NEWP

WP-22

NE-165

PRIVATE STRATEGIES, PUBLIC POLICIES & FOOD SYSTEM PERFORMANCE

NE-165 Case Study

The Fresh Company

by

Edward W. McLaughlin

WP-22 August 1991

WORKING PAPER SERIES

A Joint USDA Land Grant University Research Project

NE-165 Case Study

The Fresh Company

by

Edward W. McLaughlin

WP-22 August 1991

This case was prepared while the author was on sabbatical leave at The Netherlands School of Business and Ahold nv, The Netherlands.

The author is associate professor of marketing in the Food Industry Management Program, Department of Agricultural Economics, Cornell University.

The Fresh Company

Abstract

"Koninklijke Ahold nv" (Royal Dutch Ahold) was the leading food retailer in The Netherlands in 1990 with an approximately 36% share of the food and grocery market. Moreover, its four U. S. companies (Giant Food Stores, PA.; Bi-Lo, NC.; Finast, OH.; and Tops Friendly Markets, NY) ranked it number ten among the largest U. S. food retailers. Despite this dominance and obvious knowledge of food wholesale and retail distribution, Ahold had historically been unable to capture a satisfactory share of the fresh food business in The Netherlands. Yet this business represented approximately $7 billion in current business and, perhaps more importantly, was thought by many to hold the key to future success in the food industry.

The case study documents the set of circumstances that led Ahold to experiment with a new food store format that, its management hoped, would allow a more effective penetration of the fresh food business. A project director is appointed with the assignment to build a new fresh foods business. The case describes his initial actions and presents the rather disappointing results after the store had been opened nine months. Part "A" of the case ends with an outline of the areas that the project director feels merit strategic redirection in order to achieve more acceptable performance.

Part "B" of the case summarizes the actions incorporated into a new strategic marketing plan in hopes to salvage the project. New financial results, nine months after the repositioning, are presented.

The Fresh Company

Usage Note

This case is divided into two parts, "A" and "B." Accompanying each part is a "Teaching Note" to assist in understanding the actions taken by The Fresh Company's management as well as to provide further information on the actual outcome of the various strategies implemented.

The case may be of use in several ways. First, read by itself, it accurately describes the actual set of circumstances surrounding the creation of a major new area of endeavor for one of the world's largest food distributors. As such it imparts valuable insights regarding the internal firm decision processes and the strategic options available to a major food company. Perhaps the more valuable use of the case, however, is as a teaching vehicle.

The case has been employed very effectively both with executive groups as well as with students. Part "A" may be used alone but, if time permits, both "A" and "B" together result in a much better understanding of the consequences of the various strategic options. Working either as individuals or in groups, students can be asked to prepare reports regarding what they recommend as the appropriate strategic steps, what data are needed, what errors Ahold has made and what further opportunities lie ahead.

Of course, before distributing the case to students, Part "B" and the "Teaching Notes" should be detached to be distributed later according to the style of the instructor. Anyone with questions about usage is encouraged to contact me at Cornell University, (607) 255-3169.

The Fresh Company

Anton Innemee frowned as he put down his notes on the challenges currently confronting The Fresh Company. He had just finished sketching out these thoughts in response to the troublesome reports delivered from Albert Heijn's Management Information Department (MID) and a meeting with the new company president. The reports, The Fresh Company's operating results for the first six months of 1989, confirmed what Mr. Innemee and his management team suspected: performance was far below original projections. Mr. Innemee, Director of The Fresh Company, had been recruited to join the Albert Heijn Supermarket Company only 20 months earlier to lead its proposed new initiative in fresh foods marketing. The initiative was later named "The Fresh Company." Mr. Innemee was aware of the severity of the dilemma that the reports posed: find ways to turn the Company around or discontinue the fresh foods program.

