2016
THE FUTURE OF FOOD RETAILING

willard bishop
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Anyone who has redeemed a coupon, filled a prescription or returned a product, has touched Inmar. We apply technology and data science to improve outcomes for consumers and those who serve them. As a trusted intermediary for over 35 years, we have unmatched access to billions of consumer and business transactions in real time. Our analytics, platforms and services enable engagement with shoppers and patients, and optimize results.

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As an Inmar Analytics Company Willard Bishop enables Consumer Packaged Goods (CPG) manufacturers and retailers to identify hidden growth opportunities while improving productivity. Founded in 1976, the company quickly became the preeminent consulting firm exclusively serving the CPG industry. Willard Bishop's leadership position has continued to expand by integrating shopper analytics and cost modeling into custom-developed applications, models and products, that improve client performance – from concept to consumer.

ABOUT THIS REPORT

Willard Bishop, an Inmar Analytics Company, has published The Future of Food Retailing since 1983. The report takes a deep dive into the food retailing industry in order to identify and quantify market dynamics, trends, and behaviors. The report recaps the previous year's activities and provides projections for the next five years in terms of market and dollar share across the following channel formats:

TRADITIONAL GROCERY FORMATS

Traditional Supermarkets | Fresh Format | Limited Assortment | Super Warehouse | Other (Small) Grocery

NON-TRADITIONAL GROCERY

Wholesale Club | Supercenter/Mass | Dollar | Drug | Military

CONVENIENCE STORES

With Gasoline | Without Gasoline

ECOMMERCE (FOOD AND CONSUMABLES)

Combined Channels

HIGHLIGHTS

In 2015, the landscape of food retailing continued to be reshaped by mergers and acquisitions. Albertson's acquisition of Safeway created the nation's second-largest retailer within traditional grocery. Kroger, occupying the number one spot, became even larger with its acquisition of Roundy's.

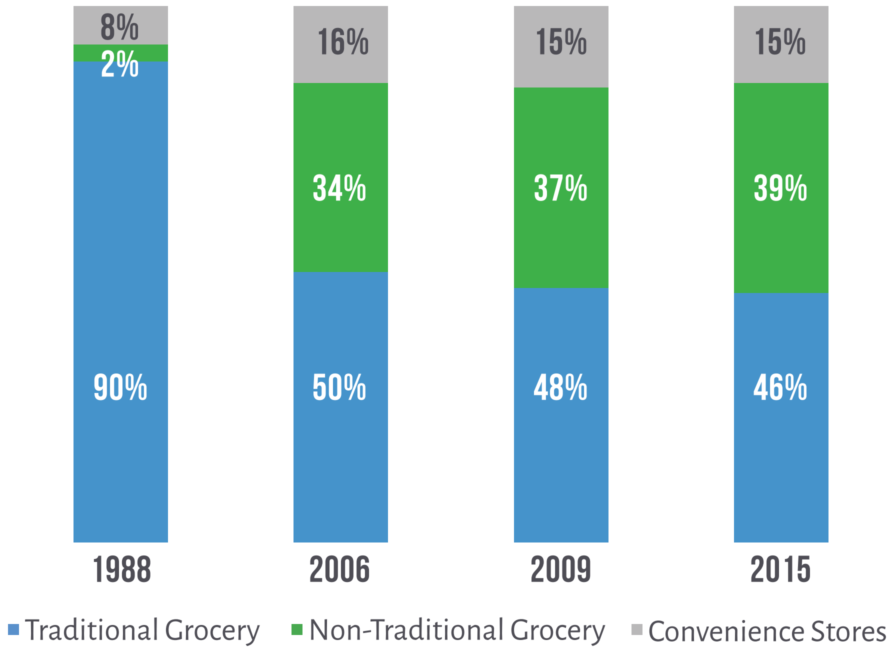
Similarly, Family Dollar's acquisition of Dollar Tree resulted in the creation of another powerhouse among dollar, or extreme value retailers, which now rivals Dollar General in terms of store count and sales.

Natural and organic foods, once a strategic competitive platform, continued its expansion across every food retailing channel. Additionally, the number of smaller footprint stores continued to increase as retailers discovered the value of optimizing their assortment and inventory in order to merchandise the proper product mix in 75% less selling space.

