Convenience –
Anything, Anytime,
Anywhere

How convenience impacts the food industry –
And how food manufacturers need to change in order to win
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The German convenience food market: behind the curve but catching up

Anything, anytime, anywhere – convenience is on the rise. In a fast-paced world where no one ever stops, consumers strive for convenience solutions in all aspects of their lives. Driven by these drastic, fast-paced changes in consumer demand, every player along the food industry value chain will have to change if they want to remain relevant.

China and the US have already introduced countless convenience formats and products to meet consumers’ growing demand. Due to space constraints, many new apartment buildings in China no longer offer full kitchen facilities. People rarely cook at home as a result and rely heavily on convenience food or eating out.

The future is already here: Alibaba has launched a new hyper-convenience supermarket called Hema. This omnichannel format offers a perfect mix of online and offline features through the app that create an ultra-convenient customer experience. They range from mobile product recommendations, in-store product scanning and seamless checkout to click & collect and home delivery in under 30 minutes. They even have a kitchen in-store that will cook the fresh produce to your liking and a dining area in which to eat.

With the limited number of formats and products available in Germany, this convenience market still needs to mature and offers great growth potential for food manufacturers and retailers.

Current movements against plastic waste and for sustainability have not stopped the German convenience food market from gaining momentum.

Sales in Germany of ready meals and other convenience products are expected to grow by 13 percent from 2010 to 2023 to a total value of 5.3bn euros. One excellent example of this trend is the REWE Group, which recently acquired the convenience specialist Lekkerland. The wholesaler is focusing on last mile delivery of convenience food products and non-food articles to gas stations and kiosks. With this move, REWE is already gearing up to win the battle for convenience-oriented customers, as Lekkerland brings in the expertise required to service the fragmented convenience market.

62 percent of millennials in the US have purchased prepared deli food, carry-out, delivery or fast food within the last seven days compared to only 47 percent of other age groups.

United States Department of Agriculture.

Statista, 2019.

Convenience food includes all types of packaged pre-prepared foods that save time for consumers. For a detailed definition please refer to chapter 2.2.
Food manufacturers need to adapt
Consumer demand for innovative and more convenient products is increasing, and food managers are faced with the challenge of offering new services and shopping formats in order to stay relevant.

Food manufacturers will need to recalibrate key competences such as logistics, sales, product development and packaging to benefit from the convenience movement.

Convenience means change for everyone from consumers to the HoReCa sector
Convenience means maximizing efficiency and leveraging timesaving potential for the customer before, during and after purchasing their products and services.

Assuming that convenience only impacts end consumers and retailers would be fatal, because it disregards a significant share of the market. In addition to end consumers, we are increasingly seeing hotel, restaurant and catering players (HoReCa) strive for convenience solutions.

Employers are pushing chefs to work more efficiently and save time and resources in the kitchen. At the same time, consumers want to spend less time and effort purchasing products and have the most convenient shopping experience possible.

Some food manufacturers serve both end consumers and HoReCa players, so they cannot ignore either of the two perspectives. They need to develop a holistic approach to convenience.
The consumer’s perspective

Convenience is here to stay
As we have seen in the US and China, the convenience trend is not a short-term phenomenon – it is here to stay. Monitor Deloitte identified 4 key drivers that will likely help the convenience movement gain further traction.

• Busy lifestyles and higher incomes
• Decreasing household sizes
• Urbanization
• Aging population

Busy lifestyles and higher incomes
Flexible working hours, part-time employment and labor trends like multiple “mini-jobs” make it increasingly difficult to predict how much time consumers spend at home. This fact, along with a shift in consumer spending, leads to more out-of-home consumption. The revenues of out-of-home players are expected to grow by 4 percent in 2019, driven by rising numbers of consumer visits and increasing prices even at-home consumption further declines.\(^4\)
We are also seeing an increase in to-go snacking during the day. 58 percent of consumers at least occasionally buy to-go snacks or meals to replace regular meals\(^5\).

Decreasing household sizes
The number of single-person households in Germany rose from 16.0m in 2012 to 17.3m in 2018.\(^6\) Due to rising property prices and limited space in urban areas, new buildings often do not include space for food storage. Therefore, consumers are less likely to stock up on staples at a retailer and more likely to shop impulsively and for smaller portions. Consumers are also demanding more optimal serving sizes to reduce food waste. An increase in single and two-person households will therefore lead to greater demand for convenience products.

