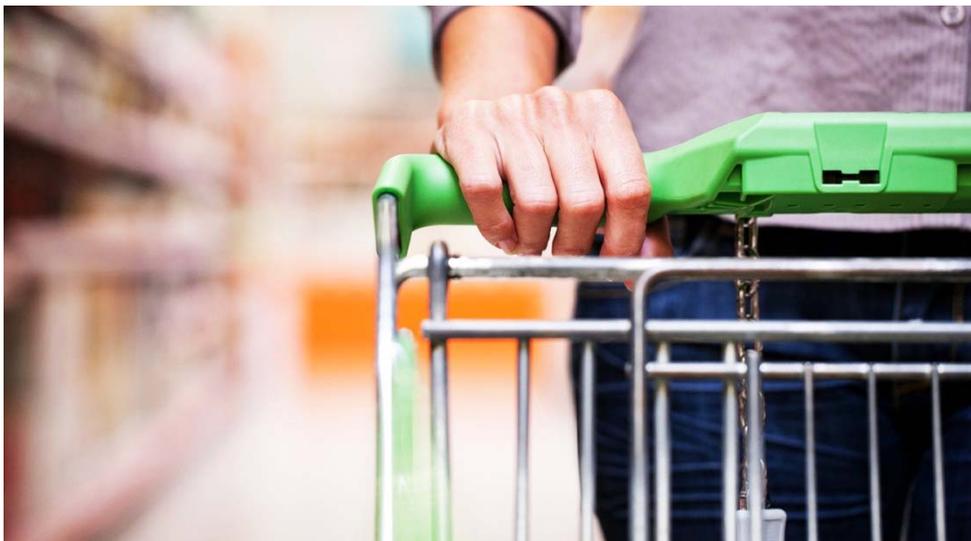


Out with the old, in with the new

Why the grocery landscape is shifting



As consumers change, the grocery landscape is shifting with them. Three major themes are how consumers feel about: value, health and a seamless experience.

Three reasons that grocery is changing

-  1. The great recession from 2007-2010 had a major impact, not just on consumers' balance sheets, but on their attitudes and shopping behaviors. There has been a great emphasis on discounted, lower-priced products and this has not changed, even four years out of the recession. Dollar stores became virtual retail superstars during the recession, with strong sales growth and aggressive expansion. Walmart has also continued to expand its footprint, as well as to diversify into several store formats such as Walmart Neighborhood Market and Walmart Express.
-  2. With an increased focus on health, consumers are moving toward fresh format and organic stores such as Whole Foods and the Fresh Market that offer higher quality produce and meats, as well as center-store items.
-  3. As consumers become increasingly engaged with technology, and as logistics systems become more robust, there has been a rise in online grocery ordering and delivery. Amazon is testing its AmazonFresh model in several markets. Walmart is testing its own local delivery service. And several other smaller players like Peapod, GoodEggs and Instacart are making headway in online fulfillment.

With new entrants – in the form of alternate formats – flooding the market sales growth has downshifted from 5.3 percent, year over year, in 2012 to 2.6 percent in 2013. However, the grocery segment's performance on a whole is strong, with average sales per square foot of \$507 versus a retail industry benchmark of \$350.

Additional competition translates to consolidation for traditional grocery

- It's been happening for a while now. Other retail categories have been slowly but inexorably impinging on supermarkets' territory – adding more and more grocery shelves to their aisles over time.
- With razor-thin margins and an already competitive environment, traditional supermarkets are faltering under the additional pressure of these entrants into the grocery landscape. This has translated into consolidations and mass closings.



Examples:

- Kroger, for instance, recently acquired regional player Harris-Teeter for \$2.6 billion
- Albertson's purchased United Supermarkets in late 2013
- Yucaipa acquired 150 Fresh & Easy locations
- Safeway closed all of its 72 Dominick's stores in Chicago, resulting in a return of 4.5 million square feet of space to the market, spiking vacancies in the metro by 80 basis points

How the grocery landscape will shift from 2013 to 2018

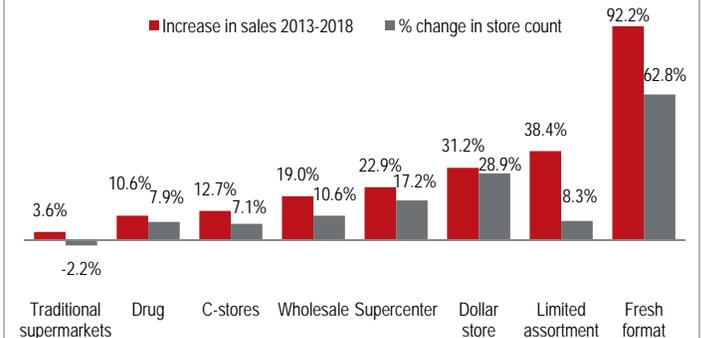
- Whereas once consumers bought all their groceries at one location, this is no longer the case. Consumers are now splitting their grocery shopping across multiple channels – as many as five. As a result, traditional supermarkets* are losing market share.
- By 2018, traditional supermarkets' share of grocery dollars will have shrunk 300 basis points to 37.2 percent. Consumers are spending more of their time and dollars in fresh format* and limited assortment* stores, supercenters* and e-commerce*.
- With regard to expansion plans, fresh format stores will see the most aggressive gain relative to their existing footprint, thanks to robust sales growth. This is not surprising given that 75.0 percent of consumers surveyed prioritize fresh produce as a major driver of where they shop. Moreover, Millennials and Boomers alike are focusing more on healthy eating choices and creatively prepared meals.
- Dollar stores* and convenience stores* top the list of the highest nominal number of new stores planned, continuing the trend we have seen over the last few years. As consolidations and closings continue, traditional supermarkets will see a net reduction in store count.