CHANNEL TRENDS

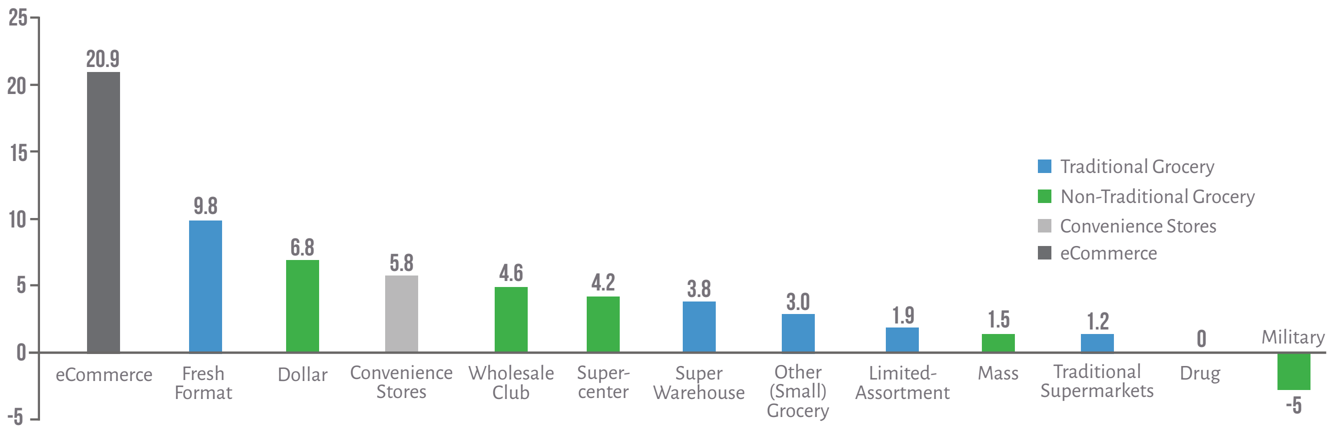
In 1988, the Traditional Grocery channel still commanded the lion's share of sales generated from grocery and consumable products. Since then, the channel has lost dollar share to the Non-Traditional Grocery channel, which continues to be led by Supercenter/Mass, and Wholesale Club stores such as BJ's, Costco, and Sam's Club.

DOLLAR SHARE BY CHANNEL



FORMAT TRENDS, 2015

Understanding growth trends is essential for determining market dynamics in the years ahead. As indicated below, the highest increases in sales – as a percentage of growth – are eCommerce, Fresh Format, and Dollar.



UNDERSTANDING THE PREVIOUS YEAR

Predicting future market conditions requires a keen understanding of historical measures and insights into evolving shopper behaviors. This is particularly useful for predicting areas such as eCommerce, which has limited historical data.

TRADITIONAL GROCERY FORMATS

Overall, the Traditional Grocery channel sales increased 1.7% to $556.4 billion in 2015. Market share declined by half a percentage point to 45.8%.

TRADITIONAL SUPERMARKETS

Traditional Supermarkets had a sales increase of 1.2%, attaining $467.8 billion in 2015. Store counts decreased 1.0% and market share decreased 0.7% to 38.5%. The store decline was primarily due to A&P going out of business and Safeway's divestitures. Traditional Supermarket retailers that had relatively high sales increases in 2015 included Bozzuto's, Brookshire Brothers, Wakefern Food Corporation, Hy-Vee, and Walmart Neighborhood Markets.

FRESH FORMAT

Fresh Format Stores continued to experience substantial sales growth, with an increase of 9.8% to $17.5 billion. Fresh Format stores, totaling nearly 1,300 locations, represented the largest increase in store count among all formats. Sprouts Farmers Market and Earth Fare Healthy Supermarket also enjoyed double-digit sales growth. In 2016, Sprouts is focusing on a newly launched mobile application that provides one-on-one communication with shoppers. Customers can customize the app based on dietary needs and food preferences. Sprouts' shoppers will receive coupons, offers, and new product announcements based on their purchase history.

LIMITED-ASSORTMENT STORES

Limited-Assortment Stores had a slight sales increase of 1.9% to $35.2 billion. The closing of Fresh & Easy had a strong influence on store counts this year. Aldi expects to open 45 stores in Southern California before the end of 2016 and plans to expand to nearly 2,000 stores in the U.S. by the end of 2018.

