

Higher grocery prices ahead, though profits won't necessarily follow

By Mary Ellen Biery, Financial Writer at Sageworks, Inc., September 26, 2011

Grocery prices are expected to increase 3.5 percent to 4.5 percent this year, the U.S. Department of Agriculture's latest food-price forecast shows. But higher prices aren't showing up in the bottom lines of private grocers, which saw slower profit growth last year and have seen a decline in profits this year amid cost pressures, according to data from Sageworks, a financial information company.

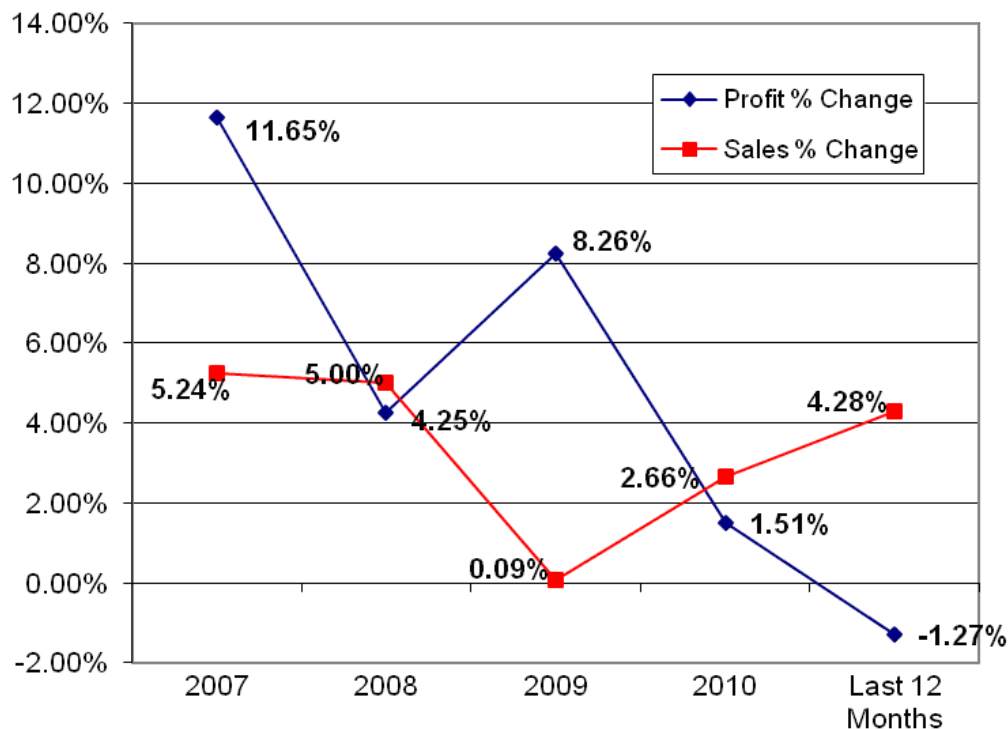
Sageworks' data shows sales at private grocery stores increased 2.66% in 2010 after virtually flat sales in 2009, and sales have risen 4.28% over the last 12 months. Though sales have picked up, profits have moved in the other direction. Net profit growth among private grocers slowed to 1.34% in 2010 from 8.26% in 2009. Profits have actually declined 1.27% in the past 12 months, Sageworks' data shows.

Those trends are consistent with findings by Baltimore consulting firm FMS and the National Grocers Association, which released their jointly produced 2011 Independent Grocers Survey earlier this month. They found that economic pressures have lowered gross margins and net profits before taxes for independent grocers who responded to their survey. Shopping for price and value are priorities for lower and middle-income shoppers as overall economic pressures on many consumers continue, the groups said in a press release.

"Consumers are forcing operators to function at peak efficiency so that pricing will remain reasonable in their eyes," said FMS President Robert Graybill. "A sloppy operator who relies on price to offset high shrink won't survive, nor will companies that are overloaded with administrative costs that don't contribute to servicing the customer, as the customer can no longer afford to pay for those costs with higher prices."

Financial Metric	2007	2008	2009	2010	Last 12 Months
Profit % Change	11.65%	4.25%	8.26%	1.51%	-1.27%
Sales % Change	5.24%	5.00%	0.09%	2.66%	4.28%

Privately-Held Grocery Stores



Source: Sageworks 9.26.11

Publicly traded grocery chains, too, are trying to balance rising food costs with increasingly cautious consumers. Kroger Co. earlier this month estimated its product cost inflation, excluding fuel, was 5.2% for the June quarter, led by inflation in its meat, product and seafood departments.

The nation's largest grocery-store operator raised its full-year sales forecast on Sept. 9 but maintained its outlook for earnings, saying consumers are even more value conscious in recent months. Kroger said customers are shopping more often but spending less each trip, increasing the importance of the chain's weekly promotions, its emphasis on lower every day prices and its rewards program.

Kroger said it has been successful passing along higher costs, especially in the center areas of its stores. Even so, the chain's comments generated angst among some industry analysts who worried that a fight for sales volume could ignite a pricing war among grocers.

On Friday, the USDA said its Consumer Price Index for food at home, or grocery stores, was 6 percent higher in August than a year earlier as prices for beef, pork, dairy, fresh fruit and cereal and bakery products posted fresh increases between July and August. The department said prices at restaurants, which the USDA calls food away from home, have increased more slowly, but they are up 2.7 percent from a year earlier.

Food commodity and energy price increases over the past year, combined with a weak U.S. dollar, have caused most of the grocery store price increases so far this year, the USDA said. Similar trends, along with strengthening global demand for food, also prompted the USDA to raise its inflation projections for this year and next. Overall, food prices are expected to increase 3 percent to 4 percent this year and another 2.5 percent to 3.5 percent in 2012, the USDA said. The USDA's Consumer Price Index for food at home is the principal indicator of changes in retail food prices.