KROGER COMPANY: A CASE ANALYSIS

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INTRODUCTION

When Barney Kroger and his partner opened their first store in 1883, he probably had no idea what the company that bears his name would look like 120 years later. From that first store the company has evolved into an operation consisting of 2,532 grocery retail stores in thirty-two states as of January 31, 2004. This includes supermarkets, price-impact warehouse stores, and multi-department stores similar to supercenters. In addition, Kroger operates 802 convenience stores in sixteen states and 440 fine jewelry stores. To complete the one stop shopping strategy, Kroger also operates 466 fuel centers and 1,865 pharmacies. Besides the retail operations, Kroger also operates forty-one food processing or manufacturing facilities producing high quality, private-label products that provide value for customers and enhance profit margins. Kroger is the only U.S. supermarket that operates an economical three-tier distribution system (Kroger 2004).

With all these operations, Kroger has positioned itself as a leader in the grocery retail industry. However, there is no time to relax and rest on past accomplishments. The grocery retail industry has entered the mature stage so companies are looking for ways to innovate and revitalize their operations. With the addition of new competitors like Wal-Mart, Target, and K-Mart, the traditional supermarkets are being challenged to compete in this new industry environment.

CORPORATE MISSION, STRATEGY, AND STRATEGIC GROWTH PLAN

The Kroger Mission Statement reads as follows: "Our Mission is to be a leader in the distribution and merchandising of food, health, personal care, general merchandise and related consumable products and services. By achieving this mission, we will satisfy our responsibilities to shareowners, associates, customer, suppliers, and the communities we serve. We will conduct our business to produce financial returns that reward investment by shareowners and allow the Company to grow. Investments in retailing, distribution and food processing will be continually evaluated for their contribution to our corporate return objectives. We will constantly strive to satisfy the needs of customers as well as, or better than, the best of our competitors. Operating procedures will increasingly reflect our belief that the organization levels closest to the customer are best positioned to serve changing consumer needs. We will provide all associates and customers with a safe, friendly work and shopping environment and will treat each of them with respect, openness, honesty and fairness. We will solicit and respond to the ideas of our associates and reward their meaningful contributions to our success. We value America's diversity and will strive to reflect that diversity in our work force, the companies with which we do business, and the customers we serve. As a Company, we will convey respect and dignity to all individuals.We will encourage our associates to be active and responsible citizens and will allocate resources for activities that enhance the quality of life for our customers, our associates, and the communities we serve." [9]
The Kroger Company has identified five key strengths to set it apart from its competitors:

1. A high-quality asset base that holds leading market shares in many of the nation's largest and fastest-growing metro areas.
2. Broad geographic diversity and multiple retail formats that allow Kroger to meet the needs of virtually every customer.
3. A successful track record of competing against supercenters.
4. Outstanding corporate-brand products that have earned industry-leading market share.
5. A record of strong free cash flow, working capital reduction and superior return on assets.

Since there is such as strong relationship between market share and Return on Assets, basically the higher the market share the greater the ROA, Kroger's fundamental operating philosophy is to grow market share in order to increase shareholder value [9]. In December 2001 Kroger's management team announced a Strategic Growth Plan in response to the current economic and competitive environment. Three key elements were implemented and refined during the 2003 year: reduce operating and administrative costs; leverage Kroger's size to achieve greater economies of scale; and reinvest in their core business to increase sales and market share. The Plan has enabled Kroger to reduce the retail gap versus discount operator and widen the price advantage over traditional competitors in most markets. In addition to the price reductions, Kroger continues to differentiate the stores by offering customers a convenient shopping experience for pharmacy, natural foods, high-quality perishable, expanded general merchandise, and outstanding private-label products. The Company continues to identify additional opportunities to operate more efficiently [9]

COMPANY OPERATIONS

Kroger is headquartered in Cincinnati, Ohio. At the end of 2002 Kroger was still one of the nation's largest retail grocery chains and was ranked number eighteen on the Fortune Five Hundred list. The Company was also the world's largest florist with 2,163 floral shops around the country. Either directly or through its subsidiaries, Kroger operated 2,532 supermarkets, price impact, or multi-department stores in thirty two states under almost two dozen banners by fiscal year end 2003. Kroger has grown through acquisition and believes strongly in maintaining local banners where appropriate. Kroger also operated 802 convenience stores under six banners, 440 fine jewelry stores under four banners, 466 supermarket fuel centers and 42 manufacturing plants [8]. Approximately 290,000 full and part-time associates were employed by the Company at the end of 2002 [9].

CORPORATE BRANDS AND MANUFACTURED PRODUCTS

Corporate Brand products play a central role in the Company's merchandising strategy and provide a key competitive advantage to Kroger. In addition to the grocery category, Kroger carries a wide selection of products in meat, seafood, deli, floral, produce, health and beauty care, and general merchandise. Kroger brand products are produced and sold in three quality tiers – Private Selections, Banner Brands, & For Maximum Value.

FINANCIAL RECAP

A major event in Kroger's financial history happened in 1988 when a hostile take over was attempted. To fend off the take over Kroger restructured, borrowing more than five billion dollars. They also issued stockholders a forty dollar per share dividend and a five-year note valued at $8.69 at the time. After the restructuring, stock traded at nine dollars per share [8]. With this huge debt burden, Kroger was prohibited from paying stockholders any cash dividends. Since the 1988 restructure Kroger has attempted to restructure the debt burden where-ever and when-ever possible.

At least three items are having a significant impact on Kroger's operating results. First, costs related to the mergers including expenses recognized as a consequence of the continued integration of the Company's divisions. Integration primarily resulted from the Company's merger with Fred Meyer and relates to severance agreements, enterprise system and banner conversions, and inventory write-downs. Second, with the implementation of the Strategic Growth Plan in December of 2001, the Company began incurring restructuring charges. While these actions did produce some additional costs, they also reduced expenses by approximately three hundred and six million dollars. Finally, this year's accounting changes also impacted the reported financials [5].

TEACHING NOTE - KROGER COMPANY

Suggestions For Using The Case:

This case includes good information about Kroger Company and a good summary of the grocery retail industry with brief summaries of the major competitors. This case would be ideally used in a capstone Management course such as Strategic Management. It could be positioned after covering course material on company analysis and competitive strategies. It would also be appropriate to use this case for after discussing course material relating to industry analysis. The case provides information for students to begin to understand how a company can position itself in a competitive industry that is in a mature life cycle stage.

Teaching Objectives and Suggested Assignment Questions:

Objectives:

1. To apply the concepts of industry and macro-environmental analysis to understand the industry.
2. To apply the concepts of competitive strategy and internal analysis to evaluate the competitive position of a company.
3. To understand the challenges of company that is a market leader.

Suggested Assignment Questions:

1. What are the main characteristics of the grocery retail industry?
2. What does a Porter's Five Forces Competitive Analysis tell you about the competition facing the grocery retail industry?
3. What are Kroger's internal strengths and weaknesses? What are its external opportunities and threats?
4. What recommendations would you make to the leaders of Kroger Company? How can this company maintain its leadership position in a very competitive industry?