Urbanization
The number of people living in German cities\(^7\) is expected to continue its growth trend from 73.1 percent in 1990 to 78.9 percent in 2030.\(^8\) This means busier lifestyles for an increasing number of people who, in turn, demand more efficient and timesaving ways of shopping and convenient products.

Aging population
The share of people aged 65 and over will make up 27 percent of Germany’s population by 2030.\(^9\) This group requires close-to-home shopping opportunities or home delivery and reduced effort when it comes to the preparation and cooking of meals. Players such as Lieferando and Uber Eats are already tapping into that opportunity and answering the demand for convenience.

58 percent of customers at least occasionally purchase to-go snacks or meals in supermarkets or discount stores.

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\(^4\) Monitor Deloitte analysis.
\(^5\) Convenience YouGov study, 2018.
\(^6\) German Federal Office of Statistics, 2019.
\(^7\) Cities with more than 2000 inhabitants.
\(^8\) Statista, 2019.
The race to hyper-convenience

The demand for convenience solutions is affecting the products on the market as well as the structure of their sales channels in terms of location, services and store format.

New convenience product categories

Not all convenience product categories (please see 2.2 for a detailed definition of convenience food categories) are growing at the same pace. As more consumers turn their focus to convenience, we see two major developments on the product landscape:

The emergence of the ready-to-eat category

Wraps, salads and other ready-to-eat meals and snacks are conquering retailer assortments. In particular, end consumers are demanding ultra-fresh products that they can consume immediately after purchase with no further heating or preparation. Not only are supermarkets and discounters increasingly focusing on ready-to-eat products, other players like bakeries have added these products to their assortments as well.

For instance, one leading German bakery chain already generates 50 percent of its revenues from hot and cold ready-to-eat products such as salad, pasta and sandwiches. And as a reflection of the growing focus on convenience products, some bakeries are even offering facilities to prepare these convenience products in store that take up more space than the customer-facing counter.

Supermarket chains are introducing in-store self-service salad and fresh sushi bars, to name just a few of the ways retailers are expanding their product portfolios.

Traditional food manufacturers need to rethink their assortments as novel competitors succeed in pushing them out of the market. Players like eat happy, Natsu as well as such smaller local chains as the restaurant brand Neni have successfully penetrated the segment.

Fig. 3 – Top 3 most demanded products in the ready-to-eat category at retailers

1. Salads
2. Sandwiches
3. Smoothies
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The increasing relevance of the ready-to-heat\textsuperscript{11} category
Retailers are expanding their assortments of chilled and frozen ready meals and snacks that require heating, but no further preparation before eating. Sales for frozen ready-to-heat meals grew by 2 percent from 2017 to 2018 while overall frozen food products experienced only 0.2 percent growth.\textsuperscript{12}

Frozen food producer Steinhaus has recently introduced Gyoza frozen Asian meals and a new chilled ready-to-heat pasta range for microwaves, while competitor Hilcona is increasing its focus on ready meals. In addition to portfolio expansion among existing players, new players such as YouCook have already entered the growing ready-to-heat segment.\textsuperscript{13}

For both product categories mentioned here, food manufacturers need to consider the following key features.

Focus on modern trends & international cuisine
Demand is high for innovative products that offer the modern style and taste of international cuisine or follow the latest food trends. German consumers are increasingly enjoying world cuisine, as demonstrated by the 17 percent increase in Asian restaurants since 2013. Overall, 64 percent of Germans say they love to eat international dishes.\textsuperscript{14}

Focus on health
Consumers are demanding products that are rich in nutrients and support a healthy lifestyle, e.g., ingredients for detoxing or a cleanse.

Functional, sustainable and transparent packaging
Meal or snack packaging needs to facilitate ease of consumption (e.g., cutlery integrated into the packaging) and promote sustainability. Purchasing decisions are also often based on the appearance of the product itself, so the packaging must make the freshness and quality of preparation transparent for consumers.

Smaller serving sizes
Food manufacturers need to offer smaller serving sizes to appeal to the increasing number of single and two-person households.

