



THE FUTURE OF FOOD RETAILING | 2015



About this Report

The Future of Food Retailing, published by Willard Bishop, an Inmar Analytics Company, since 1983, takes a deep dive into the food retailing industry in order to understand and quantify market dynamics, trends, and behaviors.

This annual report recaps the previous year, while projecting market conditions in terms of market and dollar share across multiple channels and formats. This year, the annual report has been expanded to include eCommerce, with a special section on Omni-channel.

Traditional Grocery

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

Natural and organic foods are rapidly becoming mainstays for every food retailing channel. Smaller footprint stores continue to dot the country as more and more retailers discover the value of optimizing their assortment and inventory, and merchandising it in nearly one-fourth the square footage of a Traditional Supermarket.

Sales in the Non-Traditional Grocery channel grew slightly despite losing nearly half a percent in dollar share, while the Convenience Store channel (with and without gasoline) remained steady.

eCommerce continues to deliver double-digit growth, causing trading partners to rapidly increase their understanding of click-and-collect models and home delivery. Omni-channel practices are also expanding rapidly, causing the entire industry to better understand click-streams and how today's time-starved consumer prefers to engage.

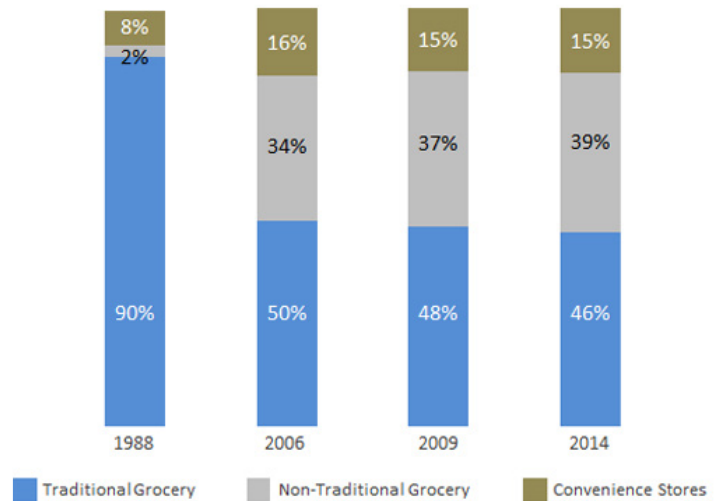
Traditional Grocery gains 0.3% dollar share.

The first share gain in more than a decade.



