

Grocery Stores & Supermarkets

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Industry Overview

Companies in this industry operate retail stores that offer a general selection of food products. Major companies include Kroger, Safeway (owned by Albertson's), and Publix (all based in the US), as well as Carrefour (France), Tesco (the UK), Lidl and Aldi (Germany) and AEON (Japan).

Global grocery store and supermarket sales total more than \$2 trillion annually. The leading 15 retailers account for more than 30% of worldwide sales.

The US retail grocery industry includes about 65,000 supermarkets and other grocery stores with combined annual revenue of about \$600 billion.

Discount stores and warehouse clubs, which are leading sellers of groceries, are covered in separate industry profiles.

Competitive Landscape

Population growth and **consumer tastes** drive demand. Intense price competition keeps margins low. As such, the profitability of individual companies depends on high volume sales and efficient operations. Large companies can offer a wide selection of products and have advantages in purchasing, distribution, marketing, and finance. Small companies can compete effectively by offering specialty products, serving a local market, or providing superior customer service. The US industry is **concentrated**: the 50 largest companies generate about 70% of revenue.

Discount stores and **warehouse clubs** have aggressively pursued the retail grocery market, and Wal-Mart is the largest seller of groceries in the US. Other competition includes specialty food stores, convenience stores, drugstores, dollar stores, and, to some degree, restaurants. In addition, nonstore retailers such as AmazonFresh and Fresh Direct are capturing a growing market share of the grocery market. Although **online grocery sales** are estimated to account for less than 5% of total US grocery sales, they are projected to increase by about 21% annually through 2018, according to data from BI Intelligence reported by *Internet Retailer*. Brick-and-mortar supermarkets are expected to see sales rise by about 3% per year over the same period.

Products, Operations & Technology

More than two-thirds of products sold by grocery stores are food items, including meats (11% of overall sales); produce (10%); dairy products (7%); and frozen foods (5%). Nonfood items include health and beauty products, general merchandise, medication (including prescription drugs), and fuel, at some locations. Fuel may account for a significant percentage of overall sales. At Kroger, for example, 13.5% of sales came from fuel in 2015.

The industry includes national and regional chains and independent retailers. Large companies may operate multiple chains under **different banners**. Because grocery stores typically serve customers within a one- to two-mile radius, companies carefully consider demographics when selecting store locations.

Grocery stores typically group similar merchandise into **aisles** to aid shoppers. Stores may have **bakeries**, **delis**, **pharmacies**, and **floral** departments. **Prepared foods sections** serve consumers looking for ready-to-eat items. Companies may have sections dedicated to **specialty categories**, such as organic or ethnic products. Through third parties, companies may have in-store restaurants, banks, coffee shops, or gas stations. Most grocery stores have multiple checkout lanes to process orders and bag merchandise. Some retailers offer **self-checkout** lanes.

Because grocery retailing is generally a high volume/low margin business, effective **supply chain management** is key to keeping costs low. While large companies buy directly from manufacturers, small chains and independent retailers rely on wholesalers. Depending on product mix, companies may buy from many distributors and use **food brokers**. **Volume discounts** allow big chains to keep prices low. Manufacturers typically offer **additional trade funds**, which allow grocery stores to discount or promote certain products without sacrificing margins.

Most chains have distribution centers that receive and redistribute merchandise among individual stores. Companies may own or lease **truck fleets** to transport goods. To reduce transportation and distribution costs, large chains may arrange for **direct shipment** from manufacturers to stores for certain large orders. Because storage space is limited, individual stores may receive shipments frequently, particularly for perishable items.

Grocery stores must track a staggering number of individual products in various **flavors**, **sizes**, and **packaging formats**. On average, a typical supermarket carries more than 42,000 items. Proper **category management** maximizes the use of valuable **shelf space** and helps minimize inventory shrink due to **spoilage**. Buyers and merchandising staff decide which items to stock, discontinue, or promote. Retailers typically **feature** and discount different products weekly. Many retailers charge manufacturers **slotting fees** to stock new products. Companies typically offer a mix of **brand name** and **private-label** products, and may **customize** merchandise

selection based on the demographics of the surrounding market area.

Technology

Because of the large volume of grocery products companies must manage, retailers rely on **computerized information systems** to link operations and analyze data. Point-of-sale (POS) systems use **scanners** to read a product's Universal Product Code (UPC) and process sales transactions and credit card payments. Inventory management programs track products through the supply chain and may automatically reorder products when merchandise runs low. Some grocery chains are turning to electronic food safety monitoring technology to speed safety inspections and create and maintain an automated Hazard Analysis & Critical Control Points (HACCP) trail. A small number of large retailers are experimenting with **radio frequency identification** (RFID) systems to monitor product movement. Most large companies use **electronic data interchange** (EDI) to manage purchasing operations.

Some companies have started using iPhone-compatible iBeacon technology to push location-specific data such as **digital coupons** and shopping list reminders to customers. Stores are also incorporating digital coupons into loyalty card or shopper rewards programs. Some companies are testing handheld scanners and cart-attached devices to track purchases as a customer shops. In addition, stores have upgraded technology platforms to support "click and collect" programs, in which customers place an order online and pick up in store or at a designated location. Mobile applications are providing two-way communication between shoppers looking for information about prices, promotions, and ingredients, and retailers and consumer products manufacturers collecting customer data to more effectively sell to them.

