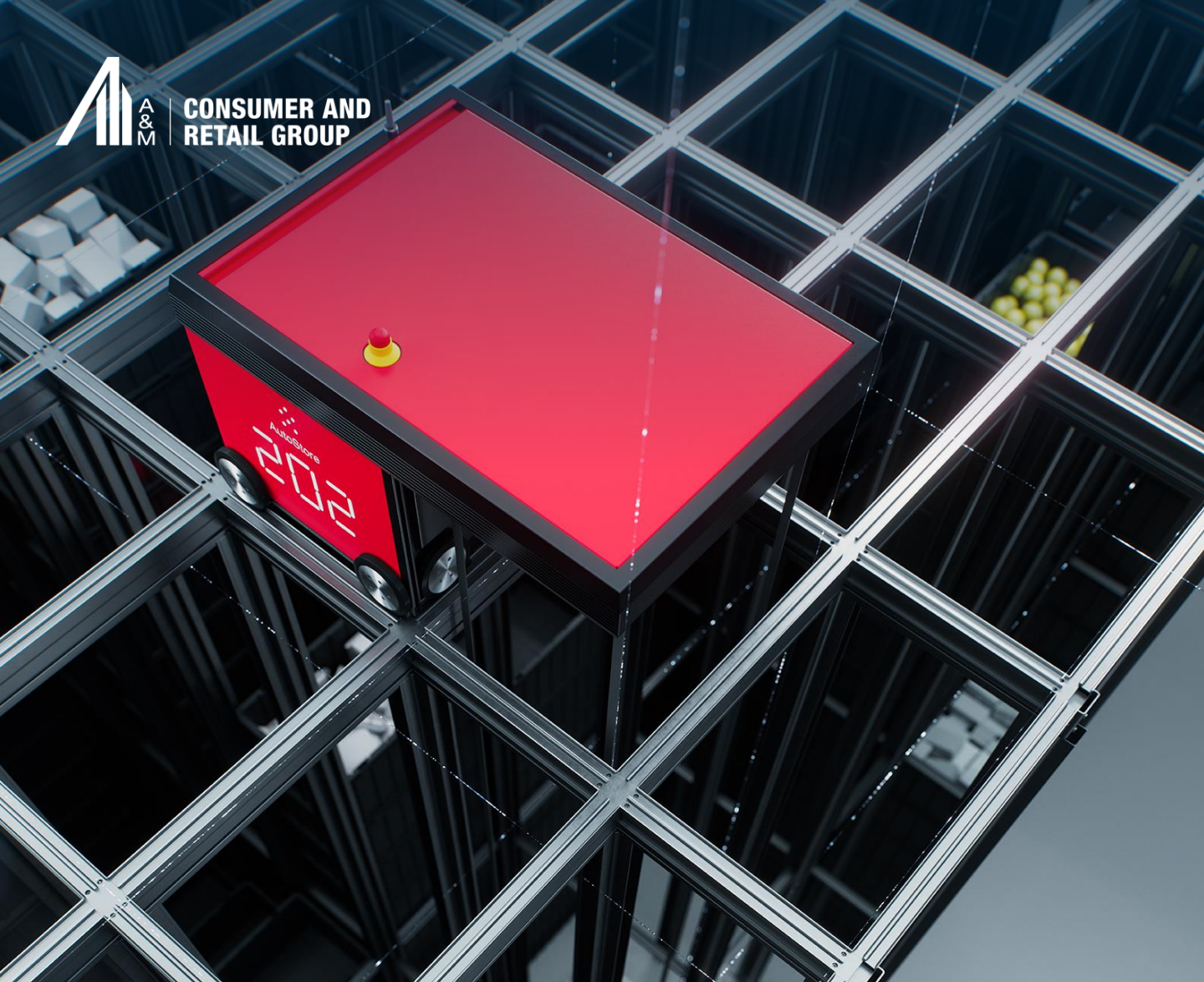




CONSUMER AND
RETAIL GROUP



Micro-Fulfillment: Omni-Channel Grocery Supply Chain of the Future

Consumer Sentiment: Setting the Stage for Omni-Channel Fulfillment



There's no doubt that many of the consumer trends from the pandemic era are here to stay. Pandemic behavior has, indeed, generationally shaped customer behavior and, at times, completely reset customer expectations. Pre-pandemic, many grocery shoppers engaged solely in the physical retail channel where in-person experience and customer service were key. As we emerge into a post-pandemic world, there is a new normal – one where the consumer has increasing expectations for the flexibility to pivot between in-store, BOPIS (buy online, pick up in store), and multiple models of last-mile delivery. As such, grocers must evolve into an omni-channel model and adapt their strategies to appeal to the ever-changing tastes of consumers around the globe.

