Exploring Auto-Replenishment:

A TRANSFORMATIONAL GROWTH DRIVER FOR RETAILERS AND BRAND MANUFACTURERS

No retailer or manufacturer ever planned for the impact of COVID-19 which became the single largest agent of change ever experienced in the food and beverage retailing industry. As shoppers struggled to purchase groceries during this time of disruption, purchase innovation and delivery innovation emerged as a competitive necessity. Now, customers fully expect the ability to shop anytime, anyhow, and anywhere.

One of the most effective shopper engagement innovations to evolve in 2020 was auto-replenishment: the shoppers activating an autopilot approach to purchasing. Throughout this article, the consumer and retail impact of auto-replenishment will come to life with performance statistics gathered from both a grocery retailer and a CPG manufacturer who each provided their customers with auto-replenishment capabilities through implementations of Replenium's Auto-Replenishment platform.
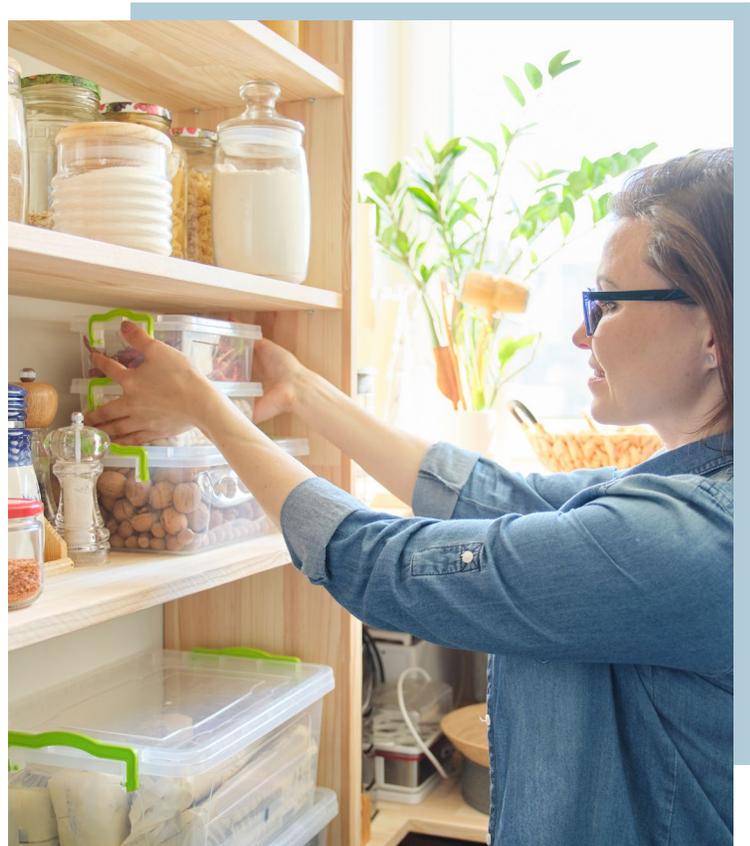
FOCUS GROUP RESULTS

What Consumers are Saying

In a recent consumer focus group centered on smart shopping and auto-replenishment conducted by the Dialogic Group, a retail and CPG growth strategy advisory firm, a question was asked regarding the consumers' reaction to and acceptance of automated pantry shopping. Specifically, if a shopper could automate the replenishment of food and beverage, home care, and personal care basics, would it be of value? In four separate focus groups representing the U.S. census demography, consumers unanimously answered "yes" to this question. A second question centered on the impact of auto-replenishment on loyalty. Every respondent told us that helping them shop smarter is important, and that a retailer who offered that capability would influence their future decision on where to purchase groceries.

Every focus group member was interested in automating the mundane in shopping to realize a simplified shopping experience. In summarizing their smart shopping wants and needs related to auto-replenishment, their priorities were:

1. The ability to order once
2. Desire to receive ongoing supply
3. Ability to adjust or cancel orders as their needs change

These consumers believe that an auto-replenishment capability would make their day-to-day shopping chores easier and faster.

