

Grocery Deep Dive

May 2022: Growth Opportunities Amidst Rising Prices and Shifting Preferences



The grocery sector displayed incredible resilience to the pandemic. As Covid-19 began, panic buying and uncertainty about the future – along with grocery’s designation as essential business – caused foot traffic to rise right as other retail sectors were shutting down. Even after the re-openings began, many would-be restaurant goers stayed home and prepared their own meals. According to a recent [poll](#) we conducted, 57.8% of

respondents have taken up cooking as a new hobby since the start of the pandemic – which further contributed to an unprecedented grocery store visit boom.

But while most leading and regional grocery players managed to survive, and even thrive despite the global pandemic, more recent challenges – including labor shortages, inflation, and supply chain issues – are proving tougher to weather. Still, even under the current conditions, several grocery chains have succeeded in implementing winning strategies and finding innovative ways to make the most of their store fleet.

This report dives into the US grocery space from a location analytics perspective. Using foot traffic and consumer behavior data, we took a closer look at the grocery sector as a whole and dove into the performance of leading players. Our analysis shows how grocery is performing relative to superstores, explains how inflation has affected the sector, identifies brands that are thriving, and reveals how grocery companies are adapting their strategies to shifting consumer preferences.

We also provide a glimpse of new innovation in the space that is helping grocery retailers use their brick and mortar stores to generate revenue in a revolutionary way. Keep reading to find out how the grocery sector has fared in 2022 so far and what lies ahead for the space.

Overview

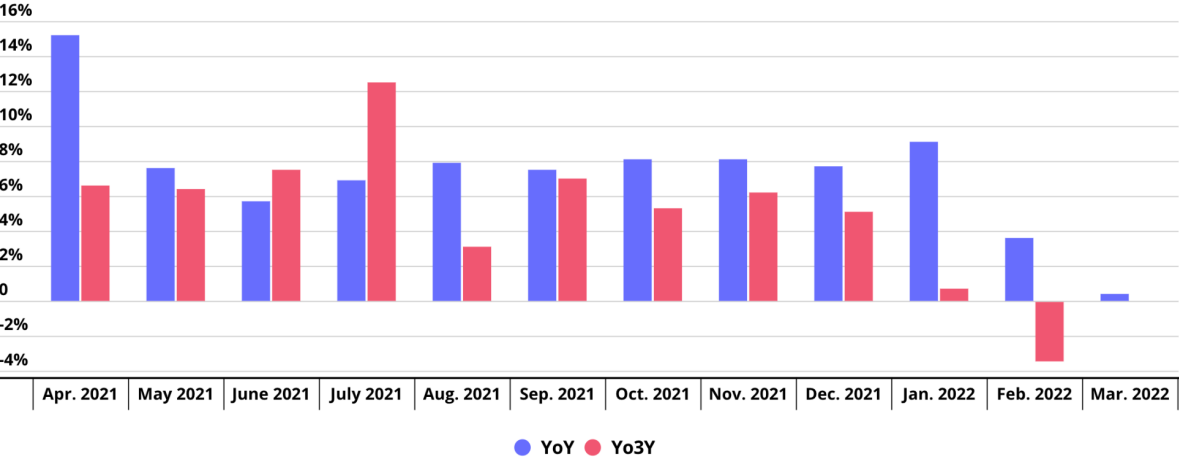
2021 Grocery Boom Followed by a Difficult First Quarter in 2022

The grocery sector is widely considered one of the most resilient retail segments since the onset of the pandemic, and the strength continued in 2021. Year-over-year (YoY) and year-over-three-year (Yo3Y) foot traffic remained strong throughout much of last year, with Yo3Y performance peaking in July 2021 at 12.5%. The industry capitalized on its pandemic success by expanding, with a [reported](#) 200% increase in new grocery store leases in 2021 as compared to the number of new leases in 2019.

But the impressive two-year streak that buoyed the industry seems to be waning. Like for many other sectors, Yo3Y grocery visits have decreased in recent months. While some of the drop can be attributed to the rise of the Omicron variant, the main culprit seems to be

inflation. February 2022 brought on the highest rate of inflation recorded in the United States in the past 40 years, with the [consumer price index rising 7.9%](#) in just one year. That same month also saw the first Yo3Y drop in monthly visits after 10 straight months of rising visits.

Visits to the Grocery Sector - YoY and Yo3Y Comparisons



[Rising gas prices](#) are also having an impact. Albertsons, a large supermarket chain, [reported](#) that higher prices at the pump are affecting how consumers shop. The grocer noticed that customers are now beginning to return to mission-driven shopping habits of making fewer grocery trips while filling bigger baskets during each visit – likely in an effort to cut down on driving.

Should current trends continue, the rise in retail gas prices may well continue to weigh on grocery traffic – particularly on retailers that have greater exposure to lower-income consumers where gas makes up a higher percentage of household budgets. However, the return of mission-driven shopping patterns could help offset these challenges with larger basket sizes.