The pandemic-inspired transition to a truly omnichannel grocery shopping experience is a once-in-a-generation shift. According to the Alvarez and Marsal Consumer & Retail Group's most recent customer sentiment survey, 80% of shoppers have stuck with the changes they made during the pandemic, indicating omni-channel grocery shopping is likely here to stay.

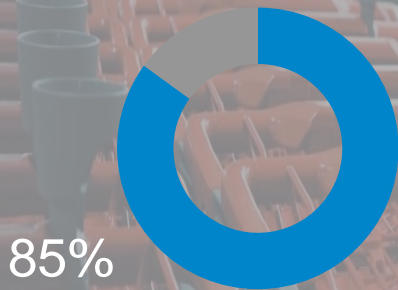
As consumers shop different channels, we expect fewer physical trips. In fact, 53% of shoppers reported they are shopping less frequently, albeit with bigger baskets, as 24% of consumers expect to buy more during each physical trip to a store. These customer trends lead us to believe that omni-channel shopping behavior is here to stay in grocery, but more importantly, that each physical store visit is more important.

With visit-to-store frequency down and volume-bought-per-trip up, grocers have no choice but to deliver an outstanding in-store experience. To do this, there are a handful of key customer promises that every grocery retailer must master: products must be in-stock, check-out queues must be manageable, and colleagues must be ready to answer questions with an eye to up and cross-sell.

In addition to these core omni-channel behavioral shifts, nearly 50% of shoppers from the same survey believe that products they buy regularly have become too expensive. As a result, grocers must prioritize inflation management.

CONSUMERS ARE MOSTLY STICKING TO THEIR FALL PLANS – ONLY 5% MORE HAVE REVERTED TO PRE-PANDMIC BEHAVIOR

Fall



85%

Will stick with changed shopping behaviors they made during the pandemic

Spring



80%

Have stuck with the changes they made during the pandemic

With customers noticing and prioritizing price in their selection of store, the old days of passing price increases directly to the consumer are gone. Grocers need to pivot and rethink their end-to-end operating model to explore every opportunity to offset inflationary pressures for their end-consumers. Not only must grocers exert constant and continuous pressure in managing overhead and costs to remain market competitive, but a massive cultural shift is required to thrive in the emerging inflationary economy. Simply put, the old ways of doing things are not flexible, agile, or profitable enough and must be changed.

Grocers have traditionally experienced low single-digit EBITDA margins. In the face

of the difficult unit economics of omni-channel grocery—and, not to mention, today's record inflationary environment—core grocery P&Ls will be considerably strained. As grocers face these clear margin pressures, what should operators do to creatively protect their profitability? As 10-20+% of sales have moved on-line-in, pandemic-driven consumer behavior appears here to stay, and the price of picking, packing, and delivering groceries has caused grocers to lose money on most orders. While there is no silver bullet solution, grocers need to rapidly invest in a technology that makes each omni-channel ordering more profitable—micro-fulfillment centers (MFC).

“Inflation-related margin management activities have to be part of the playbook, of course, but alternative paths must also be explored.”

Almost every national grocery retailer has begun to examine its supply chain in-depth following the less-than-stellar pandemic-driven on-shelf availability statistics. As such, there are a select few, forward-leaning grocers who embrace the permanence of omni-channel grocery and are beginning to incorporate micro-fulfillment centers (MFCs) into their overall network strategies.



What is a Micro-Fulfillment Center?

An MFC is an automated facility with a small footprint that picks and stages orders for both in-store pickup and at-home delivery. MFCs are usually located in higher volume, higher population density areas. In many instances, the MFC serves as a “hub” which fulfils the omni-channel needs of the store “spokes” around it. Recent announcements of such models include Kroger’s expansion with Ocado, Wakefern’s ongoing work with Takeoff, and Ahold-Delhaize incorporating Auto Store’s technology into their store network.



