



# The Future of Grocery

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POWER THE FUTURE OF COMMERCE

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# Throwing the Grocery World off Its Game

Basketball is an interesting game. It has fast, sometimes frenetic play where one action flows into the next. Until there is a foul. Then everything stops, and the player who got fouled steps up to a line to shoot free throws.

It's a dramatic shift to go from playing mostly without having to think to a moment of singular concentration. For the player shooting the free throws, it introduces the possibility of conscious thought and self-awareness. "I need to make this shot. I need to use good form. I need to keep my elbow in. Wait, do I breathe in or breathe out when I shoot?" And if the player isn't careful, it can easily become a disruption.

Not everybody plays basketball, but almost everybody grocery shops. And this past year has been the equivalent of us going from shopping without much thought to stepping up to the free throw line and having to think it all through. "I need to get groceries. I need to be safe. I need to wear a mask and practice safe social distancing. Do I breathe in or breathe out when I'm standing in the checkout line?"

## Reconciling the Present — Preparing for the Future

So yes, of course, this past year has been disruptive for grocery (consumers and retailers alike). That's obvious. Still, it's worth noting just how disruptive it has been.

The trends, challenges, and pain points we are currently experiencing in the grocery industry are very different from those of the recent past. So that's where this playbook starts: reconciling what is going on right now so we're all on the same page.

The rest of the playbook takes a deeper look at what to expect in the future. What do retailers need to be concerned about and how can they best address the coming challenges?

**If the COVID-19 pandemic has taught us anything, it's that it's not possible to predict the future, but it's foolish not to prepare for it.**



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### Supply Chain Ecosystem

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### Impact of E-Commerce

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### Role of the Store

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### Merchandising Strategy

How will merchandise strategies change as consumer behavior changes? What must grocery supply chains do to support these changes?



### Sustainability

How will grocers build and support a sustainable ecosystem? What will be the special challenges of e-commerce?