Sales & Marketing

The typical grocery store customer is a **female head of household**, according to the Food Marketing Institute. **Households with children** spend considerably more on groceries than childless households.

Marketing and promotional vehicles include newspaper, print, and TV advertising; direct mail; and in-store events. **Free standing insert (FSI) coupons** delivered via newspaper, retail price discounts, and end-aisle displays are common promotions. Wal-Mart Stores and a growing number of retailers deliver **digital coupons** directly to shoppers' smartphones. **Sampling** events help retailers promote new products. **Customer loyalty programs** reward frequent shoppers with special discounts or gifts.

Most large supermarket chains have added a **social media** element to their marketing programs. Chains may use Twitter, Facebook, Pinterest, YouTube, and other social sites to connect to customers, introduce new products, and promote contests and charity drives.

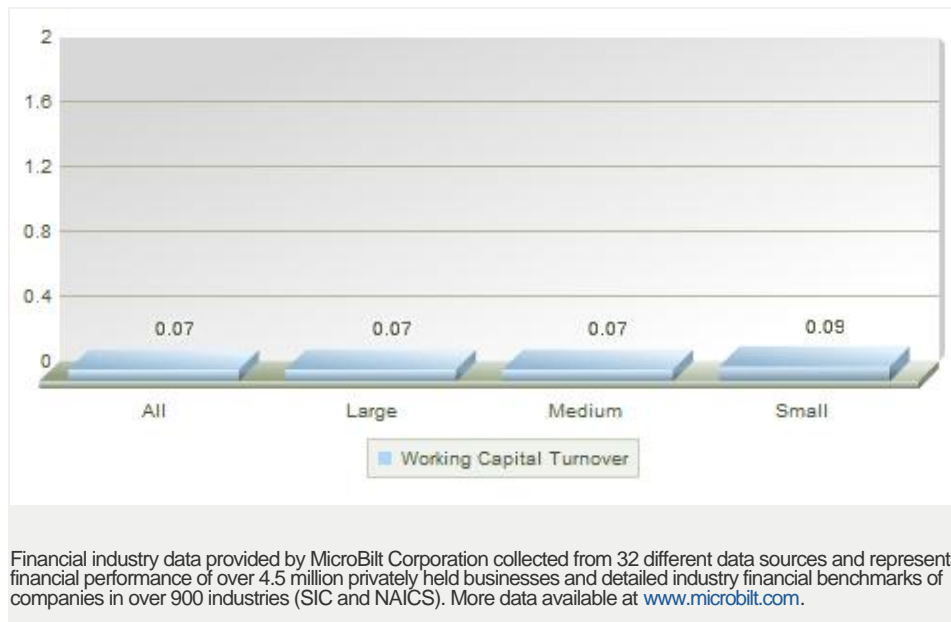
Finance & Regulation

While overall **cash flow** is generally stable throughout the year, demand for certain types of products (such as turkeys, stuffing, and candy) can be highly seasonal. Companies depend on **rapid inventory turns** to avoid write-downs on spoiled merchandise. For the industry in the US, inventories average about 35 days' sales. Accounts receivables are negligible, since most customers pay with cash, checks, or third-party credit cards. At 25% of sales, **gross margins** are low compared to those of most retailers. Net income is generally less than 0.5% of sales.

Payroll is the industry's largest expense and accounts for more than 10% of a grocery retailer's operating cost. The median investment required to open a new store is just over \$6 million. A typical store requires remodeling every six to seven years at an average cost of almost \$3 million.

Working Capital Turnover by Company Size

The working capital turnover ratio, also known as working capital to sales, is a measure of how efficiently a company uses its capital to generate sales. Companies should be compared to others in their industry.



Regulation

Federal, state, and local regulations govern health and sanitation standards, food labeling and safety, and labor practices. Companies require licenses to sell food, alcoholic beverages, and medication. **Product recalls** as a result of contamination have caused increased scrutiny by both consumers and government agencies, such as the FDA. The 2011 Food Safety Modernization Act (FSMA) aims to ensure the safety of the US food supply by shifting focus from responding to contamination to preventing it. Workers who handle food must have health certification in some states.

The FDA has proposed menu labeling regulations for retail food establishments, including grocery stores. The new rules require establishments with 20 or more locations to post calorie counts for certain items available for in-store consumption. The compliance date for those covered by the rule is December 2016.

International Insights

Global grocery store and supermarket sales total about \$2 trillion annually. The leading 15 retailers account for more than 30 percent of worldwide sales. The largest grocery companies based outside the US include Carrefour (France), Tesco (the UK), Lidl and Aldi (Germany), and AEON (Japan).

Large multinational grocery firms have expanded into **developing countries** alongside food manufacturers in recent years. Consumer demand for food varies by geography, and food producers are often driven by private retail brands that are particularly popular in certain regions. For instance, the top four manufacturers of soup, breakfast cereal, and baby food, respectively, command at least 40% in every regional market.

Global grocers face significant challenges in acquiring and developing sites for new locations. Such challenges can range from finding suitable sites to obtaining the necessary local or regional consent. Grocers that rely on international expansion must closely monitor property matters in the countries in which they operate to ensure they comply with local construction, legal, and regulatory standards.

Despite the risks inherent in **international expansion**, many large grocers cite high-growth regions as important components of their overall strategy. For example, METRO has targeted Eastern Europe and Asia as key expansion markets. By locating in developing nations, grocers can take advantage of the country's growing population and increasing purchasing power. In addition, some grocers have expanded into mature markets outside their home regions. Newly merged Netherlands-based Ahold Delhaize, for example, owns leading grocery chains in the eastern US.

