

The Gourmet Retailer's STATE OF THE INDUSTRY 2017

IN THE SEVENTH EDITION OF TGR'S ANNUAL SURVEY, RETAILERS CITE THE IMPORTANCE OF CREATING AN IN-STORE EXPERIENCE, CUSTOMER SERVICE AND SOCIAL MEDIA

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Gourmet retailers of all sizes are adapting to the changing retail landscape and are enhancing their in-store shopping experiences and online stores, according to research conducted in June by Carbonview Research on behalf of *The Gourmet Retailer*.

The retailers TGR polled summarized the state of their business as better than average, and a majority are forecasting increases through the end of the year. Many are concerned about the impact and future implications of online retail.

WHO, WHAT & WHERE

When we look at respondents to this year's TGR State of the Industry survey, 69 percent were store owners or presidents, followed by store managers (10 percent), buyers (12 percent), sales/marketing personnel (5 percent), and other titles (4 percent). Retailers were from all regions of the United States, with 34.7 from the South, 25.5 from the West, 24.5 percent from the Midwest, followed by the Northeast at 15.3 percent.

INDEPENDENTS DOMINATE

The majority of this year's respondents — 69 percent — identified themselves as independent retailers. Within that group, more than half, 51 percent, defined themselves as food retailers. (Respondents could select more than one type of retail establishment.) Eighteen percent described themselves as an independent gourmet retail concept that combines specialty food and housewares; based on feedback from last year's respondents, TGR added this category



69% of respondents
were store owners

66%
operate a single store



75% feel optimistic
or the same about gourmet retail



in this year's survey. Sixteen percent identified themselves as kitchenware retailers. Other retail establishments, including gift, candy and coffee retailers, accounted for almost 11 percent. Chains were also represented. Almost 11 percent of this year's respondents were chains; grocery chains and department stores accounted for 7 and 4 percent of this year's respondents, respectively. Fifteen percent identified as online retailers.

Out of the 2017 respondents, 66.1 percent operate a single store, while 17.9 percent have two to 10 stores, and 16 percent operate more than 10 units.

On average, single store owners reported 2016 sales of \$773,445 while retailers with two or more stores reported sales of \$1.47 million.

LOCATION

More than half (68.6 percent) of gourmet retailers described their locations as "suburban" with 35.7 percent identifying as "neighborhood" and 20.5 percent as "downtown."

Gourmet retailers come in all sizes. The square footage of stores vary, with a median of 2,895 square feet for retailers with one location, while for two or more stores the median was 6,210 square feet. With 44 percent of respondents owning their retail locations, that leaves slightly more than half of retailers paying rent.

MIDDLE OF THE ROAD

When asked to rank their business on a scale of 1 to 10 (with 10 being sensational, 1 being awful) retailers overall gave 2016 a score of 6.7, with the first third of 2017 (January through April) receiving a slight upgrade to 7.

When it comes the future of gourmet retail, 41.8 percent are feeling more optimistic compared to a year ago. One-third (33.6) of respondents feel the same, and 24.6 percent are less optimistic.

BRICKS OVER CLICKS

Among all retailers surveyed, more than half (52.1 percent) now

have an e-tail site. When it comes to selling online, there was a significant difference between single-store operators (59 percent) and retailers with two or more stores (22.2 percent).

For those that do have an online storefront, those sales are continuing to contribute to the bottom line at a steady pace. Among the responding retailers with e-tail sites, online sales account for 18.5 percent of total sales. For retailers with two or more stores, online sales accounted for 30 percent of sales. That's a stark contrast to 2010; respondents to TGR's first State of the Industry survey reported that online sales tallied 11.1 percent of total sales.

However, not everyone is joining the e-tail club; several retail respondents said they don't plan to sell online and are instead "focusing on the in-store experience" and "working to create a better shopping experience." One retailer closed its online store "at least for now," citing cybersecurity concerns, a small staff and a lack of resources.

BOTTOM-LINE BUSTERS

For four years in a row, retailers agreed on the No. 1 operational concern: wage costs (cited as increasing by 63.8 percent), which this year was followed by technology spending (42.6 percent) and product prices (36.2 percent).

When it comes to net profit, nearly 60 percent said the amount had increased (23.4 percent) or stayed the same (36.2 percent) versus the



WAGE COSTS

Is the **No. 1**
operational concern

40.4 percent that reported a decrease in net profits.

More than 23.4 percent of respondents reported an increase in gross margin while 44.7 percent said it remains the same.

STABLE STAFFING

Staff turnover is about the same for three-fourths of the retailers surveyed. For 2017, 74.4 percent cited the same rate of staff turnover while only 21.4 percent say employee turnover was on the upswing.

When it comes to staffing, single stores reported an average 2.2 full-time employees, 5.5 part-timers and 1.4 seasonal employees. Retailers with two or more stores averaged 11 full-time employees, 6.7 part-timers and 1.7 seasonal employees.

