IN THE EXPRESS LANE

HOW GROCERS CAN SUCCEED THROUGH DISRUPTION
A decade ago, bookstores, video stores and other brick-and-mortar retailers fell victim to digital disruptors with breakthrough business models that reinvented entire industries. Retailers have been on the frontlines of disruption ever since.

Now it is grocers’ turn. Disruption is hitting the industry at rapid pace and on a massive scale—transforming how people eat and shop for food. Online grocery spending could represent $100 billion in annual consumer sales by 2025.¹

RIPE FOR CHANGE

New consumer behaviors. Technology innovation. Hungry competitors. These forces top the list of what’s shaping the future of the grocery industry.

Consumers are not going to shop for food like they used to. Conditioned to immersive and highly curated shopping journeys in other retail sectors, grocery shoppers will increasingly want digital experiences—more from the store. Shoppers will want intuitive, simple and high-touch interactions with the grocers—places and experiences that fit seamlessly into their daily lives. Think virtual assistants that handle the mundane replenishment of staples so consumers can invest in food experiences instead. Or grocer-facilitated relationships with communities united by food and health goals.

In addition to preparing for what’s next, grocers are navigating what’s now. Fewer people shop each week at the local supermarket to stock the pantry. They go to the grocery more often and buy less on each visit. Shoppers have a taste for what’s for dinner tonight. Price influences purchase decisions, but so do convenience and lifestyle factors as evidenced by the popularity of prepared meal kits, fresh foods and organics. Not to mention the fact that money spent dining out has now surpassed grocery purchases. Regional and generational influences add more nuance to shoppers’ changing behaviors.

NEW CONSUMER APPETITES

56% of people prefer spending on food experience vs. buying groceries in the store.  
49% of consumers would buy home preparation meal kits from their favorite restaurant if available.  
58% of the $24 billion in deli sales in mid-2016 were prepared foods.

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More than ever, technology innovation is influencing how people shop. Online grocery is in its early stages, but grocers will be challenged to make it profitable as this business model evolves.

Click-and-collect and mobile apps are gaining traction, engaging shoppers inside and outside the store with the convenience and personalization they crave. These are today’s technologies. Considering the pace of change, tomorrow’s technologies are on the horizon. Imagine a drone delivering food ordered by a smart refrigerator. Game changers like this are on the way. Sooner, not later.

There is exciting potential for grocers that take advantage of these forces of change. New market entrants see this too, and they want a piece of it. Diverse competitors including big box retailers, convenience stores, online meal delivery services and even farm-to-table specialty shops are eating into traditional players’ market share. Some brands are going direct to consumer. All-powerful Amazon is looming too. Shoppers have countless grocery options, and their loyalty is up for grabs. Without a doubt, the battle for share of stomach and share of wallet in the over $600 billion US grocery industry is intensifying.

Grocers are finding that remaining competitive in this environment is driving up operational costs. Add to this the need to manage longtime industry challenges such as food deflation, operational complexity and consumer price sensitivity, and the industry is at a turning point. Winners will make bold changes to invent their own future.
A FRESH OPPORTUNITY

Change is on the table for the future of grocery. Grocers must get in front of continuous and fast change, or they risk irrelevance.

The reality is that managing change is never easy. But grocers are different. That’s why Accenture is bullish on grocers’ future. Food is a need-to-have, not a nice-to-have. Moreover, grocers have advantages in shopper relationships that retailers never did when disruption came knocking:

• **A TASTE FOR THE STORE.** Grocery shoppers still prefer going to the store over online. Even digital natives. Over 90 percent of Millennial and Gen Z shoppers want to shop for food in the store. They research products online, but continue to want to pick them up in the store.

• **A FULL BASKET.** Unlike some niche competitors, traditional grocers provide shoppers with the mix of basket that they are looking for. The convenience and selection of having food and consumer goods under one roof is a big attraction for time-constrained shoppers.

• **BUNCHES OF DATA.** Grocers collect reams of data about shoppers and their purchasing patterns. Much of it is untapped. But if grocers can efficiently and effectively harness these insights to understand customers, they can respond to, even predict, shopper preferences.

