

Deloitte.



Resilience in the Face of Uncertainty: Rethinking Fresh Food Strategies

Insights from the FMI FreshForward
2020 Executive Forum



Resilience in the Face of Uncertainty: Rethinking Fresh Food Strategies

Insights from the FMI FreshForward 2020 Executive Forum

FMI AND DELOITTE: WORKING TOGETHER TO IMPROVE FOOD FRESHNESS

The COVID-19 pandemic sent shocks throughout our food system. An entire market effectively disappeared overnight with the closure of food service establishments. The resulting stress to the retail channel left grocers scrambling to restock empty shelves. Despite being tested like never before by this pandemic, the fresh category showcased its resilience by swiftly shifting supply from one market to another and connecting growers with heaps of produce now without a destination to new retail outlets or food banks. From retooling packaging lines to accommodate new pack sizes to repurposing distribution networks and forming new partnerships with local providers, the fresh category demonstrated its exceptional ability to improvise.

The pandemic has supplied us with countless stories of heroic measures taken by various suppliers and retailers as they continue to serve consumers throughout the crisis. It has also revealed opportunities to improve the fresh category's ability to predict and respond to potential disruptions in the future. Deloitte's new future of [fresh survey](#) indicates a new customer segment: the "contemporary" consumer. These consumers tend to buy more fresh foods, are willing to pay more for freshness, and are responsible for the acceleration of trends in the fresh industry. Understanding contemporary consumers and finding ways to specifically cater to them today can help the fresh industry hold off competition and unlock future growth. Our survey also found that 80% of fresh sales come from frequent shoppers, but the number of frequent shoppers is declining due to safety concerns around going in-store. How can the fresh category meet the challenge to get these shoppers back? As an industry, we face new imperatives to work together to rebuild consumer confidence, rethink health and safety, and form ecosystems that can smooth out demand.



— Barb Renner

Vice chairman and US Consumer Products leader, Deloitte LLP



FMI is committed to helping our members navigate consumer shopping habits in complex categories, especially those influenced by volatile markets and limited shelf life—historically, meat, produce, food service, seafood, and bakery, but widening in 2020 through 2021 to reflect new shopper perspectives resulting from the COVID-19 pandemic. To that end, in addition to investing in consumer research and insights, FMI once again held our annual FreshForward event to give industry leaders an opportunity to review and discuss the business implications for the fresh category and how large industry players view fresh foods as a competitive differentiator.

Fueled by the daily insights of featured CEOs Vivek Sankaran of Albertsons Companies, Rodney McMullen of Kroger Co., and Kevin Holt of Ahold Delhaize USA, FreshForward generated actionable takeaways for industry leaders grappling with the effects of the pandemic. Organized and facilitated with an organic approach, we encouraged thought leadership and problem-solving among food retailers and their suppliers through FreshForward’s signature breakout sessions. This year’s focus was on consumer behavior, supply chain, and sustainability.



— Rick Stein
Vice president, Fresh Foods FMI

FRESHFORWARD 2020 PREMIER SPONSORS



INTRODUCTION

FreshForward 2020, developed in collaboration with Deloitte, provides a unique opportunity for fresh food industry leaders to collaborate and identify action steps to keep the industry moving forward. In preparation for the third year of the event, FMI consulted with its members to identify the themes most critical to the industry. When the COVID-19 pandemic hit and disproportionately affected the food retail industry (see figures 1 and 2), we updated the themes for FreshForward accordingly. We created a forum for industry leaders to discuss consumer, supply chain, and sustainability issues in the context of new COVID-19–related challenges. Though this year’s event was transformed into a virtual format, the goal remained the same as the previous two: facilitate discussions, via the signature breakout sessions, that help establish action items for the industry.

