

The Kroger Co. - Where Should the Next Customer Dollar Go?

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Case convention: The resource-allocation choice below is hypothetical. Public company statements are attributed; no private management deliberations are represented.

The decision

Imagine you advise Kroger's leadership as it plans its next annual cycle of customer-value investment. By the close of 8 December 2023, the company had reported a mixed third quarter: identical sales excluding fuel declined, digital sales grew, and management described margin support from Our Brands and sourcing alongside the cost of price investment. The public record did not disclose a budget for these initiatives or the return from any one of them. [S1, S2]

Your assignment is to recommend where Kroger should direct incremental 2024 customer-value resources:

1. **Everyday price, personalized promotions, and rewards** to defend value and customer relationships.
2. **Fresh and Our Brands** to strengthen differentiated assortment, quality/value, and mix.
3. **Digital and omnichannel experience** to improve pickup, delivery, and engagement.

These alternatives frame a classroom decision; they are not a disclosed management budget or plan. Explain which evidence supports your choice, what could make it wrong, and what Kroger should learn before expanding the investment.

A retailer with connected strategic pillars

Kroger describes a value-creation model that links its stores, digital ecosystem, Our Brands, customer data, and alternative profit businesses. In its 2022 Form 10-K, Kroger reported one retail operating segment. It described more than 2,700 supermarkets and a broad set of Our Brands products; the company said the portfolio generated more than \$30 billion of sales in fiscal 2022. These figures establish scale, but they do not reveal current product-level margins or the contribution from a specific customer initiative. [S3]

In its third-quarter 2023 Form 10-Q, Kroger said its strategy combined investment in price, associates, technology, and customer experience with savings, mix improvement through Fresh and Our Brands, and alternative profit businesses. The company described lower prices, personalized promotions, and rewards as central to its customer promise. Those disclosures show how management connects the levers; they do not establish that one lever caused a particular sales or loyalty result. [S2]

What the quarter showed-and did not show

Measure	Q3 2023 reported	What it measures
Sales	\$33.957 billion, versus \$34.198 billion a year earlier	Company-reported quarterly sales; not a same-store measure
Identical sales excluding fuel	Down 0.6%	Kroger-defined comparison of sales at identical supermarket locations, excluding fuel
Identical sales excluding fuel, adjusted for Express Scripts termination	Management said it would have increased 1.0%	A company-provided adjustment for lost pharmacy sales; not the reported measure or a causal estimate of underlying grocery demand
Adjusted FIFO operating profit	\$1.022 billion, versus \$1.094 billion a year earlier	Company-defined non-GAAP measure; not the return on any one strategic investment
Digital sales	Up 11%; pickup up 11%; delivery up 20%	Sales through digital channels, included in retail sales; not necessarily incremental company-wide demand

Sources: Kroger Q3 2023 results release and Form 10-Q. [S1, S2]

The 10-Q says third-quarter identical sales excluding fuel decreased primarily because of the termination of the Express Scripts pharmacy agreement. It also reports higher spend per item, partly offset by fewer items in the basket. The release says the measure would have risen 1.0% without the pharmacy-sales reduction. That adjustment helps explain one change in the comparison, but it does not show how grocery demand would have evolved absent the agreement's termination. Nor does higher spend per item alone distinguish prices, mix, inflation, or customer choices. [S1, S2]

Kroger reported digital sales growth, with pickup and delivery both higher. The filing defines digital sales to include products ordered online for store pickup, delivery fulfilled through stores or Kroger's fulfillment network, and shipped products. Digital sales are included in sales to retail customers. A customer who shifts an order from a store aisle to pickup may raise digital sales without increasing Kroger's total sales. Public disclosure does not provide channel-level contribution after picking and delivery costs, or a measure of digital customer incrementality. [S2]

Kroger reported that its FIFO gross-margin rate excluding fuel increased three basis points. Management attributed the improvement mainly to Our Brands, sourcing savings, lower transportation costs as a share of sales, and the Express Scripts change; higher shrink and advertising cost rates and increased promotional price investment partly offset those factors. Kroger also said associate and strategic-growth investment contributed to a 32-basis-point increase in its OG&A rate excluding fuel and certain adjustments. These company explanations describe several concurrent effects, not an isolated ROI estimate for price, private label, or digital spending. [S1, S2]

The distinction between sales, category results, and profit matters. A rise in unit sales or category share is not necessarily an increase in dollar sales or margin. Company-wide sales or operating profit cannot reveal a particular category's profit, and Kroger does not report separate operating returns for price investment, Fresh, Our Brands, or digital fulfillment.

