PFMA
Pennsylvania Food Merchants Association

***Advocating for a diverse membership of grocers, convenience stores, wholesalers, distributors, retailers, and service providers across the food and beverage industry.***

**Testimony submitted by the Pennsylvania Food Merchants Association**

**Senate Democratic Policy Committee**

**Lowering Consumer Grocery Costs**

**July 31, 2026**

The Pennsylvania Food Merchants Association has advocated for the food and beverage industry across the Commonwealth since 1952. Today the association represents more than 500 member companies from across the globe that operate thousands of retail food stores, production facilities and distribution centers, and collectively employ more than 400,000 Pennsylvanians.

Thank you for the opportunity to share our perspective on this important issue.

Pennsylvania family budgets are stretched thin by the increasingly high cost of living. The affordability of everyday goods, including food, is a top concern for Pennsylvania residents. Our retail members – grocery and convenience store operators – see this play out every day as customers make choices about what they buy and how they eat.

One of our national partners, FMI, the Food Industry Association, conducted a Grocery Shopper Snapshot survey in September of 2025 that showed most shoppers were very or extremely concerned about:

- The U.S. economy (60%)
- Inflation (63%)
- Rising food prices (67%)

However going into 2026, American shoppers reported feeling more in control over their grocery spending. A similar snapshot in February showed that concern with rising prices had eased considerably from recent years across a range of household expenses. Early in 2026 the US Grocery Shopper Index, a measure of how Americans feel about grocery shopping, hit its highest point since measurement began in 2020.

That changed following the launch of major military operations in the Middle East in the spring. Virtually overnight, oil prices skyrocketed upwards, taking with them a wide variety of consumer goods, from gasoline to groceries. Consumer sentiment correspondingly dropped precipitously.

It is within this context that we reflect on the state of the grocery industry in Pennsylvania, and the structural economic pressures driving the food prices that our shoppers, your constituents, see on the shelves.

To understand groceries requires first understanding their business model. Net profit margins in food retail average less than two percent. In other words, for every hundred dollars spent by shoppers at a grocery, the grocer gets to keep perhaps two dollars after paying suppliers, wages, utilities, freight, and store operating costs. Grocery stores stay in business on the strength of volume – lots of people shopping frequently for many items that on balance contribute towards ending the year just in the black.

Competition drives grocery retail; it is one of the most competitive industries in America. And broadly across Pennsylvania, consumers have a great deal of choice when it comes to how and where they buy food. Retailers therefore have to work hard to gain and retain customers. This demands an intense focus on efficiency and innovation, and obliges retailers to be as aggressive as possible on price. We see the net result on the financial statements. Stores don't leave margin on the table, because they can't afford to.

A consequence of this market environment is that grocers do not have the structural capacity to absorb large, sustained cost increases from upstream suppliers, fuel markets, or regulatory requirements. While grocers work diligently to mitigate price spikes through promotional strategies and alternative sourcing, retail shelf prices primarily reflect the cumulative landed cost of food from producer to store shelf. Retailers actively absorb incremental price spikes where possible, but sustained upstream cost increases must eventually reflect on shelves.

In general, such price spikes have historically tended to be both more moderate and more intermittent, allowing the supply chain to absorb increases in a measured way that mitigates the impacts customers see on pricing. However over the past several years, grocers and their supply chain partners have experienced a level of volatility that has severely tested this capacity.

**Unpacking Input Costs**

It is the price of oil that fundamentally drives many of the costs that go into shelf prices. Tied to it are not only costs like transportation and climate control, but less obvious ones like fertilizer and packaging.

As a result of conflicts in the Middle East, oil has spiked above $100 dollars a barrel multiple times since February. In addition, damage to processing facilities in that region have left fertilizer markets at their most unstable since Russia's invasion of Ukraine in 2022. Countries in the Persian Gulf account for roughly 49% of global urea exports and about 30% of global ammonia exports, products essential for crop production. These shortages are felt around the world, including by farmers in the United States.

One of the hard lessons of the COVID era for the food industry was the critical importance of a resilient supply chain. Wholesale and retail food companies have invested heavily in reworking their supply chain infrastructure to better withstand disruptions of all types. However, much still depends on a steady, predictable supply of the basic building blocks of the food economy.

