centre for FUTURE studies

THE FUTURE OF UK FOOD AND DRINK WHOLESALING

A decade of disruption & strategic innovation

fwd FEDERATION OF WHOLESALE DISTRIBUTORS

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About the Centre for Future Studies
The Centre for Future Studies (CFS) is a strategic futures consultancy, based at the University of Kent, enabling organisations to anticipate and manage the future. Our foresight work involves research and analysis across the spectrum of political, economic, social and technological themes. Our clients include national and international companies, not-for-profit organisations, government departments and agencies.

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FEDERATION OF WHOLESALE DISTRIBUTORS
FUTURE OF WHOLESALE

CONTENTS

1 Foreword: James Bielby, Chief Executive, FWD 4

2 Introduction: Dr Frank Shaw, Foresight Director, CFS 5

3 Synopsis of results 7

4 The disruptive forces driving change 9

- **4.1** Fundamental restructuring of the grocery market 9
- **4.2** Amazon disrupting the UK grocery industry 11
- **4.3** Expanding digital technologies 12
- **4.4** Wholesale bypass 12
- **4.5** Changing retail customer demands 13
- **4.6** Brexit 14
- **4.7** Regulation 17

5 Assessing the extent and severity of change 20

6 Prospects for grocery retail to 2030 24

7 The wholesale distributor of the future 26

APPENDIX

Analytical models 29

Key sources 31

Further reading 39

FOREWORD

1

The food and drink wholesale sector is changing, as is the wider retail and distribution context in which we are operating. Many wholesalers are responding effectively to this dynamic context by making incremental changes to their businesses. But, incremental change may not be a viable strategic option for securing a profitable future.

In response to this, the Federation of Wholesale Distributors commissioned the Centre for Future Studies (CFS) to undertake this report to gain insights into the disruptive forces impacting on our sector and to assess the implications and consequences for the future. This report presents the findings of the research and analysis.

As part of this work, in May 2018, we conducted an online survey among our members to assess the extent to which they have identified the disruptive forces challenging the wholesale sector and to gauge the extent to which they believe the disruption poses a major threat to the ways in which they are currently conducting their business. We also held roundtable discussions with our members.

The results confirmed a broad consensus of opinion as to the nature of the disruptive forces at work. However, a spectrum of opinion emerged in regard to the level of disruptive impact they will have. It is clear that members are assessing the extent of change and innovation which will be required to meet the challenges which lie ahead, and this report helps in that process.

The overall conclusion of the CFS work is that the sector is arriving at an inflection point and is facing a period of 'creative destruction' over the coming decade. The successful wholesalers of the future, CFS argue, will be those who embrace innovation, redefine the meaning of 'wholesale' and reinvent their business models. They will transform the traditional wholesale value proposition by engaging the customer, executing the value chain, and energising the business.

Our thanks to all those who have contributed to the thinking in this report.

James Bielby
Chief Executive
Federation of Wholesale Distributors

INTRODUCTION

2

This foresight study identifies the forces of change impacting on the UK wholesale food and drink sector over the period to 2030 and identifies the types of proactive strategic responses which will need to be made to manage disruptive change.

We have viewed the future of the UK wholesale food and drink sector in the context of the entire food supply chain: producers; processors; wholesalers; online retailers; instore retailers; consumers; government, NGOs and regulators. The future roles and activities of each of these stakeholders will cross impact in varying degrees on the wholesale sector.

The food industry is facing a decade of seismic disruption. It will be pushed and pulled in multiple directions by diverse forces: demanding consumers, increasing product innovation, market consolidation, regulatory requirements and new technologies.

The sheer number and magnitude of the factors affecting the industry present a shifting landscape for wholesalers to navigate. Among the more powerful factors influencing this landscape are accelerating digitisation; expanding competition; emerging customer demands; product innovations; continuing disintermediation (the reduction and elimination of intermediaries between producers and consumers); and the consumerisation of expectations.

Wholesalers will be challenged by the emergence of new competitors leveraging completely new business models, rapid advances in and adoption of new technologies, and major shifts in how customers want to interact and transact. These are the characteristics of distribution disruption at the inflection point. (An inflection point is a turning point after which dramatic change occurs with either positive or negative results).

The foresight research and thematic analyses were undertaken in four interrelated stages; the results from one stage informing the development of the next:

- The conducting of a literature review designed to identify the disruptive forces challenging the status quo of the UK food and beverage wholesale sector;

- Analysis of these disruptive forces in terms of the nature and extent of their potential impacts on food and beverage wholesaling. Matrices were developed to rate the severity of the impacts in terms of their potential disruptive consequences;

- The conducting of a survey among a representative sample of FWD members (sample size 49 respondents) to gain their evaluation of the disruptive forces and their assessment of the severity of the impacts on their business; and

- The conducting of a roundtable among ten selected experts in the sector to debate the findings of the research.

Technological advances are creating massive upheavals, with sectors converging, new forms of competition surfacing, and new business models emerging. Wholesalers must position their organisations to prosper in this disruptive age.

Although these are challenging times, the level of change occurring in the marketplace is providing new business opportunities. Perhaps the greatest opportunity in all of this is the chance to become the disrupter — a role both large and small distributors can fill in their respective markets, initiating disruption to the status quo. There are many paths to take on this journey, and many strategies that can be used to combat today's disruptive forces.

It is vital that wholesalers confront the disruptive forces now, given their profound impact on business models and defining importance for the way wholesalers communicate and cooperate with their customers in the future. In order to remain competitive in the medium to long term, it is essential that wholesalers embrace digital transformation and fully utilise the new opportunities that e-commerce presents.

New competitors are penetrating markets that were previously dominated by wholesalers. Platforms such as Amazon not only have sophisticated digital know-how, an extensive technical infrastructure, and logistical expertise, they also have the necessary financial firepower. However, by leveraging their existing core competencies and adopting the right digital strategy, wholesale companies can not only keep pace with the changes, they can turn them to their advantage.

