New Jersey

Grocer

MERGERS & ACQUISTIONS: WHO'S NEXT?

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15 MINUTES WITH DEBORAH WEINSWIG

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2017, APRIL - MAY

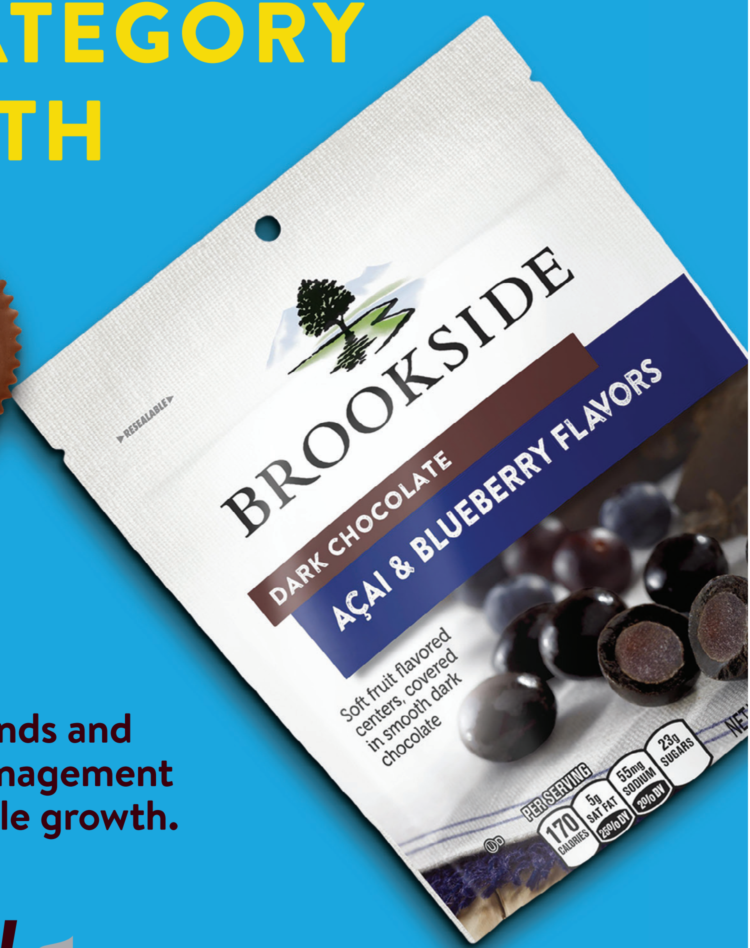
NEW JERSEY FOOD COUNCIL

DRIVING THE INTERNET OF EVERYTHING


KISSES
HERSHEY'S
MILK CHOCOLATE
SINCE 1894
KING SIZE
NET WT 2.6 OZ (73 g)
NEW
KitKat
BigKat
5 crisp wafers in milk chocolate
2 BARS to share!
KING SIZE
NET WT 3 OZ (85 g)


ICE BREAKERS
LONG LASTING FLAVOR
Ice Cubes
PEPPERMINT
SUGAR FREE GUM


SUGAR FREE MINTS
ICE BREAKERS
MINTS
WINTERGREEN
with COOLING CRYSTALS
NET WT 1.5 OZ (42 g)
MILK CHOCOLATE
Reese's
4 PEANUT BUTTER CUPS
KING SIZE
NET WT 2.8 OZ (79 g)


BROOKSIDE
DARK CHOCOLATE
AÇAI & BLUEBERRY FLAVORS
Soft fruit flavored centers, covered in smooth dark chocolate
RESEALABLE

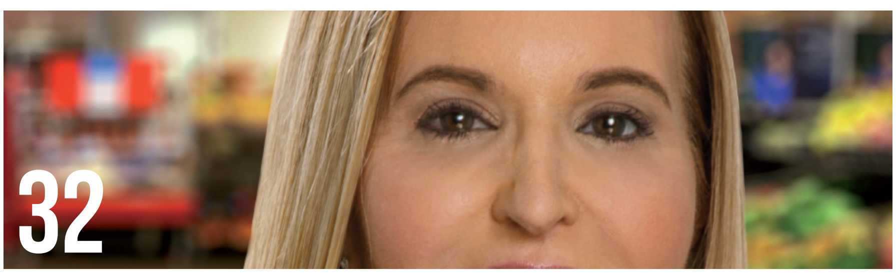
FEATURES

The IoT is Driving the Integration of Everything

In real estate the mantra is: Location. Location. Location. for retailers, regardless of segment, the mantra for 2017 is: Integration. Integration. Integration.

Mergers and Acquisitions – Who's Next?

The year 2017 is not likely to be record-setting for merger and acquisition activity in the grocery industry now that mega-mergers like Ahold/Delhaize, Walgreens/Rite Aid and Albertgons/Safeway are complete.



15 Minutes With Deborah Weinswig

Deborah Weinswig is Managing Director of Fung Global Retail and Technology who travels extensively and is considered one of the top analysts in the field of retail innovation and technology. We caught up with her between flights to talk about everything retail.

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PRESIDENT'S MESSAGE

NJ LAWMAKERS FIDDLE WITH ONEROUS FOOD DATE LABELING PROPOSAL

LINDA DOHERTY
PRESIDENT
NEW JERSEY FOOD COUNCIL

THIS SPRING, THE STATE SENATE ENVIRONMENT COMMITTEE QUICKLY PASSED LEGISLATION THAT ESTABLISHES A NEW JERSEY ONLY STANDARD FOR FOOD LABELING.

While we understand the intent of the legislation to simplify date labeling, we are very concerned that such a bill could inadvertently harm the grocery industry's continued efforts to solve this problem comprehensively on the national level.

As multi-state operators, NJFC members are concerned that reforming the date labeling process on a state-by-state basis would make it extremely difficult and costly for members to comply with each of the various state laws with different definitions and standards, particularly because manufacturers often do not control what state each individual package is sent to once it is taken by a distributor.

This could lead to New Jersey labeled products finding a way into other states, and non-New Jersey compliant labels ending up in our state through no fault of the suppliers. This would unnecessarily open members up to thousands of dollars in fines and create great confusion in the supply chain.

These different standards also undermine labeling consistency, confuse consumers, and raise the costs of food.

NJFC members and the food industry at large remain committed to reducing food waste nationally and to accomplish that goal our national partners at the Food Marketing Institute (FMI) formed the Food Waste Reduction Alliance in 2011 with the Grocery Manufacturers Association (GMA) and the National Restaurant Association.

This landmark, cross-industry initiative includes more than 30 manufacturing, retailing and foodservice companies, along with expert partners from the anti-hunger community and waste management sector.

As part of their larger work to reduce food waste, FMI and GMA recently announced that their members would be implementing a voluntary standardized and simplified label prior to the summer of 2018.

This voluntary action by the industry will eventually lead to only two standard labels which can be clearly understood by the consumer and we hope that will translate to consumers wasting less food.

While some amendments were approved in Committee, we believe the bill will stall and allow the industry to solve the issue in a comprehensive and reasonable manner without government intervention. At least that's what we hope for.

Linda Doherty

> **"THESE DIFFERENT STANDARDS ALSO UNDERMINE LABELING CONSISTENCY, CONFUSE CONSUMERS AND RAISE THE COSTS OF FOOD."**

NEW JERSEY LEGISLATURE NEGOTIATING STATE BUDGET

MARY ELLEN PEPPARD
NJFC ASSISTANT VICE PRESIDENT
OF GOVERNMENT RELATIONS

THE NEW JERSEY LEGISLATURE IS TAKING A BREAK FROM ITS REGULAR LEGISLATIVE COMMITTEE HEARINGS TO FOCUS ON THE FISCAL 2018 STATE BUDGET.

Governor Chris Christie presented his $35.5 billion budget proposal to the Legislature in February, highlighting his Administration's commitment to fiscal stability over the past seven years, a smaller state government workforce, and increased private sector job growth.

He laid out his priority issues for the upcoming fiscal year, which begins July 1. The Governor highlighted his achievement of $3 billion in business tax cuts, $1 billion in tax relief as a result of Unemployment Insurance reforms, and the Transportation Trust Fund and tax relief compromise enacted late last year.

