THE SHAPE OF FOOD RETAILING IN THE NEW NORMAL:

ADAPTING TO THE REALITIES

Winning will be about being continually aware of the true shape of the new marketplace. Where it has contracted and where it is expanding, in fluid fashion like a blob of mercury. Competitor intelligence and analysis should be as sharp now, maybe even sharper, than before all this began.

Dr Paul Sewell OBE, CEO The Sewell Group, a Sunday Times Top 100 Best Companies to Work For.

HOME WORKERS

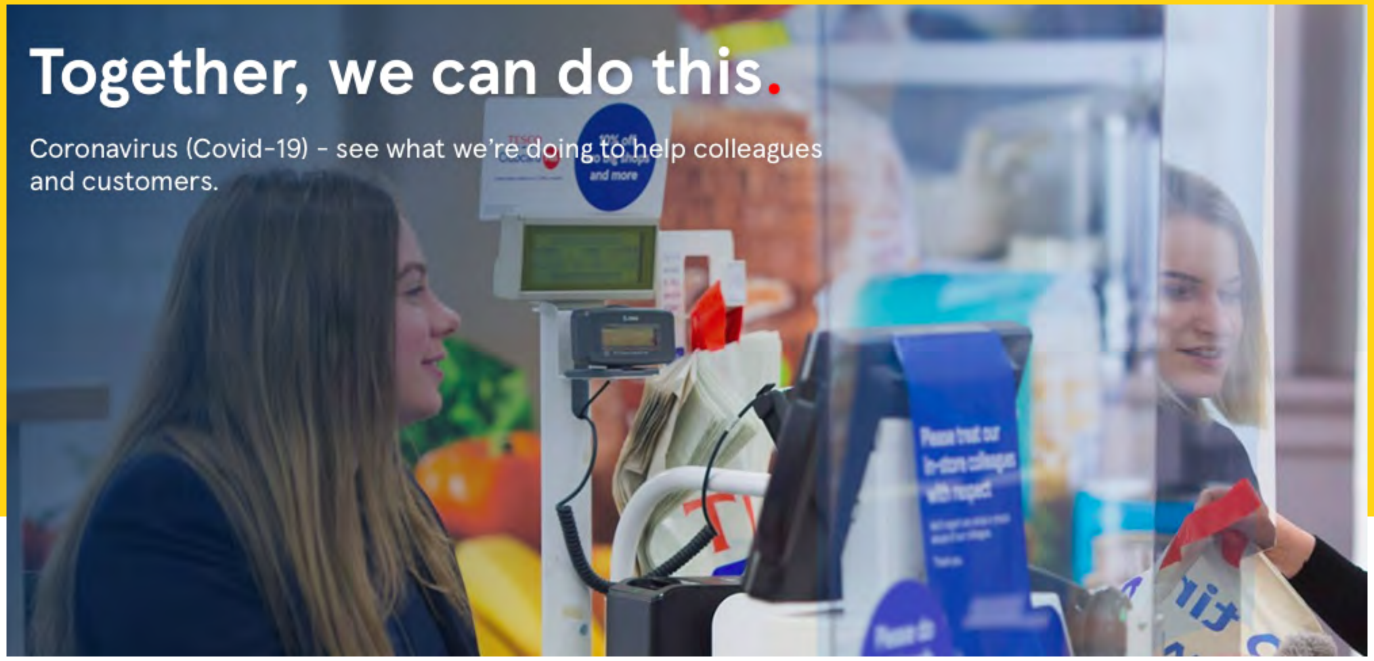
EXPERIENCE

RISE IN HOME-COOKING

NEW SUPPLY CHAINS

BUSINESS CONDUCT

This paper is motivated by a desire to start an informed debate on the future shape of the food industry.



It is inevitable that the recession or even depression that we are facing will hugely increase the importance of offering value for money. Multiple grocers are likely to have aggressive pricing and promotional strategies as they fight for share of the consumer pound, meaning convenience stores will once again need to differentiate their offers to compete.

In the three weeks since disruption has really kicked in we have seen retail performances range from +80% in grocery to -100% in foodservice, cand holidays. In the new normal we will all still eat and drink, need to work, require shelter and energy to move around. How we do these – and also have some fun – will be very different to where we were in February.

With two weeks compulsory lockdown training we are all now tech savvy on Microsoft Teams and Zoom as tools to hold meetings, manage teams and in some cases remotely control whole organisations. FT100 boards and the G20 governments have virtual board meetings. Necessity has re-ignited our fondness for home cooking and delivery drivers conveniently leave everything we need on our doorstep. That expensive car or train commute is becoming as dusty a memory as our office desk and the building that was our other home.

