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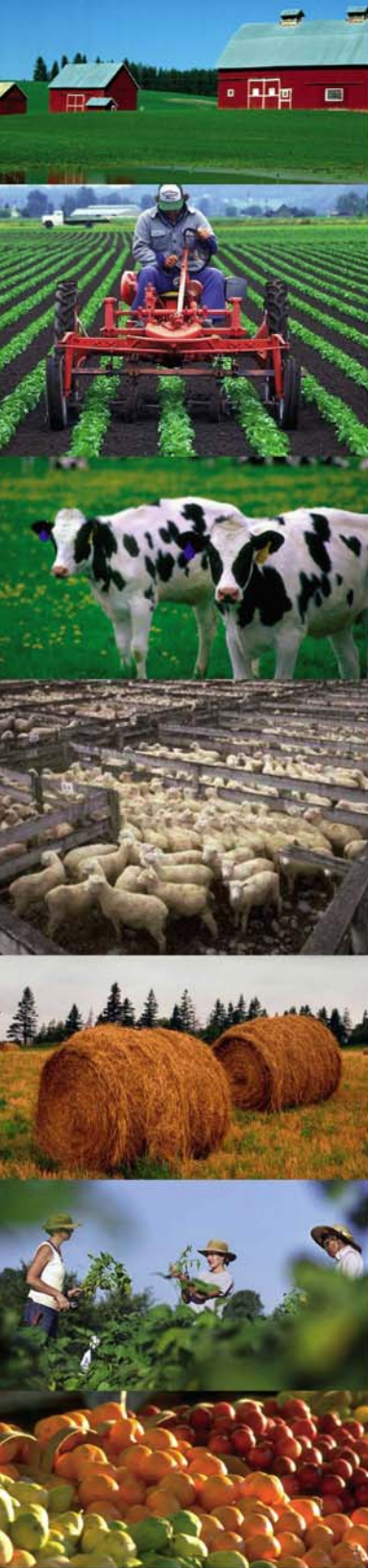
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FSRG Publication



Structural Changes in Food Retailing:

Six Country Case Studies

edited by

Kyle W. Stiegert

and

Dong Hwan Kim



**Food System
Research Group**



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Chapter 7: Food Retailing in the United States: History, Trends, Perspectives

Kyle W. Stiegert and Vardges Hovhannisyan

1. INTRODUCTION: FOOD RETAILING: 1850-1990

Before the introduction of supermarkets, fast food outlets, supercenters, and hypermarkets, various other food retailing formats operated successfully in the US. During the latter half of the 19th century, the chain store began its rise to dominance as grocery retailing format. The chain grocery store began in 1859 when George Huntington Hartford and George Gilman founded The Great American Tea Company, which later came to be named The Great Atlantic & Pacific Tea Company (Adelman, 1959). The typical chain store was 45 to 55 square meters, containing a relatively limited assortment of goods. The major advantage of the chain store over its single store counterparts was its volume purchasing power. Volume purchasing allowed chains to lower overhead costs, due to the lower prices per unit charged to chains purchasing larger quantities of goods. The chain store also thrived because of changes in food production, most notably, the mass production of consumable goods.

In 1916, a major change in grocery retailing took place when Clarence Saunders opened in Memphis, TN, his patented Piggly Wiggly store; the (debatable) first “truly self-service market.” This revolutionary idea gave customers the opportunity to make direct choices of consumables without assistance of store clerks, which significantly cut labor costs. The chain store thrived and by 1930, A&P, American, First National, Kroger, Safeway, and National Tea companies combined for over 30,000 stores (Mayo, 1993).

As the US entered the great depression, negative demand shocks led to additional developments in food retailing. Michael Cullen is widely regarded as the developing the first “supermarket”, opened in 1936 under the King Kullen label. Originally an employee of Kroger, Cullen had the idea to offer lower prices, operate enough stores to reduce wholesale costs, and eliminate the need for warehousing, by using a planned retailing outlet with its store size between 470 to 580 square meters. To further lower overhead costs, self-service and cash-and-carry were fully implemented (Mayo, 1993).

Soon after the introduction and success of King Kullen, Robert Otis and Roy Dawson joined with a grocery wholesaler to form Big Bear, in Elizabeth, NJ. Otis and Dawson combined 1,350 square meters of grocery retailing with another 3,200 square meters of various departments, such as automotive accessories, hardware, and drugs. As King Kullen’s and Big Bear’s success attracted national attention, the chain stores were no longer able to ignore the supermarket experiment, and for good reason; in 1932, the Big Bear supermarket generated a sales volume equal to 100 A&P chain stores located in the same New Jersey vicinity (Mayo, 1993).

Despite its success as a retailing format, the supermarket concept drew criticism. Even though it was the size of 10 chain stores, it required significantly fewer workers. Wholesalers who refused to stop supplying supermarkets were subsequently blacklisted in

New Jersey. Pressure was placed on newspapers to stop printing advertisements for supermarkets. Legislation was also aimed at limiting the spread and number of supermarkets in various communities (Mayo, 1993). Despite numerous hurdles, the supermarket began to dominate by being a more economical vehicle for retail trade than the traditional chain grocery store.

Resistance against the supermarket by chain stores did not last long. Many chain store owners realized the benefits of converting chain stores to the supermarket format. From 1936 to 1941, A&P eliminated approximately 10,000 chain stores while building replacement supermarkets, which increased total sales from \$864 million to over \$1.3 billion (Adelman, 1959). Over roughly the same period, Kroger, Safeway, and other major chains made similar conversions to supermarkets, and subsequently grew. During this growth period, supermarkets entered into the nonfoods market, providing supermarkets further economic stability and diversity, while strengthening its hold as a one-stop shopping destination.

Major in-store developments also helped establish the supermarket as the food retailing format of the future. Sylvan Goldman, owner of Standard Food Stores in Oklahoma City, OK, noticed that customers usually quit shopping when the baskets became too heavy. In 1937, he invented the shopping cart, alleviating fatigue problems, while expanding the customer's ability to hold and purchase more goods at the same time. Gondola shelving, with cantilevered shelves that served two aisles, was introduced, allowing grocers to efficiently stack goods within a customer's reach. Store aisles were spaced at least two shopping carts wide to allow fluid movement throughout the store. The gondola shelf and shopping cart were innovations that established module dimensions on a micro scale, but were capable of being multiplied many times over to build larger supermarkets (Mayo, 1959).

