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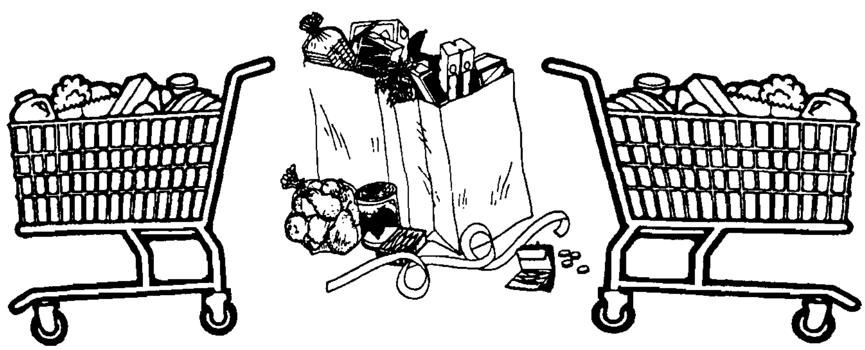
*STATE OF NEW YORK/NEW JERSEY FOOD INDUSTRY*

# SUPERCENTERS: The Emerging Force in Food Retailing



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# ABSTRACT

The distinctions between various types of retail firms, such as supermarkets, mass merchants, and discount drug stores are disappearing as part of the continuing evolution of retailing. With the overall US population growing slowly and the near saturation of good retailing locations in most market areas, retailers have increasingly sought to grow sales and profits by expanding their appeal to include a broader spectrum of consumer products. As various retailers expand their product offerings into the traditional domains of other retailers, competition for consumer spending reaches new heights while the distinctions between retail alternatives are greatly reduced.

During the 1980's, supermarkets, seeking higher profit margins, aggressively expanded their product offerings to include general merchandise and other non-grocery products. With the dawn of the 1990's, traditional general merchandise retailers, seeking higher customer traffic, have aggressively added grocery items to their product offerings. The grocery retailing universe has expanded to include supercenters, mass merchants, wholesale membership clubs, drug stores, limited assortment stores and convenience stores as well as traditional supermarkets and grocery stores.

At least initially, consumers appear to benefit as this frantic race results in lower prices and a myriad of shopping choices. However, in the longer run, intensified competition for sites and customers, results in some retailers gaining while others are forced to sell out due to unprofitable operations. As the strong become stronger and the weak weaker, mergers, acquisitions and consolidations result in fewer but larger competitors.

The introduction of the supercenter concept presents a new competitive challenge to traditional supermarket operators. Drug stores of all types have also expanded merchandise lines so that these retailers now compete directly with both supermarkets and mass merchandisers. Each type of retail format has certain competitive strengths that need to be understood and addressed in the strategic planning of all firms in this increasingly competitive retail sector.

The states of New York and New Jersey have recently become focal points for expansion by some of these alternative grocery retailing formats and will soon see the physical presence of all these retail formats in a number of marketing areas. Understanding the dynamics and strategies of these alternate retail formats will be critical to establishing and maintaining a clear competitive advantage.

# ACKNOWLEDGMENTS

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The authors also express their gratitude to James Rogers, President of the New York State Food Merchants Association for his guidance, support and leadership throughout this project.

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Our thanks also to the many executives at Wal-Mart and Kmart headquarters that provided valuable information and gave unselfishly of their time in assisting the authors with on site inspections of their new supercenters.

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# Section I: INTRODUCTION

Over the past twenty years traditional supermarket firms have introduced a variety of formats in an attempt to differentiate their stores and to reach specific segments of the market. Such formats include warehouse stores, super stores and limited assortment stores. In recent years supermarket operators have been faced with competition for food and grocery products from retailers in other channels of distribution such as drug stores and general merchandise stores that traditionally have not sold food products.

The lines between traditional classes of retail trade have become progressively blurred as traditional food and grocery retailers have expanded into higher margin general merchandise, while traditional general merchandise retailers have expanded into higher customer traffic-generating food products. Grocery store and supermarket operators now face direct competition for the consumers' food dollar from a broad array of alternative retailers. Some of these alternative retailers currently operate in the New York/New Jersey market while others are rapidly on their way.

The US food distribution system has been proudly held up to the world as an example of efficiency. Americans spend far less of their disposable income for food than any other nation. Although there is legitimate debate over comparability of how disposable income is measured across nations, given variations in expenditures such as socialized medical care, the relative cost of food in the US. is still the lowest. While supermarkets have traditionally taken some credit for the efficiency of the system, currently, most of the alternative retail competitors have reduced their operating costs and are providing food and grocery products even more efficiently than supermarkets have in the past.

One new form of alternate competition is the supercenter. Food retailers such as Fred Meyer in Oregon, Meijers in Michigan and Acme in Ohio have developed and operated supercenters for a number of years without creating a great deal of interest or concern from traditional supermarket operators. The recent excitement over the development of supercenters has been prompted by the entry into this field by Wal-Mart and Kmart. Traditional supermarket firms have suddenly become aware of the potential threat of these two firms because of their total retailing power and because both firms have the potential to place their supercenter concepts in any market in the United States. Both Wal-Mart and Kmart have opened a number of stores during 1991 and 1992 with good success in the market place.

Supermarkets are responding to the new competition by re-examining their own systems and operations. Category management and Efficient Consumer Response (ECR) are initiatives which have gained momentum in the supermarket industry largely due to the impetus caused by alternative format competition. These initiatives and others are encouraging supermarket operators to utilize the scanning and Electronic Data Interface (EDI) technology in which most have invested heavily but few, if any, have reaped full benefits.

All of these technologies and initiatives have a common goal and theme: taking costs out of the marketing and distribution system. Faced with low inflation, limited population growth and intensified competition, supermarket operators must focus on reducing costs rather then increasing margins as a means to raise profits on a relatively static sales base.

## Section II: METHODOLOGY

The research approach for this study consisted of three distinct but interrelated phases:

1) A review of existing research, trade literature, consulting, investment, and newsletter publications.

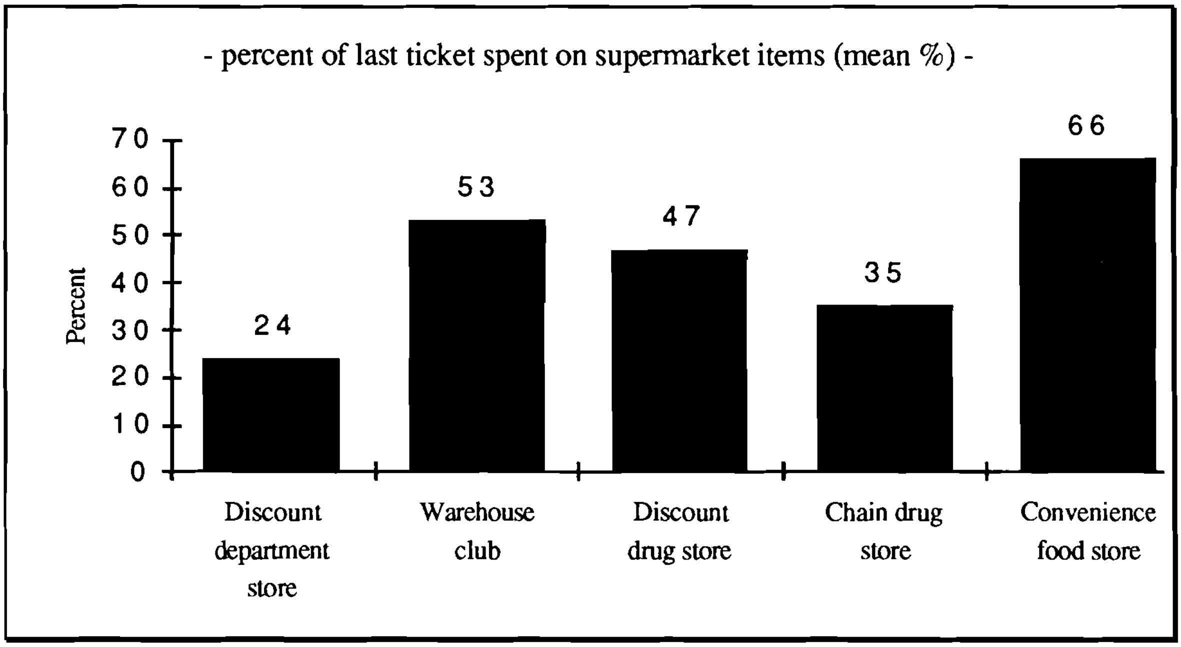
2) Personal telephone interviews were conducted with 300 consumers in Medina and Montrose, Ohio and Springdale, Arkansas, two markets where all the relevant alternative retail food channels are operating. These interviews were conducted during August, 1993.

3.) Mid-level executives of food manufacturers from across the US were asked to complete a written survey concerning the impact of alternative retail food channels on food distribution in the US.

## Section III. THE NEW COMPETITION IN FOOD RETAILING

One indication of the extent of alternative format competition with supermarkets is the percentage of items purchased at other retailers which could also be purchased at supermarkets (Figure 1). The future direction of such competition is illustrated by looking at discount department stores (mass merchandisers) and chain drug stores. Their competition with supermarkets can be measured by the food and grocery products now purchased in these two channels. It has risen to 24 percent of discount store sales and 35 percent of chain drug store sales through 1992. Both drug stores and general merchandise stores are aggressively stocking and advertising supermarket products in an attempt to increase customer traffic.

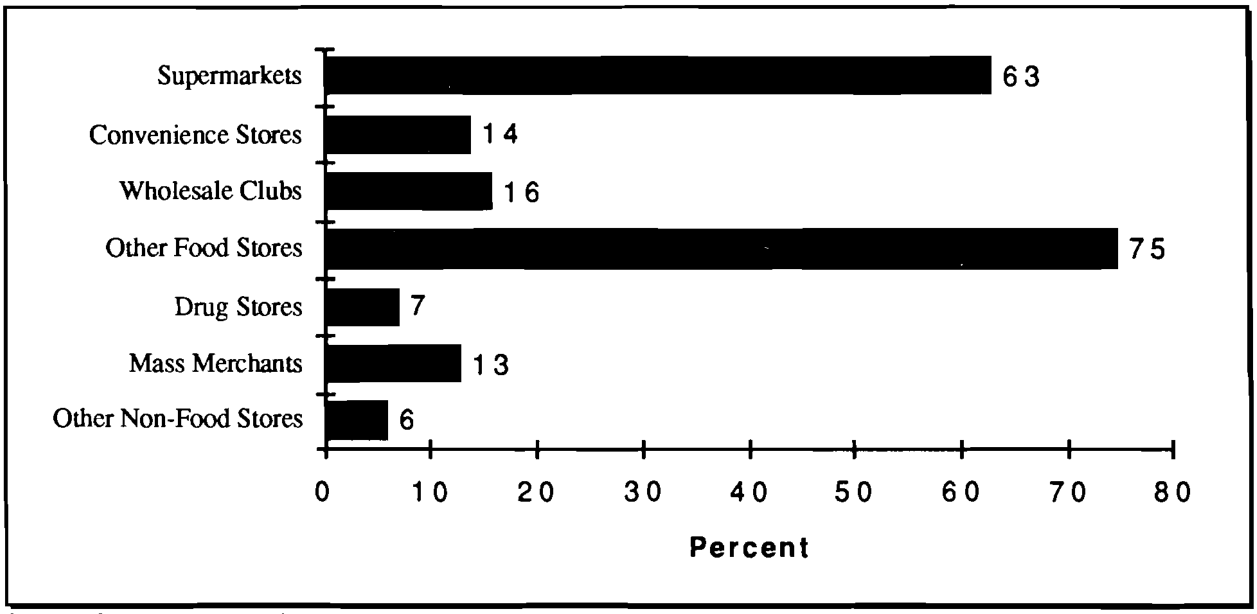
**FIGURE 1**
**Food Spending at Alternative Retail Food Channels**




Source: Leo J. Shapiro & Associated, National Probability Study, February 1993.

In a Nielsen Market Research survey of retail sales trends, changes between 1991 and 1992 in market share were measured for supermarkets and alternative formats across all major supermarket product categories (292 product categories) (Figure 2). Supermarkets lost market share in 63 percent of the 292 product categories while all alternative formats, with the exception of other food stores, lost market share in less than 20 percent of product categories. In fact, in 20 of the 292 product categories, supermarkets share of sales declined by 5 percent or more between 1991 and 1992.

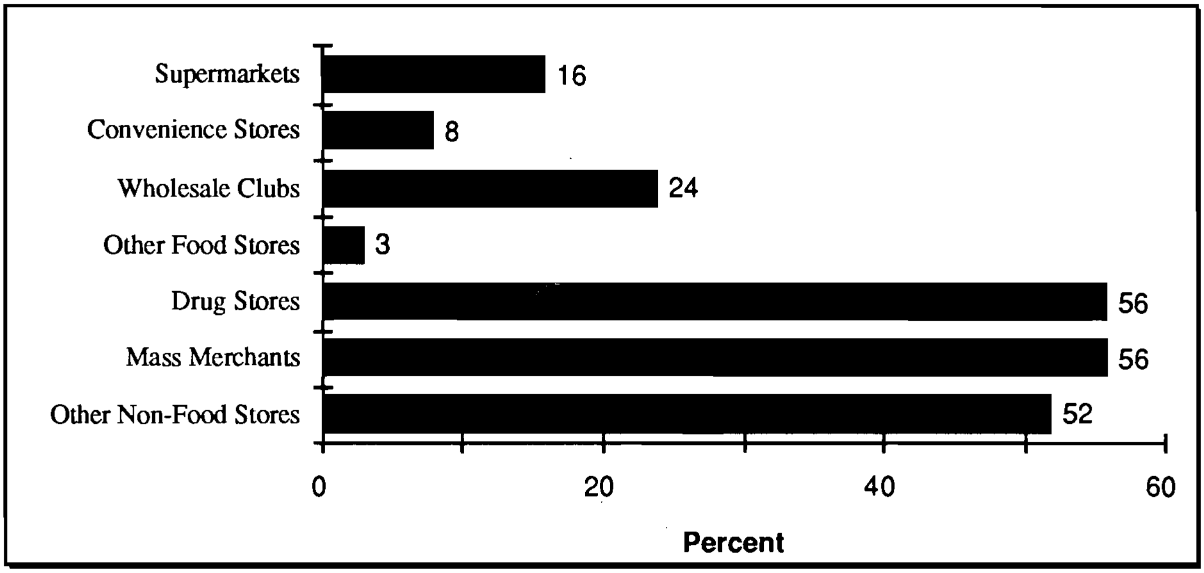
**FIGURE 2**
**Percentage of Product Categories in which Retail Channels LOST Market Share, 1992**




Source: Supermarket Business, March 1993

Supermarkets only gained market share in 16 percent of the 292 categories while drug stores, mass merchants and other non-food stores each gained market share in more than half the product categories (Figure 3). Convenience stores and wholesale club stores while not losing or gaining market share in a large percentage of product categories saw their shares of the majority of categories remain unchanged. Clearly, mass merchandise stores, drug stores and other non-food stores are aggressively challenging supermarkets with market share growth in over 50 percent of supermarket product categories.

**FIGURE 3**
**Percentage of Product Categories in which Retail Channels GAINED Market Share, 1992**




Source: Supermarket Business, March 1993

The categories in which supermarkets have lost market share represent all supermarket food and non-food departments. A closer look at the composition of those market share changes reveals that the percentage of product categories in which supermarkets have lost market share to alternate channels is very high in both health and beauty care (HBC) and general merchandise (Table 1). This is especially significant since many supermarket companies have attempted to expand their HBC and general merchandise lines to compete more effectively with drug stores and mass merchandisers. In addition, supermarkets rely heavily on these two departments because of their high gross margins and impulse purchase nature. In these critical departments alternative retailers, particularly deep discount drug stores and mass merchants, may have strategic advantages over supermarkets.

