

Challenges Temper Optimism



Retailers to focus on points of differentiation in 2017.

By Joan Driggs, Jim Dudlicek, Bridget Goldschmidt, Randy Hofbauer, Meg Major and Katie Martin

The bleak macroeconomic landscape, including deflation, and various regulatory issues, such as the Affordable Care Act, Fair Labor Standards Act and minimum wage laws, may be keeping retailers up at night, but grocers large and small are entering 2017 optimistic about the Trump administration, which is viewed as largely pro-business.

One of the hallmarks of the grocery industry is that hard times bring out the best in innovation. It will be called for in the coming year, as competition for the food dollar continues to expand to nontraditional outlets, including subscription services, e-commerce companies, and such nontraditional purveyors as home improvement and home goods retailers.

Within traditional grocery retail, deep discounters, including Aldi and Lidl, the latter of which will make its U.S. debut by 2018, are a threat to retailers unable to compete beyond low prices.

A point of difference in favor of traditional supermarkets, most agree, is customer service, which will be a focal point for many retailers. Expect those committed to the customer experience to invest more in recruitment, training and retention. Experience will extend beyond smiling faces to mobile communications and e-commerce solutions, but grocers admit the financial struggle of investing heavily in both in-store and virtual customer service.

Assortment is also a focus for the coming year, as retailers indicate they'll be investing more in their perimeter departments, notably fresh prepared food offerings. Grocers recognize that shoppers want the convenience of prepared meal solutions paired with the speed of takeout.

PG's editors reached out to members of the retailer community to ask them these questions:

- What are your company's top priorities for 2017?
- What areas of the customer experience will you focus on most closely?
- What do you consider to be the greatest challenges and opportunities for the industry as a whole?
- What impact do you foresee a new presidential administration having on the supermarket industry?

The following retail executives shared insights for our 2017 Retail Outlook:

Maria Brous, director of media and community relations, Publix Super Markets

Richard Cashion, VP of retail operations, Healthy Home Market

Chris Coborn, president and CEO, Coborn's Inc.

John Cortesi, president and CEO, Sunset Foods

Kevin Davis, chairman and CEO, Bristol Farms

Wayne Denningham, EVP and COO, Albertsons Cos.

Scott Drew, EVP of operations, Smart & Final Stores

Dan Gleib, EVP of merchandising and marketing, K-VA-T Food Stores Inc.

Heather Isely, EVP, Natural Grocers

Lauren G.R. Johnson, CEO, Newport Ave. Market

Art Potash, CEO, Potash Markets

Dan Shanahan, president and COO, Buehler's Fresh Foods

Kirk Stoa, EVP and CFO, Festival Foods

Jimmy Wright, owner, Wright's Market

By and large, they share many common goals, face common challenges and recognize common opportunities, while expressing what might best be described as cautious optimism about the retail landscape, the economy and what impact a new presidential administration might have on both in the coming year. Their responses follow, edited for space ...

Wayne Denningham, EVP and COO for Albertsons Cos., pinpoints store conditions, private brands and people as top priorities for the Boise, Idaho-based retailer, which has grown organically and through acquisitions over the past few years.

As part of Albertsons' quest to be the "favorite local supermarket" in each of the communities it serves, Denningham says sales growth and profitability will be driven by "maintaining our focus on running full, fresh, friendly and clean stores, as well as ensuring our products offer the quality and variety of natural, organic and local products customers know us for," chief among which are its successful own brands like O Organics, Open Nature, Eating Right and Lucerne.

Private label will continue to serve as a critical component of Albertsons' future playbook, as will technology. "In 2017, we're going to continue our focus on using Big Data and analytics to drive customer traffic and basket size through thoughtful price investment, loyalty programs and personalized offerings," notes Denningham. "We're also going to invest in our people and continue to be a company where people want to come work and build their careers."

