# GROCERY GOLIATHS

## HOW FOOD MONOPOLIES IMPACT CONSUMERS

food&water watch

## About Food & Water Watch

Food & Water Watch works to ensure the food, water and fish we consume is safe, accessible and sustainable. So we can all enjoy and trust in what we eat and drink, we help people take charge of where their food comes from, keep clean, affordable, public tap water flowing freely to our homes, protect the environmental quality of oceans, force government to do its job protecting citizens, and educate about the importance of keeping shared resources under public control.

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# Executive Summary

Groceries are big business, with Americans spending \$603 billion on grocery products in 2012.[1] Big-box food retailers like Walmart and national grocery store chains now dominate the grocery industry. These mega-retailers are the biggest buyers of grocery products, and they exert tremendous power over food companies and ultimately farmers. This has led to a handful of food companies producing the majority of the products in the supermarket.

This growing consolidation of the food supply is severe at every step of the food chain, from farm to fork. And it impacts not only farmers and food manufacturers, but also consumers in the form of reduced consumer choices and higher grocery prices. Since the Great Recession started, grocery food prices rose more quickly than inflation and wages — twice as fast between 2010 and 2012.[2] At the same time, the largest food, beverage and grocery retail companies pocketed \$77 billion in profits in 2012.[3]

Nationally, the growing size and market power of the top grocery retailers has had tremendous ripple effects across the food chain. Food & Water Watch examined 100 types of grocery products and found that the top few companies dominated the sales of each grocery item in recent years.

**Key Findings:**

- In 2012, more than half of the money that Americans spent on groceries (53.6 percent) went to the four largest retailers: Walmart, Kroger, Target and Safeway.[4] Walmart alone sold nearly a third (28.8 percent) of all groceries in 2012.[5]
- The top companies controlled an average of 63.3 percent of the sales of 100 types of groceries (known as categories in industry jargon). In 32 of the grocery categories, four or fewer companies controlled at least 75 percent of the sales. In six categories, the top companies had more than 90 percent of the sales, including baby formula and microwave dinners.
- Many firms sell multiple brands of the same product, which leads consumers to believe that they are choosing among competitors when they are actually just choosing among products made by the same firm that may have been made at the same factory. This is true across the board, including organic and healthful brands typically seen as independent, but which are being bought up by large food companies unbeknownst to consumers.
- Supermarkets engage in a host of strategies to manipulate the shopping experience, encouraging consumers to make impulse and more expensive purchases that are unknown to consumers.
- Regulators have largely left mega-retailers to operate unchecked as they invented new ways to extract value from consumers and even large food processors. It is time for regulators to step in to protect consumers and restore some semblance of competition for consumers in grocery stores, providing a chance for innovative, small or local food companies to get on store shelves.

## Introduction

Bright lights, muzak, colorful displays and endless ways to spend your money before you can reach the exit. No, this is not a casino — it's a typical supermarket. When consumers shop for groceries every week, they run a gauntlet of marketing and advertising ploys just to put food on their families' tables.

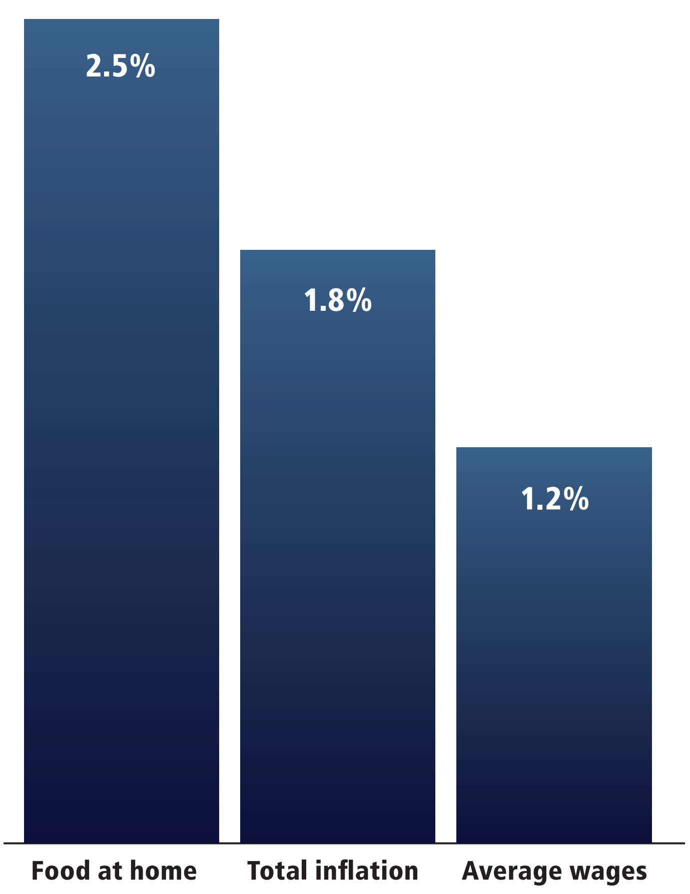
Groceries are big business. Americans spent $603 billion on grocery products in 2012.[6] Supermarkets have gotten bigger and more complicated to capture these sales. More than half (55 percent) of consumers' purchases are made on impulse,[7] making them vulnerable to grocery store marketing hijinks. Shoppers know that the products in the checkout aisle are there to encourage impulse purchases, but every little detail of the supermarket's landscape — layout, atmosphere and product placement — is designed to alter a shopper's decisions.

Big-box food retailers like Walmart and sprawling grocery store chains now dominate the grocery industry. Supermarkets pack their shelves with a cornucopia of grocery products and brands, but consumers have very few choices that matter when it comes to which company made the food or whether it is a smart choice in terms of price or quality. A handful of food companies makes almost all the products in the supermarket. These manufacturers heavily market the highly processed sugar- and salt-laden convenience foods in the middle of the store as opposed to more nutritious options, because the less-healthy items are bigger moneymakers.

