



OPERATIONAL GAINS

Shrink is down, profits are up, but recruitment and training continue to stymie deli execs.

Analysis by Joan Driggs / Research by Debra Chanil

While deli sales are far from achieving their full potential, sales gains were much lighter in 2014 — 4 percent — than 2013's nearly 6 percent gains. A closer look reveals similarity to 2012's 3.8 percent gain. Even as sales growth slows, it remains true that deli growth outpaces that of the total store. Further, nearly 73 percent of respondents to *Progressive Grocer's* 2015 Retail Deli Review report that deli sales increased in 2014, ahead of the 69.2 percent reporting the same for 2013. Better yet, just 6.8 percent report a decrease in sales, compared with the 7.7 percent of respondents who indicated they lost out in 2013.

The optimism operators are demonstrating is supported by the growth they're experiencing and anticipating, as 77.5 percent of respondents indicate growth will continue in 2015, well ahead of the 72.6 percent who anticipated increases last year.



PROGRESSIVEGROCER's 2015 Retail Deli Review

While deli sales growth slowed, margins are decidedly improving, with nearly 60 percent of retailer respondents indicating profits were ahead in 2014, up nearly seven points from last year's report; slightly fewer reported decreases in profits last year.

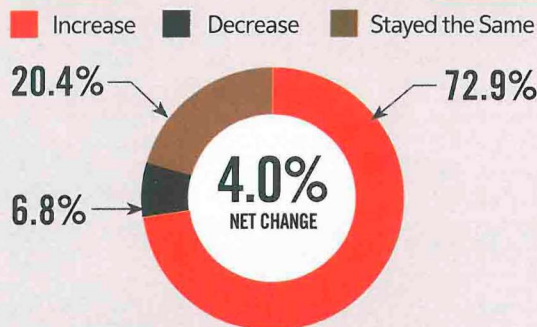
Drilling down to prepared foods' performance, 73 percent of respondents indicate an increase in dollar sales, and two-thirds report an increase in unit sales. There was an uptick of about five percentage points, to 7.2 percent, of respondents reporting a decrease in profits, however. While this could point to higher prices on flat unit sales, additional data from the survey indicate higher margins due to reduced shrink.

Specific to the 2015 Retail Deli Review, *PG* surveyed a cross-section of national, regional and independent retail deli executives to learn about same-store sales, initiatives they're focusing on, program performance, challenges, and more.

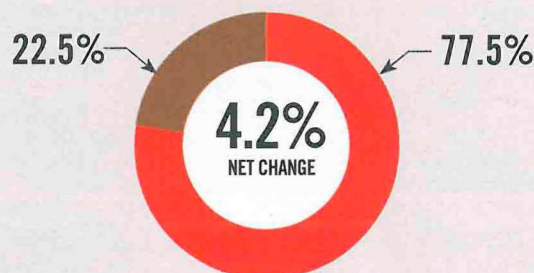
Overall, retailers report gross margin of 46.3 percent, up from 44.7 percent a year ago. Traditionally, gains have been less than one percentage point, so the 1.6 percentage point change is considered healthy growth. Further, the number of employees has remained consistent, as has deli department square footage, which indicates that growth is coming from greater operational efficiency. According to respondents, shrink's percentage of sales has dipped nearly a full percentage point, from 6.3 percent in 2013 to 5.6 percent in 2014.

With more consumers looking to grocery retailers for prepared foods, it's curious that retailers indicate they'll be

DELI SALES CHANGE 2013-14



EXPECTED DELI SAME-STORE SALES CHANGE 2015



Source: Progressive Grocer Market Research, 2015

ADVERTORIAL

Retailer Combo Meals are Key for Families and Sales Growth

Balancing work and family responsibilities means that cooking from scratch must frequently be supplemented with easy prepared meal solutions. A combination meal purchased from a supermarket offers an opportunity for a family to spend less time in the kitchen and more time connecting at the dinner table. It is also a big sales growth opportunity for a retailer - driven through smart merchandising and marketing.

According to Food Marketing Institute (FMI), children who regularly share family mealtime are likely to do better in school and be more resistant to negative peer pressure. The importance of shared meals at home is the impetus behind the FMI's National Meals Month in September to encourage families to add one family meal occasion per week. The Coca-Cola Company is supporting the initiative with new POS that illustrates a wider range of food choices, merchandising options and ideas for programming.

