

WHITEPAPER

# Traditional Retailers vs. Challenger Companies

Get a sneak peek into the battle for the future of retail

## Who are we

Born of the unicorns of Chicago, Egen is a data engineering and cloud services firm that partners with companies to modernize, launch, and scale industry-changing technologies.

The fastest-scaling startups, savvy enterprises, and ambitious new ventures trust us to create digital breakthroughs with the power of the cloud.

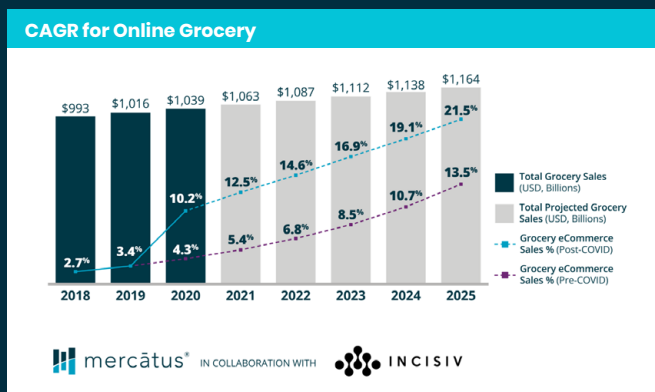


# A seismic shift in retail grocery



In online grocery, first-time adoption evolves into consumer habit

– Insider Intelligence



Source: Mercatus/Incisiv

**We are seeing a seismic shift in the grocery retail world:** curbside pickup, contact-less shopping, and home delivery services have become the new norm. The growth of online and home delivery will likely only accelerate further. A majority of grocers are shifting to focus on e-commerce, leaving those retailers who have always resisted digital grocery no choice but to adapt.

In this new economy, buyers expect immediate responses through push notifications and texts on their mobile devices. They want constant updates about when and how fast their purchase will arrive. But too many retailers are still lagging in their ability to provide these and other capabilities that make up a seamless delivery experience.

This growth has meant that several digital-native technology companies have entered the market. At the same time, traditional brick- and-mortar players are modifying their offerings to cater to their increasingly tech-savvy customers.

We looked at how disruptive companies like Instacart and Amazon compared against the traditional (or legacy) players like Walmart, Kroger, Safeway and Target. We analyzed customer feedback, app user journeys and pricing to understand if these challenger companies outperform their legacy counterparts.

