

THE SHAPE OF FOOD RETAILING
IN THE NEW NORMAL:

ADAPTING TO THE REALITIES

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

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



HOME WORKERS



EXPERIENCE



RISE IN HOME-COOKING



NEW SUPPLY CHAINS

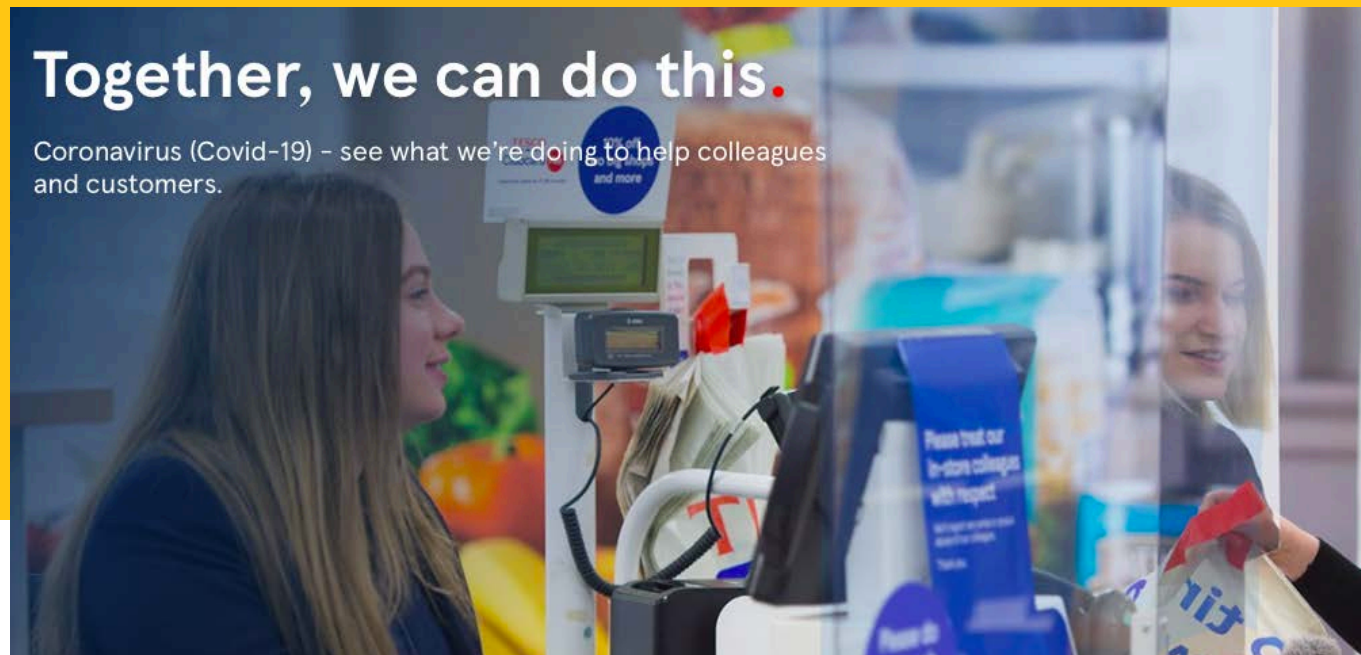


BUSINESS CONDUCT

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

AUTHORED BY SCOTT ANNAN & DEV DHILLON





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

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

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

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

Will the old normal come back given time and will we return to eating, shopping, traveling, working and having fun as before?

No and yes as all of the old normal has not gone away. Climate change, refugees, indebtedness, impoverishment, health, education, corruption, plastic pollution, vulnerable people and the mass protest movements have temporarily moved behind Covid-19 in priority. They will return.

