



Joe Berry Award 2021

Topic 1 - Defining promotions in a new market

Q: How will retail promotion move from the old to the new market and what will become the previously preferred methods of promotion?

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Index

Executive Summary	3
Introduction	4
How has the market Changed?	5
Pricing Shift – A move to Less Depth, Less Frequency	5
Digital, digital, digital	6
Increased supplier and retailer competition, leading to further quest for differentiation	8
Opportunities for Promotional Plans in the New Market	9
Artificial Intelligence and Targeted Offerings Helping to Deliver on Consumer Needs	9
Dynamic Pricing to Increase Revenue	10
Subscriptions to Increase Brand Loyalty	12
Conclusion	14

Executive Summary

The purpose of this essay is to highlight how the market has changed from the old to new, in which there have been three areas of major development:

- Pricing Shift – A Move to Less Depth, Less Frequency
- Digital, digital, digital
- Increased supplier & retailer competition, leading to a further quest for differentiation

Once there is an understanding of how the market has changed, there is the ability to explore where the opportunities lie and what will be the preferred methods of promotion in the future. Through these opportunities, a triple win is created for the supplier, retailer and consumer. The three areas of opportunity discussed are:

- Artificial Intelligence and Targeted Offerings Helping to Deliver on Consumer Needs
- Dynamic Pricing to Increase Revenue
- Subscriptions to Increase Brand Loyalty

Current pricing mechanics such as EDLP, high-low promotions, catalogue and pack-price architecture will be considered throughout. They will continue to be integral pricing mechanics in the new market, however, have room to deliver further ROI which will be discussed.

Introduction

Like other disruptive historical events, COVID will lead to longterm shifts in attitudes, behaviors, and patterns of demand. One thing that won't change, old market or new, are the retailers and suppliers who best understand their customers are going to win!

Businesses are depending on millennials more than ever before. Millennials or the 'TikTok generation' make up the largest segment of the workforce, are the most common users of social media and were the highest spending generation in 2020.¹ Forming part of the dominating generation myself, the essay will outline millennials beliefs on some key points. The millennial perspective is not all that matters, but it is important to know when setting the foundation of understanding the consumer.

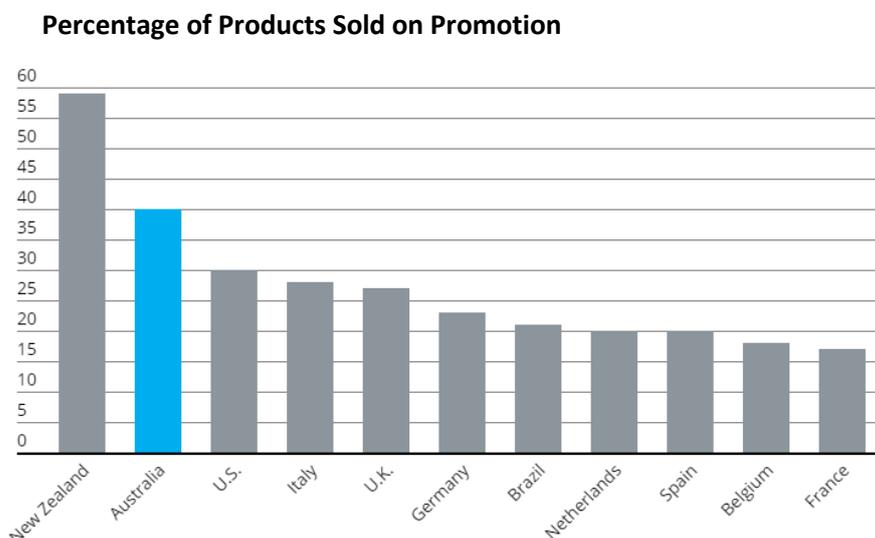
¹ Vikovich, A. (2020). "How millennials are reshaping financial advice", *Australian Financial Review*, [online]. Available at <<https://www.afr.com/companies/financial-services/how-millennials-are-reshaping-financial-advice-20201019-p566dd>> [Accessed 14 Jan. 2021]

How has the market changed?

If we don't understand how the market has changed over time, how can we understand where the opportunities lie? COVID has accelerated the speed of change; it didn't change the direction.

Pricing Shift – A Move to Less Depth, Less Frequency

We operate in an Australian market that is saturated by promotions. In the past eight years, the percentage of products sold on promotion has increased from 30% to 40%, making Australia one of the most highly promoted countries in the world.²



Source: Nielsen / Promotions Survey

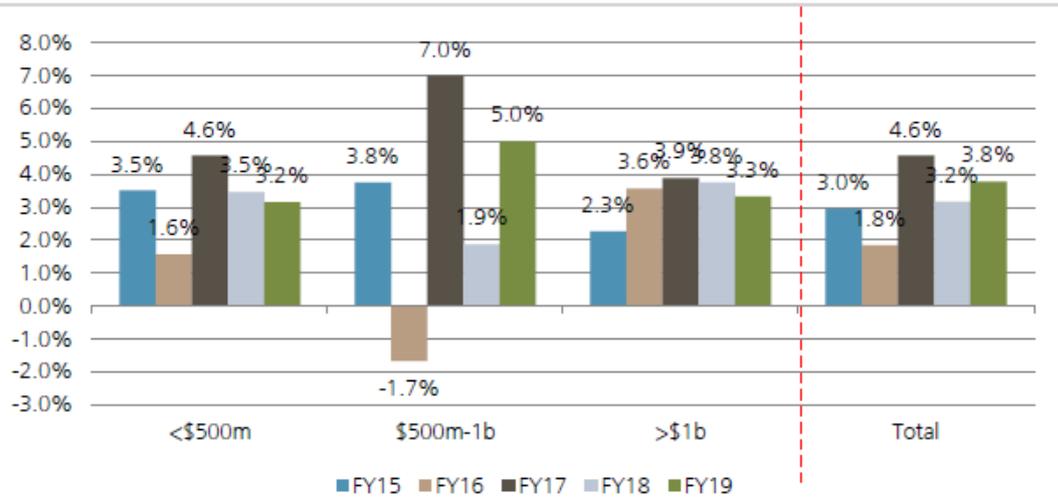
Trade spend on average is also the largest expense on an FMCG company's P&L.³ In total, trade spend increased by 3.8% y/y growth in FY19 and 3.2% y/y in FY18.⁴

² Nielsen IQ. (2021). Are we really getting value from our promotions, Nielsen IQ, [online]. Available at <<https://www.nielsen.com/au/en/insights/article/2018/are-we-really-getting-value-from-our-promotions/>> [Accessed 14 Jan. 2021]

³ Gilbert, B. Norozi, A. and Sehgal, A. (2017). Australian Supermarkets. UBS/AFGC Survey – A supplier's perspective: Who will win in a re-accelerating market, *UBS*, pp. 12.

⁴ *Ibid*, 14.

Figure 47: Supplier trade spend y/y



Source: UBS / AFGC Survey

The question needs to be asked whether it's sustainable to continue to grow trade spend by 3-4% y/y? COVID taught us a valuable lesson that products don't have to be promoted so heavily to sell. The market is slowly moving to a model of less frequency and less depth of promotions. New price points such as 30-40% off promotions are starting to replace ½ price promotions.⁵

As the market continues to evolve, there is a significant opportunity for further targeted promotions, targeting people, offerings and occasions.⁶

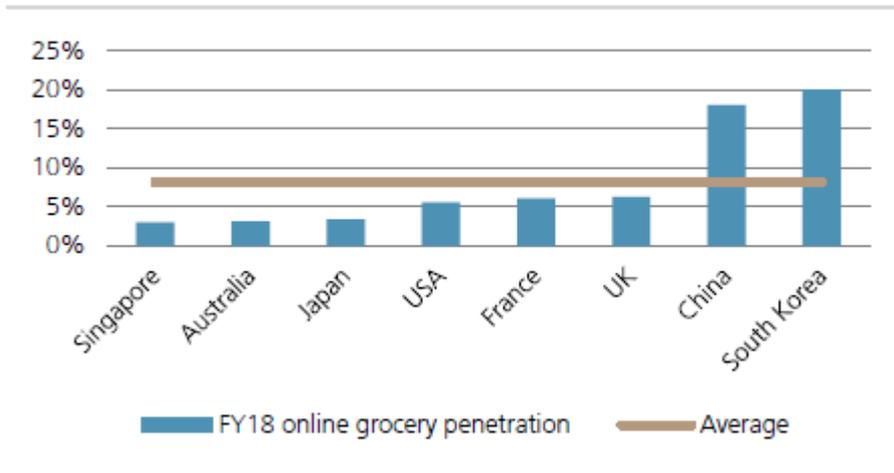
Digital, digital, digital

The speed of change that escalated most through COVID was the reliance on digital.

⁵ Riesenberg, D. Backholer, K. and Zorbas, C. (2019). Price Promotions by Food Category and Product Healthiness in an Australian supermarket chain, *American Journal of Public Health*, pp. 96

⁶ Ibid, 122.

Figure 56: Online grocery penetration (FY18)



Source: Industry sources, UBS Estimates

As of 2018 online was only a small part of the Australian market at approximately 3% of grocery sales, below International counterparts.⁷ There was a 9.4% increase of Australian households purchasing groceries online from Coles and Woolworths since August 2019.⁸

Looking forward, omnichannel is going to play a greater part of consumer purchasing. BCG predicts for the next 10 years brick & mortar stores will continue to dominate the final path of purchase.⁹ What will be more prevalent, however, are individuals web-surfing online prior to going into these stores. Before grocery shopping, 79% of millennials are currently browsing multiple channels for discounts online.¹⁰ This increased reliance on digital and an omnichannel approach provides opportunity to better use promotions, especially catalogues. This will be discussed later.

⁷ Gilbert, B. Norozi, A. Rogers, J. and Malin, G. (2019). Australian Supermarkets. Suppliers more positive on inflation but will they get their 'fair share' of the profit pool, *UBS*, pp. 16.

⁸ IRI. (2021). Collaborating for growth in a brave new world, *IRI*, pp. 9

⁹ Wegner, M. (2021). Australian Consumer Sentiment Snapshot #1 – Confidence, nostalgia and shifting trust, *Boston Consulting Group*, [online]. Available at <<https://www.bcg.com/en-au/capabilities/marketing-sales/australian-consumer-behaviour-economic-recovery-post-covid>> [Accessed 20 Feb. 2021]

¹⁰ Wiley, C. (2021). Grocery Shopping Habits of Gen Z and Millennials, *Food Industry Executive*, [online]. Available at <<https://foodindustryexecutive.com/2020/02/grocery-shopping-habits-of-gen-z-and-millennials/>> [Accessed 20 Feb. 2021]

Increased supplier & retailer competition, leading to a further quest for differentiation

Australia continues to operate in a grocery market of retailer duopoly, however there is increasing competition, both for retailers & suppliers.¹¹ The emergence of discounters trying to enter the Australian market, led by ALDI as well as the rise of digital is seeing the emergence of competition. Amazon, Marley Spoon, Uber Eats are all becoming competitors and offering new ways for consumers to purchase products.

As a result, retailers are focusing on providing unique offerings to their consumers. In opportunities discussed below, it is outlined how retailers and suppliers can target their offerings and differentiate themselves through pack-price architecture. As competition heightens, EDLP will continue to be a key promotional mechanic for retailers to demonstrate their price competitiveness. EDLP will also be especially important as competition increases because it leads to price trust and therefore loyalty.

¹¹ Gilbert, B. Norozi, A. and Sehgal, A. (2017). Australian Supermarkets. UBS/AFGC Survey – A supplier's perspective: Who will win in a re-accelerating market, *UBS*, pp. 17.

Opportunities for Promotional Plans in the New Market

It is now clear how the market has changed, but how can promotional plans change to stay ahead of the game? The old methods of promotion such as high-low, EDLP, catalogue and pack-price architecture will continue to play a role in the future.

Furthermore, through the areas of opportunity mentioned below, they can be enhanced to drive better results.

Artificial Intelligence and Targeted Offerings Helping to Deliver on Consumer Needs

AI is slowly transitioning from a nice to have, to a must have! Striking the right partnership between people and machines can radically enhance competitive advantage through new promotional offerings and sharper value propositions.¹² AI provides the opportunity to deliver greater ROI on both catalogues and pack-price architecture promotional mechanics, which will be discussed.

To enable timely personalization, companies need to build the capability to rapidly sense shifts in demand. This can be done by integrating real-time market-level data (consumer spending forecasts, footfall data, credit card spending) with digital indicators (web traffic, online search trends).¹³ There are a significant amount of companies who utilize AI extremely well; perhaps the best of them is Alibaba. AI is integral in Alibaba's daily operations in the way they predict what customers might want to buy and targeting their promotional offerings accordingly.¹⁴ As a result of knowing which customers and markets to focus on there will be a need for more targeted offerings for consumers through dynamic pricing (which is discussed next) as well as localized footprints in brick & mortar stores relevant to a suburbs demographics and shopping behaviors.

¹² Baltazar, A. (2019). How grocers are reimagining the future with AI, *Winsight Grocery Business*, [online]. Available at < <https://www.winsightgrocerybusiness.com/technology/how-grocers-are-reimagining-future-ai> > [Accessed 17 Feb. 2021]

¹³ibid

¹⁴ Marr, B. (2018). The amazing ways Chinese tech giant Alibaba uses artificial intelligence and machine learning, *Forbes*, [online]. Available at <<https://www.forbes.com/sites/bernardmarr/2018/07/23/the-amazing-ways-chinese-tech-giant-alibaba-uses-artificial-intelligence-and-machine-learning/?sh=1e4b3abe117a>> [Accessed 17 Feb. 2021]

Coles and Woolworths are both moving to a digital catalogue, creating opportunity for further targeted offerings through social media. For example, through AI, Woolworths will know that I am a sucker for purchasing Red Rock Deli Chips when they are on special. While scrolling through my Facebook feed it could pop up with that relevant page from the catalogue highlighting Red Rock Deli Chips are \$3.50 this week. This will drive greater ROI as through targeted offerings it will lead to higher conversion, creating a triple win for retailer, supplier and consumer.

Regarding targeted offerings, suppliers can take advantage of this in the future through pack-price architecture.¹⁵ As there is an understanding for consumer needs via AI, pack-price architecture provides the opportunity to get into channels such as P&C and online. Through these channels there are better margins as well as being able to drive further penetration. There will be an element of cannibalization, but if done right it will grow overall sales and ROI.¹⁶ Through AI we can achieve the right pack, right price, right point of purchase, catering to the right occasion!

It is important that retailers and suppliers take a joint approach to the use of AI, using it as a tool to drive category growth and keeping the consumer front of mind when making decisions. What does the consumer want and how can we better cater to their needs? Asking these questions will lead to consumer satisfaction, repeat purchases and brand loyalty.

Dynamic Pricing to Increase Revenue

When it comes to dynamic pricing, Amazon is still the retailer to beat. Amazon change prices every few minutes driven by intensive competition between its third-party merchants, and the changes in buyer demand and price elasticity.¹⁷ The success of Amazon has made clear that dynamic pricing is a critical capability for competing in e-commerce, omnichannel and even brick & mortar retail to drive

¹⁵ IRI. (2016). Pack price architecture: A proven strategy for sustainable and profitable innovation, *IRI*, pp. 15

¹⁶ *ibid*

¹⁷ Shartsis, A. (2019). In the future, everything will be dynamically priced, *Forbes*, [online]. Available at <<https://www.forbes.com/sites/forbestechcouncil/2019/09/10/in-the-future-everything-will-be-dynamically-priced/?sh=6fbf078df8f1>> [Accessed 15 Feb. 2021]

revenue and margin growth.¹⁸ High-low promotions will be a key promotional mechanic with dynamic pricing.

Price trust is a significant barrier to dynamic pricing, however if used on appropriate products, price trust will not be affected. 20% of retailer's products are usually Key Value Items (KVI's); which are top sellers, traffic generators, or highly searched SKUs whose prices consumers tend to remember.¹⁹ This is not where the opportunity lies for dynamic pricing, however it lies with the other 80% of products. Those items which are less commonly purchased and have less brand loyalty.

AI has a huge part to play as a significant amount of research needs to be undertaken prior to rolling out dynamic pricing. There are two key considerations when understanding if a product is suited for dynamic pricing:

- Price Elasticity – If a product has low price elasticity, dynamic pricing is irrelevant.
- Key Value Item (KVI) – KVI is an estimate of how much each product affects consumer price perception. It is dangerous and ill-advised to enter dynamic pricing with high KVI items. If consumers see different price points in a day, they could have a negative price perception, thus affecting price trust.

As outlined earlier, Australia is highly saturated with promotions, hence the high-low pricing mechanic will continue to play a major role moving forward. A hypothetical example; if I worked for Loacker and through our AI tracking, we understood that from 8am – 2pm our consumers purchased on average 1 x 125g biscuit we could offer a \$2 special. However, if from 2-7pm our consumers were more inclined to purchase 2 x 125g biscuits we could offer a 2 for \$4 special during that time frame, therefore, making maximum ROI on our high-low promotions. Of course, Loacker would have to meet the above specifications to be able to price dynamically.

In order to assist with dynamic pricing in brick & mortar stores, retailers will need to move to an electronic shelf label, ensuring it is easy to adapt and change prices as needed. This will incur an initial investment; however, the long-term ROI would make

¹⁸ BenMark, G. Klapdor, S. Kullmann, S. and Sundarajan, R (2017). How retailers can drive profitable growth through dynamic pricing, *McKinsey*, [online]. Available at < <https://www.mckinsey.com/industries/retail/our-insights/how-retailers-can-drive-profitable-growth-through-dynamic-pricing> > [Accessed 15 Feb. 2021]

¹⁹ *ibid*

it worthwhile. There would also be a significant labor cost saving through the eradication of changing tickets, which could have a huge impact on a company's profitability in the long term. Not to mention the added areas for opportunity this provides a company to promote, outside of pricing. Connecting a mobile app or instore kiosk to electronic labels opens a wide range of digital strategies such as:

- Personalised cross-selling
- Loyalty offers
- Recipe ideas
- Personalised allergy alerts²⁰

Retailers in developed countries such as Germany, France and the UK have successfully adopted ESL.²¹ Australia is an untapped market in this regard and thus holds significant opportunity.



Electronic Shelf Labels being utilized in the UK

Subscriptions to Increase Brand Loyalty

What better way to drive loyalty (both brand loyalty and retailer loyalty) than through subscriptions? This is an underutilized tool in Australia, which has massive room for

²⁰ Shartsis, A. (2019). In the future, everything will be dynamically priced, Forbes, [online]. Available at <<https://www.forbes.com/sites/forbestechcouncil/2019/09/10/in-the-future-everything-will-be-dynamically-priced/?sh=6fbf078df8f1>> [Accessed 15 Feb. 2021]

²¹ Quinn, I. (2020). Asda launches biggest trial of electronic shelf labels to date, *The Grocer*, [online]. Available at <<https://www.thegrocer.co.uk/store-design/asda-launches-biggest-trial-of-electronic-shelf-labels-to-date/650311.article>> [Accessed 10 Feb. 2021]

opportunity in a world where consumers value convenience more than ever.²² 19% of millennials currently use automatic subscriptions, however 72% of millennials within Australia said they would use automatic subscriptions if they had the option.²³ The EDLP pricing mechanic has a big part to play with subscriptions, which will be discussed.

Subscriptions could be provided for staple items (shaving cream, toilet paper, coffee), for seasonal events (entertaining basket at Christmas) and for occasions (Real Stock for weekly dinner) in which orders are routinely replenished at a specified frequency. An element of flexibility is paramount for subscriptions as being locked into deliveries at a specified time without flexibility to change is a significant barrier to entry.²⁴ A triple win is achieved through subscriptions! Supplier achieves brand loyalty; Retailer achieves customer loyalty; Consumer gets what they want with less hassle.

Lessons can be learnt from China, around communicating subscriptions. China are leading the way for grocery with 49% of their population subscribing to some sort of grocery subscription.²⁵ Chinese subscribers prefer to receive information via push notification and social media ads.²⁶ Millennials are also the most influenced generation through social media marketing.²⁷ The opportunity to communicate subscription offerings to Australian consumers lies through social media marketing.

EDLP will be an important pricing mechanic for subscriptions as products with consistent low prices will form part of subscription offerings. EDLP being linked to subscriptions and social media marketing will drive further ROI for this pricing mechanic and more incentive for suppliers to get their products on EDLP.

²² Engel, P. (2020). Subscription services that deliver to your door, *Choice*, [online]. Available at < <https://www.choice.com.au/shopping/online-shopping/buying-online/articles/things-you-can-buy-on-subscription-services>> [Accessed 22 Feb. 2021]

²³ nielsen. (2015). The future of grocery, *nielsen*, pp. 22

²⁴ *Ibid*, 18

²⁵ Grace, L. (2019). Subscription service usage in China beats out US/UK, *Marketing*, [online]. Available at < <https://www.marketing-interactive.com/study-subscription-service-usage-in-china-beats-out-us-uk>> [Accessed 22 Feb. 2021]

²⁶ *ibid*

²⁷ *ibid*

Conclusion

The market we operate in is one that is extremely reliant on promotions. If nothing changes, we will continue to operate in a market where we have the highest trade spend without understanding what our consumers truly want. Promotions are not a bad thing, in fact they are imperative, however it needs to be understood better to deliver the greatest ROI.

