

**Progressive  
GROCER**

**85<sup>th</sup>  
ANNUAL  
REPORT  
OF THE  
GROCERY  
INDUSTRY**



## Retailers are learning quickly that slow and steady isn't what wins the race anymore.

**BY JIM DUDLICEK,  
BRIDGET GOLDSCHMIDT,  
RANDY HOFBAUER  
AND KAT MARTIN**

**C**onsumer confidence is higher than it's been since 2000, and it appears to be bolstering the mood of the nation's grocery retailers.

Responses to *Progressive Grocer's* 85<sup>th</sup> Annual Report of the Grocery Industry indicate that grocers are more optimistic about the current retailing climate than they have been since 2011. They started the year emboldened by tax reform that promised to free up cash to invest in their businesses and put more money in consumers' pockets.

Still, this rosy outlook may come as something of a surprise, considering events that have shaken the industry in the past year, including giant Amazon's emergence as a full-on player in grocery, from soup to nuts, through its acquisition of Whole Foods Market in late 2017; two regional grocery chains — Southeastern Grocers and Tops Markets — filing for bankruptcy; and German hard-discounter Lidl, which was expected to turn markets upside-down, scaling back its U.S. invasion plans after meeting less-than-expected success.

And while most of our survey respondents expect their net profits and gross margins to stay consistent with, or rise above, year-ago levels, a clear majority expect to be paying more in wages and benefits.

But despite a retail environment that promises to vanquish anyone caught napping, retailers, for the most part, are rising to the challenge. They've been forced to reassess their operations from every angle, accelerate the pace at which they innovate, streamline processes to free up resources for customer-focused initiatives, and bend over backwards to engage their shoppers, who crave convenience and excitement.

Just look at some of *PG's* recent headlines on the news roller coaster leading up to this issue: Walmart Expanding Grocery Delivery Nationwide. Kroger Expands Grocery Delivery Via Instacart. Aldi Expands Delivery. Meal Kits Explode in Brick-and-Mortar Stores. Walmart Introducing Meal Kits. Supermarkets Make Strong Showing in Customer Service Index. Walmart Closing

# 85<sup>th</sup> ANNUAL REPORT OF THE GROCERY INDUSTRY

Grocery Price Gap With Amazon. Voice-Ordering Products, Including Groceries, to Surge Through 2022. Amazon to Lay Off Hundreds. H-E-B to Acquire Delivery Service Favor.

PG's survey includes the responses of more than 140 retail grocery executives, including presidents, CEOs, c-level officials, store owners and managers, category managers and merchandisers, and store operations, sales, advertising and marketing executives. Amid the challenges of driving this \$680 billion industry, grocery retailers are most worried about labor, competitive threats and keeping up with advancements in technology.

To stay relevant in turbulent competitive waters, traditional grocers continue to focus on fresh departments, particularly prepared foods, shoring up their core competencies in the perimeter while retail rivals keep wrestling with this part of the service equation. Tech solutions for merchandising and marketing are a priority, and omnichannel competency is surging.

In fact, while store remodels led investment priorities a year ago, tech upgrades and online shopping top the list for 2018 and beyond. That's fortunate, in light of a Nielsen study, unveiled at the FMI Midwinter Executive Conference earlier this year, indicating that 70 percent of consumers will buy groceries online by 2024, accounting for \$100 billion in sales.

Consumers in large part hold grocers in high esteem. In the 2018 "Harris Poll Reputation Quotient" study, grocery retailers held four spots among the top 10 companies across all categories with the best reputations among the general public: Wegmans at No. 2, H-E-B at No. 6, Publix at eighth and Aldi at 10<sup>th</sup>.

No. 1? Amazon.

Year after year, the phrase "cautiously optimistic" manages to make its way into assessments of retail leaders' moods. But it has become increasingly clear that being too cautious is going to result in being left behind.

Does the Amazon revolution really mean the death of traditional retailing? Yes, but not necessarily the death of traditional retailers, provided they continue to aggressively pursue better ways to connect with and serve consumers — in other words, create a new tradition.

# 70%

**of consumers will buy groceries online by 2024, accounting for \$100 billion in sales.**

Source: Nielsen



## Methodology

*Progressive Grocer's* 85<sup>th</sup> 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 144 retail executive participants, 38 percent classify themselves as independent retailers, while 62 percent are self-distributing chains. Of the total respondents, 44 percent operate fewer than 50 stores, while 56 percent operate 50 stores or more. Additional store count and sales data are provided by Nielsen TDInx, which maintains a national database of supermarket and other retail format locations.

### Supermarket Sales by Format

	Number of Stores	Percent of Total	Sales (\$ millions)	Percent of Total
<b>Total Supermarkets (\$2 million or more)</b>	<b>38,571</b>	<b>100.0%</b>	<b>\$682,716</b>	<b>100.0%</b>
Supermarket-Conventional	26,551	68.8	430,494	63.1
Supercenter	4,393	11.4	173,492	25.4
Supermarket-Natural/Gourmet Foods	3,469	9.0	44,491	6.5
Supermarket-Limited Assortment	3,578	9.3	25,221	3.7
Warehouse Grocery	411	1.1	4,418	0.6
Military Commissary	169	0.4	4,601	0.7
<b>Other Formats</b>				
Conventional Convenience	154,262	N/A	450,907	N/A
Gas Station/Kiosk	19,921	N/A	n/a	N/A
Superette	12,475	N/A	19,118	N/A
Conventional Club	1,387	N/A	156,304	N/A
Military Convenience Store	696	N/A	4,204	N/A
Conventional Drug	28,959	N/A	178,243	N/A
Rx Only and Small Independent	14,210	N/A	13,420	N/A



**63.1%**

Grocery sales accounted for by conventional supermarkets, with the next most popular format, supercenters, accounting for 25.4 percent.