Dr Frank Shaw
Foresight Director
Centre for Future Studies

SYNOPSIS OF RESULTS 3

3.1 The food and drink wholesale industry is in the midst of a decade of major disruption. The coming decade will see wholesalers split into two distinct groups; those distributors who future proof their business through innovation and reinvention and those who maintain a business as usual strategy. Wholesalers in the latter group will decline.

3.2 The key disruptive forces shaping the future are:

- Fundamental restructuring of the grocery market
- Amazon disrupting the UK grocery industry
- Expanding digital technologies
- Wholesale bypass
- Changing retail customer demands
- Brexit
- Regulation

3.3 Consolidation in the wholesale sector will increase over the coming five years.

3.4 FWD members are well informed about the forces challenging their market and have a broad understanding of the dynamics at play and the nature of the threats. However, as the survey among members revealed, the CFS believes some are underestimating the severity of the impacts *(see section five)*.

3.5 The traditional approach to success and profitability in the wholesale distribution industry centred on operational efficiency and supply chain management. But this approach should be extended through to customer engagement and services innovation. Distributors should select, implement, and leverage technologies that work together to enable innovations that deliver new and alternative business models and processes.

3.6 The key areas where wholesalers can improve their performance are:

- Become more customer-centric, working to provide a more personalised experience across an omnichannel environment.
- Leverage the power of data to provide insights into internal operations, as well as into customer requirements and segmentation.
- Extend sensor-based inventory management, their e-commerce channel, and renewable service offerings.

The next 10 years will see a technological revolution in supply chains. It's already well underway with robotic picking, blockchain, Big Data and individual loyalty data personalising offers. The grocery shopping experience will be transformed. Shopping for routine essentials will disappear as the Internet of Things (IoT) takes over and the inventory is managed by product providers in the cloud.

THE DISRUPTIVE FORCES DRIVING CHANGE

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4.1 FUNDAMENTAL RESTRUCTURING OF THE GROCERY MARKET

The traditional demarcation lines between manufacturers, wholesalers and retailers are eroding. We are entering a new era of market consolidation and mega-mergers. This will encompass more consolidation between the leading grocery chains. More cooperation between fuel and grocery retailers. And, more acquisition of medium-sized convenience retailers. This 'perfect storm' of factors will see the industry reach a pivotal point with increased levels of defensive consolidation and creative collaboration.

The Tesco merger with Booker was one of the biggest shake ups in the wholesale and convenience sector in recent years. By diversifying its portfolio into the supply chain while simultaneously acquiring links with thousands of independently owned convenience stores, Tesco's power in the grocery retail sector strengthened.

Coming to the foreground are significant shifts in the value chain. There will be an increasing number of retailers exploring ways to expand their own-label production.

Major supermarkets have, and will continue to, move into convenience retailing. The Tesco–Booker merger will fuel the consolidation of the convenience sector which remains more fragmented than the supermarket sector.

The tie-up with Booker added 5,400 stores to Tesco's existing network of 2,900 small shops, which operate under the Tesco Express, Metro and One Stop brands. Booker owns the Londis, Premier and Budgens brands. The merger with Booker also gave Tesco a route into the foodservice business; a new area for Tesco, but one that accounts for about a third of Booker's sales.

In contrast, the Competition & Markets Authority has formally blocked the proposed £13bn merger of Sainsbury's and Asda after finding it would lead to increased prices. The regulator found that supermarket shoppers and petrol station customers would be worse off due to a lack of competition at both a national and local level.

The merger would have given the two supermarket chains control of about 40% of the UK grocery market and would have created a company bigger than Tesco with estimated revenues of £51 billion and a network of 2,800 stores under the

Sainsbury's, Asda, George, Habitat and Argos brands. During the CMA's extensive investigation, fears were expressed that suppliers could get squeezed since the tie-up would give the merged entity increased buying power.

The cost savings promised through this merger were likely to squeeze those further down the supply chain, particularly the small- to medium-sized suppliers and wholesalers. This would have led to accelerated consolidation in the supply base.

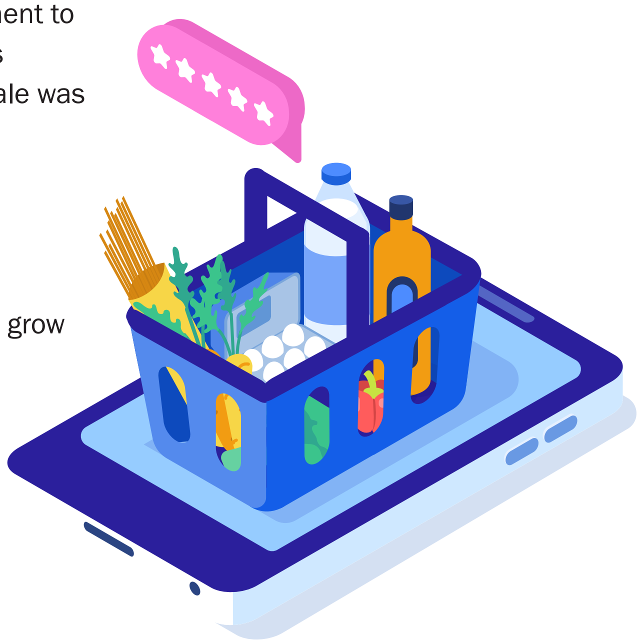
However, the failure of this merger does not signal the end of consolidation in the industry. On the contrary, there is no doubt that the industry is facing a protracted period of readjustment. Competition in the industry is fiercer than ever. At the heart of the proposed merger was the need to drive further efficiencies through scale. What will now emerge remains highly uncertain, but expect constructive conversations between retailers and wholesalers, wholesalers and symbol groups and even large-scale logistics companies.

There is also the growing threat of Amazon, which bought Whole Foods and is working with supermarket Morrisons to deliver in parts of the UK. Amazon could acquire Morrisons in a bid to mount a serious challenge in the UK groceries market. Amazon already collaborates with Morrisons to provide food deliveries to UK customers using its Pantry and Prime services.

