Food Retailing

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Foodstore sales growth slowed over 1997-2002, as competition for the consumers' food dollar intensified from nontraditional retailers selling food, and from food service outlets. Retailing profits stayed relatively high, however. Food retailers sought operational cost savings both in procurement and selling, in part through the greater use of information technologies. Mergers and acquisitions, including investor takeovers, continued to play an important role, building on a consolidation wave that began after 1996. Meanwhile, investment and acquisitions in U.S. food retailing by overseas retailers increased. Employment growth slowed as retailers aimed to contain growth in payrolls and improve productivity. Labor productivity has increased since 1997 as a result, reversing a long-term decline.

Introduction

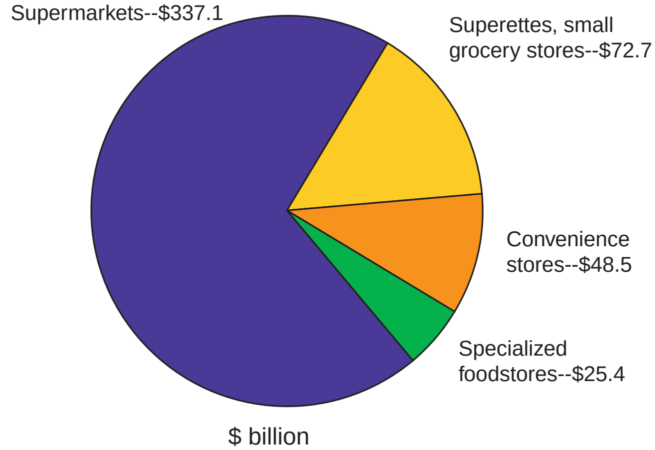
Foodstore sales have grown slowly in recent years (after adjusting for inflation), due to slow population growth and heightened competition by other retailers selling food. In addition, food service operators—including restaurants and fast-food outlets—increased their share of consumers' food spending during 1997-2002, continuing a long-term trend. The economic downturn of 2000-2001 has likely contributed to depressed foodstore sales as many consumers aim to curb food spending and seek out lower cost shopping alternatives.

Long-term trends show that as household incomes increase, a larger share of food spending is devoted to prepared foods and meals. In addition, foodstores face increasing competition from other retailers selling food products, including mass-merchandisers and warehouse club outlets. In order to gain sales, supermarket operators made efforts to increase consumer satisfaction by introducing natural food products, developing or improving prepared food offerings, promoting store/private label brands, introducing self-scanning checkout stations, expanding frequent shopper card programs, and offering online home shopping services.

Sales and Sales Growth

Foodstore sales reached $483.7 billion in 2000, an increase of 5.5 percent over 1999 receipts (fig. 3-1, table 3-1). Grocery stores accounted for 94.9 percent of foodstore sales in 2000. Specialized foodstores made up the remainder of sales (see box, p.23, for definition of terms).

Figure 3-1
U.S. foodstore sales, 2000



Source: Census of Retail Trade; ERS, USDA.

Supermarket sales reached $337.1 billion in 2000 (the most recent year available)—an increase of 3.5 percent over 1999 (table 3-2). However, inflation-adjusted growth was flat, as prices of food and nonfood items sold in supermarkets increased by an almost equal amount. Supermarket sales growth has been relatively flat over 1990-2000, as food service and other retail outlets selling food compete for a share of consumers' food spending.

Table 3-1—Foodstore sales by segment, 1980-2000[1]

Year	Foodstores Total	Grocery stores[2] Total				Specialized foodstores
		Total	Supermarkets	Convenience stores	Superettes small grocery stores	
			$ million			
1980	220,224	205,630	157,000	18,900	29,730	14,594
1981	236,188	220,580	165,500	22,800	32,280	15,608
1982	246,122	230,696	171,966	19,500	39,230	15,426
1983	256,018	240,402	184,568	21,032	34,802	15,616
1984	271,909	256,465	193,059	24,565	38,841	15,444
1985	285,062	269,546	203,129	25,700	40,717	15,516
1986	297,019	280,833	213,448	26,406	40,979	16,186
1987	309,461	290,979	219,890	30,641	40,448	18,482
1988	325,483	307,173	230,640	31,398	45,135	18,310
1989	347,045	328,072	247,312	34,641	46,119	18,973
1990	368,333	348,243	261,700	37,019	49,524	20,090
1991	374,523	354,331	270,180	37,883	46,268	20,192
1992	377,099	358,148	275,512	39,145	43,491	18,951
1997	382,709	363,583	281,933	39,792	41,858	19,126
1996	394,216	374,645	290,631	40,316	43,698	19,571
1995	402,479	382,246	300,415	39,591	42,240	20,233
1996	414,325	393,389	306,025	41,056	46,308	20,936
1997	423,725	402,310	312,504	44,358	45,448	21,415
1998	435,383	412,720	316,240	47,941	48,539	22,663
1999	458,269	434,695	325,684	47,247	61,764	23,574
2000	483,698	458,256	337,083	48,486	72,687	25,442

[1] Sales reporting based on Standard Industrial Classification (SIC) code definitions.
[2] Excludes supercenter and warehouse club store sales.

Sources: Census of Retail Trade, various years; *Progressive Grocer* magazine, and ERS estimates.

Supermarkets accounted for 73.5 percent of grocery store sales in 2000, marking the lowest share in 10 years and continuing a steady downward trend since 1995 (table 3-2). Supermarket retailers continue to expand their stores both in floor space and number of products offered. Due to higher fixed costs, these larger supermarkets must serve an expanded customer base in order to meet minimum sales requirements. As a result, the number of supermarkets has steadily declined, from 27,765 stores in 1985 to 24,640 supermarkets in 2000 (table 3-2). Meanwhile, average supermarket floor space has grown to accommodate an increasing array of products and services consistent with the "one-stop shopping" concept. And the median number of unique items (according to brand, package size, and type) carried has expanded from an estimated 14,000 in 1980 to 40,333 items in 1999 (FMI, 2000).