Big agribusiness and food companies have a stranglehold on every link in the food chain, from farm to fork. Only a few firms sell seeds, tractors and fertilizer, and a few others buy corn, cattle and carrots. For years, this consolidation has meant that farmers receive a shrinking percentage of the dollars that consumers spend on food. But this growing consolidation of the food supply impacts consumers, too — whether or not they realize it — in the form of reduced consumer choices and higher grocery prices.

Shoppers have certainly faced high and rising grocery prices over the past five years. The industry trade magazine *Progressive Grocer* reported in 2013 that, "Prices for grocery items remain high" and "have risen every month over the past two-and-a-half years."[8] Since the Great Recession started, grocery food prices rose more quickly than inflation and wages, and over the three years between 2010 and 2012 grocery food prices rose twice as quickly as average wages.[9] At the same time, the largest food, beverage and grocery retail companies pocketed an estimated $77 billion in profits in 2012.[10]

**Figure 1.** Average Inflation, 2010-2012



**SOURCE:** U.S. BUREAU OF LABOR STATISTICS, FOOD AT HOME, ALL ITEMS INFLATION, AVERAGE HOURLY EARNINGS OF PRODUCTION/NON-SUPERVISORY WORKERS

## Supersizing the Supermarket

Today, consumers buy groceries from a small number of large, powerful supermarket chains and supercenters. On the local level, shoppers have a diminishing choice of grocery stores as the biggest firms snap up local chains and drive others out of business.[11] Nationally, the growing size and market power of the top grocery retailers has had tremendous ripple effects across the food chain. The grocery giants' bulk purchases drive food manufacturing companies to merge and get bigger, which reduces the number of food processors filling supermarket shelves, further eroding consumer choice and raising prices.

Until recently, most consumers shopped at regional and local supermarket chains. In 1997, Americans bought about one-fifth of their groceries (20.8 percent) at the four largest grocery retailers.[12] But the rise of the big-box food retailers like Walmart precipitated a wave of supermarket mergers starting in the 1990s that created a network of national supermarket chains.[13] Chains like the second largest grocery retailer Kroger still display the old regional store names like Dillons, Smith's, Fred Meyer, King Soopers and others.[14] Many shoppers may not even realize that their supermarket is owned by a national or even foreign grocery store chain. (See Table 1.)

At the same time, supercenters and warehouse club stores have emerged as new grocery powerhouses, further shifting the food retail market toward the largest players. In 2012, more than half of the money that Americans spent on groceries (53.6 percent) went to the four largest retailers: Walmart, Kroger, Target and Safeway.[20] Walmart alone sold nearly a third (28.8 percent) of all groceries in 2012.[21] On the local level, the consolidation can be much higher. In 231 metropolitan areas, just four big retailers made more than 80 percent of grocery sales in 2011, and Walmart made up half of all grocery sales in 35 cities.[22]

The grocery industry justifies the growing size of big-box and merging grocery chains as a way to increase efficiency, lower costs and pass savings on to consumers.[23] But most supermarkets just pocket any savings in the form of higher profits, while consumers rarely benefit.[24] The dominant supermarkets can charge consumers considerably more than it costs to put groceries on store shelves, and they have little incentive to pass price discounts on to consumers if they have few or no competitors in a local market.[25]

**Table 1.** Store Names of Selected Leading Supermarket Chains

| Corporate Name | Chain Rank 2012[15] | Store Names |
|---|---|---|
| **Kroger Co.** (Cincinnati, Ohio)[16] | 2 | Kroger, Ralphs, Food 4 Less, FoodsCo, Jay C, Owen's, Pay Less Super Markets, Scott's, Ruler Foods, City Market, King Soopers, Fry's Food & Drug, Smith's, Fred Meyer, QFC, Dillon's Food Stores, Baker's |
| **Safeway Inc.** (Pleasanton, Calif.)[17] | 4 | Safeway, Vons, Pavilions, Randalls, Tom Thumb, Dominick's, Carrs, Pak 'N Save |
| **Ahold USA Inc.** (Quincy, Mass./Netherlands)[18] | 6 | Stop & Shop, Giant, Peapod |
| **Delhaize America** (Salisbury, N.C./Belgium)[19] | 9 | Food Lion, Hannaford, Bottom Dollar Food, Harveys, Sweetbay |

Instead, higher levels of grocery store consolidation lead to higher food prices. The link between grocery consolidation and retail grocery prices has been studied extensively, and the vast majority of studies have found that food prices rise when retail concentration increases.[26] A U.S. Department of Agriculture research economist concluded that "the overwhelming consensus is that prices rise — and, in general, supermarkets set prices less competitively — as concentration increases."[27]

Higher levels of concentration among local retailers allow competitors to coordinate pricing strategies.[28] Local supermarkets mimic each other's pricing strategies, which makes it nearly impossible for consumers to comparison shop for grocery savings when a small number of grocery retailers all price their foods at about the same level.[29]

## The Rise of Monolithic Food Manufacturers

The largest supermarket chains and big-box stores limit consumer choices not only on where to shop, but also what to buy. These mega-retailers are the biggest buyers of grocery products, and they exert tremendous power over food companies and ultimately farmers.

