

Changing Consumer Tastes and Technological Innovation Drive Big Change in Food Retail

By Kristen Walters and Ryan Pederson



2017 was an eventful year in the Food & Beverage industry. Large food companies have continued to purchase brands to better respond to quickly changing consumer behavior. Amazon, Walmart and Target, not typically known for food distribution, have expanded their food presence, while also innovating around how customers are served. Venture capital firms have increased their spending in the food and beverage space to further diversify their portfolios. Restaurants and grocery stores continue to face the challenges of a changing consumer base and how to provide them with convenience, balanced against quality sourcing, transparency, and a healthy element.

Will these trends continue into 2018?



Below are some of key areas that we believe will drive the upcoming year.

- **The Experience**

If restaurants want to continue to attract customers, they need to make changes to align with the current consumer's desire for a quality, healthy, and convenient dining experience. This is particularly true if they are going to continue to cover overhead as the minimum wage increases in many states. What improves the experience and what does this mean for business?

Consumers want innovative dishes, not the tried and true recipes we are accustomed to. This trend can be seen in the growth of specialized restaurants, which serve traditional favorites such as burgers, but provide consumers with options of a variety of meats, buns, and toppings which make for a unique experience. Menu overhauls may be necessary for some restaurants, as well as providing transparency on the sourcing of ingredients. This can be an issue for some restaurants that have historically had a steady supply chain with low food costs. They may now need to venture into relationships with new suppliers, deal with shortages and last minute menu changes, and put forth a more vigorous effort in managing cost.

Consumers also want options as to how they order, dine and/or takeout food. For restaurants, this may mean an overhaul in the POS systems to include tabletop tablets, interactive applications, and other functionality. While technology can be expensive up front, they will likely see an increase in efficiency and accumulate better data to manage the business and track trends.

Grocery stores are also feeling the pressure of the consumer need for experience-worthy trips. For some, this means providing a rotation of products and changing department layouts. Consumers are focused on how products fit into their life-style and may not be as focused on the brand. Stores also have to integrate the use of technology, utilizing data analytics on customer behavior gathered from cameras in store sensors in order to monitor traffic, and allowing stores to provide more effective customer service and assistance. In addition to using predictive analytics to enhance the customer experience, data is used to analyze buying habits, allowing stores to maintain proper levels of inventory in. For example, Amazon Go has established an experimental store in Seattle which removes the need for checkout lines, as items taken from the shelves are tracked through an app and the customer is charged when they leave the store.

- **Convenience**

Today's restaurant may function with multiple business models, having a traditional dining area as well as a takeout counter and a quick serve

option. The variety appeals to many different consumer bases and can be beneficial, but also adds a level of complexity to managing and monitoring the business. Fast casual restaurants continue to show growth, many of these types of establishments are integrated with apps and have a strong social media presence. As per Fortune, consumers have shown a preference for placing orders online or using a mobile app, as these orders have tripled in the past five years, and comprise over 6% of total orders.

Amazon's purchase of Whole Foods Markets has raised concerns among grocery stores around further disruption in the industry. In order to adapt to anticipated changes, more and more grocery stores are expected to offer online ordering, with options for in store pickup and at home delivery. There is uncertainty as to the pace of change Amazon may create in the retail grocery market based on their technology platform.

- **Product Development**

Consumers continue to change their diets based on more factors than brands had been concerned with in the past. They are seeking more transparency on the contents of food and traceability of where the food is coming from, all of which is driving changes to food labeling regulations. Consumers are also seeking information on GMO content, nutrients and added sugars, fair-trade certification, responsible production and sourcing, and animal welfare standards. While there are increased costs associated with maintaining compliance with new labeling requirements, being proactive will allow brands and suppliers to differentiate their products, showcase their values and build goodwill with consumers. With that said, consumers still want innovative and convenient products, making it a challenge for distributors to meet demand and stay relevant. This is expected to keep the pace of mergers and acquisitions high in the upcoming year.

It is certain that 2018 will have some challenges in the food & beverage marketplace but we believe it will continue to be exciting.

Kristen is a Partner in our New Jersey Practice. She can be reached at 732.205.2003 or at Kristen.Walters@MazarsUSA.com.

Ryan is a Manager in our New Jersey Practice. He can be reached at 732.475.2137 or at Ryan.Pederson@MazarsUSA.com.