

How Grocers Can Thrive Amid Industry Change

Five Fresh Strategies



The grocery industry is at a crossroads. A confluence of globally disruptive events, along with shifting consumer preferences, are forcing grocers to rethink everything from supply chain proximity to inventory mix to business model. At the same time, lingering shocks to the labor market have made attracting and retaining frontline talent far more difficult. And protracted economic headwinds—along with breakneck technological advancements—are spurring seismic shifts in consumer habits and expectations.

Grocers looking to defend and extend their competitive advantage in their rapidly evolving industry can't afford to stick to the status quo. So to help drive results, grocers are taking action and deploying an array of tech-enabled strategies.

"Grocery retailers have traditionally stuck to the same patterns for growth to draw customers into the store, to keep proliferating stores into the community," says Thomas McElroy, retail industry leader in Business Model Transformation at Deloitte. "But those patterns alone are no longer enough—and so you see grocery companies investing, some for really the first time, in tech modernization."

Click and collect, home delivery, and third-party app partnerships prove grocery retailers are no strangers to technology. Yet many of the ad hoc digitization efforts put in place to compete during the past few years weren't built to last, as retailers cobbled together dozens of applications that don't speak to one another. This has left stores not only scrambling to catch up, but they are also losing potential profits in the meantime—a painful reality in an industry facing mounting margin pressure.

"Whether pursuing e-commerce or quick commerce or partnering with new start-ups, grocers have tried to optimize small parts of their value chain. But stitching together small solutions creates a Frankenstein—a nightmare, really," says Laurent Homeyer, strategic industry advisor of Retail & Hospitality at Workday. "Every order actually touches marketing, fulfillment, pricing, and supply chain, and the grocer's entire value chain needs to be integrated as much as possible."

Homeyer points out that interoperability and a unified, enterprise-wide data backbone have long been out of reach for grocers, as "the technology was not there." But that's now changed. "And there is a ground movement among grocers to simplify the tech landscape in order to both gain efficiencies and also support new capabilities and strategic road maps and ways of solving problems we can't yet anticipate," Homeyer explains.



“

Whether pursuing e-commerce or quick commerce or partnering with new start-ups, grocers have tried to optimize small parts of their value chain. But stitching together small solutions creates a Frankenstein—a nightmare, really.

Laurent Homeyer
Strategic Industry Advisor of Retail and Hospitality, Workday

If retail were a race, grocers must be willing to modify and augment their race car even as it hurdles around the track. The race won't be won by bolting more sidecars onto a brittle chassis, but rather by putting adaptability at the vehicle's core. In order to accelerate ahead of the competitive pack, grocers must pursue transformation—and invest in technology that's as comprehensive and cohesive as it is adaptable.

Though the grocery industry may be at a crossroads, the following strategies can illuminate the path ahead.

1. Doubling down on a data foundation.

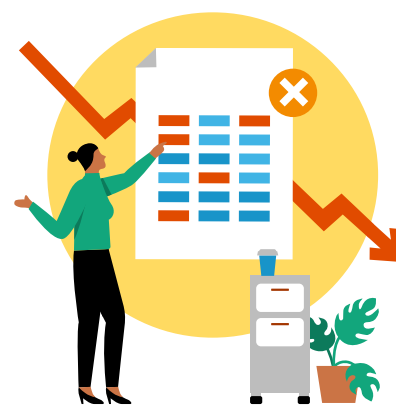
More than ever, grocers have access to copious amounts of data. Customer data from digital and loyalty programs, product data from suppliers, key performance indicators in the supply chain and stores, and even external data sources from consolidators.

"In my experience with retailers around Europe, the grocery landscape has between 600 and 800 different applications for merchandising alone," says Homeyer, who adds that a product as simple as a 1.5-liter bottle of Coca-Cola can be reflected with 50 distinct master data sets in different systems, and that "managing that data is a real challenge."

