

# Supply Chain Disrupted but Grocery, Big Box Stores Thriving Anyway

Companies: AMZN, BYND, COLD, COST, CPB, DRI, GIS, GRUB, HAIN, K, KHC, KR, MDLZ, SFM, TGT, THS, UNFI, WMT

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## Research Question:

**How is the coronavirus affecting the grocery supply chain?**

## Summary of Findings

- The grocery supply chain is struggling to keep up with surging demand in the wake of restaurant closures and stay-at-home orders. Sources say there is enough food and product available, but the chain is not set up to adapt quickly enough to these new demands.
- Retail buyers said orders are being filled anywhere from 40% to 80% complete; normally they are 95% to 97% full. One source expects double-digit sales increases over the next six to 12 months and another said they should see peak demand for another three months.
- Food producers have seen a significant jump in their orders this month. One source said orders are 10 times higher than normal and another source said sales are up by tens of millions of dollars compared to normal.
- Grocery retailers and big box stores are the winners, especially those like Amazon.com Inc. (AMZN) and Walmart Inc. (WMT) with a delivery system already in place. Target Corp. (TGT) and Costco Wholesale Corp. (COST) are benefitting from their ability to service customers looking to stock up on items.
- A lasting effect will be brands rationalizing their SKUs. Customers are less picky about brand names now, opting for whatever is available and low priced. Brands are getting immediate feedback on which of their items are not selling in a high-demand environment and will consider which SKUs they can take out of production, improving margins and efficiency. This also presents an opportunity for more private label products.
- Sources said there will be an increase in backup planning for better preparedness. Food distribution will shift from big, regional distribution centers to smaller, local distribution centers in or near major cities. A food supplier said single-sourcing will give way to dual-sourcing as manufacturers look for more backup suppliers.
- One food manufacturing source said freight prices are rising, including costs of loads into New York and New Jersey doubling because drivers do not want to go to coronavirus hotspots.
- Labor shortages are a concern for retail stores, manufacturing facilities, and fulfillment centers as workers stay home because they are sick or to care for children out of school. Any case of coronavirus in these locations could temporarily shut them down, leading to production setbacks and more supply chain disruption.

## Silo Summaries

### 1) Food Retailers/Retail Buyers

Both sources said their supply chains have been significantly disrupted. Orders are being filled at much lower rates than normal and fulfillment has been unpredictable and inconsistent. **Distributors are setting order deadlines two to three hours earlier than normal.** The pantry has been hardest hit, with families staying home from work and school turning to baking to pass the time. One source said their sales of flour and yeast grew 300% to 400% last week. **Grocers are the winners here, as they remain one of the few businesses open for commerce, they fill a tremendous need, they serve their communities in this uncertain time, and they have an opportunity to build better relationships with supply chain partners.** One source surmised that Amazon may have an opportunity to acquire another retail outlet.

### 2) Food Distributors

All three sources said the disruption in grocery stores is because they cannot keep up with demand, despite largely enough supply in the chain. It just cannot get to stores fast enough to keep shelves stocked. **One source said it will be several months before a recovery, but that fears will linger and more panic buying episodes will occur over the coming years when new viruses emerge and fear runs wild again.** One source said their foodservice business to restaurants is down 75% and expects a hollowing out of the industry as companies without cash or the ability to rework deals with lenders or creditors will fold. Bigger restaurants with cash will be able to survive.

### 3) Food/Ingredient Suppliers

All four sources said their orders have increased in the last month. **They have not seen any major disruption in their supply chain—it has been more muted with delays and inconveniences, rather than catastrophes.**

### 4) Industry Specialists

**Both sources said the supply chain is not broken, but it is not adapted for the unexpected surge in demand that is keeping shelves from being fully stocked because of product shortages.** Supply chain was streamlined to avoid situations of oversupply and move to just-in-time delivery, which is hurting the situation now. **One source said sales are up 40% to 50% for everyone.**

# Grocery Supply Chain

	Level of Supply Chain Disruption	Grocery Sales	Winners
Food Retailers/Retail Buyers	Significant	↑	Grocers
Food Distributors	Significant	↑	Grocers
Food/Ingredient Suppliers	Moderate	↑	Grocers, Manufacturers
Industry Specialists	Moderate	↑	Grocers

## Background

The coronavirus pandemic has forced people in the United States to work from home, go to school at home, and it has closed restaurants in many states, with more closures likely on the way. Cooking and eating at home, three meals a day, is the new normal—for some people to save money, for some because they are nervous about going out, and for some because they have a lot of time on their hands. When you add the endless media coverage of people panic-buying mass quantities of pantry staples and images of bare grocery shelves, there becomes an incredible rush on grocery and big box stores to stock up on food and supplies. The grocery supply chain is currently facing unprecedented challenges—and, for some, opportunities.

### Current Research

Blueshift Research assessed how the coronavirus outbreak is affecting the grocery supply chain. We employed our pattern mining approach to establish five independent silos, comprising 11 primary sources (all repeat sources from previous reports with hyperlinks throughout on Beyond Meat Inc. [BYND], Americold Realty Trust [COLD], Hain Celestial Group Inc. [HAIN], Kellogg Co. [K], and Kraft Heinz Co. [KHC]) and five secondary sources focused on challenges facing the grocery industry in the age of coronavirus and how stores are dealing with them. Interviews were conducted March 23-25.

- 1) Food retailers/retail buyers (2)
- 2) Food distributors (3)
- 3) Food/ingredient suppliers (4)
- 4) Industry specialists (2)
- 5) Secondary sources (5)

## Next Steps

Blueshift Research's next report on the grocery supply chain will continue to track trends in the industry as we look to identify changes in fill rates and timing for when demand settles and shelves are replenished more readily. We will revisit these sources and others to learn how long they expect heightened orders to last. We will also assess which changes are likely to be permanent and which ones will revert back when the crisis subsides—and who the winners and losers will be in this new normal.

## Silos

### 1) Food Retailers/Retail Buyers

Both sources said their supply chains have been significantly disrupted. Orders are being filled at much lower rates than normal and fulfillment has been unpredictable and inconsistent. Distributors are setting order deadlines two to three hours earlier than normal. One source said they are happy if they get 50% of their order and that the range is now 40% to 80% fill rate, compared to 95% to 97% normally. The pantry has been hardest hit, with families staying home from work and school turning to baking to pass the time. One source said their sales of flour and yeast grew 300% to 400% last week. Goods from

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Europe will not be available for three to four months. One source expects a double-digit increase in demand for groceries for six to 12 more months, while the other said peak demand will last three more months. Grocers are the winners here, as they remain one of the few businesses open for commerce, they fill a tremendous need, they serve their communities in this uncertain time, and they have an opportunity to build better relationships with supply chain partners. Brands will get a first-hand look at which items are not selling and can rationalize those SKUs. If it cannot or does not sell in this environment, companies will need to reconsider whether to keep it in their portfolio. One source surmised that Amazon may have an opportunity to acquire another retail outlet.

## Key Silo Findings

### Current State of Grocery Supply Chain

- 2 of 2 said orders are being filled at a much lower rate than normal and are unpredictable and inconsistent.
- 1 said they are happy to get 50% of order.
  - o Current range is 40% to 80%.
  - o Typically it is 95% to 97%.
- 1 said one distributor could only fill 3% of their order, but was able to get other distributors to help complete the order.
- The pantry has been hit hardest.
  - o 1 said sales of flour and yeast rose 300% to 400% last week as families turn to baking.
- 1 said there are not enough trucks.
- 1 said transportation is holding up well.
- Distributors are setting order deadlines two or three hours earlier than normal.
- 1 cannot get goods from Europe, like pasta and olive oil, for three to four months.

### Recovery Expectations

- 1 expects a double-digit increase in demand for groceries over the next six to 12 months.
  - o Especially center store items.
- 1 said peak demand will last for three more months.

### Winners/Losers

- Grocers are the winners.
  - o They are generating positive cash flow.
  - o They are serving their communities.
  - o They are building better relationships with supply chain partners.
- Brands will have an opportunity for SKU rationalization based on which items are not selling.
- Amazon may seize an opportunity to acquire another retail outlet.

