Kroger FY25: Performance, Portfolio Optimization & The Path Forward

Key Takeaways

1	Kroger is closing approximately 60 underperforming stores over 18 months while investing in remodels and preparing for new openings in FY26
2	E-commerce sales grew 15% in 1Q25, with improved fulfillment and delivery driving both higher basket sizes and profitability.
3	The Company continues to scale alternative profit streams, including in-house media, pharmacy services, and financial products tied to customer loyalty.

Strategic Reset and FY25 Priorities

With the failed merger with Albertsons in its rear-view mirror, Kroger, one of the largest supermarket chains in the U.S., continues to adapt to a volatile economic environment marked by evolving consumer behaviors, inflationary pressures, and industry disruption. As outlined in its most recent investor conference call on June 20, Kroger's leadership remains focused on customer-centric strategies, margin improvement, and digital transformation, all while navigating a challenging retail landscape. Kroger's 1Q25 results showed strength in several segments, including e-commerce, pharmacy, and fresh products. Identical store sales, excluding fuel, increased 3.2%, a notable improvement over the modest 0.5% growth a year earlier. This performance was attributed to strong customer demand for fresh produce, value-priced private-label offerings, and expanded digital services.

Store Network Transformation and In-Store Growth

A significant component of Kroger's FY25 strategy is optimizing its physical store network. During the investor call, management confirmed plans to close approximately 60 underperforming stores over the next 18 months, resulting in an impairment charge of around $100 million. Although the Company has not identified all the stores it will close during this process and a spokesperson said the Company would not be providing a full list of shuttered stores, a partial list containing all closures to date can be found below. These closures are part of a broader effort to rationalize the Company's store footprint, eliminate inefficiencies, and redeploy resources to higher-performing assets and growth markets.

At the same time, Kroger is investing in 30 major store remodels during FY25, modernizing layouts, upgrading technology, and enhancing the fresh food experience. These updates aim to increase store productivity and improve customer engagement. The Company also plans to accelerate new store openings in FY26, particularly in regions with strong population growth and underserved market potential. This dual approach, notably streamlining in low-performing areas while investing in high-potential geographies, is indicative of Kroger's goal to build a leaner, more efficient retail network.

Digital Growth, Private-Label Strategy and Increasing Traffic

Digital commerce remains a critical growth engine for Kroger, with e-commerce sales up 15% year-over-year in 1Q25, driven by expanded fulfillment capacity, faster delivery, and stronger customer engagement. Central to this strategy is Kroger's 2018 partnership with UK-based Ocado, which granted the Company exclusive U.S. rights to Ocado's automated fulfillment technology. This enabled the Company to roll out eight Customer Fulfillment Centers (CFCs) in key markets including Ohio, Florida, Georgia, and Texas, with two additional CFCs scheduled to open in Charlotte, NC and Phoenix, AZ in late 2025 to early 2026.

While these facilities remain important to Kroger's digital roadmap, the pace of expansion has slowed (initial plans called for 20 CFC's), partly due to its failed merger with Albertsons and shifting strategic priorities. Moreover, Kroger's exclusive agreement with Ocado is expected to end soon, raising the possibility that Kroger walks away from its exclusive status. We believe Sobeys' recent exit from its own exclusive deal with Ocado in Canada, signals a broader market reassessment of centralized fulfillment models. However, while the Ocado partnership may lose its exclusivity, we expect Ocado to remain a core part of Kroger's plan to build a scalable, efficient, and profitable omnichannel grocery model.

We also note that Walmart's success offers a contrast to Kroger's approach thus far, relying on a hybrid fulfillment strategy that leverages stores, automation hubs, and local fulfillment centers to scale online grocery efficiently. In response, Kroger is adopting a more flexible fulfillment approach of its own, integrating micro-fulfillment centers, in-store picking, and dark stores alongside large CFCs. Its last-mile capabilities have also expanded through partnerships with Instacart, DoorDash, and Uber Eats. The Company's "Kroger Express Delivery" service, now active in most major metro areas, caters to small-basket, rapid delivery demand.

Finally, digital transactions are becoming more profitable. Higher average basket sizes and improved personalization, driven by Kroger's 84.51° data science platform, are contributing to better margins.

Next, Kroger's private-label portfolio, marketed under the "Our Brands" umbrella, continues to serve as a key differentiator. Sales growth of private-label products outpaced national brands during the quarter, underscoring the growing consumer preference for value. Management reported that private-label penetration (believed to be about 27% of sales) increased significantly across most categories, including fresh, pantry staples, and household goods. These offerings not only appeal to budget-conscious shoppers but also deliver higher margins. In addition, Kroger's streamlined promotional structure, with fewer complex discounts and more straightforward savings, has also resonated with shoppers. The Company is focused on building long-term loyalty rather than driving short-term spikes in traffic, a strategy it believes will lead to more sustainable growth.

Meanwhile, two categories continue to anchor Kroger's in-store traffic: pharmacy and fresh food. Pharmacy has benefited from expanded immunization services, new patient acquisition, and the launch of value-based care initiatives in select markets. Pharmacy operations are particularly important as they drive repeat visits and increase cross-selling opportunities within the store. Similarly, Kroger's focus on fresh produce, deli, meat, and bakery continues to pay off. Management highlighted that fresh categories not only attract higher-income consumers but also drive larger baskets. Investments in sourcing, logistics, and in-store merchandising have improved the quality and availability of fresh offerings, reinforcing Kroger's value proposition as a high-quality grocer.

