Understanding the Grocery Industry

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Introduction

The purpose of this memo is to help CDFIs develop a basic understanding of the U.S. grocery industry by describing the U.S. grocery industry, including major participants, industry financials, current operating trends, and industry trends. The U.S. grocery industry, which includes a variety of businesses from supermarkets and convenience stores to wholesale clubs and superettes, had sales totaling over $1 trillion in 2009, with supermarkets accounting for just over half of total sales at about $557 billion (1). The supermarket industry comprises the largest segment of the U.S. grocery industry. Non-supermarket grocery sales are comprised mainly of convenience stores, about $325 billion, and wholesale clubs, about $117 billion. While this section focuses on the supermarket industry [including traditional supermarkets, limited assortment supermarkets, superettes, supercenters-grocery only], other store formats should be considered when analyzing the industry to determine competition and appropriate store types or sizes in the underwriting process. Basic descriptions of grocery industry store formats include:

- **Traditional supermarkets**: Traditional supermarkets, also called conventional supermarkets, are self-service retail stores that sell dry groceries, canned goods, nonfood products and perishables having annual sales of $2 million or more. These stores typically carry between 15,000 and 60,000 stock keeping units (SKUs) and tend to have multiple service departments including but not limited to bakery, butcher, deli, fishery, floral, pharmacy, photo, etc. Traditional supermarkets vary significantly in size but typically range between 20,000 square feet (SF) and 65,000 SF+;
- **Limited assortment supermarkets:** Limited assortment supermarkets, sometimes referred to as discount supermarkets or price impact supermarkets, are self-service retail stores that carry a limited selection of items in a reduced number of categories and typically have few, if any, service departments. Of the 4,000 SKUs or less offered, a higher percentage are private label relative to traditional supermarkets, where private label penetration typically represents less than 30% of sales. Store size varies; however, the stores are typically between 13,000 SF and 25,000 SF;
- **Superettes:** Smaller stores that sell mostly packaged and perishable food items with a basic, narrow selection of SKUs and having annual sales of less than $2 million. These stores tend to have few service departments and are sometimes called "mom & pop" stores or corner stores. These stores tend to carry limited private label products.
- **Supercenters:** Large stores, average over 170,000 SF, which offer a combination store plus discount stores services in a single location. These stores devote as much as 40% of their space to grocery items;
- **Natural / Gourmet Store:** A specialty retail store focused on healthy living and/or gourmet prepared foods. These stores tend to have a limited selection of general merchandise. Store size varies significantly; and
- **Convenience stores:** Small outlets that carry primarily dry groceries and have a limited selection of perishables, prepared foods and general non-food merchandise. They usually carry about 800 to 3,000 items.

The supermarket industry is highly fragmented with the top ten retailers accounting for only 35% of the total number of stores and 68% of sales (1). According to the *Progressive Grocer,* approximately 35,600 supermarkets were in operation in 2009. Chain supermarkets (29,300 stores) generated $528 billion in sales in 2009 or about 95% of total supermarket sales, while independent supermarkets (6,300 stores), accounted for the balance (1). Chain supermarkets are generally considered to have more than ten stores under one management structure while independent supermarkets usually have ten or fewer stores under one management structure.

The supermarket industry in the U.S. is mature, highly competitive and rapidly consolidating. It is not uncommon to find competing supermarkets within a mile or two from each other. The industry faces pressure from supercenters, warehouse clubs and other retailers such as natural or gourmet food stores and drugstores. To better compete in such an environment, supermarkets are increasingly tailoring their product offerings to meet consumer interests. For example, according to the Food Marketing Institute, a vast majority of stores now offer prepared foods for take-out and have floral departments in response to customer needs. Supermarkets are also increasingly offering ethnic foods and organic and natural foods (1).

In the past, food retailing was very personalized, with shop owners living within the neighborhood where they operated. As people started moving to suburbs from cities during a large part of the last century, retailers followed them. This led to growth in the number of shopping centers and to the beginnings of supermarket chains. Sales practices also became complicated as operators were far removed from their customers and had to pay for research to understand their customers' needs (1).

Today, supermarket operations include purchasing products from a number of suppliers, having products delivered to the store, maintaining the products' freshness, marketing the products, and completing sales through checkout stations (1). Supermarkets generally have long hours of operation to meet the needs of their clientele's varying schedules. An important piece of this business is the operators' decisions on product assortment, which must satisfy their customers' needs.

Those working in the supermarket industry monitor four economic indicators: disposable consumer income, consumer confidence (as measured by the Consumer Sentiment Index), interest rates and population growth (1). When consumers have more disposable income, they may purchase branded or gourmet type food as opposed to when they have less disposable income and tend to trade down to purchase only staples or cheaper options. When consumer confidence is low, consumers tend to spend less, as seen in the retail industry as a whole. Interest rate movement affects the industry in a manner counter-cyclical to disposable income. When interest rates are higher, consumers have less discretionary income and vice versa. Finally, population and population growth in a particular area help determine where to locate stores and how many to operate. The latter will be a heavy focus in any market or demand study for a supermarket retailer.

The supermarket industry is generally non-cyclical in large part because the stores sell staple products (food), which makes the industry more resilient than other retailing sectors. However, the industry is cyclical with respect to sales around major holidays and vacations when sales tend to increase and decrease respectively.

Table 1 below presents supermarket industry averages on a per store basis. As shown, revenues have increased slightly over the last three years while the average selling area and number of full-time equivalent employees has decreased, portraying the industry's focus on efficiency.

