

RACONTEUR

Roadmap to Transformation in Food & Beverage



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CHANGE

Transformation journey for food and beverage

With thousands of new products launched each year, UK food and drink companies are seasoned innovators, fearless in adapting to change. Now, with shifting consumer trends, tougher regulations and rising costs, businesses must do more than simply adapt, they need to transform

Alison Coleman

Some sectors in food and beverage are feeling the pressure more than others. Restaurants have had a particularly tough time, with big brand names succumbing to market pressures. Insolvencies rose by 25 per cent in the last year, according to accountancy firm UHY Hacker Young.

In warehousing, a cornerstone of the food and drink business, traditional manual handling processes can no longer meet consumer demand for faster service, greater transparency and better accountability.

At the same time as these challenges are emerging, new digital solutions are being developed to help firms achieve the transformation they need. But to succeed, digitalisation needs business buy-in across the board with a clear understanding of digital strategy.

Bahige El-Rayes, partner and leader in consumer and retail practice at A.T. Kearney, explains: "After years of weak growth, many food and beverage companies are using the pretext of digital transformation as a tool to buy more time," he says. "If they want to survive in the current climate, their focus must be on how they transform and innovate their core business models."

In food retail, the biggest challenge to successful transformation is disruption within the industry. Discounters such as Lidl and Aldi are continuing to grow market share with their low-cost, high-quality private-label offerings, while the likes of Amazon and Ocado continue to drive the UK online market. This leaves many retailers trying to invest in price, drive new product innovation and launch into digital transformation.

In the consumer packaged goods (CPG) world, by contrast, big brands are losing their market share to smaller ones. A.T. Kearney's research expects the top 25 brands to lose \$50 billion of growth to smaller brands that are more nimble and resonate better with consumers.

Mutual understanding

"Digital transformation offers a new tool for CPG companies to listen to consumers and build a sense of mutual understanding," says Mr El-Rayes. "Ultimately, in any transformation of a food and beverage company, the key is to be consumer centric, and building intimacy and credibility should be the main focus."

In warehousing, digital transformation is already impacting virtually every supply chain, with experts predicting widespread adoption of automation, and more employees focused on maintaining automation and robots.

Marlow Truman, director at Deloitte Consulting Retail Practice, says: "In future, we are also likely to see significant growth in direct-to-consumer fulfilment to pick, pack and ship singles and multi-packs. At the same time, as consumers expect a reduction in packaging, we can expect more use of reusable totes, packs and containers."

Rollout of 5G connectivity, along with better sharing and integration of data between suppliers and retailers, should also improve real-time visibility and availability, while reducing waste. In response to changing consumer sentiment, many warehouses will look to increase their use of renewable energy and be far more energy efficient or carbon neutral.

"We are seeing innovation around direct-to-consumer models in beers, wines and spirits, such as the rise of wine and gin clubs," says Mr Truman. "Elsewhere, there is innovation in reducing packaging and waste by shipping and selling in bulk and, at the consumer end, items being collected in their own containers."

While technology is the predominant feature of this transformation, the human role is



25%

rise in restaurant insolvencies in the last 12 months

UHY Hacker Young 2019

by no means redundant. "These technologies enable people to focus on the more complex tasks where human judgment cannot be substituted or the personal touch enhances customer experience," Mr Truman adds.

Brexit effect

Failure in the restaurant sector is a perennial risk and can happen for many reasons, from over expansion to a lack of quality control. Current market forces have also helped drive up failure rates, with constant cost hikes influenced by property prices, business rates and the cost of raw materials. The Brexit effect has also negatively impacted the restaurant sector.

Phil Hails-Smith, corporate and commercial partner at law firm Joelson, says: "The restaurant market is highly competitive and subject to the vagaries of taste and fashion. Disruptive forces in the shape of brands such as Deliveroo and HelloFresh are adding to the challenges of getting customers to keep eating out."

Here, technology is helping businesses to improve performance and gain a competitive edge. "If restaurants can reduce customer dwell-time without eroding the experience, they can get more customers through the door with the same or a smaller footprint," says Adam Walford, partner and food and drink specialist at law firm Howard Kennedy.

