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GROCERIES

Kroger feasts amid a supermarket famine

As Wal-Mart, Costco and other big discounters eat into other chains' sales, the parent of Ralphs and Food 4 Less sees gains.

By Jerry Hirsch

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Anne Marie Sablock said she regularly drives past an Albertsons, a Whole Foods Market and several other supermarkets to shop at the Ralphs on Pacific Coast Highway in Long Beach.

The Seal Beach mother of two teens is price sensitive and likes a broad selection of goods. She buys house brands and private label products.

"I shop here because there is more choice and better prices," Sablock said as she dropped a box of Ralphs brand instant oatmeal into her cart last week.

Times are tough for neighborhood supermarkets as cost-conscious consumers defect to Wal-Mart, Costco and other discounters. But Kroger Co., owner of the Ralphs and Food 4 Less chains, seems to be bucking that trend.

Kroger posted same-store sales growth of 5% in the latest fiscal year. That compares with growth of less than 1% for Vons parent Safeway Inc. and a 1.2% decline for Supervalu Inc., parent company of Albertsons (excluding fuel sales for all three).

Industry analysts say Cincinnati-based Kroger's success is probably tied to its efforts to attract bargain hunters, aided by its exhaustive electronic tracking of customers' shopping patterns and a push into marketing house brands.

"Kroger is the best-positioned traditional food retailer in a weak economic environment based on its aggressive pricing and strong market share positions," said Joseph Agnese, a Standard & Poor's equity analyst.

Much of Kroger's recent success can be attributed to a tracking system that identifies how often shoppers visit the store and provides the company with detailed information about what they buy, Kroger Chief Executive David B. Dillon said in an interview.

Developed by Dunnhumby, a British marketing company that also is working with the Macy's department store chain in the United States, the system gives Kroger clues as to what types of promotions and specials will draw people back into its stores.

"We send our very best customers coupon books specifically targeted at what they actually buy. The redemption rate of these coupons is significantly higher than other coupons," Dillon said.

Kroger uses the data to divide the stores of most of its chains into three tiers, and stock them accordingly. The upscale Ralphs store, for example, will have a larger wine selection and won't offer the lowest price "Value" private label goods. A mainstream Ralphs will have a broad mix of goods at varying prices points, while the value store "will be much more focused on price," Dillon said.

The system allows Kroger to identify which items matter most to customers when it comes to price and prevents the company from discounting products that would sell at higher prices.

With nearly 2,500 stores in 31 states, Kroger is the nation's largest grocery company. It operates under two dozen local banner names, including Ralphs and Food 4 Less in Southern California, Fred Meyer in the Pacific Northwest, Food 4 Less in Chicago, Fry's Food and Drug in Arizona and Kroger in Ohio, the Midwest and much of the South. The company also owns 385 jewelry stores.

The one place Kroger isn't doing better than its rivals this year is on Wall Street, where its shares have fallen nearly 19% since Jan. 1, closing Friday at $21.46. Safeway is down 12% and Supervalu is up almost 9%.

Over the last 12 months, however, Kroger looks better -- with a stock price decline of about 18%, compared with 30% for Safeway and 49% for Supervalu.

Kroger has proved especially adept at operating in regions where Wal-Mart Stores Inc.'s supercenters have captured large market shares, analysts say. Last year, Kroger's share grew almost a full percentage point in regions where Wal-Mart is no less than the No. 3 seller of groceries.

It could be nothing more than Kroger's giant size and reach "allowing it to be the last man standing," said Jim Prevor, editor in chief of PerishablePundit.com, a food industry website. "Wal-Mart comes in and destroys the independents but doesn't get all of that share. Kroger gets a slice too."

But Kroger also has benefited from shoppers turning to private label goods to save money, said Andrew Wolf, an analyst at BB&T Capital Markets in Richmond, Va. Private labels are now a $12.5-billion annual business at Kroger.

Encouraged by its success, Kroger is marketing private label goods with techniques once reserved for national brands. Shoppers who belong to the company's loyalty club now get coupons and special offers for Kroger goods. Recently Ralphs devoted the entire back page of in-store advertisements to its private label products .

"I like the Ralphs Private Selection brand," said Derek Twells of Long Beach. "I think it is a good value for the dollar, and the quality is close to what you get in a national brand."

The lower price, however, doesn't mean the Kroger makes less money on the sale, said Agnese of Standard & Poor's.

Kroger's house brands typically have a higher profit margin than the national labels. The shift by consumers to less-expensive but higher-margin private label goods is reflected in Kroger's financial results, Agnese said. Earnings increased 8% to $349.2 million in the quarter ended Jan. 31 even though sales grew less than 1% to $17.3 billion.

"Profits are the outcome of focusing on the customer," Dillon said.

Ralphs, held back by the bitter 2003-04 grocery workers strike and lockout and payment of $70 million in fines and restitution for violating federal labor laws during the labor dispute, is just now hitting the stride of other Kroger divisions.

"Coming out of it was really hard," Dillon said. "We needed to get everyone focused back on the business, and we started out slow. Some of our associates and some of our managers did not have the right attitude to help us come back."

Dillon likes the progress both Kroger and Ralphs have made but noted that competition only gets tougher as nontraditional grocery retailers such as Target and CVS devote more space for food.

The best way to meet that competition is to keep Kroger focused on its shoppers.

"Ten years ago we paid too much attention -- almost every day -- looking at what our competition was doing," Dillon said. "We can't ignore our competitors, but we have to pay more attention to what our customers want in our stores."

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