Table 1 Average Supermarket Data (Traditional or Conventional Supermarkets) (16)

	2007	2008	2009	2010
Annual				
Sales Volume ($ millions)	$ 15.31	$ 15.46	$ 15.64	$ 15.57
Selling Area (square feet)	33,300	33,250	33,250	33,300
Number of Checkouts	9.3	9.6	9.6	9.7
FTE Employees	72	69	67	66
Weekly				
Sales Per Store	$ 294,423	$ 297,308	$ 300,769	$ 299,373
Sales Per Square Feet	$ 8.84	$ 8.94	$ 9.05	$ 8.94

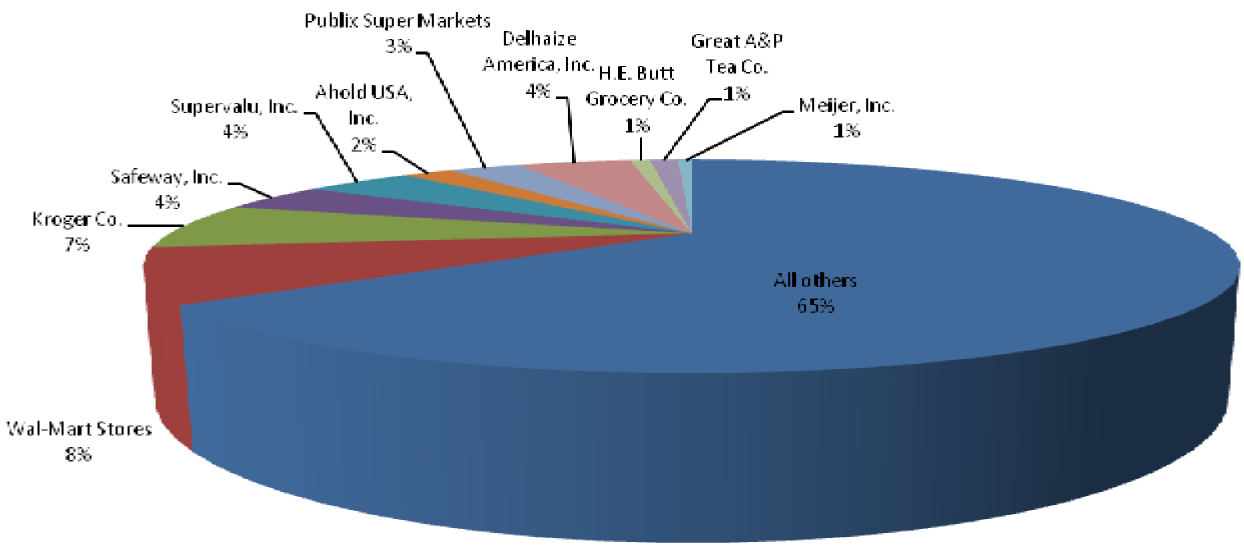
Major Participants

The top ten retailers in the supermarket industry accounted for approximately 68% of total industry sales in 2009 (1). The table in *Appendix II – Major Participant Details*, offers some details on the top ten supermarket chains by sales including their number of stores, top banner names and chief trading areas. Note, these chains only account for slightly more than one-third of the number of supermarkets in the U.S. with the balance consisting of numerous other public and private operating companies.

The U.S. Grocery Industry – Industry Financials

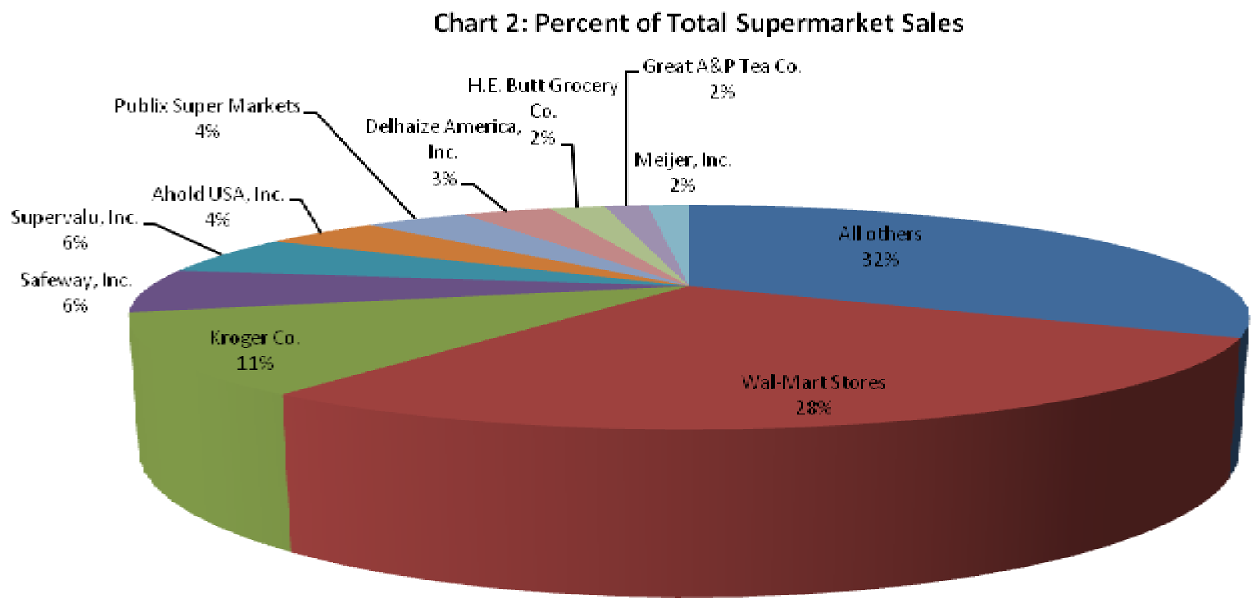
This section provides a broad overview of some industry financial data. Since industry financial data is derived from various sources, the following focuses primarily on the major participants and all other companies included as one group. The industry metrics in this section differ from those one would want to consider when reviewing a single operator in depth because individual companies may include different expenses or revenues in various line items, and the comparison on the industry level would not be apples to apples. For example, some companies include freight costs and wholesaler rebate payments in Cost of Goods Sold (COGS), and others simply include the cost of inventory; thus, the gross margin calculation ((Sales – COGS)/Sales) will reflect very different gross margins, even if the sales and inventory costs of the two operators are very similar. The industry metrics reviewed here are ones where the data is comparable for all of the companies / operators in the industry. Additionally, some company specific ratio data is presented at the end of the section to provide industry trends and ranges.