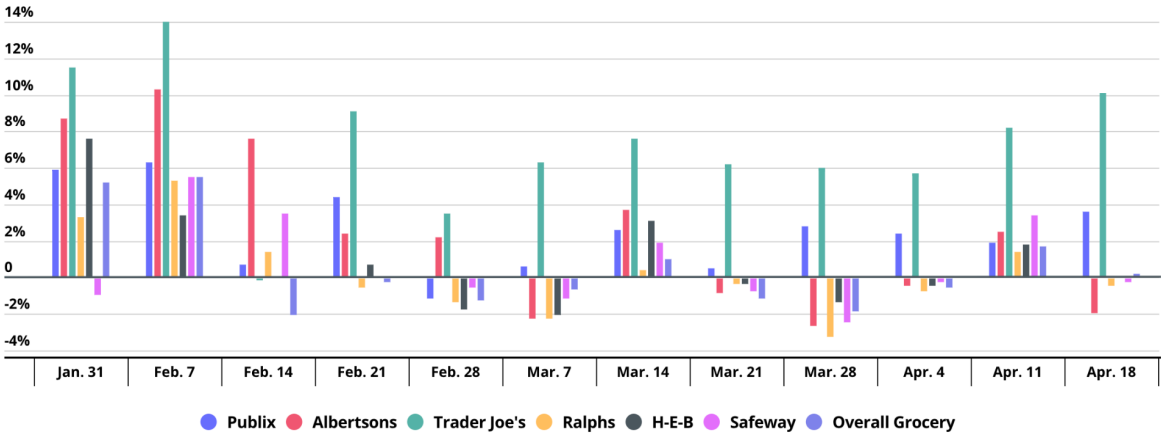
Mid April Rebound

Despite all the challenges, recent foot traffic data shows that grocery visits are already beginning to rebound. Following a difficult couple of weeks, all grocery chains analyzed saw

visits more or less match or exceed 2019 levels for the week of April 4th 2022, and grow relative to the equivalent week pre-pandemic for the week of April 11th 2019. And while grocery visits may not see a growth streak any time soon, foot traffic remained at 2019 levels the following week as well (the week of April 18th 2022).

This may indicate that consumers are beginning to come to terms with the current economic situation, and are no longer waiting for gas prices to fall or inflation rates to stabilize before taking their next trip to the store. It marks the latest sign of the unique power of grocery, even in the face of a seemingly endless wave of challenges.

Weekly Visits to Grocery Chains – Year-Over-Three-Year Comparison



Grocery vs. Superstores

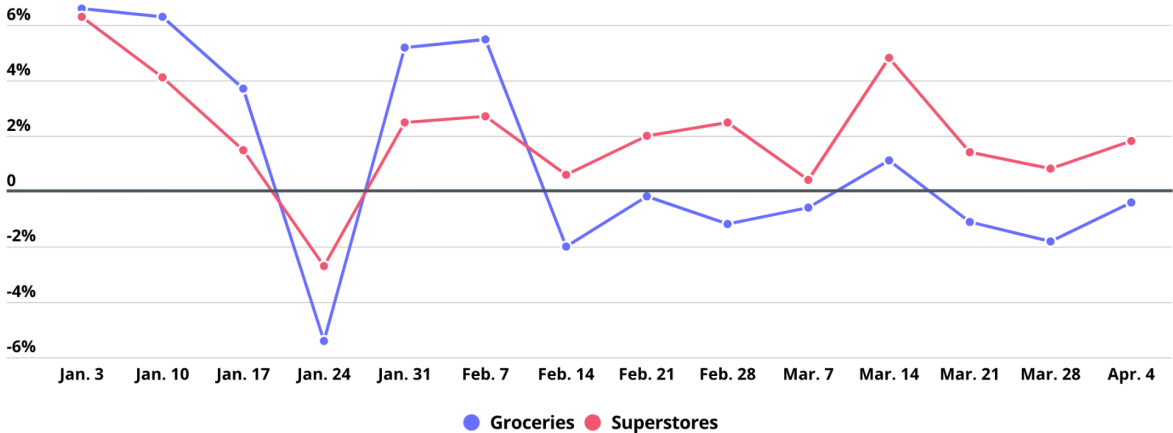
The rise in gas prices may also explain superstores’ recent success. Superstores such as Walmart and Costco [supply](#) a large share of the groceries bought in the US, and it appears that their contribution to household grocery shopping is growing even greater.

[Our previous analysis](#) of superstores showed that superstore and grocery visits tended to follow similar patterns – as visits to grocery stores increased from January to October 2021, so did visits to superstores. But last year, while grocery and superstore traffic rose and fell in tandem, grocery visit growth still outpaced superstores. In other words, when Yo2Y grocery and superstore visits increased, the rise in grocery visits was slightly greater than

the rise in superstore visits; and when traffic fell, grocery's visit gap was slightly smaller than it was for superstores.

Now, Q1 2022 is bringing a shift to that trend – since mid-February, Yo3Y superstore visits are outpacing grocery. While many factors may drive such a change, it could be that consumers are trying to consolidate their trips to save on the price of gas. Other customers may be taking advantage of the bulk offerings at some superstores as a possible way to save on grocery costs in a period of greater economic uncertainty, or to combine other shopping trips for items ranging from home goods to apparel.

Weekly Visits to the Grocery and Superstore Sectors - Yo3Y Comparison



How is Inflation Affecting Grocery Shopping?

It is estimated that US households are now spending as much as [\\$300 more each month](#) for their household needs compared to last year, and these price increases are occurring in [grocery stores](#) as well. More moderate inflation rates may encourage consumers to buy in bulk and consolidate their trips, potentially leading consumers to favor superstores over grocery stores.

Beyond a certain threshold, however, inflation rates may mean that consumers simply can't afford to pay for the larger baskets or wider array of goods they would buy at superstores, pushing consumers back to grocery stores.

