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Fewer But Larger Supermarkets

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Supermarket sales totaled an estimated \$289 billion in 1994, accounting for just over three-quarters of the sales of all grocery stores combined. With individual store sales of at least \$3.4 million in 1994, these large grocery stores offer all major food departments. The remaining 23 percent of grocery store sales went through convenience stores, superettes, and smaller grocery stores—delicatessens, health-food stores, so-called mom and pop stores, and bodegas.

The number of supermarkets in this country declined from 26,815 stores in 1980 to 24,548 in 1993. Yet their floor space has grown to accommodate an increasing array of products and services. Since 1980, supermarkets' average selling area rose from 23,000 to 35,000 square feet. And, the variety of unique brands, package sizes, and flavors carried has expanded from an estimated 14,000 items in 1980 to 25,000 items in 1993.

Supermarkets are classified according to one of several formats—or combinations of products and services (see box). The conventional-format store dominated in 1980, representing 73 percent of supermarkets and 80 percent of total supermarket sales (table 1). But, the

growth of new formats eroded the market share of conventional stores, which accounted for only 28 percent of supermarkets and 50 percent of sales by 1993.

Since 1980, retailers have introduced new supermarket formats as

a way of tailoring their product and service offerings to appeal to an identified consumer segment. Warehouse and superwarehouse stores, no-frills outlets that appeal to price-conscious consumers willing to forgo some services and product

Supermarket Formats Vary

Supermarkets are foodstores that sell a variety of food products (including fresh meat, produce, packaged and canned foods, frozen foods, and other processed foods) and nonfood products (such as household cleaning supplies, paper products, and personal-care products). These primarily self-service operations have at least \$3.4 million in annual sales (1994 dollars).

Supermarkets are classified into several formats according to the variety of products and services they offer.

- **Conventional-format store**—a full-line supermarket, ranging in size from 10,000 to 25,000 sq. ft. of floor space and carrying at least 9,000 different food and nonfood items.

- **Superstore**—distinguished by its greater size and variety of products (over 14,000 different items) than conventional supermarkets. These tend to include food specialty and service departments, and a larger

inventory of nonfood products, including general merchandise, such as clothing and automotive supplies.

- **Warehouse store**—a supermarket with limited product variety and fewer services, incorporating case-lot stocking and shelving practices.

- **Superwarehouse store**—larger than a warehouse store, offering expanded product variety, and often having full-service meat, delicatessen, or fresh seafood departments.

- **Combination food and drugstore**—a supermarket containing a pharmacy, a nonprescription drug department, and a greater variety of personal-care products than that carried by conventional supermarkets.

- **Hypermarket**—the largest supermarket format, with general merchandise accounting for up to 40 percent of sales.

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Table 1
Conventional Supermarkets Facing Competition

Supermarket formats	Share of sales		Share of store numbers	
	1980	1993	1980	1993
	Percent			
Conventional	80	50	73	28
Superstore	12	26	18	36
Warehouse	6	13	4	11
Combination food and drug store	2	9	4	16
Superwarehouse	NA	2	1	5
Hypermarket	NA	1	NA	3

Note: NA = Not available.

variety in exchange for generally lower prices, increased from 1,677 stores in 1980 to 3,630 in 1993. Their share of supermarket sales grew from 6 percent to 15 percent over 1980-93. Superstores provide "one-stop shopping" convenience with an extended assortment of food and nonfood items, including a greater assortment of general merchandise products. Superstores' share of supermarket sales more than doubled since 1980, reaching 26 percent in 1993.

Consumers' Choices Show Up in Sales Figures

Coffee and tea, rice and dried vegetable products, and pasta were the three leading categories of sales growth in supermarkets in 1994 (table 2). Their sales far exceeded the 3.1-percent growth in overall supermarket sales between 1993 and 1994. Leading decliners were tobacco products (-10.7 percent), nuts and dried fruits (-3.2 percent), and household supplies, such as cleansers, laundry detergents, and furniture polishes (-2.2 percent).

Year-to-year changes in supermarket sales categories are the effect of both price and quantity changes, and reflect the choices made by consumers throughout the year. For example, rapidly rising prices were behind the 16.2-percent rise in super-

market sales of coffee. With prices pretty much constant for household supplies, their declining sales reflect fewer quantities sold in supermarkets.

Average annual sales changes over the past 5 years reveal some changing tastes and preferences of consumers. Sales of deli items (such as prepared dishes) and instore bakery products grew 6.3 percent and 6.5 percent per year, respectively, between 1989 and 1994, as supermarkets responded to consumers' desires for more convenient products. Produce department sales rose an average of 4.3 percent a year, as retailers increased their offerings of convenient products, such as packaged salads and trimmed and cut items. Sauces and dressings, including salsas and salad dressings, increased an average of 5.1 percent a year in 1989-94.

The growth of grocery product sales by nonfoodstore retailers, such as mass merchandisers, discount drugstores, and warehouse clubstores, also plays a role in declining supermarket sales growth. The inroads by nonfoodstore retailers has had the greatest impact on canned and packaged food and nonfood products. For example, increasing sales by nontraditional competitors, such as tobacco shops, account for the declining supermarket sales of tobacco products.

Foreign Investors Increase Their Presence Here

Food retailing sales by U.S. affiliates of foreign firms reached \$48.2 billion in 1992, an increase of 2.3 percent over 1991, according to the most recent figures. Affiliates were responsible for 12.8 percent of total U.S. grocery store sales in 1992. U.S. affiliates are those companies having at least 10 percent of voting stock or equivalent equity owned by a foreign investor.

