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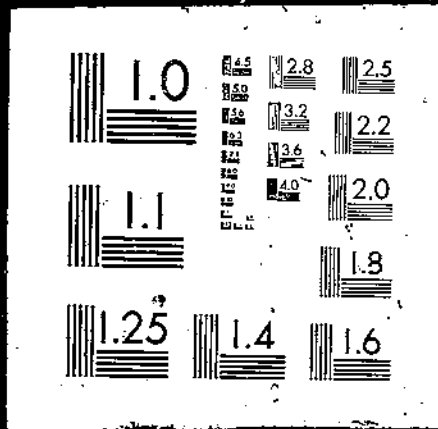
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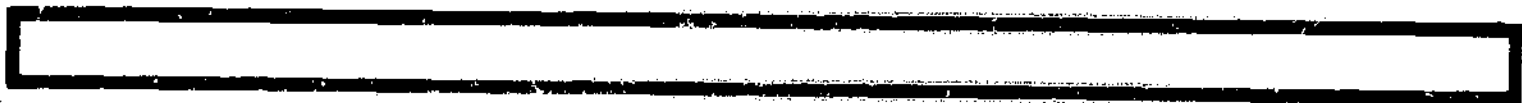
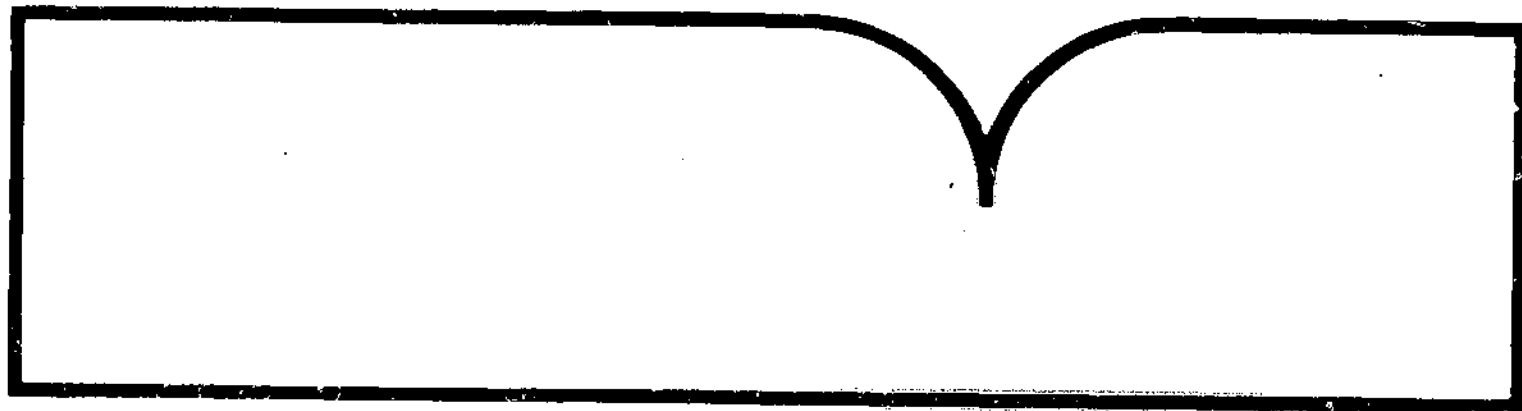


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Food Marketing in West Germany
Developments, Prospects for 1980
Significance for U.S. Exports

(U.S.) Economic Research Service, Washington, DC

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ABSTRACT

West Germany's food industry is expanding and modernizing rapidly. To increase or retain their share of the German market, U.S. firms must use the same merchandising efforts in marketing food as they use in the United States. Germany's food market may grow 23 percent from 1970 to 1980. Sales of processed foods are rising about twice as fast as total food expenditures, while sales of convenience foods and numbers of meals eaten away from home are increasing even more rapidly. The increasingly affluent Germans are not only upgrading their diets, but also are buying autos and refrigerators, which are essential to supermarket retailing. Supermarkets are growing in number and size, while small traditional grocery store numbers are declining rapidly. Mergers and acquisitions are expected to reduce the 30 large food distribution firms that U.S. exporters must deal with to 18 or fewer.

Keywords: West Germany, food, marketing, food manufacturing, exports, marketing research.

This report is the third market-structure study of its type sponsored by the Foreign Agricultural Service of the U.S. Department of Agriculture and carried out by the Economic Research Service. The others are: Food Marketing in Benelux Countries, U.S. Dept. Agr., Foreign Agr. Econ. Rpt. No. 70 (Mar. 1971), and Food Marketing in Denmark, U.S. Dept. Agr., Foreign Agr. Econ. Rpt. No. 72 (July 1971).

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SUMMARY

The West German market for processed foods and some other farm products is expanding and changing rapidly. Traditional German patterns of food shopping and consumption are moving toward the U.S. pattern. Suburban shopping centers, supermarkets, self-service department stores, and neighborhood superettes are replacing small specialty food shops. Large corporate and cooperative food and department store chains and organized groups of independent wholesalers and retailers have nearly displaced fully independent grocers and wholesalers. Comparable structural changes are taking place in German food manufacturing. Therefore, the same intense, expert, continuing merchandising used in marketing food in the United States is needed for marketing U.S. foods in Germany. Most of this effort must be concentrated on the 30 large buying firms that dominate the German food market. Through mergers, these firms may number only 18 within 5 to 10 years. The growing market power of these food distributors is increasing pressures on food manufacturers to participate in joint processor-distributor promotions, to depend heavily on direct merchandising by skilled salesmen, and to market more of their products under distributor brands. High costs of product promotion and restrictions on radio and TV advertising in Germany also favor these marketing methods. In addition, structural change in German food distribution is rapidly reducing the importance of the traditional import agent in marketing imported foods.

The dynamic nature of German food marketing intensifies pressures on U.S. exporters for continuing expert analysis and modification of marketing strategies and methods to expand product sales. Germany's major food retailers, like their U.S. counterparts, are looking for new food products that meet rising German consumer demands for convenience, health, quality, and variety; that are reasonably priced; and that help retailers to achieve their sales and profit goals. In the rapidly growing institutional market, food service enterprises are seeking frozen and other prepared foods that will help them to offset rising costs resulting from rising wages and shortages of skilled workers. In addition, to overcome the serious price disadvantages of some U.S. food products in Germany and to expand German imports of these goods, there remains the need to reduce Common Market tariffs and nontariff restraints on trade in agricultural products and to reduce U.S. production and marketing costs relative to those of competing suppliers.

Germany imported nearly \$700 million worth of U.S. food and farm products in 1970--about 11 percent of all its agricultural imports. The future will hold even greater competition and challenges to the U.S. food industry to expand its exports. Major German food processors are becoming more efficient as they adopt modern production, management, and marketing methods. Leading German retailers, facing increasingly intense competition, are demanding more from suppliers on all key market variables--prices, quality, packaging, delivery schedules, product and market research, and promotion programs.

Economic growth is the main source of Germany's food industry expansion and modernization. Gross national product increased about 4.7 percent annually, in constant prices, in the 1960's and is expected to grow about 4.0 percent a

year in the 1970's. If this happens, per capita food expenditures may increase 1.5 percent annually. Retail food sales, assuming a population growth of 0.6 percent a year, may rise about 23 percent from 1970 to 1980.

Increasingly affluent German families are buying higher quality and more expensive foods. They are eating a greater variety of foods and are becoming more selective in food shopping. Sales of processed food are rising about twice as fast as total food expenditures, while sales of most convenience foods and numbers of meals eaten away from home are increasing even more rapidly. Product groups with high sales growth potential include frozen foods, pet foods, fruit juices and drinks, baby foods, and canned and frozen prepared main dishes and meals. Sales of "health" and low-calorie foods and fresh fruits and vegetables also are increasing.

Rising family incomes in Germany permit mass ownership of automobiles and refrigerators, which are essential to the growth of supermarkets, the keystone of a modern system of mass marketing. Affluence and autos have initiated a trend to suburban living which has had great impacts on food shopping habits and on numbers, types, and locations of foodstores. The general tempo of German life is changing as a result of suburban living, larger incomes, more working wives, more cars and kitchen equipment, more leisure, and more education. Continuing study of these forces is needed to assist U.S. food exporters in planning marketing operations in a changing marketing environment.

Germany had about 245,000 foodstores of all types on January 1, 1971, compared with 350,000 a decade earlier, and will continue to lose about 200 stores a week. By 1980, Germany may have no more than 135,000 to 145,000 foodstores. In the decade ending January 1, 1971, self-service stores increased from 22,619 to 86,398. The number of supermarkets jumped from 250 to 2,980. By 1980, an estimated 9,000 supermarkets (including the food sections of department stores) will account for 65 percent or more of all retail food sales. New neighborhood superettes may account for most of the remaining sales as they supplant thousands of specialty shops.

German food manufacturing is also in a period of rapid change. In January 1971, Germany had an estimated 10,400 food, feed, and beverage factories employing about 500,000 people--less than 6 percent of all industrial workers. Most of these factories are small, family enterprises. Nearly half employ fewer than 10 workers. Mergers, acquisitions, and liquidations are expected to reduce factory numbers rapidly--by about one a day. This reduction will be concentrated among factories employing fewer than 100 people. Despite the many small food processing firms, it is estimated that only 10 large multiplant companies, including German subsidiaries of big multinational corporations, account for about 75 percent of Germany's production of manufactured foods (excluding meat packing, milk processing, egg packing, and similar limited processing operations). Another 50 to 70 companies are large enough to distribute their products nationally and to compete effectively with foreign manufacturers.

