



**Voice of the Industry**  
**Grocery Leaders Offer Their Views**  
FMI Executive Leadership Forum Roundtable

June 13, 2017



# Executive Summary

This report represents voices of the grocery industry. It highlights the key challenges, imperatives to act, and industry drivers gleaned from 100 man-hours of discussion between senior industry leaders – predominantly CEOs, brand presidents, CIOs, and SAP industry experts – at the FMI Executive Leadership Forum in June 2017.

The roundtable split up into four sections focused on stores and commerce, marketing and merchandising, fresh, and supply chain. While the discussions focused on the topic at hand, several common themes emerged.



## Store Operations and Commerce

Despite the emergence of digital, C-suite participants concluded the store is still the pivotal link to customers.

To both take advantage of new shopper demands and accommodate the rapidly changing demands on store associates, it is vital to quickly apply innovative operating and service formats to new and existing stores.

Where grocers are experts at operations and in-store customer service, new grocery companies are generally technology-first and data-first. Traditional grocers must accelerate their use of data to personalize offers across all facets of category management and the customer experience. This requires the digitalization of every process, including the capture of details currently not recorded or kept by third parties. It also demands a change in organizational culture to ensure optimal communication and collaboration between stores, digital teams, data teams, merchants, finance, and the supply chain.



- The store – still the nexus
- Meal solutions - From recipe to dish, and teaching to fish
- New entrants are data-first companies
- Culture eats strategy for breakfast

# Executive Summary



## Marketing and Merchandising

Merchandising and marketing users are beginning to understand that the customer's perception is their reality.

The quest for "actionable" insights is paramount so that merchants can understand customer behaviors and take positive actions as a result. The goal is to present more personalized offers and increase engagement across both the digital and physical customer journey.

Additionally, a large transition is anticipated for category management, as the discipline moves from a product/category sales and profit model to a customer profitability focus. Even in the digital age, promotional levers continue to be a significant and an important driver of sales, with the circular deemed a tactic that will remain relevant for the foreseeable future. While current vendor relationships and trading practices have worked well for many years, in the future, there will need to be more collaboration and a better analysis of the efficiency and effectiveness of promotional activities.

- 
- Marketing and merchandising collaboration
  - Data-driven culture and cross-category solutions
  - To personalize or not?
  - Small and local is beautiful



## Supply Chain

Today's grocers are facing significant supply chain pressures driven by an increasingly demanding digital consumer.

The drive toward "personalization," whether in physical stores or with new and enhanced services such as "last-mile" fulfillment or "click and collect" services, is largely responsible for this shift in customer behavior.

What's more, supply chain processes that worked in the past aren't tailored to the digital age. To obtain a fair and balanced view of the new digital supply chain, a clear investment strategy is essential. But it shouldn't be done in isolation – determining where this strategy fits into overall digital transformation efforts must be understood and agreed to by all departments of the enterprise.

- 
- The last mile
  - Outsourcing the last mile – for now
  - Vendor collaboration

# Executive Summary



## Fresh

Fresh is a core competency – grocers have been practicing it for years. It’s where a traditional grocer can excel, and where creative store personnel can revolutionize the shopping experience.

The current mantra in grocery is “digital fresh, the new black”, and the center of the store universe. One of the significant areas where grocers are seeking to differentiate themselves is in the “fresh” departments: meat, produce, deli, bakery, and seafood. Fresh is where a traditional grocer can excel more than any other department or channel. It’s where creative store personnel can change the shopping experience; pure on-line plays cannot achieve that level of customer experience.

Fresh is also a core competency. Grocers have been practicing it for years. They understand it is about the total experience and it is imperative that the level of quality offered is a brand differentiator.

In-store fresh offers the traditional grocer the opportunity to meet the consumer where they want to be met. No matter where they chose to interact or what delivery methodology they select, the store is where the food meets the customer.



## Conclusion

Change, risks, and new business models – these are just some of the factors that keep grocery CxO leaders up at night.

Whether it’s making smart investment choices in stores, optimizing merchandising, improving marketing and supply chain effectiveness, or hiring the next generation of knowledgeable workers, there are seemingly endless decisions for grocery managers to consider.

What’s more, time is not on the industry’s side. As news of the recent acquisition of Wholefoods by Amazon proves, disruptive innovation is always a threat, and the pace of change appears to be accelerating.



- Fresh is the new black
- Heartfelt service always takes the prize
- Know thy food
- The store – still the nexus II

# Introduction

This report represents voices of the grocery industry. It highlights the key challenges, imperatives to act, and industry drivers gleaned from 100 man-hours of discussion between senior industry leaders – predominantly CEOs, brand presidents, CIOs, and SAP industry experts – at the FMI Executive Leadership Forum in June 2017.

The roundtable split up into four sections focused on stores and commerce, marketing and merchandising, fresh, and supply chain. While the discussions focused on the topic at hand, several common themes emerged, most notably around customer behavior.

What’s clear is that customer behavior has changed drastically. Current industry statistics are telling:

- 70% of millennials use their phone while grocery shopping
- Over 50% of consumers are willing to order groceries online
- 42% of shoppers have abandoned a purchase due to lack of product information
- Digitally engaged core shoppers spend \$600 more per year and are 23% more likely to stay core

This shift in customer behavior is profound. But an analysis of capabilities that various retail sectors showcase and enable for their customers highlights a gap between consumer demand and the actual customer experience.

## Big Box: Brand Site Investments



### Percentage of Retailers in Category with a Given Feature

October 2016, n=47 Retailers Across Leading Categories and Amazon

■ Leading Category ■ Lagging Category

CATEGORY PROPERTY	E-COMMERCE EXPERIENCE			OMNICHANNEL EXPERIENCE			
	FREE SHIPPING (minimum order amount)	FREE RETURN SHIPPING	ALWAYS FREE SHIPPING	BUY ONLINE RETURN IN STORE	LIVE IN-STORE STOCK STATUS	RESERVE ONLINE, PICK UP IN STORE	BUY ONLINE, PICK UP IN STORE
GENERAL* (n=11)	73%	27%	9%	55%	45%	18%	55%
GROCERY (n=15)	0%	0%	0%	0%	7%	73%	7%
HARDWARE/APPLIANCES (n=5)	40%	20%	0%	100%	100%	0%	100%
HOME/FURNITURE (n=7)	43%	14%	0%	57%	43%	14%	14%
SPORTING GOODS/OUTDOOR (n=5)	80%	0%	0%	100%	80%	0%	80%

\*Note: Amazon is categorized as a “General” retailer.