Convenience stores, another grocery store segment, had estimated sales of $48.5 billion in 2000, an increase of 2.75 percent over 1999 sales, and 9.3 percent above sales in 1997, the most recent census reporting year. The number of convenience stores rose to 55,125 in 1997, up from 53,783 stores in 1992, the most recent reporting years (Census of Retail Trade, 1992 and 1997). During that time, convenience stores with gasoline sales increased from 42.8 percent of all convenience stores to 51 percent of stores. Convenience store retailers have encountered competition from major petroleum-based operators who have sought growth by expanding their gasoline outlets to include convenience store products. According to *Convenience Store News* (CSN), 96 percent of new convenience stores included gasoline pumps in 2000. However, as other retailers—including warehouse club stores, mass-merchandise retailers, and supermarkets—are adding onsite fuel centers, growth in gasoline sales among convenience stores is likely to slow (CSN Industry Report).

Other grocery stores, which include superettes, "mom and pop" grocery stores, delicatessens, and bodegas (see box, p. 23), accounted for $72.7 billion in 2000, or 16 percent of total grocery store sales. These grocery retailers are typically concentrated in both low-density rural areas where supermarkets are less feasible, and in high-density urban neighborhoods where supermarkets are less accessible. Many urban grocery stores may also offer more ethnic and specialty foods to serve local neighborhoods.

Coming to Terms—A Guide to Retail Food Outlets

Foodstore. A retail outlet having at least 50 percent of sales in food products intended for off-premise preparation and consumption.

Grocery Store. A foodstore that sells a general line of food products, such as canned and frozen foods; fresh fruits and vegetables; fresh and prepared meats, fish, and poultry; and nonfood grocery products. Supermarkets, superettes and small grocery stores, and convenience stores are included.

Supermarket. A grocery store, primarily self-service, providing a full range of food departments, having sales equivalent to $2 million or more in 1980 dollars. A number of supermarket formats have evolved:

- Conventional. The original supermarket format containing all major food departments, nonfood grocery, and limited general merchandise products. May offer service deli and bakery departments.
- Superstore. A supermarket, larger in size and offering a greater number of unique items carried than a conventional supermarket. General merchandise and personal care products account for at least 10 percent of sales.
- Combination food and drug. A supermarket containing a pharmacy and nonprescription medicines, combined with the larger variety and size of a superstore format.
- Warehouse store. A “no frills” supermarket with limited product variety and fewer services than a conventional supermarket, incorporating case-lot stocking and shelving practices. An expanded “superwarehouse” format adds greater variety and often includes service deli, meat, seafood, and bakery departments.
- Limited-assortment store. An “economy” supermarket offering fewer than 2,000 unique items, and limited perishable products.
- Hypermarket. The largest supermarket formats, typically 150,000 square feet or more of selling area. General merchandise accounts for 40 percent of sales, while food and nonfood grocery products represent 60 percent of sales.

Convenience store. A small grocery store, selling a limited variety of food and nonfood products, typically open extended hours. Customers normally use a convenience store to purchase a few items, whereas grocery stores are used for large, volume purchases. Convenience stores normally have less than 2,500 square feet of total under-roof floor space. Many convenience stores operate gasoline pumps.

Superette. A grocery store, primarily self-service, offering all five major supermarket departments but having annual sales less than $2 million in 1980 dollars.

Small grocery store. A “neighborhood” or “mom and pop” grocery store offering limited staple foods and nonfood items.

Specialized Foodstore. A foodstore primarily engaged in the retail sale of a single food category such as meat and seafood markets, dairy stores, candy and nut stores, and retail bakeries.

General Merchandise Stores. These retail outlets include discount/mass-merchandise stores selling general merchandise and food products, excluding department stores. They include warehouse club stores and supercenters.

Warehouse Club Stores. A membership-based wholesale-retail hybrid outlet, serving both small businesses and individual consumers. Both grocery products (in large and multipack sizes) and a wide variety of general merchandise are offered.

Supercenter. A large combination supermarket and discount general merchandise store, with grocery products accounting for up to 40 percent of selling area.

Table 3-2—Number and sales of supermarkets[1]

Year	Minimum annual sales needed to classify as a supermarket[1]	Stores[2]	Sales[3]	Share of grocery store sales
	$1,000	*Number*	*$ million*	*Percent*
1958	747	15,185	23,245	51.3
1963	763	20,990	30,846	59.3
1967	826	23,305	41,381	64.4
1972	1,000	26,997	63,205	67.7
1977	1,545	29,699	112,018	73.9
1982	2,266	27,141	171,140	74.2
1983	2,322	27,331	184,354	76.7
1984	2,403	27,440	193,561	75.5
1985	2,453	27,765	203,129	75.4
1986	2,554	27,494	213,448	76.0
1987	2,659	26,227	222,861	76.6
1988	2,786	25,845	233,408	76.0
1989	2,956	25,287	249,850	76.1
1990	3,138	25,004	262,224	75.1
1991	3,257	24,908	270,598	76.4
1992	3,299	25,088	275,865	77.0
1993	3,375	25,611	281,300	76.9
1994[3]	3,469	24,557	289,030	76.3
1995	3,518[4]	24,749	290,631	78.6
1996	3,751[4]	24,205	306,025	77.8
1997	3,832[4]	24,600	312,504	77.7
1998	3,928	24,364	316,240	76.8
1999	4,038	24,430	325,681	75.2
2000	4,180	24,640	337,083	73.5

[1] To be classified as a supermarket, a grocery store had to generate annual sales of at least $1 million in 1972; other years calculated using a price index of prices of all products sold in grocery stores in order to account for inflation. Sales exclude sales taxes.
[2] Supermarkets open at year-end.
[3] Includes food and nonfood.
[4] Revised using price index with current-year weights.

Sources: *Progressive Grocer Magazine* annual industry report, and ERS.

Specialized foodstores—including retail bakeries, produce markets, meat and seafood markets, and dairy stores—accounted for sales of $25.4 billion in 2000. The largest segment—retail bakery stores, which include on-premise baking and selling outlets—had sales of $8 billion, followed by meat, fish, and seafood markets ($7.4 billion). The growing popularity of cookie shops and bagelries has contributed to the expansion of the retail bakery segment. All other specialized foodstore sales—including candy and nut shops, dairy stores, produce markets, and health and nutrition stores—amounted to $10 billion in 2000.