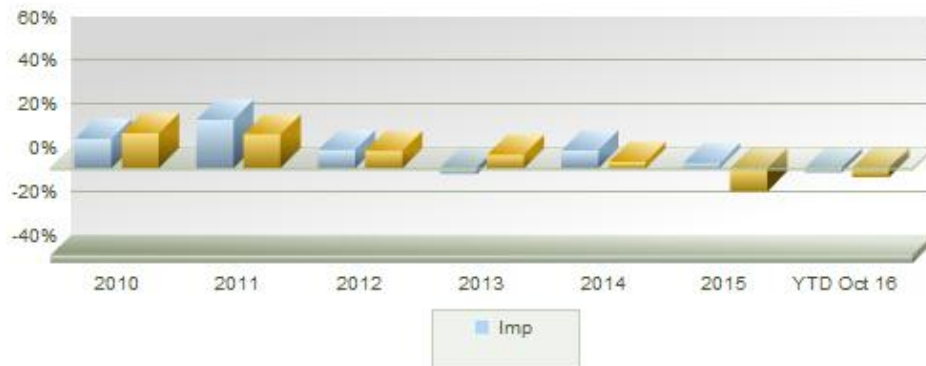
Grocery stores rely on imports for **out-of-season produce**, seafood, and many ethnic foods. Mexico is an important supplier of fruits and vegetables. Nearly all bananas consumed in the US are imported from Latin American countries. Canada, Chile, and many Asian countries, including China, Thailand, Indonesia, and Vietnam, are major suppliers of seafood. Because foreign countries may have different sanitation standards, the safety of imported foods has become a concern for government agencies and consumers.

Change in Dollar Value of US Trade - US International Trade Commission

Imports of food products to the US come primarily from Canada, Mexico, Australia,

China, and New Zealand. Major export markets for US food products include Canada, Mexico, Japan, China, Korea.

311 FOOD AND KINDRED PRODUCTS



Regional Highlights

In the US, demand for certain products or grocery categories can vary by region or market area. For example, large Hispanic and Asian populations in California, New York, Texas, and Florida drive sales of ethnic foods.

Human Resources

Most jobs in grocery stores require few skills. As a result, average hourly industry wages are significantly lower than the national average, and personnel turnover is high. To fill shifts at odd hours, grocery stores rely on part-time help. Most positions involve cashiering, restocking, food preparation, and bagging. The industry employs about 3.4 million workers. Unionization rates among supermarket workers are declining but still exceed those of retail workers in general.

The injury rate for the industry in the US is 60% higher than the average for all US workers. Heavy lifting associated with restocking and cutting required for food preparation put workers at increased risk of injury.

Industry Employment Growth Bureau of Labor Statistics



Average Hourly Earnings & Annual Wage Increase Bureau of Labor Statistics



Industry Growth Rating



Demand: Tied to population growth and consumer tastes
 Need good merchandising and high volume sales
 Risk: Increasing competition and low margins

Quarterly Industry Update

11.7.2016

Challenge: Produce is Best Weapon against Amazon - High-quality fruits and vegetables are emerging as a physical store's best defense against growing competition in the grocery sector from Amazon.com, according to *The Wall Street Journal*. Food retailers, including Walmart and Ahold USA, are investing heavily to improve their produce departments with the knowledge that many customers decide where to shop based on the quality of the produce and other fresh foods. Indeed, shoppers who don't buy groceries online cite the desire to pick their own produce as the primary reason, a recent online survey of 5,000 customers in five countries conducted by Morgan Stanley and reported in the *Journal* found. Amazon is going after a piece of the produce pie. The online giant is looking to open 20 brick-and-mortar grocery stores over the next two years under the Amazon Fresh banner, according to *Progressive Grocer*. Amazon predicts the US market could accommodate up to 2,000 Amazon Fresh locations over the next decade.

Industry Impact - Grocery stores and supermarkets looking to defend their turf from Amazon.com will want to play up their selection of fresh fruits and vegetables and other perishable foods.

Industry Indicators

US consumer spending on nondurable goods, an indicator of grocery sales, rose 0.2% in October 2016 compared to the same month in 2015.

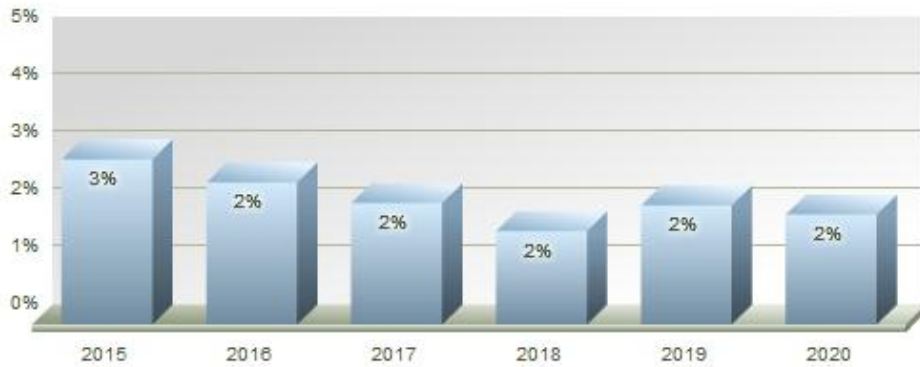
The consumer price index for food, an indicator of grocery store and supermarket product values, fell 0.4% in November 2016 compared to the same month in 2015.

