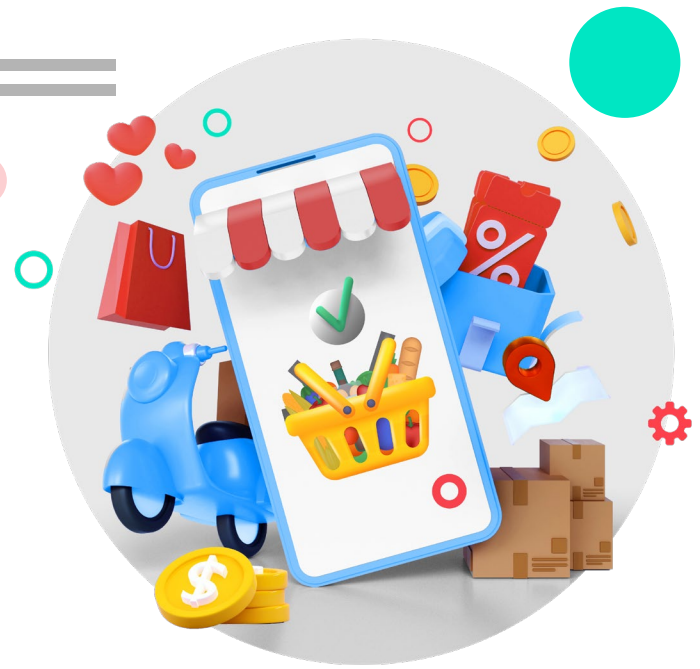**publicis sapient**

Order Fulfillment in Grocery Retail:

Balancing Customer Experience Versus Profitability

Grocery retail industry is going through huge transformation driven by growth of eCommerce. As customers embrace eCommerce, they increasingly demand seamless, personalized, and convenient grocery shopping experiences. To meet customer expectations, retailers are offering multiple fulfillment options and in process find themselves grappling with a host of operational complexities that often pose a direct challenge to the bottom line. In addition, there are other challenges driven by labor shortage and FDA food traceability guidelines.

Grocery retail | key supply chain challenges

eCommerce profitability
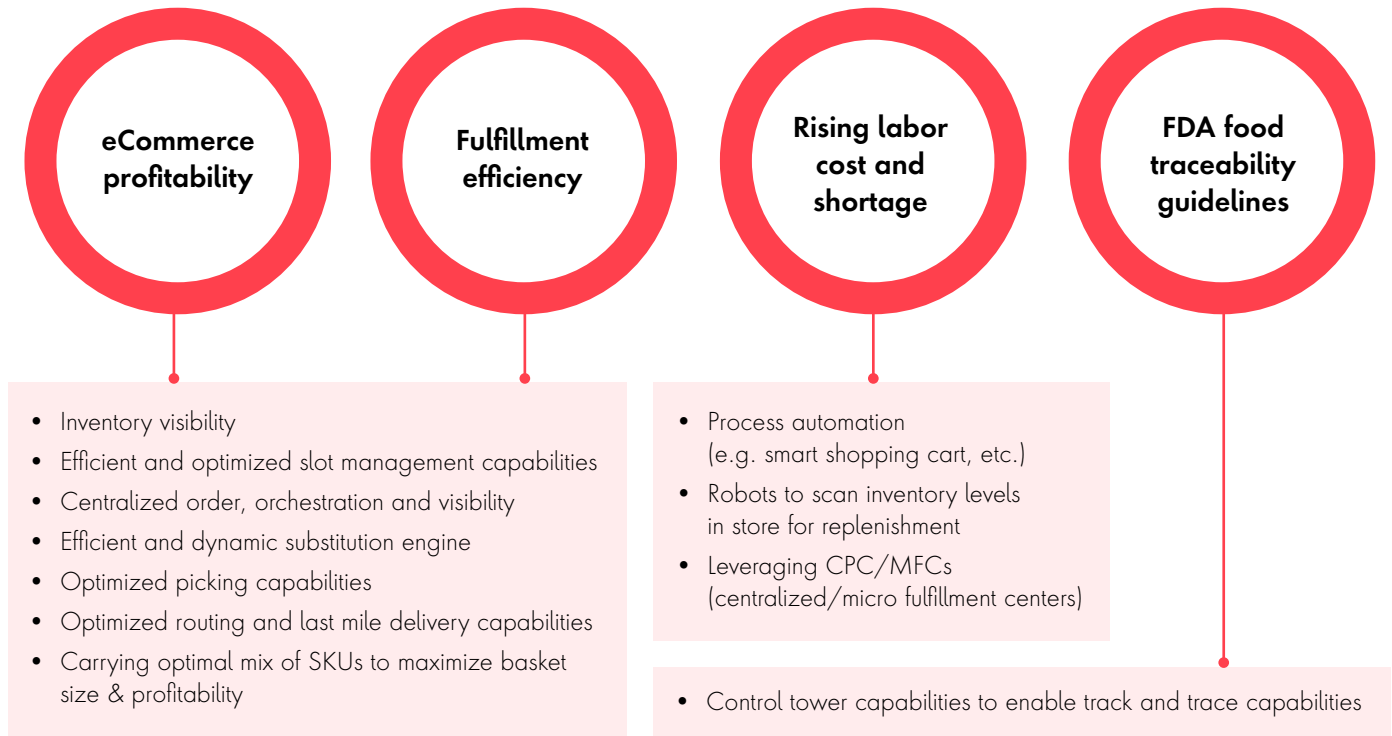
Fulfillment efficiency

