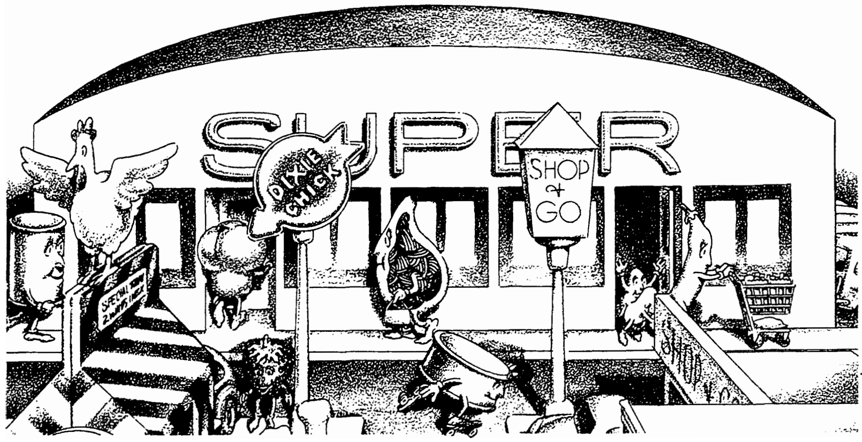
Grocery Retailing: Trends in Market Concentration*

Gerald Grinnell
(202) 447-6860



Grocery chains now account for nearly 60 percent of total grocery store sales, a marked change from the 1920's when the food industry was made up of very small firms. During the thirties and forties, chains grew rapidly and many independents affiliated with wholesale organizations in an effort to gain the benefits of integrated operations. Today, few unaffiliated independent supermarket operators remain.

The consolidation into larger size firms and affiliated groups may have produced cost savings for both producers and consumers. However, large chains may gain enough market power to depress the prices they pay suppliers or raise the prices they charge consumers.

The share of the national market held by large firms is a measure of the kind of buying power they have which might enable them to have a depressing effect on the prices paid to suppliers. The share of national sales accounted for by the 20 largest chains increased from 27 to 34 percent between 1948 and 1958, but has risen only another 3 percentage points since 1958.

Local concentration is a measure of the market power grocery retailers have when they sell to consumers.[1] The unweighted average of grocery store sales accounted for by the four leading firms (four-firm concentration ratio) in Standard Metropolitan Statistical Areas (SMSA) increased from 45.4 percent in 1954 to 52.4 percent in 1972. During that time period, the proportion of SMSA's with local market four-firm ratios of 60 percent or higher increased sharply from 6 percent to 25 percent of all SMSA's. The proportion of SMSA's with ratios below 40 percent dropped from 31 percent in 1954 to 11 percent in 1972. In that year, the leading firm in an SMSA typically had a market share of 15 to 30 percent, the share tending to vary inversely with city size.

The National Commission on Food Marketing reported that between 1954 and 1963, local firms in SMSA's gained market share at least twice as often as they lost market share.[2] In contrast, the 20 leading firms lost more market share than they gained during the same period. The large chains were much more mobile (both upward and downward) than were the local retailers.

The food commission drew three conclusions about changes in local market share.

- Smaller firms "cannot grow nearly as fast as larger firms but are able to hold their market position more tenaciously."
- "Firms with market shares above 20 percent exhibit substantial instability . . . for all time periods and firm types, these market positions were subject to considerable erosion."
- "The overall increase in concentration accrues mainly from the growth of local and regional firms." There was a net decline in the average local market share of the 20 leading chains.

The food commission's findings were based on data for 193 SMSA's obtained from the Bureau of the Census in 1966. Market shares of the 20 leading chains have been estimated from metro market studies for 153 SMSA's in 1963 and 199 SMSA's in 1978.

Market shares of the 20 leading chains continued to fluctuate after 1963. Between 1963 and 1978, the top 20 chains lost market share nearly 40 percent more often than they gained market share. As a result, their average market share in the 142 SMSA's that did not undergo major definition changes dropped from 11.4 percent to 9.6 percent. These chains also reduced the number of market areas in which they operated—from 22.7 markets per firm in 1963 to 20.7 in 1978.

The basic trend toward lower market shares and fewer markets was the same for firms that remained among the top 20 and firms that dropped out of the top national rankings. Seven of the 1963 leaders were no longer among the top 20 in 1978. Their average market share fell from 9.4 percent to 6.9 percent. These firms reduced their geographic diversification from an average of 8 markets in 1963 to 5.6 markets in 1978. The average market share of the 13 remaining firms declined from 12.4 percent to 11 percent during the period, and their operations declined from an average of 30.6 of the cities studied in 1963 to 28.8 cities in 1978. The slight drop in geographic scope of these 13 firms may be because the analysis did not include many of the smaller metropolitan areas that the chains may be entering and because A&P left 31 of the markets studied.[3]

The 7 firms that joined the ranks of the top 20 sharply increased their geographic scope (from an average of 2.9 SMSA's per firm in 1963 to 11 SMSA's in 1978) without significantly increasing their average market share (from 11.2 percent in 1963 to 12.5 percent in 1978).

A comparison of the 20 leading chains in 1963 with the 20 leading chains in 1978 in the SMSA's studied shows virtually no change in average market share (rising slightly from 11.4 percent to 11.5 percent) or average number of markets (declining slightly from 22.7 per firm to 22.6).