Chart 1: Number of Supermarkets (as a % of Total)

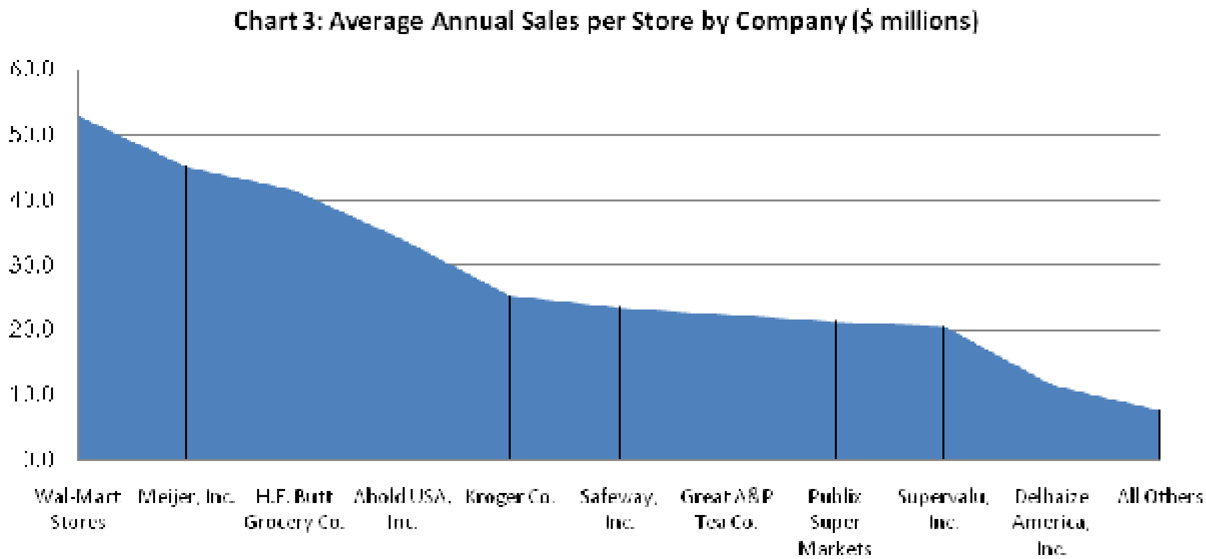


The chart above portrays an industry breakdown by number of supermarkets including the major participants (top ten chains by annual sales) and all others. As shown, the major participants account for about 35% (12,581 stores) of the total number of supermarkets or 35,612 stores, with Wal-Mart and Kroger leading the way [Wal-Mart is a supercenter but only its grocery sales are considered in this industry summary].

Chart 2 below portrays the percent of total supermarket sales by major participants and all others combined. As this chart describes, all other supermarkets that account for 65% of the total number of stores only account for 32% of total industry sales. This chart also describes Wal-Mart's market share as a percent of sales at an astounding 28% with its closest competitor, Kroger, having only an 11% market share.



As Chart 3 below describes, the major participants average higher sales per store than the non-majors and independents. The average annual sales for non-majors and independents were $7.8 million per store ($150,000 per week) whereas Kroger stores averaged about $25 million per store ($480,769 per week) and Wal-Mart stores averaged about $54 million (Over $1mm per week).



Charts 4 and 5 below portray the number of chain stores and independent stores by annual sales range. Chain stores comprise nearly two-thirds of the market and tend to be larger than independent operators. As is shown in the charts below, there are more chain stores that do greater than $30 million per year in sales than there are independent stores altogether. Furthermore, about 5,800 of the 6,300 independent grocers have annual sales in the $2 million to $8 million range.

