



THE CASE OF THE

Disappearing Grocery Store Profit Margin & What You Can Do About It

CASE FILE

To crack this one, let's start by reviewing the basics.

WHO'S AFFECTED?

Grocers of all shapes and sizes are watching their profit margins all but disappear —

The big guys across the world, like:



European-born discounters, like:



Niche players, like:



Regional independents, like:



WHAT ARE TYPICAL PROFIT MARGINS?

They vary by type of grocer. For example —

1%

for independent
grocers

2%

for conventional
grocers

5-10%

for natural, organic, &
gourmet niche grocers

WHY ARE MARGINS SHRINKING?

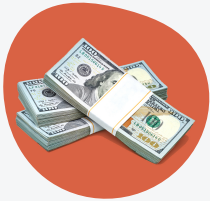


Grocery profit margins were thin to begin with and the last few years have accelerated this. The contributing factors are —



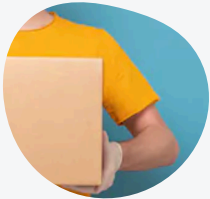
Intense competition

Most grocers sell the same products. Because competitors are undifferentiated, they have to compete on price. Walmart, Amazon, dollar stores, and big box stores have heated things up.



High fixed costs

Each store requires large cash reserves and incurs tons of overhead related to lighting, refrigeration, rent, insurance, and other utilities. Utilities alone cost as much as \$4 per sq. foot each year. For a 40,000 square foot store, that's over \$13,000 each month per location. Last, but not least, there are high labor costs.



Delivery

Covid accelerated the demand for grocery delivery, and U.S. online grocery sales will surge about 40 percent in 2020, compared to 22 percent the year before. But, delivery is more expensive and less profitable for grocers than traditional brick-and-mortar.



Shrink

Theft, markdowns, spoilage, and human error are all part and parcel of the grocery business. For grocers, the shrink rate is 3.6 percent on average in 2015, more than double the rate for other retailers, which is 1.4 percent.



Out-of-stocks

Before Covid, grocers lost an amount equivalent to 10% of annual sales because of supplier delays. Considering how pervasive stock outages are in the pandemic, that number may be much higher today.



HOW CAN GROCERS BULK UP THEIR MARGINS?



Expand your own-label offerings

Bring manufacturing in-house to capitalize on economies of scale. During the pandemic, Oracle found that 82 percent of global grocery shoppers reported trying private-label or store-owned brands, along with 62 percent of shoppers searching for nonessential goods.



Be the best at BOPIS

Pickup grocery sales were up 81 percent in mid-June 2020 from the start of the year, according to Nielsen. Pick up shoppers buy more than those who get delivery. And it's much less expensive for you to pull off.



Go dark

If you want to expand on delivery, run it from dark stores (aka fulfillment centers for delivery orders only) in your most important markets where you can more quickly fill orders, no customers allowed



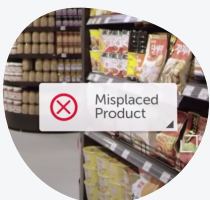
Think beyond center store

It's impossible to beat Walmart and Amazon on price. So make sure you have the best butcher, freshest produce, or local products in the market area and on the perimeter to differentiate your business.



Choose a niche

Offer something special that no one else has. Higher margin products like organics, meal kits (the market for these is expected to jump to \$11.6B in 2022 from \$1.5B in 2016) and prepared foods take you far.



Add retail AI to your toolkit

You can do a ton of things with AI, from adopting floor-mopping bots to dynamic pricing and RFIDs to traffic-monitoring heat maps. But if labor costs are skyrocketing and out-of-stocks a looming threat, choose a solution that helps you combat both...

CB4 PARTNERS



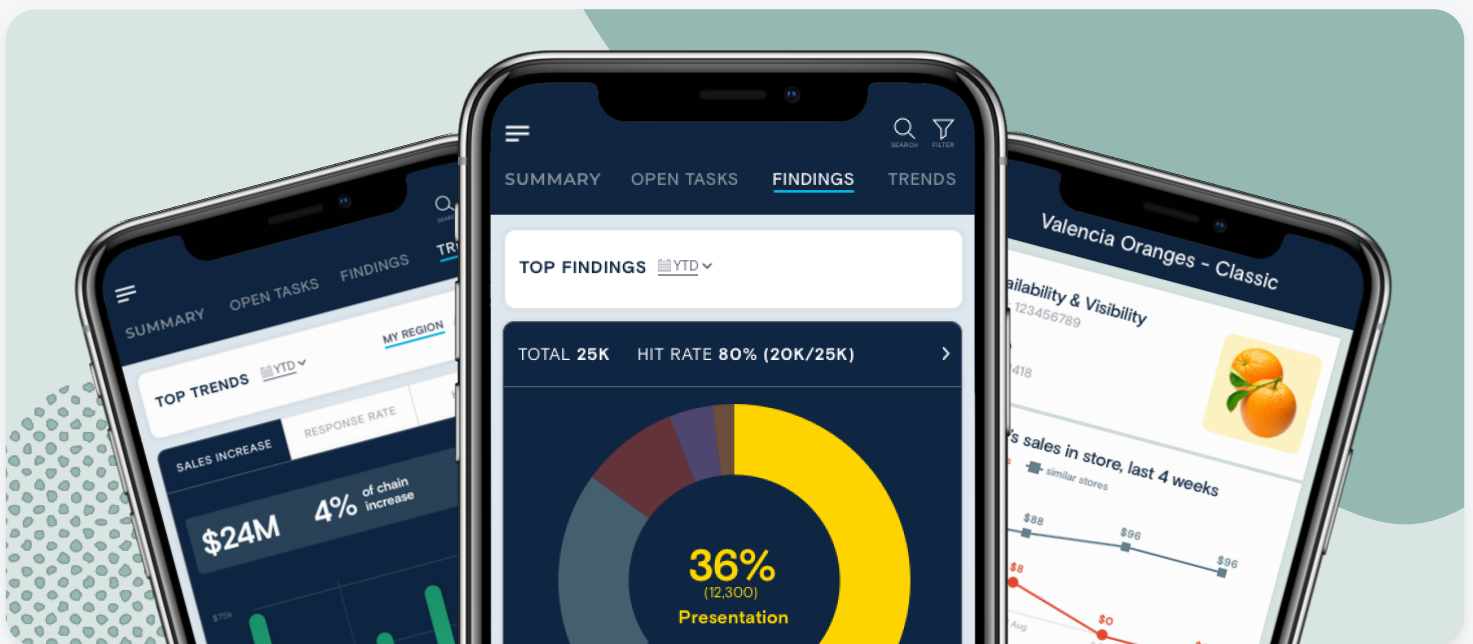
...& more

These savvy grocers use **CB4** to help their store teams combat out-of-stocks and reduce inventory discrepancies from the ground up.

CB4-enabled stores have more repeat shoppers, more empowered associates, and see a **sales increase of 0.5-2 percent** on average. We can remotely onboard hundreds of stores in under a week, and grocers begin seeing meaningful revenue lifts in only **six weeks**.

To learn more about how we continuously train grocery store teams to tackle the costliest problems in their stores, watch a short demo at cb4.com/watch-demo.

Then, watch our [CB4 x Associated Food Stores video case study](#) to see how quickly we got the grocer up-and-running.



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To learn which opportunities CB4 will uncover in your stores,
email hello@cb4.com.