

DIGITAL CUSTOMER ENGAGEMENT

LET'S GET **PERSONAL**: DIGITAL CUSTOMER ENGAGEMENT IN *SUPERMARKET RETAIL*

Gary Hawkins



As the physical and digital worlds of shopping meld, eCommerce becomes only one element of a seamless and comprehensive digital customer engagement strategy.

Let's Get Personal: Digital Customer Engagement in Supermarket Retail

by Gary Hawkins

As physical brick & mortar shopping melds with the digital world, customer experience is the defining battleground as shoppers engage with retailers at any time and from any place using different devices. This is about far more than just online shopping. New capabilities have come into the market that are transforming the shopping experience itself, especially in the store where a majority of retail sales continue to take place. Retailers can avail themselves of leading edge cloud-based solutions purpose-built to fuse together the digital and physical shopping experience, bringing new services and values to shoppers.

“Amazon’s recent acquisition of Whole Foods highlights the convergence of digital and physical shopping and represents a significant shift in the competitive landscape. For Amazon, which already has access to a wealth of customer data, the acquisition gives the e-commerce player an understanding of what consumers want from their in-store experiences as well as a bricks-and-mortar foothold.”(source: [Wall Street Journal, Bridging the Grocery Divide](#))

Digitally engaged shoppers are already impacting a significant portion of sales. In 2016, 51 percent of in-store grocery sales were influenced by digital technologies somewhere along the path to purchase, up from 33 percent in 2015, according to Deloitte Consulting’s study, *The Grocery Digital Divide*. During a recent earnings call, Kroger reported that it saw a 30% growth in new digital customers in Q1 2017 and a 30% growth in digital visits (source: [FoodDive.com](#)).

In a November earnings call, Kroger CEO Rodney McMullen outlines the retailer's initiative in digital shopping, saying Kroger is creating a seamless environment where customers can choose how they engage with the store and online. "Our efforts are all about making things easier for our customers and providing personalized, affordable and exclusive options that fit their needs. Seamless will play a major role in redefining the grocery customer experience," he said. (source: Winsight Grocery Business, [Kroger Introduces Seamless Digital Shopping Experience](#))

Successful digital engagement is built on a foundation of relevancy and personalization and requires a tight, seamless, and realtime integration with the retailer’s app, website, email, eCommerce, text messaging, and even social media channels to provide the user experience customers expect. According to the Deloitte study, 80 percent of surveyed shoppers have used a digital device to research grocery products, and 77 percent have used digital channels such as cooking blogs, recipe websites, and social media to learn about products during the awareness stage.

While traditional brick & mortar retailers are moving online, they are falling further behind. As Amazon and Google push to be everywhere, supermarket retailers struggle to even have a cohesive mobile presence, an imperative today with 34 percent of respondents saying they use a smartphone to help them choose a brand during a shopping trip (Deloitte study). In 2016 more people accessed the internet through mobile devices than traditional desktop and notebook computers. And 86% of the time online via mobile devices was spent within apps, not mobile browsers (source: [eMarketer.com](#)).

And yet traditional retailers are slow to understand the importance of mobile and especially the mobile user experience. Case in point: Safeway shoppers must use three different apps (basic

grocery app, pharmacy app, online shopping app) to interact with the retailer. Not exactly a friendly, cohesive user experience.

Adding fuel to the fire, CPG brand manufacturers are aggressively redirecting massive marketing budgets to shopper marketing initiatives and digital marketing, forcing retailers to focus on growing digital customer engagement. CPG digital marketing budgets have grown an estimated 280% from five years ago while shopper marketing budgets have more than doubled ([Cadent 2017 Marketing Spending Industry Study](#)).

While maintaining access to industry marketing funds is the 'stick', it is increased shopper spending that is the 'carrot'. Effective marketing personalization delivers increases in customer spending of 5% or more. Forrester found that companies who fully invest in modern personalization will outsell their competitors by 20%. These gains are understandable when 88% of consumers say they're more likely to shop with retailers that deliver personalized and connected cross-channel experiences. (source: Swirl Networks)

But many retail executives find themselves in foreign territory as retail success demands a shift from the product driven past to a customer-focused future. While comfortable with supply chain logistics, in-store merchandising and labor efficiency, appreciating the nuances of mobile app user experience, omnipresence via voice-enabled commerce, and automating replenishment of household goods through IoT technology, leaves many retailers flummoxed.

