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Grocery Outlet Bargain Market II

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The logo for Grocery Outlet Bargain Market is set against a solid red background. The words "GROCERY" and "OUTLET" are written in a large, bold, white, sans-serif font, stacked vertically. Below "OUTLET", the words "bargain market" are written in a smaller, yellow, cursive script font. A registered trademark symbol (®) is located at the end of "market".

GROCERY OUTLET bargain market®

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Introduction

If you needed groceries right now, where would you go and why? Would you go to a grocery store that's conveniently close but may not have the variety of products you're looking for, or would you spend the time to go to a grocery store that's further away, but may offer a better selection of products? Do price and customer service play a role in your decision of where you buy food? If this were so easy for everyone to decide, then it wouldn't be a problem for companies to choose where their stores would be located.

In his article published in 1929, "Stability in Competition", Harold Hotelling explains the "Hotelling Model" that became important for all grocery stores to consider going forward. The article explains the notions of location equilibrium, in which two firms have to choose their location, taking into consideration consumers' distribution and transportation costs in order to maximize their revenue. The Hotelling Model puts what matters most to the consumers into perspective in order for companies to maximize their profits. If the cost to travel a certain distance is offset by the amount of money a consumer will save, then that consumer will be willing to travel a further distance to shop for their groceries ("Hotelling's Linear City"). (See **Exhibit 1**).

When considering all the grocery chains in the U.S., what if there were a store that met consumer's demands the best by offering the lowest prices? What if there were a grocery store that could even win the price war on staple goods over the industry leader in "low prices", Wal-Mart? What if there were a grocery store that offered exceptional customer service and provided a fun customer experience by giving customers a "bargain hunting" shopping experience?

Grocery Outlet Inc. has time after time provided customers with low prices in order to meet consumer demands. When producers have excess products, through overproduction or packaging changes, Grocery Outlet buys the excess inventory at deep discounts and these discounts are then passed on to shoppers with savings up to 70% ("Discount Groceries - Supermarket | Grocery Outlet"). This has enabled Grocery Outlet to expand its business into a well-known brand name in the U.S. grocery industry. Even with their immense success and numerous expansions, Grocery Outlet still faces challenges, such as their entry into the Los Angeles market, one of the largest and most competitive food retail markets in the country. Grocery Outlet looks to distinguish themselves as deep discounters in a highly saturated market.



Industry Overview

Belonging to the grocery industry is a tough business to be in because competing retailers are selling at incredibly small margins. Market concentration in the U.S. grocery industry has increased over the past few decades, and the top four players (Wal-Mart, Kroger, Safeway, & Publix Super Markets) which accounted for 17% of total industry sales in 1992, now control about 36% of the market as of 2013 due to the continuous consolidation of the supermarket segment. (See Exhibit 2).

According to a June 2015 report published by market intelligence firm, Euromonitor International, supermarkets are the largest grocery-retailing channel in the U.S. and capture around one-third of the market share. The annual value of sales for supermarkets stood at \$365 billion in the 2015 fiscal year, which ended January 31, 2015 (Bells, Sonya). There is small growth in this industry, and it is believed that U.S. personal consumption expenditures at grocery stores and supermarkets are forecast to grow at an annual compounded rate of 2% between 2016 and 2020 (“Hoover’s”). (See Exhibit 3).

When it comes to money spent on food, it may be no surprise that as income increases, the amount spent on food also increases. This is because consumers now have the money to purchase more food, and the ability to purchase expensive foods that they couldn’t afford before. However, the percent of income spent on food declines as income increases. (See Exhibit 4).

Grocery Outlet Inc. is considered a conventional supermarket. Conventional supermarkets sell a full line of groceries, meat, produce, and dairy products. They typically sell at least 15,000 products with a variety of items such as general merchandise and health and beauty products. In addition, supermarkets usually include a deli and bakery. According to the Food Marketing Institute and Progressive Grocer, supermarkets generate more than \$2 million in annual sales, and often range from 30,000 to 45,000 square feet (*Grocery Store Attraction Strategies*).

Space is a very valuable commodity in all grocery stores and highly sought after. “Slotting fees” have become a standard in the industry. “When a manufacturer wants a supermarket chain to carry a product, that manufacturer pays an up-front fee (slotting fee), which covers the cost of putting that product into the retailer’s system” (Pressler, Margaret Webb). Often times the fee is greater if the manufacturer wants their product to be located on a better area of the shelf, such as eye level in the middle or end of the row.

Every store in the grocery industry faces similar business challenges. These challenges include large companies that dominate the industry, crime-related losses, trends affecting demand, high worker turnover, seasonal cash flow, and safety concerns (“Grocery Stores & Supermarkets”).

As stated before, the top four players in the industry (Wal-Mart, Kroger, Safeway & Publix Super Markets) continue to increase their market share, making it difficult for smaller companies to enter the market and compete with the low prices. “In the past few years, major



retailers, such as Target, have also expanded their grocery offerings, luring even more customers away from mainstream supermarkets. Therefore, segment operators have been forced to lower prices and offer promotions to compete with competitors, thus dampening profit margins ("Retailer's Report Card")."

Every grocery store must stay alert at all times for crime-related losses. This is important to consider because the grocery industry is very volatile, and any lost product cannot simply be returned and sold, since the products only have a limited amount of shelf life for which they can be sold. Grocery stores should use cameras and try preventing theft as much as possible because the bottom line is, any stolen product reduces the store's revenue.

Grocery stores must stay atop of the latest trends affecting consumer demand in order to drive the most traffic into their stores. Currently, a big trend sweeping the nation is the focus on health and wellness, and offering a wider selection of organic products. "Companies can leverage increased consumer interest in health and wellness by improving and expanding perishable and organic merchandise departments and offering health-related services. By promoting healthy foods, grocery stores can act as a resource for customers looking to eat better. Some companies are expanding into the wellness arena, developing relationships with hospitals and nutritionists, and offering in-store clinics" ("Grocery Stores & Supermarkets").