### Supermarket Sales by Sales Range

	Number of Stores	Percent of Total	Sales (\$ millions)	Percent of Total
<b>Supermarkets (\$2 million or more)</b>	<b>38,571</b>	<b>100.0%</b>	<b>\$682,716</b>	<b>100.0%</b>
<b>Chain (11 or more stores)</b>	<b>31,721</b>	<b>82.2%</b>	<b>646,627</b>	<b>94.7%</b>
\$2,000,000 to \$4,000,000	2,226	5.8	6,566	1.0
\$4,000,000 to \$8,000,000	7,174	18.6	42,840	6.3
\$8,000,000 to \$12,000,000	3,708	9.6	38,734	5.7
\$12,000,000 to \$20,000,000	4,875	12.6	79,487	11.6
\$20,000,000 to \$30,000,000	6,249	16.2	155,204	22.7
\$30,000,000 to \$40,000,000	3,480	9.0	120,917	17.7
\$40,000,000 to \$50,000,000	2,419	6.3	107,364	15.7
\$50,000,000+	1,590	4.1	95,515	14.0
<b>Independent (10 or fewer stores)</b>	<b>6,850</b>	<b>17.8%</b>	<b>\$36,089</b>	<b>5.3%</b>
\$2,000,000 to \$4,000,000	2,405	6.2	7,161	1.0
\$4,000,000 to \$8,000,000	3,862	10.0	20,927	3.1
\$8,000,000 to \$12,000,000	340	0.9	3,428	0.5
\$12,000,000 to \$20,000,000	177	0.5	2,751	0.4
\$20,000,000 to \$30,000,000	51	0.13	1,209	0.2
\$30,000,000 to \$40,000,000	13	0.03	443	0.1
\$40,000,000 to \$50,000,000	1	0.00	46	0.0
\$50,000,000+	1	0.00	124	0.0



**94.7%**

Sales accounted for by supermarket chains of 11 or more stores, with independents operating 10 or fewer stores making up the rest.

Source: Nielsen TDLinx; Progressive Grocer Market Research, 2018

# Here Comes the Sun

RETAILERS ARE FEELING EVER MORE OPTIMISTIC ABOUT THE RETAIL CLIMATE, WITH SOME EXCEPTIONS.

By Kat Martin

**T**he future looks bright, at least according to supermarket operators. Last year marked a return to increased optimism, but this year, retailers looking forward need to wear shades, with 51 percent of respondents to *Progressive Grocer's* Annual Report survey saying that they're more optimistic about the retail climate than they were last year. This number is the highest it's been since 2011, when the outlook hit a high of 54 percent — the highest in the past decade.

Looking forward to the rest of 2018, nearly half (42.3 percent) of retailers predict a good year, ranking the rest of the year as an eight or above on a 10-point scale, with 10 being sensational and one being awful — more than 82 percent foresee the rest of year as a six or higher. Even looking back at 2017, retailers retained their rosy outlook, with a quarter (24.4 percent) ranking 2017 as an eight or higher and nearly three-quarters (71.1 percent) as at least a six.

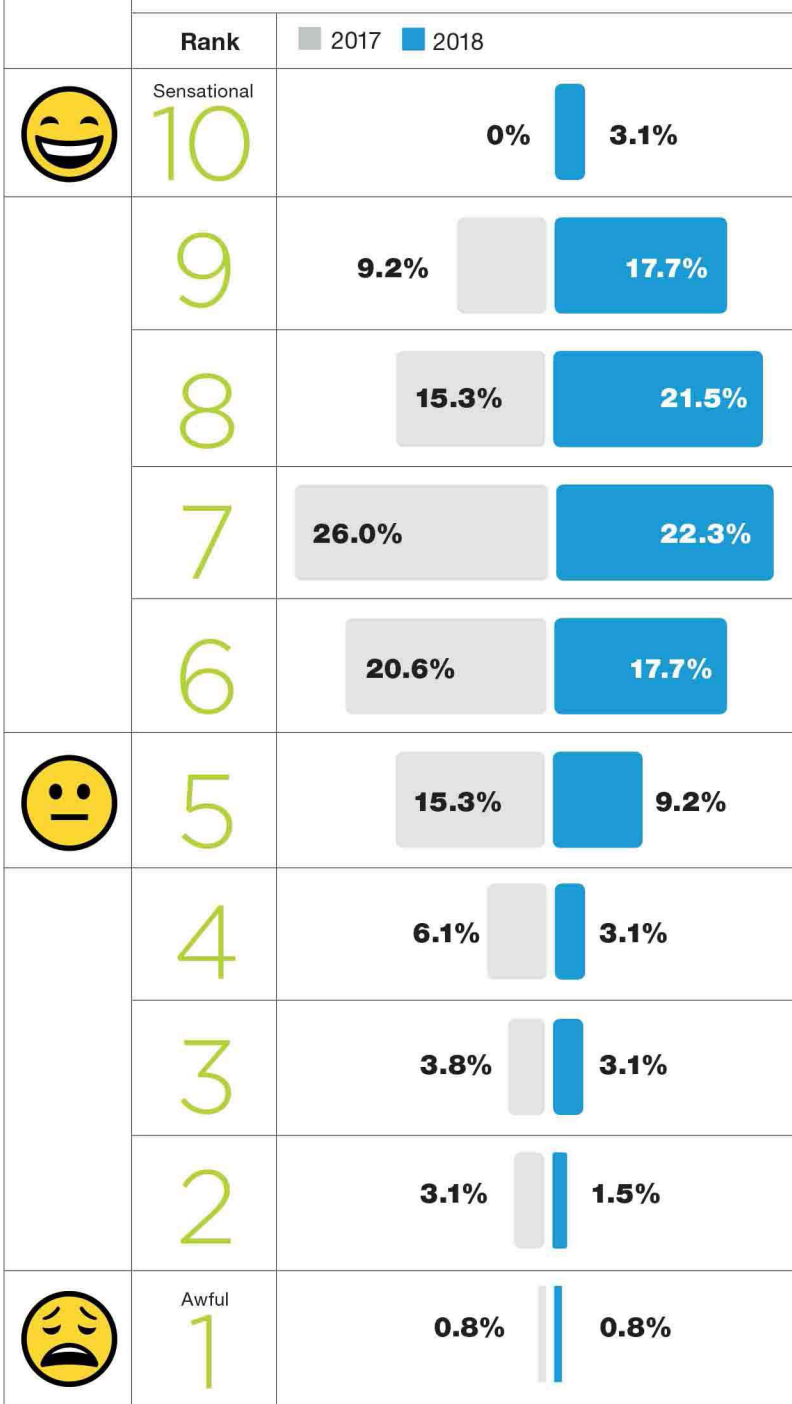
However, for those retailers operating smaller chains of fewer than 50 stores, the optimism is somewhat more muted, with only one-third foreseeing a great 2018 (an eight and above ranking), compared with the 42.3 percent overall, and just 20 percent looking back at 2017 as a great year (again, an eight and above ranking), compared with 24.4 percent overall. While smaller supermarket companies are often credited as being more nimble and able to adjust to change, they also don't usually have the financial resources to withstand a drawn-out fight for consumer dollars and market share that a larger chain can make use of.

