



Surviving the Brave New World of Food Retailing

A Roadmap to Relevance for the Future for Food Retailers

Kurt Salmon
Part of **Accenture Strategy**

 **RETAILING RESEARCH COUNCIL**
Research by Retailers • North America

Foreword

Relevance or Extinction: Survival of Only the Fittest

DISRUPTIVE FORCES ARE FOREVER CHANGING THE WORLD OF RETAIL.

Today's shoppers—armed with new technologies and shifting personal needs and aspirations—are seeking entirely new solutions from the stores they shop. As a result, traditional strengths, such as location or product variety, are declining in importance, while the value of experiences and connections is rising. The very definitions of convenience and value are evolving.

Through the years, reports from the Coca-Cola Retailing Research Council have identified specific challenges facing the industry and offered equally specific solutions or approaches. The Council members chose this very different topic because today's challenges are so very different from those of the past.

The Council members strongly believe this report will serve as a clarion call on the enormity and impact these emerging challenges will have on every company. In addition, the report lays out some of the difficult decisions companies need to make to maintain relevance with the consumer of the near future.

No report of this nature can possibly identify the specific challenges for each and every company, but we believe this document can provide sufficient examples of this new landscape and be a catalyst for discussion and action inside any company. Readers can use this material—including a self-diagnostic tool—to determine how to best reorient each company for this new era.

Keep in mind that every company is at a different point in this journey and everyone is moving at a different speed. But the Council believes everyone must be on this journey or risk becoming irrelevant with the shoppers of tomorrow. This report can support you in this vital effort.

Table of Contents

1. VISION 2025

A scenario for how consumers will shop for food in the future

2. INDUSTRY IMPACTS OUTLOOK

What this means to today's traditional food retailers

- A. Loss of monopoly on location and exclusivity: As consumers' food retail options continue to expand, retailers who operate under the traditional food retailing models will lose share
- B. Demand for online grocery options continues to increase: Consumers expect retailers to do the heavy lifting and make it easier for consumers to find, select, purchase and transfer products from the store shelf to the kitchen shelf
- C. The next-generation food experience pushes beyond the physical store: Consumers view "food" less as a commodity and mere sustenance and more as a holistic experience

3. INDUSTRY RESPONSE IMPERATIVES

What success will look like and what winners should be doing now

- A. Ensure relevance in the consumer's journey: Understand current customers, identify target customers and reposition competitive strategies accordingly to attract and retain them, e.g., store formats, value proposition and cost models
- B. Embrace digital engagement: Move quickly on e-commerce and build digital capabilities and efficiencies that pervade the entire consumer journey
- C. Stretch the boundaries of the consumer journey: Shift from being a functional, self-serve destination for food products to delivering the "right" food solution at the "right" place at the "right" time

4. CALL TO ACTION

What does my company need to do to be ready for the future?

- A. The path toward maintaining relevance in the future: Ensuring continued relevance to the consumer will require retailers to possess and develop various capabilities that may evolve at different stages of maturity
- B. Assessing whether my company is poised to compete in the future: Food retailers can begin by conducting a self-assessment of their current capabilities and determining their progress toward maintaining relevance

Executive Summary

The pace of change is accelerating in food retail just as it has in other sectors.

The pace of change that is disrupting food retail is exponential—rather than linear—and reflects a combination of mind-blowing technological innovation, shifting consumer preferences and an increasingly networked global population. The confluence of these change factors has had dramatic impacts on other industries in the past: The introduction of ATMs forced the banking industry to question the role of the bank branch, the introduction of the VCR had the film industry wondering if movie theaters would survive and the introduction of the mobile phone made the telecommunications industry realize that landline telephones are a thing of the past. And today, the introduction of online and mobile commerce has both consumers and retailers questioning the role and future of the traditional retail store.

The fate of other once-dominant retail formats—including shopping malls, video, music and book stores, and big-box retailers—now threatens to befall the traditional supermarket. The days when the grocer could take for granted that the consumer's entire weekly "shopping list" would get checked off as she navigated the aisles are long gone. Today, it's not just where the shopping list might get fulfilled that has changed. It is the very idea of when, how and where the wants and needs for food originate. How we get our food connects to any number of lifestyle factors; is influenced or controlled by any number of players competing for share of mind, wallet and stomach; and can be filled through any number of retail touchpoints.

Just as the decline of big-box retailing was first signaled by the limitless choice and transpar-

ency of e-commerce, food retailing is being challenged most aggressively from the outside. New consumer preferences are being satisfied by new entrants and factors that are eroding the control of the shopping journey that supermarkets once enjoyed, including:

- » **New competitors** for share of stomach, who are intercepting the traditional supermarket destination consumer. Examples include Whole Foods, Trader Joe's, Aldi, drug stores and even restaurants, which, for the first time, captured more consumer spend than grocery stores in 2015 (Commerce Department, April 2015).
- » **New intermediaries**, who are inserting themselves into the shopping experience between the consumer and the supermarket aisle through demand generation, innovative marketing and home delivery models. Examples include Blue Apron, Plated, Amazon and Ocado.
- » **Market disintermediation**, where consumers are more directly engaged with individual brands and local or niche players. Examples include Kellogg's, Instacart, Harry's shaving systems and local farmers markets.

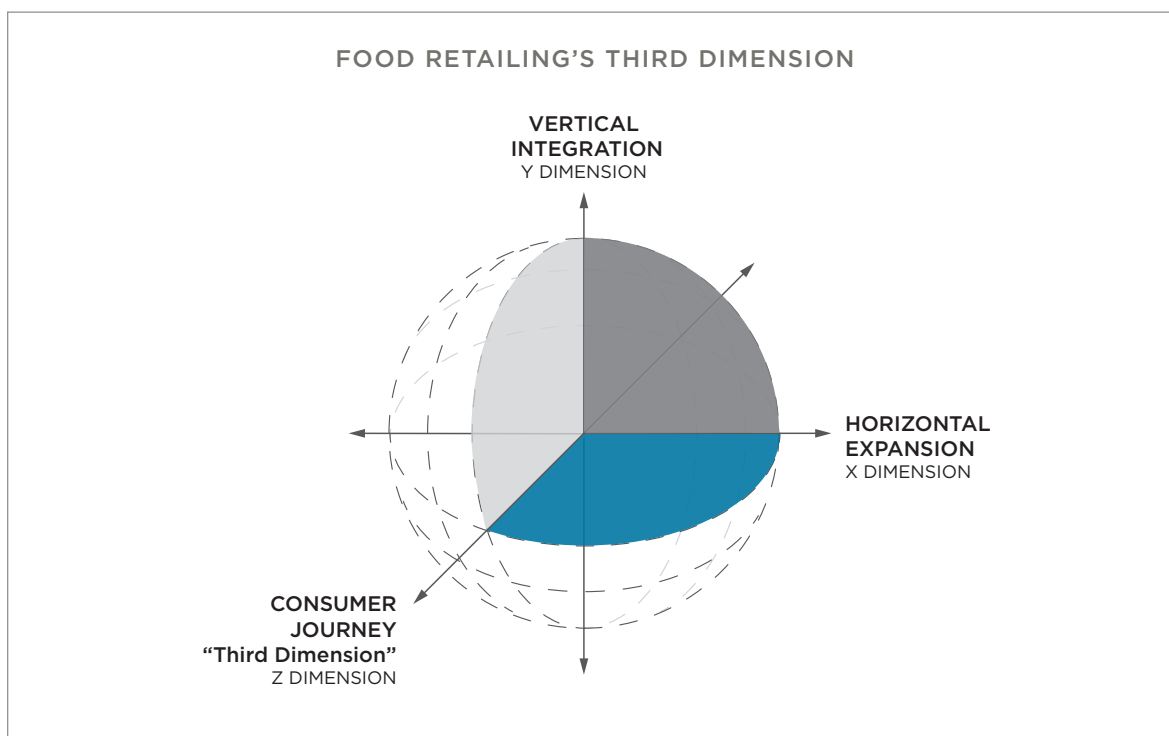
HOW WILL FOOD RETAILERS STAY RELEVANT?

The key to surviving and thriving in this brave new world of food retailing is embracing and excelling in what we call the **Third Dimension**. While efficiency and scale are important, it is not enough for food retailers to look to vertical integration in the value chain or to expand horizontally into diversified formats and channels. The third dimension is the consumer's journey, a journey that starts well before—and

stretches far beyond—the moment of placing a grocery item into a shopping cart. It includes the lifestyle triggers, preferences and priorities that precede and influence the eventual shopping list; the realities of work routines and home logistics; and the changing social context of how meals are prepared, shared and enjoyed.

The forces that today are disrupting the conventional grocery model show up all along this third axis, from menu and diet influencers through alternative delivery and dining preferences.

Successful food retailers of the future must develop strategies and operational capabilities all along this third dimension to ensure their continued relevance to the consumer.



1. Vision 2025

A scenario for how the consumer of the future will shop for food

The shopping journey for all consumers in 2025 won't be discrete. It will likely span multiple retailers, formats and channels and leverage new technologies and touchpoints. In nine short years, the exponential change in technology, consumer preferences and food commerce alternatives will fundamentally transform the food shopping experience.

While food retailers will continue to serve an endless array of consumer segments of the marketplace—from the family that has two working parents to the single mom to the empty-nester—the following scenario provides a view into what the future shopping experience may hold for the Gardners—a fictional family of four—in the not too distant future, representing a significant change from today's customer journey.

MEET THE GARDNERS

Jessica and Dave Gardner maintain a double-income household and live in the suburbs of Washington, DC, with two children: seven-year-old Billy, four-year old Emily and a five-year-old black Lab, Max.

Jessica Gardner is a 37-year-old computer sales manager. Her job requires overnight travel one or two days a week. The rest of the week, Jessica works out of her home office. Jessica likes her work arrangement because it gives her flexibility to attend her children's after-school activities. But Jessica's hectic, "always-on-the-go" schedule does require that she is always "plugged in." Jessica's mobile phone keeps her connected to her work colleagues, customers and, most importantly, her family. Jessica is an avid Facebook user. She works out regularly and is very conscious of her diet. She tries to eat organic, natural foods and is very label conscious.

Dave Gardner is a 40-year-old senior HR executive at a large hotel chain, headquartered in Washington, DC. Dave's daily commute is 40 minutes each way. He is at the office by 9 a.m. and home by 7:30 p.m. and rarely travels. Dave's one passion is cooking. He likes to make big meals for his family and friends—whether it is an elaborate brunch or a casual grilling or a romantic five-course dinner for his wife. Dave prefers to cook from scratch. He is very proud of his "gourmet" kitchen—he has the latest gadgets and enjoys his online subscription to *Epicurious*, which he peruses regularly for new and interesting recipes and cooking tips. When cooking meals, Dave tries to cater as best he can to the fickle tastes of their three kids. Billy is a growing boy and has a voracious appetite. Emily is a picky eater, loves her "sweets" and has a gluten allergy. And Max will eat dog food but prefers "people" food.

Jessica and Dave split the shopping chores. Jessica is responsible for keeping the pantry stocked with the family's nonperishables, cleaning supplies, and health and beauty needs. Most of the time, Jessica does all of her shopping (i.e., food, clothing, etc.) online, whether via her computer, iPad or mobile phone. Dave will typically do the food shopping when he is planning a meal. He is very particular about the ingredients he uses. To avoid too much takeout or fast-food during the week, on Saturday, before Dave does his food shopping, Jessica and Dave will plan out the week's dinners. Dave will cook and freeze some of these meals on Sunday.

JESSICA'S SHOPPING JOURNEY IN 2025

When Jessica sets out to do her grocery shopping each week, it is never at a set time. Jessica does her shopping for nonperishables between work meetings on her computer, on the sidelines watching Billy's soccer match on her iPad or by speaking instructions into her mobile phone while driving carpool in the car. Jessica very rarely visits a brick-and-mortar store. She is enrolled in a **subscription service** for a number of consumables—detergent, toilet paper and peanut butter. At the time of enrollment, Jessica indicated her price threshold for certain goods, the brands she likes, and her preferred delivery day and time. As a member of the service, Jessica receives 1 point for every \$1 she spends. Points can then be redeemed for cash back or price-off discounts. This cloud-based service leverages a **basic replenishment algorithm** to maintain Jessica's perpetual inventory and order parameters, which she accesses by **scanning the product, which is automatically recognized by the app in her mobile device**. Each time she scans, her inventory is updated. She is able to automate the order process so that when her inventory is low, an order is automatically placed, paid for using the credit card on file and delivered according to the criteria

preloaded in her profile at the time of enrollment. For items Jessica would like to review prior to order submission, Jessica receives a **text alert** that notifies her that an order needs to be placed. Additionally, Jessica receives alerts and **email notifications** when her "go-to" items are on sale or if there are special promotions (e.g., extra points) for new items Jessica might like to try in place of her favorites. Jessica usually has her orders delivered at 11 a.m. on days she knows she will be home to accept delivery. She enjoys the convenience of having large, bulky items such as paper towels, toilet paper, garbage bags, cleaning supplies and heavy bottled water delivered to her doorstep, eliminating the need for loading and unloading the car and making several trips carrying the items into the house.

DAVE'S SHOPPING JOURNEY IN 2025

Dave uses a combination of **online purveyors** and **specialty brick-and-mortar establishments** to purchase perishable foods. There are some items, like dairy and meats, which he trusts his **online purveyors** to provide. He has "tagged" these items in his **"smart" fridge**, a networked device that identifies items that are running low and uploads a replenishment order to a **"shopping list mediator" service**. When enrolling in this service, Dave preselected a list of preferred retailers. This service then enables Dave to aggregate his weekly shopping list and then allocate items to the retailers offering the best pricing and specials that week to minimize the total shopping bill.

Typically, on Thursday evenings, Dave plans out the meals for the weekend. His "go-to" recipe ingredients are already loaded into an **online shopping list**. He simply checks those recipes he has selected for the upcoming weekend and the ingredients are added to his online shopping list that already contains replenishment items. While watching a few of *Gourmet* maga-

zine's **YouTube cooking demonstrations**, he sees a new recipe he wants to try. He uploads the recipe ingredients to the online shopping list as well. He checks the pantry and removes any staple ingredients from the list that he already has (e.g., olive oil, balsamic vinegar).