Since only a small percent of jobs are actually corporate jobs for businesses in the grocery industry, companies experience a lot of worker turnover with their hourly employees. Grocery stores often hire many to work in their stores as hourly employees who are paid to help stock shelves, keep the store clean, provide customer service, and help with customer checkouts. These employees are considered "expendable" since the stores can easily train someone to replace them, and often times these employees are not working the job for a career path.

For many retailers, cash flow is uneven because of seasonal demand. Demand is usually greatest before the holidays and big events, such as Christmas/New Years, Thanksgiving, Easter, and the Super Bowl. Stores compete to get the most inventory for the lowest price at these times, and must be prepared to fulfil consumer demand or the consumer may go to a competing store.

"The risk of contamination, especially in fresh foods, is a significant liability for grocery stores. Foodborne diseases, such as, salmonella, E. coli, and listeria, have resulted in hospitalization and in a small number of cases, death. As companies move large amounts of non-preserved and imported foods through the supply chain, the chance for contamination increases. These public food scares have helped erode consumer confidence in the industry ("Grocery Stores & Supermarkets")."

While companies in the industry have many challenges to be wary of, they also have ample amount of opportunities to help drive foot traffic through their stores. These opportunities include loyalty programs, focusing on health and wellness, supermarket food delivery, non-food sales, and becoming involved with the latest app trends such as the Pokémon Go craze.



Many retailers in this industry use loyalty programs to help encourage repeat store visits by offering discounts and to increase purchase amounts. Companies may also give loyal customers advance notice for sales or access to invitation-only events, and the information gathered by loyalty programs provides valuable market research about customers shopping habits.

As stated earlier, grocery stores are now focusing their products on health and wellness. Organic food products were estimated to account for 4% of total food sales, at \$28.4 billion dollars, in 2012, and it continued to grow to \$35 billion dollars in 2014 and is still on the rise. (See Exhibit 5). While prices for organic products may be more expensive, trends in the industry show that consumers are willing to purchase organic products for their perceived health benefits, especially when it comes to fruits and vegetables (“Organic Market Overview”).

Grocery stores are increasingly adding e-grocery options for shoppers. About a third of the top 75 supermarket retailers offer some version of delivery or "click-and-collect" services in limited markets, according to *Supermarket News*. Whole Foods, for example, added click-and-collect to select markets in 2014. Click and collect programs allow customers to place their orders online and collect the groceries at a scheduled time from the supermarket. Many European markets have already adopted the click and collect method, with collection spots not only at stores but also at places such as subway stations. Wal-Mart has even tested the use of in-store lockers in 2013 at selected locations. Online shoppers can pick up their purchases at a locker at a nearby Wal-Mart, using the password they received. This helps drive shopping efficiency by allowing customers to shop online for their groceries and set a pick up time and location, where they can quickly pick up their already paid for items ("Grocery Stores & Supermarkets").

Some grocery stores are adding non-food venues to their facilities in order to drive more traffic to their stores. This can include strong incentives for reward programs, such as Safeway adding gas stations and giving discounts on gas for shopping at their stores. These non-food venues can also include pharmacies, banks and dry cleaners being added to stores ("Grocery Stores & Supermarkets").

“Supermarkets are among the many retailers vying to become "Pokéstops" to capitalize on the foot traffic generated by the augmented reality (AR) gaming app Pokémon Go. Launched in July 2016 and downloaded by millions of people, Pokémon Go directs players to visit real-life locations to capture fictional monsters to fill their Pokédex. Grocery chains including Martin's Super Markets, Rouses, Wal-Mart and Stew Leonard's are all trying to lure players by setting up Pokéstops and gyms (places where players can team up with others to (virtually) hold and challenge the areas) in their stores, according to *Supermarket News*. Martin's is encouraging shoppers to post photos of Pokémon characters taken at its stores with a contest for a \$50 gift card. By combining GPS with AR, innovative marketers, advertisers, and retailers can explore new ways to attract consumers and keep them engaged with their brands” ("Grocery Stores & Supermarkets"). If grocery stores stay on top of the latest trends with consumers, they'll be able to more effectively market to their desired target market by catering to specific consumer demands and increase foot traffic through their stores.



Grocery Outlet Inc. History

In 1946, Jim Read had an idea that he could sell food to citizens in the San Francisco bay area at discounted, affordable prices. Jim followed through with his idea and did so by purchasing surplus canned food from the army following World War II and selling it in his stores, “Cannery Sales.” The business model performed very well, and in 1959 Jim acquired a Bay Area chain, “Big Bonus Foods,” which also sold surplus merchandise. In 1970, Jim acquired, “Globe of California,” and changed his business’ name from Cannery Sales to “Canned Foods.”

Business was booming, and Jim really needed to get his supply chain and operations in order, to make sure he could grow the business organically, from the ground up. In 1971, Jim signed the first big supplier agreement with Del Monte, and in 1973 Jim signed an Operator agreement with Leonard Downs. Sadly, during a time of immense success, Jim fell ill and passed away. Fortunately, his sons Steven and Peter Read took over the company and continued growing the business. During this time, Steven and Peter expanded the company from ten stores to over one-hundred stores. They had even managed to forge incredible relationships with CPG companies all over the country, which is the foundation of Grocery Outlet’s business model and success to this very day.

Canned Foods kept growing, and they eventually decided to add a frozen foods section, a deli section, a dairy section, a fresh produce section, and fresh meat to their stores. In 1987 the brothers decided to augment the company’s name to “Canned Foods Grocery Outlet,” which eventually led to the name “Grocery Outlet Inc.” in 2002, in order to reflect their expanded product offerings other than just canned foods. In 2001, the company benefited immensely by acquiring large remaining inventories of Webvan and Wine.com due to bankruptcy associated with big dot com failures, and sales began to soar!