The A&M Consumer and Retail Group has served a range of clients on grocery network optimization in an omni-channel, post-pandemic world. While we have long modeled MFCs as a component of the future grocery retail ecosystem, many of our clients have asked for more specifics

around the operations of an MFC as a critical node in the future grocery supply chain. Our grocery team visited an Auto Store MFC in Spring 2022 to shine a light on MFC operations and debunk some misnomers preventing more rapid adoption.

A Micro-Fulfillment Center Brought to Life

Auto Store is a fast-growing Norwegian company building out its MFC operations in the US and across the globe. Its expansion began in 2002 and was quickly followed by external commercialization in 2004. The firm debuted its first MFC three years ago and currently boasts over 30,000 robots across 850+ sites and 44 countries.

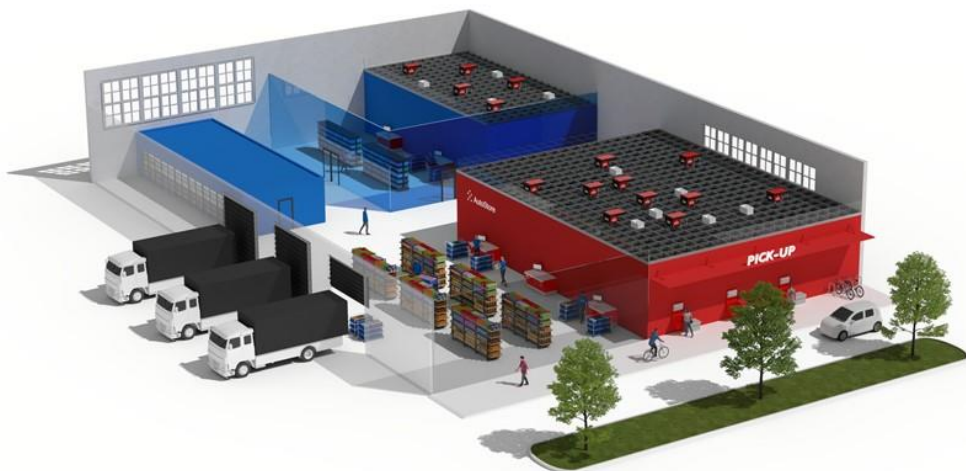
The New Hampshire facility we visited is slightly smaller than a full grocery platform in terms of SKUs, but it certainly demonstrated the efficiency of an MFC installation.

The model we observed had 3,000 bins in 13 stacks built in approximately 650 square feet of space. The bins bring product to the picker, which always remains in one place. The observed solution operated with a sustained throughput of 350 bins-per-hour, which would be up to 350 unique SKUs presented to a single picker per hour. They also offer a solution which can go up to 850 bins-per-hour.



“The bins can be segmented into 4 or 8 parts, meaning anywhere from 3,000 to 24,000 unique SKUs can be stored in this space.”

“In our analysis, the 350 SKU’s per hour is over 430% faster than manual picking and fundamentally shifts the economics of omni-channel grocery, reducing the cost of omni-channel orders by an average of \$7-\$10 per order. ”



MFC's serve as “hub” facilities that fulfill the omni-channel needs of the store “spokes” around them. Recent announcements of such models include Kroger’s expansion with Ocado, Wakefern’s ongoing work with Takeoff, and Ahold-Delhaize incorporating Auto Store’s technology into their store network.

US grocery retailers who have a wide variety of store footprints and sizes will appreciate that Auto Store’s facility is customizable and modular, as installation can be tailored to the unique space where the MFC is built. This is an important factor allowing grocery retailers to leverage their existing real estate network to deploy MFCs in current stores.

According to Mike Demko, Global Head of AutoStore Retail,

“Retailers are facing a perfect storm of threats, changing consumer behavior, labor shortages and an increasingly competitive landscape. Robust, reliable and flexible MFC solutions are allowing these companies to retain their competitiveness in a rapidly changing landscape.”

