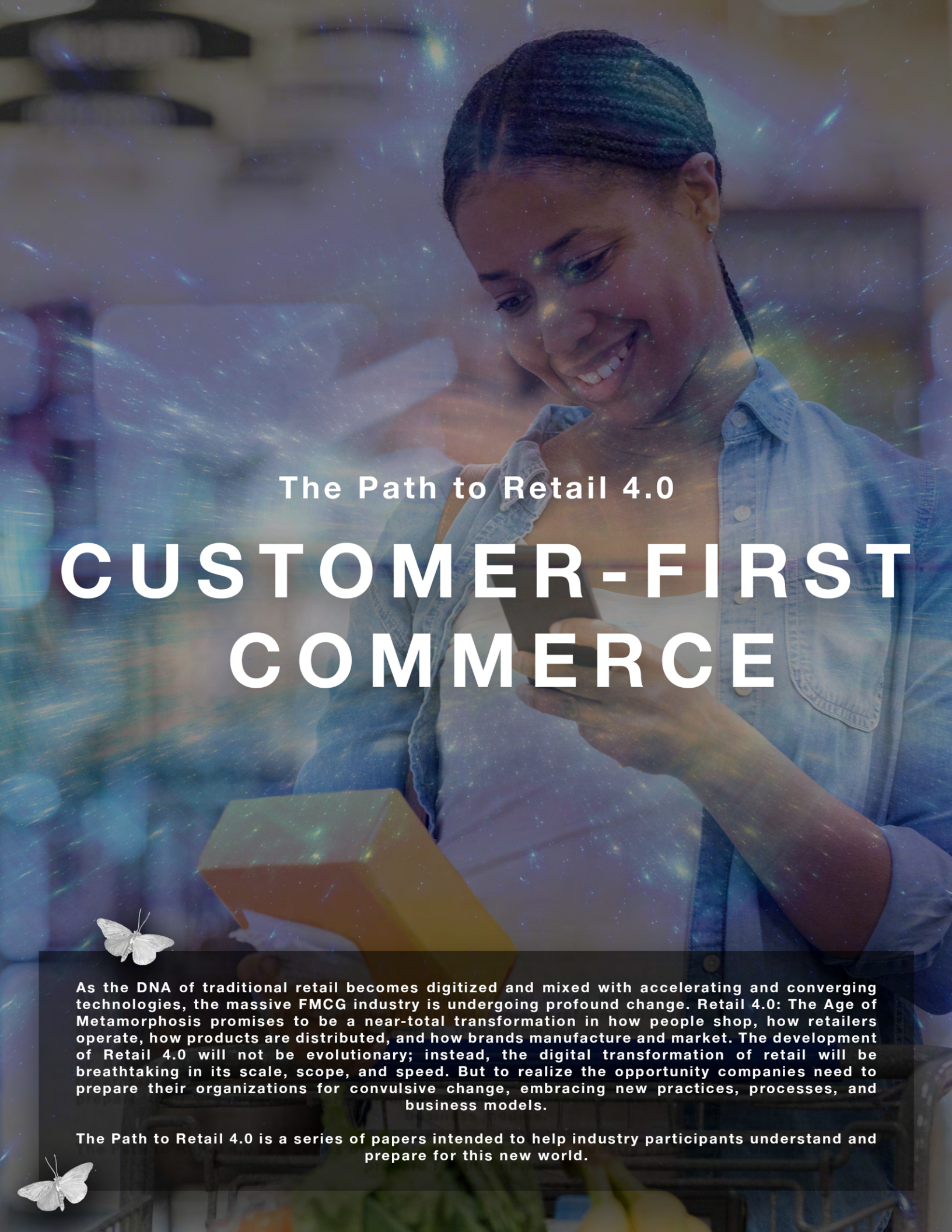

The Path to Retail 4.0

CUSTOMER-FIRST COMMERCE

As the DNA of traditional retail becomes digitized and mixed with accelerating and converging technologies, the massive FMCG industry is undergoing profound change. Retail 4.0: The Age of Metamorphosis promises to be a near-total transformation in how people shop, how retailers operate, how products are distributed, and how brands manufacture and market. The development of Retail 4.0 will not be evolutionary; instead, the digital transformation of retail will be breathtaking in its scale, scope, and speed. But to realize the opportunity companies need to prepare their organizations for convulsive change, embracing new practices, processes, and business models.