In 2006, the company appointed the third generation of the Read family, MacGregor Read (Steven Read’s son) and Eric Lindberg (Peter Read’s son-in-law) as Co-CEO. This kept the family tradition of running the company alive and well while achieving substantial growth.

In 2009, Grocery Outlet Inc. introduced the “Grocery Outlet Bargain Market” format, reflecting the evolution into a neighborhood market with great values on fresh foods. The company continued to flourish, and in 2009, Berkshire Partners LLP acquired a majority interest in Grocery Outlet Bargain Market.

In 2011, Grocery Outlet introduced Lois Prices as the company spokes-puppet and low-price/happiness ambassador. This marketing campaign was a great success, so Grocery Outlet decided to add to their puppet spokesperson marketing campaign, and they added puppets Ben Saven, Tammy Underspend and Doug. This campaign really started to get customers to remember and recognize the brand, and in 2011 the company finally hit the one billion dollars’ sales milestone! (See Exhibit 6).



In 2012, Grocery Outlet acquired a discount grocery chain in Pennsylvania, “Amelia’s Grocery Outlet.” This acquisition helped Grocery Outlet expand their business to the East Coast. In 2014, Berkshire Partners sold its ownership interest to private equity investors Hellman & Friedman, bringing a new phase of growth to the company (“History and Milestones – Grocery Outlet”).

Currently, Grocery Outlet Inc. is a private company with 315 employees, and now has 260+ independently operated stores in California, Idaho, Nevada, Oregon, Pennsylvania and Washington. Grocery Outlet competes with companies such as Costco, Kroger, Wal-Mart the Dollar Tree, Food 4 Less, and Trader Joe's. Grocery Outlet is not done growing and is continuing their mission of bringing high-quality products at very low prices (“Hoover’s”).

Current Company Issues

While Grocery Outlet may be doing well and continuing to flourish, the company is currently facing challenges in the L.A. region. These issues include their opportunistic purchasing model, establishing an economy of scale, and focusing on creating a successful marketing campaign to reach their desired markets.

Grocery Outlet’s success has come from purchasing product from large multinational producers by buying short coded (close to its expiration date) products other retailers are not able sell, products that companies make too much of, and products with packaging changes. Grocery Outlet refers to this purchasing strategy as “Opportunistic.” This contrasts conventional purchasing, which they refer to as MTO, or “Made To Order.” Grocery Outlet’s purchasing goal is to have a balance of 60-70% of product come from opportunistic buys and 30-40% MTO. Grocery Outlet makes most of its margin on the opportunistic products, so the more opportunistic purchased products they have, the better the prices are for consumers, and the higher profits will be.

As one would imagine, this leads to some inconsistency on a week to week basis because one week there will be a surplus of one product that Grocery Outlet can sell at a massive discount, and the next few weeks it will not appear on shelves. Veteran Grocery Outlet customers understand this inconsistency and have found ways to shop around it; however, in new markets where the customer base isn’t familiar with how Grocery Outlet operates, this presents a challenge to gain new customers.

Grocery Outlet will always carry products in each category, but the brands in that category change every week because of their unique purchasing model. This may deter customers who rank consistency of brands at the top of their shopping priorities, but it also brings in another swath of customers who come to Grocery Outlet specifically for this unique “bargain hunting shopping” experience. In an interview with Jeff Phillips, Director of Strategy, and Amanda Oren, Director of Merchandise at Grocery Outlet, the two described these shoppers as “bargain hunters” who come into stores for the “treasure hunt” of new products every week, if not every day. Most of these bargain hunters come to Grocery Outlet in established markets and the number of hunters grows as stores spend more time in their respective markets.



With the bargain hunters and regular customers, Grocery Outlet has grown and expanded into multiple states, yet only recently have they entered into the Los Angeles area market. Los Angeles is the second most populated city in America with about 3.8 million people in the city and about 10 million in L.A. county ("Population - Ethnic Composition"). It may seem odd that Grocery Outlet operated no stores in the second largest market in the country until 2015, but they had to do a lot of work, learning, and planning to get into this extremely competitive and saturated market.

Grocery Outlet operates three warehouses for over 235 stores. The east coast stores which number around 30, all draw from a warehouse in Lancaster, Pennsylvania, which they inherited from the acquisition of Amelia's Grocery Outlet. The west coast stores from Washington to Southern Oregon draw products from their warehouse in Portland, Oregon. The Nevada, Idaho, and California stores draw from their original warehouse in Sacramento, California. Having warehouses that span the west coast and a warehouse that is able to serve all of the stores in Pennsylvania is essential for Grocery Outlet's supply chain, so that stores can get product quick, on time, and before it expires. The further south they go in California, the harder and more expensive it becomes to transport product to their store locations.

This isn't the first time Grocery Outlet has run into this problem. In 2003 Grocery Outlet bought 16 Yes!Less stores in Texas, and they were all closed by the end of 2004. Grocery Outlet had to contract with warehouses for stores to draw product from, and eventually there wasn't enough scale for their Texas operation and it had to be shut down. Grocery Outlet learned their lesson in Texas, and when they bought Amelia's Grocery Outlet in Pennsylvania, they made sure that they had all of the infrastructure, and established an economy of scale with around 25 stores. Not to say that Los Angeles is similar to Pennsylvania or Texas, but the two markets both teach great lessons for market entry. On one hand, the Texas entry didn't go well because of a number of issues such as lack of infrastructure, marketing, and scale. On the other hand, Pennsylvania did work because everything was in place for Grocery Outlet to be successful and they used their previous failure as a guide.

