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The future of food: a Canadian perspective

Fresh, focused, and sustainable

The role of the grocery store



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Introduction

The grocery store is in the midst of a great transformation, powered by Canadians' changing food consumption patterns and preferences and accelerated by the impact of the COVID-19 pandemic. Consumers are striving to make healthier food choices, searching for convenience, and focusing on the impact of their food decisions on environmental sustainability. Food retailers and consumer packaged goods companies are already working to realign their strategies and operations to meet their consumers' rapidly evolving needs, with the store at the front line of their efforts.

Food-focused companies are reimagining the role the store plays in an omnichannel world, rethinking everything from formats, locations, and product assortment to

merchandising and in-store experience. While freshness has always been a critical category for grocers' success, COVID-19 has accelerated consumer



lifestyle preferences for healthy, sustainable, and locally sourced. As a result, the grocery store of the future will continue to prioritize fresh produce, meat, dairy, and an ever-growing array of plant-based alternatives, along with a product assortment that reflects the growing diversity of consumer tastes and lifestyle preferences. It will focus on delivering a seamless, convenient experience across the shopping journey, from the apps that provide tailored meal ideas and shelves with complete meal solutions to automated checkouts and convenient delivery or pickup options. Store associates will be able to leverage the new-found appreciation for front-line

workers to upskill and advise customers on their food selection. And companies' commitment to sustainability will drive decisions around food sourcing, food waste, product packaging, carbon labelling, and more.

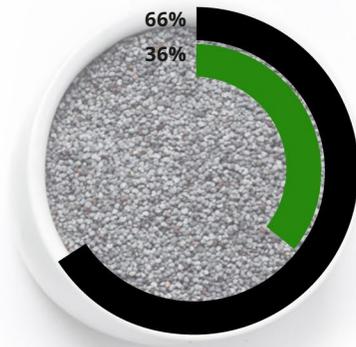
There will be challenges and risks along the way, of course. Climate change, economic uncertainties, and friction between trade partners may interfere with food supply chains, contributing to product shortages and rising costs. Lack of investment in automation, artificial intelligence (AI), analytics, and other technologies could hinder efforts to transform and remain competitive.

Food retailers may be finding themselves searching for creative new uses for their surplus store space. It may become harder to find workers with the skills and capabilities needed to deliver the reimagined store experience.

In this article, the second in our series about the future of Canada's food sector, Deloitte explores how Canadian consumer trends are changing and what that means for food retailers—and the role of the store in particular.



Pressure to accelerate the store's evolution



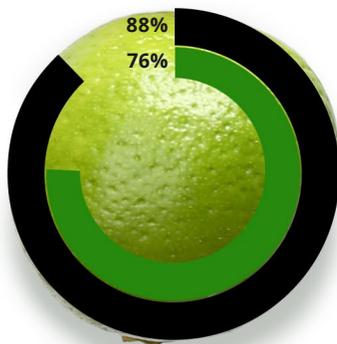
In recent years, the lifestyles and consumption habits of Canadian consumer have been changing in response to a variety of factors: health and wellness trends, climate change worries, food and plastic waste concerns, the ubiquity of online shopping, rising food costs, and even changing demographics. Then COVID-19 hit—and pushed the pace of change into overdrive. Food retailers found themselves racing to keep up while aiming to strike a balance between investments and operating efficiencies.

66% of Canadian consumers are cooking more meals at home than they did in the previous year, and 36% are baking more often, too.

As discussed in the first part of our future of food series, *The conflicted consumer: 2021 food consumer survey*, 66% of Canadian consumers are cooking more meals at home than they did in the previous year, and 36% are baking more often, too. One in four (25%) say they've taken more interest in learning about how food affects their health and immunity. Nearly three-quarters (71%) feel it's important to know where their food comes from, and 42% say they'd buy more locally sourced items. A vast majority (88%) of consumers say they buy fresh produce each month, and 76% buy fresh meat.¹ Demand for ethnic food products and ingredients is also surging, as Canada's cities grow increasingly diverse and Canadian shoppers become more aware—and enamoured—of global cuisines.

