

2021

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Dear Independent Grocer,

We hope the 2021 edition of the *Independent Grocers Financial Survey* finds you well, both personally and professionally.

What a rollercoaster ride it is has been. Everything about grocery retailing as we knew it, changed. Meals and celebrations became home-centric. People cooked more and shopped less often but bought more per trip. People bought different items, brands and amounts and seamlessly switched between fresh and frozen.

Independents stepped up when the big-box stores ran out and we never stopped selling. Building on many years of strong community ties and investing in employee loyalty and online capabilities drove unprecedented levels of sales. More than 20 months after the onset of coronavirus in the U.S., retail demand continues to track above the pre-pandemic normal.

While continuing to respond to an extremely difficult external environment, independents also focused on reinvesting their record sales and profits into their stores, online capabilities and people. Based on the lessons derived from the profit leaders in prior-year studies, reinvesting in the business is key to future success.

This report covers the financial performance of fiscal year 2020, which for many ended in March 2021. You will find myriad operational, sales and financial benchmarks in the report, where possible broken out by store count, region and sales volume. This allows for comparison against peers to understand true performance in the various marketplaces.

We hope this report will provide you with key insights to leverage these benchmarks and guide future decisions to improve your company's profitability, efficiency and overall performance.

Thank you to all participants and supporters of this survey for making this valuable report possible.



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\$100 NGA members and FMS clients
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FMS Solutions (FMS) — Since 1974, FMS has helped independent retail grocers succeed by transforming historical accounting activities into timely, accurate decision support tools. The company’s keen understanding of the challenges the industry faces has positioned it as the National Grocers Association’s (NGA) preferred provider of industry benchmarking, best practices and mission-critical decision support. Headquartered in Florida, FMS with 11 additional offices across the United States, Ontario (Canada), and Hyderabad (India). FMS services organizations in more than 6,000 locations across North America and the Caribbean, enabling them to improve profitability through better decision support. **To learn more about FMS, please call 877.435.9400 or visit www.fmssolutions.com.**

National Grocers Association (NGA) is the national trade association representing the retail and wholesale community grocers that comprise the independent sector of the food distribution industry. An independent retailer is a privately owned or controlled food retail company operating a variety of formats. The independent grocery sector is accountable for about 1.2 percent of the nation's overall economy and is responsible for generating more than \$250 billion in sales, 1.1 million jobs, \$39 billion in wages and \$36 billion in taxes. NGA members include retail and wholesale grocers located in every congressional district across the country, as well as state grocers’ associations, manufacturers and service suppliers. For more information about NGA, visit www.nationalgrocers.org.

Study Highlights

Grocery patterns and spending have been vastly different since the onset of the pandemic in March 2020, with everyday and holiday meal consumption becoming very home-centric. This led to big sales spikes early in the pandemic and continued elevated demand throughout 2020 and 2021. At the same time, supply chain disruption prompted high levels of inflation and low order fulfillment rates, which is leading to high out-of-stocks and tough marketing and operational decisions. More retailers implemented loyalty programs and many cut back on circular pages or distribution. While grocery and food spending patterns started to normalize, they are still not back to the pre-pandemic normal — and reversed course in some cases as COVID-19 cases increased sharply in August 2021.

In fiscal year 2020, that ended on March 31, 2021, for many retailers, sales increased an average of 17%, boosted by an increase in transaction size to an average of \$31. While inflation was high, sales still gained 13.5% once adjusted for the price increases. Big contributors were dry grocery, dairy, frozen and meat. While in-store trips were down, e-commerce complemented sales with 89% of independents offering some level of online ordering. The average online transaction size is nearly \$93 with an average of 210 orders per week — though order volume varies along with the COVID-19 case counts. The high demand drove an increase in inventory turns, reaching an average of 19.2 times per year as well as a decrease in shrink to 2.5%.

With continued elevated retail demand, the biggest competition is not for the consumer dollar, but for independents' greatest asset: people. Hiring and retention are the top marketplace concern, ahead of wage increases and government regulations. Hiring during the pandemic is a challenge, according to 71% of independents, and 64% reported it had a negative impact on retention.

While hard dollar expenses rose in areas such as wages/benefits and supplies, sales gains accelerated faster. This prompted a drop in total expenses as a percentage of sales to 26.9%, down from 28.8% in 2019. Independents had many COVID-19 related expenses, including enhanced cleaning, protection equipment for employees and customers, bonus, hero pay, overtime, hiring and retention costs and more.

In all, independents managed to improve their margin to 28.4% across departments, with the biggest departmental increases by dry grocery, dairy, GM/HBC and beer/wine/liquor. The combination of high sales and better margins resulted in record net profits before taxes, at 5.02%, up from 1.05% in 2019. EBITDA reached 6.58% in 2020.

Independents put the pandemic sales gains to effective use by reinvesting into the business, with 62% increasing capital expenses. Both store remodeling and new store openings reached their highest levels in many years. Additionally, they improved their debt-to-equity ratio and paid down long-term liabilities.

The profit leaders, the top 25th percentile of independent grocers when regarding net profits before taxes, grew net profits before taxes by 9.8% — twice the total average and three times the average of the bottom 75% of retailers (“the pack”). Common traits among profit leaders include strong shrink, labor, margin and expense management. The total store gross margin among profit leaders is 1.6 percentage points higher than that of the pack.

In summary, 2020 was a strong year in all financial performance metrics, driven by high demand. Demand in the first eight months of 2021 remained above the 2019 pre-pandemic levels. Continued high sales and investment back into the business and community will likely result in a strong 2021 as well.