If AI, dynamic pricing and subscriptions are not already being implemented as part of your company's promotional plans, you are behind; if you are not even thinking about them, you are so far behind. These are not new concepts; they are tried, and tested concepts successfully implemented in other markets around the globe. Millennials are the generation that are most open-minded and accepting of change, hence making changes to promotional plans while they dominate consumer purchasing trends makes sense.²⁸

It is important retailers and suppliers work together to implement these changes as it has significant benefit for both, driving growth and creating value in their categories.

²⁸ Vikovich, A. (2020). "How millennials are reshaping financial advice", *Australian Financial Review*, [online]. Available at <<https://www.afr.com/companies/financial-services/how-millennials-are-reshaping-financial-advice-20201019-p566dd>> [Accessed 14 Jan. 2021]



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Topic 5 – Health and Wellness Trend Marketing

Q. Looking through the lens of either a brand owner or retailer, what are the 'must have' marketing elements to capture market share in this upward trending category?

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Index

Executive Summary	3
Introduction	4
What is a Health Food?	5
Opportunities and Threats	6
<u>New Occasions:</u>	
1. Loss of connection	7
2. Extending 'comfort food' to include health food	9
3. Promote 'healthy reward' as a concept	10
Conclusion	12

Executive Summary

Heading into our second year of the COVID-19 pandemic consumers are living a new-normal and are re-evaluating what health means to them. Concurrently, many are still struggling with feelings of isolation, unease, and uncertainty. This convergence of factors creates a unique backdrop to engage consumers with healthy products, in a scenario that will intensify competition within the ever-expanding CPG health foods mega category.

This essay evaluates the prolonged mental health impacts and changed consumption behaviours of Australians that have been underpinned by the COVID-19 pandemic. It specifically identifies how these factors give rise to new growth pockets for health foods. Brands capable of reframing, re-positioning, and innovating will be well-placed to unlock access to the emerging consumption occasions where health food currently under-indexes.

For brands to capture share within the burgeoning health foods space, the following three occasions must be activated against:

1. **Connection:** Gain share of wallet across key selling periods (KSPs) through gifting and sharing occasions, while utilising the 4P's to expand consumers' perspective of health foods from being about 'me' to 'we'.
2. **Comfort:** Extending 'comfort food' to include health food by utilising Byron Sharp's 'How Brands Grow' principles to ensure brands communicate how they 'fit' with consumers, and actively refresh memory structures by harnessing health cues.
3. **Reward:** Promoting 'healthy reward' as a pillar of permissibility by creating new associations through brand positioning and leaning into hedonic values.

Introduction

As the COVID-19 pandemic enters its second year, so too does the shadow pandemic of increased frequency and severity of mental health conditions. In part, this has been caused by necessary lockdowns and social distancing forcing people to inadvertently live more isolated lives. Despite easing restrictions, over 1 in 3 Australians reported they had not attended any social gatherings throughout December 2020²⁹; a period often overbooked with social events.

Our need for connection with others to lead healthy and balanced lives is well documented³⁰. Highlighting this at a national level, a survey by the Australian Bureau of Statistics (ABS) found that one in five Australians perceived their mental health to be worse, or much worse, than before the introduction of COVID-19 restrictions in March 2020³¹. Self-reported dietary habits have also worsened due to COVID-19; 35% of Australians have gained weight, with many reporting eating healthily to lose extra weight (51%)³².

This essay explores two core tactics aimed at re-framing health foods to ensure salience across core consumption occasions and emerging need states which are inherently satisfied by unhealthy snacks and ultra-processed foods.

- i. Offer consumers a new sense of connection by re-configuring healthy eating away from a 'me' occasion to a 'we' occasion. Do this by:
 - Expanding the boundaries of sharing occasions and gifting occasions to include health foods and play a supporting role across key selling periods.
- ii. Create new and compelling associations between the deepening need for comfort and pleasure amid an enduring pandemic. Do this by:

²⁹ Australian Bureau of Statistics 'Household Impacts of COVID-19 Survey', 2021 <https://www.abs.gov.au/statistics/people/people-and-communities/household-impacts-covid-19-survey/latest-release#social-gatherings>

³⁰ Int J Public Health 'The COVID-19 pandemic calls for spatial distancing and social closeness: not for social distancing!' 2020 <https://doi.org/10.1007/s00038-020-01366-7>

³¹ Australian Bureau of Statistics 'Household Impacts of COVID-19 Survey', 2021 <https://www.abs.gov.au/statistics/people/people-and-communities/household-impacts-covid-19-survey/latest-release#managing-physical-health>

³² Ipsos 'More than a third of Australians have gained weight during the pandemic', 2021 <https://www.ipsos.com/en-au/more-third-australians-have-gained-weight-during-pandemic-ipsos-survey>

- Extending 'comfort food' to include health food.
- Promoting 'healthy reward' as a pillar of permissibility.

It is important to first define health foods from a consumer and marketing perspective. Doing so helps brand managers frame the parameters by which they can effectively re-engineer, re-position or innovate brand portfolios to tap into these mega trends and unlock growth potential.

What is a 'health food'?

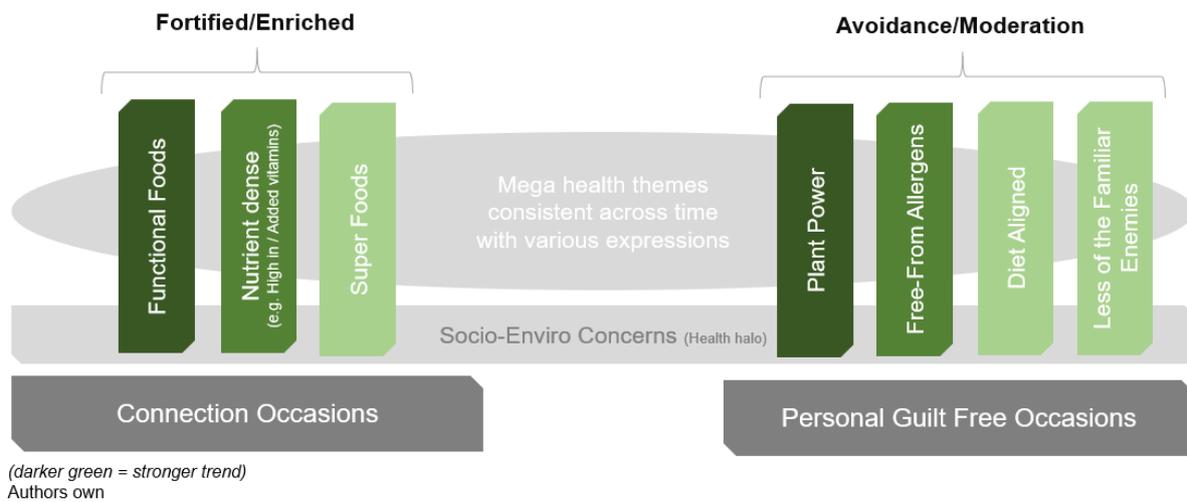
No longer niche, the concept of health food is broad and means different things to different people. A broad-brush approach used by many is to label ultra-processed foods as 'unhealthy'. Such options typically contain high levels of sugars, sodium and trans-fats, which have been linked to obesity, diabetes, other chronic non-communicable diseases and poor mental health. In contrast, minimally processed foods are typically more nutrient dense and are perceived as 'healthier'.

Throughout this essay the definition of health food, outlined in Diagram 1, deliberately applies a consumer trend and marketing lens to provide a broader and more contemporary perspective of what is considered health food. In doing so, it raises the dichotomy that exists between what we perceive as healthy (and is thus marketed as healthy) versus what *is* healthy as part of a balanced diet. For example, 60% of Australians agree that nutritional information affects product choice, yet just 26% of us trust food and drink label claims³³. Although specific health food claims and ingredients fall in and out of favour, the overarching themes remain consistent. These drivers fall under two categories outlined in Diagram 1: 'fortified and enriched' through ingredients, and 'avoidance and moderation'. These are underpinned by the socio and environmental concerns which have a health halo effect on products without specifically tapping into the core health themes³⁴.

³³ IRI Shopper Psychographics Study 2020

³⁴ Nutrients 'Prevalence of Product Claims and Marketing Buzzwords Found on Health Food Snack Products Does Not Relate to Nutrient Profile', 2020 <https://doi.org/10.3390/nu12051513>

Diagram 1: Health Foods - The Expansion of Definition Beyond Minimally Processed



Framing health foods beyond the lens of processing better reflects the modern packaged food industry and its model of value-creation. By processing raw-ingredients, and through adept use of branding and packaging, manufacturers and retailers can command a higher price per volume versus the raw ingredients alone.

Opportunities and Threats

It is expected that the COVID-19 pandemic will materially change the emergent growth pockets for health foods as consumers are now paying even more attention to what they actively seek to include or remove from their diets. This propels Australian's appetites for health foods, with 59% of Australians already stating that "diet is very important to me". Furthermore, 49% state they have, or are planning to, change aspects of their diet³⁵.

By utilising Porter's Five Forces analysis on the health food industry two primary areas emerge as posing the greatest threat to existing brands (Diagram 2)³⁶. These need to be acted upon to ensure sustained competitive advantage:

- i. **Threat of new entrants:** Especially from CPG multinationals and retailer owned products. However, barriers of entry may be higher for these

³⁵ IRI Psychographics Survey 2020

³⁶ Harvard Business Review, Porter, Michael E. 'The Five Competitive Forces That Shape Strategy' 2008 <https://hbr.org/2008/01/the-five-competitive-forces-that-shape-strategy>

organisations compared with small manufacturers due to sourcing, regulatory requirements and R&D investment required at scale.

- ii. **Threat of substitutes:** Not only within the health food category, but across other sectors, and especially within snacking foods such as chips, chocolate and biscuits. These snacking categories already have fierce price competition and the support from leading multi-nationals such as PepsiCo and Mondelez.

Diagram 2: Porter's Five Forces Analysis for Health Food Market

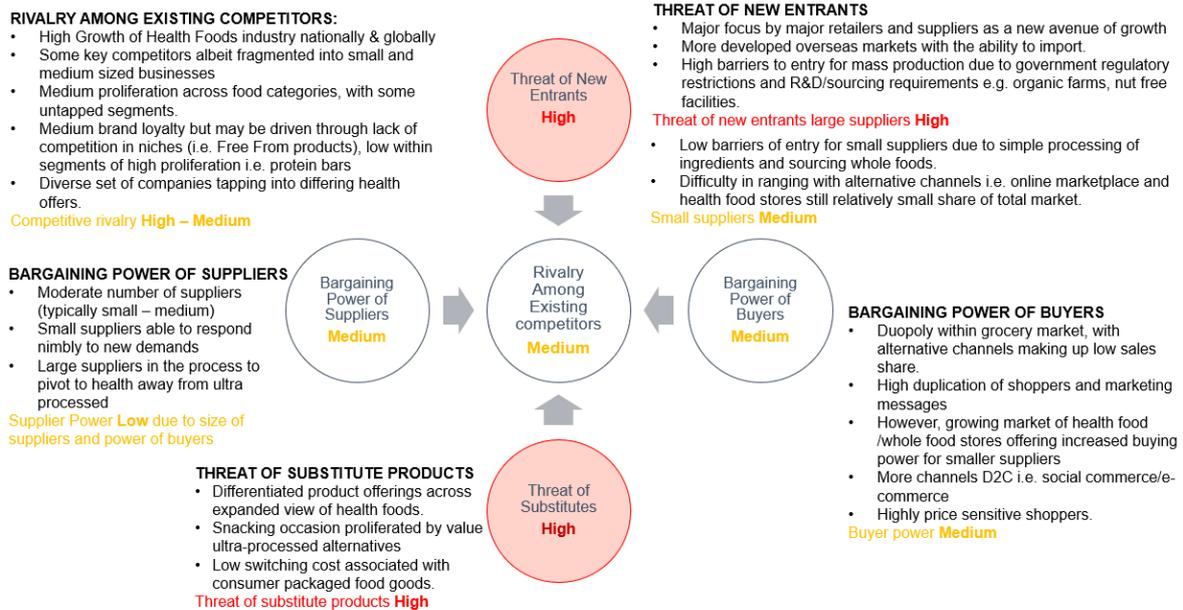


Diagram: Authors own

Occasion 1:

Loss of Connection | Why and how health foods should play best supporting role across KSPs to foster connection.

The reason CPG holds so much influence is because food-sharing and meal traditions connect people. It is at the core of our humanity; encompassing all cultures and religions and is often the centre of celebrations, rituals and ceremonies. Health food can harness this power and play a part in healing the collective anxiety emanating from COVID-19. Health food with a social, or sharing focus, can play a uniquely protective function.

Research surrounding food and connection further signals the latent opportunity. 'Conversation' and a 'great home cooked meal' are cited as the most important factors when hosting friends or family. However, the gap between 'high quality

snacks' (7.8%) and 'healthy snacks' (6.3%)³⁷ is closer than anticipated considering the assortment and availability of one over the other.

Ultra-processed food categories such as salty snacks, biscuits and chocolate have long dominated sales share of key selling periods such as Easter, Christmas, Father's Day and footy finals. However, with the ongoing emphasis on healthier lifestyle choices we will likely see an uptake of healthy snacks as alternatives to traditional snacks over the coming years. In the near-term health food brands that can tap into the latent opportunity across these key selling weeks can grow share of wallet across sharing and gifting occasions.

Health foods have long been positioned as 'good for me' and as an aspiration. Innovation within health food has primarily come through on-the-go convenience snacks such as Bounce's protein balls, or single serve meals such as My Muscle Chef and Super Nature's wellness bowls. In contrast, industry stakeholders have largely neglected the marketing levers that would appropriate health foods for sharing with friends at a gathering, or which satisfy gifting occasions. This adjusted approach to reframe when and how health food can be consumed can be governed with simple application of the 4P's of the market mix (Diagram 3).

Diagram 3: Ways health foods can tap into occasions for connection



Diagram: Authors Own

By leveraging the need for connection and maintaining the focus on healthy lifestyles, brands that successfully expand consumers' perspective of health foods away from 'me' to 'we' will increase purchasing occasions. They will therefore meet

³⁷ IRI Shopper Survey 'What is important when hosting family and friends at your house for a dinner or party?' 2019

broader appeal and grow ahead of others which are constrained to 'personal' occasions alone.

Occasion 2:

Comfort | Extending 'comfort food' to include health food.

There have been reports across the pandemic of consumers increasingly turning to comfort food as an antidote to reality amid considerable uncertainty³⁸. This is combined with a growing body of evidence describing the negative impacts COVID-19 has had on food and lifestyle behaviour.^{39,40} With the shadow pandemic expected to far outlast the immediate economic impacts of COVID-19, consumers will continue to seek out comfort food into the future⁴¹. This is a prime opportunity for health foods to interrupt the thinking of consumers by expanding the concept to include a 'feel good factor' and 'anticipated afterglow', as well as highlighting the pleasure and long-term benefits of healthy eating.

To capture the sales opportunity aligned to serving this growing need state, health brands should employ a few key tactics outlined by Byron Sharp's 'How Brands Grow' to increase share in this competitive market⁴²:

- i. Ensure the brand is easy to purchase by communicating how it fits into the users' life:** Brand decision makers will need to communicate and focus on promoting how products will make consumers *feel*, not just in the moment, but also the following day. This can set health foods apart from other comfort foods and offer a new way to satisfy the comfort occasion. For example, A2 Milk's enduring and ultimately successful 'a difference you can feel' message.

- ii. Refresh and re-build memory structures:** Respect the associations already inherent for health foods and ensure placement of product in-store emphasise these. For example, green shelf-ready packaging and translucent windows to enable shoppers to see the ingredients of the product, and dual-locating in the

³⁸ Foods 'Covid-19 and the Subsequent Lockdown Modified Dietary Habits of Almost Half the Population in an Italian Sample', 2020 <https://doi.org/10.3390/foods9050675>

³⁹ American Journal of Clinical Nutrition 'A systematic review and meta-analysis of dietary patterns and depression in community-dwelling adults', 2013 <https://bmcmedicine.biomedcentral.com/articles/10.1186/s12916-018-1228-y>

⁴⁰ BMC Medicine 'A randomised controlled trial of dietary improvement for adults with major depression (the 'SMILES' trial)' 2017 <https://doi.org/10.1186/s12916-017-0791-y>

⁴¹ BBC 'Coronavirus: The possible long-term mental health impacts' 2020 <https://www.bbc.com/worklife/article/20201021-coronavirus-the-possible-long-term-mental-health-impacts>

⁴² Sharp, B. (2014) How Brands Grow: What Marketers Don't Know, Oxford

fresh aisle with an off-location display will convey healthy characteristics and make healthy products easy to find and buy.

Re-building the memory structures of consumers seeking comfort food can be achieved by offering the cues from traditional comfort foods, for example rolled oats; generating a familiar smell from cooking and feeling full with the help from protein.

Occasion 3:

Reward | Promote 'healthy reward' as a concept

Across the pandemic and lockdown there were reports of unhealthy emotional eating and bingeing due to the associated stress of news coverage⁴³. As Australians return to lives that more closely resemble pre-pandemic times, we are seeing an increased focus on self-care and rising awareness of mental and emotional health. We are likely to see this trend continue through the adoption of mindful and intuitive eating practices which have fewer rules and remind consumers to be kind to themselves. Health food brands can position themselves to remove the 'guilt burden' one feels when rewarding themselves by:

- i. Ensuring products satisfy on taste:** Consistent findings have established that taste and appearance are of the highest importance for consumers both for hedonic and utilitarian foods⁴⁴. However, health foods overwhelmingly emphasise nutritional attributes over tastiness. In studies taste-focused labelling offered a strategy that increased healthy food selection by 38% and was shown to outperform health-focused labelling⁴⁵. Therefore, accentuating flavour is important to drive sales especially for occasions of reward.

- ii. Evoke an emotional response:** Borrow advertising and packaging techniques from ultra-processed snack foods to promote health foods to evoke an emotional response and provide a sense of reward.

⁴³ Foods 'Covid-19 and the Subsequent Lockdown Modified Dietary Habits of Almost Half the Population in an Italian Sample', 2020 <https://doi.org/10.3390/foods9050675>

⁴⁴ Sustainability 'Food Values, Benefits and Their Influence on Attitudes and Purchase Intention: Evidence Obtained at Fast-Food Hamburger Restaurants', 2020, <https://www.mdpi.com/2071-1050/12/18/7749>

⁴⁵ Preventive Medicine 'Smart food policy for healthy food labeling: Leading with taste, not healthiness, to shift consumption and enjoyment of healthy foods', 2019 <https://www.sciencedirect.com/science/article/pii/S0091743518303669>

- iii. **Use permissible indulgence as a pillar:** Offer indulgence through gourmet and quality ingredient selection, highlighting provenance and portion control. This can also be done through articulation of ‘better for you: not best for you’ concept.

These elements are exemplified in Heineken’s 0.0 marketing ambition. The Heineken brand invested heavily at the launch of its zero-alcohol line extension, Heineken 0.0, with product sampling to break stereotypes and overturn conventions. The focus was on taste and occasions through its ‘toasting to your health’ campaign⁴⁶. The brand generated sales traction by emphasising ‘great taste’ and communicating the campaign message ‘the moment you couldn’t have a beer, now you can.’ As a result, Heineken has successfully tapped into new consumer markets and occasions. Continuing to go from strength to strength, last year Heineken announced a €10 million deal sponsoring the UEFA Europa League in a move to “‘build positive associations around drinking choices’ in other words, we want to make alcohol-free beer cool.”⁴⁷ The brand has made a better-for-you beer proposition a permissible choice for global drinkers in occasions and settings where indulgent offerings have taken precedent.

As we discover more about how food affects physiological and psychological health, there will be a growing opportunity for brands to satisfy both comfort and reward occasions by offering a healthy alternative. Speaking with IRI US’s snacking thought leader Sally Lyons Wyatt, who agrees that “While immediate gratification through treats and indulgences will remain a staple of food choices, the shift will be more health brands dialling-up the positive emotional reward from making ‘feel good’ and ‘guilt free’ choices”⁴⁸. In other words, this is the next frontier of growth for health foods – to grow share of wallet across the comfort food and reward occasions.

⁴⁶ ‘Heineken Zero: Toasting to your health’ <https://www.becausexm.com/work/heineken-zero-toasting-to-your-health>

⁴⁷ The Drum ‘How Heineken’s using the biggest ever non-alcoholic beer sponsorship to grow the category’, 2020 <https://www.thedrum.com/news/2020/08/11/how-heineken-s-using-the-biggest-ever-non-alcoholic-beer-sponsorship-grow-the>

⁴⁸ Phone conversation held with Sally Lyons Wyatt, IRI Executive & Practice Leader US

Conclusion

Brands providing opportunities for social connection and comfort will be best placed to enter the consideration set of consumers who are eager to optimise their wellness and re-set for the future. Beyond this, brands will need to continue to finetune their positioning to capture greater share of wallet. This can be achieved by capturing more occasions, and by addressing the new needs of consumers who are re-evaluating what habits can facilitate a healthier lifestyle after emerging from the pandemic.

We are yet to grapple with the full extent to which society has changed and evolved due to the impacts of COVID-19 pandemic. However, it will unpredictably expand and blur the boundaries of where health foods can play. The opportunities set out within this essay are likely to be the next frontier of growth, with many iterations to follow. Brands that show nimbleness to adapt and respond to emerging consumer needs will ultimately prevail.



Joe Berry Award 2021

Topic 3: Consumer Behaviour Changes and Digitization

CLICKS INSTEAD OF BRICKS

Q. What is your prediction for changes in consumer shopping behaviour towards online shopping, online share of the industry's sales and the ramifications across the industry from this change?