The Path to Retail 4.0 is a series of papers intended to help industry participants understand and prepare for this new world.

INTRODUCTION

The COVID-19 pandemic accelerated the growth of online grocery shopping dramatically, condensing years of growth into a matter of weeks. The crisis acted as a realtime stress test for supermarket retailers' online shopping platforms… and many were found lacking. Overloaded websites, out-of-stock substitutions, inefficient fulfillment, and lack of pick-up and delivery time slots were just some of the issues surfaced.

Of the myriad challenges, retailers seized on fulfillment and last mile efficiency as they sought to make a fast growing part of their business profitable. Makes sense. Grocery retailers have a long history of operational execution, necessary in such a thin margin business. Fulfillment and last mile efficiency is critically important as online sales are projected to grow to an estimated 25% of industry sales within the next few years.

But as any retailer knows, you can't save your way to success. And retailers also know that growing top line revenue solves a lot of sins.

Shopper expectations are changing fast, in good part driven by Amazon and other digital native companies. As discussed in **Retail 4.0: The Age of Metamorphosis**, new technologies and capabilities are creating new shopping experiences. Look no further than Amazon bringing Alexa, its voice-based assistant, into its fast growing Amazon Fresh store format. Or Amazon's Dash Cart, a smart cart integrated to the shopper's Amazon account for viewing their shopping list and payment. Walmart's new store design is closely tied to its mobile app to help shoppers navigate the physical store and aid in discovering new and sought after products.

"The COVID-19 pandemic not only accelerated the growth of online shopping; it also is accelerating the broader digitalization of the massive grocery industry, bringing with it new business models and changing how value is created."

Just as the utilitarian stores of decades ago have given way to experiential stores like Wegmans and HEB's Central Market, so too are utilitarian, first-generation, online shopping solutions giving way to a true customer driven digital experience. Digital natives like Amazon and Instacart are already well down the path, and big traditional grocers like Walmart and Ahold are investing heavily. Kroger's CEO Rodney McMullen is looking to double the company's digital sales to $20b by the end of 2023. "Digital is now a growth engine," Rodney McMullen, Kroger's CEO, said. "And we now have a clear path to digital profitability with retail media, economies of scale, and technology and process improvements that will lower our cost to serve." (Grocery Dive)

BATTLE FOR THE FUTURE
[Changing Value Creation]

The COVID-19 pandemic not only accelerated the growth of online shopping; it also is accelerating the broader digitalization of the massive grocery industry, bringing with it new business models and changing how value is created.

Upstarts like GoPuff, building a value proposition around 30 minute delivery in 650 cities using more than 250 micro fulfillment centers, are growing fast. GoPuff recently raised over $1b at a

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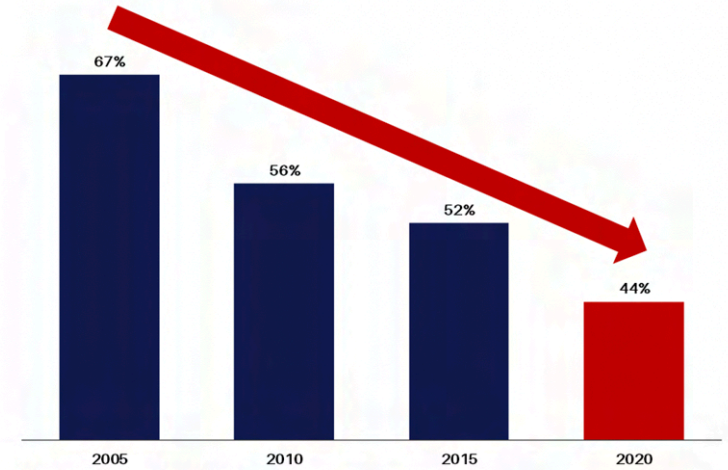
valuation of nearly $9b - more than doubling its valuation in six months - and is poised to take a bite out of traditional grocery retail.

