

The grocery digital divide

How consumer products companies
can deliver on the new digital imperative

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Executive summary

2016 marked the year that digital arrived in grocery, with 51 percent of grocery sales influenced by digital somewhere along the path to purchase.¹ This represents an almost doubling in influence year over year and puts grocery on par with digital stalwart categories like electronics and home.²

Many of today's consumers enjoy grocery shopping and are using their smartphones, tablets, and other connected devices to make their shopping experience convenient and integrated with their daily lives. In fact, digital now permeates the entire path to purchase. Eighty percent of shoppers have used a digital device to browse or research grocery products, and mobile usage among grocery shoppers is up nearly 10 percent from last year.³

Digital is expected to play an even bigger role in delivering on that experience, but many consumer products (CP) companies and their retailer partners have yet to take full advantage of the opportunity, potentially leaving money on the table. To deliver on the new digital imperative, drive brand engagement, and win in today's digital, omnichannel marketplace, CP companies will likely need to build next-generation capabilities that drive the convergence of digital/physical marketing, the consumer/shopper, and online/offline purchases. And with only 33 percent of grocery shoppers indicating that digital makes grocery shopping easier (vs. 42 percent across other retail categories), there is likely still significant upside for those companies who can build the right experience.⁴



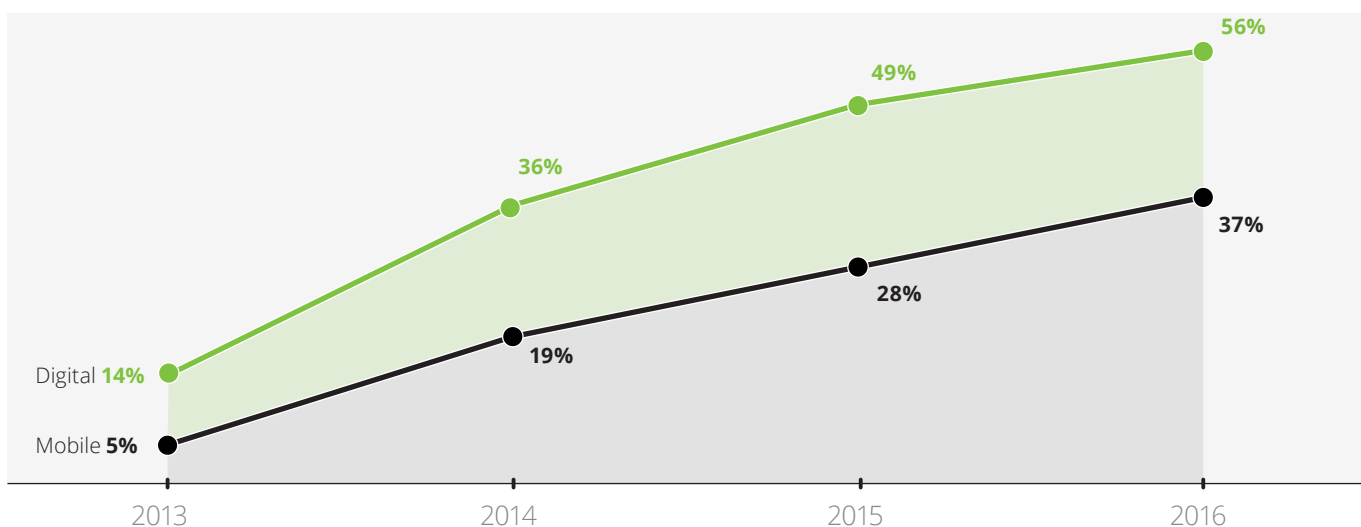
The growing influence of digital

Digital technologies' influence on the in-store shopping experience has **increased by a dramatic 300 percent since 2013—from 14 percent to 56 percent** of all transactions. Mobile's influence has also grown during this timeframe, from 5 percent to 37 percent (figure 1).⁵