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



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



Reshaping in the new normal

1. THE CONSUMER

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

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

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



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



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

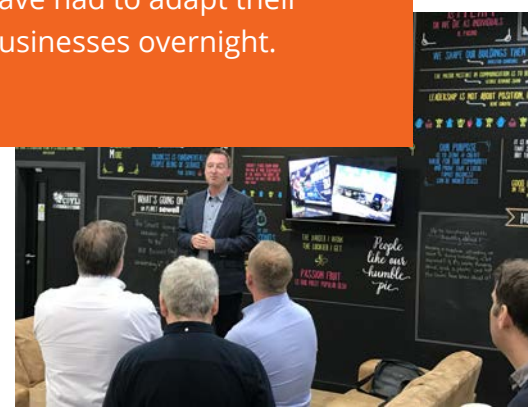


2. BUSINESS CONDUCT

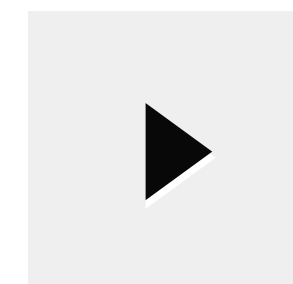
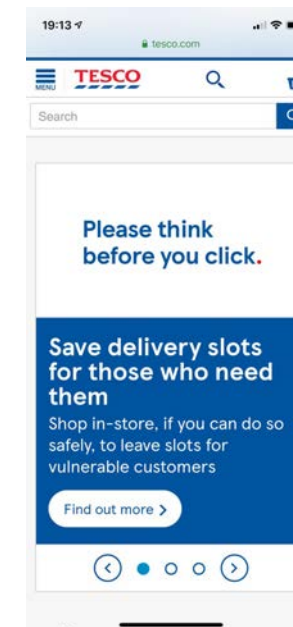
Businesses that make inappropriate demands or behave badly during this crisis risk losing customers, demoralising their staff and slipping towards irrelevance. The three big retail banks that are not NatWest that demanded personal guarantees on the government's Business Interruption Loans are the leading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

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

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



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



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



Independent retailers are modifying their store operations in order to protect customers and staff from the Covid-19 by encouraging social distancing.



3. RETAIL AND FOODSERVICE

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

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

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

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

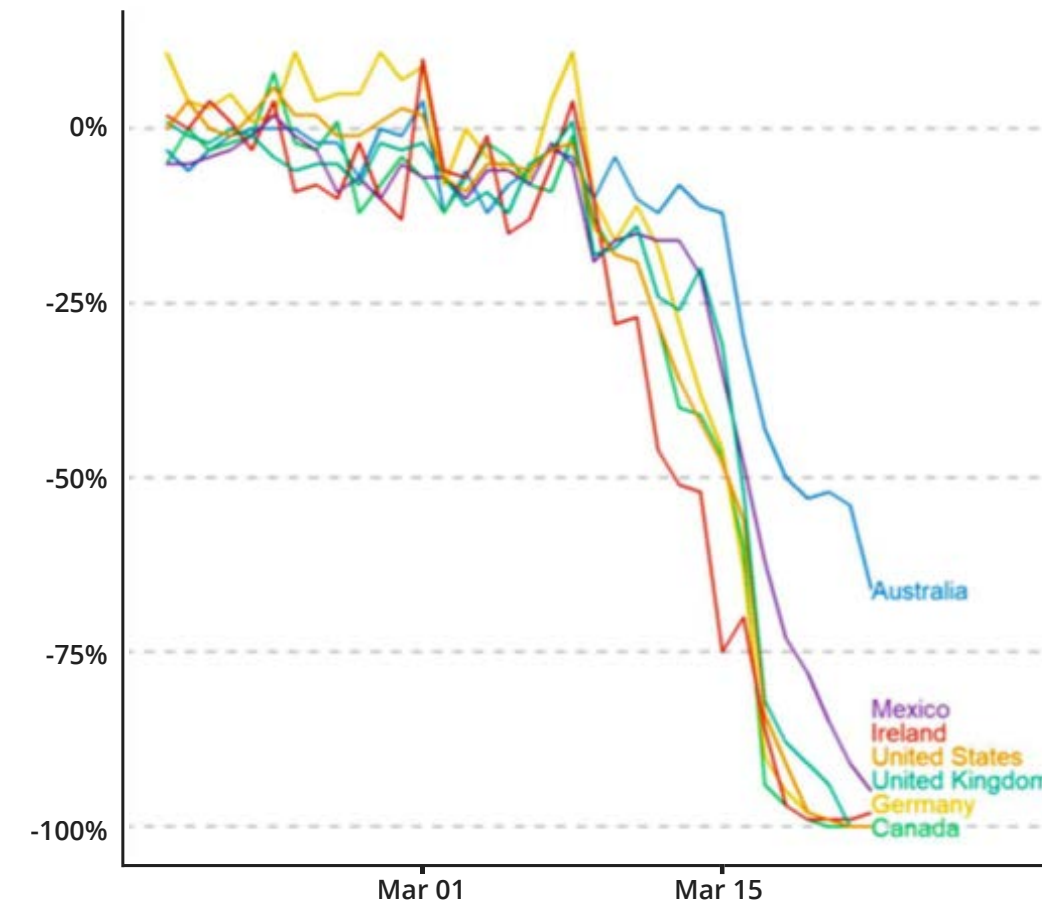
Before the lockdown, the crisis on British high streets, in quick food eateries and shopping centres was a toxic equation of business rates, rents, cost inflation, weak balance sheets, increasing crime, lack of investment and a growing consumer preference for online shopping. These will not go away in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