FOOD MARKETING IN WEST GERMANY:

* DEVELOPMENTS

* PROSPECTS FOR 1980

* SIGNIFICANCE FOR U.S. EXPORTS

by

Norris T. Pritchard, W. Scott Steele, 1/ and William P. Huth 2/

I.--INTRODUCTION

Background

The Federal Republic of Germany is world famous as the nation of the modern "Wirtschaftswunder" (economic miracle). Since World War II, its industrious people, now numbering nearly 62 million, have rebuilt their country into one of the world's great industrial powers. From 1960 to 1970, West Germany's gross national product (GNP) rose about 4.7 percent a year, in constant prices (3, 41). 3/ With a 1970 per capita GNP of 11,009 DM (\$3,008 at 1970 exchange rates), 4/ Germany ranks high among the world's affluent nations and is Western Europe's largest food market. Population and affluence are causing the West German food market to expand about 2.1 percent a year.

As a major industrial nation, Germany is important in world trade. In 1970, Germany's exports of 125,300 million DM were 18.5 percent of GNP and 1970 imports of 109,600 million DM were 16.2 percent of GNP (3). 5/ Because Germany is only 70 percent self-sufficient in food production, it imports large volumes of agricultural products--about \$6.4 billion in 1970. The

1/ Agricultural economists, Foreign Development and Trade Division, Economic Research Service.

2/ Agricultural economist, Trade Projects Division, Foreign Agricultural Service.

3/ Underscored numbers in parentheses refer to items in Literature Cited, p. 46.

4/ The 1970 official rate of exchange was \$1.00=3.66 DM (Deutsche Mark). In 1971, both the dollar and the mark were allowed to float. By late December, according to newspaper reports, the new official rate was fixed at \$1.00=3.223 DM, an increase of 13.5 percent from the 1970 rate.

5/ U.S. shares of Germany's 1970 exports and imports were 9.1 and 11.0 percent, respectively.

United States supplied \$696 million, or nearly 11 percent, of these agricultural imports, in the following major commodity groups (68):

Oilseeds and products	\$313 million
Feed grains	124 million
Tobacco and products	65 million
Bread grains	54 million
Fruits and vegetables	44 million
Other food products	96 million

West Germany, the largest of the present six members of the European Community (EC), is subject to the EC's Common Agricultural Policy (CAP). The CAP, which is primarily a market regulation and price support policy, covers most of the agricultural commodities produced in West Germany (6). It is implemented through a series of minimum import prices and variable levies. As a result, U.S. and other "third" country exporters have become essentially residual suppliers of many food products. Although U.S. agricultural exports to Germany have increased in recent years, both their rate of growth and their volume would be higher without the CAP.

Nevertheless, Germany is a large and growing food market. Moreover, German and other Common Market producers will not be able to meet growing consumer demand for many food products in terms of quantities, qualities, and forms, and imports will remain a major source of supply. Exporters to Germany will have to watch closely for market opportunities and be ready to take advantage of the "gaps" that are likely to develop in the market in response to rising affluence and changes in demand (ch. V).

Study Purposes and Methods

In Germany (and throughout Europe) food marketing is changing rapidly (45, 46, 47). Consumers are changing their food consumption and shopping patterns. Old institutions and ways of doing business are giving way to modern business practices and organizations. Marketing systems that once were structurally fragmented and producer oriented are becoming highly concentrated and market directed. The who, what, and how of marketing food in Germany are changing. These changes require U.S. exporters of food and related products to evaluate and modify their export marketing strategies and methods. In this important task, market research is a valuable tool. Accordingly, the main purpose of this study is to provide much of the basic market information and analysis needed by the U.S. food industry and the Foreign Agricultural Service (USDA) in developing, evaluating, and implementing the export marketing strategies and methods needed to expand U.S. food and agricultural exports to Germany.

The research methods used in this study, as outlined in (44), center on the concept of food marketing as a dynamic subsystem of the German economy. Much of the information presented here was obtained in interviews with about 50 executives of leading German food retailing, wholesaling, importing, and manufacturing firms; trade associations; and Government agencies in May and June 1971. The authors also visited supermarkets, shopping centers, other food stores, and warehouses, and talked with store clerks, shoppers, and

warehouse workers. Other data were obtained from official publications of the Federal Republic, international organizations, trade associations, and firms.

Chapter II of this report discusses the impacts of rapid changes in socio-economic and demographic forces on German food buying patterns and on the food marketing system. Past and prospective developments in the organization and operation of German food distribution and manufacturing are analyzed in chapters III and IV. Chapter V deals with the significance of the revolution in German food marketing for U.S. exporters of food and agricultural commodities.

II.--BASIC FORCES IN FOOD MARKETING

West Germany's food market is an expanding, dynamic system. Its organization, development, and operation continue to be greatly affected by the same basic socioeconomic forces that are reshaping the economies of all industrial nations (46). They include population and income growth, suburbanization, automobiles, refrigerators, employment of women, and changes in patterns of daily living, food consumption, and shopping.

Population

Population growth continues to have a moderate but declining impact on the growth of Germany's food market. From mid-1960 to mid-1970, West Germany's population increased about 1 percent a year--from 55.4 million to 61.6 million (61, 64). However, indications are that the population growth rate in Germany, as in other European countries, will be lower in the 1970's than in the 1960's. From 1960 to 1965, the rate was 1.25 percent a year. It declined to an average of 0.9 percent in the next 5-year period. The German birth rate, which reached a postwar high of 18.3 per 1,000 people in 1963, declined steadily to only 13.2 in 1970, when it was only slightly above the death rate of 11.9 (64). This decline is widely attributed, as in other European nations, to more widespread use of effective birth controls and to preferences shifting toward a smaller family enjoying a higher level of living (45, 47). The two-child family is now typical (53). Assuming a population growth rate of 0.6 percent a year in the 1970's, West Germany's 1980 population will be 65.35 million, or 6.2 percent higher than in 1970. 6/

6/ Like all population estimates, these should be treated with caution. The annual growth rate of 0.6 percent, an estimate made by a respected German analyst in public hearings before the Agricultural Committee of the German Parliament early in 1971 (43), seems reasonable. It is about the same as rates projected for other European countries (45, 47). The 0.6-percent rate assumes continuation of the current German birth and death rates and some decline in net immigration. From 1960 to 1969, immigrants increased from 1.4 to 6.2 percent of Germany's labor force, but the numbers of workers entering Germany, mainly from southern Europe, varied widely from year to year. Future net immigration rates may also fluctuate greatly because they depend so much on relative rates of economic growth in Germany and the countries from which most of the immigrant workers come.

Striking aspects of Germany's population structure, with significance for food marketing, are the high percentages of older people and one-person households (mainly women) resulting from two World Wars and the presence of many foreign workers in Germany. In January 1970, 23.8 percent of the population was under 15 years of age, while 13 percent was 65 or older (33). In April 1969, nearly 26 percent of Germany's 22.3 million households were one-person households. They contributed to the low national average of only 2.66 persons per household. Foreign residents in Germany in September 1969 totaled nearly 2.4 million, or roughly 4 percent of the total population (61).

Economic Growth

Economic growth is the main source of expansion and change in food marketing. Rising real incomes stimulate increases and shifts in consumer demand for food and marketing services, even though food expenditures become a smaller share of family incomes. Increasingly affluent consumers can satisfy a greater diversity of wants, upgrade diets, buy more convenience foods, and eat more meals away from home. These changes in demand and rising real wages also have induced the food industry to adopt new technology and to modernize its organization and operations (chs. III, IV, V).

West Germany's gross national product rose 4.3 percent annually, in constant prices, from 1960 to 1968. Annual per capita GNP growth averaged 3.3 percent (41). In the next 2 years, real GNP rose another 13.2 percent (3). In current prices, West Germany's 1970 per capita GNP was \$3,008 (at 1970 exchange rates), or nearly 64 percent of the U.S. per capita GNP of \$4,756 (70).

The German food industry benefited greatly from this high rate of economic growth. From 1960 to 1968, food expenditures increased 2.9 percent a year, even though their share of GNP fell from 20.8 percent in 1960 to 18.8 percent in 1968. 7/ Per capita food expenditures rose nearly 1.9 percent a year.

In the 1970's, Germany's real GNP seems likely to rise about 4.0 percent a year, or about 3.4 percent per capita. 8/ Accordingly, food expenditures in the 1970's are expected to rise, in constant prices, about 2.1 percent a year,

7/ Unlike most other countries, Germany includes purchases of alcoholic beverages and tobacco in its food expenditure estimates.

8/ This estimate may be conservative. Official German forecasts made in the late 1960's for 1969-74 were for real GNP growth rates of 4.0 to 4.5 percent a year. The Organization for Economic Cooperation and Development published a 1970-80 annual growth projection of 4.6 percent (42). The historical record and the German Government's commitment to economic growth and full employment support these growth projections. On the other hand, there are indications that German economic policy has changed recently in favor of slower growth because of the inflationary pressures and the severe strains on available resources, especially labor, resulting from high rates of economic expansion (3).

or 1.5 percent per capita. ^{9/} Total German expenditures for food may increase 23 percent from 1970 to 1980, in constant prices. Per capita food expenditures may rise 16 percent in the same decade.

