# onfleet

# Perfect Grocery Delivery

How grocers can build exceptional last mile delivery

experiences and win the modern consumer

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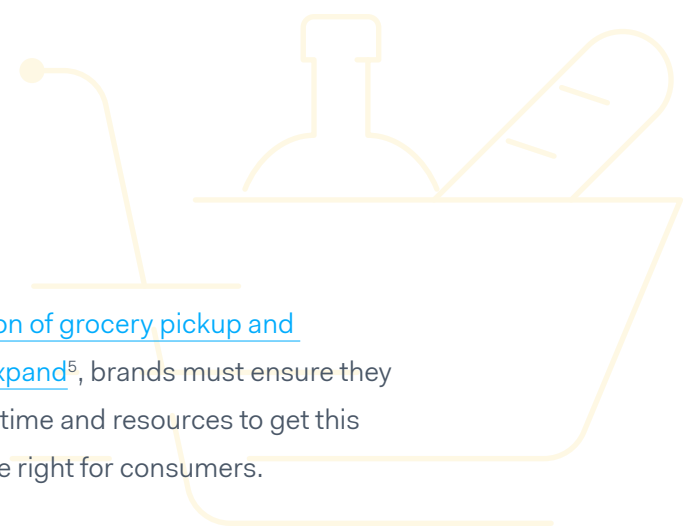**10**

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# Introduction

Grocery has evolved and emerged as one of the most competitive segments of modern e-commerce. During Covid, food and beverage, and especially grocery delivery, have proven to be deemed as both essential and personal. Consumers today demand higher quality, faster delivery, and lower prices. Clint Rainey of New York Magazine wrote[1]: "In a climate of fierce competition, store owners are racing to roll out new technology, lower prices, and win, by any means necessary." While expectations are soaring, customers generally remain loyal to the brands they already know. In the second quarter of 2019, no grocery delivery provider shared more than 9%[2] of another delivery company's customers. Delivery options are changing some of these preferences and herein lies opportunities to gain marketshare. Grocery sales grew 20% in 2019 and will cross over a 50% increase in 2020. 80% of all grocery customers reported to do some (or all) of grocery shopping online in 2020. The industry as a whole is expected to reach $100B in sales by 2025.

E-commerce represents about 3% of the $641 billion U.S. grocery industry, which puts current delivery-specific sales around $20 billion. However, grocery delivery is growing at breakneck speeds as new entrants and substantial investments fuel a market poised to reach $100 billion by 2025[3]. By that time, online grocery sales are estimated to account for 20% of the total grocery market. According to FMI and Nielsen[4], 70% of consumers will be grocery shopping online by 2024[2] as omnichannel shopping passes the tipping point and moves toward industry saturation. Online ordering, pickup, and delivery are the new normal for grocery. Any grocers looking to grow, or even maintain, their market share need to master these offerings.

Further, the expectations for delivery windows are increasingly narrow, with same and next-day delivery now par for the course and grocers literally racing to see who can deliver most quickly. The rise of the on-demand economy has forced grocers to offer delivery or risk irrelevance.

As adoption of grocery pickup and delivery expand[5], brands must ensure they invest the time and resources to get this experience right for consumers.

The good news is that it is easier than ever to build a robust and modern delivery service that provides consistent, high-quality experiences for customers.



**$100** billion in sales
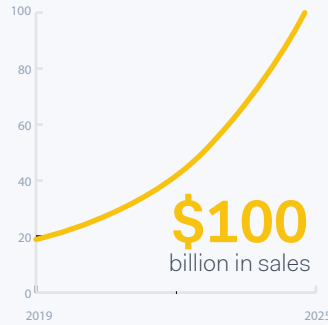
Online grocery sales are predicted to capture 20% of total grocery retail by 2025 to reach $100 billion in consumer sales.

**70%**
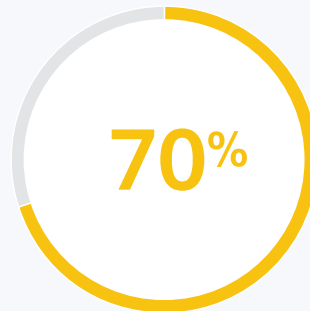
70% of consumers will be grocery shopping online by 2024.

# Grocery Delivery Players

Several key brands have positioned themselves at the forefront of the grocery e-commerce and delivery industry, but the space remains competitive through large investments, continued innovation, and existing brand recognition.

**amazon**

**Walmart**

Amazon is the leader in grocery e-commerce with market share of 18%[6], representing an estimated $2 billion in food and beverage sales. The U.S. grocery industry competitive arms race has greatly escalated since Amazon acquired Whole Foods[7] for $13 billion in 2017. Amazon includes free one-day delivery with no order minimums for their over 100 million Amazon Prime subscribers. Despite major market penetration by leveraging their existing delivery infrastructure, they continue to battle themselves by offering two services: AmazonFresh and Amazon Prime Now. The former, their first grocery delivery offering, is one of the only major grocery services on the decline. On the contrary, Amazon Prime Now has experienced triple year over year sales by offering select Amazon products along with Whole Foods groceries within two hours.

