Retailing on
Demand

As new technology impacts the way consumers shop,
retailers must accommodate with changes to their supply chains.

By Jenny McTaggart

Some of the latest technologies being designed for consumer use sound more like science fiction than practical solutions. Will people really come to rely on self-filling refrigerators, or actually enjoy shopping in fully automated grocery stores without human interaction?

Only time will tell whether these and other ideas will gain common acceptance, but one thing is certain: Technology, and its impact on the food industry, is only going to grow.

Further, as the definition of grocery shopping continues to evolve — with shoppers finding new ways to make their lists and fill their baskets — retailers must frequently contemplate how their supply chains need to change.

Several experts who spoke to *Progressive Grocer* agree that grocers' supply chains need to become faster, more accurate and definitely more demand-driven to accommodate consumers' growing thirst for the convenience of technology. There are also new considerations when it comes to store layout, inventory, and how retailers' store and online operations fit together.

"Supply is now meeting demand in whole new ways," observes Brian Kilcourse, managing partner of Miami-based market intelligence company RSR Research LLC. "In a number of ways, new consumer behaviors have fundamentally broken the serial nature of the value chain. It was serial in the old days — the retailers bought big, shipped product to their warehouses, and then broke it down and shipped it to the stores. The assumption was that you brought supply to demand … in the store. But it isn't necessarily happening that way any longer."

Paul Chang, global supply chain subject-matter expert at Armonk, N.Y.-based IBM, concurs. "Retailers today need to have a more robust supply chain, and perhaps one that's more flexible, to be able to meet changing consumer demands," he notes. "Those demands can shift so quickly nowadays, because of things like social media."

Old and New Challenges

As RSR's Kilcourse sees it, grocers still must contend with the age-old challenges of getting the right inventory to the right place. They also have a new problem, however: how to get supply directly to the point of demand.

While he says it's safe to assume that some shoppers will continue to prefer to pick their own produce while they're in the store, grocers must recognize one of their own weak spots — the mundane task of buying the same routine products week after week.

"As the digital domain improves, those things are easy pickings if the digital world finds a way
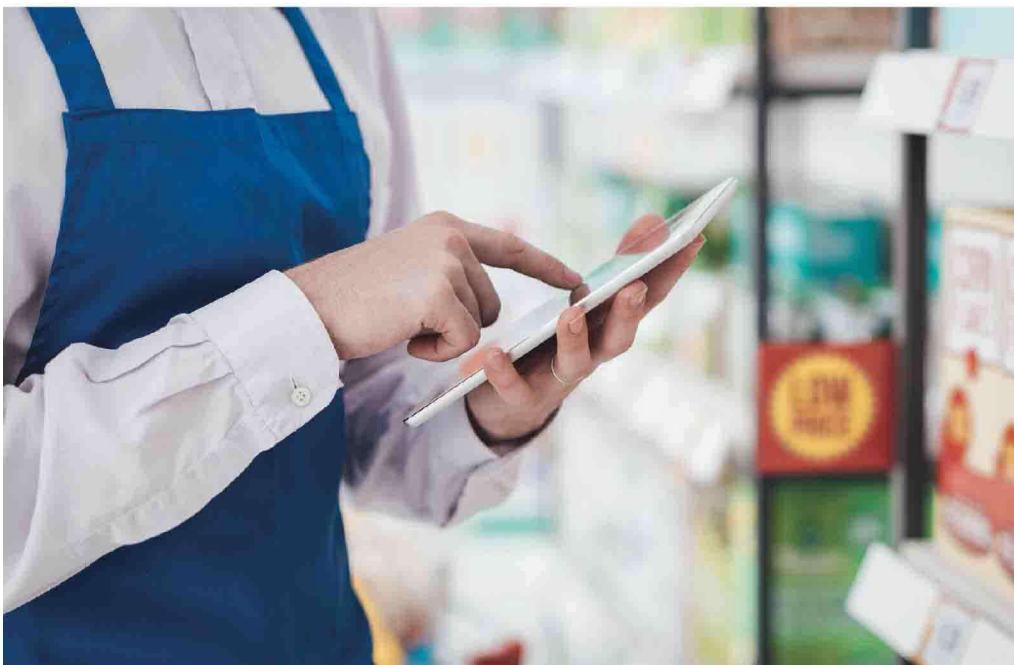
to make it easier to just push a button than it is to go to a store," he observes. "Of course, that's what Amazon is after with Amazon Dash."