Though the supermarket was introduced to many market areas in the 1930s, it wasn't until the post-WWII period that it flourished. Food production developments, changes in urban transportation, development and rapid expansion of the suburb, and newfound household affluence were influential factors that led to the continued progression of the supermarket. The sale of refrigerators in the US increased dramatically, allowing households to increase their ability to store perishable food, and thereby lowering the number and frequency of shopping trips a household had to make. As the amount of disposable income available for food and nonfood items grew, the supermarket inevitably grew as well to meet the suburban demand, increasing the average supermarket size to 1650 square meters by 1956 (Mayo, 1993). The number of items sold in supermarkets increased as well. Major corporate chains reduced the total number of stores by over 31 %, closing multiple chain stores to accommodate the larger and more efficient supermarkets. At this time, unions also became a major movement in the retail grocery trade, with grocery workers unionizing under the Retail Clerks International Association and the Meat Cutters Union (Mayo, 1993).

As the number of supermarkets grew, gaining access to preferred store sites became increasingly difficult, becoming an important barrier to new grocery entrants and limiting

the expansion of independent retailers. Sometimes, restrictive lease agreements with established firms would act to increase the market power of leading retailers by limiting or eliminating new competition from a market area. Entry barriers also existed when incumbent firms would engage in selective price cutting aimed at the new entrant's stores (Marion, et al., 1979). It was this price-cutting practice that laid the groundwork for an investigation of A&P in the early 1940s.

The National Association of Retail Grocers petitioned for an investigation of A&P pricing practices in 1939. By November 1942, a grand jury indictment was secured in Dallas, TX, charging that A&P conspired to restrain and monopolize the trade of food, in violation of sections 1 and 2 of the Sherman act.³³ The indictment was sustained by the District Court, later reversed by the Court of Appeals, and the Supreme Court denied certiorari. The case was set to go to trial in early 1944, but the Antitrust Division dropped the Dallas case, only to open a new case in the District Court of Danville, IL. The trial ended in April 1946, finding A&P guilty of violating both sections of the Sherman Act. An appeal by A&P was taken up in late 1946, but to no avail. The conviction was affirmed in February 1949, with A&P paying all fines, totaling \$175,000. Civil suits followed and a consent decree was entered by the Department of Justice and A&P in January 1954. The terms mostly imposed certain minor disadvantages on the purchasing side of the company (Adelman, 1959).³⁴

In 1946, supermarkets accounted for 3 % of the total number of grocery stores in the US, but accounted for 28 % of the total sales volume. These numbers increased to 5.1 % and 48 % respectively by 1954 (Mayo, 1993). While the total number of grocery stores in the US continued to decline, the total area of store space rose in order to match the nation's growing population. The number of items carried by supermarkets doubled from 1946 to 1966, but the ratio of the number of food items to total store area remained generally stable. Margins increased as well, driven by growing overhead costs from new developments such as air conditioning, better mechanical equipment, finer building materials, and large building lots.

Mergers were also commonplace in the supermarket trade during the postwar period. From 1949 to 1958, eighty-three companies acquired 315 grocery chains, resulting in 2,238 stores being sold that cumulatively had done \$1.9 billion in annual sales at the time of purchase. The National Tea Company, Winn-Dixie Stores, Inc., the Kroger Company, and the Grand Union Company accounted for 51 % of all mergers during this time period (Mayo, 1993). This trend gradually began to concentrate the control of space and sales into

³³ Section 1 of the Sherman act prohibits any agreement among two or more persons that restrains trade in any way (i.e. price-fixing, market division between competitors, and boycotts by competitors), while Section 2 prohibits monopolization and attempts to monopolize.

³⁴ The provisions, as given by Adelman, provided that "the company was barred from dictating systematically to ... suppliers 1) to refrain from [using] ... brokers, 2) ... offering of premium deals, 3) [increasing] the prices charged to the outside trade for store delivered ... food products" The company was also barred from "dictating systematically ... the prices or other terms or conditions of sale, upon which such suppliers shall sell or distribute ... food products to the outside trade."

fewer and more powerful chains. This spread was slowed after the 1950s, limited primarily by the federal government's stepped-up anti-merger threats.

In the early 1960s, the Federal Trade Commission (FTC) entered agreements with six food chains that prohibited future grocery store mergers without prior FTC approval for 10 years (Marion, et al., 1979). During the agreement's time period, National Tea Co. was involved in the only fully litigated case from the six chains (National Tea, 1966). The major finding of this case was that National Tea's acquisition of 26 grocery retailers violated section 7 of the Clayton Act. The FTC found that National Tea's activities portend a drastic restructuring of national food markets, achieved substantial power, and had eliminated many viable potential competitors, thus depriving consumers of the benefits of potential competition (Marion, et al., 1979).

At around the same time, the Supreme Court began to establish market extension merger standards, motivated by decisions made in the case of *US vs. Von's Grocery Co* (1966). In the case, the Justice Department challenged Von's acquisition of Shopping Bag Food Stores (see Lande, 2001 and Foer, 1999 for additional discussion). Because of the strict enforcement toward a small impact market-consolidating merger, this case is often credited as the high watermark of antitrust action in US food retailing. It was shortly after this case that the antitrust agencies, under the Department of Justice, adopted the food distribution merger guidelines, which said that any but very small acquisitions by large chains would be carefully scrutinized (Marion, et al., 1979).

Shopper preferences were also changing after the 1950s. The nation was prosperous in the 1960s and the American public wanted a more diverse assortment of goods and services than the conventional supermarket offered. Delicatessen and bakery departments were added into the supermarket to compete more closely with the growing fast food market (Mayo, 1993). Additionally, greater emphasis was placed on the quality of goods sold at supermarkets.

Technology became a driving force in grocery retailing in the 1970s. The Uniform Pricing Code (UPC) was introduced to supermarkets in the 1970s. This retailing innovation had a significant impact on the efficient use of interior space by allowing management to make exact estimates as to when and how much of a store item was needed, along with timelier warehouse deliveries. Shortly thereafter, the first supermarket checkout scanner went into operation in 1974 at Marsh Supermarkets in Troy, OH (Mayo, 1993).

