Groceries

The grocery industry was large, slowly growing, and barely profitable. Yet because consumers needed to purchase groceries at least every week, the industry was full of creative competitors. Rivals vied for grocery shoppers because of the potential to profit from regularly supplementing sales of groceries with other products and services. Such cross-selling was aimed at strengthening their bonds with customers and thereby boosting their lifetime value. The grocery industry’s dynamism offered excellent examples of how important a CEO’s strategic mindset is to achieve long-term success. Lessons for leaders include

- **Know how well your strengths match the requirements of success in the industry:** In previous chapters we saw that superior information systems can make the difference between success and failure. In the grocery industry, physical world strengths are more important because consumers like to shop in stores to make sure that they are putting the best items in their baskets. Therefore, a company that excels at information technology innovation but lacks the ability to purchase, warehouse, and retail groceries at scale will be at a competitive disadvantage. Leaders of such companies must have the intellectual humility to recognize that they will not be successful in the industry unless they can bolster those weaknesses.
• **Partner with others who excel in critical activities in which you are weak:** Once such executives realize that they lack enough strength in those critical activities, they must close the capability gap. To do that effectively, leaders will need to acquire, partner, or create them internally. Moreover, leaders who can reinvent their companies must master new management skills – such as attracting and motivating talent in fields which are new to the leaders. Leaders can only achieve this if they have a desire and ability to learn new concepts and skills.

• **Choose your successor wisely:** Leaders who build successful companies must choose successors with a Create the Future or Follow the Leader mindset. As we will see in the following A&P case, leaders who turn their company into a dominant player risk endangering its future if they appoint a loyalist who lacks creative spark to succeed them. To sustain industry dominance, successful founders must appoint successors with a demonstrated knack for successful corporate reinvention.

These implications emerge from examining the surprising level of creativity in what was a slowly growing, barely profitable industry fraught with fragmentation and price competition and slightly bolstered by consolidation. Between 2014 and 2019, the industry eked out a 1.3% annual increase to $666.5 billion and was expected to grow slightly more quickly – up 1.6% – to $720 billion between 2019 and 2024. The average grocer’s profit increased slightly between 2014 and 2019, from 1.4% to 1.7%, and was expected to remain stable through 2024. While consumer incomes rose through 2019, intense rivalry in this fragmented industry – in which the top three firms controlled a mere 31% of the market – fueled price competition. This competition led to some consolidation. The number of grocery chains fell to 41,556 at an average 0.2% annual rate in the five years ending 2019. Despite these difficulties, some competitors were growing much faster than the industry by appealing to specific demographic segments such as millennials and baby boomers with unique store formats. Underlying the intense rivalry were the rising popularity of so-called alternative retailers who grew quickly to the detriment of larger incumbents. Costco and Walmart attracted consumers seeking lower prices and greater convenience. Mass merchandisers used their relatively high purchase volumes to negotiate discounts which they passed on to consumers as lower prices. Some consumers opted for limited assortment and fresh format stores such as Aldi and Trader Joe’s that provided mostly lower-priced store-brand products. Trader Joe’s enjoyed the highest sales per square foot in the industry, and over 80% of its goods were private-label and free of
GMOs, artificial coloring, trans fat, and high-fructose corn syrup. Many large national grocery chains responded to this threat by offering discounts and promotions to encourage more consumers to visit and remain loyal to their stores. Some national chains offset slower organic growth by acquiring rivals—however, the high prices paid for such acquisitions kept a lid on their profitability.¹

Much of the innovation in the grocery industry was aimed at the United States’ largest generation—millennials. Millennials were both health conscious and value driven. 42% of millennial grocery shoppers found private-label foods more innovative than branded products, and about 70% believed that the quality of private-label products had increased. Larger operators adapted to the success that Trader Joe’s and Aldi enjoyed at maintaining millennials as loyal customers. Whole Foods announced plans to open small private-label stores targeted at millennials. Ahold, a Netherlands-based operator with storefronts in New England and the Mid-Atlantic, introduced similar stores branded bfresh. By 2024, more such brands were expected to enter the market. Other traditional supermarkets opted instead to add new services—such as home grocery delivery, movie rental services, ATMs, dining areas, and beer and wine bars—to their existing stores.² Meanwhile, Trader Joe’s and Aldi were among the lower-priced health food retailers that threatened specialty grocers which had pioneered natural food retailing. By March 2020, regional chains Earth Fare, Lucky’s Market, and Fairway Market had filed for bankruptcy. Since March 2018, shares of Farmers Market and Natural Grocers by Vitamin Cottage had declined about 30% and nearly 50%, respectively. Whole Foods’s ability to offer rapid delivery via Amazon was another factor that won over many former customers of such natural food retailers. For example, Green Aisle Grocery closed its two Philadelphia stores in January 2020 after sales decreased 30% over the previous two years. Coowner Andrew Erace said, “I can’t compete with that. I don’t have the technology to implement for our small shops.”³ Finally, by 2024 more grocers with greater resources were expected to compete with Amazon and meal-kit service Blue Apron by offering online ordering coupled with same-day in-store grocery pickup or delivery to the home.⁴

