Ms. Deborah L. Feinstein  
Director, Bureau of Competition  
Office of Policy and Coordination  
Room 7117  
Federal Trade Commission  
601 New Jersey Avenue NW  
Washington, DC 20580

April 7, 2014

BY POST AND ELECTRONIC MAIL: antitrust@ftc.gov

In re: Proposed Albertsons-Safeway Supermarket Merger

Dear Director Feinstein:

The non-profit consumer advocacy organization Food & Water Watch respectfully requests that the U.S. Federal Trade Commission (FTC) oppose the early termination of the antitrust examination and undertake a second review of the proposed merger between AB Acquisition LLC (parent company of Albertsons supermarket chain, hereafter Albertsons, both of which are owned by Cerberus Capital) and Safeway Inc. (Safeway). The FTC must conduct a complete investigation of the proposed merger to assess the negative impact on competition in the grocery retailing industry for consumers, farmers and food manufacturers.

The grocery retailing industry has become considerably more concentrated in recent years as a result of mergers and organic growth of both traditional supermarkets and big-box retailers. The proposed Albertsons-Safeway merger would be one of the largest supermarket mergers in history and would only exacerbate retail consolidation and significantly enhance market power. The increase in retail grocery concentration would be especially acute at the regional and local level where the two chains are local rivals. The size, scope and impact of the proposed merger warrants the request for additional information necessary to perform a more thorough and comprehensive analysis.

Since the economy began to recover from the downturn, the pace of mergers has accelerated and threatens to increase concentration in the already over-consolidated food and agriculture sectors. Rapid consolidation in the food and agriculture sectors has been of rising concern to farmers, consumers and federal regulators. The proposed merger contributes to the growing size and market power of the top grocery retailers that has had tremendous ripple effects across the food chain.

Only robust antitrust enforcement can protect consumers and farmers from anticompetitive combinations and practices. A May 2012 Department of Justice report “stressed the importance of vigorous antitrust enforcement” and detailed the ways that anticompetitive mergers and conduct can harm farmers, consumers and others.\(^1\) As President Barak Obama observed in the 2013 State

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\(^1\) U.S. Department of Justice. “Competition and Agriculture: Voices from the Workshops on Agriculture and Antitrust Enforcement in our 21\(^{st}\) Century Economy.” May 2012 at 2.
of Union Address “a free market only thrives when there are rules to ensure competition and fair play.”

The proposed merger between Albertsons and Safeway announced on March 6, 2014 represents just such an anticompetitive merger. The $9.4 billion deal joins two of the largest traditional supermarket chains (the second and fifth largest traditional supermarket chains and fourth and ninth largest retail grocery chains) with 2,410 combined stores, 27 distribution centers and 20 manufacturing plants across the country (Safeway has stores in 20 states and Albers has stores in 29 states). Food & Water Watch estimates that the merger would cover at least 125 metropolitan and micropolitan areas, including 44 metropolitan areas where Albertsons and Safeway are currently local rivals (see Map 1). Food & Water Watch estimates that the merger would significantly increase concentration in these overlapping markets and could raise consumer prices between $900 million and $1.8 billion annually.

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4 “Cerberus Capital to buy Safeway for about $9.4 billion.” Reuters. March 6, 2014; Safeway. [Press release].
5 “Safeway and Albertsons announce definitive merger agreement.” March 6, 2014 at 3 and 4.
The size of the proposed merger is enormous and almost unprecedented. The San Jose Mercury News reported that the proposed merger would create “a massive chain that promises to further transform how Americans shop for groceries.”The New York Times reported the proposed merger was “one of the biggest since the financial crisis.” A Motley Fool analyst described the merger as “a total scale play in an industry where scale matters most.” The combination of more than 2,400 stores is larger than the biggest of the 1990s supermarket mergers. The 1999 Kroger-Fred Meyer merger combined 2,288 stores and the 1998 Albertsons-American Stores merger joined nearly 1,700 stores.

The Clayton Antitrust Act bars mergers that could substantially reduce competition in any business line in any part of the country. The proposed merger threatens to reduce competition in the grocery retailing industry and could harm consumer welfare (through higher prices, reduced choices and undermining the food security of lower-income communities and consumers). The combination substantially increases Albertsons-Safeway’s market power, allowing it to impose small but significant price increases on consumers (monopoly power). The merger would also contribute to consolidation in the food manufacturing industry. Giant grocery retailers exert tremendous leverage over suppliers, which has encouraged a cascade of mergers in the food manufacturing sector, further reducing consumer choice.

Consumers pay more when there are fewer supermarket and grocery retailers competing for shoppers. Decades of academic literature have documented that rising levels of retail grocery concentration lead to higher food prices for consumers. A new Food & Water Watch analysis of grocery prices and retail concentration levels in over 130 metropolitan areas and included as an Appendix to this comment reaffirms the impact rising retail concentration has on supermarket prices.

More fundamentally, concentration, especially through mergers, reduces consumer choice by driving independents and regional chains out of business and consolidating banner stores under larger and larger chain ownership. A more concentrated retail market with a higher number of large chains creates barriers to entry for new competitors. This reduces the likelihood that a competitor will enter a market to capitalize on monopolistic grocery price increases to capture a consumer market by offering more reasonable retail prices.

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The proposed Albertsons-Safeway merger could leverage price concessions from farmers and manufacturers that would be forced to accept price cuts in order to get on their store shelves (monopsony power). These effects could be magnified in many parts of the country where the merger would eliminate key supermarket rivalries and allow the merged firm to exert enhanced unilateral and coordinated market power.

The size and scope of the proposed merger warrants close scrutiny by the FTC. The merger would exacerbate already high concentration in local grocery retail markets. Food & Water Watch opposes the approval of the proposed Albertsons-Safeway merger and urges the FTC to evaluate the merger with considerable skepticism.

* * *

Proposed Albertsons-Safeway merger accelerates consolidation in grocery retailing industry

The retail grocery industry has become significantly more concentrated on the national and especially the local level. The concentration and structure of the retail grocery industry encourages unfair and anticompetitive tendencies because only a few firms are needed to collude, it is easy for supermarkets to rapidly change their prices, with local consumers almost a captive market that are unlikely and unwilling to switch to different stores based on small price increases. 13

Mergers have historically accelerated consolidation. The proposed Albertsons-Safeway merger is only the largest in a recent and apparently growing wave of supermarket mergers.

National retail grocery concentration has been rising: Until recently, most consumers shopped at regional and local supermarket chains. In 1994, Americans bought about one-sixth of their groceries (17.0 percent) at the four largest grocery retailers (see Chart 1). 14 But the rise of the big box food retailers such as Walmart precipitated a wave of supermarket mergers starting in the 1990s that created a network of national supermarket chains — many that continue to display the old regional store names. 15 The national supermarket chains, supercenters and warehouse club stores shifted the food retail market toward the largest grocery powerhouses. By 2014, the biggest chains had

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triplled their market share and the top four retailers sold more than half (54.3 percent) of all groceries in 2014.¹⁶

The proposed Albertsons-Safeway merger comes on the heels of a building wave of supermarket chain mergers that has consolidated the grocery retail market further. In 2014, Kroger purchased Harris Teeter.¹⁷ In 2013, Albertsons reconstituted its national chain by purchasing 877 stores from Supervalu (including the remaining Albertsons stores as well as Jewel-Osco, Shaw’s, Star Market and Acme stores) as well as buying 50 stores from Texas-based United Supermarkets.¹⁸ The Midwest grocery and distribution chains Nash Finch and Spartan also merged in 2013.¹⁹ In 2012, Bi-Lo purchased of the 688-store Winn-Dixie chain.²⁰ Other supermarket and grocery companies are likely to pursue merger strategies to compete in a rapidly consolidating industry.²¹

**Proposed merger would increase national concentration:** The proposed merger would nearly double the sales and market share of Safeway, the larger of the two retailers, and more than double the size of Albertsons. The proposed Albertsons-Safeway would have about $58.9 billion in sales and control about 9.3 percent of the national retail grocery market (see Table 1).

The proposed merger would increase the national level of concentration sufficiently to affect farmers and manufacturers selling into an increasingly concentrated market. If the merger is approved, the top four firms would sell about three-fifths of the nation’s groceries (57.7 percent), a 6.2 percent increase.²² The Herfindahl-Hirschman Index (HHI) concentration index would

<p>| Table 1: National Grocery Retail Market Concentration Before and After Albertsons-Safeway Merger |
|--------------------------------------------------|---------------------------------|----------------------------------|-----------------|-------------------|-----------------|</p>
<table>
<thead>
<tr>
<th>Rank</th>
<th>Grocery Retailer</th>
<th>Sales ($ billions)</th>
<th>Market Share</th>
<th>Grocery Retailer</th>
<th>Sales ($ billions)</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Walmart</td>
<td>$182.0</td>
<td>28.8%</td>
<td>Walmart</td>
<td>$182.0</td>
<td>28.8%</td>
</tr>
<tr>
<td>2</td>
<td>Kroger</td>
<td>$91.3</td>
<td>14.5%</td>
<td>Kroger</td>
<td>$91.3</td>
<td>14.5%</td>
</tr>
<tr>
<td>3</td>
<td>Target</td>
<td>$32.4</td>
<td>5.1%</td>
<td>Albertsons-Safeway</td>
<td>$58.9</td>
<td>9.3%</td>
</tr>
<tr>
<td>4</td>
<td>Safeway</td>
<td>$37.5</td>
<td>5.9%</td>
<td>Target</td>
<td>$32.4</td>
<td>5.1%</td>
</tr>
<tr>
<td>7</td>
<td>Albertsons</td>
<td>$21.4</td>
<td>3.4%</td>
<td>Post-Merger Change</td>
<td>Absolute Relative</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Four-Firm Concentration</td>
<td>54.3%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Four-Firm HHI</td>
<td>1,100</td>
<td>57.7%</td>
<td>3.4%</td>
<td>6.2%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,151</td>
<td>52</td>
<td>4.7%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


²⁰ Hsu (2014).
²² Food & Water Watch examined the total retail grocery market (including big box and convenience stores). Supermarkets like Albertsons and Safeway now effectively compete against a wider range of grocery retailers since
increase modestly, by 4.7 percent, and remain unconcentrated on the national level (below 1,500 HHI). Nonetheless, the combination can have a significant and negative effect on the firms monopsony buyer power over farmers and manufacturers that can contribute to reduced choices for consumers and lower revenues for farmers (see Proposed Albertsons-Safeway merger enhances buyer power at page 19).

