FMI ANTITRUST COMPLIANCE

It is FMI’s policy to comply in all respects with antitrust laws.

All participants in FMI meetings and events are expected to comply with applicable antitrust and competition laws.

Avoid discussions of sensitive topics that can create antitrust concerns.

– Agreements to fix prices, allocate markets, engage in product boycotts and to refuse to deal with third parties are illegal.

– Discussions of prices (including elements of prices such as allowances and credit terms), quality ratings of suppliers, and discussions that may cause a competitor to cease purchasing from a particular supplier, or selling to a particular customer, should be avoided.

– No discussion that might be interpreted as a dividing up of territories.

It is important to avoid even the appearance of unlawful activity.

Questions or concerns? Please consult with FMI staff.
RESEARCH BACKGROUND

For 68 years, FMI has been conducting *The Food Retail Industry Speaks* annual survey of U. S. food retailers and wholesalers. *Speaks* provides the food retail industry with important operational and financial benchmarks as well as insights into strategic and tactical decisions.

**Methodology**

- A 10-page survey was sent to U.S. and Canadian food retailers and wholesalers in April, 2017, offering options for both online or offline completion.
- A total of 101 food retailing and wholesaling companies completed the questionnaire, representing 33,300 stores.

FMI greatly appreciates the time and effort of those who responded this year. Thank you!
MEET YOUR PRESENTER

Leslie Sarasin
President and CEO
Food Marketing Institute
OVERVIEW OF SPEAKS 2018

• Food Retail Pulse
• Macro Environment
• Competitive Environment
• Customer Outreach and Education
• Operations Benchmarks
• Financial Performance Benchmarks
FOOD RETAIL PULSE: WEIGHING CONCERNS AND OPPORTUNITIES

**Negative sales/profit impact (-)**
1. Cost of health care benefits
2. Interchange fees
3. Energy costs
4. Competition (traditional, online and non-traditional)
5. Upward wage pressure and ability to recruit/retain employees

**Positive sales/profit impact (+)**
1. Health and wellness proposition
2. Food as medicine trend
3. Local/national economy
4. Consumers’ changing ways of consumption
5. Shoppers’ demand for transparency
FOOD RETAIL PULSE: WEIGHING CONCERNS AND OPPORTUNITIES

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FOOD RETAIL PULSE: WEIGHING CONCERNS AND OPPORTUNITIES

**Negative**

**MACRO ENVIRONMENT**
- 39% Local and national economy

**CONSUMER ENVIRONMENT**
- 35% Changing ways of meal consumption/snacking
- 30% Changing consumer demographics

**MICRO ENVIRONMENT**
- 35% Technology investments, omnichannel
- 32% Trade relations manufacturers and retailer/wholesalers

**Positive**

- 54%
- 50%
- 35%
- 34%
- 29%
THE MACRO ENVIRONMENT
THE MARKETPLACE: RETAILERS EYE MARGIN PRESSURES, MORE MERGERS

10% Growing discretionary income will cause consumers to trade up.

24% Low inflation will further pressure margins.

52% Expect retail mergers and acquisitions to continue.
WASTE REDUCTION, TRANSPARENCY LEAD SOCIAL EFFORTS

65% Have goals and implementation time frames for food waste reduction.

19% Are working on it.

61% Have goals and implementation time frames for diversity in hiring.

18% Are working on it.

60% Have goals and implementation time frames for product transparency.

20% Are working on it.

#GrocerySpeaks
EMV COMPLIANCE SURGES

Europay, Mastercard and Visa (EMV) Compliance

80% Report fewer chargebacks since EMV.

All 95%
Some 3%
Working on it 2%
THE COMPETITIVE ENVIRONMENT
ONLINE SALES, APPS TRANSFORMING SHOPPING BEHAVIORS

40% Price comparison apps will further margin pressure.

40% My company’s online sales will increase.

25% My company’s basket size will increase.
SUPERMARKETS STILL MAIN RIVALS

Impact of format on sales and profits

- Conventional Supermarkets (44%)
- Supercenters (38%)
- Natural/Organic Stores (24%)
- Club Stores (19%)
- Limited Assortment Stores (16%)
- Online by Nonfood Retailers (14%)
- Online by BM Stores (13%)
RETAILERS WIDELY PURSUE E-COMMERCE, BUT EXTENT VARIES

2017 Sales

- Not Online: 37%
- Online: 63%

Among those online, only 1.3% of total sales are online.

Average online transaction: $116
Retailers widely pursue e-commerce, but extent varies.

E-Commerce Key Stats

- **Sales:** About two-thirds involved in online commerce saw sales increases of more than 10 percent in 2017.

- **SKUs:** Food retailers with online sales sell an average of 27,000 SKUs online, but the totals vary considerably.

- **Transactions:** Online transactions per week average 2,200. The average online transaction size is $116 (in-store -- $34.61)

Few Claim High Levels of E-Commerce Sophistication

- Only two percent with online sales consider themselves to be very sophisticated in selling/marketing products online.

- Almost one-half are “not very” or “not at all” sophisticated.