Walmart has signaled the expansion of delivery options as a major priority, announcing plans to allow for delivery from more than 1,600 of 4,700 locations[8] by the end of 2020. Paired with a grocery "distribution center of the future"[9] Walmart is positioning itself to take the top spot in online grocery. Coupled with pickup and delivery options, Walmart actually has an estimated 60% more customers[10] than the nearest competitor. They have also launched a delivery subscription called "Delivery Unlimited"[11] for $98 per year[8] to compete directly with Amazon Prime and other subscription-based options.

## <span style="background-color:#8DC63F">◎ TARGET</span>

Target, who acquired their way into the grocery delivery space with the purchase of Shipt for $550 million in late 2017[12] is the third-largest player in the space. Shipt's same-day delivery options are now fully integrated[13] into the Target. com domain, eliminating the need for customers to go to the Shipt website. Target has attributed "well over half[14]" of their most recent year-over-year growth to same-day fulfillment advancements, including pickup and Shipt deliveries, and claim this isn't slowing down.

Despite being phased out[15] from Whole Foods and Target after each acquired competing brands, Instacart has raised $1.2 billion[16] to date and continues to grow. While they aren't the only technology startup tackling grocery delivery, with a valuation north of $17.7 billion, they are certainly a trendsetter within the space.

Boasting a sophisticated app that customers can use to order from a network of 300 unique retailers via 20,000 US stores, Instacart is winning on customer choice. In the future, Instacart could work directly[17] with consumer brands with "the intention of eventually competing against its current customers" in an effort to replace the grocery stores themselves.

A handful of very well funded venture-backed technology companies are not far behind. Doordash has raised $2 billion[18] and offers delivery from grocery stores through its workforce of "Dashers". They boast coverage in all 50 U.S. states as a result of their restaurant delivery service, which has now surpassed[19] all other competitors in market share.

While Doordash has a massive delivery workforce, it remains to be seen whether Dashers can be retrained and repositioned as a grocery delivery workforce. As Instacart and Shipt have already discovered, picking and delivering 1 to 3 orders per route is a prohibitively expensive way to execute a grocery delivery business. Like many Silicon Valley companies however, an underlying hope remains that sustained scale will bring costs down as technology replaces human labor (sidewalk robots, autonomous cars, drones).

## Others

Kroger, the second largest[20] grocer in the US, just recently broke ground[21] on a $55 million fully automated grocery packing warehouse geared towards delivery. This is a part of an exclusive partnership with UK-based automation company Ocado. Texas-based H-E-B now delivers more groceries than anyone else in the Lone Star State. United Supermarkets, an Albertsons subsidiary, as well as Safeway, have exponentially grown[22] their delivery operations over the past year.

Additionally, there are direct-to-consumer companies innovating in the grocery delivery space, including FreshDirect, Peapod, Imperfect Produce, Good Eggs, and GrubMarket, to name a few. These brands are competing with traditional grocers by eliminating the brick and mortar presence.

While still in its infancy, it's also worth mentioning the autonomous delivery space is heating up. Nuro recently raised a staggering $940 million[23] from the SoftBank Vision Fund and is performing tests with Kroger[24] in Texas. Additionally, Udelv[25], Waymo, and Cruise[26] are all performing their own autonomous delivery pilots with grocery brands.
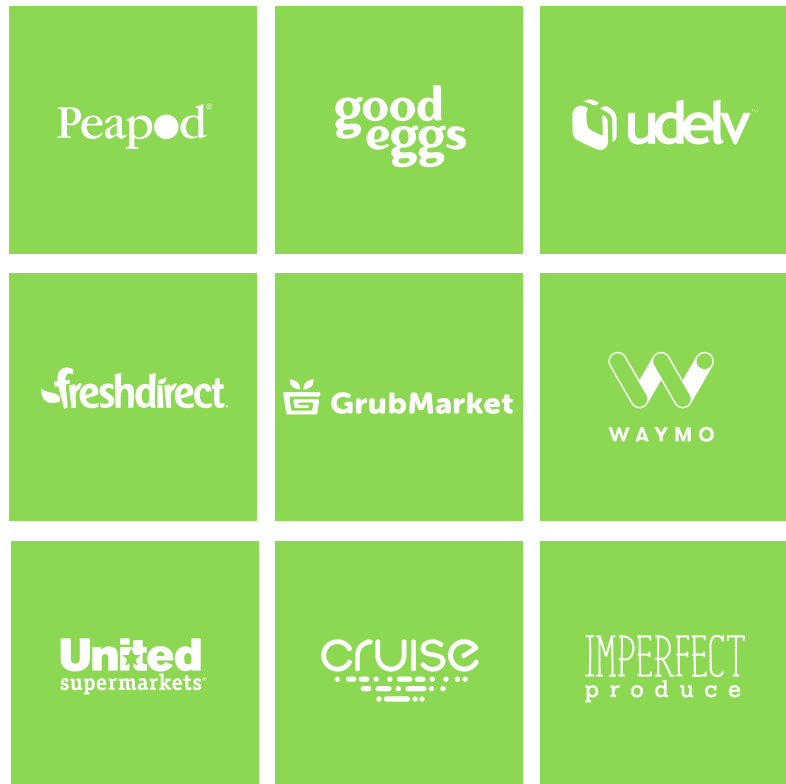
# Grocery Delivery Challenges