**Proposed Albertsons-Safeway merger significantly increases local retail grocery concentration and raises food prices for consumers**

Grocery store concentration can be considerably higher on the local level. Highly concentrated local markets have spread rapidly across the country. In 2004, the top four retailers made more than 80 percent of grocery sales in half of the metropolitan areas in the United States (49.5 percent). In 2011, the four largest retailers sold more than 80 percent of the groceries in nearly two-thirds of the U.S. markets (63.8 percent).

Retailers compete head-to-head in local, not national, markets, and the higher levels of local concentration can increase food prices and reduce selection and choice (see Proposed Albertsons-Safeway Merger Harms Consumer Welfare at page 10). Most consumers merely shop at the closest store, so nearby stores have an advantage over more distant retailers. Although consumers shop in very local markets, the concentration in metropolitan areas largely constrains even these local choices through the coordinated and unilateral exercise of market power.

The proposed Albertsons-Safeway merger would join 1,447 stores and significantly increase retail grocery concentration and negatively impact 67.7 million consumers in 44 metropolitan statistical areas. The big box retailers like Target and Walmart began to sell groceries. The national concentration level is slightly lower for grocery stores and supermarkets alone, but the merger would have a larger impact on this subset of the grocery market. Currently, the top four grocery store chains sold just under one-third of all groceries (32.2 percent) and the proposed merger would raise that four-firm concentration by 11.7 percent to 36.0 percent. Supermarket calculation based on Census Bureau 2012 total grocery store sales (NAICS 4451). The top five grocery stores are Kroger, Safeway, Publix, Ahold and Albertsons. Progressive Grocer. May 2013.

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23 Horizontal concentration is most typically described by either a four-firm concentration ratio or the Herfindahl-Hirschman Index (HHI). HHI is the sum of the squares of the market shares of the companies in any sector. The four-firm concentration ratio is the sum of the market shares of the four largest firms and weights each market share equally, while the HHI gives greater weight to the larger competitors. The U.S. Department of Justice (DoJ) and Federal Trade Commission consider HHI below 1,500 to be unconcentrated, an HHI between 1,500 and 2,500 to be moderately concentrated and those markets with HHI over 2,500 to be highly concentrated. U.S. Department of Justice and the Federal Trade Commission (DoJ/FTC). “Horizontal Merger Guidelines.” August 19, 2010 at 19.

24 Food & Water Watch analysis of Metro Market Studies 2005 Grocery Distribution Analysis and Guide. The top four firms had more than 80 percent of the market in 147 of 298 metropolitan and micropolitan statistical areas.

25 Food & Water Watch analysis of Metro Market Studies 2012 Grocery Distribution Analysis and Guide. The top four firms had more than 80 percent of the market in 231 of 362 metropolitan and micropolitan statistical areas.


areas in 17 states (see Table 2 at pages 11-12). After the proposed merger, Albertsons-Safeway would be the largest grocery retailer in 21 of the overlapping markets. Food & Water Watch estimates that the proposed merger could raise grocery prices and cost consumers between $900 million and $1.8 billion annually in the overlapping markets.

The proposed merger is significant in almost all of the overlapping markets because more than five percent of the stores would merge, which is the FTC definition of a significant merger. In 40 of 44 overlapping markets, the proposed merger would join more than five percent of grocery retail stores; in 36 of the markets, the merger would join more than 10 percent of the stores; and, in 15 markets, the merger would join more than 20 percent of the stores.

Proposed merger would increase the concentration levels in many overlapping markets, which could cost consumers an estimated $900 million

Most of the markets where Albertsons and Safeway compete as rivals are unconcentrated, but the proposed merger would shift many markets from lower to higher concentration levels (from unconcentrated to moderately concentrated or from moderately concentrated to highly concentrated). Food & Water Watch estimates that the shift to higher concentration levels could increase grocery costs throughout the overlapping metropolitan area by $900 million annually.

Currently, three-fifths (26 or 59.1 percent) of the overlapping markets were unconcentrated, one-quarter (11 or 25.0 percent) were moderately concentrated and one-sixth (7 or 15.9 percent) were highly concentrated. The proposed merger would shift 14 markets to a higher level of concentration. Eleven unconcentrated markets would become moderately concentrated and 3 moderately concentrated markets would become highly concentrated.

Food & Water Watch found that markets that shift from unconcentrated to moderately concentrated raised grocery prices by 1.1 percent and shifting from moderately to highly concentrated raised grocery prices by 1.9 percent (see Appendix at page 28). The average supermarket store sold $16 million in groceries in 2012, so a 1.1 percent increase in prices would increase each store’s annual sales by $176,000 and a 1.9 percent price increase would increase

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30 Federal antitrust regulators define unconcentrated markets as having an HHI below 1,500, moderately concentrated markets as having an HHI between 1,500 and 2,500 and highly concentrated markets as having an HHI above 2,500. DoJ/FTC (2010) at 19.
sales by $304,000.\textsuperscript{31} These price hikes seem modest but amount to a $936 million decline in consumer welfare annually in these 14 markets.

**Proposed merger would significantly increase concentration in overlapping markets and reduce consumer welfare by $1 to nearly $2 billion**

The proposed merger would increase the four-firm HHI concentration by an average of 379 points. In many markets the increase is higher. It would increase the four-firm HHI concentration index by more than 200 points in 35 (79.6 percent) of the overlapping markets, an increase the FTC “presumes to increase market power.”\textsuperscript{32} In 18 markets, the merger would increase the four-firm HHI by more than 400 points.

The steep increase in concentration from the proposed merger would give Albertsons-Safeway a significant market share in three-fifths of the markets. In 28 metropolitan areas, the proposed merger would give Albertsons-Safeway more than a 25 percent market share, in 12 markets a 33.3 percent market share and in 6 markets a more than 40 percent market share.

Food & Water Watch has found that these larger increases in HHI are associated with larger increases in consumer retail prices. Grocery prices increased by 1.1 percent in markets that had an HHI increase of over 200 points and by 1.5 percent in markets with an HHI increase of over 400 points (see Appendix at page 28). These increases could reduce consumer welfare in the overlapping markets from between $1.5 billion and $1.8 billion dollars. Using a University of Connecticut model that projects price changes based on the change in the HHI index would reduce consumer welfare by $1 billion annually in the overlapping markets.\textsuperscript{33}

**Proposed merger eliminates important rivalry in overlapping markets, increases gap between remaining firms**

The proposed merger significantly increases regional concentration in many areas by eliminating a significant retail grocery rivalry. The merger would remove major rivals in more than half (23

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|}
\hline
\textbf{Rank of Merging Rivals} & \textbf{No. MSAs} & \textbf{Metropolitan Area} \\
\hline
Top 2 Firms & 6 & San Luis Obispo-Paso Robles-Arroyo Grande (CA), Santa Maria-Santa Barbara (CA), Eugene (OR), Bremerton (WA), Seattle-Tacoma-Bellevue (WA), Spokane-Spokane Valley (WA) \\
\hline
#1 and #3 Firms & 3 & Oxnard-Thousand Oaks-Ventura (CA), San Diego-Carlsbad (CA), Chicago (IL) \\
\hline
#1 and #4 Firms & 2 & Bakersfield (CA), Bend (OR) \\
\hline
#2 and #3 Firms & 4 & Missoula (MT), Medford (OR), Casper (WY), Cheyenne (WY) \\
\hline
#2 and #4 Firm & 4 & Los Angeles-Long Beach-Anaheim (CA), Pueblo (CO), Dover (DE), Farmington (NM) \\
\hline
#3 and #4 Firm & 4 & Grand Junction (CO), Fort Collins (CO), Las Vegas-Henderson-Paradise (NV), Dallas-Fort Worth (TX) \\
\hline
Total Top 4 Rivals & 23 & \\
\hline
\end{tabular}
\caption{Table 3: Markets Where Proposed Albertsons-Safeway Merger Would Combine Top Four Rivals}
\end{table}

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\textsuperscript{31} Cotterill, Ronald W. “Comments on the Food Marketing Institute’s Submission to the FTC Titled ‘Supermarket Merger Investigations and Remedies.’” October 23, 2002 at 2; “Supermarket sales by format.” *Progressive Grocer*. April 2012 at 32.

\textsuperscript{32} DoJ/FTC (2010) at 19

\textsuperscript{33} Food & Water Watch calculation based on change in HHI in overlapping markets and Cotterill, Ronald W. University of Connecticut Food Marketing Policy Center. “Mergers & Concentration in Food Retailing: Implications for Performance and Merger Policy.” Research Report No. 2. 1989 at 18. Table IV at note c. Prof. Cotterill notes at 20 that “One may quibble with the exact level of these estimates, but the empirical method is valid and the general conclusions that come from it are also valid.”

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metropolitan areas) of those markets where Albertsons and Safeway are both among the top four grocery retailers. Mergers that increase local or regional market power by reducing competition can facilitate price increases to consumers because there are few other geographically practical options.\(^{34}\) Mergers between rivals can distort markets sufficiently to deter new market entrants from restoring competition.\(^{35}\)

In six metropolitan areas, the merger would join the top two competitors and in 8 metropolitan areas it would combine the number two firm with the number three or number four firm (see Table 3). In several markets, there are not a large number of grocery retail chains competing for customers, so the merger would represent a significant erosion of competitors. In two metropolitan areas, the proposed merger would reduce the number of competing grocery chains from 5 to 4 (Farmington (NM) and Casper (WY)). In two other markets, the merger would reduce the number of competitors from 6 to 5 (Grand Junction (CO) and Cheyenne (WY)). In four metropolitan areas, the merger would reduce the number of competitors from 8 to 7 (Flagstaff (AZ), Prescott (AZ), Pueblo (CO) and Missoula (MT)).

