XC Commerce™

RESEARCH BRIEF

THE STATE OF GROCERY **PRICING** AND **PROMOTIONS** 2025

The Return of Brick and Mortar as the Hub of Grocery Innovation

The State of Grocery Pricing and Promotions: 2025

THE RETURN OF BRICK AND MORTAR AS THE HUB OF GROCERY INNOVATION

The grocery industry has undergone a significant transformation since the pandemic, with a renewed focus on physical stores driving the quest for unified pricing and promotions.This shift presents a unique opportunity for grocers to deepen customer connections by tailoring promotional offers to individual preferences and behaviors throughout the digital and physical shopping journey.

That said, an appreciable pricing-and-promotions technology capabilities gap exists between top-performing grocers and the rest of the market, posing a serious challenge for those striving to catch up. A survey by Relex Solutions and Incisiv, presented at Groceryshop 2024, revealed that only 12 percent of grocers in the US and EU have adopted "advanced or dynamic" pricing and promotion capabilities and technologies, while 37 percent – more than a third of all respondents – continue to rely on spreadsheets to manage promotions.

This research brief – the first in a series of short industry reports on innovation in pricing and promotions – focuses on how the broader grocery market can close the capabilities gap. Leveraging anonymized insights from leading North American grocery retailers – observations and case studies from leaders at Groceryshop 2024 – the brief outlines the broad contours of these capabilities – and the supporting technology architecture – that's required to compete. Our goal is to provide a clear and actionable roadmap for staying competitive today and well into the future.

–The XCCommerce team

> *"IN 2025, THE PHYSICAL STORE WILL BE THE STORY, SHAPING HOW GROCERS LEVERAGE IN-STORE CONSUMER-FACING TECHNOLOGIES TO INFLUENCE CUSTOMER SHOPPING BEHAVIOR AT SCALE AND WITH PRECISION. IT'S A MIGHTY SWING OF THE PENDULUM OF TECHNOLOGY FOCUS AND INVESTMENT."*

1 INTRODUCTION

In the summer of 2024, the US Federal Reserve prepared to cut interest rates for the first time since the pandemic.[1] In response to consumer frustration over high prices, both grocers and fast-food chains ramped up aggressive promotions. Fast-food chains like McDonald's gained widespread recognition for their success, leveraging simple behavioral science—a marketing discipline they are well-known for—to meet the needs of price-sensitive customers while maintaining profitability. This win-win approach serves as the gold standard for promotions, and its success is relatively easy to measure in the fast-food industry.

For grocery retailers, the path to success is more nuanced … and complex. Grocery promotions involve a broader range of partners, products and a greater variety of customer behaviors, complicating the execution of effective marketing strategies. However, significant innovation in grocery promotions deserves attention equal to that of fast food and traditional retail. As shoppers return to brick-and-mortar stores, many grocers have rethought the in-store experience and begun executing sophisticated cross-channel promotions that utilize detailed insights into customer behavior to deliver personalized offers at scale.

Understanding customer behavior is essential for grocers, as it enables them to influence and shape shopping habits. To meet the evolving needs of shoppers, grocers must refine their strategies and embrace a more data-driven approach. After a period of emphasis on e-commerce and digital experiences, the focus is shifting back to brick-and-mortar stores as primary touchpoints for customer engagement. This renewed focus offers grocers the opportunity to integrate in-store technologies that provide valuable insights into shopper behavior and preferences. In fact, as physical stores regain importance, they serve as hubs for personalized promotions and real-time interactions, powered by technologies like digital displays, mobile apps, and self-checkout systems. These consumer-facing tools not only enhance the in-store experience but also allow grocers to collect and analyze data in real time.
By bridging online and offline interactions, grocers can tailor experiences that reflect customer behavior more accurately, creating a more seamless and personalized shopping journey.

But just as important, in-store technologies are helping grocery retailers understand the unique ways the digital and physical can relate. As Claire Peters, Worldwide VP at Amazon Fresh, declared in her Groceryshop keynote,"the connection between store and online has never been more important." In an article about Groceryshop for Progressive Grocer, Evan Chernofsky, SVP of marketing for Placer.ai, examined the connection between digital and physical that grocers are beginning to understand. "When we think about how omni is evolving in the grocery space, it's not online and offline, it's a loop between them.If you go to the store, you grab a big package of paper towels, I want someone to walk up to you and say 'Do you want this delivered to your house again next month?' I want the digital touches to loop in the physical and the physical to loop in the digital."

