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Supermarkets & Drugstores

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Joseph Agnese
Supermarkets &
Drugstores Analyst

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Contacts:

Media
John Piecuch
212.438.1102
john_piecuch@
standardandpoors.com

Sales
800.221.5277
roger_walsh@
standardandpoors.com

Inquiries &
Client Support
800.523.4534
clientsupport@
standardandpoors.com

Replacement copies
800.852.1641

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Copy Editor: Carol A. Wood
Production Coordinators: GraphMedia
Statistician: Sally Kathryn Nuttall
Production Coordinator: Paulette Dixon

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Growth pressured by heightened competition, weak economy

Supermarkets and drugstores have taken a defensive posture in the face of weakening consumer confidence and intensified competition. As they reevaluate their growth strategies, these retailers continue to implement cost-cutting programs in response to the economic slowdown. However, increasing pressure from price competition and promotional spending has crimped profit margins. As a result, during the second half of 2002, a number of major companies announced they had scaled back their earnings expectations for 2002 and 2003.

Like all retailers, supermarkets and drugstores cannot take their customers for granted. This is especially true in a slow economy. Although consumers must still buy food and medication, they are likely to be even more diligent about seeking the best prices and greatest convenience. In the current environment, customers have been actively trading down to lower-priced alternatives. Adding to the pressure on traditional supermarket and drugstore operators is ever-rising competition from supercenters, wholesale clubs, and other newer formats.

Supercenters gaining market share

Mass merchants have heightened competition by introducing their hybrid creation, the supercenter, into the retail gene pool. A supercenter is a mass merchandiser and food/drug combination store in a single unit, averaging more than 150,000 square feet and devoting as much as 40% of shelf space to grocery items. Although its profit margins on grocery items are not high, its size generates heavy store traffic, resulting in greater sales of higher-margin general merchandise. The three major players in the supercenter arena are Wal-Mart Stores Inc., Kmart Corp., and Target Corp. (See also the *Retailing: General* issue of *Industry Surveys*.)

The supercenter industry is on a fast growth track, with sales nearly doubling to approximately $40 billion in 2001 from $22 billion in 1998. Supercenters now account for nearly 10% of total supermarket sales, according to *Progressive Grocer*. (This total excludes $18.5 billion in sales from Sam's Club, which sells to businesses and institutions in institutional packaging and thus is not directly competitive with supermarkets.) Wal-Mart, with an estimated $28.2 billion in supermarket sales (over 7% of the supermarket industry total) in 2001, was the fourth largest seller of supermarket goods after Kroger, Safeway, and Albertson's.

Wal-Mart a threat

Wal-Mart supercenters constitute the biggest threat to the traditional chain food and drug industries. The company had an estimated 72.3% share of total supercenter industry sales in 2001, as reported in The Food Institute's *Food Industry Review — 2002*. Wal-Mart operated nearly 2,000 supercenters in the United States as of October 2002 and plans to add 180 to 185 supercenters in its fiscal year ending January 2003, with 110 to 115 of those supercenters accounted by relocations or expansions of existing discount stores. Another 200 to 210 supercenters are planned in its fiscal year ending January 2004, with approximately 140 accounted for by relocations or expansions of existing discount stores. In addition, the company operated 517 Sam's Club stores, its warehouse club concept, as of October 2002, and plans to add another 50 to 55 stores domestically over its coming fiscal year and another 40 to 45 in its fiscal year ending January 2004.

In total, Wal-Mart plans to add approximately 46 million square feet of new retail space in its fiscal year ending 2003, which represents a 9% increase over its fiscal 2002 total. Plans are in place to add another 48

million square feet of new space in its fiscal year ending 2004, representing an approximately 8% increase over the prior year.

While expansion of Wal-Mart's supercenters and Sam's Club warehouses continues to add significant pricing pressure within the retail food industry, the company is also deploying its newest weapon for stealing share: its Neighborhood Market store concept. Neighborhood Markets, ranging from 42,000 to 55,000 square feet, are generally located in markets with Wal-Mart supercenters, supplementing the company's strong food distribution network and providing added convenience. The first Neighborhood Market opened in 1998, and there were 36 stores as of November 2002. Wal-Mart plans to open 30 to 35 additional stores in its next fiscal year.

Target, Kmart also loom

Target Corp. operated 94 SuperTarget stores, the company's full service grocery store, as of November 2002. This was more than triple the 30 such stores it had as of January 2001. Looking ahead, SuperTargets are expected to see annual growth of 25% to 40% in net square footage, with a company goal of reaching 150 units by 2004 and 400 stores by 2010.

Kmart operated 124 Super Kmarts at the end of 2001. In early 2002, Kmart filed for Chapter 11 bankruptcy, citing a combination of factors, including a rapid decline in its liquidity resulting from lower-than-expected sales and earnings in the fourth quarter of 2001 and an erosion in supplier confidence. As a result, the company closed 284 of its 2,100 retail outlets, including 12 of its 124 Super Kmart locations. The company is expected to announce another round of closings in early 2003 following an evaluation of store performance during the 2002 holiday season.

Despite the supercenter's many features, supermarkets do have certain advantages over the larger format. Supermarkets require less land and thus tend to be located closer to the center of town, which appeals to harried shoppers who don't want to travel to a supercenter on the outskirts. The addition of nonfood items, in-store pharmacies, and various services — in essence turning supermarkets into combination stores — offers even greater convenience.

Foodservice competition rising

Supermarkets are also feeling increased competitive pressure from restaurants. As families have become increasingly pressed for time, they are spending a greater portion of their food budgets on dining out. Since 1972, food away from home grew from 37% of all consumer food purchases to 49% in early 2002 and is expected to reach 52% by 2005. The National Restaurant Association expects Americans to spend $407.8 billion in restaurants in 2002, up 3.9% from 2001. The association estimates that restaurants' share of the food dollar was 46.1% in 2001, and forecasts that it will rise to 53% by 2010. A recent study released by consulting firm McKinsey & Co. predicts that the restaurant-dominated food service industry will garner a large share — 62% — of the estimated $123 billion in additional spending on food by 2010.

In order to counteract the competition and capitalize on this trend, some supercenters and supermarkets have opened cafeteria sections. In addition, many food retailers have expanded their offerings of deli products and prepared take-home meals for the time-strapped consumer.

Drug chains continue expansion

Drug chains today must compete not only with each other, but with supermarkets and mass merchants as well. In many parts of the country, rival drugstore chains are being established within sight of one another. In Tampa, Florida, for example, Walgreen and Eckerd stores are clustered at several locations. On the streets of Manhattan, CVS and Rite Aid stores are pressuring Duane Reade's 221 units.

Walgreen's and CVS's build-out plans make direct competition inevitable. For example, CVS recently entered Las Vegas, Chicago, Phoenix, and Houston — all Walgreen territory. CVS is moving to these expanding areas as its home territory in the Northeast exhibits little growth.

Supermarkets have heightened the competition. According to the National Association of Chain Drug Stores, supermarkets operated 8,531 pharmacies at the end of 2001, or a more than 15% of total retail pharmacies. A Food Marketing Institute survey found that

60% of new supermarkets and 13% of remodeled stores include a pharmacy. Nonetheless, chain drugstores and independents still far outnumber supermarket pharmacies, with 22,493 and 20,647 units, respectively.

Supermarkets' pharmacy sales grew 14.1% to $19.9 billion in 2001, according to the National Association of Chain Drug Stores. This outpaced growth for the industry overall (13.0%), for chain drugstores (11.0%), and independents (8.1%).

Mass merchants have also been building in-store pharmacies. Their prescription sales were up 12.2% to $15.22 billion in 2001, from $13.57 billion in 2000. Meanwhile, their prescription volumes grew 6.3% in 2001, while drug chains' grew only 5.5%.

Pharmacist shortage easing, but not over

Although many of the major drugstore chains have reported improvement in pharmacist vacancy rates, shortages are still hampering growth. According to the National Association of Chain Drug Stores (NACDS), pharmacist vacancies at chain outlets declined 29.3% to 5,475 in the summer of 2002, from 7,744 a year earlier. The decrease is attributable to the closing of underperforming stores, the addition of nearly 18,000 pharmacy technicians, and an increase in part-time pharmacists' hours or their switch to full-time status.

CVS, for example, acknowledged that it had 700 pharmacist openings in mid-2001. By increasing compensation packages and improving workflow, the company attracted about 2,200 pharmacists, leaving it with only 100 openings in early 2002. CVS estimates it will hire 2,500 pharmacists in 2002. Its pharmacist shortage has been felt particularly in four major markets where it is the market leader. Its reduction in pharmacy hours has not only lowered same-store sales growth (to the detriment of operating margins and earnings), but has also sent customers to rival pharmacies. Even after filling its open positions, CVS will have to spend money to entice lost customers to return.

A number of factors contribute to the growing demand for pharmacists. One is increased prescription volume. According to the NACDS, the number of retail prescriptions dispensed annually in the United States increased 55% from 1992 to 2001: from 1.947 billion to 3.009 billion. More than 3.1 billion prescriptions are projected for 2002. Based on NACDS data, Standard & Poor's estimates that prescriptions filled annually per pharmacist in retail pharmacies grew 32% over the 1992–2001 period, from 17,400 scripts to 23,012. The NACDS estimates that the total number of domestic prescriptions will rise by 26% from 2001 to 2005, while the number of pharmacists will increase by only 3.9%.

Pharmacists' ability to respond to the ballooning volume has been hampered by the rising number of people covered by health insurance and the rising proportion of managed care plans, which require more paperwork than do traditional indemnity plans. Additionally, the first wave of baby boomers will turn 60 by 2006. People over 60, on average, use about three times as many medications as those under 60. Thus, although vacancies have declined, the problem of a pharmacist shortage is likely to persist as prescription volume rises.

The Pharmacy Manpower Project, a nonprofit group composed of all major pharmacy-related organizations, estimates a possible shortage of as many as 157,000 pharmacists by 2020. By examining patient needs and projecting the number of pharmacists required to deliver those services in the coming years, this group predicted that 100,000 pharmacists will be needed for order fulfillment over the next two decades, compared with 136,400 pharmacists currently filling this role. However, huge shortfalls are expected to open up in other areas, such as primary care services, where 165,000 pharmacists may be needed but where only 30,000 are currently working. Also, the findings predict that the need for pharmacists to provide secondary and tertiary patient care services will jump from the 18,000 currently employed in that role to some 165,000 by 2020.

Looking for solutions

In June 2001, Rep. James P. McGovern (D-Massachusetts) and numerous co-sponsors introduced the Pharmacy Education Aid Act of 2001 (*H.R. 2173*), which would fund scholarships for pharmacy students and the construction of larger and better facilities for faculty. In December 2001, Sen. Jack Reed (D-Rhode Island) introduced a similar bill (*S. 1806*) in the Senate. October 2002, the bill was passed by the

Senate and referred to the House subcommittee on health.

Drugstores are attempting to address the pharmacist shortage by cutting back pharmacy hours and intensifying recruitment efforts, including hiring additional recruiters. To attract and retain new pharmacists, they are awarding sign-on bonuses and other incentives, raising salaries, and offering other benefits. These efforts add to costs, however, thereby pressuring operating margins of the drugstore chains, independents, and other retailers with in-store pharmacies.

Drugstores' increasing use of technicians has proven to be of limited help, as these individuals have no formal training in pharmaceuticals or in human relations. In addition, the adoption of technology, such as the use of prescription fulfillment robotics, either in individual drugstores or at a central location shared by several drugstores, can go only so far. Pharmacists still have to be present to make decisions and offer advice to customers.

Leading chains refocus on core markets

With competition intensifying, customer loyalty is more important than ever. Supermarket and drugstore chains are attempting to improve on the quality and value that draw customers to their stores. They are broadening their product lines to meet more of consumers' needs; remodeling their units to improve the shopping experience; and adding more stores to fill in their markets. Many are implementing preferred shopper programs to promote customer loyalty (as discussed in the "Industry Trends" section).

In some cases, however, chains are adopting a more conservative approach to growth. The three largest supermarket chains are expected to redirect their capital spending as they concentrate efforts on maintaining and strengthening market share within current markets, rather than aggressively seeking growth in new markets.

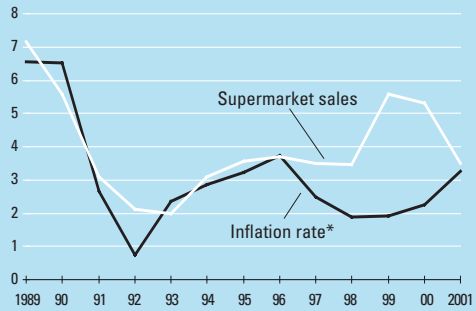
◆ **Kroger.** The Kroger Co. plans capital spending of $2.3 billion–$2.4 billion in its fiscal year ending in January 2003, up from $2.1 billion the year before but below earlier guidance of $2.4 billion–$2.5 billion. In 2001, the company acquired 30 stores, opened 95 new stores, and completed 130 remodels. In 2002, it opened about 105 new stores. Through the first six months of 2002, Kroger achieved 4.1% square footage growth, with food store square footage totaling 133 million square feet. The company aims to increase square footage by 3.5% to 4.5% annually through a combination of expansions, new stores, and acquisitions.

In the weak economic environment, competition from low-priced discount operators has intensified. Kroger is focusing on cutting administrative expenses, including the elimination of 1,500 positions, and centralizing merchandising and procurement operations. The company is expected to report earnings growth of about 5% for its fiscal year ending January 2003. Kroger appears to be maintaining market share, which should support ongoing earnings growth in the following year.

◆ **Albertson's.** Strengthening core markets is the goal for Albertson's Inc. The company is in the process of restructuring. In July 2001, the company announced plans to close 165 underperforming stores. Further repositioning itself to focus on its strongest markets, in March 2002 the company announced expectations to exit four major markets, with plans to close an additional 95 stores. Capital expenditures of some $1.7 billion for the fiscal year ending in January 2003 were slated mostly for remodelings.

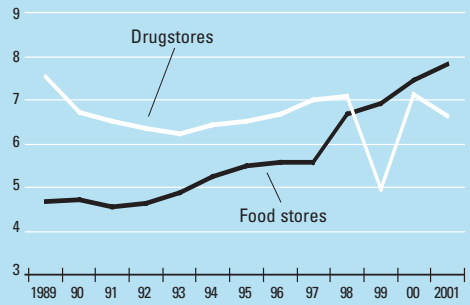
Like its peers, Albertson's plans to reduce pricing and aggressively invest in promotions in order to protect market share. By slimming down to its best performing markets, the company will be in a better

SUPERMARKET SALES VS. INFLATION
(Year-to-year percent change)



*Consumer price index for food-at-home.
Source: *Progressive Grocer,* Bureau of Labor Statistics.

FOOD & DRUG STORES' PROFIT MARGIN
(In percent)



Source: Standard & Poor's.

position to compete. However, earnings growth for the fiscal year ending January 2003 is likely to be in the low single digits, and margin pressure may restrict earnings growth the following year.

◆ **Safeway.** Capital expenditures in 2003 are expected to decline to $1.4 billion, from $1.9 billion in 2002. The company plans to open 50 to 55 new stores and remodel 135 to 160 stores, down from 89 to 90 new stores and 200 remodels estimated for 2002. Square footage gains for 2002 were about 4%. Like its competitors, the company is focused on cost cutting. Any margin gains generated by cost-cutting efforts, however, may be largely offset by price reduction efforts. The company currently expects earnings to decline about 10% in 2003, following mid-single-digit growth in 2002.

Walgreen and CVS, the two biggest drugstore chains, continue to open new stores, while their smaller brethren have more modest plans.

◆ **Walgreen Co.** This company plans to average about 500 new stores per year to reach 7,000 stores in operation by 2010, versus 3,908 as of October 2002. In its fiscal year ended August 2002, Walgreen opened 471 new stores. It plans to open another 450 stores in its fiscal year ending August 2003.

◆ **CVS Corp.** CVS opened 248 new stores in 2001, and an estimated 265 during 2002. After closing a number of underperforming stores, the company had 4,065 stores as of October 2002.

Rite Aid Corp., the third-largest drugstore chain (in terms of revenues) plans to spend its current fiscal year (ending March 30, 2003) improving its operations and profitability. Thus, it has no big expansion plans. Eckerd Corp., a division of J.C. Penney Co. Inc. expects to relocate 65 stores and open 65 new stores. Some of the financially stronger regional drugstore chains will add stores, but most will probably concentrate on improving their front-end (nonpharmacy-related) business in existing locations.

M&A may resume on a smaller scale

Given the maturity of the retailing business and the onslaught of alternative concepts through which drug and supermarket chains compete against one another, mergers have become the individual retailer's best defense. For drugstores, the financial pressures of managed care are further squeezing profitability.

Consolidation counteracts these pressures by enabling merging chains to realize operating synergies (*e.g.*, shared back-office operations) and achieve greater economies of scale (including volume discounts). By joining forces, companies gain an advantage in purchasing, distribution, overhead, systems development, and marketing. In addition, a bigger company may strengthen its geographic diversity and increase its market penetration.