Los Angeles presents a different challenge. The infrastructure is essentially there, although the closest warehouse is currently about 380 miles away, and even further for the San Diego stores, which are doing well. This is going to be solved with the advent of a new warehouse in the eastern part of L.A. county by the end of 2017. Another problem that Jeff and Amanda pointed out from the Texas failure was that the company wasn't as determined as it needed to be in order to make it succeed.

Everyone at Grocery Outlet considers Los Angeles to be the top priority for the next few years, and they are determined to make it work. Although failures teach many valuable lessons, so do successes. Grocery Outlet learned from Pennsylvania, that being able to purchase brick and mortar stores was more helpful than having to start from scratch and build new stores. They used this lesson in Los Angeles when they bought 8 Fresh & Easy stores, which were similar in size to most of their other stores, and were in good locations (Nichols). Grocery Outlet also learned from their Texas failure that they need to establish an economy of scale, and they are doing so with a plan to open 30 new stores by the end of 2017 (Venegas).



Another challenge Grocery Outlet faces in Los Angeles is the fact that the market is highly saturated. Not only does Grocery Outlet have to compete with Wal-Mart and Food 4 Less on low prices, but it also has to compete with conventional retailers that have been established in the market for decades. The newest competitor to enter the market however poses the greatest threat; Aldi, a German-owned chain that carries no name brands and has extremely low prices. Aldi is owned by the same company that owns Trader Joe's, which also carries almost exclusively private label items. Grocery Outlet doesn't directly compete with Trader Joe's in terms of target market and price, but they do compete with Aldi.

In addition to traditional retailers like Aldi, Food 4 Less and Wal-Mart, Grocery outlet will also be competing with smaller format stores such as Mexican Markets in the L.A. region. These markets can specialize in catering to a much narrower target market due to their small size. Just over 42% of the L.A. population is Hispanic, resulting in a significant share in the grocery market (Olson, Cirabel). Additionally, Hispanic grocery store chains including Superior Grocers, Bodega Latina, and Cardenas Markets control \$5 billion worth of volume annually, which is a significant sector of the L.A. marketplace (Zwiebach, Elliot). The problem for Grocery Outlet lies in the fact that they don't currently identify these Hispanic markets as competitors. Considering that almost half of the market in L.A. is Hispanic, Grocery Outlet should look to capture a percentage of this demographic.

Grocery Outlet beats traditional retailers on highly visible items such as milk, eggs, and bread, and will also usually beat low-price retailers on other staples due to their opportunistic purchasing model. However, Aldi is trying to compete with Grocery Outlet on prices. The way that Aldi competes with low-price retailers such as Grocery Outlet is that they carry only private label product so they don't have to pay premium prices for premium brands. They employ very few people and keep very few working during business hours, and they focus on low price first among other things (Luna). Grocery Outlet distinguishes itself from other retailers such as Aldi by providing excellent customer service that consumers are often looking for.

Grocery Outlet emphasizes customer service as a central aspect to their operations. In order to ensure great customer service, their independent operators hire people from the communities they work and live in, so that it feels more welcoming when people from the community shop at their stores. This is also another way that Grocery Outlet helps to reduce crime and theft. Having people working in the stores who know the community is a great way to deter potential thieves.

One thing that Grocery Outlet excels in is selling quality food at very low prices to those that wouldn't otherwise have access to quality food products. One of Grocery Outlet's highest performing stores year after year is the one in Grass Valley, California. It may seem odd because Grass Valley is in the Sierra Foothills and only has around 13,000 residents, but Grass Valley is an area that's referred to as a "food desert." When the term "food desert" comes to mind, one might associate it with urban poverty, but rural areas such as Grass Valley have the same issue because food stores are very sparse and rarely sell quality food. In Grass Valley Grocery Outlet is one of the very few retailers that operates there, and since there are so few and Grocery Outlet



has the lowest prices of any store, people flock to it. This may seem like a huge leap, but Los Angeles also has a severe problem with food deserts. (See **Exhibit 7**).

Low income and low access to food is a growing problem all over the United States, and one of the best examples of this trend is in Compton, California. Ironically enough, Grocery Outlet opened a store there and plans to sell the community great food at extremely affordable prices. Exhibit 7 shows the combination of low income and low access to food in green, and low income in blue. This graphic may be shocking, but poverty is much more common in Los Angeles than people think. Compton lies in south central Los Angeles and is one of the largest green areas on the map. Since Grocery Outlet does so well in food deserts, they must deliver a strong and successful marketing campaign in order to persuade consumers to shop at their stores.

Marketing has never been a top priority focus for Grocery Outlet. Focusing on things such as customer service, logistics, and product mix have been more important to Grocery Outlet in the past and the effects of this strategy have been problematic in some cases. One example of the lack of marketing efforts adversely affecting Grocery Outlet stores is their failed market entry in Texas. When asked about useful insights that came from the failed stores in Texas, Director of Strategy Jeff Phillips cited not allocating enough funds to marketing as a main cause for failure. Furthermore, when asked about what the current plan of attack was for the L.A. market entry marketing plan, Jeff detailed their strategy of running print advertisements and coupons delivered in the mail to the surrounding areas. This strategy being no different from the one that they have continually used, and continuing to rely on outdated methods of awareness, such as mail ads, suggests that a marketing effort deficiency still exists at Grocery Outlet.

Recommendations & Alternatives

With the advent of new technology that permits retailers to track and analyze consumer data, such as ERS retail scanner data, it has become much easier for companies to define their target market. Grocery Outlet has recently implemented a new business intelligence tool that will help to provide important merchandising strategies so that they can reach and sell to their precise target market. In our interview with Jeff and Amanda, they explained that Grocery Outlet's target market are female shoppers with low income, who are between the ages of 40 to 55 years old and are bargain minded. When asked who comprises their target market in Los Angeles, the two explained Grocery Outlet will pursue the same target market. Since this strategy has proven itself in Grocery Outlet's successful market entries, it's a great place to start with marketing in Los Angeles. However, Grocery Outlet is overlooking a key component to make their marketing successful, Los Angeles-specific demographics.

