

Cooling inflation is hurting Kroger's results. But high-margin retail media is a lever it can pull to drive growth.

Article

The situation: As Kroger plows ahead with plans to merge Albertsons, the grocer faces some clear challenges.

- **Grocery prices are stabilizing and, in some cases, falling.** That makes for challenging year-over-year comps for grocers like Kroger that saw sales soar over the past year due, in part, to rising prices. There's no relief in sight as **Gary Millerchip**, Kroger's CFO, expects inflation to continue to decelerate.
- **Consumers are feeling squeezed.** A host of factors is weighing on consumers, including high inflation, rising interest rates, the expiration of emergency SNAP benefits, and the resumption of federal student loan payments. Kroger sought to appeal to value-conscious shoppers by rolling out more private label products (including 233 in Q2) and leaning into weekly promotions and personalized discounts.
- **There are many players competing for grocery spend.** Kroger faces strong headwinds as value-oriented retailers ranging from **Walmart** to **Aldi** to **Costco** chip away at Kroger's share of food spend. The net result is that Walmart's share of grocery dollars rose 1.1 percentage points over the past year to 25.2%, while second-place Kroger saw its share fall 0.5 percentage points to 10.7%.

The opportunity: While groceries are a low-margin business, Kroger found success driving high-margin revenues via retail media. In fact, growing that revenue stream is one of the key rationales of its merger with Albertsons (a fact we discussed in-depth on a Reimagining Retail episode last November).

- Kroger aims to propel further growth by bringing its self-service retail media ad platform in-house.
- A combined Kroger-Albertsons would have valuable first-party data on about 85 million consumers.
- The combined company would also have a national footprint of nearly 5,000 stores after agreeing to sell 413 stores and eight distribution centers to **C&S Wholesale Grocers**. It has a major opportunity to boost its retail media revenues by leveraging that physical presence by providing dynamic, interactive media experiences at store shelves, end caps, cooler doors, and checkout aisles. After all, Kroger's stores have nearly three times more monthly unique visitors than its digital presences, per Placer.ai.

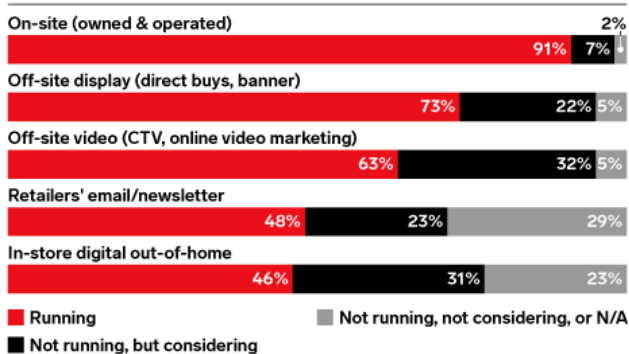
- While it is still early days for [in-store retail media](#), there's plenty of potential. Forty-six percent of advertisers surveyed in November 2022 ran in-store digital out-of-home (DOOH) campaigns, and a further 31% were considering them, per the Interactive Advertising Bureau (IAB). That suggests DOOH already has solid adoption along with plenty of upside potential.

The big takeaway: While there may be speed bumps ahead, Kroger (and potentially a combined Kroger-Albertsons) have some built-in advantages of which it has yet to take full advantage.

Go further: Read our recent [In-Store Retail Media 2023](#) for an in-depth look at why brands should consider physical stores the next major media channel.

Types of Retail Media Network Ad Tactics Being Leveraged by US Buy-Side Ad Decision-Makers, Nov 2022

% of respondents



Note: n=56 who are currently investing in retail media network advertising
 Source: Interactive Advertising Bureau (IAB), "2023 Outlook Survey," Nov 17, 2022

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