We took the focus group findings as a benchmark of the role that auto-replenishment will play as a differentiator at retail and with CPG brands. We wanted to better understand through analyzing actual auto-replenishment performance data, the difference between what shoppers told us what they wanted and how they actually behaved. So, we examined the data from both a retailer and CPG manufacturer who were pioneering implementors of Replenium's Auto-Replenishment Platform. Although the results are early, the numbers illustrate the power of changing shopping behaviors.

Auto-Replenishment in Grocery

To uncover additional insight on general consumer sentiment around auto-replenishment, we conducted an extensive consumer survey with over 1500 respondents asking them about smart shopping and auto-replenishment as a meaningful capability to help simplify daily living. OVER 90% of the respondents believe that for everyday basics, food and beverage, home care and personal care, a capability that helps them order once and replenish on autopilot would be of great value. OVER 85% of those same respondents also indicated that a reliable auto-replenishment capability would increase their support and loyalty for a given retailer.

During this same consumer survey, we asked about the concept of the "smart pantry" – which is a pantry that is filled on autopilot. 71% of our respondents indicated that if they could have a pantry that is continuously filled while having the capability to modify as needed, it would be of great benefit to them. Going back to our focus group we asked a similar question and the responses were overwhelmingly positive toward having a smart pantry.

It became clear during both our focus group as well as our consumer survey that auto-replenishment should be an integrated part of a retailer's go-to-market strategy. The benefit of having this capability clearly increases shopper loyalty as a lower cost to serve. Without this capability, the risk of losing shoppers one category at a time easily slips to eventually losing the shopper entirely.

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The Auto-Replenishment Imperative for Manufacturers

Auto-replenishment is not only a capability that benefits retailers, it also helps manufacturers differentiate their go-to-market models. From conversations with over 40 CPG manufacturers, it is clear that the ongoing search for a lower cost to serve the consumer is a top priority. Digital retailing has placed significant burden on manufacturers as they try to navigate the sea change of ecommerce. How to align support for both pure-play digital retailers as well as traditional physical retailers has become and will continue to be a significant challenge for manufacturers.

The volatility created by COVID-19 during 2020 created unparalleled challenges in the manufacturing community. As consumers struggled to get the products they wanted and needed, manufacturers had to rethink product lines, production capacity, and how best to fill an explosive demand unforeseen in the history of retailing.

In 2018, a market-leading personal and home care CPG manufacturer engaged in auto-replenishment through Replenium and quickly realized the advantages of being a first-mover. They launched with both an online, brand-to-retailer, as well as a large format retailer fulfillment. Auto-replenishment activity for this CPG manufacturer has continued to grow over the past two years, helping the retailers service their shoppers at a lower cost to serve while ensuring consistent product flow.

By using auto-replenishment as a fulfillment differentiator, this manufacturer was able to improve their discounting strategies within other media channels, which in turn increased the profitability of the consumer transactions.

We went again to our consumer panel to ask them about purchase decision trade-offs. Our questioning centered on "what is more important in the purchase decision process - more promotions or more dependability in product availability?" Overwhelmingly (72+%) the respondents indicated that product availability was much more important than yet another promotion in which the product may or may not be available. Further questioning in the survey focused on how an auto-replenishment capability could integrate into brand image. An interesting comment emerged:

> *"Manufacturers who understand changing consumer behaviors will increase my loyalty to a brand. It is clear to me that the ability to simplify my purchase process, both initial and ongoing, is of great benefit to me. If a manufacturer offers me auto-replenishment, I will look at that manufacturer with greater loyalty."*

By diving deeper into these auto-replenishment implementations, we were able to develop roadmaps on how both a retailer or a CPG manufacturer should approach strategy and implementation of auto-replenishment as a core go-forward capability to develop and implement the most cost-effective strategy to meet emerging online/shopper needs while improving the economics of ecommerce.

Key Learnings Observed

Several key lessons and opportunities emerge with the implementation of an auto-replenishment at retail and brand sites.

| FROM A RETAILER PERSPECTIVE: | FROM A CPG MANUFACTURER PERSPECTIVE: |

Auto-replenishment should be positioned as a new capability extending the reach of the retailer to the consumer. It is not just an extension of an ecommerce strategy – it is a differentiated way to serve and align with evolving shopper behaviors and fulfillment needs. As such, auto-replenishment capabilities will have significant go-forward impact in the food and beverage competitive landscape by solidifying customer loyalty.