Previously intractable business decisions such as flexible working and long-term technology investments are now made in days, often using off-the-shelf solutions.

Will the old normal come back given time and will we return to eating, shopping, traveling, working and having fun as before?
No and yes as all of the old normal has not gone away. Climate change, refugees, indebtedness, impoverishment, health, education, corruption, plastic pollution, vulnerable people and the mass protest movements have temporarily moved behind coronavirus in priority. They will return.

We see the new normal as local convenient food shopping, home delivery on essentials except petrol – more on this later – home working for many, little routine work travel, no work outfits, online exercise programs, lots of home cooking and perhaps even family meals and homegrown fun.

This makes for big opportunities for **forward-thinking retailers, foodservice providers, wholesalers and brands** that have the courage to adapt to and invest in the new normal. Can do, flexibility, cooperation and collaboration, off-the-shelf rather than bespoke and flexibility now have equivalent roles to play alongside process, procedures, using data and strategic thinking.

1. THE CONSUMER

Consumer perceptions and forced changes have led to adjustments in our shopping and consumption habits. Food retailer trust, convenience and careful spending will be key for the balance of 2020 and through 2021. Increased hygiene and social distancing habits will not completely disappear.

There will be a surge in demand when our movement restrictions are lifted but not across the board. Spending plans will be reined in and disposable spending, be that a restaurant meal, a new outfit, a holiday or a new car, will be curtailed as living standards are hit through the coming multi-year recession.

Working from home has become the norm for many people and a significant number may never go back to an office or will work a few days a week from home. This shift will see a new customer base emerge for neighbourhood convenience stores and an inevitable risk in footfall numbers for operators in urban commercial centres. Overall there should be a positive impact on sales of 'groceries' and for delivered meal solutions as home-workers will look for local solutions for their daily sustenance.

The green agenda of removing plastic packaging is temporarily forgotten. The biggest sales decline choices have been in unwrapped bread and pastry products. Unpackaged produce and meats sales are up as they can be washed and /or cooked. Frozen sales are up. Retailers believe this will be what consumers want for the foreseeable future, even though there is no evidence that Covid-19 can live on food.

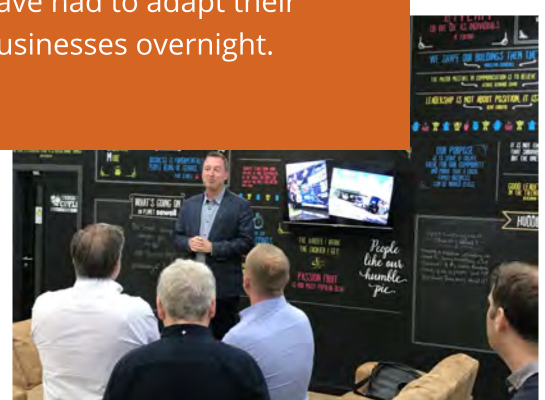
The world has changed and just because we bought something yesterday does not mean that we will do so tomorrow.

2. BUSINESS CONDUCT

Businesses that make inappropriate demands or behave badly during this crisis risk losing customers, demoralising their staff and slipping towards irrelevance. The three big retail banks that are not NatWest that demanded personal guarantees on the government's Business Interruption Loans are the leading culprits here. Banking is a primary sector that continues to put its interests before society's.

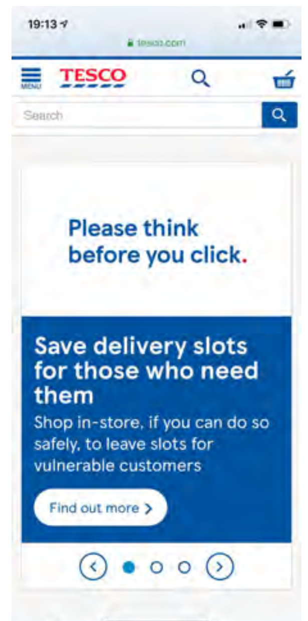
Businesses with clear leadership and vision, purpose and clarity and that demonstrate their role in benefiting the whole will be stronger in the new normal.

The UK and Ireland's national and regional retailers and the independent retailer groups have conducted themselves magnificently, as have thousands of independent retailers and foodservice providers who have had to adapt their businesses overnight.



Retailer social responsibility has moved towards the standards and actions ingrained in Japanese retailers when national disasters such as the 2011 Tōhoku earthquake and tsunami occur.

Big changes will be required in the next three years and those businesses that maintain the highest standards of conduct across the board will come through fitter and more resilient for the next crisis, built on their unswerving customers. This will be a much more effective way of retaining custom than most loyalty card schemes.