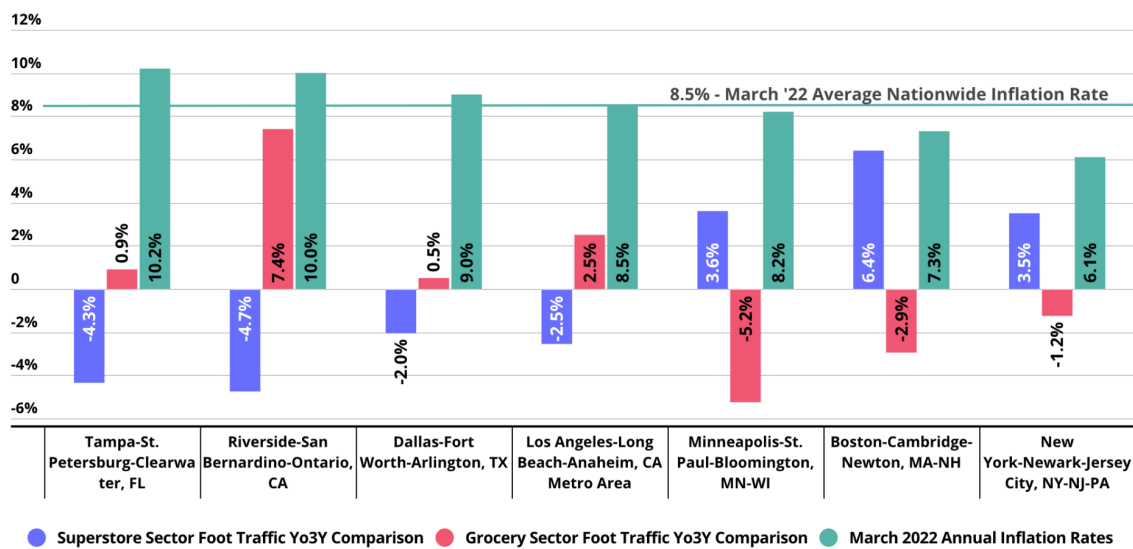
Higher Inflation Rates Affecting Consumers' Ability to Shop in Bulk

This theory is supported by foot traffic data. According to our findings, in areas where the local inflation was below the national inflation rate, superstore visits increased while grocery visits decreased. But when the local inflation rate was at or above the national rate, superstore visits fell and grocery visits rose.

In March 2022 the Riverside-San Bernardino-Ontario, CA [CBSA](#) had one of the nation's highest inflation rates in the country, with an inflation increase of 10.0% relative to March 2021 – 1.5% more than the national rate of 8.5%. That same month, local Yo3Y grocery foot traffic was up by nearly 7.4%, while superstore foot traffic was down by 4.7%. Inversely, the New York-Newark-Jersey City, NY-NJ-PA CBSA – with its March YoY inflation rate of 6.1% (2.4 points below the national average) – saw Yo3Y grocery visits drop by 1.2% while superstore visits jumped by 3.5%.

Inflation Rate and Superstore and Grocery Visits

March 2022 Inflation Rates and Yo3Y Superstore and Grocery Visits across Regions (CBSAs)



Discount Grocery Stores Seizing the Opportunity

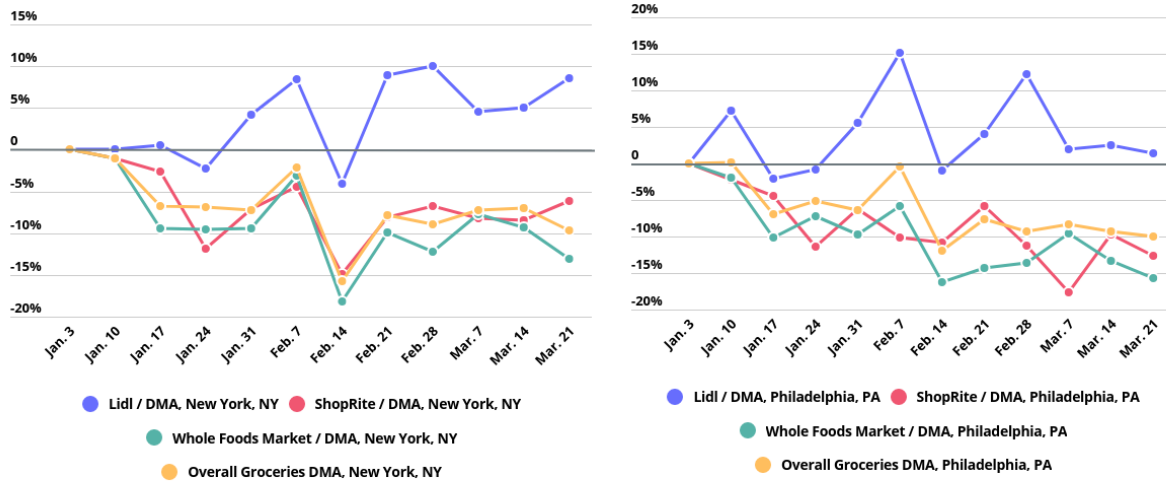
As prices on local grocery shelves [continue to rise](#), shoppers are considering new ways to cut down on costs; luxuries are taking a backseat and budget-focused chains are well positioned to benefit. Two German discount grocery brands, Lidl and Aldi, have recently [stepped up their US expansion](#), and their timing could not be better. With shoppers increasingly looking to save on their grocery bill, it looks like these brands' larger physical footprint is already having an impact on several regional grocery markets.

Lidl's Expansion Into the US Market

[Lidl](#), a German grocery store that began [its US expansion in 2017](#) and boasts more than 11,000 locations across Europe and the US, currently operates around [170 locations](#) nationwide. While the grocery sector has shown an overall dip in foot traffic, Lidl visits are rising – likely due to a combination of low prices and increased store fleet. The presence of its stores is already impacting competitors, with certain neighboring brands [adjusting their pricing](#) to stay competitive with newly opened Lidl stores.