A lot goes on behind the scenes on the way from the farm to the store shelf. In very broad strokes, here is what it takes to get some core grocery categories to market:

**Beef**

Beef has one of the longest and most capital-intensive supply chains in the grocery store, typically taking 18 to 24 months from birth to retail display. A cut of beef begins as a calf bred and grown by a rancher. Ranchers incur long-term costs maintaining breeding herds, pasture acreage, veterinary care and winter forage. Because cattle reproduce slowly – one calf per cow per year – adjusting to market shifts can take years. Herd contractions due to regional droughts can also raise calf prices significantly. Cattle feed, primarily corn, soy and hay, accounts for fully half of on-farm production costs. Fluctuations in feed grain markets - for example as a result of unexpected rising fertilizer costs - directly drive up beef prices.

Once fully grown, a cow is sold to a meatpacking plant which then harvests the meat, inspects it for health standards, and breaks down the carcass into subprimal cuts. These cuts are moved by refrigerated transport to distribution hubs and stores. Grocers employ skilled butchers to trim subprimal cuts into steaks, roasts, and ground beef, then package them and put them for sale. Meat display cases run continuous power 24/7. Fresh meat has a short shelf life; if cuts do not sell quickly, grocers must grind them down, mark them down, or absorb the loss.

**Eggs**

Eggs are a highly automated biological supply chain in which feed prices, hen housing standards and disease control dictate costs. Feed, again primarily corn and soybean-based, can make up more than half of an egg farmer's direct production costs. Facility costs vary based on farm type. Pasture-raised or organic systems require significantly more land area, lower bird density, and higher-cost organic feed.

Once hatched, eggs are cleaned, sanitized, inspected, graded, and sorted by weight. Molded pulp, foam, or plastic packaging, plus labeling and barcode compliance, add direct packaging overhead. Eggs must maintain a strict temperature-controlled environment from the packing plant to the store shelf, and once on the shelf must also stay around 45F.

One of the greatest cost drivers of eggs in recent years has been Highly Pathogenic Avian Influenza (HPAI) outbreaks. Responding to an outbreak requires mass flock culling and strict quarantine procedures. That sudden and drastic decline in flocks drives prices up fast. The price of a dozen eggs, for example, went as high as $4.82 in January of 2023 due to a resurgence of HPAI that since 2022 had caused the loss of more 82 million poultry birds nationwide. It is important to note that eggs are back down to below $3 a dozen, and while the industry continues to closely monitor for signs of avian flu, a competitive marketplace means there will always be downward pressure on prices.

**Fresh Produce**

Fresh fruits and vegetables have some of the most perishable supply chains in grocery retail. Because they degrade quickly, speed and temperature control drive much of the final retail price.

A crown of broccoli begins on the field. Crop inputs, irrigation rights and soil nutrients represent ongoing investments by a farmer that factor into their costs. Unlike grain crops harvested by combine, many fruits and vegetables require manual hand-picking to avoid damaging the crop. Labor is often the single largest cost driver at the farm level.

Immediately after harvest, crops must be cooled to remove field heat and slow ripening. Produce is washed, sorted by size/grade, trimmed and packaged into clamshells, bags or crates before being transported in refrigerated trailers to distribution centers across the country. A grocery store's produce department is labor-intensive. Store workers must uncrate, inspect, trim, soak or mist items, and continuously hand-stock displays. Produce has the highest spoilage rate in the store; a notable percentage of inventory will bruise, spoil, or be discarded before a customer buys it. This level of attrition is built into the price shoppers see.

And as we saw in Pennsylvania this spring, fruits and vegetables are fundamentally subject to the weather. Droughts, heatwaves and freezing temperatures can all decimate crop yields for tree fruits, fresh produce and grain crops used in livestock feed, significantly raising their price.

**The Wider Spectrum of Overhead**

For all types of food, transportation remains a major component of overall costs. Freight shipping rates are heavily influenced not just by diesel price fluctuations, but factors like toll escalations, and commercial fleet maintenance expenses. As we have detailed, grocers operate cold-chain refrigeration facilities and store cooling systems 24 hours a day, 365 days a year. Increasing commercial electric rates and changing refrigerant regulations add millions in unbudgeted fixed capital costs across retail footprints.

In addition, persistent shortages of Commercial Driver's License (CDL) holders, warehouse logistics personnel, and food processing operators continue to create freight bottlenecks and overtime costs. At the retail store level, grocers continue to make significant investments in hourly wages and health benefits to retain staff in a tight labor market, increasing overall store operational budgets.

