

Study Highlights

Economic activity continued to improve in 2018, and in turn more confident consumers increased their grocery spending. Sales gains were further boosted by mild food inflation. While consumer indicators were positive, competition was rampant and the tighter labor market elevated independent grocers' concerns and spending on staffing, hiring, retention and benefits. Employee turnover at independent retailers increased to 18.2% among full-time employees and 47% among part-timers. This was further compounded by high concern over increases in minimum wage at the state and federal level. This resulted in labor and benefits reaching a study high of 16.74% of total sales among independents. Reductions in rent and utilities costs and a few other expense areas helped to keep total expenses level.

Independents recognize the need for keeping stores fresh and therefore increased capital expenditures to 1.94% of sales, with continued focus on store remodels (20.6% of independents) and openings. Independents also increased investment in e-commerce, which was offered by 54% of independents in 2018, up from 32% the year prior. Additionally, more independents offered both pickup and delivery.

In 2018, independent grocers continued to focus on inventory management, with greater total store inventory turns (17.4x), a reduction in total store shrink (3.0%) and implementation of shrink management programs. Total store margins improved very slightly to 27.68%, from 27.23% in 2017.

Over 2018, 53.5% of independent retailers improved same-store sales growth, while 17.2% of independents held their ground. This resulted in a same-store sales gain increase of +1.70%, before inflation adjustments, with slightly higher gains among multi-store operators. Close to four in 10 dollars were generated by perimeter departments.

With an increase in same-store sales and slight improvements in margins and flat expenses, the net profit before taxes improved slightly as well, from +0.09% in 2017 to +0.63% in 2018. Despite these improvements, the report shows that the independent marketplace grew more divided. The profit leaders, those in the 25th percentile in net profit performance, pulled further away. Their stellar performance improved the average profit across independents.

EBITDA continued to be strong, at 1.76%, albeit down from prior years. This shows that independents continue to have a strong cash flow performance. Retailers generally sought to keep assets high and liabilities stable. Independents effectively used their assets to generate sales, with a asset turnover ratio of 5.25.

Profit leaders averaged 3.78% net profit before taxes. Common traits among profit leaders include a high focus on fresh, particularly meat and produce, along with strong margin and expense management. The total store gross margin among profit leaders is 1.8 percentage points higher than that of the retailers in the bottom 75th percentile ("the pack"). Additionally, the leaders' total expenses excluding costs of goods and labor, were more than 3 percentage points lower than the pack. The leaders' labor and benefits expenses as a percentage of sales were more than 2.5 percentage points lower.

In summary, 2018 was a turn-around year for most financial and operational performance metrics, with 75.4% of independents having a more optimistic outlook for the coming year.