A person is riding a bicycle with a large delivery bag on the back, moving from left to right across the frame. The background is a blurred city street with buildings and lights, suggesting motion. The overall color palette is dominated by teal and blue tones.

FOODNEXT

RESPONDING TO CHANGING DEMAND AND A TRANSFORMING ECOSYSTEM



As we say at Clareo, a paradox in innovation is that becoming the best at what you do, which is required of every leader, is the very thing that can keep you from seeing what's next. By focusing on our customers and business model, we can lose peripheral vision. And yet, in a world of rapid, discontinuous change where paradigms are being shattered and disruption abounds,

leaders must anticipate and begin designing for tomorrow's reality, not merely today's model.

The food industry is **poised for radical transformation**. Food service is going **virtual, digital, off-premise and on-demand**.

Food retailing is becoming unattended, automated and autonomous. Channels are converging and new models are springing up.

→ What does all this mean for the value chain of players that were not designed for these challenges—food brands, ingredients companies, designers, processors and manufacturers, distributors and others?

→ And, for leaders who are seeking to anticipate and respond, what should be on the menu for business innovation?

Just before the 2021 holiday season, we hosted a **FoodNEXT** event to explore these changes and what it will mean to respond to changing demand and a transforming food ecosystem.

We heard from two eminent leaders that have been at the forefront of leading change:



Atul Sood

Chief Business Officer of [KitchenUnited](#), a pioneer in ghost kitchens, and former head of Business Development for Global Digital at McDonalds, and



Steve Sanger

General Partner at [Evolv Ventures](#), the Kraft-Heinz corporate VC unit, and former Head of Business Development at GrubHub.

During our session, we discussed **five broad themes** that characterize this transformation—each radically accelerating through the pandemic, and each posing bold new innovation mandates.

Based on this discussion we've also reflected on what should be on the **menu for innovation:**

the ingredients and recipe needed for a robust innovation system capable of anticipating and responding to these changes.

Working with these will help corporate innovators cook up new growth options.



THEME 1

CONVENIENCE AND PROXIMITY ARE RESHAPING EXISTING BUSINESS MODELS



Innovation in food service and food retailing is increasingly being driven by consumers' expectations for:



simplicity



accessibility



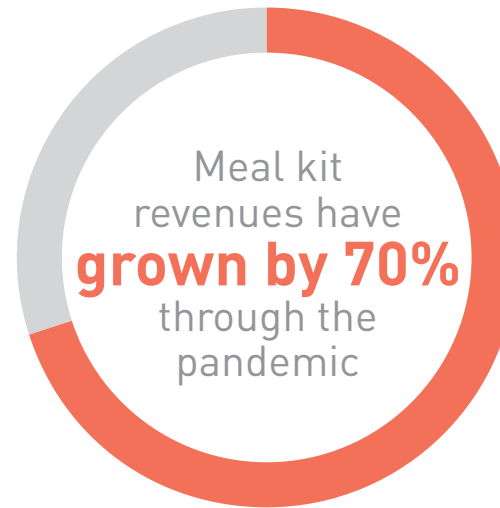
immediacy

Throughout the pandemic, we've spoken about Convenience 2.0, which we argue is no longer about place and product—it's about proximity: meeting the consumer need at the point and moment of demand.

However, it would be a mistake to frame this merely as a temporal response to the pandemic.

What we are witnessing is **the progressive and accelerated reshaping of offerings and business models in food.**

At-home food is radically evolving.



and offerings are evolving and becoming more personalized, as the WSJ has pointed out.

→ Tovala's smart ovens are applying food tech to provide scan-to-cook chef tailored meals.

→ Walmart is scaling up its direct-to-refrigerator delivery, competing with Amazon's Key.

→ Rumors abound that Amazon will launch its smart fridge soon.

These are powerful signals.



Existing quick service restaurants are rapidly evolving their physical store concepts to meet consumer desires for convenience. They're also **adopting transformational technologies and evolving their business models** around radical convenience.

