



BOARDROOM

Volume 5



Foreword

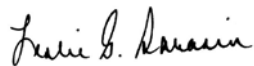
Welcome to the fifth edition of *Boardroom*, the annual journal from FMI and Oliver Wyman. The articles in this year's volume offer unique and timely insights to help senior food industry executives shape strategies and improve organizational performance.

Disruption has become the watchword for the food retail marketplace. Traditional business models are being dislocated – new consumerism is here to stay, innovative products and store formats are emerging, digital options are accelerating, new competitors are pursuing and conquering strategic positions in key markets, and transformation is happening at breakneck speed and with greater magnitude than ever before.

Food retailers can stay ahead of these changes by incorporating capabilities that will enable them to be more agile and develop effective growth strategies. This edition of *Boardroom* shares strategic insights into the supermarket of the future, how emerging consumer expectations are impacting personalization, how the evolution and increase of payment options can be turned into a strategic advantage, and how emerging technologies can enhance the shopper experience.

Boardroom analyzes the workforce of the future and the key role it must play in retailers' strategic plans. We also dig deep to uncover the implications of continually evolving trade policies, the need for food safety regulation to catch up with sustainability requirements, and emerging pockets of growth within the store.

FMI and Oliver Wyman created *Boardroom* specifically for those senior executives responsible for guiding their companies in what may be the most challenging, dynamic, and rewarding period in the industry's history. To compete successfully, a retailer must take a fresh look at its business trajectory and the marketplace in which it operates. We believe this issue of *Boardroom* equips you with the tools, information, and insights to galvanize your business and put you in position to turn today's disruption and discontinuity into opportunity. FMI will be sharing additional expertise on these issues throughout the year and will continue to support the membership in addressing these and other ongoing changes through advocacy and member collaboration. We welcome your participation and feedback to ensure that we do everything possible to help each of you succeed in this era of constant change and disruption.



Leslie G. Sarasin

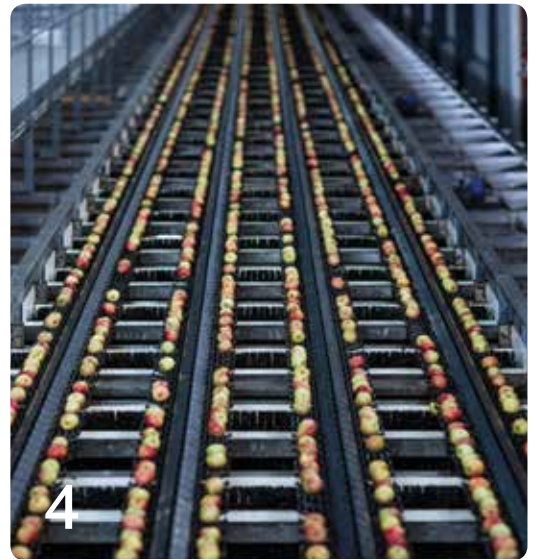
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FUTURE OF RETAIL



Tomorrow's "Smart" Supermarket

FMI and Oliver Wyman recently presented a webinar on the digital future of the supermarket, moderated by FMI Senior Vice President Mark Baum and Oliver Wyman Partner and Global Industry Association Lead Mike Matheis. Joining them were panelists representing highly innovative solutions that are shaping the future shopping experience: Curt Avallone (Chief Business Officer of Takeoff Technologies), Julia Wenner (Global Trade Marketing Director of HL Display), and Galen Karlan-Mason (CEO and Founder of GreenChoice). This article represents a distillation of the webinar.

In 2030, how will consumers shop? Consumers are demanding greater transparency and personalization from their grocers so they can make informed choices that support their dietary needs, health goals, and values. These rapidly shifting consumer demands, paired with emerging technologies, will lead to a "smart" supermarket with a massively improved omni-channel experience and more efficient operating model. Smart merchandising solutions will make the shelf more attractive for customers while reducing labor hours and waste.

Automation is a crucial element of the smart supermarket of the future, reducing costs and freeing up staff to focus on work that enhances the shopping experience. But at the heart of the brick-and-mortar business is an enhanced shopping experience focused on high-quality fresh produce, delicious food in an attractive gastro environment, and fulfilling social interaction.

CONSUMER SHOPPING HABITS ARE SHIFTING

Shifting consumer preferences, macro trends, and emerging innovations are reshaping the retail sector. The future supermarket needs to respond to these trends if it is to attract the consumer of tomorrow:

- **Smaller households.** There was a 34 percent increase in single-person households in the US from 2000 to 2018. Because cooking for one can be challenging, those in single-person households are less inclined to stock up and cook meals from scratch.
- **Agging population.** By 2030, 25 percent of the US population will be 65 years or older. This aging population will be marked by specific shopping habits and dietary needs, along with a reduced capability to drive to stores.
- **Digital revolution.** Double the number of US shoppers use online-only retailers to shop for groceries today as did in 2015. Online is becoming a powerful grocery channel that can also be leveraged as an avenue for marketing and sales.
- **Speed/convenience.** Americans spend an average of 37 minutes a day on food preparation, serving, and cleanup: indicative of how little time Americans allocate in preparing meals.
- **Omnichannel mindset.** US grocery shoppers use an average of 3.1 channels frequently. Americans are willing to use all channels available to get the best quality, price, and convenience.
- **Freedom to customize.** Shoppers are willing to share their data to enable personalization of their products and services: Some 46 percent of US shoppers would provide their store with personal information for a better shopping experience.
- **Hassle free.** US shoppers are looking for solutions that maximize convenience: 56 percent say that a long wait time at checkout is unacceptable.
- **Sustainable, naturally functional.** Food inherently resembles medicine, with consumers seeking out pure, organic, and healthy foods. It is estimated that revenue

generated by the functional food market worldwide will grow at a compounded annual rate of 8 percent from 2017 to 2022.

- **Food consciousness.** Seventy percent of US shoppers say that product information displayed at the shelf or with the product is very important. They want to know more about their product beyond what's on the label, seeking transparency on ingredients and ingredients' origins, additives, and production chains.
- **Global discovery.** Some 77 percent of millennials have a high interest in experimenting with new foods, indicative of a growing appetite for perceived to be new, innovative, and exotic.

IN RESPONSE TO CONSUMER TRENDS, THE RETAIL LANDSCAPE IS SHIFTING, TOO

Consequently, the retail industry must react to the way customers shop, and we are already seeing significant changes. We see the following five primary dimensions of retail transformation:

- Channel change from offline to online and omnichannel
- Direct-to-consumer channel and the rise of micro brands
- New convenience and urban formats
- Upgraded offers from (hard) discounters
- Partnerships and acquisitions

As the shopping experience grows increasingly omnichannel, physical outlets will continue to play an important but different function. (See Exhibit 1.) Successful stores will need to play more specialized roles than they do today and will need to give customers a reason to visit (versus shopping purely online).

Exhibit 1: Services customers will be asking for from brick-and-mortar stores

Discount model customer

"I want to pay as little as I can no matter what"



Convenience store guy

"I need it now"



Click-and-collect

"I don't want to wait at home for delivery"



Boutique showroom

"I want to try/see the product and get good advice"



Social interaction

"To me, shopping also means having fun"



Service center

"I want support if products don't meet expectations"



NEW TECHNOLOGIES WILL REINVENT THE SHOPPING EXPERIENCE AND STORE OPERATING MODEL

In addition to shifting demand, disruptive technologies and innovations will reinvent the shopping experience and the operating model. Robotics, Internet of Things (IoT), artificial intelligence (AI), virtual reality, blockchain technology, drones, and 3D printing are just a few examples of disruptive technologies that are changing the way we shop and how supermarkets will operate in years to come.

- Robotics are used in supermarkets already to serve meals, assist customers, or scan aisles for misplaced products and out-of-stock items.

- Machine learning and AI have proven themselves capable of supporting demand forecasting and are being used increasingly for recommending products and customizing pricing and promotional decisions.
- Drones and 3D printing are more distant solutions, but we have already seen tests around 3D printing in the nonfood area, drones used for deliveries, or drones used for out-of-stock scanning.
- We think these technologies represent a huge opportunity but may also require a significant investment and only make sense if they really improve operations and/or have an impact on the customer experience.

HOW WILL THIS COME TOGETHER IN TOMORROW'S SMART SUPERMARKET?

In response to shifting consumer preferences and technical innovations, the future supermarket will present a more efficient operating model and new shopping experiences.

We do not claim to know exactly what the future store will look like, but we do believe that we have a good idea about certain emerging components of the future store from extensive global research. (See Exhibit 2.) This perspective is based on dozens of interviews, work with retailers around the world, and in-depth research on emerging technologies and consumer macro trends.

Automated picking technologies and consolidated food-storage centers will enable highly efficient eGrocery

Nonperishables are mainly stored in backroom and ordered by customers through online services (delivery or pickup)

Service counters and food courts will offer expert advice, a place to socialize, with barista-served coffee and tastings of meals for home delivery or pickup

Customers can call up product information and browse customer reviews from their mobile devices

Checkout will be customer-led and supported by tech. Scan-and-go solutions offer a new channel for personalized promotions and customer interaction

The customer of the future visits the grocery store to benefit from services, test products, and receive product recommendations

Smarter tools and automation will massively reduce back-office work





Machine learning algorithms will reduce forecasting errors, making stock management much easier

Electronic shelf labels will enable automatic price updates, creating efficiencies – especially for discounted products; personalized prices seen on a smartphone may even replace unified shelf prices

Smart merchandising solutions will make the shelf more attractive for customers, reducing labor hours and waste

Shoppers can try out products—such as makeup—virtually

Associates need to establish direct customer relationships and develop new skills and product expertise

At the heart of the business is an enhanced shopping experience focused on high-quality fresh produce, delicious food, and social interaction

WHAT DOES THIS MEAN FOR MERCHANDISING?

Innovations in the future supermarket come with new opportunities for merchandising and impact on the 4Ps (price, product, place, and promotion). Here are some case studies of companies that are bringing solutions of the future into stores today.

CASE STUDY 1

Takeoff Technologies provides an end-to-end eGrocery solution, using hyper-local automation to lower the cost-to-serve in online fulfillment. Its in-store micro-fulfillment centers are designed to create a profitable eGrocery solution. With consumers demanding an omnichannel grocery offering and the volume becoming too significant to “hide the losses” of inefficiently servicing eGrocery, a transition from a defensive posture on eGrocery toward a profitable solution is essential.

Micro-fulfillment centers offer a solution for the two primary eGrocery cost challenges: picking time and last-mile delivery. Traditionally, picking for an eGrocery delivery takes about 60 minutes, an effort that makes eGrocery an unprofitable burden for many grocers. Takeoff Technologies’ micro-fulfillment centers cut picking time down to about six minutes. Takeoff Technologies’ micro-fulfillment centers can be installed in the existing backroom of supermarkets, providing a hyper-local option that significantly reduces the cost of last-mile delivery.

CASE STUDY 2

HL Display is a shopper-experience company with expertise in improving the shopping event while increasing cost efficiency and maintaining environmental sustainability. It specializes in merchandising solutions designed to support efficient store operations and improve the customer’s shopping experience. Those solutions include:

- Shelf automation frees up employees to focus on creating a better shopping experience by engaging with shoppers (such as promoting fruits and vegetables, operating in-store delis, preparing fresh foods, and offering in-store services)
- Packaging-free merchandising is a key trend across Europe, driven by desire to reduce packaging waste. Several trials are going on currently. These merchandising

solutions enable differentiation, reduced waste, and higher margins.

- “Sustainable choice” in-store solutions are currently being rolled out and developed by HL Display. These merchandising solutions are made of recycled or renewable resources (such as sugar cane and other bioplastics). HL expects one-third of its assortment to have a sustainable choice option by the end of the year.

CASE STUDY 3

GreenChoice is a data-driven tech startup offering a “digital food assistant” to consumers and plug-ins to retailers that provide shoppers with personalized dietary guidance supporting their health needs, goals, and values.

The startup solution is empowering consumers with customized dietary guidance by responding to the following trends:

- **Personalization.** Consumers crave personalization to meet their wants and diet goals and are willing to share personal information to get there.
- **Transparency.** Impending regulations are likely to ban certain additives and require greater transparency into others. Consumers are wising up to harmful additives/ingredients, and it’s best to start addressing these demands to get ahead of the curve.
- **Sustainability.** The UN Intergovernmental Panel on Climate Change (IPCC) has stated that the world has just over a decade to get climate change under control before it leads to a crisis. Whether or not businesses believe this claim, the point is that young people do, and businesses must address their concerns.
- **Building trust.** Consumers are demanding greater transparency from their grocers so that they can make informed choices that support their personal dietary needs, health goals, and values.

HOW CAN YOU LEVERAGE INNOVATIONS FOR YOUR BUSINESS?

Rapidly shifting consumer demands, in tandem with emerging technologies, are leading to the advent of the “smart” supermarket. But there are many opportunities that need to be considered as

supermarkets develop their omnichannel offering. Here are some key questions a retailer needs to ask – and answer – to know where it stands in the journey to tomorrow’s revolutionary digitalized supermarket:

- Innovations and technology: Have you identified the use cases for technology-enabled improvements to enhance efficiency and customer experience?
- Business case: Do you have transparency on the necessary investment and expected return on investment for innovations?
- Workforce of the future: How will your workforce shift in the supermarket of the future and how can you prepare?
- Pilots and tests: Are you already testing and piloting new technologies in-store or across your network?
- Omnichannel: Have you thought through what an omnichannel offering should look like for your business?
- Merchandising: Have you adapted merchandising processes to leverage store innovations?



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Payments in Retail

The future of shopping will be shaped by retailers providing an integrated, streamlined payment experience.

Ensuring a seamless and enjoyable customer journey has always been a point of emphasis for retailers. Until recently, the standard journey was well covered: Go to the store, browse the merchandise, and select a product for purchase. However, the payment experience – albeit central to the journey – has long been neglected, with retailers typically outsourcing the responsibility to banks, largely due to its complexity. While making payments may seem run-of-the-mill and seamless to most customers, complexity arises as shopping channels, technology, new types of payment, and consumer preferences evolve rapidly. Retailers want a frictionless checkout experience for their customers whether in store, in app, or via e-commerce – and various products in the market currently, or else on the way, offer that.

Retailers are beginning to develop strategies around integrating payments into their value proposition. While some still see payment as a process to be optimized from a technical and cost standpoint, implementing the right payments strategy is an opportunity for retailers to gain a real strategic advantage. This strategy, however, can come with some hefty strings attached. It is important for retailers to engage their payment professionals and third-party payment system (TPPS) to fully understand the cost, capabilities, and interoperability with their existing POS systems, apps, and website.

SEAMLESS PAYMENT DISTINGUISHES AMAZON, UBER, AND WECHAT

Have you ever wondered what business trait Amazon, Uber, and WeChat have in common? All of them have harnessed the untapped power of the payment experience in enhancing the customer journey, and have based their success on it.

Amazon

Amazon is leading the way in using payment as a strategic control lever. The company offers countless forms of payment, checkout is fast and seamless, and payment is secure. The Amazon payment experience is a differentiator: For the same product at the same price, users will often choose Amazon for its 1-Click button ordering. In addition to using payment as a pillar of its value proposition, Amazon has further used payment as a loyalty tool to expand its business and capture larger market share and profitability.

Amazon Prime Reload: This offers two percent cash-back to Amazon Prime customers when they load money from a bank account or debit card into their Amazon prepaid account.

Amazon Prime Rewards Visa Signature Card: This is a relaunch of the Prime credit card, targeted at Amazon Prime customers to encourage loyalty. Card users are entitled to five percent cash-back for purchases made on Amazon and one percent to two percent cash-back on purchases at other retailers.

Uber

Uber's frictionless payment capabilities are the most powerful assets of the centralized ride-hailing platform. A cashless experience for car transportation was the differentiator that formed the foundation for Uber's success for drivers and users. More recently, Uber has expanded its payment and service offerings outside of its core application.

Uber digital payment: Uber accepts various digital payment methods including PayPal, Alipay, WageWorks commuter credit, and Apple Pay. It also uses its underlying payment platform (among other synergetic assets) to develop Uber Eats, a restaurant marketplace app, which successfully entered an already competitive market by offering a well-proven and seamless payment experience.

Driver Instant Pay: Uber has enhanced its payment experience for drivers as well. The Instant Pay solution allows drivers to get paid up to five times per day, helping to address their short-term liquidity concerns. For a small fee, this service allows cash to be taken out with an Uber debit card or personal card.

WeChat

WeChat has transformed itself from a basic instant-messaging and social-media platform to a holistic ecosystem that connects people, services, and businesses. The company's swift rise to success can be attributed, in no small measure, to the introduction of WeChat Pay, a digital wallet that allows users to make mobile payments and send money between contacts. WeChat Pay contains numerous payment capabilities and offerings, which have significantly affected how people use and interact with the application.

Peer-to-peer payment: Users who provide bank account information can transfer money into a friend's WeChat

Wallet balance. Recipients can then pay it into their personal accounts or use the funds for other purchases through WeChat.