Food Consumption Patterns

Increases in German food expenditures expected in the 1970's seem certain to be accompanied, as in the past, by important changes in the kinds of food consumed. The Germans have long had a nutritionally adequate diet (table 1), but their current food consumption pattern leaves considerable room for change in its average economic quality. In comparison with Americans, the average German eats substantially more bread grains, potatoes, pork, cheese, butter, margarine, and fruit. On the other hand, he consumes less rice, beef, poultry, milk, eggs, sugar, and vegetables. His intake of fats and animal proteins is well below U.S. levels.

In Germany, consumption of economically inferior foods, such as potatoes and bread, has declined in recent years (tables 1 and 2) as family incomes have increased. Consumption of meats, cheese, fresh and frozen fruits and vegetables, and prepared foods has increased. In addition, there have been marked increases in consumption of meals away from home. Finally, there is some evidence that food consumption patterns in Germany and the United States are becoming less different. These trends, as subsequent chapters make clear, have much significance for the future of food marketing in Germany.

Changes in Daily Living

Life styles are changing rapidly in all Western European countries (46, 45, 47). The general direction of change is toward the U.S. pattern of living. Rising family incomes are the main cause of change, but other socioeconomic forces discussed in this chapter also are important. Food industry leaders are acutely aware (chs. III, IV and V) of the significance of these developments for the organization, orientation, sales patterns, location, and daily operation of the German food marketing system.

^{9/} A linear regression of real per capita food expenditures on real per capita income gave a crude estimate of income elasticity of 0.5 for the 1960-68 period. That is, other things equal, a 10-percent change in income leads to a 5-percent change in food expenditures. However, because food expenditures are a steadily declining share of GNP, an average income elasticity of about 0.45 seems reasonable for 1968-80. Moreover, the expected increase in per capita food expenditures of 1.5 percent a year is close to the estimates made earlier for 4 other European countries (45, 47).

Table 1.--Food consumption and nutrition: Per capita indicators for West Germany and the United States, 1968

Item	Per capita, 1968		Percentage change, 1958-68	
	Germany	U.S.	Germany	U.S.
Nutritional indicators:	<u>-- Number per day --</u>		<u>-- Percent --</u>	
Calories	2,986	3,207	-2.5	+4.5
Protein	<u>-- Grams per day --</u>			
Vegetable	82.6	94.6	+3.3	+7.5
Animal	29.0	26.6	-2.5	-2.5
Fat	53.7	68.0	+16.7	+11.6
	138.6	153.5	+7.4	+8.9
Major food items:	<u>Kilograms per year</u>			
Bread grain	64.1	52.7	-22.4	-6.9
Other cereals except rice	3.9	8.6	+69.6	-1.2
Rice (husked)	1.6	3.5	+6.6	+40.0
Potatoes	112.0	39.6	-22.1	-12.0
Total meat (including edible offal)	73.3	93.8	+31.1	+17.4
Beef and veal	22.9	38.1	+27.2	+20.6
Pig meat (including bacon)	37.3	27.8	+2.7	+9.4
Poultry	7.4	20.4	+138.7	+31.6
Eggs	15.2	18.4	+21.6	-9.8
Liquid milk	91.4	128.5	-18.5	-9.9
Cheese	9.3	6.8	+38.8	+17.2
Butter (product weight)	8.4	2.5	+7.7	-32.4
Margarine (product weight)	9.3	4.9	-19.8	+19.8
Total fats and oils (fat content)	26.6	24.0	N.C.	+17.1
Sugar	31.8	42.4	+5.3	N.C.
Vegetables (includes canned)	64.4	91.6	+31.2	N.C.
Fruit (includes citrus not dried)	111.9	64.5	+11.2	-5.6

Sources: (38, 39)

Table 2.--Distribution of food expenditures: 4-person middle-income households, by classes of food, West Germany, 1950-69

Class of food	1950	1960	1965	1969
			<u>1/</u>	<u>2/</u>
	----- Percent -----			
Animal origin	52.7	53.1	52.2	51.2
Meat	20.6	26.7	27.4	27.7
Fish	1.8	1.9	1.9	1.8
Eggs	5.6	4.8	4.2	3.5
Milk	10.3	7.9	7.2	9.8
Cheese	2.3	3.0	3.0	3.5
Butter	5.6	4.8	4.7	4.1
Margarine	4.3	3.9	2.8	2.2
Plant origin	43.9	41.4	37.2	34.9
Bread	13.5	12.4	11.5	10.1
Potatoes	3.6	2.4	2.1	1.8
Vegetables	4.1	5.7	5.2	5.4
Fresh	3.5	4.5	3.4	3.3
Preserved6	1.1	1.6	2.1
Fruit	5.8	8.5	7.7	6.7
Fresh	3.3	4.3	6.1	5.2
Preserved	n.a.	n.a.	.7	.7
Sugar	n.a.	n.a.	1.9	1.5
Sugar products	n.a.	n.a.	4.2	4.5
Other foods <u>3/</u>	3.5	5.4	10.7	13.8
Prepared dinners and nonalcoholic beverages	n.a.	n.a.	3.7	4.5
Foods in cafeterias and restaurants	n.a.	n.a.	7.0	9.3

1/ For 1965, household monthly food expenditures were approximately \$75.

2/ For 1969, household monthly food expenditures were approximately \$77.

3/ Other types of households also allocated a greater proportion of their food expenditures to the "other food" category. For a 2-person lower income household, the proportion of food expenditures allocated to the "other foods" category increased from 3.2 percent in 1960 to 8.0 percent in 1969. The 4-person higher income household allocated 17.2 percent of its food expenditures to "other foods" in 1965 and 18.8 percent in 1969 (6, 8).

Sources: (6, 8).

Automobiles and Refrigerators

The automobile and the household refrigerator are key instruments in the development of a modern food marketing system. They are essential to super-market retailing. The auto is a major cause of the growth of suburban living (32, 46), closure of many small foodstores in central city and rural areas, construction of suburban shopping centers, and other changes in food marketing discussed in chapter III.

Automobiles and refrigerators broaden the effective area of competition among foodstores and indirectly among food products and manufacturers. Refrigerators affect the kinds of food people buy, especially perishables and frozen foods, and reduce shopping frequency. The family car changes food buying patterns by facilitating shopping in large suburban stores and by increasing tourism.

West Germany now (1971) has nearly seven times as many licensed automobiles in noncommercial uses as in 1956 and nearly 40 percent more than in 1966. The density of auto ownership--slightly over half the U.S. density--has increased nearly sixfold since 1956:

<u>End of year</u>	<u>Number</u>	<u>Cars per 1,000 people</u>
1956	2,247,000	44
1966	10,616,000	178
1970	13,942,000	225
1971 (est.)	15,100,000	240

A survey of a representative sample of German households shows that 48 percent owned at least one car early in 1969 and 7 percent of all families owned two or more (66). German auto registrations are expected to continue to rise rapidly in the years ahead, in common with the general European trend.

Eighty-seven percent of all German families owned a refrigerator in 1969, compared with only 52 percent in 1963 (66). Declining retail prices of household appliances in the 1960's and rising incomes raised sales to record volumes. Percentages of families owning other modern household conveniences in 1969 were:

Food freezers	17	Telephone	31
Electric toasters	38	Bath or shower	77
Electric food mixers ...	63	Running water	96
Television sets	82		

All of these percentages are rising. In addition, the average size of household refrigerators seems to be increasing. Until recently, the most popular models in Europe had capacities of only 100 to 120 liters (about 3.5 to 4.3 cubic ft.) and almost no space for frozen foods. Today, appliance dealers

appear to be selling mainly units that are fully twice as large. The impacts of this development on food buying patterns, although not measurable, are significant, especially for purchases of perishables and frozen foods. 10/

Urbanization and Suburbanization

Migration of people from farms to cities has been underway for decades in all industrialized countries, and food marketing systems have grown because more people have had to buy their food in retail stores. The movement of Germans from villages to cities is continuing but at a declining rate. From 1956 to 1966, agricultural, forestry, and fishing employment fell from 17.5 to 10.8 percent of total civilian employment (40). 11/ A recent European Commission study estimates that this share is now about 8 percent and projects a steady decline to 6.8 percent in 1976 (2). However, increasing urbanization in Germany can have only a slight impact on total retail food sales in the years ahead, because of the high percentage of people now living in cities.

In contrast, the postwar trend to suburban living stimulated by the automobile continues to promote important changes in the structure, location, and operation of West Germany's food distribution companies, stores, and warehouses. From 1961 to 1967, while the West German population was increasing 6.7 percent, the population of German cities of 100,000 and more residents rose only 1 percent (32). In 1965 and 1966, the major German urban centers lost 292,000 people, while their suburbs gained 295,000. Suburban living and shopping are preferred by increasing numbers of affluent, motorized families in many European countries, as well as in North America.