→ Startup Spyce, a pioneer in robotic kitchens, was bought by Sweetgreen in 2021. Sweetgreen is now using it to launch a new subscription service for personalized food which can be picked up at remote “outposts.”

Even unattended and fully automated food vending is coming to a town near you: PizzaForno is planning to launch 1,000 fully-automated artisanal pizza kiosks by the end of the year.

Corporate innovators serving the food sector need to look at convenience as a driver of business model innovation, not merely product innovation, and actively engage in this fast-moving space of next generation convenience. The implications for incumbents are vast.



TAKE ACTION:



Make next generation convenience, powered by technology, central to your innovation agenda



Build a strong sensing mechanism for new models and ecosystem players that are fueling the rise of these new models



Cultivate partnerships with and investments in venture ecosystem players that have the potential to either be disruptive or open up new approaches and models



Break conventional thinking and look to analogous models in other sectors, such as Nike's made-to-order shoes delivered in two weeks, to inspire new thinking

THEME 2

**GHOST KITCHENS ARE A
DISRUPTIVE FORCE THAT
WILL UNLEASH A TIDAL
WAVE OF INNOVATION**

The ghost kitchen market is expected to reach \$1 trillion by 2030—and our experts believe that may prove to be an underestimate.

Much has been written about the rise of ghost kitchens and the new models popping up, but little has been said about the innovation demands ghost kitchens will impose on the existing value chains of actors in the food sector.

Venture capital has been pouring into the space, creating a vibrant ecosystem of new and emerging players. Pitchbook points out that ghost kitchens, or what some now call restaurant-as-a-service (RaaS), has seen **\$22B in capital pour into 125 firms at a median post money valuation of \$1.85B.**



Capital investment is up
422% year over year.

This is a hot space.

Ghost kitchens are transforming the cost model of restaurant startup and operations.

→ Atul Sood pointed out that while it used to cost over

**\$1M
and 12-18
months to
launch a
restaurant**

with KitchenUnited, new restaurants can be launched for

**\$30K
in less than 30 days,**
and with a 50% reduction in labor cost.

This is game changing: it will reduce cost of failure, foster mass experimentation and accelerate the rise of the creator economy in food service.

We are poised to witness creative destruction in the food sector:

while existing brands continue to struggle due in part to heavy cost structures and hard-to-adapt legacy business models, an explosion of new, innovative startups will take their place.

Lest you think this is hyperbole, consider **Rebel Foods** in India, which launched its first ghost kitchen in 2015. It now operates a network of “internet restaurants” in a dozen countries and has been able to launch 1,000 restaurants in just 24 months—all with no physical stores.

It's now valued at \$1.4B.

Ghost kitchens are transforming food service models and enabling restaurant owners to experiment rapidly to meet consumers' desires, like offering “MrBeast” Burger (after the YouTube sensation) or Mariah Carey Cookies in virtual-only locations. They're also creating new models for expansion: All Day Kitchens is leveraging satellite kitchens with a micro fulfillment model to help small brands expand without investing in full brick and mortar stores.

And, they're giving rise to unexpected new entrants. Consider REEF Technology, backed by \$700M in funding, which has evolved from providing parking solutions to launching delivery kitchens, virtual restaurants and community kitchens—all leveraging its presence in public spaces, and all part of a bigger move toward proximity and radical convenience.

Ghost kitchens are also accelerating channel convergence and channel innovation. Kroger is partnering with KitchenUnited to launch in-store delivery-only restaurants to solve consumers' desire for "food for the week and a meal for tonight" as well as new ways to sell prepared foods with pre-assembled meals. Walmart is using ghost kitchens to open virtual food courts. KitchenUnited has plans to launch into malls, stadiums and a myriad of other locations.

Ghost kitchens are a force that will transform the entire front end of how food service is done, accelerate channel convergence and accelerate channel and business model innovation.

Atul Sood offers a commentary: "[Given all these developments] It's not surprising that every board of every restaurant in the country is thinking about how to utilize ghost kitchens today."

