Despite the excitement around new technology and the growth of e-Commerce, Barclays Research analysts believe there are limitations to online’s market share of the fast-moving consumer goods (FMCG) industry, and specifically the food retail sector. Brick and mortar stores must focus on productivity and convenience to generate a true omni-channel experience for customers.

The Internet has changed retail as we know it, even expanding into an area once believed to be digital-proof: the supermarket and grocery store industry. With online platforms and providers promising the convenience of digital grocery shopping, we examine this trend’s brief history and its future growth potential. In our view, brick and mortar retailers that embrace the omni-channel approach, drawing from the best of what both digital and in-store experiences have to offer customers, will dominate the consumer food retail landscape.

The future of food retail in omni-channel

The expectation is that the increasing rise of omni-channel experiences, the growth of customer convenience and disruptive players will force brick and mortar stores to change. The key will be investing in innovation in three key areas: productivity, convenience and customer experience. Many of the largest brick and mortar food retail stores already have innovation labs and are partnering with start-ups and technology companies that will help them adopt the newest technologies.
Opportunities for brick and mortar food retailers

Our analysts believe there is a ceiling on the growth of e-Commerce and therefore argue that there is an opportunity for food retailers to draw from and combine the strengths of both online and brick and mortar experiences. Traditional stores should focus on three areas in order to strengthen their position in an omni-channel future of food retail.

Source: Kantar Worldpanel The Future of E-Commerce in FMCG November 2017

Source: IGD
3 key areas of focus for brick and mortar grocers

1. Productivity

Brick and mortar food retailers can provide value beyond discounters and online-only sellers by improving productivity. Highly digitised supermarkets can operate with about 40% fewer labour hours, freeing staff to provide ‘value-adds’ such as tasting counters or cooking classes; robotics and artificial intelligence (AI) in warehouses and backrooms create more efficiency, while AI and machine learning can provide better forecasting and stock control. Improving sourcing and supply chain logistics can also reduce time-to-shelf, keep inventory fresher for longer and reduce wasted produce.

68% of shoppers feel disappointed with freshness.

Source: Blue Yonder

2. Convenience
Customer demand for convenience can be met through an omni-channel experience by combining in-store, local and online options, as well as providing an innovative, more efficient and quicker checkout and payment process for busy customers. Brick and mortars can also optimise their range of products, maximising the benefits of selling more of the ‘urgent’ and ‘inspection’ items and reducing the floor space dedicated to ‘stock-up’ items, such as toiletries and detergent.

48% of shoppers said slow checkout was the most frustrating element of grocery shopping.

Source: Newton

3. Customer experience

Food retail stores can ensure the perception of their brand’s product quality by investing in fresh foods, especially in-store where customers like to seek inspiration, and by offering customer inspection. Keeping up with popular food and beverage trends can influence perception, as can innovative advertising campaigns. They can also attract and retain shoppers by offering high-quality, branded products under their own labels, as well as loyalty programmes to help convey brand identity, boost customer loyalty and potentially increase gross margins.

50% of pre-family shoppers claim they are prepared to share data so supermarkets can tailor their grocery shopping.

Source: IGD

Investing in innovation can improve the three key areas of productivity, convenience and customer experience in brick and mortar grocery stores. Some examples of technological innovation in the food retail industry have emerged, with several additional potential opportunities on the horizon.
Transforming food shopping into an experience

Food retail shopping doesn’t have to be only in-person or solely online. As customers’ expectations evolve, brick and mortar food retail stores will need to bring the best digital aspects into stores and create a seamless physical and digital, or ‘phygital’, experience that transforms in-store food shopping into something that’s more of a lifestyle activity than a chore. The future of food retail is the omni-channel approach – consumers will shop in person, using their mobile phone apps and online e-Commerce. Brick and mortar stores will need to become experience hubs, local distribution centres for customers who click and collect and bases for home delivery in order to thrive. If retailers are not able to innovate in-house, they should consider seeking partnerships with technology companies to accelerate innovation. Lastly, our analysts see a bridge between the online and offline worlds and argue this will continue into the future.

Important content disclosures

Related content

Headwinds to growth: A ceiling to the online food retail industry

While e-Commerce is expected to continue to grow within the food retail industry, Barclays Research anticipates that it will hit a market share ceiling.
About the analysts

**Emily Morrison** is an AVP in the newly-formed Sustainable & Thematic Investing team within Equity Research at Barclays focusing on Thematic Research. Emily joined the team in June 2018 following two years covering the European Food Retail space and one year covering the European Telecoms sector. Emily graduated with a degree in Economics from Cambridge University.

**Hiral Patel** is a VP in the newly-formed Sustainable & Thematic Investing team within Equity Research at Barclays focusing on Thematic Research. Hiral joined the team in June 2018 following five years covering the European Technology, Payments and FinTech sector. Prior to that, Hiral qualified as a Chartered Accountant with KPMG where she worked in Audit covering Financial Services. She graduated from the University of Warwick in 2009 with a degree in Economics, Politics and International Studies.

**Anushka Challawala** is an Analyst in the newly-formed Sustainable & Thematic Investing team within Equity Research at Barclays focusing on Thematic Research. Anushka joined the team in September 2018 following two years covering European Telecoms. Anushka graduated with a BSc in Management from the University of Warwick.

Read the full report

*Future of Food Retail – Long Live Clicks and Mortar* is now available to Investment Bank clients on Barclays Live or on the Barclays Live App.

Read the Future of Food Retail report