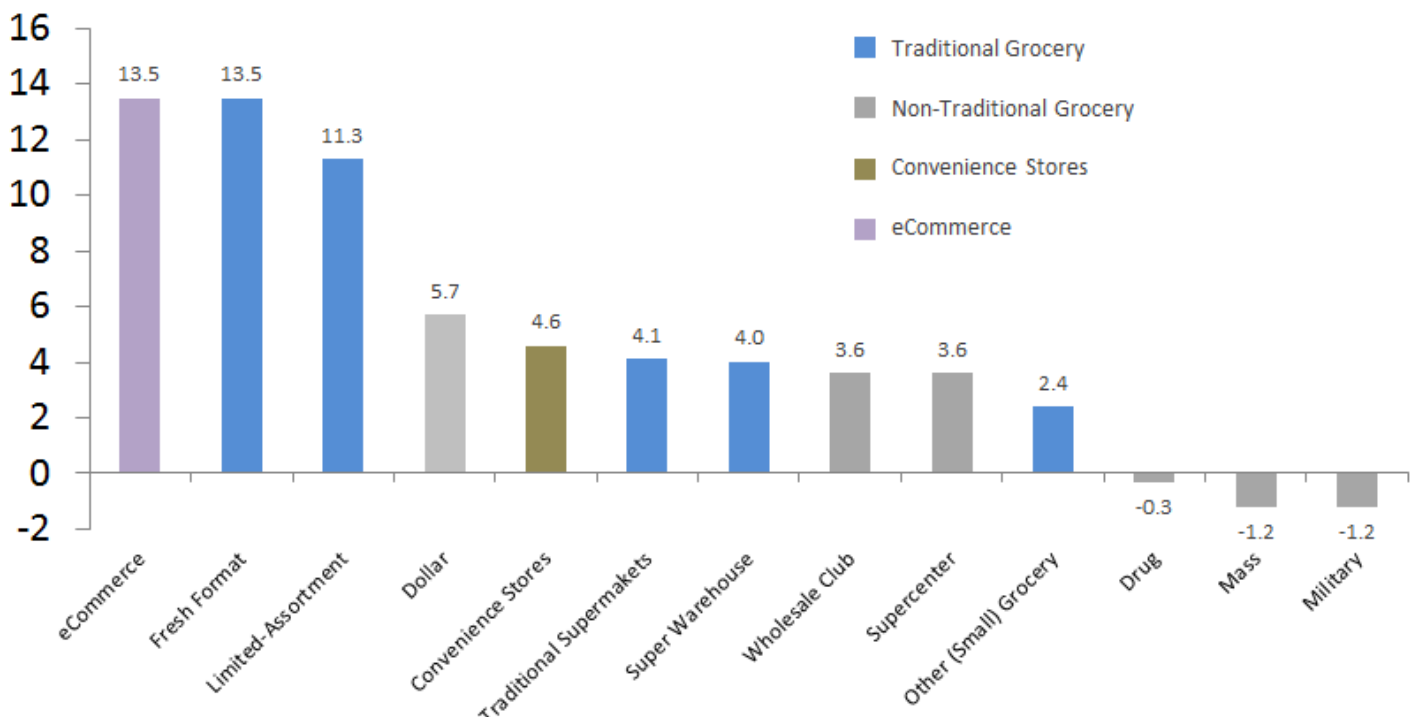
Channel Trends

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. Despite losing shares every year since then, the Traditional Grocery channel experienced its first share gain in 2014. This growth, although minimal at 0.3%, may represent a moral victory for the channel after experiencing successive, year-over-year declines. That being said, the Traditional Grocery channel continues to maintain its leadership position, and is likely to do so for decades.



Format Trends

While not all segments are created equally, 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 Limited-Assortment. These three segments outpace every other segment by a minimum of 2 to 1.



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 activities in uncharted waters such as eCommerce, which happens to be one of the fast-growing formats.

Traditional Grocery

Overall, the Traditional Grocery channel sales increased 4.7% to \$547.4 billion in 2014. Market share increased slightly to 46.3%.

Traditional Supermarkets

Traditional Supermarkets had a sales increase of 4.1%, attaining \$462.3 billion in 2014. Store counts also increased 1.3% to over 26,000 stores in 2014. A number of Traditional Supermarket retailers saw significant sales growth this year; however, Walmart Neighborhood Market, United Supermarkets, and Brookshire Grocery all had double-digit increases in 2014.



Fresh Format

Fresh Format stores continued to experience a substantial sales growth of 13.5% to \$15.9 billion and the largest increase in stores among all formats to almost 1,200 in 2014, proving that shoppers are still looking for fresh, healthful products. The Fresh Market and Sprouts enjoyed a double-digit sales growth for the second time over the past two years. In 2015, Sprouts is focusing on improving ingredients and getting a broader merchandise offering. Sprouts is also working on a new deli format (i.e., front-facing salad bar, protein case, juice offering, and sandwich station), which it's testing in one store and plans to rollout to more stores in 2016.

Limited-Assortment

Limited-Assortment stores had a significant sales increase of 11.3% to \$34.6 billion. Aldi continued to grow its footprint with a 5.8% increase to 1,375 stores in 2014. Aldi expects to open 650 stores, including an expansion into Southern California and Texas, bringing its total U.S. store count to 2,000 by 2018. Fresh & Easy is in the process of closing stores and converting stores to click-and-collect.

Super Warehouse

Super Warehouse experienced a modest increase of 4.0% to \$21.6 billion in 2014. Winco opened their 100th store a month ago, which is one of nine stores they plan on opening in 2015. Smart & Final's consumer-focused Extra stores will continue to be the key to new-store growth. They plan to add 20 additional Extra stores in 2015.

Other (Small) Grocery

Other (Small) Grocery increased sales 2.4% to \$13.0 billion.

Non-Traditional Grocery

Non-Traditional Grocery channel sales increased 2.7% to \$453.7 billion. Market share fell by almost half a percentage point to 38.6% for non-traditional food outlets, which was driven in part by the growth in Limited-Assortment and Fresh Format stores within the Traditional Grocery channel.

Wholesale Club

Wholesale Club sales increased 3.6% to \$102.1 billion. Costco enjoyed a same-store sales increase of 5.0% in 2014 and grew to almost 470 clubs in the United States. In 2015, Costco plans to open 19 stores in the U.S. and 12 abroad.