Retailers exert leverage by picking and choosing their suppliers, but suppliers rely on a few retailers for the bulk of their sales.[30] The large quantities of products required by the biggest grocery retailers favors the biggest companies. Large food manufacturers can supply large volumes and varieties of grocery products all at lower prices. Smaller, innovative food companies have difficulty getting onto supermarket shelves because they cannot meet the contract terms or afford to accept the low, often unfair prices from retailers. Of the new food companies that survive, many end up being bought out by the largest manufacturers, which reinforces the entrenched food companies.[31]

Supermarket buyer power has encouraged many food manufacturers to pursue their own mergers, further consolidating much of the food processing industry. Between 1997 and 2002, most segments of the food processing industry became more consolidated, and the increased concentration led to significant consumer price increases for most foods.[32] Bigger food companies aim to be among the top three sellers of key grocery items, and they actively target smaller and local brands as well as the lesser brands of their competitors for acquisitions or mergers.[33]

The Great Recession dampened the pace of food mergers, but as the economy improved for businesses (if not everyone else), merger-mania returned. Food companies continued to consolidate after 2008, and the number of mergers soon could hit the pre-recession clip of 100 annually.[36] Since 2012, there have been numerous notable food company mergers and acquisitions. (See Table 2.)

Food & Water Watch examined 100 types of grocery products and found that the top few companies dominated the sales of each grocery item in recent years. Most parts of the supermarket were extremely consolidated, consumer choices were limited by the dominance of the major food companies and a few companies had penetrated nearly every aisle of the store. (See Appendix A for full list of grocery items, companies, brands and market shares.) Food & Water Watch analyzed the most recent data available for the top four companies in each of the 100 common food items. (See Methodology on page 29.)

PHOTO CC-BY © HAZEL NICHOLSON / FLICKR.COM

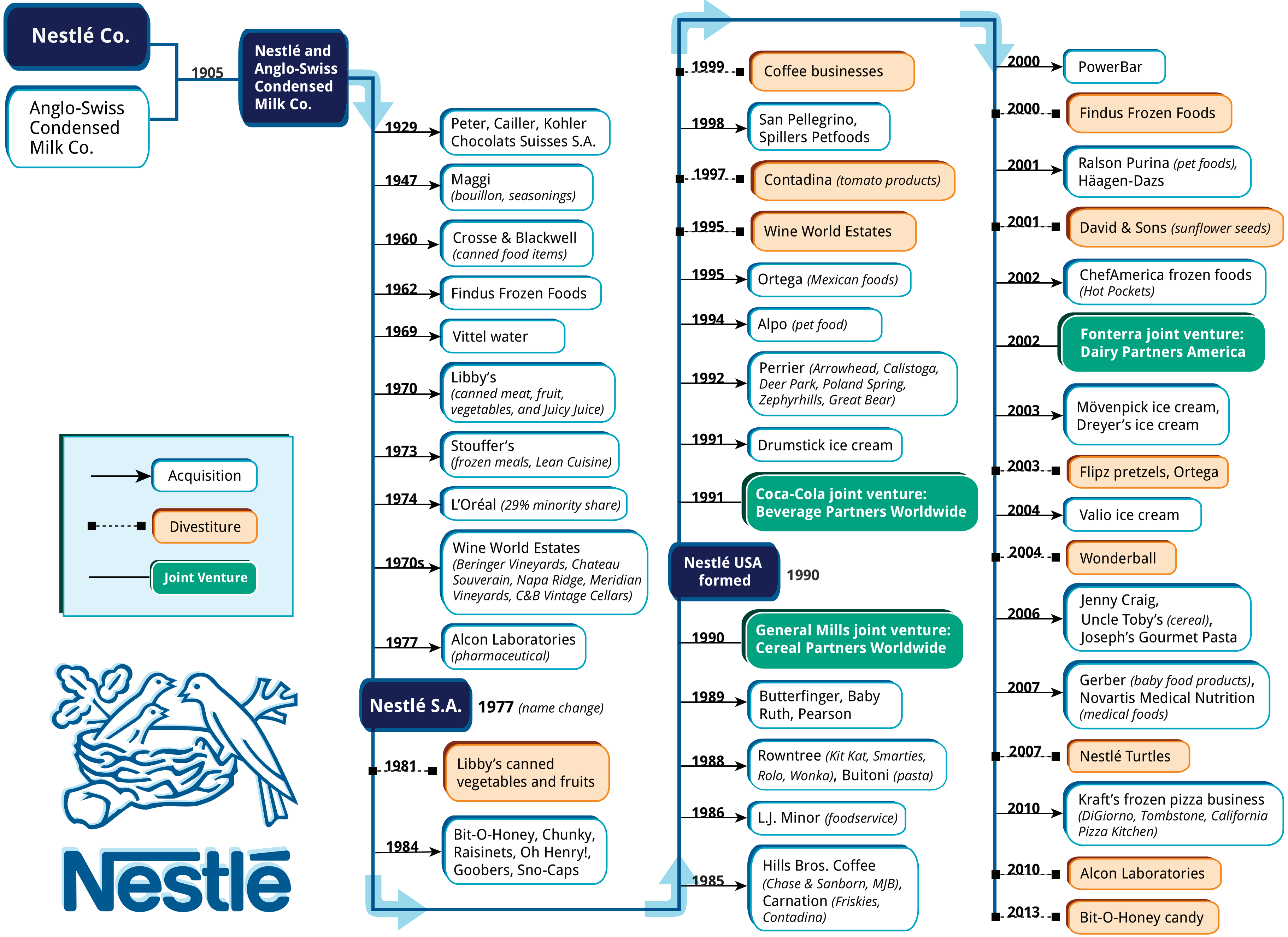
## The Rise of Food Monopoly

The biggest food processing companies didn't start out that way — they spent decades buying out their competitors and growing into multinational powerhouses. Take Nestlé, for example. What began as a small family milk company in 1909 slowly acquired chocolate, coffee, prepared food, water, ice cream and many other food companies over a century to become one of the largest food companies in the world.[34] (See the Nestlé timeline on page 6 for more.) Kraft Foods, now a processed-foods industry leader, began as a family cheese business in 1909 that gradually became a massive food conglomerate through mergers and acquisitions (both acquiring smaller companies and being acquired by larger ones, such as National Dairy Products Corporation and Philip Morris Companies). It now produces products such as processed cheese, coffee, pickles, hot dogs, mustard, Kool-Aid, Lunchables and more.[35]

