PURPOSE-DRIVEN
ADAPTABLE
RESILIENT
Retail
GROCERY
MERCHANDISING
IN THE POST-COVID WORLD
PURPOSE-DRIVEN, RESILIENT & ADAPTABLE with Business 4.0™

- Embrace Risk
- Mass Personalize
- Intelligently
- Create Exponential Value
- Automate
- Agile
- Leverage ECOSYSTEMS
- Cloud
Introduction

As essential businesses, grocers have been spared the economic hardships felt by other retailers during the COVID-19 pandemic. Recent reports indicate that Americans are spending 44% more money on each visit to the grocer\(^1\). While on the one hand, grocers have experienced many opportunities during this time, they have had their fair share of challenges as well. The sudden surge in demand for food and essential supplies, plummeting sales of other categories, and drastic shift to buy online, pick-up in store (BOPIS) as people adhere to stay-at-home directives has sent demand shock waves.

Grocers who did not have online channels or whose channels were still largely siloed had to pay a heavy price because they were unable to move store inventory to sell and execute across channels. The stories of out-of-stock and overstock are widespread—several online fulfillment providers missed items in baskets and major ecommerce platforms sent out-of-stock communications due to unavailability of delivery windows and cancellation of online orders.

Though the spending on digital transformation among grocers has increased steadily over the last few years, the sudden surge in online grocery sales by 200% this year\(^2\) has sent retailers scrambling to scale up both their digital and store operations.

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The COVID-19 impact has permeated all components of the grocery retail value chain from merchandising to making the shopping experience as safe and risk-free as possible. Retailers have adopted several new strategies and the responses have varied from sourcing new suppliers for key items to working on compassionate pricing without eroding margins. On the store side, the merchandising teams have been focusing on store remodeling to make room for staging areas for ‘buy online, pick-up at curb (BOPAC)’ orders and designating new checkout areas that adhere to social distancing norms.

With new challenges such as demand spikes, diverse fulfillment, and stock piling, the merchandising decision making process has become even more complex. In addition to the historical datasets that were primarily performance based, the teams are now forced to consider additional inputs such as new vendor requirements, local and state safety ordinances, and operational information to help right-size merchandise staging areas. With many merchandising teams still working remotely, real-time collaboration continues to be challenging. To tackle some of these new challenges, the merchandising teams have both gone back to basics and also adopted new processes to meet the evolving needs.

One example of this complexity is the changing shopping behavior as lockdown eases across geographies and limited mobility is restored. From the initial stock piling, to shifts to online grocery shopping, to now indulging in comfort foods, category managers and planners are overwhelmed with new trends crystalizing every few weeks. Sales channels penetration has tilted...
in favor of ecommerce and this trend is expected to continue post the crisis. This can pose a challenge for grocery store merchandising and planning teams that had not viewed the demand through the omnichannel lens or had not focused on building cross-channel assortments. As a result, customers are likely to get frustrated or confused when items available online are not available in the stores and vice versa.

Yet another challenge is the increased complexity in space management, driven by two essential needs—operational efficiencies, and customer and associate safety. Optimization teams are focused on carving out ample space for staging online orders and are looking to create one-way, widened aisles for additional safety. Many retailers are focusing on the checkout area where long queues can cause densely congregated spaces. The space planning teams are looking for semi-permanent or even permanent ways to create a more open area for queues.
AI can help retailers make meaningful and profitable decisions every day at granular levels such as which products to stock, what item prices to recommend, how much space to assign to each category, and how to complete customer baskets across channels.

AI-generated insights are also contrasting historical norms in merchandising by enabling unconventional strategies such as adopting compassionate pricing. To balance fair pricing and prevent margin erosion, retailers need to consider a multitude of factors such as product availability, seasonal demand, hoarding impacts, competitor prices, customer behavior, and availability of products from vendors. Advanced AI technologies have pre-built models that can simulate the impact of these factors on sales and optimize prices, helping retailers to price fairly and intelligently to avoid margin erosions.

Here are a few scenarios that illustrate how applying AI in grocery retail value chain helps retailers pivot and thrive in the face of new business challenges and opportunities:

- **Re-evaluation of demand patterns**: Retailers can re-evaluate demand patterns and reestablish sales forecasts across multiple channels. They can rerun and adjust forecasts by considering local events, spikes in demand for certain essentials, vendor cancellations, supply chain hurdles, changing customer preferences/needs, product affinities, utility aspects, etc. Such dynamic demand reforecasts will enable merchants to review open orders and future buy plans based on changed parameters.
• **Space optimization**: Retailers can reallocate space based on the COVID-19 recovery patterns. They can optimize category space to accommodate store layout changes, increase space productivity, carve out space for new product lines, and allocate space for new in-store initiatives such as special displays for essentials and BOPIS/BOPAC counters.

• **Assortment optimization and SKU rationalization**: As health-conscious customers continue to hug the perimeter and indulgent shoppers frequent the store center, retailers can leverage AI to revisit the product breadth and choices and rationalize assortments, ensuring availability for customers.

• **Markdown and promotion optimization**: Retailers can evaluate demand changes and optimize their markdowns, and review and re-plan promotions across departments and locations to minimize write-offs and maximize margins.

• **Product reservation and personalized pricing for ‘at risk’ people**: Retailers can analyze customer and performance data to identify potential ‘at risk’ customers; offer customized, personal compassionate pricing; and reserve assortment/products for the most vulnerable.

• **Curated assortments**: Retailers can design customized ‘quick-pick’ solution boxes to shoppers based on customer segments and preferences (family, single, ethnic food lovers, elderly shoppers, stock up trips, etc.).

• **Compassionate pricing**: More than 22 million Americans have filed for unemployment since mid-March, making affordability as important as availability for many families. Retailers are looking at marking down essentials to help families stretch their budgets. By leveraging AI solutions to analyze details such as performance, demographics, customer, location, competition, online metrics, inventory, and COVID-19 statistics, retailers can reassess the shift in elasticities, optimize prices and promotions, and employ compassionate pricing.

• **Substitution recommendations**: AI can analyze baskets to determine substitution recommendations, as against using only tag words/product hierarchy. For example, if a location is running low on croutons, recommending a fresh loaf of bread, oil, and spices may be a better recommendation than tortilla strips as a salad topping.

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Conclusion

The pandemic has created uncertainty for retailers, making it hard to predict how shopper and buying behaviors will evolve. Grocery merchandising post COVID-19 will be no different. The way forward is to ensure agility, scalability, automation, and intelligent operations that help to make real-time decisions, drive hyper-localization at scale, handle cross-channel assortments, and ensure availability through better visibility and alternate sourcing. Retailers who build adaptability, agility, and purpose to recalibrate operations based on emerging dynamics will emerge resilient and thrive in post-COVID retail.

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