The three themes for the FMI FreshForward 2020 executive forum were:

1. The consumer in fresh during COVID-19 and beyond
2. Fresh supply chain in the pandemic environment
3. Sustainability in the coronavirus era and beyond

The spike in fresh was primarily driven by sales at traditional grocers and by meat, seafood, and dairy

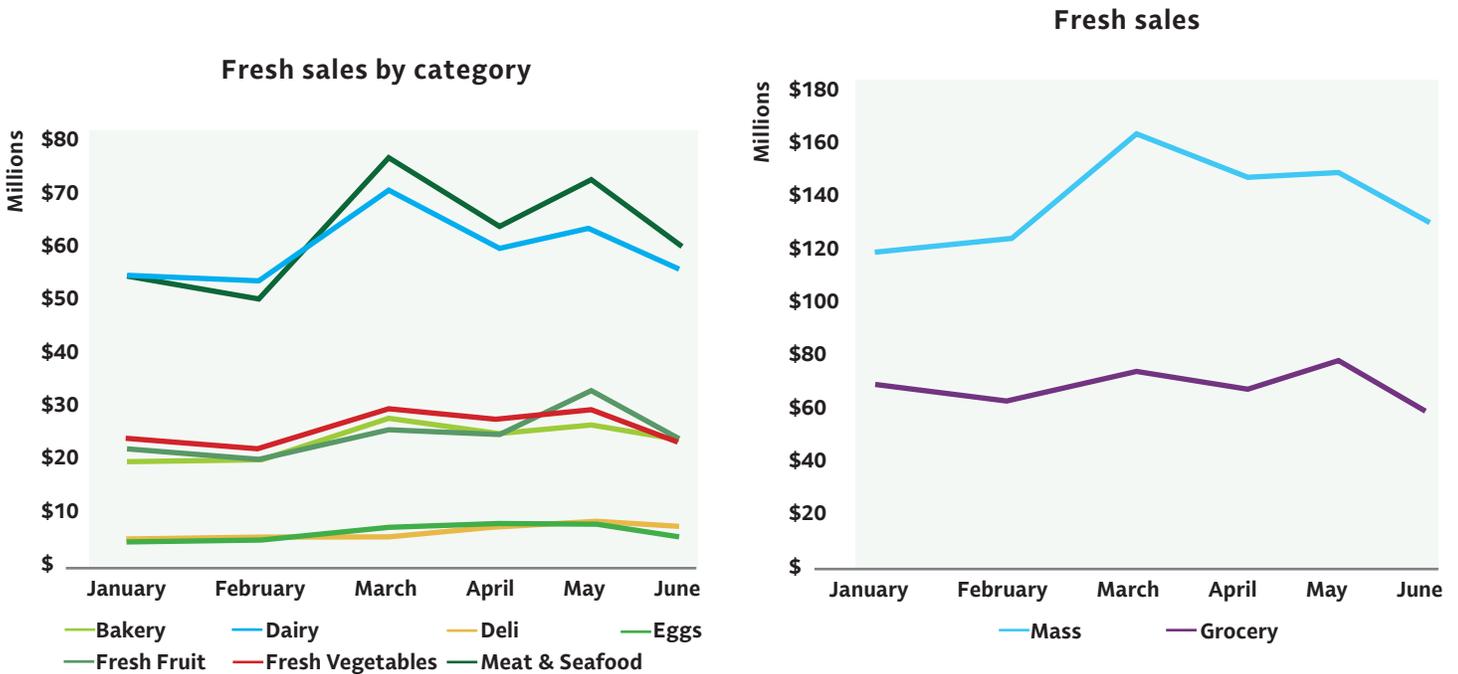
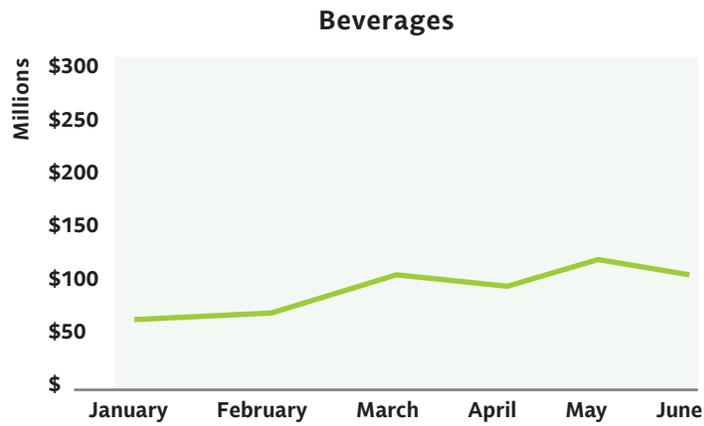
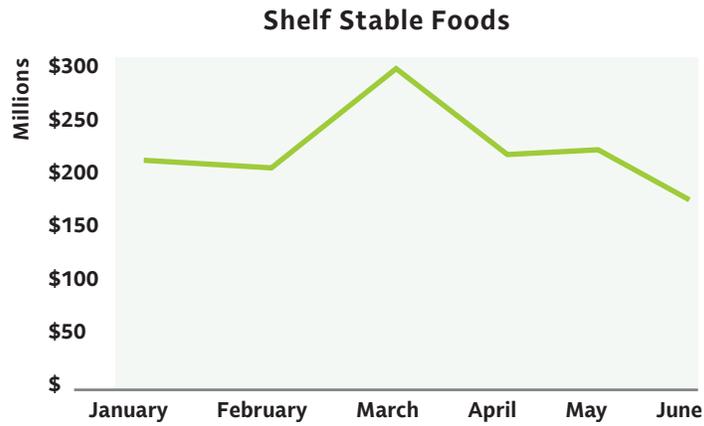
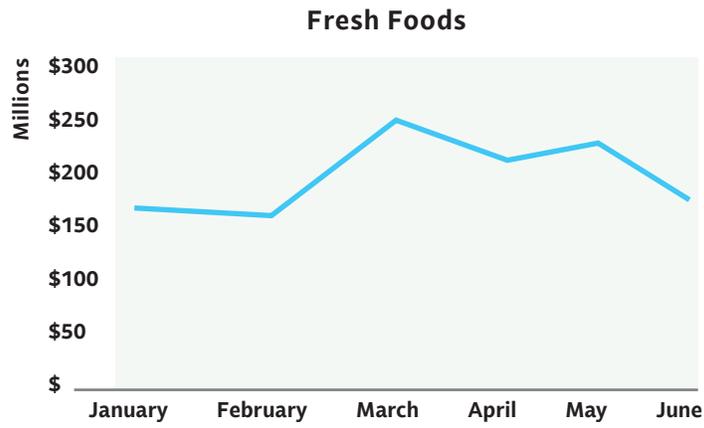