He once again reaffirmed his commitment to expanding addiction services, and proposed the establishment of a permanent fund that Horizon Blue Cross Blue Shield of New Jersey would fund every year through their surplus to support vulnerable populations, including those struggling with addiction.

A number of stakeholders and policymakers have come out strongly in opposition to this proposal, saying it would destabilize the State's largest insurer and increase rates at a time when there is already great uncertainty over the fate of the Affordable Care Act.

Another controversial proposal is the Governor's plan to contribute the revenues from the State Lottery to public employee pension plans, which would reduce the unfunded liability of the pension system by approximately $13 billion.

Noting that his planned pension payment of $2.5 billion is the largest in State history, he called on the Legislature and public employee unions to continue making pension and benefit reforms.

> **"NJFC WILL MONITOR THE BUDGET NEGOTIATIONS FOR ANY IMPACT ON OUR INDUSTRY AND ENGAGE AS NECESSARY."**

By using the lottery assets to lower the pension debt, the Administration says the State's public pension system would provide more stability for the nearly 800,000 workers and retirees who are beneficiaries.

In return, Governor Christie is asking for concessions from the unions, but Democratic legislative leadership has expressed concern about tying the lottery plan to pension reforms and cuts.

Recently, the State Treasurer and the Office of Legislature Services (OLS) provided the Assembly and Senate Budget Committees with a revenue forecast for the current and upcoming Fiscal Year.

For the current 2017 Fiscal Year, OLS is projecting a revenue shortfall of $223 million, and a shortfall of $213 million for the 2018 Fiscal Year.

However, the State will have a clearer revenue picture in May after the April income tax collections come in. The Legislative Budget Committees will soon begin taking testimony from the various State Departments and agencies on their budget priorities.

NJFC will monitor the budget negotiations for any impact on our industry, and engage as necessary, as we sometimes see surprise legislation in late June.

> **"IN MARCH, THE SENATE ENVIRONMENT COMMITTEE PASSED A PACKAGE OF BILLS PERTAINING TO FOOD WASTE, INCLUDING TWO FOOD DONATION BILLS THAT WE SUPPORT."**

When the Legislature resumes its usual legislative schedule in May, we expect work to continue on several issues important to our industry.

In March, the Senate Environment Committee passed a package of bills pertaining to food waste, including two food donation bills that we support. These bills provide expanded liability protections for businesses that donate food which is unsaleable, but which is still safe for human consumption, and allow New Jersey gross income tax deductions for charitable contributions of food made from business inventory due to appearance, age, freshness, grade, size, surplus, or other conditions.

We have been strongly opposing legislation which establishes a state based standard for food date labeling. Our partners at the Food Marketing Institute and the Grocers Manufacturers Association recently announced that their members would be implementing a voluntary standardized and simplified label system prior to the summer of 2018. This action by the industry will eventually lead to only two standard labels which can be clearly understood by the consumer.

While New Jersey Senate Environment Chair Bob Smith amended his original bill to adopt the industry's standard language and compliance date, we remain opposed to a state patchwork of laws, and have relayed our position to legislative leadership.

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New Jersey Food Council wishes to recognize the following companies for their generous support.

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Stop & Shop Supermarkets

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ShopRite of Rochelle Park

Somerset Stores

GUBERNATORIAL AND LEGISLATIVE PRIMARIES HEAT UP

GARY LA SPISA II
NJFC DIRECTOR OF PUBLIC AFFAIRS

SINCE OUR LAST UPDATE, THE BATTLES FOR PARTY NOMINATIONS FOR GOVERNOR AND ALL 120 LEGISLATIVE SEATS HAVE REALLY KICKED INTO HIGH GEAR.

After the early April filing deadline, more than 280 candidates filed their intention to run for the state legislature and all but one legislator, Newark Senator Ron Rice, will face either a Primary or General Election battle.

For Governor, all of the expected candidates successfully filed their petitions. Democrat Phil Murphy filed an unprecedented 42,000 plus signatures, by far a record. In addition to Ambassador Murphy, Senator Ray Lesniak, Assemblyman John Wisniewski, Jim Johnson, Mark Zinna and activist Bill Brennan all successfully filed to appear on the June ballot. On the Republican side, Lieutenant Governor Kim Guadagno, Assemblyman Jack Ciattarelli, Nutley Commissioner Steven Rogers, Joseph Rudy Rullo and Hirsh Singh will appear on the Primary ballot.

While the Democrat Primary for Governor appears to be largely a formality for Ambassador Murphy, the Republican Primary continues to heat up between Lt. Governor Guadagno and Assemblyman Ciattarelli. Lt. Governor Guadagno maintains her status as a front runner but the two appear to be trading punches more and more frequently as the campaign drags on. The other candidates seem to be gaining little ground and this primary appears to be a two-horse race.

In the Legislature, Democrats are preparing for primaries in 14 legislative districts, while the Republicans are facing primaries in only 8 districts. On the Democratic side, the most interesting primary appears to be in District 31. The Hudson County based district features a significant slate challenging incumbents Nicholas Chiaravalloti and Angela McKnight.

The Republican legislative primaries feature a bit more drama as South Jersey Republicans look to replace Brian McDowell on the ticket after giving him the boot when past inappropriate behavior became public. Further up the state, in District 12 there is a battle between incumbent Senator Sam Thompson and Assemblymen Ron Dancer and Rob Clifton and challengers with the backing of some party officials in the district. The incumbents are still favored here but the challengers are expected to mount a significant offensive. An expected significant primary to 24th District Senator Steve Oroho centering on his sponsorship of the gas tax compromise by former running mate Gail Phoebus never materialized, but the Senator and his running mates still face some opposition in the Primary. Oroho and Assemblyman Parker Space have chosen former NJ Commissioner of Labor Hal Wirths to replace Phoebus on their ticket.

The Morris, Essex and Passaic based District 26 is expected to be the most hotly contested Republican battle this cycle with Morris County Freeholders Hank Lyon and John Cesaro targeting Assemblywoman Betty Lou DeCroce for her yes vote on the gas tax package last year.

Assemblyman Webber has received praise by both challengers who have targeted their campaigns specifically at DeCroce, Webber is likely to survive here but DeCroce is vulnerable.

Our next edition will be released after the primary and include a more in depth look at the significant General Election challenges in Districts 2, 11, 16 and 40.

If you are registered, don't forget to vote on June 6!

NJFC NEWS

WAKEFERN EXECUTIVE TO KEYNOTE NJFC TRADE RELATIONS CONFERENCE

The New Jersey Food Council (NJFC) is pleased to announce that Chris Lane, Executive Vice President for Wakefern Food Corporation, will present the Keynote Address during the 2017 Trade Relations Conference to be held on June 6 at Harrah's Resort in Atlantic City, NJ, from 3:00 to 6:00 p.m.

Wakefern's Chris Lane.

Chris Lane is the Executive Vice President for Wakefern Food Corp., the largest retailer-owned cooperative in the United States.

His current responsibilities include guiding the day-to-day operations and strategic planning for Wakefern, a cooperative that reported $16 billion in retail sales for its most recent fiscal year.

During the event, Stan Barrasso, Senior Vice President Metro Mid Atlantic, of Acosta Sales & Marketing will be honored with the NJFC Max Stone Trade Relations Award.

The Max Stone Award is named in honor of the longtime trade relations leader for Best Foods, CPC in recognition of his accomplished career in trade relations in New Jersey.

As is tradition, the conference will conclude with a Curtain Closer golf event at Galloway National Golf Club on June 7 at 9:00 a.m. in Galloway, NJ.

Contact NJFC at (609) 392-8899 to register for the event, or visit www.njfoodcouncil.com

2016 Competitor Chef Danny Arturo of the ShopRite of Greater Morristown.

NJFC Board Member Joe Sofia and Leadership Development Chair Todd Ferrera of Wegmans with their chefs.