Chart 4: Chain Store Count by Annual Sales Range

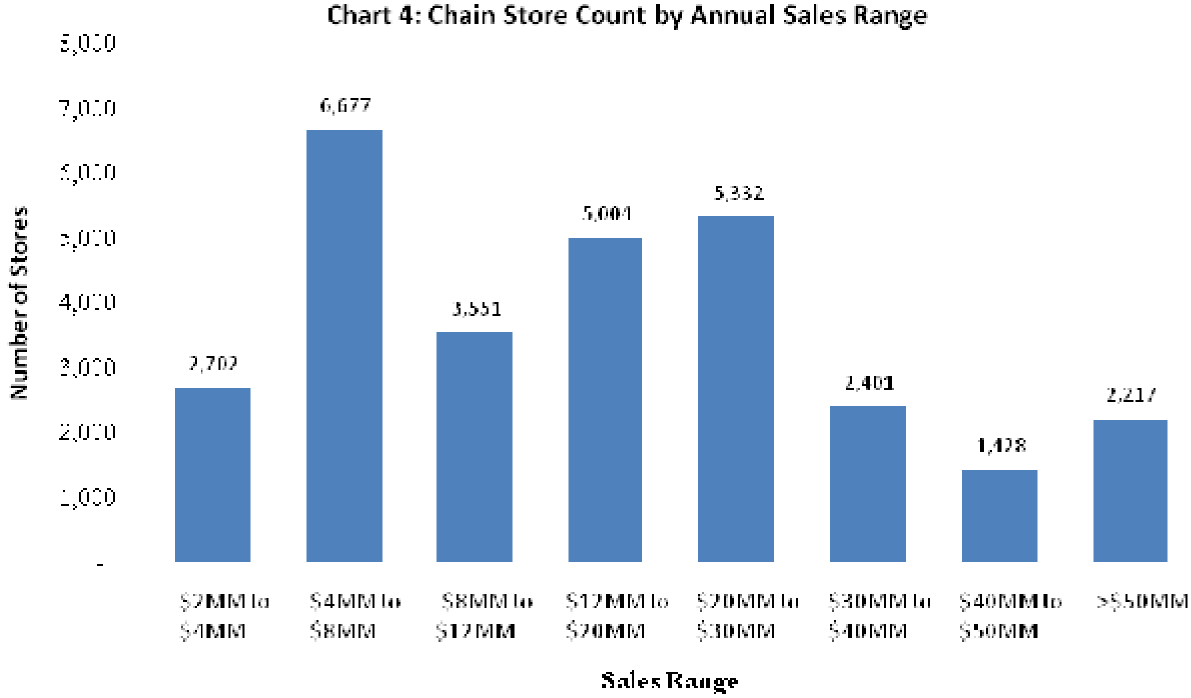
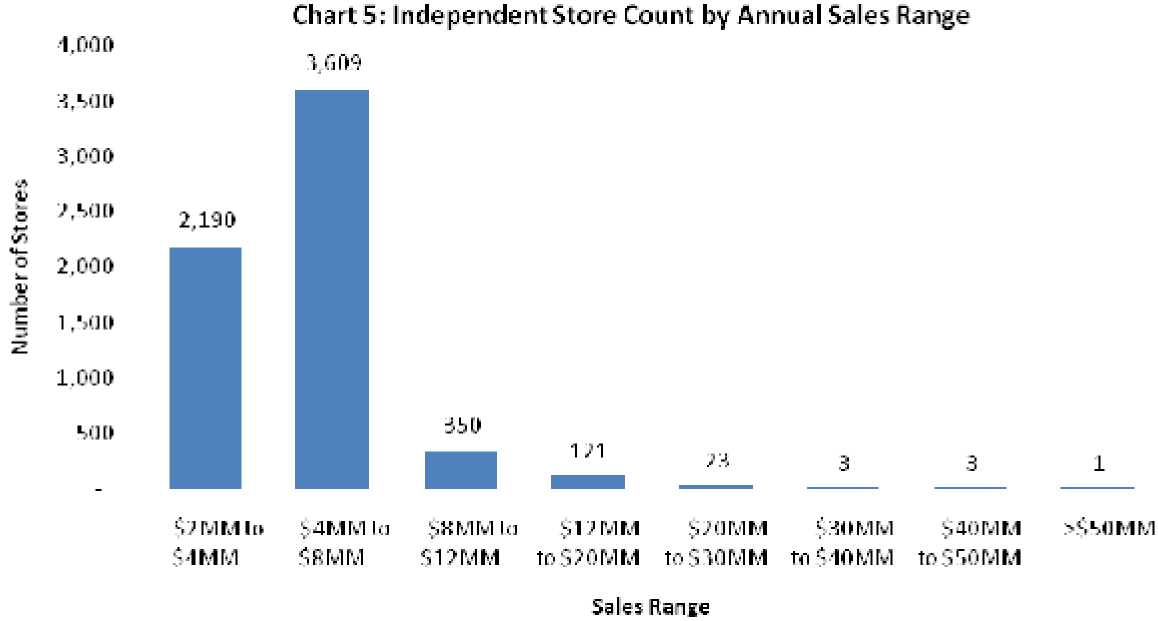


Chart 5: Independent Store Count by Annual Sales Range



Charts 6 through 8 present a few profitability and asset management ratios relevant to the supermarket industry. These charts portray five-year trends for five selected companies: Kroger, Safeway, Supervalu, Publix, and Whole Foods. These companies were selected because of their different scale, strategies and geographic distribution, and offer some insights on the industry as a whole.

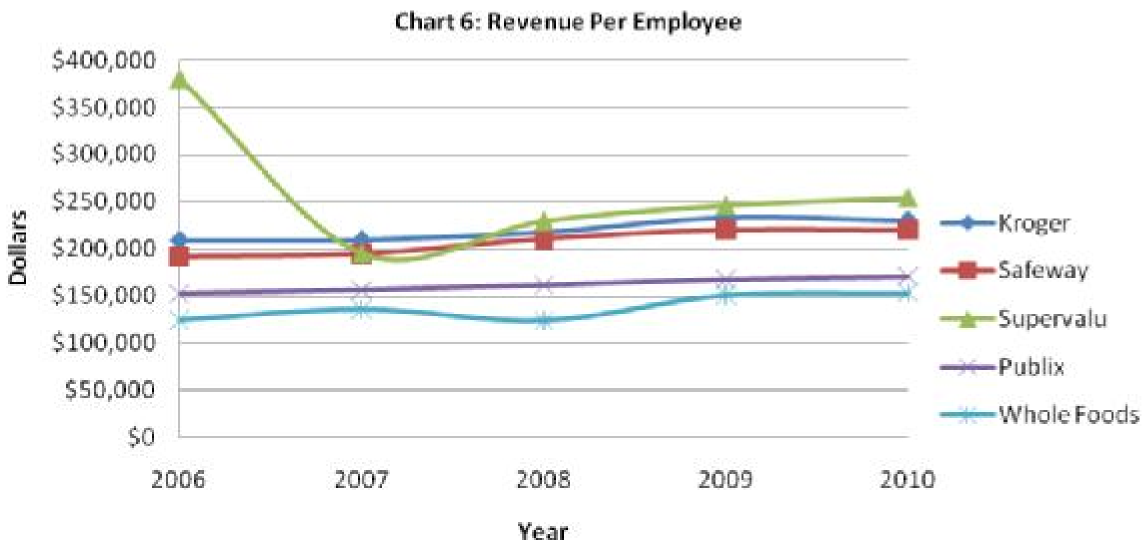
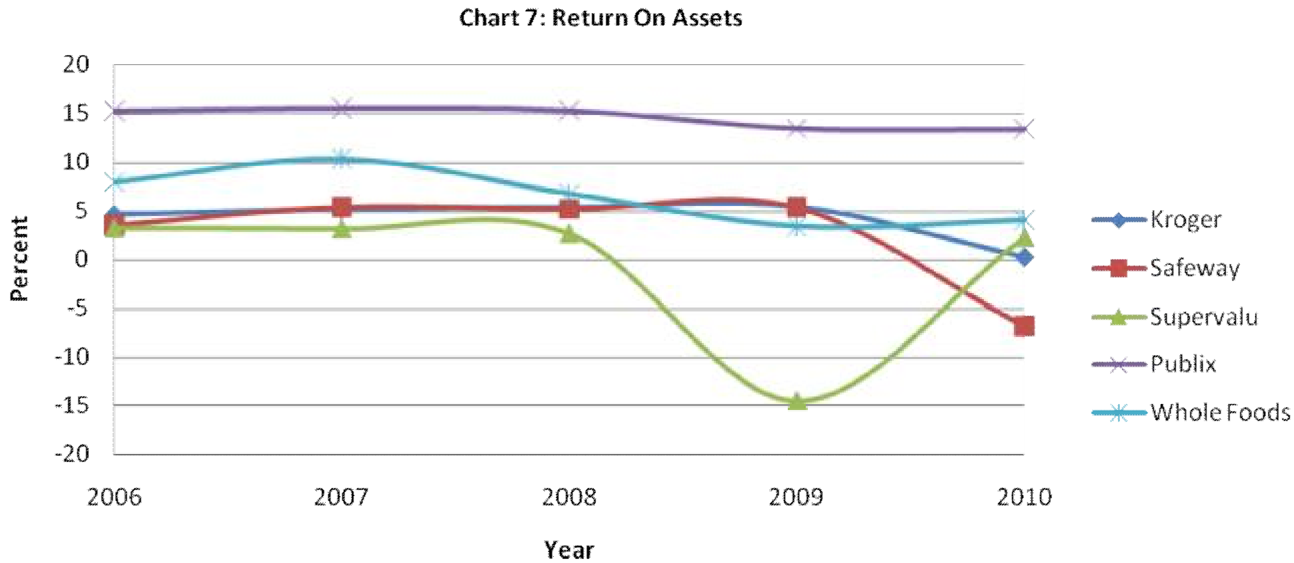