According to research, one hour before mealtime, nearly 60 percent of shoppers do not know what they will have for dinner on any given evening.¹

"By enhancing their merchandising, operators can capture a greater share in the fresh-prepared foods department," says Sarah Tabb, brand manager at Coca-Cola North America. "Make the idea of a bundled meal obvious and the purchase of the meal convenient."



Creating a go-to destination within the store begins with the overall appearance of the area — having a department that is kept clean and conveys an aura of freshness and high quality is paramount, even more important than the price of the offer.

"That's a huge opportunity that retailers should capitalize on — to become a reliable everyday destination for easy prepared meal solutions," Tabb says.

For more insights and helpful information, please visit CokeSolutions.com/retail.

¹The NPD Group's National Eating Trends 2012.



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focusing on sandwiches as a key initiative in 2015, with nearly two-thirds of respondents identifying them as the No. 1 area of concentration this year.

Nielsen's Perishables Group reports that prepared chicken sales for the 52 weeks ending March 28, 2015, averaged more than \$4,000 per store per week, with healthy increases in both dollars and volume. Sandwiches, the major food program focus for retailers this year, tally just more than \$1,500 per store per week; average sandwich costs of \$5 outpace those of chicken at \$4.40. Perishable

DELI DEPARTMENT PERFORMANCE

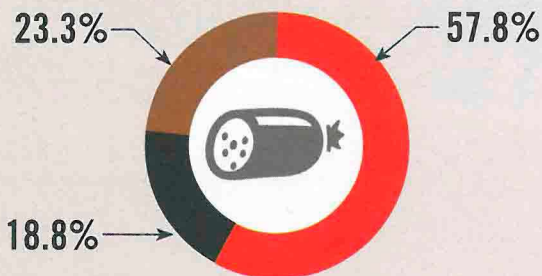
	CURRENT YEAR	YEAR AGO
GROSS MARGIN	46.3%	44.7%
LABOR AS A PERCENT OF SALES	27.9	27.4
SHRINK AS A PERCENT OF SALES	5.6	6.3
FULL-TIME EQUIVALENT EMPLOYEES PER STORE	7.7	7.4
DELI DEPARTMENT SQUARE FOOTAGE	1,635	1,650

Source: Progressive Grocer Market Research, 2015

DELI DEPARTMENT PROFITS

■ Increase ■ Decrease ■ Stayed the Same

CURRENT YEAR



YEAR AGO



Source: Progressive Grocer Market Research, 2015

RETAIL MEAL SOLUTIONS/ PREPARED FOOD PROGRAM PERFORMANCE

(compared with year ago)

■ Increase ■ Decrease ■ Stayed the Same

CURRENT DOLLAR SALES



CURRENT UNIT SALES



Source: Progressive Grocer Market Research, 2015

WHAT OPERATIONAL ISSUE DO YOU CONSIDER TO BE THE SINGLE MOST CHALLENGING WITH REGARD TO YOUR RMS PROGRAM?

	RANK
LABOR	1
PRICING	2
SHRINK	3
PRODUCT QUALITY LEVELS	4
TRAINING	5
INVENTORY MANAGEMENT	6
EQUIPMENT PRODUCTIVITY/ MAINTENANCE	7



Source: Progressive Grocer Market Research, 2015



Group's data indicate that the biggest gainers in deli are in the sandwich arena, including specialty deli meat and pre-sliced cheese, but that bulk meat's 6 percent growth shows that shoppers are focused on other meal occasions as well.

Certainly, there has been a tremendous amount of excitement in the sandwich arena in foodservice. Data provider Food Genius notes in its 2014 "The State of the Sandwich" report, that sandwiches are a menu mainstay, available at 81 percent of foodservice locations, and are predominant in the foodservice segments competing most aggressively with grocery retail, including fast casual, quick casual and family dining.

While sandwiches are everywhere, they defy "standardization," making them ideal vehicles for any operator — including grocery retailers — to tout as signature menu items, with twists coming in the forms of spreads, condiments or bread. Further, with the national average price of a sandwich at foodservice ringing in at \$6.26, grocery retail is positioned as a better value.