In 1992, the top five supermarket chains had a domestic market share of only 19%. A spate of mergers pushed the top five players' share to just over 30% in 2001. This concentration, however, is still far below that of the top five domestic department stores (60%), discount stores (67%), and toy stores (54%).

After years of major consolidation in the supermarket and drug chain industries, merger activity slowed in 2000. The market has since remained quiet, although chains continue to make some smaller acquisitions. We believe that ongoing U.S. consolidation is likely, although deals may be smaller. With competition at elevated levels, it is understandable that retailers are hesitating before entering new markets. In the first half of 2002, the largest asset sales were the result of market exits from big retailers, such as Albertson's exit from four southern markets, or were part of a gradual sell-off of assets.

Now that the drugstore market has grown more concentrated, we expect to see the major chains try to acquire smaller, regional chains and independents to fill in holes in their operating regions. The supermarket business is somewhat less concentrated than drugstores. Pending signs of improvement in the competitive environment, consolidation is most likely to occur through acquisitions of the many 10- to 50-store chains that are around. One small chain that industry watchers assume will be acquired eventually is Northeast-based Pathmark.

2001 review: slow going for supermarkets

According to *Progressive Grocer*, U.S. grocery store sales totaled $517.5 billion in 2001, up 4.8% from $494.0 billion in 2000. Supermarkets (both chain and independent) accounted for 77.0% of total grocery sales; convenience stores, 17.4%; wholesale clubs, 5.0%; military commissaries, 0.7%. (*Progressive Grocer* includes supercenters in this supermarket category; sales were $39.2 billion in 2001.) Acquisitions, loyalty card programs, improved offerings of prepared foods, and promotions on core holiday items helped to fuel gains.

Supermarket sales saw lower growth than the market overall, rising 3.5% to $398.2 billion in 2001, from $384.8 billion in 2000. Food prices increased 3.1% during the same period; thus, overall grocery sales were up 1.7% in real terms, while inflation-adjusted supermarket sales rose only 0.4%.

Chains' share slipped to 63% of total grocery sales in 2001, from 64% in 2000. The market share of independent supermarkets declined again, to 13.9% of total 2001 grocery sales, from 14.3% in 2000.

In 2001, as in 1999 and 2000, supermarket operators were faced with little or no food pricing gains, scant population growth, and increased consumer spending on food consumed away from home. Thus, they continued efforts to bolster profits by improving efficiency in merchandising, logistics, and procurement, and by controlling operating costs. Operators were aided in this effort primarily by consolidation, which enabled them to improve procurement costs and rationalize administrative and distribution facilities.

SUPERMARKET MERGERS & ACQUISITIONS
(Number of M&A deals)

Source: The Food Institute.

Prescription sales supported drugstores

According to *Chain Drug Review*, for the drugstore industry as a whole, sales totaled $169.2 billion, a 7.8% increase over 2000. For chain drugstores, sales grew 8.4% to $124.2 billion, accounting for 73.4% of the industry total. Independents' sales rose 6.0%, to $45.0 billion.

In 2001, chain and independent drugstores, supermarkets, mass merchants, and mail order firms dispensed 3.01 billion prescriptions in aggregate, up 4.9% from 2.87 billion in 2000, according to the National Association of Chain Drug Stores. Total retail prescription sales were $164.1 billion, up 12.7% from $145.6 billion in 2000.

Traditional drug chains' prescription volumes grew 5.5% to 1.418 billion in 2001, from 1.344 billion in 2000. This boosted pharmacy sales 10.6%, to $67.7 billion (or 55% of total chain drugstore sales). The number of prescriptions dispensed by independents rose only 1.6%, to 700 million scripts, but the dollar value of those scripts rose 8.1%, to $33.9 billion. Gains were also fueled by a rise in average prescription price (to $50.17 in 2001 from $45.79 in 2000) and increased participation in third-party insurance programs.

Rising prescription volumes continue to drive drugstore foot traffic. This, in turn, helps to increase sales of higher-margin products like over-the-counter drugs and front-end merchandise. Aided by these trends, the drugstore industry's net profits grew 3.3% in 2001 to $1.86 billion.

Same-store sales for the drug chains rose 6.4% in 2001, driven by double-digit pharmacy gains. Prescription drugs accounted for as much as 85% of some drug chains'

revenues, according to *Chain Drug Review*. Better merchandising, improved product offerings, and greater focus on ancillary services such as photo finishing and cosmetics contributed to a moderate gain in front-end sales.

Supermarket outlook dims for 2003

Growth in supermarket sales continued in 2002 but at a more modest pace. Escalating competition and declining consumer confidence were the main factors restricting revenue gains. The first definitive sign of financial pressure from intensified competition was an earnings warning from Safeway in mid-2002. Thereafter, expectations for earnings growth began to decline throughout the retail food industry, as companies stepped up promotional spending and selectively lowered prices in order to maintain market share.

With an economic recovery occurring more slowly than previously anticipated, a second round of earnings warnings followed in the fall of 2002. Both Albertson's and Safeway said that weakening consumer confidence coupled with intensified price competition continued to strain margins and dampen earnings growth.

For 2003, we see a continued high level of competition, with no easing likely during at least the first half of the year. In the fall of 2002, Safeway and Albertson's both reduced 2003 earnings expectations, citing increased margin investment as plans to step up promotional spending may offset cost-cutting efforts. As a result of price promotions, we expect supermarket chains to see minimal same-store gains.

In response to the deteriorating environment, we have gradually reduced our 2003 earnings forecasts for the major retailers that we follow. Initially, we believed increased competitive pressures would be short-lived, but as consumer confidence dipped and the economy struggled to recover, it now appears 2003 will be a rebuilding year.

Drugstores' positive prognosis

We expect total chain drugstore industry sales to rise approximately 9% to 11% in 2003, above the approximate 8% to 9% rate estimated for 2002. The sector's prescription drug sales may grow over 12% in 2003, after estimated 11.4% growth in 2002, fueled by favorable demographic shifts and new drugs. Spending on prescription drugs is likely to continue to grow as more managed care providers recognize that they provide a cost-effective form of healthcare, often replacing surgical procedures. Standard & Poor's predicts total U.S. prescription sales will rise 14.9% in 2002 to $188.6 billion from $164.1 billion in 2001. In 2003, we see growth of 16% to 18% to about $219 billion–$223 billion in 2003, and that the total number of prescriptions could reach 3.25 billion, from an estimated 3.13 billion in 2002.

Front-end drugstore sales should post gains, as retailers become more adept at managing this part of their business. Growth should be seen in sales of private-label over-the-counter drugs, cosmetics, and general merchandise, as drug chains improve their everyday and seasonal offerings. After decelerating to an estimated growth rate of 3.0% in 2002, we expect same-store sales to pick up in 2003, rising about 5% to 7%.

Gross margins will likely narrow in 2003, although not as much as in recent years, due to a further rise in prescription sales to third-party plans. It appears that gross margins are falling at a slower pace than previously, however, and may begin to level off. In the long term, gross margins should improve as more drugstore chains cut better deals with third-party payers, while declining to renew plans that are marginally profitable. Additionally, gross margins should benefit from increased sales of generic drugs, which have higher margins than branded pharmaceuticals.

Drug chains should benefit from improved leverage due to higher same-store sales gains and further cost-cutting efforts. In the absence of further consolidation, earnings for the group should rise approximately 10% to 13% in 2003, following an estimated gain 9% to 10% in 2002. ■

Survival of the fittest: supermarkets and drugstores battle for sales

Competition among supermarket and drugstore operators has intensified over the past few years, due to the industries' maturity and rapid consolidation. Today, it is not uncommon to find competing drugstores or supermarkets within a mile or two of their competitors. Moreover, both industries face rivalry from supercenters, warehouse clubs, and other types of retailers.

GROCERY STORE SALES — 2001
(By size and ownership)

	NO. OF STORES	% OF TOTAL	SALES (BIL. $)	% OF TOTAL
ALL SUPERMARKETS (over $2.0 million)	32,265	100.0	398.3	100.0
Chain supermarkets ($ millions)	21,108	65.4	326.3	81.9
$2-3.9 million	1,396	4.3	4.0	0.9
$4-7.9 million	3,566	11.1	21.3	3.8
$8-11.9 million	3,593	11.1	34.9	7.3
$12-19.9 million	5,748	17.8	86.9	18.3
$20-29.9 million	4,850	15.0	113.1	21.4
$30 million and over	1,955	6.1	66.1	11.9
Independent supermarkets† ($ millions)	11,157	34.6	72.0	18.1
$2-3.9 million	4,330	13.4	12.6	3.2
$4-7.9 million	4,463	13.8	25.2	6.3
$8-11.9 million	1,182	3.7	11.5	2.9
$12-19.9 million	768	2.4	11.1	2.8
$20-29.9 million	258	0.8	5.9	1.5
$30 million and over	156	0.5	5.7	1.4
Supermarkets, by format, total	32,265	100.0	398.2	100.0
Conventional	17,210	53.3	142.4	35.8
Limited assortment (under 1,500 items)	2,000	6.2	9.1	2.3
Warehouse (low price/service)	800	2.5	9.5	2.4
Supercenter* (75,000 sq.ft. min.)	1,555	4.8	39.2	9.8
Superstore combo (30,000 sq.ft. min.)	10,700	33.2	198.0	49.7
Other food formats, total*	126,106	NA	119.3	NA
Grocery/convenience/gas	125,000	NA	90.0	NA
Wholesale club stores	910	NA	25.7	NA
Military commissary	196	NA	3.6	NA
TOTAL GROCERY STORES	158,371	…	517.6	…

NA-Not available. *Supermarket items only. †Defined as 10 or fewer stores under one management.
Source: *Progressive Grocer's Annual Report of the Grocery Industry.*

Supermarkets

With total 2001 sales of $517.5 billion, the grocery store industry comprises a range of businesses that run from small grocery shops and convenience stores to supermarket chains. (Standard & Poor's definition of the industry excludes restaurants and department stores where gourmet foods are sold.) *Progressive Grocer* reports that in 2001, approximately 32,265 supermarkets were in operation (accounting for 20.4% of grocery stores and 76.9% of grocery store food item sales), along with 125,000 convenience/grocery/gas stores (78.9% of stores versus 17.4% of sales), and 910 wholesale club stores (less than 1% of stores, accounting for 5.0% of sales). (The supermarket category includes supercenters, as shown in the table entitled "Grocery store sales" in this Survey's "Current Environment" section.) In addition, 196 military commissaries contributed 0.7% of industry food item sales. (See also the table "Grocery Store Sales — 2001" in the "Current Environment" section.)

In 2001, some 21,108 (65%) of the nation's supermarkets were affiliated with a chain, while the remaining 11,157 (35%) operated independently, according to *Progressive Grocer*. Total sales by supermarkets grew 3.5% in 2001 to $398.2 billion, although growth slowed from the 5.3% gain of 2000. Chain supermarkets generated sales of $326.2 billion (82% of total supermarket sales) compared to $72.0 billion (18%) by independents. (Grocery sales by other competitors, such as supercenters, are detailed in the "Current Environment" section of this *Industry Survey*.)

The supermarket industry remains one of the most fragmented retail sectors. Nonetheless, concentration has risen as regional and national chains have grown through consoli-

TOP 10 SUPERMARKET CHAINS
(Ranked by 2001 sales)

CHAIN	SALES (MIL.$)	NO. OF STORES
1. Kroger	46,726	2,429
2. Safeway	31,451	1,568
3. Albertson's	30,207	1,713
4. Wal-Mart*	28,247	1,103
5. Ahold USA	24,104	1,245
6. Delhaize America	15,231	1,464
7. Publix	14,624	687
8. Winn-Dixie	13,012	1,141
9. A&P	8,540	519
10. SuperValu	7,396	550

*Estimated data for supermarket items only.
Source: *Progressive Grocer.*

LEADING U.S. DRUG CHAINS
(Ranked by 2001 sales)

CHAIN	SALES (BIL. $) 2000	2001	NO. OF STORES 2001
1. Walgreen	21.2	24.6	3,678
2. CVS	20.1	22.2	4,191
3. Albertson's	12.5	17.9	2,126
4. Rite Aid	14.5	15.1	3,497
5. Eckerd	13.1	13.8	2,641
6. Longs Drug Stores	4.0	4.3	436
7. Medicine Shoppe International	1.8	2.0	1,339
8. Phar-Mor	1.3	1.2	73
9. Duane Reade	1.0	1.1	203
10. Kerr Drug	0.6	0.8	131

Source: *Drug Store News.*

dation. In 2001, the top 10 food retailers (shown in the accompanying table) had annual sales of $219.5 billion, accounting for 42% of total food industry sales.

For chain supermarkets as defined by *Progressive Grocer*, annual sales per store averaged $15.5 million in 2001. This was up 2.6% from $15.1 million in 2000 and up 7.6% from $14.4 million in 1999. Much of the gain reflects the rapid growth of supercenter food sales. The average weekly sales per chain supermarket in 2001 was about $297,189. The Food Marketing Institute also placed the median supermarket size in 2001 at 44,000 square feet, down 1.3% from 44,600 square feet in 2000. (*Progressive Grocer* uses supercenter store count of 1,555 and sales of $39.2 billion in 2001. Standard & Poor's excludes these amounts from its supermarket definition.)

Drugstores

At the end of 2001, traditional drugstores (those not affiliated with a larger store or part of a mail-order operation) in the United States numbered 41,140, according to the National Association of Chain Drug Stores (NACDS), an industry trade group based in Alexandria, Virginia, down fractionally from 41,194 in 2000. Of this total, 20,493 (roughly half) belonged to chains and 20,647 were independent.

Retail sales for all drugstores in 2001 totaled $169.2 billion, up 7.8% from $157.0 billion in 2000. Chain drugstores had $124.2 billion in retail sales, up 8.4% from $114.6 billion in 2000. Chains accounted for about 73% of industry sales in both 2001 and 2000.

Of the $164.1 billion in prescription sales through all channels in 2001, traditional chains accounted for 41.2% (compared with 42.0% of $145.6 billion in 2000); independents, 20.7% (21.5%); supermarkets, 12.1% (11.9%); mass merchants, 9.3% (9.3%); and mail order, 16.8% (15.2%).

According to *Drug Store News*, the top four drugstore chains in 2001 — Walgreen Co., CVS Corp., Rite Aid Corp., and Eckerd Corp. — had approximately $75.7 billion in retail sales, accounting for about half of total traditional drugstore market share (excluding Albertson's Inc.'s $17.9 billion in drugstore merchandise sales, as shown in the accompanying table). The same four chains had nearly 14,000 stores, accounting for about 68% of total chain drugstore units.

Within the United States, more than 55,000 pharmacies were in operation in 2001, employing approximately 130,802 pharmacists. The vast majority of Americans had access to a pharmacy within five miles of home.

INDUSTRY TRENDS

In the past several years, supermarkets have sprouted pharmacies, and drugstores have begun selling convenience food items. These changes in merchandise mix have created new retail formats — and thus new competition. To be sure, supermarkets and drugstores are continually developing new ways to attract and retain loyal customers. To this end, in recent years many

major chains have instituted "preferred shopper" programs.

Other trends in merchandising include a rising focus on ethnic selections and organic health foods, as well as a variety of private-label goods. In the pharmacy section, profits are expected to benefit from greater use of generic drugs. This section also explores the effects of technology developments on these retailers.

One-stop shopping at the combo store

A significant trend that's been underway in both supermarkets and drugstores in recent years has been the broadening array of products and services, including many not traditionally associated with these retailers. Both the supermarket and drugstore industries are already large and mature, and both constantly need something new to help spur same-store growth. They're finding that building combination (or "combo") stores — stores that sell both food and drugs — is one solution.

Historically, combo stores were outlets that combined the core merchandise mixes of conventional supermarkets and drugstores. Today, the food section of a combination store is similar to a superstore, which is essentially an enlarged and embellished supermarket. The combo adds a full-line pharmacy, and features a common checkout for the food and drug sides of the store. Typically, combo stores devote at least 40% of selling space to nonfood items.

Over time, the format has been expanded to include a variety of specialty product and service departments, ranging from floral and scratch bakery to film processing and dry cleaning. *Supermarket Business* notes that home office supplies are making headway in supermarkets and that at least two chains, Meijer Inc. in Ohio and McKay's Food & Drugs in Maryland, sell clothing. A number of chains, including Albertson's Inc., the Kroger Co., and Safeway Inc., have entered the gasoline business, with gas pumps installed at locations whose parking lots were large enough to support them. Although the program is still in its infancy, Wal-Mart is also building its version of a combo store, called the Neighborhood Market, which includes drive-through windows.

Combination stores are very profitable due to their high traffic (by definition they appeal to a broad range of shoppers) and high overall store margins. For example, gross margins on specialty items such as over-the-counter medications are as high as 30% to 50%, compared with 15% to 20% for off-the-shelf staples like canned soup.

Supermarkets may keep adding pharmacies

When a supermarket contains a pharmacy, health and beauty care sales benefit, often rising 15% to 20% in the first year. Because pharmacies enable operators to improve store traffic, supermarkets are likely to continue putting them in new stores as well as in remodeled stores. Among the largest food/drug combo operators are Albertson's, Great Atlantic & Pacific Tea Co. (A&P), the Kroger Co., Safeway Inc., Publix Super Markets Inc., and Winn-Dixie Stores Inc. Supermarket drugstores had $19.8 billion in prescription sales in 2001, up 14.1% from $17.4 billion in 2000, according to the NACSD.