Employment of Women

In recent years, trends in the employment of German married and single women have differed sharply. Until 1962, numbers of employed women in Germany were rising slowly, in common with employment trends in many other countries (40). But from the 1962 record of nearly 9.9 million women workers, their number declined slowly to 9.6 million in 1970--from 37.8 to 35.8 percent of total civilian employment (64). In contrast, the number of employed married women increased from 4.4 million in 1960 to 5.0 million in 1968--from 32.3 to

10/ In the past, the small dimensions of typical German kitchens (and apartments) undoubtedly restricted sales of large refrigerators and other household appliances. In 1950, newly constructed houses and apartments averaged only 50 sq. meters (540 sq. ft.) per family unit. In 1965, the average size of new dwellings was 78 sq. meters (842 sq. ft.) (5).

11/ In the absence of acceptable, internationally comparable estimates of rural and urban population shares, the percentages of all workers in agriculture, forestry, and fishing may serve as crude substitute estimates.

34.1 percent of all married women in Germany. This percentage rose further to 35.6 percent in 1970 and it may continue to rise, as in other industrial nations, in the years ahead. 12/

The upward trend in employment of married women is important for the German food industry. More and more families are earning the "double" incomes that permit a more expensive diet and increase effective demands for labor-saving household equipment, convenience foods, and modern, one-stop shopping facilities.

In a closely related employment development in Germany, numbers of domestic servants declined by 368,000, or about 16 percent, from 1964 to 1969 (61). This continuing long-term employment trend, like the rising trend in employment of married women, is important for the food industry. Both trends accelerate the shift in food processing from households to factories and increase consumer demand for processed foods.

Other Social Forces

Among the many other changes taking place in German ways of living, at least four have some impacts on food consumption and shopping patterns: noticeable increases in leisure, travel, eating away from home, and the general tempo of daily life.

In 1960, German workers had an average of 14 working days of paid annual vacation. In 1969, the average was 20 working days (62). Most workers now have 25 to 37 days of paid vacation, including official holidays. In 1970, the average workweek in German industry was 44 hours, compared with 48 hours in the early postwar years. More and more labor union contracts specify the 40-hour, 5-day week as the standard workweek.

Not only do most Germans have more leisure than in the past, but rising family incomes increase their opportunities for interesting uses of it. One of these is travel. From 1966 to 1970, the number of nights spent by Germans in German hotels (and similar establishments) increased almost 10 percent to 118.6 million nights. In the year ending in October 1969, an estimated 14.6 million of Germany's 22.3 million families enjoyed vacation travel lasting 5

12/ The principal cause of the absolute and relative decreases in the employment of single women seems to be the postwar trend among young men and women to remain in school longer compared with past generations. Among the many forces stimulating increasing numbers of married women to seek employment outside their homes, changes in German attitudes on the social status of women may be important. A 1969 survey revealed that 67 percent of all adult Germans disagreed with the statement: "Women's place is in the home." More significantly, 91 percent of those aged 18 to 24 disagreed (66). Other important factors in this employment trend include the ease of obtaining work in a full-employment economy, smaller families, more household appliances, and the desire for higher family incomes.

or more days. About 5.6 million families traveled outside Germany (62). Travel not only increases the number of meals people eat away from home but it also introduces them to a greater variety of products, including foreign dishes. Millions of affluent Germans also are eating in restaurants near their homes and in the office and factory canteens where they work. Thus, the institutional market for food is growing rapidly. 13/

Finally, the general tempo of daily living is increasing. In this respect, the German and American ways of life are becoming more alike. With his time becoming increasingly valuable, the average German consumer wants more convenience in both products and shopping. Rising incomes permit these wants to become effective demands, while the increasing numbers of educated, informed citizens confront food retailers and manufacturers with increasingly selective, sophisticated demands.

III.--GERMAN FOOD DISTRIBUTION

A revolution in German food retailing and wholesaling began in the late 1950's. The main causes were rapid economic growth, related socioeconomic developments (ch. II), and the 1957 reform of German business laws. The pace of change increased sharply in the 1960's. This revolution in food marketing is changing all key market variables, including numbers and types of retailers and wholesalers, product assortments, market organization and channels, marketing strategies and practices, and competition.

Historically, European retailing systems had many small shops whose operations had changed little in several centuries until the 1950's (11). Economic, social, and political conditions favored a fragmented, stable retail structure which, in turn, encouraged small-scale wholesaling (45). Few families owned automobiles and refrigerators or had the effective demand for the thousands of articles in modern supermarkets. These economic conditions and traditional housing patterns forced most families to shop in small neighborhood stores. Of equal importance, the small shop's modest capital, labor, and business skill requirements permitted many low-income families to own shops. In addition, until the 1950's, generally low European wages put little pressure on retailers and wholesalers to increase labor productivity by investing in modern supermarkets and warehouses.

For many years, the stability of this marketing system was supported in Germany, and most other European countries, by a complex of laws, regulations, cartels, discriminatory taxes, and traditional business practices. Before 1957, supermarkets were forbidden in some regions of West Germany. Stores were limited as to the kinds of products they could sell and requests to officials for changes in store assortments often were a time-consuming exercise.

13/ Leading food industry executives interviewed in this study estimated that meals eaten away from home may increase in a few years from the current 20 percent to 25 percent of all meals.

Large firms paid a surtax from which small shops were exempt. The opening of a new store frequently was permitted only after government officials were convinced of a need for it. These and other protections of small shopkeepers reached their historically high levels during the Nazi era (8). Enforcement of restrictive legislation and cartel arrangements was made easier by laws, still in effect, that require all business and professional men to be members of recognized trade and professional associations. It was not until 1957 that economic and political pressures became strong enough to force repeal of most of the old laws designed to protect small shopkeepers and limit competition. The 1957 reforms freed Germany's retail and wholesale trade to compete and to modernize (8). 14/

Foodstores

West Germany had an estimated 350,000 foodstores of all types at the beginning of 1961. Ten years later there were about 245,000 (table 3). 15/ The net loss of roughly 105,000 stores in the decade averaged slightly more than 200 stores a week, or about 3.5 percent a year. The decline in store numbers combined with population growth to raise the number of people per store from only 160 in 1961 to about 250 in 1971. 16/

14/ Only two remnants of the old German structure of limiting competition and protecting small retailers remain in force. One is resale price maintenance (RPM). However, economic and market forces are rapidly reducing the use of RPM in food retailing (ch. IV). The other, more modest restraint on competition and the growth of supermarkets is store closing laws. All German retail stores must close by 6:30 p.m. Monday through Friday and by 2 p.m. on Saturday (except the first Saturday of each month until 6 p.m.). Sunday operation is prohibited, but the laws allow a few exceptions such as gasoline stations and stores in major tourist areas. The resulting short operating week limits economic pressures on small shopkeepers in two ways. Their working hours and expenses for hired labor are less than for the longer operating weeks common in many countries; and supermarkets cannot gain the lower operating costs possible with longer store hours. A large German food chain estimated in 1967 that an increase in operating hours from 42.5 to 53.5 hours a week would permit reductions in operating costs (and prices) of about 1 percent of gross sales by spreading fixed costs over a larger volume of sales (10).

15/ These estimates differ from those in table 3 by the authors' estimates of the numbers of grocers who were not affiliated in 1961 and 1971 with voluntary chains and retailer cooperatives. See footnote 1 of table 3 and the text discussion under "Market Organization" later in this chapter.

16/ In comparison, the United States had 294,243 foodstores in 1967 of which 74 percent were general groceries (67). From 1963 to 1967, U.S. foodstore numbers fell almost 2 percent a year. The authors' 1971 estimate is 280,000 stores, or about 735 people per store. Population per foodstore in selected other industrial countries in 1970 was: Belgium, 160; Denmark, 176; the Netherlands, 195; and Sweden, 350 (45).

Table 3.--Foodstores: Estimated number, by major type of store,
West Germany, January 1, 1961 and 1971

Type of store	1961	1971
	Number	
General grocery <u>1/</u>	161,360	117,510
Specialty shops	48,390	33,340
"Handwerk" shops <u>2/</u>	107,890	86,500
Total	311,240	237,350

1/ Excludes grocery stores not affiliated with a voluntary chain or a retailer cooperative, but includes the food departments of department stores. The number of unaffiliated grocery stores in 1961 may have been about 40,000, compared with about 7,500 at the beginning of 1971.

2/ "Handwerk" (handicraft) shops are retail bakeries, pastry shops, and meat markets whose sales are mainly articles produced in the stores.

Sources: General grocery store estimates (28, 29). Other numbers are the authors' estimates based on official census and tax data (25, 26) and data supplied by the Zentralverband des Deutschen Handwerks, Bonn/Bad Godesberg.

Causes of Declining Numbers

Decreases in foodstore numbers continue to be concentrated, as in other industrial countries, among small shops (47). Few owners of these little shops earn more than modest incomes, and many regularly incur losses. A 1967 Dutch study revealed that about 75 percent of the owners of foodstores with annual sales below 275,000 guilders (about \$76,400 in 1967) had negative economic returns (18). That is, the shopkeepers' net incomes were less than average earnings in other employment requiring comparable skills. A 1969 analysis of small Danish foodstores found that most shops with annual sales below a million crowns (about \$133,333) provided their owners with hourly earnings below average hourly factory workers' wages (45).

Low labor productivity in most small shops, only partially offset by higher efficiency in the use of store space, is a major cause of these low profit levels. 17/ A 1969 analysis of the stores operated by Germany's corporate and consumer cooperative food chains revealed that the smallest stores, with 1969 sales averaging \$133,300, had average sales per worker of only \$34,090 (table 4). In contrast, in the chains' large stores average sales per

17/ In food retailing, labor costs, at 60 to 65 percent of total operating costs, are roughly 3 times space costs.

