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From aisles to algorithms:
How to thrive in the modern grocery landscape

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The grocery industry is going through a major correction. As foot traffic falls and the shift to digital shopping takes hold, retailers need to reinvent their operating model for the digital / physical age. The challenge is clear, and those who crack this code could lead the future of grocery.

Danny Edsall
Global Grocery Co-Leader at Deloitte

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Introduction

The grocery industry is in flux due to a variety of factors. Consumer demographics are changing, and the idea of a typical customer is now just part of grocery industry folklore. Today's shoppers increasingly opt for the ease of online shopping, making predictable trips to the store less routine. As a result, foot traffic is falling. Traditional grocery retailers are pulling out all the stops to drive up footfall, but it may take more than sushi bars and fresh-squeezed juice to win customers back. As digital disruptors eagerly grab up their share of the grocery pie, traditional retailers are looking to strengthen their position. However, trying to shift to digital-first strategies while holding on to old business models can hinder their progress. This may leave many retailers in a pressure-cooker scenario. Given these difficult realities, how can grocery retailers stay relevant? Read on to discover how the industry's best are beating the odds by innovating, optimizing, and tapping into new revenue streams within their digital business and beyond.

Adapting to change: How the grocery industry's "golden era" is evolving

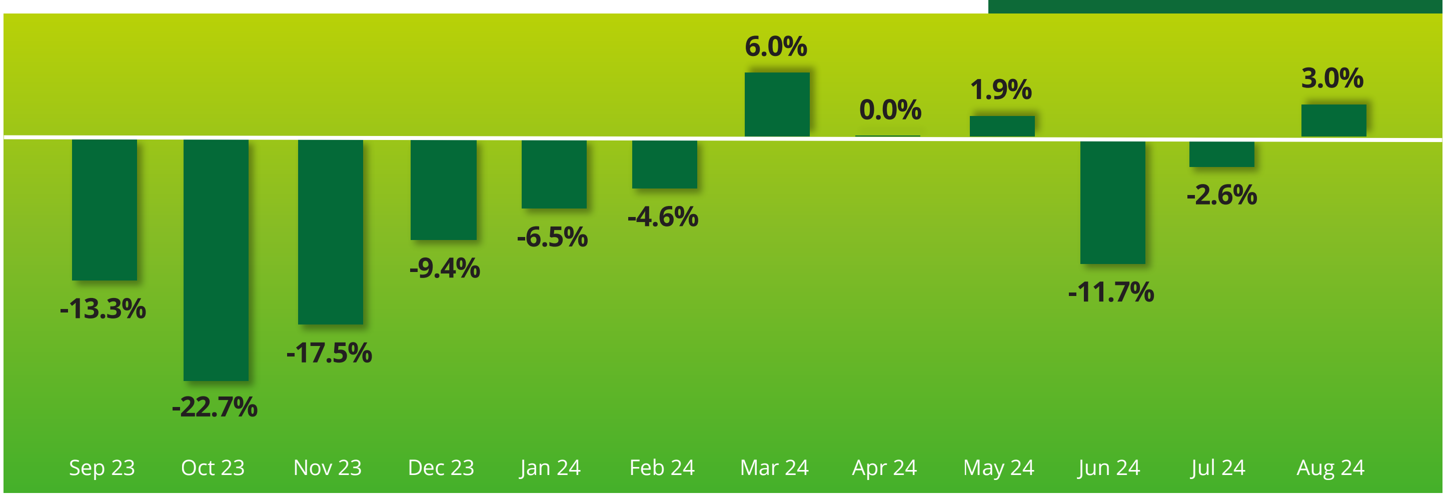
The shifting landscape: From post-war expansion to modern grocery challenges

Running a profitable grocery store used to be a lot simpler. After World War II, people flocked to booming cities and peaceful suburbs, ready to settle into their cozy, white-picket-fenced homes. The grocery business expanded rapidly to keep up with growing food consumption. Back then, shoppers would generally go to their local supermarket on the same day every week, navigate the usual aisles, and fill their carts with canned soup and peanut butter. It was a routine, predictable experience designed for just one type of shopper. And, at the time, it worked. In this era, growth was about grabbing up new stores and expanding as fast as possible. But society has changed, and what may have worked for the nuclear family isn't as effective for the modern consumer.