Traditional food retailers are competing not only among themselves, but with other retailers selling comparable food and nonfood grocery products. These nontraditional food retailers include mass-merchandisers (Wal-Mart, Kmart, and Target, for example), warehouse club stores (Costco, Sam's, and BJ's, for example), as well as other retailers, including drugstores, department stores, gasoline stations, and liquor stores.

Nontraditional food retailers accounted for 24.5 percent of total food sales ($105.2 billion) in 2000 (USDA, 2002). Mass merchandisers (including supercenters) and warehouse club stores were the fastest growing segment, with food sales accounting for 8.5 percent of the total in 2000, up from 1.5 percent in 1990. Mass merchandisers have increased the number of supercenters, a very large store consisting of a discount general merchandise store and a self-contained supermarket area within it. Wal-Mart is in the forefront of this growth by rapidly expanding their supercenter outlets. In 2001, Wal-Mart operated 888 supercenter stores in the U.S., while Kmart, the second largest mass merchandiser, operated 104 supercenters.

Other retailers—including drugstores, department stores, gasoline stations, and liquor stores—made up the largest segment of food sales by nontraditional retailers (11.1 percent), amounting to $47.5 billion in 2000, up from 6.3 percent in 1990. Drugstores have added dry grocery items to their shelves in recent years, and gasoline stations have added convenience marts selling beverages and snack foods. Meanwhile, supermarkets' share of retail food sales fell to 58.6 percent in 2000, from 61.6 percent in 1990.

Supermarkets and Supermarket Formats

A number of different supermarket formats have arisen in order to tailor products and services to identifiable consumer segments (see box, p. 23). Introduced in the 1980s, these new formats include superstores, combination food and drug stores, warehouse and limited-assortment stores, superwarehouse stores, and hypermarkets. Grocery retailers have looked to supermarket formats as a growth-seeking strategy. For example, warehouse and superwarehouse stores are no-frills outlets that appeal to price-conscious consumers who are willing to forgo some services and product variety. As a result, the conventional supermarket has been eclipsed by the more focused supermarket formats. Combination food-and-drug supermarkets grew from less than 4.0 percent of sales in 1980 to 24.3 percent by 2000 as many retailers pursued sales growth in pharmacy and personal care products. The share of conventional supermarkets fell to 40.2 percent in 2000 from 80.2 percent in 1980, while their share of sales dropped from 73.1 percent to 18.8 percent over the period (table 3-3).

Grocery retailers continue to experiment with supermarket formats as a competitive strategy. In the past several years, natural food retailers (Wild Oats, Whole Foods, Trader Joe's) have developed supermarket-sized stores to address the needs of more health-

Table 3-3—Supermarket number and sales, by format[1]

	1980	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
						1,000						
Number:												
Supermarkets[3]	26.8	24.5	24.7	25.0	25.7	24.7	25.3	24.2	24.6	24.4	24.4	24.6
Conventional	21.5	13.2	12.6	12.9	13.4	12.2	12.3	11.6	11.6	10.9	10.3	9.9
Superstore[4]	3.2	5.8	5.9	6.0	6.3	6.5	6.8	7.1	7.3	7.4	7.6	7.9
Warehouse[5]	1.7	3.4	3.5	3.4	3.1	2.9	2.7	2.4	2.2	2.2	2.4	2.4
Combination food and drug[6]	0.5	1.6	2.1	2.1	2.2	2.4	2.7	2.4	2.8	3.2	3.4	3.7
Superwarehouse[7]	--	0.3	0.5	0.5	0.5	0.5	0.6	0.5	0.5	0.5	0.5	0.5
Hypermarket[8]	--	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
						$ billion						
Sales:[2]												
Supermarkets[3]	157.0	261.7	270.2	275.5	281.3	290.6	300.4	306.0	312.5	316.2	325.7	337.3
Conventional	114.7	92.3	83.1	83.5	78.9	79.5	76.4	67.7	64.2	65.3	63.6	63.4
Superstore[4]	27.8	87.6	91.1	94.5	100.6	107.6	116.7	127.0	132.9	133.8	138.9	142.4
Warehouse[5]	6.6	33.1	35.3	33.6	31.9	27.7	20.7	24.3	22.2	19.3	20.9	22.0
Combination food and drug[6]	6.3	29.3	40.9	42.8	45.8	51.7	59.3	61.3	64.7	72.0	75.5	81.8
Superwarehouse[7]	1.6	12.6	13.8	14.1	15.3	16.2	17.8	15.3	16.6	16.7	17.1	17.4
Hypermarket[8]	NA	6.8	6.0	7.0	8.8	7.9	9.5	10.4	11.9	9.1	9.7	10.3

-- = Less than 0.05 percent. NA = Not available.

[1] Estimates based on *Progressive Grocer*, company annual reports, and Willard Bishop Consulting, *Competitive Edge*.

[2] Includes nonfood items.

[3] A grocery store, primarily self-service in operation, providing a full range of departments, and having at least $2.5 million in annual sales in 1985 dollars.

[4] Contains greater variety of products than conventional supermarkets, including specialty and service departments, and considerable nonfood (general merchandise) products.

[5] Contains limited product variety and fewer services provided, incorporating case-lot stocking and shelving practices.

[6] Contains a pharmacy, a nonprescription drug department, and a greater variety of health and beauty aids than that carried by conventional supermarkets.

[7] A larger warehouse store that offers expanded product variety and often service meat, deli, or seafood departments.

[8] A very large store offering a greater variety of general merchandise—like clothes, hardware, seasonal goods, and personal care products—than other grocery stores.

conscious consumers, while ethnic-oriented formats are likely to appeal to the growing population of immigrant households.

Mergers and Acquisitions

The number of major acquisitions has risen sharply since 1996, as large food retailers opted to grow through acquisition of other retailers rather than investing in new stores. Cost savings, in the form of reduced headquarters and management expenses and lower procurement costs, were often cited by these retailers as benefits to the acquiring firms. The recent consolidation may also be a response to increased food sales by nontraditional retailers and the growth of the food-away-from-home sector, including restaurants and fast-food outlets.