The challenge is growing ever more complex, as the grocery ecosystem expands well beyond its traditional borders to include omni-channel shopping platforms, an ever-growing list of third-party delivery and fulfillment partners, and novel technologies and use cases. Albertsons, for instance, recently partnered with Google to develop consumer-facing predictive grocery lists and shoppable maps. Schnucks Markets launched a multistore pilot of Instacart's Caper Carts, which uses AI and built-in sensors, scales, and a touchscreen to enable shoppers to skip the checkout entirely. And Carrefour Group launched an AI-powered avatar to help shoppers find answers about products.

The data churned up from all of those sensors and sites, apps, and AI can be a gold mine for grocers—but only if they're able to access and analyze it with relative ease. That's not the case for most grocery retailers, who have historically embraced innovation by patchworking one-off point solutions and best-of-breed applications onto brittle legacy systems. The result is a sprawling technology landscape littered with siloed, fragmented data. And what stands between that data and the insights grocers so desperately need is often a painful process of manually aggregating, verifying, and porting data from multiple sources before analysis can even begin.

"The replication or duplication of data is what really causes a lot of havoc for grocery chains, because if you pull your data out and put it into your sub-applications and then manage it, now you have a different version of the truth," says Keith Pickens, managing director, Retail Industry at Workday. "Without a single source of reliable, real-time data, you're not synchronized as an enterprise. You can't manage the end-to-end risk chain. You can't see those constraints that will affect finances, inventory, or talent."



77% of business leaders are concerned that their organization's data is neither timely nor reliable enough to use with AI and ML, according to a [2023 global Workday survey](#).

“

Without a single source of reliable, real-time data, you're not synchronized as an enterprise. You can't manage the end-to-end risk chain. You can't see those constraints that will affect finances, inventory, or talent.

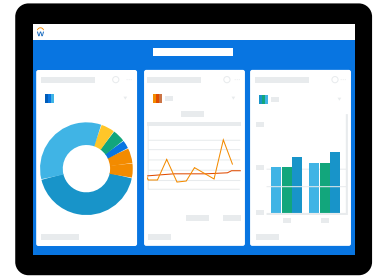
Keith Pickens

Managing Director, Retail Industry,
Workday

A modernized data foundation, by contrast, enables grocers to transform the deluge of available data into contextual insights they can use. Individuals across the enterprise can collaborate in real time around a single source of truth, and they can access the relevant information they need, as they need it. Insights and analysis aren't simply faster and easier—they are far richer and more accurate, which is vital given that a grocery retailer's ability to thrive is increasingly reliant on the strength and cadence of its ability to experiment, assess, and pivot.

"When grocery executives don't have that foundational layer in place, they're either paying more in the long run to cobble different systems together, or they come to suboptimal or incorrect conclusions because of the data gaps caused by legacy systems," says Chris Gray, project leader at Deloitte. "I've seen some pilots for new technologies in which the time lags caused by fragmented data meant grocery retailers couldn't get the full value of a particular innovation or they had to turn off certain functionality."

Data management may not seem like the most cutting-edge arena at first, but modernizing the data foundation enables grocers to leverage emerging technologies so they can be nimble in the marketplace and maximize the retail value chain.



A modernized data foundation enables grocers to transform the deluge of available data into contextual insights they can use.

2. Using empathy—and data—to evolve offerings and options.

For many consumers, grocery shopping is an “ingrained habit,” and customers head to the same store week after week without giving it much thought, says Gray. But rising food costs can be enough to shock them out of that default setting. As grocery prices tick upward, analysts have witnessed a sizable shift toward budget grocers, such as Walmart and Aldi. “Consumers try it out and realize they’re getting what they need at a lower price point, and that means you, as a mainline grocer, may have lost that customer forever,” Gray says.

Increasing prices have certainly punched consumers in the pocketbooks. Inflation, food supply chain disruptions, and the long-tail impact of geopolitical turmoil have nudged U.S. grocery prices up **11% in the last year**—the largest annual increase since the 1980s. The **73%** of consumers who notice rising prices has been growing steadily since late 2021, and **Deloitte’s Food Frugality Index** also shows mounting stress for grocery consumers, particularly in the U.S. and UK.