## Gauging Confidence

Much of the overall optimism could stem from two things: consumers' own optimism, and the fact that many of the industry's bogeymen are out in the open.

First, consumer confidence is at its highest level since 2000, with The Conference Board Consumer Confidence Index hitting 130.8 in February. "Consumers' assessment of current conditions was

**Overall, what kind of year was 2017 for your company? And how do you view 2018 prospects for your company?**



Source: *Progressive Grocer* Market Research, 2018

more favorable this month, with the labor force the main driver,” said Lynn Franco, director of economic indicators at the New York-based board. “Despite the recent stock market volatility, consumers expressed greater optimism about short-term prospects for business and labor market conditions, as well as their financial prospects. Overall, consumers remain quite confident that the economy will continue expanding at a strong pace in the months ahead.”

Second, while the industry is struggling with recent store closures — Walmart closed 63 Sam’s Club stores, and Southeastern Grocers filed for bankruptcy and revealed that it would shutter 94 stores, to name just two examples — other troubling situations have become clearer. Whole Foods Market’s dicey financial situation has been resolved by its acquisition by Amazon, although the “fallout” from that move has yet to be fully seen, especially how the company’s ecommerce arm will truly affect grocery business. Further, both Walmart and Kroger are investing in technology by expanding or introducing scan-

51%

of Annual Report survey respondents say they’re more optimistic about the retail climate than they were last year, the highest percentage since 2011.

and-go technology to allow customers to skip the bottleneck at checkouts, and retailers across the country are ramping up delivery and click-and-collect programs to better compete.

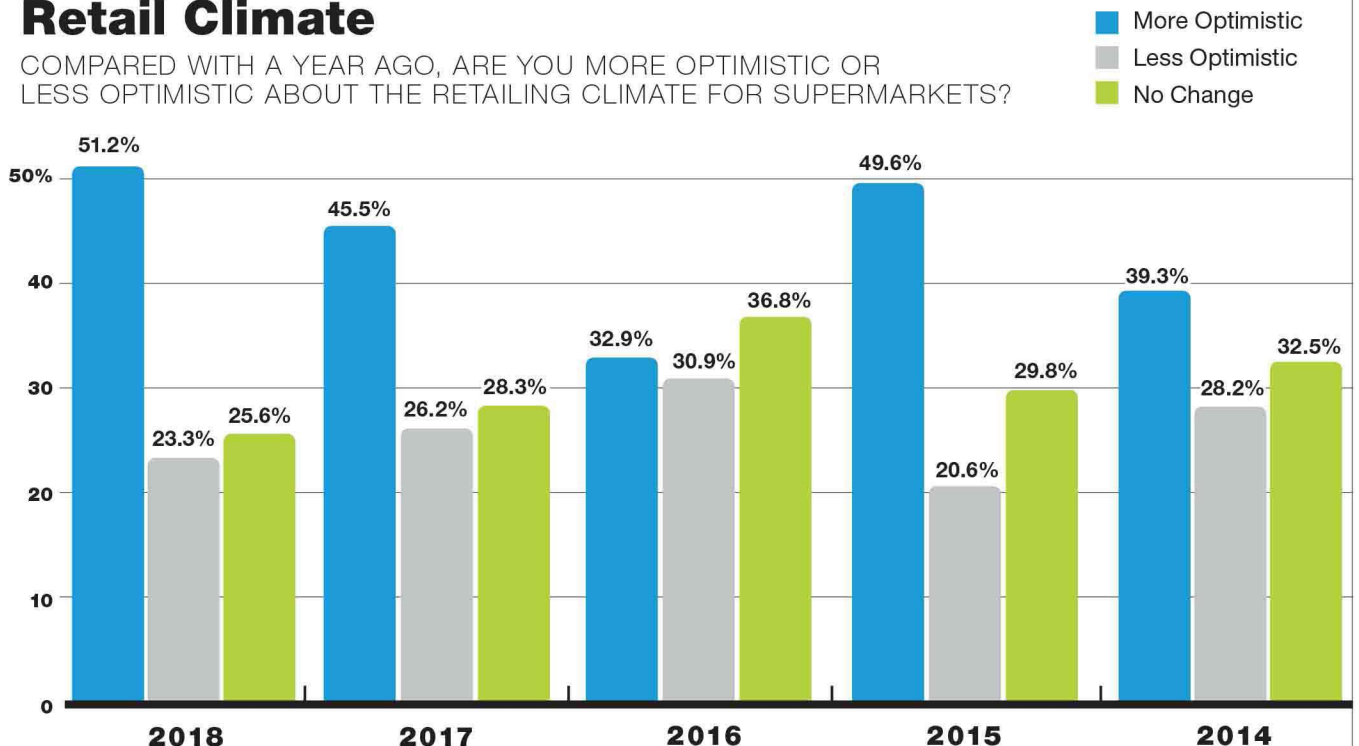
Also, Lidl entered the market to great fanfare and much publicity about the total number of stores it planned to open. The German discount retailer stumbled a bit out of the gate, scaling back its plan to have 100 stores open within a year of opening its first in June 2017. It currently operates about 50 stores, with plans to open about 20 more. Aldi, another German price discounter, is also expanding store locations — it added 150 in 2017 — and updating store

décor. These moves by value grocers are putting pressure on traditional retailers to keep prices low despite the easing of food deflation.

