What's ahead for 'grocerants'?

Technomic

Running a supermarket in today's business environment is a challenge for even the most accomplished leadership teams. Consumer preferences are changing at a rapid pace, long-standing core product categories are in decline, deflation is an ongoing concern and the physical transformation of stores is seen as both a necessity and a tremendous strain on resources.

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"You know, running a restaurant is something you have to be working at each and every day; it's not a foregone conclusion that you're a success."

—Gordon Ramsay

But many observers believe that the grocery business is headed for a widespread incorporation of self-run, full-service restaurants inside of the traditional grocery walls. However, to subscribe to that theory, one has to be prepared to accept that supermarkets want to double down on the challenges they already face. Running a chain of grocery stores is difficult. Running a restaurant is difficult. To succeed at running both—as a foodservice novice— is unlikely at best.

Examples Driving Predictions

Over the past seven to 10 years, supermarket foodservice has shown dynamic growth. The segment has experienced annual sales growth of more than 10% in certain years and, at present, is still among the three fastest-growing segments in all of foodservice. Along with that growth, grocery executives and industry watchers have seen the emergence of a select group of high-profile, in-store restaurants. Wegmans, Standard Market, Hy-Vee and Buehler's Fresh Foods are a few of those banners that offer customers an in-store, full-service dining experience. By most accounts, customers of these stores share positive reviews.

But in the case of most high-profile examples, there is a history of foodservice that predates the current explosion of grocery perimeter options. Hy-Vee and Buehler's have long served their local communities across the Midwest and Great Plains states through in-store restaurants, which are widely recognized as popular sit-down dining options for area patrons. The restaurant service is a part of their DNA. Standard Market, a relative grocery newcomer, had the restaurant vision from the beginnings of its strategic plan. These companies are highly versed in executing their full-service models.

In studying these examples, we see stark reminders of the challenges that will face grocery banners— most with decades of retail-only history—if they pursue a plan to implement a restaurant experience. Without the history of Buehler's or Wegmans, stores face myriad challenges, including modifying stores or back-of-house design, recruitment and retention of skilled labor, investing into new equipment, training of customer-facing staff, implementation of safety and sanitation initiatives, and assortment management, to name but a few. These challenges cannot be underestimated. Moving in this direction will require senior leadership of any banner to bring in experienced foodservice personnel to lead this vision-shifting plan.

More Likely Outcomes

This assessment is by no means questioning the future of supermarket foodservice. The outlook remains strong. But expectations of what that new perimeter will look like have to be tempered.

Rather than a "restaurant inside a store" model, Technomic believes we will see a continuation of the limited-service approach that has become more widespread in recent years. But this model will become more refined and more on trend compared to traditional restaurants. In other words, more supermarkets will strive to resemble their fast-casual counterparts—think Panera Bread—more so than either fast-food restaurants (e.g., the major burger chains) or their full-service, casual-dining competition (e.g., Chili's Grill & Bar, Applebee's and the like).

This should mean greater investment into cafe-like seating areas and value-add services such as in-store Wi-Fi. This should mean more interactive counter service and personalization of meals at made-to-order stations, such as sandwich stations, stir-fry assembly and taco bars. This will mean a greater emphasis on fresh ingredients, green packaging and clean, well-stocked displays. While this may sound extensive, it is essentially building on the current direction taken by most leading grocer banners. And it is a far cry from the heavily

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marketed model of a fully staffed front-of-house, fully staffed back-of-house, fully developed professional kitchen with 100% in-store preparation that some in the grocery business have anticipated.

The other less-frequently discussed alternative involves supermarkets and restaurant chains finding common ground and embarking on mutually beneficial partnerships. While seeing an in-store Starbucks is nothing new for grocery shoppers, seeing a recognizable food-based restaurant chain inside of the grocery store is still a unique occurrence. But with even experienced foodservice players examining these alternatives—such as Hy-Vee's partnership with Wahlburgers—this type of future arrangement cannot be discounted. But these solutions will be complex considering the fact that restaurant chains face

their own challenges, often including having too many existing units, as is.

Conclusion

The look and feel of most supermarkets will be very different in even three years. As priorities shift toward developing the perimeter, stores will explore any number of ways to achieve sales growth and store differentiation. And the advancement of foodservice programs will often be at the heart of stores' initiatives. The means of achieving that advancement will be a critical, core decision facing grocery executives. But, contrary to growing expectations, self-managed full-service restaurants will not be a common result. There are other means to furthering foodservice growth that don't involve adding restaurant-building challenges to existing business-building responsibilities.