eCommerce in Traditional Regional Grocery:
From Digital Dust to the New Rainmaking

Introduction

What's going on with digital disruption and the regional grocery industry? Did they take a pass? Is that all about to change? eCommerce enterprises upended entire industries, such as book publishing, entertainment, and much of retail. The list of large retail brands suffering financial calamities, even going bankrupt, is long.

As new retail business models emerged, most regional grocers took a rain check. For them, at least in North America, innovation has been small to medium scale and often simply inserted into local brick-and-mortar stores. Changes have come in the form of new foods that appeal to shifting consumer demands and millennial-friendly apps that add convenience to shopping. But where is the sea change that we have seen elsewhere?

While software executives live in a world of big-dollar bets, turbulent balance sheets and unrelenting demand for growth, regional grocers in North America live and breathe the opposite. They carefully optimize big-dollar supply chains and pricing and eke out thin but consistent margins.

When the two worlds started to collide, many grocery execs moved from 'wait and see' to 'let's carefully dip our toes'. Paper flyers turned into digital ones. In-store specials showed up in online storefronts. Minimalist online storefronts used basic digital marketing to drive customers back to where they started—the store. Marketing cautiously adapted while operations remained mostly untouched. Not surprisingly, eCommerce showed up on most balance sheets as digital dust.

There were a select few, however, who took bigger, bolder steps. What follows is one of their stories.

The Business Challenge

It wasn't the first time Mercatus had been called in to get things moving, and the problem laid out was all too familiar. Like many others, this grocer had placed a modest initial investment in eCommerce, mainly as a defensive strategy to ward off customer losses from companies like Amazon and Walmart.

> "… they put up an online company storefront… and waited to see what new customers and sales would come in. And they waited."

They didn't 'bet the farm' with their eCommerce initiative. Nor did they embark on a company pivot. Instead, they put up an online company storefront, linked to some stores on a trial basis, and waited to see what new customers and sales would come in. And they waited. Same-store sales showed little change. It wasn't a total failure: a handful of customers adopted the technology, and finance wizardry revealed some marginal benefits. Unfortunately, the results were far from impressive.

Like many executive decisions, the fundamental question was whether to dial back or go all in. Offensive strategies demand high returns with tangible results. Grocery executives who consider the offers of dozens—if not hundreds—of digital IT enthusiasts are the real Dragon's Den of B2B investment in America. In this episode, investment in eCommerce rested on a simple litmus test: show me the money through expanded sales coming from new channel opportunities.

The Technical Challenge

eCommerce is about digital presence and marketing to customers, not just about selling online. Digital engagement cannot be simplified to a single conversion metric on online purchases. It must drive customers to the store as much as it creates online sales.

For the regional grocer in this story, executives wanted evidence before they chose to invest in a Mercatus end-to-end eCommerce solution. Credible expertise and objectivity were key to their decision. Mercatus commissioned an independent analysis. They brought on EKN Research, a third-party firm reputable in providing objective assessments of digitally complex solutions.

To find out what moves products off the shelves, both in-store and online, they requested a two-fold assessment:

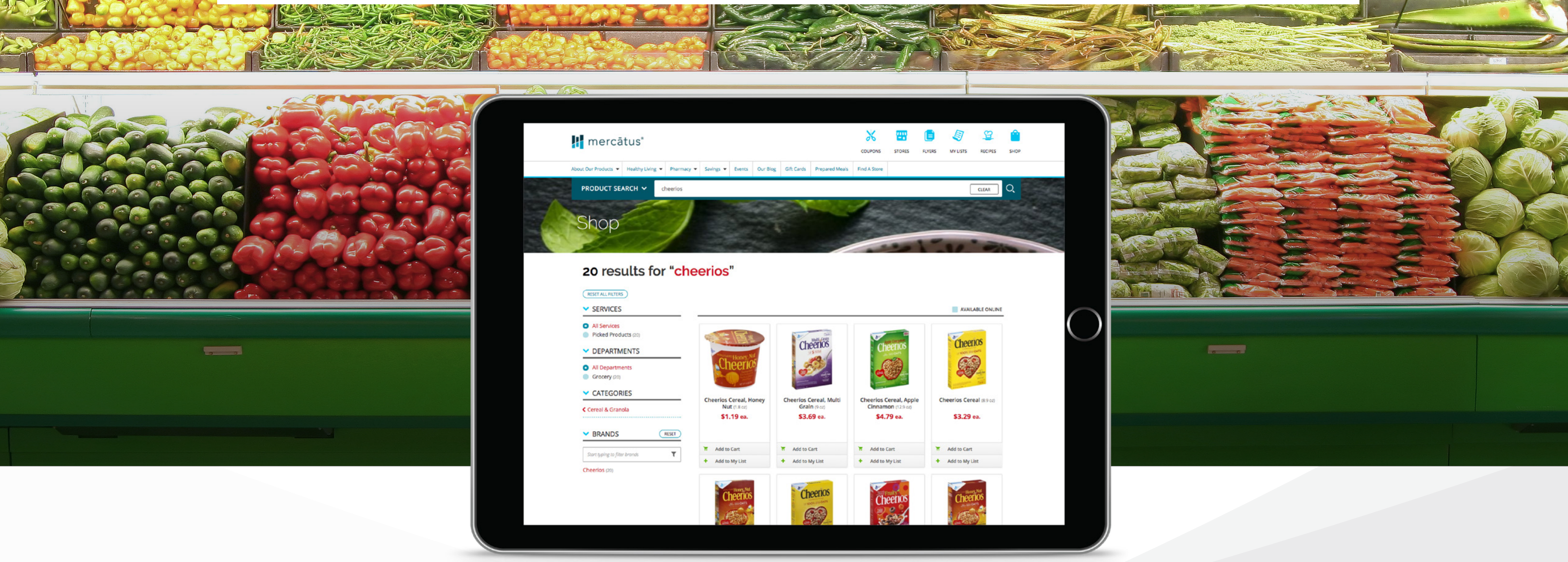
- What happens to sales when grocery stores switch to eCommerce?
- What happens to sales when a minimalist eCommerce platform gets ramped up to a full end-to-end omnichannel experience? Is it worth the investment?

The Analysis

So the evidence gathering began. EKN collected the daily and weekly files of T-Log data for 75+ stores over a four-year period. It amounted to some 328 files of 12 million rows each, over 2 billion rows in total.

They then sorted and skinnied a seemingly endless array of financial metrics into a simple working list. These were the outcomes to be measured:

# OF TRANSACTIONS	Average monthly transactions
# OF CUSTOMERS	Average monthly customer counts
# OF UNITS	Average monthly units sold
SALES	Average monthly sales
DISCOUNT	Average monthly discount
ATV	Average transaction value
ACV	Average value per customer
AVG PRICE	Average price
DISCOUNT RATIO	Average monthly discount
SALES CURVE SLOPE	Linear slope of the sales curve compared pre- vs. post- implementation
TRIP FREQUENCY	Average trip frequency of the customer
LIFETIME VALUE	10 years forecasted lifetime value of customer



Marketing and promotions would need to do the heavy lifting in moving these numbers. So, with a full online store overhaul, the beginnings of marketing personalization, and improved marketing communications, EKN also determined a full suite of marketing metrics to measure against.

Like revenue numbers, there are countless ways to measure digital assets, too many of which only have meaning and value to marketers. No grocery executive lies awake at night thinking about click rates. Here is the short list of web metrics used, each grounded in the day-to-day operations of an online store:

- New users
- Sessions
- Number of sessions per user
- Page views
- Pages per session
- Average session duration
- Bounce rate
- Users

With the metrics set, EKN conducted a pre- versus post-implementation analysis. It accounted for changes in traffic and sales, right down to the store level.