Running an effective grocery delivery operation without a comprehensive strategy and end-to-end systems is no longer profitable. An effective grocery delivery service is comprised of three main components: **an online ordering/e-commerce system**, **a warehouse pick/pack operation**, and **a last-mile delivery operation**.
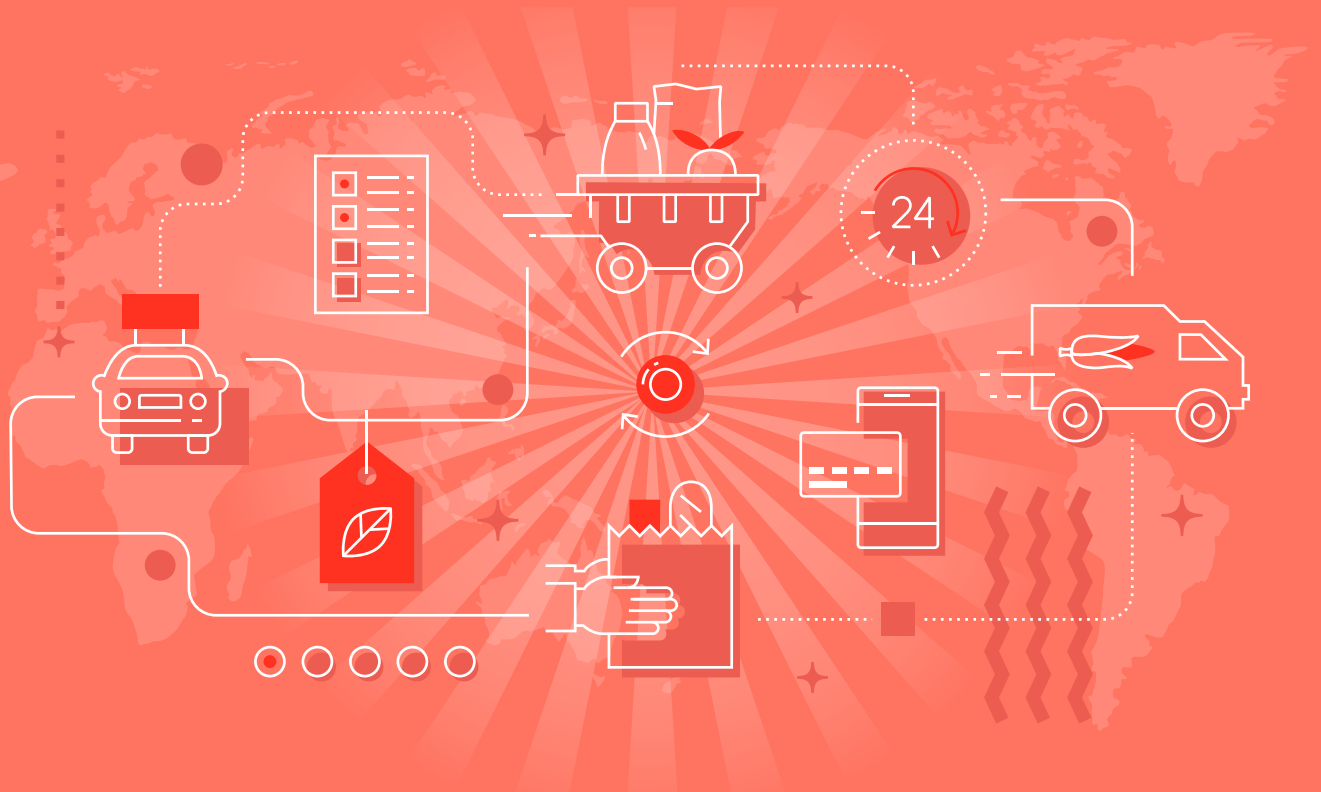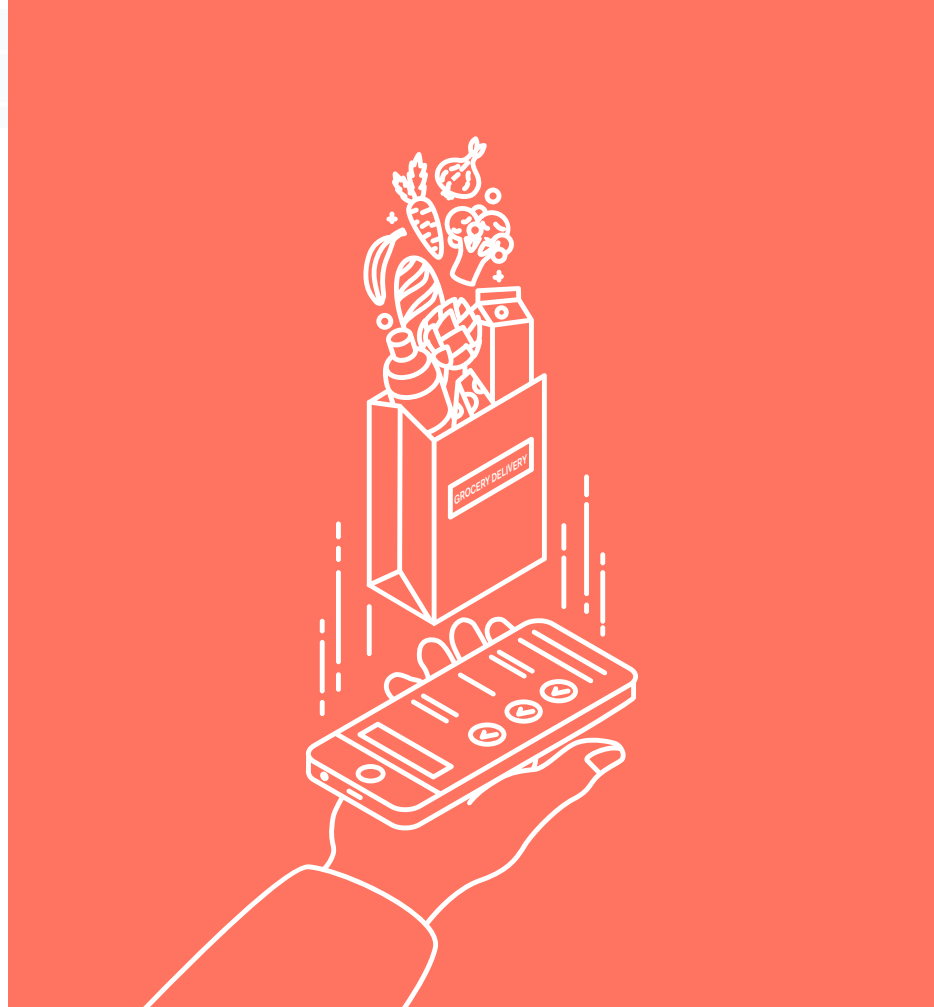
## Online ordering/E-commerce challenges

