



FOOD FOR THOUGHT – DELIVERING THROUGH DISRUPTION

Why European food and beverage retailers and manufacturers must think differently and act fast to respond to trends accelerated by COVID-19



The Food & Beverage industry has been battling to keep pace with dramatic shifts in consumer behaviour over the past decade. For example, we have witnessed the rise of the self-centric consumer and seen an increasing focus on “eating well”, as consumer interest rises in the healthiness of foods, the sustainability of supply chains and whether or not ingredients are locally sourced.

COVID-19 has caused further significant disruption to every part of the industry. Across the world, consumer habits changed almost overnight, as stay-at-home orders and other social distancing measures were enforced.

But how do the trends, threats and opportunities differ across European countries? Is e-commerce enhancement the most pressing issue across those territories? Or will more traditional markets prioritise improvements to the in-store experience to build market share, over and above the levels of digital investment that other regions are racing to implement?

In this report, AlixPartners presents a series of regional perspectives from our team of in-market Food & Beverage experts, including the UK, France, Germany and Italy.

THE VIEW FROM ITALY: SEIZE THE MOMENTS OF CONSUMPTION, AUTHENTICITY AND DIGITAL TRANSFORMATION

IDENTIFYING NEW MOMENTS OF CONSUMPTION

In recent years the self-centric consumer has truly emerged, whose buying behaviour is driven by where and when they will consume a product. Agile brands have achieved success by identifying these new moments of consumption and associating their products with them. But COVID-19 stay-at-home instructions and other social distancing measures have disrupted many of these trends, with additional consumer lifestyle habits emerging from the pandemic. Brands must be more agile than ever in recognising new moments of consumption – for example, Aperol's #AperolAtHome campaign – and be prepared to shift their marketing mix from traditional to online channels, including social media, in order to reach consumers.

There is also the broader consideration of how Italian consumers now choose to shop. Their desire to reduce time spent in stores will increase retailers' opportunities for grab-and-go sales. An increase in proximity purchasing and e-commerce also requires retailers to review physical store layouts across their real estate footprint. The accelerated adoption of e-commerce – in what has previously represented a more traditional consumer environment – demands a faster transition to digital along the entire value chain for manufacturers and retailers. Upfront investments now could yield significant medium-term savings.

WHAT NEXT FOR TRADE-UP STRATEGIES?

Consumers have become increasingly willing in recent years to pay a premium for products they see as authentic and consistent with their values – benefiting brands like Illy, whose end-to-end management of the supply of its coffee beans is seen as a true mark of authenticity. While this has provided retailers with an opportunity to trade up on premium products, the COVID-19 pandemic is also likely to diminish consumer spending power with many Italians feeling concerned about their financial health, more so than their physical wellbeing.

At the same time, in Italian food retail, the concept of authenticity has long been closely linked to specific territories, traditions and cultures – something which brands are acutely aware of. One only has to think of

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Barilla's use of 100% Italian wholegrain pasta for its domestic market, or Ferrero's partnership with Italian farmers' cooperatives to create new hazelnut plantations in a number of regions across the country.

The pandemic is likely to augment this trend further, with consumers becoming increasingly keen to support local producers and retailers. We will likely see an acceleration of the trend for brands to trade up by leveraging their regional or local identity.

INCREASED COST AND COMPLEXITY ACROSS THE VALUE CHAIN

The pandemic has left the F&B industry with a complex set of supply chain challenges. The need for more stringent safety measures in factories alongside the potential scarcity of raw materials will increase costs for manufacturers and retailers. At the same time, food traceability must become a key priority for procurement functions, and dual-sourcing strategies must be implemented to ensure business continuity. Just-in-time production and centralised distribution approaches may have to be set aside, with more stock held in plants and a greater geographical spread of distribution centres. Manufacturers and retailers will also need to develop adaptive sales forecasting processes in order to be able to respond to rapidly-changing consumer trends in terms of product and channel mix.

While all these requirements will increase cost and complexity, this could also represent a watershed moment for the sector in terms of leveraging digital capabilities across the entire value chain, for example using digital tools to improve traceability, reducing the reliance on intermediary logistics stops, increasing the adoption of digital sales models and in retail, the need for high numbers of frontline cashiers and investment for automation in dark stores.

