

The Lone Star State SHINES BRIGHT

A former nonfoods buyer for the old Randall's Supermarket chain, based out of Houston, once said the company's strategy for growth was pretty straightforward back in the 1980s and 90s.

The state was growing so fast that the chain was building stores where there were no homes, in anticipation of future growth. The strategy, he said, worked great for Randall's back then.

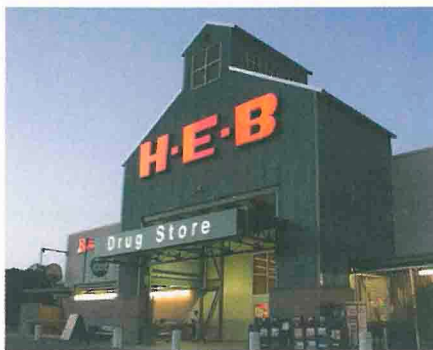
It is not much different today. Things in Texas are booming and, as one industry observer put it, a retailer has to work pretty hard to not be successful in the Lone Star State these days. As the saying goes, "Everything is Bigger in Texas," and judging by the amount of shopping center space planned this year, retail is clearly hitting its stride across the state.

According to *The 22nd Annual Retail Survey*, a report from Wulfe & Co., a Houston-based retail real estate brokerage, development and property management firm, 3.71 million square feet of new retail shopping center space is being planned for the remainder of the year, a 56% increase over 2014.

Supermarkets dominate this planned construction. Representing 43% of this space, 32 new grocery stores are being planned. Specifically, H-E-B is expected to open seven stores; Kroger to open four and expand two; Walmart intends to open four of its Neighborhood Market stores; Whole Foods and Sprouts plan to add two; Fiesta

and Trader Joe's one; and newcomer ALDI intends to add 11 of its smaller 18,000-square-foot stores.

"With this high activity of new retail growth, we project that higher retail occupancy rates will exceed a seldom achieved rate of 92% this year, proving that Texas re-



mains ripe for expansion," says Ed Wulfe, chairman and CEO of Wulfe & Co., in a company statement.

These stores are being built for a purpose. Texas has been a top U.S. destination for migration for decades, for a number of reasons. Clearly, the warmer climate is very appealing—especially to those migrating from the north—as is a reasonable cost of living. Thanks to the availability of land that continues to drive construction and development for homes and businesses

Availability of land, low tax burdens and a growing population make Texas attractive to retailers.



alike, the housing market remains very affordable for residents.

These factors continue to attract more people to the Lone Star State, and Texas has become the second most populous state, with 27 million residents, according to the U.S. Census Bureau.

The biggest appeal however, is the state's reputation for being the land of economic promise.

"Texas is attractive for both businesses and workers essentially because of low taxes,"



says Amy Jordan, assistant economist, research department, Federal Reserve Bank of Dallas, based in Dallas. With no state individual income tax and no corporate income tax, Texas not only has one of the lowest tax burdens, “the Tax Foundation ranked Texas in the top 10 for most competitive business tax systems,” she adds.

These factors have contributed to the addition of more than two million new jobs between October 2004 and 2014, giving the state a total of 13 million employees and making Texas the nation’s second largest civilian

workforce, according to the Office of the Governor, a division of Texas Economic Development and Tourism, based in Austin, Texas.

“Texas job growth has been about twice the national average over the long-run; and in 2014, Texas employment grew 3.6%, compared to 2.3% national level growth,” says Jordan.

Positive employment levels are contributing to the state’s personal income levels, as well. Texas ranked No. 2 for total state personal income, which topped out at \$1.2 trillion in 2014, according to the U.S. Bureau of Economic Analysis, based in Washington, D.C. More specifically, personal income per capita hit \$45,426, up from \$43,552 in 2013. Meanwhile, the state’s personal income rose 5.6%, exceeding the national average of 3.9%, the bureau reports.

The fact that Texas is conveniently located for trade, with extensive rail and road infrastructures and multiple ports, also has its benefits. Not only has the Census Bureau ranked Texas as the top exporting state in the nation for 12

consecutive years, it is an attractive landscape for prospective businesses.

The retail industry is helping drive this expansion. Currently, eight out of the top 100 U.S. retail companies are headquartered in Texas, according to the National Retail Federation, based in Washington, D.C. The industry supports 3.5 million jobs in the Lone Star State, and accounts for \$223.7 billion, or 15% of the state’s total gross domestic product impact.

Among the nation’s top eight companies, the food industry is well represented. For example, some of Texas’ top native brands include Whole Foods, H-E-B, Central Market (H-E-B’s upscale banner), Fiesta Mart, Rice Epicurean Markets, Wholly Guacamole, Dr. Pepper and Ruiz Foods, among others.

When it comes to brand penetration however, other competitors have also expanded into the Texas marketplace. Across the Eastern Texas/Louisiana divide for example, Walmart, which operates 92 stores there, has 25.5% of the grocery



market; H-E-B, which has 87 stores, has 25.1%; and Kroger with its 111 stores has 23.8%, according to *The 22nd Annual Retail Survey*.

Still, retailers must establish their own mark in this diverse marketplace. Dallas and Fort Worth, for example, are viewed as more Midwestern cities, with a big emphasis on meats and produce. Houston is much more an international city with a very strong Latino presence. Austin, the state capital, is more liberal in regards to its people and their shopping habits.