Rotisserie programs — a perennial top seller in the deli program — continue to rank No. 2 among areas of focus for the coming year, but the percentage of retailers citing them has dipped considerably, to 52 percent, indicating that many retailers believe they're already at the top of their game in this regard.

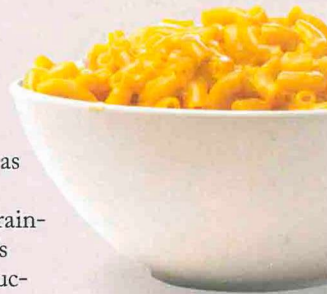
Not likely, according to Tyson Foods' "Consequences of Failure" research, which indicates that some 41 percent of more than 3,000 shoppers surveyed had a problem at the in-store deli. In three categories of problems, product, staffing and general deli issues, 46.7 percent had a problem with products. The most significant product issues indicated that chicken wasn't prepared properly, with 30 percent reporting product was overcooked or too dry.

PG research (separate from this report) found that retailers give themselves relatively high marks for customer service, but that operational efficiency training is lacking (please visit *Progressive Grocer's* three-part Deli Insights series in the February, March and April 2015 issues, available at www.progressivegrocer.com/digital-archive).

Meal deals are reported as a major focus by fewer than 50 percent of

respondents (46.1 percent), and hot/cold bars and dinners are further down on the list, cited as important by just about a third of respondents.

Just half of respondents will focus on staff training this year, which is consistent with last year's figure. Yet engaging, efficient staff is key to a successful deli operation. Consistently, retailers report that engaged associates are the "most influential in





PROGRESSIVEGROCER's 2015 Retail Deli Review

securing everyday deli department sales.”

While it's well argued that you can train an engaged employee to do many tasks well, you can't train someone to be well engaged. Engaged employees are cited by nearly 87 percent of respondents as the most influential sales driver, more than double the next most influential drivers, product samples or signature items. Supporting the notion of engaged employees and the importance of consistent training is the No. 1 operational issue of the deli: labor.

Retailers also report recruitment as the top-ranked problem they face in the deli department, ranking 7.8 on a scale of one to 10. Just trailing recruitment is training, coming in at 7.3. Recruitment and training were also the top issues in last year's survey, indicating that solutions remain elusive.

Meanwhile, shrink, which ranked No. 3 in problems facing the deli department the 2014 survey, fell to No. 10 on the list, with retailers giving it a six on the overall pain scale. This mirrors the dip in shrink as a percentage of sales mentioned earlier in this report. **PG**

WHICH OF THE FOLLOWING DO YOU CONSIDER TO BE MOST INFLUENTIAL TO SECURING STRONG EVERYDAY DELI DEPARTMENT SALES?

	CURRENT	YEAR AGO
ENGAGED ASSOCIATES	86.7%	86.6%
PRODUCT SAMPLES	47.9	42.4
SIGNATURE ITEMS	45.9	38.5
ACTIVE SAMPLING/EVENTS	37.8	35.6
IN-STORE SPECIALS	28.4	16.9
PREMIUM BRANDS	27.5	21.6
ADVERTISING/PROMOTIONS	24.4	15.4
CROSS-PROMOTIONS	21.8	10.4
SOCIAL MEDIA SPECIAL OFFERS	13.0	6.0
POS COUPONS/DISCOUNTS	10.5	14.2
INCENTIVE-BASED DISCOUNTS	4.6	9.1
INCREASED ON-AD SPECIALS	4.1	8.2
EXTENDED HOURS OF OPERATION	0.0	0.0