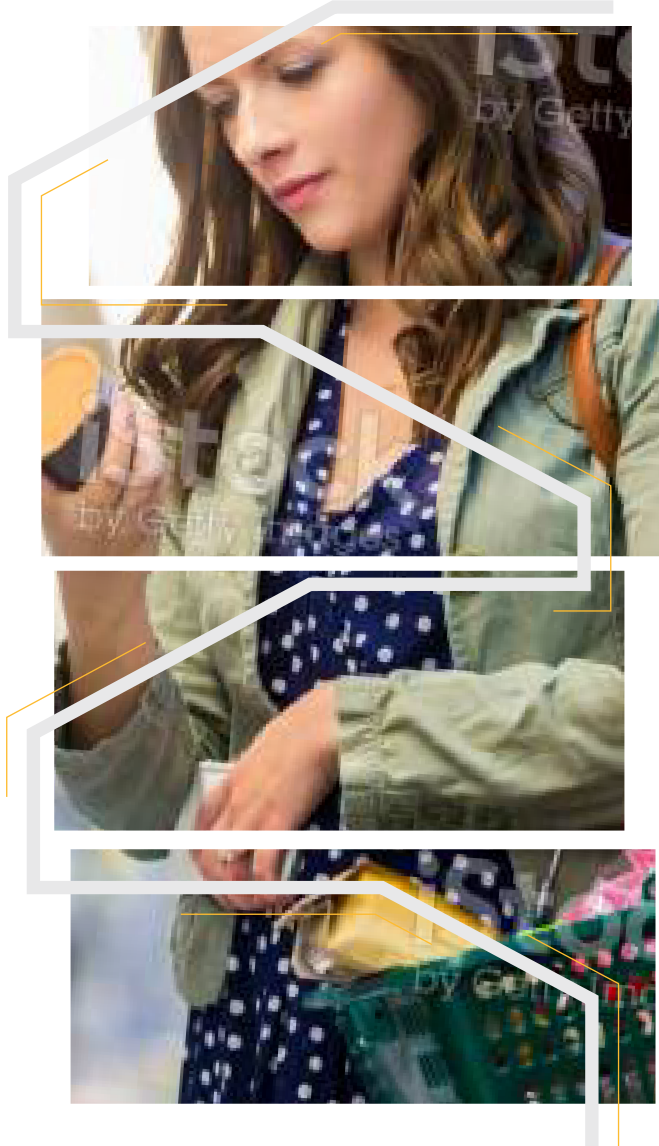
## Trends, Challenges & Pain Points

### Total Grocery Volume

Families continue to consume more meals at home due to health and safety concerns. This in turn has increased overall demand for groceries, both in-store and online. For example, U.S.-based grocers have seen a 10% increase in demand from 2019 to 2020. Grocers in general were not well prepared to handle the increased volume and meeting that demand continues to be a challenge for their supply chains.

### Safety

Grocery consumer's purchasing behaviors have historically revolved around three attributes: **quality, assortment, and price.** These three attributes remain important, but currently **health & safety** may surpass them. Grocers have had to adapt what they sell and how they sell it for the sake of their customer and their employees.



### E-Commerce Boom

Digital sales (also known as *e-food sales*) accounted for 1–3% of total grocery sales pre-pandemic. But then digital sales volumes spiked and by the end of 2020 accounted for as much as 10% of total grocery sales in some regions. It has been quite a disruption, especially with e-commerce orders generally being more costly to fulfill.

### Urbanization

The long-term trend is for populations to grow and become more dense in metropolitan areas. In fact, 2007 marked the first time more of the world's population lived in an urban area than a rural area. COVID-19 may have paused this for the moment, but not for long. As a result, grocers need more stores, closer to consumers, and with smaller footprints, which require the supply chain to deliver goods more frequently and in smaller quantities.



## Consumer Experience

Expect a significant transformation.

### In-Store Experience

The in-store experience at grocery stores has remained largely unchanged for many years. Other retailers such as general merchandise and apparel have found ways to advance in-store engagement, creating more of an experience, as opposed to just being presented with products.

### Omnichannel Engagement

Consumers want to make purchases whenever, wherever, and however they want. And they want the same for how those purchases get delivered. Grocers will need to automate their ordering and fulfillment capabilities to have the flexibility to meet consumer expectations.

### Unified Commerce

Grocers need to connect customer data and product data. This “connected commerce” approach will allow for more personalized customer experiences, better forecasting and replenishment algorithms, and higher customer satisfaction. Delivery companies who own the data prevent grocers from connecting purchases with their customers.

### T-Commerce... the Touchless Experience

As health and safety continue to be top of mind, creating a touchless experience will be critical in setting consumers at ease. Additionally, consumers desire to know where their goods are coming from and who has interacted with their grocery purchases.

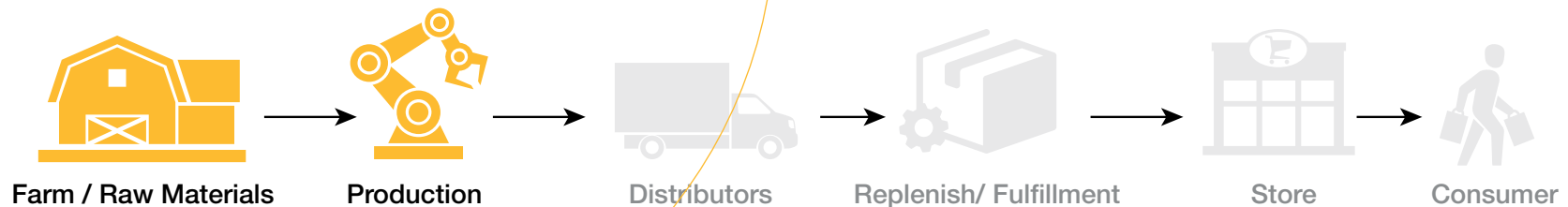
### Local Ties

Consumers, particularly in younger generations, are focused on supporting their local communities, whether that be through local sourcing, supporting local causes, giving back to the community, or creating more local-specific experiences.



## Supply Chain Ecosystem

**Buying habits** are shifting more towards organic, local/regional suppliers. Grocers will need to be better integrated into local economies to be able to deliver to (and get credit from) consumers.