SUPER WAREHOUSE

Super Warehouse continued its modest sales gains of 3.8% to $22.5 billion in 2015. Smart and Final is continuing its growth strategy with its acquisition of 33 Haggen stores this year. Smart and Final plans to continue growing stores in its current service area (Western coast); however, the retailer maintains a keen eye on a broader, long-term U.S. expansion with its Smart and Final Extra banner.

OTHER (SMALL GROCERY)

Other Grocery, also called Small Grocery, increased sales 3.0% to $13.4 billion.

CONVENIENCE

Convenience Stores continued their modest in-store sales growth of 5.8% to $188.0 billion in 2015. This format had almost half a percentage point increase in market share, rounding out 2015 at 15.5%. However, more and more c-stores are adding fresh and prepared foods to their assortment, which will accelerate the channel's future growth.

NON-TRADITIONAL GROCERY

Sales in the Non-Traditional Grocery channel increased 3.6% to $469.8 billion in 2015, while market share remained at 38.7%. Strong sales growth was seen by the Dollar, Supercenter, and Wholesale Club formats.

WHOLESALE CLUB

Wholesale Club sales increased 4.6% to $106.8 billion. Costco enjoyed a same-store sales increase of 3% in 2015 and grew to 480 clubs in the United States. However, Sam's Club experienced a 3.2% same-store sales decline primarily due to food price deflation, changing assortments, and an overall decline in food sales in 2015.

SUPERCENTER

Supercenter sales grew at a steady pace of 4.2% in 2015 to reach $216.3 billion, while store count increased slightly by 1.9% to over 4,000 stores in 2015. The Mass format experienced a slight increase this year of 1.5% to $48.6 billion and a 2.0% decline in store count to 3,000 stores. Meijer's sales figures grew by double-digits in 2015. Meijer is continuing to grow in 2016 with a nine-store growth plan and increasing their eCommerce presence with their Meijer Curbside program.

DOLLAR/EXTREME VALUE

The Dollar format continued its strong sales growth with a 6.8% increase to $32.4 billion, while store counts increased by 3.3% to over 29,000 stores in 2015. With the purchase of Family Dollar this year, Dollar Tree has become the top retailer in the format as it relates to store count and second to Dollar General in sales. Dollar Tree had a combined food and consumables sales increase of 8% in 2015.

DRUG

Food and consumable product sales in Drug Stores stayed relatively flat at $61.1 billion and market share decreased slightly to 5.0% in 2015. CVS continued to experience a front-end, same-store sales decline of 5.0% this year compared to a 4.0% decline in 2014.

MILITARY

The military format sales experienced a moderate decline of 2.7% to $4.6 billion as Military families choose to shop at alternative formats.

ECOMMERCE

eCommerce sales for food and consumables increased by 20.9% in 2015 to $29.5 billion. Amazon continues to satisfy consumers' needs by offering food and consumables at reasonable prices via a quick and easy shopping experience. However, more and more brick-and-mortar, grocery retailers are throwing their hat into the eCommerce ring. Also, many manufacturers such as Smuckers, L'Oreal, P&G, and Enfamil, are bypassing retailers and going straight to the consumer by launching their own eCommerce websites.

2015 MARKET SHARE (GROCERY AND CONSUMABLES)

	Number of Stores	Dollar Share	Annual Sales (Millions)
Total Traditional Grocery	**40,768**	**45.8%**	**$556,365.0**
Traditional Supermarkets	26,223	38.5%	$467,766.2
Fresh Format	1,293	1.4%	$17,477.0
Limited Assortment	3,938	2.9%	$35,244.0
Super Warehouse	593	1.8%	$22,462.6
Other (Small Grocery)	8,722	1.1%	$13,415.1
Total C-Stores	**160,698**	**15.5%**	**$188,029.0**
Convenience (w/gas)*	130,468	13.2%	$160,761.2
Convenience (w/o gas)	30,230	2.2%	$27,267.8
Total Non-Traditional Grocery	**61,339**	**38.7%**	**$469,822.0**
Wholesale Club	1,446	8.8%	$106,824.6
Supercenter	4,020	17.8%	$216,282.8
Dollar Store	29,189	2.7%	$32,400.8
Drug	23,490	5.0%	$61,079.8
Mass	3,013	4.0%	$48,587.0
Military	181	0.4%	$4,647.0
Total All Formats	**262,806**	**100.0%**	**$1,214,216.0**

