

★ ★ THE GOURMET RETAILER ★ ★ State of the Industry ★ ★ ★ ★ ★ ★ ★ ★ ★ ★

In the sixth edition of TGR's annual survey, retailers cite the importance of in-store events in boosting store visits and the bottom line

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Retailers of all sizes are concerned about the impact and future implications of online retail, according to research conducted in June by Carbonview Research on behalf of *The Gourmet Retailer* (TGR).

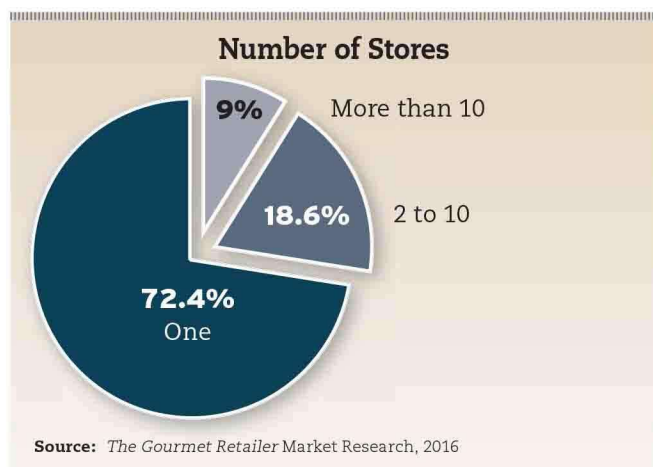
Retailers continue to report “ever-increasing showrooming,” where customers are using their smart phone to price check in-store items with online retailers. Customers are more cautious with their spending and are shunning impulse purchases, many retailers said. Consequently, retailers of all sizes are being forced to adapt and to rethink their product mix and traffic-building strategies.

Savvy retailers are adapting to the changing retail landscape. Retailers tell TGR that they're using in-store events and cooking classes to drive traffic, and more are using mobile apps. And they're increasing their mix of local products, exclusives and private-label items.

Overall, retailers polled summarized the state of their business as better than average and a majority are forecasting increases through the end of the year.

Who, What & Where

When looking at the respondents to this year's TGR State of



the Industry survey, 72.1 percent were store owners or presidents, followed by store managers (9.5 percent), buyers (8.8 percent), marketing personnel (4.1 percent), store operations (2.7 percent) and other titles (2.7 percent). Retailers were from all regions of the United States, with 32.9 percent hailing from the Midwest, followed by the West (26.6 percent) South (25.2 percent) and Northeast (15.4 percent).

Independent Domination

The majority of this year's respondents — 70.1 percent — identified themselves as independent retailers. Within that group, more than half, 51 percent, defined themselves as food retailers and 25.2 percent identified themselves as kitchenware retailers. Other types of retail establishments, including gift stores, accounted for 20.4 percent. Almost 9 percent of this year's respondents were chains; grocery chains, department stores, and kitchenware chains accounted for 5.4, 2.7 and 0.7 percent of this year's respondents, respectively.

Out of the 2016 respondents, 72.4 percent operated a single store, while 18.6 percent have two to 10 stores, and 9 percent operated more than 10 units.

A total of 47.1 percent of retailers surveyed reported 2015 sales of more than \$1 million while more than half, 52.9 percent, rang up less than \$1 million in annual sales.

The majority of retailers reported an increase in annual sales last year. Among single-store operators, 58.8 percent posted sales increases while 12.7 reported that annual sales stayed the same. A total of 78.4 percent of retailers with two or more locations reported sales increase while 13.2 said sales were the same.

The Key Factor

Slightly more than half (55.9 percent) of gourmet retailers described their locations as “suburban” with 23.4 percent identifying as “neighborhood” and 20.7 percent as “downtown.”

Gourmet retailers come in all sizes. The square footage of stores vary, with a median of 2,500 square feet among all

retailers surveyed, while the mean was 7,490 square feet. For kitchenware retailers, the mean was 4,400 square feet.

Paying the Landlord

With 40.3 percent of respondents owning their retail locations, that leaves the majority of retailers — 52.1 percent — paying rent. Among those with multiple locations, 7.6 percent of respondents have locations that they both own and rent.

This year's respondents reported an average rent of \$16.79 per square foot. In all areas of the U.S. the rents are increasing, with the West coming in at an average of \$14.53 and the Midwest, South and Northeast reporting \$17.28 - \$19.08 per square foot. An almost mandatory feature: There's free parking at 86 percent of respondents' stores.

Middle of the Road

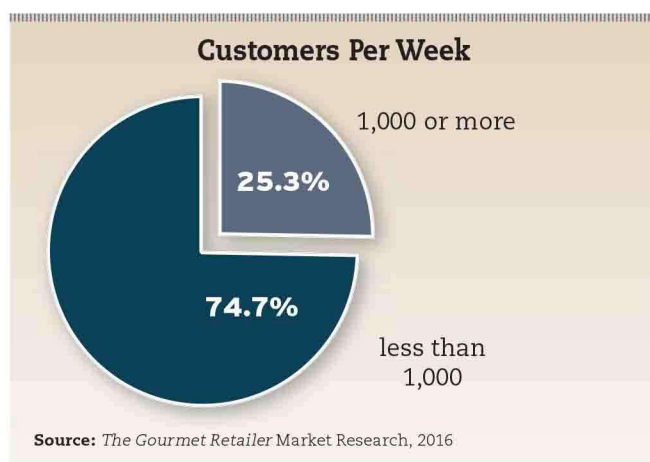
When asked to rank their business on a scale of 1 to 10 (with 10 being sensational, 1 being awful) retailers overall gave 2015 a score of 6.43; the first third of 2016 (January through April) received a slight downgrade to 6.08. However, retailers were optimistic that the year will get better, giving 2016 a projected score of 6.9.

When it comes the future of gourmet retail, 41.8 percent said they are feeling more optimistic compared to a year ago. About a quarter, 24.6 percent, reported feeling less optimistic and 33.6 percent have had no change.

Bricks Over Clicks

Historically *TGR* readers have been slow to adapt to online retail. Among all retailers surveyed, 38.5 percent now have an e-tail site. When it comes to selling online, there was little difference between single-store operators (42.1 percent) and retailers with two or more stores (45.6 percent).

For those that do have an online storefront, online sales contributed more to the bottom line. Among the responding retailers with e-tail sites, online sales accounted for 18.9 percent of total sales. Last year's respondents reported online sales that tallied up to 14.4 percent of total sales.



Bottom-line Busters

For three years in a row, retailers have agreed on the No. 1 operational concern: wage costs (cited as increasing by 62.2 percent), followed by product prices (53 percent). New to the top three was competition, which was reported to have increased by 46.6 percent.

When it comes to net profit, 65.6 percent said the amount of net profit had increased (32.8) or stayed the same (also 32.8) versus the 34.5 percent that reported a decrease in net profits.

More than 30 percent of respondents reported an increase in gross margin while 42 percent said it remained the same.

Stable Staffing

Staff turnover has remained consistent for three-fourths of the retailers surveyed. For 2016, 74.4 percent cited the same rate of staff turnover while only 21.4 percent said employee turnover was on the upswing.

When it comes to staffing, single stores averaged 6.1 full-time employees, 6.8 part-timers and two seasonal employees. Retailers with two or more stores averaged 22 full-time employees, 22.6 part-timers and five seasonal employees.

Sizing up the Competition

Half of the retailers ranked online sales as their top threat. As for brick-and-mortar competitors, 24.4 percent cited Wal-Mart, followed by department stores and mass merchandisers (excluding Wal-Mart) at 23.5 percent, chain supermarkets with more than 11 stores at 18.8 percent, independent supermarkets at 14.9 percent followed by Whole Foods Market at 14.4 percent.

In the six years *TGR* has conducted this survey, retailers have long commented about customers using their smartphones and mobile devices in store. This year was no exception. When asked about the most dramatic shift in shopper behavior in the past year, numerous retailers once again pointed to showrooming, or using a mobile device to compare prices in store. "There is definitely more online

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looking and shopping, for us and for our competitors,” noted one retailer while another commented in-store customers are “looking for a bargain on Amazon.”

A definitive majority (84.9 percent) of kitchenware retailers cited online retailers as their top competitor. Department stores and mass merchandisers (excluding Wal-Mart) were rated distant second, named as a threat by 36.3 percent of respondents.

Consumer Behavior

Transaction size was on the upswing, averaging \$45.05 for the first four months of 2016, up 2.6 percent from 2015. Food retailers reported that their average ring was \$40.88, an increase of 6.2 percent. Kitchenware retailers said their first four months of the year had an average sale of \$52.25, up 2.4 percent over last year's sales.

On average, retailers had 1,580 customers per week, and 74.7 had less than 1,000 customers per week. Kitchenware retailers averaged 800 transactions per week.