The number of food retailers acquired fell from 50 in 1999 to 35 in 2000 (Food Institute, 2001) (table 3-4). Of the acquisitions in 2000, 22 of these represented purchases of a portion of another food retailer's assets, such as one or more individual supermarkets, while the remaining 13 acquisitions consisted of food retailers' entire assets.

Over 1997-2000, 4,100 supermarkets were acquired, accounting for combined annual sales of $69.3 billion. The Pacific region led in supermarkets merged or acquired (1,333), but inter-regional acquisitions posted the highest sales of supermarkets acquired ($24.2 billion) (fig. 3-2).

Food retailers announced two blockbuster mergers in 1998. Kroger, the largest grocery retailer in the United States in 1997 with sales of $26 billion, acquired sixth-largest supermarket operator Fred Meyer. In 2000, the consolidated retailer had $49 billion in combined sales, and operated 2,210 supermarkets in 31 States (and 816 convenience stores in an additional 6 States).

Also in 1998, the fourth-largest U.S. food retailer, Albertson's, initiated its merger with second-ranked American Stores—operator of Lucky Stores, Jewel, and Acme Markets. The combination became the second-largest grocery retailer, operating 1,796 supermarkets in 38 States.

Among other significant developments:

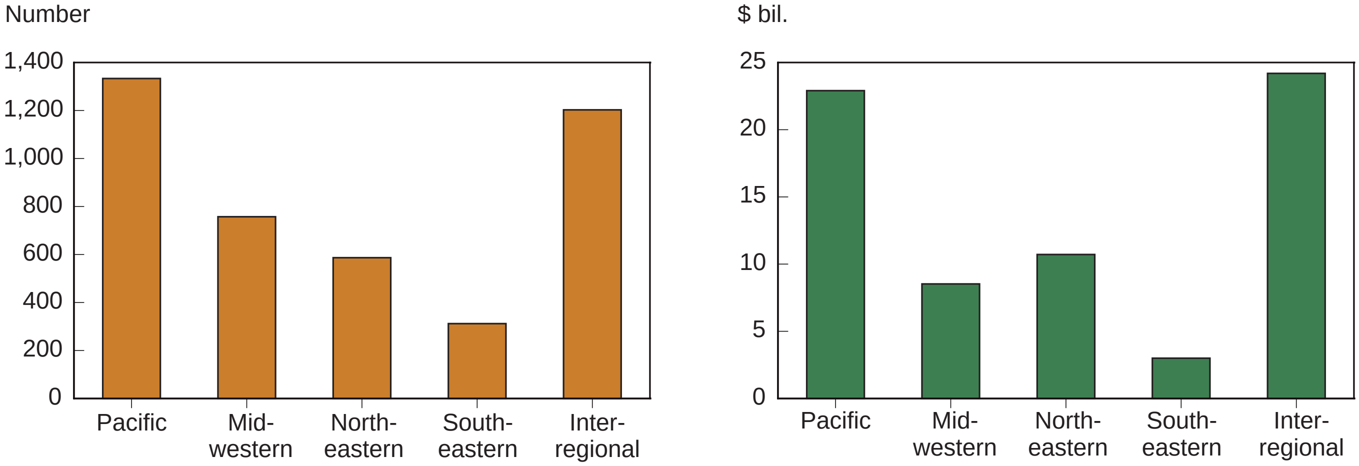
- In 2001, Ahold, USA, a subsidiary of Royal Ahold, the Netherlands, acquired Bruno's Supermarkets, operator of 169 supermarkets in Alabama, Georgia, Florida, and Mississippi. As a condition for the acquisition, the Federal Trade Commission required the sale of two of Ahold's BI-LO supermarkets in Georgia where competition would have been "substantially reduced."
- In 1998, Ahold purchased Giant Food, Inc. (Landover, MD), operator of 176 combination food and drug supermarkets in the Washington, DC, metro area. Giant Food had sales of $4.2 billion in 1998, the year of the takeover. Ahold has expanded

Table 3-4—Mergers and divestitures in food retailing

Year	Acquisitions of food retailers: By U.S. food retailing firms	Acquisitions of food retailers: By all other firms	Acquisitions of food retailers: Total	Divestitures
	Number			
1984	37	23	60	28
1985	36	16	52	33
1986	56	35	91	57
1987	39	26	65	34
1988	41	35	76	51
1989	28	25	53	37
1990	14	23	37	22
1991	20	15	35	28
1992	17	12	29	24
1993	22	17	39	23
1994	41	19	60	49
1995	27	15	42	14
1996	25	12	37	22
1997	38	11	49	26
1998	35	16	52	14
1999	41	9	50	33
2000	30	5	35	22

Source: Food Institute. "*Food Business Mergers and Acquisitions*" (annual).

Figure 3-2
Number and sales of acquired supermarkets, 1997-2000



Sources: *Food Business Mergers and Acquisitions*, The Food Institute; company annual reports; company press releases.

its U.S. subsidiary primarily through buyouts of supermarket retailers.