Drugstore chains, too, have extended their inventory beyond drugs and medical supplies. Front-end merchandise often helps earnings growth, as it carries wider margins than do prescription drugs. The front end is not just over-the-counter medications and health and beauty aids. In larger-format drugstores, merchandise can include convenience foods and drinks, greeting cards, and stationery items.

Chains are experimenting with different types of merchandise. Some of the largest drugstores, such as certain Longs Drug Stores Corp. locations, carry gift and clothing items. In recent years, CVS Corp. has become a big player in one-hour photo processing.

Preferred shopper programs proliferate

Rather than distributing discount coupons via freestanding newspaper inserts that reach a broad demographic, retailers can design special offers based on data obtained from loyalty, or frequent shopper, programs. Frequent shopper programs operate by issuing individual consumers bar-coded cards that they can use to receive discounts and other special offers when they shop at a store. Such programs in effect encourage consumers to make more purchases — and permit retailers to track all of their purchases via electronic checkout.

Loyalty programs have become a staple of U.S. supermarkets. More than half of the top 50 grocery chains as of mid-2002 operated a loyalty program, according to *Supermarket News*. As of mid-2002, loyalty programs were in use at 10,281 supermarkets, up 14% from 8,999 in 1999, according to Retail Systems Consulting, a Florida-based firm specializing in frequent shopper programs and retail systems.

Albertson' announced in October 2002 that it would roll out loyalty cards in its 183 northern California supermarkets. Albertson's was the last major grocery chain in California to offer a loyalty card program. Standard & Poor's believes this trend will continue as retailers respond to both competition and consumer demand. Customer loyalty is key; the top 10% of the average supermarket's customer base accounts for about 41% of store sales, according to ACNielsen HomeScan, as reported in the May 2002 issue of *Supermarket News*.

If shoppers are given the option of receiving discounts from a retailer, they will take advantage of it. Some 74% of U.S. households participated in preferred shopper programs in 2000, up from 70% in 1999, according to ACNielsen research. ACNielsen found that program members cited the availability of frequent shopper programs as the third most important reason for choosing the store at which they shopped most often.

Frequent shopper programs can be found in drugstore chains as well. CVS tested its ExtraCare card in 450 stores in six markets over a two-year period and discovered that 30% of customers drove 80% of the business. In February 2001, CVS launched the program in its more than 4,100 stores. In just over two months, the program had 13 million cardholders. As of September 2002, CVS believed its 30 million ExtraCare cardholders were its most valuable customers, accounting for well over half of sales.

Private labels promote loyalty

As supermarkets and drugstores become more competitive, they are increasingly developing and promoting private-label brands to differentiate themselves from their competitors. Such goods are produced by a manufacturer under contract with a retailer, which distributes them exclusively under its own label. Also known as house brands, private-label products let a supermarket or drugstore offer its customers products that can be found only in its stores. According to ACNielsen, in the 52 weeks ended September 2001, private-label sales by drugstores and supermarkets grew 8.2% and 5.8%, respectively, from the preceding 12-month period.

Private-label goods can improve a store's image and promote customer loyalty. They make business sense as well. For consumers, they offer a 20% to 40% price advantage over national brands. At the same time, they can give retailers a 35% to 40% margin, compared with an average 27% on national brands.

Once regarded as generic and low in quality, the image of private-label brands has improved over the past decade. In a Private Label Manufacturers Association/ Gallup poll in 2001, 25% of those surveyed said they were more likely to purchase a store brand in a drugstore than they had been a year earlier. In the same survey, 33% said they were more likely to purchase private-label brands from supermarkets.

Given the advantages of private-label products, food and drug chains are turning to them to improve profitability. The use of store-branded products is growing at both drug and supermarket chains. In supermarkets, house brands' share of unit volume grew to 20.7% in 2001, from 20.4% in 2000, according to The Food Institute. This marked their largest gain in five years. Overall, private-label sales at supermarkets, drug chains, and mass merchandisers (excluding Wal-Mart) grew 5.7%, reaching $45.8 billion in 2001. Of that total, $40.8 billion in sales were by supermarkets, up 5.3% from 2000 levels.

At drug chains, private labels grew 5.3% in 2001, to $3.3 billion, according to statistics from the Private Label Manufacturers Association. In March 2002, *Chain Drug Review* reported that private-label products accounted for more than 11% of chains' dollar sales and almost 13% of unit sales.

Sales of private-label products should continue to grow in both supermarkets and drug store chains as customers realize the high quality offered by these products and as new products and new product categories are added. Additionally, ongoing consolidation in both industries should help growing re-

BY THE YEAR 2030, ALL THE BABY BOOMERS WILL BE OVER 65...

	2002 (IN MILLIONS)	2030	% CHG.
Total population	280.3	351.1	25
Over-65 population	33.3	66.4	100
Over-65 as % of total	11.9	18.9	....

Source: U.S. Census Bureau.

gional chains to develop better-recognized store-brand labels.

Bright long-term prospects for drugstores

In the twenty-first century, the U.S. population will be characterized by a steep rise in the number of people age 65 and older. In 2002, some 33.3 million Americans, or 11.9% of the population, were 65 or older, up 6.7% from 31.2 million in 1990. The U.S. Census Bureau forecasts that by 2030 the number of seniors will almost double to 66.4 million — 18.9% of the population. This expected growth is particularly important for anticipating healthcare and assistance needs. Currently, senior citizens represent less than 12% of the total population, but account for an estimated one-third of all prescriptions written.

Among other trends that should aid drug stores, new drugs are entering the market every year, while the average price for new drugs continues to rise. Indeed, IMS Health Inc., a pharmaceutical and healthcare consulting firm based in Westport, Connecticut, forecasts that by 2002, 40% of drug spending will be on drugs introduced since 1998. Moreover, IMS sees new and more effective drug therapies, some coming from biotechnology research, as key elements driving U.S. drug sales growth.

A third catalyst that may benefit drugstore industry growth is the prospective prescription drug coverage for Medicare recipients. Medicare, the nation's principal healthcare program for the aged and disabled, spent an estimated $259 billion for medical goods and services in 2002, according to the Centers for Medicare and Medicaid Services (CMS), the federal agency that administers Medicare, Medicaid, and the State Children's Health Insurance. But it does not currently cover prescription drugs used outside of professional healthcare facilities.

While both major political parties concede the need for prescription drug coverage, Democrats call for the federal government to fund 50% of the coverage for all Americans over age 65, while Republicans prefer "voluntary" drug coverage only to low-income seniors. Whatever legislation is finally enacted, some experts believe that demand could surge 30% to 40% as insurance benefits are introduced to a new class of customers entering a peak consumption cycle. Drugstores should see stellar top-line growth from this group, but also some gross margin compression, as higher-margined cash business from seniors is converted to lower third-party reimbursement rates.

Generic drugs should benefit margins

After struggling with the gross margin erosion in the 1990s that accompanied managed care's rise, the drugstore industry may be poised to recapture some of that lost ground with the help of generic pharmaceuticals. According to IMS Health, generics may account for over 55% of all prescriptions filled in 2004, up from 47% in 1999 and 35% in 1992. Since generics yield higher gross margins for pharmacies than do branded drugs, most drug chains are likely to profit from this trend. Key factors spurring this growth include the expanded influence of managed care, an exceptionally large number of branded drugs coming off patent within the next few years, and anticipation of new Medicare outpatient prescription drug coverage.

In the 2002–06 period, more than 40 big-selling drugs — with aggregate 2001 sales of around $40 billion — are scheduled to lose patent protection. These patent expirations will permit generic drugmakers to produce alternatives to these very popular branded drugs. Among major drugs that came off patent in 2001 were Buspar, Pepcid, Losec/Prilosec, and Prozac. Early 2002 saw Ceftin and Glucophage come off patent protection. Axid, Prilosec, Prinivil, Zyban/Wellbutrin SR, and Zestril are also scheduled to lose patent protection during 2002. The patents for Augmentin, Ortho Novum 7/7/7, Ortho Tri-Cyclen, and Tamoxifen are slated to expire in 2003.

Given that generic drugs on average cost less than 31% of their branded counterparts, according to the National Association of Chain Drug Stores, these changes will yield

substantial savings for healthcare plans, consumers, and drug chains. According to a study conducted by the Managed Care Institute of Stamford University and released by the Generic Pharmaceutical Association, for every percentage point increase in the use of generics versus branded drugs, health plans, consumers, and drug chains realize $1 billion in savings. Thus, in the future, we expect healthcare plans to encourage drug chains to continue to promote generic drugs.

Supermarkets cater to new tastes

Responding to consumer interests, supermarkets have been expanding the variety of foods they offer. Areas attracting particular attention include specialty foods, especially the ethnic food subsegment, along with organic, natural, health, and prepared foods.

Specialty items cost more than regular foods and usually provide wider profit margins for supermarkets. According to the National Association for the Specialty Food Trade Inc., an industry group, customers spend more when their purchases include specialty foods, with the typical market basket totaling $49 without specialty foods and $94 with them. The ACNielsen HomeScan research found that 10% of the 55,000 households it studied spent between $500 to $1000 per year on specialty foods.

Rising demand for ethnic foods

Sales of ethnic food — items linked with various cultural traditions generally originating outside the United States — amounted to about $50 billion (including restaurant spending) in 2000 and should climb to $75 billion in 2008, according to a study by Willard Bishop Consulting. The study also projects that nonethnic shoppers will account for 75% of ethnic food sales over the 2000–08 period.

The composition of the U.S. population is changing rapidly. In the 1990s, the number of Hispanics and Asians grew four times as fast as the population as a whole, while the number of African-Americans grew six times as fast. Among ethnic food consumers, the Hispanic population looms large. According to U.S. Census Bureau data, 35.3 million Hispanics resided in the United States in 2000 (latest available), representing 12.6% of the U.S. population, a number that is expected to grow to 44 million by 2010 and 55.1 million by 2020. The Selig Center of the University of Georgia estimates that the Hispanic group had disposable income of $452.4 billion in 2001. In addition, from 1990 to 2001, its buying power grew 7.3% per year, faster than that of the U.S. population as a whole. The Hispanic shopper spends, on average, $117 per week on groceries, compared to the average U.S. shopper's $87. Thus, Standard & Poor's expects a continued concentration on this growing segment.

Supermarket chains with units located in heavily Hispanic areas now hire bilingual cashiers and stockers, and feature whole aisles devoted to regional foods. Nash Finch Co., a midwestern food distributor that owns supermarket chains, runs one chain geared entirely to Hispanic shoppers. Albertson's is testing a new Hispanic format, SuperSaver Foods, in three Southern California locations. The company said that sales as of September 2002 were exceeding expectations. The stores have signs that are bilingual, and the staff is 90% bilingual. Kmart Corp. is also concentrating marketing efforts toward attracting Hispanic customers. The company has started publishing its weekly circular in Spanish as well as English and has launched *La Vida*, a Spanish-language magazine.

Among other ethnic sectors, several supermarkets expanded their kosher products in 2001. Jewel-Osco (a division of Albertson's) opened a full service kosher store in the fall. For 2001, the Food Institute estimates sales of kosher foods grew 12% to 15%. According to Integrated Marketing Communications, consumers in 2001 spent $5.75 billion on kosher products, and the market may grow 30% to $7.5 billion by 2005.

It's only natural

Other fast-growing areas are organic foods (grown without chemicals); natural foods (minimally processed); and health foods (held to be highly beneficial to health). The Food Marketing Institute estimates 2001 sales in the organic industry grew to $7.8 billion in 2000 from $6 billion in 1999. Nearly 40% of consumers now purchase something labeled organic. With sales growth averaging over 20% in the past five years, Standard & Poor's sees sales passing $11 billion in 2003, after topping $9 billion in 2002.

According to data from the Organic Trade Association, a trade group based in Greenfield, Massachusetts, sales of organic food climbed by 20% to 24% annually throughout the 1990s, and are expected to reach an estimated $13 billion in 2003. These figures contrast with growth in the low single digits for the conventional grocery business.

Supermarkets have been paying attention. Most consumers who buy natural and organic products do so in their primary supermarket, rather than visiting specialty markets. Kroger plans to add 120 natural food departments in its fiscal year ending February 1, 2003. As of May 2002, the company had 1,038 natural food departments in its 2,500 stores.

Ready-to-eat items

Another fast-growing food category is prepared foods, which appeal to the harried two-income family looking for home meal replacements. According to ACNielsen, sales of shelf-stable entrees totaled $140.75 million in 2001, up 83.4% from 2000. According to the *Gourmet Retailer's 2000 Prepared Foods Survey*, which surveyed more than 150 specialty food stores, supermarkets, independent groceries, independent delicatessens, and natural food stores, the majority of these retailers indicated that they were expanding the floor space devoted to prepared foods.

Technology stokes growth, cuts costs

To increase efficiencies, reduce labor costs, and improve customer service, drugstores and supermarkets have been experimenting with many kinds of new technology. From wireless technology allowing access to corporate databases at the store to validate customer and warehouse information, to self-scanning checkout systems, which allow customers to ring up their own groceries, technology is an important tool needed to maintain growth.

The implementation of point-of-sale data collection is now widespread, and companies are realizing the benefits of information collected at the checkout counter. The data aids in inventory management, and software has been developed to help retailers use this information to better target promotions to customers. The result has been improved merchandise mix and greater efficiency.

Self-scanning may proliferate

Currently, two types of self-scanning systems are in use. One system enables customers to keep a running total of their purchases as they shop via a hand-held scanner. When a customer is ready to pay, he returns the scanner to a rack, where it produces a receipt that he takes to a cashier.

With the second system, a shopper takes her purchases to a checkout lane and passes each item through a scanner. The scanner reads the item's bar code and totals the cost of the order, which the customer pays with a debit or credit card.

To ensure that customers are honest when using the self-scanning systems, stores employ overhead cameras (which must, of course, be monitored by a store employee). In addition, the scanners can check each item's weight to help ensure that customers do not exchange product bar codes.

Chains using self-checkout include such big names as Albertson's, Kroger, Great Atlantic & Pacific Tea Co. (A&P), Winn-Dixie Stores Inc., and Wal-Mart Stores Inc., as well as many smaller chains. According to the Food Marketing Institute, the percentage of supermarkets nationwide with self-checkout lanes more than tripled from 1999 through 2001. In 2001, self-checkout lanes were found in 19% of supermarkets nationwide, up from 16% in 2000 and only 6% in 1999.

Progressive Grocer reports that self-scanning technology has led to a 10% to 12% increase in sales in stores that implemented it, while cutting labor costs by 20 to 40 hours per week per checkout aisle. With results like these, we suspect that self-scanning will become a supermarket staple within the next five years.

Beyond that, there is talk of developing a radio frequency checkout, where a customer's grocery basket would be scanned in one quick swipe over a scanner. Nevertheless, industry sources note that such technology is eight to 10 years from becoming a reality. In the meantime, we expect retailers to install more self-scanning equipment.

B2B marketplace: a priority

Although technology investments will likely be reduced in 2002 and 2003 due to the economic slowdown, certain areas continue to receive attention, particularly those tied to cost reduction and productivity. One

such area is the business-to-business (B2B) Internet marketplace, which reduces operating costs by combining members' buying power; permitting the exchange of information about costs, promotional discounts, and new supply sources; and facilitating trade directly with suppliers.

According to *Supermarket News*, developing a B2B strategy is among the highest priorities for supermarket and drugstore chains. Companies that have already joined such exchanges include Wal-Mart, A&P, Royal Ahold N.V., Hannaford Bros., H.E. Butt Grocery Co., Kroger, Kmart, and CVS. In 2001, Jupiter Research projected B2B spending would grow to $80.9 billion a year by 2005, from $2.1 billion in 2000.

The three major exchanges serving the food industry are Transora, WorldWide Retail Exchange (WWRE), and GlobalNetXchange (GNX). In March 2000, 17 international retailers founded the WorldWide Retail Exchange. As of November 2002, WWRE membership consisted of 62 retail industry leaders from around the world with combined revenue of more than US$845 billion. GNX was founded in February 2000 as a joint venture of Oracle, Carrefour, and Sears, Roebuck & Co. Transora was formed in June 2000 by 49 consumer product manufacturers. WWRE's trading volume was running at an annualized $4 billion at the end of 2001. GNX facilitated over $2 billion in purchases in 2001. Transora volumes can't be tracked because many of the transactions are private.

Automation comes to the pharmacy

Among other developments, drug chains are using technology to help offset the pharmacist shortage they have been experiencing. The most recent innovations include central fulfillment and central procurement facilities, pharmacy workflow software, and automated dispensing equipment for high volume pharmacies. For example, Rite Aid and CVS have installed robotic prescription fulfillment machines. Other chains, including Longs Drug Stores Corp. and Kroger, have opted for central fill/central processing systems, which automate prescription fulfillment for clusters of store pharmacies.