The 5 largest U.S. affiliates of foreign food retailers were among the top 30 food retailers nationwide, generating sales of \$39.5 billion in 1994. Albertson's, headquartered in Boise, ID, was the largest U.S. affiliate and the fourth largest food retailer in the United States, with sales of \$11.9 billion in 1994 (table 3). U.S. affiliates have grown by building new stores and by acquiring other food retailers. Both Albertson's and Food Lion have relied almost exclusively on internal growth strategies, while Ahold, USA, and The Atlantic and Pacific Tea Company (A&P) have grown through acquisition strategies.

U.S. food retailing is attractive to foreign investors for a variety of reasons. The U.S. market is much larger than many foreign markets, with favorable overall growth prospects. The United States has a highly de-

Table 2

Convenience Products Generate High Growth in Supermarket Sales

Category	Supermarket sales 1994 ¹		Change, 1993-94	Average annual percent change, 1989-94
	Volume	Share of store sales		
	Million dollars		Percent	
Grocery foods	\$90,271.36	30.01	4.4	3.14
Baby foods	2,731.36	.91	5.7	8.21
Baking needs	5,439.74	1.81	2.5	1.65
Beer & wine	7,109.06	2.36	5.3	4.31
Breakfast foods	10,151.74	3.37	4.9	5.05
Candy & gum	3,284.56	1.09	4.0	3.28
Canned fish	1,710.26	.57	5.9	-2.33
Canned fruits	1,243.99	.41	-2.4	-.67
Canned vegetables	3,003.18	1.00	2.3	-.33
Coffee & tea	4,923.97	1.64	16.2	1.13
Cookies & crackers	6,306.49	2.10	2.6	2.56
Desserts & toppings	772.71	.26	1.9	1.74
Juice (grocery)	3,993.85	1.33	4.2	4.89
Nuts & dried fruits	1,552.54	.52	-3.2	-.03
Pasta	2,399.28	.80	7.4	3.94
Pickles & olives	1,234.45	.41	3.0	1.42
Prepared foods	2,261.96	.75	4.0	3.08
Rice & dried vegetables	1,422.95	.47	7.7	3.54
Sauces & dressings	6,328.00	2.10	4.9	5.07
Snacks	6,203.03	2.06	4.3	3.60
Soft drinks & mixes	12,120.03	4.03	3.2	3.22
Soups	2,858.29	.95	5.0	5.26
Spices & extracts	1,245.49	.41	3.3	2.48
Spreads & syrups	1,974.46	.66	-.3	-.54
Perishables	148,963.89	49.50	3.0	3.44
Bakery foods, packaged	8,868.01	2.95	3.0	3.62
Dairy products	24,791.43	8.24	3.5	2.69
Deli	9,373.70	3.11	4.5	6.33
Florals	557.50	.19	2.5	2.79
Frozen foods	16,342.03	5.43	4.8	2.22
Ice cream	4,630.92	1.54	4.0	3.24
Instore bakery	5,558.80	1.85	6.9	6.49
Meat & seafood	48,620.70	16.15	1.7	2.90
Produce	30,220.80	10.04	2.6	4.31
Nonfood groceries	30,382.61	10.09	-3.0	-1.15
Household supplies	8,409.63	2.79	-2.2	-.58
Paper, plastic, films, & oil	9,519.83	3.16	1.3	-.56
Pet foods	5,140.06	1.71	-.1	-.49
Tobacco products	7,313.09	2.43	-10.7	-2.92
General merchandise	11,991.34	3.98	2.8	2.48
Health & beauty care	12,413.50	4.12	3.2	3.15
Pharmacy	4,812.48	1.60	NA	NA
Video rental	1,358.03	.44	7.1	NA
Unclassified	806.76	.26	NA	NA
Total supermarket	301,000.00	100.00	3.1	3.16

Notes: NA = Not available. ¹Supermarkets with annual sales of \$2 million or more. Source: *Progressive Grocer*, July 1995.

Table 3
The Leading U.S. Food Retailing Affiliates

U.S. affiliate	Foreign investor	U.S. food retailing—	
		1994 sales <i>Billion dollars</i>	Rank
Albertson's Atlantic and Pacific Tea Company	Theo Albrecht (Germany)	11.9	4
Food Lion	Tengelmann, AG (Germany)	10.3	7
Ahold, USA	Delhaize, Le Lion (Belgium)	7.9	8
Shaw's Supermarkets	Ahold (The Netherlands)	7.4	9
	Sainsbury PLC (U.K.)	2.0	29

veloped food-distribution infrastructure, imposes fewer restrictions on overseas investors and, and has less stringent regulations related to the building of new stores and support facilities than do many other countries. The United States also offers a stable political and business environment with lower investment risk.

However, the competitive environment of U.S. food retailing may not be fully appreciated by overseas investors, as evidenced by the failure of many foreign-owned hypermarket stores that opened during

the 1980's. Hypermarkets are a relatively new supermarket format here, based on popular stores in Europe. These very large stores often exceed 100,000 square feet of floor space. They offer a wide variety of both food and nonfood and general merchandise products.

Foreign hypermarket retailers, including Carrefour and Leedmark, apparently did not generate sustainable sales volume in their U.S. affiliate stores. In Europe, hypermarkets compete with very small, specialized food retailers which have rela-

tively high per-unit operating costs compared with U.S. supermarkets. For this reason, hypermarket costs and operating margins were likely higher than those of their U.S. supermarket competitors. Also, the sheer size of hypermarkets may have been daunting to U.S. consumers. Without strong marketing and merchandising strategies, this very large and different format failed to create a strong consumer image. ■