Grayway

E-commerce Growth: Staying Agile in Order Fulfillment

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Welcome.

Stephen Gray
President & CEO
GRAY, INC.

For businesses and families alike, the pandemic certainly ushered in a lot of change. In the face of new challenges, people across the country altered their habits and lifestyles while businesses shifted operations and forecasts.

One significant trend that intertwined the personal with the commercial was the e-commerce explosion seen across the food & beverage industry. With research indicating that e-commerce revenue for food & beverage will hit $50 billion in 2025, this trend shows no sign of slowing.

In the latest issue of the **Gray**way, we examine this dramatic growth by taking a closer look at the regulatory landscape, the impact on order fulfillment and distribution, and the ways that food & beverage processors can prepare for the future. In addition, we explore the rise of ghost kitchens and how they're helping to transform the industry by eliminating traditional barriers for business owners.

While it's impossible to predict everything that 2022 has in store, it's clear that the food & beverage industry offers widespread opportunities for processors as well as consumers.

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How E-commerce is Reshaping Food & Beverage

What's on the Inside. →

E-Commerce Growth:
Staying Agile in Order Fulfillment

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Sean Connolly
President & CEO
CONAGRA BRANDS

It's clear—largely due to COVID-19—more and more consumers are ordering food online. Especially in the early days of the pandemic, consumers ordered food online in record numbers. This was somewhat expected, considering widespread restaurant dining room closures, social distancing, and mask requirements. But even now, the trend shows no signs of stopping.

Experts across the industry discussed the shift and how businesses can leverage the change as an opportunity for brand renovation and growth. "Consumers have adapted to at-home eating and formed new habits that we expect to sustain well beyond the current conditions," says Sean Connolly, president and CEO of Conagra Brands, which manages one of the nation's largest food brand portfolios.

All signs indicate that e-commerce is becoming the new normal in how Americans shop for food—from groceries to home-delivered meal kits to restaurant favorites. According to an outlook report published by Statista Research Department, revenue from the e-commerce food & beverage industry in the U.S. rose to approximately $34 billion in 2021—an increase of more than $8 billion from 2020. Statista estimates this figure will rise to almost $50 billion by 2025.

As with any industry sea change, regulatory issues loom over food & beverage's rapid e-commerce growth. The FDA has already partnered with federal, state, and local governments, and industry leaders worldwide, as well as with consumer advocates, with the goal to "ensure that consumers aren't unwittingly trading food safety for convenience." The FDA even held a virtual three-day summit in its efforts to pave a way toward that goal.

Adapting Your Operation for E-commerce

Food & beverage processors that want to grow their market share in the new e-commerce climate must update existing order fulfillment operations. Grocers as well as manufacturers have been quick to recognize the need to sell where customers are buying, building web stores and mobile apps, providing delivery and curbside pickup, and adding subscription services and third-party marketplace sales.

Adapting for e-commerce order fulfillment requires an intricate approach toward facility design and logistics. Operations must be designed to handle potentially massive order volumes during peak processing times, with flexible staffing and space as demand fluctuates.

To do this, processors must analyze order profile history to determine optimal workflows and make necessary changes to storage equipment and methods. This

is especially important if operations must pick food items strategically due to shelf-life concerns, or if the distribution process relies exclusively on one storage type, such as single-deep pallet racking.

Space and labor costs for e-commerce operations tend to run two-to-three times higher than traditional warehouses. As such, it's important to create efficiency and control costs while keeping customer service standards high.

Impact WMS, a warehouse management solutions company, suggests developing a "lines per order distribution" graph and conducting a cube movement distribution analysis, which can help your business assess appropriate storage modes and warehouse space requirements.

