KEYNOTE ADDRESS

THE FOOD TRADE ASSOCIATIONS' VIEW OF THE 1980'S

by

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Good morning, ladies and gentlemen.

It is a pleasure to be here today on the campus of the University of Maryland to talk with you about the Food Trade Association's view of the 1980's.

I can tell you that I for one am looking forward to the balance of today's program...and the rest of your speakers and panelists.

Your program committee has done an excellent job of bringing together a group of outstanding industry representatives who can put into perspective the subject of our discussion today.

The 1980's have already been marked by dramatic change and the subject of how effectively we will be in "managing change" is one that all of us continue to put into operation.

For you from the university community, it means adapting to severe budgetary restrictions and lagging student enrollment while trying to maintain the highest standards of teaching and research excellence.

And for us, it means organizing the staff, programs and members of the newly formed National Grocers Association.

As most of you know, as of October first, CFDA ceased to exist. We merged with the National Association of Retail Grocers (NARGUS) and now we are known as the National Grocers Association.

We believe...we are convinced...that the day that merger took effect, NGA was immediately in a stronger position to provide its membership with stronger representation than either of its two predecessor organizations.

The mission of the new association is to promote and advance the common interests and enhance the mutual understandings and relationships of independent food retailers, retailer owned/ cooperatives and voluntary wholesale distributors.

One of the highest program priorities of NGA will be the expansion of the Management Development Institute which we initiated two years ago at CFDS. The Institute is an ongoing training program for human resources at all levels of food distribution which emphasizes an ongoing curriculum approach to training. I am pleased to introduce to the members of the Food Distribution Research Society, Dr. George Melnykovich, who joins our staff this morning as Vice President for Research, Education and Meeting Services.

George was previously the Dean of Continuing Education at Kent State University and will be responsible for expanding and implementing this education concept which we hope will be of benefit to the entire industry. We will continue to seek your input as we attempt to integrate some of the outstanding programs that are already in place at various campuses throughout the country.
For our purpose is not to re-invent the wheel, but to best utilize what is available in the educational universe in our curriculum. As a result we have already used programs that have been developed by universities, accounting and law firms, manufacturing and distribution companies, and of course, consultants.

But much more in the area of research and education needs to be done as we attempt to change the focus of training at the association level to a comprehensive, integrated system.

But managing change is something that not only you and we are trying to deal with effectively—it is an issue facing the entire industry and the entire country. And, whether the issue is Reaganomics, a merger between CFDS and NARGUS, backhaul, shrinking university budgets, unless "change" is handled right, it can result in polarization. It is important that we do not lose sight of the fact that we, as food operators, association managers and teachers, have a lot more in common than we have dividing us, because we're going to need those common ties in years ahead. And there is no better time than now to strengthen the triangular relationship between the university, trade association and marketplace.

During the 1980's, a lot of the old facts of life will be changing. Old assumptions are getting filtered out in a phenomenon which Peter Drucker calls "sea changes." Not only is the boat rocking, but a lot of what we thought was gospel about navigation in business generally and the grocery business particularly is outdated by the time the new charts come off the printing presses.

These are not mere shades here of Alvin Toffler's notion of "Future Shock." Here is absolute evidence of it in a snapshot of today's national economy and the seeming chaos of the food marketplace.

As for the sea changes, the challenge of the 1980's will be in learning how to manage those changes. Not just adjusting to them, but working them to the betterment of the total system. Doing this is part of our job—and to the benefit of consumers as well as business.

Never before has it been more difficult to plan. Never has it been more difficult to predict the course of the economy. In energy, we seem to have a glut of expensive fuel today. Does anyone know about tomorrow? Does anyone care to predict what interest rates will be in 6 months or in 12 months? Or the unemployment rate?

Inflation has forced a bewildering variety of new breeds of retail formats. Warehouse stores with only limited variety are now a major market force. Proliferation of new products and product sizes to meet new consumer needs causes some suppliers and retailers to despair. This paradoxical product explosion—in the face of limited selection warehouse stores—has been in response to the most profound demographic shift in the nation's history.

But let's not lose sight of the big picture and other external factors that will affect change.

Some of the forces behind this constant change include: the state of the nation's economy, anti-business activists who raise confusion about prices and food safety, government regulation and deregulation, our diminished capacity to raise capital, the myriad implications of changing lifestyles, and the lack of productivity improvement that has reached crisis proportions.

The economy has strapped both profits (the wellspring of expansion capital) and productivity throughout the food economy. A decade of skyrocketing costs and flat productivity now aggravated by double digit unemployment carry the germs of disharmony among us—"sea changes" cause collisions, as Drucker warns.
It is now universally understood that this country is in a "productivity crisis." And that brings us to perhaps the greatest challenge facing the food industry in the '80's, the need to significantly improve productivity. In the '50's and '60's we experienced a rate of productivity growth of around 3% per year. In the early '70's the rate dropped to less than 2%. In the last 5 years, in the midst of economic expansion, less than 1%. And last year's productivity actually declined by 2%.

