



# Food Retail in the United States

Industry Profile

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## EXECUTIVE SUMMARY

### **Market Value**

The United States food retail industry grew by 2.8% in 2006 to reach a value of \$685.2 billion.

### **Market Value Forecast**

In 2011, the industry is forecast to have a value of \$759.5 billion, an increase of 10.8% since 2006.

### **Market Segmentation I**

Supermarkets generate 56.3% of the food retail industry's revenues.

### **Market Segmentation II**

The United States accounts for 22.8% of the global food retail industry's revenues.

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## **CHAPTER 1 MARKET OVERVIEW**

### **1.1 Market Definition**

The food retail industry consists of the total revenues generated through food sales from supermarkets, hypermarkets, cooperatives, discounters, convenience stores, independent grocers, bakers, butchers, fishmongers and all other retailers of food and drink for off-the-premises consumption. The market is valued at retail selling price (RSP) with any currency conversions calculated using 2006 annual average exchange rates.

For the purpose of this report the Americas comprises Brazil, Canada, Mexico and the US.

Europe comprises Belgium, the Czech Republic, Denmark, France, Germany, Hungary, Italy, Netherlands, Norway, Poland, Russia, Spain, Sweden and the UK.

Asia-Pacific comprises Australia, China, Japan, India, Singapore, South Korea and Taiwan.

The global figure comprises the Americas, Asia-Pacific and Europe.

### **1.2 Research Highlights**

The US food retail industry generated total revenues of \$685.2 billion in 2006, this representing a compound annual growth rate (CAGR) of 2.2% for the period spanning 2002-2006.

Supermarkets sales proved the most lucrative for the US food retail industry in 2006, generating total revenues of \$385.5 billion, equivalent to 56.3% of the industry's overall value.

The performance of the industry is forecast to slightly decelerate, with an anticipated CAGR of 2.1% for the period 2006-2011 expected to drive the industry to a value of \$759.5 billion by the end of 2011.

### 1.3 Market Analysis

The US food retail industry has shown steady rates of positive growth over the first half of the decade, a trend of which is expected to continue through the forecast period.

The US food retail industry generated total revenues of \$685.2 billion in 2006, this representing a compound annual growth rate (CAGR) of 2.2% for the period spanning 2002-2006. In comparison, the Canadian and Mexican industries grew with CAGRs of 4.8% and 2.3% over the same period, to reach respective values of \$78.7 billion and \$46.5 billion in 2006.

Supermarkets sales proved the most lucrative for the US food retail industry in 2006, generating total revenues of \$385.5 billion, equivalent to 56.3% of the industry's overall value. In comparison, sales through hypermarkets generated revenues of \$63.2 billion in 2006, equating to 9.2% of the industry's aggregate revenues.

The performance of the industry is forecast to slightly decelerate, with an anticipated CAGR of 2.1% for the period 2006-2011 expected to drive the industry to a value of \$759.5 billion by the end of 2011. Comparatively, the Canadian and Mexican industries will grow with CAGRs of 4.3% and 3.3% respectively over the same period, to reach respective values of \$97 billion and \$54.7 billion in 2011.

## CHAPTER 2 MARKET VALUE

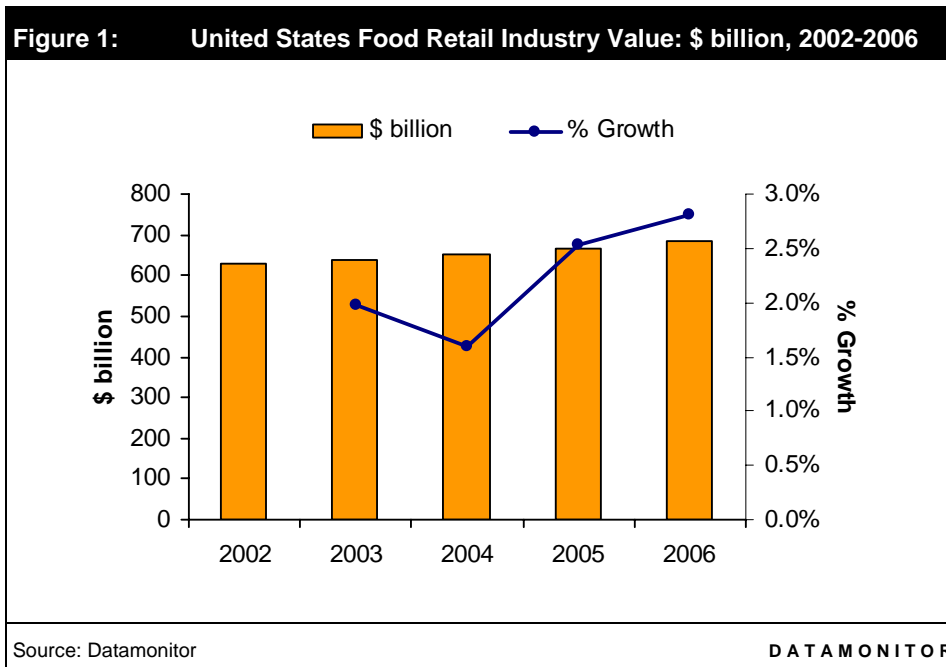
The United States food retail industry grew by 2.8% in 2006 to reach a value of \$685.2 billion.

