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SONATA SOFTWARE

# Reimagining Grocery Retail – Unlocking Value & Growth through Platform Business Models



# THE PLATFORM CONTEXT

While enterprises worldwide are struggling to create a meaningful approach to digital transformation, modern 'born digital' businesses such as Amazon, Airbnb, etc. have been successful in creating tremendous value and disrupting incumbent business models. It is also evident that 'Platforms' are the secret sauce to success of these 'born-digital' companies. How can traditional enterprises imbibe platform thinking into their digital transformation journey? Can incumbent businesses think like digital natives as part of their digital transformation?

## PLATFORMS

### CREATE

value by digitizing & orchestrating interactions between enterprise, customers, partners, & ecosystem

### EXTRACT

untapped potential from enterprise assets & the overall ecosystem to create broader, innovative digital services & meaningful customer engagement

### SCALE

through ways that traditional supply chains cannot, through a networked ecosystem

### CONNECT

ecosystem players through ubiquitous access to unlock innovative digital service propositions, adjacencies, new services, & business models

### MATCH

supply & demand patterns through data to create unique insights that can be harvested back into the platform

## REIMAGINING RETAIL – UNLOCKING VALUE & GROWTH THROUGH PLATFORM BUSINESS MODELS

Changing consumer expectations, transforming store formats, disaggregating distribution channels, and above all 'Amazonization', i.e., disruption from 'born-digital' retail platforms – the retail industry is at the cusp of a paradigm-next-generational shift.

### Are platforms the answer to rapidly changing consumer expectations in the retail industry?

How can traditional retailers embrace a platform mindset to accelerate their digital transformation? Can they digitize their core consumer interactions into insights & services? Why do they need to leverage their ecosystem and create adjacencies? Finally, how can they create a growth playbook, and unlock value from their ecosystem to enable rapid delivery of new & innovative digital service propositions for consumers?

### We believe platforms can:

- Steer the digital agenda, and anchor newer retail business models by unlocking sources of value creation
- Digitize consumer, store, and supply chain business processes
- Connect consumers, stores, brands, and supply chains through a networked ecosystem
- Help leverage data & insights across the shopping journey to create newer digital ecosystems, adjacencies, & services
- Scale retail businesses through ways that traditional supply chains cannot

## GROCERY RETAIL – PLATFORM BUSINESS MODELS CAN CREATE AN INTEGRATED & COLLABORATIVE ECOSYSTEM TO UNLOCK VALUE & GROWTH

One of the retail sub-segments that is at the cusp of disruption and presents tremendous opportunities due to platform economics is the grocery business. In this race to reinvent grocery shopping, everyone (supermarket retailers, wholesalers, CPG manufacturers, and other suppliers) will need to unlock

value from their ecosystem & strengthen collaboration to fend off competition to capture consumer wallet share and mindshare.

Historically, consumer choices were limited to what was available on the store shelf and influenced strongly by brand preference and promotion – but today, consumers have virtually unlimited choices. Catchphrases like ‘better for you,’ ‘organic,’ and ‘local’ play more strongly for many products. As a result, shoppers are becoming more intentional about what they want to buy, and this creates the need for retailers, wholesalers, CPG manufacturers, and other suppliers to adopt platform-based business models.

### RELEVANT TODAY

Convenience is key

Customer segmentation

Store drives competitive advantage

Seamless omnichannel experience

Merchandising, vendor management, and operations

### GROCCERS ARE INNOVATING

No lag between shopper’s motivation and consumption

One-to-one personalization

Store as a hub & platform

Enrich with services beyond experience

Insights, partnerships, and ecosystems

Source: Adapted from Bain & Company

## BEFORE WE DELVE INTO HOW A GROCERY PLATFORM BUSINESS MODEL COULD EVOLVE, HERE ARE SIX KEY DRIVERS WE THINK GROCCERS SHOULD FOCUS ON AS ENABLERS TOWARDS CREATING A NEXT-GEN INTEGRATED GROCERY PLATFORM ECOSYSTEM

### Virtualize the category

Make the category easy for shoppers to access both online and in-store. Present products the way that shopper insights say people want to see them.

### Simplify the buying experience

Shoppers are increasingly looking at replenishment purchases differently from first-time or occasional product purchases. How can you accommodate them?

### Focus on core consumers and be ‘loyal’ to them

These are your most valuable customers. Identify them by name or email, and devote resources to

retaining them. It costs a lot less than acquiring new shoppers.