Entrant Number: JBA-21-070

Thea Dickinson

Mars Wrigley



Executive Summary

Is the demise of brick and mortar finally here? An astounding 84% of Australians now shop online!⁴⁹

Since the onset of the COVID-19 pandemic, businesses have witnessed online shopping adoption at such an accelerated pace it was described as a 'decade in days' change.⁵⁰

Subsequently, the industry had to pivot strategies and implement operational changes at record speeds. This paper discusses what online consumer behaviour will look like in a post COVID world through the exploration of:

- The new consumption model –when consumers have travelled so far why return to pre-COVID behaviour?
- Ecommerce opportunities for retailers and suppliers
- Ecommerce challenges for retailers and suppliers
- Why Omnichannel is best
- Predictions and conclusion

This paper concludes those who pursue a strong omnichannel strategy will be most successful.

⁴⁹ (2020, September 7). The latest IRI Report on Australian and Global Online Shopping Trends explores the growth of online during Covid-19 and how ecommerce will continue to accelerate. AACS. Retrieved from <https://www.aacs.org.au/the-latest-iri-report-on-australian-and-global-online-shopping-trends-explores-the-growth-of-online-during-covid-19-and-how-e-commerce-will-continue-to-accelerate/>

⁵⁰ Fabius, V., Kohli, S., Moulvad, V., & Timelin, B. (2020, June). How COVID-19 is changing consumer behaviour-now and forever. *McKinsey & Company*. Retrieved from <https://www.mckinsey.com/~media/mckinsey/industries/retail/our%20insights/how%20covid%2019%20is%20changing%20consumer%20behavior%20now%20and%20forever/how-covid-19-is-changing-consumer-behavior-now-and-forever.pdf>

Introduction

Data from McKinsey shows in a matter of eight weeks the world leapt forward five years with consumer adoption of digital.⁵¹ Unsurprisingly, ecommerce-centric businesses now represent four of the top five largest retailers worldwide (Alibaba, Amazon, Pinduoduo, JD.com).⁵² The repercussions of these sudden behaviour changes will be irreversible as studies show once consumers try new channels, they're likely to stick with them.⁵³

In April 2020, 5.2 million Australians shopped online, a 7.1% increase YoY which represented total sales worth 11.1% of all brick-and-mortar purchases.⁵⁴ By July ecommerce represented 14%.⁵⁵ 200,000 people who purchased online in April 2020 were new shoppers who had never purchased online before and significantly, 35.5% of these new shoppers made an online purchase more than once.⁵⁶ Unforeseen demand led Coles and Woolworths to temporarily suspend their online services to maintain service quality. Retailers across the globe partnered with third-party delivery services to manage delivery demand such as Carrefour who partnered with Uber Eats to deliver to nearly 100 cities.⁵⁷

The rapid change in consumer behaviour has catapulted change within our industry over the past year:

- Inditex announced the closure of 1200 Zara stores and a €1bn investment into their online offering⁵⁸

⁵¹ Standage, T. (2020, November 15). New technological behaviours will outlast the pandemic. *The Economist*. Retrieved from <https://www.economist.com/the-world-ahead/2020/11/16/new-technological-behaviours-will-outlast-the-pandemic>

⁵² Edge by Ascential. (2020). *Retailer Ecosystem Expansion*. Retrieved from Ascential Edge database.

⁵³ Bowden, J., Grimmer, L., Grimmer, M., Mortimer, G., & Pallant, J. (2020, June 24). COVID-19 has changed the future of retail: there's plenty more automation in store. *The Conversation*. Retrieved from <https://theconversation.com/covid-19-has-changed-the-future-of-retail-theres-plenty-more-automation-in-store-139025>

⁵⁴ Bowden, J., Grimmer, L., Grimmer, M., Mortimer, G., & Pallant, J. (2020, June 24). COVID-19 has changed the future of retail: there's plenty more automation in store. *The Conversation*. Retrieved from <https://theconversation.com/covid-19-has-changed-the-future-of-retail-theres-plenty-more-automation-in-store-139025>

⁵⁵ (2021, January 13). 2020 changed the way Australians shop. Can you keep them in 2021 and beyond? *Marketing Mag*. Retrieved from <https://www.marketingmag.com.au/hubs-c/opinion-2020-changed-the-way-australians-shop-can-your-store-keep-them-in-2021-and-beyond/?fbclid=IwAR3kKToQMj6MAFNLEphcnE0wokNhpNVb3IOyyq2HYO806yoHb5FygZKiyfc>

⁵⁶ (2020). Inside Australian Online Shopping. 2020 eCommerce Industry Report. *Australia Post*. Retrieved from https://auspost.com.au/content/dam/auspost_corp/media/documents/2020-ecommerce-industry-report.pdf

⁵⁷ Edge by Ascential. (2020). *Retailer Ecosystem Expansion*. Retrieved from Ascential Edge database.

⁵⁸ Jolly, J. (2020, June 11). Zara owner to close up to 1,200 fashion stores around the world. *The Guardian*. Retrieved from <https://www.theguardian.com/business/2020/jun/10/zara-owner-to-close-up-to-1200-fashion-stores-around-the-world>

- Coles head Steven Cain predicted it will take five-years for footfall in brick-and-mortar stores in CBDs to return to pre-COVID levels⁵⁹
- Woolworths opened a new dark-store capable of fulfilling 20,000 additional weekly online orders⁶⁰
- Myer and David Jones accelerated plans to reduce retail floor space by 20% by 2025⁶¹

The New Consumption Model

Prior to COVID online shopping was growing. It gave consumers the ability to easily price compare, offered convenience and the ability to shop at any given time.⁶² While 20 years ago it may have seemed inconceivable people would buy clothes without trying them on, ecommerce now accounts for 20% of fashion sales.⁶³ Pre-pandemic, online shopping penetration in Australia sat at 10.8%⁶⁴ but COVID forced many consumers who did not engage with ecommerce due to fears such as lack of privacy and absence of haptics to overcome these barriers.⁶⁵

With barriers broken, Australians anticipate a larger percentage of their purchases will come from online shopping across all categories even post-COVID (figure 1).⁶⁶

⁵⁹ Powell, D. (2020, September 4). Inner-city stores could be feeling pandemic pain for years: Coles boss. *The Sydney Morning Herald*. Retrieved from <https://www.smh.com.au/business/companies/inner-city-stores-could-be-feeling-pandemic-pain-for-years-coles-boss-20200904-p55sfw.html>

⁶⁰ Ransley, E. (2020, December 8). Woolworths opens largest 'dark store' in time for Christmas, creating 900 jobs. *News.com.au*. Retrieved from <https://www.news.com.au/finance/business/retail/woolworths-opens-largest-dark-store-in-time-for-christmas-creating-900-jobs/news-story/bd0db785b572d7d4571db308b8a13e27>

⁶¹ Bowden, J., Grimmer, L., Grimmer, M., Mortimer, G., & Pallant, J. (2020, June 24). COVID-19 has changed the future of retail: there's plenty more automation in store. *The Conversation*. Retrieved from <https://theconversation.com/covid-19-has-changed-the-future-of-retail-theres-plenty-more-automation-in-store-139025>

⁶² du Preez., Pentz, C., & Swiegers, L. (2020). The Online Shopping Behaviour of Technologically Enabled Consumer: A South African Generation Y Study. *African Journal of Business and Ecommerce Research*, 15(3), 227-253

⁶³ Schedlbauer, M. (2020, October 6). The Future of Grocery is Omnichannel. *Supply Chain Brain*. Retrieved from <https://www.supplychainbrain.com/articles/32006-the-future-of-grocery-is-omnichannel>

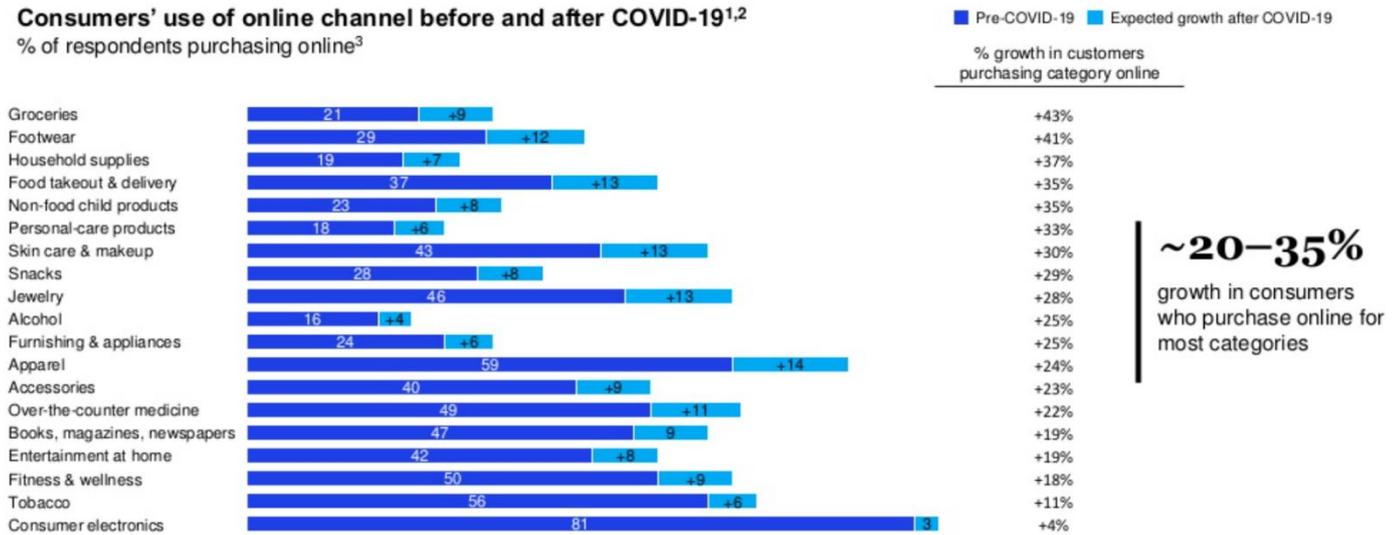
⁶⁴ Child, J., Farmer, R., Rudiger Smith, T., & Tesvic, J. (2020, May 21). As physical doors close, new digital doors swing open. *McKinsey & Company*. Retrieved from <https://www.mckinsey.com/industries/retail/our-insights/as-physical-doors-close-new-digital-doors-swing-open>

⁶⁵ Gao, Z., He, C., & Shi, L. (2020). The impact of customer ratings on consumer choice of fresh produce: A stated preference experiment approach. *Canadian Journal of Agricultural Economics*, 68(3), 359-373

⁶⁶ Child, J., Levavi, A., Rudiger Smith, T., Tesvic, J., & Swaminathan, K. (2020, September 17). Survey: Australian consumer sentiment during the coronavirus crisis. *McKinsey & Company*. Retrieved from <https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/survey-australian-consumer-sentiment-during-the-coronavirus-crisis>

More people expect to make a portion of their purchases online post-COVID-19 than before

Consumers' use of online channel before and after COVID-19^{1,2}
% of respondents purchasing online³



¹Q: Before the coronavirus (COVID-19) situation started, what proportion of your purchases in this category were online vs from a physical store/in person?
²Q: Once the coronavirus (COVID-19) situation has subsided, tell us what proportion of your purchases in this category you think will be online vs from a physical store/in person?
³Includes respondents who chose "some online," "most online," and "all online." Respondents who indicated that they have not bought the category online and do not intend to do so in the next two weeks are classified as not purchasing online.

Figure 1

While millennials and high-income earners are leading the way in adoption of ecommerce, there have been huge shifts amongst Gen X with 75% of Gen Xers shopping online for nonfood items in the first two weeks of May 2020.⁶⁷ Gen Zers have of course never known a world without the internet so this customer base would have grown naturally regardless of the pandemic.

The move to online has emboldened consumers to try new brands/products and shopping behaviours. As shown in figure 2, COVID saw 32% of Australian consumers try a new brand with a whopping 83% of those who tried private-label claiming they will purchase private-label ongoing.⁶⁸ Other than private-label, the winners of consumer intent to try new and stick-to-it are brands that are large and already trusted.⁶⁹

⁶⁷ Child, J., Farmer, R., Rudiger Smith, T., & Tesvic, J. (2020, May 21). As physical doors close, new digital doors swing open. *McKinsey & Company*. Retrieved from <https://www.mckinsey.com/industries/retail/our-insights/as-physical-doors-close-new-digital-doors-swing-open>

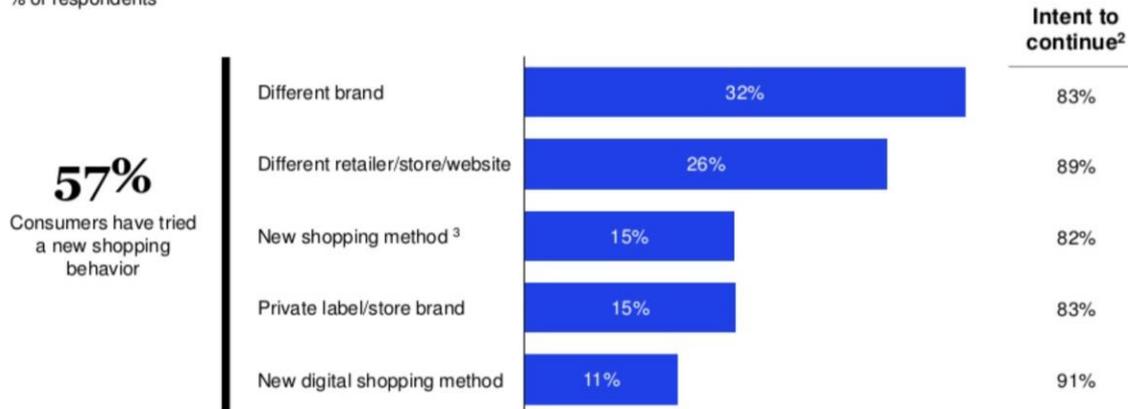
⁶⁸ Child, J., Levavi, A., Rudiger Smith, T., Tesvic, J., & Swaminathan, K. (2020, September 17). Survey: Australian consumer sentiment during the coronavirus crisis. *McKinsey & Company*. Retrieved from <https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/survey-australian-consumer-sentiment-during-the-coronavirus-crisis>

⁶⁹ Charm, T., Coggins, B., Robinson, K., & Wilkie, J. (2020, August 4). The great consumer shift: Ten charts that show how US shopping behavior is changing. *McKinsey & Company*. Retrieved from <https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/the-great-consumer-shift-ten-charts-that-show-how-us-shopping-behavior-is-changing>

Most Australian consumers have tried a different brand or retailer, with intent to continue their usage

Have you used any of the following since COVID-19 started¹

% of respondents



¹ Q. Since the coronavirus (COVID-19) situation started (i.e., in the past ~3 months), which of the following have you done? 48% consumers selected "none of these."

² Which best describes whether or not you plan to continue with these shopping changes once the coronavirus (COVID-19) situation has subsided? Possible answers: "will go back to what I did before coronavirus", "will keep doing both this and what I did before coronavirus", "will keep doing this and NOT go back to what I did before coronavirus." Intent to continue includes respondents who selected "will keep doing both this and what I did before coronavirus" and "will keep doing this and NOT go back to what I did before coronavirus."

³ "New shopping method" includes curbside pickup and delivery apps.

Figure 2

With an uncertain economic climate, value is the primary driver, followed by convenience and availability.⁷⁰ Online offers greater price transparency and more choice.⁷¹

Key concerns for online shoppers include sustainable packaging, delivery speed and cost, return policies and additional costs such as taxes and duties for those shopping from international websites.⁷² A study in the US showed that 53% of shoppers abandon their checkout if additional costs such as delivery fees and taxes are too high.⁷³

Diversity in delivery option choices will continue to be a defining part of the online shopping experience for consumers who desire a myriad of delivery options including contactless, same-day, ability to deliver to parcel lockers, click-and-collect etc.⁷⁴

⁷⁰ Charm, T., Grimmelt, A., Kim, H., Robinson, K., Lu, N., Ortega, M., Staack, Y., & Yamakawa, N. (2020, October 26). Consumer sentiment and behavior continue to reflect the uncertainty of the COVID-19 crisis. *McKinsey & Company*. Retrieved from <https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/a-global-view-of-how-consumer-behavior-is-changing-amid-covid-19>

⁷¹ Child, J., Farmer, R., Rudiger Smith, T., & Tesvic, J. (2020, May 21). As physical doors close, new digital doors swing open. *McKinsey & Company*. Retrieved from <https://www.mckinsey.com/industries/retail/our-insights/as-physical-doors-close-new-digital-doors-swing-open>

⁷² (2020). Inside Australian Online Shopping. 2020 eCommerce Industry Report. *Australia Post*. Retrieved from https://auspost.com.au/content/dam/auspost_corp/media/documents/2020-ecommerce-industry-report.pdf

⁷³ (2020). Inside Australian Online Shopping. 2020 eCommerce Industry Report. *Australia Post*. Retrieved from https://auspost.com.au/content/dam/auspost_corp/media/documents/2020-ecommerce-industry-report.pdf

⁷⁴ (2020). Inside Australian Online Shopping. 2020 eCommerce Industry Report. *Australia Post*. Retrieved from https://auspost.com.au/content/dam/auspost_corp/media/documents/2020-ecommerce-industry-report.pdf

Ecommerce Opportunities

Personalisation: Ecommerce allows retailers and brands to better customize their offerings to each consumer. Retailers can alert consumers when products they often purchase are on sale, send meal suggestions based on purchased products and/or suggest product pairings.

Coles Group is working to create a new single platform that unifies all its retail channels to give consumers the most personalised experience possible.⁷⁵

New Reach: Ecommerce allows brands and retailers to capture audiences they aren't geographically close to and in 2019, 36% of international shoppers purchased from brands unavailable in their home country.⁷⁶ Australia is now the third-ranked country for international orders placed in the UK and the US.⁷⁷

Greater reach can be leveraged through mutually beneficial retailer and supplier experiential collaborations such as live-streaming and augmented-reality. Shopify recently released data which showed a 94% higher conversion rate on products containing AR content.⁷⁸

Advertising Potential: In China, 75% of all advertising spend is now digital and the country's biggest profiteer from digital advertising revenue is not a social network but Alibaba, who in 2020 made more than US\$27b from advertising revenue.⁷⁹ While China is not a like-for-like market to Australia in terms of digital consumption, this demonstrates strong potential for Australian retailers as advertising revenue has minimal management costs and is highly profitable.

Direct-to-Consumer: The online boom saw the emergence of D2C in categories where this had previously not been seen before. Kraft Heinz began a D2C site 'Heinz to Home' in Australia and the UK for families in lockdown.⁸⁰ However, D2C is likely

⁷⁵ Crozier, R. (2020, December 14). Coles Groups looks to single customer ID across online stores, apps. *IT News*.

⁷⁶ (2020). Inside Australian Online Shopping. 2020 eCommerce Industry Report. *Australia Post*. Retrieved from https://auspost.com.au/content/dam/auspost_corp/media/documents/2020-ecommerce-industry-report.pdf

⁷⁷ (2021, January 13). 2020 changed the way Australians shop. Can you keep them in 2021 and beyond? *Marketing Mag*. Retrieved from <https://www.marketingmag.com.au/hubs-c/opinion-2020-changed-the-way-australians-shop-can-your-store-keep-them-in-2021-and-beyond/?fbclid=IwAR3kKToQMj6MAFNLEphcnE0wokNhpNVb3IOyyq2HYO806yoHb5FygKiyfc>

⁷⁸ Papagiannis, H. (2020, October 7). How AR is Redefining Retail in the Pandemic. *Harvard Business Review*. Retrieved from <https://hbr.org/2020/10/how-ar-is-redefining-retail-in-the-pandemic>

⁷⁹ Burton, M. (2020, December 22). How to achieve profitability in online grocery retailing. *Inside Retail*. Retrieved from <https://insideretail.com.au/business/financial/how-to-achieve-profitability-in-online-grocery-retailing-202012>

⁸⁰ Edge by Ascential. (2020). *Ecommerce Website Innovations 2020*. Retrieved from Ascential Edge database.

only commercially viable for categories where the average basket size and purchase frequency is enough to make the supply requirements surrounding per-order-economics feasible (e.g. petcare).⁸¹

Ecommerce Challenges

Meal Kits: Pre COVID, 4 million Australians were already using meal delivery services (encompassing Uber Eats, Marley Spoon etc) threatening grocery.⁸² Marley Spoon reported 84% growth for their September 2020 quarter⁸³ while in 2020 Nestle acquired meal delivery service Freshly for US\$950 million.⁸⁴ While consumers are drawn to the convenience and perception of healthier choices these services provide, retailers can combat this through continuing to improve their own delivery capabilities. The threat of meal delivery services may also be inflated as post-COVID consumers are more price sensitive and have a reignited love of cooking-from-scratch.

