

The future of grocery retail

Certain growth in an uncertain environment

How automation helps companies to increase their market share.





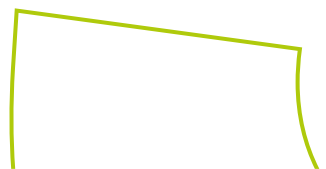
Introduction

Andrew is a passionate C-level executive of a grocery retailer. He wants to ride his bike twice a week to stay fit. However, he often has to change his plans due to professional commitments. He is still committed to advance both his physical fitness and his company, which was founded almost 100 years ago.

The customers, „his“ more than 10,000 employees and the interests of the company owners are at the heart of what Andrew does. He is driven by the passion to make the company's future successful. Therefore, his primary goal is to not only secure his company's market share in the intensely competitive grocery industry, but to even increase it further. Andrew knows that standing still means going backwards. When he studied competitors, he noticed that companies that ignore (customer) trends and do not keep reinventing themselves lose market shares.

Therefore, he spends a lot of time and energy gathering information about the latest developments. He regularly exchanges ideas with colleagues, suppliers, and consultants, attends conferences, talks to customers, and uses online platforms such as LinkedIn to get an idea of the market.

The pandemic and the supply chain issues that resulted from the war in Ukraine showed Andrew for which additional challenges you have to prepare. Therefore, his main focus has become not only an attractive offering for end customers, but also resilience of his company's supply chain.



The future – navigating in a world of unpredictability

When Andrew started his career in the company as a store manager after graduating, the world of food retailing looked very different. Consumers' desire for quality and choice was well served by a relatively homogeneous store structure with well-known brands or private labels. Supermarkets were dominating this mostly supply-oriented industry, as Ashley Ross called it in the 2016 Time Magazine article titled „The surprising way a supermarket changed the world.“

A lot has changed since then: Society has become more colorful, living, working and eating habits have changed, and cuisine has become more diverse. It is not as easy anymore to categorize customers and their needs as it was three or four decades ago. This increases the whole industry's complexity.

Ongoing change has not exactly made it easier to derive a long-term strategy. In this context, CEOs in the food industry are increasingly challenged. They are facing increasing pressure on costs and margins.

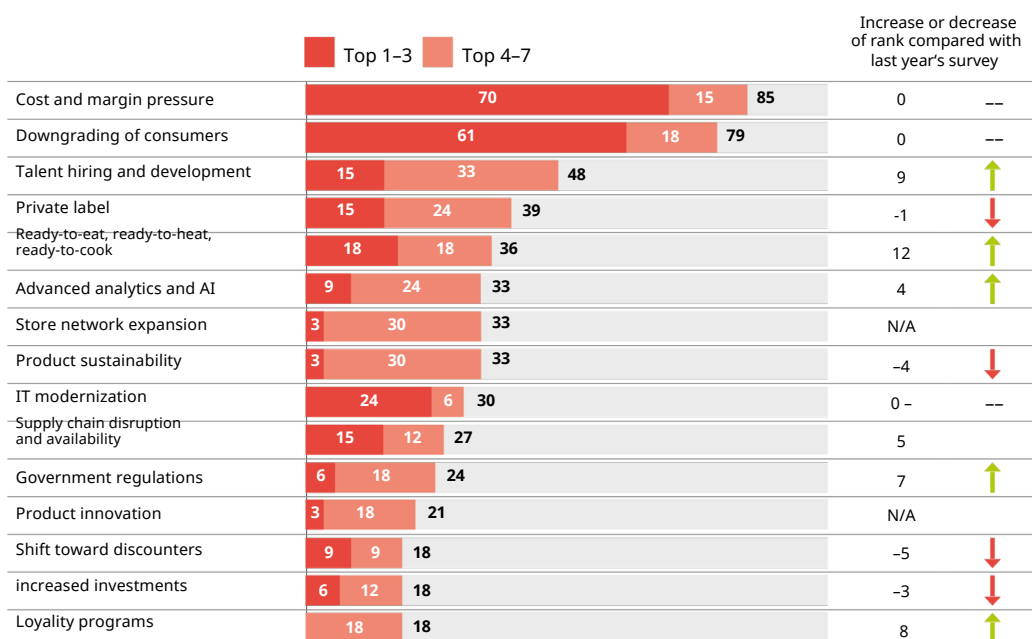
According to a recent survey by McKinsey, this is the biggest challenge for business leaders in the coming months (see chart). Products and services offered, store and cost structures as well as a company's supply chain have to be optimized in shorter cycles, compared to the past.

Which combination of distribution channels/store concepts, product ranges and service models is best suited for generating sustainable profits in the face of massive change? This question is hard to answer. Every retailer has to create their own mix. As the central backbone, the supply chain is dependent on digitalization and automation. But which kind of automation is the most effective for grocery retail?