Figure 1

InSightIQ:
FACTS. PERSPECTIVE. ACTION.

Source: Card spend and receipt capture panel
Copyright © 2020 Deloitte Development LLC. All rights reserved.



Grocery sales compiled across 44 major grocery chains and mass merchants. Fresh Foods include Bakery, Dairy, Deli, Eggs, Fresh Fruit, Fresh Vegetables, and Meat & Seafood

InSightIQ:
FACTS. PERSPECTIVE. ACTION.

Source: Card spend and receipt capture panel
Copyright © 2020 Deloitte Development LLC. All rights reserved.

Figure 2

DAY 1

THE CONSUMER IN FRESH DURING COVID-19 AND BEYOND

CEO INSIGHTS

Setting the tone for a day of discussion all about the consumer, Vivek Sankaran, president and CEO of Albertsons, reflected on the dramatic shift in how the fresh category engages consumers. The focus is no longer on providing consumers with an appealing in-store experience that engages their senses. It's been replaced by the need to address present-day concerns around health and safety. Vivek had three challenges for attendees:

1. Bring excitement back to fresh food shopping—whether through product or packaging innovation
2. Help solve for new problems that consumers may face, such as those around in-home meal preparation
3. Help redirect the food supply from restaurants that no longer need it to retail

PANEL PERSPECTIVES

Panel discussions focused on understanding customer sentiment during this time and identifying ways to address their concerns and meet their changing needs.

How are consumers feeling?

Steve Rogers (Deloitte Services LP), managing director of the Consumer Industry Center, presented findings from *Deloitte's State of the Consumer Tracker*, a series of surveys conducted biweekly across the United States and 17 other countries. Almost one-half of consumers in the United States do not feel safe going into stores and want more one-stop shop experiences to limit their potential exposure to the virus. As a result, the consumer mindset is shifting. People are shopping less and exploring different channels, such as online. And while 90% still say price is the main driver in their shopping, safety is now a close second at 89%. What hasn't changed? Nine out of 10 consumers still say that eating fresh makes them happier, and many are still willing to pay a premium for fresh goods. That's good news for the industry.