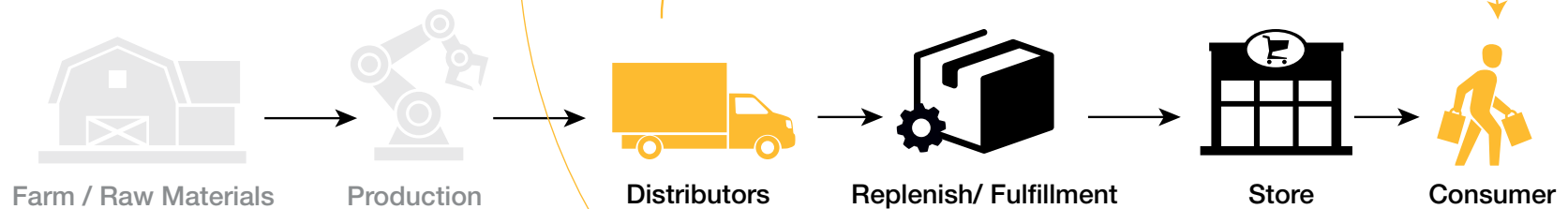


## Supply Chain Ecosystem



**Food distributors** will look to get more involved in the e-commerce space... bypassing their grocery partners and fulfilling orders directly to consumers.

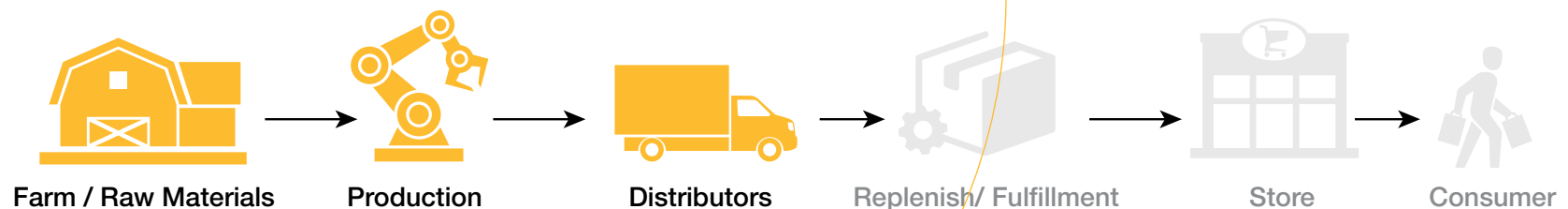
### DIRECT TO CONSUMER





## Supply Chain Ecosystem

**Grocers** generally only have visibility into the final three phases of the grocery ecosystem. Grocers will look to expand their visibility to better manage volatility in supply and match that with forecasted demand.



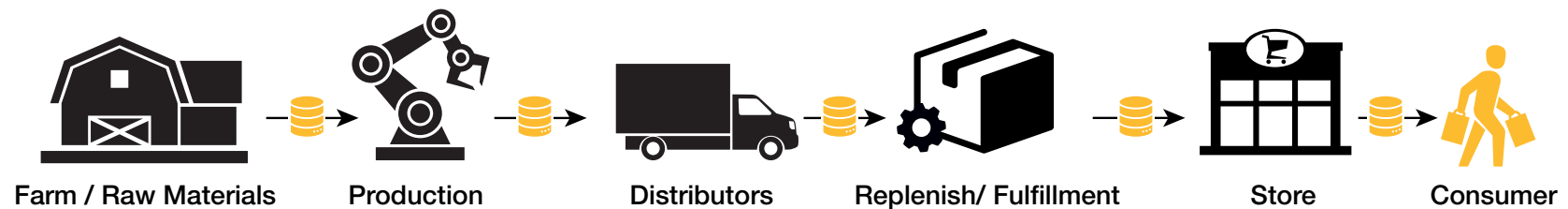
**EXPANSION OF VISIBILITY  
+ VERTICAL INTEGRATION**

CURRENT  
GROCER VISIBILITY



## Supply Chain Ecosystem

**Consumers** want to know where their purchases came from, who touched it, and dates associated with the food movement. Track and trace will not be an advanced feature...it will be a standard capability.





