



7. WHAT ABOUT FOODSERVICE?



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7. What about foodservice?

Over the past few decades, we have seen a steady trend towards more frequent out-of-home eating. People increasingly choose to dine out or to eat on the go. In many markets, this has resulted in an equivalence in monetary terms between the value of the food consumed at home and that consumed elsewhere. This deep dive looks at likely future developments in this channel.

There have been several driving forces behind the growth in foodservice. From a consumer perspective, a very important one is the desire for greater convenience – driven, at least in part, by increasing time pressures and a consequent reduction in the amount of time people are prepared to spend buying and preparing food. From the perspective of what is on offer, there has also been a large increase in the variety of prepared foods and snacks that are available. That has been driven largely by a rapid rise in the number of foodservice outlets. Many of these are in modern formats or selling innovative cuisines.

While we expect this trend to continue by and large, out-of-home consumption is likely to show signs of saturation over the course of the coming decade. However, while that broad trend continues, we expect to see fresh produce playing an increasingly important role in the out-of-home market across all types of outlets. Not only will there be increased demand for fresh, high-quality ingredients more broadly, but the consumption of healthy category foodstuffs will also outgrow all other food categories. This trend will be accompanied by a shift from low-calorie and low-fat diets towards more natural, less processed foods and those ‘free-from’ foods now considered as ‘the new healthy’. In parallel, there will be increased demand for individualisation as well as regional and ‘authentic’ produce, as consumers move away from standard mass produced products.

Channel variety

Within this broad picture of the opportunity for fresh produce, there is considerable variation in terms of the different types of out-of-home channels. This variation ranges from traditional bricks-and-mortar retail stores to new and innovative formats. Likewise, opportunities for

the fruit and vegetable business span the entire sector, all the way from well-known channels serving new customer segments and offering new ranges, to that of new and fragmented outlets that have not traditionally been on the radar of growers and suppliers. Here, we look at this picture in more detail.

Restaurant chains and on-site dining

Due to the scale of their operations, restaurant chains provide the most structured and professionalised approach to sit-down dining. This scale gives them distinct advantages in areas such as sourcing and supplier management, while also ensuring consistent quality, comparable to that in the offline channel. The scale of these chains makes them an attractive channel for fruit and vegetable suppliers to approach in a more structured way.

Playing a much bigger role in some parts of the world – notably North America – it is also a channel that has been shaped largely by historical circumstance, including cultural preferences. These ties can give the channel strengths in responding to its customer base. With customers’ increasing awareness about the value of fresh produce, the volume of fresh fruit and vegetables required will increase. The impact of this trend is already being seen. For example, a number of chains, including Vapiano and L’Osteria, emphasise quality and originality in their menus, while others, including 222 Veggie Vegan, Ethos and Hummus Bros, are focusing on health.

Non-chain restaurants

In terms of volume, individual, family-owned restaurants will continue to dominate in many regions. As with the restaurant chains, and for similar reasons, we can expect to see a steady increase in their consumption of fresh fruit and vegetables. Likewise, there will be little structural change in this channel. However, as independent restaurants start to become more professional, we expect to see some degree of consolidation that might well move them towards restaurant chains. Where this happens, it is probable that we will also witness changes in sourcing, with a tendency to eliminate small distributors as middlemen.

Retail stores

This well-established channel is pulling new segments of customers into its stores, either by offering on-the-go convenience assortments – fruit and vegetable snacks, fresh-cut, etc – or by providing dine-in-store spaces that actively break down the division between traditional retail and foodservice.

Currently, we see very major differences in the degree of sophistication of fresh produce businesses serving this channel in different parts of the world. Even within Europe, there are significant variations: some markets, such as The Netherlands, show a high level of development, while others, such as Germany, show a surprisingly low degree of sophistication. Whatever the current state of the local market, retail offers significant opportunities and we expect to see innovative extensions of the ranges offered by producers to serve this channel.

Prepared meal delivery

Take-away (or take-out) meals provided by family-owned businesses have been around for a very long time in many parts of the world. In recent years, there has been significant innovation in this channel, and this takes two forms. In the first, the channel supplies meals from any of a large number of local restaurants – the format used by businesses such as Foodora, Deliveroo, GrubHub, DoorDash and Uber Eats. With the second approach, the chain prepares its meals centrally. Unlike traditional fast-food outlets, however, the emphasis is on the quality and freshness of the ingredients. This is the strategy employed by companies like Munchery, Freshly and Habit.