THE ECONOMIC CONTEXT

Deloitte's managing director for Economics, Patricia Buckley (Deloitte Services, LP), provided a lay of the land on the broader economy and the fresh business during this pandemic. The overall outlook is less than favorable.

GDP has seen its steepest decline in several decades.

Economic recovery is likely to be prolonged and K-shaped, meaning that some parts of the economy would grow, while others would not, but few would remain exactly as they had been before the pandemic.

Fresh industry impacts vary widely: Grocers are seeing huge growth, while restaurants are experiencing a sharp drop-off.

What do consumers want?

Ujwal Arkalgud, CEO of Motivbase, presented research from the company's comprehensive search engine for consumer insight. Its ethnographic analysis of millions of online consumer interactions revealed that consumers are prioritizing three trends: a preference for locally raised foods, an alignment with and desire to shop at retailers with purpose (e.g., food waste, animal welfare, and social justice), and growing demand for ready-to-make and freshly prepared meals that contain no preservatives. As the pandemic makes fresh more relevant and important to consumers, companies that can capitalize on these trends by owning the narrative around preservative-free, never-frozen food, delivering on shared social values, and bringing the notion of the farmer's market into stores are likely to enjoy new growth opportunities.

How can fresh companies reach consumers in new ways?

Susan Schwallie, executive director of the NPD Group, highlighted opportunities to boost consumer confidence in retail food service, including in areas such as hot bars and salad bars, which have been especially affected by consumers' fears of contagion. Noting the unprecedented shifts from restaurant meals to in-home eating during April, May, and June 2020, Schwallie emphasized the opportunity for retailers to bring restaurant experiences into consumers' homes with full- or half-prepped to-go meals and packaged ingredient kits they can use to cook from scratch.

BREAKOUT DISCUSSION KEY TAKEAWAYS

In an environment marked by significant changes in consumer attitudes and behaviors—not to mention real-life threats to customers' health and well-being—what actions can fresh food companies take to increase sales?

Simplify the cooking-at-home experience. Brand a recipe site to make it easier for consumers to find recipes and convenient for them to calculate the amount of ingredients, click to add ingredients to their cart, and receive delivery or curbside pickup. FMI's Power of Foodservice at Retail indicated that 58% of consumers include a fully or semi-prepared ingredient when they cook from scratch at home. Supermarkets can seize this opportunity by focusing recipes on the "hybrid" approach to meals that combines prepackaged components with fresh ingredients for maximum speed, ease, and enjoyment.

Put safety and convenience front and center. Invest in delivery systems, prepackaged goods, and grab-and-go options that enable customers to reduce human interaction and shopping times. Although retailers have made food safety a priority for decades, they now should make "visible"

commitments to safety both in-store and out. Supermarkets should make transparent all the things they are doing to keep consumers safe. Clear signage, touchless elements to the shopping and checkout experience, workers wearing masks and gloves and engaging in frequent cleaning—they all work together to create trust in your brand when it comes to safety.

Change your competitive outlook. The industry should think about food service as a stand-alone restaurant, not a part of the store. How can the restaurant experience be brought in-store via kiosks, or even a food-truck approach, where fresh food can be custom-ordered ahead of time for pickup? This is where convenience and consumer appeal comes into play. How good is the store app for supermarket food service? Does the app look like a restaurant app? Consider creating reputational items in food service similar to what restaurants are doing.

Prepare for the next societal disruption. Plan ahead by modeling scenarios based on consumer behaviors and budgets. Keep backup inventory for popular items to be better able to meet spikes in demand.



