How do supermarkets make money?

KS2 KS3 Ages 7-14 ⏰ 2 min read

Walk into any supermarket and you'll see thousands of products lined up on shelves, from cornflakes to carrots. But how does the shop actually turn a profit from all this? The answer isn't quite as simple as "buy cheap, sell expensive" — though that's certainly part of it.

The Basic Business Model

Supermarkets do start with the obvious method: they buy products from manufacturers and farmers at **wholesale prices**, then sell them to you at higher **retail prices**. The difference between what they pay and what you pay is called the **markup**. For most grocery items, this markup is surprisingly small — often just 20-30%. That might sound like a lot, but remember the supermarket has to pay for the building, staff wages, electricity for all those freezers, and dozens of other costs.

The Secret Money-Makers

Here's where it gets interesting. Supermarkets make extra money in ways you probably haven't noticed. Food companies actually pay the supermarket for the privilege of having their products on the shelves — especially for those prime spots at eye level or near the checkout. It's like renting the best advertising space in town.

Think of a supermarket like a shopping centre that also sells things. Just as shops pay rent for the best locations in the mall, food brands pay supermarkets for the best shelf positions.

Supermarkets also create their own **private label** products — those items with the shop's own name on them. These are usually made by the same companies that produce the famous brands, but sold without the expensive advertising and fancy packaging. The supermarket keeps a much bigger slice of the profit from these products.

Volume Is Everything

The real secret to supermarket success is selling absolutely enormous quantities of everything. Even with tiny profit margins, when you're selling millions of items every week across hundreds of stores, those small profits add up to serious money. Plus, buying in such massive quantities gives supermarkets incredible **buying power** — they can negotiate rock-bottom prices from suppliers who desperately want their business.

Many supermarkets also make money from services beyond just selling food: pharmacies, cafés, petrol stations, and even banking. It's all about getting you through their doors and keeping you there as long as possible, spending money on whatever they can offer you.

Free for educational use