Source: L2 Insight Report: Big Box: Amazon Grocery, March 2017.

# Digital Store Operations and Commerce

## INTRODUCTION

As online grocery shopping in the United States grows – from a 2016 base of 4.3% (Nielsen-FMI study, Jan 2017) to an estimated 20% by 2025 – it raises profound questions about the role of the store. For example, how can grocers leverage their data to personalize and customize the shopping experience for their customers? How can grocers not only save shoppers time when buying food, but also when preparing it? And how will the role of the store associate continue to evolve?

## THE STORE – STILL THE NEXUS

The store continues to drive traffic, even as new experiences are launched and delivered. Tastings, cooking demonstrations, school tours, oyster and wine bars, and grills all serve to make customers excited about available products and create a “destination experience.”

What’s more, store associates are pivotal to delivering inter-personal experiences that online-only shopping can’t match. Shopper loyalty is nurtured in-store, where the customer can make an emotional connection to the brand via excellent in-person service that’s delivered with a smile.

And while new stores are now built with restaurants inside, existing locations are harder to change. It’s not only costly, but stores that are 50–60 years old were not built to house eateries. We will see changes over time, though, as some categories of store (such as the center store) shrink and move online. And as the new economics become clear and investments can be justified, perimeter and food service offerings will be expanded to replace them.

As these changes occur, several things must also happen. The first is that store associates will need to acquire new skills. In Holland, for example, cash-and-carry chains have recruited experts in wine and coffee to serve and guide customers. The second is that technology must play a part in personalizing the store experience. Finally, there will be a push for greater efficiency. Labor hours regained by freeing associates from mundane repeatable tasks with automation can be invested in providing a better store experience and increasing customer service levels.

## MEAL SOLUTIONS – FROM RECIPE TO DISH, AND TEACHING TO FISH

Aside from the time constraints most shoppers face in their daily lives, statistics reveal the rising generation of millennials that haven’t learned how to cook or select the right ingredients to create meals, because these consumers are looking for easy meal options that require minimal preparation.

New and disruptive players are now delivering meal solutions and easy recipes direct to consumers’ homes. Some know the customer well enough to tailor products to their health needs and tastes, which is crucial for catering to people’s health, fitness, and wellness goals and fostering their loyalty to these meal providers.

The uptick in personalization and demand for convenience has raised important questions and opened up new opportunities for the grocery industry. Grocers are wondering if and when they can begin delivering health-care needs to shoppers’ front doors. And retailers are increasingly focused on creating external content (for example, a Singaporean grocer partnered with a media group to launch a food TV channel) and recruiting culinary talent (such as hiring associates with artisanal food craftsmanship and cooking school degrees).

**“Millennials are foodies in how they like to eat, but not how they prepare food.”**



“The big question for grocers is how to turn Big Data into insights and decisions. Companies need to learn how to do it quickly to compete with new entrants and other local competitors.”

#### **NEW ENTRANTS ARE DATA-FIRST COMPANIES**

All grocers recognize the need to know more about their customers in order to inform merchants, empower store associates, and tailor their self-service recommendations. For example, some grocers will text people if there is a big shipment of Mahi-Mahi. However, this is generally based on the individuals in stores taking the initiative rather than grocers implementing a programmatic approach.

Right now, grocery shopper analytics and self-service capabilities are at a low level of maturity. But the “what’s for dinner?” question is very well addressed online, with companies offering recipe suggestions and easy “add to your list/cart” options. This is where grocers have an as-yet unleveraged advantage over other online retailers that are simply item-, not basket-, driven.

In addition, there is one challenge that no online provider has cracked: the customization of perishables (e.g. a filet cut with silver and fat removed). This continues to drive customers to the store.

Additionally, grocers are behind in defining and mapping the critical digital and analog touch points necessary for ensuring an end-to-end brand experience. This includes interpersonal interactions with the customer, especially the last touch point. And in general, traditional retailers struggle with this horizontal, departmental alignment. Sharing data across all teams is critical, and there is recognition this does not occur enough.

Another fact most grocers acknowledge is that the food retailing industry is a laggard in technology adoption. As one participant put it, “It’s an industry where everything needs to be rebuilt; there are massive data, algorithmic, and customer engagement challenges.”

#### **CULTURE EATS STRATEGY FOR BREAKFAST**

The industry does, however, recognize the importance of being agile and responsive. Stores are especially good at this. For example, if a customer is looking for something that isn’t stocked, an associate can drive to another store and be back by the time the customer is ready to check out.

# Digital Store Operations and Commerce

That's because putting the customer first is mostly "muscle memory" for store associates. The challenge now is to use technology to accomplish the same goal, whether it's addressing in-store pick-up, drive-through options, or third-party delivery.

Some grocers build this "muscle memory" by offering incentives for store teams to onboard employees at 14–16 years old and embed them into store culture early. Once they're trained, departments can recruit from the ranks and continue to develop and nurture talent.

Grocers also recognize the importance of social media. As one participant said "It's called word-of-mouth". Generally, the industry tries to keep social experiences at the store level, allowing store associates to own them. Experience shows that if these employees are empowered with the right solutions and tools, they quickly figure out the best way to use them.

---

"We've had social media for all of our existence, it's called person to person word of mouth."

---

Finally, some grocers are using mentorship opportunities to train both ways. Millennials/Gen Z digital natives cross-train older associates in digital technology and vice versa with other more traditional expertise.

## CONCLUSION

Stores are evolving, as they have been for over a hundred years. But the pace of change is different. It's happening faster, and it's tough to adapt quickly due to the immobile nature of real estate.