On Saturday morning, Dave will make a trip to one of his preferred retailers with whom an online order has been placed to pick up the order. He likes to go in person to the multicategory, specialty brick-and-mortar store to personally select fresh produce and unique ingredients. For Dave, physically visiting the store is fun. He likes to browse, watch cooking demos and taste-test new products before actually leaving the store. His favorite store is a cross between a farmers market and the village center of yesteryear. The store leases its **real estate to different purveyors**. Along the perimeter is a cheese shop; a butcher; a fishmonger; a baker; a "caterer" who offers prepared and semi-prepared foods and frozen meals; a farm stand with dairy, eggs, fruits and vegetables; a coffee bar; an ice cream stand; a brick-oven pizza shop; a deli; a sushi bar; and a wine shop with a bar. The center store has tables and chairs and a display table that is used for cooking demos, book signings and community meetings and which can be rented for private parties.

Dave gets a notification on his mobile phone that the items he had preordered are ready for immediate pickup, but Dave usually finds other items to buy. When Dave arrives at the store, he pulls out his mobile phone and, with one click, opens the **store's mobile app**, which includes his loyalty card number and a curated, dynamic list of products and brands that Dave regularly purchases. When Dave initially enrolled in the store's **loyalty program**, he indicated brand preferences and special needs. For example, for his daughter, Emily, Dave must find gluten-free food products. The loyalty software engine continuously updates and enhances Dave's

product and delivery preferences by monitoring his shopping behavior (i.e., brand preferences he is actually buying and price tolerance, basket items, basket size and frequency, product pairings, etc.).

With his mobile device in hand, Dave is able to walk through the store, scanning and bagging the items he is purchasing. As Dave strolls down the condiments aisle, he receives a **promotion alert** for 20 cents off a new brand of peanut butter. Yet, when he scans the jar, he receives an **"ingredient" alert** that it contains gluten. Dave puts the peanut butter back on the shelf—happy that he did not have to pull out his reading glasses to examine the label himself. A **cooking demo** inspires Dave to try a new recipe and add the pre-portioned ingredients to his cart. For one item—a jar of Spanish olives—Dave is able to do some **price comparisons on Amazon** and finds it 20% cheaper on Amazon. With the click of a button, he uploads the Amazon price to the "shopping cart" on the app and the price is automatically lowered to the competing Amazon price because the **store's promise** is to always and immediately **match the lowest price**. Dave finishes scanning all items in his basket and receives an extra 20% off a package of cookies he is trying for the first time. Dave picks up his preordered items and, as he exits the store, beacons trigger the transaction and a **mobile payment** is made and validated with a **quick facial recognition**.

On Saturday afternoon, Dave begins to prepare Saturday evening's meal and he realizes that he does not have enough panko breadcrumbs. Dave quickly places an **Instacart order** to get the breadcrumbs from his favorite mass retailer, then, on impulse, adds some homemade guacamole and chips from his favorite ethnic food store to the same order. The order arrives 90 minutes later by Uber-auto, Uber's new **driverless vehicle service**.

HOW WILL VISION 2025 EVOLVE?

Extrapolating from current consumer trends and using today’s leading innovations as signposts, we can identify some of the key characteristics of what food shopping will be like in 2025. The food shopping experience in 2025 will be:

- » Omniformat and omnichannel
- » Lifestyle driven
- » Personalized
- » Digitally integrated end to end

Food retailing is already in a period of rapid transition, where consumers are embracing

the emerging retail models of the future while legacy models that have been around for decades still persist. From this vantage point, we can contrast what **was** with what **will be**.

WHAT’S OLD IS NEW AGAIN

Some of the ways this future is starting to manifest itself would have seemed like science fiction not too long ago. Consider the following seemingly futuristic capabilities that are already here today:

- » Talking robots on the kitchen counter, refrigerators placing food orders, store

IN THE OLD WORLD ...	IN TODAY’S WORLD ...	IN 2025 ...
Food shopping meant going into the village center or Main Street to buy meats at the butcher, fish at the fishmonger, bread from the baker, cheese from the cheese-maker and produce from the farmer’s stand.	Food comes from the grocery store, and most people have one primary store at which they shop for nearly all their needs on a regular cycle.	Food shopping will not be a discrete journey. It will be discretized into myriad touchpoints and events where consumers will have an almost limitless choice in where, when, how and why they fulfill their wants and needs for food.
The butcher, baker, fishmonger and shopkeeper at the dry goods store knew every customer on a first-name basis, and the customers knew them.	Pushing a cart down the aisle is an impersonal experience. The only engagement outside the store is the weekly print flyer or occasional television ad.	Consumers will engage—in a highly personalized manner—with food retailers using any number of digital devices and touchpoints before, during and after the shopping trip.
Consumers had a routine of shopping weekly—or even daily—to replenish the pantry or pick up fresh ingredients for the evening’s meal.	The shopping journey is more ad hoc and starts with the shopping list—as consumers recognize their need to restock the pantry or grab a precooked meal for the evening dinner.	The shopping journey will begin more fluidly from lifestyle triggers, including integrated monitoring and management of health and wellness, diet and fitness, and ordering will become increasingly seamless.
The art of meal planning was about creating a dining masterpiece for the entire week and transforming the leftovers from a robust roast beef dinner into sandwiches, stews, etc.	Tuesday is taco night, because it’s easy and can largely be made quickly from ingredients on hand. Time to plan, prepare and enjoy a great homemade meal is scarce.	Consumers will be inspired by a variety of meal and menu options, with easy-to-prepare “recipes” serving as the starting point with quality, authenticity, creativity and spontaneity all driving shopping decisions.
Milk and eggs were delivered daily by the milkman.	The consumer manages all of the logistics of the shopping trip, including picking, loading, shipping, unloading and putting away.	New seamless, flexible and immediate delivery options will become the norm, making it easier than ever to have grocery items delivered to the home.

fixtures sensing and reacting to the consumer's presence, and digitally integrated buttons that reorder products by a single touch

- » Wearable technology sensing nutritional needs, recipes tailored to medical condition or diet objectives, transparency of ingredients, and traceability of its source for all food items
- » Drones and driverless delivery vehicles arriving with meal components within minutes of ordering, ready to be assembled, prepared and served

But through another lens, some elements of consumer expectations hearken back to old food retail models that seemed to be obsolete:

- » The milkman's daily delivery of milk and eggs
- » Buying directly from the farmer at the market or ordering a side of beef to fill the family freezer
- » Home delivery from the local grocer
- » Discovering new recipes and cooking meals at home with fresh ingredients

THE FUNDAMENTALS OF THE RETAIL-CUSTOMER RELATIONSHIP ARE CHANGING

On the surface, the core tenets of retail remain true; customers buy **something they desire** from **someone they trust**. Changing consumer behaviors and preferences coupled with the rapid acceleration of digital innovations, however, are disrupting both sides of this equation.

From online and mobile commerce to social media, consumers have been increasingly exposed to new options for fulfilling their food wants and needs, resulting in a shift of both consumer desires and the retailers they trust.

Yesterday's food shopping experience was fairly predictable—and dominated by the local

supermarket or grocer who had the advantage of key location, offered one-stop shopping and could count on the entire customer experience occurring within the four walls of the store. This model thrived in an environment where the customer made routine visits to the store—at least weekly—to fill the items on their shopping list and stock their pantry.

Changing consumer preferences and expectations—fueled by the digital revolution—are turning this model on its head. Since the turn of the century, the consumer has been introduced to multiple waves of digital disruption—including e-commerce, mobile, social, augmented reality and artificial intelligence—which have already begun to transform the food shopping experience, and we anticipate that those trends will continue. As a result, the shopping experience of tomorrow will be much more dynamic, real time, lifestyle driven, digitally integrated and highly personalized.

TECHNOLOGICAL EVOLUTION WILL CONTINUE TO DISRUPT THE INDUSTRY IN MANY WAYS

The exponential changes in technology have and will continue to serve as a disruptor to the food retailing industry. In the area of technology-fueled change, Moore's law (smaller, faster, cheaper computers) and Metcalfe's law (the value of a network increases exponentially with the number of connected nodes) have combined to fuel exponential, rather than linear, changes.

For an increasingly tech-enabled food shopping experience, the questions are, Which technologies will be most impactful, and how quickly will they become widely adopted? The description of the fictional Gardner family's shopping behavior in 2025 provides a scenario for how the exponential changes in technology, consumer preferences and food commerce

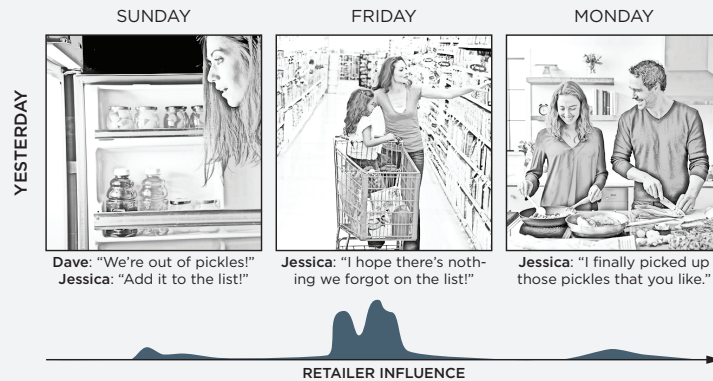
THE FOOD SHOPPING EXPERIENCE IS BEING DISRUPTED

YESTERDAY

Something they desire was often driven by a need for replenishment.

Someone they trust was dominated by the local supermarket that had what they needed.

The journey could take days or weeks, depending on the next big trip to the store. The retailer's influence was limited to the customer's time within the store.



TOMORROW

Something they desire is driven by impulse cravings in the moment they occur.

Someone they trust is being transitioned to a diverse set of digital disruptors.

The journey is measured in hours or days and is driven by customer preferences. The retailer's influence expands to every hour of every day and to every touchpoint.



alternatives may transform the food shopping experience not just in the distant future but potentially in nine short years.

These predictions are based on two major themes that have a long track record of disrupting the retail industry—plus a few wildcard trends that could further impact the food retailing industry:

» **Theme #1: Computing Power, Speed and Connectivity:** Moore's and Metcalfe's laws will march on in beautiful harmony, digitizing and empowering the physical world for the foreseeable future. In terms of computing power, it is estimated that by 2020, \$1,000 is all that will be required to purchase the computing power and speed equivalent to that of the human brain for processing visual

DISRUPTION IS THE NORM

Disruption, in general, is a fact of life. For businesses in the 2000s, technological innovations with a “digital” component are viewed as an overarching disruptor to all industries, food retailing included. However, as mentioned earlier, advances in technology have been and will always be a major driver of disruption in how consumers behave and businesses operate. It is the way in which businesses react and adapt that defines the winners and losers. For example, with the birth of the VCR, many predicted the death of movie theaters, a fate derailed by changes to the theater experience improving the audio, visual and even the seating and dining experience. Record companies found ways to evolve and stay relevant as the vinyl record morphed into 8-tracks, cassettes, CDs and, now, MP3 players. The emergence of digital imaging had a negative ripple effect on the camera industry—behemoths such as Polaroid, Kodak and Fotomat are now names of the past. But some retailers identified ways to fill voids and capitalize—CVS, Walmart and Target now have kiosks that produce photo prints. Publishers of newspapers and magazines are still in the process of determining how to adapt to a paperless world. And ATMs introduced in the '70s were heralded by the banking industry as a way to reduce labor and cash management costs. But these self-service instruments, along with the ability to conduct many banking activities online, have eliminated the need for most consumers to visit branches at all. Now the banking industry must determine how they can create personal relationships with customers outside of the four walls of the brick-and-mortar branch, originally a hallmark of banking.

images. In terms of connectivity, there are roughly 3 billion people already globally connected with internet access—a number that is estimated to grow to over 5 billion by 2020. In addition, an additional 10 billion to 12 billion “things” are connected today—a number that is expected to grow to over 30 billion by 2020 and continue to grow exponentially to over a trillion in the subsequent decade.

- » **Theme #2: Insights and Artificial Intelligence:** With billions of connected people and devices creating and sharing data, future business models will compete on the ability to turn this data into insights and these insights into value. Insights will allow retailers to know more about their customers than they ever have before. By 2025 retailers will know what their customers (and potential customers) are doing in their store, near their store, on their website, on social media, at events, at home, at work, in their car and more, building a far more precise model of how they decide what, how and when to make food-related purchases at the individual customer level.

Artificial Intelligence (AI) will be the engine to take the increasingly granular data and turn it into actionable insights. Consumers are already seeing the potential power of AI in applications like Siri, and it is making its way into their homes in devices like Amazon’s Echo and Google’s Nest Thermostat. By 2025 AI will be facilitating many of the elements of food purchasing within the context of dietary constraints, household tastes, preferred purchasing options—whether in-store or online—and decision timing.

- » **Technology “Wildcards”:** Technology will not evolve in a vacuum and there are a number of potential technology inventions—or “wildcards”—that would further disrupt

the simple evolution of current models for both supply and demand.

3D-Printed Food—As additive manufacturing, commonly referred to as 3D printing, gains in sophistication, it is increasingly likely that it will make inroads in the localized production of food, and the potential impact on current production and distribution models could be significant.

Autonomous Drone Delivery—With Amazon's recent announcements and intent to develop drones for delivery and the rapidly increasing capabilities of drones, there is significant potential for disruption in the economics and models for the delivery of food to consumers. A world of autonomous drones could change the economics around cost and speed of delivery, optimal store locations, and consumer behaviors and the concept of convenience.

Sensors—The sophistication of what sensors can do—coupled with declining costs—means that consumers could live in a world where their food can literally “speak to them,” alerting them of expiration dates, allergy risks or dietary warnings.

While many of these technology trends and “wildcards” may seem the material of science fiction, current progress in each of these areas suggests that these, or elements of these, will be part of the reality of life in 2025 and beyond. While the specific speed of advancement and the speed of adoption are unclear as we look forward from 2016 (exponential versus linear), it is clear that these have the potential for massive disruption for food retailers.

