

phygital forward: three strategies for driving omnichannel growth in food & beverage

(Approximately 7-Minute Read)



summary

In this article, pepviz™ discusses **how to successfully blend online and offline** efforts in order to create the most **seamless omnichannel or “phygital” shopper experiences**. We begin by exploring **the current state of phygital** and **defining the opportunity**. We next reveal **three powerful data-driven strategies** to take phygital to the next level, near term and well into the future. Finally, we bring each strategy to life by **showcasing innovative, growth-driving PepsiCo solutions and partnerships**. We're excited to share these insights with you and invite you to join us in writing the next chapter of the future of phygital.

the future of phygital is now

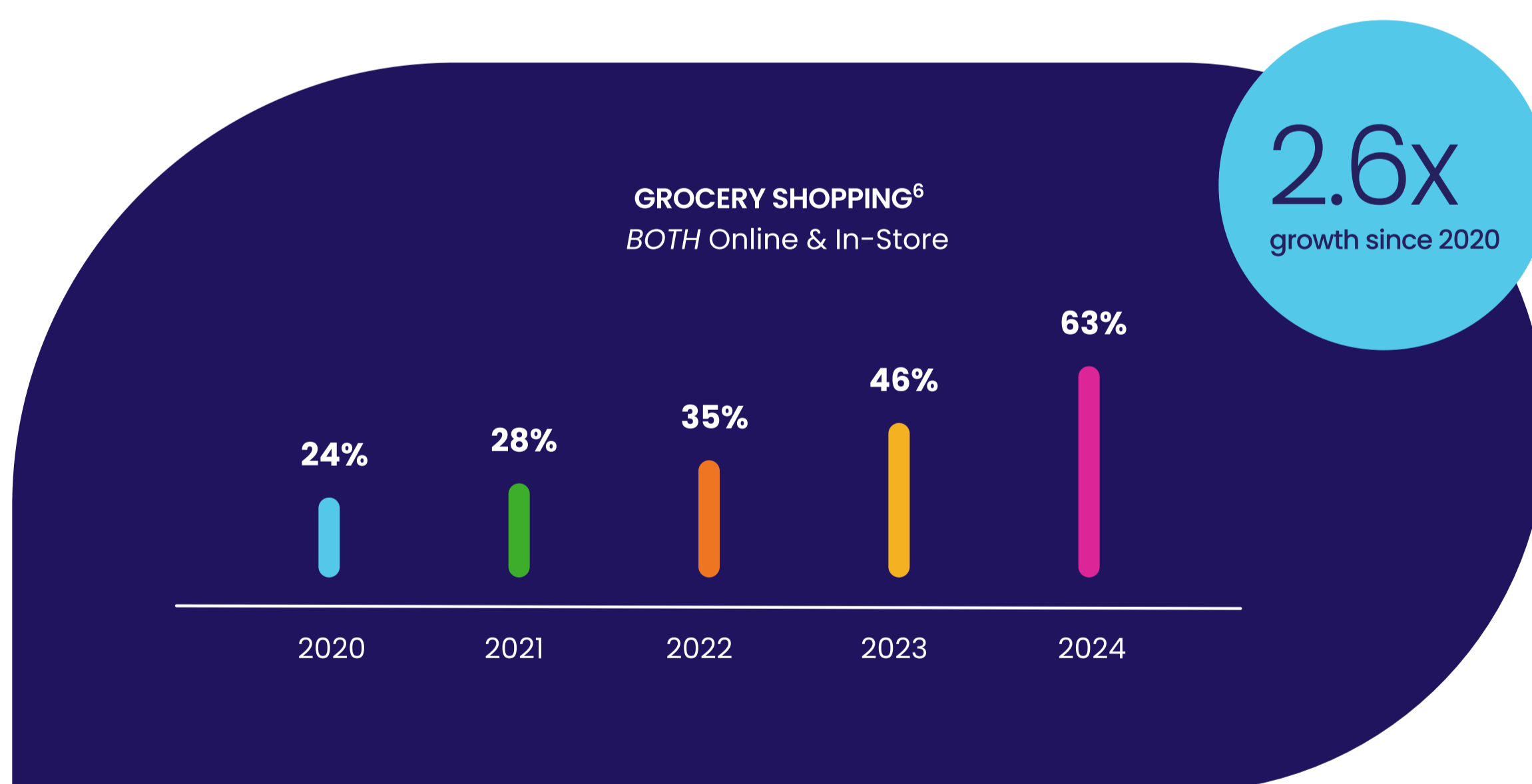
The term **“phygital” is defined as the blending of digital experiences with physical ones**, often in real-time.¹ Sometimes referred to as an omnichannel customer experience, a phygital experience is meant to **close gaps in shopper journeys in order to reduce friction, frustration and churn**.²