According to Deloitte Global Consumer Signals data based on figures from the top 10 grocery retailers, foot traffic has declined by 6.9% between August 2023 and August 2024. This reflects a decrease from 4,241,565 visits in the previous period to 3,948,330 visits currently.[1]

The grocery industry stands at a crossroads. As foot traffic declines and digital disruptors claim their market share, grocery leaders can likely no longer build their way to victory. The grocery market is showing signs of saturation.

YoY Change in Trips *(Last 12 months)*



Source: Consumer Signals Data, "Foot traffic for all grocery stores in the dataset over a multi-year horizon"

The evolving grocery shopper: Growing diversity and changing habits

Consumers have changed, too, and the typical grocery shopper is no longer just a suburban parent with 2.2 kids and an SUV. According to Deloitte US's The future of grocery retail report, today's consumers are far more diverse in age, household composition, ethnicity, and sexual identity.[2] The report also suggests that traditional milestones like education, marriage, and homeownership are no longer predictable, leading to more complex consumer behaviors.[3] Moreover, as noted in the United Nations World Population Prospects 2022: Summary of Results report, birth rates have declined and life expectancy has generally increased.[4] These changes could impact customer profiles in the grocery retail market, potentially influencing both demand patterns and purchasing behaviors.

Deloitte Consumer Signals data from August 2023 to August 2024 highlights the following shifts:[5]

- The number of online-only shoppers declined by **4.91%,** while their overall spending decreased by **1.42%**. However, total online grocery spending and transactions have risen by **4.45%** and **3.85%**, respectively.
- Although fewer people are shopping exclusively online, those who do are spending more, potentially due to inflation and rising grocery costs.
- Hybrid shopping—where consumers shop both online and in-store—appears to be increasing and may be balancing out the decline in online-only shoppers, with the overall number of online shoppers decreasing only slightly by **0.24%**.
- In-store shopping remains the dominant and preferred method, accounting for **90.26%** of all sales, though it has seen a slight **1.8%** drop.
- Pick-up and delivery channels are experiencing rapid growth, with pick-up sales up **7.31%** and delivery sales surging by **34.24%**.

There's no one type of customer anymore—just thousands of micro-segments demanding personalized experiences. As customers become increasingly diverse, grocers should no longer assume that everyone wants the same jar of peanut butter.

Deloitte's Consumer Signals data suggests a broader shift toward hybrid and more flexible grocery shopping methods. While fewer consumers appear to be shopping exclusively online, those who do are spending more. At the same time, pick-up and delivery channels are growing in popularity.

The digital frontier: Balancing investment and opportunity

Significantly increasing costs in the value chain seldom supports profitable growth for grocery retailers. Likewise, reduced store foot traffic has disrupted the traditional growth engine of store expansion.

The grocery industry is at a crossroads, and the shift to digital-first models presents challenges. With razor-thin margins to contend with, traditional grocery retailers are feeling squeezed. And the cost of going digital—from delivery to fulfillment, digital marketing, and beyond—is putting further strain on those cost structures.

To meet consumer expectations, grocery stores have transformed into supercenters offering an astonishing variety of products from all over the world, whether it's mangos from Mexico or artisanal cheeses from France. Grocers should also deliver tailored, digital experiences to a largely fragmented customer base. And the logistics and economics of that can be tough. From digital to in-store experience and beyond, grocery leaders should look for ways to make the whole meal more palatable, and more profitable.

If delivery costs surpass the value of goods, it becomes important for retailers to rethink their strategies to protect profitability. However, in a market where consumers increasingly value convenience, speed, and personalization, retailers that fail to adapt risk losing market share and competitive advantage. The online paradox is confounding to say the least. Grocery leaders are looking to cut costs and automate as much as possible, whether it's fully automated online distribution centers, automated trucks, drones, or any number of other technologies. But even that alone may not be enough.

So, what's the right move? Go digital and lose more margin? Avoid going digital and risk losing customers and competitive advantage? Neither is a perfect option, but with the right strategy, grocery leaders can walk down the path toward digital. However, as important and necessary as digital is, retailers shouldn't only focus there. To remain profitable, grocery leaders should also be more strategic in other areas of their business.