### Take targeted promotions to the next level

This area is ripe for collaboration. Retailers use their loyalty program data to collaborate with manufacturers and suppliers to focus on households based on past purchases.

### Make digital an integral part of how you do business

Align the people doing the work, build a robust contact database, analyze loyalty program data, and accelerate learning and optimization through testing and sharing.

### Go after new need states & shopping occasions

Shopping occasions used to be defined in terms of interaction with the store and basket size. Now digital influence and new options like subscriptions and delivery have opened the way to serve many more shopping occasions.

## SHAPING THE GROCERY PLATFORM BUSINESS MODEL

Let's look at how the platform business model can unlock value by digitizing consumer touchpoints and creating ecosystem interactions along the Pre-Shop, Shop, and the Post-Shop consumer journey.

## REDEFINING THE NEXT-GEN PRE-SHOP JOURNEY – CONVENIENCE, CHOICE, & CONTEXT

Digital influence during the pre-shop journey has made a profound and foundational shift in where grocery shopping happens. Gone are the days of winning the sale at the shelf, but increasingly shoppers are making decisions about where to shop and what to buy outside of a store. This means that grocers need to be present when shoppers are making those decisions.

Personalization has taken a whole new meaning today. Shoppers are empowered with choices. The deluge of data manifests the opportunity to tune their choices and own the shopping experience well ahead in the journey before their actual shopping.

A case in point is, how millennials, especially during their grocery shopping, would like to have insights about product ingredients and their wellness index – what's in and what's not? Where and how was it produced? How fresh & healthy is it? What choices do I have – ready-to-cook, prepared foods, pre-chopped veggies, meal kits, etc.? What are the value buys and bundled offers? When can I buy from which grocer?

Platform-thinking can help grocery retailers create connections and digitized interactions with consumers well ahead of their shopping journey. Platforms can help create value-added grocery services that can foster insights about the brand / product, choice, and convenience.

Traditional grocers can leverage historical and real-time shopper data captured at PoS, brand, supplier- and partner-related content, digital marketing, and promotion initiatives to create 'Know your Shopper' insights and deliver value-added services at the point of decision-making through online and mobile channels. The 'pre-shop ecosystem' that the grocer can orchestrate through a platform can empower millennial shopper profiles, create targeted promotion and smart decision-assistance apps and services. Well, the Connected Grocery Platform journey has truly begun here by digitizing the interactions at consumer, supplier, and partner touchpoints during the pre-shopping journey.

## THE SHOPPING JOURNEY – REIMAGINING THE STORE AS A PLATFORM

While it is true that a majority of grocery sales still happen through the store, the concept of a store is transforming to a whole new meaning for consumers today. The millennial shoppers' grocery journey more often than not is initiated on a mobile app or online, and can transcend to the physical store at any point in the shopping journey purely guided by self-mandated choices, convenience, experience, and service needs. Be it a traditional online store by 'born digital' grocers or physical stores by brick-and-mortar retailers, we believe that the concept of a grocery store is fast being reimagined into a 'Phygital Platform' that can:

