THE SHAPE OF FOOD RETAILING IN THE NEW NORMAL 4:

THE FIVE BIG ITCHES

> *"Times of crisis, of disruption or constructive change, are not only predictable, but desirable. They mean growth. Taking a new step, uttering a new word, is what people fear most"*
>
> — **Fyodor Dostoevsky**

> *"If ever there is a moment to address the inefficient and expensive practices that serve only to feed a supplier's promotional plan, rather than meet a genuine customer need, it's now".*
>
> — **Dave Lewis**
> **Former CEO Tesco**

ROLE OF RETAIL & FOODSERVICE

THE SUPPLY MODEL

THE ADOPTION OF NEW TECHNOLOGY

UNDERSTANDING CONSUMERS

THE CPG DYNAMIC

This paper is motivated by a desire to help food businesses to successfully and profitably operate in the new normal.

FOREWORD BY SABINE BENOIT,

Professor of Marketing at Surrey Business School researching the sharing economy, convenience retailing and service management.

> *"I was honoured to write the foreward for the fourth 'The Shape of Convenience in the New Normal' paper. The paper challenges many embedded norms in convenience and food retailing."*

TRENDS: WHICH ONES ARE HERE TO STAY?

So-called life moments, such as moving out from the family home, that first job and marriage are important phases in our life in which we form new habits. We also know that it takes time for habits to settle. The C-19 pandemic is such a life moment. Many of our new habits are here to stay at some level. I have picked three that I find particularly relevant and outline how to leverage those across our businesses.

(i) BALANCING GLOBAL AND LOCAL

The more globalised the world gets and the more we travel and consume news from home and abroad, the more we long for a strong connection to the local area we call home. It seems we need to balance our more global lifestyle with locality. This trend was prevalent pre-pandemic but government decreed restrictions have massively accelerated it.

How can retailers leverage this trend? One obvious option is local products. I collaborate in a student project with the technology company NearSt that enables retailers to appear in Google searches when consumers search for products. Their competitor Pointy does something very similar with a different technology.

We can Google search for AAA batteries. In the results we see that a store half a mile away has them and we even see the price. In our lunch break we take a quick walk to the retailer to buy them. Such systems are great but require wide participation to really work.

(ii) SUSTAINABILITY AND RE-USE SCHEMES

Food safety has taken priority over avoiding plastic packaging since April. The pandemic has also made us aware that we should treat the environment better, otherwise nature strikes back and brings our life to a halt. In the early stages of C-19, food service providers and retailers discontinued the option of consumers using their own coffee cups. Soon after the first shock wave passed, providers had great ideas on how to safely reintroduce reusable cups. Coffee shops offered their customers a small tray or a bigger container so that staff did not need to touch the cup. There is more to come and there are some easy ways to get involved.

For example, Tesco has recently starting trialling with Loop. Loop has ***"reimagined the weekly shop with counter-worthy packaging not made for the trash. Get the products you love delivered in zero-waste packaging that is cleaned and refilled to be reused, again and again".***

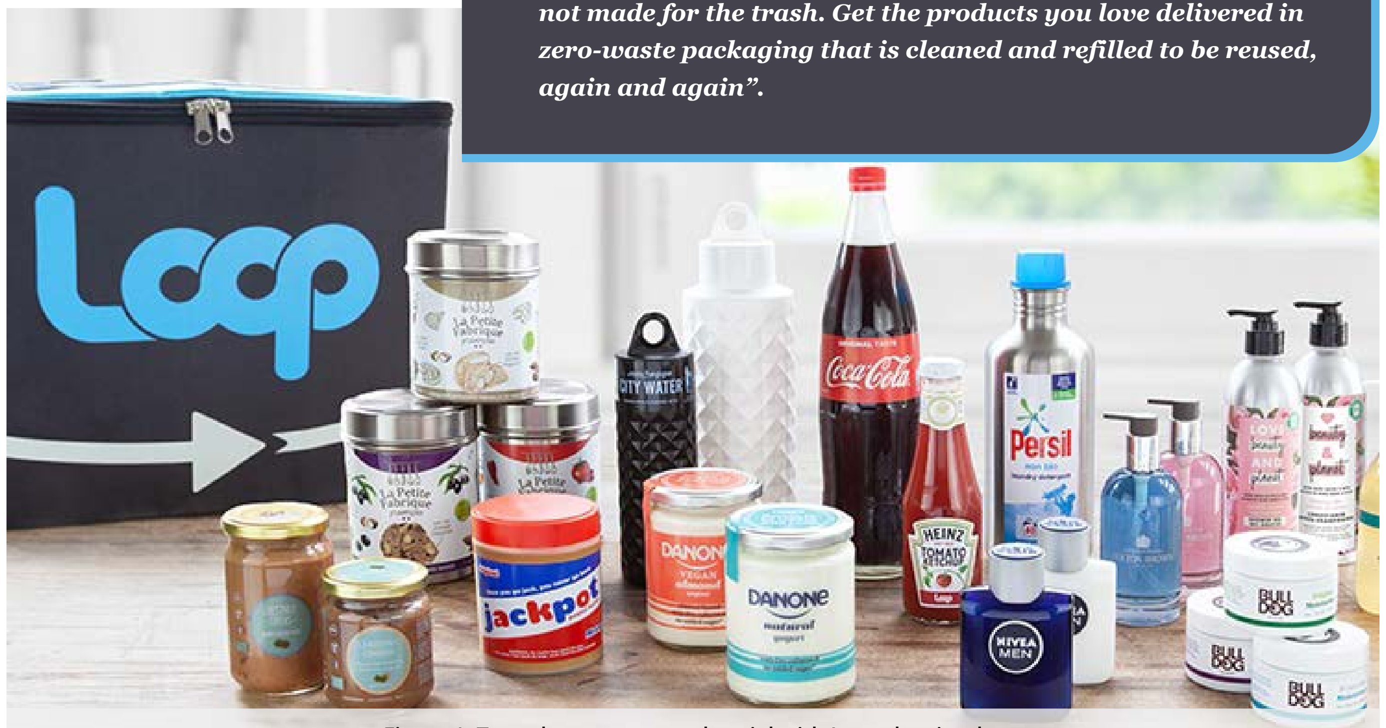


Figure 1. Tesco has commenced a trial with Loop despite the additional logistical challenges created by the pandemic

How can retailers leverage the trend?

Tesco is currently running a trial with Loop. I recently saw a number of very innovative initiatives in central Europe. The City of Freiburg, Germany, has introduced a reusable coffee cup scheme with a €0.50 deposit per cup that is used by food service and retailers. Or reCircle from Switzerland or Vytal from Germany offer reusable packaging such as white label salad or main course bowls. CauliBox is a small UK start-up offering a similar scheme.

(iii) TECHNOLOGY AND AUTOMATION

The pandemic has massively accelerated the use of consumer and retail operations technology. Contactless payment went from a payment option to being the preferred norm. The foremost barriers to technology adoption are the initial setup costs and real or assumed risks associated with integrating 'other-ware' in internal systems. Usage becomes second nature once we are over these hurdles.

How can retailers leverage this trend?

I am involved in an on-going study on unmanned or cashier-less stores. In the US and Japan retail leaders see automation enabling staff to spend more time with customers and to enhance the human element. In Europe automation that essentially reduces operational and people costs is more prevalent. I advocate that retailers view technology through the cost and customer touch-point lenses. This increases staff acceptance of the new technology.

