

Growing and Sustaining Competitive Advantage in Grocery Retail

Survey-based Research Study
Executive Summary April 2018



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Introduction

Over recent years, grocers have faced challenges ranging from price wars shrinking margins to the increasing demand for fresh and food-to-go offerings to the growth of online grocery accelerated by Amazon and Whole Foods. The result is that the grocery market is increasingly competitive and grocers have to adapt in order to thrive and survive in the face of these challenges.

RELEX Solutions, a leading provider of Integrated Retail and Supply Chain Planning solutions, partnered with Elastic Solutions, a provider of strategic marketing research services, to conduct a survey-based research study of North American grocers to understand how they view today's grocery market and what key initiatives they are undertaking in their organizations' retail and supply chain planning operations to build and sustain a competitive advantage.

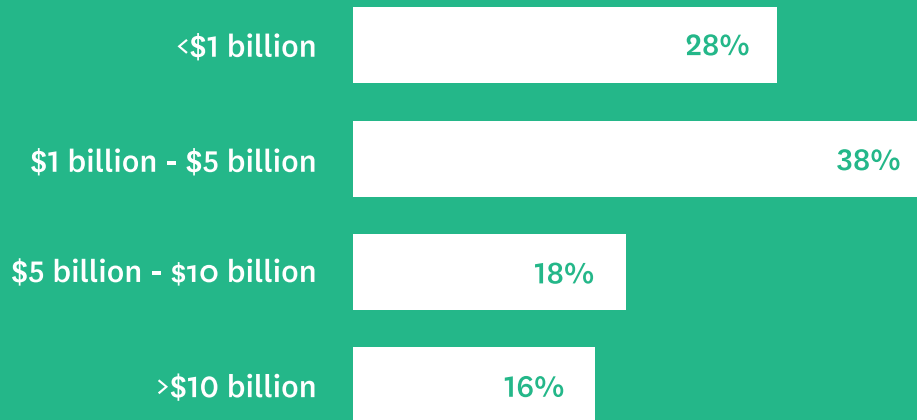
Study Overview

Between December 2017 and March 2018, RELEX Solutions (www.relexsolutions.com) and Elastic Solutions invited supply chain and merchandising executives from the top grocery retailers in North America to participate in a study - Growing and Sustaining Competitive Advantage in Grocery Retail.

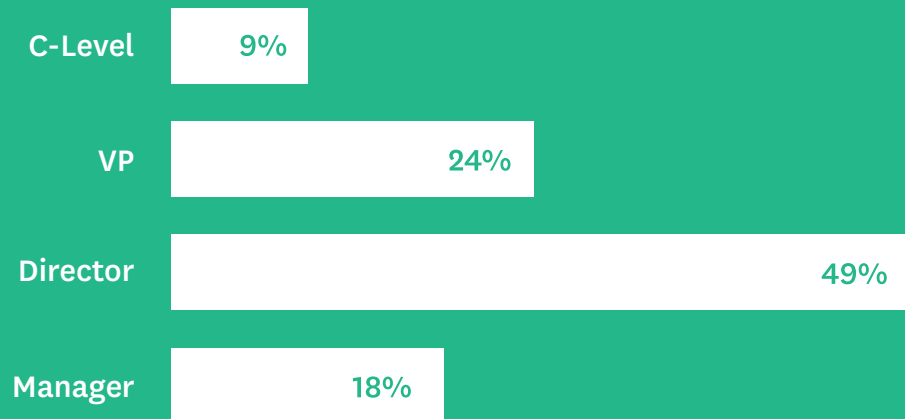


Research Demographics

Revenue



Titles



- ▶ Over 60 grocery retail executives participated in the survey.
- ▶ 82% of respondents were Directors or VPs & above at their respective organizations.
- ▶ 100% of respondents participated voluntarily.

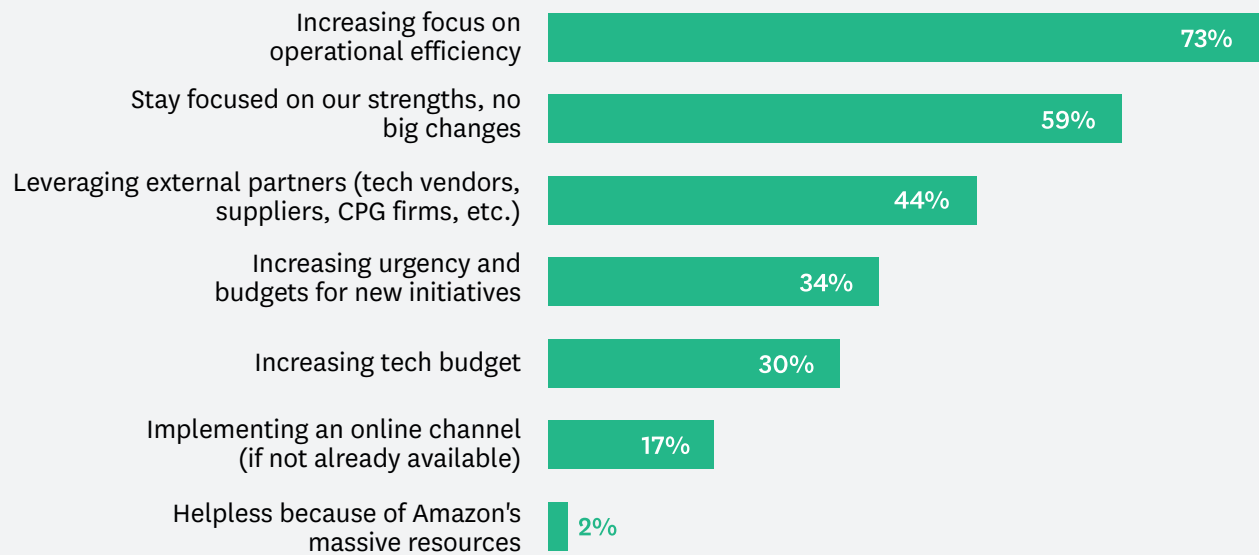
A person wearing a white and black striped shirt and blue jeans is using a smartphone in a grocery store aisle. The background is blurred, showing shelves of products and bright overhead lights. The person's hands are the central focus, with one hand holding the phone and the other tapping the screen. A ring is visible on the ring finger of the right hand.

State of

the Grocery

Market

▼ What describes your company's reaction to the threat of Amazon in grocery?



