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We operate in the \$584 billion U.S. food and drug retail industry, a highly fragmented sector with a large number of companies competing locally and a limited number of companies with a national footprint. From 2010 through 2014, food and drug retail industry revenues increased at an average annual rate of 1.3%, driven in part by improving macroeconomic factors including gross domestic product, household disposable income, consumer confidence and employment. Food-at-Home inflation is forecasted to be 1.75% to 2.75% in 2015, which should also benefit industry sales. In addition to macroeconomic factors, the following trends, in particular, are expected to drive sales growth across the industry:

- *Customer Focus on Fresh, Natural and Organic Offerings.* Evolving customer tastes and preferences have caused food retailers to improve the breadth and quality of their fresh, natural and organic offerings. This, in turn, has resulted in the increasing convergence of product selections between conventional and alternative format food retailers.
- *Converging Approach to Health and Wellness.* Customers increasingly view their food shopping experience as part of a broader approach to health and wellness. As a result, food retailers are seeking to drive sales growth and customer loyalty by incorporating pharmacy and wellness clinic offerings in their stores.
- *Increased Customer Acceptance of Own Brand Offerings.* Increased customer acceptance has driven growth in demand for own brand offerings, including the introduction of premium store brands. In general, own brand offerings have a higher gross margin than similarly positioned products of national brands.
- *Loyalty Programs and Personalization.* To remain competitive and boost customer loyalty, food retailers are increasing their focus on loyalty programs that target the delivery of personalized offers to their customers. Food retailers are also expected to seek to strengthen customer loyalty and make the shopping experience more convenient by introducing mobile applications that allow customers to make purchases, access loyalty card data and check prices while in-store.
- *Convenience as a Differentiator.* Industry participants are addressing customers' desire for convenience through in-store amenities and services, including store-within-store sites such as coffee bars, fuel centers, banks and ATMs. Customer convenience is important for traditional grocers that must differentiate themselves from other mass retailers, club stores and other food retailers. The increasing penetration of e-commerce competition has prompted food retailers to develop or outsource online and mobile applications for home delivery, pickup and digital shopping solutions with customer convenience in mind. It has also resulted in the emergence of a number of online-only food and drug offerings.