While the nature of change is costly, it's vital to quickly apply new operating and service formats to both new stores and existing ones – not only to take advantage of increasing shopper demands, but to recruit new talent with diverse skill sets, train existing talent, and embed that talent into the corporate culture.

Where grocers are experts at operations and in-store customer service, new entrants are generally technology- and data-first, leveraging every bit of data in the quest to personalize offers across all facets of category management and the customer experience.

To compete in the new normal, this is a transition that traditional grocers must accelerate. It requires the digitalization of every process, the capture of details currently not recorded or kept by third parties, and an organization and culture capable of taking advantage of it.

Critical information largely missing from grocer's data sets is the digital touch points a shopper has with the brand and what the multitude of customer journeys look like. Another crucial aspect for creating this data-driven culture is having a single definition of metrics and a single source of the truth across the boundaries of teams and departments. Achieving this will allow a new level of communication and collaboration between stores, digital teams, data teams, merchants, finance teams, and the supply chain.

# Digital Store Operations and Commerce

Meal solutions are great options for time-starved family and millennials. Caution is needed though – while the category is high-growth, the audience feedback suggests members of a household don't always eat the same meal due to taste differences. What's more, they often eat at different times due to conflicting after-school activities. This seems to present an opportunity for grocers to distinguish themselves by personalizing meal offers and targeting the development of single-consumption units at affordable prices.

And in-store service and experience is still a differentiator. People shop in-store partly because of the associates (their personal “produce guy”), and this is the one role that should be enhanced rather than cut. But the demands on associates will shift rapidly in the years ahead as the role of the store changes.

To be successful, it's essential that grocers stay ahead of these workforce changes and expectations by continuing to recruit new talent and improving the training available to their existing talent – initially in pilot locations, and then more widely across all locations.



“From a digital and in-store experience, we’ve tried to align organizationally, having marketing and merchandising together with our digital wing.”



# Marketing and Merchandising

## **MARKETING AND MERCHANDISING COLLABORATION**

One of the main drivers for becoming more digital is the opportunity to deliver more personalized offers and engagements. Enabling merchants to gain detailed customer insights and take positive actions based on them is crucial for personalization. And it's equally important whether the gathering of those customer insights is outsourced to partner companies or done in-house.

Merchandising and marketing departments may be impacted by digital transformation more than any other stakeholders. Their entire job functions could require a complete overhaul in a digital world. The changes can already be seen in marketing, where digital marketing currently represents 30% of the world's advertising budget.

Traditionally, merchants have not been at the forefront of customer analytics. But moving forward, they will surely need to immerse themselves in this area. Marketers have not traditionally crunched profit and loss numbers at a category level or been concerned with adequate vendor funding to cover temporary price reductions, but they will need to start thinking about these issues.

The concept of consumer-centric category management has been in development for many years but there hasn't been a full working model for merchants, in terms of actionable insights and practical methodologies. That is about to change, and there are opportunities to design an organization setup for future digital success.

## **DATA-DRIVEN CULTURE AND CROSS-CATEGORY SOLUTIONS**

Grocers anticipate a big transition for category management as the discipline moves from a product/category sales and profit model to a more customer-profitability, KPI-driven approach. The category management defined in the 1990s is obsolete; instead, it's pay-to-play vs. pay-to-performance with emerging markets.

# Marketing and Merchandising

**“We must look beyond sales as a health indicator, including looking through a customer lens to analyze customer profitability.”**

Because some employees have worked their entire careers at the same place, implementing new processes, analytics, and data-based decisions is difficult. The shift will require significant cultural and process change.

There’s a “hunger for data,” and category management will move toward actionable data relevant to the consumers. Large manufacturers should play a more active role to provide actionable data; yet, what is currently delivered is the same data being cycled to everyone and is not specific for regions, banners, or consumers.

The Industry has long been focused on buying product, and now it needs to focus on selling solutions. In a digital world, cross-merchandising and pairing full meals can easily be done. Yet, in the store it is not physically feasible to combine refrigerated and center-store items. By making the in-store experience more digital – using shelf tags, menu boards, and apps – a more fresh and creative environment can be created, especially in combination with knowledgeable associates.

## **TO PERSONALIZE OR NOT?**

The data-driven culture of today heralds an era of greater personalization. While in some areas it is clear that personalization is a benefit to the customer, grocers don’t agree on whether all aspects of the offer that can be personalized should be personalized. In particular, personalized pricing is a fierce debate.

Should pricing be personalized? How would it work with the current procedures and knowledge? How could the impact on sales, profits, and image be measured? These are all questions that need to be explored. The biggest

concern is integrity to the consumer – no grocer wants to get the reputation that it’s cheating customers. Just because you’re capable of dynamic pricing doesn’t mean it works well for the business in reality. Yet, online pureplay entrants can easily adopt dynamic pricing: by time of day based on advanced algorithms, as Amazon does; based on basket size, as Jet.com does; based on the customer’s lifetime value. Consumer opinions and emotions are shifting on this topic, and grocers need to be ready to adopt the practice in piecemeal fashion. They need to recognize it is not straightforward to implement across all channels due to organizational silos and systems, as well as existing analog and digital practices such as shelf-edge labels, whether they be digital or analog.

Personalization of other aspects of the shopper journey is more readily accepted, though adoption is still low. Targeting and personalization of digital offers is being tested by some brands and widely adopted by others. Shelf placement is being replaced by Web page placement and shoppable content on carefully curated digital circulars and flyers. Suggestive selling ideas based on customer history and cohort analytics is just the start.

The challenge is to bring it all together. Some companies don’t have the infrastructure or resources to do it right or lack necessary direction. It’s important to note that the industry as a whole is very immature, but that the shift is happening. So, the bigger question is: How do you prepare for it now?

A critical insight that many grocers lack is visibility into the entire path to purchase, including the touch points with their brand as well as the brands they provide in their

# Marketing and Merchandising

product assortment. Unlocking that journey bit by bit is the next step to personalize many aspects of the shopper journey.