2016 Winning Chefs Marisa Ricardo and Miguel Morales from Food Circus Foodtown Supermarkets of New Jersey.

Former NJFC Chair Judy Spires of Kings Food Markets with her chefs Anthony DeBerto, Jr. and Kimberly Sullivan.

NJFC NEWS

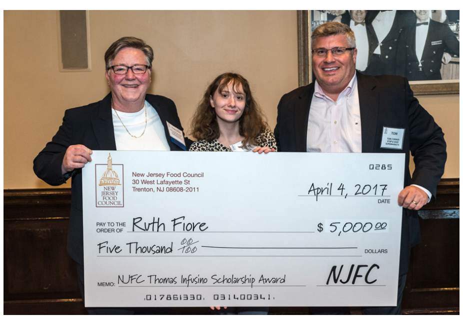
FOOD COUNCIL HOSTS SPECIAL EVENT FOR 2017 EDUCATION SCHOLARSHIP FOUNDATION WINNERS

Recently, the New Jersey Food Council hosted a special event to honor 2017 scholarship recipients from the Educational Development Scholarship Foundation at Forsgate Country Club, Monroe.

The recipients and their families were joined by members of the Board of Directors as well as sponsors of the individual scholarships.

Since the inception of the Scholarship Program in 2011, the three NJFC scholarships have grown from $2,000 to $5,000 each and now the Foundation manages an additional 17 member supported scholarships. In all, 20 scholarships will be awarded this year totaling $67,000.

2017 Scholarship Winners with NJFC President Linda Doherty, NJFC Board Vice Chair Mike Murphy and NJFC Board Chair Richard Saker.



Colleen Meares and Tom Cormier of Stop & Shop Supermarkets with Scholarship Recipient and Stop & Shop Associate Ruth Fiore.

"We are proud of how our scholarship program has expanded over the last few years," said NJFC President & CEO Linda Doherty. "When we created this small scholarship program in 2011 to help grow the future of our industry and to benefit our members and their families, we had no idea that it would grow so quickly.

"The incredible support of our members and the opportunity to make such a significant impact on the lives of our associates and their families makes this one of the most rewarding programs we offer."

Doherty added, "NJFC received 124 applications for consideration. The Selection Committee was overwhelmingly impressed with the number and quality of applications.

(L-R) NJFC Board Chair Richard Saker, NJFC President Linda Doherty, Scholarship Recipient Erich Ballard, NJFC Vice Chair Mike Murphy.

2017 NEW JERSEY FOOD COUNCIL SCHOLARSHIP AWARD WINNERS

The following scholarships were awarded this year by NJFC: For a complete list of scholarship awards, visit www.njfoodcouncil.com

- **NJFC Founders Scholarship Award**
  An award of $5,000 to an employee in a food related member business or future industry leader.
  - Recipient: Erich Ballard, Wegmans Food Markets, TCNJ (Junior)
- **NJFC Student Award**
  An award of $5,000 to a graduating high school senior or college student who is a family member of a full time employee, NJFC employee or part-time student employee.
  - Recipient: Dana Schmeltzle, QuickChek Corporation, North Carolina State University (Sophomore)
- **NJFC Thomas Infusino Scholarship Award**
  An award of $5,000 to one employee in a retail member business.
  - Recipient: Ruth Fiore, Stop & Shop Supermarkets, NJIT (Freshman)

NJFC NEWS

LEADERSHIP DEVELOPMENT CLASS VISITS DC AND TRENTON

Recently, NJFC Leadership Development Class participants have visited both our State and Nation's capitols.

In early March, the students spent a day in Trenton and met with Assembly Speaker Vincent Prieto, Assembly Consumer Affairs Chairman Paul Moriarty and Assembly Republican Conference Leader Dave Rible. They even received a crash course in lobbying from NJFC's Government Relations Team of Mary Ellen Peppard and Gary La Spisa.

In late April, the participants traveled overnight to Washington, DC to meet with House Appropriations Chairman Rodney Frelinghuysen, Congressman Donald Norcross, National Grocers Association President Peter Larkin and Food Marketing Institute Chief Public Policy Officer Jennifer Hatcher.

NJFC President Linda Doherty joins the Leadership Development Class in Washington, DC during their April visit.

The class was also treated to a special private tour of the U.S. Capitol by former Congressman Ron Sarasin, who currently serves as President and CEO of the U.S. Capitol Historical Society.

Each of the key government officials who presented to the group shared their perspectives on leadership and the importance of building relationships as well as their personal backgrounds.

Both trips were designed to educate these future leaders on the importance of getting to know your government leaders.

The fourth session of the Leadership Development Program will be held at the Trade Relations Conference during which the participants will have the opportunity to meet with one of our CEOs and attend a Food Council Board of Directors meeting.

NJFC PRESIDENT NAMED ONE OF NJ'S "BEST 50 WOMEN IN BUSINESS"

Linda Doherty, President & CEO of the New Jersey Food Council (NJFC), is one of the state's "Best 50 Women in Business" according to NJBIZ magazine.

Every year, NJBIZ selects professional women from around New Jersey, representing a wide variety of industries and career paths, who all share one characteristic: leadership in the Garden State's business community. This highly competitive list includes C-suite executives, educators, entrepreneurs and many others who are making a strong positive impact on the state's economy.

The New Jersey Food Council, is a Trenton-based business trade association that represents more than 1,500 members in the food retail, wholesale, and manufacturing segments of the $136 billion New Jersey food distribution industry, including some of the largest employers in the state. Not only does she represent some of the finest companies in New Jersey, but some of the finest corporations in the world.

As the fifth and longest serving NJFC president in its 48-year history, Ms. Doherty develops and launches programs and policies designed to continuously strengthen this industry that is so critical to the state's economy, consumers, and workforce.

Her professional focus is on association management, public policy, leadership development, corporate communications, public affairs, and government relations.

Larisa F. Perry, Wells Fargo; Kimberlee S. Phelan, WithumSmith+Brown; Linda Doherty, NJFC President, Jerry Brown, Comcast Business during presentation ceremony.

Continued on Page 16

ADVANCING OPPORTUNITIES HONORS NEW JERSEY FOOD COUNCIL FOR LEADERSHIP IN BUSINESS

The New Jersey Food Council was honored by Advancing Opportunities, Inc. at their annual Spring Hoedown this past weekend. The "Leadership in Business" Award was presented to the organization for their efforts to provide fulfilling employment opportunities for individuals with disabilities.

"The New Jersey Food Council has been a valued partner in our efforts to create a more inclusive workforce," said Advancing Opportunities CEO Jack Mudge. "Their leadership has proven to be forward-thinking and innovative resulting in increased opportunities for employment for people with disabilities throughout the State."

"We are humbled by this recognition and we are grateful for the partnership, compassion and will of Advancing Opportunities who set a great example and are always on call to help fill the needs of the disabled," said NJFC President & CEO Linda Doherty. "Our member commitment to the employment of the disabled is unmatched from the smile of a friendly greeter, to the wave of hello from a cart collector to the efficient customer service of a cashier.

The NJFC Team received the award during the Advancing Opportunities Annual Hoedown.

"A job in the grocery industry provides financial support, independence, hope and a future," she continued. "We are profoundly proud of this effort by our members to support the mission of Advancing Opportunities."

Members of the business community also recognized at the event were Humanitarian of the Year Frank Lucchesi of PSE&G and Volunteer of the Year Michael Yarrow of WithumSmith+Brown.

The mission of Advancing Opportunities is to enhance the lives of all people with disabilities, and one way they achieve that mission is through an extensive Employment Services program aimed at creating a more inclusive workforce throughout the State. Not only does the organization facilitate job placement, but they also do job training and coaching, provide pre-placement assistance and assist with on-going support.

The NJFC is an alliance of food retailers and their supplier partners united to provide vision and leadership to advance the interest of its members.

"BEST 50 WOMEN IN BUSINESS" *(continued)*

"To stand alongside such an accomplished group of women who are making a significant impact on business in New Jersey is a humbling honor and a special moment I will cherish," Doherty said.

Doherty has been credited with developing NJFC's Leadership Development program, growing it's Student Scholarship and Educational Foundation, bringing more diversity onto the Board of Directors and in leadership positions and sharing her experiences, career insights and advice as a leading female food industry executive.

