

Rising TIDE Poten & Partners

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A NEW ROUSES Supermarket slated to open in downtown New Orleans later this year is emblematic of the hopes that residents and food retailers have for the resurgence of the long-troubled region.

The 60,000-square-foot store, nearby the Superdome where thousands took refuge during Hurricane Katrina, is at the heart of a residential and commercial development being built in the wake of the city's recent challenges. Those have included the Hurricanes Katrina and Gustav and last year's BP oil spill, which brought an end to new offshore drilling permits, a key cog in the local economies.

Since we announced the store, there's a lot of retail and residential being announced, wrapped around our store, basically, Donald Rouse, president of the Thibodaux, La.-based chain, told SN last week. There's a mixed-use development, with 500 residents, and upscale shops. We are a little bit ahead of it, but sometimes it takes a grocery store coming in to bring that other development.

It's a welcome sign for many in the market, and one of several signals indicating the optimism operators have for the central Gulf Coast region. Associated Wholesale Grocers of Kansas City, Kan., for example, staged a groundbreaking ceremony last month in Pearl River, La., for a 720,000-square-foot warehouse that will be the new anchor for its Gulf Coast Division.

The new facility, scheduled to open in January 2013, will serve a broad swath of AWG members from Texas to Florida, reducing delivery costs for independents in the region currently served by the company's warehouse in northern Mississippi, near Memphis, Tenn., according to the cooperative wholesaler.

AWG has a great amount of business in the Gulf Coast region today, and we know that this area of the country has some of the finest independent supermarket operators in the U.S., said Steve Dillard, vice president of corporate sales development, AWG, adding that the company anticipates that additional retailers will see the benefits of being an AWG member.

It will bring savings of \$6 million to AWG's current retail members, he said. It will shave more than 200 miles off of the travel distance to many members, he explained.

Meanwhile on the other side of New Orleans, a separate groundbreaking recently took place for a new Super 1 Foods store in Carencro, La., marking the further incursion of the banner, owned by Tyler, Texas-based Brookshire Grocery.

Overall, we are poised for growth in south Louisiana, said Ronny Hurst, vice president of Super 1 Foods. We have plans to upgrade five stores located in central or south Louisiana this year. This year will be one of the most exciting we've had in this area in a while with the new store and new projects. Our stores and employees are performing well.

Charles Cornay, a real estate specialist with Stirling Properties, Lafayette, La., said that market has received some interest from expansion-minded operators.

There are a few grocery stores looking to expand in the market, he said, although overall development has been constrained in part by the drilling slowdown.

In addition to the new store planned for Carencro, just outside Lafayette, Super 1 also has two stores in Lafayette, two in

Pineville and one each in New Iberia, Opelousas, Eunice, Abbeville and Alexandria. Brookshire's also has two stores in Natchitoches, La.

Wal-Mart and Independents

Once dominated by Winn-Dixie Stores and a thriving network of independents, New Orleans and the markets east and west along the Gulf Coast have been inundated by a flood of Wal-Mart stores and have witnessed the rise of a new regional powerhouse in Rouses.

Other chains that once had a foothold here, including Albertsons and A&P's Save-A-Center, have either disappeared or been greatly diminished, following a previous wave of regional chains that faded away in the late 1990s, including Schwegmann's, Delchamps and Jitney Jungle.

In addition to Wal-Mart, a few outside chains have planted flagpoles in the region, including Whole Foods Market and The Fresh Market, but the region has long been known for its strong independent operators, said Burt P. Flickinger III, managing partner, Strategic Resource Group, New York.

The pending opening of AWG's Louisiana warehouse will present more choices for the slew of independent operators throughout the Gulf region, he said. It's a market that has historically been one of the best anywhere for independents, but now you have too many wholesalers facing too few stores.

Jay Campbell, president and chief executive officer, Associated Grocers of Baton Rouge, which serves 220 stores from East Texas to eastern Mississippi, said he feels his company is in a good position as AWG encroaches.