Commercial transactions: Consumers can now use the app to pay bills, order and pay for a cab, and purchase goods online. Companies use WeChat Pay in four ways: in-app payment, QR code payment for desktop websites, e-commerce for owned channels, and quick pay for in-store purchases.

Thanks to its unique payment experience and offerings, WeChat has grown from roughly 400 million users in 2014, when it introduced WeChat Pay, to around one billion registered users today, 800 million of whom use WeChat Pay.

THE COST OF GETTING PAYMENTS WRONG

Retailers have generally been attentive to providing a differentiated and enjoyable customer experience, but have neglected the payment dimension. For customers, the payment experience is poor, making the checkout process underwhelming at best. The VVO eCommerce Cart Abandonment Report 2016 shows the average online cart abandonment rate to be more than 60 percent, meaning the magnitude of lost sales is massive. (See Exhibits 1 and 2.)

The same holds true for physical stores, where the use of EMV (Europay, Mastercard, Visa) chip cards and slow point-of-sale hardware terminals cause a poor purchasing experience, affecting customer satisfaction and, ultimately, store traffic.

Exhibit 1: Getting payments wrong has a high cost

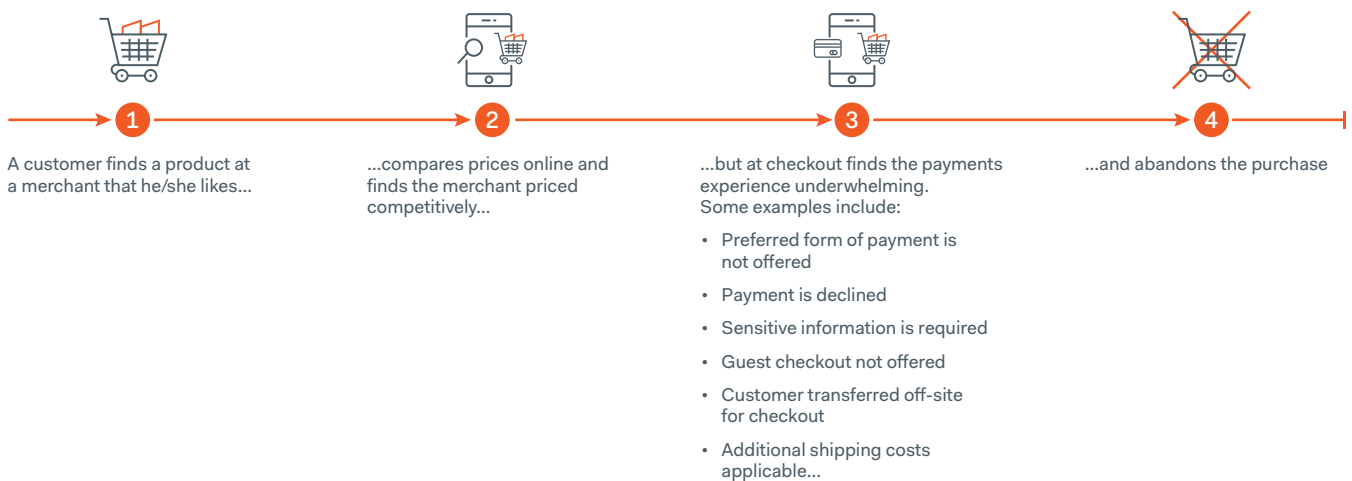


Exhibit 2: Getting payments right boosts sales and loyalty



Source: Oliver Wyman analysis, Morgan Stanley Research

PAYMENTS: AN UNTAPPED REVENUE AND PROFITABILITY OPPORTUNITY

Creating a payments strategy that enhances the consumer experience can simultaneously develop loyalty and grow revenues, as well as optimize margins. (See Exhibit 3.) Here's how retailers can tap into the opportunity:

1. Leverage payments as a loyalty tool to develop clients

Payments can serve as a hook for retailers to drive penetration and go beyond the typical loyalty construct. Key questions for retailers on using payments as a loyalty tool include:

- How can payments protect the relationship with my customer while enhancing customer experience and my brand?
- How can I offer a differentiated rewards value proposition using payments?
- How can I leverage payments data to deliver customized offers to customers?

An effective way for retailers to drive revenues is to integrate rewards management into the payment and checkout process and to create personalized services that can help drive loyalty. Publishing relevant offers, coupons, and messaging linked to consumers' payment preferences and shopping patterns will optimize the return on advertising spending.

For instance, Uber launched a new Uber credit card in 2017 with Barclaycard. It enables customers to receive cash back for Uber-related purchases, including Uber Eats, encouraging more spending on Uber's platforms. Similarly, Uber has partnerships with American Express and Visa that encourage cardholders to use Uber to gain credits.

2. Use payments to generate ancillary revenues

As a starting point to generating growth through payments, retailers should look for ways to create unique checkout solutions for customers consistent with their brand. These can take different forms as shown in Exhibit 3.

Exhibit 3: Revenue drivers for retailers using payments

OPPORTUNITIES	DESCRIPTION	BENEFITS
Alternate forms of payments	<ul style="list-style-type: none"> • Enabling global customers to pay as they prefer 	<ul style="list-style-type: none"> • Higher cross-border sales • Higher conversion/lower abandonment
Contextual commerce	<ul style="list-style-type: none"> • Ability to purchase when/where you want • Leverage single sign-on for easy check-in 	<ul style="list-style-type: none"> • Easier user exchange leads to seamless checkout
Financial services	Linking payments to: <ul style="list-style-type: none"> • Credit (installment loans/POS financing) • Other value-added services (such as DCC) 	<ul style="list-style-type: none"> • Higher customer spending power • Opens up fee income possibilities
Targeted surcharging	<ul style="list-style-type: none"> • Charging a fee for more expensive forms of payments or in certain markets 	<ul style="list-style-type: none"> • Ancillary revenue stream • Manage acceptance costs
Proprietary forms of payments	<ul style="list-style-type: none"> • Payments mechanisms designed to drive higher purchases (such as co-branded/private label credit card) 	<ul style="list-style-type: none"> • Enhanced loyalty and spending • Lower payments costs

Referring to our previous best-in-class players, Amazon developed financial services, enabling it to drive more revenues: For unbanked or underbanked customers, Amazon Cash offers a prepaid account that can be used for purchases on Amazon.com. Customers can preload cash (without any fees) to their Amazon accounts through several participating retailers. On top of ancillary revenues, a strong payments infrastructure is critical in an omnichannel era where players must offer an integrated and seamless cross-channel shopping journey, including pickups and returns. Different payment platforms for physical and online operations complicate reconciliation, inventory, and refunds, and obscure the true cost of payments.

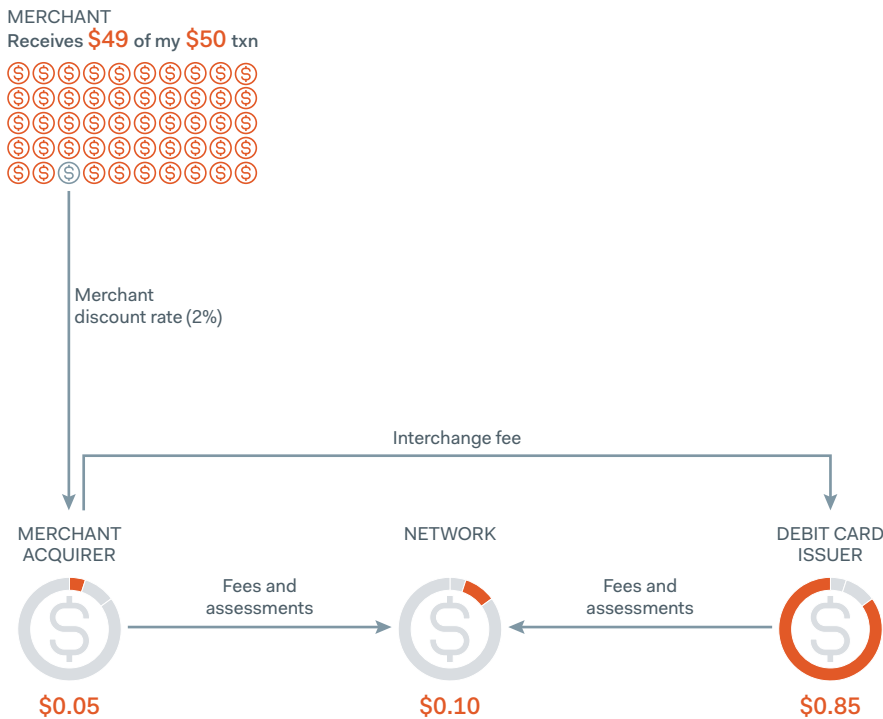
3. Manage the total cost of payments

The payments system features numerous contract mechanisms between its participants. By examining these – and deciding which tasks should be outsourced and to whom – overall costs can be reduced. (See Exhibit 4.)

Our illustration shows how the economics for the participants in a \$50 credit card purchase can vary significantly depending on:

- Geography: National regulations have an impact on interchange fees and customers' preferred payment types, such as cash, debit card, and credit card. How can retailers standardize processing fees in different jurisdictions and reduce the overall cost?
- Cross-border or domestic commerce: International transaction fees can cost up to eight times as much as domestic because of factors such as dynamic currency conversion and VAT refunds. Are there ways to reduce costs resulting from international transactions?
- Brand or type of card: Interchange levels vary by provider (such as Visa), tier (gold or silver, for example), and type (corporate or other). How can retailers optimize relationships with vendors and card issuers to minimize these interchange fees?

Exhibit 4: Payment fees breakdown per type of players in the payment value chain



A more effective approach to capture greater value from this value chain for a merchant consists of:

- Systematically breaking down those costs as shown in Exhibit 4 and building internal cost reference to challenge each cost individually. Such internal knowledge should, for example, establish that switch fees between the acquirer and the network typically range from one cent to five cents for a PIN debit operation in the US.
- Approaching the market in a consolidated way, as acquirers and networks typically grant discounts for large-volume clients, which can reach one percent to two percent of the transaction value.

Retailers that have addressed these costs have achieved savings as high as 10 percent, and the results of some sustained initiatives have been even better.

THE PATH FORWARD

The payments space has undergone significant transformation in recent years. From having at one time been viewed as a cost of doing business, it has since become a key enabler of an integrated and seamless shopping experience that provides a competitive advantage. Leading companies such as Amazon, Uber, and WeChat have made significant investments to implement successful payments strategies. These companies are shaping the future of shopping through an integrated, streamlined payment experience.

We believe the time for retailers to act is now. Payments can be a key lever in increasing revenues and growing overall businesses, while providing opportunities to reduce operating costs. However, deriving increased value from payments requires careful thought and execution, and – when necessary – finding the right partners.

To offer their customers the best possible payment experience, retailers need to ask themselves the right questions in building their strategy:

- What are my customers' needs and how can an improved payment experience help fulfill them?
- How can I use payment to enable seamless, personalized interactions with my customers? What value-added services can I offer?
- What is the right way to think about my own proprietary forms of payment versus third-party forms of payment?
- How do I arrange finance and get organized to radically enhance my customers' payment experience?
- Which partners or providers are best suited to support my journey?
- How do I strike the right balance between fraud management and customer experience?
- What implications do the global trends in data protection have for my payments strategy?
- Who in my operations should be involved?



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BIC CAMERA + CAMERA

GODZILLA ROAD



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12.10 ROADSHOW

MARUHAN

ONOMI YAKI
Can-Eat dinner with Free-Flowing Drinks for 2 hours ¥2,700

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Why Brand Is an Essential Tool for Profitable Retail Growth

While functional performance and digital prowess are critical to food retailers, those brands that provide meaning in customers' lives will be the ones that prosper

INTRODUCTION

Food retail's success has principally been determined by its convenience and proximity to consumers' homes. Real estate expertise was the driver of growth, coupling convenient location with scale to provide a lower price. In this legacy version of food retail, consumers would be hard-pressed to tell one offering from another but for the brand name on the door.

Since 2010, however, more than 12,000 physical food retail stores have closed their doors. We know the cause: E-commerce is redefining convenience, efficient pricing, and category blurring. In a rapidly changing world, the operator mindset that enabled retailers to be successful in the past needs a new playbook to succeed in the years to come.

While functional performance and digital prowess will be critical to future success for food retailers, the brands that create meaning in their customers' lives will thrive and endure.

BEING MEANINGFUL

To generate meaning requires delivering connection and progress to the customer. Brands that excel at connection are those that are true to the individual's functional and emotional needs. Rather than projecting a corporate one-size-fits all, they create a sense of belonging or immerse customers in a personalized experience. Chick-fil-A exemplifies strong connection through a focused brand proposition. Those with

connection also demonstrate that they have the customers' best interests at heart. How many brands offer their best deals to existing customers on an ongoing basis, versus only to acquire new ones?

Progress involves helping customers do things they couldn't do before. It's produced through functional innovation: better performance, easier to use, and setting the standard. Technology brands such as Uber and Airbnb are good examples of companies that have created entirely new markets through functional innovation. Another form of progress is how brands help people build stronger relationships with those around them, whether it be close family ties like Disney, shared passions like Pinterest, or doing right by society like Patagonia.

These two aspects of meaning are grounded in our biochemistry: We intrinsically seek connection and progress. Oxytocin is our bonding hormone, dopamine our drive to always find the next new. Brands that evoke these hormones in an experience and in our memory of that experience are those we find most meaningful.

To remain meaningful for any sustained period requires building both connection and progress. Without connection, brands lack loyalty. Without progress, there is a risk of disruption. We may love Netflix, but with many alternatives, some of which are free, Netflix has lost subscribers in the US this year. For some, love just isn't enough.

WHY MEANING MATTERS

To substantiate this thinking, Lippincott, Oliver Wyman's creative consulting arm, gained feedback from 30,000 consumers spanning 400 brands across the US, UK, France, China, and Australia. We used this data to build a statistically robust model of brand performance. Highlights from our findings include:

- Brands that score high on connection and progress had five times the annual revenue growth of those scoring low on both dimensions: 11 percent annual revenue growth versus 2 percent
- Progress drives double the immediate revenue growth in comparison with connection
- Connection, however, is more enduring than progress, meaning that benefits accrue for longer and are easier to build and sustain
- Connection also has a stronger influence when considering new products

and services, meaning that if customers love a brand, they're more willing to purchase other services

In our US research, we gained insight on a mix of food, drug, and mass brands. In Exhibit 1 we see a clear distribution in performance across companies and also the outperformance that Amazon brings. While many brands deliver connection, very few deliver progress.

Meaning also needs to be considered within the context of price paid. The average value ratio across the US market is 3.3. Amazon has a value ratio over 12, with just a single food retailer close behind at 11. The remaining brands span from 1 to 8. This gap is dramatic and reinforces the threat coming from outside the traditional category.

These findings reinforce the point that a convenient location no longer provides a competitive advantage. Instead, companies need to become more meaningful and do so at a cost that delivers a more competitive value ratio to customers.

Exhibit 1: Brand classification (users)



1. Progress represents T2B% for users on "This brand helps me do things I could never do before"
 2. Connection represents T2B% for users on "I love this brand"; Brands in industry but not labeled include: Transactional: Lenovo
 Source: Lippincott Brand Aperture®, June 2019, U.S. consumers

WHAT'S MEANINGFUL TO SHOPPERS

A foundational requirement is to know the audiences with which you want to be most meaningful. While this might sound obvious, many retailers typically segment customers by behavior, instead of attitude, and then seek to gain share with those delivering the greatest basket value. A challenge with this approach is that while the “what” is economically attractive, it doesn't provide insight into the “why” they shop, which varies dramatically across shoppers. Historically, segmentations grounded in attitudes have been challenging to activate due to the difficulty in targeting, but new marketing technologies make it possible to pinpoint attitudes.

Two dimensions that we've found to be particularly discriminating in food retail are price sensitivity and the desire to eat healthier. In simplistic terms, this covers four distinct audience archetypes that will seek out different solutions where those are available as shown by Exhibit 2. The introduction of Plant-based by ASDA, a vegan line, is an excellent example of addressing an underserved that can't afford premium brands but is looking for better quality in what they eat. (See Sidebox: “How Private Label

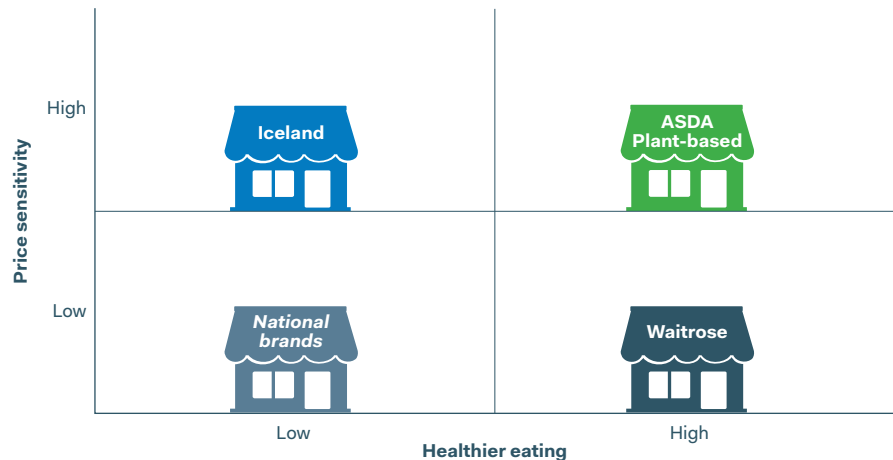
Can Add Meaning to Your Brand.”) With clarity on the functional, emotional, and social needs of the target audience, it becomes more straightforward to see how they can be served in a meaningful way.