Because grocers and supermarkets were considered essential businesses—remained open throughout the pandemic—Covid-19 was not expected to reduce industry revenues. IBISWorld expected sluggish growth for the industry in 2020 for two reasons: consumers were likely to visit supermarkets and grocery stores less frequently to prevent the spread of Covid-19 and per capita disposable income was forecast to fall. As a result, demand for higher-quality, more expensive products was expected to decline—thus crimping industry profitability.⁵
Strategic Mindsets of Grocery Industry Winners and Losers

The grocery industry is large and thinly profitable – yet compared to newspapers, it is a hotbed of innovation. Interestingly, unlike many industries analyzed in this book, groceries are relatively immune to being replaced by an app. While apps can make it easier to place orders, most of the value created for consumers results from excellence in fulfilling orders. Therefore, it may be easier for grocery chains – with excellent supplier ties and well-located warehouses, trucking networks, and retail stores – to adopt to technological innovations than it is for tech innovators to beef up their supply chains enough to take on those leading grocery chains. Simply put, in the grocery industry, innovative technology is not as much of a source of competitive advantage as operating a supply chain that provides low-priced groceries, delivered at a time and place of the customer’s choosing.

Grocery Industry Startup and Incumbent Success and Failure Case Studies

In the following case studies explored, we will examine how the three strategic mindsets have played out in the grocery industry:

• **Executives with a Create the Future mindset were winners:** Executives who were determined to create the future of the grocery industry – specifically, Amazon’s CEO Jeff Bezos – tried many different experiments with local online ordering and delivery, various retail store formats, and the acquisition of Whole Foods. In 2020, after 13 years of trying to reinvent the grocery industry, Amazon was barely halfway to its 2025 target of $30 billion in grocery revenue. Nevertheless, Bezos was undeterred—realizing that if his persistent experimentation paid off, Amazon would be able to boost the predictability of its revenues since consumers would always need groceries about once a week.

• **Companies with a Follow the Leader mindset had the potential to strengthen their market position by adapting Amazon’s innovations:** In exploring the growth of its industry-leading grocery business, it became clear that Walmart’s focus on large-scale purchasing, delivery, and warehousing of good-quality groceries at a low price in convenient retail locations enabled it to build a leading competitive position. Walmart strengths proved
an excellent platform from which the company could adopt some of Amazon's online ordering innovations.

- **Head in the Sand leaders ultimately presided over the bankruptcy of their companies:** The A&P case explored in this chapter exemplifies the importance of strategic mindset to a company's success or failure. George Hartford, who started A&P, sold tea in New York City. His sons John and George reinvented A&P four times between the early 1900s and 1950s – during which time A&P dominated the grocery market with nearly 16,000 stores. When they handed the reins over to a longtime loyalist, they charged him with maximizing A&P's dividends to fund a foundation they created. During the decades that followed, A&P lost touch with the changing needs of customers and successful strategies of innovative upstarts. Ultimately, A&P was acquired in 1979, filed for bankruptcy in 2010, emerged in 2012, and failed for good in 2015. Over its 156-year history, A&P benefited from leaders with a Create the Future mindset and stumbled and collapsed from a Head in the Sand one.

Success: Amazon Experiments, Innovates, and Acquires Its Way into Groceries

Introduction

Amazon spent over a decade trying to invent a new way for consumers to purchase and take delivery of groceries. Although Amazon began in 2007 to explore ways to take grocery orders online and deliver them to consumers' homes, dubbed Amazon Fresh, its experiments did not generate meaningful market share. With Amazon's ambitions unfulfilled, in June 2017 the company paid $13.7 billion to acquire Whole Foods Market – giving Amazon 2.6% of the grocery industry and over 460 stores nationwide. In addition, by 2020 Amazon was developing retail grocery stores that enabled consumers to buy with a mobile device rather than paying the cashier. Although Amazon had yet to create a uniquely compelling future for the grocery industry, it remained relentless in its pursuit of innovations that would bring that vision closer to reality.

