

2017

INDEPENDENT

GROCERS

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SURVEY



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Dear Independent Grocer,

Deflation in key categories, price wars led by some of the nation's biggest chains and accelerated market entry by Europe's leading discounters were just a few of the many factors that made 2016 a very challenging year for the independent supermarket community.

While independents have managed to survive and thrive in spite of many challenges, same-store sales did decline in 2016 amid deflationary conditions and an ever-scattered grocery dollar. However, despite competitive pressure, independents held the line on margins and expenses, resulting in only a small drop in net profits versus year-ago.

Importantly, the 2017 edition of the *Independent Grocers Financial Survey* — reflecting fiscal year 2016 — helps identify areas of opportunity by offering an in-depth look at the profit leaders: those retailers making up the top 25th percentile that had net profits nearly five times higher than the average. What do they do differently? And how can we learn from these powerful retailers to successfully map out future growth?

Additionally, the report provides an in-depth review of external factors influencing grocery shopping, including the economy, taxes and the regulatory environment to help shed light on some of the critical issues faced by independents in 2016 and going into 2017.

Given that individual performances can vary widely, we are pleased to provide research that includes national, regional and volume-based benchmarks to allow for comparison against peers to understand true performance in the various marketplaces. We hope this reports will provide you with key insights to leverage these benchmarks and guide future decisions to improve your company's profitability, efficiency and overall performance.

We would like to thank all participants and supporters of this survey for making this valuable report possible.



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\$75 NGA members and FMS clients
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FMS Solutions Holdings LLC (FMS) — Since 1974, FMS has helped independent retail grocers succeed by transforming historic 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. FMS is headquartered in Baltimore, MD with additional offices in Pittsburgh, PA; Portland, OR; Nashville, TN; Eatontown, NJ; and Toronto, Ontario. FMS services organizations in more than 3,500 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 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 close to one percent of the nation’s overall economy and is responsible for generating \$131 billion in sales, 944,000 jobs, \$30 billion in wages, and \$27 billion in taxes. NGA members include retail and wholesale grocers, state grocers associations, as well as manufacturers and service suppliers. For more information about NGA, visit www.nationalgrocers.org

Study Highlights

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