Fridge No More is a cloud grocer, promising delivery within 15 minutes for shoppers within a one mile radius of its fulfillment center. The company using proceeds of its last funding round to expand beyond its base in Brooklyn. And Urbx is planning the first vertical automated fulfillment center and store, packing 50,000 SKUs of product above a pickup location.

Consider what assets new competitors like GoPuff and Fridge No More have. They don't have physical stores. They do have logistics expertise around last mile and instant delivery. And they also are digitally engaged with each and every one of their customers and that engagement becomes deeper and richer the more data those companies possess. Data that is used to become more relevant to each customer.



Source: FMI U.S. Grocery Shopper Trends, 2020

And not to be left out, Instacart closed its most recent fundraising at a valuation of $39b, more than Kroger and Albertsons combined. Yet Instacart has no physical stores. Yes, Instacart too has a gig-based workforce and last mile expertise; things that are replicable by others. What Instacart does have that is not easily duplicated is data - lots of it - and complete digital engagement with each of its millions of customers. This is what investors are betting on.

Confronted by a rapidly changing environment, even longtime retailers like Kroger are reimagining their business. In a recent press conference, Kroger called out that 75% of the U.S. population lives within 90 miles of a planned Ocado automated eCommerce distribution center compared to 45% of U.S. shoppers that live within two miles of a Kroger store. Not hard to see the company leveraging automated eCommerce distribution centers to expand into new markets without the necessity of making massive store investments. (Winsight Grocery Business).

Companies like these are reimagining the grocery shopping and fulfillment experience, literally thinking outside the (traditional store) box and represent disruptive change coming at the massive supermarket industry at an accelerating pace.

IT'S NOT (JUST) ABOUT ONLINE SHOPPING

Metcalfe's Law states that the value of a digital network is proportional to the square of the number of connected users of the system (n^2). It is this concept that helped drive the exponential value creation enjoyed by digital native companies like Google, Amazon, and Facebook. That same idea is in play at more recent digital upstarts.

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A FRACTURED EXPERIENCE

As the industry enters Retail 4.0: The Age of Metamorphosis, traditional retailers have an opportunity to participate in this same kind of digitally-driven value creation. Traditional retailers have the raw ingredients: Lots of data and massive customer audiences. But very few retailers are focused on leveraging their data into effective digital engagement with their customers. Too many retailers continue to to think digital means online shopping and fail to understand the ramifications of broader digital engagement. And a broader view of digital engagement is fundamental to understanding the blending of the digital and physical worlds of shopping that are part of Retail 4.0.

Retailers have no choice but to become masters of the digital domain. Supermarket operators have been steadily losing share to alternative formats like Walmart, Target, and Amazon; according to an FMI study, only 44% of shoppers chose traditional supermarkets as their primary store channel in 2020, down from 67% in 2005.

Fundamental to growing shopper digital engagement is user experience. But in many cases, online grocery shopping has developed separate and apart from the physical store experience, a continuation of retailers' halting, and many times unenthusiastic, move into the digital world. Until the pandemic, many retailers were almost begrudging of having to address eCommerce so it is no surprise that the digital user experience is often disjointed, a capability grafted on almost as an afterthought.

Good user experience is tough to describe using words; it's one of those things that 'you know it when you see it'. Conversely, its easy to know when you're <u>not</u> having a good digital user experience… like the following:

- At one major regional grocery retailer the only way to access a product catalog is to choose 'shop online', there is no store-level product catalog available to browse. Choosing to shop online, there are no product attribute filters to choose from, nothing to help guide the shopper to relevant products. The shopping list created is only for store pickup or delivery.
- Going to the website of another well-known regional retailer, a shopper can view the weekly ad and select any product to view details, including the nutritional panel found on the package. But clicking the 'shop online' button enables the shopper to browse products and apply different dietary filters to more easily find the sought-after products. Two distinctly different shopping experiences depending on what button is clicked.
- Yet another regional retailer has a mobile app from one provider, their primary website from another, online shopping provided by a third-party provider and email powered by yet another company. Digital schizophrenia.