Key Takeaways

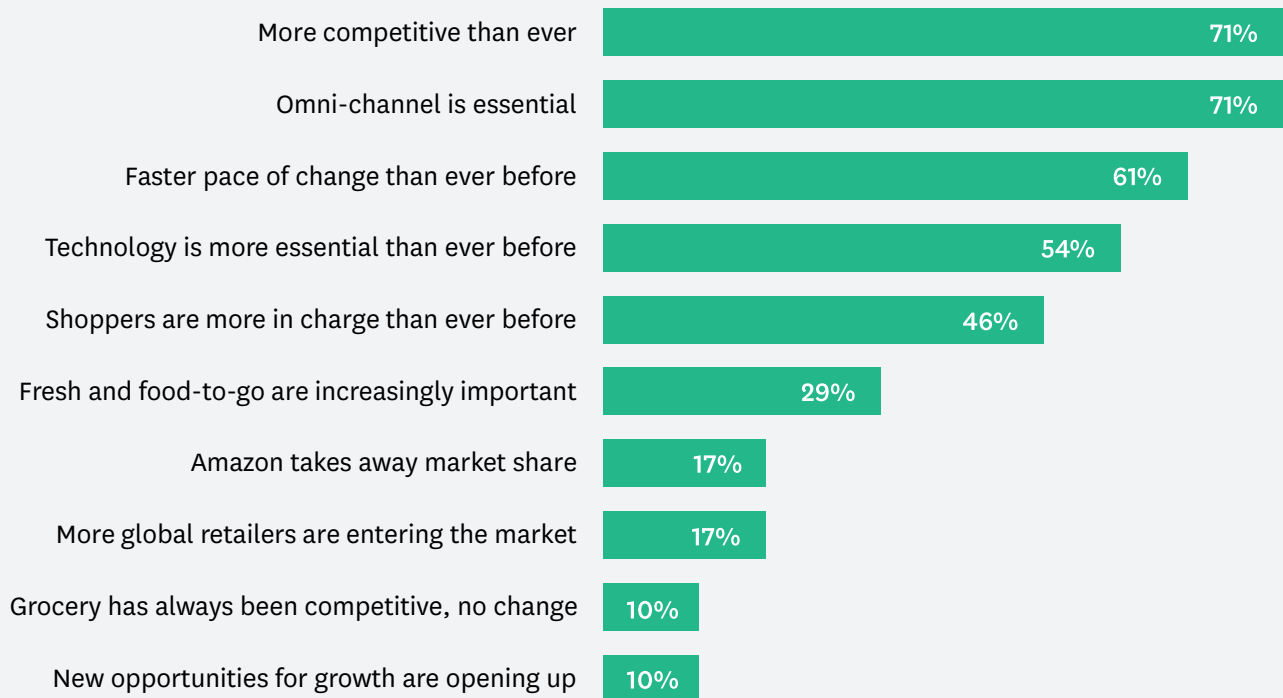
It's encouraging that in the face of Amazon's shake-up of the grocery market that only 2% of respondents feel helpless. 59% don't plan any big changes in response and are going to stay focused on their strengths.

Not surprisingly, nearly three quarters of respondents are going to focus on operational efficiency which will be required to compete effectively with Amazon and maintain margins when competing against discounters.

Only 17% are implementing an online channel, but you'll see later in this report that this low percentage is likely due to so many grocery retailers having already added an online channel.



▼ What is your assessment of the current competitive environment in grocery?



Key Takeaways

It's not surprising that 71% of respondents view the grocery market as more competitive than ever and view being omni-channel as essential given Amazon's acquisition of Whole Foods and the aggressive moves so many are making in online grocery retail. Only 17% believe that Amazon is going to take market share which seems consistent with so few respondents feeling helpless facing Amazon's massive resources.

Only 29% of respondents view fresh and food-to-go as increasingly important which is interesting as 82% of respondents (refer to the fresh food section of this report **page 11**) said fresh products are Very Important to their business.

With only 10% seeing new opportunities for growth, it's not surprising that 73% of respondents are focusing on operational efficiency.

A close-up photograph of a person's hands holding a tablet computer. The person is wearing a dark blue shirt. The background is a blurred grocery store aisle with green plants and warm, bokeh-style lighting. The text 'Online Grocery Adoption' is overlaid on the left side of the image in three stacked black boxes with white text.

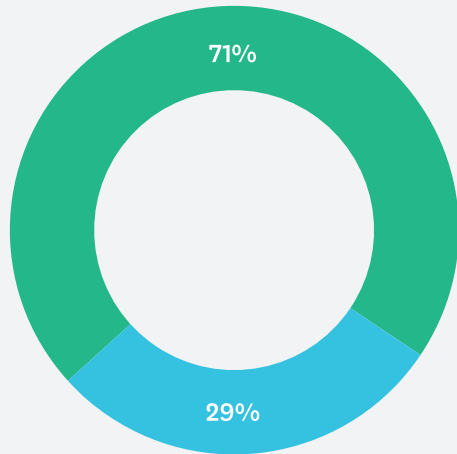
Online

Grocery

Adoption

▼ What channels does your business operate?

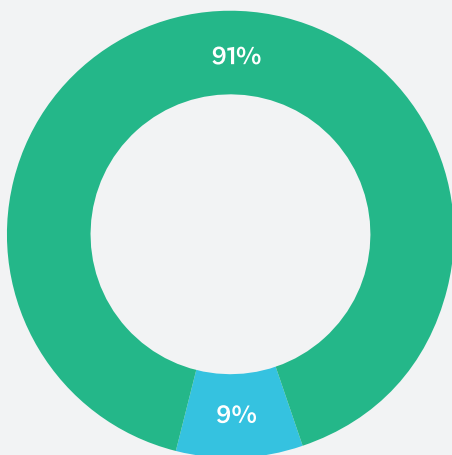
Combined Brick & Mortar and Online



Brick & Mortar Only

▼ Where are items picked for online order fulfillment?

Pick in Store



DC, dedicated fulfillment centers or dark stores

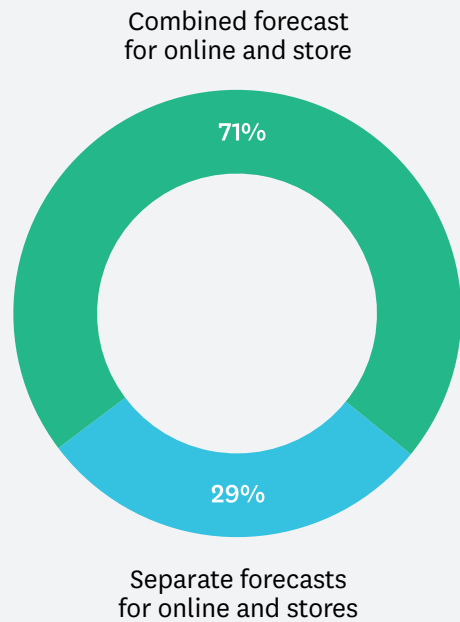
Key Takeaways

A **recent study** by FMI and Nielsen predicts that by 2022 consumers could be spending \$100 billion dollars a year on online grocery. That's equal to every U.S. household spending \$850 annually online for food and beverage. It's now expected that in just 5-7 years, as many as 70% of U.S. consumers will regularly purchase consumer packaged goods online.

With this rapid adoption of online grocery, it's good to find that nearly three quarters of the responding companies already operate both brick & mortar and online shopping channels. Some retailers are enabling online shopping through partnerships with third-parties including Instacart.

