

The Capgemini logo, featuring the word "Capgemini" in a blue, sans-serif font with a blue water drop icon to its right.The SAP Global Partner logo, consisting of the letters "SAP" in a blue box above the words "Global Partner" in a smaller font.A photograph of a smiling woman with long dark hair, wearing a grey cardigan over a white t-shirt, holding a large brown paper grocery bag filled with fresh green vegetables. She is standing in front of a brick wall with a keypad lock. A blue curved line graphic is overlaid on the image, framing the woman and the text below.

STAYING RELEVANT, ADAPTIVE, AND PROFITABLE

From challenge to opportunity
in the grocery industry





ASSESSING AN INDUSTRY IN TRANSITION

This is a report that explores the current operational reality facing grocers today. Within its pages you'll find an assessment of the industry's changing role in a post-pandemic society, evolving consumer expectations, and the vital importance of becoming 'customer adaptive'.

Key findings and opinions to look out for in the report:

"25% of consumers believe they will shop in physical stores and malls less in the future."

"40% of online grocery retail shoppers are likely to continue shopping for all of their grocery online."

Incisiv, Inc., Grocery Digital Maturity Benchmark, 2020

Page 4: The shift to online

"56% of consumers are more price sensitive in 2021, with 26% wanting to save money and experience better quality."

Page 8: The changing rules of engagement

"Grocers are perfectly placed to take the lead on reducing waste, promoting more sustainable packaging, organic ingredients and locally sourced products etc., thereby reinforcing their relevance and value to communities."

Page 9: Building more meaningful connections

"Helping retailers break down silos, embrace dynamic fulfillment, pricing, and promotions, while ensuring predictive customer insights sit at the center of every activity."

Page 10: Enabling customer adaptive grocery

GROCERS: THE BEATING HEART OF HEALTHY COMMUNITIES

Since at least the 14th century, grocers have existed at the very center of local communities. From an early focus on dry goods to offering up a literal shop window into the world's finest perishable goods, they still perform the same fundamental role today. The principal change has of course been scale, as once hyper-local trading within small districts gave way to wider catchment areas demographics and tastes – while still providing the nourishment and daily essentials demanded by society.

BUT IF THE 'WHY' BEHIND THE GROCERY SECTOR HAS REMAINED LARGELY STABLE, THE 'WHAT' AND 'HOW' CONTINUE TO EVOLVE AT BREAKNECK SPEED.

Change was already happening across a broad spectrum of measures before the COVID pandemic hit, and manifested in gradual growth in online shopping, sustainable/ethical sourcing, and demands for fresher, local produce. Then there is delivery, where the pace of transformation has been staggering:

- **2000s** – where consumer expectations were centered on predictable delivery windows (even if that was a week away) and the purchasing of repeatable items – though online orders formed a fraction of total business
- **2010** – where expectations within the industry shifted toward cost effectiveness, and delivering specific customer services for perishables (including pickup versus delivery) – while remaining a low strategic priority
- **2018** – where time became the key differentiator, with consumers now looking for orders to be fulfilled within a two-day delivery window – with online traffic volumes now reaching a level that warranted a coordinated response
- **2019** – recognizing the value of aligning short-term meal requirements with available supply, grocers found themselves increasingly offering same day delivery
- **2020 / 2021** – expectations are for both same day delivery (with a one or two hour delivery window) and buy online/pick up curbside options while at the same time online ordering volumes exploded from 5% pre-pandemic to around a quarter of orders

All of which has elicited a dramatic shift – read: disruption – in the business models of grocers. Yet with change comes the opportunity for grocers to take risks that only a few short years ago would have caused consternation in the boardroom. Opportunities for building greater resiliency into existing supply chains, and indeed to move away from 'chains' altogether toward supply networks; to turn the cost of last mile delivery into a service differentiator able to stimulate greater margin; to be more customer-centric across the whole value chain, supported by digital capabilities better able to serve the 'segment of one'; and to reimagine more innovative in-store experiences.

