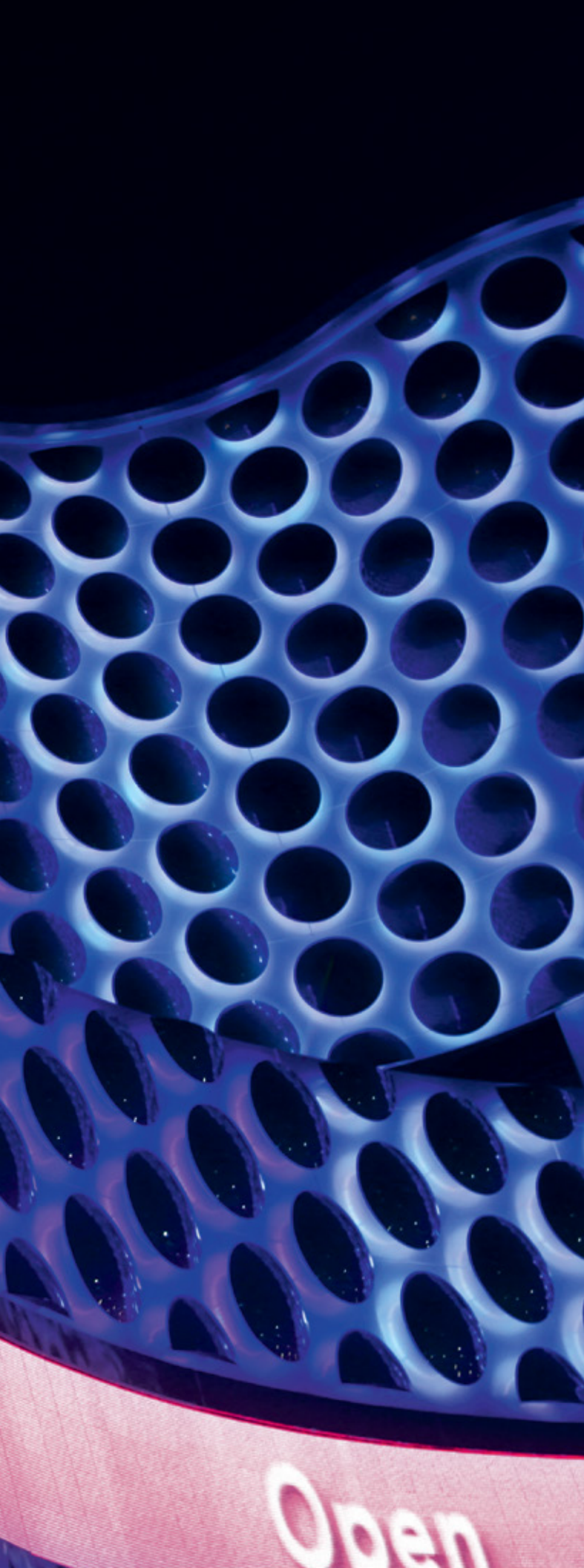




FIGHTING FOR THE FUTURE OF THE SUPERMARKET INDUSTRY

Open



Authored by MMC Retail and Wholesale Industry Group

RISK, STRATEGY AND PEOPLE – DELIVERING VALUE FOR THE CUSTOMER OF TODAY AND TOMORROW

The battle for the food dollar spend of today's consumer has never been more challenging. Doomsday predictions abound regarding traditional supermarkets' ability to survive the competitive threats posed by online retailers, at-your-door delivery from restaurants, prepared food offerings from convenience stores, and the appeal of meal-kit companies. The online and brick-and-mortar worlds are each seeking to find the right balance between the two to satisfy a consumer palate that is more diverse and demanding than ever. Surviving and thriving means delivering the right combination of value, convenience, choice and a compelling experience that creates and sustains repeat customers. A successful supermarket CEO will need to effectively and holistically solve for a multitude of risk, strategy, and people challenges.



DIGITIZATION AND AUTOMATION WILL FUNDAMENTALLY SHIFT THE LABOR AND STAFFING MODEL FOR SUPERMARKETS

When shopping for food, customers globally are seeking an array of on-trend products they can purchase through a variety of channels and experiences – from rich immersion and advice to online to grab-and-go. Shoppers are also more adventuresome than ever before in selecting brands, giving a boost to private brands and diminishing the demand for nationally recognized products. These changing needs and, wants exceed the limits of what can be found in a traditional supermarket and as a result, supermarkets and other grocery retailers are rapidly changing to keep up with their customers.

