ERS Report Summary

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The U.S. Food Marketing System: Recent Developments, 1997-2006

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A main development in the U.S. food marketing system is the influx of stores that have not traditionally sold food but that increasingly offer food items. With the growing trend toward eating out, traditional food retailers also face competition from the foodservice industry.

What Is the Issue?

The products and services provided by the food marketing system (which includes manufacturers, wholesalers, and retailers) account for over 80 percent of consumer expenditures on food. Developments in this system have important implications for the cost, quality, and variety of food products. Hence, agribusiness operators, policymakers, and consumers alike are interested in how competition within the industry affects industry performance. Heightened competition has contributed to consolidation and sharp increases in grocery retail concentration, changing conventional relationships within the food marketing chain. Competition has also generally put short-term downward pressure on food prices. This report examines these structural changes and selected performance dimensions of the U.S. food system over the past 10 years.

What Did the Study Find?

The study showed that nontraditional food retailers increased their share of food sales for at-home use from 17.1 percent in 1994 to 31.6 percent in 2005. These companies were able to position themselves within the food industry by creating new shopping formats that appealed to consumers and by lowering costs. The study also found that foodservice facilities (restaurants, for example) continued to increase their share of all food sales, from 46.1 percent in 1994 to 48.5 percent in 2005, by offering new products and services.

In response to competition from nontraditional food retailers and the foodservice segment, traditional grocery retailers are employing their own cost-cutting and differentiation strategies. Cost-cutting tactics include supply chain initiatives such as data-sharing. For instance, through UCCnet, an Internet platform, food retailers and suppliers can exchange information that facilitates product delivery and reduces out-of-stock items and excess inventory. Another cost-saving strategy is restructuring operations to focus on the most profitable stores and geographic areas.

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A main cost-cutting strategy of traditional grocery retailers over the past 10 years has been to consolidate through mergers and takeovers. This development may, in turn, lead food processors to consolidate to meet the large-scale needs of grocery retail chains. Some large wholesalers—concerned about the ability of the smaller, independent food retailers that they supply to compete with retail chains and stay in business—are vertically integrating into retailing by acquiring stores of their own.

Primary differentiation strategies include expanded product offerings—new food product introductions continue to set records, outpacing nonfood packaged goods—along with updated store designs and technologies to improve service. Food companies are also adopting some less conventional methods, focusing on new ways of image enhancement—for instance, publicizing their initiatives to advance social agendas beyond those required by law. The companies are also using new advertising approaches. A shift from TV advertising to other venues, such as magazines, the Internet, and video games, reflects a move from mass to individualized marketing. This trend is also reflected in new product labels designed to appeal to consumer self-image (for instance, with "upscale" terms such as *premium* and *gourmet*).

How Was the Study Conducted?

This study examined recent major developments in the U.S. food marketing system, using data from the U.S. Census Bureau, Bureau of Labor Statistics, Bureau of Economic Analysis, Food Institute, Marketing Intelligence Service's Productscan Online, company annual reports and Web sites, and various trade publications.