COMPETITION

When asked about the top competitive threats they're facing, half of the retailers ranked online sales as No. 1. Supercenters (excluding Wal-Mart) garnered 23.9 percent of the vote, followed by Wal-Mart and chain supermarkets, both racking up 21.7 percent. Surveyed before the news of Amazon's deal to acquire Whole Foods Market, respondents downplayed the impact of the Austin, Texas-based natural supermarket's impact; only 8.7 percent ranked it as a top threat. By contrast, 14.9 percent of last year's respondents ranked Whole Foods Market as a top threat.

CONSUMER BEHAVIOR

When surveyed, average transaction size was on the downswing, averaging \$46.55 for the first four months of 2017, a decline from 2016's average of \$51; 40 percent of retailers surveyed reported an increase, while 44.4 percent said they

Staying Competitive with the Online World

In the seven years *The Gourmet Retailer* has conducted State of the Industry survey, retailers have commented about customers' showrooming their stores and competition from online retail. This year was no exception. Many retailers suspect their browsers are buying online, even on similarly priced or minimum advertised price (MAP) items. "Customers are using us to learn about the newest products..., but go online to purchase as they do not want to carry it home from the store," wrote one retailer.

This year we asked retailers to share how they're staying competitive in the face of online competition. The responses were varied. One retailer shared that his/her business has added in-store signage that compares its prices to those found online.

To attract more foot traffic, "We try to

provide more events in the store. Education, sampling, hands-on activities things they can't get online," said one retailer.

Many retailers noted their prices are inline with the competition's, and they are "increasing brands not readily available online," adding new products and stocking smaller sizes.

Others said they will be adding more products to their websites, and one retailer said his/her store will offer a "more curated approach."

One savvy retailer is doing video demos, "then adding the link directly to the website to purchase the products to make that dish."

Many retailers cited the importance of social media, especially Facebook and Instagram, in helping them connect with their customers and drive traffic to their in-store events.

52%

have an
e-tail site





remain the same for Q1 2017.

For 2016, 15.6 percent reported a decrease in transaction size, while 28.9 percent saw a decrease in the number of trips. On average, retailers had 1,151 customers per week in 2016.

SHOPPER TRAFFIC

Retailers ranked Local (1), Confectionary/Snacks (2), Gourmet Food (3), Coffee/Tea (4) and Private Label (5) as the categories posting the strongest increases in shopper traffic for 2016. For January through April 2017, a similar group of categories posted the strongest growth: Local came in on top, followed by Confectionary/Snacks, Gourmet Food, Coffee/Tea and Private Label.

In housewares and other non-edible offerings, the categories with the most growth were: Gadgets at the top spot, followed by In-Store Events, Cooking Classes, Tabletop/Textiles and Cutlery. For January through April, the ranking categories in housewares and other non-edible offerings with the most shopper traffic were: Gadgets (1) In-Store Events (2), Cooking Classes (3), Tabletop/Textiles (4), Catering and Cutlery (5).

GETTING TECHNICAL

With the increased focus on online retailing and social media, it's no surprise that retailers plan to invest in technology and their websites. For 2017, adding/updating technology is the top action item and will account for the most of capital expenditures. This year, 47.5 percent will invest in e-commerce or their store's website while 35 percent will pay to improve their in-store technology.

MARKETING

When it comes to marketing, retailers are digging deep into their tool kits, taking advantage of a wide range of channels. Hands down, social media is the tool of choice; 80 percent reported using it, followed by email at 72.5 percent. Several retailers emphasized the importance of Facebook and Instagram posts in connecting in with customers and driving in-store traffic.

Traditional media remains entrenched in the marketing tool kit. In-store flier (37.5 percent), direct mail (32.5 percent), loyalty programs (32.5 percent), and radio (32.5 percent), followed by weekly newspaper ad or flier (22.5 percent).

When planning to invest in new marketing vehicles, 20 percent will add email marketing, 15 percent plan to start a loyalty program, 7.5 percent are adding a gift registry to their list of services, and 12.5 percent plan to add a mobile app.

VENDOR RELATIONS

Retailers shared their frustrations about their vendors that sell via their website and ship products direct to consumers for free, while charging them for shipping and freight.

"Some vendors are taking a more active role in monitoring online MAP pricing. We certainly try to offer lines that either do not sell to Amazon or favor independent retailers as we are the ones that are on the front lines talking up their products," noted one retailer.

Having a regular schedule of in-store events or cooking classes is key to bringing in customers, noted several retailers. And using social media, such as Facebook and Instagram, is imperative to connect with local customers. One retailer shared the store is connecting with tourists thanks to ads in hotel directories and travel magazines that tout the experiences and in-store events. "People seem to like events that can provide a recreational outlet as well as shopping," the retailer noted.

What works for one gourmet retailer may not work for another in a different area of the U.S. market. Gourmet retail appears to be as varied as the stores that sell specialty food and gourmet kitchenware products. Overall most retailers surveyed remain optimistic for the remainder of 2017 and beyond. **TGR**