Many retailers complain of their operating areas being overstored (even as food deserts persist in the United States), but store growth has remained fairly stagnant, with 38,571 total supermarkets open at the end of 2017, compared with 38,441 the previous year.

## Retail Climate

COMPARED WITH A YEAR AGO, ARE YOU MORE OPTIMISTIC OR LESS OPTIMISTIC ABOUT THE RETAILING CLIMATE FOR SUPERMARKETS?



Source: Progressive Grocer Market Research, 2018

# Difference Engines

HOW GROCERS SEEK TO STAND OUT FROM THE COMPETITION IS EVOLVING.

By Bridget Goldschmidt

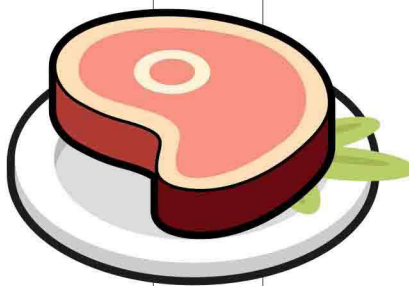
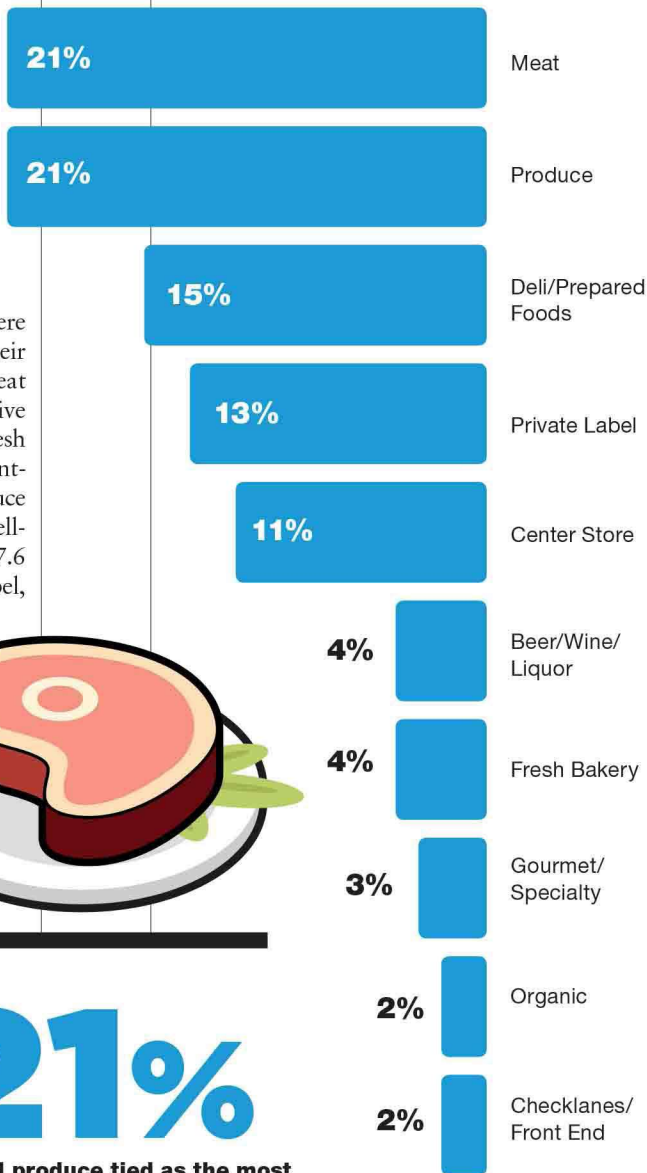
**S**ure, supermarket operators always want to differentiate from their rivals in any given geographical area — particularly in notoriously overstored regions like the Southeast — but the ways that they’re doing so are changing in tandem with shifting consumer needs.

For instance, when Annual Report survey respondents were asked about the most influential department in driving their stores’ overall brand, image or point of differentiation, meat and produce actually tied at 21 percent each, perhaps reflective of consumers’ rising interest in eating greater amounts of fresh fruit and vegetables, while last year, meat was the clear front-runner, selected by 37.8 percent of respondents, with produce lagging behind at 12.2 percent. Deli/prepared foods, a well-publicized section of late, garnered 15 percent, down from 17.6 percent in 2017. Next were the growing sector of private label, at 13 percent, up from last year’s 6.8 percent, and center store, at 11 percent, a precipitous decline from the 37.8 percent logged in 2017. Organic offerings, chosen by 8.1 percent of respondents last year, fell to just 2 percent this year, suggesting that with the wider accessibility of such products, shoppers are less likely to see them as a unique draw.

When it comes to generating sales, produce came in as the top department, displacing longtime champion meat, which dropped to third. Taking over the second spot was private label, moving up from last year’s fifth spot, while beer/wine/liquor held steady in fourth place and deli/prepared foods fell from second to fifth. Among the lower-ranked departments, seafood rocketed up five places from last year to land at No. 10, driven by consumers’ greater willingness to purchase and prepare fresh items found in that department.

For the departments driving the most traffic, produce also nabbed the top spot, switching places from last year with meat, which dipped to third place, while deli/prepared foods held on at No. 2. Rounding out the top five, checklanes/front end rose from seventh to fourth, while organic dropped a notch to fifth. Interestingly, pharmacy climbed six rungs from last year to capture sixth place, while fresh bakery, last year’s

## Most Influential Department in Driving Stores’ Overall Brand/Image/Point of Differentiation



**21%**

**Meat and produce tied as the most influential department in driving their stores’ overall brand, image or point of differentiation, while produce came in as the top department for generating sales and for driving traffic.**



Source: Progressive Grocer Market Research, 2018

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No. 6, fell to ninth. Also of interest: Ethnic products rose from 15<sup>th</sup> to 10<sup>th</sup> place, perhaps as consumers grow ever more comfortable preparing at home various cultures' cuisines.

