

What's in Store 2017

A Trends and Consumer Behavior Report on Dairy, Deli, Retail Foodservice, Bakery, and Cheese Departments, and Fresh Food Retail.

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The Economy & Retail Trends

Retail Food Outlook

Tim O'Connor, managing partner, Retail Performance Solutions, said US retail growth forecasts are in the range of 3.5% to 4%, provided that employment continues to grow, oil prices recover to more reasonable levels, and no unforeseen natural or external disasters occur. "Aside from a few sectors, brick-and-mortar retail in general is deflating due to e-commerce and competitive intensity," he said.¹

Amy Koo, principal analyst, Kantar Retail, told IDDBA that her firm expects overall modest improvement in sales for 2016, pulled by strong consumer demand and unit growth, but tempered by low inflation. Job growth is going to continue, and that's going to help that demand, along with low fuel costs, she said. Koo added that online retail will continue growing at a rapid pace, and retailers who have invested in it will see outsized growth compared to brick-and-mortar stores.²

Through 2016, price and delivery competition will remain

fierce among US retailers due to the increasing presence of marketplaces in the retail environment that are helping consumers to get the best prices without having to visit a physical store, said Michelle Grant, head of retailing, Euromonitor International. "Retailers will continue to expand into different channels as a result of the influence of Internet retailing," she said. "In addition, retailers' efforts to reach urban consumers with smaller store formats can be expected to favor overall retail performance."³

Grant added that although the economy is not expected to see any significant changes by the end of 2020, growth within retailing will continuously be driven by low levels of unemployment and improving discretionary income. Consumers' shopping habits are also likely to evolve hand in hand with Internet retailing.⁴

"Mobile applications and payment methods are likely to reduce the time and cost involved for many retailers, with usage likely to increase in the long term," she said.⁵



Brexit Vote Breeds Uncertainty for UK Economy

The Brexit vote in favor of leaving the European Union (EU) will have a massive impact on the retail sector of the UK economy. Over the last 40 years, EU countries have integrated food supply operational processes and logistics into the EU's common market. Over 60% of the UK's food supply—both products and ingredients—is imported, both from EU and non-EU countries. Food and ingredient prices will rise by eliminating the free-flow of both imports and exports in the EU common market and obstructions in the supply chain—like tariffs and restrictions. Compounding the situation is the continued devaluation of the British pound and the accompanying inflation in the economy. This will very likely have a negative impact on food retailers, especially UK-based chains. Non-UK based discounters, however, are likely to benefit, because they invested heavily in the UK market prior to the Brexit vote and are able to contain costs much better than traditional retailers. The three million EU workers currently residing in the country—and their retail spend—may also leave the UK economy.

Source: Daniel Lucht, global research director, ResearchFarm

■ The Global Economy

Due to increasing uncertainty in the world's economies, further decline in oil prices, recent stock markets' swings, and worse than expected data from Brazil and Russia, global Gross Domestic Product (GDP) growth in 2016 is projected at 3.2%, Grant told IDDBA. Despite economic unknowns in emerging markets like China, economic fundamentals in developed countries point to their continuing recovery. Still, in 2016, the global economy is predominately on the downside, due to the contagious risk of slowdown in emerging markets and increased financial market volatility. Among the emerging markets, India appears as the biggest bright spot with continuing strong economic growth and significant policy reforms.⁶

O'Connor added that global food sales will grow in line with inflation and population growth is anticipated to be higher than the global GDP, but it still will be constrained by overall weak GDP growth. He added that Canadian retailer transactions and consolidations could result in more price competition and constrained sales growth below inflation in that country. Additionally, because Canada is so intensely competitive from a retail perspective and so spread out population-wise, e-commerce companies like Amazon are less likely to impact the market like they do in the United States.⁷

As of now, the state of consumer confidence around the globe is truly a mixed bag depending on the country or region, according to Grant. The US economy is likely to continue a modest recovery from the lingering effects of the 2008 financial crisis. In June, UK citizens voted in favor of Brexit, a referendum on the country to exit the European Union. This has caused a great deal of uncertainty in the United Kingdom, and Euromonitor predicts a 2% decline in GDP growth over the next five years as a result. The eurozone recovery continues to have trouble getting off the ground, with the exception of a few bright spots such as Ireland and Spain. In Asia, Japan's economic performance has been shaky over the last couple of years. But the second half of 2015 saw some improvement, which continued into the first quarter of 2016. In May 2016, the Japanese government announced it will delay a new sales tax hike (which was scheduled to take place in April 2017), as it attempts to revive the economy. China continues to be softer in economic growth, but India has come roaring back. Latin America, though, is struggling due to low commodity prices and a lack of structural reforms.⁸

See GRAPH 1.1, 2015 US Retail Sales Top \$4.2 Trillion; TABLE 1.2, US Confidence Stable, Unemployment Declining; GRAPH 1.3, Retail Growth Rate Slows in 2015

At a Glance

What lies ahead for
the Food Industry.