**TABLE 1**
**Percentage of Product Categories in Which Supermarkets Lost and Gained Market Share, by Department, 1992**

| Department | # of Product Categories | % of Categories Losing Market Share | % of Categories Gaining Market Share |
|---|---|---|---|
| Dry Grocery- Food | 122 | 48 | 26 |
| Dry Grocery- Non-Food | 58 | 90 | 2 |
| Perishables | 33 | 21 | 30 |
| Health & Beauty | 72 | 83 | 6 |
| General Merchandise | 6 | 86 | 0 |

Source: Supermarket Business, March, 1993.

Further examination of category level details reveals that "baby foods" was the only food category in which supermarkets gained market share in every sub-category. In the food department, supermarkets lost share in all of the "snacks" and "soft drinks" sub-categories and in over 70 percent of the "candy" and "oils/dressing/condiments" sub-categories.

In the grocery-non-food department, supermarkets lost market share in 100 percent of sub-categories in "household supplies", "laundry supplies", "paper/plastic products", "non-laundry soaps", and "tobacco". The proportions were almost as high in the other two non-food categories: supermarkets lost share in 92 percent of "household cleaners" sub-categories and in 80 percent of "pet products" sub-categories.

In the general merchandise department, supermarkets lost share in 100 percent of "auto supplies" sub-categories and in 80 percent of "other general merchandise" sub-categories. Supermarkets also lost share in more than 70 percent of the sub-categories in the health and beauty care (HBC) department. In fact, the supermarket share of market declined in 100 percent of the "shaving needs" and the "oral HBC" sub-categories.

Despite the loss of market share in several categories, supermarkets still command the lion's share of the consumer's grocery dollar (Table 2) and have some key strategic advantages over each of the other channels. Supermarkets with an average of 72 visits per consumer per year have about three times as many selling opportunities as mass merchants and around ten times as many as discount drug stores or wholesale club stores.

**TABLE 2**
**Shopping and Spending Patterns at Alternative Retail Food Channels, 1992**

| Retail Channel | % of Households Shopping Each Channel | Average Annual Expenditure Per Household | Average Annual Shopping Trips Per Household | Average Expenditure Per Shopping Trip |
|---|---|---|---|---|
| Supermarket | 97.6% | $ 1,676 | 72 | 23.14 |
| Convenience | 52.0% | $ 77 | 12 | 6.70 |
| Drug Chain | 90.1% | $ 181 | 14 | 12.74 |
| Discount Drug | 32.0% | $ 77 | 8 | 16.85 |
| Mass Merchant | 95.4% | $ 568 | 23 | 24.41 |
| Wholesale Club | 43.7% | $ 417 | 7 | 58.42 |
| Other Non-Food | 96.0% | $ 525 | 25 | 20.78 |

Source: Supermarket Business, March 1993

## Section IV: STATUS REPORTS ON SELECT FORMATS

### A) Mass Merchandiser Status Report

The traditional mass merchandiser industry has been attempting to increase customer traffic by actively pursuing consumer food dollars . This industry has also been experiencing a shake out during which the three largest operators (Wal-Mart, Kmart, and Target) have expanded rapidly while many smaller operators have suffered hard times, with operators such as Hills and Ames filing for Chapter 11 bankruptcy protection (Table 3). Despite the overall dominance of the three largest firms and the difficulties experienced by many smaller firms, there are a few regional chains, such as Caldor and Venture, which continue to prosper.

**TABLE 3**
**Top Mass Merchandiser Chains, 1992**

| Company Name and Headquarters State | 1992 Sales ($ Bil.) | % Change from 1991 | 1992 Number of Stores | % Change from 1991 | 1993 Projected Number of Stores | % Change from 1992 |
|---|---|---|---|---|---|---|
| Wal-Mart (AR) | 38.8 | 22.4 | 1,880 | 9.3 | 2,030 | 7.9 |
| Kmart (MI) | 25.0 | 12.0 | 2,282 | 1.5 | 2,326 | 1.9 |
| Target (MN) | 10.4 | 14.9 | 506 | 9.3 | 554 | 9.5 |
| Ames (CT) | 2.3 | -19.0 | 309 | -16.4 | 309 | -- |
| Caldor (CT) | 2.1 | 14.0 | 136 | 6.3 | 149 | 9.6 |
| Bradlees (MA) | 1.8 | 3.3 | 126 | -0.8 | 129 | 2.4 |
| Hills (MA) | 1.8 | 4.2 | 154 | -- | 154 | -- |
| Venture (MO) | 1.7 | 12.7 | 93 | 10.7 | 105 | 12.9 |
| Shopko (WI) | 1.7 | 2.1 | 111 | 1.8 | 119 | 7.2 |
| Rose's (NC) | 1.4 | -1.3 | 232 | 6.9 | 235 | 1.3 |

Source: Discount Store News, July 5,1993, p. 51.

During the last ten years, the mass merchandiser industry has been characterized by increasing concentration as the three biggest firms have expanded rapidly while the remaining firms have consolidated, been taken over, or left the industry. It appears that the three largest discount department store operators - Wal-Mart, Kmart, and Target - will be the dominant players in this retailing sector. Recently though, even the big three have been reporting less than expected performance.

Wal-Mart's recent same store sales and profit figures were well below the expectation of industry analysts. Despite its enormous size and continued growth, Wal-Mart is still not a 'national' chain because it still does not operate or has a limited presence in several states. As of April 30, 1993, Wal-Mart's trading area includes 45 states, Puerto Rico and Mexico. There were 1,874 Wal-Mart Stores, 277 Sam's Clubs, 71 Bud's Warehouse Outlets, 57 Wal-Mart Supercenters, and 4 Hypermart USA. There were 24 company owned warehouses serving as distribution points for their retail outlets. Approximately 85 percent of Wal-Mart's products went through one of these company owned distribution centers. Estimated sales for the fiscal year ending January 31, 1993 were $55.5 billion while net earnings for the same period were $1.99 billion, a 24 percent increase over the previous year. Industry sources project that company sales will reach $200 billion by the turn of the century.

Like Wal-Mart, Kmart does not operate stores in every state despite its 2,400 Kmart stores and 1,600 other stores which they operate under the banners of PACE, Builders Square, Sports Authority, OfficeMax, Borders, Waldenbooks and PayLess Drug Stores. Combined sales for Kmart Corp. in 1992 was $37.7 billion with a profit of $941 million. Kmart is also pursuing the supercenter concept with great vigor.

### *New York/New Jersey Situation*

As of June 1993, there were 16 Wal-Mart stores and 3 Sam's Clubs in New York State while New Jersey is home to only 3 Wal-Mart stores and 2 Sam's Clubs. One source indicates that Kmart operates approximately 66 stores in New York and 45 stores in New Jersey. Ames Department Stores, while not a giant retailer like Kmart or Wal-Mart had the most discount department stores in New York with 89 stores while Kmart had the most stores in New Jersey. Target Stores is not operating in either state. Regional chains Jamesway, Ames, Hills, Caldor and Bradlees all operate stores in the two state area (Table 4). Both Jamesway and Ames are currently under Chapter 11 bankruptcy protection.

**TABLE 4**
**Mass Merchandiser Stores, Square Footage and Sales in New York, New Jersey and US, 1992**

| | New York | New Jersey | US |
|---|---|---|---|
| Stores | 398 | 210 | 9,562 |
| $ Sales in Billions | $ 5.8 | $3.4 | $106.2 |
| Average Total Square Feet/Store | 79,638 | 99,852 | 69,009 |
| Average Selling Square Feet/Store | 67,214 | 84,275 | 59,244 |
| Average Sales per Total Square Foot | $182.17 | $163.44 | $160.94 |
| Average Sales per Selling Square Foot | $ 215.84 | $193.64 | $187.47 |
| Average Sales per Store (Millions) | $ 14.5 | $16.3 | $11.1 |

Source: Discount Merchandiser, June, 1993, p.40.

## B) Supercenter Status Report

The entry of the retailing giants, Wal-Mart and Kmart into the supercenter field has focused attention on this type of retail format as having potential to become a dominate channel of distribution for food and other grocery products. Both of these retailers see the supercenter as central to their future expansion plans. The Wal-Mart and Kmart supercenter essentially combine a full-size mass merchandise store and a full-size supermarket under one roof with a common checkout area. These stores typically range from 110,000 to 200,000 square feet of sales area with over 20 front end checkout stands. Most are open 24 hours a day and ring up sales of approximately one million dollars per week or more.

Although the Wal-Mart and Kmart supercenters are currently receiving a great deal of press, the concept is not new. Meijer's Thrifty Acres has been successfully operating stores of this type for over 20 years (Table 5). Other operators have embraced the concept as well: Big Bear Supermarkets and Hart's Discount Department Stores, both part of the Penn Traffic corporate family which also includes P&C Markets and Quality Markets in New York , have developed Big Bear Plus supercenters in their major market, Columbus, Ohio.

**TABLE 5**
**Top Supercenter Chains, 1992**

| Company Name and Headquarters State | 1992 Sales ($ Mil.) | % Change from 1991 | 1992 Number of Stores | % Change from 1991 | 1993 Projected Number of Stores | % Change from 1992 |
|---|---|---|---|---|---|---|
| Meijer, MI | 5,043 | 15 | 69 | 6 | 73 | 6 |
| Fred Meyer, OR | 2,854 | 6 | 94 | -- | 99 | 5 |
| Wal-Mart Supercenter, AR | 1,000 | 67 | 30 | 300 | 70 | 233 |
| Smitty's, AZ | 650 | 12 | 28 | 17 | 32 | 14 |
| Super Kmart, MI | 313 | 23 | 9 | 50 | 24 | 267 |
| Big Bear Plus, OH | 280 | 47 | 12 | 33 | 14 | 17 |
| Holiday Mart, HI | 117 | 17 | 3 | -- | 3 | -- |
| Laneco, PA | 110 | 10 | 15 | 7 | 16 | 7 |
| Twin Valu, MN | 110 | -- | 2 | -- | 3 | 50 |
| Acme Super Center, OH | 70 | -- | 10 | -9 | 9 | -10 |

Source: Discount Store News, July 5, 1993, p. 50.

In comparing the two general merchandise giants, Wal-Mart is out-pacing Kmart in the development and expansion of the supercenter concept. As of October 1993, Wal-Mart operated 57 supercenters. It opened 17 supercenters between May 1 and October 1, 1993, primarily in the southeastern and southwestern United States. These supercenters are supported by four distribution centers although 5 additional centers are planned through 1997. Industry sources predict by 1997, approximately 500 Wal-Mart Supercenters will be in operation.

Most new supercenters will be conversions of conventional Wal-Mart stores. In planing a supercenter, Wal-Mart expects to draw consumers from a 30 mile radius. Wal-Mart Supercenters are typically between 116,000 and 188,000 square feet with the average supercenter containing 150,000 square feet (Table 6). Approximately one third (50,000 square feet) of selling area is dedicated to food and grocery related products. There are approximately 17,000 SKU's of food stocked with an average gross margin of 17 to 18 percent.

In addition to selling national brands, Wal-Mart Supercenters feature two private label lines: "Sam's Choice," an upscale line of about 40 items comparable or superior to national brands, and "Great Value," introduced in the spring of 1993, positioned as a lower price alternative to "Sam's Choice" yet comparable to many national brands in quality. There were about 350 "Great Value" items in October of 1993 and Wal-Mart has announced plans to increase this line to about 1000 items in the future. Wal-Mart's private label grocery business is currently estimated to be approximately 5 percent of supercenter sales but could grow as high as 20 percent once the new line is fully established. Currently, all Wal-Mart supercenters are being supplied by Wal-Mart's Mclane Grocery Wholesale division.

**TABLE 6**
**A Comparison of Selected Supercenter Chains, 1993**

| FEATURE | Wal-Mart | Kmart | Meijer | Acme |
|---|---|---|---|---|
| Price | EDLP | EDLP | HI-LO | HI-LO |
| Avg. Store Size | 167,000 | 170,000 | 180,000 | 120,000 |
| Sq ft: Food | 55,000 | 57,000 | 45,000 | 58,000 |
| # SKU's: food | 17,000 | 12-14,000 | 30-35,000 | 16-23,000 |
| Perishables | average | strong | average | very strong |
| Service level | average | average | strong | very strong |

Source: Cornell University study, 1993.

Like Wal-Mart, Kmart believes strongly in the future of the supercenter concept. In fact, sources at Kmart indicated they would be opening 11 new Super Kmart stores between the first week in October and the beginning of November, 1993. All told, approximately 19 Super Kmarts are scheduled to be open by the end of year with well over 300 supercenters planned by 1996. In establishing themselves as food retailers, Super Kmart is relying on creating a "fresh" image by stressing a myriad of fresh foods available for both take out and eat in convenience.

On average, Super Kmarts appear to be slightly larger than Wal-Mart Supercenters at approximately 170,000 square feet and ranging in size from 160,000-191,000 square feet (Table 6) They devote one third of the selling space to an estimated 12-14,000 SKU's of food and grocery related products. Currently, Super-K is supplied by both Fleming and Supervalu. Although national brands are prominent at Super-K, their private label price oriented line called "Nature's Classics" is present in such products as potato chips, crackers and other convenience items.

### *New York/New Jersey Situation*

Currently there are no supercenters operating in the New York/New Jersey market area but site development is under way for at least eight Super Kmart stores. Kmart has just announced that there will be four Super Kmart stores developed in the Buffalo area, with the first one to open in Clarence, NY, a Buffalo suburb, during 1994. Another four sites have been acquired in the Albany area for future Super Kmart stores in Amsterdam, Saratoga Springs, and Glens Falls.

Wal-Mart has not announced plans for supercenter development in the two state area but many of its newer Wal-Mart stores have been designed and built on sites large enough for future expansion to the supercenter concept. The only other supercenter operator that appears likely to venture into the New York/New Jersey market area is Big Bear Plus, the Ohio division of the Penn Traffic Company which also operates P&C stores in the central upstate New York market.

## C) Wholesale Club Status Report

Although the first wholesale club store was opened in 1976, just 17 years ago, the wholesale club store industry in the US now appears to be rapidly approaching maturity. The tremendous growth of this retailing sector during the 1980's has slowed down as prime store sites become harder to find. From January through October of 1993, the sales and profit reports from most of the wholesale club operators have not met expectations of industry analysts and in some cases have declined. A shake out appears to be starting as some operators are retrenching their operations by canceling some planned stores, selling or closing some existing stores, and exploring further cost saving activities. In May, 1993, Kmart closed 3 Pace Club stores and sold 14 Pace Club stores to Wal-Mart which converted the stores to Sam's Clubs. Some of these former Pace Clubs are attached or adjacent to Kmart stores.

The merger of Costco and Price Club in June, 1993 is another indication of the maturation of the wholesale club industry. It appears that the industry will be dominated by two firms, Sam's and Costco/Price Club, and the prospects for the other major players are limited at best (Table 7). As head to head competition intensifies, the smaller players such as BJ's and Warehouse Club will find it difficult to compete with the tremendous resources of the larger players. The sale of the Pace Clubs to Wal-Mart may indicate that Kmart's commitment to Pace may be softening as competition increases and sales and profits decreases. Also, it has been suggested that Kmart may need additional sources of financing to further expand its supercenter concept.

**TABLE 7**
**Top Wholesale Club Store Chains**

| Operator | 1/93 Store count | % of total industry | Average vol./unit* | % of industry average | Annual volume** | % of industry total |
|---|---|---|---|---|---|---|
| BJ's | 39 | 5.9 | $ 53.0 | 84.3 | $ 1,696.0 | 5.0 |
| Costco | 89 | 16.5 | 80.0 | 127.3 | 7,200.0 | 21.0 |
| Pace | 114 | 17.8 | 48.0 | 76.4 | 4,656.0 | 13.6 |
| Price | 84 | 14.5 | 97.0 | 154.4 | 7,663.0 | 22.4 |
| Sam's | 256 | 43.5 | 54.0 E | 85.9 | 12,789.0 | 37.4 |
| Warehouse Club | 10 | 1.8 | 23.2 | 36.9 | 232.0 | 0.7 |
| Industry | 749 | 100 | $ 62.8 | 100 | $ 34,245.0 | 100 |

Source: Montgomery Securities, San Francisco

* Annualized volume and average volume figures expresses in millions

** Annualized volume is calculated using the volume per unit for the latest 12 months multiplied by the current umber of units.