Morrisons is also a wholesaler by virtue of its agreement to supply 1,000 McColl's convenience stores, as well as foodservice contracts. Morrisons' turnover in wholesale was more than £1bn in 2018.

Major suppliers such as Unilever, Procter & Gamble and Mars are selling directly to consumers through marketplace-style platforms. The direct-to-consumer model has very disruptive potential and is forecast to grow over the next five years.

The wholesaling industry will experience a tightening squeeze on margins and doing business will become even more difficult as wholesalers are effectively shut out from their markets.



4.2 AMAZON DISRUPTING THE UK GROCERY INDUSTRY

Amazon poses a bigger threat to the grocery market than did the Booker and Tesco merger. The principal businesses challenged over the coming years will not be the supermarkets, but wholesalers and distributors. The wholesale market is a perfect candidate for disruption. Technology has consistently challenged middlemen from traditional business models.

Amazon is aiming to disrupt the entire UK grocery industry and the focus of its strategic attention is shifting from delivery to the reinvention of the grocery store. Through AmazonFresh Pickup, customers can click and collect very efficiently at Whole Foods. Amazon Go is a supermarket with no cashiers: just 'grab and go'. Embedded sensors and other technologies keep track of what the customer has bought. These are the first steps in Amazon's strategy to acquire locations that get closer to the consumer. Both models aim to minimise friction in the shopping experience and reduce labour costs.

Beyond the potential distribution models, Amazon will continue to leverage increased buying power and lower volume cost, provide a greater product selection, and have the infrastructure for faster delivery completely bypassing wholesalers. The faster-to-market advantage of traditional wholesale distribution will be threatened by these new models. To remain relevant in retail, the wholesale distributor will have to differentiate their offerings and services.

Amazon will also be developing opportunities to serve direct-to-consumer businesses. A number of CPG manufacturers are selling via Amazon's website or taking advantage of Amazon Dash, the retailer's consumer goods ordering technology.

Although in its infancy in the UK, Amazon's B2B channel, Amazon Business, has grown significantly in the US and Germany. This growth has been achieved both in terms of sales and categories. A proportion of the revenues in the US are in restaurant supplies, directly impacting foodservice wholesalers. If Amazon targets the UK B2B food and drink market, it will challenge catering especially. However, Amazon Business also represents an opportunity for traditional wholesalers, who can use its platform to sell products.

4.3 EXPANDING DIGITAL TECHNOLOGIES

Digital technology is a major wholesale distribution disruptor, and is reshaping value chains and transforming business models. Digital is both a disruptor in itself and a catalyst for other disruptive forces, such as increasing wholesale bypass. Digital encompasses the standardisation of information through the adoption of packaged Enterprise Resource Planning (ERP) and the transformation of revenue generation through the increasing adoption of e-commerce.

ERP is a process whereby a company manages and integrates the important parts of its business. Many ERP software applications exist to help companies implement resource planning by integrating all of the processes it needs to run a company into a single system. An ERP software system can integrate planning, purchasing inventory, sales, marketing, finance, human resources, and more.

What makes digital such a powerful disruptive force is not just the enabling technology, but the transformational shift it enables in value creation.

Advances in mobile technology and its adoption are amplifying the digital disruption, empowering customers to manage their business while at the same time creating a valuable source of contextual insights. Distributors are confronted with the reality that their business is increasingly mobile and virtual.

> “What makes digital such a powerful disruptive force is not just the enabling technology, but the transformational shift it enables in value creation

4.4 WHOLESALE BYPASS

There are a number of factors that have impacted the traditional manufacturer–wholesaler–customer supply chain model: a lack of price competitiveness; the growth of direct-from-manufacturer-to-operator disintermediation, facilitated by e-commerce aggregator organisations and the development of group purchasing organisations (GPO). Innovative GPOs are providing new platforms which eliminate the role and associated costs of conventional wholesalers including the need for warehousing, handling, insurance and storage. E-commerce will reshape the entire economic model of retail and wholesale.

Rapidly changing distribution channel dynamics and increasing retail market fragmentation are redefining wholesalers' business models. Manufacturers and wholesalers will go beyond competing on price and availability, and deliver differentiated omnichannel customer experiences.

4.5 CHANGING CONSUMER DEMANDS

Continuing shifts in consumer preferences and unprecedented technological sophistication are forcing companies to innovate to stay relevant. Disruptors are reshaping consumer and market behaviour.

With the rise of mobile, social and cloud technologies, customer expectations continue to increase. More than ever, customers demand user-centric convenience.

Shoppers' attitudes towards brands and traditional ways of shopping are changing. Whether it be supermarkets or convenience stores, they face the reality that the assumptions that underpinned their business models for so many years no longer hold true and will only become increasingly obsolete over time.

An understanding of the end consumer is essential for wholesalers to be proactive rather than reactive in meeting the demands of retailers.

Businesses will have to demonstrate greater accountability across the entirety of their supply chains to provide assurances on food hygiene, ethics and sustainability standards as consumer demand for real-time information grows.

Sustainability, provenance and health are now key issues for shoppers. The whole food supply chain needs to be more visible, so people can reconnect with where their food comes from.

> More than ever, customers demand user-centric convenience

4.6 BREXIT

With the EU accounting for around 70% of UK food and non-alcoholic drinks imports and exports, Brexit will have a material impact on the sector; from major supermarkets to local newsagents to international brands.

The government predicts retail and wholesale will be the hardest hit, with costs for food and drink potentially jumping from 8% to 16%. Their analysis also finds that the UK will be left worse off economically under every form of Brexit modelled.

In the short term, there are five factors threatening disruption:

- The outlook for consumer confidence and the potential impact on consumer spending
- Increasing costs through the weakening of the pound
- Increasing labour and skills shortages
- The lack of clarity on food regulations. Brexit could lead to falling food safety
- Significant uncertainty. Failure to reach a Brexit deal could result in steep tariff barriers

ASSESSMENT

The completion of the Brexit agreement between the UK and the EU has been delayed for a period of up to six months until 31 October 2019. The British Parliament has been paralysed over how, or whether, the country should leave the EU. The House of Commons has voted down the UK–EU divorce deal three times. It is firmly against a no-deal Brexit, even passing a law aimed at blocking it, but has failed so far to agree on any alternative.