\$2.06 trillion

Total annual food industry sales,
comprising \$1.06 trillion in retail food sales and
\$1 trillion in foodservice sales

12%

Annual growth rate
for fresh-format retailers' sales, reaching \$60
billion annually in 2025

90% & 46%

Market dollar share of traditional
grocery in 1988 and 2015, respectively

0.4%

Projected annual sales growth rate
of traditional supermarkets between
2016 and 2020

23.1%

Projected annual sales growth rate
of e-commerce between 2016 and 2020

Source: Technomic, Willard Bishop

“Retailers know that sales growth will be modest at best and are focused more on the transformations in retailing and shopper behavior that need to be addressed. This includes smaller, more productive and proximate stores, digital retailing and the growth of click and collect—curbside pickup especially—digital marketing and engagement, and more tailored assortment strategies by region and season.”

—Tim O'Connor, managing partner, Retail Performance Solutions

O'Connor told IDDBA that retailers are focusing less on overall growth and more on shopper behavior. “They know it [sales growth] will be modest at best and are focused more on the transformations in retailing and shopper behavior that needs to be addressed,” he said. “This includes smaller, more productive and proximate stores, digital retailing and the growth of click and collect—curbside pickup especially—digital marketing and engagement, and more tailored assortment strategies by region and season.”⁹

Each retailer is responding to each local economy appropriately. For example, Walmart is closing stores in Brazil, but expanding in India. “Retailers will make modifications to adapt to the short-term conditions of economic uncertainty or prosperity while planning for the long term,” according to Grant.¹⁰

■ The European Economy

The European market is a bit shaky, as the continent fell into deflation in February 2016 and experienced negative interest rates. The result has been lowered consumer confidence among Europeans.¹¹

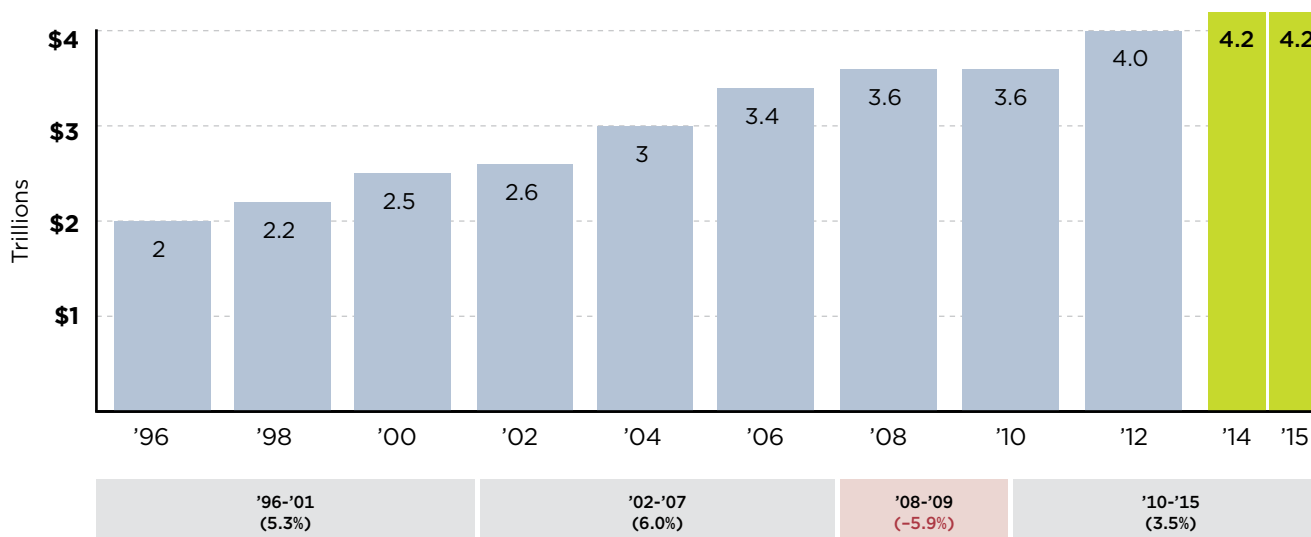
“Price-consciousness among consumers is likely to continue, consumer confidence is shaky, and low oil prices are negatively impacting the European retail landscape,” Daniel Lucht, global research director, ResearchFarm, shared with IDDBA. “Most Europeans are not optimistic about the broader macro-economic picture right now.”¹²