"Companies like Livit, for example, are using data to help restaurants determine which music results in customers spending less time over their meal without even realising it and so freeing up the table sooner for the next taker."

Technology can also improve staffing efficiencies. Coople improves staffing flexibility by employing people on flexible contracts and using an algorithm to match and place those employees with restaurant businesses in shorter-term need of their skills when they are available.

Once a restaurant has begun to struggle, the prospects of a turnaround are limited. Chains, in particular, find it tough to recover once they start to experience financial difficulties. While transformational technology can drive customer engagement and encourage loyalty and repeat business, the fundamentals of restaurant success haven't changed.

Mr Hails-Smith concludes: "The focus should be on delivering a quality customer experience, increasing customer loyalty and generating repeat bookings. Successful operators in food and drink have to keep pace with changing consumer trends. In this market, you evolve or you die." ●



In any transformation of a food and beverage company, the key is to be consumer centric, and building intimacy and credibility should be the main focus

TECHNOLOGY

Warehouse of the future

Robots, drones and algorithms are radically altering the way warehouses operate, increasing efficiency and reducing risk for F&B companies around the world

Duncan Jefferies

Warehouses have always been the heart of the supply chain in F&B, taking in items from suppliers and pumping them out. Over the past few decades, retailers have tried to make this operational heart beat a little faster with productivity and efficiency improvements. But the competitive demands of ecommerce have taken things to a whole new level.

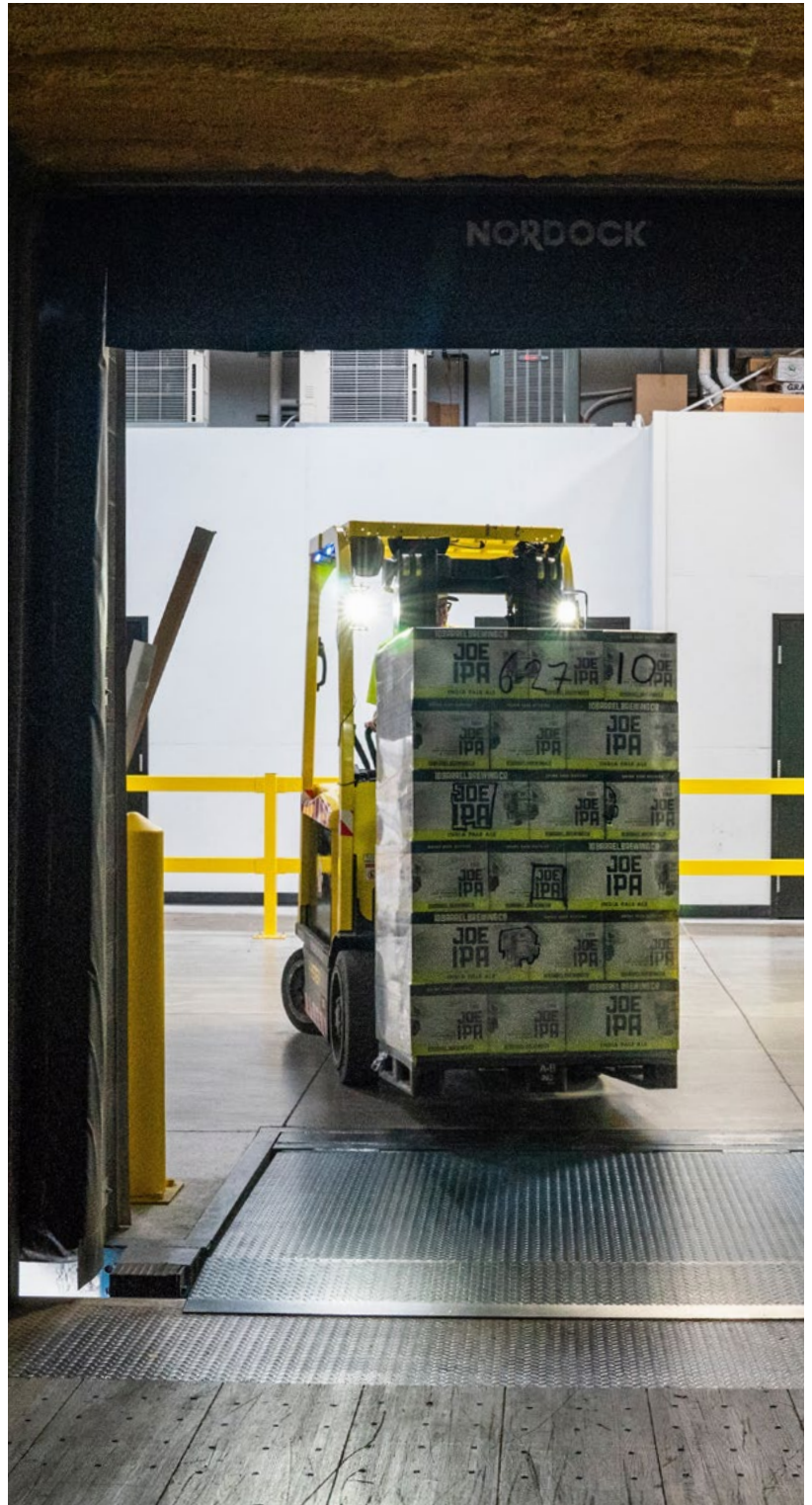
Rather than transporting pallets to bricks-and-mortar stores, many businesses are now sending individual items to individual customers and they're overhauling their warehouse operations to ensure items arrive as quickly as possible.

