Fowler Welch
Listening... Responding... Delivering

OPERATING IN A CHANGING RETAIL ENVIRONMENT

White Paper

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Contents

Introduction

According to the latest statistics, the UK grocery market is now valued at £174.5bn in the year to April 2014 – a value that currently accounts for 54.5p in every £1 spent in the UK (IGD, 2014). The success of the grocery market in the UK could not have been achieved without a successful and effective supply chain.

Experts suggest that the value of the grocery market in the UK will grow to £203.3bn by 2019 suggesting **there is a significant opportunity for growth within the supply chain from producers and manufacturers right through to retailers.**

Currently the grocery market is separated into six categories:

- Hypermarkets and superstores
- Supermarkets
- Convenience stores
- Discounters
- Other retailers (e.g. newsagents, butchers, bakeries and other independents)
- Online.

A successful supply chain is one that enables producers and manufacturers to cover several of these categories.

In recent years, improvements in technology, changing shopping habits and the rise of discount retailers has led to a shift in the landscape of the UK grocery retail market which has had, and is likely to continue to have, a significant impact on grocery supply chain operations.

The retail industry is changing rapidly, in the past few years alone we've seen huge changes in the channels consumers use for their grocery shopping with supermarkets and hypermarkets losing out to online and convenience formats. Similarly the rise of discounters has put huge pressures on the traditional big four with the whole retail industry affected by shoppers' desire for better value.

With such a volatile environment, how can producers and manufacturers keep up and ensure their supply chains are prepared for operating in a challenging and changing market?

Outlining the opportunity

For many years the focus of the supply chain in the UK has very much been on ensuring the status quo with fast moving, responsive chilled supply chains which reduce retailer stock holding compared with much slower, ambient supply chains which require long term stock holding by manufacturers, coupled with a flexible distribution service capable of delivering with short lead times.

Traditionally there have been disparate demands and complex supply chains making responding to fluctuating consumer demands and shopping styles more difficult. At Fowler Welch we believe that there is scope to adapt supply chains to become more responsive and flexible to adapt to the changing retail market.

By promoting greater collaboration between all elements of the supply chain, from producers and manufacturers to logistics and retailers, we believe that the supply chain industry could be in a better position to react to the fast moving changes that we’re seeing in the retail industry.

Greater use of consolidation and simplification of the supply chain is essential in streamlining the process and ensuring the greatest stock availability in the most appropriate of channels and outlets to meet consumer needs.

For SME’s in particular, while greater flexibility is inherent, resources are less readily available to adapt operations and take advantage of the rapidly changing but inevitably growing grocery retail market in the UK. Fowler Welch believes that greater collaboration amongst SMEs and making more use of consolidation can place producers and manufacturers in the optimum position for the changing retail environment.

Consumer Shopping Habits

Research shows that the average shopper now visits four different retailers in one month with 47% saying they use multiple grocery stores each time they shop (IGD , 2014).

Consumers are becoming increasingly savvy with the way they purchase their groceries and the big weekly shop has been replaced with multiple smaller visits to several destinations or via multiple channels.

In light of this change, it is much more difficult for retailers, manufacturers, producers and supply chain operators to predict demand when shopping patterns are so diverse.

The end of the big weekly shop

In spite of the rise of the discounters and online shopping, it is the convenience store sector which has seen the biggest boost from the change in shopping habits. In 2014, shoppers used convenience stores more than any other store format for their grocery trips (Hope, 2014).

IGD estimates that that the convenience store sector will account for almost 25% of all food and grocery sales in the UK by 2015. They point to the trend that consumers' increasingly busy lifestyles has led to an expectation that retailing should fit in around them instead of shoppers working their grocery purchases around store opening times and availability (Hope, 2014).

Convenience is king in the eyes of modern shoppers who now expect to be able to purchase whatever they want, whenever they want and wherever they want to suit their lifestyles. Consumers are now visiting convenience stores several times a week as top up visits between larger 'essentials' trips.

The influence of technology

In recent years the retail industry and the way consumers shop for groceries has changed dramatically with the advent of online shopping channels. The influence and growth of online shopping technology and the delivery and fulfilment challenges this brings can have a significant impact on the supply chain.

The growth of online shopping

The online grocery market is one of the fastest growing sectors of the grocery retailing industry and can present problems to retailers, suppliers and supply chain operators in meeting the availability levels expected by UK consumers.

According to research by IGD over a quarter of all shoppers purchased groceries online at the beginning of 2015. That is a significant rise from around one fifth of shoppers four years ago (IGD, 2015). Additionally, we're now seeing around 11% of shoppers using online channels for their main grocery shop, this is almost double the number using online for their main shop four years previously – 6% - (IGD, 2015).

