



*Wisconsin Grocers Association*

## Here Comes the 2018 Grocery Biz Roller Coaster

By Brandon Scholz, WGA President and CEO

Peering into the 2018 retail crystal ball is frankly, a bit scary. Not from the doom and gloom perspective but rather in the speed with which retail markets are changing, adapting, and moving forward.

A look back into 2017 really tees up many of the things that retailers will have to deal with not only this year, but in the future.

Let's start by painting the big picture: technology, profits, workforce, customers, and policy. Retail, whether it's grocery and convenience stores, apparel, hardware, electronics, or others, factor these components into their forecasting and business plans.

The retail grocery sector dealt with a sustained run of deflation, putting excruciating pressure on its traditional razor-thin margins. While even lower prices were great for consumers, deflation had a negative impact on retailers directly and pushed prices to historically low points. Through May of 2017, the 12-month adjusted CPI average per the U.S. Department of Labor and Statistics was negative for "Food at Home" at minus 0.2%.

The good news for retailers is that the Economic Research Service at USDA says, looking ahead to 2018, retail food prices are expected to rise between 1.0 to 2.0 percent; that is still a great deal for grocery shoppers.

A top legislative leader recently asked me what sort of workforce training program would be helpful to the grocery industry. My response was that we need to have a larger pool of people to hire from, and then we can talk training. The retail industry has plenty of good programs to keep the workforce current and in compliance. Policymakers must continue to listen and respond to the business sector and develop

legislative solutions to mitigate costly regulatory burdens, allow for changes in the marketplace, and support economic development and workforce growth.

According to the U.S. Census Bureau, Wisconsin small businesses employed 1.2 million people, or 50.7% of the private workforce, in 2013. The Bureau of Labor Statistics reported private-sector employment increased 1.0% in 2015. Even under some challenging economic conditions, the Bureau of Economic Analysis noted that in the second quarter of 2016, Wisconsin grew at an annual rate of 1.6%, which was faster than the overall U.S. growth rate of 1.2%. But there are still not enough people in the workforce to fill workplace jobs. Finding and hiring new employees was a huge challenge in 2017 and the prospect for 2018 looms even more ominous.

My Cloud Grocer, a grocery eCommerce software platform, notes that going shopping is not what it used to be. Merchants of all stripes face pressure from changing consumer behavior, the relentless expansion of Amazon, and other massive companies targeting their markets.

At one time there was a large brick and mortar shoe retailer who refused to believe that their customers would buy shoes online because "Who would buy shoes without trying them on?". Well, Zappos is one of the top-rated online retailers in the shoe biz... So much for having to try on the shoe.

Customers are shopping online for more items, and groceries are rapidly becoming a part of that psyche. Morgan Stanley Research (MSR) notes that traditional grocers have entered the online world and are competing on price, quality, and service and expanding

choices. "Given online grocery's low market share of overall grocery sales (around 2% in the U.S.) it offers significant potential for growth," says MSR.

Online grocery shopping is not coming. It's here and growing, and it's not because Amazon bought Whole Foods. Retail has to accommodate its customers, ranging from seniors to millennials. While online grocery shopping sales is now in single digits, it's trending up, and up, and up.

I side with the collection of experts who caution the industry, investors, and others to not overreact to the Amazon/Whole Foods deal. Retail grocers aren't going away. They will adapt, change, modify, and continue to serve their customers. They will figure out what the balance is between in-store and online shopping. If anything, Amazon made grocers think, plan, and implement faster than they usually do.

And, Amazon will figure out how difficult it is to compete in the grocery biz, both online and in-store. By shutting down home-delivery in nine major U.S. markets, Amazon (like Peapod years ago) is finding out how expensive it is to compete in that last delivery mile.

There's nothing boring or static about the retail sector in Wisconsin. There's never a dull moment, and sales will ring up for quality products at competitive prices delivered with service and a smile... even online.

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*The Wisconsin Grocers Association represents nearly 1,000 independent grocers, retail grocery chain stores, warehouses and distributors, convenience stores, food brokers and suppliers. Wisconsin grocers employ over 50,000 people with \$815 million in payroll and generate more than \$6 billion in annual sales in Wisconsin resulting in approximately \$250,000,000 in state sales tax revenue.*