AMERICAN CHAIN OF WAREHOUSES
linking you to your markets

ACWI ADVANCE

David Sparkman, Editor | Volume 11, Issue 16 | September 1, 2023

Change Reshapes Grocery Retail

Rapid technological advances and social changes are reshaping America's retail grocery industry, according to a recent report from the computer software giant Oracle.

"The grocery industry sees positive signs in 2023," says Mark Jackley, content strategist for the company. "Though uneven supply is still inflating the price of food and other items, causing shoppers to buy fewer groceries, consumers are once again filling stores as well as buying online."

The Covid 19 pandemic turned the grocery industry upside down, forcing management to pay closer attention to supply chain issues and logistics partnerships to deal with shortages of everything from toilet paper and paper towels to disinfectant and baby formula.

Continued supply chain disruptions caused by numerous factors (including crop failures, trucker strikes and geopolitical upheaval) are forcing grocery retailers to rethink their fulfillment models and product assortments to meet consumer demand, Oracle observes. "Grocers will increasingly align their planning decisions with demand forecasting, inventory management and goods receipt flow (checking items received against purchase orders)."

The pandemic also fueled innovations like online shopping and home/curbside delivery. At the same time, consumer interest has grown regarding more sustainable foods and business practices, as well as the creation of healthier diets.

To support these changes, technology advances are automating key parts of the grocery business, such as inventory management, customer marketing, in-store checkout, and a new range of delivery options.

Inflation counts as one of the biggest factors that is reshaping shoppers' attitudes and behavior, Oracle points out, changing everything from what they choose to buy to how they buy these products.

Although the price of food isn't rising as fast as it did in 2022, sticker-shocked consumers are buying more carefully, purchasing less, and seeking greater value. It's not easy to save. Since May 2022, online grocery prices have risen 13.4%, faster than those in any other ecommerce category.

Oracle's research reveals that 75% of consumers are comparing online and in-store prices. It's not surprising that many of them are seeking deals with promotional pricing and are willing to buy from new places if it saves money. Others have made the switch from buying traditional name brands to accepting private-label offers.

Shoppers have dealt with inflation in different ways. changes in addition to switching to less-expensive private-label items, including buying in bulk, and exploring new channels, such as online outlets, subscription services and choosing to shop in so-called dark stores that operate like warehouse stores to provide quick, no-frills shopping.

(Continued on the next page)

Dark stores, also called micro-fulfillment centers, are devoted exclusively to online grocery orders. Customers never enter the outlet, instead scheduling home delivery or curbside pickup. Using apps, customers place their orders on items currently on shelves, which are then fulfilled within minutes.

"Speedy, accurate orders are a win for consumers, while these retailers save on store design and point-of-sale service," Jackley explains.

Some consumers have chosen to make use of specialized subscription services such as ButcherBox, a supplier of meat and fish, as well as others where subscribers are willing to pay fees to have their favorite foods delivered.

Return to Instore Shopping

While consumers still shop for most of their groceries in stores – brick-and-mortar stores account for 85% of U.S. grocery sales – online grocery shopping is here to stay, Oracle asserts.

It cites a 2022 study by Statista reporting that digital grocery sales in the U.S. rose to $100.7 billion in 2021, compared with $80.3 billion the previous year. The same study estimated that online grocery sales will reach $366.1 billion by 2027.

Walmart (including Sam's Club) is the largest online grocer, with more than 25% of the market. Other large grocery e-tailers include Amazon Fresh, Kroger, Costco, Target, and Albertsons. Smaller brands Vitacost and Thrive specialize in natural foods and Weee! in Asian and Latin fare.

Now that they are back in stores in force, shoppers also are taking advantage of tech-driven improvements. For instance, customers can check out faster using scanners that let them ring up items as they walk the store, then pay without going through busy checkout areas. Going one better, Artificial Intelligence-powered smart carts automatically handle scanning and payment.

Some 25% of consumers now use grocery shopping apps, according to payment systems provider Ingenico. Such apps hold shopping lists, display store maps, offer digital coupons and integrate with loyalty programs. At some stores, shoppers can preorder deli and bakery items online instead of standing in line at the counter clutching a paper order number. Digital kiosks promoting the latest deals are popping up as well.

July eGrocery Sales Drop 7%

Continuing and deepening a downward trend, the U.S. online grocery market posted $7.2 billion in total sales, down 7.0% compared to last year.

This was according to the latest monthly Brick Meets Click/Mercatus Grocery Shopping Survey, which was conducted at the end of July.

The month's downtrend was seen across all three receiving methods and was driven by a pullback in order frequency plus constrained spending per order, despite a larger base of monthly active users (MAUs) than the prior year.

"July's results reflect the growing financial challenges many consumers are facing today," said David Bishop, partner at Brick Meets Click, an industry data analysis and consulting company.

"These challenges along with evolving expectations, driven by experience engaging with mass merchandisers, are contributing to the growing gap between conventional grocers and their merchandiser rivals."

