GROCERY CHAINS PREPARE TO BATTLE, AMAZON, DISCOUNTERS

U.S. grocery chains are looking toward growth in private label brands, as well as investing in delivery and pickup services to address competition from **WHOLE FOODS MARKET** and European discounters.

Regional grocery chains will struggle the most, but growth will be challenging for large supermarkets like **KROGER**, as well, according to analysts, reported *The Wall Street Journal* (June 12).

Growth in Whole Foods' private-label 365 brand will impact high-margin products such as organic groceries and prepared foods, but private label presents a key growth opportunity for competing U.S. chains, as well. Private label currently accounts for only around 15% of packaged food and household products, according to **NIELSEN**.

Kroger's private-label margins are several percentage points higher than on other goods, according to CFO Michael Schlotman. The chain's private-label sales are up 40% over six years, and now account for almost 30% of unit sales.

Consumer brands like **KRAFT HEINZ** will be hurt by the expanding private-label category. Many food makers are redesigning their packaging and formulas to better sell through Amazon and Whole Foods, placing an emphasis on online repeat purchases instead of impulse buys, according to industry consultants.

In addition to private label, grocery chains are responding to increased competition by moving plans to invest in online delivery and pickup services ahead to two- to three-year timelines instead of five to seven years, according to **BAIN & CO.** consultant Steve Caine, reported *The Wall Street Journal* (June 10).

Dozens of supermarkets have struck deals with **INSTACART**, and Kroger, **WALMART** and **TARGET** are shifting toward more e-commerce acquisitions and slowing down store growth to make room for millions of dollars more in technology investments.

Analysts claim chains may need to update their own shopper-loyalty programs to compete with Amazon Prime.

Kroger and other large conventional grocery chains, though, say they haven't seen a big drop in sales in the past year because they cater to mainstream shoppers and have little overlap with Whole Foods, whose average customer household income exceeds $70,000, according to market research.

HEALTHY SNACK AND FROZEN FOOD SALES TO GROW

Ninety six percent of healthy snack companies expect the increase in sales observed in 2017 to continue in 2018, while 39% of frozen food companies foresee an increase, according to *Food for Thought: State of the Food and Beverage Industry 2018*, a report by accounting, tax and advisory firm **ANCHIN**.

This growth is driving mergers and acquisitions activity in the sector.

"Big Food brands want to acquire smaller companies that have a proven record of authentically connecting with consumers," said Greg Wank, partner and leader of the firm's Food and Beverage Group. "We continue to see elevated interest in deals and continued opportunities for growth, especially in all-natural products."

Seventy percent of new products introduced by the firms were all-natural food products, while 64% were non-GMO products and 58% were gluten-free products, the survey found. In terms of successful new products, 74% were organic and 39% were vegan.

"Consumers are increasingly grazing throughout the day, driving sales in healthy snacks and easy-to- prepare small meals," Wank said. "Whether it is a new high-protein product or salty snacks made with veggies or something else, founders are getting increasingly creative and using ingredients that consumers feel good about. This continues to drive innovation in the industry, as Big Food brands continue to replace research and development with acquisitions as they look to diversify and expand their product offerings."

Healthy Snack Company New Product Debuts

(Source: Anchin)

New Products Introduced	
All-natural food products	70%
Non-GMO products	64%
Gluten-free products	58%
Successful New Products	
Organic products	74%
Vegan products	39%

Food and beverage companies plan to invest in advertising and marketing/branding at 59%, research and development and new products at 36%, expanding facilities at 27%, information technology at 18% and business acquisitions at 9%.

Overall business concerns for food and beverage firms included top-line growth, cash flow and sources of capital/debt, cost/benefit of sales promotions, labor cost concerns, product development, particularly all-natural and non-GMO, and new customers and new channels of distribution.