Out with the old: Responding to shifting models, markets, and dynamics

Capture share of life versus share of wallet

Customers today seek more than just pantry staples; they expect an engaging and enriched shopping experience. With the convenience of home delivery offering everything they need within hours, there is little incentive to visit physical stores. To compete, grocery retailers should provide compelling reasons for customers to choose in-store shopping over the convenience of staying at home.

Retailers should shift their mindset from capturing share of wallet to capturing share of life. That means diversifying their offerings and reengineering stores to offer services and experiences that fit into customers' daily lives. Some of the larger grocery retailers do this well by outfitting stores with complementary services and stores like salons, clinics, and restaurants to give customers more reasons to visit. By embracing the greater-share-of-life model, some larger grocery retailers are delivering a shopping experience that makes their store a go-to destination.

Creating a unique in-store experience can also set retailers apart. For instance, Eataly blends dining and grocery shopping by offering high-quality Italian cuisine in-store and selling the ingredients so customers can recreate those same dishes at home. This unique blend of experience and convenience not only helps to attract food enthusiasts but also fosters an emotional connection with the brand. And that connection appears to be positively impacting Eataly's bottom line. According to European Supermarket Magazine, Eataly reported consolidated revenue of US$695.36 million (€656 million) for 2023, marking a 9% (US$57.24 million / €54 million) increase from 2022.[6]

Grocery footfall is declining across the board. Retailers should plan for this reduction in foot traffic by finding new ways to fill their store spaces and create a compelling in-store experience.

Grocers should think beyond simple transactions. It's not just about offering more products but integrating into the customer's everyday routine in meaningful ways. To achieve this, retailers should understand their customers.

By diversifying offerings and enhancing the in-store experience, grocery leaders can help ensure that their stores remain vibrant, essential destinations for customers. At the same time, retailers can also improve operations to serve customers in a more personalized way. For REWE, one of Germany's largest supermarket chains, this balance is key.

From corner store to cloud: How REWE is using data to better serve its customers

REWE, one of Germany's largest supermarket chains, started humbly in 1927 as a collection of small neighborhood markets. These friendly neighborhood shops were about personal service—store owners knew their customers by name and could always recommend exactly what they needed. According to the REWE Group's official website, REWE now operates over 3,800 stores across Germany, making it one of the country's leading food retail companies.[7]

REWE recognized the need for a transformation. So, they collaborated with Deloitte Germany to find a solution that would help them serve customers in a more personalized, data-driven way. To address this challenge, Deloitte Germany and REWE implemented a customer data platform (CDP) on Google Cloud. This platform unified data from 15-20 different sources, creating a 360-degree view of each customer by resolving multiple data points into a single, accurate user profile. Now, with real-time data processing capabilities, REWE can not only track customer behavior but predict it. This enables them to deliver highly targeted offers across their network of stores.

Additionally, REWE is using the data in its CDP to pursue opportunities in the retail media network space. By utilizing its CDP, REWE has been able to create highly targeted audience segments for its retail media network, allowing industry partners to reach specific customer groups with greater precision, enhancing the value of ad placements and boosting engagement.

As REWE grew, maintaining that intimate connection with customers became increasingly challenging. With data across various systems and departments, REWE found itself grappling with data silos. Without a unified source of customer information, personalized offers became difficult to deliver. Generic promotions missed the mark and wasted marketing spend.

The results have been promising, enabling REWE to:

- **Deliver personalized, engaging promotions:** REWE has built six million unique user profiles, allowing them to deliver personalized promotions that connect with individual customer preferences. For example, shoppers who frequently buy avocados receive targeted deals that enhance satisfaction and drive stronger marketing results.
- **Boost efficiency through smarter marketing:** The CDP's advanced personalization capabilities have dramatically reduced media wastage, significantly improving marketing efficiency across all campaigns.
- **Transform customer interactions:** This personalized approach has improved REWE's customer interactions, leading to more meaningful engagements and fostering deeper customer loyalty.
- **Find new revenue streams:** REWE has seen a significant increase in revenue by using its customer data to provide highly targeted advertising opportunities, enhancing both relevance and value.