Given all this competitive activity, industry executives need to get up to speed fast. The \$650 billion supermarket industry is rupturing in realtime as grocery buying moves online and technology driven innovation explodes across the supply chain. A recent Wall Street Journal article ([Grocery Stores Feel the Squeeze](#)) calls out that there were 25,380 grocery stores with at least \$2 million in annual sales in 2016 and the number of stores is expected to drop to an estimated 19,000 by 2021; that's a decline of nearly 25% in the next four years.

In this stark future, retailers ability to meld the physical and digital worlds and drive compelling digital engagement with shoppers is a must-have capability.

Power of Discovery

Amazon, the nemesis of brick & mortar retailers, is a master at helping shoppers discover relevant products the shopper may be interested in. Amazon leverages a vast amount of knowledge it collects on each shopper to select a few key products to suggest to shoppers drawn from the estimated 600 million products sold. This shopper intelligence includes past purchases, what the shopper has searched for in the past, and even the shopper's browsing and clicking history. This ability to personalize each interaction with each individual shopper is powerful. "In fact, 56% of consumers say Amazon demonstrates an understanding of their individual preferences and needs on a regular basis."(source: [Swirl Networks](#))

Now imagine that capability turned loose on Whole Foods shoppers. And consider the impact of Amazon presenting relevant Whole Foods products to the tens of millions of shoppers across its platform each day as it takes Whole Foods private label products online.

Many supermarket executives do not yet fully appreciate the power of discovery as executed so well by Amazon and yet brick & mortar retailers have a massive opportunity to help shoppers discover products of interest across the store. What's more, a growing number of shoppers - especially millennials - are interested in the story behind the product, wanting to know where its from, sustainability information, and the values espoused by the manufacturer. All this is tailor made for making product discovery exciting... and engaging.

A New Model for Customer Centric Marketing

For more than the past decade, Kroger has provided savings on specific products that each customer household frequently purchases. This strategy has helped Kroger win a growing number of shopping trips and bigger baskets as customers consolidate their shopping. Marketing personalization is a centerpiece of Kroger's 'Customer First' strategy and has been key to the company's performance in recent years.

Kroger's success has led other Tier 1 retailers like Albertsons-Safeway and Ahold to adopt a similar customer centric strategy. But while Tier 1 retailers may be able to afford the consulting agency model, with its accompanying army of data analysts, as espoused by dunnhumby, Symphony EYC, and others, regional retailers have found it to be an expensive proposition. But technology is disrupting and transforming all areas of business today and marketing is no exception. Artificial intelligence and machine learning feeding off big data and providing services through the cloud not only lower the cost to deploy sophisticated personalization, but provide the next generation tools that retailers need.

The use of customer segments to underpin personalized marketing is yesterday's approach. Today's solutions leverage hundreds of attributes, calculated and maintained at the individual shopper level, to enable true segment-of-one strategic personalization. AI and machine learning power providing the right promotions - presented at the right time and place across every channel - to win the shopping trip, grow baskets, increase shopping trips, and maximize retention. This is the new approach traditional retailers need to compete against the likes of Amazon and Kroger.

Melding the Physical and Digital Worlds of Shopping

Personalization is extending far beyond offers and into the shopping experience itself as retailers provide valuable new services to their shoppers.

Coborn's is in the vanguard of retailers employing new sophisticated technologies to meld the digital and physical shopping experience. Shoppers at Coborn's are greeted as they enter the store, triggered by a beacon interacting with the Coborn's app. Knowing the store the shopper just walked into, the app automatically sorts the customer's shopping list by aisle for that store. The shopper is provided relevant offers as they move around the store triggered by realtime location. Coupons are presented in order of relevancy making it easy for the shopper to find savings on products they like to buy. And Coborn's shoppers can make use of a product locator function in the app, easily finding products in the store via a Google map like capability.

And personalization is not stopping at offers or even the in-store experience. Leading retailers are focused on implementing personalized pricing to drive even more gains. Imagine being able to provide the right product at the *right price to each individual shopper* to win the trip or grow the basket. Big data and artificial intelligence make promotion and pricing optimization at the individual customer level practical. And in a world demanding evermore ROI from marketing expenditures, personalized pricing is inevitable. The stealth battle for customer share-of-wallet is just getting started.