Food Shopping in Europe and Holland

Once upon a time, food shopping in Europe consisted of the frequent, often daily, trip to the local speciality food store. Indeed, European food lore is inextricably intertwined with the image of the quaint neighborhood shop with its amiable and knowledgeable merchant, skilled in his craft. In this era, when consumers wanted bread, they went to the baker. When they wanted milk, they went to the creamery. When they wanted meat, they went to the beef (or horse) butcher. And so it was with fish, pastry, wine, and fresh fruits and vegetables. After several stops, which generally included a ritual handshake with the shopkeeper followed by an exchange of complaints about one's liver problems and other aliments, the shopper had the ingredients for the evening meal. However, this image was no longer necessarily consistent with the radical ways in which consumer change across Europe was remolding lifestyles and shopping patterns in the latter part of the 1980s.

****

Demographic and consequent lifestyle trends, in particular, were having their predictable impacts. Increasing numbers of two income households and women working outside the home were global trends that were having a profound influence on the nature of all types of retailing, and especially, food shopping. "One-Stop Shopping" had become the passwords. In The Netherlands, the trends were very similar to other European countries. Population growth, household size, female labor force participation, and real expenditures on consumer goods are just a few of the demographic trends that had changed, in some cases dramatically, in the past few years and were forecast to continue to do so (Exhibits 1, 2 & 3). Although the Dutch female participation rate in the labor force is one of the lowest among the industrialized nations, it too had grown markedly in recent years (Exhibit 4.)

Napoleon described England as a "nation of shopkeepers," but until recently, the description seemed much more appropriate to describe continental Europe. Indeed, still in 1990, in spite of rampant consumer change, the local food boutique in Europe evoked images of fresh and delicious food often accompanied by a certain support of the local businessman. This latter sentiment was, according to some, undeniably important to ensure the ambiance and preserve the quality of life, particularly in smaller towns.

However, current reality was beginning to belie the traditional images. The erstwhile backbone of the European food distribution system-- the complex network of specialty shops-- was now taking a rear seat to the contemporary supermarket. France, for example, once regarded as the high temple of food worship, and this almost exclusively in small shops, was now selling the majority of all its food in supermarkets. In 1988, for the first time, the French bought more than half of their foodstuffs (51.4%) at supermarkets and the even larger hypermarkets (stores with more than 5,000 square meters of sales area) rather than at the traditional small shops. In Holland, the situation was similar: Beginning in 1987, consumers bought more of their overall food needs in the supermarket than all other sources combined (Exhibit 5.) Specialty stores of all types were closing in favor of the larger supermarkets (Exhibit 6.)

Reasons most commonly cited by industry experts to explain this phenomenon, were the increasing consumer demands for convenience and variety coupled with the low prices that often could be simultaneously satisfied in the massive format of modern supermarkets. Indeed, a recent controversial consultant's report predicted that, following the U.S. model, European supermarkets would have succeeded in pushing specialty stores to near extinction by the year 2000.

The growing dominance of supermarkets across Europe was certainly good news for companies like Albert Heijn, yet major stumbling blocks remained in the way of continued growth. Despite consumer need and growing preference for one-stop shopping, national laws, local ordinances, and real estate scarcity combined to constrain store expansion. Furthermore, in The Netherlands, although one of the most densely populated countries in the industrialized world (Exhibit 7), the food store density was one of the lowest (Exhibit 8.) Under these conditions, many of the often used retailer strategies for gaining an advantage on competition were apparently foreclosed.

Ahold: Background and Market Position

Ahold, the name adopted in 1973, was founded in 1887 by Albert Heijn with one small grocery shop. Over the following years, many additional stores were added. Thirty years later the number had grown to 30 stores, and by 1950 there were 198 outlets; the first self-service store opened in 1952 and the first supermarket appeared in 1955. The supermarkets operated under the trade name of the founder, "Albert Heijn." Moreover, along the way a number of food manufacturing facilities were built or acquired, such as a coffee roaster, a central bakery, a dairy plant, a wine distillery, a meat fabrication facility and a considerable number of wholesale warehouses. During the 1970s the firm began to diversify into other retailing formats such as liquor stores (Alberto), beauty shops (Etos) as well as several other non-retailing activities: restaurants (AC Restaurants), vacation parks (Ostara) and specialized "border" food stores (Ter Huurne). On the occasion of its 100th anniversary celebration, in 1987, Ahold received the right to call itself "Koninklijke Ahold nv" (Royal Dutch Ahold.)

