

Seeking Alpha α

Grocers, Wholesalers Saw Higher Profit Margins In 2011

by: Sageworks, Inc.

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Despite higher sales in 2011 for both grocers and wholesalers, wholesale suppliers (NAICS code 4244) saw their gross profits as a percent of sales decline last year to their lowest level in at least 10 years.

Brian Todd, president of non-profit industry trade group [The Food Institute](#), told Sageworks that for the last 18 months, retailers have been absorbing a lot of the higher costs coming from the wholesale side.

"Everyone is cognizant of the fact that consumers have been budget conscious over the last 18 months, and they know they have a whole lot of alternatives to get their foods - dollar stores, warehouse clubs," Todd said. "So (retailers) have been cutting costs in many areas other than food so they could manage to keep prices lower."

Indeed, Food Lion parent Delhaize Group ([DEG](#)) last month announced it would close 113 stores and eliminate 4,900 U.S. jobs as it seeks to improve its price competitiveness and deal with disappointing sales.

In late 2011, though, grocery retailers started raising prices, Todd said. The Food Institute tracks the Producer Price Index for food and the CPI for food at home, and in December, wholesale food inflation matched retail food-at-home inflation for the first time in seven months. The USDA said last month that it expects food at home retail prices to increase 2.5 to 3.5 percent, in line with the average 2.8 percent increase from 1990 to 2011.

"For quite awhile, wholesale prices were increasing much more rapidly than retail, but they've kind of closed the gap at the end of 2011," he said.

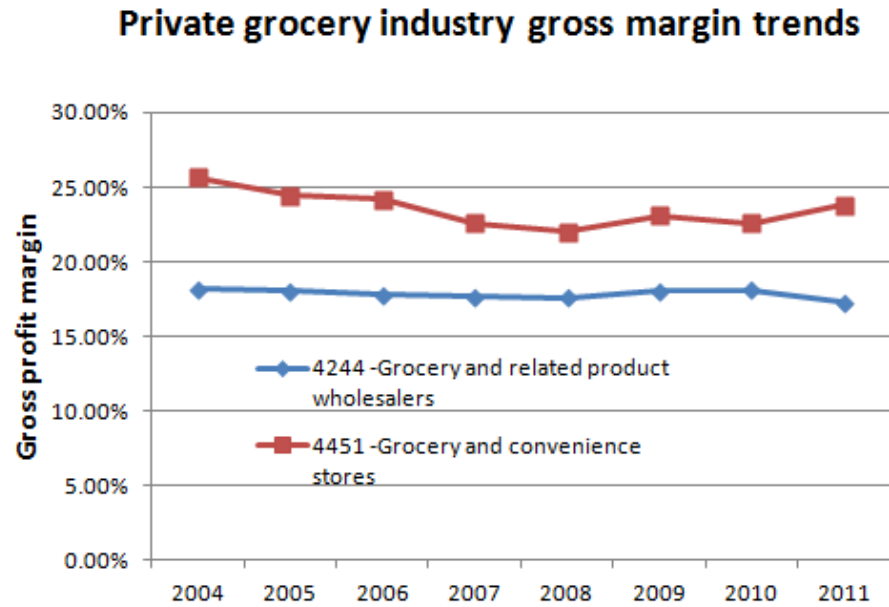
Winn-Dixie Stores Inc. ([WINN](#)) in October said continued retail inflation helped its sales for the quarter ended Sept. 21. Yet the chain decided to merge with rival Bi-Lo in a \$560 million deal provide new financial backing.

One possible boost to margins: private label sales.

Todd said private label sales, which typically carry higher margins for retailers than do name-brand products, have been increasing as a percentage of overall grocery store sales over the past several years.

And prices for private label products have been increasing at a faster rate than prices industrywide, according to a [report](#) by market research firm Symphony IRI. Private label prices are an average 29 percent cheaper than national brands, but rose an average 5.3 percent last year, compared with an industry average of 1.9 percent, the firm said.

Sageworks' senior financial analyst, Michael Lubansky, feels that the data for retail grocers in 2011 appears to be a positive sign for retail grocers. Lubansky says, "After several years of compressed margins caused by increasing input costs and stagnant consumer demand, it looks like retail grocers have finally begun to be able to pass along their input costs to the consumer through increased prices." Lubansky believes that their margin sensitivity in the last several years has caused them to seek greater overall operational efficiency which should lead to stronger results moving forward if these trends continue.



Source: **sageworks**

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Disclosure: I have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours.