Study Highlights

Grocery retailing remained in flux all throughout 2021. Consumer spending and trips shifted between online and in-person closely related to the number of new COVID-19 cases. Inflation and out-of-stocks prompted shoppers to switch between items, sizes, brands and stores — with especially value-focused formats winning big in 2021. Supply chain challenges kept independent retailers on their toes with historically low order fill rates compounded by labor shortages, a complex regulatory environment and going up against the biggest year in grocery retailing. In the tough marketplace, retailers focused on implementing loyalty programs to optimize trips and spending as reliance on the paper circular is dwindling.

Despite a 6.5% inflationary boost, 58% of independent grocers were unable to match their 2020 sales records, though many were close. Same-store sales declined 1.7%, which means while dollars stayed far ahead of the 2019 pre-pandemic normal, gains were fully inflation-driven. Center-store represented nearly 61% of the business, as consumers remain focused on cooking basics and value. Different levels of inflation also influenced departmental contributions to sales as did the rampant out-of-stocks. Total store shrink ticked up slightly to 3.0% but inventory turns remained high — at least in part due to the low fill rates.

Managing inventory, inflation and demand resulted in independent retailers compressing their margins in key departments. The total store margin dropped to 27.4% — down 1 percentage point versus 2020. Expenses rose back to 2019 levels, with labor and benefits averaging 15% of sales. Many retailers also experienced increases in utilities. Controlling expenses will be key in the even more volatile 2022 marketplace.

Slightly lower sales and compressed margins combined with rising expenses meant a year-over-year decrease in the net profit before taxes and EBITDA ratios. However, this was to be expected in going up against profits that five-folded in 2020. At 3.62%, the net profit before taxes for independent operators in 2021 was the second-best result on record. The same goes for the industry average EBITDA of 5.66%. These are tremendous accomplishments that will help independents navigate the tough 2022 marketplace conditions.

Each year, a group of retailers outperform the rest of the field by a wide margin. Reflecting the top 25th percentile of independent grocers when regarding net profits before taxes, they have become known as the profit leaders. A review of their traits shows a relentless focus on efficiency and effectiveness. With an average net profit before taxes of 10.1%, this group improved upon their 2020 performance with a focus on fresh, particularly produce and deli, higher margins, above-average transactions and bigger baskets. Operationally, profit leaders focus on shrink control and they reinvest in their businesses. These are important lessons for 2022 amid significant pressure on the grocery dollar amid high inflation and record prices at the pump.

In summary, 2021 was a strong year despite the year-on-year declines. Inflation is likely to boost dollar sales but volume and unit declines along with prolonged marketplace volatility are expected. While 2022 is unlikely to bring the same results as 2020 and 2021, independents are prepared for the challenge. For many years, independent grocers have proven to be resilient, creative and nimble. Strongly rooted in their communities, independents are well positioned to weather the perfect storm of supply chain, inflation and labor challenges.