The new delay relieves the immediate pressure but may also reduce the urgency to resolve the stalemate. The risk remains that the UK and the EU could face the same cliff-edge in October. The previous deadlines of 29 March and 12 April failed to force parliament to agree a path forward.

Parliament has a duty to break the deadlock. But issues such as a customs union, a second referendum and a no-deal Brexit have been explosive for the main parties. Extra time could simply allow the various factions to retreat into their entrenched positions.

The situation is highly complex, constantly evolving and very uncertain.

The modelling evidence suggests that for the UK food and drink industry Brexit is a damage limitation exercise. Serious questions remain unresolved about the nature of the UK's future trading arrangements with the EU. In the short term, a no-deal scenario would have immediate and severe consequences for the industry. Even a well-negotiated free-trade deal would not be without its adverse consequences. The future is at best fraught with unknowns.

A free-trade agreement which allows near frictionless passage and sale of goods between the UK and EU is seen as being essential. It will protect trade and ensure British products remain competitive in European markets.

The success of the UK processed food and drink sector has been dependent on participation in the Single Market and Customs Union. The free movement of goods and people has tipped the UK export balance towards a reliance on the EU as a trading partner with 60% of UK exports going to EU markets. In 2017, 50% of total UK food and drink exports went to five countries, four of which are EU member states:

United States | Germany | France | Netherlands | Ireland

The sector would suffer from reverting to WTO tariffs in the event of a 'no deal' scenario. The EU's Most Favoured Nation tariffs under WTO rules would be disastrous for UK exports. It is unrealistic to expect that the sector will stop relying on the EU as its main export destination at least in the short term.

UK competitiveness would also be adversely affected by any additional delays and bureaucracy encountered at the UK–EU border, given the prevalence of cross-border just-in-time supply chains in the sector. Frictions at the border between Ireland and the UK are of particular concern as the sector is highly integrated across the two countries. A credible solution to avoiding a hard border must be found as soon as possible.

The UK food and drink sector could benefit from substantial growth opportunities beyond the European Union in the coming years. However, the sector does not see this as achievable without replicating all existing EU trade deals with third countries and negotiating preferential agreements with other countries that include mutual recognition.

The processed food and drink sector and the hospitality sector rely heavily on EU labour at both unskilled and highly skilled levels for meeting its existing skills gap.

Although it is possible to meet some of this demand with UK nationals eventually, it will take time and will require a robust skills strategy. In the meantime, the sector needs to be able to access EU labour seamlessly.

On research and development, the sector benefits greatly from access to EU labour, funding and facilities. The government should seek to maintain the UK's membership of collaborative EU R&D programmes, and secure UK participation in future programmes.

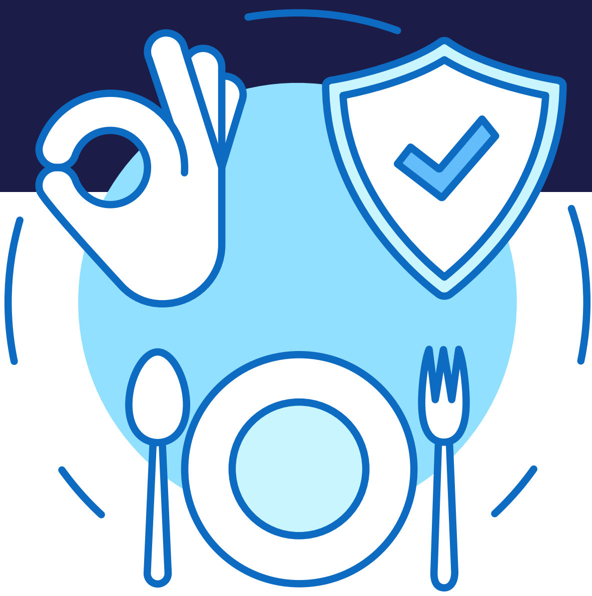
The EU regulatory regime in food and drink is highly integrated and the UK is a full member of the European Food Safety Authority (EFSA). EU food regulation is associated with high safety and quality standards and already allows divergence. The majority of the evidence is in favour of remaining aligned with EU regulation.

'Feeding Britain: Food security after Brexit', published in July 2018, is one of a series of Food Brexit Briefing Papers published by The Food Research Collaboration. It is a UK initiative that brings together academics and civil society organisations to improve the production, sharing and use of evidence-based knowledge to influence and improve UK food policy. It is based at the Centre for Food Policy at City, University of London.

The report claims that Brexit could pose significant risks to the flow of food into and out of the UK and that the government is making contingency plans to suspend food regulations in the event of a no-deal Brexit.

UK businesses need clarity and certainty about the future of the relationship with the EU. The government needs to negotiate an orderly trade system after the transition that will provide businesses with the certainty they need to invest and innovate.

The level of uncertainty regarding both the timing and the substance of Brexit remains extremely high to the extent that it could prove necessary to seek EU agreement to a longer delay to Brexit rather than the short extension currently proposed. There is even the possibility that Brexit could be postponed indefinitely. In these circumstances, it is a question of keeping a watching brief on developments.



4.7 REGULATION

The FSA's new regulatory model for food is set out in a paper called 'Regulating our Future – Why food regulation needs to change and how we are going to do it'. The report is the result of a long period of consultation with key stakeholders in the industry, including food businesses, consumers and government bodies.

There has not been a similar 'wholesale' reform of food industry regulation for more than 30 years. In this time, and with the advent of technology, the landscape of the food industry and the way we produce, sell and consume food has changed. The industry now includes a number of new stakeholders, including online retailers and food delivery services, which bring with them a different set of risks and opportunities. The current 'one size fits all' approach is outdated, and the FSA currently has no visibility over how many food businesses exist and who is running them.

A further catalyst for change is the UK's exit from the EU. It is now even more important that the FSA's regulatory model is seen to place robust controls on imports, exports and food chains.

