

Make Informed Decisions

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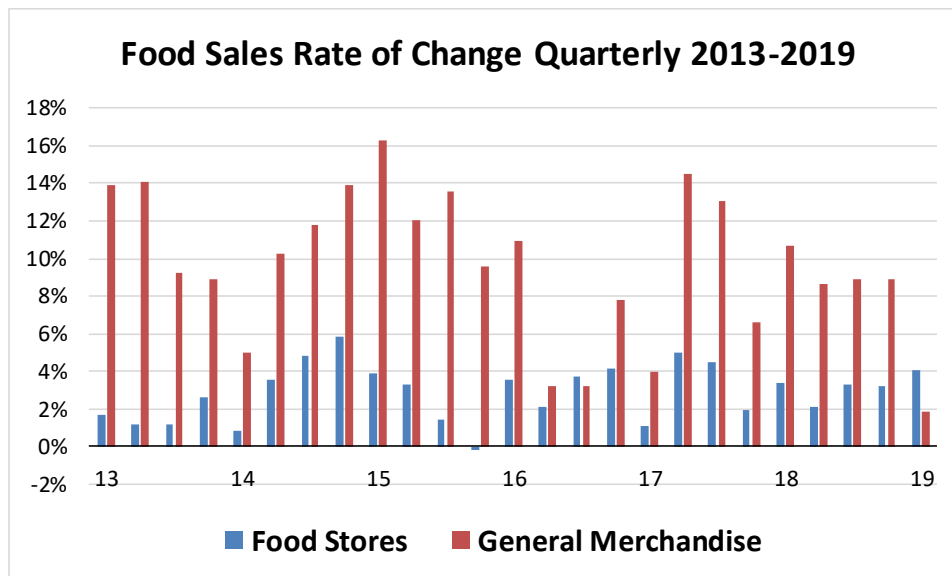
Is the Loss to General Merchandisers Over?

StatsCan recently released the first quarter retail commodity survey which measures sales of commodities by retail channel. StatsCan measured total food sales at all retail outlets from grocers to drug stores to gas stations, at \$25.2 billion. That first quarter food sales tally through all retail channels was up by 4% year over year. The volume going through the StatsCan channel called “Food and Beverage” stores was also up by 4%. That channel’s food sales are about 85% supermarkets with the rest being convenience or other specialty stores.

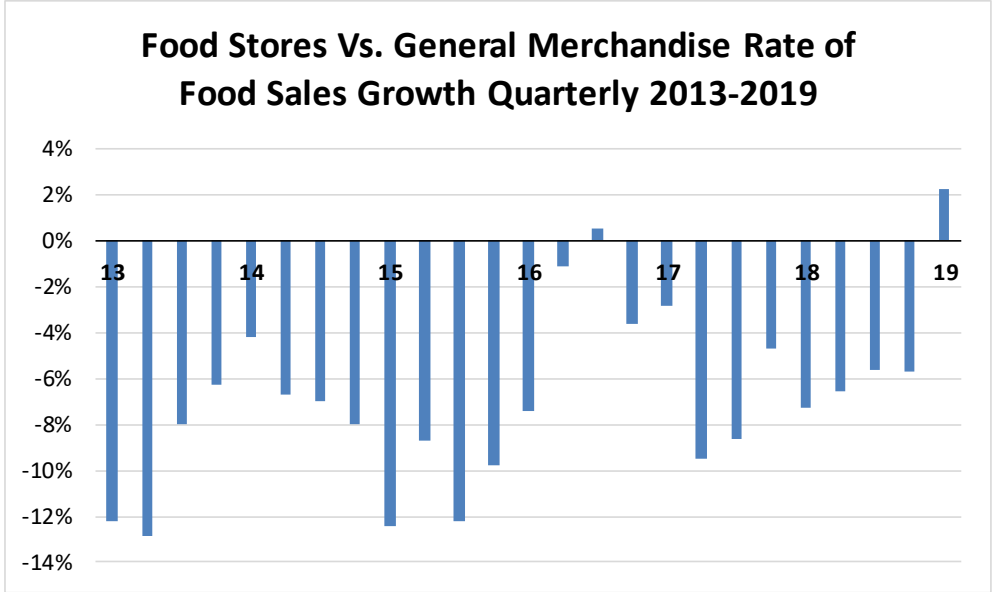
In addition to the supermarkets, another notable food sales channel is General Merchandisers (GM). The General Merchandisers are the dollar stores, as well as companies such as Costco, Walmart and Canadian Tire. Regarding food sales, GM is overwhelmingly Walmart and Costco. The researchers at BMO Nesbitt Burns estimate that 2018 shares of food sales for Walmart and Costco are 11% each.