With the number of prescriptions projected to rise 26% between 2001 and 2005 and the number of pharmacists by only 3.9%, technology will increasingly be needed to meet the growing demand. Additionally, the low margins resulting from increased third party reimbursements are creating operational challenges for drug chains. New technology can help to minimize dispensing errors; shorten customer wait times; handle paperwork for insurers, pharmacy benefits managers, and government programs; and manage patient information.

Supermarket chains nibble at the 'Net...

According to Jupiter Media Metrix, an online retailing research firm based in Darien, Connecticut, annual online food sales are expected to exceed $11 billion by 2006, up from an estimated $1.2 billion in 2002. Despite the Internet's multibillion-dollar sales potential, the larger supermarket chains have largely remained on the sidelines, watching start-up companies flounder with their online efforts. Kroger continues to analyze online models, while Safeway and Albertson's are testing the waters.

As discussed below, many of the pure-play Internet grocers have run into serious problems because of insufficient volume and high order assembly and delivery costs. In our view, the long-term winners in the online grocery category will be the established national food chains, aided by their vast purchasing efficiencies, expansive distribution networks, and strong relationships with consumers.

Among the top three national supermarket chains, Albertson's appears to be the furthest along in developing an Internet enterprise. Albertson's began experimenting with an online grocery service in Texas in 1998. It developed a 108,000-square-foot dedicated fulfillment center capable of delivering 5,500 stockkeeping units (SKUs) of nonperishable groceries to online customers via United Parcel Service.

In 1999, Albertson's modified a 30-year-old, 31,000-square-foot Seattle supermarket to function as a fulfillment center for online grocery orders. After the conversion, 14,000 square feet was dedicated to traditional retail sales, with the other 17,000 square feet given over to online grocery order processing. The retail product mix was cut from 30,000 SKUs to 4,500 SKUs. Meanwhile, the online segment offered up to 16,000 SKUs for delivery — dry gro-

ceries as well as perishables such as meat, produce, and deli items.

Unlike the Texas center, the Seattle operation uses its own trucks to make deliveries, making the business more controllable and reliable. Albertson's has found the Seattle experiment to be successful enough to expand the service to other stores in that city. Expansion continued with the launch of online services in San Diego in October 2001 and into Oregon and the Bay Area in California in March 2002.

...while online-only grocers face starvation

In late 2000, Priceline.com's subsidiary WebHouse Club Inc., which allowed shoppers to name their price on grocery items, closed its doors. It had attracted nearly two million members, but manufacturers were unwilling to pay the difference between the full store price and the discounted contracted price given to the consumer. WebHouse offered manufacturers brand loyalty and data on customer shopping habits in return for the manufacturers accepting the discount price consumers paid. However, the manufacturers were slow to get on board, leaving WebHouse subsidizing the groceries for customers. The result was huge losses for WebHouse.

To trim the high costs of starting an Internet site, many U.S. grocers have been buying out their troubled online counterparts. In April 2000, Royal Ahold N.V. bought 51% of Peapod Inc., the biggest Internet grocer, for $73 million — just as the online grocer was about to run out of money. In 2001, Ahold bought the 42% of Peapod stock still outstanding for $35 million. Four of Peapod's five online markets (Chicago, Boston, southern Connecticut, Long Island, and Washington, D.C.) are currently profitable.

In June 2000, Safeway invested $40 million and entered into strategic alliance and grocery supply agreements with GroceryWorks.com, an Internet grocer that's been operating in Texas since January 2000. Under the terms of the agreements, Safeway acquired 50% of GroceryWorks, which became its exclusive online grocery channel. Meanwhile, in June 2001, Tesco plc, the largest food retailer in the United Kingdom, acquired a 35% interest in GroceryWorks. After closing down its online service in Texas, Safeway announced in June 2001 that it would form an alliance with Tesco. In May 2002, Nielsen//Net Ratings, an online audience measurement firm, estimated Safeway's online home shopping audience at 463,000 customers.

Kroger, in the meantime, is closely watching competitors' online sales. It has vowed not to launch its own Internet effort until it develops a business model capable of producing a profit. The company believes a "bricks-and-clicks" model — an online grocery site supported by the brand name, distribution power, and logistics of a traditional grocery store — is more likely to be successful than a standalone Internet grocer.

HOW THE INDUSTRY OPERATES

Food and drug retailing was once an intensely personalized business. Food was sold by farmers or by neighborhood shop owners who often picked orders for customers, while pharmaceuticals were sold by a family doctor or neighborhood pharmacist. Owners of the early "mom-and-pop" stores often lived in the same neighborhood as their businesses, giving them close knowledge of their customers: their names and ages; where they lived and worked; about how much they earned; the size of their households; and their likes and dislikes.

In the mid-twentieth century, people began migrating from cities to suburbs in large numbers. Merchants followed them, leading to explosive growth in shopping centers and eventually to the formation of giant chains. Large supermarket and drugstore chains came to dominate the retail landscape, which both rationalized and complicated sales practices. Often far removed from their customers, retailers had to spend considerable time and money to obtain information that earlier generations of shopkeepers came by firsthand.

Today, retail chains act as middlemen that bring producers and consumers together. They purchase products from a large number of suppliers, in wide enough assortments to satisfy their customers; move those products to a retail store, where customers may choose among them; maintain the products' freshness; and complete the sales by checking out and bagging merchandise at a cash register. Store hours are often long, to suit the varying schedules of a complex society.

Given that supermarkets and drug chains typically sell staple products, their business is generally noncyclical in nature. Regardless of how the economy is doing, people need to eat and to use pharmaceuticals and over-the-counter drugs. Thus, while sales at drug and supermarket chains may be somewhat affected by a slumping economy, they are more resilient than those at most retailers.

Supermarket industry

Supermarkets — both chains and independents — have come to dominate the grocery store industry. They accounted for nearly 77% ($398.2 billion) of total grocery sales of $517.5 billion in 2001, versus 74% ($271.7 billion) of $368.5 million in 1990.

In that 11-year period, sales at chain supermarkets rose by 72%, to account for 63% of total grocery sales ($326.2 billion) in 2001, up from 52% ($189.8 billion) in 1990. Meanwhile, independent supermarkets lost market share, falling from 22% of total industry sales in 1990, or $81.9 billion, to 14% in 2001, or around $72.0 billion.

The number of grocery stores rose 9.2% from 1990 to 2001, to 158,371 stores. Chain supermarkets outpaced industry growth in terms of units, rising 21% over the 11-year period, while the number of independent stores fell by more than 16%. Approximately 32,265 supermarkets were in operation in the United States in 2001, versus 30,750 in 1990. As of 2001, 21,108 of these units (65%) were affiliated with chains, while the remaining 11,157 (35%) operated independently, compared with 17,460 (57%) and 13,290 (43%), respectively, in 1990. Chains added 283 stores during 2001, while independents added 152 stores.

SUPERMARKET FACT SHEET — 2001

Supermarket employment (mil.)	3.5
Number of grocery stores	158,371
Number of supermarkets ($2 mil. or more in annual sales)	32,265
AVERAGES	
Supermarket size (sq. feet)	44,000
Number of items in a supermarket	25,000
Number of trips per week by consumers	2.2
SALES	
Total grocery stores sales (bil.$)	517.5
Total supermarket sales (bil.$)	398.2
Weekly sales per supermarket ($)	368,779
Weekly sales per sq. foot of selling area ($)	10.83
Sales per customer transaction ($)	25.66
Sales per labor hour ($)	130.00

Source: Food Marketing Institute.

DRUGSTORE PERFORMANCE — 2001

SALES & EARNINGS	
Volume (bil. $)	169.2
Chain stores	124.2
% of total	73.4
% change from year before	8.4
Independents	45.0
% of total	26.6
% change from year before	6.0
Average sales per square foot ($)	550.0
Net-to-sales ratio (%)	1.5
Average volume per chain drugstore (mil. $)	5.6
Chain drug net earnings (bil. $)	1.9
STORES	
Number of chain drugstores	22,005
Number of independents	21,110
Chain drug share of total drugstores (%)	51.0
Total square feet of selling space (millions)	225.6
Average chain drugstore size (sq. feet)	10,250

Source: *Chain Drug Review.*

Drugstore industry

According to the National Association of Chain Drug Stores (NACDS), an industry trade group based in Alexandria, Virginia, the drugstore industry in the United States was estimated to be a $164.1 billion business in 2001, up from $145.6 billion in 2000. Chain drugstores accounted for over 41% of industry revenues, independents 21%, mail order 17%, mass merchants 9.3%, and supermarkets 12.0%. Despite chain drugstores' revenue dominance, there were 20,647 independent drugstores in 2001, versus 20,493 chain drugstores.

An increase in prescription volume — from 2.0 billion prescriptions in 1992 to 3.0 billion in 2001 — has boosted drugstore sales. Traditional drugstores dispensed approximately 70% of these prescriptions, or about 5.8 million prescriptions per day in 2001. The NACDS expects volume to climb to four billion prescriptions annually by 2005, driven by growth in managed care and an aging population.

Types of stores

Supermarkets and chain drugstores are the dominant retail outlets for food and drug sales today. Typical store formats are outlined below. Other formats exist, but they are largely variations of drugstores and supermarkets.

Traditional concepts

The following are the typical store formats:

◆ **Grocery stores.** Stores selling mostly packaged and perishable food items, with a basic, narrow selection of stockkeeping units (SKUs) and annual sales under $2 million.

◆ **Supermarkets.** A conventional supermarket is a full-line, self-service retail store selling dry groceries, canned goods, and nonfood items, in addition to perishable items. To distinguish it from a grocery store, a supermarket is generally classified as having annual sales of $2 million or more. Store size averages 25,800 square feet, according to Competitive Edge research included in the Food Institute's *Food Industry Review 2002*, and yearly sales average about $8.3 million.

◆ **Drugstores.** Pharmacy-related products and services are the drugstore's main draw. Drugstores also generally carry an extensive selection of over-the-counter (OTC) medications, cosmetics, health and beauty aids, seasonal merchandise, specialty items such as greeting cards, and a limited selection of convenience foods. Consumers are attracted to a store by its pharmacy or pharmacist, its convenience, or because it honors their third-party prescription drug plan. According to *Chain Drug Review*, average volume per chain drug store was $5.64 million in 2001; the average store size was 10,250 square feet.

Hybrid formats

Variations of the supermarket and drugstore formats include the following:

◆ **Superstores.** A superstore (not to be confused with a supercenter) is essentially a glorified supermarket, with floor space of some 50,000 square feet, about twice the size of a conventional supermarket. Annual sales average some $19 million, according to Competitive Edge, as reported by the Food Institute. About 10%–20% of a superstore's selling space is devoted to nonfood items, to specialty departments such as florists, and to services like in-store banking or video rentals. This expanded offering of nonfoods and its larger size is what differentiates it from a supermarket. Some superstores, but not all, have small pharmacies.

◆ **Combination (or "combo") stores.** This format unites the features of a superstore and a full-line drugstore, with a common checkout area. With average square footage of 55,700, the combination store devotes 40% or more of total space to nonfood items. The combo store offers twice the SKUs of the average store. Sales per store average about $22 million. Albertson's business model has a major focus on combo stores.

◆ **Wholesale clubs.** The wholesale club format is a membership retail/wholesale hybrid with a limited variety of products presented in a warehouse atmosphere. Measuring 120,000 square feet, warehouse clubs carry inventories consisting of 60% to 70% general merchandise and health and beauty care products, with groceries comprising the balance. Sales per store average about $50 million per year.

While open to retail customers, wholesale clubs sell merchandise in large sizes or bulk packs at prices that are close to wholesale. These stores attract cost-conscious consumers and small business owners, who are drawn by the low prices and multiple units of certain products. Dominant stores in this category today are Sam's Club (a division of Wal-Mart Stores Inc.), Costco Inc., and BJ's Wholesale Club Inc.

◆ **Supercenters.** The supercenter's basic premise is to offer in a single location the merchandise mixes of both a discount store and a supermarket/drugstore combination — often boosted by such ancillary services as dry cleaning, banking, and restaurants. Supercenters average some 170,000 square feet and may devote as much as 40% of selling space to grocery products. Annual sales average some $51 million per store. For supercenter operators such as Wal-Mart, food is a customer magnet that sharply increases the store's overall sales volume, taking customers away from traditional grocery stores.

◆ **"Price impact" supermarkets.** These are generally the same size as conventional supermarkets, but are similar to warehouse clubs in form and function. Such stores focus on high-velocity product categories, employ flow-through distribution methods that reduce storage and handling costs, and minimize store operating expense through warehouse-style operations that include precut cases, pallet-ready displays, and self-bagging by customers. Prices are competitive with large discount and supercenter formats.

◆ **Convenience stores.** These outlets usually carry fewer than 1,500 items, primarily dry groceries, with a limited selection of perishables (mostly dairy products), prepared foods, and general nonfood merchandise. They typically offer little service. Examples of this format include the chains 7-Eleven Inc. and Casey's General Stores.

Efficiency is a must

Supermarkets and drugstores have traditionally been low-margin businesses. For this reason, compounded by growing competition from the new formats described above, retailers must expend a great deal of energy improving operational efficiency and profitability. Efforts to streamline distribution, forge stronger partnerships with suppliers, and lower prices for consumers are part of an operating strategy known as efficient customer response (ECR). Meanwhile, category management is a technology-driven approach to achieving efficiency in assortment and to managing merchandise.

All about ECR

Efficient customer response aims to improve the grocery store supply chain from manufacturer to customer. Its main goals are to provide consumers with the products and services they want; to reduce inventory levels; to eliminate paper transactions; and to streamline the flow of products. It focuses on business practices that companies can employ to promote efficiency and growth.

ECR programs employ point-of-sale and other computer-generated data to give an accurate picture of consumer demand. This information can be passed to the manufacturer via a computer network known as an electronic data interchange (EDI) system. It thus permits the manufacturer to make products in quantities based on actual consumer demand and to distribute them in the most efficient manner.

ECR seeks to improve efficiency in four areas: replenishment, assortment, promotion, and new product introduction.

◆ **Replenishment.** Efficient replenishment focuses on shortening the order cycle and eliminating unnecessary costs associated with it. Related programs include continuous replenishment, electronic data interchange, cross-docking, computer-assisted ordering, and new receiving techniques. (See the "Glossary" section of this survey for definitions of these terms.)

◆ **Assortment.** The principle of assortment concerns a number of factors: the type of items a store should carry in a specific product category; the item's size, flavor, or packaging; the quantities ordered; and the space given to each item. The standard program used to address efficient assortment is category management (discussed in the next section).

◆ **Promotion.** Efficient promotion seeks to reduce or eliminate unproductive marketing practices that inflate inventories without meaningfully improving sales or profits. Newer practices are more selective and are geared toward a store's best customers.

◆ **New product introductions.** New products have long had notoriously high failure rates, resulting in unnecessary added costs. Companies are attempting to improve the new product introduction process by determining the optimal mix of new products that will maximize sales and profits and allocating shelf space accordingly.

Category management

Category management is rapidly becoming an accepted practice in both the chain drugstore and the supermarket industries. By adopting it, retailers hope to offer a consumer-oriented merchandise mix that will achieve maximum profits.

The retailer's first step in implementing category management is to group similar products (for example, breakfast cereals) to-

gether as a self-contained business unit. Each business unit is run by a category manager who works with suppliers to ensure that consumers get the products they want in the sizes and quantities that sell the best.

The category manager consults computer-generated data captured at the store's cashiers. This information reveals what sells the most and/or the fastest, allowing the category manager to project how the product or category will perform in the current market. To enhance sales, the category manager may employ marketing, promotion, pricing, and merchandising strategies.

The intent of the program is to provide a framework for evaluating the selection, arrangement, promotion, and pricing of individual items to achieve the optimum product mix. Instead of offering 25 types of a certain product, the category management process might reduce the selection to 12 — ideally, the 12 that consumers want the most. This information is usually gleaned from point-of-sale data or, less frequently, through customer surveys. By honing the store's merchandise assortment to offer products that customers typically buy, shelf space is freed for other quick-selling or higher-margin items.

Retailers benefit from this arrangement by having the right products on the shelves to draw customers and make the store a more compelling place to shop. Both retailers and their suppliers benefit from reduced inventories, increased turnover, and improved profitability.

One size does not fit all

Although category management is important, merely refining inventory to emphasize top-selling items doesn't make a store more attractive to consumers. Consumers respond not just to isolated product categories but to the store as a whole and what it offers — its appearance, cleanliness, level of service, and perceived value. Since consumer preferences vary from location to location and change continuously, category management programs must constantly evolve to remain useful.

In selecting a mix of merchandise, it's important for a store operator to keep in mind the combination of categories it carries, as well as the performance of an individual product or group. In addition, a single item's popularity can vary widely from store to store, or even within a single store according to the time of day.

Thus, while technology and automation confer important advantages in today's competitive environment, they must be regarded as tools — as means, not ends. It's important that stores not neglect the personal side of merchandising — for instance, the need for helpful sales clerks who know where items are located in the store.

Cost control is crucial

Because supermarkets and drugstores are low-margin businesses, controlling costs is critical. In both industries, the difference between strong and weak players may be decided by a mere 1.0% difference in net margins.

