New Economic Approaches to Consumer Welfare and Nutrition
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"Policy Implications of *Expansion of non-traditional food retail outlets: Effect on consumer welfare*," by Phil R. Kaufman, USDA-ERS, Food and Rural Economics Division.

Morganosky and Cude make a convincing case that consumer welfare has increased with the development of non-traditional outlets for retail food, resulting in a greatly expanded product and service mix. Through surveys and focus group interviews, the authors observe "cross-shopping" and "home shopping" behavior as evidence that consumers have benefitted from these developments. These new forms of food retailing were generally not available to consumers just a decade ago, underscoring the dynamics of food distribution which to many seems little changing from year to year.

Many economists, especially those devoted to industrial organization, may be pleasantly surprised that competiton appears to have reached new heights, despite increasing consolidation among the largest food retailers, and generally rising concentration in local markets. Food price inflation has slowed to a crawl in recent years, and may even follow producer prices in falling backward into deflation. The percent of personal disposable income devoted to food expenditures at-home continues to decline--reaching 6.6 percent in 1997.   Meanwhile, retail food products offer greater convenience, improved nutritional qualities, and a higher degree of food safety assurance.

The changing face of the retail food industry has policy implications in a number of important areas. First, with regard to antitrust enforcement, the growth of non-traditional retailers has likely had a disproportionately large competitive impact, in part due to their aggressive investment in large, multi-product retail outlets such as warehouse club stores and mass-merchandise Supercenters. Food sales by non-traditional 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. By better management of the "supply chain," non-traditional retailers have achieved lower product and marketing costs relative to many traditional food retailers, enhancing price competition.

Despite a recent wave of mergers and consolidation among the largest traditional food retailers, it is unlikely, in my view, that competition and rivalry in local markets will be substantially lessened, in part due to the competitive role of large non-traditional retailers. Among mergers involving overlapping local markets, antitrust authorities are able to count many non-traditional retailers among competitors thereby diluting concentration levels, lessening the need for store divestitures and other proscriptive actions by regulators.

Home shopping services may also represent a new source of competition, although many traditional food retailers offer these services. The idea that brick and mortar retailing may give way to virtual stores on the internet seems far-fetched even today. Yet, executives at Kroger Company, the nations largest food retailer, have expressed the view that food retailing in the future may have no need for the supermarket as we know it today. Despite the technology required by consumers to access home shopping services, Morganosky and Cude found that on-line shoppers representing a broad spectrum of demographic characteristics cited clear advantages in convenience and time savings. As the cost of on-line home shopping services declines, the potential for a much larger share of households participating exists.

A second, area having policy implications involves USDA's food assistance programs that rely on private sector retail outlets to provide for the distribution of food benefits in exchange for vouchers and coupons. As I outlined in the review of Henson and Traill, the WIC and Food Stamp programs are central to aiding needy households' ability to purchase food. Although lower prices and greater food choices stemming from the growth of non-traditional retailers serves to enhance the purchasing power of food assistance benefits, I question whether poor households are able to fully take advantage of these opportunities. For one, prior research by ERS has found that suburban locations--areas outside the central city but within the counties comprising a metropolitan area--have the greatest concentration of larger food outlets and not surprisingly, lower food prices, on average, compared with rural and urban locations. Census of population statistics also show that the low-income population is less likely to live in the suburbs than the higher-income population. Low-income households are also less likely to travel great distances to shop in these larger outlets, due to lower car ownership rates, and the cost of alternative transportation. Relative to traditional food retailers, the large mass-merchandise supercenters and warehouse club stores are much fewer in number, but draw on a wide geographic area in order to achieve sufficient sales volume. As a result, poor households are less likely to rely on non-traditional food outlets.

I also question the extent of committment non-traditional retailers may have to participate in USDA's food assistance programs. ERS analysis has found that virtually all supermarkets are authorized to accept food stamps, in part due to the primary importance of food to total sales. There are indications that many warehouse club stores, for example, have not applied to participate, for a number of reasons including food sales being less important, and due to administrative and training costs. Participation rates by retailers in the WIC program may be much lower by non-traditional retailers, due to the more stringent requirements for eligible foods and other compliance and training issues required of outlets. Food assistance policymakers must address these issues to ensure that low-income households are able to fully participate in the additional consumer welfare arising from the growth of non-traditional food retailing.