All this sets grocers up to be leaders, not followers. Disrupters, not the disrupted. To do this, grocers must develop strategies and operational capabilities across the entire customer journey to maintain shopper relevance. This means understanding shoppers in new ways and operationalizing the changes across the enterprise—from corporate offices and distribution centers to local stores.

It also demands that grocers make a radical shift. They must transform from a product-centric business model to a consumer-centered and goal-oriented business model. Here, shopper centricty, digital engagement and next-generation food experiences are paramount. This is an ambitious list. Excellence in three mutually reinforcing areas is critical for success.

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*Accenture US Grocery Survey 2016*
Transformation is out of the question unless grocers get brilliant at the basics. By becoming more agile and efficient “running the store,” grocers can free up resources to reinvest in growth.

While most grocers report that they are moving in this direction, many are not getting sustainable results. Sometimes this is simply a matter of poor execution. There are also the limitations created by margin compression. Despite the need for operating models that can flex with change in today’s grocery environment, few grocers have an operating model that allows them to adapt to drive value for the organization.

Accenture can help grocers break through here with end-to-end services that support and improve every aspect of the grocery business, shoring up the foundation to support operational excellence and growth. It is helping grocers run the day-to-day business, from the littlest things to the largest, with excellence. So they are adaptive, nimble, efficient. Lean and mean.

We deliver strategy, consulting, digital, technology and operations solutions in these areas:

**THE CUSTOMER**
- Marketing and personalization
- Customer experience design technology and digital

**THE STORE**
- Store operations
- Category management and merchandising
- Supply Chain
- Sourcing and procurement

**THE BUSINESS**
- Finance and enterprise performance

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**FOOD FOR THOUGHT**

**LOBLAW COMPANIES LIMITED,** Canada’s food and pharmacy leader and the nation’s largest retailer, worked closely with Accenture to implement an SAP ERP solution aimed at improving operational efficiencies to unlock business value. The solution allows for complete master data management and perpetual inventory counts. Accenture also helped develop an SAP mobile application that runs 90 percent of Loblaw’s retail processes through hand-held devices. This frees employees from spending excess time in the back office, so they can assist customers and shelve products instead. Now, Loblaw has a better view of what stores need, improving product flow and enhancing its customer service.
Running the business efficiently and at scale is non-negotiable for grocers today, particularly in such a tough competitive and cost landscape. But grocers cannot cut their way to growth.

To fuel growth over time, grocers must reinvest cost savings in new and innovative approaches that excite and engage shoppers. These could be new business models, technologies or experiences. The sky’s the limit when it comes to what qualifies as innovative in this industry.

They also cannot ignore consumers’ demands for next-level grocery experiences. They want moving from the store shelf to the kitchen table to be easy and convenient. And shoppers want food experiences that transcend the physical space of the store. This only happens with innovation. But not just any innovation.

Innovation should align with a non-traditional customer journey. Grocers need approaches that acknowledge that food shopping does not begin and end with dropping an item into the shopping cart and checking out. Grocers need innovative ways to connect with people before they come to the store, and after they leave. They have to be present in the moments that influence and trigger shopper purchases.

At Accenture we are hardwired to be innovators. We operate at the intersection of digital transformation and consumer industries so that grocers can develop and deliver disruptive innovation to reinvent business operations and customer experiences. We have developed an end-to-end innovation ecosystem that connect clients to capabilities at every part of the innovation lifecycle.
Accenture uses this innovation ecosystem to monitor and mold grocery innovations. We are currently tracking the art of the possible in mobility, location-based beacon technology, smart shelf video analytics, mixed reality and crowdsourced planogram verification among others.

**FOOD FOR THOUGHT**

**COLES SUPERMARKETS AUSTRALIA PTY LTD** collaborated with Accenture to manage, develop and trial an innovative Wi-Fi device prototype called hiku. Using voice recognition, shoppers can automatically add items to an online shopping list and have them delivered. With hiku, they are helping to turn shopping into a pleasure and prevent shoppers from forgetting an item. The trial of hiku with Accenture was a success—approximately 96 percent of Coles customers stated they would continue to use hiku because it made shopping at Coles simpler. Working hand in hand with Accenture and the Accenture Tech Labs, Coles now has a disruptive new device that will help it be more nimble in the marketplace and deliver a better customer experience of what stores need, improving product flow and enhancing its customer service.
Innovation for innovation’s sake is not a competitive differentiator for grocers. However, innovating to give shoppers what they want, even before they know that they want it is.