"Automation will bring many benefits to the supply chain, such as easing the pressures caused by a lack of workforce and promoting higher productivity," says Rebecca Green, head of insight at Wincanton. "It can either substitute workers by undertaking some of the simpler, more repetitive tasks or augment workers' efforts, expanding their capability and allowing them to achieve more and produce better quality work in a shorter space of time."

Modern automated storage and retrieval systems, for example, allow for much better height utilisation within the warehouse. The accuracy of these systems can also greatly reduce the time it takes to retrieve a pallet. In the most cutting-edge warehouses, algorithms often determine where items should be stored and augmented reality smartglasses guide picking personnel to them. In fact, robots increasingly bring crates of items to picking stations, minimising the amount of walking and lifting picking personnel have to do.

Pioneering solutions

The online-only supermarket Ocado has built its entire operations around highly automated warehouses, the most advanced of which features more than a thousand



cube-shaped robots that pick and pack grocery items. The company is now building automated warehouses for other retailers too, many of which are keen to stay one step ahead of Amazon, which has also deployed fleets of robots in its vast warehouses.

Technologies pioneered by these companies are now beginning to spread throughout the logistics industry. But given the cost and complexity of installing some of these solutions, it's important to identify whether they're truly a good fit for the business.

"The key thing for us is to make sure we're spending on the right technologies," says Richard Cawston, managing director of the European supply chain at XPO Logistics. "We look at technology and automation that can improve productivity, but also quality and accuracy. With such a large and diverse customer base, we've found there are very few solutions that are one size fits all. Any technology we use needs to be flexible enough to handle anticipated changes in what our customers want. When we evaluate automated solutions, we must be able to tailor them to fit very specific requirements."

XPO is working with Nestlé on a futuristic 638,000-square-foot distribution centre in Leicestershire, which will rapidly dispatch Nestlé products to supermarkets and other

638k

square footage of the futuristic Nestlé and XPO Logistics warehouse

XPO Logistics

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The future of many companies will depend on how well they organise and manage interactions between humans and automation

sites and customers across the country. "We call it the warehouse of the future for consumer-packaged goods," says Mr Cawston.

The facility, which is scheduled to open in 2020, will feature state-of-the-art automation, including advanced sortation systems and robotics. Fixed robotic arms will pick goods and pack pallets, for instance, and automated aerial drones will check inventory on high shelving units. Predictive data will be used for workforce planning and to forecast customer orders based on weather patterns and seasonal demand. The facility will also house an XPO technology laboratory that will act as a launch pad for future innovations.