The term phygital began growing in popularity almost a decade ago, **fueled by excitement around immersive digital technologies** like VR, AR, and other “Web 3.0” technologies. At the time, visionary marketers asked, “What if many of the physical things shoppers love could be digitized and delivered inside a Metaverse of virtual worlds? What real world value could this generate for brands and retailers?”

Cut to today, and this conception of phygital as **“the digitizing of the real” remains largely science fiction**. In 2015, Digi-Capital predicted that AR/VR could hit \$150 billion in global revenue by 2020.³ As of 2023, the market for these immersive technologies had barely reached half of that number.⁴

But this is not the end of the story. A far more practical and actionable vision of phygital not only persists today, it's thriving. **Phygital experience design becomes mission critical when viewed as the strategic use of digital systems and data to improve not only e-commerce but every shopping touch point, both online and in person**. When done right, the borders between online and offline become hybridized, fluid, and increasingly integrated into a single, seamless experience.

So let's consider this. **Grocery will become the largest e-commerce category by 2026**, projected to almost double from 11.7% to 19% of all sales.⁵ But the real news is that, after a COVID-caused surge of online only grocery shopping, **shoppers today are increasingly shopping for groceries both online and in-store** (see chart).⁶ This means integrating online grocery shopping with in-person has never been more important.



Ninety-five percent of online shoppers say they will continue to shop online for grocery items in the future, and heavy e-comm shoppers are making over 41 online trips per year, so this behavior is becoming much more habitual.⁷ **Hispanic and Gen Z shopper cohorts are growing fastest in e-commerce** but still preferring to browse stores and discover new products in person more than other groups.⁸

The convenience channel is also seeing a growing percentage of sales generated online. And, as in grocery, **the phygital ‘aha’ for convenience is that online and in-store can no longer be separated**, especially as younger and more diverse shoppers value e-convenience due to its immediacy and comfort. Sixty-five percent of e-convenience shoppers live in urban areas (201 index), so it is critical to deliver a seamless omnichannel experience with these key shopper cohorts.⁹