# 3 Phases of the User Journey

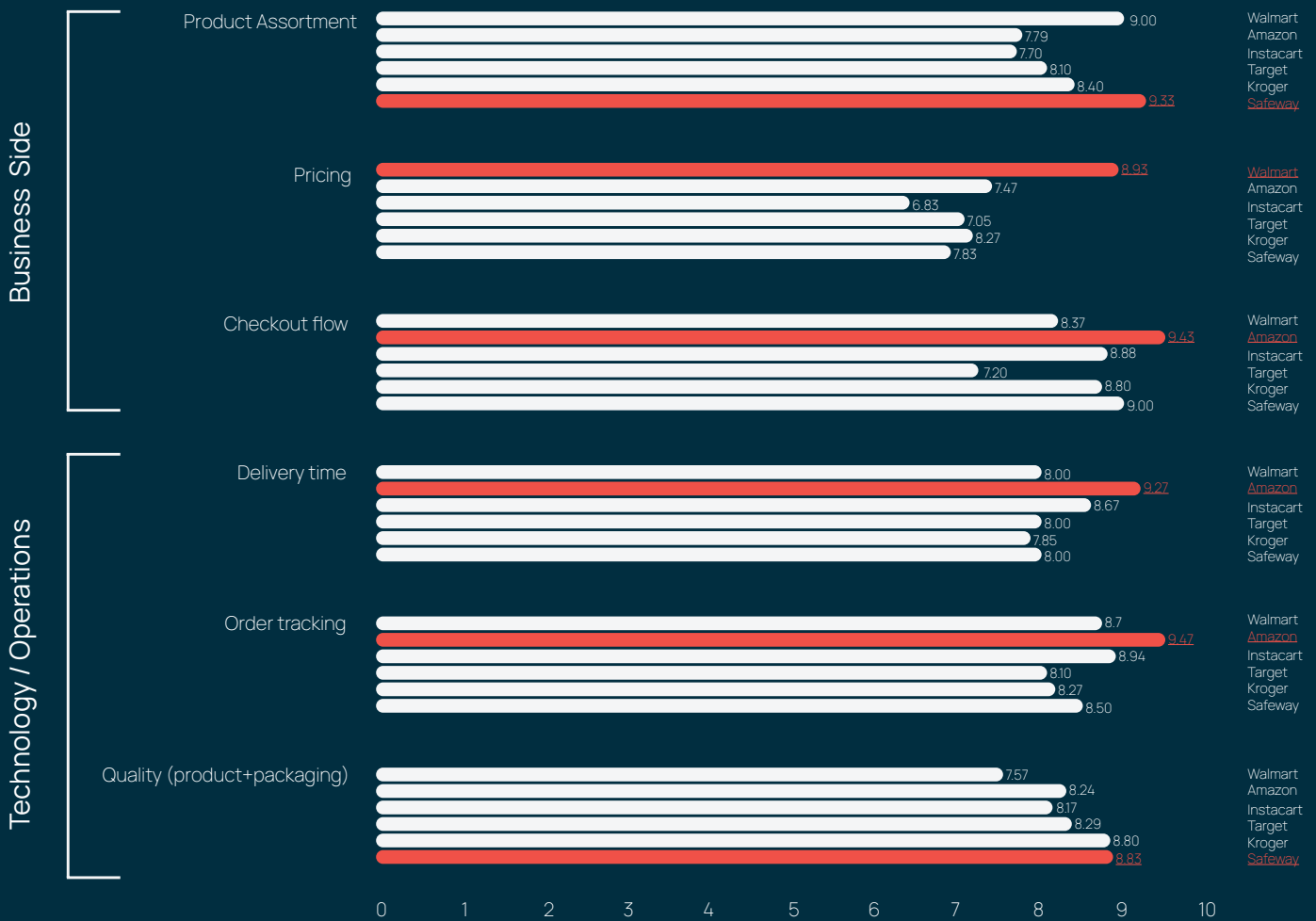
Typically, a user's journey can be divided into 3 phases. We will be focusing on the 2 latter parts in our analysis.



# How do these firms compare?

So how do these firms compare? And more critically, what do customers really want and prefer? We charted how firms performed on critical aspects of the shopping journey based on customer feedback and here's what we found (numbers indicate scores, higher score is more favorable).

## OVERALL SCORES



Immediately you see Amazon as a relative leader with across multiple parameters and, unsurprisingly, has a higher overall score. But let's look deeper.

The first two metrics are business/category-related metrics, something which traditional players will perform better in owing to existing store infrastructure and business volumes. However, the digital-native companies beat them in user shopping experience as well as post purchase experience. These two, however difficult to build, are scalable. Although it seems to be a simple comparison of multiple parameters, it is essential to look at them from a business context. The low margins in the grocery business are because of two things:

- Low price to volumetric weight ratio for almost all categories- meaning companies pay more to transport items of relatively low prices.
- Perishability of products is high, making inventory management critical.

# Level of Importance

Digital-native players are increasingly circumventing this problem by pricing higher as well as keeping product assortment low (and thereby reducing demand variability and hence, inventory loss). In the case of Instacart, which only manages last mile delivery, no inventory means no holding/pilferage costs. This, coupled with tech enabled superior ordering experience, means that players like Instacart are profitable even on a revenue base of a couple billion USD.

We ran regressions on our customer survey results to understand what truly mattered to customers, and the results were interesting.



