

SUMMARY REPORT

The efficiency imperative

Reimagining operations to protect future profitability

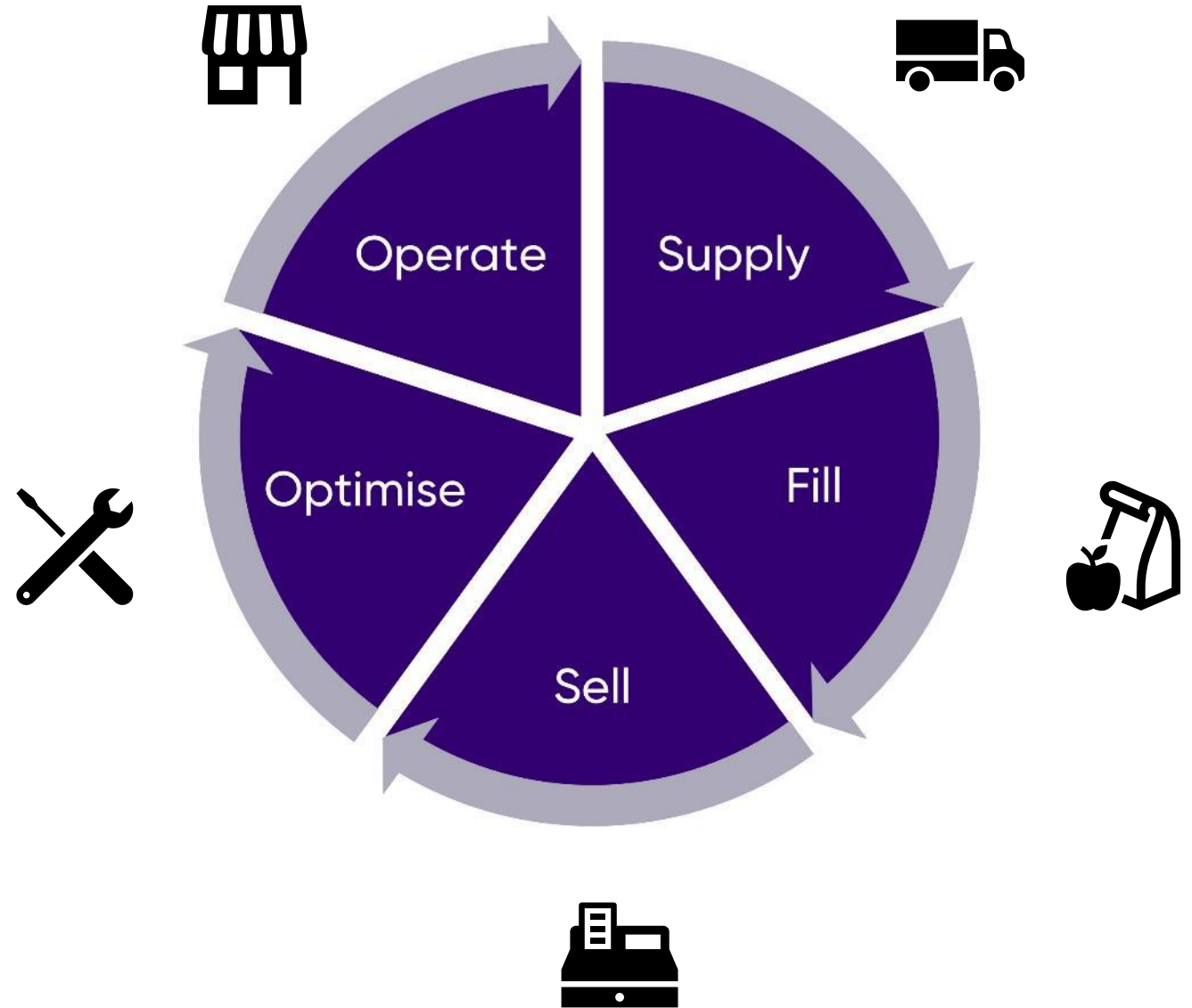
RetailAnalysis from IGD



The efficiency imperative

The need to operate more smartly applies to every aspect of retailers' operations:

- ▲ **Operate:** retailers are the operators of significant amounts of real estate and support functions. There are some gains to be had in terms of how stores and DCs are operated and how they are centrally supported
- ▲ **Supply:** the journey from farm or factory to store is fraught with friction and wasted capacity. Processes are often cumbersome and can be enhanced by both lo-tech and hi-tech improvements
- ▲ **Fill:** replenishment can be labour-intensive and inefficient. Many aspects have not really changed since the 1980s and are ripe for improvement
- ▲ **Sell:** getting products into the hands of shoppers, be that in-store or online, could be far more streamlined and cost-effective. This is the most important interface between retailer and shopper, though, so should be cautiously addressed
- ▲ **Optimise:** throughout the entire value chain, existing processes and propositions can be finessed to remove cost





Chiller blinds

Southern Co-op has invested in retrofitting thermal chiller night blinds into 46 stores this year (covering all chillers which do not currently have doors).

Following a trial, the pilot sites saw energy savings of around 10%.



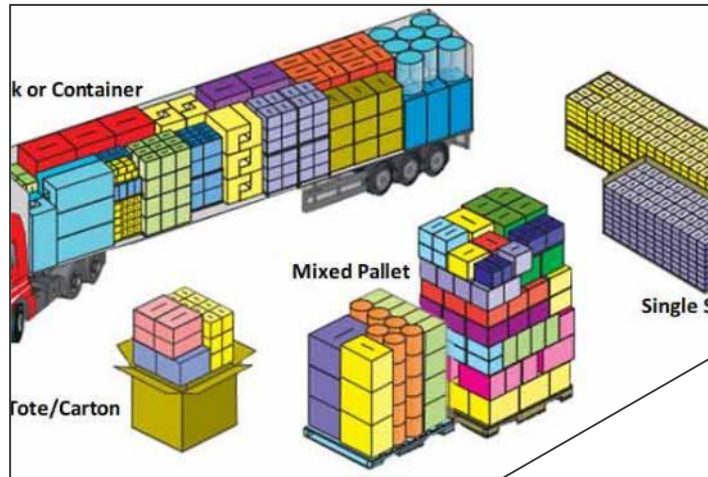
AI product & concept development

Central support extends to other functions such as store design and NPD and a growing number of retailers are harnessing AI to complete these processes more effectively. Romania's Profi recently used AI to develop new wine brands, creating 100 name variations, 70 logo concepts and various campaign text proposals.



Heat capture

With an eye on energy consumption and the cost base, retail heat capture harvests heat from chillers and freezers and heats up the store and its hot water. More advanced models can use excess captured heat to provide heating for nearby residences or commercial properties.



Ensuring full loads

Load optimisation is the process of consolidating cargo to maximize the capacity of each truck. More retailers and suppliers are utilising technology to reduce transportation costs and optimise outbound truckloads with precise dimensional and volumetric data using dimensioning systems.



Vehicle efficiency

In addition to changing fuel type to electric or hydrogen, there are other means to optimising truck performance, such as improved aerodynamics or using double height or double length trailers. Of course, there are endeavours to switch vehicle types altogether, with retailers like Tesco, Amazon and Casino turning towards the railways or even canals.



Backhauling

There are still a worrying number of empty trucks traversing road networks around the world. With a spirit of collaboration and some technological intervention, retailers and suppliers could ensure that roundtrips are mapped out to ensure goods are transported on every leg of a truck's journey. This increases vehicle and driver utilisation, improves productivity and eliminates additional trips, cutting down on unnecessary fuel use.



Colour coding

Colour coding outers enables colleagues to rapidly identify sub-categories, making deliveries easier to process and for backstock to be more efficiently organised and worked. In Tesco, for example, frozen is coded yellow (chips), green (veg), red (meat), blue (fish) and pink (ice-creams & desserts).



Back-filling

Commonplace in many markets around the world where chillers are located around the perimeter of the store, categories like dairy can be filled directly from the warehouse chiller, assisted by gravity-fed shelving. This is hugely more efficient than employees wheeling out cages of chilled into the centre of the store and filling at the front of the chiller. Back-filling also lightens the load in terms of stock rotation.



