

Emerging Issues

IDENTIFYING CHALLENGES TO FOOD RETAIL

The food retail industry is no stranger to change and disruption. Over the past 25 years, new players—from so called “category killers,” to discounters and online retailers—have entered the grocery market and broadened the definition of food retail. Despite increasing competition, the traditional grocers who remain have proven repeatedly that they can survive and thrive by constantly improving operationally and leveraging a deep personal connection to their customers. Today, however, disruption is coming at an unprecedented speed, and food retailers of all shapes and sizes will have to address these new challenges. But in a business where there is a constant battle over pennies on the dollar, it is often difficult to look up from the day-to-day operations of the business and see what’s coming in the next few years.

This is where FMI adds significant value to its members and their trading partners. Through our *Emerging Issues* initiative, we identify issues that have the greatest potential to affect the food industry in the next three to five years. With the help of our strategic partners at Oliver Wyman, we have gathered insights and will share perspectives from focus groups, breakout sessions with the Board of Directors, a survey of our members, and interviews with forward-looking executives in the food retail industry. Here, we share these findings with you so that in your pursuit of excellence you can focus on the now, while also being able to look up and ahead.

In addition, this initiative will help inform FMI’s Strategic Plan and set its agenda for future programs and services. Having identified the highest-priority emerging issues, FMI will determine how best to

leverage its core services to deliver value to its members, whether through government relations, food safety, thought leadership on total store collaboration, or by acting as the voice of food retail.

FIVE MAJOR ISSUE AREAS

After synthesizing findings from external research and internal focus groups, FMI has identified five major categories of emerging issues: emerging new consumerism, artificial intelligence/technology, workforce, new marketplace, and food production. (See Exhibit 1.)

These issues are far-reaching and intertwined, with the implications from one area having consequences in the others. Each of these is described in greater detail in the following sections.

Exhibit 1: FMI has identified five overarching emerging issues

EMERGING NEW CONSUMERISM

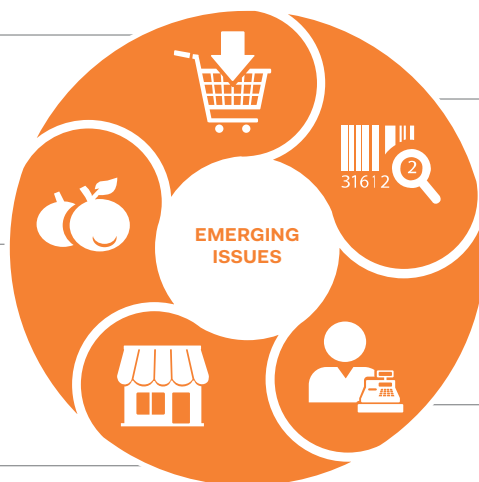
New definitions of value for consumers, beyond just cost, taste, and convenience, calling for involvement in food choices

FOOD PRODUCTION

Shifts in food production caused by global changes, whether technological, environmental, values-based, or otherwise

NEW MARKETPLACE

Reimagined marketplace and the new role of the physical store



ARTIFICIAL INTELLIGENCE/TECHNOLOGY

The ways in which technology will transform the food industry and alter the role of humans throughout its processes

WORKFORCE

The impact of global changes on hiring, training, management, and corporate culture

Emerging new consumerism

In some ways, the new consumer is not an emerging issue because it is already here. One of the defining features of the new consumer is demand for specialized products. Over the past year or two, retailers have seen an increase in demand for specialty, ethnic, and organic products, among others, and they expect this demand to continue to grow. Fortunately, over 80 percent of members surveyed are already implementing plans to address this trend.

The new consumer also is increasingly focused on health, wellness, and lifestyle considerations. Although indulgent foods are still in the top five selling items, consumers are putting a greater emphasis on fresh foods and produce. But demand for personalized health and wellness goes beyond healthy food: Retailers are bringing dietitians and nutritionists into their stores and allowing their pharmacies to play a larger role.

Tying in our pharmacies with our food offerings to provide a total wellness offering will be an advantage for us as an industry.

The ability to seamlessly integrate food and personalized care can provide a real competitive advantage.

When it comes to paths to purchase, cost, taste, and convenience are still very important, but the value equation is expanding to include the aforementioned health and wellness concerns, product safety, and corporate social responsibility. The latter is increasingly influenced by activists, non-governmental organizations (NGOs), and the media. The emerging consumer has a higher degree of skepticism due to the availability of digital information, and she and he expect more visibility into ingredients, sustainability, nutrition, and social impact. Food retailers must focus on building trust with their customers through transparency, experience, and education.

New marketplace

To a certain extent, demand for new product assortment is part of the normal food retail business cycle. However, the emerging new consumer is also ushering in an era of the new marketplace. Across the board, members surveyed agreed that these issues are among the highest on their list of priorities, but many are unprepared for the changes that are coming.

One of the key issues is the speed of change and disruption. Part of the challenge is that as disruption happens at an accelerating rate, retailers still have to remain committed to their core competencies. This means having clean stores with fresh offerings and great staff, while also giving customers what they want, where they want, how they want it.