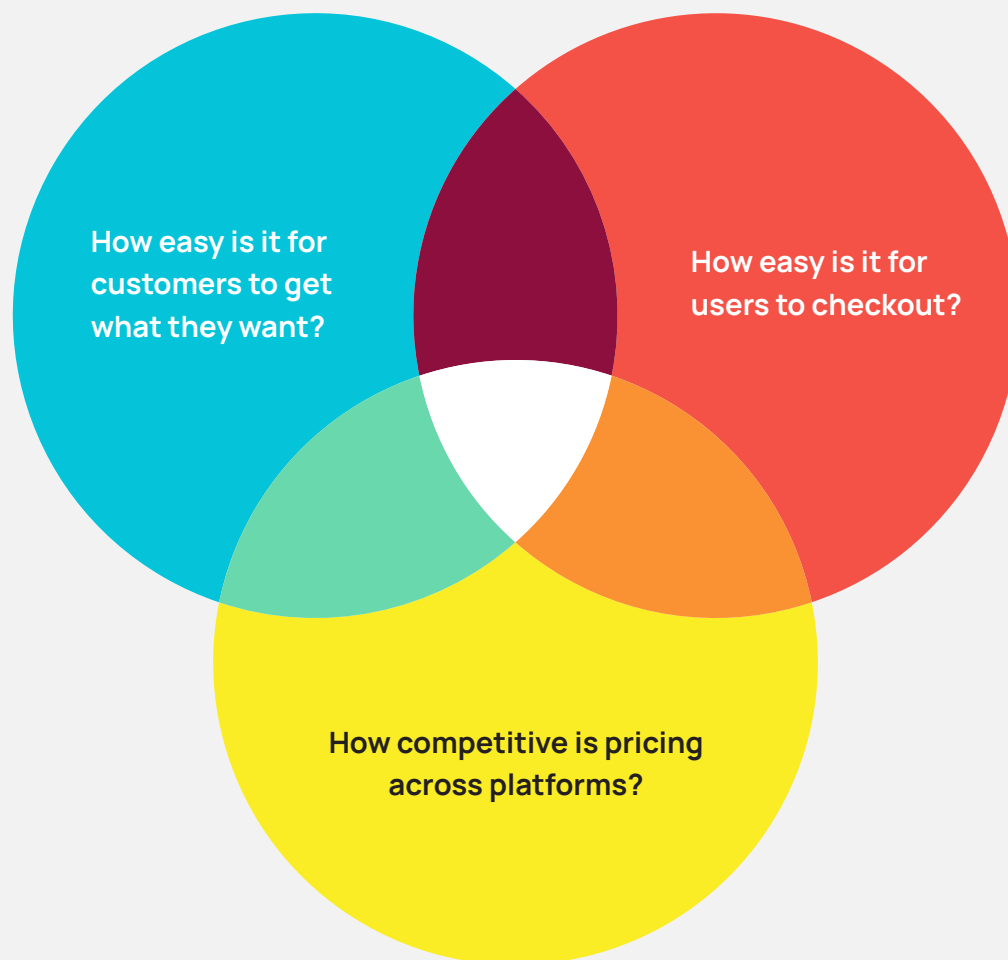
Customers prefer a better shopping experience over pricing. And product assortment ranks the lowest in their preference. This goes to show that tech driven players who have better post purchase experience will eventually win the e-grocery war.



# Purchase Experience

# Purchase Experience

Placing an order is arguably the most important aspect of the user journey because it encompasses so many variables. So how do the challenger companies compare to their legacy counterparts?



**Variables of purchase experience**

# 1 How easy is it for customers to get what they want?

Owing to minimum delivery thresholds as well as lesser propensity of impulse buying, customers typically shop for at least a week's grocery in one go.

It's safe to say the customers prefer shopping across multiple categories at once, making it critical for companies to have a wide assortment available. This is where traditional retailers typically outperform because of their brick and mortar presence and hypermarket footprint.

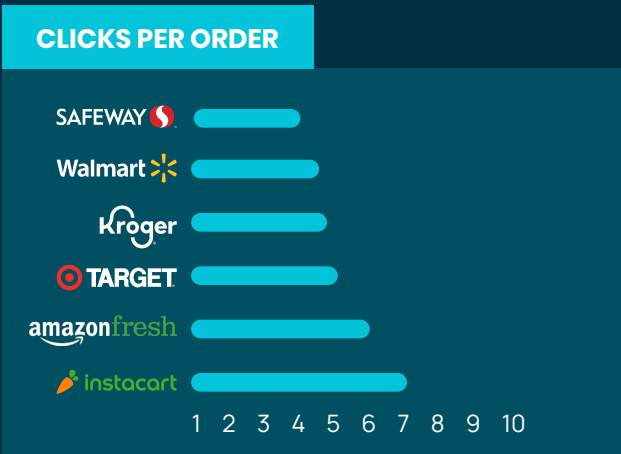


# 2 How easy is it for users to checkout?

User purchases while shopping for groceries are predominantly intent driven. To capture maximum value, platforms optimize their site real estate while continuously improving search, recommendations, and cataloging to ensure customers find what they are looking for. So how do the digital-native companies compare with their legacy counterparts? We shopped for 7 generic items using the search and catalog features on all platforms and checked the number of clicks it took to place orders for home delivery. Products were chosen across a range of categories (dairy, meat, processed food, and fresh produce.)

