The grocery industry has been reinvented again and again for over 150 years. Each reinvention reshaped how people shop — and almost always drove **lower costs and lower prices**.

What has changed is the **speed**.

Where disruptions once arrived every few decades, today they arrive every **few years and feel continuous**. The result is a constant state of flux. For retailers operating on **2% net margins**, there is little room for error.

Many traditional supermarkets budgets and planning are built for a slower, more predictable world. That world is gone.

The First Disruption: From Counters to Aisles

The original general store was labor-intensive. Most products lived behind the counter. Shoppers relied on clerks to weigh, package, and serve staples like flour, sugar, and cornmeal. Relationships were strong. Prices were not.

Then food manufacturing and branded packaged goods arrived. Products could be mass-produced, standardized, and stacked on shelves. Costs fell. Self-service was born.

One company seized this moment: **A&P**.

In just a few decades, A&P expanded from a handful of stores to thousands. By the 1920s it was so dominant that it accounted for roughly **1% of U.S. GDP** — the Walmart of its era. Prices fell significantly. Shopping changed forever.

And then A&P made the classic incumbent mistake: it stopped changing.

The Second Disruption: The Supermarket

The next revolution came from the **supermarket**.

New technologies — refrigeration, reliable electricity, automobiles, highways — allowed grocers to build large stores on cheap land at the edge of town. Customers drove. Labor per shopper fell. Costs fell again.

Chains like Kroger and Safeway scaled nationally. After World War II, suburbanization and the baby boom fueled growth. For decades, success came down to logistics and efficiency.

The industry stabilized. Margins were thin but predictable. Grocery became boring — and profitable.

That stability planted the seeds of the next collapse.

The Third Disruption: The Great Split

From the end of World War II through the 1980s, grocery was a fairly uniform industry. Most supermarkets looked alike, sold mostly the same products, and competed on execution more than on positioning. Growth came from building stores and running a more efficient supply chain.

Then something fundamental changed.

In the 1990s, grocery did not just evolve — it fractured.

Two very different models emerged at the same time.

The Down-Market Shock: Walmart and Costco

While traditional supermarkets were upgrading stores and expanding fresh departments, two outsiders were quietly rewriting the economics of grocery:

- Walmart
- Costco

They were not trying to be better supermarkets.
They were trying to be cheaper systems.

They built fewer, larger stores.
They carried far fewer SKUs.
They sourced globally.
They drove massive volume through ultra-lean cost structures.

Thirty years ago, they were footnotes.
Today, together, they control nearly one-third of all U.S. grocery spending.

That share came almost entirely from traditional supermarkets.

The Up-Market Shift: Whole Foods and Trader Joe's

At the same time, a different disruption was taking shape.

As incomes rose and consumers became more health-conscious, a new type of grocery store gained traction — one focused on fresh, natural, and differentiated food.

Whole Foods Market proved that shoppers would pay more for quality.
Trader Joe's showed that curated private-label assortments could create loyalty and margin.

Traditional supermarkets responded by expanding fresh departments and more premium assortments which helped drive growth through the 1990's.

The Squeeze

The result was a structural trap, and growth started to slow and share started to get pinched in the early 2000's.

Walmart and Costco pulled grocery down-market on price.
Whole Foods and Trader Joe's pulled it up-market on quality.

Traditional supermarkets were left in the middle — too expensive to beat the discounters, too undifferentiated to match the specialists.

What had once been a stable, uniform industry became a two-front war.

That war has defined everything that followed.

The Great Recession: The Habit Breaker

Then came 2008.

Housing collapsed. Forty percent of households experienced under-employment.
Shoppers had more time than money — and they went looking for lower prices.

They discovered something unsettling: Walmart, Costco, and Aldi sold many of the **same or similar products** for much less. The stores weren't as pleasant — but the savings were real.

Once habits break, they don't reform easily. Multi-store shopping expanded. Shoppers began buying commodities where they were cheapest and fresh food where it was most convenient.

Supermarket share began to fall faster — and never recovered.

The COVID Shock and the eCommerce Trap

COVID delivered the next blow.

eCommerce jumped from a niche (3–5% of grocery sales) to about **12%** almost overnight. Supermarkets rushed to build fulfillment, pick-up, and delivery infrastructure.

The problem: **eCommerce raised fixed costs without raising profits.**

Picking, packing, and delivering groceries is expensive. For most supermarkets, it lost money. But once built, the die was cast.

Then inflation hit. Units slowed. Fixed costs stayed higher.

That combination — **falling volume + rising fixed costs** — weighs on margins.

National chains used scale to drive their fixed cost per unit down. Supermarkets did the opposite. CFOs raised prices to hit budgets. Price gaps widened. Shoppers defected. Units fell further. Costs per unit rose again.

A quiet spiral began in the early 2000's, accelerated after the Great Recession, and Covid sped it up even further.

The Brutal Truth: Price Wins

While at dunnhumby, we tested a hopeful idea: that grocery choice was driven by something other than price. We found that there were other drivers, but to our dismay, price was undeniably the most important.

The **Retail Preference Index** has shown, year after year, that **price is the #1 driver of store choice**. It fluctuates — but it always out front.

When price gaps reach 30–40%, shoppers don't hesitate. The supermarket becomes a convenience store. The big box becomes the pantry.

That is similar to how supermarkets killed the general store, and now the same logic is eating away at supermarket share.

The Next Disruption: AI

AI looks risky. It is expensive. It feels like eCommerce all over again.

But it is fundamentally different.

eCommerce raised costs.
AI can lower them.

It can optimize pricing, labor, inventory, promotions, and purchasing in new and more efficient ways. Used correctly, AI closes price gaps instead of widening them.

That is the fight supermarkets must win first with AI. Costs and margins need to reverse recent trends. Prices then need to follow which will then help to improve volumes and sales.

Our Solution: Market Navigator

We built the Market Navigator App to give finance and marketing a shared view of reality.

It shows where the business is today, where it is headed over the next six months, and how pricing and costs shape that path — enabling faster alignment and better planning.

Budgeting and Planning will never be perfect, but it also cannot disrupt the business. Tools and processes must help build agility and confidence. Gaps need to be identified early and closed before they become disruptive.

We do that by connecting demand, costs, and economics into one living, integrated system.

We ingest sales, units, visits, COGS, and fixed costs.
We layer in inflation, income, and supply-chain data.
We generate rolling six-month forecasts — the furthest horizon executives can trust.

Then we let leadership test the future:

- What happens if prices change?
- What if costs fall?
- What if inflation rises?
- What if we defend share instead of margin?

Instead of guessing, executives see the trade-offs.

In a market that changes every few years, that clarity is the difference between survival and a slow decline. Business planning is the core responsibility of the C-Suite and can seem daunting in face the challenges, but does not need to be.