Collaborative working

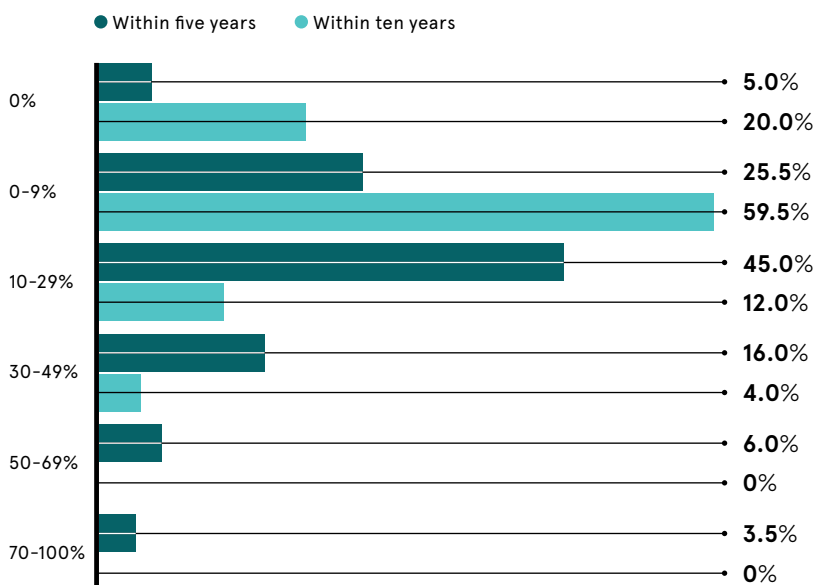
One area where robots still struggle in comparison to humans is their ability to deal with anomalies like uneven floors or damaged pallets. People can deal with these problems on the fly; robots tend to stop in their tracks and throw up their hands, metaphorically speaking.

That said, robots aren't capable of suffering serious injury, which makes them ideally suited to many warehouse environments. People can easily slip or trip and injure themselves, which might put them out of action for days or even weeks. A damaged robot, on the other hand, can easily be swapped for an identical model, minimising any disruption to the operation of the warehouse.

Perhaps the ideal scenario is a warehouse that takes full advantage of the abilities of both humans and machines. "We believe people are at the very heart of logistics and logistics without people is a prospect we reject," says Ms Green. "However, the future of many companies will depend on how well they organise and manage interactions between humans and automation." ●

TECHNOLOGY IS CHANGING THE FACE OF THE WAREHOUSE WORKFORCE

Expected future replacement of warehousing workforce in the UK 2019



BDO 2019

CULTURE

Digital strategy should be everyone's responsibility

One of the biggest barriers to digital transformation in all industries, including F&B, is cultural. How can organisations overcome this challenge?

Jenny Turton

Failure to communicate digital strategy often means failing to transform. It is therefore paramount that businesses ensure everyone at an organisation understands the digital strategy.

The most significant barrier to transformation, according to research from Harvard Business Review, are organisational silos (38 per cent). Resistance to change (31 per cent) and organisational structure impeding efforts (29 per cent) were also identified in the top five barriers.

Phil Hawkins, chief executive at digital communications agency 2112, agrees that digital transformation projects are much harder to implement successfully than it would seem.

“Before beginning these projects, it’s important to adopt the ethos that everyone is involved and promote a culture of inclusion. Leading transformation projects requires specialists with combined expertise in business analysis and project management, as well as change management,” he says.

“Change management is key here. It’s important to gain a holistic view of the project

and a view that's independent from the business to get a fresh, unbiased perspective. This will help gain vital insights into the project that may otherwise be missed by specialists who are too close to it.

"We have also found that projects as big and as daunting as these really benefit from someone who injects enthusiasm into the process to energise all stakeholders to provide a sense of something positive happening, rather than something disruptive with negative consequences."

For the majority of companies, a digital transformation strategy should be well under way, but for Evaris chief executive Mike Cohen, success is hinged on the shift in mindset at all levels within an organisation.

"Technology can be a powerful enabler, but must be underpinned by a team that supports the business objectives behind transformation and are aligned both emotionally and procedurally. This typically makes successful transformation very difficult to achieve in practice," he explains.