Canadians are also starting to buy their food in new ways: 25% ordered online for curbside pickup for the first time in the past year, while 15% ordered online and had their food delivered. Their key reasons for shopping online? The availability of home delivery (68%), convenience (59%), and time savings (47%).²

These changes in consumer behaviour reflect life under pandemic-related restriction, but they're expected to last well beyond COVID-19. Almost all the consumers we recently surveyed intend to learn more about how food choices affect their health and wellness (99%), and expect to cook more meals (96%) and bake more (90%).³ Also, their concerns about climate change, sustainability, food security, and waste are only likely to intensify in the years to come.



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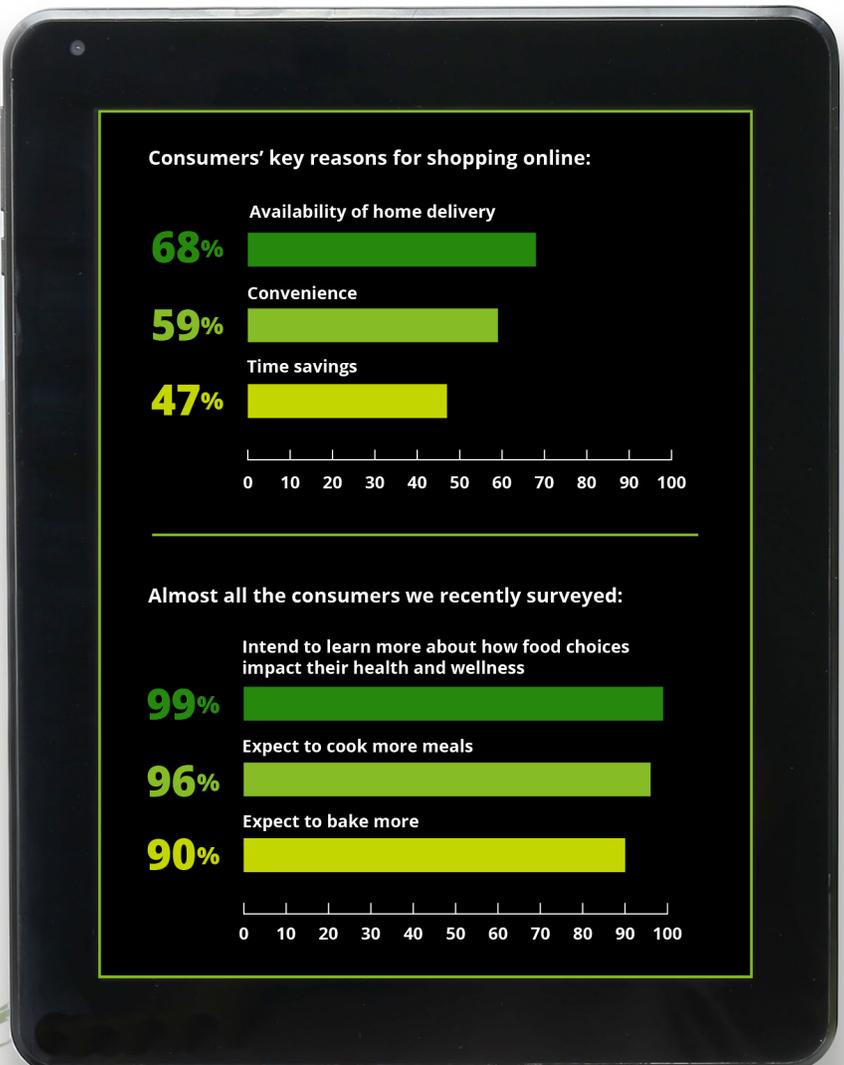
One in four

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Nearly three-quarters

(71%) feel it's important to know where their food comes from, and 42% say they'd buy more locally sourced items going forward.





