The Impact of Big Box Grocers on Southern California:
Jobs, Wages, and Municipal Finances

Prepared for the Orange County Business Council

By

Marlon Boarnet, Ph.D.
Associate Professor
Departments of Urban Planning and Economics
University of California at Irvine
949-824-7695
mgboarne@uci.edu

and

Randall Crane, Ph.D.
Associate Professor
School of Public Policy and Social Research
University of California at Los Angeles
310-206-1859
crane@ucla.edu

with the assistance of Nicholas Compin, Angela Koos, Gregg Macey, and Amanda Wallace.

Final Report: September 1999

Executive Summary

The following research analysis, ***The Impact of Big Box Grocers on Southern California: Jobs, Wages, and Municipal Finances***, was prepared for the Orange County Business Council by Professors Marlon Boarnet (University of California, Irvine) and Randall Crane (University of California, Los Angeles). The authors publish broadly in the areas of local economic development, land use, and municipal fiscal policy. The Orange County Business Council also has a long-standing interest in both the fiscal impacts of local land use issues and the economic impacts of government decision-making and changing business climates in California.

In this report they examine the enormous, and ever-growing retail grocery business, and the many changes occurring in this industry. One of the most important developments is the combination of big-box discount retail and grocery sales into a single store known as a supercenter. While K-Mart and others have experimented with retail grocery sales in recent years, Wal-Mart has quietly become the second largest grocer in the country by adding large grocery stores to their retail stores to form massive retail "supercenters", often as large as 220,000 square feet.

This study is designed as an aid to public decision-making regarding such projects, which have negative as well as positive impacts. Neither are always well understood, or carefully considered, in the municipal race for sales tax revenue. ***However, this report clearly shows that the fiscal benefits of supercenters, and of discount retail more generally, are much more complex, and often lower, than they first appear.***

THE POLICY QUESTIONS

- The nature of the grocery business has changed dramatically in some areas, with conventional grocery stores having difficulty competing on wages.

- Cities, starved for sales tax revenue but also protective of their existing retail base, are unsure how these big-boxes will affect either their economic structure or their fiscal bottom line. This study is designed mainly as an aid to public decision-making regarding such projects, which have negative as well as positive impacts. Neither are always well understood, or considered, in the municipal race for sales tax revenue.

And now the supercenters are coming to California. What will happen?

KEY FINDINGS

- **The aggressive entry of supercenters such as those operated by Wal-Mart into the regional grocery business is expected to depress industry wages and benefits at an estimated impact ranging from a low of $500 million to a high of almost $1.4 billion per year, potentially effecting 250,000 grocery industry employees. (Chapters 2 and 4)**

- **The full economic impact of those lost wages and benefits throughout southern California could approach $2.8 billion per year. (Chapters 2 and 4)**

- **Discount retail chains that operate supercenters, including Wal-Mart, typically offer much less comprehensive health care coverage than major California grocery chains. One negative economic impact of Supercenters could be a dramatic reduction in health coverage for most of the 250,000 grocery employees in California. This can lead to lower quality care for grocery employees whose health insurance benefits are reduced. (Chapter 2)**

- **The fiscal benefits of supercenters, and of discount retail more generally, are often much more complex, and lower, than they first appear. This is particularly true when big box retailers close existing stores to move into larger quarters elsewhere, when they expand an existing store into food, and when retailers reconfigure an existing store to sell food without expansion. In each case the additional tax revenues generated will in part come from existing businesses elsewhere in the city in the form of lost market share. (Chapter 3)**

- **Supercenters, especially Wal-Mart supercenters, are often conversions of existing discount retail stores. Thus local officials should carefully consider the possibility of a future conversion to a supercenter, and any attendant negative economic, fiscal, or land use impacts, when approving big box discount retail projects, even when the proposed land use does not include immediate plans for grocery sales. (Chapter 1)**

A CHECKLIST FOR EVALUATING BIG BOX RETAIL PROJECTS:

Overall, our analysis of these data illustrate the great complexity, and possible unintended consequences, of the entry of large footprint discount retail into the grocery business. To help prepare local and regional officials to review proposed big box projects generally, we suggest communities systematically assess the positive and negative local impacts of such projects. The following checklist is one way to do so. It proposes a systematic review of the impacts on local workers, on municipal finances, and on other key community issues.

1. Economic and Employment Impacts

☑ How much will the new big-box outlet cut into existing local retail market share?

TASKS:
- ⇨ Need to inventory the local retail base
- ⇨ Assess market areas and market impacts

☑ What will happen to the local work force?

TASKS:
- ⇨ Assess impact on existing local retail
- ⇨ Calculate direct impact of job changes, lower wages
- ⇨ Calculate impacts of less medical coverage and other fringe benefits
- ⇨ Calculate ripple impacts of lower wages on local economy (multiplier impacts)

☑ Will the new big-box outlet lead to vacancies or changes in local land use?

TASKS:
- ⇨ Inventory vacant land and commercial properties.
- ⇨ Assess re-use or redevelopment possibilities for competing sites.

2. Municipal Finance Impacts

☑ How much will the new development cost your municipality?

TASKS:
- ⇨ Services and capital expenditures: Calculate cost of infrastructure & utilities (i.e., streets, sewer connections, water lines, etc.)
- ⇨ Traffic and other service impacts?
- ⇨ Calculate the cost of associated economic development incentives (e.g., tax credits)
- ⇨ Assess the impact of redevelopment zone tax-increment financing.

☑ How much will the new development really change local tax revenues?

TASKS:
- ⇨ Assess net changes in local retail sales (e.g., including sales lost to the new big box).
- ⇨ Calculate net changes in sales and property tax revenue.
- ⇨ Examine the stability of the retail sales tax revenue over time.

3. Community Impacts

☑ Will the big-box footprint possibly expand in the future? In the same line of business?

TASKS: ⇨ Ask about future plans up front
⇨ Examine industry trends
⇨ Plan for expansion contingencies

☑ What localities will benefit from and/or be disadvantaged by the big-box development.

TASKS: ⇨ Assess the differences between local and regional impacts.
⇨ Are local gains at the expense of losses in other cities? Must these be mitigated?

☑ How will the new retail outlet affect your community's quality of life? For example, will it reduce the appeal of a downtown core that you are trying to preserve or revitalize?

TASKS: ⇨ Inventory locations of competing retailers.
⇨ Assess impact on existing local retailers.

Contents

List of Tables

List of Figures

Chapter 1: Issues and Trends

A. POLICY ISSUES

The grocery business in the United States is currently undergoing dramatic and rapid change. Some differences in food retailing are evident even to casual observers – for example, stores across southern California have changed ownership and sometimes names as part of the recent mergers in the grocery industry. Yet the food retailing business is changing in ways that go beyond the larger trend toward corporate consolidation. Several major retail chains, all with little previous direct connection to the grocery business, have begun to combine discount retail and full-service grocery stores under one roof. These "supercenters" represent a restructuring that will have potentially more dramatic impacts on local public policy than the current wave of consolidation among traditional grocery chains.

In this report, we examine the local and regional impacts of the trend toward combining discount retail and groceries under one roof. At first glance, the issues might seem minor – two classes of goods that previously were sold in different stores are now increasingly sold in the same place. Yet that seeming ordinariness belies the importance of the grocery industry for local economies. There is little public awareness of the ways that the discount retail and grocery industries differ – differences that suggest that a trend toward merging the two activities will change the face of the grocery business. The policy issues from such a restructuring of the grocery business are twofold.

1. **The trend toward combining discount retail and grocery sales raises the potential for unanticipated changes in local land uses.**

Discount retail firms, such as K-Mart, Target, and Wal-Mart, often build supercenters by adding a grocery store onto an existing discount center. When considering whether to approve specific discount retail stores, local officials might often not consider the possibility – a very real possibility, as this report documents – that the store will expand in the near future into full service grocery sales. This might seem nothing more than an ordinary expansion of the floor space of a particular business. Yet the expansion of a retail store into groceries is an expansion from one business sector into a different line of business, with different competitors and different community, economic, and fiscal impacts. The food retailing and discount retailing industries differ dramatically, so that an expansion of a discount retail site to include grocery is best considered a change in the land use rather than a simple expansion of an existing land use. Most importantly, grocery and discount retail have different impacts on the local community, economy, and municipal revenue stream. This leads to the second policy issue.

2. **Because of differences in pay and benefits in the discount retail and grocery sectors, a shift from traditional grocery stores to supercenters creates the very real risk that high wage jobs will be replaced with low wage jobs.**

The grocery industry, nationally and in southern California especially, has traditionally paid good wages with attractive benefit packages. Average wage and salary pay for full-time hourly workers in major southern California chains is $32,386. The major southern California chains offer a complete benefit package, including health care coverage for employees and dependents,

and a retirement plan. Discount retail traditionally pays substantially less, uses more part-time workers, and offers limited or no health insurance or retirement plans. Everything that is known about the discount retail chains now entering the grocery business suggests that supercenter employees earn wages and benefits comparable to discount retail employees, substantially less then what southern California grocery workers earn. *Thus the development of a robust supercenter sector in southern California will lead to the conversion of high wage jobs into low wage jobs.*

The purpose of this report is simple: The grocery business is changing and public officials should be aware of the potentially adverse impacts on cities and local economies. Yet the seeming ordinary nature of this issue is part of the policy problem. The pace of change in the grocery industry is rapid, and the everyday character of most persons' experience with groceries belies the importance of the retail food business for local economies. We show later that the entry of discount retailers into the southern California grocery industry can lead to wage and benefit losses that could be as high as nearly $1.4 billion per year. The economic impacts on specific communities can be quite large. Yet unless local officials are aware of these issues now, they will be caught by surprise by the fast pace of change in the grocery industry.

This report seeks to educate local officials about the policy importance of the changes in the grocery industry. In the rest of Chapter 1, we discuss trends in the grocery business in the United States and more specifically in southern California. Two key points emerge from that discussion. First, discount retail firms are rapidly entering the grocery business. Second, discount retail and grocery are sufficiently different, in terms of pay, benefits, and employment practices, that the entry of discount retail into groceries will have profound economic impacts. We focus specifically on those labor market impacts, for the case of southern California, in Chapter 2. In Chapter 3, we discuss the broader community and fiscal impacts that can result from the entry of discount retail into the food retailing business.

The rest of this introductory chapter proceeds in four sections. Section B describes the food retailing business in the United States. Section C discusses the recent trend toward combining grocery sales with big-box discount retail. Section D discusses the economic importance of the grocery business. Section E discusses the implications of grocery trends for Orange County and southern California.

B: THE GROCERY SECTOR IN THE UNITED STATES

1. Trends and Corporate Consolidations

A recent report on the U.S. food retail industry (S & P, 1998) identifies a few key trends that have emerged in the supermarket industry in the past several years. These trends are as follows:

- In an attempt to accommodate consumers' desires for increased shopping convenience, more and more food retailers are experimenting with cyber supermarket aisles in the form of home delivery and on-line shopping;
- In an attempt to increase customer loyalty and boost profit margins, food retailers continue to develop private-label products;
- In an attempt to adapt to such demographic changes as the aging and increasing ethnicity of the U.S. population, supermarkets are spending more time conducting market research;
- In an attempt to counter competition from retail formats encroaching on their territory supermarket retailers are opening more larger-sized combination food/drug stores;
- In an attempt to achieve growth in a mature industry where opportunities for internal growth through physical expansion have narrowed, supermarkets are expanding through mergers and acquisitions.

While each of these trends has contributed to the changing face of the food retail industry, consolidation has been the underlying theme for the supermarket industry in the past several years (S & P, 1998). The U.S. food retail industry, historically highly fragmented and diversified, became increasingly consolidated in recent years.

In the past year, Kroger's $13.5 billion merger with Fred Meyer was the largest and most expensive deal in food retailing history. That merger created the nation's largest grocery store chain, with 2,200 stores in 31 states (Kroger, 1999). Albertson's recent merger with American Stores for $11.7 billion made Albertson's the nation's second-largest retailer specializing in food and drugs, with approximately 1,800 grocery stores and $35 billion in annual sales (Progressive Grocer, 1999).

In the midst of the recent mergers and acquisitions, Safeway dropped to the rank of third-largest chain (after being second for several years) with annual sales of around $25 billion. Safeway recently acquired Randall's Food Markets, a privately owned 116 store Texas-based chain, for approximately $1.8 billion. This new partnership will allow Safeway to continue its growth strategy while re-entering the rapidly growing Texas market (Safeway, 1999). The California chain has also had much success with both its 1997 purchase of the Vons chain in southern California, which brought Safeway back to southern California after a decade-long absence, (S & P's Industry Surveys, *Supermarkets & Drugstores*, 24 Sept 98) and its recent acquisition of Dominick's for $1.2 billion (Progressive Grocer, 1999).

Table 1-1 presents "Earnings Before Interest, Taxes, Depreciation and Amortization" (EBITDA) multiples for many of the recent supermarket mergers and acquisitions that occurred in the U.S. food retail industry since late 1996. While many consolidations occurred in order to achieve economies of scale in volume-based purchasing, procurement, distribution, information technology, and corporate overhead, many were defensive moves spurred by the pressures from the newer entrants into supermarketing, most importantly discount retail chains.

Table 1-1: EBITDA Multiples for Recent Supermarket Mergers and Acquisitions[1]

Date Announced	Date Completed	Acquirer	Target	No. of Stores	Enterprise Value [2] ($mm)	EBITDA ($mm)	Enterprise Value / EBITDA
Oct-98	May-99	Kroger	Fred Meyer	821	12,890 [3]	1275	10.1
Aug-98	May-99	Albertson's	American Stores	1,557	11,865	1261	9.4
Aug-98	Apr-99	Safeway	Carr-Gottstein	49	332	45	7.3
Oct-98	Nov-98	Safeway	Dominick's	112	1,855	170	10.9
May-98	Oct-98	Ahold	Giant Food	170	2,634	248	10.6
Jan-98	Oct-98	Albertson's	Buttrey Food & Drug	43	169	21	8.0
Feb-98	Mar-98	Somerfield	Kwik Save	882	780	229	3.4
Nov-97	Mar-98	Fred Meyer	Ralphs Grocery	406	3,048	381	8.0
Nov-97	Mar-98	Fred Meyer	Quality Food Centers	147	1,569	131	12.0
Sep-97	Mar-98	Richfood	Farm Fresh	110	253 [4]	38	6.6
Jan-98	Jan-98	Albertson's	Seessels Holdings of Bruno's	10	88	10	9.0
Jul-97	Nov-97	Jitney-Jungle	Delchamps	128	236	42	5.7
May-97	Sep-97	Fred Meyer	Smith's Food & Drug	151	1,955	240	8.2
May-97	Aug-97	Giant Eagle	Riser Foods	36	469	56	8.3
Nov-96	Mar-97	Quality Food Centers	Hughes Family Markets	56	391	49	8.0
Nov-98	N/A.	J Sainsbury	Star Markets	53	490	48	10.3
Apr-97	N/A.	Kohlberg Kravis Roberts	Randall's Food Markets	122	714 [5]	93	7.7
Mar-97	N/A.	Lund Food	Byerly's	11	90	13	6.7
Dec-96	N/A.	Dart Group	Shoppers Food Warehouse	-	225	40	5.7
Dec-96	N/A.	Bruno's	Seessels Holding	10	63	7	8.5

Sources: SEC Filings and Progressive Grocer's *66th Annual Report of the Grocery Industry*, April 1999.
[1] EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization
[2] Enterprise Value = market value of equity plus net debt minus cash and cash equivalents
[3] Revenues, EBITDA and EBIT from Fred Meyer include acquisitions of Smith's, QFC and Ralphs.
[4] Does not include options granted to Farm Fresh to purchase 1.5 million RFH shares at $25.
[5] Implied transaction value, assuming a 64% acquired stake; includes options to purchase 3.6 million Randall's shares at $12.11.

2. Competition

Competition in the grocery industry is largely a function of product price and quality, store location, quality of service, product variety, and overall store reputation. Because food retailers are interacting in such a fiercely competitive market, it is not uncommon for these retailers to see profit margins of only 1 or 2 percent on sales. This is illustrated in Table 1-2.

Table 1-2: Rates of Return [1]

Company	Year End	Return on Revenue (%) [2] 1993	1994	1995	1996	1997	Return on Assets (%) [3] 1993	1994	1995	1996	1997
Albertsons Inc	Jan*	3.0	3.5	3.7	3.6	3.5	10.9	12.1	12.0	11.2	10.4
American Stores Co	Jan*	1.4	1.9	1.7	1.5	1.5	3.9	4.9	4.4	3.8	3.4
Food Lion Inc	Dec	0.1	1.9	2.1	2.3	1.7	0.2	6.1	6.7	6.7	5.0
Giant Food Inc	Feb*	2.6	2.5	2.6	2.2	1.7	6.9	6.8	7.1	5.8	4.7
Great Atlantic & Pacific Tea	Feb*	0.0	NM	0.6	0.7	0.6	0.1	NM	2.0	2.5	2.1
Hannaford Bros Co	Dec	2.6	2.7	2.7	2.5	1.8	7.0	7.4	7.6	7.0	4.9
Kroger Co	Dec	0.8	1.2	1.3	1.4	1.7	3.9	5.9	6.5	6.5	7.3
Meyer (Fred) Inc	Jan*	2.4	0.2	0.9	1.6	1.9	5.9	0.5	1.9	3.5	3.4
Publix Super Mkts Inc	-	N/A.	N/A.	N/A.	N/A.	N/A.	N/A.	N/A.	N/A.	N/A.	N/A.
Ruddick Corp	Sep	1.7	1.7	1.9	2.0	2.1	5.3	5.2	5.8	5.6	5.7
Safeway Inc	Dec	0.8	1.6	2.0	2.7	2.8	2.4	5.0	6.4	8.6	8.9
Supervalu Inc	-	N/A.	N/A.	N/A.	N/A.	N/A.	N/A.	N/A.	N/A.	N/A.	N/A.
Whole Foods Mkt Inc	Sep	1.2	2.2	1.7	NM	2.4	5.0	7.1	4.9	NM	7.5
Winn-Dixie Stores Inc	Jun	2.2	2.0	2.0	2.0	1.5	11.7	10.3	10.0	10.0	7.3
Wal-Mart Stores Inc ^	Jan*	3.5	3.2	2.9	2.9	3.1	9.9	9.0	7.8	7.9	8.3

[1] Source: S & P's Industry Surveys, *Supermarkets & Drugstores*, September 1998, unless otherwise noted.
[2] Net income divided by operating revenues.
[3] Net income divided by average total assets.
* Of the following calendar year.
NM – not meaningful
N/A. – not available.
^ Source: S & P's Industry Surveys, *Retailing: General*, Oct 1998.

At first glance, these narrow profit margins seem to indicate that the grocery industry is a highly saturated market with no room for new competitors. A closer look at food retailers' rates of return, however, indicates that the opportunity for new competitors to be profitable does in fact exist. More specifically, some food retailers are realizing a return on assets of 10 percent or more, indicating that new market entrants who are able to achieve high sales volume will be able to successfully enter the food retail industry.

In the past, food retailers commonly competed with local, regional, and national supermarket chains, as well as with convenience stores, membership warehouse clubs, specialty retailers, and discount food stores. In recent years, however, food retailers also faced competition from supercenters. In 1998, a few of the larger supermarkets, including Hannaford Bros and Winn-Dixie Stores, specifically cited Wal-Mart as a major source of competition in the geographic regions in which they competed (Hannaford Bros', 1998; Winn-Dixie's SEC Form 10-K). Several other major supermarkets, including Albertson's, Safeway, and Food Lion, mentioned supercenters in general as a source of competition.

3. State of the Retail Food Industry

According to *Progressive Grocer* (S & P, 1998), at year end 1997, total grocery store sales were $436.3 billion, of which $334.5 billion (77%) was contributed by the approximately 30,300 supermarkets in the U.S. that had $2 million or more in annual sales. 18,955 (63%) of these supermarkets were affiliated with a chain, and they had sales of $262.0 billion (78% of all supermarket sales). The remaining 11,345 supermarkets were independently operated, and they had sales of $72.5 billion.

Table 1-3 provides a more detailed overview of food store sales by size and ownership at year end 1997.

Table 1-3: Food Store Sales by Size and Ownership (1997)

	Number of Stores	% of Total	$ Sales (Billion)	% of Total
All Stores	127,000	100.0	436.6	100.0
Supermarkets (over $2.0 million)	30,300	23.9	334.5	76.7
Chain Supermarkets ($ millions)	18,955	14.9	262.0	60.1
$2.0 - $3.9	1,040	0.8	2.9	0.7
$4.0 - $7.9	3,575	2.8	21.1	4.8
$8.0 - $11.9	3,975	3.1	37.7	8.6
$12.0 - $19.9	5,755	4.5	84.8	19.4
$20.0 - $29.9	3,505	2.8	78.8	18.1
$30 +	1,105	0.9	36.7	8.4
Independent Supermarkets ($ millions)	11,345	8.9	72.5	16.6
$2.0 - $3.9	4,565	3.6	12.8	2.9
$4.0 - $7.9	4,240	3.4	23.1	5.3
$8.0 - $11.9	1,210	1.0	11.5	2.6
$12.0 - $19.9	810	0.6	11.4	2.6
$20.0 - $29.9	340	0.3	7.5	1.7
$30 +	180	0.1	6.2	1.4
Convenience Stores *	56,000	44.1	27.4	6.3
Wholesale Club Stores *	730	0.6	20.3	4.7
Other Stores	38,970	30.7	54.1	12.4
Supermarkets, By Format, Total	30,300	100.0	334.5	100.0
Conventional	18,200	60.1	142.9	42.7
Extended	8,700	28.7	149.6	44.7
Economy #	3,400	11.2	42.0	12.6

Source: Table from Progressive Grocer's *Annual Report of the Grocery Industry* (S & P's Industry Surveys, April 1998 and April 1999.)
* - Includes supermarket items only.
# - Includes limited assortment, warehouse, super warehouse, and hypermarket.

Table 1-4 provides a comparison of how the types and number of food retail stores have changed over the past ten years. The recent industry trend of mergers and acquisitions has greatly contributed to the increases in both the large ($2+ million) and chain supermarkets.

Table 1-4: Types and Number of Stores (1988 vs. 1998)

	1988 Number	1988 % of Total	1998 Number	1998 % of Total
All Stores	148,000	100.0	126,000	100.0
Supermarkets ($2+ million)	30,400	20.5	30,700	24.4
Chain Supermarkets	16,850	11.4	19,530	15.5
Independent Supermarkets	13,550	9.1	11,170	8.9
Other Stores (< $2 million)	62,600	42.3	37,550	29.8
Convenience Stores	55,000	37.2	57,000	45.2
Wholesale Club Stores	N/A.	N/A.	750	0.6

Sources: *56th Annual Report of the Grocery Industry*, April 1989, and *66th Annual Report of the Grocery Industry*, April 1999, as cited in http://www.fmi.org/keyfacts/stores.html.

As the number of both large ($2+ million) and chain supermarket increases, it is not surprising that the median average store size is also increasing. Table 1-5 indicates that the median average store size has increased from 31,000 to 39,260 ft^2 (27%) in eight years.

Table 1-5: Median Average Store Size

Year	Grocery Store Size (ft^2)
1997	39,260
1996	38,600
1995	37,200
1994	35,100
1993	33,000
1992	32,400
1991	31,500
1990	31,000

Source: Food Marketing Industry Speaks, 1991-1998. as cited in http://www.fmi.org/keyfacts/storesize.html.

Other interesting facts about the state of the supermarket industry at year end 1997 are found in Table 1-6.

Table 1-6: Supermarket Facts (Year End 1997) [1]	
	1997
Totals for the Industry [2]	
Number of Employees	3.5 million
Number of Grocery Stores	126,000
Average Supermarket	
Square Feet of Typical Supermarket [2]	39,260
Square Feet of Selling Area	27,723
Number of Checkouts	8.8
Number of Full-Time Employees	64
Population Per Supermarket	8,820
Households Per Supermarket	3,259
Square Feet Per Person	3.14
Square Feet Per Household	8.5
Number of Items Per Supermarket [2]	30,000
Average Annual Performance ($)	
Sales Per Supermarket	11,039,638
Sales Per Square Foot	398.21
Sales Per Employee	172,602
Sales Per Checkout	1,258,186
Average Weekly Performance ($)	
Sales Per Supermarket	212,300
Sales Per Square Foot	7.66
Sales Per Employee	3,319
Sales Per Checkout	24,196

[1] Source: Table from *Progressive Grocer's Annual Report of the Grocery Industry*, as cited in S & P's Industry Surveys, April 1998 and 1999, unless otherwise noted.
[2] Source: Taken from *Progressive Grocer* as cited in http://www.fmi.org/food/superfact.html.

Recall that at year end 1997, the supermarkets with $2+ million in sales accounted for $334.5 billion of the $436.3 billion total grocery store sales in the U.S. The top ten food retailers had combined food sales of nearly $175 billion (40% of total grocery store sales). Table 1-7 lists the top ten food retailers in terms of annual sales at year end 1997. *(Note that recent consolidations, detailed elsewhere in this report and in the report appendices, have changed this ranking in several respects*.)

Supervalu Inc ($17,201 million) and Fleming Cos ($15,373 million) are also among the top food retailers, but because their sales totals include revenues from wholesale operations, their relative position in this ranking could not be determined. The top ten food retailers in terms of store count

as of mid-1998 can be found in Table 1-8.

Table 1-7: Top Ten Food Retailers by Annual Sales (Year End 1997)

Ranking	Company	Net Sales (Million $)
1	Kroger Co	26,567
2	Wal-Mart Stores	25,000 *
3	Safeway Inc	22,484
4	American Stores Co	19,139
5	Ahold USA	18,500 #
6	Albertsons Inc	14,690
7	Winn-Dixie Stores Inc	13,219
8	Meyer (Fred) Inc	12,800 #
9	Publix Super Mkts Inc	11,100 *
10	Great Atlantic & Pac Tea Co	10,262

Source: Table from S & P's Industry Surveys, *Supermarkets &Drugstores,* September 1998.

* - reported as an estimate

- *pro forma*

Table 1-8: Top Ten Food Retailers by Store Count (Mid-1998)

Ranking	Company	No. of Stores
1	Kroger Co	1,389
2	Safeway Inc	1,370
3	Food Lion Inc	1,175
4	Winn-Dixie Stores Inc	1,168
5	Great Atlantic & Pac Tea Co	919
6	Albertsons Inc	916
7	Ahold USA	830
8	Meyer (Fred) Inc	823
9	American Stores Co	804
10	Publix Super Mkts Inc	563

Source: Table from S & P's Industry Surveys, *Supermarkets & Drugstores*, September 1998.

C: THE COMBINATION OF BIG-BOX DISCOUNT RETAIL AND GROCERY SALES

Big-box discount retailers are currently engaged in a rapid trend toward incorporating full-scale grocery stores into their discount centers. Michigan-based Meijer was the first to combine a grocery and general merchandise store, doing so in the 1960s (Meijer, 1999). They currently operate 116 supercenters in the Midwest. Fifty-nine of these stores are located in Michigan, thirty-two are in Ohio, nineteen are in Indiana, five are in Kentucky, and one is located in Illinois. Their stores are as large as 250,000 square feet, and most stores include forty departments featuring over 120,000 different items. Although information on Meijer's expansion plans was limited, none of the resources available suggests that Meijer has plans to expand beyond the Midwest.

More recently, Target has entered the supercenter business. Target has been experimenting with the supercenter format for four years. Target recognizes that the supercenter concept provides additional opportunities for future growth, yet its most recent annual report does not emphasize the expansion of traditional Target stores into SuperTargets. In 1998, for example, Target opened fifty-five new Target stores, yet only fourteen of Target's 851 existing stores are currently SuperTargets. Target plans to open only two additional SuperTargets in 1999.

Target's growth efforts instead appear to be focused on the expansion of traditional Target stores in the Northeast and mid-Atlantic regions of the U.S., including Baltimore, Washington, D.C., Boston, Philadelphia, Pittsburgh, and greater New York City. At year end 1998, Target operated sixty-five stores in these regions. By the year 2001, Target expects to double its store base in these regions (Dayton Hudson, 1998).

Kmart introduced its Super Kmart concept in 1992. By 1995, the Super Kmart store count was at eighty-seven stores. Since 1995, however, the conversion of traditional Kmarts into Super Kmarts has slowed considerably. The annual growth rate in Super Kmarts was only 3 percent in both 1997 and 1998 (Kmart, 1999). At year end 1998, there were 102 Super Kmarts operating in twenty-one states throughout the U.S. (Kmart, 1998).

While Kmart is a much bigger player in the supercenter business than Target,[1] the top priority of Kmart's real estate strategy is the completion of its comprehensive conversion of traditional Kmart stores to Big Kmarts (Kmart, 1999). Big Kmarts differ from Super Kmarts in that Super Kmarts aim to provide the ultimate shopping experience by combining a complete assortment of fresh groceries with a broad selection of general merchandise (Kmart, 1999). Big Kmarts, on the other hand, emphasize those departments that are most important to the typical Kmart shopper. Additionally, located near the front of each Big Kmart store are everyday basics and consumables. These items are typically priced at a zero-to-three percentage differential from Kmart's leading competitors in order to increase inventory turnover and gross margin dollars (Kmart, 1999). By year end 1998, Kmart had 1,245 Big Kmart stores (Kmart, 1998). The remainder of eligible stores are expected to be converted during 1999 (Kmart, 1999).