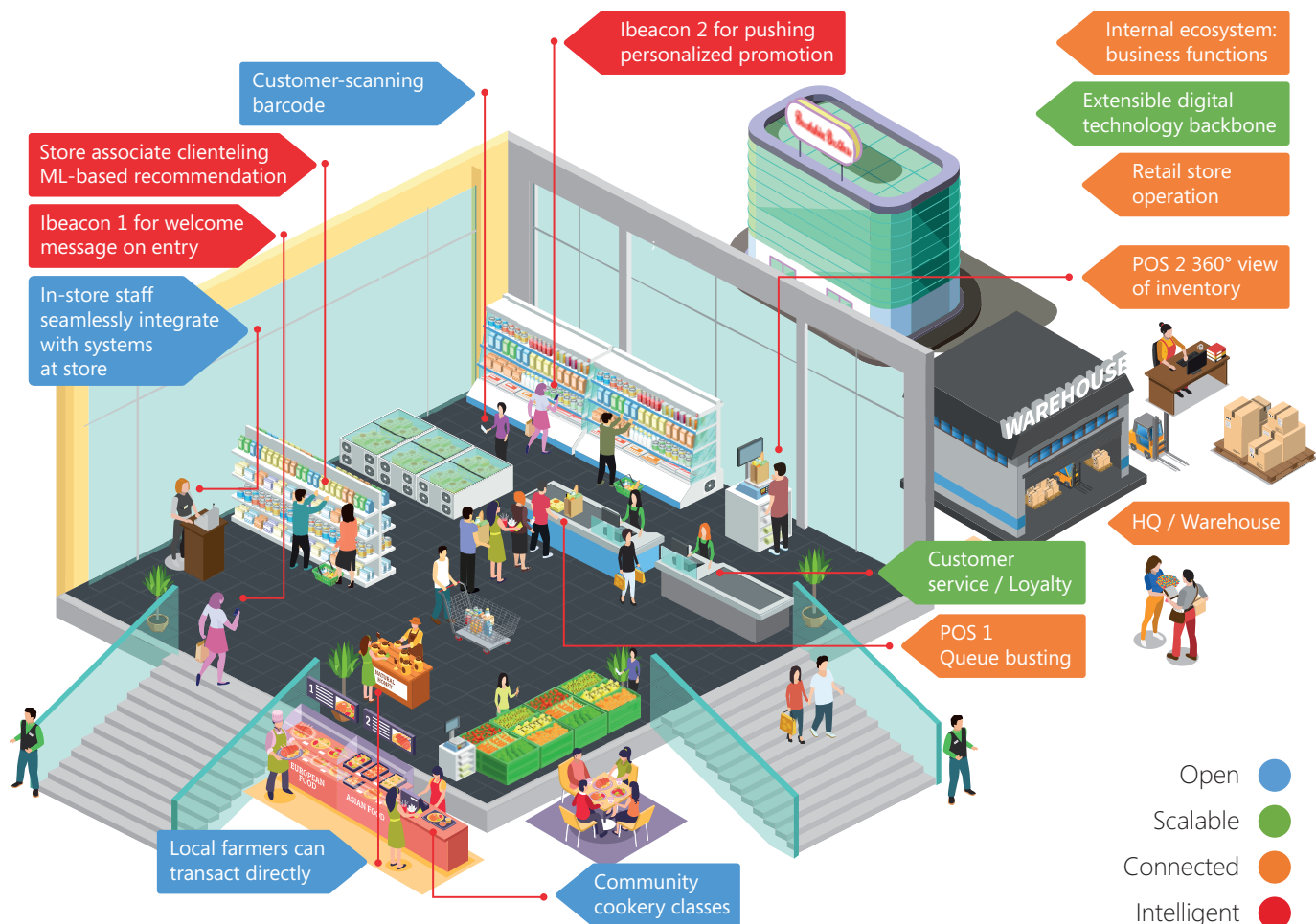
- Orchestrate an open ecosystem of the shopper, brands, grocery and food services, third-party labels, and partner brands & services
- Create differentiated & value-added services across categories and assortments – be it food, recipes, farm-fresh produce, bakery, beverages, health and wellness, etc.
- Connect the retailer, consumer, brands, partners, and agri-ecosystem through context from the pre-shop journey. Seamlessly orchestrate the store ecosystem through an omnichannel experience across physical / digital stores, mobile, online, and downstream post-shop distribution, warehousing, and inventory management
- Create a 'Connected In-Store Experience & Services' by seamlessly creating an internal store ecosystem of the shopper, in-store associates, brands, expert advisors such as nutritionists, pharmacists, event specialists, etc. A robust digital store platform will bring together various technology platforms across entire business apps, shopper data & analytics, AI, IoT, and customer experience platforms, to name a few, and provide relevant / contextual digital services to the shopper & insights to the grocer & in-store ecosystem in general
- Infinitely scale product assortment through ways that traditional supply chains cannot, cross-leveraging online and physical store inventory. Virtualize categories and merchandise by bringing third-party grocers onto the digital platform across niche categories and unlocking value from the services they can offer shoppers
- Leverage data & intelligent insights to capture shopper micro-moments along the store journey. Create personalization at scale resulting in a 360° view of the shopper, and other participants in the store ecosystem



- Create a hub & ecosystem of Growth Stores that could be a platform specifically for segmented millennial consumers. Growth store ecosystems can become local data hubs targeting millennials with pilot assortments, categories, food, and services.

The store can also connect to share data and predictive insights with other grocery stores, leverage third-party grocers to create an extended set of digital services to millennial consumers

## REIMAGINE GROWTH STORE AS A DIGITAL PLATFORM



## THE POST-SHOP JOURNEY – THE EMERGING DELIVERY ECOSYSTEM

An array of fulfillment possibilities to fit the needs of the moment are redefining the post-shop journey convenience for grocery shoppers today – from slow & economic, and same-day delivery, to increasing use of click-and-collect, and on-demand unlimited delivery packages for a fixed fee – to name a few.