*Does not include gasoline sales. **Source:** Willard Bishop, an Inmar Analytics Company

2015 FORMAT CHARACTERISTICS (GROCERY AND CONSUMABLES)

	Total Store Area	Avg. Total SKUs	Avg. Weekly Store Sales	% of Total Store Sales
Total Traditional Grocery			**$262,442**	**100%**
Traditional Supermarkets	53,000	45,000	$343,042	100%
Fresh Format	32,400	16,233	$260,010	100%
Limited-Assortment	14,500	2,500	$172,118	100%
Super Warehouse	49,100	36,800	$728,234	100%
Other (Small Grocery)	9,000	3,000	$29,579	100%
Total C-Stores			**$22,501**	**81%**
Convenience (w/gas)*	2,800	3,100	$23,696	81%
Convenience (w/o gas)	3,000	3,700	$17,346	81%
Total Non-Traditional Grocery			**$147,296**	
Wholesale Club	129,700	5,700	$1,420,906	59%
Supercenter	177,300	100,000	$1,034,532	60%
Dollar	7,700	7,200	$21,347	66%
Drug	10,100	19,000	$50,004	34%
Mass	59,400	95,000	$310,099	23%
Military	29,400	15,000	$493,766	100%

*Does not include gasoline sales. **Source:** Willard Bishop, an Inmar Analytics Company

INDUSTRY OUTLOOK

By 2020, the market share for Traditional Grocery will decrease by 1.1 percentage points to 44.7%, while share for Non-Traditional Grocery will increase slightly to 39.8% and Convenience Store share will increase slightly to 15.4%.

TRADITIONAL GROCERY

Fresh Format stores are expected to continue their strong growth over the next five years at a rate of 8.6% annually. Limited-Assortment will also experience strong growth of 7.0% per year into 2020. Super Warehouse will continue with their steady 3.3% annual growth rate. Small Grocery will see a relatively low growth rate of 2.6%. Traditional Supermarkets' market share is expected to continue to decline by three percentage points from 38.5% in 2015 to 35.5% by 2020.

CONVENIENCE

Convenience Store sales will experience a slight annual growth rate increase of 1.4% for Convenience with Gas and 1.9% for Convenience without Gas. Market share will remain relatively consistent for the Convenience format with an overall market share of 15.4% by 2020.

NON-TRADITIONAL GROCERY

Supercenters will continue their sales growth at a rate of 2.9% per year into 2020, increasing market share from 17.8% in 2015 to 18.9% by 2020. Both Dollar and Wholesale Club will perform well with annual growth rates of 4.8% and 3.0%, respectively. Drug will experience a slight growth of 0.4% annually. Mass will experience a slight decline in annual sales of 1.4% a year into 2020 and a decrease of half a percentage point in market share to 3.5%, as more conventional Mass stores are converted to Supercenters.

ECOMMERCE

eCommerce food and consumable sales will continue its strong growth rate of 23.1% a year.

MARKET SHARE FORECAST (GROCERY AND CONSUMABLES)