While all eyes are on personalization and ROI around mail marketing is questionable, grocers admit the circular is a tactic that will persist for some time. In smaller regional markets, when grocers have pulled back on physical tactics and shifted the spend to digital, results have been disastrous. While many customers in these markets are on Facebook, they are not digital natives.

## **SMALL AND LOCAL IS BEAUTIFUL**

The center store is widely thought to be an area of potential new opportunity. A center store that has traditionally been dominated by large company offerings can be transformed with innovations from smaller, nimbler vendors. This could help to both engage new audiences and drive sales growth, as innovative brands are generally growth-oriented. The challenge is finding the right balance between online and in-store assortments to appeal to localized audiences and meet customer expectations about choice.

On a similar note, the 80/20 balance (80% big brands, 20% emerging brands) has shifted. Smaller brands are driving growth and offering better margins for retailer.

“We send 10 million flyers, and 9.5 million of them go into the trash”

The issue is how to source these products. Should you deal directly with suppliers who are not introduced by agents or representation? If you can cut out the broker, it could result in better products at better prices.

Big players are not as good as innovating quickly; instead, they try to buy innovation. You want to stay regional with your brand. Smaller brands don't want to cater to a big retailer because they can't supply the market and it doesn't align with their philosophy.

Expect more frequent resets based on how customers are shopping. As one participant put it: “We're interested in new and interesting products – we introduce between 8,000 and 10,000 a year – because customers love the treasure hunt experience in that they love discovering a product that they didn't know we carried.”

## **CONCLUSION**

Merchants and marketers need to fundamentally re-think how they work together and design practices that can sustain them through the digital transformation. This is essential in taking advantage of the customer knowledge pools being built from digital and physical journeys.

While vendor relationships and trading practices have worked well for many years, there will need to be more collaboration in the future and a better analysis of the efficiency and effectiveness of promotional activities. With new digital marketing efforts growing, an improved operational flow is needed to ensure a better understanding of ROI by the C-suite, as well as the impact on brand perception and profitability.



---

“We’re interested in new and interesting products because customers love the “treasure hunt” experience – discovering a product that they didn’t know we carried.”

---

# Digital Supply Chain

## INTRODUCTION

There are significant supply chain pressures being felt in grocery, driven by an increasingly demanding digital consumer. While the volumes are still low, last mile fulfillment receives many of the concerns. There is wide recognition that the existing supply chains, which worked for prior eras, are not tailored for the digital economy.

That said, digital has had little impact thus far due to the relatively low volumes and because upstream processes and mechanisms are already in place to stock the primary fulfillment locations – stores. According to one participant, supply chain's goal is to keep the stores full, and the industry is probably not far enough along the curve of digital to cause an impact.

**“Getting the ‘last mile’ (or last 10 yards) right is getting harder – and there doesn’t seem to be a single answer to solve it right now.”**

## THE LAST MILE

While all grocers are engaging in last mile fulfillment to a certain extent, many are shying away from tackling the issue in-house. They are choosing to outsource last mile fulfillment or only offering click and collect. As one participant put it: “Curbside pickup is better than delivery – If you want us to shop and deliver for you, you will have to pay for it.” Unfortunately, this reflects a basket-profitability focus versus a customer-lifetime-value orientation.

There is widespread recognition that the speed of industry maturation is of the essence. Customers are beginning to expect same-day home delivery, demanding just-in-time inventory processes and a more responsive supply chain. Progress has been slow in this space and largely confined to selected areas where store density is high.

The core belief that the last mile cannot be cracked for perishables risks complacency for this vital category. An executive shared: “Amazon can’t crack perishables – nobody can crack it. The amount of waste at our local AmazonFresh warehouse is unbelievable – food banks love them.” True, customers sometimes want ripe bananas and sometimes they want them green. How to get fresh product to the customer’s doorstep with quality they expect is the real challenge.

## OUTSOURCING THE LAST MILE – FOR NOW

Many grocers investigate executing last mile fulfillment on their own but conclude that the economics at this stage of the game don’t work out. Specifically, the labor costs and capital investment in trucks and infrastructure are the main drivers for outsourcing the operation. While motivations are different when choosing to partner with Google Express, Instacart, or Amazon, in the end it all comes down to economics. Grocers are conscious that they are outsourcing a critical touch point in the customer journey, and they worry about quality.

Data ownership is something that has been addressed and is of little concern to most grocers. In fact, for grocers without a loyalty card, the partnership with third party providers is delivering data they did not have access to

# Digital Supply Chain

---

“My current distribution network was designed long before the demands of ‘customer 2020’ – I need to adapt it or reinvent it – and I need to do it soon.”

---

before. However, most recognize the partnership is not a long-term solution. Their view is that the partnership delivers speed to market in the short term at an attractive economic proposition with little downside risk. They also see it presenting an opportunity to learn as grocery shopper behavior slowly adapts to a digital world.

## VENDOR COLLABORATION

The industry needs to reduce the overall cost of supply chain and make it more responsive to rapidly changing consumer preferences. Vendors still have excessive focus on supply chain efficiencies and overlook the changing consumption patterns in the industry, where cube pack sizes are causing excessive stock holdings. An executive share: “We don’t sell 12- or 24-packs; instead we sell in ones, twos, or threes.”

Grocers continue to balance SKU proliferation against the associated supply chain cost and are looking for better data to make optimized decisions on the trade-off. However, more consumers preferring local and fresh products begs the question of how to connect with small, regional suppliers in an efficient and cost-effective manner.