"Linda could not be more deserving of this recognition," said Patrick C. Dunican, Jr., Chairman and Managing Director of Gibbons P.C., who submitted Doherty's nomination to NJBIZ. "She has made incredible strides as a leader in the food industry and the New Jersey business community at large."

Doherty also has a strong passion for community outreach focusing on food assistance programs for women, children, families, and other individuals in need. As an advocate for women's issues and financial stability, she founded the Girl's Investment Network (GIN), a group of women in various stages of economic health to learn about financial stability, investing opportunities, and balancing personal finances.

NJFC HONORS THE "BEST OF THE BEST" AT "NIGHT OF DISTINCTION"

More than 500 guests recently attended the New Jersey Food Council's "Night of Distinction" event to honor its 2017 Industry Achievement Award recipients, comprising prominent food industry executives who continue to innovate and propel the industry in the state.

This year's honorees have advanced the mission of the New Jersey Food Council (NJFC), achieved significant food business success, and have a history of civic service. This year's honorees are John Derderian, President of Allegiance Retail Services; Frank Mastrangelo, Area Marketing Director of SuperValu; and Nico Sumas, Chief Marketing Officer of Village ShopRite Supermarkets Inc.

"We are excited to honor these three individuals who work diligently to support our efforts and our association's mission." said Linda Doherty, NJFC President. "They are truly the best of the best in our industry and we are proud to honor them."

(L-R) NJFC Industry Achievement Honorees Frank Mastrangelo of SuperValu, Nico Sumas of Village Super Markets and John Derderian of Allegiance Retail Services.

Derderian leads a supermarket cooperative of about 100 stores. His focus has been to ramp up the cooperative's investment in information technology, resulting in improved data-sharing platforms,

(L-R) Award Recipient John Derderian of Allegiance Retail Services is congratulated by James Ostling of Bimbo Bakeries USA; Donna Zambo of Wakefern Food Corporation; and, David Maniaci of Nicholas Markets.

increased analytical capabilities, price optimization, and digital e-commerce initiatives.

"Even though so much has changed in the industry, the fundamental service we provide to our consumers has not changed: quality food at good prices and a clean store environment," Derderian said. "And no matter how much technology we deploy, it's still a people business."

Mastrangelo has been a member of the NJFC Board of Directors for the past 12 years, as well as the Finance Committee, for the past eight years. He is a 34-year industry veteran, who began his career as a manufacturer representative at Mrs. Paul's, moving onto retail and foodservice supply chain services with Rotelle, Richfood, Fleming, AWI and now SuperValu.

"With every successful person, there's some type of family behind them – some blood-related, sometimes not, but there's always a family behind them," Mastrangelo said. "So other than that, I'd like to thank the Council again, I'd like to thank all of the vendors that participated, and I'd like to ask you again, from the Food Council to you – if you're a member, participate more, get involved. If you're not, sign up."

Sumas is Chief Marketing Officer of Village Super Market Inc. (a member of Wakefern Food Corporation), which operates 29 ShopRite supermarkets in New Jersey, Pennsylvania and Maryland. Nico, a third-generation grocer, has worked in almost all facets of the family business since he was 14 years old. He now works alongside his extended family to fulfill their mission of helping families live better.

"About 80 years ago, two immigrant brothers scraped their hard-earned savings together and started a produce market in the Village of South Orange," Sumas said. "Their love and determination is why I stand before you. I'm proud to be the namesake of one of those brothers."

Michael Biase, Division Sales Manager, Mission Foods, noted the "Night of Distinction" is a "who's who" of the New Jersey grocery industry. "We gather to celebrate those who have helped us to be one of the finest food trade organizations in the country," he explained.

Members of McCaffrey's Markets and Murphy's Markets enjoy the Night of Distinction.

VIEWPOINT

APRIL FOOLS

KEVIN COUPE
FOUNDER, MORNINGNEWSBEAT.COM

REALITY JUST ISN'T WHAT IT USED TO BE. GO FIGURE.

There are a number of stories that have popped up recently that I think illustrate ways in which the world is changing, and why leaders in the food industry need to pay attention.

For example…

I was amazed the other day when I saw that it has been 10 years since the introduction of the iPhone. Amazed, in part, because 10 years seems like a long time, and in some ways it seems like yesterday that Steve Jobs stood on that stage and wowed the crowd. (For that matter, has it really been almost a half-dozen years since Jobs passed away?)

That original iPhone had something like 500 apps. Now, there are 2 million available apps for the iPhone, and 2.2 million apps for Android smartphones, and it is fair to say that the smartphone has changed our lives.

But here's the thing. There never would have been so many apps had companies like Apple tried to do them all in-house.

And ironically, opening up the App Store to outside developers – the decision that essentially jump-started the smart phone industry and gave it so much momentum – was something that did not come easily to Steve Jobs, who preferred to control pretty much everything. He was used to doing business a certain way.

Which shows that even the most enlightened, progressive, forward-thinking and legendary businessperson can be myopic. But he was able to get beyond that mindset. He was able to grow.

That's what every business needs to do. It's what business leaders need to do. (As opposed to business managers.)

The more specific lesson in this case is the importance of collaboration with third parties as a way of making any single product or service more robust simply because there is interconnectivity. The vast majority of organizations have to be nimble enough to work with other organizations, which ends up making them both more relevant to shoppers.

iStock

That's an important lesson for retailers. It isn't a crime to be myopic, but it is a kind of business malpractice not to try to get beyond that mindset.

That's a lesson that even Steve Jobs learned.

My friend Tom Furphy of Consumer Equity Partners (CEP) puts it this way: "Companies that follow the old school mindset of 'this is how we do things around here' or 'we build everything in house' will struggle in the coming years."

"It will be difficult for them to be agile and impossible to serve customers in ways that they will demand in this rapidly changing environment."

Now compare the iPhone's 10th anniversary to this more sobering story.

After five years of steady, unrelenting declines, research firm Gartner says that the BlackBerry now has a market share of – wait for it – zero.

That's right, zero. Zip. Nada. Nil. Zilch.

Think about this for a moment.

At one point, BlackBerry was on top of the world, but for a wide variety of reasons, it got leapfrogged in terms of hardware and software by the iPhone and the Android phone.

Now it is virtually dead. One can argue that the folks at BlackBerry didn't see the importance of continued innovation, didn't pay attention to the changing marketplace, and got complacent about the leadership position the company enjoyed. Or all of the above.

There was a time when the word "CrackBerry" was coined to illustrate how addicted users were to their BlackBerry devices. Well, it ends up that it indeed is possible to break that addiction…and in a lot of ways, the company that came up with the cure was BlackBerry. Because it stopped being relevant.

Speaking of relevance...

The Nielsen Co. recently released research projecting that by 2025, the share of online grocery spending could reach 20 percent, representing $100 billion in annual consumer sales. That's total store…and it is the equivalent of the volume done by thousands of bricks and mortar stores.

There also was research suggesting that during that same time frame, the industry should expect that four out of 10 dollars spent in center store will then will "migrate to an online shopping experience."

Those are big numbers. Even if Nielsen is only half right, the numbers are considerable, and the impact on the retail food industry will be enormous.

The question is, how many traditional companies in the food business are ready for this?

Are you?

Experts tend to believe that while we're still in the second or third inning when it comes to e-grocery evolution, momentum – generated by both technology and accelerating consumer demands – means that we may be as far as half way "there."

What nobody knows is where and what "there" is.

I suspect that the winners will be the ones who have a vision, but also are nimble enough to understand that "there" may mean something different when you're in the fourth inning than it does when you're in the seventh.

But I absolutely believe that leaders and companies at least have to have some sort of strategic sense of where "there" is for them, and have to be completely committed to moving organizations in that direction.

This means being willing and able to establish networks that make the whole bigger than the component parts. It means being willing to go against established business practices to try new things. It means never being complacent. Always seeking relevance. Accepting the fact that things never will be the same again.

We have no choice but to do these things.