For **Kevin Davis**, chairman and CEO of Carson, Calif.-based Bristol Farms, 2017 will be about increasing sales at existing stores through more efficient promotion and merchandising, and improving the shopper service experience. The upscale grocer recently remodeled more than half of its stores, and while sales are up at all of those locations, Davis believes it can do a better job introducing the newly remodeled stores and their added features to new customers in communities it already serves.

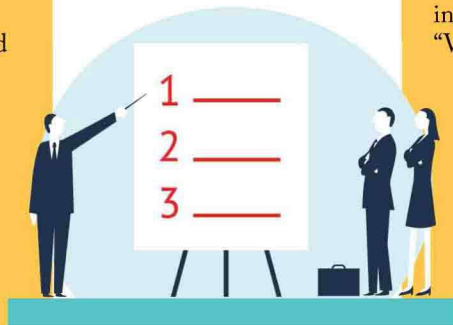
This also will be the year Bristol Farms opens the first of several new stores it will be debuting over the next 18 months, which, when completed, will mark the company's biggest growth in history.

A strong focus on people — internally and externally — will be top priority this year for Smart & Final Stores. **Scott Drew**, the Commerce, Calif.-based retailer's EVP of operations, notes that his company will continue to focus on engaging and investing in associates through continued education, internal promotions and new hires. His company will also continue providing household and business customers with a differentiated offering and an updated, more convenient shopping experience.

Chris Coborn, president and CEO of St. Cloud, Minn.-based Coborn's Inc., says his company's key focus will be further strengthening two of its core values: guest focus and executional excellence. "Our employees should

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What are your company's top priorities for 2017?



always be anticipating opportunities to provide remarkable service, even if it means deviating from the routine way of doing things," Coborn says.

Similarly, at Festival Foods, a De Pere, Wis.-based chain of 26 stores, a major focus of 2017 will be improving the guest experience — specifically, empowering store associates to "wow our guests," says **Kirk Stoa**, the retailer's EVP and CFO. "It can best be described as 'random acts of kindness' for our guests."

John Cortesi, president and CEO of Sunset Foods, says that this year's priorities for his five-store chain in north suburban Chicago include a focus on fresh, including organics and prepared meals. "We're competing with the likes of Blue Apron and other subscription services. We need to be more innovative, so we'll also be focusing on digital marketing, applications and solutions," Cortesi notes. "As we address Millennial shoppers, we're focusing more on convenience and satisfaction."

Art Potash, CEO of Chicago's Potash Markets, believes that growth — a major priority for 2017 — will

come as a result in investments in training and development of staff, as well as physical upgrades of equipment.

Lauren G.R. Johnson, CEO of Newport Ave. Market, in Bend, Ore., minces no words when identifying her top priorities for 2017: "Increased sales. Due to new competition in our area, we expect to remain flat through the first two quarters, then experience a slight increase."

Likewise, for Abingdon, Va.-based K-VA-T Food Stores Inc., which operates stores under the Food City banner in Georgia, Tennessee, Kentucky and Virginia, 2017 will be about "growing sales, given the challenging headwinds of deflation," as well as "improving the shopping experience and the solutions we bring to our customers," says **Dan Gleib**, K-VA-T's EVP merchandising and marketing.

And **Jimmy Wright**, owner of Wright's Market, in Opelika, Ala., says his top priorities are "finding innovative ways to grow profitable sales, in spite of food deflation and the competitive environment."

Of Healthy Home Market's newest store, Farm 2 Family Foods by Healthy Home Market, set to open this month in Lenoir, N.C., **Richard Cashion**, VP of retail operations for the Charlotte, N.C.-based chain, notes, "With the new brand, our company is focusing on educating traditional grocery customers about healthier lifestyles and selecting the best products to meet their needs."

Nutrition education always has been a major focus for Natural Grocers, but 2017 will be a time to continue creating new, experiential ways to help customers know more about the foods they purchase, says **Heather Isely**, EVP of the Lakewood, Colo.-based retailer.