US retail sales for food and beverage stores, a potential measure of demand for grocery items, increased 2.3% in the first eleven months of 2016 compared to the same period in 2015.

Industry Forecast

US personal consumption expenditures at grocery stores and supermarkets are forecast to grow at an annual

compounded rate of 2% between 2016 and 2020. Data Published: September 2016



First Research forecasts are based on INFORUM forecasts that are licensed from the Interindustry Economic Research Fund, Inc. (IERF) in College Park, MD. INFORUM's "interindustry-macro" approach to modeling the economy captures the links between industries and the aggregate economy. [Forecast FAQs](#)

Industry Drivers

Changes in the economic environment that may positively or negatively affect industry growth.

Data provided by First Research analysts and reviewed annually



Consumer Spending Change in overall level of consumer spending on goods and services

Critical Issues

Competition from Alternative Retailers - As discount stores realized the traffic-driving power of food sales, competition for grocery stores became more intense. By buying in enormous volume, mass merchandisers and warehouse clubs have become low price leaders: Wal-Mart is the largest food retailer in the US and holds an estimated 25% of the US grocery market. In addition, time-starved consumers are spending a greater percentage of food dollars away from home at restaurants, and online sales of groceries are rising.

Low Margins - Grocery stores operate with extremely low margins and depend on volume to generate profits. Profit margins can be razor-thin: in some cases, grocery stores net less than a penny per dollar of retail sales. Competition limits a company's ability to raise prices.

Business Challenges

Large Companies Dominate - Small companies struggle to survive due to a combination of intense price competition and low margins in the grocery retailing industry. Efficiencies of buying and distribution allow large companies to set low prices without sacrificing margins. Manufacturers typically offer discounts and special terms for large purchases, requiring volume too high for many small retailers to sell. Large foreign companies have expanded by acquiring regional chains and opening new stores. Because industry dynamics favor large scale operations, small chains often become victims of consolidation.

Dependence on Discounting, Promotion - Because price is a primary driver in the grocery shopping decision, companies have come to rely on price discounts and promotions to drive volume. While manufacturers bear most of the cost of trade promotions, frequent discounts have conditioned consumers to look for the best deal and have diminished store loyalty. Deep discounts and specials often create short-term volume increases at the expense of long-term business.

Safety Concerns - The risk of contamination, especially in fresh foods, is a significant liability for grocery

stores. Foodborne diseases, such as salmonella, E. coli, and listeria, have resulted in hospitalization and, in a small number of cases, death. As companies move large amounts of nonpreserved and imported foods through the supply chain, the chance for contamination increases. Well-publicized incidents of bacterial outbreaks, recalls, and food scares have eroded consumer confidence.

Shrinkage Losses - With thin margins, companies can little afford losses due to theft or inventory spoilage. Almost all grocery stores experience shoplifting, theft, robbery, or fraud. Organized crime rings, which target expensive items like baby formula and medicine, can cause significant losses. Lax inventory management, particularly in the perishables departments, can result in shrinkage due to unsalable products.

Low Population Growth - The low growth rate of the US population is limiting growth in the food business. After increasing at a rate of about 1% during the 1990s, growth has declined to below 1% annually since 2000, bottoming out at .44% in 2010 due to economic malaise. Decreasing household size, driven by the aging population, may also depress sales, as smaller households spend less in grocery stores.

Business Trends

Rising Wholesale Food Costs - Volatile commodity and energy costs can drive increases in wholesale food prices. US producer prices for food rose 9% between 2010 and 2011 and 4% from 2013 to 2014. Supermarket prices in 2016 are predicted to rise 0.25% to 1.25%, a rate of inflation below the 20-year historical average of 2.5%, according to the USDA. Even in an extremely competitive environment, grocery stores have been forced to raise retail prices to partially cover rising costs.

Store Format Evolving - To better compete with the growing number of choices for food shopping, companies are developing nontraditional formats to offer different customer experiences. Smaller stores offer a specialized selection, provide a higher level of service, and allow companies to enter markets where space is a premium. Larger stores have expanded nonfood selections to better compete with mass merchandisers. No-frills formats offer low prices and attract warehouse club customers.

Targeted Advertising - While total ad spending has remained at about 1% of sales, grocery stores are focusing on more targeted vehicles, such as direct mail and radio. Grocers are relying less on mass media and focusing more on targeted advertising, according to the Food Marketing Institute. More than a third of retailers surveyed have Hispanic ad campaigns. A growing number of retailers are using nontraditional media, such as third-party websites, video, blogs, social media, and text messaging.

Improved Checkout Technology - Companies are eliminating one major problem with food shopping and realizing labor cost-savings by further automating the checkout process. Many large chains have implemented self-checkout lanes. Handheld scanners and "shopping buddy" devices can track purchases as a customer shops, reducing checkout and bagging time. Other stores have invested in technology that tracks the number of shoppers in the store in order to know the right time to open new checkout lanes to accommodate customers.