Supercenter/Mass

Supercenter sales grew at a steady pace of 3.6% in 2014 to reach \$207.5 billion, while store count increased 3.1% to over 3,900 stores in 2014. The Mass format experienced a slight decline this year of 1.2% to \$47.9 billion and a 6.3% decline in store count to a little over 3,000 stores. Kmart, which continues to struggle, is in the process of converting about half of their remaining supercenters to a new concept called K-Fresh. The new concept will offer a broader selection of grocery items than traditional Kmart stores.

Dollar

The Dollar format continued its modest sales growth with a 5.7% increase to \$30.3 billion, while store counts increased by 3.9% to over 28,000 stores in 2014. With the purchase of Family Dollar this year, Dollar Tree will become the top retailer in the format as it relates to store count and second to Dollar General in sales.

Drug

Food and consumable product sales in Drug stores decreased slightly by 0.3% to \$61.1 billion and market share decreased slightly to 5.2% in 2014. CVS experienced same-store sales declines of 4.0% this year. CVS announced plans to purchase Target's in-store pharmacies. This will allow Target to increase focus in the areas of on-demand shopping and innovation, while CVS re-brands Target's existing in-store pharmacies under the CVS MinuteClinic banner.

Military

The Military format sales experienced a slight decline of 1.2% to \$4.8 billion.

Convenience Stores

Convenience stores experienced consistent in-store sales growth of 4.6% to \$177.7 billion in 2014. This industry's emphasis on quick, easy, and convenient access to food has been key to its success.

eCommerce

eCommerce sales for food and consumables increased by 13.5% in 2014 to \$24.4 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 (e.g., Ahold, Albertson's, Kroger, Safeway, and ShopRite) are stepping up their eCommerce efforts and trying to steal market share away from pure play retailers. Supercenters and Wholesale Club stores are also getting on the eCommerce bandwagon. Meijer announced this year that they will be expanding their curbside delivery service to all stores, and Costco has been partnering with Instacart in select cities for a couple of years.

2014 Market Share

	Number of Stores	Dollar Share	Annual Sales (Millions)
Total Traditional Grocery	40,835	46.3%	\$547,435.9
Traditional Supermarkets	26,490	39.2%	\$462,276.5
Fresh Format	1,190	1.3%	\$15,912.8
Limited-Assortment	3,893	2.9%	\$34,589.1
Super Warehouse	565	1.8%	\$21,633.1
Other (Small) Grocery	8,697	1.1%	\$13,024.5
Total Non-Traditional Grocery	60,325	38.6%	\$453,663.5
Wholesale Club	1,414	8.7%	\$102,099.8
Supercenter	3,947	17.6%	\$207,495.6
Dollar	28,268	2.6%	\$30,349.2
Drug	23,444	5.2%	\$61,086.1
Mass	3,074	4.1%	\$47,858.7
Military	179	0.4%	\$4,774.2
Total Convenience Stores	159,238	15.1%	\$177,721.1
Convenience (w/ gas)*	129,282	12.9%	\$151,948.2
Convenience (w/o gas)	29,956	2.2%	\$25,773.0
Total All Formats	260,398	100.0%	\$1,178,820.5

2014 Format Characteristics

	Total Store Area	Avg. Total SKUs	Avg. Weekly Store Sales	% of Total Store Sales
Total Traditional Grocery			\$247,379	100%
Traditional Supermarkets	52,200	45,000	\$335,599	100%
Fresh Format	33,400	21,000	\$257,072	100%
Limited-Assortment	13,300	2,900	\$170,872	100%
Super Warehouse	46,200	37,000	\$736,406	100%
Other (Small) Grocery	9,000	3,000	\$28,801	100%
Total Non-Traditional Grocery			\$144,621	
Wholesale Club	129,400	4,800	\$1,388,428	59%
Supercenter	167,800	100,000	\$1,011,006	60%
Dollar	8,100	9,400	\$20,646	66%
Drug	10,800	19,000	\$50,109	34%
Mass	65,100	95,000	\$299,445	23%
Military	29,400	15,000	\$512,972	100%
Total Convenience Stores			\$21,463	81%
Convenience (w/ gas)*	2,800	3,100	\$22,602	81%
Convenience (w/o gas)	3,000	3,700	\$16,546	81%

* Sales from gasoline are not included

Industry Outlook

By 2019, the market share for Traditional Grocery will decrease slightly by 0.2 percentage points to 46.1%; while share for Non-Traditional Grocery will increase slightly to 38.8% and Convenience store share will remain consistent at 15.1%.