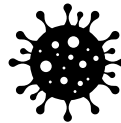
## E-Commerce Is Here to Stay in Grocery

### Handling E-Commerce in the Brick-and-Mortar Supply Chain

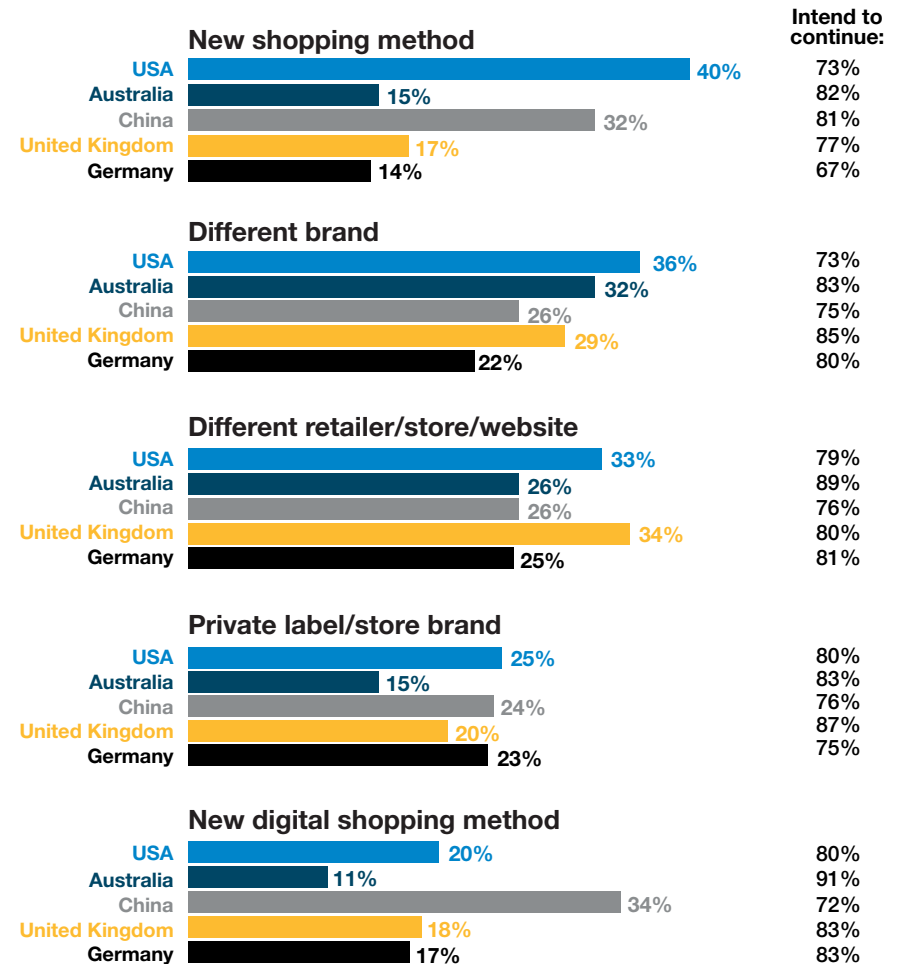
Grocers must convert supply chains designed primarily to support stores into networks that support substantial e-commerce volume. Before the pandemic, e-commerce penetration was quite low around the globe (for example, 1–3% in North America). Experts now anticipate grocery e-commerce penetration to grow to 15–25% in the near future. This will require grocers to restructure their supply chain networks.

Many general merchandise (GM) and apparel retailers hesitated when e-commerce began, and when it took off, it was too late for them to catch up.

Grocers should learn from the failures in the GM and Apparel retailers:  
**Invest early to set up the organization for continued success.**

