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A Disaggregated View of Market Concentration in the Food Retail Industry

Eliana Zeballos, Xiao Dong, and Ergys Islamaj

What Is the Issue?

The food retail sector has experienced substantial consolidation and structural change over the last three decades. The potential ramifications of these changes on concentration in the food retail sector has led to interest among researchers, policymakers, and consumers. Due to data limitations, most existing studies and reports have focused on providing and analyzing concentration measures of the food retail industry at the national level. While these measures can provide information about national trends, the measures can potentially mask differing trends in localized markets (such as at the Metropolitan Statistical Area (MSA) and county levels)—which are likely more relevant for consumers, food-retail competitors, and policymakers. To understand how the change in concentration might impact consumers, researchers would ideally focus on geographic markets that mimic where consumers actually shop such as at the State, MSA, or county levels. This report investigates the changes in the market concentration—a measure of the extent to which market shares are concentrated between firms of the retail food sector at the national, State, MSA, and county levels in the United States over the 1990–2019 period.

What Did the Study Find?

The authors report several key results:

- First, the study finds significant increases in food retailing market concentration measured by the Herfindahl–Hirschman Index (HHI) in the United States over the last three decades at the national, State, MSA, and county levels.

- Second, food retailing market concentration at the county level is considerably higher than at the national, State, and MSA levels.

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- Although the market was less concentrated at the national level, the food retailing market concentration at the national level increased at a much faster pace than it did at the county level (458 percent, compared to 94 percent) from 1990 to 2019.

- These results are in line with:

  - Entry of large national "nontraditional" food retailers into the food sector (e.g., supercenters).

  - Growth and consolidation of large national food retailers.

- Food retailing markets in rural and small nonmetro counties are considerably more concentrated than food retailing markets in metro and large nonmetro counties.

- Finally, the study shows when excluding the largest nationwide retailer, concentration in food retailing at the national and State level, markets would have been lower, but at the MSA and county level, markets would have been higher for most of the period analyzed.

How Was the Study Conducted?

To make meaningful comparisons across geographical areas and across time, this report uses a unique dataset, the National Establishment Time Series (NETS), to calculate the market concentration of food retailing from 1990 to 2019. The NETS database provides detailed location, annual sales, and employment information for each retail establishment. This report uses the reestimated annual sales of NETS by Marchesi and Zeballos (2022) that applies a sales per employee ratio, which is calculated using the Economic Census for each North American Industry Classification System (NAICS) code by firm size. The comprehensive retail coverage of NETS allows inclusion of nearly all establishments with a significant portion of food sales that are likely substitutes to each other. The inclusion of nontraditional food retailers (such as warehouse clubs, superstores, and supercenters) is critical, as these types of retailers have seen the most significant growth in the past 30 years. With this uniquely comprehensive and detailed dataset, the report calculates the market share of each food retail firm and the local market food concentration, as measured by the Herfindahl-Hirschman Index at the national, State, MSA, and county levels.