A competitor investing in stores and digital

Walmart reported U.S. comparable sales growth of 4.9% and U.S. e-commerce growth of 24% in its fiscal third-quarter release published on 16 November 2023. It cited strength across pickup and delivery. This establishes a contemporaneous competitor growing through both store and digital channels. Walmart's reporting period, customer mix, portfolio, scale, and metric definitions differ from Kroger's; the figures are not a matched comparison and do not identify a cause of either company's results. [S4]

What research can contribute

Dhar, Hoch, and Kumar studied 19 food categories across 106 large U.S. grocery chains and 50 markets using Nielsen scanner data. Their category-level analysis found that the associations of prices, promotions, assortment, and private-label presence with relative category performance differed across category roles. Lower regular prices were associated with stronger unit category performance across roles, while temporary discounts and displays had different patterns by category type and by unit versus dollar outcomes. The authors used regression models and lagged instruments for some potentially endogenous assortment and private-label decisions; this was not a randomized experiment. The outcome was a relative Category Development Index, not profit or ROI. The study predates today's digital personalization and does not estimate Kroger's return. [S5]

Ailawadi, Neslin, and Gedenk surveyed 319 grocery shoppers at four Massachusetts malls in 1998. They found different self-reported customer characteristics associated with store-brand use and national-brand promotion use, and grouped respondents into four offer-use patterns. Their structural-equation associations and clusters suggest that value-oriented customers may not respond uniformly to private labels and promotions. The study was a small, localized, self-report survey-not a transaction panel, an experiment, or evidence about Kroger's current loyalty customers. [S6]

The studies suggest that a retailer should distinguish category roles and customer responses rather than assume a single value lever works everywhere. They do not tell Kroger how to divide a 2024 budget. Kroger-specific price elasticities, offer lift, product-level contribution, customer-level incrementality, and digital cost-to-serve are not disclosed.

Three hypotheses to test

Invest in price and rewards. Lower prices and targeted offers could protect basket activity and customer loyalty. But reported household or loyalty growth does not establish that the promotions caused incremental demand, and the quarter's higher spend per item alongside fewer items has multiple possible explanations.

Invest in Fresh and Our Brands. A differentiated assortment could support customer value and mix. Kroger attributed some margin-rate support to Our Brands and sourcing, and its portfolio is large. Yet the filing does not disclose whether that support came from higher volume, lower sourcing costs, substitution from national brands, or another mix change; it does not quantify category-level profit or quality perception.

Invest in digital convenience. Pickup and delivery growth could improve access and strengthen customer relationships. The sales growth could also reflect migration from stores to online channels. Kroger's disclosures do not show incremental total demand, channel contribution after variable fulfillment costs, or the economics of each delivery model.

Discussion questions

1. Which of the three resource priorities would you recommend for 2024, and what evidence makes it more persuasive than the alternatives?
2. What is the difference between the reported 0.6% decline in identical sales and management's 1.0% adjusted comparison? What can neither number establish?
3. How would you distinguish a change in price, units, category mix, and pharmacy sales when interpreting Kroger's results?
4. What evidence would show whether digital growth represents incremental company-wide demand rather than channel migration?
5. How would you test the role of Fresh and Our Brands while separating category outcomes from profit or ROI?
6. What measurements should Kroger use to expand, redesign, or stop an initiative? Identify the relevant customer, category, channel, and company-level outcomes.

Sources

- **[S1]** The Kroger Co., “Kroger Reports Third Quarter 2023 Results and Updates Guidance,” 30 November 2023. [Official release](#).
- **[S2]** The Kroger Co., Form 10-Q for quarter ended 4 November 2023, filed 8 December 2023. [SEC filing](#). See MD&A, Item 2, “Our Value Creation Model,” “Sales,” “Digital Sales,” “Gross Margin,” and “Operating, General and Administrative Expenses.”
- **[S3]** The Kroger Co., FY2022 Form 10-K, filed 28 March 2023. [SEC filing](#). See Item 1, “Business,” and Item 7, strategy/value-creation model.
- **[S4]** Walmart Inc., “Walmart Releases Q3 FY24 Earnings,” 16 November 2023. [Official release](#).
- **[S5]** Dhar, S.K., Hoch, S.J., & Kumar, N. (2001). “Effective Category Management Depends on the Role of the Category.” *Journal of Retailing*, 77(2), 165-184. [DOI](#).
- **[S6]** Ailawadi, K.L., Neslin, S.A., & Gedenk, K. (2001). “Pursuing the Value-Conscious Consumer: Store Brands versus National Brand Promotions.” *Journal of Marketing*, 65(1), 71-89. [DOI](#).