In fact, the '70's was the first decade in which the American standard of living did not improve.

In the food industry, the word is equally discouraging. We are a labor intensive industry with the cost of labor contributing over 60% to our operating costs. I would suggest that the ever-changing competitive environment of the '80's will require revolutionary improvements in our labor relations strategies. Labor inspired statutory or contractual restriction of productivity improvements like UPC and scanning cannot be allowed to succeed. Consumer groups have announced mandatory item pricing campaigns in at least 9 states.

Dr. Gordon Bloom, the noted food industry productivity expert from M.I.T., told us at a C.F.D.A. convention that "Improvements at almost all levels of the food marketing industry have either been minimal or, in some cases, actually negative." At the warehouse level, despite some progress in automation, Dr. Bloom's research indicates that there has been little improvement in tons per labor hour handled through the warehouse in the food industry.

Partly, the problem relates to our planning process. A five-year planning cycle is workable to achieve many corporate marketing objectives and some productivity goals. But we surely need a mechanism we do not now have for longer-range planning operations.

To most of the companies in the business, long-range planning goes no further than about five years. I do not believe an entire industry can meet its general goals working on this kind of timetable. For example, changes involving modularization or cosmos may require years of nurturing. Can you imagine if we tried to introduce metrication in 5 years?

But what do we do about it?

There is much more we can do...and...I'm sure...there is much that we don't even know about that could be done.

As one famous philosopher...Linus of Snoopy fame...once said..."There's no heavier burden in life than a great potential." He was probably right. But there is great potential and we must take advantage of it.

To do this...in my view...a total systems approach is necessary. I am convinced that the most basic demand placed upon us...is to reach for fundamental system-wide efficiencies...not merely stepping stone projects.

I have been talking for some time now about the need for an industry-wide productivity council to guide overall efforts...to seize present efficiency opportunities...and to discover new longer-term initiatives.

We need to move from the current level of understanding to a plateau of "implementation." We need less talk and more action.

Erma Bombeck once wrote, "The suburbs were discovered quite by accident one day in the early 1940's by a Welcome Wagon lady who was lost." Well...we can't run our businesses hoping that some Welcome Wagon lady will get lost and stumble over some ways to save us money.

The productivity council that I suggest would be a group organized and supported by our trade associations. It would generate ideas that can be put into the flow of the marketplace.
Such a council would become a clearinghouse for future planning of two intimately-related businesses—the business of developing and manufacturing products and the business of distributing these products to the consumer.

As originally conceived...the council would utilize the expertise of not only our trade associations...but the major companies that make up our industry. A wellspring of brainpower...talent...enthusiasm...that if turned loose, could make major contributions to our industry.

But there is a third component that needs to be brought into the mix. And that is the university groups...the research organizations...that often research projects at the request of individual associations and companies...and whose work would be beneficial to us all.

This strong triangular relationship between the association...industry...and university has never been put together in an organized, systemized way.

We need an ongoing...formalized relationship whereby we can identify problems...find solutions...and then implement those solutions.

I should not let this moment pass without complimenting the Food Distribution Research Society on its fine research work.

In fact...in preparing for these remarks...I reviewed the proceedings of last February's annual meeting...that focused on the subject of food distribution productivity. It was an outstanding conference.

But how do we take the results of such meetings...the experiences shared by those who participated...and make them widely available to the companies in our industry in a way that can be helpful to them?

Perhaps our trade associations must perform a more active bridge between the university community and the marketplace in helping to translate research conclusions into operating results.

The productivity problems facing our industry are many and they are diverse.

Our industry is under constant pressure to keep its prices down. We are on the front lines. We're the first to be notified when we have to increase prices because of increased costs to us.

In the food industry...the most feasible way to slow down price hikes is to increase productivity.

Food prices through the 1960's were relatively stable and productivity measures increased.

However...in the 1970's as inflation pushed up operating expenses and other costs...productivity measures declined. In calling for greater advances in the area of operating efficiencies—it is not my intent to understate the accomplishments of ad hoc inter-industry projects.

For example, major progress has been made with the development of computer-assisted checkout scanning systems that allow us to increase checker productivity, increase inventory control, develop more efficient pricing, reduce "shrink," and decrease bookkeeping time.

Data retrieved from the computer helps prevent stock shortages...and allows us to control direct store deliveries. We can track the performance of products as well as stores. And operators can use the data...available faster than ever before...to make strategic changes that are necessary.

New store formats are being used to increase productivity and lower costs...too. Super stores...warehouse stores...combo stores...no frill stores...limited assortment stores...all have an important place in the total food distribution mix.