In over 50% of the CPG organizations interviewed, auto-replenishment of key products in their portfolio is on their radar-- however, not yet part of an approved strategic plan. Several manufacturers stated that their goal of improving and or reducing the cost to serve had placeholders for auto-replenishment.

Successful implementation is a result of the merchandising, marketing, and tech organizations aligning on the auto-replenishment initiative. Both successful implementations that we have seen can be attributed to these three organizations coming together and partnering to align on serving the shopper by both differentiating and simplifying the overall shopping experience.

Manufacturers who have implemented auto-replenishment learned that it cannot be driven by only the ecommerce organization but instead must be driven by the go-to-market organization, and fully supported by both ecommerce strategy and capabilities. This finding was very similar to our findings at retail. Ownership is joint; however, leadership often comes from the go-to-market organizations.

An effective auto-replenishment implementation has the potential to generate additional benefits including aligned organizational, operational, and technology resources all focused on simplifying the shopping experience. In addition, improved forecasting and trade and promotional management, as well as lower cost to serve the shopper are operational and financial benefits for retailers.

Auto-replenishment capabilities must be aligned with the retailer from an ecommerce, pricing, promotional, shopper engagement and shopper fulfillment perspective. A manufacturer driven auto-replenishment program must encompass not only how it is integrated with retailer capabilities, but also how this capability is used to improve overall cost to serve.

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Over the next 12 to 24 months, we will see additional innovations in fulfillment - everything from robotic warehouses to micro-fulfillment centers, to varying approaches regarding click and collect and home delivery. A critical capability to support fulfillment aspirations for both retailers and manufacturers is auto-replenishment. Today, the largest of the large pure-play digital as well as the largest of the large traditional big box retailers are planning for auto-replenishment capabilities with the goal of both intensifying shopper loyalty as well as minimizing their costs to serve.

Auto-replenishment enables the smart shopping that customers are now beginning to expect. Without question, this capability is being viewed as a strategic differentiator by many retailers and CPG manufacturers across the industry. Replenium's proven Auto-Replenishment Platform speeds the time to market as it integrates seamlessly into retailers' and brands' existing ecommerce systems.

Our strongest recommendation is that both retailers and CPG manufacturers integrate an auto-replenishment capability as a key element of their overall transformational growth-driven strategy.

We believe those organizations that embrace auto-replenishment as an incremental growth strategy will find themselves being favorably distanced from competitors.

We close this perspective with the following observation and recommendations: auto-replenishment solutions to support dynamic shopper behaviors are an integral part of the engine of change across retail going forward.
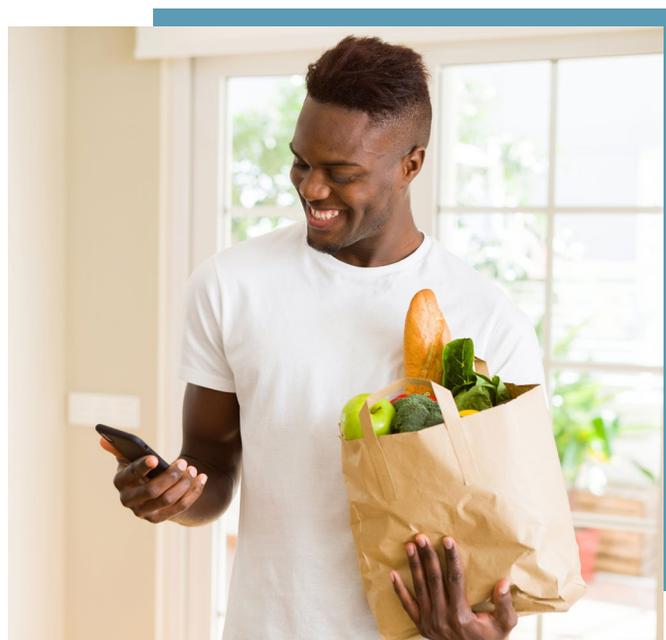
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The science and capabilities behind next generation shopping.

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