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How live inventory is crucial to BOPIS and click-and-collect

Executive Summary

BOPIS (buy online, pickup in-store) or click-and-collect shopping has been growing in popularity in recent years. It combines the convenience of online shopping with almost the same immediacy that comes with buying in stores.

The COVID-19 pandemic has turbocharged adoption. According to a May 2020 report by McKinsey, the use of BOPIS grew 28% year-on-year in February.* The Adobe Analytics Digital Economy Index report found it had surged to 259% year-on-year growth in August.**

BOPIS growth chart 2020

28%   YOY growth February

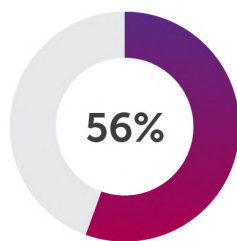**259%**   YOY growth August

Source: *McKinsey COVID-19 US Consumer Pulse Survey, April 20–26, 2020
      **Adobe Digital Economy Index, August 2020

The significant advantage is that people spend much less time in-store: instead of traversing the aisles, rubbing shoulders with other shoppers, they go straight to the service desk and collect their purchases.

Some retailers go a step further and provide a curbside pickup service that may even include loading the goods directly into customers' cars, practically eliminating person-to-person contact. This delivery mechanism is referred to as 'contactless pickup'. Perhaps the most extreme example is where orders are left in collection lockers that can be opened with a code number or QR code so that customers do not need to interact with staff at all.

This change in consumer behavior could be here to stay. McKinsey found 56% of consumers intend to continue using BOPIS in the future,* while Adobe Analytics found a full 30% of online consumers prefer BOPIS or curbside pickup over delivery.** For some shoppers, it may provide useful time savings — especially for weekly grocery shopping — and pickup may be more convenient than arranging for delivery.
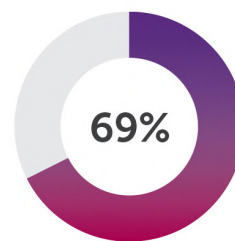
A more recent report from Ipsos, published in October 2020, adds weight to the idea that BOPIS is catching on, with 69% of shoppers saying they expect to continue using it at the same or higher levels after the pandemic subsides.***

56%

Intend to continue
using BOPIS

30%
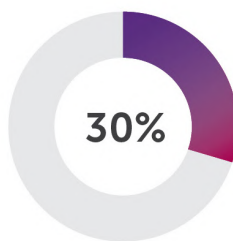
Prefer BOPIS
over delivery

69%

Expect to continue
using BOPIS

Source: *McKinsey COVID-19 US Consumer Pulse Survey, April 20–26, 2020
      **Adobe Digital Economy Index, August 2020
      ***Ipsos E-Commerce Experience Report, October 2020

Contents

Keeping customers satisfied while shifting to a more robust e-commerce model

As noted, BOPIS is likely to become part of the new normal. Consequently, a robust BOPIS offering becomes table stakes for retailers and CPGs.

From the customer's perspective, BOPIS is best treated as an additional 'delivery' option so they can continue to use the same familiar online shopping site or app. But instead of nominating a delivery slot and address, they specify a pickup location and time. While consumers will likely understand the need for a narrow time range when collecting an order that includes perishables such as dairy products or frozen food, they may expect greater flexibility when picking up completely non-perishable orders.

Consumers may also expect to be notified when their order is ready for collection, and may appreciate the ability to inform the store that they are on their way so that their goods can be readied at the pickup point to minimize waiting time.

Other aspects of the BOPIS collection process that deserve attention are the provision of dedicated parking spaces (practically essential for contactless pickup, but always highly desirable), as well as good signage to help customers navigate to those spaces and then — where appropriate — to the actual pickup point.