- **Customer Engagement, Conversion and Retention.** Defining appropriate data points and collection criteria are critical for grocery delivery operations to understand their customer. Brands must have mastered historical order information, delivery preferences, buying signals and more. Without appropriate systems in place to collect and store this information, brands are left guessing about customer habits.

- **Maintain control of customer data.** Data must be put to good use by providing insights that inform decisions throughout the company. Insights can be further utilized to craft engagement campaigns and e-commerce experiences that keep customers coming back. Maintaining ownership of this data is important when working with partners.

## Pick / Pack Challenges

- **The 'bruised apple' perception.** One of the biggest hurdles in grocery delivery is convincing customers that they will receive the same food they would have personally selected if doing their own in-store shopping. Customers express concerns that items like fresh produce selected by third-party workers will not adhere to their personal preferences.

- **Pick and pack logistics.** For some, pick and pack means a store employee grabbing a cart and roaming the aisles to shop on behalf of the customer. While a quick way to start, most brands have found a dedicated warehouse operation or fulfillment center provides far greater efficiencies and keeps employees out of customer aisles. This adds new facilities, processes, and training while introducing supply chain and human resource friction.

## Last-Mile Delivery Challenges

- **Chill-chain.** If you deliver groceries, you'll need to guarantee that foods stay within acceptable temperature ranges during transport. While a refrigerated vehicle can provide some peace of mind while traversing long routes, the upfront and long-term service costs for these vehicles can be prohibitive. Many have found smaller vehicles, shorter routes and tote insulation via cold packs to be a far simpler strategy. In either case, maintaining a fleet of delivery vehicles adds a new dimension to a brand's e-commerce plan.

- **Cost of delivery with low margins.** Grocers are already operating on razor-thin margins. While a delivery program does provide the opportunity to grow the customer base, the costs of the operation must be kept in check to sustain profitability. Companies must keenly control variable costs and focus marketing on profitable customer segments if they are going to maximize returns from a delivery program.