Between 1977 and 1988, Ahold expanded its food retailing frontiers significantly with the acquisition of three supermarket companies in the United States: BI-LO (1977) a 165 store chain in the Carolinas, Giant Food Stores (1978) a 49 store chain in Pennsylvania, and First National Supermarkets (1988) a 115 store chain in Ohio, New York and New England. By 1988, Ahold ranked as one of the ten top supermarket operators in the U. S with 1988 sales of $3.5 billion (Exhibit 9.)

At the end of the decade of the 1980s, Ahold performance was marked by significant growth and expansion, as investments in existing and new companies reached record levels. Between 1987 and 1988 alone consolidated sales rose from Dfl 11.7 billion (Dutch guilders: 2 Dfl = approximately 1 U.S. $) to Dfl 15.3 billion, representing a 30.7 % increase. Consolidated net earnings for the same year rose by 11.0 % to Dfl 146 million (Exhibit 10.) Ahold held the largest market share of any retailer in The Netherlands (Exhibit 11) , and was increasing its lead each year at the expense of its competitors. In late 1986, Ahold ranked number 12 among the largest distributors, food and non-food, in Europe (Exhibit 12.) By the end of 1988, Ahold employed 78,000 people (49,520 full time equivalents) and operated over 1100 retail outlets in The Netherlands and the United States (Exhibit 13.)

The management at Ahold recognized that the success of the company throughout the years had been based on an ability to respond quickly to the often rapidly changing demands of its consumers. Indeed, Mr. Albert Heijn , grandson of the founder, Ahold's president until 1989, had always insisted on a strong customer-focus. It was primarily this management philosophy that led the Albert Heijn Co. to its commitment to continuous research and monitoring of consumer trends. A devoted follower of this research, Mr. Heijn, by the latter half of the 1980s, believed that the ground swell of consumer interest in health, nutrition and fitness could no longer be ignored. After 45 years in the food retailing business, his business sense told him that these consumer changes were profound and were likely to mean an opportunity for food merchants, most probably in the fresh foods area. These were the circumstances, late in1987, that prompted Mr. Heijn to appoint Jan van Oostveen, Senior Vice-President of Strategic Planning at Albert Heijn, B.V. to explore how best to respond to the growing consumer interest in health, nutrition, fitness and their probable relation to fresh food sales.

The Fresh Company

Mr. van Oostveen took on the project challenge with great vigor. Like Mr. Heijn, he too had been long convinced that, as the largest food company in The Netherlands, Ahold, and its Albert Heijn supermarket division, possessed the expertise needed to take advantage of the vast opportunity he saw in fresh food. He was puzzled, however, that although the supermarkets were gaining acceptance with Dutch consumers, shoppers were often still reluctant to purchase their fresh foods under the same roof with their dry groceries. They still were devoted patrons of the specialty food shops for their fresh food needs. Consumers complained of what they perceived as the lower quality of the perishable foods in the supermarket as compared to the specialty shops, they suspected that the perishables in the supermarket were not as fresh, and, research showed, they missed the masterful, personalized service and friendliness of the specialist (Exhibits 14 & 15.)

Although the percentage of supermarket sales accounted for by fresh foods had grown to about 35 percent over recent years (Exhibit 16), van Oostveen was determined that the large proportion of total sales of fresh foods that did not pass through the supermarket represented an enormous untapped potential for the Albert Heijn Company (Exhibit 17.) After all, specialty food store sales, in The Netherlands alone, represented a Dfl 14.3 billion business in 1988 (Exhibit 18.)

Knowing that he couldn't change consumer attitudes overnight, however, van Oostveen came upon what he regarded as a novel approach: a compromise between a supermarket and a specialty shop. He envisioned a chain of small to medium sized shops where consumers could buy all their fresh food needs at one time, but only their fresh foods, no grocery products. He reasoned that if consumers were going to continue to insist on buying their perishable foods at someplace other than a "supermarket," then he would get Ahold into the specialty food business. Furthermore, he felt that the long term trend of specialty store closings had made available an untapped pool of "food experts" that might be interested in participating in some type of "collective food network" rather than abandon their careers completely. Perhaps franchising should be investigated.