Location-Based Marketing - Grocery stores are starting to use iPhone-compatible iBeacon technology to push more location-specific data to customers who choose to receive it. More than 100 Safeway and Giant Eagle locations in the US had iBeacons activated by location-based advertising firm InMarket in 2014. Customers receive relevant in-store coupons and shopping list reminders when they are 100 feet of a beacon. Tesco and Waitrose, two of the UK's largest supermarkets, started trials of iBeacon in May 2014.

Industry Opportunities

Focus on Health, Wellness - Companies can leverage increased consumer interest in health and wellness by improving and expanding perishable and organic merchandise departments and offering health-related services. By promoting healthy foods, grocery stores can act as a resource for customers looking to eat better. Some companies are expanding into the wellness arena, developing relationships with hospitals and nutritionists, and offering in-store clinics.

Prepared Foods - Grocery stores can offer consumers added convenience and better compete with restaurants by offering high-quality prepared foods. Companies may provide ready-to-eat products through hot service counters; self-service refrigerated cases; sandwich, soup, or salad bars; or sushi stations. A growing number of retailers are providing a quick-stop area with dinner options. Companies may also lease space to third-party restaurants to offer meal solutions. Deli-prepared chicken, salads, and sandwiches are the most popular prepared foods.

Loyalty Programs - In the competitive food retailing industry, loyalty programs can help companies develop a solid customer base. About 80 percent of US households belong to a loyalty card program, according to the Food

Marketing Institute. Loyalty cardholders tend to visit stores more frequently and deliver higher gross margins. Common rewards include automatic electronic coupon deduction, points toward a discount or free product, and donations to charities. A small number of companies use loyalty card information to help notify customers about food safety incidents.

Nonfood Sales - To reclaim food dollars from competitors, grocery stores can add services and sell high-traffic nonfood items. Retail gas sales drive traffic and provide strong incentives for reward programs. A growing number of retailers are adding pharmacies, banks, and dry cleaners.

Private Label Growth - Grocery stores have built strong house brands in recent years, which drive greater profit to the company and lower prices to consumers. Some supermarkets have a multi-tiered approach to private labels to reach different audiences. For example, Safeway has premium and core private label products, as well as health and wellness brands such as O Organics, Eating Right, and Bright Green.

Supermarket Food Delivery - Stores are increasingly adding e-grocery options for shoppers. About a third of the top 75 supermarket retailers offer some version of delivery or "click-and-collect" services in limited markets, according to *Supermarket News*. Whole Foods, for example, added click-and-collect to select markets in 2014. Click and collect programs allow customers to place their orders online and collect the groceries at a scheduled time from the supermarket. Many European markets have already adopted the click and collect method, with collection spots not only at stores but also at places such as subway stations.

Executive Insight

Chief Executive Officer - CEO

Maintaining Market Share

Intense price-based competition from mass merchandisers and warehouse clubs has resulted in a long-term decline for grocery stores' share of food dollars. While grocery stores are still the primary venue for food shopping, their percentage of sales for food at home has steadily declined in the last decade. Companies are offering specialty products, providing additional services, improving checkout procedures, and implementing loyalty programs to better compete with large retailers and maintain share.

Creating Optimal Merchandising Mix

With so many alternative retailers offering food products, grocery stores struggle to differentiate themselves based on product selection. Merchandise mix must constantly evolve to adapt to consumer trends. Companies continuously evaluate product and category sales to determine which items to stock, discontinue, or promote. Many grocery stores have market-specific merchandising plans to meet local needs.

Chief Financial Officer - CFO

Controlling Labor Costs

Labor costs are a grocery store's largest expense, accounting for about 10 percent of food retailing sales. Reducing wages or staffing to improve margins often results in customer service problems or higher turnover. Improved productivity, often through technology, can help companies better manage labor costs. For example, self-checkout lanes allow grocery stores to reallocate labor to more profitable departments.

Evaluating Pricing Strategy

Price is one of the most important factors when consumers decide where to shop for food. Everyday low prices attract certain types of customers, while deep discounts and frequent promotions attract others. Companies typically perform cost/benefit analysis to determine what pricing strategy is most effective. Pricing methods may differ across categories or between markets.

Chief Information Officer - CIO

Evaluating Checkout Technology

Consumers frequently cite long checkout lines as one of the most unpleasant parts of food shopping. Improving the checkout procedure can improve customer satisfaction and increase sales. Many large grocery chains have implemented self-checkout lanes. Handheld scanners and cart-attached monitoring devices track purchases as a customer shops, significantly reducing checkout time.

Maintaining Real-Time Inventory Management Systems

Companies must manage a staggering number of products through the supply chain, often across a chain of stores. Companies must try to minimize both out-of-stocks and oversupply. Computerized inventory management systems allow companies to track product movement and identify slow- and fast-moving products. Real-time data access lets grocery stores reallocate merchandise quickly to avoid inventory problems.

Human Resources - HR

Maintaining a Stable Workforce

Because most jobs in grocery stores require few skills, pay is low and turnover high. Wages are significantly lower than the average for all US workers. Part-time staff can help companies fill labor gaps. Many independent retailers pay higher than average wages to retain staff and provide better customer service.

Developing Management Staff

Exceptional store managers are critical to effective grocery store operations. Without proper training and experience, poor management can result in underperforming stores and customer complaints, affecting a company's reputation. Most large companies have extensive management training programs, which identify high potential candidates early. Training across multiple grocery departments also helps management trainees develop needed experience.