It now appears that nationwide concentration of club stores is approaching the saturation point (Table 8). In areas where club stores compete with other club stores, sales have eroded. In an attempt to attract more customers, club stores are expanding into an ever increasing array of service departments which require higher labor, utility, and shrinkage costs. Price and Costco, prior to their merger, had both initiated plans to expand to Europe, partly in response to the competitive environment which has developed in the US.

**TABLE 8**
**Wholesale Clubs--Competitive Analysis***
**(As of Aug. 31, 1992)**

| | BJ's | Costco | Pace | Price | Sam's | Total |
|---|---|---|---|---|---|---|
| BJ's | NA | **34.4%** | 31.3% | 34.4% | 40.6% | **90.6%** |
| Costco | 11.1% | NA | 24.4% | 28.9% | 16.7% | 56.7% |
| Pace | 11.3% | 23.7% | NA | 39.2% | 48.5% | 93.8% |
| Price | 16.5% | 35.4% | 49.4% | NA | 13.9% | 74.7% |
| Sam's | 5.5% | 4.2% | 23.6% | 4.2% | NA | 33.8% |
| Overall Total = 58.7 % | | | | | | |

Source: Grocery Marketing,
** This table can be interpreted in the following manner: using the first row as an example (see bold values in table), 34.4 percent of all BJ's stores are in direct competition with Costco stores (likewise for the other columns). In total, 90.6 percent of BJ's stores are in direct competition with other wholesale club stores. The percentages do not necessarily sum to the totals on the right because some individual stores compete with more than one club store operated by two or more firms.*

Another option for continued growth by wholesale club operators is to explore mid-sized and small market areas. Wholesale Depot is a small, fast growing club store operator which has developed a down-sized club format targeted specifically at small town markets. Wholesale Depot's stores average about 60,000 square feet in selling area. Costco announced in May, 1993 that it was developing two different "mini-club" prototypes, each containing about 75,000 square feet of selling area, targeted to mid-sized and small town market areas.

### *New York/New Jersey Situation*

The 1992 Cornell University report entitled "Wholesale Club Stores: The Emerging Challenge" detailed the growth and prospects of club stores in New York and New Jersey. Included in that report were projections about the growth of club stores in the two state region and strategic perspectives on the likely evolution of the club industry.

While club store expansion in the two state region has continued, the number of potential club stores projected in the 1992 report now seems a bit inflated. In fact, some of the potential strategic perspectives suggested in the 1992 report's conclusions have been realized and appear to have dampened the growth prospects for club stores.

In early 1993, Price Club announced plans to open its first club store in Staten Island. This location, although relatively suburban in nature relative to New York City's other boroughs, represents the first attempt at operating a club store within the city limits.

Many communities have held up or rejected the development plans for wholesale club stores in the metro New York/New Jersey area. Reasons cited for this reluctance include: 1) a concern that local merchants may not be able to effectively compete with wholesale clubs, 2) a concern that traffic problems may develop, and 3) the feeling that many small towns and cities do not believe these large stores are compatible with the existing development in their community.

## D) Other Formats Status Report

Supercenters, wholesale clubs and mass merchandisers are not the only retailers competing for supermarket customers. Significant among the other alternative competitors for supermarkets are drug stores, limited assortment stores and category-specific specialty retailers. Each of these types of retailers offer supermarkets a different type of competitive challenge by offering consumers unique combinations of low prices and product selections.

Often these types of retailers may be less obvious competitors in markets offering consumers wholesale clubs, mass merchandisers, and supercenters. Supermarket operators must realize that within their limited range of products these retailers offer consumers compelling selling propositions based either on lower prices or wider variety than supermarkets typically offer.

### *Drug Stores Status Report*

The drug store industry is the third largest retail channel in the US with $ 88.4 billion in 1992 sales, trailing only supermarkets ($297 billion) and mass merchandisers ($106 billion). The drug store industry in the US is considered a mature industry with the total number of stores in operation having not changed significantly during the last decade. At the end of 1992, there were a total of 52,850 drug stores and the number has been approximately the same for about the last ten years (Table 9).

**TABLE 9**
**Comparisons of the US Drug Store and Supermarket Industries: Sales, Stores and Sales per Store -- 1992**

| Measure | Drug Stores* | Supermarkets** |
|---|---|---|
| Total sales ($ bil.) | $ 88.4 | $ 286.3 |
| Independent store sales ($ bil.) | $ 31.8 | $ 82.0 |
| Independent sales as % of total sales | 36 % | 29 % |
| Chain store sales ($ bil.) | $ 56.6 | $ 204.3 |
| Chain sales as % of total sales | 64 % | 71 % |
| | | |
| Total Stores | 52,850 | 30,400 |
| Independent stores | 32,491 | 12,710 |
| Independent Stores as % of Total Stores | 62 % | 42 % |
| Chain Stores | 20,359 | 17,690 |
| Chain Stores as % of Total Stores | 38 % | 58 % |
| | | |
| Average sales per store ($ mil.) | $ 1.7 | $ 9.4 |
| Average sales per independent store ($ mil.) | $ 0.9 | $ 6.5 |
| Average sales per chain store ($ mil.) | $ 2.8 | $ 11.6 |

*Source: Standard & Poor's Industry Surveys, July, 1993.
**Source: Progressive Grocer, 60th Annual Report of the Grocery Industry, April, 1993

In certain categories drug stores control significant market share. As one might expect, drug stores control 62 percent of the prescription, drugs, and cosmetics sales in the United States but continually face intensified competition in these markets from supermarkets, mass merchandisers and wholesale clubs (Table 10). Drug stores are a distant second to supermarkets in sales of tobacco products. Supermarkets rank just below drug stores in the "camera and photo supplies" and "stationery and greeting cards" categories. In each of these profitable general merchandise categories drug stores rank third in market share while supermarkets are fourth. Drug store also rank third in sales of small electric appliances while supermarkets rank seventh.

**TABLE 10**
**Drug Store Sales, Sales Distribution, Market Share and Rank and Supermarket Rank for Selected Product Categories, 1992**

| Category | Drug Store Sales in bil. $ | % of Drug Store Sales | % of Total US Category Sales | Drug Store Rank in Category | Super-market Rank in Category |
|---|---|---|---|---|---|
| Prescriptions, Drugs, Cosmetics | 54.63 | 70.1 | 62.0 | 1 | 2 |
| Tobacco | 3.66 | 4.7 | 19.0 | 2 | 1 |
| Camera & Photo Supplies | 2.26 | 2.9 | 27.5 | 3 | 4 |
| Stationery & Greeting Cards | 2.26 | 2.9 | 19.9 | 3 | 4 |
| Small Electric Appliances | 1.25 | 1.6 | 15.0 | 3 | 7 |

Source: Discount Merchandiser, Annual Report of the Discount Store Industry, June, 1993.

Although the top 5 drug store chains account for approximately 40 percent of total chain drug store sales (Table 11), the industry has seen the greatest growth in the past few years by some of the smaller chains. These rapidly growing chains have typically operated a new variety of drug store called the "deep-discount drug store". Deep-discount drug stores typically are larger than traditional chain drug stores and, as the name implies, offer low prices. These stores often are located on less expensive sites, offer very limited services, stock a limited selection of brands and sizes and may not include a pharmacy. A majority of their low price advantage is due to purchasing almost exclusively products that manufacturer's offer on special reduced deal prices. The top deep discount drug store chains include Phar-Mor, Drug Emporium, and F&M Distributors. Others, such as Marc's and Pic N' Save, although relatively small, are growing rapidly and carry a wide range of food and grocery products, including frozen food and dairy products.

**TABLE 11**
**Leading Drug Store Chains:**
**Location, Total Sales, Stores,**
**Sales per Store and Deep-Discount Stores - 1992**

| Company | Headquarters | Total Sales (mil. $) | Total Stores | Sales per Store ($ mil.) | Deep-Dis-count Stores |
|---|---|---|---|---|---|
| Walgreens | Deerfield, IL | 7,500 | 1,761 | 4.3 | - |
| American Drug Stores | Oak Brook, IL | 4,000 | 705 | 5.7 | - |
| Jack Eckerd | Clearwater, FL | 3,900 | 1,697 | 2.3 | - |
| Rite Aid* | Shiremanstown, PA | 3,800 | 2,571 | 1.5 | 40 |
| CVS (Melville) | Woonsocket, RI | 3,600 | 1,221 | 2.9 | - |
| Thrifty | Los Angeles, CA | 3,600 | 583 | 6.2 | - |
| Phar-Mor* | Youngstown, OH | 3,100 | 255 | 12.2 | 255 |
| Longs Drug Stores | Walnut Creek, CA | 2,500 | 273 | 9.2 | - |
| Pay Less NW | Wilsonville, OR | 2,300 | 559 | 4.1 | - |
| Revco D.S. | Twinsburg, OH | 2,200 | 1,160 | 1.9 | - |
| Hook-SupeRx* | Cincinnati, OH | 2,100 | 1,152 | 1.8 | 13 |
| Thrift Drug | Pittsburgh, PA | 1,400 | 548 | 2.6 | - |
| Fay's | Liverpool, NY | 903 | 252 | 3.6 | - |
| Drug Emporium* | Worthington, OH | 760 | 234 | 3.2 | 234 |
| F&M* | Warren, MI | 737 | 116 | 6.4 | 116 |
| Medicine Shoppe | St. Louis, MO | 698 | 927 | 0.8 | - |
| Perry Drug Stores | Pontiac, MI | 674 | 209 | 3.2 | - |
| Big B* | Bessemer, AL | 503 | 303 | 1.7 | 17 |
| K&B | New Orleans, LA | 489 | 173 | 2.8 | - |
| Arbor Drugs | Troy, MI | 477 | 131 | 3.6 | - |
| Genovese Drug Stores* | Melville, NY | 463 | 100 | 4.6 | 2 |
| Marc's* | Middleburg, OH | 413 | 38 | 10.9 | 38 |
| Pic'N'Save* | Jacksonville, FL | 325 | 38 | 8.9 | 38 |

*Operates deep-discount drug stores.
Source: Standard & Poor's Industry Reviews, July, 1993 and Chain Store Guide Directory of Drug Store and HBA Chains, 1993.

Although still representing a tiny proportion of their total stores, some of the larger traditional drug store chains, notably Rite Aid and Hook-SupeRx, have begun operating deep-discount drug stores (Table 11). During 1992 and the first six months of 1993, several of the larger deep-discount department store chains have faced financial difficulties as profits did not keep up with aggressive expansion in stores and sales. During the 18 month period, Phar-Mor revealed a major financial scandal involving falsely reported profit figures. As a result, the fast growing chain was forced into a major restructuring effort during which it closed many of its stores. Two other chains, A.L. Price and Freddy's filed for Chapter 11 bankruptcy protection to reorganize their operations in light of financial difficulties brought on by over aggressive expansion.

### *Limited Assortment Store Status Report*

The limited assortment store concept is often overlooked as an alternative format due to the small size and sales volume of the individual stores. The stores range in size from 12,000 to 15,000 square feet and carry between 600 and 800 food and general merchandise products. The principal retailers in this field are Aldi (about 350 stores), owned and operated by the Aldi Company of Germany, Save-A-Lot, operated by SuperValu, and Food Saver, a retail format supplied by Scrivner. All of these stores are located primarily in the midwest, although Aldi has stores in Ohio and Pennsylvania.

The limited assortment store concept was first introduced into the United States in the 1970's by a number of retail firms including A&P. The concept did not initially receive wide consumer acceptance and was dropped by most retailers - except Aldi - and may now be making a modest comeback.

Limited assortment stores rely on rapid turnover of inventory, efficient distribution, and expense control to maintain their profit margins. Many of the amenities offered by today's supermarket chains are not part of the limited assortment store formula. Customers must bag their own purchases in bags or boxes they bring with them to the store or purchase from the store. Many of the products are sold from pallets and the stores contains few if any shelving units or refrigerated coolers or freezers. Individual packages are either prepriced before arriving at the store or not individually priced in the store, relying on a price sign attached or adjacent to the stack of product. For many products, the consumer is the first person to touch the individual package since it left the processing plant. Perishable products are limited to a few staple items in meat, dairy and produce.

Limited assortment stores, due to their small size and limited number of products, require very few labor hours to operate. Typically, there will be a store manager and a few checkout employees. Scanning cash registers are not necessary since cashiers are expected to memorize the prices of the limited number of items. Another operational advantage of limited assortment stores is the ability to operate a variety of settings due to its small store size and parking requirements. Limited assortment stores can take advantage of vacant, undersized supermarket locations in urban and suburban areas often obtaining such sites at lower rental fees than most prime supermarket sites demand. In urban, lower income neighborhoods, limited assortment stores appeal to consumers with low prices and the convenience of local neighborhood locations. In many such neighborhoods, limited assortment stores may be the only convenient alternative to neighborhood "mom & pop" groceries and bodega markets, which typically are not price competitors.

In suburban settings, limited assortment stores often operate in locations adjacent to or across the street from supermarkets, wholesale clubs, or mass merchandisers. Although not able to compete on variety, selection, or service with these larger stores, limited assortment stores' price appeal is a very strong draw for consumers.

### *Category-dominant Specialty Retailers Status Report*

Another rapidly growing retailing segment includes chains of stores targeting a specific product category such as paper goods, pet supplies, or beverages. The appeal of these chains often relies less on price than on variety and selection. Prices are typically very competitive as well but the major draw for consumers is the broad variety of product categories and the complete selection of brands and sizes stocked by these single category "superstores". Some traditional retailers refer to this form of competition as "category killers" because they completely dominate sales of the specific category in the marketplace.

Supermarket operators have particularly felt the impact of these retailers in the pet food category where companies such as Petsmart offer over 7,000 pet-related products in approximately 25,000 square feet of selling area. In addition, Petsmart offers a full line of pet care and grooming services which combined with the vast array of merchandise choices results in the ultimate one-stop shopping experience for pet owners.

Petsmart started in 1987 with two stores and by the end of 1992 had grown to operating 72 stores in 13 states with sales of over $187 million. The company's expansion plans call for 40 more stores in 1993 and at least that many more in both 1994 and 1995. One estimate is that the US market with approximately 54 million pet-owning households (about 1 of every 2 households) could support about 500 pet supply superstores.

# Section V: MANUFACTURER PERSPECTIVES

Manufacturers are very often in the unique position of doing business with all of the retail formats discussed in this report. To gauge their views and perceptions about food retailing today and in the future, eighteen senior level executives representing ten major US. manufacturers were asked to complete a written questionnaire concerning the impact of alternative retail food formats on food distribution in the US.

When rating the competitive strengths of four formats: supermarkets, supercenters, limited assortment stores and wholesale membership clubs, manufacturers' overwhelming believe the supermarket is still ranked first in four out of the five competitive strengths. The one exception was for the category of price, where respondents reported that wholesale clubs and limited assortment stores are the most price competitive. Supercenters were rated a close second to supermarkets in overall competitiveness while wholesale clubs were considered to be third with and limited assortment stores receiving the lowest rankings (Table 12).