Consumers are actively finding ways to beat back their grocery bill, and grocers that want to maintain their share of wallet—let alone woo consumers away from competitors—would be wise to flex their empathy and offer myriad ways for consumers to meet that need. Consider the 1 in 3 grocery shoppers who have switched to mostly store brands, according to [Deloitte's State of the Consumer Tracker 2023](#). That behavior shift represents a big opportunity for grocery retailers, which tend to make higher profits on private labels than by selling branded products. And [research](#) suggests that consumers who make the switch to store brands tend to stick with private labels for the long-term, meaning an adjustment in pricing mix could buoy profits long after inflationary pressures subside.

Another potential opportunity for grocers: consumers opting to dine in rather than eat out. Perhaps to capture the attention—and potential loyalty—of such consumers, Kroger recently partnered with Kitchen United to expand its multi-brand Mix Food Hall concept of pre-made meals. Safeway and Schnucks Markets rolled out “smart” self-service salad bars that skirt some of the common labor costs and food wastes by using AI to track freshness and sales, and optimize ordering. And earlier this year, Giant Food launched its first in-supermarket fast-casual restaurant with self-service ordering kiosks.

“

Price inflation is prompting grocery retailers to rethink how they look at their balance sheet, their talent, the supply chain, and the whole business strategy.

Keith Pickens

Managing Director, Retail Industry, Workday

With prices and preferences expected to stay in flux well into the future, grocers must continue to stay in lockstep with consumer sentiment while also keeping a tight watch over profit levers. For instance, operational efforts to decrease waste and stock loss, as well as efficiency gains unlocked by intelligent automation, can serve as essential ramparts to the grocer's bottom line.

3. Empowering—and retaining—frontline workers.

Talent churn has long plagued the grocery industry, but wage pressures, fierce competition, and evolving worker expectations around flexibility and professional development have pushed the problem to a breaking point. According to the Food Industry Association, although [9 in 10](#) grocery retailers increased wages in 2022, attrition rates remain higher than pre-pandemic levels. Nearly half (48%) of full-time employees turn over each year, and for part-time employees—who comprise the majority of frontline workers—that rate usually doubles.



With prices and preferences expected to stay in flux well into the future, grocers must continue to stay in lockstep with consumer sentiment while also keeping a tight watch over profit levers.

“The market flipped upside down,” says Homeyer. “There was an employment market, and it became a worker market. For a while, the market players either didn’t realize what was happening or they thought it would be temporary: people would have no choice but to come back to work. But that’s not true. We are hovering near historically low unemployment rates around the world.”

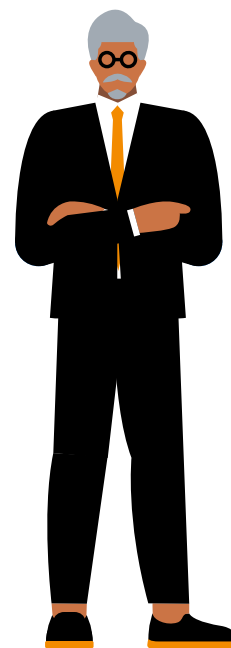
In the U.S., 7 in 10 retail executives consider labor their number one challenge, according to Deloitte’s [2023 Retail Industry Outlook](#). For many, that results in an understaffed store, as well as profits eroded by higher costs for recruiting, additional training, and overtime. Longer lines and inconsistent service dampen customer satisfaction and threaten customer loyalty. And in an industry known for promotion from within, chronic talent shortages can make leadership pipelines anemic.

Yet not all grocers are foundering amid the industrywide talent crisis. [Schnucks Markets](#) managed to accelerate the recruitment and onboarding of 1,500 new hires over 2 months—5x more than normal—after replacing its fragmented human capital management (HCM) system and multiple payroll applications with a unified, cloud-native platform. And forward-thinking grocers are more clearly connecting the dots between employee experience and talent retention, leveraging digital tools to empower and engage workers, create frictionless workflows, and enhance career development.

“For years, grocers have invested in supply chain capabilities, in omni-channel capabilities, and in a load of technology, but they didn’t invest in people—in providing the right tool to support them on a daily basis,” says Homeyer. “That’s now changing.”