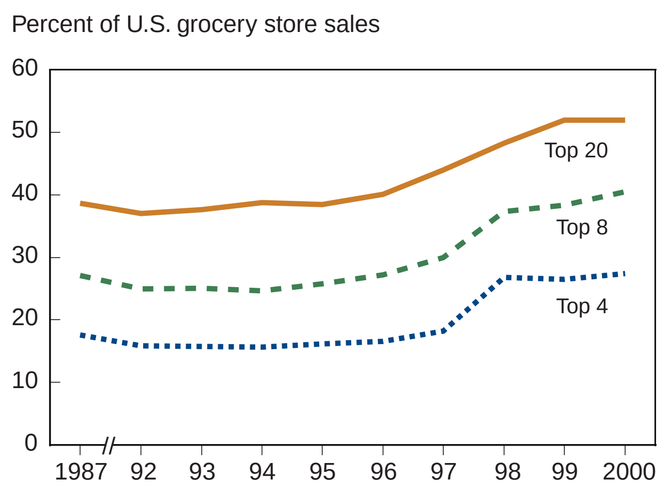
- In 2001, third-ranked Safeway (Oakland, CA) purchased Genuardi's Family Markets, operator of 39 supermarkets in Pennsylvania, Delaware, and New Jersey. The acquisition was preceded by the purchases of 116-store retailer Randalls Food Markets (Houston, TX) for $1.8 billion (1999); and Dominick's, operator of 115 supermarkets in the Chicago metro area.
- First-ranked Kroger Co. (Cinncinati, OH) also took over 74 supermarkets in Oklahoma and Texas from seventh-ranked Winn-Dixie in 2001.
- In 2000, Delhaize America, operator of Food Lion in the southeastern U.S., purchased Hannaford Bros. Shop & Save supermarkets (New England) to become the eighth-largest grocery retailer.
- Also in 2000, Shaw's supermarkets (12^{th}-ranked nationally) acquired Star Markets, operator of supermarkets in the Boston, MA, metro area, for $1.08 billion.

These mergers are part of a recent strategy among the largest U.S. grocery store retailers, in part, to seek growth opportunities and operating economies. Although consolidation contributed to increased share of sales by the largest 20 firms, most transactions did not involve local geographic areas common to both acquiring and acquired firms, thereby limiting potential anticompetitive effects in cities and towns (see Public Policy Issues and Developments, p. 32).

Aggregate Concentration

The largest 4, 8, and 20 food retailers accounted for 27.4, 40.5, and 52.0 percent of the Nation's grocery store sales in 2000, representing significant gains since 1996. In prior years, sales shares had been relatively stable, despite turnover among the leading grocery retailers (fig. 3-3, app. table 18). Because food retailers compete for sales in local markets such as cities and towns, national concentration measures are not comparable with those of food manufacturing industries, whose markets are regional or national. Nevertheless, aggregate concentration is an indicator

Figure 3-3
U.S. food retailing concentration



Sources: Monthly Retail Trade Survey, Census Bureau; Company annual reports.

of changing structure and organization of the food retailing industry. Growing retailer concentration also has potential implications for upstream purchases; as food retailers become fewer but larger, they are able to negotiate more favorable procurement and marketing services terms.

Between 1997 and 2000, the four largest retailers' share rose from 18.2 to 27.4 percent of U.S. grocery store sales. Three of the leading four retailers relied extensively on mergers and acquisitions in order to become larger. Kroger and Albertson's carried out major acquisitions in 1998 and 1999. Safeway also purchased regional supermarket operators. In contrast, fourth-ranked Wal-Mart Supercenters grew internally by greatly expanding the number of supercenter outlets since their introduction in 1988 (table 3-5).

The eight largest retailers' share of sales increased from 29.9 percent to 40.5 percent between 1997 and 2000. Fifth-ranked supermarket retailer Ahold USA—a subsidiary of Royal Ahold, the Netherlands—made a series of acquisitions in the New England and Mid-Atlantic regions, boosting its sales 52 percent since 1997. Eighth-ranked Delhaize, operator of Food Lion supermarkets in the southeastern U.S. contributed to sales share gains through its acquisition of Hannaford in the New England region.

Acquisitions by lesser retailers also contributed to increasing sales share of the largest 20 grocery retailers, which rose from 43.9 percent in 1997 to 52 percent in 2000. Twelfth-ranked Shaw's Markets grew almost 30 percent with its acquisition of Star Markets (Boston, MA) in 2000. Raley's Supermarkets increased its sales by 46 percent through the purchase of Albertson's stores in Nevada and New Mexico.

Employment and Wages

Foodstore employment reached 3.5 million in 2000, a gain of 1.2 percent over 1997 employment (app. table 11). Of that total, 88 percent were employed in grocery stores. Since 1990, foodstore employment growth has averaged 0.9 percent annually. Employment measures exclude nontraditional retailers such as supercenters and warehouse club stores, which, if included, would considerably bolster total employment and growth rates.

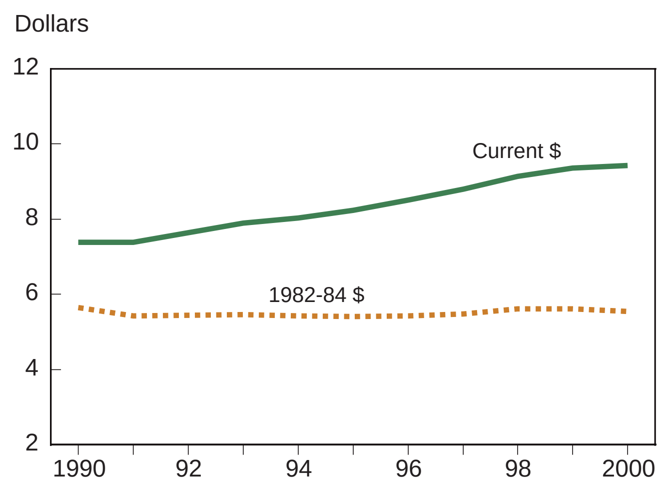
Average hourly earnings of foodstore employees rose to $9.38, up 1.2 percent from 1999 levels (app. table 27). On a real, inflation-adjusted basis, hourly earnings fell slightly, to $5.54 in 2000, compared with $5.61 in 1999 (fig. 3-4). Real wages have been stable year to year since 1990, as inflation has matched nominal wage gains. Average hourly earnings do not include lump-sum payments and bonuses, such as those earned from a company profit-sharing plan.

Many foodstore employees are also members of a labor union. Labor unions such as the United Food and Commercial Workers (UFCW) negotiate on behalf of their members with the retailers concerning wages, benefits, work rules, and grievance procedures. These terms and conditions are incorporated into a labor contract having a specified duration, usually 1 to 3 years. Typically, when a contract expires, the union's local chapter must renegotiate with an industry council consisting of the major grocery retailers in the market area, such as a city and its suburbs. Many nonunion retailers are often present in these market areas as well, including smaller supermarket operators, mass-merchandise stores, and warehouse club stores.