Some of these challenges are simply a byproduct of introducing a new option to an untrained customer. For example, customers will begin to shed the "bruised apple" fear as brands consistently demonstrate a high-quality product and adhere to stated customer preferences.

However, it is clear that an end-to-end service including a modern e-commerce experience, efficient pick/pack, and transparent last-mile delivery are critical. Grocers that fail to create an integrated personal experience risk alienating the modern consumer and pushing them into the arms of providers who can deliver this experience.
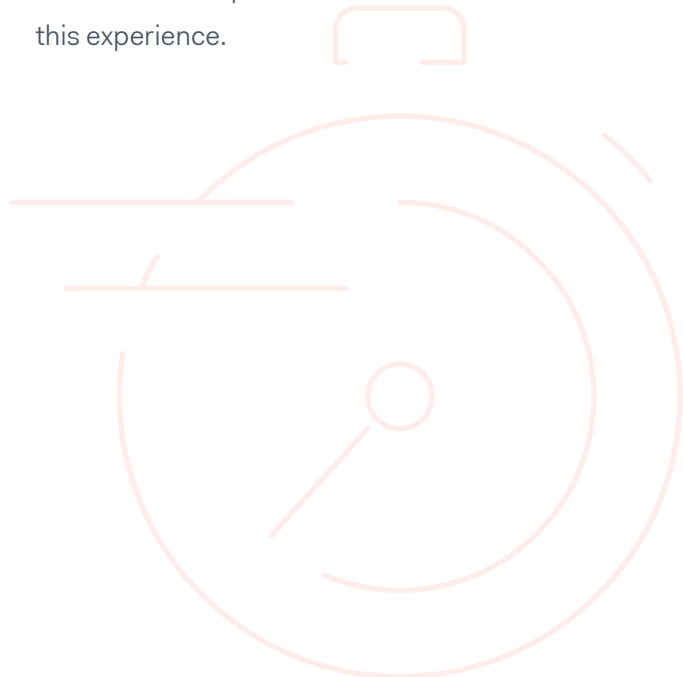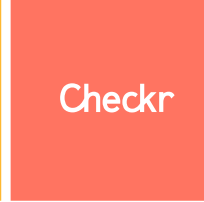
# In-house vs out-source
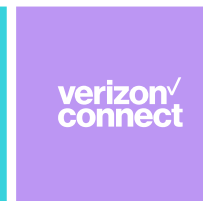
Grocers have an important choice to make when implementing delivery: keep everything in-house or use third-party delivery providers.

|  | Pros | Cons |
|---|---|---|
| **In-house / Owned fleet** | • Service model flexibility<br>• Brand identity<br>• Control of labor quality<br>• Full visibility and data | • Higher initial investment<br>• Labor competition<br>• Slow operations ramp |
| **Out-source / 3rd party** | • Low upfront investment<br>• Established labor coverage<br>• Pre-defined structures<br>• Marketing boost via partner's channels | • Limited visibility and data<br>• Little control of labor quality and costs<br>• No/Low flexibility of service models<br>• No ownership of customer data<br>• Margin pinch |

While contracting with a third-party can allow for rapid growth via large labor pools and access to their existing customers, the third-party controls the delivery experience, the cost, and the access to delivery data.

# Software Can Help

While not every grocer has the resources of Amazon, Walmart, or Target, there are a wealth of modern software tools **specialized** to meet the challenges associated with developing, launching, and scaling a modern grocery delivery operation:

| E-COMMERCE | LABOR SOURCING | APPLICANT TRACKING | BACKGROUND CHECKS | SCHEDULING | DELIVERY MANAGEMENT |
|---|---|---|---|---|---|
| freshop | jobble | fountain | Checkr | When I Work | onfleet |
| GROCERKEY | JYVE | Instawork | GoodHire | Mavenlink | OnTime 360 Smart Courier Software |
| mercato | Wonolo | breezy | HIRE RIGHT | Shyft Workforce | verizon connect |
| M19 RETAIL | | | | | |

When leveraging multiple software platforms together, it is critical they communicate seamlessly. Once an e-commerce platform and labor model is selected, delivery management software quickly becomes the linchpin of the whole operation. Unlike legacy fleet management tools - which are limited to vehicle GPS tracking and fuel/maintenance monitoring - modern delivery management software combines route planning, dispatch, driver tracking, proof of delivery, customer communication, and analytics into one seamless, end-to-end platform.

# Route Planning / Optimization

Successful route planning relies on a sophisticated analysis of customer addresses, promised delivery times, traffic, driver schedules, vehicle capacity, and more. With stiff competition pushing turnaround times down (2+ day, same day, ASAP) and shorter delivery windows (1 hour vs 2 hour vs 3+ hour), legacy route sequencing tools can't keep up. A state-of-the-art routing system can factor in dynamic constraints, allowing a nimble organization to experiment with delivery models and service levels that fit their unique requirements.

