

READY FOOD

Can grocers get a bigger bite?



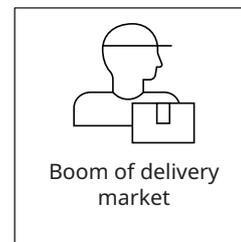
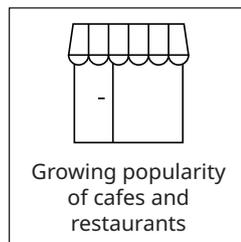
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Preferences for ready meals are constantly changing in the food market. Indeed, across the world, customers are seeking higher-quality food without having to prepare it themselves from scratch. This has contributed to the popularity of ready-meal takeaways and quick delivery, for which consumers have demonstrated a willingness to pay a premium.

These demand shifts are transforming the supply side of the market, driving cafés and restaurants to adjust their business models. At the same time, this shift opens new horizons for grocers and supermarkets. After all, the ready-meals delivery market can strengthen food retailers' competitiveness, whilst dark kitchen technology (in which meals are prepared for delivery only, not for sale in cafés or at hot meal counters) may help increase companies' profits and customer bases.

PEOPLE SEEK NEW EXPERIENCES AND NO LONGER WISH TO COOK

In recent years, one of the hottest international trends in consumer preferences has been the shift from cooking and eating at home, to eating outside and ordering delivery from cafés and restaurants. One reason for the shift — besides an unwillingness to spend time in the kitchen — has been consumers' desire among the millennial and Generation Z cohort to experience new food combinations and cuisines.



Pre-COVID-19, these trends were most prevalent in densely populated countries and cities with business centers, including developed countries and developing Asian markets. In those markets, eating out is not necessarily a leisurely activity: A big share of outside-the-home eating expenditure takes place during workdays, with lunches and dinners eaten near the workplace. People often will go to the nearest café, buy takeaway offers from a stall, order delivery, or simply buy ready-made food from the nearest supermarket, all of which saves time.

Due to the restrictive measures related to the pandemic, people had to give up on eating out, reallocating their expenditures to buying groceries and ready-made takeaway/home-delivery meals. Consequently, eating and cooking at home partially replaced spending on restaurants and

cafés. But the broader macro trends remain in place: Rather than physically cook, most people prefer to purchase prepared food, increasing the demand for food delivery. Once the restrictive measures are lifted, some of these habits will remain. We expect to see a recovery in eating out, partially in conjunction with a return to the office.

EAT WHEREVER YOU WANT — THE FOOD DELIVERY MARKET IS BOOMING

Traditionally, spending on cafés and restaurants has made up a significant part of eating out. But the structure of consumer spending on food has changed. Even prior to the pandemic, the online food-delivery market was growing strongly, fueled by both rapid demand growth and the popularization of takeout-delivery platforms. For people in developed countries, it had become routine: For example, more than half the people in the US and UK order food delivery at least once a week. By the end of 2019, the top five markets with the highest user penetration in the online food delivery segment were Singapore (with more than 40 percent penetration level), the Netherlands, Hong Kong, the UK, and Canada.

The pandemic, by restricting eating out at restaurants and cafés and encouraging consumers to switch to the online channel, only accelerated this growth. Demand was seen not only in restaurant-meal delivery, but also in ready-made meals via e-commerce sites, plus semi-prepared meal kits. Satisfying the need of consumers for convenience is the tide that has lifted all boats, leading to more online ready-meal offerings and greater competition.

These trends are expected to remain in place in the long term, shifting customer focus to grocery and food delivery. This is the reason why many large food and delivery services have already adjusted their business strategies to retain and build on the loyalty of current customers, and increase revenue through differentiation and new client acquisition.

CONSUMERS ARE READY TO PAY MORE FOR BETTER OFFERS

Alongside a desire to experience new tastes and food combinations, there's a growing trend among consumers for premiumization and a better experience, as they become more discerning in terms of quality, service, and choice. The luxury/premium restaurant category has increased its penetration in many developed markets. Rising competition in the food market has allowed suppliers to broaden their offerings, covering even niche markets and satisfying the most exclusive customer needs.

At the same time, consumers have demonstrated a readiness to pay extra for premium offers as well as additional services: recommendations based on previous order history, transparent customer ratings, and hygiene standards regarding each restaurant, all of which became relevant after the COVID-19 pandemic — and will remain relevant.

IT IS TIME FOR RETAILERS TO JOIN THE READY MEALS COMPETITION

The demand for ready meals is growing: Consumers no longer care to cook. Instead, they want to try new tastes and flavor combinations and are willing to pay more for broader choice of options and better offers. At the same time, cafés and delivery services are providing clients with satisfying food offers, which is another major factor in the retail segment, but the importance of its role in the market is often overlooked.