Significantly, credit card processing fees have risen to become the second-largest operating cost for grocers, surpassed only by labor. Because swipe fees are calculated as a percentage of the total transaction amount, including state and local taxes, elevated food prices create a compounding fee structure. Every time wholesale prices rise, the dollar amount collected by card networks automatically balloon, placing an artificial, inflationary tax on both grocers and consumers. While groceries hover around the 2% margin figure, Mastercard's 2025 net profit margin was 45%. Bigger still, Visa's net profit margin exceeded 50%. As lawmakers and regulators investigate the causes and contributors to rising prices, we encourage closer scrutiny of the payment processing sector.

Retail theft is also a growing concern – and expense – for groceries. The specter of professional criminal organizations stealing high value food, over-the-counter medication, health and beauty products, and most troubling of all, products like infant formula, is real and costly. PFMA was proud to support the organized retail crime legislation passed by the General Assembly in 2023 and signed into law by Governor Shapiro. Our retail members across the state work with OAG and local law enforcement to take on these bad actors and safeguard their inventories.

**Leveling the Playing Field**

In the face of these and other cost pressures, food retailers must be laser focused on efficiency. Investing in technology is one of the best ways that a grocery store can keep recurring costs down and streamline operations. In almost every case, the goal is to minimize shrink - in essence food waste in all its forms, whether through theft, spoilage, fraud, or other causes. With the net margins for food retail so small, the incentive is high for grocers to be hyper-efficient in their staffing, stocking and ordering practices. Every item on a store shelf that isn't sold eats into that razor-thin margin.

Many technology solutions attempt to combat shrink on multiple fronts – for example, by aligning order volumes with anticipated demand to ensure there are enough products available on shelves while minimizing the stock cushion that leads to spoilage. Conversely, such a system can alert associates to items approaching their sell-by date, allowing store teams to execute timely, dynamic markdowns or shift ingredients into prepared foods before they turn into a total loss.

Fresh departments, like in-store bakeries and delis, are notorious drivers of spoilage. Baking too many loaves of bread in the morning means a lot left over at the end of the day. Rather than making large batches in the morning and hoping for the best, technology can monitor sales trends to notify associates when to bake in staggered schedules throughout the day.

Innovations like electronic shelf labels can also reduce human error and give pricing teams better control over ensuring the price shoppers see in the aisles match what they are charged at checkout. They also free up store associates to better assist customers who need help.

Government policy of course plays a role in the costs borne by food retailers, and their customers.

Maintaining access to fresh, affordable food requires focused public policy support, particularly in economically distressed and geographically isolated regions of the Commonwealth. Operating full-service grocery stores in urban cores and rural townships entails higher overhead costs associated with real estate prices, local zoning requirements, infrastructure and access routes. PFMA continues to support ongoing funding for the Fresh Food Financing Initiative, which provides grants for the construction, rehabilitation, and expansion of grocery stores and other healthy food retail establishments in low- to moderate-income areas. By supporting their growth, the FFFI concept epitomizes what it means to help businesses combat food insecurity, and better support the communities that depend on them.

Many PFMA members are proud SNAP participating retailers, and have been for decades. In our view, SNAP stands as one of the most important and successful public-private partnerships in the country. By temporarily alleviating the burden of food insecurity, SNAP allows families of all shapes and sizes to focus on other essential needs, such as housing, education, and healthcare. Food assistance benefits are primarily redeemed at local grocery and convenience stores, generating economic activity and supporting jobs in the food industry. This influx of spending creates a virtuous cycle along the entire food supply chain. SNAP fraud and the use of electronic skimmers to steal benefits has been a growing scourge on retailers and recipients. We supported and were pleased to see language included in the 2026-27 state budget that will see Pennsylvania transition to EBT chip cards by 2028.

**Conclusion**

Grocery affordability is a complex issue, and achieving a successful outcome requires a collaborative effort between state government and industry leaders to understand the true nature of the problem, reduce structural costs, strengthen local agricultural resilience, and implement practical solutions to protect the low-margin, high-volume supply chain that feeds our state.

Beyond what was outlined in these remarks there are many more aspects of the grocery industry that are worth exploring by lawmakers. From the WIC program to organics, dairy to sustainability to data privacy, to name a few. We appreciate the chance to share our perspective and welcome the opportunity to serve as a resource to the committee as it continues its work.

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