No fooling. ▪

GOING, GOING, GONE?

iStock

There's no doubt that independents are a strong force in retail, but change can come to anyone. Witness New York City where the number of family-owned grocers less than 7,000 square feet dropped about 8 percent over the past decade, or about 300 stores, according to a study by Strategic Resource Group.

iStock

When Smaller Is Better

Going into smaller marketing areas doesn't necessarily mean downscaling operations. Over the past decade, boutique hotels have exploded and now they are going into small cities like Bethlehem, Pa., and Sewanee, Tenn., and focusing on attracting younger travelers who want more personalized, social spaces.

It's an Uber World

Lately, everyone wants to be known as the "Uber" of something – even laundry. Electrolux, the Swedish appliance maker, is exploring the idea of having consumers use their own washing machines for other people's clothes. The company is looking into options like having people share their unused laundry time and an automatic oven that would cook beef until it's rare rather than having consumers set the time and temperature.

iStock

S-Commerce

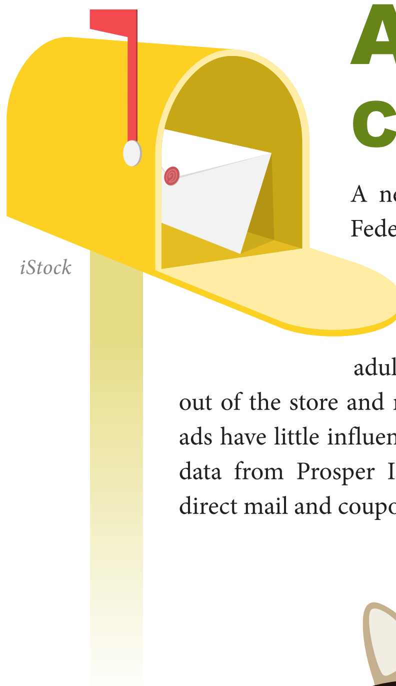
At this point no one doubts the power of e-commerce which now represents over 7.5 percent of all retail revenue and rising steadily. But this is spawning an entirely new industry – subscription boxes. Millions of consumers now pay a monthly fee for regular delivery of everything from food to cosmetics. It is emerging as the ultimate expression of convenience.

iStock

Time to let *go?*

iStock

Sometimes it's best to bite the bullet and realize when you've held onto things – or stores – too long. That's the position of Marks & Spencer, which has been losing market share for years. As a remedy, the chain developed a massive five-year store-closing program in the UK and overseas markets – including its iconic store on Paris' Champs-Élysées, proving that profits trump panache any day.



iStock

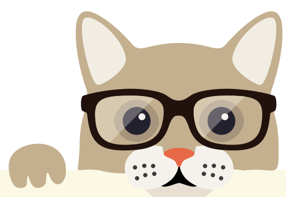
Ad-verse Conditions

A new study by the National Retail Federation indicates that ads on shopping carts and at the checkouts may be fairly useless. The reason is that adults are more interested in getting out of the store and managing kids. As a result, these ads have little influence on them. The study, based on data from Prosper Insights & Analytics, found that direct mail and coupons have a bigger influence.

Mi Casa, Su Waffles!

Food delivery for lunch and dinner isn't new. But if you're craving waffles there's a new delivery service for just that. Smash Waffles has begun operating out of Greenville, N.C. and uses private commercial kitchens to make waffles which are then delivered to customers. They have a regular weekly lineup and weekly special flavors smashberry, a blueberry waffle stuffed with whipped cream and topped with cream cheese icing and shortbread crumbles. Waffles sell for about $15 per half dozen or $21 for a full dozen, plus delivery fee.

iStock



iStock

Pet Bonanza

Do people spend more on their pets than their kids? Fung Global Retail and Technology reports that pet industry sales are set to increase 4 percent this year to about $62.75 billion. Gains are expected in all categories including food, accessories, OTC medicines and vet care services. But this isn't all. Technology-enhanced products, including cameras and wearables are attracting attention.

TALKING ABOUT TAXES...

JENNIFER HATCHER
SENIOR VICE PRESIDENT
GOVERNMENT AND PUBLIC AFFAIRS
FOOD MARKETING INSTITUTE

HOW WOULD YOU LIKE TO SEE YOUR TAX RATE GO FROM 35% OR 39.6% DOWN TO 20% OR 25%?

Sometimes questions that seem to have a very obvious answer need further reflection.

The opening of the 115th Congress with a Republican-controlled Senate, Republican-controlled House of Representatives and a Republican President has created a potentially once-in-a-generation opportunity to achieve broad-based tax reform, similar to the kind of change achieved 31 years ago with the Tax Reform Act of 1986.

While there isn't any official legislative language yet to help us understand what this reform might look like, House Republicans have issued a "blueprint" that offers insight into the direction they are heading. Some of the ideas discussed are very good for food retailers, and other parts require further scrutiny.

Good:

100 percent first year expensing for business investments;

The elimination of taxes on export revenues;

The elimination of the estate tax;

Possible parity for online and brick and mortar taxation (Main Street Fairness) (not currently part of the plan).

Potentially Negative Impact:

Border adjustability tax;

Ensure LIFO is not tapped for revenue (not currently part of the plan);

Repeal of most business deductions, except for the R&D tax credit;

The elimination of the deduction for interest payments.

One of the most controversial aspects of the House blueprint is the inclusion of a "border adjustment tax" (BAT), which is expected to raise more than $1 trillion over a decade.

Although this proposal will be subject to change as it is converted into a legislative document that will need to pass both the House and Senate, it does provide valuable insight into the direction congressional leadership will move.

As such, it is vital that the food wholesale and retail industry takes the time to understand and model how this proposal, along with all of the others, will impact individual companies so that we can offer members of Congress an accurate picture of how their plan will impact the industry.

The BAT included in the House proposal eliminates the deduction for "cost of goods sold" (COGS) for imported products and taxes it at the new marginal rate (20 percent for "C" corporations; 25 percent for "S" corporations and pass-throughs).

Calculating the impact a BAT will have on your tax bill is thus a fairly straightforward process that a company can undertake using a previous year's numbers or future projections (if they are detailed enough). You simply need to know the COGS for imported products.

TEMPLATE FOR ASSESSING POTENTIAL IMPACT OF TAX RETURN

Income Subject to Federal Tax	$	
Tax Rate (35% or 39.6%)	x	%
Federal Income Tax Owed	=	

Income Subject to Federal Tax	$	
Add Back COGS for Imports	$	
Tax Rate (20% or 25%)	x	%
Federal Income Tax Owed	=	

Of course, Figure 1 just gives you the dollar amount that the BAT will add to your tax bill. The other pieces of the House blueprint will also need to be modeled or considered to give an overall picture of what the proposal might mean for a company.

So a more complete model might look like Figure 2. ▪

Note: Pass through owners may also want to consider that the House plan will also repeal the estate tax and the impact that might have on their planning and expenses.

This initial House Republican tax reform blueprint is available at: www.bit.ly/28VOwvf

HOUSE PROPOSAL WITH ADDITIONAL PROVISIONS

Income Subject to Federal Tax (Current Law)	$
Add COGS for Imports	+ $
Subtract Current Export Income	– $
Add Interest Deduction Taken	+ $
Subtract Capital Investments (100% Expensing)	– $
Add Other Deductions (Other than R&D credit)	+ $
Subtotal - Income Subject to Federal Tax	$
Tax Rate (20% or 25%)	– $
Federal Income Tax Owed	$

DON'T UNDO DEBIT CARD SWIPE FEE REFORM

PETER LARKIN
PRESIDENT AND CEO
NATIONAL GROCERS ASSOCIATION

CONGRESS ENACTED DEBIT CARD SWIPE FEE REFORM, ALSO KNOWN AS THE DURBIN AMENDMENT, AS PART OF THE DODD-FRANK LEGISLATION IN 2010.

But since this legislation was passed, U.S. merchants continue to fight for transparency and competition in the credit and debit card industry. Prior to the 2016 elections, Chairman of the House Financial Services Committee Jeb Hensarling (R-TX) rolled out a Dodd-Frank reform package (the Financial CHOICE Act) that included a provision to repeal the Durbin Amendment.