Order online **1**

Choose store location **2**

3 Arrive at collection point

4 Return with goods
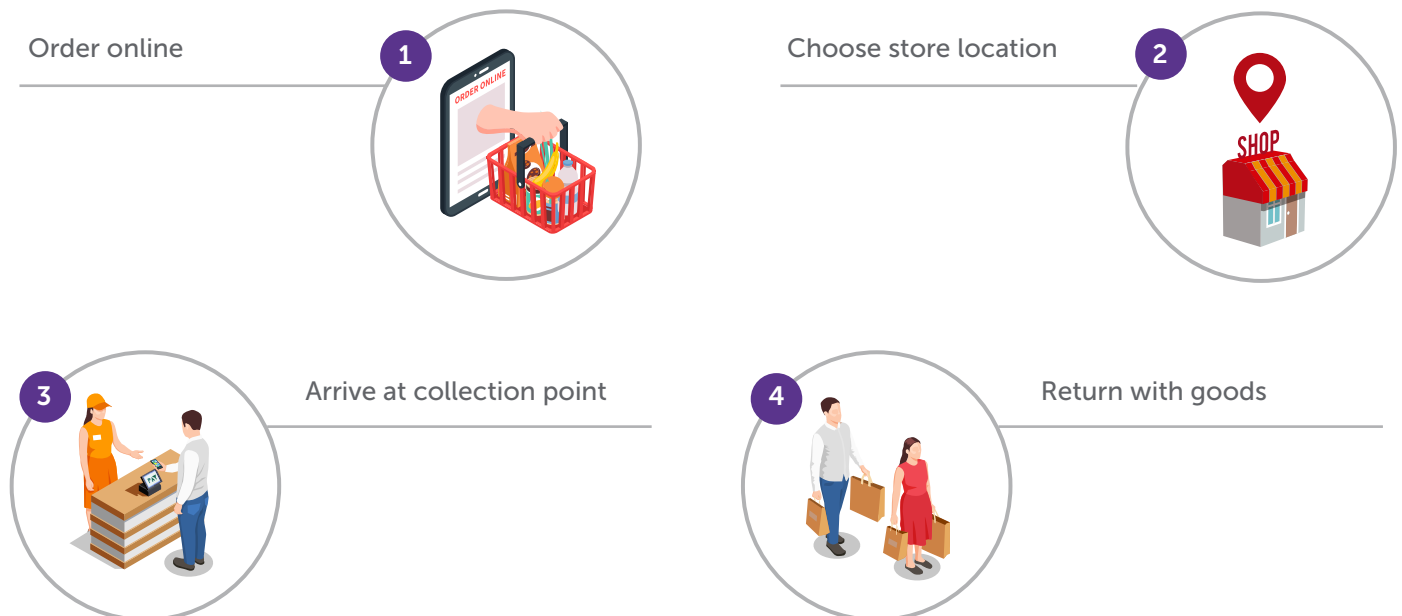
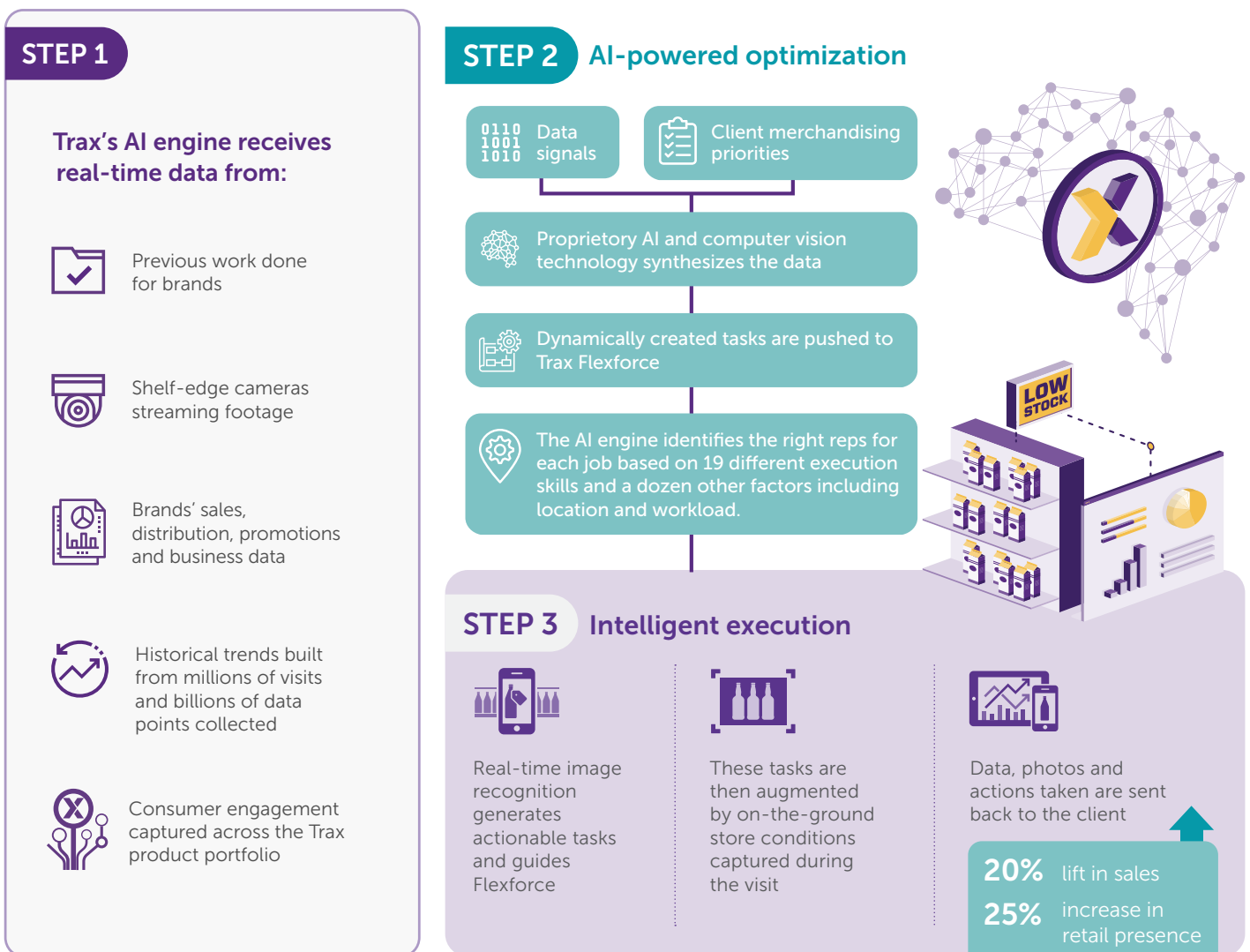# Complexities for retailers and CPG brands that arise from BOPIS