Case Scenario

*After a decade of experiments such as Amazon Fresh, its online grocery ordering and delivery service offered in various cities, Amazon encountered numerous obstacles. Amazon concluded that a physical store was an essential ingredient for achieving Bezos's big ambitions. The grocery industry was compelling to Amazon and incumbent*
mass merchandisers because it was large and a source of ongoing customer purchases. Walmart and Target saw groceries as an essential way to attract more customers and encourage existing customers to boost the amount and frequency of their purchases. Yet the path to online grocery success was paved with at least one spectacular failure: Webvan – an online grocer that launched in June 1999 – went public a few months later at a $7.9 billion valuation, never made a profit, and filed for bankruptcy in 2001 tossing 2,000 employees out of their jobs. Webvan failed due to many management mistakes – among the most significant was investing heavily to build a national network of warehouses and trucks before proving that online grocery delivery could work locally. In establishing Amazon Fresh, former Amazon and Webvan executives said that Bezos drew three big lessons from Webvan’s demise: “expand slowly, limit delivery to areas with a high concentration of potential customers, and focus relentlessly on warehouse efficiency.” Bezos explained his mindset for creating new businesses in a television interview with Charlie Rose. “We like to pioneer; we like to explore. Every new business that we have ever invested in has taken years … if you’re going to invent new things … you’ve got to be willing to endure a lot of criticism.” Former Amazon executive John Rossman – who ran its third-party seller business, Amazon Marketplace – described how Amazon would combine what it learned from its various grocery initiatives into a grocery store of the future. Rossman said, “Once they get the technology and operations really pressure-tested and proven, then they’ll figure out how to roll it over. It will take a long time and it will feel like Amazon is crawling. It won’t be like a light switch flipped on and off.” Amazon’s set ambitious goals in the grocery industry. By 2017, Amazon’s goal was to become one of the five largest grocery retailers by 2025. Cowen estimated that to achieve that goal, Amazon’s grocery industry revenues would need to exceed $30 billion – more than three times the $8.7 billion Amazon generated in 2016 through Amazon Fresh and all its other food and drink sales.

Amazon’s first experiment with online grocery delivery began in August 2007. Amazon Fresh began operating in Mercer Island, Washington – adjusting its operations over six years (trying a free loyalty program called Big Radish and testing free or discounted delivery based on a customer’s spending volume). In 2013, Fresh expanded to Los Angeles and San Francisco. Amazon encountered significant operational problems with Fresh. At its Seattle fulfillment center, Amazon wasted nearly a third of the bananas it purchased because Fresh only sold the fruit in bunches of five. Workers discarded any bunches of three or four and tore off and threw out the extra banana on a bunch of six, according to a 2015 research paper by an MIT student. Worse, poorly trained employees often stood around with no assigned work, disappointed customers frequently returned moldy strawberries, and Amazon’s inspectors believed that top executives were indifferent to the quality of the food provided. Despite the challenges, Fresh continued to expand to new markets in the United States and in 2017 launched in Tokyo. CFO Brian Olsavsky said in an October 2016 analyst conference call that although customers saw it as “a very attractive service,” Fresh’s costs were too high, and it was unprofitable.
Despite efforts to expand the category, by 2016 only 4.5% of shoppers frequently purchased groceries online—one possible reason was that people enjoyed visiting grocery stores more than taking delivery at home.\textsuperscript{14}

Amazon concluded that it would need to add retail stores to achieve its ambitious goals for the grocery industry. Initially, Amazon experimented with opening its own retail stores and ultimately decided to supplement these efforts by acquiring Whole Foods. In 2016, Amazon acquired a supply chain software firm. All this experimentation resulted in a confusing array of options for consumers. By 2017, Amazon Fresh was available in about 20 US cities for $14.99 a month; Amazon Pantry charged shoppers $5.99 to deliver boxes of nonperishables—such as crackers, cookies, chips, and coffee. Amazon’s drop-off service, Prime Now, offered items from local grocers in some cities, but no major chains. Its stick-on Dash Buttons enabled consumers to order some groceries, but not fresh food—with a finger tap. And Amazon’s Subscribe & Save offered discounts to Amazon customers who signed up for periodic delivery of items available in grocery stores such as laundry detergent, toothpaste, diapers, and paper towels. In 2017, Amazon restructured its grocery teams to narrow their focus and set clear priorities. Amazon also planned to open as many as 2,000 stores along the lines of three bricks and mortar grocery formats in Seattle—convenience stores called Amazon Go, drive-in grocery kiosks, and a hybrid supermarket that mixed online and in-store shopping benefits. Amazon Go was full of technological innovation. Cameras and sensors monitored shoppers who scanned their smartphones when they entered the store. Once checked in they could take sandwiches, yogurt, drinks, and snacks and pay for them without a checkout kiosk. Products were embedded with tracking devices that paired with customers’ phones to charge their accounts. Weight-sensitive shelves told Amazon when to restock. In 2016, Amazon executives concluded that these options might not be enough. Instead they considered opening up Trader Joe’s sized grocery stories that would offer consumers items such as milk, eggs, and produce with other items—such as paper towels, cereal, canned goods, and dish detergent—stocked in an on-site warehouse where they could be easily packed and delivered to shoppers at the location.\textsuperscript{15} By February 2020, Amazon operated 25 Go stores in Seattle, New York, Chicago, and San Francisco, which ranged in size from about 450 square feet to 2,300 square feet.\textsuperscript{16}