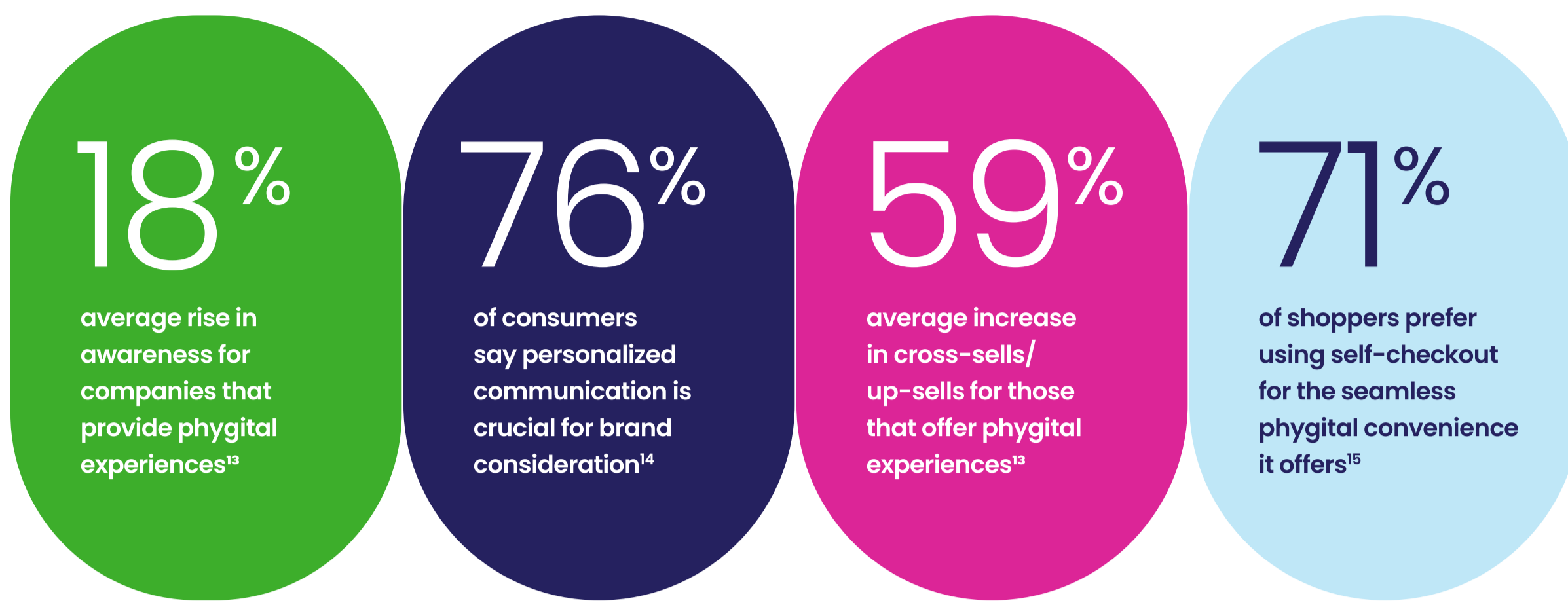
And **when shoppers do go in-store, nearly half (47%) use their phone** to check prices, compare products, and check up on everything from pairing recommendations to recipes.¹⁰ So what's digital and what's physical? Where does one end and the other begin? Exactly.

Today's phygital doesn't depend on future technologies or virtual realities. **The future of phygital has arrived. The future is now. And the opportunity is enormous.**

the omnichannel opportunity

The numbers are in: **brands that invest in omnichannel strategies, which include phygital experiences, achieve 2.5 times higher growth rates** than those that do not.¹¹

As food & beverage shoppers are shopping more channels overall¹², engaging more with online services, and increasingly expecting retailers to offer both, they're **rewarding omnichannel retailers who seamlessly blend experiences**. And the gains in awareness, brand consideration, sales and loyalty driven by successful phygital integration are significant (see below).



These new shopper preferences and behaviors are not just nice to have. They represent new table stakes for retailers. Shoppers have themselves become largely 'hybrid' in their willingness and desire to transact and engage across the entire retail spectrum. As such, **the transition to phygital represents a burning platform for all food & beverage retailers who must strategically evolve** to deliver on these new phygital preferences.

Here's how.

making the promise of phygital real

It all starts with shopper needs.

PepsiCo's proprietary **Omnichannel Choice Drivers shopper tracking study¹⁶** reveals the real factors **driving retailer choice today** and the best ways to prioritize them in order to win with shoppers in the future. Top drivers of shopper choice include **advanced conveniences**, such as non-traditional checkout, **omnichannel services**, such as curbside pickup, **advanced experiences**, such as apps for improved in-store experiences, delivering **value beyond price**, and ensuring the **right assortment**.

Retailer attributes gaining importance and emphasizing the need for a phygital experience in the future include **immediacy and speed**, such as "30 minutes or less" delivery services, offering **robust loyalty programs**, providing **unique flavors** and **products good for people and planet**.