Grocery margins are generally slim, and the cost of BOPIS can often be greater than selling the same basket to an in-store customer because someone has to pick the order, which may require more resources in comparison to the regular checkout process.

Retailers may need additional staff to handle BOPIS orders unless the store can tolerate the resulting disruption to daily operations. The Trax Flexforce on-demand workforce can handle such picking jobs, improving margins compared with permanent staff, reducing time to order collection, and increasing customer satisfaction.

Some retailers have chosen to levy a BOPIS fee, which is usually less than the delivery fee. But what if the competition provides a service with no extra charge?

How Trax Dynamic Merchandising works

STEP 1

Trax's AI engine receives real-time data from:

- Previous work done for brands
- Shelf-edge cameras streaming footage
- Brands' sales, distribution, promotions and business data
- Historical trends built from millions of visits and billions of data points collected
- Consumer engagement captured across the Trax product portfolio

STEP 2 AI-powered optimization

0110 1001 1010 Data signals

Client merchandising priorities

Proprietory AI and computer vision technology synthesizes the data

Dynamically created tasks are pushed to Trax Flexforce

The AI engine identifies the right reps for each job based on 19 different execution skills and a dozen other factors including location and workload.

STEP 3 Intelligent execution

Real-time image recognition generates actionable tasks and guides Flexforce

These tasks are then augmented by on-the-ground store conditions captured during the visit

Data, photos and actions taken are sent back to the client

20% lift in sales

25% increase in retail presence

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MANAGING COSTS

Suppose fees are considered unacceptable, and the retailer realizes BOPIS is becoming an expected service but is not prepared to tolerate the eroded margins. In that case, there are basically two choices: reduce costs, or increase revenue.
.
One way of reducing costs might be to assemble BOPIS orders at lower-cost locations such as warehouses, or dark stores that already deal with the delivery of online orders.

Adding a service desk or collection lockers (possibly including provision for items that must be kept frozen or refrigerated) to such sites provides additional pickup locations, and it might be feasible to transfer completed orders in bulk to places where they can be collected. Taking say 40 orders to one location is almost certainly cheaper than taking 40 orders to 40 different locations, so the BOPIS fee (if any) could still be less than the delivery fees.