By 2019, Amazon’s acquisition of Whole Foods gave Amazon 2.6% of the grocery market. Whole Foods operated over 500 locations in the United States, Canada, and the United Kingdom—supplementing branded products with Whole Foods private-label brands, such as 365 Everyday Value and Wellshire Farms. Whole Foods stores were equipped with hot food bars, juice stations, and other amenities. Amazon’s ownership of Whole Foods resulted in a decrease in Whole Foods’ prices—for example, cutting the price of Atlantic salmon from $12.99 to $9.99 a pound, extending Whole Foods discounts to Amazon Prime members, and making products available online.\textsuperscript{17} By April 2019, Amazon had instituted a third round of price cuts at Whole Foods—slashing prices 20% on hundreds of items. For the year ending August 2019, prices at Whole Foods dropped by 2.5%. These price cuts reduced the
Whole Foods premium over regional supermarket chains such as Kroger from 20% before Amazon acquired the grocer to a range of 12% to 13%.\textsuperscript{18} By November 2019, Amazon was planning in 2020 to launch yet another grocery store concept—a Woodland Hills, Calif. store targeting a wider customer base eager to purchase brand-name sodas, cereals, and sweets paying through conventional checkout lines rather than that natural foods offered to more upscale customers by Whole Foods’s.\textsuperscript{19}

In 2019, Amazon’s grocery revenue was estimated at $17.2 billion.\textsuperscript{20} Covid-19 increased demand for ordering grocery items on Amazon’s website; however, Amazon lost ground to Walmart’s online grocery order and store pickup service since its 4,700 stores vastly outnumbered Whole Foods’s roughly 500. Sucharita Kodali, a retail and ecommerce analyst with research firm Forrester, pointed out that only 150 of Whole Foods stores were offering in-store pickup while 3,200 Walmart stores offered the popular service. Customers who shop in Walmart’s stores were more likely to buy from the company online. Curbside pickup enabled customers to book a time slot and collect their groceries easily and with little interaction. While demand for Amazon’s own grocery business soared during state lockdowns, it struggled to keep up with customer demand, delayed shipments on nonessential items and ran out of products that customers wanted. Amazon was at a disadvantage to Walmart which had strong relationships with all the major suppliers of consumer-packaged goods, according to Kodali.\textsuperscript{21}

Case Analysis

Amazon’s original name was Relentless.com. This seems particularly apt in considering the 13-year marathon in which Amazon has tried many different approaches to gaining market share in the grocery industry. Its innovations included online ordering with local delivery, cashier-less stores, and many others. Yet by March 2020, the move that enabled Amazon to gain the most market share was its 2017 acquisition of Whole Foods. Despite having a long way to go to achieve its goal of $30 billion in grocery revenue by 2025, Amazon’s pursuit of grocery industry market share showed no signs of slowing down. One big challenge facing Amazon was its competitive disadvantage to Walmart in servicing consumers seeking to order online and take delivery at a store.

Success: Walmart Builds a Huge Grocery Chain and Carefully Adds Delivery

Introduction

Walmart’s founder Sam Walton was as inspiring an entrepreneur in his day as Jeff Bezos was in 2020. Walton imbued his company with the idea that the customer was the boss. He hired and promoted people who took the initiative to develop new ways to serve those customers well. Walmart pushed suppliers to reduce prices every year in exchange for enormous purchases of their
products. And Walmart used technology to help save money in logistics and operations – passing the lower costs to consumers in the form of lower prices – which attracted more customers and kept them loyal. Walmart applied this philosophy to the grocery industry – which it entered in 1987. Yet after Walton departed as CEO, Walmart lost some of its innovative edge – and stumbled to compete effectively in the world of ecommerce which Amazon pioneered. Nevertheless, by 2020 Walmart enjoyed a significant share of the grocery industry and had established a popular service enabling consumers to order online and pick up at the store or take delivery at home.