[1] Behind Wal-Mart and Meijer, Kmart was the third largest supercenter firm in the U.S. in 1997 (Kmart, 1999).

Wal-Mart, currently the number one general merchandise retailer in the U.S., began experimenting with the supercenter concept in 1988. The recent growth of Wal-Mart Supercenters has far surpassed that of other retail supercenters, as is evidenced by the store count comparison for Wal-Mart Supercenters vs. Super Kmarts shown in Table 1-9. In 1999, for example, Wal-Mart plans to open 150 new Supercenters while Kmart expects to open only four new Super Kmarts.

Table 1-9: Store Counts of Super Kmarts & Wal-Mart Supercenters

Year	Super Kmart Store Count [1]	Percentage Change	Wal-Mart Store Count [2]	Percentage Change
1990	0	-	6	100%
1991	0	-	9	50%
1992	5	-	10	11%
1993	19	280%	34	240%
1994	67	253%	72	112%
1995	87	30%	147	104%
1996	96	10%	239	63%
1997	99	3%	344	44%
1998	102	3%	441	28%
1999 [3]	106	4%	564	28%
2000 [3]	N/A.	N/A.	714	27%

[1] Source: http://www.kmart.com/d_about/financial/factbk_1998/7.stm

[2] Source: Wal-Mart Annual Report, 1999.

[3] Estimates as stated in Kmart Corp Annual Report, 1998, and Wal-Mart Annual Report, 1999.

David Glass, the President and CEO of Wal-Mart Stores, discusses Wal-Mart's entry into the food business in Wal-Mart's 1998 Annual Report:

> "[The Supercenter concept] took the idea of retailing both general merchandise and food in the same building and created the convenience of 'one-stop shopping.' It has become our key domestic growth vehicle and will remain so for at least the next 10 years. This year alone we are going to open approximately 150 Supercenters in the Unites States as well as using it as a key vehicle in our international growth."

Although many of the existing Wal-Mart Supercenters are located in the Midwest and Southeast, the threat of their entry into Southern California is very real. In 1999, it is estimated that 72 percent of the new Wal-Mart Supercenters openings in the U.S. will be the result of conversions from traditional Wal-Mart Discount Stores into Wal-Mart Supercenters (Wal-Mart SEC Form 10-K, 1999) (see Table 1-10). Because California is currently the home to over 106 Wal-Mart discount centers, including seven in Orange County, there is a very strong possibility that some of these conversions will occur in California.

Given Wal-Mart's rapid expansion, one can conclude that Wal-Mart is by far the most aggressive competitor in the supercenter business. At Wal-Mart's current supercenter expansion pace, the firm will have more supercenters than traditional discount centers in less than ten years. Wal-Mart is a discount retail firm that is essentially transforming itself into a combination general merchandise/food retailing business. Because Wal-Mart is currently the most aggressive entrant into the supercenter market, much of this report will focus on the impacts of the entry of Wal-Mart Supercenters into Southern California. A thorough examination of Wal-Mart Supercenters will help grocery retailers better understand the effects and consequences of discount retailers' entry into the grocery industry.

Table 1-10: Wal-Mart Store Transformations

Year	Number of Discount Store Conversions	Number of Supercenters Opened	% of Supercenter Openings Resulting from Conversions
1994	37	38	97%
1995	69	75	92%
1996	80	92	87%
1997	92	105	88%
1998	75	97	77%
1999 *	88	123	72%
2000 *	90	150	60%

Source: Wal-Mart SEC Form 10-K, January 1999, unless otherwise stated.
* - Expansion plans as stated in Wal-Mart Annual Report, 1999.

D. THE ECONOMIC IMPORTANCE OF THE GROCERY INDUSTRY

Table 1-11 shows grocery industry employment (standard industrial classification, or SIC, code 541) for southern California counties and statewide. Table 1-12 similarly shows average per employee wages paid to southern California grocery employees. For comparison, Table 1-13 gives average annual per employee wages for all businesses in California.

Table 1-11: Total Yearly Employment for the Grocery Industry

(SIC Code # 541)

Area	1993	1994	1995	1996
Imperial	1,512	759	1,586	1,377
Los Angeles	64,655	61,375	61,341	60,513
Orange	20,532	19,136	21,056	21,075
Riverside	10,057	9,358	9,356	9,726
San Bernardino	10,338	10,371	10,778	10,633
San Diego	19,540	18,911	18,538	19,739
Ventura	5,203	4,840	4,899	5,408
Southern CA Region	131,837	124,750	127,554	128,471
CA State	247,117	238,913	241,180	250,206

Source: County Business Patterns Annual (1993-1996); US Department of Labor, Bureau of the Census.

Table 1-12: Total Yearly Payroll Per Employee for the Grocery Industry

(SIC Code #541)

Area	1993	1994	1995	1996
Imperial	$17,222	$15,749	$15,830	$15,717
Los Angeles	$20,860	$21,231	$21,871	$21,729
Orange	$21,783	$22,458	$22,612	$21,948
Riverside	$21,873	$22,357	$23,307	$22,410
San Bernardino	$22,315	$21,995	$21,609	$22,323
San Diego	$20,201	$20,443	$20,801	$20,175
Ventura	$21,890	$22,999	$23,424	$20,429
Southern CA Region	$21,096	$21,483	$21,905	$21,508
CA State	$20,996	$21,495	$21,923	$21,154

All figures adjusted to 1999 dollars using the CPI-W index for the Los Angeles-Riverside-Orange County area (US Bureau of Labor Statistics).

Table 1-13: Total Yearly Payroll Per Employee for all Industries in California

Area	1993	1994	1995	1996
Statewide	$30,120	$30,669	$31,232	$32,376

Source: County Business Patterns Annual (1993-1996); US Department of Labor, Bureau of the Census.
* Payroll includes all forms of compensation: salaries, wages, reported tips, commissions, bonuses etc...
All figures adjusted to 1999 dollars using the CPI-W index for the Los Angeles-Riverside-Orange County area (US Bureau of Labor Statistics).
- Excludes most government employees, railroad employees, and self-employed persons

In 1996, the grocery industry in southern California paid wages that were 65.3% of the statewide average. That comparison should be treated with some caution, as the County Business Patterns data shown in Tables 1-11 through 1-13 do not distinguish between full and part-time workers. To the extent that some grocery employees work part-time, average annual full-time wages will be higher than what is shown in Table 1-12. That comparison understates the importance of the major chains in the southern California economy. Of the approximately 128,000 southern

California grocery employees, about 80,000 are unionized. Those union members, employed by the major grocery chains (Albertsons, Hughes, Lucky, Ralphs, Smiths, Stater Bros., and Vons), earn substantially higher wages than the non-unionized grocery employees. Drawing on information from the southern California employers, we show (in Chapter 2) that the average grocery employee at a major southern California grocery chain earns $32,385 – virtually identical to average annual pay for all of California.

Another way to get insight into the importance of the grocery industry is to compare it to more highly visible sectors. Here we compare the grocery business to construction and tourism, because both are commonly associated with the strength of the southern California economy. In Table 1-14, we show employment in construction jobs in southern California counties, while per employee annual wages for the construction industry are shown in Table 1-15.

Table 1-14: Total Yearly Employment for the Construction Industry

(SIC Code # 15)

Area	1993	1994	1995	1996
Imperial	1,552	1,642	1,342	1,350
Los Angeles	101,359	104,380	113,883	111,713
Orange	54,154	54,512	56,226	56,652
Riverside	23,428	21,478	23,435	25,280
San Bernardino	21,806	21,733	22,156	23,729
San Diego	40,905	42,000	45,098	48,457
Ventura	10,507	10,586	11,344	11,426
Southern CA Region	253,711	256,331	273,484	278,607
CA State	475,509	480,078	495,037	513,401

Source: County Business Patterns Annual (1993-1996); US Department of Labor, Bureau of the Census.

Table 1-15: Total Yearly Payroll Per Employee for the Construction Industry

(SIC Code # 15)

Area	1993	1994	1995	1996
Imperial	$19,878	$19,767	$23,079	$20,595
Los Angeles	$31,727	$33,425	$32,648	$33,578
Orange	$31,697	$32,346	$31,690	$33,598
Riverside	$24,947	$28,194	$28,255	$29,349
San Bernardino	$27,190	$29,115	$28,685	$29,012
San Diego	$29,973	$30,237	$30,164	$30,640
Ventura	$28,085	$29,209	$28,902	$29,527
Southern CA Region	$30,199	$31,608	$31,142	$32,069
CA State	$31,501	$32,501	$33,113	$33,750

Source: County Business Patterns Annual (1993-1996); US Department of Labor, Bureau of the Census.
* Payroll includes all forms of compensation: salaries, wages, reported tips, commissions, bonuses etc...
All figures adjusted to 1999 dollars using the CPI-W index for the Los Angeles-Riverside-Orange County area (US Bureau of Labor Statistics).

Statewide and in southern California, grocery employment is approximately half as large as construction employment. Construction pays higher wages – based on the data shown in Tables 1-12 and 1-15, the average per employee wage in grocery is about two-thirds what is paid in construction. But again if attention is limited to the 80,000 employees of major southern California chains, grocery employees earn essentially the same annual wage as construction workers, on average.

Few doubt that construction is vitally important to the southern California economy, and many recognize the role that construction jobs play in providing good wages and economic opportunity to persons with entry-level skills. *Grocery employment serves a similarly important role.* In southern California, the major grocery chains pay wages comparable to that earned in construction, and their 80,000 members in the region number about one-third the region's total construction employment.

Tables 1-16 and 1-17 show, respectively, employment and per employee annual wages in tourism, which we define as hotels and motels (SIC 7010), racing and track operations (SIC 7948), amusement parks (SIC 7996), and miscellaneous amusement and recreation (SIC 7990). Employment and wages are substantially higher in the grocery industry than in tourism.

Table 1-16: Total Yearly Employment for the Tourism Industry

(SIC Codes: # 7010, # 7948, # 7990, # 7996)

Area	1993	1994	1995	1996
Imperial	493	559	519	481
Los Angeles	74,188	71,856	72,390	73,926
Orange	n/a	n/a	n/a	n/a
Riverside	n/a	16,133	n/a	17,914
San Bernardino	n/a	n/a	n/a	8,168
San Diego	n/a	n/a	n/a	40,002
Ventura	4,241	n/a	n/a	n/a
Statewide	316,122	317,388	329,918	341,370

Source: County Business Patterns Annual (1993-1996); US Department of Labor, Bureau of the Census.
Tourism Includes the Following Industries: Hotel and Motel (SIC # 7010), Racing and Track Operations (SIC # 7948), Miscellaneous Amusement and Recreation (SIC # 7990), and Amusement Park (SIC # 7996).

Table 1-17: Total Yearly Payroll Per Employee for the Tourism Industry

(SIC Codes: # 7010, # 7948, # 7990, # 7996)

Area	1993	1994	1995	1996
Imperial	$8,815	$8,410	$8,716	$9,122
Los Angeles	$16,289	$17,171	$16,363	$16,720
Orange	n/a	n/a	n/a	n/a
Riverside	n/a	$15,189	n/a	$16,184
San Bernardino	n/a	n/a	n/a	$11,240
San Diego	n/a	n/a	n/a	$16,280
Ventura	$12,283	n/a	n/a	n/a
Statewide	$15,680	$15,912	$15,663	$16,267

Tourism Includes the Following Industries: Hotel and Motel (SIC # 7010), Racing and Track Operations (SIC # 7948), Miscellaneous Amusement and Recreation (SIC # 7990), and Amusement Park (SIC # 7996)
Source: County Business Patterns Annual (1993-1996); US Department of Labor, Bureau of the Census.
* Payroll includes all forms of compensation: salaries, wages, reported tips, commissions, bonuses etc.
All figures adjusted to 1999 dollars using the CPI-W index for the Los Angeles-Riverside-Orange County area (US Bureau of Labor Statistics).

Because many of the categories of tourism employment do not report data at the county level, we isolate employment and wages in the hotel/motel sector in Tables 1-18 and 1-19. That more specific comparison with the grocery sector yields the same conclusions – the grocery industry employs more persons, and at higher wages.

Table 1-18: Total Yearly Employment for the Hotel and Motel Industry

(SIC Code # 7010)

Area	1993	1994	1995	1996
Imperial	382	418	408	371
Los Angeles	39,916	36,682	37,248	36,617
Orange	18,418	17,618	17,354	18,571
Riverside	10,083	8,254	11,191	8,877
San Bernardino	2,855	2,790	2,811	3,238
San Diego	22,383	22,289	22,616	22,965
Ventura	2,225	2,394	2,036	2,006
Southern CA Region	96,262	90,445	93,664	92,645
Statewide	170,467	163,694	170,032	168,580

Source: County Business Patterns Annual (1993-1996); US Department of Labor, Bureau of the Census.

Table 1-19: Total Yearly Payroll Per Employee for the Hotel and Motel Industry

(SIC Code # 7010)

Area	1993	1994	1995	1996
Imperial	$8,603	$8,726	$8,621	$9,228
Los Angeles	$15,870	$16,758	$17,011	$18,527
Orange	$15,197	$15,432	$15,246	$16,278
Riverside	$13,424	$14,218	$14,119	$17,569
San Bernardino	$9,122	$9,825	$9,729	$9,184
San Diego	$15,698	$15,553	$15,424	$16,470
Ventura	$13,127	$13,381	$11,133	$12,830
Southern CA Region	$15,152	$15,631	$15,572	$16,987
Statewide	$15,364	$15,829	$15,865	$17,021

Source: County Business Patterns Annual (1993-1996); US Department of Labor, Bureau of the Census.
* Payroll includes all forms of compensation: salaries, wages, reported tips, commissions, bonuses etc.
All figures adjusted to 1999 dollars using the CPI-W index for the Los Angeles-Riverside-Orange County area (US Bureau of Labor Statistics).

E. WHAT THIS MEANS FOR ORANGE COUNTY

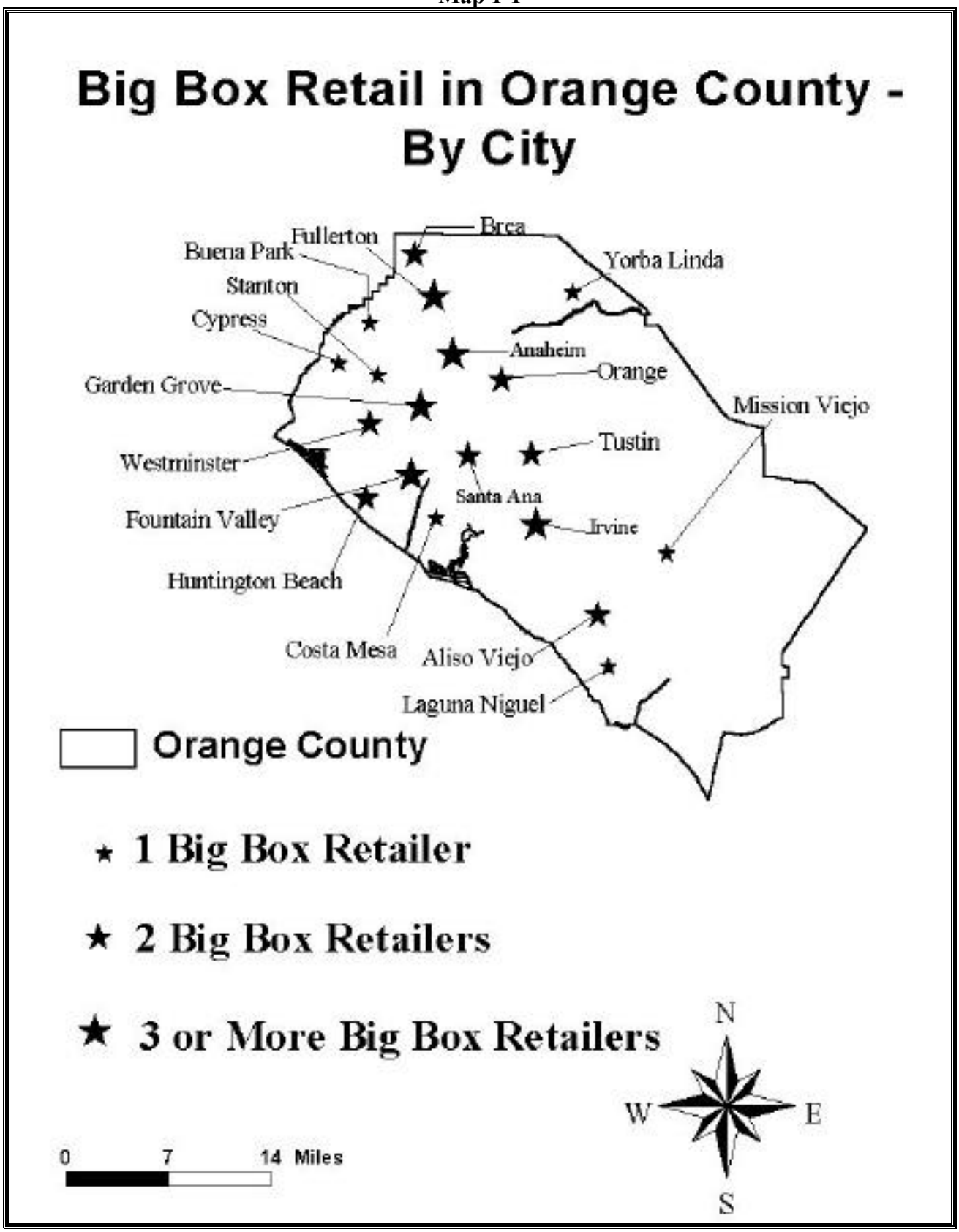
Table 1-20 lists the big-box discount retail outlets in Orange County. The locations of Orange County discount centers are also shown on Map 1-1. Target has the most discount retail outlets in the county, with fifteen stores, followed by K-Mart, which has nine Orange County locations. K-Mart also has three K-Mart Super Centers in the county. Wal-Mart's presence in Orange County is exceptionally new – half of the Wal-Mart discount centers listed in Table 1-20 were built in 1997 or later.

Table 1-20: Big Box Retailers in Orange County

Costco		
17900 Newhope St	Fountain Valley	92708
900 S Harbor Blvd	Fullerton	92832
11000 Garden Grove Blvd	Garden Grove	92843
115 Technology Dr	Irvine	92618
27972 Cabot Rd	Laguna Niguel	92677
2655 El Camino Real	Tustin	92782
22633 Savi Ranch Pkwy	Yorba Linda	92886
Kmart		
10870 Katella Ave	Anaheim	92804-6116
2222 E Lincoln	Anaheim	92806-4107
5885 Lincoln Ave	Buena Park	90620-3461
2200 Harbor Blvd	Costa Mesa	92627-2501
16111 Harbor Blvd	Fountain Valley	92708-1305
19101 Magnolia	Huntington Beach	92646-2233
1855 N Tustin	Orange	92865-4604
2505 El Camino Real	Tustin	92782-8920
15440 Beach Blvd	Westminster	92683-6237
Kmart Super Centers		
26501 Aliso Creek Rd	Aliso Viejo	92656-2882
1095 N Pullman	Anaheim	92808-2516
1000 W Imperial Hwy	La Habra	90631-6901
SAM'S Clubs		
17099 Brookhurst	Fountain Valley	92708
629 S Placentia Ave	Fullerton	92831
16555 Von Karman Ave	Irvine	92606
12540 Beach Blvd	Stanton	90680

Table 1-20 (cont.): Big-Box Retailers in Orange County		
Target		
26935 La Paz Rd	Aliso Viejo	92656
1881 W Lincoln Ave	Anaheim	92801
8148 E Santa Ana Canyon Rd	Anaheim	92808
6835 Katella Ave	Cypress	90630
2920 Yorba Linda Blvd	Fullerton	92831
13831 Brookhurst	Garden Grove	92843
12100 Harbor Blvd	Garden Grove	92840
9882 Adams Ave	Huntington Beach	92646
3750 Barranca Pkwy	Irvine	92606
1000 E Imperial Hwy	La Habra	90631
24500 Alicia Pkwy	Mission Viejo	92691
2191 N Tustin	Orange	92865
3300 S Bristol	Santa Ana	92704
1330 E 17th	Santa Ana	92701
16400 Beach Blvd	Westminster	92683
Wal-Mart		
440 N Euclid St	Anaheim	92801
2595 E Imperial Hwy	Brea	92821
26502 Towne Centre Dr	Foothill Ranch	92610
27470 Alicia Pkwy	Laguna Niguel	92677
2300 N Tustin St	Orange	92865
3600 W Mcfadden Ave	Santa Ana	92703
13331 Beach Blvd & I 22	Westminster	92683

Map 1-1


Big Box Retail in Orange County - By City
Brea
Fullerton
Buena Park
Yorba Linda
Stanton
Cypress
Anaheim
Orange
Garden Grove
Mission Viejo
Tustin
Westminster
Santa Ana
Fountain Valley
Irvine
Huntington Beach
Costa Mesa
Aliso Viejo
Laguna Niguel
Orange County
1 Big Box Retailer
2 Big Box Retailers
3 or More Big Box Retailers
N
W
E
S
0
7
14 Miles

As we mentioned before, the economic concern is not big-box discount retail *per se*, but the trend for discount stores to include full service grocery sales. Discount retail pays considerably less than the major grocery chains. The policy issue is thus that, if supercenter grocery sales will crowd out sales in grocery chains, some otherwise well paying grocery jobs will become lower paying jobs.

The growth of low wage jobs has become a source of concern in Orange County. The Orange County Business Council, drawing on data from the U.S. Bureau of Economic Analysis, has shown that Orange County's per capita income growth from 1994 through 1996 was lower than competing high technology regions such as the Silicon Valley, Seattle, Minneapolis/St. Paul, Austin, and San Diego. Per capita income growth in Orange County was also below both state and national averages during that time period. The Business Council has estimated that the majority of Orange County job growth from 1989 through 1997 was in relatively low paying sectors – for example, during those nine years, the county's service employment increased by 58% while manufacturing jobs in the county fell by 22%.

Against that backdrop, it becomes important to encourage job growth in sectors that pay well – especially those sectors, like the grocery industry, that offer a living wage to persons with entry-level skills. The emergence of supercenters, which pay wages typical of the low-paying discount retail sector, threatens to convert many high wage jobs into low wage jobs. Because that fact is so central to the policy concerns in this area, we focus explicitly on the labor market impacts of supercenters in the next chapter.

Chapter 2: Job and Wage Impacts

In this chapter, we examine the labor market impacts of the entry of discount retailers into the grocery industry in southern California. Because Wal-Mart supercenters are currently the most vigorous potential competitor to southern California grocery chains, we focus on that possibility. But the arguments developed here are general, and apply to any case where a new entrant in a market dramatically lowers labor costs.

Using data on current wages and benefits, we calculate that the direct impact on workers in southern California would likely fall in the range of about $500 million to $1.4 billion per year in lower pay, depending on the big box food sales market share. Using the Southern California Association of Governments estimates of how these lowered wages would impact the regional economy, the total regional drop in spending ranges from about $1 billion to over $2.8 billion per year. The numbers will rise the larger the market share of big box grocers, and could well top even these figures over time.

The discussion below proceeds in four steps. First, we discuss the differences in pay and benefits across the discount retail and grocery sectors, as those are vital for understanding the possibility that high wage jobs will be converted into low-wage jobs. Second, we describe what happened in Canada when a similar low-labor cost competitor entered the grocery business. Third, we estimate the likely impact that Wal-Mart will have on the grocery industry in southern California. Fourth, we examine the possible labor market impacts of competition from Wal-Mart, focusing on employment impacts, downward pressure on wages, and the implications for employee health benefits.

A. Differences in Employment & Wages Across Discount Retail & the Grocery Industry

Tables 2-1 through 2-4 show employment and per employee annual wages for the grocery (SIC code 541) and general merchandise retail (SIC code 53) sectors for 1993 through 1996.[2] All wage data are expressed in 1999 dollars. For the seven county southern California region, the per employee annual wage in the grocery industry was $21,508 in 1996; the per employee annual wage in general merchandise retail in 1996 was $14,432. In southern California, general merchandise employees earn, on average, about two-thirds the salary of grocery employees. That proportion is roughly constant for the four year time period shown in Tables 2-1 through 2-4.[3]

[2] According to the definition of the Standard Industrial Classification (SIC) code system, general merchandise retail includes stores that sell a number of lines of merchandise, such as dry goods, apparel and accessories, furniture, small wares, hardware, and food.

[3] The per employee wage data in Tables 2-2 and 2-4 allow comparisons between the broad categories of general merchandise retail and grocery. The question of competition between Wal-Mart and major southern California grocery chains is better informed by specific comparisons, shown later in this chapter, for the major grocery chains and Wal-Mart. For example, the wage data in Table 2-2 likely understate per employee wages among the employees at major grocery chains, who are represented by union contracts. Approximately 80,000 southern California grocery employees, out of a total employment of approximately 128,000 for SIC 541, are union members. All employees of the major southern California grocery chains are union members. Also note that, because County Business Patterns does not

Table 2.1: Total Yearly Employment for the Grocery Industry

(SIC Code # 541)

Area	1993	1994	1995	1996
Imperial	1,512	759	1,586	1,377
Los Angeles	64,655	61,375	61,341	60,513
Orange	20,532	19,136	21,056	21,075
Riverside	10,057	9,358	9,356	9,726
San Bernardino	10,338	10,371	10,778	10,633
San Diego	19,540	18,911	18,538	19,739
Ventura	5,203	4,840	4,899	5,408
Southern CA Region	131,837	124,750	127,554	128,471
CA State	247,117	238,913	241,180	250,206

Source: County Business Patterns Annual (1993-1996); US Department of Labor, Bureau of the Census.

Table 2.2: Total Yearly Payroll Per Employee for the Grocery Industry

(SIC Code #541)

Area	1993	1994	1995	1996
Imperial	$17,222	$15,749	$15,830	$15,717
Los Angeles	$20,860	$21,231	$21,871	$21,729
Orange	$21,783	$22,458	$22,612	$21,948
Riverside	$21,873	$22,357	$23,307	$22,410
San Bernardino	$22,315	$21,995	$21,609	$22,323
San Diego	$20,201	$20,443	$20,801	$20,175
Ventura	$21,890	$22,999	$23,424	$20,429
Southern CA Region	$21,096	$21,483	$21,905	$21,508
CA State	$20,996	$21,495	$21,923	$21,154

Note: * Payroll includes all forms of compensation: salaries, wages, reported tips, commissions, bonuses etc.
Clerical Workers (CPI-W) from the US Bureau of Labor Statistics (BLS) (1982-84 = 100).
Real dollars calculated using the CPI index for the Los Angeles-Riverside-Orange County area.

Source: County Business Patterns Annual (1993-1996); US Department of Labor, Bureau of the Census.

report information on hours worked, the data in Tables 2-1 through 2-4 combine part-time and full-time workers.

Table 2.3: Total Yearly Employment for the General Merchandise Industry

(SIC Code # 53)

Area	1993	1994	1995	1996
Imperial	1,629	1,505	1,451	1,264
Los Angeles	57,738	51,873	56,264	55,797
Orange	21,031	19,101	21,041	19,797
Riverside	10,843	10,203	10,726	10,236
San Bernardino	11,991	12,018	12,903	12,976
San Diego	18,388	17,662	18,953	18,612
Ventura	5,190	5,340	5,484	5,221
Southern CA Region	126,810	117,702	126,822	123,903
Statewide	220,198	209,937	222,399	216,454

Source: County Business Patterns Annual (1993-1996); US Department of Labor, Bureau of the Census.

Table 2.4: Total Yearly Payroll Per Employee for the General Merchandise Industry

(SIC Code #53)

Area	1993	1994	1995	1996
Imperial	$13,002	$13,725	$13,637	$15,259
Los Angeles	$13,998	$15,483	$14,404	$14,290
Orange	$14,023	$15,724	$14,300	$14,753
Riverside	$12,520	$13,567	$13,595	$13,745
San Bernardino	$13,537	$14,230	$14,055	$14,300
San Diego	$13,783	$14,784	$14,436	$14,983
Ventura	$12,761	$14,239	$13,630	$14,235
Southern CA Region	$13,737	$15,044	$14,245	$14,432
Statewide	$14,284	$15,119	$14,579	$14,609

Source: County Business Patterns Annual (1993-1996); US Department of Labor, Bureau of the Census.
* Payroll includes all forms of compensation: salaries, wages, reported tips, commissions, bonuses etc.
All figures adjusted for inflation using the June 1999 Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) from the US Bureau of Labor Statistics (BLS) (1982-84 = 100).
Real dollars calculated using the CPI index for the Los Angeles-Riverside-Orange County area.

In Tables 2-5 and 2-6, we present employment and annual per employee wages in the variety retail sector (SIC code 533). The Securities and Exchange Commission classifies Wal-Mart as being in SIC code 533, which is a subset of general merchandise retail (SIC code 53).[4] In 1996, per employee annual pay in variety retail was $15,733 in Orange County and $14,147 in Los Angeles County. Overall, the wage differential between groceries and variety retail is similar to the differential between grocery employment and the broader general merchandise retail category.

Table 2.5: Total Yearly Employment for the Variety Store Industry

(SIC # 533)

Area	1993	1994	1995	1996
Imperial	104	107	99	n/a
Los Angeles	2,342	2,140	1,937	1,768
Orange	231	164	151	134
Riverside	158	71	n/a	n/a
San Bernardino	239	136	102	84
San Diego	561	444	304	203
Ventura	62	51	58	53
Southern CA Region	3,697	3,113	n/a	n/a
Statewide	6,681	5,186	4,486	3,735

Source: County Business Patterns Annual (1993-1996); US Department of Labor, Bureau of the Census.