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



Large declines in the restaurant industry

Year-on-year chg. restaurant reservations + walk-ins on OpenTable



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

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

4. ECONOMIC FORECAST

The economic & social costs of the mitigation or suppression strategies are well documented in studies by The London School of Economics, Tomas Pueyo @ Course Hero and others. This article makes no comment on the economic alternatives to managing Covid-19 only on the impact across retail sectors.

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

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

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



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



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

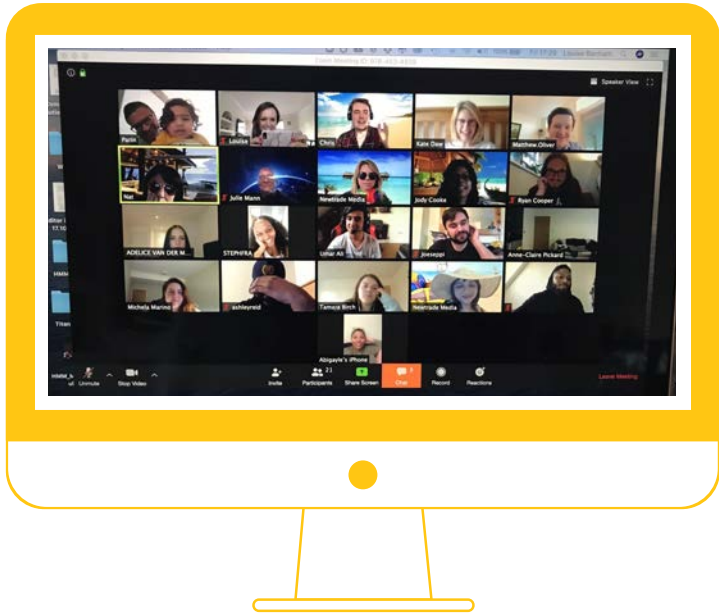
UK economic output will decline by 15% and unemployment will double in the second quarter of the year, according to the Centre for Economics and Business Research (CEBR). It expects the steepest contraction since comparable records began more than 20 years ago.

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

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

5. WORK & TRAVEL

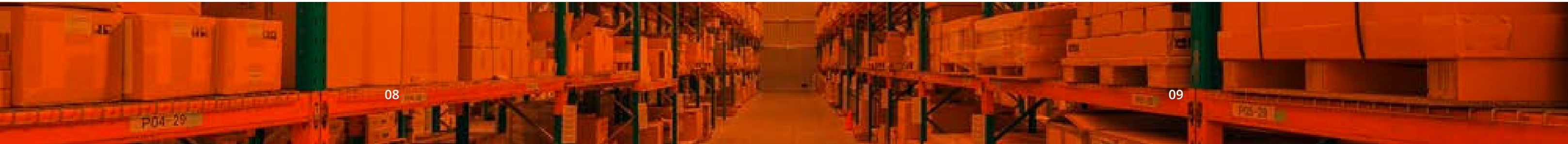
There has been a massive acceleration in the innovation curve as all companies have been forced to understand what existing technologies can do to support the business. Our ability to work from home is being tested en masse. The likely outcome is that this will become the new norm for a high percentage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



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

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

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



What is the new normal in travelling for business and for pleasure? There will be a permanent and massive reduction in business travel as even the most reluctant of businesses are now successfully using technology for their daily interactions. Face-to-face meetings, peer-to-peer learning and hands-on business needs such as factory, field and quality control visits will continue. There will be ongoing multi-year consolidation and capacity reductions in the big global airlines as their current profitability is dependent on premium travellers.