THE VIEW FROM THE UK: POLARITY GROWS BETWEEN VALUE AND PREMIUM, WELLNESS AND HOME COMFORTS

RECESSION, RESTAURANTS AND READY MEALS

With recession in the UK expected to continue into next Spring and the Food and Drink Federation warning that the Chancellor has not done enough to help the sector, food retailers and consumers are facing continued economic uncertainty.

As price continues to play a major role in purchase decisions, a growing polarity between the haves and have-nots will see the value and premium businesses in the food and beverage market hold up well. However, those in the middle may face an uncertain future as consumers with reduced disposable income hunt for value. Retailers must respond with pricing strategies to hold market share and avoid a mass migration to discounters.

In the early stages of the pandemic, supermarkets halted promotions, average prices rose as the shift to private label accelerated. The ready meals market, in particular, benefited from the population spending more time at home, boosting businesses such as M&S supplier 2 Sisters, which is adding 200 employees to its ready meals factory in Carlisle to meet COVID demand.

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Many restaurants are also connecting directly with at-home diners in a bid to supplement their dwindling covers. Appealing to the new wave of home cooks that lockdown has inspired, restaurants such as London Mexican brand TACA and Scottish restaurant Mac and Wild launched DIY meal-kits during lockdown, riding the meal-kit delivery sector wave that is forecast to hit \$20bn globally by 2027. An increase in restaurant delivery services is here to stay.

BRAND LOYALTY PUT TO THE TEST UNDER NEW SHOPPING CONDITIONS

Continuing changes in consumer habits will have a major impact on F&B businesses in the UK. While some consumer brand loyalties will be hard to break, the act of shopping for groceries has itself changed from an everyday "experience" to a weekly adventure in person.

Along with the sharp rise in online grocery shopping – where customers are more likely to choose the same items each week – even those venturing into stores are



doing so with a strict list that reduces the likelihood of impulse buying. Mask-wearing orders in stores are dampening food-on-the-go purchases too, hitting the snacking and grazing corner of the market.

A preference for packaging has boomeranged, as consumers who had previously turned to low-environmental-impact products are, for now, more likely to trust more heavily packaged products, perceived as more hygienic.

WILL EATING WELL WIN OUT OVER FOOD COMFORTS AT HOME?

With more time spent at home during the pandemic and the virus perhaps attuning consumers to a keener sense of their own mortality, the desire for more health and wellness products – already increasing prior to COVID-19 – continues to expand.

Back in May, Holland & Barrett, the UK's leading health food retailer, instigated a cap on supplement purchases because of overwhelming demand. Organic food and drink sales also rose sharply during lockdown, with Nielsen reporting an 18.7% increase in organic sales in the 12 weeks to the end of May – which included 10 weeks of lockdown – and the Soil Association has reported that the sector is likely to hit £2.6bn by the end of the year, exceeding a projected £2.5bn.

With warnings that obesity and diabetes can impact COVID-19 survival rates, eating well may remain a priority for consumers. In contrast though, comfort-eating and excessive drinking have increased during lockdown and this trend may roll on as the UK braces itself for a harsh winter and tough financial start to 2021.

THE VIEW FROM GERMANY: DISCOUNTERS CONTINUE THEIR ASCENT, BUT WILL COVID FORCE AN E-COMMERCE EVOLUTION?

REINVENTION OF THE DISCOUNTERS

Food retailers across the board are looking to enhance the store experience for German consumers, experimenting with everything from store formats to the amount of fresh food on the shelves. The winners so far have been the discounters, many of whom have improved their store and product offerings to such a degree that they can no longer be considered purely as discounters. Where these brands previously specialised in pre-packaged food, the last few years have seen them respond to customer demand with the introduction of features such as fresh bakery counters.

The fact that discounters have done so while still offering discounter prices is particularly worrying for traditional supermarkets and is contributing to the pressure on big box stores in Germany. They must think very carefully about how to respond to a trend that shows no sign of slowing post-COVID.

WILL COVID PROVIDE A BREAKTHROUGH FOR ONLINE GROCERY RETAIL?

While much of Europe has witnessed a boom in online grocery retail over the last decade, German consumers have been much more resistant to the allure of online food shopping and delivery, with less than 1% of all food sales taking place online. Because of this, an efficient last-mile delivery system for groceries has still not been established, with just a couple of established supermarkets offering online services pre-COVID.