## Pick / Pack & Service Time Efficiency

A system that can rapidly generate complex routing will drive efficiencies in the pick and pack process and warehouse operations. For example, orders can be combined by route and staged near vehicle docks in reverse delivery order, creating a load plan that streamlines customer interactions and reduces physical effort.

## Route Capacity & Route Efficiency

A modern routing engine can improve route capacity by more than 50%[27] over manual and legacy route sequencing methods. This reduces labor and fuel costs while expanding customer servicing capability. Programatically factoring in historical data yields even higher efficiencies.

## On-time Rates

An optimized route plan is only valuable if it can accurately predict delivery times and ensure deliveries are made within the promised window. A sophisticated delivery management tool will not only provide initial estimates but also update these estimates as conditions on the ground change. Dynamic ETAs provide drivers, dispatchers and customers with up to date, *predictive* information, allowing brands to take proactive steps to improve performance. Static ETAs provided from legacy route sequencers leave brands reacting to late deliveries, with little preventing a single event from negatively affecting an entire route.
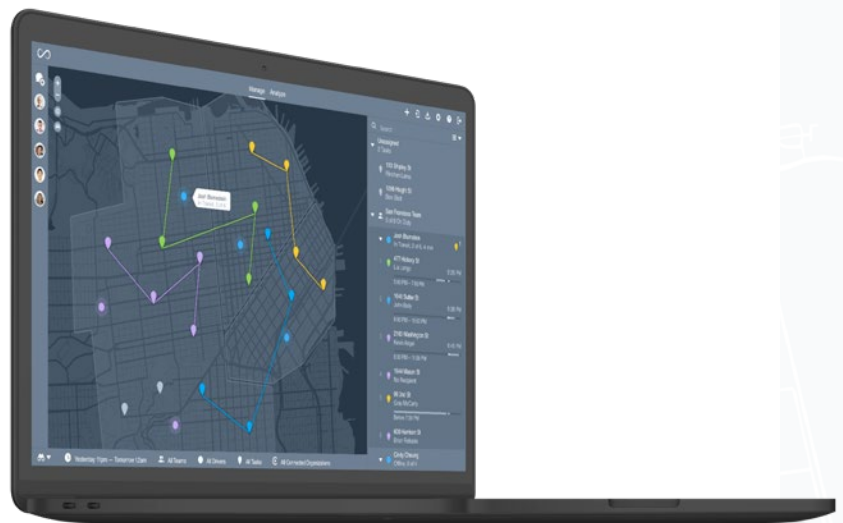
# Real-time Communication Tools

## Seamless Internal Communication

An essential part of a modern delivery management platform is an internal communication tool that connects dispatchers with drivers, operations with customer service, and more. While SMS text and chat applications like Apple Messenger, Hangouts and Slack have low barriers to entry, they lack *context*, adding unnecessary steps to an already complicated communication process.

## Exceptional Customer Experiences

Internal communication is only half of the equation, the most critical channel is with the customer. Modern consumers are accustomed to unprecedented levels of visibility into real-time delivery status. Customers expect to receive confirmation that the delivery is scheduled, when it has left for delivery, and exactly when it has arrived. The right delivery management software will provide these events and more, including intermediate time and distance-based triggers. Easy configuration and customization allows customer service and operations teams to adapt to rapidly evolving requirements without engaging scarce development resources.

## Proactive Notifications

Delivery platforms that utilize machine learning and artificial intelligence allows brands to look into the future with "predictive ETAs" so customers can be notified well in advance of their scheduled delivery. The most advanced platforms update this prediction as real-life events change conditions on the ground, enabling a progressive and dynamic delivery estimate. Routing tools alone can't provide a real-time estimate as they lack visibility into what happens after the driver leaves the hub/warehouse. *Only* a fully integrated system with advanced machine-learning can achieve this optimal customer experience.

## Close the Feedback Loop

Once a delivery is complete it is critical that feedback from customers be collected quickly and efficiently. A robust delivery platform must include the ability to request and review customer feedback. Including this key metric with other delivery analytics provides a full picture of performance and allows rapid impact analysis when operations change.

Should an issue occur, an instant feedback channel allows service teams to resolve complaints as they happen, improving their ability to build and retain customer relationships.

