

ONLINE GROCERY: YOU HAVE A DECISION TO MAKE



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Go to any grocery retail trade show or conference and eCommerce is well-represented in workshop topics, solution provider exhibits, and publication articles.

But that focus on eCommerce is perplexing. An informal survey of small to mid-size and larger regional chain grocery retailers finds that online sales are flat, if not down. Executives go on to call out that they continue to lose money - or at best, breakeven - on online sales. And more than one regional grocer is even more blunt, telling me that online sales are simply an inconsequential part of their overall sales and not worthy of any significant investment or resource allocation.

That lackluster view of eCommerce is backed up by the numbers.

A January 18, 2024 article from [Digital Commerce 360](#) calls out that grocery eCommerce sales are on a downward trend. The data shows that U.S. online grocery sales decreased from 2021 to 2022, then again from 2022 to 2023. Online grocery sales had dropped to \$97.0 billion in 2022 from \$97.6 billion in 2021." And dropped further to \$95.8 billion in 2023.

But here's the kicker: While the overall grocery eCommerce market is down, or at best flat, the largest retailers like Walmart, Costco, and Kroger, are dramatically growing their online sales. Which means that many of the independent and regional chain grocers have a problem. And the problem is worse than many realize.

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The Problem

In the first quarter of 2024, supermarkets' share of grocery eCommerce fell to 28.2%, while Walmart's grew to 37.4% (source: [Brick Meets Click](#))

According to [Digital Commerce 360](#), "Ecommerce was a high-growth area for Walmart again in the fourth quarter (of 2023). That made for a year of strong U.S. online sales, which increased 27% year over year in Q1, 24% in Q2, and 24% in Q3. Walmart U.S. online sales grew 17% in Q4, and global ecommerce sales grew 23%.

"Ecommerce sales were led by continued strong growth in store-fulfilled pickup and delivery in Q4. Over the last two years, store-fulfilled delivery sales have nearly tripled, and we're now doing over \$1 billion a month, which gives you an indication of why we're so excited about the progress here," Rainey (Walmart CFO) said." (Source: [Digital Commerce 360](#))

That online performance is made even more powerful when you consider that Walmart captured 21.2% of total U.S. CPG spending in 2023 (source: [Numerator](#)).

Walmart's eCommerce business is growing significantly; double-digit increases every quarter..

So is Walmart an anomaly?

Costco recently reported Q3 comparable sales up 6.6%... and eCommerce sales soared 21% (source: [Chain Store Age](#)).

And then there is Kroger. According to [Digital Commerce 360](#), "In fiscal 2023, Kroger digital sales grew 12% to reach \$12 billion. In its fiscal Q4, Kroger digital sales grew more than 10%. "Digital is an important growth accelerator in our business," McMullen said. "And in 2024, we expect to deliver another year of double-digit sales growth."

Based on total Kroger sales of \$150 billion in fiscal 2023, and digital sales of \$12 billion, online sales represent 8% of Kroger's total sales. While not as strong as Walmart's, Kroger online sales seem to outpace many other traditional grocery retailers.

So why is eCommerce Growth Important? Let Me Count the Ways

So why is growing eCommerce important?

Retaining and growing customers and share of wallet: So where is that online sales growth coming from at Walmart and Kroger? Chances are, if you are a regional retailer, it's coming out of your wallet. Many smaller and even regional retailers are losing sales to the behemoths as they focus on growing their online business. And the scary part is many retailers do not realize what's happening. Even retailers having shopper data (loyalty) many times fail to analyze same-shopper behavior over time to understand where they are bleeding sales.

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"Costco eCommerce sales soared 21% in recent quarter."

- Chain Store Age

And the problem is actually even worse. Several studies have documented that omnichannel shoppers (online and in-store) are a retailer's most profitable shoppers. So not only are retailers losing sales, they're also losing gross margin.

Just look at Walmart. For decades, high income households avoided shopping in Walmart stores, but that's changing as those shoppers can now shop online. John Rainey, Walmart's CFO, said "while its clear that shoppers are trading down for lower prices amid the current economy, Rainey has long argued that the reason they are gaining share among higher-income shoppers is because of Walmart's focus on "convenience."

Chances are, if you are a regional retailer, online sales growth at the largest retailers is coming out of your wallet.

Growing first party data: The power of personalization to grow basket sizes, trip frequency, and retention over time is well documented. But it takes shopper-identified purchase data to power personalization, data that's readily available from online purchases. Even if you have data from a loyalty program, online engagement provides another channel to engage the shopper with meaningful content and promotions to drive additional sales.