The reforms will be carried out in two stages over several years, with the aim that the new model is 'delivered' by 2020. Phase 1 will focus on changes required in preparation for Brexit, to include enhanced registration and the development of National Inspection Strategies. Phase 2 is likely to include more fundamental changes such as the 'Permit to Trade' requirement, expanding the role of private assurance, and reforming the funding model.

> There has not been a similar 'wholesale' reform of food industry regulation for more than 30 years

The future regulatory model will be built on five key principles, which can be summarised as follows:

SAFETY AND TRANSPARENCY

It is the responsibility of businesses to produce food that is safe and what it says it is, and to be transparent with consumers in the food information they provide.

TAILORED AND PROPORTIONATE

Decision-making by regulatory authorities should be tailored, proportionate and based on accurate information regarding the food industry.

INFORMED

The regulator should take into account all available information sources.

FINANCING THE FUTURE

Food businesses should meet the costs of regulation.

TARGETED

Recognition should be given to businesses doing the right thing and action will be taken against those that don’t.

KEY FEATURES OF THE NEW MODEL

While many of the proposed changes seek to build on or enhance the current regulatory approach, some of the suggested reforms represent a significant departure from the current model. These are:

- Introducing a 'Permit to Trade' for all food businesses. The paper does not go into detail on how this will work in practice, but it indicates that businesses would need to obtain a permit before they can produce or sell food.
- Shifting to a risk-based approach, under which the frequency and nature of regulatory intervention will depend on a business's 'risk-rating'. Under the new system, businesses' internal processes for managing food safety and risks will be the starting point for the FSA's intervention model.
- Implementing a new funding model, under which businesses demanding the most intervention will bear the most costs. This marks a clear shift towards the cost of compliance being borne by food businesses rather than the FSA or local authorities.

The report is fairly high level and as such it is difficult to forecast what the changes will mean in practice. It is clear, however, that a key theme of the reforms is to encourage businesses to share more information with the FSA.

Suffice to say, the regulatory reforms will impact all parts of the UK food production and distribution chain. The regulations will apply to all food business operators, including those that manufacture, prepare, handle, process, package, store, transport, sell, distribute and supply food. It is to be anticipated that, over time, there will be increased legislation and tougher regulations which food providers and distributors will have to take into account.

ASSESSING THE EXTENT AND SEVERITY OF DISRUPTION

5

A Delphi Study among a representative sample of FWD members (sample size 49 respondents) was conducted to gain members' assessment of the disruptive forces challenging the food and drink wholesale sector and their evaluation of the adverse impacts those forces will potentially have on their business. Matrices were developed to rate the severity of the impacts in terms of their potential disruptive consequences.

The findings reveal varying schools of thought about the severity of the upheavals. At one end of the spectrum of opinion are those who judge the disruptions as having minimal impact/effect on their business (low/lowest). At the other end are those who consider the impacts of the disruptions as being 'the perfect storm' (high/highest) requiring nothing less than reinvention to survive and prosper. There are shades of opinion in between these two extremes.

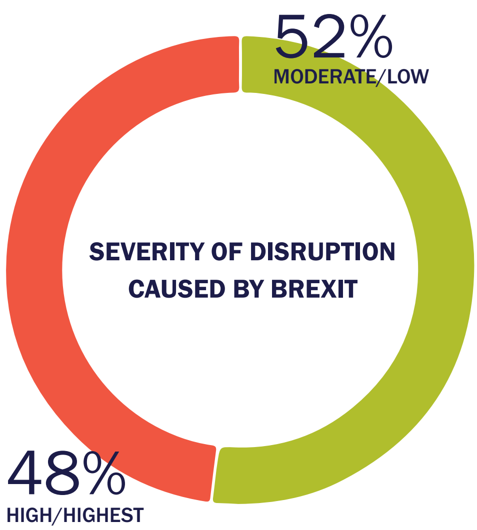
FWD members rated the severity of each disruptive force and those findings were compared with the results of the CFS research analyses. While the FWD members' findings are to be considered indicative, they do suggest that FWD members could be underestimating the scale of the challenges they are facing and downplaying the need for innovative strategic thinking.

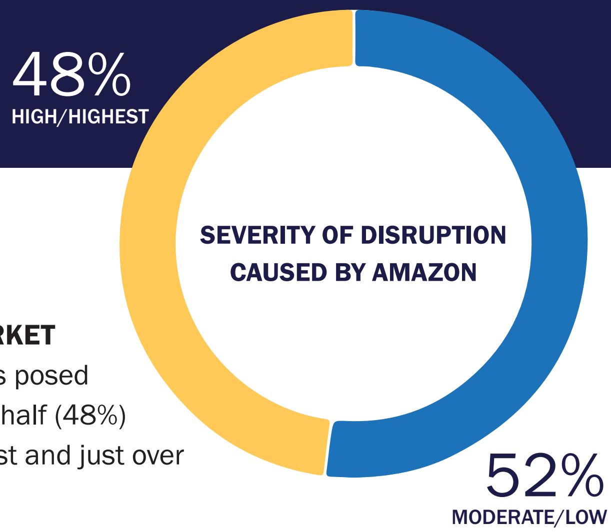
THE DELPHI RESULTS

5.1 BREXIT

FWD members have a balanced view of the threats posed by Brexit, with almost half (48%) rating the potential severity of disruption as high/highest and just over half (52%) rating it as moderate to low.

CFS research confirms that in whatever form the terms of the Brexit deal are agreed, the implementation will cause major disruption in the UK food and drink sector. The EU currently accounts for around circa 75% of UK food and non-alcoholic drink imports and export *(Food statistics pocketbook 2018: Department for Environment, Food & Rural Affairs)*.





5.2 THE ENTRY OF AMAZON INTO THE GROCERY MARKET

FWD members also have a balanced view of the threats posed by Amazon's entry into the grocery market, with almost half (48%) rating the potential severity of disruption as high/highest and just over half (52%) rating it as moderate to low.

CFS research confirms that Amazon poses a major disruption in the food and drink wholesaler sector. Technology has consistently eliminated 'middlemen' from traditional business models and this will be the case with Amazon.