When it comes to the number of trips during the first four months of 2016, almost half of the retailers surveyed (46.2 percent) reported the status quo while 31.9 percent stated that trips were increasing. When it comes to transaction size, 41.8 reported an increase while 38.5 percent said they remain the same for January-April 2016.

Approximately one-quarter of retailers (24.7 percent) reported a decrease in transaction size, while 27.7 percent saw a decline in the number of trips for 2015.

Having a regular schedule of in-store events is key to bringing in customers. The basket size may be smaller, noted one retailer, but there's a “higher frequency of repeat customers every week.”

In-store events (59.9 percent), Beer/Wine (56.3 percent),

Confectionary/Snacks (55.6 percent), Catering (52.3 percent) and Local (51.1 percent) were the top five growth areas among retailers surveyed for 2015. For January through April 2016, a similar group of categories: Beer/Wine (59.5 percent), Local (53.9 percent), Cheese/Deli (53.7 percent), Catering (50.9 percent) and Cooking Classes (50.6 percent) posted the most promise.

Housewares' big ticket items – small electrics, cookware and high-end cutlery — have been more prone to showrooming. The categories that posted the biggest decreases for January through April 2016 were all non-food categories: small electrics (37.3 percent) tabletop/textiles (23.5 percent), gadgets (24.8 percent) knives (22.7 percent) and cleaning (21.8 percent).

Different retailers have different success with different items. Categories maintaining consumer demand through the first third of 2016 were cookware

Change in Shopper Traffic

	In 2015			Jan.-April 2016		
	Increased	Decreased	Stayed Same	Increased	Decreased	Stayed Same
In-store Events	59.9%	13.8%	42.6%	44.0%	10.1%	45.9%
Beer/ Wine	56.3%	5.4%	31.3%	59.5%	11.9%	28.6%
Confectionary/Snacks	55.6%	10.2%	43.0%	49.0%	11.7%	39.3%
Catering	52.3%	8.7%	37.3%	50.9%	8.7%	40.4%
Local	51.1%	5.1%	36.7%	53.9%	10.7%	35.4%
Organic	50.7%	6.3%	44.9%	44.1%	11.9%	44.0%
Private label	48.8%	7.5%	45.1%	46.4%	5.7%	48.0%
Gourmet/specialty foods	46.3%	20.5%	32.2%	48.8%	16.6%	34.6%
Meat/seafood	41.4%	8.0%	44.5%	38.2%	6.7%	55.1%
Cheese/Deli	40.5%	11.8%	31.1%	53.7%	10.6%	35.7%
Coffee/Tea	39.2%	12.7%	48.2%	40.6%	10.9%	48.5%
Cookbooks	38.4%	36.2%	45.3%	17.6%	34.0%	48.4%
Knives	38.2%	19.2%	42.6%	36.3%	22.7%	41.1%
Produce	38.0%	7.7%	44.2%	43.9%	9.8%	46.3%
Gadgets	37.4%	22.3%	38.2%	36.8%	24.8%	38.4%
Frozen food	36.8%	19.9%	62.1%	20.0%	9.5%	70.5%
Cookware	35.8%	31.6%	36.7%	29.3%	26.4%	44.3%
Ethnic foods	33.7%	10.5%	50.5%	29.2%	9.7%	61.1%
Tabletop/ Textiles	33.5%	21.3%	45.1%	28.5%	23.5%	48.0%
Cooking Classes	31.7%	17.0%	31.8%	50.6%	16.7%	32.8%
Small Electrics	27.5%	37.8%	52.2%	19.1%	37.3%	43.6%
Non-alcoholic Beverages	18.6%	11.6%	58.2%	29.6%	11.7%	58.7%
Cleaning	17.1%	24.6%	57.9%	21.0%	21.8%	57.3%

Source: The Gourmet Retailer Market Research, 2016

Change in Operational Factors

	Increased	Decreased	Stayed Same
Wage costs	62.2%	5.0%	32.8%
Retail prices	53.0%	4.3%	42.7%
Competition	46.6%	2.5%	50.8%
Benefit costs	46.6%	4.3%	49.1%
Technology spending	43.2%	8.5%	48.3%
Energy/fuel costs	37.0%	16.8%	46.2%
% net profit	32.8%	34.5%	32.8%
Capital expenditures	31.3%	8.7%	60.0%
% gross margin	30.3%	27.7%	42.0%
Employee turnover	21.4%	4.3%	74.4%

Source: The Gourmet Retailer Market Research, 2016

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(70.5 percent), ethnic foods (61.1 percent) and non-alcoholic beverages (58.7 percent). Rounding out the top five was cleaning (57.3), proving that retailers have successes with different items, depending on their stores, demographics and product selection.