Prior to the COVID-19 pandemic, when working from the office was still the norm, office workers considered supermarket ready meals a good alternative to eating lunch at the company canteen, or as a way to buy prepared family dinners alongside other food purchases in the evening. Indeed, customers indicated a high degree of trust in supermarkets' ready-made food, pointing out its quality and flavor. All these factors created a loyal base of clients, many of whom were inclined to consider ready meals from supermarkets and convenience stores as substitutes for home cooking or café fare.

However, supermarkets' value proposition usually stops at in-store offers on ready-made food, leaving them vulnerable to the shift of demand to online markets and crises such as the pandemic lockdown. Indeed, around the world, almost no retail players provided meal-delivery service to customers during COVID-19. As such, entering the ready-meals delivery market is an opportunity for food retailers not only to maintain a strong customer base, but also to increase market share.

MAIN TENDENCIES AND SUCCESSFUL BUSINESS STRATEGIES

We have identified some key international trends in the ready-meals market that retailers need to address if they are to succeed:

Cooperation of cafés and restaurants with delivery services

Collaborating with food-delivery services has allowed restaurants and retailers to enter the online market and meet changing consumer preferences efficiently and quickly. A collaborative approach, moreover, leads to greater transparency. Such partnerships have been implemented

in most developed countries for many years and have proven mutually beneficial, as well as profitable, to both foodservice companies and food delivery aggregators.

Over the past three to five years, we have seen significant growth among food aggregators. These companies, many of them founded less than a decade ago, have become major players as delivery providers, achieving an international presence, particularly in developed countries. Deliveroo, for example, was created in 2013 but has already expanded into 12 markets across Europe, Asia, and Australia.

Retailers entering the delivery market through partnerships with food aggregators

Food aggregators are partnering not only with restaurants and cafés, but also with large retailers wishing to provide ready-meal delivery services. This trend has been particularly successful and profitable in the US and Europe. Asda, the large British retailer, has collaborated with Just Eat, a pizza and grocery delivery service, since 2018. The British supermarket retailer has seen significant revenue growth in test stores and plans to make the offering more broadly available. Other UK retail players are not far behind. For example, Sainsbury's and Morrisons started a partnership with the biggest UK aggregator, Deliveroo, in July 2019 and October 2019, respectively, to deliver hot food, pizza, and salads.

In the meal delivery market, the competitive advantage lies in retailers retaining the loyalty of its millions of customers. An extended customer base will help retailers adapt to the new market conditions and achieve instant growth in purchases.

Accelerating expansion of e-commerce

Apart from ready-meal delivery offerings, omni-channel retail and full-fledged online supermarket formats are springing up in many countries, offering goods ordering and delivery services to customers. The UK has always been at the forefront of e-commerce grocery: It has the highest demand density in terms of orders per square meter and achieved more than 7 percent e-grocery penetration by the end of 2019. Other developed markets, though, are catching up. Key US food retail players have upped their e-commerce game over the past few years: Kroger and Walmart, for example, expanded their online-delivery locations coverage, providing same-day delivery from 2,300 and 1,600 stores in 2019, respectively.

Similar trends can be observed elsewhere, with retailers competing over shortest time window for delivery as a value proposition. For example, Chinese Hema already offers a delivery service of ready meals and other groceries in less than 30 minutes, while Russian online supermarket Yandex Lavka, founded in 2019, is committed to delivering goods within 15 to 20 minutes.

The COVID-19 pandemic only reinforced the sustainability of these trends. From March 23 to March 30, the US e-commerce market faced at least a 14 percent increase in sales volume, according to data from the Forster Global Merchant Network.¹ A similar increase in e-grocery has been seen in countries that experienced lockdowns.

Adoption of dark kitchen strategies by cafés or retailers

Many cafés and restaurants across the world have adopted the dark kitchen format to enter the food delivery market. The model is attractive not only to existing restaurants and startups, but has also been adopted by many delivery giants across the world, including DoorDash in the US and Swiggy in India. Deliveroo's deployment of dark kitchens has been among the most bold: It created Deliveroo Editions, a separate branch dedicated to this type of food production and delivery. Deliveroo currently operates 16 dark kitchens around the UK and more than a hundred kitchens in other countries, including Singapore, the UAE, the Netherlands, France, Spain, and Australia.²

Some entrepreneurs have sought to establish a dark kitchen chain without a single traditional restaurant, and in doing so often fail to engage enough customers. To achieve stable traffic, strong brand awareness and an initial loyal customer base are necessary. This is why the dark kitchen format may be suited to retailers that already possess a multimillion customer base.