Table 4.--Operations of corporate and consumer cooperative food chains:
Selected data, by size of store, West Germany, 1969

Sq. meters of store sales area <u>1/</u>	Annual sales <u>2/</u>	Sales area <u>1/</u>	Workers <u>3/</u>	Sales area per worker <u>1/</u>	Annual sales per Worker <u>3/</u>	Sq. ft.
	1,000 dol.	Sq. ft.	Number	Sq. ft.	Dol.	
Under 60	133.3	498	3.9	130	34,090	267.60
60 - 79.9	230.7	776	6.2	125	37,034	297.40
80 - 99.9	233.3	947	6.3	150	36,836	246.40
100 - 149.9 ..	339.7	1,350	8.2	162	41,236	251.60
150 - 199.9 ..	396.8	1,852	9.6	195	41,508	214.30
200 - 299.9 ..	590.7	2,589	13.1	200	45,037	228.20
300 - 399.9 ..	812.9	3,689	16.5	225	49,342	220.40
400 and over ..	1,267.1	5,708	23.3	241	54,409	222.00

1/ All sales area data, except in column 1, converted from meters to feet at 1 sq. meter = 10.76 sq. ft.

2/ All sales data converted from marks to dollars at the 1969 official exchange rate of \$1=3.66 DM.

3/ Full-time equivalent workers.

Source: (30).

worker were almost 60 percent higher--\$54,409. 18/ Executives of major German food retailing organizations generally agree that few foodstores with 1970 sales below 500,000 DM (about \$136,612 at 1970 exchange rates) are economically viable. Most of Europe's foodstores in this low sales class have sales areas below 50 square meters (538 sq. ft.). Many of them have only 25 to 30 square

18/ In comparison, a similar 1969 analysis of North American food chains (48) revealed that they had substantially higher sales per worker and sharply lower sales per unit of store space than German stores of comparable size. American chains must pay higher wages but their space (building, equipment, and interest) costs are much lower. As a result, American chains are under heavier pressure to use labor efficiently but under less pressure to economize on space. For example, U.S. and Canadian supermarkets with 1969 sales of \$1.36 million, comparable to the German supermarkets with sales of \$1.27 million (table 4), had sales of \$65,135 per worker. This amount was roughly 20 percent above the \$54,409 of sales per German supermarket worker. On the other hand, the 1969 sales per sq. ft. were only \$142.50 in the American supermarkets and \$222.00 per sq. ft. in the comparable German stores. The North American supermarkets were larger--9,530 sq. ft., compared with 5,708 sq. ft. of sales area--but they employed fewer people--20.9 against 23.3 full-time equivalent workers.

meters of sales area. For the most part, they are the little counter-service general grocery stores, specialty shops, and "handwerk" businesses that American tourists find so quaint and picturesque. 19/

In the decade beginning January 1, 1961, an estimated 175,000 of these little German shops either went out of business or were enlarged and modernized. Most were independent businesses, but some were owned by large retailing firms. In 1961-70, Germany's corporate food chains reduced their outlets from 6,310 to 5,250 stores (table 5). The chains closed 3,273 small counter-service stores and, through new construction and store enlargement projects, opened 2,213 new stores. Other large German food retailers continue to follow similar policies. 20/

Another reason for the disappearance of small foodstores is that the expanding German economy in the last 10 to 20 years has greatly increased the number of attractive alternative jobs and has held unemployment at low levels. Thus, the small shop is not the necessary means of avoiding total unemployment that it once was, especially in the prewar depression years (22). In recent years, many German shopkeepers' sons, like the sons of German farmers, have broken with the tradition of remaining in the family business in favor of better paying work. Finally, personal factors, such as the advanced age of many German grocers, illness, and retirement, force the liquidation of many small stores each year. 21/

19/ In U.S. trade jargon, these little shops are known as "Mom and Pop" stores. The equivalent German term is "Tante (Aunt) Emma" store. But some European business analysts refer to these tiny shops less charitably as "le commerce folklorique" (35). In Germany, a "handwerk" food shop is a retail bakery, pastry shop, or meat market that processes on the premises most of the products it sells to consumers.

20/ A large retailer cooperative in 1969 closed 930 shops with sales areas averaging only 39 sq. meters and opened 613 new stores with sales areas averaging 163 sq. meters (50). In 1970, Germany's largest voluntary chain lost 970 stores and gained 440 for a net loss of 530, but the average store sales area increased from 77.4 sq. meters in 1969 to 83.0 in 1970. All of the shops closed in 1970 had sales areas under 80 sq. meters (861 sq. ft.) (13).

21/ The Hauptgemeinschaft des Deutschen Einzelhandels (National Association of German Retailers) reports that personal factors are the stated reasons for more than half of all shop closures (25). But stated reasons may not be the real reasons. The historical stability of shop numbers before the 1950's and their rapid decline in the last two decades suggest that economic conditions, not personal factors, have changed. Until recently, a shopkeeper who had to quit his business for personal reasons either had a son willing to take it over or could sell it at a reasonable price. Today there are few buyers or sons who are interested in these generally unprofitable businesses.

Table 5.--Food chains: Development in West Germany, 1955-70 ^{1/}

Item and unit	1955	1960	1965	1970
Number of companies ^{2/}	97	90	81	80
Number of stores, total	5,655	6,310	5,377	5,250
Small counter-service shops ...	5,195	3,673	1,670	400
Small self-service stores	460	2,517	3,451	3,990
Supermarkets	0	120	256	860
Sales area/store (sq. meters) ...	n.a.	87.5	147.1	242.6
Number of employees	47,260	58,400	60,266	78,500
Gross sales (mil. DM) ^{2/}	2,099	3,827	5,650	10,500
Market share (pct.) ^{3/}	6.5	9.0	9.6	13.0

^{1/} Excluding department-variety store chains and consumer cooperatives.

^{2/} All data are end-of-year numbers except sales, which are for calendar years. Data for food chains not members of the Arbeitsgemeinschaft der Lebensmittel-Filialbetriebe (National Association of Food Chains) and data for 6 member department store chains are not included.

^{3/} Market share percentages are based on estimated sales of all food chains including nonmembers of the National Association of Food Chains but excluding department store chains, and on total retail food sales including sales of handwerk shops. Sales of nonmember food chains are estimated at 10 percent of members' sales.

Source: (4).

Self-Service Stores

Self-service food retailing first appeared in Germany, as in other European countries, in the late 1940's, more than 30 years after its introduction in the United States (47). On January 1, 1950, Germany had only 39 self-service foodstores and as recently as January 1, 1957, only 1,379 (26). But in the next 12 years, German food retailers opened new self-service stores at a phenomenal rate. The traditional, smaller counter-service stores were closed in even greater numbers (table 6). At the beginning of 1969, Germany had 85,357 self-service foodstores; 2 years later there were 86,398 of them. In 1970, they accounted for nearly 53 percent of the estimated 84.5 billion DM of retail sales of food and related products (26).

In the late 1960's, the rate of growth of self-service foodstores fell sharply because major German food retailers changed their store construction policies. Instead of converting traditional shops to self-service stores, they began to replace many of their small stores with new supermarkets,

Table 6.--Grocery stores: Number by type, West Germany, 1957-71

Year (January 1)	Self-service stores				Counter service stores	All grocery stores
	SB-Waren- häuser 1/	Super- markets 2/	Small stores	Total 3/		
	----- Number -----					
1957	0	0	1,379	1,379	n.a.	n.a.
1961	0	250	22,369	22,619	138,740	161,359
1966	61	1,300	61,353	62,714	91,224	153,999
1967	90	1,500	70,651	72,241	76,342	148,673
1968	278	1,700	78,236	80,214	68,302	148,516
1969	448	1,852	83,357	85,357	51,921	137,278
1970	528	2,045	83,029	85,602	41,149	126,751
1971	721	2,259	83,418	86,398	31,112	117,510

1/ SB-Warenhäuser are self-service department stores with large food departments and total sales areas of not less than 2,500 sq. meters (26,900 sq. ft.). Similar "Verbrauchermärkte" (consumer stores) with sales areas of not less than 1,000 sq. meters are included.

2/ German supermarkets have sales areas of 400 sq. meters (4,304 sq. ft.) and over. Food departments of standard department stores are included. Because the food departments of SB-Warenhäuser and Verbrauchermärkte exceed 400 sq. meters, the number of supermarket-size food stores is the sum of columns 2 and 3, or, for example, 2,980 on Jan. 1, 1971.

3/ Excludes specialty and handwerk foodstores and a few independent general groceries not affiliated with a voluntary chain or a retailer cooperative.

Sources: (29, 28).

"Verbrauchermärkte" and "SB-Warenhäuser." 22/ Germany's first supermarket was opened in 1958 by a large department store chain. The first Verbrauchermarkt was opened in 1963 and the first SB-Warenhaus in 1965. By January 1, 1971, there were 2,980, including the 721 Verbrauchermärkte and SB-Warenhäuser, and the 250 supermarket-size food departments in traditional department stores (29, 28). 23/

The dominant trend in construction of German supermarkets is to larger units with the approximate dimensions of typical North American supermarkets. A similar trend in the construction and remodeling of neighborhood stores also is apparent. That is, Germany's major food retailing organizations have decided that even neighborhood stores must have 150 or more square meters of sales area to be profitable (11). Finally, there is the visible trend toward building supermarkets and SB-Warenhäuser, but not traditional department stores, in suburban and rural shopping centers. 24/

Prospects for 1980

Leading German food industry executives generally believe that a high rate of disappearance of foodstores--about 10,000 a year--will be maintained in the decade ahead. By the end of 1980, Germany may have fewer than 145,000 foodstores of all types and about 490 people per store. One analyst, however, has predicted an even sharper decline to about 135,000 stores at the close of 1980 (11).

