
Supermarkets/Grocery Stores

NAICS 445110	SIC 5411-05	BUSINESS/UNITS 66,096	REVENUE \$666.5bn
PROFIT \$11.3bn	WAGES \$68.2bn	ANNUAL GROWTH 1.3% (2,016-2,021) 1.6% (2,021-2,026)	

INDUSTRY DESCRIPTION

This industry comprises establishments generally known as supermarkets and grocery stores primarily engaged in retailing a general line of food, such as canned and frozen foods; fresh fruits and vegetables; and fresh and prepared meats, fish, and poultry. Included in this industry are delicatessen-type establishments primarily engaged in retailing a general line of food.

RULES OF THUMB

EBIT

3 x

ANNUAL SALES PLUS INVENTORY

10% - 22%

SDE; ADD FIXTURES, EQUIPMENT PLUS INVENTORY

2-3 x

EBITDA

3-3.5 x

INDUSTRY MULTIPLES

Acquisition multiples below are calculated medians using US private industry transactions. Data updated annually. Last update: January 2020.

Valuation Multiple (Median Value)

- MVIC/Net Sales: 0.26
- MVIC/Gross Profit: 0.71
- MVIC/SDE: 2.46
- MVIC/EBITDA: 2.94

MVIC (Market Value of Invested Capital) = Also known as the selling price, the MVIC is the total consideration paid to the seller and includes any cash, notes and/or securities that were used as a form of payment plus any interest-bearing liabilities assumed by the buyer.

Net Sales = Annual Gross Sales, net of returns and discounts allowed, if any.

Gross Profit = Net Sales - Cost of Goods Sold

SDE = Operating Profit + Depreciation + Amortization + Owner's Compensation

EBITDA = Operating Profit + Depreciation & Amortization

Source: DealStats (formerly Pratt's Stats), 2020 (Portland, OR: Business Valuation Resources, LLC). DealStats is a robust online database of acquired private company transactions sourced from business brokers, M&A advisors, and SEC filings. Learn more at www.bvresources.com/dealstats (<http://www.bvresources.com/dealstats>) or visit www.bvresources.com/contribute (<http://www.bvresources.com/contribute>) become part of the Contributor Network.

PRICING TIPS

If the store fixtures are not updated, the multiples are lower, as the buyer will likely need to invest additional capital for improvements, including renewed deli/bakery departments, freezers, decor, and signage. Location and distance to competitors' stores are critical. Buyers should look at the total population of the trade area to determine the amount of grocery sales available. Your major supplier can help you compute these estimates. By knowing potential sales in the area and the market share of each competitor, the buyer can project growth potential. Store must have enough square footage and variety to compete with other stores, unless the store is in a location without nearby competitors and there is no real estate available for direct competitors to build a new facility.

EXPERT RATINGS

AMOUNT OF COMPETITION

3.50 (Low=0.00 : High=4.00)

LOCATION AND FACILITIES

3.00 (Low=0.00 : High=4.00)

AMOUNT OF RISK

2.10 (Low=0.00 : High=4.00)

INDUSTRY TREND

2.90 (Declining=0.00 : Growing=4.00)

HISTORICAL PROFIT TREND

2.70 (Down=0.00 : Up=4.00)

MARKETABILITY

3.60 (Low=0.00 : High=4.00)

EASE OF REPLICATION

1.10 (Easy=0.00 : Difficult=4.00)

BENCHMARK DATA

Benchmark Data

Statistics (Supermarkets and Grocery Stores)

- Number of Establishments: 66,096
- Average Profit Margin: 1.7%
- Revenue per Employee: \$249,300
- Average Number of Employees: 41.7
- Average Wages per Employee: \$25,635

Products and Services Segmentation

- Other foods: 35.0%
- Beverages: 18.1%
- Dairy Products: 12.8%
- Other nonfood items: 9.4%
- Fresh and frozen meat: 9.1%
- Frozen foods: 6.4%

- Drugs and health products: 5.5%
- Fruit and vegetables: 3.7%

Industry Costs

- Profit: 1.7%
- Wages: 10.3%
- Purchases: 75.9%
- Depreciation: 0.9%
- Marketing: 0.8%
- Rent & Utilities: 4.1%
- Other: 6.3%

Market Share

- The Kroger Co.: 16.0%
- Albertsons Companies LLC: 8.9%
- Publix Super Markets Inc.: 5.9%

Perimeter departments such as produce, meat, bakery, and deli have higher margins. Excelling in these departments increases overall gross margins. Labor costs must be controlled to experience acceptable net profit.