◆ **Product costs.** Even the best managed supermarket and drugstore operators must pay approximately 70 cents to 73 cents in product costs for every dollar of their sales. Given the significance of product costs for a retailer, sharp changes in food inflation or drug inflation can have a significant impact on a company's profitability. The quest for lower product costs has spurred a wave of industry consolidation as supermarket and drug operators seek to increase their purchasing power over suppliers.

◆ **Labor costs.** Food retailing is a labor-intensive business, and employee costs represent the supermarket's greatest operating expense. For supermarkets, labor accounts for over 50% of total operating expenses.

For supermarkets, labor costs aren't as easily controlled as operators might like. Unlike drugstores, many supermarket chains are unionized; their labor costs tend to be higher than those of nonunionized competitors, making it harder for operators to keep shelf prices competitive. This disadvantage has spurred supermarket operators to scrutinize every aspect of their businesses to find ways to cut costs.

In the rapidly expanding drugstore business, companies may find it hard to fill all pharmacist positions available, because there's a shortage of candidates. Through at least 2004, the number of prescriptions filled is expected to grow more quickly than the number of pharmacists. As a re-

sult, many drug chains are using robotics to help improve the rate at which they can fill prescriptions.

In recent years, low unemployment rates in many parts of the country have made it particularly tough for these labor-intensive businesses to find and keep reliable employees. Any increase in the minimum wage can affect profits for both supermarket and drugstore operators as it is difficult to pass this cost along to the consumers. As a result, supermarket and drugstore operators have focused on reducing other operating costs in order to improve expense ratios.

◆ **Other operating expenses.** Marketing and advertising, rent, transportation, and utilities are also substantial but controllable costs for supermarket and drugstore operators. Beyond these expenses, technology is likely to continue to represent a significant cost for drugstore and supermarket operators, as we discuss below.

Collecting fees from manufacturers

Narrowly defined, slotting fees are payments from manufacturers to retailers for placing new products on store shelves. They're a way for manufacturers to guarantee shelf space for their products by subsidizing retailers' up-front costs for adding a new product and compensating the retailer in case the product fails to sell.

Other fees and services are also prevalent. They include retail capital improvement fees (contributions toward construction of new distribution centers or the installation of new store equipment), pay-to-stay fees (up-front payments to guarantee shelf space for an existing product), volume incentives, promotional allowances, "other" rebates (price reductions with no connection to volume or performance), free-product discounts, and failure fees (whereby a manufacturer must buy back unsold product from the retailer).

In some cases, a retailer may decide to carry a product based on the fees received rather than on consumer needs. However, such a choice can negatively affect the company's category management efforts.

Retailers have mixed feelings about slotting fees. Although some accept these contributions to their bottom lines, more retailers are forgoing such short-term profits in favor of offering the right product mix, which confers longer-term gains. There is also some thinking that as more volume is sold via mass merchandise channels, namely the supercenters, competitive pressures may induce conventional retailers to work more on a coordinated partnership basis with manufacturers — that is, without fees.

The Economic Research Service of the U.S. Department of Agriculture also has been investigating the use of slotting fees, but solely within the produce industry. In a report issued January 2001, the agency noted that according to most shippers and retailers, the incidence and magnitude of fees and services associated with wholesale transactions had increased over the past five years. The study found that slotting fees were prevalent in branded categories, such as bagged salads and dried fruit and nuts, but not in commodities, such as lettuce and other bulk products.

Operations shaped by technology

To gain a competitive edge, many major drugstore and supermarket chains have invested heavily in computer and telecommunications equipment. The installation of more efficient information systems has enabled chains to improve inventory levels and enhance distribution capabilities and warehouse storage. Many stores are now linked together electronically, letting the chain's headquarters tally sales for all merchandise by store or by geographic region. This helps them keep pace with the latest industry sales trends and ultimately to lower costs.

Other technologies include electronic labor scheduling systems, which match staff hours with customer shopping patterns. Similar systems in distribution centers coordinate labor and equipment with arriving freight. Satellite communication systems link headquarters and stores. Technologies being tested by some retailers include electronic shelf tags, self-scanning checkouts, and even grocery carts with advertising-filled video screens.

Perhaps the most important technologies used in supermarkets and drugstores are point-of-sale equipment and quick response programs. For drugstores, pharmacy technology is crucial, as we explain below.

POS provides marketing info

Point-of-sale (POS) equipment — the sophisticated counterpart of the cash register — was introduced to supermarkets in 1974 to improve efficiency and productivity. It was later introduced to drugstores as well.

Electronic POS scanners, which are linked to a computer network, read the universal product code (UPC) labels on products. This information, detailing exactly what shoppers are buying, is captured and stored in a database, where it can be studied by the retailer. POS scanners also reduce labor costs and enhance price accuracy by eliminating the need to individually mark items. From the customer's perspective, scanners reduce checkout time and generate a receipt detailing the type and price of each item purchased.

Only in recent years have supermarkets and drugstores begun to realize the potential of POS as a marketing tool. By tracking each customer's purchases and compiling the data, companies can analyze product sales by size, color, and store. They can thus base their buying decisions on facts rather than conjecture, identify the best-selling mix of merchandise, and assess the effectiveness of their promotions.

Quick response aids inventory management

To speed inventory replenishment and improve in-stock positions, retailers and their vendors have increasingly adopted quick response (QR) programs. Taking a "sell one, send one" approach, QR seeks to maintain lean inventories and avoid overstocking, while ensuring that retailers have on hand the merchandise that customers want to buy.

Through these programs, retailers and manufacturers are linked via electronic data interchange (described earlier). By notifying vendors immediately when new merchandise must be ordered, EDI speeds up the replenishment cycle.

PROFILE OF THE CHAIN DRUGSTORE SHOPPER

	PERCENTAGE OF TOTAL CUSTOMERS
Age: 40 to 65	70
Sex: Female	81
Frequency of shopping	
3.5 times a month	
Reasons for entering store	
1. Store honors customer's third-party Rx plan	65
2. Drop off or pick up prescription	50
3. Convenient to home or office	40
4. To buy a nonpharmacy item	40
What attracts consumer to a particular store	
1. Customer usually fills prescriptions at this location	65
2. Convenience of location	40
3. Ease of shopping store	30
4. Merchandise mix	20
5. Value	15
6. Prices	10
Planned purchases	70

NOTE: Figures total over 100% due to multiple responses.
Source: *Chain Drug Review.*

Drug chains get wired

Like supermarkets, drug chains have adopted up-to-date technology, ranging from point-of-sale scanning set-ups to computerized inventory management systems. However, because of the decisive role that prescription medications play in the chain drug merchandise mix, drugstores also face the challenge of staying on the cutting edge of ever-more-sophisticated pharmacy technology.

Since the mid-1990s, the rapid development of this technology has been spurred by the growth of third-party payment systems. Pharmacy operators face the pressure of handling an increasing number of prescriptions, while the burdens of processing orders, dispensing medications, and billing threaten to degrade customer service.

Technology offers a tremendous opportunity to expand the pharmacist's role in patient care. It allows the pharmacist to ensure that consumers receive not only the correct drug in the proper amount, but instruction as to the intended benefits of the medication as well.

Sophisticated management information systems (MIS) can link stores to insurers' databases. This connection enables stores to check customers' eligibility and health plan parameters. It also allows the drugstore to be paid directly for the amount not covered by the customer's copayment.

Automated dispensing machines and picking systems can be tied into management information systems to enable pharmacists and technicians to order, pick, price, dispense, and bill for drugs more quickly and efficiently. Many pharmacies are now installing automated dispensing machines, giving pharmacists more time to work on drug utilization reviews, patient profiling, and counseling.

Finding preferred customers

Customers who shop at retail supermarkets and drugstores generally fall into two distinct groups. One group shops by comparing prices, trying to find the best deals. The other group is more loyal to particular stores, believing that saving time is more important than saving money.

Store operators prefer to court the second group, the time-savers, whose tendency to buy merchandise at full price enhances store profits. Increasingly, many stores are trying to strengthen the loyalty of the shoppers that they attract through targeted marketing and/or customer segmentation programs.

Many stores use loyalty, or frequent shopper, programs to learn what such customers want. These programs involve issuing cards to frequent customers that may be used to receive special discounts on certain items. Whenever a customer uses the card, the store tracks his or her purchases electronically. In this way it builds a database that it can use to target its customers directly and to cross-promote other categories or items. (See also this survey's "Industry Trends" section.)

A retailer can use personal data obtained from its customers' frequent shopper card applications to segment its customer base according to demographics, buying patterns, geographic location, and other variables.

PROFILE OF SUPERMARKET SHOPPER

	PERCENTAGE OF TOTAL CUSTOMERS
Age: 30 to 65	80
Sex: Female	75
Frequency of shopping	
2.2 time a week	
Reasons for entering store	
Grocery shopping	
What attracts consumer to a particular store	
1. Ambiance/cleanliness	75
2. Prices	70
3. Convenience of location	65
4. Checkstand service — speed and accuracy	40
Planned purchases	65
Favorite shopping days	
Saturday	25
Friday	18
Sunday	13
Thursday	11

NOTE: Figures total over 100% due to multiple responses.
Source: *Chain Drug Review.*

With this information, the retailer can track customers' preferences and purchasing habits — which products they buy and how frequently they shop at the store.

Consolidation's role

Drugstore and supermarket companies often find that it's cheaper to grow via acquisitions than to build units from scratch. Mergers can also mitigate certain risks of entering new markets, such as the lack of local knowledge, the difficulty of attracting quality personnel, and the intensity of a competitor's response.

Moreover, through consolidation, a supermarket or drugstore operator is able to generate economies of scale and added clout in marketing and advertising, procurement, distribution, technology, corporate overhead, and private-label development.

KEY INDUSTRY RATIOS AND STATISTICS

▶ **Real growth in gross domestic product (GDP).** Reported quarterly by the U.S. Department of Commerce, real GDP measures the change in the nation's output of goods and services, adjusted for inflation. It thus indicates the overall health of the country's economy. Although the supermarket and drugstore industries are viewed as fairly recession-resistant, the pace of economic growth can affect sales growth and margins.

From 1991 through 2000, the U.S. economy enjoyed a balanced and broad-based expansion marked by rising real output, declining unemployment, and stable inflation. The economy endured a brief recession in 2001, however. A recovery began in the fourth quarter of 2001, when real GDP grew by 1.7% (revised), following a third-quarter decline of 1.3%. Overall, real GDP showed a 0.3% annual gain for 2001. Standard & Poor's forecasts a 2.4% rise in real GDP for full-year 2002, followed by 2.9% growth in 2003.

▶ **Rate of growth in disposable personal income.** Reported each month by the U.S. Department of Commerce, this statistic measures growth in the average consumer's income after taxes and adjusted for inflation. It is an important economic indicator because it gauges how much more (or less) money

consumers have available to spend compared with the year-earlier period.

Because the products sold at supermarkets and drugstores are considered necessities, the volume of products sold tends to remain relatively steady during good times and bad. However, when consumers' income is either stagnant or declining, they may switch to less expensive private-label or generic brands.

Americans' disposable personal income rose 3.8% in 2001. Standard & Poor's estimates a gain of 5.8% for 2002, and projects a 4.7% advance in 2003. These anticipated gains should aid both the supermarket and the drugstore industries.

▶ **Consumer price index (CPI).** Compiled monthly by the Bureau of Labor Statistics, the CPI tracks retail price inflation (or deflation) of various products. It measures price changes for healthcare goods and services, fuel oil, electricity, utilities, telephone services, food, and energy. The medical care component is further subdivided into products and services, with prescription and nonprescription drug statistics broken down separately. The "core" CPI excludes the volatile food and energy categories.

Analysts should focus on the CPI's food-at-home category to gain insight as to whether supermarket operators have any pricing power. Because most companies generally try to pass on their cost increases to consumers, the inflation rate for food prices influences pricing trends in those products.

Given the highly competitive nature of the supermarket industry, food price inflation has been restrained in recent years. Food prices rose 3.1% in 2001, above the 2.8% gain in the overall CPI. Standard & Poor's estimates an advance in the overall CPI of 1.6% for 2002 (with food prices up 1.8%) and a 2.4% rise (1.7% for food) in 2003.

During the 1980s and early 1990s, retail prescription drug prices climbed at an annual rate of 9.6%, compared with an average annual rise of 4.1% for the CPI. However, drug prices slowed considerably during 1994–97, essentially matching the CPI's average annual increase of 2.7% over that period. Drug prices rose 5.7% in 1999, 4.4% in 2000, and 6.0% in 2001, still significantly outpacing the CPI. *Chain Drug Review* expected another 6.0% increase for 2002.

▶ **Producer price index (PPI).** This measure, compiled each month by the Bureau of Labor Statistics, tracks price inflation (or deflation) for the raw materials used by the U.S. manufacturing sector. The PPI is helpful in assessing the cost pressures facing manufacturers and wholesalers in general.

A rise in the PPI can cause a drug or supermarket chain to pay more for its inventory, putting pressure on margins if the price increase cannot be passed along to consumers. Often, strong price competition will result in the retailer's margins being crimped. Although individual components may have been volatile, overall cost pressures facing U.S. firms have been generally benign in the past few years, and they pose little threat in the near term. Standard & Poor's estimates that wholesale prices for food will rise 7.0% in 2002 and 2.0% in 2003.

▶ **Interest rates.** The level of interest rates affects the cost of borrowing for companies. High or rising interest rates limit businesses' incentives to grow at that particular time by increasing the cost of acquisitions, new store openings, and renovations.

Although consumers pay cash for most supermarket or drugstore purchases, their spending can also be limited by higher interest rates, which funnel a bigger portion of their disposable income toward debt payments.

Compared with the late 1970s and 1980s, interest rates today are at relatively low levels. Long-term interest rates, as indicated by 30-year U.S. Treasury bonds, declined to 5.5% in 2001 from 5.9% in 2000. Standard & Poor's currently forecasts that the long bond rate will average 5.3% in 2002 and 5.4% in 2003.

HOW TO ANALYZE A SUPERMARKET OR DRUGSTORE COMPANY

A good starting point for analyzing a supermarket or drugstore company is to understand the macroeconomic environment affecting its business. Some of the measures for doing so are given in this survey's "Key Industry Ratios and Statistics" section. Next, it is essential to look at a range of qualitative and quantitative factors, as discussed below.

Qualitative factors

Qualitative factors aid the analyst in assessing where the company stands relative to its competitors. To make this comparison, several variables should be examined.

Store location

The key to success for a drugstore or supermarket is location. In assessing the potential profitability of a chain's operating locations, many factors come into play. Areas with growing populations help to ensure the long-term viability of a region for a company. Also, if a site is located in a wealthy community, it can mean that the store will be more profitable than usual, as residents will have more disposable income and the store can emphasize higher-margin products.

One of the most important factors to consider is the level of competition from other retailers. Chains that are more geographically diversified will be able to alleviate the risk of high competition or poor economics in any single market.

Not only do drugstores and supermarkets compete with other retailers in their own industries, they compete with each other and with a number of other retail formats that strive to offer one-stop shopping to time-pressed consumers. These include mass merchandisers, warehouse clubs, and discount stores, as well as direct-to-consumer channels such as Internet e-commerce sites. In addition, supermarkets also compete with fast-food chains and restaurants for "a share of the stomach."

Market position

A supermarket or a drugstore company's success also hinges on its ability to secure a leading or dominant share of its market. If a chain isn't one of the top two companies in one or more markets, that doesn't necessarily mean it's a losing concern. However, having the No. 1 or No. 2 position in any given market may let a firm leverage its marketing and distribution costs. For drugstores, a dominant position may mean the ability to win important third-party contract business and to negotiate more favorable reimbursement rates with managed care providers.

As their industries have matured, many supermarket and drugstore chains are shedding stores in areas where they do not have a significant presence, in order to focus their operations in regions where they do have a commanding market share.

Service and amenities

Successful operators draw customers by providing high-quality service. Here, having an attentive and courteous staff is an important ingredient, particularly in the pharmacy area.

Amenities also appeal to shoppers. For this reason, drugstores are implementing value-added services free of charge, such as in-store blood pressure testing and flu vaccinations. Supermarkets offer ready-to-eat home meal replacement items, along with specialty departments such as pharmacies, florists, and film processing centers.

Good service coupled with an array of amenities can help boost a store's operating profitability. Safeway, known for its high service levels, also boasts one of the highest net margins in the supermarket industry.

But determining whether or not a store offers high-quality service is a judgment call. A company with high sales per square foot may owe such results to population or a lack of competition rather than to its quality of service. Generally, service levels are known by reputation, but the best way for an analyst to make this judgment is to visit the chain's stores.

Merchandising and store presentation

Merchandising involves deciding which items to buy and stock. Presentation concerns its strategies for displaying the items for sale, including store layout and décor. Both processes are essential to a store's success; if a store does not stock desirable goods and exhibit them in a compelling way, it will not make sufficient sales to survive. Thus, once chains establish a winning appearance and format, they often maintain them throughout the system to sustain a loyal customer base.

Many companies have found that large, modern stores are a magnet for customers. As a result, many have stepped up their store remodeling programs in recent years. Supermarket chains typically remodel stores every six to seven years, to enlarge them and add more specialty departments.