The question is: how engaged are you?



TAKE ACTION:



Seriously consider the ways ghost kitchens will transform the value chain, then devise new strategies to embrace new thinking and business model innovation



Proactively engage new players with disruptive new models, and create approaches to rapidly test new ideas and concepts



Transform innovation approaches with existing customers exploring ghost kitchen models from "design for them" to "collaborate with them," leveraging more open innovation approaches



Recognize that ecosystem thinking and innovation is a necessity

THEME 3

DIGITAL

TRANSFORMATION IS

THE NEW MANDATE

The ubiquity of digital and mobile technology means that the storefront need not be physical—the storefront is in your hand.

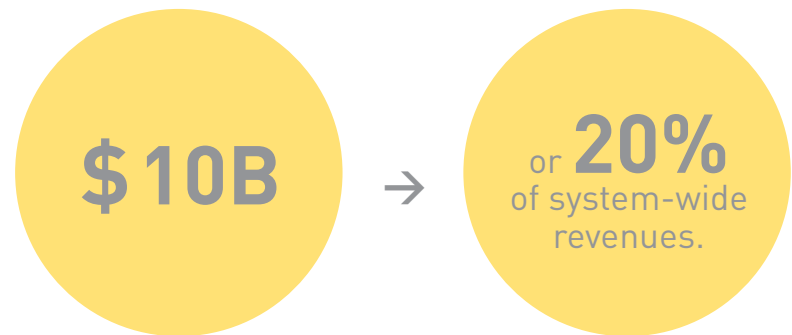
A recent study revealed that since March 2020, two-thirds of orders and three-quarters of revenues for the average quick service restaurant have been generated through mobile and phone orders.

The pandemic made digital a necessity, but also brought clarity around the fact that **digital transformation is a must if brands want to compete**. Value chain players that support them should pay close attention.

In the food service industry, large chains are desperately trying to reinvent their approach through digital engagement.

McDonald's has made digital a top three strategic priority for the firm, and the focus shows:

In 2021 CEO Chris Kempczinski stated that digital sales have now topped



This is staggering.

Existing restaurant chains are even entering the metaverse. On Halloween of 2021, Chipotle offered free "booritos" to customers who showed up in virtual costumes to their virtual restaurant on Roblox, the metaverse gaming platform.

What we find inspiring is the new generation of smaller, rapidly growing independent brands are embracing a digital first mindset and inspiring radical new thinking. Consider Sweetgreen.

CASE STUDY: SWEETGREEN

Sweetgreen increasingly sees itself as a tech-driven platform for food, not as a salad restaurant.



More than 50% of its orders come from its digital app.

The company's strong following is leading to a significant percentage of its orders being from repeat customers.

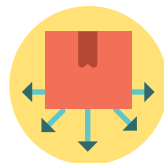
→ So how do things change if you're a "food platform" and you think of your restaurants as "content creators"? Well, you think radically differently—for instance, you:



Turn your product into a subscription service and fosters ongoing loyalty



Create personalization – flavor preferences and, in the future, health needs



Think in terms of "distribution networks" for your product: physical stores, virtual storefronts, corporate campuses, kiosks, delivery services, and more



Use the platform to foster an entirely new ecosystem: locally-sourced, at scale.



TAKE ACTION:



Create a digital infrastructure, then leverage data, digital and AI to transform your current operating model, create new sources of revenue and build new capabilities



Create separate structure and teams to go after digital opportunities, as these approaches require new mindsets (McDonalds has a dedicated +200 person team)



Get deeply engaged in the world of digital food tech startups: explore, pilot and test new approaches



Prepare and plan for totally new expectations with fast moving new entrants: more decentralized and distributed, greater focus on health and sustainability, and more

THEME 4

EXPONENTIAL TECHNOLOGIES ARE RESHAPING RETAIL EXPERIENCES



Food retailing is also evolving—**fast**.

