

Study Highlights

Sales

While the economy picked up pace in 2017, consumer spending at the grocery store remained subdued. Shoppers held on to money-saving measures and competition for the grocery dollar continued to be fierce. Independent operators rated competition, led by conventional supermarkets and supercenters, as their highest concern to growing sales and profitability. This is followed by increased concern over hiring and retention (as unemployment continued to drop in 2017) along with concern over healthcare costs and compliance. In a tough marketplace, 2017 sales declined for half (50.7%) of independents. As a result, the average same-store sales declined -0.60%. When adjusted for deflation, sales were down -0.4% — very similar to 2015 and 2016.

Operations and Margins

Independent grocers carefully managed inventory, assortment and margins. They focused on the fundamentals: keeping inventory turns high and maintaining programs to measure perishable and theft-related shrink. Capital expenses were stable as were store development levels.

While deflationary conditions may have allowed for some margin relief, fierce price competition led by some of the nation's largest chains and discounters resulted in mostly flat margins. Profit leaders, the top 25th percentile in net profits, saw a greater sales contributions by fresh departments, including produce, meat and deli, at higher-than-average margins.

Expenses

While controlling expenses remained a key focus in 2017, market conditions drove upward pressure on labor and benefits, rent/CAM, utilities and supplies. Labor and benefits remained the largest expenses, reaching a new record of 15.16% of sales. The profit leaders had below-average expenses across all line items.

Net profit and the profit leaders

Dollar sales declines combined with flat margins and higher expenses led to a decrease in net profit before taxes from 0.98% in 2016 to 0.09% in 2017. Additionally, EBITDA dropped from 1.85% to 1.40%. While down, the EBITDA performance shows independents continue to be cash flowing. The profit leaders averaged 3.06% in net profits, down from 4.70% in 2016 — underscoring that the tough environment impacted all independents. The profit leaders tend to operate slightly larger stores that averaged a greater number of weekly transactions, at a higher transaction size. Profit leaders focused on managing inventories, averaging lower shrink and higher turns across departments. They showed a high probability to reinvest into their businesses while minimizing long-term debt.



-0.60%

Same-store sales growth 2016-2017



27.23%

Total store gross margin 2017



27.94%

Total expenses 2017



0.09%

Net profit 2017



3.06%

Net profit among the top 25th percentile in 2017