

FEATURE

# Is grocery e-commerce just hype, or a supply chain disruptor?

By **Edwin Lopez** • Dec. 5, 2017

*The following article is part of a weekly series, where Supply Chain Dive asks up to five industry influencers to comment on a recent news item, trend or skill set. To read more about the participants, please [click here](#).*

Amazon's purchase of Whole Foods earlier this year was hailed as transformational for grocery supply chains. At last, the retail sector would transition to the digital age, and consumer habits would finally shift.

See, a number of companies have been trying to break into the grocery space with e-commerce for over a decade — with mixed success — as people seem to prefer in-store shopping in the U.S. But when the e-commerce giant bought Whole Foods, analyses revealed it also acquired a new strength in its supply chain and data analytics, which could lead to better service and success.

At least, it should — but the problem with mixed-success initiatives is that it is hard to figure out why they are not catching on as easily. Perhaps, e-commerce and groceries are just a pipe dream. Or is that just wishful thinking for brick-and-mortar grocers? Our influencers weigh in:

## Is grocery e-commerce just hype, or a supply chain disruptor?





## Abe Eshkenazi

CEO, APICS

---



E-commerce companies are still learning how to be successful in grocery delivery.

Although some e-grocers have been able to make a profit in specific geographic areas, they face increasing competition from large e-tailers who are attracted by the size and potential of the market. At the same time, e-grocers of all sizes need to overcome challenges related to handling and distributing perishable fresh and frozen food. In addition, many consumers must be convinced to change traditional grocery shopping habits and preferences.

That said, there is tremendous opportunity for grocery e-commerce. Neilson projects the industry will grow at a combined average rate of 12.2% through 2020, and may grow \$100 billion over the next decade.

This growth is driven by the developing digital economy, consumer demand for omnichannel experiences, and increased options available in grocery delivery services, meal kits, and direct-to-consumer brands. However, costs are added when supply chains stretch to accommodate increased product offerings and delivery options.

To mitigate this complexity, e-commerce grocers should seek to standardize or simplify internal processes throughout the supply chain and remove organizational silos that act as barriers to real success.





## Cathy Morrow Roberson

Founder and Head Analyst, Logistics  
Trends & Insights

---

“ According to some estimates, about a quarter of American households currently buy some groceries online, up from 19 percent in 2014. The grocery industry is cut-throat with razor-thin margins. Online delivery providers such as Instacart are still not profitable and Amazon’s Fresh appears to be struggling as well.

But grocery e-commerce is for real thanks to technology and Amazon acquiring Whole Foods. Way back in the early days of e-commerce, Webvan was among a handful of online grocery websites to pop up. However, Webvan eventually became a posterchild for the e-commerce bubble burst during the late 1990’s/early 2000’s. Significant investments in its network, trying to compete on price and quite honestly, marketing to consumers who were not ready to buy their groceries online proved costly for the e-retailer and as a result it declared bankruptcy.

Interesting enough, Peapod is one of the few remaining online grocery websites remaining from those early days. So, fast forward to today. What’s different?

E-commerce has definitely matured and the technology has also greatly improved. As an example, visibility and tracking of orders in real-time are the norm. Also, the birth of the smartphone. Consumers have so much control with these devices which allows them to shop, order and track anytime, anywhere all while on the go.

And then there’s Amazon. Amazon introduced its own grocery service with Amazon Fresh a few years back partnering with the USPS for delivery on some zip codes while Amazon handled delivery for other zip codes.

Additionally, after years of not having a physical presence, Amazon began dabbling in brick & mortar via pop-ups, book stores and more. Finally, it acquired Whole Foods earlier this year. Still in the honeymoon period, Amazon has lowered prices on select items at Whole Foods, installed Amazon lockers and are promoting their voice-activated Echo in select stores.

Meanwhile, traditional grocery stores are scrambling by offering curbside pickup of online orders or partnering with such online delivery services as Instacart, Shipt and even Uber for final mile delivery.

But this time grocery e-commerce is for real. People are on the go and shopping online for items such as apparel, consumer goods and big ticket items including appliances and mattresses. Despite the kinks still remaining with grocery e-commerce it's happening and it looks like much of it will evolve into an omnichannel offering similar to what retailers are and have developed.



## **Jon Slingerup**

President and CEO, American Global Logistics



Although I really don't like others picking my bananas, I realize that from all the delivery trucks in my neighborhood constantly delivering everything from food, prescriptions, restaurant meals and all other manner of consumer goods, I am probably in the minority.

In my view, anything that can be ordered online and quickly fulfilled, will be. At the same time, those like me who still prefer the store experience will continue to happily do so, while many others will continue to evolve into a hybrid model where they shop in stores to touch and feel before finding the best deal online for same-day or next-day delivery.

This hybrid approach to consumer buying is already in high gear, and it's clearly disruptive to everyone in retail, including grocers, which may be the slowest to adapt. But clearly, those big, branded chain stores that are determined to survive are rapidly morphing into online retail experts, successfully selling the benefits of in-store customer experiences with the choice and efficiencies of online shopping.

For example, stores like RH (aka Restoration Hardware) have done an extraordinary job of making this transition, as has Home Depot, Lowe's and many other big box retailers, all of which have both strong foot traffic and growing online sales. Likewise, traditional department stores are making big strides in appealing to their hybrid shoppers, like Saks, Bloomingdale's, and Neiman Marcus, the latter just announcing its first profitable quarter in two years on the strength of its online turnaround. And of course, many of the mega shopping malls have effectively evolved into expansive commercial and entertainment complexes, which continue to thrive through their high-touch, customer experience focus.

It's quite clear that the threat of Amazon's online juggernaut is driving a disruptive and rapid, but an ultimately healthy, transition to the new consumer economy, albeit with a share of notable retail store failures. But this is Darwinian theory doing its thing, continually driving change.

Hopefully, the smaller boutique shops with strong back-



e-commerce engines will thrive, so shoppers like me will have someplace to go and smell the flowers.



## Tania Seary

Founding Chairman, Procurious

---

“ It’s certainly not hype!

Living in Central London, without online grocery (Ocado is my favourite) – well, we wouldn’t starve because there are so many “ready to eat” meal options at convenience stores – but our houses would be grubbier, as it not easy lugging your washing powder, detergent, paper towel and toilet paper home with you on “the tube” (subway) or a double-decker bus!

And this is the point – urbanisation, busier lives and a growing preference for digital means online grocery shopping continues to rise, particularly in the world’s most advanced e-commerce markets such as South Korea, China and the UK. According to Kantar Worldpanel, online sales in the UK grew from 6.7% to 7.3% value share in the last year alone, making British shoppers second only to South Koreans in the proportion of groceries they buy online.

And whilst frequency of online shopping is on the rise, the average spend per shop remains much higher than offline. The Food Marketing Institute and Nielsen (Feb 2017 report) projects that consumer spending for online grocery shopping could roughly double by 2025.

So, this is certainly not hype, the way consumers buy groceries is changing dramatically and will continue to do so.

In China, Alibaba’s Hema Fresh stores are a hybrid of online and offline retail and foodservice. Shoppers can have fresh foods cooked for them in-store, or have products picked from the store and delivered within half an hour if they live within a 3km radius.

Wheelys' Moby Mart, in China, is one of a growing number of stores with neither staff nor checkouts. However, this concept is unique in that it is designed to eventually drive itself to a warehouse to restock, and drive to a customer to make a delivery.

Procurement & Supply Chain will need to transform, but will benefit from the increased granularity of data which will provide increased consumer insights and therefore the ability to predict and anticipate demand.