Performance

Performance measures of the food retailing industry serve as indicators of relative economic efficiency. These measures include various financial statistics, labor productivity indexes, and the introduction of new technology and innovation. In recent years, food retailers have lowered procurement and operating costs, introduced new innovations, and achieved efficiency gains.

Figure 3-4
Average hourly earnings for U.S. grocery stores



Source: *Current Employment Statistics*, U.S. Bureau of Labor Statistics.

Table 3-5—Sales of the largest 20 U.S. grocery retailers in 2000[1]

Rank (2000)	Company	Sales 2000	1999	1998	1997
		$ billion			
1	The Kroger Company/Fred Meyer	49.0	45.3	43.1	33.9
2	Albertson's, Inc. / American Stores, Inc.[2]	31.5	28.9	16.0	14.7
3	Safeway Stores, Inc.[3]	28.5	25.5	21.2	19.1
4	Wal-Mart Supercenters[5]	22.9	15.7	12.8	11.5
5	**Ahold, USA[4]**	21.8	20.3	16.1	14.3
6	Publix Supermarkets	14.7	13.1	12.1	11.2
7	Winn-Dixie Stores	13.7	13.9	13.9	13.2
8	**Delhaize America (Food Lion, Hannaford)**	12.7	10.9	10.5	10.2
9	**Great Atlantic & Pacific Tea Co.**	8.2	8.0	8.3	8.3
10	Supervalu[7]	8.1	6.3	5.1	4.7
11	H.E. Butt Grocery Company	7.9	7.5	6.9	6.5
12	Shaw's Supermarkets	4.0	3.1	2.8	2.5
13	**Southland Corporation (7-Eleven)**	3.9	3.8	4.1	4.0
14	Raley's	3.8	2.6	2.5	2.0
15	Pathmark Stores	3.8	3.7	3.7	3.7
16	Meijer Inc.[6]	3.5	3.6	3.0	2.8
17	Hy-Vee Food Stores, Inc.[8]	3.4	3.3	3.2	2.9
18	Fleming[7]	3.3	2.2	2.1	2.0
19	Wegman's Food Markets	2.8	2.3	2.4	2.3
20	**Aldi USA, Inc.**	2.5	2.0	2.4	1.8

Note: Boldface = Foreign-owned retailer
[1] Sales exclude nongrocery store sales in the U.S., and all foreign sales.
[2] Excludes sales of drugstores.
[3] Includes sales of Randall's Supermarkets, acquired September 1999.
[4] Primary divisions are: BI-LO; Stop & Shop; Giant Food, Landover, MD; Giant Foodstores, Carlisle, PA; Tops Markets; and Peapod online shopping service. Excludes foodservice sales by U.S. Foodservice = $6.0 billion (ann. rpt).
[5] Sales of food and nonfood grocery items only. (Source: *Progressive Grocer*, April, 2001)
[6] Sales of food and nonfood grocery items, only = est. 33 percent of sales total, 1998, 1997 = food sales, only(*Marketing Guidebook*, 2000).
[7] Excludes sales other than company-owned grocery stores and supermarkets, = 21 percent of total sales in 2000 (SN - Top 75 firms).
[8] Excludes sales of 28 drug stores (est. 1/2 of avg. store sales).

Sources: USDA-ERS estimates; *Progressive Grocer*, April 2001; Hoovers.com; company annual reports.

Financial Measures

Operating income as a share of industry sales increased from 3.5 percent of sales in 1997 to 3.8 percent in 2000 (app. table 23). A number of retailers have cited reduced operating expenses (lower procurement costs and supply chain management efficiencies) as increasing operating income in recent years. At the same time, nonoperating expenses have not risen, averaging 2.5 percent of sales since 1997. Net income before taxes amounted to 2.6 percent of sales in 2000, compared with 2.4 percent in 1997. Despite the recent consolidation wave, long-term debt fell to 37.4 percent of industry assets in 2000, down from 38.1 percent in 1997.

As a measure of profits, return on stockholders' equity generally improved during the mid-1990s. More recently, returns have declined, falling from 17.2 percent of equity in 1997 to 12.4 percent in 2000. Retailers have added to stockholders' equity, partly by reducing debt and partly by investing in larger supermarkets and remodeling existing ones to provide greater product variety and services. Between 1997 and 2000, stockholders' equity increased from 25.4 percent to 29.1 percent.

Another profit measure, return on industry assets, reached 4.4 percent in 1998 compared with 1.3 percent in 1993. Retailers shed unprofitable operations and investments during the 1990s, resulting in improved asset returns and stable profit levels. Food retailers have managed to improve debt levels following a wave of leveraged buyouts in the 1980s. The share of equity to total debt rose from 30 percent in 1990 to 70 percent in 2000, likely helped by lower interest rates and reduced debt financing.

Labor Productivity

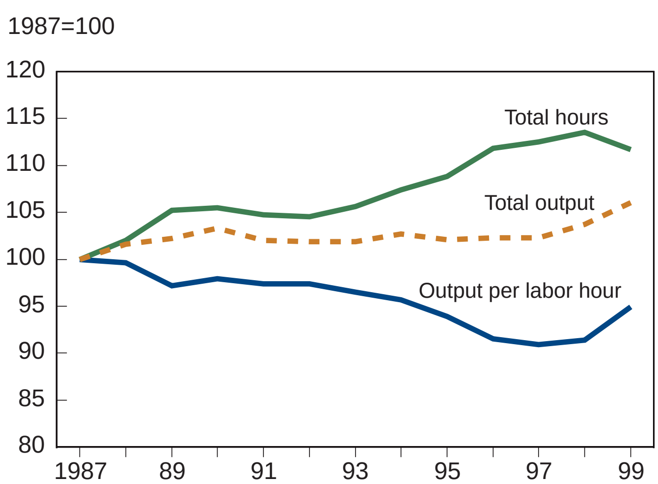
Output per labor hour for foodstore employees increased after 1997, reversing a long-term decline in the index during the 1980s and early 1990s. The index of labor productivity for foodstores reached 94.9 in 2000 (1987=100) (fig. 3-5, app. table 24). According to the Bureau of Labor Statistics, the index of labor hours decreased from 113.5 in 1998 to 111.7 in 1999 (1987=100). Meanwhile, the index of total output (inflation-adjusted sales) increased from 103.7 to 106. Food retailers have not experienced labor productivity gains, unlike many other food industries, in part due to the labor-intensive service departments introduced during the 1980s and 1990s.