The challengers took significantly fewer clicks to finish the order (upto 40% less), meaning that although legacy firms do have a wider product assortment, shopping on their platform is not always the most pleasant experience. This finding was solidified by our customer survey assessing order and checkout satisfaction among customers.

Granted that Safeway performs well, but overall, shopping UX for legacy firms is poor.

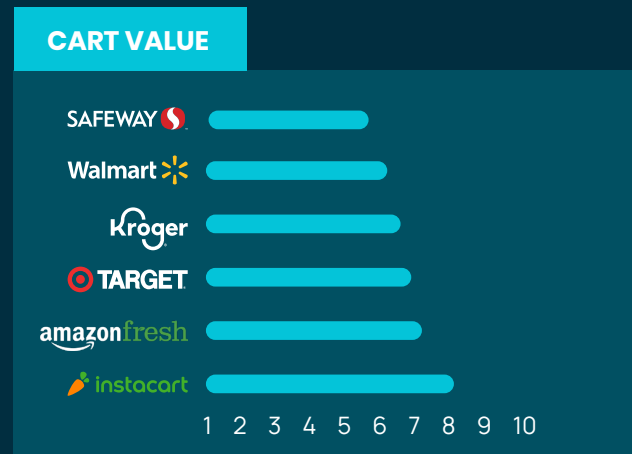




### 3 How competitive is pricing across platforms?

Groceries, particularly the non-produce/meat, are undifferentiated, commoditized categories. So how do the platforms compare? We ordered the same 7 products (chocolate, Tide Pods, Cheerios, chips, beef jerky, and orange juice) across all our firms to see how pricing for products compare.

The cart value was determined before delivery fees and with no coupons added. Instacart prices were 40% higher than Walmart or Kroger for the exact same products at the exact same location. High last-mile costs mean retailers have a minimum order threshold and charge delivery fees depending on customer memberships. Research shows that most firms charge the same membership fees.



Alternatively, Amazon Fresh membership comes free with Amazon Prime. Considering Amazon Prime’s what subscribers get for the \$129 membership, it’s a value.

A hypothesis substantiated by the number of prime users in the US alone (~120M). Simply put, Fresh, for a significant amount of customers, can be termed as a free incremental benefit. However, with free delivery for orders under \$35, Walmart challenges the Prime membership effect. Kroger has an extremely attractive shipping option in its next day shipping, where it charges \$0 for all orders under \$35. Safeway seems to be at the back of the pack. No membership program means customers are made to pay delivery fees in the range of \$7.50-\$10.

On an average cart value of \$75, that’s a 10%-15% surcharge. Let’s see how adding shipping costs works out for the total order value and assume a user places two orders a month on average.

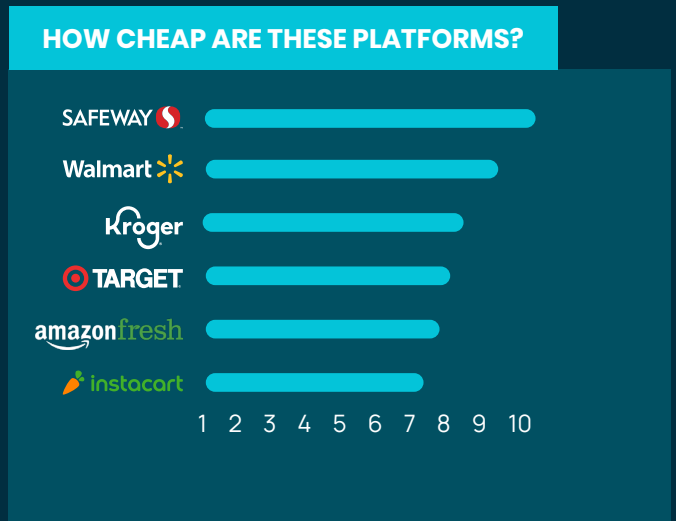
	Minimum Order Value	Delivery Fee	Membership
	\$35	Starts at \$4. Free delivery for members	\$99/yr
	\$30	< \$10. Free delivery for members	\$98/yr
	\$35	\$10. Free delivery for members. Membership mandatory.	\$129*/yr
	\$30	\$10. Delivery fee may reduce when cart value is > \$150.	N/A
	N/A	\$7 for orders below \$35. Membership mandatory.	\$99/yr
	N/A	Ship - next day delivery with \$5 fee for orders < \$35. Delivery - 1-3 hours with \$10 fee.	N/A

## How cheap are these platforms?

Customers overwhelmingly find Walmart (and legacy brands as a whole) to be cheaper compared to their digital-native counterparts. How much does pricing really matter?



