

Expert Group

2B Food Delivery

Dynamism in the 2B Food Market

Takeaways

1. Food providers have traditionally delivered their own products. New logistics models, however, are combining deliveries from several providers, coordinated by a facilitating third party.
2. In the 2B food market, we are seeing the emergence of new commercial models in response to the demand for a larger, competitive range of products, efficiency, and more direct communication between suppliers and customers. Third-party platforms are an ideal way for manufacturers to expand their commercial operations.
3. Customer data is becoming vital across the entire supply chain, both in commerce and in logistics. However, many wholesalers do not share their customer data with manufacturers, or are only willing to sell it to them. They do not realize that, in refusing to share their data, they end up pushing manufacturers toward the order and delivery models offered by new platforms.

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Emerging Ordering Platforms, New Logistics Models, and the Role of Data

Online sales are projected to grow more quickly in the food sector than in any other industry. Experts believe that online consumer purchases of food and beverages will more than triple between 2018 and 2023: from 4% to 13% over the five-year period. ¹

Business-to-business (B2B) is already way ahead of the curve on this trend: businesses – for example in the food-service, corporate-catering, and healthcare sectors – are already placing the bulk of their orders through online channels (see diagram). Experts estimate that at least 80% of B2B purchases are made online. While the supply chain has remained unchanged for many years, start-ups, changing needs on the part of recipients and new logistics flows are disrupting the market. This is resulting in the emergence of new delivery models, ordering options, and customer relationships.



The 2B Food Delivery Expert Group has focused on outlining a viable business model for ordering and delivering food and beverages to professional users.

1. The Ideal Delivery Model for Food

In order to be able to design the food delivery model of the future, the experts looked at the most significant logistics challenges the industry is facing, along with the main trends and developments. On the basis of this information, a number of options were then identified for what the "ideal" delivery model for food might look like.

1.1 Challenges in Logistics

What are some of the weaknesses of the current delivery model? In what areas can 2B food delivery reduce waste in order to increase efficiency? The food experts identify the following five challenges:

- **Time of delivery, speed of delivery, and tracking shipments**

Consumers demand fast delivery and want to be able to choose the delivery time and place. They also want to be able to track their shipment, so they can schedule their day accordingly. These conveniences are weighed against the costs associated with them. We also see these

¹ 2018 GFK CONSUMER STUDY

consumer demands in the field of B2B delivery. B2B customers, too, want delivery times that optimally accommodate their work processes, but logistics challenges are preventing shippers from being able to offer flexible delivery services.

- **Order size versus cost per order**

Deliveries of small quantities are by no means a given in B2B. Not all products can be ordered in any given quantity. Since it is rare for B2B customers to pay a separate delivery charge, smaller orders – particularly where products with a low margin per unit volume are concerned – cannot be delivered at a profit. However, there is in fact a demand among customers for small orders, particularly when it comes to niche products and with a view to factors such as freshness and stock management. In addition, customers want to have the option of placing orders more frequently.

- **Increase in "green" zones in downtown areas**

A growing number of downtown areas are becoming car-free or have restrictive policies in place for traffic in order to comply with European environmental laws and regulations. These and future restrictions for motor vehicles in downtown areas have created a need to invest in alternative modes of transportation. At the same time, limited delivery times in inner cities are reducing the level of flexibility. Where large orders and heavy products are concerned, these restrictions have an even greater impact on delivery in downtown areas: certain locations are becoming inaccessible and delivery companies have no choice but to join forces. For further information on city distribution, see the blue paper published by the City Distribution Expert Group.

- **Lack of relevant data and insights**

On the whole, the B2B market is lacking in relevant data and insights relating to customers (such as the food-service and catering sectors) and consumers. Manufacturers in the food sector typically only have access to information on sales to wholesalers and key accounts, while information on purchases made by food-service and catering companies from wholesalers remains out of reach. This lack of data makes it hard to forecast variables such as sales volumes and capacity. And even when data is available, many businesses have not yet acquired the skills required to convert this data into valuable insights, which has an impact across the entire supply chain.