Driven in part by economic recessions and energy crises of the 1970s, the warehouse supermarket format was released, which deemphasized quality design and atmosphere. In warehouse stores, sacking clerks were eliminated and a pivoting board, acting as a divider for the checker, was installed to help move customers along efficiently. The use of metal shelves, food goods in cartons, simplified designs of food departments, and the checkout stand gave bleakness to the warehouse supermarket. Store displays were straightforward, and visual absence of a concern for aesthetics gave customers the message that warehouse markets were saving them money.

In the late 1970s, new supermarket competition was beginning to surface in the form of wholesale clubs and hypermarkets. The hypermarket, predecessor of the supercenter,

first opened in 1963, in Sainte-Geneviève-des-bois, France, by Carrefour. With a floor area of 2,500 square meters, 12 checkouts and 400 parking spaces, the venture joined a nonfood retailer and a food wholesaler, completely encompassing the concept of total one-stop shopping (Carrefour, 2004). Hypermarkets typically combined 30 % dedicated floor space to food retail, with the remaining space dedicated to nonfood general retail. The hypermarket entered the US in 1984 when the Bigg's Company opened Bigg's hypermarket in Batavia, OH. The average size of a hypermarket increased to 16,000 square meters by 1989, combining as one bystander said "the supermarket, the discount store, and the shopping mall" (Mayo, 1993).

The wholesale club store began in 1976 with the opening of Price Club. Wal-Mart and Kmart followed shortly after with Sam's Club and Pace stores, respectively. Targeting customer clientele and combining wholesale and retail functions were key cost controls, making the wholesale club a profitable format. The wholesale club emphasized tight control of overhead expenses with a quick turnover of goods. Whereas large chain supermarkets contained as many as 30,000 items, warehouse clubs carried only 3,000 to 4,000 items. By 1990, warehouse clubs comprised roughly 3 % of total US food sales.

In the early 1970s, Safeway overtook A&P in total volume sales, becoming the nation's leading grocery chain, thereby ending A&P's unprecedented run since its beginning in 1859 as the leading grocery chain in the US. At the end of the 1970s, the Retail Clerks International Association and the Meat Cutters Union merged to form the United Food and Commercial Workers Union. By 1990, half of chains and 12 % of the independents were unionized (Mayo, 1993).

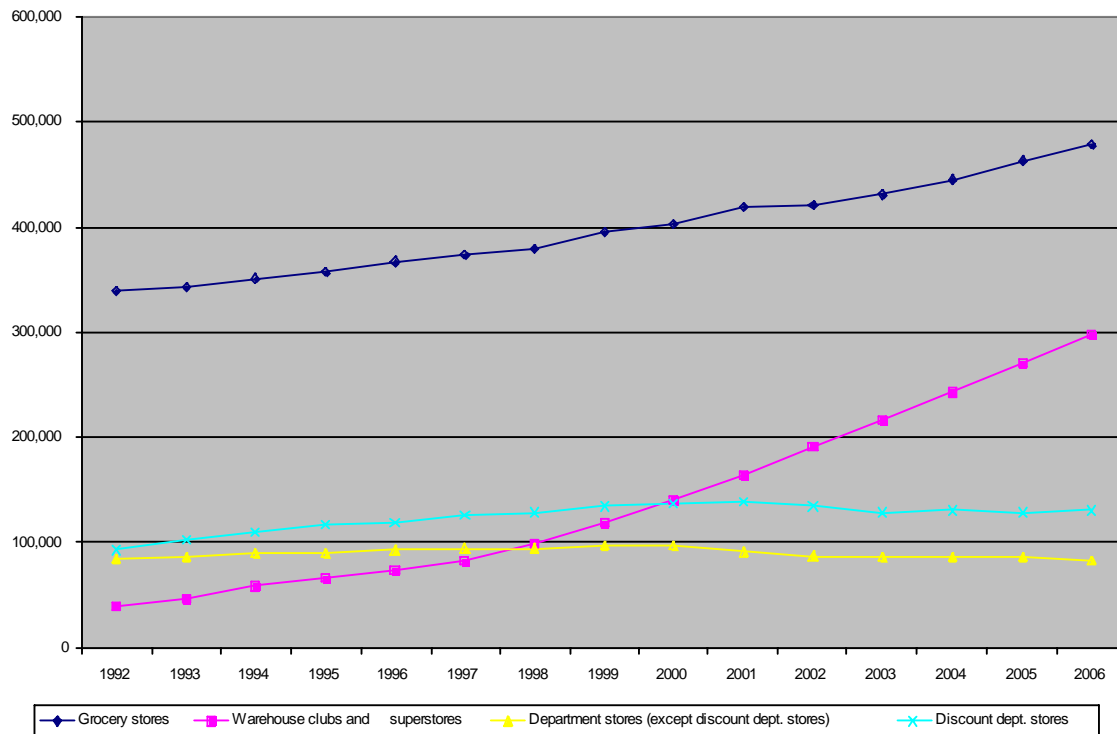
Supermarket merger analysis began to mature in the 1980s after the 1982 Merger Guideline revisions were made, with the leading example of this maturity demonstrated in California vs. American Stores Co. (1990). In the case, the FTC conducted an investigation of American Stores and its recent acquisitions, entering into a settlement with American Stores that required the divestiture of thirty-one to thirty-seven stores in California (Foer, 1999). The state of California then filed suit alleging that acquisitions made by American Stores were still unlawful and restricted competition. The Supreme Court held that divestiture was allowable, finally resolving the case by ordering a divestiture of 161 stores.

2. FOOD RETAILING 1990 TO PRESENT

The latest major advancements in food retailing in the US have been the introduction of supercenters. The supercenter, which is closely related to the hypermarket, combines food retailing with general merchandising and pharmacy under one roof, devoting up to 40 % of floor space to grocery items. The supercenter began in Grand Rapids, MI, in 1962, when Meijer opened its first Thrifty Acres store. Meijer was followed into the supercenter realm by Fred Meyer in the 1980s, becoming the two major supercenter firms. Both chains began in grocery retailing and then extended into general merchandise. Nontraditional food retailers entered the supercenter format when Wal-Mart entered the grocery sector with the Wal-Mart Supercenter, in 1988, followed shortly by Kmart and later, Target, which

signified the entry into grocery retailing by the nation's three largest general merchandisers (see Figure 1).

