

Ebook

Store of the future report 2019.



Table of Contents

P. 03 **Introduction**

P. 03 **Grocery Shopping Today**

P. 04 **In-store Innovation**

P. 05 **Food Delivery Options**

Introduction

Food shopping has always been a communal experience. Consumers flock to their store of choice, weave their carts past other shoppers and bring home a bounty of goods that are usually shared with family and friends. Store operators aim to serve the masses, so they have worked hard to organize their outlets to operate efficiently and appeal to a broad demographic.

But food shopping isn't just communal – it's also an intensely personal experience. It always has been, and it's becoming more so. Consumers like what they like, and they're willing to shop around more for what they want. They're getting more adventurous with diets and food choices, so they push stores to cater to their needs. Consumers are busier than ever, so convenience plays a bigger role in their shopping decisions.

Grocery store operators are getting pushed on these fronts, and on others as well. Amazon shook up the market with its purchase of Whole Foods; now it's innovating with concepts like customized urban stores and cashier-less checkouts. Walmart is experimenting with grocery pickup. Industry executives say driverless home delivery systems aren't far away.

As all of these forces gather strength, we decided to get consumers' takes on the state of the industry. What do they think of the grocery experience today? How are their habits changing? And what do they envision for the store of the future? Phononic commissioned a survey of 1,118 U.S. consumers to get feedback on these issues. The company's 2nd annual "Store of the Future Report" sheds light on a wide variety of industry trends and disruptions, and gleans insight on how consumer opinions and desires have changed year-over-year.

What does today's consumer value most of all? And how do consumer preferences impact grocer strategies? Read on.

Grocery Shopping Today

Just checking items off a list? Grocery shopping is an activity that unites all of us, for better or for worse. It can be something we look forward to and thoroughly enjoy, like a walk in a scenic park or a mall outing to check out the latest fashions. Or it can be a chore that simply has to get done, like the laundry or the dinner dishes. Fact is, we all do it.

A surprisingly large number of people see food shopping as a task that needs to be checked off – and nothing more. The

Phononic survey found half of Americans [50%] see grocery shopping as just something they have to do but don't necessarily want to. Another 12% went further, saying they'd be happy to never step foot inside a grocery store again.

Others see shopping as more of a positive experience. Thirty percent say grocery shopping is like a "mini-holiday" where they can browse aisles and hunt for treasures, and almost three in ten [28%] say they "love" the experience of shopping at their local store where they know people and people know them. Interestingly, Millennials are more likely than any generation [at 36%] to note they appreciate the communal aspect of grocery shopping.

While Americans have mixed opinions about the act of grocery shopping, the survey did show consumers are generally pleased with store operators' moves to enhance the shopper experience. Four in five Americans [80%] recognize stores' efforts to offer more prepared food options, both hot and cold. Over three-quarters [77%] say stores have created a "modern feel," and 70% say complimentary food pairings tend to be arranged in a pleasing fashion. Two-thirds [65%] say stores are doing a good job providing healthier and/or fresh options at checkout. Over three in five [63%] credit stores for creating robust and user-friendly apps for in-store assistance. And 78% say store operators seem to understand how to make buying groceries an easier and/or more efficient process. Modern refrigeration technology is one area of focus for grocers that is critical to enabling these in-store efficiency elements that consumers crave.

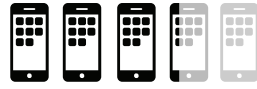
Beyond efficiency and in-store experience, it's sometimes more than just the products themselves that draws people in. Almost three-quarters of Americans [73%] gravitate to companies that prove they care about the environment. Two-thirds say it's important that they buy from a company that uses more sustainable cooling technology [67%]. A similar percentage [66%] prefers to buy goods from companies that give a portion of their profits to charities. And over three in five Americans [63%] say it's important that they purchase goods from companies that support social causes they care about. This is especially true among Millennial and Gen Xers, with the figure rising to 72% and 65% respectively.

Food shopping doesn't energize everybody. But the survey shows that those who like the activity – and some who view it as nothing more than a task – have strong opinions about what works. They recognize when retailers improve in-store experiences and are more willing to patronize those who act in a socially conscious way.



4 in 5 Americans

recognize stores' efforts to offer more prepared food options, both hot and cold.



Over 3 in 5

credit stores for creating robust and user-friendly apps for in-store assistance.



2 out of 3

Americans say stores are doing a good job providing healthier and/or fresh options at checkout.



say store operators understand how to make buying groceries easier and/or more efficient.