Supply Chains: Online shopping will stretch retail supply chains as consumers are demanding a myriad of delivery options and fulfilling consumer need for instant gratification is harder online. This will increase reliance on local manufacturing capabilities.⁸⁵

Stretched supply chains will test retailers' profitability which in turn will put pressure on suppliers to accelerate supply chain automation e.g. retailers may ask suppliers to skip DCs and send D2C. Creative solutions to manage supply pressure may be required e.g. Unilever and Kimberly-Clarke have begun to optimise the last-mile through sharing trucks and making joint deliveries to their customers.⁸⁶

⁸¹ (2020, August 8). Perspectives on retail and consumer goods. *McKinsey & Company*. Retrieved from https://www.mckinsey.com/~media/McKinsey/Industries/Retail/Our%20Insights/Perspectives%20on%20retail%20and%20consumer%20goods%20Number%208/Perspectives-on-Retail-and-Consumer-Goods_Issue-8.pdf

⁸² Lucio, R. (2020, February 4). Nearly 4 million Australians now using meal delivery services. *Inside FMCG*. Retrieved from <https://www.theaustralian.com.au/news/latest-news/hellofresh-rival-builds-cash-war-chest-as-online-grocery-shopping-soars/news-story/5669a4eba8d5052d93a78cf898fdbbcd> <https://insidefmcg.com.au/2020/02/03/nearly-4-million-australians-now-using-meal-delivery-services/>

⁸³ Le May, R. (2020, October 23). HelloFresh rival builds cash war chest as online grocery shopping soars. *The Australian*. Retrieved from

⁸⁴ Browne, M. (2020, November 2). Nestle acquires Freshly prepared-meal delivery service for \$950 million. *Supermarket News*. Retrieved from <https://www.supermarketnews.com/news/nestl-acquires-freshly-prepared-meal-delivery-service-950-million>

⁸⁵ (2020). Inside Australian Online Shopping. 2020 eCommerce Industry Report. *Australia Post*. Retrieved from https://auspost.com.au/content/dam/auspost_corp/media/documents/2020-e-commerce-industry-report.pdf

⁸⁶ (2020). As COVID-19 fuels a surge in online shopping, will e-commerce be the new normal? *AT Kearney*. Retrieved from <https://www.kearney.com/consumer-retail/article/?/a/as-covid-19-fuels-a-surge-in-online-shopping-will-e-commerce-be-the-new-normal>

New Store Formats: To ease supply pressure retailers may move to smaller spaces located in suburbs which can be used exclusively to quickly dispatch online orders for rapid, same-day delivery (dark-stores).⁸⁷ This minimizes the need to pay staff to manually pick orders on the floor, impeding the customer shopping experience.⁸⁸

Other stores may need to transition to micro-fulfilment centres where ground level could sell fresh produce and provide click-and-collect points, while the second story fulfil online orders.⁸⁹ These stores would also sit more closely amongst neighborhoods affording retailers the opportunity to adapt products and promotions to each market.⁹⁰

Despite the capital required to fund such facilities, retailers need a strong online offering and currently face margin erosion as they are relying on store operations to shop and pick groceries; a task, shoppers previously did themselves, for free.⁹¹

Online doesn't fully cannibalise brick-and-mortar spend so retailers who can manage and provide a strong online offering are more likely to gain incremental spend overall.⁹²

The Digital Shelf: Ecommerce presents the new planogram challenge for suppliers and brands will need to focus on winning the digital shelf through the navigation of retailer algorithms.

Consumers have short attention spans and a strong desire for convenience when shopping online. The first page of Amazon searches receives almost two-thirds of all clicks⁹³ presenting a quandary for suppliers whose products do not appear on this

⁸⁷ Bowden, J., Grimmer, L., Grimmer, M., Mortimer, G., & Pallant, J. (2020, June 24). COVID-19 has changed the future of retail: there's plenty more automation in store. *The Conversation*. Retrieved from <https://theconversation.com/covid-19-has-changed-the-future-of-retail-theres-plenty-more-automation-in-store-139025>

⁸⁸ Schedlbauer, M. (2020, October 6). The Future of Grocery is Omnichannel. *Supply Chain Brain*. Retrieved from <https://www.supplychainbrain.com/articles/32006-the-future-of-grocery-is-omnichannel>

⁸⁹ Edge by Ascential. (2020). *The Changing Retail Landscape & Store of the Future*. Retrieved from Ascential Edge database

⁹⁰ (2020, August 8). Perspectives on retail and consumer goods. *McKinsey & Company*. Retrieved from https://www.mckinsey.com/~/media/McKinsey/Industries/Retail/Our%20Insights/Perspectives%20on%20retail%20and%20consumer%20goods%20Number%208/Perspectives-on-Retail-and-Consumer-Goods_Issue-8.pdf

⁹¹ Burton, M. (2020, December 22). How to achieve profitability in online grocery retailing. *Inside Retail*. Retrieved from <https://insideretail.com.au/business/financial/how-to-achieve-profitability-in-online-grocery-retailing-202012>

⁹² Burton, M. (2020, December 22). How to achieve profitability in online grocery retailing. *Inside Retail*. Retrieved from <https://insideretail.com.au/business/financial/how-to-achieve-profitability-in-online-grocery-retailing-202012>

⁹³ Briedis, H., Kronschnabl, A., Rodriguez, & Ungerman, K. (2020, May 14). Adapting to the next normal in retail: The customer experience imperative. *McKinsey & Company*. Retrieved from <https://www.mckinsey.com/industries/retail/our-insights/adapting-to-the-next-normal-in-retail-the-customer-experience-imperative>

coveted page. The first requirement for brands to maximise their chance of appearing on the first search page is to ensure high stock availability.⁹⁴

It is then important to ensure visibility through advertising, strong product content e.g. high-quality photos (or videos where necessary), SEO product copy and positive reviews. Research has shown reviews play a critical role in online shopping with around 88% of shoppers trusting reviews equally to personal recommendations.⁹⁵ Unfortunately with reviews a negativity bias exists which means negative reviews impact sales more greatly than positive reviews.⁹⁶

Impulse Categories: With less people shopping in-store and the need to reimagine the physical store, checkout-less stores will become more commonplace providing challenges to suppliers of impulsive categories. Impulse driven brands are heavily reliant on capturing shopper purchase front of store while in queue or from display or gondola end. An estimated 20% of shopper grocery spend comes from impulse purchases alone so less impulsive purchasing has repercussions for retailers too.⁹⁷

Win with Omnichannel

Despite ecommerce acceleration, brick-and-mortar is not dead, and consumers will still want to enjoy the sensory aspect, immediate gratification, and leisure component of physical retail (there is no online substitute for the iconic Bunnings' weekend sausage sizzle)! As such, retailers who pursue a strong omnichannel approach will be best poised to win with shoppers. Although counterintuitive in 2020, the year of ecommerce, Amazon forged ahead with opening seven Amazon Fresh stores⁹⁸ sending a clear signal the world's third largest retailer (by sales) still sees merit in brick-and-mortar.

An omnichannel approach means offering consumers a unified experience with your brand across multiple channels, having all channels work together to maximise the

⁹⁴ (2021, January). Confectionery Digital Category Excellence Report, January 2021. *Edge by Ascential*. Retrieved from Ascential Edge database.

⁹⁵ Gao, Z., He, C., & Shi, L. (2020). The impact of customer ratings on consumer choice of fresh produce: A stated preference experiment approach. *Canadian Journal of Agricultural Economics*, 68(3), 359-373

⁹⁶ Gao, Z., He, C., & Shi, L. (2020). The impact of customer ratings on consumer choice of fresh produce: A stated preference experiment approach. *Canadian Journal of Agricultural Economics*, 68(3), 359-373

⁹⁷ Schedlbauer, M. (2020, October 6). The Future of Grocery is Omnichannel. *Supply Chain Brain*. Retrieved from <https://www.supplychainbrain.com/articles/32006-the-future-of-grocery-is-omnichannel>

⁹⁸ Redman, R. (2021, January 22). Eighth Amazon Fresh supermarket set to open its doors. *Supermarket News*. Retrieved from <https://www.supermarketnews.com/retail-financial/eighth-amazon-fresh-supermarket-set-open-its-doors>

buying experience for the consumer and importantly, ensuring all interactions can be shoppable.⁹⁹ It leverages information from one channel and invites customers to partake in another. A study by Business Insider showed that shoppers who engage with retailers or a brand on multiple channels make purchases more often.¹⁰⁰

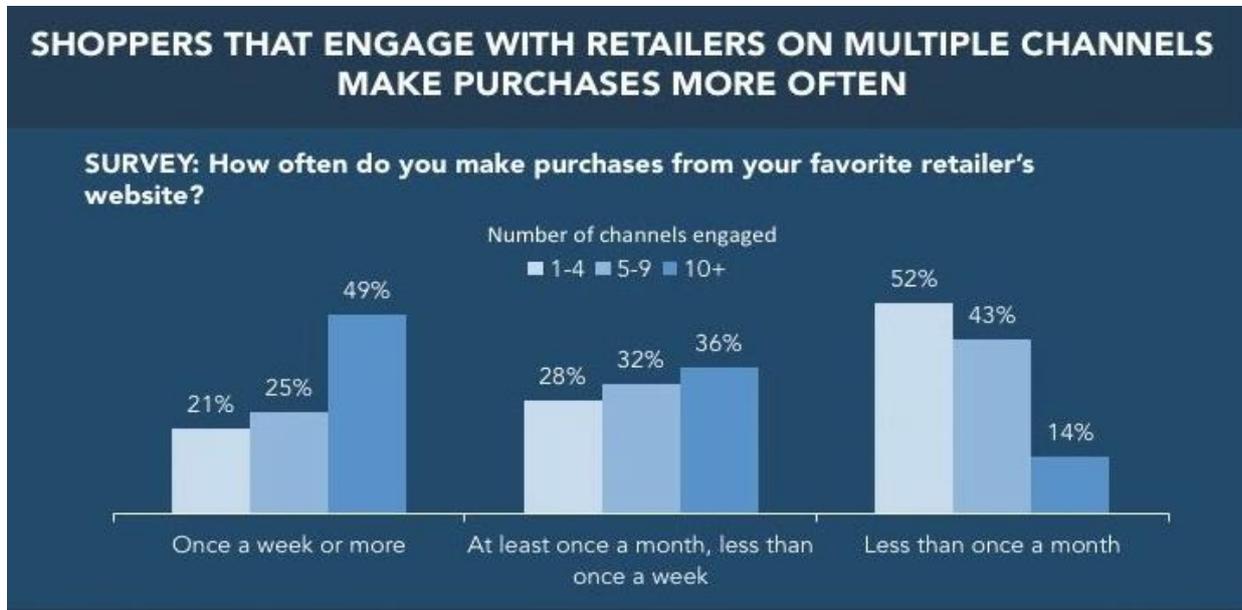


Figure 3¹⁰¹

This is demonstrated by Harriet, a millennial who exemplifies today's omnichannel shopper:

⁹⁹ Winker, N. (2019, August 13). Omnichannel vs Multichannel: What is the Difference and Why Does it Matter? *Shopify Plus*. Retrieved from <https://www.shopify.com.au/enterprise/omni-channel-vs-multi-channel>

¹⁰⁰ Orendorff, A. (2018, January 9). Omni-Channel Retail Strategy: The What, Why and How of 'In-store' Shopping. *Shopify Plus*. Retrieved from <https://www.shopify.com.au/enterprise/omni-channel-retail-strategy>

¹⁰¹ Orendorff, A. (2018, January 9). Omni-Channel Retail Strategy: The What, Why and How of 'In-store' Shopping. *Shopify Plus*. Retrieved from <https://www.shopify.com.au/enterprise/omni-channel-retail-strategy>

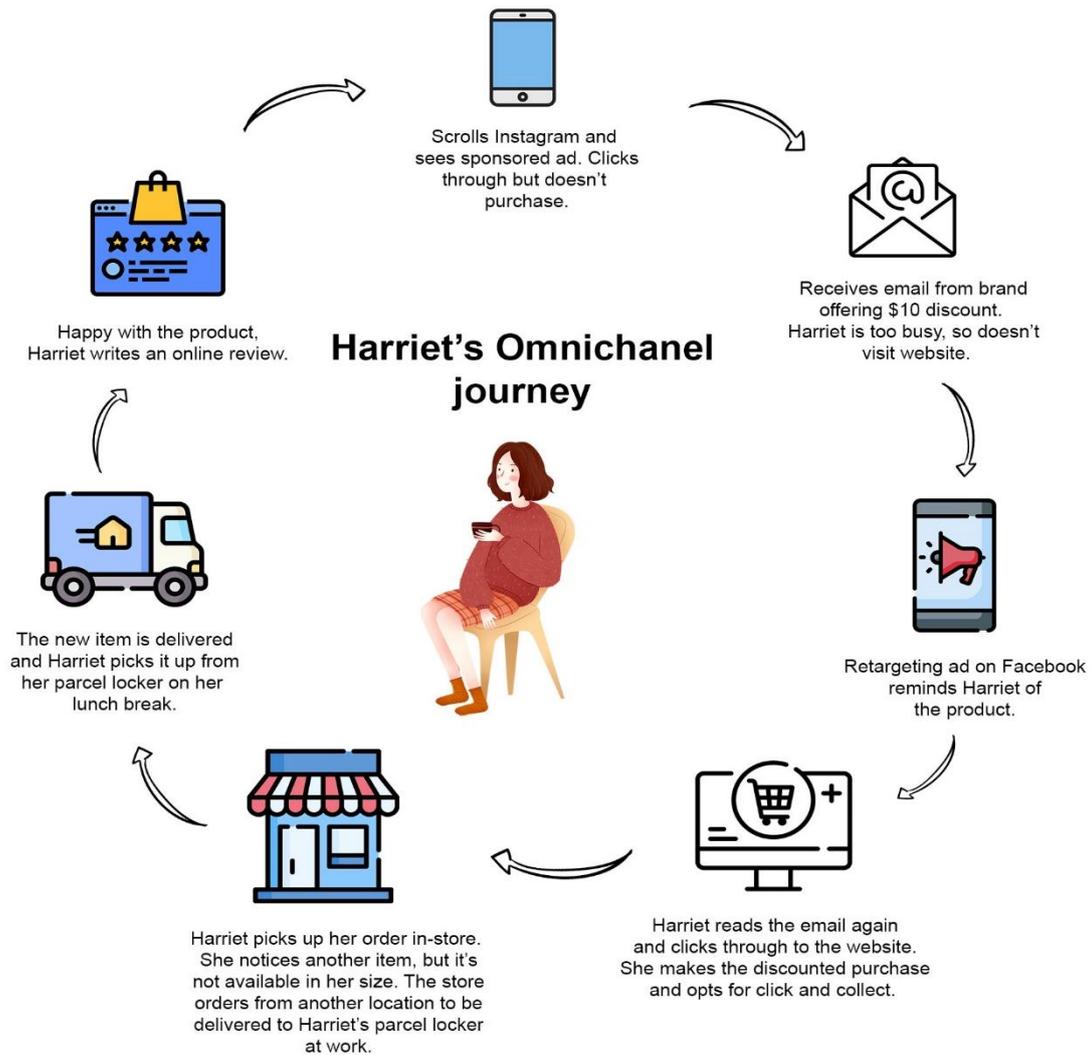


Figure 4 (Author's own)

Omnichannel is important because consumers tend to alternate channels depending on purchase type. Consumers engaging in hedonic purchases are 10% more likely to use social media channels than their utilitarian counterparts who are more likely to use retailer websites and cross check against competitor offerings.¹⁰²

It means brands and retailers have more opportunities to engage consumers and convert purchases, but this longer journey means customers' experience must be

¹⁰² Abbasi, A., Abraham, L., Cheema, A., & Li, J. (2020). Path To Purpose. How Online Customer Journeys Differ for Hedonic Versus Utilitarian Purchases. *Journal of Marketing*, 84(4), 127-146.

positive during every touchpoint. Grocery is particularly sensitive to poor customer experience because purchases are extremely frequent.¹⁰³

To achieve an optimal omnichannel approach, retailers should look to the following areas:

1. **Focus on digital:** Digital is here to stay so retailers should look to reallocate funds where appropriate to digital channels whether that be acquiring capabilities or platforms not currently possessed, making current platforms more shoppable (e.g. adding clickable content on Instagram) or redistributing offline marketing spend to online mediums.

Businesses should also consider their structure and whether they need to hire digital specialists or encourage all employees to upskill in digital. For instance, Walmart recently combined their ecommerce and instore buying teams to operate as one.¹⁰⁴

2. **Invest in innovation:** Maximise the convenience of online shopping with the practicalities of brick-and-mortar by innovating to allow for instore services and practices to be enjoyed digitally. For instance, Sephora allows shoppers to virtually try on makeup through their phone.¹⁰⁵
3. **Reimagine the physical store:** Brick-and-mortar should be reimaged to ensure it supports an omnichannel customer experience. This could mean converting current locations into dark stores or upgrading store features to make the in-store experience richer e.g. Coles Local Chatswood's addition of refilling stations to eliminate single-use bottles.

A best-in-class example of a store of the future that integrates online are the Amazon Fresh stores (figure 5). Digital price tags show products' online

¹⁰³ Burton, M. (2020, December 22). How to achieve profitability in online grocery retailing. *Inside Retail*. Retrieved from <https://insideretail.com.au/business/financial/how-to-achieve-profitability-in-online-grocery-retailing-202012>

¹⁰⁴ Repko, M. (2020, February 25). Walmart will combine its store, online buying teams, company memo says. *CNBC*. Retrieved from <https://www.cnbc.com/2020/02/25/walmart-will-combine-its-store-online-buying-teams-report-says.html#:~:text=Walmart%20is%20combining%20its%20teams,by%20The%20Wall%20Street%20Journal>

¹⁰⁵ Bhattarai, AB. (2020, July 9). Virtual try-ons are replacing fitting rooms during the pandemic. *The Washington Post*. Retrieved from <https://www.washingtonpost.com/business/2020/07/09/virtual-try-ons-are-replacing-fitting-rooms-during-pandemic/>

ratings, Amazon's online best sellers can be purchased in-store and there is a dedicated space to pick up or return online Amazon orders.¹⁰⁶

Further, shoppers can log into the futuristic Amazon Dashcart (which automatically scans and weighs items as they're placed in the trolley!) to access shopping lists created via voice in their Amazon app and exit the store without going through check out.¹⁰⁷

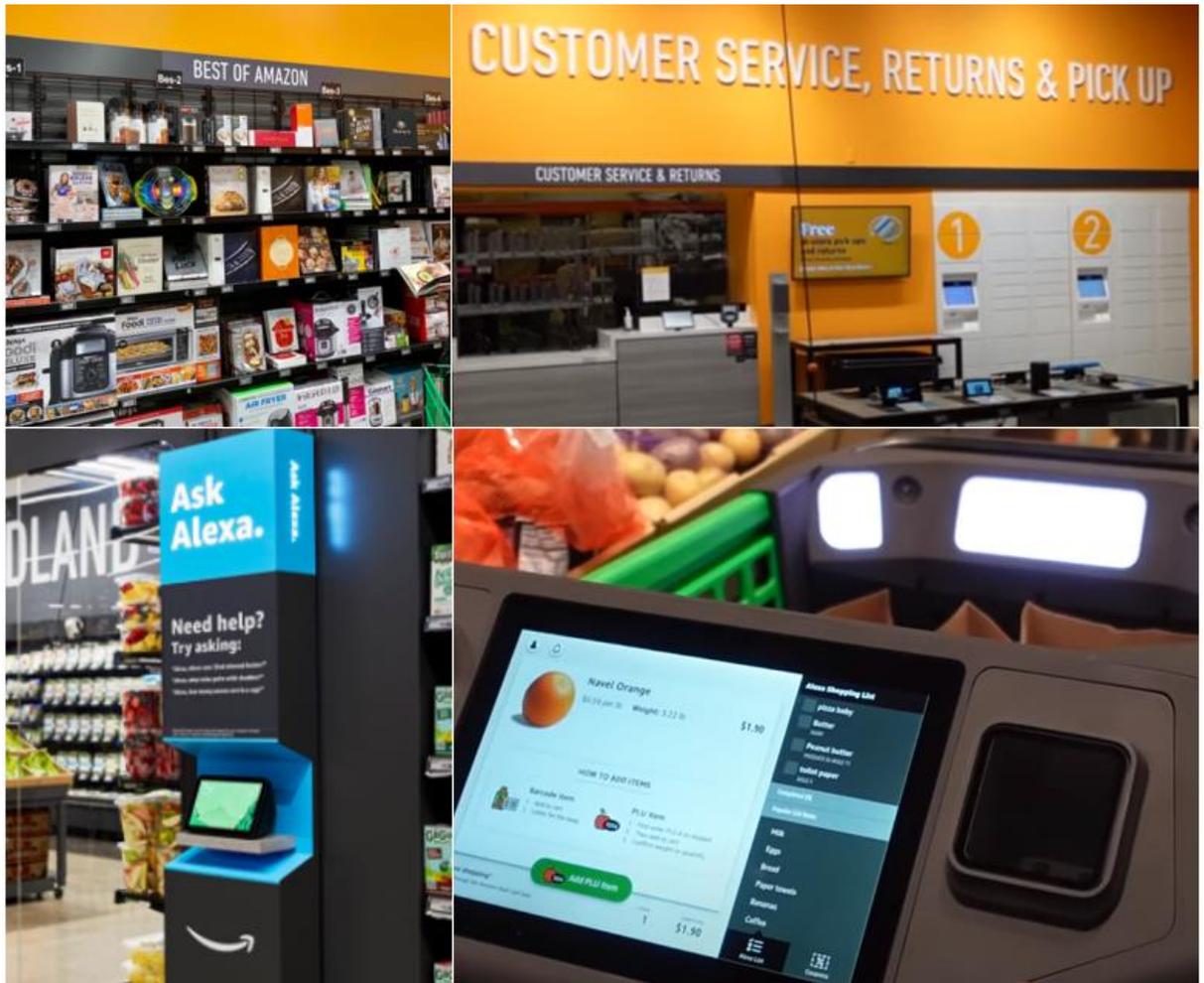


Figure 5¹⁰⁸

¹⁰⁶ Yellow Productions. (2020, October 23). Amazon's Newest & Biggest Grocery Store: Amazon Fresh Irvine. *Youtube*. Retrieved from <https://www.youtube.com/watch?v=tRmPGqnz7o>

¹⁰⁷ Walton, C. (2020, September 1). 4 Reasons Why Amazon Fresh Will Change Grocery Shopping Forever. *Forbes*. Retrieved from <https://www.forbes.com/sites/christopherwalton/2020/09/01/4-ways-amazon-fresh-will-change-grocery-shopping-forever/?sh=1dd9152a1bde>

¹⁰⁸ Yellow Productions. (2020, October 23). Amazon's Newest & Biggest Grocery Store: Amazon Fresh Irvine. *Youtube*. Retrieved from <https://www.youtube.com/watch?v=tRmPGqnz7o>

4. **Embrace Data:** The pace of change which will continue post-pandemic means real-time insights on consumers will be required and data becomes a fundamental tool in providing positive customer experience. Data such as heat maps can show shoppers click movements and highlight areas on the website which are impeding shopper experience.¹⁰⁹ Loyalty subscriptions can also be used to solidify omnichannel offerings, gather data and provide retailers with a holistic view of their customers.