Dialing In

For 2016, adding/updating technology is the top action item for retailers surveyed. Thirty-eight percent plan to add or update technology this year. Keeping an eye on what's selling and ditching the duds is a never-ending job; 32 percent of retailers surveyed said they plan to reduce/rationalize the total number of brands and SKUs sold. Other popular items on retailers' to-do list include relocating or updating an existing store (25.7 percent) and opening a new store (11.4 percent).

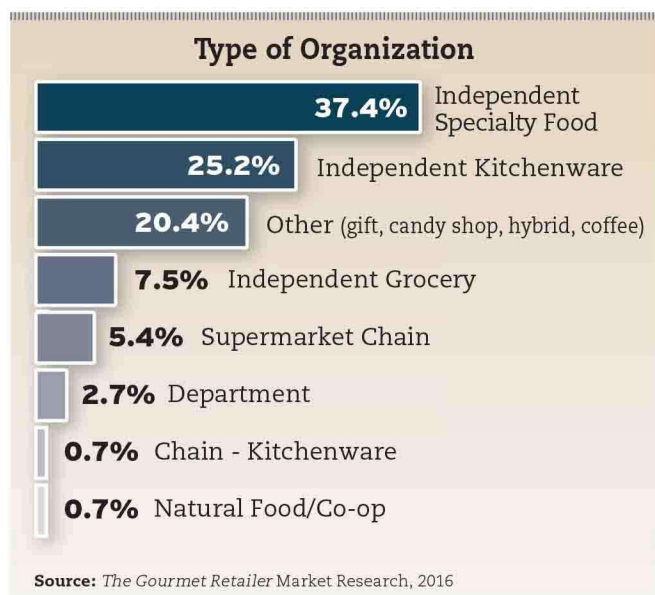
Marketing

When it comes to marketing, retailers were digging deep into their tool kits, taking advantage of a wide range of channels. Social media was the marketing tool of choice; 81.6 percent of retailers surveyed are already using social media to market their stores and an additional 7.8 percent plan to add social media to their marketing plan this year. Coming in a distant second was email, which is used by 65 percent.

Traditional advertising remains tried and true for a large group of retailers. Almost half, 45.6 percent, have an in-store flier, and the same percent run a weekly newspaper ad or flier. Radio and TV advertising is being used by 35 and 20.4 percent, respectively. Direct mail, too, is being used by 28.2 percent.

A growing number of gourmet retailers are embracing mobile marketing; 29.1 percent are using mobile apps, 13.6 percent are using SMS or text message, and 5.8 percent are using beacons.

When planning to invest in new marketing vehicles, 11.7



percent plan to start a loyalty program this year while 9.7 percent are adding a gift registry to their list of services, 8.7 percent plan to add a mobile app, and 8.7 percent will add email marketing.

Online Online Online

When asked to comment about the most dramatic shift in shopper behavior in the past year, retailers' No. 1 response was "online." Retailers cited online competition, customers are using their smartphones and other mobile devices in store — to research an item, price check or to just stay connected with their contacts. Many retailers suspect their customers are buying items they've seen in their stores online.

Common Themes

There were varied comments about the notable shifts in consumer behavior; however, retailers were quick to point out the following trends: Customers were "more cautious" and "more frugal" and as a result, they are making "fewer impulse purchases." Before consumers arrive in store, they've done their research.

For several retailers, foot traffic remains the same, but "there are significantly fewer people ... making purchases, as well as significantly fewer large special orders," stated one retailer.

The demand for craft beer, local, organic, cheese/deli and private-label foods remains strong for many of the retailers surveyed. However, selling local is not without its drawbacks. "Consumers have realized they can reach out directly to the small artisans we carry for product at wholesale, rather than pay retail prices for bulk orders as they have in years past," said one retailer.

Knives, healthy eating and organics continue to be on trend. "There's more interest in healthier food options such as gluten-free and wild-caught seafood," noted one retailer.

Having a regular schedule of in-store events or cooking classes is key to bringing in customers, noted several retailers.

Gourmet retailers of all sizes are seeking ways to engage with customers in-store and online. Overall most retailers surveyed remain optimistic for the remainder of 2016 and beyond. **TGa**