After the proposed merger, Albertsons-Safeway would be the largest grocery retailer in 21 of the overlapping markets and in many cases the gap between the Albertsons-Safeway and its closest rivals would be significantly larger than the difference between the top firm and second and third place firms before the proposed merger (see Table 4). In the San Luis Obispo-Paso Robles-Arroyo Grande metropolitan area, before the merger, the top firm (Albertsons) was slightly larger than its nearest rival and had twice the market share of the fourth largest firm. But

\(^{34}\) Baye, Michael R. and Graeme Hunter. NERA Economic Consulting. “Going beyond the conventional wisdom on whether merger-related cost savings will benefit consumers.” Antitrust Insights. Spring 2010 at 7.

after the proposed merger, Albertsons-Safeway would be more than three times larger than the second place firm and four times larger than the number three and four firm. In Santa Maria-Santa Barbara (CA), the top firm (Safeway) was slightly larger than its nearest rivals (21.6 percent, 19.1 percent, 17.4 percent and 12.9 percent, respectively). But after the proposed merger, Albertsons-Safeway would be three times larger than the second largest firm, three times larger than the third place firm and nearly 6 times larger than the fourth largest firm. In Chicago, Albertsons (Jewel-Osco) was nearly three times larger than the second place firm and more than three times larger than the third place firm. After the proposed merger, Albertsons-Safeway would be more than three times larger than the second largest firm and about six times larger than the third and fourth largest form.

Proposed Albertsons-Safeway Merger Harms Consumer Welfare by Raising Prices, Reducing Choice

The size and scope of the proposed Albertsons-Safeway merger is likely to increase grocery prices for consumers, diminish consumer choice of stores and grocery products and especially disadvantage lower income consumers and communities. Consumers are especially vulnerable to the consolidated market power of food retailing and manufacturing companies since food is essential and total consumer demand for food is largely unresponsive to price. This inelastic demand also means that concentrated market power in the food sector can distort competition, raise prices and exacerbate economic inequality more significantly than sectors where consumers are more responsive to prices.

Mergers increase national grocery consolidation and the market power of supermarket chains. Mergers can create two basic types of anticompetitive effects: coordinated effects that increase the likelihood of collusion between competitors or unilateral effects that give the merged firm the market power and incentive to change the manner in which it prices its products.

Mergers enhance unilateral market power of supermarkets: Grocery retailers are uniquely able to exert unilateral market power in concentrated markets. Consumers face a basic form of retailer market power based on the location of the grocery store, since consumers bear travel and time costs to get to the retailer, which creates a kind of captive market. Each supermarket effectively acts as a local, one-stop-shopping monopoly. Price hikes on specific grocery items merely induce consumers to switch to a cheaper product in the same store, but because the large retailers can absorb these pricing shifts, they have an “inherent source of pricing power.” Moreover, the

41 Richards and Pofahl (2010).
<table>
<thead>
<tr>
<th>Metropolitan Statistical Area</th>
<th>Pre-Merger MSA</th>
<th>Albertsons</th>
<th>Safeway</th>
<th>Combined Albertsons-Safeway</th>
<th>Four-Firm Concentration</th>
<th>HHI Index</th>
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<tr>
<td></td>
<td>ST</td>
<td>Tot. Chains</td>
<td>Tot. Stores</td>
<td>Stores</td>
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<td>Mkt. Share</td>
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<td>Baltimore</td>
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<td>19</td>
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<tr>
<td>Bellingham</td>
<td>WA</td>
<td>11</td>
<td>24</td>
<td>1</td>
<td>8</td>
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</tr>
<tr>
<td>Bend</td>
<td>OR</td>
<td>14</td>
<td>34</td>
<td>3</td>
<td>4</td>
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<tr>
<td>Boulder-Loveland</td>
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<td>Casper</td>
<td>WY</td>
<td>5</td>
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<tr>
<td>Cheyenne</td>
<td>WY</td>
<td>6</td>
<td>19</td>
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<tr>
<td>Chicago</td>
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<td>1865</td>
<td>172</td>
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<tr>
<td>Coeur d'Alene</td>
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</tr>
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<td>Colorado Springs</td>
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<td>4</td>
<td>5</td>
<td>5.2%</td>
</tr>
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<td>7</td>
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<tr>
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<tr>
<td>Dover</td>
<td>DE</td>
<td>9</td>
<td>25</td>
<td>2</td>
<td>2</td>
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<td>Eugene</td>
<td>OR</td>
<td>18</td>
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<td>7</td>
<td>2</td>
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<td>Flagstaff</td>
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<td>26</td>
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</tr>
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</tr>
<tr>
<td>Grand Junction</td>
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<td>18</td>
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<td>4</td>
<td>7.7%</td>
</tr>
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<td>Kennewick-Richland</td>
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<td>13</td>
<td>33</td>
<td>4</td>
<td>4</td>
<td>12.4%</td>
</tr>
<tr>
<td>Lake Havasu City-Kingman</td>
<td>AZ</td>
<td>9</td>
<td>31</td>
<td>1</td>
<td>5</td>
<td>3.5%</td>
</tr>
<tr>
<td>Las Vegas-Henderson-Paradise</td>
<td>NV</td>
<td>21</td>
<td>376</td>
<td>29</td>
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</tr>
<tr>
<td>Los Angeles-Long Beach-Anaheim</td>
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</tr>
<tr>
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</tr>
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<tr>
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<td>Pre-Merger MSA</td>
<td>Albertsons</td>
<td>Safeway</td>
<td>Combined Albertsons-Safeway</td>
<td>Four-Firm Concentration</td>
<td>HHI Index</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
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<td></td>
<td>ST</td>
<td>Tot. Chains</td>
<td>Tot. Stores</td>
<td>Stores</td>
<td>Rank</td>
<td>Mkt. Share</td>
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<tr>
<td>Olympia-Tumwater</td>
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<tr>
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<tr>
<td>Philadelphia-Camden-Wilmington</td>
<td>PA, NJ, DE, MD</td>
<td>32</td>
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<tr>
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<td>Portland-Vancouver-Hillsboro</td>
<td>OR, WA</td>
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<tr>
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<tr>
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<tr>
<td>Santa Maria-Santa Barbara</td>
<td>CA</td>
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<tr>
<td>Seattle-Tacoma-Bellevue</td>
<td>WA</td>
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<td>12.4%</td>
</tr>
<tr>
<td>Spokane-Spokane Valley</td>
<td>WA</td>
<td>16</td>
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<td>12.4%</td>
</tr>
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<td>Tucson</td>
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</tr>
<tr>
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</tr>
<tr>
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<td>2</td>
<td>6</td>
<td>4.5%</td>
</tr>
<tr>
<td>Yuma</td>
<td>AZ</td>
<td>8</td>
<td>27</td>
<td>2</td>
<td>5</td>
<td>7.3%</td>
</tr>
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</table>

largest supermarket chains can use their low costs, promotional and advertising advantages over their rivals and vertical alliances with manufacturers to harm consumers. Retail market power allows supermarkets to charge consumers considerably more than it costs to put groceries on store shelves.\textsuperscript{43}

\textbf{Mergers enhance coordinated market power of supermarkets:} Higher levels of concentration among local retailers allow competitors to coordinate pricing strategies.\textsuperscript{44} Local supermarkets mimic each other’s pricing strategies very precisely, which makes it nearly impossible for consumers to comparison shop for grocery savings.\textsuperscript{45} A 2011 study found that Seattle’s two dominant retailers matched one another’s milk prices, which increased the cost of milk for consumers.\textsuperscript{46} Retailers appear to not only tacitly follow one another’s pricing structures but also appear to replicate one another’s product offerings.\textsuperscript{47} The widespread parallel accommodating conduct of purported competitors is exacerbated by mergers that reduce the number of rivals.\textsuperscript{48}

\textbf{Overwhelming academic evidence and new Food & Water Watch analysis demonstrates that retail concentration and mergers raise consumer prices}

Higher levels of grocery store consolidation lead to higher food prices. The link between retail concentration and grocery prices has been studied extensively, and the vast majority of studies have found that food prices rise when retail concentration increases.\textsuperscript{49} A U.S. Department of Agriculture research economist concluded that “the overwhelming consensus is that prices rise — and, in general, supermarkets set prices less competitively — as concentration increases.”\textsuperscript{50}

Decades of academic literature conclusively demonstrates that consumers pay more for groceries in more concentrated retail markets. A 1981 study of 18 large metropolitan areas by a USDA economist found that an increase in the market share of the top three grocery chains significantly increased prices.\textsuperscript{51} A 1986 University of Connecticut study of Vermont grocery stores found that market concentration had a significant impact on food prices.\textsuperscript{52} A 1995 University of Wisconsin study of 25 metropolitan areas over 15 years found that the cities where retail consolidation

\begin{itemize}
\item \textsuperscript{42} Martens (2008) at 13.
\item \textsuperscript{43} Volpe (2011) at 488.
\item \textsuperscript{44} Putsis, William P., Jr. “An empirical study of the effect of brand proliferation on private label–national brand pricing behavior.” \textit{Review of Industrial Organization}. 1997 at 360.
\item \textsuperscript{45} Fishkin (2007) at 6; Cotterill (1989) at 20 to 21.
\item \textsuperscript{46} Chimdi, Benaisaa and Olga Murova. “Measuring market power in the supermarket industry: The case of the Seattle-Tacoma fluid milk market.” \textit{Agribusiness}. Vol. 27, No. 4. 2011 at 437 and 448.
\item \textsuperscript{48} DoJ/FTC (2010) at 24 to 25.
\item \textsuperscript{49} Kinsey (1998) at 10.
\item \textsuperscript{51} Lamm, R. McFall. “Prices and concentration in the food retailing industry.” \textit{The Journal of Industrial Economics}. Vol. 30, No. 1. September 1981 at 75.
\end{itemize}
concentration increased over time was strongly associated with rising consumer food prices. A 2007 study found a significant causal link between higher retail concentration and higher food prices.

Many studies have also demonstrated that supermarket mergers accelerate consolidation and increase the prices consumers pay for food. A 1989 University of Connecticut study estimated that four mergers raised grocery prices in 16 metropolitan areas by nearly $470 million annually — about $890 million in inflation-adjusted 2014 dollars. A 1999 study found that supermarket mergers contributed to a significant increase in their ability to exert market power, allowing them to raise prices above the cost of delivering the grocery items. In 2009, the first empirical supermarket merger study found that after two of the top five firms in the Madison, Wisconsin area merged, prices were initially stable but ultimately the merged stores used their market power to significantly increase prices. A 2010 study found that stores that merged in the late 1990s unilaterally imposed “post-merger price increases” and lowered the frequency and discounts of sales and special promotions. It concluded that “supermarkets may have unilaterally changed pricing strategies post-merger which resulted in higher prices.” A 2012 FTC white paper found that half of the supermarket mergers in highly concentrated markets raised food prices by more than 2 percent. A two percent price increase might sound small, but overcharging consumers two percent for food would annually cost consumers $40 million in a typical metro area.