From new normal to now normal

Changes to shopper behavior, due to the global pandemic, have inevitably led to permanent transformation:

25% of consumers believe they will shop in physical stores and malls less in the future

40% of online grocery retail shoppers are likely to continue shopping for all of their grocery online

Incisiv, Inc., Grocery Digital Maturity Benchmark, 2020

27% increase in use of self-checkout and contactless services compared to pre-COVID

53% of consumers switched brands through the crisis and **11%** will continue with new brands in the future

17-22% bump in online spend through the crisis, with much expected to remain online

96% of user growth in Buy Online, Pick up in Store since COVID, with a 64% intent to continue in the future

A SIZEABLE LEARNING CURVE

The impact of government COVID policies, first introduced in 2020, has acted as a seed for solidifying change in the grocery industry. But the spectacle of global lockdowns etc. was far from the only challenge faced. Other factors, ranging from adverse weather patterns and growing trade tariffs to criminal activity and one-off events like the Suez Canal blockage, helped to exert additional pressures on just-in-time, frequently replenished, supply chains and operating margins.

A global pandemic though proved a 'next level event', with shortages in high demand items inspiring many a news headline – alongside the more practical concerns of distributing products during lockdowns and the issue of employee and consumer safety. This at a time when, despite a 'hockey stick' chart pointing to a growing demand from shoppers for buying household essentials online, grocery shopping carts still lagged behind other retail sectors. And while the in-store experience still remained king, retailers were afforded the opportunity to position fresh and frozen products at the entrance to stores to maximise sales of time-sensitive products.

Then all of a sudden everything changed. Lockdowns were implemented. Social distancing came into play. And consumers almost overnight became reluctant to enter physical stores. Grocers in response showed admirable daring and innovation to bridge the gap and bring their goods to consumers, either to doorsteps or the curbside. Activity that forced a steep learning curve on many shoppers, including the introduction of new apps and ordering practices, but once navigated they found much to their liking.

IN THE PROCESS THE NEW NORMAL BECAME THE NOW NORMAL, BRINGING WITH IT AN END TO ANY REMAINING STABILITY WITHIN THE INDUSTRY.

What does this mean for grocers? Well the need to rip up the rulebook for starters, and most likely the sacrifice of more conservative mindsets. Sitting still and 'waiting to see' will no longer be a defensible position as more agile and responsive competitors grab market share. Revenues may have held or grown, but margins suffered as grocers carried most of the new, changing costs of fulfillment. But this is more than just a need to defend margin - the industry is at an inflection point - needing to finally realize the full potential of digital transformation.

Previous reluctance in this area is understandable for an industry that finds margin difficult to generate online; and where each digital transaction forces the retailer to perform activities (selecting, comparing, and finding alternatives etc.) traditionally the reserve of the shopper. But the pressure is most definitely on to deliver new channels to market, new services, and new efficiencies. Failure now, despite the risks, could well be catastrophic. But the reality is that few grocers have a choice, as consumers increasingly are empowered to demand, and expect, more.

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\$248bn Digital grocery retail sales by 2025 (USA); **60%** higher than 2019 estimates

Incisiv, Inc., Grocery Digital Maturity Benchmark, 2020





ALL OF WHICH LEADS TO ONE CENTRAL, STRATEGIC QUESTION: HOW CAN GROCERS MEET THESE DEMANDS AND REMAIN 'CUSTOMER ADAPTIVE', WHILE STILL TURNING A PROFIT?

No one single response can possibly provide an all-encompassing answer. But what seems certain is that every grocer now faces the task of moving from businesses centered on stores, linear supply chains, and multi-dimensional categories, toward adopting:

- **Customer-centric value chains** able to drive tailored assortments, pricing, promotions, and seamless connected channel interactions
- **More dynamic attribution** that supplies detailed information about what shoppers down to a 'segment of one' may choose tomorrow – rather than predicting general demand in six months' time
- **High volume orchestration** of digital orders that supports least cost or least time delivery, depending on consumer demand
- **New business models** – including data-driven pricing and promotion, combined with greater automation and the analytical tools needed to ensure outputs are both timely and actionable
- **Collaborative, digital supply ecosystems** based on a more expansive definition of 'supplier' and 'network' that's able to respond faster to spikes in demand – while also shifting nimbly between new operating models and service offerings

- **Re-imagined in-store experiences**, empowered by innovative technology solutions able to deliver enhanced personalization and customer service

Where the pivot toward more responsive operations will be felt keenest though is in the supply chain. To begin with, demand planning has long been in need of an urgent overhaul. That's because historical data can no longer be relied upon to predict future stock requirements. Instead demand sensing is called for and providing a more intelligent alternative that incorporates social listening capabilities to better appreciate what consumers are thinking and why.