## 1) Purchasing director of a buying club representing about 400 stores; repeat source—Monday, March 23

The coronavirus has significantly decreased the fill rates of orders, dropping from the usual 95% to 97% to an average of 70% to 80%. The disruption is happening in manufacturing and in logistics as everyone struggles to meet the surge in demand. In transportation, particularly, the trucking industry was already suffering from driver shortages and is struggling to meet increased demand. Demand should taper off because people are now well stocked, but there should be a double-digit increase in demand in grocery over the next six to 12 months because of the lifestyle changes this crisis has brought about. People now trust their own home-cooked meals more than takeout or delivery and have to prepare their own meals because they have lost jobs. The main winners will be the brick-and-mortar grocery stores. They are on the front lines of their communities and able to meet their needs, as well as provide a safe shopping environment. The crisis has also created an opportunity for mergers like [Spins and Mercato joining together](#) in grocery delivery. This could also be an opportunity also for giant companies like Amazon to start gobbling up more retail outlets.

### Current State of Grocery Supply Chain

- "There has been an unprecedented amount of disruption. Our members are hoping to at least get 50% of what they ordered. Some are experiencing even worse. Since the surge it's balanced out a little and we're now seeing fill rates averaging 70% to 80%. This compares to usual fill rates of 95% to 97%. Numbers now can range from 40% to 80%, depending on what they're ordering."

# Grocery Supply Chain

- “The low fill rates concern key pantry items like paper products, cleaning products, canned goods, and pantry staples. Those were hit hard, and the supply chain has to catch up to that surge.”
- “The disruption is happening across the board because distribution wasn’t ready to meet the demand that came in. In February there were supply chain disruptions out of China when they had their COVID-19 outbreak. Now it’s happening in the U.S.”
- “In terms of logistics, there aren’t enough trucks. Retailers are asking for more deliveries than distributors have trucks for. People also have had to take time off work to care for their kids at home. There was already a shortage of drivers prior to this. Even the warehouses don’t have the pickers to support the demand. There’s a snowball effect.”
- “Everyone is making adjustments. The bigger distributors have set earlier deadlines for orders by two or three hours to try to support the situation.”

## Recovery Expectations

- “I expect the surge in demand to taper off and allow retailers to catch their breath and retailers to stock back up. Over the next six to 12 months there will be an increase in demand for grocery. Over two million people applied for unemployment over the weekend. People obviously are going out less. Although takeout and fast food are deemed safe, people feel it’s safer to eat home-cooked meals. Consumers are coming back to making home-cooked meals. Grocers are going to see a double-digit lift in center stores for the remainder of the year. There’s definitely a switch in consumer trends.”
- “I think consumers are well stocked now. But because more people are at home with their kids, and unemployed, they are making more home-cooked meals. People don’t necessarily trust takeout and delivery.”
- “To keep up, some manufacturers are changing what they’re producing to meet demand. For example, local distilleries are turning to manufacturing hand sanitizer instead.”
- “I hope this kind of support can get the supply chain to get back on track so we won’t see empty aisles of toilet paper and cleaning supplies.”
- “In the long term, everyone in the industry is being forced to step back and figure out how we can plan for something like this in the future—for this kind of pressure on retail grocers and distribution. We’ll have learned to look at the data more accurately to be better prepared and so that people aren’t selling a roll of toilet paper for \$9.99 online to make a profit and people have access to what they need.”

## Winners/Losers

- “We’ve all been losers in this, but, in the long term, I expect brick-and-mortar grocers to gain because they are supporting their communities. They’ll be gaining more customers by being able to stay open and making people feel safe about shopping in their stores. I think they will be the biggest winners and they’re earning it because they are on the front lines with grocery stores being the only place open.”
- “They will gain more customers and start reversing the trend of online shopping.”
- “This could be an opportunity for Amazon to be gobbling up additional retail outlets.”
- “Some big companies are seeing this as an opportunity to merge, like Spins and Mercato joining forces to help in grocery delivery.”
- “With the goal of people staying home more, brick-and-mortar will suffer—but if they’re able to provide for their communities and provide a safe shopping environment, and even be equipped for deliveries, they’re going to be the winners.”
- “As long as they put measures in place to protect customers and their employees, they stand to gain.”

[Jan. 22 Beyond Meat report summary](#): Customers are used to paying premium prices in the natural foods channel and comparisons with the price of grass-fed beef are not at all scaring away customers. Sales of Beyond Meat are growing

There has been an unprecedented amount of disruption. Our members are hoping to at least get 50% of what they ordered. Some are experiencing even worse. Since the surge it’s balanced out a little and we’re now seeing fill rates averaging 70% to 80%. This compares to usual fill rates of 95% to 97%. Numbers now can range from 40% to 80%, depending on what they’re ordering.

*Purchasing director of a buying club representing about 400 stores*

Over the next six to 12 months there will be an increase in demand for grocery. ... Grocers are going to see a double-digit lift in center stores for the remainder of the year. There’s definitely a switch in consumer trends.

*Purchasing director of a buying club representing about 400 stores*

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nearly 100% year over year in this channel, driven by the flexitarian health trend of eating less meat and because the products have become better tasting and more appealing than plant-based meats used to be. Supply issues have been solved, as Beyond Meat is adding a new facility in Europe. This growth trend should continue for at least five to 10 years, in line with other trends like the kombucha trend which took 10 years to plateau. Prices have remained steady. Beyond Meat and other plant-based meats are using deep promotions to penetrate big box stores and the conventional channel. This is a good strategy rather than trying to race to the bottom with low prices. Increased competition is only serving to enhance the category and not cannibalizing sales from existing brands.

**Nov. 26, 2019, Hain report summary:** It is too early to say if Hain's portfolio rationalization is working because promotions for this group on the "max the mix" brands will only start in January/February. The portfolio rationalization is a good plan that has been a long time coming because Hain had gotten too big. It should help Hain reverse double-digit losses and see double-digit gains in both units and dollars in 2020, depending on the execution. Hain presented its plan to this group in the summer and cancelled its promotional calendar for the rest of 2019. Hain is submitting promotions for the brands it wants to focus on, such as Garden of Eatin', and a reduced number of CPUs for Spectrum Oils and Celestial Seasonings for the 2020 calendar. Category managers are responding positively because the portfolio rationalization will allow them to focus on key items and make those promotions successful. Hain has lost share in broths to Pacific Foods and other innovators in that category and to Barnana in plantain chips because Hain entered that segment too late in the game. Hain's failure to innovate hurt the company when new trends came about and new entrants disrupted its categories.

## 2) Manager at a natural food store; repeat source—Wednesday, March 25

The grocery supply chain is being disrupted across the board, but the transportation sector is holding up strong. Depending on the item, the disruption can be small or large. Orders are being prorated. Bottlenecks are random. For example, her store had a run on flour and yeast, as people staying at home do more baking. The store regularly imports from Europe and those orders are likely done for the next 90 days. Grocery stores that do not perform well, and products that don't sell well in this environment, are in trouble.

### Current State of Grocery Supply Chain

- "There's not a food shortage to worry about. It's just that, for every order you make for 15 cases of beans, you get five."
- "Depending on which items you're talking about, the supply chain disruption is minor to extraordinary. Shipments of certain things are being prorated. We have good relationships with our distributors, but not everyone has food."
- "We have a lot of direct relationships with producers, because we're a specialty store. Supply from mom-and-pop producers is disrupted, but not unacceptably."
- "We recently had a 3% fill rate from one distributor, but within hours we were able to get another. We'll get random bottlenecks. Who would have thought about toilet paper?"
- "A lot of people at home are trying baking. We had runs on flour and yeast, with sales 300% to 400% more than normal for a while. We just kept trying until it came in. We were out for almost a week."
- "The disruption is pretty uniform throughout the supply chain, but the transportation sector is holding up strong."
- "One thing impacting us is we import goods directly from Europe. We had to cancel a \$50,000 order from Italy for pasta, olive oil, and other items because there was no guarantee we would even get our money back. It might be quite a while for Italy to come back—90 to 120 days."

Some of our distributors say peak demand will last for another 90 days.

*Manager at a natural food store*

### Recovery Expectations

- "Some of our distributors say peak demand will last for another 90 days."
- "Distribution centers won't worry about tarragon-infused pickles, but will focus instead on high-demand items. It's interesting to see which brands sink or swim. If something isn't flying off the shelves now, [it's in trouble]."
- "It's definitely positive in terms of creating an opportunity to build relationships [with our partners in the supply chain]."

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## Winners/Losers

- “For grocery stores, it’s positive cash flow. If you mess this up as a grocery store, your fate is written in the stars. The companies that can adjust to technology will be revealed.”

Nov. 26, 2019. Hain report summary: Hain checks the box for having no preservatives, food coloring, or GMOs. Hain knows its niche and stays in it. Favorite brands include Garden of Eatin’, Rudi’s, the Greek Gods, Jason, Queen Helene, and Spectrum. But some stores do not like Hain just because of the company’s size. As for Hain’s effort to expand, there is potential in plant-based protein, tea, and snacks. Plant-based protein is the hottest part of the market. Yogurt is difficult because of all the competition. Celestial Seasonings needs a rebranding.