[4] Variety retail is defined as "establishments primarily engaged in the retail sale of a variety of merchandise in the low and popular price ranges." We caution that the low employment figures shown in Table 2-5 suggest that Wal-Mart and other major discount retailers may not be reflected in the variety retail category, regardless of SEC classification. Comparison to the wages for general merchandise retail shown in Table 2-4 may be more appropriate.

Table 2.6: Total Yearly Payroll Per Employee for the Variety Store Industry

(SIC # 533)

Area	1993	1994	1995	1996
Imperial	$10,228	$9,234	$7,778	n/a
Los Angeles	$12,484	$12,276	$13,312	$14,147
Orange	$12,143	$13,137	$13,573	$15,733
Riverside	$10,355	$7,811	n/a	n/a
San Bernardino	$11,008	$10,166	$11,491	$11,143
San Diego	$10,661	$10,435	$10,853	$10,262
Ventura	$11,862	$11,785	$10,599	$10,762
Southern CA Region	$11,926	$11,752	n/a	n/a
Statewide	$11,507	$11,414	$11,831	$12,399

Note: Source: County Business Patterns Annual (1993-1996); US Department of Labor, Bureau of the Census.
* Payroll includes all forms of compensation: salaries, wages, reported tips, commissions, bonuses etc.
All figures adjusted to 1999 dollars using the CPI index for the Los Angeles-Riverside-Orange County area.

Wages vary substantially across the general merchandise and food retail sectors. Any discount retailer, if it enters the food sector in southern California *and then pays its grocery employees a wage that is comparable to what it pays its discount retail employees*, will, in effect, be converting high wage jobs into low-wage jobs. As an example, we compare grocery wages and benefits to those offered by Wal-Mart, because Wal-Mart is the discount retail chain that is most aggressively entering the retail food business.

Because Wal-Mart's hourly employees are not covered by a collective bargaining agreement (unlike southern California grocery employees), it was difficult to obtain wage information for Wal-Mart. What we do know suggests that hourly employees at Wal-Mart earn a starting wage of approximately $6.00 to $7.00 per hour. Newspaper and consulting reports suggest that Wal-Mart hourly employees earned $5.00 per hour in 1991 (Stockton Record, 1991) and $6.00 per hour in the San Francisco Bay Area more recently than 1995 (Golman, 1997). For the background research for this study, a Wal-Mart discount center in Orange County reported that starting hourly employees earn $7.00 per hour.[5] Telephone conversations with Wal-Mart Supercenter managers in other states revealed that hourly employees at stores in Ohio and Missouri earned starting wages of approximately $6.00 per hour.[6] The manager of an Ohio Wal-Mart Supercenter contacted for this study estimated that salaried employees in the bakery and meat departments received only a small wage premium over other store employees – earning $0.25 more per hour.[7]

[5] Telephone interview with personnel manager, Wal-Mart, Foothill Ranch, California discount center, July 22, 1999.

[6] This information is from telephone interviews with managers of Wal-Mart Supercenters in Alliance, Ohio and Springfield Missouri on July 8, 1999.

[7] Telephone interview, manager of Springfield, Missouri Wal-Mart Supercenter, July 8, 1999.

These data are not extensive, but the picture is consistent. Wal-Mart's Supercenter employees appear to be paid wages that are similar to wages earned by Wal-Mart's discount store employees, with hourly wages starting in the range of $6.00 to $7.00 per hour.

The pay scales of grocery workers at the major chains in southern California are listed in Table 2-7. Most hourly employees are divided into one of three broad categories – general merchandise clerks, food clerks, and meat cutters. Both the meat cutters and the food clerks earn starting wages that are substantially higher than the $6.00 to $7.00 per hour starting salary at Supercenters.

Effective October 4, 1999, food clerks at the major grocery chains will earn a starting wage of $9.78 per hour, while beginning meat cutters will earn $11.43 per hour. (The Food Employers Council, the collective bargaining unit for southern California grocery chains, estimates that as of July, 1999, half of all hourly employees in southern California grocery chains are in the meat cutter and food clerk categories. (Bailey, 1999))

For the grocery industry in southern California, only general merchandise clerks earn a wage that is similar to Wal-Mart wages; general merchandise clerks start at $7.07 per hour. General merchandise clerks are a special category designed to allow grocery stores to compete in non-perishable items with other, lower paying, retail outlets. General merchandise clerks do not handle food items. The general merchandise pay scale at the major chains is, in some ways, suggestive of what happens when grocery stores must compete with competitors who have lower labor costs.

Table 2-7: Hourly Wage Structure of the Major Grocery Chains in Southern California*

		10/4/99	10/2/00	10/1/01	10/7/02
Meat Cutters					
	Head Meat Cutter	$18.98	$19.38	$19.78	$20.18
	Journeyman Meat Cutter	$17.98	$18.38	$18.78	$19.18
Apprentices:	4th six months	$15.82	$15.82	$15.82	$15.82
	3rd six months	$14.06	$14.06	$14.06	$14.06
	2nd six months	$12.31	$12.31	$12.31	$12.31
	1st six months	$11.43	$11.43	$11.43	$11.43
Food Clerks					
	Department Head	$17.70	$18.10	$18.50	$18.90
	Experienced Clerk	$16.70	$17.10	$17.50	$17.90
Apprentices:	4th 26 weeks	$14.67	$14.67	$14.67	$14.67
	3rd 26 weeks	$13.04	$13.04	$13.04	$13.04
	2nd 26 weeks	$11.41	$11.41	$11.41	$11.41
	1st 26 weeks	$9.78	$9.78	$9.78	$9.78
General Merchandise Clerks					
	Department Head	$12.37	$12.67	$12.97	$13.27
	Experienced Clerk	$11.27	$11.57	$11.87	$12.17
Apprentices:	4th 26 weeks	$9.78	$9.78	$9.78	$9.78
	3rd 26 weeks	$8.70	$8.70	$8.70	$8.70
	2nd 26 weeks	$7.61	$7.61	$7.70	$7.85
	1st 26 weeks	$7.07	$7.25	$7.40	$7.55

* Source: Food Employers' Council, 1999

The gap in starting hourly pay understates the full wage differential that exists between nearly all current grocery workers and Wal-Mart employees. The current prevailing wage structure increases rather rapidly – food clerks, for example, will earn 33% more than their starting salary after one year of employment. It also guarantees part-time employees a minimum of twenty hours of work per week, and in October, 1999 that part-time guarantee rises to twenty-four hours per week. Part-time members currently usually work considerably more than the minimum guarantee – as of July of 1999, part time employees at the major grocery chains averaged 35.5 hours of work per week (Bailey, 1999).

For those reasons, and because these employees receive an attractive benefits package (summarized later in this chapter), current grocery employees often pursue a career in the grocery industry. What we know about Wal-Mart suggests that, as compared with current practice in the southern California grocery industry, the Wal-Mart pay scale increases less rapidly with experience, Wal-Mart is a heavier user of part-time work, part-time employees likely work fewer hours per week, and the typical Wal-Mart employee stays with the company for a shorter time. The net effect of both the rapid increase in wages with experience and the longer average job tenure for current southern California grocery employees implies that the wage differential between Wal-Mart and southern California employees will be larger than what is suggested by Table 2-7.

Yet hourly wages are only part of the story. The current major grocery chain labor contract offers full health insurance coverage for all southern California grocery employees (full and part-time) and their dependents, with no co-payments or deductibles. Health plan costs are paid by the employer. Wal-Mart, in comparison, requires that employees share the cost of health insurance premiums. Insurance coverage is only available to full time employees. Wal-Mart health plans have deductibles that range from $250 to $1000, and employees must pay the full premium for dependents. A summary of Wal-Mart and the current southern California grocery benefit plans is shown in Table 2-8.

Table 2-8: Comparative Benefit Analysis

	Chain Grocery Stores	Wal-Mart
Annual Paid Holidays:	nine paid holidays per year	six paid holidays per year
Vacations:	One week after 1 year. Two weeks after 2 years. Three weeks after 5 years. Four weeks after 15 years. Five weeks after 20 years.	One week after 1 year. Two weeks after 2 years. Three weeks after 7 years.
Sick Leave:	Accrues at 4 hours/month, or 6 days/year. Annual cash buyout for unused sick leave.	Accrues at .023077 hours for each hour worked (approx. 4 hours per month) or 6 days per year, to a maximum of 192 hours (24 days). No cash buyout for accrued sick leave in excess of maximum. 50% of accrued sick leave may be used as personal time off from work.
Medical Insurance:	Several plans are offered. Most extensive coverage is the PPO Plan. Under PPO plan, employer pays full premium for employee and all dependents. No deductible. Most procedures reimbursed at 90 - 100%; $10 doctor's office visits.	Employer paid with employee sharing premium. Four deductible options are offered ranging from $250 to $1,000 with varying employee premium share. Employee part of premium ranges from $5.50 to $18.50 bi-weekly depending on deductible.
	Maximum out-of-pocket expense is $500.	Employee pays full premium for any dependents. Plan includes employee co-insurance.
Dental Insurance:	Employer pays full premium for employee and all dependents. No deductible and no co-insurance.	Employee shares in premium payment ($2.50 bi-weekly) and pays full premium for dependents. Plan includes annual deductible and co-insurance.
Pension Plan:	Provides a defined benefit retirement plan. Employer's contribution is $1.225 per hour.	Offers an employee stock ownership plan. Company pays 15% of employee company stock purchases to an annual maximum stock purchase of $1,800. (approximately $0.135 per hour)
Other:	No-cost vision insurance coverage. Retiree medical insurance coverage.	Offers employee-paid life insurance. Provides profit-sharing plan. Provides employee, 10% discount card on Wal-Mart purchases. Offers reduced-cost medical plan for eligible retirees.

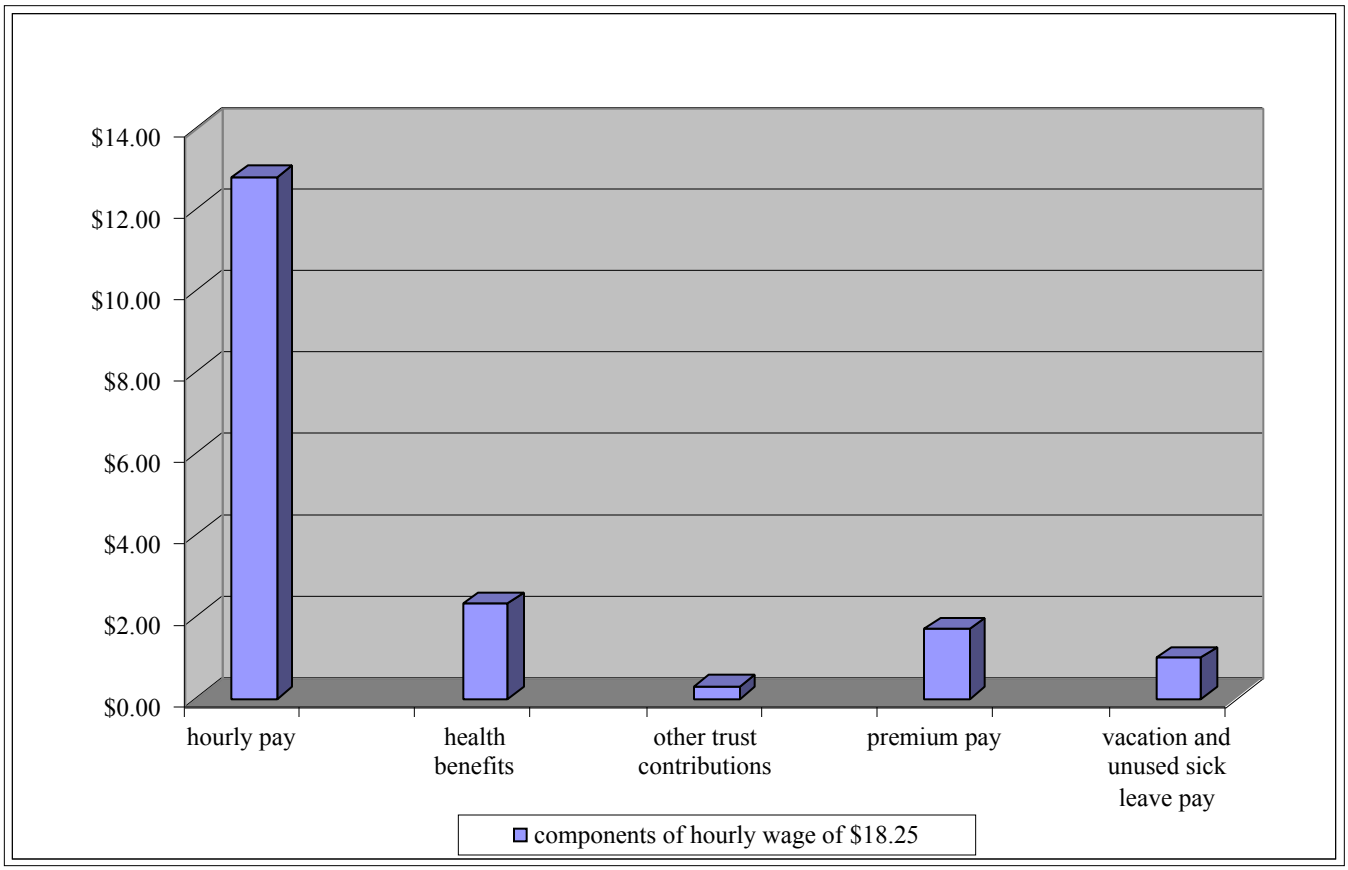
Sources: 1998 Wal-Mart Associate Benefit Book. Summary Plan Description. Food Employers' Council (Bailey, 1999).

Many Wal-Mart employees are not covered by any of the company's health benefit plans. In 1995, 38% of Wal-Mart employees were covered by one of the company's health plans; another 35% were eligible but did not elect coverage, likely because of the employee cost-sharing and large deductibles; the remaining 27% were not eligible for health benefits (Source: IRS 5500 forms.)

By comparison, in June of 1999, the health plans covered 77,540 employees at the major southern California grocery stores and 103,388 of their dependents at no out-of-pocket cost to the employee (Bailey, 1999).

The contribution of benefits (health care included) to prevailing labor costs is shown in **Chart 2-1**. Taking account of job classification and experience, the average hourly wage at the major chains in southern California is $12.82, as of July, 1999. Employer contributions to health benefit plans are the equivalent of another $2.36 per hour. Pension and other employer trust contributions add another $0.32 to labor costs. Premium pay, including overtime, Sunday, and holiday premium pay, is the equivalent of $1.74 per hour. Vacation and unused sick leave come to $1.01 per hour. Totaling the value of employee wages and benefits, a unionized grocery employee earns an equivalent of $18.25 per hour, which translates to an annual average wage of $37,960. Excluding benefit payments and focusing only on wages paid to employees, the average grocery employee at a major chain store earns $15.57 per hour, or $32,386 on an annual basis.

Chart 2-1: Components of Hourly Wage



An informative comparison with Wal-Mart wages and benefits can be made with the information available. Assuming Wal-Mart hourly employees earn an average wage of $7.50 per hour, and assuming that Wal-Mart employees earn premium, vacation, and unused sick leave pay in the same proportion to base wages that most southern California grocery employees now earn (likely an overestimate, given that Wal-Mart offers fewer vacation days than the current southern California contract), total Wal-Mart average hourly cash wage would be $9.11 per hour.

Given that only 38% of Wal-Mart employees are covered by health care, compared with virtually all employees at the major chains in our region, the ratio of health care costs to base wages was scaled down by a factor of 0.38 to account for the lower share of employees covered by Wal-Mart health plans.[8] This resulted in an estimated cost of Wal-Mart health benefits of $0.56 per hour. Overall, this exercise suggests that Wal-Mart employees might earn the equivalent of $9.63 per hour, or $20,038 on a full-time, annual basis. Given Wal-Mart's heavy use of part-time labor, converting the wage to a full-time basis is likely an overestimate of the value of wages and benefits available to the typical Wal-Mart employee. Average hourly and the full-time annual equivalent wages are shown for grocery workers and Wal-Mart workers, under different assumptions about Wal-Mart wages, in Table 2-9.

[8] Chart 2-1 shows that health benefits provided by the major grocery chains are, on an hourly basis, the equivalent of 18.4% of base hourly pay. That percentage was multiplied by 0.38, the fraction of Wal-Mart employees actually covered, to obtain an estimate of Wal-Mart benefit payments as a fraction of hourly pay. The resulting estimate is that Wal-Mart health benefits are the equivalent of 7% of base hourly pay. This is likely an overestimate. The Wal-Mart benefit plan requires an employee cost share, has high deductibles compared to the union plan, and does not cover dependents. All these factors imply that the Wal-Mart plan will be less expensive, and less valuable, on a per-covered-employee basis, than that covering the employees of the major grocery chains.

Table 2-9: Comparison of Southern California Grocery and Wal-Mart Discount Center Wages

	Hourly Wage	Health Benefits	Other Trust	Premium Pay	Vacation Sick Leave	Total Wage/Hr	Total Annual Pay	Annual Pay
Southern California grocery chain employees	$12.82	$2.36	$0.32	$1.74	$1.01	$18.25	$37,960	$32,385
Wal-Mart -- high estimate	$8.00	$0.56	N/A	$1.09	$0.63	$10.28	$21,373	$20,209
Wal-Mart -- medium estimate	$7.50	$0.52	N/A	$1.02	$0.59	$9.63	$20,037	$18,946
Wal-Mart -- low estimate	$7.00	$0.52	N/A	$0.95	$0.55	$8.99	$18,702	$17,683

Notes: Wages are for typical, or average, employees. Wal-Mart high estimate is based on an average hourly wage of $8.00 per hour. Wal-Mart medium estimate is based on average hourly wage of $7.50 per hour. Wal-Mart low estimate is based on an average hourly wage of $7.00 per hour. Total annual pay includes value of benefits. Annual pay is restricted to wages, premium pay, and vacation and sick leave benefits only. Wal-Mart hourly equivalents for benefits, premium pay, and vacation and unused sick leave pay are assumed to be in the same proportion to base wages as for employees of the major chains in California

B: EXAMPLES OF THE LABOR MARKET IMPACT OF WAGE DIFFERENTIALS – CASES FROM CANADA

Wal-Mart Supercenters are an exceptionally new phenomenon in the United States. Five years ago, there were only 34 Supercenters nationwide. Supercenters have not likely reached market penetration anywhere in the United States, and to infer what can happen in a market with a mature presence of Supercenters it is useful to look elsewhere. An excellent example can be found in Canada.

Loblaws, a Canadian grocery and retail chain, opened Real Canadian Super Stores (RCSS) in Canada several years ago. RCSS combines food and discount retail under one roof, paying wages that are typical of the discount retail industry, as do Supercenters in the United States. RCSS entered the market in Alberta in the late 1970s and early 1980s. Safeway has been the primary unionized supermarket in Alberta for years, and Safeway wages in Alberta were considerably higher than RCSS. By the early 1990s, competition with the lower labor-cost RCSS began to have a dramatically negative impact on Safeway profits.[9]

Safeway executives estimated that the wage gap between their employees and RCSS workers was between $8.00 and $12.00 per hour in Canadian dollars.[10] In 1993, Safeway concluded it could no longer compete without drastically cutting pay and benefits. Management presented employees with two choices – either Safeway would cut its losses and leave the Alberta market, or cut pay and benefits by the equivalent of $5.00 per hour (Canadian). Eventually, the unionized employees agreed to the pay and benefit cuts. Safeway implemented the pay cuts both by reducing pay and benefits and by buying out the contracts of 4,000 experienced employees and replacing those workers with persons earning approximately $6.00 per hour with no benefits.[11] In 1997, Safeway employees went on strike in an effort to restore wage and benefit concessions that were part of the 1993 agreement. The strike ended without the union regaining the wage and benefit concessions that were part of the 1993 agreement.[12]

In 1996, similar competition between grocery chains with dramatically different labor costs sparked a labor dispute in Vancouver, British Columbia. RCSS operated with a lower cost union contract than either of the two primary Vancouver chains -- Safeway and Overwaitea (a Canadian firm).[13] Safeway estimated the labor cost differential, including benefits, at

---

[9] Andreef (1997); Laghi (1997); Smith (1997).

[10] The exchange rate for the Canadian dollar varied from a low of 0.7516 US dollars per Canadian dollar in December of 1993 to a high of 0.8020 US dollars per Canadian dollar in March of 1993. (Exchange rate information is from the Pacific Exchange Rate Service of the University of British Columbia, http://blacktusk.commerce.ubc.ca.) Taking the midpoint of that range, this implies that the wage differential, in 1993 U.S. dollars, was between $6.21 and $9.32.

[11] Andreef (1997); Levant (1997); Smith (1997).

[12] Kent (1997).

[13] "The Changing Face of Labor," *Grocer Today*, September, 1996.

$11.58 (Canadian) per hour. The cost differential greatly reduced Safeway's and Overwaitea's ability to compete in the Vancouver market, and from 1985 through 1996 RCSS gained nine percentage points in market share in that urban area. Having already faced similar competition with RCSS in Alberta, Safeway was committed to closing the labor cost gap before profits turned to staggering losses. After a bitter strike, Vancouver Safeway employees accepted a new contract that reduced pay and benefits. [14]

As another example, A&P faced similar competition from low labor-cost competitors in greater Toronto in the early 1990s. Non-union competitors such as Sobey's had lower labor costs, as did the "No Frills" warehouse grocery chain operated by Loblaw's. (The "No Frills" stores were unionized, but under a different contract that allowed lower wages and benefits compared with what A&P's union contract required.)

A&P felt that it was at a competitive disadvantage and forced a strike to gain contract terms more comparable to the lower wages paid to the non-union and "No Frills" competitors. The strike lasted from November, 1993 to February, 1994. The resolution was a compromise that did not fully satisfy either party. A&P came out of the strike in a weaker position, and was less able to renovate, expand, and open new stores than it would have otherwise. The union wages and benefits were also downgraded as part of the resolution of the labor strife.[15] *Supermarket News* stated in June of 1996 that, "Partly because of the residual effect of that strike, A&P converted 19 of its Ontario stores to Food Basics, a lower-cost format that it operates under a separate bargaining agreement."[16]

The lesson is that major grocery chains will compete, and compete vigorously, for market share and profit when faced with low-cost competition. That competition takes the form of both short-term and long-term labor disputes. In the short-run, the Canadian chains (A&P, Canada Safeway, and Overwaitea) sought immediate wage and benefit concessions once competitors with lower labor costs became clear competitive threats. The short-run concessions often took the form of buy-outs of more experienced, higher-paid workers combined with a two-tiered wage structure that included substantially less valuable pay and benefit packages for new hires.[17] In some instances those buy-outs were combined with wage and benefit reductions for existing employees. In most of the labor disputes, the chains involved sought immediate labor cost reductions. For example, in Alberta Safeway appeared to try to close between forty percent and sixty percent of the labor cost gap with RCSS. (Recall that the 1993 concessions reduced Safeway labor costs by roughly $5.00 per hour, approximately forty to sixty percent of the estimated $8.00 to $12.00 per hour gap.) Yet that estimate ought not be taken as firmly indicative of the type of response that would occur in

---

[14] Canada Safeway Limited, Press Release, July 8, 1996.

[15] "The Changing Face of Labor," *Grocer Today*, September, 1996, pp. 13-18.

[16] As quoted in "The Changing Face of Labor," *Grocer Today*, September, 1996, p. 14.

[17] "An Open Letter to Safeway Employees," newspaper advertisement placed by Canada Safeway Limited, *Vancouver Sun*, June 8, 1996; Andreef (1997); Smith (1997).

other markets. Given the dynamics of union bargaining, it is possible that the concessions observed in Canada were interim steps, and that grocery chains will continue to seek labor cost reductions until they have parity with low cost competitors.

Labor represents approximately 60% of the controllable costs (excluding the cost of product) in the grocery industry, so competition often takes the form of meeting a rival's labor costs. Safeway argued in British Columbia that parity with RCSS in new hire labor costs was the only fair solution to the labor dispute.[18] A&P converted 19 stores in Ontario to a low-cost format to take advantage of the lower-cost union contract for such stores.[19] The mediator of the labor dispute in British Columbia was quoted after the strike as saying, "Safeway and Overwaitea are legitimately frustrated with the substandard collective agreement in place between Real Canadian Superstore and UFCW Local 777 and that issue must be addressed."[20] Overall, the experience in Canada suggests that major chains will seek parity with lower labor cost competitors, if not immediately then certainly in the long run through mechanisms such as two-tiered contracts that reduce costs for new hires or changes in collective bargaining agreements.

The ability of grocery chains to obtain wage and benefit parity with low cost competitors hinges on the relative bargaining power of a chain and the union in any particular market. Yet the evidence suggests that wage and benefit differentials across stores that compete vigorously with each other will lead to substantial downward wage pressure until those differentials are closed. The same will almost certainly be true in southern California if Wal-Mart Supercenters enter the market; paying lower wages and offering limited benefit plans. An estimate of the labor market impact of Wal-Mart's entry into the southern California grocery market is given below.

C. WAGE AND BENEFIT IMPACTS OF WAL-MART SUPERCENTERS IN SOUTHERN CALIFORNIA

In the rest of this chapter, we derive estimates of the wage and benefit impact of Wal-Mart supercenters in southern California. Three types of estimates are developed – a low estimate, based on uniformly conservative criteria, a medium estimate, and a high estimate. The low and high estimates provide, respectively, reasonable lower and upper bound impacts, although the low estimate, designed to be conservative, could quite possibly understate the full impact of supercenter competition in southern California.

The logic of each estimate follows a two step process. First, we estimate, in Section D

[18] "An Open Letter to Safeway Employees," newspaper advertisement placed by Canada Safeway Limited, *Vancouver Sun*, June 8, 1996; "The Facts: A Message to Safeway Customers," newspaper advertisement placed by Canada Safeway Limited, *Vancouver Sun*, 1996.

[19] "The Changing Face of Labor," *Grocer Today*, September, 1996, pp. 13-18.

[20] "The Changing Face of Labor," *Grocer Today*, September, 1996, pp. 13-18.

below, the market share that Wal-Mart supercenters can be expected to capture in southern California. From that, we estimate, in Section E, the impact on wages and benefits both for Wal-Mart employees and for employees in other chains that will see the need to meet Wal-Mart's labor costs.

D. PROJECTED MARKET IMPACT OF WAL-MART SUPERCENTERS IN SOUTHERN CALIFORNIA

Wal-Mart typically builds stores within one day's drive of its distribution centers[21], suggesting that southern California Supercenters built by the chain will be served by a southern California distribution center. Wal-Mart currently is seeking approval for a distribution center in Riverside County. The corporation has looked into sites near the intersection of Interstate 15 and State Route 60 that can accommodate buildings ranging from 300,000 to over 1 million square feet.[22] To the best of our knowledge, Wal-Mart has not stated publicly whether that center will be for food distribution, but the impact on the southern California grocery businesses, if the new distribution center serves Wal-Mart Supercenters, can be substantial.

What follows below is a simulation predicated on the assumption that Wal-Mart builds one distribution center to serve Supercenters in southern California. Whether the currently planned Wal-Mart distribution center is for groceries is beside the point, as the below exercise demonstrates what can happen if Wal-Mart decides to bring Supercenters to southern California at any time in the near future.

In 1998, Wal-Mart had twelve distribution centers serving 564 Supercenters – an average of 47 Supercenters per distribution center.[23] If Wal-Mart enters southern California, it is quite reasonable to expect the firm to attempt to achieve a similar scale economy in distribution. Wal-Mart is unlikely to build a distribution center, open two or three stores, and then abandon a local market. The current average of 47 stores per distribution center is suggestive of what to expect once Wal-Mart opens a distribution center for groceries in southern California.

Yet 47 stores is a lower bound of the number of stores that can be supported by a distribution center. The economics of grocery retailing allows a much larger number of stores to be served by a distribution center, depending on the strategy of a particular firm. Furthermore, Wal-Mart Supercenters are so new that it is possible that the chain has not achieved their desired scale economy in food distribution. By comparison, Wal-Mart serves 1,889 discount stores with 33 non-food distribution centers – an average of 57 stores per distribution

[21] Telephone interview with Dr. Kenneth E. Stone of Iowa State University on 29 July 1999.

[22] Telephone interview with Shawn Purcell, Riverside Planning Office, July, 1999.

[23] Phone interview with Dr. Kenneth E. Stone of Iowa State University on 29 July 1999. (Original Sources of Data: Combination of various SEC Form 10-K reports and Discount Store News issues.)

center.[24] If Wal-Mart eventually seeks comparable scale in food distribution, this suggests that eventually an average of 57 Supercenters will be supported by one distribution center. That number could be higher, but it is unreasonable to believe that Wal-Mart would open a food distribution center and seek less than their current average of 47 stores per distribution center.

Overall, we simulate the impact of Wal-Mart on southern California market share by assuming that a food distribution center will support either 47 or 57 stores. Given Wal-Mart's desire to place stores within a day's drive of a distribution center, it is likely that virtually all Supercenters served by a southern California distribution node will be in this region. Of course, Wal-Mart could build more than one distribution center in southern California, or could serve more than 57 stores from a single center. The estimates below are purposefully a conservative estimate of the possible impact of Wal-Mart Supercenters in the southern California market.