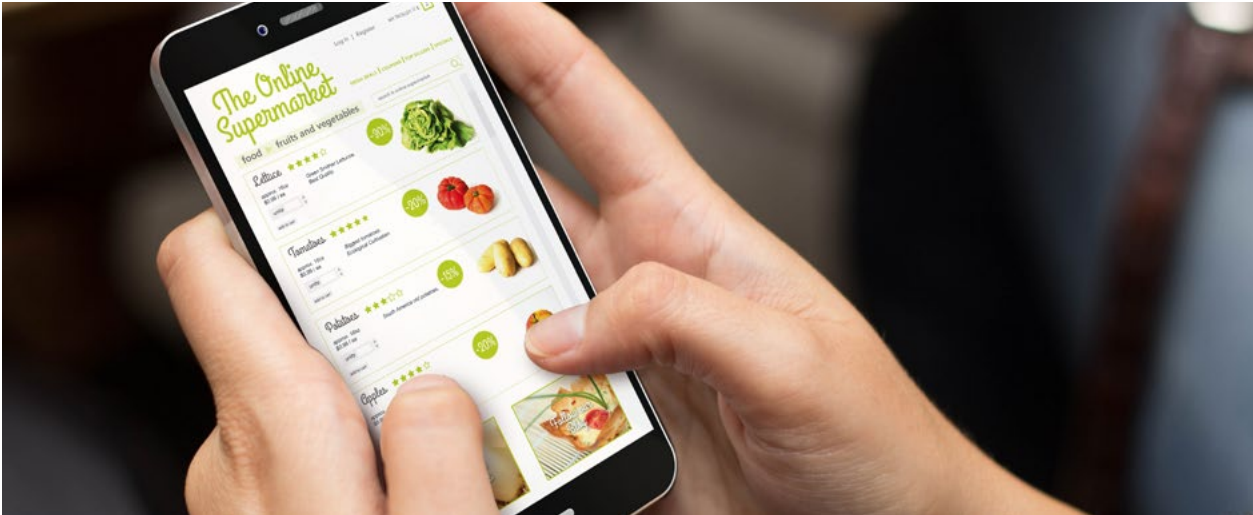


Percent of consumers who have **tried a new shopping behavior** since the COVID-19 pandemic started:



Source: mckinsey.com





**Daily Downloads  
of US Grocery  
Delivery Apps**

**February 15 – March 15, 2020**

## Impact of the Delivery Company

In certain regions like North America and China, delivery companies such as Instacart and Shipt have quickly dominated e-commerce sales for grocery stores. Their shoppers are packing aisles, creating frustration amongst regular grocery consumers. And they collect and own the transaction data, which prevents grocers from tying e-commerce purchases to specific users. Delivery companies are a threat to grocers and their ability to generate profits from e-commerce sales.



## Profitability

Grocery margins are already razor thin. Fulfillment of e-commerce orders is a more costly operation than store replenishment. Again, grocers can learn from the mistakes of other retailers and...

- Invest heavily into e-commerce to set themselves on the right path to profitability.
- Optimize operations to prevent profitability erosion.
- Accurately track and measure profitability throughout the supply chain.

## Shifting Customer Expectations

The grocery e-commerce channel is new to nearly all consumers. Being a new channel, expectations of service levels will fluctuate as consumers figure out what they want, and organizations attempt to respond to these expectations. Grocers must:

- Have strong customer feedback loops in place to gauge the expectations around service levels.
- Leverage customer and order data to plan out and schedule order delivery windows. This will in turn create a better customer experience and a more efficient supply chain.



- **Invest heavily into e-commerce, optimize operations, and track profitability**
- **Have strong customer feedback loops and leverage customer and order data**



The grocery shopping experience has not changed much for centuries. Until now. Expect more change in the next 18 months than in the entire history of grocery.



## Role of the Store

### Not “Just Stores” Anymore

Stores will act as selling centers, customer experience centers, fulfillment centers, and collection centers. Stores will become the most important part of the e-commerce supply chain.

### Urbanization

Urbanization will motivate grocers to be as close to consumers as possible. This will require more frequent, smaller deliveries. Forecast accuracy and reacting quickly to changes in demand will separate the winners from losers. Urbanization is expected to pick up steam as the pandemic eases.

### Construction

Store construction must adapt to digital and set-aside space for both fulfillment activities and customer pick-up. This will include larger backrooms, dedicated spaces for customer pick-up (in store and in parking lot), drive-throughs, and digital interaction experiences (touch screens, ATM-type devices, etc.).