Rising labor cost and shortage

FDA food traceability guidelines

Online grocery sales are expected to reach $155 billion by 2025, representing 12% of total grocery spending in the United States.

US click-and-collect sales will grow 10.1% to reach $109.36 billion in 2024. Over three-quarters (78.7%) of those sales will come from grocery.
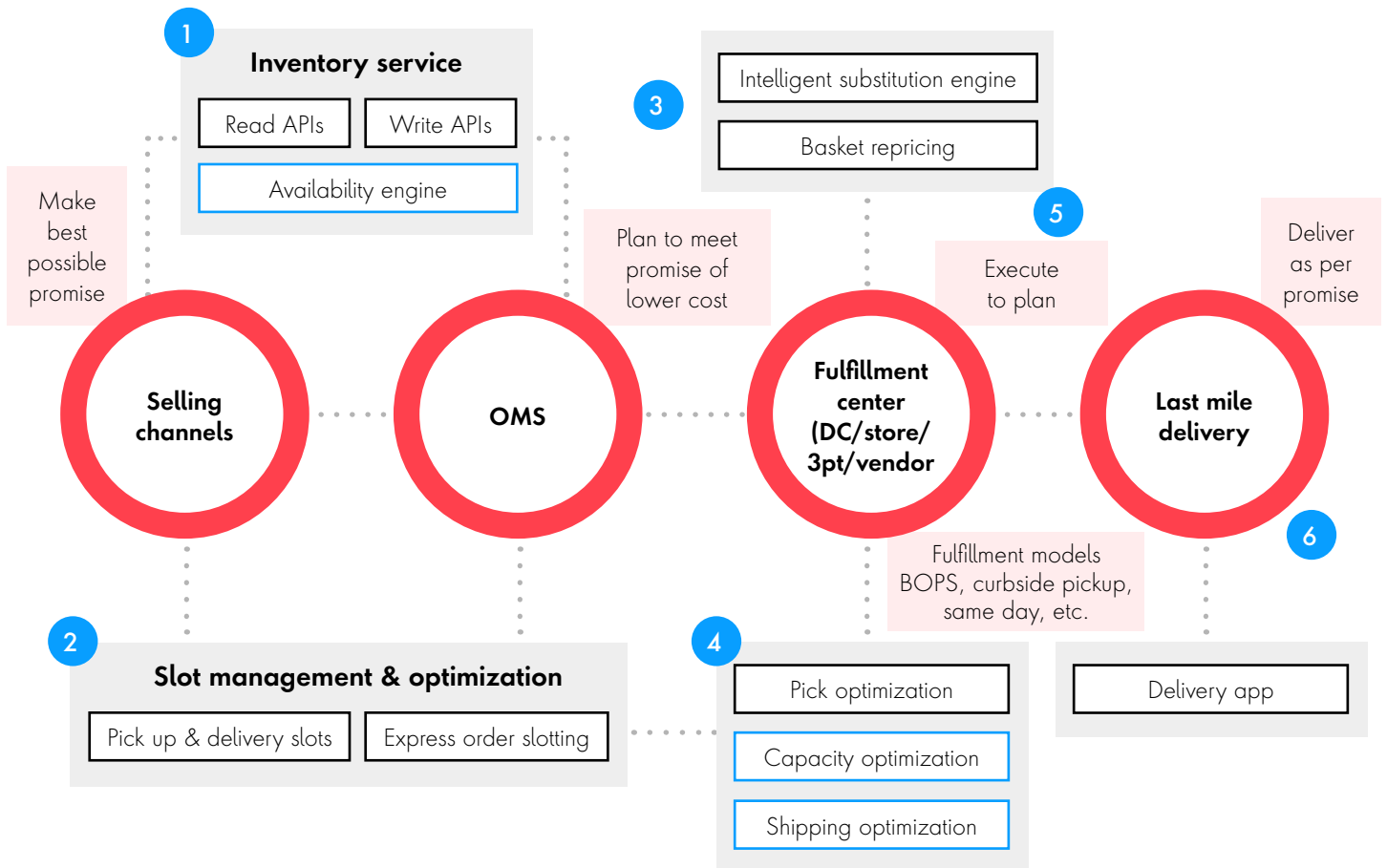
— Article in eMarketer/Insider Intelligence