Traditional Grocery

Fresh Format stores are expected to continue their strong growth over the next five years at a rate of 11.7% annually. Limited-Assortment will also experience strong growth of 7.0% by 2019. Super Warehouse will continue with their steady 3.5% annual growth rate. Other (Small) Grocery will see a relatively low growth rate of 2.1%. Traditional Supermarkets' market share is expected to decline from 39.2% in 2014 to 36.8% by 2019.

Non-Traditional Grocery

Supercenters will continue their sales growth at a rate of 2.9% per year into 2019, increasing market share from 17.6% in 2014 to 18.3% by 2019. Both Dollar and Wholesale Club will perform well with annual growth rates of 3.8% and 3.3%, respectively. Drug will experience a slight growth annually of 1.6%. Mass will continue to experience a decline in annual sales of 3.0% into 2019 and a decrease in market share to 3.2%, as more conventional Mass stores are converted to Supercenters.

Convenience Stores

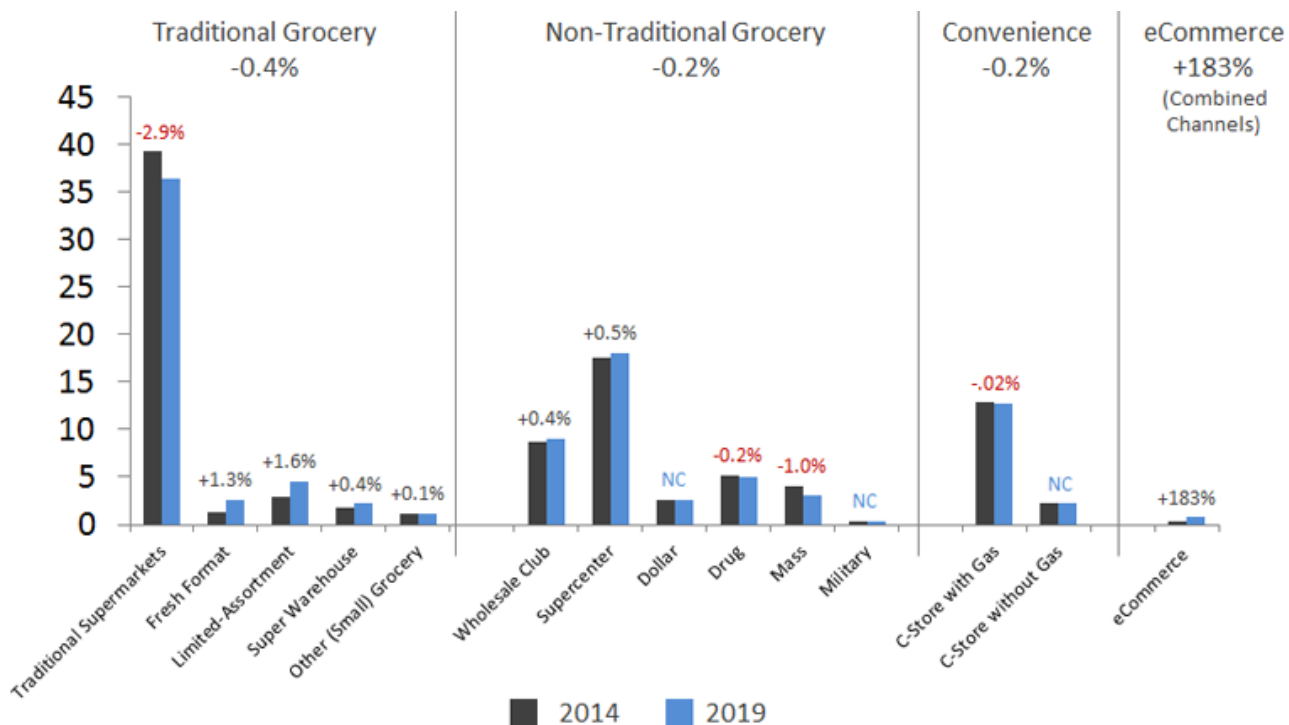
Convenience store sales will experience a modest annual growth rate increase of 1.8% for Convenience with Gas and 1.9% for Convenience without Gas. Market share will remain steady for the Convenience format with an overall market share of 15.1% by 2019.

eCommerce

eCommerce food and consumable sales will continue its strong growth rate of 12.1% a year.