Quick turnaround and ease of preparation
The key to responding to the consumer’s convenience demands is to keep it short and simple, e.g., quick preparation in a single pan, in the microwave or eaten right out of the box – yet the food must also offer high quality and superior taste.

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\textsuperscript{11} Ready-to-heat products are prepared snacks or meals that only require heating before consumption.
\textsuperscript{12} Best before date typically 2-3 weeks.
\textsuperscript{13} German Institute for Frozen Food, 2019.
\textsuperscript{14} Deloitte analysis.
Adapting retail channels
Retail channels will need to change significantly to meet consumer demands. Deloitte expects companies to adapt their business models in two different ways:

Expanding convenience portfolio
Retailers will expand the breadth and depth of their convenience product range with ready-to-heat or handy single serving to-go packages. Supermarkets have already installed brand new open fridges right at the store entrance. Even discounters have enlarged their portfolio with smoothies, salads, and sandwiches.

Growing convenience formats
At the same time, we can expect the level of convenience offered in terms of location, service and store format to increase across all channels. Established supermarket players have recently opened new convenience store formats in urban areas (e.g., REWE to Go) to attract walk-in customers and respond to the trend of shopping at retail locations that are close to home. We have seen retail revenues shift increasingly towards locations within 3 to 5 minutes driving distance of a consumer’s home.

A variety of retailers are competing for convenience-loving customers. Supermarkets, discounters, drugstores, gas stations and bakeries have all adapted their business models to meet market demand. At the same time, new formats such as online food deliverers are entering the market and further fueling competition.

Market players with a stronger focus on convenience have experienced higher revenue growth compared to those focused less on convenience.

We can expect the key drivers of the convenience trend to remain relevant and we recognize that the German market much less mature than China or the US. As a result, Monitor Deloitte expects all players on this market to keep pushing into the hyper-convenience space.

Fig. 5 – Development of retail convenience formats
**The convenience convergence of retail channels**

Only a few players have managed to establish pure convenience formats on the German market. REWE to Go and Yormas are two examples that come close to a hyper-convenience format.

Traditional supermarkets will continue to develop smaller city formats with areas ranging from 100 to 400 qm² and move into the ground floor of residential apartment blocks. Supermarkets will also adopt practices common among more mature players like China's Hema. This means a stronger focus on convenience, e.g., integrating cooking of fresh produce purchased in-store, dining areas in-store, seamless checkout and product recommendations via an app. To prevent high customer churn in favor of more online-focused players, supermarkets will need to further invest in such convenience services as online ordering, instant home delivery and click & collect.

Due to their ex-urban locations, larger footprint and lower price point, discounters and hypermarkets are not positioned to become convenience-only players. However, we know that discounters will be unable to grow further if they compete purely on price, as demonstrated by their growth rates underperforming the supermarkets. Discounters will therefore also make an effort to compete on convenience by emulating pure play formats. Penny has introduced an in-store to-go area, Lidl has recently started testing two mini-stores in Munich and Aldi is rolling out a new small store concept in London called Aldi Local.

Drugstores will also continue to increase their convenience food portfolio in order to compensate for decreasing sales in traditional segments such as cosmetic, hygiene and household products. Within the last three years, the share of food sales in drugstores rose to 24.3 percent of total sales.¹⁵ Drugstore chain dm is focus-
The chef’s perspective: HoReCas increasingly rely on convenience products

Convenience has never had a positive connotation in professional kitchens, as it has always been associated with low quality, bad taste and poor nutrition. While many chefs still share this view, convenience products have become significantly more relevant in recent years due to several factors. Experts report that 90 percent of professional kitchens are already regularly using convenience products.\textsuperscript{16}

**Shortage of skilled workers\textsuperscript{17}**
Restaurants are facing a dilemma today as the labor market cannot meet the demand for skilled cooking staff. The number of kitchen apprentices declined from 11,000 in 2012 to 9,000 in 2016, while only 50 percent of trainees receive a passing grade in their exams.

**Demand for flexibility and always available, diverse meals**
Consumers expect restaurants to offer a large variety of products regardless of the season or country of origin. Kitchens are also under pressure to serve meals quickly and around the clock, while an increase in special dietary needs adds further complexity. Without using convenience products, HoReCa players will not be able to address these demands and remain profitable.