Digital's influence on retail sales can extend across all major product categories. And although grocery historically has lagged electronics, home, apparel, and health, 2016 was a tipping point for grocery.⁶

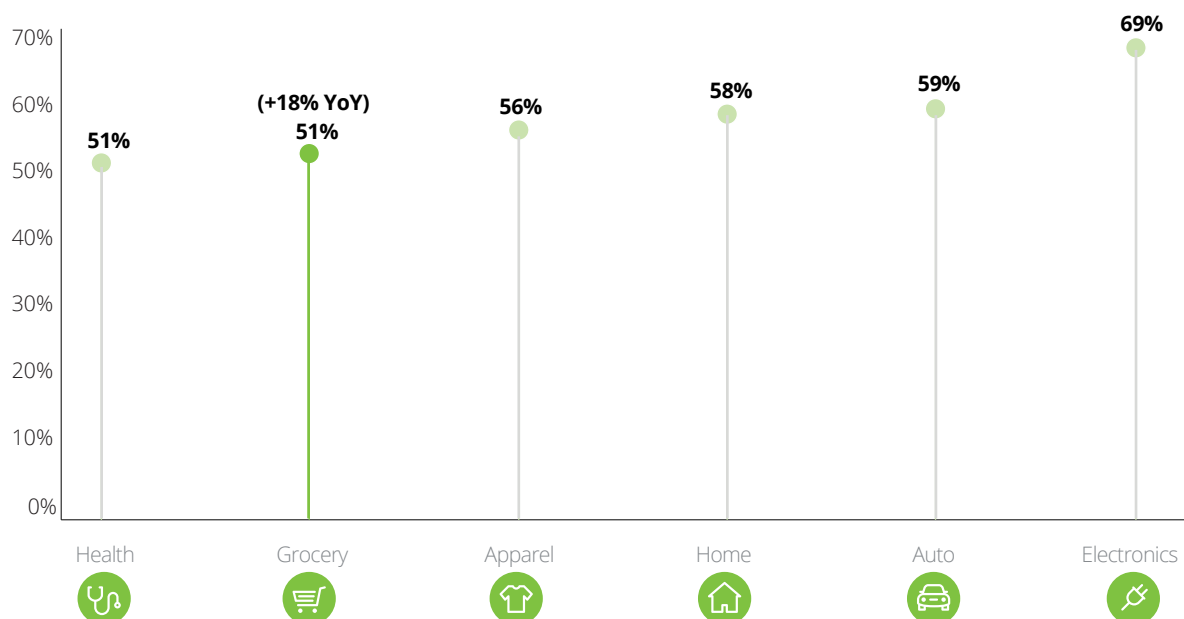
According to Deloitte's 2016 grocery digital divide survey, **digital technologies' influence on in-store grocery sales grew from 33 percent to 51 percent during the year**, bringing grocery in line with other categories (figure 2).⁷

Figure 1: Percent of in-store retail sales that are digitally influenced



Source: Lobaugh, Simpson, and Ohri, *The new digital divide: The future of digital influence in retail*, DU Press, 2016.

Figure 2: Digital influence by category in 2016



Sources: Lobaugh, Simpson, and Ohri, *The new digital divide: The future of digital influence in retail*, DU Press, 2016; Deloitte grocery digital divide survey, Deloitte Consulting LLP, November 2016.

Digital is likely also driving consumers to spend more. Nearly 22 percent of digitally influenced consumers in 2014 said that digital drove them to spend more across all categories.⁸ By 2015, about 33 percent of digitally influenced consumers cited spending more.⁹ Digital's continued rise in influence can present substantial opportunities for grocery retailers—and the CP companies that stock their shelves—to further increase consumer spend if they can quickly adapt their business models and build capabilities to deliver on the new digital imperative.



Grocery digital divide and grocery experience survey methodologies

These surveys were commissioned by Deloitte and conducted online by an independent research company from November 3rd through November 18th, 2016. The surveys polled national samples of 2,011 and 2,027 random consumers, respectively. Data was collected and weighted to be representative of the US Census for gender, age, income, and ethnicity.