### **Table 2.** Selected Food Company Mergers and Acquisitions, 2012–2013

| Type of Grocery | Buyer | Target |
|---|---|---|
| Beer | Anheuser-Busch InBev | Grupo Modelo (Corona, Modelo) for non-U.S. market, U.S. Modelo brands to sold to winery company Constellation Brands, Inc.[37] |
| Salad Dressing | Pinnacle Foods | Purchased Wish-Bone salad dressing brand from Unilever.[38] |
| Frozen Dinners | ConAgra | Purchased Bertolli and PF Chang frozen meals from Unilever.[39] |
| Supermarket Brands for Peanut Butter, Cereal, Crackers, Cookies and more | ConAgra | Purchased major supermarket brand manufacturer, Ralcorp.[40] |
| Potato Chips | Kellogg | Purchased Pringles potato chips from Proctor & Gamble.[41] |
| Dairy/Non-dairy Products | Saputo, Inc. | Purchased Morningstar brands from Dean Foods.[42] |
| Bread | Flowers Foods, Grupo Bimbo | Flowers Foods purchased Wonder Bread, Nature's Pride, Home Pride, Butternut and Merita brands from Hostess Foods bankruptcy. Grupo Bimbo purchased Beefsteak bread business from Hostess.[43] |
| Snack Cakes | Mckee Foods, Apollo Global Management | McKee Foods purchased Drake's Ring Dings, Yodels and Devil Dogs from Hostess; the investment fund Apollo Global Management bought the Twinkies and Dolly Madison snack lines.[44] |
| Peanut Butter | Hormel | Purchased Skippy peanut butter from Unilever.[45] |
| Fresh Packaged Salads | White Wave Foods | Earthbound Farms (acquisition pending as of December 15, 2013)[46] |

## **Timeline:** Nestlé Acquisitons, Divestitures and Joint Ventures (1905–2013)



**Nestlé Co.**
Anglo-Swiss Condensed Milk Co.
1905
**Nestlé and Anglo-Swiss Condensed Milk Co.**

1929 Peter, Cailler, Kohler Chocolats Suisses S.A.
1947 Maggi *(bouillon, seasonings)*
1960 Crosse & Blackwell *(canned food items)*
1962 Findus Frozen Foods
1969 Vittel water
1970 Libby's *(canned meat, fruit, vegetables, and Juicy Juice)*
1973 Stouffer's *(frozen meals, Lean Cuisine)*
1974 L'Oréal *(29% minority share)*
1970s Wine World Estates *(Beringer Vineyards, Chateau Souverain, Napa Ridge, Meridian Vineyards, C&B Vintage Cellars)*
1977 Alcon Laboratories *(pharmaceutical)*

**Nestlé S.A.** **1977** *(name change)*

1981 Libby's canned vegetables and fruits
1984 Bit-O-Honey, Chunky, Raisinets, Oh Henry!, Goobers, Sno-Caps
1985 Hills Bros. Coffee *(Chase & Sanborn, MJB)*, Carnation *(Friskies, Contadina)*
1986 L.J. Minor *(foodservice)*
1988 Rowntree *(Kit Kat, Smarties, Rolo, Wonka)*, Buitoni *(pasta)*
1989 Butterfinger, Baby Ruth, Pearson
1990 **General Mills joint venture: Cereal Partners Worldwide**

**Nestlé USA formed** 1990

1991 **Coca-Cola joint venture: Beverage Partners Worldwide**
1991 Drumstick ice cream
1992 Perrier *(Arrowhead, Calistoga, Deer Park, Poland Spring, Zephyrhills, Great Bear)*
1994 Alpo *(pet food)*
1995 Ortega *(Mexican foods)*
1995 Wine World Estates
1997 Contadina *(tomato products)*
1998 San Pellegrino, Spillers Petfoods
1999 Coffee businesses
2000 PowerBar
2000 Findus Frozen Foods
2001 Ralson Purina *(pet foods)*, Häagen-Dazs
2001 David & Sons *(sunflower seeds)*
2002 ChefAmerica frozen foods *(Hot Pockets)*
2002 **Fonterra joint venture: Dairy Partners America**
2003 Mövenpick ice cream, Dreyer's ice cream
2003 Flipz pretzels, Ortega
2004 Valio ice cream
2004 Wonderball
2006 Jenny Craig, Uncle Toby's *(cereal)*, Joseph's Gourmet Pasta
2007 Gerber *(baby food products)*, Novartis Medical Nutrition *(medical foods)*
2007 Nestlé Turtles
2010 Kraft's frozen pizza business *(DiGiorno, Tombstone, California Pizza Kitchen)*
2010 Alcon Laboratories
2013 Bit-O-Honey candy

## Intense consolidation throughout the supermarket

Food & Water Watch found that the top companies controlled an average of 63.3 percent of the sales of 100 types of groceries (known as categories in industry jargon). In a third (32) of the grocery categories, four or fewer companies controlled at least 75 percent of the sales. In six categories, the top companies sold more than 90 percent of the category sales, including baby formula and microwave dinners. (See Table 3.)

In most cases, there were four companies that dominated the majority of the sales of each grocery item, but in 23 categories only three companies sold most of the units, and there were only one or two major rivals in 15 categories. Mondelēz International (formerly part of Kraft Foods) alone sold 60.9 percent of all cream cheese sales under its Philadelphia brand, and the majority of the rest of the market was store-brand cream cheese. Two little-known manufacturers (Grupo Bimbo and Flowers Foods) sold 73.7 percent of the bagels and English muffins, primarily Bimbo's Thomas' brand.