A number of new and innovative formats

These include new-style food halls, Michelin-starred food trucks, gourmet, vegan and organically produced street-food markets, and even upmarket vending machines. All of these new and innovative formats actively engage with, and promote, fresh produce. Because of their novelty, they play an important role for the business as a playground for food experimentation and, as such, can provide early indications of emerging trends in fresh produce consumption. However, despite their likely growth over the coming decade, they start from a very small base, and so are unlikely to make a significant contribution to the business in terms of volumes or revenue.

CASE STUDY: HABIT

What is new?

San Francisco Bay Area startup Habit offers personalised, chef-prepared meals based on a detailed customer profile. The meals are shipped directly to the customer's door using sustainable packaging. The company's value proposition is to 'personalise' its food to the needs of individual customers, ensuring the menu is compatible with their unique requirements – including their DNA. Habit's individual dietary propositions are based on information gathered from blood tests, and are chosen as being best suited to the needs of the individual customer. They comprise an appropriate mix of carbs, fats and protein.

What is in it for the fruit and vegetables business?

The growing trend for increased consumption of healthy foods is being driven by consumers who are seeking ways to improve their general health and well-being. This is driving increased demand for fruit and vegetables in various channels. The challenge for the fruit and vegetable business is to fulfil this demand by supplying good quality produce in innovative ways.

Potential implications

Foodservice, or out-of-home food consumption, cannot be considered as a single channel: it is many channels, each of which have specific requirements in aspects such as range, lead times, delivery frequency and the flexibility of delivery scheduling. The result of this heterogeneity and fragmentation is increased complexity and often a lack of transparency in the supply chain for fruit and vegetable companies.

At the same time, foodservice and the out-of-home market offer large potential for the fruit and vegetable business, both in terms of revenue generation and in terms of boosting profitability. To capture this value, fruit and vegetable suppliers will need to define and then focus on the most promising areas – specific to their starting point – in order to overcome the complexity inherent in the channels. Those players that consider both the scale and scalability of their new venture, while realising synergies with their existing business operations, are likely to prove the most successful.

Entering the foodservice and out-of-home market will often require growers and suppliers to serve new channels and/or offer new ranges, but the first step will almost always prove easier to execute if they decide to alter only one of these two dimensions at a time. This, in turn, will increase synergies with existing operations. Below, we look first at adding new ranges before turning to new channels.

New ranges

These can come in various forms, each associated with a need to make distinct adjustments to the grower's or supplier's operations. They will need to carefully consider which activities should be kept in house, for reasons such as differentiation and profit capture. In many cases, service providers will be able to cover the activities they decide to outsource.

We expect to see a need for greater flexibility in production and processing capabilities. This will be accompanied by demand for smaller unit sizes and new packaging – for produce post-harvest or in production, as well as for new ranges. These new ranges and varieties of produce could include smaller varieties that allow for on-the-go consumption (such as snack peppers or snack cucumbers), as well as organic alternatives. The business approach can also

include simply extending the present range to ensure it includes all of the products required by a specific restaurant chain or outlet. This will also help ensure that it qualifies as the single-source supplier for that chain.

Increased differentiation of fruit and vegetable ranges will, in turn, make it more necessary to forecast accurately and thereby ensure that increasingly fragmented production and harvesting are aligned to the demand.

While the requirement for flexibility in unit sizes, packaging and new varieties is only likely to increase in the years to come, we see the largest potential for growers and suppliers in the area of pre-processing produce for the foodservice industry. This could potentially take various forms, such as supplying fresh-cut produce, freshly produced smoothies or juices, as well as the assembly of meal boxes. The opportunity also includes processing produce for use in restaurant chains.

Integrating those abilities to add value, as some grower alliances and suppliers have already done, will increase reach in the supply chain. This promises significant margin potential.

As demand for fresh produce from within the foodservice and out-of-home industries increases, there will also be an opportunity for producers and suppliers to position themselves as strategic partners that can bring to the table very specific knowledge about fruit and vegetables. This is knowledge that the restaurant chains and the like will not be able to – or need to – match, and it will become increasingly important as consumers ask for transparency, authenticity and food security.