While leaders in grocery retail are beginning to form a consensus on the opportunity to rethink the physical store and its relationship with digital, there is an appreciable technology capabilities gap in pricing and promotions. According to a recent survey by Relex Solutions and Incisiv—unveiled on October 7 at Groceryshop 2024, a premier event for grocery leaders—only 12 percent of US and EU grocers have adopted "advanced or dynamic" unified pricing and promotions capabilities and technology; in fact, 37 percent still rely on spreadsheets for promotion management. In contrast, leading grocers are leveraging price/promotion optimization engines, advanced data analytics, and behavior-driven strategies to seamlessly integrate online and in-store experiences. These engines drive innovation by using behavioral insights and "if/then" scenarios to optimize promotions across both digital and physical touchpoints. As these tools evolve, they will predict shopper behavior with even greater precision, helping close the gap between the digital and physical realms while enabling grocers to deliver personalized, connected experiences.

The aim of this research brief is to examine the capabilities that sets the top 12 percent of innovators apart while demystifying some of the innovations driving their success. Drawing on anonymized insights from top-performing grocers in North America, we illustrate what success looks like and how more grocers can close the capabilities gap.

[1] The Fed followed through on September 18 by cutting the rate by a half point, which was considered aggressive, The rate is expected to fall by another half point by the end of the year.

II BEHAVIOR AND PERSONALIZATION AT SCALE

In the retail industry, so much has been said and written about "personalization at scale," which has been a North Star – a guiding light, if not a destination, for retailers of all types including grocery. It's largely been an effort by leading thinkers and practitioners in retail to recreate the intimacy of retail in its earliest forms – like the general store, the corner store, and the druggist, where the vendor knew all of his or her customers by name and took care to keep their favorite items in supply. The challenge for modern retailers, of course, is to provide that level of care and intimacy—not between the actual owner and shopper, but between the brand and shopper.

Since the 1990's, with the emergence of e-commerce, retailers have sought to harness technology to tailor messaging and offers that feel tailored to the individual shopper, and there's no end to the approaches that technology vendors and consulting companies have offered to help vendors evolve. In recent years, the conversation has shifted to include not just the technology challenges but the organizational challenges as well. Just a year ago, MIT, published a brief whitepaper proposing a "customer-centric" approach to providing personalization in retail which provides grocers with the ability to think beyond the organizational and technological siloes that have inhibited personalization in the past.

We agree with this POV, but feel tasked to take the focus on the customer a bit further. By being "customer-centric, a retailer puts the needs of the customers at the center of all critical decision making. But we also hold that the desired customer behavior needs to be factored into decision making, because all promotions are designed to influence what the customer does if the promotion is effective. Of course, what a customer does is dependent on how the retailer behaves. The customer has to earn the trust of the retailer, and see value in the offer. How to do this at scale is the subject of this brief.

At Groceryshop, several grocers and CPGs shared their thoughts on the strategic importance of personalization at scale, citing specific business objectives that can be met. Frans Muller, President and CEO of Ahold Delhaize, emphasized that personalization is key to meeting their actual growth targets, with plans to expand private label brands to 45%.[2] He highlighted the importance of an omnichannel approach and a connected customer experience, while also addressing privacy concerns by noting that they use only primary customer data for the direct benefit of their customers. He further underscored the critical role physical stores will play in the future. Ram Krishnan, CEO of North America Beverages at PepsiCo, spoke about how customer relationships have transformed into two-way communication,
with multiple touchpoints throughout the purchase journey. This facilitates a level of personalization that is both more intimate and precise – engagement at the right place, the right time, with the right customer. He calls this "precision loyalty."

[2] Private label was a major topic of discussion at GroceryShop 2024. See https://www.supermarketnews.com/private-label/groceryshop-day-1-recap-it-s-all-about-private-label

THE CORE TOOLS FOR BEHAVIOR-DRIVEN PROMOTIONS

Influencing shopper behavior at scale can be challenging, but with the right mix of technology, and a basic understanding of consumer behavior, grocers can succeed. “Behavior-driven promotions” offer a solution by leveraging customer data to shape shopping habits in line with business goals.

