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UPDATE ON USDA'S NATIONWIDE SUPERMARKET PRICING STUDY

by

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In 1982, the U.S. Department of Agriculture collected data for a study to learn more about how such supermarket prices vary among firms and among cities and reasons for those differences. Specific objectives of the study were:

1. Estimate supermarket price differentials among cities and regions of the U.S. and between independents and chains (operators of 11 or more supers);
2. Determine whether prices are higher in more concentrated markets;
3. Determine the importance of other factors that have been hypothesized to affect supermarket prices, e.g. wage rates, occupancy costs, number of customer services, transportation costs, and kind of firm;
4. Determine whether supermarket firms have different pricing policies for different departments and estimate price differentials between national brands, private labels, and generics;
5. Determine the magnitude of price differences between low income and other areas of large metropolitan areas and examine factors that might cause price differences.

This is a controversial topic that has important policy implications. The

topic is of continuing interest to consumers, anti-trust officials, the media, and researchers concerned with assessing the performance of the food distribution sector. Only a handful of previous studies have attempted to analyze cross section data on supermarket prices and results have been inconsistent. All the past studies have received criticism because the price data were incomplete (did not represent all departments in the store), sample size was inadequate, or because potentially relevant variables were omitted from the statistical analyses.

STUDY DESIGN

The present study was designed to overcome many of the major criticisms of the previous studies. The study is representative of all supermarkets located in the 203 SMSAs with populations of 150,000 or more. Twenty-eight SMSAs were randomly selected. One or more supermarkets were randomly selected for each of the six leading firms in each SMSA. In six of the largest SMSAs, one store was randomly selected to represent each firm that ranked below the top six firms, but which accounted for more than one percent of grocery store sales in the SMSA. Five additional supermarkets were randomly selected in each SMSA to represent the remaining firms in the market. Individual items for price checking were randomly selected from all supermarket departments. Probability of selection was proportional to the item's share of

store sales. An average of over 200 items were priced in over 600 supermarkets. Prices were collected in three separate surveys from February through May 1982.

A store characteristics questionnaire on type of store and variety of customer services was completed for each sample store. Since wage rates vary sharply among firms, a separate labor cost survey of hourly employees was also conducted. In total, labor cost forms were completed for 83 percent of the stores in the sample. The study team has spent considerable time verifying all price, wage, and store characteristics data prior to conducting statistical analyses.

Preliminary results from our labor cost survey indicate that total compensation (base wage plus fringe benefits) per hour for all chains averaged 48 percent higher than for all independents for our 28 city sample. Fringe benefits for chains averaged about 50 percent higher than for independents while chains' base wage rate for all hourly employees averaged 37 percent higher.

The full statistical analyses will be conducted during the winter. Reports of findings are expected to be available during the summer of 1984.