



HOT Market

Report

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Strategic Intelligence

Customer & Market Insights /Regional Supplement
Demographics – Competition – Market Trends

Indianapolis-Carmel, IN





Indianapolis-Carmel, IN

BACKGROUND INFORMATION

With 1.9 million people, the Indianapolis market is the 33rd largest metropolitan area in the United States in terms of population. Since 2000, the area's total population increased 5.6%, compared to the state's 4.4% increase and the country's 7.2% increase. According to the U.S. Census Bureau, in 2007 the Indianapolis metro area's ethnic mix was estimated to be 79.7% Caucasian, 14.1% African American, 4.5% Hispanic or Latino and 1.7% Asian.

Like most other metro areas, Indianapolis has been affected by the housing market decline. The average price of single family homes in Indianapolis was \$94,600 as of the first quarter of fiscal 2009, representing a two year decline of 19.0%. The area's 2007 median household income of \$53,101 is well above the state median (\$47,422) and national median (\$50,740). The area's unemployment rate of 10.7%, not seasonally adjusted, as of June 2009 is nearly double what it was in June 2008, and is higher than the national rate of 9.5% for that month. The major corporate players with headquarters in the area include Eli Lilly and Company, Wellpoint, Thomson SA, Conseco, Steak 'n Shake, Sallie Mae, Rolls Royce, Marsh Supermarkets, Delta Faucet Company and General Motors.

Indianapolis ranked #27 in total grocery sales of all metro markets in 2007, at \$3.68 billion. Since our last report on the area in July 2004, the number of grocery markets has grown 35.0%, from 183 to 247 stores. **Kroger** remains steady as the top grocery retailer, though **Wal-Mart** is catching up, gaining a nearly 3.0% share in the area and moving to the second position from third. Meanwhile, local grocery retailer **Marsh Supermarkets** dropped to the #3 spot after losing its second position in 2006, after a sharp downsizing following its acquisition by Sun Capital. **Meijer** remains at the fourth spot despite losing share. Wholesale clubs **Sam's Club** and **Costco** maintain stability in the fifth and sixth spots, respectively, both close in area volume. **Target** holds the seventh spot, while **Aldi** holds the eighth position, though down from the seventh spot in 2004. **Grace Foods** continues to hold the ninth position, while **Whole Foods** was a 2007 addition to the market and top 10.

Overall, in terms of rankings, the market has experienced very little change since 2004. The wholesale clubs have remained relatively stable, while local retailers Marsh Supermarkets and Meijer struggle to maintain share. Meanwhile, discounters Wal-Mart and Aldi continue to open stores capitalizing on the lagging economy and consumers' thirst for value.

The following chart lists the counties included in the Indianapolis metro market:

County Definition			
Boone	Brown	Hamilton	Hancock
Hendricks	Johnson	Marion	
Morgan	Putnam	Shelby	

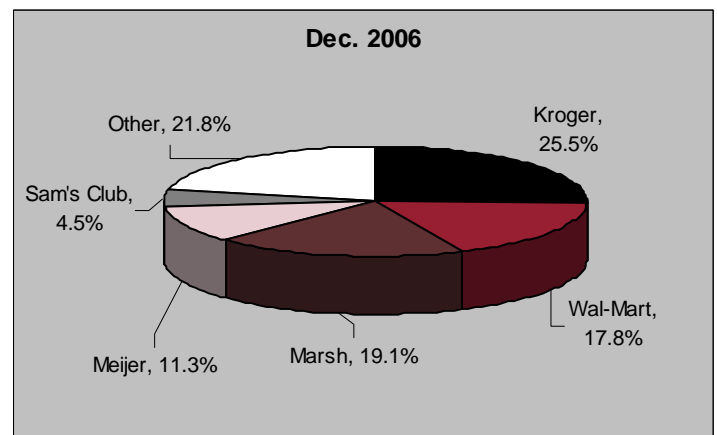
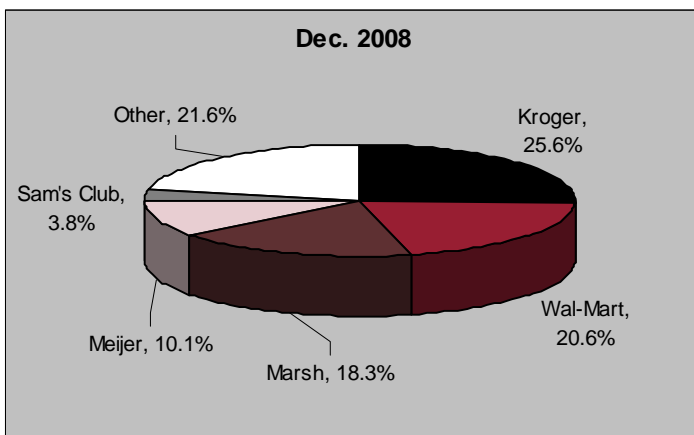
The following chart shows the grocery retailers that operate within the Indianapolis market, the number of stores that each operates, the market share held as of December 2008 and the average market sales per chain:

FOOD RETAILERS			
<u>Retailer</u>	<u>Number of Stores</u>	<u>Market Share %</u>	<u>F&D Estimated Market Sales (\$ in millions)</u>
Kroger	46	25.6%	\$ 943.2
Wal-Mart	22	20.6%	\$ 759.0
Marsh Supermarkets	50	18.3%	\$ 674.3
Meijer	9	10.1%	\$ 372.1
Sam's Club	5	3.8%	\$ 140.0
Costco	2	3.6%	\$ 132.6
Target	5	3.3%	\$ 121.6
Aldi	18	2.2%	\$ 81.1
Grace Foods	7	1.7%	\$ 62.6
Whole Foods	2	1.3%	\$ 47.9
Other	81	6.2%	\$ 228.4
Total	247	100.0%	\$ 3,684.5

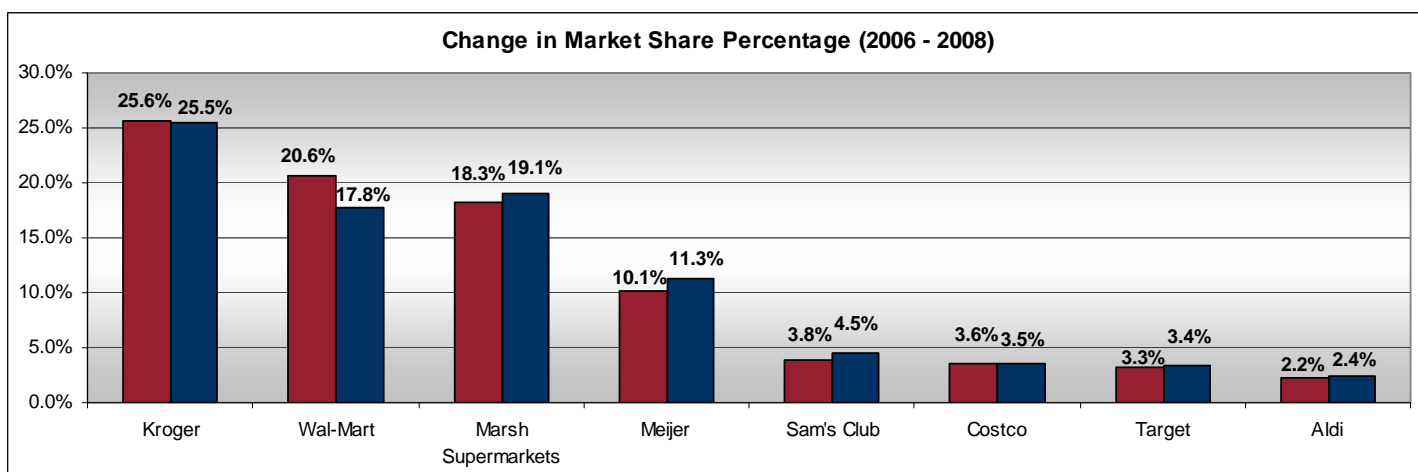
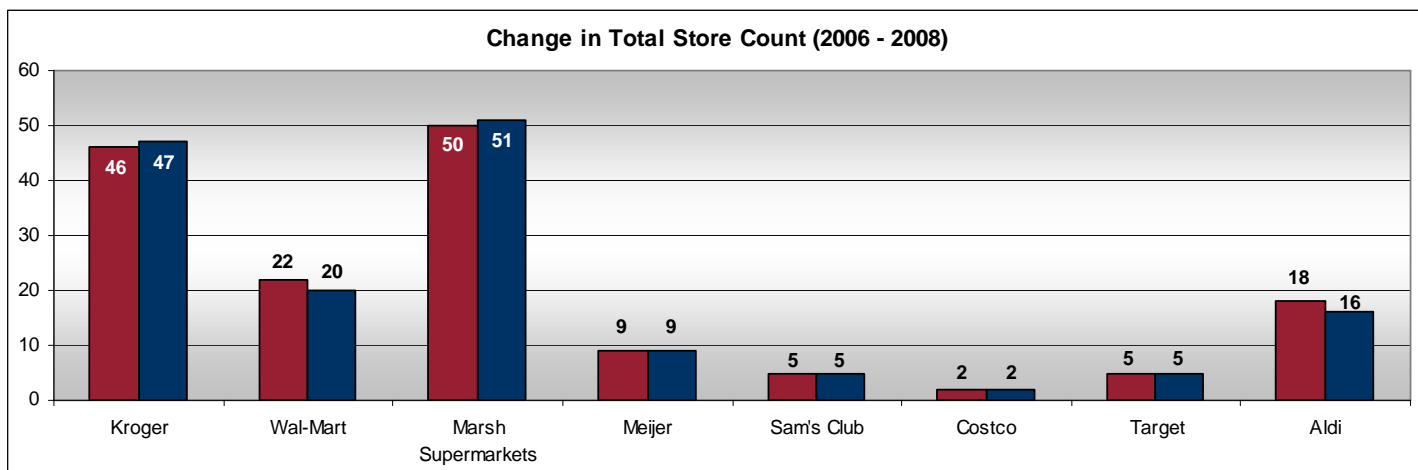
Market share data provided by Metro Market Studies

www.metromarketstudies.com

The following graphs represent the Indianapolis retail grocery market share composition for the years ended December 2008 and December 2006:



The charts below show the shift in market share and store count for the Indianapolis market food retailers over the past two years:



Dec. 2008
 Dec. 2006

SUPERMARKET ACTIVITY

Kroger operated 46 stores in Indianapolis as of December 2008 and has a 25.6% share, dominating the area with 42 Kroger stores, three Sav-Ons and one Jac C store. Overall, Kroger has nearly 2,500 stores nationwide, including at least 70 in the state of Indiana. Within the market, the Company has seen its share ease modestly in recent years, down a full percentage point since 2005; this is mostly related to the net closure of two stores. However, in January 2009 the Company opened its first new Indianapolis location in several years and announced plans to begin construction on a second unit, anticipated to open by year end. This is in addition to growth in Fort Wayne in northeast Indiana, where the Company is replacing three stores, expanding two and remodeling another three. Meanwhile, Kroger closed an unprofitable store in Indianapolis in June 2009, leaving the store count at 46 pending the second store opening later this year.



Wal-Mart operates 22 stores, including 19 supercenters and three neighborhood markets, and holds a 20.6% market share. As one of the few retailers adding stores and gaining share in the market, Wal-Mart has opened four stores since 2005 while its share climbed from 14.5% to 20.6%. In 2006, it moved up from its traditional third spot, surpassing local retailer Marsh Supermarkets. In the face of a climbing national unemployment rate, Wal-Mart announced in June 2009 that it will add or expand about 150 supercenters nationwide next year. In July 2009, the Company announced plans to remodel five of its 22 stores in the market to its “next gen” supercenter store design as part of a nationwide renovation of 70% of its stores over the next five years. The first has already undergone renovation and the Company expects to update additional stores on top of the five next year. Meanwhile, **Sam’s Club** has remained largely unchanged, with the same five stores and a relatively stable market share. Though it maintained its fifth spot, it lost 50 basis points in 2007 and then slipped slightly again in 2008.

As its home turf, Indianapolis is the predominant market for **Marsh Supermarkets**, which has 104 stores located in Indiana and Ohio. It currently operates 50 supermarkets in the metro area and it holds an 18.3% market share. Once the second largest grocery retailer in Indianapolis based on sales, Marsh dropped to third place in 2006, trading places with Wal-Mart; that same year the Company was bought out by Sun Capital Partners for \$325.0 million, plus assumption of debt. In July 2007, the Company announced plans for a restructuring program, for which it spent approximately \$30.0 million during its fiscal years 2008 and 2009. Along with corporate staff cutbacks and the sale/leaseback of 27 stores, its headquarters and two distribution centers, Marsh sold off its McNamara Florist division and Village Pantry convenience stores. At the same time, it converted all of its no frills LoBill and O’Malia Foods stores to either Marsh Hometown Markets or Marsh the Marketplace. Meanwhile, capital expenditures for the current fiscal year have been cut in half as comps continue to be negative for the third consecutive quarter.

Meijer continues to operate the same nine stores it has had in the market for several years, with its current share at 10.1%. The Company has been unable to gain share in Indianapolis since its peak in 2006 at 11.3%, after which it fell steeply in 2007 and then again in 2008. In fact, Meijer has suffered recently, according to management, due to competition from Wal-Mart. In response to a highly competitive environment, Meijer eliminated 500 corporate store managers in August 2007 and reassigned another 4,000 employees. In March 2009, the Company announced plans to expand its distribution center in Newport, MI from 852,000 square feet to 1.2 million square feet, in preparation for more growth in the Midwest. Then in June 2009, following the footsteps of several other big chains, Meijer opened a 102,000 square-foot store in the Chicago market, approximately half the size of a typical store. If the new format proves successful, management indicated that it will “definitely consider” additional stores in other markets.

Costco hasn’t changed since it entered the market in 2004 with two stores and a 3.9% share, just 30 basis points above its current share of 3.6%. It also hasn’t moved from the same sixth position it held five years ago. **Target** has also been consistent with no store openings in recent years, and its market share remaining relatively unchanged since 2004, when it had a 3.2% share. Currently, Target has five SuperTargets and a 3.3% hold on the market. It has also consistently maintained the seventh spot in the market area for several years.

Aldi operates 18 stores and has a 2.2% market share in the Indianapolis metro area. As far back as 2003 the Company has maintained 16 stores, but in 2008 it opened two additional units in the market. Since Aldi is a no frills discount food retailer selling 85% private labels, the current global economic downturn has helped drive traffic into its stores, which has encouraged the Company to open its staple small format stores in new U.S. markets. While Aldi originally planned to open 75 units this year on top of the 100 units opened last year, the Company has already boosted the number to 80 units, including one relocated store and one new unit opened earlier this year in Indianapolis.

FUTURE OUTLOOK

The Indianapolis, IN market continues to be dominated by the presence of Kroger and Wal-Mart, both of which have plans for growth this year or next. Wal-Mart's massive national growth plans for next year could prove to be an even greater threat to local grocery chain Marsh Supermarkets, which has undergone a storewide remodeling and conversion program in response to slowing traffic. To combat competition from Wal-Mart, Meijer has lowered its pricing several times and has become more promotional than ever. Meanwhile, low price and limited assortment operator Aldi is also planning to expand its presence in the U.S. and has already added two of its smaller format stores in Indianapolis. Target remains stable as the Company focuses its growth elsewhere.

Although there has been some movement in the market in recent years, Indianapolis hasn't changed significantly and is unlikely to experience many dramatic changes in the near future. For the time being, both Wal-Mart and Aldi are making strides in growth, taking advantage of consumers trading down during the recession.

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