2. Industry Impacts Outlook

What this means to today's traditional food retailers

When we look at the forces threatening the supermarket as we know it today, we see a steady loss of the control and dominance that the supermarket model once wielded. In the last century, the dry grocer absorbed the green grocer, the butcher and the home delivery services of milk, eggs and bread into a single box. As a result, the supermarket evolved from a counter service to a self-service all-in-one model and became the dominant center of the food shopping journey, with some key characteristics, including:

- » **Location and exclusivity**—The supermarket often had the advantage of key location and had everything the consumer needed, creating a deterrent for shopping for food anywhere else.
- » **Consumers did the heavy lifting, literally**—With stores laid out like warehouses, the consumer handled the logistics of finding, picking, loading and unloading their own products no fewer than seven times from store shelf to kitchen shelf (shelf-cart-checkout-cart-car-kitchen-cupboard).
- » **Controlled experience**—With the exception of the weekly print circular, the supermarket controlled every aspect of the predominant store-centric customer experience. From signage and product merchandising to customer service and the music piped in overhead, the entire customer experience happened within the store.

The forces impacting traditional food retailers today are thoroughly undoing these elements of control. Exclusivity in meeting the consumer's food shopping needs is being eaten away on all sides by every imaginable retail format and channel. As many other big-box formats have found, consumers are losing patience with shopping the traditional large-footprint "grocery," whose value proposition is based exclusively on having a large selection of products in the center store. And in the increasingly connected, networked and social world that consumers now inhabit, the shopping experience goes far beyond the four walls of the store—further decreasing the food retailer's ability to orchestrate and influence the overall customer experience.

These new realities of the food shopping experience are here—as evidenced in a recent Kurt Salmon study which revealed that over 67% of respondents already use the internet for grocery shopping research and 25% are already ordering grocery products online.

We expect that the once-dominant value proposition of the traditional supermarket will be impacted significantly by these forces.

Impact 1 LOSS OF MONOPOLY ON LOCATION AND EXCLUSIVITY

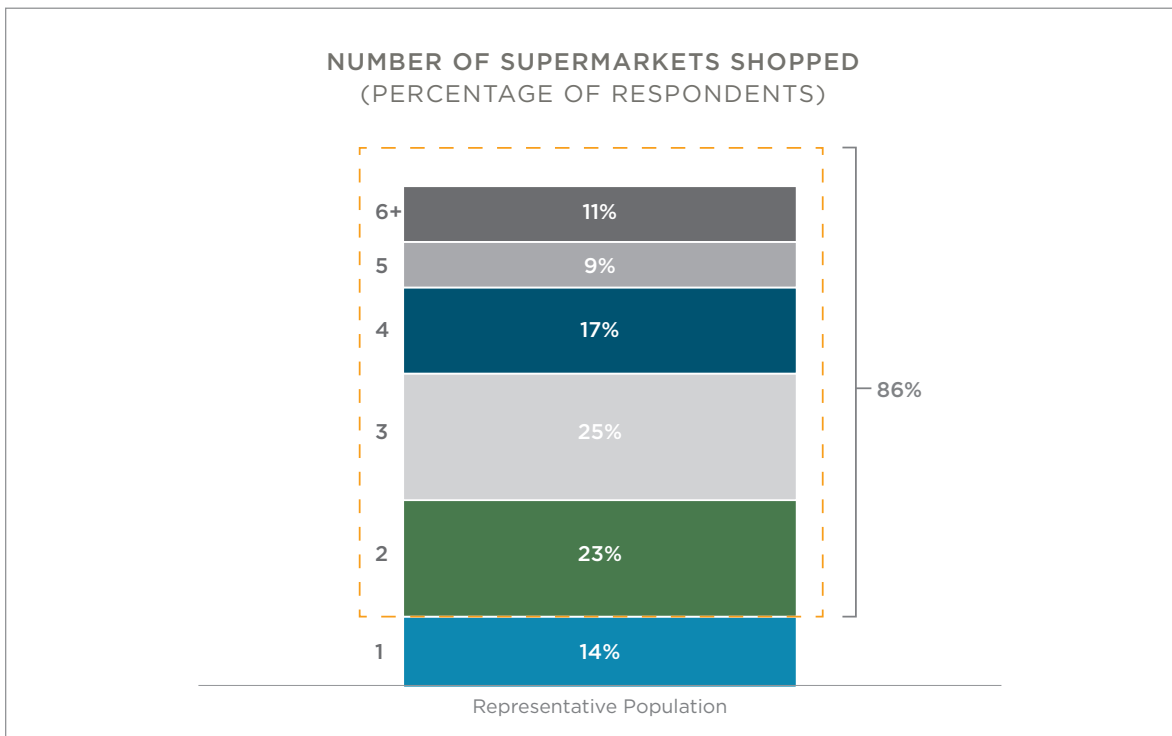
As consumers' food retail options continue to expand, retailers who operate under the traditional food retailing models will lose share

The fight for share of stomach is heating up as more challengers enter the fray. From mass merchants to boutique restaurants and from curated assortments to meal subscription services, the consumer has more options than ever to fulfill their food shopping needs.

Traditionally, food shopping was dominated by the grocery store with the best location and best assortment, quality and value. This dominant position has been fragmented over time, with the introduction of low-price discounters such as Walmart and Aldi and club stores like Costco and Sam's Club. The fragmentation has continued with c-stores, dollar stores and drug stores all investing in food offerings. Many of these new entrants are not seeking to match the supermarket's comprehensive assortment, but are instead poaching around the edges of the shopping list through low prices and

convenience. These disruptive forces will likely continue, as food-related startups continue to generate significant interest and funding, as demonstrated by the \$5.7B in funding across 275 deals in 2015 alone, according to *Forbes* ("Taking a Bite Out of the Food Industry: Start-ups Change the Game," July 20, 2016).

The digital revolution has presented consumers with far more choices today than ever before in terms of where and how they shop for their food needs; emerging offerings include on-line ordering, home delivery and new business models such as Blue Apron and Plated that are delivering to consumers ready-to-cook gourmet meal "kits." As a result, the traditional grocer is losing control; their unique competitive advantage of location is slowly losing traction. The industry consolidation journey that supermarkets have been on for the past



century—from the dry grocer, green grocer, and meats and dairy to banking and pharmacy—is suddenly being unwound and reversed.

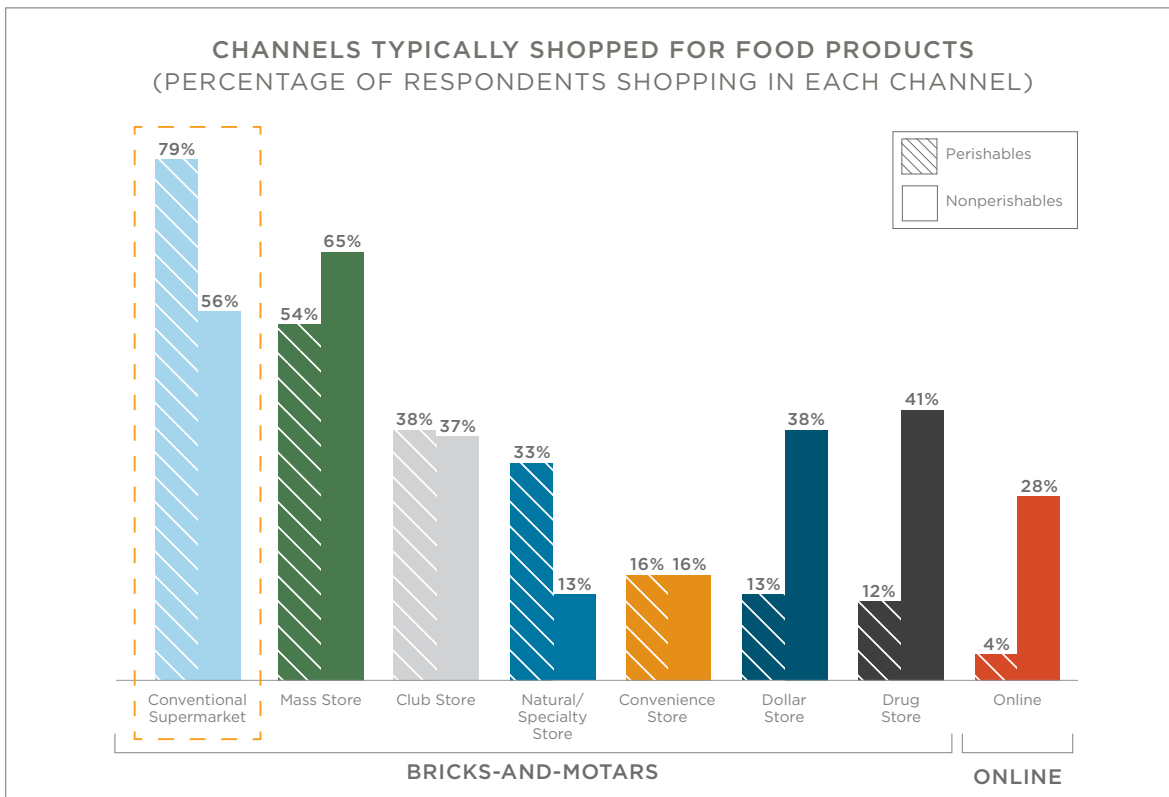
Already over half of food shopping has been diverted from traditional supermarkets to other players:

- » Fifty-five percent of their food spending is not in conventional grocery stores (Kurt Salmon survey, April 2016).
- » Supermarkets/grocers now have a 45% market share, representing an overall decline over the last 10 years, according to a 2015 Euromonitor study.

One-stop shopping is a weak value proposition. Price and quality are bigger drivers of consumer behavior than is having a compre-

hensive assortment. Convenience—originally a hallmark of one-stop shopping—has different meanings to today’s consumer. Some view convenience as “proximity” (“I go to the store that is on my way home”) and others view it as “speed” (“I’ll stop at the drug store for milk because I can get in and out quickly”), while yet others see it as “accessibility” (“I tend to buy lots of things online because I can shop with just one click on Amazon”). Our study confirms this challenge for supermarkets/grocers:

- » Only 40% of respondents concentrate their food purchases in one primary store today, and when asked to consider all of the stores shopped for supermarket products in the previous month, the number of loyal one-store shoppers falls to 14% (Kurt Salmon survey).



- » Twenty-one percent of respondents do not shop conventional supermarkets for perishables. As consumers are shopping multiple channels for food, the conventional supermarket is increasingly falling out of the consideration set.
- » Forty-four percent of consumers do not even include a traditional grocery store in their consideration set for nonperishable grocery purchases (Kurt Salmon survey). The dry grocery categories that were the original anchor for supermarkets almost a century ago are today the most likely product purchases shoppers are migrating to other formats.

This trend is even further magnified by the general lifestyle shift in preference from packaged food toward fresh—putting additional pressure on the productivity of the center store versus the perimeter.

Shrinking stores demand new cost structures.

As food retail footprints continue to shrink thanks to the declining relevance of the center store, traditional grocers are faced with oversized real estate and new overhead implications.

- » According to Planet Retail, small-box stores are some of the fastest-growing banners, with their sales projected to hit combined annual growth rates of 17.8% for Dollar General Market, 14% for 7-Eleven and 9.4% for Aldi between 2013 and 2018.
- » So it's no surprise that the average store size is expected to shrink from 25,500 square feet in 2013 to 23,900 square feet by 2018.

Impact 2

DEMAND FOR ONLINE GROCERY OPTIONS CONTINUES TO INCREASE

Consumers will expect retailers to do the heavy lifting and make it easier for consumers to find,

select, purchase and transfer products from the store shelf to the kitchen shelf

The demand for online grocery is there. As consumers become more and more accustomed to pervasive connectivity in their day-to-day life—through smartphones, networked homes and digital assistants—they will both expect and embrace a digitally integrated in-store and out-of-store shopping experience. Our research shows that 40% of consumers shop regularly on their mobile devices today, and grocery is one of the top five categories shopped.

Even though food is the laggard when it comes to e-commerce, and its penetration is still under 2% of revenue, there is plenty of latent demand for online grocery:

- » Fourteen percent of our survey respondents report some online grocery shopping (although 40% of respondents use Amazon Prime).
- » Twice as many shop for apparel on mobile as for food.
- » Over 50% of our survey respondents feel same-day delivery is very important for grocery—more than for any other category.
- » Thirty-two percent of our survey respondents bought something grocery-related online.

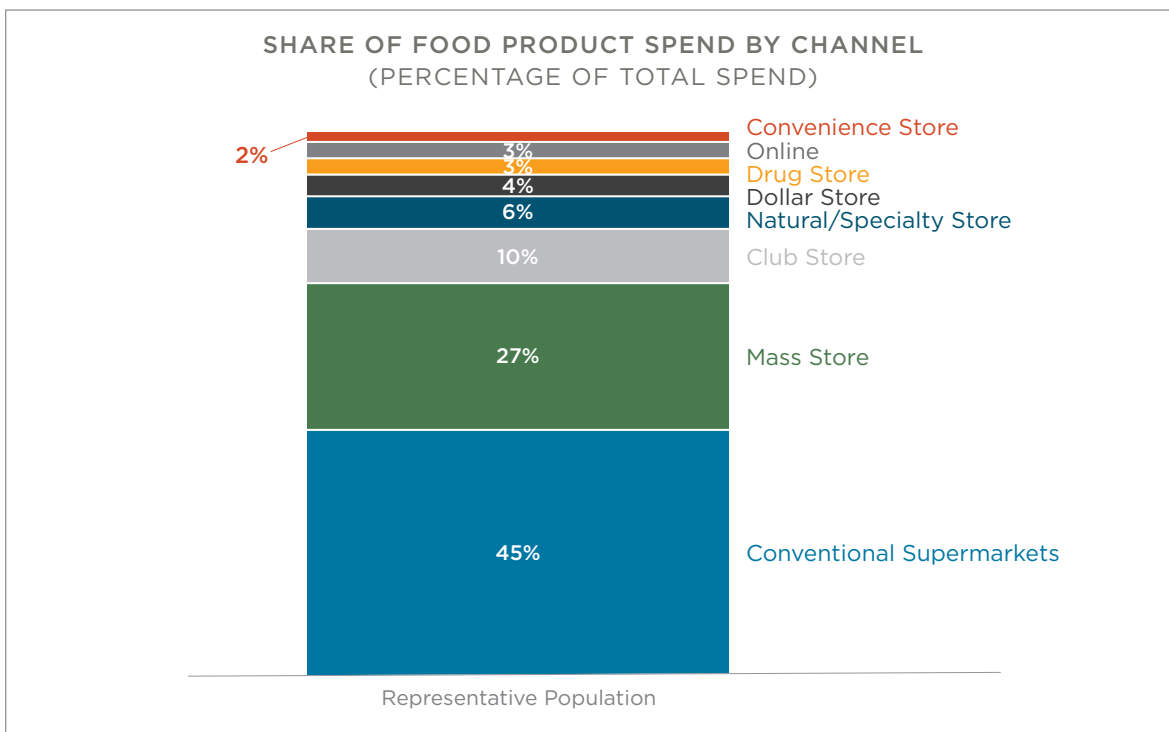
Amazon will change everything. Even though full assortment grocery commands a large share of food e-commerce dollars currently, Amazon and other nontraditional players are getting more than 80% of the trips (brick meets click). And Amazon's investments make it clear the company is going hard after the dollar share too.