Chart 6 above displays revenue per employee. As shown, revenue per employee has been increasing slightly over the last five years and currently ranges from about $150,000 to $250,000 per employee. Keep in mind that the industry has been slightly decreasing the number of full time equivalent employees in recent years.

In 2007, the industry's average return on assets increased to 5.85% from 4.63% the prior year (11). Chart 7 below presents return on assets for these companies. As shown, return on assets has been generally decreasing over this period and currently ranges from -7% to about 13%.



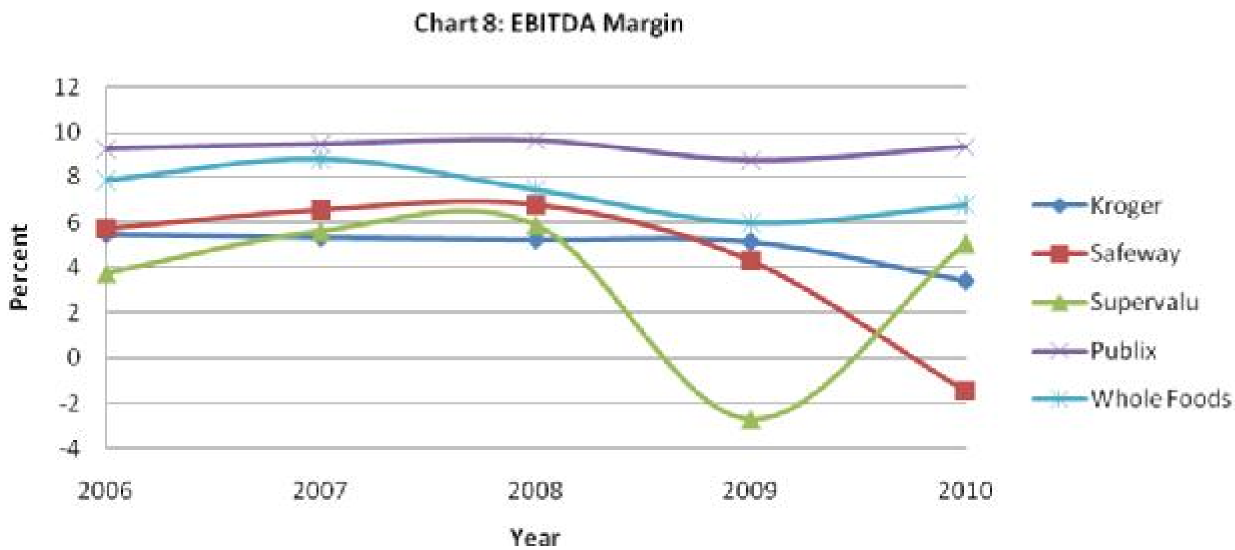


Chart 8 above displays the five-year earnings before interest, taxes, depreciation, and amortization (EBITDA) margins for five companies. Overall, there has been a slight decrease in EBITDA margins over this period. Currently, EBITDA margins are shown to range from -2% to about 9%.

The U.S. Grocery Industry – Operating Trends

Cost control is extremely important in this low-margin business where strong and weak players may be decided by a mere 1% difference in net margins. Product costs generally account for 70 to 73 cents for every dollar of sales, thus sharp changes in food inflation can have a significant impact on profitability (1). Labor is the largest operating expense in this industry as it is highly labor intensive. Many supermarket chains have unionized labor, more expensive than nonunionized competitors, which forces them to manage costs meticulously elsewhere to stay competitive.

Consolidation occurs often within the industry as companies find it more cost effective to grow via acquisition rather than building new. By merging, companies mitigate risks of entering new markets such as lack of local knowledge, attracting personnel, and intensity of a competitor's response. Merging also allows a company to build its economies of scale.

Since supermarkets are generally low-margin businesses and competition has been increasing, retailers focus energy on improving operational efficiencies and profitability. ***Category management*** through the use of technology is at the forefront in efficiently managing assortment and merchandise (1). Category management is used to provide a framework for evaluating the selection, arrangement, promotion and pricing of individual items to achieve the optimum product mix. Retailers use data generated at point-of-sale terminals and through customer surveys to understand what products they should carry and at what volumes. Also, different product categories have varying profit margins and retailers use data to manage to an overall store or company profit margin goal by managing promotions, pricing, etc. of items in different categories. For example, products in the bulk section of a grocery store carry high gross profit margins, > 40%, as compared to the bread aisle of a grocery store where gross profit margins are closer to 20%. A retailer may experiment with how much lineal feet of shelf space or selling square footage that he or she dedicates to each of these categories in order to achieve the overall grocery department gross margin goal that he or she has set.