We looked at two Designated Market Areas ([DMAs](#)) – New York, NY (including all five boroughs and Long Island) and Philadelphia, PA – and compared Lidl visits with overall grocery foot traffic and with visits to two of its competitors, ShopRite and Whole Foods. Using January 3rd, 2022, as a baseline, we saw that Lidl outperformed both the other two chains and overall grocery foot traffic every week.

Comparing Lidl Weekly Visits to ShopRite and Whole Foods Market Locations in New York, NY and Philadelphia, PA DMAs
Weekly Visits - Compared to Week of January 3rd Baseline

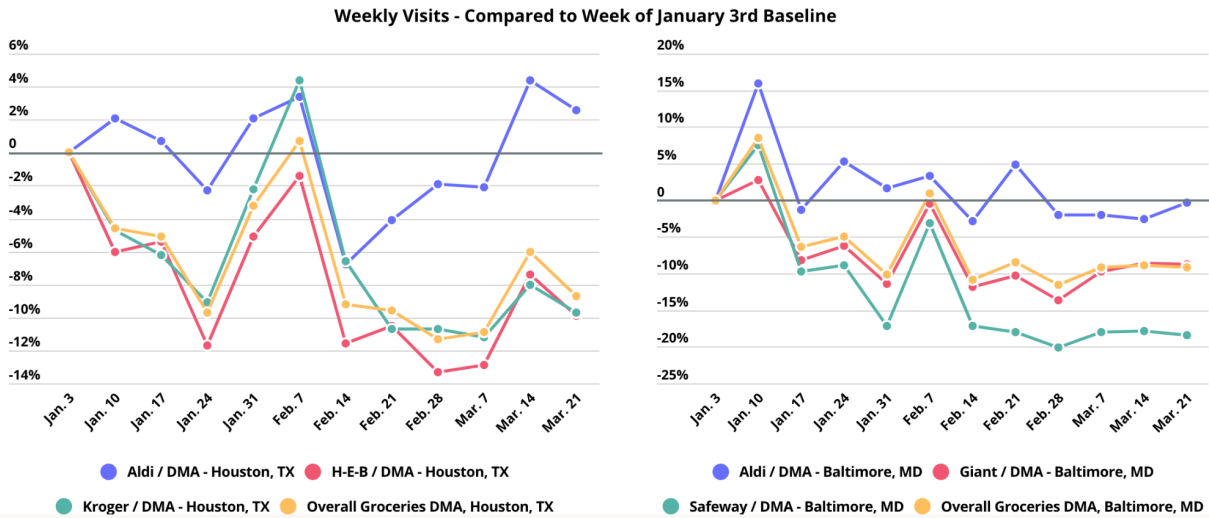


Aldi's Efficiency Driving Down Grocery Costs

Another low-cost German grocer now operating in the US is Aldi, which focuses on operating [as efficiently as possible](#) by cutting overhead costs and favoring generic and private label brands. Aldi's low prices have allowed the brand to cultivate a growing following, and the chain is [expanding rapidly](#) with the goal of operating 2,500 stores in the US by the end of 2022.

Aldi's foot traffic numbers further deepen the idea that consumers are now on the hunt for lower prices. A Q1 2022 comparison of Aldi stores in Houston, TX, and Baltimore, MD, to other top grocery chains in the DMA (including H-E-B and Kroger as well as overall grocery foot traffic) showed that Aldi consistently outperformed both its competitors and the local grocery sector. While much of the foot traffic increase is likely due to the growth in US stores, Aldi's famously low prices likely also play a role in attracting high visit volumes.

Comparing Aldi Weekly Visits to Grocery Stores in Houston, TX and Baltimore, MD DMAs



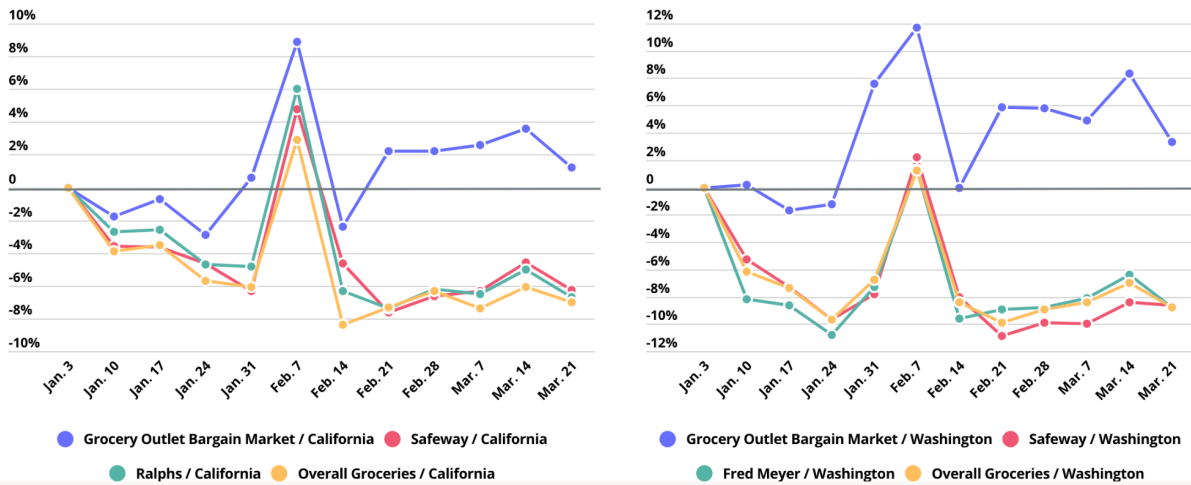
Rise of the Smaller Discounted Grocery Store

Grocery Outlet Bargain Market

Moving on to high-performing domestic grocery chains, we took a look at Grocery Outlet Bargain Market. Originally a [military surplus store](#), this West Coast based chain still gets most of its products through [“opportunistic buying”](#) – working with brands that have excess inventory, seasonal closeouts, or whose packaging changes force them to offload inventory. Recently, the chain began expanding to the [East Coast](#).