Albertsons seems to understand that grocery retail has changed as evidenced by its recent partnership with Google to create a more compelling online shopping experience. The companies are working to reimagine how shoppers engage with the retailer, incorporating payment, personalization, and predictive shopping lists, and more as the retailer and tech giant work to overhaul how people shop for groceries.

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THE IMPORTANCE OF PRODUCT ATTRIBUTES

A key part of providing an intuitive user experience is helping the shopper quickly and easily find sought-after products and discover new relevant products. Accomplishing those things requires the use of extensive product attributes along with appropriate and accurate product images.

Data discipline has not always been a strength of grocers with their abbreviated product descriptions, bloated product files containing long-discontinued items, inaccurate product categorization, and far more. But data discipline is an absolute necessity in the digital age.

Companies like Label Insight, Syndigo, and SPINS are providing an ever-growing array of product attributes including expanded ingredients, sourcing info, allergens, and health related data. To their credit, a good number of retailers are availing themselves of these data attributes and using them to provide filters to the shopper, making it easier for the shopper to find relevant products. The problem is that big gaps remain. Fresh foods, private label products, store-made food, etc. are commonly missing, leading to a frustrating user experience.

CUSTOMER-FIRST COMMERCE

So how do retailers solve for all these challenges? ***By starting with the customer.***

Stop and consider how people shop today. A growing number of people - no longer just millennials - research products before purchasing, looking for expanded nutritional information, alignment with dietary, lifestyle, or specific health conditions, sourcing information, and more. And this product research is not just happening at home, its increasingly happening in the store aisle on the shopper's smartphone.

Online grocery shopping should no longer be thought of as an activity separate and distinct from shopping in the physical store. Rather, shoppers are increasingly browsing products from wherever they happen to be - including the store aisle - and adding chosen products to their shopping list. The shopper then deciding whether they want to shop for themselves or, instead, send the list to the retailer for fulfillment and store pickup or home delivery.

- An intuitive and consistent user experience across channels and devices including new digital vehicles coming into the physical store environment like smart carts, kiosks, digital screens, etc. Don't force your customer down a specific path, making them choose between shopping online and browsing your store-specific product assortments.
- Be contextually relevant by providing basic personalization (parsing mass content like the weekly ad to surface the most relevant sale items), strategic personalization (driven by growing lifetime value, margin, etc), and 'personalization at the edge' (realtime personalization within the current digital engagement designed to grow that transaction).
- Deep, realtime integration with the POS system or a third-party promotion management engine to ensure delivering the right promotions - especially personalized promotions - to the shopper both in the store and online.
- Realtime integration with loyalty, enabling the shopper to earn and redeem rewards online as well as in the store. This is especially important as loyalty benefits are being woven into membership programs providing perks to regular shoppers to encourage repeat eCommerce business.
- Work towards reflecting product availability by connecting store-level (or fulfillment center) realtime SKU level inventory with the online experience. Informing the shopper of product availability while ordering can help eliminate a source of customer dissatisfaction and improve fulfillment efficiency.
- And don't forget to include how the shopper actually gets their products within the entirety of the customer user experience; this would include store pickup, lockers, delivery, and even bringing the store to the shopper. A growing number of retailers are using location services to know when shopper is pulling into the parking lot, making pickup faster and more efficient for both the retailer and shopper

CHOOSING THE RIGHT PARTNERS

Some retailers, understanding the scope of required capabilities, look to multiple partners to solve for their eCommerce and broader digital needs. While this is one approach to securing best-in-class capabilities it brings with it the need for integrations and managing multiple vendor partners. Managing this growing complexity requires resources, something often in short supply.