We will still travel for pleasure albeit discretionary spending from the hit to living standards for most will knock out those weekend breaks and aspirational holidays for at least three years.

The current and the next generation of technology will manage everything from policy to price and will replace 90% of specialist business travel agencies and middlemen.

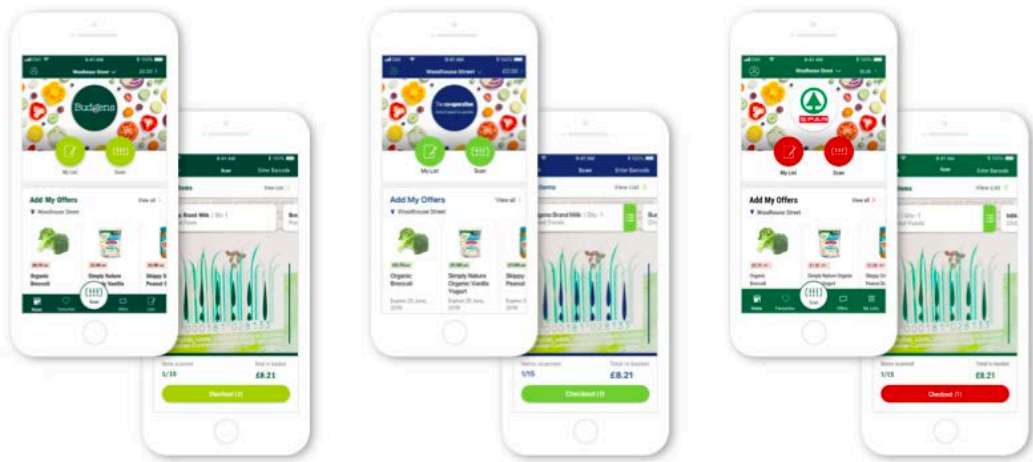
6. TECHNOLOGY

It has taken two weeks for us all to become tech savvy.



Demand for online shopping with home delivery or dedicated pick-up points will at least double in the next year. Off-the-shelf platforms are available such as Shopify and Big Commerce and more will emerge. Many companies are using white-label delivery apps to go from in-store browsing to delivery. Social distancing, hygiene & customer order fulfillment massively support a surge in the use of mobile app technologies.

Independent retailer groups such as Booker's symbol stores, Costcutter, Nisa and SPAR will share ideas and resources as government approved competitor collaboration is now seen as beneficial. Industry groups such as ACS and IGD should play a central catalytic role here with their retailer and political remits.



Ubamarket Mobile screens

In October last year, Central England Coop announced that they are to provide the choice of serviced tills or Ubamarket's 'Scan, pay, go' app to their customers and will not install self-service tills. The white-label Ubamarket app is also a social distancing and personal hygiene tool as shoppers are reluctant to touch self-service tills. Store teams at Henderson's Retail SPAR stores in Northern Ireland are also using it to fulfil customers' telephone orders.

Some national and global EPoS providers have actively blocked retailers from implementing Ubamarket as they fear losing equipment sales. The self-service till is now redundant, like the typewriter, and the ever-steepening technology adoption curve will see the market for traditional scanning tills all but disappear in three years. Expect to see retailers demanding that their EPoS providers integrate with mobile 'Scan, pay, go'. The marketplace is likely to be disrupted by a pure mobile tech provider such as DMI if the global EPoS leaders fail to embrace mobile consumer technology.

7. BRANDS

What will individual brands or services and businesses stand for in the new normal? Does each one have a compelling and enduring case to receive our limited expenditure? Maslow's Hierarchy of Needs will once again become central to consumers and businesses in the new normal. Average retailers and restaurants will largely be gone, along with wholesalers who do not add value beyond moving boxes. Many me-too brands will no longer have a place on shelves as retailers rebuild their grocery and food-for-now ranges.