Since his own background was in dry grocery distribution, van Oostveen recognized early in his planning that he needed an individual to lead this new initiative with experience in the fresh food business. Because the existing personnel at Albert Heijn were primarily individual commodity handlers--that is, either meat alone, cheese alone, produce alone, etc.--he felt it important to bring in someone from outside the Albert Heijn organization. Anton Innemee, with a considerable management experience with food manufacturers as well as several prominent food service distributors, combined just the right balance of skills for the job. He was hired to lead the Fresh Project in October of 1987 at a vice-presidential level.

After several lengthy discussions with van Oostveen regarding the basic concept to be followed, Innemee was left on his own to develop the project. He was given free rein to use either Albert Heijn's existing resources or to hire and develop his own. The luxury of this much freedom and executive position carried with it a heavy burden: although a portion of the senior management referred to the Fresh Project as a valuable "experiment," others felt that the Albert Heijn Co. ought to stick to what it knew best--efficient distribution of high-volume, low-margin dry grocery merchandise. Complete focus on perishables represented a fundamentally different business for Albert Heijn. Innemee was aware that often dramatic new business directions required a dismantling of the current power structure, a rejection of the old culture and an establishment of all new management systems. But he realized that such a radical restructuring was neither possible nor desirable in this case. At the same time he sensed that this was one experiment that must not fizzle in the laboratory if his career at Ahold was to flourish.

In the ensuing months, Innemee put his team and concept together. They made the following decisions: three different sized formats would be opened, in three different type locations (urban and suburban), and, although the basic theme would be fresh foods in all three, the larger the size, the more fresh foods would be carried. Service would be offered in all departments. The design would be distinctive, with a hint of upscale. Out of concern for efficiency, operations would attempt to develop synergies with Albert Heijn's other operations to the maximum degree. The stores would take advantage of the excellent cadre of perishables buyers (meat, produce, dairy, etc) that already existed at Albert Heijn and, too, would make use of Albert Heijn's network of manufacturing facilities (eg. Albro Bakery) whenever possible. Most of Mr. Innemee's immediate subordinates and all store level employees would come from Albert Heijn. After dozens of names were considered, "The Fresh Company" (TFC) was adopted in June 1988 as the most appropriate imagery for the concept that Mr. Innemee was about to launch.

In the fall of 1988, the three Fresh Company stores were opened: a 70 square meter (700 square feet) store in Amsterdam-Osdorp, a suburb of Amsterdam, a 330 square meter (3,300 square feet) store in an outdoor consumer mall in Eindhoven, a town of 350,000 in the southern part of The Netherlands, and a 500 square meter (5,000 square feet) store in the heart of Amsterdam's business, tourist, and residential shopping area.

Initial Results

After the initial excitement typical of most new store openings, the three stores settled into a pattern that was to spell trouble for Innemee. Customer counts were disappointing. Sales were not attaining their projected levels in any of the stores and, moreover, costs had exceeded expectations in each instance as well (Exhibit 19.) Although gross margins exceeded The Netherland's supermarket industry average (Exhibit 20), they were still not adequate to cover the higher costs of operation for an "all fresh" store. This situation had to be addressed quickly in order to meet the one year breakeven period, already twice as lenient as the standard in the supermarket industry, that had been given to Innemee.

Thus, in an effort to redress the financial picture, Innemee called for a consumer study to identify the types of people who were shopping in his stores, where they were coming from and where they lived. There were a number of other obvious questions that Innemee knew would be useful but he felt that cost and time constraints precluded asking them. Partial results from this initial consumer research, conducted in April, 1989, are contained in Exhibit 21. Although, interesting, Innemee's team concluded that the specfic research findings were not likely to be helpful in improving the company's profit picture. At the same time, however, they were encouraged by one overall impression that emerged from the study: an incontrovertible consumer affirmation of the fresh store concept.