The number of supermarkets certainly will continue to increase rapidly, possibly to 6,000 by January 1, 1981. Verbrauchermärkte and SB-Warenhäuser probably will increase even faster, to about 3,000 by the end of 1980. These

22/ In Germany, the distinctions among supermarkets, consumer markets, and self-service department stores are not sharply defined. All three types of stores are large self-service stores that sell full assortments of foods and many nonfoods (31). A supermarket must have a sales area of not less than 400 sq. meters (4,304 sq. ft.) and sales of nonfoods must not exceed one-third of total store sales. A Verbrauchermarkt must have a sales area of at least 1,000 sq. meters (10,760 sq. ft.). The store image is comparatively Spartan and the store's price policy favors low, but not necessarily discount, pricing based on high sales volumes and low operating costs and margins. SB-Warenhäuser are department stores that employ self-service in most departments and, have a minimum sales area of 2,500 sq. meters. Most of them range from 4,000 to 12,000 sq. meters. The food department usually is the largest department, occupying 20 percent or more of the sales area and accounting for 30 percent or more of total sales. In other European countries, these big stores may be called super stores or hypermarkets.

23/ The department stores had another 190 smaller food departments at the beginning of 1971 and 28 new SB-Warenhäuser were opened in the first 3 months of 1971.

24/ A few stores have been built completely outside urban areas on heavily traveled roads, or as German trade jargon expresses it, "in the green meadow."

9,000 large stores may capture 65 percent or more of Germany's 1980 retail food sales. ^{25/} In other words, these modern stores, like their North American prototypes, ^{26/} are rapidly becoming the key elements of an efficient, modern system of mass distribution of food in Germany and the main retail outlets for U.S. food (and related) products to German consumers.

Although German food retailing is becoming more American in its structure, it may stabilize at some future date with a higher percentage of smaller stores. The basic reason is the higher density of population in Germany and its impacts on housing patterns, land use planning, availability of store sites, and relative costs of constructing supermarkets and superettes. In general, high population densities raise land prices. A supermarket must have a large parking area, but a neighborhood superette may need none. High land prices increase the required investment in a supermarket and decrease its cost and profit performance relative to a superette. In addition, in densely populated areas, suitable sites for supermarkets are not easy to find and building permits are difficult to obtain. Leading German food retailers say that the site-acquisition problem is becoming more acute and is a significant growth-retarding factor. Finally, high population densities and high land prices favor apartment living over single-family housing and tend to concentrate more families within easy walking distance of neighborhood superettes. Accordingly, Germany may always have a higher percentage of superettes and a smaller percentage of larger stores than the United States.

Expansion of supermarket retailing in Germany probably will have even more adverse effects on specialty foodstores than on small general groceries. German supermarkets are expanding their product assortments by adding products formerly sold almost exclusively in specialty shops. Recent shifts in

^{25/} German business analysts, in predicting these high growth rates, clearly state that their forecasts are influenced by the U.S. experience (²⁹). In 1970, the United States had approximately 38,300 supermarkets. (Adjusted for population, the equivalent German number would be about 11,500). U.S. supermarket sales of \$66,665 million in 1970 were 75.4 percent of total grocery store sales and 70.5 percent of total foodstore sales (⁴⁹).

^{26/} A few American and European retailers who are well informed on developments in retailing on both continents have expressed to the authors their view that while North American supermarkets have indeed been the models copied often by European food retailers for years, the Europeans are now building some ultramodern super stores that probably will be copied by American retailers in the near future.

consumer shopping patterns in favor of supermarkets and superettes are shown clearly in the 1969 indexes (1962=100) of German foodstore sales (61):

<u>Type of store</u>	<u>1969 index</u>	<u>Type of store</u>	<u>1969 index</u>
All food, beverage, and tobacco stores	147	Specialty foodstores:	
General grocery stores:		Fruits and vegetables	110
Consumer cooperatives	136	Dairy products, eggs	120
Department stores		Retail bakeries	145
(food only)	214	Meat markets	141
Corporate food chains	214	Coffee and tea stores	86
Other general grocers	153	Other specialty stores	114

These sales trends probably will be accelerated in the 1970's by another development in German food retailing. Some of Germany's large retailing organizations--especially consumer cooperatives, voluntary chains, and retailer cooperatives--are now constructing a new (for Europe) type of neighborhood store. It is a full-assortment, self-service foodstore that is designed to replace both the traditional small German grocery and the little specialty shop. ^{27/} Its product assortment emphasizes perishable foods and other foods and nonfoods that typical German consumers buy several times a week. It is large enough, with a sales area of 150 to 250 square meters (1,614 to 2,690 sq. ft.), to operate efficiently and profitably. Although operating margins and prices in these superettes may be slightly above supermarket margins and prices, these neighborhood stores offer consumers location (shopping) convenience. For the consumer cooperatives and independent retailers affiliated with voluntary chains and retailer cooperatives, these new superettes have the additional advantage of low construction costs and minimal site-acquisition problems. Many of them can be developed by remodeling and enlarging existing neighborhood foodstores. Not surprisingly, retail executives interviewed in this study declared that neighborhood superettes definitely will have an important place in their retail store systems. Moreover, if these plans are realized, the structure of Germany's food retailing system will move a long way toward the U.S. food retailing structure in which specialty shops are less than 30 percent of all foodstores, compared with about 50 percent in Germany today (table 3).

Market Organization

German food retailing companies, like their stores, continue to become fewer in number and larger in size. These companies also are streamlining their internal structures and modernizing their management and marketing policies and methods to improve their competitive positions and their profit and growth prospects. Both of these structural developments have much significance for U.S. exporters because they affect the who and the how of selling food and related products in Germany.

^{27/} Until recent years, most European grocery stores sold only packaged (dry) groceries. They left the retail market for perishables to specialty shops.

Postwar Developments

At the end of World War II, the structure of German food retailing was highly fragmented. Thousands of small, independent, unorganized retailers shared all but a small fraction of the retail food market. This situation was the result of prewar economic and social conditions and years of wartime controls and Nazi repression of large retailers, including consumer cooperatives and affiliated groups of independent grocers (8). For example, corporate food chains had only 4 percent of the retail food market in 1945, excluding sales by handwerk shops, compared with 11 percent in 1932 (11). By 1963, the chains' market share was 14 percent (table 7). Consumer cooperatives had 8.1 percent of the market and department store chains had 5.8 percent. Thousands of independent food retailers shared the remaining 72.1 percent of the market.

From 1963 to 1970, consumer cooperatives increased their sales only enough to maintain their market share. In contrast, department store chains increased their share sharply from 5.8 to 8.3 percent by expanding both store numbers and the average size of their food departments. Corporate food chains also enjoyed substantial growth to 19.3 percent of the market, even as numbers of stores and companies declined. From 1955 to 1970, the number of large food chains (11 and more stores) decreased from 97 to 80, mainly through mergers (table 5). 28/ In 1970 alone, mergers reduced the number of chains from 83 to 80 and, early in 1971, Germany's third largest food chain was acquired by the largest chain (12). 29/ Their combined 1970 sales were about 2,100 million DM (about \$574 million at 1970 exchange rates).

Independent German grocers responded to the growing market power of corporate food and department store chains and large food manufacturers by affiliating in voluntary chains and retailer cooperatives (8). By 1957, the unaffiliated retailers' share of German grocery store sales had fallen to 25 percent (37). This share continued to drop rapidly to only 2.3 percent in 1964. In 1970, the market share of the few thousand fully independent grocers still in business may have been as low as 1 percent of grocery store sales. This means that in Germany today, nearly all of the fully independent foodstores are specialty and handwerk shops.

Thus, in only 25 years, the structure of the expanding German grocery trade has changed from extreme fragmentation to a comparatively high degree of concentration. Currently, an estimated 95 percent of retail food sales, excluding the sales of specialty and handwerk shops, are made by stores belonging

28/ Germany may have as many as 20 other food chains, mostly small (10 or fewer stores), whose 1970 sales were an estimated 1.3 billion DM (about \$355 million). Actually, the German definition of a large food chain is not, as in North America, a company operating 11 or more foodstores. A large chain must serve its stores from its own central warehouse. However, few German food chains with 10 or fewer stores have a central warehouse and most chains with 11 or more stores have one.

29/ Trade sources also indicated that 3 other food chains in 1971 were discussing a merger which, if completed, would reduce the number of major chains to 77.

Table 7.--Food retailers: Market shares by type of retailer, West Germany, 1963 and 1970

Type of food retailer	All food stores		All food stores ex. handwerk ^{1/}		Grocery stores only-- ^{2/}
	1963	1970	1963	1970	1970
	----- Percent -----				
Corporate food chains	9.4	13.2	14.0	19.3	20.7
Department store chains ^{3/} ..	3.9	5.7	5.8	8.3	8.9
Consumer cooperatives	5.4	5.5	8.1	8.1	8.7
Independents ^{4/}	<u>81.3</u>	<u>75.6</u>	<u>72.1</u>	<u>64.3</u>	<u>61.7</u>
Total sales (percent)	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
	----- Billion DM -----				
Total sales (value)	56.4	84.5	37.8	56.4	53.7

^{1/} Handwerk shops are retail bakeries, pastry shops, and butcher shops.