KEY BENEFITS OF DELIVERING READY MEALS FOR RETAILERS

We also looked at the benefits that retailers can expect when entering the ready-meals market:

Unique differentiation

While ready-meal delivery services from store counters are gaining in popularity in developed countries, they are still less widespread in other geographies, though they hold great promise. The trend toward less cooking and more ordering will continue to strengthen, and once the COVID-19 pandemic is behind us, online ready-meals market will reach an even higher long-term equilibrium. This will lead to greater competition between food retailers and services delivering ready meals from cafés and restaurants. Entering the ready-meals delivery segment is a way for retailers to retain and increase market share. The strategy will help differentiate them from the competition and enable them to engage customers with a better value proposition.

1 <https://www.retaildive.com/news/the-consumer-after-covid-19/575634/>

2 <https://www.businessofapps.com/data/deliveroo-statistics/>

Loyal customer base

An extensive and loyal customer base is one of the key assets retailers possess in entering the delivery market. Despite having to compete with fast-food cafés and restaurants, retailers will be able to gain high traffic with private-label meals delivery thanks to their existing customer base.

Beneficial partnerships

Partnerships with popular delivery services are beneficial for both sides: Retailers gain instant growth in the number of consumers and simultaneously increase their capacities to serve the available loyal customers, while delivery aggregators expand the assortment.

Attracting new customers

Entry to the delivery market will provide retailers with more options to introduce customers to their wide range of high-quality ready-to-eat meals. As awareness grows about the high-quality, ready-made meals available for purchase, this will potentially attract more new customers, who will return to the store not only for ready-made meals but also other products, such as delicatessen, which is one of the top categories that can impact a customer's choice of retailer.

Available capacities for the dark kitchen

Many large retailers already have fully equipped kitchens and professional cooks to produce meals for their hot and cold food counters. If such capacities are available, retailers can easily transform them into dark kitchens at minimal cost.

CHALLENGES FOR IMPLEMENTING A READY-FOOD STRATEGY

However, this business transformation is not easy. To develop a delivery offer, retailers should follow the algorithm of action:

Expand the assortment and create a specialized “delivery menu”

To meet customer needs, retailers should consider not only a go-to-market strategy with their delivery of ready meals but also assortment expansion. After all, customers purchase meals from hot counters to taste new and unusual dishes. The popularity of fast-food indirectly impacts retailers' market share, as well as changes in consumer eating habits and preferences. Retailers should monitor these trends and seek inspiration in popular food choices to expand their range of ready meals. They should also take into consideration that expanding their assortment requires better quality control and efficient loss management.

Choose a delivery aggregator or create a delivery network

Signing partnerships with delivery aggregators can be challenging. While using Deliveroo, Just Eat, or other top delivery aggregators in different countries may bring in many new customers, it also places a retailer as just another option in a long list of well-established restaurants and cafés. Partnering with these delivery services can provide a good feasibility test and help retailers assess an alternative direct-order model. But a direct-order model requires more financial and brand strength. There is no “one solution for all” — indeed, this is a case-by-case situation where one should also consider the facts, such as a retailer’s strategy and market positioning.

Think through operational specifications of the process

Despite the apparent simplicity of using existing capabilities to produce ready meals for delivery, organizing and managing the process of handing products over to couriers efficiently is quite challenging. Retail chains, then, need to build processes that are convenient, both for delivery and store staff, to ensure they do not affect a company’s core operations adversely. Keep in mind that delivery-courier traffic through backrooms or production areas can disturb internal operations and having couriers stationed at the entrance or on the store floor generates negative customer perceptions and hinders shopper traffic. Getting the balance right requires laying the groundwork, especially with regard to building the work-order process.

SUMMARY

The effects of COVID-19 have accelerated the shift to e-commerce and changed customer preferences permanently. To keep up with a rapidly evolving market, it IS imperative retailers adjust their business strategies. Entering the ready-meal delivery market is a key step in the transformation of food retailers.

Large retail food chains have a great opportunity to gain an advantage over their competitors by expanding into the ready-meals delivery market, an Initiative that has already proven effective in many developed countries. Given the high marks for quality that supermarkets receive from customers for their prepared food offering and the resources at their disposal, retail chains are in a strong position to enter this ready-meal delivery market. Tapping this niche would enable companies to retain loyal current customers, while acquiring new ones and growing profits.

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