Figure 1 Estimated annual retail sales by kind of business (\$ million)



Source: <http://www.census.gov/svsd/retrann/view/sales.xls>.

As the supercenter segment slowly eroded away market share from traditional supermarket retailers during the 1990s, the supermarket industry underwent large mergers and acquisitions, which created fewer but larger firms. Since the late 1970s, major mergers and acquisitions included but were not limited to:

1. Safeway merged with Vons (1997), Dominick's Supermarkets, Inc. (1998), Randall's Food Markets (1999), and Genuardi's Family Markets (2001),
2. Kroger merged with Dillon Companies (1983), which included Quality Food Centers, and Fred Meyer Inc. (1999), which included Ralphs Grocery Co. and Quality Food Centers,
3. Albertson's merged with American Stores which included Acme, Jewel-Osco, Osco Drug Sav-on drug stores and Lucky stores (1999) and acquired Shaw's Supermarkets (2004),
4. Bi-Lo (1977), Giant Foods (1981), Finest Supermarkets (1988), and Stop & Shop (1996), were purchased by Royal Ahold, and

5. A&P purchased Kohl's Food Stores (1983), Waldbaum's Inc. (1986), and the Farmer Jack chain from Borman's Inc. (1989),

As the number of mergers and acquisitions increased, the concentration levels of the grocery industry increased as well. A chart of merger and acquisition activity is shown in Figure 2.

In 1992, the top five supermarket chains had control of 19 percent of the market; by 1999, that share had almost doubled to 33 percent (Bergmann, 1999). The two primary efficiencies sought by the mergers were to increase buying power and economies of scale (Balto, 2001). To some extent, the merger wave that swept the industry was a response to the supercenter format (Foer, 1999). It is also believed that retailers engaged in merger activities in pursuit of higher economies of scale and operational efficiency on the horizontal competitive landscape, and also strengthen their bargaining power in their dealings with the upstream members of the US food system (Bjornson, Sykuta, 2002).

The most current Merger Guidelines (1992, revised in 1997) stated the general standards for market concentration levels post-merger were as follows:

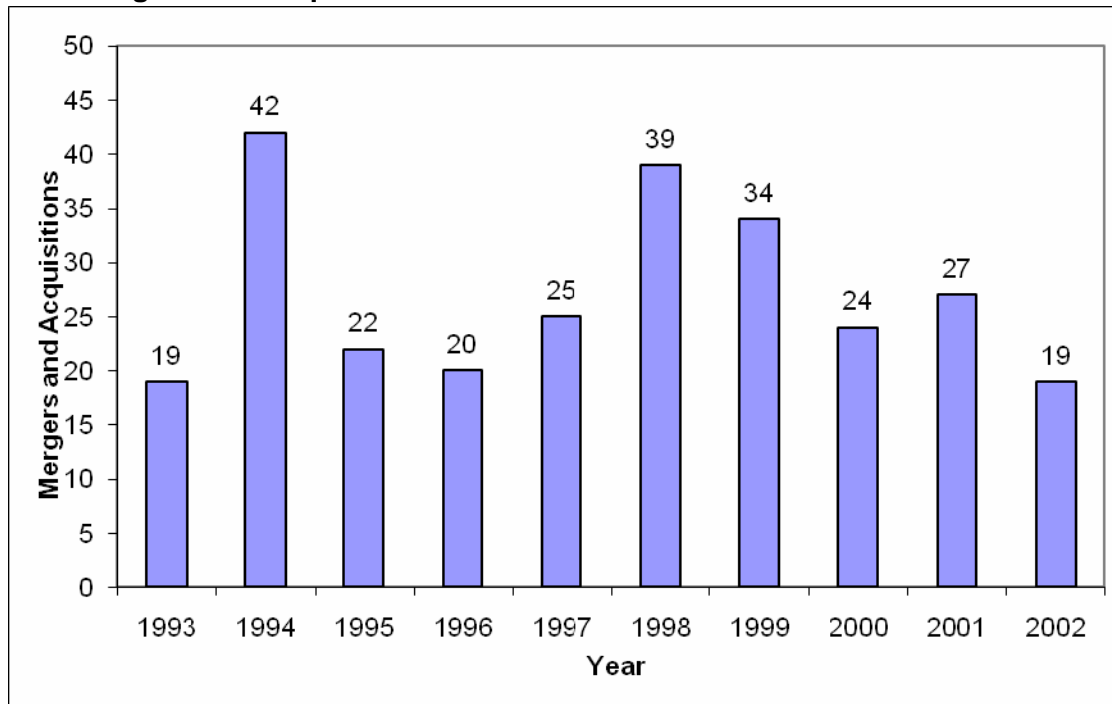
1. Post-Merger HHI Below 1000. The Agency regards markets in this region to be unconcentrated.
2. Post-Merger HHI Between 1000 and 1800. The Agency regards markets in this region to be moderately concentrated.
3. Post-Merger HHI Above 1800. The Agency regards markets in this region to be highly concentrated.

Where $HHI = \sum_{i=1}^n s_i^2$ is the Herfindahl-Hirschman Index of concentration, s_i is the market share of firm i ($0 \leq s_i \leq 100$), and Agency refers to the Department of Justice.

The latest round of merger activity has consolidated many of the nation's largest grocery retailers, leading to even fewer sellers, and hence, more concentrated markets, with many metropolitan and local markets falling into the highly concentrated range. Increased concentration may be prices tend to increase as well; therefore, it is possible that the latest merger trend will result in higher food prices for many areas of the US.

The retail grocery sector has undertaken many changes in the last century. With the supercenters accounting for 5.4 % of total supermarket sales in 2002 (Progressive Grocer, 2003), it is an unmistakable force that will likely continue to reshape the grocery sector while pushing the efficiencies of traditional supermarket retailers. Table 1 details several important expenditure trends and patterns worth additional discussion. Owing to the emergence of supercenters, the share of total expenditures on food at home (i.e., food purchased and prepared at home) accruing to food stores declined from 87.2 % in 1985 to 65.8 % in 2006. A rapidly emerging trend is the home delivery and mail order of food, which is in part due to an aging and more affluent population.

