

Executive Summary

Sales

Independents struggled to grow dollar sales in 2016 given the deflationary and highly competitive marketplace. Independent operators rated competition, led by supercenters, supermarkets and limited assortment stores, as their highest concern to growing sales and profitability. This is followed by healthcare costs and compliance, and local, state and federal government regulations. In a tough marketplace, sales declined for many retailers, with an average decrease in same-store sales of -1.62%. However, when adjusted for deflation, sales were flat compared with 2015, at -0.3% versus -0.4%, respectively.

Margins

Independent grocers carefully managed inventory, assortment and margins. While deflationary conditions allowed for some margin relief in meat and deli, fierce price competition led by some of the nation’s largest chains resulted in margin pressure for other categories. Overall, the total store margin was stable at 27.13% in 2016.

Expenses

Controlling expenses remained a key focus in 2016. Expenses were largely unchanged from 2015, totaling 23.04% of sales in 2016. Labor and benefits remained the largest expenses, reaching a new record of 14.84% of sales. Lower unemployment resulted in rising store labor costs (12.63% of sales) and higher staff turnover, which averaged 48.9% among part-time and 17.1% among full-time employees.

Net profit and the profit leaders

Dollar sales declines combined with flat margins and expenses led to a decrease in net profit before taxes in 2016, at 0.98% versus 1.44% in 2015. EBITDA was much stronger, at 1.85%, down from 2.46% — indicating that independents are still cash flowing. The profit leaders, measured as the top 25th percentile in net profit before taxes, averaged 4.70% in net profits. They actually improved their performance in 2016 and widened the gap between them and the other retailers. 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 fresh, with a higher sales allocation hand in hand with higher margins. But they also focused on managing inventories, shrink and reinvesting into their businesses while minimizing long-term debt.

Operations

Independent grocers focused on the fundamentals, including keeping inventory turns high and implementing programs to measure perishable and theft-related shrink. Capital expenses were stable with store development increasingly focused on protecting or generating sales through frequent remodels and opening new stores.



-1.62%

Same-store sales growth 2015-2016



27.13%

Total store gross margin 2016



23.04%

Total expenses 2016



0.98%

2016 Net profit



4.70%

2016 Net profit among the top 25th percentile