

Logistics in the Food industry A vision on 2020



The growing impact of rapidly changing consumer expectations affects companies anno 2016 tremendously. Changing preferences overwhelm the economy with disruptive innovation and new business models to which companies need to adapt to maintain a viable competitive position in the marketplace. The food industry is highly influenced by this change in consumer demand patterns. Think about upcoming trends such as home delivered fresh meals (HelloFresh), the possibility to shop for groceries online, the growing demand for fresh, local and organic products, etc. The (r)evolution in purchasing behavior of the consumer is the driver of food industry that is challenged to continually reinvent itself and create value in a different way. And logistics is becoming an important play, being no longer perceived merely as a cost center or utility, but rather as a differentiator that sets your company apart from competition.

Changing consumer demand patterns as key driver to change

Today's supply chains are largely designed to meet yesterday's consumer preferences and purchasing habits – low cost, standardization and convenience. Shifting the focus of the business model towards the consumers' desire for personalized products, customized meals and the preference for local niche products threatens the underlying assumptions the food industry business model and corresponding supply chains are built on. The change in demand patterns can be categorized according to three key drivers of change that require logistics to adapt immediately to maintain market share and service levels at the right cost point:

3 main
accelerating
drivers
of change

-  Dining habits: shifts in what consumers prefer and the need for transparency
-  Convenience: changes in where and how consumers want food to be available
-  Demographics: "one size fits all" no longer works for the key demographic cohorts



1. Dining habits: change in preferences and the increased need for transparency

Change in dining and dietary preferences drive producers to steer away from mass-production. Consumer's consciousness is growing towards:

- **'Health'**: low-fat and low-calorie, including natural and organic, GMO-free and non-artificial ingredients and additives.
- **'Dietary restrictions'**: consumers are diverting their expenditure to products that meet their true needs (e.g. celiac disease or gluten-free, lactose intolerance and vegan).
- **'Product variety'**: consumers are aware of an increasing product variety of local, fresh and organic food and the increasing availability of exotic products.
- **'Sourcing'**: the increasing need to know where products are sourced from impacts the consumers' preference and induces willingness to spend more on products that are locally raised or grown.



2. Convenience: demand to access the food they want, where and when they want it

Today's consumers no longer desire to be limited in consumption and purchasing options based on what retailers dictate. The growing preference for customization combined with convenience makes consumers extremely demanding as to the access to products they want, when and where they want it. This preference can depend on the type of product the client segment, and the situation at hand. All of these trends impact the logistic network of today and tomorrow:

- **Distribution points**: the growing need for integrated distribution points, with a range of options from stores are designed to increase the experience of the client (e.g. Cru) to stores merely designed for order fulfillment (so-called dark stores).
- **Distribution channels**: the growth in non-traditional retail and foodservice channels is impacting the delivery type depending on place, point in time, speed and add-on services offered. The choice of the consumer depends on preference (e.g. speed versus costless) and its situation (emergency purchase vs replenishment purchase).
- **Packaging and format**: Food on the go is expanding rapidly across channels, allowing some channels that previously could not compete in prepared foods to take on market share. Satisfied consumers will buy the same product again driven by the experience, the design and the convenience of the packaging format.

3. Demographics

Consumers are no longer a "one size fits all" marketplace. Increasingly stratified demand patterns occur on the borders between urban and suburban areas, different generations, and changes in the demographic and economic landscape. The middle class with dual-income households is growing, hence the budget to spend on food increases. The growing urbanization causes a larger density of customers which implicates that companies need to adapt their supply chain strategy by focusing their transport and delivery model to smaller and more frequent deliveries.



The impact of change on the logistics network

A market environment on the go requires companies to reorient their logistics network on an ongoing basis. Organizations must remain flexible and ready to implement change today. They need to be aware that the market is changing and that an adaptive logistics network will be a key differentiator for a client to make his or her next purchase decision.

- **Distribution facility:** an increasing need to have facilities closer to the customers. To speed up cycle time even further, robots, automation and advanced technologies will be required.
- **Store 3.0:** a declining global importance of sales in the physical stores due to larger online sales. In 2017 the online sales will represent 30% of the total sales. Connectivity ensures that customers can connect to the online sales channels with their smartphones via wifi or 4G anytime. Consumer recognize rapidly the added value of online purchasing combined with home delivery. Hence, the importance of last-mile delivery techniques, pick up points, home delivery and bundled transportation increases significantly and challenges companies to innovate towards an adaptive and flexible logistics network.
- **Frequency:** the pressure to deliver fresh products requires shorter cycle and delivery times (e.g., same-day delivery) as well as longer hours for transportation service. Implementation has sometimes resulted in increased urban congestion, creating environmental issues.

In order to withstand the impact on the logistics network, food companies are challenged to introduce new techniques to improve the flexibility and cost efficiency of their logistic infrastructure:

- **Central distribution management:** visibility on inventory throughout the network, including the principle of central stock allocation and distributed (return) order management results in higher fill rates, lower logistic costs and stock reduction.
- **Logistic control towers:** monitoring the logistic processes via central control towers facilitates the decision making process and provides the possibility to react upfront on new trends or enables companies to mitigate problems and bottlenecks at the earliest stage.
- **Research & Development:** continuous investments in the distributions network to face the changing internal and external factors by using advanced network modeling techniques and scenario analysis as a business-as-usual process
- **Communication and collaboration:** vertical (producer-retailer) and horizontal (producer-producer) integration improving forecasts, enabling the usage of bundled transportation and central distribution facilities, yet requiring close cooperation and trust between all parties involved.

Logistics are no longer perceived as an operational, back-office cost center but as a key strategic differentiator for the future. The consumer is no longer satisfied with the product in itself, but values total customer experience that comes along with the product. This creates paramount opportunities for companies to improve their operational excellence via non-traditional service elements such as logistics.

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