**"Logistics must give customers what they want,**

**not the other way round"**

* **Future of grocery retail from the supply chain perspective**
* **OmniStore combines the advantages of online shopping and brick-and-mortar retail**

**Michael Schedlbauer, grocery retail industry expert and Industry Manager at TGW Logistics Group, talks about the future of grocery retail from the supply chain perspective.**

**Mr Schedlbauer, it seems that many consumers in Germany and Austria still write up a grocery list, go to their favourite supermarket to purchase the items and then get in a long checkout queue. Why do so few people take advantage of the convenience of shopping for groceries online from the comfort of home?**

**Michael Schedlbauer:** There are a number of reasons for this. One of the most important is the high density of grocery stores in countries such as Germany and Austria. It takes a relatively short time to travel to the stores. Another factor is that particularly in Germany, consumers tend to be conscious of prices and don't necessarily want to spend additional money on a delivery service. Even those who are willing to pay extra to have groceries delivered to their home have a certain amount of scepticism about the quality of fresh produce through online delivery. They prefer to inspect the quality of fruit and vegetables themselves at the store. However, another fact is that, in Germany, online grocery retail is still at a relatively low level, but is experiencing strong growth. Total sales in the online grocery retail sector increased by 20.3 percent to 1.36 billion euros (about 1.5 billion US dollars) in 2018.

**What is the situation with regard to online retail sales of established supermarket chains?**

Rewe is the only of the major players in the grocery retail sector to offer products online throughout the entire shop. A few retailers are still choosing to wait and see. The primary reason for this is that the lack of critical mass in online retail means that there is currently no money to be made with the service. The process of order picking requires a great deal of labour. Many chains start in just one or two cities or wait until acceptance is higher. Despite the tough competition, most are still earning a good deal of money with brick-and-mortar retail. Many customers are very loyal to their favourite grocer.

**"No pain, no gain" is the approach of online retail giant Amazon, which announced in March that it is considering delivering fresh goods throughout Germany. Should we be afraid of this retail giant in Europe?**

The fact is that, up to this point, Amazon has been offering "Amazon Fresh" in only three German cities – for Amazon Prime users who pay 9.99 euros (10.99 US dollars) a month for the service. "Be afraid of" is the wrong expression. Rather, established chains in German-speaking countries should observe closely what the US-based company is doing. By making its level of service consistently customer-oriented and aligning itself with what customers want, Amazon is setting new standards. Currently, if consumers in Munich and Berlin want groceries delivered within two hours, Amazon can make it happen using the "Prime Now" service. The track record of Jeff Bezos and his management team has taught us that they aren't worried if they do not make money on a new service at first.

According to the most recent reports, Amazon is thinking along similar lines to TGW about how to convert a store into a local fulfilment center to create the ideal combination of brick-and-mortar and online shopping. Amazon has an advantage over established grocery retailers: at least in Europe, it does not have an existing network of stores and thus can better select its locations and layouts. At the same time, however, this has the disadvantage that the online specialist does not have a supply chain network as efficient and cost-effective as the established players who have been consistently optimizing their supply chains for half a century.

**Where does TGW believe the online grocery retailing industry is headed?**

Studies show that the groceries bought by a given customer are 60-80% identical from one week to the next. Impulse purchases only account for the remaining smaller portion. However, many consumers dislike the fact that they have to go through the hassle of searching the entire store for the products they always buy and placing them in their trolley. This is a waste of time and customers tend not to enjoy it. We want to approach this problem by using the Internet to make the process less time-consuming. This means that, for example, the customer conveniently orders standard products online from home after work and picks them up at a counter at the store the next day. When they go to the store, they will pick up whichever fresh products they might need or try out something new. The benefit for the consumer is that shopping becomes more convenient and saves time. The benefit for the retailer is that it is in a good position to plan the order picking by its employees and spread out the utilisation of its logistics so that it is uniform. And the employer can automate a portion of the order picking, which also helps to save money. At the same time, the retailer learns more about its customers and can provide more customised offers.

**To prepare grocery retailers for the future, TGW is collaborating with the shop-fitting specialists from umdasch for the "OmniStore" solution. How does the OmniStore work?**

TGW is cooperating with umdasch and a retail company to implement the first OmniStore. The principle behind this is the idea that a store has a separate logistics area in which certain items are stored and grouped efficiently using TGW's automation solutions. This might be the (almost always identical) shopping basket purchased online which the customer picks up or has delivered on the date and at the time they want. The intention is for the retailers to make their existing shops fit for the future and make consistent use of them going forward. The shops are a valuable pillar for the companies and have a loyal customer base. And the idea is to give this customer base a new shopping experience in future. The portion of the customer base that enjoys going online can use the Internet for both regular and spontaneous orders going forward. Our approach: Logistics must give customers what they want, not the other way round. In doing so, we orient ourselves to different customer needs – we have identified four shopper journeys.

**What are these journeys that reflect what customers want?**

**First:** Fast shopping with time flexibility. These are consumers who order the entire shopping basket online and then pick it up conveniently, without waiting in queues. A major advantage of this Click&Collect approach is that the products can be picked up round the clock thanks to our automation solution. After the store closes, the customer's items are output via a pick-up point built into the building envelope – similar to a beverage vending machine.

