The Multi-Billion Dollar Grocery Question

When it comes to purchasing groceries, are you a Buyer or a Shopper?

A **Buyer** will order groceries on-line, let someone else choose their groceries, and deliver them for a one-time $6-$12 fee or an annual membership fee for deliveries typically over $35. Companies providing this service include Amazon Fresh (from Amazon Fulfillment Centers), Amazon Prime Now (from Whole Foods Markets), Instacart, Shipt, Pea Pod, and Walmart, among others. Buyers are willing to spend more for the convenience and time savings of grocery delivery.

A **Shopper** prefers a tactile experience, and picks out their own freshest produce and goods with the most distant expiration dates. Shoppers believe they can more efficiently access the best quality groceries at a lower cost. Interestingly, Generation Z generally prefers browsing on-line with their mobile devices and then buying in stores with cash or debit cards.
Considering that everyone is pressed for time, and some of us live or work closer to grocery stores than others, there really is no right answer. However the answer to the question of whether you are a Buyer or Shopper impacts how large conventional grocery chains spend billions of dollars of capital.

Amazon's purchase of Whole Foods in 2017 served as a wake-up call to the grocery industry. Suddenly the large conventional grocery chains diverted their resources from opening new stores and renovating older stores, to establishing a greater on-line presence, automated fulfillment centers, delivery services which may include driverless delivery in the future, and other technological investments.

How grocery company stocks are valued is also a major factor in capital allocation. Consider the following table:

COMPANY	MARKET CAPITALIZATION	SHARE PRICE	PRICE EARNINGS RATIO
Amazon.com, Inc. (AMZN)	$1 Trillion	$2,035	102.6
Kroger Co (KR)	$17.3 Billion	$21.75	9.55
Walmart Inc (WMT)	$323.7 Billion	$113.41	39.29

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If investors reward a company that is spending their resources on technological investments with a higher share price and price earnings ratio, then growing earnings by opening new stores may become secondary. However, in this world of 24-hour news and 10Qs, investors will still likely need to see earnings growth or at least the path to earnings growth to justify a higher stock price. Ultimately growing earnings may necessitate developing new stores.

Excluding smaller specialty stores such as Trader Joe's, Sprouts, Barons, and Aldi, discounters such as Winco, Smart & Final, or Grocery Outlet, and the "musical chairs" caused by the Haggen bankruptcy, the last new large conventional grocery store building developed in San Diego County was in 2009. Since 2009 the County has grown by an estimated 337,000 residents. While some other areas of the Country are experiencing economic and population decline, San Diego County continues to thrive and grow. There is a strong case for developing new large conventional grocery stores in San Diego County based upon the continued population growth.