A 95 percent confidence level was used to test for significance. Below are the margins of error for the specific sample sets in these studies:

- Grocery digital divide sample: 95 percent confidence, margin of error 2.2 percent (+/-)
- Grocery experience sample: 95 percent confidence, margin of error 2.2 percent (+/-)

Additionally, subsets of randomly assigned respondents were asked to provide information about product subcategories (such as frozen dinners, breakfast foods, alcoholic beverages, etc.). Sample sizes for subcategories were approximately 150 for the grocery digital divide survey (95 percent confidence, margin of error 8.0 percent [+/-]) and approximately 200 for the grocery experience survey (96 percent confidence, margin of error 7.0 percent [+/-]).

Digital influence projection

The digital influence factor was calculated using a proprietary methodology to arrive at the percentage of digitally influenced conversions. Traffic for each store type was modeled statistically, then segmented into trips where digital devices were used either before the trip, during the trip, or both before and during the trip. Segment-specific conversion rates were applied to arrive at digitally influenced conversions.

What grocery consumers want: A convenient, curated, and integrated experience

Digital frequently permeates the grocery path to purchase—
influencing awareness, selection, purchase, and loyalty. Our survey
shows that the retailer is at the core of many consumer engagement

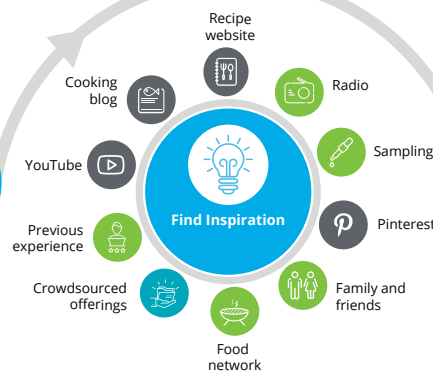
touchpoints: Consumers are most likely to engage with
brands through retailer-related touchpoints, both online
and offline.

Figure 3. Digital permeates the entire path to purchase

Find inspiration.

Seventy-seven percent
of consumers surveyed
use digital touchpoints
to drive awareness.¹⁰

77%



Browse and research.

Eighty percent of
shoppers surveyed have
used a digital device
to browse or research
grocery products.¹¹

80%



Select and validate.

Nineteen percent
of the time the
use of digital
increases grocery
spending.¹²

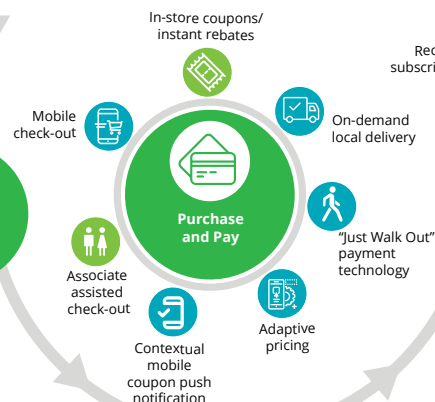
19%



Purchase and pay.

Consumers surveyed who
embrace digital before or
during a shopping experience
end up converting nine percent
more frequently than those
who do not use digital leading
up to the purchase decision.¹³

9%



29%

Reconsider. Twenty-nine percent of grocery consumers surveyed try products based on online recommendations or reviews.¹⁴

Sources: Deloitte grocery digital divide survey, Deloitte Consulting LLP, November 2016; Deloitte digital divide survey, Deloitte Consulting LLP, April 2016.

Digital touchpoints

The top digital touchpoints used by consumers are grocery retailer websites and apps. And even digitally influenced consumers use store circulars/weeklies most often for product and brand research (59 percent), followed by the grocery retailer website (52 percent), and retailer app (41 percent). In contrast, only 27 percent use a CP company's app. Forty percent of consumers prefer to use retailer apps or websites vs. 20 percent who prefer traditional media.¹⁵

41%

use retailer app

VS.