When asked about the merchandising/brand enhancement services that were most important to their companies, this year's respondents overwhelmingly went for prepared foods, which a considerable 73.2 percent described as extremely/very important, a recovery of sorts from its fourth-place finish last year, but still below the 76.1 percent of respondents who deemed the category of paramount importance in 2016. Other crucial programs included signature products (72.6 percent), locally sourced products (67.9 percent), private label (65.5 percent), cross-merchandising (60.7 percent), and store-within-a-store specialty departments (54 percent). In common with last year, free WiFi (40.2 percent), in-store pharmacies (36.6 percent), BOGOs (33.9 percent), and cooking meal/prep stations (31 percent) were less popular options, although all but BOGOs upped their percentages from last year.

## Most Important Merchandising/ Brand Enhancement Services

PERCENT OF RESPONDENTS RATING EACH STRATEGY AS EXTREMELY/VERY IMPORTANT

Strategy	Percent
Prepared Foods	<b>73.2%</b>
Signature Products	<b>72.6</b>
Locally Sourced Products	<b>67.9</b>
Private Label	<b>65.5</b>
Cross-merchandising	<b>60.7</b>
Store-Within-Store Specialty Departments (i.e., organic, gluten-free, specialty cheese, housewares, etc.)	<b>54.0</b>
Free Wi-Fi	<b>40.2</b>
In-Store Pharmacies	<b>36.3</b>
BOGOs	<b>33.9</b>
Cooking/Meal Prep Stations	<b>31.0</b>

**Source:** Progressive Grocer Market Research, 2018



## Most Successful Departments at Generating Sales

Rank	Department	Percent
1.	Produce	65.7%
2.	Private Label	63.7
3.	Meat	59.8
4.	Beer/Wine/Liquor	58.8
5.	Deli/Prepared Foods	58.8
6.	Dairy	57.8
7.	Center Store	56.9
8.	Fresh Bakery	54.9
9.	Frozen Foods	53.9
10.	Seafood	48.0
11.	Organic	47.1
12.	General Merchandise	46.1
13.	Gourmet/Specialty	44.1
14.	Health, Beauty & Wellness	42.2
15.	Floral	38.2
16.	Checklanes/Front End	35.3
17.	Pharmacy	33.3
18.	Ethnic	30.4

## Most Successful Departments at Driving Traffic

Rank	Department	Percent
1.	Produce	57.8%
2.	Deli/Prepared Foods	51.0
3.	Meat	51.0
4.	Checklanes/Front End	41.2
5.	Organic	40.2
6.	Pharmacy	38.2
7.	Gourmet/Specialty	36.3
8.	Beer/Wine/Liquor	35.3
9.	Fresh Bakery	31.4
10.	Ethnic	30.4
11.	Center Store	28.4
12.	Private Label	27.5
13.	Health, Beauty & Wellness	25.5
14.	Seafood	25.5
15.	Floral	24.5
16.	Dairy	23.5
17.	General Merchandise	18.6
18.	Frozen Foods	17.6

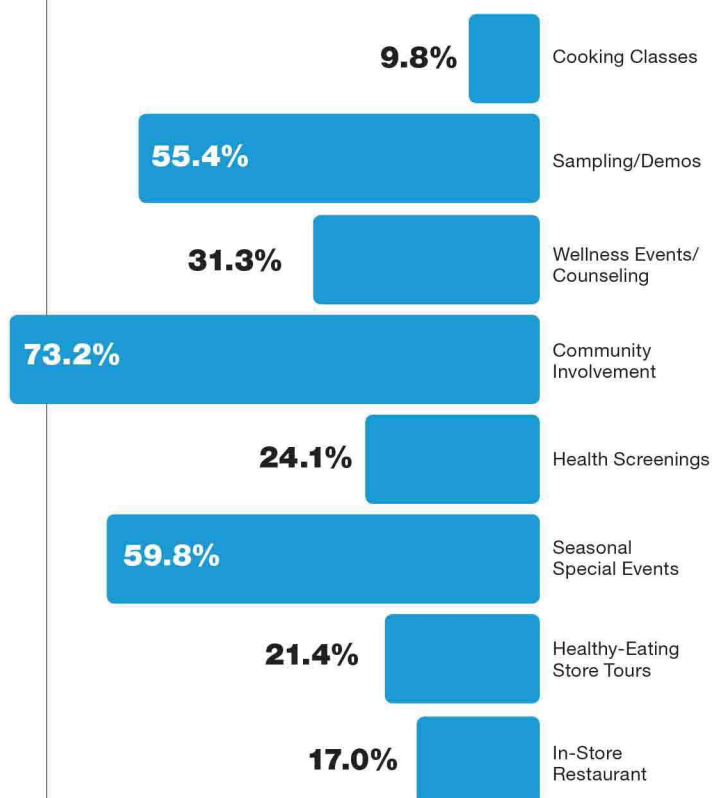
Source: Progressive Grocer Market Research, 2018

In the realm of customer interaction, meanwhile, community involvement continued to lead, with 73.2 percent rating it extremely or very important as a strategy. In common with last year, seasonal special events (59.8 percent) and sampling/demos (55.4 percent) maintained their second and third slots, although 2017's No. 4, healthy store tours, was eclipsed by wellness events/counseling (31.3 percent) and health screenings (24.1 percent). The next-to-last rung was occupied this year by in-store restaurants (17 percent), while cooking classes again brought up the rear, this time at 9.8 percent.

For in-store services, on-site butchers (63.4 percent) — despite the shift to produce as a sales and traffic generator — and community programming (41.1 percent) once more topped the chart of extremely or very important strategies, while seafood specialists (31.3 percent) fell behind service-based kiosks, at 32.1 percent, as consumer-friendly currency conversion, deli/bakery-ordering and wine-tasting booths continue to infiltrate retail. Although relatively less used by survey respondents, such amenities as wellness experts (24.1 percent) and registered dietitians (17.9 percent) still outdid their 2017 percentages, indicating increased deployment in stores.