BUILDING MEANING THROUGH THE EXPERIENCE

The most urgent need for most retailers is to ensure that they are the preferred destination for shoppers, which entails offering an experience that they can't get elsewhere. We see others evolving the role of physical retail: Best Buy is thriving in part due to the expertise and helpfulness of its employees around a complex purchase; Showfields makes discovery a magical experience; Starbucks is evolving its stores to reflect the majority of orders now being made ahead of time through its app.

In food retail, private label, the most comprehensive example of a signature experience, can define a retailer as a destination when done well. The common thread here is that each example creates a destination that provides an emotional lift for the shopper and a point of distinction for the retailer.

Exhibit 2: Price sensitivity



THE ROLE OF BRAND

For many operators, brand is just a coat of paint to be applied by the marketing team. This fundamentally misunderstands what we mean by brand and its power as a business asset. Amazon's Jeff Bezos said it well: "Brand is what they say about you when you leave the room." It's the heuristic we use as shorthand for every interaction we've ever had with a company, whether through personal experience or word of mouth. It's the missing multiplier for why perception of performance can be very different from objective reality.

So how can a brand be made to "work harder" in the interests of the business?

Innovation is hard, particularly when you're faced with the challenge to "just be better" than the competition. The fact that so many physical retail stores are considered interchangeable by shoppers is a testament to the lack of innovation that has occurred over recent years.

Brand provides a rich source of ideas for how to innovate beyond functionally performing better (which can be both costly and rapidly competed away). Being known for helping customers build stronger relationships with those around them is 1.5 times more influential than functional improvement alone. An advantage of this more emotional and social contribution to

progress is that ideas linked to your brand idea can't be directly implemented by others. The wine bar at one grocer isn't going to be replicated by its competitors; it's just not consistent with their proposition.

A clear brand strategy also helps focus innovation for private label and what should be a major source of destination for shoppers. Were any of us aware of the sheer breadth of what cauliflower is capable of before a single retailer made this a focus of their proposition? They almost singlehandedly raised the profile of this humble vegetable in the minds of US consumers.

Brand can also help perception lead objective reality, as functional performance is challenging to directly measure in food retail. What's the quality of your produce? Objectively, we can measure time from farm to shelf. We can also measure attributes around the care taken during that transit. However, for the shopper, none of this is visible. They will measure quality based upon shelf presentation, how employees treat the product during stocking and checkout, and then how long products remain fresh at home.

If consumers believe your brand stands for freshness and quality, their confirmation bias will reinforce evidence that supports that and mitigate examples that contradict it, literally chalking it up to "one bad apple." It's the brand heuristic at work.

How Private Label Can Add Meaning to Your Brand

Private label is a critical lever for determining future success. While other countries have penetration rates that approach 50 percent, the US consumer remains primarily a national brand shopper. US private label has been dominated by me-too, lower-priced facsimiles of national brands developed by under-resourced teams. This has led to inconsistent quality, poor packaging design, and shoppers purchasing out of a need to economize, rather than out of desire.

Some notable leaders that are predominantly private label have demonstrated that these products can be both better quality and lower cost. A strong private-label offer lowers the shopper's total spend while also improving the retailer's bottom line. It also delivers must-have SKUs that a shopper can't get elsewhere.

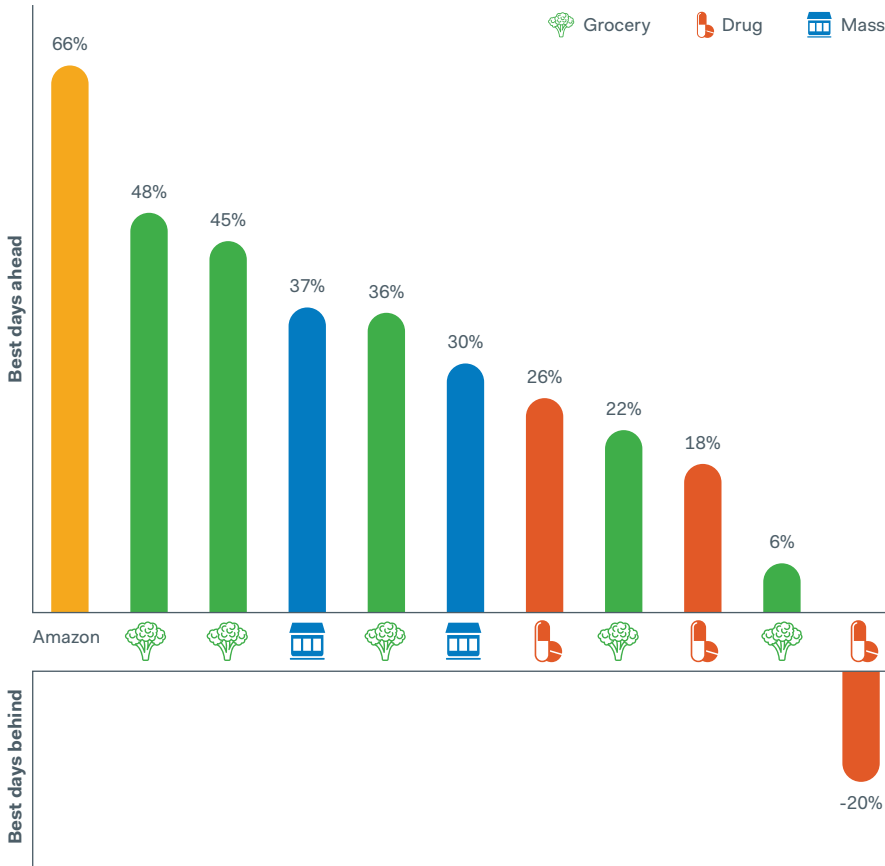
It's no surprise then that we are seeing an exciting period of private label expansion.

We are seeing resistance from many firms, retail and wholesale, to adequately fund their private label teams. This will limit a much-needed source of competitive advantage. Incremental improvement won't be sufficient.

However, no store experience will deliver without the engagement of employees, from their pride in keeping the store clean and well stocked, to how helpful and friendly they are in shopper interactions. In a high-turnover industry with relatively low hourly pay, it can be challenging to keep teams motivated.

Just as brands need to be meaningful for customers, they also benefit from being meaningful for employees. Connection is built from love for what they do and pride in what is delivered for customers. Progress comes from personal career growth and what work enables them to achieve in their life.

Exhibit 3: Brand performance by net customer rating of best days ahead¹



1. Net rating of best days ahead = (% users who rate the brand as having its best days ahead of it) – (% of users who rate the brand as having its best days behind it)

Source: Lippincott Brand Aperture®, June 2019, U.S. consumers

CONCLUSION

Customers seek out brands that bring meaning to their lives, through both connection and progress. Physical retail has, for many, lost meaning beyond convenience at a time when the very definition of convenience has moved away from being defined by drive time. Brand provides a critical business lever to inspire retailers to regain meaningfulness to shoppers and thrive in this new competitive landscape. And while we did see a shifting picture of the industry within our data, we also found that shoppers believe that the best days lie ahead for many retailers, as indicated in Exhibit 3. To capitalize on this optimism, our belief is that while functional performance and digital prowess remain important for future success, it is crucial that brands create meaning in their customers' lives to endure.



Myths in the Age of Personalization

These days, we often use the word myth to describe an accepted story or concept that is not necessarily objectively true but contains elements of the truth. As Stephen Colbert would say, it has a "truthiness" to it. The danger is that while mythic statements may be catchy and capture some elements of the truth, they can also be seriously exaggerated to the point of being dishonest and even flat out wrong.

In FMI's 2019 US Grocery Shopper Trends, which focused on personalization, we encountered four myths about what customers want, demand, or expect regarding personalized service in the supermarket. In every instance, there was an element of truth to each myth, but upon further scrutiny we found them to be inflated to the point of being inaccurate. Let's look at each of the four myths about retail personalization and see what's true and what has been misrepresented to the point of becoming erroneous.

Myth #1: Shoppers want everything personalized

The true aspect of this assertion is that shoppers appreciate differentiated treatment or customized service that makes shopping easier. However, this statement moves beyond the realm of truth if you interpret it to mean that shoppers want retailers to do everything for them.

Consumers are not ready to abdicate control of their shopping experience in the name of service. They still expect to maintain control of their shopping cart – even if someone else is loading it for them. Shoppers do desire help executing their dietary scheme, but that help needs to empower them to better make their own decisions, not decide things for them.

The shopper's desire to control their own nutritional destiny gets manifested in many ways, beginning with the diversity and number of places shoppers use in procuring their food for at-home meals.

Americans shop a diversity of formats and stores to meet their special mix of values, health, taste, and economic grocery needs. According to FMI's Trends data, US households visit an average of 3.1 different food retail channels and go to an average of 4.4 different retail banners per month. This means shoppers are choosing a host of different formats – including superstore, club store, online, and pharmacy, in addition to a range of traditional grocery stores in the execution of their family shopping and eating strategy. No single store appears to be all things to all shoppers, and so consumers are customizing their own path by choosing the store that best serves their needs in a given area of service.

Another indication that shoppers want to maintain control their own grocery cart can be seen in who they count on for ensuring food safety standards are met.

Consumers give food stores high marks for trust (93 percent) and confidence (89 percent) in food safety. Overall, however, consumers recognize food safety as a collaborative dance – a complex choreography involving a number of partners, including government agencies (FDA, USDA), their food stores, consumer groups, and families. But consumers put themselves near the top of the list of who is responsible for making sure the food brought at the grocery store is safe. There may be many dancers in the food safety chorus line, but it is the customer who determines who their trusted dance partners will be in performing the routine.

Likewise, shoppers indicate they want to stay in charge when it comes to executing their nutritional food shopping game plan. When we asked, "Who do you hold responsible for the nutritional content of the food you buy," shoppers again provided a list that included government agencies, manufacturers and food stores, farmers, and others. These are the collaborators they call on to help with the nutritional determinations, but ultimately consumers identify themselves as the driver of the nutrition bus. And in an interesting demographic note, the older the generation, the more self-reliant they were in making nutritional determinations.

So, it is a myth that shoppers want everything personalized. Yes, they appreciate customized service that makes the task of shopping easier, but there are lines that should not be crossed. Shoppers expect to remain in control of their own shopping experience and hold themselves responsible for personalizing their own trip. Indeed, that's how they think of shopping: it's designing a path of their own to getting their needs met.

They find retailer customization efforts that cross the boundary from guidance to control invasive. Shoppers do expect and appreciate retailers providing clear, readily available information about their positions on social issues, product philosophy, and values as a company. But such information must stay within the bounds of being a tool in assisting shoppers, so they can make the best, easiest, and most flexible choices when executing their ever-evolving shopping and eating strategy.

Myth #2: Personal eating requirements mean shoppers buy for individuals rather than family

Everyone has experienced the tension within family dynamics of negotiating between the needs of the one versus the many. There are times when the group must bend to wishes of the individual, and times when each person has to give in to satisfy the needs of the whole family unit.



The stress personalization places on the individual lends itself to the myth that customization negates the needs of the majority for that of the one. But this fiction misses the part family plays as the vehicle through which individual needs and wants find their expression.

According to FMI's Trends data, 86 percent of all adults say they have at least half of the responsibility for their household grocery shopping. The argument could be made that more people are shopping in order to ensure that their particular eating wants, wishes, and needs are addressed, but the truth is more complex. For instance, in my household, my wife and I divvy up the grocery shopping responsibility, and I confess that part of my motivation for sharing the chore is to make sure certain foods make it into our pantry and refrigerator. But not everything I buy is for me alone. There are products that I buy for the whole family and items that over time have become my responsibility to buy for our daughter.

Over the past five years, FMI has been tracking the growth of shared shopping. Roughly 75 percent of shoppers participate at some level in the co-shopping paradigm and about one-third of all shoppers are in an explicit 50-50 shared shopping split of responsibility. The rise in co-shopping among multi-person households may indeed be an expression of personalization, but it is an act of personalization that contains a definite family facet to it.

It is important to note that while the information age places its accent on the individual and personalization, eating together as a family remains a clearly stated aspiration:

- 97 percent of households with kids say eating family meals at home is important
- 84 percent of households with kids report wanting to eat more meals at home
- 90 percent say that at-home meals are healthier

The sum of these statistics add up to win-win scenario for both the customer and the food retail venue.

In short, customers are saying they think family meals are healthier, have tremendous

social value, and are something they want to do more often. Grocery stores that inspire, support, and help customers overcome the obstacles to family meals will reap the reward of customer loyalty.

There just is no downside to joining the family meals movement, but in the name of thoroughness, let's look a bit closer at the interplay between the individual and the family.

FMI research shows that snacks and weekday breakfasts and lunches tend to be solo affairs - therefore when shopping for those meal occasions, the shopper's focus is upon the individual tastes and preferences of the persons who make up the family.

However, weekday dinners and weekend breakfast and lunches remain valued staples of family time, so shopping for those meals requires a focus on the family that is comprised of individuals. The eaten-together meal faces the challenge of providing a culinary common ground wherein individual tastes can be accommodated through garnishes, condiments, and assorted other tricks.

If all this sounds incredibly complicated, that's because it is. That is why the most difficult decision we face each day is often answering the question, "What's for dinner tonight?" It is why shoppers seek out those retailers who understand the complexity of it all and offer help in simplifying the execution of the families' dietary game plan.

So, to wrap up busting the second personalization myth, families do still very much want to eat together. Turning that wish into action requires consideration of the emerging tastes, changing needs, and personal preferences of family members - and being mindful of those emerging factors when ticking off items on the grocery list. On the other hand, fulfilling the wish for more family meals also requires disciplined commitment to those times when the accent must fall on the needs of many. There will be times when the desire for enjoying a meal together and developing healthy eating habits must take precedence. Assisting shoppers in shopping for those moments will always place severe limits on extreme personalization.

Myth #3: Specialized eating habits are the domain of specialty retail; mass market cannot compete

Similar to the previous myths, there's a grain of truth to this one, but it's wrong in its extreme form. It is certainly true that retailers positioned around a specialty find it easier to understand, make recommendations, and provide guidance to shoppers. After all, the customer's mere presence indicates an interest in the area of the store's expertise. The specialty store can then capitalize with focused resources. But it's worth remembering that the stores garnering the highest ratings from consumers get those marks through excelling at the benefits of personalization – convenience, caring, and enabling the shopper to meet their needs. Simply put, specialty stores do not own these benefits. In fact, specialty stores may even be at a disadvantage in the key area of convenience.

So rather than specializing, mass marketers should focus on personalizing. This means understanding what's driving consumers to the specialty store and meeting that need in the convenience of the more expansive store. In this arena, it's risky to make assumptions: People may be shopping at the organic butcher down the block not because it's organic, but because it's cheaper, or tastes better, or tells a better narrative around their meat products. Mass marketers can compete, provided they uncover the reason why consumers are shopping elsewhere and deliver a better solution for addressing those needs. Often the attraction of the specialty shop lies in understanding, catering to, and addressing customers' special requirements or interests. By meeting those needs and demonstrating you understand them via smarter customer service and better product curation and guidance, a mass marketer can excel.

At FMI we believe when food retailers and food manufacturers collaborate, everyone wins. That's true regarding improved supply chain efficiencies that move products and information faster, but it's even more

true in the burgeoning arena of offering personalized products and specialty offerings. When brands and retailers strategize together on product assortment, they can offer the specialty products customers crave, without the hassle of having to make the extra stop at the specialty retailer.

Offerings such as MyBreaD where consumers can select from a variety of ingredient choices, allowing them to design fresh-baked bread ready for in-store pickup within hours, provide infinite "Instagrammable" moments and spur dinner time conversation. These kinds of personal touches help move shoppers from being just customers to becoming a critical part of your marketing team.

Myth #4: Digital experiences are more easily customized, and therefore digital platforms are the best place for a retailer to start personalization initiatives

The part of this myth that has a ring of truth lies in the ease with which digital platforms can enable customer customization and provide access to customer information. Where it misses the mark is in shortchanging the role face-to-face exchanges play in establishing the trust necessary for customers to grant access to their private information. FMI has stated for years that online versus bricks and mortar is not an either/or proposition. Nowhere is that more true than when it comes to personalization.

Technology is embedded in the shopping experience whether customers are shopping in-store or online. The consumer expectation is that technology engagement must embrace more than sales and delivery. Technology should provide a convenient means of engaging with the store, learning more about products it carries, and conveying a sense of the values it holds dear. A great mobile experience provides an opportunity for a store to stand out, differentiating itself. In the case of providing support to shopping and where only rudimentary data is shared, a digital-first approach may be appropriate.