Newer technology such as Europe's most-valued private fintech company Klarna's shop online and pay later app will become mainstream across multiple and independent retailers who need to hugely increase their on-line capability and payment.



Unfortunately, many exciting start-up products will also disappear or never appear through a dearth of funding. All brands – be they retailers, foodservice, products or services – will not survive a lack of a clear value proposition, poor service or puffed-up marketing.



8. COMMUNITY

The crisis has brought the best out in most people – and the worst of some – and shown the real heroes in our businesses and communities. That Thursday 8pm ‘clap for the NHS’, the mass volunteering and selfless acts and saying thank you to retail workers and drivers who are here for us is inspirational.



Can we please retain our community spirit and unselfish generosity in the new normal?

Social media has quickly highlighted where retailers are succeeding or failing to support their local community, as evidenced by retailers called out on price gouging. This moment is akin to the asteroid that ended the age of the dinosaurs: un-adaptable, average and uncaring businesses will be gone. We are in for a dramatic resetting of the community ecosystem with a fundamental change in the way we live, work and relate to one another akin to a reboot of the Fourth Industrial Revolution.

Life will be tough for many for three to five years as we work through a certain recession and a likely depression. The government’s largesse must end and the reckoning through budget cuts, tax, inflation, poor mental and physical health, unemployment and increased poverty will hit us all at once.

9. THE ENVIRONMENT

Climate change, air, noise and plastic pollution, the oceans, recycling and government reverse vending initiatives have temporarily moved behind Covid-19 in priority. They will become more relevant in the new normal.



The now general understanding that flu viruses originate among birds and other animals such as pigs will have an impact on our personal consumption and behavioural choices. The consumption of plant-based food was increasing before lockdown and our new love of home cooking has seen big increases in produce and ingredients sales as we get stuck in to traditional and celebrity chef recipes in our coffee table books.

The decline in meat consumption and production will accelerate along with its commensurate environmental benefit.



TOMRA Reverse Vending

Livestock are estimated to be responsible for up to 18% of all greenhouse gases that cause global warming, more than cars, planes and all other forms of transport put together.

A reduction in work and leisure travel will also benefit the environment. Air pollution in urban centres has fallen dramatically since the lockdown. We can now see far more stars and satellites. Average air pollution levels have fallen to their lowest since recordings began in 2000, according to the London Air Quality Network.



10. EXPERIENCE AND FUN

We are all yearning for the experiences we miss. Much of this is linked to food, drink, leisure and human contact. The week that the lights come back on will see us reconnecting with friends, work colleagues and family over a coffee, a drink, a meal and a good chat or debate. It will not be at the level of February or last June. Thousands of hospitality locations will not reopen. Holidays will be different and there will be less of them for three to five years as airlines, hotels and surviving travel companies restructure. Home working is now a new normal. Disposable income will be lower for most and business debts to the government and personal debts have to be reckoned.

CLOSING MESSAGE

Experience and fun will return albeit in a very different shape than in 2019. Retailers, foodservice providers and brands will be recognised for their standards of conduct, resilience and customer-first approach. Many businesses will not survive but those with resilience who have shown ‘overnight’ flexibility will do. Their P&L has taken a hit, but they have a strong future.

The ecommerce shift from the high street has accelerated and Amazon, Alibaba and the tech leaders will continue this transformation. Ocado and Amazon will learn from their algorithmic struggles with unforeseen spikes in demand. The national and some independent supermarkets have successfully employed a boots-on-the-ground strategy using stores as hubs and mini distribution centres to fulfill customer demand.

The government is making data available to supermarkets to enable prioritization of deliveries for the vulnerable.

We recommend that every business appoint an individual or a team in a bigger business to look at its structure, culture, and its purpose and core values to ensure that the routes to market are the right ones in the new normal.

ABOUT THE AUTHORS

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Scott is a trusted advisor for many in the convenience industry and an experienced global authority on convenient retailing. He is also the founder of The Retail Leaders and The Independent Retailer Owners Forums, two initiatives providing retail leaders and owners with peer-to-peer challenge and learning opportunities.

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