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# An Identity Crisis for Supermarkets

By [MELANIE WARNER](#)

Georgiana Gardiner has no use for conventional supermarkets. When Ms. Gardiner, who lives in a Denver suburb, wants fresh fish, meats, produce, and other perishables, she drives 25 minutes to the nearest [Whole Foods Market](#). When she needs products like canned beans, pasta and paper towels, she stops at a [Wal-Mart](#) Supercenter, which has a full grocery store.

It has been at least a year, she said, since she entered a [Safeway](#) or Kroger, the two national supermarket chains that operate in the Denver area.

"Once you go to start eating organic foods, you can't go back," said Ms. Gardiner, 61. Whole Foods may be "more expensive, but it's worth it," she added. "Anyway, I make up some of the difference at Wal-Mart."

Ms. Gardiner and a growing number of shoppers like her are the supermarket industry's worst nightmare. Faced with a seemingly endless array of food shopping choices, consumers are increasingly shunning the neighborhood supermarket and going to Wal-Mart, Costco or other discounters for rock-bottom prices or to places like Whole Foods and Wild Oats for specialized quality and service.

Traditional supermarkets, caught in the middle, are struggling to survive. And the pressures on them may only intensify: Wal-Mart and Whole Foods have ambitious expansion plans, and [Target](#) says it wants to become a big player, too.

Now, the traditional supermarkets are trying everything they can think of to turn things around and win back customers. In a nod to Whole Foods, they are adding more organic and natural food items and selling more prepared foods for quick lunches and dinners. And they are cutting prices.

The nation's 56,000 supermarkets remain dominant in food shopping, of course, but their share of the business has been steadily declining. Americans are making fewer trips down their aisles and spending less each visit. The average American household made 95 trips a year to the supermarket in 1996; in 2004 it was 70, according to a study by UBS, an investment bank. In that eight-year span, annual trips to stores like Wal-Mart jumped to 26 from 13, and trips to club stores like Costco increased to 11 from 8.

"Supermarkets are facing an identity crisis," said Harvey Hartman, chief executive of the Hartman Group, a consulting firm in Seattle.

In the last five years, Wal-Mart has emerged as a dominant force in the grocery business, selling almost twice the amount of food and grocery items as Kroger, the country's largest supermarket chain. Wal-Mart undercuts supermarket prices by as much as 20 percent but is still able to generate considerable grocery profits because of its enormous volume and huge buying power. Wal-Mart's labor costs are also lower because, unlike workers at most supermarkets, its employees are not unionized.

"Wal-Mart just keeps growing," said David B. Dillon, chief executive of Kroger, which regularly compares the performance of its stores against Wal-Mart Supercenters. "And I don't see any signs of a slowdown in the number of stores."

Wal-Mart, with 1,866 supercenters in the United States, all with grocery stores, does not break out food sales, but Retail Forward, a research firm in Columbus, Ohio, estimates that in 2004 the company sold \$109 billion in groceries, taking a 19 percent share of the market. Retail Forward has projected that the number of Wal-Mart supercenters may triple by 2010 and that its share of the grocery business may rise to 35 percent.

Supermarkets are feeling the squeeze. In February, Winn-Dixie Stores filed for bankruptcy; at 92 percent of its stores, a Wal-Mart Supercenter is within a 20-mile radius. Last month, Albertsons, whose market share has declined in Wal-Mart strongholds like Dallas and Fort Worth, announced it had hired investment bankers to explore strategic alternatives, including a possible sale.

Other chains are faring only slightly better. Over the last five years, sales at Kroger, Albertsons and Safeway, the country's three largest supermarket chains, have stagnated and profits have been dismal.

With 177 stores and less than 1 percent of the market, Whole Foods is not yet much of a financial threat. But analysts say that supermarket executives are anxiously watching the company, the fastest-growing grocery chain in the United States, because of how its success has pressured supermarkets to improve their offerings.

"Whole Foods has redefined the landscape of what a grocery store is," Mr. Hartman said. "That means more fresh items, bigger produce sections, more selection for natural and organic foods and more prepared foods. It also means creating an enjoyable experience for shoppers."

