



## Why Now Is the Time for Grocers and CPGs to Collect on 'Click and Collect'

For decades, food retailers and brands have lagged those in other categories when it comes to online commerce. Whereas online penetration of books and magazines in the U.S. is now over 50%, nearly 40% in consumer electronics, and above 20% in apparel and home furnishings, online penetration in the food and beverage market is estimated to be less than 3%.<sup>1</sup> (See Figure 1.)

Meanwhile, click and collect, in which consumers buy online and then pick up their purchases at the store, is surging in popularity. In 2016, it accounted for just 18% of online grocery sales; in a more recent estimate, that figure had soared to 48%.<sup>2</sup> As more food retailers and brands put click and collect in place, U.S. online grocery penetration is expected to comprise approximately 15% to 20% of all grocery purchases by 2025, or some \$200 billion.

A confluence of factors is creating a perfect opportunity for food retailers and tech-savvy consumer packaged goods companies (CPGs) to catch up to other retail categories by focusing on click and collect. Retailers have invested heavily in making online grocery delivery/pickup service locations available to some 90% of online consumers across the country, and ecommerce CPG companies have enhanced the online shopping experience by implementing tools such as augmented reality. Meanwhile, the

strong online penetration across other categories has changed consumer expectations; rather than viewing online shopping as a novelty, most consumers now expect to be able to buy the things they want online.

### Click and collect seeing rapid consumer uptake

Consumer use of click and collect for grocery shopping has grown rapidly in the past few years, surging from just 4% of adults ages 18 and older in 2016 to 15% in 2018.<sup>3</sup> (See Figure 2.) Among consumers who have not yet tried it, the top reason they're willing to consider it is to save on shipping costs. Consumers also cite the convenience of narrower time frames for pickup vs. less-controllable delivery windows. To that end, 77% of consumers want to be able to pick up their groceries in a convenient location, either at the front of the store or at curbside (curbside pickup's appeal has been growing the most rapidly).

Indeed, offering consumers a seamless click-and-collect experience has gone from being a differentiator to a requirement — one that yields tremendous strategic benefits. That's especially true for large national chains like Walmart, which now offers click and collect in 1,800 stores, as well as Target and Kroger, each of which recently made it available in more than 1,000 stores. While both food retailers and certain in-store CPGs may lose out on potential impulse sales by implementing click and collect, allowing their customers to control the delivery channel will build overall customer loyalty. It will help shield food retailers in particular from losing share to Amazon and to other grocers that offer click and collect.

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Revenue generated in the store benefits from the economies of scale that in-store shopping and consumer self-service provide, and it also generates the most profitability. The profitability of click-and-collect revenue is lower than that of in-store shopping, because while consumers still bear the transport costs to and from the store, picking and packing orders generates incremental labor overhead for the retailer. Nevertheless, click and collect is still more profitable than last-mile delivery, which narrows already thin margins by putting the responsibility of picking, packing and delivering on the retailer.

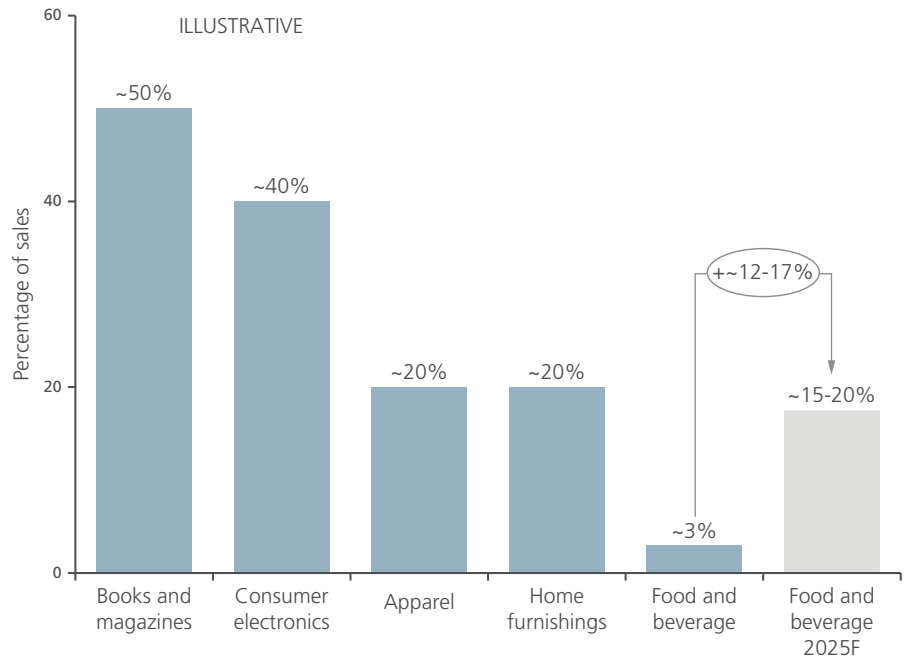
Partnering with third-party last-mile delivery service providers also eats into grocers' margins. For example, Instacart will either mark up the advertised prices to cover its labor and delivery costs or match the advertised prices but expect the retailer to help cover the cost of delivery. A better model would be if the retailer and service provider shared delivery costs, either through higher prices, delivery fees, lower margins or some combination of the three. In the meantime, to boost click-and-collect revenue per consumer, retailers and CPGs need to focus on consumers' overall behavior in relation to the store or brand as opposed to their individual transactions.