However, the disruption in the post-shop journey has been the emergence of third-party platform players aggregating groceries and other products, and complementing them with adjacent service models to provide last-mile delivery services to consumers.

Grocery retailers can significantly take out cost from their delivery capex by bringing third-party fulfillment partners into their delivery ecosystem. This can help lower investments in delivery capex & grocery infrastructure, deliver rapid e-commerce

grocery services, and create shared promotions, cross-leveraging partner services at point of delivery – providing a plethora of choices to end consumers with a bouquet of services beyond groceries.

The fulfillment journey of traditional grocery retailers are besieged with several unique changes characteristic to the grocery business models. Given the mandates to deliver fresh produce to the last mile on a daily basis, the pipe-based conventional fulfillment supply chain is being disrupted by a platform business play like never before. This also manifests an opportunity for grocers to orchestrate a core fulfillment ecosystem that can unlock value-added services from extended partners that can be delivered to shoppers in an aggregated fashion during last-mile delivery. We see this model evolving to grocery retailers co-opting with an extended & integrated grocery ecosystem that can create new services for shoppers, around food services, events, & entertainment, health & wellness, etc., and can be delivered omnichannel.

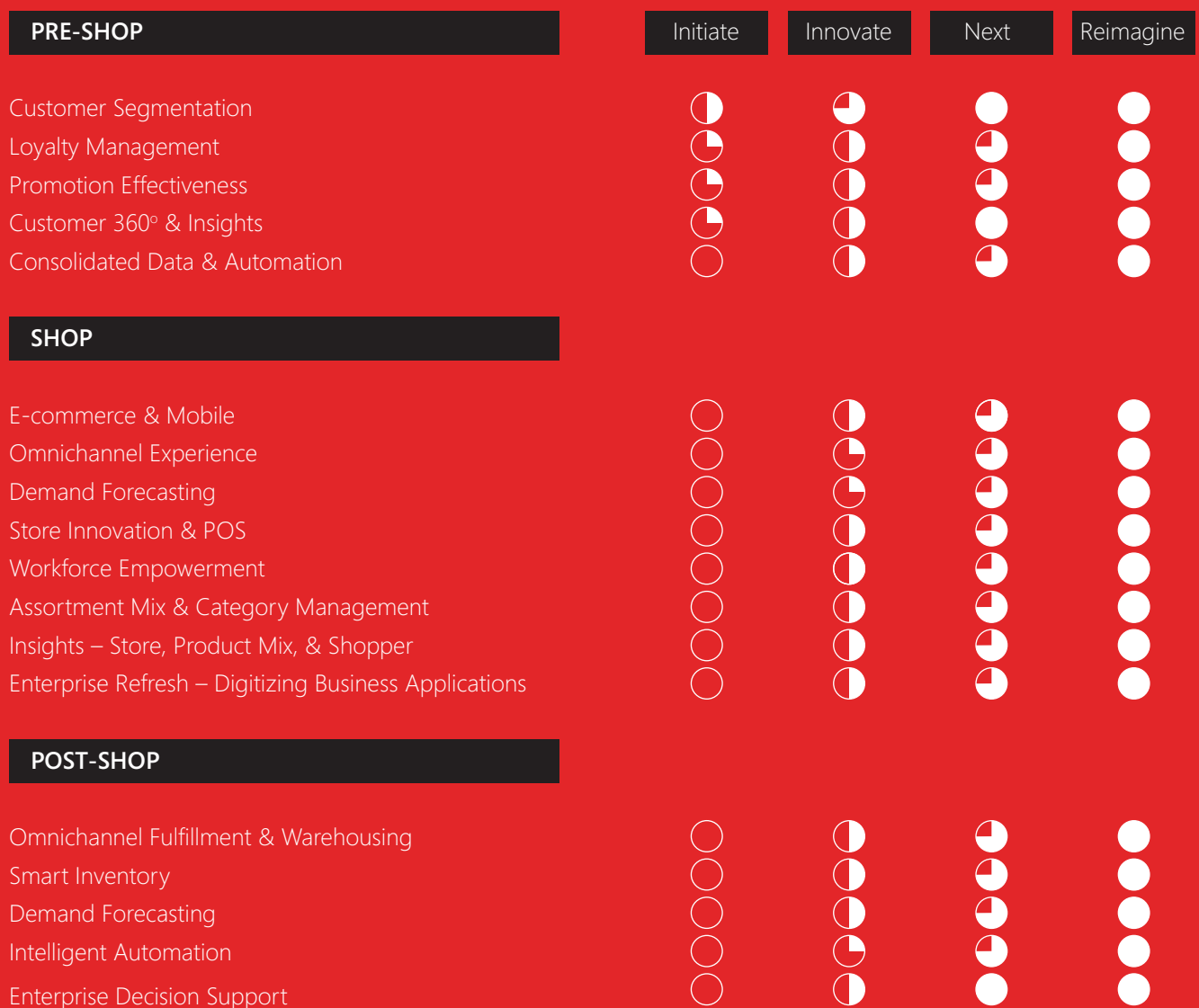
## THE BRASS TACKS – HOW CAN GROCERY RETAILERS EMBARK ON A PLATFORM JOURNEY?