- » Amazon is currently capturing about half of the 2% of grocery spending online. But Amazon is investing heavily to change consumers' food shopping habits:

- Prime Now
 - Amazon Fresh
 - Dash
 - Subscribe and Save
 - Private-label food and consumables
 - Echo
- » Amazon Prime Now data (Cowen & Company survey of 1,250 Prime Now users)
- Twenty-five percent of Prime members (46 million) have used Prime Now
 - Prime Now is available in 24 metro areas equals 34% of population
 - Thirty-six percent of product currently comes from local (non-Amazon) stores
 - Fifty percent of consumers who have bought grocery online bought from Amazon/Fresh/Pantry
 - Amazon Prime members spend 2 to 2.5 times what non-members spend on Amazon

The economics ain't pretty. The higher cost of meeting the consumer's "I want it now" expectation is draining profit and mindshare from traditional retail grocery, and while the omni-channel consumer is more profitable, every retailer can't gain share at once. There will be casualties. In the U.K., for example, where online grocery penetration has already reached 5% and continues to grow, traditional retailers are losing 3% to 5% in margin on every order (Kurt Salmon U.K. study), erasing over £300 million in gross margin from U.K. retail grocery.

For food retailers, the fight for margin dollars may be just beginning. While many point to Amazon's seeming willingness to operate at a loss as being unsustainable—even while it spoils consumers and raises their expectations—they may be missing the point of the industry economics. Amazon may be making fundamental infrastructure investments to support a five-



year compounded growth rate of 25% versus a grocery industry growth rate that is less than 5%, according to the USDA. While Amazon is investing for growth, typical grocers are focused on protecting an already slim margin.

From a margin perspective, food retailers have historically operated at gross margins that are closer to 24% rather than the retail industry's average of 40%, according to CSIMarket. The difference for food retailers, however, has been the ability to make up for that on volume, as they turn inventory on average nearly 20 times a year—more than double the turns for a typical retailer, according to CSIMarket. Multiple industry factors are challenging this formula, which threatens to further squeeze traditional grocers.

From the revenue side of the equation, shifting consumer preferences threaten both traffic and basket size metrics for grocers as consumers decrease their reliance on a single supermarket; splinter their spend for unique, local and niche products; seek convenient and ready-to-eat meals; and increasingly purchase for themselves rather than an entire household. All of these factors contribute to a potential decline in store traffic volume as well as basket size, which would erode the grocers' economic advantages in volume and inventory turns.

From the cost side of the equation, rising food prices, an increasing focus on fresh—and therefore greater exposure to perishability—and a shift to online ordering and home delivery all potentially increase the cost of goods sold. As an industry, food retailers have been late to invest in e-commerce capabilities and must now make investments just to catch up to mainstream retail capabilities. Click and collect and home delivery services also add costs to the transaction that could contribute to eroding margins if the costs aren't passed through to the consumer in some fashion.

In order to combat and reverse the potential margin contraction, food retailers will need to create a differentiated customer experience that creates and nurtures an emotional connection with their consumers. By doing so, food retailers will be able to change the perception of grocery from just a commodity to a food experience that the consumer can't imagine living without. Like the brand halo effect that benefits companies like Apple, food retailers who establish a unique emotional connection with their consumer can enjoy higher margins and intense consumer loyalty.

Impact 3 THE NEXT-GENERATION FOOD EXPERIENCE PUSHES BEYOND THE PHYSICAL STORE

Consumers view “food” less as a commodity or mere sustenance and more as a holistic experience

The food shopping journey is increasingly a lifestyle choice, not a chore. From staying gluten-free to eating only locally sourced organics, consumers want the holistic grocery experience to be an extension of the life they lead or aspire to online, offline and throughout their customer journey.

Traditionally, the food shopping journey was primarily a shopping trip to replenish the “stuff” we needed for our everyday lives, and the large mass-marketed brands were what everyone wanted—and bought.

Today and tomorrow, the world of food is much more experiential and is an extension—or definition—of the “lifestyle” we live. Consumer eating habits and food shopping habits have changed. Consumers are savvy and well-informed, increasingly seeking out more niche products from local producers, with flavors or dietary products that help them live a more

individualistic—or personalized—life around food. Power has shifted to the consumer in terms of both knowledge and control.

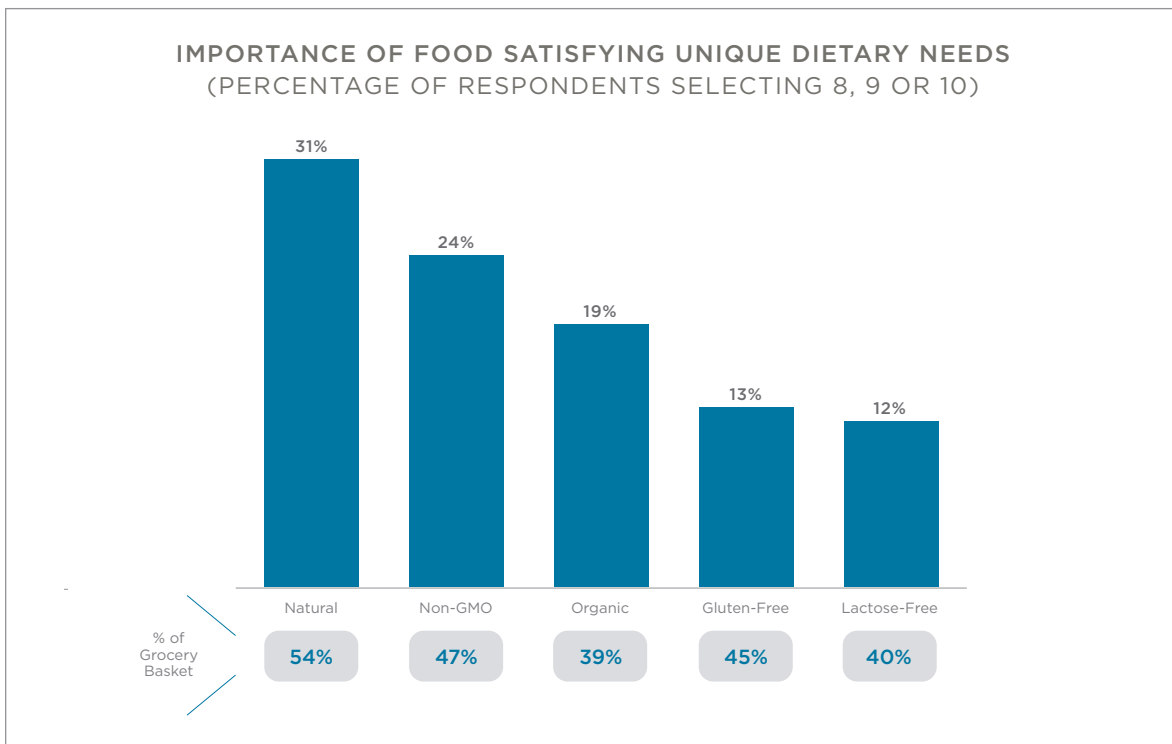
- » At least 39% of our survey respondents selected one or more of the following food characteristics as very important (natural, non-GMO, organic, gluten-free and lactose-free).
- » A significant percentage of respondents identified food characteristics as a key factor when satisfying their unique dietary needs.

Technology is the great equalizer in the industry. The digital convergence of health, fitness, diet and connectivity erodes the traditional advantage held by supermarkets. Consumers are increasingly being influenced by multiple sources to change their shopping habits. This influence is coming from many sources, including health and wellness drivers, inspiration and

creativity drivers, and emotional connectivity. The external influence doesn't stop there; our survey revealed that consumers are beginning to desire digital integration of their grocery journey.

- » Eighteen percent wanted to be able to place a deli order before entering the store.
- » Sixteen percent wanted their shopping list sent to them ahead of time.
- » Twenty-two percent wanted to be able to order out-of-stock items in-store for home delivery.

It's all about personalizing the engagement with the consumer. In today's always-connected world, the consumer expects a personalized, consumer-centric experience and a robust and well-orchestrated portfolio of shopping, purchasing and delivery models that meet his or her specific needs.



Consumers want food retailers to provide seamless engagement whether they shop in-store or on the retailer's website.

- » Specifically, 42% of consumers expect a retailer to offer the same products across all channels, and 45% expect to find the same weekly promotions no matter which channel they shop.
- » As the digitally engaged consumer continues to grow more accustomed to sharing data with retailers as they download and enable the retailer's mobile app, log on to a retailer's website and utilize their branded loyalty programs, they will expect to be recognized and rewarded for doing this (e.g., personalized promotions, customized offers and tailored pricing).
- » Our study revealed that 74% of our survey respondents do not mind sharing their personal data if they get something in return.

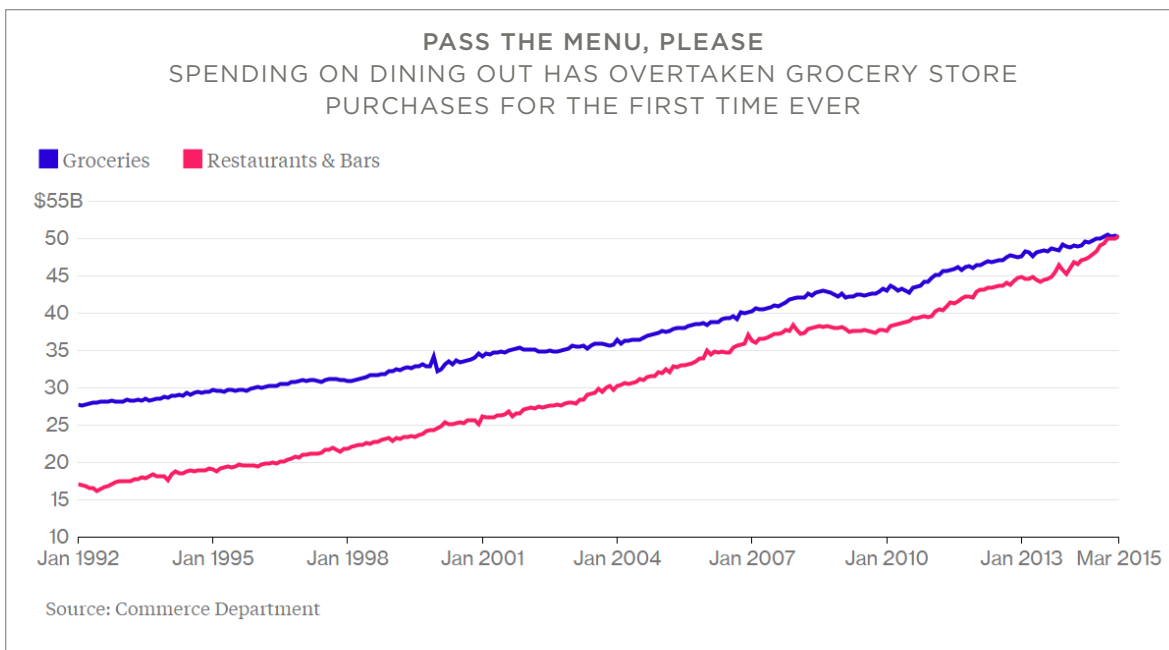
- » Eighty-two percent of consumers do not mind sharing personal data for a "clear" reward (e.g., points, miles, discount coupons, etc.).

- » Sixty-seven percent of respondents enrolled in a retailer's loyalty program expect to receive "personalized" promotions, incentives and offers that are tied to their shopping behavior.

Consumers want the meal, not the category.

Consumers want to interact with the store's assortment in the way they would a restaurant menu and expect the retailer to be a curator of meal solutions. This trend in the growth in restaurant spending, which surpassed grocery spending in 2015, was noted by Bloomberg when the Commerce Department released the numbers.

The journey doesn't stop at checkout. For many consumers, it is in the preparation, cook-



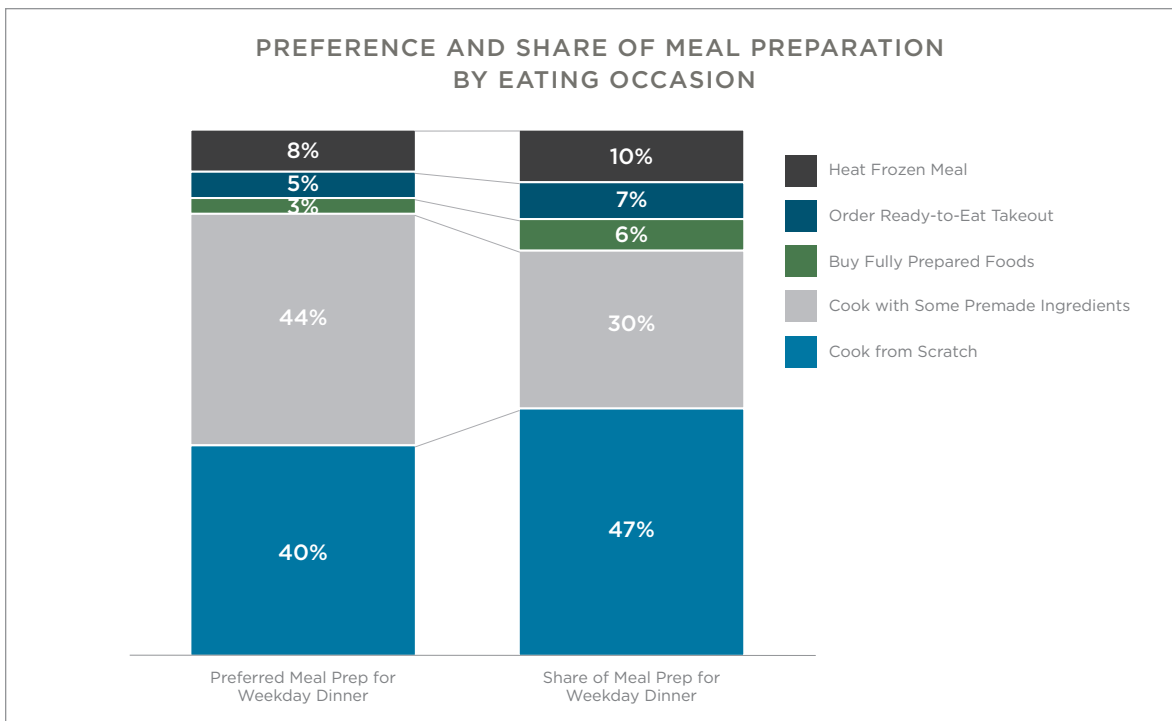
ing, consumption and sharing of food—not its purchase—where the true value of the food experience lies.

