,** "After building out their e-commerce options for consumers since the pandemic started, grocers will start creating more of a seamless omnichannel experience that better blends in-store and online shopping."

Expect to see:

- Sampling provided with e-commerce orders
- Offerings added to pickup apps to make it easier for customers to make impulse buys
- Efforts to make pickup more efficient, such as lockers or autonomous robots in parking lots
- And more...

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## THE SOLUTION

HOW CAN YOUR COMPANY DEVELOP AND MANAGE processes that will not only help you survive the new normal but thrive in it? More so, how can you set yourself up to pivot and roll with the punches down the road? How can you ensure that you continue to provide customers with a high level of service and maximize profits even when the going gets tough?

### ***Preparing for the Unknown***

How do you prepare if you don't know exactly what's coming and how it will affect your operations? How do you set yourself up to ensure that when the next curveball comes your way, you're ready to not just muddle through the crisis, you're ready to grow?

Simple. Grocers must invest in technologies that can pivot with them and handle new challenges as they come. It's about being proactive rather than doing damage control.

Ideally, the new technology will:

- Manage inventory in real-time, with little difference in accuracy between the store and warehouse.
- Translate inventory levels to online ordering platforms to avoid stockouts and the necessity for order substitutions or refunds.
- Handle the complex nature of orders from various platforms with multiple options for getting product into customers' hands.
- Be able to incorporate new fulfillment facilities, including in-store fulfillment and new warehouse formats (like micro-fulfillment centers) with ease.
- Provide data at every touchpoint, increasing visibility and providing the tools companies need for improved forecasting.
- Embrace a future that is likely to include increased use of automation and robotic technology, incorporating both into systems and processes that better enable adoption, training and employee retention.
- Do all the above at the pace today's (and tomorrow's) consumers expect, with same-day fulfillment being the norm, sometimes within mere hours, even.



# CONCLUSION

**THE PAST FEW YEARS HAVE TAUGHT GROCERS A LOT.** Now is the time to take what you've learned and earned and use it to prepare for a more digitized future.

It's pretty apparent that supply chain woes and staffing issues aren't over yet and may get much worse before they get better. It's an ideal time to invest in more intuitive, flexible processes and the technologies that support them.



We know you're here to get some answers about modernizing your grocery supply chain. So, we invite you to have a conversation with one of our food industry supply chain experts who can talk through your specific challenges and share how we have helped companies like Uber Eats, Sprouts Farmers Markets and many others optimize their supply chain processes. We are happy to help.



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## About Made4net

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**M A D E 4 N E T**

**MADE4NET** is a leading global provider of best-in-class, cloud-based supply chain execution and warehouse management software for organizations of all sizes to improve the speed and efficiency of their supply chain. The company's end-to-end SCEExpert™ platform offers a robust WMS that enables real-time inventory visibility, labor management, and equipment productivity with performance analytics that drive faster, more accurate order fulfillment and improved supply chain efficiency. In addition to the best-of-breed WMS, the platform offers integrated yard management, dynamic route management, proof of delivery and warehouse automation software solutions that deliver a true supply chain convergence. For more information, visit [www.made4net.com](http://www.made4net.com).