Whether we adopt Scan Pay Go technology such as Ubamarket; in-store or website chatbots such as "Margot" at Lidl, recommending wines enabled by Aspect CXP or smart electronic and pricing automation shelf labels price tags from SES Imagotag, trialling is now easy and low-cost.

Scott Annan and Dev Dhillon have identified five core issues impacting convenience, food and foodservice retailing. Their proposal that we must "scratch these itches" resonates with my research findings and conversations with retail leaders around the world.

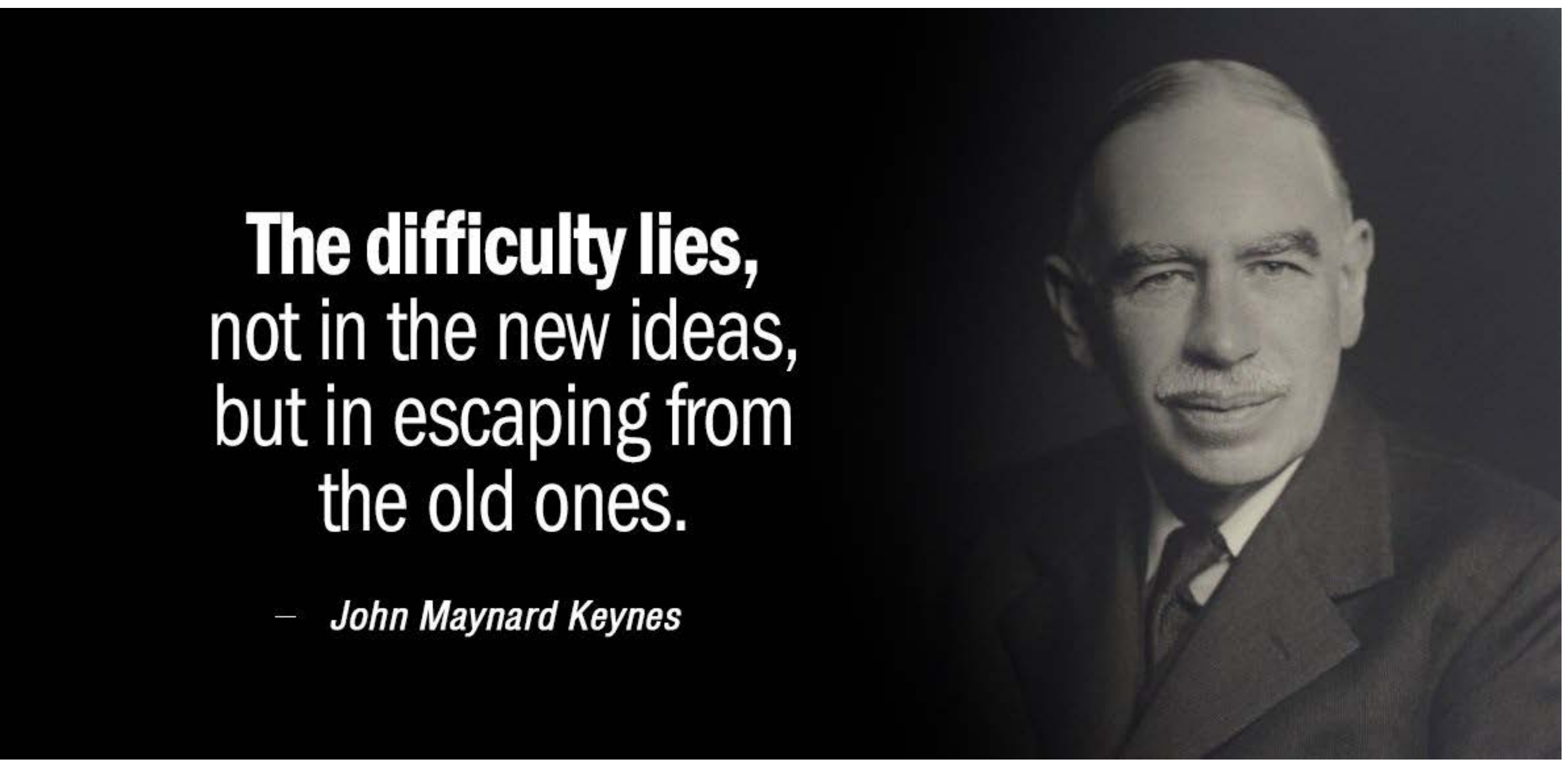
Please read the paper and help build the discussion around the points, whether you agree or disagree with the points made.

1. INTRODUCTION:

In 'The Shape of Food Retailing in the New Normal 2: Operating to the new realities' paper we looked at the emerging outlook on how businesses across food retail would operate after governments reduced their hard restrictions on our movement and livelihoods. A number of forecasts from the first paper 'Adapting to the realities' have come about. As we write this paper, the UK has entered various states of a second lockdown. The hospitality industry has been decimated, whilst convenience and foodservice providers fight to adapt to the changing trading conditions. Working from home once again dominates with the UK having the highest percentage of the big five European countries not at the office.

Food supply chain disruption was forecasted but this proved to be short lived as foodservice providers pivoted to retail and retailers' Brexit supply chain planning was reshaped by many retailers and some wholesalers to meet consumer' demand.

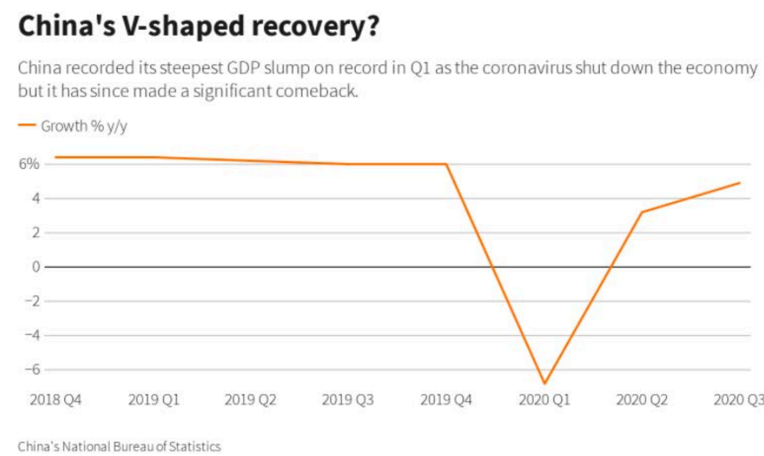
USA President Harry S. Truman gave us our 'one handed economist' quote in the second paper. We turn to the British economist John Maynard Keynes - born one year before Truman - for the quote that sets the tone of this paper.



At the geopolitical level, plans for G20 countries to repatriate manufacturing (largely from China) have advanced, albeit not at the level forecasted in August. The Bank of America forecasted in August that U.S. and European firms face $1 trillion in costs over 5 years to relocate their Chinese supply chains. The bank calculates this to be cost effective. In reality this big number is a fraction of the costs that the same economies have incurred in shutting down through governments C-19 policies. A trillion is the new billion.

China's GDP grew 4.9% YOY in Q2 2020 faster than the second quarter's 3.2% growth.

> *"China's economy remains on the recovery path, driven by a rebound in exports. Consumer spending is also headed in the right direction, but we cannot say it has completely shaken off the drag caused by the Covid-19."*
>
> — Yoshikiyo Shimamine, chief economist Dai-ichi Life Research Institute, Tokyo.