## Consumer choice limited

Many firms sell multiple brands of the same product, which leads consumers to believe that they are choosing among competitors when they are actually just choosing among products made by the same firm that may have been manufactured at the same factory. Pinnacle Foods sells both Mrs. Paul's and Van de Kamps frozen fish products. Two firms that sell a host of brands dominate margarine. Unilever sells I Can't Believe It's Not Butter!, Shedd's Country Crock, Imperial, Promise and Brummel & Brown, and ConAgra Foods sells Blue Bonnet, Parkay and Fleishmann's.

This is true across the board, including organic and healthful brands typically seen as independent, but that are being bought up by large food companies unbeknownst to consumers. And consumers won't figure it out by reading the labels, which often do not reflect the corporate ownership. For example, Kashi and Bear Naked are both Kellogg brands, but Kellogg's ownership is concealed from consumers — the Kashi and Bear Naked labels and consumer websites make them seem independent, even though Kellogg's government filings reveal that the company owns the brands.[47]

Kellogg Co., General Mills, PepsiCo and Post Foods control 79.9 percent of cereal sales, making shoppers hard pressed to find a box of cereal that wasn't owned by

### **Table 3.** Largest Food Companies' Market Share of Most-Consolidated Grocery Items

| Grocery Item | # of Companies | Market Share |
|---|---|---|
| Sports Drinks | 2 | 98.9% |
| Mediterranean Food | 2 | 96.8% |
| Baby Formula | 3 | 96.3% |
| Carbonated Soft Drinks (Diet) | 4 | 95.3% |
| Microwaveable Packaged Dinners | 3 | 94.6% |
| Baked Beans | 4 | 91.0% |
| Canned and Bottled Tea | 4 | 89.9% |
| Carbonated Soft Drinks | 4 | 89.2% |
| Baby Food and Snacks | 3 | 88.8% |
| Indian Food | 3 | 87.0% |
| Beer | 4 | 86.1% |
| Dry Mac & Cheese | 2 | 84.8% |
| Wellness/Granola Bars | 3 | 84.6% |
| Sugar | 4 | 84.0% |
| Athletic Bars | 3 | 82.8% |
| Chili and Sloppy Joe Sauce | 4 | 82.6% |
| Tortilla Chips | 4 | 82.5% |
| Frozen Meals | 4 | 82.0% |
| Pet Food | 4 | 81.9% |
| Chocolate | 4 | 80.8% |
| Gum and Mints | 3 | 80.6% |
| Shelf-Stable Dips | 4 | 80.6% |
| Granola Bars | 3 | 80.5% |
| Breakfast Cereal | 4 | 79.9% |
| Mayonnaise | 2 | 79.4% |
| Cereal/Snack Bars | 4 | 79.1% |
| Meat Substitute | 4 | 78.3% |
| Pizza, Frozen | 4 | 78.2% |
| Ketchup | 3 | 76.7% |
| Crackers | 3 | 76.5% |
| Refrigerated Yogurt | 3 | 75.8% |
| Potato Chips | 4 | 75.7% |

**SOURCE:** FOOD & WATER WATCH ANALYSIS OF MARKET SHARE DATA, *SEE* METHODOLOGY ON PAGE 29.

one of the big national manufacturers. The “choice” that consumers have in the cereal aisle comes largely from which variation (frosted or chocolate-flavored) of the big companies’ brands they select. In the cracker aisle, the well-known brands like Ritz, Keebler, Wheat Thins and Triscuits are owned by Mondelēz International (formerly Kraft) and Kellogg, but even seemingly independent and healthful options such as Kashi are also owned by Kellogg.[48] (See Table 4.) These two firms control 61.1 percent of cracker sales, making it more difficult for shoppers to find a name-brand box of crackers that wasn’t produced by one of the big national manufacturers.

Big food companies offer a proliferating number of brands and varieties to increase sales, and this may also be a strategy to prevent new firms from getting onto store shelves.[49] In the late 1980s, Frito-Lay (a PepsiCo subsidiary) stopped worrying about developing new snack products and instead just expanded on the lines of products they already had — Lay’s potato chips got a handful of new flavors, and Cheetos gained 21 new varieties — to expand sales of the existing brands.[50]

## *Storewide domination by a few firms*

Several processed food companies have their fingers in many pies in the supermarket, sometimes literally (see Appendix B). Five major manufacturers (Kraft Foods, PepsiCo, Nestlé, ConAgra Foods and General Mills) have a presence — often a major market share — in more than one-sixth of the grocery products that Food & Water Watch examined. Kraft Foods is a major manufacturer in 22 items and dominates macaroni and cheese, processed cheese, lunchmeat and mayonnaise (79.0 percent of sales, 48.3 percent, 34.8 percent and 33.9 percent, respectively). But Kraft also sells coffee, condiments (mustard, salad dressings and pickles), other dairy products (natural cheese and sour cream), frozen cakes and pies, and snack nuts. These major companies can be found in almost every aisle of the supermarket.