Mass merchandisers experienced a surge in customers while grocery experienced only a modest gain in MAUs during July, like the trend that was observed in June. In addition, the average order value for grocery dipped by more than 5% while Mass merchandisers finished up very slightly.

More households are buying groceries online, the researchers found. For July 2023, the overall MAU base continued to grow as the total number of U.S. households that bought groceries online increased nearly 5% versus last year.

This growth was driven by a more than 7% increase in the Pickup MAU base, while Ship-to-Home's base remained flat and Delivery's contracted 1% compared to July 2022.

Delivery includes orders received from a first- or third-party provider like Instacart, Shipt or the retailer's own employees. Ship-to-Home includes orders that are received via common or contract carriers like FedEx, UPS, USPS, and others.

Retail Sales Said to Be Slipping

Consumer spending played a major role in economic expansion in the first half of the year, but year-over-year spending growth slipped from 4.2% in the first quarter to 1.6% in the second, the National Retail Federation reports.

"Consumers are still spending but are under financial pressure and have been adjusting how much they buy while also shifting from goods to services," says NRF Chief Economist Jack Kleinhenz.

"While job and wage gains have counterbalanced inflation, the stockpile of savings accumulated during the pandemic is dwindling and is no longer providing as much spending power as previously available," he adds.

Retail sales as calculated by NRF – which exclude automobile dealers, gasoline stations and restaurants – were up 3.1% unadjusted year over year in the second quarter. Those numbers kept up with inflation but were below the 4% growth that was registered for the first six months of the year.

The Personal Consumption Expenditures Price Index – the Federal Reserve's preferred measure of inflation – was at 3.7% year over year in the second quarter, Kleinhenz points out.

That was down from 4.9% in the first quarter but still far above the Fed's target of 2%. The Fed responded by raising rates another quarter-point last month to a range between 5.25% and 5.5%, the highest level since January 2021.

The GDP grew at a 2.4% annual rate adjusted for inflation in the second quarter, up from 2% in the first quarter but in line with 2.1% for all of 2022 and far below the 6% seen in 2021. While the Fed still faces "a tricky job" in trying to control inflation without triggering a recession, "the current framework clearly increases the chance of a slower economy," Kleinhenz said.

NLRB Promises Strippers, Coffee

The National Labor Relations Board has ordered two closed businesses to reopen because of alleged labor law violations, including a Starbucks café and a strippers' club that was already in bankruptcy.

Ordering closed businesses to reopen is a rare but not unknown tactic taken by the board in what it considers extreme cases of multiple violations of federal labor law by employers.

In the first case of an adult entertainment venue in Hollywood whose dancers and disc jockey voted for union representation, the company closed the club and filed for bankruptcy, seemingly to avoid having to bargain with the union.

Charged with various labor law violations, the company had agreed to a settlement before closing the club. NLRB ordered the club reopened, imposed operating conditions, and now seeks consequential damages in addition to a traditional back-pay award.

The second case involved the Starbucks branch in Georgetown, N.Y, near the campus of Cornell University, where employees had voted to unionize along with two other locations near the university, which also were shut down.

These actions also spurred a student protest and demands that the university administration sever all ties with the Starbucks parent corporation. Most of the employees at the three locations also were students attending Cornell.

The board ordered the Georgetown location reopen, also finding that the company had chosen to impose retaliatory discipline, only enforced certain rules after unionization, and cut worker hours (actually store opening hours) after union activity emerged.

"Bottom line: The potential liability facing employers in cases before the NLRB has expanded dramatically in the last 18 months.," says attorney David J. Pryzbylski of the Barnes & Thornburg law firm. "Companies should be cognizant of this as they continue to navigate labor relations. Employers should take note that in these types of cases, the stakes are high, and the penalties can be steep."

IRE Showing It Is Weakening?

The industrial real estate market appears to be showing real evidence that it is finally weakening after a long, torrid run, according to a report from the commercial real estate giant Colliers.

"Amid the economy's ongoing flirtation with recession, the U.S. industrial market experienced signs of weakening in the second quarter (Q2) of 2023," the company explained.

New deliveries amounted to nearly 150 million square feet, significantly surpassing the space absorbed at a ratio of almost 3:1.

As a result, the overall vacancy rate increased by 50 basis points during the quarter, reaching 4.5% of existing space. Despite the rise in vacancies, asking rents continued their upward trajectory and crossed the $10 per square foot mark for the first time.

In 2021 and 2022, the market demonstrated remarkable consistency, absorbing more than 100 million square feet every quarter during that period. However, in 2023 – despite a surge of new deliveries – the market has yet to achieve that milestone this year, Colliers noted.

In Q1, net absorption decreased to 73.8 million square feet; and in Q2 it declined even further to 50.7 million square feet. As a result of the more than 280 million square feet delivered this year, the overall vacancy rate has risen to 4.5%, marking an 80-basis point increase from Q4 2022.

