Market share

Discounters and other innovators are turning the global supermarket industry on its head.

By: Joel Groover

Traditional supermarkets on both sides of the Atlantic are losing market share, thanks to a rapidly advancing horde of competitors seeking to outdo them on price, convenience and quality, experts say. “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,” wrote JLL analysts in the firm’s Retail Shop Topic report published last September. “By 2018, traditional supermarkets’ share of grocery dollars [in the U.S.] will have shrunk 300 basis points to 37.2 percent.”

Rivals of all types and sizes surround these chains. The list of competitors includes massive wholesale clubs and supercenters; fresh grocers focused on perishables and ethnic foods; a new breed of small-format stores in closer proximity to shoppers’ homes and geared toward faster, easier shopping; and thousands of food-focused dollar stores, drugstores and convenience stores. Meanwhile, online sales are gaining momentum, as the likes of Amazon.com’s Prime Pantry, FreshDirect, Google Express, Instacart and Peapod roll out grocery delivery services in major markets.

In the U.K. the highly efficient German grocers Aldi and Lidl are wooing droves of customers from mainline rivals such as Tesco, Sainsbury’s and Morrisons, says Joseph Bona, president of branded environments at CBX, a global brand agency and retail design consultancy. “Aldi and Lidl are going like gangbusters in the United Kingdom,” he said. “Their motto used to be ‘stack it high and sell it,’ but now they’re offering a better customer experience and higher quality without sacrificing competitiveness on price. They pose a serious threat.”

These German chains aim to challenge U.S. supermarkets as well: Aldi already has 1,300 stores in the U.S., Bona notes, and could have as many as 2,000 there by 2018. Lidl is preparing to enter the U.S. by 2018 with an initial focus on the mid-Atlantic region, according to Naveen Jaggi, president of retail brokerage for JLL Americas. “Here Lidl will not be playing in the discount sector at all,” he said. “It plans to build a 30,000-square-foot, high-end store that in its presentation — architecturally as well as in price and product mix — will be going straight for the Whole Foods consumer. Lidl will have no problem putting its stores right across the street from Whole Foods. It will be an interesting battle to watch.”

The rise of alternate food-selling channels is eroding sales of packaged, nonperishable goods typically offered in the center of the supermarket, says Jim Prevor, a Boca Raton, Fla.–based analyst who blogs at PerishablePundit.com. “Profit has just drained out of the ‘center store,’” he said, referring to the packaged-foods-oriented central areas of a grocery store, as opposed to the perimeters, where fresh produce is placed. The reason is simple enough: A box of Tide laundry detergent or Kellogg’s Corn Flakes is the same no matter where it is sold. That makes it easy for price-conscious shoppers to hunt for bargains on commoditized goods by website, in dollar stores, at Walmart or in a multiplicity of other food-selling outlets, Prevor says. “Even if traditional supermarkets can continue to sell center-store items, they have to do so at such deep discounts that they’re just not able to generate -profitability,” he said.

Though the so-called Great Recession is technically over, it has led to an enduring change in the way people spend their money, Jaggi says. “Consumers now feel that anything you shop for can be found cheaper if you are willing to shop for it,” he said. “That is the big shift. Nearly all retailers have tiered down their price offerings. They want to force consumers to come to them for all sorts of goods, as opposed to going and getting two weeks’ worth of supplies in one trip at the supermarket.”

One direct result of these -spending-pattern shifts is an ongoing consolidation in the grocery sector, observers say. The latest example is Albertsons’ $9 billion merger with Safeway, which was on track at press time for a January 2015 closing and will reportedly lead to the sale of 168 stores across eight states. “The Safeway-Albertsons merger is going to change the grocery sector from the Midwest to the West,” Jaggi said. “Consolidation is, hopefully, going to give these companies more buying power and efficiencies in distribution. That in turn could enable them to spread those savings to the consumer. It is probably the -clearest indication that the grocery sector is going through a significant change.” The September JLL retail report also cites a raft of other examples from the past couple of years, including Albertsons’ $385 million purchase of United Supermarkets; Kroger’s $2.6 billion acquisition of Harris-Teeter; Safeway’s closure of 72 Dominick’s stores in Chicago; and Yucaipa’s acquisition of 150 Fresh & Easy stores. The Dominick’s closures resulted in the return of some 4.5 million square feet of space back into the Chicago market and spiked local retail vacancies by about 80 basis points, according to the JLL analysis.

Does this instability mean that traditional supermarkets will shrink dramatically along the lines of “right-sizing” retailers such as Best Buy? Not necessarily, Prevor says. “It is a possibility, but I believe it is just as possible supermarkets will further evolve,” he said. Already, major chains are ramping up their focus on fresh and prepared foods around the perimeter of the store by installing foodie-friendly cheese caves, wine bars, mini-restaurants and more, according to Prevor. “Some supermarkets are transforming themselves into hybrid food-service and retail emporiums,” he said. “This actually holds out the possibility that some of these stores could get bigger. That way, they can have food courts and other things that we haven’t traditionally associated with supermarkets.”

Chains could simultaneously confront discounters by adding the types of products found on the cheap at warehouse clubs, Jaggi says. “Do you have to go to Costco to get that giant pallet of paper towels?” he said. “Maybe not — maybe Kroger starts carrying that.” By offering touches of both Costco and Whole Foods, in other words, supermarkets stand to broaden their appeal. “All these major brands, whether you’re talking about Kroger, HEB or Publix, are trying to appeal to as broad a demographic as possible,” Jaggi said. “They want their stores to appeal to discount-oriented consumers, aspirational consumers and affluent consumers alike.”

Landlords could employ a similar strategy when retenanting shopping centers that have lost large-format grocery anchors owing to sector consolidation, Prevor says. Instead of a single grocery anchor, the shopping center could offer multiple highly specialized food tenants that occupy in the aggregate roughly the same square footage as the departed anchor. “One tenant might be a deep-discount concept like an Aldi, another might be a health-oriented, upscale concept like Whole Foods,” Prevor said. “You could also have an ethnic-food store focused on Asians or Latinos. So the model moving forward might be for multiple 10,000- or 15,000-square-foot stores instead of one 60,000-foot store. The design of these centers could change.”

Indeed, the JLL report does predict continuing closures of traditional supermarkets over the next three years as alternative channels — particularly dollar stores and fresh-format grocers — -expand -aggressively. -Meanwhile, -online grocery concepts will eat into supermarket sales even further in coming years, says Susan Porjes, a market analyst for research firm Packaged Facts. “Back more than 10 years ago, investors were leery of online grocery shopping, due to some spectacular failures, like Webvan,” said Porjes. “But online grocery sales are poised to take off on a high-growth trajectory.” Indeed, U.S. online grocery sales are set to grow from about $23 billion last year to nearly $100 billion by 2019, which would amount to 12 percent of total grocery spending, according to Porjes, who wrote an October 2014 report on the phenomenon. Others see it too. Ultimately, untrammeled growth of online grocery shopping could spell trouble for -supermarkets, write the JLL analysts. “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.”

But even this trend could at the same time create certain opportunities for landlords, Porjes notes. Companies such as Chronodrive, which has 74 stores across France, specialize in building drive-through, Internet-enabled grocery stores. “That model has been successful in France,” Porjes said. “You place your order, and on the way home from work you go to the drive-through and they have everything ready for you.” The stores, which Porjes likens to small warehouses with limited assortments, represent a new potential retail tenant, particularly for shopping centers that lack grocery anchors. Drive-through grocery Zoomin Market launched this concept in Olathe, Kan., last April — local shoppers place orders using a smartphone app, and a text alerts them when the groceries are ready for pickup. Walmart began testing a similar concept last September on its home turf in Bentonville, Ark.

Some grocery sellers are installing lockers at which shoppers can pick up their online-ordered bags of produce and packaged goods — a trend that could supplement retail leasing revenue over time, Porjes says. Peapod, for one, is leasing space for grocery pickup lockers at three Metro stations in Washington, D.C., as part of a six-month pilot program. “For commuters who are not always able to be home for grocery delivery, this is a perfect solution,” Porjes said.

Finally, the practice of “crowdsourcing” — whereby companies such as Uber use the Internet and GPS-enabled smartphones to tap into pools of freelance delivery drivers — could also be a boon to supermarkets and other food stores, Jaggi says. General Growth Properties, Macerich, Simon and other top U.S. mall owners are using some of these freelance drivers to offer rapid delivery of items bought from tenants’ stores. For Jaggi, the potential for supermarkets to do the same was underscored on a recent Uber ride in Dallas. “Before the Uber driver picked me up, he asked me if I wanted a lunch,” Jaggi said. “He told me many of the drivers he knew were offering delivery services. When you start getting third-party service providers in the business of delivering groceries — now you’ve got a real change in the way we perceive the shopping experience.”

Growth in specialty--grocer sector spurs development, attracts investors

Mobs of investors are fighting over properties anchored by big supermarket chains such as Harris Teeter, Kroger and Publix, leading those seeking less competition to focus on shopping centers anchored by specialty grocers, such as

Earth Fare, Sprouts Farmers Market, The Fresh Market, Trader Joe’s and Whole Foods. According to Franklin Street Retail Investment Advisors, 51 specialty-grocery-anchored U.S. shopping centers have traded hands in the past two years, accounting for an aggregate $1.3 billion, double the amount sold in 2012.

About 80 percent of last year’s specialty-grocery-anchored properties were single-asset deals, according to Gary Saykaly, senior director at Franklin Street. Of the 10 transactions that were part of a larger portfolio sale, most consisted of entry-level transactions or the buyout of a partnership interest. Fresh Market was the most popular specialty supermarket among traded properties last year, accounting for 37 percent of the total, Saykaly reports. Whole Foods made up 28 percent of the deals, Trader Joe’s 22 percent, Earth Fare 12 percent and Sprouts 2 percent. Whole Foods properties garnered the lowest cap rates: 4.9 to 5.4 percent.

In regional terms, the Southeast was the hot zone, as 66 percent of the total sales volume last year occurred in Florida and North Carolina, according to Franklin Street. Georgia was the third-most active state, with 22 percent of the total. The majority of sellers were developers and private investment groups, among them Och-Ziff Capital Management Group and Rialto Capital Management.

Specialty grocers are helping to drive a new wave of ground-up development as well, since they are growing much faster than their traditional supermarket peers, according to Franklin Street. Whole Foods has 15 new stores under way, followed by Fresh Market, which is planning to open 10. Meanwhile, Earth Fare, Sprouts and Trader Joe’s have collectively announced 22 stores set to open this year. All these are to roll out in the Southeast, 17 of them opening in Florida. Only eight are redevelopments, Saykaly says. The majority of the developers involved are privately owned.

supermarket

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Great article. Joel Groover is right on. Really surprised that SaveALot was mentioned as the leading hard discounter in the US.

Commented by Sam Gross on 11 Feb, 2015 at 10:23am

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