The next step in estimating Wal-Mart's impact is to assess how much market share can be expected from 47-57 stores in southern California. Our logic will flow from estimating Wal-Mart's market share to the impact of that market share on grocery employment, wages, and benefits. What follows is an estimate of Wal-Mart Supercenter market share associated with one distribution center in southern California.

Table 2-10 lists market share and number of stores for major chains in the Los Angeles urbanized area from 1996 through the first half of 1999.

[24] Phone interview with Dr. Kenneth E. Stone of Iowa State University on 29 July 1999. (Original Sources of Data: Combination of various SEC Form 10-K reports and Discount Store News issues.)

Table 2-10: LA Metro Area Market Share Information

LOS ANGELES	1996		1997		1998		Jul-99	
Stores	No. of Stores	% Mkt Share	No. of Stores	% Mkt Share	No. of Stores	% Mkt Share	No. of Stores	% Mkt Share
Ralphs	143	20.53	183	25.86	212	30.89	201	29.21
Vons	118	16.74	117	19.39	116	18.82	119	20.07
Lucky Stores	82	14.25	84	13.89	86	13.87	86	13.99
Albertson's	23	3.25	34	4.74	35	5.02	36	5.19
Smart & Final	57	5.79	55	2.97	53	2.76	54	2.92
Superior Super	-	-	-	-	8	1.93	8	2.14
Stater Bros	-	-	-	-	13	1.87	13	1.87
Hughes	29	4.70	30	5.84	-	-	-	-
Food 4 Less	40	6.43	-	-	-	-	-	-

Source: Shelby Report (various years).

Based on the information in Table 2-10, we calculate market share points per store for each chain, shown in Table 2-11. Market share points per store are also shown in Table 2-11. Market share per store is remarkably similar across the major chains (Ralphs, Vons, Lucky, and Albertsons.) In 1999, market share per store ranged from 0.144 for Albertsons to 0.169 market share points per store for Vons. For comparison, Table 2-12 gives market shares for several California urban areas, but the data source used for Table 2-12 does not report the number of stores, and so it as not possible to calculate market share points per store for other California urban areas.

Table 2-11: Market Share Points Per Store

(LOS ANGELES REGION)

Stores	1996	1997	1998	1999
Ralphs	14.4%	14.1%	14.6%	14.5%
Vons	14.2%	16.6%	16.2%	16.9%
Lucky Stores	17.4%	16.5%	16.1%	16.3%
Albertson's	14.1%	13.9%	14.3%	14.4%
Smart & Final	10.2%	5.4%	5.2%	5.4%
Superior Super	-	-	24.1%	26.8%
Stater Bros	-	-	14.4%	14.4%
Hughes	16.2%	19.5%	-	-
Food 4 Less	16.1%	-	-	-

Source: Authors' calculations, based on data from Shelby Report (various years)

For comparison, Tables 2-13 lists market shares and number of stores for major chains in three urban areas with Wal-Mart Supercenters – Atlanta, Dallas, and Fort Worth.[25] Market share per store is also listed for each chain in each urban area. Market share per store varies much more across urban areas than within urban areas. For example, an average (or typical) store in Dallas can garner approximately 0.4 market share points, and an average (or typical) store in Fort Worth can claim 0.9 market share points – both substantially higher than market shares per store in Los Angeles. This reflects the smaller size of the Dallas and Fort Worth urban areas and the fact that those markets are served by fewer stores.

[25] The comparison MSAs were chosen based on the availability of data for urban areas with a relatively large number of Wal-Mart Supercenters. Currently, Supercenters are predominantly in the South and Midwest. Many food industry data sources, such as *Progressive Grocer*, do not gather market share information on Wal-Mart and other discount retailers. The data in Table 2-13 is from the *Shelby Report*, which does gather market share data for both grocery stores and discount retailers, but only in a limited number of urban areas. Choosing urban areas with both Wal-Mart Supercenters and *Shelby Report* data led to the MSAs listed in Table 2-13.

Table 2-12: Regional Supermarket Market Share Percentages [1]

Company	Orange County	Riverside/ San Bernardino	San Diego	Sacramento	San Francisco	Oakland
Ralph's	29	20	19	-	-	-
Vons	18	11	30	-	-	-
Lucky	18	14	23	20	16	34
Albertson's	12	-	-	11	-	-
Stater Bros	-	30	-	-	-	-
Food-4-Less	-	-	-	-	-	-
Oth Cert Groc	-	-	-	-	-	-
Pavillion	-	-	-	-	-	-
Raley's / Bel Air	-	-	-	38	-	-
Safeway	-	-	-	-	42	35
Cala Foods	-	-	-	-	12	-
Non Reporting *	13	15	18	21	20	21
All others	<10	<10	<10	<10	<10	<10

[1] Source: *Progressive Grocer 1998 Market Scope* (http://www.americanstores.com) unless otherwise noted.
* - estimated

Importantly, market share per store does not vary much across chains within an urban area; the variation is much more stark across urban areas. Looking specifically at market shares per Wal-Mart Supercenter in Atlanta, Dallas, and Fort Worth, Supercenters perform slightly better (on a per store market share basis) than some other chains, but the difference is not dramatic.

Again, the primary determinant of market share per store appears to be the size of the urban area, and Table 2-13 suggests that Supercenters can be expected to capture market shares on a per store basis that are typical of, or at best slightly better than, other chains in the same city.

Table 2-13: Market Share Information, Selected Comparison MSAs

ATLANTA, GA	1996		1997		1998		Jul-99		1999
Stores	No. of Stores	% Mkt Share	No. of Stores	% Mkt Share	No. of Stores	% Mkt Share	No. of Stores	% Mkt Share	mkt share per store
Kroger	88	31.33	95	31.72	97	32.30	100	32.54	0.33
Publix	52	17.09	63	18.34	70	20.35	71	20.26	0.29
Winn-Dixie	63	11.43	65	11.21	59	10.01	56	9.80	0.18
Ingles	45	6.95	44	6.18	49	6.87	46	6.63	0.14
Super Disc (Club)	-	-	13	5.22	17	6.19	18	5.91	0.33
A & P	37	6.21	37	5.82	36	5.44	31	4.78	0.15
Wal-Mart	7	2.34	8	3.26	10	3.57	9	3.13	0.35
Harry's	3	2.38	3	2.41	6	2.75	7	2.59	0.37
Cub Food	13	6.15	-	-	-	-	-	-	-
Bruno's	19	4.62	18	4.22	-	-	-	-	-

DALLAS, TX	1996		1997		1998		Jul-99		1999
Stores	No. of Stores	% Mkt Share	No. of Stores	% Mkt Share	No. of Stores	% Mkt Share	No. of Stores	% Mkt Share	mkt share per store
Albertson's	47	21.08	52	22.31	57	23.71	57	22.62	0.40
Tom Thumb	42	20.19	41	16.67	42	20.30	42	20.09	0.48
Kroger	40	14.76	40	15.31	38	14.43	39	14.92	0.38
Minyard	60	15.20	60	15.23	60	15.29	60	14.66	0.24
Brookshire	26	7.54	27	7.81	27	8.36	27	7.92	0.29
Wal-Mart	5	2.42	8	4.85	8	4.13	11	5.06	0.46
Winn-Dixie	14	3.22	14	3.11	12	2.97	13	3.51	0.27
Fiesta Mart	-	-	-	-	5	1.83	5	1.75	0.35
Food Lion	25	3.54	24	3.11	-	-	-	-	-
Wal-Mart Hype	1	1.31	-	-	-	-	-	-	-

FT. WORTH, TX	1996		1997		1998		Jul-99		1999
Stores	No. of Stores	% Mkt Share	No. of Stores	% Mkt Share	No. of Stores	% Mkt Share	No. of Stores	% Mkt Share	mkt share per store
Albertson's	21	21.18	24	23.07	24	22.68	26	24.46	0.94
Winn-Dixie	31	17.24	32	18.63	34	19.08	35	18.46	0.52
Kroger	25	19.32	27	18.71	23	16.70	23	15.02	0.65
Minyard	21	10.47	22	10.06	22	9.76	25	10.93	0.43
Tom Thumb	9	8.16	9	6.26	11	10.84	12	10.91	0.90
Wal-Mart	5	6.90	5	7.32	6	8.10	6	6.48	1.08
Food Lion	9	2.80	10	3.28	-	-	-	-	-
Wal-Mart Hype	1	2.65	-	-	-	-	-	-	-

Source: *The Shelby Report*

To be conservative, we assume that Wal-Mart Supercenters capture per-store market share that is typical, but not better than, the range observed for existing southern California chains. We bound projected Supercenter per-store market share to be equal to both the lowest number (0.144) and the highest number (0.169) for major chains in the first half of 1999.[26] Combining that information with two estimates for the number of southern California stores served by one distribution center, we get overall projected Los Angeles area market shares associated with one Wal-Mart food distribution center, shown in Table 2-14.

These are conservative estimates, both because the number of stores for one distribution center could be higher and because the market share per store, based on experience in Atlanta, Dallas, and Fort Worth, could be slightly higher than even the upper bound shown in Table 2-14.

Table 2-14: Estimated Wal-Mart Southern California Market Share

		Share per Store	
		14%	17%
Number of	**47**	6.77%	7.94%
Stores:	**57**	8.21%	9.63%

Note: Share per store is market share points per each store, estimated as described in the text. Numbers in bold are estimated southern California market shares for Wal-Mart Supercenters, for one distribution center supporting the number of stores shown in the two rows.

The largest estimate in Table 2-14, still a conservative number, suggests that Wal-Mart can capture approximately 10% of the Los Angeles metropolitan area market. We take that as a lower bound for the possible market share of Wal-Mart Supercenters in the southern California market. The estimates that lead to a 10% market share – one distribution center, serving from 47 to 57 stores, with each store capturing market share comparable to other chains in the region – are all conservative. Should Wal-Mart choose to enter the southern California market more aggressively, they could likely operate more than 57 stores from one distribution center or build additional distribution centers.

As a high estimate of possible Wal-Mart market share in southern California, we use 20%. This is based on the observation, from Table 2-10, that the three largest southern California chains currently average slightly more than 20% market share. Wal-Mart's efficiency in its core discount retail business, plus their quick expansion pace into groceries, suggests that in the long-term the firm could potentially compete with the largest of the southern California food chains.

[26] For major chains, we exclude Smart and Final, Superior Super, and Stater Brothers because each chain has a small number of stores in the Los Angeles MSA in the first half of 1999.

Below we use the two estimates of market share — 10% and 20% — to obtain estimates of the economic impact of Wal-Mart Supercenters in southern California. We start by providing some discussion of how quickly the estimated market shares might be realized, and what Wal-Mart competition means for existing southern California grocery chains.

Because the time span of our data are limited, we are not able to estimate when or how quickly Wal-Mart might build to a ten or twenty percent market share in Los Angeles. Much of that depends on company strategy. For example, Wal-Mart now has 6.5% of the market in Fort Worth, and Supercenters are, for all practical purposes, a six-year-old phenomenon. Given Wal-Mart's exceptionally aggressive history of building Supercenters, and their expansion pace, the chain could reach a ten percent share in Los Angeles, or most likely other markets that it targets, much more quickly than would be expected for other competitors.

In other markets, Wal-Mart has typically built Supercenters first in exurban areas and then in the rapidly growing urban fringe. This reflects both Wal-Mart's traditional emphasis on small towns and suburban markets and the difficulties of obtaining land for Supercenters that are, on average, 180,000 square feet, in central portions of urban areas. Given the exurban and suburban focus of Wal-Mart, it is likely that their plans for Supercenters in southern California will focus most heavily on Orange County, the Inland Empire, the western San Fernando Valley and eastern Ventura County, and Santa Clarita and the high desert areas to the north.

This puts Supercenters in the most rapidly growing portions of southern California, suggesting that Wal-Mart will be a major competitor in the region's grocery industry. Given the fact that Los Angeles County contains almost two-thirds of southern California's population, and the fact that the market share estimates in Table 2-14 are quite conservative, it is reasonable to assume that the estimated Supercenter market shares of ten and twenty percent can be applied to all of southern California. Doing that, we next examine the competitive pressure exerted by a new entrant that has the potential to achieve market shares similar to those shown in Table 2-14.

One way to get a good intuitive feel for the type of competition represented by a new firm with, for example, a ten or twenty percent market share is to ask how much growth in the market is lost to the new competitor. Southern California is projected to grow rapidly over the next twenty years. Population growth projections, from the Southern California Association of Governments, are shown in Table 2-15. Southern California grocery chains are no doubt aware of this future growth, and have likely built growth projections into their long-range business plans.

While Supercenter market share will not all come at the expense of future growth, it is a useful exercise to assume that all Supercenter market share is part of the overall growth in the southern California market, and to then ask how much growth would be captured by Supercenters.

Table 2-15: SCAG County Population Forecasts

COUNTY	1994	2000	2005	2010	2015	2020	2000 - 2020
Imperial	138,400	149,000	172,000	207,000	241,000	280,000	87.92%
Los Angeles	9,231,600	9,818,200	10,329,500	10,868,900	11,513,400	12,249,100	24.76%
Orange	2,595,300	2,859,200	3,005,800	3,105,300	3,165,400	3,244,600	13.48%
Riverside	1,376,900	1,687,800	1,976,900	2,265,300	2,531,700	2,816,000	66.84%
San Bernardino	1,558,600	1,772,500	2,005,400	2,239,600	2,512,700	2,830,100	59.67%
Ventura	709,900	712,700	744,900	804,300	861,600	932,300	30.81%
SCAG	15,610,700	16,999,000	18,234,000	19,491,000	20,826,000	22,352,000	31.49%

Source: SCAG, 1998 RTP Adopted Forecast, April 1998

For illustrative purposes, we assume that the grocery market in southern California will grow in proportion to population growth, and that Wal-Mart Supercenters can achieve either the lower bound estimate of 10% market share or the higher estimate of 20% market share for southern California. If all of that market share comes at the expense of future growth in the grocery market, this implies that Wal-Mart Supercenters will capture between 42% (for a 10% total market share) and 84% (for a 20% market share) of the growth in the market.

We do not mean to imply that all Supercenter sales will be come from market growth. No doubt Wal-Mart, or any new entrant, can also take sales away from existing stores. Yet as an exercise it is useful to ask what would happen if all Supercenter sales were strictly from serving the growth in the southern California market. The answer is that, under that scenario, Wal-Mart would capture from 42% to 84% of all growth in one of the nation's fastest growing grocery markets over the next twenty years.

The entry of Wal-Mart into southern California will be, for its competitors the equivalent of an event that would cut projected growth in sales by, using reasonable estimates, anywhere from 42% to 84%. The implication is that Wal-Mart's entry into southern California will almost certainly be perceived by existing chains as a major competitive threat, and they will almost certainly respond. The response, given the labor cost differential between Wal-Mart and southern California grocery chains, will most likely take the form of the type of wage and benefit cuts witnessed in Alberta and British Columbia, Canada.

E: LABOR MARKET IMPACTS

Competition from Wal-Mart Supercenters will result in lower wages for southern California grocery employees through two channels of influence – (1) employees that would have otherwise worked in higher paying union jobs will earn lower wages and benefits, and (2) competition with Supercenters will cause unionized employers to lower their wages and benefits. We examine each channel of influence in turn below.

1. Economic Impact of Lower Wages Paid to Supercenter Employees

Approximately 80,000 of the 128,000 southern California grocery employees are employed by the major grocery chains. As shown in Table 2-9, these employees receive a considerably more valuable wage and benefit package than Wal-Mart employees, based on the assumptions about Wal-Mart wages and benefits listed in the note for Table 2-9. If Wal-Mart captures southern California grocery market share, some grocery employees who otherwise would have been employed by the major food chains will take jobs in Supercenters, at substantially lower wages. Thus, the first channel of economic impact is that low paying Supercenter jobs crowd out higher paying jobs.

We assume that the number of grocery jobs displaced is in direct proportion to the market share of Wal-Mart Supercenters; for example, if Wal-Mart captures a ten percent market share, ten percent of existing jobs at the major chains will be converted into lower-paying Supercenter jobs. For the three values of wage gaps implied by Table 2-9, we calculate the total annual wage bill lost for different assumptions about Wal-Mart market share. The results are shown in Table 2-16, below.

Table 2-16: Direct Economic Impact of Lower Wages Paid to Supercenter Employees in Lost Wages, Per Year ($ millions)

		Hourly Wage Gap		
		$7.97	**$8.62**	**$9.26**
Estimated Supercenter Market Share:	**10%**	$118	$127	$137
	20%	$235	$255	$274

Note: Annual lost wages are calculated by multiplying the wage gaps in Table 2-9 by the estimated annual hours worked by employees of the major grocery chains. Currently, these employees average 35.5 hours of work per week (Bailey, 1999).

2. Economic Impact of Lower Wages Paid to Grocery Employees

Large labor cost differentials cannot be sustained in the grocery industry. The experience in Canada demonstrates that major grocery chains will ultimately close much of the labor cost gap. The implication is that the entry of Supercenters into southern California will affect the wages of all grocery employees in southern California, whether or not they work at Supercenters.

The fact that low labor cost competitors exert downward wage pressure on an entire industry is not surprising. In a 1989 study of pay in the grocery industry, Paula Voos, an economist at the University of Wisconsin, found that as the fraction of the metropolitan labor force that is unionized drops, wages among the remaining union members fall (Voos, 1992). She noted that this relationship is common in many industries, and is indicative of the tendency of firms to lower wages to meet the labor costs of competitors.

Using data for southern California, we estimate the annual impact of the downward wage pressure that would result from Wal-Mart Supercenters entering southern California. We assume that major chains in the region lower their wage and benefit package to immediately close part, but not all, of the pay gap shown in Table 2-9. Based on the experience of Safeway in Alberta (discussed in Section B), we estimate chains would seek to close between forty and sixty percent of the wage gap in the near-term. We later estimate the long-run impact on workers if major chains achieve wage parity with lower cost supercenters, closing all of the wage gap. We calculate the total annual value of reductions in pay and benefits in chains that compete with Supercenters, under different assumptions, below.

Table 2-17: Near-Term Indirect Economic Impact from Lower Wages Paid to Grocery Employees in Lost Wages, Per Year ($millions)

Total Wage Gap:		$7.97		$8.62		$9.26	
Amount of Gap Closed:		40%	60%	40%	60%	40%	60%
Estimated Supercenter Market Share:	10%	$424	$636	$458	$687	$492	$738
	20%	$377	$565	$407	$611	$438	$656

Note: Annual lost wages are calculated by assuming that of the 80,000 union members in 1999, the fraction not in Supercenter market share (90% or 80%) remain employed by the major grocery chains. They are assumed to experience wage cuts that close the difference between the wage gap shown on the top row and the "amount of gap closed" shown on the second row. So, e.g., in the first column the per hour wage cut is $5.03. That wage reduction is multiplied by 35.5 hours per week for the average union member, and then annualized and multiplied by union membership less the fraction assumed to be working at Wal-Mart.

Grocery chains in southern California are likely to seek to close the entire wage gap if Wal-Mart, or any low cost competitor, enters the market. In Table 2-18, we show the indirect wage impact on major grocery chain employees if all of the wage gap between current wage and benefit standards and Wal-Mart supercenter pay is closed.

Table 2-18: Indirect Economic Impact of Lower Wages Paid to Supercenter Employees in Value of Lost Wages, Per Year Assuming Full Wage Gap is Closed ($millions)

		Total Wage Gap		
		$7.97	**$8.62**	**$9.26**
Estimated Supercenter Market Share	**10%**	$1,059	$1,146	$1,231
	20%	$942	$1,018	$1,094

Note: Annual lost wages are calculated by assuming that of the 80,000 union members in 1999, the fraction not in Supercenter market share (90% or 80%) remain members of the union. Those members are assumed to experience wage cuts that close the full amount of wage gap shown on the top row.

E.g., in the first column the per hour wage cut is $7.97. That wage reduction is multiplied by 35.5 hours per week for the average union member, and then annualized and multiplied by union membership less the fraction assumed to be working at Wal-Mart.

In Table 2-19, we present low, medium, and high estimates of the total wage and benefit impact of Wal-Mart supercenters entering the southern California grocery market. (Illustrated graphically in Chart 2-2.) These are derived by summing the direct impact on supercenter employees, shown in Table 2-16, with the indirect impact on employees of other major chains, shown in Tables 2-17 and 2-18. The low estimates use the most conservative assumptions, and so represent a lower bound of possible impacts.

As we mentioned earlier, the economic impact will likely exceed what is reflected in the low estimates. The medium estimates are calculated based on a 20% Wal-Mart market share while assuming that existing grocery chains do not close all of the wage and benefit gap with Wal-Mart. The medium estimates assume that the amount of wage gap closed is the average of the gaps used in Table 2-17.

The use of a 20% supercenter market share for the medium estimate reflects a reasonable long-run outcome, while the assumption that existing chains close only a fraction of the wage gap is more reasonable in the near-term than in the long-run. Thus the medium estimates mix both long-run and near-term responses in the grocery market. Given that it is impossible to predict the exact timing of near-term versus long-run impacts, this mixing has the advantage of reflecting the influence of both, in some sense averaging effects that cannot be precisely attributed to specific years and effectively reflecting a "middle range" scenario.

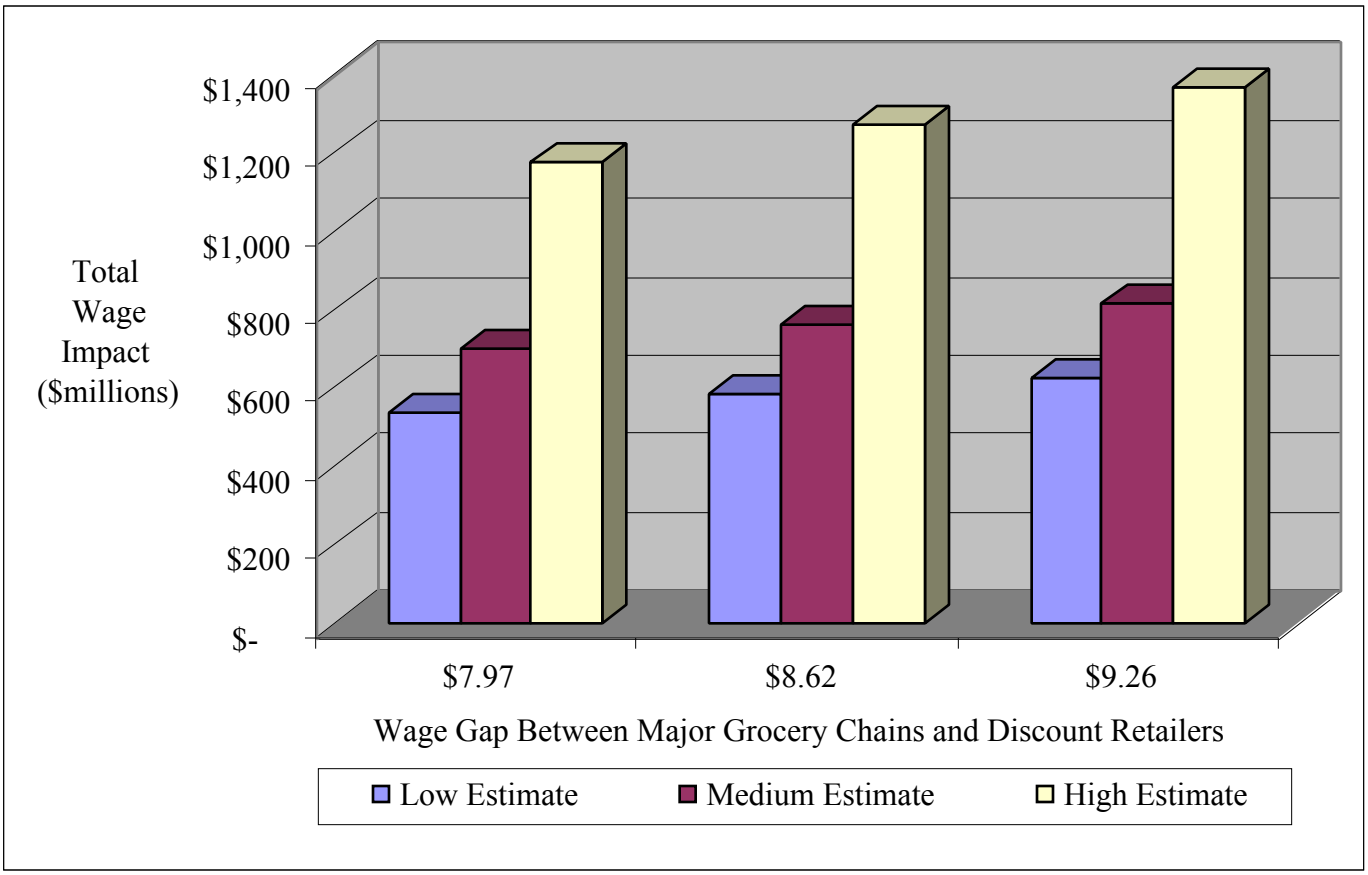
The high estimate assumes that Wal-Mart obtains a 20% market share and that all of the wage gap with competitors is closed.

Table 2-19: Estimates of Total Wage and Benefit Impact Summing Direct Effect for Wal-Mart Employees and Indirect Effect on other Grocery Employees ($millions)

	Total Wage Gap Closed		
	$7.97	**$8.62**	**$9.26**
Low	$541	$586	$629
Medium	$706	$764	$821
High	$1,177	$1,273	$1,368

Note: Low estimate incorporates the most conservative estimates -- 10% supercenter market share and 40% of wage gap closed. Medium estimate is based on 20% supercenter market share and half of the wage gap (average of 40% and 60%) closed. This is an average of impacts in Table 2-17. High estimates assume that all wage gap will be closed, as shown in Table 2-18.

Chart 2-2: Estimates of Total Wage and Benefit Impact



F: REGIONAL INDUCED IMPACTS AND LAND MARKET IMPACTS

1. Regional Impacts

The overall impact of lower wages in the grocery sector goes beyond the impacts on grocery workers. Each dollar lost to the region in wages lowers the spending of grocery employees on goods and services in the region, and in turn reduces the income and hence spending of others. This effect is known as the *multiplier* impact of a change in local wages — a lost dollar locally generates more than a dollar in overall economic impacts as it ripples through the economy.

The most common estimate of the multiplier impact of wage dollars in our region is provided by the regional council of governments, the Southern California Association of Governments (SCAG). SCAG's wage multiplier is currently 2.08. That is, each dollar increase in wages in the southern California economy is calculated to generate a total of $2.08 of new spending: The $1 increase plus another $1.08 in indirect multiplier impacts. The total impact is about twice the direct effect.

The same relationship is calculated by SCAG analysts to hold for wage *losses*. Thus, every $1 lost in wages in the region induces a total loss of $2.08. As an example, Table 2-20 calculates the total regional impact the SCAG multiplier generates for the wage losses estimated in Table 2-19.

If the wage gap between Wal-Mart and southern California grocery chains is $9.26 per hour, for example, then the regional impacts are calculated to range between about $1.6 billion to nearly $3 billion per year, depending on the big box grocer market share

Table 2-20: Estimates of Total Regional Wage and Benefit Impact of Big Box Grocer Entry into Southern California ($millions)

	Total Wage Gap Closed		
	$7.97	**$8.62**	**$9.26**
Low	$1,179	$1,379	$1,575
Medium	$1,602	$1,801	$1,999
High	$2,448	$2,648	$2,845

Note: These are the total regional economic impact estimated to result from the wage and benefit losses calculated in Table 2-19. They include the losses to grocery employees and the multiplier effect of those losses due to the reduced local spending by those employees.

2. Land Market Impacts

Because they remain vulnerable to changes in the real estate market, there is a risk that big box retailers and supermarket operators will opt to vacate one or more sites when they are no longer cost-effective. A survey of vacant supermarket properties in Orange County provides an example of the county-wide impacts of corporate restructuring and consolidation. Table 2-21 lists vacant supermarkets located in Orange County. Note that much of this unused property became vacant when Alpha-Beta Grocers was purchased by Ralph's.

Table 2-21: Large-Scale Vacancies in Orange County and Site Information

Site	Former Owner	Vacancy	Size	Building Remains or Vacant	City
241 East 17th Street	Alpha-Beta	August 1994-present	2.44 acres	Remains	Costa Mesa
6011 Chapman Avenue	Alpha-Beta	1985-1999	3.83 acres	Vacant	Garden Grove
17482 Yorba Linda Boulevard	Ralph's	June 30, 1997-present	3.01 acres	Remains	Yorba Linda
23641 La Palma Avenue	Ralph's	July 1998-present	9.4 acres	Remains	Yorba Linda
11382 Beach Boulevard	Alpha-Beta	1997-present	3.88 acres	Vacant	Stanton

The first site, located in Costa Mesa, neighbors a thriving Rite-Aid and specialty retailers, and serves to impede pedestrian traffic between the two (Figure 2-1). The pathology of this underutilized property stems from its attraction of parking lot vendors with excessive signage (the parking lot in front of this site is leased for the sale of fireworks), its offering of temporary shelter to homeless persons, and its symbolic message to passing traffic on East 17th Street.