Despite the many small adjustments which had been made during the first nine months of operations, in July 1989 Innemee looked with gloom at the most recent reports brought down from MID this morning. He was dismayed to note that his intent to upgrade labor quality in March apparently had not been successful (Exhibit 22.) Sales were still below levels necessary to sustain the fresh experiment. Labor costs had generally declined but gross margins were still far below the projections called for in the origninal budget and strategic plan (Exhibit 23.) The situation was serious enough that van Oostveen had summoned Innemee to his office that morning to discuss the seriously deteriorating situation. Innemee reacted decisively: he recommended closing the smallest Amsterdam-Osdorp store on August 1. It was by then clear that the store performance could not be turned around. This action would subsequently permit complete emphasis on the two stronger stores that remained.

Furthermore, as part of the overall management transition at Ahold after its long-time president, Mr. Albert Heijn retired on September 1, 1989, other more difficult questions were being put forth regarding the future of the Fresh Company. Although fluent in Dutch due to his Flemish birth and upbringing, Pierre Everaert, the new president, was an American. He believed that rapid demonstration of financial health was an absolute prerequisite for any new enterprise. He felt that European standards for "long" payback periods were an unnecessary luxury. Hence, van Oostveen requested that, in light of TFC's continued lack of financial improvement, Innemee prepare a report enumerating his intended responses to each of the major challenges that currently confronted TFC. These responses would constitute, van Oostveen explained, the strategic blueprint for TFC's immediate future, and likely last chance.

Current Challenges

Innemee began by outlining his thoughts regarding the challenges that faced TFC and the progress that had been achieved to date. His notes are below:

Δ Labor: This is perhaps the most critical issue from two respects. One, simply finding the right persons to fill the many service positions in the store has proved to be a bigger problem than anticipated. The professional craftsmen required are not attracted to the low salaries of the supermarket industry and, moreover, do not seem to feel that working for a supermarket company carries any career distinction. Working for a supermarket company is apparently viewed as stifling the creativity upon which many a food specialist prides himself. Second, related to the first, is the problem of unacceptably high labor costs. The service orientation that is *essential to differentiate TFC from the conventional supermarket is costing dearly. Thus, identifying the appropriate store personnel and subsequently improving their productivity is a top priority.*

Δ Positioning: The target group developed for TFC is all fresh foods consumers. It is, after all, TFC's objective to offer the widest variety possible of fresh foods all under one roof. This strategy has the advantage of appealing to the widest variety of shoppers; the target is not limited in scope to one consumer segment only. One possibility, however, is that the current target casts too wide a net: are we confusing our position with too many images to too many people? We have worked hard to keep our prices in line.

Δ Location: It was evident early on that location was a critical factor. We strived for high-traffic, urban sites for our first stores. However, we now realize that the exorbitant costs for these highly desirable locations may present a higher hurdle that we had originally calculated. Whereas, for example, an average Albert Heijn supermarket pays approximately fl 250 per square meter for real estate costs, our central Amsterdam store pays over fl 650 per square meter. This adds considerably to our difficulty in breaking even.

Δ Merchandising: We have deliberately sought to create a unique, upscale decor and have complemented that uniqueness with an attractive variety of fresh food departments. Service is emphasized. We are convinced that the in-store preparation "drama" is important to communicate our image to shoppers as the experts.in fresh food and food preparation. Although we are anxious to attract more shoppers, we are constrained by the so-called "Shops Early Closing Act" which restricts retail food stores to 52-hour opening schemes per week, with a required 18.00 hour closing regulation. Although many European countries imposed such restrictions on its retail shops, the situation in The Netherlands was believed to be the most severe (Exhibit 24.) Only outlets selling complete meals to consumers, like restaurants, are currently permitted to remain open longer. It is clear that there are merchandising opportunities for The Fresh Company outside of these restrictive hours, as evidence by the considerable share of Thursday's sales, the one day a week where 18.00-21.00 opening hours are allowed, that are conducted after 18.00 (Exhibit 25). But thus far Parliament has accepted none of the many alternative proposals for extended hours put to it by the retailers' trade association.

