

# Challenges and MORE CHALLENGES

Independent retailers' optimism may be down, but they're well suited to a fast-changing marketplace.

By Katie Martin

**A** lot of things can change in a year, and yet many things can remain relatively unchanged. Every year, *Progressive Grocer Independent's* sister publication *Progressive Grocer* surveys the overall grocery market, including independent operators, chain stores, wholesalers and distributors, to get a read on how the industry as a whole is functioning — what's changing and what's staying the same.

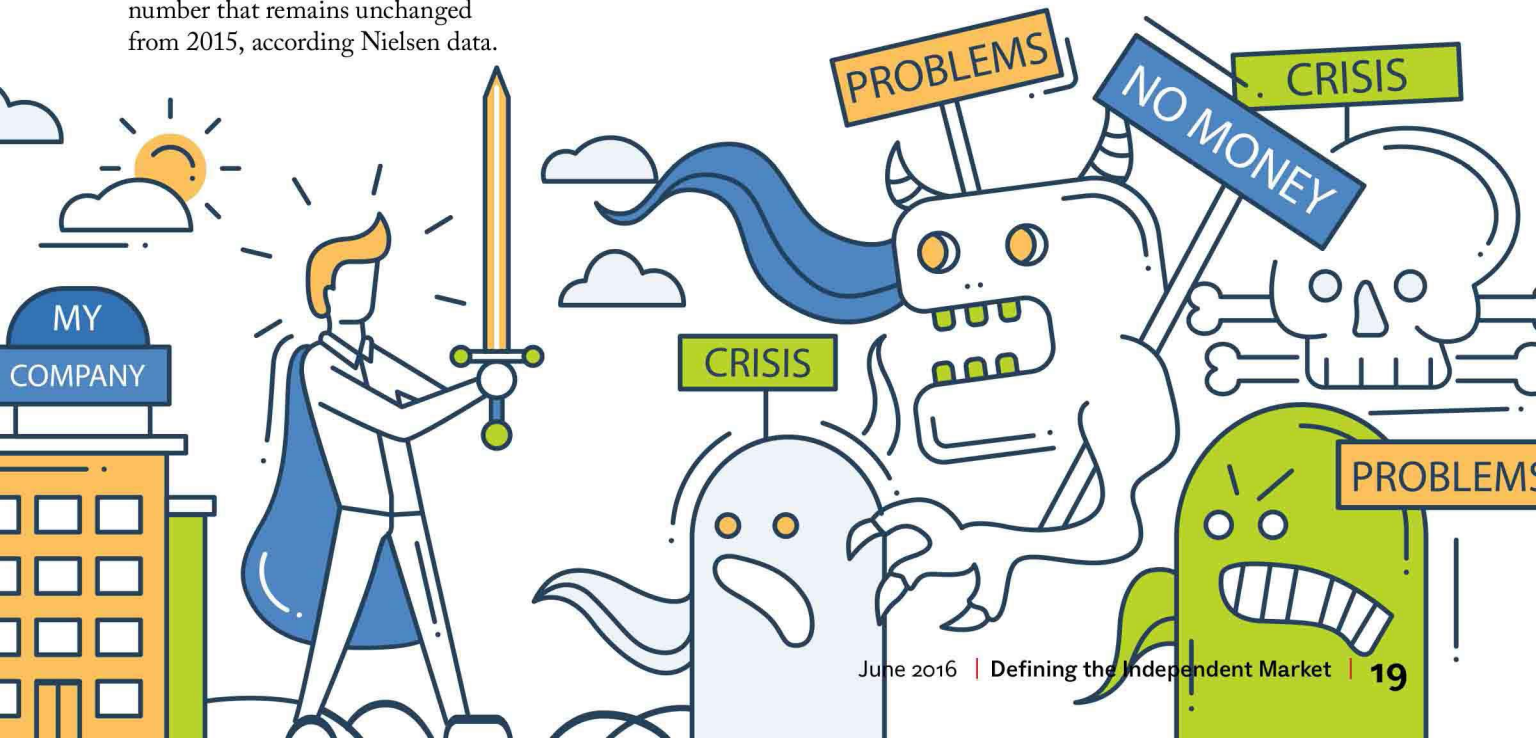
As a whole, independents with 10 stores or fewer make up 18 percent of the grocery industry in 2016, a number that remains unchanged from 2015, according to Nielsen data.