^{2/} All food stores, excluding specialty and handwerk shops.

^{3/} Food department sales only.

^{4/} Including members of retailer cooperatives and voluntary chains.

Source: (26).

to the following organizations: one consumer cooperative federation, two retailer cooperatives, six department-variety store chains, 16 voluntary chains, and 79 corporate food chains. Furthermore, the effective level of concentration in the German grocery trade may be substantially higher from the viewpoint of the food manufacturer than the above numbers indicate. The reason is that 71 of the 79 food chains own a central buying company, Gedelfi (Grosseinkauf Deutscher Lebensmittel-Filialbetriebe, GmbH). In 1970, this firm bought 3,215 million DM of merchandise for its member chains (23), or between 40 and 50 percent of their total purchases. Gedelfi handled a much higher percentage of the chains' purchases of imported goods and manufactured food products. In other words, buyers in the headquarters of about 26 organizations and four other large firms now purchase the bulk of all foods imported for sale to German consumers. ^{30/}

^{30/} The 4 other firms are 2 chains of cash-and-carry wholesale houses, a buying association serving independent wholesalers, and a purchasing agency serving thousands of retail bakeries.

Prospects for 1980

None of the German food industry executives interviewed expressed any doubt that numbers of corporate and voluntary chains will decline sharply in the next 5 to 10 years. One executive predicted that by 1980 Germany will have only two, or at most four, voluntary chains. They will be, he said, the largest voluntary chains now operating in Germany. The prospects of most of the smaller voluntary chains are not bright. Too many of their member retailers and wholesalers are too small for profitable operation in the intensely competitive German retail food market. The expected mergers, acquisitions, and liquidations among and within these organizations and the corporate food chains are likely to be large and complex. Accordingly, in a few years, U.S. exporters of food products to Germany may be dealing mainly with only 18 (or fewer) central organization buyers instead of 30. These organizations probably will include Gedelfi, GEG, 31/ six department store chains, four voluntary chains, two retailer cooperatives, two chains of cash-and-carry wholesalers, and two buying associations serving independent wholesalers and retail bakeries. 32/

Changing Management Structures

Germany's large food retailing firms are rapidly modernizing their internal organizational structures in response to such market forces as growing intensity of competition, rising investment and operating costs, declining profit margins, increasing size and complexity of business operations, and growing use of sophisticated technology. The main goals of this modernization of management and marketing are to increase efficiency, improve management control, expand sales, increase profits, and enhance growth prospects.

Germany's largest food retailers are becoming more consumer and market oriented. Marketing is taking priority over other business problems. The best of known management and marketing organization, policies, and methods are being adopted. Management and merchandising staffs are being strengthened through professional training and other personnel programs. Electronic data processing divisions are being enlarged to strengthen central management control. Increasingly, U.S. exporters are finding that longstanding differences between U.S. and German management and marketing practices are disappearing. As a result, appropriate business approaches to major German food retailing organizations are rapidly becoming basically the same as those long used by sellers in dealing with similar U.S. enterprises.

31/ GEG stands for Grosseinkaufs-Gesellschaft Deutscher Konsumgenossenschaften, mbH, which is the central wholesale society and key unit in Germany's consumer cooperatives.

32/ In the summer of 1971, U.S. trade sources reported that the 6 German department store chains were forming a joint purchasing company for food and kindred products. These sources also reported that the 2 retailer cooperatives had agreed on merger plans that would become effective in 1972.

More specifically, in 1969, Germany's consumer cooperatives initiated a long-term program of conversion from a federation of societies to a single, fully integrated, national cooperative. ^{33/} In the meantime, the cooperatives are streamlining their structure and centralizing more business decisions in the Hamburg GEG headquarters. In the first 9 months of 1970, the cooperatives closed 480 little shops, opened 109 larger stores, and reduced their regional societies through mergers from 154 to 137. These changes are part of a plan that calls for only 20 large, efficient, wholesale branches of the national cooperative (21).

The retailer cooperatives and voluntary chains are making similar organizational changes. For example, one retailer cooperative, in the decade ending December 31, 1970, reduced the number of its regional wholesaling cooperatives from 99 to 60 through mergers. The other German retailer cooperative reduced the number of its regional cooperatives through mergers from 223 to 105 in the same period (19, 57, 60). More mergers are planned to increase the operating efficiency of these regional wholesaling units. According to executives of several German voluntary chains and retailer cooperatives, regional wholesalers must have an annual turnover of not less than 50 million DM, and preferably about 100 million DM to be economically viable. This contrasts with their 1970 average of 38 million DM (51). The central organizations of the retailer cooperatives and voluntary chains are assuming more control over such activities as advertising, promotion, procurement, product selection, financing, store site acquisition, store construction, financial accounting and analysis, and training of store and management personnel.

Food Wholesaling

According to national census data, West Germany had 31,245 wholesalers of food, beverages, and tobacco on September 30, 1960. Eight years later there were 28,279--a net loss of 2,966 establishments, or about one each day (61, 64). Today (1971), Germany probably has fewer than 27,000 of these businesses. The 28,279 wholesalers operating in 1968 employed, on average, only nine people and had 1967 sales of only 2.23 million DM (about \$560,000 at 1967 exchange rates). An estimated 90 percent of the wholesalers specialized in narrow product lines.

In addition to the wholesalers, West Germany had 12,099 brokers of food, beverages, and tobacco in 1968, compared with 15,082 only 8 years earlier. The average brokerage firm in 1968 provided employment for only two people and had 1967 sales slightly below 1.5 million DM (about \$371,000 at 1967 exchange rates).

^{33/} Denmark's consumer cooperatives initiated a similar reorganization in the same year (45). In both countries, the cooperatives have adopted the international symbol "Co-op" to symbolize the change in organization and to aid in creating a new Co-op image.

Major Food Wholesalers

In contrast to the thousands of wholesalers enumerated in the 1968 census, a private research firm estimates that Germany had only 1,769 food wholesalers at the end of 1967 with annual sales of 1 million DM or more. There were only 1,680 such wholesalers 2 years later. ^{34/} These companies appear to be Germany's largest food wholesalers and handle a broad assortment of food products and some nonfoods. Their 1967 sales averaged 12.9 million DM (about \$3.2 million at 1967 exchange rates), or nearly six times the average sales of the 28,279 wholesalers reported in the 1968 census. The 1,680 major food wholesalers in business at the end of 1969 had average sales of nearly \$4.2 million in that year. They accounted for about one-third of all wholesale food sales in Germany.

Of these large wholesalers, 1,071 were members of Germany's voluntary chains and retailer cooperatives. With only a few exceptions, these affiliated wholesalers are Germany's largest. Their 1969 average sales were about \$4.97 million, compared with \$2.73 million for the 609 fully independent food wholesalers.

Cash-and-Carry Wholesalers

Although most of Germany's largest food wholesalers are delivery-credit operations, many are cash-and-carry wholesalers. On September 1, 1970, Germany had 694 of these establishments, owned by 472 companies, including at least two large C&C wholesaling chains (20). ^{35/} C&C wholesaling, introduced in Germany (and Europe) in the 1950's, expanded rapidly in the 1960's. By the end of 1964, Germany had 244 C&C wholesale warehouses; there were 710 only 2 years later. ^{36/}

The principal customers of these wholesalers are the owners of thousands of small foodstores, independent supermarkets, restaurants, tourist homes, hotels, and other food service businesses. They are attracted by the lower prices the C&C wholesaler can offer because the self-service method of selling eliminates the wholesaler's high costs of credit and delivery of merchandise.

^{34/} A.C. Nielsen Co., Frankfurt, as reported in (20). Mergers accounted for most of the decrease of 89 firms.

^{35/} The largest chain owns warehouses in several European countries. A few C&C establishments also are owned by traditional delivery-credit wholesalers, including members of voluntary chains, but most appear to be fully independent, single-unit enterprises. The retailer cooperatives and consumer cooperatives also have C&C warehouses that serve the institutional market (restaurants, hotels, tourist homes, factory canteens, hospitals, and other food service establishments).

^{36/} Cash-and-carry wholesaling in France expanded from only 9 warehouses on January 1, 1960, to 304 only 8 years later (36).

For the typical small, underemployed shopkeeper and restaurateur, savings on the order of 6 percent of the value of his purchases are significant. 37/

In addition to a full assortment of foods, most C&C wholesalers offer a large assortment of restaurant equipment and supplies and many other nonfood items. A large warehouse may have an assortment of 30,000 to 40,000 articles. That is, the C&C wholesaler operates much like a discount department store except that he serves a limited clientele. 38/

Most C&C wholesalers are open long before and after their customers' regular business hours, provide ample parking space, and sell gasoline at discount prices. Also, Germany has few hotel-restaurant provisioners (wholesalers) serving the rapidly growing institutional food market. C&C wholesalers, therefore, are the main suppliers of food, equipment, and other nonfood items to this market.