Retailers have attempted to streamline their operations through mergers and consolidation, which has allowed for reductions in headquarter and division-level staffing. One source of improved store-level productivity is in labor-intensive service departments such as deli and bakery departments. To control labor costs, retailers have introduced more prepackaged, self-service items, or eliminated some service departments altogether.

Innovation and New Technology

Retailers are introducing innovations and new technology that offer greater convenience and timesaving for consumers. A number of supermarket operators are adding self-checkout lanes to speed processing of smaller purchases. In 2001, Kroger Co. had 400 stores equipped with self-checkout express lanes. Stop & Shop (Quincy, MA), a subsidiary of Royal Ahold (The Netherlands), plans to introduce a wireless shopping cart device that accesses an individual's loyalty card transactions to assist customers with selecting items, announcing promotional offers and the like. Retailers are also enhancing convenience by introducing onsite fuel centers, often selling gasoline at discount prices and promoting sales through supermarket purchases. In 2001, Alberston's operated 160 fuel centers, Kroger Co. operated 77, and Wal-Mart operated 407.

Figure 3-5
Foodstore productivity indexes



Source: Office of Productivity, Bureau of Labor Statistics.

With more consumers online, both retailers and Internet shopping services have invested in home shopping and delivery services, often with mixed results. Initially, online services such as Peapod, Groceryworks, and Webvan operated "virtual" supermarkets that were independent of store-based food retailers. These online retailers eliminated frequent trips to the supermarket in exchange for a small delivery fee. Although many consumers indicated they had an interest in online shopping services, expected growth in revenues and new customers did not materialize as expected.

A number of logistical difficulties also hampered the growth of online grocery retailing. These include: (1) meeting consumers' expectations for timely delivery, (2) the need for access to the place of delivery service, and (3) preventing spoilage of perishables, especially frozen foods, meat, and produce. In addition, the lack of high-density service areas inflated per-customer delivery costs.

To ensure their viability, some of these online shopping services have partnered with traditional retailers, while others, including Webvan, ceased operations altogether. In 2001, supermarket retailer Safeway purchased GroceryWorks, and Ahold USA, operator of six supermarket firms in the New England and Mid-Atlantic regions, acquired Peapod, in order to provide online shopping services for their customers.

In addition to investing in existing home shopping providers, a number of food retailers have initiated their own online shopping services. Albertson's and Hy-Vee, for example, have developed significant home delivery capabilities. Both home delivery and store pickup of online purchases are available to consumers for a fee. Retailers use existing stores to fulfill orders, requiring minimal investment, unlike most virtual (strictly online) retailers that used warehouse-based fulfillment methods. Sales by online retailer shopping services are estimated at 1 to 5 percent of grocery store annual sales (Willard Bishop Consulting).

Retailers are also investing in online exchanges—such as Transora, Globalnetxchange, UCCnet, and Worldwide Retail Exchange—that allow business-to-business transactions via the Internet. For many grocery retailers, the use of the Internet for transactions with suppliers and distributors promises greater flexibility and lower transaction costs compared with the earlier and more costly Electronic Data Interchange (EDI) system used primarily by larger firms. Online exchanges allow suppliers and buyers to interact at lower cost relative to EDI. They are also able to provide both procurement and supply change management capabilities under the guiding concept of collaborative planning, forecasting, and replenishment (CPFR). In addition to online exchanges, individual retailers such as Wal-Mart operate private Internet-based exchanges in order to provide up-to-date sales and inventory information to their suppliers. According to industry observers, the expanded use of Internet-based transactions will depend on the creation of industrywide standards that can be used by manufacturers, wholesalers and distributors, and retailers.

Convenience stores are also investing in new technology. To speed consumer purchases, gasoline “smart pumps” allow credit and debit purchases, and can provide additional account and other information through wireless Internet capability. In recent years, several online convenience store shopping services have been introduced, including both nonstore/Internet-based and online retailers. However, results have been mixed for these businesses. For example, Kozmo.com recently ceased operations as an online retailer of convenience foods and nonfoods, and PDQuick also closed its doors after failing in its attempt to transform itself from a 16-store convenience store retailer to a national online retailer.

Foreign Investment in U.S. Food Retailing

Foreign investment in U.S. food retailing reached $9.5 billion in 1998, the most current year available, while sales by foreign-owned subsidiaries amounted to $70.7 billion (app. table 43). The fast-growing presence of foreign-owned retailers in the United States is attributed in part to acquisition strategies by Ahold USA, a subsidiary of Royal Ahold (The Netherlands), operator of Giant Food Stores, Giant Food, Inc, Stop & Shop Supermarket Company, Tops Markets, and Bi-Lo supermarkets; and Delhaize USA, a subsidiary of Delhaize (Belgium), operator of Food Lion and Hannaford Bros. supermarkets.

Food retailing sales by foreign-owned companies amounted to 15.4 percent of total U.S. grocery store sales in 1998, compared with 12.8 percent of sales in 1992, and 7.2 percent of sales in 1988. U.S. affiliates of foreign firms include those companies in which a foreign investor owns at least 10 percent of its voting stock. Foreign investment and ownership can occur through outright purchase of assets, or through equity (shareholder) purchases.

Of the retail grocery store sales made by U.S. subsidiaries of foreign firms, majority-owned grocery retailers accounted for almost 70 percent of the total in 1998. The degree of control exercised by foreign investors with less than 50 percent ownership in a U.S. food retailer varies considerably.

The 5 largest majority-owned U.S. food retailing affiliates of foreign firms were among the 20 largest food retailers nationwide, generating sales of $49.1 billion in 2000 (table 3-6). Foreign-owned retailers have grown both by building new stores and by acquiring other food retailers. There are successful examples of both strategies among the largest retailers. Eighth-ranked Delhaize (Food Lion) has relied mostly on internal growth strategies, including building new supermarkets. Royal Ahold (The Netherlands) and Tenglemann, AG (Germany), the parent firm of A&P, have achieved growth largely by acquiring local and regional supermarket chains and preserving the company identity of acquired stores. It is unlikely that most Americans could identify the largest foreign-owned food retailers, as they have imitated U.S. food retailers’ marketing and merchandising practices.