In order for Grocery Outlet to maximize profits in Los Angeles, they need to gear their product mix to the consumers they're selling to. In the 2010 L.A. census, the total L.A. population was almost ten million people, with Hispanics making up almost five million people. (See **Exhibit 8**). The problem that Grocery Outlet is facing is that most Hispanic consumers shop at Hispanic markets and are extremely loyal to these retailers. Because of this, Grocery Outlet has yet to attempt to siphon off some of this incredibly large market.



“The US Hispanic population is growing exponentially compared to non-Hispanic populations and as a result, in-home Hispanic dining traditions are beginning to influence national consumption patterns.” If Grocery Outlet wants to capitalize on this trend, they need to start carrying more ethnic food products to draw in this growing Hispanic community. Hispanics had \$1.5 trillion dollars in buying power in 2015, an increase of 50% in just five years (“Population - Ethnic Composition”). Products such as chilies, fajitas, tortilla chips, corn chips, chimichangas, quesadillas, burritos, nachos, guacamole, and condiments such as different types of cheeses and salsas are all essential products Grocery Outlet should be carrying in the L.A. region (“Mexican Food, America Eats, from Life in the USA”).

“As of 2015, approximately 17.7% of the total US population was of Hispanic descent. By the year 2040, Hispanics are projected to make up 24.1% of the total population” (“Population - Ethnic Composition”). (See Exhibit 9). Because of this growing population trend, Grocery Outlet needs to focus on creating strategic relationships with Hispanic food vendors to recreate their unique opportunistic purchasing strategy with these companies. If Grocery Outlet can start selling Hispanic products at similar or lower prices than they retail for at Hispanic markets, they can start to capture some of that elusive market. Once the Hispanic community realizes that Grocery Outlet can carry brand names that they recognize, they will return to shop because they will be able to find the products they know and love for a bargain of the price.

With the Hispanic population dominating the L.A. region, Grocery Outlet must focus their marketing strategies on this demographic in order to drive the most traffic to their stores. Google marketing has “U.S. Hispanics ahead of the curve when it comes to digital. They lead in adoption of new devices [and] they are power users of mobile and over-index in video consumption. Many marketers may think [Hispanics] trail the so-called general market in adoption of new tech, when in fact they are far ahead and should be among the first prospects for marketers seeking to grow their consumer base.” This is the first big step in reaching what we believe should be Grocery Outlet’s target market in the L.A. region (Your Next Big Opportunity: The U.S. Hispanic Market”).

Since Grocery Outlet relies on traditional advertising and marketing strategies such as television, circulars through the mail, and radio, they will have trouble reaching the Hispanic market in Los Angeles. According to a Nielsen report, “the average Hispanic spends more than eight hours watching online video each month - over 90 minutes longer than the U.S. average... A lot of that video watching happens on mobile, as smartphones are becoming the “first screen.” The Nielsen report states that “10 million Hispanics watch mobile video for an average of more than six hours per month.” With the use of these smartphones, “Hispanics are 1.5x more likely to buy mobile apps and digital media than non-Hispanics” and are also more likely to print coupons from these websites and sign up to receive coupons by text messages and emails (Your Next Big Opportunity: The U.S. Hispanic Market”).

In order to drive the most foot-traffic through the Los Angeles stores, it would be in Grocery Outlet’s best interest to invest in digital marketing and advertising. Grocery Outlet should invest in maintaining their well-run mobile app for the generic consumer to use. This app should be updated so that it shows bargain prices compared to their competitors in the area, and



should also be used as a tool to gain new customers while keeping customers loyal to them. On top of this, Grocery Outlet can then create customized videos, to target those who are most likely to shop at their stores, online through Facebook and YouTube. These customized videos could be in Spanish for Spanish speakers, or in English for those who are not. Although the initial investment in digital marketing and social media are substantial, the benefits of future sales that will matriculate from these efforts will outweigh the costs.

Summary

Grocery Outlet is poised for continued growth and success. Even though consistency is difficult to attain due to their unique opportunistic purchasing model, the company has thrived by forging strong relationships with vendors and passing savings onto the customers, which has translated into more than \$1 billion in sales. Through trials and tribulations, Grocery Outlet has found that establishing economies of scale in new markets is essential to maintaining business operations. In order to ensure success, Grocery Outlet plans to open around 30 stores in the Los Angeles area by the end of 2017, as well as opening a warehouse in the eastern region of Los Angeles County. This will streamline the efficiency of their supply-chain and help to further pass on the savings for the customers.

Even though Grocery Outlet is behind the curve in terms of digital marketing, there is enormous potential for growth, especially in the Los Angeles market. With about half of the population in Los Angeles county comprising of Hispanics, who are heavy mobile phone users, Grocery Outlet can capitalize on reaching this market through investing in digital marketing. These strategies could include utilizing their mobile app, as well as targeted Facebook and YouTube videos. To further augment the offerings to the Hispanic market, Grocery Outlet should create relationships with Hispanic food vendors to implement their proven purchasing model that has led to their historic success. This way they can compete with the Hispanic Markets that have maintained such loyal customers throughout the years. Once Grocery Outlet implements an effective marketing strategy in Los Angeles, they will expand their market presence and be able to use this strategy in future markets.