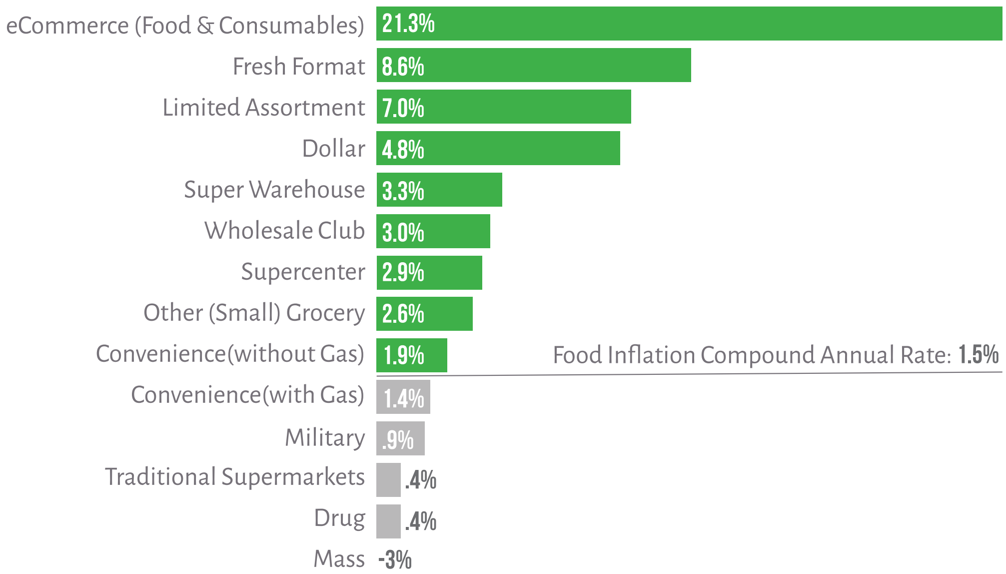
	2015		2020	
	Dollar Share	Number of Stores	Annual Sales (Millions)	Dollar Share
Total Traditional Grocery	45.8%	40,656	$593,023	44.7%
Traditional Supermarkets	38.5%	24,927	$470,627	35.5%
Fresh Format	1.4%	1,952	$27,930	2.1%
Limited-Assortment	2.9%	4,171	$51,802	3.9%
Super Warehouse	1.8%	757	$27,113	2.0%
Other (Small Grocery)	1.1%	8,849	$15,551	1.2%
Total C-Stores	15.5%	168,202	$204,841	15.4%
Convenience (w/gas)*	13.2%	136,560	$174,439	13.2%
Convenience (w/o gas)	2.2%	31,642	$30,402	2.3%
Total Non-Traditional Grocery	38.7%	66,930	$528,025	39.8%
Wholesale Club	8.8%	1,615	$124,279	9.4%
Supercenter	17.8%	4,409	$250,389	18.9%
Dollar	2.7%	34,261	$40,677	3.1%
Drug	5.0%	23,725	$60,815	4.6%
Mass	4.0%	2,728	$46,981	3.5%
Military	0.4%	191	$4,884	0.4%
Total All Formats	100%	275,788	$1,325,890	100%

*Does not include gasoline sales. **Source:** Willard Bishop, an Inmar Analytics Company

EFFECT OF INFLATION

Food inflation is expected to average 1.5% over the next five years. We believe that Traditional Supermarkets sales will not keep pace, and they will continue to lose market share as consumers choose to shop other formats for grocery needs.

ANTICIPATED COMPOUND ANNUAL SALES GROWTH RATE VS. INFLATION: 2016-2020



THE EVOLUTION OF THE FUTURE OF FOOD RETAILING

DEFINING THE U.S. GROCERY MARKET (GROCERY AND CONSUMABLES)

The sales and SKU estimates for each of the 14 store formats include:

- All grocery items
- Non-edible grocery
- Health and beauty items, including cosmeticss and general merchandise which includes, but is not limited to:
  - Greeting cards and magazines
- Alcohol
- Tobacco and some seasonal items

Excluded from the estimates are:

- Clothing
- Electronics
- Footwear
- Gasoline
- Hardlines
- Jewelry
- Knickknacks
- Prescription drugs
- Sporting goods
- Toys

RETAIL SEGMENT DEFINITIONS

TRADITIONAL GROCERY

TRADITIONAL SUPERMARKET • Stores offering a full line of groceries, meat, and produce with at least $2 million in annual sales and up to 15% of their sales in GM/HBC. These stores typically carry anywhere from 15,000 to 60,000 SKUs (depending on the size of the store), and may offer a service deli, a service bakery, and/or a pharmacy.

FRESH FORMAT • Different from traditional supermarkets and traditional natural food stores, fresh stores emphasize perishables and offer center-store assortments that differ from those of traditional retailers—especially in the areas of ethnic, natural, and organic, e.g., Whole Foods, The Fresh Market, and some independents.

LIMITED-ASSORTMENT STORE • A low-priced grocery store that offers a limited assortment of center-store and perishable items (fewer than 2,000), e.g., Aldi, Trader Joe's, and Save-A-Lot.

SUPER WAREHOUSE • A high-volume hybrid of a large Traditional Supermarket and a Warehouse store. Super Warehouse stores typically offer a full range of service departments, perishables, and reduced prices, e.g., Cub Foods, Food 4 Less, and Smart & Final.