Taking a cue from several ‘digital-born’ platform companies and traditional retailers who have embarked on adopting a platform approach to accelerate their digital journey, we recommend the following stepwise approach for grocers to accelerate their platform-enabled digital transformation journey:

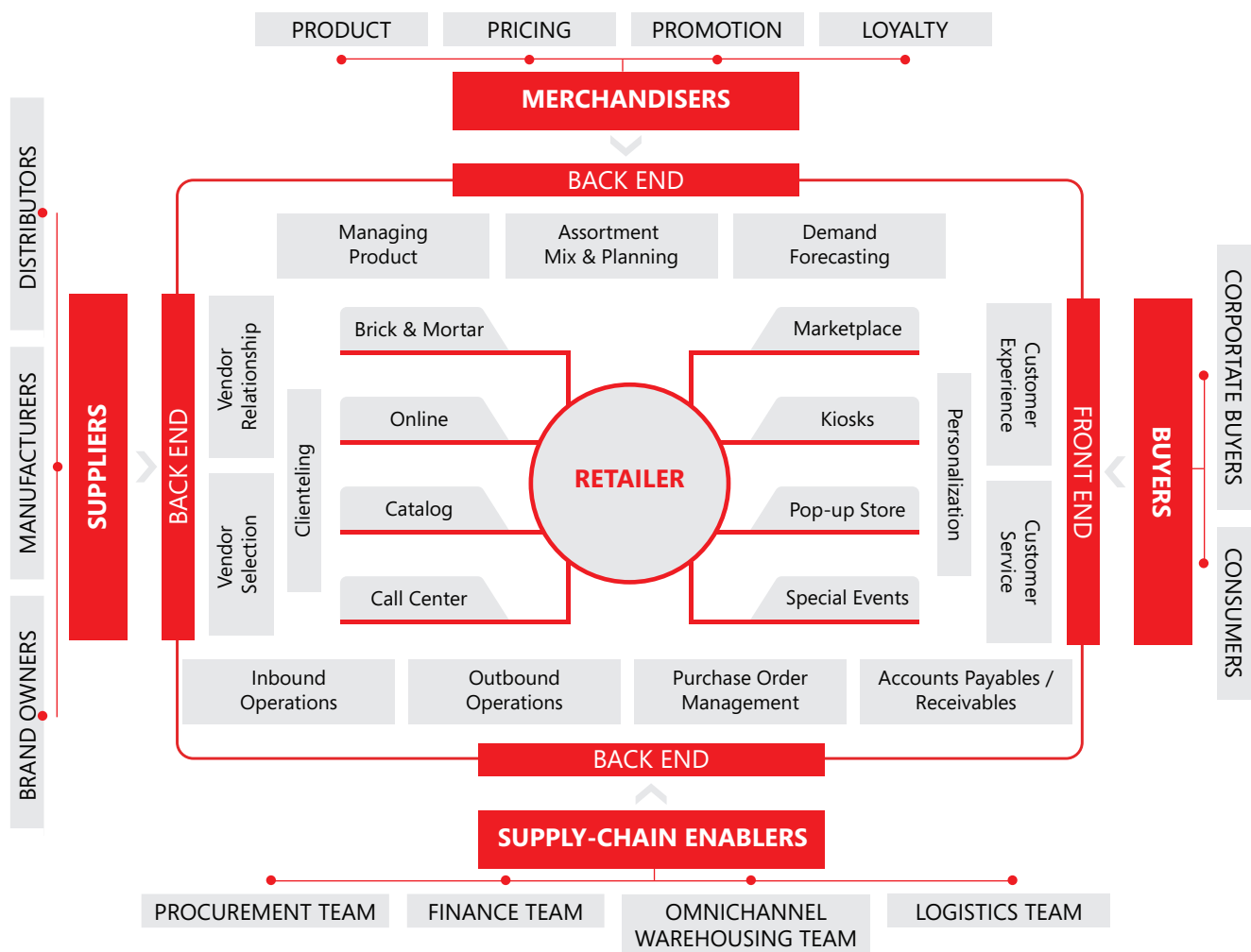
- A well-articulated digital agenda and structured approach – start by assessing your current platform & digital maturity.
- Conduct a readiness assessment across business and technology attributes. The business maturity

assessment should encompass dimensions across customer-centricity, business models, leadership, talent, and execution. The technology assessment might include readiness or maturity across data, architecture, and other characteristics of platform technology.

