Convenience 2.0, Proximity and the Transformation of Food

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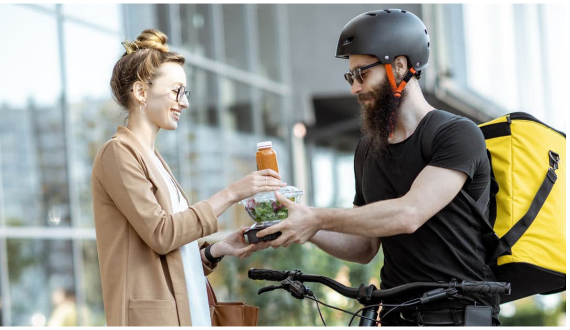
RETHINKING FOOD IN AN AGE OF RADICAL CONVENIENCE

The worlds of food service and food retail have undergone a profound transformation in recent years, driven by consumers' desires for simplicity, accessibility and immediacy. Technology-enabled business models, and now the spread of COVID-19, are only accelerating the changes we've been witnessing. Many food companies have hesitated to proactively embrace these changes, but they no longer have the luxury of waiting to innovate.

In order to meet these new challenges and succeed in a post-COVID world, companies need to shift their understanding of convenience. Convenience 2.0 is no longer about place and product – it's about *proximity*: meeting the consumer need at the point and moment of demand. Embracing these changes proactively, and the implications they pose, will be necessary ingredients for food companies hungry for innovation.



CONVENIENCE IS NO LONGER DEFINED BY PLACE OR PRODUCT—IT'S ABOUT PROXIMITY.

We have all witnessed the **rise of meal delivery**, expansion of **online grocery**, and **explosion (and then decline) of the meal kit market** —these all being driven by an ever-growing market for food tech startups. Incumbents, hungry for innovation and growth, have furiously responded: grocers have expanded into **"grocerants"** and gobbled up **meal kit players**, convenience stores are working on **reinventing their food service offerings**, and even **dollar stores** and **drugstores** have entered the fresh and prepared foods space in an attempt to capture on-the-go consumers.

These and other trends are part of a broad redefinition of convenience: from its origins as a *place* (the convenience store) to a *product* strategy (on-the-go products and packaging) to something we call ***proximity***. Proximity is about pushing the production and provisioning of products and services (*value*) closer to the point and moment of demand. It's about delivering what consumers want, when and how they want it, in-context of their journey and increasingly on demand.

Examples of proximity abound in multiple industries. Distributed power generation, 3D printing, and ride sharing are just a few examples. We believe **proximity is a fundamental force** that is driving disruption and forcing business model innovation in virtually every sector, and creating the rise of totally new paradigms.

Convenience 2.0 in food, driven by proximity, will be about delivering on consumers' desires for accessibility, simplicity and immediacy. The changes we're seeing have been happening in small ways, but the pace of change is about to accelerate because of two factors.

EXPONENTIAL TECHNOLOGIES AND COVID-19 WILL ACCELERATE CONVENIENCE 2.0.

Amazon's entry into retail food with their acquisition of Whole Foods, and later the introduction of AmazonGo stores, sent ripple effects across the industry. But the strategic significance goes well beyond a changing competitive landscape. It signifies a radical transformation of the **shopping experience,** and with its recent move to make its **Just Walk Out technology** available to other retailers, it serves as a harbinger of things to come for retail. Just Walk Out is Amazon's way of turning its brilliantly frictionless, technology-driven retail experience into a *platform*, much as it has done with AWS. As this happens, retail experiences will be possible anywhere along the customer journey, and radically convenient. We expect to see retail become increasingly **unattended**, **automated** and **autonomous**.

COVID-19 is also accelerating Convenience 2.0, as consumers flock to digitally-enabled, contactless and frictionless experiences. Daily **downloads** of Instacart, Walmart Grocery and Shipt are up by 218%, 160% and 124%, respectively, and Rakuten Intelligence has reported that over two-fifths of consumers are buying groceries online for the first time. Mobile payments, frictionless checkout and contactless delivery are all accelerating. Meal kits are also experiencing a resurgence: Hello Fresh and Blue Apron have also experienced a **sharp increase in demand** for meal kits as shelter-in-place translates into cook-at-home.

The COVID-19 crisis has reversed decades-long increases in away-from-home eating, and as a result may change the profile of consumer demand for good.