Rare Development

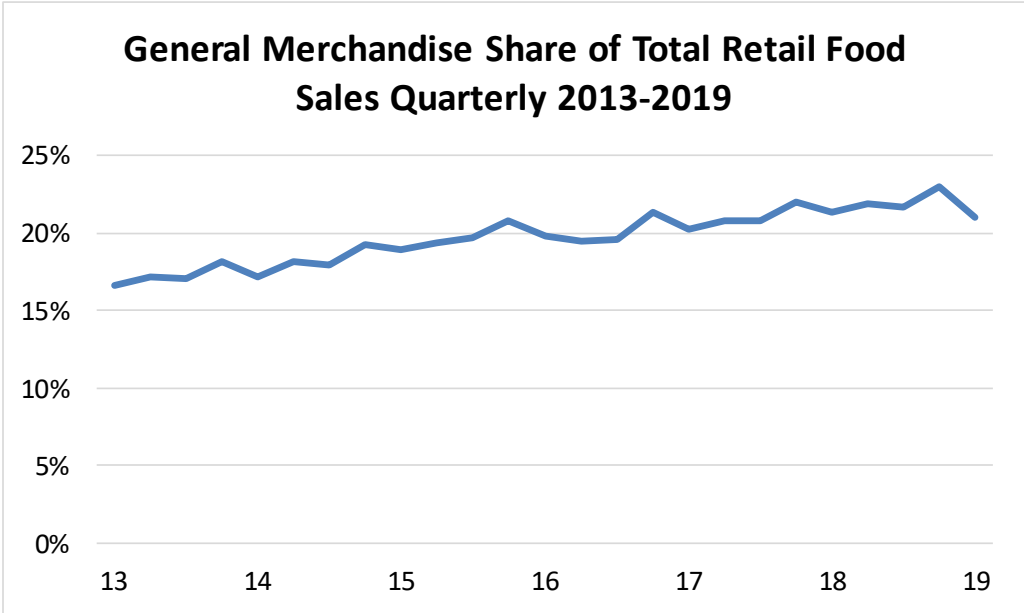
While retail food sales and supermarket food sales were up by 4%, the GM food sales were only up 2%. It is surprising to see supermarket food sales growth outpace the GM channel. The last time this happened was in the third quarter of 2016. At that time, supermarket food sales increased by 4% and the general merchandisers increased by 3%. In fact, during the period going back to 2004, the supermarkets rate of increase was rarely or never greater than GM.



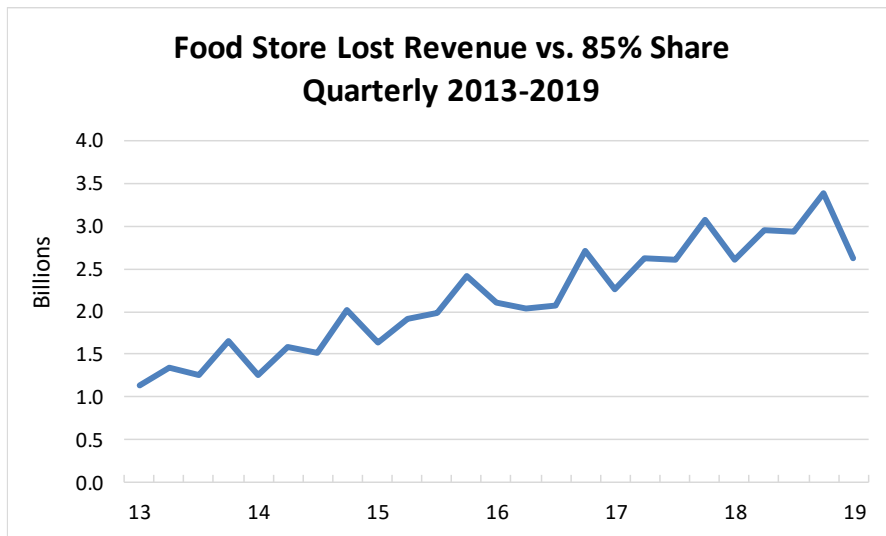
From 2013 through 2018, the GM rate of growth in food sales averaged 10%, while supermarkets averaged 3%. The total retail food sales from all channels averaged 4%. As such, this development in the first quarter of 2019 is a standout.



Of course, the relative sales performance translates into a loss of share for the supermarkets and a gain for the GM. The GM share of food sales has been consistently above 20% since the second half of 2015. That compares to about 15% ten years ago in Q1 2009.



The lost share is material in terms of lost food sales dollars for the grocery sector. Lost sales can be compared by looking at the actual share compared to the share ten years ago in 2009. If the supermarkets had kept their 85% share, sales for grocers would be \$1-3.5 billion more each quarter. From 2013 to the first quarter of 2019, total lost sales amounted to about \$54 billion.



Not Holding the Fresh Battle

It is interesting to note that supermarkets are even seeing a loss of share in fresh foods. One would expect that grocers would be able to hold the competitive line on fresh foods. That should be the area where differentiation with the GM channel should make a difference. In fact though, according to the StatsCan data, in 2013, grocers had an 85% share of fresh food sales. By 2019 that had fallen to 80%. Dairy and egg share went from 80% to 73%; baked goods went from 86% to 76%. Even fresh prepared foods, which should be the key point of differentiation has dipped during 2013-2019 from 84% to 80%.



Summary

Erosion in supermarket sales share did not occur in the first quarter of 2019. One quarter does not a trend make, so it is far too early to say that the loss of sales to Costco and Walmart has ended. In addition, given the inflation at food stores in recent months, this might be a time for the GM to once again gain even more share.

Kevin Grier, August 2019

This article first appeared in the July 2019 edition of Grocery Trade Review. If you would like a free two-month trial, please email Kevin@KevinGrier.com