Perhaps the most revolutionary development...however...is the uniform
communications system--U-C-S--which will allow a distributor to punch his purchase order into a computer and send it directly to the broker or manufacturer. The manufacturer then can invoice in the same way.

A cooperative UCS pilot program involving 13 major distributors...manufacturers...and brokers has resulted in the establishment of a set of message and communications standards for the industry.

The importance of UCS to the food industry cannot be understated. It is, indeed, revolutionary, and its implications for increased productivity are tremendous.

In our warehouses...very practical steps are being taken to become more productive.

Higher ceilings in warehouses are being used to increase the cube...and there is more and more interest in drive-in racking.

And several warehouses have gone into more computer control of basic operations.

We are making improvements in transportation--we fought for backhaul to increase productivity...and we're looking for legislation to allow longer and wider trailers for the same reason.

But all of this talks about equipment and plant.

It doesn't talk about the people who work in our business...the 60 percent or more of our costs that they are responsible for.

This past May, Supermarket News did a major piece on people productivity.

Work with your employees, the article suggested. Take advantage of their ideas. Give them a feeling of involvement. Make them understand that they have a stake in the success of your company.

"Showing up is 80 percent of life," Woody Allen once said.

That's the kind of attitude that's got to be eliminated in our places of employment.

As Jerry Peck said...with his tongue firmly planted in his cheek..."Ninety-four percent of productivity is working smarter and the other 6 percent is showing up for work."

John McClure...Vice President of the American Productivity Center in Houston...was quoted in Supermarket News as saying, "Productivity is often seen as another program, the 'Campaign of the Month.' Productivity is a process, a framework, not a program."

He cautioned that use of people-oriented programs to solve productivity problems is..."not a Band-aid or a magic pill. You can't plug it in and say, 'Okay, it's fixed now.' A quick decision isn't going to cure it." Mr. McClure is right.

We cannot think of this as "just another program" or a "Campaign of the Month." Our industry...the many strides that we've made notwithstanding...must establish a systematic, coordinated and ongoing method of increasing productivity in all of its aspects.

That's why I mention the need for a productivity council and why I believe that the university think tank research facilities must be utilized in every way possible.

Is there an opportunity for us to pool our resources and achieve this in a more efficient fashion? I am convinced that there is.

To quote Linus again..."Once there was a time when I thought I could give up thumbsucking. Now I doubt if I ever could. I'm hooked!"
Last year I participated in the review of a research project at the University of Southern California. It was sponsored by a major manufacturer.

We talked about how the size of operation could affect the efficiency of operation.

As a panelist...my question was "What do we do to put this information to work? Or is it just there...just a part of our storeroom of knowledge?" I repeat that question today. Information has to be more than just a product on the shelf that may or may not get used.

Ed Walzer will tell you that the research arm of Progressive Grocer perhaps communicates in print only five to ten percent of the data it accumulates.

Obviously...our trade publications offer valuable information for our industry. But as Ed points out...there is data...perhaps helpful data...that doesn't find its way into print.

How do we learn about that? How do we accumulate such information? How do we prioritize it? How do we get it out to the industry in a usable way?

Obviously...we have a strong commitment to train our people and to develop new systems to make them more efficient. Hopefully, our Management Development Institute will make a positive contribution to that effort.

But to really do a good job...to achieve that potential there is a need for a research-oriented program that can get our knowledge together and help our people implement the changes needed to cope with today's ever-changing environment.

In the future, we hope that the N.G.A. Research Foundation can be structured to fill that need.

For example, through the Foundation, we would like to host a consortium of academicians...an advisory panel...that will come in...analyze the state of the industry...and offer direction in terms of problems...solutions and implementation.

The results of this work will be presented at conferences and conventions...and in that way enable us to bring needed change to the marketplace.

Two weeks ago...we had our Buyers-Sellers Interface between manufacturers and warehouses. Recommendations were given for making improvements in incomplete shipments...late shipments...and damaged merchandise.

We asked for volunteers of manufacturers and distributors to initiate pilot programs and implement the recommendations on how to improve the problem...and then come back and report on whatever success is achieved. At that point then...we can all learn from such experience...and productivity can be improved.

Those are just some small examples of the nitty-gritty types of things that can be achieved. Nitty-gritty--yes.

But important in the overall productivity--and profit--picture.

Through the active participation of the university community...the private sector...much more can be achieved on an industry-wide basis.

And our associations...together...can play a role in bridging the gap...in bringing people...and information...together.

John T. Dunlop...Chairman of the National Commission on Productivity and Work Quality...put it like this..."If wasteful practices that contribute to higher costs can be eliminated...a much more efficient system can be achieved that will benefit suppliers...distributors...and particularly the consumer...who in the final analysis pays the bill." John T. Dunlop was right.

Thank you.