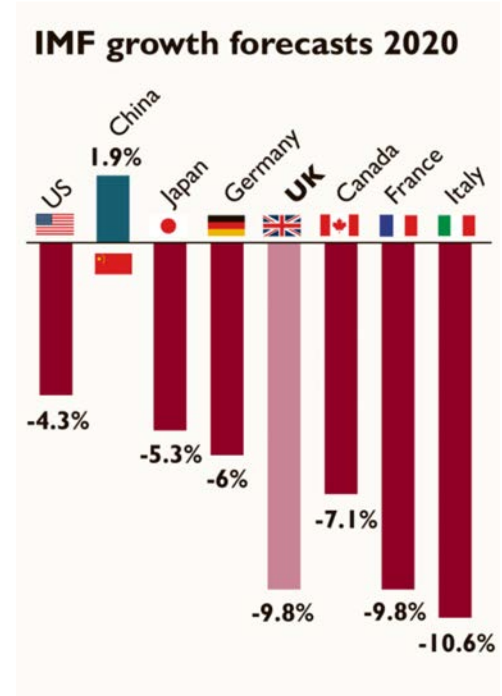


Figure 2 THE IMF is forecasting China's growth to end 2020 at + 1.9% versus red ink across all western countries.

Business conduct was featured in the first paper. This has largely been sound with national, regional and independent retailers stepping up to keep us fed and watered. Reports of the abuse of governments' largesse and of CPG's and wholesalers prioritising national retailers appeared, but the bigger picture remained one of conformity and mutual support.

This fourth paper (#3 is a USA-only paper) is motivated by a desire for food retail to debate five big issues that we believe should change in the post Covid-19 business world. One of the retailer contributors termed them 'itches' so we have called the paper **'The five big itches'!**

In an article for The Sunday Times on 1 July 2020, then Tesco chief executive Dave Lewis argued that 'Now is the time to revolutionise how we work with suppliers'.

"If ever there is a moment to address the inefficient and expensive practices that serve only to feed a supplier's promotional plan, rather than meet a genuine customer need, it's now".

We won't argue all the challenges here suffice to say that 'The CPG dynamic' is our fifth itch.

Business & Money | The Sunday Times | Wednesday July 1 2020

Dave Lewis

In every conversation we have with our suppliers, we talk about how we can best serve our customers.

Customers tell us they want simple product ranges, choice and promotions that are genuinely helpful. They want consistent low prices on the products and brands they buy every week.

What our customers don't want are all the obstacles that serve no purpose other than to hide the best value — like different pack sizes that make it hard to identify the cheapest unit price, or constantly rotating offers and promotions.

Our journey towards consistent low prices began six years ago. In 2014, about 45% of our sales were from products on promotion. Before the current crisis, it was about 28%. It's now just 14%.

As we prepare to help our customers through the challenges of the months ahead, we want to move faster with our suppliers. Through the pandemic, we've already shown how quickly we can work together when we put our minds to it.

Our ask of suppliers is simple: to redirect the money they would previously have earmarked for funding promotions and special offers, and to reinvest it in consistent low prices instead. We are investing too, because we believe this is the right thing to do for our customers.

There have been claims that this could have an impact on volumes. But food volumes have never been higher than now. It doesn't help customers to revert to spiralling promotions that encourage them to buy more than they need. And it doesn't help suppliers either. Recent months have shown how disruptive increased volumes can be to the supply chain.

If ever there is a moment to address the inefficient and expensive practices that serve only to feed a supplier's promotional plan, rather than meet a genuine customer need, it's now. Operational complexity increases costs for customers, retailers and suppliers alike.

We now have a unique opportunity to work with our suppliers to do things differently. Change isn't always easy, but we are in an industry that is used to adapting quickly. Now is the moment to listen to our customers, to stop hiding the best value in a sea of promotions, and to offer consistent low prices instead.

WE'VE ALREADY SHOWN HOW QUICKLY WE CAN WORK TOGETHER WHEN WE PUT OUR MINDS TO IT

Figure 4. Industry leaders are primed for the changes ahead.©2020 The Times

We closed paper 2 ‘Operating to the new realities’ with our thoughts on social distancing ending this year, the awareness of healthy eating and exercise, the impact of obesity and of national retailers aggressively marketing their value and online services. Most governments continue to oppose socially distancing the 0.1% of the population that is C-19 vulnerable so we got this one wrong. The UK is Europe’s most obese nation - excluding Malta - and we have made ‘The role of retail and foodservice in the health of the nation’ the first itch.

Leadership from national and independent retailers, wholesalers, CPG’s, academics and analysts from the UK, Ireland, USA, India and Japan have contributed their thinking to this paper. Their contributions are acknowledged and appreciated. There is widespread support for change across our industries, albeit the alignment is as expected not universal across the five itches.

Quotes are included anonymously except where contributors have asked to be identified.

2. THE ITCHES

1. ROLE OF RETAIL & FOODSERVICE IN THE HEALTH OF THE NATION

Figure 5. Convenience insight specialist Frank Beard spent a month eating exclusively at US gas stations to prove that healthy options were available

C-19 has highlighted the other health crisis facing many western economies.

Any longstanding industry observer in foodservice or convenience will testify that health and well-being has been a perennial trend featured in almost every major insight report over the past 20 years. There is evidence that this trend isn’t being falsely reported, with clear indicators that a growing number of informed consumers are looking for healthier choices to support their lifestyles. Paradoxically, in western economies this period has also seen the rise of diabetes, obesity and heart disease; conditions that are overwhelmingly influenced by diet.

Progressing to a healthier world isn’t just about forcing retailers and suppliers to provide healthy options. CPG manufacturers have been able to adapt the ingredients of their products to reduce salt, sugar and fat content, whilst pack/portion sizes have also reduced. These modifications (sometimes referred to as “nudge” effects) often have the biggest impact on societal health, largely because the buying public cannot perceive the change.

Governments and the food industry have wrestled with finding a balance that improves public health without infringing upon commercial competitiveness. In the UK, the David Cameron Conservative government attempted a more pro-active approach when they introduced their ***Public health responsibility deal in 2011***, partnering with industry to agree pledges on areas such as nutritional labelling, salt and sugar content. However, analysis in 2018 by the ***International Journal of Environmental Research and Public Health*** declared that this initiative had largely failed to meet its objectives as “uptake of pledges by partners were largely driven by the interests of partners themselves, enabling these wider systems to resist change.” This would explain why the UK government’s next initiative, the “sugar tax” introduced in 2018, was enforced upon the industry.

Convenience retailers have been at the centre of these debates as the categories that are most relevant form a significant proportion of their sales. It is therefore completely understandable that retailers have been as resistant to change as CPG suppliers. This is a well-trodden path for a c-store industry that has experienced 20 years of ongoing debate and adjustment as legislation around tobacco sales became ever-stricter.

Nervousness from the world of retail has not just been due to fear of lost sales. There is an acknowledgement that confectionery; soft drinks, CSN and BWS suppliers have been the industry’s biggest advocates, providing investment and a considerable field force to help retailers ‘improve their stores’. There is a strong feeling that answers will be found through suppliers, rather than retailers making bold and potentially detrimental decisions to remove unhealthy products. However, there is also an undeniable sense that the consumer relationship between diet and health is changing and not preparing for these changes makes little business sense.