When consumer confidence was low in the past, retailers boosted their customer loyalty programs and private label



GRAPH 1.1

► **2015 US Retail Sales** Top \$4.2 Trillion



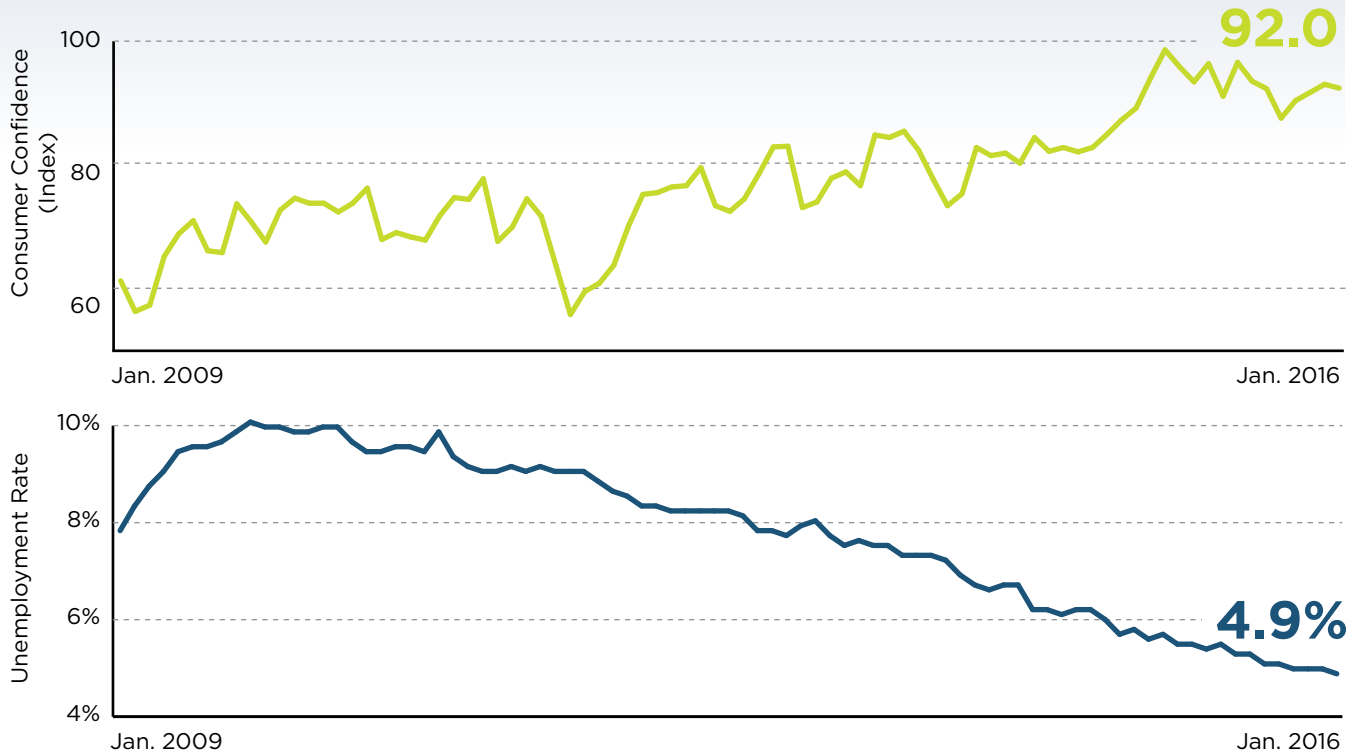
Source: U.S. Census Bureau, McMillanDoolittle LLP



GRAPH 1.2

US Confidence Stable, Unemployment Declining

Americans are exhibiting higher optimism levels as unemployment continues to decline.
 The Consumer Confidence Index dipped slightly to 92.0—still a healthy level—in January 2015.
 Unemployment stood at 4.9%—a nine-year low—in January 2016.