Experts report that 90 percent of all professional kitchens use convenience products regularly.
Cost pressure
Today, HoReCa players have to deal with various cost drivers:
- Increasing labor costs for kitchen staff to prepare food (e.g., cutting, breading, marinating)
- Utility costs for water, electricity, etc. and for running a kitchen around the clock
- The high cost of keeping a large variety of products in stock and the difficulty of accurately forecasting demand for fresh and perishable food
- Reduction of product waste

So, although convenience products may have a higher price tag, advantages such as lower labor costs, waste reduction and more precise management of product supply/storage make them a realistic alternative.

Room for refinement and high marginal savings are key
We expect demand to be high for products that reduce preparation time and cost less to buy than to make, particularly if consumers still perceive them as homemade.

Chefs need to consider what makes the most sense in terms of timesaving and efficiency improvements when incorporating convenience products into a professional kitchen.

Even though ready-to-eat and ready meals save the most time in theory, demand is highest for ready-to-cook and pre-cooked products, as they allow for the freedom to add their own refinements. Professional chefs can still create the impression that a product is homemade. As there is no legal protection for terms such as “homemade”, restaurants often use them to give customers the illusion that meals are cooked from scratch.

That said, ready meals or ready-to-eat products are more expensive to purchase, and the marginal time saving is less than with ready-to-cook and pre-cooked products. Not only does this not offset the higher costs, end consumers often see the ready meals as inauthentic.

Fig. 7 – Characteristics of Convenience Products in the HoReCa Sector

<table>
<thead>
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<th>Level of preparation</th>
<th>Time saved in the kitchen</th>
<th>Increase in demand</th>
<th>Descriptions</th>
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<tr>
<td>Kitchen ready</td>
<td></td>
<td>0</td>
<td>Prepared to be processed in kitchen, but not yet cooked, seasoned or further refined (e.g. raw chicken breasts, raw cleaned vegetables).</td>
</tr>
<tr>
<td>Ready-to-cook</td>
<td>+</td>
<td>++</td>
<td>Has to be cooked, but does not need additional preparation steps (e.g. frozen fish fillets, breaded meat products, veggie burger patties).</td>
</tr>
<tr>
<td>Pre-cooked</td>
<td>++</td>
<td>+++++</td>
<td>Prepared and cooked products that only need to be heated and paired with additional ingredients to form a meal (e.g. potatoes dumplings, spring rolls).</td>
</tr>
<tr>
<td>Ready meal</td>
<td>+</td>
<td>+</td>
<td>Full meal that is fully cooked and needs to be heated for consumption (e.g. veggie meals).</td>
</tr>
<tr>
<td>Ready-to-eat</td>
<td></td>
<td>+</td>
<td>Can be consumed straight from the packaging without further preparation or heating (e.g. pre-made salads or sandwiches).</td>
</tr>
</tbody>
</table>
How food manufacturers need to adapt to win the convenience game

As products and distribution formats change due to the convenience demands of consumers and HoReCa players, food manufacturers face a wide range of challenges.

The big question for manufacturers is what do they need to change in order to meet these demands, and how do they need to adapt their operations in order to stay relevant in this highly competitive market?

Customer-centric sales and pricing
To become a producer of choice food, manufacturers need to tailor their sales approach to each customer. This means building up the right skills and gaining insight into each sales channel's players, key purchasing requirements and competition of.

Manufacturers face a highly diversified customer landscape when it comes to convenience products, from various retail formats and wholesalers to restaurants and caterers. The sales team therefore needs to consider the differences across channels and customers when it comes to
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purchasing experience, negotiation power, how to pitch a product’s benefits, marketing materials and pricing or promotional activities.

They will need multiple key account teams that are structured by channel rather than product category.

The large number of different sales channels and customers will also require different pricing strategies and frameworks along with the skills to execute the strategy. Manufacturers need to have omnichannel pricing, processes and supportive analytics in place to sell products at a consistent yet profitable price across all different sales channels.

For example, instead of relying on typical retail promotions, today’s food companies will need to come up with different price schemes to market directly to HoReCa players, where the approach needs to be more net price-oriented.

Price cut promotions play a significant role in retail, especially when it comes to convenience products, given the limited shelf space, lack of secondary placement possibilities and therefore little chance to quickly push new trend-based convenience products to consumers.