## 2) Food Distributors

All three sources said the disruption in grocery stores is because they cannot keep up with demand, despite largely enough supply in the chain. It just cannot get to stores fast enough to keep shelves stocked. The grocery channel is feeling the surge in demand from restaurant closures and stay-at-home orders, trying to make up for the 25% of food typically consumed in that channel that is now being redirected to stores. One source said it will be several months before a recovery, but that fears will linger and more panic buying episodes will occur over the coming years when new viruses emerge and fear runs will again. Therefore, large regional distribution centers will morph into smaller, more local centers to better serve communities. Grocery delivery will continue to grow and be a lasting beneficiary of this pandemic, so those with good online ordering and delivery options—like Amazon—will be winners. One source said their foodservice business to restaurants is down 75% and expects a hollowing out of the industry as companies without cash or the ability to rework deals with lenders or creditors will fold. Bigger restaurants with cash will be able to survive.

## Key Silo Findings

### Current State of Grocery Supply Chain

- 3 of 3 said the disruption comes from not being able to get supplies to stores fast enough to keep pace with demand.
  - o 1 said warehouses have a fixed number of bays and available trucks, which is keeping orders from being filled any faster.
  - o 1 said 25% of food is normally consumed in restaurants and the grocery channel is struggling to keep up with increased demand as a result of restaurants closed or open only for takeout.
- 1 said there is plenty of frozen inventory.
- 1 said their foodservice business to restaurants is down 75%.

### Recovery Expectations

- 1 said it is going to get worse before it gets better, but projects the beginning of a recovery in about one month.
- 1 said it will be several months before a recovery but there will be spikes over the coming years as health scares and new viruses cause more panic buying at various intervals.
- 1 said big regional distributors will morph into smaller, local distribution centers.
- More grocery delivery is expected.
- 1 said restaurants can be up and running at 50% capacity in two weeks once stay-at-home orders are lifted.

### Winners/Losers

- Retailers will be the winners, especially those with strong online ordering and home delivery options now and into the future.
- 1 sees a hollowing out of the restaurant industry as companies without cash that cannot work deals with lenders or creditors will close permanently.
  - o Big restaurants will survive if they have enough cash.

## 1) Northeast area manager for foodservice and grocery for a top 5 distributor, repeat source—Monday, March 23

Supply exists in the system; the challenge is getting it to the stores. Grocers have warehouses with a fixed number of bays and trucks, leading to the slow restocking of supplies. Demand for foodservice is down significantly, around 75% for this one area manager. He is optimistic that business will come back because people are holding back on eating out not

# Grocery Supply Chain

because of economic losses but because they are confined to their homes. The issue will be for restaurants to have the cash on hand to restock and be able to open when the restrictions are lifted. Restaurants could run at 50% capacity within one or two weeks after restrictions are lifted, as long as they have cash to stock up. Independents are the most vulnerable. Big chains like [Darden Restaurants Inc.](#) (DRI) have deep pockets and should be able to weather the crisis. Those who are best equipped to survive are the groups with cash and those who can work out payment terms with their creditors so they have cash to reopen.

## Current State of Grocery Supply Chain

- “For now, I believe we are seeing the bare grocery shelves because they just can’t get the supplies out fast enough. There’s supply for most things.”
- “Fresh produce could definitely be a problem, though it’s not my expertise. It may end up that processors will be buying up a lot of the fresh produce and freezing it.”
- “The product is there. The issue is getting it on the shelves.”
- “As I understand it, the meat packing plants are up and running and the trucks are still running. There are no problems there. It’s just that people went to the grocery stores and cleaned out the shelves. It takes a while for grocery chains to restock. Large groceries have one warehouse and there are only a fixed number of bays in each warehouse and they can only take a fixed number of trucks coming in. And they also have to fill their trucks going out. Also, they only have a fixed number of trucks. That means they have to decide what they’re going to put on their shelves. In this case, with demand higher than anticipated, they have to decide what to supply first.”
- “The smaller, independent markets are not having problems because they have multiple suppliers. They have a local dairy company they can depend on. Many have a foodservice broadliner they can depend on, if need be.”
- “We [foodservice] are affected by the demand side because the vast majority of our customers are closed and the ones that are open are only open for takeout. About 75% of demand has fallen off.”

## Recovery Expectations

- “I think it will come back. This is going to be a different type of recession. It’s not that people can’t go out because they’ve lost their jobs and don’t have income. Once people come back from being confined at home, it will come back. The question is, how many restaurants will still be open? And the other question is, how many people among those who have lost their jobs are regular restaurant customers? It will take a while for those people to get back on their feet. The hourly people are getting hammered. Regular salaried office workers will be fine.”
- “Even if everything went back to normal tomorrow, in terms of social distancing, and restaurants could reopen, if they have enough cash to restock, they could be up and running at at least 50% capacity in one or two weeks.”
- “Hopefully, when it all comes back, there’ll be a splurge with a huge uptick. But, of course, this is pure speculation.”
- “Short term, the independent restaurants, especially at the higher end like Gotham Grill, which has been around for over 30 years, are the most vulnerable. [They closed their doors permanently.](#) Restaurants generally don’t have a lot of cash and that will make it difficult for the little guys.”
- “The big groups like Darden Restaurants are still paying their employees, even though they’re not working. The group has deep pockets.”
- “Giving customers extended payment terms is a big part of this and I’ve talked to some customers about it. For example, an office catering customer who’s usually very busy expressed concern about having enough cash on hand to reopen. We agreed on new terms.”

## Winners/Losers

- “We’re going to have a hollowing out of the industry, unfortunately.”
- “The big guys are going to do well—the smaller ones not.”

The product is there. The issue is getting it on the shelves. ... It takes a while for grocery chains to restock. Large groceries have one warehouse and there are only a fixed number of bays in each warehouse and they can only take a fixed number of trucks coming in. And they also have to fill their trucks going out. Also, they only have a fixed number of trucks. That means they have to decide what they’re going to put on their shelves. In this case, with demand higher than anticipated, they have to decide what to supply first.

*Northeast area manager for foodservice and grocery for a top 5 distributor*

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- “The people who have the cash to ride it out will be ok. Also, those who can work with their lenders and creditors so they can get terms to ride it out.”

[June 21, 2019, Kraft Heinz report summary](#): Kraft Heinz has no easy fix to turn itself around. Customers are asking for labels with simple-to-understand ingredients and a transparent supply chain; products that provide these are in demand. Kraft Heinz needs to be proactive and bring ideas and solutions to food service customers to do more with existing products to help grow their businesses. These restaurants then will reward Kraft with more business. While smaller brands going through brokers are quick to offer ideas, Kraft Heinz’s activity consists only of trying to sell more to existing accounts. The source has not seen Kraft Heinz at sales meetings and is not aware of any marketing efforts. Its pricing activity is in line with other manufacturers. His sales of the company’s products have been flat, and he is not actively trying to grow Kraft’s business, giving preference to other companies that are more proactive. As part of the turnaround strategy, Kraft Heinz should concentrate on its ketchup business, which should be considered a premium product because of how well known its label is. Even if it engaged in this strategy, it would take Kraft Heinz at least one to two years to turn its business around.

## 2) Don Schoenl, president of Agile Cold Storage, a cold storage company—Tuesday, March 24

About 20% to 25% of the grocery supply chain is being disrupted. The problem is with perishable goods that cannot last long on the shelves. The supply chain is tight for those items, so the increase in consumer demand in response to restaurant closures has thrown the supply chain out of whack. The industry cannot keep up with the surge in consumer demand for groceries. He thinks the disruption will get worse and last for another month. He does not see any losers among supply chain players.

### Current State of Grocery Supply Chain

- “We’re now seeing about 20% to 25% disruption. It’s for things that are more time sensitive, like fresh breads, meat, veggies, and dairy items.”
- “There’s no slack in the supply chain. Something that’s made today is on the shelves quickly. So any shortage shows up in that fresh food.”
- “For frozen foods you can have months of inventory. There’s a safety stock for retailers and third parties.”
- “The real issue is Americans eat 25% of their food from restaurants. Now, when people aren’t there, they’re going to grocery stores. The industry can’t keep up with that demand. It can’t ramp up the supply chain as fast as consumers need it.”
- “Every part of the supply chain has been disrupted.”