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Exhibit 1:

Hotelling Model (Volpe III, Richard J)

The Hotelling Model of Spatial Competition of Two Firms

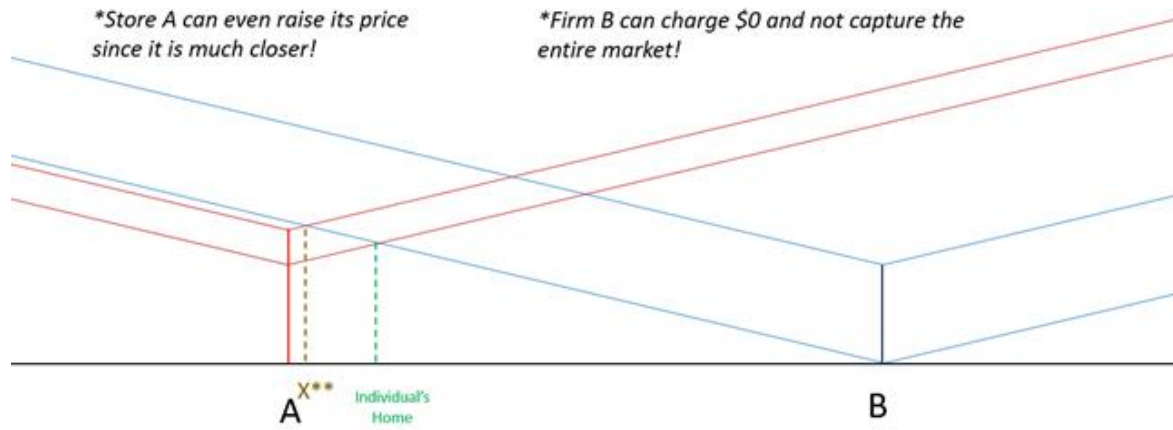
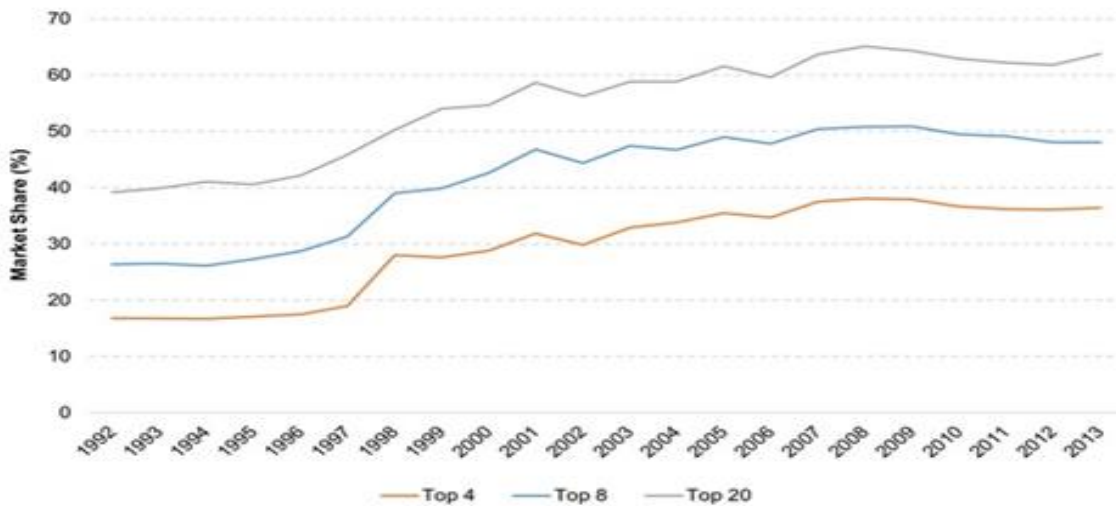


Exhibit 2:

Percent of Market Share of Top Firms in U.S. Grocery Segment (Bells, Sonya).

Market Share of Top Firms in US Grocery Segment



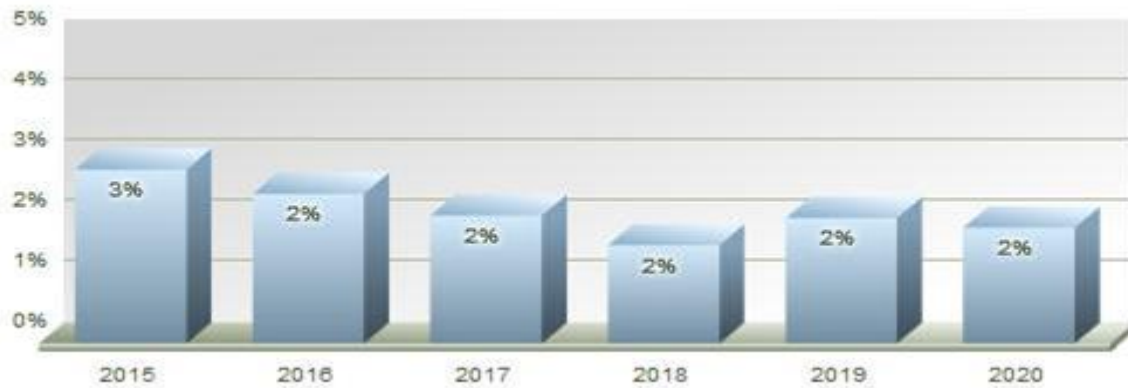
Market Realist

Source: US Census Bureau



Exhibit 3:

U.S. personal consumption expenditures at grocery stores and supermarkets from 2015 to 2020 (Hoover's).

**Exhibit 4:**

Food spending and share of income spent on food across U.S. household, 2014 ("Food Spending as a Share of Income Declines as Income Rises").