With the Deloitte Germany team's guidance and the scalability of Google Cloud's infrastructure, REWE can continue offering a tailored shopping experience—much like they did in their early days as a neighborhood market. Looking ahead, REWE plans to expand its loyalty program in 2025 to make greater use of the data in its CDP. With real-time data, they can gain deeper insights and offer more personalized experiences, further strengthening customer loyalty and retention.

Beyond personalizing the customer experience, as REWE has done, grocery retailers should also rewire their supply chains to stay efficient and meet the demands of omnichannel shopping.

Rewire the supply chain for digitization

In grocery, margins are thinner than a knife's edge. Even the top retailers make just US$1 on a US$100 basket of goods if they're lucky, which hinges upon how fully they can fill the truck that ships the groceries to the store. The moment retailers convince consumers that they don't have to visit the store, the model can become strained because it's challenging to deliver with the same efficiency. Let's use the apparel industry as an example.

When the apparel industry caught the omnichannel bug, retailers built new warehouses that they filled full of apparel to serve their online customers, and they still had warehouses full of shirts and shoes and dresses to serve their physical stores. So, what happened? Supply chain costs doubled, which is why many once-mighty apparel retailers crumbled under the weight of their massive property portfolios, as the Guardian put it.[8] To avoid a similar fate, grocery retailers should rewire their supply chains for the current omnichannel and digitally enabled reality, but that code hasn't been fully cracked yet. To address this challenge, grocery leaders should cut costs and automate as much as possible, whether it's automating their distribution centers, using automated trucks and drones, automating inventory tracking, implementing in-store automation, or any number of solutions powered by artificial intelligence (AI). AI can help enable significant cost reductions and efficiency gains that most retailers haven't yet realized, which is a compelling reason to act.

Associate experience (AX)	Operational transformation	Customer experience (CX)
Drive key **AX/CX intercepts** and **develop dynamic solutions** that simultaneously **maximize the experience** for both	Drive value through effective and efficient **operational execution, cost savings**, and a strong associate experience	Deliver on **enhanced customer experience**, informed by observed customer behavior and associate intercepts
"Smart" task management Machine learning-driven decision engines to prioritize, allocate, and measure tasks	**Real-time inventory management** Accurate and full visibility of inventory levels across channels	**Friction-free checkout** Seamless and low-touch alternate checkout through next-gen POS
Labor optimization Labor forecasting decisions, with more visibility into associate productivity	**Enhanced fresh for everyone** Advanced visibility into product freshness with real-time tracking	**Personalized recommendations** Customer analytics and in-store tech to deliver highly personalized recommendations
Gig workforce Retailers are utilizing temporary third-party workers to help meet demanding staffing needs	**Dynamic pricing** Electronic shelf labels display real-time price based on prioroity supply/demand indicators	**Synchronized loyalty profiles** Synchronized loyalty profiles, including preferences, offers, and transactions

Image source: Deloitte US, What retail technology has in store, 2023

As promising as automation is for improving supply chain operations and in-store experiences, the journey shouldn't end there. Retailers should also look at an important supply chain overlay: the value chain. And one way to gain more control over where profits are generated or lost—and the value delivered at each stage—is to become a vertically integrated retailer.

There is still significantly more cost takeout that AI can enable, which has yet to be realized by most. If grocery leaders don't consider digitizing, they could risk being burdened with double the inventory and double the channels while serving the same number of shoppers.

Become a vertically integrated retailer

Vertical integration isn't a new concept. Kroger, Costco, and Trader Joe's have long produced private-label products in-house. Amazon combined its powerful online platform with a physical retail presence by acquiring Whole Foods (Forbes reports[9]), Costco built its own poultry plant in Nebraska (the Daily Mail reports[10]), and Walmart opened a proprietary meatpacking facility in Georgia (according to Manufacturing Dive[11]). Walmart's new high-tech, 492,000 square-foot consolidation center in Illinois further enhances these logistics capabilities, allowing them to use automation to handle three times more volume, Supply Chain Digital suggests.[12]

And it's no wonder these big players are focusing on vertical integration. By becoming a vertically integrated retailer, grocery leaders can:

1. **Control costs:** By managing production and distribution, retailers can reduce costs by cutting out third-party suppliers and optimizing operations.
2. **Increase profit margins:** Owning more stages of the supply chain allows retailers to capture greater value, leading to higher profit margins.
3. **Add resiliency to the supply chain:** Vertical integration can allow for better control over the supply chain, helping retailers manage disruptions and helping to ensure product availability.
4. **Control product quality:** Retailers may be able to maintain stricter oversight of product quality by controlling production processes and raw materials.
5. **Gain brand differentiation:** Producing private-label goods in-house can allow retailers to differentiate their brands and offer exclusive products to customers.
6. **Gain more control:** By vertically integrating and producing their own goods, grocery retailers may have more latitude over defining their supply chain while making more margin and money for shareholders.

Vertical integration may help grocery retailers gain greater control over where profits and value are generated or lost at each stage in the supply chain. However, while vertical integration can offer numerous benefits, it can also come with risks. For one, the significant upfront investment required for vertical integration can be a financial burden, especially in industries with tight margins like grocery retail. Additionally, integration can shift companies into unfamiliar areas of operation, possibly leading to inefficiencies or operational missteps.

However, when done right, vertical integration can create competitive advantage by consolidating control and capturing more value. But grocery retailers should carefully weigh these benefits against the risks to avoid locking themselves into costly and difficult-to-manage systems. Balancing the pursuit of control with strategic flexibility is key to using vertical integration effectively. Aligning with experienced collaborators can help retailers navigate the complexities and help ensure successful integration. Moreover, if capital investment isn't a constraint, retailers can find additional opportunity through mergers and acquisitions (M&A).

Vertical integration can enable retailers to maintain more control, which may help them fortify their position.

Create opportunity through M&A

Mergers and acquisitions have become a critical strategy for grocery retailers facing margin pressures and increasing competition from larger, more agile competitors. To provide a prominent and recent example, Kroger is in the process of buying Albertsons, which will be the biggest grocery merger that the market has ever seen.[13] Presumably, Kroger and Albertsons are merging not just to consolidate power, but because organic expansion can be slow and challenging. By joining forces, they can potentially improve operations, reduce costs, and improve profitability, ultimately helping them to compete more effectively.

Moreover, M&A can trigger what's known as the flywheel effect, a self-reinforcing cycle where growth generates more volume and efficiencies that can be reinvested into further growth. This is a strategy that some larger retailers have perfected over the decades, achieving economies of scale that allow them to offer lower prices and maintain a dominant market position. However, M&A aren't without challenges:

1. The complexity of integrating supply chains, systems, and company cultures can create operational bottlenecks.
2. Acquisitions can impose significant financial strain on the buyer and often require experience outside the company's core competencies.
3. Additionally, the scale and efficiency achieved through M&A activity doesn't always support sustainability goals, which may create misalignment with company values and customer expectations.

Merging with or acquiring a competing organization can help grocery retailers expand quickly, improve operations, and fend off larger competitors. However, the complexities involved in integration and the potential sustainability concerns should be carefully managed. To move forward with confidence and authority, retailers can also build on the value of digital client relationships.

Organic growth, such as adding new stores, can be a slow and resource-intensive process that may take years or even decades. In contrast, acquiring or merging with another company can help retailers grow quickly, capture market share, and achieve operational efficiencies.

Build on the value of digital client relationships

As the grocery industry moves toward a digital-first model, cutting costs and finding efficiencies is key. Beyond that, retailers should also be looking for new revenue streams. According to the US Chamber of Commerce, grocery leaders like Kroger, Walmart, and Instacart have entered the retail media space, where they generate additional revenue through targeted advertising.[14]

Advancements in in-home technology also show potential. Voice assistants like Siri, Amazon Alexa, and Google Assistant already integrate with smart fridges to manage inventory and automate grocery lists. The emerging wave of digital home assistants can offer more than a simple kitchen timer or light switch; they can now give insightful advice and recommendations on what meals to cook, how to balance the family budget, or how to use food as part of a healthy lifestyle. They have the potential to become trusted members of a family's lifestyle, taking on some of the role that was traditionally offered by their local shopkeeper.