- Reimagine the business, products, and services by taking advantage of the ecosystem & environment – focus on newer sources of value-creation and meaningful consumer & system engagement, to create innovative service propositions.
- Start by digitizing your core processes across the pre-shop, shop, and post-shop journey, then create adjacencies that can subsequently help expedite newer growth and business models by leveraging the co-opting ecosystem (both internal and external).



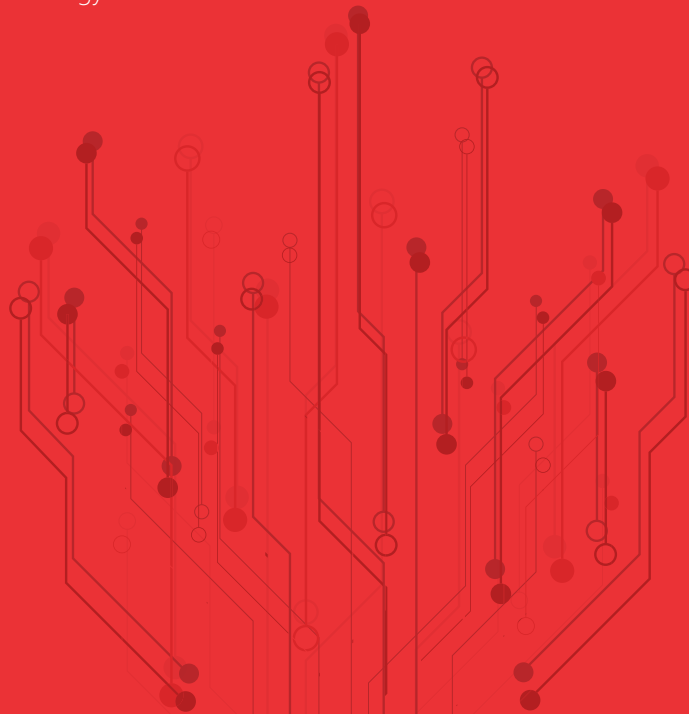
- Adopt industry-aligned grocery digital business processes, but curate and contextualize them to help orchestrate interactions in your environment and consumer shopping life cycle.
- Create a grocery-market-aligned platform architecture including the orchestration of the ecosystem that can help realize the digital business processes and platform business characteristics. A typical market platform architecture highlighting the platform ecosystem and interactions between participants in the ecosystem has been indicated in the exhibit below:



- A shared vision followed by a road map with quick wins and mid- & long-term strategic platform initiatives are critical success factors for hastening platform initiatives.
- Needless to say, to build a truly digital enterprise anchored around a platform business, a holistic change-management philosophy across talent, processes, systems, and the encompassing environment is essential.

# ABOUT SONATA

Sonata is a global technology company that enables successful platform-based digital transformation initiatives for enterprises, to create businesses that are connected, open, intelligent, and scalable. Sonata's Platformation™ methodology brings together industry expertise, platform technology excellence, design thinking-led innovation and strategic engagement models to deliver sustained long-term value to customers. A trusted partner of world leaders in the Retail, Manufacturing & Distribution, Travel, and Software industries; Sonata's solution portfolio includes its own digital platforms such as Brick & Click Retail Platform©, Modern Distribution Platform©, Rezopia Digital Travel Platform©, RAPID DevOps Platform©, Kartopia E-commerce Platform©, Halosys Mobility Platform©, and Commodity CTRM Platform©; best-in-class capabilities on ISV digital technology platforms such as Microsoft Dynamics 365, Microsoft Azure, SAP Hybris, Cloud Engineering, and Managed Services; as well as new digital applications like IoT, Artificial Intelligence, Machine Learning, Robotic Process Automation, Chatbots, Blockchain, and Cybersecurity. Sonata's people and systems are nurtured to bring together the depth of thought leadership, customer commitment, and execution excellence to make a difference to business with technology.



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