## Most Important Customer Interaction Strategies

PERCENT OF RESPONDENTS RATING EACH STRATEGY AS EXTREMELY/VERY IMPORTANT



Source: Progressive Grocer Market Research, 2018

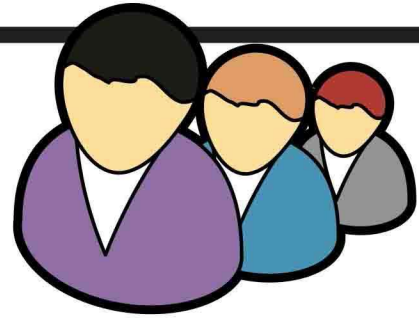
# Work in Play

TALENT, TECH LEAD TALLY OF EXEC'S TOP-OF-MIND ISSUES. **By Jim Dudlicek**

**A**s grocery retailers attempt to better cater to younger consumers, they're apparently concerned with having the appropriate workforce to keep them on the right path.

With Millennials' purchasing power continuing to grow and Generation Z's not far behind, retailers are going to need to make the grocery industry more attractive as a career choice so that their talent within reflects the audience to whom they need to appeal.

It makes sense, therefore, that retail executives responding to *Progressive Grocer's* survey named labor as the top issue keeping them up at night. Replacing benefits (which dropped to No. 7) at the head of the list, recruitment, retention, diversity and



**66.7%**

Labor is the top issue keeping grocers up at night, replacing benefits, which dropped to No. 7.

## What are the big issues keeping you up at night?

■ Current Ranking  
■ Year Ago

<p><b>No. 1</b></p> <p><b>66.7%</b></p> <p><b>Labor</b> (recruitment, retention, diversity, training)</p>	<p><b>No. 2</b></p> <p><b>58.3%</b></p> <p><b>Competitive Threats</b></p>	<p><b>No. 3</b></p> <p><b>45.0%</b></p> <p><b>Keeping up with Advancements in Technology</b></p>	<p><b>No. 4</b></p> <p><b>38.3%</b></p> <p><b>Online Sales/Omnichannel</b></p>	<p><b>No. 5</b></p> <p><b>34.2%</b></p> <p><b>Market Saturation</b></p>	<p><b>No. 6</b></p> <p><b>30.8%</b></p> <p><b>Increasing Overhead Costs</b> (energy, infrastructure maintenance, etc.)</p>	<p><b>No. 7</b></p> <p><b>30.0%</b></p> <p><b>Benefits</b> (minimum wage, Affordable Care Act, etc.)</p>
<p>No. 2</p> <p><b>48.9%</b></p>	<p>No. 3</p> <p><b>42.8%</b></p>	<p>No. 9</p> <p><b>24.5%</b></p>	<p>N/A</p>	<p>No. 7</p> <p><b>28.1%</b></p>	<p>No. 8</p> <p><b>27.9%</b></p>	<p>No. 1</p> <p><b>50.3%</b></p>
<p><b>No. 8</b></p> <p><b>24.2%</b></p> <p><b>Price Increases</b></p>	<p><b>No. 9</b></p> <p><b>20.0%</b></p> <p><b>Sustainability</b></p>	<p><b>No. 10</b></p> <p><b>18.3%</b></p> <p><b>Data Protection/Security</b></p>	<p><b>No. 11</b></p> <p><b>17.5%</b></p> <p><b>Food Safety</b></p>	<p><b>No. 12</b></p> <p><b>16.7%</b></p> <p><b>Trust/Reputation</b></p>	<p><b>No. 13</b></p> <p><b>6.7%</b></p> <p><b>Transparency</b></p>	<p><b>No. 14</b></p> <p><b>3.3%</b></p> <p><b>Feeding the Hungry</b></p>
<p>N/A</p>	<p>No. 10</p> <p><b>17.8%</b></p>	<p>No. 5</p> <p><b>31.2%</b></p>	<p>No. 6</p> <p><b>28.7%</b></p>	<p>No. 11</p> <p><b>16.8%</b></p>	<p>No. 13</p> <p><b>4.4%</b></p>	<p>No. 12</p> <p><b>5.2%</b></p>

Source: Progressive Grocer Market Research, 2018

# Progressive GROCER 85<sup>th</sup> ANNUAL REPORT OF THE GROCERY INDUSTRY

training of a workforce to propel them into a new era are seen as key concerns for the coming year.

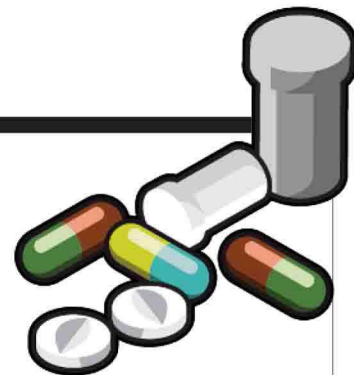
“We’ve grown so fast in the last five years, the biggest thing is help,” says Doug Cygan, president of Itasca, Ill.-based Jewel-Osco, a 187-store grocery chain in metro Chicago that’s part of Albertsons. “We hire people at a record pace. We’ve got 32,000 people, one of the biggest employers in the state of Illinois. But just finding people to work in our stores — we’re hiring at almost every location we have. We’re looking for future leaders, for future managers. So we continue to hire, teach, train people to be successful. It’s the thing that keeps us up the most at night.”

Keeping up with advancements in technology (ranked ninth last year) and online sales ranked third and fourth, respectively — understandably, considering Amazon’s acquisition of Whole Foods Market and the accelerated pace at which technology is taking over all aspects of retailing, from shopping to checkout to delivery to the supply chain.

Industry statesman Fred Morganthall, the now-retired executive who led Southeastern grocery chain

“**Right now, retail pharmacies must conduct business in an unpredictable environment where we are unsure of reimbursements and fees for administering much-needed medication for our customers.**”

—**Randy Edeker**, chairman, CEO and president, HyVee



Harris Teeter through its merger with The Kroger Co., recently told an audience at Western Michigan University’s Food Marketing Conference that retailers should be redirecting brick-and-mortar cap ex budgets to online. “If you don’t do that, I don’t think there’s a future,” Morganthall remarked.

But it’s clear that nearly every issue related to being a relevant retailer in today’s climate is constantly

# 85<sup>th</sup> ANNUAL REPORT OF THE GROCERY INDUSTRY

on the minds of grocery executives.