INCREASING REVENUES

On the revenue side, possibilities include paid in-app or on-bag/carton advertising, and payments for prioritizing particular products in terms of prominence in the app (analogous to buying premium shelf space) or when substitutions are necessary — for example, if one brand of tortilla chips is out of stock when a customer orders it, perhaps the store could be incentivized to replace it with another, specific brand. There is also the old favorite of bringing shoppers' attention to additional products that they didn't intend to buy — the online equivalent of the fast-food world's "would you like fries with that?"

Apart from all these considerations, fulfilling BOPIS orders from stores adds to the importance of inventory control. When a customer shops in-store, the desired products are either on-shelf or unavailable. BOPIS orders, by definition, are placed ahead of time. When they are placed the day before collection or even earlier, there is a possibility of adjusting stock to allow for those orders.

A variation on this is to allow BOPIS orders to include items that are not usually stocked at the nominated store, but that can be delivered from a distribution center or a neighboring

store in time for collection, a process sometimes called micro-fulfillment. Some retailers are trying a hub-and-spoke model, where a larger store acts as a mini warehouse for smaller stores in the same vicinity, transferring items on an ongoing basis to improve availability at all locations.
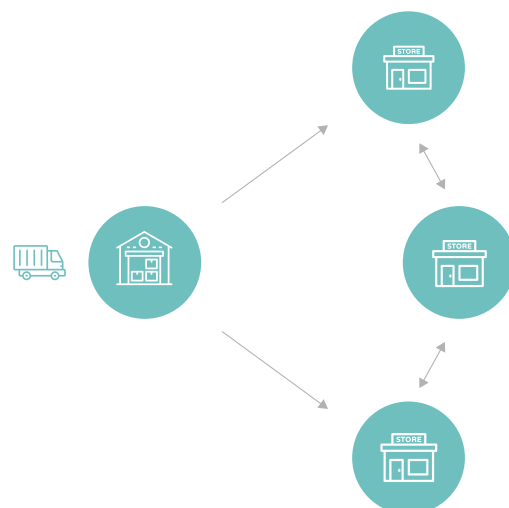
One way to reduce disappointment caused by substitutions is to show BOPIS customers (and home delivery customers, for that matter) that an item is out of stock when the actual stock level falls beneath a threshold. The slower moving the item, the smaller that minimum would be. Then, instead of the picker making the substitution (perhaps guided by software), the customer can make their own decision about the next-best option.

The downside of this approach is that there will be times when the customer's preferred product was on the shelf at the time the order was picked, so accurate forecasting of in-store stock levels is imperative as retailers need to balance the importance of not disappointing in-store customers with the cost of missing out on a BOPIS sale.

The in-store shopper's experience is defined by what they see; online, one's experience is defined by what is available. As an in-store shopper, it can be disappointing not to find the product you want on the shelf, but at least you have the opportunity to find a reasonable substitution while there. In contrast, when shopping online, at best, you will receive a telephone call or a text message from the retailer trying to offer a substitute. In reality, most likely you will only realize something is missing when you collect the order or unpack it at the house.

Retailer issues are entwined with and overlap problems faced by CPGs. Customer loyalty is a thing of the past. McKinsey asserts that customers are switching brands at unprecedented rates.

36%
of consumers are trying a new product brand

25%
of consumers are incorporating a new private-label brand

Trax's research bears out the data on shifting brand loyalties. In a recent survey, Trax reached out to 22 CPG clients in 14 countries to understand how the crisis impacted CPGs. Among other issues, respondents admitted to increasing concerns about brand-agnostic customers. Although the survey dealt with consumer behavior in-store and at the shelf, it is undoubtedly a factor with BOPIS as well.

GROCERY ONLINE

Retailers and CPGs need real-time visibility on the shelf to ensure products are in-stock

Out-of-stocks have always been a problem, and an 8% out-of-stock rate is considered typical (Source: IHL). But BOPIS and click-and-collect make accurate inventory data more important than ever. An estimate by the IHL Group, a research and advisory firm, indicates that digital grocery consumers have been experiencing out-of-stocks as often as twice in one 'shopping trip' since the advent of the COVID-19 pandemic and the inventory is not being replaced enough in real-time.

8% out-of-stock rate is considered typical

It is well known that theoretical stock levels (items delivered to the store minus items sold according to the registers) do not always match reality, so shelf visibility becomes an increasingly crucial component of determining actual inventory.

More accurate data allows more accurate forecasting, which leads to lower inventory costs for a given level of in-stock performance — providing in-store, home delivery and BOPIS are taken into consideration together.