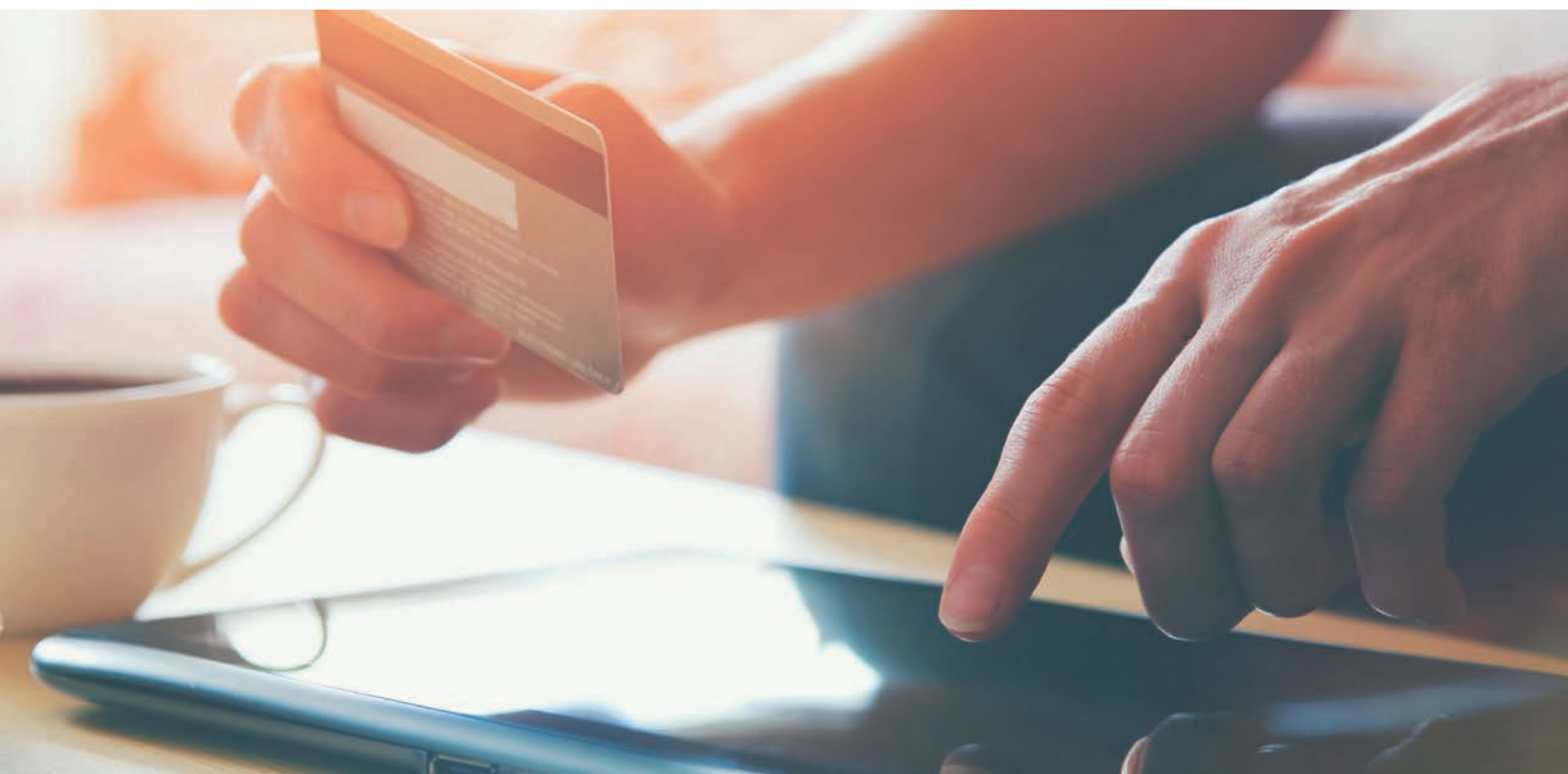
91% of responding companies that offer an online shopping channel are picking online orders in store for fulfillment. This percent will most likely decrease in coming years as online volumes grow, enabling grocery retailers to implement alternative order fulfillment methods that allow for the use of automation. Also, retailers need to ensure that fulfilling online orders does not impact the in-store customer experience. Therefore, as online orders continue to increase, it is expected that more grocery retailers will turn to dedicated fulfillment centers as an alternative to picking orders in store.

▼ **How do you forecast for store and online sales?**



Key Takeaways

71% of responding companies operating both brick & mortar and online channels do not produce separate forecasts by channel. Separate forecasts are very important when orders are not picked in stores, but rather in specialized fulfillment centers. They are also important when orders are picked in stores to support, for example, workforce planning, as order picking is labor intensive. Therefore, RELEX anticipates that the number of grocery retailers producing separate forecasts by channel will increase.



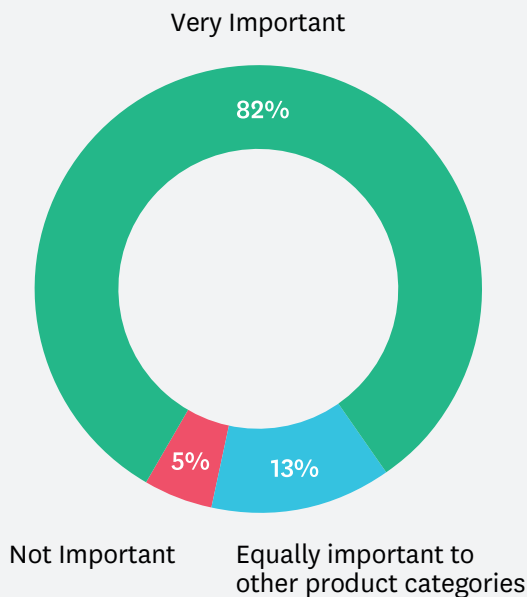


The Rising

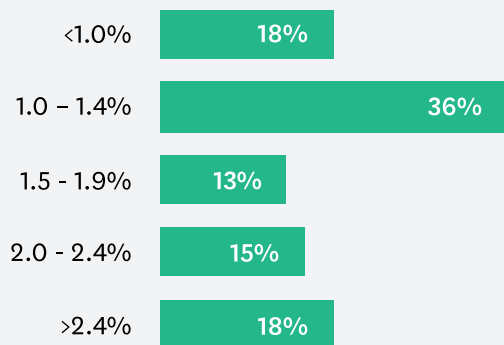
Importance of

Fresh Food

▼ **How important are fresh products to your business?**



▼ **What is the cost of expired and spoiled fresh products in relation to total revenue?**



Key Takeaways

Today’s consumers are increasingly demanding more fresh food products including food-to-go and meal kits and many brick & mortar grocery retailers are using fresh products as a means to draw shoppers into their stores. Therefore, having 82% of respondents rate fresh products as Very Important to their business is consistent with this trend.