The compound annual growth rate of the industry in the period 2002-2006 was 2.2%.

**Table 1: United States Food Retail Industry Value: \$ billion, 2002-2006**

Year	\$ billion	\$ billion	% Growth
2002	627.4	627.4	
2003	639.9	639.9	2.00%
2004	650.0	650.0	1.60%
2005	666.5	666.5	2.50%
2006	685.2	685.2	2.80%
<b>CAGR, 2002-2006:</b>			<b>2.2%</b>

Source: Datamonitor DATAMONITOR



### CHAPTER 3 MARKET SEGMENTATION I

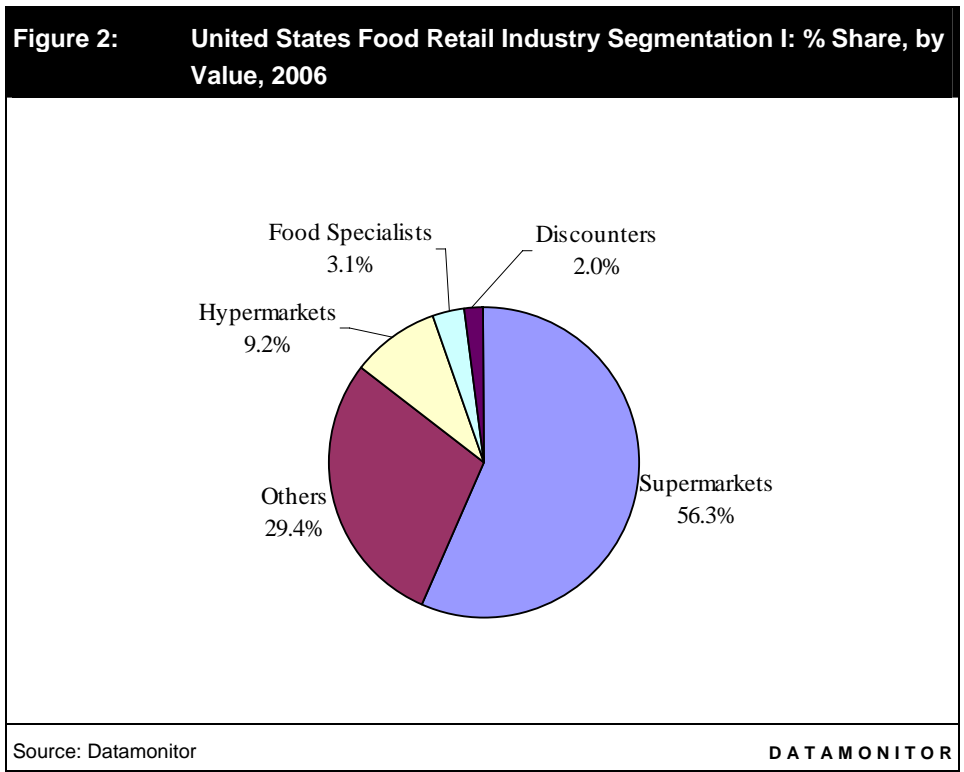
Supermarkets generate 56.3% of the food retail industry's revenues.

Hypermarkets account for a further 29.4% of the industry's value.

**Table 2: United States Food Retail Industry Segmentation I: % Share, by Value, 2006**

Category	% Share
Supermarkets	56.30%
Others	29.40%
Hypermarkets	9.20%
Food Specialists	3.10%
Discounters	2.00%
<b>Total</b>	<b>100.0%</b>

Source: Datamonitor DATAMONITOR



## CHAPTER 4 MARKET SEGMENTATION II

The United States accounts for 22.8% of the global food retail industry's revenues.