The authors are reminded of the quote from ***Leon*** founder Henry Dimbleby at the 2016 ACS summit, “My business should not exist [healthy food]. C-stores should have the market but you sell products that kill your customers”.

WHY SHOULD WE CHANGE?

COVID-19 has highlighted the importance of health to immunity. This will shift consumer behaviour.	https://www.gov.uk/government/news/new-obesity-strategy-unveiled-as-country-urged-to-lose-weight-to-beat-coronavirus-covid-19-and-protect-the-nhs
The cost of obesity to society will force direct government intervention. Ageing populations will exacerbate this.	https://www.gov.uk/government/publications/health-matters-obesity-and-the-food-environment/health-matters-obesity-and-the-food-environment--2
“Food as medicine” is being established as part of the occupational health landscape.	https://www.bbc.co.uk/news/health-43504125
Millennials and Gen Z consumers look for a balance of indulgent and healthy options from their providers.	

WHY MAINTAIN THE STATUS QUO?

1. *The core C-store proposition is around providing choice, not forcing eating habits.*

2. *Indulgence is a key shopping mission for C-stores, evidenced by category sales.*

3. *Sales of healthier products are increasing, but still from a relatively low base.*

4. *New categories such as Vaping offer incremental sales and new supplier investment.*

Views from the industry:

We all have a responsibility here - retailers and suppliers. At the same time choice is critical.

Communication Manager, CPG

Much of what is consumed from convenience stores is done so alone, which is why they will always be big on indulgence.

CEO, Industry Association

We have major role in education and helping the customer with their health & the health of the nation. Perhaps we haven't raised our game?

CEO, UK Wholesaler

I used to play lip-service to healthy eating. However, I've noticed with my younger customers they are looking for healthier or fitness-led products in snacks and drinks. This is only going to get bigger and I need to be better prepared.

Independent Symbol Retailer UK

The problem for Retail and Foodservice can often be the confusion by consumers on what health actually means to them. Consumers are often confused about how to improve their health, and often can't even agree on how to define it. Many are confused because of conflicting advice from government or industry bodies.

Chief Commercial Officer, Foodservice Supplier

THE FUTURE:

"If it ain't broke don't fix it" could be applied as a strong argument against retailers revising their stores' in order to be fundamentally healthier places to shop and eat. Equally, the fact that the topic of health has been on the radar for so long would suggest that real change in consumer habits are likely to be slower than many have predicted.

However, the stronger argument is that there is only one direction of travel when it comes to health and diet. New generations of consumers, increased knowledge and evolving occupational health strategies will inevitably push customers to think more about what they consume.

Forward thinking retailers will see this as a significant growth opportunity and will develop healthier choices as a key component of their proposition. They will not wait for their existing suppliers to provide them with solutions and will embrace the breadth of what is available in the wider market to deliver a compelling consumer offer. This will include new approaches to marketing and merchandising that are exclusively focused on communicating healthier choices to customers.

The best retailers will become destinations for healthier offers.

2. THE SUPPLY MODEL – WHOLESALER, DISTRIBUTOR OR FULFILMENT?

The routes for products to reach independent and symbol retailers have not significantly evolved over the last twenty years. The wholesale market has, however, consolidated with administrations (P&H was the highest profile), mergers and the major acquisitions by national grocers. We now have a more professional sector and retailers have a better choice of proprietary products, chilled ranges, fresh meats and produce.

The authors segment today's supply fulfilment in to four components:

1. ***Wholesale/Symbol*** - centrally held products distributed to retailers through a managed supply chain. Common in UK, Ireland and Germany
2. ***DTS*** - manufacturer direct distribution to retailers. Common in USA and Canada
3. ***Fulfilment*** - consolidator (potentially tech led) acting as a thin layer between supplier and retailer providing logistics. Common in UK in foodservice and in China & increasingly in India in independent retail
4. ***DTC*** - direct distribution from manufacturer to consumer. On trial by many global CPG companies such as PepsiCo and Unilever

Why should we change?

1. Data-led logistics and distribution is infinitely more advanced than before. Data led consolidators are in a great position to manage and predict demand (think Amazon)

2. Being tied to a specific wholesaler inhibits retailers accessing products and services available across the wider market

3. It is hard for CPGs to quantify the value provided by wholesalers

4. Local distribution channels can be a source of unique products that provide a genuine point of difference versus multiple grocers

5. Whilst brand recognition for symbol groups may be high, consumer expectation is low due to the variation of retailer execution. I.e. you are only as good as your worst store or customer experience

6. Top quartile c-store retailers are increasingly developing their own externally facing brand propositions

WHY MAINTAIN THE STATUS QUO?

1. There are no proven scale alternatives to the wholesale model currently being operated in UK & Ireland independent retail except for the One Stop franchise and foodservice brands such as Greggs, Starbucks and Subway which have proprietary distribution

2. The existing wholesale model is simple, provides an integrated approach with systems within a manageable number of deliveries

3. The total support package, such as the tools available for retailers in symbol groups delivers an overall benefit to retailers

4. There can be a conflict between wholesaler margin requirements and retailer assortment and promotional needs.

Views from the industry:

I don't think Amazon just happens to be passionate about selling cabinet-style space heaters with a brown wood grain finish. What's more likely is they identified a top-performer in a category, copied it, and deployed a cost-effective solution under their Amazon Basics label. Just look at the Amazon Basics website. It has one or two products in nearly every category.

Frank Beard, top US retail analyst & futurist.

Local stores are the unsung heroes servicing the community at large during the C-19 pandemic ... they have adapted to innovation and digital technologies, such as digital payments, changing supply models and reduced friction towards technology

Shashank Shwet, Customer Experience and Design Thinking, EY India Partner

Millennials will change what we sell. Ireland is only the size of Greater Manchester so we have to work very closely with our suppliers. Our 98% fulfillment shows that the model with our suppliers is working really well.

COO, Irish Wholesaler

Everybody wants a slice of everybody's' action. We were totally wholesale focused and now we are retail fulfilment focused. We have to bring other brands to other supply chain and focus on how take management on the journey to change the culture.

CEO, UK Wholesaler

MOVING FORWARD:

There are major markets that have shifted from wholesalers servicing independent retail and foodservice. The world's third largest retail market is Japan. Japan had an extended banking crisis from 1991 to 2005, which motivated significant change across the economy.

Convenience and food retail adapted during this period of economic change and market consolidation. The traditional three-tier wholesale and distributor system was disintermediated and the second largest retail sector convenience retail was forced to differentiate their look-alike stores and assortment.

Figure 6. Family Mart operates 100% central distribution

Out of this came today's Family Mart, 7-Eleven and Lawson - three of the world's top 5 convenience retailers - with their 100% central distribution, proprietary brands, technology and dedicated fresh food factories that deliver to stores three times each day. The 56,000 or so convenience stores are 90% operated by independent retailers using hard franchise business models.

There is no wholesale supply and suppliers are not permitted to call on stores except for defined events such as national emergencies. Three consequences of this are:
1. Corporate margins are higher
2. Retailers make more money
3. Suppliers have certainty on distribution and promotional execution

The USA is the largest retail market by sales. Along with its northern neighbour Canada, 'direct to store' (DSD) delivery of branded beer, beverages and salty snacks is almost universal. Some of this is historically legislated, such as the three-tier alcohol distribution system. Branded beverages and snacks are dominated by the PepsiCo and Coca Cola companies who protect their vast DSD networks with a refusal to supply to retailers' warehouses and an alignment with union practices abandoned in other industries.