Higher order volume and variety present additional challenges for operators incorporating e-commerce into their service platforms. To avoid inefficiencies related to picking single items, as opposed to whole cases or pallets, most food & beverage processors are investing in automated technology. Autonomous mobile robots (AMR), automated storage and retrieval systems (AS/RS), and automated packing solutions increase speed and efficiency, driving higher throughput and more accurate order fulfillment —crucial factors for today's online shoppers, who expect fast, error-free deliveries.

Automated solutions can also head off labor issues resulting from increases in

//Ghost Kitchens //

One of the most unique results of the rise of e-commerce has been the popping up of "ghost kitchens." A ghost kitchen is a food prep operation that has no waiters, dining room, parking lot—or even a public presence. However, they are very much "present" in food delivery apps, such as Grubhub or DoorDash.

An article published in *The Conversation* discussed ghost kitchens and their impact on the food & beverage industry. A listing on an app for a restaurant operating out of ghost kitchen generally doesn't look any different than those for brick-and-mortar restaurants. They are physical spaces, but they are designed specifically to make food for consumption outside of the premises.

The article in *The Conversation* mentions a restaurant in Colorado called Rocco's Ravioli, for example, which appears on many online ordering apps. However, Rocco's has no storefront: it is 100% a ghost kitchen that functions as a food-delivery service.

Because so many restaurant owners were forced to close their doors (many lost their leases as well), "[s]ome small food operators used ghost kitchens to get a foothold in the market during a time when opening a standard restaurant with a dining room would have been unthinkable. As long as the high fees charged by the major delivery services could be mitigated or built into the price, food delivery outfits working out of ghost kitchens could find a way to make a living," according to *The Conversation*.

Even national chains used ghost kitchens during the pandemic to keep revenues up and to test some menu items. Clearly, this is more than just trend due to the COVID changes and will continue once the pandemic is (hopefully) in the rear-view mirror.
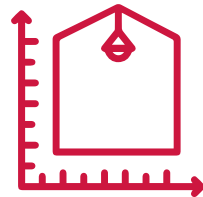
These spaces can host multiple tenants in less than **200ft².**

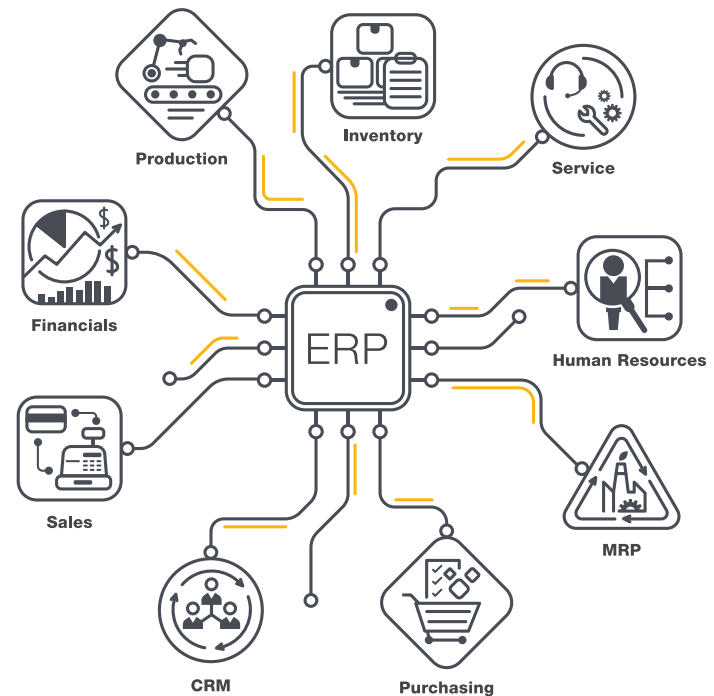Delivery apps have fueled popularity worldwide.

Uber Eats

GRUBHUB

An estimated **7,500 Ghost Kitchens** exist in China, **3,500** in India, and **1,500** in the U.S.