What is certain: Turnover and market share growth and resilience can only be achieved if flexible automation solutions are used. In this connection, logistics, and intralogistics in particular, have proven to be one of the essential enablers for retailers.

Margin pressure and downtrading remain at the top of CEOs' minds.

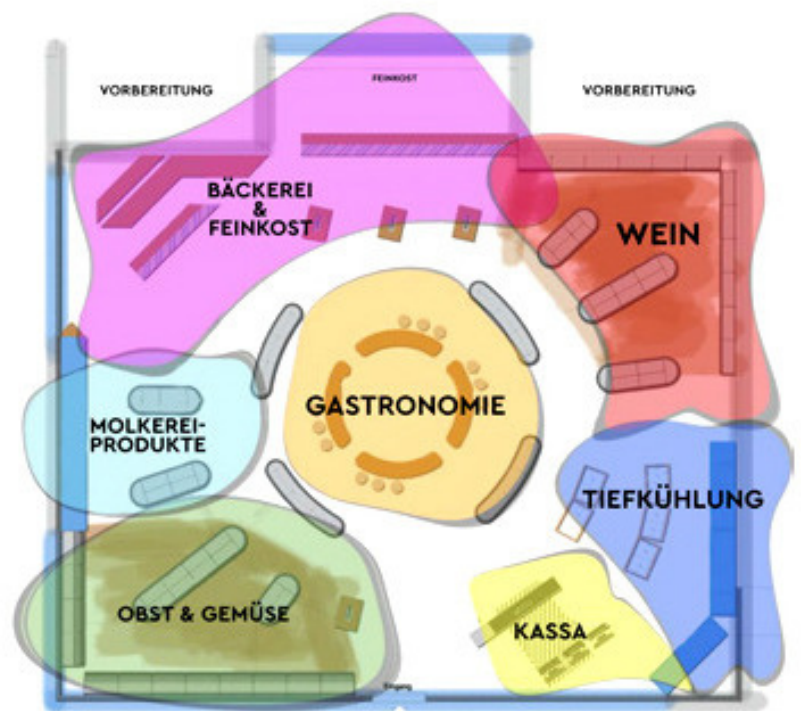
Top 15 trends mentioned by CEOs for the grocery Industry in 2024
% of CEOs mentioned trend as top 1–3 or top 4–7 (n = 33)



Market share growth as basis for long-term success

The motto is: The individual consumer takes center stage. Therefore, companies invest a considerable amount of time and resources into analyses (e.g. by means of loyalty cards) to understand the customers' needs. The insights gained enable companies to offer customized product ranges and services that meet the demands of a diverse and ever-changing society.

For a strategy that is successful in the long run, companies either have to create an offering that best addresses a broad range of individual needs, or focus on a very specific niche. If we aim for the first goal, we can identify four major fields of action:



1. New store concepts

As a direct consequence, well-established distribution channels such as supermarkets are revised, and new store concepts are developed to deal with changing shopping habits. Instead of one large weekly trip to the supermarket, many customers now prefer several so-called „shopper journeys“, i.e. several small shopping experiences. Some of them take place in convenience stores that are created close to where people live or work.

A small footprint and a curated product range ensure a fast and most of all convenient shopping experience. The disadvantage for retailers: The small stores hardly have any storage space and therefore often have to be replenished with small quantities. The replenishment not only contains bulk packages, but also individual products that are mostly supplied in totes. As the space is limited, goods are increasingly delivered in roll cages rather than on pallets.





TGW Logistics efficient „FullPick“ solution for fully automated picking of mixed pallets

Impact of storage “New store concepts”:

If the retailer's store structure becomes more heterogeneous, the structure of the replenishment orders changes, as well.

A limited number of large orders is complemented by many smaller orders that all have to be fulfilled from the same distribution center. Furthermore, the product sold in the smaller stores may vary, which means that the overall SKU portfolio is extended. A modified order structure, larger SKU range and/or different load carriers that do not have an impact on automation?

To make this possible, TGW Logistics has developed FullPick. The system is designed to ensure a consistent order picking performance regardless of the order structure. It stays flexible during its entire lifecycle and can be adapted easily to changing requirements. Different mechatronic modules ensure an efficient order picking of individual customer packages as well as automatic palletizing of bulk packages on different load carriers (e.g. Euro pallet, half pallet and roll cage).

The best part: Both picking variants (full case or split case picking) are „supplied“ from the same inventory.

2. New or adapted product ranges

Social trends have a significant influence on the product range. For years, many consumers have opted for an increasingly healthier lifestyle. This mostly affects two areas: fresh goods and frozen goods.

In the fresh goods section, we have noticed a significant growth in the number of articles, driven by alternative proteins as well as freshly prepared convenience food (salads, sushi, etc.). Furthermore, the quality of fruit and vegetables plays a central role when the shopping location is chosen.

