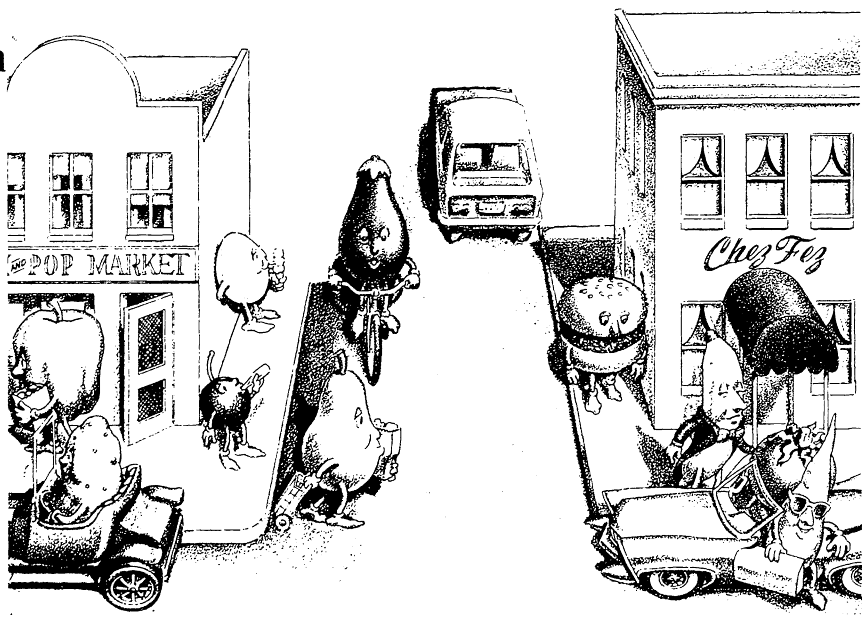
Grocery Stores and Eating Places: Industries In Transition



Michael G. Van Dress and Gerald Grinnell
(202) 447-6860

For many years, the grocery store industry enjoyed expansion made possible by a growing population. Population growth slowed and people chose to eat more meals away from home during the 1960's and 1970's. This caused real sales growth in grocery stores to first slow and then nearly stop.

Sporadic price wars occurred in several metropolitan areas along with financial failures and bankruptcy by both large and small grocery firms. A variety of techniques were used to attract consumers. In addition to direct price cutting, grocers reintroduced trading stamps, offered to redeem manufacturers' coupons at more than their face value, and introduced a number of merchandise giveaway and low-price sale programs. They also experimented with different types of grocery stores, including limited assortment, no-frills warehouse or box stores, combination stores, and super stores which handle a large proportion of nonfoods.

While the grocery store industry was experiencing problems, new opportunities for growth were occurring in the food service industry. More people were eating out because of increased employment of women, smaller family size, rising per capita incomes, changing lifestyles, and a general preference for greater convenience. Since dramatic effects of these changes have already been felt, the food service industry is not expected to sustain its high rate of growth. In fact, growth has already slowed in some parts of the country. During the 1980's, the food service industry may start to take the same type of actions that the grocery store industry took during the 1970's.

Industry strategy in the face of slower growth is likely to include price cutting, new menu formats, different store appointments, and probably further mergers, including acquisitions by firms outside the industry. Also some firms can be expected to leave the industry.

Grocery stores and eating places accounted for 28 percent of the Nation's total retail sales, 39 percent of the employees in retailing, and 24 percent of the retail establishments in 1977, according to the Bureau of Census.

Grocery Stores

The grocery store industry is the largest in retailing, with 1977 sales of $148 billion (excluding sales tax), representing 20 percent of total retail sales—the same as in 1972. Grocery stores handle about three-fifths of the food consumed in the United States, and thus provide a critical link between consumers and the rest of the food delivery system. In 1977 there were 178,820 grocery stores in the United States, 8 percent fewer than in 1972.

Sales trends: U.S. population increased 4 percent and real income per capita rose 7.8 percent between 1972 and 1977. Although these were favorable conditions for growth, real sales at grocery stores grew only 2.3 percent.

Changes in grocery store sales varied among different areas of the country, with real sales decreasing 3 to 9 percent in the Middle Atlantic, New England, and East North Central States, while increasing 3 to 19 percent in the other areas. Most of the areas that had above-average increases in grocery store sales also had above-average increases in population and per capita income.

Per capita real sales at the Nation's grocery stores decreased slightly from $707 in 1972 to $696 in 1977. The Middle Atlantic States experienced the largest decrease, averaging almost $55 per person. This area also had the smallest increase in per capita income and an outflow of population which apparently augmented the decline.

Establishment size: Establishment size, measured by constant dollar sales, grew 11 percent between 1972 and 1977. This increase coincides with the 8-percent decrease in number of grocery stores since new supermarkets generally are large while most stores that leave the business are small. Nevertheless, the increase in establishment size is larger than might be expected at a time when convenience stores are being built at a rapid pace.

New England was the only region where real sales per grocery store fell after 1972. The decline occurred despite a 1.5 percent-increase in population, a 4.4-percent increase in real per capita income, and a 3.4-percent decrease in number of stores. The increased role of convenience stores and a lack of major new construction may have contributed to the decline.