First-party data is quickly becoming evermore important as digital tracking cookies come under increasing fire from privacy regulators. First-party data is the fuel powering shopper engagement both inside and outside the store.

Access to Retail Media dollars: Nearly every retailer of any size is focused on accessing the fast-growing CPG budgets being allocated to Retail Media Networks. Online shopping is one of the primary channels used to engage shoppers and display CPG funded ads. The more shoppers, and the more those shoppers are online with you, the greater the revenue opportunity you have.

The most important reason for getting eCommerce right: Digital Transformation

In my mind, the most important reason for grocery retailers to get eCommerce right is the least understood; doing eCommerce right paves the way for successful digital transformation across the enterprise.

Thirty years ago I launched one of the first loyalty programs in U.S. grocery retail. My mentor at the time, Brian Woolf, told me that doing loyalty well meant developing discipline in nearly all other operational areas. And he was right, as we learned that even seemingly simple things like prices change schedules and in-store signage had to be right to execute well on loyalty.

In similar fashion, focusing on executing online grocery shopping well forces discipline in many other areas, from inventory forecasting to scheduling to pricing. Walmart took that lesson to heart.

“We’re excited about the work we’re doing to reach customers in a more digitally connected way,” said Walmart CEO and president [Doug McMillon](#) in a press release. “Our commitment to the customer is clear—we’ll be there when, where and how they want to shop and deliver new, convenient experiences that are uniquely Walmart.”

Walmart gets it. In an address at the 2024 CES conference, Doug McMillon, Walmart CEO, called out that “The way people buy and discover goods has evolved into a seamless integration of online and offline experiences. Customers expect retailers to provide a convenient and enjoyable shopping experience.

During a keynote at the Consumer Electronics Show (CES), Walmart unveiled how some of the latest technologies will enable the world’s largest retailer to deliver a new type of commerce – one that is customer-centric, interconnected, frictionless and consistently exceeds expectations. In addition, the

“The e-commerce business has been among the drivers of growth for the company and rose about 22 per cent in sales during the latest quarter.”

- [Bloomberg](#)

company outlined its plan for ongoing innovation; specifically, how the technology it builds will benefit customers and members, its associate team and society.”

“At CES, Walmart showcased how technologies like AI, GenAI, and AR will reimagine Walmart’s role as a shopping destination to

serving as a customer’s concierge, acting as their partner in achieving broader missions.” Specifically, the company spoke to a new GenAI-powered search experience for app users, and an AI powered in-home replenishment service.

No retailer can deny the future is digital. By focusing on getting eCommerce right, retailers can leverage that focus into broader digital transformation as data and AI power up a growing number of capabilities.

Becoming Bionic

In my latest book, [Bionic Retail: How to Thrive in an Exponential World](#), I call out that the very business and operating model of retail is changing... fast.

Traditional retail is organized around departments and functions, things like marketing, merchandising, operations, HR, and more. Each of those areas effectively a silo having its own applications and data. And as the traditional retail organization grows, more point-to-point tech integrations are needed as marketing needs a bit of data merchandising has, or operations needs some data marketing has. The result is a giant hairball of increasing complexity - and decreasing efficiency and effectiveness.

Companies that have undergone, or are undergoing, a digital transformation are breaking down all those silos, moving to a unified data foundation, and creating a digital operating and business platform.

Getting this digital transformation right, and doing it quickly, is imperative to retailer success in the exponential world we now inhabit. Walmart found that focusing on getting eCommerce right forced changes across the enterprise that have accelerated its digital transformation. Kroger is on a similar path. And both are following Amazon.

Remain on the Path to Purgatory, Surrender, or Commit to doing Online Right?

Small, mid-size, and regional retailers have a choice to make: Continue as they are and accept middling performance, surrender online grocery to third-party marketplaces like Instacart, Shipt, and Door Dash, or commit to getting online right and competing with the largest players.

In [Bionic Retail](#), I write about retailers having to make a decision to either leap to the exponential path to the future or remain on the path to retail purgatory. Retailers who continue forward with half-hearted eCommerce initiatives are a perfect example of settling for the path to purgatory. Resources are too precious for retailers to not make a deliberate decision as to if they are going to seriously compete in eCommerce. Or not.

Relinquishing their online business to third-party marketplaces may seem like the eponymous “Easy Button” but that decision comes at a price. Few industry people doubt that the future of retail is an omni-channel shopping experience that fuzes together the physical store and digital worlds. Further, as retail media continues to explode, retailers that have relinquished their online shopping have consigned themselves to receiving a small portion of available dollars, only what the third-party marketplaces may want to pass along.