### Recovery Expectations

- “I think we’re in this for another month, and I think it will get worse before it gets better. The real choking point is if manufacturers continue to produce for foodservice companies, and there is not room in the supply chain to bank inventory.”
- “Those products won’t move because restaurants and others are closed, but the producers may not want to furlough their workers.”
- “I don’t expect many changes to be permanent. This is a once- or twice-in-a-lifetime deal. However, some of the supply chains that stretched to China are being moved away from there. People will find alternative producers domestically. Poultry producers, for example, had to reduce operations in China.”
- “I don’t see retailers buying twice the warehouse space to avoid shortages in the future. We will find that we’re feeding our population.”

### Winners/Losers

- “Everyone in the grocery supply chain will be fine. Retailers will have a great quarter because of strong demand. If you go back to truckers and cold storage companies, they’re all earning their stripes here.”

[Dec. 18, 2019, Americold report summary](#): Americold has some room for growth, but Lineage is stronger. It has added more capacity than Americold over the past five years and will continue to do so. Lineage is especially ahead overseas.

**The real issue is Americans eat 25% of their food from restaurants. Now, when people aren’t there, they’re going to grocery stores. The industry can’t keep up with that demand. It can’t ramp up the supply chain as fast as consumers need it. ... Every part of the supply chain has been disrupted.**

*Don Schoenl, president of Agile Cold Storage, a cold storage company*



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Americold has a strong domestic network and benefits from its common data warehouse. But its facilities are old and it is weak abroad. It is not best in class. Still, Americold should be able to shift toward more fixed contracts, thanks to the consolidation of the storage and food industries.

### 3) Nick Pacitti, business development leader at Tippmann Innovation, which designs and builds cold storage facilities; repeat source—Tuesday, March 24

Frenzied consumer buying amid the coronavirus pandemic has disrupted the grocery supply chain. It could take months for a recovery. Pandemics are here to stay, and the supply chain will change as a result. There will be a trend toward hyperlocal distribution, with smaller distribution centers near or in major cities. Grocery stores and online retailers will grow more sophisticated in enabling consumers to shop for groceries online and enjoy delivery at their door.

#### Current State of Grocery Supply Chain

- “Panic buying has put unique pressure on the grocery channel. It’s a disruption through demand. There’s much more demand for protein—meat.”
- “Production companies are selling food themselves online or working with stores on home delivery. Suppliers have had to respond, and that will continue.”

#### Recovery Expectations

- “It could be months before a recovery for the supply chain. It will take until everyone goes back to work and the panic goes away. The problem continues to be elevated. Downtown areas are still spiking in demand.”
- “We’ll see these pandemics well into the future. Severe spikes in food demand will create a sea change in how processors, distributors, and the government respond.”
- “There will be a whole new reliance on hyperlocal distribution. We haven’t seen a lot of it lately. But big regional distribution centers will morph into more smaller distribution centers closer to or in urban centers.”
- “That will probably start in the next couple months and last for two years. New construction is very expensive. But there are vacant industrial buildings that can be retrofitted for food distribution. There is a need for quicker distribution, and that would probably incur half the cost of building new storage space.”
- “This is an accelerated race to the front door. So we will see Amazon and grocery stores develop more sophisticated and reliable systems to deliver groceries to customers’ front door.”
- “Contactless delivery is a trend that won’t go away anytime soon. Viral endemics will last for a while, probably 20 to 25 years, so we will have to elevate food chains.”

#### Winners/Losers

- “There will be an increase in online grocery sales and Amazon Fresh sales. Grocery stores that offer online shopping and home delivery will be the winners.”
- “Home delivery companies like Amazon, with their own fleet of smaller trucks, will do well. [Instacart](#) will be a big winner. Anyone like [Grubhub \[Inc./GRUB\]](#) in food delivery will do well. Storage companies that can urbanize and don’t depend on labor also will be winners.”
- “Unsophisticated grocery and storage companies will be losers.”

There will be an increase in online grocery sales and Amazon Fresh sales. Grocery stores that offer online shopping and home delivery will be the winners.

*Nick Pacitti, business development leader at Tippmann Innovation, which designs and builds cold storage facilities*

Dec. 18, 2019. Americold report summary: Americold can definitely continue to grow. The cold storage market is going gangbusters. Investors are so hot on the sector that they are flipping new facilities before they even open. The quest for the last mile is the main driver—and online grocery shopping is part of it, too. Americold benefits from its size, excellent facility locations, reach, and experience. But that size can be a weakness, too, making the company less nimble. Americold and Lineage are successfully consolidating the industry.

# Grocery Supply Chain

## 3) Food/Ingredient Suppliers

All four sources said their orders have increased in the last month, with one saying they are tens of millions of dollars ahead of where they normally are and another saying orders are currently ten times higher than normal. A third source said the frozen food side of their business is on the upswing, as manufacturers are purchasing the products for retail. These sources said they have not seen any major disruption in their supply chain— it has been more muted with delays and inconveniences, rather than catastrophes. One source said freight prices are beginning to climb, including a doubling of price in New York and New Jersey as drivers try to avoid these hotspot areas. Labor shortages are feared as workers stay home with their children as schools close. Single-sourcing will give way to dual-sourcing as manufacturers look for more backup suppliers. Retailers can take SKUs out as they see which items are not selling, becoming more efficient and improving margins. Grocery stores that deliver, like Amazon and Walmart, will emerge as winners, as will trucking and logistics companies who are now more highly valued.

### Key Silo Findings

#### Current State of Grocery Supply Chain

- 4 of 4 are seeing an increase in orders
  - o 1 said sales are up by tens of millions of dollars compared to normal.
  - o 1 said orders are ten times normal.
  - o 1 said frozen foods are seeing an uptick as they get purchased by manufacturers for use in products for retail.
- Disruption appears to be muted—delays and inconveniences are prevalent, but nothing terrible.
- 1 said freight prices are beginning to climb.
  - o Loads to New York and New Jersey are doubling in price because no one wants to drive there.
- 1 added backup suppliers a year ago after a natural disaster and has not seen production disrupted as a result.
- 1 said some distributors are asking them to load their trucks and deliver to stores to help out.
- 1 said sales of their fresh products for foodservice are down 60% to 70%.
- 2 raised concern about labor shortages with workers staying home to care for children after school closures.

#### Recovery Expectations

- 2 expect it to take three months before the recovery begins.
- 1 said four to six weeks.
- Single-sourcing will give way to dual-sourcing as manufacturers look for more backup suppliers.
- Retailers can take SKUs out as they see the items that are not selling now.
  - o Customers will care less about brands and labels when this is over.
- Customers want extended payment terms and many will be out of business in six to 12 months.
- 1 expects business disruption insurance to be in demand.

#### Winners/Losers

- 1 expects trucking companies and logistics companies to benefit, as they are viewed as more essential now.
- 1 said grocery companies that deliver—like Amazon and Walmart—will be winners.
- Big players with multiple brands will survive better than small private manufacturers.
- Shelf-stable and healthy products will win.

## 1) Supply chain executive for food manufacturer, repeat source—Monday, March 23

The coronavirus has created a surge in demand for these products, boosting their sales by tens of millions of dollars compared to last year. The company experienced a natural disaster at a facility last year which prompted it to add backups to the supply chain, so it is now in good shape to meet increased demand. The company is not seeing any disruptions. Long term, other companies might become aware, too, that it is important to have multiple sourcing strategies, which provides more flexibility at a time of crisis. He expects logistics companies like [C.H. Robinson Worldwide Inc.](#) (CHRW) to be the winners. Truck drivers are working extremely long hours because of the great demand. The losers are likely to be consumer packaged goods (CPG) companies that work with imports, such as pasta from countries like Italy, whose products are extremely delayed now because of overseas freight transportation issues.

# Grocery Supply Chain

## Current State of Grocery Supply Chain

- “The only thing we are seeing is increased demand. Our sales are up by tens of millions of dollars more than where we normally are. We are one of the panic buy products, even though we wish this kind of panic would never happen. We do a lot of business with FEMA and K-12 lunches, and our products fit the bill also for when people want to stock up in retail, so there’s a lot of demand.”
- “We are able to keep up with demand because we added a lot of backups last year because of a natural disaster that affected one of our facilities. We were prepared for this now because the deals were in place already from last year.”
- “Internally, we’ve made some adjustments by redeploying people to where they’re needed most because of the increased demand.”
- “We haven’t been impacted with any shipping issues, but we find ourselves in a situation where a few of our distributors have asked us for help with putting some of their things on our trucks to deliver to stores.”

