



POINTS OF SALE

PG'S ANNUAL DIALOGUE WITH RETAILERS ROUNDS UP A MEDLEY OF SPECIAL CONCERNS, HOT SALES TRENDS AND LIMITED-TIME WINDOWS OF OPPORTUNITY.

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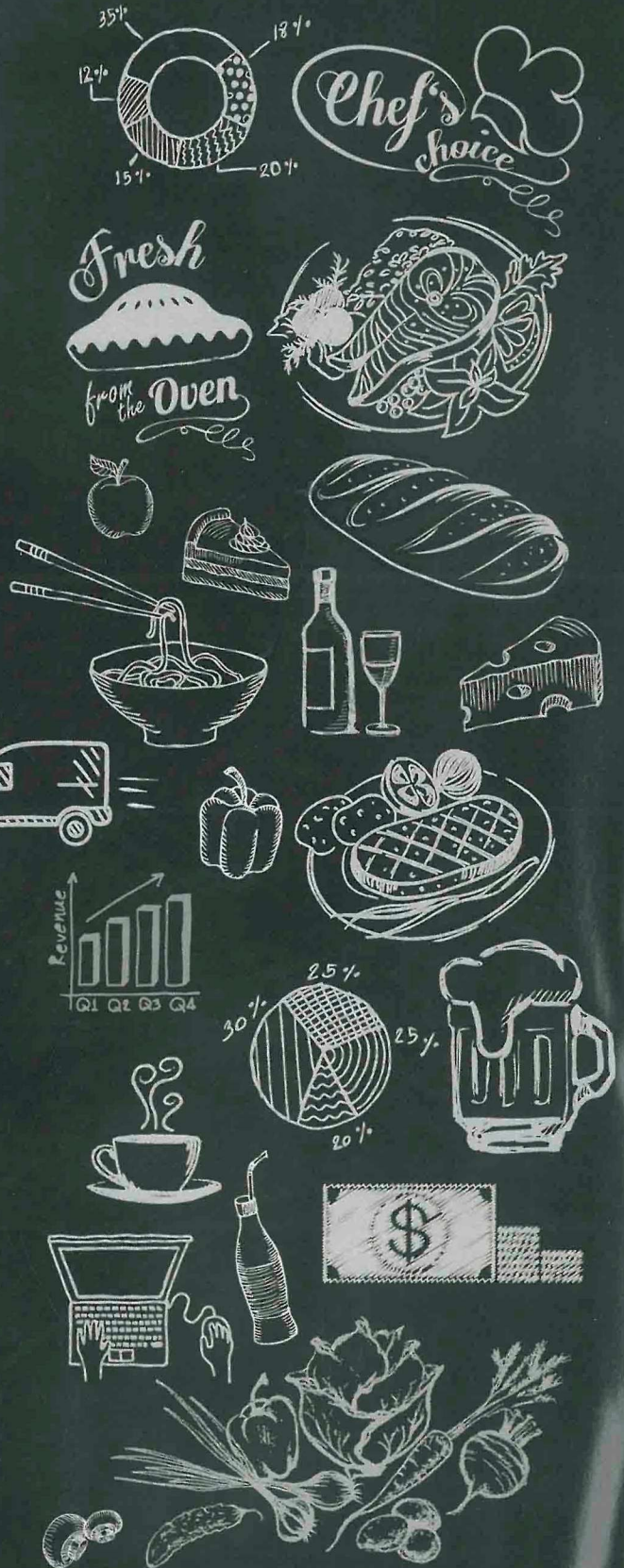
Are you optimistic about the way things are going? Not quite as much as a year ago, according to results of *Progressive Grocer's* 83rd Annual Report of the Grocery Industry, which gauges the temperature of the nation's retail food climate, courtesy of the direct input of retail executives charting the prevailing trends.

In 2015, just about half of the retail executives responding to our exclusive survey said they were more optimistic about the retail climate versus a year earlier, with about one-fifth expressing less optimism. This year, there was a fairly even three-way split among bad, good and indifferent attitudes regarding the retail food tempo.

The most trying factors singled out as weighing most heavily on our executive survey participants' minds were perennial retail industry hot buttons: wages and benefits, data security, and price increases, all of which are taking a toll on retailers' outlooks for the months ahead. The tepid mood also suggests that the competitive landscape shows no signs of leveling out as the omnichannel environment continues to evolve.