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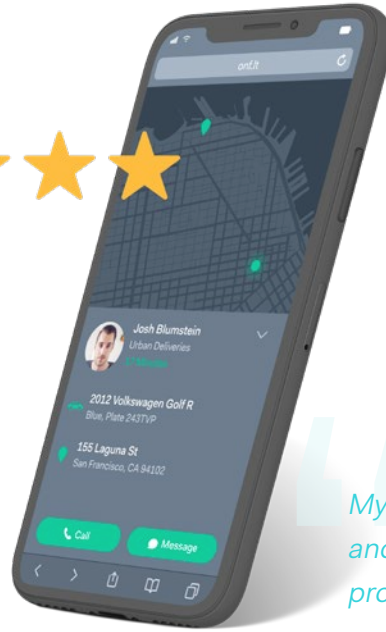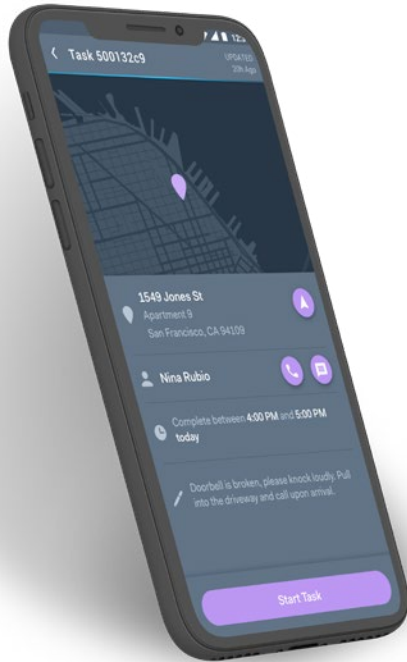
*My delivery was on time and I was able to track the progress from my desk.*
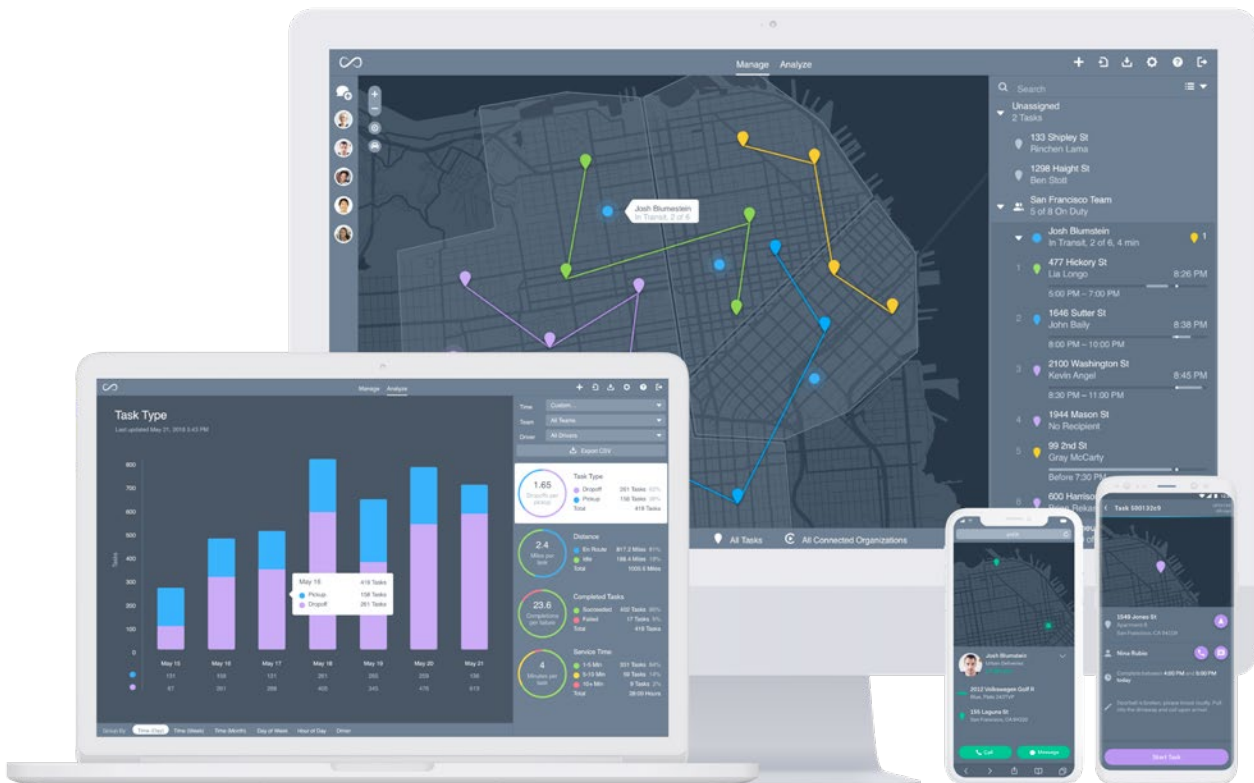
# Reporting and Analytics

## Operational Truth

A successful, expanding delivery operation *requires* a clear and accurate picture of what is happening on the ground. In a world where competitors are moving at break-neck speeds, anecdotal evidence and verbal accounts aren't good enough. Analytics should include more than completion rates. With the right data collected, operations can measure delay rates, service times, idle vs. active driver time, mileage, batching efficiency and more. Robust filtering allows for comparisons between drivers, teams, regions and customer segments.