Frozen products are very popular, especially when fresh produce is not available seasonally or when food needs to be prepared quickly and easily. We are currently seeing an increase in private labels when it comes to dry goods, driven by inflation. With these private labels, retailers want to offer alternatives for price-conscious customers.





Impact of storage „New or adapted product ranges“

Changing product ranges are not new for automated systems due to the seasonal nature of many products. However, the strong increase in articles within a product group has noticeable effects: The quantities ordered by stores per article are decreasing, which requires the handling of new product packaging. Furthermore, the reduction of throughput times in the distribution center is becoming more important to ensure that perishable food in the stores keeps for as long as possible.

Again, TGW Logistics' FullPick automation solution offers the required long-term flexibility. The use of trays on which the products are transported makes the system independent of the (further declining) quality of the product packaging. This packaging could otherwise cause malfunctions in direct transport and thus reduce system availability.

The solution is designed so that even strong growth of the article range does not have a negative impact on the installations. The products can be stored and retrieved in and from all available storage locations in the buffer (thanks to a highly automated shuttle system) without performance restrictions. This gives retailers a lot of flexibility when adapting their product ranges.

Particular attention is paid to achieving the shortest possible throughput times for fresh food, which is ensured thanks to the high-performance modules used. The world's most high-performance shuttle system can receive products in record time and send them to the palletizer after the order was received.

Another relevant aspect is that the solution can be used in all temperature areas. This opens up numerous possible applications.



3. Improvement of the service level

In order to retain customers, food retailers not only need an extensive store network, but also a strong service mentality. Here, the increasing influence of e-commerce plays a major role. A digital presence and seamless shopping experiences across different channels are becoming more and more important. Therefore, companies have to strengthen their online platforms and the associated services to offer consumers the best possible shopping experience at home or in the store.

However, online retail in particular is currently still mostly loss-making, as the costs of order picking and delivering it to the customers' doorstep are not covered by the achievable revenue. It is therefore crucial for retailers to optimize processes and reduce costs.

Impact of storage "Improvement of the service level"

Specialized fulfillment centers offer the best payback if there is a large number of online orders to be picked each day. E-commerce orders can also be prepared efficiently with a flexible automation solution for distribution centers with a focus on store supply.

The solution by TGW Logistics offers an optional module that makes it possible to pick individual sales units (e.g. for online orders) at ergonomic 1-to-1 workstations. For a broad range of products, a picking robot can take on this task. The (partial) orders picked into totes are brought to stores close to the customer with the store replenishment and transported the last mile to the end customer from there, after any articles were added if necessary. This reduces costs in the long term and significantly decreases the workload in the store compared to on-site fulfillment. As a result, retailers can look forward to satisfied customers and a profitable distribution channel.

4. Social significance

The pandemic showed us how important grocery retail is in society. Grocery retailers not only provide customers with the products they need; they are also important employers with thousands of employees. To keep these essential resources in times of labor shortage, attractive workplaces are imperative.

Sustainability is also very important for many retailers due to regional solidarity. They strive to maintain what everybody appreciates and loves. It is therefore important to minimize resource consumption in all areas. An example is preventing the sealing of additional areas despite the company's growing success and expansion.

Impact of storage "Social significance":

When investing in automation, the focus should not only be on increasing productivity, but also on improving ergonomics and creating more development opportunities for employees. TGW's solution considers both aspects: It relieves employees of monotonous and physically demanding tasks, including in the freezer area, and enables them to take on new and more qualified activities after appropriate training.

Due to its modular structure, FullPick is designed to make optimum use of existing buildings, especially in brownfield projects. Particular attention is paid to the best possible utilization of the available volume – especially in temperature-controlled storage areas – in order to minimize energy costs. Intelligent operating strategies such as energy recovery or partial shut-down when not in use continue to contribute to the responsible use of energy and therefore to a reduction in operating costs.



The automation of a distribution center is closely linked to many areas of a food retailer's business activities. Only flexible and standardized systems such as FullPick make it possible to manage the risks of the future already today. Thanks to support from industry and automation experts, managers like Andrew can unlock the full potential of their company and lead it safely into the future.

Do you want more information about warehouse automation? Make an appointment with the experts of TGW Logistics.



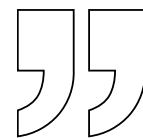
» Michael Schedlbauer

Vice President Global Business
Development Grocery, TGW Logistics

TGW Logistics Group GmbH

A-4614 Marchtrenk, Ludwig Szinicz Straße 3
T +43 (0)5 0486-0 | tgw@tgw-group.com
www.tgw-group.com

Headquarters Marchtrenk, FN 294154f
FB-Gericht LG Wels, Legal form GmbH
ATU 63456209



Those who rely on modern intralogistics systems do not have to build on greenfield sites: They can be easily integrated into existing buildings.

Further questions?

CONTACT US HERE



www.tgw-group.com