For retailers who make the decision to recommit to online grocery, there is work to do. And if you’re willing to put in the hard work, and commit the resources, there are multiple short-term and long-term benefits.

Part of that work is evaluating your team. Like a successful Nascar race, it takes both a skilled driver and a top-notch team of mechanics, to win. And while retailers need to continuously be improving their 'driving' skills there is a time to evaluate the mechanics and ensure you're working with the best.

It's rare that a retailer who is a poor operator stays in business long. So if that's the case, poor operations is most likely not a major contributing cause to independent and regional retailers' declining online sales. Maybe it's time to look at the mechanics, the eCommerce platforms retailers are using. Is a poor user experience harming online sales? Is the solution provider charging excessively and taking too much time for systems integrations needed by the retailer? Are the 'mechanics' truly invested in the success of their 'driver'? Are they willing to co-invest in that success or are they simply looking for the next payment?

Given that regional and independent retailers are losing the online sales battle, it begs the question: Is there a connection between poor online sales and the platforms that they use?

The largest retailers have built their own eCommerce platforms and have the ability to iterate fast, quickly build integrations to other systems to provide new capabilities, and more. Regional and independent retailers don't have that flexibility and are typically using one of two or three long-established solution providers, making the 'mechanics' partnership all the more critical.

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Doing It Right

Erewhon is a ten store specialty grocer with stores in the greater Los Angeles market, featuring organic produce, and other sustainable, high-quality, unique foods. Rolling out a new mobile app and online shopping experience in mid-2023 using Homesome's platform, Erewhon has seen phenomenal eCommerce growth. Year-on-year growth was nearly 65% in Q3 2023, and accelerated to over 73% in Q4, and over 102% in Q1 2024.

What drives that kind of growth?

According to Rahul Chabukswar, founder and CEO of [Homesome](#), it's an unrelenting focus on user experience that is powering the growth Erewhon is experiencing. That includes enhancing product discovery and search, speeding up the online checkout experience, and making returns easier.

And, unlike some of the other eCommerce solution providers, Chabukswar understands the importance of focusing resources on core capabilities that improve user experience while partnering with best-in-class capabilities like [Birdzi](#) to provide strategic hyper-personalization.

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To succeed, there's work to be done

One of the key drivers of online success is the customer user experience. And retailers like Walmart and Kroger understand the importance of seemingly minor things and how they impact the customer's online experience. Make it easier for me to shop online and I'll do more of it; make it a headache and I'll click a button on my keyboard and take my business to a competitor.

In the first part of 2023, Walmart released a redesigned website and app that "Tom Ward, Walmart's chief e-commerce officer, said "offers a more engaging way to browse and discover our incredible assortment." (Source: [Business Insider](#))

"The new homepage offers a product-focused experience that better mirrors the way our customers love to shop, highlighting the items that matter most to them at any given moment," Ward said.

Ward added that the homepage features live video and mimics social media, allowing users to scroll through the offerings on the homepage just as they would scroll through Twitter or Facebook on their phones. Additionally, the redesign helps suppliers and third-party Walmart Marketplace sellers "showcase more relevant products," per Ward.

Kroger gets the importance of user experience. Accessing a digital receipt of the shopper's transactions makes it easy to see what you've purchased in past trips. And that digital receipt is served up in near realtime.

Personalized recommendations are applied to sale items and digital coupons. Rewards are easy to access along with reminders to not forget fuel savings and other benefits. The ability to order ahead from the deli and bakery saves the shopper time in the store. Nutrition insights on the products you've purchased along with nutrition trends over time are readily available.

And, when viewing your shopping list, the aisle and location of each product are displayed, making it easy to find the products you're after in the store you are in at that time. Running out of time? One click transfers your shopping list to an online order.

Now take a look at the mobile app from most grocery retailers and chances are you'll find few of these types of features that make user experience so important. Even worse, many retailers provide an app and web experience from different solution providers, making for a very disjointed shopping experience.

UX is Just the Beginning to Getting eCommerce Right

A great user experience while shopping online is only the beginning of the journey. There are many intricate processes that must be choreographed for a successful, and profitable, eCommerce order. Homesome's Chabukswar calls out some of the myriad capabilities and processes that are so important in making the customer happy and making the retailer profitable.

Order picking efficiency: The Homesome picking app supports barcode scanning including scanning of price embedded / random weight barcodes thereby ensuring accuracy of the picked items. In addition, the app also prevents errors by ensuring correct quantities of ordered items are picked, i.e. if a customer orders 4LB of chicken, the app maintains a running total as random weight packages are scanned and prevents under or too much over picking. This ensures customer satisfaction and also prevents eCommerce margin shrink by reducing the refund rate and preventing under-filling the order.