## How retailers can make the leap

Implementing click-and-collect capabilities can be a jarring transition for grocery retailers and CPGs alike. One-third of food retailers are currently not equipped to support click and collect, and 36% don't have a website that supports online commerce at all.<sup>4</sup> To make the leap, coordination across multiple avenues is required, from getting their customers to buy online to putting the ordering process in place to choosing — and making — the necessary operational investments. Key steps include:

- Investing upfront in promotions and deals that draw consumers into their first purchase, a standard market entry strategy for any ecommerce venture. FoodKick, which offers same-day grocery delivery service, gives customers \$25 off their first order totaling \$50 or more, for example.
- Adding availability information to the ordering process, along with options such as subscription, bulk ordering, etc. Amazon pioneered subscription-based grocery purchases with its Subscribe & Save feature, while Target makes clear on its purchasing pages how many units of the item a customer is seeking to buy are left in stock.

Figure 1  
Online commerce penetration by category (2018)



Source: Nielsen; U.S. Census; The Atlantic; Bell & Howell; L.E.K. research & analysis

- Putting in place a system around scheduling orders, pickups and related alerts that ensures pickup during a narrow window of time, as space and cold storage will be limited.
- Ensuring seamless coordination across web, app and mobile channels.
- Setting up the right distribution operations — curbside pickup, individual lockers in urban areas, etc.
- Allocating resources for picking, packing and completing orders, whether by using an existing internal workforce or an external one, or by investing in automation. Kroger, which aims to push click and collect to all of its 60 million customers, entered into a joint venture with British online supermarket Ocado Group to build automated, robot-run customer fulfillment centers. As a result, digital sales are increasing at a rate of 60% year over year.

Both food retailers and brands should look at the click-and-collect/technological innovation steps taken by some of the leading names in their categories to see what initiatives they could adapt to their own click-and-collect strategies. For example:

- Meal delivery service provider Sun Basket has changed its packaging to meet the eco-conscious demands of meal kit consumers, adding in recyclable gel packs to keep kits cool.

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- Coca-Cola established a program called The Bridge to engage with startups as a way to quickly adopt new technology. While the technologies were not specified, they could include augmented reality, on-demand delivery support, social sharing tools, etc.
- Hershey created Medley, an experimental grocery store where the company is testing concepts such as personalization, meal exploration and virtual reality.

## Retailer-specific steps to take

To find success with click and collect and at the same time increase customer loyalty, retailers need to take a number of specific steps, both online and in the stores themselves. Online, they need to:

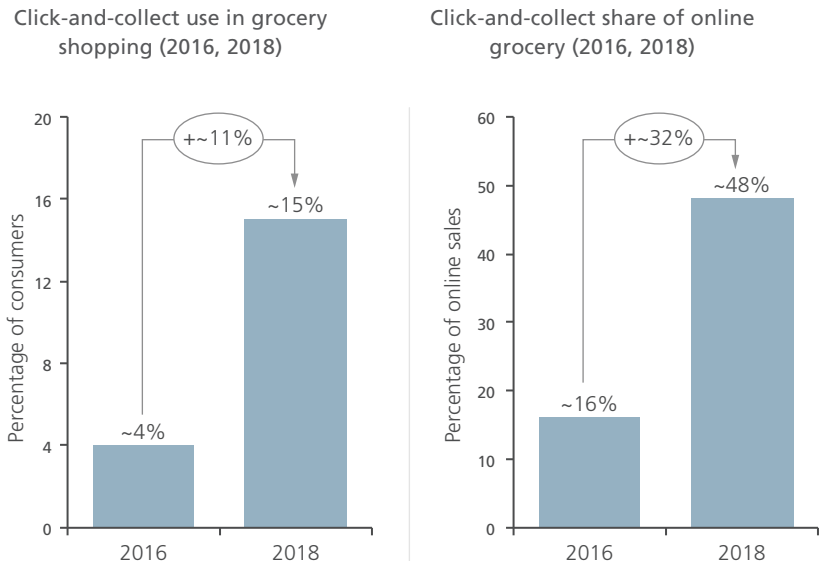
- Optimize search capabilities on their websites, which will both help consumers find the items they want and increase incremental sales overall.
- Invest in rich media so as to best showcase the products they're offering; a single 140KB JPG of oatmeal, for example, will do little to entice anyone but the most die-hard enthusiasts of that particular brand.
- Increase the number of consumer decision points for impulse buying by featuring prompts such as "customers also bought these items," "buy one, get one free," etc.
- Prompt additional buying by showing consumers their previous purchases, discounting larger baskets and offering bundling options.