This initiative took ten months to implement, converting a few stores per month until the grocer had full eCommerce integration. Staggering the adoption process was practical because it allowed the grocer to:

- Apply lessons learned in the adoption phase to other stores as they were brought on board
- Accurately gauge whether changes in sales were due to the eCommerce initiative or other highly influential revenue factors, like seasonality, specific promotions and economic conditions

The Results

The results were dramatic. Pulling the marketing lever hard with a new web presence and end-to-end solution opened the floodgates, immediately drawing in positive responses.

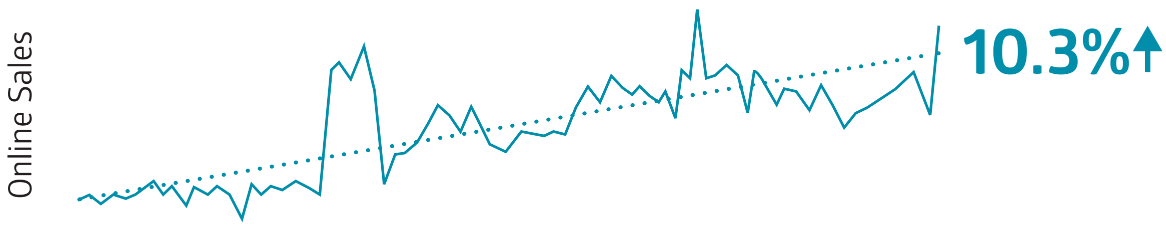
Virtually every marketing metric saw a substantial increase. Not only did the number of online sessions grow by 88%, but the length of each session grew by 44%. Page views went up 124%. Shoppers weren't just flocking online, they were landing and engaging. They were doing their weekly grocery research, organizing their shopping lists and searching for deals and promotions. From pre- to post-implementation, new online users grew by 78%.

Executives were delighted, but muted their excitement, demanding one thing. Show me the money. They did not want to be goaded into chasing 'the next shiny thing'. It was possible, after all, that these online shopping enthusiasts had cannibalized in-store sales. If that were so, then the strategy would need to remain defensive, allocating resources to keep customers from leaving rather than to drive net new growth.

Store managers saw what the analysts found. Online wasn't simply yet another storefront; it changed the way people shopped—even those who mainly continued to purchase in-store. In fact, very few abandoned their in-store habits to take up shopping solely online.

> “Online wasn't simply yet another storefront; it changed the way people shopped.”

The picture that emerged was compelling. Shoppers go online, do their research and build their anticipation with grocery as with any digital offering. They view the specials and promotions, plan out their meals and create their shopping lists. Some stay online to buy. Others head to the store. Either way, the results were incredible.



While the dollars remain confidential, the percentage increases can be shared publicly. Stores that went from zero eCommerce to a fully inegrated experience had a 10.3% increase in overall weekly shopping revenue.

~$30 In-store Average Basket Size ▶ **~$150 Online** Average Basket Size

Customers who bought online shopped less often, but ordered more. An in-store average basket size of ~$30 shifted to a whopping ~$150 online, as customers began purchasing many larger items and long-shelf-life products online.

In stores on the other hand, EKN saw that spend decline by 5% per trip. However, customers shopped more often, with a 6% increase in trip frequency.

For stores that went from a minimalist eCommerce solution to Mercatus' full eCommerce platform, the patterns were consistent with a net overall 12% increase in sales.

Together, these numbers trace the ideal journey of a grocery shopper given all the options. Buy heavier and easy-to-store items online every so often. Then go into the store—and do so more frequently—picking out the likes of fresh goods, novel items and products they want to see, smell and touch before they buy.

EKN Research concluded that the primary benefit of adopting Mercatus' eCommerce platform and digital capabilities was as an offensive strategy—an investment in a new channel that paid dividends, from attracting new customers to enticing current customers to shop more often for a wider range of goods.

What's Next

With the advent of 'click and collect' and home delivery through a partnership with Shipt, and soon-to-come pre-packaged meal solutions delivered to shoppers' homes through DoorDash, Mercatus will continue to open up new doors for revenue. Wholesale business change is now afoot in the regional grocery industry. The future for regional grocers who embrace eCommerce looks very bright.

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