Twitter Thread by Ryan Caldbeck



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@ryan_caldbeck

1/ Grocery needs some help. Avg op margin in grocery is 2-3% but avg margin for public CPG is 21%. Are public CPG co's adding that much more value? No - I think that margin difference is a legacy from decades ago when the large brands mattered. Today value contribution is same.

2/ That doesn't seem fair.

But life isn't fair.

3/ So grocery is in trouble. Growth is negligable absent inflation. Some large grocers are levered up to the gills. All are struggling to provide value to consumer. The answer will be assortment and convenience - namely delivery and click and collect.

I said "to the gills". Ha.

4/ OK back to assortment and convenience. Here is why those are the things that matter. First convenience. Delivery is going to become table stakes in grocery. Ocado is killing it in UK. @Instacart will win here. (yes…..I think Instacart will beat @Amazon at grocery delivery).

5/ Even smaller retailers will need to invest in technology to offer click and collect if they cant do delivery.....and if that is table stakes, that means it is just to maintain market share.....and ROIC and margins and cash flow go lower.

VC backed solutions to the rescue.

6/ Assortment (products put on the shelf).

This will be the other key component of value to the consumer. Assortment is about price and product.

7/ Price means same products for less. Same…..boring….old….uninteresting products for less. That seems like a tough value strategy given the interest in innovation – which has been driven by small co's.
https://t.co/xwxoHo8oTQ

> 1/ Everyone in consumer is trying to figure out how to play emerging CPG (<$15m in revenue). EVERYONE. Every public CPG company, every retailer, every consumer VC and PE firm, every meaningful public investor. EVERYONE. Here is why.
>
> — Ryan Caldbeck (@ryan_caldbeck) March 14, 2018

8/ Price can also be driven by private label, but US customers have stalled at ~20% of sales to PL for the past decade (ex-dairy). Maybe the retailers will suddenly invest in new PL products that incentivize the customer to the offering, but I'm not seeing enough of that now.

9/ The other reason price is really a losing strategy? @Amazon and @Walmart.

You gonna beat them on price?

10/ So the key component about assortment is really driving unique products. Give the customer innovation and they will stop focusing only on price.

11/ That's how you compete against Walmart. Find a new dimension and don't compete only on pennies over the same box of @cheerios.

12/ SO how do you compete on assortment? You need to change the game. Too many retailers (i.e. @Publix, @Albertsons, etc) are just competing on price.

The innovative ones are trying to find ways to compete on innovation (Product).

13/ That used to be @WholeFoods – but WFM is moving away from innovation as they make it more difficult for smaller brands to thrive.

14/ Those companies that use new data in new/interesting ways will win. Problem is that so many today rely on massively commoditized retail level sales data from a few of the same players that give everyone the same info.

15/ Yes the grocery stores usually have data on what sells in their stores. But that is 0.001% of the # of SKUs in existence (my own scientific estimate). What is key is figuring out what to put on their shelves. That is what getting the right assortment means.

16/ Kroger tries to use data in a more interesting way than most grocery stores. That has helped with their assortment: https://t.co/b9HZtgMdz4

17/ More is needed for all. They need an edge in data that will help prevent them from relying on just price. Remember their margins (#1 above)? Do you think trying to compete w/ @Walmart and @Amazon on price is going to help or hurt that margin.



18/ Only option is to invest in assortment in the form of innovative products. The answer there is to invest into non-commoditized data.

That is the future of grocery. They will need to invest massively into non-commoditized data.

19/ Historically most have relied on “buyers” to make assortment decisions. People that are making gut driven decisions based off of what they like (literally tasting/trying products). Very little data being used and almost none is external to their own store. That will change.

20/ The grocers that continue to only use their own data, or commoditized data sources, will die slowly.

Those that adapt and become data/tech enabled at their core will compete meaningfully with Walmart & Amazon.

21/ Offline grocers can succeed - but need to improve on assortment and convenience.