## Recovery Expectations

- “Long term, I imagine we will see a lot of companies doing what we did in 2019: getting more backup suppliers. A lot of the industry went to single-source in the last few years because of better contracts and costs. I think we’ll be seeing some supply chains getting away from that and doing more dual-sourcing.”
- “We did it because of a natural disaster but I think a lot of people will want to ramp up their fire power now because of the coronavirus crisis. Because of that disaster, we’re now tapping into everything we were able to add last year.”

## Winners/Losers

- “I think shipping companies like C.H. Robinson are going to be the winners. Drivers, who have been in scarce supply, are working a lot of hours right now but it’s helping put the focus on the supply chain. I think many people are realizing how important they are. I hope there will be some legislation to help out that industry. People are realizing they need to have local options and backups to take care of this. The transportation and logistics industries are going to be winners.”
- “The losers are people working in the CPG industry. This is especially the case with imported food. For example, Italian imports like pasta are being held up because the air freight is so jammed up that they have to ship by boat, causing long delays. This comes at a time when there is a surge in demand for CPG products. So they will be losers in this.”

Long term, I imagine we will see a lot of companies doing what we did in 2019: getting more backup suppliers. A lot of the industry went to single-source in the last few years because of better contracts and costs. I think we’ll be seeing some supply chains getting away from that and doing more dual-sourcing.

*Supply chain executive for food manufacturer*

Dec. 18, 2019, Americold report summary: Americold will keep consolidating and growing because of increasing consumer demand for fresh food. Americold’s strength is its strong network of facilities but its weakness is a lack of facilities in the areas near the Rocky Mountains. It will probably continue buying up small operations and when it run out of those, it will focus on greenfield development. Large food producers could look to build their own cold storage warehouse because of the high prices of the industry—and many already do. Americold will have to execute well, build up its client list, and remain competitive in terms of price. Customers will prefer fixed agreements because they provide better service; however, staffing at this time is likely to be an issue because of low unemployment.

## 2) Executive at a major private label food manufacturer; repeat source—Tuesday, March 24

Grocery store demand for his company’s products is soaring. Rising freight prices are an issue. The cost of sending food to New York and New Jersey has doubled. The disruption is likely to last another two to three months, but the effect will be permanent. Consumers have not cared what brands they have bought over the past two weeks—that shows retailers and manufacturers can eliminate SKUs, improving their profit margins. Amazon and Walmart will come out on top, thanks to their delivery prowess.

## Current State of Grocery Supply Chain

- “Purchasing orders from our customer base [grocery, dollar, and drugstores] has been overwhelming. Our volume is growing through the roof.”

# Grocery Supply Chain

- “We’re starting to see freight issues: prices are going up. Loads into New York and New Jersey are doubling in cost, because drivers don’t want to go there. So, yes, the supply chain has been disrupted.”
- “Every one of our customer orders is 10 times normal. We’ve been fortunate on raw materials. If we could get consumers to relax and buy normally at groceries, everything would be fine. But panic brings panic. Each day is getting a little better, but it’s far from over. The supply chain is stressed for everyone.”

## Recovery Expectations

- “This probably won’t let up for 60 to 90 days. We aren’t even close to the middle of the course for this virus.”
- “I think the impact is permanent. Walmart reduced its SKUs for national brands eight or nine years ago, and consumers didn’t like it. But I bet 90% of people didn’t care at all about what brand they bought over the last two weeks. They just wanted that macaroni and cheese or whatever.”
- “Retailers and manufacturers have an opportunity to improve margins and efficiency by taking SKUs out of the system and still sell the same amount of products. Retailers can look at eliminating items that aren’t being sold now.”

## Winners/Losers

- “Amazon and Walmart will come out on top because they can deliver to people’s homes. Walmart has the brick-and-mortar for pickup, which Amazon is desperately searching for. Groceries that don’t have good online delivery in place may suffer.”

Nov. 26, 2019, Hain report summary: He has not seen much sign of change yet. Hain needs to figure out what its focus is and stick to it. The company is still spread too thin. It is too early to tell whether the rationalization will succeed. Expanding into plant-based proteins is a good idea; the same is true with tea. Yogurt is a difficult segment, but there is opportunity in snacks. Hain would be wise to purchase up-and-coming brands rather than launching its own.

**We’re starting to see freight issues: prices are going up. Loads into New York and New Jersey are doubling in cost, because drivers don’t want to go there. So, yes, the supply chain has been disrupted.**

*Executive at a major private label food manufacturer*

### 3) Sales executive for frozen produce with California grower; repeat source—Monday, March 23

This grower has seen huge disruption in its fresh produce business going to foodservice, which is about 60% to 70% of its fresh business. The frozen business is unaffected because little goes to foodservice. It is even seeing a spike when it is intended for retail. There have been no issues with trucks and warehouses. The winners will be the large labels that have a diversity of brands. They will take a hit, but will be able to survive. The losers will be the small private food manufacturers, of which there are many, because they will not be able to make it through the crisis.

#### Current State of Grocery Supply Chain

- “People are working from home and, in production, we now made adjustments so that we have groups of less than 10 people working together. We’ve only had to make slight adjustments to what we do normally. Also, we are considered an essential business because we grow produce. We are continuing operations on both the fresh and frozen side.”
- “On our finished products, the frozen business is continuing normally and there’s been even a slight uptick. A lot of our frozen items are going out as ingredients in manufacturing facilities and they ultimately go to retail. In fact, we’re seeing a spike in movement in anything that gets packed for retail. The grocery stores are just trying to keep up.”
- “On the foodservice side, it’s going the other way because all the restaurants and bars are closed. Only about 5% of our frozen business goes to foodservice, but 60% to 70% of our fresh category goes to foodservice. That’s almost come to a stop. We cut down line time significantly. We’re only packing for our retail customers. Luckily for us, we’re not only packing fresh. We’re also packing frozen and we can continue doing that.”
- “As of right now, I haven’t seen any issues with trucks and warehouses. They are considered an essential business and they are operating as normal.”
- “In terms of our crops, they are machine harvested. There are other crops, however, that require labor and that could be an issue if there’s a labor shortage.”

# Grocery Supply Chain

## Recovery Expectations

- “I don’t expect any significant changes to this situation in the next four to six weeks.”
- “Short term, I expect customers to look for extended payment terms, especially the ones who are reselling to foodservice distributors or who are foodservice distributors because they are not getting paid by their end users.”
- “Longer term, I expect in the next six to 12 months many will go out of business. There are going to be losses. I don’t see how smaller businesses are going to be able to jump back after this.”

## Winners/Losers

- “The winners will be the bigger players, the ones who have multiple brands and diversity, with dry ingredients and frozen ingredients. Basically, the labels. They probably will take a hit like everybody else but they’ll be able to make it through long term.”
- “The losers will be the smaller private food manufacturers—and there are many of them. I don’t see how they will be able to keep up to make it through.”

Dec. 18, 2019. Americold report summary: Americold can execute its growth strategies because of its primary strength—its knowledge of the industry and frozen food commodities. It can also continue to grow as long as demand continues. Frozen vegetables and fruit have been driving cold storage growth for about 25 years and the increased popularity of plant-based diets are adding to growth. Poor communications with customers is Americold’s principal weakness and the company could improve on this by creating more of a live system about daily shipments. Capacity can be an issue at certain time times of the year and in certain locations. Americold and Lineage are similar in terms of service and are the two main competitors. He rates Americold a 6 out of 10 but points out that there is a lot of variation between facilities. Over the years, he has worked with many Americold facilities he would rate at 7 or 8 out of 10. Consolidation in the industry and resulting high prices is a long-term concern for customers who could find themselves dealing with two monopolies: Americold and Lineage. Americold is already at the higher end of the pricing range and just announced a 3% price increase for 2020 for the locations this producer uses in California. Other cold storage facilities have not followed. High taxes and high energy costs are causing pricing pressure in California.

The frozen business is continuing normally and there’s been even a slight uptick. A lot of our frozen items are going out as ingredients in manufacturing facilities and they ultimately go to retail. ... 60% to 70% of our fresh category goes to foodservice. That’s almost come to a stop.

*Sales executive for frozen produce with California grower*

## 4) Executive at a nutritious bar maker; repeat source—Monday, March 23

Groceries are thriving, with heavy demand. The supply chain is moving with less speed because workers are unable to get to their jobs. But that is slowing the supply chain more than disrupting it. He thinks the crisis will last for about three more months, wreaking havoc on the food business, as many businesses will go under. Health food companies should benefit as consumers gravitate to health and wellness.