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For the past 86 years, Lakeland, Fla.-based Publix Super Markets has prioritized the customer experience in its stores, through its “stellar customer service [and] quality products at competitive prices,” in the words of **Maria Brous**, director of media and community relations, and that’s not about to change now. Additionally, according to Brous, “we continue to look towards providing meal solutions for our customers, convenience, grab-and-go items and omnichannel [solutions].”

Albertsons’ banners, meanwhile, will offer online ordering and home delivery in eight of the nation’s top-10 most populous MSAs by the middle of next year, according to Denningham. “Our own employees are involved at every step of the process, from packaging to delivery,” he explains, because “we believe e-commerce should be an extension of the in-store experience, with the same high level of customer service and quality fresh products that our customers have come to expect from us.” Albertsons will also “continue to enhance and upgrade our stores and our health-and-wellness services across all our banners in the new year,” Denningham adds.

2017 won’t be without its trials for Bristol Farms, the greatest centering on consumers’ continual perception of a flat or slow-growth economy, Davis admits. Additional pressure will come from ever-increasing operating costs from various new government regulations taking effect, including new minimum-wage laws, overtime changes, the Food Safety Modernization Act and new menu-labeling laws, in addition to rising health care costs.

“Our focus remains on developing product categories with strong potential to build customer visits, such as our natural and organic ... private label offerings, which resonate with customers and are attracting new ones,” Drew says. “Additionally, we are executing customer growth initiatives through our delivery platform relationships with Instacart and Google Express, which appeal to the Millennial customers, and are introducing Smart & Final to a mostly incremental new audience.”

Coborn says providing his customers “an exceptional shopping experience” is a top priority. “We will continue to seek out more fresh, healthy options for our stores; our registered dietitians will continue to provide creative new ideas to inspire healthy eating strategies for our guests; and we will continue to evaluate our practices to make sure we are living this vision.”

As with many retailers interviewed for this feature, Stoa believes that people help deliver extra “value” to the shopper. Marketing efforts, including online advertising, in-store sig-

Quantity and shelf tags in the coming year will focus on the many ways that Festival Foods creates value for its shoppers. From the Tot Spot free child care while

shopping in the store, to curbside pickup, Festival’s new tag, “It’s the little things ...,” will help draw attention to these extras.

Festival is also focused on store growth through acquisitions and new stores. Stoa notes that competition in Wisconsin, which has seen growth from larger regional players like Hy-Vee and Meijer, and the acquisition by Kroger of Roundy’s, continues to squeeze small independents. “You swim harder, swim faster and be the consolidator, or get swallowed by those sharks,” he says. “So we’re focusing on growth.”

Sunset’s Cortesi says he sees consumers — particularly Millennials — as desiring to be self-sufficient. “Customers want to get in and get out [of the store],” he observes. “Look at the revelation taking place with [the] Amazon Go store. We want to create the speed and efficiency customers are looking for.”

Sunset already offers a wide variety of prepackaged prepared foods, he notes. “Now our goal is [to] merchandise effectively to satisfy the needs of consumers. We already have the full kitchens on site, so we want to compete against foodservice,” Cortesi notes. “We can change quickly and come up with healthy options that address a variety of health issues.”

Prepared foods is more than a catchphrase at Potash Markets, as the small Chicago independent “continues to strive to be the most relevant we can be for our customers,” Potash asserts.

When it comes to improving the customer experience, K-VA-T is interested in “expanding meal solutions in the fresh departments, growing the center store through events that drive basket size on stock-up trips [and accelerating] snacking options throughout the store,” Glei notes.

The new year will see Natural Grocers also responding to increased outreach from customers on social media. The retailer plans to make it even easier for patrons to connect and engage via its various channels in this area. Similarly, Wright says he’ll be focusing on tech improvements in POS technology and online shopping.

To enhance the customer experience at its four stores, Healthy Home Market plans to concentrate on “new health trends, educating customers on a healthier lifestyle, online shopping, and our relationship with local growers and producers,” Cashion notes.