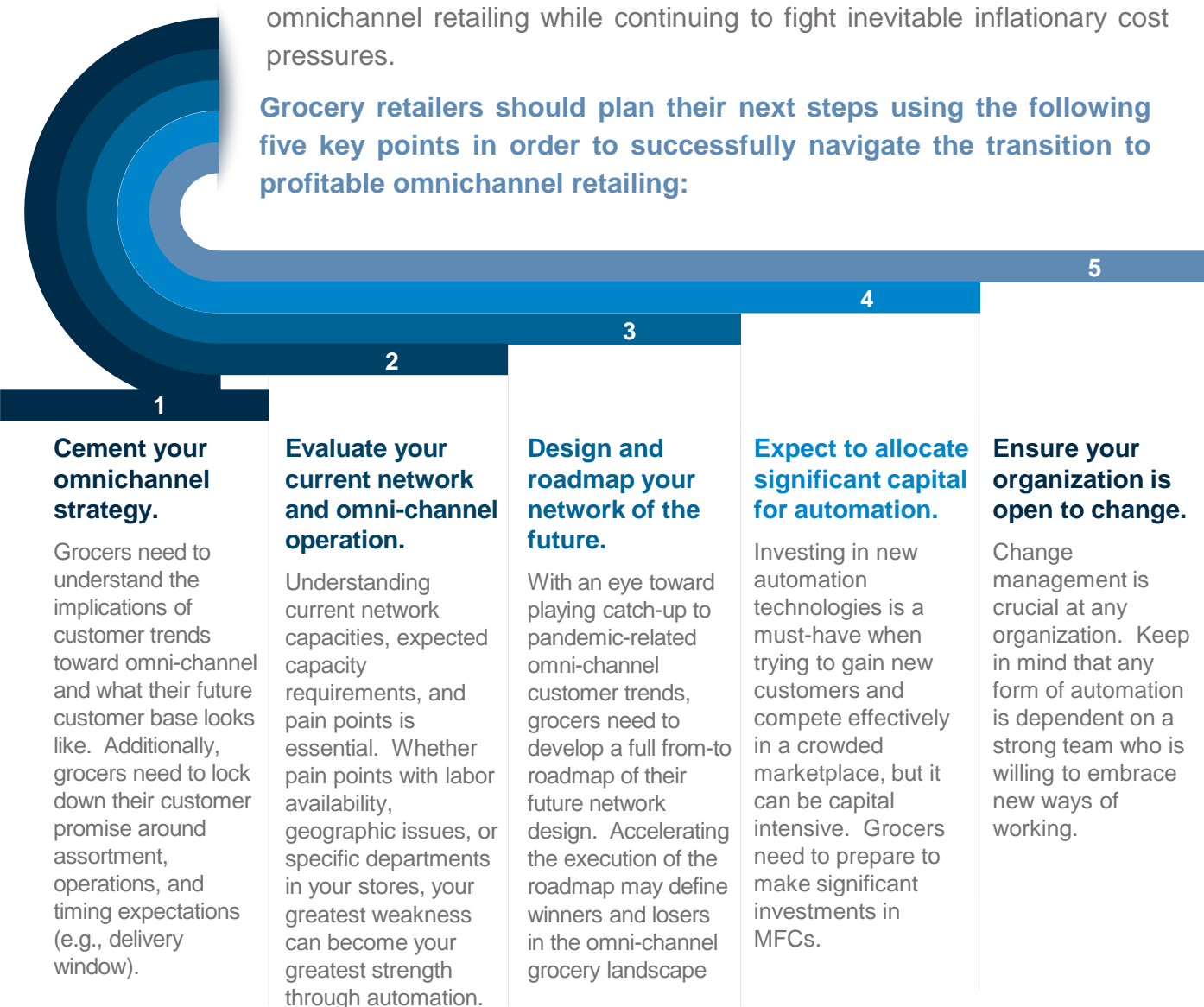
Early adopters of the MFC format have begun to unlock how to profitably execute omni-channel grocery. Automation allows pace and density in omni-channel grocery

and unlocks leverage across multiple stores to one central hub facility. MFC's appear to be a critical component of the profitable grocery ecosystem of the future.

Beginning an MFC Journey

Now is the time for the grocery industry to analyze its network design and take decisive action to capitalize on the opportunities presented by omnichannel retailing while continuing to fight inevitable inflationary cost pressures.

Grocery retailers should plan their next steps using the following five key points in order to successfully navigate the transition to profitable omnichannel retailing:



Omni-channel grocery presents a major challenge, but with a comprehensive review of your current operation and a strategic plan for long-term growth, grocers can put in place the correct automation to win.

The A&M Consumer & Retail Group (CRG) brings consulting and operational experience in Retail and Consumer Goods across functional areas such as strategy, operations, supply chain and commercial functions. CRG has lived through these challenges and has firsthand experience.

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