



Hidden Gems of the Grocery Channel

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Purpose of This Series

Our Hidden Gems series is designed to highlight ideas and themes from smaller retailers that Kantar Consulting does not track regularly. While these retailers may not be the largest customers, they still provide a deeper view of how the grocery channel is evolving.

This series is a periodic roundup of news, information, and trends to help keep you up to speed on regional grocers.

This edition covers:

- Store performance developments and challenges
- Format developments
- Digital and technology developments



Store Performance Developments & Challenges

Sprouts debuting in Maryland with 30 stores



Reported: October 2017

- Sprouts Farmers Market will be opening its Maryland locations in a 30 store expansion over the course of 2018. Sprouts identified the Mid-Atlantic as a prime area for expansion given its interest in health and value. The first of these 30 will open in Ellicott City, Maryland.
- The Mid-Atlantic's competitive landscape continues to heat up as differentiated competitors come in: Lidl, Publix, Wegmans, and now Sprouts. Sprouts unique value proposition of healthy food for less bodes well for the retailer as shoppers are less willing to pay premiums for healthy, good quality food.
- In addition to these Maryland stores, Sprouts will also be opening new locations in New Mexico, North Carolina, Arizona, California, and Florida.



The Fresh Market struggles to drive traffic, despite investments



Reported: October 2017

- Despite price investments, The Fresh Market is struggling to drive traffic to its stores and comparable store sales are expected to have declined in Q4 2017.
- The Fresh Market was once one of the fastest-growing public companies with its premium and fresh offerings that attracted ample consumers. In 2016, however, as competitive dynamics shifted, the retailer began to underperform leading it to be acquired by private equity firm, Apollo Global Management, in an attempt to turn the business around.
- So far these efforts have proved less successful resulting in Moody's Investors Service downgrading the chain's corporate family credit rating to indicate a very high credit risk.



Southeastern Grocers could consider bankruptcy given debt challenges

Reported: November 2017

- Southeastern Grocers must revamp its capital structure due to looming debt maturities in 2018 and 2019. This situation could lead the company, owned by private equity firm Lone Star Funds, to restructure through a Chapter 11 bankruptcy filing.
- Filing bankruptcy would be the most dramatic outcome but speaks to the retailer's challenges in generating a healthy business. Southeastern Grocers has been on long decline to find a real voice in its heightened competitive environment.



Fresh Thyme Farmers Market to slow 2018 expansion



Reported: December 2017

- Fresh Thyme Farmers Market is planning to slow its 2018 expansion to 10 stores, down from the 20 new stores they originally forecasted. The new stores will include the retailer's first two Pennsylvania locations and others in its current Midwest operating region.
- Fresh Thyme's announcement to slow store growth reflects a larger trend across retail where new locations are becoming more of a threat of cannibalization rather than adding incremental sales. Grocery retailers especially need to revitalize their business model to gear growth around extracting more out of their existing assets rather than building new stores.



Store performance: predictions and implications

1. Expanding to key areas using disciplined growth

- Leverage your knowledge of key regions to help expanding retailers be more effective with new shopper groups.
- Partner with retailer to feature special promotions during store openings to help drive traffic to store and create excitement with shoppers.

2. Continuing operations under private equity ownership

- Understand nuances that come with working with retailers owned by private equity firms. These are financial companies and can be more focused on driving short term profitability instead of investing for sustained, long term growth.
- Expect downward pressure on prices and increased demands for vendor marketing dollars as these companies look to drive higher margins from the business.

3. Extracting more out of existing stores in times of peak store saturation

- Evaluate potential opportunities to connect your brands/categories to more places in the store, especially in perimeter departments where margins are higher.
- Prioritize solution-based merchandising that builds baskets, helping retailers drive their comparable store sales.

Format Developments

Cub Foods opens flagship geared towards shopper experience through food service



Reported: October 2017

- Cub Foods recently reopened its Stillwater, Minnesota store as a new flagship location. The renovated store enhances the customer experience by elevating the banner's food service options.
- Cub Food's SVP of Retail stated "The intent is to provide the experience and the product and the services to make customers' hectic lives easier...". This speaks to retailer's new mission to not only provide price value but also time value by giving shoppers time back through enhanced convenience.
- The new store features Cub Food's Quick & Easy meal solutions brand that includes a range of heat-and-eat items geared towards assembling an easy family dinner.