- **Inefficiency in transportation and warehousing**

Right now manufacturers tend to store their non-perishables with as many wholesalers as possible, as this is the most effective way to secure distribution. The individual wholesalers then go on to deliver the goods to customers, almost always using their own transportation. Handling costs for these often small volumes are not covered by the margins. On the whole,

delivery flows need to be tailored more closely to the needs of customers and the environment, and above all need to become far more efficient.

1.2 Bundling Logistics Flows

One of the main trends we have identified in the market is the integration of logistics flows by multiple providers, a process in which third parties – logistics and delivery specialists – often play a key role. This development is related to a number of trends and needs. In this section we will discuss the relevant trends and developments, and the main aspects of integrating logistics flows.

We have identified a number of different trends that are driving the changes in the market:

- Online retailers are willing to make more frequent deliveries and accept smaller order values, delivering during time windows that customers can select themselves. This has allowed grocery retailers such as Jumbo and Albert Heijn to muscle in on parts of the B2B market.
- Logistics service providers have an increasingly effective network in place for food, particularly in urban areas. The number of days when deliveries can be made, flexibility in delivery times, cooling systems (chilled or deep-frozen), and additional services (e.g., product returns) all keep improving. These services are also in line with the public demand for more environmentally-friendly transportation through more efficient coordination of logistics processes.
- The emergence of start-ups: new platforms are changing the way supply chains are structured and organized. Among other things, manufacturers are now able to deliver their products without a go-between and recipients have access to a greater product range. Start-ups have the option to build everything from scratch, transforming the landscape.
- Growing demand for a more extensive product range, including niche products. This is one of the ways in which restaurants and catering companies can compete in the market. It is expensive for intermediaries to stock all these items, and platforms offering these types of special items provide a solution.
- Process automation has made it easier and faster to handle orders. This is transforming logistics processes, which will, in turn, change the warehouses of existing wholesalers.

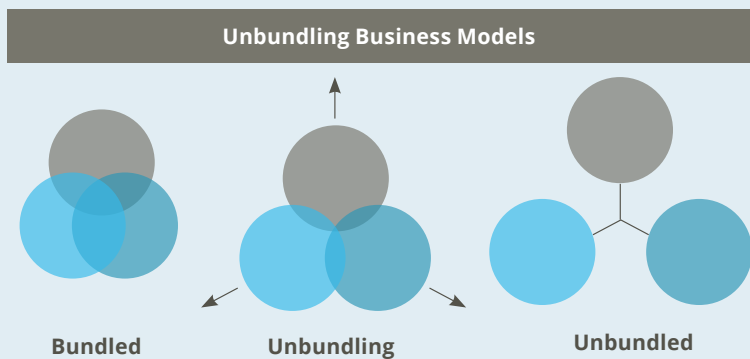
1.3 Logistics Integration Creates New Opportunities

When logistics providers join forces – even if these companies are each other's competitors – this creates numerous new opportunities. Our experts identified the following five possibilities:

- **Bundling warehousing:** Storage of goods at wholesalers becomes redundant if multiple manufacturers decide to join forces. Why do we find Coca-Cola products stored in more than 100 warehouses across the Netherlands just to serve the Dutch food-service industry alone? Experts regard cross-docking as a viable solution for manufacturers. In this logistical procedure, products are delivered directly to retailers, without the need to store them at wholesalers.
Providing "direct-to-customer" options: Logistics integration also makes it possible for products to be delivered straight from manufacturers to end users. By combining their delivery flows, providers can create a more extensive network, as well as increasing the size of the deliveries made to a single address. This means that products can be delivered directly to customers (such as food-service companies and company cafeterias), cutting out the middleman.
- **Bundling in urban peripheries:** Our cities are plagued by congestion, and by consolidating deliveries from several businesses we can reduce car traffic in urban areas. These cars (or other means of transportation) can be perfectly tailored to city distribution. Giving only a limited number of delivery services access to certain areas can help to reduce congestion even further.
- **Need-based network selection:** Different networks can be linked to platforms, with the platform selecting the network to fulfill a certain order based on the items in the shopping cart, the product range, and the required delivery speed. Certain networks will be more suited to delivering smaller quantities, while others can be tasked with delivering larger orders. In addition, some networks allow you to provide instructions (e.g., "place in refrigerator"), while others do not. A platform could choose, for example, to use a network specialized in large transport for large order quantities and orders requiring more detailed instructions, and a smaller-scale network for lower quantities and standard delivery.
- **Packaging for different types of users:** Offering B2B packaging in the consumer channel, and vice versa. This blurs the lines between B2C and B2B retail even further, providing customers with greater choice.

In order to integrate logistics flows with those of other companies, a new strategic foundation is required: separating ("unbundling") customer interaction (or commerce) from logistics. Food wholesalers are currently operating a "combined business model," which can be roughly defined as a model wherein purchasing, sales, and logistics are all in the hands of a single company.

The term "unbundling" is derived from the Unbundling Business Model (*Hagel & Singer, Unbundling the Corporation, Harvard Business Review, 1999*). In this model, various types of business activities are separated in order to avoid conflict and unwanted compromise while at the same time increasing efficiency.



If logistics is regarded as a separate company or business unit – i.e. if it is unbundled – it can then be bundled with other companies' logistics flows.

By separating logistics from commerce or customer communication, you also create new opportunities for more direct interaction between manufacturers and customers.

2. The Ideal Ordering Model

Customer needs, regulations, and technological advances are giving rise to a new logistics delivery model. We are also seeing a number of trends and new needs related to commerce and communication between suppliers, wholesalers, and buyers.

Among the latter category, we are observing a need to streamline the purchasing and ordering process – restaurants being a good example. Buyers are currently working with an average of 5.6 suppliers¹ through a variety of ordering channels. As a result, they are insufficiently aware of the available product range and deal with a lack of transparency on pricing, a lack of consistency in invoicing, and disorganized accounts. A single ordering system for all suppliers speeds up the ordering process and makes it easier for all parties involved to keep track of what is going on.

¹ GFK RESEARCH

At the same time, we are seeing a growing need for distinctive niche products (including local products) that allow companies to compete in the market and meet consumer demands. Since these are special products that are often not available for delivery nationwide, they are not accessible to all customers. Among manufacturers, meanwhile, we are seeing a need to advertise products to customers directly, speed up product launches, experiment, and know more about their customers.

2.1 Platforms Enable More Direct Interaction

The need for providers and customers to communicate directly in one location has given rise to new platforms. We identify three different types of platforms: ordering systems, B2B marketplaces, and communications and inspiration platforms.

Ordering Systems

Ordering systems integrate orders from different suppliers into a single system. For suppliers, this means an additional way to receive orders, while still being able to preserve their relationships with their customers. The advantage for customers is that they have access to different suppliers through a single channel, allowing them to streamline their purchasing process. One of the drawbacks is that delivery, billing, and the process of researching new suppliers remain fragmented.

Examples: InOne (myinone.com), Bluecart (bluecart.com) and Stockfiller (stockfiller.com).

B2B Marketplaces

Similar to the B2C market, B2B marketplaces match supply with demand. The marketplace business model is based on a fee per transaction and various forms of advertising. For smaller suppliers, in particular, this is a great way to promote new, local products among consumers, without the need to approach individual potential customers. It can also be a good way for suppliers to launch new products or test the waters before negotiating with wholesalers about shelf space. Customers, meanwhile, have access to an all-new, extensive and competitive range of products through a single platform. For further information about platforms and marketplaces, see the blue paper published by the Marketplaces Expert Group.