Expenses (% of Annual Sales)

- Cost of Goods: 65% to 75%
- Occupancy Costs: 05% to 10%
- Payroll/Labor Costs: 05% to 15%
- Profit (pretax): 02% to 15%

Data for Statistics, Products and Services Segmentation, Major Market Segmentation, Industry Costs, Market Share, and Employment Size used by permission IBISWorld <https://www.ibisworld.com> (<https://www.ibisworld.com>)

QUESTIONS

Prove reported sales by reviewing recent sales tax reports. Some states charge sales tax on fixture purchases of an asset purchase; be sure there are no surprises here. Ask about the integrity and experience of each department manager. Have you heard of any new grocery stores considering entering the market? What payment terms do you get from your regular suppliers?

GENERAL INFORMATION

Home delivery and Internet shopping are hot trends, although difficult to offer profitably. People like to choose their own fresh perishable products at the store. Superior customer service and likeable store personnel are essential.

Ability to manage and train employees is important. There can be lots of turnover, especially in part-time and lower-wage positions; it's critical to constantly direct employees towards customer service. An understanding of the grocery business is needed in order to promote, and keep in stock, a variety of seasonal items. Cash management with checks and balances will reduce losses. Structured bookkeeping procedures are essential to stay in control of gross margins and operating expenses.

The key to being successful is in pricing. Independent grocers need to control their pricing so that they remain competitive, yet are able to maximize profits.

Win the ground war: Traditional grocers will survive. To be one of them, you don't have to outrun the "bear," you just have to outrun the store next to you. Through a combination of investing in value and constantly improving the customer offer, successful retailers will win the store-by-store battles for customer traffic, ensuring that the other guy feels more than his share of the pain. The survivors will regain much of the sales per store lost to new formats when their in-format competition has to rationalize square footage.

Customers are increasingly showing that they value many of the things a traditional grocer can provide: high-quality fresh items, innovative prepared foods, convenience and service. Traditional grocers that are realistic about the threats they face and take steps to be the best at their format in their market can expect growth as lagging players fall behind.

INDUSTRY TREND

"Limited assortment stores have experienced rapid growth. Operators have experienced a steady level of demand over the past five years. Operators have benefited from rising discretionary income and various consumer trends. Shifting demographics are anticipated to significantly influence the industry. Many supermarket operators shifted to omnichannel offerings to stay competitive. Industry profit will likely be stifled by costs associated with merger and acquisition activity. Industry operators have experienced intensifying competition from alternative retailers."

Source: IBISWorld Industry at a Glance

"For most consumers, autonomous grocery delivery has been more of a neat-to-have service than a need-to-have one. During the pandemic, however, when the desire for not just delivery but contactless delivery has grown rapidly, the idea of having a robot pull up curbside with milk, eggs, cereal and other goods suddenly sounds a whole lot more appealing....Autonomous delivery companies say the geographies where their robots can run is gradually expanding. Still, it'll be a while before the technology will be scalable and cost-effective..."

Source: "How the pandemic has sped up autonomous grocery delivery" by Jeff Wells, October 14, 2020, <https://www.grocerydive.com/news/how-the-pandemic-has-spiced-up-autonomous-grocery-delivery/586894/> (<https://www.grocerydive.com/news/how-the-pandemic-has-spiced-up-autonomous-grocery-delivery/586894/>)

"A recent survey by RBC Capital Markets in March found that 55% of respondents had purchased groceries online, up from just 36% in 2018 and 15% in 2015. Online grocery delivery service Instacart told CNBC that demand over the last few weeks has been the highest in the company's history and that customer order volume is up more than 500% year-over-year. Once a luxury, the coronavirus pandemic has transformed grocery delivery services like Instacart and Amazon Fresh into essential seemingly overnight. But whether or not grocery delivery will become mainstream in the long run will depend on how they perform now."