Consider scheduling, long a point of contention between frontline workers who have varying desires for flexibility and stability, and grocery store managers who must balance dynamic business needs with labor costs. Scheduling that relies on siloed data tends to be tedious for managers and out-of-step with worker wants. “There’s not necessarily the technology in place at a lot of these retailers to manage schedules and variability,” says Gray. “As a result, you have a Post-It note that says, ‘Sally’s going to come in at 6:00, even though she’s on the schedule for 5:00.’ There are a lot of these manual workarounds.”

But when labor spending, productivity KPIs, and workforce analytics are seamlessly connected in a single system, frontline managers can automatically generate optimized schedules and assign workers at scale, while easily balancing worker availability, preferences, and qualifications. Frontline workers are empowered with far more agency, using streamlined tools to update availability, request swaps, or pick up additional shifts.



In the U.S., 7 in 10 retail executives consider labor their number one challenge.

Business leaders understand how crucial this is: 84% said worker agency is important or very important to their organization's success, according to [Deloitte](#). Still, only 17% felt very ready to address the issue. The practice is far more common among frontline leaders—the organizations that invest in the frontline experience as a business strategy and demonstrate turnover lower than the historic average. [Workday research](#) found that nearly half (42%) of frontline leaders use employee-first scheduling tools to give workers more control and flexibility, compared with just 27% of organizations overall.

Organizations that have cracked the code on employee experience are reaping serious upsides, including higher engagement, retention, and job satisfaction. [Deloitte research](#) shows that workers with an excellent employee experience are 1.5x more likely to enjoy working with their organization's customers and clients, and they're 3x more likely to say their organization is customer focused.

4. Meeting omni-channel grocery shoppers wherever they are.

Consumers remain hungry for online grocery options, with sales expected to exceed \$187 billion by 2024 in the U.S. alone. Is this a bright spot for grocery? Despite sales growth, the answer is complicated. To meet consumer expectations for ease and convenience, grocers have had to cover the costs for everything from additional labor and logistics to third-party partnerships. "A lot of the e-commerce business, particularly in grocery, is still a challenge from a profitability perspective," says Gray.

Rather than consumers handling the picking, packing, and loading as in traditional grocery runs, online grocery shifts fulfillment and last-mile logistics onto the retailer's shoulders. All told, home delivery can add an extra 7% to 13% to a grocer's costs, according to [Deloitte](#). "But if you don't offer some of those e-commerce options, you run the risk of losing customers to a competitor," Gray says. "So even if it's an 'unprofitable business' for you specifically, you may need to offer it anyway."

Gray believes that satisfying consumer demand while reducing margin erosion requires myriad strategies. Think: leveraging consumer data in new ways to grow the business and hyper-personalize the online experience, integrating digital apps into the in-store experience, bolstering loyalty programs, building alliances to support more last-mile elements, and either charging for delivery or incentivizing in-store pickup. Shifting home delivery orders to click and collect, for instance, typically increases profitability by 5% to 7% per order.

"The question really is: How do we serve a customer the way that they want to be served, in as inexpensive a manner as possible, even if it's not the way that they may have initially thought?" says Gray.

“

The question really is: How do we serve a customer the way that they want to be served, in as inexpensive a manner as possible, even if it's not the way that they may have initially thought?

Chris Gray
Project Leader, Deloitte

Analyzing one's way to an answer demands data across a staggering number of dimensions, as well as accounting for the deepened complexities across staffing, operations, inventory levels, and customer satisfaction. "Meeting consumers' expectations for omni-channel delivery is very difficult in a grocery situation versus an apparel retailer or drugstore," says Pickens, who notes how quickly groceries lose their sheen of freshness with delivery delays and temperature fluctuations. "Grocers have to gather all that data across multiple channels and potentially multiple brands or types of operations, so there's a big need for visibility and solid data capabilities."

5. Unlocking more human potential with AI.

Automation is expected to reshape the workforce more swiftly in grocery than in other industries. That doesn't mean workers will be replaced, but rather that their roles will be reshaped, says Pickens. "Every grocery retailer is now rethinking how they look at their staff and their organization, and asking: Do I have the right roles? Do I have the right skills?"