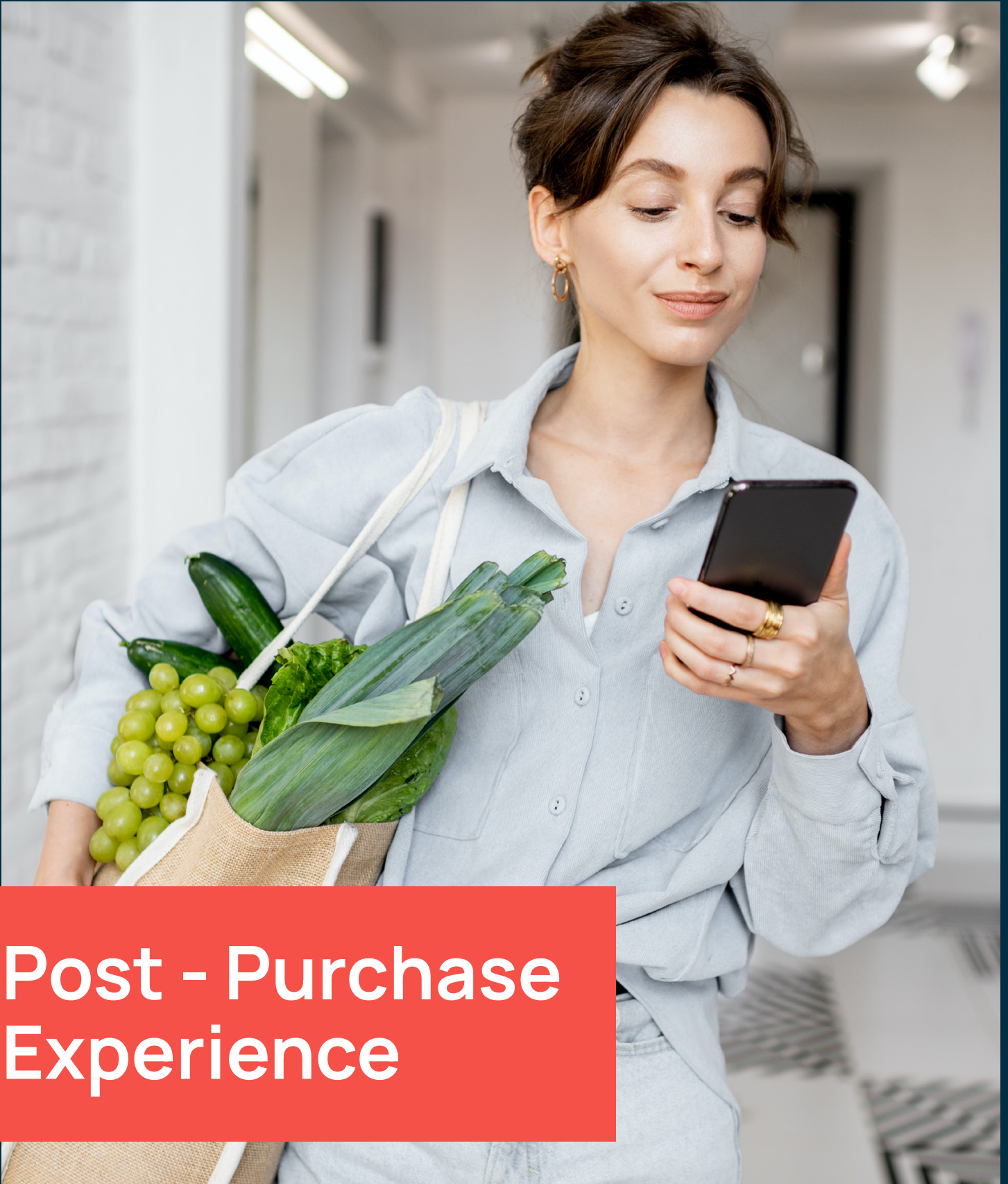
\* Calculated spreading membership fee over all orders. Avg order value assumed to be above delivery threshold. Instacart also charges a 5% "service fee", which is added. No fee is considering for Walmart (considering free shipping for > \$35. Amazon's yearly fee for Fresh is considered as \$40.)