Figure 2. Mergers and Acquisitions 1993-2002



Source: The Food Institute's Food Business Mergers and Acquisitions 2002, 2003.

Although not a focus of this chapter, trends in food consumption away from home (FAFH) indicate a large and growing component of US food expenditure. Beginning only since the late 1960s, food away from home expenditure, as a percent of disposable income, rose from 3.6% in 1970 to 4.0 % in 2000. Food at home decreased from 10.3 % in 1970 to 5.8 % in 2000. Moreover, in 1967, fast food accounted for 14.3 % of total away-from-home expenditures and by 1999 it reached 35.5 % (US Department of Agriculture/Economic Research Service). The emergence of the fast food marketing platform is commonly considered a leading force in the increased incidence of obesity and diabetes in children. Bowman et al., (2004) analyzed the food consuming patterns in 6,212 children, and report: "Fast-food consumers also ate more total fat, more saturated fat, more total carbohydrates, more added sugars, more sugar sweetened beverages, less fluid milk, and fewer fruits and non-starchy vegetables, differences that were statistically significant in most age categories (p. 113-114)." They also suggest that fast-food consuming children were nearly twice as likely to become obese compared to those that did not consume fast food. Figure 3 shows the share of three categories of FAFH. As the figure demonstrates, the market shares of basic food restaurants have dramatically increased their dominance compared to hotel-related restaurants, school cafeterias, and retail-related eateries. Figure 4 compares the sales of eating establishments offering "full service" to all eateries that offer limited service (i.e., ordering from the counter, drive through pickup, etc.). Both formats maintained roughly the same market share over the last 20 years. Success of both formats is partly due to increased demand for convenience in the US, smaller families with dual

income lifestyles, and rising incomes. Although the data is not yet available, the rapidly rising fuel and food prices in the US are likely to spur many changes to the way consumers purchase food. Supercenters are usually price leaders and stand to benefit from consumers seeking lower food prices. A research study by Huang and Stiegert showed that in 2005, there was a 25 % price difference between the highest and lowest priced food retailers in Madison, WI. Thus, some consumers that have not yet switched to supercenter styled formats are more likely to do so in the near future. Consumers are also likely to change purchasing patterns to cut overall food bills. They may switch to cheaper cuts of meat, or wait for good deals and stock up before prices revert back. Consumers may shift away from pricier restaurants to those offering less service, or may curtail eating out and purchase more for in-home consumption.

Table 1: US total expenditures on food at home

	1985	1990	1995	2000	2003	2006
<i>Million dollars</i>						
Food stores ¹	209.228	256.368	275.301	303.526	323.869	364.399
Other stores ²	16.36	32.334	54.728	89.446	122.62	157.14
Home delivery and mail order	2.768	5.336	8.625	19.152	18.202	21.012
Farmers, manufacturers and wholesalers	4.637	2.784	3.487	3.908	3.894	4.382
Total sales³	232.993	296.822	342.141	416.031	468.585	546.933
Home production and donations	6.998	7.726	7.026	6.497	6.83	6.463
Grand total	239.991	304.548	349.166	422.528	475.416	553.395

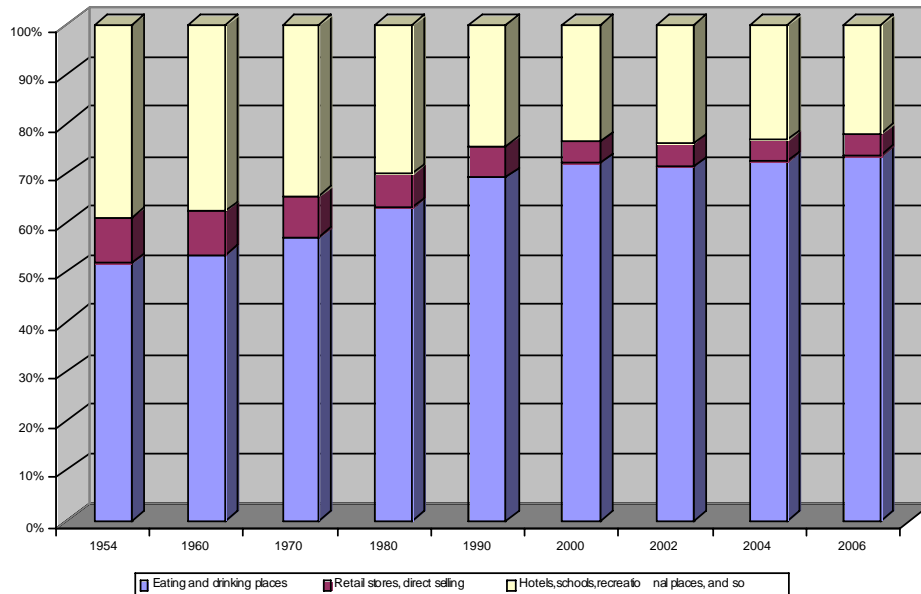
¹ Excludes sales to restaurants and institutions

² Includes eating and drinking establishments, trailer parks, commissary stores, and military exchanges