The stores are all independently owned and family operated, which means that no two locations will have the same product selection. This makes it an enticing stop for the budget-conscious consumer with a willingness to try new brands, and the method seems to be working. Comparing Grocery Outlet Bargain Market’s foot traffic in California and Washington to visits to similar stores in those states showed Grocery Outlet performing better than many counterparts every week of Q1 2022.

Comparing Grocery Outlet Bargain Market in California and Washington to Other State Grocery Stores
 Weekly Visits - Compared to Week of January 3rd Baseline



With the rise of bargain grocery brands showing no sign of slowing down, the players within this sub-segment could enjoy a unique opportunity for the coming months.

Answering the Demand for Prepared Food

Grocery stores have long offered prepared foods such as rotisserie chickens and assortments of baked goods. Recently, this trend has picked up steam, and grocery stores and restaurateurs have begun partnering to offer higher quality prepared meals. The rise of ghost kitchens affiliated with grocery stores is another aspect of the increasing prevalence of [omnichannel dining](#).

Ghost kitchens have been on the rise in the dining space as a way for restaurants to manage the increase in post-pandemic demand for food delivery and reduced demand for in-house dining. Now, ghost kitchens are [coming to grocery stores](#) as well and helping grocers offer their customers a much wider selection of prepared meals than in the past.

We took a closer look at foot traffic patterns to grocery stores with newly integrated ghost kitchens to see whether better prepared meals were leading to an increase in visits.

Kroger's ClusterTruck

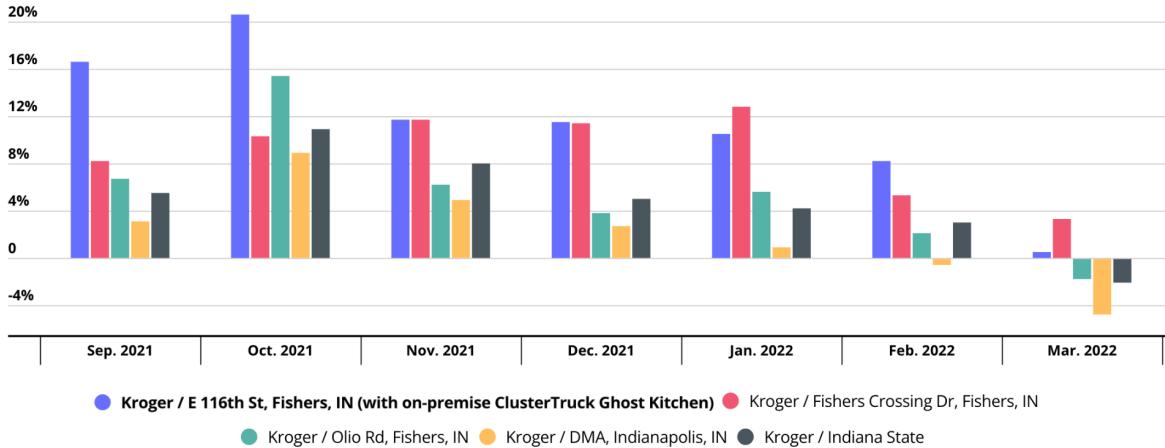
In October 2020, [Kroger launched](#) two on-premise ghost kitchens with food startup ClusterTruck that specializes in operating deliver-only kitchens. These kitchens repurpose about 1,000 square feet of space at each store to create an area for ClusterTruck staff to prepare meals for quick delivery and in-store pickup.

We looked at these two Kroger stores – near Indianapolis, IN, and in Metro Columbus, OH – to see how their foot traffic patterns compared to visits to nearby Kroger stores. We also analyzed the performance of these Kroger + ghost kitchen locations against Krogers’ performance in the larger DMAs and states in which these stores operate. In both cases, the Kroger stores with on-premise ghost kitchens outperformed the control groups.

Kroger-ClusterTruck Partnership in Fishers, IN

In October 2021, the Kroger store located on W 116th St. in Fishers, IN (shown in purple in the graph below) saw its Yo3Y foot traffic up by 20.6%. The Kroger featuring a ClusterTruck location has consistently trended above the Yo3Y baseline and has nearly always outperformed its neighboring stores.

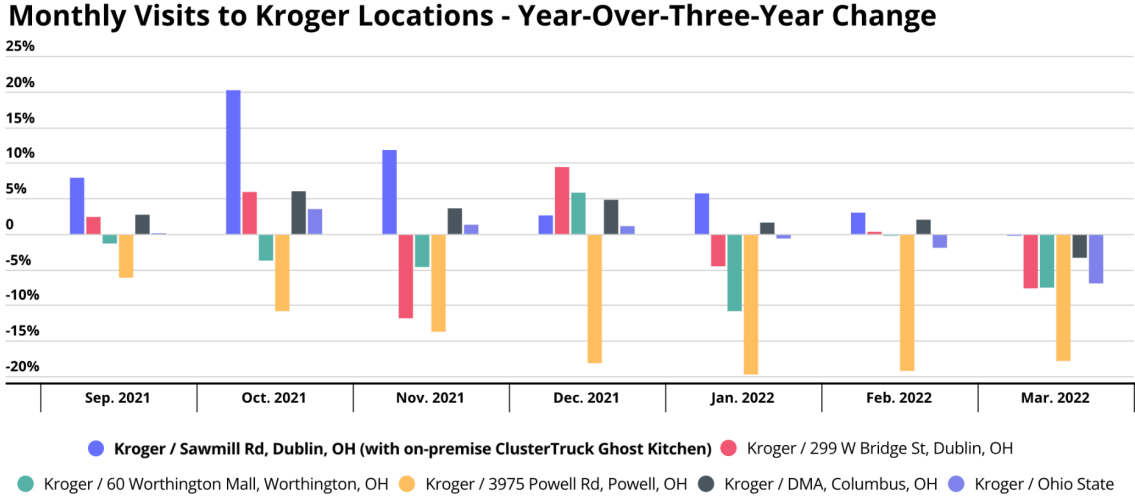
Monthly Visits to Kroger Locations - Year-Over-Three-Year Change



Ohio Kroger Ghost Kitchen Success

Similarly, October 2021 visits to the second Kroger-ClusterTruck location in Dublin, Ohio, were up by 20.2% Yo3Y. This growth is even more impressive given that the Yo3Y increase

visits to both neighboring Kroger stores without ghost kitchens and to overall Kroger locations in the Columbus DMA and Ohio State stayed below 6%. And while a March slowdown was seen in all locations, the Kroger with the ghost kitchen continued outperforming the control groups.



Branching Out West

In January 2022, Kroger announced a new partnership with food tech startup Kitchen United MIX with the goal of opening several additional ghost kitchens in its grocery stores. Kitchen United MIX allows diners to order from several different restaurants – all under one bill and charging one delivery fee. This allows customers to build their meal from several restaurants at a time.

The first Kroger-Kitchen United MIX location opened in a Ralphs store in Los Angeles in [January 2022](#) (Kroger also owns the popular Ralph’s grocery chain.) The second Kitchen United MIX ghost kitchen was opened in a Houston Kroger store soon after, in [February 2022](#). Customers can order using the Kitchen United MIX platform or app, or alternatively, order in the store using an automated kiosk.

Unlike the ClusterTruck locations, which creates stand-alone products – ranging from salads to Cuban sandwiches – under a single unified brand, the Kitchen United MIX location

serves up offerings from multiple restaurants, including Wild Rice Asian Kitchen, Dog Haus, and Fresh Brothers.

Grocery Retail as a Media Network

The idea of a company earning money from targeted advertising isn't new – we're all used to e-commerce sites such as Amazon hosting ads and turning a profit from them. But recently, this trend has begun migrating from online to the brick-and-mortar space, and offline retailers are revolutionizing the concept of advertising and media with the emerging practice of retail marketing.

Retail marketing aims to market to consumers at or near their point of purchase – while the consumers are choosing between competing products or brands. Retail marketing can take the form of in-store or digital ads, product sampling, or loyalty programs that distribute promotional coupons and vouchers. Companies that engage in retail marketing can generate revenue both by selling advertising space to third parties, and by improving their own marketing efforts through first-party data on their customers.

Grocery brands, with their extended store fleet, frequent visits, and diverse customer base seem perfectly positioned to reap the benefits of retail marketing. Albertsons and Kroger have recently taken the plunge and are two of the first grocers in the country to test the waters of retail marketing. We took a look at Albertsons' reach to understand the potential of this new and exciting opportunity.

Albertsons Takes Its Marketing In-House

In November 2021, Albertsons, which also owns the grocery brand Safeway, [launched](#) its own retail media network named Albertsons Media Collective. The [goal](#) of the network is to develop digital ads and other branded content for consumer packaged goods (CPG) companies. As part of its launch of an in-house media network, Albertsons ended its previous partnership with [media firm Quotient](#); the grocer is now set to have complete control and reap the full profits of its advertising potential.

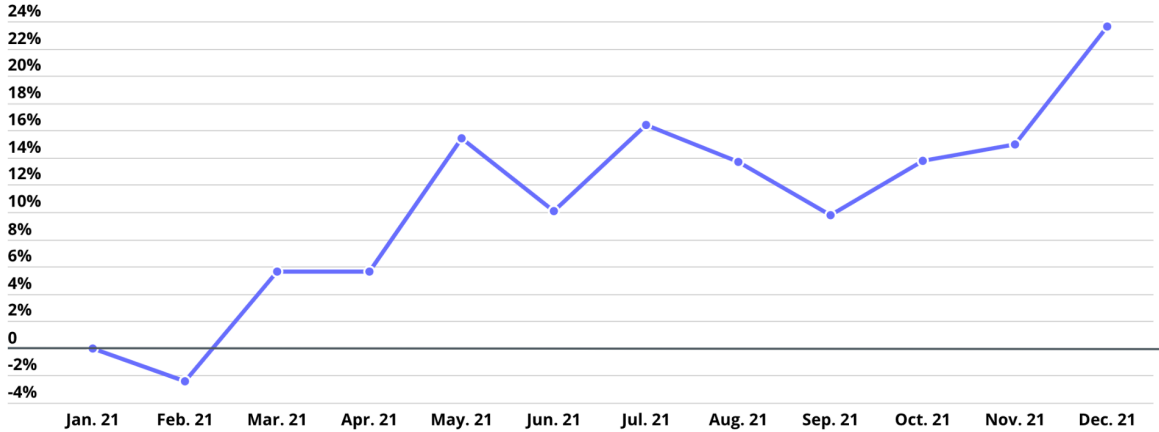
Recently, in addition to [growing the membership](#) to its just for U loyalty program, Albertsons has also focused on increasing online shopping through initiatives such as [video shorts](#) highlighting its products and a [partnership with Pinterest](#) that allows shoppers to

add ingredients to their cart directly from a recipe pin. These efforts should extend Albertsons' reach even further beyond its vast network of brick and mortar grocery stores.

