AMERICAN ECONOMIC LIBERTIES PROJECT

Myth vs. Fact: The Kroger-Albertsons Merger

March 2024

In October 2022, grocery giant Kroger entered into an agreement to acquire its rival Albertsons for $24.6 billion. The deal would be the biggest supermarket merger in history, combining two mega-chains that have already consolidated much of the industry. Kroger, America's second-largest grocer, owns Ralphs, Fred Meyer, and Harris Teeter. Albertsons, the fourth-largest, owns Safeway, Vons, Jewel-Osco, and Star Market. In bringing these brands and many others under the same roof, Kroger would create a behemoth with 5,000 stores, 4,000 pharmacies, and 700,000 employees across 48 states.

The Federal Trade Commission sued to block the merger in February 2024, finding it would lead to higher grocery prices and reduce workers' bargaining power in communities across the country. With high grocery prices top of mind for American families, and increasingly linked to consolidation in the food system, the suit received a remarkable outpouring of public support. And not just from consumers—consolidation in the food retail sector has been devastating for workers, independent grocers, and farmers, all of whom applauded the FTC for taking action. Members of Congress from both parties added to the chorus, while two states, Colorado and Washington, filed additional suits to block the merger.

Kroger has responded with an aggressive public relations campaign. Typical of corporations defending anticompetitive mergers, it misrepresents key market dynamics and ignores hard evidence uncovered by FTC investigators, including damning internal documents from both companies.

This memo dispels many of these inaccuracies, in anticipation of a continued PR push through the August 2024 trial and beyond.

Myth: A Kroger-Albertsons merger won't harm competition because they would still be smaller than Walmart

- Proponents of this merger emphasize that the combined national market share of Kroger and Albertsons is smaller than Walmart's, implying that this merger will not reduce competition.

Fact: Supermarket competition occurs at a local level, and this merger will reduce competition and food access in hundreds of local communities

- For a consumer shopping for groceries, the relevant market is not national—it's localized around where they live. If Kroger is the only grocery store near where you live, it doesn't matter if there is a yet-bigger store elsewhere.
- Albertsons' internal strategy documents recognize that "[c]ompetition is … determined at a neighborhood level," while Kroger says its "primary food store format … typically draw[s] customers from a 2-2.5 mile radius."
- The FTC finds that in overlapping local markets surrounding 1500 Kroger and Albertsons stores—in over 100 cities and towns across 16 states—this merger would increase market concentration to illegal levels.
- In some rural communities where Kroger- and Albertsons-owned stores are the only options, this merger will create a straight-up monopoly. The 6,000-plus residents of Gunnison, Colorado, would have to drive 65 miles to reach a non-Kroger supermarket.
- Since the 1990s, regional consolidation of this kind has resulted in waves of store closures—and a proliferation of food and pharmacy deserts in their wake, mostly affecting rural and low-income communities.

Myth: The Kroger-Albertsons merger will lower grocery prices for shoppers

- The companies claim that consumer prices will go down as a result of the merger because of ostensible "efficiencies."

Fact: History, economic research, and the companies' own internal documents show this merger will only result in higher prices

- "A consensus" among economists studying food retail markets, or "nearly all empirical papers on the topic," shows that less competition "is positively associated with the cost of groceries" in a local market.
- Retrospective economic studies of specific mergers have established causal links to price increases:
    - Two years after supermarket chain Copps acquired several stores from a competitor in Madison, Wisconsin, it had raised prices in Madison up to 3.8% higher than in the nearby control market of Green Bay.

    - Analyzing price trends in 14 metro areas that saw mergers in 2007-2008, FTC economists found that mergers in already-concentrated local markets resulted in higher prices. Kroger's acquisition of stores in Topeka raised prices up to 7.7%.

- Internally, Kroger has recognized that it can pursue a "different price strategy" in areas with diminished competition, while Albertsons has said it can "margin up" in such situations.

Myth: Kroger's plan to sell off some stores will preserve local competition

- As part of the merger, Kroger is planning to divest 413 store locations to C&S Wholesale Grocers, claiming that this will preserve competition in local markets.

Fact: Kroger's divestiture plan is designed to fail, as revealed by the buyer

- C&S Wholesale Grocers is a supply company, not a supermarket chain, and is ill-equipped to operate a large number of supermarkets. Its agreement to purchase 413 divested stores would represent a 1,700% growth in its retail business.

- C&S, whose true interest in this deal could be real estate or supply contracts, is not committed to actually operating the divested stores:

    - C&S' former CEO was caught asking the current CEO, "Do we have to say that we won't close stores? (the 'all' is a problem')—the trick is that they stay open as they transition but then what? Are we committed to this?"

    - As recently as 2021, C&S told investors, "We do not intend to grow our grocery retailing operations or to operate the retail grocery stores in the long term. We expect to divest our retail grocery stores as opportunities arise."

- The C&S deal closely resembles the failed divestiture associated with Albertsons' 2015 acquisition of Safeway, which was a disaster for consumers and workers:

    - In "one of the swiftest, most spectacular corporate crash-and-burns in recent history," regional supermarket chain Haggen—which like C&S lacked the infrastructure to rapidly expand its operations—closed 127 of the 146 stores it had acquired after just six months, laying off thousands of workers.

    - Court documents from Haggen's bankruptcy revealed that "underlying real estate" was a primary consideration for Haggen's private equity owners in pursuing the deal.

Myth: The Kroger-Albertsons merger will be good for workers

Fact: Kroger-Albertsons will put jobs at risk and reduce workers' bargaining power

- By reducing labor market competition, grocery workers will lose bargaining power, both because individually they won't have a competing employer to go work for, and because unions will lose leverage during contract negotiations. As a result, workers will potentially face lower wages, worse working conditions, and layoffs.

- The FTC's suit was applauded by United Food and Commercial Workers Union and Teamsters, the primary unions representing Kroger and Albertsons employees, as well as other unions in solidarity.

- After the deal was announced, a coalition of union grocery workers, consumers, elected officials, and community members launched the "Stop the Merger" campaign. Over 100,000 workers and countless advocacy groups have come out against the deal since.

- Furthermore, C&S Wholesale Grocers, which would be dealt hundreds of divested stores as part of this deal, has a track record of eliminating union jobs after acquisitions:

  - C&S shut down all three unionized facilities it acquired from Supervalu in New England, killing over 600 union jobs and shifting the work to non-union facilities.

  - C&S closed three New Jersey food distribution centers it acquired in 2014; over 400 union jobs were lost.

Myth: Kroger and Albertsons' main competition is big box retailers like Walmart

Fact: Kroger and Albertsons view each other as their primary competitors

- In the hundreds of local markets where they overlap, Kroger and Albertsons brands compete head-to-head on price, promotions, product offerings, store hours and customer experience, and for labor.

- Albertsons' COO acknowledged that "We are being bought by our enemy."

- The Division President of Kroger's QFC brand has said that "Safeway/[Albertsons]" is QFC's "#1 direct competitor," while the President of Albertsons' Seattle Division has called Fred Meyer, a Kroger Brand, Albertsons' "main competitor" in the region.

Myth: The FTC's argument only works because their market definition excludes Walmart

Fact: The FTC's market definition includes Walmart

- The FTC defines the relevant market as "the retail sale of food and other grocery products in traditional supermarkets *and supercenters*" (emphasis added).

- The FTC finds that even under this broad definition, the Kroger-Albertsons merger is presumptively unlawful in local markets surrounding more than 1500 Kroger and Albertsons stores across the US.