Food & Water Watch examined changes in the retail grocery concentration levels, grocery price index and composite price index in 134 metropolitan areas between 2004 and 2011 and found that higher and rising retail grocery concentration were associated with higher and rising grocery prices (see Appendix at page 28). Grocery prices rose six times more in metropolitan areas that shifted from moderately concentrated to highly concentrated than in the metro areas that remained moderately concentrated. The markets that experienced the largest increases in the HHI concentration index also had larger increases in the grocery price index. The grocery price index rose five times faster in metropolitan areas that lost grocery chains between 2004 and 2011 than those metropolitan areas that maintained the same number of competitors.

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58 Davis (2010).
59 Ibid.
60 Hosken et al. (2012) at 3.
61 In 2012, the average supermarket store sold $16 million in groceries annually, so a two percent overcharge would amount to an additional $320,000. The average metropolitan area has 125 grocery stores, so a $320,000 overcharge at each store would amount to a $40 million decline in consumer welfare each year. Cotterill (2002) at 2; *Progressive Grocer* (April 2012) at 32.
The mirage of promised merger efficiencies benefitting consumers

The FTC should discount promised efficiencies when considering the proposed Albertsons-Safeway merger. Although retail grocery mergers are promoted as a strategy to improve efficiency, there is little evidence that either the companies or consumers see the fruits of promised efficiency gains. Albertsons’ CEO contended the merger will “create cost savings that translate into price reductions for our customers.” But one supermarket analyst observed the proposed merger was unlikely to deliver “any brand new ideas about how to sell groceries but you are going to see them come up with brand new ideas about how to save on expenses, and increase profits.”

Theoretically, a larger post-merger firm can increase efficiency, lower costs and pass savings on to consumers. Mergers can allow chains to centralize management and control, especially through information technology and chain-wide scanner data analysis. Mergers also combine distribution, supply chain management, procurement, promotion and advertising. Some of these savings are not really savings at all and some are rarely passed onto consumers. Bulk purchasing discounts are not “efficiency” gains, they merely shift earnings from food manufacturers to grocery retailers. Mergers that generate fixed cost savings, especially distribution cost savings, are generally not passed on to consumers but are captured by the merged firms.

Many mergers fail to deliver efficiencies. The FTC recognizes that not only are efficiencies “difficult to verify and quantify” but also that projected efficiencies “may not be realized.” The complexity of combining large retail and distribution operations can prevent mergers from achieving the efficiencies and cost savings that are promised when the deal is announced. The proposed Albertsons-Safeway merger entails “a huge amount of integration and execution risk,” according to a Moody’s analyst.

There have been no studies that demonstrate the alleged cost savings from supermarket mergers. Even if the mergers increased efficiencies, the savings that accrue are rarely shared with consumers in the form of lower grocery prices. A 2007 study found that any efficiencies from supermarket mergers did not yield lower grocery prices. Instead, supermarket chains pocketed the discounts they squeezed out of suppliers while charging consumers the same prices. These

63 Somerville (2014).
65 Kaufman (May-August 2000) at 33.
66 Kaufman (August 2000) at 19.
67 Balto (2001) at 44.
68 Baye and Hunter at 3 and 7.
70 Hsu (2014).
71 Davis (2010).
73 Steigert and Sharkey (2007) at 311.
efficiency gains must be “extraordinarily great” to outweigh the merger’s potential to encourage anticompetitive behavior by larger supermarket chains.\(^\text{74}\)

Antitrust regulators theoretically balance promised lower consumer prices from increased efficiencies with the merger’s increased market power, which can increase consumer prices.\(^\text{75}\) More efficient grocery chains allegedly deliver consumer discounts that partially offset any price hikes resulting from the exercise of consolidated market power.\(^\text{76}\)

The FTC should be skeptical of the approach. This leaves federal antitrust authorities to assess whether the empirical price increases from increased exercise of market power are excessive relative to the purported efficiencies. In effect, antitrust regulators are relegated to setting prices (acceptable cost-price margins) rather than allowing a competitive market to set prices.

**Proposed merger contributes to erosion of consumer choice; higher-quality services do not compensate for higher costs**

Supermarket consolidation limits consumers’ choice between retailers, grocery store locations and selection of available products and services.\(^\text{77}\) The increased buyer power of supermarket chains has contributed to the concentration in the food processing industry and a dramatic erosion of product choice on supermarket shelves (see Proposed Albertsons-Safeway merger enhances buyer power at page 19). On the local level, shoppers have a diminishing choice between grocery stores as the biggest firms snap up local chains and drive others out of business.\(^\text{78}\)

Many shoppers are unaware of the chain owner of the store where they shop, in part because the largest chains continue to maintain the old regional store names (known as banners) that were previously acquired. The proposed Albertsons-Safeway merger would join and maintain all of both chains’ “banners” including Safeway, Vons, Pavilions, Randalls, Tom Thumb, Carrs, Alberstons, ACME, Jewel-Osco, Lucky, Shaw’s, Star Market, Super Saver, United Supermarkets, Market Street and Amigos.\(^\text{79}\) This effectively prevents consumers from knowing where they are shopping and curtails choice.

Retail grocery consolidation has not improved consumer opinions of supermarkets and Albertsons and Safeway perform poorly in consumer surveys. The University of Michigan’s business school and Arthur Andersen Business Consulting found that customer satisfaction ratings dropped with increased grocery retail consolidation.\(^\text{80}\) The proposed merger joins two supermarket chains that already rank poorly in consumer surveys, which means that any integration problems would likely

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\(^{74}\) Balto (2001) at 44.


\(^{79}\) Safeway (2014) at 2.

make consumers even more unsatisfied. For nearly 20 years, Albertsons and Safeway have routinely performed below the industry average in the University of Michigan consumer satisfaction survey. A 2014 Consumer Reports survey ranked Albertsons and Safeway among the bottom third of grocery stores. On average, consumers were completely dissatisfied with grocery prices at Albertsons’ Jewel-Osco, Shaws and Acme stores and somewhat dissatisfied with the cleanliness at Safeway and Safeway’s Vons stores. Shaws’ stores had twice as many scanner overcharges as average supermarkets according to the Consumer Reports survey. The proposed merger and the difficulty of integrating the two chains is unlikely to improve the quality and service at Albertsons and Safeway stores.

Supermarkets exert market power with “higher-quality” retail services that raises grocery prices

The supermarket industry and some academics contend that the increased efficiency of retail concentration should lower costs and lower prices; but if prices rise, it is because consumers want higher quality (and more expensive) in-store services or products. Under this rubric, any higher prices from entrenched grocery retailers reflect a diversity of quality products and services, not the retailers unfair exercise of market power to hike up prices. But supermarket chains have pursued a higher quality services strategy to cement their control of local markets and allow them to increase prices. Larger grocery retailers that offer more services to differentiate themselves and attract consumers also allows these stores to exert more market power.

Higher-quality grocery stores that offer more services can increase customer loyalty and draw higher income consumers. The Food Marketing Institute catalogued some of the allegedly beneficial services including sushi, wine tasting, flower arranging and cooking classes that seemed designed to lure affluent consumers. Wealthier shoppers are less sensitive to price increases, allowing the retailer to raise prices without driving away customers.

Several studies have shown that fancier supermarkets have higher prices than justified by increased retail services. A 1995 study found that increased consolidation raised consumer food prices, even when taking the mix of higher quality services into account, and higher prices did not reflect the cost of providing additional retail services. A 2007 study found that upscale grocery stores with more services had milk prices that were 50¢ per gallon higher than basic supermarkets, not because of the quality of the store, but because of the store’s market power.

82 “Getting more from your store.” Consumer Reports. May 2014 at 21.
85 Cotterill (1986) at 381.
86 Bonanno and Lopez (2007) at 5 and 7.
88 Bonanno and Lopez (2007) at 5.
89 Cotterill and Harper (1995) at 11 and 17.
Proposed Alberstons-Safeway Merger would disadvantage lower-income consumers and communities

Grocery stores sell food that consumers need to sustain themselves and their families. Shoppers have certainly faced high and rising grocery prices over the past five years. The industry trade magazine Progressive Grocer reported in 2013 that, “prices for grocery items remain high” and “have risen every month over the past two-and-a-half years.”91 Since the Great Recession started, grocery prices rose more quickly than inflation and wages, and over the three years between 2010 and 2012, grocery prices rose twice as quickly as average wages.92 Lower-income families have been especially hard hit. In 2012, families earning below $10,200 (the lowest fifth of households) spent one-third (34 percent) of their after-tax income on food, up from 29 percent in 2007.93

When consolidated retail grocery markets raise prices beyond what would be delivered in a competitive market, it becomes harder for families to purchase the same quantity and quality of food and the additional food expenditures are siphoned from other purchases and the overall economy.94 The higher prices for staple foods at higher-quality grocery stores with more ancillary services force lower-income consumers to look harder and travel further for retailers that offer affordable basic products.95 Consolidation has driven smaller supermarket chains and independent grocers out of business which has a significant impact on lower-income families and underserved markets, especially smaller cities, rural areas and inner-city neighborhoods.96

Food & Water Watch found that smaller metropolitan areas and lower-income markets have been especially burdened by the rising grocery price impacts of concentrated grocery markets (see Appendix at page 28). Nearly half of the small-sized (population under 250,000) and moderate-sized (population 250,000 to 750,000) metropolitan areas were highly concentrated (44.7 percent and 45.0 percent, respectively) and these markets had higher levels of grocery price inflation than average and had the lowest household income levels.

Fewer grocery retailers appear interested in competing for lower-income markets and the higher level of consolidation allows the grocery retailers to raise prices on the consumers who are least able to afford the price hikes. Highly concentrated grocery markets have lower average household incomes and this holds true at all sized metropolitan areas. Consumers in highly concentrated markets are generally facing the steepest grocery price inflation compared to consumers in less concentrated but similarly sized markets.