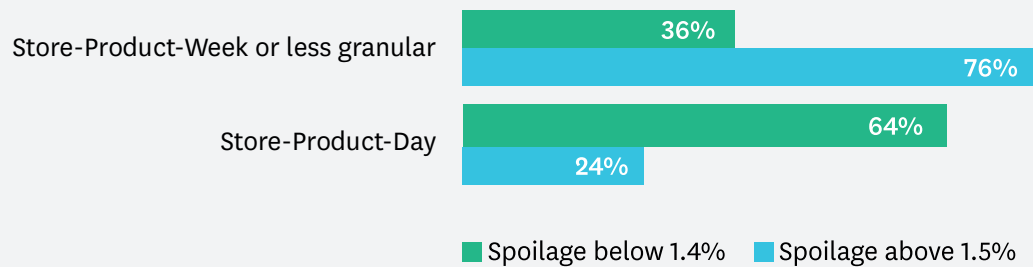
Spoilage is a large, margin-impacting challenge and, if unaddressed, will only get worse as the importance of fresh products increases. Based on the survey respondents, average spoilage is around \$70 million per year going up to several hundred million per year for the largest grocers.

The respondents were almost equally split between those with spoilage less than 1.4% and those with spoilage above 1.5% of revenue.

In the next few questions, we will take a look at how the planning processes employed and the granularity of planning can potentially impact the level of spoilage by comparing these two groups of respondents.



▼ At what level do you forecast store sales?



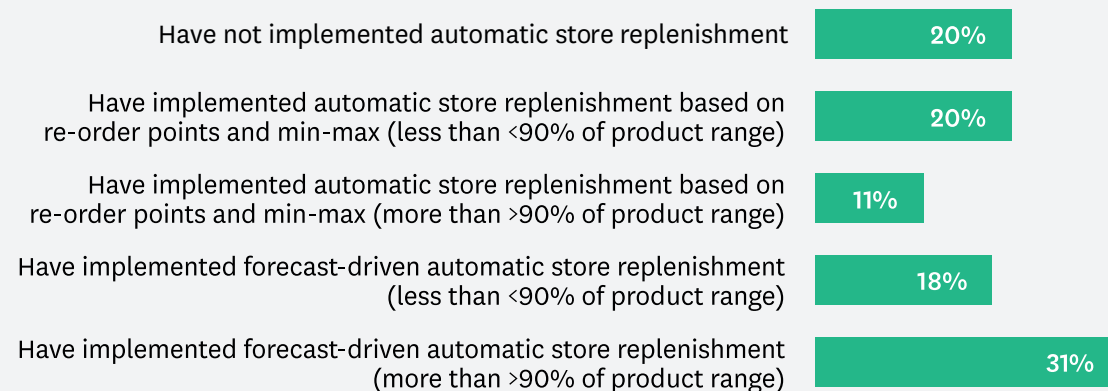
Key Takeaways

Based on the responses, it appears clear that more granular forecasting – day rather than week level – is helpful in reducing spoilage.

From RELEX’s experience working with grocery retailers, we have found it very hard to accurately forecast fresh product demand without taking into account weekday variations in demand and day-level forecasting is also important in attaining good replenishment results.



▼ What is the state of your store replenishment?

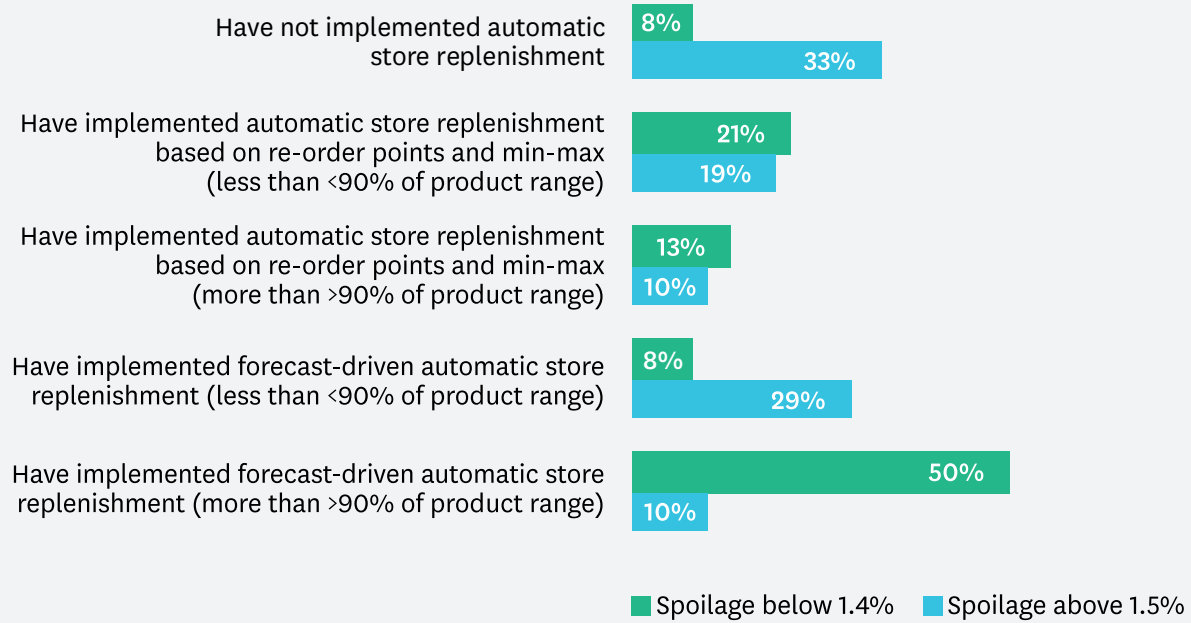


Key Takeaways

It's surprising that 20% of respondents haven't yet implemented automatic store replenishment at all and that less than a third have implemented forecast-driven automatic store replenishment extensively.

With 73% of respondents wanting to increase operational efficiency, implementing or improving automatic store replenishment could be a logical place to start and a quick win.

▼ What is the state of your store replenishment?



Key Takeaways

Those that have implemented forecast-driven automatic store replenishment (58%) are far more likely to have lower spoilage than those that have not implemented automatic store replenishment at all (33%). The use of automatic store replenishment based on re-order points and min-max were used at similar rates by both groups.

RELEX's experience is that grocery retailers can attain spoilage reductions of 10-30% by moving to forecast-driven automatic replenishment.

A top-down view of six white eggs nestled in a blue egg carton. The eggs are arranged in two rows of three. The carton's material is a textured, fibrous blue paper. The lighting is even, highlighting the smooth surface of the eggs.