Digital Arms Race

There is no better example of how a traditional supermarket retailer must change to remain competitive in today's world than that provided by Kroger. As the grocery industry moves online and confronted by new competition, Kroger is becoming as much a technology

company as it is a grocery retailer. “Companies are iterating not in years but in days,” Groom (Kroger Technology’s General Manager) said. “We’re in a digital arms race. We’re a 133-year-old grocery chain that’s competing with companies that didn’t exist a year ago.” (Source: [Cincinnati Business Courier](#))

And while technology innovation and consumer adoption of new technology have gotten faster, retailer adoption of new capabilities has remained flat. We have actually seen some retailers that have slowed adoption of new innovation, overwhelmed by the breadth and pace of change.

In this fast moving environment, where digital customer engagement is the battlefield, there are several key areas of innovation that retailers should be watching closely:

Conversational commerce: Voice is quickly becoming the way we interface with technology, the keyboard going the way of landline telephones. Retailers need to appreciate where voice-enabled commerce is headed: the ability of a consumer to - literally - shop anywhere and at any time simply by speaking.

Amazon is aggressively growing its Alexa platform, embedding the voice-enabled digital assistant in a growing array of in-home devices and extending the platform into automobiles via partnerships with Ford, BMW, Hyundai, Volkswagen, and even Garmin navigation devices. Amazon is launching Alexa for Business, intent on bringing the virtual assistant into the workplace; Alexa is already integrated to some Microsoft Office applications. The magnitude of the threat takes on greater urgency when you consider that Amazon is forecast to have 70% of the voice-enabled speaker market this year and that by 2020 it is projected there will be 128 million Alexa devices installed.¹

In response, Google is working hard to expand Assistant, its voice-controlled digital assistant, making it available through speakers, smartphones, headsets, and even cars. Google is assembling a consortium of retail partners, including Walmart, PetSmart, Walgreens, Costco, and others, to counter Amazon’s voice-enabled shopping platform.

Self-shopping: Kroger is rolling out a wireless scanning device it calls Scan, Bag, Go at 400 stores this year. Customers will use the device to ring up groceries as they shop, then pay for their purchases through an app. Walmart has been rolling out its Scan n Go app providing similar capabilities across hundreds of stores.

Other companies are bringing video-based solutions to bear, providing technology like that used in the cashier-less Amazon Go store. AI powered image recognition is able to track what specific products a shopper picks up and puts in her basket, charging the shopper’s account automatically on her way out the door.

Assisted / Automated Replenishment: Amazon is leading the way with its Dash buttons, enabling one-click reordering of products, and integrating its Dash Replenishment Service into a growing number of smart home appliances.

Personalized pricing: Airlines do it. Hotels do it. Retailers do it. Personalized pricing is already here as Kroger and Safeway continue to grow their personalized marketing programs. Retailers should be looking ahead as personalized pricing becomes mainstream, driven by knowledge of customer economics and powered by AI and machine learning systems that automate the process.

¹ [TechCrunch.com](#); Walmart and Google Partner on Voice-Based Shopping

While many retailers don't yet realize it, retail competition has moved from mass promotion to a stealth battle for the individual customer's share-of-wallet driven by precision targeted promotions. Personalized pricing is the next step.

Personalized wellness: Food and health are rapidly converging as health conditions are linked to beneficial products driven by sophisticated nutrition data science. Programs are coming to market that provide intelligent guidance to the individual shopper, helping them navigate the store to find products beneficial to their specific health conditions or lifestyles.

It's ALL About the Customer

While retailers must move posthaste to digitally engage customers they must do so with thoughtful planning and a clear digital capability roadmap. Too often, we are seeing significant retailers charging ahead to deploy new capabilities only to be confronted by disparate solutions requiring expensive and time consuming integration and making it increasingly difficult to provide the seamless user experience that shoppers are demanding.

Amazon's business serves one master: The customer. Everything the company does is focused on securing a growing portion of each customer's spending across a fast-growing array of product categories. That laser focus has powered Amazon to owning an estimated 44% of U.S. eCommerce sales in 2017.

By contrast, traditional supermarket operators say they are customer focused while, in truth, the same retailers spend vast effort and resources on procurement and securing marketing funds from brand manufacturers. At best, supermarket retailers serve two masters: the customer and the brands. And that two-faced approach will not win the day.