With this comes an inequitable balance of power to suppliers and an e.15% of the value chain that is not available to retailers. There is no other major global market where retailers tolerate a DSD system on branded packaged goods beyond very short shelf-life products.

New technology in logistics and tracking demand through data has been a game-changer in B2C foodservice and grocery distribution. Service and delivery companies such as Alibaba, Amazon, Deliveroo, DoorDash, goPuff, Uber Eats and Zomato use AI, algorithms and data to improve efficiencies.

They are opening dark restaurants and convenience stores that can disintermediate their original foodservice, retailer and platform customers.

Working with these companies is both an opportunity and a huge risk for SME businesses.

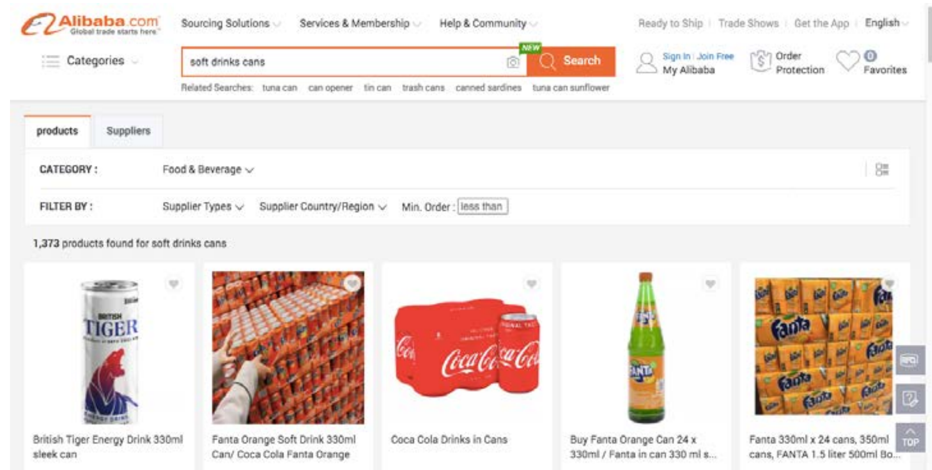
Figure 7. As retailers feel compelled to adopt new consumer channels, have traditional supply chains adapted?

Unmanned stores and drone deliveries have received a lot of airtime and column inches. The authors think that the date when Amazon or Alibaba will deliver a case of ***Domestos*** to our front door at retail cost is not too far away.

MOVING FORWARD:

Many global CPGs are trialling direct to consumer models. Nestle's Nespresso business model is largely B2C. Amazon is both a B2B and B2C company and is also increasing its Amazonbasics CPG reach.

Figure 8. How long before we see Amazonbasics washing up liquid?



A digital consolidator for the UK Convenience channel will emerge as we see in China with Alibaba and in India with Reliance, Flipkart (Walmart), Amazon and local companies in tier one to three cities.

Figure 9. Alibaba's $3.6 billion acquisition of the Sun Art Retail Group is a clear statement of intent on their strategy on food

India's 12 million kirana – independent - neighbourhood stores have been successfully turning to digital processes to help in all aspects of their business during C-19 and millions of them are looking to see how they can continue to drive this forward. Traditionally they have received their products direct from thousands of brand distributors.

An emerging cash and carry sector with Booker (UK), Metro (Germany) LOTS (Thailand) and Reliance Market (India) is making inroads.

These neighbourhood stores are tapping into digital payments and e-commerce and government C-19 policies have accelerated the process.

One in five stores in India's tier one and tier two cities are leveraging such platforms.

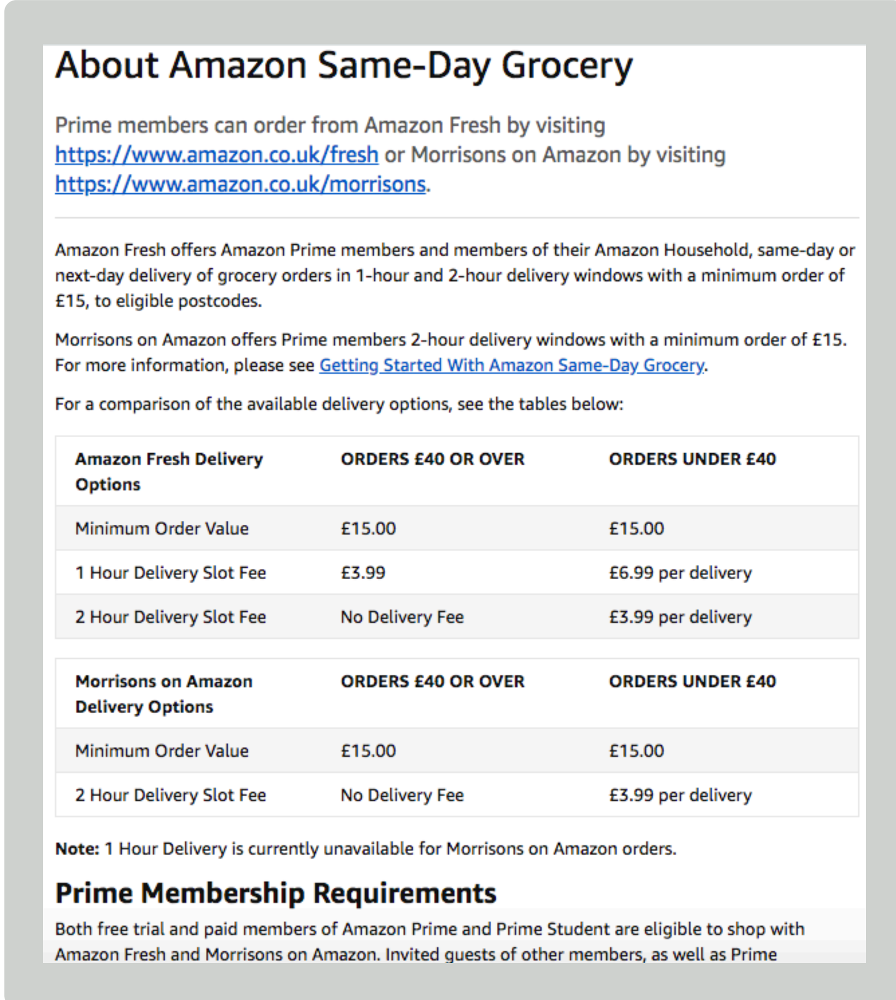
India's FMCG companies have previously resisted changes to direct distribution to kiranas. Government incentives, technology developments and independent retailers C-19 pivots are accelerating the market changes away from the distributor system.


Figure 10. A new qualitative study by Ernst & Young indicates that some 40% of kirana stores are considering how they might partner with online supply platforms, which will disintermediate the distributor system.

In the UK, Amazon's UK same-day grocery developments with Fresh and Morrisons can be looked at on two levels:

1. Using their best-of-breed technology and customer data to increase their market share.
2. A precursor to expanding the range of Amazon Basics on their platform to disintermediate brands and potentially retailers.

Alibaba has successfully moved to supply independent retailers in China. India's kirana store supply is being disrupted by technology platforms. We can 'join the dots' and see that Amazon could disrupt the big UK and Ireland food wholesale markets.