New channels

The challenges for the fruit and vegetable supply chain are comparable to those for the online channel. Growers and suppliers seeking to extend their reach towards out-of-home channels will face new requirements and service levels which will likely differ from those in existing channels. A number of strategic questions will need to be addressed to conquer complexity and not overload the supply chain.

Putting it into practice

Once the fruit and vegetable business has decided whether or not it will adopt new ranges

or new channels as part of its business strategy, it will then need to look at how to put this strategy into practice. This includes deciding upon its go-to-market approach, its operating model and whether or not it will enter into collaboration with other actors in the supply chain.

Go to market approach

The first decision is whether to target the formats using a direct or an indirect approach. Direct targeting is more feasible in the case of consolidated formats such as retailers and restaurant chains; when it comes to less structured outlets, an indirect approach – that is, going through distributors and intermediaries – will increase the chances of success. This will mean accepting lower margins as a result, but it will also lower the level of complexity inherent in the supply chain.

Operating model

The decision about whether or not the supplier or grower should choose a direct approach to market leads to a related question: should you attempt to manage the supply chain in house? If the answer is no, then the business will need to involve a specialist third-party logistics provider. In many cases, this will be a valid first step for fruit and vegetable suppliers as it mitigates risk and allows for more flexibility in the initial phase. In parts of the world that currently have less structure and lower levels of professionalisation in the out-of-home market, we can expect to see the emergence of new and specialised intermediaries, similar to those already seen in more sophisticated markets – such as US Food in North America.

Collaboration

Finally, the question needs to be addressed as to whether or not it is possible to increase efficiency through collaboration, between growers and suppliers for instance. The drive for increased efficiency through collaboration has already led to the development of a number of online platforms, such as Nix86 (see case study).

CASE STUDY: NIX86

What is new?

Nix86 is a mobile and web platform that modernizes the wholesale procurement process for foodservice buyers and sellers. It allows restaurant and retail buyers to place orders using their mobile device or computer. Suppliers receive orders directly into their existing ERP. The platform provides a very simple tool for one-click ordering and provides easy reception and tracking, making it readily accessible even for the smaller actors in the market.

What is in it for the fruit and vegetables business?

One of the key barriers in the fruit and vegetables market is the lack of connectivity between actors in the supply chain. Once the concept of a procurement platform becomes established, it provides a transparent means for connecting even the smallest restaurants directly with the suppliers. This gives new opportunities for joint value creation.

At this point in time, even in geographies where the technology is already available, retailers and suppliers are only just starting to understand the value of such open and transparent collaboration. It is therefore likely to be a number of years before such technology realises its full potential.

8. BRINGING IT ALL TOGETHER

The fruit and vegetables business is changing. The good news is that there will be increasing demand for fresh produce and this will lead to strong growth overall. The challenge for the supply chain is that much of this growth will come from outside western markets, though there are also clear opportunities here as well.

New technologies are likely to become all-pervasive in the fruit and vegetable business in the near future. Coming to terms with them presents its own challenges. Actors in the supply chain must first get the basics right before making use of these new technologies to differentiate their offer and enter new markets.

While fresh produce is likely to remain one of the most challenging areas of the online grocery business, this segment nevertheless presents solid opportunities for producers. The businesses that seize this opportunity will be those that move first, adopting new systems, building their brand and ensuring they can provide the necessary supply chain flexibility.

Another area of opportunity within the fruit and vegetable market is foodservice. The multiplicity of new formats is opening up scope for innovation.

This changing world of fresh fruit and vegetables presents both an opportunity and a threat. For those that are successful in responding to new technology, engaging with it so their business enters new channels and new niches, the upside is strong. But this opportunity also comes hand-in-hand with a challenge: these changes are accompanied by ever-increasing customer demands, requiring producers and suppliers to respond ever more quickly.

The key to success in this new environment will be to decide which opportunities your business goes after – most likely the ones to which your present setup is already best suited – and then to focus on what this challenge entails, positioning fruit and vegetable supply correctly to meet customer demands, while acquiring the requisite technology, skills and capabilities.

These challenges cannot be underestimated and will prove too great for some. For those that are successful in meeting them, the future not only looks bright, but also fresh and green.