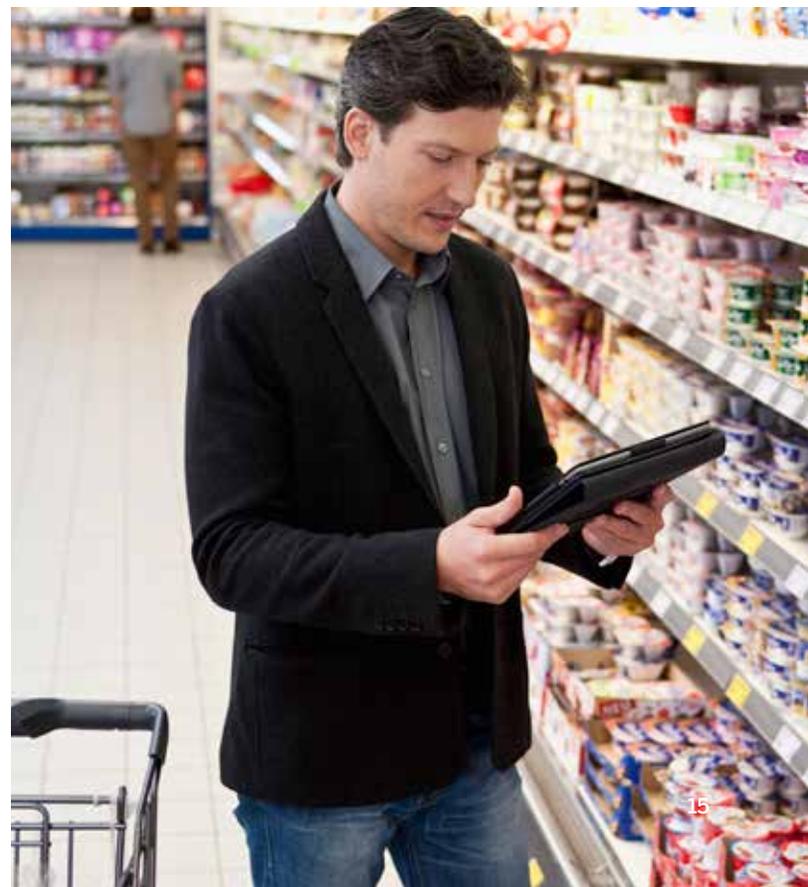
In addition, with more focus on health and wellness, both consumers and regulatory bodies are looking for more information on the provenance of goods, as well as the associated traceability to measure cold chain performance and food safety standards compliance. From a technology perspective, few are looking at blockchain as a foundational system to provide traceability – at an item level –

from field to fork. All that said, customers are selective about what they want to know or learn about the product they are consuming.

## CONCLUSION

A quote from the roundtable reads: “Amazon is data decisions plus supply chain execution. We need to become the same.” While there are traits the industry can adopt from Amazon, there is inherent risk in competing on Amazon’s terms. Where Amazon can optimize the supply chain to the best-selling SKUs, grocers should seek to differentiate with local products and build an agile supply chain geared toward connecting with smaller suppliers and excelling at managing fresh departments.

While outsourcing the last mile is the best approach now, grocers should look to learn everything they can and take the operation back in-house sooner rather than later. This series of critical customer touch points is best owned in-house to ensure congruency of the experience and the brand.



# Digital Fresh

## INTRODUCTION

As grocery companies try to differentiate themselves, one of the most important places they're focused on is the "fresh" departments – meat, produce, deli, bakery, and seafood. Fresh food means great food, and great food translates into loyal shoppers. But getting to Digital has been difficult. For the most part fresh food is managed off system, manually, and invisibly.

## FRESH IS THE NEW BLACK

Fresh is a calling card. It's what drives people to the store. It's the area where a traditional grocer can excel, more so than any other department or channel. It's where creative store personnel can change the shopping experience. For example, a good chef can help drive sales up 25% or more. Grocers strongly believe that pure online plays cannot achieve that special form of customer experience. Fresh is also a core competency. Grocers have been practicing this for years.

"A good chef in the store can result in 25% more volume (e.g. a salad bar preparation), whereas someone not as good can cost you a lot."

They understand it is about the total experience, and high quality levels are imperative as a brand differentiator. From the timely baking of French bread to finding the perfect steak for the summer BBQ, shoppers know where they will be "taken care of," and it's not a Web site. That said, it's also no longer just an instore experience. It's also an opportunity for a digital connection.

## HEARTFELT SERVICE ALWAYS TAKES THE PRIZE

Fresh connects real people to real people. Customers choose a store or a food provider because they trust that "my produce guy" will help them find the perfect strawberries, or "my seafood girl" will let them know that the salmon is exceptional today. It is here, in the fresh departments, that traditional grocers can set themselves apart from their online-only competitors.

Finding creative talent has been challenging for grocers. Recruiting talent for in-store fresh departments – as well as finding creative food "artists" – is a key cog in the digital grocer's wheel, but it's not easily achieved. It's hard to find bakers, decorators, and other key staff because the role requires both art and science. As mentioned above, a good chef can increase sales and profits. Conversely, someone not so good can cost in terms of sales, profits, and loyalty.

Searching for talent, delivering quality training, and setting high standards are all key differentiators. But a different level of talent is required and, in the past, grocers have not been able to attract that type of employee.

## KNOW THY FOOD

Transparency, or the ability to track how a product came to be, is also a topic of great concern. The shopper must be able to trust that what they choose for dinner is created with care and complies with the highest standards of food safety – after all, it's their family they are feeding. The trust that Mrs. Jones places in the people that provide her food can never be taken for granted.