Growth strategies

Having the right growth strategy is as important to a store's success as merchandising and presentation. Growth is necessary because companies, prompted by their investors, generally want to increase sales and thus profits. But if a company selects the wrong growth strategy, it will end up losing money. For example, if it moves into an area with little competition and favorable demographics, it has a greater likelihood of achieving success than in an area already filled with strong competitors.

In the past, the easiest way to grow was to open new stores. However, given today's overstored retail environment, many companies have turned to acquisitions to fuel growth. Acquisitions enable supermarket and drug chains to generate incremental sales without adding to the overall number of stores, and thus competition, in a specific region.

Technology

In today's competitive environment, companies must be adept at gathering, analyzing, and using information if they are to improve merchandising and distribution, expand customer service, and increase their market share. Investing in information systems can help a company accomplish these goals by tying its stores into supplier and vendor networks and by integrating its internal systems, which can streamline its work flow and reduce expenses.

The analyst should look for a company whose systems are integrated with those of its vendors. This connection enables a company to be more efficient and to reduce out-of-stock positions, which can hurt sales and drive customers to competitors' stores. The company will have a competitive advantage in that its sales levels won't be hurt by not having products on its shelves. Its operational efficiency should give it a cost advantage over less technologically integrated competitors.

Quantitative factors: getting down to basics

The best place to find information to assess the quantitative health of a company is on its financial statements: the income statement, statement of cash flows, and balance sheet.

The income statement

The first step in financial analysis is to dissect the components of the income statement, also known as a profit-and-loss statement. Retailing is subject to seasonal factors, so it's better to look at year-over-year changes (*i.e.*, comparing results with the corresponding year-earlier period) than sequential changes (comparing one quarter with the previous quarter).

When analyzing a supermarket or drugstore, one should focus on the following income statement items.

◆ **Sales.** At the most basic level, a company whose sales are steadily increasing is preferable to one with stagnant or declining sales. However, just looking at overall year-to-year sales changes can be misleading. A company that aggressively opens new stores can generate strong sales gains even if its stores are unprofitable. Conversely, a company that's in the process of closing unprofitable stores may report lower sales, but its financial health could be improving.

Same-store (or identical-store) sales measure the sales results of stores that have been open at least one year. Tracking these sales helps the analyst better understand a company's sales trends. Also, sales per square foot can be measured to determine the true profitability of a company's sales. Steady increases in sales per square foot contribute significantly to improved profitability.

◆ **Gross profit margin.** Gross margin is calculated as net sales minus the cost of goods sold, expressed as a percentage of gross sales. Gross margins generally reflect a company's product mix and its operational efficiency. Pricing and cost control have an important influence on gross margins.

An analyst should compare both year-to-year changes as well as variances with other operators in the segment. For example, a company's gross margins could be narrowing as a result of higher product costs. Such cost increases, however, would also likely affect its competitors. Price competition among operators can also hurt margins as companies lower prices to defend market share.

◆ **Operating profit margin.** Operating profit margin is calculated as gross profit minus operating expenses, expressed as a per-

centage of total sales. (Although companies define operating expenses differently, the figure typically includes selling, general, and administrative expenses, and excludes interest payments and other nonoperating expenses.)

Because operating margin reflects costs that can be controlled somewhat (salaries, commissions, advertising, and so on), it is usually more easily controlled than is gross margin. An increase in the operating margin usually indicates that management is using its resources more efficiently, allowing fixed costs to be spread across greater volumes. Conversely, a trend of narrowing operating margins may be a warning sign that management is not operating at its most efficient level.

◆ **Net income and net profit margin.** Net income is calculated as operating profit minus interest payments, nonoperating expenses, and taxes. In other words, it is the difference between total sales and total expenses — what is commonly called the bottom line. When net income is expressed as a percentage of net sales, it is the net profit margin.

Analysts like to see an improving trend in net profit margins. Excluding any special items that can distort this number (such as "extraordinary items" or "accounting changes"), rising profit margins usually translate into higher returns to shareholders.

◆ **Earnings per share (EPS).** Defined as net income divided by the number of shares outstanding, EPS is one of the key variables in financial analysis. Although managers can manipulate it by increasing or decreasing the number of shares outstanding, EPS is essentially the amount of profits available to each stockholder. This number should be adjusted for special items, so that meaningful year-to-year comparisons can be made.

◆ **Price/earnings (P/E) ratio.** The P/E ratio — the price of a stock divided by its annual earnings per share — is one of the most widely used valuation measures. This ratio is useful for comparing a company with others in the industry as well as with firms outside the industry. The P/E ratio gives investors an idea of how much they are paying for a company's earning power. Investors typically afford a company a higher P/E ratio if its earnings are expected to grow more rapidly than its competitors'.

The statement of cash flows

The statement of cash flows records all changes affecting cash in the categories of operations, investments, and financing. These cash receipts and outflows are reported quarterly for domestic companies, and are followed closely by analysts.

A company's cash position needs to be examined concurrently with its ability to generate cash (its free cash flow). If a firm operates continually with net cash outflows because of working capital needs and capital expenses, one should look to the cash level on the balance sheet to determine how long the company can fund itself until it needs to tap the capital markets for financing.

Free cash flow, which can be defined as a firm's net income plus depreciation and amortization, less capital expenditures, often predicts the future health of a company. A low or negative free cash flow position may impede a company's ability to grow or may necessitate the raising of costly capital to continue operations. For a company with low liquidity, a cash crunch can inhibit it from performing its daily operations. In contrast, a company that generates strong free cash flow can use this excess cash to increase dividends, repurchase stock, or repay outstanding debt.

The balance sheet

The balance sheet reports the major categories and value of assets, liabilities, and stockholder's equity at a specific point in time. Typically, investors welcome a strong balance sheet and avoid a highly leveraged one. The latter position leaves a company little margin for error, with interest payments devouring funds that might otherwise go toward upgrading and remodeling stores or investing in technology.

For supermarkets and drugstores, the important balance sheet items are described below.

◆ **Return on capital invested.** Return on capital invested is calculated as net income divided by the sum of shareholders' equity and long-term debt. Many companies use return on investment as the yardstick for running their businesses. In simple terms, it is acceptable to borrow funds if the long-term return is greater than the borrowing costs.

When making new investments in technology or in its stores, or when making acquisitions, a firm must assess its potential return on those investments relative to the capital commitments.

◆ **Inventory turnover.** The inventory turnover ratio measures the rate at which inventory "turns" or is sold. It is calculated as the store's cost of goods sold (recorded on the income statement for a given period) divided by its average inventory (recorded on the balance sheets for that same period). Because some 40% to 50% of a drugstore or supermarket retailer's assets may be invested in inventory, as is the case for Walgreen and Winn-Dixie, this measure is a critical part of a company analysis.

A high turnover implies that the company is managing its inventory efficiently — that goods are selling well relative to the average amount of inventory kept in stock. This can result in higher gross margins.

Inventory turns vary from industry to industry. For example, inventory turns for a supermarket should be higher than for most other industries, reflecting the large percentage of perishables sold.

◆ **Debt leverage.** Debt leverage can be measured using two standard ratios: debt to shareholders' equity, and long-term debt as a percentage of total invested capital. (Total invested capital is the sum of stockholders' equity, long-term debt, capital lease obligations, and deferred income taxes.)

There's no "optimal" amount of long-term indebtedness that a company should carry. Instead, investors must weigh the benefits of an increased debt load versus those of a clean balance sheet. On the one hand, an increased debt load might enhance near-term growth in earnings per share and shareholder returns. On the other hand, a clean balance sheet allows for a high degree of safety, a potentially higher credit rating, and ready availability of funds for potential opportunities. ■

GLOSSARY

Allowance — A manufacturer's price reduction given to wholesalers or retailers to advertise and/or merchandise specific product(s). It is sometimes given in the form of free product; for example, one free case of an item with purchase of 10 cases. Also known as a trade deal, promotion, or discount.

Assortment — Items a store carries as merchandise. Within a specific product category, assortment refers to an item's size, flavor, or packaging; quantities ordered; and the space given each item.

Category killer — A specialty retailer that dominates its particular retail segment.

Category management — A technology-driven approach to managing merchandise categories that seeks to maximize profits by offering what consumers want, when they want it. It's a central component of the practice known as efficient customer response (ECR).

Combination store — A dual food/drugstore format, with the features of a full-line grocery store and a chain drugstore. Somewhat larger than a superstore, combination stores devote 40% or more of their space to nonfood items, as opposed to 20% or less in a superstore.

Computer-assisted ordering — The preparation of an order through a computer program that takes product movement, seasonal demand, inventory levels, product receipts, and acceptable stock levels into account when generating replenishment orders. The use of point-of-sale information and complete store inventories is essential.

Continuous replenishment — An arrangement whereby a manufacturer automatically replenishes a retailer's merchandise when inventory falls to a predetermined level. Participants exchange information via computer links.

Convenience stores — Retail outlets that usually carry fewer than 1,500 items, primarily dry groceries, with a limited selection of perishables (mostly dairy products), prepared foods, and general nonfood merchandise.

Conventional supermarket — A full-line, self-service retail store selling dry groceries, perishable items, canned goods, and some nonfood items. To distinguish it from a grocery store, a supermarket is generally classified as having annual sales of $2 million or more.

Cross-docking — A shipping process in which a manufacturer consolidates smaller orders from a retailer's various stores into one large delivery to the retailer's warehouse. The retailer is then responsible for distributing the merchandise among its stores. Cross-docking reduces the handling of inventory by collecting products from a manufacturer and sending them out immediately to retailer's stores. In the warehouse, receipts are matched directly to dispatches: as soon as a product has been received and checked, it can be moved directly to a dispatch zone and assembled with other stock into an outbound delivery. It helps reduce operating costs and inventory levels.

Cross-merchandising — On the sales floor, a display of related products, such as cereal and bananas, charcoal briquettes and starter fluid, pasta and tomato sauces. Also known as cross-selling.

Disinflation — A slowing of the rate at which prices increase. By comparison, deflation is when prices actually drop.

Drugstore — A retail outlet specializing in pharmaceuticals and related products and services. Drugstores also generally carry an extensive selection of nonprescription (over-the-counter, or OTC) medications, cosmetics, health and beauty aids, seasonal merchandise, specialty items such as greeting cards, and a limited selection of convenience foods.

Efficient customer response (ECR) — A supermarket strategy intended to streamline distribution and forge stronger partnerships with suppliers in order to counter the threat posed by deep discounters. ECR helps supermarkets restore their competitive positions by allowing them to reduce the prices they charge.

Electronic article surveillance (EAS) — An electronic loss-prevention system that signals when a product carried out of the store has not had its surveillance tag deactivated at a cash register.

Electronic data interchange (EDI) — A network in which retailers are linked with manufacturers by computer. The transfer of information between the retailer's and the vendor's computers eliminates clerical, mailing, and other paper-related costs and decreases overall costs, time delays, and errors. EDI networks facilitate continuous replenishment programs.

End cap — A merchandising display at the end of an aisle, which is a prime selling location for high-margin impulse items.

Front end — The designated area of a retail store for customer checkouts and bagging stands. It may also include a service center, management information systems office, and manager's office.

General merchandise (GM) — Products other than food that are sold in supermarkets and require special buying, warehousing, and servicing. GM classes are hardlines, softlines, reading/writing lines, and health and beauty care.

Health and beauty aids — A broad retailing area that is a major category for drugstores. It includes such products as cosmetics, hair care items (such as shampoo and rinses), oral care (toothpaste, mouthwash), skin care (face cream, soap), and other personal care products (deodorant, shaving supplies).

High-low pricing — A marketing strategy in which a product maintains a high retail list price, but is frequently offered as an advertised special at a lower price.

Home meal replacement (HMR) — Foods prepared in a store and consumed there or at home, requiring little or no preparation by the customer.

Independent supermarket — Ten or fewer supermarket stores operating under a single management; supermarket chains, in contrast, operate more stores.

Limited assortment store — Food stores restricted in size, services, fixtures, and variety of merchandise in order to reduce operating costs and sell goods at the lowest possible prices. Also known as box stores or no-frills stores.

Managed care — A method of delivering and paying for healthcare through a system of provider networks, including health maintenance organizations (HMOs) and preferred provider organizations (PPOs), among others. Managed care plans often include coverage of prescription drug costs.

Pharmacy benefit managers (PBMs) — Intermediaries between pharmaceutical manufacturers and such large-scale drug purchasers as HMOs, large employers, hospital and nursing home chains, and insurance companies. PBMs provide various services, including claims processing, utilization management, and physician monitoring and education.

Point-of-sale (POS) scanners — Electronic devices at store checkout counters that read the universal product code (UPC) on product labels and enable a store to track all customers' purchases. These data can help a retailer identify the best-selling mix of merchandise and assess the effectiveness of its promotions.

Price-impact supermarket — A supermarket that is similar to a warehouse club in form and function. Such stores focus on high-velocity product categories and employ warehouse-style operations that include precut cases, pallet-ready displays, and self-bagging by customers. Prices are competitive with large discount and supercenter formats.

Private-label goods — A product line manufactured under contract for and distributed exclusively by a wholesaler/retailer; also known as a house brand or a store brand.

Promotion — An agreement between a manufacturer and a retailer to use certain incentives, such as price discounts, to boost sales of specific products.

Replenishment — The sales cycle in which a retailer orders goods from a manufacturer, sells them, and then reorders them.

Shrinkage — Retailer losses due to accounting errors, misdirected shipments, mistakes in pricing goods or in ringing up charges, bookkeeping errors, spoilage, breakage, and thefts by employees, vendors, or customers.

Slotting allowance — A manufacturer's incentive to a wholesaler or retailer to stock a new product.

Stock turnover — The number of times during the year that inventory "turns," or is sold. This figure is calculated by dividing total sales by the average value of inventory.

Stockkeeping unit (SKU) — An individual product that possesses a separate universal price code (UPC), a code number given to every item to distinguish it from other merchandise for inventory and accounting purposes. The code can identify contents, color, flavor, packaging size, manufacturer, or other characteristics.

Supercenter — A retail format that offers the merchandise mix of both a discount store and a superstore. It often offers ancillary functions such as dry cleaning, banking, and restaurant services. Supercenters average more than 170,000 square feet and have average annual sales of $51.3 million.

Superstore — A supermarket with an average size of over 50,000 square feet and annual sales of $18 million or more. Superstores offer an expanded selection of food and nonfood items and usually have specialty departments, such as florists, delis, and bakeries.

Warehouse club — A retail/wholesale hybrid with a limited variety of products presented in a warehouse-type environment. Merchandise is sold in large sizes or bulk packs at close to wholesale prices. These large outlets — of 90,000 square feet or more — offer 60% to 70% general merchandise and health and beauty care products, with groceries comprising the balance. To shop in such outlets, customers (typically individuals and small business owners) must purchase memberships.

Industry References

PUBLICATIONS

American Demographics
Media Central
470 Park Ave. S., 8th Fl., New York, NY 10016
(212) 545-3600
Web site: http://www.demographics.com
Monthly; covers U.S. demographic trends.

Chain Drug Review
Racher Press Inc.
220 Fifth Ave., New York, NY 10001
(212) 213-6000
Web site: http://www.chaindrugreview.com
Biweekly; covers events and trends pertinent to the growth and development of the chain drugstore industry.

Chain Store Age
Lebhar-Friedman Inc.
425 Park Ave., New York, NY 10022
(800) 453-2427
Web site: http://www.chainstoreage.com
Monthly; includes merchandising information, operating techniques, training materials, and industry news for chain store executives and store managers.

Drug Store News
Lebhar-Friedman Inc.
425 Park Ave., New York, NY 10022
(212) 756-5000
Web site: http://www.drugstorenews.com
Biweekly; covers the drugstore industry.

Drug Topics
Thomson Medical Economics
Five Paragon Dr., Montvale, NJ 07645
(800) 432-4570
Web site: http://www.drugtopics.com
Semimonthly; covers topics of interest in the drug and retail pharmacy business.

MMR
Racher Press Inc.
220 Fifth Ave., New York, NY 10001
(212) 213-6000
Web site: http://www.massmarketretailers.com
Biweekly; features stories on mass merchandisers, drug chains, and supermarkets.

Progressive Grocer
VNU Business Publications USA
770 Broadway, New York, NY 10003
(646) 654-4500
Web site: http://www.grocerynetwork.com/grocerynetwork/index.jsp
Monthly; has articles about grocery industry trends, companies, and statistics.

Supermarket News
Fairchild Publications Inc.
7 W. 34th St., New York, NY 10001
(212) 630-4000
Web site: http://www.supermarketnews.com
Weekly; covers general supermarket industry trends, with financial highlights.

TRADE ASSOCIATIONS

The Food Institute
American Institute of Food Distribution
One Broadway, Elmwood Park, NJ 07407
(201) 791-5570
Web site: http://www.foodinstitute.com
A nonprofit information and research organization serving the entire food distribution system, from seed companies to grocery chains.

The Food Marketing Institute
655 15th St. NW, Washington, DC 20005
(202) 452-8444
Web site: http://www.fmi.org
A nonprofit association conducting programs in research, education, industry relations, and public affairs on behalf of its members: food retailers and wholesalers and their customers in the United States and around the world.