91 Progressive Grocer. April 2013 at 50.
Proposed Albertsons-Safeway merger enhances buyer power over farmers, manufacturers and harms consumer choice

The proposed merger significantly increases buyer power in the retail food sector, disadvantaging farmers and food manufacturers who will lose a significant competing buyer of their goods in the marketplace. Dominant buyers can exercise their market leverage not only through their purchasing power but also through rigid long-term contracts and imposed coordination requirements on suppliers. This has considerable downstream effects on the supplier market, forcing manufacturers to merge and farms to get bigger to supply larger, more powerful buyers. It also creates a barrier to entry for smaller, innovative manufacturer and farm suppliers because larger retailers can exert the steepest price discounts on sellers.97

The proposed merger would have had sales of $58.9 billion in 2013 – or one in eleven U.S. grocery sales dollars.98 If the merged firm sold a similar mix of groceries as Safeway, it would include $20.9 billion in fresh fruits, vegetables and meats and $24.1 in processed and non-perishable products.99 The merger will have a measurable impact on monopsony buyer power. The proposed Albertsons-Safeway merger would consolidate the purchasing power of two major competing retailers, enhancing the merged firm’s ability to exercise market power to depress prices paid to suppliers, transferring wealth from farmers and manufacturers to the newly combined retailer.100

Mergers increase buyer power over food manufacturers

This anticompetitive buyer power is the flipside of the bulk purchasing discounts that merging firms call cost savings and efficiency. Unfortunately, retailers share little if any of these savings with consumers and when retailers flex their buyer power muscle, manufacturers just consolidate further to strengthen their bargaining position with retailers, creating a cascade of food and retail mergers. According to USDA, grocery retail “consolidation may have the greatest impact on grocery suppliers, such as wholesalers, manufacturers and farmers.”101

The proposed Albertsons-Safeway merger doubles the purchasing power of the pre-merger firms, giving the new supermarket greater leverage over food manufacturers. Concentrated buyers can force suppliers to accept price and contract concessions.102 The supermarket mergers of the 1980s and 1990s shifted market power from food manufacturers to food retailers as grocery buyers got

99 Safeway sold $36.1 billion in 2013 including $12.8 billion in fresh foods (35.5 percent) and $14.8 billion in processed foods and other non-perishables (41.0 percent). Safeway Inc. U.S. Securities and Exchange Commission (SEC). 10-K filing. December 28, 2013 at 89.
100 DoJ/FTC (2010) at 33.
101 Kaufman (May-August 2000) at 34.
larger. Supermarket chains and big box stores have many alternative sources for grocery items, but food manufacturers have few alternatives to large retail outlets.

Although buyer power is similar to seller power, buyers can extract greater leverage over suppliers with lower market shares than are typically necessary to capitalize on monopoly seller power. The typical measurements of market concentration focus on sales markets – the share of retail sales – that reflect dominance in the consumer market. But this is an inadequate metric to assess the market power of buyers. Buyers can exercise more power over suppliers with a smaller share of the purchasing market than sellers can exercise over retail customers with the same market share. Retailers with just 20 percent of the national market have “the potential to exercise substantial buying power,” according to University of Wisconsin law professor Peter Carstensen.

Food processors, meat packers, and other suppliers cannot sacrifice their sales to major retailers, but the retailers can easily switch to alternative suppliers. The reason is that there is a significant power disparity between buyers and sellers in concentrated markets. The manufacturer is more dependent on a large retail buyer than the retailer is on the manufacturing supplier. Retailers exert tremendous leverage by picking and choosing their suppliers, but suppliers rely on a few retailers for the bulk of their sales. A food manufacturer might sell one-quarter of its products to a dominant grocery retailer, but these goods represent a small portion of the retailer’s sales. Sellers may need to control more than half of the consumer market to exercise single-firm monopoly power, but buyers can potentially exert dominance over suppliers with less than ten percent of the purchasing market.

Retailers also exert pressure on suppliers beyond price concessions. Retailers control the shelf space where manufacturers’ products are sold, they can promote store private label brands that compete with manufacturers’ brands and they control the in-store advertising and display promotions. Retailers use exclusive procurement agreements, long-term partnerships and strategic alliances with manufacturers and suppliers to negotiate lower costs. Retailers often have long-term contracts with food processors and manufacturers; between 50 and 80 percent of meat and poultry are delivered to retailers under long-term contracts. Retailers have increased their use of long-term contracts with suppliers over the past two decades, and many exclusively commit farmers and food processors to sell to a particular retailer and not their competitors.

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103 Park and Weiwita (1999).
111 Kaufman (May-August 2000) at 33.
112 Domina and Taylor (2009) at 75.
Retailers can also impose costly coordinated distribution and marketing requirements on suppliers. Some retailers charge food manufacturers a fee (known as slotting fees, slotting allowances or promotional allowances) to shelve their products in the most profitable locations. Small food companies often cannot afford these considerable fees, which creates a barrier to entry that keeps innovative food companies off store shelves. Some retailers require that suppliers manage their own inventory to cut costs.

*Retail grocery mergers encourage food processing mergers, reducing choice and consumer welfare*

The large quantities of products required by the biggest grocery retailers favors the biggest manufacturers. Large food manufacturers can supply large volumes and varieties of grocery products. Smaller, innovative food companies have difficulty getting onto supermarket shelves because they cannot meet the contract terms or afford to accept the low, often unfair prices from retailers. Of the new food companies that survive, many end up being bought out by the largest manufacturers, which reinforces the entrenched food companies.

Many food processing firms justify their own mergers as an effort to create stronger bargaining power with large retailers. The largest supermarket chains limit consumer choices not only on where to shop, but also what to buy. Even large suppliers merge to consolidate their bargaining power with large retail buyers, and smaller food processors and manufacturers may exit the industry after determining they cannot get fair prices from dominant buyers. Mergers in the food manufacturing sector have already consolidated some of the largest food processing companies.

The combination of retailer demands on suppliers and consolidation in the food manufacturing industry has significantly constrained consumer choices in the supermarket.

Food & Water Watch found that the top few companies dominated the sales of each grocery item in recent years. Most parts of the supermarket were extremely consolidated and a few companies had penetrated nearly every aisle of the store. The top four or fewer companies controlled an average of 63.3 percent of the sales of 100 types of groceries. In a third of the

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116 Ibid. at 6-7.
grocery categories, the top few companies controlled at least 75 percent of the sales. Many firms sell multiple brands of the same product, which leads consumers to believe that they are choosing among competitors when they are actually just choosing among products made by the same firm that may have been manufactured at the same factory.

**Mergers disadvantage farmers who supply fresh fruit and vegetables**

These mega-retailers are the biggest buyers of grocery products, and they exert tremendous power over food companies and ultimately farmers. Concentrated grocery retailers can exert tremendous market power over fresh fruit and vegetable farmers. The footprint of the proposed Albertsons-Safeway merger creates a strong regional buyer even though the chains do not compete as rivals in every market. Fresh produce sales and distribution has evolved into tightly integrated marketing arrangements with retailers.\(^{122}\) The cost of shipping limits the ability of farmers to shop their crops and livestock around to more distant potential buyers. This market power can be especially acute when grocery retailers source produce locally or regionally. USDA has noted that “National concentration measures understate the concentration that many farmers face in local and regional markets.”\(^{123}\) The post-merger chain would sell $20 billion in fresh fruits, vegetables (as well as meats) which would give it sufficient buyer power, especially in regions where the combined markets create a stronger network.

The perishability of most agricultural products significantly exacerbates the impact of market concentration and gives buyers unique leverage over farmers who need to market their crops.\(^{124}\) The small number of retailers can leverage their buyer power over the many produce growers who are price takers because they have little bargaining power to market highly perishable produce before it spoils.\(^{125}\) A 2003 USDA commissioned study found that consolidated retailers exercised buyer power that reduced the bargaining power of iceberg lettuce and tomato producers and increased the margin between farmgate and retail prices.\(^{126}\)

When retailers fail to promptly lower prices after farmgate prices fall, they effectively increase their retail margin for that good.\(^{127}\) An examination of iceberg lettuce prices from the mid-1990s found that grocery stores captured the majority of the profits from retail lettuce sales but farmers received nearly no profits from the transaction.\(^{128}\) Another 2003 study found that retailers promptly increased grocery prices for grapes, oranges and grapefruit when farmgate prices rose, but reduced retail prices more slowly and less completely when farmgate prices declined.\(^{129}\)


\(^{124}\) Domina and Taylor (2009) at 8.

\(^{125}\) Sexton et al. (2003) at 1

\(^{126}\) Ibid. at 45.


\(^{128}\) Dimitri et al. (2003) at 16.

Studies in the late 1980s and 1990s found that consumer prices for dairy products, citrus fruits and peanuts increased when farmgate prices rose but did not fall as quickly or as far when farmgate prices fell. \(^\text{130}\) Some retailers essentially offer fixed prices, which also can harm farmers and consumers because the failure to reduce prices during periods of high supply (and low price) does not clear the excess supply from the marketplace and does not offer consumers lower prices. \(^\text{131}\)

Proposed merger could imperil farmers supplying local foods to grocery stores

The proposed merger could be especially detrimental to farmers who supply fresh fruits and vegetables to the Safeway locally sourced food program. The merged firm would have a dominant purchasing footprint in some regions, especially in the Western and Southwestern United States.

The proposed merger sufficiently enhances the firm’s buyer power to reduce the prices local fruit and vegetable farmers receive. In markets where the merger joins two firms where the nearby competitors are too small or too few, the merger could award the companies with near unilateral power to extract price concessions from suppliers. \(^\text{132}\) Safeway’s local food program supplies fruits and vegetables from within one day’s drive of the grocery store shelves. Local or regional markets can be defined on historical customs, or based on transportation costs or convenience. \(^\text{133}\)

The proposed merger could strengthen a major local food purchaser, if Albertsons adopts Safeway’s local foods program, or eliminate a major buyer of local produce if Albertsons discontinues local sourcing. Local food procurement programs are an important component of investing in local

\(^{130}\) Sexton et al. (2003) at 3.