5. **Agile Operations:** Walmart has implemented ‘fast unloaders’ which automatically scan and sort items coming off trucks for more efficient in-store stocking and automated grocery systems are estimated to pick and pack 10 times faster than humans with fewer errors.¹¹⁰ AI and automation while requiring considerable startup capital can significantly help profitability in the long term.¹¹¹

6. **Inventory Management:** Integral to good customer experience and managing costs, spread inventory across brick-and-mortar and DCs, sourcing products from multiple suppliers and better collaborate with partner suppliers to optimise real time inventory.

Predictions and Conclusion

The demise of brick-and-mortar isn't here however, there will be no turning back on ecommerce penetration- it's here to stay. Expert predictions expect ecommerce to represent 25% of total retail sales in Australia by 2025¹¹² and for grocery ecommerce, 18% CAGR is expected by 2025.¹¹³

¹⁰⁹ Vaananen, H. (2020, July 1). The Future of Retail isn't Physical vs Online, It's Omnichannel. *Forbes*. Retrieved from <https://www.forbes.com/sites/heikkivaananen/2020/07/01/the-future-of-retail-isnt-physical-vs-online-its-omnichannel/?sh=a583a9131f21>

¹¹⁰ Schedlbauer, M. (2020, October 6). The Future of Grocery is Omnichannel. *Supply Chain Brain*. Retriever <https://www.supplychainbrain.com/articles/32006-the-future-of-grocery-is-omnichannel>

¹¹¹ Schedlbauer, M. (2020, October 6). The Future of Grocery is Omnichannel. *Supply Chain Brain*. Retriever <https://www.supplychainbrain.com/articles/32006-the-future-of-grocery-is-omnichannel>

¹¹² Lloyd- Wallis, A. (2020, November 18). Will Aussie 'shoptimism' continue into 2021? *Smart Company*. Retrieved from <https://www.smartcompany.com.au/industries/retail/shoptimism-retail-trends/>

¹¹³ (2021, January). Confectionery Digital Category Excellence Report, January 2021. *Edge by Ascential*. Retrieved from Ascential Edge database.

This paper concludes the convenience and value offered through online and the fact consumers have been forced to overcome barriers such as absence of haptics during COVID mean businesses with no online or delivery capabilities will struggle. An omnichannel presence allowing brands and retailers to hijack the shopper journey across multiple touchpoints will be key to maximising growth.

Success today and in the future isn't offline or online. It's both.



Joe Berry Award 2021

Topic #3: Consumer Behaviour Changes and Digitisation

Q. What is your prediction for changes in consumer shopping behaviour towards online shopping, online share of the industry's sales and the ramifications across the industry from this change?

Entrant Number: JBA-21-088

Angela Powles

Simplot Australia



Contents

Foreword	45
Executive Summary	46
Introduction	46
Part 1: Changes in Consumer Behaviour towards Online Shopping	47
Consumer Behaviour Pre-COVID	47
The Points of Acceleration	48
Part 2: Call-To-Action for FMCG Manufacturers	50
Prediction for Online Share of Sales in Australia by 2025	50
Call-To-Action for FMCG Manufacturers	51
1: The One-Channel, One-Shelf Strategy	51
2: Route to Market	54
3: Empower the People	54
Conclusion	55

Foreword

Thanks to the pandemic I have a few new hobbies and some cool new toys: I learn French (on my phone), I shop (on my phone), I subscribe to an app that has a bunch of short art courses that I watch on my new iPad (and sometimes on my phone). Now when we watch Netflix, we no longer fight over the remote control, because even that is on our phones (Apple TV). I started writing this essay because of the pandemic, because it meant my maternity leave, despite caring for a newborn and doing all these activities on my phone, was pretty boring.... I was sick of my phone too. As I slowly went mad during a lockdown that never seemed to end, I pondered why I felt this way when I had so much to be grateful for, and deduced that humanity blossoms in the little everyday human interactions we normally take for granted. I quite literally spent hours fruitlessly, aimlessly, shopping for clothes online; only to give in and wait for stores to open; and I will never forget the joy of the smiles swapped behind masks with the woman standing at the entrance to Country Road, welcoming me back into the store for the first time after lockdown. I will also never forget how much easier it was to wander down the aisle at the supermarket - asking customer service for help, coming across surprising new finds and the simplicity of choosing an item from the shelves knowing all the choices were in front of me, rather than wading through pages of products on a website thinking "I wonder what I haven't seen"?

Executive Summary

It's not either online, or physical stores; it is both. The familiar omnichannel dynamic that has been gaining traction over the last ten-plus years as the steady paced digitisation of retail unfolded, every iteration attracting new shoppers as it did. In 2020 online sales in Australia literally doubled the sales of the last 5 years, representing 9.4% share of total retail and 60% of the record-breaking 6.2% growth in total retail for the year¹¹⁴. The agenda of this essay is to drive industry thinking beyond the concept of omnichannel, which divides thinking around the path to purchase into online and offline sales; into a one-channel and one-shelf¹¹⁵ mindset where digital and in-store are considered simultaneously by sales teams, marketers and supply chain as they drive their products into market and into the hands of consumers.

Introduction

This essay is in two parts. Part one addresses changes in consumer behaviour by summarising the factors influencing the adoption of, and deterrents from, shopping online, followed by the points of acceleration driven by COVID and why these predicted behaviour changes will be permanent. Part two will focus on my 2025 prediction for online share of sales and what an evolved consumer mindset means for the industry. Noting that Australia's major retailers are already executing robust one-shelf strategies, recommendations will be directed towards FMCG manufacturers to evolve their strategies to embed digital knowledge, understanding and capability within every part of their organisation.

¹¹⁴ <https://www.abs.gov.au/articles/online-sales-december-2020-supplementary-covid-19-analysis>

¹¹⁵ IRI & Edge by Ascential, How to Win The Digital Shelf In 2021, Thursday 11th February 2021, Virtual Event

Part 1: Changes in Consumer Behaviour towards Online Shopping

Consumer Behaviour Pre-COVID

Prior to COVID, consumers were driven towards online shopping for the convenience it offered; perceiving that it provided solutions to a range of "problems" they had with shopping in-store. Conversely, deterrents to online shopping were predominantly driven by fear. Table 1 presents these factors below:

Table 1: factors influencing consumer behaviour towards shopping online¹¹⁶¹¹⁷¹¹⁸¹¹⁹¹²⁰¹²¹¹²²

Driver	Factors encouraging adoption of shopping online	Factors preferencing shopping in-store
Time & convenience	Can't get to store during opening hours; able to receive deliveries at home	Need item before it can be delivered
Proximity & availability	Physical store too far, does not range or out-of-stock; can source products globally, unique product required	Physical store is convenient, can ask if something "out-the-back"
Pricing	Price check across many retailers quickly	Can request Price-Match
Payment	Requires credit card, debit card, etc	Able to pay cash
Personal Data Security	Trust your information is safe (or don't care)	Do not trust your information is safe
Lifestyle & accessibility	Prefer activities other than "shopping", unable to get to shops physically (disability)	Shopping is the lifestyle activity, physically able to get into store
Variety & choice	Larger product selection; limited by what is available/ visible online	Treasure Hunt, delight of finding hidden gems
Customer Service & product information	Satisfied with customer service; email, phone if provided, chat, chat bot, etc; or have previously experienced product elsewhere	Prefer in-person service, conversation, connection, personality, rapport
Changeroom & Tactility	24/7 changerroom; convenient returns, free returns	Touch, see, try-before-you-buy; refunds not offered, online refunds attract additional cost

¹¹⁶ <https://blog.smile.io/still-afraid-of-shopping-online/>

¹¹⁷ https://ripen.com/blog/ecommerce_survey

¹¹⁸ KPMG, The Truth About Online Consumers, 2017 Global Online Consumer Report

¹¹⁹ <https://www.efundamentals.com/how-to-develop-a-digital-commerce-strategy/>

¹²⁰ <https://insidefmcg.com.au/2021/02/26/five-fab-e-commerce-tips-to-ramp-up-your-digital-shopping-offer/>

¹²¹ <https://www.forbes.com/sites/ninaangelovska/2018/10/23/6-reasons-why-europeans-dont-shop-online/>

¹²² <https://www.adnews.com.au/opinion/new-ecommerce-habits-that-will-stick-beyond-covid-19>

Familiarity	Experienced with online shopping, able to do it again	Inexperienced, don't know how, information overload, overwhelmed
Technological Capability	Can search, navigate cart, pay, etc	Unable to/ not comfortable with technology, unable to solve issues
Technological Access	Have access to technology (mobile phone, laptop, tablet, internet)	Do not have access
Environmental	Issue of packaging does not outweigh benefit, e.g. boxes, bags, plastic satchels, protection; can shop with e-retailers who resolve concerns, e.g. fresh produce delivered in cardboard box	Sustainable packaging choices, e.g. re-useable bags, refuse unnecessary plastic coverings

The Points of Acceleration

The physical and psychological threat of COVID became the first point of acceleration of online shopping, with sales in April 2020 growing 68.5% YOY, as shown in Graph 1 below¹²³. Another was the panic buying phenomenon, which consumers attempted to circumnavigate by placing grocery orders online, forcing supermarkets to temporarily suspend delivery services¹²⁴. The stage 4 lockdown in Melbourne, limiting movement and closing all non-essential stores and services drove further acceleration with sales reaching \$3.1 billion/ +78.8% YOY in August 2020¹²⁵. Finally, forced work-from-home arrangements meant deliveries could be received throughout the day, enabling a larger cohort of shoppers to experiment with delivery of perishable items, including groceries and meal boxes of all kinds such as Hello Fresh¹²⁶ and Providoor¹²⁷

¹²³ <https://www.abs.gov.au/articles/online-sales-december-2020-supplementary-covid-19-analysis>

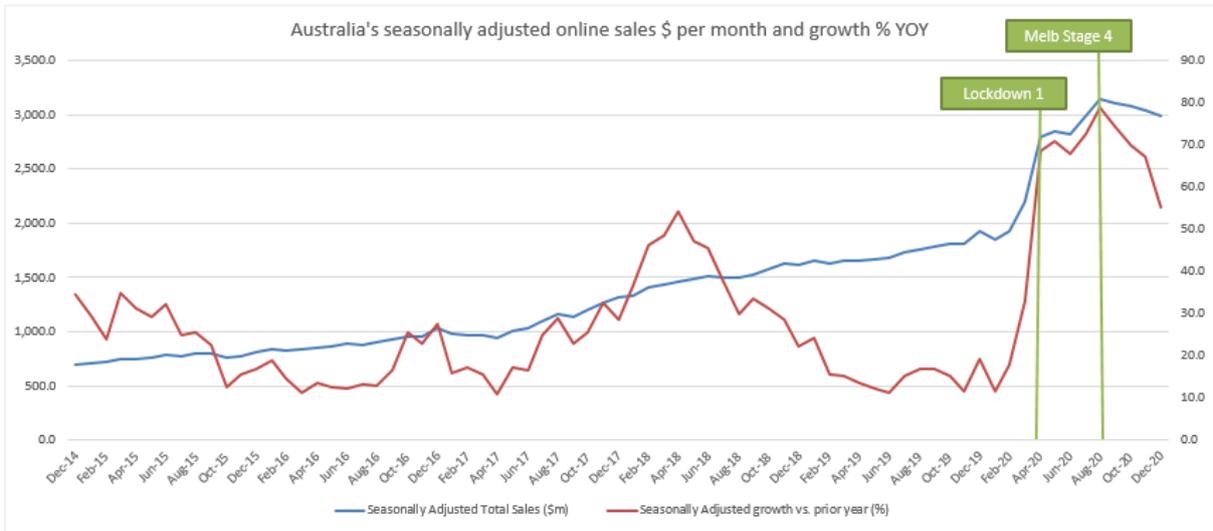
¹²⁴ <https://www.abc.net.au/news/2020-03-16/coronavirus-shopping-strips-supermarket-shelves-bare/12057924>

¹²⁵ <https://www.abs.gov.au/articles/online-sales-december-2020-supplementary-covid-19-analysis>

¹²⁶ <https://www.hellofresh.com.au/>

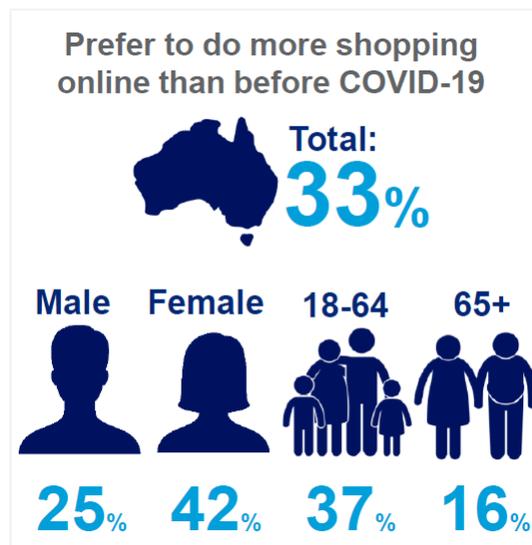
¹²⁷ <https://www.providoor.com.au/promo/howitworks>

Graph 1: Seasonally adjusted online sales \$ per month and growth % YOY¹²⁸



Referring back to Table 1, the sociological outcome was that consumers from all age groups (Image 1 below) overcame some of these barriers to entry, such as technological capability, tactility and familiarity. The financial outcome was that by the end of 2020, online sales were 9.4% of total retail sales, worth \$32 billion, having grown by \$12 billion YOY and representing 60% of the record breaking 6.2% total retail growth for the year¹²⁹.

Image 1: Growth in Online Shopping, by Demographic¹³⁰



¹²⁸ <https://www.abs.gov.au/articles/online-sales-december-2020-supplementary-covid-19-analysis>

¹²⁹ <https://www.abs.gov.au/articles/online-sales-december-2020-supplementary-covid-19-analysis>

¹³⁰ IRI & Edge by Ascential, How to Win The Digital Shelf In 2021, Thursday 11th February 2021, Virtual Event

Part 2: Call-To-Action for FMCG Manufacturers

Prediction for Online Share of Sales in Australia by 2025

This cumulated exposure to and experience with online shopping has resulted in a permanent change to consumer behaviour; with 33% of Australians preferring to do more shopping online than pre-COVID and 40% of Australians shopping online at least once a month¹³¹. Projecting forward through 2025; I predict ~15% of total retail sales will be generated from online sources as shown in Table 2 below, doubling from their 2020 finish to reach \$63 billion. To support this prediction by comparison, online share of sales in the US and UK are already ~15%, whilst in China share is 24%¹³² (Graph 2).

Table 2: Prediction for Online Share of Sales through 2025¹³³¹³⁴¹³⁵

Calendar Year	Total Online Sum of Seasonally Adjusted (\$m)	YOY Online Sales Growth %	YOY Online Sales Growth (\$m)	Total Retail Sales (\$m)	YOY Retail Sales Growth %	YOY Retail Sales Growth (\$m)	Online Share of Sales %	Online Share of Sales Growth (\$m)
2015	\$9,196			\$293,170			3.1%	
2016	\$10,741	116.8%	\$1,545	\$303,284	103.4%	\$10,113	3.5%	15.3%
2017	\$13,073	121.7%	\$2,332	\$311,360	102.7%	\$8,076	4.2%	28.9%
2018	\$17,969	137.4%	\$4,896	\$320,780	103.0%	\$9,420	5.6%	52.0%
2019	\$20,753	115.5%	\$2,784	\$329,569	102.7%	\$8,789	6.3%	31.7%
2020	\$32,749	157.8%	\$11,996	\$349,904	106.2%	\$20,335	9.4%	59.0%
2021	\$36,024	110.0%	\$3,275	\$358,652	102.5%	\$8,748	10.0%	37.4%
2022	\$40,347	112.0%	\$4,323	\$369,411	103.0%	\$10,760	10.9%	40.2%
2023	\$46,399	115.0%	\$6,052	\$381,971	103.4%	\$12,560	12.1%	48.2%
2024	\$54,286	117.0%	\$7,888	\$393,431	103.0%	\$11,459	13.8%	68.8%
2025	\$62,972	116.0%	\$8,686	\$407,201	103.5%	\$13,770	15.5%	63.1%

¹³¹ IRI & Edge by Ascential, How to Win The Digital Shelf In 2021, Thursday 11th February 2021, Virtual Event

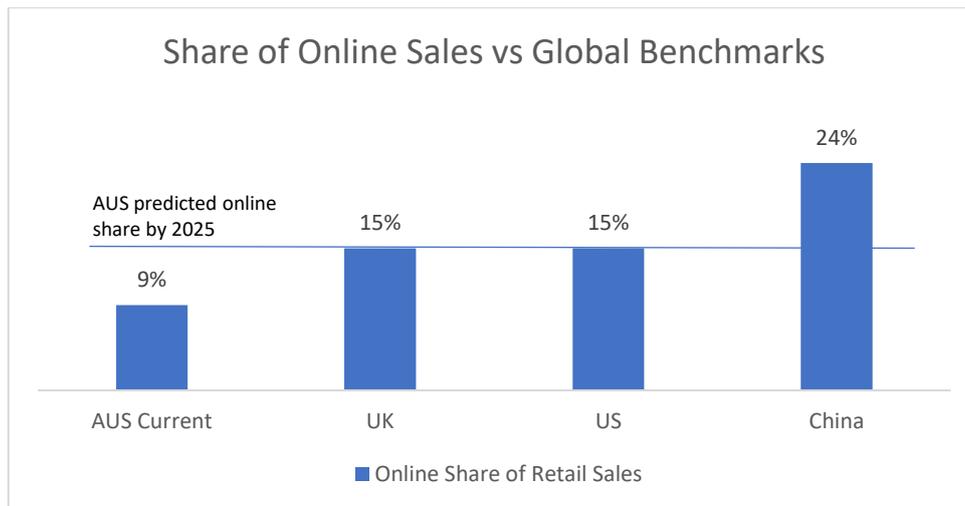
¹³² https://auspost.com.au/content/dam/auspost_corp/media/documents/2020-ecommerce-industry-report.pdf

¹³³ <https://www.abs.gov.au/statistics/industry/retail-and-wholesale-trade/retail-trade-australia/dec-2019>

¹³⁴ <https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/8501.0Dec%202018?OpenDocument>

¹³⁵ UBS, UBS Evidence Lab inside: Is online a threat or opportunity for incumbent retailers? 19th January 2021

Graph 2: Share of Online Sales vs Global Benchmarks¹³⁶



Call-To-Action for FMCG Manufacturers

By 2025, ~2 months of every annual budget cycle will be sold online. Australia's major retailers have taken significant steps in forging successful and competitive paths towards this future; Coles partnership with Ocado¹³⁷, Wesfarmers acquisition of Catch Group¹³⁸, Woolworths Partnership with Takeoff Technologies¹³⁹ and Metcash's partnership with Doordash¹⁴⁰. So, what are the strategic and behavioural changes FMCG Manufacturers need to make to keep pace?

1: The One-Channel, One-Shelf¹⁴¹ Strategy

Customers are shopping all the time and everywhere¹⁴² which means retailers, product owners and brand owners need to know when and where potential customers make their purchase decisions¹⁴³. To respond to this always-on shopping experience, FMCG manufacturers need one-channel and one-shelf brand and category management

¹³⁶ https://auspost.com.au/content/dam/auspost_corp/media/documents/2020-ecommerce-industry-report.pdf

¹³⁷ <https://www.colesgroup.com.au/media-releases/?page=coles-enters-partnership-with-ocado>

¹³⁸ <https://www.wesfarmers.com.au/util/news-media/article/2019/08/12/completion-of-acquisition-of-catch-group-holdings-limited>

¹³⁹ https://www.woolworthsgroup.com.au/page/media/Latest_News/woolworths-group-partners-with-takeoff-technologies-to-enhance-customers-online-shopping-experience

¹⁴⁰ https://insidefmkg.com.au/2021/02/25/iga-teams-with-doordash-in-grocery-delivery/?utm_source=fmkg-newsbrief&utm_medium=email&utm_campaign=2021-02-25#daily

¹⁴¹ IRI & Edge by Ascential, How to Win The Digital Shelf In 2021, Thursday 11th February 2021, Virtual Event

¹⁴² KPMG, The Truth About Online Consumers, 2017 Global Online Consumer Report

¹⁴³ KPMG, The Truth About Online Consumers, 2017 Global Online Consumer Report, p2

strategies that capture potential customers and provide solutions at every touchpoint on the path to purchase¹⁴⁴.