Albertsons will be competing for CPG spending with numerous companies that have their own media networks. This includes [Kroger](#), another national grocery chain trying its hand at retail marketing. The already substantial market is only expected to keep growing, with 81% of CPG brands [planning to boost their investment](#) in retail media over the next year. Meanwhile, digital research firm Forrester predicts that retail media sales will [reach \\$50 billion globally](#), as soon as next year as advertising that relies on first-party data becomes "mission-critical" for marketers.

The growth in Albertsons visits underscores the exposure potential of the company's new media network. Comparing each month in 2021 to a January 2021 baseline shows an exponential growth pattern with 23.6% more visits in December 2021 than in January of the same year. This means not only an increase in actual visits, but also a 23.6% increase in the number of views and impressions to Albertson's new media network.

Monthly Visits to Albertsons - Compared to January '21 Baseline

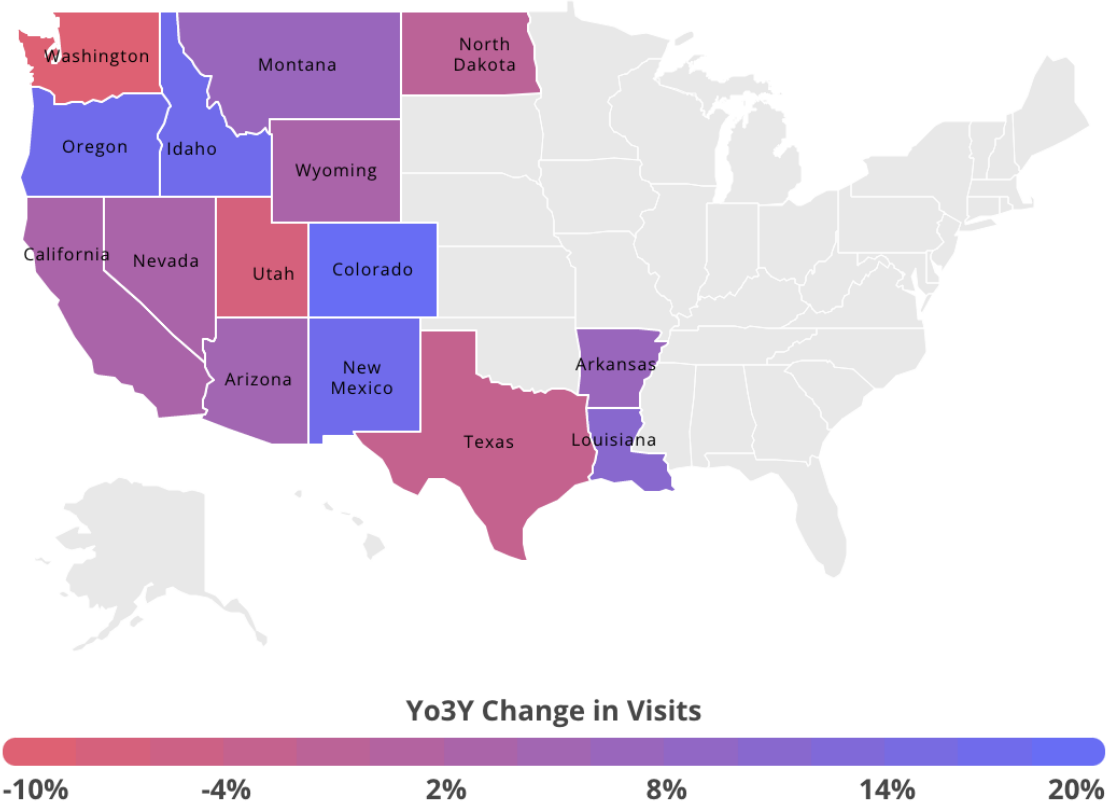


Understanding Local Media Retail Performance

To decide how to allocate investment in the media network regionally, Albertsons needs to assess its reach in its region - and the company can assess current and potential reach by looking at regional traffic patterns. For example, visits to Albertsons in Colorado have grown nearly 20% (19.7%) in Q1 2022 in comparison to Q1 2019, while visits to Albertsons in

Washington State in that same time period decreased by 12.6%. This means that Albertsons stores have greater exposure potential in Colorado than in Washington, so perhaps the price for a local retailer or CPG company to advertise in Colorado should be more expensive than that to advertise in Washington. The same logic can be applied to an even deeper regional drill-down: by cities, counties, and ZIP codes.

Visits to Albertsons - Q1 2022 Compared to Q1 2019



Appealing to Local Consumer Interests

Whereas in the past, online advertising allowed for significantly more granular targeting, today's technologies also enable brick and mortar retail advertisers to characterize their audience fairly precisely. Using [GeoWeb](#) data on the Placer.ai platform, we took a look at search categories from the trade areas of top performing Albertsons locations to identify differences in consumer interests between various parts of the country. In the graph below, any search category with an index score over 100 indicates an above-national-average