This approach enhances the customer experience and helps prevent problems like conflicting promotions that lead to losses. Traditional promotional strategies often fail to deliver these mutually beneficial results. Here are the core tools for behavior-driven promotions:

The essential tools for implementing behavior-driven promotions include:

1 UNIFIED CUSTOMER IDENTIFICATION

A unique customer identifier can be established through various touchpoints, such as mobile apps, kiosks, or checkout stations.[3] This identifier alerts grocers when a customer logs online or enters the store, enabling a personalized and seamless shopping experience while maintaining privacy. At the same time, grocers should be respectful of the privilege that shoppers are allowing them to use that data to personalize the shopping experience. They should make clear what their privacy policies are, and not inundate the shopper with irrelevant or duplicative offers. Providing the option to opt in (or opt out) for promotions is a nice touch, creating a sense of safety and intimacy between the grocer and shopper.

This identifier not only facilitates a smooth transition between digital and physical shopping but also allows grocers to tailor interactions based on previous behaviors. For example, if a customer frequently purchases gluten-free products, the system can trigger relevant promotions upon their entry into the store, increasing the likelihood of conversion. This proactive approach ensures that customers feel recognized and valued, enhancing their overall shopping experience.

[3] We can expect in-store consumer-facing technologies to evolve in ways that not only provide a better shopping experience but also add touchpoints for real-time data collection. One of the biggest stories at Groceryshop was Sam’s Club which announced the coming opening of its first cashierless store. “Customers will shop and pay for purchases using Scan & Go, a feature of the Sam’s Club app which allows members shopping in-store to use their mobile devices to scan items as they shop, complete payment and skip the checkout line entirely.” https://chainstoreage.com/sams-club-opening-cashierless-store

2 AGGREGATED, NORMALIZED CUSTOMER DATA

Customer data from member programs, purchase history, behaviors, and demographics forms the foundation for effective promotional strategies. Grocers can organize this data to gain a comprehensive view of each shopper's habits and preferences.

This data-driven insight enables grocers to create detailed customer profiles that inform targeted marketing strategies. For instance, if a segment of customers frequently shops for organic products, tailored promotions highlighting these offerings can be developed. Or conversely, promotions for complementary products to help grow basket sizes. This level of customization not only improves customer satisfaction but also drives sales by directly addressing shopper needs and preferences.

The importance of accurate, unified data cannot be overstated. It goes to the heart of understanding your customer beyond what customers explicitly share about themselves.[4] At Groceryshop, Amy McClellan, Chief Customer Officer for SpartanNash, observed that 32% of shoppers are not actively looking for deals. "They want deals but they are not looking for them." A comprehensive, unified view of the customer would enable grocers to better engage with these types of customers.

[4] According to the Relex/Incisiv survey, the number one impediment to advanced pricing and promotions is data quality and integration. "Without accurate, unified data, retailers cannot effectively optimize their promotional strategies."

3 A PRICE/PROMOTION OPTIMIZATION ENGINE

This is the cornerstone of behavior-driven promotions. Leveraging advanced algorithms – and increasingly AI/ML – a price/promotion optimization engine automates myriad and complex "if/then" promotions based on real-time customer behavior and preferences. This enables marketers to structure promotions as they imagine them. For instance, if a loyalty member historically purchases name-brand products, then a grocer may want to promote their own-brand products to improve their margins. This automation does not mean a loss of control for grocers; instead, it empowers them to create targeted promotions that align with their overall strategy and business goals. In addition to personalization, the engine optimizes the timing and presentation of promotions by analyzing purchase patterns. It delivers offers at strategic moments—such as just before a typical buying time—maximizing transaction likelihood.

A critical feature of this system is real-time conflict resolution, which ensures that overlapping promotions, such as "buy one, get one" deals and percentage discounts, are managed seamlessly. This capability enables grocers to maintain control over their promotional strategies, preventing margin loss and enhancing the customer experience. The grocer can ensure that the system automatically applies the right discount when there are two potential discounts. More granularly, the system can automate sophisticated tasks like layering offers – i.e., following the rule that a certain offer applies after other offers have been applied. By automating the performance of these if/then tasks evaluating multiple promotions at the point of sale, the engine minimizes potential frustration, boosts customer satisfaction, and ensures profitability.