Case Scenario

Walmart – founded by Sam Walton in 1962 – began selling groceries in 1987, and by 2019, it was the United States’ largest grocer – with estimated 2019 grocery revenue of $191 billion (56% of its 2019 US revenue of $341 billion). In the quarter ending October 2019, Walmart generated considerable grocery revenue online. Demand for groceries propelled its ecommerce sales 41% as shoppers picked up groceries at 3,100 US stores or had them delivered to their houses from 1,400 stores. By 2019, most of Walmart’s grocery revenue came from its Sam’s Club, supercenter stores. Walmart’s delivery network helped it outpace peers such as Amazon, Kroger, Costco, and Aldi. Walmart also generated significant grocery revenue through its Neighborhood Markets, a chain of smaller grocery stores launched in 1998 which included pharmacies, liquor stores, delis, bakeries, and photo shops. By 2019, Walmart operated 800 locations across 36 states and Washington, DC. Walmart first began selling groceries in its Hypermart USA stores, opened in 1987, which combined a grocery store, a merchandise market, restaurants, and video rental stores. Although the hypermarts expanded rapidly across the United States, it was not until 1988 that they included a fully stocked grocery. Walmart enjoyed greater success with its supercenters – a combination discount outlet and fully stocked grocer – which began operating in 1988 and eventually replaced hypermarkets. As mentioned earlier, a decade later Walmart launched the Neighborhood Markets. In 1993, Walmart introduced its Great Value line which by 2002 included over 100 product categories.

Walmart’s move into groceries was spearheaded by Walton’s successor, David Glass, who saw offering groceries to save time for consumers by enabling them to one-stop-shop. Glass exemplified how to succeed a charismatic founder – humbly lead a team that follows the founder’s principles. As Glass explained in 2004, “Most people have enough ego that they want to distinguish themselves from a charismatic leader, and that’s what creates the problem. I have never had much ego, and I am not worried about things like that. I am more interested in the satisfaction that we are doing the right things and we are getting it done and being a part of it. I like being part of a winning team. I do not have to be the winning team. [When I joined Walmart in 1976] the company was completely different from any I had been around. Mostly because of Sam and the charisma and the drive he had. He had this
desire to improve that I have not seen. I can count on one hand the people I have known who got up every morning and really tried to improve something—either in their business or in their lives. Sam worked at it seven days a week. The company was more intense than any I had been around. We had to be. We were 4%, 5% the size of Kmart. Sam was doing some things, even when I came, that were foreign to me. He shared total financial information with everyone in every store, in every community. Sam felt we were all partners, and he wanted to share everything. And he was absolutely right. He believed that everyone should be an entrepreneur. If you ran the toy department in a store in Harrison, Ark., you would have all your financial information. So, you are just like the toy entrepreneur of Harrison: You know what your sales are, what your margins are, what your inventory is. And then we had another philosophy where we had grass-roots meetings in every store. And there was an absolute belief that the best ideas ever at Wal-Mart came from the bottom up. Ideas would come up from those meetings and be implemented companywide. The door greeter, for example, was the idea of an hourly associate in Louisiana.25

Walmart was criticized for entering the low-margin grocery business and for its various failed experiments. Walmart’s logic for entering the grocery industry sprang from a fundamental principle of its founder: customer is boss. As Walmart CEO Doug McMillon explained, “Customers…want to save time and they want to save money. And the broad assortment, when you put food next to general merchandise, you ended up picking up an even bigger basket. And they designed the supercenter with pharmacy and food service and all these components, it just made it a great place to shop. You can get good value, you can get quality merchandise, it was in stock, people were friendly, and you had that breadth of assortment…Very few of our competitors have any kind of grocery capability like we do.” To order online and enable customers to pick up at the store, Walmart enjoyed a significant advantage over rivals like Amazon who had not developed the ability to manage the supply chain for fresh food at a large scale. As McMillon said, “Doing food, especially fresh, in an environment where you don’t have store traffic is really hard because if you don’t sell that fresh product, it’s got to be thrown away, which is obviously wasteful and also expensive. And so now we have got this situation where these supercenters can be leveraged with a flow. Again, self-distribution, build the warehouses, have the low cost, have the reliability of supply, have experienced buyers.”26

A dozen years after Amazon began experimenting with online ordering and delivery to the home, Walmart began testing a new delivery-to-the-home service. The service – dubbed InHome grocery delivery – charged consumers $19.95 a month to order online from Walmart and take delivery to refrigerators either in their home kitchen or garage. Shoppers purchased $49.95 smart door lock kits, and Walmart employees – with at least a year of service with the company, background checks, motor vehicle record checks, and training – delivered the goods. In October 2019, InHome was launched in Kansas City, Pittsburgh, and Vero Beach, Fla. InHome offered consumers a limited number of items – the 30,000 and 35,000 available through the Walmart grocery app. The idea for InHome was originally launched in New York with a group of ten employees in Walmart’s Store No. 8 technology
 incubator program. InHome was being added to its other grocery programs which included free online grocery pickup at over 2,700 locations and Delivery Unlimited – for which shoppers paid $98 annually or $12.95 monthly for unlimited grocery deliveries from 1,400 shops. Customers who tried InHome kept using it. As McMillon said, “We have not had one single customer try it that doesn’t keep it. I really think there will be a moment in time where you think of Walmart just as a service. The average household may have about 100 items between cleaning suppliers, paper goods, fresh and perishable foods that you just buy all the time, and we will just manage that for you. our customers are asking us [to keep sending the same one or two delivery people to their homes]. At scale, we may be able to get it down to where it is one, two, three people. But we show you on the app, like there will be a profile, Becky. Here is who she is, maybe a thumbnail. Like one of them I saw was like: Becky likes tacos, she has a dog, and she is a parent. She’s a mom of three.”

