

Grocery Store Pricing – Collusion or Competition? Can Smaller Stores Compete?



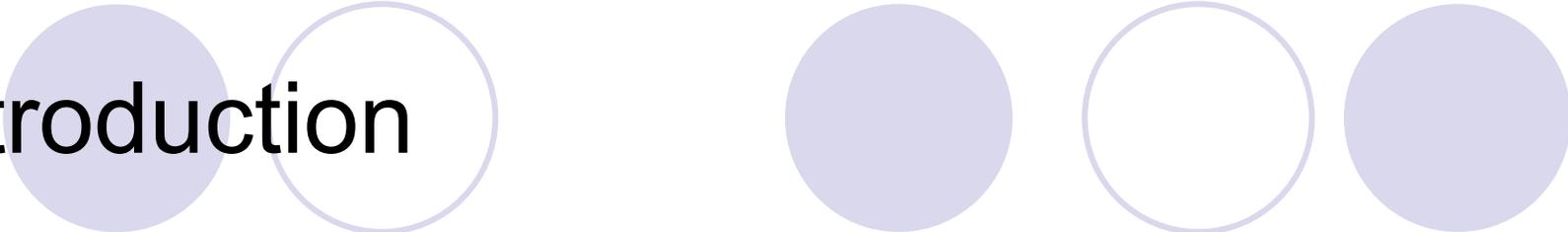
Raley's



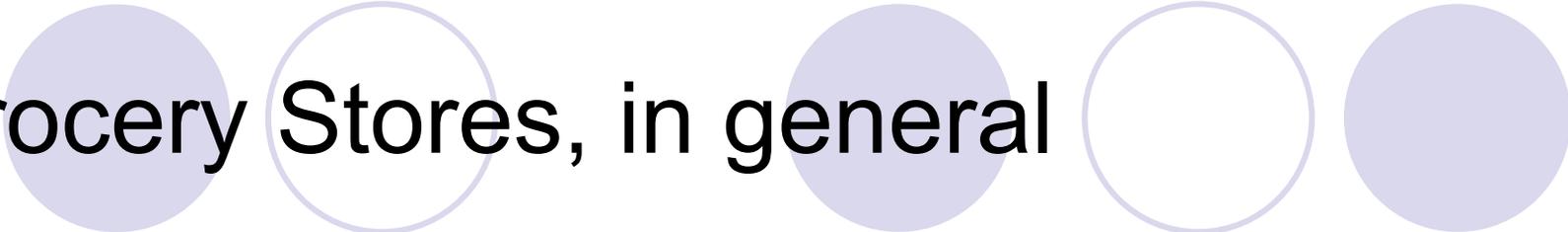
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Introduction



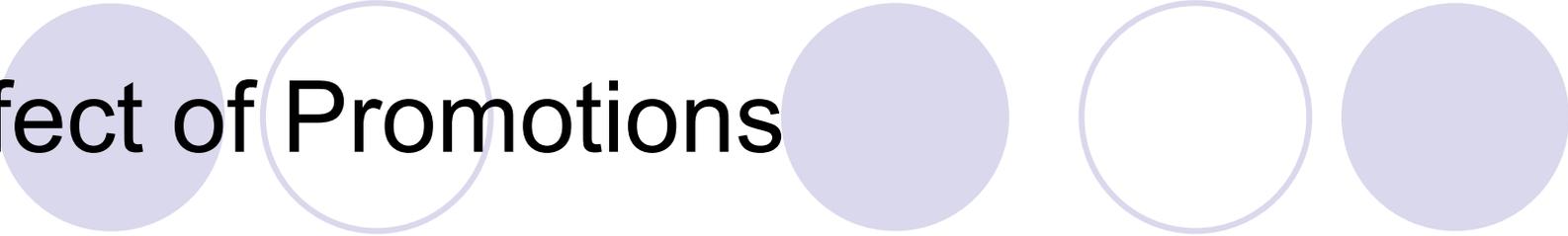
- Grocery store advertisements for three local stores showed many of the same items on sale
- Occasionally *one* store would have the same item for slightly cheaper
- Was this a collusive mechanism to keep prices artificially high, or just a natural byproduct of competitive behavior?