Marketplaces fall into two different categories: the platform can be completely open (unlimited offer) or it can select the featured providers, thereby guaranteeing a certain level of quality.

Examples: Truffelz (truffelz.com), Foodshed (foodshed.nl), DineMarket (dinemarket.com) and Foodem (foodem.com).

Communication and Inspiration Platforms

In addition to the separation of commerce and logistics, we are also seeing the emergence of communication and inspiration platforms. Alongside the existing channels, suppliers and manufacturers are creating platforms independently or as co-owners in order to reach their customer base more effectively and increase their customer knowledge. Examples of content on these types of platforms include inspiration, trends, sales tools, POS materials, and promotions.

These platforms are an ideal way for manufacturers to expand their commercial operations. Not all customers can be reached through a traditional field sales department, but market research conducted by Coca-Cola has shown that customers do feel the need for personal contact with manufacturers. This type of platform allows them to benefit from both the opportunities provided by the wholesaler and from relevant programs or materials for their business offered by the manufacturer.

In addition, we are seeing wholesalers transform and their partnerships with manufacturers become more data-driven and transparent. Wholesalers are also expanding their product ranges through marketplaces or links to external suppliers. The logistics involved in this need not be managed through the wholesale business.

2.2 The Future

In addition to the trends outlined above, the ordering process is set to further change over the next few years. Trends such as the emergence of voice (both on mobile and through smart speakers) and automatic ordering systems – using either predictive models or linked checkout systems – have an impact on the purchasing process and developments in the 2B food sector. The question is how rapidly these trends will progress in the still somewhat traditional 2B food market.

3. Customer Data is a Greater Motivator than Revenue

On the whole, the B2B market is lacking in relevant data and insights from operators and consumers. Manufacturers in the food market typically only have access to information on sales to wholesalers and key accounts, while information on purchases made by food service and catering companies from wholesalers remains out of reach. The absence of this data makes it difficult to project sales and capacity, which has an impact across the entire supply chain.

3.1 The Value of Customer Data

In the new e-commerce models, sharing customer data is the norm. Supply chain players have traditionally been reluctant to share sales data with others, but experts confirm that access to customer data is a key motivator for participating in new e-commerce models.

Major players such as Coca-Cola, FrieslandCampina and Heineken, in particular, are opting for new forms of cooperation in order to gain access to customer data (see the section on Stockon on the next page.) This includes profile data (e.g., business type, business name, address and contacts) and purchase data (e.g., type of product, order quantity, time of purchase, and purchase price). Most importantly, this data allows manufacturers to maintain their own customer relationships. Improving these relationships creates new commercial opportunities that can also affect a manufacturer's go-to-market strategy.

A second key reason for wanting access to customer data is that this allows businesses to improve their customer knowledge. Customer data provides more immediate and more readily usable information on customer preferences than research, for example. By getting involved in small-scale e-commerce initiatives, manufacturers can experiment with things like category management, promotions, and price elasticity.

Due to the limited scale of the current e-commerce initiatives in the 2B food segment, customer data is a more important motivator for manufacturers than revenue.

Stockon: Producer is the Co-Owner of the Data

Stockon is a grocery delivery service that makes deliveries throughout the Netherlands free of charge and on a zero-carbon basis, at times that are convenient to the customer. In terms of product range, Stockon focuses primarily on products for storage in pantries, refrigerators, freezers, and fruit bowls and on essential weekly items, with algorithms predicting with increasing accuracy what the customer will need.

In order to have access to all products, Stockon works closely with manufacturers on the platform. They regard Stockon as the direct-to-consumer channel or marketplace. Since ownership of the goods is transferred from the producer to the consumer only on delivery to the consumer's home address, producers are co-owners of the data, including from a legal point of view. This means producers are aware of who is purchasing their products. This rich data is highly valuable for them, for example for further innovation. This proposition is also very appealing to consumers, as the middleman (i.e., all regional retail distribution centers and stores) has been eliminated, which ensures fresher products and longer shelf lives.