During the second quarter, the market experienced unprecedented new project deliveries. At the same time, the total projects under construction dropped by 3.4% as an elevated interest rate environment prompted certain developers to halt their groundbreakings temporarily.

"While some economists believe the economy may skirt a recession, the majority feel the U.S. will enter and experience a mild recession starting later this year," Colliers forecast. "Despite economic and market fundamental softening, the industrial sector remains well positioned heading into the back half of 2003 and into 2024."

Roadcheck Has Better Results

The Commercial Vehicle Safety Alliance reported at the end of July that its May International Roadcheck found 81% of commercial motor vehicles and 94.5% of professional drivers inspected did not have any out-of-service violations and were allowed to safely complete their runs.

This compares to the 2022 Roadcheck event where 77.2% of the vehicles and 93.6% of the drivers inspected were found not to have out-of-service violations.

The 72-hour roadside truck and bus vehicle and driver inspection and enforcement initiative takes place each year in Mexico, Canada and the United States and includes detailed reviews of adherence to the three nations' federal equipment and driving regulations.

Commercial motor vehicles (CMVs) without any critical vehicle inspection violations are eligible to receive a CVSA decal. During this year's Roadcheck, decals were applied to 14,032 power units, 5,814 trailers and 305 buses, for a total of 20,151 decals throughout North America.

Conversely, CVSA inspectors discovered at least one out-of-service violation on 19% of the vehicles inspected and, in turn, removed those 11,270 CMVs from roadways until the out-of-service (OOS) violations were corrected. There were 17,479 vehicle out-of-service violations in total.

In the U.S., inspectors also restricted 5.5% (3,256) of the commercial motor vehicle drivers inspected from operating their vehicles who were found to have at least one out-of-service driver violation, as identified under the CVSA's North American Standard Out-of-Service Criteria.

Those drivers were restricted from commercial travel until their out-of-service violations were addressed. There were 5,280 driver out-of-service violations handed out.

Skills Gap Is Real Job Challenge

Employers today are running into the same hiring roadblock regardless of what industry they are in or how hard they attempt to recruit qualified employees – a problem that has continued for a long time most particularly in in labor-intensive industries like freight transportation, distribution, and warehousing.

.

"It is becoming clear that this is not a distant problem that requires abstract solutions. The future of work has arrived, and the American workforce is at an inflection point," the Littler Workplace Policy Institute concluded in its most recent research report, "The American Workforce: Transformation – Challenges and Opportunities."

The institute is the government relations and public policy arm of the law firm of Littler Mendelson– the global employment and labor law practice representing management that focuses on defining and shaping workplace policy at the international, national, and local levels.

"New technologies and artificial intelligence are reshaping the workplace at unprecedented speed," the report observed. "Many jobs and fields are obsolete due to innovations of the last two decades, yet these same advancements have spurred the creation of new occupations and industries."

Littler WPI points out that employers across nearly every industry and sector are competing to find workers with the skills necessary for success. Students and workers should be prepared with in-demand skills "No one can predict the future, but we can study trends and work to improve real-time data to better prepare ourselves for this new economy," the researchers hold.

"Investments in workforce systems and education, including the expansion of apprenticeship and on-the-job training, can equip the American workforce to thrive in a skills-based job market," they add. "We need to prepare workers, businesses, elected leaders, governments, and educators for this reality, not only for the job market of 2023, but for the workplace of tomorrow."

As the U.S. Chamber of Commerce reports, businesses are facing unprecedented challenges trying to find enough workers to fill open jobs.

As of the end of May 2023, there were 9.8 million job openings in the United States, with six unemployed individuals per job opening, according to the Department of Labor's Job Openings and Labor Turnover Survey.

Among the factors contributing to the labor shortage include the declining birthrate over the last few decades and the aging population, the institute says.

Between 2000 and 2022, the median age in the U.S. increased by 3.4 years. The World Bank, says that over the next decade, the number of people of working age, between ages 15 and 65, will decline in the U.S. by more than 3% as the Baby Boomer generation born during surges in the birthrate after the end of World War II continue to retire.

At the same time, the Congressional Budget Office projects that by 2030, the fertility rate is projected to be 1.75 births per woman, where it remains through 2053. That rate is below the replacement rate of 2.1 births per woman – the fertility rate required for a generation to exactly replace itself in the absence of immigration.

Another concerning trend that has contributed to the labor shortage is the rising mortality rates among working-age Americans, the researchers found, noting that Since 2010, death rates have climbed for both young and older adults, driven by drug overdoses, alcohol, suicide, diabetes, and obesity-related health conditions.

The report also says that better focused education and training also are important in closing the skills gap. Littler WPI said it is continuing its partnership with the National Association of State Chambers in working closely with state and local officials and businesses to address skill mismatches and meet the demand of the labor market through targeted educational programs.