VP Sales/Marketing - Sales

Evaluating the Effectiveness of Promotions

While grocery stores depend on promotions to drive store traffic, low margins leave little room for excessive spending. Companies regularly discount and promote high-volume products, with the hopes of recouping profits on higher-margin goods. Grocery stores, often with the help of manufacturers, analyze sales data to measure the effectiveness of promotions. Companies may fine-tune promotional programs by changing pricing, timing, or format.

Creating Loyalty Programs

With consumers food shopping at multiple types of retailers, creating loyalty can be a challenge. Customers often switch shopping venues based on price or convenience. Loyalty programs reward frequent visits and large purchases. Common incentives include special discounts or free merchandise. Free or discounted gas has become an increasingly popular reward.

Executive Conversation Starters

Chief Executive Officer - CEO

How does the industry's shrinking share of food dollars affect the company?

Companies are offering specialty products, providing additional services, improving checkout procedures, and implementing loyalty programs to better compete with large retailers and maintain share.

What does the company consider when developing a merchandising strategy?

Merchandise mix must constantly evolve to adapt to consumer trends. Many grocery stores have market-specific merchandising plans to meet local needs.

Chief Financial Officer - CFO

How does the company manage labor costs?

Improved productivity, often through technology, can help companies better manage labor costs. For example, self-checkout lanes allow grocery stores to reallocate labor to more profitable departments.

What pricing strategies have been the most effective for the company?

Companies typically perform cost/benefit analysis to determine what pricing strategy is most effective. Pricing methods may differ across categories or between markets.

Chief Information Officer - CIO

How has the company's checkout technology changed over time?

Many large grocery chains have implemented self-checkout lanes. Handheld scanners and cart-attached monitoring devices track purchases as a customer shops, significantly reducing checkout time.

What tools does the company use to improve inventory management?

Computerized inventory management systems allow companies to track product movement and identify slow- and fast-moving products. Real-time data access lets grocery stores reallocate merchandise quickly to avoid inventory problems.

Human Resources - HR

How does the company minimize worker turnover?

Part-time staff can help companies fill labor gaps. Many independent retailers pay higher than average wages to retain staff and provide better customer service.

What types of management training programs does the company offer?

Most large companies have extensive management training programs, which identify high potential candidates early. Training across multiple grocery departments also helps management trainees develop needed experience.

VP Sales/Marketing - Sales

How does the company measure the effectiveness of promotional programs?

Grocery stores, often with the help of manufacturers, analyze sales data to measure the effectiveness of promotions. Companies may fine-tune promotional programs by changing pricing, timing, or format.

What types of loyalty programs does the company offer?

Loyalty programs reward frequent visits and large purchases. Common incentives include special discounts or free merchandise.

Call Prep Questions

Conversation Starters

How has the company's competitive environment changed over time?

As discount stores realized the traffic-driving power of food sales, competition for grocery stores became more intense.

What are the company's biggest challenges in maintaining margins?

Grocery stores operate with extremely low margins and depend on volume to generate profits.

How does the company effectively compete against large retailers?

Small companies struggle to survive due to a combination of intense price competition and low margins in the grocery retailing industry.

How have consumer health and wellness trends affected the company's business?

Companies can leverage increased consumer interest in health and wellness by improving and expanding perishable and organic merchandise departments and offering health-related services.

How important are prepared foods to the company's sales?

Grocery stores can offer consumers added convenience and better compete with restaurants by offering high-quality prepared foods.

What is the company doing to improve the checkout procedure?

In the competitive food retailing industry, loyalty programs can help companies develop a solid customer base.

Quarterly Industry Update

What is the company doing to compete against online-only grocers?

High-quality fruits and vegetables are emerging as a physical store's best defense against growing competition in the grocery sector from Amazon.com.

Operations, Products, and Facilities

What are the company's biggest cost-savings opportunities in the supply chain?

Because grocery retailing is generally a high volume/low margin business, effective supply chain management is key to keeping costs low.

Who are the company's most important suppliers?

While large companies buy directly from manufacturers, small chains and independent retailers rely on wholesalers. Depending on product mix, companies may buy from many distributors and use food brokers.

What trade programs have been the most effective for the company?

Volume discounts allow big chains to keep prices low. Manufacturers typically offer additional trade funds, which allow grocery stores to discount or promote certain products without sacrificing margins.

What percentage of store shipments comes directly from suppliers?

To reduce transportation and distribution costs, large chains may arrange for direct shipment from manufacturers to stores for certain large orders.

How efficient is the company's checkout area?

Most grocery stores have multiple checkout lanes to process orders and bag merchandise.

Which of the company's product categories have the biggest growth potential?

Nearly three-quarters of products sold are food items, including meats (14 percent); produce (10 percent); dairy products (8 percent); and frozen foods (5 percent).

How important are nonfood categories to the company's sales?

Nonfood items include health and beauty products, general merchandise, and medication (including prescription drugs).

How do private-label products fit into the company's merchandising mix?

Companies typically offer a mix of brand name and private-label products.

How important are specialty departments to the company's business?

Stores may have bakeries, delis, pharmacies, and floral departments. Through third parties, companies may have in-store restaurants, banks, coffee shops, or gas stations.

Customers, Marketing, Pricing, Competition

What are the demographics of the company's typical customer?

The typical grocery store customer is a female head of household, according to the Food Marketing Institute.

Who are the company's most valuable customers?

Households with children spend considerably more on groceries than childless households.

What are the company's most effective marketing and promotional vehicles?