The inevitable shift to online grocery shopping has attracted many solution providers… too many. The market is beginning to consolidate and expectation is that only a few companies will be left standing. Consider the financial resources an eCommerce provider has and if they will be an acquirer or be acquired.

NCR's acquisition of Freshop is an early sign of provider consolidation; it also is an example of POS providers looking to provide online shopping capabilities to retailers, further locking retailers into the POS company's ecosystem. Be careful: POS systems are transactional in nature as opposed to the rich user experience needed to foster broader customer digital engagement. And the POS industry itself is poised for disruption as self-shopping apps and carts, along with Amazon Go-like computer vision systems obviate the need for all those checkouts.

Perhaps most importantly, look for eCommerce providers that understand shopping in the world of Retail 4.0. Remember how value is being created now, not with physical stores, but with digital networks (engaged shoppers) and customer intelligence. These are the two primary pillars retailers should be focused on.

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One solution provider that gets it is stor.ai, an Israeli company that has recently raised over $20m on the strength of its platform and extensive partnerships. What sets stor.ai apart is the company's grounding in a Customer-First commerce mindset, realizing that ordering online is only one part of much broader digital engagement.

That mindset is brought to life through an extensive and comprehensive end-to-end platform, including seamless and rich user experience supporting all customer touchpoints, best-in-class order fulfillment, and extensive partnerships. For example, stor.ai has interfaced with micro fulfillment center solutions, smart carts (able to bring the same user experience into the cart's screen as the app and website), third-party fulfillment workforce, autonomous delivery robots, and more. And, understanding the importance of marketing funds to the retailer, stor.ai provides retailers and wholesalers industry-leading digital merchandising vehicles to bring trade and shopper marketing initiatives into the new world.

THE PATH TO CUSTOMER-FIRST COMMERCE IN RETAIL 4.0

[Things to Consider]

In the world of Retail 4.0, Customer-First Commerce platforms are the foundation for retailers' digital engagement, helping shoppers discover, learn about, and procure groceries and related products. Some things to look for in evaluating potential solution partners:

- **Look for a mindset or philosophy** that solution provider understands the new world of shopping in Retail 4.0 in which the in-store and online experience blend together.

- **Find a well-financed partner.** The grocery eCommerce space is beginning to consolidate and smaller, under-financed solution providers will increasingly be acquired or disappear.

- **Choose a partner who will play well with others.** Retailers have complex and myriad systems that need integrating and having the right tech partners can facilitate that.

- **Look for comprehensive platforms and extensive partnerships.** Customer-First Commerce requires orchestrating multiple capabilities - especially around in-store and last mile - to satisfy the customer.

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5 years. 60 months. 260 weeks. 1,825 days.

That's how long this retail industry metamorphosis is going to take. The digital transformation of retail has already started. And as Davenport so clearly calls out, time is of the essence.

The clock has started.

Retail 4.0 is the radical reinvention of retail, driven by the digitalization of nearly everything across the organization and across the supply chain. The automation of physical work and business processes over the next several years will drive dramatic change. The development of digital networks encompassing digitally engaged customers opens the door — for the first time — to exponential value creation for traditional retailers.

Retailers have no time to lose. The time is now to re-envision the future. Begin the process of assessing where you are today and understanding where you are going. Put in place a process to understand, discover, and deploy new innovation. And embrace the possibility of an exciting future.

There's no time to waste.

Gary Hawkins has lived his career ahead of the curve, putting him in the right place at the right time to help guide the fast moving consumer goods retail industry into the future in a time of exponential technology growth using never-before-available capabilities to innovate the future of shopping. Hawkins is the Founder and CEO of CART **(Center for Advancing Retail & Technology).**

Drawing on his work advising leading companies around the world, 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. Hawkins is the author of three books including the latest, Retail in the Age of 'i', that explores the future of retail propelled by the exponential growth of technology. **Retail Mindsteps** (retailmindsteps.com) serves as Hawkins' personal blog and repository of the myriad articles and papers written for industry publications where he distills the complexity of tech-fueled retail innovation into digestible and actionable insights.

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