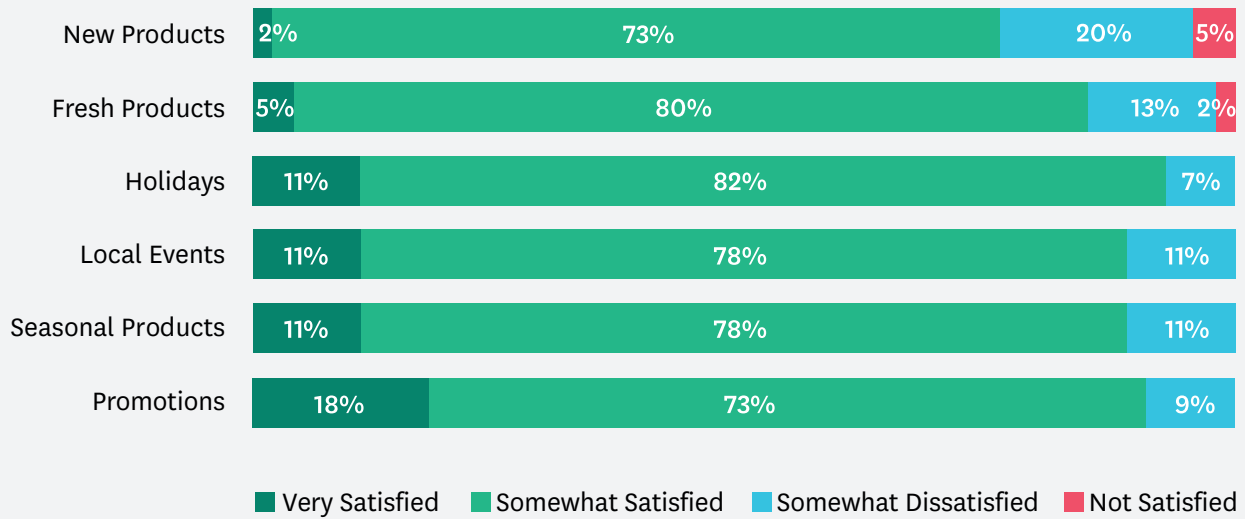
Demand

Forecasting

Challenges &

Opportunities

▼ Rate how efficient and accurate your forecasting is for:

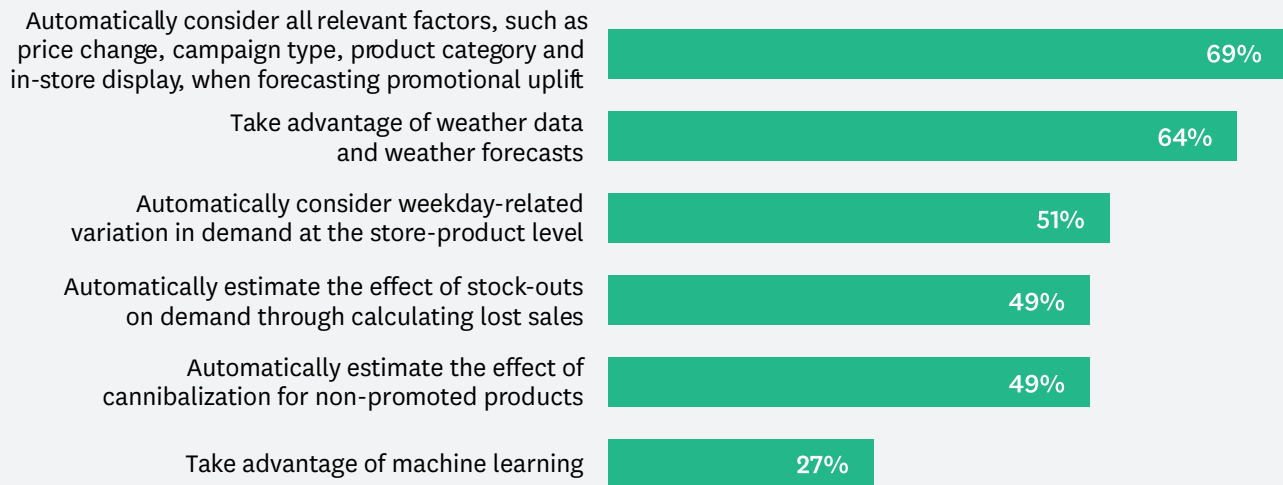


Key Takeaways

The majority of respondents are somewhat to very satisfied with their forecasting overall. Forecasting for new and fresh products are the two item types with the largest room for improvement. It is surprising that 84% are somewhat to very satisfied with their fresh product forecasting while nearly half of all responding companies (refer to the fresh food section of this report on **page 11**) report spoilage of more than 1.5% of total revenue. A lower spoilage rate might be expected with such a high level of satisfaction, however, maybe forecasting isn't viewed as the cause of the spoilage.



▼ What would you like your current forecasting system to do - that you can't do at present?



Key Takeaways

With the importance of promotions in today's retail environment, it's not unexpected that 69% of respondents would like their forecasting systems to better automatically predict promotional uplift. Nearly as many respondents would also like to be able to take advantage of weather data in their forecasts.

It is surprising that 51% of respondents would like their forecasting systems to automatically consider weekday-related variations in demand at the store-product level given that 84% are satisfied or very satisfied with their fresh item forecasting. RELEX has found it nearly impossible to accurately forecast fresh product demand without considering weekday-related variations.

Given all of the hype around machine learning, it is also interesting that only 27% of respondents want to take advantage of it in their forecasting.

A woman with brown hair, wearing a white long-sleeved shirt and a blue denim apron, is standing in a store aisle. She is holding a silver pen in her right hand and writing on a brown clipboard held in her left hand. The background shows shelves stocked with jars of honey or similar products, some with labels like 'Cilantro' and 'Almond'. The lighting is warm and focused on the woman.