Having a more granular level of instant 'feedback' from consumers also helps move the narrative beyond manual predictions and promotions. Critically, it's also essential for addressing the constant challenge of product 'stock outs'. The move to more digital processes has already shown that the problem of store level inventory is often far worse than most businesses actually think. Customers of course know, thanks to the reality of an empty shelf. But such intelligence struggles to make its way up the business to where it can be addressed – leaving lost sales and spoiled product at distribution centers in its wake.

RECONNECTING WITH CONSUMERS

The good news for grocers is that demand for its products is not going to go away anytime soon. People still appreciate access to a wide range of fresh, healthy, and safe foods and household essentials. But we can also now see how the rules of engagement have changed:

- Consumers are less prepared to accept substitutions and out of stocks for core products
- Price sensitivity is also a growing factor, with statistics suggesting 56% of consumers are more price sensitive in 2021, with 26% wanting to save money and experience better quality
- Choice matters more and more, with channels to market now expected to encompass online, subscriptions, delivery apps, marketplaces, and direct-to-consumer sales
- Hyperlocal fulfillment as a behavioral driver is now stimulating demand for services ranging from Ship from Store to dark stores catering for specific zipcodes

Any transformation is therefore going to be about changing mindsets and strategic direction as much as specific operational developments. In other words, new ideas and approaches are needed that shift the emphasis from the store to the shopper. A task achieved by addressing structural issues long known to present huge obstacles, not least the ever-present issue of departmental silos. What's different now however is a sense of real urgency, and a palpable desire to act as one unified business – with the customer placed at the center of every process and decision.

CONSUMER AND BUSINESS INTELLIGENCE ALSO NEEDS TO BE WORKED HARDER

Constructing more meaningful customer engagement begins when grocers have a far more detailed and timely view of their shoppers' buying behaviors, aspirations, and up-coming plans. Many grocers rightfully pride themselves on being customer centric, but as the pandemic has highlighted, a new step is now required: that of becoming customer adaptive. Rather than occupying the role of latest industry buzzword, being customer adaptive means being focused on enabling a far more proactive retail operation. It's about being more than simply in lockstep with customer demand, where insight is put to use in ensuring grocers are stocked and ready for wherever the shopper goes next. A vision that was seemingly impossible only a few years ago, but now made practical by the vast array data points being captured by grocers and advances in analysis capabilities.

Being customer adaptive therefore calls for a real-time view of changes in demand as they're happening. Visibility that's strengthened by access to dynamic attribution using powerful Artificial Intelligence (AI), Machine Learning (ML), and cognitive computing to provide a forensic understanding of real-time customer demand – down to the specific attributes fuelling a propensity to buy. Capabilities largely in their nascent stage, but which are already opening up a host of new opportunities to influence customer demand.

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And as these tools mature, we're seeing fulfillment evolve toward the anytime/anywhere needs of customers—rather than fixating on shelf availability.

look to evolve the engagement from chasing them to fulfill their needs to providing a suitable lead. An all-pervasive approach that breaks free from a merchandise planning and

options based on insight-driven health, taste or ethical preferences.

Supporting this effort also opens up those opportunities surrounding fulfillment networks, micro-fulfillment, and dark stores; Where real, measurable cost savings can be achieved by cutting back drastically on stock held, with the help of smarter, real-time inventory management combined with demand sensing; And where merchandising and promotions are fully integrated into the extended network, aligning personalized offers to shopper needs and available stock.

Overlaid onto this scenario is also the opportunity to dial up product, packaging, and commercial innovations, crafted to the needs of local communities. Supported by the right suppliers and partners, grocers are perfectly placed to take the lead on promoting more sustainable packaging, organic ingredients and locally sourced products etc., thereby reinforcing their relevance and value to communities.