This is why grocers must change ingrained mindsets that say this technology is only for hot-shot industries out of Silicon Valley. The value of emerging technologies in grocery is not about the “gee whiz” factor. It is about using leading technologies to truly understand customers and their shopping journeys. Finally, a way to unlock that massive inventory of shopper data that grocers have.

By understanding shoppers at the individual customer level—how they behave in the store, near the store, online, and in their daily lives—grocers can develop shopping experiences with new granularity. This matters for customer relationships, and competitive agility. Future business models will undoubtedly compete on the ability to turn data insights into business value.

**FOOD FOR THOUGHT**

Smart shelves use data-driven content triggers to optimize customer choices. They are installed with external cameras for customer engagement and personalization and internal cameras to support product inventory tracking and operational efficiencies. They allow retailers to create immersive customer experiences: cross-selling by highlighting complementary products and special promotions, sales lift through real-time price optimization, new brand experiences through loyalty integration, and seamless shopping with alternate product availability and out-of-stock information.

Accenture partnered with a GLOBAL BEVERAGE COMPANY to implement a variation of the smart shelf—the smart cooler. By using the multiple sensors (temperature, humidity, vision) in the smart cooler as well as gateway hardware to capture and communicate the metrics, the company could use real-time data and analytics to generate predictions, adjust business operations and increase sales.
Emerging technologies also allow grocers to execute tasks across the value chain faster and with less headcount than they did in the past.

This gets back to building a strong foundation so that resources can be reallocated toward the growth agenda. Several maturing and horizon technologies are already poised to transform grocers’ front and back offices.

- **INTERNET OF THINGS** can support new purchasing channels through automation, revolutionize shopper experiences with new channels to research and purchase grocery products, complete supply chain visibility, and track shopper data through wearable devices.

- **VIRTUAL REALITY** can support more efficient product and planogram design, establish virtual grocery locations, create digitally immersive in-store experiences for shoppers, and provide more relevant, at-the-fingertips information for shoppers and store associates.

- **ARTIFICIAL INTELLIGENCE** can support greater automation in routine and predictable tasks; enable customer insight through machine learning; facilitate food purchasing in line with dietary constraints, household tastes and preferred purchase options; and streamline the supply chain.

- **ROBOTICS** can support the automation of warehouse and distribution centers, refocus staff on higher value tasks, and reduce labor costs and increase efficiency across the supply chain—from purchasing and delivery to the in-store experience and after sales.
We are an end-to-end provider from strategy through implementation. A trusted resource for the retail industry as a whole, Accenture helps grocers transform to increase profits, engage customers and enhance operations. Our acquisition of highly-capable, fit-for-purpose firms like Kurt Salmon, Javelin and Total Logistics, has strengthened our grocery capabilities. Leading grocers value this broad knowledge. Nine of the world’s top ten by revenue are Accenture clients today.

The power of Accenture helps grocers create sustainable and scalable solutions for their businesses. We ground our approaches in the broader context of the food industry as a whole, thanks to our work with restaurants, grocers, food services and agriculture companies. Grocers can also expect cross-geography and cross-industry perspectives and solutions aligned with the unique needs of the grocery industry.

It is an exciting time for grocers. The combination of a changing market and the drumbeat of digital technologies is making it possible to deliver next-level experiences to shoppers in the store and beyond. There are many opportunities for grocers to drive growth with new business models and reclaim and expand market share. But winners do not wait to act. Time to get in the express lane.
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ACCENTURE:
Nourishing the Food Industry

From seed to satiety, Accenture looks holistically at how food is farmed, created, marketed and consumed to bring a fresh perspective and help food industries capitalize on seismic market changes to better serve today’s discerning customer. Just as hungry customers make food choices on their specific, unique dining preferences and lifestyle needs, Accenture helps those in the food industry determine what their unique plan is to grow in the new world of food. We think the food industry is ripe with opportunity. Accenture works with restaurants and grocers, food service and agribusiness companies to determine the most fruitful way to reorient their business for the environment of today.

ABOUT ACCENTURE

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions—underpinned by the world’s largest delivery network—Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With approximately 394,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives. Visit us at www.accenture.com.

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