³ Computed from unrounded data

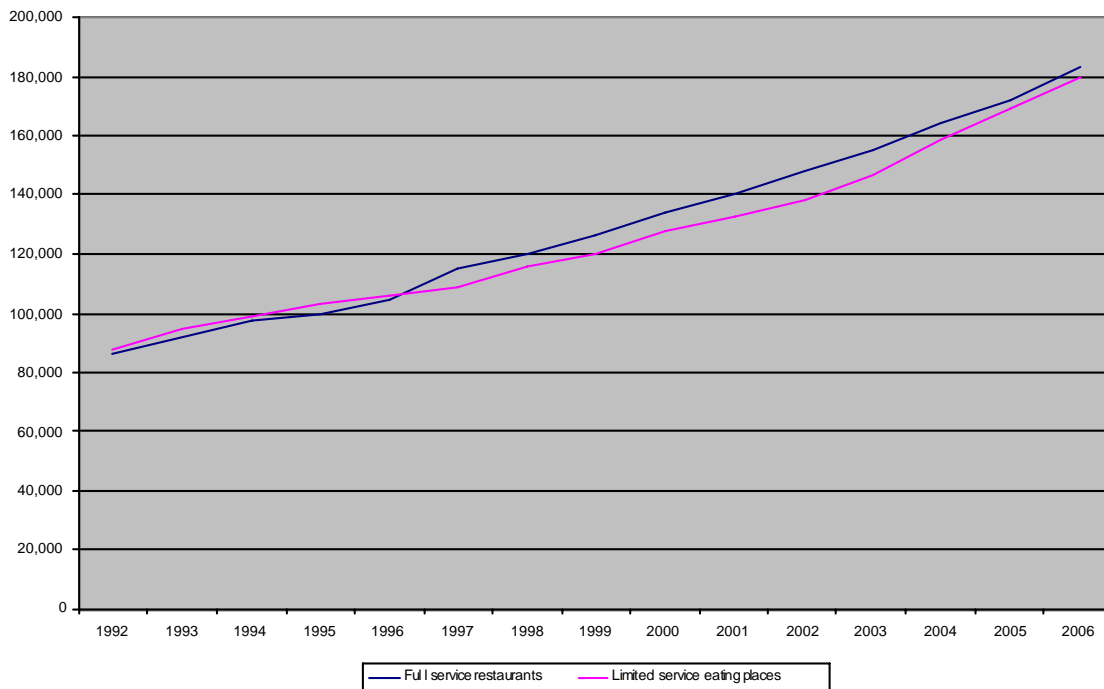
Source: USDA, ERS, <http://www.ers.usda.gov/briefing/CPIFoodAndExpenditures/Data/table2.htm>

Figure 3: Sales of food away from home by type of outlet (%)



Source: USDA, ERS, <http://www.ers.usda.gov/Briefing/CPIFoodAndExpenditures/Data/table17.htm>

Figure 4: Estimated annual food sales by kind of business (\$ million)



Source: <http://www.census.gov/svsd/retlann/view/sales.xls>

Table 3. US sales of food at home by type of outlet

	1985	1990	1995	2000	2003	2006
<i>Traditional grocery retailers</i>			<i>Percent</i>			
Supermarkets	64.7	61.9	59.4	62.5	59	57.7
Convenience stores	3.2	2.7	3.1	2.9	2.9	2.9
Other grocery	16	15.8	15.3	5.3	4.8	3.4
Specialty food stores	5.8	3.2	2.7	2.3	2.4	2.7
<i>Total traditional</i>	73.7	83.6	80.5	73	69.1	66.7
<i>Nontraditional grocery retailers</i>						
Warehouse clubs ¹ and supercenters ²	0.3	1.9	4.2	9.4	15.2	17.9
Mass merchandisers ³	1.4	1.4	2	2.3	1.9	1.7
Other stores	5.5	10.5	9.7	9.9	9	9.2
Home delivered and mail order	1.2	1.7	2.5	4.6	3.9	3.8
<i>Total nontraditional</i>	8.4	15.5	18.4	26.2	30	32.6
Farmers, processors, wholesalers, and other	2	0.9	1	0.9	0.8	0.8

¹ Includes three warehouse club chains operating in the US, namely Sam's club, Costco, and BJ's

² Such as Wal-Mart, Meijer, Super Kmart, Fred Meyer

³ Such as Kmart, Target, traditional Wal-Mart

Source: USDA, ERS, <http://ers.usda.gov/Briefing/CPIFoodAndExpenditures/Data/table16.htm>

4. PRIVATE LABELING PRACTICE IN THE US FOOD RETAILING SYSTEM

With the development of private labels (PL), whereby the retailers sell products under their own brands, the retailers may pursue lower prices, higher margins, better positioning, and enhanced customer loyalty. In Europe PL practice was introduced in the second half of 1970s, and ever since it has been growing in importance. Mostly targeted at the low end of the market initially PL products offered lower quality and prices than national brand products (NB), thus offering the consumers economic incentives to buy their products at the time of economic hardship. Over time, however, this practice changed significantly, as many big manufacturers accommodated the production of PLs in conjunction with NBs, and also huge gains in technology were utilized (Sckokai et al., 2006).

By adopting PL retailers assumed a more active role in the food marketing system, as they own and control part of the products that they channel to the final consumers. If used effectively, it can become an important competitive tool for the retail firms on the vertical competitive landscape, as it may increase their bargaining power against the NB suppliers. Meanwhile, PL can be a successful strategy to compete with other retailers by allowing them to differentiate their products (Berges-Sennou et al., 2003).

Globally PL growth rate surpassed that of NBs in 2005, making up 5 and 2%, respectively¹. As a result, the share of PLs in the value sales increased by 0.4 percentage points for the total of 38 countries and 80 product categories, reaching 17% in 2005 (figure 7).

Some important factors that might contribute to a bigger share of PL products in the market follow (Dhar and Hoch, 1997):