3.2 The Value of Sharing Data

Sharing data requires effective communication, technology, and mutual trust. Trust is created when businesses work together on improving the results of the supply chain and engage in activities that are beneficial to everyone involved. We have noted the following interesting trends when it comes to monetizing data:

- **Category management advice:** Manufacturers are advising their customers on the items in their product range, pricing, and promotions (see the inset on Coca-Cola on the next page.)
- **Joint promotions:** Manufacturers and middlemen are using their shared marketing and sales capabilities to run strategic promotions.
- **Product range management:** Manufacturers are better able to predict future demand, and have a better idea of which products can be discontinued and which new product launches have the most potential.
- **Managing field sales:** Manufacturers manage their own sales operations on the basis of customer data.
- **Logistics partnerships:** e.g., *vendor-managed inventory*, which results in improved reliability of delivery (i.e. on time, complete, and without error).

8% Outperformance Through Category Growth – It's Possible!

Coca-Cola works closely with a number of national food-service companies, and data is a crucial part of these alliances. This data is used to set targets and objectives relating to product range and promotions for each site, based on which Coca-Cola then organizes the partnership at the local level. This plan is completely based on the shared implementation of the opportunities identified. In a fair number of cases, this has resulted in the site in question outperforming the supply chain as a whole by 8%.

The executive power is driven by two factors: an objective baseline measurement conducted at the outset, and, during the implementation stage, a field sales team and a reward system for the site based on results achieved.

Coca-Cola is responsible for conducting all the analyses and for implementation at the site level.

These partnerships all have the following key features in common:

- Consumers receive the best possible service.
- The site generates additional sales.
- Coca-Cola generates growth for the category.

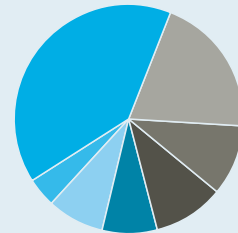
Our goal

*Grow the entire
cold drinks
category together!*

from



to



Coca-Cola believes that increasing the size of the pie is ultimately more rewarding than trying to grab the biggest slice of the pie. The fact that customers continue to share data systematically and over an extended period of time proves that this approach is effective.

In order to keep this trust, Coca-Cola has put the appropriate security measures in place, building a 'wall' between Category Management and Sales: only specialists in customer data management (CDM) receive, edit, and analyze the data. Insights are shared with Sales and customers only at the appropriate aggregation level.

4. Conclusion

Food is the fastest-growing category in e-commerce. Although business-to-business is well represented online, the supply chain as a whole tends to be rather traditional. The emergence of new order and delivery models and the changing needs of recipients are set to transform the food market and the role of current players.

We are seeing the emergence of new business models in order to improve the efficiency of operations, better meet customer needs, and comply with new environmental regulations. These new models are driven by a growing need for insight and data throughout the supply chain and for the separation of commerce and logistics. The latter is resulting in the emergence of both new logistics models and new commercial models:

- Providers traditionally managed and coordinated their own deliveries. However, new logistics models are combining deliveries from several different providers, coordinated by an facilitating third party.
- New commercial models are being created based on the need for a larger, competitive product range, efficiency, and more direct communication between suppliers and customers. This is leading to the emergence of ordering systems, marketplaces, and inspiration platforms. These platforms are an ideal way for manufacturers to expand their commercial operations.
- Data is power. Many wholesalers do not share their customer data with manufacturers or are only willing to share it with them at a price, when in fact customer data is becoming vital throughout the supply chain, both in commerce and in logistics. In refusing to share their data, they are inadvertently pushing manufacturers toward the order and delivery models offered by new platforms.

The changing 2B food market provides opportunities for both established and new players; in this dynamic landscape, wholesalers in particular need to make sure they remain valuable.

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