27%

a CP company's app

When it comes to the grocery shopping experience, over one-third of consumers in our survey cite that they “love to shop for groceries,” further highlighting the importance of the retailer in the CP brand consumer journey and the opportunity for CP brands to innovate—enabled by digital and new technologies—to deliver compelling grocery experiences.

- While surveyed consumers continue to report that value is a key purchase driver, “ingredients” now rate as high in importance as a brand purchase driver. This likely reflects the increased consumer focus on health/wellness and on preparing meals at home (cited by 45 percent of consumers as something they enjoy).¹⁶
- Brand selection is often made in store. While 90 percent of surveyed consumers said they consider a set of brands prior to arriving at the point of sale (POS), more than 50 percent make the brand purchase decision at the POS.¹⁷
- Mobile is also driving the convergence of consumer and shopper behavior and expectations, with 34 percent of respondents saying they use a smartphone to help choose a brand during a shopping trip.¹⁸

However, there still appears to be a digital divide between what consumers desire and the current grocery shopping experience. According to our survey, only 33 percent of shoppers believe that digital makes grocery shopping easier (vs. 42 percent across other retail categories), suggesting a significant upside for those companies who can improve the experience.¹⁹

Retailer partnerships can be imperative for CP companies to succeed in today's digital world. Digital and e-commerce can provide new opportunities and new ways of working with retailers to drive brand engagement and accelerate organic growth.

Many leading CP companies are working with retail partners to differentiate brands and create a competitive advantage by providing consumers convenient, curated, and integrated grocery shopping experiences.



Convenient

Easy | On-demand |
Straightforward



Fast

Predictive planning | On-demand
delivery | E/DTC channels



Curated

Personalized |
Relevant | Tailored



Granular

Personalized, in-context messaging
and promotions | Localized
curation | Dynamic pricing



Integrated

Universal | Intuitive |
Transparent



Connected

Integrated digital and physical |
Connected brand and retailer
experiences

Bridging the digital divide: Case studies

The following companies are trying to find collaborative and innovative ways to bridge the digital divide and engage customers in store, online, and via social channels.



7-Eleven and Mondelez

partner for in-store and online joint campaign

Strategic objective: Integrate online campaign with in-store, limited-time product

Value created: Heightened awareness and increased sales of limited-time product

Sour Patch Kids by Mondelez and Slurpees, a 7-Eleven staple, have long been recognized as two popular sweet-tooth treats. Mondelez and 7-Eleven capitalized on the popularity of the two brands by unveiling a new Slurpee flavor—Sour Patch Watermelon—and supporting it with an integrated program. The joint campaign started with 7-Eleven offering a free Slurpee drink to users of the 7-Eleven app and was augmented by Sour Patch Slurpees social media campaigns throughout the summer. For example, Sour Patch Kids and 7-Eleven appeared in Summer Forever, a digital film starring social network personalities.²⁰ Sour Patch Watermelon went on to become the first featured Slurpee flavor to become a 7-Eleven top seller, leading to the launch of a second exclusive Sour Patch Kids Slurpee drink the following summer.²¹



Quaker

built a voice-controlled Alexa app to offer consumers recipe advice

Strategic objective: Capitalize on early adoption of voice-activated online shopping while strengthening its position with Amazon

Value created: Increased brand awareness and consumer satisfaction

In March of 2016, Quaker Oats debuted a new Amazon Alexa app at the South by Southwest festival in Austin, Texas. This app was designed to help consumers find recipes for overnight oats through the voice-activated Alexa assistant. The idea surfaced through Quaker's monitoring of social media activity, which found a significant presence of the word "overnight" paired with "oats" and noticed that food bloggers were frequently sharing pictures of different preparations of overnight oats.²² By being on the forefront of the voice-activated assistant movement, Quaker has helped position itself as an innovator while also setting itself up to capitalize on consumers looking to shop through Alexa on Amazon's platform. Additionally, through Alexa, Quaker can increase its presence in the home and may remain top of mind as consumers shop for their everyday groceries through more traditional channels.