As self-checkout adoption soars, for instance, the number of employees needed to manually scan groceries will continue to decline. But demand for digital skills among cashiers was 5x higher in 2020 than in 2017, according to [Deloitte](#). And alongside greater digital fluency, a cashier now overseeing multiple self-checkout kiosks may need a stronger command of soft skills, as more of their time becomes focused on easing customer frustration, answering questions, and providing attentive service.

Elsewhere within the store, technology augmented with AI is guiding frontline workers on task prioritization, helping those workers to be more productive and focused—and freeing up resources that can be deployed to new roles. Offering, for example, an in-store cheesemonger or IPA tastings can create competitive differentiation, and sway customers to shop in-store (yielding a healthier margin).

Similarly, store managers are finding that intelligent automation and AI can free significant bandwidth long consumed by performing routine tasks and transforming static data points into action plans.

"Right now, a store manager might get a daily sales report, and through years of experience might figure out how to connect a dip in sales to the underlying factors and how to react," says McElroy. "But with AI, that same manager can see sales are down, here are the five key factors that influence that, and here are the actions to take. The manager is still in the mix, but they are a lot more effective by having, essentially, their own private analysts."

When technology—rather than years of trial and error—helps managers acquire the know-how they need, it frees them to spend more time on their teams, from upskilling and cross-training to actively listening to and coaching employees. In that way, McElroy likens AI and democratized data analytics to a rising tide "that lifts the boats for all talent in the organization."



Workers who are confident in their professional growth path are 3.3x more likely to stay at their current employer for the next 12 months, according to [Deloitte](#).

“

Every grocery retailer is now rethinking how they look at their staff and their organization, and asking: Do I have the right roles? Do I have the right skills?

Keith Pickens

Managing Director, Retail Industry, Workday

Technology augmented with AI and machine learning (ML) can also replace broad, one-size-fits-some upskilling efforts with personalized development plans that are continuously aligned with dynamic business needs. Even tracking the skills and capabilities is a daunting task for grocers saddled with legacy systems. But when AI is applied to unified workforce data, grocers have a real-time skills ontology at their fingertips—as well as a way to identify skills gaps (both current and looming) and prescriptive recommendations to close those gaps.

Any frontline activity—with digital trainings, job rotations, learning experiences—fuels a feedback mechanism, recalibrating future recommendations and helping the employee sustain momentum. When that personalized learning is offered alongside intuitive tools that enable employees to better understand their options for career progression and the skills and steps needed to advance, it actively encourages them to envision a long-term career at the company. No surprise, then, that frontline leaders are far more likely to invest in online training and development tools for the front line, compared with organizations overall (49% vs. 36%), a global [Workday survey](#) shows.

“We had one global grocer share that 75% of their store managers are coming from hourly workers,” Homeyer says. “If you crunch into the data, the people who are actually in charge of running the business are long-term employees, are invested, or love the company. So you need to think about how you grow these people.”

From surviving to thriving to driving the market.

Beset by disruption on all sides, grocery retailers recognize that change is an absolute given. But the reality is, there isn't a fixed point on the horizon that grocers can head toward. Even as they navigate the current shifts in consumer habits and workforce expectations, they must proactively anticipate the impact of whatever comes around the corner next—whether that means the proliferation of electronic vehicles changing parking lots and consumer demand, edge computing infiltrating the store environment, or any other number of factors and events that could impact the industry in many ways.

The only certainty, then, is the need to adapt—across every dimension. Technology that fuels adaptability will be what differentiates those grocery retailers that survive the industry's next evolution from those that take the lead of the competitive pack. To learn more, visit: workday.com/retail



Technology that fuels adaptability will be what differentiates those grocery retailers that survive the industry's next evolution from those that take the lead of the competitive pack.

Deloitte.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms or their related entities (collectively, the “Deloitte organization”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

© 2023. For information, contact Deloitte Global.



+1-925-951-9000 +1-877-WORKDAY (+1-877-967-5329) Fax: +1-925-951-9001 workday.com

© 2023 Workday, Inc. All rights reserved. WORKDAY and the Workday logos are trademarks of Workday, Inc. registered in the United States and elsewhere. All other brand and product names are trademarks of their respective holders. 20231011-grocery-pov-with-deloitte-report-enus