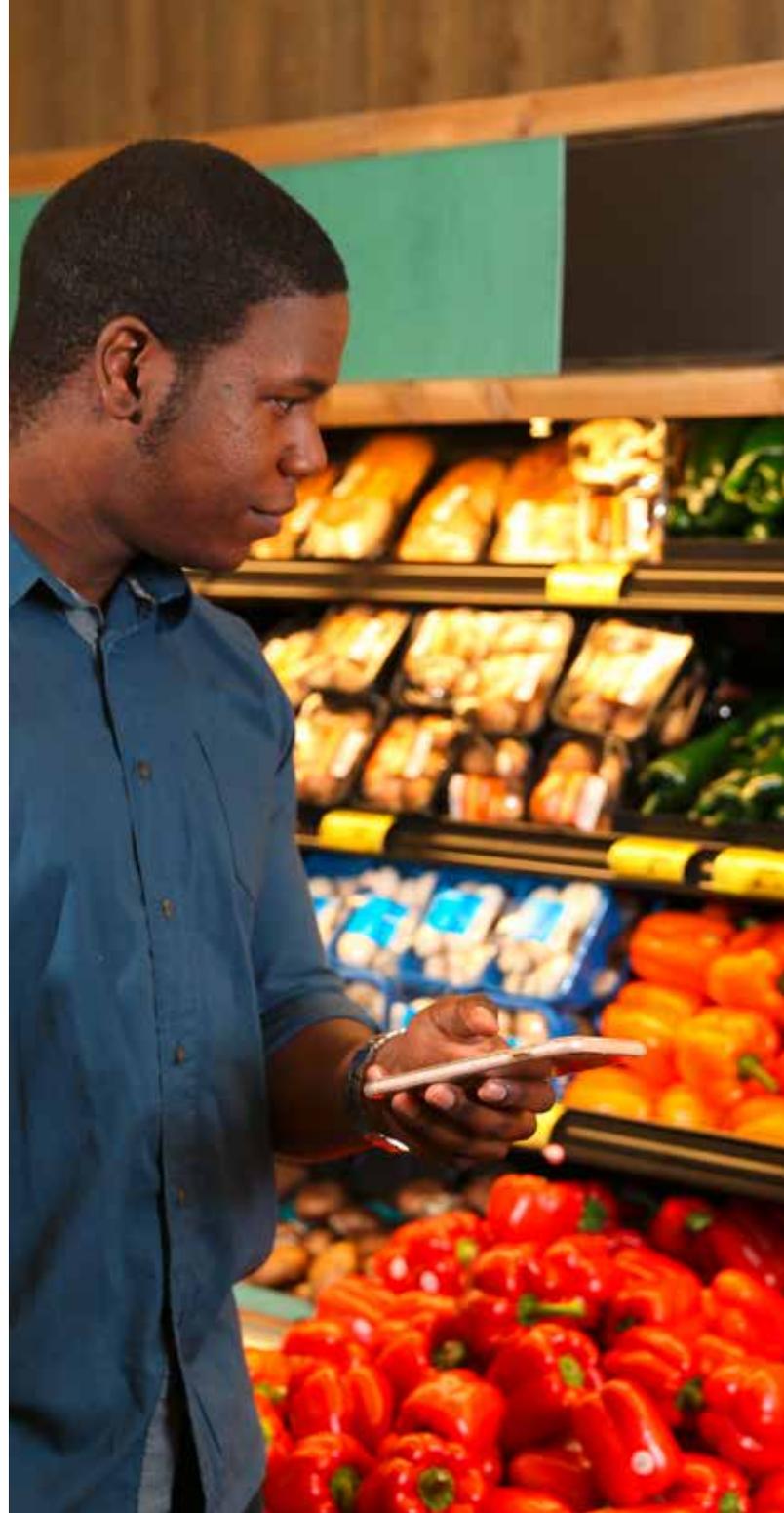
In the past, it's been something of an invisible process, but there is more and more focus on transparency and digital rigor in tracking this important area. Mrs. Jones demands that the company she trusts with her dinner is willing to do whatever it takes to ensure a great eating experience and unwavering food safety ethics. Her supplier of dinner must give her complete access, have complete transparency, into how they've protected her food, her health, her family's health.

# Digital Fresh

Finally, there's the subject of home delivery. In-store production is a known entity, and digitalizing that process is much easier than bringing the cold chain to the customer. The "last mile" in fresh is fraught with complexity, and the outcomes are not good if the process isn't executed well. It's not just a question of a spoiled dinner – food safety issues mean grocers have to take responsibility for the safe delivery of food with no negative health possibilities. There is no room for error. This is an opportunity for traditional grocery rather than the pure online operators.

## THE STORE – STILL THE NEXUS

Taking into account all its assets, the store is a significant opportunity for grocers, particularly with regard to the in-store experience and the fresh departments. Most online-only operators have been more focused on non-perishable dry goods, so two differentiators for traditional grocers are the ability to provide exceptional customer service and enhanced perishable experiences in store. In-store fresh departments give the traditional grocer the opportunity to meet the consumer where they want to be met, and today's digital shopper requires much broader options for access. No matter where they chose to interact or what delivery methodology they choose, the store is where the food meets the customer. It's where quality and freshness happen, and it's a big part of how brick-and-mortar grocers will attract and keep shoppers. Consumers often rely on in-store connections for advice, choices, and a positive human interaction. Shoppers enjoy being guided and served, which shouldn't be underestimated when it comes to generating customer loyalty.



---

“Digital gives an opportunity to do these things and be transparent.”

---

## CONCLUSION

Online retailers acquiring grocery chains only validates the concept that stores matter. If grocers can embrace digital transformation, there's a bright future out there. The question of brick-and-mortar vs. online is no longer valid – it is a question of how to leverage digital to engage and augment physical interactions. It's not digital versus non-digital, it's all one brand moving to a digital world. Answering customers' needs and meeting them wherever they wish is the key to success in any grocery business.



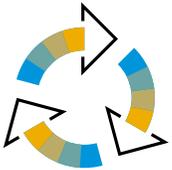
---

“The customer knows what to look for when buying fresh.”

---



# Summary and Next Steps



## Major Themes from the Roundtable Imperatives to act:

- Create a data-driven & collaborative culture, focused exclusively on the consumer and what drives her to your table
- Evolve the store to accommodate EVERY shopper that wanders in, including those that enter the digital door.
- Fresh is the new black, best in class is THE standard, it's dinner!
- Capture the shopper journey & personalize the experience, Find the shopper, understand her experience requirements, and then go find a million more just like her and do the same.



## Design Thinking as a Tool to Support Digital Transformation

The FMI Executive Leadership Forum roundtable content was designed and executed leveraging Design Thinking methodology.

Design thinking is a unique approach to problem finding and problem solving with a focus on human meaning and empathy. Design thinking fosters people's creative abilities, identifies the problems worth solving, and is highly collaborative and iterative.