Most food retailers consider the ring of the cash register to be the end of the shopping journey. In fact, the real moment of truth is just beginning. For many consumers, the true value of the experience is in the preparing, cooking, consuming and sharing of food with others.

- » Our study shows that 84% of consumers prefer to “cook from scratch” or “cook with some premade ingredients” for their typical weekday dinner.
- » Perhaps even more insightful is that 44% prefer to “cook with some premade ingredients,” more than any other category.

» And yet only 30% of consumers are actually able to “cook with some premade ingredients.”

It is this basic shift in thinking that is redefining the food shopping experience of tomorrow. Take Blue Apron, for example. They have taken care of all of the initial parts of the journey for the consumer. They’ve created a fresh and flavorful recipe, selected and measured the ingredients, packaged them, and provided full-color step-by-step instructions—all purchased by the click of a mouse or tap of an app. Social media has replaced the Betty Crocker cookbook as a new foodie culture thrives on Yelp!, online food hacks, Pinterest recipes and YouTube cooking schools—all of which provide great sources for the wannabe chef and tomorrow’s food consumer.



WHO CONTROLS THE SHOPPING LIST?

The battle for influence is invading the shopping list, as both new entrants and established players race to develop new methods for engaging the consumer earlier in the shopping journey. By doing so, these players aim to steal market share by intercepting consumer demand before the customer even considers a trip to the grocery store. Examples of these market disruptors include:

- » **Amazon Echo:** Amazon Echo is a voice-controlled home appliance that can play music, read the news and weather, and order groceries.
- » **Amazon Dash:** Amazon Dash is a proprietary Wi-Fi-connected in-home device for ordering—or reordering—a consumer’s favorite branded product at the literal touch of button.
- » **Apple Siri:** Apple recently opened up Siri—its voice-controlled intelligent assistant—to third parties, allowing retailers to enable voice-controlled services such as shopping list management and grocery ordering.
- » **Google Home:** Google introduced Google Home—a voice-activated home product that can provide answers, stream music and manage everyday tasks such as ordering groceries.
- » **Facebook Messenger Chatbots:** Facebook debuted Messenger chatbots—an artificial intelligence and natural language platform that allows retailers to deliver automated customer support, e-commerce and interactive experiences directly in the Messenger app.
- » **Samsung Family Hub Refrigerator:** A Wi-Fi-enabled and camera-equipped fridge takes a photo every time the door is closed, providing an updated view of what’s there and what’s missing—from any device anywhere. It then connects to the family’s favorite local grocery store to place an order.

3. Industry Response Imperatives

What success will look like and what winners should be doing now

What do the industry impacts outlined in the previous section mean for food retailers? It is all about building relevance across the third dimension—the consumer journey.

VISION 2025 IMPACTS	TODAY'S INDUSTRY RESPONSE IMPERATIVES
LOSS OF MONOPOLY ON LOCATION AND EXCLUSIVITY As consumers' food retail options continue to expand, retailers who operate under the traditional food retailing models will lose share.	Ensure relevance in the consumer's journey: Understand current customers, identify target customers and reposition competitive strategies accordingly to attract and retain them, adapting value propositions, store formats and business models
DEMAND FOR ONLINE GROCERY OPTIONS CONTINUES TO INCREASE Consumers will expect retailers to do the heavy lifting and make it easier for consumers to find, select, purchase and transfer products from the store shelf to the kitchen shelf.	Embrace digital engagement: Move quickly on e-commerce and build digital capabilities and efficiencies that pervade the entire consumer journey
THE NEXT-GENERATION FOOD EXPERIENCE PUSHES BEYOND THE PHYSICAL STORE Consumers view "food" less as a commodity or mere sustenance and more as a holistic experience.	Stretch the boundaries of the consumer journey: Shift from being a functional, self-serve destination for food products to delivering the "right" food solution at the "right" place at the "right" time

Let's examine each of these imperatives with an eye to how current retailers need to successfully approach these challenges.

Imperative 1

ENSURE RELEVANCE IN THE CONSUMER'S JOURNEY

Understand current customers, identify target customers and reposition competitive strategies accordingly to attract and retain them, adapting value propositions, store formats and business models

How do traditional food retailers, who have dominated the industry based on best location, sought-after assortment, quality and value, remain relevant as the barriers to entry for nontraditional competitors are collapsing? The answer lies in a core tenet that is the foundation of success for most food retailers: Know your consumer better than anyone else does.

Food retailers must take a consumer-centric approach to strategic planning

Food retailers should start by developing deep insights from their current customer base to understand key customer segments; identify which segments are growing, stagnant or shrinking; and determine how each segment impacts the bottom line (e.g., revenue generators versus revenue destroyers).

Analysis of demographic spend, population shifts and competitor activity, however, must not solely define the future state nor determine which segments to prioritize for investments in the future. To inform and shape the future vision, census data, economic indicators and balance sheets must be supplemented with a full understanding and appreciation for why, where and how consumers shop, buy, cook and dine. Only then can a retailer identify which customers to target in the future and determine the appropriate operating model for serving them.

Understanding the “why” requires in-depth exploration of the entire journey of current and future consumers—including the various attributes that drive shopping and buying behavior at each touchpoint. Unfortunately, for most food retailers, existing consumer insights consist of transactional data that provides a clear understanding of “what” the consumer purchased, but is often blind to “why” they did or did not make the purchase. Deeper understanding should include the overall needs, motivators, behaviors and choices that drive each stage of the journey.

As witnessed over time, consumers' needs and motivators—such as speed and impulse, one-stop shopping, healthy choices, value and quality—are relatively finite. Yet the ways in which these needs and behaviors manifest themselves in consumers are constantly changing. Some consumers, for instance, who previously frequented the neighborhood supermarket because it was nearby and provided a “one-stop” shopping experience, may now be satisfying this need for convenience by shopping online and having purchases delivered to their homes. Successful food retailers must understand and adapt to those changes in rapid fashion.

For example, startups like Blue Apron, Hello Fresh and Plated are making it easier for consumers to prepare restaurant-quality meals at home with fresh ingredients and without stepping foot into a physical store. These companies identified a demand in the market, previously unmet by traditional supermarkets and grocers, and established value propositions to zero in on this current consumer need. Additionally, their business models have been tailored to deliver on their unique value propositions. As a result, they have created new products and services, reinventing the grocery shopping experience in the process. By effectively cutting out the middleman, they rede-

fined the grocery supply chain to make themselves the trusted source of fresh and unique grocery products and services.

RETAILERS' RESPONSE: *To remain relevant, retailers must be routinely and proactively addressing consumer needs and motivators. Retailers can establish ongoing, personal, real-time engagement and proactively influence the consumer at the point of interaction by efficiently and continuously managing and synthesizing the vast amount of consumer data that is generated throughout the multichannel consumer journey into actionable insights.*

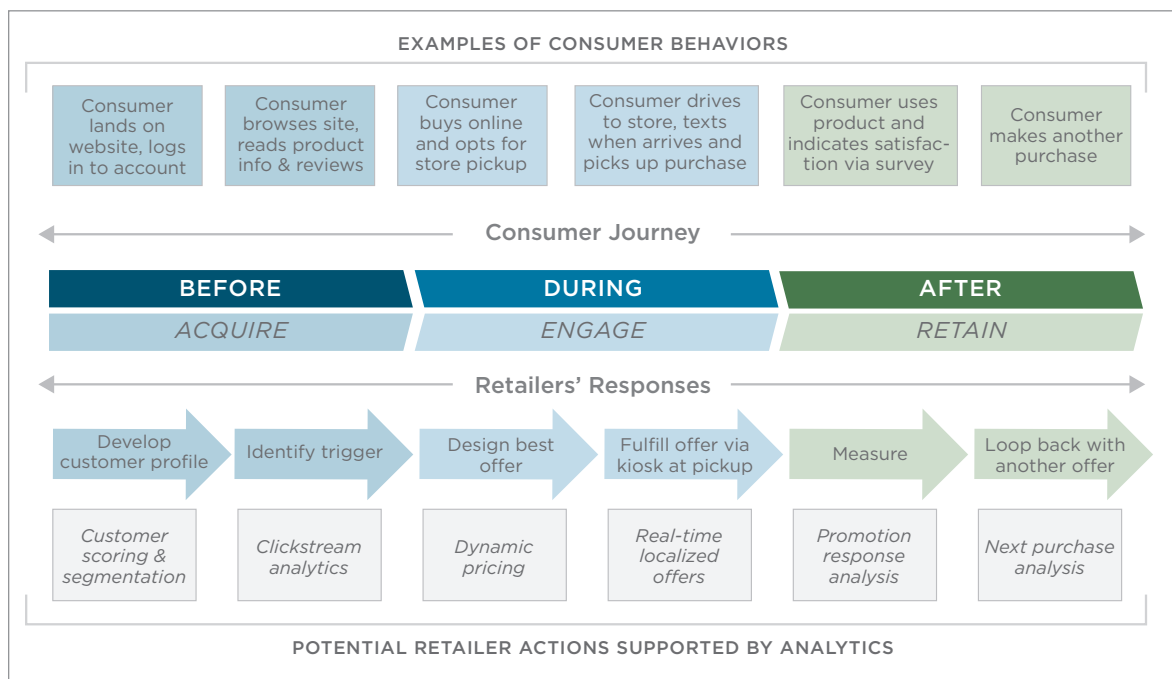
Become masters of understanding consumers via data and analytics

Traditional food retailers in 2016 have a larger customer base than these new entrants and are potentially sitting on a treasure trove of data about their customers and their consumer journeys. Yet, unlike their nontraditional com-

petitors, they are not exploiting this data nor adequately capturing it.

Progressive retailers are using advanced analytics tools and techniques to harness big data—such as proprietary historical customer data and data generated from real-time engagement—to create a robust, though one-dimensional, picture of “how” consumers are behaving. To arrive at a 360-degree view of the customer, they then overlay the “why” (i.e., consumer needs and motivators of behaviors) garnered through traditional primary consumer-facing research methodologies.

RETAILERS' RESPONSE: *Forward-thinking retailers recognize that consumers' needs, motivators and behaviors are always changing and, therefore, systematically integrate traditional research with big data analytics to ensure that they maintain an evolving understanding of consumers.*



As a result, food retailers will need to reevaluate their overall analytics and business intelligence platform to ensure that they can provide the right insights to the right people at the right time. Retailers of tomorrow must establish the data infrastructure necessary to influence the consumer journey. As omnichannel engagement becomes the norm, retailers will continue to be inundated with data. To support and facilitate unfettered access to this data, the successful retailer will have engineered a holistic analytics ecosystem and infrastructure that allow iterative discovery, prototyping and mass syndication.

Leverage design thinking to create the food shopping experience of the future

Armed with newfound knowledge and insights of consumers, food retailers will need to evolve design-thinking methods to continuously empathize, ideate and create the food shopping experience of the future.

The concept of design thinking is straightforward. It involves developing deep empathy with the consumer to help identify and clarify those problems that need solving (e.g., customers hate checkout lines). These problem statements are then used to create potential ideas for how to solve them (e.g., self-checkout). Each idea is evaluated and refined until those most promising are crafted into physical prototypes and concept designs (e.g., self-checkout prototype). These concept designs may then be tested in the market to evaluate, refine and improve them before they are implemented more broadly (e.g., a mobile checkout test).

Food retailers are already using consumer insights to drive design-thinking concepts—whether they realize it or not. For decades, long checkout lines have been the bane of the retail experience and retailers have used those complaints (or “consumer insights”) to consider and create better alternatives. As a result,

CVS recognized early on the power of their customer data. Through sophisticated use of data, CVS has masterfully evolved its ExtraCare loyalty program into an enabler of a consistent, personalized customer experience, providing additional perceived value. Rather than a reactionary, “cookie-cutter” loyalty program, CVS has created a robust platform that proactively and seamlessly delivers personalized offers before, during and after the consumer journey. CVS intelligently engages ExtraCare members, using past purchases to inform appropriately timed offers and content via emails and mobile alerts. Bounce-back offers often include target thresholds rather than a straight percentage off (e.g., \$3 off a shampoo purchase of \$15 versus simply 20% off) with a hurdle set high enough to encourage larger basket size. Unredeemed offers are often escalated if not redeemed (e.g., an unredeemed 20% off offer may be followed by one for 30% a few weeks later). This is an effective attempt to drive continued engagement.

food retailers are increasingly experimenting with self-checkout options that could bypass the checkout lane altogether—from today’s self-checkout registers to the emerging mobile-centric scan-and-go solutions. Food retailers will need to further embrace the concept of continuous ideation to improve the consumer experience throughout the consumer journey.

Another example of design thinking is tackling the challenge of “center store” relevance. Grocers like Central Market (owned by H-E-B) have redefined the product selection, pricing, margins and relevance of center store by specializing in high-quality, hard-to-find gourmet foods. In fact, staple categories like cleaning supplies have a very small selection with only

one or two offerings predominantly focused on “green” or private brands. Noticeably absent are any national powerhouse brands. Most locations also have a full-service kitchen and offer cooking and wine classes in their culinary school as well as catering services. The chain has nine locations, all in Texas, and because of these and other design-thinking strategies, Central Market has garnered numerous awards, including “Outstanding Specialty Food Retailer” from *Specialty Food Magazine*.