#GrocerySpeaks
PRODUCT DIFFERENTIATION STRATEGIES: LOCAL, DELI/PREPARED AND ORGANIC DRIVE PRODUCT DIFFERENTIATION

Most Utilized Product Differentiators
1. Local assortment
2. Deli prepared/food service
3. Organic assortment
4. Product innovations/new items

Most Successful Product Differentiators
1. Local assortment
2. Private brands
3. Deli prepared/food service
4. Organic assortment
5. Fresh (meat/poultry and produce)

Areas with More Potential for Success
1. Product innovations/new items
2. Gluten-free assortment
**SERVICE DIFFERENTIATION STRATEGIES:**

SERVICE DIFFERENTIATION STRATEGIES EMPHASIZE COMMUNITY SUPPORT, CHECKOUT

<table>
<thead>
<tr>
<th>Most Utilized Service Differentiators</th>
<th>Most Successful Service Differentiators</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Community support</td>
<td>1. Community support</td>
</tr>
<tr>
<td>2. Special events</td>
<td>2. Checkout experience</td>
</tr>
<tr>
<td>3. Social media</td>
<td>3. Frequent shopper/loyalty</td>
</tr>
<tr>
<td>4. Checkout experience</td>
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</tr>
</tbody>
</table>

**Areas with More Potential for Success**

1. Social Media
2. Special events
FRESH FOODS, ONLINE FULFILLMENT TO GAIN SPACE ALLOCATION

Will increase space allocation over next two years

Deli/fresh prepared grab-and-go selection (89%)

Deli/fresh prepared self-serve bars/buffets (67%)

Deli/fresh prepared made-to-order selection (63%)

Online fulfillment (71%)

Private brands (64%)

Fresh produce (68%)
MORE SKUs FOR LOCAL, ORGANIC

Will increase SKUs over next two years

- Organic (83%)
- Local sourcing (84%)
- Health and wellness (72%)
- Private brands (64%)
MORE LABOR ALLOCATIONS FOR E-COMMERCE, DATA ANALYTICS

Will increase labor allocation over next two years

- Online purchase fulfillment: 67%
- Data analytics: 64%
- Trained/certified chefs: 33%
- Specialty help by department: 32%
- Dietitians/nutritionists: 27%
STORE DEVELOPMENT INVESTMENTS RANGE FROM BRICKS TO CLICKS

Experimenting with ...

<table>
<thead>
<tr>
<th>E-commerce Strategy (69%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Format Stores (48%)</td>
</tr>
<tr>
<td>Green Building Techniques (45%)</td>
</tr>
<tr>
<td>Leasing Space to Other/Local Businesses (45%)</td>
</tr>
<tr>
<td>Entering New Markets (42%)</td>
</tr>
</tbody>
</table>
CUSTOMER OUTREACH AND EDUCATION

#GrocerySpeaks
GROWING EMPHASIS ON COMMUNITY EFFORTS, LOYALTY, WELLNESS

Resource allocation plans for outreach programs over the next two years...

- Loyalty programs (63%)
- Nutrition programs (41%)
- Consumer wellness programs (51%)
- Community donations/outreach (93%)
- Cooking school/classes (48%)

On The Rise
OLDER AND NEWER OUTREACH PLATFORMS DRIVE PROMOTIONS

Resource allocation plans for outreach vehicles over the next two years...

On The Decline
- Podcasts (8%)
- Snapchat (20%)
- Direct mail (70%)
- Radio ads (71%)
- Billboards/outdoor signage (53%)
- Television ads (42%)
- Printed circular (84%)

On The Rise
- Email (92%)
- Text promotions/outreach (59%)
- App (45%)
- Mobile marketing/ads (59%)
- Facebook (96%)
- Instagram (66%)

#GrocerySpeaks
NATIONAL FAMILY MEALS MONTH™ - SEPTEMBER

Launched in September 2015, by the FMI Foundation, National Family Meals Month™ is an industry-wide movement to raise awareness of the benefits of frequent family meals and aimed at bringing families back to the table to share one more meal at home each week using items purchased from the grocery store.

- Fifty-four percent of responding food retailers are aware of the effort.
- Among those familiar with it, some 68 percent plan to participate.

In addition to the social and health benefits to family meals:

- Nearly two-thirds of shoppers said it is important to eat more meals together as a family.
- Eighty-four percent said they took action after seeing the campaign.
OPERATIONAL BENCHMARKS
PRODUCTIVITY: TRANSACTIONS GAIN, PROFITS FLAT

$34.61
Average transaction size among survey respondents

13,201
Weekly transactions/store

72% Regular cashier lanes
15% Express cashier lanes
15% Self-checkout lanes

30,098
Average SKUs per store

$406,186
Average weekly sales per store

1.1%
Average net income
PERSONNEL PRODUCTIVITY: STRONG ECONOMY PRESENTS STAFFING CHALLENGES

Employee Turnover

- Full-time employee turnover: 15%
- Part-time employee turnover: 61%
- HQ/corporate employee turnover: 10%

Employee Turnover (2008-2017)

- 10% HQ/corporate employee turnover
- 46% Employee Turnover
FINANCIAL BENCHMARKS
SAME-STORE SALES GROWTH ADVANCES

**+1.7%**

Average across companies, up from +1.0% in 2016

- 1 to 10 stores: +5.9%
- 11 to 100 stores: +0.1%
- 101+ stores: +1.8%
OPTIMISTIC FINANCIAL OUTLOOK FOR 2018

- **25%**
  My company’s basket size will increase (up from 3%).

- **40%**
  My company’s online sales will increase.

- **51%**
  My company’s same-store sales will grow (up from 17%).

- **31%**
  My company’s net profits will increase (up from 14%).

#GrocerySpeaks
TAX REFORM EXPECTED TO LIFT INVESTMENTS

As a result of tax reform, likely actions

- Investments in store development, new equipment, real estate: 36%
- Boost wages: 33%
- Enhance employee training: 28%
- Raise employee benefits: 16%
- Increase employee bonuses: 12%
TAKEAWAYS FROM SPEAKS 2018

1. Optimism
2. Adapting and Innovating
3. Nagging Issues Remain
THANK YOU

Learn more about the Food Retailing Industry and download the full report at: www.fmi.org/groceryspeaks