The speed at which consumers' lifestyles and behaviours have changed—and continue to change—is forcing food retailers to accelerate change. The impact can be seen across the grocery store:

- **Changing formats.** The large-format stores that rose to prominence five to ten years ago are making way for smaller formats that focus on fresh products and food discovery as retailers right-size and “right-brand” stores to be more relevant to the needs of local markets. While large-format stores still have their place, retailers are being much more strategic about where they’re located, using insights from predictive AI and analytical tools. For example, in 2020, Real Canadian Superstore opened its first urban location in Calgary with a footprint 36% to 48% smaller than that of a typical Superstore in the area. The new store sells products from local suppliers, including fresh produce grown during “peak seasons.”⁴
- **Updating product assortments.** While consumer demand for fresh food has been persistent for more than a decade, the recent growth has likely been supported by evolving efficiencies in the supply chain, which enable lower produce prices, and consumers’ growing interest in health and wellness.⁵ Fresh food is fast becoming the key driver of store traffic and sales; in fact, nearly half of Canadian survey respondents (48%) don’t buy groceries online because they want to choose their own fresh ingredients.⁶ Accordingly, retailers are devoting a larger proportion of square footage to fresh produce, meat, and dairy products and making room for an expanding selection of plant-based alternatives. In-store product assortments are being simplified, and less-healthy products are being replaced by categories such as frozen fruits and vegetables. Conventional food retailers are also expanding their assortment of ethnic food products through strategic partnerships, integrating these products throughout the store to meet an increasing demand for ethnic foods. For example, Walmart has partnered with AI Premium Food Mart, a purveyor of ethnic foods from 14 different countries around the world, to expand their ethnic offering.⁷





- **Embracing online shopping.** Online grocery shopping is here to stay, and food retailers large and small have swiftly adapted. According to a recent Deloitte survey, 13% of Canadians intend to purchase groceries online in June 2021.⁸ While it remains to be seen how much consumers will continue to shop for food online once the pandemic abates, retailers are still investing in strengthening their digital strategies, improving their digital platforms, and expanding the range of products available to buy online. They're providing consumers with targeted offers and a range of convenient options for obtaining their purchases, from home delivery to click-and-collect. Some retailers have opted to use stores as micro-fulfillment centres, enabling quicker-than-ever delivery speeds.* They're also moving quickly to implement omnichannel strategies that allow consumers to engage with them when, where, and how they wish. For example, McEwan Fine Foods, a small-scale specialty retailer based in Toronto, has embraced omnichannel innovation by partnering with Inabugby, a grocery delivery service, to launch the first 3D virtual grocery shopping portal in Canada, in which customers can walk through the aisles from the comfort of home.⁹
- **Reimagining interiors.** As store formats and product assortments change, retailers are reinventing store interiors to deliver a superior experience and make consumers' trips as convenient as possible—and to do so as cost-effectively as possible. That could involve improving merchandising, rethinking how customers flow through the store, adding more automated checkouts, and even finding partners to make innovative use of newfound store space. Walmart Canada, for example, plans to revamp over one-third of its store network in Canada over the next three years, to include electronic shelf labels, shelf scanners, and more touch-free checkout options, such as tap-and-pay.¹⁰

***Alibaba's Hema Fresh**

Alibaba's retail concept Hema Fresh connects online and offline retail to provide a seamless experience. Customers use their smartphone to scan items, view nutritional information, and pay. Ease of use has driven strong brand loyalty and engagement. The fact customers receive personalized shopping recommendations and can enjoy sit-down dining in-store doesn't hurt, nor does the fact Hema's use of stores as micro-fulfillment centres has enabled online orders to be shipped in 30 minutes. The concept has worked so well, Hema Fresh plans to operate 2,000 stores by 2023.

The role of the food retail store is changing fast. And as the store continues to evolve, it will create both opportunities and obstacles for retailers and their staff.



New opportunities for store associates emerge

As retailers rethink the traditional role of the store, modernize their technology, and adopt automation, the role of the conventional store associate is also poised to change.

This “new” store associate role is more of a trusted store advisor, who would focus on supporting customers’ discovery journeys to deliver a great experience...