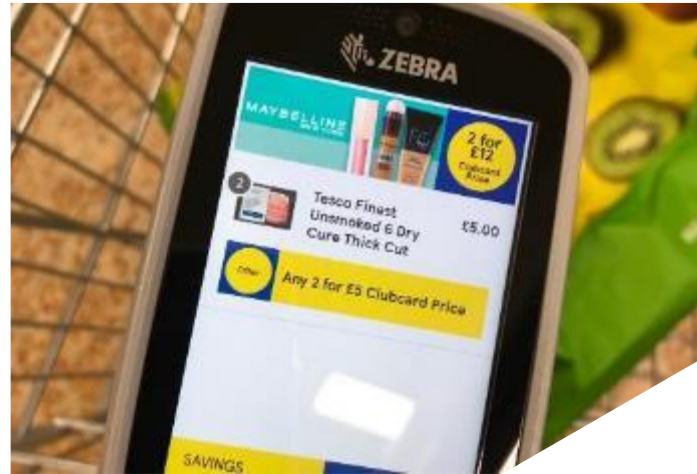
Rethinking shelves

Traditional shelving units can make replenishment a very laborious process and also runs the risk of damages in categories like bakery. In some of its newer stores, M&S has started using wheeled shelves that operate in a similar way to drawers, meaning that new stock can be more easily placed behind older items.



Digital signage

Digital signage can offer plenty of efficiencies: it can be centrally repurposed with no involvement from store colleagues, it can remove the need for constantly replacing cardboard POS and can be an effective way of promoting items on counters or in foodservice areas.



Retail media

As retailers seek to prop up profitability, realizing that they have more reach than many major newspapers or TV channels, stores can become media properties in their own right. So much can be monetized: trolleys, car park bollards, petrol pumps, security gates, instore radio, bays, gondola ends, digital screens, floors, self-scan handsets and self-checkouts can all bring in new revenue and profitability.



Bagging

It is a curious relic in some markets that colleagues are employed to pack shoppers' groceries for them. This has long been dispensed with in many countries (if it ever existed). Where it persists, low tech solutions like bag carousels can make the process more efficient.



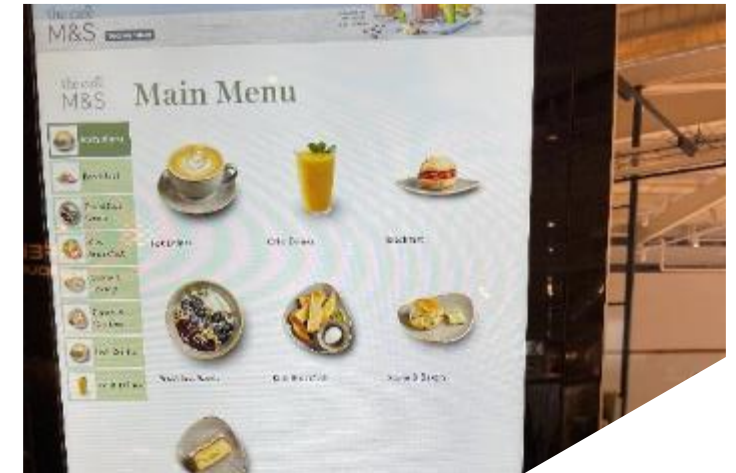
Inventory tracking

Rather than an employee devoting significant hours to gap-scanning, a number of retailers like Schnucks are exploring the potential of robots that traverse the store scanning the shelves to identify gaps. Tech provider Simbe asserts that Tally robots detect up to 10X more out-of-stock items than manual audits and can also be used for pricing and promo execution and planogram compliance.



ESLs

Incredibly widespread in several markets, ESLs can remove the need for manual changing of paper price labels (each store could change thousands on a weekly basis) while also ensuring better price integrity. In some markets, where labour costs are lower, labels are too expensive or penalties for incorrect or missing pricing are nominal, ESLs have yet to gain traction. That said, they seem to present the most efficient solution for shelf-edge labelling for the foreseeable future.



Automating foodservice

As already commonplace in QSRs, an increasing number of retailers are adopting kiosks and QR code-based ordering systems for their instore hospitality propositions. This removes the need for staff to take orders and process payment. Other improvements being explored include greater automation and use of robotics in food prep.

Outlook

- ▲ Intensifying competition will continue to limit sales growth in many mature markets: to hit **financial KPIs** and meet stakeholder expectations, the efficiency imperative will become paramount
- ▲ Greater efficiency and the removal of waste apply to the **whole value chain**
- ▲ There is a clear incentive to **automate** and reduce headcount, especially in higher-wage economies
- ▲ Efficiency can go hand in hand with **sustainability**
- ▲ Look for the **triple wins**: initiatives that benefit suppliers, retailers, and shoppers. All too often, what passes for efficiency can diminish the **shopper experience**



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