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# Nontraditional Retailers Are Challenging Traditional Grocery Stores

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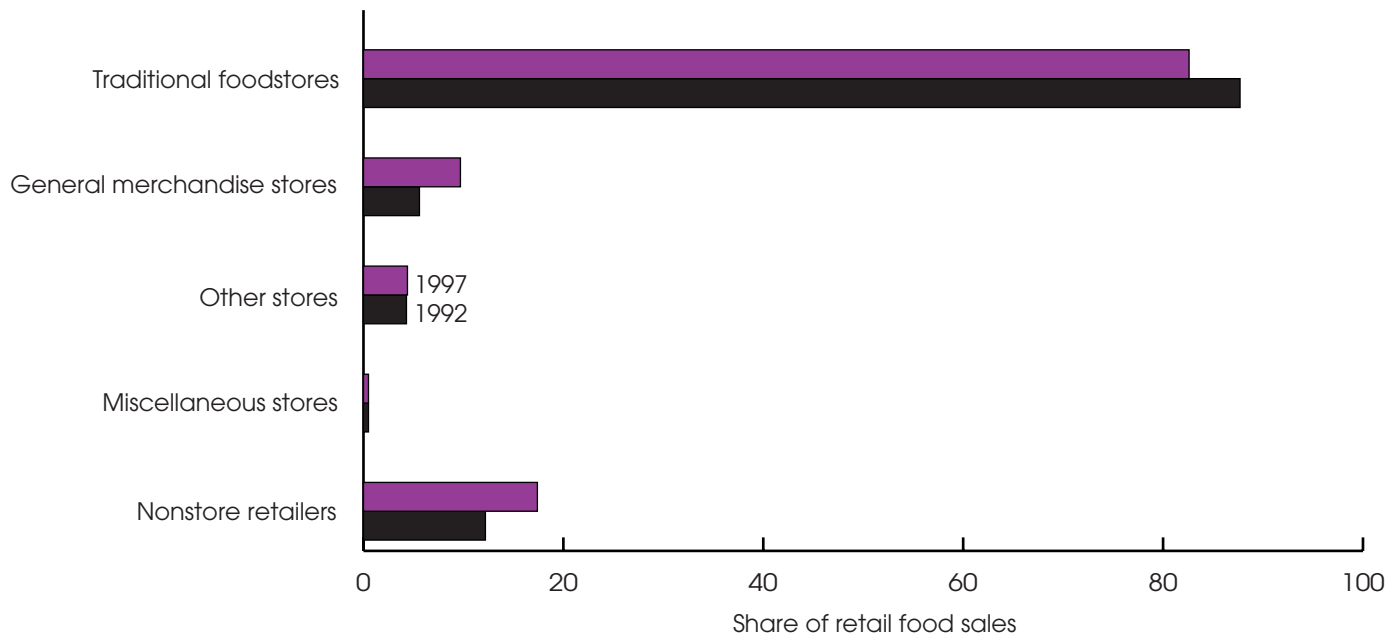
**T**raditional grocery stores, such as supermarkets, smaller full-line foodstores, and convenience stores, are competing increasingly with other nontraditional retail outlets that offer many food and nonfood products typically found in grocery stores.

These nontraditional retailers are capturing a growing bite of grocery products sales. Food sales by nontraditional retailers amounted to \$64.9 billion in 1997 compared with sales of \$37.7 billion in 1992, a 72-percent increase. Over the same period, food sales by traditional retailers grew 15 percent to \$308.8 billion. As a result, the share of total retail food sales accounted for by traditional foodstores declined from 87.7 percent to 82.6 percent during 1992-97.

Food sales by nontraditional retailers are expanding as the Nation's shops, stores, and mail order outlets seek growth opportunities while providing greater convenience to consumers. The range of foods offered varies greatly, however, with candy, gum, and beverages common to many retailers. Full-line grocery products are found in many general merchandise outlets, including discount/mass-merchandise stores and warehouse club stores. Other outlets, such as drug-

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Figure 1  
**Food Is Sold Everywhere Among the Nation's Retailers**



stores, gasoline stations, department stores, and sporting goods stores, have introduced an increasing array of packaged and canned foods. Mail order retailers offer specialty foods

not often found in traditional foodstores. More food is being sold through vending machines and by home delivery retailers. As a result, the availability of packaged food

products has become almost ubiquitous among the Nation's retailers.

