



## Perpetual Inventory, CGO and Home Shopping for Grocery



***USA Today reports that Walmart is saying it will offer click-and collect services at 1,000 more stores in the US next year, with Marc Lore, president and CEO of Walmart eCommerce U.S., saying that he believes the company is well-positioned to do battle with Amazon. The new stores will bring to more than 2,000 the number of Walmart stores offering click-and-collect, or roughly half the fleet.***

*"If you could offer fresh produce ...*

*with the very best prices, with a really good experience whether it be pick up or delivery, then you have a good chance to build a long standing relationship that you can then leverage to sell the rest of general merchandise," Lore told an investors meeting this week. "I think we have an advantage. We have assets to leverage in that area and so we're going to . . . lean in pretty hard."*

*Walmart is predicting that it can increase its e-commerce sales by 40 percent next year. It also reportedly is planning a website redesign that will be rolled out during the first quarter of 2018.*



*Meanwhile, the Wall Street Journal reports that Walmart plans to open fewer bricks-and-mortar stores next year than it has in any year during the past quarter century, "attempting to free up cash for e-commerce and store improvements in an increasingly competitive retail environment."*

***-Kevin Coupe, MorningNewsBeat, October 11, 2017***

- Increasing number of grocers are offering home shopping. Credibility needs to be established with the first order. Walmart's investment will be significant and sustained and could erode the sales of those who attempt to get into home shopping as a catch up strategy.
- Currently home shopping currently accounts for only 3-5% of grocery sales, but is expected to rise to 20+% by 2025
- There are multiple vendor choices for grocery web shopping, store picking and delivery, but there will likely be consolidation and fall out over the next 3 years so choose wisely. Define your selection criteria and involve a cross-functional management team in the decision.
- Perpetual Inventory may be a differentiator in gaining a long-term commitment from a shopper.

*“Amazon spends more on innovation than the twenty largest supermarket companies in America combined. If retailers don’t start investing at a greater level of innovation, they’re going to become lunch served for Amazon.”*

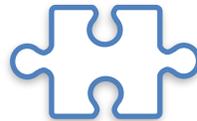
**-Jerry Sheldon, retail analyst with IHL Group**

One of the highest priority projects mentioned by our grocery customers is a digital strategy, including selecting the right partner for Home Shopping with delivery and/or click and collect. Northeast chains have re-stripped parking lots, designating high priority parking spots for home delivery pick up, or click and collect lanes where the staff load the order into the customer’s car.

## **Growth**

Market research indicates that the current 3-5% of grocery shopping being done via the web will increase to over 20% by 2025, with more than 55% of Gen Z (15-20), Millennials (21-34) and Gen X (35-49) extremely likely to shop from home. While there is time to plan a digital strategy and get it right, the sooner you begin the work the better. Think of this a bit like choosing a pharmacy-once the customer starts using it and is satisfied, it is hard to compel them to move their business to another chain.

## **Vendors Offering Solutions**



The market space for vendors offering home shopping options vary from retailer branded services to vendor branded, where the retailer price is not guaranteed for items on any given week. Vendor offerings range from E-cart ‘bolt ons’ to marketplace ‘outsourcers (the typical Instacart/Shipt model) to full E-Commerce platforms (GrocerKey). A huge amount of venture cap money is flowing into this space, but it is certain there will be fallout as vendors are acquired or fail. In most cases the grocer’s exposure from a vendor’s demise will be limited to possible staffing issues if they are performing shopping and/or delivery for you, and some IT risk as retailers upgrade their POS and supply chain systems but are unable to upgrade the home shopping software. Even worse, if the first vendor you choose fails, it is a do over with limited gain. A comprehensive services contract should provide risk mitigation for this vendor churn.

## **IT Integration**

Enablers for the home shopping system include at the very least integration with the current retailer POS, electronic coupon system, loyalty and an alternate merchandising hierarchy in order to display items the way the shopper thinks of the store-more planogram than a department/category list. The question we are most often asked is 'do I need a perpetual inventory (PI) for my home shopping system'? Our answer is no-it is not essential, but the long-term winners of this new grocery service will be those that most often can guarantee an item is in stock.



## **Perpetual Inventory/CGO**

What makes the grocery space different than department stores or electronics retailers is that if you really need a household product-paper towels, dish wash detergent, or cat litter, there are typically multiple options available. When the grocery 'shopper' picks your order, they mark off what items are missing. Standard procedure is to then call the customer and review items that are either out of stock or where either the size or requested brand is not currently available. Skippy vs. Private Label, Tide 54oz vs. Tide 96oz - alternatives exist. Customer feedback indicates that there can be as many as 5-10 items in a \$100 order that require review and direction from the customer. Customer profiles can specify whether to allow substitutions, or to be called before substituting. Since we are in the early stages of this service, for the early adopters the convenience outweighs the aggravation of this substitution process. This won't be the case in the long run.

Let's consider what the customer experiences with web shopping in the rest of the retail world. Think of the online experience at Home Depot, Best Buy, Amazon, Eddie Bauer, or Macy's. Did they ever call you and ask if you minded a substitute? Were you ever concerned or not sure that the item you were ordering was in stock? Likely not. How often was there a problem with your order? My only experience with Amazon in stock issues was when they warned me that there were only 2 left of an item- order soon, and I didn't place the order until the next day.

While substitution is easier for grocery shopping, the smart grocer need to develop a pricing policy that will consider how to meet sale prices on out of stock sale items through substitutions as would be offered in store. The other challenge for grocery is that the non-grocery retailers listed above satisfy web orders from a fulfillment center first, unless the fulfillment center is OOS or the customer requests pick up in store, where they are then viewing the store PI. Most grocers are using the store as their picking warehouse which simplifies the CGO forecast. But the demand on key sale items is far less in hard goods than grocery, especially over the weekend and they often have stock stored in the aisles while well run grocery chains have minimize backroom inventory. Also web orders for the retailers listed above typically reserve the inventory as the order is placed. The PI displayed on the web cannot be static-it must be updated regularly throughout the day so that the website is as accurate as possible. If the customer does not have confidence in the inventory

posted to the website they will eventually find alternative providers who have better in stock positions and accurate inventories.

## **Justification for PI/CGO**



The main reason to implement a Perpetual Inventory and Computer Ordering system is to improve overall in stock, rationalize inventory, and move knowledge of item and category selling patterns from the minds of the experienced staff to a system that constantly refines its forecasts. The grocer with a well-executed CGO platform will have better in stock positions, higher sales and offer a better overall customer experience. An improved web shopping experience is just another benefit.



*Frank Urbaniak is a Consulting Principal at C-CORE Consulting Group. He can be reached at [frank@c-coreconsultinggroup.com](mailto:frank@c-coreconsultinggroup.com).*

*C-CORE Consulting Group is a boutique consulting group that focuses on retail technology strategies and IT transformations through coordinated, logical, prioritized roadmaps, program/project management, and vendor evaluations and selections. C-CORE helps retailers deliver mobility, reduced out of stocks and supply chain costs, improved inventory management practices and improved customer experiences.*

*[www.c-coreconsulting.com](http://www.c-coreconsulting.com)*