However, the pandemic has stimulated a change in behavior across the country as many consumers have had no option but to order online. This has seen the established supermarkets race to take advantage of the uptick, as new players have also entered the picture. Some from other European markets are now making small deliveries over the border in Germany, while established online food delivery brands have stepped up their efforts since the start of the pandemic.

COVID has proven that online grocery shopping can work. However, the question now is whether consumers will abandon their devices and head back to the stores when the pandemic ends. Regardless of eventual adoption rates, online grocery shopping presents a major threat to the established supermarket brands. Margins are so tight that the current 1% of food sales taking place online has only to rise a few percentage points before serious damage is done to the stores that fail to adapt.

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A FRESH FOCUS ON FOOD QUALITY AND SAFETY

While the typical German consumer has long placed price before all else when it comes to food and beverage purchasing decisions, this is changing. Due in part to COVID and supported by recent health and safety breaches in certain meat production facilities, there is much greater emphasis placed upon food quality and safety. The German consumer is increasingly willing to pay a premium for transparency, and players throughout the supply chain need to respond.

This trend is also influencing vertical integration efforts across the F&B sector in Germany, as brands look to better control their supply chains to ensure food safety and quality. As these efforts progress to positively influence balance sheets, verticalisation efforts will continue post-COVID.



THE VIEW FROM FRANCE: HEALTHINESS HITS THE HEADLINES, BUT IS IT PRICE THAT WILL PREVAIL?

REWIRING LOGISTICS TO "LOCAL"

The race to respond to increasing demand for locally sourced, healthier products will intensify as a result of the pandemic. While most executives in retail will agree that the move away from years of massification and industrialisation in what we eat is the right way forward, behind this objective lies a host of complex challenges for French retailers to overcome.

Deconstructing an established, pan-European supply chain to plug into local producers close to a retailer's physical footprint plays to the strengths of independents such as E.Leclerc and Intermarché, where their operational agility and resource sharing will be key to success. Carrefour and Auchan, too, are heavily communicating their commitment to this strategy in recognition of the fact that harnessing the power of fresh produce – for home purchase or in-store consumption – will be critical to striking a point of difference.

Shortening a supply chain can only aid food transparency. Farmers and producers under the pressures imposed by the crisis could be supported – or saved – through acquisition and the associated vertical integration of these facilities. This will deliver retailers enhanced control over the quality and cost of dairy, meat and fish produce, where margins upstream are so compressed.

DELIVERING THROUGH DIGITAL

Digital will continue to dominate discussions in the boardroom at every stage of food retail restructuring.

France's grocery model of rapid consolidation and global expansion in previous decades was a catalyst for early adoption and penetration in e-commerce, and many retailers are active in online delivery or click and collect. We now see click-and-collect-only hotspots from E.Leclerc, Auchan and Carrefour in major cities where their store footprints may be non-existent or limited, as the promise of value from such recognised brands presents a



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major pull for consumers. Casino and Monoprix are also trialling partnerships with Ocado, drawing on the existing tried and tested logistics capabilities that food-tech partnerships can offer.

Consumer behaviours and desires are multi-layered – price, service, speed, breadth of selection – and retailers must be mindful of all these aspects simultaneously. High quality remains crucial, too, and new home delivery players such as La Belle Vie are already seeing success on a small scale capitalising on online opportunities through the home delivery of fresh produce at incredible speed to a local, urban customer base.

IS PRICE STILL THE TOP CONSUMER PRIORITY?

While considerations for health and online convenience have spiked during the pandemic, it will likely be price that proves to be the trump card in the hand that food and beverage retailers have been dealt from the crisis.

It's a significant dilemma – consumers say they want healthier products that must come at a premium, yet market share and sales figures show that people are turning to Lidl, Intermarché and Leclerc in France – all of whom are also marketing on freshness. The "noise" of the new way of shopping and eating should be listened to, of course, but may only be relevant to a smaller customer base afforded the luxury of such choices.

Procurement strategies should still shift to strike a new balance when it comes to cost optimisation against a higher quality of fresh produce purchases, mindful of consumer demands. A focus on private label could play out well for retailers if new, local supply chains can contribute the right levels of value, quality and sustainability here. Making money will come at a price if nutritional value and sourcing strategies are opened to consumer criticism.

Above all, be wary that consumers are very sensitive to small changes when it comes to quality of service in this industry. Meeting every expectation and delivering financially will be no mean feat.

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