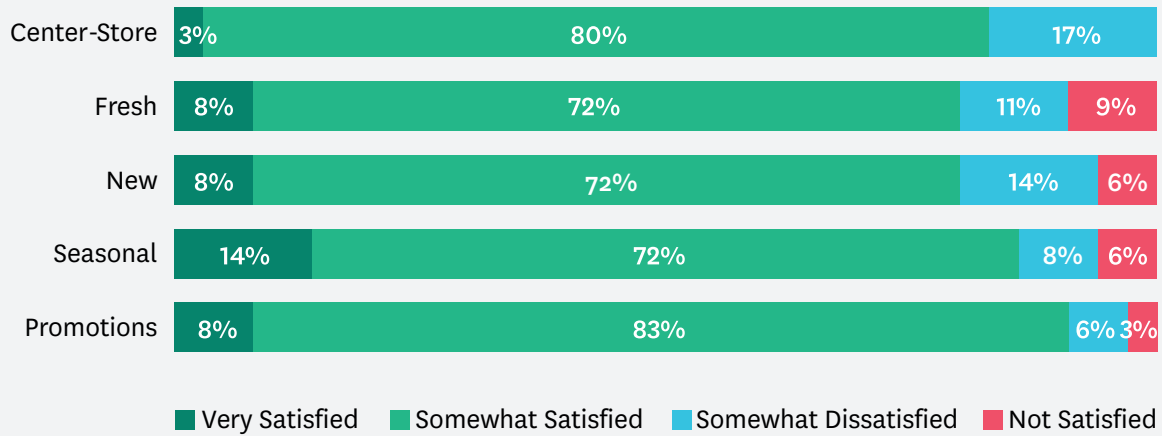
Store and DC

Replenishment

Opportunities

& Challenges

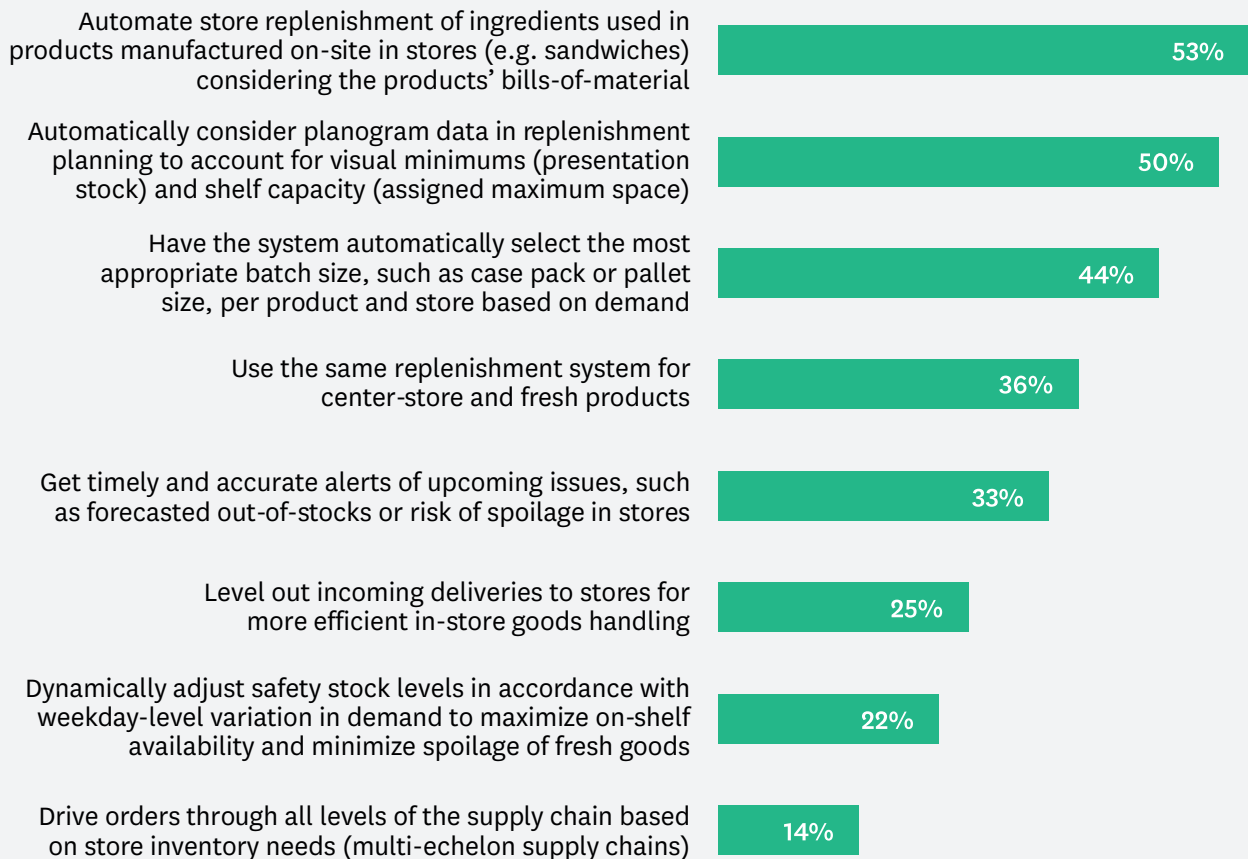
▼ How efficient and accurate is your automatic store replenishment for:



Key Takeaways

Not surprisingly, the respondents are quite satisfied with their center-store planning while fresh food replenishment shows the largest opportunity for improvement. Overall the levels of satisfaction with automatic store replenishment are good which is surprising given the low degree of automatic store replenishment maturity presented in the previous section.

▼ **What would you like your automatic store replenishment system do - that you can't do at present?**



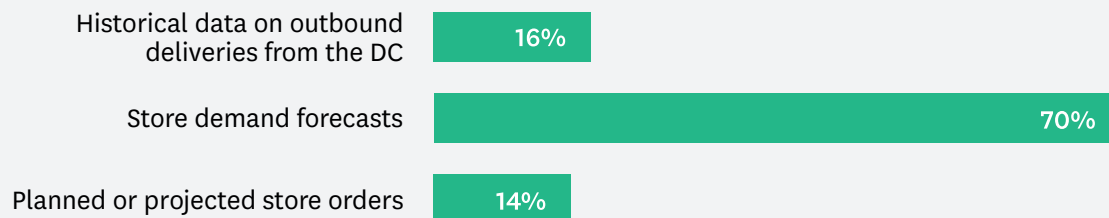
Key Takeaways

53% of respondents are interested in the automated replenishment of ingredients which is consistent with the growing demand for food-to-go and meal kits. Also, more grocery stores are adding in-store restaurants to draw in shoppers which adds to planning complexity.

50% are interested in their store replenishment planning becoming more space aware through considering planograms. The integration of planograms into replenishment opens new opportunities for operational efficiency.



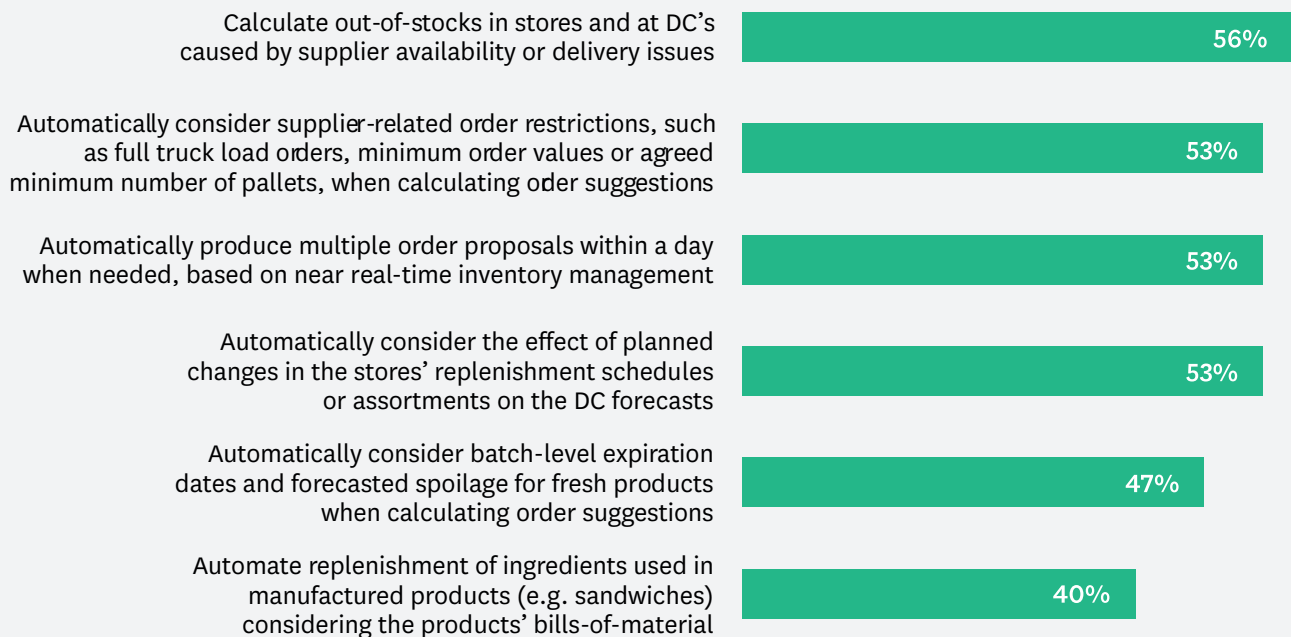
▼ What are distribution center forecasts based on?