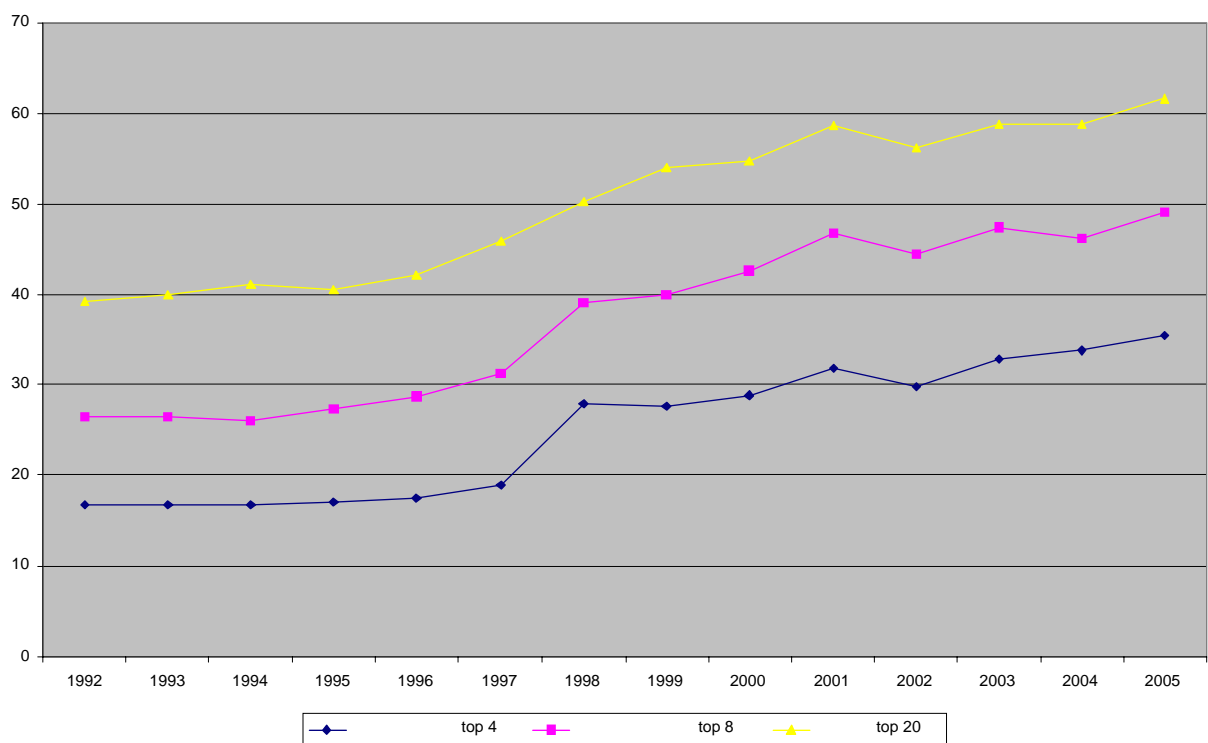
- PL products are of higher quality vis-à-vis NB

- Quality of PL products is not subject to big variations
- High sales level of the product category under study
- The share of gross margin is high
- Not many domestic food manufacturers offer the product category
- Advertising expenditures are low on the country level

3. CONCENTRATION IN THE US FOOD RETAILING

The groups of the largest four, eight, and 20 companies were experiencing relatively stable shares of US grocery store sales from 1992 to 1996 (Figure 5). However their shares increased by 18.7, 22.6, and 22.4 % , and reached 35.5, 49, and 61.6 % , respectively in 2005. Increasing concentration in the US food retailing sector is reflective of the major changes happening in the entire food retailing industry, and may result in more powerful food retailers securing better contract terms in their relationship with other food marketing channels (Harris et al., 2002). However, the impact of retail store concentration on food prices is not clear-cut, and it is ambiguous how concentration would change the profitability of food retail stores in comparison to that of food manufacturers (Kinsey, 1998).

Figure 5: U.S. food retailing concentration (% of U.S. grocery store sales)

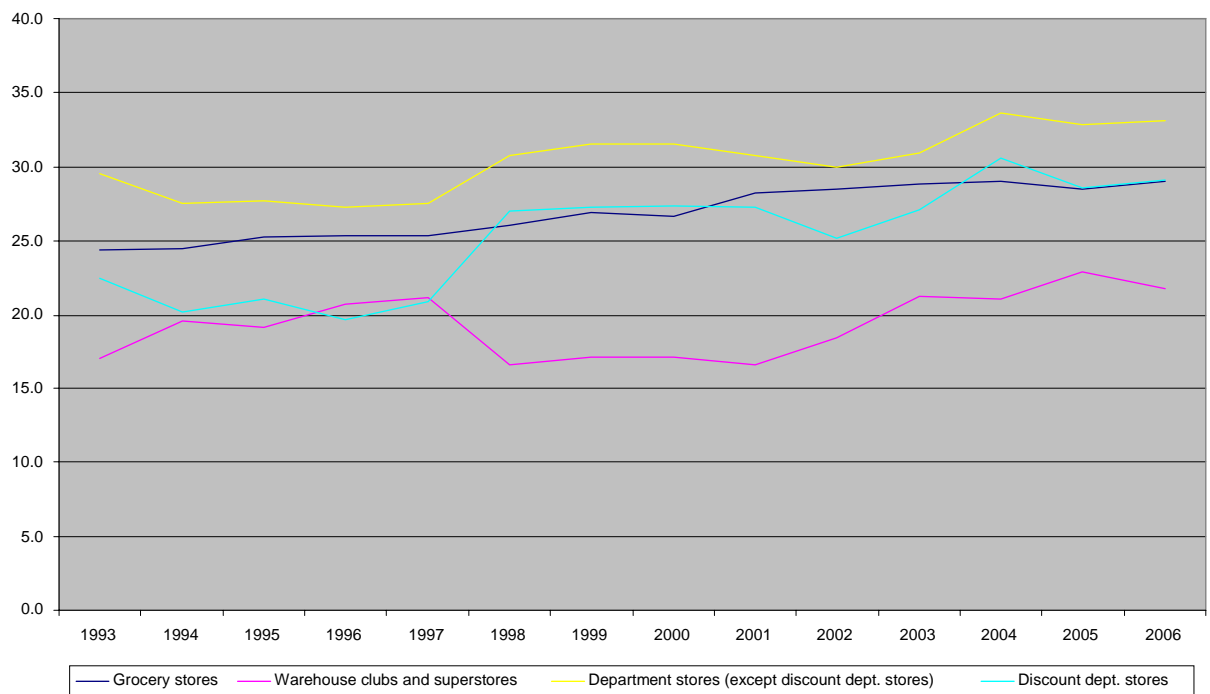


Source: USDA, ERS, <http://www.ers.usda.gov/Briefing/FoodMarketingSystem/Data/topgrocerysales2005.xls>

Estimated gross margin as a percentage of sales has been a rising trend for grocery and department stores in recent years (Figure 4). For grocery stores it increased by 4.5 percentage points in the last 13 years and reached 29 percent in 2006. This measure for warehouses and supercenters demonstrated a decrease in the period of 1998-2002, after which it increased by 3.4 percentage points and reached 21.8 percent in 2006.