They do compete with us, but we have a different model than they do our philosophy of doing business is different, he said. We are confident that our members like the way we do business and go to market.

AWG, he said, operates more like a traditional cooperative, which generates a patronage dividend for members, as opposed to AG, which Campbell said passes through items at the lowest price possible for more immediate savings to independent customers.

We focus on selling at a lower price each day to give the retailer the opportunity to have lower prices every day, and to have a shelf-price presence that is lower every day than any competitor in the marketplace, he said.

Campbell said that in addition to the slowdown in drilling and weakness in residential construction in the region due to an overabundance of existing properties on the market there are some relatively bright spots, including in the chemical and natural gas industries.

Drilling for gas in the Haynesville Shale has been a boon for much of the state, driving up landowner income from leasing permits by nearly \$4 billion a year, according to a 2009 report, and boosting business sales by nearly \$3 billion.

In addition, a recent Forbes magazine report noted the potential for a wide swath of the Gulf Coast to emerge as a more powerful force in international shipping, citing the growth of Latin American economies and the widening of the Panama Canal, set for 2014.

Redistribution of Population

One significant impact Katrina has had on the region, however, has been a redistribution of some population centers, which is not only shifting business patterns, but impacting political power as well.

While Orleans Parish had traditionally been No. 1 or No. 2 in terms of population, East Baton Rouge has now leapfrogged to No. 1, followed by Jefferson Parish at No. 2 and Orleans a distant No. 3.

That's a very sharp shift in population in the five or six years since Katrina, Campbell said.

The population growth areas in the region have been along the Interstate 10 and Interstate 12 corridors, as some people who fled Katrina's floodwaters relocated permanently to new homes.

It also shifts the base of power in the legislature, Campbell said. Where New Orleans once had great representation, now they will have less that's a big event for areas that lost population and an even bigger event in those regions that gained population.

A similar pattern has unfolded in terms of population shift in Mississippi, he explained, where Katrina devastated miles and miles of coastline, and also caused extensive damage inland.

Many people left, and a significant number have not come back below I-10, Campbell explained.

Some of AG's independents, including eight-store LeBlanc's Food Stores, have expanded into areas that have seen population growth, he said. There are some areas in Louisiana and Mississippi where population has migrated to, and our retailers are constantly kicking the tires on new locations they could move into.

Hurst of Super 1 Foods said that chain also experienced an influx of new customers in some markets in Louisiana following the hurricanes, while factors related to the oil spill negatively impacted others.

Campbell pointed out that the local seafood industry has rebounded nicely since the Gulf oil spill of 2010.

This year people are really starting to eat fish and seafood out of the Gulf, he said. The locals were never concerned about it, because we knew they were doing proper testing, but people outside of this area were reliant upon the media, which painted a different picture.

Now the quality and variety of the seafood we are getting out of the Gulf is just outstanding.

As the region's leading seafood retailer, last year's oil spill presented a major challenge for Rouses as the supply for some product was sharply curtailed.

That was something else we had to overcome, and build up again, but we're back seafood sales are back again, and we're building our business, said Donald Rouse.

Homegrown Success

Among traditional supermarket operators, perhaps the best success story has been the growth of homegrown Rouses, which now operates 38 stores following the purchase of A&P's Save-A-Centers in 2007.

Things are going well for us, Rouse told SN.

Getting to this point has not been easy, however, he pointed out, with the challenges thrown up by hurricanes, the oil spill and the acquisition all happening in rapid succession.

We doubled the size of our business it was a big undertaking, Rouse explained. We've still not finished our transition.

Several of the 19 acquired stores are still being remodeled to the Rouses format, which focuses on extensive perishables, locally sourced product, prepared foods and strong service. Though still a work in progress, the acquisition has been a big success for the chain, Rouse said. It brought the company, which has been operating on the outskirts of New Orleans, into the city itself for the first time, and gave it some prime locations.