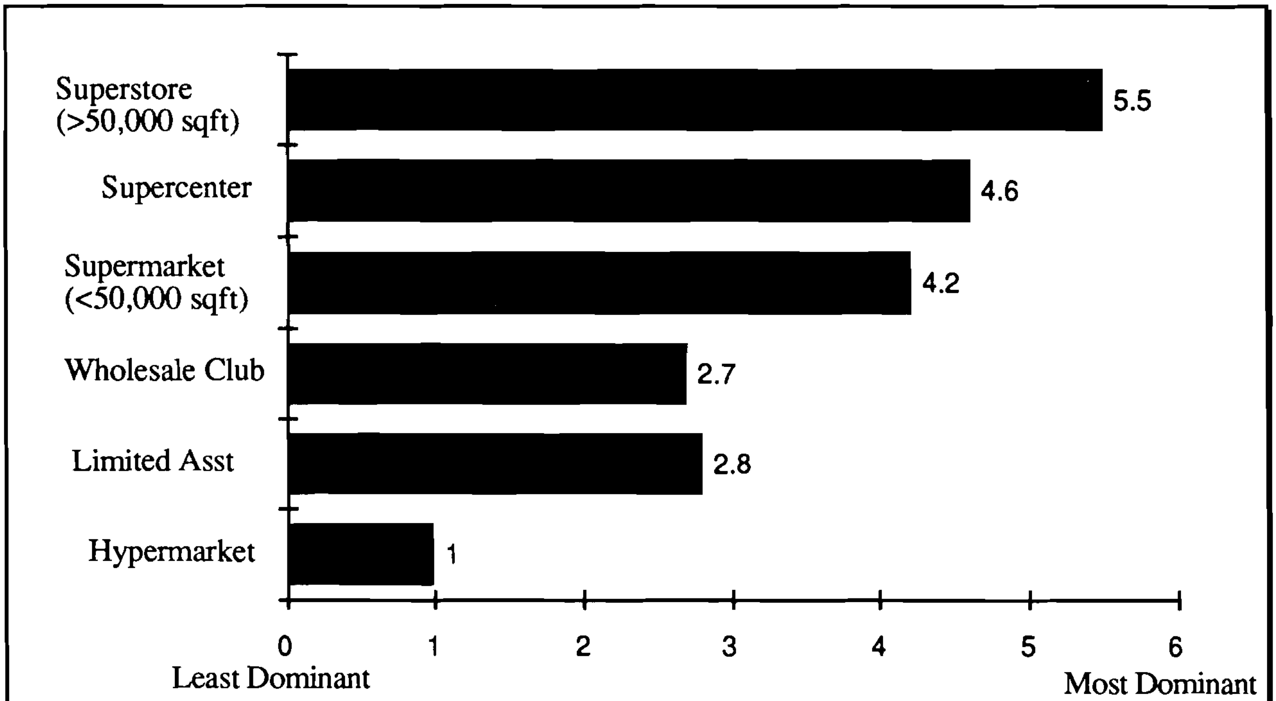
**TABLE 12**
**Competitive Strengths of Selected Food Retailing Formats**

| Ranking | Price | Variety | Service Level | Fresh Food Dept. | Well Trained Employees |
|---|---|---|---|---|---|
| First | Limited Asst and Wholesale Club | Supermarket | Supermarket | Supermarket | Supermarket |
| Second | | Supercenter | Supercenter | Supercenter | Supercenter |
| Third | Supercenter | Wholesale Club | Wholesale Club | Limited Asst | Wholesale Club |
| Fourth | Supermarket | Limited Asst | Limited Asst | Wholesale Club | Limited Asst |

Source: Cornell University survey, 1993.

In view of the changing food landscape, the manufacturers were asked to look to the future and predict the dominant food retailing channel in 10 years. Super stores (supermarkets over 50,000 sq. ft. in size) were the clear winner with supercenters ranked second. If this prediction is accurate, a dramatic shift in food retailing will take place in the next decade as the relatively new supercenter begins to dominate the food retailing landscape. Conventional supermarkets (under 50,000 sq. ft in size) were ranked third, behind supercenters, while wholesale clubs were fourth. Limited assortment stores and hypermarkets were rated fifth and sixth respectively (Figure 4).

**FIGURE 4**
**Dominance of Retail Formats in 2003:**
**Manufacturers' Perspective**




Source: Cornell University survey, 1993.

## Doing Business with Wholesale Clubs

Manufacturers are in the unique position of doing business with a variety of food retailing formats in addition to their traditional supermarket customers. Manufacturers completing this survey indicated their "likes" and "dislikes" about doing business with both wholesale clubs and supercenters. Specifically, manufacturers enjoy doing business with wholesale clubs because this format provides them with quick turns and high volume per store (Table 13). They indicated that wholesale clubs have a clear vision of their objectives and are willing to work as "partners" with manufacturers.

Conversely, manufacturers also reported a variety of "dislikes" regarding wholesale clubs which were primarily centered around two issues: the general business practices of wholesale clubs and the business relationships clubs establish with manufacturers. Specifically, the wholesale club practice of offering limited variety in special size packages presents at least two challenges for the manufacturer. If only a select few items (or perhaps only one) are available in a category, the number of manufacturers who can sell to the wholesale club is limited. Additionally, because of the limited varieties, profit centers are constrained for those manufacturers who do business with the clubs.

Essentially, manufacturers feel it is not possible to develop and maintain the type of long-term relationships they desire with wholesale clubs. Related to this instability in relationships, manufacturers have expressed concern that as supermarkets become more price competitive with clubs, the clubs will revert to using more private label products, a strategy which will help the club maintain their margin and price competitiveness over supermarkets and edge the manufacturers brands off the club floor.

**TABLE 13**
**Doing Business with WHOLESALE CLUBS:**
**--Manufacturers' Perspective--**

**LIKES**

- Quick turns
- Cost of doing business is less
- High sales per store
- Clearly defined objectives, wants and needs
- Focus on "selling" product through to consumer vs. a focus on "buying"
- Work as partners with manufacturer

**DISLIKES**

- Limited variety
- Request for special packs
- Difficult to develop and maintain product offerings
- Due to increased competition from supermarkets, there is a growing concern that clubs will turn to private label brands to maintain price differentials
- Limited profit centers
- No trust developed for future business-out for the short term

Source: Cornell University Survey, 1993.

### Doing Business with Supercenters

Manufacturers view the supercenter with great optimism since it contains a supermarket format with a wide range of possibilities. On the positive side, they enjoy the large volumes purchased by the supercenters and the promotional support offered for their products (Table 14). They view the systems technologies employed by the supercenter as a real plus which enhances the potential for strategic alliance opportunities. Manufacturers recognize that supercenters have an enormous growth potential compared with their present retail customers. Supermarket chains provide manufacturers with a large sales base, but growth has been very slow in recent years, so doing business with Wal-Mart and Kmart represents an exciting growth opportunity.

Despite the fact that the sheer size and buying power of Wal-Mart and Kmart results in large volume accounts for the manufacturer, the power which accrues due to their size is an area of great concern to manufacturers. Specifically, they believe that supercenters have the power to weaken the manufacturer's ability to maintain margins, offer little loyalty to the manufacturer, and often make demands which challenge the ability of the manufacturer to do business with the supercenter.

**TABLE 14**
**Doing Business with SUPERCENTERS:**
**--Manufacturers' Perspective--**

**LIKES**

- Strong promotional support
- Strong variety
- Strategic alliance opportunities
- Large volume opportunities
- Systems technology
- Exciting growth and volume potential

**DISLIKES**

- Potential to dictate due to power in the market place, more demanding
- Long term power weakens manufacturers position as well as the ability to maintain margins
- Little sense of loyalty
- Want niche and price point
- Remote locations make distribution difficult
- High slotting allowances
- Penalty charges

Source: Cornell University survey, 1993.

# Section VI: CONSUMER PERSPECTIVES

For any retail format to be successful, it must pass the "consumer test." Therefore, even when the supercenter concept appears to provide many advantages to the consumer, the question remains, "how will this retail format be viewed by today's consumer?"

Since shoppers today have a myriad of food shopping choices, the purpose of this section of the research project was to gauge how consumers decide where to purchase food and grocery products. Consumers in three hundred households were contacted by telephone: 150 in the Medina/Montrose, Ohio market area and 150 in the Springdale, Arkansas market area. The market areas selected for this study were chosen for two reasons.

First, in both market areas, consumers could choose from several supermarkets, a wholesale club, a limited assortment store, mass merchandise stores , several drug stores as well as a supercenter. Second, the two market areas provided an opportunity to compare and contrast the consumer perceptions of the Wal-Mart supercenter versus the Kmart supercenter. The Wal-Mart supercenters were located in the Arkansas market area and the Kmart supercenters in the Ohio market area. In both market areas the supercenters have been open for about one year, so consumers have had an opportunity to be exposed to the supercenter format as well as all of the other traditional and non-traditional formats that sell food and grocery products.

## A) Consumer Profile

Upon contacting a household, each telephone interviewer asked to speak to the primary shopper. This individual was then screened to find out if she/he or any member of the immediate household worked full time for a food retailing company. If a respondent indicated that someone in the household was indeed employed by a food retailer, that respondent was not asked to complete the questionnaire.

In 81 percent of the three hundred households, the primary shoppers were female (Table 15). Fifty-eight percent of respondents were between 26 and 55 years of age while almost one-third were over 55 years old. Respondents were generally from mid-size households: forty-seven percent reported one or two people living in the household, while slightly over 50 percent indicated three or more people in the household. Also, over half of respondents reported having no children under 18 years of age living in the household. Almost half of respondents indicated a household income of between \$20,000 and \$59,000.

Taking a closer look at each market in isolation, the Ohio market, home to Super Kmart, can be characterized as lower in income than the Arkansas market. Thirty-six percent of the Ohio respondents reported earning \$39,000 or less annually. The Ohio households which were interviewed tended to be somewhat larger than their Arkansas counterparts with more of the members of the household employed as well. Despite the overall smaller household size in the Arkansas market, 48 percent of these households reported having children under 18 years old while only 41 percent of Ohio households indicated having children under 18 in the house. In general, Ohio respondents fell into the middle age range (between 35 and 55) while Arkansas respondents were younger or older than their Ohio counterparts (Table 15).

**TABLE 15**
**Demographic Profile of Survey Respondents**

| | All Respondents | Arkansas Respondents | Ohio Respondents |
|---|---|---|---|
| | --% of survey respondents-- | | |
| **GENDER** | | | |
| Female | 81.1% | 82.3% | 79.9% |
| Male | 18.9% | 17.7% | 20.1% |
| **AGE** | | | |
| 25 and under | 5.7% | 8.1% | 2.7% |
| 26 - 35 | 17.6% | 14.7% | 20.8% |
| 36-55 | 40.4% | 37.3% | 43.4% |
| over 55 | 31.6% | 33.8% | 29.8% |
| Refusal | 4.7% | 6.0% | 3.3% |
| **HOUSEHOLD SIZE** | | | |
| 1 - 2 people | 47.3% | 49.4% | 45.3% |
| 3 - 4 people | 38.3% | 37.3% | 39.4% |
| 5 or more people | 13.3% | 11.3% | 15.4% |
| Refusal | 1.0% | 2.0% | 0% |
| **CHILDREN UNDER 18** | | | |
| 0 children | 55.4% | 52.1% | 58.7% |
| 1 - 2 children | 32.3% | 37.6% | 27.4% |
| 3 - 4 children | 11.9% | 9.7% | 14.4% |
| more than 4 children | .3% | .6% | 0% |
| **EMPLOYMENT** | | | |
| 0 employed | 21.1% | 25.0% | 17.3% |
| 1 employed | 35.2% | 32.4% | 38.0% |
| 2 employed | 32.6% | 32.4% | 32.7% |
| 3 or more | 10.0% | 8.1% | 12.0% |
| Refusal | 1.0% | 2.0% | 0% |
| **INCOME** | | | |
| less then $20,000 | 15.1% | 19.2% | 11.0% |
| $20,001 - $39,000 | 29.2% | 33.6% | 24.8% |
| $40,000 - $59,000 | 19.2% | 17.1% | 21.4% |
| $60,00 - $79,000 | 9.6% | 6.8% | 12.4% |
| $80,000 - $99,000 | 4.5% | 1.4% | 7.6% |
| Over $100,000 | 3.1% | 1.4% | 4.8% |
| Refusal | 17.9% | 18.5% | 17.2% |
| Don't know | 1.4% | 2.1% | .7% |

Source: Cornell University survey, 1993.

Nearly two-thirds of shoppers reported having supermarkets, supercenters and drug stores within a five miles of their home (Table 16). Even wholesale clubs and limited assortment stores were within close proximity to the majority of households surveyed.

**TABLE 16**
**Distance From Consumers Homes to Selected Retail Formats**

| Store Type | Less than 5 miles | 6 to 10 miles | Over 10 miles | Don't know |
|---|---|---|---|---|
| | | -percent of respondents- | | |
| Supermarket | 68 | 17 | 5 | 10 |
| Supercenter | 62 | 28 | 4 | 6 |
| Mass Merch. | 53 | 33 | 8 | 6 |
| Wholesale Club | 50 | 22 | 18 | 10 |
| Drug Store | 63 | 20 | 3 | 14 |
| Limited Assort. | 51 | 26 | 7 | 16 |

Source: Cornell University survey, 1993.

## B) Shopping Frequency

Primary shoppers were asked to identify the type of stores or formats where they shop for food, household supplies, health and beauty care products and paper products. Most people indicated that they shop at a variety of stores for these purchases while thirty percent reported they "always shop" at a supermarket for the specified products (Table 17). The majority of shoppers indicated that they "sometimes or often" shop supermarkets(59%) supercenters(71%) and mass merchandisers (59%). Quite surprising were shoppers who reported "never" shopping at either wholesale clubs or limited assortment stores: 60 and 76 percent, respectively.

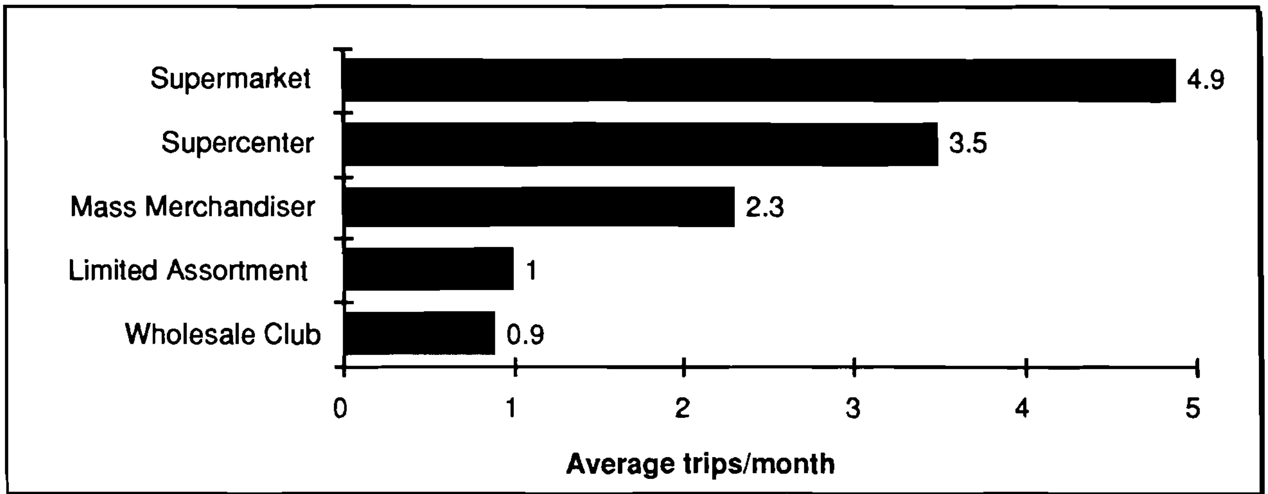
**TABLE 17**
**Types of Stores Where Consumers Shop for Food and Other Grocery Products**

| Store Type | Never Shop | Sometimes or Often Shop | Always Shop |
|---|---|---|---|
| | | - percent of respondents - | |
| Supermarket | 11 | 59 | 30 |
| Supercenter | 11 | 71 | 18 |
| Mass Merchandiser | 36 | 59 | 5 |
| Wholesale Club | 60 | 38 | 2 |
| Drug Store | 45 | 52 | 3 |
| Limited Asst Store | 76 | 22 | 2 |

Source: Cornell University survey, 1993.

Shopping trips per month vary considerably depending on the retail channel. On average, consumers indicated making the most trips per month to supermarkets, more than once a week, and the fewest trips each month to wholesale clubs (Figure 5). Specifically, almost two-thirds of consumers shop at supermarkets between 4 and 8 times each month while just 40 percent reported shopping at supercenters just as frequently (Table 18). In contrast to supermarkets and supercenters, shoppers reported shopping much less frequently in both wholesale clubs and limited assortment stores where 82% and 74%, respectively, reported shopping less than once per month.

**FIGURE 5**
**Average Number of Shopping Trips per Month at Selected Retail Formats**




Source: Cornell University survey, 1993.