**Table 4.** Brand Proliferation by Top Companies in Selected Grocery Items

| Grocery Item | # of Top Firms | Company/ Market Share | Top Brands |
|---|---|---|---|
| **Breakfast Cereal** | Top 4 Firms<br>79.9% | Kellogg Co. 30.3% | Frosted Flakes, Froot Loops, Raisin Bran, Raisin Bran Crunch, Special K Vanilla Almond, Special K Red Berries, Apple Jacks, Corn Pops, Rice Krispies, Kashi Go Lean, Crispix, All-Bran, Frosted Mini Wheats, Corn Flakes |
| | | General Mills 27.8% | Honey Nut Cheerios, Multi Grain Cheerios, Chocolate Cheerios, Cinnamon Chex, Corn Chex, Wheat Chex, Banana Nut Cheerios, Cinnamon Toast Crunch, Lucky Charms, Reese's Puffs, Cocoa Puffs, Trix, Golden Grahams, Cookie Crisp, Cheerios, Fiber One, Rice Chex, Kix, Wheaties, Basic 4, Fiber One Honey Clusters, Yogurt Burst Cheerios |
| | | PepsiCo 11.8% | Quaker, Cap'n Crunch, Life, Cinnamon Life, Oatmeal Squares |
| | | Post Foods 10.0% | Honey Bunches of Oats, Selects Banana Nut Crunch, Selects Blueberry Morning, Grape Nuts, Shredded Wheat, Spoon Size Shredded Wheat, Fruity Pebbles, Cocoa Pebbles, Post Raisin Bran, Honeycomb, Selects Great Grains |
| **Cookies and Cookie Bars** | Top 4 Firms<br>62.5% | Mondelēz Intl. (formerly Kraft) 37.0% | Newtons, SnackWell’s, Teddy Grahams, Barnum's Animals, Lorna Doone, LU Le Petit Ecolier, Chips Ahoy, Oreo, Nilla, Nutter Butter |
| | | Kellogg Co. 13.3% | Keebler, Chips Deluxe, Fudge Shoppe, Sandies Pecan, Vienna Fingers, Mother's, Kashi, Murray |
| | | Campbell Soup Co. 6.7% | Pepperidge Farm |
| | | McKee Foods 5.5% | Little Debbie, Nutty Bar, Fudge Rounds, Choc-O-Jel, Star Crunch |
| **Crackers** | Top 3 Firms<br>76.5% | Mondelēz Intl. (formerly Kraft) 33.3% | Ritz, Wheat Thins, Triscuits, Premium, Handi-Snacks, Honey Maid |
| | | Kellogg Co. 27.8% | Cheez-It, Keebler Club, Keebler Townhouse, Keebler Toasteds, Keebler Zesta, Carrs, Austin, Sunshine Krispy, Keebler Grahams |
| | | Campbell Soup Co. 15.4% | Goldfish |

**SOURCE:** FOOD & WATER WATCH ANALYSIS OF MARKET SHARE DATA, *SEE* METHODOLOGY ON PAGE 29.

## Supermarket Strategies to Manipulate Shoppers

Most consumers are at least aware that food manufacturers are competing for their dollars, with an almost constant stream of television, print and social media marketing campaigns designed to drive demand for their largely processed food products. But the marketing doesn't stop once you get to the store. Supermarkets are designed with one end goal in mind: to sell as much as possible. Every single aspect of the store, from lighting to layout, music to aromas, is manipulated in a way to encourage shoppers to buy more.

In a report subtitled "Capturing a shopper's mind, heart and wallet," the Grocery Manufacturers Association admitted that "Retailers and manufacturers realize the store's potential as a strong marketing medium and are now targeting shoppers in an effort called shopper marketing."[51] More than half (55 percent) of sales in a grocery store are unplanned impulse purchases.[52] Retailers and manufacturers use every tool they can to make sure that they can control those purchases.

And that doesn't include the food industry's overwhelming television, print and social media marketing and advertising campaigns designed to shape consumer demands for processed foods.

### Self-Defense at the Supermarket

While supermarkets and food manufacturers spend huge amounts of time and money getting you to spend your hard-earned dollars, there are some things you can do to defend yourself from their pervasive marketing.

**Shop the perimeter of the store —** In the layout used in most grocery stores, avoiding the middle of the store will not only let you avoid the splashy packaging and marketing for heavily processed food, but also let you focus on more healthful options like fresh produce, meat and dairy.

**Shop whole foods —** Buying ingredients for a meal is usually more cost effective than buying a pre-packaged meal kit, with less sodium and sugars added. And the more steps that food goes through before it reaches you, the more of your dollar goes to the processor, not farmers. This applies to produce, too — pre-cut produce is usually more expensive than buying it whole and cutting it yourself.

**Don't shop on an empty stomach —** When you're hungry, you'll be more vulnerable to stores' marketing strategies, such as using bakery aromas, sample stations and products placed in end-of-aisle displays and in checkout lines to get you to spend more.

**Compare unit cost, not price —** Stores can make a particular item stand out with special signs or end-of-aisle displays, but it may still be more expensive than a similar item or a different-size package of the same product. There should be a "unit cost" listed in very fine print on price labels on the shelf — compare these to see which deal is truly better by comparing price per amount of product (per pound or some other measurement).

**Take time to look high and low —** With the most expensive shelf space at eye level, you could find cost-effective alternatives on shelves higher up or lower down.

**Beware the end-of-aisle display —** Supermarkets and manufacturers design fancy displays in the aisle or at the end of the aisle to promote their products, but that doesn't meant that these items are necessarily a good bargain or discounted in any way. Don't assume that products in these special locations are the best deal without comparing them to products in the normal location.

**If you're shopping with kids, give them a distraction —** Products marketed specifically to kids, like sugared cereal, will be at their eye level, making sure they'll ask for them. Bring a snack or a toy your child will enjoy instead.

**Make a list. And stick to it! —** Food manufacturers and retailers count on impulse purchases and devote much of their marketing to enticing you to buy things that you didn't plan to get on that trip. The more you plan ahead of time, the less likely you will fall prey to impulse buys.