The total number of stores crept up slightly to 6,858, from 6,791 last year. However while independents account for a sizable chunk of stores, the same isn't true for industry sales: Independents contributed only 5.5 percent in total sales for 2016, essentially unchanged from last year. Dollar sales saw a minimal increase to \$36 billion, from \$35.6 billion.

These percentages and sales numbers are nothing new — they've been holding in this range for several years. How independents are feeling about their market is in a bit of flux, however.

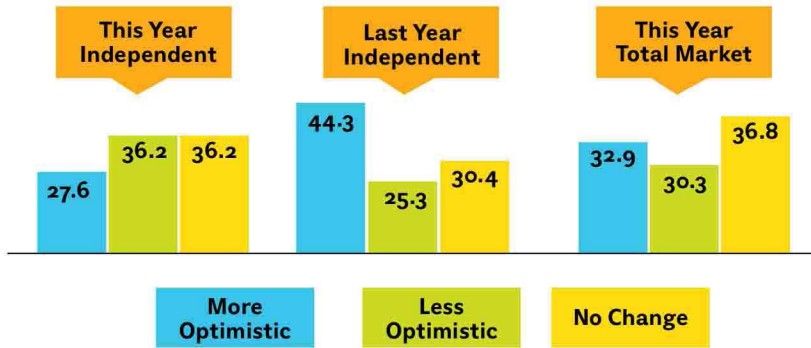
In PG's 2015 Annual Report,

independents were considerably more optimistic than they were the previous year. Such is not the case in 2016. Optimism took a tumble, from 44.3 percent of retailers expressing more optimism about the current year over the previous year in 2015 to only 27.6 percent feeling the same way this year. About 10 percent more expressed less optimism than last year, but more than one-third reported feeling no change about the retail climate. What has remained consistent is that independents are less optimistic about the market than chain operators are.



## Retail Climate ... Indies Less Optimistic

Percent of retailers who feel more or less optimistic when comparing the current retailing climate with a year ago



Source: Progressive Grocer Market Research, 2016

### Conflicted Outlook

But even while optimism seems scarce, independents seemed to think that this year would be slightly better than average — forecasting 2016 as a 67 on a scale of 0 to 100, where 0 is awful and 100 is sensational, about the same as 2015's 66 rating. This projection, which seemed to contradict the lack of optimism, could be based on independents' outperforming national chains in the area of customer satisfaction, according to Peter Larkin, president and CEO of the Arlington, Va.-based National Grocery Association (NGA), referencing a consumer trends study conducted by Nielsen.

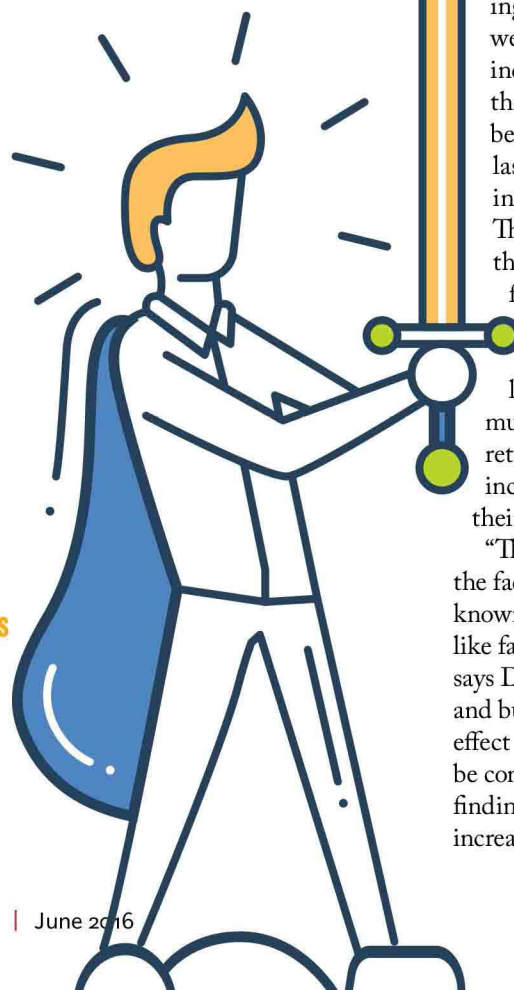
"But this is a very competitive market," he adds. "While the economy seems to be doing better and

**"This is a very competitive market. While the economy seems to be doing better and wages are slowly increasing, we now live in a global marketplace, and I bet independents are facing a number of challenges in the marketplace and on the operational side."**

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The lack of confidence when it comes to the retail climate is a culmi-



nation of several factors, according to Dave Bennett, SVP procurement and exclusive brands for Chicago-based IGA. Many retailers are concerned about where they fit in the digital e-commerce landscape and how their stores integrate into an increasingly digital marketplace, he notes.

The industry as a whole has so many varying outlooks on the future that figuring out the "why" may not be possible. "In our conversations with our membership, I encounter the whole range of outlook opinions, from 'the cup is half-full' to 'the cup is half-empty,' and even some wondering 'who moved my cup?'" says Leslie G. Sarasin, president and CEO of the Arlington-based Food Marketing Institute (FMI). "There are so many forces that determine and influence the way grocers are doing business."

### Worry Over Wages

Many of these forces, such as finding employees and complying with government regulations, were increasingly worrying for independents. As to what keeps them up at night, wages and benefits jumped significantly from last year, with three-quarters saying it was their biggest concern. This was up from slightly more than half last year, and a jump from the third spot to No. 1.

Many states or municipalities are introducing legislation to increase the minimum wage, and some of the larger retailers have already pledged to increase pay for hourly workers in their stores.

"The worry may be coming from the fact that Walmart and well-known brands in other industries like fast food have raised wages," says Doug Fritsch, IGA's SVP retail and business development. "A ripple effect would be expected in order to be competitive in a market where finding quality people continues to be increasingly difficult." (In the survey,

**“Independents are resilient, and know their local marketplaces and shoppers better than their chain competition, and can act/react faster to changing market conditions.”**

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labor ranked in the top five concerns, coming in at No. 5 with nearly 32 percent, an increase from 29 percent last year.)

The minimum wage is only a portion of the concern over wages. The U.S. Department of Labor has released its final ruling on overtime pay, which includes an increase on the exemption from \$23,660 to \$47,476, effective Dec. 1, 2016. The government expects the new rule will extend overtime protections to 4.2 million more workers who are currently ineligible for overtime. This rise will capture many supermarket employees who are currently classified as exempt.

“Raising the salary threshold will create unintended negative consequences, such as reducing a manager’s flexibility to decide when extra hours are needed to complete the job, and advancement opportunities,” Larkin notes.

### **Health Care Concerns**

The issue of benefits also hangs over independents, many of which are still adjusting to the Affordable Care Act (ACA). Some portions of the ACA have been extremely burdensome for indies, such as the tracking and reporting requirements of the new law. “Many NGA members saw their health care costs increase dramatically, while some have had a difficult time finding coverage,” Larkin says.

FMI’s 2015 assessment of the top worries among supermarket executives also found that health care costs were a big concern, with many expecting health care to have a significant impact

on their bottom line in 2016, according to Sarasin. In a related move, “our members are paying closer attention to employee and community wellness initiatives,” she adds.

These initiatives include programs like Andronico’s Community

Market’s FitMarket, a healthy-living program available in its five Bay Area stores. The program provides health coaching as well as nutrition and fitness guidance from experts in an effort to “bring health back,” according to CEO Suzy Monford.

**Data Security**

Data protection/security came in second in top concerns, with nearly 58 percent of independent retailers citing it as a worry. EMV compliance is now into its eighth month, and the transition has been anything but smooth, especially in relation to certification. Suspected fraud has led to chargebacks to retailers on non-EMV bank cards, and FMI is currently working with criminal investigators on some of the larger instances, Sarasin says.

NGA's Larkin notes that many independents have invested thousands of dollars on equipment, such as new

card terminals or POS systems, to meet the EMV compliance date, "only to be left waiting on a massive backlog in the certification process, which is controlled by the card networks." Even though the equipment is in place, retailers are still on the hook for chargebacks, simply because they're not certified or fully EMV compliant.

In March, B&R Supermarket, which operates four Mi-

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lam's Market stores and one Grove Liquor store in the Miami area, sued various credit card issuers over the issue of EMV certification. The grocer installed new EMV-enabled card readers and informed the credit card consortium that the stores were ready to be certified. The certification never came, however, and B&R's lawsuit alleges that the delay is a

tactic used by the credit card companies to keep the burden of fraud on retailers for as long as possible. B&R notes that while waiting for certification, it has incurred up to \$10,000 in liability for fraud, chargebacks and chargeback fees in the four months between the EMV compliance date and the filing of the lawsuit.