Texas Fresh

Regardless of the supermarket banner, each remains committed to featuring many of Texas' fresh, local agricultural mainstays, from produce to beef and seafood. For example, Texas features a year-round, four-season harvest. Consum-



ers demand summer's juicy heirloom tomatoes just as much as they anticipate winter's rainbow chard, and all varieties adorn local restaurants, farmers markets, and of course, grocers' produce displays. To remain relevant to local shoppers however, Texas' native grocers strive to build their assortments around these key categories, and are working with local and governing groups to ensure quality.

For example, local consumers are demanding more organic offerings—a move that continues to drive the supermarket industry's expansion of natural and organic locally-grown offerings. To ensure the quality of organic crops across the state's supermarket industry, Austin-based Texas Department of Agriculture instated the

Organic Program, which was established to develop Texas' agricultural economy and provide consumers with the most abundant and diverse food and fiber supply possible, according to a statement. Overall, the program helps Texas farmers diversify their operations and capture a larger share of a growing premium market.

Meanwhile, Texas farmers are also promoting organic meat. Using more sustainable practices when raising cattle, farmers are committed to eliminating the use of growth hormones or antibiotics and feed food that is not treated with synthetic fertilizers, pesticides or herbicides.

While there are no organic guidelines for

Across the Eastern Texas/Louisiana divide:

Walmart	25.5%
H-E-B	25.1%
Kroger	23.8%

and other seafood sold at H-E-B was harvested by U.S. fishermen and came from a well-monitored and maintained fishery in the Gulf of Mexico that operates under innovative conservation standards.

"Gulf Wild supports the Texas fisherman and provides accountability," Stevens says in the video. "The trademark features an identification number that customers can plug into the website, www.gulfwild.com, and see exactly who caught the fish."

To ensure variety, H-E-B also partners with fisherman across other states. One of its biggest partnerships includes those in Alaska. For example, the chain "buys one million pounds of wild Alaskan salmon each year," according to another H-E-B video. "Salmon is fished out of the water, and shipped to H-E-B the same day."

When working with different partners however, sustainable fishing methods are a must. "The first rule of fishing is sustainable fishing," or the application of methods and technology that avoids over-fishing, Jason Driskill, H-E-B seafood procurement, says in a company video.


"Even though we are from Texas, we care about what happens in Alaska," he says. "We partner with Alaskan fisherman who use traditional methods to make sure fish will always be here."

Flavor Runs Deep in the Heart of Texas

What makes these categories unique is how they are represented across the state. With influences ranging from southern, western and Mexican traditions, fresh foods are well-entrenched within the culture and history of Texas. Though synonymous with beef, barbeque and chili con queso, Texas cuisine is so much more. Boasting its diverse influences and fusions, the state is actually expanding its culinary appeal, and shoppers are taking note—especially foodies.

This customer segment is so passionate about food that they often seek out new food experiences as a hobby. By merging Texas' already diverse culture with those of new residents migrating to the state, diversity continues to heighten and shake up flavor profiles.

"As business continues to boom here, there



are more people moving in, all from different cultures,” says Tracey Altman, vice president, innovation and insights, MegaMex Foods, the Saginaw, Texas-based manufacturer of Wholly Guacamole. “This converged diversity is reflected in the many different ethnic and fusion restaurants the state features. And once consumers find cuisines they enjoy in restaurants, they want to replicate it at home. They count on their local grocery stores to help them do that.”

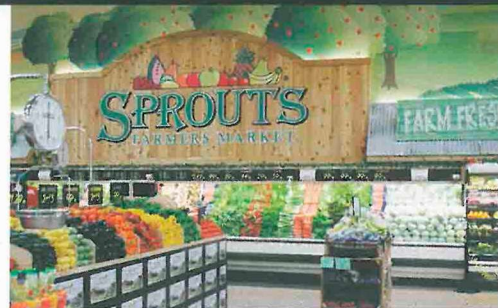
Regardless of whether Texas residents are partial to traditional fare or eclectic cuisine, there is one constant—they crave new flavors, ranging from conventional to eccentric.

“Operating in this marketplace holds plenty of opportunity for our company, as we can grab a large cross-section of consumers,” Altman says. “This is a ‘Tex-Mex’ market. They love guacamole, chips and Mexican food. They also like to play with spice, including meals like hash, chili and jalapenos. This market is intrigued by flavors, and that is right up our alley.”

More “high-end” grocery supermarkets are becoming the top destinations for these and other unique offerings. National specialty chain Trader Joe’s has created a niche across the state, however local chains are finding ways to connect with loyal residents.

“The grocery industry is huge here, and there is a strong saturation of high-end grocery stores,” says Lee Williams, managing editor, news, Forth Worth Star Telegram. “They feature lots of fresh seafood, exotic meats, prepared meals and exclusive merchandise and services shoppers can’t get anywhere else.”

Central Market for example, drives loyalty across the foodie customer segment by offering new product introductions, blogs, themed events and monthly festivals and even cooking classes. Described as a self-proclaimed “recipe Mecca,” Central Market invites foodies “to learn how to use fresh and interesting ingredients, plus score tips from our experts,” according to its website. Classes range from knife skills to the latest cook-



ing techniques taught by the Central Market cooking school staff, featured instructors and celebrity chefs from around the world.

Costing an average of \$65, foodies have an affordable way to satisfy their passion for new recipes and flavors, and grocers like Central Market are driving loyalty and creating a niche in an increasingly competitive marketplace.

“There is plenty of opportunity here,” Altman says. “Companies that want to have a finger on pulse of what is going on in the industry need to be here, especially because there is so much affluence in the Metroplex, which is comprised of Dallas/Fort Worth; San Antonio/Austin, and Houston.”