By looking at these omnichannel choice drivers, we arrive at three powerful phygital strategies for driving growth, both near and long term: **autonomous convenience**, **precision loyalty** and **anticipatory assortment** which we next define in more detail.¹⁷

CURRENT DRIVERS OF RETAIL CHOICE	FUTURE DRIVERS OF RETAIL CHOICE	PHYGITAL STRATEGY
advanced conveniences →	immediacy →	autonomous convenience
omnichannel services →	speed →	
advanced experiences →		
value beyond price →	robust loyalty programs →	precision loyalty
right assortment →	unique flavors →	anticipatory assortment
	products good for people and planet →	

strategy 1

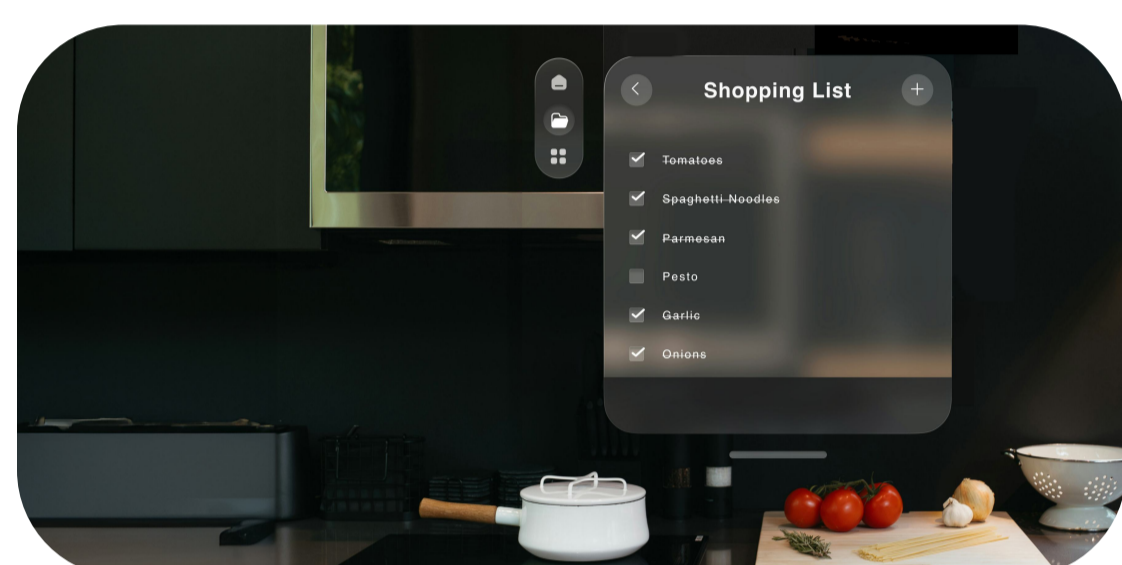
autonomous convenience

Convenience is no longer just about ease and speed but the ability to offload the mental labor associated with shopping.¹⁷

Retailers, both online and offline, will need to rely on leading-edge technology such as advanced analytics, generative AI, and automated delivery to **proactively deliver on shoppers' needs**, offering a dynamic yet seamless shopping experience integrated across fulfillment methods.

The following key trends and emerging shopper needs inform the Autonomous Convenience strategy:

- make it quick and easy to get everything I need, whether I am shopping online, in-store or a combination of both
- give me greater flexibility over how I shop, offering multiple ways to get what I need so I can choose what best fits my changing schedule
- save me the hassle of repurchasing everyday items by creating lists for me and having items ready before I even know I need them



near term

1-2 years

TREND: Retailers are increasingly offering automated grocery shopping and replenishment options.

OPPORTUNITY: Continue to encourage impulse purchases by adding relevant message and product recommendations to algorithm-driven baskets prior to checkout or delivery.

OPPORTUNITY: Leverage purchase affinity analytics and automated virtual inventory management to anticipate and proactively deliver on shopper needs.

long term

3+ years

TREND: Connected kitchens using AI to offload mental labor for everything from grocery planning, to delivery, to meal prep will become more common.