Today, success at the shelf is increasingly about managing inventory at the back-end. However, the movement of items on shelves is often so rapid and unpredictable that data on out-of-stock items or share of shelf space becomes obsolete far too quickly.

As with home delivery, BOPIS policies regarding out-of-stock items have an impact on customer satisfaction. Customers expect their order to be fulfilled in full, but when an item is out-of-stock, retailers will usually make a substitution unless the customer specified 'no substitutions'.

Poor fulfillment practices can have negative effects on retailers and CPG brands alike.

An incomplete or partly substituted order usually means a less-than-satisfied customer, so the retailer may lose a customer to a competing store — or to an online rival.

Brands suffer a lost sale when one of their products is out-of- stock, but there is an additional risk that the customer will prefer the substituted item and permanently switch to it. Once lost, these customers may be hard to win back.

24%

of Amazon Retail Sales

can be attributed to customers who first tried to shop in stores but found stores out-of-stock.*

* Source: IHL Group
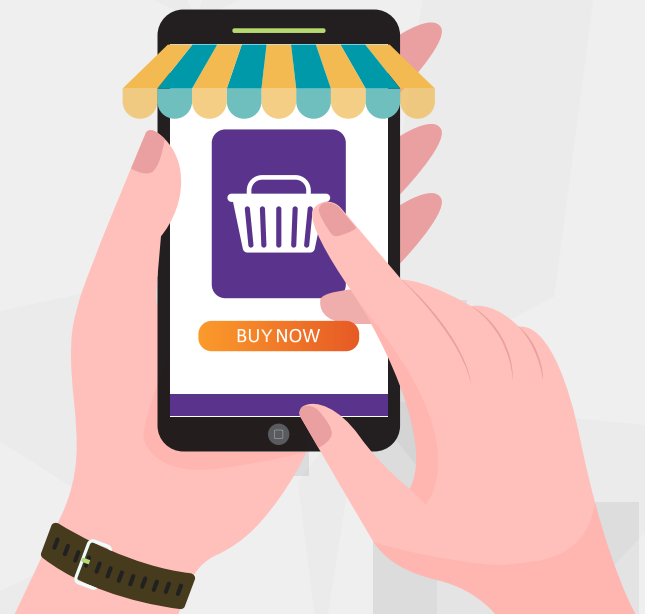
Meeting these needs calls for a sharp focus on the following:

• Improved integration of e-commerce and inventory systems, including real-time shelf data. If an SKU is projected to be out-of-stock at the time the order will be filled, a case can be made for preventing the customer from ordering it, and instead of offering alternatives; such as offering different pack sizes of the same product.

• A solution that delivers high-quality, targeted execution and generates real-time information to make smarter decisions.

• Retailers and CPGs need access to real-time, consistent data to ensure products are in-stock or being replaced as necessary to ensure the consumers are getting the products they ordered through the e-commerce platform. This also applies where customers order their groceries through services such as Instacart and Shipt.

Improved integration of e-commerce and inventory systems, including real-time shelf data

High-quality, targeted execution and generates real-time information

Access to real-time, consistent data

Third-party vendors like Trax

can contribute to a successful BOPIS program in the form of accurate

and timely shelf data coupled with powerful analytics

A key aspect of the Trax solution is the use of computer vision to provide real-time visibility of what is on the shelves. Machine learning is applied to images collected in-store to identify products down to the SKU level (the technology is even able to cope with changes to packaging without being explicitly retrained) and to spot out-of-stock situations.

Depending on the client's requirements, these images can be collected by fixed cameras. Alternatively, robotic cameras are used to sweep through the store, capturing shelf conditions several times a day. In situations where lower frequency is considered sufficient, there is also the option of using the Trax Flexforce on-demand workforce to photographically capture the shelves.

The images are processed in the cloud, which makes the Trax solution highly scalable. Trax already recognizes a billion items every month and can readily cope with thousands of additional stores. For example, adopting the Trax solution allowed one client to increase its store audit coverage from 50,000 to 300,000 outlets while reducing the cost and gaining real-time access to the results.

Security and privacy are important considerations. So, for example, Trax's proprietary shelf cameras automatically discard images that include people, and the overall system is in alignment with a variety of security best practices and standards.

