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## BUSINESS

Saturday, August 6, 2005

### Supermarket concept in flux

The grocery industry has offered the public plenty of food for thought in the past 75 years as stores scramble for shoppers.

By **PIA SARKAR**

San Francisco Chronicle

It all started with a king.

On Aug. 4, 1930, Michael Cullen dramatically changed the retail landscape by introducing the nation's first supermarket in Queens, N.Y. He dubbed it King Kullen, inspired by a picture his son drew of a man sitting on top of the world.

Seventy-five years later, supermarkets can be found in every corner of the United States. They popularized the idea of self-service. They spurred the growth of mass merchandising. They helped liberate women from the kitchen. They contributed to suburban sprawl. And they encouraged innovation, leading to the advent of the shopping cart and the bar code.

Today's supermarkets are much different from the one Cullen built in 1930, when banks were closing their doors and mom-and-pop stores could no longer afford to let their customers shop on credit.

"We were entering the Great Depression, so the supermarket was offering products to an impoverished nation," said Bill Greer, director of editorial service at the Food Marketing Institute in Washington and author of "America the Bountiful: How the Supermarket Came to Main Street." "From a business standpoint, it was a gamble."

But the gamble paid off. Cullen's concept of turning a profit based on volume rather than price is the same one that drives today's supermarkets, where typical profit margins remain a razor-thin 1 percent.

Unlike Cullen's supermarkets, however, supermarkets today face fierce competition by deep discounters such as **Wal-Mart** and **Costco**, forcing them to slash their prices or find another way to survive.

"Most full-service supermarkets are writhing in pain, not knowing where to go next," said David Gwynn of Charlotte, N.C., who tracks the history of supermarkets as a

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hobby through his Web site, [www.groceteria.com](http://www.groceteria.com). "They have to figure out if they'll compete on price or service and quality."

### Lifestyle changes

**Safeway**, the country's third- largest grocer, recently moved away from competing on price and created a "lifestyle" concept in its stores, adding new floors and lighting and providing a wider selection of produce and meats. It is also expanding its prepared-food offerings, including a sushi bar.

Safeway's shift mimics that of the successful **Whole Foods**, based in Austin, Texas. Whole Foods, which is in its 25th year, has carved a niche for itself in the organic-products sector, appealing to an increasing number of customers who are willing to shell out extra cash in exchange for quality.

"We're committed to selling high- quality food," said Anthony Gilmore, president of Whole Food's Northern California division. "When you buy quality, you have to pay more."

Paying more was not an option in 1930, when most people's pocketbooks were squeezed tight. Cullen knew that and took pleasure in declaring King Cullen "The World's Greatest Price Wrecker."

### ONE-STOP SHOPPING

Not only did Cullen shake up the industry by offering low prices on a large scale, but he also revolutionized the chore of going to the market. Instead of customers dropping by three different stores to purchase meats and produce, they found everything under one roof.

This increased people's reliance on cars. No longer did they make daily trips by foot to the corner store to pick up a few odds and ends. Rather, they made one trip and loaded up their cars every week, giving Cullen the volume of sales he needed for his business concept to thrive.

Women in particular were freed from the chore of shopping at several locations.

"Supermarkets played a large role in liberating the woman," said Louis Bucklin, professor emeritus of business administration at the University of California-Berkeley's Haas School of Business. "They reduced the amount of time they had to spend on shopping, with fewer trips to the store."

At the same time, Cullen helped popularize self-service with his supermarkets, allowing customers to reach onto shelves and inspect individual products as well as check their prices. Before that, customers had to rely on clerks behind a counter to pick out their products, weigh them and determine the price.

### PACKAGE DEALS

Self-service led the way to mass merchandising. Suddenly, food manufacturers were not as dependent on wholesalers to get their products on store shelves. Instead, they went directly to the store - and the customers - to get their brand noticed.

"It increased the importance of the package as a merchandising device," Bucklin said. "It had a major role in influencing the consumer."

Packages became snappier and more colorful. Food manufacturers fought to get prominent display for their products. They relied heavily on advertising in newspapers, magazines and eventually television.

In the 1940s, supermarkets began to boom. Retailers who had held off on adopting the concept realized that supermarkets were the future. Chains began consolidating their small stores into big ones and moved to the suburbs, where they had more space. They also spurred the creation of more suburbs each time they moved farther out.

In the 1960s, trading stamps changed the pricing structure that supermarkets had grown used to, Bucklin said. They provided housewives a way to buy what their budgets would not normally allow. Shoppers would receive trading stamps for every dollar of their purchase, which they could exchange for merchandise at stamp-redemption centers.

Supermarkets started to gain more patrons because of the trading stamps, then everyone started offering them. By the 1970s, supermarkets had to raise their prices in order to make up for the losses that resulted from offering the stamps. That led to the emergence of discount stores in the 1980s.

Supermarkets responded to the discount stores by opening even larger stores. They began absorbing pharmacies, photo centers and flower stores. Unable to keep up, the discount stores started to disappear. But Wal-Mart still remained in the ring.

## WAREHOUSE COMPETITION

Then, in the 1980s and 1990s, supermarkets were confronted with a new competitor - warehouse stores, which did not carry food products at first. But when they began stocking groceries, it caused a shake-up in the industry. Chains like Costco and Sam's Club began operating more efficiently than supermarkets, in part because many of them were not unionized.

Today, supermarkets still face tough competition and grapple with how to reinvent themselves.

"It leaves them with a lot of sweat on their brows," Bucklin said. "They're between a rock and a hard place."

At the same time, they have evolved into an industry that reflects society, with the emergence of ethnic supermarkets and ones that specialize in organic products.

Greer, of the Food Marketing Institute, said that the supermarket will continue to evolve as more time passes. "It endures more as a concept than a certain format," he said.

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