Leading grocers are leveraging multiple strategies to address these challenges

eCommerce profitability

Fulfillment efficiency

Rising labor cost and shortage

FDA food traceability guidelines

- Inventory visibility
- Efficient and optimized slot management capabilities
- Centralized order, orchestration and visibility
- Efficient and dynamic substitution engine
- Optimized picking capabilities
- Optimized routing and last mile delivery capabilities
- Carrying optimal mix of SKUs to maximize basket size & profitability

- Process automation (e.g. smart shopping cart, etc.)
- Robots to scan inventory levels in store for replenishment
- Leveraging CPC/MFCs (centralized/micro fulfillment centers)

- Control tower capabilities to enable track and trace capabilities

We will focus on solving eCommerce profitability and fulfillment efficiency challenges in this white paper. By addressing key pain points in grocery order fulfillment, businesses can foster operational efficiency, enhance customer loyalty, and ultimately position themselves as industry leaders in an increasingly competitive landscape.

Our promise to delivery solution framework takes end to end view to offer true omni-channel experience to customers while balancing the profitability for fulfillment for Retailers.

The promise to delivery framework

1 Inventory service
- Read APIs
- Write APIs
- Availability engine

3
- Intelligent substitution engine
- Basket repricing

Make best possible promise

Plan to meet promise of lower cost

5 Execute to plan

Deliver as per promise

Selling channels

OMS

Fulfillment center (DC/store/3pt/vendor)

Last mile delivery

2 Slot management & optimization
- Pick up & delivery slots
- Express order slotting

4
- Pick optimization
- Capacity optimization
- Shipping optimization

Fulfillment models BOPS, curbside pickup, same day, etc.

6
- Delivery app

Balancing the equation between customer-centric fulfillment practices and sustainable profitability requires a nuanced understanding of the specific pain points within the grocery supply chain. From inventory management challenges that impact product availability to the intricacies of substitution, managing discounts, order picking, packing, and the logistics of last-mile delivery, each aspect of the fulfillment process plays a pivotal role in shaping both the customer journey and the financial health of the business.
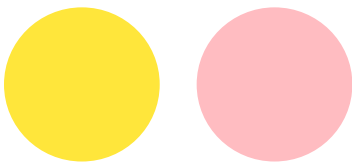
1 Inventory visibility

Having an accurate view of inventory can enable grocers to meet customer expectations. This involves understanding how much inventory is available and where, exposing just the right amount of inventory online to cater to e-commerce shoppers without limiting inventory for shoppers walking in.

For Grocery, the inventory turnover ratio is very high, and the traditional way of calculating Available To Promise might not work. Therefore, incorporating an AI-driven approach to analyze SKU/location level forecasted demand for availability calculation becomes crucial to enhance accuracy and efficiency.

A leading grocery retailer in UK was able to improve the order fill rate by 5% to reach 99% with accurate inventory visibility.