Figure 2-1. 241 East 17th Street, Costa

Usually the largest store in a complex (referred to as the "base" or "anchor" tenant), big box and supermarket retailers will remain vacant longer than other shopping center components because they take the longest to sell. When a base tenant is empty, the property owner will either sell land or lease to a new tenant. Often, the owner will want to sell after a base tenant has vacated. This is difficult, given the less frequent turnover rates and the square footage involved. When the owner does try to lease, potential lessees desire to lease the property for at least ten years, given the capital investment required to fix up the property and ready it for use.

The owner, on the other hand, will typically want to lease a property for five years or less, especially when the market hasn't proven itself in the past for a given property. Therefore, lease arrangement difficulties encourage longer vacancies for base tenants. The vacant site in Figure 2-2, located in Garden Grove, has fallen victim to such a dilemma, remaining unimproved for more than a decade.

Figure 2-2. 6011 Chapman Avenue, Garden Grove

Vacancies for base tenants are further complicated by the cost to retrofit, zoning and environmental concerns. The cost of retrofitting, combined with unfavorable lease terms, limits the perceived ROI as determined by potential business partners. Zoning is also a concern. A base tenant vacancy may spark interest in rezoning the property for alternative uses. The time and resources required for commercial rezoning add further time to the vacancy.

If the site was shared with a gas station, the EPA is required to perform a risk assessment, and past, current, and future site owners as well as lenders are potentially liable for any encouragement of environmental harm or health effects. This constraint on redevelopment would apply to base tenants that vacate a property, encouraging the adjoining station to vacate as well.

Figure 2-3. 17482 Yorba Linda Boulevard, Garden Grove

Chapter 2 Appendix: Health Care Coverage Issues

A. INTRODUCTION

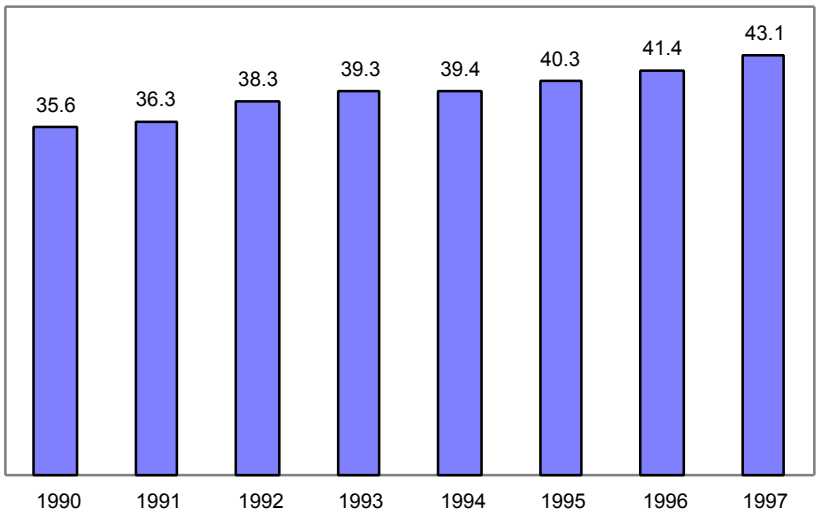
The incredible strength of the U.S. economy has shown no signs of abating despite the slowdown in many overseas markets. Since 1992, the U.S. has enjoyed an unprecedented combination of a rising budget surplus, low interest rates, virtual price stability, rising wages and salaries, and low unemployment. Optimistic U.S. consumers and investors served as the main engine of national growth last year as they pushed the growth rate in domestic demand up from 4.5 percent in 1997 to 5 percent in 1998. Thus, it is no surprise that Americans also accounted for nearly half of the growth in world demand (and output) last year (International Monetary Fund (IMF), 1999).

Yet despite the unprecedented economic boom in the U.S. during this past decade, the erosion of health care coverage in the U.S. is taking Americans down a dangerous path (Findlay and Miller, "Down a Dangerous Path: The Erosion of Health Insurance Coverage in the United States," National Coalition on Health Care (NCHC), May 1999). While it is true that businesses have increased wages and expanded fringe benefits[27] during this economic boom, the number of Americans with no health insurance has risen over 20 percent since 1990. In 1990, 35.6 million of the non-elderly population lacked health insurance. By 1997, the number of uninsured below the age of 65 had risen to 43.1 million (Findlay and Miller, 1999). In 1997, this translated into approximately one in six Americans being without health insurance in a typical month. Over the course of the year, around one in five Americans were without health insurance coverage for some period of time (U.S. Bureau of Census, 1998, and Kaiser/Commonwealth, 1997; as cited in NCHC, 1999a).

Even if the U.S. economy continues on its path of strong growth, conservative estimates indicate that at least 47 million Americans will be uninsured by 2005 (NCHC, "The Uninsured Phenomenon," available from http://www.nchc.org/know/uninsured_myths.html; accessed 22 July 1999b). It is also projected that 52 to 54 million non-elderly Americans, or one in five, will be uninsured in the year 2009. In the event of an economic downturn, as many as 61.4 million non-elderly Americans, or one in four, could be uninsured in 2009 (Findlay and Miller, 1999). Figure A2-1 illustrates the steady growth in the number of uninsured non-elderly Americans since 1990 (table from Findlay and Miller, 1999; original data from Employee Benefits Research Institute (EBRI)).

[27] An increasing number of large- and mid-sized companies now offer their employees retirement plans, child care services, flexible spending accounts, and various forms of insurance.

Figure A2-1:
Growth in the Number of Uninsured, 1990-1997
Millions of Non-elderly Uninsured



One of the more commonly believed myths about the uninsured population is that those that are uninsured are unemployed, but the reality is that most of the uninsured either work or are dependents of workers. In 1997, 57 percent of those aged 18 to 64 who had no health insurance worked either full- or part-time (Findlay and Miller, 1999). Recent studies indicate that although the economy generated 5.5 million jobs between 1993 and 1995, the number of uninsured Americans continued to grow by one million in each of these years (NCHC, 1999b). Additionally, from 1996 to 1997, the number of uninsured Americans increased by 1.7 million, the largest annual increase since 1992 (Findlay and Miller, 1999).

Thus, the fact that the national unemployment rate recently dipped to a 29-year low of 4.2 percent (IMF, 1999) does little to remedy the uninsured problem in this country. In many of the nation's largest metropolitan areas, the situation is particularly grim. In twenty-one of the nation's largest metropolitan areas, at least 20 percent of the non-elderly population currently lacks health insurance. Table A2-1 presents uninsured statistics for seven major U.S. metropolitan areas, including Los Angeles.

Table A2-1: The Uninsured in Major Metropolitan Areas

Metropolitan Area	% of Residents Lacking Health Insurance
El Paso, TX	39
Los Angeles, CA	31
Houston, TX	29
Tucson, AZ	29
Miami, FL	28
New York City, NY	25
New Orleans, LA	22

Source: Levan, et al. (1999)

In sixteen states, the number of uninsured residents exceeds the national overage of 16 percent of all residents. Additionally, in Arizona, Arkansas, California, Mississippi, New Mexico, and Texas, more than one in five non-elderly residents do not have health insurance (U.S. Bureau of Census, 1998; as cited in Findlay and Miller, 1999). Thus, despite California's decline in the unemployment rate from 9.4 percent in 1993 to 5.6 percent in February 1999 (Kimbell, Dhawan and Lieser, 1999), sustained economic growth in California cannot be relied upon to address the uninsured problem.

B. THE UNINSURED

For over a decade, researchers have agreed that income level is positively correlated to health insurance coverage. Simply stated, low-income Americans are at a much greater risk of lacking health insurance than the affluent. In 1996, three in five of the uninsured population were low-income: 28 percent were living below the poverty level, while another 32 percent were near-poor with incomes between poverty and twice poverty (Davis, 1996). But the relationship between income and insurance coverage has become increasingly complex in recent years. More and more of the middle-income population are at risk of becoming uninsured because of the rising cost of health insurance since the mid-1980s. Today, adequate health insurance for many middle-income Americans is just not affordable (Findlay and Miller, 1999).

The following three tables provide an overview of some recent trends in health insurance coverage. Table A2-2 illustrates that nearly one-half of uninsured Americans live in households earning less than 133 percent of the federal poverty line, where the poverty line is defined as a single person earning less than $9,800 a year or a family of four earning less than $20,000 a year in income. Table A2-2 also illustrates that the largest percentage increase occurred among families with incomes of around $50,000 to $60,000 (or 351-400 percent of poverty). The second largest percent increase occurred among families earning approximately $10,000 to $15,000 in income (or 0-99 percent of poverty) (Thorpe, 1997).

Table A2-2: Percent Distribution of Uninsured Households by Income Level, 1990-1995

	1990		1995	
% Poverty	% Uninsured in Income Threshold	% Total Uninsured	% Uninsured in Income Threshold	% Total Uninsured
0-99%	0.34	34.1%	0.343	36.6%
100-133%	0.346	12.2%	0.322	11.5%
134-150%	0.293	4.9%	0.307	5.0%
151-185%	0.267	10.5%	0.251	9.0%
186-200%	0.211	3.6%	0.234	3.9%
201-300%	0.138	15.1%	0.148	13.4%
301-350%	0.052	15.1%	0.060	14.5%
351-400%	0.064	2.7%	0.095	3.9%
400+%	0.051	1.8%	0.073	2.2%
		100.0%		100.0%

Source: Table reproduced from Thorpe (1997). (Original tabulations from the *Current Population Survey*, March 1991.)

Table A2-3 points out that middle income families with children were more likely to be without health insurance coverage in 1995 versus 1990 if their earnings were between $20,000 and $60,000.

Table A2-3: Trends in Health Insurance Coverage by Household Composition and Income, 1990-1995

(Millions of People)

Year	Income as a Percent of Poverty					
	0-100%	101-150%	151-200%	201-300%	301-400%	400+%
Single						
1990						
No. Uninsured	5.5	1.9	1.8	1.9	1.0	0.9
% Uninsured	38.2%	26.0%	26.4%	19.8%	13.7%	7.4%
1995						
No. Uninsured	7.2	2.3	2.0	2.0	0.9	1.0
% Uninsured	38.3%	26.4%	27.1%	19.5%	14.7%	8.6%
Single Adult w/Children						
1990						
No. Uninsured	2.8	1.1	0.7	0.6	0.2	0.2
% Uninsured	18.8%	27.8%	22.4%	13.7%	9.0%	9.0%
1995						
No. Uninsured	3.8	1.3	0.7	0.8	0.3	0.2
% Uninsured	20.9%	25.5%	19.3%	16.6%	12.0%	8.6%
Two Adults, No Children						
1990						
No. Uninsured	0.8	0.5	0.6	0.8	0.5	0.7
% Uninsured	28.3%	14.7%	15.2%	9.4%	6.6%	2.7%
1995						
No. Uninsured	1.0	0.6	0.6	0.9	0.5	1.1
% Uninsured	31.3%	16.3%	12.3%	9.8%	6.4%	4.4%
Two Adults w/Children						
1990						
No. Uninsured	3.5	2.6	2.0	2.2	0.9	1.1
% Uninsured	37.4%	29.4%	19.1%	9.6%	4.5%	3.0%
1995						
No. Uninsured	4.1	2.8	2.3	2.2	1.0	1.2
% Uninsured	36.4%	28.2%	19.9%	10.2%	5.1%	3.2%

Source: Table reproduced from Thorpe (1997). (Original tabulations from the *Current Population Survey*, March 1991 and 1996.)

Table A2-4 illustrates that the probability of being uninsured increased for men and women of all age cohorts (with men aged fifty through fifty-nine serving as the only exception). The largest percentage increase in uninsured occurred among adults aged thirty through thirty-nine. Table A2-4 also illustrates that the pattern of insurance coverage among young adults is changing. In particular, young adults aged nineteen through twenty-nine were at great risk of being uninsured.

Table A2-4: Percent Uninsured by Age and Gender, 1990-1995

	1990				1995			
	Male		Female		Male		Female	
Age	Number	Percent	Number	Percent	Number	Percent	Number	Percent
0-18	4.7	13.4%	4.4	13.2%	5.3	14.0%	5.1	14.1%
19-29	6	28.5%	4.4	20.5%	6.4	31.7%	4.8	23.5%
30-39	3.9	18.6%	2.7	12.6%	4.7	21.7%	3.6	16.1%
40-49	2.1	13.3%	2.1	12.4%	3	15.7%	2.7	13.7%
50-59	1.3	12.6%	1.5	12.6%	1.5	12.4%	1.8	13.8%
60-64	0.5	10.6%	0.8	14.2%	0.6	12.4%	0.8	14.5%
Total	18.5	17.0%	15.9	14.5%	21.5	18.6%	18.8	16.1%

Source: Table reproduced from Thorpe (1997). (Original tabulations from Supplements of the *Current Population Survey*, March 1991 and 1996.)

Although it is commonly believed that the uninsured are typically middle-aged, unemployed, lower-income, and able to obtain care from primary care providers through acute care hospitals, this is not the case. Of those who will be lacking health insurance coverage sometime this year, only 15 percent will be unemployed, on welfare, or live in a household where no one is working. The majority of the uninsured live in households with an annual income under $30,000 (NCHC, 1999a). Counting both uninsured children and adults, approximately 85 percent of the uninsured population are in households where the head of the family works full- or part-time (Davis, 1996).

The typical uninsured American is actually a young adult, between the ages of nineteen and thirty-nine[28], with children and an annual income between $40,000 and $60,000. This young adult is generally a contingent worker in a small business or in the service sector (Thorpe, 1997).

C. SOURCES AND TYPES OF HEALTH INSURANCE

The primary source of health insurance coverage in the U.S. is through employers. The government is also a large provider of health insurance both as an employer and through public health insurance programs such as Medicare and Medicaid (NCHC, 1999a). Table A2-5 provides a breakdown of the sources of health insurance for Americans.

[28] Because Medicare coverage applies to nearly every elderly American, most of the uninsured population is under the age of sixty-five (Rowland, Feder, and Keenan, 1998).

Table A2-5: Sources of Health Insurance

Source of Insurance	Number of People (Millions)
Private Employers	120
Federal Government as Employer (Includes Military)	17.3
State and Local Government as Employer	21.9
Retired People with Employer-Based Coverage	13.2
Medicare	38
Medicaid	41
Purchased Individually	16
No Insurance	43.3

Source: Table reproduced from NCHC, "Health Care Facts," available from (Original data from The U.S. Census Bureau, the Department of Labor, EBRI, and the Kaiser Commission on Medicaid and the Uninsured.)

In recent years, employers have quickly switched to managed care plans in an effort to save money while pushing for improvements in the quality of care. As a result, most have abandoned the traditional "fee-for-service" health insurance coverage that often paid medical bills with no questions asked. Three of the more popular forms of managed care are HMOs, PPOs and POS plans. HMOs provide comprehensive coverage for a fixed payment given that patients and physicians and hospitals within their "network." PPOs, or Preferred Provider Organizations, enable a patient to pay less for care obtained through providers that the health plan has contracted to accept discounted fees. Service fees increase if care is obtained outside of the network. POS, or Point-of-Service, plans are often affiliated with HMOs. Like PPOs, doctors and hospitals outside of the HMO's network can be used for an additional fee (NCHC, 1999a).

D. DECLINING EMPLOYER-SPONSORED HEALTH CARE COVERAGE

Employer-sponsored health care coverage has been declining slowly but steadily since it peaked in the late 1970s, and recent trends indicate that the uninsured population is likely to increase as employment-sponsored health insurance continues to erode (EBRI, 1996; as cited in Davis, 1996). In 1987, 69.2 percent of the non-elderly population had health insurance through a job or a family member's job, but by 1996 this percentage declined to 64 percent (NCHC, 1999a). This decline in employer-sponsored health care coverage has been fueled in part by a reduction in the percentage of workers accepting coverage when it is offered (Thorpe and Florence, 1999).

Ineligibility is another reason that employees are not taking health insurance through their employers. In 1997, 9.1 percent of wage-and-salary and alternative workers, or ten million workers, were ineligible for health coverage through their place of employment. Table A2-6

outlines some reasons for this ineligibility. Table A2-7 then outlines coverage by type, eligibility, and acceptance.

Table A2-6: Reasons for Ineligibility of Employer-Sponsored Health Insurance When Offered (1997)

Reason for Ineligibility	% Citing This Reason	Actual Insurance Status: Other Employment	Family Member	Individual Purchase	Public	Uninsured
Doesn't work enough hours per week or weeks per year	53.3%	2.6%	56.5%	5.9%	10.4%	24.6%
Contract or temporary employees not allowed in plan	7.7%	3.2%	41.0%	11.0%	13.0%	31.7%
Hasn't worked for employer long enough	27.2%	4.5%	21.2%	4.4%	5.7%	64.4%
Has preexisting condition	1.1%	8.8%	30.5%	3.7%	30.3%	26.6%
Other	10.8%	2.1%	38.6%	6.7%	22.6%	30.1%
Total [1]	100.0%	3.2%	43.5%	6.0%	10.9%	36.5%

Source: Table reproduced from Thorpe and Florence, 1999. (Original tabulations from the Contingent Worker Supplement to the *Current Population Survey*, February 1997.)
Note: Number of workers is 108.5 million, and the number of ineligible workers is 9.9 million.
[1] Totals exclude the self-employed and independent contractors.

Table A2-7: Number of Workers Offered, Accepting, Ineligible, and not Offered Health Insurance, By Primary Source of Coverage, 1997
(Millions of Workers)

		Firms Offering Insurance			
Primary Source of Coverage	**Total**	**Eligible Workers Accepted**	**Eligible Workers Declined**	**Workers Not Eligible**	**Firms Not Offering Insurance**
Own Employment	66.7	66.7	n.a.	n.a.	n.a.
Family Member	21.9	0.0	7.5	4.4	10.0
Individual Purchase/Other Employment [1]	9.6	0.0	0.8	0.9	7.9
Public and Other [2]	4.5	0.0	0.6	1.1	2.8
Uninsured	20.3	0.0	2.5	3.7	14.1
All Workers	123.0	66.7	11.4	10.1	34.8

Source: Table reproduced from Thorpe and Florence, 1999. (Original tabulations from the Contingent Worker Supplement to the *Current Population Survey*, February 1997.)

[1] Includes individually purchased coverage, as well as coverage from previous employers, other employer, or own company.

[2] Includes Medicare, Medicaid, labor union, association or club, school or university, and other.

Many workers opt not to buy coverage through their employers because it is not affordable. In 1980, 74 percent of U.S. employers paid the entire cost of health insurance for their employees. By 1993, this figure had dropped to 37 percent (NCHC, 1999a). As the price of health care coverage has risen, many employers have passed along some of the cost increases to their employees. In 1998, for example, employees of small businesses (fewer than 200 workers) paid an average of 44 percent of the premium for family coverage, up from 34 percent just a decade earlier. Employees of larger businesses (more than 200 workers) have also been hit by the rising costs of health insurance through their employers. They paid an average of 28 percent of premium costs for family coverage in 1998 (Gabel *et al*., 1999). Additionally, a recent study found that in 1996, 9.1 million employees who were considered to have employer-sponsored coverage did not even get any help from their employers in paying for that coverage (Carrasquillo *et al.*, 1999; as cited in Findlay and Miller, 1999).

An indication of the extensive health care cost shifting is the fact that so many employees now opt for health insurance through a spouse's or parent's health plan. This is often done if the spouse's plan is cheaper, and employers are well aware of this occurrence. Employers have responded to this phenomenon in a couple of different ways. Some employers now restrict spouses from joining their health care plan if their own job also offers them coverage. Other employers have instead raised the cost for spousal and dependent care coverage (Meyer and Naughton, 1996; as cited in Findlay and Miller, 1999).

Employers also pass along the rising cost of health care in a few less obvious ways. As an employee, a consumer, and a taxpayer, Americans are feeling the effects of some hidden costs of rising health care costs. Employers pass along some health insurance costs to their employees in the form of lower wage increases. In 1996, for example, employees earning between $30,000 and $50,000 were paid an average of $2,000 less because of the rising cost of health care. Consumers feel the effects of increased health insurance costs by paying more for products and services. Because government programs fund 47 percent of Americans' health care coverage, taxpayers eventually end up footing much of the bill. In 1998, health care accounted for approximately 20 percent of the federal budget, as well as around 20 percent of most state budgets (NCHC, 1999a).

The decline in the number of workers covered by union contracts is yet another reason that the share of workers with health care coverage is on the decline. Studies indicate that union members are significantly more likely to have health insurance than non-union workers. In 1995, for example, 16.8 percent of non-union workers were without health insurance, while only 5.9 of union members lacked coverage. Also contributing to this non-union coverage problem is the fact that many of the economic sectors experiencing the largest employment growth (e.g. the service and retail trade industries) tend to have few union members (Thorpe, 1997).

E. THE CONSEQUENCES OF BEING UNINSURED

Although the uninsured are sometimes able to obtain health care when needed, the means through which the uninsured obtain their care (e.g. community health centers or public hospitals) do not guarantee access and health outcomes that are comparable to the insured (Rowland, Feder and Keenan, 1998). Some of the consequences of being uninsured include failure to obtain preventive care, postponement of care, preventable hospitalizations, lack of a regular source of continuing care, inadequate maintenance of chronic conditions, lower utilization levels for physician care, and higher mortality rates (Davis, 1996; and Rowland, Feder and Keenan, 1998). Table A2-8 and the discussion that follows presents statistics on some of these consequences of being uninsured. (See Table A2-9, for a closer look at some of the aforementioned consequences of lacking health insurance.)

Table A2-8: Getting Medical Attention

	Had Insurance	Had Gaps in Coverage	Currently Uninsured
Did Not Fill Prescription	6%	21%	24%
Had Difficulty Getting Needed Care (Assessed By Self)	10%	27%	51%
No Physician Visit in Past Year	17%	19%	42%
Postponed Care Due to Cost	12%	40%	55%
Had Trouble Paying Medical Bills	11%	33%	33%
Had to Change Life Significantly to Pay for Medical Bills	4%	13%	17%

Source: Table reproduced from NCHC (1999)

Studies indicate that the uninsured are much less likely to receive preventive care. In 1995, for example, 52 percent of uninsured women did not obtain a Pap smear, while only 36 percent of insured women failed to receive this preventive care. Additionally, only 38 percent of insured women between the ages of 40 and 64 did not get a mammogram in 1995, compared to 69 percent of uninsured women (Brown, 1995; as cited in Davis, 1996.)

Due to financial reasons, the uninsured are more likely to postpone care. A recent study found that 71 percent of the uninsured delayed seeking care due to financial constraints, while only 23 percent of the privately insured population postponed care for the same reason. 34 percent of the uninsured reported going without needed care in the prior year due to financial constraints, while only 9 percent of the insured faced this dilemma (Davis et al., 1995; as cited in Rowland, Feder and Keenan, 1998).

The uninsured have higher hospitalization rates for health conditions and chronic illnesses that do not typically necessitate hospital care. The uninsured are 2.8 times as likely to be hospitalized for diabetes than the insured, 2.4 times as likely to be hospitalized for hypertension, and 2.0 times as likely to be hospitalized for immunizable conditions. Given proper continued care, all three of these conditions can generally be treated and managed without hospitalization (Weissman, Gastonis, and Epstein, 1992; as cited in Rowland, Feder and Keenan, 1998).

Table A2-9: Studies Examining the Relationship Between Health Insurance and Health

Citation	Study Population	Major Findings
Ayanian *et al.*, 1993	Matched hospital discharge data and New Jersey State Cancer Registry for 4,675 women followed for up to seven years.	Upon diagnosis, uninsured women had significantly more advanced disease than privately insured women. Adjusted risk of death was 49 percent higher for uninsured women than for privately insured women during the four to seven years following breast cancer diagnosis.
Billings, Anderson, and Newman, 1996.	Hospital discharge data from 15 U.S. urban areas and 3 urban areas in Ontario, Canada. Data are from 1990 for all areas except New York City, from 1982-1993.	Across all urban areas in the U.S., low-income patients experienced higher rates of preventable hospitalizations than patients of higher incomes. Smaller differences in rates were found in the urban areas of Ontario, Canada.
Donelan *et al.*, 1996.	Survey interview data from 3,993 interviews of randomly selected adult respondents.	The uninsured were four times more likely than the insured to report an episode of needing and not getting medical care and three times more likely to report a problem in paying for medical bills.
Franks, Clancy, and Gold, 1993.	National Health and Nutrition Examination Survey Epidemiologic Study that followed 6,913 adults from 1971 through 1987.	Adjusted risk of death was 25 percent higher for uninsured patients than for privately insured.
Hadley, Steinberg, and Feder, 1991.	National sample of 592,598 hospital discharge abstracts in 1987.	The uninsured were up to three times more likely to die in the hospital than comparable privately insured patients. The uninsured were 29 percent less likely to undergo a coronary artery bypass graft surgery, and 45 percent less likely to undergo a total hip replacement than the privately insured, procedures subject to high physician discretion.
Weissman, Gastonis, and Epstein, 1992.	Maryland and Massachusetts hospital discharge data from 1987.	In both states, uninsured patients with malignant hypertension had twice the rate of hospitalization than the privately insured. In Massachusetts, uninsured patients with diabetes had nearly three times the rate of hospitalization of the privately insured.

Source: Table from Rowland, Feder, and Keenan, "Uninsured in America: The Causes and Consequences," In: *The Future U.S. Healthcare System: Who Will Care for the Poor and Uninsured?* (eds Altman, Reinhardt, and Shields), 1998.

Chapter 3: Municipal Finance Impacts

This chapter considers another issue of great importance to local officials, one often playing a central role in the evaluation of retail projects in particular: municipal tax revenues. Big box retail is often characterized as a no-brainer, fiscally speaking. These projects are described as needing little in the way of public services yet generating enormous sums of sales taxes, a substantial part of which goes directly into the city's general fund.

But this view is not always accurate, as an undetermined share of the new tax revenue will simply reflect a loss of sales to existing businesses in the community. Tax rebates and other tax incentives reduce this revenue stream further. More to the point of this report, big box retailers who shift some floor space to groceries are migrating toward a sales base that generates substantially less tax revenue. Food sales are, for the most part, not subject to sales taxation.

This chapter reviews these issues to draw three principle lessons:

1. Discount retail is a competitive and fluid business, with implications for the stability of municipal revenues. Local officials should be cautioned that a single store they lure today comprising a huge share of the local retail base might soon relocate to another location, either in search of a better incentive deal or to find room to expand.

2. Supercenters are often built by either expanding a discount center or closing a discount center and building a supercenter nearby. Local officials should consider the impact of possible future expansions on land use, community character, local employment base and local tax revenues.

3. The fiscal impacts of Supercenters are uncertain, both because many grocery items are non-taxable and because the net impact on localities must balance service costs and shifts in local retail base with any net gain in municipal taxable sales.

The chapter explores these issues in detail in five sections: (A) The fiscalization of land use planning, (B) big box fiscal issues, (C) taxable sales and tax revenues, (D) the fiscal impacts of big box grocers, and (E) a short summary.

A. THE FISCALIZATION OF LAND USE PLANNING

Local governments in California have little direct control over their revenues. Property tax rates are largely fixed and property assessments are market based only the year in which the property changes hands. One thing local governments can control is permitted land development patterns, which in turn influences the amount of land generating sales tax revenues.

While the sales tax rate varies throughout the state, and sales tax revenues are collected by the state, a penny from each dollar of taxable sales is returned directly to the jurisdiction where the sale took place. This is known as the *situs* rule. So, it is not surprising that local officials have tended to seek out retail to bolster local finances. Some are better able, or more inclined, to do so and the end result is that the fiscal position of cities varies dramatically across the state.

One consequence is that the fiscal strategy of many communities is to seek retail development, particularly high volume retail such as automobile dealerships and big box retail. This trend toward using land use planning to generate revenues is known as the "fiscalization" of land use (e.g., Lewis and Barbour, 1999).

In this setting, large individual retailers have become the apparent “cash cows” of the municipal fiscal environment. In case after case, communities agreed to accept big box retail development as revenue generators rather than as means to meet other community demands.

But the actual fiscal benefits of such efforts are unclear and undocumented. They may indeed backfire in some instances. Four problems are most apparent:

- New retail development in a city is somewhat at the expense of existing retail in a city. Thus, a share of the sales taxes generated by new retail is not new to the city at all. In addition, some cities experience only a short term spike in sales tax revenues associated with big box retail, with tax revenues leveling off after only 2 or 3 years.

- This is even more true at a regional level. Tax competition among jurisdictions can even have negative regional economic impacts, especially when tax rebates and other locational incentives are involved.

- Large retail sites do impose additional community costs in the form of traffic, security, environmental, and other impacts (e.g., Altshuler and Gómez-Ibáñez, 1993).

- Most grocery sales are not taxed, so the tax base of the host city will suffer as existing retail uses shift to groceries. The use of redevelopment zones further complicates the property tax part of this story, as redevelopment zones can divert some portion of any increase in property tax revenues within a zone away from municipal governments (e.g., Dardia, 1998).