Walmart enjoyed a surge in demand at the beginning of the pandemic. Its quarterly sales rose 10% – including a 74% increase in ecommerce. The number of new customers trying its online grocery pickup and delivery service increased fourfold between the middle of March and early May 2020. While the number of people visiting its retail stores declined, the average transaction size rose 16.5%. To satisfy this surge in demand, Walmart incurred about $900 million in additional costs including raising warehouse wages and paying bonuses to store staff. Walmart’s chief financial officer said, “It is a big advantage being an omnichannel retailer and I think that is showing right now. We had backups in our fulfillment centers too. That is something that our competitors, they can’t all do it.” Walmart did not experience an increase in demand for clothing and other discretionary items. However, its US sales of groceries and health-care products spiked in March and then slowed in the first half of April. Walmart focused on adding third-party sellers to Walmart.com, delivering online orders from stores and adding online grocery service to many stores. During the quarter Walmart started temporarily using about 2,500 stores to ship out online orders.

Case Analysis

Walmart’s grocery business is considerably larger than Amazon’s. Walmart is bigger in groceries because its purchasing scale enables it to offer consumers lower prices and its larger store network gives Walmart access to more consumers who appreciate the lower grocery prices and more convenient shopping locations. Since many people enjoy visiting stores to pick out what goes into their grocery shopping cart, the industry has been more immune to the ecommerce model of shopping and purchasing online while taking delivery to the home. After all, picking the perfect tomato off the shelf is not the same as ordering one online and hoping what gets delivered is edible. While Walmart was slow to experiment with online ordering, its stores were a convenient place for consumers to take same-day delivery. And its recently
introduced grocery home delivery offerings indicate that Walmart is adapting to consumer demand – which rose during the Covid-19 pandemic – for a service that Amazon pioneered.

**Failure: After 156 Years, A&P Goes Bankrupt for the Second and Final Time**

**Introduction**

CEO mindset is a powerful force that can bring a company to great success and lead to its downfall. Simply put, a Create the Future CEO can turn an idea into an industry-leading dynamo. And that same company’s next CEO can bury his head in the sand and lead that same company to its demise. This comes to mind in considering the fate of A&P. Its founders, the Hartford brothers, built the chain of small grocery stores into the Walmart or Amazon of its day. A&P’s ubiquitous stores offered goods that consumers wanted at low prices, thanks to the volume discounts it extracted from suppliers. The Hartfords retired and put in their stead a CEO whom they charged with maximizing dividends rather than keeping up with changing demographics and upstart rivals. Eventually A&P was too crippled to survive the loss of competitive edge resulting from the change in CEO mindset between its pioneering leaders and their successors.

**Case Scenario**

A&P launched in 1859 and until the 1950s it was a grocery industry leader. A&P was founded in 1859. By 1878, the Great Atlantic & Pacific Tea Company (A&P) – originally referred to as the Great American Tea Company – had grown to 70 stores. A&P introduced the nation’s first “supermarket” – a 28,125-square-foot store in Braddock, Pennsylvania – in 1936 and, by the 1940s, operated at nearly 16,000 locations. John and George Hartford, who ran A&P, developed the A&P Economy Store in 1912 – with low prices and limited selection. The store’s interior was plain, it did not offer delivery or grant credit, but it made money with relatively low prices. The success of these stores convinced the Hartfords to open hundreds of new ones each year during and after World War I. In the 1920s, by which time A&P had thousands of stores, it backward integrated – operating bakeries, chocolate and pasta manufacturing, and salmon and vegetable canning. A&P became America’s largest food buyer – and used its bargaining power to demand that food manufacturers and produce suppliers bypass wholesalers, offer volume discounts, and pay A&P the commission suppliers would have paid wholesalers. At its peak, A&P was the largest retailer in the world operating nearly 16,000 grocery stores in 3,800 communities, along with dozens of warehouses and factories.
A&P remained dominant thanks to the way that the Hartford brothers kept reinventing it. The first reinvention started soon after they took control of A&P from their father, George, in the early 1900s. The brothers turned A&P from tea shops to grocery stores that sold canned goods, cleaning products, cigarettes, and private-label products branded with “A&P” in gold letters inside a red circle. The next wave of A&P reinvention happened in 1912 when it had about 400 stores. The brothers applied Frederick Taylor’s scientific management method – measuring worker’s time and motion to boost productivity. John pioneered the S&P Economy Store – a single employee would staff a bare-bones store with few products, low prices, no credit, or delivery to the home. While A&P executives opposed John’s idea, the A&P Economy Store spread across the United States at the rate of 10 per week – earning A&P shareholders a much higher return on investment than its larger stores. By the 1920s, the Economy Store was looking dated so the Hartfords remade A&P for the third time – acquiring suppliers such as salmon canneries, condensed milk plants, and bakeries. The new A&P combination stores – which sold meat and produce alongside packaged staples – were twice as big as the Economy Stores and more profitable. By 1929, A&P was the first retailer to top $1 billion in sales. In 1930, a new retail concept – the supermarket – was launched by A&P rivals. It was not until 1937 that A&P launched its fourth reinvention under the Hartford brothers. They wanted A&P to launch its own supermarkets – but they first needed to overcome fierce internal opposition because opening supermarkets would require the closure of combination stores and the demotion of their managers. The Hartford brothers overcame their objections by pounding the table and making clear that A&P’s failure to change would result in its extinction. By 1939, A&P operated more supermarkets than all competitors combined.33