The disruption could be mitigated if wholesalers embrace their own technology and improve their service offering to match the potential threat. 'Business as usual' is not an option. Amazon can deliver products to customers more efficiently and at a lower cost than the incumbent players.

5.3 EXPANDING DIGITAL TECHNOLOGIES

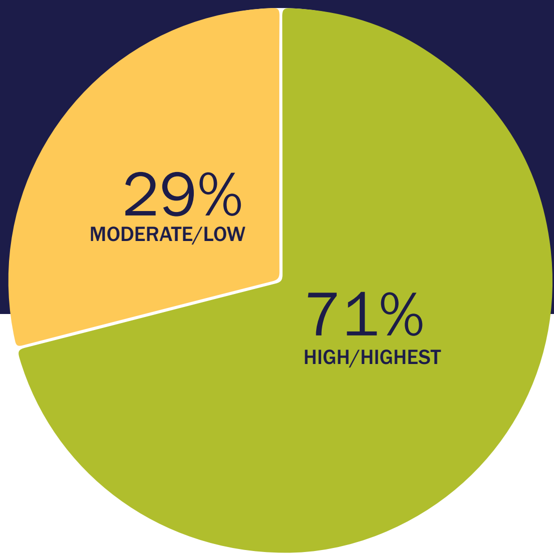
The majority of FWD members (54%) consider the potential severity of disruption posed by expanding digital technologies as moderate to low, with 46% rating the severity as high/highest.

CFS research confirms that digital technologies are a major wholesale distribution disruptor which is reshaping value chains and transforming business models. Digital is both a disruptor in itself and a catalyst for other disruptive forces such as increasing wholesale bypass.

The future prospects of food and drink wholesalers will be determined by the extent to which they improve their capabilities in wholesale e-commerce.

SEVERITY OF DISRUPTION POSED BY EXPANDING DIGITAL TECHNOLOGIES

SEVERITY OF DISRUPTION CAUSED BY RETAILER CONSOLIDATION



5.4 RETAILER CONSOLIDATION

The vast majority of FWD members (71%) consider the potential severity of disruption caused by retailer consolidation as being high/highest, with a minority (29%) considering it moderate to low.

CFS research concludes that as a result of retailer consolidation, the food wholesaling industry will experience major disruption with a tightening squeeze on margins and an increasing decline in demand as wholesalers are effectively shut out from their markets.

5.5 BACKWARDS INTEGRATION BY RETAILERS

The majority of FWD members (66%) consider the potential severity of disruption caused by retailer backwards integration as being moderate. Twenty-nine per cent rate it as high/highest and only a modest 11% put it in the low/lowest category.

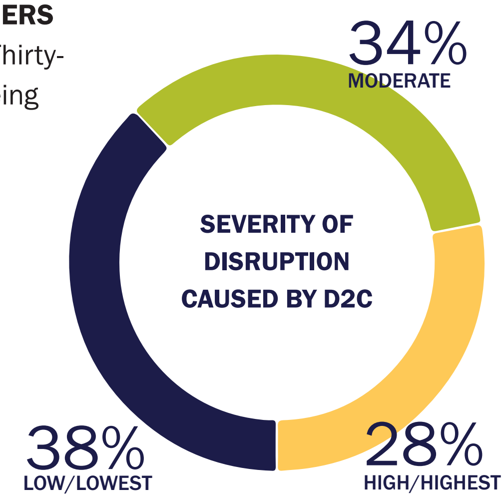
CFS research concludes that retailer/wholesaler mergers such as those between Tesco and Booker and Co-op and Nisa are major disruptors to the food wholesale sector. Wholesalers and buying groups are likely to be forced to consolidate or collaborate further.

SEVERITY OF DISRUPTION CAUSED BY RETAILER BACKWARDS INTEGRATION

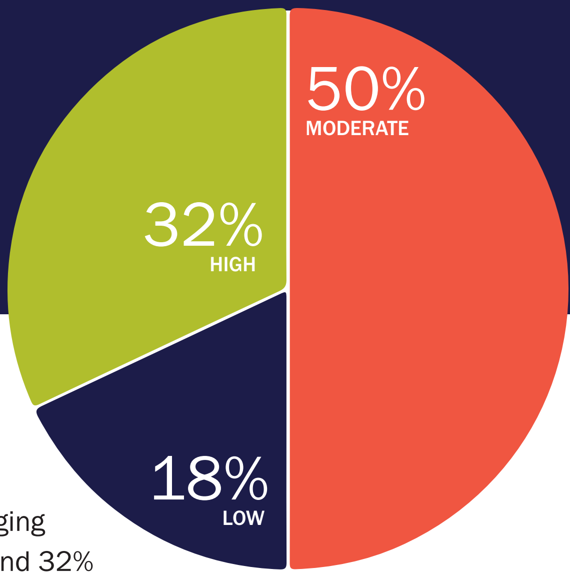
5.6 INCREASING ONLINE COMPETITION FROM MANUFACTURERS

Opinion among FWD members is more or less equally divided. Thirty-eight per cent consider the potential severity of disruption as being low; 34% consider it moderate; and 28% judge that direct to consumer (D2C) represents a high level of threat to the food wholesaler sector.

CFS research has concluded that UK food manufacturers faced with increased competition are moving to ‘cut out the middle man’ and sell to consumers directly. D2C ecommerce is providing manufacturers with new ways to engage consumers. The consequences for wholesalers in the medium term are potentially highly disruptive.