OPPORTUNITY: Explore strategic partnerships with other industries such as smart kitchen appliances to gather supplementing data and minimize labor associated with routine tasks, from meal planning to creating shopping lists.

case 1: autonomous convenience

delivering on shopper needs at self-checkout

Problem to solve:

A national grocery retailer was seeing **declining sales at checkout even as competitive retailers were growing in this space**. A key driver of these trends was shoppers shifting to self-checkout, which made up 50% of all transactions. While these shoppers appreciated the speed and convenience of automated self-check out, the retailer **was lacking the right immediate consumption items at the register** which shoppers wished to purchase to treat themselves at the end of a trip.

Solution:

To better understand the specific shopper motivations at checkout, the teams **leveraged PepsiCo's proprietary Front-End insights, which highlighted that most checkout purchases are routine and required a more tailored strategy in a rapidly changing area of the store**. The shopper motivations of wanting convenience and specific categories merchandised at self-checkout was overlaid with the retailer's first-party data to provide a clear assortment recommendation of snack, candy and beverage items. By bridging together the latest technology and shopper needs, it opened up the opportunity for a two-market test that provided the right items in an innovative and appealing way while also protecting impulse purchases.

Results:

The collaboration yielded an immediate lift to all Front-End categories, including routine and impulse purchases, and brought a scalable impact to both the top and bottom line. **Overall Front-End sales increased by 10%** with significant sales increases across three categories:¹⁸



+1-5%

in Beverages



+10-15%

in Candy



+65-75%

in Salty Snacks

strategy 2

precision loyalty



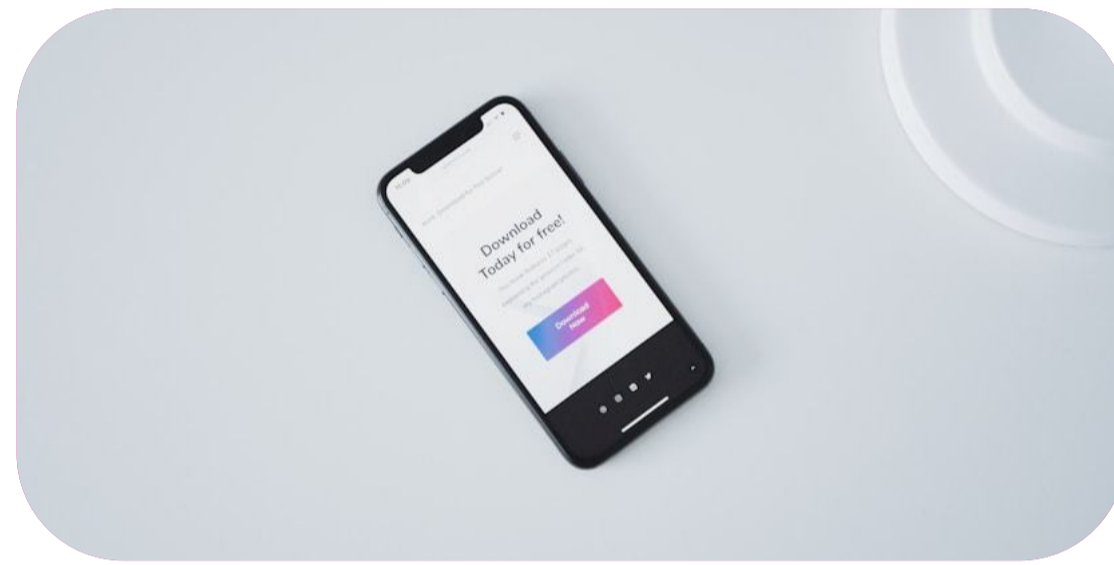
Shoppers want to feel appreciated and understood, expecting personalized messages, product recommendations, and promotions based on real-time needs.¹⁹

Retailers will need to **integrate disparate data streams**, such as point-of-sale, shopper insights, and marketing metrics to build a deep, end-to-end view into each shopper's preferences, needs, and habits. Embedding AI will enable efficient execution of **hyper-personalization at scale**.

