

America's 'Supermarket Grocery Crucible' Scott Moses – December 2023

America's supermarket grocers do a lot for our communities: offer fresh food at good prices; provide fair wages and benefits to teammates; support local farmers and the community; and feed us in crises like Covid, hurricanes and tornadoes. In the spring of 2020, our supermarket grocers were a lifeline for hundreds of millions of families across the country, including mine.

Our supermarket grocers continue to face existential challenges that an uninitiated industry observer might consider before repeating demonstrably false talking points that undermine companies' efforts to build the scale required for survival against a rising tide of extraordinary national / discount grocery competitors with global reach.

Let's level-set on some grocery industry facts, to hopefully set the record straight on how it has changed and the clear exigency pressuring the future of supermarket grocers – and their 2+ million employees – in the United States.

The Grocery Competitive Landscape Today

Where and how Americans get their groceries has changed significantly in the last several years, with consumers buying household staples from multiple channels. Consumers' adoption of online shopping was accelerated by Covid. A few clear leaders have emerged amid these shifts in the race to capture American's grocery dollars, and it's not supermarket grocers; the extent of the shift is staggering.

National / discount grocers like Walmart, Costco, Target, Aldi and Dollar General now have over 70,000 stores and capture well over 60% of American grocery market share. In comparison, supermarket grocers have less than 26,000 stores remaining in the U.S. Twenty years ago, 10 of the top 15 U.S. grocers were supermarket grocers; today, 10 of the top 15 are national / discount grocers.

Walmart is the U.S.'s largest grocer by an extraordinary extent. Its grocery business is three times the size of Kroger's and as large as the next four U.S. grocers – Costco, Kroger, Amazon and Albertsons – **combined**. Costco is the #3 grocer in the U.S. Most of its sales are groceries and its stores sell five times the groceries of an average U.S. supermarket. Nearly 40% of American households are Costco members. Amazon (Whole Foods) is the fifth-largest U.S. grocer (soon to be #4, above Albertsons); its market valuation exceeds all U.S. grocers – **combined**. Amazon's scale provides it with an exceptional credit rating, allowing Amazon to continually invest behind its clear intention to build Amazon's grocery business to compete with Walmart as the world's top retailer.

The FTC's Lina Khan herself recognized in a 2016 paper that ***“[supermarket] grocers sought to bulk up in order to compete with the scale of warehouse clubs and large discount stores.”***

In 2017, in the wake of Amazon's acquisition of Whole Foods, Lina Khan presciently wrote the following in a New York Times Op-Ed, very clearly acknowledging Amazon's impact on rival grocers (note you can't be a rival at something you're not):

“Buying Whole Foods will enable Amazon to leverage and amplify the extraordinary power it enjoys in online markets and delivery, making an even greater share of commerce part of its fief ... By bundling services and integrating grocery stores into its logistics network, the company will be able to shut out or disfavor rival grocers.”

That has clearly happened, but by CEO Andy Jassy's own admission, Amazon still hasn't "figured out" grocery yet. But given their financial capacity and their clear commitment to grocery leadership, it begs one simple question: ***“What happens when they do?”*** Some analysts project them to have a \$330 billion grocery business in 10 years.

Then there's Dollar General and Dollar Tree / Family Dollar (which together have 35,000 stores), plus Target, Aldi (buttressed by its 12,000 global stores and close affiliate, Trader Joe's), BJ's, Grocery Outlet, and countless ethnic, specialty and online grocers, who are rapidly growing and taking market share from supermarket grocers.

While Walmart, Target / Shipt, Costco and Amazon / Whole Foods are the largest U.S. online grocers, Instacart offers 95% of North American households immediate access to 1,400 banners and 80,000 stores. There has never been more convenience, choice and price transparency in U.S. grocery. This meaningful development – in just the past few years – has exponentially enhanced grocery competition, ***without even having to leave one's home.***

It is simply wrong to suggest – in 2023 – that consumers only buy their groceries at a supermarket grocer. National / discount grocers have pushed prices down over time and supermarket grocers like Kroger (which has invested over \$5 billion in lower prices over the past 20 years) followed, which has led consumers to regularly shop at over five grocers to get the best prices and quality.

The consequence of the new grocery reality is that supermarket grocers' profit margins have fallen dramatically. Many have already gone bankrupt, similar to the previous demise of department stores. (I have witnessed many of these personally; it is downright awful).

As national / discount grocers, which are almost entirely non-union, have capitalized on this and exponentially grown their store and online grocery businesses, unionized grocery employment at America's top 15 grocers has fallen from roughly 50% to 15%. The national / discount grocers have added roughly 2.5 million non-union grocery jobs in the past 20 years. One has to wonder: how many more jobs will the national / discount grocers effectively take from supermarket grocers in the next 10 or 20 years?

The Future of Supermarket Grocers

Supermarket grocers have been pillars of thousands of American communities for generations; but they cannot magically – without sufficient scale – continue to be able to provide better prices, better wages and benefits to a largely unionized employee base; offer more local and sustainable food options that support local farmers; be a community pillar; offer engaging first jobs or great careers to millions of people; and be there to sustain us in the next crisis.

America's supermarket grocers truly face an existential threat, an economic “grocery crucible.” “More weight” will kill America's supermarket grocers – as it has most department stores – if they are not permitted to merge, and build the scale and efficiency required to remain viable against their larger national / discount grocery peers.

That's not a talking point; that's mathematics.

It is, therefore, not reasonable to expect America's supermarket grocers to sit idly by – as did many department stores – while their businesses are systematically siphoned away by national / discount grocers until they become another unsightly throng of closed stores across the country.

The difference here between department stores and supermarkets is that supermarkets don't sell designer clothes – they provide an essential service to our communities and cannot be forced to suffer the same fate.

Ironically, every day supermarket grocery combinations are intentionally delayed, regulators are effectively putting their “thumb on the scale” to strengthen much larger, ubiquitous tech-enabled giants like Amazon and Walmart – the very same companies whose extraordinary (and rapidly growing) power they claim should be restrained.

That may not be the intention, but that is the result. **It's not fair, and it's not good for the country** – not for consumers, not for employees (*especially unionized employees*) and not for our communities, where supermarket grocers are trying to avoid becoming the next empty department stores.