Independent retailers are modifying their store operations in order to protect customers and staff from the coronavirus by encouraging social distancing.

3. RETAIL AND FOODSERVICE

Many UK independent retailers were focused on a purchasing strategy within their wholesale supply chains. Now, independent and multiple retailers are sharing ideas and resources and finding new sources of supply and ways to interact with consumers. Traditional buying, selling and marketing models have moved in three weeks and businesses are questioning any ‘**model induced blindness**’.

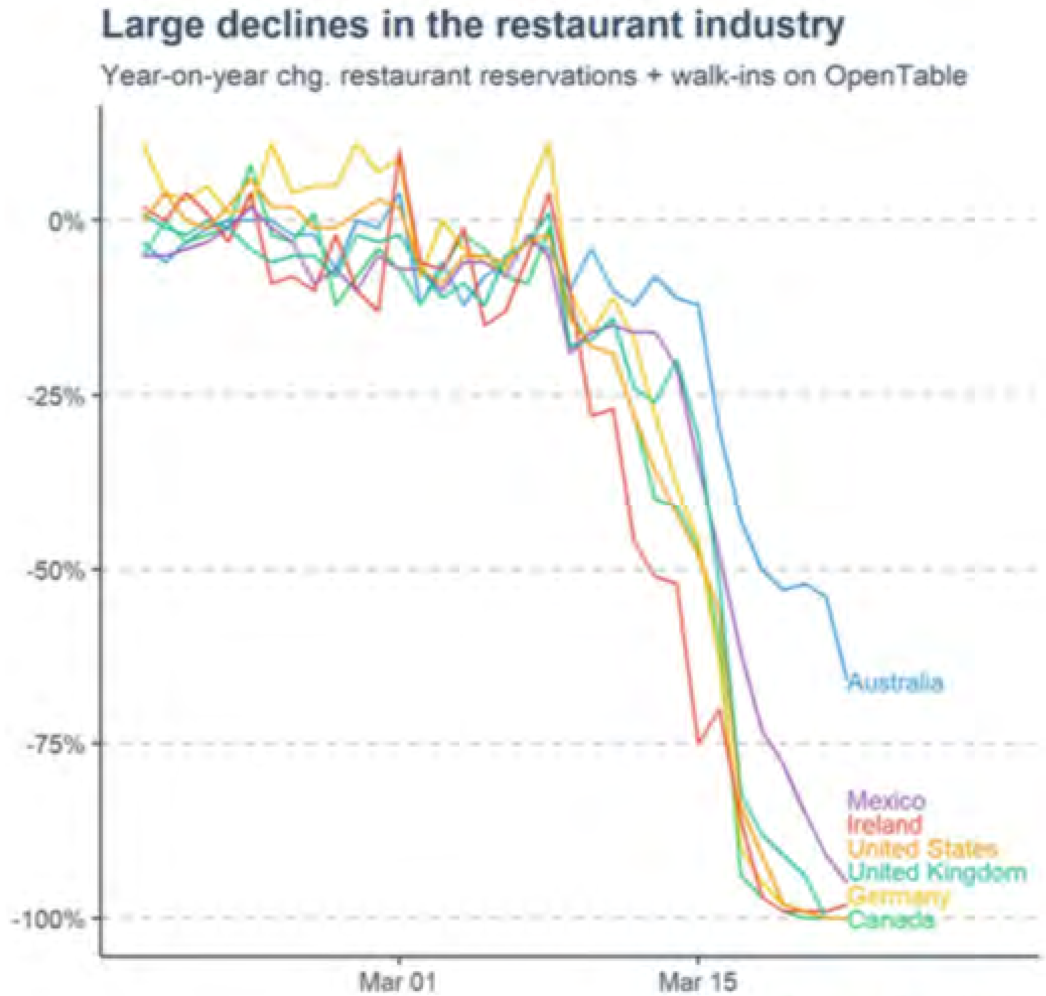
Suppliers and wholesalers have developed B2C survival strategies during this lockdown with entirely new operating procedures. Some wholesalers, foodservice providers and suppliers have taken a direct route to consumers.

Some retailers have implemented new supply sources and massively increased home deliveries in two weeks or less.

The need for retailers to focus on experience will be greater in the new normal. Convenience retailers will have to construct an offer that delivers a faster experience in a smaller footprint. Mobile and no-touch payment technology will be mandatory and the market for self-service tills is likely to disappear with one year.

Before the lockdown, the crisis on British high streets– in quick food eateries and shopping centres – was a toxic equation of business rates, rents, cost inflation, weak balance sheets, increasing crime, lack of investment and a growing consumer preference for online shopping. These will not go away in the new normal even with the government’s temporary financial reliefs.