> *"PRICE/PROMOTION OPTIMIZATION ENABLES GROCERS TO MAINTAIN CONTROL OVER THEIR PROMOTIONAL STRATEGIES, PREVENTING MARGIN LOSS AND ENHANCING THE CUSTOMER EXPERIENCE."*

IV TECHNOLOGY ARCHITECTURE REQUIREMENTS

To fully leverage behavior-driven promotions, grocers need a robust technology foundation. While these promotions offer enormous potential, they require a technology architecture that is nimble, scalable, and adaptable.

A SINGLE SOURCE OF TRUTH

A single source of truth refers to a unified data platform where all customer data, transactions, and engagement details are centralized in one system. This platform integrates information from various channels, such as in-store purchases, online shopping, mobile app activity, and loyalty programs. By centralizing this data, grocers gain a comprehensive, real-time view of customer behavior, enabling more accurate targeting and personalized promotions. Unified data management, often called master data management (MDM), provides tools like a Product Item Master (PIM) and Customer Relationship Management (CRM), offering an end-to-end view across finance, supply chain, operations, retail, and merchandising, ultimately improving efficiencies throughout the organization.

This system ensures that critical information is up-to-date across all touchpoints, preventing discrepancies and avoiding conflicting or redundant promotions. It also facilitates accurate segmentation and effective marketing, ensuring that promotions reach the right customers with the right offers at the right time.

A single source of truth also applies to promotional data and offers. Having disparate systems to manage and execute promotions across multiple channels results in inefficiencies as well as a negative customer experience. Multi-channel shopping is the new normal in grocery and customers expect a consistent and connected experience.

A SCALABLE ARCHITECTURE

Grocery retail is different. It is uniquely complex, with slim margins and an urgent customer demand for essential goods. High inventory turnover, perishability, and fluctuating demand make it harder to maintain profitability, setting it apart from other retail sectors.

A scalable architecture ensures that the system can handle varying volumes of customer transactions and promotional activity, especially during peak times such as holidays or special promotional events. This involves designing the infrastructure to expand capacity when necessary, allowing for increased data processing, real-time analytics, and system throughput during high-demand periods.

For instance, during Thanksgiving or the Super Bowl, when transaction volumes surge, the architecture must scale to accommodate increased traffic without compromising performance. This scalability is critical for maintaining smooth operations during promotional events or holidays. It allows grocers to implement promotional strategies that adapt to changing market conditions seamlessly.

The flexibility and agility of their technology architecture gives grocers the ability to respond quickly to real-time trends, expiring product dates and excess inventory. For example, if a promotion suddenly gains popularity, the infrastructure can immediately scale up resources to handle the increased traffic. Once the promotion ends, the system scales down, reducing costs and improving efficiency. This flexibility keeps grocers agile in a constantly changing retail landscape.

A HEADLESS ARCHITECTURE

Headless architecture, which has been around for some time, is now the baseline for enabling flexibility in promotions and incentives. It separates the front-end customer experience from the back-end systems that manage data and logic. This separation gives grocers more flexibility in designing personalized experiences across multiple channels, such as websites, mobile apps, kiosks, or smart shopping carts.

However, the success of implementing headless architecture depends on the retailer having a clear technology strategy and roadmap. Decisions must be made about whether to build or buy solutions, whether to adopt a best-of-breed approach or rely on a single vendor, and the order in which these changes should occur.

With a well-defined strategy in place, grocers can update the front-end interface without changing back-end systems, allowing faster customization and iteration of customer experiences. For example, they can deploy different front-end experiences tailored to specific customer segments or shopping contexts (e.g., in-store vs. mobile) without altering the promotion logic. This flexibility enables experimentation with new interfaces, testing engagement strategies, and quick updates across platforms, all while maintaining consistent data and promotional operations on the back end.

INTEGRATION WITH LEGACY SYSTEMS

Grocers are reliant on critical systems which in some instances may be considered legacy, such as point-of-sale (POS), inventory management, customer relationship management (CRM) databases, enterprise resources planning (ERP), and vendor portals. These systems are mission-critical for daily operations, but expanding them to support new business functions can be difficult due to high costs, complexity, and the risk of disrupting operations. As a result, integrating legacy systems with modern technologies is essential to enable the advanced promotions needed in 2025.

Legacy systems must connect to modern data platforms through integration solutions that allow for real-time data sharing. By doing so, grocers can benefit from the reliability of their legacy systems while also gaining access to new capabilities, such as real-time personalization, analytics, and automated promotions. This integration creates a cohesive technology ecosystem that supports better decision-making and enhances customer engagement.