RETAILERS’ RESPONSE: *Food retailers should embrace the concept of design thinking to continuously innovate their businesses to better meet and anticipate changing consumer needs, desires and preferences. This must include the willingness and permission to continuously test, fail and learn, which requires executive-level sponsorship.*

Fluid value propositions need flexible operating models

Consumers have multiple needs that may slot them into different consumer segments as their life stages change. And the needs of consumer segments are always evolving as influencers, such as emerging technology, impact how we live our lives. Yet value propositions must continuously cater to a specific customer experience that aligns with the reasons a customer would choose to travel—or navigate online—to a specific food retailer’s store. As a result, success through customer centricity inherently requires simultaneous deployment of potentially multiple value propositions as well as the rapid evolution of the means of effective delivery on those value propositions.

Only through continuous refinement of these value propositions can retailers ensure that they are meaningful and relevant to the segments they wish to attract and retain. To do this, food retailers should be acting on the insights derived from customer data and design

Amazon initially sold only books. And not just some books, but such a broad assortment that no physical retail location could contain them. The selling of every book from “A to Z” is in fact why Jeff Bezos named his startup Amazon—with a line in the logo that connects the A and Z. Obviously, Amazon has since extended its “A to Z” value proposition well beyond books such that Amazon is sure to have almost any item a consumer may be seeking.

At the same time Amazon established its “A to Z” value proposition, it also pursued other value propositions, namely competitive pricing and fast and easy fulfillment. The latter, in particular, evolved from Amazon’s one-click checkout in 2000 to Amazon Prime in 2005 to Amazon Dash and Amazon Echo/Alexa in 2015.

Amazon’s success as the largest U.S. e-commerce retailer (albeit with modest profitability) is in large part due to this simultaneous pursuit of multiple universal value propositions (e.g., assortment, price, speed) and (r)evolutionary improvements on the delivery of these value propositions over time.

thinking. Yet a constantly evolving value proposition requires a nimble, adaptable operating model that can support and effectively deliver on those value propositions.

Food retailers should be asking themselves if their current operating models can support an evolving value proposition. For example, some traditional grocers may have expanded their footprint and increased square footage over time to serve the needs of “one-stop-shop” consumers. But now they are seeing a shift in their consumers’ needs (e.g., curated meals, prepared foods, etc.). Those retailers who are

able to refine and adapt their value propositions to address these new needs will thrive. They may do this by repurposing space used for goods no longer in demand or by creating seating areas where customers can eat a prepared meal, observe a cooking demonstration, meet after work for a beer, etc. By doing so, the brick-and-mortar store becomes a destination for more than just buying groceries.

RETAILERS' RESPONSE: *Retailers must take a portfolio approach to selection and delivery on value propositions. Future success may require retailers to be able to simultaneously serve multiple segments that have different needs. Therefore, five- to 10-year roadmaps should include plans for investing in and delivering on multiple value propositions via flexible operating models that allow for "test and learn" and rapid investment or divestment.*

Imperative 2

EMBRACE DIGITAL ENGAGEMENT

Move quickly on e-commerce and build digital capabilities and efficiencies that pervade the entire consumer journey

Food retailers must adapt to the great digital disruption

Consumers' increasing demand for online options means that retailers must consider how they will build or enhance their existing digital platforms. To determine what digital capabilities are required, it is important to understand how the digital disruption evolved.

Digital disruption continues to come in waves, and the disruption that has hit the general retail industry is now impacting food retailers as well.

In one respect, this digital and mobile revolution represents one of the greatest opportunities the retail industry has ever experienced. Its promise includes the ability to connect to more customers on a more personal level and

in more meaningful ways than ever before. New digital and mobile capabilities will potentially open new markets, create new business models and increase traffic, conversion and basket size.

In another respect, this explosion of new digital touchpoints and capabilities also presents an unprecedented competitive threat and challenge for food retailers to guide, manage and influence a consumer experience in an environment that is increasingly diverse and changing.

This growing digital opportunity—and increasing challenge of complexity—creates a paradox that food retailers must effectively navigate by responding to multiple cascading waves of digital disruption.

The **first wave** includes online commerce, as grocers seek to add **e-commerce capabilities** to their portfolio and compete with online pure plays such as Amazon Fresh, Ocado and Peapod. North American food retailers should look to the U.K. as a blueprint for the future of online shopping, where online sales have approached 5% of total sales. In Canada and the United States, online grocery sales account for only 1% to 3% of total sales, respectively, according to a report by BMO Capital Markets. U.S. consumers are more than ready for online food commerce; a 2014 Kurt Salmon study revealed that 67% of consumers surveyed had searched for grocery product information online, and 25% had purchased grocery-related products online.

RETAILERS' RESPONSE: *Food retailers will need to build a robust set of e-commerce capabilities to rapidly catch up to retailers who have been growing their capabilities for many years. This will include designing a more immersive and interactive online shopping experience, creating and managing a rich portfolio of digital assets, integrating the "shopping cart" across multiple devices, optimizing for mobile, and streamlining the overall checkout process.*

The **second wave** of digital disruption includes **mobile applications** intended to extend the digital experience and enhance customer engagement; examples include mobile applications from Target, which support mobile shopping lists, inventory visibility and in-store guidance; Walmart, which allows customers to scan a product to get detailed information, price comparisons and inventory availability; and Kroger, which combines shopping lists, digital offers, pharmacy refills and points for fuel in a single app. Food retailers should expect to see exponential growth in mobile capabilities such as digital wallets, portable shopping carts, and mobile ordering and checkout that will transform both the mobile and in-store experience.

RETAILERS' RESPONSE: *Food retailers will need to take a mobile-first approach to digital, optimizing their e-commerce offerings for mobile, developing a comprehensive mobile engagement strategy, curating rich and interactive mobile content, and continuously adapting and integrating emerging mobile capabilities such as mobile payments, mobile messaging and geolocation capabilities.*

The **third wave** of digital disruption will include **social networking and social commerce**. While the emergence of e-commerce and m-commerce has been well-documented, it is the potential shift to social commerce that represents the next great potential opportunity for today's retailers. The explosion of social media technologies—such as social platforms (Facebook, Twitter, Google), sharing sites (Pinterest, Instagram, YouTube), localization sites (Foursquare, Shopkick, Nextdoor) and messaging platforms (WhatsApp, Snapchat, WeChat)—has created a vast ecosystem of digital networks where consumers increasingly spend time to live, love, share and shop. Social media adoption has become pervasive among internet users, as over 67% of all online users are also active on social

In addition to significant investments in acquiring MapMyFitness, MyFitnessPal and Endomondo, Under Armour introduced a portfolio of internet-enabled devices in 2016 called HealthBox, a Bluetooth-enabled scale, heart rate monitor and wrist band that tracks steps, distance, resting heart rate and sleep. To help consumers achieve their health and fitness goals, Under Armour is essentially creating the world's largest digital health and fitness community, and, by doing so, Under Armour sells more shirts and shoes. Food retailers should take notice.

media, according to global research compiled by Smart Insights. The opportunities for social media include the ability to connect to more customers on a more personal level and in more meaningful ways than ever before. New and emerging social media capabilities will provide new channels of commerce.

RETAILERS' RESPONSE: *Food retailers must reevaluate their digital marketing and social engagement strategies and seamlessly integrate social media (i.e., traditional social and emerging messaging platforms) into online, mobile and store channels. These new social commerce capabilities will need to engage and conduct commerce in those social channels where their consumers are increasingly spending time and money.*

The **fourth wave** of digital disruption will include the **Internet of Things (IoT)** and **consumer wearables**—such as the Apple Watch, Samsung Gear and Fitbit—which provide heightened levels of personalization about health, fitness and diet needs. Under Armour has already capitalized on these disruptions by assembling an ecosystem of digital products and wearable sensors to help its sports-

wear customers track, manage and achieve their personal health and fitness goals. By doing so, Under Armour seeks to expand its influence across the consumer's journey—or “third dimension”—by becoming an indispensable resource across a broad set of customer touchpoints. In addition, Amazon has introduced an entire catalog of Dash Buttons, which are Wi-Fi-connected devices that reorder the consumers' favorite products with the press of a button.

RETAILERS' RESPONSE: Food retailers will need to transform their customer experience model to include a broad set of digital touchpoints that significantly extend beyond the

in-store shopping experience—from interactive cooking shows to dietary and health tracking—and embracing and integrating digital-enabled devices such as RFID, beacons, sensors, meters and digital apps into a digitally connected food retailing ecosystem.

The **fifth wave** will include **artificial intelligence**—or **bots**—that will become an integral part of consumers' lives. Already consumers are familiar with chatbots—computer programs designed to simulate and structure conversation with users. Apple's Siri and Amazon's Alexa are increasingly finding their way into consumers' homes. Facebook entered the fray by announcing its latest Messenger platform that includes



chatbots. Google joined in with Google Home, and other messaging platforms have or will soon follow suit. All of these innovations represent an entirely new communication ecosystem that will present another opportunity—and challenge—for retailers. Grocery chatbots, for example, could continuously learn consumer preferences to help them pick out and order groceries for the day or week ahead.

RETAILERS' RESPONSE: *Food retailers must first develop a clear understanding of which digital channels align best with their target consumers and then establish a chatbot strategy for those channels that continuously tests and innovates chatbot capabilities and seamlessly integrates those capabilities across all channels and functional areas.*

Food retailers must create a connected food shopping experience

The increasingly and always-connected consumer will expect to find consistency in products, offers, promotions and experiences across all channels whether they are shopping in a physical store, online or via the mobile phone. Retailers must build digital capabilities to support and deliver new content (such as interactive recipes, videos and “food hacks”), products (such as curated meal “kits” and products/solutions tailored to individual dietary or health needs) and services (such as subscription models, food chatbots and home delivery) more seamlessly across all channels and touchpoints.

This will mean that food retailers will need to invest in more robust creative design, content management and visual merchandising capabilities across online, mobile, social and in-store digital platforms. Technologies such as consumer mobile, beacons and in-store digital displays are already creating an entirely new platform and opportunity for digital engagement with the customer. Leading food retailers will need

to embrace this future with a comprehensive strategy for continuously engaging consumers before, during and after the grocery shopping journey.

RETAILERS' RESPONSE: *Food retailers must develop a comprehensive digital experience strategy that encompasses all digital channels and capabilities and that enables a seamless digital experience before, during and after the grocery shopping trip.*

BEFORE: Digital capabilities may include the ability to leverage prior order history and shopping behavior to better understand who the consumer is and predict future needs, enable the consumer to quickly and easily build a digital shopping list tied to the grocer's available product catalog, produce expert food content to inspire meal planning, and expose local inventory to provide near real-time visibility to product availability.

DURING: Digital capabilities may include the ability to personalize the shopping experience based on individual preferences and needs; recognize and reward consumers in-store through integrated online, mobile, and in-store ordering and shopping; offer flexible fulfillment models including buy online, pick up in store, locker pickup and home delivery; and engage consumers via in-store digital engagement such as interactive displays, consumer and associate mobile devices, beacons and scan-and-go self-checkout.

AFTER: Digital capabilities may include the ability to derive actionable insights from the shopping journey and order history; utilize predictive analytics; offer automated replenishment, personalized digital marketing, loyalty VIP rewards, and social media sharing and engagement; and proactively engage the consumer and encourage repeat purchases.

Imperative 3

STRETCH THE BOUNDARIES OF THE CONSUMER JOURNEY

Shift from being a functional, self-serve destination for food products to delivering the “right” food solution at the “right” place at the “right” time

Once food retailers are successfully leveraging consumer insights to develop a deep empathy for their consumers’ wants, needs and preferences and are translating those insights into a broad digital ecosystem of products, services, and virtual and physical touchpoints, they must effectively deliver and fulfill on the promise of their value propositions.

Grocery fulfillment breaks free

We are well on the way toward a future where consumer desires will be satisfied by everyone through channels that enable the customer to access products everywhere based on their own set of factors around convenience, cost and experience. The winners will be those who develop a level of trust with their customer—trust that the retailer understands their needs, protects their privacy and has developed a portfolio of goods and services that meets those needs.

This battle for consumer trust will not be waged exclusively inside the four walls of the retail store as it was in the past, where physical enhancements, such as food courts, extensive prepared foods and décor makeovers kept the grocer one step ahead of the competition. To be sure, an inviting in-store experience will remain a strong price of entry but a decreasingly important element of an ever more multifaceted scorecard defining future success.

Winning consumers’ trust and satisfying their desires will mandate development and perfection of seamless, flexible and increasingly immediate “delivery” options combining digital,

The comprehensive digital food retailing ecosystem may take many forms, but digital technologies that are readily available today could provide a glimpse of the future. Through an individual’s workday, for example, a smart watch or health monitor evaluates the caloric intake, level of physical activity and key nutrient levels of an individual and recommends a personalized and well-balanced meal for dinner. For example, at lunch time, Jessica Gardner may ask Siri, “Siri, what should I have for lunch today?” Siri responds, “You have consumed 450 calories so far today; it appears that your iron and vitamin D levels are down, and I see you did not meet your step goals today. I’d recommend your favorite spinach and citrus salad and cheese or milk before dinner.” Furthermore, the digital ecosystem may connect directly to the local grocery store for ordering. “Siri, would you order my favorite spinach and citrus salad for pickup at my local store in an hour?” And Siri responds, “I have completed the order. According to traffic, you will arrive at the grocery store in approximately 20 minutes.” Jessica texts her local store with her ETA. She arrives at the store, parks in the “Pickups Only” parking spot and is handed her order when she walks in the door.

e-commerce and brick-and-mortar capabilities. Retailers must translate their strategy for gaining the trust, and meeting the desires of their customer, into the right combination of fulfillment mechanisms enabling:

- » **Click and collect**—Consumers order merchandise online for pickup at the store of their choice with retailers leveraging a

combination of in-store and out-of-store resources to support the service promise of this expanding fulfillment method.