**TABLE 18**
**Shopping Trips per Month to Selected Formats**

| Store Type | 1 or less | 2 to 3 | 4 to 8 | 9 or more | Other |
|---|---|---|---|---|---|
| | | | - percent of respondents - | | |
| Supermarket | 10 | 17 | 64 | 9 | 0 |
| Supercenter | 28 | 26 | 40 | 6 | 0 |
| Mass Merchandiser | 49 | 25 | 19 | 4 | 3 |
| Wholesale Club | 82 | 13 | 4 | 1 | 0 |
| Drug Store | 64 | 21 | 12 | 2 | 1 |
| Limited Assortment | 74 | 9 | 13 | 0 | 4 |

Source: Cornell University survey, 1993.

## C) Shopper Loyalty

In the markets which were surveyed, where shopping choices are abundant, shopper loyalty and store switching behavior are important factors to measure. To gauge this behavior, consumers were asked if they had changed their preference in stores in the past few months where they typically shop for food and grocery related products. Forty-one percent of shoppers indicated that they have changed their shopping behavior. It is important to note however, that both the Arkansas and Ohio markets can be considered "mature" markets in terms of store presence. In other words, all types of formats have been open for at least 12 months. Therefore, one might expect higher level of "switching" in markets with new or recent entrants as consumers experiment with new shopping alternatives.

Specifically, regarding net switching behavior (the difference between those who shop more and those who shop less) supermarkets have gained the most with a 7.3 percent increase in shoppers while supercenters showed a very slight gain posting slightly over a one percent gain in shoppers. Mass Merchandisers showed a net loss of 7.1 percent indicating a net loss of shoppers (Table 19). However, it should be noted that since the supercenters are in effect also mass merchandisers, some of the loss mass merchandisers have experienced may simply be the result of a customer switching from a traditional Wal-Mart discount store to a Wal-Mart Supercenter.

**TABLE 19**
**Net Store Switching Behavior of Consumers**

| Store Type | % Net Gain in Shoppers |
|---|---|
| Supermarket | 7.6% |
| Supercenter | 1.3% |
| Mass Merchandiser | -7.1% |

## D) Purchase Behavior Of Consumers

### Location of Primary Purchases

The primary shopper of each household contacted was asked to indicate where they typically purchase food, household supplies, health and beauty care products and paper products. The vast majority of respondents (86%) typically purchase food at supermarkets, while over half reported typically purchasing food at supercenters (Table 20). Very few respondents indicated "typically" purchasing food at any of the other store types. In fact, only 18 percent of consumers indicated that they typically shop at wholesale clubs while a mere 14 percent reported shopping at limited assortment stores for food and grocery related products.

A somewhat different picture emerges when considering the source for household supplies, health and beauty supplies and paper products. For all three categories, one or more of the other formats is preferred with the highest percentage of consumers (63%) indicating that they prefer the supercenter for household supplies. The supermarket was the second choice of consumers for household supplies (50%) and the mass merchandiser was their third choice (37%).

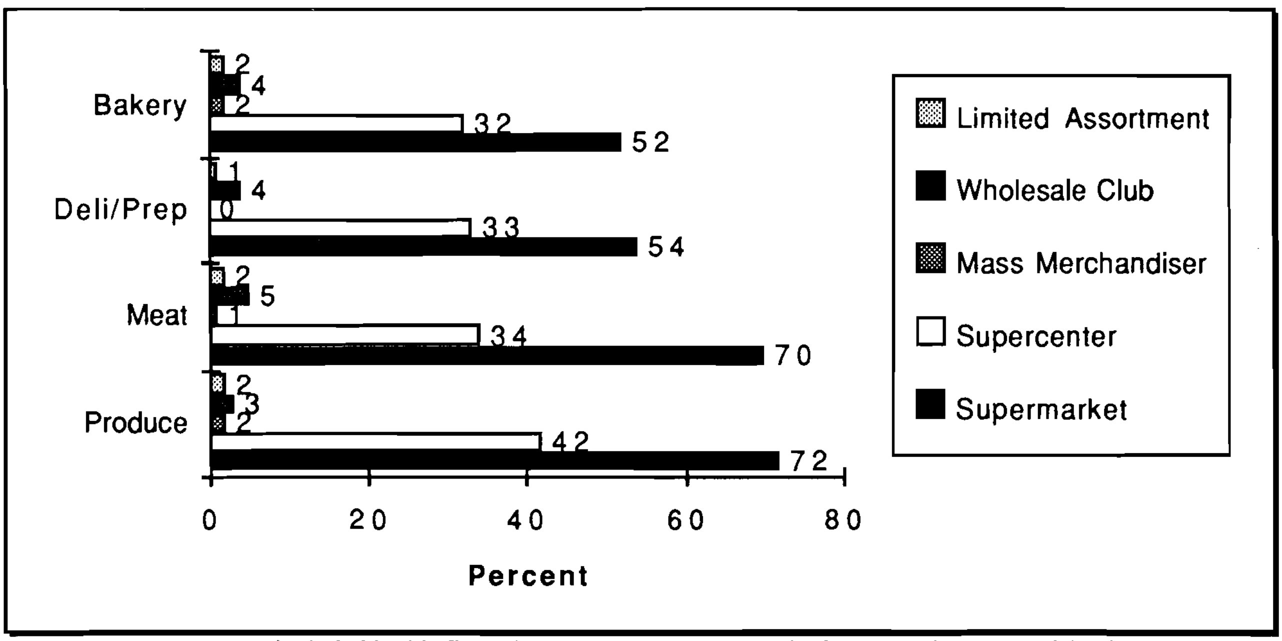
**TABLE 20**
**Percentage of Consumers Purchasing Selected Product Categories at Various Retail Formats**

| Store Type | Food | Household Supplies | Health & Beauty Care | Paper Products |
|---|---|---|---|---|
| | | -percent of respondents- | | |
| Supermarket | 86 | 50 | 33 | 50 |
| Supercenter | 57 | 63 | 61 | 51 |
| Mass Merch. | 13 | 37 | 32 | 22 |
| Wholesale Club | 18 | 14 | 9 | 12 |
| Drug Store | 1 | 5 | 38 | 12 |
| Limited Assort. | 14 | 7 | 3 | 6 |

Source: Cornell University survey, 1993.

Taking a closer look at food purchases, specifically perishables, once again supermarkets are preferred. Over 70 percent of consumers typically purchase produce and meat at supermarkets, while over half choose supermarkets for deli/prepared foods and bakery products (Figure 6). About one third of shoppers preferred supercenters for bakery, deli and meat purchases and over 40 percent typically purchase produce in supercenters. The remaining channels were rarely mentioned as places where perishables are typically purchased.

**FIGURE 6**
**Retail Format Source for Perishable Purchases by Department**

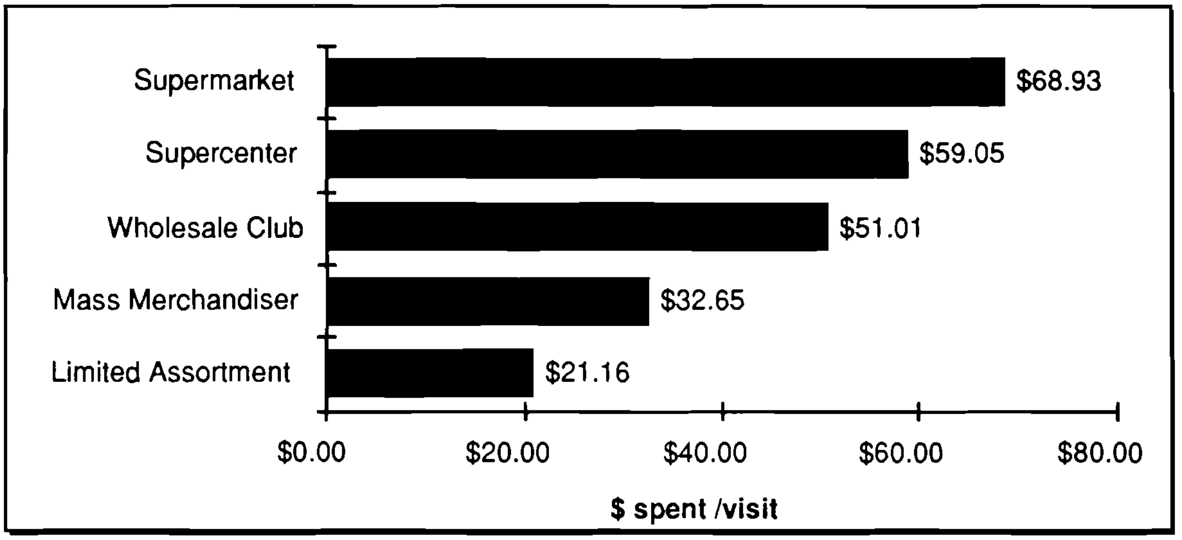



note: Drug stores are not included in this figure because zero respondents indicated buying any perishables at a drug store. Totals do not add up to 100 percent because other answers were accepted.

**Spending per Shopping Trip**

In order to gauge spending patterns on food, household supplies, health and beauty care products and paper products, consumers were asked how much money they spent on these products at a variety of retail formats each time they visited a store. Average spending per trip varied considerably by type of format (Figure 7). Shoppers indicated spending the most at supermarkets, approximately $69 per visit. Supercenter spending was second at about $59 per trip.

**FIGURE 7**
**Average Amount Spent Per Shopping Trip by Retail Format**




The distribution of average spending per shopping trip was remarkably similar for supermarkets and supercenters (Table 21) About 60 percent of shoppers spend between $25 and $100 per trip in these two formats. In the other formats most consumers spend on average, less than $25 per visit.

**TABLE 21**
**Average Spending Per Shopping Trip**
**by Retail Format**

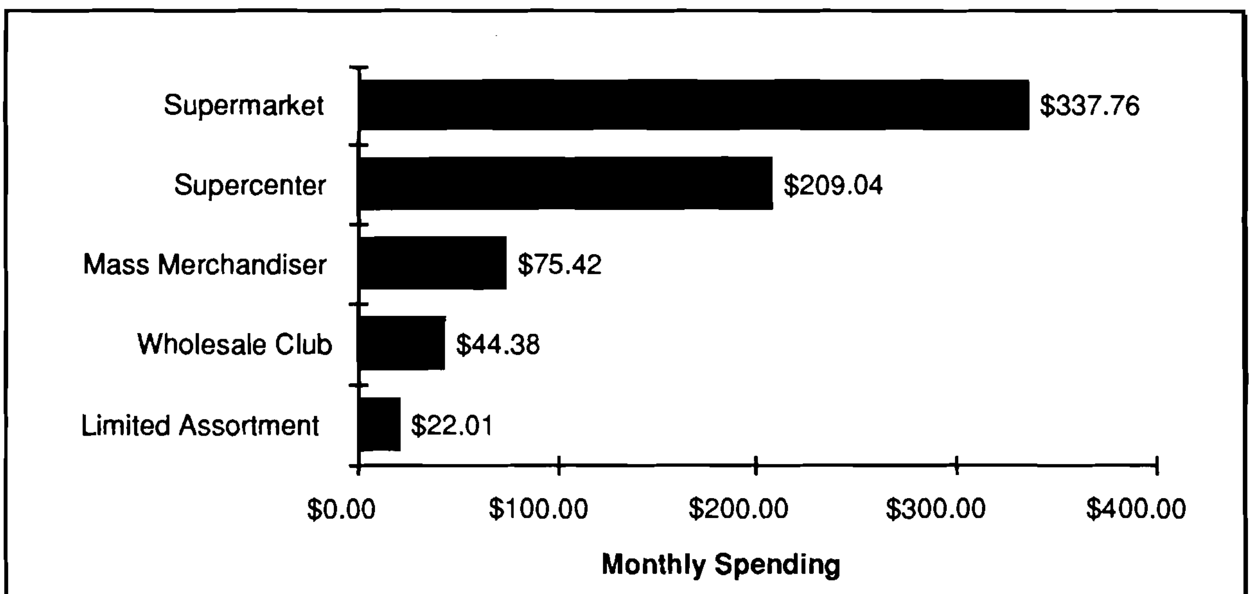
| Format | > $25 | $26-75 | $76-100 | $101-200 | > $200 | Refusal |
|---|---|---|---|---|---|---|
| | | | -percent of respondents- | | | |
| Supermarket | 24 | 41 | 19 | 9 | 2 | 5 |
| Supercenter | 27 | 43 | 16 | 5 | 2 | 7 |
| Mass Merch | 49 | 36 | 3 | 2 | 1 | 9 |
| Wholesale Club | 37 | 32 | 16 | 8 | 0 | 6 |
| Drug Store | 62 | 19 | 7 | 5 | 1 | 6 |
| Limited Assort. | 63 | 28 | 3 | 1 | 0 | 5 |

Source: Cornell University survey, 1993.

## Monthly Spending

The combination of both the highest shopping frequency and spending per visit places the supermarket first in terms of total spending for food and grocery products. Respondents averaged $338 per month at supermarkets while spending slightly less than two-thirds as much ($209) at supercenters (Figure 8). Monthly spending for food and grocery products at mass merchandisers averaged $75 while spending at limited assortment stores for these same products, averaged only $22 per month, about half the average at wholesale clubs.

**FIGURE 8**
**Average Monthly Spending**
**by Retail Format**




Source: Cornell University survey, 1993.

## E) CONSUMER'S RATE THEIR SHOPPING EXPERIENCE

Consumers were asked a series of questions about their perceptions of the importance of and personal satisfaction with various store attributes relating to pricing, services offered, quality of various products, as well as various physical attributes of the store.

Of all the store attributes rated by consumers, food quality and the quality of meat and produce were ranked as most important. However, their satisfaction level was only "average" with the quality of food in the stores where they shopped (Figure 9). Respondents showed relative "indifference" when asked about the importance of store facilities (layout of store and decor) and selection (wide variety/selection and wide assortment of brands). These were all ranked low in importance compared with other store attributes. Consumers place a high level of importance on pricing issues, such as --"All prices clearly marked", "Low everyday prices" and Low sale prices" yet indicated relatively low satisfaction with the manner in which the stores they shopped dealt with these attributes (Figure 9).