But anything beyond such basic information sharing requires a foundation of trust. That kind of confidence calls for face-to-face experiences that reinforce the positive impressions created virtually.

BUILDING TRUST

Food is such a personal point of contact, consumers demand a consistency between the store's on-line persona and the in-store, offline character it presents. When it comes to building customer trust, digital efforts should amplify rather than seek to replace non-digital efforts.

In this regard, FMI has four recommendations to better integrate online and off-line/in-store personalization efforts that will help build and retain customer trust;

- **Empower user control:** Design new tools and platforms that allow maximum user control over data and information flow. Again, consumers want to be in the driver's seat regarding the shopping experience and that includes access to and use of their data.
- **Verify privacy and security:** Be clear with shoppers and demonstrate accountability for data use, sharing, and protection. Customers want to be assured that the banners they frequent have taken steps to safeguard the shopper's information before granting permission for it to be used – even if the company's use is exclusively for the customer's benefit.
- **Establish value:** Communicate the advantages of new personalization initiatives and show how they help shoppers meet household eating needs and preferences. Shoppers want to be able to customize the way they receive the information they need. They also want to understand how it addresses their families' needs, without feeling their privacy is being needlessly invaded.
- **Show optimal use:** Clarify how data is currently used and the benefits shoppers derive from it. Shoppers need to know what you're going to do with their data and how it will be gathered and used before granting access to it.

In the information age, stores wishing to support personal eating and enable their customers to shop in personalized ways rely upon having permission to gather, interpret, and act upon that data. That level of permission is more readily granted when online messages are in sync with in-store experiences, with both grounded in a sense of care, concern, and trust-building respect. Executing a good personalization strategy means paying close attention to the granular. In the case of the four myths, it means recognizing the grain of truth in each of them. At the same time, however, it also means taking them with a grain of salt.







EMERGING TECHNOLOGY



Why Voice Is the Future of Grocery

With 8 billion AI-enabled voice assistants soon to be in use, shopping by voice will transform grocery e-commerce

Jon Stine, who leads the Open Voice Network, spoke with Lippincott partner David Mayer about AI-voice, the fast-moving software mash-up that will soon be the principal way we interact with the digital world. An edited version of the interview follows.

Why should we pay attention to this voice fad? Isn't it just all about those smart speakers?

It's a whole lot more than smart speakers. In fact, it's perhaps the fastest growing consumer-technology innovation since the smartphone. Three things to remember:

First, we need to understand artificial intelligence-enabled voice (AI-voice) as a fast-developing software mash-up. This is about software, not hardware – it's software that will let you talk to the internet, smart things, and enterprise applications through any digital device – smartphones, personal computers, remote controls, appliances (from refrigerators to coffeemakers), and automobiles, as well as home-based smart speakers. It will soon be the most-used way we interact with the digital world. According to Juniper Research's recent study, some 3.25 billion voice assistants will be in use in 2019, growing to roughly 8 billion by 2023 – a compounded annual growth rate of more than 25 percent. In addition, roughly one in eight Google searches in 2018 were conducted via voice – which is approximately 250 billion voice searches.

Second, AI-enabled voice will reshape digital usage. Voice offers the ultimate usage ease and convenience; there's no typing, tapping, or swiping – you simply talk. With AI-voice, channels are changed and preferences remembered; customer questions of order status and shipping are accurately answered to 24-7 delight; workers file reports (and enter data) sans keyboards; and shopping is done in moments from the kitchen or the car.

Third, today's AI-voice environment is like the early, pre-standards days of the internet. There's no recognized registry of destination or dispatch names, no assured way for consumers to find companies or brands. There are significant issues of personal and

commercial data use and privacy. Market leaders have created proprietary, gated AI-voice platforms and ecosystems. In such an environment, there's a critical need for leaders – enterprise users and developers alike – to join together and develop the standards that will unleash this transformative technology. Standards that will encourage use and growth. Standards that will enable competitive differentiation.

Why is this of concern to grocery and FMCG retailers?

Two reasons. The first is about your brand in the current "Wild West" voice environment. Given the market position of the proprietary platforms, will consumers be able to confidently and consistently find your company and your brands? Will business-critical commercial (and customer) data be claimed (and used) by proprietary platform providers – and/or your product offers elbowed aside by theirs? Will your IT shop be forced to manage skills and actions across some 18-20 different platforms – or will they be able to build once and use many? Will the costs of search optimization accelerate – especially in the current proprietary environment, and in the winner-take-all reality of voice-based search?

The second is about rapidly changing consumer behavior, and the accelerating growth of digital retailing. **Simply stated: consumers are beginning to shop with voice.** According to eMarketer's March 2019 study, digital grocery revenues are expected to grow nearly 20 percent per year for at least the next five years. And the experts from FMI tell us that grocery e-commerce revenue could reach \$100 billion or more in the US by the year 2022. That's nearly 10 percent of the market, and three years from now. Recent research shows clearly that AI-voice

assistance is now being used by consumers in the selection, purchase, and post-purchase management of products and services. A November 2018 voicebot.ai study found that 24.8 percent of US respondents regularly used a smartphone-based voice assistant to research products before purchase.

Is this just an IT issue?

No. This is about the brand connecting with consumers. This is about revenue and market share. This is about data and data security. Thus, this is a topic for CEOs, chief strategists, CMOs, CIOs, CDOs, CTOs, and CSOs.

Why should a company like mine devote money and time to standards development?

Quite simply, it pays. Standards inevitably help grow the market. And enterprises that are active in standards development drive efficiencies, gain market access, and create competitive differentiation faster than those that don't. From a market-share point of view, the question is whether you or your competitors will guide the future of the technology.

For more than a century, voluntary standardization and conformity assessment

activities have grown usage, strengthened markets, and saved money for private and public-sector entities. By participating in standards development activities that touch your products and services – and by implementing standards and conformance tools that streamline development processes and trim costs – companies build market share and boost bottom lines.

What standards are needed for AI-voice?

Industry technology standards and guidelines that will encourage ecosystem development and innovation. Standards similar to those that enabled the remarkable growth of the internet. Standards that encourage the development of a commercial ecosystem and competitive differentiation.

Such standards for AI-voice could address:

- A global wake and destination registry – a Domain Name System (DNS) for voice
- User identification and authentication in a multi-platform, multi-destination environment
- Issues of personal and commercial data privacy
- Interoperability

- The use of voice in common, non-differentiating commerce processes

Does voice present unique issues in regards to consumer data privacy?

Yes. Voice is extremely data-rich. It is a biometric identifier, and can enable diagnosis not only of sentiment (consumer confidence, for instance), but selected physical and mental illnesses. For these and many other reasons, it is important to develop a neutral, considered perspective on the issue of voice and data privacy.

In a conversational world, choices will necessarily be narrower than browsing an aisle or browsing online. How does a retailer ensure that they are one of those choices?

First, conversational AI is not and will not be a stand-alone brand development strategy or tactic. Instead, it will be a key element within an overall online-to-offline (O2O) digital shopping strategy that combines existing brand value propositions with an increasingly essential ease/convenience value proposition. In sum: brand advantage, easily obtained.



Tactically, the latter might include options for out-of-store selection and purchasing (item-by-item, weekly top-up replenishment), options for fulfillment (pickup in store, deliver to home, deliver to location), options for payment, and ever-more-personal reminders and notifications (special days, new products, offers). Voice will be a priority communication/contact tool within that set of tactics – because it will be a primary and expected way consumers will connect with the brand.

Second, **voice will most likely reach its full user value in multi-modal use**; that is, both voice and vision. Voice will be the interface for a smartphone app that shows product options, or a voice-and-vision kitchen-based device that offers similar capabilities. Shoppers will see it, read it, and then speak to it – and have it speak back to them.

Third, as shown in multiple examples, voice assistance can be a marvelous delivery mechanism for value-adding – and revenue-enhancing – services that build brand loyalty: recipes, cooking and product selection advisories, how-to's for special dishes or preparation. Think a combination of Instagram and Alexa. Its future is that of **a conversational, advisory, thinking-on-your-behalf personal assistant** – one that happens to also offer the brand benefit of listening. Conversational assistants offer the potential of an always-on customer response focus group.

Fourth, the ease and convenience of voice – and its “directness” to a brand – will, we believe, increasingly **bond a shopper to a retail brand**. Those brands that make it easy, make it convenient, make it as simple as saying the word – they'll create a bond that will be very hard to break. Of course, such ease and convenience must be accompanied by benchmark-or-better operational performance throughout the entire purchase journey.

In a world where many retailers are still working to improve technologies like smart tagging for better online search, how should they prioritize voice versus competing demands? What's most urgent with regards to voice?

This coming year, it's estimated that more than 40 percent of all US internet users will regularly use voice assistance. That's a cohort that's younger, more affluent,

and 52 percent female. They will want to connect with you – or a competing brand – via voice. All other things being equal, they will choose the brands that save time or enhance time, as NYU Professor Scott Galloway wrote recently. As noted above, voice must be understood as a key element within a digital commerce strategy.

Are retailers better off working directly with one of the existing smart-assistants or trying to create their own?

We would not advise any retailer to build their own voice assistant. Instead, we'd urge three things:

1. Determine – from a business perspective – what you want to do (and not do). Is your objective to voice activate an app or website? Is it to protect your commercial data? Or do you want to reach shoppers today using Alexa, Google Home, or Bixby?
2. Evaluate your voice technology options with your business objectives in mind. Can you achieve your objectives with one of the innovative independent voice providers? Do you want to partner with one or more of the proprietary platforms, being fully cognizant of both benefits and costs?
3. Support the work of the Open Voice Network, the new industry association dedicated to bringing the value of standards to voice – with a focus on such issues as destination registration (so that you own your name), data protection, and interoperability.

Jon Stine is Lead at the Open Voice Network (OVN). OVN is a nonprofit industry association dedicated to the development and proposal of open standards and guidelines for AI voice assistance, comprised of consumer-facing enterprises, top-tier technology firms, marketers, and tech innovators.

David Mayer is a partner at Lippincott, a leading brand and customer experience consultancy and a sister company of Oliver Wyman. David co-authored “As customers begin to shop through voice assistants, what can brands do to stand out?”, featured on the next page.



Nick Harrison

David Mayer

The Customer's New "Voice"

As consumers shop via digital assistants like Siri and Alexa, here's how brands can stand out

Featured in *Harvard Business Review*

In the food industry, it would be hard to argue there are two more important topics to companies and to customers than food safety and sustainability of the food industry and the production systems involved. Consumers expect food they purchase to be safe. Unfortunately, that is not always the case as we have learned with many examples of outbreaks and large-scale recalls involving everything from leafy greens to meat to berries. These large food-safety issues result in millions of pounds of product being removed from the market, removed from commerce and destroyed in landfills.

The Internet has overturned how people shop and reshaped the retail industry. Voice assistants are about to unleash another revolution. As people increasingly shop via the likes of Alexa and Siri, they will tend to demand generic products, starting with everyday items such as batteries and eventually including more complex purchases such as electronics. Digital assistants will use algorithms to compare product specifications, make suggestions, and do comparisons, so that customers can find "the longest-lasting battery pack" or "the cheapest bag of flour."

If digital assistants with trustworthy recommendations become a significant source of sales – and we think they will – they could chip away at all but the strongest product brands. Competition between retailers will become even more brutal as consumers switch between only one or two verbally suggested options offered by digital assistants – one being their own private label or another low-cost product.

Companies that have negotiated with retailers for shelf space up to now will have to find ways to convince the digital assistants to put their products at the top of verbal searches.

That won't be a problem for the strongest brands, especially those nearly synonymous with certain products – like Kleenex tissues and Q-tips cotton swabs in the United States; or a Thermos vacuum flask in the United Kingdom; and Scotch adhesive tape in France. Since many people have strong emotional attachments to these products, a digital assistant will have to suggest them – or consumers will go elsewhere.

But most other manufacturers will find conversational commerce a challenge. Some mass-market brands are already losing share as online shopping fragments the marketplace. A survey of 10,000 American consumers that we recently conducted found that customers consider only one-third of brands "go-to." Customers are loyal to "go-to" brands because they perceive those brands to be functionally superior products that they are emotionally connected to. Unfortunately, when asked to rate 169 brands on a one-to-seven scale in terms of both attributes, respondents indicated that most brands stand out on only one – or neither – front.

So how can manufacturers compete for a voice assistant's attention? And what sort of brands will survive in the new world of conversational commerce?

"If digital assistants with trustworthy recommendations become a significant source of sales – and we think they will – they could chip away at all but the strongest product Brands"



MAKE PRODUCT AND PRICE SUPERIORITY WORK

One approach, of course, is to sell at the lowest price. Without the expense of maintaining brand recognition, low-cost manufacturers can afford to give more margin to the companies behind digital assistants. However, without funds to promote its own brand, the manufacturer will effectively become a contractor, always at risk of being replaced.

Convenient, reliable, and effective products can still become the kind of star brand that people refuse to go without. So this will remain a powerful strategy, particularly for complex products requiring significant research and development, such as smart speakers that are simply better than the alternatives or a newly patented skin cream that really leads to better results.

But this advantage will not last long in less-complex categories, where manufacturers catch up with equivalent products quickly. After that happens, consumers rush to a rival brand of bathroom bleach, canned peas, or phone charger – unless they feel some loyalty toward the one they've been buying. So these manufacturers will have to use in-house data and primary research to persuade the company behind the digital assistant that featuring their brand will continue to please its customers. Alternatively, they can pay to play and give the assistant a slotting fee, just as they pay for shelf space in supermarkets. But this will likely be a fleeting, short-term fix that puts off a long-term problem.

GO NICHE

Another strategy is to develop brands that algorithms recognize as the first choice for niche audiences. These "tribal" brands can develop strong emotional connections with customers that go beyond product specifications: They relate to people's values and reflect their aspirations. The attraction may be the brand's style and image – think Harley-Davidson in motorbikes, Tom's shoes and ethics, or Method in household cleaners and consumers' desire for natural things. Mass-market brands can aim to meet specific niche needs, while retaining a coherent brand expression across many tribes.

Tribal brands can help digital assistants identify their products' natural customers. Since they sell beyond digital assistants'

footprints, manufacturers can show they are likely to have a high rate of conversion with voice shoppers by sharing customer data to demonstrate their products' connection to certain types of consumers. To do this, advances in social listening and machine learning will be especially useful now that communications about a brand are owned less and less by the brand and more and more by their audiences. Manufacturers will retain an edge if they can map out how millions of consumers' preferences are changing in real time by analyzing social media comments, audio, pictures, and video.

MANAGE CUSTOMERS, NOT CATEGORIES

Manufacturers will also need ways to convince digital assistants that their products will realize high returns when sold in tandem with others. Companies have traditionally done this by suggesting ways for retailers to grow categories, such as detergent and skin care products. Now, online commerce is triggering a shift from category management to customer management. With the customer no longer physically confined to a supermarket aisle, algorithms can suggest products from an entirely different category – an insurance plan with an electric scooter; a recipe book with a new rice cooker; or baby toys and diapers with a car seat.

In the voice era, this practice will spread and become more sophisticated through an understanding of customer loyalties. For example, a customer who buys an environmentally friendly detergent may trade up to a bundle of eco-products including dishwasher tabs, soap, and shampoo. A customer who buys a new pair of running shoes may also buy some running clothes and energy pouches.

The savviest manufacturers will develop portfolios of products for different affinities. Some consumers see themselves as the kind of people who buy the detergent that cleans most effectively; others worry primarily about their children's sensitive skin; and another group is concerned about the environmental effects of the chemicals used. Tide, for example, makes Core Tide for the most effective wash, Free & Gentle for hypoallergenic users, Purclean based on plants, and low-priced Simply. Such portfolios will be attractive to digital assistants as a way

to cover customers with a single supplier relationship.

THE WINDOW FOR ACTION IS CLOSING

Large manufacturers with deeper proprietary insights into customers than those of digital assistants are now in a strong position. Online retailers only have data for shopping habits within the scope of the products they sell. Search engines know what consumers look for, but this can be different from what they end up buying. Moreover, most of this analysis is based on past actions, which have their limits for predicting future behavior. Manufacturers' innovation pipelines make it easier for them to envision future trends.

Some of the largest manufacturers are also investing in global data centers that build individual data profiles. These can help spot trends and predict future needs – "future-casting" – while also facilitating real-time customer management. For instance, one consumer-packaged-goods firm can identify supply chain issues in real time through social listening, enabling it to resolve issues before they become a major problem for a retailer.

But companies that don't act now risk seeing profits migrate to the small number of winning brands that will remain. The skills required are scarce, and the capabilities are expensive to build.

Today, five-year-olds – who can't yet type – are some of the most eager users of voice technology. In a decade or so, we believe a significant share of commerce will be carried out by a generation used to shopping by voice. The adoption curve will be much steeper than that for online shopping, which has built up over the past 20 years. Manufacturers should review their portfolio of brands, focus on those that fit one of the three strategies above, and exit the rest.