SEVERITY OF DISRUPTION
CAUSED BY CONTINUALLY
CHANGING CUSTOMER DEMANDS



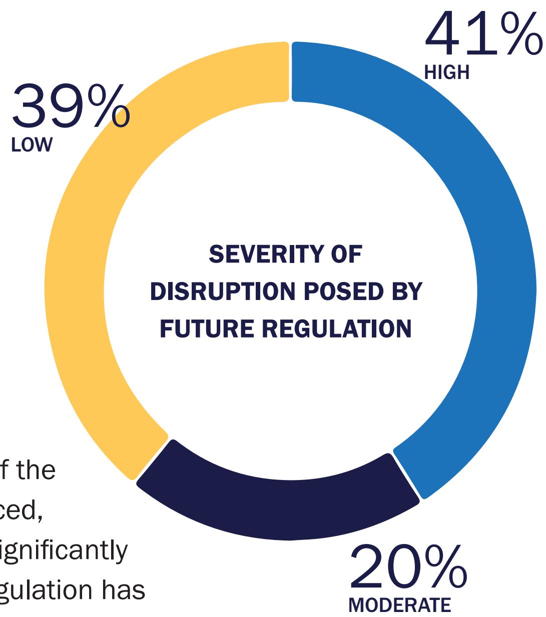
5.7 CHANGING RETAIL CUSTOMER DEMANDS

A significant majority of FWD members (50%) rate the potential severity of disruption caused by continually changing customer demands as moderate. Only 18% rate it as low and 32% consider it high.

CFS research has found that shoppers' attitudes towards brands and traditional ways of shopping are changing. Whether it be supermarkets or wholesalers, the assumptions that underpinned their business models will no longer hold true and will only become increasingly obsolete over time.

5.8 FUTURE REGULATION

Opinion among FWD members is polarised between those (41%) who rate the potential severity of disruption posed by future regulation as being high and those (39%) who rate it as low. Twenty per cent consider it as being moderate.



As CFS research found, the UK food industry is facing a period of significant reform. The landscape of the industry and the way food is produced, sold and consumed has changed significantly over the past 30 years or more. Regulation has failed to keep pace with the changes. The industry now includes a number of new stakeholders, including online retailers and food delivery services, which have different sets of risks. The 'one size fits all' approach is not fit for purpose.

A further catalyst for change is the UK's impending exit from the EU. It is now even more important that the FSA's regulatory model is seen to place robust controls on imports, exports and food chains.

The reforms will result in major disruption throughout the industry.

PROSPECTS FOR GROCERY RETAIL TO 2030

6

UK supermarkets and hypermarkets have a combined grocery market share of 55%. By 2030, their share is forecast to dip to mid 40%. Discounter share in the UK (Aldi and Lidl) now at 12% is expected to reach 20%+ by 2030 *(Supermarkets in your pocket, Feb 2019, Prof. David Hughes and Miguel Flavián).*

Retail pundits are increasingly disappointed and sceptical about the future rate of growth for online grocery. In 2018, 6% of UK groceries were purchased online and this is projected to increase to a modest 8% by 2023. It is projected that the UK online grocery share may be 15% by 2030 *(IGD June 2018).*

The hard discounters will continue to threaten the traditional supermarket players and hit 20% grocery market share in the next decade. *(Retail Think Tank, August 2018, 'What does the future hold for the UK grocery sector?').*

In all markets throughout the upcoming decade, there will be a price war, more concentration, agreements between non-competing retailers to negotiate together (e.g. Tesco and Carrefour), sharing services, and grocery retailers looking to increase their customer base with linkages into independent stores and foodservice (e.g. Tesco's takeover of Booker).

Online grocery sales will grow with a range of offers driven by the technology proficient millennials. Online will simply be the normal way to purchase food. Millennials are categorised as having an advanced relationship with technology, and it is therefore no surprise that this age group has been a driving force behind the rapid growth of eCommerce, mCommerce and the significant focus on customer experience. It is crucial that providers cater to their preferences and demands within their eCommerce strategies, especially as millennials are forecast to represent 35% of spending by 2030.

Amazon will struggle to compete in fresh and chilled prepared foods in the absence of a significant store base which suggests Amazon will acquire or partner with other established retailers.

Big stores will suffer through the decade and dwindle in numbers, but little stores and, in particular, mini-stores will flourish. Some of them will not necessarily be staffed as the system will recognise customers when they enter, and cameras will record anything they purchase. On offer will be fast service; healthy, tasty snacks; mini-meals; and regular meals *(Food industry trends; supermarkets in your pocket; Jan 2019).*

The next 10 years will see a technological revolution in supply chains. It's already well underway with robotic picking, blockchain and its equivalents, Big Data and individual loyalty data personalising offers. The grocery shopping experience will be transformed. Shopping for routine essentials will disappear as the Internet of Things (IoT) takes over and the inventory is managed by product providers in the cloud. ('The cloud' is used as a metaphor for 'the Internet', so 'cloud computing' is a type of Internet-based computing.)

Climate change will have an important impact on fresh produce. Weather extremes will create havoc with supply programmes. There will be growth in urban hydroponic farming and continued expansion of protective cropping. Seasonal eating may well have a renaissance as consumers match their green convictions with their food purchasing and consumption behaviour.

The accelerating convergence of food retailing and food service will continue. The food-to-go market will flourish. From a fresh food sector perspective, suppliers will benefit substantially over the coming decade as the importance of emerging routes to the consumer increases. Understanding and being in concert with the values and aspirations of consumers will be vital. Greener consumers will become more demanding. Local food with trusted provenance will continue to increase in popularity.

As traditional eating patterns break down and are replaced by a series of mini-meals and/or snacks which can be bought and eaten out, or delivered in to office or home, demand for old-fashioned food ingredients will wane. Breakfast is purchased on the way to work, lunch is at or close to the place of work, dinner is carried home or 'ordered in'. The result is that the pre-eminence of the supermarket as a destination to purchase food will be lessened substantially.

THE WHOLESALE DISTRIBUTOR OF THE FUTURE

7

Distributors of the future will be those that appreciate the magnitude and import of the disruptive forces they currently face and have the ability to act decisively. This appreciation may well drive a healthy sense of urgency, but distributors of the future will be undaunted by complexity or disruption; instead, they will see a unique window of opportunity for differentiation. To effectively navigate this turning point, they will see transformational opportunities in the disruptions and aggressively capitalise on them. These distributors will embrace a framework that empowers them to assess opportunities, develop plans, and act with purpose.

