



Interview

Christoph Eltze CEO, REWE Digital

Question: What are the most interesting trends that you've observed within the grocery retail industry, particularly in the past 12 months?

Christoph Eltze: I believe that three trends have set the course for the upcoming years: a shift from offline to omnichannel or online, a new definition of convenience, and conscious consumption.

In 2020, the traditional grocery industry experienced an immense acceleration of the shift from offline to omnichannel or online, which was a strong push on the e-food business. We observe this trend in our traditional stores as well as in our online businesses. While our customers use more omnichannel services in our stores, like scan-and-go solutions, the demand for our click-and-collect and delivery services has heavily increased.

Second, you see a change in how people consume food. As more convenient ways to eat arise, a new definition of convenience emerges, meaning less traditional cooking at home and more ordering of meal kits and using food delivery services.

Third, we observe a trend that we call conscious consumption—a combination of health, nutrition, and sustainability in the consumption habits of our customers. Regional as well as organic products, such as our private label REWE Bio, are in high demand. Additionally, healthy nutrition enters consumers' minds. Our Nutri score scan helps consumers to understand

the ingredients they eat. We believe this consumer trend might be harmed slightly over the coming 18 to 24 months, as COVID-19 impacts incomes, but in the end will be stronger than the economic cycles caused by the global pandemic.

Question: How did your organization adapt to or utilize these trends?

Christoph Eltze: Let me focus on the first and likely the strongest shift in purchasing behavior over the past months: the shift from offline to omnichannel or online.

We have already been actively addressing this trend for years, introducing e-food services for our customers. Being the market leader in the e-food business in Germany, we had a very good starting point in the field of delivery services, click and collect, and parcel services and marketplace solutions. Thus, when COVID-19 hit us, we were well prepared for a change in shopping behavior.

Nevertheless, we had to accelerate our efforts in this area during the past 12 months. During the first lockdown, our e-food services experienced a significant increase in demand. Thus, to offer alternative safe shopping options to our customers, we needed to scale up significantly in a very short amount of time. While our e-commerce and fulfillment technology was able to scale, we experienced physical limitations similar to what we have seen across many e-food retailers: limitations in capacity due to physical factors such as number of trucks, warehouse capacity, and staff.

We tackled these bottlenecks by taking advantage of our existing-store network. In this manner, we doubled the number of stores that offer click-and-collect services within only a few weeks. For our e-food business, we tried out innovative last-mile delivery solutions and are going to expand our business in 2021.

Question: How would you describe the changing role of technology within REWE over the past couple of years?

Christoph Eltze: As a traditional food retailer, REWE has been focused on our customers, attractive stores, highly skilled staff, and high-quality products. IT was a supporting function for fulfilling these focus areas.

Today, we do not treat IT as a cost center anymore. We see it as a tool to tackle new challenges, to create new things, and to respond quicker to new circumstances such as COVID-19. This change requires a lot of rethinking of given structures and processes, which can sometimes be hard. But our efforts have paid off: our customers like our new technological offerings because they are convenient.

Besides improving our customers' shopping experience, our in-house technology development allows us to launch new business ventures. Leveraging our technological assets, we are able to offer software solutions to third parties. We recently founded a new company, fulfillmenttools, which operates as a software provider. It addresses one of the biggest challenges facing retail in Germany: omnichannel solutions for stationary stores, including in-store fulfillment. Looking ahead, I believe that advanced analytics and artificial intelligence will be behind the next big wave of technology hitting the retail industry. To surf this wave, you need to plant the seeds now: hiring talent and building an environment so they can flourish. In the end, it will still be people running advanced analytics and artificial intelligence—so you should not miss out on them.

Question: Looking back, what are the achievements that you're most proud of?

Christoph Eltze: There are many, but let me give you two examples of how one achievement led to another one. The first one is that we grew a very strong base in technology and analytics. Second, we leveraged this base—including developed tools, methodologies, and mindsets—to innovate throughout the company.

Thinking about the first achievement, we learned that a strong technological foundation requires a combination of talents, assets, and capabilities. That's exactly what we did while developing the IT infrastructure, the software, and the e-commerce and fulfillment tools, most of which were built in-house.

Once this foundation is laid, it opens up new opportunities in a broader sense. What started small—founding REWE Digital in 2014—has become our chance to transform how we do business throughout the enterprise. We are talking about new ways of working, agility, the culture of innovation, and the like. However, talking about it does not make it real. People need to experience the power of doing things differently. Only then, a true shift happens and a faster, more innovative risk-taking culture emerges.

Question: What are the things that you're doing to stimulate this culture of innovation?

Christoph Eltze: We are setting focus areas and building cross-functional teams around them. To make things work, a lot of senior management attention is required. Talking about tearing down silos does not help; you need to build the surroundings in which silos do not matter anymore. At the moment, we use technology-driven topics as a measure to actually bring those people together and let them learn from another.

Thinking about organizational setups to foster a change in culture, there are two options: you can either start where you are, meaning internally in your existing business, or you start from scratch. With the foundation of REWE Digital, the REWE Group decided to start from scratch,

creating a place for like-minded people who wanted to work differently than what was common in the corporate world. We have been able to create a unique company culture, fostering new ways of working and innovative thinking. At the same time, we never forgot where we are coming from—the traditional grocery business. This is crucial, as a digital unit can only be a vehicle for a broader organization if it is still connected to the core business. Only then can it unleash its full potential.

Question: What's next in terms of leveraging analytics in the business?

Christoph Eltze: In the past few years many retailers, including us, have experienced firsthand the power of analytics, receiving good results. Using analytics to optimize category management, like pricing and assortment management, has paid off. While this has been a first very good step toward a data- or analytics-driven organization, there is still more potential. Advanced analytics and AI hold the potential to improve every decision-making process across a variety of areas—for example, in predictive maintenance in logistics or financial and demand forecasting. To tackle those areas, it will be key to get a broader understanding of how analytics can be used off the beaten path.

Question: How would you expect the technology to evolve over the coming five to ten years?

Christoph Eltze: Technology in a broader sense will be the game changer across all industries, including retail. In this context, talking about technology includes IT, digital solutions, analytics, and the like. All of us need to embark on this journey, constantly looking ahead for the next big thing.

There's nothing wrong with starting this tech transformation with only a few elements. In retail, the majority of players have decided to initially focus on e-commerce. However, this is only the beginning. What we've seen and experienced over the past few years has only been the starting point to what will come. In that sense, we have uncovered a small fraction of the total potential impact. As new technologies emerge, it will always be hard to tell if a technology like the Internet of Things or computer vision does or does not have an impact on your business. Advanced analytics and AI create optimizations across the entire value chain. However, only time will tell the full power of new technologies.

Given that, we should ask ourselves how we best prepare to be part of the next big tech movement. I am talking about developing tech assets as well as capabilities: building a corporate culture, establishing new working methods, and having the right people will be the keys to success.