STORE RESILIENCE

As more customers include physical stores as part of their shopping journey, it is crucial that grocers deliver a positive customer experience for every visit, including when there are disruptions to store operations and systems. All customer impacting technologies including supply chain, inventory management, loyalty programs, and promotion execution need the ability to operate in spite of a disruption (planned and unplanned).

For example, consider the impact on the customer experience if their personalized offer is not applied to the basket or their transaction doesn't honor the loyalty offer of 3X points or a free gift. The customer walks out frustrated, regardless of the reasoning.

While investments in robust infrastructure that can aid in withstanding disruptions, connectivity issues will continue to occur. Grocers need to ensure their critical store systems (i.e. customer impacting) are resilient to continue to operate in offline mode and continue to meet the needs and expectations of its customers.

UNIFIED CAPABILITY-RICH APIS AND MICROSERVICES

APIs (Application Programming Interfaces) and microservices are vital for enabling flexibility and rapid adaptation in modern technology architecture. APIs serve as bridges between different systems and platforms, facilitating the flow of data across internal and external systems, while microservices break down large, monolithic applications into smaller, manageable components that can be independently updated.

APIs allow for real-time connections between grocers' internal systems (such as CRM, POS, and loyalty platforms) and third-party services (such as promotion platforms, payment processors, e-commerce, customer analytics platforms, or delivery services). This functionality enables dynamic promotions that adjust to live customer behavior, such as offering discounts based on what's in a customer's shopping cart. This flexibility allows grocers to respond swiftly to customer needs and market changes.

WHERE DOES AI FIT IN?

As grocers evolve their promotional approaches, artificial intelligence (AI) is becoming the natural successor to traditional automation. While current automation focuses on executing predefined rules and workflows, AI empowers grocers to make real-time, data-driven decisions. Rather than setting strategies, AI identifies when predefined strategies, KPIs, and objectives are not being achieved and makes recommendations on how to improve. By analyzing customer behavior, AI refines pricing tactics, personalized promotions, and continuously optimizes them for specific segments, resulting in more targeted and profitable outcomes.

Moreover, AI shifts promotional strategies from reactive to proactive by anticipating and predicting customer needs. This capability allows grocers to design tailored promotions that meet evolving shopper behaviors. By integrating AI into automation hubs, grocers can increase operational efficiency and dynamically adapt to changing customer preferences, positioning themselves for long-term competitiveness and success in a rapidly evolving market.

It is worth noting that grocers are already moving beyond speculation about the future application of AI. Groceryshop 2024 highlighted a number of important use cases that are emerging around the utility of AI for both in-store and digital promotions. For example, Calgary Co-op is exploring AI's potential to enhance in-store experiences by personalizing services tailored to individual customer preferences, while also working to address internal resistance to technological change. Lowes Foods is focusing on using AI to boost in-store engagements, aiming to increase consumer dwell time and spending by blending digital tools with physical experiences, creating a more immersive and connected shopping environment.

> *"AI SHIFTS PROMOTIONAL STRATEGIES FROM REACTIVE TO PROACTIVE BY ANTICIPATING AND PREDICTING CUSTOMER NEEDS. THIS CAPABILITY ALLOWS GROCERS TO DESIGN TAILORED PROMOTIONS THAT MEET EVOLVING SHOPPER BEHAVIORS."*

V IN CLOSING

In 2025, the physical store will be the story, shaping how grocers leverage in-store consumer-facing technologies to influence customer shopping behavior at scale and with precision. It's a mighty swing of the pendulum of technology focus and investment.

The grocery industry will be defined by its ability to bridge the gap between physical stores and digital strategies, using advanced pricing and promotions to shape customer behavior. While the pandemic shifted attention to e-commerce, the resurgence of brick-and-mortar stores has opened new avenues for innovation, especially in the realm of promotions. This shift underscores the critical role physical stores now play as hubs for real-time data collection and customer interaction, driving more personalized, behavior-driven promotional strategies.

Yet, the industry still faces a significant capabilities gap. While leading grocers are already leveraging advanced technologies—such as price optimization engines, AI-driven personalization, and integrated data platforms—to create seamless shopping experiences across both in-store and online environments, many grocers remain reliant on outdated tools like spreadsheets. Closing this gap is essential for the broader market to remain competitive.