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WORKFORCE CHALLENGES



EMERGING TRENDS AND THE PATH FORWARD

With workforce challenges in the spotlight, one helpful way to think about change is to explore the top four emerging trends in the food retailing industry and to understand how workforce strategies can create a meaningful path forward. Each of these emerging trends – new consumerism, artificial intelligence/technology, new marketplace, and food production – forms the backdrop for a path forward that focuses on your people, along with key workforce considerations.

TREND #1: NEW CONSUMERISM

To win in the food retail industry means putting the consumer at the forefront of everything we do and recognizing that their needs will continue to evolve. Technology has shaped a new class of consumers – ones

who want a deeper connection with what they eat. Consumers today want awareness and transparency when it comes to when, where, and how their food is produced. They readily use digital means to get information and to shop – staying virtually connected to the food chain.

PATH FORWARD: REINFORCE BIG-PICTURE THINKING

In an era of complex consumer needs, one step food retailers can take is to help workers, regardless of their position, understand the new consumerism and the demands of today's marketplace. With changes in technology, food production, customer experience, and a reinventing of the way things have traditionally been done, everyone in the business needs to understand why – and the heart of why comes from your consumers.

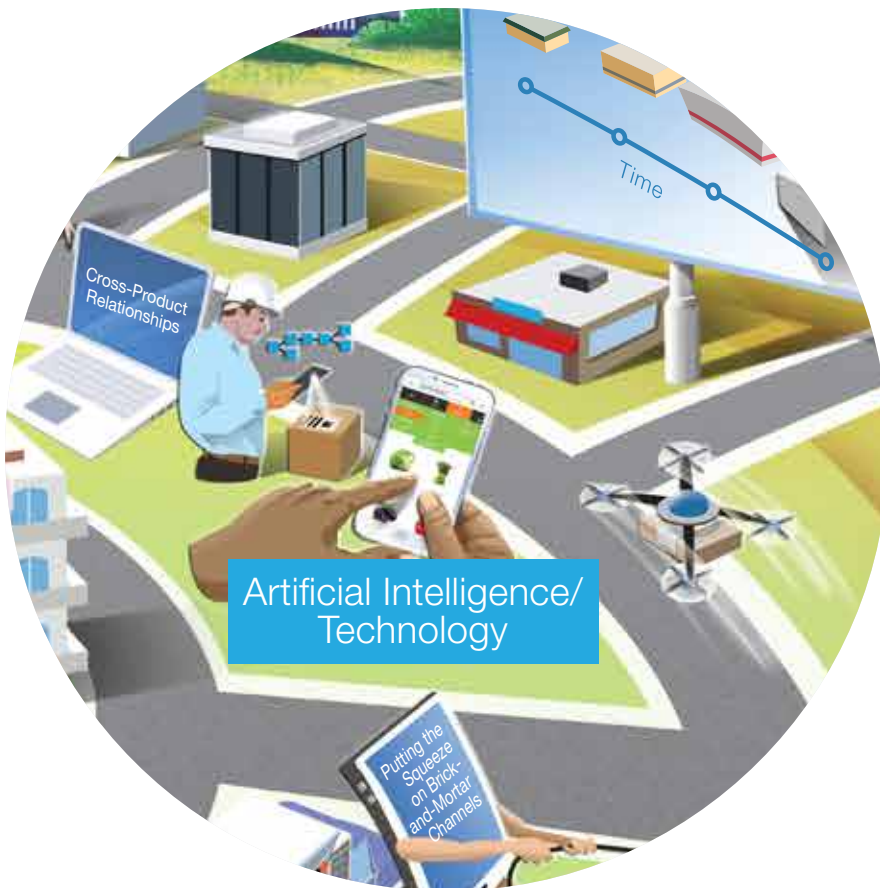
Building knowledge of these changing needs and of the big picture of the food

industry will prime employees to take action instead of adopting the more common response to change – resistance. A combination of visuals, data, and discussion in small teams is a highly effective way to help employees see and understand the big picture. PowerPoint slides and a lecture won't cut it. To truly grasp the big picture, people need to see, touch, feel, and talk about their experiences. Investing in your people in this way puts everyone in the game together in a way that will accelerate your results.

Key workforce considerations:

- What actions are you taking to help everyone build knowledge about new consumerism? How are you measuring success?
- What is your workforce doing to engage customers in a personal way?
- What are you doing to train, recognize and reward your people for engaging your customers in a personal way?





PATH FORWARD: REDEFINE JOBS AND CREATE A CONTINUOUS LEARNING MINDSET

Technology such as AI is greatly enhancing food retailers' ability to improve operations and drive deep consumer insights. While 10 percent of food retailers are using AI today to leverage customer data, 87 percent are using technology to personalize the shopper experience, and 46 percent believe technology will change the in-store shopping experience in the near future. With technology playing a bigger role than ever, food retailers must not ignore the implications that has on people. Jobs are being redefined, as machines automate traditional human tasks. Where just a few years ago AI was simply used for processing information or delivering data, today it is exercising judgment and making recommendations. As this happens, AI and other technologies are becoming more essential to productivity, efficiency, and profits. People working alongside AI and new technology will be impacted by a redefinition of job responsibilities. This integration of machine intelligence and human intelligence represents a new frontier in food retailing, and people must be prepared for the coming shift.

A great example of this is category buyers. AI can make buyers smarter and more accurate than ever before with access to better data. But to take advantage of this capability, buyers must learn to trust the data offered up via machines, rather than relying on former methods, such as gut instinct. This doesn't mean there isn't room for human interpretation and validation; instead, it means elevating the real value of the human actor by enabling them to focus on problem solving, communication, and interpretation – higher-level skills that machines cannot replicate.

Technology is no longer simply automating tasks. It is reshaping roles – not just in the present, but as we look to the future as well. Job responsibilities are no longer etched in stone. The role you are hired for won't look the same in ten years, five years, or even next year. Fueled by technology, the increasing pace of change means we must be prepared for job expectations to change on a regular basis. To be successful, we must adopt a continuous learning mentality and be ready to adapt. This comes with challenges for many. It isn't as simple as cross-training people. It's helping them find their way as responsibilities shift. It's getting them comfortable with new roles and understanding where they can thrive.

TREND #2: ARTIFICIAL INTELLIGENCE/ TECHNOLOGY

Advances in technology and the emergence of artificial intelligence have driven change in every corner of the food industry. From how food is grown using water insecticide monitoring, to how it is harvested with robotics, to how it's transported with driverless trucks and drones to fully automated warehouses and marketed through data collection and social media, to how it is ultimately sold via smart shelves and self-checkout – technology has transformed the industry.

Food retailers have had to become adaptable as new technology amplifies the pace of change. With each new change in technology that food retailers adopt, there's been a concomitant business-process aspect involving the role of people that cannot be ignored.

And it's helping them be prepared to adopt new skills that match the changing needs of the business.

Key workforce considerations:

- How are you preparing people for an integrated human/technology environment? Do you know where their pain points are with this transition and how are you addressing them?
- What steps are you taking to create a mindset of continuous learning and adaptability with your people vs. excellence in a single function?
- Do your recruitment practices ensure that you're hiring people with a change-oriented mindset – who are energized by the opportunity to learn and adapt along with the market changes?

TREND #3: NEW MARKETPLACE

Food retailing has moved from viewing online and brick and mortar as an either/or proposition to a both/and solution to giving the consumer what they expect. Taste, convenience, and values must all align with their personal definition of eating well at a price they can afford. Meeting these expectations means that food retailers are rethinking the size, format, style, and location of the physical store and the role it plays in the online strategy.

PATH FORWARD: STRONGER INTEGRATION AND CUSTOMER EXPERIENCE IN AN OMNICHANNEL WORLD

For many food retailers, their online success to date has been achieved via a strategy of separation. Online operations functioned as a separate division where processes, people and promotions ran parallel to the traditional in-store experience. In many cases even the culture, goals, and metrics felt very different. As online operations and consumer expectations of their online and in-store experience have matured, functioning separately is no longer the primary play. This means that food retailers are looking at an integrated omnichannel world – which inside the organization feels a lot like a merger does. Processes need to be redefined, technology needs to be accessed differently, and people need to operate differently. All of this integration requires careful communication with employees at the strategy and job level.

People need to understand the omnichannel approach, why it's necessary to move away from the siloed style of the past, and what aspects of their job are changing because of that shift.

There's a second layer of complexity that comes with an integrated, omnichannel world: With the convenience and access the online channel allows for buying anything anywhere anytime, consumers now want to get something different out of their in-store experience. Food retailers are reimagining the customer experience, placing greater emphasis on community outreach, setting up store tours to help customers change their eating habits by changing what they shop for, cooking classes, and offering health and wellbeing programs. While the customer experience can be mapped out at the corporate level, it comes to life at the local level. Local store managers and their teams should feel ownership for personalizing the customer experience, so that anyone interacting with customers does so in a meaningful and authentic way.

Key workforce considerations:

- Has your omnichannel strategy been well communicated across your business? Do people understand what's driving change and why it's critical to operate differently?
- How does your customer experience play out at the local level? Are store leaders designing for authentic, personal experiences or primarily for price and promotion?
- What are you doing to showcase and reward great examples of personalizing the customer experience at the local level?



TREND #4: FOOD PRODUCTION

As our supply of food becomes more diverse and we source products from around the world, the issue of food safety grows in importance. The demand for fresh produce year-round increases our vulnerability, as seen with the number of recalls involving fruits and vegetables.

The role that food retailers play in food production will shift from being the selling agent for the producer to being the buying agent for the customer. They will need to advocate on behalf of consumers or risk losing their trust and loyalty.

PATH FORWARD: CONTINUALLY BUILD KNOWLEDGE

- From a workforce perspective, acting as the buying agent for the customer will require a new level of knowledge of food production and entail the adoption of a new set of processes. Employees will need an in-depth understanding of the products so they are armed with the information consumers seek when make buying decisions. The expectation – and what's becoming the new normal – is that store associates have expertise in this area. Establishing and maintaining

that knowledge is an investment in skill building that food retailers should make.

- Another example of how changes in food production and consumer demand are impacting the workforce is in ready-to-go, fresh meals. As food retailers shift to a central kitchen model, consumers expect the same quality and food safety they find in a restaurant. This represents a major shift in in-store operations, creating job responsibilities that didn't exist before.
- Whether it's the need for continuing education about product and food safety or evolving responsibilities in-store, it's critical that it be easy for employees to access information and ensure they're adopting those behaviors that align with changing roles.

Key workforce considerations:

- What actions are you taking to ramp up associate product knowledge?
- How are you leveraging technology to build knowledge quickly and deeply?
- As new job responsibilities emerge as a result of changes in food production, what are you doing to ensure important food safety behaviors are adopted?

TURNING WORKFORCE CHANGE INTO A COMPETITIVE ADVANTAGE

As we consider emerging trends in food retailing and how to win in the marketplace, it's apparent that this is a complex story. It's not just what happens in-store or online – massive changes in technology, operations, supply chain, and marketing are also creating new and diverse workforce challenges. Each emerging trend has implications for the workforce that must be addressed to reinvent, thrive, and realize the changes that food retailers have set in motion. People have to be engaged at a deep level to understand the bigger picture – why every aspect of the business is operating differently today than it did just a few short years ago. They need to be engaged and to recognize why new behaviors and actions are necessary – and be guided by a mindset of continuous learning and adaptability. By recognizing and responding to these trends and their implications, food retailers can accelerate the pace and success of change through the workforce, rather than in spite of it.



CASE STUDIES

Engaging your employees is central to personalizing the customer experience and to setting you apart from the pack. Encoding employee engagement into the organizational DNA is something that can be achieved in different ways, depending on the organization. We've put together some case studies showing how food retailers established employee engagement.

KELLOGG'S: OWNING THE OCCASION-REVENUE GROWTH MANAGEMENT

In order to grow, Kellogg's knew they needed to shift from a product-based sales approach to providing consultative value to their clients. The transition from product-based sales to owning the occasion included both a mindset shift as well as skill development.

Kellogg's began by engaging employees in the context behind the shift – how consumer behavior has changed and why occasion-based selling and revenue growth management (RGM) would help Kellogg's achieve its strategic goals. Then, they had their people take part in an experience that allowed tactical practice of key RGM skills through simulated decision-making. The outcome was to help Kellogg's employees intellectually understand RGM and apply the proper skills to implement it.

ASSOCIATED WHOLESALE GROCERS (AWG): LEADING CHANGE

Rather than sit back and react to all the changes in the food industry, AWG created a multilevel leadership development strategy aimed at proactively leading through change. The process started with the executive leadership team, moved to the top 100 leaders, and then cascaded to hundreds of managers over a period of months. The experience itself focused on both the mindset and skills needed to lead change, in any the situation.

A primary goal of the program was to empower leaders and managers to drive change at the local level, where transformation takes place. Through an established set of leadership competencies and a common leadership framework, these leaders and managers have gained the confidence to work through any leadership challenge they may face. Although this program is still underway, the immediate impact has been positive, promoting a culture of learning and leadership at AWG.

Redefining Retail Jobs

A RAPIDLY CHANGING INDUSTRY

Rapid change is the dictum of today's economies and businesses. Whether it's making a purchase at the touch of a mobile phone, taking mass-produced products and personalizing them, or sharing just about everything from transportation to living spaces, transformation is the watchword.

The retail industry is riding the transformation wave by curating meaningful customer journeys and store concepts. This approach has opened up new opportunities and reshaped the meaning of work in the retail industry, driving demand in areas such as user experience design, data science, product design, and partnerships. It has also significantly redesigned jobs in traditional functions such as store operations, merchandising, and logistics.

While retailers have focused their innovative efforts on the front-of-house by seeking to enhance the customer experience, we have yet to see a similar breakthrough from an employee experience perspective. Given the tight labor market, workforce attraction and retention remains a top issue for retailers. It's imperative the industry realign the customer-employee experience to make the workforce future-ready. The organization's future-of-work action plans need to be structured and forward-looking, honing in on job redesign.

WHAT IS JOB REDESIGN?

Job redesign is neither a new nor a revolutionary concept. Everyone has experienced changes to jobs whether knowingly or unknowingly. It's a process wherein the tasks assigned to roles are realigned to ensure that work is:

- Aligned with the organization's future strategy
- Easy to perform and productive
- Engaging for the individual

DEBUNKING JOB-REDESIGN MYTHS

There are common myths and fears associated with job redesign. Here are a number of myths and misconceptions about job redesign – and the underlying facts and reality.

MYTH #1: "WILL I BE REPLACED BY A ROBOT?"

In short, the answer is no. Technology and automation is not necessarily an impending threat meant to replace humans. Indeed, technology and automation in the past have always played a crucial part in enabling the workplace, rather than disrupting it. For example, self-checkout machines were deployed to alleviate employee workload, so that personnel could focus on better serving the customers.

MYTH #2: "THERE'S NO NEED FOR US TO CONSCIOUSLY REDESIGN JOBS."

The environment in which companies operate is evolving rapidly. Business models are constantly challenged or disrupted by competitors, new technologies emerge and refresh rapidly, and employees often experience change fatigue as they navigate through new processes and systems. Initiating a job redesign plan enables the organization to proactively take stock of work being performed today, understand inefficiencies, and realign work in accordance to the organization's future operating context. There are many instances where the job redesign committee has eliminated obsolete operating processes, some of which have resulted in productivity savings by up to 50 percent.

MYTH #3: "JOB REDESIGN IS LARGELY SUPPORTED BY TECHNOLOGY AND SHOULD BE DRIVEN BY THE IT FUNCTION"

A job redesign effort requires all parties in the organization to work in tandem. IT is a key enabler in the process, as it is responsible for procuring or designing systems to execute work, but it cannot operate in isolation.

Successful job redesign efforts require all functions to collaborate effectively: the operating function has to clearly define pain points and opportunity areas, the IT function must secure the most viable technology solution, and the HR function needs to train and equip employees with the new skillsets required.

GETTING STARTED ON JOB REDESIGN

The job redesign process may seem intimidating and is perceived to be laborious to many. To provide a sustainable structure to drive job redesign efforts, we've broken the process down to three main considerations: aligning to the business strategy, partnering with stakeholders, and reskilling the workforce.

BUSINESS STRATEGY ALIGNMENT

The design of a job is defined as the tasks assigned to the job based on the organization's strategy, structure, value chain of activities, and processes. Changes to each element directly impacts tasks and hence job design.

- Future strategy: Understand the organization's future strategy such as new investments products or business models.
- Organization structure: Allocate and reassign roles and responsibilities in the organization based on the future strategy.
- Value chain of activities/Process flow: Revise operating procedures and activities across functions.

STAKEHOLDER PARTNERSHIP

The success of a job redesign effort relies on partnering effectively with all stakeholders. It is important to identify the appropriate stakeholders and assign responsibilities in the job redesign journey. To achieve maximum buy-in to the new ideas, take time to learn and address each stakeholder group's interests/ motivations and concerns, and foster a close working relationship to drive through the new initiatives.