**Variant two:** Hybrid shopping. In this variant, only a portion of the goods is ordered online and picked up. This frees up more time to select fresh products or receive consultation in the store. More importance is placed on service and the attractive presentation of the goods.

**Variant three:** Spontaneous purchase: The customer enters the shop briefly and, in most cases, purchases products to be consumed soon afterwards, such as freshly prepared snacks, sweets or a beverage. This is roughly equivalent to purchase at a gas station or convenience store, where primarily fast-moving products are offered.

**Variant four:** Food and drink purchased for consumption elsewhere: This customer purchases fresh food or a drink in a small bistro area or café within the OmniStore. There, they can make online purchases spontaneously at digital terminals and drink a coffee until the goods are picked and ready for them. The goal for this process is to take less than ten minutes. The bistros have another function: They are intended to promote social interaction with other customers and the employees. In addition, we are also thinking of what are known as Experience Areas in which new products can be presented and sampled, for example.

**What do the intralogistics process and order picking in the OmniStore look like?**

An OmniStore can either be built from the ground up or an existing shop can be renovated. The heart of the logistics area, which is separate from the store, is a TGW Stingray shuttle system with one or more aisles to store totes. When a customer order is received, the totes with the desired goods are removed from storage and picked at the TGW PickCenter One order picking workstation. Important: The shuttle system is usually used for what are known as B and C items, and thus not for fast-selling products or products that take up a lot of space, such as beverage containers. The latter are picked exclusively manually. The output of a PickCenter One is very high compared to gathering the goods in a shop. One employee can make up to 500 picks per hour. By comparison, someone retrieving the same items from the shelves could only get through 80 to 120 per hour at most. Thus the output is increased fourfold. The process of fulfilling an online order is particularly fast and easy because multiple employees working simultaneously can process an order that averages 30 to 40 items. While one employee picks orders at the PickCenter, the others retrieve the fast movers and particularly large items.

**How difficult is it to convert existing stores to the OmniStore concept?**

We have calculated our business case for existing stores with an area of 1,200 square metres or more. This means that the concept is designed for stores outside central urban locations. The entire concept makes sense only if the ceiling height is six meters or more and the Stingray shuttles can cover a distance of at least 40 meters in an aisle. In a single-aisle system with one order picking workstation, about 2,000 totes can be stored and these totes – depending on the item structure – can be divided into two or more compartments. Installing a temperature control system is also conceivable. However, this requires higher investments. In some cases, the ceiling height will be the sticking point. This can be adapted by partially renovating the building.

**How did TGW calculate the business case?**

We calculated the investments such that they are amortised over ten years. Specifically, this means that no provision is made for savings on personnel. The retailer uses its existing employees, who previously stocked shelves and did other tasks, for order picking and improved customer service. There are a whole number of advantages overall. For one, a shop increases in attractiveness because the service level increases also. Customers now have many options for meeting their individual shopping needs quickly and conveniently. Studies say that customers are buying more products online after a certain period of acclimatisation to Internet shopping. Samplings in the bistro and promotional campaigns help to launch new products. Those with busy working lives have the major advantage of being able to pick up orders outside of the store's operating hours. This all leads to higher sales.

It also improves inventory transparency for the retailer. In the warehouse, it is 100 percent in this case. This is precisely where higher-value products are stored. It is imperative not to underestimate the extent of the losses due to theft or spoilage in a brick-and-mortar store.

**What benefits are gained in supply chain management?**

Despite the new omnichannel product, minimal adaptations to the supply chain are required. Thanks to regular online orders, a retailer has greater transparency in terms of demand planning. Ideally, the totes for the shops are filled immediately at the logistics center. Automation makes this more efficient than is possible at the store. In principle, however, it is also conceivable that employees stock the totes from the mixed pallets delivered to the shop, thus preserving the status quo in its entirety.

**How have retailers reacted to the new TGW concept?**

We presented the concept to a number of grocery retailers. They all thought it was a good idea. However, all except one wanted to wait and see an OmniStore in everyday operation first. We will soon implement a system with a renowned retailer from German-speaking Europe.

**About Michael Schedlbauer**

*Retail logistics expert Dr. Michael Schedlbauer works as an Industry Manager at the corporate headquarters of TGW Logistics Group in Marchtrenk, Austria. After working in a variety of operational and strategic roles at Siemens AG for eight years, Schedlbauer joined TGW in 2016. The intralogistics specialist studied Mechanical Engineering at the Technical University of Munich and earned his diploma at the University's Chair of Materials Handling, Material Flow and Logistics.*

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**About TGW Logistics Group:**

TGW Logistics Group is one of the leading, international suppliers of material handling solutions. For 50 years, the Austrian specialist has implemented highly automated systems for its international customers, including brands from A as in Adidas to Z as in Zalando. As systems integrator, TGW plans, produces and implements complex logistics centers, from mechatronic products and robots to control systems and software.

TGW Logistics Group has subsidiaries in Europe, China and the US and more than 3,500 employees worldwide. In the 2017/2018 business year, the company generated a total turnover of 719 million euros.

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