\(^{133}\) DoJ/FTC (2010) at 13.
food systems. Local foods systems multiply economic activity by providing higher earnings for farmers who in turn are more likely to buy more farm supplies from local businesses.\footnote{Martinez, Steve, et al. “Local Food Systems: Concepts, Impacts, and Issues.” USDA Economic Research Service. ERS Report 97. May 2010 at 43, 45.} Already, local food generates $5 billion in sales that supports more than 65,000 jobs.\footnote{Johnson, Renee, et al. “The Role of Local Food Systems in U.S. Farm Policy.” Congressional Research Service. March 12, 2013 at Summary; USDA. “Know Your Farmer, Know Your Food Compass.” 2012 at 11.} Many of these local foods are sold through food hubs, which aggregate foods from farmers and ranchers and provide distribution and processing infrastructure.\footnote{USDA Agricultural Marketing Service (AMS). “Regional Food Hub Resource Guide.” April 2012 at 1.} Safeway is an important buyer of local foods. Grocery stores are one of the top two buyers of two-thirds (69 percent) of food hubs.\footnote{Ibid. at 26.} Safeway launched a major campaign in 2009 to promote locally grown produce and estimates that one-third of its fruits and vegetables come from local sources.\footnote{Safeway Inc. Press Release. “Safeway launches campaign to promote locally grown produce.” June 12, 2009.} Supermarket programs like Safeway’s local food purchasing from food hubs or other procurement methods helps to provide necessary economic security to support these economically vulnerable institutions.\footnote{Safeway Inc. “Safeway – Produce Growers.” Available on file and online at http://www.safeway.com/ShopStores/Produce-Growers.page, accessed April 2, 2014.}

The proposed merger would significantly expand the local purchasing power footprint, with more markets across key orchard and vegetable producing regions (see Map 2 and Map 3). Many of the markets where Safeway and Albertsons overlap are also the same regions where Safeway gets its local food, including Washington, California, Arizona, Colorado, and the Mid-Atlantic region of the east coast.\footnote{Safeway Inc. “Safeway – Produce Growers.” Available on file and online at http://www.safeway.com/ShopStores/Produce-Growers.page, accessed April 2, 2014.} The draw from these grocery stores impacts thousands of fruit and vegetable farms throughout the west coast region and the combination of the footprint of Albertsons and Safeway markets strengthens their buyer power across the region.

There is no guarantee that Albertsons will continue Safeway’s local foods program, which could eliminate an important local food buyer. Safeway will mostly lose managerial control after the merger. Grocery analyst Frank Dell said, “for the most part, Albertsons will be running the show,”

\footnotesize
\begin{itemize}
  \item \footnote{Safeway Inc. “Safeway – Produce Growers.” Available on file and online at http://www.safeway.com/ShopStores/Produce-Growers.page, accessed April 2, 2014.}
\end{itemize}
and predicted more changes at Safeway than Albertsons, which Cerberus has already been running for years.\textsuperscript{141} Safeway’s local foods program may not survive the merger. Albertsons’ former owner, Supervalu, had a program to promote more locally grown fruits and vegetables\textsuperscript{142} After Cerberus/AB Acquisition acquired Albertsons, all mention of buying local produce and foods disappeared completely.

* * *

The proposed Albertsons-Safeway merger increases concentration in national retail grocery sector and significantly increases retail grocery concentration on the local level. The proposed merger raises significant questions for the Federal Trade Commission:

1) Has the Federal Trade Commission adequately assessed the impact of the rising concentration of the national retail grocery industry on the food manufacturing sector? The proposed merger would double the purchasing power of the merging chains. Increased retail grocery concentration has contributed to a more concentrated food manufacturing sector and consequently significantly reduced consumer choices at the supermarket.

2) Has the Federal Trade Commission considered the impact of the proposed merger on new and innovative food manufacturing firms? Already, food manufacturing innovators are having difficulty getting onto supermarket shelves because of consolidation at the retail and distribution level. Currently, innovators often are forced to exit the industry by selling the firm to larger manufacturers, which reduces consumer choice.

3) Has the Federal Trade Commission considered the impact of the proposed merger on lower-income households and communities during a period of increasing grocery prices? Today, grocery prices are rising more quickly than inflation and faster than average wages. If the proposed merger raises grocery prices even slightly, these lower-income families could face stark choices as food becomes more expensive.

4) Has the Federal Trade Commission considered the impact of the proposed merger on smaller communities with fewer rival stores to counterbalance the proposed Albertsons-Safeway? Many smaller metropolitan areas already are more consolidated than average and have had higher price increases, which the proposed merger will only exacerbate.

5) Has the Federal Trade Commission sufficiently considered the impact on farmers who sell fresh fruit, vegetables and meat directly (or nearly directly) to Safeway? The regional footprint of the combined chains would create significant regional buyer power in many parts of the country, especially the West, Rocky Mountain and Northeast region. Even when there is not direct head-to-head rivalry, the proposed merger can exert more buyer power over farmers and depress the prices they receive for their crops.

\textsuperscript{141} Somerville (2014).
6) Has the Federal Trade Commission considered working with the Department of Justice on mergers that have considerable downstream impacts on the farm and agriculture sector? The food and agriculture system is already so consolidated that changes at the manufacturing and retail level have considerable downstream effects at the farmgate level. Food & Water Watch respectfully suggests that the Federal Trade Commission and Department of Justice work to develop a memorandum of understanding to jointly review mergers in the farm and food sector.

7) Has the Federal Trade Commission considered the proposed merger’s potential reduction in quality and services? Albertsons’ owner, Cerberus, eliminated customer loyalty programs and apparently the local food programs in the stores it has acquired over the past two years. It is not unlikely that the merger could imperil those programs at Safeway. Moreover, these two chains already have among the lowest consumer satisfaction ratings of major supermarket chains, so any integration hiccups are likely to immediately adversely affect consumer satisfaction and welfare.

8) Has the Federal Trade Commission sufficiently evaluated the proposed merger integration risks relative to the purported efficiencies? There is little evidence that the promised retail grocery efficiencies of consolidation through mergers are shared with consumers in the form of lower prices. The Federal Trade Commission should be skeptical of any proffered efficiency gains and consider the additional integration costs and risks posed by merging such large retail and distribution networks that could adversely affect consumers.

9) Has the Federal Trade Commission adequately assessed the likelihood that the proposed merger will increase consumer food prices? Decades of academic literature have demonstrated how rising retail grocery consolidation contributes to rising food prices for consumers. Food & Water Watch has included a new analysis that reaffirms that link with a longitudinal examination of 134 metropolitan areas. Food & Water Watch estimates consumers in markets where Albertsons and Safeway are currently rivals could pay between $900 million and $1.8 billion more for groceries each year as a result of the increased concentration.

10) Has the Federal Trade Commission considered assessing the past performance of supermarket mergers of the same scale as the proposed Albertsons-Safeway merger in both national and local markets? There has been little retrospective analysis to assess whether approved mergers were anticompetitive, despite a recommendation to review the effect of approved mergers by the 2007 Antitrust Modernization Committee’s Final Report to the President and Congress. The Federal Trade Commission has approved many large supermarket mergers this year, therefore it is time the Commission assessed the impact of these mergers on consumers, farmers and manufacturers.

The retail grocery industry is already significantly concentrated on the local and national level. Food & Water Watch believes that the proposed merger would significantly reduce competition in the retail grocery sector, increase prices for consumers, reduce the price farmers receive for their

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143 Ashenfelter and Hoskin (2008) at 3.
crops, contribute to the growing consolidation in the food manufacturing sector and reduce consumer choice in the supermarket aisles. Food & Water Watch does not believe that approving the largest supermarket merger in history would benefit consumers, farmers or the marketplace.

We request that no early termination of the antitrust evaluation be granted and that the investigation be extended.\textsuperscript{144} The Federal Trade Commission must extend the merger-waiting period and make a second request to solicit further information from the parties and give the agencies more time to review the complexities of the proposed merger.\textsuperscript{145} Food & Water Watch would appreciate the opportunity to study these issues more closely and share our findings with the appropriate federal regulators.

Sincerely,

\hspace{2cm}\textit{\underline{Wenonah Hauter}}

Executive Director

\textsuperscript{144} 15 USC§18(b)(1).
\textsuperscript{145} 15 USC§18(e)(1).
Appendix: Food & Water Watch analysis shows rising concentration associated with more rapidly rising grocery store prices

The proposed Albertsons-Safeway merger will increase retail grocery prices in the retail markets where the two chains currently compete as rivals. A new Food & Water Watch analysis reaffirms decades of academic literature demonstrating that increasing retail grocery concentration increases consumer grocery prices.

Food & Water Watch examined changes in the retail grocery concentration levels, grocery price index and composite price index in 134 metropolitan areas between 2004 and 2011 and found that higher and rising retail grocery concentration levels were associated with higher and rising grocery prices. The number and percentage of highly concentrated metropolitan areas rose significantly and nearly a third of the unconcentrated and moderately concentrated markets in 2004 shifted to higher levels of concentration by 2011 (using the U.S. Department of Justice and FTC market concentration category definitions).

The markets with higher levels of retail grocery concentration in 2011 had larger increases in the grocery price index between 2004 and 2011: highly concentrated markets had a grocery price index increase that was three times larger than moderately concentrated markets and unconcentrated markets had a decline in the grocery price index. The increase in the grocery price index in more concentrated markets exceeded the increase in overall inflation, strengthening the association between retail grocery concentration and increasing grocery prices. These trends were consistent for metropolitan areas of all sizes, but smaller and lower-income metropolitan areas generally had higher increases in the grocery price index.

The retail grocery industry profits handsomely from even modest increases in grocery prices. In 2012, the average supermarket store sold $16 million in groceries annually, so a one percent overcharge would amount to an additional $160,000. But even small changes have a huge effect on consumer welfare. The average metropolitan area has 125 grocery stores, so a $160,000 overcharge at each store would amount to a $20 million decline in consumer welfare each year.

Further, the markets that became more concentrated between 2004 and 2011 had larger increases in the grocery price index. The markets that shifted to higher levels of concentration between 2004 and 2011 had considerably larger price increases than those markets that remained at the lower concentration levels. The markets that experienced the largest increases in the HHI concentration index also had larger increases in the grocery price index. The markets that had a reduction in the number of rival grocery retail chains also had considerably larger increases in the grocery price index than those metropolitan areas that gained or maintained the same number of competitors between 2004 and 2011.

Basic methodology: Food & Water Watch analyzed the four-firm retail grocery chain concentration (measured by the Herfindahl–Hirschman Index (HHI)) and the grocery and composite price index in all of the 134 metropolitan statistical areas (MSAs) for which

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146 Cotterill (2002) at 2; Progressive Grocer (April 2012) at 32.
comparable data was available for both 2004 and 2011. Food & Water Watch compared the change in the grocery price index to the level of retail grocery concentration (unconcentrated, moderately concentrated or highly concentrated), the change in the level of retail grocery concentration, the increase in the HHI concentration index, as well as population and household income figures from the U.S. Census Bureau. The longitudinal analysis of 134 metropolitan statistical areas is a considerably larger sample than the majority of concentration-price studies. The studied MSAs were reasonably representative, covered one-third of all MSAs (35.2 percent of the 381 MSAs in the United States) in or between 44 states and included a broad range of incomes (an average median household income of $51,500 and a range of $32,150 to $88,500 in 2011) and sizes (from 126,700 people to 18.8 million).