Brand Management

Digitisation has created new ways for brands to reach consumers, with the one-channel goal being to create a brand that is instantly familiar and recognisable from online to in-store¹⁴⁵. Marketing strategies need to be laser focussed on the target audience, communicating seamlessly across on-and-offline environments by reaching them at every touchpoint. They must allocate investment to experiment with affordable content creation and distribution using on-trend types of media, production styles, videos, gifs, recipes and images. For example, take inspiration from how small-businesses with limited budgets affordably reach and resonate with existing and potential customers, such as this Instagram reel from Health-and-Performance Collective¹⁴⁶. Consider digital platforms¹⁴⁷; websites, blogs, newsletters, social media, Pinterest, Youtube, Podcasts, Tik Tok; and develop a strategy for sharing content and engaging with audiences online. Acknowledging the fears, risks and costs this can involve, particularly with social media; it is important to consider the future impact to brand presence in a digital world, if the brand doesn't interact with the audience.

Category Management

Range, space, visibility and price (RSVP) category management principles need to be adapted with metrics that consider the appearance and placement of every SKU online, as well as in-store. This will help transition thinking from being broad and inconclusive; "what's the digital strategy?" to more specific and actionable; "when my customers interact with this product online, how do we inspire them to convert to purchase?". Table 3 below presents some metrics to consider to embed a one-shelf mindset within traditional RSVP principles:

¹⁴⁴ <https://www.efundamentals.com/5-ways-for-category-managers-to-grow-sales-online-in-2020-2/>

¹⁴⁵ <https://www.efundamentals.com/how-to-develop-a-digital-commerce-strategy/>

¹⁴⁶ <https://www.instagram.com/reel/CLTag8eDdRs/?igshid=uzrd6xtlz2ny>

¹⁴⁷ <https://www.thebalancesmb.com/low-cost-marketing-ideas-2948325>

Table 3: RSVP Principles adapted to include Digital Metrics¹⁴⁸¹⁴⁹¹⁵⁰

Principle	Traditional Metrics	One-Shelf Metrics
Range	<ul style="list-style-type: none"> • Right range, distribution % in retailer 	<ul style="list-style-type: none"> • Products cognisant of delivery e.g. own trucks, Aus-Post • The range shown with location settings turned on
Space	<ul style="list-style-type: none"> • Share of Shelf % of linear space • Facings per product • Location on shelf; brand, promo group adjacencies 	<ul style="list-style-type: none"> • Share of online visibility • Ranking on page, understand the algorithms retailer uses to rank products • Size of listing, e.g. product image • Product adjacencies on webpage
Visibility	<ul style="list-style-type: none"> • Product packaging, shelf-ready shippers, in-store promotional media • Off-locations • Catalogue • No out-of-stocks 	<ul style="list-style-type: none"> • Taxonomy; product name searchability, retailer category location • Links from brand website, social media, blogs, recipes, etc through to retailer website to purchase • Share of online search • Digital point-of-sale collateral including product description, supplementary information (e.g. product heritage), tag words (e.g. vegan) • Digital “off-locations”; catalogue, paid search, keywords, banners
Price	<ul style="list-style-type: none"> • Fixed on-shelf static or dynamic pricing • Retailer-specific pricing e.g. every-day and hi-lo 	<ul style="list-style-type: none"> • Build on in-store pricing with mechanics to drive basket size, e.g. Multi-Buy, capitalise on free delivery offers for minimum purchases

One-channel, one-shelf category and brand management require lateral thinking, recognising the customer, rather than the location, is at the centre of the path to purchase. Experimenting with content creation, and evolving RSVP principles, FMCG manufacturers can execute successful strategies and keep pace with retailers.

¹⁴⁸ <https://www.ascentiaedge.com/blog/new-online-category-management-approach>

¹⁴⁹ <https://www.efundamentals.com/5-ways-for-category-managers-to-grow-sales-online-in-2020-2/>

¹⁵⁰ IRI & Edge by Ascential, How to Win The Digital Shelf In 2021, Thursday 11th February 2021, Virtual Event

2: Route to Market

Digitisation has created new pathways for FMCG Manufacturers to directly interact with, and sell to, consumers¹⁵¹. For small, agile companies with limited ranges and volumes, direct-to-consumer (D2C) provides a cost-effective way to reach customers, especially in the budding stages of a new business venture. For large manufacturers where the economies of scale are incomparable to selling through a national retailer¹⁵², D2C is an opportunity to connect with customers directly. For example, D2C provides an opportunity for data collection¹⁵³, and an avenue to test and learn new products and concepts¹⁵⁴, leading to evidence based new line ranging in retailers. Similarly, D2C can assist with identifying product faults for correction before they are launched; saving manufacturers significant financial investment in commercial production and launch activation plans; just for the range to sell below forecast and be delisted anyway. Examples of D2C models being explored include Heinz-to-Home¹⁵⁵, PepsiCo's PantryShop.com¹⁵⁶ and KitKats Create Your Break¹⁵⁷.

3: Empower the People

The responsibility of digital awareness, knowledge and technical capability is not just the role of a single person or department, but a minimum skill requirement of every member of staff across your business. That said, it is prudent to recognise that the pace of digital change has been so fast that a digital knowledge vacuum opened in its wake. The answer is not to assume everyone should teach themselves, or that staff should just 'get-it', but to address this knowledge gap with consistent, ongoing and role-relevant training, just as you would negotiation skills for a sales team, or learning the fundamentals of Microsoft office.

Embedding digitisation within your business will create a culture of learning and development; where staff are cognisant of what they need to know and empowered with ways to learn it. These behaviours will also create a positive cycle of learning,

¹⁵¹ <https://marketingtechnews.net/news/2019/apr/03/fmcg-goes-direct-consumer-dont-expect-tony-tiger-facebook-page-any-time-soon/>

¹⁵² <https://hbr.org/2020/03/reinventing-the-direct-to-consumer-business-model>

¹⁵³ <https://insidefmcg.com.au/2021/02/22/dtc-market-to-hit-us20bn-this-year-as-fmcg-giants-test-consumer-tastes/>

¹⁵⁴ <https://insidefmcg.com.au/2020/08/25/survival-strategies-in-a-digital-world/>

¹⁵⁵ <https://heinztohome.com.au/collections/bundles>

¹⁵⁶ <https://www.pantryshop.com/>

¹⁵⁷ <https://www.kitkat.com.au/create-your-break/>

leading to organic digital on-the-job training and knowledge sharing amongst teams. The timing of Woolworths announcement¹⁵⁸ to spend \$50 million on upskilling staff in digital, AI and robotics; and to share that knowledge across the industry is uncanny and on point. Empowering your people is another step on the path to digital success.

Conclusion

The global pandemic has changed consumer behaviour. The moment of transaction (in-store or online) is no longer the clear moment a purchase decision is made. Australia's retailers are already preparing for a future where >15% of sales come from online; investing heavily in strategies and technology to remain competitive in that market. As FMCG manufacturers, it is time to evolve your strategy so that digitisation is no longer a buzz word. Move past omnichannel, where online and offline are separate parts of the same strategy, and into one-channel and one-shelf. Evolve brand and category management principles to put the customer at the centre; reaching them at every touchpoint on their path to purchase. Experiment with routes to market, to embed the challenger mindset in your business, connect directly with your customers and test and learn new product innovation. Finally, embed digital literacy and learning within every team member in the business. Do this to create a business that is flexible and agile enough to keep pace with the retailers; and that can adapt to whatever change the next seismic shift in global economics may require.

¹⁵⁸ <https://insidefmcg.com.au/2021/02/08/woolworths-investing-50-million-into-upskilling-workforce/>



Joe Berry Award 2021

Topic 4: The Evolution of Work in the Supply Chain

Q. What innovations and AI investments do you see shaping the “new” retail industry and what is your forecast for new roles over the next five years?

Entrant Number: JBA-21-200

Nathan Thompson

Aldi Stores



Table of Contents

1	Executive Summary	58
2	Introduction	59
3	Insight	60
3.1	The external pressures	60
3.2	Headwinds, risks and impacts to balance sheets	61
3.3	ESG Strategy consistency	63
4	Recommendations	64
4.1	Strategy Innovation	64
1.1.1	Goal Setting	65
1.1.2	Strategy restructure	66
4.2	AI, data and people innovation - the path to net zero	68
4.2.1	AI, IoT and data within the supply chain	69
4.2.2	AI & IoT within stores	70
4.2.3	Blockchain technology	71
4.3	Optimised last mile to reduce impact of delivery and waste	72
4.4	Roles, automation, where do the humans fit?	74
5	Conclusion	77

1 Executive Summary

This essay investigates the Environmental, Social and Governance (ESG) headwinds affecting retail over the next 5-10 years.

The research establishes the potential impacts to retailers' financial performance caused by changes in climate, government regulation, investor relations and changing consumer preferences.

Embracing AI, automation and IoT, will be key to developing new technological solutions for retailers to deliver sustainable business models into the future.

Organisations that fail to adequately prepare for ESG threats will face significant financial, social and regulatory pressures as well as loss of sales through an inability to service customer needs effectively.

It is recommended that retail boards consider:

1. Restructuring ESG strategy to become the filter across all strategic initiatives,
2. Implement consistency in ESG strategy embedding UN Sustainable Development Goals
3. Automate data capture throughout the supply chain with innovations in AI and IoT to measure Scope 1 and 2 emissions impacts in real-time,
4. Optimize the last mile through partnerships, hubs and autonomous transport to reduce movement and packaging waste,
5. Develop greater levels of digital literacy within workforces to prepare them for increasing digital disruption.

2 Introduction

The sleeping Environmental, Social and Governance (ESG) giant is a looming threat for retail.

“\$4 trillion worth of assets will be at risk from changes to the Earth's weather by 2030”¹⁵⁹. Pressure from rising costs within supply chains, government, investor and consumer expectations will force retailers to take action to protect their balance sheets.

With “85% of Millennials and Gen Z considering environmental protection ‘extremely important’”¹⁶⁰ and by 2030 accounting up to two thirds of the workplace demographics¹⁶¹, their voices and ultimately wallets will be key to growth.

Retailers must urgently centralise their ESG strategic initiatives into their core business models to mitigate risks and deliver meaningful change to meet the demand of their future customers and employees¹⁶².

This essay aims to focus on:

1. Why embedding ESG strategy into the fabric of retailers’ core strategy will mitigate risk delivering a more profitable financial returns.
2. Areas of innovation required within the supply chain; how technology will solve efficiency, measurement and reporting future environmental and social headwinds.
3. How roles within retailers will change with increased automation and digital rationalisation.

¹⁵⁹ <https://www.cdp.net/en/companies>, <https://www.retaildive.com/news/clouds-on-the-horizon-what-climate-change-means-for-retail/552791/>

¹⁶⁰ <https://www.cbre.com.au/research-reports/30-predictions-for-2030>

¹⁶¹ <https://cushmanwakefield.com.au/en/how-demographic-shifts-will-impact-global-workplace-2030>, <https://www.linkedin.com/pulse/millennials-75-workforce-2025-ever-anita-lettink>

¹⁶² <https://www.forbes.com/sites/royerez/2019/10/01/sustainability-in-retail-good-for-business-great-for-humanity/?sh=306671076dec>

3 Insight

3.1 The external pressures

Shareholders, customers, employees and governments are getting serious about sustainability¹⁶³. “By 2018 half of global asset owners are currently implementing or evaluating ESG considerations in their investment strategy⁵”.

The macro-environmental factors affecting retail supply chains:

Figure 1 - PESTLE Analysis of ESG effects on retailers supply chains

Political	Economic	Social	Technological	Legal	Environmental
<ul style="list-style-type: none"> • Environmental and social and energy policies are a priority of government policy agenda • Policy reform on climate and social regulation deeply impacts supply chain structure and resources • International climate agreements and trading relationships have long-term change impacts to global supply chain 	<ul style="list-style-type: none"> • Significant Global market uncertainty and disruption to supply chains • Cost price uncertainty in raw materials, output, labour and transport supply lines • Significant market fluctuations due to COVID-19 pandemic affecting supply & demand cycles • ESG investing on the rise with shifting priorities linked to company valuations 	<ul style="list-style-type: none"> • Public and media sentiment shift to environmental and social focused causes • Sustainability focuses lifestyle changes driving demand for flexibility, health consciousness, waste reduction, compact living and rent/subscribe vs buy • Rise in activism and accountability • Increasing Millennial and Gen Z workforce and consuming demographics. These generations have heightened focus on ESG 	<ul style="list-style-type: none"> • Advancing internet and analysis technologies opening new opportunities to greater efficiency and measurement. • AI, ML, IOT, Blockchain, 5G • Greater capacity for renewable energy to offset current climate impacts • Digital platforms and interaction with AI accepted into the mainstream public with daily use 	<ul style="list-style-type: none"> • Increasing legal scrutiny and accountability through expanding regulation and compliance • Media accountability driving legal exposure risks • Anti-trust • International law and foreign regulation with imposed tariffs and embargos 	<ul style="list-style-type: none"> • Climate related impacts through extreme weather events linked to raw materials, production, human displacement & migration issues • Increased transparency & reporting of impacts and contamination • Scope 2 & 3 emissions reporting and compliance headwinds

Insights:

- Greater oversight, expectation and accountability will affect retailers through political, economic, social and environmental pressures
- Social activism and brand boycotts over social issues increasing, especially amongst millennials and Gen Z
- Climate change is changing of global supply chains directly through weather events, government regulation or rising costs of materials

¹⁶³ <https://hbr.org/2019/05/the-investor-revolution>

- Advancements in internet-connected technology will be key to automating data, providing real time data acting as lead measures and potentially deliver better platforms for transparency.
- Administrative and processing roles will be increasingly disrupted by technology

3.2 Headwinds, risks and impacts to balance sheets

Throughout 2020, there was an explosion of net-zero commitments from companies around the world¹⁶⁴. With ESG-oriented investing up 68% since 2014 valued at \$30 trillion and rising¹⁶⁵, investors are becoming increasingly aware of how “ESG factors directly impact long-term profitability”¹⁶⁶.

Environmental, Social, and Governance (ESG) Criteria⁹

- Environmental, social, and governance (ESG) criteria are a set of standards for a company’s operations that socially conscious investors use to screen potential investments.

¹⁶⁴ <https://www.unpri.org/pri-blogs/seven-major-companies-that-committed-to-net-zero-emissions-in-2020/6909.article>

¹⁶⁵

<https://www.mckinsey.com/~media/McKinsey/Business%20Functions/Strategy%20and%20Corporate%20Finance/Our%20Insights/Five%20ways%20that%20ESG%20creates%20value/Five-ways-that-ESG-creates-value.pdf>

¹⁶⁶ <https://hbr.org/2020/09/the-boards-role-in-sustainability>

Figure 2 - S&P Global Ratings used for ESG Valuations¹⁶⁷

Profile Factors

Environmental



Greenhouse Gas Emissions



Waste & Pollution



Water Use



Land Use

Social



Workforce & Diversity



Safety Management



Customer Engagement



Communities

Governance



Structure & Oversight



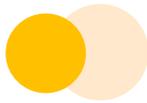
Code & Values



Transparency & Reporting



Cyber Risk & Systems



Key ESG Investment Trends

1. A shift from pure exclusionary investment strategies towards integrated strategies
2. The use of multiple data sources to power ESG strategies
3. More targeted measurement of ESG strategies against desired objectives
4. A move towards climate solutions or adaptation, as well as mitigation
5. A drive for greater diversity and talent in ESG teams

¹⁶⁷ <https://www.spglobal.com/en/research-insights/featured/esg-going-beyond-the-balance-sheet>

¹⁶⁸ <https://www.spglobal.com/en/research-insights/featured/esg-going-beyond-the-balance-sheet>

From immediate physical climate risks caused by natural disasters, to longer-term changes in external market pressure i.e. consumer sentiment, governmental policy, market impacts and technology disruption, boards are facing increasing financial exposure to ESG related headwinds.

Retailer's income statements and balance sheets will be under pressure with 51% of listed companies valuations linked to revenue from expected growth¹⁶⁹.

Increasing competition within the retail market will see ESG strategy used as a tactic to drive competitive advantage through stronger value creation. Primary areas of benefit include top line growth, cost reductions, productivity improvements, enhanced investment and asset utilisation returns¹⁷⁰.

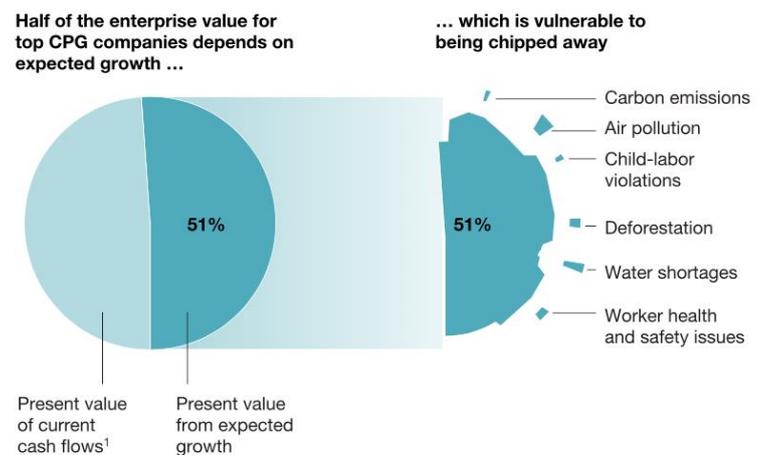
With consumers, especially Millennials and Gen Z seeking brands that act in a responsible and sustainable way, retailers are facing the prospect of diminishing value propositions, rising cost and negative impact to growth driven by shifts in consumer preference if they fail to act.

3.3 ESG Strategy consistency

The UN Sustainable Development Goals (SDG) is a global partnership adopted in 2015 by all UN member states as universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030¹⁷¹.

Sustainability factors could alter the growth projections for consumer-packaged-goods companies, seriously affecting their total returns to shareholders.

Average for top 50 publicly traded consumer-packaged-goods (CPG) companies



Source: McKinsey¹¹

¹⁶⁹ <https://www.mckinsey.com/business-functions/sustainability/our-insights/starting-at-the-source-sustainability-in-supply-chains#>

¹⁷⁰ <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/five-ways-that-esg-creates-value>

¹⁷¹

<https://sdgs.un.org/goals#:~:text=The%202030%20Agenda%20for%20Sustainable,now%20and%20into%20the%20future.&text=In%202013%2C%20the%20General%20Assembly,a%20proposal%20on%20the%20SDGs.>

Interviews¹⁷² conducted with some of the top companies and retailers in Australia revealed many CSR teams were aware of the SDG goals however did not align or communicate their specific corporate strategies with these goals.

Primary reasons for this lack of alignment¹³ :



4 Recommendations

How ESG focused strategy, combined with innovations in technology shape the “new retail” and the shift to roles over the next 5 years?

4.1 Strategy Innovation

¹⁷² University of Sydney Business School MBA consulting project focusing on AI improvements to discovering and reporting carbon emissions in retail supply chains. (I was a member of the consulting team).

Goal Setting

If ESG strategy becomes a filter across all elements of an organisation strategy, to significant benefits will be realised mitigating future **headwinds**. Aligned strategy to a global effort like the UN Sustainable Development Goals will enable companies to make measured impacts. Companies like Unilever have been leaders in this form of strategic thinking¹⁷³; clearly linking company strategy to SDG's is delivering more sustainable product and supply chain. Unilever believes, "the only business model for Unilever is one in which the planet and society thrive"¹⁷.

Figure 3 - UN Sustainable Development Goals¹⁷⁴



¹⁷³ <https://www.unilever.com/sustainable-living/our-strategy/>

¹⁷⁴ <https://sdgs.un.org/goals>

Figure 4 - Example Unilever embedded SDG Strategy¹⁷⁵



“Unilever identified 28 brands dubbed “Sustainable Living Brands”. These brands are collectively growing 60% faster than Unilever’s total portfolio”¹⁸.

- It is recommended that boards reassess the framework they use for ESG initiatives to deliver consistency in approach, measurement and clarity with key stakeholders ie. Government, investors, partners and customers

Strategy restructure

There are clear links between climate and social risk and financial risk to organisations profitability²¹. A more sustainability-focused strategy will focus boards to develop ESG focused strategy mitigate future risk whilst realising developing new market opportunities.