Key Takeaways

Only 14% of respondents are basing distribution center forecasts on planned or projected store orders which presents a good opportunity for 86% of the respondents to reap the benefits of leveraging planned store orders to drive DC planning. Given that 53% of respondents to the next question said that they would like their DC inventory management system to automatically consider the effect of planned changes in stores' replenishment schedules or assortments, it appears that while many aren't currently using projected store orders, they do recognize the potential benefits.

▼ What would you like your DC inventory management system do - that you can't do at present?



Key Takeaways

56% of respondents would like to be able to calculate out-of-stocks caused by supplier issues. Out-of-stocks are a costly problem that not only result in lost sales, but disappointed customers. Addressing supplier issues can reduce out-of-stocks and also the costly buffer inventory maintained to protect against supplier delays.

It's consistent with the previous question that 53% would like a closer connection between their store and DC plans. Using stores' projected orders to forecast DC demand can help retailers automatically capture the impact of assortment changes, upcoming promotions and changes in replenishment schedules in their DC requirements planning.

The 53% of respondents that want to automate order proposal suggestions that account for supplier minimums and restrictions should consider best-of-breed replenishment systems that can support this level of automation.

A close-up, shallow depth-of-field photograph of a person's hands typing on a white laptop keyboard. The person is wearing a dark watch on their left wrist. The background is heavily blurred, showing what appears to be a computer monitor and some papers. The lighting is soft and natural, coming from the side.

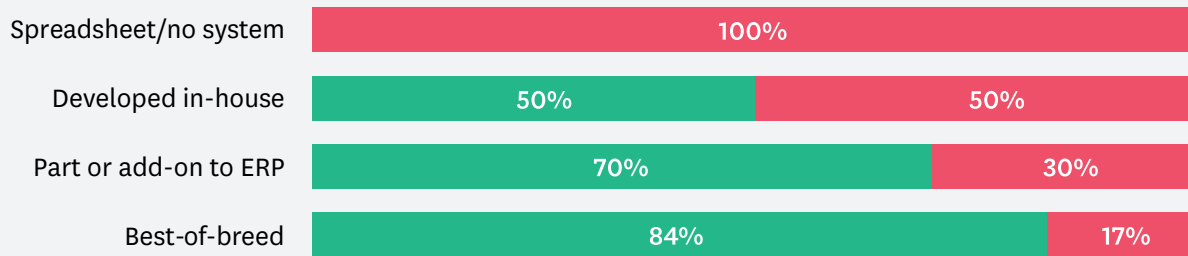
Will

a New System

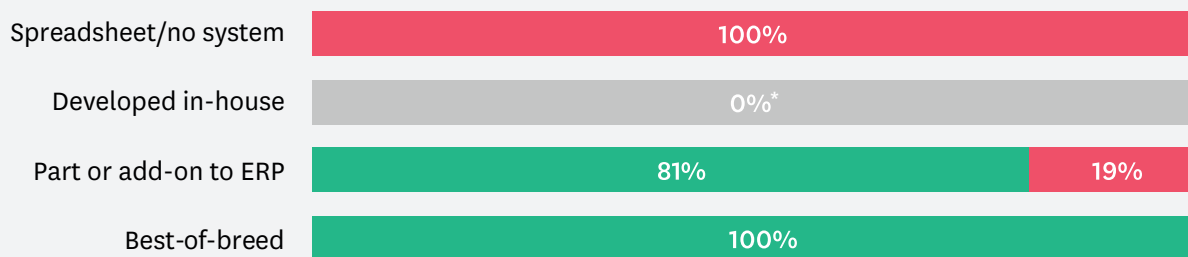
Improve Your

Satisfaction?

▼ Satisfaction by Type of System Used – Demand Forecasting

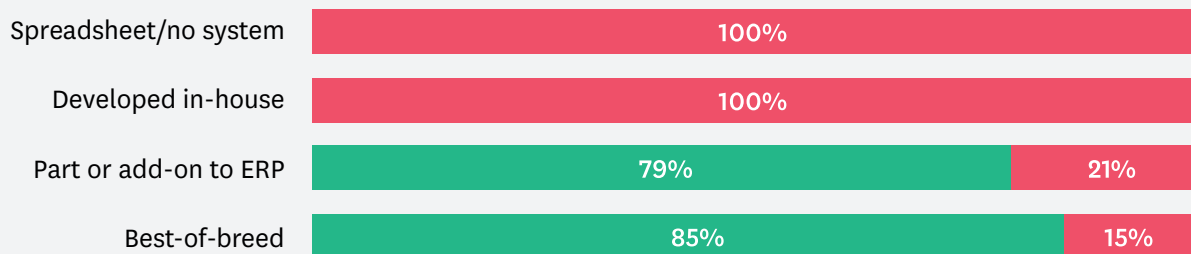


▼ Satisfaction by Type of System Used – Store Replenishment



*Note: No respondents reported using Developed in-house systems for replenishment.

▼ Satisfaction by Type of System Used – DC Inventory Planning



■ Very Satisfied/Satisfied ■ Somewhat Satisfied/Not Satisfied

Key Takeaways

The key takeaway from the respondents' satisfaction with their systems is that developed in-house systems and spreadsheet-based systems or not having a system at all are NOT the keys to satisfaction. Those seeking satisfaction with their systems should look to best-of-breed solutions or ERP systems or add-ons that can support these important planning functions.