The Hartfords chose Ralph Burger, a man who had worked for A&P for decades, as president in 1951. He was also named head of the John A. Hartford Foundation, which controlled nearly half the company’s shares after the brothers died. This was a conflict of interest: the John A. Hartford Foundation, one of the country’s largest foundations at the time, needed dividends to support its medical research programs, but those generous dividends starved the company of cash to invest. The brothers selected him as their successor because they valued his loyalty. But there may not have been better internal options. All of A&P’s top executives during the Hartfords’ time spent their entire careers at A&P, so were not likely to be creative thinkers. Under Burger’s tenure, A&P began its decline. A&P had difficulty adapting to changing consumer tastes. It was slow to follow its customers to the suburbs and declined to expand in California, the country’s fastest-growing state. As other grocery chains broadened their product lines, A&P continued to sell only groceries.34 By the late 1950s, A&P had lost its position as the low-cost retailer. It exemplified a fundamental truth: when a business stops changing, it sentences itself to death.35

In 1979, A&P lost its independence to West Germany’s Tengelmann Group which acquired the once-venerated grocery chain. This precipitated an expansion effort that led to the acquisition of Stop & Shop stores in New Jersey, the Kohl’s chain in Wisconsin, and ShopWell.36 When Walmart began expanding into food retailing in
the 1990s, it drove A&P out of many of its markets in the South and Midwest where it had once been the leading player and had become a regional grocer with high prices and dowdy stores, the sort of place your grandmother shopped. Its brands, formerly some of the most valuable consumer-product brands in the country, had entirely lost their cachet, and the A&P brand itself had become a liability. By the time of its first bankruptcy filing, in 2010, it was a shadow of its former self. Due to a series of operational and financial obstacles, including high labor costs and fast-changing trends within the grocery industry, by 2006 A&P had reduced its footprint to just over 400. In 2008, A&P acquired its largest competitor, Pathmark Stores, to continue expanding its brand portfolio and, in doing so, became the largest supermarket chain in the New York City area. A&P continued to suffer cash flow problems due to high-cost supplier contracts, bloated labor costs, and too much debt. By the time it went bankrupt the first time, in 2010, it had long since lost its unique character. It emerged from bankruptcy in 2012, but still had nothing special to offer food shoppers. In July 2015, A&P filed for bankruptcy for the last time. With 28,500 employees, it announced plans to close 25 stores, sell 120 to other chains, and find buyers for the other 176. A&P was battered by mass merchandisers such as Walmart, as well as dollar stores, convenience chains, and discount grocers like Aldi which won over cost-conscious consumers, while Whole Foods and others attracted more high-end customers. A&P locked itself into a cost-cutting loop in response to declining sales which kept it from hiring qualified people, purchasing sufficient inventory to meet demand, or matching rivals’ heavy discounts. With liabilities of $2.3 billion and assets about $1.6 billion, A&P was unable to boost revenues and lower its costs enough to pay its bills. A&P said its high costs and declining profitability prevented it from investing as much as it planned in improvements since its 2010 bankruptcy. As a result, it was unable to offer a sufficiently compelling value proposition — including satisfying the demand for fresh, natural, and organic food — needed to attract and retain new customers.