The changes in product assortment and the need to deliver the new consumer experience will also cause food retailers to change their labor model profoundly. Labor is a high fixed cost for supermarkets and carries annual wage and benefit increases. However, technology will provide ways to cut costs, operate better and smarter, and eliminate certain tasks entirely. For example, forecasting errors will be reduced by machine-learning algorithms, making stock management easier. Center store products will be bought online or from virtual shelves. Smarter tools and automation will massively reduce back-office work. Streamlining and digitization mean managers won't have to work through long paper lists and daily reports. The new checkout experience will also minimize hassles such as cash management.

Repeat product purchases will be delivered to customers efficiently via personalized online orders supported by either delivery or curbside pick-up. As such, supermarkets will rely less on labor for stocking, display, and checkout activities. In a complete rethink of the store layout, the backroom will house the center store assortment and serve as a picking area. Some online orders will be picked here for home delivery or in-store pickup. The checkout line will be eliminated, replaced by one-click payment, scan-and-go systems, and/or self-checkout terminals. As a result, we predict that the utilization of manual labor will drop by approximately 40 percent over the next five years.¹

SUCCESSFUL SUPERMARKETS MUST ENHANCE AND CUSTOMIZE THE CUSTOMER EXPERIENCE IN PHYSICAL STORES

Food retailers have a unique opportunity to respond to changing consumer trends to acquire and retain customers, but these changes also carry a significant amount of risk for incumbent supermarkets. How do they fund all of the required changes? How fast can they embrace these changes? At what pace will their customers give them credit for responding to their needs? How do they win against their traditional players while also staying competitive against new entrants such as Amazon/Whole Foods, hard discounters such as Aldi and Lidl, specialists like Trader Joe's, clubs such as Costco, and mass merchants such as Walmart?

1) MMC RWIG Supermarket Task Force

Customers will vote with their feet and wallets to reward the retailers who best deliver on their wide range of needs and wants. Successful supermarket operators are reconfiguring their stores to attract and retain customers. Recognizing that customers are demanding “new” (expressed as “authentic,” “local,” “sense of purpose,” “good for me,” “country of origin,” or “good for the planet”) and have high expectations for a great experience, retailers must consider which of the following strategies to pursue:

- Deliver seamless online/in-store experiences
- Allocate space for sit-down meals
- Source products from local vendors
- Create/feature more private label lines
- Personalize offers and prices

... YOU BETTER START
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HOW CAN FOOD RETAILERS GET AHEAD IN THE RACE FOR THE CUSTOMER?

In 1963, Bob Dylan penned lyrics that should be reverberating within the board rooms of every food retailer today, “Then you better start swimmin’ or you’ll sink like a stone, for the times they are a-changin’.” Although evocative, the lyrics prescribe neither the direction in which to swim nor the pace.

Here are five suggestions:

- **Understand why customers** are demanding healthier foods to provide far greater insights into how to curate a private label offering rather than relying on traditional consumer research.
- Be willing to take **more risks – and be able to intelligently manage them.**
- Find ways to increase your **decision-making speed.** Faster decisions combined with more experimentation will increase the yield when taking risks.
- Employ **fewer but higher-performing people** on your staff. Grocery retail is becoming a sophisticated sport – your team members need to be able to compete.
- **Lower costs**, not only for traditional reasons but mostly to fund the investments you will need so you can carry out the above four exercises.



DEVELOP A COMPELLING EMPLOYEE EXPERIENCE ALIGNED TO YOUR CUSTOMER

When an employee enjoys being at work, it is demonstrated in their engagement and contributes to their performance, which in turn increases store revenue and lowers in-store labor costs. The challenge is creating an employee experience that matches the customer experience. How can supermarkets elevate their employee experience?

NEARLY 80 PERCENT OF ALL AMERICAN EMPLOYEES ARE CATEGORIZED AS LIVING PAYCHECK TO PAYCHECK

Talent. With the new digital era comes a new breed of jobs. Rather than manage only the internal workforce, the best companies will establish and manage an extensive talent ecosystem. Workforce analytics help optimize needed labor maps and transition issues, moving from the current state to the desired, future state.