## *Sensory manipulation*

Shoppers are assaulted with sensory cues designed to entice purchases from the moment they enter the store. Wall colors, pleasing aromas and brighter lighting are designed to increase sales.[53] Supermarkets know that music with slower tempos tends to decrease the flow of store traffic and increase sales volumes. Louder and faster music encourages customers to shop more quickly and purchase less.[54] The style of music also has significant impact. One study found that wine shoppers who heard classical music tended to select more expensive wines and spend more overall than those listening to Top 40 hits.[55] Retailers are attuned to these variables and make sure that their chosen music is appropriate for their store and customer base to manipulate the shopping experience.

Many stores arrange fresh produce and floral displays at the front of the store to immediately emphasize the freshness and wholesomeness of their products to shoppers.[56] Fresh fruit and vegetable sales typically account for about 11 percent of a grocery store's revenue,[57] but it makes a tremendous impression on shoppers. The bakery department pumps aromas of freshly baked bread to get consumers' stomachs involved in the shopping decisions, even though most in-store bakeries use prepared foods and frozen dough.[58] There are even companies that specialize in creating these sensory experiences to encourage customers to buy certain products: they have developed a fresh laundry scent to introduce in the laundry aisle, a coconut aroma to use in travel agency offices to evoke memories of sunny vacations and a citrus scent that can be infused into clothing to evoke a sense of fresh fabrics.[59]

## *Product placement*

The industry has thoroughly studied the placement of every product to drive shoppers to make more purchases. Supermarkets and manufacturers allocate shelf space, position more expensive products and brands, and place products carefully in relation to one another to maximize sales.[60] Key products are placed at eye level, which is a lower shelf for products targeting children.[61] The most expensive name-brand products will be found in these spots, and smaller independent brands and private-label products will be found at the top and bottom shelves.

The industry knows every detail of how average shoppers navigate the store and select products: shoppers steer their carts counter-clockwise into the store, circle from the back of the store to the front and typically select items from shelves on their left side.[62] These studies help retailers and food companies know where the most lucrative end-aisle displays should be placed, and where in the store to put products relative to one another.

Most consumers know that the magazines, candy and personal care products at the checkout aisle are designed to drive impulse purchases. It certainly works. Products displayed at the cash register capitalize on customers' restlessness and boredom and have much higher sales. One study found that placing an ointment at the cash register instead of on the shelves increased sales by as much as five-fold.[63]

Shoppers may be unaware that the ends of the aisle displays are not actually a place to highlight special offers, but are highly valued supermarket real estate that also encourages impulse purchases. More than one-sixth of grocery purchases are tied to brand display advertisements.[64] End-of-aisle displays may look like featured sales or discounts, but they're typically some of the most expensive items — retailers know that singling out their higher priced and popular items makes it harder for shoppers to compare with other products, and leaves consumers thinking they're getting a deal.[65] In fact, they rarely are. Food companies rent these high-traffic display areas to give their products an edge, and it pays off — 45 percent of all soda sales come from end-of-aisle displays.[66]

Grocery stores often sell some basic staple foods like milk and bread at below their cost to try to signal to shoppers that all of their groceries are good values.[67] The big grocery chains can offer these popular grocery items at steeper discounts than smaller competitors to lure consumers into the store and then recapture profits by charging more for other products.[68] These bargains (known as "loss leaders") are frequently placed in the back of the store, forcing shoppers to pass more expensive processed foods — where the stores' atmospheric and pricing tricks can strongly encourage impulse purchases of these items.[69]

## Slotting fees and category captains

Some retailers charge food companies a fee (known as slotting fees, slotting allowances or promotional allowances) to shelve their products in the most profitable locations.[70] These fees are especially prevalent for the introduction of new grocery products and can run over $2 million for each new variety or brand.[71] In 2000, these fees were estimated to cost companies $16 billion, the most recent figure available.[72] But between 2010 and 2012, Kroger alone charged companies fees that reduced Kroger's merchandise costs by about $6 billion annually.[73] The largest companies have the easiest time paying these considerable fees, which effectively keep smaller food companies off store shelves.[74] In a Federal Trade Commission (FTC) report on slotting fees, smaller suppliers reported that they were "being squeezed off shelves" and that larger producers "will pay large amounts of money to keep everyone else out."[75]

Some stores have given control of their shelves to key manufacturers known as "category captains."[76] The category captain is typically a leader in the particular grocery aisle or item (like one of the soda companies for beverages) and the supermarket grants the company the ability to choose what items are available, the placement of brands and varieties, the prices, and promotions that support the products. Many retailers rely on this arrangement with manufacturers as the primary tool to manage supermarket shelf space.[77]

For obvious reasons, category captains have little incentive to allow new competitors on supermarket shelves, and they can limit consumers' choices and increase prices.[78] In 2013, a small competitor sued Nestlé for allegedly using its category captain position to exclude other ice cream rivals from shelf space, relegating all smaller manufacturers outside of giant companies like Nestlé (including Häagan-Dazs and Dreyer's) and Unilever (owner of Ben & Jerry's, Breyers and Klondike) to a tiny portion of the ice cream aisle.[79]

## Advertising and promotions

The food industry relentlessly markets, advertises and promotes its products to shape consumer tastes and capture consumers' grocery dollars. In 2011, food, beverage and candy companies spent $8.4 billion dollars on advertising and media buys, and the four largest grocery retailers, Walmart, Target, Kroger and Safeway, spent a combined $4.4 billion.[80]

The problem may be even more severe for foods marketed to children. The *Journal of the American Dietetic Association* reported that considerable research has shown that the foods that are most heavily advertised on Saturday morning children's television programs are in direct contrast to dietary guidelines, and these foods tend to have high levels of fat, sugars and salt.[81] It concluded that 91 percent of these advertised foods were high in fat, added sugars or salt or low in nutrients, based on federal nutritional standards.[82] One FTC staff report found that 85 percent of cereal advertisements directed at children were for highly sugared cereals.[83] A diet composed of foods commonly marketed to children would consist mainly of cereal and snacks eaten outside of regular mealtime.