Ultimately, A&P’s demise was due to its inability to adapt to a changing world. By 2020, the grocery industry was rife with experimentation. After decades of increased square footage, the average supermarket was declining as upstart grocers opened smaller stores. Market segmentation proliferated. Some retailers competed with restaurants by offering prepared food. Others installed coffee bars and eat-in restaurants. Dollar stores and pharmacies vied with supermarkets by supplying basic assortments of food, and low-cost providers appealed to mainstream consumers who had diverse and frequently changing preferences. Consumers’ desire for locally grown produce and for meat from cattle raised humanely on nearby farms challenged the centralized distribution systems of traditional grocers. Grocers who decided to focus on new customers — for example, adding smaller stores to its core supercenter customers — were stymied. To make the transition work, they needed to retool their distribution network — including warehouses and inventory systems — to satisfy smaller stores’ differing requirements.
Case Analysis
A&P’s rise and fall reinforces the critical importance of the CEO’s mindset in determining a company’s success or failure. A&P’s greatest successes occurred under the Hartford brothers who persistently overcame internal and external challenges that sought to impede the realization of their vision to stay ahead of changing consumer needs and threats from rivals. By reinventing A&P four times over some 40 years, the Hartford brothers kept the company way ahead of its rivals by offering customers ever higher levels of value. Once they appointed Burger as their successor, that innovation ended, and A&P declined until it was acquired by a series of owners who kept cutting costs, losing knowledgeable employees, and allowing more successful rivals to win away its customers.

Grocery Industry Case Study Takeaways
The takeaways from these case studies have varying implications depending on where you sit.

Incumbent Executives

- **Do:** Based on the Walmart case, grocery executives may create competitive advantage by
  - Gaining deep insights into the grocery order and retrieval needs of individual consumers in each region where they operate
  - Modifying existing supply chain and retail store networks to match merchandise supply with consumer demand – specifically at each retail store to streamline same-day ordering and pickup
  - Adapting systems to provide timely and accurate information to supply chain and merchandising managers and to consumers regarding order retrieval status

- **Do not:** Based on all the cases, grocery executives should avoid self-destructive tactics such as
  - Focusing exclusively on maximizing cash flow to pay dividends or repay excessive borrowing to finance acquisitions
  - Allowing internal resistance by executives and managers to block the implementation of new grocery concepts that enable the company to offer consumers an industry-leading value proposition
• Initiating a doom loop of cost cutting to meet quarterly cash flow targets that diminishes the consumer’s experience with the store – resulting in lost revenue, poorer product and service quality, and weaker employees.

Incumbent Employees

• **Do:** Incumbent employees should seek out the specific jobs that will enable them to contribute to the growth strategies of their current employers or at innovative grocers such as Walmart, Amazon, or Trader Joe’s.

• **Do not:** Based on the A&P case, incumbent employees should seek employment elsewhere if they work at grocers that are not creating the future or following fast.

Startup CEOs

• **Do:** Startup CEOs should consider partnering with Amazon, Walmart, or Trader Joe’s by developing innovative products they can distribute or technologies that enable them to boost the effectiveness of their online or mobile ordering and supply chain management systems.

• **Do not:** Seek out partnerships with grocery chains that fail to adapt to changing customer needs and the strategies of the most innovative industry participants.

Business Students

• **Do:**
  
  • Business students interested in developing products that appeal to millennials and affluent baby boomers may consider starting companies that offer innovative products that could be distributed at Whole Foods or Trader Joe’s.

  • Based on all the cases, business students should seek managerial opportunities at innovative grocery chains – such as Amazon, Walmart, or Trader Joe’s.

• **Do not** work in the grocery industry unless they are passionate about solving its biggest business challenges.
Do You Have the Strategic Mindset of a Grocery Industry Winner?

If you answer in the affirmative to these questions, you have a winning strategic mindset. If not, you must decide whether to change your mindset, strategy, and execution or find a job that better suits your strengths and interests:

- Do you have a deep understanding of the items that its local consumers want to purchase?
- Do you purchase efficiently and operate a supply chain that delivers the items to consumers’ homes and enables them to pick up at stores?
- Do you invent new store and merchandising approaches to satisfy evolving consumer needs more effectively than your rivals do?
- Do you have the management skills and technical talent needed to blend seamlessly your physical and virtual capabilities?
- Do you regularly delight consumers so they recommend your stores enthusiastically to others?

Conclusion

The grocery industry is large, growing slowly, and thinly profitable. Yet its importance to human survival – the need for people to eat and purchase food and other items for their families – makes it a compelling industry for companies seeking the opportunity to maximize the lifetime value of many consumers by tapping into their frequent and predictable purchasing patterns. Create the Future companies such as Amazon have innovated in the technologies for enabling consumers to order and take delivery at their homes. With its acquisition of Whole Foods, Amazon has opened a new line of products to ship via its Amazon Prime one-day delivery service. Amazon has also inspired Walmart – which executed a Follow the Leader strategy of ordering online or via mobile device with pickup at the store or delivery to the home. A&P achieved US industry dominance with its Create the Future strategy from the early 1900s to the 1950s – but under Head in the Sand leaders, it lost its independence and in 2015 shut down for good. The most important implication for leaders – particularly those in the grocery industry – is that if you lack a Create the Future or Follow the Leader mindset, hire a replacement who does. Chapter 6 will examine how these three mindsets play out for the furniture industry.