At the same time, grocers can combine specific ingredients to create personalized meal suggestions – with partners tasked with handling packing and shipping. Hence talk of supply ecosystems rather than chains, bringing together expertise and innovation to deliver intelligent product bundling, category buying scale, and velocity opportunities – while helping cut waste across the entire value chain.

TRANSFORMING THE END-TO-END VALUE CHAIN REQUIRES A FRESH APPROACH TO COLLABORATION

Linear delivery from supplier to distribution center, to store to customer, is now a flow that's looking inflexible and outdated. With the data now at a grocer's disposal, supply can be managed from anywhere in real-time, whether that's direct from the manufacturer, a partner, or through a marketplace.

The healthier shopping basket

Grocers today play a lead role in encouraging shoppers to lead fuller, healthier, and more productive lives. That's the conclusion from the recent report: 'Building Healthier Baskets to impact at scale', co-published by the Consumer Goods Forum and Capgemini, which highlights four main digital concepts:

1. Decoded:

Making healthier decisions easier with consistent product categorization

2. Better Together:

Utilizing social shopping powered by collective wellness expertise

3. Contextual Cart:

Enabling data-driven basket builders for individualized guidance

4. Simul-ate:

Gamifying the shopping experience to promote healthy habit formation

You can read more by accessing the full report here:

<https://www.capgemini.com/resources/building-healthier-baskets-to-impact-at-scale/>

MOST IMPORTANTLY, PREDICTION BECOMES LESS ABSTRACT AND MORE INSIGHT DRIVEN AT SCALE AND SPEED

An achievement that also impacts the role of planners, who in turn will need to bolster their credentials in data science, AI, and robots in order to master an extremely fluid demand sensing and fulfillment process; Developments that will take them outside the traditional comfort zone of 'brick and mortar stores' thinking. Revenue growth planning is one thing, but it now needs to be accompanied by practical methods for minimizing product substitutions and more dynamic pricing/promotion/expiration.

And at the heart of every discussion sits the consumer. Individual shoppers that grocers can now surround with a growing level of detail, as they

category management conversation, to incorporating everything from supply chain to store operations to supplier collaboration.

A MORE HOLISTIC VIEW OF THE SHOPPER CREATES A DEEPER RELATIONSHIP WITH RESPONSIBILITY TO NOT JUST AVOID LETTING THEM DOWN, BUT TO DELIGHT

When the supply chain becomes more aligned toward consumers rather than stores, on shopper satisfaction rather than internally focused metrics, it sparks a commitment that enables grocers to take on greater responsibility in their shoppers' lives. For instance, providing key ingredients to a planned meal that very day, and perhaps even suggesting intelligent

The result is an intelligent supply ecosystem powered by technology and local communities, as well as a vibrant spirit dedicated to getting products on plates in the best condition possible.

It's also an excellent platform on which to further optimize direct, personalized relationships with customers – a critical next step for grocers facing competition from niche e-commerce suppliers or more local direct-to-consumer competitors.

TAKING THE NEXT STEP FORWARD

Looking ahead, the obvious path forward for retailers is to start with their highest priority needs, alongside those one-off projects calculated to achieve immediate benefits. Both approaches will only create long-term

value however if delivered in line with a proven, retail-specific framework for digital transformation.

The Digital Core Solution for grocers, available from Capgemini, offers just that. This is technology developed to make the concept of customer adaptive grocery a reality. The capabilities made available are purpose-built to help retailers break down silos, embrace dynamic fulfillment, pricing, and promotions, while ensuring predictive customer insights sit at the center of every activity. Capabilities that represent the basic building blocks grocers need to become a Renewable Retail Enterprise, a state that's defined by four primary outcomes:

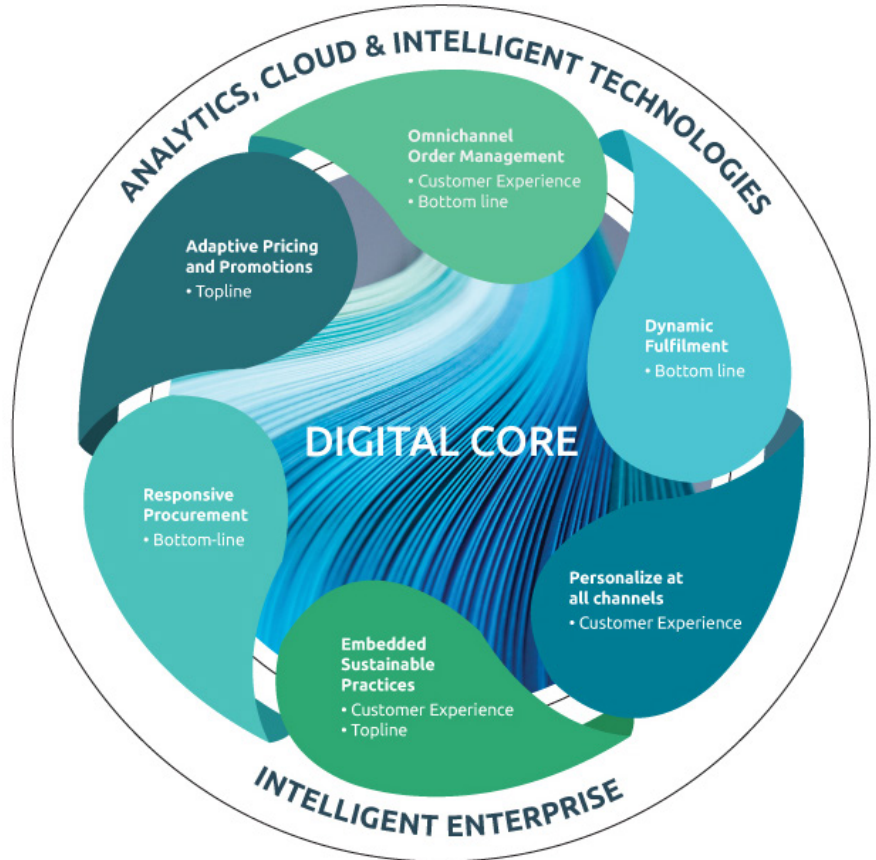
- Customer adaptive: where predictive hyper-personalized user experiences sit at the heart of any activity

- Sustainable operations: where processes and services are able to shift in line with evolving demand
- Resilient agility: where rapid change can be embraced to maintain business as usual through any disruption
- Always-on innovation: aimed at consistently cutting time-to-market, boosting productivity, and driving new revenues

Ultimately Digital Core helps provide the advanced capabilities that grocers need to catapult past the current inflection point. With it, businesses have the digital tools, processes, and operating model in place to sustain digital transformation and enable high-speed innovation – which is key to re-invigorating the heart of modern grocery.

Digital food-chain innovations that ensure quality, safety and value from food to fork

IoT devices that detect molecular signatures is an example where digitalizing can have positive effects for all parties – grocer, producer, consumer and planet. Easily deployed SCIO devices - miniaturized near infra-red spectrometers - take readings from grain, processing plants, storage and in-store and connect to allow the precise quality and makeup of the fresh items. This creates environmental and cost savings through reducing wastage, combats counterfeiting, improves supplier management, as well as increasing loyalty through improving consumer trust.







About Capgemini

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For more details contact:

John Waymire

Executive Vice President
Consumer Products, Retail
and Wholesale Distribution
Capgemini
john.waymire@capgemini.com

Josean Mendez

Vice President
Global SAP Partner and Ecosystem
Lead, Global Strategic Initiatives and
Partnerships
Capgemini
josean.mendez@capgemini.com

Elisabetta Spontoni

Vice President
Global Head of SAP Operations
Group Offer Leader for Digital Core
with SAP S/4HANA
Capgemini
elisabetta.spontoni@capgemini.com

Lindsey Mazza

Global Retail Lead
Capgemini
lindsey.mazza@capgemini.com

Randy Evins

Senior Principal, Industry Advisor SAP
Food Drug & Convenience at SAP
Retail
randy.evins@sap.com