In-store Innovation

Does grocery have a tech problem? A quick glance at news headlines over the past year suggests that technology is starting to impact the grocery industry in a big way. Amazon's entry has sparked speculation – and a certain amount of fear – about innovations that could disrupt store operators' businesses. Walmart is working on a blockchain system that promises improvements in the supply chain. Other operators are trying out new concepts including pop-up stores, in-store labs, online virtual shopping experiences and more functional, more powerful scanners.

The problem is, some of this innovation is years away and isn't necessarily moving the needle today. Based on survey responses, consumers still feel retailers are falling short when it comes to in-store technology.

Half of Americans [51%] say if grocery stores don't "enter the modern age," more people will look for other ways to get food. Forty-one percent of consumers say grocery stores not only haven't yet figured out how to use technology like other retailers have – they note grocery stores "haven't changed in decades" and need to adapt to the modern age [40%]. This should be a wake-up call to the industry.

Still, on a positive note, in looking at the survey year-over-year, there are indications that grocery stores are improving their technology focus, and consumers are taking notice. The 2019 survey showed a slight improvement in attitudes about grocers' technology adoption, with the number of consumers who feel grocery stores need to enter the modern age dropping five percentage points from 56% to 51% year-over-year. Additionally, the number of consumers who feel grocery stores haven't changed in decades also decreased slightly from 48% in 2018, to 40% in 2019. It's a safe bet that these numbers will continue to improve as the industry heavyweights bring innovations to market and smaller players catch up.

It's important for grocery stores to get technology right. Nine in ten Americans [89%] say it's important that grocery stores use

technology better and/or more efficiently to make checking out fast. More than four in five [83%] say they need to use it to make shopping faster. The same percentage [83%] feels it's important to provide more choices. And seven in ten [69%] say they need to use technology better to provide better meal ideas.

Looking ahead: Cashier-less checkouts and better in-store experiences

Consumers might not give grocers high marks for technology innovation today, but the survey shows they can see a future where tech improves the overall shopping experience.

Take cashier-less checkout, for example. Almost nine in ten Americans [86%] say in five years it's likely that mobile apps will allow people to scan groceries as they shop and then pay through the app itself. When it comes to paying, 79% say it's likely in five years that the majority of supermarkets will be primarily self-checkout.

In a separate survey Phononic conducted in July 2018, executives that make purchasing decisions were a little less firm about the timeline for cashier-less stores. Sixty-four percent of food industry executives said it was likely the majority of supermarkets would be checkout free in five years. Does this mean industry executives are slightly less optimistic than consumers about where checkout technologies will be in the mid-2020s? Or is the collective population growing more comfortable with the concept from year to year? Time will tell, but either way it's clear that a reimagined checkout is top-of-mind for today's shoppers.

As for in-store experiences, some of the 2019 survey responses leave room for interpretation. Three-quarters of Americans [76%] say it's likely in five years that more physical stores will be offering ways to auto-replenish basics. That's a good percentage, but it's down nine points from last year's survey.



1 in 5 Americans

have used a grocery pick-up service such as Walmart Pick Up.



15%

have used a delivery service like Uber Eats.



have used a meal delivery service such as HelloFresh.



get some or all of their groceries delivered on a weekly basis.

In addition, two-thirds [66%] say there will be popup and/or mobile supermarkets in urban and rural areas to make it easier to shop. Ironically, Amazon is on both sides of this trend – announcing plans to invest in urban markets at about the same time it closed all of its 87 pop-up stores.

One perception that's holding steady is the view that frozen and refrigerated goods will play more of a role in the store of the future. Over half [52%] of respondents say they expect these items will be distributed throughout stores, rather than just placed at the back or side of the store. This would enable stores to offer a wider variety of fresh and frozen items and enhance their status as impulse buys.

Other projections? Shoppers believe the types of stores will change. Over three in five [62%] say it's likely there will be entire stores dedicated to prepared meals to go, and almost half [48%] say supermarkets could evolve from large multipurpose stores to smaller stores that are more specialized.

Food Delivery Options

There's an app for that, but are consumers passing anyway?

Consumers want choice and they certainly have it now – in at least one facet of the grocery business. In the ondemand economy, consumers are being flooded with an increasing number of options that can deliver food to them with a click [or swipe] of a button. The unanswered questions are whether they want that delivery choice now and, if not, when, they'll be ready to truly change their shopping habits.

Consumers, for the most part, are holding to past practices. Asked where they shop on a traditional basis, their answers were split pretty much down the middle for traditional grocery stores [54%] and mass retailers like Walmart and Target [49%]. Smaller percentages shop at other venues like specialty stores [14%], big-box stores [13%] and convenience stores [10%]. Limited numbers regularly use a grocery delivery service like Peapod [12%] or meal delivery services like Blue Apron or HelloFresh [3%].