Come what may, Johnson affirms that Newport Ave. Market’s top focus, “as always, will be on customer service. We believe that is one of a handful of advantages we have over our competition.”

What areas of the customer experience will you focus on most closely?



When assessing the industry's foremost challenges and opportunities, Albertsons' Denningham says that regardless of how the grocery industry evolves or innovates, "it's always going to be a business built on pennies and very small profit margins. But what we have learned over the last decade ... is that customer service drives sales.

"While our industry is about driving what the customers want," Denningham notes that "it's also about remembering who our customers are, and maintaining those relationships. That isn't something that you can mandate as a corporate mission; it needs to happen organically, store by store. That's both the greatest challenge and opportunity throughout the industry."

Challenges aside, Davis is certain that Bristol Farms, as it does every year, will head into 2017 with optimism and a strategic plan to do better, no matter what the circumstances, pointing out that tough economic conditions can sometimes help efficiently run companies perform even better. And although new competition will enter California, continued grocer consolidation will act as a buffer against sales loss to these food retailers, he adds.

According to Cortesi, Sunset's challenges for 2017 include deflation. "Food costs are low; profitability is much different," he says. "There are many regulations in the industry. We're challenged in finding good people, so recruitment and training will be something we focus on in the coming year."

Likewise, Coborn says lingering deflation continues to be a challenge. "While changes like this are cyclical, and eventually things will get better, the long duration of this trend has created a tough environment for grocers across the country. However, even with challenges come great opportunity," he notes, pointing to the company's new Marketplace format (see this issue's Store of the Month, starting on page 42).

Wright considers deflation and a "hypercompetitive operating environment" the top challenges grocers will face in the new year, with innovation being the key opportunity: "Difficult times always bring out the best in us."

Although a changing grocery landscape and recent deflationary pressures have proved to be major challenges for the overall grocery industry, Smart & Final finds its greatest opportunity in its differentiated model to serve both business and household customers. Over the years, it has successfully maintained its community approach.

Festival Foods is investing in its e-commerce and

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mobile experience, which Stoa sees as both a challenge and an opportunity.

Food safety "continues to be one of those things that keeps retailers up at night," admits Potash, whose stores are located in downtown Chicago. Other major challenges he cites include compliance and more government regulation and oversight.

In that vein, Natural Grocers' Isely suggests that perhaps the greatest challenge will come from the Safe and Accurate Food Labeling Act of 2015 — called by some GMO labeling advocates "the DARK (Denying Americans the Right to Know) Act" — which bans states from requiring food manufacturers to label food ingredients that come from genetically modified crops. But while these types of rulings are worrying, Isely stresses that they also present an opportunity to reward vendors that choose to be transparent. "Retailers who continue to educate their customers and require transparency from their vendors will see greater customer loyalty," she asserts.

Newport Ave. Market's Johnson points to "increased competition with other retailers — including restaurants — especially as the big chains improve in the specialty category." And at Publix, "increased competition and new competitors entering existing markets remain a focal point," Brous says.

For his part, Cashion sees potential ahead. "One of the greatest opportunities in our industry is the ability to reach a large market of consumers and test new trends," he asserts. "We pride ourselves on not doing the same thing as everyone else."

Despite the challenges of rival industry players, Gleit remains optimistic. "Supermarkets that provide a relevant offering, coupled with [a] great customer experience ... will continue to grow in spite of an intensely competitive landscape," he asserts. "Our challenge and opportunity is to better anticipate, understand and deliver what our customers expect than our competition."

Dan Shanahan, president and COO of Wooster, Ohio-based regional grocery chain Buehler's Fresh Foods, contends: "It's possible that we need to be more things to more people and we need to expand our core competencies, perhaps by looking for creative new partnerships, collaborations and alliances. Making things better for our core base while simultaneously embracing these multiple significant trends will allow us to stay relevant and lead the way." **PG**

How do retailers feel about the new presidential administration?
Find out at progressivegrocer.com/trumpretailers.