In the digital world, every interaction is all about the individual shopper, there is no room for irrelevant ads or messaging even if the retailer is being paid for it. According to Accenture's Global Consumer Pulse Research, 44% of U.S. consumers are frustrated when companies fail to deliver relevant, personalized shopping experiences. Poor personalization cost U.S. companies \$756 billion last year as 41% of consumers switched companies.

Retailers need to control the entire digital experience provided to their customers. Everything a shopper sees on the retailer's digital properties must reinforce the company's branding and positioning and provide the comprehensive, cohesive, seamless and contextually relevant experience shoppers want. Amazon is giving it to them. Kroger is giving it to them. If you don't, your shoppers will be happy to shop with a competitor who will.

Need for Complete Digital Marketing Ecosystem

Too often, retailer's seek to cobble together a digital infrastructure from disparate pieces, trying to graft digital offers onto legacy merchandising and promotion planning solutions and mobile experiences provided by responsive websites rather than sophisticated apps. Website providers and eCommerce solutions have long positioned themselves as digital marketing platforms but fall short as a fast growing number of shoppers want to digitally engage but not necessarily shop online and new capabilities extend digital experiences into the physical store.

Instead, retailers need to focus on putting in place a comprehensive digital marketing ecosystem. Such an environment should ideally encompass the entire marketing process from the creation and management of offers and promotions by vendors, a central AI powered

'brain' powering strategic campaigns and personalization across all channels, and deep integration into customer touchpoints providing realtime and seamless interaction.

Ideally, the platform can be opened to vendors, everyone from the big CPG manufacturers to regional brands to the local honey producer, to create digital content and promotions. Tied to a workflow approval process, retailers can bring into their digital ecosystem a vast array of promotions and content to be strategically directed to the right shopper.

It is only through this kind of ecosystem that retailers can provide the coordinated and cohesive user experience shoppers are getting from Amazon. Each product recommendation and promotion presented needs to be contextually relevant to the individual customer while aligned with the retailer's strategy for growing customer engagement and share-of-wallet.

Conclusion

The grocery industry is quickly moving online as a recent FMI-Nielsen study projects 20% of industry sales will be done online by 2025 with some category sales hitting 40% of sales online.² Amazon's entry into grocery retail through its acquisition of Whole Foods is doing nothing but accelerating this trend and bringing increased focus to the importance of digital marketing.

Leading retailers though realize there is an even bigger game afoot: The fusing together of the digital and physical shopping experiences that goes far beyond simply online shopping. Customers are demanding a seamless and cohesive experience across all devices and touchpoints and retailers are positioned to deliver new services and values to customers extending into the brick & mortar store.

Personalization and relevancy provide the foundation for world-class digital customer engagement and new cloud-based services are leveraging big data, artificial intelligence and machine learning to provide comprehensive digital marketing platforms. These new platforms help regional retailers transform their marketing and open the door to including the countless local and regional brands and vendors retailers work with, lessening dependence on the traditional big CPG brands while supporting shopper's growing interest in local.

Strategic personalization increasingly underpins the efforts of successful retailers as they move beyond the practices of Kroger and Safeway in providing savings on each customer's frequently purchased products. And as retailers grow digital customer engagement it creates the opportunity to expand into personalized pricing, something coming fast to supermarket retail.

Retailers providing the seamless digital experience that customers crave are in turn rewarded with increased customer spending, shopping frequency, and growing retention.

Kroger is focused on creating this seamless shopping experience, as McMullen, Kroger's CEO relates in a recent earnings call. "Households that engage in our seamless offerings – engaging digitally and with our physical stores – spend more per week than households that do not," he said. "The future looks even more promising. We'll continue to add even more services, expand our available product selection, and more effectively use our insights to create a personalized experience that every customer will love."

Digital customer engagement is the front line of today's retail battle and retailers must avail themselves of new platforms to take the lead as technology-fueled innovation powers industry transformation.

About the author:

Gary Hawkins is the founder and CEO of the Center for Advancing Retail & Technology and leverages his unique knowledge and view to new technologies to shape the future of FMCG retail. Building on a history of pioneering successive waves of customer-focused innovation, Hawkins is guiding industry focus on strategic customer engagement and the personalization of food as health data increasingly informs purchases. Hawkins has authored two internationally published books and his work has been widely acknowledged by domestic and international publications including Harvard Business Review, the Financial Times, Elsevier, and more. Hawkins is a regular guest lecturer at Georgetown University's McDonough School of Business in addition to keynoting retail conferences in the US and abroad.