OTHER (SMALL GROCERY) • A small corner grocery store that carries a limited selection of staples and other convenience goods. These stores generate less than $2 million in business annually.

CONVENIENCE STORES

CONVENIENCE STORE (W/ GAS) • A small, higher-margin store that offers an edited selection of staple groceries, non-foods, and other convenience food items, e.g., ready-to-heat and ready-to-eat foods. The Convenience Store with Gas format includes only Convenience Stores that sell gasoline, e.g., ExxonMobil (On the Run), AM/PM, etc.

CONVENIENCE STORE (W/O GAS) • Small, higher-margin convenience stores that don't sell gas and offer an edited selection of staple groceries, non-foods, and other convenience food items, e.g., ready-to-heat and ready-to-eat foods. Stores such as 7-Eleven without gasoline pumps are included.

NON-TRADITIONAL GROCERY

WHOLESALE CLUB • A membership retail/wholesale hybrid with a varied selection and limited variety of products presented in a warehouse-type environment. These ~120,000 square-foot stores have 60% to 70% GM/HBC and a grocery line dedicated to large sizes and bulk sales. Memberships include both business accounts and consumer groups, e.g., Sam's Club, Costco, and BJ's.

SUPERCENTERS • A hybrid of a large Traditional Supermarket and a Mass Merchandiser. Supercenters offer a wide variety of food, as well as non-food merchandise. These stores average more than 170,000 square feet and typically devote as much as 40% of the space to grocery items, e.g., Walmart Supercenter, SuperTarget, Meijer, and Kroger Marketplace stores.

DOLLAR STORES • A small store format that traditionally sold staples and knickknacks, but now sells food and consumable items at aggressive price points that account for at least 20%, and up to 66%, of their volume, e.g., Dollar General, Dollar Tree, and Family Dollar.

DRUG • A prescription-based drug store that generates 20% or more of its total sales from consumables, general merchandise, and seasonal items. This channel includes major chain drug stores such as Walgreens and CVS, but does not include stores/chains, e.g., The Medicine Shoppe that sell prescriptions almost exclusively.

MASS • A large store selling primarily hardlines, clothing, electronics, and sporting goods, but also carries grocery and non-edible grocery items. This channel includes traditional Walmart, Kmart, and Target stores, etc.

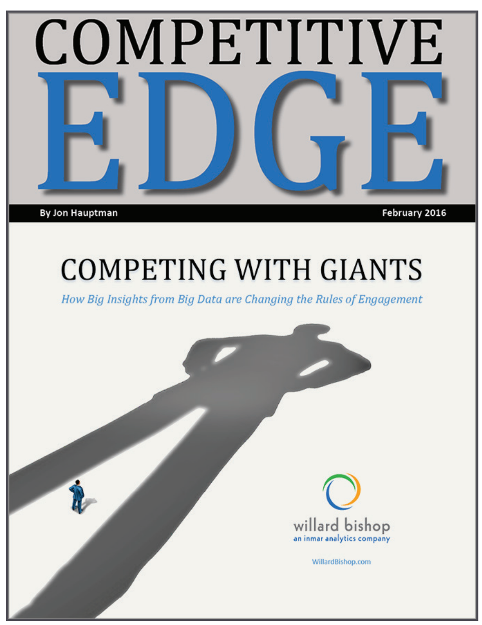
MILITARY • A format that looks like a conventional grocery store carrying groceries and consumables, but is restricted to use by active or retired military personnel. Civilians may not shop at these stores (referred to as commissaries).

ECOMMERCE (FOOD & CONSUMABLES) • Food and consumable products ordered using the internet via any device, regardless of the method of payment or fulfillment. This channel includes Amazon and Peapod as well as the eCommerce business generated by traditional brick-and-mortar retailers, e.g., Coborns (Coborns Delivers) and ShopRite (ShopRite from Home and ShopRite Delivers). The other non-traditional retail segments above include their eCommerce business.

PRIMARY SOURCES

While several sources were used to develop these definitions, the primary sources include Bureau of Labor Statistics, Chain Store Guide, Defense Commissary Agency, emarketer.com, Hoovers, Internet Retailer, IRI (a Chicago-based market research firm (@iriworldwide)), Kantar Retail, National Association of Convenience Stores (NACS), SEC filings, Supermarket News, The Nielsen Company, and U.S. Census.

RELATED MATERIALS



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