Commerce is becoming instant, with startups like Gopuff and JOKR offering:



A new infrastructure is designed with robotic micro-fulfillment centers powered by solution providers like Fabric are powering up an ecosystem of ultra-fast and on-demand innovators.

Retail experiences are becoming automated and unattended.

Famously, Amazon launched its AmazonGo stores with a radically simple and fully automated experience, but then quietly launched its Just Walk Out technology with a platform-as-a-service to power not only its own



This has unleashed a wave of innovation with startups like Zippin, which aims to take on Amazon head-to-head.



And,
autonomous
delivery
is becoming
a reality.

→ Walmart is set to pilot **autonomous delivery in three markets**, in partnership with **Ford** and **Argo AI**, a service which uses safety drivers for now.

→ Startup company **Nuro** is taking this a step beyond, making **fully autonomous delivery** a reality, in partnership with brands as diverse as **Kroger**, **Domino's** and **CVS Pharmacy**.

In the future, expect to see the blurring of physical and digital worlds: in-store, online and mobile experiences in increasingly seamless ways.

Examples include Walmart's use of new conversational commerce and text to order capabilities inside their stores.



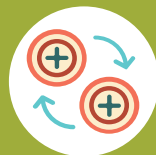
TAKE ACTION:



Explore and define the ways exponential technologies (artificial intelligence, robotics, autonomy and more) may transform your part of the sector



Build a strong sensing capability for emerging models in automated and unattended retail, and define new competitive strategies



Actively collaborate and co-create with customers, suppliers, distributors using open innovation approaches—designing and innovating with them, not just for them



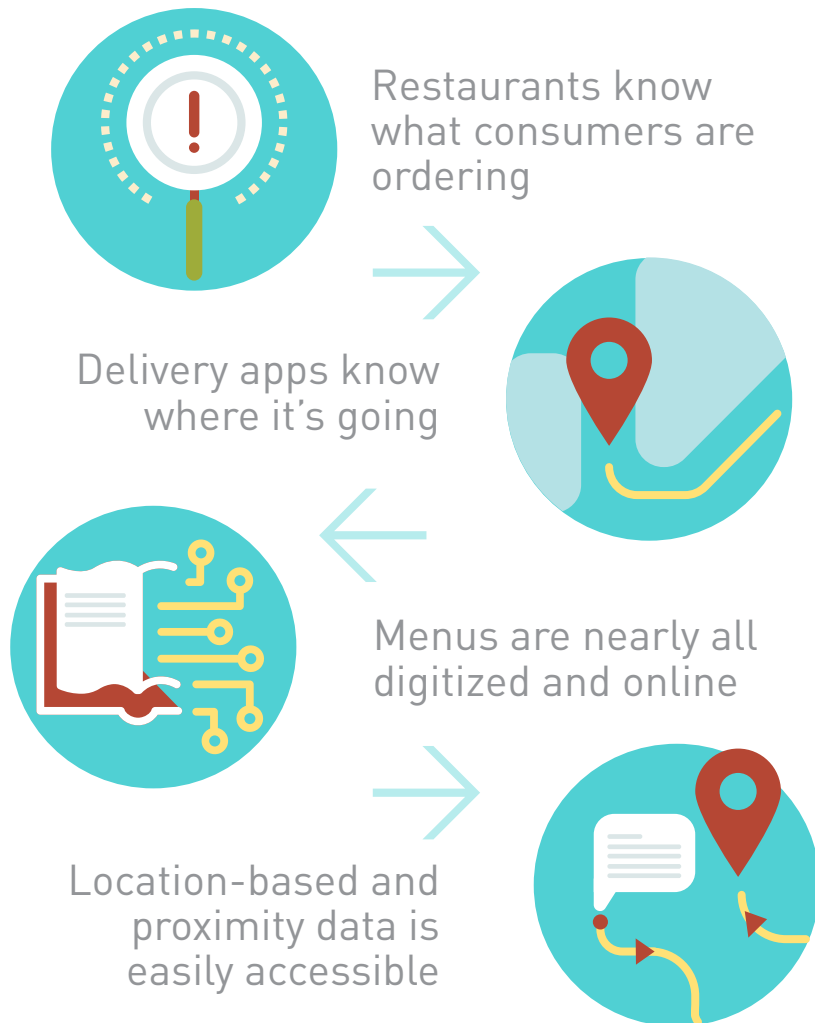
Collaborate actively with large brands, especially retailers, to define new ways to drive innovation