Price Rite elevates positioning through rebranding to Price Rite Marketplace

Reported: November 2017

- Wakefern launched a rebranding of its discount format, Price Rite, renaming the banner as Price Rite Marketplace. The first remodeled store in Secane, PA features a brighter, revitalized ambiance with new signage and additional offerings such as the Sweet Spot dessert case.
- The new stores also features Wakefern's new organic/natural private label line, Wholesome Pantry as a way to elevate the health and value combination for the banner.
- This rebrand comes after discounter banners Lidl and Aldi have both elevated the game in offering quality for less. Price Rite is upgrading its new stores to offer a pleasant in store experience and quality assortment without losing the value equation.



Hy-Vee to grow small format stores to meet changing consumer demands



Reported: November 2017

- Hy-Vee is adjusting their growth strategy to focus more on small-format stores in the twin cities and other parts of the Midwest. Hy-Vee believes that this strategy shift will help meet new shopper demands, especially from younger, urban consumers.
- Hy-Vee opened its first small format store, Fourth + Court in Des Moines, Iowa in February 2017. Since then the retailer had been adjusting the concept to best serve shopper needs but also drive productivity.
- This adjustment in Hy-Vee's strategy speaks to the larger trend of retailers seeking growth in alternate places. Small format stores allow them to target specific demographics, especially in urban areas. Targeting these younger shopper groups early on helps build longer term loyalty once they reach their peak consumption years.



Meijer partners with hamburger franchise, Wahlburgers



Reported: December 2017

- Meijer announced a new partnership with Mark Wahlberg's restaurant franchise, Wahlburgers. Through the partnership Wahlburgers will develop restaurants at new and existing Meijer stores in Michigan. Additionally, Wahlburgers food trucks will be at select Meijer locations.
- This partnership follows a similar partnership that Hy-Vee's made with Wahlburgers for select stores in the Des Moines area.
- Retailers continue to look for exclusive partnerships to help elevate their in-store experience and differentiate from competition. This is Meijer's first partnership with a restaurant franchise, indicating the retailer's willingness to enhance the shopper experience through less traditional methods.



Format developments: predictions and implications

1.

Creating new revenue streams with food service & exclusive partnerships

- Recognize the need for retailers to extract more out of existing assets and find ways to connect your product to services & key store departments (perimeter).
- Leverage your internal food service team to help integrate products as ingredients in retailers' food service offering or as relevant adjacencies.

2.

Continuing testing of differentiated formats

- Recognize these formats as a way to interact with the target consumer groups (millennials, value shoppers, etc.) . Prioritize these stores to experiment with new merchandising tactics or product innovations.
- Familiarize your account teams with format nuances as these features could be rolled out to larger store footprints if successful.

3.

Boosting understanding of small-box retailer economics

- Understand the retailer economics for small-box formats and develop a segmented brand strategy to actively participate in this growing space. Leverage your c-store or discounter teams to learn best practices.
- Plan to defend against decreased shelf space as retailers rationalize SKUs to optimize assortment in a small-box space.

Digital and Technology Developments

Giant Eagle launches delivery in Central Ohio via third party player, Deliv



Reported: October 2017

- Giant Eagle has partnered with third party player, Deliv, to expand its delivery capabilities in Central Ohio. Customers will be able to use the retailer's store pickup platform for Curbside Express to place grocery delivery orders via Deliv.
- Grocery retailers continue to supplement their current online grocery offering with delivery via third parties. This provides an added level of flexibility to shoppers, helping to drive conversion to the platforms.
- Third party players continue to integrate their platforms with those of each retailer to create a seamless experience for the shoppers. This is a shift from the past where both platforms operated separately and speaks to each party's commitment to the shopper experience.



1. SHOP

Pick your store and click to fill your cart. Use your "Shopping History"*** to shop even faster!



2. RELAX

Kick back while our expertly trained Personal Shoppers select the freshest, best products for you.



3. GET THE DOOR

Just choose a time and make sure you're home to accept delivery.

HelloFresh goes public



Reported: November 2017

- The second largest meal kit business in the U.S., HelloFresh, launched its initial public offering, achieving a valuation twice that of Blue Apron at \$12.40 per share. Despite this valuation, HelloFresh continues to lose money, losing \$24.9 million in Q2. Similarly, Blue Apron reported losses of \$87.2 million in Q3, compared to \$37.4 million a year ago.
- While innovative, the meal kit delivery business has yet to prove itself as a sustainable model. It's expensive to maintain and shopper retention continues to be lackluster. Shoppers are less willing to spend the \$8-\$12/head/meal price point despite the added convenience meal kits provide. 2018 will be a defining year for the meal kit delivery business. These companies must increase shopper retention at a faster rate than their shopper marketing losses in order to sustain it.

Market summary > Hellofresh SE

ETR: HFG - Jan 11, 5:36 PM GMT+1



11.58 EUR ↑0.19 (1.67%)

1 day | 5 day | 1 month | 3 month | 1 year | 5 year | max



Open 11.59
High 11.61
Low 11.39

Mkt cap 1.86B
P/E ratio -
Div yield -

Door to Door Organics goes out of business



Reported: November 2017

- Colorado-based, Door to Door Organics closed its operations, effective immediately after delivering organic produce boxes to shoppers across various states for 20 years. They expanded delivery capacity to 18 states in 2016 through a merge with Relay Foods and were in the middle of a \$20 million series C round when they shut down.
- The retailer cited “recent events in the online grocery industry” that created “a lot of uncertainty for investors” in the online grocery space. The news speaks to the newfound grocery landscape that Amazon and Whole Foods created overnight. Retailers big and small will be tested in adapting and creating sustainable business models to compete in this new world. The news also speaks to the amount of cash needed to operate a first party online grocery delivery business. Even Amazon continues to struggle in getting its AmazonFresh business off the ground so it is no wonder that Door to Door Organics closed its doors.



Price Chopper replaces in-house online grocery delivery with Instacart



Reported: November 2017

- Golub has decided to replace its own online grocery delivery service, Shops4U, with Instacart at its Price Chopper and Market 32 banners. This comes after testing the service at select stores in NY, CT, and MA. To encourage trial Price Chopper and Market 32 will offer a \$10 discount to new Instacart customers on their first order of \$35 or more and waive the delivery fee.
- This is a unique situation where a retailer phases out their service all together and replaces it with a third party. Normally, delivery via third party is added as an additional service. In this case, Golub made a financial decision to relinquish control of their delivery service so they can reallocate some of that capex to improving the store experience and price investments.



pricechopper.com/wedeliver

powered by  instacart

Supervalu expands Instacart delivery to all stores



Reported: December 2017

- Supervalu has signed a multiyear contract with Instacart to expand online grocery delivery and click & collect services to all of its stores (Cub Foods, Farm Fresh Foods and Pharmacy, Shop 'n Save, and Shoppers Food and Pharmacy) across Minnesota, St. Louis, Virginia Beach, and the Washington D.C. area.
- Supervalu began its partnership with Instacart back in September 2015 and decided to expand based off increased demand from customers for grocery delivery.
- Delivery via third parties continues to be grocery retailers' preferred model due to lower capex requirements and the speed at which the service can be offered.



Digital and technology developments: predictions and implications

1. Third-party delivery is retailers' path to the future

- Recognize third-party players as new selling touchpoints for your brand, especially for new product launches targeted at younger shoppers who frequent these platforms.
- Understand the risk inherent in relinquishing control to third parties in exchange for gaining quick access to their delivery services. Develop strategies that ensure consistent and seamless brand experiences between stores and online.

2. Online meal kit business continues to face challenges

- Understand the challenges that come with making meal kits a sustainable business model. Expect a thinning out of players either through M&A or bankruptcy as the segment matures.
- Leverage the granular shopper data that meal kit businesses receive due to personalization features. Consider sponsoring marketing costs in exchange for access to this data.

3. Amazon Whole Foods acquisition serving as new catalyst for change

- Anticipate a reallocation of resources dedicated to technology solutions for both store operations and supply chain to compete with Amazon's best-in-class logistics systems.
- Expect increased M&A activity as retailers look to acquire new capabilities to create an ecosystem that serves the shopper holistically across all paths to purchase.

For further information please refer to
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