

Executive Summary

Supermarkets are so familiar that it's easy to take their design for granted. Begin with produce, shop meat and dairy along the perimeter, and end at a candy display by the register. Pyramids of soda 12-packs celebrate the upcoming game. Bakery scents waft throughout the store. But why do nearly all American supermarket chains generally follow the same layout, offer the same products, and use the same display techniques? Is it because this is what American customers want?

In part, but consumer demand is not the only force that drives what supermarkets sell.

Backroom deals between stores and food manufacturers also shape today's supermarket. In this world of wheeling and dealing, what customers want often takes a back seat to corporate contracts. Payments that food manufacturers make to retailers influence which products are offered and how they are displayed. Ultimately, those placements help drive what people buy.

Companies spend billions of dollars so that their products are featured and promoted in as many places as possible and in the most attention-getting places in supermarkets, influencing what people purchase and eat. First are the steep "slotting fees" that stores regularly assess manufacturers seeking to introduce a new product into the market. Perhaps a company has developed a lower-sodium version of a popular snack food. That innovator would need to come up with at least several hundred thousand dollars, if not \$1 million or more, to introduce that new item in all stores of the country's largest grocery chains.

For many categories of food, the payments do not end there. Supermarkets often charge manufacturers an additional placement fee as an annual rent for a spot in a freezer case or on a shelf. Those fees, or the equivalent in free product, can add up to hundreds of thousands of dollars in payments each year. That may be the cost of doing business to the multinational giants, but fees that steep can pose an impossible barrier for small companies.



These cardboard displays (“shippers”) allow Nabisco and Kellogg’s to get their products in front of customers who skip the cookie and cereal aisles. Their placement near the dairy case suggests that customers buying milk should also buy cookies and cereal.

The checkout aisle is typically the most expensive real estate in a store. There, a manufacturer can expect to pay a large supermarket chain as much as \$1 million a year to place a single product on the shelf. Then there are the lucrative “endcaps” (end-of-aisle displays) and “shippers” (cardboard displays) that the big grocery chains offer food manufacturers like items on a menu. A single “event”—a few weeks featured on an endcap or on a shipper—at a single large chain could cost in excess of \$50,000. All of these options add up to “360 Degree Marketing” for the biggest food companies, as a former marketing executive at Coca-Cola called it.

A spot inside a store’s weekly circular (also for sale) is out-of-reach to many companies. Then there are the billions of dollars that food manufacturers collectively spend on seasonal promotions (buy-one, get-one-free sales; 20-percent-off deals; and the like) that retailers typically demand of their suppliers. The ability to pay those “trade fees” represent another critical advantage that the food industry’s largest players have over smaller companies.

All told, supermarkets collect more than \$50 billion a year in trade fees and discounts from food and beverage companies, according to a group of academics headed by Gregory T. Gundlach, a marketing professor at the University of North Florida. As a result, the food system is rigged against everyone but the big food manufacturers with big marketing budgets, which tend to be the

most established companies and brands.

These fees matter. Fees are a key driver of which products are available to shoppers, how prominently they are displayed in the store, and how they are promoted, including through price discounts and specials. Putting products at checkout or on displays at the end of an aisle boosts sales significantly. It is obvious to customers that a business has paid for the giant billboard they passed on the way to the store. But many people have no idea that candy companies pay to put their products next to the cash register.

Another element of the modern-day grocery store is the “category captain.” In this bizarre system, a grocery store lets one big food manufacturer decide the entire layout of a section of the store that it already dominates, such as snack foods or soft drinks. One insider put it this way: category captains determine “everything from where and how products are shelved in supermarkets to how much of a product the supermarket should buy to whether a competitor’s product should see the light of day at all.”

To address this hidden manipulation of the marketplace, we recommend:

- The Federal Trade Commission (FTC) should investigate the use of placement fees in the retail grocery industry, assessing changes to the industry since its last look at slotting fees in the early 2000s and using its subpoena power to provide a more complete picture of retail placement fees.
- The Securities and Exchange Commission (SEC) should determine whether disclosure of trade-promotion practices should be required for publicly traded companies.
- State attorneys general should investigate whether the use of placement fees or the deference given to category captains violates antitrust or consumer protection laws and prosecute supermarkets whose practices illegally harm small businesses or consumers.
- Cities and counties should adopt healthy-checkout ordinances to ensure that the prime real estate of checkout is not used to undermine customers’ diets.

- Retailers and manufacturers should adopt policies and practices that promote healthy foods, and researchers should work with retailers to assess arrangements of retail space that would support healthy choices while maintaining profits.
- Until the system is fixed, shoppers should be wary of supermarket trickery. Supermarkets today are as much about selling shelves to food companies as they are about selling food to customers.



Placement of products at checkout induces impulse buys.