"The transformation journey has to start with modernising infrastructure as technology constitutes the essential building blocks required to deliver the products, services, applications and workloads every business needs to operate."

Companies that have been built from the ground up as technological or digital are bound to find the implementation of an all-encompassing strategy simpler than one with a significant legacy. For the latter, peer group analysis forms an excellent insight into how to succeed with a digital transformation.

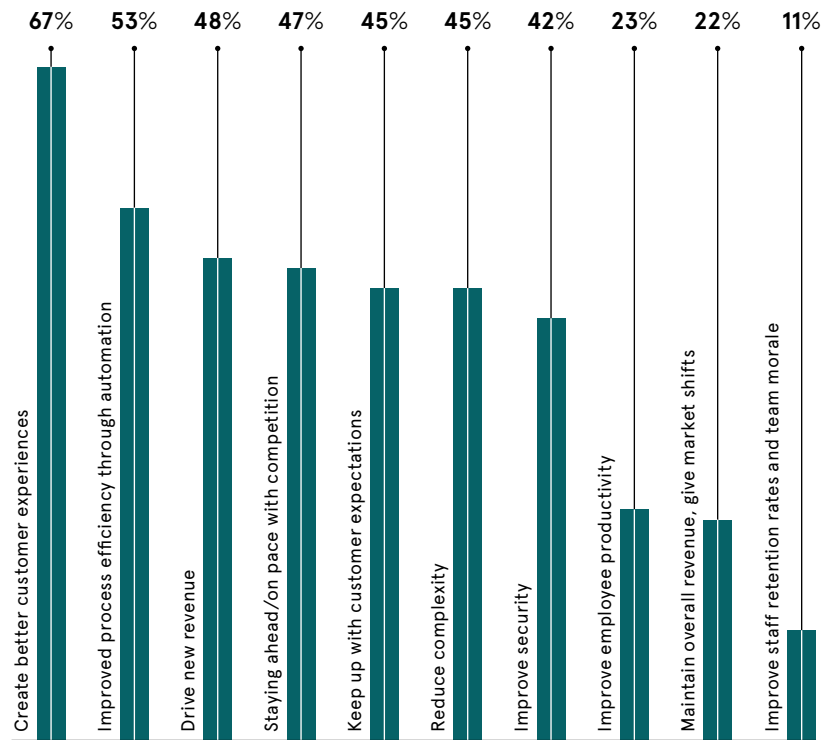
Jonathon Clarke, business and technology manager at Activate, says: "What I always advise companies to do when they're in this space is look at the successful examples out there. Look at what competitors and similar companies are doing or the people who serve as your target market. There are a lot of shortcuts you might be able to take or quick wins."



It's important to adopt the ethos that everyone is involved and promote a culture of inclusion

THERE ARE COUNTLESS REASONS TO DIGITALLY TRANSFORM

Key objectives of digital business strategy in organizations worldwide as of 2019



IDG Research Services 2019

"Management has a big role to play in this, not in terms of just telling people what to do; I'm talking empowering staff, at all levels of the organisation. Making people feel like they really own their work and that they have a part to play in driving the company forward."

Incumbents also face difficulties with staff morale, especially when introducing technology capable of replacing workloads currently completed by humans.

As businesses continue to evolve and advance with technology, it is inevitable that companies will streamline and, for some, this will mean redundancies.

Eric Holzhauer, principal manager of strategy and product marketing at MongoDB, concludes: "I think it's very important to invest in your people skills to make sure you're giving them a path forward so they can evolve with the company, rather than feeling like they're being replaced or displaced."

"There's something to be said for the development of cross-functional teams that are experts at what they do and able to innovate quickly." ●

FUTUREPROOF

Restaurant renaissance: how to revive an ailing industry

Many restaurants are struggling to compete in the digital age. How can they recover and what lessons can F&B industry learn from the restaurant renaissance?