**Hyper-regional and last-mile logistic networks**

To successfully deliver convenience food, manufacturers need to rebuild their current logistics infrastructure.

An increasing number of urban locations, the short shelf life of products and the resulting high delivery frequency as well as a highly fragmented and diverse customer landscape will force producers to adopt.

Manufacturers need to assess their existing and target customer landscape, mapping their current logistics capabilities against the requirements for each sales channel, customer and product.

Requirements may differ significantly depending on the go-to-market approach. If a manufacturer decides to focus on serving HoReCa customers as a wholesaler, a more centralized logistics approach would be sufficient to supply central hubs or warehouses. By contrast, many producers want to skip the intermediary (wholesaler) to achieve higher margins and sell directly to HoReCa players. If the goal is to sell directly to the HoReCa market, they will need hyper-regional and last-mile networks. Companies can rely on either internal logistics or external partners to manage their distribution efforts. It may be a challenge, however, to find a suitable logistics partner that meets all their demands in terms of market coverage or refrigerated trucks.

Ready-to-eat products also require more complex logistic solutions, as most players deliver directly to the stores almost daily. That is why most regionally-focused players succeed.

Ready-to-eat convenience food manufacturer Natsu has its own fleet of 130 refrigerated trucks to deliver products to over 2,500 supermarkets every other day. In addition to delivery, Natsu provides services from shelf management and shelf stocking to accepting return of discarded products.
**Trend scouting, co-creation and rapid product development**

A large challenge for manufacturers is to anticipate consumer trends and create relevant products in a timely manner. Manufacturers often lack direct contact with the end consumers, because retailers or wholesalers act as intermediaries.

Manufacturers therefore need to invest time and effort into fully understanding consumer needs even before a trend emerges. For HoReCa customers, this means close collaboration or even co-development with chefs working in restaurants, system gastronomy or hotels to help them better understand customer demands.

If they do not have direct access to customers, having a close relationship with their wholesale customers could provide highly valuable insight into the consumer. The key here is a close exchange between the producer’s key account management, product development and the wholesaler’s purchasing departments. Without an intense exchange, manufacturers will not be able to find and test the right recipes, portion sizes, preparation styles and packaging.

R&D cycles need to be fast and highly efficient to convert trends into successful products. Especially in the convenience industry, trends are fast-paced and time-to-market is the key to gaining market share and exploiting food trends. Companies should derive in-demand products based on these trends, whether it pertains to the type of cuisine, preparation style, healthy additives or portion size. Particularly when marketing to the HoReCa segment, it is crucial to launch pilot products quickly with key customers and establish rapid feedback loops that allow room for adjustments before the final product launch.

**Sustainable yet very convenient packaging**

As brand loyalty decreases, packaging is one of the main ways that convenience products differentiate themselves. Packaging has become a decisive factor in the decision to list products, buy them and accept a higher price premium.

Firstly, packaging must increase the product’s visibility in-store (especially in retail) to enable producers to stand out in the limited shelf space. Secondly, packaging must facilitate the consumption and utilization of the product. Thirdly, packaging allows producers to provide the same product to end consumers and HoReCa, albeit with different sizes and handling. Finally, packaging needs to be more sustainable, as anti-plastic waste and pro-sustainability sentiment is dominant not only in consumers’ minds but also in the political discourse.

As almost all retailers and wholesalers have publicly committed to using sustainable materials, producers must deliver ideas that go even further. They should collaborate with distributors on more sustainable packaging such as single-material solutions and alternative materials such as bamboo.

**Start with the right questions**

As a starting point, food manufacturers should use the following questions as a quick health check to see if they are positioned to win in the convenience food market.

- Are you able to anticipate end consumer trends and bring new products to market quickly?
- Do you have the right sales organization and pricing strategies to optimally serve your customers across multiple and diverse sales channels?
- Do your logistics capabilities reflect the customers’ needs in terms of locations and high delivery frequency?
- Does your packaging consider the key success factors of visibility, functionality and sustainability?

To gain a competitive advantage, food manufacturers will have to come up with answers to these questions. Only those who are able institute the right changes in their organization will ultimately benefit from the increasing demand for convenience food solutions.
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