B. BIG BOX FISCAL EXPERIENCES

California municipalities have for years engaged in fierce cross-city competition for sales tax revenues. This fiscalization of land use raises several concerns. Are communities offering deals that are worth more than the local benefits generated? Even if localities end up better off, do regions suffer as retail stores play one city off against another in search of the best deal? Do fiscal concerns cause local governments to devote more land to retail uses than they otherwise might? Now, with the entry of discount retail into the grocery business in other parts of the country, the already complicated questions of local fiscal policy and land use become even murkier. Several points can be gleaned from recent experience:

1. Tax incentive deals are often large. The Los Angeles Times (Shuit, 1998) reports that Long Beach rebated half of the city’s share of sales taxes generated by a recently built automobile dealership. The deal was viewed by city officials as necessary to encourage the car dealer to relocate from Signal Hill. In Ventura, K-Mart requested dismissal of $1.5 million in

development fees for a Super-K, K-Mart's version of a supercenter (Sommer, 1995). The Super-K development was proposed for a site across the street from an existing K-Mart. Ventura council members acknowledged pressure to meet K-Mart's terms because nearby Oxnard had recently lured Price Club and Wal-Mart with similar deals (Sommer, 1995). Lake Elsinore's redevelopment agency, in 1993, agreed to reimburse Wal-Mart $2.2 million out of the city's share of sale and property tax to encourage the development of a discount store in that city (Perkes, 1999).

2. The tax deals, like the one involving Long Beach, often move businesses from one city to another. In the Bay Area, Costco recently relocated from Martinez to Concord (Finz, 1999). When Costco announced the move, officials in Martinez, faced with the loss of their single largest source of sales tax revenue, responded by trying to interest other discount retail firms, including Wal-Mart, in the site (Finz, 1999).

3. Some tax incentive agreements exact unexpected costs from government coffers. In 1986, the Colton Redevelopment Agency agreed to reimburse Price Club $2.5 million for the cost of land for the store. The $2.5 million payment, plus interest, was to be paid by rebating to the company half of all sales tax revenue generated for no more than fifteen years. The agreement specified that Price Club would pay the city a penalty if it opened other stores within a twelve mile radius. In 1992, because Price Club wanted to open two stores within the twelve mile radius, the agreement was changed to both lower the fraction of sales taxes rebated to 31 percent and remove the fifteen year time limit. In 1996, the store, then owned by Costco, was closed. Costco officials said that the Colton store's low sales were due, in part, to competition from other Price Club and Costco stores in the area. Yet the original incentive agreement had been tied to the store site, not to the store itself, and Colton owed $900,000 of the $2.5 million agreement when Costco closed in 1996. The $900,000 debt remains, and interest is accruing on the debt, despite the fact that Price/Costco has not occupied the site for three years (Perkes, 1999).

The above examples illustrate that any tax incentive deal is complicated and risky, and should be evaluated carefully. Efforts to lure the newly emerging supercenters are even more complex, for several reasons.

1. Supercenters are often expansions of existing discount centers. In Macon, Georgia, Wal-Mart closed a discount center to open a new Supercenter across the street (Krause, 1999).

2. A K-Mart near Omaha added grocery aisles without increasing floor space, likely in part to compete with a nearby Wal-Mart Supercenter (Olson, 1999). Had that occurred in California, the loss of retail floor space to groceries (most of which are not taxable) could have led to a reduction in sales tax revenue generated at the site.

3. In some cases, relocations of big-box retail outlets leave behind vacant store sites and smaller shops that lose customer traffic without an anchor tenant. Richland Hills, outside of Fort Worth, recently saw their Sam's Club membership discount store relocate to nearby North Richland Hills (Hornaday, 1999). In Lake Wales, Florida, Wal-Mart closed a discount center when it constructed a Supercenter two blocks away. Store owners in the complex that included the old discount center expressed concern about the loss of customer traffic to the

new Supercenter location (Circelli, 1999).

4. The conversion of a discount center to a Supercenter can have unanticipated land use consequences. In Pinellas Park, Florida, Wal-Mart recently sought permission to double the size of a discount center as part of a conversion to a Supercenter. The firm proposed expanding onto six acres of wetlands adjacent to the discount center site. The expansion plans have generated heated opposition, as residents have argued that the wetlands should be preserved (Lindberg, 1999).

The next section looks at broader regional trends.

C. TAXABLE SALES AND TAX REVENUES

Local governments share an increasing concern for the fiscal impacts of land use decisions. "Land" in this respect represents a resource that can be vacant, improved (i.e., it contains a man-made structure that is in use), or abandoned. Due to the impact of Proposition 13[29] on the ability of jurisdictions to generate sufficient property taxes on commercial and residential land uses, land is increasingly gauged in terms of total and taxable sales generated by an owner or lessee.

Of course, the ability of a locale to support a land use will be based in part on its potential market for items sold or distributed from a given site. Thus, cities are also concerned with the effects of different categories of land usage on employment and the overall vitality of impacted communities. This section concerns both the fiscalization of land use and the subsidiary impacts of land use decisions on community vitality, should the ability of a given square footage to generate sales and tax revenue fall short, yielding of vacancy.

Two categories of retail land use were chosen for purposes of comparison: general merchandise and food stores. General merchandise is defined as any retail establishment permitted to operate as a limited price variety, department, drug, or other general merchandise store (State of California Board of Equalization, 1997). Food Stores comprise supermarkets, grocery stores with or without alcohol, grocery stores with beer and wine, and specialty grocers, such as bakeries.

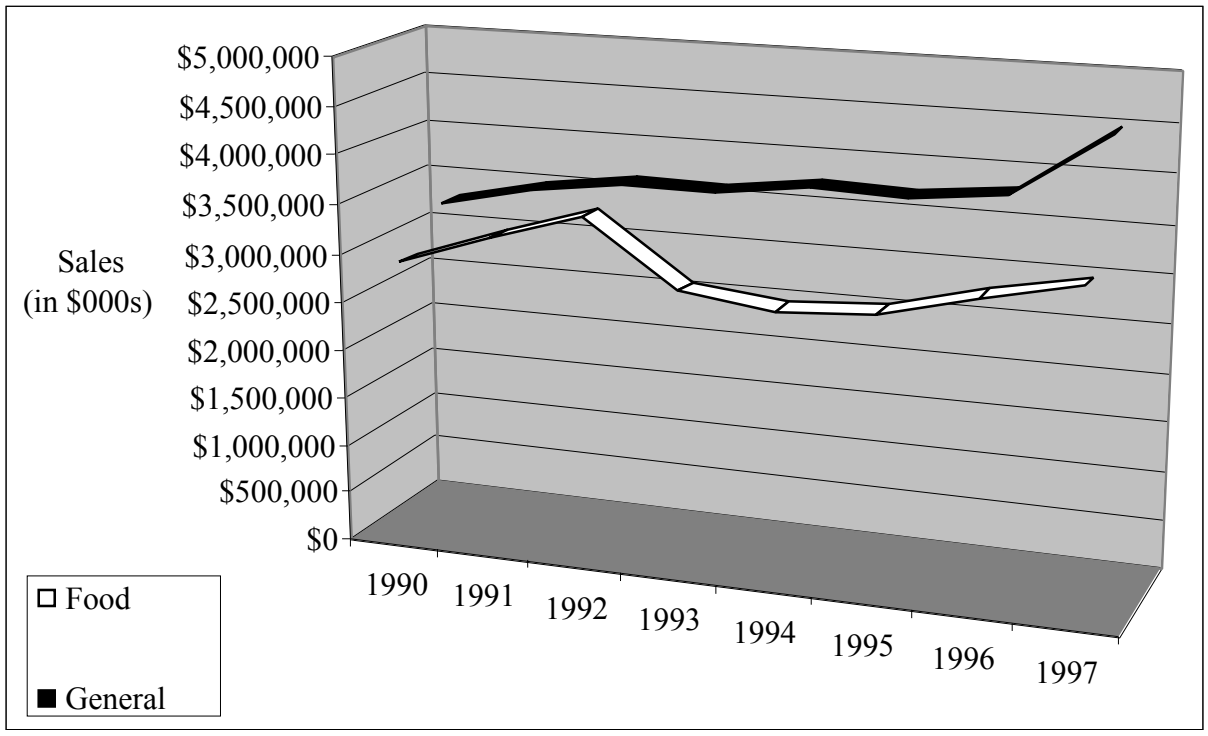
In order to estimate the impact of these categories on a local government, let us consider their relative abilities to generate sales, and more importantly, taxable sales. Total sales generated by

[29] Proposition 13, passed in 1979, limits the assessed value of property for tax purposes to its 1977 value, or its purchase price if sold after 1979, plus a maximum of 2% appreciation per year.

general merchandise and food stores in Orange County were calculate using taxable sales and the Census of Retail Trade (United States Department of Commerce, 1992) data. Since data pertaining to total sales are only available for 1987 and 1992, these figures were used to calculate the percentage of total sales by category that are taxable in Orange County. It was determined that in 1992, 70% of total general merchandise sales are taxable, compared to 38.6% for food stores. These percentages mirror those derived from 1987 data (State of California Board of Equalization, 1987). Data was compiled in an Excel spreadsheet for taxable sales Orange County city, and the above percentages were used to determine total sales. Figure 3-1 represents these estimates for 1990 through 1997.

Figure 3-1 illustrates that following 1992, total food store sales began to fall, while general merchandise sales remained relatively constant throughout most of the County's recession period. Total estimated sales were $4.5 billion for general merchandise and $3.26 billion for food stores in 1997. It can be concluded that general merchandise has a far greater potential impact on the County's economy.

Figure 3-1. Estimated Total Sales: Food Stores and General Merchandise Stores in Orange County ($ thousands)



D. THE FISCAL IMPACTS OF BIG BOX GROCERS

To better understand the fiscal impacts of these categories that are realized by city governments, taxable sales were investigated. The State Board of Equalization maintains statistics for taxable sales as well as the number of store permits from which they are generated. Through use of such information, one can better understand the potential impact of a single land use decision, though

it remains potentially skewed by the range of store size in each category. It can also suggest previous impacts of big box retail sitings within individual jurisdictions. Figure 3-2 and Figure 3-3 show the percentage of taxable sales that are accounted for by general merchandise and food stores in Orange County, respectively.

Figure 3-2. Taxable Sales: General Merchandise as a Percentage of Total Retail

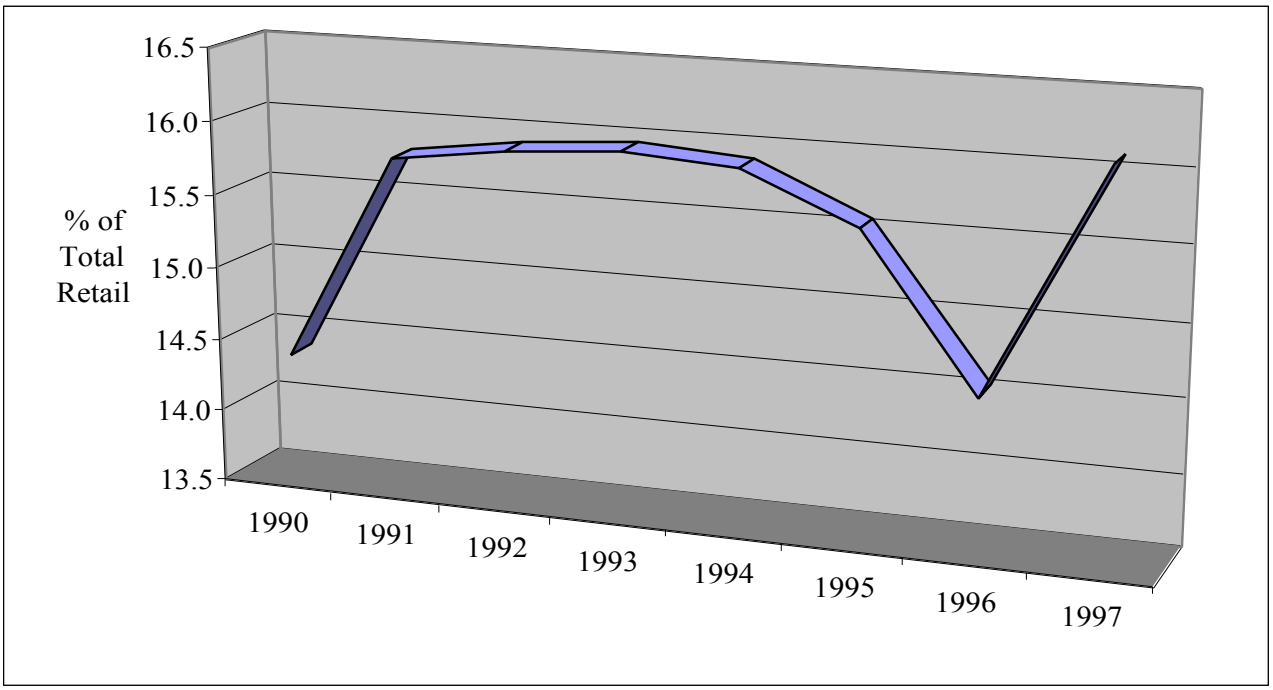


Figure 3-3: Food Taxable Sales as a Percentage of Total Retail Taxable Sales

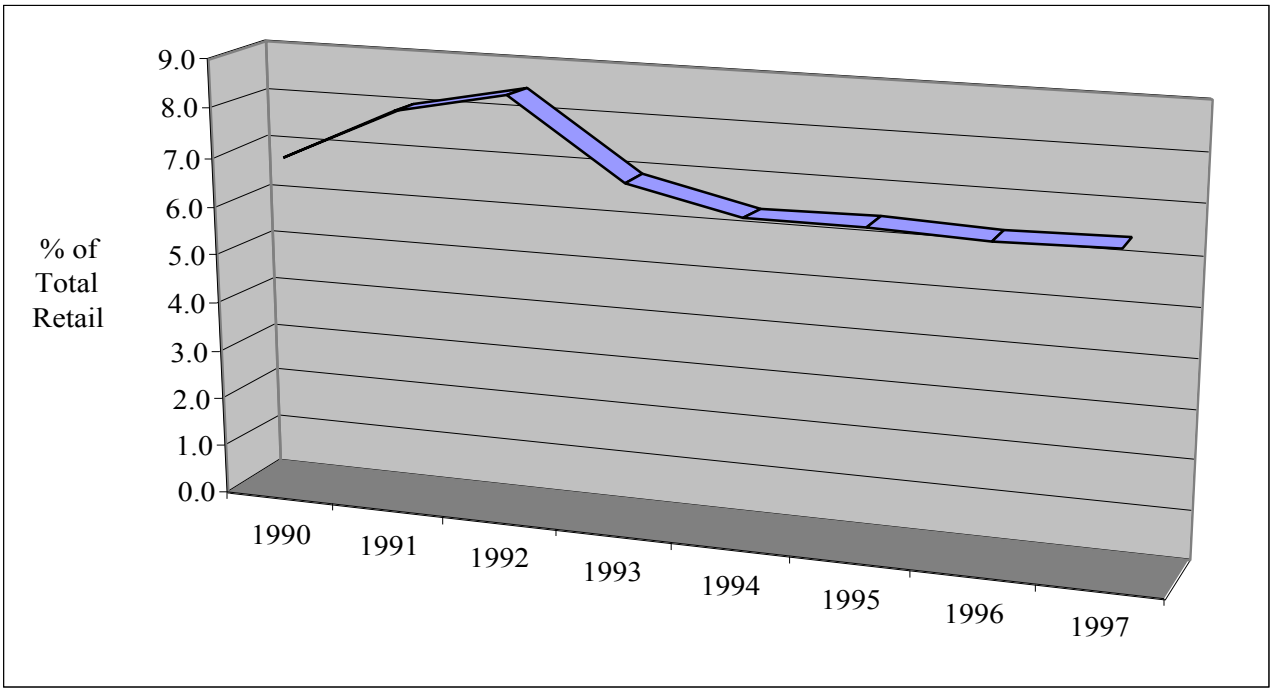


Figure 3-4 and **Figure 3-5** represent taxable sales per permit for the two groups.

Figure 3-4: General Merchandise Taxable Sales per Permit ($ thousands)

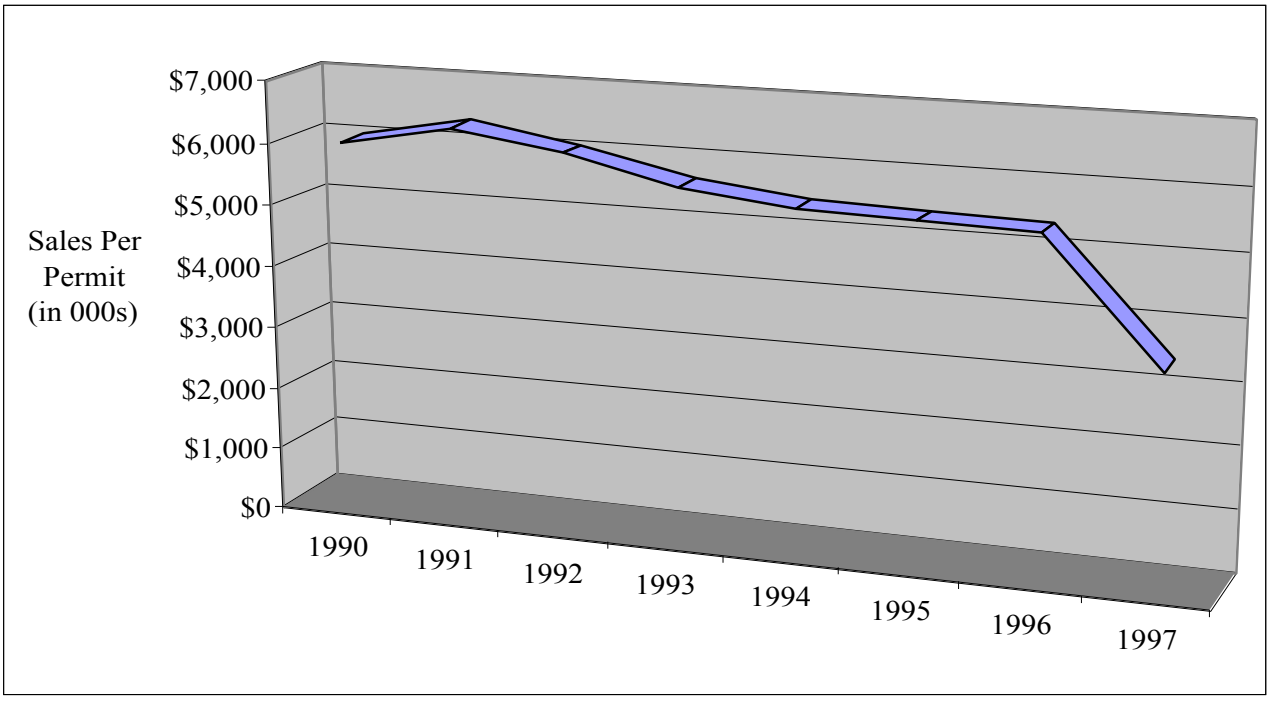
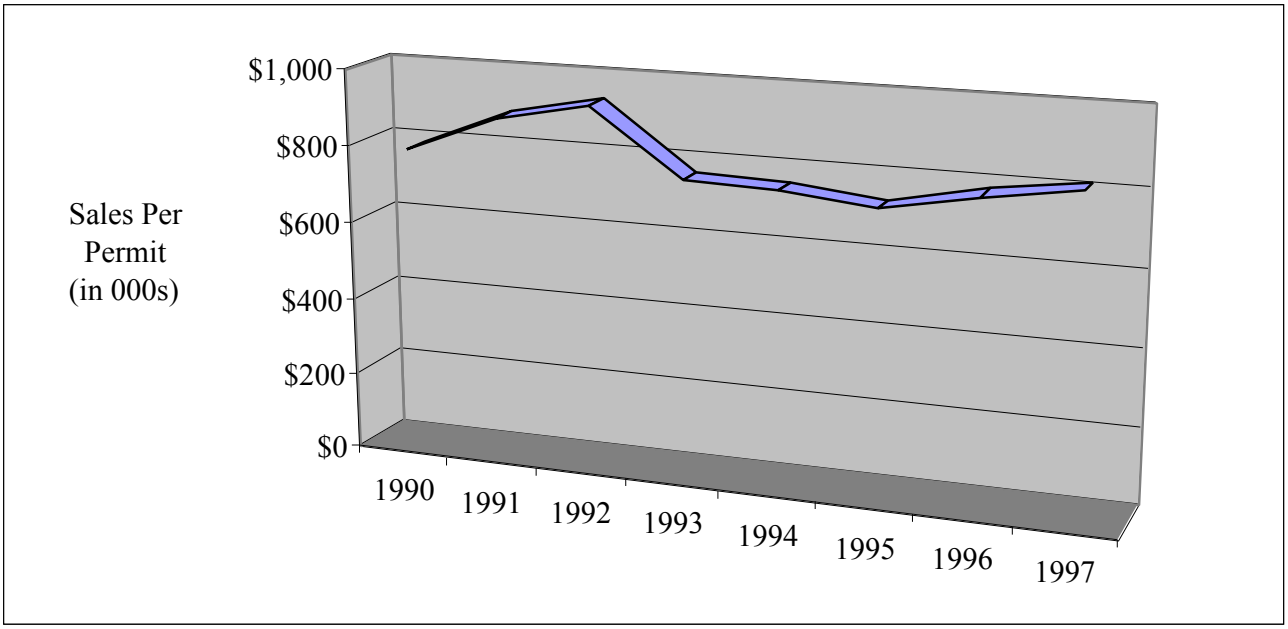


Figure 3-5: Food Stores Taxable Sales per Permit ($ thousands)



While general merchandise taxable sales per permit fell significantly in 1997, they remain more than four times higher than food store taxable sales. It remains evident that both industry groups are susceptible to economic and market shifts, although the trend for per permit taxable sales for general merchandise appears to be one of gradual and then accelerated decline. This decline suggests either a change in the industry mix in terms of the relative size of general retail establishments (i.e., a growing proportion of smaller vendors could reduce sales per permit), or in the efficiency of permit operators. For instance, if big box retailers do not continue to account for their high floor-to-area ratios (FAR) and intensive usage of parking space with similar gravity effects (i.e., the attraction of a proportionately larger market radius) and merchandise turnover, then lower sales per square feet would ensue. Another possibility would be that the mix of goods sold and purchased at larger retail establishments might be shifting to one that includes more non-taxable items, such as prescription drugs.

To further investigate the impact of big box retail on a local economy, taxable sales per permit were calculated for two cities that have experienced the introduction of a Wal-Mart within the last ten years. Table 3-1 gives the opening dates for Wal-Mart stores within Orange County.

Table 3-1: Wal-Mart Locations in Orange County and Opening Dates

Wal-Mart Location	Opened
440 N. Euclid Street, Anaheim	1/31/95
27470 Alicia Parkway, Laguna Niguel	1/95
2595 E. Imperial Highway, Brea	1/98
2300 N. Tustin Street, Orange	1/98
3600 W. McFadden Avenue, Santa Ana	1/98
13331 Beach Boulevard, Westminster	6/20/98

Source: Cities of Anaheim, Laguna Niguel, Brea, Orange, Santa Ana, and Westminster Planning Departments

Figure 3-6 and Figure 3-7 show taxable sales per permit for general merchandise and food stores in Anaheim, while Figure 3-8 and Figure3-9 provide the same information for Laguna Niguel. The remaining Wal-Mart locations within Orange County were opened in 1998, for which complete sales tax data were not available.

Figure 3-6: General Merchandise Taxable Sales per Permit in Anaheim ($ thousands)

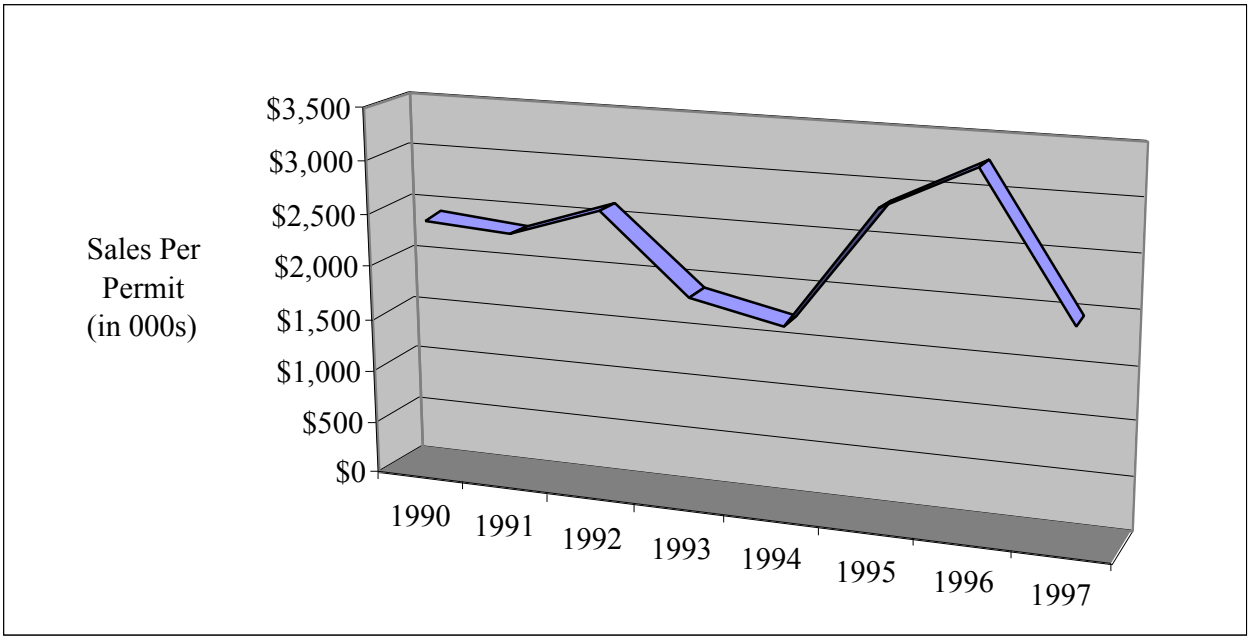


Figure 3-7: Food Stores Taxable Sales per Permit in Anaheim ($ thousands)

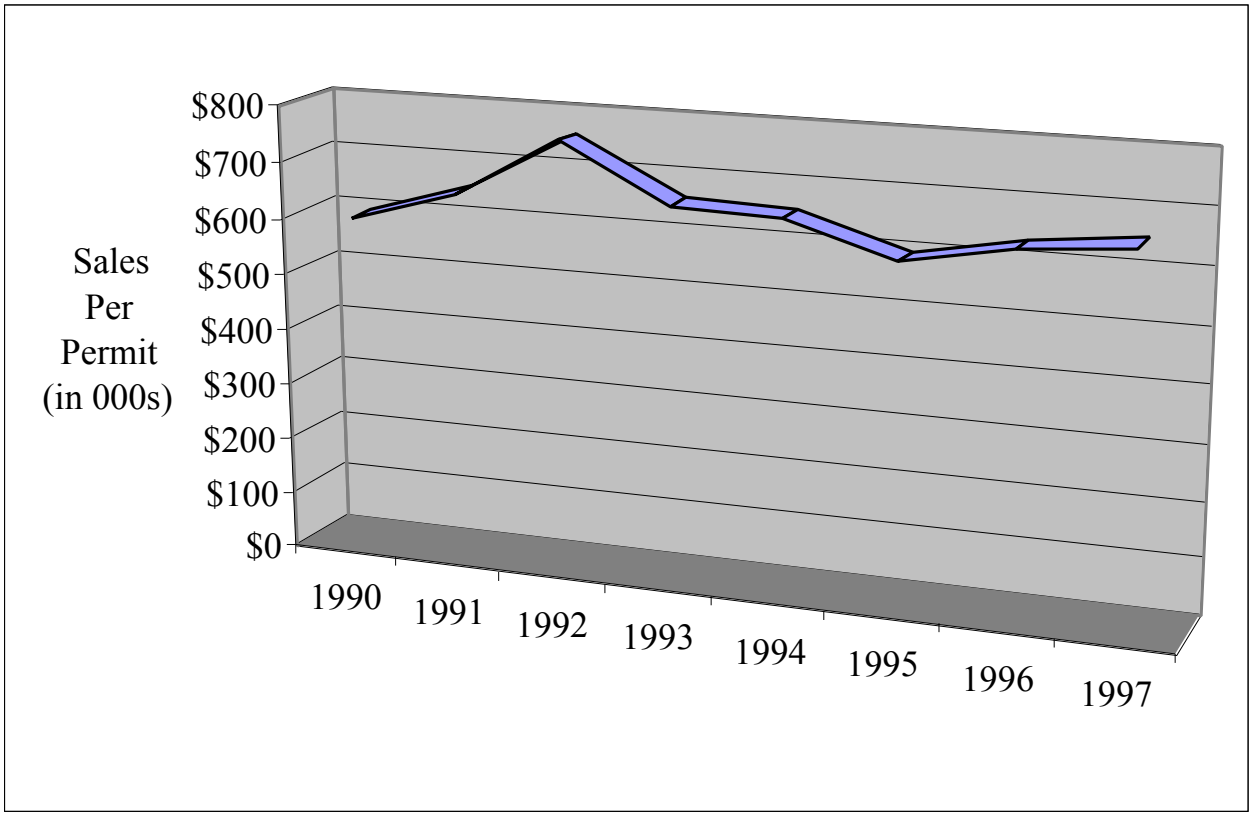


Figure 3-8: General Merchandise Taxable Sales per Permit in Laguna Niguel ($ thousands)