Grocery Manufacturers of America (GMA)
1010 Wisconsin Ave. NW, 9th Fl., Washington, DC 20007
(202) 337-9400
Web site: http://www.gmabrands.com
World's largest trade association of food, beverage, and consumer product companies. The GMA speaks for food and consumer product manufacturers at the state, federal, and international levels on legislative and regulatory issues, and leads efforts to increase productivity, efficiency, and growth in the food, beverage, and consumer products industry.

National Association of Chain Drug Stores
413 N. Lee St., P.O. Box 1417-D49, Alexandria, VA 22313
(703) 549-3001
Web site: http://www.nacds.org
A trade organization representing the chain-owned and -operated community pharmacy.

Private Label Manufacturers Association
369 Lexington Ave., New York, NY 10017
(212) 972-3131
Web site: http://www.plma.com
An international trade association of manufacturers and suppliers of store-brand food and nonfood products.

GOVERNMENT AGENCIES

Bureau of Labor Statistics (BLS)
Postal Square Building
2 Massachusetts Ave., NE Washington, DC 20210
(202) 691-5200
Web site: http://stats.bls.gov
A division of the U.S. Department of Labor, the BLS is the federal government's principal fact-finding agency in the broad fields of labor, economics, and statistics. Among its major programs are the consumer price index, the producer price index, the employment cost index, and the national compensation survey.

U.S. Department of Commerce
1401 Constitution Ave. NW, Washington, DC 20230
(202) 482-2000
Web site: http://www.doc.gov
This cabinet-level department's mission is to ensure and enhance economic activity for the American people by working with businesses and communities to promote economic growth. Among its many divisions is the Census Bureau, which publishes population statistics and projections.

Food and Drug Administration (FDA)
5600 Fishers Ln., Rockville, MD 20857
(888) 463-6332
Web site: http://www.fda.gov
This division of the U.S. Department of Health and Human Services is responsible for supervising the food and pharmaceutical industries.

COMPANY INFORMATION

Many corporate filings with the federal Securities and Exchange Commission, including 10K and 10Q filings, are available through the commission's Edgar Web site: http://www.sec.gov/cgi-bin/srch-edgar?

Definitions for Comparative Company Analysis Tables

Operating revenues

Net sales and other operating revenues. Excludes interest income if such income is "nonoperating." Includes franchised/leased department income for retailers and royalties for publishers and oil and mining companies. Excludes excise taxes for tobacco, liquor, and oil companies.

Net income

Profits derived from all sources, after deductions of expenses, taxes, and fixed charges, but before any discontinued operations, extraordinary items, and dividend payments (preferred and common).

Return on revenues

Net income divided by operating revenues.

Return on assets

Net income divided by average total assets. Used in industry analysis and as a measure of asset-use efficiency.

Return on equity

Net income, less preferred dividend requirements, divided by average common shareholder's equity. Generally used to measure performance and to make industry comparisons.

Current ratio

Current assets divided by current liabilities. It is a measure of liquidity. Current assets are those assets expected to be realized in cash or used up in the production of revenue within one year. Current liabilities generally include all debts/obligations falling due within one year.

Debt/capital ratio

Long-term debt (excluding current portion) divided by total invested capital. It indicates how highly "leveraged" a company might be. Long-term debt are those debts/obligations due after one year, including bonds, notes payable, mortgages, lease obligations, and industrial revenue bonds. Other long-term debt, when reported as a separate account, is excluded; this account generally includes pension and retirement benefits. Total invested capital is the sum of stockholders' equity, long-term debt, capital lease obligations, deferred income taxes, investment credits, and minority interest.

Debt as a percent of net working capital

Long-term debt (excluding current portion) divided by the difference between current assets and current liabilities. It is an indicator of a company's liquidity.

Price/earnings ratio

The ratio of market price to earnings, obtained by dividing the stock's high and low market price for the year by earnings per share (before extraordinary items). It essentially indicates the value investors place on a company's earnings.

Dividend payout ratio

This is the percentage of earnings paid out in dividends. It is calculated by dividing the annual dividend by the earnings. Dividends are generally total cash payments per share over a 12-month period. Although payments are usually calculated from the ex-dividend dates, they may also be reported on a declared basis where this has been established to be a company's payout policy.

Dividend yield

The total cash dividend payments divided by the year's high and low market prices for the stock.

Earnings per share

The amount a company reports as having been earned for the year (based on generally accepted accounting standards), divided by the number of shares outstanding. Amounts reported in *Industry Surveys* exclude extraordinary items.

Tangible book value per share

This measure indicates the theoretical dollar amount per common share one might expect to receive should liquidation take place. Generally, book value is determined by adding the stated (or par) value of the common stock, paid-in capital, and retained earnings, then subtracting intangible assets, preferred stock at liquidating value, and unamortized debt discount. This amount is divided by the number of outstanding shares to get book value per common share.

Share price

This shows the calendar-year high and low of a stock's market price.

In addition to the footnotes that appear at the bottom of each page, you will notice some or all of the following:

NA—Not available.

NM—Not meaningful.

NR—Not reported.

AF—Annual figure. Data are presented on an annual basis.

CF—Combined figure. In this case, data are not available because one or more components are combined with other items.

Comparative Company Analysis — Supermarkets & Drugstores

Operating Revenues

Company	Yr. End	Million $ 2001	2000	1999	1998	1997	1996	1991	Compound Growth Rate (%) 10-Yr.	5-Yr.	1-Yr.	Index Basis (1991 = 100) 2001	2000	1999	1998	1997
FOOD RETAIL‡																
* ALBERTSONS INC	# JAN	37,931.0	36,762.0	37,478.1A	16,005.1A	14,689.5	13,776.7	8,680.5	15.9	22.5	3.2	437	424	432	184	169
§ CASEYS GENERAL STORES INC	# APR	1,719.0	1,638.5	1,374.5	1,012.5	973.0	918.2	525.3	12.6	13.4	4.9	327	312	262	193	185
§ GREAT ATLANTIC & PAC TEA CO	# FEB	10,973.3	10,622.9	10,151.3	10,179.4	10,262.2	10,089.0	11,591.0	-0.5	1.7	3.3	95	92	88	88	89
* KROGER CO	# JAN	50,098.0	49,000.0	45,352.0A	28,203.3	26,567.3	25,170.9	21,350.5	8.9	14.8	2.2	235	230	212	132	124
† RUDDICK CORP	SEP	2,743.3C	2,682.8	2,624.8	2,487.4	2,300.1	2,142.5D	1,477.9	6.4	5.1	2.3	186	182	178	168	156
* SAFEWAY INC	DEC	34,301.0	31,976.9	28,859.9A	24,484.2A	22,483.8C	17,269.0	15,119.2	8.5	14.7	7.3	227	211	191	162	149
† WHOLE FOODS MARKET INC	SEP	2,272.2	1,838.6D	1,567.9	1,389.8	1,117.3A	892.1A	92.5	37.7	20.6	23.6	2,457	1,988	1,695	1,503	1,208
* WINN-DIXIE STORES INC	JUN	12,903.4	13,697.5	14,136.5	13,617.5	13,218.7	12,955.5	10,074.3	2.5	-0.1	-5.8	128	136	140	135	131
DRUG RETAIL‡																
* CVS CORP	DEC	22,241.4	20,087.5	18,098.3	15,273.6A	12,738.2A	5,528.1D	9,886.2	8.4	32.1	10.7	225	203	183	154	129
§ DUANE READE INC	DEC	1,143.6	1,000.1	839.8	587.4	429.8	381.5	NA	NA	24.6	14.3	**	**	**	**	NA
† LONGS DRUG STORES INC	# JAN	4,304.7	4,027.1	3,672.4	3,266.9	2,952.9	2,828.3	2,365.9	6.2	8.8	6.9	182	170	155	138	125
* WALGREEN CO	AUG	24,623.0	21,206.9	17,838.8	15,307.0	13,363.0	11,778.4	6,733.0	13.8	15.9	16.1	366	315	265	227	198
FOOD DISTRIBUTORS‡																
§ FLEMING COMPANIES INC	DEC	15,625.0	14,437.4	14,645.6	15,069.3	15,372.7	16,486.7	12,910.1	1.9	-1.1	8.2	121	112	113	117	119
§ NASH FINCH CO	DEC	4,107.4A,F	4,015.5A,F	4,123.2A,C	4,115.6D	4,319.1A	3,322.7A	2,337.6	5.8	4.3	2.3	176	172	176	176	185
§ PERFORMANCE FOOD GROUP CO	DEC	3,237.2A	2,605.5A	2,055.6A	1,622.9A	1,230.1A	784.2	NA	NA	32.8	24.2	**	**	**	**	NA
* SUPERVALU INC	# FEB	20,908.5	23,194.3	20,339.1A	17,420.5	17,201.4	16,551.9	10,632.3A,C	7.0	4.8	-9.9	197	218	191	164	162
* SYSCO CORP	JUN	21,784.5	19,303.3	17,422.8	15,327.5	14,454.6A	13,395.1	8,149.7	10.3	10.2	12.9	267	237	214	188	177
§ UNITED NATURAL FOODS INC	JUL	1,016.8	908.7	857.0	728.9A	421.7	286.4H	NA	NA	28.8	11.9	**	**	**	**	NA
OTHER COMPANIES WITH SIGNIFICANT SUPERMARKET OR DRUGSTORE OPERATIONS																
RITE AID CORP	# FEB	15,171.1	14,516.9D	13,338.9C,D	12,731.9A	11,375.1A	6,970.2A	3,748.4	15.0	16.8	4.5	405	387	356	340	303
WEIS MARKETS INC	DEC	1,988.2	2,061.0	2,004.9	1,867.5A	1,818.8	1,753.2	1,294.3	4.4	2.5	-3.5	154	159	155	144	141
WILD OATS MARKETS INC	DEC	893.2	838.1A	721.1A,C	398.9A	311.1	192.5A	NA	NA	35.9	6.6	**	**	**	**	NA

Note: Data as originally reported. ‡ S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year. ** Not calculated; data for base year or end year not available. A - This year's data reflect an acquisition or merger. B - This year's data reflect a major merger resulting in the formation of a new company. C - This year's data reflect an accounting change. D - Data exclude discontinued operations. E - Includes excise taxes. F - Includes other (nonoperating) income. G - Includes sale of leased depts. H - Some or all data are not available, due to a fiscal year change.

Net Income

Company	Yr. End	Million $ 2001	2000	1999	1998	1997	1996	1991	Compound Growth Rate (%) 10-Yr.	5-Yr.	1-Yr.	Index Basis (1991 = 100) 2001	2000	1999	1998	1997
FOOD RETAIL‡																
* ALBERTSONS INC	# JAN	501.0	765.0	427.4	567.2	516.8	493.8	257.8	6.9	0.3	-34.5	194	297	166	220	200
§ CASEYS GENERAL STORES INC	# APR	31.7	35.0	39.4	40.2	33.5	27.0	11.5	10.7	3.3	-9.3	276	304	343	349	291
§ GREAT ATLANTIC & PAC TEA CO	# FEB	-64.7	-25.1	14.2	-67.2	63.6	73.0	70.7	NM	NM	NM	-92	-35	20	-95	90
* KROGER CO	# JAN	1,043.0	880.0	638.0	449.9	444.0	352.7	100.7	26.3	24.2	18.5	1,036	874	634	447	441
† RUDDICK CORP	SEP	-0.7	51.0	50.7	46.8	47.7	42.7	26.8	NM	NM	NM	-3	190	189	175	178
* SAFEWAY INC	DEC	1,253.9	1,091.9	970.9	806.7	621.5	460.6	79.0	31.8	22.2	14.8	1,587	1,382	1,229	1,021	787
† WHOLE FOODS MARKET INC	SEP	51.6	28.9	42.2	45.4	26.6	-17.2	1.6	41.8	NM	78.5	3,296	1,846	2,690	2,897	1,700
* WINN-DIXIE STORES INC	JUN	45.3	-228.9	182.3	198.6	204.4	255.6	170.9	-12.4	-29.3	NM	27	-134	107	116	120
DRUG RETAIL‡																
* CVS CORP	DEC	413.2	746.0	635.1	384.5	37.3	239.6	346.7	1.8	11.5	-44.6	119	215	183	111	11
§ DUANE READE INC	DEC	26.2	22.7	40.7	18.8	-14.7	-17.9	NA	NA	NM	15.6	**	**	**	**	NA
† LONGS DRUG STORES INC	# JAN	47.2	44.9	69.0	63.4	57.7	58.6	55.4	-1.6	-4.3	5.1	85	81	125	114	104

Net Income (cont'd)

Company	Yr. End	Million $ 2001	2000	1999	1998	1997	1996	1991	Compound Growth Rate (%) 10-Yr.	5-Yr.	1-Yr.	Index Basis (1991 = 100) 2001	2000	1999	1998	1997
* WALGREEN CO	AUG	885.6	776.9	624.1	537.0	436.0	371.7	195.0	16.3	19.0	14.0	454	398	320	275	224
FOOD DISTRIBUTORS‡																
§ FLEMING COMPANIES INC	DEC	26.8	-122.1	-44.7	-510.6	38.7	26.7	72.3	-9.5	0.1	NM	37	-169	-62	-706	54
§ NASH FINCH CO	DEC	21.3	15.8	15.2	-39.6	-1.2	20.0	19.1	1.1	1.2	34.3	112	83	80	-208	-6
§ PERFORMANCE FOOD GROUP CO	DEC	40.5	26.9	19.3	16.2	13.2	11.0	NA	NA	29.8	50.6	**	**	**	**	NA
* SUPERVALU INC	# FEB	198.3	72.9	241.7	191.3	230.8	175.0	207.7	-0.5	2.5	172.2	96	35	116	92	111
* SYSCO CORP	JUN	596.9	453.6	362.3	324.8	302.5	276.9	153.8	14.5	16.6	31.6	388	295	236	211	197
§ UNITED NATURAL FOODS INC	JUL	13.4	-1.2	13.5	13.1	9.3	4.0	NA	NA	27.1	NM	**	**	**	**	NA
OTHER COMPANIES WITH SIGNIFICANT SUPERMARKET OR DRUGSTORE OPERATIONS																
RITE AID CORP	# FEB	-761.1	-1,431.8	-1,114.9	143.7	316.4	160.5	124.0	NM	NM	NM	-614	-1,154	-899	116	255
WEIS MARKETS INC	DEC	50.1	73.8	79.7	83.7	78.2	78.9	80.6	-4.6	-8.7	-32.2	62	92	99	104	97
WILD OATS MARKETS INC	DEC	-43.9	-15.0	12.8	11.6	7.0	-4.5	NA	NA	NM	NM	**	**	**	**	NA

Note: Data as originally reported. ‡ S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year. ** Not calculated; data for base year or end year not available.

Return on Revenues (%) / *Return on Assets (%)* / *Return on Equity (%)*

Company	Yr. End	Return on Revenues (%) 2001	2000	1999	1998	1997	Return on Assets (%) 2001	2000	1999	1998	1997	Return on Equity (%) 2001	2000	1999	1998	1997
FOOD RETAIL‡																
* ALBERTSONS INC	# JAN	1.3	2.1	1.1	3.5	3.5	3.1	4.8	3.9	9.9	10.4	8.6	13.4	10.0	21.7	22.2
§ CASEYS GENERAL STORES INC	# APR	1.8	2.1	2.9	4.0	3.4	4.4	5.3	6.6	7.7	7.4	8.9	10.8	12.9	14.2	13.5
§ GREAT ATLANTIC & PAC TEA CO	# FEB	NM	NM	0.1	NM	0.6	NM	NM	0.4	NM	2.1	NM	NM	1.7	NM	7.0
* KROGER CO	# JAN	2.1	1.8	1.4	1.6	1.7	5.6	4.9	5.2	6.9	7.3	31.6	30.5	55.6	NM	NM
† RUDDICK CORP	SEP	NM	1.9	1.9	1.9	2.1	NM	5.1	5.3	5.1	5.7	NM	11.1	11.9	11.8	13.1
* SAFEWAY INC	DEC	3.7	3.4	3.4	3.3	2.8	7.5	7.1	7.4	8.1	8.9	22.2	23.0	27.1	30.8	37.3
† WHOLE FOODS MARKET INC	SEP	2.3	1.6	2.7	3.3	2.4	6.5	4.1	7.0	9.6	7.5	14.4	9.4	14.3	18.8	15.1
* WINN-DIXIE STORES INC	JUN	0.4	NM	1.3	1.5	1.5	1.6	NM	5.9	6.6	7.3	5.5	NM	13.1	14.7	15.3
DRUG RETAIL‡																
* CVS CORP	DEC	1.9	3.7	3.5	2.5	0.3	4.8	9.6	8.9	6.0	0.6	9.6	19.7	19.9	15.1	1.6
§ DUANE READE INC	DEC	2.3	2.3	4.8	3.2	NM	4.2	4.2	8.7	5.5	NM	12.8	25.1	91.1	NM	22.0
† LONGS DRUG STORES INC	# JAN	1.1	1.1	1.9	1.9	2.0	3.4	3.4	6.0	6.4	6.3	6.7	6.5	10.3	10.4	10.1
* WALGREEN CO	AUG	3.6	3.7	3.5	3.5	3.3	11.1	11.9	11.5	11.8	11.1	18.8	20.1	19.7	20.6	19.7
FOOD DISTRIBUTORS‡																
§ FLEMING COMPANIES INC	DEC	0.2	NM	NM	NM	0.3	0.8	NM	NM	NM	1.0	5.8	NM	NM	NM	3.6
§ NASH FINCH CO	DEC	0.5	0.4	0.4	NM	NM	2.3	1.8	1.8	NM	NM	11.0	8.9	9.3	NM	NM
§ PERFORMANCE FOOD GROUP CO	DEC	1.3	1.0	0.9	1.0	1.1	4.1	4.6	4.6	4.9	5.6	8.4	9.8	11.3	11.3	11.3
* SUPERVALU INC	# FEB	0.9	0.3	1.2	1.1	1.3	3.3	1.1	4.5	4.6	5.5	10.8	4.0	15.5	15.3	18.5
* SYSCO CORP	JUN	2.7	2.4	2.1	2.1	2.1	11.6	10.2	9.2	9.0	8.9	30.5	28.5	26.0	23.6	21.0
§ UNITED NATURAL FOODS INC	JUL	1.3	NM	1.6	1.8	2.2	4.7	NM	6.0	8.1	8.8	10.5	NM	12.1	15.7	23.0
OTHER COMPANIES WITH SIGNIFICANT SUPERMARKET OR DRUGSTORE OPERATIONS																
RITE AID CORP	# FEB	NM	NM	NM	1.1	2.8	NM	NM	NM	1.6	4.5	151.6	516.7	NM	4.9	11.7
WEIS MARKETS INC	DEC	2.5	3.6	4.0	4.5	4.3	5.6	6.9	7.6	8.4	8.1	6.8	7.9	8.8	9.6	9.4
WILD OATS MARKETS INC	DEC	NM	NM	1.8	2.9	2.3	NM	NM	4.6	6.3	5.0	NM	NM	8.1	8.1	6.6

Note: Data as originally reported. ‡ S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year.