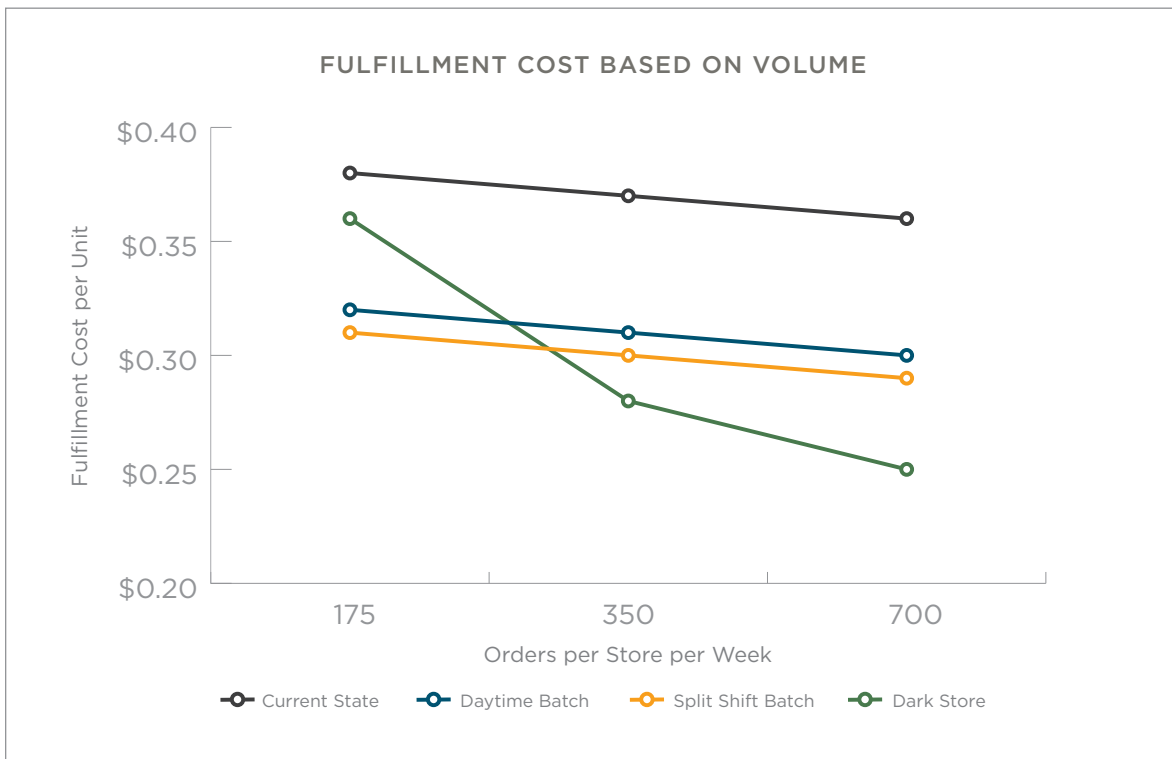
- » **Home delivery**—Consumers order merchandise for delivery to their home at a time they determine and at an expedient cost.
- » **Delivery to “point of convenience”**—Many retailers are expanding the concept of click and collect to include options for customers to retrieve merchandise at a much wider variety of pickup locations.

Food retailers who have not begun to consider how they will connect with the consumer through these three evolving fulfillment methods will fall behind. They will risk others stealing basket share from a consumer who has historically valued their in-store experience.

Click and collect

Click and collect models can be characterized based on whether the customer order fulfillment activities happen inside an active store or in a location specifically designed to support fulfillment activities. Store-based click and collect has been the preferred mechanism for initial piloting, as the existing infrastructure of an operating store provides several advantages, including ready availability of a wide range of inventory as well as an existing workforce that can be leveraged to support fulfillment activities.

Store-based click and collect programs are further differentiated into those where the customer retrieves their filled order inside the store versus those where a store associate delivers the order to the customer’s car. While a good vehicle for initial launch, store-based click and



collect programs do present challenges for even the most experienced retailers, especially as scale increases. Specifically:

- » **Inventory availability**—Many retailers lack the kind of sophisticated perpetual inventory systems and processes necessary to confidently predict availability for a customer’s click and collect order. And click and collect raises the bar on the need to very accurately ensure that the in-store assortment matches what is being offered through the click and collect online order management platform.
- » **Space**—Many retailers are already challenged by small backrooms and pressure to increase the productivity of the selling floor. Click and collect requires dedication of the space needed to enable the staging of customer orders and the management of order fulfillment and settlement activities.
- » **Productivity**—Store-based click and collect fulfillment suffers from productivity issues related to store layout and order size. With a typical 25- to 50-line order, it is difficult to assign multiple orders to a “picker” who must then traverse the whole footprint of the store to complete the order. As volume grows, the flood of pickers in the aisles can impact the perception of service for in-store shoppers while also impacting shelf availability. Retailers experienced with in-store click and collect are applying engineering principles taken from their supply chain operations to drive significant improvements:
 - Multi-order dispatching based on customized pick carts and “smart” order routing
 - Zone-based picking, where the content for multiple orders in a single zone (e.g., produce, frozen, meat) is brought to a “consolidation” area for final assembly

- Off-hours processing, where orders with sufficient lead time can be fulfilled and staged before store hours, reducing congestion

As volumes grow, in-store limitations impact the profitability as well as the availability of the click and collect model, leading retailers to consider other options which remove the fulfillment activity from the stores. Several models have emerged for supporting click and collect activities outside the store, including:

Dark store—This option typically converts an underperforming store to the purpose of providing dedicated support for click and collect activities. Because the dark store does not need to be merchandised in the same way that an active store does, storage becomes denser, enabling expanded assortments and greater depth of inventory. And, because a customer will not be shopping the aisles, merchandise can be “slotted” more efficiently, promoting increased fulfillment productivity. In fact, many are supporting dark store operations by using a warehouse management system to create efficient SKU layout and productive fulfillment. The dark store can serve as a location where customers come to retrieve their orders. The dark store can also be used as a central location for fulfilling click and collect orders for shuttling to nearby stores for customer pickup.

Fulfillment hubs—Similar, but more efficient than a dark store, a fulfillment hub operates much like a larger distribution facility, providing the added efficiency of purpose-designed product flow supported by more sophisticated material handling and warehouse management solutions.

To support saleable click and collect activities, there are many techniques retailers can deploy. In more remote areas where stores are widely

separated, individual stores will likely continue to support click and collect, while in higher-density areas, dark stores and hubs will proliferate.

The convenience of click and collect for the customer comes at a cost for the retailer. And while relatively new and just starting to grow in the United States, the broader and longer experience in markets like the U.K. is instructive for retailers implementing click and collect operations. Retailers can expect a 3% to 5% margin hit associated with the added handling and cost associated with maintaining their click and collect infrastructure. Initially, store-based click and collect programs will impact margin more heavily, with the efficiencies associated with dark store or hub operations reducing the impact over time.

The good news is that click and collect programs appear to drive an increase in overall basket size, with retailers being rewarded with incremental business that at least partially offsets the impact on margin. One large regional grocer has seen a 20% to 25% gain in overall basket size for customers routinely using click and collect services. These customers appear to be using click and collect as a way to “out-source” the shopping for many of the center store commodities, allowing them to spend more time interacting with the more personal experiences around the perimeter of the store.

Critical to click and collect and other fulfillment vehicles is a robust infrastructure that ensures that the retailer makes good on the delivery promise. For example, to seamlessly deploy click and collect, many retailers utilize mobile apps to allow for real-time, two-way contact with customers. This may manifest itself as follows: The customer places the order online, the retailer sends a text message when the order is ready for pickup and then the customer texts the retailer that he or she is on the way using

GPS to provide an accurate arrival time. The retailer is then waiting with the delivery in hand when the customer arrives.

RETAILERS' RESPONSE: *Click and collect must be a part of every retailer's future customer experience strategy. Initial pilots should focus on a small number of stores and should be supported within the store. With experience, retailers will scale their click and collect service by enabling alternate fulfillment locations and by providing more efficient and cost-effective operations while supporting flexible support of customer pickup requirements.*

Home delivery

While most grocery retailers have wisely prioritized piloting and rollout of click and collect services as their first omnichannel fulfillment play, environmental factors are conspiring to suggest that a home delivery strategy should not be too far behind. Home delivery actually predates click and collect by many years and yet, because of some visible failures such as Webvan and HomeRuns and the added challenge of managing “final mile” logistics, it has not been widely adopted by traditional grocers.

Times have certainly changed. Amazon's aggressive launch and expansion of a wide range of home delivery options is bringing this service to markets where most retailers will feel threatened by the potential loss of basket share. But Amazon is hardly alone. A wide variety of players are creating a marketplace that enables all retailers to create their own best version of a home delivery strategy.

Retailers must at a minimum begin the process of exploring what role home delivery will play in their overall strategic plans. There are three strategic options for supporting home delivery operations dependent upon who picks the order and who handles final-mile delivery:

HOME DELIVERY OPTION	ORDER PICKING	ORDER DELIVERY	EXAMPLE
Insourced	Retailer	Retailer	Peapod
Hybrid	Retailer	Partner	OnTrac and Dynamex w/ Google Express
Outsourced	Partner	Partner	Instacart

- » **Insourced**—Most grocers will find that they lack the unit volume and delivery market density required to support productive home delivery. In the best case, a retailer may find that certain relatively tight geographic markets with a high concentration of customer volume have the characteristics to support home delivery. Rural markets with highly dispersed customers will not likely make sense for home delivery supported entirely by the retailer. Where home delivery may make sense, the challenge of meeting multiple, relatively tight delivery windows during a day as well as the natural peaks in home delivery volume across the week would drive the need for a large, underutilized delivery fleet that would be difficult to financially justify. Peapod’s success in supporting integrated home delivery fulfillment has come from carefully choosing markets that drive delivery efficiency which, in turn, justifies investment in distribution capacity. While the economics of insourced home delivery are difficult to justify, this method ensures the best control of the brand experience across the entire transaction.
- » **Hybrid**—In this option, the retailer handles the order picking, with a third party executing final-mile delivery. The order picking can be done from a retailer’s distribution center or from the same infrastructure that supports click and collect operations. The third party consolidates

delivery volume from multiple sources, generating an efficient load that is associated with a tight delivery geography. The selection of the delivery partner becomes extremely important, as the retailer is giving up the direct contact with the customer, introducing the risk that the retailer’s brand promise can be negatively impacted.

Google launched a full-service delivery service with its own fleet in San Francisco in 2013 and has since tweaked its business strategy and delivery model. Google Express will partner with delivery services such as OnTrac and Dynamex, focusing on delivery of dry goods groceries (not perishables) so that it can scale nationally. By eliminating its own fleet, Google will cut costs as it continues to generate revenue by collecting fees per delivery or membership. With an ever-increasing set of delivery choices (Deliv, Uber and others), retailers will benefit from the competition for their volume but will need to be increasingly aware of the need for partners committed to representing their brand well.

- » **Outsourced**—Instacart is representative of the method for supporting home delivery with all picking and delivery activities controlled by a third party. One version of this model has the third party acting on its own, merely shopping a retailer’s store as the “personal butler” of the customer and delivering the completed order to the home. There is little risk to the retailer’s brand image, as the third party is acting on its own behalf, selecting merchandise from the retailer’s assortment. Another version of this option is represented by the Sprouts/ Amazon arrangement, where Amazon will be providing all of the fulfillment and delivery services for Sprouts in exchange for

the opportunity to represent the powerful Sprouts brand in the marketplace. This option represents the fastest route to market but also creates the maximum distance between a customer and the essence of the retail brand.

Once established, retailers should consider how to leverage home delivery to provide an experience that is truly representative of the brand and that goes beyond the mere delivery of basic groceries to the door. Tapping into the Blue Apron model, retailers could extend their brand position to offer home delivery of meal solutions on an event or even a subscription basis. As consumer expectations increase surrounding the speed and visibility of e-commerce transactions, retailers will need to develop processes and solutions similar to those deployed by Domino's Pizza, which enable a customer to track a pizza from oven to the front door.

RETAILERS' RESPONSE: *It's clear that grocery home delivery is here to stay and that all retailers must have an appropriate strategy for combatting the threat of competitors like Amazon. But unlike click and collect, where capability will largely be developed and deployed in-house, home delivery is likely to involve partnerships with final-mile solutions spreading the risk and reducing the price of entry. Retailers should be aggressively evaluating the pros and cons of the various options available to them, executing controlled pilots in promising geographies to learn the mechanics of this very different customer service option.*

Delivery to “point of convenience”

Your future plans must account for customers wanting to be able to retrieve products ordered from multiple retailers at a time of their choosing and at a location most convenient for them.

At a minimum, this will include making other nodes in your own retail chain available for cus-

tomers who choose not to come to the flagship store for pickup. Giant Eagle has been an early pioneer in this space, enabling pickups at their more local GetGo convenience stores. Walmart has also tackled this emerging concept through the use of their drive-through pickup locations, providing more local service to customers selecting a click and collect option. Another model is a dark store drive-through model—such as Kansas City-based Zoomin Market—where customers order online and pick up at a dedicated drive-through location.

The extension of this concept will likely give birth to partnerships across retailers in shared geographies where forward-deployed pickup capacity can be shared across the click and collect volume of multiple players. In addition, there will likely be new companies created to handle the aggregation of click and collect volumes in tight geographical areas, relieving retailers of having to invest in their own capacity while leveraging the aggregated volumes to provide efficient, cost-effective service of the click and collect business. One such startup, OLAM (On Line curbside pickup At Malls), is gaining traction providing mall-to-car delivery of click and collect orders from multiple retailers at a single mall location. This exciting concept provides tremendous efficiencies to labor-strapped, mall-based retailers while offering a unique convenience to a customer who can now have their aggregated click and collect purchases from multiple sources delivered right to the parking lot.

RETAILERS' RESPONSE: *Food retailers will need to identify the economics and value proposition of adding nodes to their retail supply chain that enable consumers to receive groceries at their preferred point of convenience. Each option will likely have its own unique set of challenges and opportunities that will need to be evaluated and optimized—from third-*

party lockers and small-format c-store pickup locations to dark store drive-through locations or delivery to the consumer's office or parked car location. Food retailers will need to evaluate a portfolio of alternatives and determine the right operating model for their brand, their consumers and their market geography.

SUMMARY—INDUSTRY RESPONSE IMPERATIVES

The race to create a holistic ecosystem to fulfill consumers' goals

The traditional competitive advantage associated with convenience, breadth and depth of assortment, and discounting is evaporating. To maintain relevance, food retailers will need to transform from a predominantly product-centric business model to more of a consumer- and goal-oriented business model. To enable this transformation, a retailer's operating model should extend beyond the four walls of the physical store and manifest itself as an ecosystem that proactively engages the consumer at all points across the "third dimension" of the consumer journey. A solid understanding of consumers' needs, a fluid value proposition, a robust digital platform and flexible delivery mechanisms should all be components of this ecosystem.