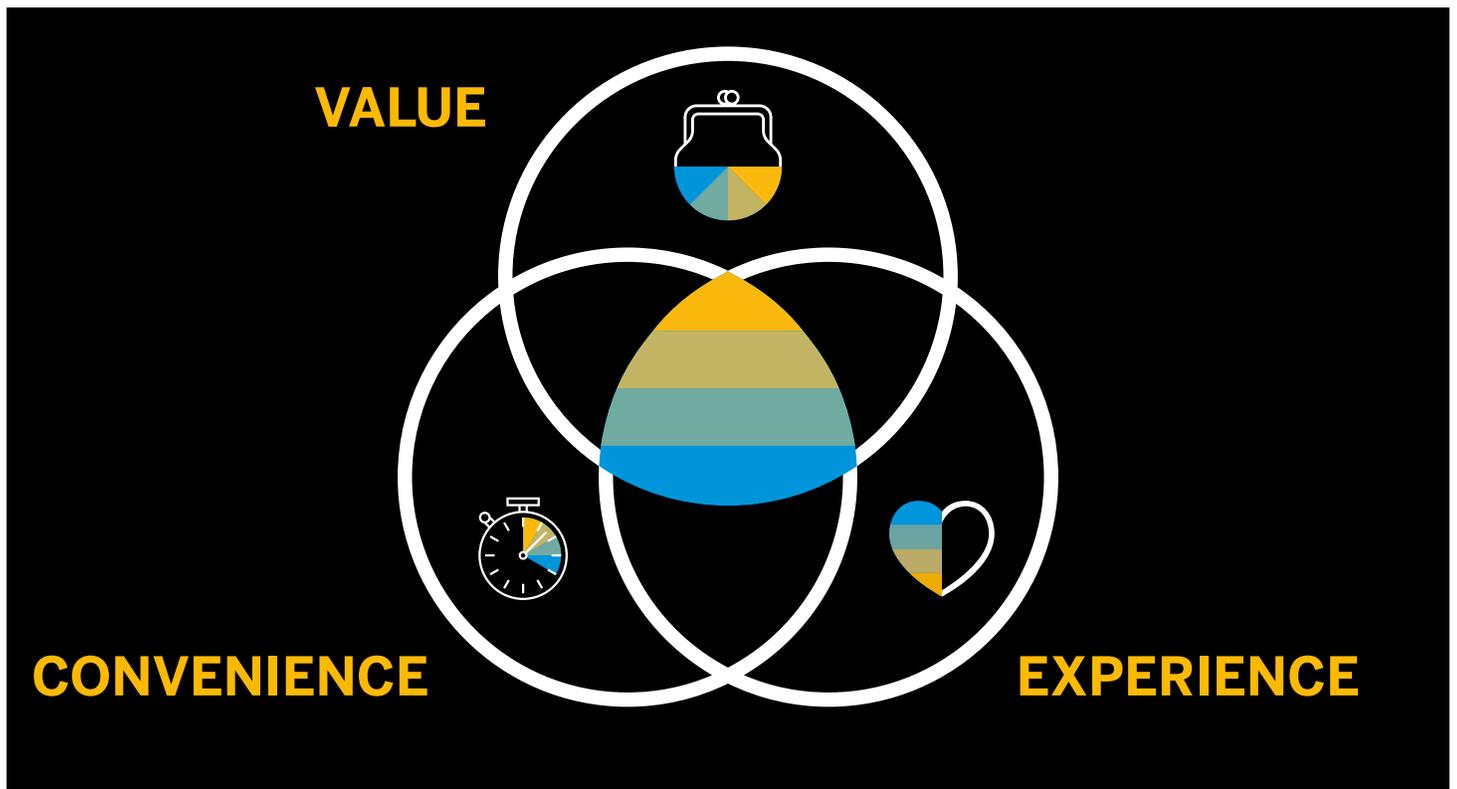
SAP's design thinking journey started 13 years ago when our co-founder, Hasso Plattner, funded the Hasso Plattner Institute of Design at Stanford University (aka the d.school) and then brought 35 design thinkers into SAP to help make design thinking a strategic priority, driving innovation across the entire organization.

We invite you to learn more about design thinking, how to create a culture of innovation in your organization, and how to start your digital transformation journey. There are many practitioners of Design Thinking, from Stanford and other universities to regional firms.

To learn more about SAP's design thinking philosophy, please visit <https://designthinkingwithsap.com/>

# Summary and Next Steps

Traditional grocery is uniquely qualified to take position at the center of the diagram where experience, convenience, and value intersect. In many ways, and for many years, this is what your banners stood for in the communities you built them in. The rise of the digital consumer is shaking this dynamic up like never before, and the traits and attributes needed to excel in each of these areas is harder and harder to master.