## Current State of Grocery Supply Chain

- “Groceries are doing quite well because of panic buying. Our clients’ brands are seeing an increase in sales.”
- “On the supply chain, we’re seeing some components moving more slowly because of labor issues. People are calling in sick or have kids who aren’t in school and they can’t find childcare.”
- “That’s creating a shortage of operators for making packaging and ingredients. A few of our suppliers have shut down. It hasn’t affected us, because we’re usually stocked with six to eight weeks of supplies.”
- “It’s hard to quantify how grocery supplies are being hit. We are seeing delays. The smoothness of production has been affected. But I’m not hearing about a tremendous amount of disruption. A friend of mine who does produce for grocery stores says it’s business as usual. Things are getting through. They’re just slightly delayed, and that will happen more.”

On the supply chain, we’re seeing some components moving more slowly because of labor issues. People are calling in sick or have kids who aren’t in school and they can’t find childcare. ... That’s creating a shortage of operators for making packaging and ingredients. A few of our suppliers have shut down.

*Executive at a nutritious bar maker*

# Grocery Supply Chain

## Recovery Expectations

- “I think this will probably go on for 12 more weeks. It will cause a lot of damage. Businesses will go under, there will be bad debt and unemployment. The Natural Product Expo scheduled for March was cancelled, and that’s how small brands get in front of retailers.”
- “I think people will jump all over business disruption insurance after this, and insurance companies will make a fortune. We have that insurance, but it won’t cover this. I don’t know anyone who’s covered for a pandemic.”

## Winners/Losers

- “The winners will be shelf-stable products, such as healthy foods. People are focusing on boosting their immune systems—health and wellness—but people will buy junk foods as well.”
- “Food companies that do domestic packaging rather than in China will benefit. People using supply chains in China are getting hit really hard. Its supply chain went down before the U.S. got hit. Local suppliers will do better than international in the wake of the pandemic.”

Nov. 26, 2019, Hain report summary: There is a trend toward smaller manufacturers of health food moving into niches. Hain should develop relationships with these producers, having them create new brands for the company. Hain can even buy small manufacturers, giving it effective niche brands.

June 21, 2019, Kraft Heinz report summary: Cutting innovation was the main problem for Kraft Heinz, and the solution is for the company to team up with small, nimble manufacturers that can alert the company to market trends and make the products that can be part of those trends. Kraft Heinz needs to become more a part of the manufacturing process and must bulk up its online presence. It also should narrowly target market segments, including healthy foods.

## 4) Industry Specialists

Both sources said the supply chain is not broken, but it is not adapted for the unexpected surge in demand that is keeping shelves from being fully stocked because of product shortages. Supply chain was streamlined to avoid situations of oversupply and move to just-in-time delivery, which is hurting the situation now. Computers do all the ordering but they could not anticipate today’s needs and humans are, most of the time, not able to override the computer for ordering, exacerbating the problem when customers started panic buying. Grocery retailers will all be winners, some more than others. One source said sales are up 40% to 50% for everyone, with Costco, Walmart, and Target the biggest winners because they are the places customers go to stock up on items. Labor shortages are the biggest concern now, including for Amazon, where its fulfillment centers are getting overwhelmed, in part because of being short staffed.

## Key Silo Findings

### Current State of Grocery Supply Chain

- 2 said there are not any major concerns within the supply chain but, rather, it is the surge in demand and drop in manpower that is hurting product availability and keeping shelves from remaining fully stocked.
- The industry successfully streamlined supply chain to avoid situations of oversupply, moving to a near just-in-time system—but that system was not made to withstand the current conditions.
  - o Computers do all the ordering but could not anticipate today’s needs.
  - o Humans cannot override the computer for ordering.
- 1 said sales would be higher than they already are if the system could get more products on shelves.

### Recovery Expectations

- 1 said the next few months will be tricky but it will be fine long term.

### Winners/Losers

- Grocery retailers will be the big winners in 2020.
- 1 said sales in the channel are up 40% to 50% for everyone.
- B2B sales are down, which will hurt UPS Inc. (UPS) and FedEx Corp. (FDX) who do not do as much B2C deliveries.
- Costco, Walmart, Target will be winners because this is where customers go to stock up, based on their low prices and larger quantities.
- Amazon will also be a winner, but it is overwhelmed right now with labor shortages.

# Grocery Supply Chain

## 1) Neil Stern, Senior Partner, McMillan Doolittle; repeat source—Monday, March 23

Grocery stores have been disrupted because the surge in demand is overwhelming product availability. The supply chain has taken out most inefficiencies, with just-in-time delivery, and now computerized supply chain systems are unable to adapt to the unprecedented surge and order increased manufacturing. Many stores cannot override the automatic supply chain manually. It will take a couple of months for the supply chain to adapt. The winners will be grocers where people naturally want to stock up, like Costco, Walmart, and Target. There will not be losers among grocery stores, but smaller stores like [Sprouts Farmers Markets Inc.](#) (SFM) will not benefit from the surge. Brick-and-mortar local stores are also benefitting from the situation because of the sense of community that has been created in people.

### Current State of Grocery Supply Chain

- “By and large there haven’t been huge issues in the supply chain itself. The issue is in the surge in the supply chain. Consumer demands are overwhelming product availability.”
- “It’s not an issue of no product but the product not being at the right place. It could be at the manufacturer or at the distribution center and, at the retail store, it’s being consumed at a much higher velocity than typical.”
- “Manufacturers are ramping up capacity, too, but the problem is in the shelves.”
- “The irony is that the industry has been working for the past decade to streamline the supply chain and take out inefficiencies that would create an oversupply of the product at any step of the way—the shelves, the back room, retailer or wholesaler distribution center, or the manufacturer.”
- “We’ve managed to get it as close as possible to just-in-time delivery. That’s great for the industry, except when you have an unexpected surge, like what we’re experiencing now.”
- “It’s like when we have a storm. But we haven’t seen this kind of sustained demand ever.”

### Recovery Expectations

- “It can recover pretty quickly. It’s about ramping up capacity. It’s not about product coming from China that would take several months to arrive by boat or product that can’t be made because we’re missing a critical part or component. Those supply chain shortages are more difficult to recover from.”
- “As an example, in this case we can make more toilet paper because there’s no shortage of raw materials. It takes a while, though, to ramp up production on that end. On the retailer side, a challenge with process is that we grew very heavily to computer-generated ordering. The orders are placed by the systems instead of humans.”
- “The systems are good and efficient, but they have a hard time with a historical and unanticipated surge. The computer doesn’t know how to handle it because it’s never seen it before. A lot of companies don’t have that ability to override this by humans. The store manager can see what’s happening but they don’t have the authority or the tools to override the system.”
- “It’s a challenge to the whole system. The just-in-time world is set up to help the manufacturer understand how much it should produce. If the orders are less than demand, the manufacturer is not going to increase supplies fast enough.”
- “Short term, even though grocery store sales are significantly up, they could have been up even more if they had the product that consumers are looking for.”
- “Long term, the industry will be fine. They have the ability to adjust. It’s going to be tricky for the next couple of months and, also, we don’t know how long this is going to go on.”
- “Again, taking the example of toilet paper, consumers are doing a lot of forward buying. They’re not using more toilet paper than before but they own a lot more. Toilet paper sales are probably going to be up by 100% in March and they can be down 80% in May because we won’t need any more. These blips in the system will take a while to iron out.”
- “We can reasonably project that, in a month or so, there’ll be more toilet paper in the system than we will ever need. We’ll have ended up overproducing.”

On the retailer side, a challenge with process is that we grew very heavily to computer-generated ordering. The orders are placed by the systems instead of humans. ... The computer doesn’t know how to handle it because it’s never seen it before. A lot of companies don’t have that ability to override this by humans. The store manager can see what’s happening but they don’t have the authority or the tools to override the system.

Neil Stern, Senior Partner, McMillan Doolittle

# Grocery Supply Chain

- “The computers will learn, also, for the next time this happens. If the virus comes back next year, the computers will know what happened the last time and will order more in advance. They will have a history to work with.”

## Winners/Losers

- “In retail, the winners are places where people naturally think of more stock-up buying, like Costco, Walmart, and Target. They will benefit from their prices and being the places that people think of to stock up.”
- “There won’t be losers in the retail food world but there might be companies that are not winning as big, maybe like Sprouts, whose business is based on fresh produce. People will consider it less for stocking up.”
- “Right now, though, everybody in the home and food business, any supermarket food retailer, is winning. The losers are restaurants that can’t be open right now.”
- “Brick-and-mortar retailers are winning because they’re still open and they’re reliable providers of food. They have a pretty good supply chain in place. That doesn’t mean ecommerce is not winning also. But there’s a community feeling because people are at home and the local stores are winning. I’m not sure, though, if it will last forever. It’s a byproduct right now.”