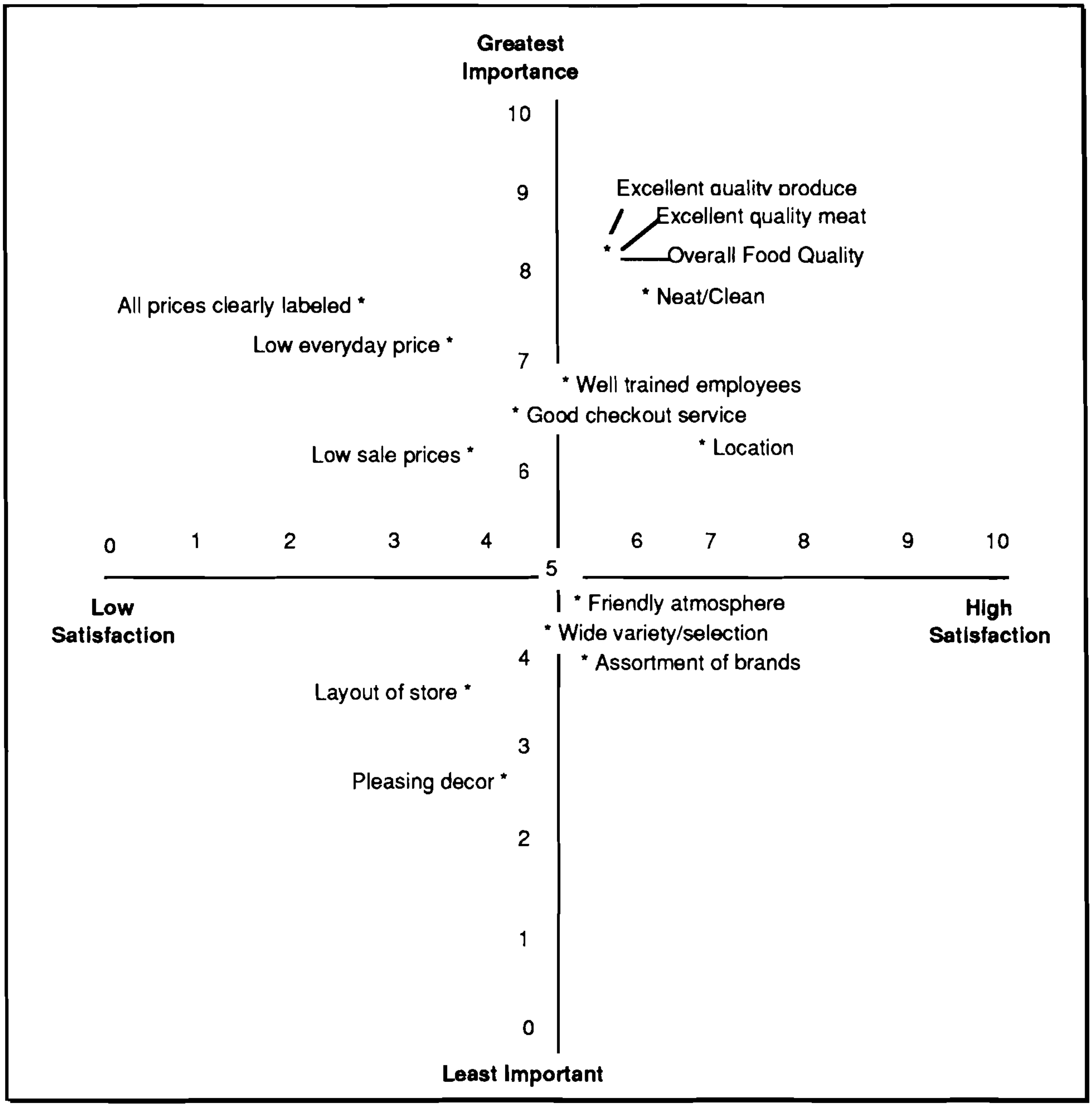
In comparing what consumers consider important and their satisfaction rating of various attributes, there appears to be some significant "gaps". The largest gaps between levels of importance and satisfaction appeared in the pricing and food quality areas (Table 22). These gaps represent areas of opportunity for retailers to improve the level of satisfaction in specific areas where consumers have strong feelings about attributes they consider important.

In particular, 76 percent of consumers said "all prices clearly marked" was very important to them as part of their shopping experience. However, only 33 percent reported that they were "very satisfied" with the pricing of products in the stores where they shopped. A number of respondents pointed to the lack of clearly printed, easy to read shelf tags as the source of the problem.

There is also a large "gap" in this satisfaction index on low everyday prices and low sale prices expressed by consumers.

Overall food quality as well as the quality of meat and produce was ranked as "very important" by 80 percent or more of consumers, but, only 54 to 57 percent of consumers indicated they were "very satisfied" with the quality of food they received in the stores where they shopped.

**FIGURE 9**
**Perceptions of Satisfaction with and Importance of Selected Store Attributes**




Source: Cornell University survey, 1993.

**TABLE 22**
**"Gaps" Between Consumer Perceptions of Importance and Satisfaction with Various Food Quality and Pricing Issues**

| Store Attribute | "Very Important" | "Very Satisfied" |
|---|---|---|
| | -percent of respondents- | |
| ***Food Quality:*** | | |
| Overall food quality | 82% | 57% |
| Excellent quality meat | 82% | 56% |
| Excellent quality produce | 80% | 54% |
| ***Pricing Issues*** | | |
| All prices clearly marked | 76% | 33% |
| Low everyday prices | 72% | 39% |
| Low sale prices | 62% | 42% |

Source: Cornell University survey, 1993.

## F) CONSUMER PERCEPTIONS OF SUPERCENTERS

Since supercenters are a relatively new phenomena to the consumer, their perceptions of the format are of particular interest. Eighty-six percent of the 300 primary shoppers have shopped at a supercenter. To gauge consumer reactions to the supercenter, respondents were asked: "When you plan a trip to the supercenter, do you go primarily to purchase food or general merchandise?" Thirty-nine percent of shoppers go to supercenters primarily to purchase food, while 50 percent intend to purchase general merchandise. For 11 percent of the shoppers, the purpose of the supercenter shopping trip is to buy a combination of food and general merchandise at the supercenter. However, looking at the two specific markets, the responses were quite different. Only 25 percent of Arkansas supercenter shoppers indicated going to the supercenter primarily for food, while in Ohio, over twice that many (53 percent) go to supercenters primarily to purchase food (Table 23).

**TABLE 23**
**Primary Reason for Going to Supercenters by Market Area**

| Primary Purchases | Arkansas | Ohio |
|---|---|---|
| | -percent of respondents- | |
| Food | 25.0% | 52.7% |
| General Merchandise | 62.5% | 37.2% |
| Combination | 12.5% | 10.1% |

Source: Cornell University survey, 1993.

This tendency to perceive supercenters as places to purchase general merchandise rather than food was confirmed when shoppers were asked to compare the supermarket and supercenter on several store attributes (Table 24). In general, consumers rated supercenters better than supermarkets in terms of pricing though supermarkets were considered far superior to supercenters in food quality. Supermarkets were also rated better, though not as strongly, on service, location and store layout. Noting these clear differences in terms of prices and food quality, consumers perceived no difference between supermarkets and supercenters on most other attributes. Perhaps this indicates some degree of indifference and/or confusion regarding the differences between the two channels.

**TABLE 24**
**Consumer Ratings of Supermarkets and Supercenters on Selected Key Store Attributes**

***Question**: "We would like you to compare the supercenter and the supermarkets where you shop and tell us which you like better in terms of the following features:*

| | Supermarket | Supercenter | Same/Indifferent |
|---|---|---|---|
| | | -percent of respondents- | |
| **Food Quality** | | | |
| Overall food quality | 52 | 22 | 26 |
| Excellent meat | 59 | 20 | 19 |
| Excellent produce | 47 | 27 | 26 |
| **Pricing** | | | |
| Low everyday prices | 30 | 46 | 24 |
| Low sale prices | 30 | 44 | 25 |
| Prices clearly marked | 45 | 23 | 68 |
| **Assortment** | | | |
| Large assort brands | 39 | 38 | 23 |
| Wide variety/selection | 39 | 38 | 23 |
| **Service** | | | |
| Good checkout service | 43 | 30 | 27 |
| Friendly atmosphere | 44 | 23 | 23 |
| Well trained employees | 42 | 25 | 33 |
| **Facilities** | | | |
| Convenient location | 40 | 30 | 30 |
| Layout of store | 47 | 26 | 27 |
| Neat and clean | 31 | 30 | 39 |
| Pleasing decor | 30 | 37 | 33 |

Source: Cornell University survey, 1993.

The responses to this question were further analyzed by market area to determine if any differences existed between the answers given by consumers who shop at a Wal-Mart supercenter (Arkansas) and a Kmart supercenter (Ohio) (Table 25). Of the 150 consumers surveyed in the Arkansas market area, 87 percent indicated shopping at a supercenter. These shoppers showed a clear preference for the supermarket in the categories of overall food quality, meat and produce quality, store layout and clearly marked prices. The only category where a distinct preference was shown for the supercenter was in store decor. For the remaining categories, although typically consumers indicated a slight preference, a clear distinction between the two formats did not emerge.

Although slightly fewer Ohio consumers indicated having shopped at a supercenter then their Arkansas counterparts (85 percent compared to 87 percent), Ohio consumers indicated more distinct preferences between the supermarket and supercenter. They clearly favored the supermarket in the categories of location, overall food quality, meat and produce quality, cleanliness, check out service, store layout, price marking, friendly atmosphere and well trained employees. The supercenter was clearly preferred in the categories of low everyday price and low sale prices. Consumers did not show distinct preferences for one format over the other in the categories of assortment of brands, variety and selection, and store decor.

Clearly, Ohio consumers perceive the Kmart Supercenter as a low price leader, while no distinct image of the Wal-Mart Supercenter has yet emerged in the minds of Arkansas consumers.

**TABLE 25**
**Consumer Ratings of Supermarkets and Supercenters on Selected Key Store Attributes by Market Area**

***Question***: *"We would like you to compare the supercenter and the supermarkets where you shop and tell us which you like better in terms of the following features:*

| | WAL-MART | | | KMART | | |
|---|---|---|---|---|---|---|
| | Super-market | Super-center | Same/ Indiff. | Super-market | Super-center | Same/ Indiff |
| | -percent of respondents- | | | | | |
| **Food Quality** | | | | | | |
| Overall food quality | 47 | 23 | 30 | 58 | 21 | 21 |
| Excellent meat | 54 | 20 | 26 | 63 | 19 | 18 |
| Excellent produce | 45 | 25 | 29 | 48 | 28 | 24 |
| **Pricing** | | | | | | |
| Low everyday prices | 34 | 39 | 27 | 26 | 53 | 21 |
| Low sale prices | 38 | 35 | 27 | 22 | 54 | 24 |
| Prices clearly marked | 45 | 22 | 33 | 46 | 23 | 31 |
| **Assortment** | | | | | | |
| Large assort brands | 44 | 41 | 15 | 34 | 35 | 31 |
| Wide variety/selection | 40 | 38 | 22 | 38 | 37 | 25 |
| **Service** | | | | | | |
| Good checkout service | 34 | 38 | 28 | 52 | 22 | 26 |
| Friendly atmosphere | 34 | 29 | 37 | 54 | 16 | 30 |
| Well trained employees | 34 | 31 | 35 | 50 | 18 | 32 |
| **Facilities** | | | | | | |
| Convenient location | 35 | 28 | 37 | 45 | 32 | 23 |
| Layout of store | 46 | 27 | 27 | 48 | 24 | 28 |
| Neat and clean | 54 | 20 | 26 | 63 | 19 | 18 |
| Pleasing decor | 23 | 43 | 34 | 38 | 31 | 31 |

Source: Cornell University survey, 1993.

# Section VII. SUMMARY AND FUTURE DIRECTIONS

The introduction of the supercenter concept by the mass merchandisers presents a new competitive challenge to traditional supermarket operators. Drug stores of all types have also expanded merchandise lines so that these retailers now compete directly with both supermarkets and mass merchandisers. Each type of retail format has certain competitive strengths that need to be understood and addressed in the strategic planning of all firms in this increasingly competitive retail sector.

This section of the report presents a summary of the various competitive strengths of each type of retail format included in this study. In addition, some thoughts on the future direction of various formats are presented, reflecting the insights and perspectives of food industry executives that have contributed to this study. This is not intended as a definitive list of competitive strengths or future trends, but as a summary from the data gathered during this study from consumer interviews and the executive survey.

## Supermarkets:

- Supermarkets can and should compete with both wholesale clubs and supercenters by providing better customer service than these other retail food channels. Clearly, these alternative channels have operational advantages which allow them to compete on price. Supermarkets' attempts to match the prices and merchandising premise of these new competitors will eliminate the supermarkets' point of differentiation.

- The retailing landscape will continue to shift in the coming years with consumers buying more food and grocery products in retail formats other than traditional supermarkets.

- Supermarkets will become more focused in developing marketing strategies that emphasize fresh and prepared food products.

- Many supermarket chains will develop their own versions of the supercenter by entering the general merchandise field. These firms will open large combination stores to compete with Wal-Mart and Kmart.

- Consumers shop in supermarkets more frequently (about 5 times per month) compared with the second most frequently shopped format, the supercenter (about 3 times per month).

- Consumers spend more dollars at supermarkets for food and grocery products than at other formats. Average spending per shopping trip at supermarkets is about $69 compared with $59 at supercenters, the second highest average.

- Consumers rated supermarkets much higher than supercenters in "overall food quality", as well as in quality of meat and produce items. This food quality image is another important competitive advantage of the supermarket.

- Consumers give supermarkets higher marks than supercenters in the areas of checkout operations, friendly in-store atmosphere and the level of employee training. Perhaps because supercenters are much larger than supermarkets they appear to be more impersonal, but consumers indicate they are more satisfied with the services they receive at supermarkets than in supercenters.

- Supermarkets have better store layouts than supercenters by almost a 2 to 1 consensus of consumers surveyed. Most supercenters carry about the same number of food and grocery products as supermarkets, however, supercenters often attempt to integrate household items and paper products into the general merchandise section of the store. This arrangement plus the larger size of the supercenter may make the store more difficult for consumers to shop.

## Supercenters:

- Supercenters offer consumers the most clearly competitive option to supermarkets in terms of one stop shopping. In fact, supercenters take the one-stop shopping concept to a level that most supermarkets cannot compete on.

- The supercenters operated by Wal-Mart and Kmart will need to learn the supermarket (food) business -- especially the handling of perishable and fresh products. From their performance in the market thus far, it is expected that their learning curve will be short and steep.

- The ability of the Wal-Mart and Kmart supercenters to master the intricacies of food retailing will be relatively easy compared with attempts by the supermarket industry to master the art of selling a wide range of general merchandise products.

- The impact on supermarkets of a supercenter entering a new market is much greater than that of other types of alternative formats because of the appeal to broader range of consumers. Its impact is further heightened by the sales potential of the supercenter for all types of food and grocery products.

- Competition between supercenters, unlike competition between wholesale club stores, tends to have a strong negative impact on existing supermarkets in the competing market.

- Because of the size of the supercenter and the amount of land necessary, these stores have been developed in suburban locations and not in large cities. Look for future development to be in middle to upper income suburban market areas.

- Supercenters will be operating in the New York/New Jersey market within the next year. Kmart currently is aggressively developing supercenters in New York state. Supermarket operators in the two state area can expect rapid expansion of supercenters by both Kmart and Wal-Mart in the near future.

- Consumer approval of the supercenter concept can be seen in the number of consumers that use the supercenter as a source for food and grocery products. Only 11 percent of all consumers said they "never shopped" the supercenter (the same percentage that said they never shopped the supermarket). Although consumers do not shop in supercenters as frequently as supermarkets and spend slightly less per shopping trip for food and grocery products, the supercenter has become a regular shopping experience for a high percentage of consumers in those markets where the format is available. Also 40 percent of the consumers indicated that they shopped the supercenter 4 to 8 times per month -- compared to 64 percent that said they shop the supermarket with the same regularity.

- The supercenter is perceived by consumers as having lower everyday prices as well as lower sale prices then the supermarket. This strong price image is an important competitive advantage for the supercenter.

- Consumers rate the physical features of the supercenter as more pleasing than those in supermarkets. This competitive advantage may be because the supercenters included in this study were only about one year old, compared with supermarkets that were well established but much older. Supermarkets and supercenters were rated about even on the attribute of "neat and clean".

- Manufacturers and suppliers rated supercenters high on their list of "likes" due to the opportunity that these new stores provide for large volumes of product movement and growth potential. With sales relatively flat through existing supermarket and wholesale channels, the possibility of growing with Kmart and Wal-Mart as they expand the supercenter concept is an exciting one!

- The Kmart and Wal-Mart supercenters have evolved as a result of these firms' success in the general merchandise field. Both companies understand how to effectively buy and sell general merchandise and their presentation of this line of products is far superior to other retail formats that also sell and grocery products.

## Mass Merchandisers:

- Despite the dominance of the three largest firms, Wal-Mart, Kmart, and Target, there will still be a strong presence by regional chains such as Caldor and Bradlees.

- Mass merchandisers will continue to expand into urban market areas which they have traditionally ignored in preference for suburban and rural market areas.

- Mass merchandisers will continue to expand their offerings of food and grocery products.

- Mass merchandisers will continue to add pharmacies to their stores to capture a large share of the prescription drug business.

- Technological investments by mass merchandisers will continue to drive down operating costs and fuel profits as competition and the economy place downward pressure on prices.

## Wholesale Club Stores:

- Wholesale club stores will continue to appeal to a limited segment of the consumer and small business populations.

- The wholesale club industry will continue to consolidate and become even more concentrated through mergers and acquisitions. Eventually, two companies will dominate the industry by controlling as much as 90 percent of the market.

- In order to continue to grow after the US market is saturated, wholesale clubs will export their concept outside the US.