For their stores, retailers need to invest in robust cold retention capabilities. Freezer-grade products are typically insulated to survive only the trip from the distribution trailer to the in-store freezer, before being placed into a store basket for purchase and taken home. To keep those items frozen when they're placed curbside for pickup, retailers will have to pack them separately, and possibly invest in front-of-store cold storage. And to encourage consumers to make additional purchases, they should position enticing grab-and-go options near in-store pickup locations.

## CPG-specific steps to take

CPG companies, especially those that focus on consumer impulse behavior, must work with the retailers to encourage click and collect. It all starts with displaying their products on digital shelves, a distinctly different environment than the physical shelves found in stores. Much like the endless aisle in brick-and-mortar stores,

Figure 2



Source: Nielsen; U.S. Census; The Atlantic; Bell & Howell; L.E.K. research & analysis

the goal online is to offer consumers an "endless shelf." At the same time, brands and retailers want to be collecting and sharing with one another all related purchase behavior so they can use it to make personalized product suggestions to customers, maximizing the effectiveness of such sales.

The media and related content that brands share with retailers can have a significant impact on the consumer's online experience. Done right, they will drive sales. When it comes to still images, best practices include:

- Using large images, which enable the consumer to see all sides of the packaging, highlighting the product's key benefits.
- Ensuring that all product information, including nutrition labels and ingredients, is clearly displayed.
- Having video showing the product in context.
- Providing a Q&A section that answers frequently asked questions.
- Offering up additional suggested recipes and product pairings (e.g., hot dogs and buns) to help increase the basket size, highlighting other products in the brand family.

But brands first need to get their products noticed. Search engine optimization — honing all content, links and referrals to make a page the most relevant search result — is critical. Brands should also explore whether they can pay to play the way they currently do in other ecommerce environments. Securing

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preferential placement on a retailer's site or having a product be the first auto-populated suggestion when a consumer searches for a particular category on Google can go a long way in driving sales. Such techniques can be especially impactful for brands that depend on impulse buying. But whether the environment is Google search or a product page, the same principle applies — the richer the media and more relevant the content, the more priority a listing is given (leading to more traffic and even more priority, etc.).

Companies also need to consider how packaging impacts their brand in a click-and-collect environment. They should ensure that the most appropriate plastic grades are being used, especially for perishables, and that their key brand and product messages are being effectively communicated. Packaging needs to both be optimized for digital viewing and translate smoothly into the physical environment, where the consumer will interact with it.

At its best, packaging is a marketing tool that helps increase the number of trials and repeat purchases that customers make, all while increasing their loyalty to the brand.

Consumers increasingly expect to be able to shop online. So, while food retailers and CPG companies have been slow to embrace online commerce, a number of notable names have begun enabling consumers to buy groceries online and pick them up at the store. For those that have yet to embrace click and collect, the time is now.

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<sup>1</sup><https://www.emarketer.com/forecasts/584b26021403070290f93a2d/5851918a0626310a2c186abd> (paywalled)

<sup>2</sup><https://www.nielsen.com/us/en/insights/news/2018/omnichannel-fast-facts-on-the-in-store-and-e-commerce-landscapes.html>

<sup>3</sup><https://retail.emarketer.com/article/kroger-drives-sales-with-curb-side-pickup/5b31381feb40003b8491a21>

<sup>4</sup><https://www.nielsen.com/us/en/insights/news/2018/curb-appeal-are-you-ready-for-click-collect.html>

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## About the Authors



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