2 Pickup & delivery slots management

Slot management offers customers flexibility in selecting curbside pickup or delivery windows from available options. Stores can scale up by adopting dynamic slots management that considers factors like item types, quantity, availability, store location, delivery distance, van capacity, and existing appointments. Dynamically splitting/merging slot windows maximizes resource utilization and enhances customer experience, enabling businesses to efficiently adapt to varying demands and streamline operations.

Optimizing the order fulfillment capacity and having a hassle-free slot visibility and availability often lead to improved conversion rate. Customers are more driven to complete the order due to availability of slot of their convenient timing enhancing their experience and in turn leading to risk reduction for retailers.

A leading Canadian Supermarket chain generated incremental ~70 million in annual sales with the dynamic store slot optimization and reduced the variance of number of items per slot to be within 5%.

3 Substitution

Substitution is a major issue for store-based fulfillment, impacting NPS score, churn rates and P/L. An Intelligent Item Substitution Engine aids retailers in managing stock-outs, enhancing fulfillment productivity, and improving the customer experience.

Retailers need to optimize and publish accurate inventory availability to minimize OOS items and protect margin erosion from subs by providing AI enabled personalized, relevant sub recommendations. Having a subs opt-out option, and predetermined real-time subs options for high OOS items can lead to enhanced customer experience and minimize returns.

A leading UK grocery retailer has been enabled to improve the acceptance rate by 5% on almost 13m item rejections per year.

4 Pick path optimization

Given the volume of orders that the grocery retailers deal with, and the amount of manual labor required in the picking process, there is tremendous scope for productivity gain by increasing the pick rate.

Retailers can use the following strategies.

1. Near Real-time pick path optimization to pick expedited shipping orders without disturbing normal order.
2. Use customer traffic patterns to determine different pick paths during shopping hours.
3. Use AI (simplistic digital twin model) to identify areas for improvement – store planograms, faster zones, and slower zones.
4. Implement AI based order flagging for random checks (quantity & quality) of perishable items to improve picker productivity.

A Canadian supermarket is realizing a operational cost saving of ~16.8 million CAD once all fulfillment stores are optimized.

5 Repricing the basket

Price changes, flash sales and item substitutions are common in grocery, and OMS must ensure additional repricing logic for the picked order. This includes re-pricing subs to match original item, clear and transparent demarcation of the price different for accounting purpose and capture it under the appropriate head. This leads to a seamless customer experience reducing their frustration due to recurring changes in order total and bring transparency to the pricing.

Retailers are also benefited with lesser traffic to their call centers and retain customer loyalty. Repricing logic can be implemented after picking to account for price changes on the final order.

A leading UK grocery retailer would be able to reduce customer service cost by 23% with accurate and transparent pricing of basket.

6 Last mile delivery

Inability to meet the customer promise due to last mile delivery disruption can have a higher impact on customer satisfaction. It is critical to have flexibility and agility in delivery capability that allows addition/ changes as required considering new options are being offered to customers on ongoing basis. Delivery visibility and communication are important part of last mile delivery to provide transparent visibility to customers as well as internal stakeholders and ensure promises are met. This should also make transaction finalization easy for customer (accept/ reject items in the order)

A spirits and wine Retailer was able to grow 7% in total order value with efficient last mile delivery partner solution.

In addition, leveraging AI in during fulfillment process can enhance a grocery retailer's efficiency and help improve customer satisfaction. One of the key areas where AI has already made a difference is inventory management. By predicting demand and optimizing stock levels, AI helps reduce waste and ensures that popular items are always available for customers. Additionally, Incorporating AI has also led to improvements in automated checkout, delivery optimization, fraud detection, and quality control. AI optimizes delivery routes and schedules to guarantee timely deliveries with minimal waste. Moreover, AI can be leveraged to monitor product quality, identifying spoiled produce, and detecting foreign objects in packaged goods.

As grocery retailers navigate a complex landscape of operational intricacies for order fulfillment, by embracing the above capabilities, businesses can not only overcome current challenges but also position themselves as leaders in the rapidly evolving landscape of online grocery shopping.

If your business wants to optimize fulfillment and better serve customers, talk to Publicis Sapient. Through end-to-end supply chain solutions, your organization can make the improvements it needs to drive new levels of efficiency and profitability.

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