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THE WALL STREET JOURNAL.

WSJ.com

JUNE 24, 2009

Frugal Shoppers Drive Grocers Back to Basics

By [TIMOTHY W. MARTIN](#)

The recession-driven shift to eating at home more often is giving new life to grocery stores' most basic offerings, and upending a multiyear strategy of using coffee bars, fancy bakeries and exotic products to attract shoppers.

[Kroger Co.](#) on Tuesday posted a 13% rise in quarterly profit, fueled in part by higher sales of private-label goods. Store brands accounted for 35% of the Cincinnati-based chain's item sales for the quarter, up three percentage points in the past two years.

The second-largest U.S. food seller after [Wal-Mart Stores Inc.](#) said sales at stores open at least 60 weeks climbed 3.1% from a year ago, excluding fuel. "We're actually selling more items to many households than we were before," said Chief Executive [David Dillon](#).

Kroger, Stop & Shop, Publix and other big food chains tried for years to make themselves into a one-stop destination by revamping their store perimeters to include floral shops, prepared meals and other offerings. But the recession has refocused them on the staples sold in center aisles.

These chains are aggressively pushing private-label versions of canned vegetables, breakfast cereals and whole-wheat bread, draping center shelves with coupons and price comparisons, and bundling ingredients for homemade meals.

These middle aisles can generate as much as 70% of weekly profit for a given store, according to a study this month by Willard Bishop LLC, a Barrington, Ill., supermarket consultant. But 10 years ago, before discounters began stealing business, these aisles accounted for 85% of profit, according to analysts.

The back-to-basics drive is helping grocery chains become among the best performing retailers. In addition to Kroger, the U.S. division of Belgium-based [Delhaize Group](#) last month reported quarterly sales rose 2%, while [Ahold NV's](#) Stop & Shop posted a 3.1% rise.

In contrast, [Whole Foods Market Inc.](#), a grocery chain that emphasizes exotic and perimeter-store specialties, posted a 1% decline in sales at stores open at least a year in its fiscal second-quarter.

Mike Filzen, a Kroger supermarket manager in Bourbonnais, Ill., said his store opened a sushi bar and a Starbucks outlet to attract customers. But he said they never became as vital to business as the mundane, middle aisles of his 78,000-square-foot store. Today, cooking staples like canned soups, pasta, packaged bread, ground coffee and breakfast cereals are proving more lucrative. "That's where the money is made," he said.

Unit sales for many center-store items rose 0.6% to 2.6% this April from a year ago, even as overall food sales declined 3.1%, according to market researcher Nielsen Co. Sales of home-pantry items such as frozen and dry vegetables, grains,

pasta, baking mixes and flour inched up, reversing years of declines.

"There is a resurgence in the center store," Mr. Dillon, the Kroger CEO, said in an interview. The recession is proving a "big opportunity" for Kroger and other grocers to recoup center-store sales lost to Wal-Mart, [Costco Wholesale Corp.](#) and other discounters, he said.

The grocery chain posted profit of \$435.1 million for the quarter ended May 23, up from \$386 million a year ago. Revenue declined to \$22.8 billion, compared with \$23.1 billion a year ago, on a 41% drop in gasoline prices at its outlets. Excluding fuel, total sales rose 3.9%.

In part, the stores' recognition of the increasing popularity of private-label goods is fueling the share gains, Mr. Dillon said. Consumers are increasing their shopping trips to Kroger as a result of the lower-cost private label products, he added.

Store brands are popping up on more consumers' pantry shelves. Reagan Gandy, 45 years old, of Tampa, Fla., said she recently switched to buying the private-label shortbread cookies sold by Publix Super Markets Inc. The savings are about \$1.80 per package. "If there are things you can switch on, what's your downside?" Ms. Gandy asked.

Between 2003 and 2007, grocers' share of sales for staples slipped 3% as rivals siphoned away about \$7 billion a year, according to Information Resources Inc., a market research firm. Supermarkets countered by expanding and embellishing the outer edges of their stores with high-margin offerings like florists and sushi bars.

Food chains that once invested heavily in the extras are shifting strategies. Publix, a Lakeland, Fla., chain, offers certain private-label goods free with the purchase of the corresponding national brand. Southeast grocer Food Lion deducts 25 cents off the next grocery bill for each private-label item purchased.

Supermarkets also are reclaiming coveted space at the ends of center-store aisles that they used to sell to suppliers. "Before it was like, 'Gosh, that's Frito Lay's space.' Now it's ours," said Andrea Astrachan, vice president of consumer affairs at Ahold's Stop & Shop and Giant Food.

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Printed in The Wall Street Journal, page B1

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