Comparing simultaneous changes in grocery concentration and grocery prices provides more accurate assessment of price-concentration link: This analysis includes a simultaneous comparison of changes in the retail concentration and retail grocery price index. The examination of same-city price and concentration changes over time controls for the effect more expensive markets have on grocery prices to allow the comparison of comparable changes in prices and concentration. Comparing price levels between metropolitan areas at a static point in time

147 Food & Water Watch determined the four-firm retail grocery concentration Herfindahl–Hirschman Index (HHI) for every metropolitan statistical area from the Metro Market Studies “Grocery Distribution Analysis and Guide” for 2005 and 2012, which were released in the beginning of each year and assess the number of grocery competitors in each market at the end of 2004 and 2011. The retail chain ownership within each of the U.S. metropolitan statistical areas was based on the Metro Market’s store affiliation supplemented by identifying the banner stores from U.S. Securities and Exchange Commission filings and annual reports from companies on list of top grocery retailers from Progressive Grocer’s The Super 50 list from 2003 (Weir, Tom. “Wal-mart’s the 1.” Progressive Grocer. May 2003; Progressive Grocer. May 2012). Grocery and composite price index data for metropolitan areas are from the Council for Community and Economic Research (CCER) “ACCRA Cost of Living Index” Annual Average 2011 data and for the 3rd and 4th Quarters of 2004. The 2004 quarterly data was averaged to establish a 2004 benchmark. Food & Water Watch only used consistent data: there had to be equivalent geographic data for both quarters in 2004 and 2011 to be included in the dataset. The U.S. Federal Trade Commission used the CCER data in a 2012 paper because it was the “only dataset [FTC has] been able to identify that has such broad geographic coverage.” (Hosken et al. (2012) at 7 to 8.)


149 The sample size is one of the largest to examine the link between grocery retail concentration and retail grocery prices and is considerably larger than a study of 95 cities that was considered an “especially large sample.” (Connor, (1999) at 124). The majority of the commonly cited literature is populated with studies of much smaller sample sizes: a 1995 study examined 34 Arkansas markets, but only three with population above 100,000. (Cotterill and Harper (1995) at 6); a 1995 longitudinal study examined 24 MSAs over a 15 year period. (Marion and Mazo (1995) at 12); a 1990 study examined 14 large cities across the nation and 13 mostly smaller Florida cities. (Newmark, Craig M. “A new test of the price-concentration relationship in grocery retailing.” Economics Letters. Vol. 33. 1990 at 370-371); a 1986 study examined 18 primarily small, local markets in Vermont. (Cotterill (1986) at 382); a 1981 study looked at 18 large MSAs between 1974 and 1977. (Lamm (1981) at 70); a 1979 study of 36 cities. (Marion, B.W. et al. The Food Retailing Industry; Market Structure, Profits and Prices. 1979. New York: Praeger. Cited in Conner (1999)).


152 This is similar to a 1995 University of Wisconsin study that examined 25 metropolitan areas over 15 years found that increasing retail concentration led to rising retail prices and that these longitudinal comparisons addressed
emphasizes the price differences between smaller, cheaper and more concentrated markets and larger, more expensive metropolitan areas with more competitors. This longitudinal price and concentration analysis addresses some common sampling and structural bias problems that may be found in studies that have found lower prices in more concentrated retail grocery markets. Several studies that purport to demonstrate that more concentrated markets deliver lower prices to consumers may suffer from sampling bias that compares unconcentrated but expensive markets with cheaper but concentrated ones. For example, comparing grocery prices in Manhattan, Kansas (with only three food retailing chains in 2011) to Manhattan, New York City (a metropolitan area with more than 50 chains and about 3,500 food retailing stores) is inherently deceptive.

Findings:

1) Retail grocery concentration levels increased between 2004 and 2011

The four-firm concentration increased in the majority of the 134 studied metropolitan areas. The average retail grocery market concentration levels increased by 8.2 percent (an HHI increase of an average of 168) between 2004 and 2011. One in eleven metropolitan areas (9.0 percent) had modest increases in concentration (below 100 points HHI) and 8.2 percent of metropolitan areas had a moderate concentration increase (an HHI increase between 100 and 200 points) that “potentially raise significant competitive concerns and often warrant scrutiny.” Two-fifths (41.0 percent) of the metropolitan areas had significant increases in concentration (an HHI increase over 200), including 26 metropolitan areas with an HHI increase over 600, three times the level that are “presumed to be likely to enhance market power.”

Between 2004 and 2011, the distribution of retail grocery four-firm concentration levels (unconcentrated, moderately concentrated and highly concentrated based on FTC categories) in

<table>
<thead>
<tr>
<th>Table 5: Concentration Levels of Retail Grocery Markets 2004-2011</th>
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</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>2004</td>
</tr>
<tr>
<td>Number of MSAs</td>
</tr>
<tr>
<td>Unconcentrated (HHI &lt; 1,500)</td>
</tr>
<tr>
<td>Moderately-Concentrated (HHI 1,500-2,500)</td>
</tr>
<tr>
<td>Highly-Concentrated (HHI &gt;2,500)</td>
</tr>
</tbody>
</table>

limitations of other studies that look at snapshots of many metropolitan area prices. (Marion and Mazo (1995) at 9 and 21.)

153 See Connor (1999). In his critique of Newmark, Craig M. “A new test of the price-concentration relationship in grocery retailing.” Economics Letters. Vol. 33. 1990. The Newmark study was “[v]irtually the only journal article that fails to find a positive relationship between local-market concentration and prices,” according to Connor at 121. But, the Newmark study relied on two irregular newspaper price studies (one of selected Florida cities and one of selected large metropolitan areas) and when other authors re-examined Newmark’s study with a better analysis of retailers, consumer incomes and prices, concentration was found to increase consumer prices (Connor 122 to 123). Even Newmark conceded that when the Florida cities were omitted from the analysis, he found that higher retail concentration increased prices slightly, and although the relationship was not statistically significant it was at odds with his findings that supermarket concentration lowered prices (Newmark at 373).


the studied metropolitan areas became more concentrated. The number of metropolitan areas with highly concentrated retail grocery markets (with HHI greater than 2,500) increased by two-thirds, rising from 26 in 2004 to 44 in 2011 (see Table 5). In 2004, one-fifth of metropolitan areas were highly concentrated, but by 2011, one-third of the markets were highly concentrated (19.4 percent and 32.8 percent, respectively). The number of moderately concentrated metropolitan areas (with HHI between 1,500 and 2,500) dropped by one-fifth in 2011 and the number of unconcentrated markets (with HHI below 1,500) fell by 11.8 percent.

The metropolitan areas that increased concentration categories (from unconcentrated to moderately concentrated or moderately concentrated to highly concentrated) were associated with very steep increases in concentration levels. Nearly a third of unconcentrated markets in 2004 became increasingly concentrated by 2011 (9 became moderately concentrated and one became highly-concentrated) with an average increase in HHI of 626 (a 45.9 percent increase over their average HHI of 1,365 in 2004). Twenty-two moderately concentrated MSAs in 2004 became highly concentrated in 2011, with an average HHI increase of 811 (a 38.4 percent increase over their average HHI of 2,112 in 2004).

2) Grocery prices in concentrated markets rose, significantly outpacing overall inflation

The most concentrated markets in 2011 experienced the largest increases in their grocery price index between 2004 and 2011. The grocery price index increased three times more in highly concentrated metropolitan areas than in moderately concentrated metropolitan areas between 2004 and 2011 (2.2 percent and 0.7 percent, respectively, see Chart 2). The grocery price index declined by 3.9 percent in unconcentrated markets.

The rising grocery prices in more concentrated markets significantly exceeded overall inflation. Grocery prices rose twice as fast as the composite cost of living index in highly concentrated metropolitan areas (2.2 percent and 1.0 percent, respectively). In moderately concentrated markets, grocery prices rose while the composite inflation index declined slightly (a 0.7 percent increase and a 0.2 percent decline, respectively). In unconcentrated markets, grocery prices declined more steeply than the decrease in composite inflation (falling 3.9 percent and 2.6 percent, respectively).

The divergence between the changes in the grocery and composite price indices in more concentrated grocery retail markets reinforces the concentration-price link. If concentrated retail grocery markets had limited impact on grocery prices, the relationship between changing grocery and composite price indices would be more consistent between metropolitan areas of different levels of concentration. The composite prices rose much less or even declined in less concentrated grocery retail markets.
3) **Metropolitan areas that became more concentrated had rising grocery price increases**

The metropolitan areas that shifted from lower to higher levels of concentration between 2004 and 2011 had steeper grocery price increases than the markets that remained at a constant concentration level. About a quarter of metropolitan areas moved to a higher level of concentration and faced steeper price hikes than those that remained at the lower concentration level (see Chart 3). The 11 cities where retail grocery concentration declined (from moderately to unconcentrated or highly to moderately concentrated) also had declining grocery price index (falling by 0.4 percent). This suggests that the process of shifting from a lower to a higher level of retail grocery concentration contributes to larger price increases than remaining at a steady level of concentration.

Grocery prices rose six times more in metropolitan areas that shifted from moderately concentrated to highly concentrated than in the metro areas that remained moderately concentrated. The grocery price index rose 0.3 percent in the 46 metropolitan areas that were moderately concentrated in both 2004 and 2011, but the grocery price index rose 1.9 percent in the 22 metropolitan areas that moved from moderately to highly concentrated.

The difference was starker for metropolitan areas that shifted from unconcentrated to moderately or highly concentrated markets. The grocery price index increased 1.1 percent in the 10 unconcentrated metropolitan areas that became moderately or highly concentrated, but the grocery price index fell by 3.7 percent in the 24 metropolitan areas that remained unconcentrated in 2004 and 2001.

**Larger increases in concentration index associated with larger increases in grocery price index:** The metropolitan areas with rising retail grocery concentration between 2004 and 2011 had rising grocery prices and greater increases in concentration were associated with higher increases in grocery prices. The metropolitan areas that had the highest increase in concentration (based on changing four-firm HHI) had generally higher increases in the grocery price index than those markets with more modest increases in concentration. Additionally, the change in the grocery price index rose considerably more than the composite price index for markets where the grocery retail concentration rose more steeply.