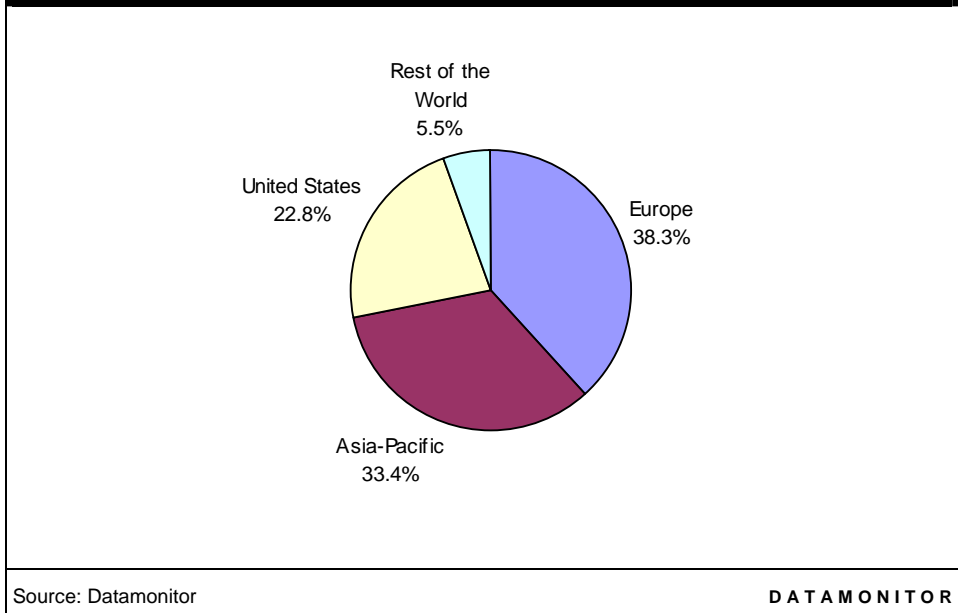
Europe has the largest share of the global food retail industry, accounting for 38.3% of the industry's value.

**Table 3: United States Food Retail Industry Segmentation II: % Share, by Value, 2006**

Geography	% Share
Europe	38.30%
Asia-Pacific	33.40%
United States	22.80%
Rest of the World	5.50%
<b>Total</b>	<b>100.0%</b>

Source: Datamonitor DATAMONITOR

**Figure 3: United States Food Retail Industry Segmentation II: % Share, by Value, 2006**



## CHAPTER 5 COMPETITIVE LANDSCAPE

In the US, as in most food retail markets, consumers choose their preferred outlets mainly on the basis of convenience and price. Recent years have seen growth in the market share of hard discount and dollar store formats, indicating the price sensitivity of US consumers. Switching costs are generally low, they are principally the costs of travelling to a less convenient store. These factors tend to strengthen buyer power in the market, although the fact that food retail is a B2C market means that players are dealing with large numbers of small buyers, which weakens buyer power. Overall, buyer power is moderate.

US production and supply of some categories of food, such as beef, are highly concentrated. However, the food wholesale market in the US is less concentrated than the retail market. This means that large supermarket chains can exert buyer power more effectively than wholesalers can exert supplier power.

There is a moderate threat of new entrants. It is possible to open a small independent store for very modest capital outlay, for example one focusing on a niche market such as organic food. Transportation and communication are highly developed in the US, which means that establishing reliable supply chains is not the problem it can be in less advanced economies. These factors favor market entrance. On the other hand, the large incumbents can leverage their scale to reduce costs (such as the prices paid to suppliers), which allows them to respond to new arrivals with intense price competition. In 2006, UK player Tesco announced its decision to enter the US market, using a convenience store format.

The main substitute for food retail in the US is foodservice. The proportion of disposable income spent on food retail is falling, while the proportion spent on foodservice is rising; this trend has been observed since the 1970's. The availability of foodservice at many price points, high median incomes, and long working hours all tend to make consumers choose foodservice over food retail. Nevertheless, because few consumers can afford to completely abandon retail purchases, the overall threat remains weak, although likely to be stronger than in many other markets.

The US market is mature, which means that players aiming to increase their revenues must usually do so at the expense of competitors. Although leading chains like Wal-Mart have diversified into non-food retail, food remains central to the business of all market players. Also, there is little differentiation between companies. Overall, rivalry in the US food retail industry is strong.

## CHAPTER 6 LEADING COMPANIES

### 6.1 Wal-Mart Stores, Inc.

<b>Table 4: Key Facts: Wal-Mart Stores, Inc.</b>	
Address:	702 South West Eighth Street, Bentonville, AR 72716, USA
Telephone:	1 501 273 4000
Fax:	1 479 273 4053
Website:	www.walmart.com
Financial Year-End:	January
Ticker:	WMT
Stock Exchange:	New York
Source: Company Website	
<b>DATAMONITOR</b>	

Wal-Mart Stores (Wal-Mart) is the world's largest retailer. The company operates retail stores in various formats. It operates more than 6,000 stores in the US and 13 international markets including the UK, Canada, Japan, Mexico, Brazil and China. The company retails a broad range of merchandise and services at low prices.

Wal-Mart operates its business under three business segments: Wal-Mart Stores, Sam's Club, and the international segment.