Conversely, this year's results simultaneously depict an increasing focus on remaining relevant with more sophisticated customer relationship marketing tactics, greater emphasis on prepared foods, and more dedicated community outreach as key

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SUPERMARKET SALES BY FORMAT

	NUMBER OF STORES	PERCENT OF TOTAL	SALES (\$ MILLIONS)	PERCENT OF TOTAL
TOTAL SUPERMARKETS (\$2 MILLION OR MORE)	38,015	100.0%	\$649,087	100.0%
SUPERMARKET-CONVENTIONAL	26,558	69.9	419,714	64.7
SUPERCENTER	4,230	11.1	162,248	25.0
SUPERMARKET-LIMITED-ASSORTMENT	3,325	8.7	16,804	2.6
SUPERMARKET-NATURAL/GOURMET FOODS	3,291	8.7	41,398	6.4
WAREHOUSE GROCERY	440	1.2	3,951	0.6
MILITARY COMMISSARY	171	0.4	4,973	0.8
OTHER FOOD RETAIL FORMATS				
CONVENTIONAL CONVENIENCE	153,483	N/A	\$429,855	N/A
GAS STATION/KIOSK	22,084	N/A	N/A	N/A
SUPERETTE	12,985	N/A	\$19,879	N/A
CONVENTIONAL CLUB	1,346	N/A	\$142,004	N/A
MILITARY CONVENIENCE STORE	712	N/A	\$4,133	N/A

Source: Nielsen TDLinx; Progressive Grocer Market Research, 2016

SUPERMARKET SALES BY SALES RANGE

	NUMBER OF STORES	PERCENT OF TOTAL	SALES (\$ MILLIONS)	PERCENT OF TOTAL
SUPERMARKETS (\$2 MILLION OR MORE)	38,015	100.0%	\$649,155	100.0%
CHAIN (11 OR MORE STORES)	31,157	82.0%	\$613,130	94.5%
\$2,000,000 TO \$4,000,000	2,930	7.7	9,156	1.4
\$4,000,000 TO \$8,000,000	6,958	18.3	40,386	6.2
\$8,000,000 TO \$12,000,000	3,435	9.0	35,978	5.5
\$12,000,000 TO \$20,000,000	4,692	12.3	76,655	11.8
\$20,000,000 TO \$30,000,000	6,247	16.4	155,119	23.9
\$30,000,000 TO \$40,000,000	3,333	8.8	115,799	17.8
\$40,000,000 TO \$50,000,000	2,147	5.6	95,066	14.6
\$50,000,000-	1,415	3.7	84,973	13.1
INDEPENDENT (10 OR FEWER STORES)	6,858	18.0%	\$36,025	5.5%
\$2,000,000 TO \$4,000,000	2,274	6.0	6,887	1.1
\$4,000,000 TO \$8,000,000	4,037	10.6	21,942	3.4
\$8,000,000 TO \$12,000,000	349	0.9	3,517	0.5
\$12,000,000 TO \$20,000,000	154	0.4	2,350	0.4
\$20,000,000 TO \$30,000,000	37	0.1	909	0.1
\$30,000,000 TO \$40,000,000	4	0.0	131	0.0
\$40,000,000 TO \$50,000,000	1	0.0	47	0.0
\$50,000,000-	2	0.0	242	0.0

Source: Nielsen TDLinx; Progressive Grocer Market Research, 2016



\$649,087

TOTAL SUPERMARKET SALES

THIS IS A 1.7% INCREASE OVER LAST YEAR, ADDING \$10.7 BILLION IN SALES

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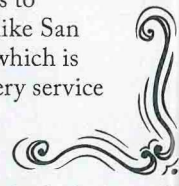
factors in making brands unique and loyalty-inspiring.

A closer look at these statistics — and many more — unfolds on the following pages, underscoring both the expected and unexpected changes unfolding across the industry. New to this year's report is a more user-friendly, visually enhanced treatment of some of the hottest industry trends and issues, such as leading advertising, marketing and engagement tactics; most valuable merchandising schemes; most productive uses of capital investments; most effective ways grocers are connecting with consumers; and most impactful store departments and services.

Amid an active arena of mergers and acquisitions over the past year, grocery's brick-and-mortar business is relatively flat — overall sales rose only 1.7 percent at supermarkets with sales of at least \$2 million, with an overall net increase in store count of just less than 300.

Retail execs probed in this year's study were also gradually picking up on ways to enhance the physical store with digital, from shopping apps to click-and-collect, both of which are essential to the future of traditional grocers, along with specialized services designed to meet shopper needs.