Δ Product Mix: TFC began with a full range of fresh products, some supplied by the traditional distribution network of Albert Heijn and, when this was not feasible, some were supplied by independent, external suppliers and distributors. The department planogram and the store design were considered to be unique (Exhibit 26.) It is tempting to ask how the mix and design should now be altered. Very few of the departmental categories are achieving their expected contributions to total sales. An *exception is the new department/category, "Fresh Prepared Meals." This product group consists of various medium priced dishes and meals, generally totally prepared for immediate consumption (with modest reheating or microwaving.) These meals are, so far, entirely prepared outside the store by small food processors and delivered to the store. Most of the other departments have considerable amounts of food preparation activity actually conducted on the store premises. It is believed that this in-store "theater," despite the high rate of product losses incurred due to the small batch processes, adds immeasurably to the consumer perception of freshness. Another curious observation is that the small dry grocery/wine group has very attractive net margins.*

Δ Promotion: Although our principal vehicle for communication with the public has been through local newspaper advertising and our own colorful bi-weekly newsletter complete with holiday food ideas and exotic recipes , it is not at all clear that our message is getting through. However, television is too expensive and national newspaper and magazines seem inefficient. Perhaps this is an area to be examined.

The "Turn Around" Plan

Mr. Innemee read through his notes to himself a second time. He hoped he had not left out anything essential because he knew that his report of responses to these challenges would be viewed critically by Messers van Oostveen and Everaert both. He had convoked a meeting tomorrow afternoon to discuss the new MID operating results reports and van Oostveen's hard reaction to them with his key staff members. Over the next few weeks it would be his task, and that of his staff, to submit an innovative plan to Mr. van Oostveen on the future of The Fresh Company.

THE FRESH COMPANY: A

TEACHING NOTE

CHANGES MADE TO TFC - October 1989

ASSORTMENT

According to consumer types:

- Living in neighborhood: daily food and more complete mix
- Working in area: daily food, as well as fast and more convenience products; open later in evening
- Shoppers and tourists: impulse and special and unique, trendy, seasonal items, upscale

LABOR

- More self-service
- Central check stands
- Service merchandising and training, but . . .
- Less in-store production -- "just enough theatre"

OPERATIONS

- Improved inventory control
- Reduce shrink

DISTRIBUTION

- Specialized wholesalers, not Albert Heijn system
- Specialized processors

PROMOTION

- Education materials -- recipes, menus, Fresh News
- Attention to visual merchandising, regular theme events, in-store demos
- Gift boxes
- "Fax Food"
- Catering, party platters

THE FRESH COMPANY: B

After much debate and a certain amount of agonizing with his management staff, Anton Innemee decided to focus his efforts and those of TFC on four major areas of change. He remained convinced that the basic concept was correct and believed that adjustment to these four areas would succeed in boosting TFC into profitability. In August 1989, Van Oosteen approved the following changes, hoping that Innamee's enthusiasm was warranted:

1) COST CONTROL -- knowing that margin improvement was needed, Innemee felt that costs should be reduced. Moreover, a number of inventory control improvements were suggested and efforts to lower shrinkage and loss were to be redoubled. Importantly, much more self-service would be introduced.

2) DISTRIBUTION -- Innemee concluded that employing Albert Heijn's traditional procurement and distribution systems was undermining his uniquely different concept. The "efficiency and volume" mentality of the dry grocery channel worked at counter purposes to what was envisioned for TFC. Thus, he proposed abandoning distribution ties with AH entirely and, instead, using local food processors and small specialized distributors.

3) **PRODUCT MIX** -- the assortment of goods was to be more closely coordinated with the three primary shopper types:

- a more complete line of daily food needs would be added for those consumers living in the immediate neighborhood of the store.

- more convenience products would be added for those working in the area.

- more impulse type items and specialty or "fun" products would need to be carried to appeal to the tourists and passing shoppers.

4) **RENOVATION** -- taking advantage of a "loophole" in the Opening Hours legislation that allowed late hours sale of restaurant foods, Innemee suggested the installation of removable metal gates in TFC that would permit consumer access only to the prepared (eg, "restaurant quality") foods departments after the ordinary 1800h closing.