¹⁷⁵ <https://www.unilever.com/sustainable-living/our-strategy/un-sustainable-development-goals>

¹⁷⁶ <https://www.edie.net/news/7/Purpose-and-profit--Unilever-on-how-to-benefits-across-the-triple-bottom-line/>

Figure 5 - Climate-Related Risks, Opportunities and Financial Impact¹⁷⁷

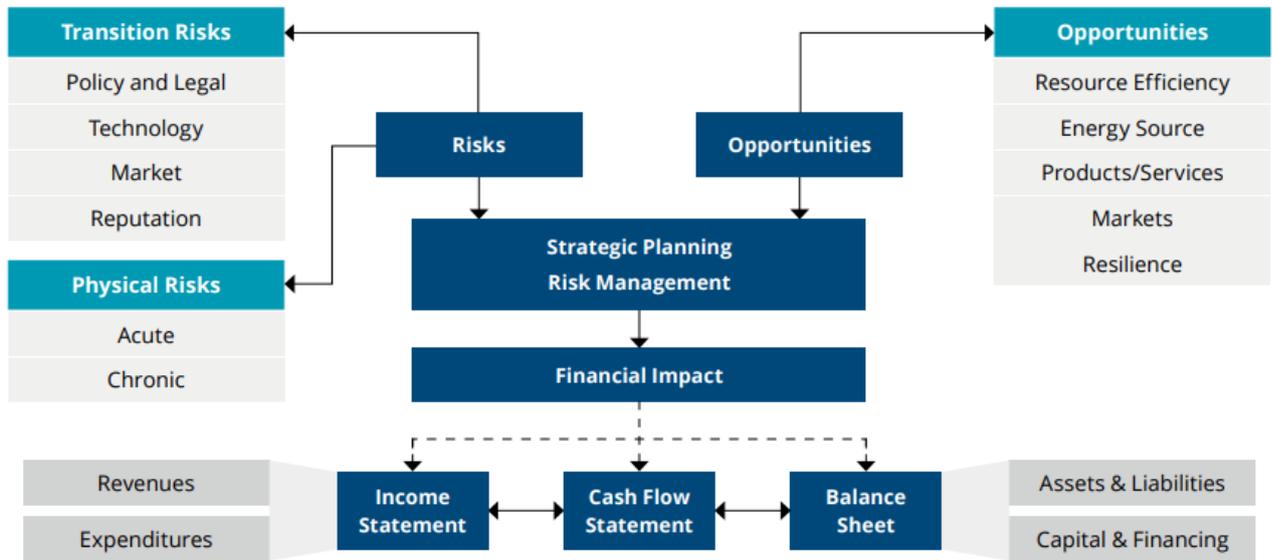
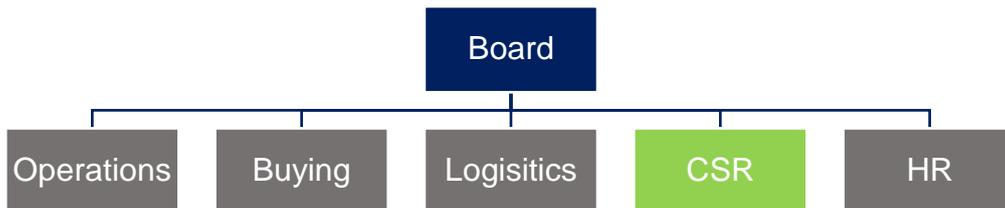


Figure 6 - Current Organisational Strategy Structure

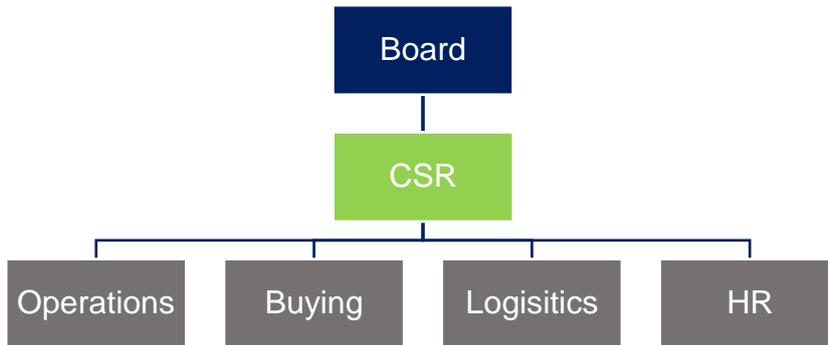


“Strategic CSR moves beyond good corporate citizenship”¹⁷⁸. Strategic CSR links directly to the core of the organisational strategy creating distinct opportunity for value creation and new unique competitive advantages²².

¹⁷⁷ <https://assets.bbhub.io/company/sites/60/2020/10/FINAL-TCFD-Annex-Amended-121517.pdf>

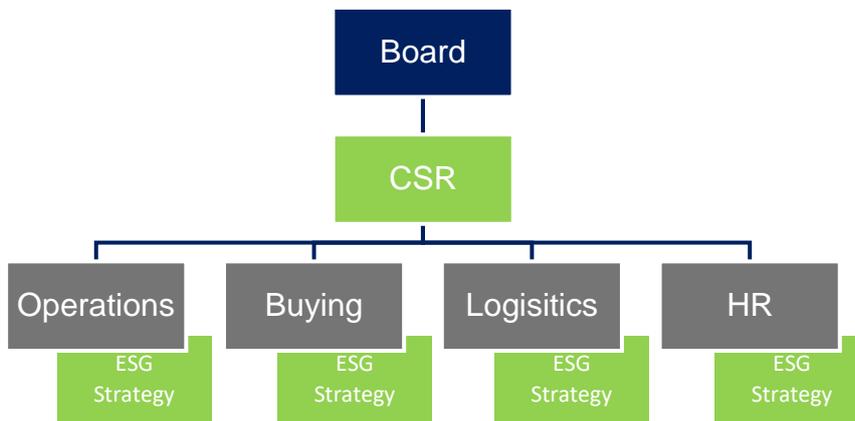
¹⁷⁸ HBR Strategy & Society by Porter & Kramer 2006. <https://hbr.org/2006/12/strategy-and-society-the-link-between-competitive-advantage-and-corporate-social-responsibility>

Figure 7 - Proposed Organisational Strategy Structure



The evolution of CSR departments to become more decentralised and embedded throughout organisational teams will transition strategy from the “CSR team” to become tightly integrated throughout all strategic initiatives. This will deliver increased alignment of strategic resource, finance and customer engagement activities leading to creating distinct value for organisations.

Figure 8 - Embedding ESG Strategy into department strategy



4.2 AI, data and people innovation - the path to net zero

4.2.1 AI, IoT and data within the supply chain

The fragmented data (or lack of) across the supply chain makes current improvements to the supply chain onerous and expensive (often requiring specialised consultants) ¹⁷⁹.

- Artificial Intelligence (AI) and Machine Learning (ML) will identify gaps between retailers and their supply chain data. These technologies will employ unbiased algorithms to provide actionable insights to all stakeholders in the supply chain¹⁸⁰.
- The economic impact of IoT (Internet of Things)¹⁸¹ in retail by 2025 will amount to \$1.2 trillion through “reduced inventory errors, optimised supply chain management, and decrease labour costs”¹⁸².
- Innovations in IoT installed throughout the sourcing and process manufacturing will measure detailed insight in areas of environmental impact, materials, manufacturing methods, social auditing and other governance indicators to provide real-time insight to retailers about areas of their supply chain¹⁸³.
- Data collection within retail supply chains will become more automated and less reliant on manual collection and input. Examples like Envirosuite²³ are delivering automated low power IoT to gather real-time data of supply chains.

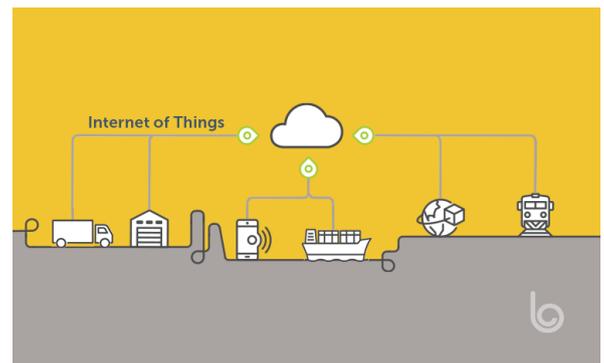


Figure 9 - Cloud connected IoT delivering real-time data

¹⁷⁹ <https://www.weforum.org/reports/net-zero-challenge-the-supply-chain-opportunity>

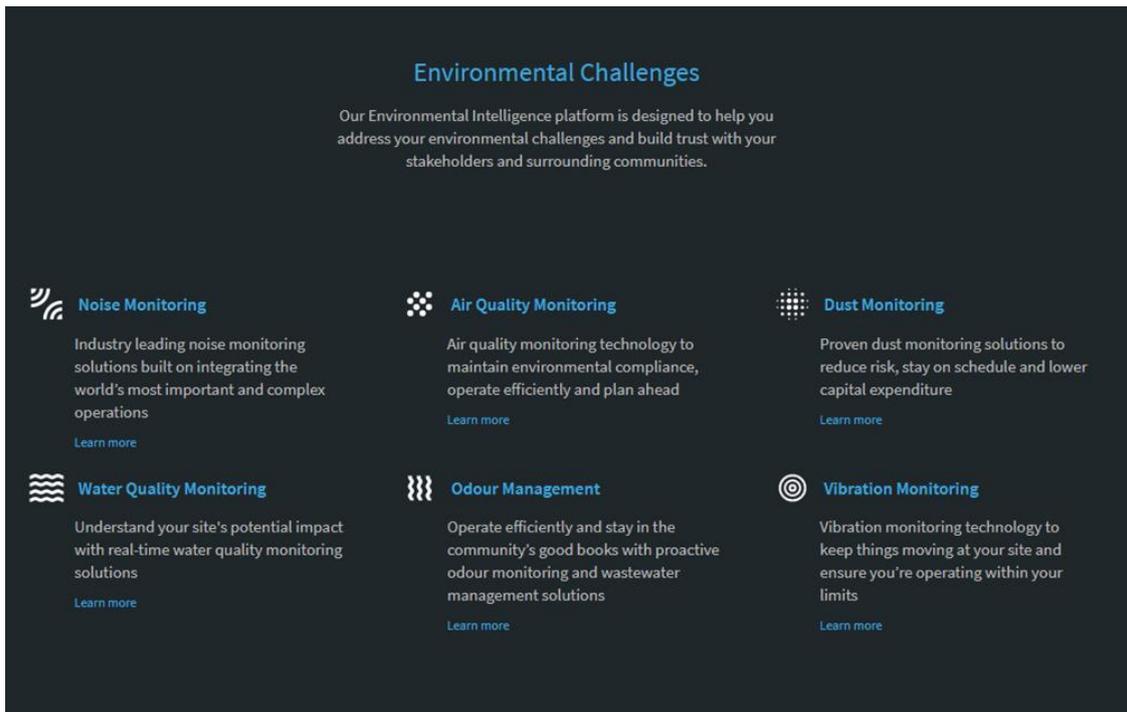
¹⁸⁰ Providing integrity in the programing

¹⁸¹ <https://www.blumeglobal.com/learning/internet-of-things>

¹⁸² <https://blog.hubspot.com/marketing/iot-retail>

¹⁸³ Companies like Envirosuite are leading development on these technologies. <https://envirosuite.com/>

Figure 10 - Example of IoT supply chain monitoring capabilities - Envirosuite¹⁸⁴



As more companies begin to make pledges towards Net-zero targets¹⁸⁵ understanding the depth and impact of retailers Scope 2 and 3 emission impacts will be key in achieving this.

4.2.2 AI & IoT within stores

IoT within physical retail is increasing present. AI camera technology Everseen¹⁸⁶ has been used in Walmart to monitor stock movement, theft and freshness within stores¹⁸⁷. Woolworths is currently exploring AI benefits with robot AI technology to solve inventory and safety issues within stores. This technology drives greater long-term profitability through greater efficiency with human resources, solve inventory availability issues and reduce waste of fresh product.

Real-time location based recommendations will drive digital interaction in-store directly to customers' devices. Recommendations could assist customers with

¹⁸⁴ <https://envirosuite.com/>

¹⁸⁵ <https://www.eco-business.com/news/200-of-worlds-largest-corporations-commit-to-net-zero-emissions-by-2050-reverse-biodiversity-loss-and-fight-inequality/>

¹⁸⁶ <https://everseen.com>

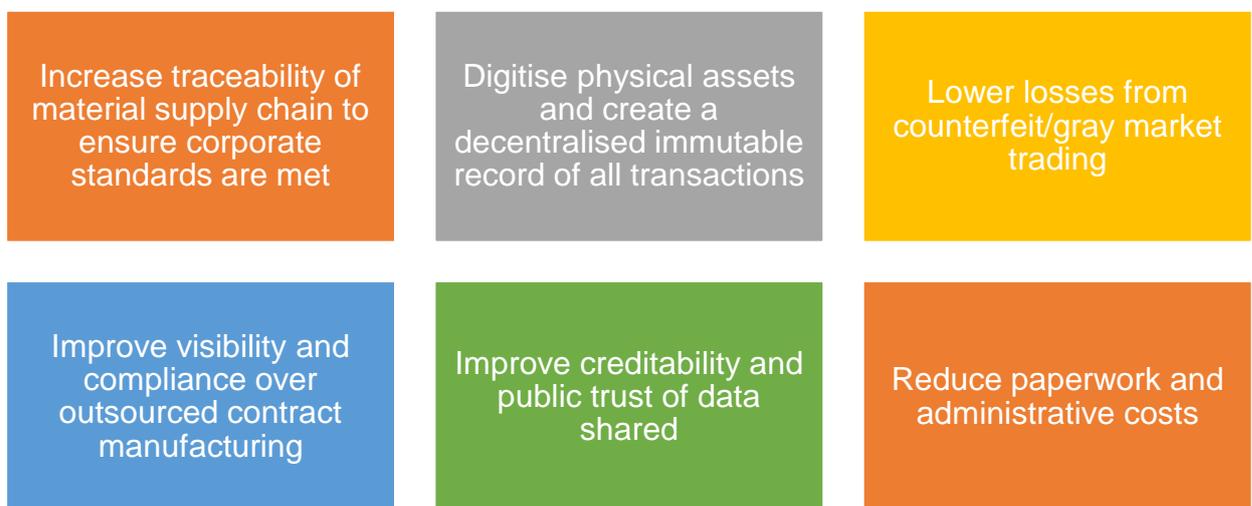
¹⁸⁷ <https://www.forbes.com/sites/walterloeb/2019/04/29/walmart-unveils-a-new-lab-store-for-the-future/?sh=26dde439504f>

extended product information, provide supply chain transparency or analysis of your basket to recommend meal suggestions, maximising the food portions. These uses of AI could significantly reduce food waste currently costing the economy \$20 billion per year accounting for 5% of Australia’s greenhouse gas emissions¹⁸⁸.

4.2.3 Blockchain technology

“Blockchain can enable more transparent and accurate end-to-end tracking in the supply chain”¹⁸⁹ providing greater transparency to retailers supply chains.

Figure 11 - Benefits of Blockchain to supply chains



Uses of blockchain are still developing, however, it is the transparency benefits that will deliver the greatest benefits to retail. Walmart as an example partnered with IBM to create food traceability systems based on an open-source ledger technology Hyperledger Fabric¹⁹⁰. This has created an end-to-end view of the supply chain where “each node on the Blockchain represents an entity that has handled the food on the way to the store, making it a lot easier and faster to see if one of the farms has sold an infected batch to a specific location”²⁹.

This type of innovation has endless uses that will be key in establishing trust, accountability and transparency to improve supply chains and mitigate risk.

¹⁸⁸ <https://www.environment.gov.au/protection/waste/food-waste>

¹⁸⁹ <https://www2.deloitte.com/us/en/pages/operations/articles/blockchain-supply-chain-innovation.html>

¹⁹⁰ <https://theleadershipnetwork.com/article/how-walmart-used-blockchain-to-increase-supply-chain-transparency>

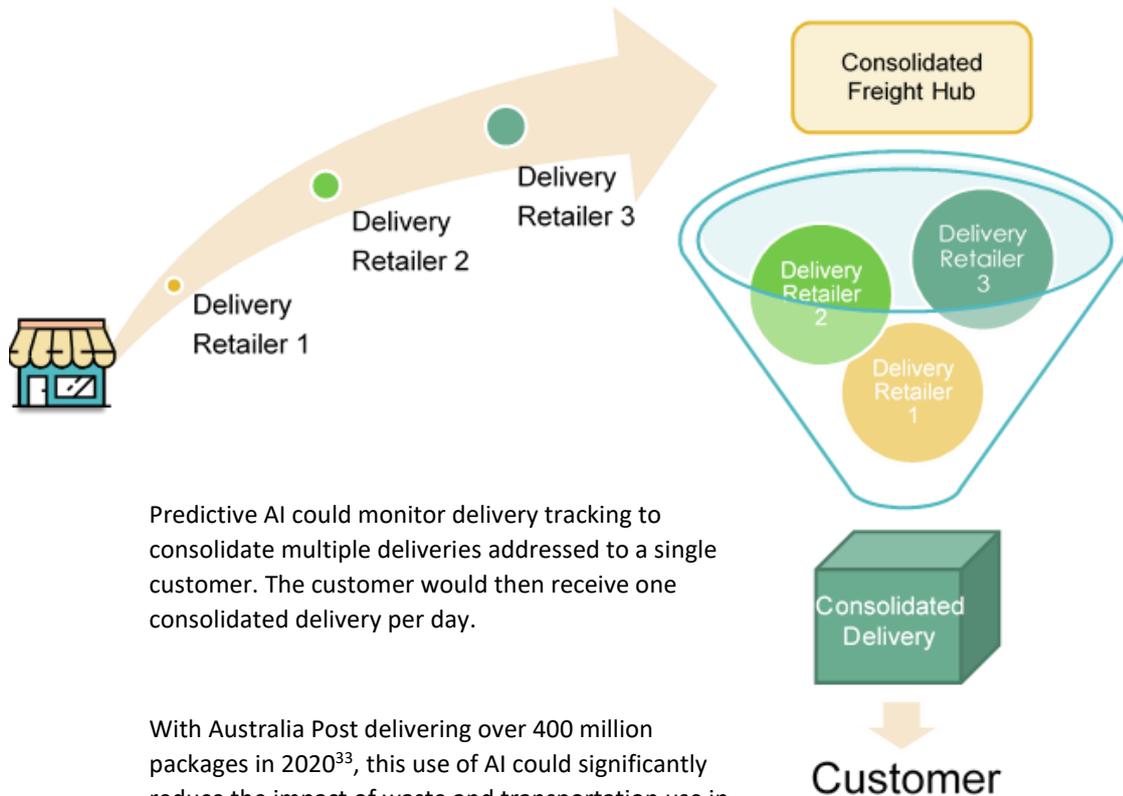
4.3 Optimised last mile to reduce impact of delivery and waste

Innovations optimising the impact of individual packaged deliveries over the next 5-10 years must be developed to improve sustainable efficiency.

- Automated batching and consolidation of consignments by customer will optimise packaging delivery of individual consignments removing the need for multiple deliveries over a single day.
- More agile last mile logistics will see significant investment as online grows. Greater specialisation and more localised hubs by retailers will aim to minimise distance using scale to their advantage, much as they do in consolidated freight. This will improve efficiencies and cost, reducing the significant environmental impact of transportation and packaging waste experienced throughout 2020¹⁹¹.

¹⁹¹ <https://www.vox.com/the-goods/22214017/online-shopping-pandemic-packaging-ecommerce-waste-plastic>

Figure 12 - Potential uses of AI to consolidate freight



Predictive AI could monitor delivery tracking to consolidate multiple deliveries addressed to a single customer. The customer would then receive one consolidated delivery per day.

With Australia Post delivering over 400 million packages in 2020³³, this use of AI could significantly reduce the impact of waste and transportation use in the last mile.

- While autonomous delivery is still to reach viability, advancements in autonomous electric vehicles will see transportation efficiency in trucking and the last mile. The potential for driverless transportation opens up endless opportunities in removing congestion and friction present today in logistics. The environmental impact to these innovations coming to market will be significant as will the cost efficiencies that 24/7 transportation options will provide.
- Robotic and drone delivery will play a key to agile efficient delivery. Alibaba has been developing a fleet of autonomous delivery robots aimed at reducing cost of the last mile. These delivery robots can deliver up to 500 packages per day and cover 100km on a single charge¹⁹³.

¹⁹² https://auspost.com.au/content/dam/auspost_corp/media/documents/2020-australia-post-annual-report.pdf

¹⁹³ <https://www.scmp.com/tech/e-commerce/article/3101941/alibaba-launches-logistics-robot-last-mile-deliveries-lower-costs>

Figure 13 - Alibaba autonomous delivery vehicle³⁵



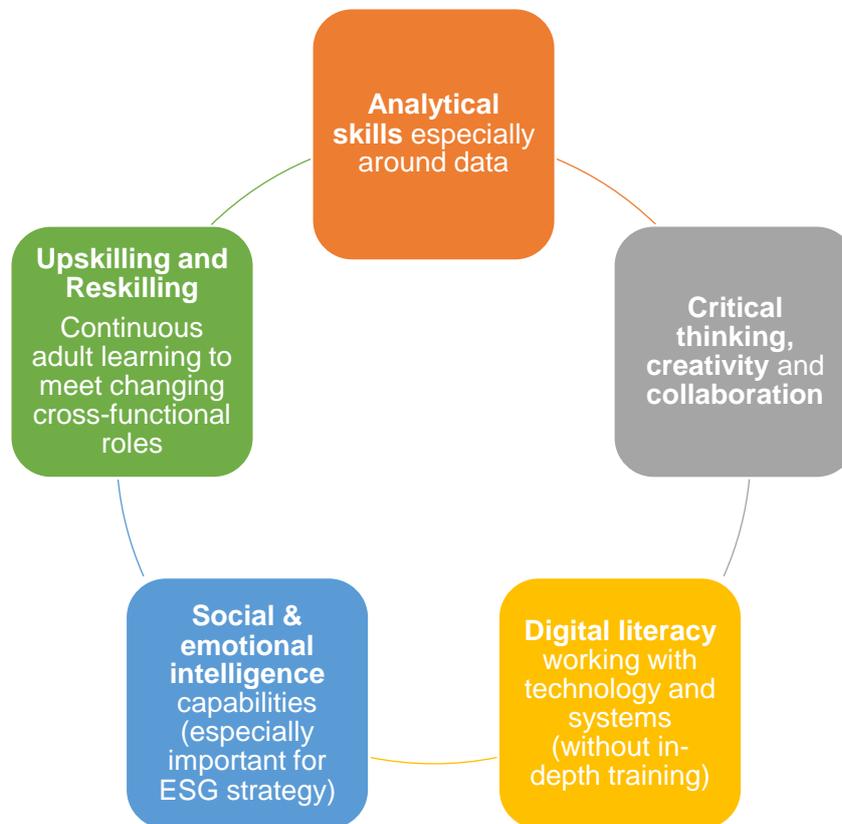
4.4 Roles, automation, where do the humans fit?