			Current Ratio					Debt / Capital Ratio (%)					Debt as a % of Net Working Capital				
	Company	Yr. End	2001	2000	1999	1998	1997	2001	2000	1999	1998	1997	2001	2000	1999	1998	1997
FOOD RETAIL‡																	
*	ALBERTSONS INC	# JAN	1.3	1.3	1.1	1.3	1.3	47.1	50.6	46.5	37.4	31.7	519.6	656.6	946.5	370.2	320.9
§	CASEYS GENERAL STORES INC	# APR	0.9	1.0	0.5	0.8	0.6	28.1	31.2	23.6	25.7	20.4	NM	NM	NM	NM	NM
§	GREAT ATLANTIC & PAC TEA CO	# FEB	1.0	1.1	1.1	1.1	1.3	56.5	56.2	53.8	49.5	43.8	NM	NM	NM	938.3	311.4
*	KROGER CO	# JAN	1.0	1.0	1.0	0.8	0.9	68.6	71.1	76.2	106.1	121.5	NM	NM	NM	NM	NM
†	RUDDICK CORP	SEP	1.5	1.6	1.5	1.4	1.4	23.9	29.5	28.1	28.9	30.3	139.3	169.3	165.4	219.1	213.6
*	SAFEWAY INC	DEC	0.9	0.9	0.9	0.8	0.8	51.2	49.7	58.6	58.3	55.2	NM	NM	NM	NM	NM
†	WHOLE FOODS MARKET INC	SEP	0.9	1.1	1.2	2.0	1.5	38.0	49.2	39.8	36.1	30.3	NM	NM	NM	170.5	253.1
*	WINN-DIXIE STORES INC	JUN	1.4	1.0	1.2	1.2	1.1	48.5	3.6	2.7	3.4	3.9	161.7	64.0	15.4	21.3	27.7
DRUG RETAIL‡																	
*	CVS CORP	DEC	1.8	1.7	1.6	1.4	1.3	15.0	11.0	13.1	8.1	10.4	33.9	27.2	32.5	22.7	33.0
§	DUANE READE INC	DEC	3.1	2.7	2.3	2.0	1.9	44.7	74.8	83.2	93.0	136.8	111.4	219.4	274.3	337.0	734.8
†	LONGS DRUG STORES INC	# JAN	1.5	1.4	1.7	1.5	1.5	22.0	22.5	20.5	2.2	2.7	85.8	124.2	78.7	9.3	9.5
*	WALGREEN CO	AUG	1.5	1.5	1.7	1.7	1.6	0.4	0.4	0.5	0.5	0.0	1.5	1.5	1.4	1.3	NM
FOOD DISTRIBUTORS‡																	
§	FLEMING COMPANIES INC	DEC	1.4	1.3	1.3	1.2	1.3	77.9	79.0	74.1	72.5	56.5	370.5	412.0	360.0	490.0	439.0
§	NASH FINCH CO	DEC	1.2	1.3	1.4	1.4	1.7	64.5	65.7	66.8	67.7	61.7	385.2	325.2	251.6	241.8	182.1
§	PERFORMANCE FOOD GROUP CO	DEC	1.2	1.4	1.4	1.4	1.5	29.1	23.8	31.9	29.2	24.5	387.9	118.7	130.4	116.4	84.5
*	SUPERVALU INC	# FEB	0.9	0.9	0.9	1.0	1.1	48.7	52.6	51.7	47.8	50.3	NM	NM	NM	NM	813.9
*	SYSCO CORP	JUN	1.4	1.5	1.7	1.6	1.8	28.5	33.8	37.4	35.3	29.5	107.4	107.7	101.7	101.3	80.6
§	UNITED NATURAL FOODS INC	JUL	1.3	1.5	1.8	1.8	2.5	6.4	19.4	17.8	19.6	20.8	17.4	43.3	34.9	39.4	33.9
OTHER COMPANIES WITH SIGNIFICANT SUPERMARKET OR DRUGSTORE OPERATIONS																	
	RITE AID CORP	# FEB	1.9	2.2	1.3	1.0	1.9	99.2	106.1	93.5	51.5	44.6	252.4	299.5	904.9	NM	158.7
	WEIS MARKETS INC	DEC	1.7	5.1	5.0	5.1	5.5	4.4	0.0	0.0	0.0	0.0	24.4	0.0	0.0	0.0	0.0
	WILD OATS MARKETS INC	DEC	0.8	0.4	0.8	1.0	2.1	51.2	0.2	32.5	0.0	0.3	NM	NM	NM	NM	1.3

Note: Data as originally reported. ‡ S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year.

			Price / Earnings Ratio (High-Low)					Dividend Payout Ratio (%)					Dividend Yield (High-Low, %)				
	Company	Yr. End	2001	2000	1999	1998	1997	2001	2000	1999	1998	1997	2001	2000	1999	1998	1997
FOOD RETAIL‡																	
*	ALBERTSONS INC	# JAN	30-20	21-11	66-29	29-19	23-15	62	42	71	29	31	3.2-2.1	3.8-1.9	2.5-1.1	1.5-1.0	2.1-1.3
§	CASEYS GENERAL STORES INC	# APR	24-17	21-11	22-13	24-16	20-13	14	11	8	8	9	0.8-0.6	1.0-0.5	0.6-0.4	0.5-0.3	0.7-0.5
§	GREAT ATLANTIC & PAC TEA CO	# FEB	NM-NM	NM-NM	NM-66	NM-NM	22-14	NM	NM	108	NM	24	0.0-0.0	5.0-1.0	1.6-1.1	1.8-1.2	1.7-1.1
*	KROGER CO	# JAN	21-15	26-13	45-19	35-19	21-13	0	0	0	0	0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0
†	RUDDICK CORP	SEP	NM-NM	14-9	21-14	23-15	21-13	NM	33	30	32	31	3.7-2.1	3.5-2.3	2.2-1.5	2.1-1.4	2.4-1.5
*	SAFEWAY INC	DEC	25-15	29-14	32-15	37-18	23-16	0	0	0	0	0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0
†	WHOLE FOODS MARKET INC	SEP	48-20	57-31	31-18	40-18	49-17	0	0	0	0	0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0
*	WINN-DIXIE STORES INC	JUN	NM-32	NM-NM	38-18	47-21	32-22	319	NM	83	76	71	10.0-3.1	7.6-4.1	4.6-2.2	3.6-1.6	3.2-2.2
DRUG RETAIL‡																	
*	CVS CORP	DEC	63-22	32-15	37-19	58-32	NM-NM	23	12	14	23	314	1.0-0.4	0.8-0.4	0.8-0.4	0.7-0.4	1.1-0.6
§	DUANE READE INC	DEC	32-21	26-16	16-8	39-17	NA-NA	0	0	0	0	NM	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0	NA-NA
†	LONGS DRUG STORES INC	# JAN	25-16	22-13	22-13	27-16	22-15	44	47	32	34	37	2.8-1.8	3.5-2.2	2.5-1.4	2.2-1.3	2.5-1.7
*	WALGREEN CO	AUG	52-33	59-29	55-37	56-27	38-22	16	18	21	23	27	0.5-0.3	0.6-0.3	0.6-0.4	0.8-0.4	1.2-0.7
FOOD DISTRIBUTORS‡																	
§	FLEMING COMPANIES INC	DEC	60-17	NM-NM	NM-NM	NM-NM	20-13	13	NM	NM	NM	8	0.7-0.2	0.9-0.5	1.1-0.6	0.9-0.4	0.6-0.4
§	NASH FINCH CO	DEC	21-6	10-4	11-4	NM-NM	NM-NM	20	26	27	NM	NM	3.1-0.9	6.0-2.5	6.2-2.5	5.6-3.6	4.1-2.9

	Company	Yr. End	Price / Earnings Ratio (High-Low) (cont'd) 2001	2000	1999	1998	1997	Dividend Payout Ratio (%) (cont'd) 2001	2000	1999	1998	1997	Dividend Yield (High-Low, %) (cont'd) 2001	2000	1999	1998	1997
§	PERFORMANCE FOOD GROUP CO	DEC	34-19	30-10	22-15	23-12	24-13	0	0	0	0	0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0
*	SUPERVALU INC #	FEB	16-8	42-21	15-9	18-13	11-8	37	100	29	33	28	4.4-2.3	4.7-2.4	3.2-1.9	2.6-1.8	3.7-2.4
*	SYSCO CORP	JUN	33-24	44-19	38-23	30-21	28-17	29	25	36	44	33	1.2-0.9	1.3-0.6	1.6-0.9	2.1-1.4	1.9-1.2
§	UNITED NATURAL FOODS INC	JUL	35-15	NM-NM	40-9	45-25	34-16	0	NM	0	0	0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0
	OTHER COMPANIES WITH SIGNIFICANT SUPERMARKET OR DRUGSTORE OPERATIONS																
	RITE AID CORP #	FEB	NM-NM	NM-NM	NM-NM	92-53	27-15	NM	NM	NM	80	32	0.0-0.0	0.0-0.0	7.7-0.7	1.5-0.9	2.2-1.2
	WEIS MARKETS INC	DEC	25-17	26-18	23-17	19-17	19-14	70	60	53	49	50	4.2-2.8	3.3-2.3	3.1-2.3	2.9-2.5	3.5-2.6
	WILD OATS MARKETS INC	DEC	NM-NM	NM-NM	51-26	43-19	43-13	NM	NM	0	0	0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0

Note: Data as originally reported. ‡ S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year.

	Company	Yr. End	Earnings per Share ($) 2001	2000	1999	1998	1997	Tangible Book Value per Share ($) 2001	2000	1999	1998	1997	Share Price (High-Low, $) 2001	2000	1999	1998	1997
	FOOD RETAIL‡																
*	ALBERTSONS INC #	JAN	1.23	1.83	1.01	2.31	2.09	10.51	9.85	9.72	10.82	9.84	36.99-24.00	39.25-20.06	66.63-29.00	67.13-44.00	48.63-30.50
§	CASEYS GENERAL STORES INC #	APR	0.64	0.71	0.76	0.76	0.64	7.44	6.88	6.24	5.73	5.01	15.47-10.73	15.00-7.88	16.75-9.69	18.25-12.25	12.81-8.38
§	GREAT ATLANTIC & PAC TEA CO #	FEB	-1.69	-0.65	0.37	-1.75	1.66	17.54J	20.79J	22.06J	21.87J	24.22J	25.92-6.38	29.06-6.00	37.69-24.50	34.38-21.88	36.00-23.13
*	KROGER CO #	JAN	1.30	1.07	0.77	0.88	0.88	-0.12	-0.67	-1.29	-0.85	-1.64	27.66-19.60	27.94-14.06	34.91-14.88	30.41-17.00	18.66-11.34
†	RUDDICK CORP	SEP	-0.02	1.10	1.09	1.00	1.02	9.61J	10.23J	9.55J	8.82J	8.17J	17.20-9.81	15.94-10.25	22.75-15.13	23.00-15.00	21.38-13.25
*	SAFEWAY INC	DEC	2.49	2.19	1.95	1.67	1.35	1.67	1.35	-1.42	-0.54	0.68	61.38-37.44	62.69-30.75	62.44-29.31	61.38-30.50	31.72-21.06
†	WHOLE FOODS MARKET INC	SEP	0.96	0.56	0.80	0.87	0.52	7.47J	5.80J	5.90J	5.23J	4.20J	46.50-19.47	31.88-17.19	24.81-14.13	35.06-16.00	25.69-8.75
*	WINN-DIXIE STORES INC	JUN	0.32	-1.57	1.23	1.34	1.36	4.83	6.03	9.50	9.22	8.98	33.12-10.22	24.75-13.44	46.69-22.31	62.81-28.63	44.00-29.88
	DRUG RETAIL‡																
*	CVS CORP	DEC	1.02	1.87	1.59	0.96	0.07	8.90	8.20	6.88	5.40	3.96	63.75-22.89	60.44-27.75	58.38-30.00	56.00-30.44	35.00-19.50
§	DUANE READE INC	DEC	1.25	1.28	2.38	1.16	-1.45	5.07	-2.75	-5.32	-7.59	-19.07	40.00-26.85	32.94-20.56	38.50-19.00	45.00-20.25	NA-NA
†	LONGS DRUG STORES INC #	JAN	1.26	1.19	1.77	1.64	1.50	15.75	14.70	17.84J	16.40J	15.12J	32.00-19.90	26.00-15.94	39.50-22.25	44.50-26.00	32.75-22.63
*	WALGREEN CO	AUG	0.87	0.77	0.62	0.54	0.44	5.11	4.19	3.47	2.86	2.40	45.29-28.70	45.75-22.06	33.94-22.69	30.22-14.78	16.81-9.63
	FOOD DISTRIBUTORS‡																
§	FLEMING COMPANIES INC	DEC	0.63	-3.15	-1.17	-13.48	1.02	-1.26	-2.96	-0.14	-0.25	3.31	37.89-10.75	17.63-8.69	13.44-7.19	20.75-8.63	20.38-13.38
§	NASH FINCH CO	DEC	1.83	1.38	1.35	-3.50	-0.11	5.62	4.39	5.02	7.70	13.68	38.20-11.56	14.19-6.00	14.50-5.84	20.00-12.81	24.88-17.50
§	PERFORMANCE FOOD GROUP CO	DEC	1.07	0.95	0.70	0.64	0.56	4.18	3.48	3.24	3.18	3.28	36.35-20.25	28.38-9.50	15.25-10.38	14.56-7.81	13.13-7.25
*	SUPERVALU INC #	FEB	1.49	0.55	1.87	1.59	1.84	2.77	1.56	1.57	6.09	5.80	24.10-12.60	22.88-11.75	28.88-16.81	28.94-20.19	21.13-14.06
*	SYSCO CORP	JUN	0.90	0.69	0.55	0.47	0.43	2.07	1.90	1.71	1.57	1.67	30.12-21.75	30.44-13.06	20.56-12.47	14.34-9.97	11.81-7.31
§	UNITED NATURAL FOODS INC	JUL	0.72	-0.07	0.74	0.75	0.79	5.80	4.99	5.04	4.66	4.36	25.25-10.88	17.75-9.56	29.75-7.00	33.38-19.00	27.13-12.50
	OTHER COMPANIES WITH SIGNIFICANT SUPERMARKET OR DRUGSTORE OPERATIONS																
	RITE AID CORP #	FEB	-1.68	-5.15	-4.34	0.55	1.26	-2.48	-5.04	-4.57	11.41J	3.68	9.99-2.25	12.25-1.75	51.13-4.50	50.38-29.22	34.19-18.81
	WEIS MARKETS INC	DEC	1.55	1.77	1.91	2.00	1.87	19.31J	22.74J	22.03J	21.33J	20.28J	38.25-25.80	45.25-32.00	44.31-32.88	38.88-33.25	36.25-26.88
	WILD OATS MARKETS INC	DEC	-1.80	-0.65	0.56	0.60	0.45	-0.29	1.60	2.46	4.85	4.75	11.97-4.13	23.50-3.88	28.50-14.67	25.50-11.67	19.33-5.72

Note: Data as originally reported. ‡ S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year. J-This amount includes intangibles that cannot be identified.

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