Some have done [acquisitions] right and made it, and some have not, but we were very fortunate to have been among the winning group, Rouse said.

Just a year after the acquisition of the Save-A-Centers, the region was hit by Hurricane Gustav, temporarily shuttering all but two stores and devastating the stores' perishables inventory.

That was a big problem, said Rouse. We had to overcome a lot in that time.

At the same time, the company transitioned suppliers from Associated Grocers of Baton Rouge, which supplies many of the region's top independents, to C&S Wholesale Grocers, which trucks Rouses' groceries in from a Birmingham, Ala., warehouse.

Rouses also had to beef up marketing to introduce itself to its new customer base, Rouse explained.

We had to change our marketing message somewhat people on the bayou knew us, but while the people in New Orleans knew our name, they really were not familiar with us, he said. That took some time there was a lot of skepticism.

In addition to the new store in downtown New Orleans, the company has a ground-up store in development in Diamond Head, Miss., slated to open by year-end, Rouse said, and a full schedule of remodeling former Save-A-Centers remains under way.

There's a lot of activity in our small company, and we just try to keep focusing on execution.

Rouses' success could impede incursion by other Southern operators that have long been thought to have eyed the market, including regional powerhouses H.E. Butt Grocery Co. of San Antonio and Publix Super Markets of Lakeland, Fla., according to Flickinger.

Rouses scooped up some of the best retail locations in Louisiana through the Save-A-Center purchase including several former Schwegmann's stores. Schwegmann Giant Super Markets, a longtime local power, sold or closed its 24 locations through bankruptcy reorganization in 1999.

[Schwegmann's founder] John Schwegmann Sr. was brilliant at retail and shopping center site selection, Flickinger explained. He had the best sites on Airline Highway, the best sites on Veterans Highway, on all the key highways and intersections, and also great sites on I-10.

With Rouses anchoring those shopping centers, they got some of the best locations in the state, and some of the best locations in the entire Gulf Coast region. People in every parish and in every one of the districts and wards in New Orleans, and surrounding communities, all grew up shopping in Schwegmann locations they were such power centers.

Wal-Mart Stores has gained increasing share in the market, vaulting past Jacksonville, Fla.-based Winn-Dixie Stores to become the No. 1 grocery operator in New Orleans, according to the latest market share data from Metro Market Studies, Tucson, Ariz.

While Flickinger noted that Winn-Dixie has done a heroic job under the leadership of Peter Lynch, its chairman, president and chief executive officer, it is Rouses that has emerged as the growth story among traditional operators.

Several local independents continue to do well in the market, Flickinger said, including local favorite Langenstein's, a high-volume operation with one location each in New Orleans and Metairie, which he described as a spectacular success. Other strong independents in the market include Breaux Mart and Dornignac's Food Center, he noted.

Some independents by comparison seem to struggle, but those that follow the AG [of Baton Rouge] program are better positioned, Flickinger said. It gives people on fixed and limited incomes a way to save on groceries, which can be the biggest expense for a lot of people.

In our pricing surveys in the market, we are seeing some of the independents being very competitive, and we are seeing other independents being very uncompetitive on key items, which allows Wal-Mart to win in a market with some of the highest levels of unemployment and lowest levels of spending power.

In addition, he said, Walgreens has become increasingly competitive as a food retailer in the market as it ramps up its grocery offering.

Minneapolis-based Target Corp., however, may be limited in its growth as a grocery player in the region because of its relative scarcity of traditional discount stores, which it has been converting to carry more groceries in many markets. The chain currently ranks as the No. 5 or 6 player in grocery share in a handful of Gulf markets.

GULF REGION MARKET SHARES

MOBILE, ALA.

GULFPORT/BILOXI, MISS.

NEW ORLEANS

BATON ROUGE, LA.

* Includes Walmart Supercenters, Walmart Markets and discount stores with added grocery.

SOURCE: Metro Market Studies 2011 Grocery Distribution Analysis and Guide