While using voice assistants in this way isn't yet mainstream, AI advancements could drive greater adoption and ease of use in the coming years. A 2024 Research and Markets report, highlighted in a Yahoo Finance press release, projects that the smart fridge market will grow from US$368.7 million in 2022 to US$904.8 million in 2029, signaling the potential for widespread integration into daily life.[15]

The use of digital home assistants or retail media networks might seem futuristic in a business where margins are being eroded daily and labor costs and shortages continue to plague customer service. It's a tempting notion to focus on mitigating these challenges first before investing in more leading-edge approaches. However, as the grocery market grows increasingly competitive, tech giants with deep pockets, advanced capabilities, and aggressive growth strategies are rapidly eroding the once-formidable competitive moat of brick-and-mortar retailers.

According to Deloitte research, current market adoption of digital-first purchases is around 11% to 13% of total grocery purchases and continues to grow steadily. Other categories, such as apparel, which have gone through the adoption curve are running at around 30% and climbing. The extent of consumers' willingness to purchase groceries digitally remains unclear. However, an additional 20% growth in digital-first fulfillment could be catastrophic to the economics of most traditional grocery retailers. To stay ahead of these shifts, grocery retailers should master the new art of physical/digital grocery, which seems to be here to stay.

The greatest asset of a grocery company isn't just its ability to sell products; it's the trust and insight built with customers in one of the most personal aspects of their lives. Retailers can deepen this trust by adding value and monetizing the relationship in an empathetic way. Cross-marketing and offering tailored advice and recommendations could distinguish thriving retailers from fading brands.

Building a better model for sustainable success

No matter which strategies grocery retailers choose to employ, a shift in culture and self-identity is important. Traditionally, grocery leaders have seen themselves primarily as operational retailers who move products from suppliers to store shelves and into the hands of consumers. But this model is becoming increasingly outdated. Moving away from a purely operational mindset may require a significant shift in leadership culture, one that is willing to take bold steps and make strategic decisions that may not yield immediate returns but can be helpful for long-term viability. It takes courage for leaders to convince shareholders to invest in these changes, especially when it may involve short-term sacrifices.

The grocery industry has reached a boiling-over point, and leaders should take decisive action to protect their margins and future growth. Those who emerge victorious will be the ones unafraid to take bold, strategic steps. They'll have the courage to build not just a new model, but a better one. The future belongs to those willing to rethink their operations, tap into hidden assets, and take calculated risks. This new type of leader will likely embrace innovation and guide their organization through the critical cultural and operational shifts needed for success. To become that kind of leader, grocery executives should adapt, evolve, and act decisively. Most importantly, they should move away from a model that was built for a world that no longer exists. The path may not be easy, but those who lead with courage and vision will not only be left standing—they'll be left standing tall.

Connect with us

Danny is a principal with Deloitte Consulting LLP and a co-leader of Deloitte's Global Grocery practice. He has more than 30 years of professional experience from a career spent transforming retail clients around the world. Danny led multiple transformation programs in Supply Chain, Merchandising, Store Operations, and Logistics. In the last ten years, he has helped retailers in their journey to meet the expectations of "Digital Consumers" with projects like omnichannel supply chain, distributed order management, mobile/e-commerce, self-scanning, and store experience transformations. Danny has also contributed to many industry initiatives and is on boards and industry standards groups such as NRF, GMA, and GS1.

Danny Edsall
Principal
Deloitte Consulting LLP
+1 479 231 9394
dedsall@deloitte.com

Adgild is the market lead for retail in North South Europe and also the global co-leader for grocery. His expertise lies in strategy & transformation consulting for the retail sector, covering e.g. omnichannel customer propositions, customer journeys, channel transformation, advanced analytics, digital strategy, store transformation and operational strategy. Adgild has an outstanding track record of supporting retail clients through end-end retail transformation programs, from analysis & design through to delivery, and typically develops excellent working relationships at executive level with his clients. Examples of his clients include Albert Heijn, bol.com, Heineken, Delhaize, Tesco, IKEA, Waitrose, Burberry, Dunnhumby, Morrisons, Homebase, Clarks, Game Group, Volkswagen, Audi, KLM, British Airways.

Adgild Hop
Partner
Retail, Market Lead
+31650055210
ahop@deloitte.nl

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