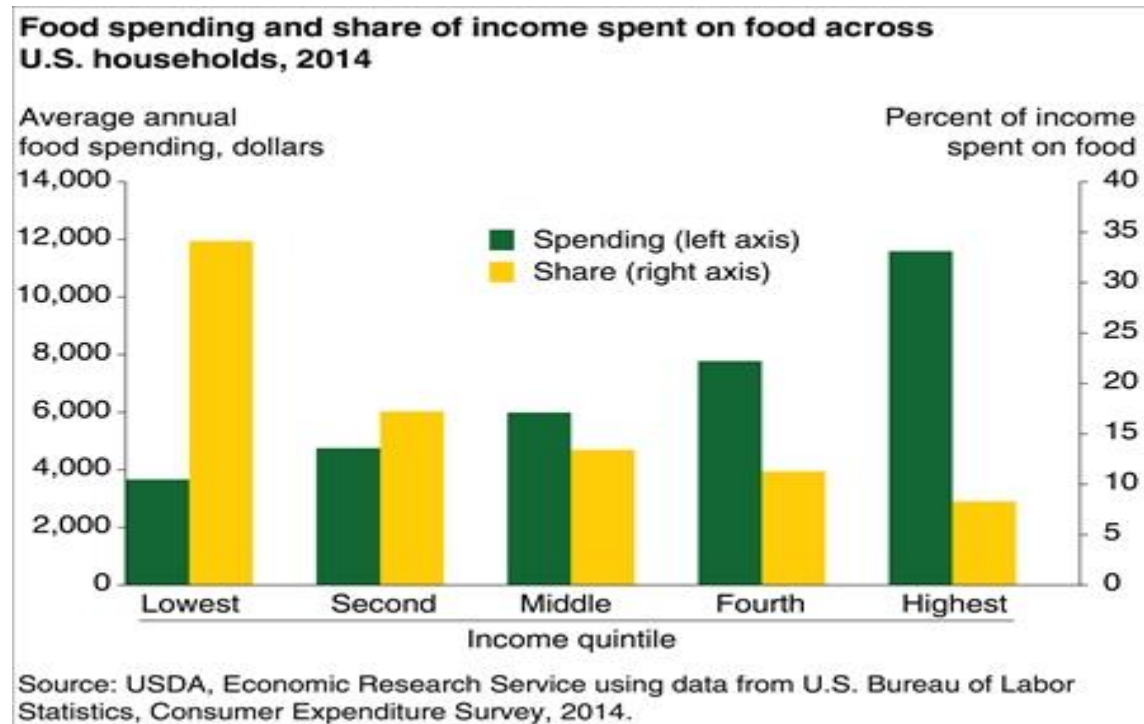
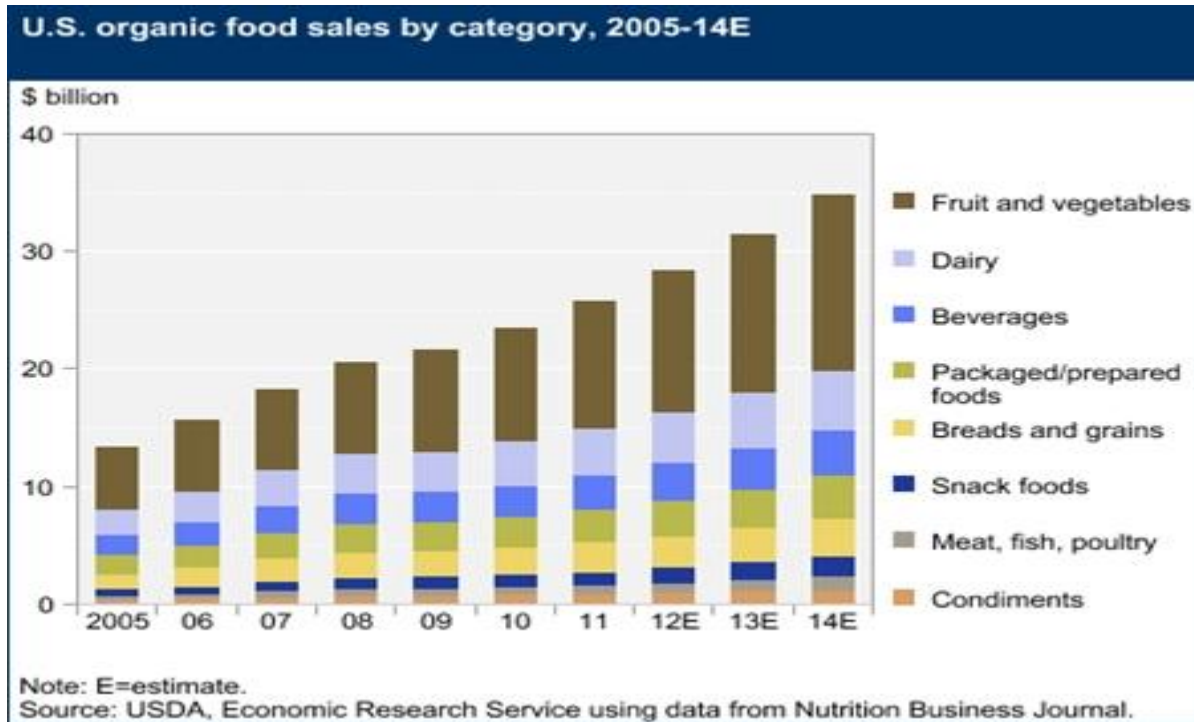


Exhibit 5:

Organic Food Sales in Billions by Category (“Organic Market Overview”).

**Exhibit 6:**

Grocery Outlet’s marketing Frugal Friends (“Meet the Frugal Friends - Grocery Outlet”).