U.S. Investment in Foreign Food Retailing

Investment in foreign food retailing by U.S. firms reached $804 million in 1998. Sales by foreign affiliates of U.S. food retailers amounted to $8.6 billion in 1998, according to current statistics (app. table 42). Seven U.S. food retailers operated 16 affiliates abroad. Safeway, Inc., owns and operates 213 supermarkets in western Canada, and, with Casa Ley, S.A. de C.V., owns 97 food and general merchandise supermarkets in Mexico. HEB Grocery Co. (San Antonio, TX) has opened 110 supermarkets in Mexico in recent years.

Among mass merchandisers, Wal-Mart has made considerable investments in overseas operations, including warehouse club stores, supermarkets, and supercenters. In 2001, Wal-Mart operated 832 outlets in 10

Table 3-6—Five largest foreign-owned food retailers

U.S. affiliate	Parent firm and country	U.S. national rank (2000)	U.S. grocery store sales	
			2000	1999
			$ billion	
Ahold, USA	Royal Ahold, The Netherlands	5	21.8	20.3
Delhaize America (Food Lion, Hannaford Bros.)	Delhaize, Le Lion, Belgium	8	12.7	10.9
Great Atlantic and Pacific Tea Co. (A&P)	Tenglemann, AG Germany	9	8.2	8.0
7-Eleven Stores, Inc.	Ito-Yokado and Seven Eleven-Japan (jointly), Japan	13	3.9	3.8
Aldi, USA, Inc.	Aldi Group, Germany	20	2.5	2.0

Sources: Hoovers Online (*www.hoovers.com*), company annual reports, *Marketing Guidebook, 2000*, and *Progressive Grocer* magazine, various issues.

foreign countries. Its overall international retail sales rose to $32.1 billion in 2001, compared with $12.2 billion in 1999.

In addition to outright ownership and equity positions, U.S. food retailers have used joint ventures, franchising, and licensing agreements as means to participate in foreign food retailing. IGA, Inc. (Independent Grocers Alliance), headquartered in Chicago, IL, is a cooperative-based operator of licensed IGA foodstores, mostly supermarkets, in the United States and 40 countries abroad. Since 1995, IGA has added licensed supermarkets in southern China, the West Indies, and Brazil. IGA-licensed supermarkets overseas generated sales of more than $13 billion in 2000 through 2,200 supermarkets.

Public Policy Issues and Developments

Public policy issues often arise that pertain to the food retailing industry. The consolidation wave that began after 1996 has led to increasing concentration of sales by the Nation's largest 20 food retailers. These developments have raised concerns about the potential for market power, and its implications for consumers and food suppliers alike.

Consolidation in Food Retailing

Widespread consolidation among food retailers has raised questions about the forces driving these developments and their implications for both consumers and food market suppliers such as grower-shippers and food processors. Consumers may fear that fewer food retailers will mean higher grocery prices, less variety, and fewer shopping alternatives. While many recent mergers and acquisitions have involved retail operations located in one or more regions common to both firms, food retailers compete directly within smaller geographic markets, such as a city or town. As a result, the potentially negative consequences of consolidation for consumers is greatest when local market concentration—the combined sales of the largest firms expressed as a share of local market sales—is significantly increased.

To learn more about the impact of recent consolidation on consumers, ERS analyzed changes in local market concentration for the 100 largest metropolitan areas in the United States (*Agricultural Outlook*, August 2000). Individual firm market shares in each market area, consisting of a core city and its surrounding suburbs, were used to calculate the share of total supermarket sales accounted for by the largest four food retailers. Concentration levels in 1992 were compared with those in 1998—a period of rapid consolidation.

Overall, the 100 largest cities had an average four-firm concentration share of 68.6 percent in 1992, compared with 72.3 percent in 1998. Concentration change over the 6-year interval varied among cities, however. Cities with four-firm concentrations in the 50- to 59.9-percent range in 1992 had the largest jump in concentration, averaging 9.8 percentage points. The smallest change took place in cities with concentration in the 30- to 39.9-percent range; their four largest firms lost an average 4.4 percentage points between 1992 and 1998.

Thus, changes in local market concentration appear small in relation to changes in national concentration over the same period. Between 1992 and 1998, the four largest grocery retailers increased their share of national sales by 68.6 percent, while four-firm concentration among the largest 100 cities increased 5.4 percent, on average. Antitrust enforcement has likely played a role in cities and towns affected by mergers between retailers. Antitrust regulators have required the sale of one or more stores to other retailers in order to limit increases in local market concentration. As a requirement of the Albertson's-American Stores merger, 144 supermarkets were sold to other retailers in order to preserve competition in local market areas where both retailers operated stores.

Consolidation among large retailers will likely contribute to increased direct procurement of products from food and agricultural suppliers. Large, self-distributing retailers made an estimated 42 percent of the $500 billion in retail sales by foodstores and mass-merchandiser supercenters in 2000. These retailers operate their own warehouses, trucking fleets, and buying offices, which enables them to negotiate directly with food and agricultural product suppliers. Increased purchase volumes by retail and wholesale buyers may favor reliance on larger suppliers, to the detriment of medium and smaller-sized firms.

In response to these developments, many smaller grocery suppliers may seek to form joint ventures, cooperatives, or other alliances among themselves in order to meet the procurement and marketing needs of large retailers. Other small supplier firms may seek niche markets for a limited range of product offerings—such as specialty fruits and vegetables or organically grown products—in order to meet the procurement needs of all sizes of retailers. With the advent of the Internet and the increasing development of online business-to-business services, smaller suppliers are now able to locate buyers through a growing number of virtual marketplaces. These online marketplaces may allow small suppliers to reach small buyers that previously were difficult and costly to identify, as an alternative to serving larger buyers such as wholesalers and retailers.

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