Skill dynamics. Given the speed of innovation, companies need to target talent not only with the specific technical skills required but also with data analytics. Consumercentric competencies must be identified and then acquired or developed.

Competitive pay. In these times of fewer roles and static pay, new compensation platforms will be needed to engage, retain, and reward staff for the right skills and behaviors, including increased focus on retaining those employees with customer-facing roles.

Career pathing. Tomorrow's jobs do not exist today. The introduction of digital technology means that many supermarkets are eliminating roles. Career maps must be adapted to respond to leaner and flatter organizational structures.

Choice. Like the customer purchasing online and in-store, employees appreciate additional choices with their benefit options. Nearly 80 percent of all American employees are categorized as living paycheck to paycheck, with limited savings.² When faced with unforeseen expenses, which are typically tied to medical or health issues, many will look to loans, such as from a savings plan (401k) or other means to access needed capital to help with unexpected expenses.

Developing and implementing a workforce rewards strategy to elevate the employee experience will produce team members who can compete in the new grocery retail environment, ensuring their supermarket can succeed.

THE OPTIMAL DEPLOYMENT OF CAPITAL TO INTELLIGENTLY MANAGE AND FINANCE RISK IS CRITICAL IN THIS NEW WORLD

Margins are tight and more pressured than ever in this fight for the consumer's food dollar. Pennies matter. Successful supermarket operators will utilize fact-based decision-support tools and analytics to understand their risk-bearing capacity and allocate capital – through risk retention, risk mitigation, and risk transfer – to optimize their spend and protect their balance sheet.

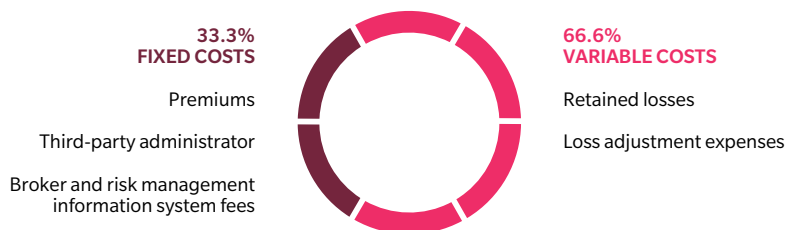
2) CareerBuilder survey, 2018

Employee and customer injuries (i.e. variable costs) are the largest component of a supermarket's total cost of risk (TCOR). Grocers who identify loss drivers, develop strategies to reduce and manage claims, and execute their strategy in a consistent, disciplined manner have a tremendous ability to positively impact their selling, general, and administrative expenses (SG&A) line. As both supply chain and consumer platforms rely more heavily on technology and e-commerce, the threat of system interruption (by malware, ransomware) and theft of confidential information (customer, employee, pharmacy) become greater and potentially more devastating to both financial results and your brand.

Consumer demand for locally sourced and prepared foods creates additional liabilities from a product contamination and foodborne illness standpoint. How supermarkets respond before the event (recall procedures, indemnification agreements with suppliers) and after (customer and regulatory authority interface, crisis response) will shape how your company is viewed by the community.

Supermarkets must determine the best approach to meet growing consumer demand for home delivery and BOPUS (buy online, pick up in-store) availability. Companies who undertake delivery on their own expose themselves to increased and previously unknown liabilities. Those who utilize third-party providers need to pay careful attention to the indemnification and insurance provisions of their contracts with these providers.

Supermarket total cost of risk (TCOR)



THE RISKS AND CHALLENGES DEMAND A KNOWLEDGEABLE, EXPERIENCED BUSINESS PARTNER

The disruptive, hyper-competitive nature of today's food retailing environment requires innovative solutions from a partner with unparalleled industry experience, deep resources, and analytical decision-support tools. The Marsh & McLennan Companies are the partner of choice for more than half of the Supermarket News Top 75 Retailers & Wholesalers, assisting them with their human capital, risk, financial, operation strategy, and brand reputation challenges. We deliver executable strategies designed to reduce costs, improve operational performance, minimize volatility, grow top line revenue, and protect the balance sheet.