Those first movers who **develop ecosystems across data services and platforms** and make shoppers feel truly seen, stand to gain a strong competitive advantage while fueling greater value perceptions and building loyalty across all touch-points.

The Precision Loyalty strategy is informed by and addresses the following shopper needs:

- make me feel like you actually know who I am as a person, not just what I have purchased in the past
- offer me appreciation for who I am and what I value, not just coupons for what I could buy
- provide me with recommendations and special offers that are relevant to me in that moment



near term

1-2 years

TREND: Multiple data streams and real-time information will allow for additional personalized offers during trips.

OPPORTUNITY: Put a comprehensive retail media strategy in place closing any gaps between higher-level need states (e.g., afternoon pick-me-up and the moment of purchase).

OPPORTUNITY: Leverage advanced analytics and AI to provide in-the-moment, highly personalized offerings, relying on contextual data (i.e., wearables) as well as cart content.

long term

3+ years

TREND: Increasingly, retailers and brands will use AI to reward their most engaged and loyal shoppers with hyper-tailored benefits.

OPPORTUNITY: Add tiers to loyalty programs, rewarding highly engaged shoppers with unique, bespoke benefits (e.g., discounted or free delivery, personalized deals, build your own multi-pack).

case 2: precision loyalty

cDNA drives targeting precision¹⁶

Problem to solve:

A high-penetration brand in the Salty Snack category had the bold ambition of becoming a \$6 billion business by 2028. However, the brand's household penetration was in decline, largely driven by households with teens. To offset these declines, the team identified the need to **strategically shift its comms approach to focus on helping families and friends connect**.

Solution:

To achieve these objectives, the team turned to **Consumer DNA (cDNA), a proprietary PepsiCo consumer data platform recognized as best in class**. With cDNA we could:

- provide coverage of every household in the U.S., with a combination of modeled and deterministic signals
- achieve a 360-degree view of household members across 120K households and 1,700 attributes - who they are, what they love, what they buy, and where they shop
- identify, understand, and reach addressable audiences
- optimize messaging and media planning by connecting insights to media behaviors and ultimately measurement and optimization

Based on audience media consumption behavior, the brand chose a full-funnel approach to drive efficient reach and ROI. **Using cDNA, the team was able to reach their audience via digital channels and personalize messaging by occasion**, delivering to each audience segment content featuring the most relevant occasions for them: road trips, work lunches, school lunches, tailgating, and/or camping.

Results:

The campaign drove a **+0.2 point household penetration gain**, and the brand made major inroads with their target audience. This occasion-based strategy and audience-first planning led to **a massive 31% increase in media efficiency year-over-year, with a full-year digital media ROI of \$7.92**. The team also gained an in-depth understanding of their audience segments, paving the way for future personalization as they expand their strategic end-to-end comms approach with additional assets to deepen salience with new occasions.²⁰

+0.2 ppt
household penetration gain

+31%
in media efficiency YoY



Assortment must now be responsive to an increasingly complex and interconnected set of needs, making the products available feel curated for each shopper.²¹

From value, to health and wellness, to enjoyment and novelty, to new occasions, assortment will have to meet shoppers' unique needs.

A strategy that leverages multiple & real-time data sources will gain a holistic, yet granular understanding of how purchase patterns and preferences are evolving, enabling retailers to **anticipate demand and have the right products, at the right time across the right stores and fulfillment methods.**

This represents the holy grail of "anticipatory design" by ensuring we can always be one step ahead of shoppers' needs.

The Anticipatory Assortment strategy is designed to deliver on the following shopper needs:

- offer curated options that suit the different moments of my changing daily routines
- help me find products that fit my unique wellness and affordability needs
- make it easy to get what I need even if I'm not sure exactly what that means



near term

1-2 years

TREND: Combining a holistic data set with AI to guide assortment planning and deliver against individual shopper needs more efficiently.