Kilcourse further contends that changes in consumer behavior are forcing retailers to essentially localize their offerings in the physical space, which has huge implications for the way they manage their supply chains.

"As the Internet of Things in the home becomes a real concept, it's feasible that in the future, routine shopping lists will be filled automatically, so retailers will be forced to think about making their stores more convenient," he observes. "That means more localized assortments, as well as different floor sets that are based on what neighborhood you're in. Food retailers currently have these huge 60,000-square-foot boxes that have highly standardized assortments. Now they need to think about whether or not that box is too big, whether or not they're carrying too many products, and those kinds of things. It basically breaks a lot of the basic assumptions of their supply chains."

While this more futuristic vision of the supply chain may sound a little daunting, Kilcourse points out that "the good news is that if retailers can achieve more localized stores, then theoretically they could have less inventory in their entire enterprise."

As grocers work to create more localized assortments and store layouts, they'll need to strive for a much higher level of inventory visibility, he adds. "Grocery already has a fast replenishment cycle, but they need to work toward having perpetual inventory."

At least a few retailers are already on board with this thinking, he notes, pointing to Cincinnati-based Kroger, which is trying to establish real-time visibility into all of its inventory. The national retailer is also using technology to monitor cold boxes.

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>
> **—Pete Catoe, ECRS**

Merging Store and Online Functions

Retailers also need to seriously consider their response to the direct-to-consumer trend, advises Kilcourse: "Looking at their supply chain, and particularly their distribution centers, they need to think about how they're going to ship to consumers. Are they going to have a whole separate warehouse, like Ocado in London, or are they going to pick from the same inventory in their warehouse?"

In addition to the picking and shipping conundrums, retailers need to think about how their online and store presences fit together. At least one technology company is advising grocers to follow the example of Amazon when it comes to direct-to-consumer retailing. Pete Catoe, president of Boone, N.C.-based point-of-sale solutions provider ECRS, maintains that "retailers have to make it really easy for consumers to do business with them, wherever they want to do business."

Catoe's company is in the process of rolling out a solution called Catapult WebCart Click and Collect 2.0, which is designed to give grocers the same transactional system in the store and on the internet. "These solutions can't just be pieced together," he explains. "If you look at the Amazon solution, you see a holistic approach. That's exactly what retailers are going to need to do. They're going to have to make sure that whatever they're doing in the store, they're doing on the web."

With ECRS' new design, if a grocer has a store with 12 lanes, but also offers online ordering with store pickup or delivery, it'll now have a 13th lane that's essentially its web store. "To us, it's just another lane," notes Catoe. "The consumer will make their transaction online, but it will be tied into the store POS system. It's the same data, same customer, everything. This allows the consumer to look up their historical transactions, whether they were made on the web or in the store, redeem their loyalty points, use coupons, etc. We call it 'unified transaction logic.'"

The new technology also promises secure transactions, as payments are typically made via Token instead of using credit cards, according to Catoe.

So far, several of ECRS' current POS customers, including Langhorne, Pa.-based McCaffrey's Food Markets and LaBonne's Markets in Connecticut, have signed on to start rollouts of Click and Collect 2.0. Catoe hopes to have hundreds of deployments by the end of 2017. He says his target customers are smaller upscale grocers and "super regional" chains.

As both smaller, regional grocers and large chains turn to technology firms like ECRS to aid them in supply chain fixes, RSR's Kilcourse advises them to "start small" with discrete projects, and to seek active advice from people on the outside who have experience in other industries. Last but not least, "fail fast," he says, encouraging retailers to move on quickly if the technology isn't working.

At the end of the day, even the flashiest technology doesn't matter if it isn't addressing a business' operational issues, he observes. "Trying to drive transformation through technology is a mistake," he cautions. "You want to drive technology adoption through business transformation." **PG**