Table 2 Average Supermarket Costs as a Percent of Sales

Total payroll	11.2
Employee benefits	3.6
Property rentals	1.8
Depreciation & amortization	1.4
Utilities	1.4
Supplies	1
Maintenance and repairs	0.7
Taxes and licenses	0.4
Insurance	0.3
Other expenses	4.3
Total operating expenses	26.3
COGS	70.7
Profit	1.9

*Source: Agnese, 2010 via FMI

Supermarkets are investing heavily in ***information technology*** to improve inventory levels and enhance their warehouse and distribution capabilities. Two key pieces of equipment used in the industry are electronic point-of-sale scanners (POS) and software for electronic data interchange (EDI) (1). POS scanners lower labor costs, improve price accuracy and speed up check out times for customers, but importantly are able to collect UPC data from products and store in a computer network for review and analysis. EDI systems connect retailers and suppliers and enable them to closely monitor inventory levels allowing retailers to maintain lean inventories and stock the appropriate amounts of the optimal product mixes. It should be noted that not all supermarkets invest in technology. Some smaller, independent grocers and supermarkets, many of which operate in rural and/or low-income areas, still function in a traditional fashion and rely more on the operator's experience and market knowledge.

Much of the ***marketing data*** used by supermarket retailers is derived from the POS scanners and shopper loyalty cards (1). From these sources, retailers can gather and analyze data related to demographics, frequency of shopping, purchasing habits, geography, and other variables. Then retailers can segment their target markets and determine what techniques to use to increase shopping frequency and profits.

Industry Trends

The weak economy in 2009 and 2010 has led to increased sales and margin pressure for food retailers. Over 2009, real GDP dipped 2.4% and unemployment peaked at 10% (1). These conditions made consumers more price sensitive, which resulted in:

- Increased sales of private label goods; and,
- Increased shopping at warehouse and discount club stores.

Consumers also shifted their habits over this period as they chose to prepare more meals at home as opposed to eating out, leading to increased revenues for food retailers. Finally, pricing competition intensified as retailers tried to lower pricing during the weak economic times and increase brand loyalty in anticipation of when consumers start to trade back up to higher priced items.

Since the entrance of nontraditional operators into the market, ***competition has increased tremendously***. National, regional, local, and independent chains compete against each other as well as against specialty food stores and markets, warehouse clubs, drug stores, convenience stores, discount clubs and others (12). Wal-Mart and Costco, which are considered superstores and warehouse clubs, compete aggressively having sales of about $130 billion and $74 billion in 2010, respectively. Increased competition makes it difficult to maintain paper-thin margins, as do rising costs and a saturated product market.

Private label brands have boomed during the recession and have closed the gap on major label brands by competing on price and shelf space. This is in large part due to price but consumer confidence in the quality of private label products has also increased (12). Some chains have even developed high-profile private label brands.

American consumers are ***demanding organic products*** due to shifting trends in ***health and nutrition***. This is leading to increased industry revenues since organic products are more expensive than traditional products. The price gap between organic and non-organic is expected to decline as organic purchasing increases and farms scale up to meet demand. As described in *Appendix I - Major Participant Details*, nearly all of the major supermarket chains are increasing their efforts to increase the amount of healthy foods sold; increased purchasing, new marketing techniques, and store redesigns are a few of the techniques being implemented. A recent report broadcast on NPR highlights a few of these techniques and why operators are engaging in marketing healthy foods; one reason is to decrease the amount of wasted fresh produce (13). Operators are positioning fresh produce front and center and are using subtle lighting changes to highlight the healthier food options as well as advertising these products more heavily (13).

Another significant issue facing the industry is ***credit and debit card interchange fees***, which have increased by as much as 700% over the last ten years (12). Interchange fees are related to fraud rates, transaction volume, processing costs, and other risk factors.

Consumer data analysis is becoming crucial as competition increases. Many retailers already collect consumer data through loyalty shopping cards. To improve on this data, many retailers are looking to outside firms that can better organize and subdivide the data for more efficient use in marketing programs (1).

Product assortment strategies have also shifted to reducing SKUs. Reducing SKUs helps expand sales of higher margin private-label goods, improve cost controls, improve inventory control and aid in having a more streamlined product presentation that can improve the shopping experience and boost the average basket size (1).

Another recent trend is the ***convergence of supermarkets and drugstore business models***. While it is unlikely that these two industries will completely converge, each is attempting to attract the others' customer base. For example, Walgreen's and Rite Aid are attempting to sell more fresh food and grocery goods, while Wal-Mart and Publix have been expanding pharmacies and offering clinical services (14). Along the same lines, Wal-Mart is planning an aggressive rollout of smaller store formats located in urban areas in an attempt to boost sluggish U.S. sales growth rates and compete with drugstores and smaller supermarkets (15). These stores are expected to be about 20,000 square feet and offer a variety fresh produce. Wal-Mart has been conducting a pilot study with four, 15,000 square foot *Marketside* stores since 2008. This development has already started to garner competition as Target Corp. is planning a similar strategy (15).

Appendix I

Industry Terminology

Category Management – A retailer organizes the products they carry into distinct groups or groups of related products (i.e. detergents, health and beauty aids, organics, etc.). Each group is recognized as a product category and is run like a mini business. A retailer will monitor a category's sales, gross margins, and whether or not that category is adding to the bottom line or not. Category management is the management of all of these mini-businesses. For example, a grocery retailer may choose to make produce or bananas a loss-leader category [price the bananas at or below wholesale cost] in order to incentivize customers to shop in their store over a competitor who sells similar items.

Central Billing – wholesaler contracts with other produce wholesalers, dairies and meat producers to bill their mutual supermarket customers under one system in instances where products are not available from the warehouse.

Coding – system of identifying each product's department to track gross margin and inventory.

Consumer Sentiment Index - a monthly report published by the University of Michigan. It measures a consumer's outlook on the overall economy and one's own financial position. If a consumer views the economy as favorable, there is a higher probability that more goods and services will be consumed. Conversely, a lower outlook on the economy will cause more consumers to save.

Coupons – "cents off" advertisements available to consumers through the print medium. The retailer reduces the retail price of the product by the amount of the coupon discount. The retailer is reimbursed by the manufacturer when the coupon is returned.