The changes were put into effect and the minor physical renovation was completed in October 1989. Van Osteen asked for a new financial report in six months.

In May 1990, Innemee delivered the report below comparing the TFC financial results before the changes with its current status:

FRESH COMPANY FINANCIAL RESULTS (INDEXES)

	Budgeted Plan Sept. '88	Actual: First 9 Months July '89	Actual: After Repositioning April '90
Sales	100.0	79.0	102.5
Gross Margin	32.0	24.2	32.0
Costs:			
Labor	16.0	18.7	17.2
Misc.	6.0	6.9	6.4
Rent	5.4	6.9	5.9
Depr.	4.6	5.8	4.6
Net	0.0	-14.1	.4

Van Oosteen's reaction was predictable. He congratulated Innemee on his managerial skill and orchestration of an impressive turn-around. But he pointed to the short-run nature of much of what had been accomplished. The financial results were in the desired direction, perhaps even acceptable, but hardly exceptional for a $10 billion company. What exactly, he wanted to know, was Innemee plannng for TFC in the long run?

THE FRESH COMPANY: B

TEACHING NOTE

FRESH COMPANY FINANCIAL RESULTS
INDEXES

	Budgeted	Actual		
	Plan	First 9 Months	After Repositioning	
	Sept. 88	July '89	April '90	April '91
Sales	100.0	79.0	102.5	110.0
Gross Margin	32.0	24.2	32.0	33.3
Costs:				
Labor	16.0	18.7	17.2	15.5
Miscel.	6.0	6.9	6.4	5.8
Rent	5.4	6.9	5.9	5.0
Deprec.	4.6	5.8	4.6	4.1
Net	0.0	-14.1	0.4	2.9

THE FRESH COMPANY: B

TEACHING NOTE

ALTERNATIVES FOR TFC IN LONG RUN

- Increase price to improve margins -- elasticity studies needed
- Shorter opening hours in morning
- Investigate cheaper sites for expansion
- Experiment with alternative shop size
- Franchising possibilities
- Reduce promotion but sharpen targets -- direct mail, holiday gift boxes, etc.
- Prepare all food outside
- More self-service --"illusion of service"
- Off hours window sales
- Consider in-store eating
- "FAX food"
- Integration of TFC lessons into Albert Heijn

NE-165

PRIVATE STRATEGIES, PUBLIC POLICIES & FOOD SYSTEM PERFORMANCE

Working Paper Series

Purpose: The NE-165 Working Paper Series provides access to and facilitates research on food and agricultural marketing questions. It is intended to be a publication vehicle for interim and completed research efforts of high quality. A working paper can take many forms. It may be a paper that was delivered at a conference or symposium but not published. It may be a research report that ultimately appears in full or abbreviated form as a journal article or chapter in a book. Using the working paper series enables a researcher to distribute the report more quickly and in more extensive detail to key research users. A working paper may also be an end product in itself, for example, papers that collate data, report descriptive results, explore new research methodologies, or stimulate thought on research questions.

Procedures: Working papers may address any issues in the food and agricultural marketing area as described in the NE-165: Private Strategies, Public Policy and Food System Performance, project statement. This research agenda is available from Professor Ronald Cotterill, Chair of NE-165 at the address given below. A prospective working paper should be forwarded to the Chair who will coordinate a review of the paper by two research peers. Alternatively authors may submit two independent peer reviews with their paper. Based upon independent reviewer comments the Chair may accept, accept with revisions, or reject the submission. If accepted the Chair will issue working paper covers, and a mailing list to the author who shall have responsibility for preparing and distributing copies to all persons and organizations on the mailing list. Additional copies of working papers are available from the author or from the Food Marketing Policy Center at The University of Connecticut.

Professor Ronald W. Cotterill, Food Marketing Policy Center.
Department of Agricultural Economics and Rural Sociology
Box U-21
The University of Connecticut
Storrs, Connecticut 06269-4021
Tel. No. (203) 486-4394