Foodstores—traditional grocery retailers having 50 percent or more of sales from food products—remain

Table 1  
Food Sales by Nontraditional Retailers Have Grown

Item	1992		1997	
	Retail food sales	Share of total retail food sales	Retail food sales	Share of total retail food sales
	Thousand dollars	Percent	Thousand dollars	Percent
<i>Traditional retail foodstores:</i>				
Supermarkets	197,042,608	64.346	222,002,648	59.415
Convenience stores	14,674,422	4.792	14,216,118	3.805
Other grocery stores	41,445,824	13.534	50,331,234	13.470
Specialized foodstores	15,314,558	5.001	22,230,000	5.949
Total	268,477,412	87.673	308,780,000	82.639
<i>Nontraditional retail stores:</i>				
<i>General merchandise stores—</i>				
Department stores	255,000	.083	244,000	.065
Discount/mass-merchandise stores	7,724,000	2.522	26,336,000	7.048
Variety stores	740,000	.242	896,000	.240
Warehouse club stores	7,166,000	2.340	7,964,000	2.131
Other general merchandise stores	893,000	.292	795,000	.213
<i>Other stores—</i>				
Auto and home supply stores	13,794	.005	18,339	.005
Drugstores	3,603,546	1.177	5,007,000	1.340
Eating and drinking places	771,709	.252	923,000	.247
Furniture stores	84,692	.028	133,280	.036
Gasoline service stations	8,567,422	2.798	10,398,000	2.783
Hardware stores	28,668	.009	34,089	.009
Lawn and garden supply stores	27,154	.009	41,331	.011
<i>Miscellaneous stores—</i>				
Book stores	9,014	.003	14,270	.004
Florists	31,124	.010	44,116	.012
Fuel dealers	15,714	.005	20,011	.005
Gift, novelty, and souvenir shops	140,351	.046	198,938	.053
Hobby, toy, and game shops	187,780	.061	266,165	.071
Jewelry stores	18,103	.006	25,660	.007
Liquor stores	1,098,404	.359	1,234,000	.330
Pet shops	1,517	.000	2,150	.001
Sporting goods stores	24,029	.008	36,780	.010
Tobacco stores and stands	28,356	.009	41,140	.011
<i>Nonstore retailers—</i>				
Catalog and mail order	736,000	.240	1,008,000	.270
Vending machine operators	2,478,627	.809	4,133,700	1.106
Direct sales (mobile, door-to-door)	3,104,373	1.014	5,052,300	1.352
Total	37,748,377	12.327	64,867,269	17.361

Sources: Census of Retail Trade, Merchandise Line Sales, 1992; "U.S. Food Expenditures," USDA's Economic Research Service, 1998; and ERS estimates.

the single most important retail food segment. Among foodstores, supermarkets were the primary source of retail food sales, with 57.8 percent of the total in 1997. However, the supermarket share has declined from its 64.3-percent share in 1992 (fig. 1 and table 1). Only specialized foodstores, such as meat and seafood markets, retail bakeries, and produce markets, managed to gain sales share over the 5-year period.

Nontraditional sources of retail food products vary in the types and sizes of outlets and extent of food offerings. Their share of total retail food sales rose from 12.3 percent in 1992 to 17.4 percent in 1997. What's more, the nontraditional segment is the fastest expanding source of retail food sales, gaining 12.2 percent in 1997 over 1996 compared with an increase of 2.2 percent for traditional grocery stores.

According to the Census of Retail Trade, some food (including candy, gum, and nonalcoholic beverages) is sold in almost every type of retail outlet, ranging from auto supply stores to sporting goods stores (table 1).

A major contributor to the expansion of nontraditional retail food sales has been general merchandise

retailers including mass/discount-merchandisers and warehouse club outlets. Nontraditional retailers, such as Wal-Mart, K-mart, and Target, and warehouse club operators, such as Costco, Sam's (a division of Wal-Mart), and BJ's, operate stores that often exceed 100,000 square feet of floor space. Mass-merchandise outlets typically offer packaged foods and some frozen foods, along with general merchandise items. In 1988, Wal-Mart opened its first supercenter, featuring 36 general merchandise departments plus an expanded grocery area to rival food departments found in many supermarkets. Since then, outlets with a grocery area similar to supercenters have been developed by other mass-merchandise firms, such as K-mart and Target Stores. As a result of new and remodeled store openings, the number of supercenter-type outlets totaled almost 600 in 1997. From 1992 to 1997, food sales by mass-merchandise retailers surged 26.6 percent, while supermarket sales fell 1.7 percent, after adjusting for inflation. As a result, nontraditional outlets captured 17.4 percent of total retail store food sales in 1997, up from 12.3 percent of sales in 1992.

Nontraditional outlets are also challenging grocery stores' sales of nonfood items, such as paper products, soaps, and detergents, and personal care products, which amounted to an estimated 24 percent of sales, or \$97.6 billion, in 1997. As grocery retailers have expanded their nonfood offerings to include floral items, pet supplies, prescription drugs, and video rentals and sales, for example, they have encountered increasing competition from a wide range of retail outlet types, including drugstores, mass-merchandise stores, and warehouse club stores. Comparable nonfood products sales by mass-merchandise retailers and warehouse club stores amounted to an estimated \$62.8 billion in 1997. Differences in the mix of nonfood products offered in other retail outlets makes sales comparisons with grocery stores more difficult and subjective. Nevertheless, nonfood products typically sold in grocery stores are available to varying degrees in many other retail outlet types, providing added sources of competition. Food sales have spread to other retail outlet types as well, in a similar pattern to nonfood products. ■