Ensure that sufficient time is allocated to introduce the new ideas. Work reallocation can be a sensitive topic. Be sure that stakeholders across all functions recognize the need for change, and be prepared to provide support in the transition.

PROMOTE UPSKILLING

Organizations need to first identify and understand the baseline skills in the existing workforce, and to envision the skills required in the future. As the organization reshapes the roles and expectations of current employees, it needs to assess their current skillsets and look out for other skills that can be better utilized in the organization.

Be cognizant of any skill gaps and offer employees opportunities to reskill and/or upskill. The ubiquity of mobile learning and communities for social learning has made learning engaging and accessible to everyone.



CASE STUDY

JOB REDESIGN FOR RETAILERS IN SINGAPORE

Singapore's retail sector is undergoing massive transformation, and the shift toward omnichannel retailing has created opportunities for retailers to rethink their business delivery models. Coupled with the pressure arising from a tightening of the foreign worker quota and an aging workforce, retailers are having trouble attracting and retaining the right talent. In particular, the retail operations and warehousing functions have seen high vacancy and turnover rates, as these roles are deemed as less attractive. In addition, the labor market does not produce enough e-commerce and data science talent to meet the demand of omnichannel retailing.

WHAT WE DID

We were appointed by a Singapore government agency to deliver a job redesign initiative by partnering in a pilot program with seven Singaporean retailers. We conducted detailed reviews of their business strategies, assessed emerging retail business models, and restructured the organization and operating procedures so as to redesign jobs. (Please see Table, below.) Jobs were redesigned through automation and by reallocating tasks; employees were reskilled and transitioned to their new roles. We then took what had been learned in the pilot studies and developed a publicly available toolkit consisting of a job redesign framework and success stories from the pilot organizations. Finally, we arranged for a series of training sessions to guide retailers in Singapore on their job redesign efforts

RESULTS

We successfully piloted job redesign solutions with retailers in Singapore and achieved tangible improvements in labor productivity by up to 50 percent. More than one hundred retailers were coached in a period of two months.

Sara Tiew is the Job Design and Public Sector Leader for the Career Consulting Group at Mercer Singapore.

Mercer is a global consulting leader in talent, health and wealth.

	STRATEGY & PLANNING	MERCHANDISING	LOGISTICS & SUPPLY CHAIN	SALES OPERATIONS	MARKETING	CUSTOMER EXPERIENCE
ACTIVITIES	Business strategy planning	Category/ assortment planning	Inventory management	Sales and profitability analysis	Customer profiling/ segmentation	After-sales service and support
	Sales planning and forecasting	Market research	Delivery optimisation	Product advisory and consultation	Marketing campaigns and promotion strategies	Loyalty program management
		Product sourcing and curation	Delivery tracking and reporting	Customer relationship management	Public relations programs	Customer relationship management
		Supplier performance measurement	Returns fulfilment	Visual merchandising		
		Inventory planning and replenishment		Inventory management		
		Visual merchandising		Last-mile delivery operations		
				Returns fulfilment		
	E-commerce strategy		E-commerce Operations		E-commerce Marketing	E-commerce Customer Service



Current functions with expanded responsibilities to support the e-commerce strategy



Activities separated from the traditional functions and combined to form a dedicated e-commerce team



Patty Sung

Wolfram Hedrich

Phan Hoang Vlet

Kate Bravery

The Twin Trends of Aging and Automation

Leveraging a tech-empowered experienced workforce

Experienced workers are those above the age of 50 whose tenure in organizations and industries has provided them a wealth of experience and knowledge that companies can leverage to enhance competitiveness.

The average age of the global population is increasing. But experienced workers face a growing risk of being displaced by automation, as companies face the pressure to digitalize and/or automate to remain competitive.

To make an older workforce and digital transformation – superficially, potentially incompatible trends – work together, companies will need to understand the economic case for retaining, retraining, and rehiring experienced workers, as well as how to operationalize the value of experienced workers and the efficiency of technology.

THE CASE FOR AN EXPERIENCED WORKER STRATEGY

Experienced workers have not traditionally been considered a viable investment: In a 2016 World Economic Forum survey of firms, only 4 percent said they considered investing in experienced workers as part of their workforce strategy.

Inclusion of the older workforce is necessary to tackle today's workforce and market challenges (see below). In addition, displacement can put experienced workers in a precarious financial situation and adversely affect their physical and mental welfare. Governments have been paying attention to this serious issue. Now, though, companies are increasingly being called upon to be part of the solution by providing social and well-being protections.

Challenges facing companies in an era of rapid population aging include:

TALENT SHORTAGE

The labor force is shrinking, due to a rapidly aging population and falling birthrates, and the application of new technologies increases the demand for high-skill jobs or radically different skill sets not provided by the current education system.

A workforce strategy that includes experienced workers can help companies advantageously reposition themselves in a new market reality.

LOSS OF INSTITUTIONAL KNOWLEDGE

As many baby boomers approach retirement, mass departure of staff can siphon off valuable knowledge about the organization that enables it to function efficiently.

SHIFTING MARKETS AND CONSUMER PREFERENCES

Changes in the customer base or market demand from an older population require firms to retain experienced workers, as they offer crucial insights into the "longevity economy."

REGULATORY PRESSURE

Government policies are working to encourage companies to retain, retrain, and rehire experienced workers and to offer social protection for senior citizens; additionally, legal action from workers is often requiring it.

BUILDING A TECH-EMPOWERED EXPERIENCED WORKFORCE

Technology effectively complements human input and experience in many instances, such as when tabletop "co-bots" work alongside humans on the assembly line. With a wealth of both institution-specific and industry knowledge, experienced workers are poised to take advantage of this synergy with new technology. This will require companies to understand and respect the unique value that the aging workforce brings. This step will guide the change in mindset needed to form the basis for a tech-empowered experienced workforce strategy, which means redesigning jobs and talent models while fostering an inclusive culture for experienced workers.

REDESIGNING JOBS

To optimize their journey into a digitally transformed future, companies will need to redesign certain jobs to strike the right balance between machine and human input. Job redesign can range from simply applying technologies to an existing job, to rewriting an employee's entire portfolio of tasks and required skills. This type of effort can help companies maximize older workers' key knowledge and experience, while enhancing the application and value added of new technological investments.

To retrain and upskill experienced workers to optimize the results from redesigned jobs, organizations should:

- Target the skills of the future instead of trying to plug a current gap in the company's capabilities
- Offer training that's tailored to the worker's company or industry
- Be attentive to the needs and learning preferences of experienced workers
- Understand experienced workers' motivation for learning, whether it's to succeed in a new position or to continue contributing in a current role

REDESIGNING TALENT MODELS

By applying a gig economy model of talent management for experienced workers, companies potentially can achieve a win-win outcome.. Seasoned workers with broad and deep experience can quickly add value to any company or project they join, while workers can enjoy the flexibility the gig arrangement offers.

Despite their attractive aspects, gig arrangements present structural drawbacks that make it potentially unsustainable and unappealing to experienced workers, such as the lack of job protection, benefits, and guaranteed income. Notably, with the right to healthcare and benefits becoming a critical issue in the political climate (particularly in the US), it's important to take a disciplined approach to the gig talent model. Companies should assess and monitor experienced workers' preferences, promptly and adequately address any concerns they voice, and find innovative ways to rectify these underlying problems.

FOSTERING AN INCLUSIVE CULTURE

To successfully implement an experienced workforce strategy, companies will want to cultivate an inclusive culture for experienced workers by:

- Establishing age as a valued diversity and inclusion dimension
- Demonstrating strong support for experienced workers – from board members, leaders, and managers throughout the firm – to shape general organizational attitudes and mindsets
- Communicating effectively about the positive impact of experienced worker programs, and establishing open channels for timely feedback, while fostering a strong culture of accountability.

New idea: Talent Pool Consortium

Companies are starting to collaborate to rethink talent models. For example, Mercer organized workshops during which major companies in the UK developed the promising concept of the Talent Pool Consortium. By pooling resources, members of the consortium can leverage an internal gig talent pool while overcoming the structural problems that have made the gig economy unattractive and unsustainable for some experienced workers.

Companies can attract and retain an experienced workforce by establishing age-friendly policies such as flexible work arrangements, ergonomic adjustments, age-blind hiring practices, career development programs, and mutual mentoring.





NEW MARKETPLACE



Four Ways to Navigate Tariffs and Trade Policies

The role of tariffs in US trade policy has gradually diminished from the end of World War II through the middle of this decade, as presidential administrations abandoned protectionist policies. But since the 2016 election, tariffs have made a comeback – which present significant risk for businesses, including food and beverage companies.



Greg Benefield





TARIFFS TAKE A TOLL

In early 2018, President Donald Trump announced a series of US tariffs on foreign-made goods, including a 10 percent tariff on aluminum imports and a 25 percent tariff on steel imports.

Foreign governments and entities – including Canada, the European Union, and China – have since announced retaliatory tariffs on various US-made goods, including aluminum, steel, apples, grapes, soybeans, cheese, yogurt, pork, maple syrup, whiskey, and bourbon.

Countries impose tariffs – which are essentially taxes on foreign-made goods – ostensibly to protect domestic producers of specific goods from foreign competition. The Trump administration, for example, has characterized imports from China as a threat to American businesses. President Trump has also made clear his intent to use tariffs and other protectionist policies to reduce the US trade deficit.

Some US-based food and beverage manufacturers that rely heavily on domestically grown inputs that are usually exported could benefit from these tariffs. But they could have adverse effects for many domestic producers and others.

Almost immediately after the US steel and aluminum tariffs were announced, food and beverage industry companies and trade groups warned that they would contribute to higher operating expenses for companies that use steel and aluminum in their packaging, which could translate into higher costs for consumers. Retaliatory tariffs and other responses by foreign nations, meanwhile, have raised prices for US-made goods and curtailed American companies' access to several key foreign markets, which could diminish their revenue and prompt layoffs and other actions.

More broadly, the effects of tariffs – including a potential slowdown of global trade – could lead to significant uncertainty for businesses and reduced consumer confidence. This could ultimately contribute to a decline in spending, especially if businesses pass higher operating expenses on to consumers.

There have been some positive developments on the trade front. In July 2018, President Trump and Jean-Claude Juncker, president of the European Commission, agreed to work towards reducing tariffs between the US and the EU. More recently, in October 2019, the US, Mexico, and Canada signed a free-trade agreement, the United States-Mexico-Canada Agreement (USMCA). Still, the tariffs announced in 2018 remain in effect, and the Trump administration has threatened to tax even more goods from China, the EU, and elsewhere.

While many businesses and trade associations, such as the US Chamber of Commerce, continue to lobby for an end to what some have characterized as an escalating trade war, businesses should consider other steps to mitigate the effect of tariffs on their operations.

ASSESS YOUR EXPOSURE

Like any emerging risk, a first step in managing tariffs is to understand potential exposures. Businesses should seek to quantify the risk that tariffs could have on their cost structures and supply chains. Think upstream: Will your second- and third-tier suppliers – those companies that supply your suppliers – be affected? Also, consider how your exposure compares to that of your primary competitors. And try to quantify your exposure under different scenarios: At what point do the economics break for your organization?

REVAMP YOUR SUPPLY CHAIN

After you've assessed your risk, consider transforming your supply chain to limit the effect of tariffs on your business. Look to diversify your supply chain and buy more from companies based in otherwise stable countries that have been exempted from tariffs; in the case of steel and aluminum tariffs, those countries include Argentina, Australia, Brazil, and South Korea. Businesses should also examine which suppliers have higher margins and whether higher costs can be passed along to those suppliers rather than customers.

CAREFULLY MANAGE PRICE INCREASES

In the event that it's necessary to pass along price increases to customers, don't do so arbitrarily. Instead, seek to understand your price elasticity, which can help you estimate how a change in price could affect demand. Going a step further and determining relative elasticity – how price-sensitive individual products are – can help you better target price increases to the product lines, regions, and customer segments that are best positioned to absorb them.

MAKE USE OF GAME THEORY

Any strategic decisions by your organization should not be made in isolation. It's important to consider how your competitors might respond to tariffs and other trade policies; if some are on better footing, for example, will they consider this an opportunity to gain market share and/or undercut you on pricing? Or will they instead seek to improve their margins? Anticipating how your peers will act, potentially via tabletop exercises, can help inform your response.

CONSIDER INSURANCE

Businesses whose suppliers could be adversely affected by tariffs could recoup some losses via comprehensive credit insurance policies. Such policies are typically triggered by nonpayment by a customer or counterparty, and can include coverage for defaults related to the negative effects of tariffs. The market for trade credit has grown in recent years, and coverage is available at competitive prices for most buyers.

With tariffs once again a significant part of the trade policy arsenal for the US and other countries, it's incumbent on businesses to develop appropriate response strategies. Taking these and other steps can help you limit the effects of tariffs on your bottom line and potentially gain a key advantage over your competitors.

How Stores Can Fix the Free-Rider Quandary

Nonlinear shopping journeys have led to “showrooming”

Consumers are increasingly searching for products at one retailer and then buying from – and paying – another, which “free rides” on the first one.





Currently, around two-thirds of general merchandise shopping journeys take on a version of this nonlinear form, according to an Oliver Wyman survey, and it is most often physical stores that lose out: Customers seek advice from sales assistants, try a product – and then buy it online, often at a lower price.

When this happens, physical stores serve as mere showrooms, resulting in low conversion rates of foot traffic into sales. The product manufacturers and online retailers benefit from the valuable services provided by the stores but do not pay for them. Part of the problem is that retailers have not caught up with customer behavior. The travel and insurance industries – ten years ahead of most retail segments in online disruption – have figured out ways for a range of intermediaries to receive cuts for their engagement when customers take nonlinear journeys. Search engines get pay-per-click revenue for engaging in the first funnel. And specialist aggregator and review sites get cuts for directing customers to websites where they buy holidays.

Showrooming will only become more common as the barriers to online shopping are gradually removed, enabling it to spread to areas of retail that still rely largely on physical stores. Incumbent retailers have started to act, but we think they can go much further than they do today and have a huge impact on reconfiguring the retail system.

Here are four key changes that could help:

THE RISE OF EXCLUSIVES

A retailer that makes certain products available for purchase in its store only or on its website can eliminate the free-rider problem for those products. These exclusives then create a halo effect that makes customers more likely to buy other items too: More people will come to the store, and the exclusive offers will make other products more attractive too. As one retail CEO said:

“I am locking in exclusives in anticipation of increased competition from Amazon. It’s my best line of defense.”

John Lewis, an omni-channel department store in the UK, renowned for its in-store advice and service, carries many exclusive products. It also hosts boutiques, for example, for luxury travel agent Kuoni.

Tour operators provide other ideas. A physical store channel in a largely online industry, they are increasingly turning to exclusively designed holiday itineraries to raise the conversion rate of customers that consult their sales agents. This tactic also lets them set their own prices, so they avoid competing on price. In other retail categories, personal shoppers – perhaps assisted by digital systems – can add value to clothes and cosmetics stores, both physical and online. Supermarkets could help with meal planning through a combination of digital food butlers and human advisers.

A MORE-ENGAGING EXPERIENCE – IN MORE-SELECT STORES

If showrooming dissuades retailers from investing in the store experience, footfall will decline further, and so will sales. However, while retailers need to invest in physical stores, they don’t have to do so indiscriminately or limit themselves to current sites. Instead, efforts should focus on a subset of stores, often those in premium, high-traffic locations, such as city centers. These need to be designed thoughtfully and allow customers to interact with products and brands at events, demonstrations, and launches. They also should offer services, such as installation and aftercare.

New showroom formats have already emerged in some categories. These are often relatively small stores where the main purpose is to present products. Nordstrom in 2017 opened a Nordstrom Local in Los Angeles

with a bar, nail salon, and seamstress; this year, it is opening two more in the area, and it is considering one for New York. The stores are small – the first is just 3,000 square feet – and don't stock clothes for sale. Shoppers place their orders online, which are then shipped to Nordstrom Local for pickup.

RETHINKING PRICING

In categories such as electronics and homeware, many retailers have offered competitive prices on key value items, such as home-entertainment systems, that act as anchors for wider purchases. The stores then make margin back on cheaper add-ons – such as cables and headphones – that are often commoditized. But this strategy is breaking down as customers increasingly buy the add-ons online at much lower prices.

Retailers will increasingly need to offer more competitive prices on peripheral items. For example, supermarkets currently tend to earn relatively high margins on center-store products: the paper towels, detergents, and floor cleaners usually found in the middle of their retail space. To avoid shoppers buying these products online, supermarkets might have to reduce prices. They could save money by keeping the items in a warehouse so that customers can pick them up at the exit or have them sent to their homes.

To make money on the main, anchor purchases, stores could differentiate on specifications, by making exclusive products, and on services, by offering to install home-entertainment systems.

A NEW DEAL WITH BRANDS AND MANUFACTURERS

Brand owners have an interest in ensuring that stores stay open to showcase their products. In-store presentation reinforces brand image and engages customers, enabling them to discover the full range of products.