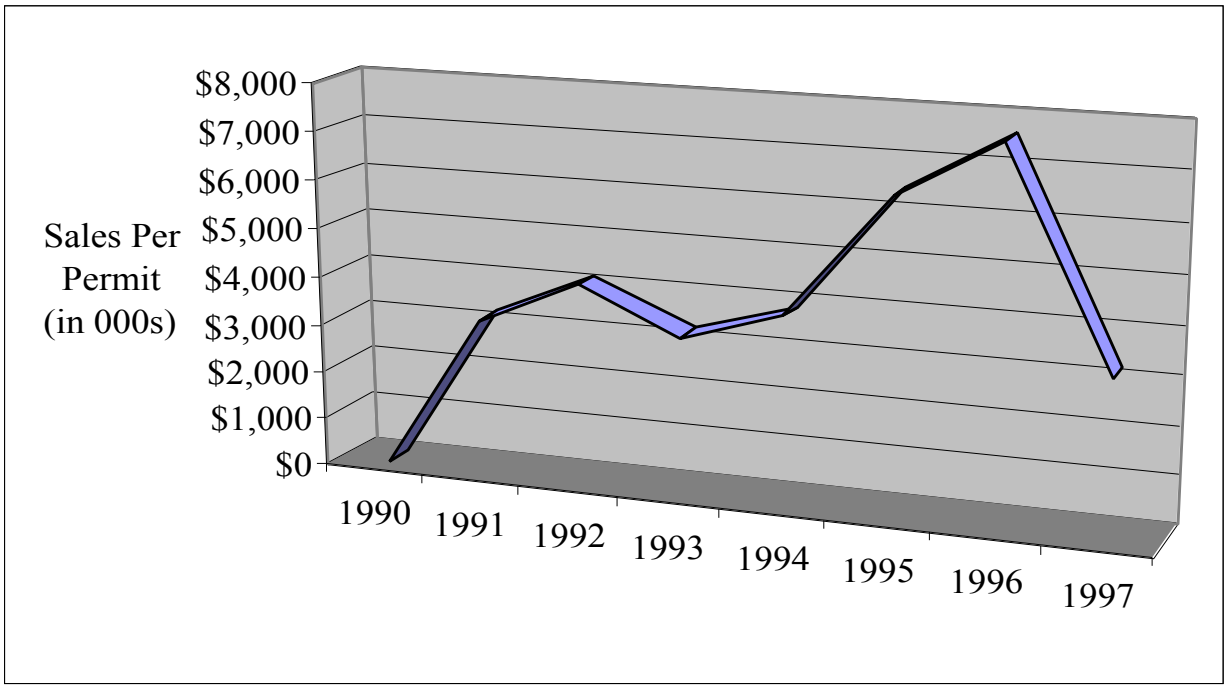
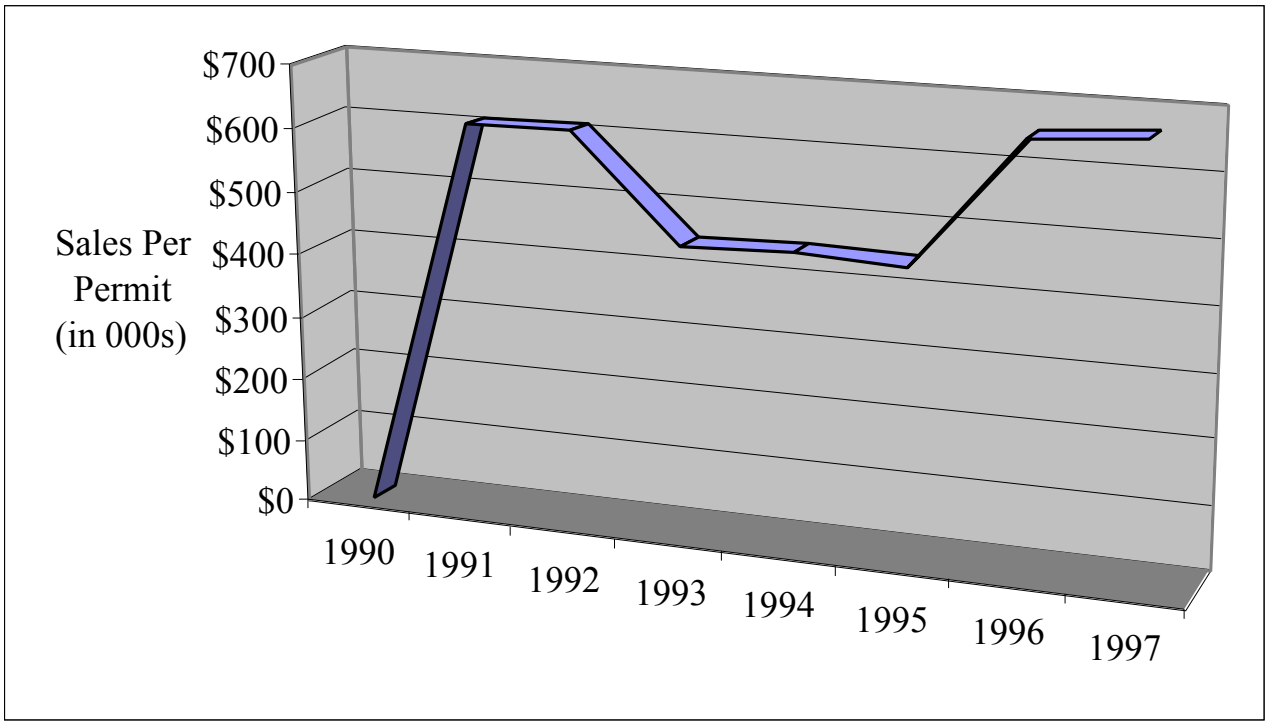


Figure 3-9: Food Stores Taxable Sales per Permit in Laguna Niguel ($ thousands)



The rapid increase in taxable sales per permit in 1995 suggests that the shear size of a Wal-Mart can change the fiscal landscape of even a large city. Amazingly, gains in taxable sales per permit made through the addition of a big box retailer were all but erased by 1997. This, too, reflects the volatility of large-scale retail operations, where establishments that would appear to be the "anchor" of a given location are not immune to downturns or closures. Laguna Niguel is also instructive, as it represents a relatively small retail market. Between January, 1995 and December, 1996, general merchandise sales per square foot doubled. Again, these per-square footage gains were erased by the end of 1997.

One lesson that can be gleaned from even a cursory glance at Figure 3-6, Figure 3-7, Figure 3–8, and Figure 3-9 is that in spite of the inevitable fluctuations in taxable sales caused in part by the entry and exit of big box retail, sales per permit will always overshadow that which is generated by food stores. When we shift our analysis from permits to square footage, however, we find that much of this discrepancy is caused by the fact that big box retailers operate such vast facilities. While on a per square footage basis these stores may not be as efficient as grocery stores (see Table 3-2), the size of the store, coupled with differential sales to taxable sales ratios, will result in the taxable sales gap presented.

Table 3-2: Sales Per Square Foot and Selling Square Foot for Discount Stores and Supermarkets

Store	Sales Per Square Feet	Selling Square Footage Per Store
JC Penny	210	39,689
Kmart	211	70,692
Sears	318	26,912
Target	234	109,296
Wal-Mart	355	97,475
Discount Store Average	264	68,813
Average Supermarket	398	27,723

When considering the siting of a big box retailer such as Wal-Mart, fiscal impacts will undoubtedly come into play. While these facilities can offer the promise of large aggregate tax revenue, they also pose some serious risks. Pearson correlations were used to calculate the linear association between total taxable retail sales change from 1990 through 1997 and the component parts of general merchandise and food stores. Such a relationship will suggest the ability of one industry to weather changes in the overall retail market. While correlation does not necessarily prove causation, it can theoretically suggest the effects of one variable on another.

For instance, a significant and positive correlation between two variables would suggest that as one variable increases, the other will do the same. Table 3-3 presents the results of Pearson's correlations. Correlations were also run for change in taxable sales per permit from 1990 through 1997, between total retail and the two variables.

Table 3-3: Pearson's Correlations for Orange County Taxable Sales % Change and Sales Per Permit % Change

% Change: Total Retail	Pearson Correlation	1.000	.591	.374	.944	.786	.062
	Sig. (2-tailed)	.	.005**	.066	.000**	.000**	.769
	N	25	21	25	25	21	25
% Change: General Merchandise	Pearson Correlation	.591	1.000	.301	.645	.832	.068
	Sig. (2-tailed)	.005**	.	.185	.002**	.000**	.771
	N	21	21	21	21	21	21
% Change: Food Stores	Pearson Correlation	.374	.301	1.000	.224	.415	.515
	Sig. (2-tailed)	.066**	.185	.	.282	.062	.008**
	N	25	21	25	25	21	25
% Change in Per Permit Sales: Total Retail	Pearson Correlation	.944	.645	.224	1.000	.780	.093
	Sig. (2-tailed)	.000**	.002**	.282	.	.000**	.659
	N	25	21	25	25	21	25
% Change in Per Permit Sales: General Merchandise	Pearson Correlation	.786	.832	.415	.780	1.000	.042
	Sig. (2-tailed)	.000**	.000**	.062	.000**	.	.858
	N	21	21	21	21	21	21
% Change in Per Permit Sales: Food Stores	Pearson Correlation	.062	.068	.515	.093	.042	1.000
	Sig. (2-tailed)	.769	.771	.008**	.659	.858	.
	N	25	21	25	25	21	25

** Correlation significant at the 0.01 level (2-tailed).

These correlations suggest that as total taxable retail sales increase, total retail sales per permit and total general merchandise taxable sales will also increase. No such relationships were found between total retail sales and taxable retail sales or sales per permit for food stores. In addition, changes in taxable sales per permit for the entire retail industry were significantly related to changes in total retail sales, changes in general merchandise sales, and changes in per permit general merchandise sales. Again, similar relationships were not found between total retail and food stores categories.

E. SUMMARY

The risk implied by these results is twofold: general merchandise stores are far more vulnerable to market shifts than food stores, and changes in sales per permit is related to total sales. Thus, the tradeoff presents itself: big box retailers will most likely enter a community, boosting overall retail sales and tax revenues, only to be among the first to consolidate or fold when conditions begin to change. If a big box retailer were to include food sales in its operations, these relationships might also hold true. Free-standing food stores would likely yield market share and in some cases become vacant, while taxable sales from grocery operations would shift to locations that are much more prone to the impacts of regional business cycles.

Large-scale retailers present a cost-benefit assessment problem to an interested city. Consider the typical public hearing for the siting of a Wal-Mart in Orange County: concerns over potential clientele, crime, design changes and character are raised (Wolfe, 1999). The fiscal impacts of the facility are often seen as clear-cut, but they are not, particularly when a big-box retailer expands into food sales. This threatens to lower the taxable sales per square feet for a land use that is already riddled with inefficiencies and great risks should market conditions become unfavorable.

Chapter 4: Concluding Comments

The grocery industry in the United States and California is currently changing rapidly. One of the most important trends is the combination of big-box discount retail and grocery sales into supercenters. Wal-Mart stands out as the most aggressive entrant into the supercenter market. In 1990, Wal-Mart operated six supercenters. By the year 2000, Wal-Mart is projected to have 714 such stores, solidifying its position as the leading owner and operator of supercenters nationwide.

What does this mean for Orange County and Southern California?

Three sets of policy issues are important.

1. **Supercenters, especially Wal-Mart supercenters, are often conversions of existing discount retail stores, and local officials should be aware of that possibility**. In 1999, Wal-Mart estimated that 72% of all new Supercenters would be built by converting existing Wal-Mart discount centers. Because the grocery and general retail industries differ dramatically in their pay scales, function within the community, and ability to generate sales tax revenues, this is far from a simple expansion of an existing business. Local officials should be aware of the possibility for conversions of existing discount centers into supercenters.

2. **The grocery industry in Southern California pays substantially higher wages, and offers better benefits, than Wal-Mart**. If Wal-Mart or other low labor cost food retailers enter the southern California market, the ability of the grocery industry to provide high-paying, entry-level jobs will be considerably reduced. By far the largest controllable cost in the grocery industry is wages and benefits. Large labor cost differentials do not persist. Should a discount retailer enter the southern California grocery market and compete effectively while paying wages below the current norm for the industry, the pressure on existing chains to lower wages and benefits would be immense. Estimating that Wal-Mart supercenters could capture from 10% to 20% of the southern California grocery market, we calculate the direct value of lost wages and benefits to range to nearly $1.4 billion per year. **Accounting for the multiplier effect as those wage and benefit cuts ripple through the economy, the total economic impact on the southern California economy could approach $2.8 billion per year**.

3. **The fiscal benefits of supercenters, and of discount retail more generally, are often complex**. Supercenters in particular combine many non-taxable food items under one roof with general merchandise. Furthermore, any discount retail outlet potentially shifts sales from existing local retail, and the net impacts on local sales tax revenues are far from certain.

What did we find?

- **The aggressive entry of supercenters such as those operated by Wal-Mart into the regional grocery business is expected to depress industry wages and benefits at an estimated impact ranging from a low of $500 million to a high of almost $1.4 billion per year, potentially effecting 250,000 grocery industry employees. (Chapters 2 and 4)**

- **The full economic impact of those lost wages and benefits throughout southern California could approach $2.8 billion per year. (Chapters 2 and 4)**

- **Discount retail chains that operate supercenters, including Wal-Mart, typically offer much less comprehensive health care coverage than major California grocery chains. One negative economic impact of Supercenters could be a dramatic reduction in health coverage for most of the 250,000 grocery employees in California. This can lead to lower quality care for grocery employees whose health insurance benefits are reduced. (Chapter 2)**

- **The fiscal benefits of supercenters, and of discount retail more generally, are often much more complex, and lower, than they first appear. This is particularly true when big box retailers close existing stores to move into larger quarters elsewhere, when they expand an existing store into food, and when retailers reconfigure an existing store to sell food without expansion. In each case the additional tax revenues generated will in part come from existing businesses elsewhere in the city in the form of lost market share. (Chapter 3)**

- **Supercenters, especially Wal-Mart supercenters, are often conversions of existing discount retail stores. Thus local officials should carefully consider the possibility of a future conversion to a supercenter, and any attendant negative economic, fiscal, or land use impacts, when approving big box discount retail projects, even when the proposed land use does not include immediate plans for grocery sales. (Chapter 1)**

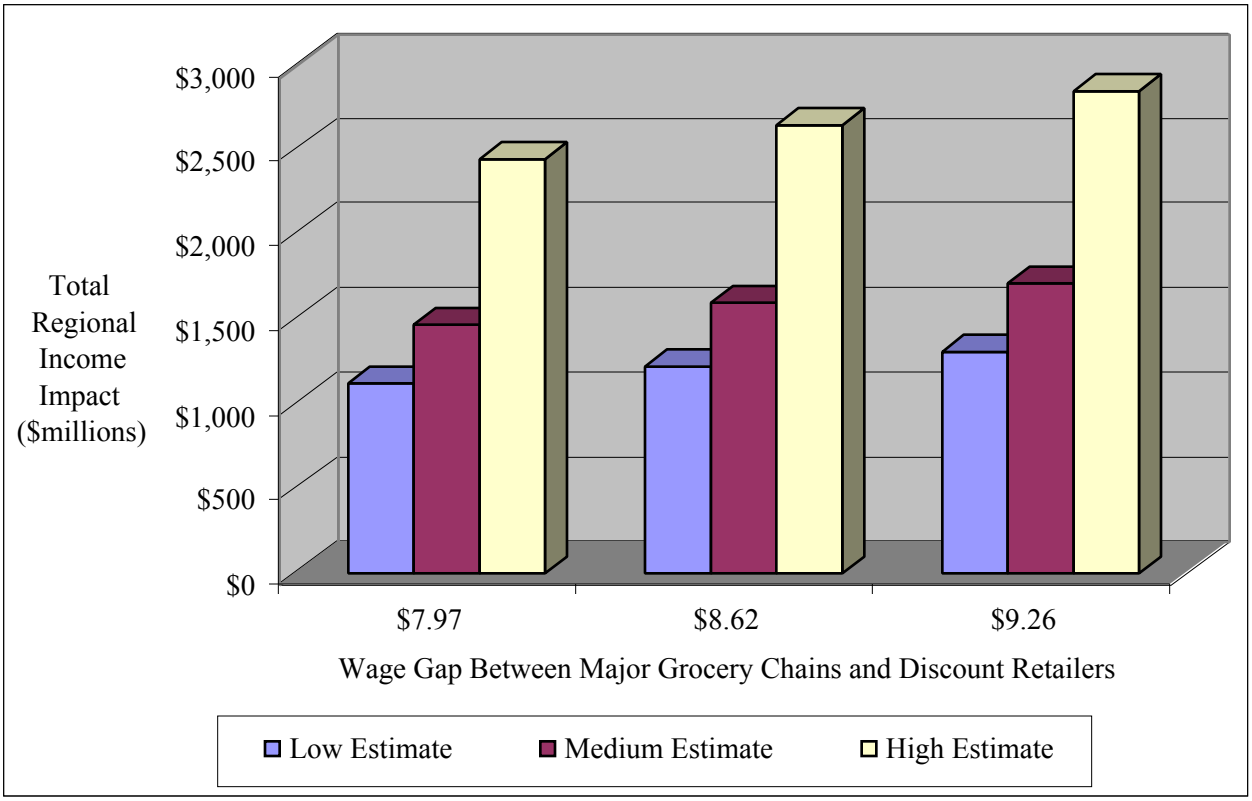
The wage and benefit impacts of the entry of big box groceries into the region are estimated using a two step process. First, we estimate the market share that Wal-Mart supercenters are expected to capture in southern California, based on current averages of between 47 and 57 stores per distribution center. Using data on market share and number of stores in several urban areas, we conclude that one distribution center roughly translates to an 10% market share for Wal-Mart supercenters in southern California. The assumptions that led to that estimate were uniformly conservative, and so we also use an estimate of 20% long-run market share for supercenters, comparable to the major existing chains in southern California.

We then calculate the wage impacts of these market share estimates. Even a 10% market share for supercenters is a substantial competitive threat to existing chains, and those chains are likely to respond aggressively. Case studies of similar competition between low and high labor cost grocers illustrate that grocery chains cannot tolerate large labor cost gaps. This evidence indicates that in the short-term grocery chains typically seek to close approximately one half of the wage gap with major competitors. Over the long term, the grocery chains may seek to lower wages to their workers to eliminate the entire difference between their pay and that of discount

retail employees, an average difference of over $9 an hour currently.

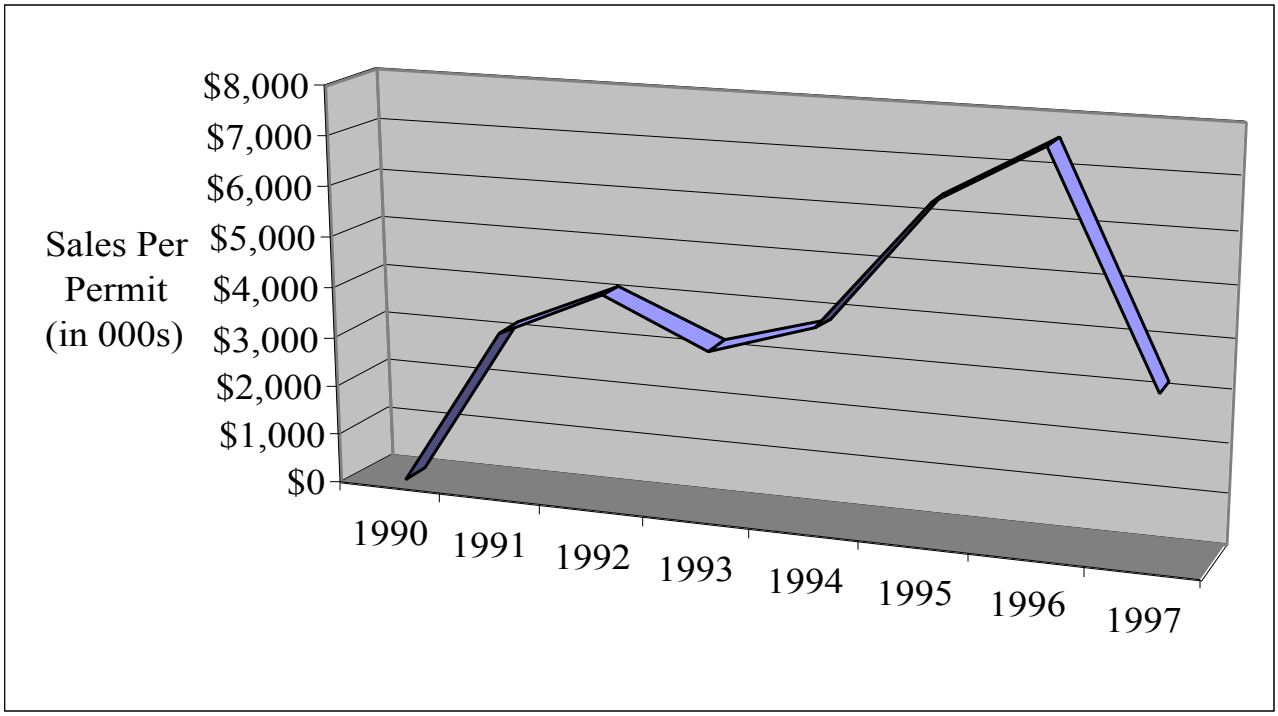
Using data on current wages and benefits, we calculated that the direct impact on workers in southern California would likely fall in the range of about $500 million to $1.4 billion per year in lower pay, depending on the big box food sales market share. Using the Southern California Association of Governments estimates of how these lowered wages would impact the regional economy, the total regional drop in spending ranges from about $1 billion to over $2.8 billion per year (Chart 4-1). The numbers will rise the larger the market share of big box grocers, and could well top even these figures over time.

Chart 4-1: Estimates of Regional Income Losses From Lower Wages Paid by Big Box Grocers (from Table 2-20)



In addition, we find that the tax revenue impacts of big box grocers are uncertain. While big box retail does typically capture taxable sales from outside the jurisdiction, it also captures business from local retail, thus hurting the local economic base of the community. There is evidence as well that the initial growth in sales tax revenues from the big boxes may not be either steady or sustained in some situations (e.g., Figure 3-8).

Figure 3-8: General Merchandise Taxable Sales per Permit in Laguna Niguel (from page 88)
(Note: The Wal-Mart Opened in 1995)



More to the point of this report, a much larger share of food sales are not taxable at all. Most of the Wal-Mart supercenters result from the conversion of existing Wal-Marts into a combination of general merchandise and food sales. Thus, the floorspace devoted to taxable sales may actually fall as these conversions continue.

There is also evidence that general merchandise stores are far more vulnerable to market shifts than food stores. Thus, this tradeoff presents itself: big box retailers will most likely boost overall retail sales and tax revenues on entry, only to be among the first to consolidate or fold when conditions begin to change. If a big box were to include food sales in its operations, then free-standing food stores would likely yield market share and in some cases become vacant, while taxable sales from grocery operations would shift to locations that are much more prone to the impacts of regional business cycles.

How should local officials proceed?

These potential impacts are significant, with respect to both the vitality of the local economy and the public budget bottom line. The transformations in the grocery industry thus present local officials with some key policy considerations. The grocery business is a vital part of the economic and the community fabric of most every municipality in the region. The changes occurring in that business have the potential to quickly and adversely affect the economic health of localities, and officials should be aware of that potential as they evaluate future discount retail projects.

In particular, the following questions are important in evaluating discount retail projects.

1. Is there potential for changes in the use of the property? Discount retail chains are increasingly taking on the functions of grocery stores. In light of that trend, local officials should both be aware of the potential for the conversion of discount retail sites into supercenters and inquire about future plans for discount retail stores seeking local planning commission and city council approval.

2. How will the discount retail store affect the local labor force? Discount retail chains traditionally pay substantially less than the grocery industry in southern California. Local officials should carefully assess the possibility that a particular discount retail project might depress wages in other stores in the municipality.

3. What are the fiscal impacts of a discount retail store? At the most general level, local business both require public services and have the potential to produce local tax revenues – a point often missed when officials focus exclusively on the tax revenue side of the equation. Any land use, even big box retail outlets that are perceived as municipal "cash cows", must be carefully evaluated. Some land uses do not generate tax revenue that outweighs municipal costs. In other instances, the data in Chapter 3 suggest that discount retail stores produce only short-term increases in local sales tax revenue. And the cyclical nature of retail sales tax revenue suggests that the revenue streams from supercenters might be highly variable over time. Local officials should carefully evaluate these and related issues when they assess the fiscal impact of a discount retail outlet or supercenter.

For decades, grocery stores have been hidden but important parts of the health of many southern California municipalities. Recent changes in the grocery industry have the potential for catching local officials unaware of the possible impacts in their communities. This report highlights the potential for economic impacts as discount retail chains develop supercenters, while also emphasizing the uncertain nature of any local fiscal benefits. Local officials should carefully evaluate the implications for their communities.

References

Altshuler, A. and J. Gómez-Ibáñez. (1993) ***Regulation for Revenue: The Political Economy of Land Use Exactions***. The Brookings Institution an d The Lincoln Institute of Land Policy.

Andreeff, Monica (1997) "Safeway Employees Picket Hiring Centre." *Calgary Herald*. March 20.

Bailey, Bill. (1999) Food Employers Council. Telephone interview, Anaheim, California, July 29.

Brown *et al*., *Women's* ***Health-Related Behaviors and Use of Clinical Preventive Service****s,* New York: The Commonwealth Fund, October 1995.

California State Board of Equalization (1990-1997). Taxable Sales in California (sales and use tax). Sacramento, California.

Canada Safeway Limited (1996) Press Release: Safeway Reaches New Tentative Settlement with UFCW Local 2000 in British Columbia. July 8.

Canada Safeway Limited (1996) "An Open Letter to Safeway Employees," advertisement placed by Canada Safeway Limited, *Vancouver Sun*, June 8, p. A-28.

Canada Safeway Limited (1996) "The Facts: A Message to Safeway Customers," advertisement placed by Canada Safeway Limited, *Vancouver Sun*, May.

Carrasquillo, et al. (1999) "A Reappraisal of Private Employers' Role in Providing Health Insurance," ***New England Journal of Medicine***, 14 January.

Circelli, Deborah. (1999). When Wal-Mart Leaves, Other Businesses Suffer. ***Lakeland, Florida Ledger***. July 17. News, p. A-1.

Dardia, M. (1998) ***Subsidizing Redevelopment in California***. Public Policy Institute of California.

Davis (1996) "Uninsured in an Era of Managed Care," AHSR Presidential Address.

Davis et al. (1995) "Health Insurance: The Size and Shape of the Problem," ***Inquiry***.

Dayton Hudson (1998) Corp Annual Report, 1998

EBRI (1996) "Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 1995 Current Population Survey," ***EBRI Issue Brief***, February.

Finz, Stacy (1999) "Big Costco Store Applies to Move From Martinez to Concord." ***San Francisco Chronicle***. February 4. News, p. A-17.

Food Employers Council (1999) Summary Plan Description, Collective Bargaining Agreement for Major Southern California Food Chains, Anaheim, California.

Gabel, et al. (1998) "Health Benefits in 1998 for Small Employers," A report to the Henry J. Kaiser Family Foundation, February; as cited in Findlay and Miller (1999).

Golman, Robert (1997) *A Re-examination of Some Key Impacts of a Wal-Mart Store in the City of San Leandro*, April.

Grocer Today (1996) "The Changing Face of Labour," in *Grocer Today*, September, pp. 13-18.

Hannaford Bros' (1998) 1998 Annual Report.

Hornaday, Bill W. (1999) Richland Hills Set to Fill Sam's Void. ***Fort Worth Start Telegram***. January 26. Metro, p. 1.

International Monetary Fund (IMF), "World Economic Outlook," May 1999

Kent, Gordon (1997) "Union May Buy Ads to Help Woo Safeway's Customer's Back" *Calgary Herald*. June 9.

Kimbell, Dhawan and Lieser (1999) "The UCLA Anderson Forecast for the Nation and California," March.

Kmart (1999) web site: www.kmart.com.

Kmart Corp (1998) Annual Report, 1998.

Krause, Thomas W. (1999) Wal-Mart Store to Close, Reopen Across Street. ***Macon Telegraph***. August 7.

Kroger (1999) Press Release, May 27.

Laghi, Brian (1996) " Strike by Safeway Workers Stirs Emotions" *The Globe and Mail*. April 11, p. A-2.

Levan, R., et al. (1998) "Nearly One-Fifth of Urban Americans Lack Health Insurance," UCLA Center for Policy Research, December, as cited in Findlay and Miller (1999).

Levant, Ezra (1997) "Safeway Union Playing Chicken" *Calgary Sun*, May.

Lewis, P. and E. Barbour. (1999) ***California Cities and the Local Sales Tax***. Public Policy Institute of California.

Lindberg, Anne (1999) Pinellas Park Wal-Mart Turns in Expansion Plan. St. Petersburg Times. June 9. ***Seminole Times***, p. 6.

Meijer (1999) Web site: (www.meijer.com).

Meyer and Naughton (1996) "Assessing Business Attitudes on Health Care," A report issued by

the Economic and Social Research Institute, October.

NCHC, "Health Care Facts," available from www.nchc.org/know/coverage.html; Internet; accessed 22 July 1999

Olson, Jeremy. (1999) K-Mart Conversion Adds Grocery Area. ***Omaha World Herald***. July 26. News, p. 11.

Perkes, Courtney (1999) Warehouse Store is Gone, but City's Debt Still Grows. ***Riverside Press-Enterprise***, Moreno Valley Edition. July 4. Local, p. B-1.

Personal Communication with each of the planning departments listed on the Wal-Mart openings table on July 26-28, 1999.

Post, Kathy (1999) Planner with the City of Anaheim, Personal Communication, July 28.