DAY 2

FRESH SUPPLY CHAIN IN THE PANDEMIC ENVIRONMENT

CEO INSIGHTS

Rodney McMullen, chairman and CEO of Kroger Co., kicked off a full day of discussion on supply chain strategies in the face of a global pandemic. From the beginning of this crisis, Kroger has focused on providing a safe environment for customers, keeping stores open, and maintaining a strong supply chain. By connecting leadership with groups in Italy, China, and other countries, Kroger was able to anticipate how COVID-19 would continue to affect business and stores. The company quickly adapted as many big suppliers shifted production to focus on essential products—especially paper goods, bottled water, and cleaning supplies—and make more direct store deliveries. And Kroger communicated with customers to assure them there was plenty of food in the supply chain for everyone if they shopped responsibly. In an extraordinary effort to support the supply chain, Kroger also helped to offer COVID-19 testing for Smithfield Foods workers.

PANEL PERSPECTIVES

Day 2 panel discussions addressed the many COVID-19–related challenges to the fresh supply chain and how companies can leverage new, more flexible approaches (along with technology) to adapt to the new supply chain normal.

How are companies adapting to challenges?

Michael Castagnetto, president of Robinson Fresh, a division of C.H. Robinson, spoke about the approaches his company has taken to manage challenges during the pandemic, as well as any other supply chain disruption. Visibility and agility proved essential to finding workarounds, such as connecting underused food service distribution networks with retailers who needed more deliveries. Castagnetto noted that the fresh produce industry and its supply chains have been operating in a “just-in-time” world for years, but the COVID-19 outbreak has shown that there is a critical need to also have a “just-in-case” plan. Having and leveraging strong relationships was also critical to effective problem-solving. And creative thinking around how to prevent future sales loss remains a must as the impact of the pandemic continues to evolve. Retailers should establish multiple options closer to distribution and the end consumer; in other words move from a “first-mile” to a “last-mile” focus. This requires high-level order management capabilities at the individual SKU level and visibility into inventory—not just at rest, but also moving within the supply chain.

How can technology drive supply chain decisions?

Brian Baker, Deloitte managing director, said that in order to win the battle for the future of fresh, companies should aim to be preemptive—and technology can play a key role in helping them anticipate change and disruption. Analytics should be a key factor in driving businesses to improve supply, marketing, and inventory. And he cautioned that “good today is better than being great next month.” Companies shouldn’t let the pursuit of perfection stand in the way of progress when it comes to technology implementation.

How are supply chain models changing?

John Pauly, EVP and chief commercial officer of Smithfield Foods, spoke of Smithfield’s actions during the pandemic and the new supply chain model, which he believes is here to stay. It features:

- Simplification across the entire supply chain
- A focused on fewer, “power SKUs” for optimized assortment
- Items prioritized by production site to keep products local to their plants
- Paused new product launches, but with continuing R&D in categories for future production

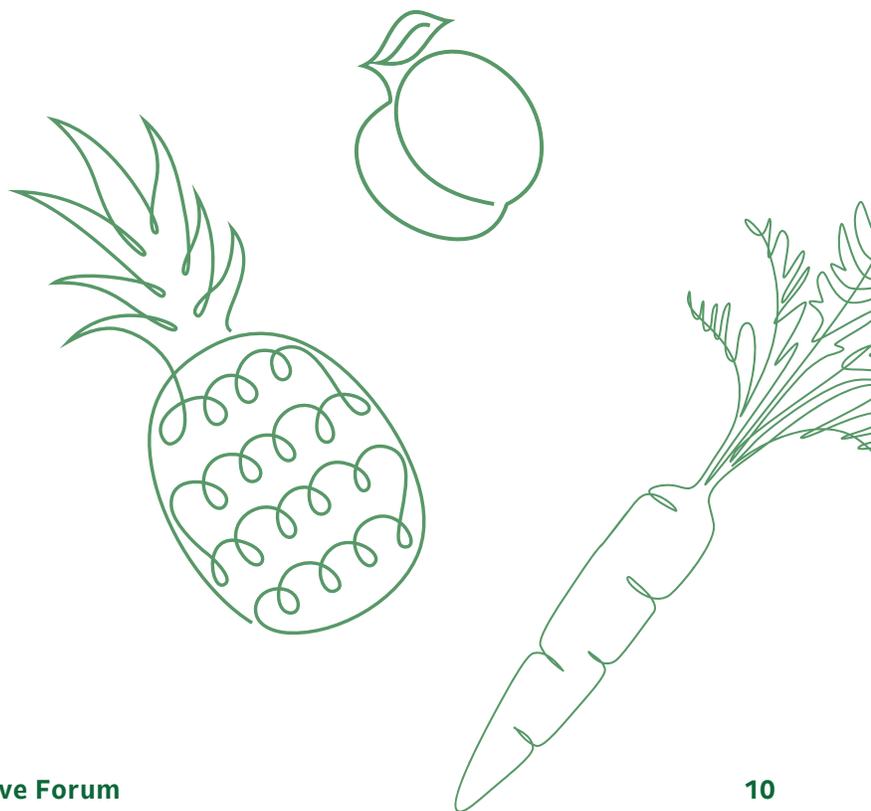
Pauly also reminded attendees that it’s important to find the right balance across all elements of the supply chain: employees, food safety and quality, animal care, environment, sustainability, and communities.