“The biggest issue that keeps me up at night is the rising cost of doing business, in particular, the ongoing increase in DIR [direct and indirect remuneration] fees,” says Randy Edeker, chairman, CEO and president of West Des Moines, Iowa-based Hy-Vee, which operates nearly 250 supermarkets and as many retail pharmacies, and is the parent company of Amber Pharmacy and Hy-Vee Pharmacy Solutions.

“Right now, retail pharmacies must conduct business in an unpredictable environment where we are unsure of reimbursements and fees for administering much-needed medication for our customers,” Edeker tells *PG*. “Operating in this business situation creates uncertainty not only for a retailer, but most importantly its patients who are trying to navigate an already complex health care system.”

In a retail atmosphere that’s focused on convenience and the individual consumer experience, Edeker notes, “My thoughts are on meeting personal shopping needs and on-the-go habits while providing an overall great customer service experience for everyone who walks through the door at Hy-Vee.”

The provider that adapts to emerging trends and acts quickly to enable continued growth will be rewarded with loyal customers, according to Judy Spires, chairman and CEO of KB Holding Inc., a Delaware-based investment firm that owns Kings Super Markets and Balducci’s, which operate a combined 35 locations in the northeastern United States.

“We are in a new era of food solutions, one that is full and ripe with exciting opportunity,” Spires says. “In our industry, the consumer is willing to try anything and is open to tasting new flavor profiles, all while on the quest for the very best quality. Businesses survive and thrive by accepting change and planning for it. My team has clear insight into these trends, and we see the path to success. With so many opportunities, prioritization is an important ingredient to determine our future and what we’ll continue driving forward to move our business ahead.”

Edward “Trey” Basha, president and CEO of Chandler, Ariz.-based Bashas’ Family of Stores, which operates 130 locations under three banners, observes that growing sales, integrating innovation and battling competition “are three key components of everyone’s sleepless nights.”

Basha continues: “Sales will always be a crucial driver of success in the grocery industry, and finding ways to increase sales is a delicate balance of having the right products on the right shelves and in the right stores. What’s equally important is that we’re taking care of, and responding to, our customers.”

Basha expects online sales to grow in the coming year. “With online delivery of shelf-stable and nonfood items becoming more of the norm, especially for time-pressed families, organizations need to grow these areas with the demand,” he said. “This connects with the critical element of continuing to invest in remodels and technology, with the end goal of providing a better shopping environment for our customers and a better work environment for our employees.”

# Won't Back Down

GROCCERS STRIVE TO KEEP UP WITH THE LATEST TECH SOLUTIONS.

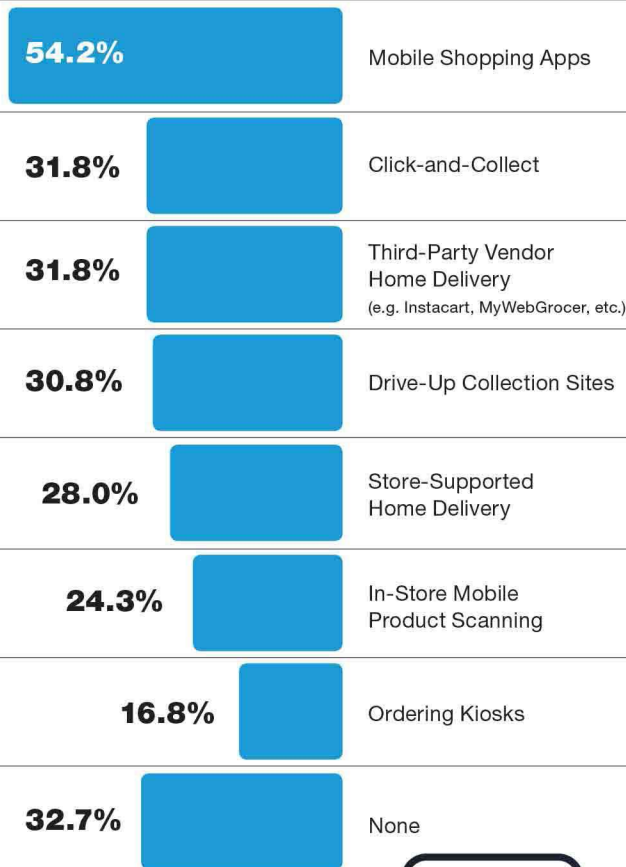
By Randy Hofbauer

**A**lthough human capital and competition remain the chief concerns over which grocers lose sleep, keeping up with technology has reached unprecedented heights of concern, rising to No. 3 (45.5 percent) from No. 9 since last year's Annual Report. And while Amazon might have many grocers backed into a corner, these retailers aren't going down without a fight: Nearly three in four (73.6 percent) respondents plan to increase their technology spend in 2018.

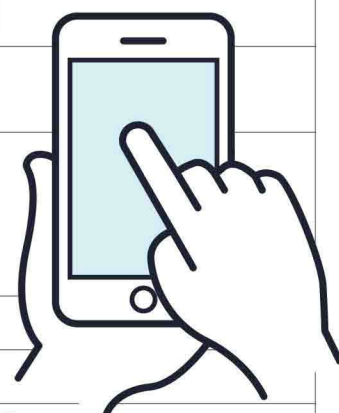
Technological innovations for marketing and merchandising have taken priority over traditional methods in 2018: Taking up the top three spots on the list of important strategies are in-store signage/digital media (71.1 percent), digital marketing (67.5 percent) and mobile marketing (57.9 percent), trailed far behind by direct mail (38.6 percent), newspaper inserts (29.8 percent), newspaper ads (23.7 percent), radio advertising (19.3 percent) and TV advertising (18.4 percent).