The Mountain, West and East South Central areas had increases in real sales per store that exceeded 20 percent between 1972 and 1977. The Mountain area, which had the largest gain, also had the smallest decline in number of grocery stores. However, this area also had a substantial increase in population and a large increase in per capita personal income during the period.

Eating Places

Restaurants, cafeterias, and fast food places together account for about three-fifths of expenditures for food consumed away from home. Fast food outlets are the fastest growing segment of the away-from-home market.

Eating places had more employees and establishments than any other type of retail business in 1977. Except for fuel and ice dealers, they also had the greatest increase in sales since 1972. Sales at eating places, excluding sales tax, equaled about $56 billion in 1977—7.7 percent of total sales by all retailers up from 6.6 percent in 1972.

The number of eating places has been increasing since 1929, except for a slight decline between 1958 and 1963.

Sales trends: Growth in eating place sales, after being adjusted for inflation, outpaced population and real personal income by a wide margin from 1972-1977. Nationally, constant dollar sales increased at a compound annual rate of 4.6 percent. Slow growth occurred in the New England, Middle Atlantic, and East North Central States, but annual growth rates in excess of 5 percent were recorded in the other areas. Real per capita sales at eating places increased 20 percent from $225 in 1972 to $270 in 1977, following a 16-percent gain between 1967 and 1972.

Establishment size: Real sales per establishment did not keep pace with the 25-percent increase in real sales of eating places during the 1972-77 period. An 8.3-percent increase in the number of eating places caused real sales per establishment to increase by only 15.3 percent.

Increases in constant dollar sales per establishment ranged from 0.6 percent in the Middle Atlantic area to 31.2 percent in the West South Central States. Areas that experienced large gains in sales per establishment also tended to have relatively small increases in number of eating places.

Changes in Number and Constant Dollar Sales of Eating Places[1]

Area	1977 eating place sales		1972-77 change in number of eating places	1972-77 change in real eating place sales		
	Total	Per capita		Total	Per capita	Per outlet
	Million dollars	Dollars		Percent		
United States	58,009	270	8.3	24.9	20.2	15.3
New England	3,432	281	10.1	15.8	14.1	5.2
Middle Atlantic	8,924	241	3.5	4.0	5.5	.6
East No. Central	10,951	267	5.0	22.5	21.6	16.7
West No. Central	4,116	245	0	28.6	26.0	28.6
South Atlantic	9,003	267	13.5	29.0	20.2	13.7
East So. Central	2,779	202	7.2	37.6	30.8	28.5
West So. Central	5,429	253	7.4	40.9	29.6	31.2
Mountain	3,003	303	17.3	41.9	25.7	20.9
Pacific	10,372	360	15.9	33.2	23.7	14.9

[1] 1977 = 100. Sales taxes were included in the 1972 Census but not in 1977. Sales in 1977 were adjusted to compensate for these differences, where applicable.

Source: Census of Business for the respective years.

Changes in Number and Constant Dollar Sales of Grocery Stores[1]

Area	1977 grocery store sales		1972-77 change in number of grocery stores	1972-77 change in real grocery store sales		
	Total	Per capita		Total	Per capita	Per outlet
	Million dollars	Dollars		Percent		
United States	149,384	696	- .08	2.3	- 1.6	11.2
New England	8,556	702	- 3.4	- 4.0	- 5.4	- 0.5
Middle Atlantic	23,706	641	- 11.7	- 9.1	- 7.8	2.9
East No. Central	27,310	666	- 15.1	- 3.2	- 3.9	14.1
West No. Central	10,648	634	- 12.5	3.0	1.0	17.7
South Atlantic	24,697	731	- 4.7	8.8	1.4	14.2
East So. Central	9,557	696	- 7.9	10.6	5.1	20.2
West So. Central	15,820	736	- 7.3	11.9	2.9	20.7
Mountain	7,667	773	- 3.0	19.0	5.4	22.6
Pacific	21,423	743	0.5	4.3	- 3.1	3.8

[1] 1977 = 100. Sales taxes were included in the 1972 Census but not in 1977. Sales in 1977 were adjusted to compensate for these differences, where applicable.

Source: Census of Business for the respective years.

Concluding Thoughts

The grocery store industry is expected to continue experiencing slow growth. Retailers will pursue sales in the faster growing parts of the United States (primarily the Southeast and Southwest regions), and will operate a variety of store types intended to meet the varied food needs of different consumer groups. Super stores and combination stores, which include a large number of nonfood and traditional consumer services, will become the dominant type of grocery store. Limited assortment, no-frill stores will grow and may eventually account for 10 to 15 percent of food sales by grocery stores. Convenience store growth will probably begin to level off—they may never account for more than 7 percent of total food sales by grocery stores (up to one-half of convenience store sales are nonfood items including gasoline).

Further increases in energy and labor costs combined with reduced growth of real per capita incomes are expected to slow the growth of the food service industry. Rising costs of other goods and services which compete for the consumer's dollar may also slow the industry's growth. The primary impact will be felt by the commercial (rather than institutional) segment of the industry. The fast food segment is likely to continue taking sales from traditional unaffiliated full-service restaurants. Unlike the grocery store industry, substantial growth in the average size of eating places is not expected. However, ownership patterns and product and service offerings will probably change. ■