**“Logistics must give customers what they want, not the other way around”**

* **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 North America still handwrite a grocery shopping list before visiting their favorite supermarket or grocery store to select items they need to only get in a long line to checkout. 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, for example, is that consumers typically shop in four to five different stores to meet their specific needs (e.g. value for money, assortment). In addition, it is usually just a quick detour to reach the nearest supermarket as most consumers commute to their places of work by car. Another factor is many consumers tend to be very price sensitive and want to avoid additional charges for home delivery. Even those who are willing to pay extra to have their groceries delivered to their home have a certain amount of skepticism about the quality of fresh produce they will receive. Most consumers prefer to inspect the quality of fruits, vegetables and meats themselves at the store. However, younger generations like Millennials and Gen Z are adopting online grocery shopping rapidly, so this channel is experiencing strong growth. Total sales in the online grocery retail sector is forecasted to reach $90 to $100B in 2022 (vs. $26B in 2018).

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

There are a few major players like Walmart and Kroger who are investing heavily to offer the entire store’s product selection online. Other retailers are still trailing, partnering with shopping and delivery service providers like Instacart and Shipt or choosing to wait and see what happens. The primary reason for this is the lack of critical mass of online grocery shoppers which means there is currently no money being made with this service. The process of order picking requires a great deal of labor; thus, many chains start in just one or two cities to gain experience or wait until acceptance is higher. The pressure to act still seems to be low, despite the tough competition, most retailers are still earning a good deal of money with their brick-and-mortar retail locations.

**“No pain, no gain” is the approach of online retail giant Amazon, which announced increasing investments in online and offline grocery. Should retailers be afraid of this giant?**

The fact is, up to this point, Amazon has been offering two competing services “Amazon Prime Now” and “Amazon Fresh”, which are currently connected to Whole Foods’ brick-and-mortar stores. “Be afraid of?” is the wrong expression. Rather, established chains should observe closely what Amazon 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 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 are not worried if they do not make money on a new service at first.

According to most recent reports, Amazon is thinking along similar lines as TGW about how to convert a store into a local fulfilment center to create an ideal combination of brick-and-mortar and online shopping. Amazon has an advantage over established grocery retailers as it does not have an existing network of stores outside of Whole Foods allowing it to better select its locations and layouts. However, at the same time, this has the disadvantage in 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 the past half century.

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

Studies show that baskets bought by a given customer are 60-80% identical from one week to the next. Purchases to meet different meal plans only account for the remaining 20-40% of the shopping basket. 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. This is a waste of time and customers don’t tend to enjoy this part of the shopping experience. We want to address this problem by using an Omni-channel approach to make grocery shopping less time consuming. This means, for example, the customer conveniently orders their typical products online and picks them up at a counter in the store later the same or the next day. When customers come to the store, they only top off their orders with fresh products they need or something new if they want to try it. The benefit for the consumer is that shopping becomes more convenient and saves time. For the retailer the benefit is that they are in a better position to plan and optimize the order picking by their employees. To reach higher efficiencies, retailers can automate at least a portion of the order picking process, to help reduce costs. At the same time, the shopping data provided by the customers allows the retailer to learn more about its customers’ individual needs to provide more customized offerings.

**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 working with Umdasch to implement the first OmniStore (in Europe). The principle behind the idea, is that a store has a separate logistics area where certain items are stored and grouped efficiently using TGW's automation solutions. This area will allow the almost always (weekly) identical shopping basket purchased online that customers pick-up or have delivered on a date and time they specify to be picked. The intention is for the retailers to make their existing stores fit for the future and make consistent use of them going forward. The stores are a valuable pillar for the companies and have a loyal customer base. This idea is to give this customer base a new shopping experience in the future, while staying close to the customer. The portion of the customer base that enjoys going online can use the Internet for both regular and spontaneous orders. TGW’s approach: “Logistics must give customers what they want, not the other way around” enable ourselves to orient to different customer needs – we have identified four shopper journeys.

**What are the four journeys that reflect what customers want?**

**First:** Fast shopping with the flexibility of pick-up times. These are consumers who order their entire shopping baskets online and then pick them up conveniently, without waiting in check-out lines. A major advantage of this “Click & Collect” approach is that the products can be picked up around the clock thanks to TGW’s automation. After the store closes (if it does), the customer's items can be collected via a pick-up point built into the building envelope – similar to a beverage vending machine.

**Option two:** Hybrid shopping, in this option, only a portion of the goods are 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 customer service and the attractive presentation of the (primarily fresh) goods.

**Option three:** Spontaneous purchase is where the customer enters the shop briefly and in most cases, purchases products to be consumed later (food-for-later), such as freshly prepared snacks, sweets or beverages. This is similar to purchases at a gas station or in a convenience store, where primarily fast-moving products are offered.

**Option four:** Food and drink purchased for immediate consumption (food-for-now). Here the 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 kiosks and have coffee or relax until the goods are retrieved and ready for pick up in the store. The goal for this process is to take less than ten minutes. The bistros have another function as they are intended to promote social interaction with other customers and store employees. In addition, we envision “Experience Areas” where new products can be presented and sampled.

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

An OmniStore can either be built from the ground up or integrated into an existing store. 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 required goods are retrieved from the shuttle storage rack and transported to the TGW PickCenter One workstation for order picking. Important: The shuttle system is usually used for what are known as B and C items, and not for fast-selling products or products that take up a significant amount of space, such as beverages. These items are often picked manually. The performance of a PickCenter One is very high compared to in-store picking. One employee can pick up to 500 items per hour. In comparison, collecting the same items from store shelves typically yields 80 to 120 picks per hour at most. This is more than a 4:1 increase in picking efficiency. Online orders are quickly processed by multiple employees working together. While one employee picks items at the PickCenter One workstation, others retrieve and pack the fast movers and bulky items.

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

We based our model on existing store layouts with an area of 12,000 square feet or more. The entire concept makes perfect sense if the ceiling height is 20 feet or more and the Stingray shuttles can cover a distance of at least 120 feet in aisle length. A single aisle system with one PickCenter One workstation, can store about 2,000 totes. The totes, depending on the portfolio structure, can be divided into two or more compartments. Installing a temperature control system is also conceivable, but requires a higher investment.

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

We calculated the business case with provisions to use the retailer’s existing employees, who previously stocked shelves and completed other tasks, to pick orders and improve customer service levels. There are a number of advantages overall. For one, a store increases its attractiveness because the service levels increase. Customers now have more options to meet their individual needs, quickly and conveniently. Studies indicate that customers are buying more products online after a certain period of getting used to this way of shopping. Product samplings in the bistro and promotional campaigns are used to help launch new products. Customers with busy working lives have a major advantage in being able to pick up orders outside of their working hours, which could be outside of the store's operating hours. All of these advantages lead to higher sales.

Automation also improves a retailer’s visibility of inventory in the store and its security, especially where higher-value products are stored. It is imperative to not underestimate the extent of losses due to theft or spoilage in a brick-and-mortar store.

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

Despite the new Omnichannel store, 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 stores are decanted at the logistics center. Automation makes this process more efficient than what is possible at the store. In principle, it is conceivable that employees stock items from totes on mixed pallets delivered to the store; thus, preserving the status quo completely.

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

We presented the concept to a number of European grocery retailers and the feedback was very positive so far.

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**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.

**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 2018/2019 business year, the company generated a total turnover of 719 million euros.

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