Analysts expect that the online grocery channel to double in size by 2018 suggesting that this additional channel is one that should not be overlooked. However, it is also evident that the online grocery market is one which is still dominated by consumers who are shopping on an infrequent basis. 68% of online shoppers purchase groceries from the internet every two weeks or less often (ShopperVista, 2014). This clearly presents a challenge for retailers and suppliers to ensure availability for infrequent shopping occasions.

The outlook for the online grocery market is a positive one especially with the growth in popularity of click and collect delivery methods. Statistics show the popularity of this service is increasing amongst shoppers with 26% of online shoppers claiming to have used the service in early 2015 compared to only 18% in 2014.

Furthermore, the data suggests that online shopping channels are increasingly being used by consumers to help stock up on bulky or larger shopping items. Eight in 10 shoppers say they use online channels for their main grocery shop where as very few shoppers use this method as for top up or occasional shopping.

Omni-channel shopping

Omni-channel shopping is a multichannel approach to sales, providing consumers with a seamless shopping experience whether shopping online from a desktop or mobile device, by telephone or in a bricks and mortar store.

Most consumers are now combining occasional bulk online shopping orders with smaller, more regular trips to superstores or convenience format stores. These consumers are looking for different types of products from different channels and expect consistent availability across all channels at different times. This makes the supply chain even more complex as retailers and suppliers look to fulfil this demand.

The advent of online shopping means that shoppers are now able to shop 24 hours a day seven days a week and often expect deliveries at any time from early morning to midnight. It is more important than ever for retailers and suppliers to ensure a constant flow of products to enable accurate stock forecasting and fulfilment regardless of the hour.

Many consumers look to online shopping as an opportunity to choose from a larger range of products or even retailers as concerns over store location are no longer relevant with many retailers offering the same level of convenience. It is essential therefore that availability is accurate and reflective of demand or savvy shoppers will look to more reliable brands or retailers for their online purchases.

In an Omni-channel world, supply chains no longer resemble the simple networks that many retailers and suppliers have become used to. Instead modern supply chains must enable fulfilment of multiple product types – from bulk packs for online shoppers to smaller packs for convenience stores – from multiple locations, and at whatever time is most convenient to the shopper.

The Future retail landscape

The growth of the discount retailers

As consumers have become savvier in their spending habits, discount retailers have started to see impressive growth in both market share and in revenue and sales. The underlying issue surrounds the on-going squeeze of household incomes which has led to consumers shopping around more and more for the best deal on their grocery shop.

The growth rate of Britain's biggest discounters is impressive with Aldi and Lidl seeing growth rates of 15.1% and 10.1% year on year in the 12 weeks to 26th April 2015 (Retail Week , 2015)

Some commentators suggest that the lure of discounters is irrevocably reshaping the British grocery sector. The exceptional growth of these brands has eroded the market share of the big four with several of the more established multiples struggling over the last few years (RetailThinkTank, 2014).

This has had the effect of reducing loyalty to one retailer. However, analysis from Kantar Worldpanel shows that many shoppers who visit Aldi or Lidl also continue to shop at the major retailers in order to purchase items they cannot buy at the discounters. The effect is that the average spend at the big four has reduced and is one of the key reasons they have struggled.

There is some debate over the overall significance of the discounter impact. While Tesco and Morrisons have both suffered market share losses, other retailers such as Waitrose have seen market share gains. What is evident is that rather than a mass exodus to the discounters, mid-range retailers such as Tesco and Morrisons have been eroded at both ends of the spectrum from both value and premium competitors (RetailThinkTank, 2014).

Struggling big four retailers

The first half of 2015 saw headlines being made across the big established retailers with a total pre-tax loss of close to £7.3bn across Sainsbury's, Tesco and Morrisons alone. However, despite this loss these retailers, along with Asda, continue to make up more than 55% of the UK grocery market.

Commentators suggest that this apparent struggle of the major retailers is far from a sign that spells the beginning of the end for the big four and in fact merely a reflection that consumers are moving away from single retailer shopping. Shoppers now have much greater access to choice when it comes to their grocery shop meaning consumers are now using several channels and brands to purchase their goods in order to get the best deal overall.

Major investment in retail property across the board has meant that shoppers are now able to choose from multiple brands in their local area. Shoppers are now likely to have access to large superstores, several convenience options and discount retailers all in close proximity to their traditional favoured store. The result is that shoppers will spread purchases across multiple trips.

Additionally, access to online shopping has meant that shoppers are now able to shop around more to get the best deal – even while on the go via mobile apps and websites. This has led to further complexity within the supply chain as it can be difficult to predict the types and volumes of products that would be in high demand in which formats and retailers.