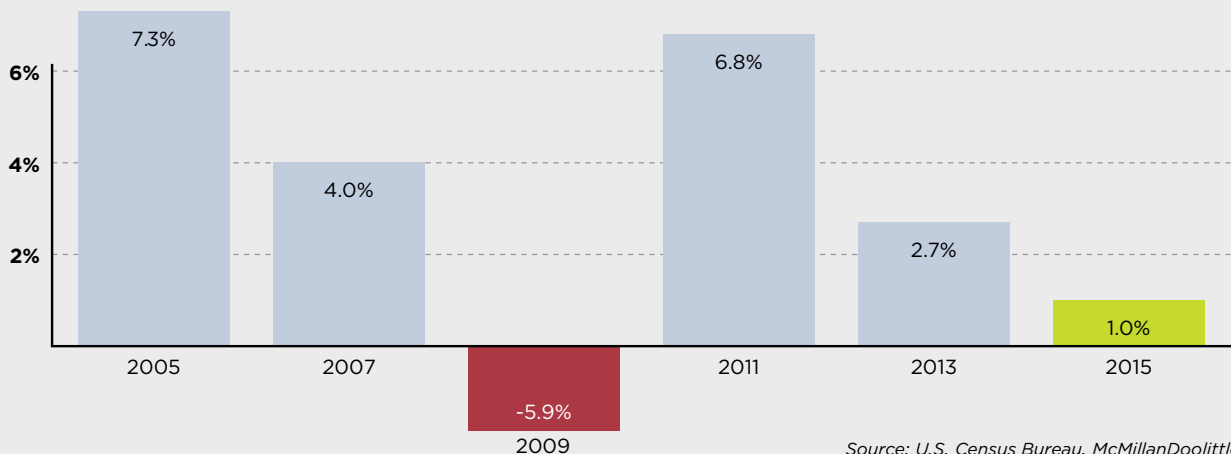


Source: Federal Reserve Data, University of Michigan



GRAPH 1.3

► Retail Growth Rate Slows in 2015



Source: U.S. Census Bureau, McMillanDoolittle LLP



Top Hurdles Facing Retailers

- **Vulnerability** of regional supply chains to natural and external disasters (e.g., droughts) as local sourcing cannot fill the gap. More retailers are focusing on vertical farms in urban locales and hydroponic conditions, such as in Canada where the majority of tomatoes are grown this way.
- **Continued growth** of retail e-commerce, which is responsible for most—if not all—growth in food sales, along with the impact of implementing online shopping options in terms of retailer productivity and viability.
- **Continued consolidation** that creates new competitive dynamics, but also distraction from long-term strategies like reduced store counts and square footage.
- **Adapting** to rapidly changing consumer behaviors and preferences.
- **Agnostic shoppers** who seek value more than anything (i.e., buying private label food but splurging for clothing).
- **How to offer** a profitable omnichannel experience to shoppers.
- **Amazon's expansion** into grocery with Pantry and Fresh, along with Prime Now.

Sources: Michelle Grant, head of retailing, Euromonitor International; Tim O'Connor, managing partner, Retail Performance Solutions

offerings. Today's retailers are focused primarily on one factor: price. "We have a price war going on, especially in light of the number of discounters in the market," Lucht said. "Add the continued development of online shopping, and many retailers are finding that they have too much space. The stores are too big and foot traffic is down. They're looking for ways to keep aisle costs down."¹³

■ Industry Sales Projections

Traditional retailers continue to lose market share to non-traditional channels, as is evident from Willard Bishop's *Future of Food Retailing 2016*. In 1988, traditional grocery commanded 90% of sales from grocery and consumable products; in 2015, its share was 46%. Willard Bishop

projects sales at traditional supermarkets will grow at a rate of 0.4% from 2016 to 2020; in comparison, e-commerce sales will grow 23.1%; fresh format sales will grow 8.6%; and limited assortment channel sales will grow 7% during this time period.¹⁴

See TABLE 1.4, *The Changing Food Landscape: Industry Projections*; GRAPH 1.5, *Expected Food Sales*.

Also see CHANNELS AND COMPETITION.

■ Predictions for the Retail Food Sector

What trends, challenges, and opportunities do retailers face in 2016 and beyond? Phil Lempert, SupermarketGuru, told *Forbes* about these retail trends:

"We have a price war going on, especially in light of the number of discounters in the market. Add the continued development of online shopping, and many retailers are finding that they have too much space. The stores are too big and foot traffic is down. They're looking for ways to keep aisle costs down."

—Daniel Lucht, global research director, ResearchFarm