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Food retail is a marketshare game

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Since the great recession five years ago, food retailers and consumer packaged goods suppliers have largely relied on inflation to drive top line revenue growth, but Tuesday's (June 18) CPI reading was a clear indication that is no longer the case.

The Consumer Price Index rose just 0.1% in May on a seasonally adjusted basis, the U.S. Bureau of Labor Statistics reported today. During the last 12 months, the all items index increased 1.4% before seasonal adjustment. The food index, however, turned down in May, with the food at home index falling 0.3%.

Food retailers from Wal-Mart Stores Inc. to Costco have said lower overall inflation has dampened their top line growth in recent quarters and most analysts agree that food retail has largely become a marketshare game between a host of new players.

An annual study on the food retail sector from Willard Bishop indicates sluggish growth potential over the next three to four years as major shifts in consumer behaviors redefine winners and losers in the sector.

Wal-Mart looks more like a grocer with general merchandise these days as food makes up 55% of the company's total gross sales, rising 2% over the past two years. Grocery is very important to Wal-Mart as the retailer continues to invest in price, heavily advertising its low basket costs and recently unveiling a new "fresh" campaign [2] that includes a money-back guarantee.

Analysts with Kantar Retail and Raymond James have said Wal-Mart's grocery business is important to the company's overall success but there has never been more competition in the grocery space as even Ace Hardware is rolling out a line of consumables.

2012 MARKET RECAP
The Willard Bishop report breaks the food retail segments into various traditional and

nontraditional formats examining how each one fared into 2012 and then projected future growth potential by 2017.

Overall, the traditional grocery channel sales increased 3.4% to $517.7 billion in 2012. Marketshare remained steady at 46.5%.

Traditional supermarkets experienced a sales increase of 2.9%, attaining $442.6 billion in 2012. But this segment continues to lose share to non-traditional formats like dollar stores, supercenters, wholesale clubs and e-commerce.

Fresh format stores such as Fresh Market and Whole Foods continued a dramatic sales growth of 22.5% to $12.7 billion in 2012, according to the report. Whole Foods had the largest same-store sales increase at 8.7% followed by the Fresh Market at 5.7%.

Jim Hertel, managing partner with Willard Bishop, said another player to watch in the “fresh” segment is Sprouts Farmers Market with the retailer’s recent purchase of Sunflower Farmers Market. Hertel spoke on food retailer challenges today (June 19) during an webcast hosted by the Food Institute.

Hertel said the “fresh” format appeals to a well educated, higher net income demographic which gives those retailers the chance for net sales growth and price insensitivity that could equal real profit potential in the short-term. He gives Whole Foods a lot of credit for thinking about a “value format” in areas with more modest incomes.

“This value format by Whole Foods is doing quite well in Detroit,” Hertel said.

The limited-assortment segment such as Aldi experienced a 4.4% increase in sales to $29.9 billion last year. Hertel said this chain is growing under the radar adding 80 stores a year, and is up to around 1,250 stores nationwide.

“The interesting thing about Aldi is who is shopping is there. They are building these stores in mid to upscale neighborhoods with incomes between $50,000 and $100,000 and offering real values. If alarm bells aren’t going off among traditional grocery stores they should be,” Hertel said.

NON-TRADITIONAL RECAP

The report found non-traditional grocery channel sales increased 4.7% to $429.3 billion with a marketshare of 38.6% in 2012.

Supercenters like Wal-Mart and Target, wholesale clubs like Sam’s and Costco, dollar store formats, drug stores, military commissaries and e-commerce all comprise the non-traditional grocery channel. Following are financial figures for the sectors.

• Supercenter sales rose 4.5% to $192.6 billion.
• Wholesale club sales increased 5.7% to $96.3. billion.
• Dollar format sales rose 9.6% to $26.3 billion.
• Drug store food and consumable sales were $60.5 billion, up 3.1%.
• Military sales increase 0.8% to $5.1 billion.
• E-commerce food sales totaled $15.9 billion, up 16.9%.

GROWTH CHALLENGES

There are major shifts underway in an evolving retail landscape, being driven largely by consumer demand interfaced with technology. Hertel said combine that with a still-sluggish economy and hyper competition and the prospects for real growth are slim.

“This shift in consumer behavior is creating winners and losers in the retail space,” Hertel said.

He said millenials are not brand loyal but they are price conscious, except when they are not.

“Figuring out when price matters to millenials is something retailers have to do. What we do know about this generation is that they are digitally wired and convenience driven. They also like fresh products and frequent specialty retailers,” Hertel said.

The traditional supermarkets and supercenters are set up to serve the boomer generation, whose households are downsizing, eating less, but opting for healthier choices and local products when available. He said these changes in shopping attitudes are long term and fundamental shifts to the status quo of the last 30 years.

“Just executing last year’s plan better, will not cut it in the years to come,” Hertel said.

2017 PREDICTIONS
The Willard Bishop study notes that by 2017 the marketshare for traditional grocery will shrink to 44.9%, while non-traditional formats such as supercenters, dollar stores and e-commerce pick up share. Hertel said the biggest winner over the next few years will be e-commerce, expected to grow at 12% annually.

“We expect retailers will see their e-commerce sales comprise between 10 to 12% of total sales in the next three years. This growth will be led by food and consumables sold online,” he said.

Other areas where brick and mortar stores can compete handily for wallet share are “fresh” and prepared foods as these are the two fastest growing segments in the grocery sector. Analysts agree that Wal-Mart’s efforts to tout its “fresh” campaign are based on the knowledge that growth in grocery is about taking marketshare from anyone they can, even cannibalizing their own stores.

Hertel said with there are dozens of “Fresh & Easy” [4]locations going up for sale in California, an area where Amazon is looking to expand its “fresh” grocery platform. He reiterated it’s an interesting theory, but said he has no inside knowledge of any deal in the works.

As tough as growth will be to come by in the next few years, Hertel said those retailers and suppliers who are willing to test new ideas with a bias toward action will likely be rewarded over those who are have bias toward “wait and see."

He said there is room for multiple players in the e-commerce grocery space carving out their own niche with respect to products and delivery options. He doesn’t see the grocery channel withering in the sight of Amazon, but he did say the time to integrate e-commerce is now.

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