- Once the major US metro markets are saturated, the new domestic battlefield in the wholesale club war will be in small towns and markets and the vehicle of growth will be the mini-club, designed for success on a smaller population base.

- As competition and differentiation increasingly pressure wholesale club profit margins, club operators will increasingly depend on private label products at the expense of manufacturers' branded products.

**Drug Stores:**

- Drug stores will continue to expand their selection of food and grocery products in an attempt to draw consumers to their stores on a more frequent basis.

- Drug stores will offer more fresh and perishable food products in the future, including dairy, frozen food, packaged meat and produce.

- Deep-discount drug store chains will rebound after a shakeout period during which the financial problems many chains are facing will be resolved and mergers and acquisitions result in fewer but stronger firms.

- Traditional drug store chains will acquire or develop deep-discount drug stores to compete with fast growing deep-discount drug store chains.

**Limited Assortment Stores:**

- The single most important competitive advantage of the limited assortment store is low price and the concept of consumer "savings."

- Limited assortment stores will continue to focus on cost reductions in their distribution system as a means to accomplish their competitive strength of low retail prices.

- The potential for expansion of limited assortment store is tremendous and the few companies that operate these stores are aggressively exploring new market areas.

- It is not clear whether supermarket or other retailers will respond to limited assortment stores competition by developing their own limited assortment formats as some supermarket firms have done in response to wholesale clubs.

**Category-Dominant Specialty Retailers:**

- These specialized "superstores" will continue to grow rapidly in major market areas.

- All types of retailers will be affected by this type of competitor and will have a difficult time competing on any basis (i.e. price, selection, variety, service, etc.) with these specialty chains.

- In certain product categories, the enormous assortment of products, services, convenience and low prices offered by these "superstores" will be very appealing to a broad segment of consumers in most markets.

- Other retailers should be concerned about the advent of shopping malls featuring several "superstore" or "category killer" chain stores opening in their market area.

## General Observations:

- Paper coupons will begin to disappear rapidly as retailers adopt electronic coupon systems and work with manufacturers to implement such systems.

- Direct consumer marketing will become an important strategy for supermarkets and alternative formats to identify and maintain their loyal shoppers. Direct marketing will also be used as a strategy to improve the effectiveness and efficiency of advertising and promotional programs.

- To be successful in the future, each type of retail format must learn to make the most of its competitive strengths and to do so in a manner that differentiates one type of store from another in the eyes of the consumer. Many retail formats are beginning to "look alike," with no clear advantage apparent to the consumer. Emphasizing various aspects of a competitive advantage will help strengthen a retailer's position in the market by focusing on strategies that will be the most successful in competing with other types of retail formats.

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"Walgreen, After Long Growth, Raises Some Doubts," January 28, 1993,
"Phar-Mor Forges Stronger Ties With Manufacturers," April, 1993.
"Wal-Mart Bows to Pricing Reality by Changing 4 Letters," May 21, 1993, p. B1.

# IX. APPENDIX

The following pages contain profiles of selected companies and their retail formats. These data were collected by Bill Lancaster, Vice President of Sales for Associated Wholesale Grocers based in Kansas City, Kansas. This information was compiled in an Associated Wholesale Grocers report entitled "Survive & Thrive" which was produced for the benefit of AWG's employees and members. The AWG report was produced during the summer of 1993.

The authors are very grateful to Mr. Lancaster for his permission to include these valuable statistics for the benefit of those using this report.

# WAL-MART

## WAL-MART FACTS

**(Fiscal Year End January 31, 1993)**

| | | |
|---|---|---|
| • Headquarters | - | Bentonville, Arkansas |
| • Trading Area | - | 45 states, Puerto Rico, Mexico |
| • Store Count | - | 1,850 Wal-Mart Stores |
| | - | 256 Sam's Clubs |
| | - | 64 Bud's Warehouse Outlets |
| | - | 30 Wal-Mart Supercenters |
| | - | 4 Hypermart USAs |
| • Sales | - | $55.5 billion (+26%) |
| • Same Store Sales | - | +11% |
| • Net earnings | - | $1.99 billion (+24%) |
| • Banners | - | Wal-Mart, Sam's Clubs, Hypermart USA, Wal-Mart Supercenter, Club Aurrera, Bud's Warehouse Outlet |

**(1st Quarter Totals Ending April 30, 1993)**

| | | |
|---|---|---|
| • Store Count | - | 1,874 Wal-Mart Stores |
| | - | 277 Sam's Clubs |
| | - | 71 Bud's Warehouse Outlets |
| | - | 40 Wal-Mart Supercenters |
| | - | 4 Hypermart USAs |
| • Sales | - | $13,920,407,000 (+19%) |
| • Same Store Sales | - | +3% |
| • Net earnings | - | $450,650,000 (+16%) |

- It has been projected that company sales will reach $200 billion by the turn of the century.

## Store Locations - January 31, 1993

| | | Wal-Marts | Sam's | Supercenters |
|---|---|---|---|---|
| (1) | Alabama | 73 | 7 | 1 |
| | Arizona | 28 | | |
| (6) | Arkansas | 69 | 4 | 8 |
| (1) | California | 43 | 3 | |
| (1) | Colorado | 32 | 3 | |
| | Connecticut | 1 | 1 | |
| | Delaware | 2 | 1 | |
| (1) | Florida | 122 | 23 | |
| (1) | Georgia | 83 | 9 | |
| | Idaho | 5 | 1 | |
| | Illinois | 97 | 18 | |
| (2) | Indiana | 65 | 12 | |
| (1) | Iowa | 43 | 3 | |
| | Kansas | 42 | 3 | 1 |
| | Kentucky | 65 | 4 | 1 |
| | Louisiana | 74 | 9 | |
| | Maine | 6 | 2 | |
| | Maryland | 7 | 2 | |
| | Massachusetts | 2 | 2 | |
| | Michigan | 22 | 6 | |
| | Minnesota | 27 | 7 | |
| (1) | Mississippi | 55 | 3 | 2 |
| | Missouri | 98 | 9 | 7 |
| | Montana | 2 | 1 | |
| | Nebraska | 16 | 1 | |
| | Nevada | 5 | 2 | |
| | New Hampshire | 7 | 2 | |
| | New Jersey | 3 | 2 | |
| | New Mexico | 19 | 1 | |
| | New York | 16 | 3 | |
| | North Carolina | 74 | 8 | |
| | North Dakota | 8 | 2 | |
| (1) | Ohio | 42 | 16 | |
| | Oklahoma | 77 | 6 | 4 |
| | Oregon | 12 | | |
| | Pennsylvania | 26 | 5 | |
| | Puerto Rico | 2 | | |
| (2) | South Carolina | 49 | 5 | |
| | South Dakota | 8 | 1 | |
| | Tennessee | 85 | 7 | 1 |
| (3) | Texas | 224 | 44 | 5 |
| | Utah | 11 | | |
| (1) | Virginia | 37 | 6 | |
| | West Virginia | 10 | 3 | |
| | Wisconsin | 47 | 9 | |
| | Wyoming | 9 | | |
| | | 1,850 | 256 | 30 |

(22) Wal-Mart Distribution Centers

## Wal-Mart Distribution Centers

- Company Owned Warehouses (total sq. ft. - 20,381,727)

    - Bentonville, Arkansas (3)
    - Searcy, Arkansas (2)
    - Cullman, Alabama
    - Brookhaven, Mississippi
    - Plainview, Texas
    - Loveland, Colorado
    - Porterville, California
    - Greencastle, Indiana
    - Laurens, South Carolina (2)
    - Palestine, Texas
    - Mt. Pleasant, Iowa
    - Douglas, Georgia
    - New Braunfels, Texas
    - Seymour, Indiana
    - Sutherland, Virginia
    - Fort Smith, Arkansas
    - Brooksville, Florida
    - Grove City, Ohio

- In April one additional distribution center opened in Menomonie, Wisconsin.

- In October another distribution center will open in Clearfield, Pennsylvania.

- Construction will begin in the summer of 1994 on a 1.2 million-square-foot warehouse in Ottawa, Kansas.

- All general distribution centers are 1.1 million square feet.

## SAM'S CLUB FACTS

- Store Count

| | | |
|---|---|---|
| | 1988 - | 105 |
| | 1989 - | 123 |
| | 1990 - | 148 |
| | 1991 - | 208 |
| | 1992 - | 256 |
| Proj. | 1993 - | 321 + 14 PACE Clubs |
| Proj. | 1996 - | 474 |

- Sam's will be doing 20 expansions and relocations this year. They will be opening 60 to 65 new clubs in addition to the 14 PACE units that they recently acquired.

- 14 Pace Clubs were purchased by Wal-Mart. This agreement was reached in May and finalized the end of June. The 3 Kansas City area stores reopened as Sam's Clubs on July 1.

- Sam's has 10 distribution centers with plans for seven more in the next five years. Only 25-28% of their merchandise goes through these centers.

- Sam's Clubs would be the nation's 6th largest retailer if considered separately from Wal-Mart.

- At the end of 1992, 36% of Sam's Clubs were competing directly with other warehouse clubs. The figure is 70% to 90% for most competitors.

- Average club size has expanded from 110,000 sq.ft. to 140,000 sq. ft. to accommodate their expansion into fresh food.

- Sam's can make a very good return at $50-$60 million

- Sam's Club 1st Quarter Sales - $3.1 billion (+19%)

- Sales

| | | |
|---|---|---|
| 1993 - | $12,339,000,000 |
| 1992 - | $ 9,430,000,000 |
| 1991 - | $ 6,579,000,000 |

## WAL-MART SUPERCENTER FACTS

- By 1998, the retailer could account for 2% of all U.S. supermarket sales.

- By the year-end 1993, the planned 70 stores in Wal-Marts Supercenter division could account for as much as $3.6 billion in sales.

- There are currently 33 Supercenters (including 2 Hypermart USAs) open in the AWG service area competing with more than 213 AWG retailers.

- Store Count

| | | |
|---|---|---|
| | 1988 - | 6 |
| | 1989 - | 7 |
| | 1990 - | 9 |
| | 1991 - | 10 |
| | 1992 - | 30 |
| Proj. | 1993 - | 70 |
| Proj. | 1994 - | 135 |
| Proj. | 1996 - | 355 |
| Proj. | 1997 - | 505 |

- Most of the new Supercenters will be conversions of conventional Wal-Mart stores.

<u>Statistics</u>

- Stores employee 200 to 500 employees
- 70% of employees are full time - (This figure was quoted in SuperMarket News 5/4/92 - we believe the correct figure to run more along the lines of 70% of employees being part-time.)

- Stores are open 24 hours.

- Sales of approximately $1 million per week
  - 60% to 65% of that in **non food**
  - 35% to 40% of that in **food**

- Hypermarts - 13-14% gross margin
- Supercenter - 65,000 items / 17-18% gross margin

# SUPERCENTER INFORMATION



### WAL-MART SUPERCENTERS - PROJECTED FOR 1993 & 1994 CONTINUED

| CITY | PROJ. OPEN | PROJ. SQ. FT. | PROJECTED SALES | CITY | COUNTY | WAREHOUSE |
|---|---|---|---|---|---|---|
| *HEBER SPRINGS, AR | | 164,000 | | 4,944 | 20,800 | AG/SP |
| JOPLIN, MO | On Hold | 193,359 | | 39,589 | 91,500 | AG/SP |
| *KENNETT, MO | | | | 10,145 | 34,900 | AG/SP |
| *LEBANON, MO | | 188,000 | | 9,507 | 27,600 | AG/SP |
| *MCALESTER, OK | | 168,000 | 270,000 / 450,000 | 17,255 | 43,400 | AG/SP |
| MONETT, MO | | | | 6,148 | 53,380 | AG/SP |
| OSAGE BEACH, MO | | | | 1,992 | 38,550 | AG/SP/KC |
| *OTTAWA | | 199,000 | | 11,016 | 22,500 | AG/KC |
| PACIFIC, MO | On Hold | | | 4,410 | 1,045,100 | AG/SP |
| *PADUCAH, KY | Nov./Dec. | 180,000 | | 29,315 | 60,000 | AG/SP |
| *PARAGOULD, AR | | | | 15,248 | 32,800 | AG/SP |
| *PINE BLUFF, AR | | | | 63,114 | 90,600 | AG/SP |
| *RIPLEY, TN | | | | 6,366 | 24,555 | AG/SP |
| ROGERS, AR (?) | | | | 18,927 | 78,115 | AG/SP |
| SIKESTON, MO | | | | 17,431 | 63,600 | AG/SP |
| *SPRINGFIELD, MO #2 | On Hold | 200,000 | 240,000 / 400,000 | 133,116 | 206,500 | AG/SP |
| *ST. JOSEPH, MO | On Hold | 200,000 | 270,000 / 450,000 | 76,691 | 85,600 | AG/KC |
| *ST. LOUIS, MO | | | | 453,085 | 974,180 | AG/SP |
| *STILLWATER, OK | | 183,000 | 240,000 / 400,000 | 38,268 | 63,200 | AG/SP |
| *TULSA, OK #2 | Sept. | 188,000 | 240,000 / 400,000 | 360,919 | 521,200 | AG/SP |
| *UNION, MO | | | | 5,183 | 71,233 | AG/SP |
| *WARRENSBURG, MO | 09/17/93 | 188,000 | 240,000 / 400,000 | 13,807 | 41,000 | AG/KC |
| WENTZVILLE, MO | | | | 3,193 | 144,100 | AG/SP |
| WEST HELENA, AR (?) | | 116,000 | | 11,367 | 31,100 | AG/SP |
| WEST MEMPHIS, AR | | | | 28,138 | 51,300 | AG/SP |
| *WEST PLAINS, MO | On Hold | 168,000 | | 7,741 | 31,900 | AG/SP |

**NO AWG STORES ARE IN DIRECT COMPETITION WITH THIS LOCATION
* COUNTY SEATS
(?) PROPOSED LOCATION

### WAL-MART SUPERCENTER DISTRIBUTION CENTERS:

| | | |
|---|---|---|
| CLARKSVILLE, AR | April 1993 | 705,000 |
| SEARCY, AR (grocery only) | | |
| TEMPLE, TX (Announced) | Fall 1993 | 740,000 |

LUBBOCK, TX (Existing warehouse, but major expansion announced with a projected completion date of April 1993)
POINCIANA, FL (Existing McLane warehouse presently undergoing a major expansion)

### SUPER KMART CENTERS ANNOUNCED WITHIN AWG'S SERVICE AREA:

| | | | | | | |
|---|---|---|---|---|---|---|
| LINCOLN, NE | Late 1993 | 180,000 | | 171,932 | 212,100 | AG/KC |
| ST. LOUIS, MO | March 1994 | 191,000 | | 453,085 | 1,013,200 | AG/SP |