## Merchandising Strategy

### Growing Choice Counts

Grocers realized the intense pain of growing Stock Keeping Unit (SKU) counts when the pandemic hit. Higher SKU counts create challenges for grocers to increase their capacities up during high demand periods. Consumers are continuing to look for more choices as part of their shopping experience. This demand for more choices will in turn put pressure on existing supply chains, particularly as volume and throughput outweigh the need/desire for more choices.

Expect to see supply chain execs have more of a seat at the table when it comes to merchandising decisions as organizations work to balance the breadth of offering with the efficiencies and simplicities of a more streamlined supply chain.



## SKU Profitability

The cost to serve brick and mortar customers vs. e-commerce customers are drastically different. Grocers will begin to feel the pain of fulfillment costs as e-commerce penetration increases. Retailers, who historically have been rewarded on top-line sales and gross margin, will now be grappling with logistics and fulfillment costs that fall below the gross margin line.

**Organizations will look for more insight into Activity Based Costing (ABC), highlighting which SKUs are profitable by fulfillment channel. This insight will allow organizations to set appropriate prices and make decisions on where (or where not) to offer certain products.**

## Expansion Beyond Groceries

Grocery stores see high foot traffic per store compared to other retailers. This high foot traffic and frequent return customer gives grocery stores an opportunity to provide more than just the food and beverage choices they provide today. Grocery stores will investigate choice expansion into tangential offerings. An example of this is how superstores have added banks, hair salons, coffee, fast food, and health services, among other offerings.

**Expect to see grocers find more ways to engage with their current customers through expanded offerings (both physical products and experiential offerings).**





## Sustainability

### Reduce Packaging

Grocers must work with vendors and suppliers to create environmentally-friendly packaging. This includes plastic bags, food packaging, fulfillment packaging, and dunnage. This will be even more critical to support the growing e-commerce channel.

### Carbon-Neutral Deliveries

As the grocery e-commerce channel continues to gain momentum, organizations will address the carbon-heavy output to support e-commerce deliveries. This is a trend felt not only by grocery organizations, but by the larger retail sector.

### Source Local

To further reduce environmental impacts, grocers will look to source local, resulting in lower emissions. The other beneficial by-product of sourcing locally is that many consumers (particularly Generation Z) are looking to buy and support local.

### Reduce Food Waste

Many grocery organizations have already announced that they are aspiring to achieve “No Food Waste” by 2024 or 2025. Grocers will improve their data and tracking at the product level to ensure fresh goods are sold early in their lifecycle to prevent expiration. Where fresh food can’t be sold, grocers will implement more rigorous “reverse logistics” processes to address soon-to-be expired goods.

**100 billion**  
plastic bags  
used every  
year in the U.S.  
(and for only about  
12 minutes each)

Source: [biologicaldiversity.org](https://biologicaldiversity.org)



# The Dematic Difference

While automation has the ability to help retailers remain competitive, what's even more important is choosing the right partner. With all that goes into automation implementation and management, due diligence is more important than ever before.

**These are the three most important questions to ask when considering a partner:**

## **Can they scale across regions?**

Dematic is truly differentiated from competitors when it comes to the sheer breadth of our global footprint, with a workforce of over 10,000 employees helping companies install, commission, and operate Dematic solutions worldwide.

## **Can you contact customer service whenever you need it?**

Unlike many of our competitors, we have a robust customer service network with local operations in over 25 countries, offering customers dedicated onsite service and support to ensure optimal efficiency and maximum performance.

## **Do they have a proven track record?**

Dematic's 200-year legacy brings proven, reliable intelligent and automated technology that's set industry standards for decades. We've achieved more than 6,000 installations with several customer relationships approaching 50 years.



# About Dematic

Dematic is an intralogistics innovator that designs, builds and supports intelligent, automated solutions for manufacturing, warehouse and distribution environments for customers that are powering the future of commerce. With engineering centers, manufacturing facilities and service centers located around the world, the Dematic global network has commissioned thousands of customer installations for some of the world's leading brands.

Headquartered in Atlanta, Dematic is a member of KION Group, one of the global leaders in industrial trucks and supply chain solutions, and a leading provider of warehouse automation.

Power the Future of Commerce.

► Dematic grocery solutions, support, and services are available to customers worldwide. For Dematic news and developments, visit:

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