However, brand owners will not pay for what they cannot see.

For websites, services such as FullStory record user experiences, enabling online stores to understand customers' journeys better. This kind of technology could also be developed for physical stores, using cameras to generate heatmaps of shopper movements. Such tracking systems will enable retailers to strike pay-per-engagement deals with brand owners in the same way that companies pay per click today.

BUSINESS-AS-USUAL MIGHT NOT WORK

Bringing people through the doors is fundamental to traditional retail. But ultimately, it needs to be a means to an end: higher sales. The growth of showrooming means that a rise in foot traffic will not necessarily lead to higher sales, so physical retailers will need to analyze new models and mechanisms to ensure they get a return on their store investments.





FOOD PRODUCTION



Pockets of Growth Within the Store

The rise in plant-based alternatives and CBD

FMI and its strategic partner Oliver Wyman recently hosted a webinar moderated by Mark Baum, FMI's Senior Vice President & CCO, and Michael Matheis, of Oliver Wyman, examining areas of growth in the retail food sector. The focus specifically was on "Pockets of Growth Within the Store: Protein alternatives and CBD." Joining them were panelists representing the two fields, Doug Radi (CEO of Good Karma Foods, which manufactures and markets flaxseed-based dairy alternatives) and Justin Singer (CEO of Caliper Foods, which develops products and ingredients using cannabis).

We have summarized the key insights from FMI's Senior Merchandising Executive (SME) Forum presentation on the "Pockets of growth within the store".

INTRODUCTION

CBD and alternative protein/dairy products are two bright spots in retail food sector, representing store categories that have been growing rapidly. But while this growth is welcome by many in the food industry, the surge in interest in the categories has led to greater scrutiny and the potential for regulatory oversight, as governments look into potential health risks and/or consumer confusion posed by CBD and protein/dairy alternatives.

Some of the issues can be attributed to growth pains: Given the relative newness of the two categories, companies need to provide greater transparency as to the exact composition of their products. They also need to take care so as not to create unrealistic or misleading customer expectations as to the efficacy and utility of products. And although innovation is welcome in the industry, some established and traditional players may view it as a threat to their products. SMEs should watch out for how regulation is shaping the industry.

Plant-based alternatives to meat and dairy products and CBD show great promise as robust categories that can fuel sales at retailers for many years to come, while promoting healthy options for consumers. That said, the two categories are not without controversy and both have some regulatory hurdles to overcome: Both alternatives and CBD markets are highly dependent on the regulatory framework, which will very likely

undergo change over the coming months and years. We'll take a look at the potential as well as the obstacles facing each category.

PROTEIN/DAIRY ALTERNATIVES

Plant-based alternatives to animal-based foods have a long history. One prime example of the phenomenon is tofu, which has served as a meat alternative for hundreds of years. But many of these alternatives were aimed at a niche consumer whose palette tended toward the austere. The main purpose of those earlier plant-based alternatives was not necessarily geared toward recreating the animal-based foods they were mimicking.

However, that is changing dramatically. Driving the trend has been a new kind of consumer, one who is concerned with a broad range of issues – from the question of the environmental sustainability of an animal-based diet to concern over the industrialization of agriculture, from the ethics surrounding eating meat and other animal-based foods to the belief that eating plant-based foods is healthier.

At the same time, that same consumer is also seeking plant-based alternatives that offer the same, if not better, flavor and texture than their animal-based counterparts. And a new generation of plant-based meat and dairy alternatives food companies are striving to achieve just this, which is having an impact on consumer acceptance and is reaching the mainstream.

Hitting the food trifecta

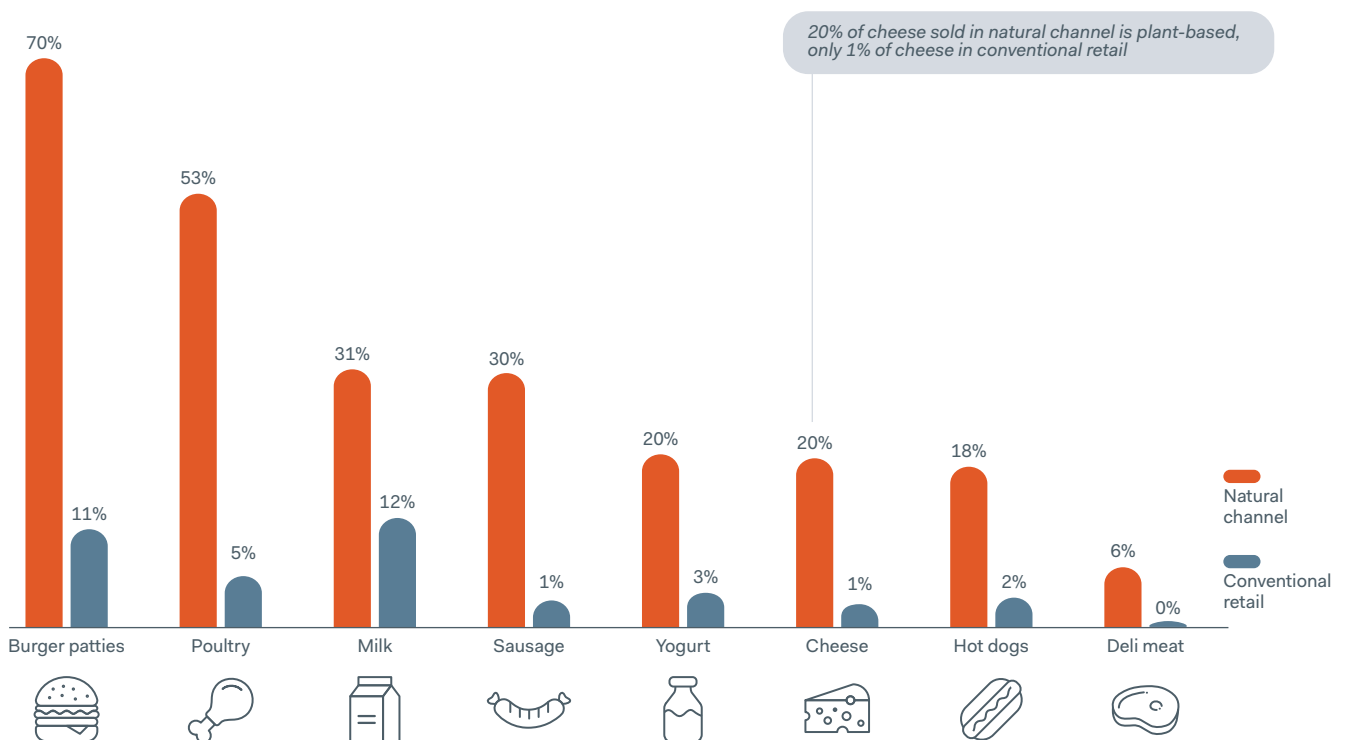
Plant-based foods are hitting on the food “must-win” trifecta: taste, value, and nutrition/quality. A growing number of consumers are trying out plant-based products, drawn to the category by a holistic approach to meeting their needs and convictions:

- **Improving human health:** Lowering the risk of cancer and heart disease
 - **Helping climate change:** Reducing greenhouse gas emissions (raising livestock for slaughter is the largest source of greenhouse gas emissions)
 - **Addressing scarcity of global resources:** Cutting back on meat consumption has a positive impact on already-strained natural resources, particularly water; plus, meat production is a source of deforestation, land degradation, and water contamination
 - **Improving animal welfare,** with a reduction in animals slaughtered for meat
- 60 percent of millennials report they are cutting back on meat-based products, relying more and more on plant-based products
 - 26 percent of consumers say they have eaten less animal meat over the past 12 months
 - One out of three consumers prefer plant-based milk options, with milk alternatives and ice cream, novelty and frozen desserts seeing higher penetration
 - Almond milk sales have grown more than 250 percent over the past five years
 - Global sales of plant-based dairy alternatives are expected to reach \$19.5 billion in 2020

Dairy/protein alternatives in this context refer to nut milk, soy milk, plant-based protein (such as burgers from pea protein like Beyond Meat) and meat grown in a laboratory. While sales are miniscule alongside total conventional retail food sales, they nonetheless account for a big majority of sales in natural/organic retail channels, which hold great potential for growth (total value of conventional retail channels is \$12.4 billion annually). (See Exhibit 1.) Billions of retail dollars will convert to plant-based sales in the coming years.

Currently, sales of plant-based protein alternatives make up a relatively small portion of the food market. But customers continue searching for healthier and cleaner protein sources, suggesting a bright future for alternatives. The numbers paint a similar story: Sales of plant-based foods rose 31 percent over a two-year span, jumping from \$3.4 billion in April 2017 to \$4.5 billion in 2019.

Exhibit 1: Plant-based share of food categories



In the year ending April 21, 2019, plant-based foods sales grew by 11 percent, as compared to just 2 percent growth in conventional food sales. (See Exhibit 2.) Milk (\$1.9 billion) and meat (\$800 million) account for 60 percent of total plant-based foods sales, while the fastest-growing segments are yogurt (with jumping 39 percent, to \$230 million), creamer (up 40 percent, to \$226 million), and sauces (rising 52 percent, to \$20 million). And growth is projected to continue, with sales expected to reach \$5.2 billion by 2020.

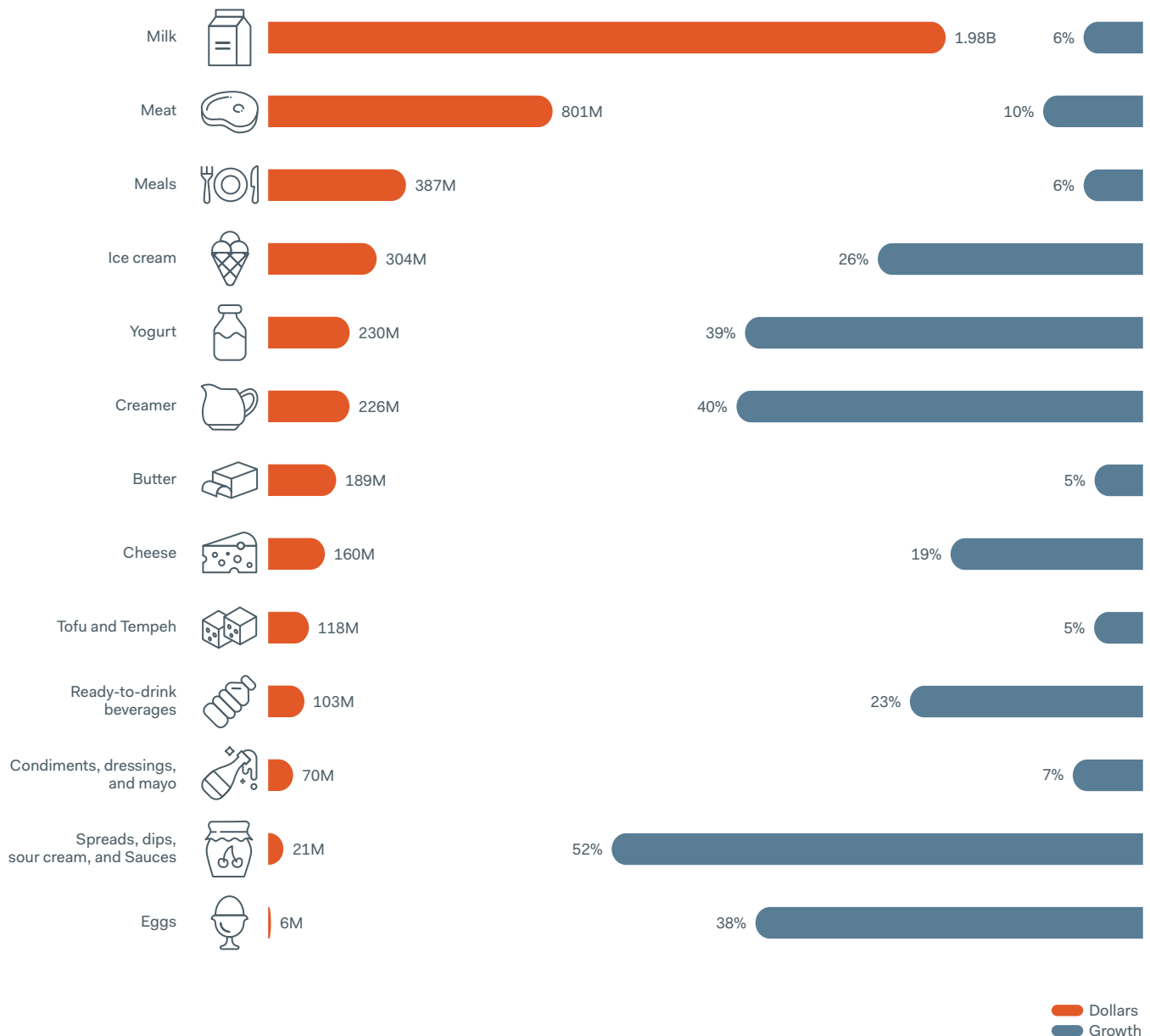
Currently, the global meat and dairy sector is going through an unprecedented competition and disruption, driven by the growth of viable plant-based alternatives

across multiple categories. As a result, this has led to an explosion of brands and investment, with more than \$1.1 billion invested in plant-based milk alone since 2015. This statistic indicates the magnitude of change: In 2007, there were just three types of plant-based milk and only five brands; today, there are more than 25 types of plant-based milks and more than 50 brands.

PROTEIN/DAIRY ALTERNATIVES: REGULATORY OUTLOOK

The greatest concern in terms of regulatory status quo surrounds the issue of marketing and labeling protein alternatives

Exhibit 2: Plant-based category growth



(including meat and dairy). Mislabeling may mislead customers into believing the new products are equivalent nutritionally to what they have been accustomed to eating. Consumers need to be informed, in a simple and direct manner, what they're purchasing and consuming.

The issue as to what can (or cannot) be called dairy has been a question for a long time, but it has taken on greater urgency, given the decline in traditional dairy sales and the steady growth in plant-based dairy products. Many dairy products, including cheese, yogurt, and milk, have standards of identity (SOI) established by regulation, setting out requirements that must be met to be considered and labeled as such.

Milk is a prime example. For the past several years, we have seen plant-based products adopting the words "milk", "yogurt", or "cheddar cheese" into their brand names and labeling. Some contend that regulators should enforce the current rules, which state that plant-based alternatives should not be marketed and labeled as milk, while others argue that no one is being misled: "almond milk," they maintain, is clearly not claiming to be animal milk.

Currently, dairy products are defined as being derived from dairy animals. Labeling regulations, though, are not being enforced. Moreover, the Food and Drug Administration is in the process of updating the definitions of various food types. The FDA is seeking more information about the properties of plant-based alternatives, so that they can maintain dairy

product standards (while allowing flexibility for innovation). And while there is no timeline on future guidance, it will eventually happen.

A similar controversy is taking place with laboratory-grown meat. In March, the US Department of Agriculture and the FDA announced they had established a framework for regulating cell-based meat and poultry. However, the framework is still in the preliminary stage. Moreover, some states have passed legislation prohibiting the labeling of lab-grown "meat" as meat. This situation could lead to a problematic patchwork of local laws, something that is of great concern to advocates of cell-based meat.

CBD (CANNABIDIOL)

Cannabidiol – better known by its three-letter acronym CBD – has been widely reported on in the media of late. In fact, CBD seems to be popping up everywhere, from booths at farmers' markets to an add-in for smoothies. Nonetheless, there remains a great deal of confusion surrounding CBD and its uses and effectiveness. To fully understand what CBD is, it's useful to lay some groundwork.

CBD is a key active ingredient of cannabis, or marijuana. It is derived from the hemp plant, which is related to the marijuana plant. Although both plants are cannabis sativa cultivars, hemp has THC (the main psychoactive property in marijuana) of less than 0.3 percent by weight. So while CBD is a component of marijuana, CBD by itself does not cause a "high." It can be extracted from cannabis but is not psychoactive and is legal in the US.

CBD is growing in popularity: 26 percent of US adults have tried CBD at least once in the past two years and 14 percent of the adult population in the US uses it regularly. (See Exhibit 3.)