THEME 5

**EXPERIENCE IS THE
ENGINE AND DATA IS THE
OIL OF THE NEW ECONOMY,
FUELING THE RISE OF NEW
BUSINESS MODELS**

Experts estimate that globally we generate more than 2.5 quintillion bytes (that's 2.5 with 18 zeros) every day.

In the world of food service and food retailing, the sources of consumer data are vast:



Online and offline behavior have the potential to be correlated.

→ CPGs and retailers have invested aggressively in digital, data and analytics capabilities, as The Food Institute has pointed out. **However, what about mid-value chain players (ingredient suppliers, food processors and manufacturers, and distributors)?**

→ In a world of data abundance, **why can't data about consumer taste preferences, health needs, cultural context and other factors be used to influence how (and where) we design, develop and deliver food that is more personalized?**

→ Why can't we use consumer data and insight as well as knowledge of local "foodscapes" to nudge people toward more locally available healthy choices?

→ Or develop more transparent, trusted, resilient food supply chains?

Atul Sood wonders whether one day ingredient costs and prices could become variable based on supply, time of day or other factors.

Steve Sanger also postulates that in a world of online menus and order history, **there may be an enormous opportunity for someone to become the “Nielsen of food service and menu world,”** and welcomed inquiries from innovators seeking to tackle this kind of challenge.

All are important questions and can be the fertile ground of new innovation.

TAKE ACTION:



Put digital transformation, powered by data and AI, on the innovation agenda, and stand up a team whose job it is to explore, pilot and test new approaches and models.



Explore and define ways to re-imagine product development, transform operational efficiency, streamline distribution, accelerate targeted nutrition and more.



Engage with ecosystem partners to tackle systemic issues with food trust, innovating in areas such as transparency and traceability, food waste, and sustainable sourcing.



THE TIME TO ACT ON THESE IS NOW

Time poverty, shifting expectations and an exploding tech ecosystem are accelerating each of these trends. What's more, the pace of change is accelerating because of what our friend Howard Tullman has dubbed auto-catalytic change: a phenomenon where each change accelerates and shortens the cycle time to the next change.

Make no mistake, the future will not be like the present and the pace of change will only accelerate. So where to NEXT?

ON THE MENU | Recipe for Corporate Innovators

If the items above are the ingredients innovators need to include, what is the recipe for the innovation system needed inside established organizations to cook up new growth options?

We believe it includes five principles:



Build foresight muscle: Develop a strong sensing function with active external engagement, especially in the tech and venture ecosystem. But do so in deliberate and strategic ways. Don't merely visit the "entrepreneurial petting zoo" in tech hubs.



Innovate from outside-in, with a future-back orientation: Actively engage externals who can challenge conventional thinking and assumptions, and inspire new thinking about plausible futures and lateral thinking with analogous models.



Disrupt from within: Remember that all of this is happening whether you do anything about it or not. Organize and deliberately resource for new business innovation, and consider that often radically new mindsets, capabilities and processes are needed.



Optimize for speed: Stage gate product development processes are not helpful in markets characterized by rapid, discontinuous change. Agile and lean startup methods built on rapid experimentation and validated learning are key.



Create a fail-forward, learning-oriented culture: Adaptation, learning and the art of the pivot are the beating heart of innovation.

READY TO GET COOKING?

→ If you're interested in continuing the conversation and exploring what these themes may mean to you, or how you can respond to changing demand and the transforming ecosystem of food, get in touch with the Clareo team at food@clareo.com