Francesca Cassidy

After a period of voracious interest, it looks like people's appetite for restaurants may be waning, especially in the UK. Even millennials, the generation that has dined out the most in recent years, are making fewer restaurant visits. According to research by hospitality platform Flyt, they are the most likely to be eating out less than last year and the amount they spend when they do has gone down by 3 per cent, costing the industry around £800 million a year.

Dining out becomes a luxury, not lifestyle choice, as food prices shoot up

One reason for this shift is the cost of food itself, both for restaurants and customers. "These are the most challenging times that I have seen in my 20-plus years in the industry," says Maurice Abboudi, executive director of K10 restaurants and former chairman of orderTalk, an online ordering platform acquired by UberEats earlier this year. "The exchange rate is making imported food more expensive, there has been inflation of food costs over the past few years, rents and rates are unsustainable, and labour costs are rising."

For customers, this price elevation has meant that visits to restaurants have become a luxury, rather than a lifestyle choice, and many food and beverage brands are pivoting their service to reflect this. In the commercial sphere, drinks giant Diageo recently sold 19 of its lower-end brands for \$550 million to focus on its premium business in a bid to increase slowing sales.

In the restaurant sector, many brands are choosing to add high-quality items likely to appeal to more discerning customers. "A lot of it has to do with knowing that better options exist in the first place," explains Amir Gehl, founder and owner of luxury coffee company Difference Coffee. "When given the choice, you will find a good selection of people opting for high-end specialty coffees at restaurants, much in the same way that people are aspiring to eat better food and drink better wines."

One unexpected example of the move to premium is Dunkin' Donuts. Rebranding as Dunkin', the multinational has dropped unpopular items, adopted a sleek new ordering system and introduced an espresso menu to feed customers' insatiable coffee demand.

With a view to challenging Starbucks on price and efficiency, the company is also investing heavily in a beverage-first concept, with new nitro-brewed coffee taps and mobile ordering drive-thru lanes set to launch in 2019.

The ethically-minded customer demands more from their food

There is also an increasing focus on provenance and supply chain as consumers' ethical resolve shows no sign of abating. Results from PR and digital marketing agency FleishmanHillard's Shaping the Future of Food survey showed a growing sense of responsibility over improving the foods we eat and a duty to share this information. For restaurants to re-engage consumers, the ethical element of food production must become a top priority.

"People are much more engaged and knowledgeable about food, where it comes from and how it's prepared, and this has made people more sceptical and easily critical of restaurants who fall short," says Leanne Masi, owner of healthy street food business Luna & Fennel.

One big mistake some businesses have made, explains Mr Abboudi, is reducing the quality of the product or "menu-engineering" an item to a cost, rather than focusing on serving a great product. "Don't cut back on what people go out for: great food and great service," he says.

Ms Masi adds: "Brands need to focus on a key concept and execute it well. To appeal they must offer a good range of dietary alternatives, use high-quality ingredients, source locally as much as possible, and factor in environmental and ethical concerns."

For restaurants to survive, savvy marketing is key

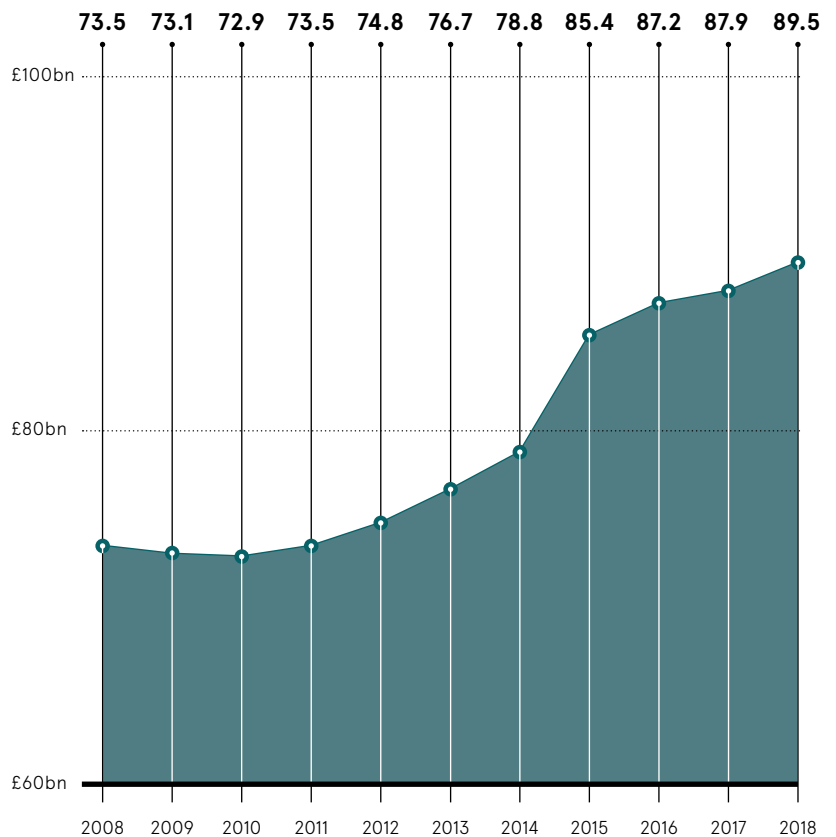
A more discerning, ethically minded, cash-sensitive consumer base may seem an insurmountable obstacle for many