Customer Loyalty Card – A customer loyalty card is a paper or plastic card which identifies a card holder as a member of a retailer's customer loyalty program. A loyalty program is one of the many marketing tools that a retailer may utilize. A retailer may use information gathered from scanning loyalty cards into the POS system to directly target or market to consumers to incentivize them to purchase an item more frequently, in higher quantity, or a related item. For example, a customer loyalty card holder may purchase a package of diapers and the retailer may provide a coupon for baby wipes on the back of the customer's receipt. A loyalty program is also a merchandising or category management tool for retailers that assists them in understanding their consumers' preferences; this information can be used to manage categories more effectively and increase profitability.

Dark Store – A retail commercial space that has been vacant for an extended period of time. These stores were once fully operational and thriving.

Lottery Collections – Stores in states in which a lottery operates can make a sizable income from ticket sales. Collections represent the sales that are held by the grocer but payable to the state commissioner on a weekly basis.

Market Study - A research tool used to analyze attributes of a given market for a particular product need.

Point of Sale System (POS) – A point of sale system is a retail checkout system. It is often used to describe the place in a store where the customer pays for their goods, although the POS actually refers to the hardware (cash register, scanner) and software that enables the transaction to occur.

Sales per Transaction – a key measurement of revenue generation. If the sales per transaction decrease, the retailer needs to increase either the size of each sale or the store's traffic.

Scanners – equipment used at the cashier to read prices automatically.

Slotting Allowances – discounts provided by the manufacturer through the wholesaler as an inducement to the grocer to place products favorably on shelves.

Shrinkage – inventory reductions caused mostly by theft or spoiled goods. For example, if a shopper drops a jar of mayonnaise, the grocer does not charge him or her for the loss; rather, the loss is expensed.

SKU – SKU stands for stock keeping unit, a unique identifier for each product a business offers. A traditional supermarket carries between 15,000 and 60,000 SKUs or different products.

Target market - a subgroup of the overall market usually segmented by geography, demography and/or lifestyle preferences.

Trade area – the vicinity from which a retailer gets a majority of its consumer base.

Wholesaler - a distributor of goods in large quantities sold mainly to retailers who resell to individual users.

Sources: (1), (18)

Appendix II

Major Participant Details

Table 2 Top 10 Supermarket Chains – 2009 (17)

Company	Number of Stores	Est. Annual Sales	Top Banner Names	Chief Trading Areas in U.S.
Wal-Mart Stores	2,906	$ 154,248,900,000	Wal-Mart Supercenter (2,748) Wal-Mart Neighborhood Market (152) Marketside (4)	South (1,576) Midwest (743) West (389)
Kroger Co.	2,470	$ 62,608,260,000	Kroger (1,255) Ralphs (235) Fred Meyer (129)	West (988) South (829) Midwest (653)
Safeway, Inc.	1,486	$ 35,022,260,000	Safeway (955) Vons (249) Dominick's (78)	West (1,118) South (246) Midwest (86)
Supervalu, Inc.	1,516	$ 31,460,728,000	Albertson's/Supervalu (447) Save-a-Lot (317) Shaw's (182)	West (502) Midwest (364) Northeast (362)
Ahold USA, Inc.	708	$ 24,102,000,000	Stop & Shop (379) Giant Food/Landover (162) Giant Food/Carlisle (124)	Northeast (511) South (197)
Publix Super Markets, Inc.	1,012	$ 21,645,000,000	Publix (1,005) Publix Sabor (4) Publix GreenWise (3)	South (1,012)
Delhaize America, Inc.	1,604	$ 18,788,120,000	Food Lion (1,149) Hannaford (171) Sweetbay Supermarket (104)	South (1,419) Northeast (185)
H.E. Butt Grocery Co.	280	$ 11,641,500,000	HEB (251) HEB Plus (20) HEB Central Market (8)	South (280)
Great Atlantic & Pacific Tea Co.	408	$ 9,181,380,000	Pathmark (141) A&P (112) Super Fresh (63)	Northeast (368) South (40)
Meijer, Inc.	191	$ 8,624,200,000	Meijer (191)	Midwest (183) South (8)

The following sections describe details of the six largest participants' operations and current business strategies. This provides background information about some differences and similarities amongst them such as growth, remodeling, numerous banner names versus only one of a few, sustainability initiatives and so on.

Wal-Mart Stores Inc.

Wal-Mart is the largest retailer in the U.S. and has been growing market share in the supermarket industry in recent years primarily though its supercenters. Wal-Mart's grocery revenue grew to about $155 billion in 2009 or slightly more than 25% of the supermarket industry's total revenue (1). Wal-Mart's dominance is largely derived from its everyday low pricing strategy and continual square footage expansion. Wal-Mart is known for leveraging its size with manufacturers in an effort to keep prices low as well as investing in technology to manage inventories and distribution.

Wal-Mart's current strategy includes:

- Slowing U.S. expansion to focus on remodeling existing stores and increasing same store sales (2);
- Remodeling aimed at improving the customer shopping experience (2); and
- As part of its "Sustainability 360" initiative, Wal-Mart recently announced that it would be focusing on small and medium farms in an effort to revitalize rural communities and reduce the environmental impacts of farming (3).

Kroger

Kroger is the second largest food retailer in the U.S. with over $62 billion in sales in 2009 and 2,470 supermarkets in operation in over 30 states. Kroger has four different supermarket formats (combination food and drug stores, multi-department stores, market place stores, and price impact warehouse stores) operating under 22 different banner names:

Baker's	Kroger	Dillons Marketplace
City Market	Owen's	Fry's Marketplace
Dillon's	Pay Less Super Markets	Kroger Marketplace
Fry's	QFC	Smith's Marketplace
Gerbes	Ralphs	Food 4 Less
Hilander	Scott's	Foods Co.
Jay C Food Stores	Smith's	
King Soopers	Fred Meyer	

Kroger believes its wide variety of store formats are able to cater to its diverse customer base in terms of ethnicity, purchasing patterns, income levels and household mix (4). Kroger's combo store formats are meant to be flexible so that they can meet the needs of local neighborhood demographics. Kroger has recently started a "Fresh Fare" approach in certain markets aimed at delivering high quality perishables and top notch customer service. Kroger has grown through organic growth and acquisitions focused on existing markets and believes in maintaining local brands. Kroger operates in 42 major U.S. markets and holds the number one or two market share position in 38 of them (4).