Automation has been changing workplaces steadily since the Industrial Revolution¹⁹⁴. With up to 60% of all occupations able to have 30% of their activities technically automated, greater adoption of technology in the workplace could affect up to 50% of the world economy¹⁷.

¹⁹⁴ <https://www.mckinsey.com/featured-insights/employment-and-growth/technology-jobs-and-the-future-of-work#>

Human roles will move to become focused on the solution rather than problem identification and manual processing.

This will require employers to value competencies including:



- Traditional departmental style teams will begin to decentralise as cross-functional working and specialised teams deliver more modular work and remote work. Remote work will also continue post the COVID-19 pandemic where companies will measure the reduction in emissions by employees not commuting.
- IT roles will become intertwined within teams as demand for agile digital solutions will be a daily focus.
- Rapid deployment of new technology will mean all employees will need to increase their digital literacy. Organisations will need to deploy new mobile first digital based learning solutions to meet this evolving need.

- ESG focused roles will become increasingly more important. Deployment of the operational elements will need to be instilled as business-as-usual within teams and not seen as a separate job function. The potential global market benefits for “putting the SDGs at the heart of the world’s economic strategy could unlock US\$12 trillion in opportunities and 380 million jobs a year by 2030¹⁹⁵ (not specifically retail).
- Whilst technology will make some current job functions (especially administrative), redundant it will so deliver the opportunity for roles not yet invented.

Whilst not limited to, these types of roles that will be in significant demand as digitisation within retail over the next 5 years:



¹⁹⁵ <https://www.spglobal.com/marketintelligence/en/campaigns/sdgs-responsible-investor>, <http://businesscommission.org/news/release-sustainable-business-can-unlock-at-least-us-12-trillion-in-new-market-value-and-repair-economic-system>

5 Conclusion

Despite competing views on science, over the next 5-10 years retailers supply chains will be significantly impacted as a consequence of changing weather conditions, investor relations, government policy, increased regulation and social expectation.

These headwinds pose significant risk to existing business models and retail balance sheets if retailers fail to act in prioritising ESG strategy to deliver sustainable business models.

It is recommended retailers:

1. Restructuring ESG strategy to become the filter across all strategic initiatives
2. Implement consistency in ESG strategy by embedding UN Sustainable Development Goals
3. Automate data capture throughout the supply chain with innovations in AI and IoT to measure Scope 1 and 2 emissions impacts in real-time
4. Optimise the last mile through partnerships, hubs and autonomous transport to reduce movement and packaging waste
5. Develop greater levels of digital literacy within workforces to prepare them for increasing digital disruption

Technology will be key to solving the complexity of these issues with AI enhancing output of human roles.

Boards who develop consistency and collaboration from strategy to execution will be better prepared to solve the impending supply chain risks.

"Corporate social responsibility is a hard-edged business decision.

*Not because it is a nice thing to do or because people are forcing us to do it...
but because it is good for our business".*

Niall Fitzgerald, Former CEO, Unilever



Joe Berry Award 2021

Topic 4: The Evolution of Work in the Supply Chain

Q. What innovations and AI investments do you see shaping the “new” retail industry and what is your forecast for new roles over the next five years?

Entrant Number JBA-21-084

Ivan Kiriakov

Kraft Heinz



Table of Contents

Executive Summary	3
Introduction	3
Demand forecasting	4
Sourcing of raw materials	4
Packaging and wastage	5
Automated DC's	6
In-store AI technology	7
Discussions and implications for the industry	8
Conclusion	9

Executive Summary

Artificial intelligence (AI) is defined as a “machines ability to autonomously perceive, understand, make decisions about and react to its environment,”¹⁹⁶ and is changing the way businesses operate. The retail industry is being re-shaped, with Covid-19 accelerating the need to invest in AI technology and innovation. The end-to-end supply chain is the focus of this essay as it’s fundamental to the successful operation of a business within the retail sector. Jobs will be created and lost in the process of enhancing the supply chain, however, an opportunity to redistribute roles between sectors will be created.

This essay explores a variety of solutions to help enhance the rapidly evolving retail industry. A key idea discussed is implementing AI and advanced analytics (AA) in demand forecasting, allowing for heightened predictive ability. The sourcing of raw materials domestically instead of internationally could help ease the burden on the supply chain and allow better preparation for demand fluctuations. The emphasis on recyclable packaging and food wastage has grown exponentially over the last few years and is expected to shape the future of a sustainable supply chain. Automated DC’s are becoming more common in the industry with huge efficiency and cost benefits. Further insights about consumers’ buying preferences can be drawn from in-store AI technologies. The redistribution of jobs between sectors, coupled with the creation of new roles, will be paramount to the success of this retail transformation.

The retail industry will face many challenges throughout this process of evolution, including the high costs of adopting new technology. However, as retail players begin investing and making innovation more accessible, the supply chain and the retail sector will evolve and create efficiencies. This essay will examine the necessary changes required in the retail industry which will impact all of us in one way or another.

¹⁹⁶ Brea, C, Hegge, J, Hermoye, L, Jongeneel, M & Nevarro, A; 2019 ‘From Hype to Hero: A Look at Artificial Intelligence in the Consumer Packaged Goods Industry’, Bain & Company, 08/10/2019, <https://www.bain.com/insights/from-hype-to-hero-a-look-at-artificial-intelligence-in-the-consumer-packaged-goods-industry/>

Introduction

AI has become very topical with the evolution of the digital age, requiring companies to become bionic through combining technology and human elements in order to be successful¹⁹⁷. The disruption of Covid-19 on the retail industry has created an opportunity to explore how AI can shape the new retail environment, with the focus of this essay being on the end-to-end supply chain. The industry's supply chain may benefit from enhanced predictive demand forecasting and the domestic procurement of raw materials protecting from demand shocks. The focus on recyclable packaging and food wastage is paramount supported through the investment in automated DC's. The use of AI to improve the shopper experience will provide further insights and analysis into the consumer. These changes will inevitably cause disturbance in the labour market, however, will be balanced through the creation of new roles and the redistribution of people from one sector to another.

Demand forecasting

Companies in the retail sector are looking to invest in AI technology to gain a competitive advantage over comparable players in the industry. There is an opportunity to generate more than 10% revenue growth through enhanced predictive forecasting, personalized experiences and improved marketing and promotion ROI¹⁹⁸. Forecasting forms the first, and arguably the most important stage of the supply chain, setting up the company for success. Investment in a combination of AI and AA could help improve the accuracy of demand predictions, identify emerging consumer trends and predict the impact of marketing campaigns¹⁹⁸. This is critical in ensuring that an efficient supply chain is operating with the functionality to accurately anticipate demand fluctuations and issues. There are several challenges faced when scaling up AI and AA applications, including the 2-3-year time frame and the support required from senior management¹⁹⁸. The development of these applications will inevitably lead to redundancies, however, will expose gaps in the market for the maintenance of the models and the analysis of the data. A significant

¹⁹⁷ de Bellefonds, Smith, T, LaFountain, B, Freeberg, C & Roura, D; 2020 'Cracking the AI Code in CPG', BCG, 12/05/2020, <https://www.bcg.com/publications/2020/cracking-artificial-intelligence-code-in-cpg>

¹⁹⁸ Charlin, G, Gell, J, de Bellefonds, N, Smith, T, Lui, V, Bellemare, J, Royston, J & Sehili, C; 2018 'Unlocking Growth in CPG with AI and Advanced Analytics', BCG, 15/10/2018, <https://www.bcg.com/publications/2018/unlocking-growth-cpg-ai-advanced-analytics>

amount of untapped potential exists within the scaling up of these applications, which will help form the new retail industry.

Sourcing of raw materials

FMCG companies have benefited from global supply chains, sourcing raw materials and ingredients from all over the world. Covid-19 has radically changed consumers' habits¹⁹⁹ leading to shifts in demand, price and shopper volatility, creating logistical challenges such as delayed arrival of shipping containers. This has left companies with the need to rethink how they source their ingredients²⁰⁰ and consider areas of investment to alleviate current and future issues. Procuring raw materials domestically may reduce the burden on the supply chain and help assuage delays and out of stocks. This would support the creation of jobs within the local agriculture sector and contribute to maintaining a strong economy. The local production of some ingredients may not be possible due to factors including; environment, climate and the availability of land. AI technology could help create better predictive models for demand shocks and identify optimal geographical locations to produce the best yield. These forecasting abilities could be used to help combat fluctuations in the price of raw materials which have become "35 to 50 percent more volatile over the past decade."²⁰⁰ Roles would be created for data scientists to calibrate and maintain the AI models, and additional ingredients forecasters to analyse and use the data collected. Some of the challenges faced within the global supply chain as a result of price and demand volatility may be alleviated through investing in the sourcing of ingredients and sophisticated forecasting models, resulting in increased labour demands within the agriculture sector.

Packaging and wastage

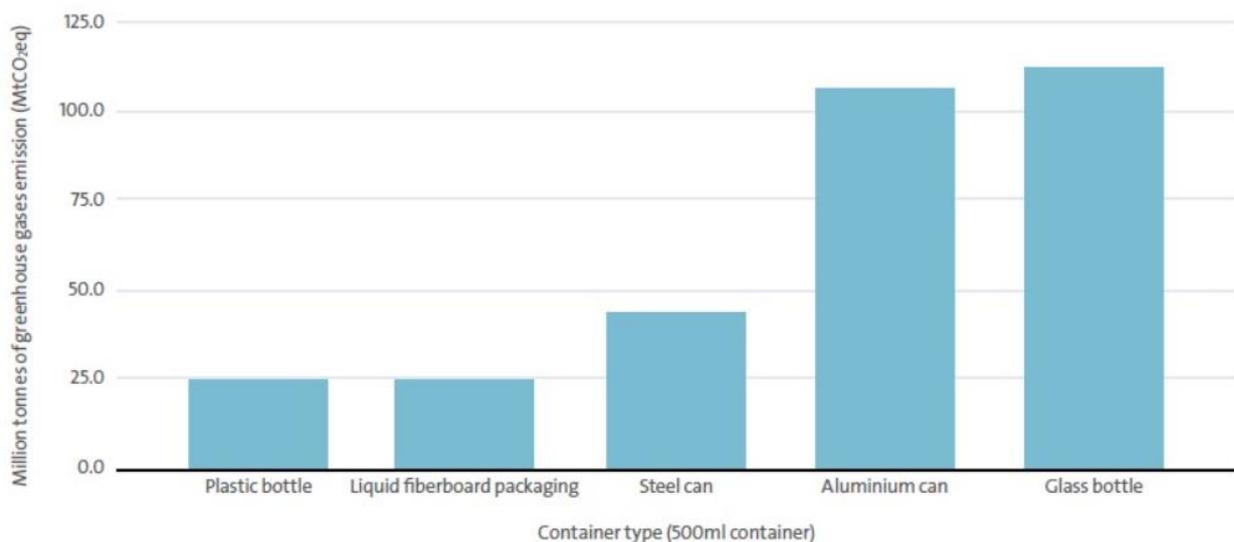
Furthermore, the sustainability of packaging and the reduction of food waste has been a focal point for players within the retail industry. Annually, 1.6 billion tons of food is wasted and lost, accounting for approximately 8% of greenhouse gas

¹⁹⁹ Biggs, C, Mall, A & Shavdia, D; 2020 'Grocery Retail: Managing the COVID-19 Crisis', LinkedIn, 18/03/2020, <https://www.linkedin.com/pulse/grocery-retail-managing-covid-19-crisis-chris-biggs/?trackingId=ZgdO37bSSoGwQ5mttJq%2B0Q%3D%3D>

²⁰⁰ Doheny, M, Gutierrez, A, Henrich, J, Meilhac, L & de Paula, RU; 2017 'Recipe for success for sourcing in the food industry', McKinsey & Company, 18/04/2017, <https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/recipe-for-success-for-sourcing-in-the-food-industry#>

emissions globally²⁰¹. Covid-19 has heightened the impact of packaging and wastage on our environment due to surges in demand, online purchases and B2C (business to consumer) transactions. Many companies have performed research and analysis to determine what types of packaging produce the largest carbon footprints in terms of their production, transport and recyclability. As is evident in Figure 1, glass and aluminum have the most severe impact in terms of CO2 emissions, whereas, paper and plastic are the least detrimental to our environment.

Figure 1: Greenhouse gases emissions for producing all 500ml containers in 2016 from alternative materials²⁰²



The majority of top FMCG companies have made commitments and declarations to drive sustainability²⁰³, including the transition from virgin to recyclable plastics and reduction of waste, in turn helping to reduce the detrimental impact plastic and wastage is having on our environment. Currently, rates for plastic packaging recycling are relatively low with only 16 percent of plastic waste being re-processed to make new plastics²⁰³. In order to support this transition, companies “will require much closer collaboration with upstream players, packaging converters, and

²⁰¹ Abecasis, M, Felde, AMZ & Pralle, A; 2020 ‘A Recipe to Reduce Food Loss and Waste’, BCG, 23/06/2020, <https://www.bcg.com/en-au/publications/2020/recipe-to-reduce-food-loss-and-waste>

²⁰² Novapet, ‘Examining the carbon fingerprint based on material lift cycle assessment’, 29/07/2020, <https://novapet.com/en/news/examining-carbon-fingerprint-based-material-life-cycle-assesment>

²⁰³ Berg, P, Feber, D, Granskog, A, Nordigarden, D & Ponkshe, S; 2020 ‘The drive toward sustainability in packaging – beyond the quick wins’, McKinsey & Company, 30/01/2020, <https://www.mckinsey.com/industries/paper-forest-products-and-packaging/our-insights/the-drive-toward-sustainability-in-packaging-beyond-the-quick-wins>

recyclers.”²⁰³ This would create an opportunity to develop in-house sustainability teams or to outsource these projects to local companies and packing converting specialists, creating jobs in the process. There is an evident movement across the industry to change the way we package and how we deal with waste, however, more investment in conversion and substrate technologies will be required to achieve this goal.

Automated DC's

Additionally, there is ample opportunity to invest in automated distribution centres (DC's) and warehouses to drive efficiencies and reduce the impact of demand shocks on the supply chain. The elevated demand resulting from Covid-19 created significant challenges for warehouses as they struggled to keep up with the increased level of orders due to labour shortages and delays in the supply chain. The detrimental impact of these supply challenges can be diminished if large investments are made to automate DC's and eliminate manual processes and the requirement for additional labour. There are several companies that are already reaping the benefits from these warehouses, such as Drakes, a large supermarket retailer who has recently opened its own \$125 million automated DC in Adelaide²⁰⁴. Supermarket giant Woolworths has also invested in the power of automation along with its rival, Coles, who is expecting two warehouses to be completed by 2023²⁰⁵. To compliment these computerized warehouses, there is scope to even further digitize the supply chain creating a 'supply chain cloud' through the integration of data²⁰⁶, helping unify sections of the supply chain which had historically been fragmented and siloed. Automation is commonly associated with job loss, predicting to make about 28 percent of jobs in the retail sector obsolete by 2030²⁰⁵, altering and redistributing the jobs and skills required. Additionally, there are new roles that would be created as a result of automated warehouses, including the configuration of robots and the management of the digitized supply process. Automation in the

²⁰⁴ Mitchell, V; 2019 'Drakes goes it alone to take the fight to Coles and Woolies', CMO, 06/11/2019, <https://www.cmo.com.au/article/668266/drakes-goes-it-alone-take-fight-coles-woolies/>

²⁰⁵ Johanson, S & Hatch, P; 2019 'Pick, pack and stack: the robot warehouse has arrived', The Sydney Morning Herald, 30/03/2019, <https://www.smh.com.au/business/companies/pick-pack-and-stack-the-robot-warehouse-has-arrived-20190329-p518t4.html>

²⁰⁶ Alicke, K, Rachor, J & Sayfert, A; 2016 'Supply Chain 4.0 – the next-generation digital supply chain', McKinsey & Company, 27/10/2016, <https://www.mckinsey.com/business-functions/operations/our-insights/supply-chain-40--the-next-generation-digital-supply-chain>

supply chain would benefit the retail industry and help to reduce blockages, allowing for rapid responses to demand shocks.

In-store AI technology

Similarly, consumers from all demographics are shifting to digital and delivery²⁰⁷, which is revolutionizing the way people shop and the experiences they are seeking. This creates an opportunity to invest in AI technology to change the way products are purchased and disrupt the traditional way of shopping. Amazon Go is an example of automation technology which has been installed in some of Amazon's US based stores, reducing wait times and personalizing promotions²⁰⁸. Through Amazon Go and similar AI technologies, retailers can develop a deeper understanding about consumers' needs, preferences and buying decisions. However, a key concern for consumers is data security which can be mitigated through clear communication around how certain data will be used²⁰⁹. Investment in these complex platforms will require additional employees to help manage the data and analyze the results. E-commerce is a growing sector in the retail industry and will continue to expand and create jobs due to online sales growing at 43% a year for the past five years²¹⁰.

Discussion and implications for the industry

There is a sense of urgency to innovate and invest in technology to help adapt to a rapidly changing retail industry, helping to create new jobs in the process. This need is heightened due to the industry being in AI infancy, lagging behind a dozen other industries¹⁹⁶. The ability to transform the supply chain process through the implementation of demand forecasting applications is highly evident, however, restricted due to insufficient access to granular sales data¹⁹⁷.

²⁰⁷ Sheehan, E; 2020 'Understanding COVID-19's impact on grocery & food retailers', Deloitte, <https://www2.deloitte.com/global/en/pages/about-deloitte/articles/covid-19/understanding-covid-19-s-impact-on-grocery---food-retailers.html>

²⁰⁸ Begley, S, Hancock, B, Kilroy, T & Kohli, S; 2019 'Automation in retail: An executive overview for getting ready', McKinsey & Company, 23/05/2019, <https://www.mckinsey.com/industries/retail/our-insights/automation-in-retail-an-executive-overview-for-getting-ready>

²⁰⁹ Hogan, R; 2020 'Coles CMO on how the supermarket uses data and AI', Inside FMCG, 29/07/2020, <https://insidefmcg.com.au/2020/07/29/coles-cmo-on-how-the-supermarket-uses-data-and-ai/>

²¹⁰ BCG, 'Five Lessons on Digital Retail from Chinese Consumers and Companies', <https://www.bcg.com/en-au/industries/retail/five-lessons-on-digital-retail>

The domestic sourcing of raw materials and enhancing predictive models using AI could change the retail landscape by decreasing supply lead times and being better equipped to deal with demand and price fluctuations. There are some limitations to domestic sourcing due to the inability to grow or create all ingredients locally, however, this can be overcome by using models to identify optimal locations for ingredients and yields. The domestic economy would benefit as more jobs would be created in the agriculture and manufacturing industries.

Sustainable packaging and waste management need to become a primary focus for companies due to the rise in online transactions and the severe impact on the environment. The main factors restricting the industry currently are the high cost of transitioning and the lack of advanced forecasting. However, as more players begin investing in this innovation it will become more accessible to and affordable for others as they work towards achieving their ESG targets. Sustainability teams and converters will become more sought after, providing solutions to these complex challenges. Furthermore, automated DC's form a significant part of the new retail industry, driving efficiencies and reducing bottlenecks. There are significant challenges involved with the costs and time required to construct, inevitably resulting in job obsolescence. The impact of AI technology such as Woolworths' Scan&Go²¹¹ is revolutionizing the consumers in-store experience, allowing for a deeper understanding of consumers' needs and preferences. The investment in technology will inevitably lead to job loss within some of these sections of the supply chain, however, new jobs will be created and will shift people from one sector to another, allowing the economy to remain stable.

Conclusion

This essay has demonstrated that innovation and significant investment in AI is required to enhance the end-to-end supply chain and form the new retail landscape. Predictive demand forecasting and the sourcing of materials domestically are pivotal to enhancing the first part of the supply chain. Transitioning to more sustainable packaging and reducing food waste will help reduce will help contribute to meeting

²¹¹ Crozier, R; 2020 'Woolworths uses AI to recognize fruit and veg purchases', IT news, 17/02/2020, <https://www.itnews.com.au/news/woolworths-uses-ai-to-recognise-fruit-and-veg-purchases-538106>

corporate and Government ESG targets. Automated DC's have already entered the retail industry and require greater rates of adoption to see industry wide benefits. In-store AI will transform consumers' buying experience and will allow further insights to be gained. While some jobs may be lost, there are a variety of new roles that can be created through these innovations, including; data scientists, in-house sustainability experts, e-commerce specialists, and AI and machine operators. The above investments and shift in roles can help to provide viable solutions to the 'new' retail industry and its complicated supply chain.