"While very large retailers such as Target, Walmart and others quickly had their EMV-processing systems 'certified' — thus sparing them the liability shift — the members of Class are at the mercy of the defendants [credit card issuers]," the complaint asserts. "Merchants like Milam's Market and Grove Liquors have no control over the 'certification' process. All they can do is request 'certification' and wait for it to occur. And no one can say when that will be."

**What's Bothering Retailers?**

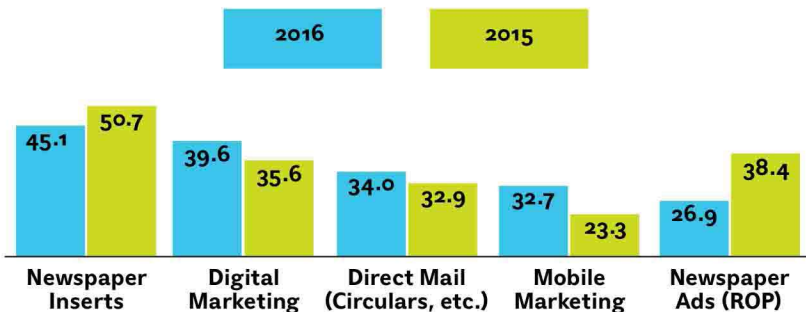
Issues that independent retailers find worrisome

	2016		2015	
	Ranking	Percent	Ranking	Percent
<b>Wage &amp; Benefits</b> (Minimum Wage, Affordable Care Act, etc.)	1	75.4%	3	56.3%
<b>Data Protection/Security</b>	2	57.9	1	64.3
<b>Price Increases</b>	3	49.1	2	59.5
<b>Food Safety</b>	4	33.3	4	37.3
<b>Labor</b> (Recruitment, Retention, Diversity, Training)	5	31.6	5	28.6

Source: Progressive Grocer Market Research, 2016

**Mobile Making Inroads in Marketing**

Percent of independents rating the following strategies as extremely or very important in marketing to consumers



Source: Progressive Grocer Market Research, 2016

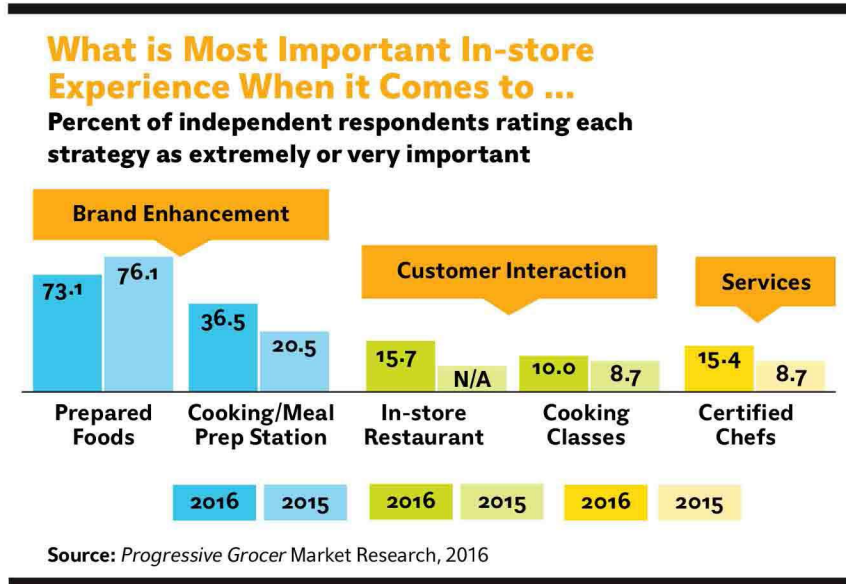
**Digital Divide**

While according to IGA's Bennett, independents are still figuring out their place in the increasingly important e-commerce landscape, they're becoming much savvier in using the digital marketplace to attract customers. Newspaper advertising saw a decline in 2016 from 2015. Even though 45 percent said in 2016 that they still use newspaper inserts, that number was down from 51 percent last year. Run-of-press newspaper ads were down significantly — 27 percent this year, compared with 38 percent in 2015.