This expectation from the customer will change the role of the brick-and-mortar store.

We don't see brick-and-mortar [stores] going away any time soon, but retailers must offer customers options or they will not be considered as a place where the customer wants to shop.

Online shopping, delivery, and meal kits are challenging traditional operating models, and, though the store should continue to play an integral part in food retailers' offerings, grocers must determine which omnichannel demands they are going to meet.

This dynamic is also blurring the boundaries of the industry. Nontraditional food retailers have challenges of their own, but they are undeniably playing a larger role in the market. Traditional food retailers are often looking outward for partners to help them achieve scale, whether relying on virtual chains to provide data solutions to members, or finding their own third-party vendors for technology and logistics solutions.

Artificial intelligence/technology

Advancement in technology provides enablers for the new marketplace, as well as an enhanced ability to gain a competitive advantage. The increasingly digital shopping experience yields a treasure trove of data to food retailers, but to take advantage of that data, food retailers must make the requisite investments in technology or partnerships. Artificial intelligence and machine learning especially allow retailers to make suggestions to consumers that can help increase basket sizes.

We learn much more about our customers through e-commerce than through brick-and-mortar [stores], but we have been able to take the online learnings and apply them in store.

There are obviously other benefits of new technology on top of better consumer insights: One of the top three issues identified by FMI members is the impact of technology on industry operations. As the cost of robotics and related technologies comes down, automated picking and replenishment will become more widespread and automated front ends will become more prevalent. Tech-savvy retailers will also be able to drastically streamline their supply chains, giving them a huge cost advantage.

One of the less understood emerging issues is the impact technology will have on the role of humans in food retail. Companies will need to balance embracing robotics and automation while recognizing that consumers still demand high touch in the right places. They need to identify the areas in which they want to invest and the balance the business strikes between tech and touch will ultimately determine the impact on its labor force.

Workforce

Food retailers will have to consider the public relations and other aspects of potential workforce reductions enabled by technology, but one of the top issues they need to figure out first revolves around talent identification and recruiting. There needs to be a balance between service roles and production, filling traditional service roles while also obtaining higher-paid knowledge workers to support and harness new technology. The right approach will vary by business: some will elect to partner with third-party providers to gain these capabilities, while others will choose to recruit and develop new types of talent in-house.

In both service roles and tech roles, competition for labor is a growing issue for the food retail industry. This competition happens on multiple fronts, with restaurants and nonfood retail posing threats to traditional roles and pure-play online and technology startups vying for engineers and data scientists. The current food retail leadership started in a time where you could start as a bagger and work up to management positions, but that career path is losing its luster for younger workers. Talent strategy should be a priority for all companies as long-standing veterans begin to retire and new skill sets are needed.

People see retail as something old and as not keeping up. How can that be attractive compared to going to work in flip-flops and shorts and sitting on beanbags?

One selling point for the industry may be a total rewards approach to compensation and benefits. Over the next few years, companies will have to deal with the challenges posed by a rising minimum wage, but they also have an opportunity to bolster the trust with their employees. One executive remarked that the desire of millennials to make a difference is often underestimated – emphasizing the culture and values of your company, not only the pay, bonus, and benefits, can help attract new talent and build a strong workforce in the coming years.

Food production

Of course, as companies deal with these emerging issues, there are certain areas that require consistent attention. In the new era of both globalization and localization, understanding the regulatory environment and proper food safety practices is crucial for food retailers, and is also a key role of FMI.

As consumers demand more local and specialty food, it is important to keep sight of food safety requirements and increase visibility into the supply chain to ensure products actually meet them. An incident with one retailer negatively impacts the entire industry, and increasing information availability will only exacerbate the effects of these scandals. As demand for transparency and social responsibility grows and omnichannel puts pressure on the supply chain in the coming years, grocers must be leaders in maintaining the integrity of the food supply. Also, as retailers source more products from abroad, a thorough understanding of product-safety standards, and foreign supplier verification requirements, among other things, is critical to preserving the security and integrity of the supply chain.

CONCLUSION

It is sometimes difficult to take a break from dealing with day-to-day challenges and to look to the future. That future presents new obstacles, but it also presents opportunities for those who are able to identify those obstacles early on. Food retailers have already noted that consumer preferences are changing, and they have already begun implementing plans to respond to the new product choices and services that consumers are demanding. These demands involve much more than changing the assortment of food. The new consumer is shopping in a way that is changing faster than ever, forcing food retailers to reimagine industry boundaries and the role of the brick-and-mortar store.

The demand for omnichannel retail and constant technological advancement will change the way companies operate, with competitive advantages going to those with strong data and analytics capabilities. As a result, food retailers will compete more against other industries to attract new talent, not only to support traditional workforce roles but also to meet these newer technical demands. In the face of all these emerging issues, food retailers must always keep food safety top-of-mind and stay aware of government intervention and regulation within the industry.

As FMI and Oliver Wyman have worked through the process of identifying these issues, we have also considered how the issues will impact our agenda going forward. Look for us to leverage our core services to provide you with resources and education that will help you determine the path forward to respond to the disruption in the food retail industry.