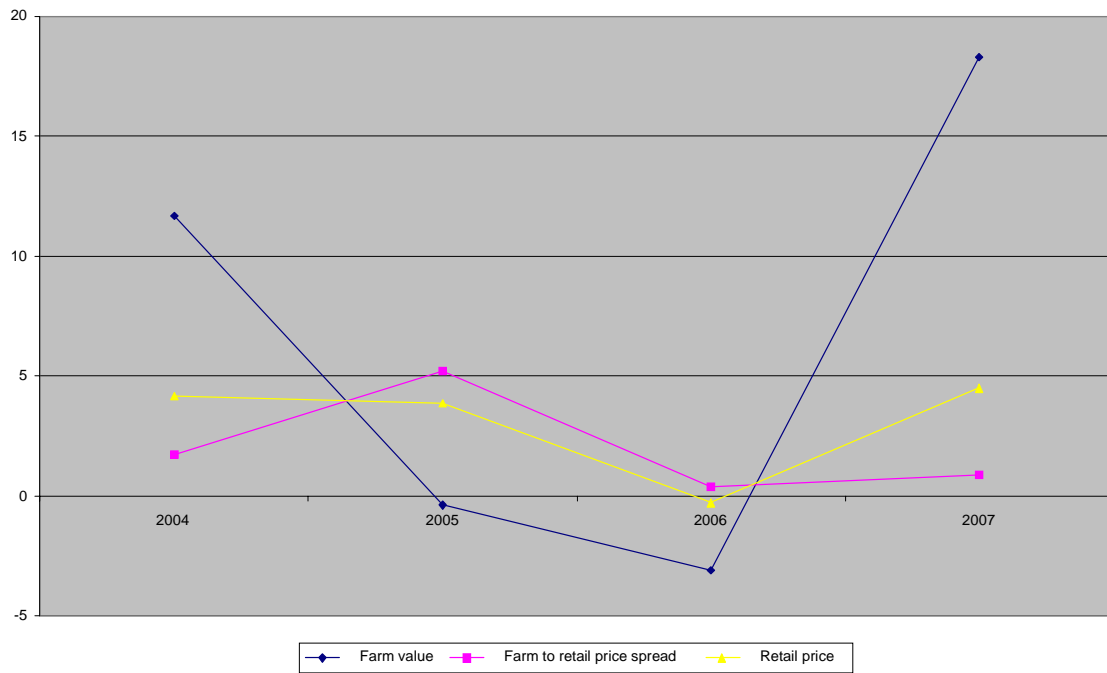
Figure 6

**Estimated annual gross margin as a percentage of sales of retail firms
kind of business (%)**



The dynamics of price indexes of farm value, farm to retail price spread, and retail prices from 2004 through 2007 speak to the ambiguity of the direction of price changes (Figure 7). The retail price index first increased in 2004 and 2005 by 4.2 and 3.9 percent, respectively, and then decreased by 0.3 percent in 2006, compared to the base period. However it regained an increase of 4.5 percent in 2007. The farm price index rose by 11.7 percent in 2004, and then declined by 0.4 and 3.4 percent in 2005 and 2006, respectively. As in the case of retail prices, the farm price index regained an increase of 18.3 percent in 2007. The index of the farm to retail price was on a continuous rise, although at a decreasing rate, during this period. Obviously, the increase in the gap between the farm and retail prices was not at the expense of farm value, which provides further evidence that increasing concentration in the level of retail stores did not lead to pressure on the prices of the upstream channels.

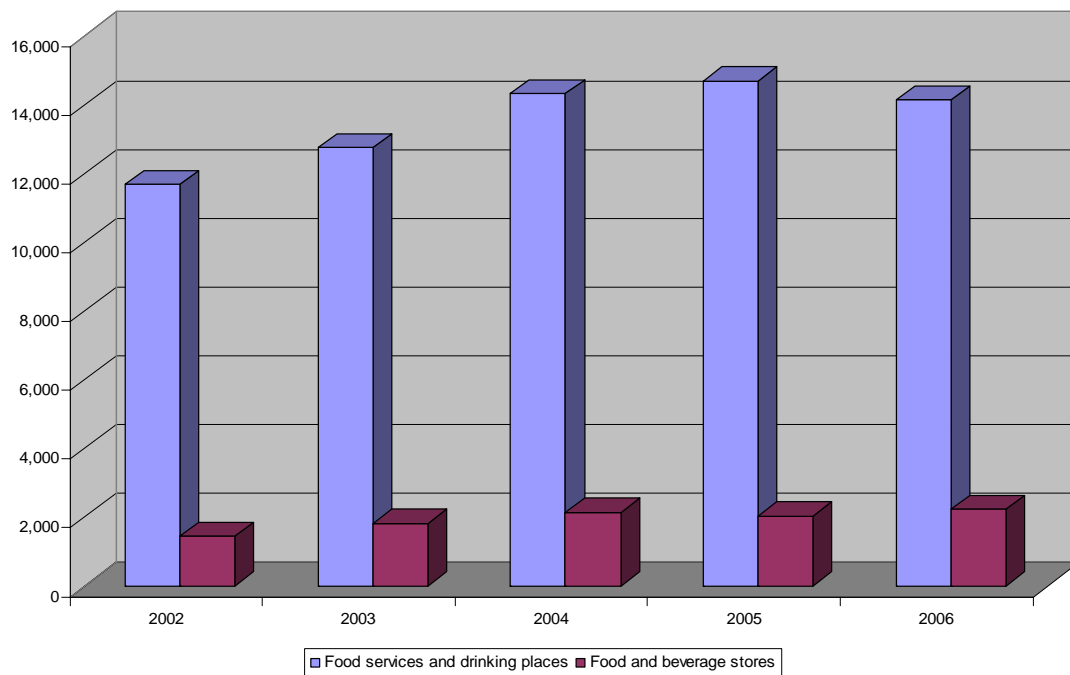
Figure 7: Changes in food price indexes (%)



Source: USDA, ERS, <http://www.ers.usda.gov/briefing/CPIFoodAndExpenditures/Data/cpiforecasts.htm>

Figure 8

U.S. foreign direct investment in food service and food retail (\$ million)



Source: USDA, ERS, <http://www.ers.usda.gov/Briefing/GlobalFoodMarkets/Data/USFDIsectors.xls>

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