



Forecast 2016

Industry Trends

THE YEAR AHEAD

Industry insiders offer their take on issues and trends that independents need to watch in 2016.

By Katie Martin

If we all had a crystal ball to show us the future, business decisions would be much easier. But we don't, so we have to rely on instincts and information we gather from those who are plugged into the industry. *Progressive Grocer Independent* spoke with several people from different segments of the supermarket industry to get their ideas of what independent grocers could expect in 2016.

Many of the country's CEOs are bullish on the economy in 2016. According to the recently released Bank of America Merrill Lynch

CFO Outlook, the 500 financial executives surveyed ranked the U.S. economy as 61 on a scale of 0 to 100, with 100 being extremely strong. This is up from the ranking of 59 in last year's survey, and is the highest ranking in the eight years since the recession hit.

"I think our economy has shown some life," says Peter Larkin, president and CEO of Arlington, Va.-based National Grocers Association (NGA),

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although he remains cautious. "We're not growing at the rate that we should be by this point in the recovery, but I think there are some positive signs."

One positive sign is the drop in unemployment, which was 5

percent in October 2015, the lowest it's been since April 2008, a few months after the Great Recession began. "We really think that things are going to continue to head in the right direction," says Matt Selvig, spokesman for

Gordy's Markets, a Chippewa Falls, Wis.-based independent retailer with 21 stores. "We're looking at another great year in 2016. Unemployment's hopefully going to drop some more and get more people spending."

However, much of what happens in the United States is still dependent on what happens in foreign countries. Larkin is concerned that the struggles in China, Europe and the Middle East could deflate any momentum we might be gaining here at home. "We've been kind of able to navigate these headwinds, but I think we are in a very precautionary period," Larkin adds. "Unless we see more robust growth, I think it's going to be difficult for consumers to feel very comfortable in opening up their wallets."

Regulations and Legislation

Next year also will see a presidential election, which often impacts how consumers feel and how they spend. In the Bank of America Merrill

Lynch survey, 63 percent of CEOs cited the election as one of the top factors that will affect the economy in 2016.

"Congress — which has been slow to legislate, or has an inability to legislate, on a number of issues — will probably be even more stagnant," Larkin predicts. He also notes that as President Obama's term winds down, some things will be pushed through the regulatory process rather than legislatively. Items to

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watch include regulations pertaining to the Food Safety Modernization Act like meat-grinding and refrigeration standards, as well as new overtime rules from the Department of Labor. OSHA most likely also will hand down some new regulations.

Additionally, the recent EMV conversion may lead to some new proposals for data security. And next year will be when independents will

need to improve their security footprint, according to Josh Hartinger, senior product manager for ReadyPay at Commerce, Calif.-based Unified Grocers. Installing hardware encryption, if they haven't already done so, is job No. 1 for independents in 2016, and then they should worry about EMV, Hartinger says.

Mobile Payments

With those two items in place, mobile payments will piggyback because the hardware needed for the first

two usually includes systems to accept mobile payments. "I believe as EMV becomes more adopted, consumers are not going to like the slow transaction speeds that EMV has through the lanes," he adds. "That's not accidental. That's definitely been the strategies of Apple and Google." Further, as people upgrade their smartphones, more devices will be in the marketplace that offer the capability of mobile payments, he points out.

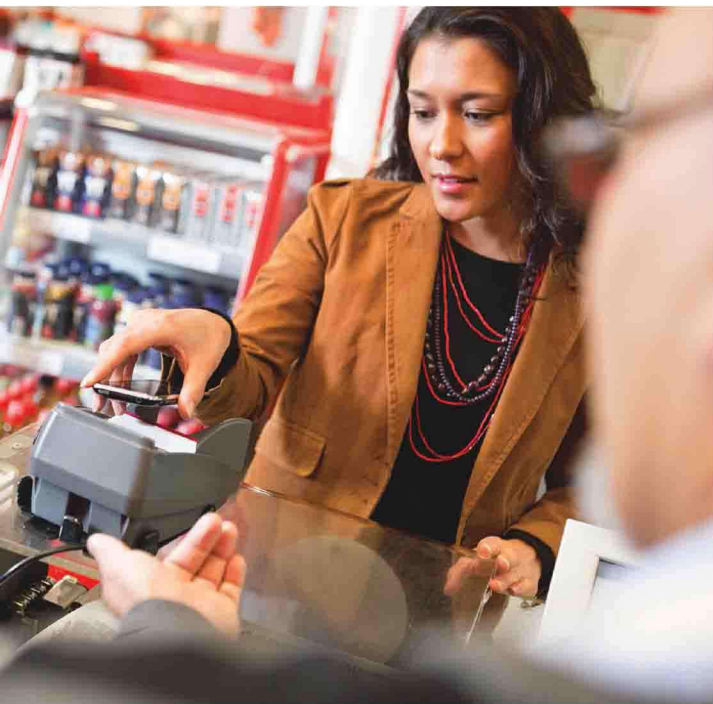
A bonus to retailers is that mobile payments are often more secure than swiping a credit card at the register, something that many consumers are uneducated about, Hartinger notes. The phones use tokenization, so once a consumer inputs her credit card number, that number essentially disappears and is replaced with another number that's specific to that device. The number is useless to anyone not in possession of the phone.