Success for distributors will centre, much as it does today, with the customer. Indeed, despite the myriad disruptive forces impacting distribution and many of its long-held orthodoxies, this 'customer first' orthodoxy holds true. However, distributors of the future will transform their thinking from simply meeting customer needs to anticipating and shaping them, then proactively delivering solutions to problems that customers may not even know they have.

Distributors of the future will also understand that effectively engaging customers requires innovation in executing the value chain. Traditional approaches to inventory, logistics, pricing, rebates, and network will be reimagined through the application of advanced analytics and technology innovations. Given the

importance of data, analytics and technology to both engaging customers and executing the value chain, distributors will also need to leverage IT to energise the business.

Instead of reactively meeting customer needs, leading distributors will proactively engage the customer. They will sense and shape demand, deliver a superior experience, capture and leverage insights, and realise incremental value.

As much as the disruptive forces impacting the industry appear daunting, distributors of the future see the opportunities being created and are building the capabilities needed to capitalise on them. The focus on the customer remains, but distributors of the future will leverage new insights and deliver a differentiating experience. In the future, the supply chain transforms with technology to become more efficient, transparent, and integrated. Distributors of the future will elevate information technology from back-office enabler and cost to be managed to front-office energiser and source of differentiation.

Key recommendations from the FWD roundtable on the actions wholesalers should be taking to secure a profitable future:

INVEST IN TECHNOLOGY TO IMPROVE EFFICIENCY

DEVELOP DIFFERENTIATING CAPABILITIES

BECOME DATA-DRIVEN

INCREASE BUSINESS MODEL AGILITY

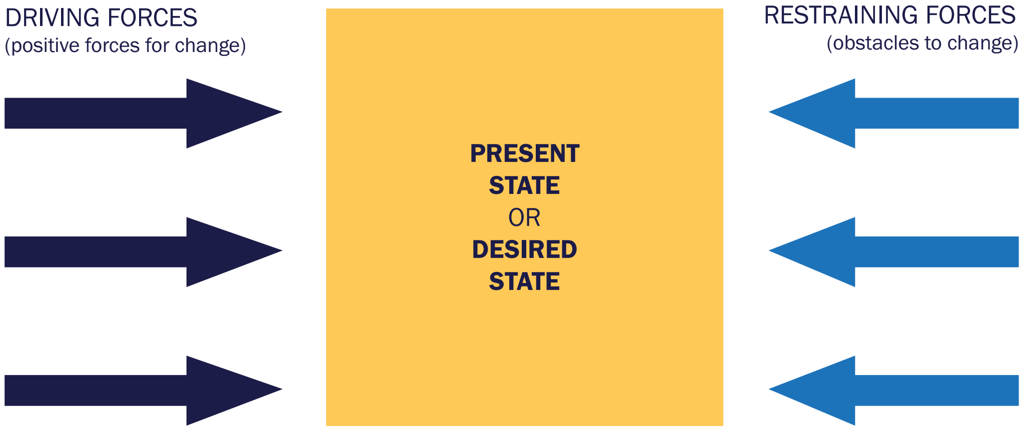
EXECUTE AN EXPANDED VALUE PROPOSITION

APPENDIX

ANALYTICAL MODELS

FORCE FIELD ANALYSIS

An analytical tool for listing and assessing the various drivers for and against change.



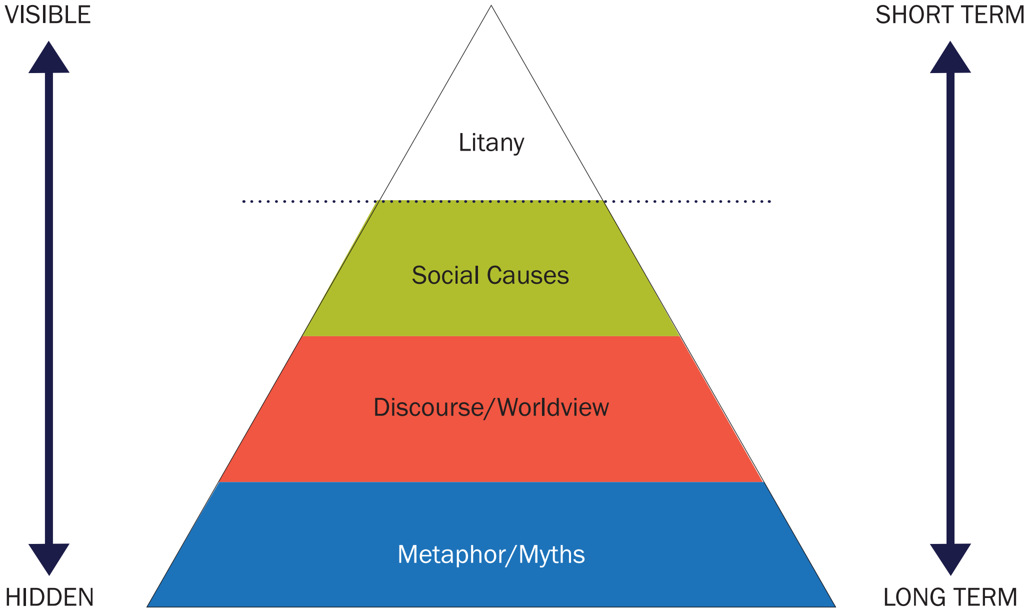
IMPACT/PROBABILITY ANALYSIS

A matrix which assesses the probability of an event occurring (risk) against the level of impact it will have.

		IMPACT				
		TRIVIAL	MINOR	MODERATE	MAJOR	EXTREME
PROBABILITY	RARE	Low	Low	Low	Medium	Medium
	UNLIKELY	Low	Low	Medium	Medium	Medium
	MODERATE	Low	Medium	Medium	Medium	High
	LIKELY	Medium	Medium	Medium	High	High
	VERY LIKELY	Medium	Medium	High	High	High

CAUSAL LAYERED ANALYSIS (CLA)

CLA is a tool for creating effective policies and strategies. CLA works at a number of levels to reach a systemic-level understanding of the causes for the litany.



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