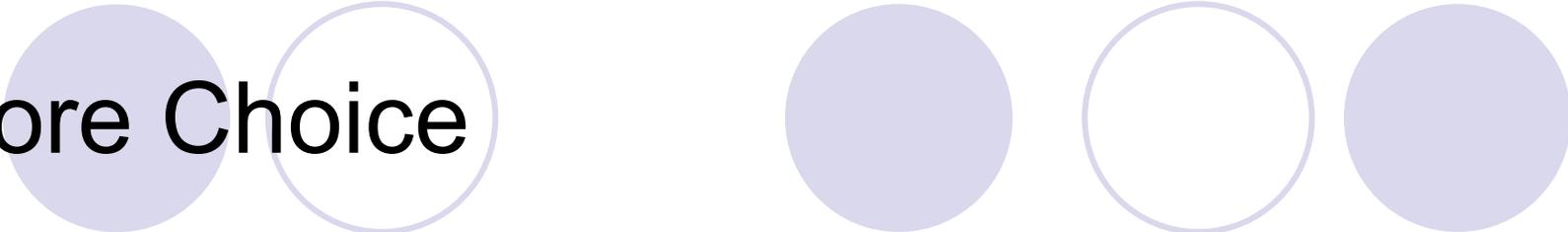
Grocery Stores, in general

- Low profit margins
- High concentration among few stores
- Size of store increasing while numbers decreasing
- Larger stores can pass some economies of scale to the customers
- Big chains tend to show high-low pricing rather than consistent low prices

Effect of Promotions



- “Everyday low-price” strategies cause a large loss of profit
- Promotions allow a higher-price strategy while increasing turnover and frequency of visits
- Some promotional activity can influence store choice
- (Volle, 2001)



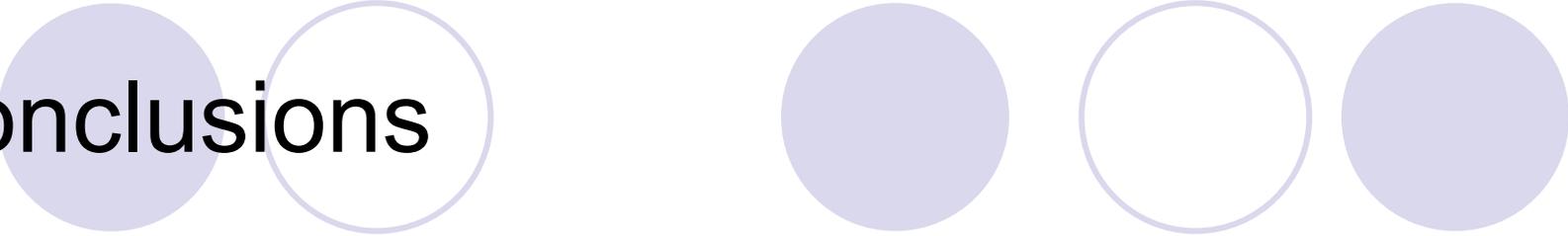
Store Choice

- Store Image – service output, advertising campaigns and pricing strategies
- Store Location
- Consumer beliefs and household characteristics
- (Solgaard and Hansen, 2003)



What's really going on?

- Low profit margins overall indicate that promotions are probably just another pricing strategy
- Other profit strategies:
 - **Selling shelf space**
 - **Spying**



Conclusions

- Probably not collusive behavior
- Possibly similar promotions from warehouse/distribution pricing? – Avoiding double marginalization
- Competition causes large chain stores to maintain similar prices

