



# BRICK-OR-CLICK: HOW AMAZON IS EATING YOUR MARGINS IN THE AISLES

session 

## INTRODUCTION:

The grocery industry has always been evolutionary rather than revolutionary. Until recently, innovation and the grocery industry were two entities that were not typically associated with one another. The stagnancy within this market, however, has begun to change over the past several years in response to digital transformation and the “Amazon effect”. With the \$13.7 billion acquisition of Whole Foods, Amazon now has the ability to remake the \$800 billion US grocery sector into an e-commerce focused industry. Approximately 20% of retail spending goes towards food, but only 2% of those sales take place on the Internet. Carrie Bienkowski, Chief Marketing Officer for Peapod explains, “Grocery and food are really the last — and the only — vertical that has not gone through that inflection point in terms of a digital transformation. This is the Wild West. If you want to be at the forefront of what is truly innovative, and what is truly new, and where consumer habits are changing — ironically, it’s in this very old school [business].”

In the forefront of digital transformation, technology is playing an increasingly fundamental role in the way consumers are shopping for and preparing their foods. Companies such as Instacart and Peapod allow consumers to shop for their groceries online and have them delivered right to their door. Additionally, personalized meal kit services—a \$5 billion business—relieve consumers of the worry of what to cook for dinner as well as offer them the convenience of at-home delivery. This ongoing evolution and disruption of the retail market, resulting from an increase in e-commerce, is a prime example of how the “Amazon effect” is making its way into the grocery industry.





Although the “Amazon effect” began to penetrate the grocery industry several years ago, it wasn’t until 2017, when Amazon acquired Whole Foods Market, that the consumer products conglomerate positioned itself as a main competitor against grocers nationwide. Online grocery spending is currently projected to grow to 20 percent of the market, or \$100 billion, by 2025 according to the Food Marketing Institute and Nielsen. Amazon-Whole Foods plays a large role in this projected growth and possesses the ability to prompt widespread innovation in online grocery shopping. While a spike in e-commerce activity is a natural by-product of Amazon entering the grocery market, their acquisition of Whole Foods poses a new and arguably bigger threat to competitors: Amazon’s access to brick-and-mortar locations coupled with new technologies.

In this guide, we’ll take a closer look at areas of competition that the Amazon-Whole Foods acquisition presents, the main challenges that the grocery industry is facing, and offer strategies to help beat competition and solve these challenges.

## AMAZON-WHOLE FOODS:

### AMAZON GO

In response to the increasingly important role that technology plays in the way consumers are shopping, retailers have begun to experiment with digital in-store experiences. Kroger, for example, recently announced they would be rolling out a “[Scan, Bag, Go](#)” service in over 400 stores throughout the year 2018. This technology allows shoppers to scan the barcode, using a handheld scanner, on an item as they place it in their cart and make their way throughout the store. At the end of their shopping experience, the customers pay the total at a self-checkout terminal. Similarly, Amazon opened its Amazon Go concept to the public in January 2018. The brick and mortar grocery store, located at Amazon’s Seattle headquarters, is both cash and cashier free. The stores model relies on smartphones and geofencing technology to streamline the customer experience. In order to shop at the store, customers must download the Amazon Go app, which is linked to their Amazon.com account.





When they enter the store, the customer scans the app and shops using a virtual card. Items pulled off the shelf are added to their cart and the final bill is charged to their Amazon account. While this “convenience store” is still in a test phase, the grocery industry is watching closely. If this new technology proves to be a success, there is a good chance that this strategy will be rolled out to the 464 store locations possessed by Whole Foods nationwide.

## **AMAZON PRIME**

Amazon Prime is another segment of Amazon that has captured grocery retailer’s attention. This paid subscription service, with an estimated 100 million subscribers, gives users access to free two-day delivery, video streaming, and other benefits for a monthly or yearly fee. It is widely assumed that one of the main reasons Amazon’s expressed interest in a Whole Foods acquisition, rather than a more mainstream supermarket like Kroger, is the grocer’s upscale demographics. According to a report by JP Morgan, “With Whole Foods, Amazon now has 464 stores in markets that we believe have significant overlap with Prime customers”. This theory seems to have been proven further with Amazon’s recent announcement that it intends to give exclusive Whole Foods’ discounts to Prime members. Amazon’s implementation of this plan would in-essence turn its Prime membership into the Whole Foods loyalty program that would allow for multi-tier pricing and possibly drive more consumers into its stores.