While the House did not bring the legislation to the floor for a vote, NGA is preparing for a renewed push in support of a similar bill in 2017. At the time of this writing, Chairman Hensarling is expected to re-introduce the CHOICE Act as early as April of this year.

The Durbin Amendment, which NGA supported, placed a cap on debit card swipe fees for the largest banks and introduced competition into the debit routing system. For retailers and merchants, swipe fees are their fastest-growing expense, despite technological improvements that have made it much cheaper for banks to process such transactions. Swipe fees typically exceed a grocer's profit margins – and that's just not sustainable.

Even more frustrating about this situation is that Visa and MasterCard are exercising their market power to squeeze out any hope for transparency and competition. The fees are centrally fixed, with no input from retailers, by credit card companies and not adequately disclosed to retailers or their customers.

And the banks issuing cards under the Visa network, for example, all agree to charge the same fees, eliminating any possibility for competition or negotiation.

Repealing the Durbin Amendment would only serve to increase profits for big banks while hurting businesses and consumers. As an industry that operates on profit margins between 1 and 2 percent supermarket operators have seen the benefits of increased transparency and consumers have seen the benefit of competition that debit card swipe fee reform has brought to the marketplace.

Lower debit swipe fees have allowed supermarkets to pass along savings to consumers in the form of extended sales and have allowed grocery stores to maintain consistent prices even during shortages that would otherwise result in price spikes.

Consumers have also seen benefits in ways that directly contradict the predictions of the banks. Economist Robert Shapiro has noted that consumers saved more than $6 billion in the first year after the Durbin Amendment went into effect. And, banks continue to insist that the Durbin Amendment would be the end of free checking for consumers, but free checking has increased from 53 to 61 percent since Durbin was implemented, according to the American Banking Association's own numbers.

The Durbin Amendment has worked for consumers and businesses for the last six years and began to introduce competition into a system dominated by two major companies. We need to ensure more competition within the debit market – not remove it. ▪

The Durbin Amendment was a step in the right direction, now is not the time to take two steps back. Tell Congress yourself at www.grocerstakeaction.org

SMAR

BUILDING TO

THE IOT IS DRIVING THE INTEGRATION OF EVERYTHING

BY CRAIG ROSENBLUM

In real estate the mantra is: Location. Location. Location. For retailers, regardless of segment, the mantra for 2017 is: Integration. Integration. Integration.

The internet, combined with smart devices, is fueling the integration of everything. Smart phones are integrated with smart homes. Smart appliances are being integrated with other smart devices–and these smart appliances are rapidly gaining acceptance. Parks and Associates estimates that 18% of U.S. households will own a smart appliance by the end of the year.

The Big Tie-In

I know you're probably wondering how smart appliance have anything to do with your business. The answer is "everything" because these devices will change purchasing behaviors. Consider Samsung's smart fridge, a 2016 Honoree of CES' Innovation Award, which is integrated with notification systems, reordering systems, food management, calendars, and more. The smart fridge features a wi-fi enabled 21.5" built-in tablet that is integrated with the following:

Cameras that take snapshots of the fridge's interior. These cameras are integrated with your smart phone so you can take a "refrigerated inventory" anywhere, anytime.

The integrated tablet can also place and pay for orders through an arrangement with MasterCard. This means the smart refrigerator will become another customer touch-point.

Samsung's smart fridge also provides recipes and maintains shopping list, providing yet another conduit to the shopper.

No more pictures held in place with flamingo magnets or crossed out To-Do lists since the smart fridge displays high-definition, digital images as well as your To-Do list, which is also integrated with your smart phone.

Integration of Everything, Including People, Processes, and Data

The IoE is just that...Literally. Because integration begets integration. For example, a friend of mine recently received an Amazon Echo for his birthday. He immediately integrated it with his Amazon Prime account as well as his Spotify account. By integrating his Amazon

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◂ *Continued from page 25*

Prime account he can place orders simply by asking Alexa, Echo's digital assistant, to buy such-and-such. Therefore Amazon's Echo is another integrated, customer touch point.

Within the same week of his birthday, he added smart home skills-giving Alexa the ability to control lights and TVs. His next "skill," which is Echo-ese for adding a new capability, is to integrate his garage door opener and security camera. While this is a small scale example, it accurately illustrates the snowball effect of integration. Innovation follows a similar path and often shares a symbiotic relationship with integration.

Intrigued by my buddy's relationship with his new digital assistant, I began wondering (and researching) about the device's impact in the CPG space. One key factoid I discovered is that:

Echo buyers are heavy Amazon purchasers across all categories, but a purchase of an Echo device was followed by a seven percent increase in spend per person on CPG items.Source: Slice Intelligence, Amazon Echo: Seattle's sonic boom is felt beyond eCommerce, by Ken Cassar

The IoE Calls for an Industry Reset

Success in 2017 will be driven by those who break free from silo'd thinking and traditional, myopic perspectives. The winners for the year ahead will keep the IoE top-of-mind as they work to improve organizational structures, create new capabilities, and redefine their path-to-market.

At the center of most trading partners' re-engineered strategies is the shopper and shopper data. But not just historical shopper data that identified "who bought what from where." New insights will be extracted from big data.

Of course this includes transactional data; however, it will also integrate non-transactional data such as size of household, income range, social messaging, click-patterns, basket analyses, cart abandonment, etc. In other words, transactional and non-transactional data will provide 3600 views of shoppers.

This will connect shopper behaviors with the shopper's journey, while providing the needed resources for optimizing promotions through personalization.

Other areas impacted by the IoE

In additional "big-picture" transformations, look for integration to become the norm in the following areas:

- Marketing and Merchandising
- Trade and Consumer Spending
- Health/Rx and Shopper Consumption
- Supply Chain Production to the Shopper
- Technology-Enabled Shopping Experience

Marketing and Merchandising

Shopper data can no longer reside solely in the marketing department. Merchandising needs these insights to develop strategic and tactical game plans that satisfy the wants, needs, and desires of their shoppers. Shopper purchasing data, combined with behavioral data, will impact pricing strategies, promotion planning, product assortment and space allocations. These decisions will help retailers improve their competitive position by making their localization efforts more granular. Specifically, shopper data will be used to improve performance for price zones, geo-demographic clusters, and ultimately each individual store.

Trade and Consumer Spending

Trade dollars will become integrated with consumer spending as the lines between online and in-store purchases continue to blur. By blending trade allowances with consumer promotions, trading partners will have more resources to apply towards their personalization efforts. Unique offers will most likely be allocated by some form of customer segmentation.

For example, core shoppers (the most loyal) may receive offers that promote deeper store penetration, while potential shoppers receive offers that stimulate store visits and channel conversion. On the other hand, CPG manufacturers need to validate returns on their co-funded allocations using scanner data.

Manufacturers also need to validate the impact of their funds using non-transactional data such as social engagements, click-rates, time on page, and total media value.

"SUCCESS IN 2017 WILL BE DRIVEN BY THOSE WHO BREAK FREE FROM SILO'D THINKING AND TRADITIONAL, MYOPIC PERSPECTIVES."

Health/Rx and Shopper Consumption

Disease states and Rx will get integrated into the total store versus being limited to the pharmacy. Many banners have in-store dieticians that can help consumers improve their eating habits or support integrative medicine techniques that may include dietary guidelines and exercise along with conventional medicines.

This is also where new products become integrated with new lifestyles. Awareness of healthier living is being fueled by businesses, as well as by healthcare professionals, manufacturers, and retailers. David Mounts, Inmar Chairman and CEO, recently discussed the advantages of healthier eating on Triad Today.

Supply Chain Production to the Shopper

Store-level shopper data will also create supply chain efficiencies by determining product allocations based on purchase behaviors. For example, stores with a predominantly price-sensitive customer base will require larger shipments since this consumer segment buys more "on deal."

Larger shipments will reduce out-of-stocks and improve COGS by reducing the number of deliveries. Conversely, stores with shoppers that are less price sensitive should receive fewer deliveries and less shipments to minimize spoilage and returns.

