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Grocers court frugal shoppers

Heavy competition from discounters has supermarket chains emphasizing savings.

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Slideshow



Jesse Fisher (right) greets customer Arra Gunn at a Bi-Lo on South Tryon. Bi-Lo, which filed for bankruptcy this week, hopes to emerge from the process stronger in an increasingly competitive market. GARY O'BRIEN – gobrien@charlotteobserver.com

Here's how many locations* major grocery retailers have in Mecklenburg, Anson, Cabarrus, Gaston, Union and York counties, the area covered by TradeDimensions, which tracks market share. Food Lion has by far the most, in part because its stores tend to be smaller than those of its competitors:

Aldi: 14

Bi-Lo: 31

Food Lion: 78

Harris Teeter: 47

Lowe's Foods: 11

Wal-Mart Supercenter: 16

Even in a recession, people still need to eat. But as local residents increasingly choose to spend their grocery dollars at discount stores, traditional supermarket chains are shifting gears – and emphasizing savings – to win them back.

Mainstream grocers were already facing heightened competition from higher-end gourmet stores and discounters. In the past year, however, financial pressures such as high gas prices intensified the crunch.

Matthews-based Harris Teeter remains the most popular Charlotte-area grocery store in terms of dollars spent, with nearly 29 percent of the market, according to the most recent data available. But Wal-Mart Supercenters, which ranks second, gained share in 2008, while Harris Teeter and Salisbury-based Food Lion lost ground. Food Lion attracted the third-highest amount of area grocery dollars. Bi-Lo was fourth.

That suggests consumers are focusing on value more than ever. And stores that don't set themselves apart are likely to get squeezed, grocery experts say.

Greenville, S.C.-based Bi-Lo filed for bankruptcy this week, saying that tight credit markets prevented it from refinancing a \$260 million loan that was due Thursday.

But analysts note the chain has struggled, with multiple ownership changes and an inconsistent image in consumers' minds. It has tried to present itself as a place where value and quality meet, a middle ground that's difficult to carve out.

"(Bi-Lo has) had a bit of a rough time trying to find their place in the market," said Lorrie Griffith, editor of the Shelby Report, a grocery industry publication. "Price is driving a lot of shoppers to Wal-Mart and Aldi."

Credit problems have pushed an increasing number of retailers into bankruptcy recently, said Jeff Pomerantz, a Los Angeles-based partner with Pachtulski Stang Ziehl & Jones who specializes in retail bankruptcies. Business issues such as those Bi-Lo faces could give a lender pause, he said.

Bi-Lo's current owners, a private equity group, have previously tried to sell the company, and Bi-Lo projects its 2009 earnings before taxes and other charges will be less than half what they were in 2006, the bankruptcy filing said.

The company is also paying rent on a closed warehouse in Tennessee and 35 closed stores. Bi-Lo did not specify whether any were in the Charlotte region, though it has closed stores in Charlotte, Lenoir and Monroe in the last year. Bankruptcy will allow it to shed those burdens.

Bi-Lo, which hired a new CEO in February, hopes to exit bankruptcy promptly and emerge stronger. It says it will not close stores or lay off workers as a result of the filing. However, many companies close unprofitable stores as part of bankruptcy restructuring, and experts said it wouldn't be surprising if Bi-Lo did the same.

Even then, it will still have work to do, grocery analyst David Livingston said. "When you're bankrupt, it's pretty hard to start playing catch-up and remodeling your stores," he said.

Priced for success

Chains that customers already believe offer low prices are best positioned to benefit in the current environment.

No-frills German-based grocer Aldi, which has not changed its approach at all because of the recession, is seeing an increase in traffic nationally, spokeswoman Martha Swaney said. The chain has 19 stores in the region, with another set to open in Denver this fall.

Price also remains the primary draw at Wal-Mart, which has added more local produce and is enhancing and expanding its Great Value store brand. "People have a sense of what they are going to get from Wal-Mart," spokeswoman E.R. Anderson said. "We're doing what we've always done well, but I do think there is an increased emphasis and awareness that we're needed more now than ever."

Stores such as Target and Family Dollar have also become increasingly popular food-buying destinations. Both have been expanding their food offerings to meet increased demand, and plan to continue that in 2009.

The recession has traditional supermarkets working a lot harder, in many cases for a lesser return, as customers switch to, say, cheaper cuts of meat, supermarket consultant Matthew Casey said.

Locally, Food Lion and Harris Teeter are adapting to the new environment by placing more emphasis on price. Both chains' sales grew in 2008, and both plan to open new stores in 2009. However, Harris Teeter's most recent results showed sales at existing stores slowing, and the company has scaled back expansion plans a bit. Comparable statistics aren't available for Food Lion.

Even so, such chains are equipped to compete with Wal-Mart because of stable, efficient ownership and the effort and investment they put into presenting their stores as an alternative, Morningstar analyst Mitchell Corwin said.

Recently, Harris Teeter has been running triple coupon events and expanded its "unreal deals" program, which offers low prices on staples. The promotion grew to include more than 300 items across the store during the 2008 holiday season and then again to 1,000 items starting in January. The company also has started a companion "unreal deals meals" program, spokeswoman Jennifer Thompson said.

Food Lion, which has historically positioned itself as a low-priced choice, is trying to communicate that message more in advertising and in stores to connect with customers, said Shavonne Clark, director of private brands for Delhaize Group U.S., Food Lion's parent company. It has introduced promotions featuring affordable meal solutions, such as "meals for less," which is dinner for four for \$10.

The chain has also revamped its private label selection. In 2008, that brought double-digit increases in private label share and sales growth, with spikes in the second half of the year, Clark said.

Such approaches are common right now, with mainstream grocery stores trying to keep prices just low enough so that shoppers don't switch to Wal-Mart, while also emphasizing service, grocery analyst Kevin Anderson said.

That worked for Kitty Rosu, a Charlotte mother of four who took advantage of Harris Teeter's triple coupon special this week. Rosu, who also runs coupondivas.com, a bargain-hunting Web site, has long shopped with an eye on deals and has found that many more people are coming around to her way of thinking.

"The number of people using coupons (at the store) was amazing," Rosu said. "You hear them talking, actually looking at the ads and looking for the deals."