The Wal-Mart Stores segment operates three different retail formats in the US, including discount stores, supercenters and neighborhood markets. These stores differ in size as well as the range of merchandise they offer.

Wal-Mart operates more than 1,100 discount stores in all 50 states in the US. These offer a variety of value-priced general merchandise including: family apparel, automotive products, health and beauty aids, home furnishings, electronics, hardware, toys, sporting goods, lawn and garden items, pet supplies, jewelry, and household wares. The discount stores average 101,000 square feet in size and employ an average of 225 associates.

The company has over 2,000 Wal-Mart supercenters in 47 US states. In addition to general merchandise, Wal-Mart supercenters offer bakery goods, deli foods, frozen foods, meat and dairy products and fresh produce. Supercenters also feature a number of specialty shops such as vision centers, Tire & Lube Expresses, Radio Grill, McDonald's or Subway restaurants, portrait studios and one-hour photo centers, hair salons, banks, and employment agencies. The supercenters average 185,000 square feet in size, employ 350 or more associates on average and offer 142,000 different items.

Neighborhood Markets offer a full-line supermarket and a limited assortment of general merchandise. The company has 100 neighborhood markets in about 15 US states, offering a variety of products, including fresh produce, deli foods, fresh meat and dairy items, health and beauty aids, one-hour photo and traditional photo developing services, drive-through pharmacies, stationery and paper goods, pet supplies, and household chemicals. Neighborhood markets average 42,000 square feet in size, employ 95 associates on average and offer about 29,000 items.

The Wal-Mart Stores segment owns and operates 39 general merchandise distribution centers, 35 grocery distribution centers, seven apparel and shoes distribution centers, 12 specialty distribution centers, three import distribution centers and one distribution center supporting Walmart.com. Additionally, third-party operators are used in 18 distribution centers of which two are grocery distribution centers, five are specialty distribution centers and two are import distribution centers and eight support Walmart.com.

The company operates more than 550 Sam's Club in 48 US states. Sam's Club is a membership warehouse club, serving both individuals and businesses. Individuals, other than business owners, can become Advantage members. The annual membership fee for an individual Advantage member is \$40 for the primary membership card, with a spouse card available at no additional cost. The annual membership fee for business members is \$35 for the primary membership card with a spouse card available at no additional cost. In addition, business members can add up to eight business associates for \$35 each.

The annual membership fee for a Plus member is \$100. Sam's Club offers bulk displays of brand name merchandise, including hard goods, some soft goods, institutional-size grocery items, and selected private-label items under the Member's Mark, Bakers & Chefs and Sam's Club brands. Most Sam's Club warehouses have fresh departments, which include bakery, meat, produce, floral and Sam's Cafe. Additionally, a significant number of Sam's Club offers photo processing, pharmaceuticals, optical departments and gasoline stations. Sam's Club warehouses average 129,000 square feet in size.

The company has more than 2,000 retail stores in other countries. The operating formats vary from country to country, and include discount stores (Canada and Puerto Rico), supercenters (Argentina, Brazil, China, Japan, Mexico, Puerto Rico and the UK) and Sam's Clubs (Brazil, Canada, China, Mexico and Puerto Rico). Wal-Mart also operates Todo Dia (combination discount and grocery stores), Balaio (discount food and general merchandise stores), Bompreco (supermarkets), Hipermercado BIG (hypermarkets), Mercadorama (supermarkets), Nacional (supermarkets) and Maxxi Atacado (wholesale units) in Brazil; Seiyu stores (supermarkets, discount and department stores), Livin stores (department stores) and Sunny (supermarkets) in Japan; Superama (supermarkets), Bodega (combination discount and grocery stores), Suburbia (department stores) and Vips (restaurants) in Mexico; ASDA stores