Technology-Enabled Shopping Experience

Now that the shopper is the center of the retail universe, trading partners will collaborate more by developing shared goals and objectives. Each will integrate True Profitability into their decision-making processes. They will also share shopper information in order to drive engagement in-store and online as they work collectively to deliver a seamless shopping experience.

Channel blurring combined with digital commerce led to omnichannel retailing. However, channel boundaries continue to dissipate while in-store shopping continues to fuse with eCommerce. Traditional retailers are becoming click-and-mortar retailers, while pure-play eTailers like Amazon are opening physical stores—giving more proof that the IoE is reshaping retail. Perhaps this transformation, combined with consumer-centric digital communications, will settle the omnichannel debate by referring to today's retail landscape as unichannel. Or better yet... How about we call it "retail?"

To learn more about improving performance using shopper analytics, contact Craig Rosenblum at **craig.rosenblum@willardbishop.com**

MERGERS & ACQUISITIONS

Who's Next?

By Len Lewis

The year 2017 is not likely to be record-setting for merger and acquisition activity in the grocery industry now that mega-mergers like Ahold/Delhaize, Walgreens/Rite Aid and Albertsons/Safeway are complete.

But after five years of consistent – albeit slow – economic recovery, relatively low interest rates and strong availability of capital, the stage is set for another round of consolidations with action centering around robust regional chains and independents who will continue to suffer the most from the e-commerce juggernaut, alternative formats like Aldi and the entry of Lidl, and the need to create niche stores in order to remain competitive.

Looking at the entire M&A ecosystem, surveys by Citizens Commercial Bank found that 53 percent of sellers are involved in or open to making a deal in 2017, up from 34 percent last year.

Additionally, 25 percent of organizations are confident that their company will be acquired this year. This rush to buy is basically due to increased pressure to show revenue growth after several years of not being able to do it organically.

The percentage of potential buyers and sellers was lower prior to the presidential election since little change in the business environment was expected no matter which party came to power.

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◂ *Continued from page 29*

However, the potential of lower capital gains and estate taxes under the new administration, as well as hints of a less restrictive regulatory environment, have led to a post-election rise in equity markets in anticipation of accelerated economic growth – an indication that company valuations have yet to peak, the report said.

Moody's Investors Service believes that because of pent-up demand, continuation of historically low interest rates and growing piles of cash will spark a good year.

According to a recent Moody's survey the vast majority of corporate and private equity respondents projecting that 2017 will mark a rebound in M&A activity.

"Every regional chain that does not have a distinct format and operates conventional stores could be a candidate for a business combination in the next five years," according to David Schoeder, a principal in The Food Partners, Washington-based investment bankers. He deems it unlikely that retailers will look outside grocery retailing for acquisitions.

"Super independents are commonly referred to as Pac-Man because they continue to make acquisitions in adjacent markets to expand their marketing territory."

"There are private companies that have multiple investments, but I don't view this as a core strategy," he said. "If your company has capital constraints, you want to focus on growing your core business to avoid top line erosion and increased operating expenses."

There have been a couple of notable exceptions – both from Walmart.

In August, the company acquired Jet.com for $3 billion in cash and shares. The idea behind this acquisition was to build up and complement Walmart's existing online efforts and position the company for faster e-commerce growth by expanding its customer reach, according to officials.

This was underscored by Walmart's purchase in January of online footwear retailer ShoeBuy for about $70 million, which could further bolster Jet.com's business and relieve some of the pressure being put on Walmart and other retailers by Amazon.

On another front, but just as impactful to retailers, is continued consolidation in the manufacturing sector.

"The major CPG companies have seen a material erosion in the value of their brands as private label penetration increased," Schoeder said. "Driven by Walmart, manufacturers had fundamentally changed attitudes, behaviors, practices of the traditional grocery sector to reduce costs, and maintain their return on invested capital and market share in the U.S.

"Continued consolidation of CPG companies is anticipated primarily to create synergies by eliminating duplication of sales forces and consolidation of food processing facilities," he added.

However, retail industry observers are quick to point out that grocery is only one part of a larger global M&A ecosystem which is also the result of five years of stable growth and the accumulation of massive cash reserves, giving corporate executives the confidence and the means to pursue acquisitions.

Schoeder believes 2016 was a year of transformation for merger activity in the grocery business. More stores traded hands because of large deals like Ahold/Delhaize, Walgreen's purchase of Rite Aid and Supervalu's sale of its discount Save-A-Lot brand.

"There's not a lot more that can be done at the top," he said. "So the next round of consolidation will affect the regional chains. Chains like HEB or Wegmans that have a well-defined identity will continue building on their own rather than growing through mergers or acquisitions."

But there is a new class of "super independents" emerging that are on the prowl for good buys.

"As a rule they have in excess of $500 million in revenue, a quality management team and sufficient cash flow to reinvest in existing stores and fund rapid growth," said Schoeder.

"Not only have they been able to take retail locations discarded by major chains and niche them for specific markets, but they have also been the buyer of choice for smaller independents that have elected to sell their stores over the last 15 years," he said. "That's why super independents are commonly referred to as Pac-Man because they continue to make acquisitions in adjacent markets to expand their marketing territory."

We are also seeing a shortfall in next-generation ownership, indicating that more individual stores and chains may be up for grabs as owners, some of whom may be nearing retirement, take advantage of a strong market to exit the business, Schoeder said.

"A lot of people now in their 60s who got into the business as store managers for companies like Safeway or National Tea are reaching retirement age," he said. "Other than a few alternative formats that have sprung up, how many people are getting into the business to build a company? I only know one guy and he's not happy!"

A number of factors were responsible for driving merger activity last year, said Schoeder.

"The primary reason was the need to achieve economies of scale by eliminating one set of back offices to remain competitive," he said. "Some chains are focused on operational efficiency in order to make the numbers and give investors an adequate return.

On the other end of the spectrum, independents are focused on differentiation by store and customer intimacy in order to get an adequate rate of return.

"I think Albertsons and Safeway are among those that have learned that you have to drive the business on a regional basis and create niche stores," Schoeder said. "Clearly, you can't take every grocery store in the U.S. and make it look like a Safeway. From that standpoint they are doing things right."

Schoeder, along with other industry observers, believes that the Ahold/Delhaize merger was something of a high-water mark.

"This was a particularly good deal that involved minimum divestitures," he said. "And with the exception of some Atlantic states, they now go from Florida to Canada."

Looking ahead, 2017 promises to be active for the entire merger and acquisition community.

in the next 10 years depending on where you operate," Schoeder said. "So in 10 years with inflation, operating expenses will go up and the top line will go down 10 percent. The world is becoming more competitively priced."

Since the industry has pretty much automated everything it can, he expects that e-commerce will drive more consolidation because of the top line impact as well as margin compression.

"Increased operating expenses are fine as long as everyone in the industry is facing the same thing," he said. "But the 10,000-pound gorilla called e-commerce eliminates the need to put products on shelves or run them through cash registers. The question is whether consumers are so time starved they don't care about delivery costs and are willing to pay for the convenience."

But you need population density in order to make an e-commerce solution successful.

"However, companies are taking a more disciplined approach to it. In the past acquisitions were driven by synergies and people wanting to increase their geographic footprint," Schoeder said. "Today, companies are more focused on sustaining sales and enhancing the store."

Consequently, whether companies are in the market for turnaround situations is questionable.

"If they're public yes, if private no," he said. "The jury is still out on whether Kroger's acquisition of Roundy's was a good thing or not. The Pick 'n Save stores in Wisconsin were a turnaround situation. Kroger was enamored with Mariano's, which are lovely stores, but the question is whether they can they make them profitable enough. They are putting their systems and marketing approach in place. I don't think we'll know the outcome for at least 12 to 24 months."

"Over the next 12 to 24 months it is the e-commerce business that will set the tone for acquisition and merger activity for the next five years."

But won't involve the same volume of stores in the grocery industry," he said. "In 2015 the average deal peaked at 71 stores and a total of 4,164 stores traded hands. We'll probably average 40 transactions per year for the next five years."

Schoeder doesn't believe the political climate will have much effect.