Marketing and promotional vehicles include newspaper, print, and TV advertising; direct mail; and in-store events. Free standing insert (FSI) coupons delivered via newspaper, retail price discounts, and end-aisle displays are common promotional tools.

How does the company support new product launches?

Sampling events help retailers promote new products.

What role does the internet play in the company's marketing plan?

Most companies have internet sites that communicate basic store operating information, such as hours of operation, location, and in-store events. Some websites post weekly promotions.

How effective is the internet as a sales vehicle?

Internet sales are a tiny part of the grocery market. A few retailers have partnered with third-party websites to offer online sales.

How much does the company rely on weekly promotions to drive sales?

Retailers typically feature and discount different products weekly.

What resources has the company dedicated to category management?

Proper category management maximizes the use of valuable shelf space and helps minimize inventory shrink due to spoilage. Buyers and merchandising staff decide which items to stock, discontinue, or promote.

Regulations, R&D, Imports and Exports

What government regulations have the greatest effect on the company's business?

Federal, state, and local regulations govern health and sanitation standards and labor practices.

How have contamination-related food recalls affected the company's operations?

Product recalls as a result of contamination have increased scrutiny of both consumers and government agencies, such as the FDA. Because foreign countries may have different sanitation standards, the safety of imported foods has become a concern.

How reliant is the company on imported foods?

Grocery stores rely on imports for out-of-season produce, seafood, and many ethnic foods.

Organization and Management

What obstacles does the company face when recruiting workers?

Because most jobs in grocery stores require few skills, pay is low and turnover is high. Wages are significantly lower than the average for all US workers.

Which jobs are the most difficult for the company to fill?

Most positions involve cashiering, restocking, food preparation, and bagging.

What issues has the company encountered with organized labor?

The industry union participation rate is more than 20 percent - higher than the US average of 12 percent.

How does the company minimize the risk of worker injury?

The industry injury rate is more than 50 percent higher than the average for all US workers. Heavy lifting associated with restocking and cutting required for food preparation put workers at an increased risk of injury.

Financial Analysis

How seasonal is the company's cash flow?

While overall cash flow is generally stable throughout the year, demand for certain types of products (such as turkeys, stuffing, and candy) can be highly seasonal.

How does the company manage daily cash flow?

Supermarkets have high cash flow.

What are the company's target inventory levels?

Companies depend on rapidly turning merchandise.

Business and Technology Strategies

How might radio frequency identification (RFID) systems improve the company's supply chain management?

A small number of large retailers are experimenting with RFID systems to monitor product movement.

How has technology helped the company's purchasing operations?

About 70 percent of large companies use electronic data interchange (EDI) to manage purchasing operations.

How could the company improve its trade promotion strategy?

Because price is a primary driver in the grocery shopping decision, companies have come to rely on price discounts and promotions to drive volume. Deep discounts and specials often create short-term volume increases at the expense of long-term business.

How does the company minimize inventory shrink?

With thin margins, companies can little afford losses due to theft or inventory spoilage. Lax inventory management, particularly in the perishables departments, can result in shrinkage due to unsalable products.

What new types of advertising is the company considering?

While total ad spending has remained at about 1 percent of sales, grocery stores are focusing on more targeted vehicles, such as direct mail, radio, and Hispanic marketing programs. A small but growing number of retailers are using nontraditional media, such as third-party websites, video, blogs, social media, and text messaging.

What are the company's biggest opportunities for productivity improvement?

With costs rising dramatically, grocery stores are improving labor, space, and inventory management to salvage profits. With forecasts for continuing increases in wholesale food and energy prices, companies should continue to look for operational savings to offset rising costs.

Financial Information

COMPANY BENCHMARK TRENDS

Quick Ratio by Company Size

The quick ratio, also known as the acid test ratio, measures a company's ability to meet short-term obligations with liquid assets. The higher the ratio, the better; a number below 1 signals financial distress. Use the quick ratio to determine if companies in an industry are typically able to pay off their current liabilities.



Financial industry data provided by MicroBilt Corporation collected from 32 different data sources and represents financial performance of over 4.5 million privately held businesses and detailed industry financial benchmarks of companies in over 900 industries (SIC and NAICS). More data available at www.microbilt.com.

Current Liabilities to Net Worth by Company Size

The ratio of current liabilities to net worth, also called current liabilities to equity, indicates the amount due creditors within a year as a percentage of stockholders' equity in a company. A high ratio (above 80 percent) can indicate trouble.



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COMPANY BENCHMARK INFORMATION

NAICS: 44511

Data Period: 2015

Last Update September 2016

Table Data Format

Mean

Company Size	All	Large	Medium	Small
Size by Revenue		Over \$50M	\$5M - \$50M	Under \$5M

Company Count	35944	259	2976	32709
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Income Statement

Net Sales	100%	100%	100%	100%
Gross Margin	25.3%	25.2%	24.6%	26.8%
Officer Compensation	1.2%	0.9%	1.1%	2.5%
Advertising & Sales	0.9%	0.8%	0.9%	0.9%
Other Operating Expenses	21.4%	21.5%	20.9%	21.3%
Operating Expenses	23.4%	23.3%	22.9%	24.7%
Operating Income	1.9%	1.9%	1.8%	2.1%
Net Income	0.9%	0.9%	0.9%	1.0%