#### Higher score means cheaper

Amazon's premium value (and perceived higher prices) are associated with WholeFoods and not Fresh. This new analysis makes Walmart look even more attractive to consumers.





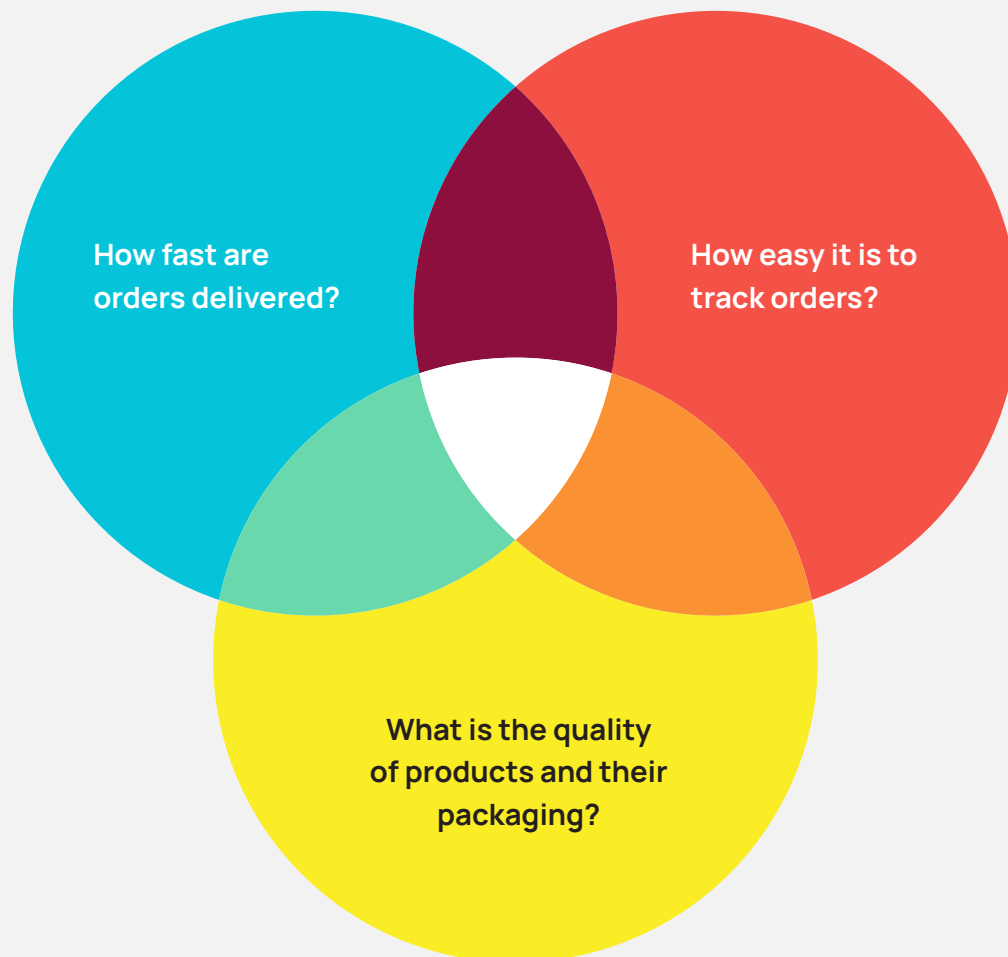
# Post - Purchase Experience

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Research says the post-purchase experience plays a significant role in prompting repeat purchases. It's not surprising most companies calculate order delivery CSAT separately from the overall order CSAT. A ShipBob research says that 40% of customers do not repeat purchase if they have a negative post purchase experience. Post purchase becomes more important in the e-grocery set up for three reasons:

- Purchases are need based, so quicker delivery time is important.
- Fresh or frozen food can only sit out so long, making accurate order tracking essential.
- No one wants broken chips or bruised apples. Packaging is key.

So how do the competitors compare?