Progressive Grocer (1998) ***Market Scope*** (www.americanstores.com)

Progressive Grocer (1998-1999). ***Annual Report of the Grocery Industry***. Progressive Grocer as cited in http://www.fmi.org/food/superfact.html

Progressive Grocer (1999) *66th Annual Report of the Grocery Industry*, April.

Rowland, Feder, and Keenan (1998) "Uninsured in America: The Causes and Consequences," In: ***The Future U.S. Healthcare System: Who Will Care for the Poor and Uninsured?*** (eds Altman, Reinhardt, and Shields).

S & P's Industry Surveys (1998) ***Supermarkets & Drugstores,*** September 24.

Safeway (1999) Press Release, 23 July.

SCAG (1998) ***RTP Adopted Forecast***, April.

Shelby Report (various years) *The Shelby Report*, Shelby Publishing, Atlanta, Georgia.

Shuit, Douglas P. (1998) The Retail Wags the Dog. ***Los Angeles Times***. July 17. Metro, p. B-2.

Smith, Andrew (1997) "Strike Looms." *Calgary Sun*. March 25.

Sommer, Constance. (1995) Super K Developers Urge City to Waive $1.5 Million in Fees. ***Los Angeles Times***. March 9. Metro, p. B-1.

Stockton Record (1991) Feb. 28, p. B-5

Stone, Dr. Kenneth E. (1999) Iowa State University, Telephone interview, 29 July.

Thorpe (1997) "The Rising Number of Uninsured Workers: An Approaching Crisis in Health Care Financing," NCHC. (Original tabulations from the ***Current Population Survey***, March 1991.)

Thorpe and Florence (1999) "Why are Workers Uninsured? Employer-Sponsored Health Insurance in 1997," ***Health Affairs***, March/April.

US Department of Commerce (1992) ***Census of Retail Trade***.

US Department of Labor, Bureau of the Census (1993-1996) ***County Business Patterns Annual.***

Voos, Paula B. (1992) "The Relationship Between the Earnings of Individuals Working in the Grocery Industry and the Percent of Such Workers Organized in a Given Metropolitan Area in 1987 and 1989," Department of Economics, University of Wisconsin, Madison, February.

Wal-Mart (1998) Wal-Mart Associate Benefit Book. Summary Plan Description

Wal-Mart (1999) web site: www.wal-mart.com.

Weissman, Gastonis, and Epstein (1992) ***Journal of the American Medical Association***.

Wolfe, Joan (1999) Planner with the City of Orange, Personal Communication, July 26.

Appendices

The following appendices are "Supermarket Fact Sheets", one page "summary of operations" on each of the fifteen supermarkets highlighted in the background section of the report.

These fact sheets include information on such things as employment, size, average weekly sales per store, growth in number of stores, recent mergers, presence in Southern California, and labor union affiliations where applicable and when available.

Appendix A: Albertson's Inc

Sources: Albertson's *1998 Annual Report* and *SEC Form 10-K* for the Year Ended 28 January 99, and S & P's *Standard Corp. Descriptions, Cumm. News* , 1998.

Employment:

80,000 FT + 20,000 PT = 100,000 employees

Year End	1994	1995	1996	1997	1998
Number of FT employees	60,000	66,000	71,000	76,000	80,000
Total number of employees	76,000	80,000	88,000	94,000	100,000

Size and Scope:

Number of stores: 983 (Note that this value increased to 1,580 following the merger with American Stores)

Number of stores in California: 128 in Southern California and 48 in Northern California

Number of distribution centers: 11

Location (square footage) and type of center in California:

1. Brea (1.0 million sq. ft.): groceries, frozen food, produce, liquor, meat, and deli
2. Sacramento (0.4 million sq. ft.): groceries, frozen food, produce, meat, and deli

Average store size: 49,200 square feet

Size of the Co's super grocery/super drugstores: 35,000 to 82,000 square feet

Store Count:

Year End	1994	1995	1996	1997	1998
Combination Food-Drug	588	646	715	768	866
Conventional stores	88	78	72	72	86
Warehouse stores	44	40	39	38	31
Total number of stores	720	764	826	878	983

Geographic Location:

26 Western, Midwestern, and Southern states, including CA

Recent Mergers:

Albertson's and American Stores Co merger completed in June 1999.
Albertson's acquisition of Buttrey completed in October 1998.
Albertson's acquisition of Bruno's completed in August 1998.
Albertson's acquisition of Smitty's completed in April 1998.
Albertson's acquisition of Seessel's completed in January 1998.

Sales:

Year End	1990	1991	1992	1993	1994	1995	1996	1997
Net sales (million $)	$ 8,219	$ 8,680	$ 10,174	$ 11,284	$ 11,895	$ 12,585	$ 13,777	$ 14,690

Appendix B: American Stores Co

Source: American Stores Co's *SEC Form 10-K* for the Year Ended 30 January 99, S & P's *Standard Corp. Descriptions, Cumm. News* , 1998, and Albertson's News Release, 24 June 99.

The Company:

The Co's stores operate under the following names: Acme Mkts, Jewel Food Stores, Lucky Stores, Osco Drug, and Sav-on

Employment:

121,000 FT and PT employees

Labor Issues:

"Approx. 75 percent of the Co's employees are covered by collective bargaining agreements negotiated with local unions affiliated with one of seven different international unions. There are approximately 118 such agreements, typically having three to five-year terms. Accordingly, the Co renegotiates a significant number of these agreements every year... The largest collective bargaining agreement, which covers approx. 17 percent of the Co's labor force, expires in October 2002" *(SEC Form 10-K)* .

Size and Scope:

Number of stores: 527 supermarkets + 773 stand-alone drug + 283 combination food/drug = 1,580 stores

Number of stores in California: 363 supermarkets + 283 stand-alone drug + 48 combination food/drug = 694 stores

Number of warehouse, distribution, and maintenance facilities: 15

Location (square footage) and types of warehouse, distribution, and maintenance facilities in California:

1. Buena Park (1.2 million sq. ft.): grocery, meat, frozen food, deli
2. Irvine (1.0 million sq. ft.): grocery, produce
3. La Habra (1.2 million sq. ft.): general merchandise, liquor, bulk, pharmacy, reclaim
4. San Leandro (0.6 million sq. ft.): meat, produce, frozen food, bulk
5. Vacaville (0.9 million sq. ft.): grocery

Year End	**1994**	**1995**	**1996**	**1997**	**1998**
Total selling area (thousands of sq. ft.)	31,179	32,523	33,823	35,114	36,043

Year End 1998	**Grocery**	**Drug**	**Combo**	**Total**
Average square footage (thousands)	34	19	60	31
Total square footage (thousands)	17,727	14,366	16,979	49,072

Geographic Location:

26 U.S. states, including supermarkets and/or combination food/drug stores in CA, DE, IL, IN, IA, MD, NV, NJ, NM, PA, UT, WI

Recent Mergers

American Stores and Albertson's merger completed in June 1999.

Sales:

Year End	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Net sales (million $)	$ 22,156	$ 20,823	$ 19,051	$ 18,763	$ 18,355	$ 18,309	$ 18,678	$ 19,139	$ 19,867

Appendix C: Food Lion, Inc

Sources: Food Lion, Inc's *1996, 1997, and 1998 Annual Reports* and *SEC Form 10-K* for the Fiscal Year Ended 02 Jan 99.

Employment:

32,991 FT + 59,134 PT = 92,125 employees

Year End	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Number of FT and PT employees	47,276	53,583	59,721	65,494	64,840	69,345	73,170	83,871	92,125

Size and Scope:

Number of stores: 1207

Number of warehouse distribution centers: 8

Year End	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Average store size (sq. ft.)	n.a.	n.a.	n.a.	n.a.	n.a.	28,011	29,330	31,207	32,218
Total store area (million sq. ft.)	19.4	22.5	26.4	29.0	27.3	30.1	32.6	36.1	38.9

Store Count (* = expected):

Year End	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999***
Opened/Acquired	121	111	140	100	30	47	64	164	79	80
Enlargements/Remodels	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	124	99	141	140
Relocated	5	6	4	4	3	12	22	25	17	n.a.
Closed	1	2	5	12	84	1	3	94	12	n.a.
Total number of stores	778	881	1,012	1,096	1,039	1,073	1,112	1,157	1,207	n.a.

Geographic Location (U.S. state and number of stores):

NC (409), VA (266), FL (186), SC (112), TN (81), GA (56), MD (49), WV (17), DE (12), KY (12), PA (7)

Recent Mergers:

Food Lion acquisition of Kash n' Karry Food Stores completed in December 1996.

Sales:

Year End	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Net sales (million $)	$ 5,584	$ 6,439	$ 7,196	$ 7,610	$ 7,933	$ 8,211	$ 9,006	$ 10,194	$ 10,219

Appendix D: The Great Atlantic & Pacific Tea Co, Inc

Sources: A & P's *1998 Annual Report* and *SEC Form 10-K* for the Fiscal Year Ended 27 Feb 99, and S & P's *Standard Corp. Descriptions, Cumm. News,* 1998.

Employment:

25,236 FT + 58,178 PT = 83,414 employees

Labor Issues:

Approx. 73,392 = 88 percent of the employees are covered by union contracts

Size and Scope:

Number of stores: 839
Number of warehouse distribution centers: 14
Average store size: 35,247 square feet
Average store size of most recent new stores and planned new stores: approx. 55,000 square feet
Selling area: approx. 21.2 million square feet = 74 percent of the total square footage

Year End	**1994**	**1995**	**1996**	**1997**	**1998**
Total store area (million sq. ft.)	33.3	31.1	30.6	30.6	28.7

Store Count (* = expected):

Year End	**1996**	**1997**	**1998**	**1999***	**2000***	**2001***
New store openings	30	40	46	55	65	75
Enlargements/Remodels	72	45	69	75	75	75
Closings	n.a.	74	143	100	n.a.	n.a.
Total number of stores	973	936	839	n.a.	n.a.	n.a.

Geographic Location:

18 U.S. states (CT, MA, NH, VT, DE, MD, NJ, NY, PA, MI, WI, AL, GA, LA, MS, NC, SC, VA), D.C., and Ontario, Canada

Sales:

Year End	**1996**	**1997**	**1998**
Average weekly sales	$ 195,200	$ 199,400	$ 210,500

Year End	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Net Sales (million $)	$ 11,591	$ 10,499	$ 10,384	$ 10,332	$ 10,101	$ 10,089	$ 10,262	$ 10,179

Appendix E: Hannaford Bros Co

Sources: Hannaford Bros Co's *1998 Annual Report* and *SEC Form 10-K* for the Fiscal Year Ended 02 Jan 99, and S & P's *Standard Corp. Descriptions, Cumm. News* , 1998.

Employment:

23,600 associates

Size and Scope:

Number of stores: 150

Total square footage of selling area of existing stores: 5.2 million

Average square footage of selling area of new food stores planned for 1999: 42,300

Year End	**1994**	**1995**	**1996**	**1997**	**1998**
Average selling area per store (sq. ft.)	30,100	31,100	32,300	33,400	34,500
Total selling area (sq. ft.)	3,547,000	4,166,000	4,490,000	4,947,000	5,171,000

Store Count (* = expected):

Year End	**1994**	**1995**	**1996**	**1997**	**1998**	**1999***
Opened	10	13	13	15	11	4
Closed	5	3	7	6	9	n.a.
Sold	0	0	1	0	0	n.a.
Acquired	20	6	0	0	0	n.a.
Total number of stores	118	134	139	148	150	n.a.

Geographic Location (U.S. state and number of stores)

ME (46), NC (27), NY (23), NH (21), VA (18), VT (8), MA (6), SC (1)

Sales:

Year End	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Net Sales (million $)	$ 2,008	$ 2,066	$ 2,055	$ 2,292	$ 2,568	$ 2,958	$ 3,226	$ 3,324

Appendix F: The Kroger Co

Sources: Kroger's *1998 Annual Report* and *SEC Form 10-K* for the Year Ended 02 January 99, *Kroger Press Release* , 27 May 99, and S & P's *Standard Corp. Descriptions, Cumm. News* , 1998.

The Company:

The Co's food store banners are as follows: Kroger, Ralphs Supermarkets, Smith's Food & Drug Stores, Fred Meyer, Quality Food Centers (QFC), King Soopers, Dillion Stores, Fry's Food & Drug Stores, City Market, Gerbes, Food 4 Less, Cala Foods, Bell Markets, PriceRite, FoodsCo, Owen's Supermarkets, and Hilander Food Stores.

Employment:

Approx. 213,000 FT and PT employees

Labor Issues:

"[Kroger is] party to more than 160 collective bargaining agreements with local unions representing approximately 158,000 employees. During 1998 [Kroger] negotiated 11 labor contracts without any material work stoppages. Typical agreements are 3 to 5 years in duration and, as agreements expire, [Kroger expects] to enter into new collective bargaining agreements. In 1999, 35 collective bargaining agreements will expire" *(SEC Form 10-K)* .

Size and Scope:

Number of supermarkets: 1,410 (Note that this value increased to 2,200 following the merger with Fred Meyer)
Number of convenience stores: 797

Store Count (food stores only):

Year End	**1996**	**1997**	**1998**
New stores	38	37	26
Relocated stores	35	25	31
Acquisitions (new)	4	10	10
Acquisitions (relocations)	3	5	8
Expansions	36	19	21
Closings	13	11	18
Total number of stores	n.a.	n.a.	1,410

Geographic Location:

31 U.S. states, including CA

Recent Mergers:

Kroger and Fred Meyer merger completed in May 1999.

Sales:

Year End	**1996**	**1997**	**1998**
Food store sales per sq. ft.	$ 401	$ 398	$ 405

Year End	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Net sales (million $)	$ 20,261	$ 21,351	$ 22,145	$ 22,384	$ 22,959	$ 23,938	$ 25,171	$ 26,567	$ 28,203

Appendix G: Publix Super Markets, Inc

Source: *SEC Form 10-K* for the Year Ended 26 December 98.

Employment:

Approx. 46,600 FT + 70,400 PT = 117,000 employees

Size and Scope:

Number of stores: 586
Number of distribution centers: 8
Store size: From 27,000 to 60,000 square feet
Total retail space: 26.3 million square feet

Store Count (* = expected):

Year End	1994	1995	1996	1997	1998	1999*
Opened	n.a.	n.a.	n.a.	n.a.	31	n.a.
Expanded/Remodeled	n.a.	n.a.	n.a.	n.a.	45	n.a.
Closed	n.a.	n.a.	n.a.	n.a.	8	n.a.
Total number of stores	470	508	534	563	586	634

Geographic Location (U.S. state and number of stores):

FL (471), GA (91), SC (21), AL (3)

Sales:

Year End	1994	1995	1996	1997	1998
Net sales (million $)	$ 8,665	$ 9,393	$ 10,431	$ 11,224	$ 12,067

Appendix H: Ralphs Grocery Co

Source: *SEC Form 10-K* for the Year Ended 01 February 98.

The Company:

Prior to the Kroger-Meyer merger, Ralphs was a wholly-owned subsidiary of Food 4 Less Holdings, Inc. and an indirect, wholly-owned subsidiary of Fred Meyer, Inc. The Co operates under the following retail formats: Ralphs, Cala, Bell, Falley's, Food 4 Less, FoodsCo

Size and Scope:

Number of stores: 409

Number of main distribution and warehouse centers in Southern California: 3

Division	Total sq. ft.	Ave. sq. ft. per store
Southern California	13,914,000	40,400
Northern California	654,000	24,200
Midwestern	1,423,000	37,400

Store Count:

Retail Format	Southern California	Northern California	Midwestern	Total
Ralphs	264	-	-	264
Cala	-	8	-	8
Bell	-	13	-	13
Falley's	-	-	5	5
Food 4 Less	80	-	33	113
FoodsCo	-	6	-	6
Total number of stores	344	27	38	409

Geographic Location:

Southern California, Northern California, and certain areas of the Midwest

Sales:

Year End	1996	1997
Net sales (million $)	$ 5,516	$ 5,488

Appendix I: Ruddick Corp (Harris Teeter)

Sources: Ruddick Corp's *1998 Annual Report* and *SEC Form 10-K* for the Fiscal Year Ended 27 Sept 99.

The Corporation:

Ruddick Corp is a holding company which is engaged in two primary businesses:

1. Harris Teeter, Inc. operates a regional chain of supermarkets; and
2. American & Efird, Inc. manufactures and distributes industrial and consumer sewing thread. Data is for Harris Teeter only, unless otherwise noted.

Employment:

9,500 FT + 7,800 PT = 17,300 employees

Labor Issues:

"Warehouse employees and drivers at Harris Teeter's warehouse near Charlotte, NC, are represented by a union, but Harris Teeter is not part to a collective bargaining agreement covering such employees" *(SEC Form 10-K)* .

Size and Scope:

Number of stores: 144

Year End	**1994**	**1995**	**1996**	**1997**	**1998**
Average square footage per store	n.a.	36	38	39	n.a.
Average square footage per new store (thousands)	40	47	58	50	46
Total square footage (millions)	4.3	4.7	4.9	5.3	5.6

Store Count (* = expected):

Year End	**1996**	**1997**	**1998**	**1999***
New store openings	n.a.	13	10	n.a.
Enlargements/Remodels	n.a.	n.a.	27	32
Closings	n.a.	4	4	n.a.
Total number of stores	134	138	144	n.a.

Geographic Location (U.S. state and number of stores):

NC (93), SC (22), VA (17), GA (9), TN (3)

Sales:

Year End	**1994**	**1995**	**1996**	**1997**	**1998**
Average weekly net sales per store	$ 223	$ 235	$ 259	$ 273	$ 292

Year End	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Harris Teeter net sales (million $)	$ 1,213.1	$ 1,270.4	$ 1,412.3	$ 1,578.9	$ 1,711.8	$ 1,833.0	$ 1,931.2	$ 2,132.2
American & Efird net sales (million $)	$ 208.6	$ 243.3	$ 264.8	$ 277.0	$ 298.0	$ 309.5	$ 368.9	$ 355.1
Total net sales (million $)	$ 1,421.8	$ 1,513.8	$ 1,677.1	$ 1,855.9	$ 2,009.8	$ 2,142.5	$ 2,300.1	$ 2,487.4

Appendix J: Safeway Inc

Sources: Safeway Inc's *1998 Annual Report* and *SEC Form 10-K* for the Fiscal Year Ended 02 Jan 99, Safeway *Press Releases* , the *Safeway 1999 Fact Book* , and S & P's *Standard Corp. Descriptions, Cumm. News* , 1998.

Employment:

Year End	1994	1995	1996	1997	1998
Number of FT and PT employees	110,000	114,000	119,000	147,000	170,000

Labor Issues:

"Approx. 90 percent of Safeway's employees in the U.S. and Canada are covered by collective bargaining agreements negotiated with local unions affiliated with one of twelve different international unions. There are approx. 400 such agreements, typically having three-year terms, with some agreements having terms of up to five years. Accordingly, Safeway renegotiates a significant number of these agreements every year"*(SEC Form 10-K)* .

Size and Scope:

Number of stores: 1,497 (including 324 Vons stores in Southern California)
Average square footage of new stores: 55,000

1998 Store size (sq. ft.)	No. of stores	% of total
less than 30,000	348	23%
30,000 to 50,000	770	52%
more than 50,000	379	25%

Year End	1994	1995	1996	1997	1998
Total retail square footage (millions)	39.5	40.1	40.7	53.2	61.6

Store Count (* = expected):

Year End	1994	1995	1996	1997	1998	1999*
Remodels Completed	71	108	141	181	234	150
Dominick's stores acquired	-	-	-	-	113	-
Vons stores acquired	-	-	-	316	-	-
Stores opened	20	32	30	37	46	55-60
Stores Closed or Sold	36	35	37	37	30	n.a.
Total number of stores	1,062	1,059	1,052	1,368	1,497	n.a.

Geographic Location:

17 U.S. states (CA, OR, WA, AK, HI, NV, ID, MT, NM, AZ, CO, WY, NE, SD, IL, VA, MD) and Western Canada

Recent Mergers and Acquisitions:

Safeway and Randall's Food Mkts signed a definitive merger agreement in July 1999.
Safeway acquisition of Carr-Gottstein completed in April 1999.
Safeway acquisition of Dominick's completed in November 1998.
Safeway and Vons merger completed in April 1997.

Appendix K: Stater Bros Holding Inc

Source: *SEC Form 10-K* for the Year Ended 27 September 98.

Employment:

Approx. 2,700 FT + 6,000 PT = 8,700 employees

Labor Issues:

"Substantially all of the Co's [8,100] hourly employees are members of either the United Food & Commercial Workers or International Brotherhood of Teamsters labor unions and are represented by several different collective bargaining agreements. The Co's collective bargaining agreements, with the United Food & Commercial Workers, which covers the largest number of employees, were renewed in October 1995 and expire in October 1999. The International Brotherhood of Teamsters agreement was renewed in September 1998 and expires in September 2002" *(SEC Form 10-K)* .

Size and Scope:

Number of stores: 112

Year End	**1994**	**1995**	**1996**	**1997**	**1998**
Average store selling area (sq. ft.)	20,708	20,773	20,845	20,845	20,991
Average overall store size (sq. ft.)	28,617	28,717	28,809	28,809	29,061

Store Count (* = expected):

Year End	**1994**	**1995**	**1996**	**1997**	**1998**	**1999***
Opened	3	-	1	-	2	2-4
Replaced	1	-	1	-	-	n.a.
Closed	-	1	-	-	-	n.a.
Total number of stores	111	110	110	110	112	114-116

Geographic Location (Southern California counties and number of stores):

San Bernardino (46), Riverside (35), Orange (16), Los Angeles (13), and Kern (2)

Sales:

Year End	**1994**	**1995**	**1996**	**1997**	**1998**
Average sales per stores (thousand $)	$ 13,997	$ 14,298	$ 15,503	$ 15,617	$ 15,551
Average sales per selling square feet	$ 492	$ 499	$ 538	$ 542	$ 537
Average sales per total square feet	$ 680	$ 689	$ 744	$ 749	$ 743

Year End	**1994**	**1995**	**1996**	**1997**	**1998**
Net sales (million $)	$ 1,540	$ 1,580	$ 1,705	$ 1,718	$ 1,726

Appendix L: Supervalu Inc

Source: Supervalu's *1999 Annual Report* for the Year Ended 27 February 99.

Employment:

50,000 FT and PT employees

Size and Scope:

Number of stores: 345 (including 20 Save-A-Lot stores in California)

The number of Supervalu retail food stores operating under the following banners is as follows:

1. Save-A-Lot: 142 (Note that Save-A-Lot also has 630 licensed stores)
2. Cub Foods: 65 (Note that Cub Foods also has 52 franchised stores)
3. Shop 'n Save: 45
4. Scott's Foods: 22
5. Laneco: 19
6. biggs/bigg's Foods: 10
7. Hornbachers: 5
8. Other stores: 37

Geographic Location:

Supervalu is the nation's leading food distributor, serving 48 U.S. states. Save-A-Lot currently operates in 33 states, including California.

Recent Acquisitions:

Supervalu acquired 48 stores in 1998, including 29 Randall's Food Mkts and 12 Shop 'n Save stores.

Sales:

Year End	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Net sales (million $)	$ 9,735	$ 10,105	$ 10,632	$ 12,568	$ 15,937	$ 16,564	$ 16,486	$ 16,552	$ 17,201	$ 17,421

Appendix M: Wal-Mart Stores, Inc

Sources: Wal-Mart's 1999 Annual Report and SEC Form 10-K for the Year Ended 31 January 99.

Employment:

Number of FT and PT associates: 780,000 in the U.S. + 130,000 internationally = 910,000 associates

Year End	1990	1991	1992	1993	1994	1995	1996	1997	1998
Number of associates	328,000	371,000	434,000	528,000	622,000	675,000	728,000	825,000	910,000

Size and Scope:

Number of U.S. stores: 1,869 Discount stores + 564 Supercenters + 451 SAM's Clubs = 2,884 stores

Average store size: Discount stores: 94,300 sq. ft.; Supercenters: 181,200 sq. ft.; and SAM's Clubs: 121,200 sq. ft.

U.S. Store Count (* = expected):

Year End	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999*
Wal-Mart stores	1,568	1,714	1,848	1,950	1,985	1,995	1,960	1,921	1,869	1,819
Supercenters	9	10	34	72	147	239	344	441	564	714
SAM's Clubs	148	208	256	417	426	433	436	443	451	458

Geographic Location:

Discount stores in all 50 U.S. states, Canana, and Mexico

Supercenters in 29 U.S. states (excluding CA), Argentina, Brazil, China, Germany, Korea, Mexico

SAM's Clubs in 48 U.S. states (including CA), Argentina, Brazil, China, Mexico, and Puerto Rico

Sales:

Discount stores & Supercenters categories	% of Sales	SAM's Clubs categories	% of Sales
Hardgoods	22%	Food	32.8%
Softgoods/Domestics	21%	Sundries	31.6%
Grocery, candy, and tobacco	16%	Hardlines	22.1%
Pharmaceuticals	9%	Service Businesses	7.8%
Electronics	9%	Softlines	5.7%
Sporting goods and toys	7%		
Health and beauty aids	7%		
Other	9%		

Net Sales (million $)	1990	1991	1992	1993	1994	1995	1996	1997	1998
Discount stores & Supercenters	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	$ 74,840	$ 83,820	$ 95,395
SAM's Clubs	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	$ 19,785	$ 20,668	$ 22,881
International	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	$ 5,002	$ 7,517	$ 12,247
Other	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	$ 5,232	$ 5,953	$ 7,111
All Wal-Mart stores	$ 32,602	$ 43,887	$ 55,484	$ 67,344	$ 82,494	$ 93,627	$ 104,859	$ 117,958	$ 137,634

Appendix N: Whole Foods Market, Inc

Sources: Whole Foods' *1998 Annual Report f* or the Year Ended 27 September 98, *SEC Form 10-K* for the Year Ended 28 September 97, and S & P's *Standard Corp. Descriptions, Cumm. News* , 1998.

Employment:

Over 14,000 employees

Labor Issues:

"The employees of the Company are not represented by a labor union or collective bargaining agreement" *(SEC Form 10-K)* .

Size and Scope:

Number of stores: 87
Number of distribution centers: 8
Average store size: 24,000 square feet
Average store size of most recent new stores and planned new stores: 30,000 to over 50,000 square feet

Store Count (* = expected):

Year End	1993	1994	1995	1996	1997	1998	1999*	2000*
Number of stores	42	49	61	68	75	87	97	112-117

Geographic Location:

19 U.S. states (including CA) and D.C.

Sales:

	Sales/Labor Hour			Pay*		
Store Team	1997	1998	% Change	1997	1998	% Change
Grocery	$ 204	$ 210	2.9%	$ 10.84	$ 11.34	4.6%
Produce	$ 118	$ 120	1.7%	$ 11.18	$ 11.62	3.9%
Meat/Seafood	$ 93	$ 96	3.2%	$ 12.86	$ 13.50	5.0%
Specialty	$ 110	$ 115	4.5%	$ 11.21	$ 11.52	2.8%
Nutrition	$ 159	$ 175	10.1%	$ 11.65	$ 12.00	3.0%
Prepared Foods	$ 37	$ 35	-5.4%	$ 9.38	$ 9.92	5.8%
Front End	$ 339	$ 376	10.9%	$ 9.01	$ 9.48	5.2%
Weighted Average	$ 77	$ 78	1.3%	$ 10.31	$ 10.78	4.6%

** - Note that the average pay shown includes both gainsharing bonuses and pay for all store teams but does not include Store Team Leaders or regional and national support staff, who typically earn higher hourly wages.*

Year End	1993	1994	1995	1996	1997	1998
Store sales per square foot	$ 597	$ 639	$ 625	$ 636	$ 638	$ 670
Average weekly sales per store	$ 217,116	$ 243,520	$ 238,776	$ 253,555	$ 277,141	$ 291,690

Year End	1993	1994	1995	1996	1997	1998
Net sales (million $)	$ 332	$ 402	$ 496	$ 892	$ 1,117	$ 1,390

Appendix O: Winn-Dixie Stores, Inc

Sources: Winn-Dixie's *1998 Annual Report* and *SEC Form 10-K* for the Year Ended 24 June 98.

Employment:

57,000 FT + 82,000 PT = 139,000 employees

Year End	**1994**	**1995**	**1996**	**1997**	**1998**
Number of employees	112,000	123,000	126,000	136,000	139,000

Size and Scope:

Number of stores: 1168

Year End	**1994**	**1995**	**1996**	**1997**	**1998**
Average store size (thousand sq. ft.)	35.1	37.3	38.3	40.7	42.4
Total retail area (million sq. ft.)	40.7	43.8	45.7	47.8	49.6

Store Count (* = expected):

Year End	**1994**	**1995**	**1996**	**1997**	**1998**	**1999***
Opened/Acquired	60	108	61	83	84	85
Enlarged/Remodeled	87	86	128	79	136	90
Closed/Sold	66	92	58	87	90	n.a.
Total number of stores	1159	1175	1178	1174	1168	n.a.

Geographic Location (location and number of stores):

FL (427), NC (126), GA (119), AL (101), SC (77), LA (77), TX (67), KY (61), VA (35), TN (23), OH (20), MS (15), OK (5), IN (2) and the Bahamas (13)

Sales:

Year End	**1994**	**1995**	**1996**	**1997**	**1998**
Net sales (million $)	$ 11,082	$ 11,788	$ 12,955	$ 13,219	$ 13,617