

## Grocery Stores

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The retail grocery industry is changing, driven by shifting demographics, changing lifestyle trends, and advancing technologies. Today, supermarkets are steadily losing sales to warehouse clubs, natural food chains, convenience stores, restaurants, and general merchandisers. General merchandisers are focusing on how to best service customers who are seeking gourmet products at an affordable price point. These retailers are attracting more consumer dollars than ever before.

Industry statistics prepared by Packaged Facts indicate that general merchandise-focused retailers' share of the grocery business has grown from 16% in 1998 to 33% today. This expansion has come at the expense of traditional supermarkets, with food-focused retailers' share of grocery and consumable sales having declined about 27% since 1998. Current estimates show supermarkets account for just over half of retail food sales.

Supermarkets, however, are not just standing idly by while they lose sales. In order to retain customers, supermarkets are focusing on improving offerings – such as adding organic and natural food lines, adding in-store eateries, and adding more affordable private label options. Supermarkets are also becoming more

technologically advanced, adding smartcards, investing in state of the art technologies, and adding self-service checkout to save customers time. Also, a number of out-dates stores are being remodeled to appeal to customers.

Long term, however, analysts believe supermarkets will continue to lose sales to general merchandisers such as supercenters, mass, drug, club, and dollar stores. Supermarket's share of food sales are expected to drop to about 40% by 2013, according to The Food Institute.

Total grocery store sales reached \$817.9 billion in 2005. Through 2009, industry sales are projected to grow 12.5% to \$909.1 billion. Traditional grocery channel

### Retail Grocery Industry M&A

The retail grocery store industry is an active M&A market, driven by rising competition and characterized acquisitions of all sizes. M&A is not new in the grocery store industry, with sizable, headline-making transactions occurring over the past decade. Industry M&A of late has included a handful of large grocery store takeovers, as well as M&A among smaller participants, as operators look to attain the benefits of consolidation, such as value, efficiency, and growth.

Through mergers and acquisitions, grocery store owners are hoping to be able to extend their reach and presence. In turn, operators expect their proprietary, signature and private label brands to enjoy significant growth through new points of distribution and alternative channels.

Overall, mergers and acquisitions among grocery store operators are expected to continue as owners look to improve overall customer satisfaction.