$71B

Global revenue nearly met this amount in the platform-to-consumer food delivery market in 2020. By 2024 this is forecasted to reach

$97B

order volume and variety. Rising labor costs and quit rates in the manufacturing and distribution sectors have affected food & beverage operators just as they have producers in heavy industry. Implementing automated solutions can help offset these challenges and maintain timely order fulfillment, which can easily justify the initial costs of automation.

Additionally, the use of multiple distribution centers in key locations as well as a reliable order management system (OMS) can improve inventory control, maintenance, and visibility, as well as customer satisfaction for buyers expecting fast shipping.

Opportunities to improve exist beyond product storage, retrieval, and packaging processes. Parcel analytics and rate shopping software—as well as developing trusted relationships with a variety of carriers—can help companies balance delivery cost with speed.

Strategies for Successful E-commerce

Whether or not you embrace e-commerce, every food & beverage processor needs quality enterprise resource planning (ERP) software. A leading ERP not only collects data across all your processes, but also groups and disaggregates data in ways that processors can practically apply to business decisions. Actionable benefits of ERP include the following: traceability of product components from sourcing to sales, process monitoring to maintain regulatory compliance, and detailed customer segmentation and demand planning for improved order management.

Stacey Haas, a partner at McKinsey & Company, explained the potential for long-term success for businesses that invest in consumer data initiatives. "What we are going to see is a lot of companies moving much more towards renovation of their brands, much more data-driven marketing, more personalized targeting of consumers."

"We can do things today we couldn't have imagined five years ago, and the possibilities are endless."

Kellogg's Chief Growth Officer Monica McGurk made these remarks at a recent consumer analytics conference. She spoke about the company's investment in building its data platform. "These capabilities give us confidence in our ability to lock in and build from many of the gains we've experienced during this pandemic period."

Rather than sit back and wait for users to come to them, successful food & beverage processors actively pursue e-commerce customers in the digital space through social media campaigns and other digital marketing efforts. For instance, Kellogg's Family Rewards loyalty program focuses on customer acquisition and retention by offering users exclusive promotions and redeemable rewards in exchange for shopper data.

"These applications are just the tip of the spear for how machine learning and artificial intelligence are transforming our go-to-market approach," said McGurk.

Looking to the Future

In the immediate term as well as long into the future, there will be abundant opportunity for further development of e-commerce order fulfillment in the food & beverage industry. As such, it behooves companies exploring a new order fulfillment approach to be aware of the technological, financial, and logistical challenges that such a shift can pose and to develop strategies to mitigate risk and enable sustainable success. Practices such as leveraging customer data can allow processors to improve supply order accuracy, increase return of digital marketing, and streamline the e-commerce customer experience (including online shopping with in-store and curbside pickup).

Providing a smoother, more pleasant customer experience is only one side of the coin; investing in solutions such as warehouse automation and a suitable OMS can improve operational efficiency and boost throughput. As with any major change in practice, research and careful planning are necessary challenges, but well worth the effort. Ultimately, implementing the right mix of technology, support, and imagination is bound to have a positive impact on any order fulfillment strategy, modern or traditional.

PROJECT SPOTLIGHT

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Process Makes Perfect
for New Coca-Cola R&D Facility

Known and loved around the world, The Coca-Cola Company is a total beverage provider headquartered in Atlanta, GA. At its newest research and development facility, the customer trusted InLine Engineers, a Gray company, for its proven process design and support capabilities.

InLine's relationship serving the world's most widely distributed beverage producer stretches back more than a decade, with InLine providing process engineering, technical, and management services to support the customer's production of more than 500 brands.

Coca-Cola requested a comprehensive range of InLine services for the new facility, from equipment specifications and vendor management to commissioning and startup.

> Having worked with Coca-Cola's process development group for years, our team feels almost like an extension of the Coca-Cola team.

Jeff Rehm
Process Engineer & Project Manager
INLINE ENGINEERS

Gray

Global leader in **engineering, design, construction, digital, equipment manufacturing, and real estate.**

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