With the growing number of options, there is still little evidence that consumers are turning to grocery and/or meal delivery services to supplement or replace their normal food shopping. While 42% have tried one of the below services, almost three

in five [58%] have not. One in five Americans [19%] have used a grocery pick-up service such as Walmart Pick Up. Another 15% have used a delivery service like Uber Eats. Over one in ten [12%] have used a meal delivery service such as HelloFresh. One in ten [10%] have a grocery delivery service such as FreshDirect or Peapod. Less than one in ten [8%] have tried a grocery pick-up service like Amazon Locker, and just 4% get some or all of their groceries delivered on a weekly basis.

There was a slight increase in the percentage of Americans who've tried a meal or food delivery service – 42% in 2019 vs. 34% in 2018. But the barriers cited remain the same: convenience, cost and, when it comes to food, the need to see and choose it themselves.

In examining why Americans haven't tried one of these services for delivery, over half [52%] say they need the instore experience of seeing and choosing their own food. Consumers want to be able to pick the food – especially fresh items – that they want. They want to find that perfect avocado for their guacamole and the banana that's just barely under-ripe to cut over morning cereal. In fact, 85% of Americans say part of the fun of grocery shopping is being able to see the various options and the experience of being in the store.

Other factors are standing in the way of delivery options. One-third of respondents [33%] feel delivery charges, fees and/or memberships are too expensive. Another third say it's just easier for them to go to the store [34%] themselves. One in five [20%] have not tried it because they're worried about the freshness of the food. One in ten [11%] say they want to try one but haven't gotten around to it yet. And one in eight [13%] are not at all sure why they haven't tried a grocery and/or meal delivery service.

When it comes to consumers who have tried these services, the two biggest problems are fees and food storage concerns. Two-thirds [67%] of Americans say a problem with meal and/or food delivery services is how the food is stored while being delivered. A similar percentage [66%] would have more groceries and meals delivered if the delivery charges, fees and/or memberships weren't so high. And over two in five [44%] say they would order more food online if the delivery packaging was not so wasteful.

Looking ahead: Will self-driving vehicles play a role?

How will consumers' shopping habits change in the future? The survey showed that a significant segment of the population [35%] doesn't expect their own shopping habits will change much, if at all. Then there's an even bigger percentage [65%] that expects to change their habits in the following ways.

Roughly equal numbers think they'll buy more groceries in traditional markets [25%] and in big-box stores [24%]. One in five [19%] say they'll shop more online and pick the items up. Almost one in five [17%] will shop more online in traditional grocery stores and have it delivered. Over one in ten [13%] will shop more on Amazon for groceries. And one in ten [9%] say their groceries will be delivered by self-driving vehicles. While the delivery market is still immature, consumers see potential for this in the future. They're optimistic about the role developing technologies will play, with almost three in five Americans [56%] saying it's likely in five years that groceries will be delivered by self-driving vehicles.



2 out of 3 Americans

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are optimistic about the role developing technologies will play, saying it's likely in five years that groceries will be delivered by self-driving vehicles.

Conclusion

Like many other industries, the grocery business is bracing for change. As more shopping options present themselves, consumers are feeling more empowered. They are raising their voices to let their preferences be known, and retailers are scrambling to serve consumers' needs.

Today, consumers credit retailers for trying to enhance their in-store experience. They value stores that act with a social conscience. While they give stores low marks for their use of technology so far, they think tech will help the industry evolve in the future. Consumers believe scanners and high-powered apps will usher in cashier-less checkouts sooner rather than later. And they're confident technology will help expand the array of fresh products in stores.

Food delivery options are broadening, but consumers are still slow to embrace them. To gain more acceptance, food delivery operators need to make services more economical, find ways to make packaging less wasteful and ease consumers' concerns about the quality of their orders.

Refrigeration technology can play a role in the store of the future. Smaller refrigeration units powered by new technologies can enable stores to deploy more fresh and frozen products throughout stores. And portable units can help retailers ensure items are fresh upon delivery.

Store operators that adapt to consumers' needs will create a business advantage over competitors that don't. Using technology wisely and strategically will position them best for future success.

About

Phononic is reimagining cooling and heating in ways never thought possible. Its breakthrough solid-state technology is transforming industries and creating new markets with innovative solutions that disrupt antiquated business models and incumbent technologies. Phononic is the critical element of innovation needed to radically change what it means to be efficient, effective and sustainable. The company has been named to the 2016, 2017 and 2019 CNBC Disruptor 50 lists, received the US EPA's 2017 Emerging Tech Award, R&D 100 Award and more.

Learn more at www.phononic.com/foodandbev