Product substitutions: As soon as the personal shopper starts picking the order an automated message is sent to the customer and a chat session is opened. Customers can approve substitutions in real time, shoppers can even send pictures of items on the shelf to the customer. Some order pickers send deli sandwich and prepared foods menus to the customer and 7 out of 10 customers add on to their order. This capability adds to the positive experience and makes the transaction more personal. Retailers enjoy a higher AOV and margin.

Multiple order picking: Retailers with a higher volume of online orders can use zone picking (available now) and multiple order picking (available in Q3 2024) to boost picking efficiency.

POS integration: Finalized orders are seamlessly injected into the retailer's POS system (NCR, LOC, ECRS, etc.) to aid in efficiency and eliminate re-work at checkout.

Bag barcodes: Homesome's fulfillment platform generates a unique barcode per bag, so third party delivery drivers are required to scan the bags at pickup and dropoff. This ensures no bags are left behind at the store or in the driver's car. This results in an ultra low delivery failure rate of 0.46%

Prepared foods: the ability to order deli ahead, catering, holiday meals and more is all part of the comprehensive online shopping capability.

Delivery: Homesome fulfillment platform are integrated with last mile delivery providers multiple delivery providers to ensure the retailer is getting the lowest cost delivery.

Activity & performance tracking: The fulfillment system enables store managers to track the activity (changes made to the order, messages sent to the customer and picking speed) of the shoppers, and analyze shopper performance against store wide / chain wide benchmarks. The fulfillment app also optimizes the pick path based on item physical location data in store

Together these capabilities result in an industry-leading low refund rate of 0.23%, unheard of in eCommerce that is plagued by high refund rates and margin shrink due to refunds.

Subscription Programs

Some retailers have taken a page from Amazon's Prime playbook, creating subscription programs of their own. Walmart+ provides shoppers free delivery, fuel savings, video streaming, scan & go shopping in the store, and other benefits in return for a \$98 annual membership fee.

Kroger's Boost program provides free delivery, double fuel points, and additional savings in return for a \$99 annual fee. Hy-Vee's Perks Plus \$99 a year subscription program promises free delivery, speedier order pickup, added fuel savings, and other benefits.

Retailers like these are leveraging subscription programs into helping drive more eCommerce sales, loyalty, and customer lifetime value.

And subscription programs go further than linking membership to pickup and delivery. Amazon's Subscribe & Save program has been a major success, growing sales for both Amazon and its CPG partners. Other retailers have an opportunity to join this game too; [Replenium](#) is a company that brings product subscription to retailers through integrating with their online shopping platform.

Getting eCommerce Right

Walmart, Kroger, and Costco, are growing online sales and using eCommerce to drive digital transformation and create the future of retail. Those double-digit online grocery sales gains are most likely coming out of your pocket and, if you haven't noticed yet, you soon will.

So the question to grocery retailers is this: Are you satisfied with your current eCommerce business? Are you content to remain on the path to retail purgatory or are you prepared to make the leap to the digital future?

As I wrote in [Bionic Retail](#): You have a decision to make.



Hawkins has been helping the retail industry create the future for over twenty five years. As a retailer, he pioneered loyalty and shopper insights. Deep knowledge of shopping behavior and marketing economics led to developing the first marketing personalization capability two decades ago. His journey has included blazing a path for biometrics, computer vision, digital engagement, and more. Along the way he's decimated countless industry practices on a relentless march into the future.

As a strategic advisor, Hawkins has had the privilege of working with retailers, wholesalers, CPG brand manufacturers, and tech companies in over 20 countries on 5 continents. Companies like Kroger, ASDA, Mitsubishi, Lawson, Hy-Vee, KVAT Food City, Wakefern, Procter & Gamble, Unilever, Retailix, Retail Next, NCR, and many others. More recently, his work has expanded into the growing convergence of the massive food and healthcare industries.

And that leadership continues today. Hawkins has leveraged his deep retail experience, knowledge of human behavior, technology expertise, and view to the future, to help retailers change paths, moving from the linear world of yesterday to the exponential world of tomorrow.

His expansive industry view and early insight into disruptive technology makes him a sought-after keynote speaker at conferences in the U.S. and around the world. Hawkins is the author of Building the Customer Specific Retail Enterprise; Customer Intelligence; **Retail in the Age of I**, and **Bionic Retail**, along with the **Retail Mindsteps** Innovation Briefs and White Papers. Hawkins lives in Colorado with his wife Heather, and Remington, their Bernese Mountain Dog.

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