Impact on distribution and logistics

Research suggests that shoppers are using on average four different grocery channels each month in order to access wider product ranges, take advantage of promotions and better value products or for convenience (IGD, 2014). The simple retail supply chain networks that traditionally transported goods from manufacture to shelf are no longer viable in a complex retail environment.

For retailers, adapting the supply chain to reflect the growth of multichannel retailing is high on the agenda, however research suggests that this isn't the same for suppliers. According to ShopperVista research, more than a third of suppliers are unclear what they need to do to ready their business for multichannel supply chains (IGD , 2014).

As retailers have adapted their offerings to meet consumer demand by introducing convenience and online delivery and click and collect, supply chains have been warped to support a multichannel approach rather than specifically designed to meet the unique needs of each channel.

The requirements of different channel supply chains can be starkly different. Convenience formats are looking for smaller case and pack sizes, have limited storage and vehicle access requiring fewer deliveries and high sales volatility daily. Discounter supply chains must reflect basic stores and IT systems, limited operational staff and data sharing and smaller product ranges that usually don't reflect existing supplier barcodes and descriptions. Finally online supply chains are even more complex with orders fulfilled through a mix of in store picking and dedicated online fulfilment centres. Retailers must balance stock to meet the demands of in store and online shoppers whose shopping patterns and delivery requirements can be vastly different (IGD, 2015).

The lines between different retail channels are increasingly blurred and supply chains are becoming more and more complex (IGD, 2012). Some retailers and suppliers are operating their bricks and mortar and online supply chains almost as separate entities while others are trying to force the traditional supply chain to fit the changing retail environment.

Multi-channel retailing is growing and evolving rapidly as new technologies and changing customer demands require retailers to change their approach to remain competitive. Supply chains must therefore adapt alongside this to support changes rather than hinder them or suppliers face losing out. Collaboration within the supply chain – between retailers, logistics, IT and other suppliers along the chain – is essential in meeting the challenges posed by a multi-channel supply chain (IGD, 2015).

Historically, supplier supply chains and multiple retail infrastructure has been centred around transporting large volumes of identical stock from one supplier to large out-of-town retail distribution centres which will then be broken down and delivered in smaller quantities to smaller urban stores (CIPS , 2015). However, with the advent of multi-channel retailing different channels require different product formats and delivery times and frequencies to a wider variety of locations (IGD , 2015).

Meeting the demand for smaller, more frequent deliveries to multiple locations can be daunting for smaller suppliers. Commentators suggest that there may be a temptation for suppliers to put off making changes to their supply chains to meet changing customer demands. However, experts suggest that this is a dangerous strategy, agility and flexibility in the supply chain is essential to maintaining good relationships and failure to offer this could result in suppliers losing out to more established competitors (IGD , 2015).

Conclusion

The grocery retail market is changing rapidly as retailers adapt their offerings to meet changing consumer demands. Consumers are driving the growth of multi-channel retailing as they look to buy the best value groceries in the most convenient way possible. With the grocery market struggling to see much growth overall, suppliers must adapt their supply chains and increase their capacity to satisfy market demands or face losing out to competitors that have the resources to embrace changing supply chains.

The days of transporting large volumes of identical stock to RDCs are gone and changing consumer demands mean suppliers must embrace new markets with smaller volumes of tailored products for different channels and much smaller, more frequent deliveries. For many SMEs in particular, the resource or SKU range to adapt supply chains may not be feasible and many continue to operate old fashioned models that are impacting on the supplier's ability to grow and remain competitive.

Not adapting the capabilities of supply chains could have significant consequences as retailers look for manufacturers to help them meet the needs of a multi-channel approach. Without this capability, SMEs will lose out on market share to more agile competitors.

Greater collaboration across the supply chain is a key way in which suppliers can meet the demands posed by multi-channel in a cost effective way. Simplifying the process by partnering with an experienced supply chain operator can offer SMEs the capability to react to the volatile demands. Experienced operators can offer consolidation options to meet the demands of more frequent, smaller deliveries and co-packing options to offer a wider range of pack sizes to convenience and online channels. Similarly the vast supply networks offered by an integrated supply chain operator offer fast, responsive deliveries and greater agility on collections and deliveries to meet the needs of retailers offering online and click and collect services alongside more traditional channels which may have different customer demand patterns.

As an experienced supply chain operator, Fowler Welch is urging manufacturers and producers to recognise that supplier routes are more fragmented than ever, that the previous repertoire of full-load deliveries to RDCs is a diminishing route to market and that to remain competitive they must embrace, smaller, more frequent supply to a larger number of retailer network formats and more readily embrace less-than-load and consolidation models across both ambient and temperature-controlled supply chains.

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