Updated: 08/16/93

# SUPERCENTER INFORMATION

## OUTSIDE AWG'S SERVICE AREA

| CITY | OPENED | SQ. FT. | WHSE SALES/RETAIL SALES | CITY | COUNTY | WAREHOUSE |
|---|---|---|---|---|---|---|
| ***WAL-MART HYPER-MARTS:*** | | | | | | |
| ARLINGTON, TX | | 224,000 | 375,000 / 625,000 | 161,872 | 1,131,200 | OUT |
| GARLAND, TX | | 224,000 | 390,000 / 650,000 | 138,857 | 1,855,300 | OUT |
| ***WAL-MART SUPERCENTERS - EXISTING:*** | | | | | | |
| *ARDMORE, OK | 07/28/93 | 183,000 | 240,000 / 400,000 | 23,689 | 46,000 | OUT |
| *EDINBURG, TX | | 168,000 | | 26,165 | 384,800 | OUT |
| HARLINGEN, TX | | 168,000 | | 43,543 | 266,600 | OUT |
| *JASPER, AL | | 180,000 | | 11,894 | 71,600 | OUT |
| MINEOLA, TX | | 168,000 | | 4,346 | 30,400 | OUT |
| *MOUNT PLEASANT, TX | | 180,000 | | 11,003 | 24,200 | OUT |
| ***WAL-MART SUPERCENTERS - PROJECTED FOR 1993 & 1994*** | | | | | | |
| **CITY** | **PROJ. OPEN** | **PROJ. SQ. FT.** | **PROJECTED SALES** | **CITY** | **COUNTY** | **WAREHOUSE** |
| *AMORY, MS | | 138,000 | 120,000 / 200,000 | 7,307 | 36,200 | OUT |
| *ANGLETON, TX | | 118,000 | 102,000 / 170,000 | 14,182 | 190,200 | OUT |
| *BROWNWOOD, TX (?) | | 168,000 | | 19,396 | 35,900 | OUT |
| *BRYAN, TX (?) | | 188,000 | | 44,337 | 124,600 | OUT |
| *COOKEVILLE, TN | | 188,000 | 240,000 / 400,000 | 20,535 | 52,700 | OUT |
| *CORINTH, MS | | | | 13,839 | 33,500 | OUT |
| *CORYDON, IN | Early 1994 | 180,000 | | 2,724 | 27,276 | OUT |
| *CRESTVIEW, FL | | 138,000 | 150,000 / 250,000 | 7,617 | 158,900 | OUT |
| *DE RIDDER, LA | | 167,000 | 180,000 / 300,000 | 11,287 | 93,300 | OUT |
| DICKSON, TN | | 180,000 | | 7,040 | 35,800 | OUT |
| *EL DORADO, AR | | | | 25,270 | 49,200 | OUT |
| *EL RENO, OK | | 198,000 | | 15,486 | 75,300 | OUT |
| ENTERPRISE, AL | | 168,000 | 240,000 / 400,000 | 18,033 | 90,700 | OUT |
| FOLEY, AL | | 167,000 | | 4,177 | 97,800 | OUT |
| *FOREST, MS (?) | | 138,000 | | 5,229 | 26,700 | OUT |
| GUN BARREL CITY, TX | | 138,000 | | 2,118 | 56,500 | OUT |
| HAMMOND, LA | | 188,000 | 240,000 / 400,000 | 16,382 | 91,300 | OUT |
| *HENDERSON, TX (?) | | | | 11,473 | 56,500 | OUT |
| *HUNTSVILLE, TX | | 168,000 | | 26,827 | 54,600 | OUT |
| *JACKSON, TN | | 188,000 | 240,000 / 400,000 | 49,258 | 79,000 | OUT |
| *KINGSVILLE, TX (?) | | | | 28,808 | 32,100 | OUT |
| *LAKE CHARLES, LA | | 188,000 | 240,000 / 400,000 | 76,178 | 172,900 | OUT |
| LAKE JACKSON, TX | | 168,000 | 240,000 / 400,000 | 21,100 | 190,200 | OUT |
| *LIVINGSTON, TX | | 180,000 | 180,000 / 300,000 | 4,928 | 31,900 | OUT |
| *LONGVIEW, TX | | 188,000 | 240,000 / 400,000 | 66,624 | 169,000 | OUT |
| *MADISONVILLE, KY | | 188,000 | | 16,979 | 47,100 | OUT |
| MATTOON, IL (?) | | 168,000 | | 19,293 | 52,200 | OUT |
| MCALLEN, TX (?) | | | | 67,213 | 384,800 | OUT |
| MISSION, TX | | | | 22,589 | 384,800 | OUT |
| *NACOGDOCHES, TX | | 183,000 | 240,000 / 400,000 | 27,149 | 52,700 | OUT |
| *NEW ALBANY, MS | | 180,000 | | 7,072 | 23,200 | OUT |
| *ODESSA, TX | | 188,000 | 270,000 / 450,000 | 90,027 | 235,200 | OUT |
| *OZARK, AL (?) | | 150,000 | | 13,188 | 50,200 | OUT |
| *PALESTINE, TX | | 188,000 | 240,000 / 400,000 | 16,768 | 47,900 | OUT |
| *PAMPA, TX (?) | | | | 21,396 | 24,300 | OUT |
| *PHILADELPHIA, MS | | 138,000 | | 6,434 | 24,900 | OUT |
| *RIO GRANDE CITY, TX | | 138,000 | 180,000 / 300,000 | 8,930 | 39,000 | OUT |
| *SENATOBIA, MS | | 138,000 | 150,000 / 250,000 | 5,013 | 22,300 | OUT |
| *STEPHENVILLE, TX | | 187,000 | 210,000 / 350,000 | 11,881 | 26,000 | OUT |
| *SULPHUR SPRINGS, TX | | 167,000 | 180,000 / 300,000 | 12,804 | 30,000 | OUT |
| *TEXARKANA, TX | | 188,000 | 270,000 / 450,000 | 32,290 | 82,600 | OUT |
| *TUPELO, MS | | 180,000 | | 23,905 | 65,500 | OUT |
| *TUSCALOOSA, AL | | 188,000 | 240,000 / 400,000 | 17,000 | 148,000 | OUT |
| *WEATHERFORD, TX (?) | | 188,000 | | 12,614 | 65,000 | OUT |

# SUPERCENTER INFORMATION

## WITHIN AWG'S SERVICE AREA

| CITY | OPENED | SQ. FT. | WHSE SALES/RETAIL SALES | CITY | COUNTY | WAREHOUSE |
|---|---|---|---|---|---|---|
| ***WAL-MART HYPER-MARTS:*** | | | | | | |
| KANSAS CITY, MO | 01/ /89 | 268,000 | 720,000 / 900,000 | 448,028 | 645,400 | AG/KC |
| *TOPEKA, KS | 01/ /88 | 226,000 | 270,000 / 450,000 | 120,993 | 166,100 | AG/KC |
| ***WAL-MART SUPERCENTERS - EXISTING:*** | | | | | | |
| *BATESVILLE, AR | 06/10/91 | 178,000 | 240,000 / 400,000 | 8,840 | 32,900 | AG/SP |
| *BENTONVILLE, AR | 04/29/92 | 178,545 | 240,000 / 400,000 | 9,215 | 100,300 | AG/SP |
| *BERRYVILLE, AR | 02/08/93 | 141,000 | 120,000 / 200,000 | 2,966 | 19,100 | AG/SP |
| CAPE GIRARDEAU, MO | 02/17/92 | 180,000 | 204,000 / 340,000 | 34,361 | 63,900 | AG/SP |
| CARBONDALE, IL | 07/28/93 | 168,000 | 270,000 / 450,000 | 26,414 | 60,700 | AG/SP** |
| CLAREMORE, OK | 10/11/92 | 168,000 | 105,000 / 175,000 | 12,085 | 57,900 | AG/SP |
| CONWAY, AR | 09/23/92 | 168,000 | 237,000 / 395,000 | 21,264 | 58,800 | AG/SP** |
| *FARMINGTON, MO | 02/ /89 | 156,000 | 186,000 / 310,000 | 8,270 | 47,400 | AG/SP |
| FESTUS, MO | 05/30/93 | 193,000 | 270,000 / 450,000 | 7,574 | 176,300 | AG/SP |
| *JEFFERSON CITY, MO | 06/04/90 | 168,000 | 240,000 / 400,000 | 33,619 | 63,500 | AG/SP/KC |
| *JONESBORO, AR | 02/17/92 | 168,000 | 276,000 / 460,000 | 32,355 | 67,000 | AG/SP |
| *KIRKSVILLE, MO | 11/11/92 | 180,000 | 105,000 / 175,000 | 17,167 | 23,800 | AG/KC |
| *MONTICELLO, AR | 10/11/92 | 168,000 | | 8,964 | 18,200 | AG/SP** |
| *MORRILTON, AR | 11/18/92 | 168,000 | 48,000 / 80,000 | 7,355 | 19,700 | AG/SP |
| MOUNTAIN GROVE, MO | 02/27/93 | 118,000 | 75,000 / 125,000 | 3,976 | 17,300 | AG/SP |
| *NEOSHO, MO | 05/19/93 | 168,000 | 180,000 / 300,000 | 9,493 | 44,100 | AG/SP |
| *OKMULGEE, OK | 05/30/93 | 138,000 | 168,000 / 280,000 | 16,263 | 39,300 | AG/SP** |
| PITTSBURG, KS | 09/23/92 | 168,000 | 162,000 / 270,000 | 18,770 | 37,000 | AG/SP |
| *POCAHONTAS, AR | 07/28/93 | 116,000 | | 5,995 | 17,300 | AG/SP |
| PONCA CITY, OK | 06/ /92 | 168,000 | 180,000 / 300,000 | 26,238 | 50,000 | AG/SP |
| *POPLAR BLUFF, MO | 04/28/90 | 211,000 | 240,000 / 400,000 | 17,139 | 39,300 | AG/SP |
| *ROLLA, MO | 02/17/92 | 168,000 | 240,000 / 400,000 | 13,303 | 35,300 | AG/SP |
| SEARCY, AR | 11/18/92 | 168,000 | 184,200 / 307,000 | 13,612 | 55,800 | AG/SP |
| *SEDALIA, MO | 02/08/93 | 180,000 | 150,000 / 250,000 | 20,927 | 37,200 | AG/KC |
| SPRINGDALE, AR | 04/29/92 | 163,000 | 240,000 / 400,000 | 23,458 | 112,700 | AG/SP |
| *SPRINGFIELD, MO #1 | 06/23/93 | 200,000 | 234,000 / 390,000 | 133,116 | 206,500 | AG/SP |
| SULLIVAN, MO | 02/08/93 | 182,000 | 126,000 / 210,000 | 5,461 | 80,200 | AG/SP |
| *TULSA, OK | 07/28/93 | 188,000 | 240,000 / 400,000 | 360,919 | 521,200 | AG/SP |
| *WAGONER, OK | 10/ /88 | 91,000 | 75,000 / 125,000 | 6,191 | 53,900 | AG/SP |
| WASHINGTON, MO | 03/01/88 | 126,000 | 270,000 / 450,000 | 9,251 | 80,200 | AG/SP |
| YUKON, OK | 01/18/93 | 150,000 | 120,000 / 200,000 | 17,112 | 75,300 | AG/SP |

### *WAL-MART SUPERCENTERS - PROJECTED FOR 1993 & 1994*

| CITY | PROJ. OPEN | PROJ. SQ. FT. | PROJECTED SALES | CITY | COUNTY | WAREHOUSE |
|---|---|---|---|---|---|---|
| *ARKADELPHIA, AR | | | | 10,168 | 22,600 | AG/SP |
| *ASH FLAT, AR | 10/01/93 | 118,000 | 84,000 / 140,000 | 524 | 16,200 | AG/SP |
| *BARTLESVILLE, OK | | 188,000 | 240,000 / 400,000 | 34,568 | 43,100 | AG/SP |
| *BELLEVILLE, IL | Late Fall | | | 41,580 | 267,531 | AG/SP |
| *BLYTHEVILLE, AR | | | | 23,844 | 57,200 | AG/SP |
| BRANSON WEST, MO | Late 1994 | 149,000 | 150,000 / 250,000 | 1,285 | 15,587 | AG/SP |
| BRINKLEY, AR | | | | 5,275 | 12,000 | AG/SP |
| COLLIERVILLE, TN | | 180,000 | | 7,969 | 826,900 | AG/SP |
| *COLUMBIA, MO | On Hold | 188,000 | | 62,061 | 107,700 | AG/KC |
| *COVINGTON, TN | | | | 6,065 | 37,900 | AG/SP |
| *DYERSBURG, TN | 09/01/93 | 180,000 | 240,000 / 400,000 | 15,856 | 35,500 | AG/SP |
| *FAYETTEVILLE, AR (2) | Late 1994 | | | 37,379 | 100,494 | AG/SP |
| *FORREST CITY, AR | | 168,000 | | 13,803 | 29,600 | AG/SP |
| *FORT SMITH, AR | | | | 71,626 | 103,300 | AG/SP |
| GROVE, OK | Late 1994 | | | 3,378 | 33,946 | AG/SP |
| *HARRISON, AR | Late 1994 | 168,000 | | 12,200 | 30,200 | AG/SP |
| *HARRISONVILLE, MO | Late 1994 | 200,000 | | 6,372 | 62,100 | AG/KC |

# KMART CORP.

- **Headquarters** - **Troy, Michigan**
- **Chief Executive** - **Joseph Antonini**
- **Sales** - **$37.7 billion (1992)**
- **Profit** - **$941 million in 1992 (+9.5%)**
- **Stock Price (52-Wk)** - **Range $20.87 1/2 to $28.12 1/2**
- **Business** - **Retailing - best known for the 2,400 K-Mart stores - operates more than 4,000 stores in all.**
- **Banners** - **K-Mart, PACE, Builders Square, Sports Authority, Office Max, Borders, Waldenbooks and PayLess Drug Stores**

**Divisional Results for 13 Weeks Ended April 28:**

| | Sales | | Operating Profits (Loss) |
|---|---|---|---|
| • General Merchandise (US only) | $5.83 bil | (+3.4%) | $210 mil |
| • PACE | $1.07 bil | (+10.8%) | ($24 mil) |
| • Builders Square | $602 mil | (+7.9%) | 1 mil |
| • Payless | $605 mil | (+26.7%) | 21 mil |
| • Waldenbooks | $244 mil | (+.01%) | (7 mil) |
| • Sports Authority | $119 mil | (46.6%) | 1 mil |
| • Office Max | $290 mil | (214.3%) | —— |
| • Borders | $42 mil | —— | —— |

# SUPER KMART CENTERS

## Locations

- As of August 1, 1993, there were 7 Super Kmart Centers:

  Montrose, Ohio
  Medina, Ohio
  Charlotte, North Carolina (converted American Fare store)
  Jackson, Mississippi (converted American Fare store)
  North Wilkesboro, North Carolina
  Hickory, North Carolina
  Mansfield, Ohio

- Plans are to open **13 more in 1993** with possible locations to include:

  Fremont, Ohio (August)
  Rosenberg, Texas (August)
  Kankakee, Illinois
  Lorraine, Ohio (October 21)
  Vernon Hills, Illinois
  Homewood, Illinois
  Elk Grove Village, Illinois
  Portage, Indiana
  Minneapolis, Minnesota
  St. Paul, Minnesota
  Minnetonka, Minnesota

- Kmart will open **50 to 70 more in 1994** with locations to include St. Louis, Missouri, and Lincoln, Nebraska.

- **Kmart plans to open as many as 450 of the Super Kmart Centers within the next 5 years and will have at least 500 by the end of the decade.**

## Distribution

- Super Kmart Centers are currently being supplied by both Fleming and Super Valu. They are using whichever wholesaler is closest to a particular store.
- In the future, Kmart may use local wholesalers.
- They have no plans to self-distribute.

## Facts

- Stores are open 24 hours.
- Emphasis is placed on fresh foods.
- Kmart is an EDLP operator.
- Kmart expects a 60% / 40% sales ratio of food to general merchandise.
- Most future stores will run between 150,000 to 180,000 sq. ft.
- The North Wilkesboro location is 169,858 sq. ft. with 51,000 sq. ft. devoted to food.
- The Medina, Ohio, location is 148,000 sq. ft. with 53,000 sq. ft. devoted to grocery. (This includes 18,000 sq. ft. of fresh food.)

# PACE MEMBERSHIP WAREHOUSE

- PACE ended the year 1992 with approximately 116 clubs and plans to grow to some 200 units by 1995.

- **"Shakeout Hits Clubs"** - In an agreement reached May 21, 1993, Kmart sold 14 PACE outlets to Wal-Mart:

  - 5 in Chicago, Illinois
  - 2 in Kansas City, Kansas
  - 1 in Kansas City, Missouri
  - 1 in St. Louis, Missouri
  - 1 in Toledo, Ohio
  - 4 in Dallas, Texas

**<u>Facts</u>**

- Average size - 110,000 square feet

- Emphasis on opening clubs in major metropolitan areas.

- Merchandise mix is customized by unit and by market.

- Average number of SKUs is 4,000 in 250 product categories.

- All direct-service vendors "own" the rack on which their product is displayed. That guarantees that the area will be taken care of.

- Small business customers account for about 40% of the customer base, but account for between 60% and 70% of dollar volume.

## OTHER AGRICULTURAL ECONOMICS EXTENSION PUBLICATIONS

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