Supercenters will see the greatest increase in market share by 2018



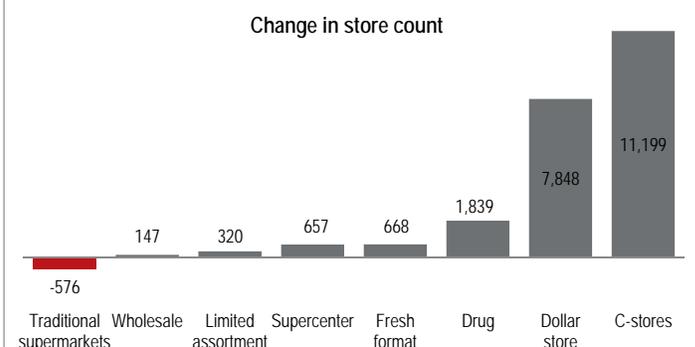
Source: Willard Bishop

Fresh-format groceries will dramatically increase store count by 2018



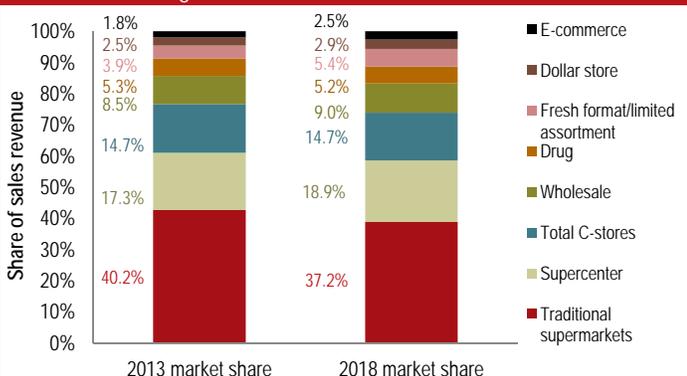
Source: Willard Bishop 2014

Traditional supermarkets' store count will fall by 2018



Source: Willard Bishop 2014

Alternate formats gain the most market share from 2013-2018

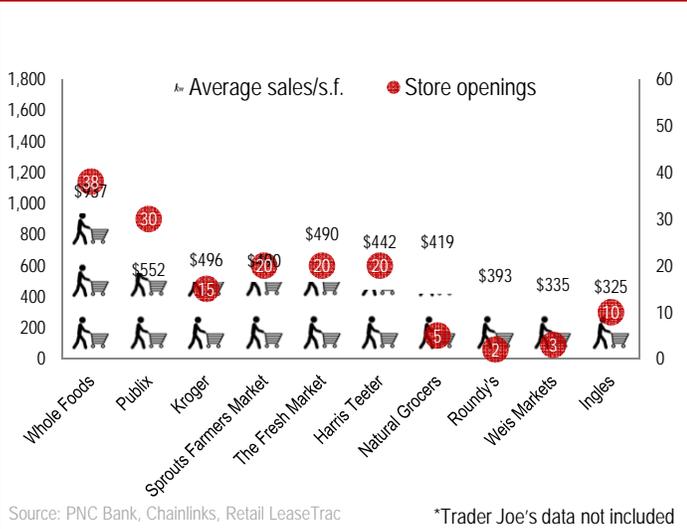


Source: Willard Bishop 2014

*Grocery channel definitions on page 3

In terms of individual performance, Whole Foods leads with sales of over \$930 per square foot and expansion plans of 38 new stores within the next year. These stores fall into the alternate formats of fresh format– a clear illustration of what is happening within the market.

Grocery store sales p.s.f. and store opening plans



The rise of e-commerce

Finally, it cannot be ignored that e-commerce is slowly taking a greater share of grocery dollars. From 2013 to 2018, the growth in e-commerce grocery revenue is projected to be 57.4 percent, quite a significant figure; however, it is helpful to note that the overall share remains small at 2.5 percent in 2018. While this is reassuring news for bricks-and-mortar players, it will still be critical to keep an eye on emerging trends within the grocery delivery space for several reasons. If Amazon figures out a successful solution to a wide-scale implementation of its AmazonFresh model, it poses a significant threat to groceries, particularly supermarkets with thin margins. Secondly, given that logistics for delivery may lie in crowdshare programs like Uber, this may have important implications for local stores looking to stay ahead of the curve and offer enhanced services to its existing customers.



Grocery channel definitions

Category	Definition	Examples
Traditional Supermarket	<ul style="list-style-type: none"> Offering a full line of groceries, meat and produce At least \$2 million in annual sales Carry between 15,000 and 60,000 SKUs 	
Fresh Format	<ul style="list-style-type: none"> Emphasize perishables Offer ethnic, natural, organic items 	
Limited Assortment	<ul style="list-style-type: none"> Low-priced grocery store Offer limited assortment of center-store and perishables Fewer than 2,000 SKUs 	
Convenience Stores	<ul style="list-style-type: none"> Small high-margin store Edited selection of items 	
Wholesale Club	<ul style="list-style-type: none"> Membership retail/wholesale hybrid Varied selection and limited variety Over 120,000 s.f. 	
Supercenters	<ul style="list-style-type: none"> Hybrid of large traditional supermarket and mass merchandiser Offer wide variety of food and non-food items Average more than 170,000 s.f. Devote as much as 40.0% of space to grocery items 	
Dollar Stores	<ul style="list-style-type: none"> Small store format selling food and consumables at aggressive price points Food between 20.0%-66.0% of sales volume 	
Drug Store	<ul style="list-style-type: none"> Prescription-based drug store that generates 20.0% or more of sales from consumables, general merchandise and seasonal 	
E-commerce	<ul style="list-style-type: none"> Food and consumables ordered using Internet via any device, regardless of payment or fulfillment method 	



About JLL

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