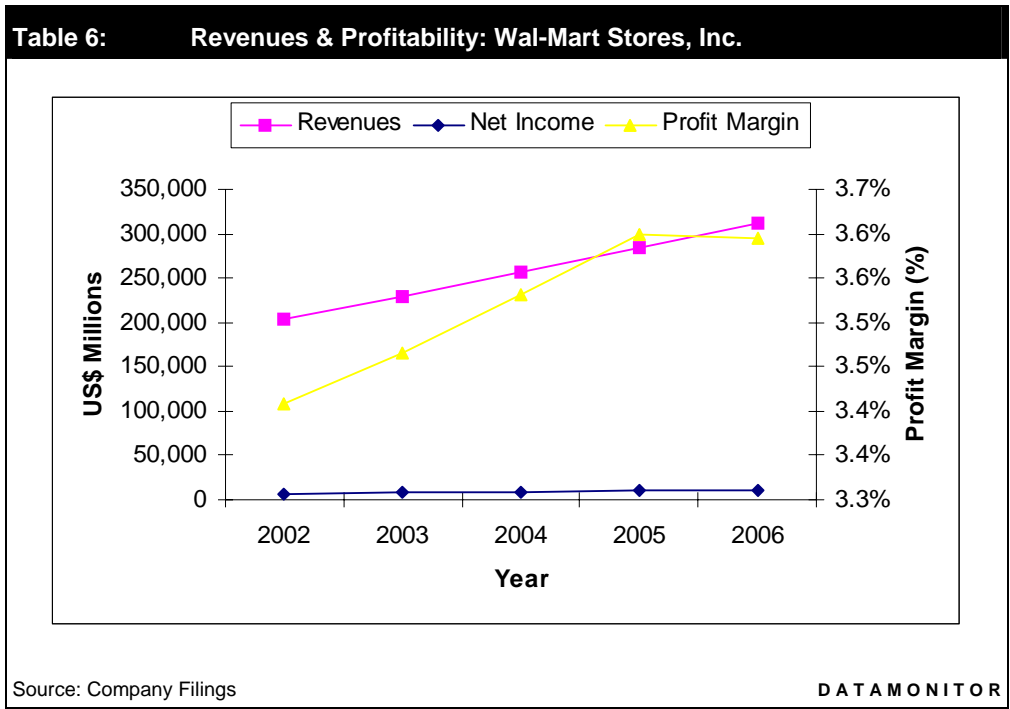
(combination grocery and apparel stores), George stores (apparel stores) and ASDA Living stores (general merchandise stores) in the UK; and Amigo supermarkets in Puerto Rico.

The international segment has approximately 85 distribution facilities in Argentina, Brazil, Canada, China, Japan, Mexico, Puerto Rico and the UK.

**Key Metrics**

<b>Table 5: Key Financials: Wal-Mart Stores, Inc.</b>					
<b>Metric</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Revenues	204,011.0	229,616.0	256,329.0	285,222.0	312,427.0
Net Income	6,952.0	7,955.0	9,054.0	10,267.0	11,231.0
Profit Margin	3.4%	3.5%	3.5%	3.6%	3.6%
Total Assets	81,549.0	92,900.0	105,405.0	120,154.0	138,187.0
Total Liabilities	26,795.0	55,347.0	61,289.0	70,758.0	85,016.0
Employees	1,383,000	1,400,000	1,500,000	1,600,000	1,800,000

Source: Datamonitor DATAMONITOR



## 6.2 Kroger Co.

<b>Table 7: Key Facts: Kroger Co.</b>	
Address:	1014 Vine Street, Cincinnati, OH 45202 1100, USA
Telephone:	1 513 762 4000
Fax:	1 513 762 1160
Website:	www.kroger.com
Financial Year-End:	January
Ticker:	KR
Stock Exchange:	New York
Source: Company Website	
<b>DATAMONITOR</b>	

The Kroger Company (Kroger) is one of the largest retailers in the US, operating 2,507 stores in 31 states under 24 brands including Kroger, Ralphs, Fred Meyer, Food 4 Less, King Soopers, Smith's, Fry's, Fry's Marketplace, Dillons, QFC and City Market. Of these stores, 1,912 had pharmacies and 579 had fuel centers. The company's operations are split into four reporting divisions; supermarkets, convenience stores, jewelry stores and private label business.

Kroger's supermarkets fall under one of the following formats: combination food and drug stores (combo stores), multi-department stores and price impact warehouses.

The combo stores are the primary food store format. They typically draw customers from a two to two and a half mile radius. These stores are large enough to offer various departments, including whole health sections, pharmacies, general merchandise, pet centers and perishables, such as fresh seafood and organic produce. Many combo stores include a fuel center.

Multi-department stores are significantly larger in size than combo stores. Along with the departments offered at a typical combo store, multi-department stores sell a selection of general merchandise items, such as apparel, home fashion and furnishings, electronics, automotive, toys and fine jewelry. Many multi-department stores include a fuel center.

Price impact warehouse stores offer a no-frills, low-cost warehouse format, and feature everyday-low prices plus promotions for a selection of grocery, and health and beauty care items. Meat, dairy, baked goods and fresh produce items are also offered. The average size of a price impact warehouse store is similar to that of a combo store.

Kroger also operates 791 convenience stores in 16 states, under five brands. The convenience stores concentrate on small to medium-sized towns located near interstate highways. Two-thirds of the stores are located in towns with fewer than 75,000 residents. New convenience stores range from 3,300 square feet to 4,000 square feet in size and generally offer 4-8 gasoline pumps.