Technology has allowed many repetitive, administrative in-store processes—from demand planning and replenishment to fulfillment and checkouts—to be partially or wholly automated. Other technologies, such as digital checkout and shelf automation—which monitors shelves in real time to prevent gaps and improve demand forecasts—could further extend the automation of the store. Advances like these can help retailers reduce their costs and operate with fewer employees; however, they can also allow retailers to redefine the role of the store associate, creating new opportunities.

This “new” store associate role is more of a trusted store advisor, who would focus on supporting customers’ discovery journeys to deliver a great experience, using their communication skills and strong product knowledge to answer consumers’ questions, advise on their food choices, and help guide them to meal solutions. Canadian consumers themselves appear ready for grocery store associates to bring more to the

shopping experience: 77% of the survey respondents feel the key role of store associates is to help them find products in the store; 65% say it’s to help them speed up their shopping trip and check out faster; and 61% say it’s to find items that aren’t on the shelf.¹¹

For retailers, the changing role of the store creates an opportunity to augment the capabilities of their staff through upskilling, learning, and development. For many store associates, this shift could provide the chance to develop new capabilities, opening the door to new possibilities. However, not all of today’s store associates are equipped to become tomorrow’s store advisors; both they and the retailers must be realistic about the likely skills gaps involved and the training needed to close those gaps.

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Sustainability and innovation are pivotal

The reinvention of the food retail store is just one aspect of a wave of change sweeping over food retail and the food industry more broadly. Retailers are deeply concerned about the sustainability challenges facing the sector, and they're pursuing innovative strategies to reduce waste and emissions, improve food security, and more. This same spirit of innovation will be key to enabling them to respond to shifting consumer needs and remain competitive.

Food retailers are well aware of the climate and environmental impact of the modern food industry, and they're working to make themselves and their supply chains more sustainable. Research from the United Nations Environment Programme (UNEP) suggests that 17% of total global food production may end up wasted, with retail accounting for 13%.¹² Retailers are finding new ways to reach their sustainability goals through initiatives, such as eliminating single-use plastics and searching for new packaging formats and plastics that facilitate recycling. They're exploring how carbon labelling can help consumers make informed food decisions. They're working with more local and domestic growers and suppliers to help them diversify, reduce water and energy use, improve soil health, and establish supplies of sustainably grown food much closer to home.

However, these efforts are going largely unnoticed by those outside the industry. Retailers that take advantage of any opportunity to tell their "sustainability stories" are likely to impress consumers: 37% of consumer respondents expect food retailers to be low-carbon or carbon-neutral, and 29% of them make an effort to shop at food retailers that help them reduce their own carbon footprint.¹³

Innovation is playing a pivotal part in helping retailers improve the sustainability of their own businesses and those of their suppliers. Sobeys, for example, is helping its suppliers reduce food waste by hosting a 12-week intensive program to accelerate food and beverage startup growth by becoming "more purpose-driven, sustainable, and circular."¹⁴

Innovation is also key to enabling retailers to keep up with the pace of change overall, so they will continue to find novel ways to employ the power of automation, AI, machine learning, robotics, predictive analytics, and other emerging technologies to improve the efficiency of their operations and supply chains. It will also help them find fresh approaches to engaging with consumers and delivering the seamless omnichannel experience consumers want. Innovation will enable food retailers to create new products and meal solutions to meet changing customer tastes, and continually adjust store assortments in response to emerging trends. It will also help them discover new ways to make a difference in their communities.

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The role of the store
is evolving fast

Canadians' food consumption patterns and preferences are changing rapidly, quickened further by the global pandemic. Consumers want to make healthier, more sustainable food choices and enjoy a convenient experience no matter how they shop. The impact on food retailers will be significant; they're already reimagining the role of the store in response.

This food store of the future will be fresh, focused, and sustainable. It will be where Canadians go to buy the fresh products they want and discover new tastes and meal ideas. It will be focused on providing a product assortment that's relevant to the needs of its local community. It will also be the most visible expression of retailers' commitment to building a sustainable food system, from reducing food and plastic waste to improving food security and cutting carbon emissions all along the supply chain.

It's the future of food—coming sooner than you may think to an aisle near you.

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