Safeway, Inc.

Safeway Inc. is one of the largest food and drug retailers in North America. In the beginning of 2010, Safeway operated 1,725 stores in the Western, Southwestern, Rocky Mountain, Midwestern and Mid-Atlantic regions of the United States and in Western Canada (5). To support its stores, Safeway operates an extensive network of distribution, manufacturing and food processing facilities (5). Safeway's operating strategy is to provide outstanding value to its customers by offering a unique shopping experience, including maintaining superior store standards and a wide selection of high quality products at attractive, everyday prices (5). Through its Lifestyle stores, they emphasize high quality meat and produce, in-store bakeries, deli and food service areas and outstanding floral and pharmacy departments.

For the last several years, Safeway has transformed its stores into “Lifestyle” stores (6). While Safeway has focused on an aggressive remodel program, they have also built approximately 15 stores each year. New stores are typically 55,000 square feet. In 2009, Safeway opened and remodeled fewer stores than in the previous five years due primarily to the weak economy and fewer competitive openings (6). These stores showcase Safeway’s commitment to quality, particularly in the perishables departments and are dramatically redesigned with earth toned decor, subdued lighting, custom flooring, unique display fixtures and other special features to create a warm, inviting ambience that Safeway believes significantly enhances the shopping experience (5). At year-end 2009, 1,366 stores, or 79% of the store base, were Lifestyle stores. Safeway expects to convert most of the remaining stores to Lifestyle stores over the next few years (6).

Supervalu

Supervalu is a grocery and pharmacy company serving a wide range of customers in neighborhoods nationwide, through stores ranging from hard discount to traditional and premium grocery formats. Supervalu operates owned, licensed, franchised and affiliated stores under a number of banner names including:

Acme	Farm Fresh	Star Market
Albertson’s	Hornbacher’s	Shop ‘n Save
Bigg’s	Jewel-Osco	Shopper’s
Bristol Farms	Save a Lot	Supervalu
Cub	Shaw’s	

Supervalu has grown into the largest U.S. food distributor to supermarkets, and the second largest conventional food retailer in the U.S. Retail operations are conducted through limited assortment stores, food stores, and combination food and drug stores (7). As of February 2010, the company operated about 2,350 multi-format retail food stores and was the primary grocery supplier to approximately 1,940 stores in addition to its own retail operations (7). The company aims to leverage its retail food and supply chain services by benefiting from economies of scale and its low-cost supply chain network.

Traditional food store banners (Acme, Albertson's, Bristol Farms, Cub Foods, Farm Fresh, Hornbacher's, Jewel-Osco, Lucky, Shaw's, Shop 'n Save, Shoppers Food & Pharmacy and Star Market) typically carry 40,000 to 50,000 items and average in size from 40,000 to 60,000 square feet (7). Hard discount food stores include Save-A-Lot stores. Save-A-Lot food stores are typically 15,000 square feet and stock 1,400 high volume food items as well as a limited number of general merchandise items (7). The majority of food products offered for sale are private label products. The company positions itself to offer low prices by carrying a limited selection of the most frequently purchased goods. The majority of Save-A-Lot stores are found in small town/rural communities as opposed to urban and suburban locations (7).

Supervalu’s strategies for 2011 include:

- Emphasizing locally harvested produce;
- Invigorating “her” shopping experience as they state that 80% of grocery shopping is performed by women; and
- Building their brand and simplifying their business (8).

Ahold

Ahold is an international food retailing group with a significant presence in the U.S. primarily along the East Coast and in the Midwest, operating in just over 700 locations. In the U.S., Ahold operates under the banner names Stop and Shop, Giant-Landover, Giant-Carlisle, and Martin's. Ahold USA generated over $24 billion in sales in 2009 (1). Ahold aims to provide a consistent, customer-focused strategy. In the last year, Ahold USA had repositioned their businesses to drive volume growth, market share and attract new customers by launching a customer value program, remodeling stores, and improving price positioning and perception (9). Ahold also made two acquisitions in 2009 consisting of the purchase of 25 Ukrop's markets in Virginia and 5 former Shaw's markets in Connecticut (9).

Ahold's current strategy includes:

- Reorganizing operations by simplifying and standardizing processes and structure allowing efficient integration of acquired targets;
- Building a platform for future growth; and,
- Ensuring a sharper focus on local customer needs (9).

Delhaize Group

Delhaize Group is the ninth largest U.S. supermarket chain by sales, with about $18.8 billion in revenues through 1,604 stores in 2009 (1). Delhaize is an international retailer with operations in six countries, the U.S. being the largest. In the U.S., Delhaize operates primarily in the South (1,149 stores) followed by the Northeast (185) (1). Delhaize operates under a number of banner names including: Food Lion, Bloom, Bottom Dollar Food, Harvey's Supermarkets, Hannaford, and Sweetbay (10). The majority of Delhaize's U.S. stores are Food Lions and Bottom Dollar Food stores that are low price/low cost chains located mostly in the Southeast and Mid-Atlantic states. Attachment 1 contains some company generated illustrations including one that presents the distribution of Delhaize's operations on the East Coast of the U.S (10).

Delhaize's current strategy includes:

- Operating more closely as a group with a common vision and mission;
- Emphasizing price competitiveness;
- Maximizing margins through innovation and product assortment; and,
- Become industry leaders in health and wellness and corporate responsibility (10).

Some other large industry participants by annual sales include:

Whole Foods	Giant Eagle	Hy-Vee Food Stores
Winn-Dixie	Military (PX Stores)	Wegman's Food Markets
Trader Joe's	Save Mart Supermarkets	Ruddick Corp (Harris Teeter)
Target	Albertson's, LLC	Aldi, Inc.

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