BREAKOUT DISCUSSION KEY TAKEAWAYS

The pandemic has uncovered both the strengths and shortcomings of the fresh supply chain. How can industry players quickly adapt to this new normal and at the same time bolster the supply chain to withstand future disruptions?

- **Use data effectively and responsibly.** At a time when historical purchase patterns are less useful, how can you make the most of the data that is available, sharable, and applicable now while respecting consumers’ privacy?
 - Enhance data collection tactics by looking at CDC data, web traffic, mobility data, receipt data, and other relevant sources to understand what people are purchasing at your location and at other retailers.
 - Make sure your data is rich, clean, and well-organized, since any and all outputs of your systems and functions will reflect the quality (or lack thereof) of your data.
 - When applying advanced analytics, it’s critical to balance the sharing of data and insights with suppliers—particularly for demand planning and supply forecasting purposes—with consumer data security and privacy concerns.
 - Don’t lose sight of the human element: the employees in stores who can help fill the gaps that data cannot.

- **Invest in technology.** The industry as a whole needs to use technology, particularly for predictive modeling of future shipments. Making the investment in technology now is critical, since the ramp-up can take three to six months or more. And while it is more important to move swiftly than perfectly, organizations should make the effort to establish a culture that embraces technology and breaks down operational silos.
- **Gain control over inventory and SKUs.** The pandemic has revealed that although the industry has become overly efficient in some areas (e.g., keeping low safety stock and sourcing from a single supplier), SKU proliferation has continued. Inventory approaches in the new normal will likely require keeping higher levels of safety stock, diversifying supply, and rationalizing SKUs. Remember: “If it didn’t sell during a pandemic, it’s probably not going to sell.”
- **Increase collaboration.** The pandemic also revealed how fragile the supply chain can be. All participants in the supply chain should work together as partners to help ensure the industry’s success now and in the future. This will likely require:
 - Collaborating with existing and new partners with greater understanding, transparency, and flexibility
 - Improving coordination between suppliers, retailers, and operations down to the store-employee level
 - Stepping up communications across the supply chain and with customers to explain why something is out of stock, the alternatives available, and the reasoning behind changes in size, packaging, or distribution



DAY 3

SUSTAINABILITY IN THE CORONAVIRUS ERA AND BEYOND

CEO insights

Kevin Holt, CEO of Ahold Delhaize USA, opened the final day of the conference by sharing insights on why sustainability is good for business and how the COVID-19 pandemic has only reinforced this market reality. The fresh industry should prioritize efforts (now and moving forward) that have a positive impact on the environment. From educating consumers on healthier choices and making it easier to find nutritional information in stores to working collaboratively to reduce food waste, advancing sustainability can be in the best interest of all parties involved—consumers, business stakeholders, and society at large.

PANEL PERSPECTIVES

Day 3 panel discussions explored how COVID-19 has affected industry sustainability efforts and discussed the collaborative and creative efforts that will likely be required to make progress during and after a global pandemic.

How has COVID-19 affected sustainability efforts?