About Amazon Same-Day Grocery

Prime members can order from Amazon Fresh by visiting https://www.amazon.co.uk/fresh or Morrisons on Amazon by visiting https://www.amazon.co.uk/morrisons.

Amazon Fresh offers Amazon Prime members and members of their Amazon Household, same-day or next-day delivery of grocery orders in 1-hour and 2-hour delivery windows with a minimum order of £15, to eligible postcodes.

Morrisons on Amazon offers Prime members 2-hour delivery windows with a minimum order of £15. For more information, please see Getting Started With Amazon Same-Day Grocery.

For a comparison of the available delivery options, see the tables below:

Amazon Fresh Delivery Options	ORDERS £40 OR OVER	ORDERS UNDER £40
Minimum Order Value	£15.00	£15.00
1 Hour Delivery Slot Fee	£3.99	£6.99 per delivery
2 Hour Delivery Slot Fee	No Delivery Fee	£3.99 per delivery

Morrisons on Amazon Delivery Options	ORDERS £40 OR OVER	ORDERS UNDER £40
Minimum Order Value	£15.00	£15.00
2 Hour Delivery Slot Fee	No Delivery Fee	£3.99 per delivery

Note: 1 Hour Delivery is currently unavailable for Morrisons on Amazon orders.

Prime Membership Requirements

Both free trial and paid members of Amazon Prime and Prime Student are eligible to shop with Amazon Fresh and Morrisons on Amazon. Invited guests of other members, as well as Prime

Figure 11. Amazon Fresh continues to expand capacity and availability in the UK

3. THE ADOPTION OF NEW TECHNOLOGY

Ignoring the exponential growth of e-commerce, it could be argued that customer-facing technology in retail has evolved at a relatively slow pace. The year 2000 customer experience of a physical retail store is not markedly different than a contemporary (pre-C19) experience. The rise of the smartphone, augmented reality, robotics and automation have all yielded potential innovations, but few of these have led to a transformative solution that has added real value to the customer journey.

Technology has certainly had an impact in the 'engine room' of retail. Back-office, logistics and ranging have all benefited from better data, underpinned by technology, leading to improvements in decision-making. These benefits are hidden to the customer but have become critical to the profitability of large retail organisations. Convenience retail and, in particular, independent convenience still have some way to go on harnessing the power of data.

In our previous new normal papers, we argued that technology would be one of the dominant features of post C-19 retail. There is no doubt that the shopper conditions created during the various states of lockdown have accelerated retailer action, but it does appear that the initial pace of tech development has slowed down.

The best demonstration of this is in payment. The decline of cash, enhanced hygiene and opportunities for click and collect should theoretically have led to a rise in scan and pay smartphone apps but this hasn't been the case.

Is this lack of pace implementing new technology caused by retailer reluctance or is it due to consumer resistance to change? In the author's view, a combination of both is the most likely explanation.

Figure 12. A number of "cashierless" store solutions have emerged this year (Image Zippin)

For retailers, implementing new technology often requires complicated and expensive changes to systems that are interdependent or the replacement of hardware across the retail estate. The unique needs of retail businesses mean that tech solutions may have to be bespoke, developed from scratch as opposed to off-the-shelf. Projects have long lead times, adding pressure on the business case and return on investment. New technology also comes with risk around interrupting business continuity. All these factors mean that retail technology only really emerges where it is part of a long-term strategy and where there is real buy-in across the business. Many a retail leader has fallen foul of a failed tech project.

Consumer resistance to new technology is the more interesting conundrum. With the majority of the UK&I population now owning a smartphone, access to the enabling technology doesn't appear to be the problem. The real challenge for retailers is creating technology that adds value. Too often initiatives have failed because they do not deliver an incentive or improved experience for consumers. Apps are a prime example of mixed success (there are definitely more failures than successes in retail). Smartphone screens have become prime real estate, and consumers will simply not retain an App if they aren't using it regularly.

Like many technological advancements, we can see best-in-class development and adoption in the East. In China over 75% of payments across retail, foodservice, hospitality and transport are digital with consumers paying with the Alipay and WeChat superapps. Cities such as Hangzhou - the home of Alibaba & AliPay - and Guangzhou - the home of Tencent & WeChat - are > 80% digital which classifies them as 'cashless'.

No one from taxi drivers though street hawkers to market stall holders wanted cash when the authors visited Hangzhou in January!

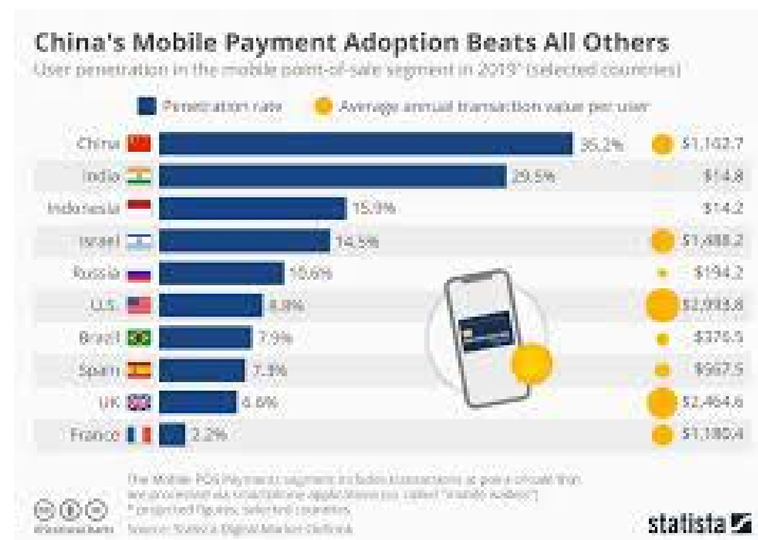


Figure 13. The East is leading the way in Mobile payment

Figure 14. How quickly will physical currency become obsolete in China? Faster than many predict, based on the author's first-hand experience

There are two big side benefits to digital payments in China:

1. Retail crime is almost zero as every payment has a digital footprint & facial recognition payment is widespread in supermarkets and travel hubs.

2. There is a zero tolerance policy on crime and the police prosecute 100% of retail theft ... when it does happen.

Lobbying government to act on retail crime is an ***Association of Convenience Stores*** and ***NFRN*** priority. The authors believe that government investment in 'China-style' digital payment – aided by the massive consumer reduction in the use of cash through 2020 – to be an effective tool in the reduction of retail crime alongside existing legislation.

WHY SHOULD WE CHANGE?

1. Technology can be used to make convenience more 'convenient'. This includes Paymech, access to product info and routes to market such as click & collect

2. Consumer smartphone access is heading towards 90% in the UK&I and its use across retail channels will increase

3. The convenience sector is not fully utilising the value of data:
- What not to sell
- Markdowns and on shelf availability (OSA)

4.Technology investment should be a key part of improving labour productivity

WHY MAINTAIN THE STATUS QUO?

1. Convenience retail is a simple model based on location, availability and speed. The model in its current form works and introducing tech may unnecessarily complicate the experience for consumers with no real benefit

2. Service, customer interaction and personality are at the heart of the c-store business. Any tech that limits human involvement in these areas may be to the segment's detriment.

Adoption of new technology will move faster than ever before. Just look at the example of Disney+, it achieved in 5 months what it took Netflix 7 years to achieve.