They are drawn to the ingredient's properties:

- 63 percent find CBD "extremely" or "very" effective in reducing stress or anxiety (this behavior has been primarily seen in Millennials)
- 38 percent find CBD "extremely" or "very" effective in alleviating joint pain (this behavior has been primarily seen in Baby Boomers)

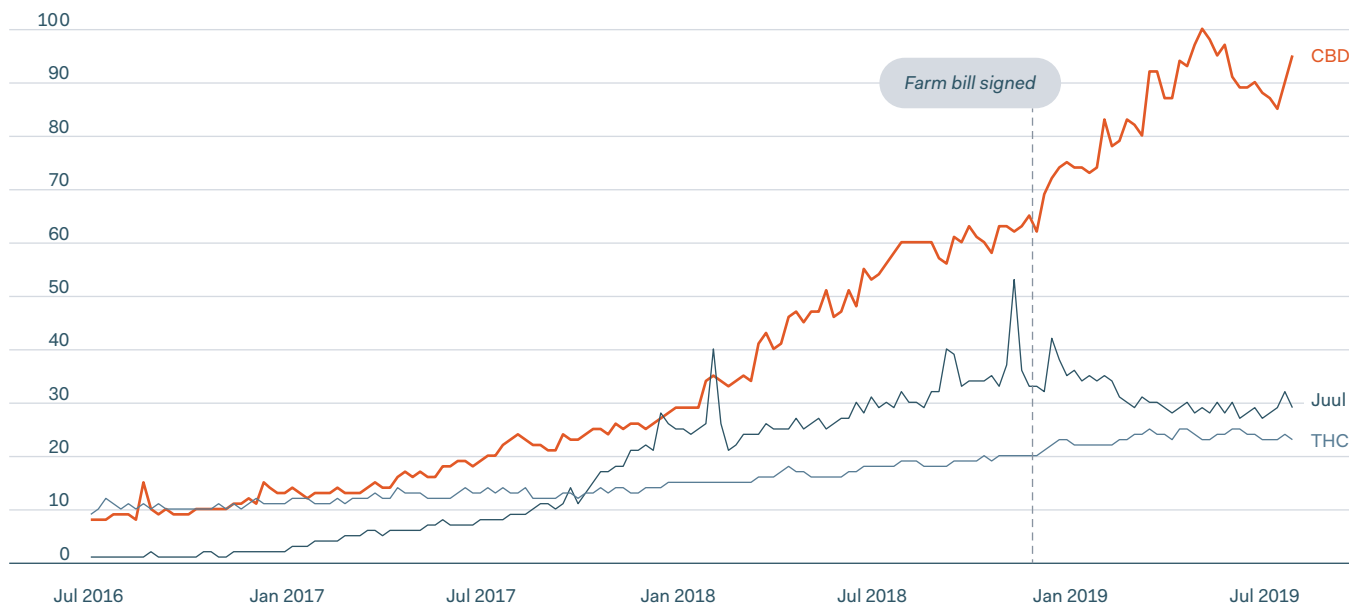
Experts have expressed high hopes for CBD in the near future, as it shows great medicinal potential, and it is considered to be the most promising additives in foods since the advent of caffeine.

The spectrum problem

The potential benefits of CBD are generating great expectations, offering an expanded range of options to customers. That said, there is a great deal of confusion and debate in the marketplace over the efficacy of products featuring the three different "flavors" of CBD: full spectrum CBD, broad spectrum CBD and CBD isolate. Here are the differences between the categories:

- **Full Spectrum CBD:** Full spectrum CBD means that the product contains all the cannabinoids that are found in the cannabis plant in nature, rather than just CBD (Cannabidiol) **Broad Spectrum:**

Exhibit 3: Surge in interest in CBD



Broad spectrum CBD is CBD that has been extracted from the cannabis plant with all of the other compounds from the plant except for THC. That means it contains terpenes, essential oils, and other cannabinoids from the plant. This should not result in psychoactive effects, but there is still more research to be done.

- **CBD Isolate:** The chemically isolated form of cannabidiol. Proponents tout CBD Isolate as the purest form of cannabis.

According to the FDA, product labels should not be open to misinterpretation, so that consumers **trust that the label = same product**. Spectrum marketing can be misleading to both industry and consumers, given that there are clear differences in the composition of each of the products obtained from hemp. (See Exhibit 4.)

Sales of CBD-related products in the US are projected to hit more than \$20 billion in 2024, increasing from \$11 billion in 2018, and the expectation is that CBD products will be sold in general retail markets, rather than in licensed dispensaries.

CBD: REGULATORY STATUS QUO AND OUTLOOK

The number of CBD-based products on the market has proliferated since hemp and hemp-derivatives were legalized in December 2018. Companies have made unsubstantiated health claims about their CBD products, stating they can prevent, treat or cure different diseases.

The FDA has taken a hardline on these claims. Although the agency recognizes the huge public interest in these products, it is placing CBD products under heavy scrutiny, while continuing to do research into their effects and safety. The process is likely to take years, as there are many questions that remain to be tackled.

The FDA insists companies be completely open and transparent about the composition of their products, including accurate and truthful information regarding:

- Complete list of ingredients
- Labeled percentage of CBD dosage
- Full transparency on the sourcing of CBD
- The FDA will test different CBD products to ensure quality and efficacy

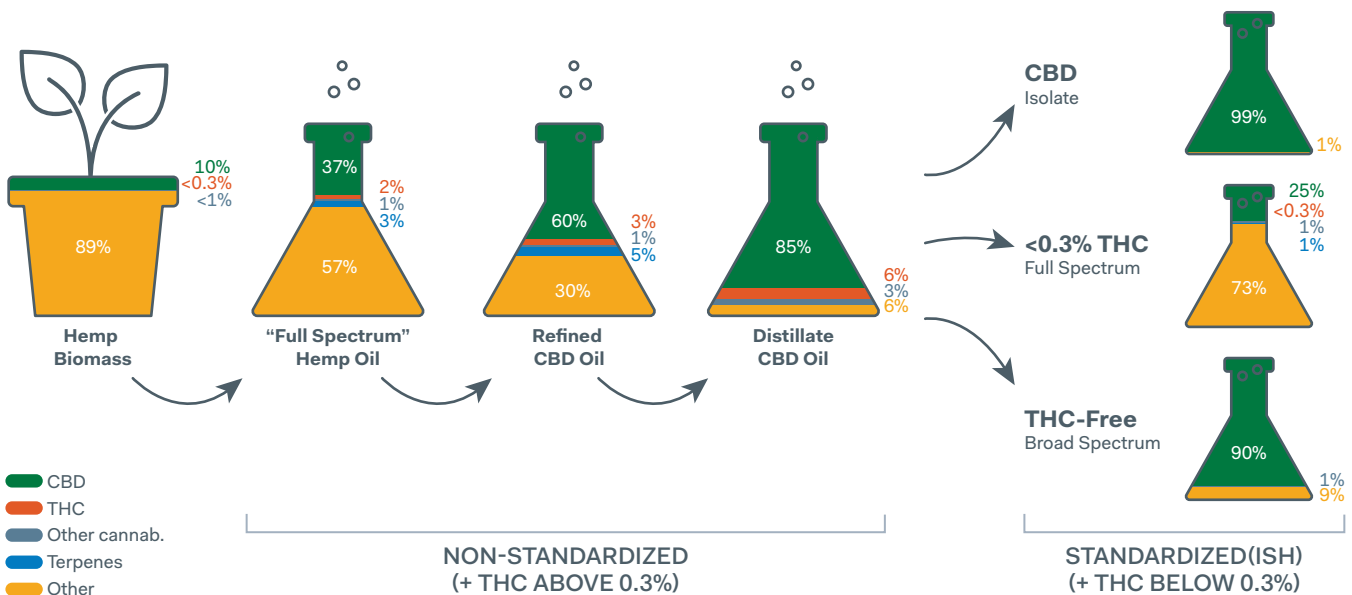
CONCLUSION

Plant-based alternatives to meat and dairy products and CBD show great promise as robust categories that can fuel sales at retailers for many years to come, while promoting healthy options for consumers. Despite the public interest and the support from members of Congress, experts estimate the regulatory process could take years to resolve.

So, what does this mean for SMEs and merchants in general, what should they do, not do, and look out for? Here are some of the things SMEs can do and need to be on the watch for:

- **Be the standards' bearer:** As an industry, it is critical to **push for the highest set of standards in plant-based alternatives and CBD products**
- **Know your customer:** An interesting strategy would be to **target customers providing specific health benefits for a given product**, understanding specific needs of each customers cohort. By tracking users' behaviors over time, it would be possible to target them more effectively (e.g. athletes may need more salt, while people with heart issues need less – a plant-based burger, which is high in salt, would be highly beneficial for the former but not recommended for the latter).
- **Educate the consumer:** Given that we are in the early stages of this trend toward plant-based alternatives and CBD, **customers do not know yet what their preferences are** and need to learn what they want. Some might say they don't want to consume processed products or meat from a lab, choosing natural foods, while others would rather to avoid animal consumption.
- Take a **phased approach**
- **Use vendors who don't overpromise:** This is important to ensure consumer expectations and product properties are consistently met
- **Sell only clearly labeled products**

Exhibit 4: Range of CBD's composition can lead to confusion





The Intersection of Food Safety and Sustainability

In the food industry, it would be hard to argue there are two more important topics to companies and to customers than food safety and sustainability of the food industry and the production systems involved. Consumers expect food they purchase to be safe. Unfortunately, that is not always the case as we have learned with many examples of outbreaks and large-scale recalls involving everything from leafy greens to meat to berries. These large food safety issues result in millions of pounds of product being removed from the market, removed from commerce and destroyed usually in landfills.

Based on information available from the EPA¹, of all food waste, 75 percent ended up in landfills, 18 percent was combusted with energy recovery and only 6 percent was composted.

Sustainability, like food safety, spans the entire supply chain and all involved in food production can implement sustainable practices. This ranges from production agriculture and use of natural and synthetic resources, throughout the supply chain during manufacturing and processing to the retail and consumer levels with composting, packaging, recycling and many other practices in use to allow us to meet future production needs.

As much time and effort has been spent on sustainable practices throughout the supply chain, there are some points that remain challenging and the goal of having safe product is not aligned with sustainable practices. There are examples of how by following sustainable practices, we create another potential problem by changing another factor such as food safety. If we utilize a widely used definition of sustainability published decades ago in the landmark report "Our Common Future: Report of the World Commission on Environment and Development"², sustainability is based on development that meets the needs of the present without compromising the ability of future generations to meet their own needs. If food safety or public health outcomes are altered after implementing sustainable practices, that by definition, is not sustainable. We must look at all systems and all outcomes to work towards sustainability and sustainable systems.

SINGLE-USE PLASTICS AND CONTAINERS

Single-use plastics are under attack and many jurisdictions are contemplating bans on their use for certain industries. One familiar to our industry is for food storage and service. In some cases, there are alternative materials that can be utilized such as glass or compostable containers. Development of products is still needed to be able to fill the role of single-use plastics. Many consumers ask to bring their own reusable container to stores to obtain items in bulk, at salad or hot bars and other prepared foods departments. This seems like a simple solution, yet there are many barriers in place from a food safety perspective, not to mention challenges with tare weights and other point-of-sale barriers.

Retail food establishments are regulated at the local or state level. FDA publishes a model *Food Code*³ every four years that provides an idealistic set of regulations for implementation by local and state officials. While there might be differences in jurisdictions, the *FDA Food Code*, provides a working framework based on the best science available. Changes to the *Food Code* are slow and involve many stakeholders so it is not a flexible document.

The *Food Code* addresses refilling customer-owned reusable containers, but there are many barriers in place (FDA Food Code, Section 3-304.17(B)). The *Food Code* includes requirements on design and construction, limits the use to specific purposes and it must be cleaned and sanitized using the same requirements for utensil washing in food establishments and requires a verification step.

1. EPA Factsheet. <https://www.epa.gov/facts-and-figures-about-materials-waste-and-recycling/food-material-specific-data> Accessed Nov 2019
2. "Our Common Future: Report of the World Commission on Environment and Development". UN Documents. Retrieved November 2019. <http://www.un-documents.net/ocf-02.htm>
3. FDA Food Code 2017. <https://www.fda.gov/food/fda-food-code/food-code-2017>

In short, the only way for a reusable container to be used by consumers and meet the requirements of the *Food Code* are for the food establishment to approve of the container and then wash, rinse, sanitize, and inspect the container at the retail establishment. In all practical situations, these steps are a barrier to using reusable containers provided by consumers. This is a situation in which the regulation, or model for the regulations, has not caught up with consumer demand and advances in sustainable practices. It is essential that the container not serve as a source of contamination. However, reusable containers are being used in homes and for noncommercial purposes on a routine basis with no measurable public health impact.

The increased use of reusable containers seems an opportunity to introduce sustainable practices and meet consumer demand if a compromise on safety can be reached.

PLASTIC BAGS FOR SEPARATION OF PRODUCTS

As of 2019, eight states have banned plastic bags and many jurisdictions have restrictions on the use or taxes on the use of plastic bags⁴. Variations include bans on non biodegradable bags, bans on straws and polystyrene.

One of the most effective ways of separating products is to bag meat and poultry items in grocery stores at the time of selection. This is research-proven to reduce contamination levels and protect consumers⁵. Plastic bag bans impact food safety because an effective tool at separating products is removed from access at the store and consumer level. FMI has worked with local and state legislatures to allow for exemptions for the use of plastic bags in meat, poultry, seafood, delis, and produce departments. Separation of products is a simple and effective tool to help reduce cross contamination and to protect consumers.

FOOD WASTE

FMI has been a partner organization in the Food Waste Reduction Alliance (FWRA)⁶ and has assisted as well as showcased member achievements to reduce the food waste at multiple points throughout the supply chain. FWRA goals include increasing food donations, finding alternative outlets for unused food, and reducing the amount of product sent to landfill.

As the industry and consumers became more aware of the amount of food waste and the sources, FMI revised its policy on product code date labeling to streamline the terminology and try to help eliminate confusion. This resulted in a recommendation to use a "best before by date" or a "use by date" and to eliminate use of "sell-by" unless it is required by a state regulation, such as for fluid milk. This terminology has been widely accepted by the industry and even by government agencies such as USDA Food Safety Inspection Service⁷ and the US FDA⁸.

When there are product recalls, withdrawals, consumer advisories, or other notices that food could be unsafe for consumption, food waste becomes secondary to protecting public health. Unsafe products do not necessarily have to go to a landfill and there are opportunities for energy generation or composting. The most important part to consider is that the products should not be used once their safety is in question.

SUMMARY

Sustainability is about protecting of the environment but it is also about human health and economic viability of systems. We need to continue to work on our most challenging issues in sustainability but cannot lose sight of human and social factors as well as the economic impact. All factors must be evaluated, and there are many examples of unintended consequences that end up doing more harm. The food industry must be challenged to continue to advance and improve; however, we must also protect.

4. National Conference of State Legislatures. Accessed December 2019. <http://www.ncsl.org/research/environment-and-natural-resources/plastic-bag-legislation.aspx>
5. FUR-CHI CHEN, SANDRIA GODWIN, DELORES CHAMBERS, EDGAR CHAMBERS IV, SHERYL CATES, RICHARD STONE, and AMY DONELAN (2018) Contamination by Meat Juice When Shopping for Packages of Raw Poultry. *Journal of Food Protection*: May 2018, Vol. 81, No. 5, pp. 835-841. <https://doi.org/10.4315/0362-028X.JFP-17-467>
6. <https://foodwastealliance.org/>
7. <https://www.fsis.usda.gov/wps/portal/fsis/newsroom/news-releases-statements-and-transcripts/news-release-archives-by-year/archive/2016/nr-121416-01>
8. <https://www.fda.gov/consumers/consumer-updates/confused-date-labels-packaged-foods>



In Case You Missed It (ICYMI)

The Customer's New "Voice"

Smart virtual assistants are changing the retail dynamics. As consumers shop via digital assistants like Siri and Alexa, how can brands stand out?



The Twin Trends of Aging and Automation

Task automation and robotics will lead to a reduction in jobs in the retail and consumer goods sector, but the remaining jobs will be better in quality and productivity.



Why Voice Is the Future of Grocery

Consumers are beginning to shop with voice. In this scenario, what should retailers do? What should they watch out for?



SHORT-READ

The Intersection of Food Safety and Sustainability

Food safety expert Dr. Hilary Thesmar discusses the latest developments in food safety and sustainability



Four Ways to Navigate Tariffs and Trade Policies

The role of tariffs in US trade policy has made a comeback. What actions should be considered to mitigate tariffs' effects on businesses' operations?



How Stores Can Fix the Free-Rider Quandary

Consumers are increasingly searching for products at one retailer and then buying from – and paying – another. How can we deal with physical stores serving as mere showrooms?



Redefining Retail Jobs

The retail industry is riding the transformation wave by curating meaningful customer journeys and store concepts. This approach has opened up new opportunities.



Tomorrow's "Smart" Supermarket

The supermarket of the future will incorporate technology to inspire customers and give them new reasons to visit brick-and-mortar stores.



Payments in Retail

The future of shopping will be shaped by retailers providing an integrated, streamlined payment experience.



Turning the Workforce Challenge Into an Opportunity

With workforce challenges in the spotlight, one helpful way to think about change is to explore the top four emerging trends in the food retailing industry and to understand how workforce strategies can create a meaningful path forward.



LONG-READ

Why Brand Is an Essential Tool for Profitable Retail Growth

Those brands that provide meaning in customers' lives will be the ones that prosper. But what is meaningful to shoppers?



Myths in the Age of Personalization

Industry expert David Fikes debunks four myths about what customers want, demand, or expect regarding personalized service in the supermarket.



Pockets of Growth Within the Store

In a time where CPG manufacturers and retailers are struggling to find sustainable growth, we explore the rise in plant-based alternatives and CBD.



TODAY

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