

Startups put digital technology in the grocery aisles

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Mike Hansen, a resident of this small, southeastern Wisconsin town, got a computer six years ago but has yet to set up an online connection.

Hansen, however, has started borrowing an iPad from the service desk at a nearby Piggly Wiggly store to do his weekly [grocery shopping](#).

The attraction: an app the grocer makes available to its customers. It gives them savings and loyalty points while they're shopping and provides valuable data to the grocer and product manufacturers.

As he makes his way through the store, Hansen, 65, scans bar codes from milk, cheese, mushrooms and other items as he puts them into his cart. The app keeps a running total of his selections, automatically applies discounts and allows him to speed through a special check-out line.

"I just hate the electronics, but the money savings I like," Hansen said.

The shopping app Hansen used is made by Fetch Rewards Inc., one of at least three young Madison, Wis., companies focused on bringing digital technologies to the grocery industry. Largely unchanged for decades, grocers are starting to see an onslaught of young companies transforming an industry with innovations.

"More and more transactions are moving online and you can see the beginnings of store owners starting to realize they should change their

strategy," said Jeremy Neren, founder and head of business development at GrocerKey Inc., a Madison startup that partners with stores to help them sell online and deliver locally.

"The way they've done business for 100 years doesn't apply anymore."

New "food-tech" companies, many headed by young, tech-savvy entrepreneurs like Neren, are driving the transformation. Such companies raised more than \$1 billion from venture capitalists in 2014, according to CB Insights. The companies have technologies for delivering groceries, ordering food, tracking inventory and doing other tasks. Others have created replacement products such as eggs, meat and leather.

Instacart Inc., a San Francisco grocery-delivery concern that Forbes Magazine earlier this year called "America's most promising startup," in January raised \$220 million in venture capital, and the company is now valued at \$2 billion.

Fetch expects to have its shopping app available in new stores later this summer. The company has nearly completed a \$4 million fundraising round, said Wes Schroll, founder and chief executive officer. Fetch previously raised \$4.3 million, about half of it late last year, Schroll said.

"Everyone is competing with Amazon and looking over their shoulder at Target and Wal-Mart," said John Philosophos, a partner at Great Oaks Venture Capital LLC, which has invested in Fetch. "The Fetch app gives small players a tool for consumer loyalty and pricing."

Schroll, who dropped out of the University of Wisconsin-Madison after his sophomore year to run Fetch, said he came up with the idea after grocery shopping experiences revealed the industry's inefficiencies.

Fetch has a patented technology that connects smartphones and other devices with any type of point-of-sale system, Schroll said. The app benefits the three primary players in the shopping experience - customers, product manufacturers and grocers, he added.

Shopper Jean Vollmer was skeptical but tried Fetch after the store posted signs tallying up the potential saving it offered. Vollmer now borrows a store iPad and uses it regularly.

Vollmer saved about \$6 and got a free package of Johnsonville sausage with the loyalty points she accumulated during a recent visit. She said she will use the service "as long as I can save money."

Shoppers pay nothing to use the app, and like it most for the savings and the way it makes shopping fun, Schroll said. Retailers pay a one-time setup fee and a monthly subscription fee, but Fetch makes most of its revenue from the [product manufacturers](#), he said.

The app gives manufacturers the ability to deliver coupons on the spot - so when a customer scans a bag of brat buns, Johnsonville can immediately send a coupon for sausages. Product manufacturers also get data that shows them how much individual shoppers will spend on particular items, and allow them to target specific demographics.

Kimberly-Clark Corp., for example, has the ability to target a coupon for Depends, its adult incontinence product, to older shoppers, Schroll said. Customers like Kimberly-Clark receive aggregated data and never have access to the identity of individual shoppers, he said.

Grocers that use Fetch typically have 10 percent to 24 percent of their customers using the app within three months of launch, Schroll said. Those shoppers spend 25 percent to 30 percent more in the store when they use the app, he added.

The Piggly Wiggly has been able to differentiate itself from the competition since it started using Fetch in July, said Curt Schmidt, store manager. For customers who don't own smart devices, the store initially bought three iPads to lend and has added three more, Schmidt said.

In many cases, the Madison food tech companies are starting with family-run grocery stores that historically made money by acquiring more stores, said Andrew Hoeft, founder and [chief executive officer](#) of Pinpoint Software Inc. in Madison.

"Now there's a younger generation that's helping them realize they can make more money with the business they already have by improving their processes," Hoeft said.

For instance, the 93 stores around the country that use Pinpoint's Data Check Pro software save an average of \$40,000 annually by tracking their expired products more efficiently and in less time, he said.

Economic development professionals and others often try to predict which technologies will develop in their communities, said Joe Kirgues, co-founder of gener8tor, which trains startups in Madison and Milwaukee, and counts Pinpoint Software among its participants.

"But one of the exciting things about there being a grocery cluster in Madison is that no one predicted it," Kirgues said. "And who knows what new cluster will emerge tomorrow."

Grocery startups

Three Madison startups focus on grocery stores:

Fetch Rewards Inc. makes a grocery shopping [app](#) that offers advantages for shoppers, stores and brands.

GrocerKey Inc. partners with stores to help them sell online and deliver locally.

Pinpoint Software Inc. sells two software products: Data Check Pro helps grocers manage expiration dates for their inventory; and Taskle helps with internal store audits and task management checklists.

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