---

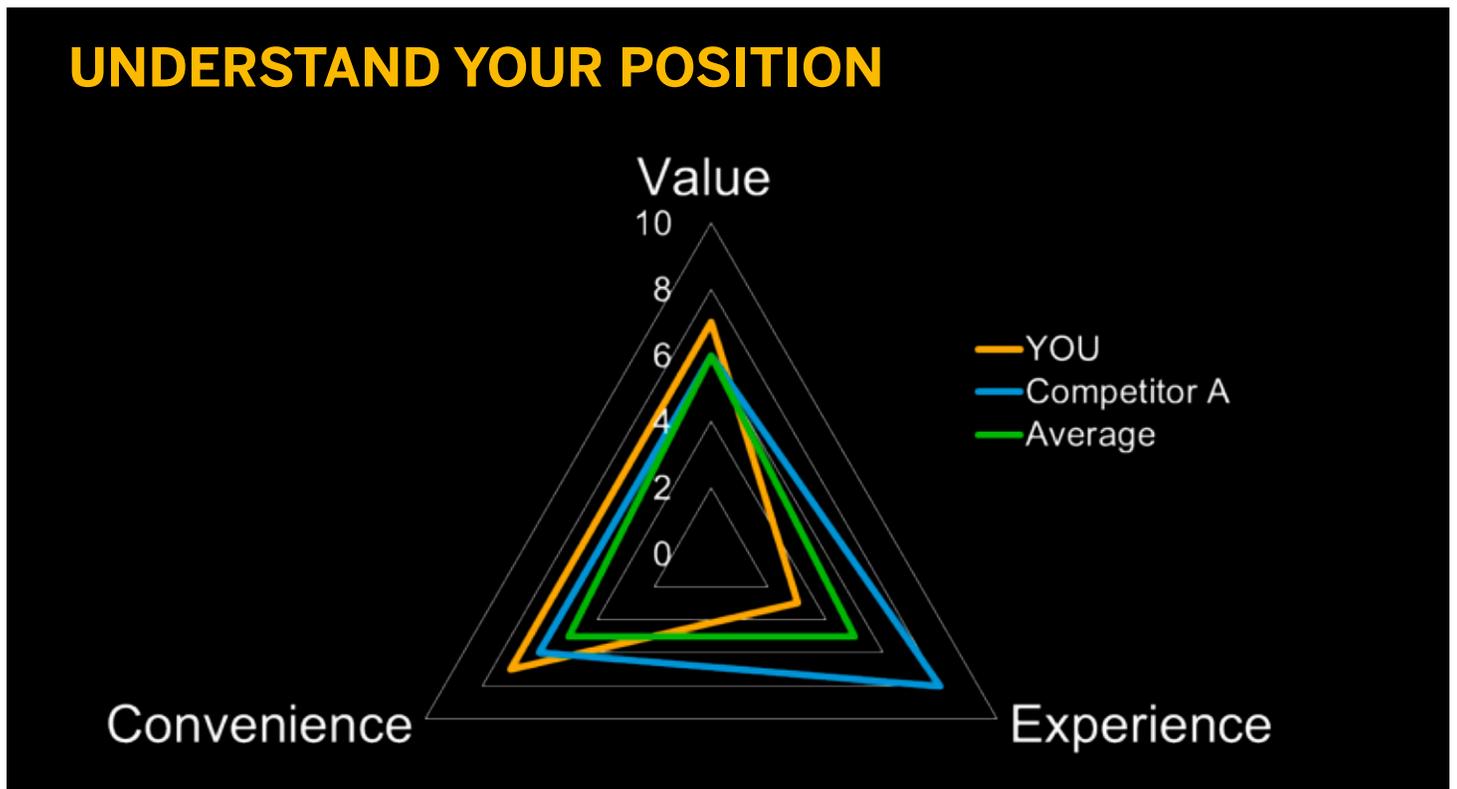
**92%** of leaders have mature digital transformation strategies and processes in place to improve the customer experience, versus just 22% for all others.\*

Source: (<http://www.sap.com/dmc/exp/4-ways-leaders-set-themselves-apart/index.html>)

# Summary and Next Steps

## SAP BENCHMARKING

How? To benchmark yourself across your core processes, and digital maturity – we offer that service free of charge as part of our partnership with FMI and commitment to the industry. As part of our practice, we can help you benchmark yourselves along these 3 axes, and dive deeper to see which parts of the organization need to change in order to get you to the place you choose to be.



**85%** of leaders say transformation efforts have increased market share, versus 39% for all others.\*

Source: (<http://www.sap.com/dmc/exp/4-ways-leaders-set-themselves-apart/index.html>)

## About SAP

As market leader in enterprise application software, SAP (NYSE: SAP) helps companies of all sizes and industries run better. From back office to boardroom, warehouse to storefront, desktop to mobile device – SAP empowers people and organizations to work together more efficiently and use business insight more effectively to stay ahead of the competition. SAP applications and services enable more than 350,000 business and public sector customers to operate profitably, adapt continuously, and grow sustainably. For more information, visit [www.sap.com](http://www.sap.com).

## About FMI

Food Marketing Institute proudly advocates on behalf of the food retail industry. FMI's U.S. members operate nearly 40,000 retail food stores and 25,000 pharmacies, representing a combined annual sales volume of almost \$770 billion. Through programs in public affairs, food safety, research, education and industry relations, FMI offers resources and provides valuable benefits to more than 1,225 food retail and wholesale member companies in the United States and around the world. FMI membership covers the spectrum of diverse venues where food is sold, including single owner grocery stores, large multi-store supermarket chains and mixed retail stores. For more information, visit [www.fmi.org](http://www.fmi.org)



Table 6  
Store Operations/Commerce

SAP SCRIBE  
LORIE J. JONES

Todd Jones  
JONES GROUP COMPANY  
INC.

Lori M

© 2017 SAP SE or an SAP affiliate company. All rights reserved.

No part of this publication may be reproduced or transmitted in any form or for any purpose without the express permission of SAP SE or an SAP affiliate company.

The information contained herein may be changed without prior notice. Some software products marketed by SAP SE and its distributors contain proprietary software components of other software vendors. National product specifications may vary.

These materials are provided by SAP SE or an SAP affiliate company for informational purposes only, without representation or warranty of any kind, and SAP or its affiliated companies shall not be liable for errors or omissions with respect to the materials. The only warranties for SAP or SAP affiliate company products and services are those that are set forth in the express warranty statements accompanying such products and services, if any. Nothing herein should be construed as constituting an additional warranty.

In particular, SAP SE or its affiliated companies have no obligation to pursue any course of business outlined in this document or any related presentation, or to develop or release any functionality mentioned therein. This document, or any related presentation, and SAP SE's or its affiliated companies' strategy and possible future developments, products, and/or platform directions and functionality are all subject to change and may be changed by SAP SE or its affiliated companies at any time for any reason without notice. The information in this document is not a commitment, promise, or legal obligation to deliver any material, code, or functionality. All forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from expectations. Readers are cautioned not to place undue reliance on these forward-looking statements, and they should not be relied upon in making purchasing decisions.

SAP and other SAP products and services mentioned herein as well as their respective logos are trademarks or registered trademarks of SAP SE (or an SAP affiliate company) in Germany and other countries. All other product and service names mentioned are the trademarks of their respective companies.

See <http://www.sap.com/corporate-en/legal/copyright/index.epx> for additional trademark information and notices.