For customers visits to restaurants have become a luxury, rather than a lifestyle choice

THE UK RESTAURANT INDUSTRY IS STILL STRONG

Value of eating out market in the United Kingdom (UK) from 2008 to 2018 (in billion GBP)



MCA 2019

restaurants, but there are key things which can make mid-market brands more competitive. And the first is marketing.

"Restaurants need to make eating out an experience," says Nadia Leguel, UK business director at Bookatable by Michelin. "They need to touch all the senses, not just focus on product. High street brands are losing appeal because they always have the same offering. It's not 'cool' to post a picture of a meal at a chain restaurant because there are so many people all over the country eating the same thing."

Brands would be remiss to underestimate the power of social media marketing in revitalising ailing brands. Struggling with falling visitor numbers, American diner-style chain Denny's adopted a social media strategy, which relies heavily on pop culture and meme humour to stay culturally relevant and appeal to the young crowd they welcome

through their doors. And it seems to be working, with total operating revenue up 3.1 per cent in the third quarter of this year and two new UK branches opened since 2016.

Is technology the secret to the restaurant renaissance?

Most crucial to survival of mid-level restaurants, however, is embracing the opportunities offered by technology. A powerful resource in any industry, in the restaurant business it can be the difference between keeping and losing customers, and those brands that choose to innovate can change the sector itself.

Ten years ago, London restaurant inamo did just that. Noel Hunwick and Daniel Potter

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Brands would be remiss to underestimate the power of social media marketing

had an epiphany while struggling to catch a waiter's attention at a friend's birthday. "We wanted to buy more and give the establishment our money, but they weren't letting us," says Mr Hunwick. The result was their patented E-Table technology, which enables customers to order food, call a waiter or get their bill through the interactive table set-up.

Beyond the basic dining experience, customers can also play games on the table, change their virtual tablecloth and peek into the kitchen through the live chef cam. Most importantly, however, they can give feedback on the dishes and service, right there and then.

"We always knew that to stay relevant, the quality of the experience had to be measured as a whole, not only the concept's edge," says Mr Hunwick, adding that this feedback has helped measure team performance, reduce the turnover time for tables and even drive up average spend by making it easier for guests to order more dishes. The Soho branch of inamo is now achieving 16 per cent revenue growth year on year.

The true secret to restaurant success is customer experience

Innovative technology is part of inamo's brand, but other restaurants need not embrace such an all-encompassing strategy to see signs of improvement. The clear value of the interactive table lies in the benefit to the customer. Beside reassessing the offering and remaining competitive on prices, restaurants must put a stronger focus on customer experience if they are to survive.

In the era of one-click ordering and next-day delivery, customer expectations of service are high. A lack of ease in ordering, difficulty splitting the bill and long waiting times are all elements of the customer experience that can stand in the way of repeat business. For restaurants to thrive, they must use every tool at their disposal to put the customer at the heart of everything they do. ●



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