The restaurant, quick food and hospitality sectors have taken a massive commercial hit. ***“Thousands of businesses”*** were already vulnerable as they operated on a weekly cash flow model and will not open again. A combination of at-home consumption, the absense of a unique value proposition or experience and no investment will shutter up to ***“50%”*** of businesses.



Home working will have a significant effect on fresh food to go, coffee consumption and impulse purchases across the big catered Business and Industry sector.

These trends will be positive for operators that provide full meal solutions available in store, ordered online or on an app for delivery. Expect this to be the retailer’s own services unless the national delivery providers adjust their previous foodservice business model commissions and massively increase capacity.

4. ECONOMIC FORECAST

The economic & social costs of the mitigation or suppression strategies are well documented in studies by The London School of Economics, Tomas Pueyo @ Course Hero and others. This article makes no comment on the economic alternatives to managing coronavirus only on the impact across retail sectors.

Our governments do not have money: they have popular permission to borrow, tax and spend on our behalf. The infusion of Business Interruption Loans and other measures are helping businesses survive but many foodservice businesses will be smaller and there will be far fewer in the new normal.

All non-critical capital investment will be severely curtailed with three important exceptions: 1 health; 2 education and 3 resilient retailers with the funds to adjust their offer.

National retailers and wholesalers will work closely with their third-party suppliers on curated availability and to reduce costs. Shared investments in home delivery and 'Scan, pay, go' platforms will become normal within the government's easing of competition law restrictions.

Reduced travel and the hit to living standards will severely impact car finance and sales:

"85% of the market is loan or lease finance. This is the second largest personal finance market after mortgages".

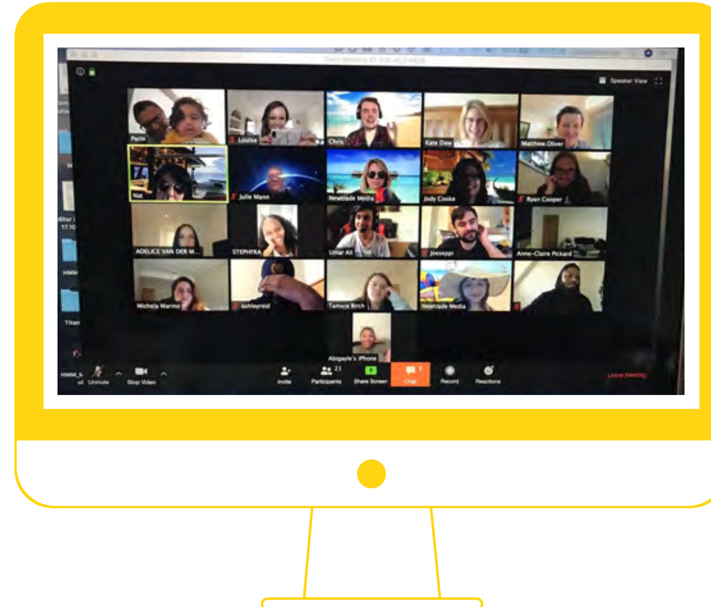
UK economic output will decline by 15% and unemployment will double in the second quarter of the year, according to the Centre for Economics and Business Research (CEBR). It expects the steepest contraction since comparable records began more than 20 years ago.

There will be a reckoning on tax and inflation and a second phase of shuttered businesses when the government's support package is withdrawn. Many businesses such as cafés, restaurants, pubs, travel agents and co-working spaces will not reopen.

The National Living Wage will be negatively impacted and the biggest burden again will fall on poorer people.

5. WORK & TRAVEL

There has been a massive acceleration in the innovation curve as all companies have been forced to understand what existing technologies can do to support the business. Our ability to work from home is being tested en masse. The likely outcome is that this will become the new norm for a high percentage – ***perhaps 50%*** - of the higher earning and 'non manual' workforce.



Driving to or for work and for shopping and leisure will be significantly reduced. This will have a bigger and more immediate impact on fuel sales and roadside retailing than electric vehicles and e-charging. Expect car sales to reduce by 75% throughout 2021 and home charging to become the new normal once EV sales re-emerge.

The previous rational strategy for roadside retail locations becoming destinations for e-charging, coffee and food for now must be re-evaluated by location.

Prime urban sites can become new apartments with a convenience service centre, providing a hub for food delivery, parcel pick up/drop off, third-party services and vehicle charging. Global fuel retailers can be more profitable and socially useful by becoming a landlord in ultra urban sites. Linking this strategic thinking together, where fresh delivered or retailed food sits in the middle, with sustainability, services and retailtainment around the outside. This is a very different shape to where they are today.