## **Amazon’s extensive insight into their consumers**

The term “big data” refers to extremely large sets of digital data that can be analyzed to reveal patterns, trends and associations related to human behavior and interactions. Amazon is widely considered a leader when it comes to utilizing this information to their advantage. The online retail giant has a vast bank of data on its over 150 million customers including; names, addresses, payments and search histories that are all filed away into a data bank. When Amazon first began to thrive using an “everything under one roof” model, they quickly realized customers can feel overwhelmed when faced with a wide range of options. To combat this, the company turned to big data to better understand their customers and fine tune their recommendation engine.





Essentially what Amazon does is collect data from users as they navigate the site such as: what the customer is searching for, previously purchased items, and products that the customer has reviewed or rated. This mountain of data is used to build up a “360-degree view” of each individual customer. Predictive analytics are then applied to this data to help Amazon make educated product suggestions to the consumer during their shopping journey. By creating a customized shopping experience for each customer, Amazon simultaneously establishes a personal relationship with their consumer while also driving up their profit margins. With Amazon entering the grocery market, big data is gaining traction as the tool supermarkets need to counter rivals and remain profitable. It can also be inferred that Amazon will apply these same techniques in dealing with Whole Foods customers, thus making them an unrivaled leader when it comes to engaging with the customer and establishing loyalty.

## CHALLENGES:

### MAKING THE DATA ACTIONABLE

Big data has become a key element of the business decision process over the last decade. With the correct analytics, data can be turned into actionable intelligence that can be used to help businesses maximize revenue, improve operation, and mitigate risks. In response to this interest in big data, many retailers have turned to data lakes and data warehouses as means for storing the vast amount of raw data they are collecting from interactions with their consumers every day. Data lakes are storage repositories containing loads of data in their raw, native format, while data warehouses process this large data and make it more usable from an analytical perspective. The problem with these platforms is that they typically have very limited segmentation capabilities and do not include any cross-channel identity competencies, thus making it very difficult to create singular customer views rendering the data virtually unusable from a marketing perspective.





## ENHANCING CUSTOMER ENGAGEMENT

In an era when businesses have access to unprecedented levels of data and the ability to know more about their customers than ever, marketers are still struggling with how to engage customers and personalize effectively. Generic outreach in general is an outdated model. Due to both digital transformation and the “Amazon effect” consumers now expect more from their brands. Universal discounts and promotions or simply addressing a customer by name in a campaign no longer assist in generating brand loyalty and customer engagement. Instead, customers want to see relevant recommendations, offers, and rewards that resonate with them based on their lifestyle and spending habits. An abundance of data is already being collected at every customer touchpoint, but the real challenge here is unlocking that data in real-time and unifying it in order to gain insight about what is driving a consumer to purchase a product and put more into their baskets. In essence marketers need to be able to turn customer data into valuable insights in behavior to drive effective loyalty and create engagement programs that are personalized to each customer.

## STRATEGIES TO SOLVE THESE CHALLENGES:

### ACTIONABLE DATA

One of the biggest problems facing brands today is their inability to effectively organize their data and make it actionable in real time. In order to upsell and cross-sell product offerings, brands are turning to customer data management solutions, sometimes referred to as customer data platforms. One of the biggest benefits this type of technology offers is the ability to create a 360-degree profile of the customer. The data is orchestrated from various systems marketers currently use in real time and in batch for one unique profile per customer. For a grocer trying to compete with Amazon this would be extremely helpful in leveling the playing field with Amazon when it comes to the in-depth knowledge they have on each of their individual customers. A customer data platform also allows for fast action on the data.





Without data latency, campaign execution for marketers is reduced from weeks to real-time for effective marketing at the moment of impact. Since the customer data platform is managed by marketers, in comparison to data lakes and data warehouses that are managed by IT, brands can reduce the investment and reliance on IT resources, data analysis and data science. Customer data platforms also allow for powerful data enrichment. This type of technology ingests, filters, and enriches data from multiple sources to create a real-time customer view. Sophisticated metrics such as customer recency, frequency, and monetary spend are calculated and visible on each profile for more impactful targeting.

## CUSTOMER ENGAGEMENT

71% of people say traditional loyalty programs at grocery stores do not produce loyalty, which is proof that throwing generic discounts at customers won't win them over. Loyalty programs that are mobile first and produce personalized discounts will have more of an impact on indecisive customers. Grocers are beginning to implement technology to help execute sophisticated marketing strategies. However, the lack of personalization in campaigns stems from grocers not having complete view of their customers, and results in generic outreach with low conversion. By employing a customer data platform and creating a single customer profile, grocers are able to utilize audience segmentation for targeted automated campaigns. Additionally, they would be able to create personalized engagements on a 1:1 basis with unique content and personalized product recommendations based on customers preferences and deliver the offer at the moment of impact. With a more personalized approach to loyalty, customers feel more connected to a brand, something that has been proven by Amazon's success, and have more motivation to choose that specific store over others who continue to offer generic discounts and rewards.

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