**Variables of POST – purchase experience**

## 1 How fast are orders delivered?

Digital-native companies outperform by a mile here. Amazon and Instacart have 2 hour delivery options which are free (for orders above free delivery thresholds). Walmart recently introduced next-day delivery (though the standard continues to remain two-day delivery). Other retailers are racing to catch up. Target introduced next-day delivery via Shipt, and Kroger, delivers some items within an hour. Target, Kroger, and Safeway customers still overwhelmingly prefer curbside pickup. As customers grow used to this new way to shop, will retailers lose out on customers if their delivery can't meet expectations?

Customers shop for groceries as a necessity and they need them at specific times. The data shows cart conversions spike when delivery time is reduced.



## 2 How easy it is to track orders?

From email notifications to API-enabled tracking of exact order locations/curbside pickup statuses, customers are accustomed to knowing exactly where their orders are. Digital-native companies fare overwhelmingly better here.

Add to that a specific 1-2 hour window which Amazon and Instacart promise (as compared to a 24 hour window by Walmart), customers know exactly when to expect their order, meaning significantly fewer hassles. However, curbside pickup players are not as good as delivery firms. The data shows that order tracking lags for curbside pickup, and retailers who have streamlined their last-mile delivery fare better with customer expectations.



### 3 How is the quality of products and packaging?

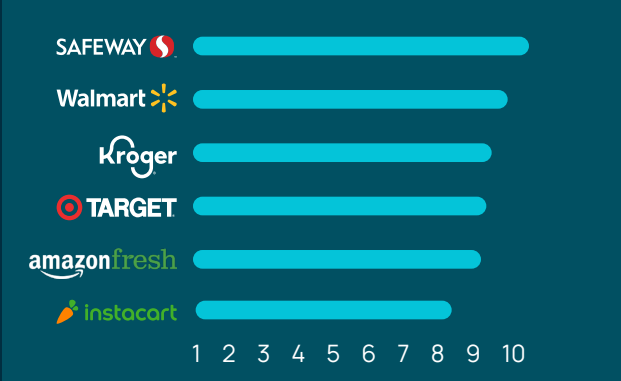
Consumers are most concerned with how their fresh food is packaged. How do retailers compare?

Results are mixed. Legacy retailers (except Walmart) fare better than the digital-native retailers.

**There are two important things to note:**

- For curbside pickup, the damage involved with transportation does not exist. As retailers introduce home delivery more extensively, whether they can maintain product & packaging quality remains to be seen.
- Product and packaging quality will continue to be important as 75% of customers who started buying produce online due to COVID plan to continue post-pandemic.

#### HOW IS THE QUALITY OF PRODUCTS AND PACKAGING?



Rating: Higher score means quicker



# Conclusion

Digital-native challenger firms need to get better at product assortment and work to price more competitively with traditional retailers. However, traditional retailers have a much steeper hill to climb to compete with new tech-savvy challenger firms.

Investments made in technology can drastically improve the user experience – from search to the checkout flow through actual delivery – will be essential. As user experience continues to be king when it comes to winning and retaining customers, e-grocery market players should invest into a drivetrain of technology for their products and services.

Consumer expectations are higher than they were even a year ago, but they are still being set. Here are a few suggestions for leaders/new players striving to win in e-grocery race:

1

## **SET UP FACT BASED DATA DRIVEN VISION**

Set an aspirational vision for your customer proposition using a data-driven fact base.

2

## **BUILD ROBUST DEMAND FORECASTING MODELS**

Build a robust demand-forecasting models for your current and future markets and also to potentially find out newer markets and market segments to operate in.

3

## **BUILD AN IT PLAN FOR CUSTOMER PROPOSITION**

Build the IT plan that underlies each element of the customer proposition and select which vendors you will work with (most grocers won't have this capability on their own).

4

## **EMBED DIGITAL IN YOUR CORE OPERATING MODEL**

Modify your organization and operating model to embed digital at the core for smoother UX and data generation to further reduce friction in the process.

The logo for Egen, featuring the word "egen" in a white, lowercase, sans-serif font. A small blue horizontal line is positioned under the letter "e". The logo is centered within a dark teal semi-circular shape that is part of a larger graphic design consisting of overlapping circles in dark teal and maroon.The main headline is centered on a bright cyan rectangular background. It reads "Your partners on the frontline of digital revolution." in a bold, white, sans-serif font. The text is arranged in four lines: "Your partners", "on the frontline", "of digital", and "revolution.".

Curious how this research impacts you?

Let's talk.

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