Chief Commercial Officer, Foodservice Supplier

We are in danger of losing all data and customers to third party delivery providers

CEO, UK Wholesaler

What's important is tech that it works and that doesn't over engineer. For indies investment can be a barrier- they need to see the benefit. EPOS is not present in 25% of indies. Their supply chain could on-board them here.

Communication Manager, CPG

Post C-19, India's large consumer goods brand-owners and manufacturers had rolled out ambitious plans for 'Direct to Consumer' or DTC, through digital channels. Many of them had rolled out their owns apps, websites and tied up with hyper-local delivery companies. However, the customer has been far less co-operative in going to a dozen different brand platforms to fill her basket.

Dipayan Baishya, Head of Strategy & Communication Future Group India

THE FUTURE:

Technology is an enabler – a means to an end. Retailers have not always completely understood this relationship, but the best have now reached a level of maturity where they can harness technology in a way to transform for their businesses.

Retailers of all sizes face ongoing challenges around cost-management (systemic and inflationary). A sensible, and almost essential, strategy is to invest in technology to streamline business processes and decision-making. Those retailers that do not embrace technology will find it increasingly difficult to maintain margins and deliver vital customer requirements such as product availability. Larger retailers have started to see investments in machine-learning and automation yield genuine efficiencies. How quickly this new technology moves across the total convenience and foodservice segment remains to be seen.

The authors maintain that the new normal will take the adoption of customer-facing retail technology to a tipping point. There is an inevitability and expectation that consumers will demand tech that removes friction between themselves and the product, whether it's to save time, improve hygiene or open up services such as click and collect. The retailers that have invested in this tech early will benefit from the opportunity to learn and then improve their solutions.

The rise in cashierless store technology should be a critical focus area for all forward-thinking retailers. Whilst the technology is still somewhat "clunky", initial capital cost concerns are now being overcome as scale and technology improves. Short of the product arriving directly to the end consumer (note our concerns on Amazon!), the ability to walk into a store, select your product and walk out is the ultimate convenience.

Tech and service are not mutually exclusive. Progressive retailers will utilise tech to reduce routine and tasks where human beings are not adding any value.

Free up your people to do remarkable things around service!

4. UNDERSTANDING CONSUMERS

Many convenience businesses have created unique retail offers through understanding and responding to the needs of their customers. The best of these retailers have built two-way relationships with their local customers, providing products that are highly tuned to the requirements of their local market. For these retailers, the method of gathering the intelligence to inform their customer propositions is often unstructured – direct dialogue with customers, the courage to test new products and a philosophy never to stand still. This "truly local" approach will always yield positive results but does it adequately prepare or inform retailers on the bigger changes taking place across society?

Insight specialists are stating that the next generation of consumers are exhibiting a significantly greater change in behaviour than their predecessors. We are witnessing material shifts in **how** these emerging consumers choose their food and drink, **when** they choose to consume and the retailer **values** that attract them. This pace of change has made it more critical than ever to have specific, evolving and committed plans to understand customers. Retailers should be questioning how they remain relevant to their customers today, tomorrow and in five years, with the insights acting as the foundation for all aspects of the business plan from investment, marketing to supply chain.

Figure 15. Apart from being "born digital", the Gen Z shift in behaviour has ended the concept of "mass market".

The authors' make no apologies for highlighting Amazon again within this paper, as their disruptive approach applies to most of our aforementioned "itches". Understanding customers is probably the area where Amazon has implemented the most transformative approach. For years the received wisdom on consumers was that trends and buying behaviour could be broadly attributed to different groups based on socio-demographics. I.e. age, sex and social class could be used as a safe foundation for a retailer to develop a targeted offer. What Amazon has taught us that is that a 21-year-old Spiderman fan and a 65-year-old Spiderman fan share a powerful buying motivation – their love for Spiderman. Whilst this is a rather crude example, it does demonstrate how access to data has enabled Amazon to go beyond assumptions linked to socio-demographics and build a highly targeted customer-centric offer. ***The key is what consumers actually do.***

Reaching Amazon levels of customer insight may be an over-ambitious aim for the world of convenience and foodservice, but there is no doubt that greater investment in understanding customers should be at the heart of any credible retailer strategy.

WHY SHOULD WE CHANGE?

1. The next generation of consumers are exhibiting more change in behaviour than their predecessors

2. Understanding customers is the key to developing a relevant and ultimately profitable retail proposition

3. By it's very nature, retail space in the c-store segment is limited. Data and insight is the key to help maximising this space by identifying the need-states of the specific consumer base connected to a c-store

4. C-stores are not talking to "non-users" enough. We don't have data on a customer that doesn't visit

WHY MAINTAIN THE STATUS QUO?

1. EPOS data is in place for most c-store operators and all systems have dashboards that help retailers make the right decisions on range, price and availability

2. Good operators will have informal ways of identifying new opportunities through the daily dialogue they have with their customers.

I have invested much of my time building relationships with my customers, but recently I've started to challenge how much I understand them. I know there are certain changes that I would have made quicker if I'd had the info – my younger customers are the hardest to retain.

Independent Symbol Retailer UK

We must invest heavily in researching what consumers and shoppers want. We can make a far better proposition. It will require the industry to work more closely together and share insight.

Independent Symbol Retailer UK

A number of CPG suppliers were very slow to recognise that the consumer market had massively changed during C-19. We have major concern that 9 months later these brands are still not reactive.

CEO, UK Wholesaler

Retailers' agility and customer-centricity in the face of rapid changes will be crucial in determining the winners and losers.

Dipayan Baishya, Head of Strategy & Communication Future Group India

THE FUTURE

The period of chaos immediately after the initial C-19 lockdown was a timely reminder on the need to understand customers. Retailers were forced by circumstance to make incredibly fast and agile decisions, using the best information available to them. This curiosity around the customer should be a focus that all retailers seek to retain beyond the pandemic.

The use of data science in retail has proven to be the most effective route to make decisions around store proposition. Data informing range is really the entry point for any credible retailer in 2020. EPOS systems have evolved to the stage where information is much more accessible, timely and understandable. Data also negates downward pressure from the supply chain to comply with ranging that is ultimately detrimental to the retailer.

Understanding broader customer trends and responding to them is the key to unlocking growth. Many of the most successful launches have been where a brand has understood more than one super trend and found a solution that sits in the 'sweet spot' between them. For example, in most cities outlets selling high quality, healthy food could be found. The success and subsequent growth of the QSR ***Leon*** was built on adding **speed** and **convenience** to quality and healthy.

The authors believe that the common feature of successful convenience and foodservice brands in the future will be their shared ability to constantly assess customer need and sentiment, within a business structure that lets them respond to these insights **fast**.

Figure 16. According to Kantar, Lululemon grew by +40% between 2019 and mid 2020. Their "sweet spot" was between community, fashion and self-improvement

5. THE CPG DYNAMIC

The dynamic between CPG suppliers and the convenience and grocery industry has not really changed in the last twenty years.

A broad example covered in this paper is the three-weekly promotional cycle. Most suppliers and wholesalers do not understand or care to understand the staffing costs and margin reduction of running hundreds of 'three-weekly' promotions, particularly across independent retail. This model has changed little in the least 25 years. Consumer behaviours rapidly changed during the early months of C-19. We trained ourselves to the relevance and irrelevance of brands and promotions. Our awareness of shallow marketing became much sharper. Many retailers quickly adjusted their programmes to align with our adopted buying behaviours. Many CPGs – not all – have not recognised these fundamental shifts as demonstrated in their unchanged category management and promotional activity.