Early Signals of Lasting Change

COVID-19 may even change the profile of consumer demand for good. McDonald's CEO, Chris Kempczinski, **told CNBC** that consumer psychology is changing in markets as they reopen after the coronavirus lockdown. Some consumers are reluctant to go back into physical stores, and delivery (already a $5B business growing at a 20% CAGR) is accelerating. Nielson also reports that Chinese consumers are **re-thinking how they eat post-COVID-19** – they're more likely to purchase online, and the in-home experience has been redefined.

FOOD INDUSTRY PLAYERS MUST ADAPT TO FIVE MAJOR CHANGES IN ORDER TO COMPETE.

Looking ahead, we see five implications for the food industry:

Channel blurring will accelerate business model reinvention.

Before the crisis, grocery stores were becoming more like restaurants. In response to COVID-19, restaurants are already becoming pseudo-grocery stores in a desperate attempt to stem losses, leverage their brands and serve consumers in new ways. Leading chains such as Panera and California Pizza Kitchen are already offering meal kits, groceries and pantry staples. We expect this to continue, and traditional barriers between restaurants and food service will break down in both directions.

There will be a return to home as the heart of food, though not quite as we remember.

Home is the ultimate example of proximity, and is being re-established as a center of food. An unexpected generation of consumers are embracing this time to learn to cook, bake and experience food at home in new ways. Paradoxically, we believe that COVID-19 could even reframe convenience from on-the-go to at-the-home, potentially reversing decades-long increases in away-from-home eating. This will drive opportunities to elevate the in-home food experience and re-invigorate business model innovation centered around small groups of consumers in the at-home context.

Digital off-premise and restaurant-as-service will drive restaurant growth.

Sadly, many restaurants won't survive the crisis. The new ones that emerge to take their place will likely be delivery-first, delivery-only, or fully virtual restaurants—powered by increasingly sophisticated ghost kitchens and commissaries offering turnkey approaches that reduce entry barriers and operating costs. And, for existing operators, dine-in will drop off and off-premise will become the primary driver of future growth. As a result of all this, we expect to see mass experimentation in restaurant concepts and business models, as well as innovations in product, packaging and consumer experience.

Retail space and in-store experiences will be re-designed around jobs-to-be-done and radically automated.

Grocery and retail store formats will be reimagined to blend in-store shopping with online ordering, delivery and pickup at scale. In-store food service and restaurant operations will be reimagined to address changing consumer expectations for contactless experience. Digital content will be integrated with physical products. Robotics and automated retail will be pervasive. As a result of all this, we expect to see significant experimentation in store footprints, locations, space and experience design. One need only look to Hema and 7 Fresh stores in China to see glimpses of the new retail.

Digital technologies and AI will empower next-generation solutions for convenience.

As in-store experiences become increasingly digitized, marketers will be able to combine offline data with online data (restaurant orders, recipe searches and other user data) to build a more holistic view of consumer needs, preferences and demand patterns. This will enable next-generation convenience solutions – predicting, influencing and serving consumer demand in context and at the moment of demand.

EMBRACE CHANGE, AND TRANSFORM

Convenience 2.0 and proximity will continue to change the competitive landscape of food, re-shape value chains, and accelerate product, service and even business model innovation. To remain competitive, food industry leaders need to balance the dual focus of managing today's business while investing strategically in building tomorrow's future.

Winners will be those that:

- Have well-articulated innovation strategy and agenda that addresses convenience 2.0
- Create and manage a portfolio of growth options
- Organize and resource differently for new business innovation
- Foster a culture of innovation and learning
- Optimize their processes for speed and rapid experimentation

Famed science fiction author, William Gibson, once said: *"The future is here; it's just unevenly distributed."* The post-COVID world is already upon us, and the pace of change will only accelerate. Today is the slowest rate of change we will ever experience. The time is ***now*** to begin envisioning the next horizon for your business, and building credible pathways to get there.

WHERE TO NEXT?

ASSESS your organization's readiness to drive new business innovation

Innovation Assessment →

EXPLORE how convenience 2.0 and proximity will impact your business

Webinar →

DEFINE new pathways for growth

Virtual Campaigns →

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About Clareo

Clareo is a growth strategy firm that helps our clients make innovation work. We develop and execute strategies that drive growth and create competitive advantage. We help leading companies and organizations with innovation design and activation, digital transformation, new product development and launch, and external venture investing.

Clareo works at the intersection of business, design, and entrepreneurship to provide robust and proven approaches that clarify vision, articulate strategy, organize and build capabilities and establish sustained innovation processes. We work with you as network enablers, advisors, coaches, strategists, facilitators, researchers and entrepreneurs. Through our digital platform, Forest, we provide and support the processes you need to make innovation work for your company.

To find out more, visit www.clareo.com.

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