Inflation, Supply Chain Innovation, and Alternative Revenue

When asked about inflation and trade tensions, interim CEO Ron Sargent stated that tariffs had a minimal impact on Kroger's cost structure due to its primarily domestic sourcing and vertically integrated supply chain. That said, inflation remains a concern, especially in center-store categories like packaged goods. Kroger's response has been to leverage its scale and procurement strength to negotiate better terms with suppliers and to adjust assortments dynamically based on cost and demand trends.

The Company's supply chain continues to evolve with automation, artificial intelligence, and predictive analytics being deployed to improve efficiency and reduce waste. Kroger's end-to-end supply chain visibility allows it to respond quickly to disruptions, resulting in high availability of products even during demand spikes or vendor shortages.

In addition to its traditional grocery operations, Kroger is expanding its alternative profit model. One notable example is Kroger Precision Marketing (KPM), its in-house media and data monetization arm. KPM allows brands to target customers with personalized ads based on their purchase behavior, generating high-margin revenue. During the investor call, executives noted that this business continues to scale and will be a key contributor to long-term earnings growth. Kroger is also investing in financial services, including loyalty-linked credit cards, insurance products, and digital wallets. These offerings deepen customer engagement and create new monetization opportunities outside of traditional retail margins.

Potential For M&A Going Forward

While the failed Albertsons merger highlighted the challenges of large-scale M&A, Kroger is likely to continue exploring strategic acquisitions to drive growth and maintain its competitive position in the market. These acquisitions will likely be smaller in scale and focus on strengthening the Company's e-commerce and digital capabilities, expanding its private label portfolio, or enhancing its presence in specific geographic markets and emerging segments. The Company's strong financial position ($4.74 billion in cash and $2.75 billion in revolver availability at the end of 1Q25) and cash flow generation provide flexibility for these initiatives, but careful attention to the regulatory environment, competitive dynamics and integration challenges will be the keys to success.

That said, we note that the recent leadership transition at Kroger, following the abrupt departure of former CEO Rodney McMullen and the appointment of Ron Sargent as interim CEO, introduces an element of uncertainty that could impact decision-making regarding M&A. While Sargent has expressed his commitment to continuity and maintaining positive momentum, the board's ongoing search for a permanent CEO could create a period of cautiousness in strategic decisions, particularly on significant ventures like large-scale acquisitions. Thus, while Kroger is likely to pursue smaller, strategic acquisitions, the current interim leadership could create headwinds for significant M&A activity in the near future.

Conclusion

Kroger's performance and strategic execution in early FY25 reflect a company that appears to be in step with the needs of its customers and the realities of the current retail landscape. However, the Company also faces notable challenges that warrant close attention. The ongoing search for a permanent CEO following the recent resignation of Rodney McMullen creates leadership uncertainty, which can impact strategic direction and employee morale. Other headwinds include shifting consumer preferences, and execution risks associated with store closures. Despite the uncertainty, we believe Kroger's proactive strategy, with its emphasis on fresh products, digital transformation, customer personalization, and robust private label brands, creates a strong framework for sustained growth in the constantly evolving grocery retail market.

Recently announced store closures:

State	Address	Closing Date
Georgia	2452 Morosgo Way, Atlanta	July 19
	11877 Douglas Road, Alpharetta	August 16
	3479 Memorial Drive, Decatur	September 13
	3855 Buford Highway, Brookhaven	October 18
Illinois	3311 N. Sterling Ave., Peoria	About August 2
Indiana	4526 W. Western Ave., South Bend	Early August
	901 Johnson St., Elkhart	Early August
Kentucky	4211 S. Third St., Louisville	Not Specified
Maryland	Harris Teeter: 11845 Old Georgetown Rd., Rockville	By July 20
North Carolina	Harris Teeter: 5563 Western Blvd., Raleigh	By July 20
Tennessee	1664 East Done Drive, Kingsport	September 19
Texas	1707 W. University Drive, McKinney	Not Specified
	3410 Gulf Fwy, Dickinson	June 10

Virginia	1904 Emmett Street, Charlottesville	August 22
	466 South Cummings Street, Abingdon	September 19
	Harris Teeter: 8200 Crestwood Heights Dr., McLean	By July 20
	Harris Teeter: 950 S. George Mason Dr., Arlington	By July 20
	Harris Teeter: 3600 S. Glebe Rd., Suite W100, Arlington	August 4
West Virginia	2908 State St., Gassaway	August 22
Wisconsin	Pick 'n Save: 1735 W. Silver Spring Drive, Glendale	Not Specified
	Pick 'n Save: 3701 S. 27th St., Milwaukee	Not Specified
	Pick 'n Save: 2355 N. 35th St., Milwaukee	Not Specified
	Pick 'n Save: 2931 S. Chicago Ave., South Milwaukee	Not Specified
	Pick 'n Save: 2320 W. Ryan Road, Oak Creek	Not Specified