The biggest news comes on the omnichannel front: Fewer grocers are still in the planning and development phase, with 56.1 percent — compared with 43.3 percent last year — currently executing or running a fully integrated strategy using in-

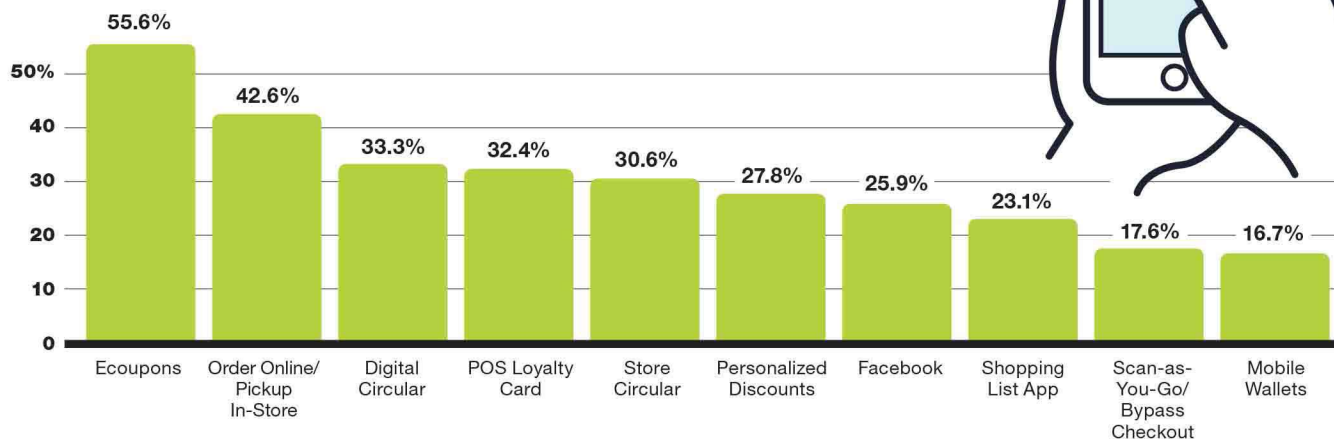
## What omnichannel services do you offer?



Source: Progressive Grocer Market Research, 2018



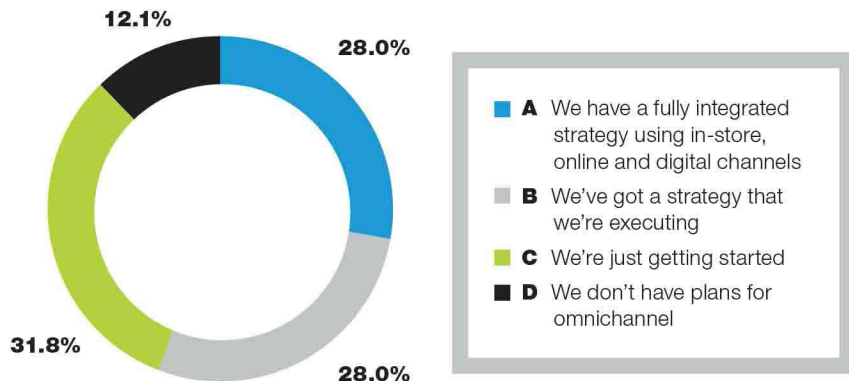
## What do you consider to be the most advantageous benefit offered by mobile devices/smartphones?



Source: Progressive Grocer Market Research, 2018



**Please grade your company's strategy for connecting with consumers at multiple touchpoints**



Source: Progressive Grocer Market Research, 2018

store, online and digital channels. However, smaller chains are further behind than larger ones, showing the advantages that third-party companies can have in assisting where scale and resources might be limited: While about one-third (32.1 percent) of respondents with fewer than 50 stores (versus 79.6 percent of those with 50-plus locations) are executing or running a fully integrated strategy, roughly half (50.9 percent) said they're just getting started.

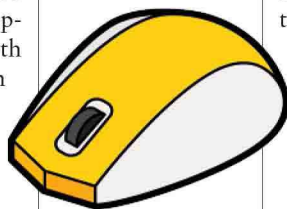
Although last year's report showed growth only in select omnichannel services being offered compared with the year prior, this year's showed robust expansion across the board. Mobile shopping apps saw the strongest amount of growth — from 29.6 percent to 54.2 percent — which corresponds with a shift in what grocers value in mobile devices over the past year.

Social media no longer seems to be the greatest value in mobile for grocers: Facebook, which topped last year's list, fell dramatically in this year's survey (59.1 percent to 25.9 percent), while order online/pickup in-store (42.6 percent versus 27.9 percent last year); POS loyalty card (32.4 percent versus 23.6 percent); ecoupons (55.6 percent versus 51.9 percent); and personalized discounts (27.8 percent versus 23.4 percent) saw stronger favor. Mobile wallets and scan-as-you-go/bypass checkout, although not represented last year, were selected by 16.7 percent and 17.6 percent of respondents, respectively.

Several grocers have been working to connect their loyalty and coupon pro-

grams with their ecommerce operations over the past year, including Northeastern club chain BJ's Wholesale Club, Minnesota grocer Lunds & Byerlys, and Midwest retailer-wholesaler SpartanNash. Other grocers nationwide, such as Jewel-Osco, Safeway, and Stop & Shop, have even worked to bring digital coupons to Supplemental Nutrition Assistance Program (SNAP) participants. Meanwhile, retailers large and small have worked to expand mobile wallet functionality across stores, including Walmart, Target and Kroger, while checkout-free technology has also expanded from giants like Kroger and Walmart to independents such as Macey's in Utah.

Aside from mobile shopping apps, all omnichannel offerings other than click-and-collect saw double-digit growth over the past year. This could be because click-and-collect saw strong growth in last year's report, meaning that grocers have moved into more sophisticated waters — for instance, in-store mobile product scanning (24.3 percent versus 8.5 percent) and ordering kiosks (16.8 percent versus 2.8 percent) saw some of the most impressive growth, while delivery services — whether store-supported (28 percent versus 14.1 percent) or third-party (31.8 percent versus 16.9 percent) — also had their year in the sun, possibly due to Amazon's ante-upping in the space: Walmart, Target, Albertsons and Costco alone have been working to expand same-day delivery. Click-and-collect still grew, however, with nearly one-third of grocers now offering it, compared with just more than one-fifth last year. **PG**



**56%**

**of grocers are currently executing or running a fully integrated omnichannel strategy using in-store, online and digital channels.**