Harry's Inc.

removes the sting of shopping for razor blades in partnership with Target

Strategic objective: Integrated experience that expands consumer base and drives traffic online and in store




Value created: Manufacturer and retailer partnership creating opportunities for both parties and their customers

Within two years of launching, Harry's Inc. acquired more than one million customers and secured 60-plus percent retention among consumers subscribed to its regular shipping program.²³ The company built its success by selling high-quality shaving products directly to consumers using an online-only platform. In August 2016 however, a unique retail opportunity arose when Target agreed to partner with Harry's in its stated mission to offer a superior shaving experience at a reasonable price.²⁴ Target now carries a selection of Harry's most popular products across four feet of shelf space. Additionally, Target's REDcard members receive five percent off Harry's subscriptions.²⁵ The partnership expands Harry's reach to an extensive in-store audience while providing Target guests with yet another high-quality product that aligns with Target's goal to "Expect More. Pay Less."²⁶

Food for thought: How to deliver on the new digital imperative

Delivering on the digital imperative likely requires a two-fold transformation.

First, CP companies can benefit from transforming how they operate day-to-day—becoming faster, more granular, and more connected within a digital-first world.

	What does it mean?	Why it matters in a digital-first world.
Faster	 <p>More quickly sense and respond to consumer shifts when they happen along the path to purchase to capture incremental brand impression and sales opportunities</p>	Timelines are compressed in a digital-first world—winning and losing will be determined by those that can act the most quickly and nimbly to meet consumer needs and changes in those needs
Granular	 <p>More accurately target and engage each consumer based on his or her personal preferences and buying habits</p>	Consumer expectations have never been higher—it is now normal for a consumer to expect personalized products and experiences when and where they want
Connected	 <p>Interact with consumers across digital and physical channels in a consistent manner through seamless integration across sales and marketing with retailers and agency partners</p>	Consumer engagement is now and forever a two-way street—consumers expect to be heard and catered to along their path to purchase

Second, CP companies can also benefit from integrating and coordinating across their functional silos to align with a converged world where consumers can shop at any given moment. In this scenario, shoppers can seamlessly move from the digital to the physical worlds and retailers can invest in omnichannel strategies to win with the shopper across each step in the path to purchase. To quickly transform the organization, there are a number of steps CP companies can take today:

1. Inventory digital initiatives across your organization to determine interdependencies and business priorities.
2. Review retail partner strategies to help ensure your alignment with their omnichannel growth plans.
3. Accelerate sales and marketing planning and budgeting collaboration to develop an integrated go-to-market approach across the path to purchase.
4. Take a closer look at advertising spend to integrate new advertising platforms and help maximize effectiveness from awareness to purchase.
5. Review product formats and packaging to help optimize for both digital and in-store (e.g., packaging looks great in picture).
6. Refine pricing, promotional, and trade investment strategy to manage cross-channel conflicts and help maximize value capture in a world of dynamic pricing and real-time promotions.
7. Evaluate your supply chain to understand what physical, process, and IT changes may be needed to succeed at omnichannel fulfillment.
8. Work with the IT organization to build a data and analytics strategy that can allow your sales and marketing teams to make decisions at the speed of digital.
9. Engage HR to help prepare the organization to thrive in the digital economy by understanding and bridging cultural and capability gaps.
10. Seek out new partnerships to help bring capabilities to more rapidly innovate in commerce, engagement, and offerings.

As the digital influence on grocery continues to rise and the divide closes, the CP companies that can quickly transform their operations and come up with innovative ways to improve and integrate the consumer brand experience online and offline will likely find themselves winning both market and mind share. Those CP companies who are slower to react to this changing landscape may go home hungry.

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