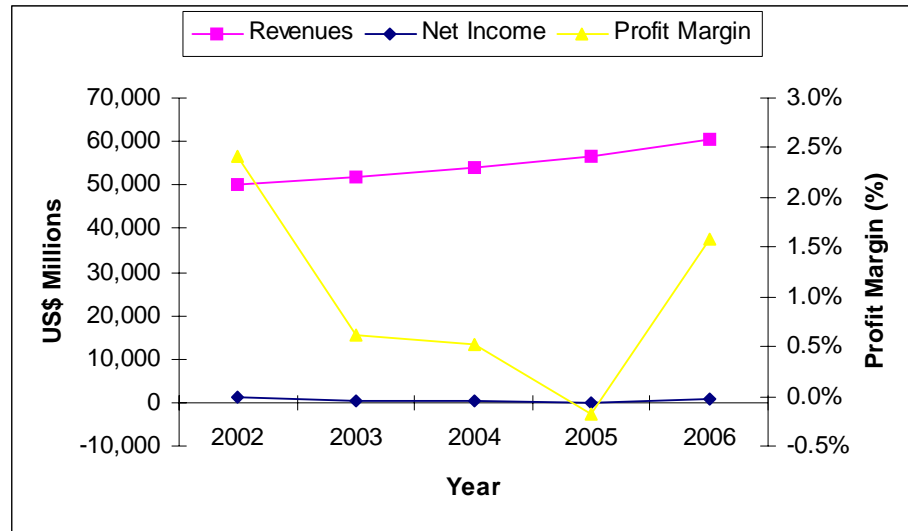
The company operates 428 fine jewelry stores in 34 states. It is the fourth largest jewelry retailer in the US.

The company has a large private label business. Its supermarkets stock about 10,000 private-label items. Kroger's private label products are produced and sold in three quality tiers. Private Selection is a premium-quality brand competing with the gourmet and upscale brands. The banner brands, which represent a majority of the company's private-label products, are designed to be equal to or better than the national brands. For Maximum Value (FMV), the value brand, sells products at an affordable price. Kroger has established 42 manufacturing plants to produce private-label products. These include 18 dairies, 11 deli or bakery plants, five grocery product plants, three beverage plants, three meat plants and two cheese plants.

### Key Metrics

<b>Table 8: Key Financials: Kroger Co.</b>					
<b>Metric</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Revenues	50,098.0	51,760.0	53,791.0	56,434.0	60,553.0
Net Income	1,205.0	315.0	285.0	-104.0	958.0
Profit Margin	2.4%	0.6%	0.5%	-0.2%	1.6%
Total Assets	19,100.0	20,349.0	20,767.0	20,491.0	20,482.0
Total Liabilities	15,585.0	16,252.0	16,173.0	16,872.0	16,092.0
Employees	288,000	290,000	290,000	290,000	290,000
Source: Datamonitor					<b>DATAMONITOR</b>

**Table 9: Revenues & Profitability: Kroger Co.**



Source: Company Filings

**DATAMONITOR**

### 6.3 Costco Wholesale Corporation

<b>Table 10: Key Facts: Costco Wholesale Corporation</b>	
Address:	999 Lake Drive, Issaquah, Washington 98027, USA
Telephone:	1 425 313 8100
Fax:	1 425 313 8103
Website:	www.costco.com
Financial Year-End:	August
Ticker:	COST
Stock Exchange:	New York
Source: Company Website	
<b>DATAMONITOR</b>	

Costco Wholesale Corporation (Costco) operates an international chain of membership warehouses that carry branded merchandise at discount prices. Costco operates membership warehouses based on the concept of offering products to its members at low prices on branded and selected private label products. Costco operates about 507 warehouses, of which 373 are in the US, 70 in Canada, 19 in the UK, 5 in Korea, 5 in Japan and 4 in Taiwan. The company also operates about 30 warehouses in 18 Mexican states. The average capacity of the warehouse operated by the company is 140000 square feet.

Costco acquires nearly all of its merchandise directly from manufacturers for shipment either directly to Costco's selling warehouses or to a consolidation point. Costco's product categories include groceries, candies, appliances, television and media, automotive supplies, tires and toys among others. The company also provides various services such as auto and home insurance, auto financing and refinancing, and mortgage services.

In addition, the company operates self-service gasoline stations in a number of US and Canadian locations. Costco Wholesale Industries, a division of the company, undertakes manufacturing activities such as food packaging, optical laboratories and meat processing. The company also operates ecommerce businesses including costco.com in the US and costco.ca in Canada, which provides its members additional products generally not found in its warehouses and additional services such as digital photo processing, pharmacy, travel and membership services.

Costco's membership format has two primary types of members: Business and Gold Star (individual) members. In addition, the company offers an executive membership program to both business and gold star members.