The grocery price index rose considerably faster for concentration increases above 200 HHI points than for markets with concentration increases below 200 HHI points. These trends are apparent in average and median grocery price index trends (see Chart 4). The median grocery price index increased over five times more for metropolitan areas with concentration increases over 200 HHI points than for markets with increases below 200 HHI (1.1 percent and 0.2 percent, respectively).
Although the DoJ/FTC Horizontal Merger Guidelines only highlight concentration increases above 200 HHI points as “[presuming] to increase market power,” even larger increases in retail grocery concentration were associated with significantly larger increases in the grocery price index. The median grocery price index increased a third faster in markets where the concentration level rose more than 400 HHI points than those that all markets that rose over 200 HHI points (1.5 percent and 1.1 percent respectively). For much larger increases, the differences were greater. The median grocery price index rose four times more in markets where the concentration levels rose by at least 600 HHI points and five times more in markets where concentration rose by at least 800 HHI points.

These larger concentration increases were commonplace, imposing higher grocery prices on consumers in many metropolitan areas across the country. Nearly a third of the studied markets (40 metropolitan areas or 29.8 percent) had retail grocery concentration increases of over 400 HHI points, or double the level recognized as presumptively increasing market power. The distribution of steeply rising retail grocery concentration in the studied 134 metropolitan areas was comparable to the national rise in these concentration levels. It is likely that the rising prices in the studied grocery retail markets also occurred in other metropolitan areas that had similarly large increases in retail grocery concentration.

**Reduction in the number of rival grocery retail chains associated with higher grocery prices:** Reducing the number of retail grocery competitors, as would happen when rival chains in the same market merge, increases consumer retail prices for groceries. Food & Water Watch’s findings are consistent with academic literature and empirical studies documenting how retail mergers lead to higher grocery retail prices.

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157 DoJ/FTC (2010) at 19

158 The rising concentration levels in the studied metropolitan area are in line with the distribution of the 282 metropolitan areas for which there is longitudinal market concentration data but that may not be included in the studied sample because of a lack of longitudinal price index data. For all 282 metropolitan areas, nearly half the markets (45.0 percent or 127 MSAs) had increases in retail grocery concentration over 200 HHI points and one-third (32.2 percent or 91 MSAs) had increases over 400 HHI points.

159 See Park and Weiwita (1999); Steigert and Sharkey (2007) at 311; Hosken et al. (2012) at 3; Huang and Stiegert (2009); Cotterill (1989).
The grocery price index rose five times faster in metropolitan areas that lost grocery chains between 2004 and 2011 than those metropolitan areas that had no change in the number of grocery competitors (2.0 percent an 0.4 percent, respectively) (see Chart 5). Conversely, the addition of more competitors tended to lower the grocery price index. The grocery price index fell by 0.7 percent in the metropolitan areas where new grocery retailers entered the market between 2004 and 2011.

The price effect of reducing the number of competitors is more pronounced in the most concentrated markets. The grocery price index rose by 2.5 percent in highly concentrated markets that lost grocery retailers between 2004 and 2011, significantly higher than the average increase for metropolitan areas that lost grocery retailers (see Chart 6). Moreover, in highly concentrated markets, the addition of new rival grocery retailers has a smaller effect. Prices still rose in highly concentrated markets that added grocery retailers, but much less than in the markets that lost retailers (1.9 percent and 2.5 percent, respectively).

In moderately concentrated markets, the loss of competitors was associated with an increase in the grocery price index comparable to the average, but the grocery price index rose nearly four times more in moderately concentrated markets that lost grocery retailers than those that added new rival retailers (1.9 percent and 0.5 percent, respectively). In unconcentrated markets, the grocery price index dropped 4.6 percent in metropolitan areas that added competitors but fell only 0.1 percent in the markets that lost competitors.
4) **Retail grocery concentration generally associated with higher prices for all metropolitan area populations and incomes, more pronounced for smaller, lower-income areas**

Concentrated grocery markets more prevalent in smaller, lower-income markets and associated with higher increases in grocery prices: Smaller metropolitan areas have been especially burdened by the rising grocery price impacts of concentrated grocery markets. Smaller metropolitan areas (with populations under 750,000) were more likely to be highly concentrated, had higher levels of grocery price inflation than average and had the lowest household income levels (see Table 6).160

Smaller markets are more likely to be highly concentrated. Nearly half of the small-sized (population under 250,000) and moderate-sized (population 250,000 to 750,000) metropolitan areas were highly concentrated (44.7 percent and 45.0 percent, respectively). Nearly four-fifths (79.5 percent) of highly concentrated grocery markets were in these smaller metropolitan areas although the smaller markets made up only three-fifths (58.3 percent) of all studied markets.

Fewer grocery retailers appear interested in competing for lower-income markets and the higher level of consolidation allows the grocery retailers to raise prices on the consumers that are least able to afford the price hikes. Highly concentrated grocery markets have lower average household incomes and this holds true at all sized metropolitan areas. Consumers in highly concentrated markets are generally facing the steepest grocery price inflation compared to consumers in less concentrated but similarly sized markets.

Both small-sized and moderate-sized highly concentrated metropolitan areas had grocery price index increases above the average in all highly concentrated markets (see Chart 7). Grocery price inflation was 50 percent higher in highly concentrated small metropolitan areas than in highly concentrated markets on average. In moderately concentrated markets, grocery price inflation was twice as high in small metropolitan

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160 Food & Water Watch divided the metropolitan areas into four roughly equal sized quartiles based on 2011 population based on Census Bureau data.
areas and nearly five times higher in moderate-sized metropolitan areas than in the average moderately concentrated markets.

Generally, within metropolitan area size categories, prices rose more steeply in highly concentrated markets than moderately concentrated markets. Prices rose nearly twice as quickly in highly concentrated small metropolitan areas than in moderately concentrated ones. In the largest metropolitan areas (with population over 2 million people), grocery prices rose six times higher in highly concentrated markets than in moderately concentrated markets (3.3 percent and 0.5 percent, respectively). In all sizes of metropolitan market areas, grocery prices fell in unconcentrated markets by between 1.6 percent (largest) and 5.7 percent (medium-sized markets, with population between 750,000 and 2 million). It appears that retailers are more price-competitive in medium-sized metropolitan areas, and grocery prices declined in all levels of concentration, but prices declined most steeply in unconcentrated markets (see Table 6).

Grocery price inflation significantly exceeds overall price inflation in small- and medium-sized metropolitan areas (see Chart 8). In the small-sized metropolitan areas, the grocery price index increased three times more than the composite price index; in moderate-sized metropolitan areas, grocery price increases were 40 percent higher than composite price increases. Because of the lower incomes at highly concentrated markets, the higher grocery inflation in highly concentrated markets would have a disproportionately negative impact on lower-income families in smaller metropolitan areas.

<table>
<thead>
<tr>
<th>MSA Population/2011 Grocery Concentration Level</th>
<th>No. MSAs</th>
<th>Average Median Household Income 2011</th>
<th>Grocery Price Index Change 2004-2011</th>
<th>Composite Price Index Change 2004-2011</th>
<th>% All MSA</th>
<th>% MSA by Size</th>
<th>% of MSA by Concentration Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;250K</td>
<td>38</td>
<td>$48,034</td>
<td>-1.8%</td>
<td>-0.9%</td>
<td>28.4%</td>
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</tr>
<tr>
<td>Highly Concentrated</td>
<td>17</td>
<td>$45,862</td>
<td>3.1%</td>
<td>1.0%</td>
<td>12.7%</td>
<td>44.7%</td>
<td>38.6%</td>
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<tr>
<td>Moderately Concentrated</td>
<td>17</td>
<td>$48,506</td>
<td>1.6%</td>
<td>1.1%</td>
<td>12.7%</td>
<td>44.7%</td>
<td>28.3%</td>
</tr>
<tr>
<td>Unconcentrated</td>
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<td>3.0%</td>
<td>10.5%</td>
<td>13.3%</td>
</tr>
<tr>
<td>250-750K</td>
<td>40</td>
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<td>-1.0%</td>
<td>29.5%</td>
<td></td>
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<tr>
<td>Highly Concentrated</td>
<td>18</td>
<td>$45,418</td>
<td>3.3%</td>
<td>2.3%</td>
<td>13.4%</td>
<td>45.0%</td>
<td>40.9%</td>
</tr>
<tr>
<td>Moderately Concentrated</td>
<td>19</td>
<td>$49,261</td>
<td>0.5%</td>
<td>0.9%</td>
<td>14.2%</td>
<td>47.5%</td>
<td>31.7%</td>
</tr>
<tr>
<td>Unconcentrated</td>
<td>3</td>
<td>$52,150</td>
<td>-1.6%</td>
<td>-6.8%</td>
<td>2.2%</td>
<td>7.5%</td>
<td>10.0%</td>
</tr>
<tr>
<td>750K-2M</td>
<td>29</td>
<td>$54,270</td>
<td>-2.8%</td>
<td>-2.3%</td>
<td>21.0%</td>
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<td></td>
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<tr>
<td>Highly Concentrated</td>
<td>7</td>
<td>$48,162</td>
<td>-2.6%</td>
<td>-1.7%</td>
<td>5.2%</td>
<td>24.1%</td>
<td>15.9%</td>
</tr>
<tr>
<td>Moderately Concentrated</td>
<td>15</td>
<td>$54,877</td>
<td>-1.6%</td>
<td>-2.2%</td>
<td>11.2%</td>
<td>51.7%</td>
<td>25.0%</td>
</tr>
<tr>
<td>Unconcentrated</td>
<td>7</td>
<td>$59,878</td>
<td>-5.7%</td>
<td>-3.3%</td>
<td>5.2%</td>
<td>24.1%</td>
<td>23.3%</td>
</tr>
<tr>
<td>&gt;2M</td>
<td>27</td>
<td>$59,185</td>
<td>-1.1%</td>
<td>-1.8%</td>
<td>20.1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highly Concentrated</td>
<td>2</td>
<td>$49,668</td>
<td>2.5%</td>
<td>-1.9%</td>
<td>1.5%</td>
<td>7.4%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Moderately Concentrated</td>
<td>9</td>
<td>$54,394</td>
<td>3.3%</td>
<td>-1.4%</td>
<td>6.7%</td>
<td>33.3%</td>
<td>15.0%</td>
</tr>
<tr>
<td>Unconcentrated</td>
<td>16</td>
<td>$63,070</td>
<td>-4.0%</td>
<td>-2.1%</td>
<td>11.9%</td>
<td>59.3%</td>
<td>53.3%</td>
</tr>
</tbody>
</table>

Source: Food & Water Watch analysis of Metro Market, CCER and Census Bureau data.