

# Grocery Stores

## INDUSTRY OVERVIEW

The grocery sector has performed well during the first three quarters of 2014, with most major public retailers reporting low-to-mid single-digit increases in comparable store sales. Although sales are up, profits have been squeezed by rising food prices and the need for lower prices and higher promotions to remain competitive.



## TREND TRACKER

Three month NOLVs	Consistent
Sales Trends	Increasing ↑
Gross Margin	Mixed ⇕
Discounting	Mixed ⇕

**NOLVs:** NOLVs have remained relatively consistent for most companies, with others experiencing slight increases.

**Sales Trends:** Sales have increased for many retailers, partly due to rising food prices. Traditional supermarkets have also seen increased traffic as the economy has improved.

**Gross Margin:** Gross margin has been mixed. Companies that have passed through price increases have seen consistent or increasing margins, while those that have been more promotional have reported declines.

**Discounting:** Many retailers have been offering promotions and lowering prices on key items in order to drive overall sales volume and obtain a larger share of their customers' total food spend.

## KEY INDUSTRY DRIVERS

- **Pricing:** Although overall food inflation has been in line with historical norms, prices for meat and dairy have reached records highs due to drought and disease. Fierce competition has prevented many retailers from raising prices to keep pace, with some actually lowering prices on key items and becoming more promotional. Big players like SuperValu, Ahold, Harris Teeter, Albertsons, and Food Lion have all announced significant price investments. However, retailers are still keeping a close watch on profitability and passing on rising costs to customers when possible, with some having more success than others.
- **Small-format stores:** Small-format stores have been a focus for several retailers, particularly discounters. Wal-Mart's Neighborhood Markets stores have been outperforming the rest of the chain and the retailer plans to open between 180 and 200 in 2014. It remains unclear if these stores are merely cannibalizing Wal-Mart's Supercenter sales or if they are a significant threat to traditional grocers. Similarly, Target plans to open three new Express stores in 2015 and Publix is testing a 20,000 sq. ft. concept.
- **Services:** Companies continue to tout their convenience options including grab and go prepared foods, made-to-order restaurants and cafes, and self service kiosks and checkouts. They are also expanding e-commerce services. While click and collect is the most widely available, home delivery options are slowly growing, particularly as Wal-Mart and Amazon.com make moves in this space.
- **Labor relations:** One of the biggest stories of late was the employee walkout at New England grocery chain Market Basket that halted business for several weeks. The incident cost the chain millions in lost sales, and was even enough to move the needle on unemployment figures in the region. Now that the dispute has been resolved and the former CEO reinstated, the stores are fully stocked and back to business as usual.

## CONVENIENCE STORES

Convenience stores continue to expand their fresh and prepared food offerings (particularly healthier options), which has resonated with consumers looking for quick meals on the go or the ability to pick up staple grocery items without the hassle of going to the supermarket. Convenience store sales represented 15% of grocery sales in 2013, up from 14.9% in 2012. Wal-Mart unveiled a new convenience store-like concept called Wal-Mart to Go. The stores measure 5,000 square feet and carry 3,500 SKUs including coffee, drinks, and hot foods to go.

## SALES TRENDS

The following table illustrates comparable store sales trends for major public grocers (Represents the most recent fiscal quarter sales reported):

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Kroger	4.8%	4.6%	4.3%	3.5%
Safeway	2.5%	1.8%	1.6%	1.9%
Supervalu	0.6%	0.2%	(1.9%)	(0.9%)
Publix	6.3%	4.0%	4.3%	4.1%
Whole Foods	3.9%	4.5%	5.4%	5.9%
The Fresh Market	2.9%	2.5%	3.1%	3.1%

*Note(s): All sales exclude fuel. The most recent quarter for Kroger ended August 16, 2014; Safeway ended June 14, 2014; Supervalu ended June 14, 2014 and reflects Retail Food operations only and excludes Save-a-Lot; Publix ended June 28, 2014; Whole Foods ended July 6, 2014; The Fresh Market ended July 27, 2014.*

## OUTLOOK

The supermarket industry is still experiencing consolidation, with the merger of Safeway and Albertsons expected to close in the fourth quarter. Continued consolidation may still be on the horizon given competitive pressures from non-traditional food retailers, drugstores, and dollar stores.

## Experience

GA is one of the largest liquidators of retail inventory and has been involved in a variety of liquidations, ranging from the disposition of excess inventory and the closing of underperforming stores, to full-scale liquidations of national retailers with hundreds of stores. GA has experience with full and partial liquidations of companies throughout a variety of retail sectors, some of which are detailed below:

A&P	Linens 'N Things	Circuit City	Tower Records
Fortunoff	Fashion Bug	Mervyns	Payless Shoe Source
Jo-Ann Fabrics	Borders	Whitehall Jewelers	Movie Gallery
Ritz Camera	Boot Town	Eddie Bauer	Macy's

These experiences, in addition to numerous others, provide GA with valuable insight into the market trends and the consumer response that can be expected in a liquidation. They give us an understanding as to recovery values that can be achieved for retailers within these industries. In addition to this liquidation experience, GA has worked with and appraised numerous retailers, including industry leaders within each sector. While our clients remain confidential, GA's extensive list of appraisal experience includes:

- Major regional grocery store chains including one with a store base of close to 400 and net sales of nearly \$8.0 billion, as well as smaller local grocery store retailers and pharmacies.
- Several e-commerce and multi-channel retailers, as well as flash sale websites and auction websites. In particular, GA has appraised 73 of the top 500 e-commerce companies as reported by *Internet Retailer*.
- Numerous retailers of apparel and accessories, including major department store retailers and a variety of specialty retailers that are found in malls throughout the country.
- Leading off-price retailers of apparel and accessories, including major national and regional chains.
- Retailers of consumer electronics, including smaller, more localized chains, as well as regional, national, and international retailers with close to 4,500 store locations.
- Many jewelry retailers, including one of the largest in the United States, with locations throughout the country and net sales exceeding \$1.4 billion annually.
- Major national and regional discount and dollar stores, including one of the country's largest chains, with over 10,000 stores.
- Leading book retailers, including one with over 700 store locations and sales of upwards of \$4.5 billion.
- Two of the top textbook publishers within the K-12 segment, brick-and-mortar retailers of college textbooks, and online renters and retailers of college

**In addition to our internal personnel, GA maintains contacts within the retail industry that we utilize for insight and perspective on recovery values.**

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## About Great American Group

Great American Group is a leading provider of asset disposition solutions and valuation and appraisal services to a wide range of retail, wholesale and industrial clients, as well as lenders, capital providers, private equity investors, and professional services firms. GA also offers the *UK Retail Monitor* via its subsidiary, GA Europe Valuations Limited.

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