Small Store Strategies

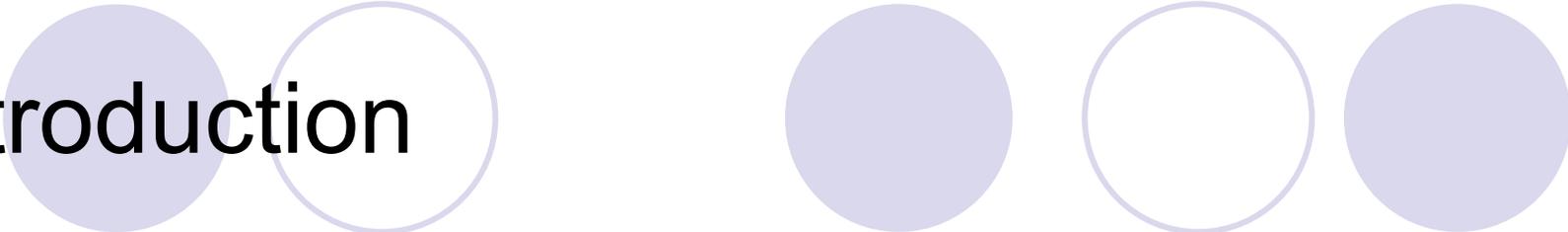


 **SAFeway**

VS

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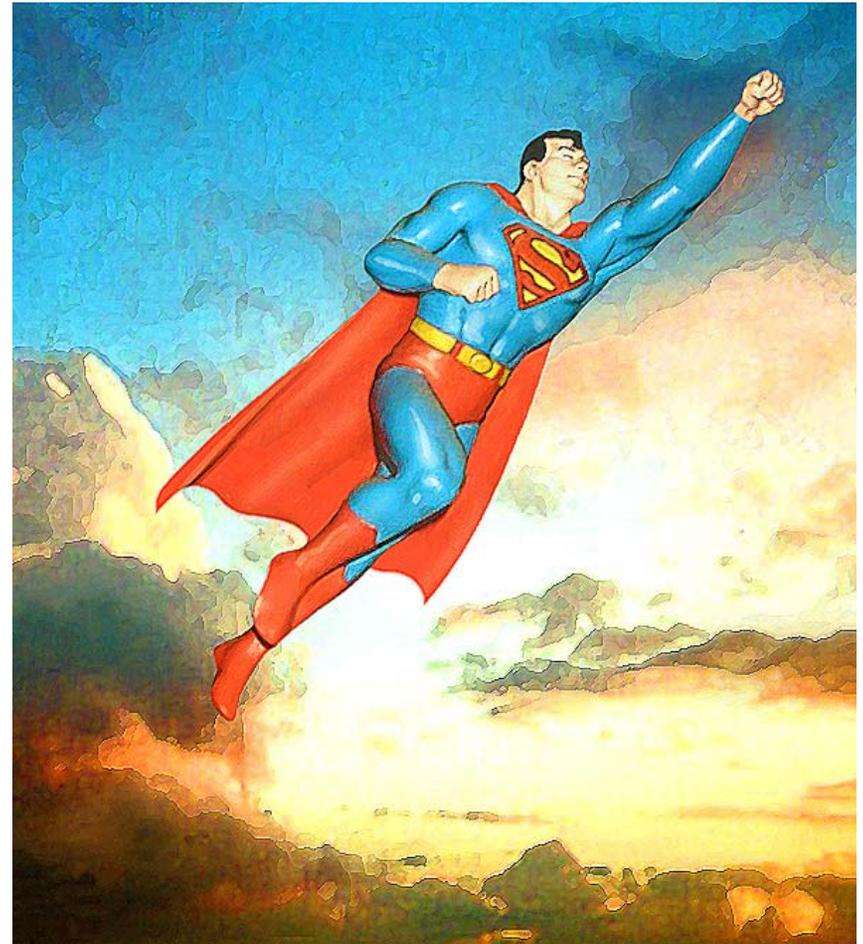


Introduction

- Small grocery stores are an important for bringing customer traffic to the center of town.
- In small towns smaller grocery stores are an indication of community's viability.
- They serve an in-town customer base made up of primarily elderly and residents without cars.

Big Chain “Super Stores”

- Super stores are usually located on the edges of town suffocating the smaller stores.
- Advantages: Plenty of parking, a greater variety of products at lower prices.
- Some smaller stores either close down in fear they can not compete or loose market share implementing wrong strategies.



