

**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.

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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 eetailing 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 etail 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.

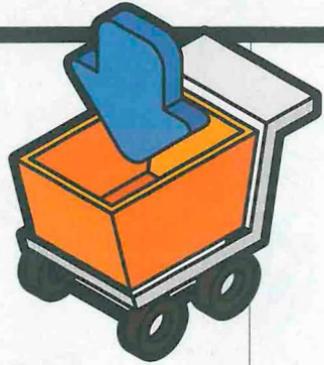
Year after year, the phrase "cautiously optimistic" manages to make its way into assessments of retail leaders' moods. But it has become increasingly clear that being too cautious is going to result in being left behind.

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 TDLinx, 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

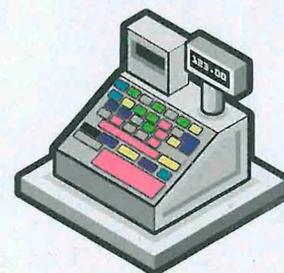


**63.1%**

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