Source: "Coronavirus is making grocery delivery services like Instacart really popular and they might be here to stay" by Magdalena Petrova, May 13, 2020, <https://www.cnbc.com/2020/05/13/coronavirus-making-grocery-delivery-services-like-instacart-popular.html> (<https://www.cnbc.com/2020/05/13/coronavirus-making-grocery-delivery-services-like-instacart-popular.html>)

"Here are six top trends that are shaping the future of the supermarket:

1. In-store pop-ups, events and classes
2. Analytics for personalized customer experiences
3. Hybrid shop-and-eat concepts
4. Aiding product discovery
5. Sustainability
6. Home delivery"

Source: "6 trends shaping the future of supermarkets and grocery stores," January 28, 2020, <https://www.isretail.com/blog/6-trends-shaping-the-future-of-supermarkets-and-grocery-stores> (<https://www.isretail.com/blog/6-trends-shaping-the-future-of-supermarkets-and-grocery-stores>)

"To survive and even thrive, grocery retailers need to recognize and act on three trends that are emerging and will shape the industry for the next five to ten years.

"1. Online Shopping is Growing Rapidly and Here to Stay—In the U.S., the adoption of online grocery shopping has lagged. Although online shopping is just 2.0%–4.3% of the total \$641 billion U.S. grocery market, a study by the Food Marketing Institute predicts online grocery sales will make up 20% of total grocery retail and will reach \$100 billion in sales by 2025. The same study found that '61% of Millennials, 55% of Generation X, 41% of Boomers and 39% of greatest generation have recently purchased a CPG product online.'

"2. Customers are insisting on Convenience Shopping—Several brick-and-mortar grocery retailers are acknowledging the customers' growing insistence on convenience by implementing new in-store experience solutions. By utilizing customer data, retailers are working with brands to make shopping easier and more logical for customers. For example, customer data organizes product sections around consumer needs rather than merchandising by brand 'blocks.' Some of the new in-store experiences include store within a store (e.g., gluten free and organic mini-stores) and modular product displays.

"3. Grocery stores are shrinking...not in number, but in size—Physical stores are already getting smaller—the average sales area has been shrinking by 15% since 2010. Yet, the grocery stores of the future will be one-third to one-half the size they are today, with a more limited, locally curated assortment of products designed to fit the local neighborhood. Look for larger footprint stores potentially becoming mini-malls with third-party vendors within."

Source: "Three Grocery Retail Trends to Jump on in 2019" by David Ciancio, February 12, 2019, <https://risnews.com/three-grocery-retail-trends-jump-2019> (<https://risnews.com/three-grocery-retail-trends-jump-2019>)

EXPERT COMMENTS

Competition is fierce, as there are many major national players throughout the USA and beyond. Success equals being able to purchase the correct product at the best possible pricing, while committing to a lot of community advertising.

For a single independent store buyer, being an owner-operator can be the difference between success and failure. With multistore businesses, strong management and security systems in place are essential. For sellers, don't wait until you're totally worn out from the business operations. Sell when business is thriving and growing. The situation can change quickly, such as the announcement of a new store coming in nearby.

FINANCING

Outside financing is more typical. Occasionally there is a minor amount of seller financing or earnout, but only in highly motivated seller situations.

DISADVANTAGES

There can be heavy theft and shrink losses without trustworthy, experienced, and dedicated management. Stores are open year-around with long hours. There's little or no downtime. It's difficult to compete on pricing when large chain competitors get high-volume pricing and terms from suppliers.

Competition is always a threat.

Tough business to manage and requires a lot of experience

Volume with lower profit and higher rent costs. Competition from larger chains.

Low margin, labor intensive, and very competitive business.

ADVANTAGES

Cash flow is good. High volume but lower bottom-line percentage than other businesses. Grocers regularly hear, "Everyone has to eat, so grocery stores will always do well."

The grocery store is a focal point of many small communities. It becomes a place to meet, socialize, and become updated on local happenings. Owners become well-known and appreciated.

High sales: \$5 million to \$10 million yearly

Owners of smaller stores enjoy the direct contact with their community members. Owners of smaller stores can make a comfortable living. Owners of larger stores and multilocation owners can make very good profits. Many independent grocers remain in the industry for many years.

Availability of systems, organizations, experienced employees.

Good profits especially for stores in more rural areas with limited competition.

RESOURCES

IBISWorld, May 2020 - <https://www.ibisworld.com>

SN—Supermarket News - <https://www.supermarketnews.com>

NGA—National Grocers Association - <https://www.nationalgrocers.org>

Progressive Grocer - <https://progressivegrocer.com>

FMI Supermarket Facts - <https://www.fmi.org/our-research/supermarket-facts>

The Shelby Report - <https://www.theshelbyreport.com>