Chris Foote, sustainability coordinator for Wegmans Food Markets, talked about balancing safety and sustainability during the pandemic. The use of single-use plastics has soared in recent months as safety priorities outweighed environment concerns. But that doesn't mean the industry can't find other ways to advance sustainability, including more aggressive and creative recycling, greater use of compostable and biodegradable packaging, increases in reusables, and the adoption of innovations such as bioplastics and pyrolysis.

What does real progress look like?

Two executives from Albertsons (John Beretta, group VP of meat and seafood and Starbucks, and Darcie Renn, sustainability director) discussed how merchandising and sustainability can work together to move the ball forward on sustainability and drive revenue. Cross-functional teams can help drive market solutions across the industry, including with suppliers and RFPS. Customers also have a role, so be sure to educate them. It is also important to streamline, taking advantage of scale of operations to ensure closed-loop and end-life recycling. And organizations should recognize that cost-cutting early in the process might mean organizations have to spend more to dispose of nonsustainable products.

How can the industry collaborate to advance the sustainability movement?

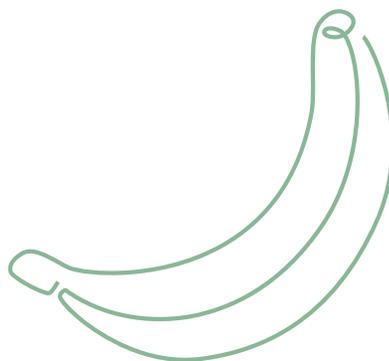
Viviana Alvarez, head of sustainability for Unilever, discussed the economic opportunity that increased sustainability can have globally, using food waste as an example. Customers are expecting visible and vocal support of sustainability from the industry, but real progress cannot be made by one company alone. The entire fresh ecosystem should band together to drive the necessary cultural and operational change—and bring consumers along with them.

BREAKOUT DISCUSSION KEY TAKEAWAYS

- **Set goals, communicate plans, and measure progress.** Companies should work together to establish common sustainability goals, design programs to reach them, set key metrics at the industry level, and communicate progress to stakeholders and customers as it is achieved.
- **Embed sustainability in company culture:** Sustainability has to be engrained in the DNA of an organization, not treated as a passing trend. Building a culture of sustainability will likely require breaking down organizational barriers to enable collaboration between departments (versus fostering merchant-led or strictly sustainability-led initiatives).
- **Lead the charge with own brands:** Offering sustainable and healthy own brands can help retailers build trust with consumers. As more retailers demand these kinds of products, the more likely it is that national brands will start to proactively produce them to meet the market need (pull versus push).
- **Focus on collaboration.** The industry should come together to address the key challenges to sustainability. Examples include collaborative forecasting (from the growers all the way to the consumers) to reduce waste and spoilage and an FMI-led working group to problem-solve around reducing plastic waste in the face of a pandemic.
- **Tap into technology across the business.** From packaging innovation to shopper loyalty programs to production planning for perishables, technology can be leveraged in different areas of the organization to advance sustainability goals.

PARTING INSIGHTS: REFLECTING ON THE NOW AND THE NEXT IN FRESH

At a time like no other in the industry's history, sharing experiences and insights can be an essential way to adapt to this new normal and build resilience for future disruption. The lessons learned and ideas exchanged across FreshForward 2020 are sure to be revisited as fresh food companies plot their next moves and craft longer-term strategies.





This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor.

Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

ABOUT DELOITTE

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the “Deloitte” name in the United States and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see www.deloitte.com/about to learn more about our global network of member firms.

Copyright © 2020 Deloitte Development LLC. All rights reserved.

ABOUT FMI

As the food industry association, FMI works with and on behalf of the entire industry to advance a safer, healthier and more efficient consumer food supply chain. FMI brings together a wide range of members across the value chain—from retailers that sell to consumers, to producers that supply food and other products, as well as the wide variety of companies providing critical services—to amplify the collective work of the industry. www.fmi.org.

Copyright © 2020 | FMI

All rights reserved. This publication may not be reproduced, stored in any information or retrieval system or transmitted in whole or part, in any form or by any means—electronic, mechanical, photocopying, recording or otherwise—without the express written permission of FMI.

Prepared for FMI by: Deloitte Development LLC