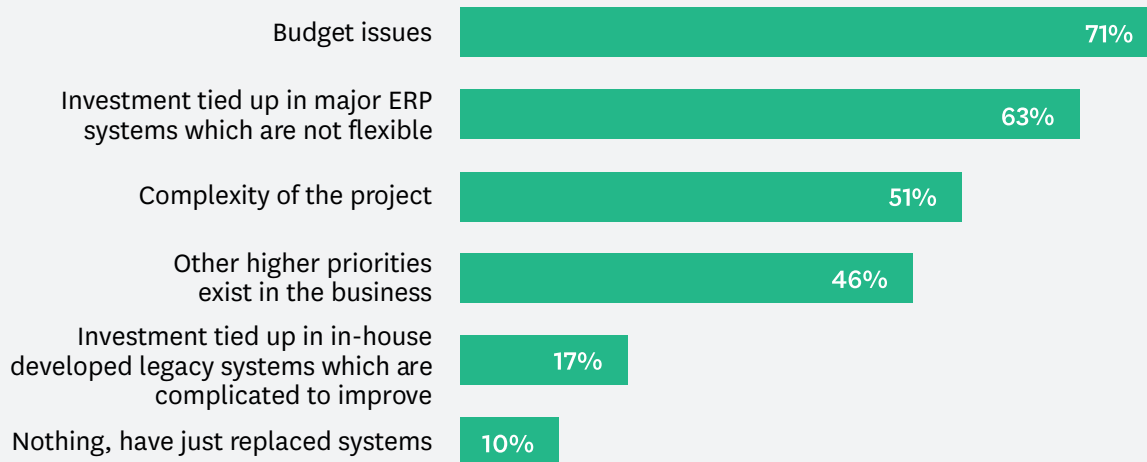


What's

Standing

in the Way?

▼ **What are the main things that would stop you from investing in new retail and supply chain planning systems?**



Key Takeaways

In the first question of this report, 34% responded that they are increasing urgency and budgets for new initiatives and 30% responded that they are increasing tech budgets in order to compete with Amazon, however 71% of the respondents still cite budget issues as holding them back from investing in new retail and supply chain planning systems. 63% have their budgets tied up in ERP systems.

Those facing budget issues may want to undertake some ROI research to determine if a demand forecasting or replenishment planning replacement project may not only increase their system satisfaction, but also quickly pay for itself. Modern SaaS-based solutions can be quicker to implement and more cost-effective to operate than legacy systems.

A person wearing a striped shirt is using a smartphone in a grocery store. The image is overlaid with a semi-transparent blue filter. The text is centered on the left side of the image.

RELEX

**Recommendations
for Growing
and Sustaining
Competitive
Advantage in
Grocery Retail**

A CLEAR FINDING from this research survey is that in the face of fierce competition and with limited opportunities for growth, a clear majority of grocery retailers see improving operational efficiency as their key priority.

The good news is that for most grocers there is still low hanging fruit in improving operational efficiency and quick wins to be had, especially in lowering the cost of fresh food waste.

- ▶ For the companies participating in this survey, the annual value of spoilage was on average around 70 million and up to several hundred million annually for the largest companies offering a wide range of fresh products.
- ▶ The survey responses also demonstrate that the implementation of forecast-based automated store replenishment is linked to lower levels of spoilage.
- ▶ As a whopping 20% of the respondents still haven't even started implementing any kind of replenishment automation in their stores and only 30% of the companies have managed to implement forecast-based automated store replenishment extensively in the categories they offer, there is a lot of money on the table. RELEX's experience is that grocery retailers typically attain spoilage reductions of 10-30% by implementing forecast-based automatic store replenishment.



In addition to enabling massive cost savings and higher customer satisfaction via fresher, higher quality products, investing in a first-class forecasting and replenishment system allows grocery retailers to attain other efficiency improvements and address some of their main concerns, including:

- ▶ Improving demand forecasting accuracy by accounting for weekday-related variation in demand and taking richer data on promotions, as well as weather effects, into account.
- ▶ Automatically managing recipe-based or so-called BoM (bill-of-material) products in store and distribution center replenishment, which is becoming increasingly important with the growing consumer demand for food-to-go and meal kits.
- ▶ Basing distribution center replenishment planning on stores' projected future orders to accurately capture the effect of planned changes in store assortments and delivery schedules, as well as stock-ups in preparation of promotions and seasons.
- ▶ Automatically dealing with supplier restrictions, such as full truck load deliveries or minimum order values, in DC replenishment.
- ▶ Producing separate forecasts for store and online sales to make planning for and fulfilling online orders in store more accurate and efficient.

It is no surprise that best-of-breed systems and ERP add-on modules were linked to lower levels of spoilage and higher satisfaction in the survey results. Attaining good replenishment results requires granular, i.e. day-level or even intraday forecasting, in combination with advanced replenishment calculations, something that is very difficult to develop in-house.

Most respondents identified budgetary issues, investments being tied up in ERP projects and fear of the complexity of implementation as the main reasons why they are not investing in improved retail and supply chain planning systems. Yet, modern best-of-breed systems minimize budget issues and complexity worries through SaaS deployments and flexible integration. Investing in a new system no longer has to mean lengthy contracts and large up-front payments.

Related Resources

We hope you found the results of this survey-based research study interesting and discovered some ideas you can use to improve your retail and supply chain planning. Here are some RELEX whitepapers, blog posts and eBooks which we think you will also find interesting as they support many of the key findings in this report.

Whitepapers:

[Fresh Forecasting & Replenishment: Master Weekday Variations](#)

[Fresh Food Forecasting & Replenishment: Master Spoilage](#)

[The Pitfalls of Automating Replenishment Ordering and How to Avoid Them](#)

[A More Efficient Ordering Process Through Better Exception Management](#)

[Fresh Forecasting & Replenishment: Running an Efficient Omni-Channel Grocery Retail Operation](#)

[The Impact of Machine Learning in Demand Forecasting](#)

[The Building Blocks of Successful Forecasting and Replenishment Implementations for Fresh Goods](#)

[Towards a Weather Proactive Supply Chain](#)

[Considering Cannibalization and Halo Effects to Improve Demand Forecasts](#)

[More Accurate Promotion Forecasting with Causal Modelling](#)

[With SaaS Solutions Offering Speed, Agility and No Tie-ins It's Time to Leave the RFP Behind](#)

Blogs:

[Best Practices in Weather-based Sales Forecasting](#)

[The Benefits of Optimizing Your Store Replenishment Process](#)

[Unified Retail Planning – Breaking Out of Retail's Functional Silos](#)

[How To Approach Tackling Spoilage In A Mid-sized Grocery Chain](#)

eBook:

[Solving the Ultimate Grocery Supply Chain Challenge](#)

About RELEX

RELEX Solutions is dedicated to helping retail businesses improve their competitiveness through localized assortments, profitable use of retail space, accurate forecasting and replenishment, and optimized workforce planning. Our SaaS solutions deliver quick return on investment and can be used independently or jointly for unified retail planning, enabling cross-functional optimization of retail's core processes: merchandising, supply chain and store operations.

Our unified retail planning technology adapts easily to changing operations and processes, whether you are a fast-growing challenger or a multinational. RELEX enables businesses to plan better, sell more and waste less however fast the market changes. Bring us your toughest challenge and we'll help you solve it.

Through our retail expertise, innovative technology and agility, we build strong, enduring, award-winning partnerships with our customers. We can introduce you to any RELEX customer you choose for a frank and independent assessment of our solutions. RELEX Solutions is trusted by leading brands including WHSmith, Morrisons, AO.com, Coop Denmark and Rossmann, and has offices across North America and Europe.

About Elastic Solutions

Elastic Solutions is a leader in strategic marketing and lead generation services for the B2B high-tech community. They were responsible for generating the data for this report. For more information, please visit www.elasticroi.com