Product Trends

What product trends do independent retailers need to be aware of that will get consumers spending, whether via traditional methods or by mobile payment? Several trends from the past several years will continue to have an impact, such as natural and organic, local, craft beer, gluten-free, and health and wellness.

Overall, consumers want more transparency — they want to know what's in their food and where it comes from. Independent grocers are uniquely positioned to show consumers where the food comes from, according to Larkin, as many are small and can be supplied by local farmers or producers. "Our members across the nation have relationships with local product suppliers, brands that are familiar locally," he says. "You hear a lot about, 'What is local?' For some of our members, it could be a 5-, 10- or 25-mile radius."

As for what's in the food, independents can't control what manufacturers provide (although many are cleaning up food labels by altering the product



formulas); instead, they're turning to their own fresh prepared foods and offering them as alternatives to the convenience foods that consumers may have more typically turned to.

Fresh Prepared

Consumers continue to be time-crunched, a phenomenon that's not going away. So independents are presenting their delis and home meal replacements as options for the busy customer who needs a meal but may not have time to cook.

"We're offering more of those family-type meals that are already prepared," Selvig says. The products are offered both hot for immediate consumption and cold for customers to heat and eat later. "In our delis, we're definitely making sure we keep those grab-and-go containers available," he adds.

Stephanie Steiner, the Seattle-based director of sales and marketing for Unified Grocers' Market Centre Natural and Signature brands, also sees store-prepared fresh foods becoming the go-to convenience foods because retailers can control how they're produced and consumers trust the retailers to create fresh, clean products.

"I don't think we're getting away from convenience food, but I think convenience food is going to have to clean up," Steiner says. "There's a retailer here in the Northwest that has a centralized kitchen that makes beautiful food convenient for their shoppers. I think that's where we're going to see some giant trends pick up."

Food on the Go

Steiner also stresses that retailers need to pay attention to how shoppers are eating. "[Consumers] are very dependent on snacks, more so on snacks than they are on meals," she points out. Most calories are coming from snacks rather than the traditional breakfast, lunch and dinner with a meat, vegetable and starch.

"My advice to retailers is to stand in

front of every single food section and ask themselves, 'Where is snacking applicable to this section?' Take a look at their displays," Steiner adds. Retailers may need to add cereal bars to the cereal section. Or it may be time for more dramatic steps, such as changing up the displays completely.

"It's time to get inventive, to mix some things up," she says. For example, package a snack bar that the deli makes in-house and merchandise it with milk. Or merchandise milk and cereal together. "Really get creative with the displays so that the shopper is coming outside of their normal thought process," Steiner suggests.

Competitive Pressure

Competition will remain a key concern for independent grocers. Next year will see no slowdown in the number and types of retailers offering food items. While Walmart may be struggling a bit, its stores still operate in the same markets as 80 percent of independent retailers, according to NGA's Larkin. Discount chains like Aldi and Lidl, the latter of which is just now entering the U.S. market, also will continue to have an impact.

However, consolidation and bankruptcy also are providing opportunities for independent retailers. Some are able "to pick up stores that are being shed by Albertsons/Safeway, Fresh & Easy and A&P," Larkin notes. "Independents are uniquely positioned to take some of those stores that were not successful for a national chain operator and be able to adapt them to the communities they serve."



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Not that there haven't been some hiccups on this path, but many independents that have been able to pick up one or two stores have been successful. For some, like Gordy's Markets, the growth is coming from other independents with no family to pass their companies along to.

"In the grocery business, you're either growing or you're dying," Gordy's Selvig says. His company has added several stores by acquiring other local businesses, but that doesn't mean the competitive threat is any less. "How are we going to be able to

continue to get our customers back to our store?" Selvig asks. "We have to offer great customer service. We have to offer quality products that people are going to enjoy, at a price that's right. We have to stay involved in local communities."

Overall, however, independents are uniquely situated to offer exactly what the consumer wants. "I'm very bullish on the independent channel," Larkin says. "Consumers want fresh; they want local; they want natural; they want transparency. [Independents] are extremely well positioned to be able to provide a unique and experiential shopping opportunity." **PGI**