It's a trend that continues to expand with newer players like San Francisco-based Instacart, which is steadily expanding its delivery service



AVERAGE PER-STORE SUPERMARKET PERFORMANCE MEASURES

	2015	2014	2013
SALES VOLUME (\$ MILLIONS)	\$17.08	\$16.92	\$16.56
SELLING AREA (SQ. FEET)	33,325	33,300	33,250
NUMBER OF CHECKOUTS	10.5	10.5	10.2
AVERAGE WEEKLY SALES			
DOLLARS PER STORE	\$328,390	\$325,478	\$318,462
DOLLARS PER SQUARE FEET	\$9.85	\$9.77	\$9.58
DOLLARS PER CHECKOUT	\$31,275	\$30,998	\$31,222

Source: Nielsen TDLinx; Progressive Grocer Market Research, 2016

into new markets, and traditional retailer powerhouses like The Kroger Co., in Cincinnati, which is testing online ordering programs and its “endless aisle” offerings. Hybrid alliances are also popping up with smaller regional grocers, such as Seattle-based PCC Natural Markets, which had an existing alliance with Instacart, but took its digital offering one step further through a dual-delivery

option including Amazon’s Prime Now one- or two-hour delivery service for PCC’s local, organic, sustainably sourced food.

Consequently, it’s understandable that grocery executives’ “cautious optimism” is growing even more guarded, as costs and regulations make delivering on brand promises more challenging in a cutthroat multichannel world.

METHODOLOGY

Progressive Grocer’s 83rd Annual Report of the Grocery Industry is based primarily on an exclusive survey conducted among executives at supermarket chain and independent operators across the United States.

Among this year’s 131 retail executive participants, 67 percent classify themselves as independent retailers, while 33 percent are self-distributing chains. Of the total respondents, 57 percent operate one to 10 units, while 43 percent operate 11 or more units. The average number of stores operated by 2016 Annual Report panelists is 335. Additional store count and sales data are provided by Nielsen TDLinx, which maintains a national database of supermarket and other retail format locations.

ADVERTORIAL



Talking with...
Matthew Prescott

Senior Food Policy Director,
 The Humane Society of the United States



Progressive Grocer: Why are so many companies switching to cage-free eggs?

Matthew Prescott: The way companies interact with the world around them can have major bottom line implications. Today’s consumers are seeking products that come at a value and align with their values—including on issues like animal cruelty; they want animals to be treated well, and want to support companies that agree.

But there’s a gap between the way consumers want animals to be treated, and what’s happening in some areas of agribusiness. It’s within that gap that we see egg suppliers locking chickens in cages so tightly the animals can’t spread their wings. Imagine being in a packed elevator that breaks down. People are frantically trying to escape, but the door never opens. That’s what life is like for caged hens—and it’s simply out of step with what consumers want. To narrow that gap, many companies are shifting to 100% cage-free eggs. Birds can walk, flap their wings, lay their eggs in nests in cage-free facilities, which are large scale, automated production systems that churn out massive volumes of eggs while giving animals a better quality of life. It’s a win-win for birds and buyers.



Cage-Free Egg Barn

PG: Is there support for shifting to cage-free eggs?

MP: Dozens of the world’s largest food companies have pledged to shift to 100% cage-free eggs. Those companies include Kroger, Albertsons, Ahold, Delhaize, Costco, Target, Trader Joe’s, BJ’s Wholesale Club, CVS, Wawa, McDonald’s, IHOP, Denny’s, Kraft Heinz, Unilever, ConAgra Foods and many more.*

“As our customer base has been moving to cage-free at an increasing rate, Kroger’s goal is to transition to a 100% cage-free egg supply chain by 2025,” states the country’s largest traditional grocery operator.

Reports Ahold, “Animal welfare is an issue that we care about greatly and we believe that cage-free environments are a more humane way to treat hens.”

“Consumers have responded positively to the expanded choices in the egg aisle,” says Albertsons about its growing cage-free assortment. “Albertsons Companies...will be working with its suppliers toward a goal of sourcing only cage-free eggs for its store operations by 2025.”

As the Food Marketing Institute reports: “Shopper interest in animal welfare has been consistently growing,” and “shoppers want food retailers to prioritize animal welfare” even over other issues, like the environment.

PG: How would a company go about switching to cage-free eggs?

MP: Many egg producers have committed to a cage-free future, so the transition is easier than ever. For example, Rose Acre Farms—the second largest table egg producer—has said it’s switching to 100% cage-free production. Retailers interested in moving in this direction can contact me at mprescott@hsus.org. The Humane Society of the United States is proud to partner with the world’s largest food companies, helping them navigate these issues and crafting policies and programs to create a more humane supply chain, and more humane world.

*Detailed in full at www.bit.ly/EggPolicies