Lower-income families are often special targets of the promotional onslaught. Food manufacturers like Unilever, ConAgra Foods and Hormel Foods track sales according to the "paycheck cycle."[84] Even safety net programs like food stamps can fatten the bottom line of food manufacturers. One industry publication encouraged supermarkets to ensure that processed meals (prepared pasta, dry dinner mixes and frozen dinners) be "available and merchandised at the right time of the month" for food stamp recipients.[85] About 85 percent of all food stamp dollars are spent at supermarkets and supercenters, and grocery stores adjust their product offerings, hours and prices to capture the monthly infusion of food stamp benefits.[86]

## Conclusion and Recommendations

Consumers have little chance to make informed decisions and comparison shop in a grocery industry that is dominated by big supermarket retailers and food manufacturers. The FTC is responsible for ensuring that the largest grocery manufacturers and retailers do not use their tremendous size to disadvantage competitors and take advantage of consumers.

Yet the FTC has done little to stop the aggressive consolidation of the grocery sector or the tactics used by grocery retailers to manipulate shopping environments and decrease competition that might lower prices for consumers. And mergers in the grocery retail and manufacturing sector have been allowed to proceed virtually unchecked.

It is time for regulators to step in to protect consumers and level the playing field to make sure that there is some semblance of competition and a chance for innovative, small or local food companies to get on store shelves. These steps include:

- **Congress or the FTC should enact a national moratorium on grocery chain mergers**, including the host of deals already pending, such as the proposed merger between Kroger and Harris Teeter.
- **The FTC should reject mergers or sales of food companies or brands that add to consolidation inside the supermarket.** The FTC has approved food company mergers unless the firms are rival manufacturers of specific grocery items, which has allowed food conglomerates to control the overall variety of goods sold in grocery stores.
- **The FTC should investigate and document the level of consolidation in grocery retailing** nationwide and in metropolitan areas and its impact on consumer choices and prices. Grocery inflation has now significantly outstripped overall inflation and wage growth; the federal government must assess the role of both manufacturing and retail grocery consolidation on prices and choices.
- **Congress must grant the FTC sufficient authority to effectively regulate food marketing**, especially to children. Today, Congress has limited the FTC's authority to restrict food marketing. Congress should provide the FTC with the full authority to regulate food and beverage marketing and give the FTC the authority to create mandatory nutrition standards for food and beverages marketed to youth.
- **The FTC must investigate and document the coordinated practices used by grocery retailers and food manufacturers** that act to block new, local and innovative companies from getting onto supermarket shelves. Common practices that are justified as increasing efficiency (such as shared in-store marketing costs, slotting fees or category captains) only have served to cement the dominance of the largest companies at the expense of the innovation and local food companies that consumers want to see in the grocery store.

# Methodology

Food & Water Watch examined the market share of 100 common grocery food and beverage items (known in the industry as categories) using the most recent data available. Categories were selected to reflect the breadth of foods offered in grocery stores, total sales and consumer use. The overwhelming majority of the data is from the past two years (55 percent from 2012 and 36 percent from 2011), but due to limitations in the availability of timely market share data, a small portion came from earlier years for certain grocery categories (8 percent from 2010 and 1 percent from 2009). Market shares for the largest companies were tabulated by aggregating their individual brands; brand shares were available only for the largest brands in any given category, so in some cases there are fairly small market shares available (in highly concentrated categories like soda and diet soda, the fourth-place firm has a reported market share of about 1 percent or less), but in other categories the smallest brands or company market shares might be higher. The top company market share was calculated by aggregating the top four firms, a common approach in market analysis used by federal regulators and academics to measure economic concentration. Consolidation is sufficiently high in some categories that there are fewer than four competitors in the entire market; in these cases, we calculated the three-, two- or one-firm concentration level. There were 23 categories with only three major competitors, 14 with two major competitors and one category with only one major competitor. Food & Water Watch included for comparison purposes the supermarket brand products (known as private-label products) when these generics made up at least 10 percent of the market. For the five food companies that sell 15 or more examined categories, Food & Water Watch included all the categories even if it was not in the top four manufacturers.

**Accounting for recent mergers, acquisitions and spinoffs:** Food & Water Watch adjusted the market shares to account for significant mergers since 2010 by adjusting the most recent data available by the current corporate owner of each brand. The data in this report account for changes in corporate ownership finalized by October 2013 or proposed by December 15, 2013. These mergers included all of the transactions included on Table 2 as well as the following transactions: Post Foods' acquisition of ready-to-eat breakfast cereal from Ralcorp[87] and Land O'Lakes joint venture with CalMaine's Eggland's Best refrigerated eggs (each received half the Eggland brand market share).[88] ConAgra Foods sold Lightlife Foods in September 2013.[89] The sale of bakery assets and brands from Sara Lee to Grupo Bimbo and Flowers Foods was based on the value of sales transferred to Flowers Foods as a share of total Sara Lee bakery business (broken down by business line, to the extent possible). In 2013, Dean Foods spun off WhiteWave, which makes Horizon Organic, Silk and other dairy brands.[90] Kraft Foods was split into two companies in 2012, with Mondelēz International keeping the cookie, cracker, candy, gum and cream cheese brands and Kraft Foods keeping the remainder of grocery manufacturing.[91]

**Data sources:** Food & Water Watch used industry sources to determine brand and category concentration levels including the market research firm Mintel Group's food market reports (2010 to 2013), the annual abstract *Market Share Reporter* (from 2010 to 2012) and *Grocery Headquarters* magazine's State of the Industry Almanac (April 2013). Generally, these sources rely on grocery aisle checkout scanner data that is from the major supermarket, drugstore and superstore chains but often does not include Walmart.

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