CPGs should overhaul their knowledge of what consumers actually do with their retail partners, who fulfil shopper needs every day. The relevance of promotions to customer needs as highlighted in this paper should be at the forefront of this strategic renovation. The authors also argue that a supplier store visit for 'checking and merchandising' is also way past its sell by date. These resources are better focused against improving the contribution of their products to 'health and wellbeing'.

McKinsey & Company in an excellent July 2020 article titled 'What got us here won't get us there: A new model for the consumer goods industry' reviews 'where to play and how to win'. The key points go well beyond physical retail promotions into category, brand, consumer closeness and customer strategies.

> A**fter 40 years of outperformance** enabled by a widely used five-part success model, the global consumer packaged goods (CPG) industry struggled to grow over the last decade. Why? Because 12 disruptive trends have diluted the old success model for growing mass brands. Now the COVID-19 crisis is amplifying many of these trends, triggering an industry imperative to change.

Figure 17. ©2020 McKinsey & Company

WHY SHOULD WE CHANGE?

1. We the shopper passionately bought retailers' proprietary and 'unknown brands' as we trusted our national, regional and independent retailers to keep us fed and watered during the C-19 lockdown months

2. We expected full shelves and were largely thankful for retailers' fantastic customer service. Favourite brands and promotions were secondary considerations for many of us.

3. Retailers reduced assortments and consolidated space for store shoppers and to fulfil click & collect and home delivery orders. Store operational efficiency was the priority.

4. Foodservice brands and packages were commonplace with many retaining listings as we normalised after lockdown.

5. Now is the time for a 100% review on the role and objectives of promotions (Tesco CEO 1/7/20), their consumer benefit and the overall implementation costs to the retailer, supplier and, where relevant, the wholesaler

6. Over 25% of UK independent retailers do not have EPoS (ACS Local Shop Report 2020). Should CPGs and wholesalers work together with guidance from The Association of Convenience Stores to onboard these retailers for improved customer service, supply efficiency and data insight?

7. "We have low trust in independent retailers and their supply partners as their modus operandi is 'shake the tin' for events or conferences that are often a jamboree and not business based"
– **International drinks company**

8. There remains a substantial difference between the quality and experience of National Account Management in wholesale & symbol retail and that in national and regional multiple retail. The authors believe strategic investment in wholesale and symbol retail management will profitably benefit all parties, way beyond agreements on distribution or shelf space.

WHY MAINTAIN THE STATUS QUO?

1. Many CPGs have shared business plans with wholesalers and field marketing forces through third parties such as McCurrach that are highly connected with retailers.

2. Industry bodies do help CPGs 'join the dots' on the key areas of retail legislation such as controlled product and food hygiene compliance.

We use data analytics to determine the right ranges for our retailers. If we can overcome the 'I'm independent and must choose my range' mindset, we can deliver another 3% margin to our retailers funded by the certainty and discipline provided to suppliers.

National UK Symbol Retailer CEO

We work closely with national and local suppliers to ensure we have the right products and promotions for our differentiated retail estate. We also have our own stores where we can test and trial ideas.

National UK Symbol Retailer CEO

Investment can be a barrier with independent retail and execution is always uncertain. We have certainty of distribution, execution and ultimately volume in multiple retailers, which is always factored in to our pricing and terms.

International Snack Food Company

Most suppliers and wholesalers do not understand or care to understand the staffing costs and margin reduction of us running hundreds of 'three-weekly' promotions. This model has not changed for at least 25 years. We're changing it in our stores!

David Sands, Leading Scottish independent retailer

A LOOK TO 2021:

Japan is the second largest convenience retail market after the USA and the third largest grocery retail market behind China. The three market leading convenience retailers, 7-Eleven, Family Mart and Lawson, together with their associated supermarket brands do not allow any supplier visits to their stores. National and local assortments and promotions are agreed at headquarters with the knowledge – certainty - that implementation is 100% across all franchised (95%) and company stores.

This model can deliver profitable retailer growth across other markets.

Closer collaboration between CPGs and retailers will accelerate the right outcomes in critical areas such as health & wellbeing as featured in this paper.

Is there a role for a super industry body that joins the dots on all these areas, replacing the three UK associations – ACS, IGD and NFRN - that exist today? Perhaps 'The Food Industry Association' akin to FMI – The Food Industry Association in the USA which is "for the representation of the food marketplace from its traditional membership of grocery and other food retailers include their suppliers and other business partners".

FMI THE FOOD INDUSTRY ASSOCIATION

CLOSING THOUGHTS

Returning to our opening John Maynard Keynes quote, how do we escape from the old ideas that have embedded themselves in convenience and food retailing and to a lesser extent within foodservice. Retailer responses to serving customers during C-19 changed many embedded behaviours. Processes that ordinarily took countless meetings and often years to change were expedited. Changes in click & collect and home delivery capacity, just-in-time ordering and stock holding, price as the lead promotional mechanic and category management were adapted 'in weeks' to keep us fed and watered.

The authors believe that our industries should be on the front foot with the initiatives highlighted in the paper. CPGs, retailers, wholesalers and trade associations have demonstrated that when 'needs must', change can happen in weeks. There really is no excuse to continue the inertia on 'three-weekly promotions' or promoting 'bad-for-me' products, or to continue with blunt manufacturing or retailing policies such as 'we make / sell what the consumer wants' in the search for profit.

We believe there is more profit to be made in 'scratching these itches' than in maintaining a status-quo position.

We absolutely must not wait for governments to impose their solutions on us as they have done with C-19 policies. Governments have demonstrated through 2020 that their grasp of business detail and how their often-counterproductive policies have huge negative impacts on operations, livelihoods and profitability is limited and often non-existent.

I've spent my entire working life trying to avoid government. This year has reinforced why I do that!

David Sands, Leading Scottish independent retailer

The growth during C-19 of tech companies offering last mile delivery has provided quick solutions to retailers without a native service. The downside is that these companies own the customer and all the data, which will be leveraged to develop their own ghost stores and dark kitchens. It is estimated that there are over 6,000 dark restaurants in the UK.

DoorDash in the USA has DashMart digital storefronts with some 2,000 items. The move into the virtual storefront comes a few months after ***DoorDash*** partnered with some 1,800 convenience stores across the USA to better respond to the needs of customers during C-19.

If we can imagine an existing tech behemoth or a Newco disintermediating today's convenience, food and foodservice supply, then it is likely to happen. Scratching these five itches will not prevent a left-field competitor disrupting the smooth running of today's operations. What it will do is catalyse changes that will quickly benefit consumers, retailers and wholesalers, and encourage the new entrants to pursue sleepier industries to disintermediate.

We close by rephrasing the last line from the second paper 'Operating to the New Realities'.

"A danger for many CPGs, retailers and wholesalers is that they have been busy 24/7 and – for some – making more money. They have allocated little energy or foresight to adapting their practices to the new realities".

ABOUT THE AUTHORS

SCOTT ANNAN

scott.annan@blueananta.com
http://scottannan.co.uk/
@scott_annan

DEV DHILLON

dev.dhillon@blueananta.com
https://uk.linkedin.com/in/dev-dhillon
@RetailerDev

SABINE BENOIT

https://uk.linkedin.com/in/sabine-benoit-473352a1
@sabine_benoit