OPPORTUNITY: Invest in new technology to improve demand/supply management and ensure the right SKUs are available at the right location at the right time.

OPPORTUNITY: Leverage leading-edge tools to better predict and track trends in real-time, uncovering assortment optimization opportunities and leading the way with the right solutions.

long term

3+ years

TREND: AI bringing new levels of precision to assortment optimization, curating present & future options in line with shoppers changing needs.

OPPORTUNITY: At physical stores, use interactive screens and AI for occasion-driven product featuring along with personalized message such as 'meal ideas for you.'

case 3: anticipatory assortment

sDNA cracks the code on c-store assortment

Problem to solve:

A national convenience store chain partner had a unique set of shoppers with different Beverage needs, so **ensuring the right assortment in the right stores was key** for resonating with their shoppers to grow dollar share within the market.

Solution:

Together, through our pepviz approach, PepsiCo and our partner created an advantaged category and planogram strategy to deliver against shopper needs and drive sales, profit and market share. We **leveraged PepsiCo's proprietary Store DNA (sDNA) solution to understand who the shopper is and what they are buying** both inside and outside of the store. Then, we **clustered stores by shopper similarities**, all while being practical, yet targeted in terms of how to execute the assortment.

The key things to know about sDNA:

- combines data from over 500K retail partners
- helps to understand what stores sell, outlet attributes, nearby stores and points of interest, and store profiles
- store-level data can enable customized sell-in of assortment and marketing activations

Based on the demand dynamics, four unique clusters were created. Of the four clusters, one skewed toward healthier items, one focused on functional beverages, another focused more on flavors, while the final one was comprised of core beverages. **Insights-based planograms were created to reflect categories and brands that over-indexed across each cluster.**

Results:

In 2023, **single-serve beverage sales grew 9.2%** in stores that were clustered compared to 6.4% growth in stores that were not. YTD 2024, **clustered stores are growing 5.0%** vs 0% for stores that are not clustered.²²



putting phygital to work for you

These three strategies for realizing the full potential of phygital shopper experiences unlock new and creative activations, programs, and promotional tactics. **These tactics can be brought to life by drawing on pepviz's unique data & insights** and by tailoring them to your own needs in partnership with PepsiCo.

	autonomous convenience	precision loyalty	anticipatory assortment
STRATEGY	Convenience will no longer be just about ease and speed but the ability to offload the mental labor associated with shopping.	Shoppers want to feel appreciated and understood, expecting personalized messages, product recommendations, and promotions based on real-time needs.	Assortment needs to respond to an increasingly complex set of needs, with product availability curated to each shopper.
SHORTER-TERM TACTICS	Add relevant messages and recommendations to algorithm-driven baskets prior to checkout or delivery.	Close gaps between need states using a comprehensive retail media strategy.	Improve demand/supply management using technology to ensure the right assortment.
LONGER-TERM TACTICS	Leverage purchase analytics & automated virtual inventory management to proactively deliver on shopper needs.	Integrate disparate data streams for deeper, end-to-end shopper understanding and 1:1 messages.	Leverage tools to better predict & track trends in real-time to uncover optimization opportunities.
	Explore strategic partnerships with smart kitchen appliances to gather data and help minimize labor.	Add tiers to loyalty programs, rewarding highly engaged shoppers with unique & tailored benefits.	Use interactive screens and AI for occasion-driven products and personalized message such as meal ideas.

phygital partnerships

We hope you found these pepviz insights inspiring and useful. And we hope you'll **reach out to continue the conversation and partner with PepsiCo to create innovative phygital programs** for your own food & beverage channels, online, offline, across both, and in between. Together we can partner to use our sDNA and cDNA granular data along with our forward looking proprietary insights to **deliver tailored solutions for your key problems to solve**. That's how pepviz puts phygital to work to create delightful shopper experiences **and unlock win-win growth opportunities for all**.

pepviz is PepsiCo's approach to using data & insights to foster partnership and drive growth with our forward-looking food & beverage retail customers.

Please visit us at www.pepviz.com



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