June 21, 2019, Kraft Heinz report summary: To turn Kraft Heinz around, the new management team will have to invest in innovations and stabilize and revitalize the company’s core products. It can be done, but it will be a difficult task because many of the older products are stagnant. It will take at least 12 to 18 months before Kraft Heinz sees traction. The company has many areas to explore to jumpstart the process, including acquisitions, brand divestiture, personnel to improve trade relationships, private-label expansion, more marketing, and price cutting. Kraft Heinz is not alone among CPG companies in looking to develop an ecommerce strategy. This will most likely be done through a partnership.

## 2) Marc Wulfraat, president of [MWPVL International](#), a supply chain and logistics consulting firm; repeat source—Monday, March 23

Disruptions have been caused by shortages in staffing and the unusual, large surge in demand. Staffing issues may be resolved as those from the restaurant services industry who were laid off begin filling the shortages in retail. The grocery industry will be the winner. Already, groceries are seeing 40% to 50% increases in volume compared to usual volumes. Delivery services such as UPS and FedEx, however, may suffer even with the surge of business-to-consumer (B2C) orders because most of their business is usually business-to-business (B2B), which has fallen off with businesses closed. Amazon may not be a winner because it is struggling with challenges due to staffing and the fear of the coronavirus taking out one or more of its warehouses. Local brick-and-mortar stores rely on a supply chain that has been developed over one hundred years, while the ecommerce supply chain is not as mature and has been quickly overwhelmed.

## Current State of Grocery Supply Chain

- “The disruption we’ve been hearing about is temporary, caused by panic and hoarding.”
- “Last weekend when people realized it was serious, they rushed to the stores and stocked up. But at the end of a 365-day cycle, we still consume the same amount of food as always. We’ve just put a tremendous demand surge at a point in time that was unexpected. It’s going to be tough for a short period of time. If the difficulty is prolonged, it’s not because of a continued surge in demand but because of a shortage in manpower.”
- “The machine is built to support an anticipated and steady throughput volume. Large surges in demand combined with a drop-off in the available manpower creates a problem.”
- “There has been a drop-off in manpower that’s difficult to quantify but we can see all the major retailers scrambling to find people to come to work. That’s how we know it’s bad out there. Walmart, Amazon, Target rely on low-cost labor and right now they’re scrambling.”
- “We have manpower shortages, primarily in retail grocery and retail pharmacy, and that’s impacting the supply chain more than anything else.”
- “People either can’t go to work because they have to stay home to take care of their kids who can’t go to school, or they don’t want to work because it’s not worth it in case they get sick.”

## Recovery Expectations

- “There also has been a large impact on the services industry, with restaurants closed. There’s a hope that a lot of those people will take jobs in the retail sector, where they are needed. Amazon and Walmart are searching for hundreds of thousands to hire.”
- “Total lockdown is inevitable. We’re headed to what we see happening in Italy and France right now. They are under total lockdown. We’re in for very challenging times.”



# Grocery Supply Chain

## Winners/Losers

- “Everybody in the grocery industry is coming out of this a winner, at least in 2020. People still have to eat and, if they’re not going to restaurants, it means they have to buy more groceries. The volumes are up at all the grocery retailers—40% to 50% increases in volume compared to what they usually do. They are struggling to get the shelves restocked. Retailers selling food and pharmaceuticals will have a great year if they can get the manpower to do the work.”
- “In delivery, too, they’re struggling to get manpower.”
- “However, B2B volumes are way down because businesses aren’t shipping because of the shut-downs. B2C volumes are up, but companies like UPS and FedEx rely heavily on B2B volumes, more so than B2C. Even though people are buying more online, it’s not a big part of their business. The net effect, I believe, could be that their volumes are down overall.”
- “One would think Amazon is going to be a winner coming out of this. The market expects that, too. But the labor shortage there, even with their offer of \$2.00 an hour more and double overtime, is probably happening because their people are not showing up. They are having real challenges getting the product out the door. They’ve had to temporarily cut back on Amazon Pantry and they stopped shipping non-essential products. In the U.S., their focus is on essentials, so they’re slowing down non-essential product shipments. These things tell me they are having a big problem with their staffing. They’re going to get hurt coming out of this. Even at their fulfillment centers, if people start getting sick, they have to shut the whole building down. That’s their cash register and that’s what they would have to shut down. If they have to shut some down, the question then becomes if Amazon is an essential service. It’s hard to avoid the cases because of the sheer number of people working under one roof.”
- “The local grocery supplier is being replenished by a mature distribution system that has been in place for 100 years. Their distribution centers move pallets of products every single day. The systems born out of ecommerce are not mature nationwide systems moving massive volumes of product in the same way as the traditional supermarket channel.”
- “It’s not a coincidence that Amazon’s Pantry side of the business shut down immediately because it was overwhelmed. It was not invented for large volumes of nationwide food distribution. That’s why, in these tough times of the virus hitting, it’s the traditional supermarket that is there for you.”

Everybody in the grocery industry is coming out of this a winner, at least in 2020. ... The volumes are up at all the grocery retailers—40% to 50% increases in volume compared to what they usually do. They are struggling to get the shelves restocked. Retailers selling food and pharmaceuticals will have a great year if they can get the manpower to do the work.

*Marc Wulfraat, president of MWPL International, a supply chain and logistics consulting firm*

[Sep. 28, 2017, Kellogg report](#) summary: Some grocery retailers are themselves evaluating increasing self-distribution for slow-moving and specialty items in a system that has survived because it allowed manufacturers to maintain control of the retail shelf. In-stock levels are worse for direct-store delivery merchandise and can hurt retailers. Snack and beverage companies, however, are unlikely to transition because their products move too fast. Kellogg’s decision to exit direct-store delivery indicates that it has calculated massive supply chain cost savings. The brands that Kellogg is shifting to direct-store delivery are popular, and store managers will make sure they are well stocked. The price negotiations between Kellogg and retailers likely resulted in a 50/50 split of the savings. At least two years will pass before the change’s economic effect can be determined.

## Secondary Sources

These five sources focused on grocery stores navigating their new world with the coronavirus, from distribution partnerships to hiring thousands of workers to deal with surging demand to having to protect those workers from becoming ill.

### March 26 Abasto.com [article](#)

The National Grocers Association has partnered with the United Fresh Produce Association for better product distribution because of disruption due to the coronavirus.

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- “The National Grocers Association (NGA), the trade association representing the independent supermarket and the United Fresh Produce Association have partnered to connect produce distributors to retailers as a result of the coronavirus crisis.”
- “The entire food industry has come together incredibly during the Coronavirus (COVID-19) outbreak, ensuring that Americans across the country have access to affordable and nutritious food,” said Greg Ferrara, NGA president, and CEO. “Our collaboration with United Fresh will improve upon what has already been accomplished, keeping independent grocers stocked with fresh produce.”
- “NGA and United Fresh are connecting produce distributors who can deliver fresh produce and other items with independent supermarkets on a store-door basis. United Fresh and NGA will work with companies to assess their retail needs, as well as foodservice distribution communities and provide an opportunity for companies to network on business solutions.”
- “The fresh produce industry is committed to continuing to feed America. Foodservice distributors and processors have strong capabilities to deliver product, transportation and supply chain solutions in these unprecedented times,” said Tom Stenzel, United Fresh president, and CEO. “We’re pleased to partner with NGA, working in tandem to get more fresh, healthy produce items in the hands of consumers.”
- “United Fresh also created industry and consumer resource page to help address commonly asked questions and provide resources that can help keep business and consumers informed.”
- “Among the resources available on the United Fresh web page, they have information about the importance of produce sellers keep their rights under the Perishable Agricultural Commodities Act (PACA) Trust and to be careful to not inadvertently waive their rights under the PACA Trust.”
- “Do you want to be sure which workers are included on the list of essential personnel who can go out to work when cities and states order all their citizens to stay indoors as part of the measures to contain the coronavirus?”
- “United Fresh’s Coronavirus Resources page provides that information and offers a form letter for businesses in the agriculture and food industry to fill out with their employee information so that they can travel and present it to authorities if necessary.”
- “The produce organization also offer guidance for people traveling to work in the United States, for example, people working in the agricultural or livestock industry who must travel between the United States and Mexico to perform those tasks; on access to H-2A visas for workers, and transportation of agricultural products, among others.”