Digital is making up the difference. Mobile marketing increased from 23 percent in 2015 to 33 percent this year, while digital marketing was up 4 percent.

The remainder of the year will continue to be challenging for retailers, according to Bennett; however, “changing demographics in shopper attitudes and needs will continue to offer competitive opportunities in the marketplace for those retailers nimble enough to act,” he adds. “Independents are resilient, and know their local marketplaces and shoppers better than their chain competition, and can act/react faster to changing market conditions.”

The national elections also will play a role in upcoming legislations and regulations. “While we sometimes feel we have little control over our cultural and political environ-



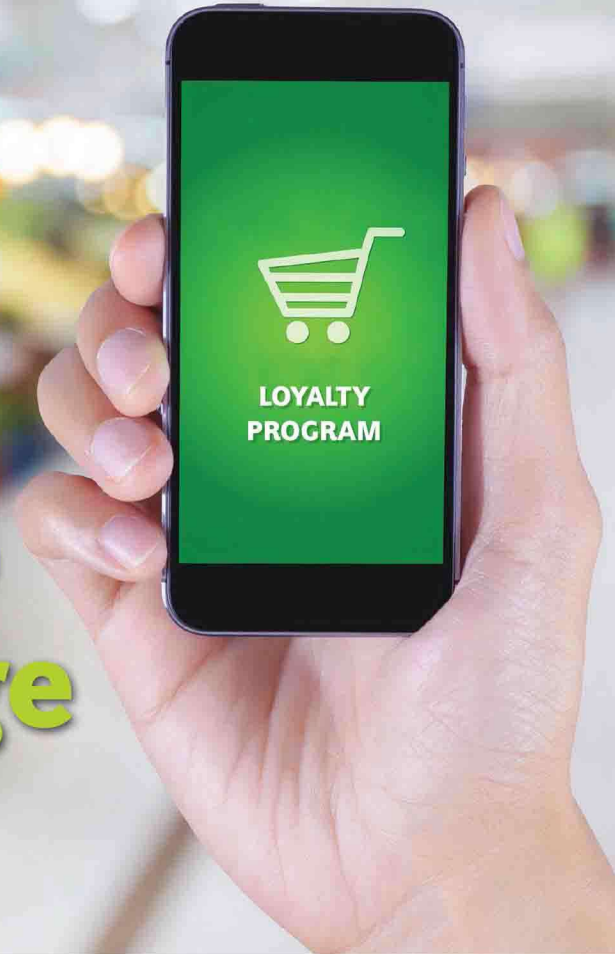
ment, we certainly can continue to cultivate and nurture the shopper experience,” Sarasin says. “We’re mindful that as the world turns, so

do consumers’ palates and values, so we must stay attuned to how purchase behavior will influence overall shopper trends.” **PGI**

# LOYALTY MARKETING Comes of Age

Technology has made such programs more viable for independents.

By David Diamond



**O**f all of the emerging technologies and marketing approaches taking root in stores, nothing is more complex or controversial than loyalty marketing. From one perspective, loyalty marketing is obviously the best way to focus marketing budgets on the most important customers, to build business among those consumers who already support the stores and to drive profitability while simultaneously improving customer service to the best consumers.

On the other hand, many retailers, in the food business and in other areas, have invested tens of millions of dollars in loyalty marketing only to find that the return on these investments is far from a sure thing. In fact, while some retailers credit their loyalty marketing programs

with driving sales and profits, others have concluded that the effort is a big waste of time and money.

The complexity and high cost often associated with such programs often drove independents away, leaving chains with the marketing budgets, big staffs and technological expertise needed to undertake this sort of project. In fact, as little as five years ago, I would have completely agreed with the notion that inde-

**With all of the technological advances, the best news of all is that loyalty marketing is now affordable and achievable for independent retailers.**

pendents should let the “big guys” play with something as costly and complex as loyalty marketing. But today’s reality is such that the high upfront costs of building a loyalty program have greatly diminished, and the ongoing resources needed to operate a program also have diminished significantly.

## Diminished Costs

Creating such a program used to involve the issuance of loyalty cards and assembling a loyalty database. These days, loyalty programs have no need of a physical card — customers can use their cell phone numbers as their IDs, which can be texted or entered into the POS system. The whole process can be managed on a computer or smartphone, and by asking customers to enter their own data, you save a huge amount of cost and get a more