"A lot of people in the industry felt their world was coming to an end due to increased regulations, specifically from the Department of Labor," he said. "But there's not much on the regulatory front."

While inflation will be a major factor in accelerated consolidations in 2017 and beyond, the continued rise of online retailing is an overriding issue.

"One of the things that drove 2016 was the acknowledgement that e-commerce will take five to 15 percent of grocery store sales

Unless robotics is used to solve the picking problem it's hard to employ people full time at a distribution center.

"Every grocer in the country has spent a ton of money trying to figure out e-commerce. You have to have it to compete but most have not been successful. Over the next 12 to 24 months it is the e commerce business that will set the tone for acquisition and merger activity for the next five years," he added.

This will be the same for chains and independents with between one and 25 stores, according to Schoeder.

"Some of this activity will be below the radar since there's a lot of one and two store deals being done that never rise to the level of being published," he said.

Despite all the optimism in the marketplace, the criteria for a good acquisition have not fundamentally changed.

Meanwhile, the jury is still out on whether the growth of alternative formats – specifically the entry of Lidl and continued expansion of Aldi – will have a significant impact on industry consolidation.

"My concern is that Lidl could do a lot of damage to markets before they prove or disprove their model works. My understanding is they're not picking 'A' sites and poor site selection was one of Fresh & Easy's problems," Schoeder said. "For the most part they're putting stores in urban markets primarily dominated by chains. That strategy is not going to drive merger activity."

Schoeder added that health and wellness trend is also going to drive consolidation.

"Aldi got the memo," he said. "But those operating conventional groceries without that twist are becoming less relevant at an accelerated pace. They're prime candidates for consolidation." ▪

DEBORAH WEINSWIG

MANAGING DIRECTOR
FUNG GLOBAL RETAIL AND TECHNOLOGY

BY LEN LEWIS

Deborah Weinswig is Managing Director of Fung Global Retail and Technology who travels extensively and is considered one of the top analysts in the field of retail innovation and technology. We caught up with her between flights to talk about everything retail.

NJG: There's a lot of talk about the customer experience in retail. For someone who works with all retail segments, What does this mean to you?

Weinswig: "There's been a lot of focus on the in-store experience, but it's more relevant in discretionary sectors like apparel and beauty than a nondiscretionary sector like grocery. Retailers must be judged on the overall 'experience.' That can mean anything from getting an online order quickly and conveniently to walking out of a discounter knowing you got the best price."

What do you think it means for supermarkets?

"I think the in-store experience comes behind fundamentals such as proximity, product availability, choice and especially price, in terms of shoppers' priorities. If store experience was highly important, Whole Foods Market would be flying; instead, it is faltering and no-frills discounters are growing."

If we're looking for lessons from non-grocery retailers, who typifies the best in-store experience?

"Apparel and beauty are the sectors where in-store experience is most important. It can build a brand image and provide the tangible experience that inspires discretionary spending. In mass market apparel, some retailers consistently outrank many of their peers."

Can these experiences help battle online sales?

"It depends on the quality of the experience. And the 'experience' doesn't suit all shopping missions. It's mainly relevant in the discretionary sectors, where consumers are choosing to shop – not having to shop. Basically, we're going to see three types of shopping to complement e-commerce."

> **"APPAREL AND BEAUTY ARE THE SECTORS WHERE IN-STORE EXPERIENCE IS MOST IMPORTANT."**

Who's in that group?

"H&M, Zara and Uniqlo offer consistent, quality store environments, even if the shopping experience isn't exceptional. Their standards and merchandising often overshadow those of some legacy players in apparel.

"Primark has great flagship stores in the budget segment, with elements like digital signage, great merchandising and conveniences such as phone-charging areas. Since Primark doesn't advertise, the stores serve a marketing function. When it comes to apparel retailers, Urban Outfitters and Anthropologie really stand out in building a retail brand."

What about the beauty segment?

"International players such as Sephora, Lush and Kiko successfully combine a premium experience with mass-market price points."

"First, are the convenience shoppers who make distress purchases of goods needed quickly, often at stores close to home. The experience will be less important to them. Then there are collection shoppers who go to stores to pick up online purchases. It's the destination or leisure shoppers who make trips to those stores that they like to visit rather than have to visit. This is where in-store experience will be key."

Should there be better integration of brick and click strategies?

"Most big retailers appear to be doing the right things. Walmart and Kroger are integrating online and stores at a lower cost than home delivery. Target's smaller stores complement e-commerce with edited collections and in-store pickup. Macy's and others are using RFID to get a full view of inventory across stores and distribution centers."

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Is it enough?

"For some of them, it's not. Some generalists have problems with theirs overall retail proposition and positioning in an age of near-unlimited choice, more specialized stores, coupled with ever more diverse consumers. An omnichannel offering is no panacea if your overall brand appeal is diminishing."

Robotics is a hot button but how relevant is it and are there hard benefits to any of it at this point?

"There are a number of interesting examples. Auchan in France will trial robots that follow customers in stores, and carry and check out groceries. Walmart has patented a system of self-driving shopping carts that scan, retrieve and deliver products, as well as check inventory.

"INVESTMENT IN INVENTORY AND LOGISTICS IS ESSENTIAL FOR DIGITAL RETAILING."

"Just Eat, an online food ordering service in the UK is using self-driving robots to deliver food orders. But near term, robotics that push up productivity and help deliver omnichannel services are the most promising."

Where does technology fit in?

"VR, AI and AR offer some promise to retailers further ahead. Near term, we see several pockets of opportunity. Technology that drives productivity such as self-scan, self-checkouts and automated collection points is appealing in a rising-wage environment. Automated distribution centers such as the one deployed by Hudson's Bay Co., and RFID enable buy-and-collect or reserve-and-collect strategies."

Should we focus tech expenditures on improving the supply chain?

"Investment in inventory and logistics is essential for digital retailing. RFID gives retailers visibility of inventory that enables pooling inventory across stores and distribution centers. It also underpins services such as buy-and-collect and reserve-and-collect.

"Logistics investments equip distribution centers for e-commerce and our research has looked at how much time digitalization of the whole supply chain can cut off the apparel supply chain. A traditional apparel supply chain takes about 40 weeks from design to sales. Digitalization has the potential to reduce that by 48 percent. That means digitalization could cut up to 19 weeks off the process, allowing apparel retailers to respond more promptly to changes in consumer preference."

With the growth of online sales, will we see more small format stores and how will this impact mall development?

"Smaller stores serve convenience and collection. There's still space for large, flagship stores as destinations for leisure shoppers. But we are likely to see fewer large stores overall, and some malls may see their anchor tenants close. High-end malls are doing well. However, at least 30 percent of U.S. malls, or more than 350 of them, mostly within the C and D classifications, need to be closed.

"Department store and specialty store operator are likely to close more stores in 2017 than they have in the past, and the bulk of the closures will be mall locations. We predict there could be several hundred department store closures in 2017, and that a number of retailers could file for bankruptcy, which would result in even more store closures. For example, most of the department stores like Macy's, as well as Banana Republic and Gap, will continue to close less profitable locations."

You travel extensively, what do you think are some of the more interesting formats you've seen lately?

"Amazon Go is among them. It's not going to prompt a revolution in the near term but I'm excited to see how it will pan out. We're waiting for the first U.S. Lidl stores to open. At around 36,000 square feet they will be much bigger than European stores and it will be interesting to see how they use that extra space."

How about internationally?

"In London there's a store called Missguided. It's the first physical store for this UK fashion pure play and one with real spectacle to appeal to young-fashion shoppers. Also in London is Estée Lauder's Estée Edit. It was designed for millennials by bringing together tech and experiences. It includes a selfie wall, a video wall showing user-generated content and a range of beauty services."

We've seen some pure play online companies move toward physical stores. Will this continue?

"It can be especially valuable for single-brand pure plays such as Bonobos and Warby Parker. These operators are brands as much as they are retailers, so opening physical stores is about bringing their brands to alternative distribution channels. At the same time, we think the pure play segment will remain very strong and there's little urgency for most online retailers to open stores." ▪

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