Neil Currie, an analyst at UBS, said the situation for supermarkets is dire. For years, he said, supermarkets failed to respond to consumers' migration toward restaurants and their increased desire for natural foods. Today, 46.9 percent of all food dollars are spent at restaurants and similar establishments, compared with 41.3 percent in 1985, according to the Agriculture Department. "If nothing changes, the format could die a slow death as Wal-Mart and other nontraditional formats continue to take market share," Mr. Currie predicted in a report last year.

Mr. Dillon of Kroger said supermarkets must provide a variety of shopping experiences and products. To that end, Kroger is building three alternative formats. One is Fresh Fare stores, which operate inside Ralphs stores, and offer a higher level of service and carry many of the products found at Whole Foods, like organic produce, sushi, an olive bar, hundreds of cheeses and 2,000 wines.

Another, Kroger's Marketplace, offers stores that are twice the size of a typical grocery store and sell everything from electronics and kitchen appliances to home office furniture and dishes. The product selection resembles that of Wal-Mart, though prices are not as low.

Kroger's third format is its 142 Food 4 Less stores, which are no-frills warehouse operations seeking to compete with Wal-Mart on price.

Mr. Dillon said Kroger's standard supermarkets would also be increasingly customized, with some carrying more organic and natural food and others offering a specialty cheese section or products catering to Hispanic customers.

"There will be as many kinds of supermarkets," Mr. Dillon said, "as there are variations in the neighborhoods across America."

Food Lion, a 1,220-store chain owned by the [Delhaize Group](#) of Brussels, is making changes. Robin Johnson, director for marketing and brand development at Food Lion, said that when her team started working on a new store concept called Bloom three years ago, they took a red pen to every aspect of supermarket design.

"For the past several decades, stores have been run in a way that benefits the store and the company's bottom line," Ms. Johnson said.

By contrast, she said, the new store concept "was born from what the customer wants: to take the hassle out of grocery shopping."

Bloom stores - there are now five, all in North Carolina - feature a quick-stop area in front for shoppers who just want eggs and milk or something for dinner. Traditionally, supermarkets have placed such high-volume items at the back of the store in hopes that the journey may inspire other purchases.

"Why have we played these games with customers?" Ms. Johnson asked.

The new stores also have wider aisles, lower shelves and no candy at the checkout aisles, to cut down on temptations for children. Ice cream is at the front so it is less likely to melt before reaching home.

Ms. Johnson and her team have also banned promotional displays from the aisles, saying that they generate nice fees from vendors, but clog cart traffic. "Taking them out is a scary thing for a retailer to

do," she said, "because it's revenue and they're designed to drive impulse sales."

Many stores are experimenting with slashing prices - a tactic that can be equally terrifying. "In the 90's, supermarkets focused on raising their gross margins and were obsessed with short-term needs of shareholders," Mr. Currie said. "That allowed Wal-Mart to come in and easily take market share."

In an attempt to appeal to time-starved consumers who do not want to cook, Kroger and Safeway are also making a big push to sell more prepared foods - an area that has been enormously successful for Whole Foods, representing 10 percent of a store's sales.

Safeway's remodeled Lifestyle stores have an expanded deli, a full line of soups, a meat-carving station and "take and bake" pizza. Brian Cornell, executive vice president for marketing at Safeway, said these stores, which also have softer lighting and wood-simulated floors in parts of the store, are meant to feel more upscale.

"We offer more items now that would appeal to customers who might be migrating to Whole Foods," he said. "But we're also trying to differentiate ourselves among our core competitors."

Christina Minardi, head of the New York-New Jersey-Connecticut region for Whole Foods, said she doubted large chains would be able to replicate the appeal of her company's stores. "It's a lot more than paint and new lighting," she said. "We have developed a whole culture here."

Indeed, despite their efforts, many analysts expect supermarkets to continue to lose out to their competitors. Darrell Rigby, who leads the retail consulting team at Bain & Company, said some chains, probably smaller ones, will either go out of business or be acquired.

Nick McCoy, a senior consultant at Retail Forward, said, "Supermarkets have got to offer a compelling reason for people to go there."

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