## March 19 *The Wall Street Journal* [article](#)

Food supplies are fine, even as demand surges, but getting it to the right place is proving to be a significant challenge.

- “You wouldn’t know it from the bare grocery store shelves across the country, but America has plenty of food. The challenge is getting it from the farm to your table.”
- “Companies that supply meat, vegetables and other staples are struggling to redirect the nation’s sprawling food supply chain to meet a surge in demand caused by the coronavirus pandemic.”
- “Restaurant closures and shoppers’ rush to stock their pantries are forcing the agriculture industry to boost production, hire new employees and set up “war rooms” to keep grocery stores stocked.”
- “It is in fact unprecedented, the type of growth we’ve seen,” said Noel White, chief executive of Tyson Foods Inc., describing the demand from supermarkets needing to refill shelves.”
- “Still, he said, “the food supply is sufficient.”
- “To meet demand, processing plants are churning out more supermarket-ready packs of chicken breasts, pork chops and salad greens while companies build volunteer teams to deploy across facilities if workers fall ill.”
- “Companies’ plans include cross-training employees to do various tasks; monitoring possible disruptions to the H-2A visa program used to import agricultural workers; and talking with hospitals and churches about setting up child-care options for workers if schools close.”
- “Arkansas-based Tyson, the biggest U.S. meat supplier by sales, had employees working through the weekend to ship chicken, beef and other products to grocery stores, Mr. White said. Tyson switched some of its processing lines to make more shrink-wrapped meat and other store-ready products, while scaling back meat production for restaurants.”
- “Sanderson Farms Inc., a Mississippi-based poultry company, said it ran extra shifts last weekend in its five plants that produce meat for supermarkets and will add more this weekend.”

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- “In coming weeks, Sanderson could convert two plants handling mainly restaurant chicken to produce for grocery stores. That would involve cutting larger carcasses typically bound for restaurants and cafeterias into smaller pieces, and bringing in more labels and trays to package them, industry executives said.”
- “Consumers’ clamor to stock up is boosting poultry prices. Per-pound prices for boneless chicken breasts are up 30% since the start of March, according to commodity market-research firm Urner Barry.”
- “In California’s Salinas Valley, Taylor Farms, a giant supplier of fresh vegetables and salad, has designated a conference room with white boards for walls as its war room. There, chief executive Bruce Taylor and a team have been mapping out how to quickly move raw produce grown on thousands of acres across North America through the company’s 16 processing facilities and onto store shelves.”
- “‘It’s a crazy puzzle,’ Mr. Taylor said. ‘This is war.’”
- “Plans include major shifts for plants such as one in Yuma, Ariz., that typically processes 15 million pounds of fresh-cut vegetables a week into 5-pound bags for food-service customers like Taco Bell Corp. or McDonald’s Corp.”
- “With restaurant traffic slashed, employees are prepping smaller bags of vegetables or mixing them into salad blends for retailers such as Costco Wholesale Corp. To meet demand, four of Taylor Farms’ largest retail-gearred plants also ran overtime last week and two did on Sunday.”
- “Last week, Taylor had to quickly truck packaging and equipment to Yuma in order to send vegetables to grocers in their usual plastic clamshell boxes, and it had to reroute the company’s hired trucking fleet to accommodate a roughly 25% surge in retail demand.”
- “At Minnesota-based Cargill Inc., one of the biggest U.S. suppliers of ground beef, frozen turkey and cooked eggs, grocery chains’ orders surged over the last week as consumers stocked up, according to Ruth Kimmelshue, supply-chain head. Cargill maintains weeks’ worth of supplies of products such as deli meat, frozen turkeys and frozen eggs in cold storage, providing a buffer, she said.”
- “The company has barred visitors from U.S. plants, is checking workers’ temperatures and is asking truckers to stay in their vehicles when making deliveries or pickups. In some plants, Cargill is stationing workers farther apart or spreading employees across multiple shifts.”
- “The Food and Drug Administration says there is no evidence that food or food packaging has transmitted the coronavirus.”

## March 16 *San Francisco Chronicle* [article](#)

Safeway is hiring more than 2,000 workers because of increased demand due to coronavirus.

- “If you’re out of work and need a job during the COVID-19 outbreak, Safeway is immediately hiring more than 2,000 workers as shoppers strip aisles to stock up for staying home. Most of the openings are available at more than 165 Bay Area locations, the company said.”
- “Stores include Safeway, Andronico’s, Vons and Pak ‘N Save. Positions include deli, meat, bakery, produce, fuel stations and customer service departments, cashier or clerk. In-store employees receive paid training, flexible scheduling, employee discounts, benefits and paid vacation and holidays.”
- “Safeway is also hiring for full-time and part-time delivery drivers with paid training (no commercial driver’s license required) and other benefits.”
- “Raley’s, the Sacramento grocery chain, is also hiring at 18 locations in California for its delivery service. ‘If your income has been impacted due to current events or if you’re looking for part time work, Raley’s has opportunities for you to earn an income and serve our communities,’ the company said on a LinkedIn job posting, where you can apply.”
- “Another company ramping up hiring is Amazon: The Seattle giant said Monday that it needs to hire 100,000 people across the U.S. to keep up with a crush of orders as the coronavirus spreads and keeps people at home, shopping online.”
- “Amazon said it will also raise pay by \$2 an hour through the end of April for hourly employees. That includes workers at its warehouses, delivery centers and Whole Foods grocery stores, all of whom make at least \$15 an hour. Employees in the United Kingdom and other European countries will get a similar raise.”

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## March 23 *San Francisco Chronicle* [article](#)

Safeway reached an agreement with its workers' union for a pay raise and more protections during coronavirus.

- "Safeway has reached an agreement with a union representing Northern California workers to increase their pay, hours and sanitation."
- "The contract, viewed by The Chronicle, says that Safeway and United Food and Commercial Workers Local 5 reached an agreement 'arising from the extraordinary challenges resulting from the COVID-19 pandemic temporarily impacting the grocery industry,' referring to the disease caused by the coronavirus."
- "'Local 5 members are working around the clock to assure that families have the food and supplies they need. Along with health care workers they are truly first responders during this growing crisis,' union President John Nunes said in a news release Monday."
- "Albertsons Companies, the nationwide grocery chain that owns Safeway, pledged to give a \$2-an-hour pay raise to California grocery workers at Safeway, Vons, Albertsons and Pavilions stores. Safeway will also pay workers up to two weeks if they are diagnosed with COVID-19 or are told by a doctor to quarantine or self-isolate. Employees 65 or over who choose to self-isolate will be able to use accrued sick or vacation time."
- "The grocery chain promised to practice social distancing, sanitize throughout stores, suspend in-store product demonstrations and self-service bars, and encourage online ordering. It will also continue current plans to install hard plastic shields in all checkstands to protect employees."

## March 26 *San Francisco Chronicle* [article](#)

Local corner markets are becoming essential for neighborhood communities in need of food because of shelter-in-place rules and supermarkets low on supplies.

- "While many large grocery chains around the Bay Area struggle to keep shelves stocked and enforce social distancing requirements in an effort to stave off the coronavirus pandemic, neighborhood corner stores have become more vital than ever."
- "Despite the shelter-in-place mandates that have canceled events and closed schools and offices throughout Northern California, smaller markets remain open as essential services because people still need food."
- "That has provided a boon for many of the mom-and-pop shops in San Francisco and beyond, but also brought up some unforeseen challenges for the people who run them, from keeping enough inventory on hand to mitigating the risks associated with the spread of COVID-19, the disease caused by the coronavirus."
- "'Ever since the announcement of the shelter in place, I would say business has gone up twofold,' said Philippe Newman, an employee at Park Presidio Liquors at California and Sixth streets in San Francisco's Inner Richmond neighborhood."
- "Although the small corner store's shelves remain well stocked with pantry essentials such as canned soups, baking ingredients, alcohol, pasta and bread, Newman said it isn't easy keeping up with the surging demand as people opt to stay close to home rather than risk infection by venturing into packed chain stores like Trader Joe's and Whole Foods."
- "Ron 'Nani' Friedman, the owner of Park Presidio Liquors, makes up to three trips a day to the store's supply warehouses to keep the store from running out of in-demand products."
- "'I think what we're seeing here is a situation where people are doing their full assortment of grocery shopping in the corner store,' Newman said."
- "In San Francisco alone, there are approximately 1,000 independently owned neighborhood convenience stores, or bodegas, according to a survey by Healthy Retail SF."

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Additional research by Eva Cahen and Dan Weil.

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