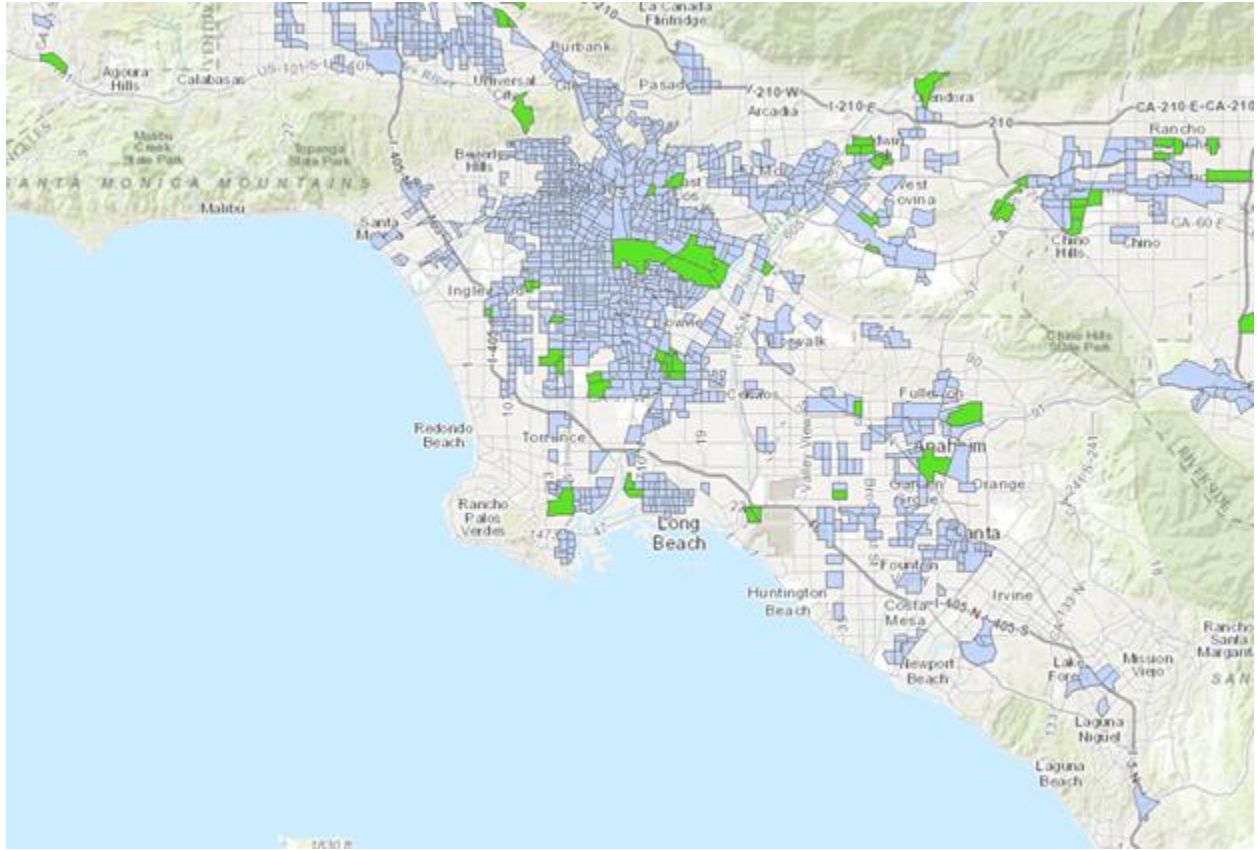


From left to right: Tammy Underspend, Ben Saven, Lois Prices (Spokesperson), and Doug



Exhibit 7:

USDA Economic Research by Area (L.A.) (“USDA Economic Research Service”).



Legend: Blue = Low Income; Green = Low Income & Low Access to Food



Exhibit 8:

2010 Los Angeles County Census ("Population - Ethnic Composition").

**Racial/Ethnic Composition
Los Angeles County, 1990-2010 Census****Population - All Races**[Ethnic Statistics by](#)

Ethnic Group	2010 Census		2000 Census		1990 Census	
	Population	Percentage	Population	Percentage	Population	Percentage
Total Population (All Races)	9,818,605	100.00%	9,519,338	100.00%	8,863,164	100.00%
One Race ⁽¹⁾	9,379,892	95.53%	9,049,557	95.06%	--- (1)	--- (1)
One Race not Hispanic or Latino	4,935,795	50.27%	5,277,125	55.44%	--- (1)	--- (1)
White ⁽¹⁾	4,936,599	50.28%	4,637,062	48.71%	5,035,103	56.81%
White not Hispanic or Latino	2,728,321	27.79%	2,959,614	31.09%	3,618,850	40.83%
Black or African American*	856,874	8.73%	930,957	9.78%	992,974	11.20%
Black or African American not Hispanic or Latino	815,086	8.30%	901,472	9.47%	934,776	10.55%
Asian ⁽¹⁾	1,346,865	13.72%	1,137,500	11.95%	925,561	10.44%
Asian Not Hispanic or Latino ⁽²⁾	1,325,671	13.50%	1,124,569	11.81%	--- (2)	--- (2)
American Indian & Alaskan Native ⁽¹⁾	72,828	0.74%	76,988	0.81%	45,508	0.51%
American Indian & Alaskan Native not Hispanic or Latino	18,886	0.19%	25,609	0.27%	29,159	0.33%
Native Hawaiian & Other Pacific Islander ⁽¹⁾	26,094	0.27%	27,053	0.28%	28,924	0.33%
Native Hawaiian & Other Pacific Islander not Hispanic or Latino	22,464	0.23%	23,265	0.24%	--- (2)	--- (2)
Some Other Race ⁽¹⁾	2,140,632	21.80%	2,239,997	23.53%	1,835,094	20.70%
Some Other Race not Hispanic or Latino	25,367	0.26%	19,935	0.21%	21,327	0.24%
Two or More Races ⁽³⁾	438,713	4.47%	469,781	4.94%	--- (3)	--- (3)
Two or More Races not Hispanic or Latino	194,921	1.99%	222,661	2.34%	--- (3)	--- (3)
Hispanic or Latino	4,687,889	47.74%	4,242,213	44.56%	3,351,242	37.81%
Total Not Hispanic or Latino	5,130,716	52.26%	5,277,125	55.44%	5,511,922	62.19%

Exhibit 9:

Projected U.S. population growth (Sosland, Josh).