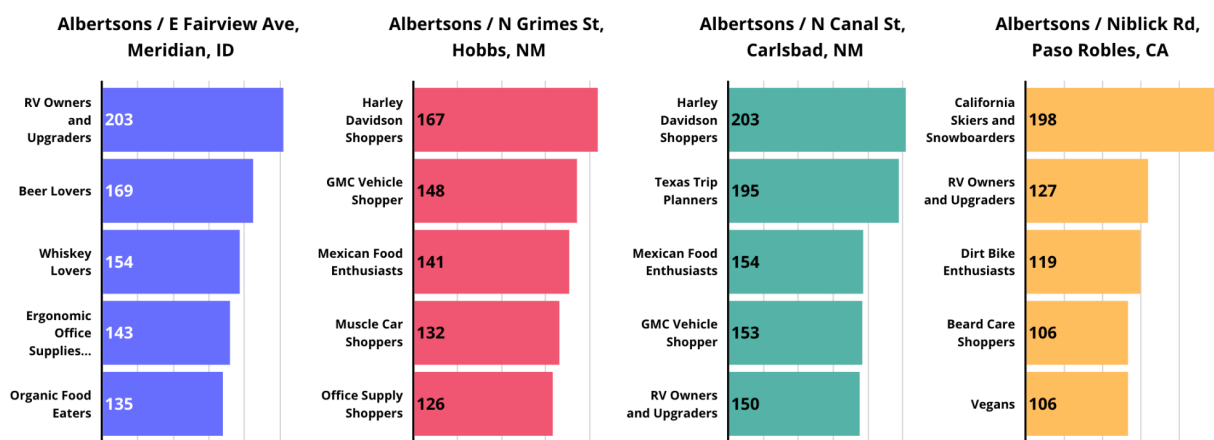
interest – which means that CPG or other companies catering to these interests would do well to advertise in those specific Albertsons locations.

For example, different locations have different automotive interests. Both top locations in New Mexico had high web search indexes for Harley Davidson Shoppers, with the Hobbs location index at 167 for Harley Davidson, and the Carlsbad location’s index at 203 – unsurprising given how strong the motorcycle culture is in the region. Meanwhile, the top Albertsons locations in Idaho and California saw higher than average searches of RV Owners and Upgraders, with the Meridian, ID location seeing an index of 203 and the Paso Robles, CA, seeing 127.

Similar to cars, food interests also vary by geographical region. The Meridian, ID location has a high index for both beer and whiskey lovers, with indexes of 169 and 154, respectively. Customers to the top performing New Mexico location are Mexican food enthusiasts, with the Hobbs, NM locations having an index of 141 and the Carlsbad, NM location seeing an index of 154.

And fitting neatly into California stereotypes, Albertsons shoppers in Paso Robles, CA showed an interest in veganism, with an index of 106 above average. Companies that wish to partner with Albertsons and use its nascent media network to advertise their wares can use information such as the data above to calibrate their marketing investment.

Web Searches: National Index at Top Performing Albertsons Locations



Conclusion

Between inflation spikes, ongoing supply chain issues, and a slew of labor shortages, the grocery sector has faced a challenging year to date, and the performance of grocery stores compared to that of superstores has been influenced by shifting consumer trends. Many shoppers are looking to consolidate trips and buy in bulk to save money during these economically uncertain times, although in areas particularly hard-hit by inflation, bigger baskets are not always an option and grocery visits have outpaced superstore visits.

Still, there are several bright spots – value-priced grocery stores are doing particularly well. And several innovations are changing the grocery landscape. Grocery chains are getting creative in the ways they appeal to their customers by expanding in-store offerings through the use of ghost kitchens and adapting pricing strategies to meet those of discount-driven competitors. And, the rise of retail media may well open significant new revenue channels for grocery chains across the country.

Looking ahead, it will be worthwhile to keep an eye on how ongoing events and inflation continue to influence consumer patterns. But if the past two years are any indication, there is every reason to believe that the grocery sector will once again find its way to stay ahead of the curve and on top of the retail space.

Key Takeaways

- 1. Q1 has been difficult, but April visits are already beginning to rebound.** The industry once seemed nearly bulletproof to all challenges brought on by Covid-19. But in late Q1, inflation, supply chain issues, and gas price increases left their mark on grocery visits. However, beginning in April, Yo3Y visits began to rise again, indicating that consumers are increasingly adapting to the current economic climate.
- 2. Nationally, superstores are pulling ahead of grocery stores in terms of visit shares – but the trend is reversed in areas with high, local inflation.** In 2021, grocery visit growth slightly overperformed relative to superstores. Now, on a national level, superstores are starting to pull ahead. But in areas with particularly

high inflation, shoppers are sticking with grocery stores, perhaps because the high inflation is making it more difficult to afford superstores' larger baskets.

- 3. The time is right for discount grocery brands' expansion.** Two German discount grocers, Aldi and Lidl, have been expanding aggressively and are quickly becoming household names, and domestic low-cost grocery brand Grocery Outlet Bargain Market is growing as well. These brands have picked an opportune time for their expansion – as prices keep on increasing, more shoppers will likely choose to visit their stores. These brands' business models may affect more traditional grocery stores that might need to lower their own prices to stay competitive.
- 4. The rise of the ghost kitchen.** The grocery sector is capitalizing on the popularity of food delivery and perhaps on the fact that consumers may have developed more [adventurous palates](#) during the pandemic by introducing ghost kitchens to grocery stores. Foot traffic data shows that locations with ghost kitchens are seeing increases in foot traffic compared to their counterparts in similar areas without ghost kitchens, with up to 20.6% more visits.
- 5. Retail media revs its engines.** The idea that a brick-and-mortar store can launch a media company similar to ones on e-commerce sites is not just new, it's revolutionary. The ability to tap into first-party data collected via rewards programs allows retailers to tailor their advertising specifically to the customer, region, and interest, and sell advertising space to third parties such as CPG companies.