Benefits for retailers include out-of-stock alerts to drive faster restocking, the opportunity to improve supply chain control by making inventory decisions in response to real-time supply and demand changes, and delivering guidance for in-store order pickers (for instance, that a particular item may be missing from its regular shelf but there is stock on an endcap).

With the Trax solution, CPG brands and retailers can both enjoy accurate, consistent and actionable insights on real-time shelf conditions in every outlet.
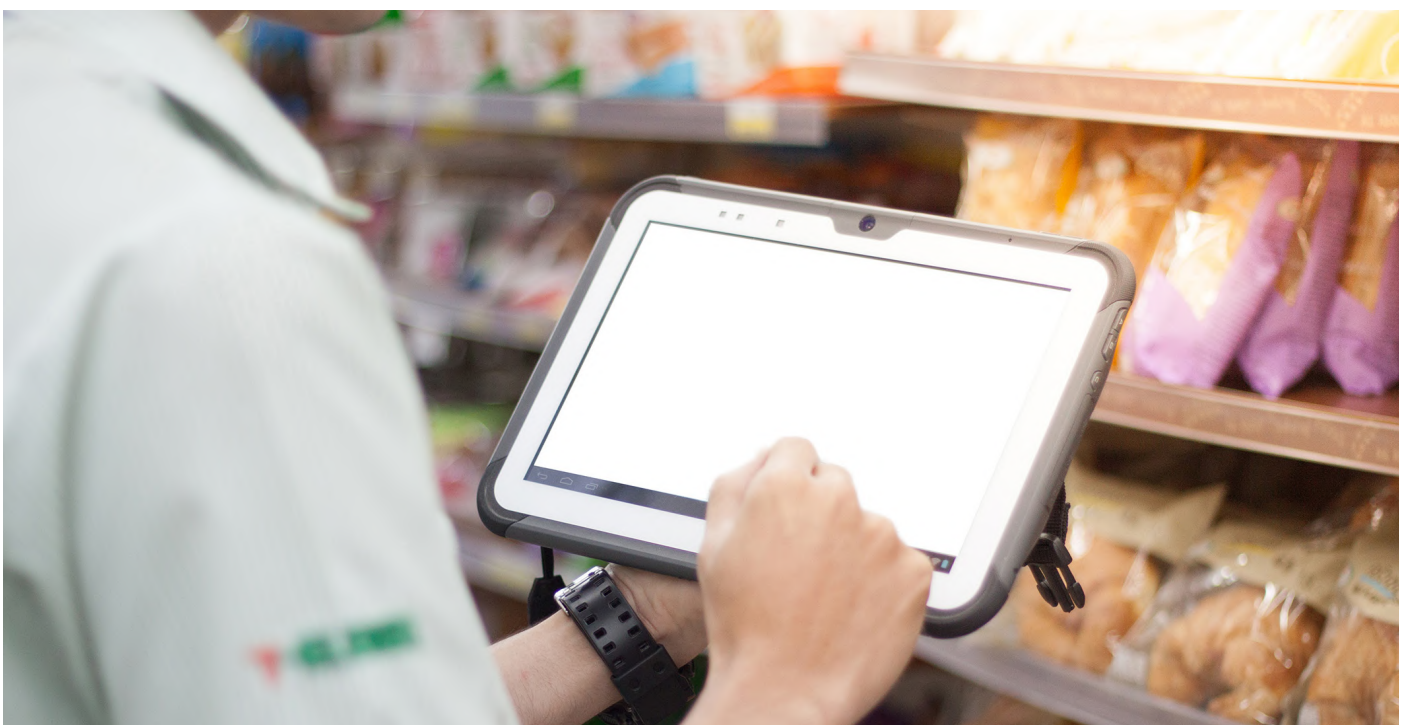
Conclusion

Trax specializes in shelf intelligence and analytics. Our mission is help you understand what's happening to every SKU and every display in every store.

Our customers draw on our advanced technologies and unique shelf insights to confidently make critical decisions in their categories and channels.

Advanced in-store execution tools for real-time shelf audit

Shelf-edge cameras for continuous monitoring of on-shelf availability

Dynamic merchandising services for targeted brand activations

Crowd-based shoppers for engagement with new products and promotions

On-demand workforce for direct store support on re-stock, inventory and more

To know more about how Trax can support in your post-pandemic recovery process, book at meeting with our sales team at **www.traxretail.com/contact/**