Business membership is available to corporate houses and individuals with a business license, retail sales license or other evidence of business existence. Individual memberships are provided to organizations, corporations, and corporate companies and also to individuals.

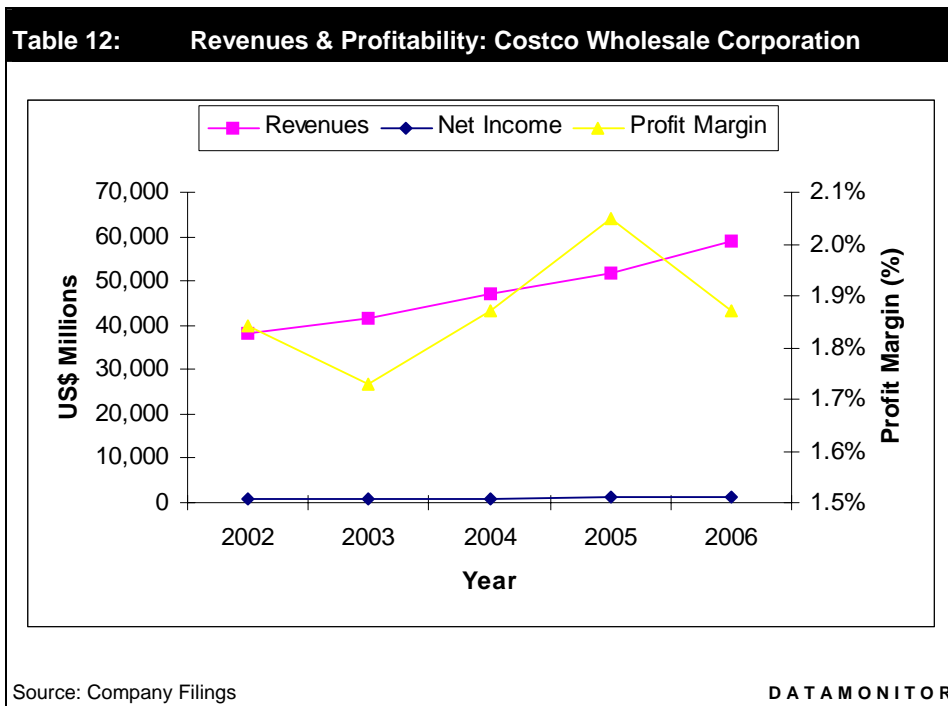
The executive membership program offers members savings and benefits on business and consumer services, such as merchant credit card processing, small business loans, auto and home insurance, long-distance phone services, check printing, and real estate and mortgage services. The services offered are provided by third-party providers and vary by state. They have about 49 million card holders.

**Key Metrics**

**Table 11: Key Financials: Costco Wholesale Corporation**

Metric	2002	2003	2004	2005	2006
Revenues	37,995.0	41,695.0	47,149.0	51,879.0	58,963.0
Net Income	700.0	721.0	882.0	1,063.0	1,103.0
Profit Margin	1.8%	1.7%	1.9%	2.0%	1.9%
Total Assets	11,620.0	13,192.0	15,092.0	16,665.0	17,495.0
Total Liabilities	5,926.0	6,637.0	7,468.0	7,725.0	8,288.0
Employees	100,000	105,000	110,000	120,000	127,000

Source: Datamonitor DATAMONITOR



## CHAPTER 7 MARKET FORECASTS

### 7.1 Market Value Forecast

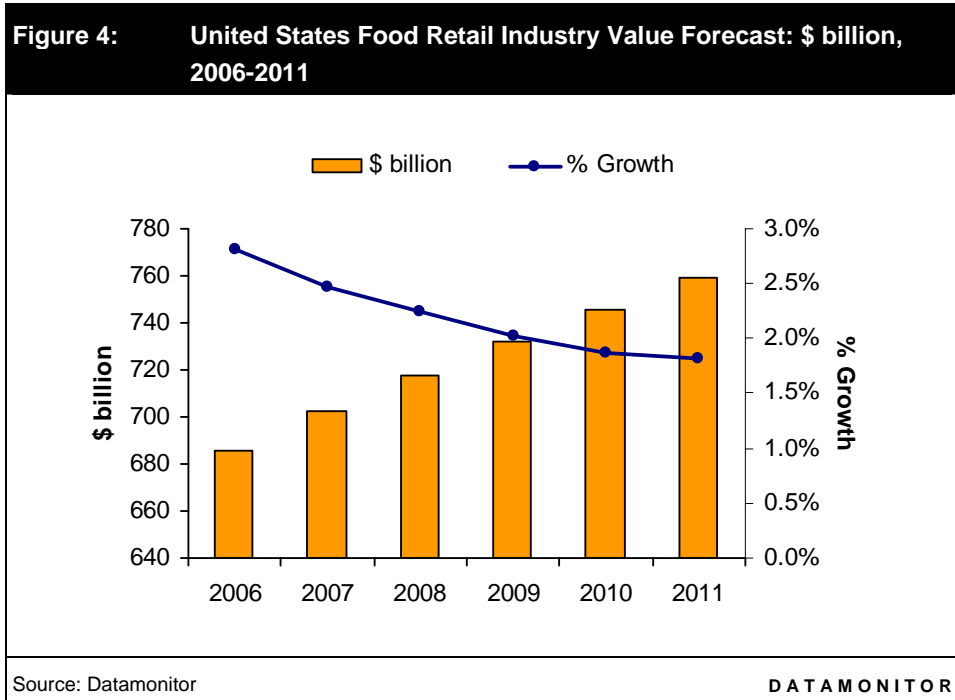
In 2011, the United States food retail industry is forecast to have a value of \$759.5 billion, an increase of 10.8% since 2006.