Overview of Dollar Share (2014 versus 2019)



Dollar Share (2014 versus 2019) Detail

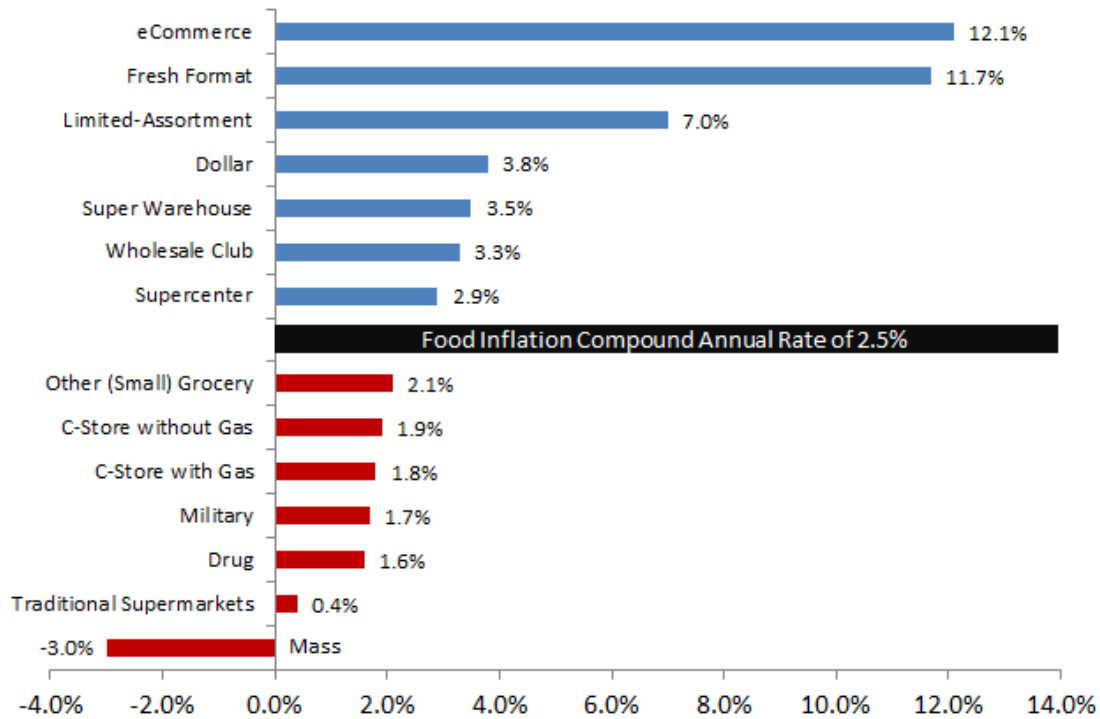
	2014	2019		
	Dollar Share	Number of Stores	Annual Sales (\$ Millions)	Dollar Share
Total Traditional Grocery	46.3%	43,900	\$602,370	46.1%
Traditional Supermarkets	39.2%	28,309	\$480,669	36.8%
Fresh Format	1.3%	2,094	\$29,942	2.3%
Limited-Assortment	2.9%	4,196	\$50,798	3.9%
Super Warehouse	1.8%	612	\$26,288	2.0%
Other (Small) Grocery	1.1%	8,689	\$14,672	1.1%
Total Non-Traditional Grocery	38.6%	67,228	\$507,389	38.8%
Wholesale Club	8.7%	1,583	\$120,122	9.2%
Supercenter	17.6%	4,591	\$239,468	18.3%
Dollar	2.6%	34,270	\$34,994	2.7%
Drug	5.2%	24,393	\$66,352	5.1%
Mass	4.1%	2,217	\$41,183	3.2%
Military	0.4%	174	\$5,271	0.4%
Total Convenience Stores	15.1%	167,356	\$196,992	15.1%
Convenience (w/ gas)*	12.9%	135,873	\$168,257	12.9%
Convenience (w/o gas)	2.2%	31,483	\$28,736	2.2%
Total All Formats	100%	278,484	\$ 1,306,751	100.0%

* Sales from gasoline are not included

Effect of Inflation

We assume food inflation will average 2.5% 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 2014-2019 (Grocery and Consumables Only)



How this Report has Evolved

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 cosmetics and general merchandise which includes, but is not limited to:
 - Greeting cards and magazines
 - Alcohol
 - Tobacco and some seasonal items
 - Toys

The estimates contained herein do not include durables, electronics, gasoline, or prescription drugs.