Imperative 1

ENSURE RELEVANCE IN THE CONSUMER'S JOURNEY

Food retailers will need to embed a practice of routinely and proactively addressing consumer needs and motivators. This begins with developing a deep understanding of "who" the consumer is, "how" they shop today, "what" their current needs and potential future desires are, and then establishing fluid value propositions that are aligned to achieving the consumer's individual goals.

Imperative 2

EMBRACE DIGITAL ENGAGEMENT

In an environment where consumers are increasingly connected throughout the entire food shopping journey, food retailers will need a digital platform that continuously engages consumers throughout their grocery shopping journey.

Food retailers will need to invest in more robust creative design, content management and visual merchandising capabilities across online, mobile, social and in-store digital platforms. In addition, food retailers will need to continuously reevaluate their online and offline assortment strategy to optimize the breadth and depth of category assortments offered in-store, online, via mobile and on social media platforms.

Imperative 3

STRETCH THE BOUNDARIES OF THE CONSUMER JOURNEY

Food retailers must begin exploring how alternate delivery options can be leveraged as a powerful strategic tool, or they will risk permanent damage to their brand. The key to success lies in taking a very aggressive but measured approach, piloting the concepts of click and collect and home delivery in highly select markets and, in the process, discovering how these alternate customer connection points drive incremental revenue.

The technology is available to support these activities. Advanced analytics helps to harness big data and derive actionable insights from proprietary historical customer data and data generated from real-time engagement. E-commerce platforms, mobile apps, consumer wearables and chatbots are being fully embraced by retailers in other industries to optimize consumer engagement. Enhanced shelf inventory management solutions and increasingly

sophisticated forecasting and replenishment solutions improve accuracy at the shelf, which is critical to enabling inventory to be committed to click and collect orders. Web front-end and sophisticated order management systems are being deployed across store networks to provide the foundation supporting omnichannel alternatives. And warehouse management solutions and DC processes are being employed to support efficient and effective fulfillment processes.

4. Call to Action

What does my company need to do to be ready for the future?

THE ROADMAP

The path toward maintaining relevance in the future

Ensuring continued relevance to the consumer will require retailers to possess and develop various capabilities that may evolve at different stages of maturity

The pace of change is exponential—rather than linear—and reflects a combination of mind-blowing technological innovation, shifting consumer preferences and an increasingly networked global population. This confluence of rapidly changing technologies and shifting consumer preferences is creating a perfect storm of disruption to the food retailing industry.

Future success will be achieved by building relevance on the “third dimension”—the consumer journey. The forces that today are disrupting the conventional grocery model show up all along this third dimension, from menu and diet influencers through alternative delivery and dining preferences. Those who thrive will establish corporate strategies, business practices and operational capabilities that address this journey by understanding that it is no longer isolated to placing an item into a shopping cart in a brick-and-mortar store.

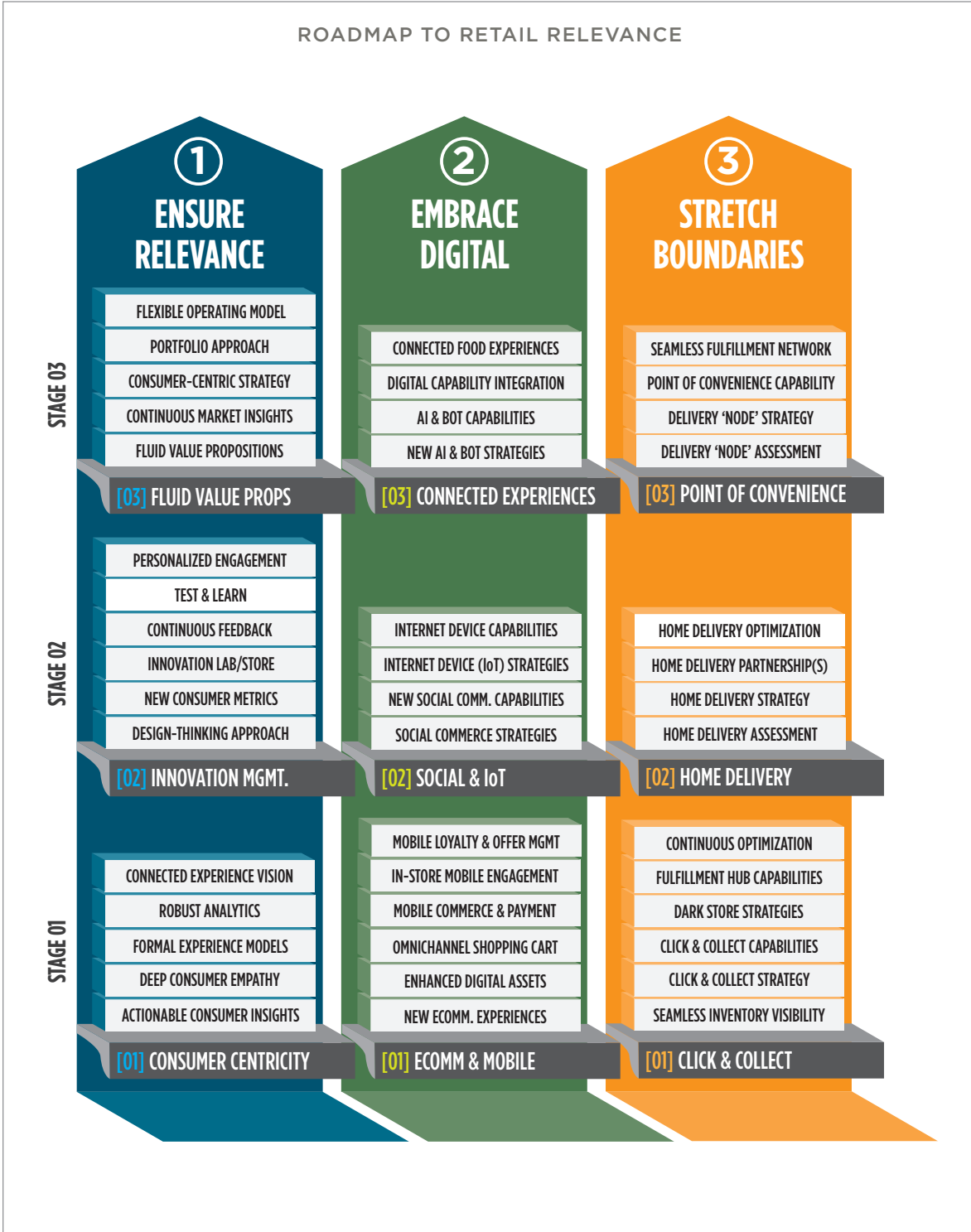
In order to maintain relevance, food retailers will need to develop a long-range roadmap that provides a measured approach to continually maturing capabilities across three key dimensions, including:

1. Ensuring Relevance in the Consumer’s Journey
2. Embracing Digital Engagement
3. Stretching the Boundaries of the Consumer Journey

The transformation of food retailers’ capabilities along the third dimension will not be achieved in one fell swoop, but rather through multiple stages of disruption:

1. **Stage 1:** In the initial stage of transformation, food retailers will need to become masters of consumer insights, invest heavily in foundational e-commerce and mobile capabilities, and evaluate and optimize initial click and collect operational models.
2. **Stage 2:** In the second stage of transformation, food retailers will need to leverage design thinking to convert consumer insights into innovative solutions, expand social commerce and Internet of Things (IoT) capabilities, and evaluate and test home delivery alternatives.
3. **Stage 3:** In the third stage of transformation, food retailers will continuously evaluate market factors and adopt fluid value propositions, expand artificial intelligence and chatbot capabilities, build a more comprehensive ecosystem of capabilities, and seamlessly connect and engage consumers throughout the entire end-to-end consumer journey.

ROADMAP TO RETAIL RELEVANCE



SELF-DIAGNOSTIC

Assessing whether my company is poised to compete in the future

Food retailers can begin by conducting a self-assessment of their current capabilities and determining their progress toward maintaining relevance.

This self-diagnostic tool is designed to help you assess your organization's readiness to compete in the brave new world of food retailing. Information from this diagnostic can be used to guide your organization's strategy and plans for addressing key gaps and identifying opportunities for competitive advantage.

The diagnostic model focuses on three key pillars defined in this report, including: 1) Ensuring Relevance, 2) Embracing Digital, and 3) Stretching the Boundaries of the Customer Experience. The set of capabilities under each pillar is intended to represent the key capabilities that will be required to compete in the future. For each capability area, score yourself based on how well you are currently performing that capability based on a scale of 1 (barely) to 5 (completely).

Suggestions for completing and using the self-diagnostic:

- 1. Provide an Honest Assessment:** In order to get the most value out of the diagnostic, provide an honest assessment of your organization's current capabilities.
- 2. Get Broad Representation:** Get multiple people from your organization to take the assessment; ideally this should include individuals from all levels of the organization, representing all key functional areas (stores, marketing, merchandising, finance, etc.).
- 3. Don't Try to Solve Everything:** Few organizations can—or should—be great at every-

thing. Each organization should carefully pick the handful of areas where they want to excel.

- 4. Take Action:** Use the self-diagnostic as a catalyst to take action in your organization.

Before you begin the self-assessment:

Take time to reflect on your current business and its competitive position. What are your current strengths and weaknesses? What external factors or trends could affect your competitive position?

Retail Relevance

Self-Diagnostic

Ensure Relevance		Embrace Digital		Stretch Boundaries	
<i>Understand current & target customers, and reposition competitive strategies accordingly to retain and attract them – adapting value propositions and business models.</i>		<i>Move fast on eCommerce, mobile, and digital merchandising, and build digital capabilities and efficiencies that pervade the entire consumer journey</i>		<i>Shift from being a functional, self-serve destination for food products to delivering the 'right' food solution, at the 'right' place, at the 'right' time</i>	
<i>Scale of 1 (Barely) to 5 (Completely):</i>	<i>Rating</i>	<i>Scale of 1 (low) to 5 (high):</i>	<i>Rating</i>	<i>Scale of 1 (Barely) to 5 (Completely):</i>	<i>Rating</i>
We have a comprehensive understanding of WHO are our current & target customers	_____	We have a robust eCommerce capability where customers can purchase our entire assortment of products	_____	We have a implemented click & collect and continually optimize based on the 'best' fulfillment model	_____
We know and measure WHAT customers expect and value	_____	We take a mobile-first approach and have a comprehensive suite of mobile capabilities	_____	We have a comprehensive home delivery strategy and have determined the optimal fulfillment model (insource, hybrid, outsource)	_____
We maintain a comprehensive view of HOW to engage our customers throughout their end-to-end consumer journey	_____	We have a comprehensive product database and rich digital assets that are accessible from any channel	_____	We have a strategy and capabilities to create a complete ecosystem of products, services, and digital & physical touch points aligned to consumer goals	_____
We leverage consumer insights to identify issues & opportunities and ideate/brainstorm to find innovative solutions (design-thinking)	_____	We have a comprehensive social commerce strategy that encompasses all major platforms and exposes our entire product assortment.	_____	We have a strategy and capabilities to enable consumers to order and retrieve products & services modularly and at their preferred 'point of convenience'	_____
We adapt our strategy & value propositions based on consumer insights and major trends	_____	We have an artificial intelligence or chatbot strategy and are continually testing and innovating new capabilities	_____	We foster a culture of data-driven decision making that rapidly takes advantage of new/emerging data sources and related consumer insights.	_____
We have strong analytics skills and tools to continually generate actionable insights from the data we collect	_____	We have a created a connected food shopping experience that encompasses all digital channels and capabilities throughout the customer journey.	_____	We foster a culture, invest, and have created processes that let us rapidly invent, test, and implement new innovations .	_____
Add your scores from above. TOTAL	_____	Add your scores from above. TOTAL	_____	Add your scores from above. TOTAL	_____

	If you scored
Your organization needs to make improvements to become - and sustain - increased relevance with your consumers	1 - 30
You have made some progress towards maintaining relevance, embracing digital, and stretching the boundaries of your customer relationship	31 - 60
You are making great progress towards maintaining relevance, embracing digital, and stretching the boundaries of your customer relationship	61 - 90

ABOUT THE AUTHORS FROM KURT SALMON

Robert Howard is a partner in Kurt Salmon's Retail and Consumer Goods Group and leads Kurt Salmon Digital. He brings 25+ years of experience delivering personalized, engaging and seamless shopping experiences through innovative mobile, digital, social and in-store technologies to help retailers prepare for what's next.

Jack Horst is a partner in Kurt Salmon's Retail and Consumer Goods Group. He has 30+ years of experience helping the world's largest retailers and suppliers in the design, implementation and optimization of their supply chain operations. Jack is a frequent contributor to FMI/GMA, having authored and presented numerous research initiatives over the years.

Michele Orndorff is a senior manager in Kurt Salmon's Retail and Consumer Goods Group. She has 20+ years of direct-to-consumer marketing experience helping clients derive consumer insights, build and implement their consumer engagement strategies, develop and optimize loyalty strategies, and produce effective marketing communications.

Paul Schottmiller is a partner in Kurt Salmon's Retail and Consumer Goods Group and leads the Technology and Analytics Practice. He has more than 25 years of experience focused on digital technologies and analytics in the retail and consumer products industry. He has leveraged his expertise to provide strategic counsel and advice to some of the world's largest retail and consumer brands.

ABOUT THE COCA-COLA RETAILING RESEARCH COUNCIL OF NORTH AMERICA

The Coca-Cola Retailing Research Council of North America (www.ccrcc.org) conducts studies on issues that help retailers respond to the changing marketplace. The unique value of these studies rests with the fact that retailers define the objective and the scope of each project and "own" the process through the release of the study and dissemination to the broader retail community.

Rod Antolock
The Kroger Company/
Harris Teeter

Jonathan Berger
The Consumer Goods Forum

Steven Goddard
WinCo Foods

Steve Junqueiro
Save Mart Supermarkets

Jay Marshall
Hy-Vee

Rich Niemann
Niemann Foods

Armando Perez
H-E-B

Leslie Sarasin
Food Marketing Institute

Michael Sansolo
Research Director,
CCRCC of North America

Garry Senecal
Loblaws

Mimi Song
Superior Grocers

Judy Spires
Kings Food Markets

Mike Vail
Ahold Delhaize

Peter Whitsett
Meijer Inc.

David Zallie
Somerset Stores, LLC
(t/a ShopRite)

Jeff Zollpriester
Quality Foods IGA