Primary Small Store Strategies

- Focusing on providing special products and services that the superstores do not offer.
- Concentrating on gaining customer loyalty through consistent value and good transaction experiences

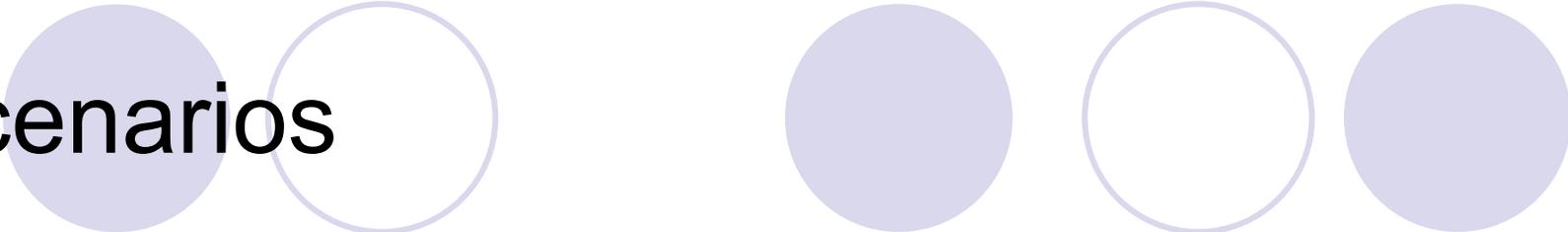
Small Store Strategies

- Service: General weakness of large supermarkets: inability to provide fast and friendly service, especially on weekends. Small stores can put a personal touch with a smile and personal service such as baggers that carry groceries out to cars.
- Convenience: Explore ways to fit additional services in their limited space (Many consumers are looking for a one-stop shop: Banking/ATM. Childcare, pharmacy, restaurants, photofinishing, etc..)
- Co-Branding with Other Stores: Grocery stores can share store space to reduce overhead costs. Partners might sell organic foods, seafood, wine, and pastas.
- Enhance Store Atmosphere: Consumers argue they are tired of long aisles and boring atmosphere. Make sure stores are easy to shop in and are clean and modern. Consider new floor plans and lighting changes.
- Offer Order-By Phone: Local food stores may consider “order-by-phone” with personal delivery for elderly people and mothers with small children.
- Collaboration with Other Stores: They should choose products and services that are not duplicates of other stores. Cooperation with other small stores by having one store deliver to other stores, helping each of them to stay in business.

Small Stores Strategies (continued)

- Use Technology: Install computer screens on grocery carts that promote an item or remind the shopper of things to buy.
- Other markets: They should pay close attention to their key market segments and also recognize other potential market segments (tourists). Aggressive promotion is necessary.
- Sell High Quality Perishable Foods: Customers indicate that quality is more pertinent than price. Most chains are weak on perishable goods. The strength of superstores are in canned and boxed food sections. (75% canned 25% perishable)
- Ready-To-Eat-Foods: With today's lifestyles less time in food preparations is a must. Small stores can offer ready-to-eat foods like salads, soups, pastas, and roasted herb-chicken.
- Offer Unique Foods: Offer gourmet items, organic vegetarian items, and imported wines.
- Don't Compete on Prices: Some industry experts convey that price is not as important as quality and freshness. Even though prices should be reasonable to consumers.

Scenarios



- Thailand, Bangkok(2000): The mushrooming convenience stores in Thailand became a great threat for local grocery stores.
- 2,000 branches of convenience stores nationwide: 7-Eleven(1,300), AM/PM(256), Family Marts(80), and about 2003 convenience stores in petrol stations. Majority provide 24 hours services for customers.
- Oakland, Chinatown(2003): No indication of big chain, or convenience stores in Chinatown. They are unable to penetrate the market due to many small stores offering specialized products (Imported Herbs and Spices, Variety of fish, Abalone, Shark Fin, etc..)