Retail Format Definitions

Traditional Grocery

Traditional Supermarkets – 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 supermarkets and 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 – 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 Supermarkets and a Super 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.

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.

Supercenter – 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.

Non-Traditional Grocery *continued*

Dollar – 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).

Convenience Stores

Convenience Store with Gasoline – 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 without Gasoline – 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.

eCommerce

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

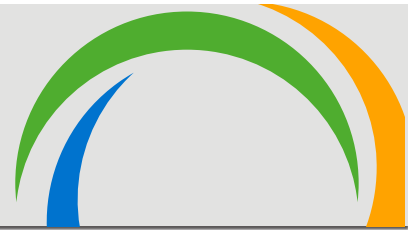
While several sources were used to develop these definitions, the primary sources include Bureau of Labor Statistics, Chain Store Guide, Defense Commissary Agency, eMarketer.com, IRI (a Chicago-based market research firm (@iriworldwide)), National Association of Convenience Stores (NACS), Nielsen Homescan,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

Related Materials



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Solving Complex Issues for Consumer Goods Manufacturers and Retailers

Willard Bishop uses its manufacturer expertise and unprecedented retailer knowledge to create performance-based strategies that work for the supply side, as well as for the demand side. Willard Bishop also integrates shopper-based analytics and cost modeling to identify and quantify hidden opportunities. The company further augments its solution matrix (manufacturer, retailer and consumer) by providing custom-developed applications, models and tools that improve client performance – from concept to consumer.

For Consumer Goods Manufacturers

Capturing growth in mature markets and channels has always required a deep understanding of the manufacturer-retailer-consumer relationship. However, the emergence of Omni-channel marketing and the evolution of the digitally connected consumer, are creating new challenges and opportunities for consumer goods manufacturers. Willard Bishop helps manufacturers identify these opportunities; then develops specific road maps that enable clients to capitalize on these trends, while uncovering hidden growth opportunities. Areas of expertise include:

- Growth Strategies
- Shopper Analytics
- Performance Optimization
- Store-Level Merchandising and Support

For Consumer Goods Retailers

Willard Bishop helps consumer goods retailers develop competitive platforms that attract and retain specific shoppers and optimize the sales floor. These platforms include a diverse solution set that connects the retailer's brand identity to the in-store experience. Using localized approaches to assortment, pricing, and promotion, Willard Bishop helps retailers increase shopper loyalty and basket size, while applying advanced analytics to increase efficiencies that span the extended value chain. Areas of expertise include:

- Competitive Positioning
- Pricing and Promotion
- Profit/Productivity Optimization
- eCommerce and Delivery

Products, Tools, and Data

Through the years, Willard Bishop has developed products that bring new insights and understanding to the manufacturer-retailer-consumer relationship. In addition to shopper analytics and merchandising data, Willard Bishop provides comprehensive decision support systems and promotion optimization solutions.

AD-IN™ (*Developed by Willard Bishop and Prognos*) AD-IN™ is the first promotion productivity tool that optimizes the collective performance of retailers' circulars (print and digital) and TPRs in order to gain margin and increase visits.

Willard Bishop SuperStudy™ (*Available for Grocery, C-Store, and eCommerce*) SuperStudy™ is a subscription-based service for benchmarking product and category performance using expanded dataviews to provide critical financial insights that are not available from traditional syndicated data providers.

Willard Bishop SuperShopper™ Database

Improve decision making and business intelligence with the SuperShopper™ database, and benefit from more than two billion consumer transactions from key retailers, representing 20 million households.

About Inmar, Willard Bishop's new parent company

Inmar is a technology company that operates intelligent commerce networks. Our platforms connect offline and online transactions in real time for leading retailers, manufacturers and trading partners across multiple industries who rely on Inmar to securely manage billions of dollars in transactions. Our Promotions, Supply Chain and Healthcare platforms enable commerce, generate meaningful data and offer growth-minded leaders actionable analytics and execution with real-time visibility. Founded in 1980, Inmar is headquartered in Winston-Salem, North Carolina with locations throughout the United States, Mexico and Canada.

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