Kroger Gains Ground at Competitors' Expense

KROGER

CINCINNATI — Kroger Co. has increased its share of the U.S. grocery market in each of the past 10 years.

Last year it gained market share in 18 of 20 markets tracked by research firm Nielsen, including all 15 markets in which Walmart also competes, according to Michael Ellis, Kroger's president and chief operating officer.

"For the 10th year in a row, we lowered costs and reinvested those savings to improve our store experience," Ellis said as Kroger released its fiscal 2014 financial results. "It's no surprise that Kroger captured more share of the massive food market, also for the 10th year in a row."

Kroger has increased its same-store sales (excluding fuel) for 45 consecutive quarters.

By growing market share and sales, Kroger has managed to thrive in a business with minuscule profit margins.

Kroger continued its string of stellar performances in 2014 despite the retirement on January 1 of David Dillon, a 37-year company veteran who had been its chief executive officer since 2003.

Dillon handed the reins to Rodney McMullen, who had held a variety of positions at Kroger since 1978 and since 2009 had served as president and chief operating officer.

The seamless succession was emblematic of the efficient ways in which Kroger has adapted to the demographic, technological and financial challenges confronting the grocery sector.

The company has invested to shorten checkout wait times, enhance its store-brand lineup and upgrade its loyalty program.

Kroger is investing $3.5 billion a year in lower prices, McMullen recently told analysts.

"Our personalized offers, weekly promotions and price investments helped customers stretch their dollars," he said.

Private label is one area of investment that is paying off handsomely for Kroger. The retailer introduced its Simple Truth natural brand two and a half years ago, and it is already a $1 billion business.

Kroger last year introduced three additional lower-price house brands — P$$T, for spices and canned items; Check This Out, for nonedible household paper and cleaners; and Heritage Farm, for fresh food such as ham — aimed at budget-conscious shoppers. The company said its private label business accounts for more than one-quarter of sales, excluding fuel and pharmacy, and generates annual revenue of nearly $20 billion.

> *Retailer 'helped customers stretch their dollars'*

Kroger credits its cut-rate premium offerings of natural and organic food with creating legions of new customers because they move merchandise to a more affordable price range, where shoppers can experiment with them or buy more healthy alternatives than they otherwise might be able to afford.

Kroger's success in private label has been building over the past decade, during which the retailer has expanded its in-house offerings by nearly two-thirds. Kroger makes about 40% of its house-brand products, contracting with vendors for the rest.

With a network of 38 factories nationwide, Kroger has more manufacturing muscle than Campbell Soup, Dr Pepper, General Foods, J.M. Smucker or Kraft Foods, reported the *Cincinnati Enquirer,* which noted that the retailer's move over the past decade to pare its gross profit margin to 20.6% from 26.3% in 2003 has played a big part in Kroger's near doubling of sales in the period.

Store brands have moved beyond cheap, generic knockoffs to become trusted, quality lines that can compete effectively with national brands, according to David Sprinkle, research director at Packaged Facts.

Store brands, he says, also have higher profit margins for retailers and they help differentiate the retailer and build consumer loyalty.

In its report "Private Label Foods and Beverages in the United States, 8th Edition," released last fall, Packaged Facts cited Kroger, Target Corp. and Trader Joe's Co. owner Aldi as examples of retailers making savvy use of private label natural and organic food and beverages to appeal to health-conscious consumers.

Kroger has more than 2,600 supermarkets operating under such banners as Kroger, Ralphs, Food4Less and Fry's in 34 states.

It also owns convenience stores and food-processing plants, and employs nearly 400,000 people.

"Like a great meal, there is no single characteristic that makes Kroger great; rather, it is the sum of its parts," McMullen remarked recently. "It is the combination of food and drink, people and atmosphere, surprise and delight that makes a great meal great. And it is that combination of factors our associates bring together, the sum of our parts, that explains why Kroger is so successful."

KROGER

FINANCIAL RESULTS (1/31/15)*

SALES:
$108.47 billion (+10.3%)

IDENTICAL-STORE SALES:
+5.2%, excluding fuel centers

NET INCOME:
$1.73 billion (+13.8%)**

NET MARGIN:
1.6%

OPERATIONS

HEADQUARTERS:
Cincinnati

FISCAL YEAR-END STORE COUNT:
2,625 supermarkets and multi-department stores; 782 convenience stores; 326 fine jewelry stores, 1,330 supermarket fuel centers

PRIOR YEAR-END STORE COUNT:
2,640 supermarkets and multi-department stores; 786 convenience stores; 320 fine jewelry stores, 1,240 supermarket fuel centers

BANNERS:
Kroger, Kroger Marketplace, Kroger Fresh Fare, Fred Meyer, Ralphs, Smith's, Smith's Marketplace, King Soopers, Dillons, Dillon's Marketplace, Fry's, Fry's Marketplace, Harris Teeter, City Market, Food 4 Less, QFC, Bakers, Owen's, Jay C, Gerbes, Pay Less Super Markets, Foods Co., Scott's Food & Pharmacy

RANK

3 in sales

*Results for the most recent year reflect the late-January 2014 merger with Harris Teeter.
**Earnings for the most recent year reflect a $56 million after-tax charge for adjustments to pension