Balance Sheet

Cash	16.6%	16.2%	17.0%	17.6%
Accounts Receivable	4.7%	5.2%	4.5%	2.7%
Inventory	36.4%	34.4%	39.1%	42.7%
Total Current Assets	60.4%	58.7%	63.3%	65.1%
Property, Plant & Equipment	20.8%	22.2%	17.9%	17.8%
Other Non-Current Assets	18.8%	19.1%	18.8%	17.1%
Total Assets	100.0%	100.0%	100.0%	100.0%
Accounts Payable	15.7%	15.7%	17.9%	13.2%
Total Current Liabilities	31.3%	30.6%	33.7%	32.2%
Total Long Term Liabilities	21.5%	18.9%	25.9%	28.5%
Net Worth	47.2%	50.5%	40.4%	39.3%

Financial Ratios

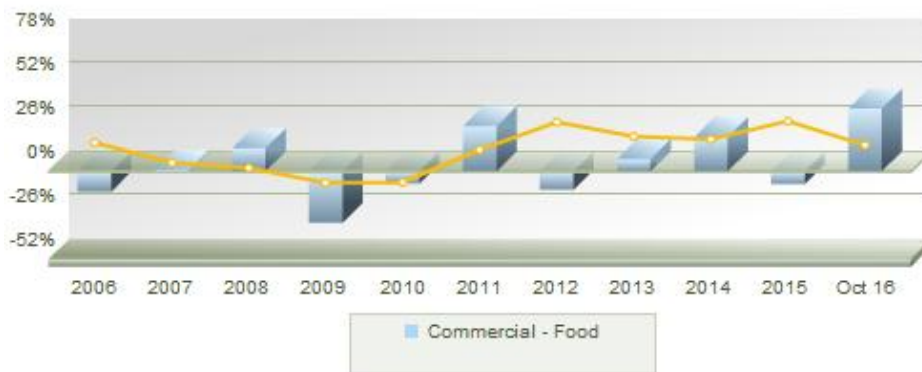
Quick Ratio	0.69	0.70	0.65	0.65
Current Ratio	1.93	1.92	1.88	2.02
Current Liabilities to Net Worth	66.4%	60.5%	83.4%	81.8%
Current Liabilities to Inventory	x0.86	x0.89	x0.86	x0.75
Total Debt to Net Worth	x1.12	x0.98	x1.48	x1.54
Fixed Assets to Net Worth	x0.44	x0.44	x0.44	x0.45
Days Accounts Receivable	4	5	4	3
Inventory Turnover	x8.29	x8.97	x7.89	x6.17
Total Assets to Sales	25.0%	24.6%	24.6%	28.1%
Working Capital to Sales	7.3%	6.9%	7.3%	9.2%
Accounts Payable to Sales	3.9%	3.8%	4.3%	3.6%

Pre-Tax Return on Sales	1.5%	1.5%	1.4%	1.7%
Pre-Tax Return on Assets	6.1%	6.1%	5.6%	6.0%
Pre-Tax Return on Net Worth	12.9%	12.1%	14.0%	15.2%
Interest Coverage	x4.27	x4.15	x4.19	x4.49
EBITDA to Sales	3.0%	3.0%	2.7%	3.2%
Capital Expenditures to Sales	1.4%	1.4%	1.3%	1.4%

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ECONOMIC STATISTICS AND INFORMATION

Annual Construction Put into Place - Census Bureau



Change in Producer Prices - Bureau of Labor Statistics



Retail Annual Sales Growth - Census Bureau



Change in Consumer Prices - Bureau of Labor Statistics



VALUATION MULTIPLES

Grocery Stores & Supermarkets

Acquisition multiples below are calculated medians using at least 38 US private industry transactions completed between 4/2007 and 5/2016 and are based on middle-market transactions where the market value of invested capital (the selling price) was less than \$1B. Data updated annually. Last updated: November 2016.

Valuation Multiple	MVIC/Net Sales	MVIC/Gross Profit	MVIC/EBIT	MVIC/EBITDA
Median Value	0.2	0.7	2.9	3

MVIC (Market Value of Invested Capital) = Also known as the selling price, the MVIC is the total consideration paid to the seller and includes any cash, notes and/or securities that were used as a form of payment plus any interest-bearing liabilities assumed by the buyer.

Net Sales = Annual Gross Sales, net of returns and discounts allowed, if any.

Gross Profit = Net Sales - Cost of Goods Sold

EBIT = Operating Profit

EBITDA = Operating Profit + Noncash Charges



SOURCE: Pratt's Stats, 2014 (Portland, OR: Business Valuation Resources, LLC). Used with permission. Pratt's Stats is available at <https://www.bvresources.com/prattsstats>

Industry Websites

Canadian Federation of Independent Grocers

Media, events, links, and industry resources.

Food Marketing Institute (FMI)

Industry information, statistics, industry associations.

Grocery Headquarters Magazine

Industry news and issues.

Grocery Manufacturers Association (GMA)

Organization of food producers.

National Grocers Association (NGA)

Association of independent grocers.

Progressive Grocer Magazine

Industry news.

Supermarket News

Industry news.

The Food Institute

News and research.

Glossary of Acronyms

EDI - electronic data interchange

EDLP - everyday low price

FMI - Food Marketing Institute

FSI - free standing insert

FSMA - Food Safety Modernization Act

GMA - Grocery Manufacturers of America

POS - point-of-sale

RFID - radio-frequency identification

SKU - stock-keeping units

UPC - Universal Product Code

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