Source: Progressive Grocer Market Research, 2015

DELI DEPARTMENT CATEGORY PERFORMANCE

Total U.S., 52 weeks ending March 28, 2015

Category	Dollars per Store/Week	Dollars per Store/Week Percent Change vs. Year Ago	Volume Percent Change vs. Year Ago	Volume Percent on Promotion	Volume Percent on Promotion Change vs. Year Ago	Average Retail	Average Retail Percent Change vs. Year Ago
Prepared Foods							
Prepared Chicken	\$4,033	5.9%	5.3%	8.1%	-1.1%	\$4.40	0.6%
Salads	2,288	6.6	3.9	11.0	-1.5	4.19	2.6
Entrées	1,610	8.0	5.2	10.1	-0.7	4.66	2.7
Sandwiches	1,547	7.9	5.1	10.0	-1.0	5.01	2.6
Dips/Spreads/Toppings	1,221	12.0	11.8	24.6	0.7	3.39	0.2
Pizza	763	7.5	6.3	8.5	-0.3	4.40	1.1
Sushi	726	11.6	10.6	2.6	-0.4	7.23	0.9
Snacks	557	8.6	8.4	27.3	1.5	3.08	0.1
Platters	459	2.5	-1.6	15.7	0.1	12.93	4.1
Sides	342	15.0	9.0	12.0	-0.8	3.41	5.5
Soups	308	8.4	4.3	12.6	-1.8	4.32	3.9
Condiments	179	1.3	-1.8	10.0	-0.1	5.98	3.2
Appetizers	153	4.2	5.4	8.4	0.1	2.74	-1.1
Desserts	114	3.2	2.2	8.4	-0.3	2.28	1.1
Breakfast Foods	83	7.3	2.5	9.4	-2.8	2.78	4.7
Deli Meat							
Bulk Meat	\$4,349	5.8%	-0.2%	25.0%	-2.9%	\$7.38	6.0%
Pre-sliced Meat	658	7.4	1.8	10.0	-0.9	8.79	5.5
Specialty Deli Meat	209	10.6	-1.8	14.8	-1.5	8.23	12.6
Deli Cheese							
Specialty Cheese	\$2,930	7.5%	4.8%	16.3%	-1.0%	\$7.92	2.6%
Service Cheese	1,220	6.5	0.9	22.2	-4.3	6.73	5.5
Pre-sliced Cheese	321	9.9	0.0	13.1	-2.5	7.34	9.9
Deli Beverages							
Coffee	\$618	6.0%	1.9%	4.8%	0.0%	\$2.90	4.0%
Other	197	1.8	4.1	5.7	-0.4	1.24	-2.2
Tea	196	46.8	49.7	11.7	-4.8	2.40	-2.0

Source: Nielsen Perishables Group FreshFacts®

WHAT AREAS OF YOUR DELI OPERATIONS WILL YOU CONCENTRATE ON ENHANCING DURING 2014?

	CURRENT	YEAR AGO
SANDWICHES	62.2%	59.6%
ROTISSERIE PROGRAMS	52.0	56.8
STAFF TRAINING	51.7	50.4
MEAL DEALS (BUNDLED MEALS)	46.1	45.0
DAILY SPECIALS	40.5	51.6
CATERING	37.6	45.7
PREMIUM BRANDS	34.6	39.8
HOT/COLD BARS	33.9	26.6
DINNER	32.9	24.5
LUNCH	27.2	30.8
SIDE DISHES	25.3	27.2
SOUP STATIONS	19.2	20.7
PRIVATE LABEL	19.0	14.5
CATEGORY MANAGEMENT	19.0	20.4
BREAKFAST	17.5	23.1
SUSHI	16.9	27.9
CONCEPT FOOD STATIONS (I.E., ASIAN KITCHENS, PASTA, CARVING STATIONS)	14.2	16.5
ANTIPASTO BARS	13.7	9.7
BEVERAGE BARS	3.3	6.7

Source: Progressive Grocer Market Research, 2015

PROBLEMS FACING THE DELI DEPARTMENT

Rated on a scale of 1-10, where 10=extremely serious

	CURRENT YEAR	YEAR AGO
RECRUITING EFFECTIVE EMPLOYEES	7.76	8.23
EMPLOYEE TRAINING	7.26	7.46
LABOR COSTS	6.79	6.92
LOCAL/NATIONAL ECONOMIC CONDITIONS	6.58	6.77
ATTRACTING MORE SHOPPERS TO DELI	6.43	6.62
PRODUCT AND/OR INGREDIENT COSTS	6.35	6.69
PROFITS	6.29	6.87
OTHER SUPERMARKET COMPETITION	6.10	5.31
FOOD SAFETY	6.03	6.17
SHRINK/WASTE	6.00	7.00
EQUIPMENT COSTS	5.94	5.70
NON-SUPERMARKET COMPETITION	5.49	4.85
CUSTOMER SATISFACTION	5.42	5.46
SANITATION	5.29	5.38
PRODUCT QUALITY LEVEL	4.59	4.69

Source: Progressive Grocer Market Research, 2015