# Conclusion

The industry has come a long way since Louis Borders pioneered the grocery delivery space[28] in the late 1990s with Webvan. Grocery delivery adoption has hit an inflection point as major players across the industry compete. Meanwhile, customers continue to demand faster, cheaper and higher quality experiences.

While many challenges must be overcome to succeed in this evolving grocery landscape, the cost of inaction is steep. Marketplace trends in this category have been accelerated during Covid and a customer preference for delivery appears here to stay. Amazon, Walmart, Target and Silicon Valley are all pouring money into the space attempting to seize large chunks of market share. It is absolutely critical that brands secure their customer base or risk becoming irrelevant.

If brands stay true to the customer-centric values that made them successful, while modernizing e-commerce and delivery programs, they will retain existing customers and attract new ones.

The right technology is absolutely vital to this endeavor. It can help brands understand and predict demand, optimize operations and provide exceptional experiences to customers.

Modern e-commerce coupled with delivery software can level the playing field, offering brands the opportunity to provide modern consumers the local, personal experience they desire, with the convenience they demand.

# Success Stories



In their 103rd year of operation, Texas based United Supermarkets saw delivery as a vital offering to continue their evolution within the incredibly competitive grocery space. While self distributing their inventory to the entirety of their 96 store portfolio, they were no strangers to the logistics game. Just before Thanksgiving 2016, the company began to allow online ordering, and added a curbside pickup service.

**The Problem: Boosting Delivery Efficiency While Maintaining a Stellar Customer Experience**

Chris Farr, the United E-Commerce Manager said of the initial efforts: "We knew we had to get the right tools in place to ensure a great, consistent customer experience and overall efficiency before we really started to promote it." For the United Supermarkets Family, the relationship with their customers is one of the most important aspects to maintain.

For example, having your groceries walked to your car and loaded by an associate is one of the signatures of their in-store shopping experience.

Their original delivery system included simple routing with Google Maps and manual dispatching of their refrigerated trucks from each store. This manual system allowed United to launch delivery from 14 of their stores and identify that there was a steady appetite for delivery within their customer base.

When United moved away from their manual testing grounds and implemented Onfleet as their last-mile management tool, they were able to **boost delivery capacity by 50%**, with no additional vehicles. They have also reported **fuel savings of more than 45%** and growing. "Since adding Onfleet, we have more confidence in our capacity, and that's translated into us providing a better service to guests while being more efficient," says Farr.

United Supermarkets now heavily promotes its grocery delivery & pickup service, and it's seeing triple-digit year-over-year revenue increases.

You can read the full case study here.

[Foxtrot Delivery Market](#) is a service that specializes in delivering gourmet groceries to its customers in Chicago and Dallas. They offer a selection of premium beer, wine, spirits, snacks, gifts, and essentials, and deliver them directly to their customer base.

## Problem: The Blessing and Curse of Success

Foxtrot came to Onfleet looking for a software solution that could help them manage and scale their last-mile delivery operations while "...being able to handle volume as things went well and we faced expansion," Taylor Bloom, Foxtrot's CTO and co-founder.

"Our number one problem was volume," admits Bloom. "During our peak times, the systems would often just fall apart."

Before introducing a software solution, they experienced issues handling the volume as

they expanded. They had tried using third-party delivery services but found that it wasn't cost effective.

The Onfleet system provided real-time delivery tracking, seamless order dispatching, and reliability and accuracy when Foxtrot needed it most. With Onfleet in place, Foxtrot has seen a 25-30% increase in productivity after making the switch.

They also were able to maintain the direct relationship with their customer base, which is paramount in the grocery game. "One of the coolest things that [Onfleet] allowed us to do was provide real-time statuses to our customers about their delivery. That was the number one feature to us. Onfleet made us able to do that," said Bloom.

Since implementing Onfleet, Foxtrot has expanded from their home city of Chicago to Dallas and are exploring further growth. Bloom said, "Onfleet seemed to offer what we needed right away...they had everything we were looking for, so, we kind of jumped on that."

You can read the full case study [here](#).

# About Onfleet

Onfleet is the world leading last-mile delivery software platform. Onfleet powers millions of deliveries per month for thousands of businesses, including best in class grocers like Hy-Vee, United Supermarkets, Bi-Rite, Imperfect Foods, and Total Wine & More.

Onfleet's software powers last-mile deliveries end to end, from routing and dispatching to real-time driver tracking, analytics, proof of delivery, customer communications, and more.

Onfleet is built with ♡ in San Francisco, California.

| | | | |
|---|---|---|---|
| **40M+**<br>deliveries powered | **100M+**<br>miles tracked | **90+**<br>countries | **1,000+**<br>customers |

## Contact Us

Want to learn more about how Onfleet can help you re-shape your grocery delivery operations?

Click here to schedule a consultation

or email us at sales@onfleet.com

# Appendix

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