Lew Norwood, National Association of Retail Grocers

1982 Agricultural Outlook Conference, Session #20
Washington, D.C.

For Release: November 4, 1981

The previous speakers have projected...that relatively large supplies of raw foods and food stuffs will generally limit cost-push from the farm sector in 1982 and the farm value of domestic food production will probably rise only about 1 to 4 percent. In stark contrast, food marketing costs will rise significantly and be the major source of food price inflation in 1982. Food marketing costs may rise 8-10% next year, increasing grocery store prices an average of 6 percent.

My charge, as I understand it, is to discuss my views of the food supply, demand and price outlook, particularly from the standpoint of factors affecting the outlook beyond the farm level.

Quite frankly, I feel a little inadequate in responding for the total food marketing segment...manufacturers, wholesalers and food retailers. In fact, I'm still smarting from a paper that I wrote in 1969 about the Future of the Independent Food Retailer in the 70's. Although I wasn't alone in overlooking the energy crisis, that omission and several others didn't cause any stampede to my door for forecasting the 80's.

I'm willing to accept the 1 to 4 percent increase in the farm value of domestic food production and I'm pleased that the weather, international and domestic conditions look favorable for 1982, as well as the competitive nature of the markets. The ability of American farmers to produce will benefit consumers, even though the prices farmers receive may not make 1982 a good year for farmers.

I'm also willing to accept the 8-10% increase in food marketing costs with an increase in grocery store prices of 6 percent. In a year that inflation is projected to continue at 8-10%...it would seem that the previous speakers might have used less emotional words than "in stark contrast" marketing costs will be 8-10% in 1982.

It's words like that which make good lead statements for news articles to pin the tail on the bad guys...the marketers or the ever elusive middle man that is gouging consumers.

In all fairness, the speakers did, however, pinpoint the important factors that will contribute to the higher food marketing costs next year.

The most important factor contributing to higher food costs will be rising employee compensation...nearly half of all food marketing costs are employee wages and benefits. I recently analyzed a group of NARGUS member stores and found wages and benefits represented 57% of total expenses for operating food stores.

I was interested in noting that the USDA is projecting a slowing of labor increases in 1982 to a 9-10% rise due to an absence of upward shift in minimum wage and smaller increases in employer contributions to Social Security. They also predicted that only moderate wage demands are expected when labor-management negotiations occur in 1982. Also, the slowing of the inflation rate will mean smaller cost-of-living wage adjustments.

I'm certainly in agreement with the projections for reduced labor cost increases, but we would hope too, that improvements in labor productivity will also contribute to reduced labor costs.

Chairman of the NARGUS Board of Directors, Jim Stoll, is taking the Improving Productivity message to NARGUS members all across the nation. In his message, he points out that by setting standards at higher but attainable levels it is possible to get better productivity. He points out that the most important time spent by a store manager is time spent scheduling labor - utilizing hard facts and real measures of productivity. Jim uses the Targeting Scheduling Program...that schedules the jobs to be done and know in advance how long it should take to accomplish it. He also uses true measures of productivity...such as cases per hour or pounds or packages per hour - measures not influenced by inflation.

Jim, like many of our members, is being aided in his push for improved labor productivity by scanning/computer systems. We have been telling our members and the wholesalers that supply them, that if they don't move into the computer age, they are going to be operating at a competitive disadvantage. I see the computers not only improving labor productivity, but also improving decisions related to store location, capital investments, store positioning, space allocations, product locations, energy, shrink and inventory management, product pricing, advertising and promotions, additions and deletions, plus many others.

One of the high labor cost areas of food stores is the meat department, and if you put your ear close to the ground, I believe you can hear some rumbling going on. I'm sure that many of you know that nearly 20 years ago, the USDA established that central packaging of retail cuts of meats was both technically and economically feasible. Many attempts were made but few were successful. We all know that timing is all important. It appears that the time is now right for centrally packaged meat. Scanning -- at the checkout and at the back door -- will remove much of the mystery from the meat department and provide facts for decision making. My guess is that red meat will follow the lead of poultry with most of the processing moving out of the retail store. Boneless pork products seem to be leading the way and beef will be be close behind. Rumor has it that a big box beef processor is getting ready to go with centrally retail packaged meat.

Energy, packaging and transportation costs were also mentioned as other major contributors to marketing costs. Now that energy costs have passed rent in many stores as an expense, it's attracted the attention of marketers, especially food retailers. Although the computerized "black boxes" and heat reclaim systems are getting a lot of publicity, many retailers are finding that some common sense actions like putting doors and strips on frozen and refrigerated cases, improved maintenance practices, better control of lights, doors and insulation are paying off. Yes, many store managers are now reading their energy bills as if they were their profit and loss statements and taking corrective action. I see energy rates moving constantly up. My objective for the food industry is to keep energy costs under control.

As to the 10-14% transportation increases...certainly the USDA research recommending consoldiation of vendor items to food stores is most timely. Although it's recognized that vendors gain merchandising advantages by direct shipment to stores, the cost disadvantages appear to be rapidly outweighing the advantages. Although as stated rail charges will probably rise faster than inflation, it's expected that the reduction in regulatory restrictions, including the allowance of backhauls, and more efficient scheduling and servicing of retail food stores, as well as improved transportation equipment, and greater standardization of shipping containers, should help to offset rising fuel prices and labor costs in the trucking of food.

As to packaging and container costs of 7-8%, I see no drastic changes from the rate projected in 1982. I do, however, see some radical changes ahead as the retortable pouch and asceptic packages challenge frozen and refrigerated products for space in retail stores and the shopping bag of consumers.

In a session of this type, I've often had the feeling we were trying to identify the good guys and the bad guys. In the presentations today, I've felt that maybe we were all trying to determine "how we can provide an adequate supply of safe and nutritious food and desired services to to consumers at prices that reflect a true value at a minimum expenditure of resources." You know, may be we can eventually emulate the Japanese and have business - government - consumers work together to achieve an agreed-upon food and agriculture industry mission.