The compound annual growth rate of the industry in the period 2006-2011 is predicted to be 2.1%.

**Table 13: United States Food Retail Industry Value Forecast: \$ billion, 2006-2011**

Year	\$ billion	\$ billion	% Growth
2006	685.2	685.2	2.80%
2007	702.1	702.1	2.50%
2008	717.8	717.8	2.20%
2009	732.3	732.3	2.00%
2010	746.0	746.0	1.90%
2011	759.5	759.5	1.80%
<b>CAGR, 2006-2011:</b>			<b>2.1%</b>

Source: Datamonitor DATAMONITOR



## CHAPTER 8 MACROECONOMIC INDICATORS

<b>Table 14: United States Size of Population (million) , 2002-2006</b>		
<b>Year</b>	<b>Population (million)</b>	<b>% Growth</b>
2002	287.7	
2003	290.3	0.90%
2004	293.0	0.90%
2005	295.7	0.90%
2006	298.4	0.90%

Source: Datamonitor DATAMONITOR

<b>Table 15: United States GDP (1995=100), 2002-2006</b>		
<b>Year</b>	<b>1995=100</b>	<b>% Growth</b>
2002	113.0	
2003	115.0	1.80%
2004	118.0	2.60%
2005	122.0	3.40%
2006	124.0	1.60%

Source: Datamonitor DATAMONITOR

<b>Table 16: United States Inflation, 2002-2006</b>		
<b>Year</b>	<b>Inflation Rate (%)</b>	<b>% Growth</b>
2002	2.4	
2003	1.9	-20.90%
2004	2.2	18.80%
2005	2.1	-6.00%
2006	2.7	30.70%

Source: Datamonitor DATAMONITOR

## CHAPTER 9 APPENDIX

### 9.1 Methodology

Datamonitor Industry Profiles draw on extensive primary and secondary research, all aggregated, analyzed, cross-checked and presented in a consistent and accessible style.

**Review of in-house databases** – Created using 250,000+ industry interviews and consumer surveys and supported by analysis from industry experts using highly complex modeling & forecasting tools, Datamonitor's in-house databases provide the foundation for all related industry profiles

**Preparatory research** – We also maintain extensive in-house databases of news, analyst commentary, company profiles and macroeconomic & demographic information, which enable our researchers to build an accurate market overview

**Definitions** – Market definitions are standardized to allow comparison from country to country. The parameters of each definition are carefully reviewed at the start of the research process to ensure they match the requirements of both the market and our clients

**Extensive secondary research** activities ensure we are always fully up-to-date with the latest industry events and trends

Datamonitor aggregates and analyzes a number of secondary information sources, including:

- National/Governmental statistics
- International data (official international sources)
- National and International trade associations
- Broker and analyst reports
- Company Annual Reports
- Business information libraries and databases

**Modeling & forecasting tools** – Datamonitor has developed powerful tools that allow quantitative and qualitative data to be combined with related macroeconomic and demographic drivers to create market models and forecasts, which can then be refined according to specific competitive, regulatory and demand-related factors

**Continuous quality control** ensures that our processes and profiles remain focused, accurate and up-to-date

## **9.2 Industry Associations**

### **The National Retail Federation**

325 7th Street, NW, Suite 1100, Washington, DC 20004

Tel: 1 202 783 7971

Fax: 1 202 737 2849

<http://www.nrf.com/>

## **9.3 Related Datamonitor Research**

### **Datamonitor Industry Profiles**

Global Retail in China

Food Retail in Asia-Pacific

Food Retail in Japan

Food Retail in Belgium

Food Retail in Canada

Food Retail in France

Food Retail in Germany

Food Retail in Spain

Food Retail in Europe

Food Retail in Denmark

Food Retail in Taiwan

Food Retail in South Korea

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