* Based upon a forthcoming report, *Grocery Retailing: Structure Performance, Public Policy*.

[1] Concentration in local areas generally is estimated for Standard Metropolitan Statistical Areas which closely approximate urban market areas for most chains.

[2] *Organization and Competition in Food Retailing,* Technical Study No. 7, National Commission on Food Marketing, 1966.

[3] When A&P is excluded from the analysis, the number of markets per firm increased from 23.7 in 1963 to 24.3 in 1978. In addition, data for Colonial Stores were not included with Grand Union, which recently acquired control of the firm.

The 1963-78 market share mobility record of the Nation's 20 leading chains in 1978 reveals that they lost market share about 7 percent more often than they gained. This is surprising because several of the top firms joined the group during this period. That the top 20 firms' market shares fell more often than they rose suggests that the current leaders probably will lose market share in the future.

Changes in Market Participation and Market Shares of the 20 Largest Food Chains, 1963-78

Firm[1]	SMSA's		SMSA's with change in market share[2]			Average market share[3]	
	Entered	Exited	Increase	Decrease	No Change	1963	1978
			Number			Percent	
			Firms in the top 20 in 1963 and 1978				
Safeway	29	2	19	16	1	18.4	17.0
Kroger	30	18	21	22	0	14.4	14.2
A & P	25	38	1	83	0	16.2	7.0
Lucky	24	0	9	0	0	8.1	11.0
Winn Dixie	23	5	14	12	0	15.6	13.8
American	17	3	8	18	1	12.2	9.5
Jewel	12	2	3	2	0	9.0	8.9
Grand Union	6	1	2	17	0	11.4	7.2
Food Fair	6	14	5	15	0	11.8	8.5
First National	5	5	0	14	0	14.6	6.5
Stop and Shop	6	0	7	5	0	10.3	10.5
Giant	0	2	3	0	0	7.8	18.8
National Tea	5	29	4	4	0	11.4	10.7
			Firms in the top 20 in 1963 but not in 1978				
Colonial	7	12	0	12	1	13.9	11.4
Allied	1	4	0	3	0	14.4	6.7
Mayfair	4	5	1	8	0	10.5	5.3
Red Owl	2	1	0	3	0	11.8	10.4
Vons	2	0	3	1	0	6.8	11.3
Thriftimart	2	1	2	2	0	3.6	3.4
H.C. Bohack	0	1	[4]	[4]	[4]	4.9	[4]
			Firms in the top 20 in 1978 but not in 1963				
Albertson's	36	1	3	2	0	9.1	6.1
Supermarkets General	15	—	[5]	[5]	[5]	[5]	8.8
Dillon	8	0	2	0	0	14.3	16.1
Fisher	7	0	3	1	0	13.3	11.3
Publix	6	0	5	0	0	20.8	28.0
Waldbaum	3	0	1	0	0	3.2	7.6
Fred Meyer	6	0	0	1	0	17.5	9.4

[1]Firms in the top 20 in 1978 are ranked in decreasing order of their 1978 sales.
[2]Only includes those markets in which the firms had operations both years.
[3]Data are for 142 SMSA's that did not have major definition changes between 1963 and 1978.
[4]Not in business in 1978.
[5]Not in business in 1963.

Sources: Metro Market Studies, Inc., *1964 Grocery Distribution Analysis and Guide*, 1964; Metro Market Studies, *1979 Grocery Distribution Guide*, 1979; and *Progressive Grocer*, April 1964 and April 1979, and National Commission on Food Marketing, *Organization and Competition in Food Retailing*, Technical Study No. 7, 1966

The leading chains have great difficulty holding high market share in the markets they have already entered. The market positions of large chains are continually threatened by small chains and by the geographic expansion of other large chains.

Several large chains are striving to retain their market positions. After encountering severe financial problems, A&P has initiated a modernization program. Apparently foreseeing future problems, Kroger (the second largest chain) moved to modernize its operations during the seventies. Recently, Safeway (the largest chain) has begun competitive strategies designed to regain market share in several markets. One significant change was to drop the company policy of not being the first to cut prices or initiate a game or coupon program.

Obsolescence is a serious problem for large chains. By retaining old stores, firms are likely to lose sales to competitors with more modern facilities. However, selling obsolete stores to another grocery store operator adds to the competition for market share. Obsolete stores may cause substantial erosion of leading firms' market shares in cities that do not experience continuous population growth. Since population growth has slowed in many parts of the country, more financial problems may arise among those leading chains that mainly operate in such areas. Those firms that operate in the faster growing areas and those with the most modern facilities are less vulnerable and probably will experience continued growth.

Implications

This analysis suggests that natural competitive forces tend to reduce excessive market power in local markets. However, in markets where a leading firm maintains a high market share over time, an evaluation may be warranted to determine whether its success stems from responsiveness to consumers' needs or the use of unfair competitive tactics which limit the entry and growth of competitors.

Several leading chains are continuing to grow through geographic expansion. At the same time, obsolete stores and managerial diseconomies of size have caused financial problems and loss of national ranking for other chains. Competitive pressures in local markets would appear to erode the size (and buying power) of large chains if they are unable to expand geographically. ■