Despite the foregoing growth forces, numbers of C&C wholesale houses are now declining. The main reason appears to be the rapidly falling numbers of fully independent foodstores, noted earlier in this chapter. Another factor is the profit potentials of the Verbrauchermärkte, coupled with the ease of converting a C&C warehouse into such a discount supermarket. In some cases it may involve little more than opening the business to the general public. In 1970, Germany had a net loss of five C&C wholesale houses resulting from 18 closures, 12 conversions of warehouses to Verbrauchermärkte, and construction of 25 new warehouses. Of the 472 companies operating C&C warehouses, 119 also operate Verbrauchermärkte (21).

Prospects for 1980

Mergers, acquisitions, and liquidations undoubtedly will sharply reduce numbers of food wholesalers, both large and small, in the years ahead. Thousands of small independent food wholesalers will quietly disappear, mainly because their principal customers also are going out of business. The rate of liquidation of small specialized food wholesalers seems likely to be much higher than in the past. As noted earlier in this chapter, the major retailing organizations' new supermarkets and neighborhood superettes are rapidly increasing their share of the market for perishables and other foods traditionally sold mainly in specialty and handwerk shops.

37/ An executive of one of Germany's largest C&C wholesaling firms said that his food prices average 6 percent below prices of independent delivery-credit wholesalers. A low price policy seems to be the key element of this wholesaler's marketing strategy. The authors, however, doubt that his food prices are much, if any, below average wholesale food prices charged by the wholesalers in Germany's voluntary chains and retailer cooperatives to their member retailers.

38/ One C&C wholesaler, while insisting that his firm sells only to retailers and food service establishments, doubted that all of his competitors were equally careful to prevent the general public from entering their warehouses.

In addition to fewer customers, independent German food wholesalers face nearly certain prospects of rising wages and lower profit margins. Few of them have the volume of business necessary to counter these trends through profitable use of modern warehousing and marketing technology. Leading German food retailers and wholesalers estimate that, under current wage-price-technology conditions in food wholesaling, the minimum economic size of a food wholesaling operation is annual sales of about 50 million DM. This minimum is expected to double, in real terms, in a few years. In contrast, most German food wholesalers still have annual sales below 1 million DM. Even among the largest 1,680 firms, average annual sales were only 15.2 million DM in 1969. Not surprisingly, Germany's major food retailing organizations are rapidly merging their wholesaling operations into fewer but larger modern enterprises. Reports appearing frequently in German food trade journals indicate that large independent food wholesalers also will be completing many mergers, acquisitions, and conversions into Verbrauchermärkte in the years ahead.

Product Assortments

In line with the growing emphasis in German consumer food demand on convenience, variety, quality, health, and product standardization, German food manufacturers are developing and promoting many new products. ^{39/} In 1969, German food processors offered retailers 1,135 new articles (65); the 1970 estimate is 1,400. ^{40/} Major food retailers also are stimulating changes in food buying patterns. As a result, retail store inventories are expanding rapidly in number and variety of articles and in level and uniformity of product quality. Important shifts also are taking place in inventory and sales ratios of foods to nonfoods and retailers' to manufacturers' brands.

Although detailed data on the changing structures of store inventories and sales are not available, general information was obtained from trade journals, interviews with German food industry executives, and visits to several modern foodstores. The rapid replacement of little foodstores with superettes, supermarkets, and self-service department stores alone greatly expands the number and variety of foods and nonfoods available to consumers and intensifies competition among products and their manufacturers.

^{39/} One analyst states that the key words indicating the direction of change in demand are healthy, beautiful, convenient, and comfortable (50). Another analyst writes that the old producer-oriented product classifications such as vegetables, fruit, butter, and eggs, are obsolete. Consumers view food and other products as means of satisfying such needs and desires as taste, health, energy, convenience, saving of work and time, emotional satisfaction (17).

^{40/} "New" here has the meaning that the food trade in all countries gives it. The trade considers a product sold for the first time in a market as a new product even if it differs only slightly from existing products. In fact, most new products are "me-too" products, in food trade jargon, rather than really new and significantly different articles.

As the tabulation below shows, the average number of articles stocked by German food chains' self-service stores nearly tripled from 1958 to 1969 (58):

	<u>1958</u>	<u>1969</u>
Consumer cooperative chainstores	1,236	3,595
Corporate food chainstores	970	2,567

This expansion was made possible by a nearly commensurate increase in store size in this period. 41/ A typical small European foodstore with a sales area of only 40 square meters (430 sq. ft.) usually can stock only 500 to 600 items. A superette may handle three times as many articles. A supermarket usually will display 3,000 to 5,000 products 42/ and the food departments of central city department stores may offer 5,000 to 7,000 food products. 43/ In 1970, Germany's new self-service department stores stocked, on average, 18,165 articles, including 4,195 food products, in a sales area of about 3,500 square meters (37,660 sq. ft.) (26). 44/

In addition to expanding store sizes, major German food retailers are increasing and changing the assortments of existing stores for several reasons. Consumer demand is the main factor. Retailers' desires to counter the declining trend in net profits by increasing sales of products with above average margins is another. The third major reason is the rising intensity of German and foreign food manufacturers' efforts to develop and sell new convenience foods.

Germany's leading food retailers are adding a net of 30 to 100 new articles to their store assortments annually. More significantly for U.S. exporters, the total change in superette and supermarket inventories is several times the net change. Total additions are on the order of 200 to 500 items, or roughly 10 percent of the assortment, and deletions are only slightly

41/ From 1955 to 1970, typical U.S. grocery store assortments increased from 4,723 to 7,800 articles, also partly because supermarkets replaced thousands of smaller stores (49).

42/ Supermarkets operated by some German food chains have sharply smaller assortments. One regional chain's supermarkets display only 1,800 to 2,200 articles. The company's merchandising policy emphasizes its own brands. Another company that operates about 600 discount foodstores offers an extremely limited assortment of about 400 fast-selling articles, none of which are perishable products. On the other hand, a few supermarkets have broad assortments of about 9,000 articles.

43/ The department stores offer their customers essentially the same food product assortments that the supermarkets have plus a much larger selection of "Feinkost" items--gourmet, delicatessen, foreign specialty, and luxury foods.

44/ On Apr. 1, 1971, 24 of Germany's 749 "Verbrauchermarkte" and "SB-Warenhauser" had sales areas in excess of 10,000 sq. meters (107,600 sq. ft.). The 24 stores' sales areas averaged 14,704 sq. meters (158,215 sq. ft.) (27). Some of these stores display 30,000 to 40,000 articles.

fewer. 45/ Most of the additions to superette and supermarket assortments are convenience foods, nonfoods, and food products traditionally sold mainly in specialty and handwerk shops. Retail sales of factory-processed foods are rising an estimated 4 to 5 percent annually, in constant prices, or more than twice as rapidly as total food expenditures. Sales of some items are rising at explosive rates. 46/

Frozen Foods

Among the principal groups of processed foods, production and consumption of frozen foods may be increasing most rapidly. Frozen foods were almost unknown in Germany only 15 years ago. In 1960, consumption, excluding ice cream, was only 47,100 metric tons (table 8), or 0.85 kilograms per person. In 1970, however, consumption was 616,515 metric tons, or 10.0 kilograms per capita. Ice cream consumption was nearly 3 liters per person. 47/ From 1965 to 1970, frozen food consumption in Germany rose 11.3 percent annually. Industry leaders expect consumption to increase 10 to 20 percent annually in the years ahead (15).

The main causes of growth of frozen and other convenience foods in Germany are rising family incomes and the related socioeconomic factors discussed in chapter II. More German families are consuming frozen foods now than ever before, although nearly one-third still do not buy them. Prices of frozen foods continue to be higher than prices of the same foods in other forms. Only frozen spinach reportedly costs less per serving than the comparable fresh product. Industry leaders, however, expect that future changes in price ratios among fresh, frozen, and canned foods will stimulate frozen food sales. Rising sales of retailer brands of frozen foods is one factor tending to lower frozen food prices in retail stores. At the same time, German consumers seem to be responding as expected to continuing improvements in the average quality of frozen foods available in retail stores.

More German households now have freezers than ever before. About 20 percent of all households had one in 1970 (15). In that year, too, German appliance dealers sold about 630,000 home freezers and 1.8 million refrigerators,

45/ In 1969, the typical U.S. supermarket added 490 articles and deleted 335 for a net gain of 155 (48). Benelux and Danish supermarkets are experiencing similar increases and changes in product assortments (47, 45). By 1980, the typical U.S. supermarket probably will stock 10,000 articles, compared with 7,800 in 1970 (49).

46/ For example, sales of yogurt in Germany increased from only 53,000 metric tons in 1961 to 170,000 metric tons in 1969, or nearly 20 percent annually (59). Sales of baby foods jumped from only 1.5 million glass jars in 1956 to 260 million in 1969 (56, 55).

47/ In comparison, U.S. per capita consumption of frozen foods, excluding ice cream and frozen bakery products, was an estimated 30 kilograms in 1970. Ice cream consumption was nearly 23 liters per person. One metric ton=1,000 kilograms=2,204.6 lbs. A liter is about 1.06 quarts.

Table 8.--Frozen foods: Consumption by major product groups, West Germany, 1960 and 1970

Product group	1960	1970
	Metric tons	
Vegetables and fruit <u>1/</u>	14,000	88,975
Fish and fish products	5,100	49,920
Meat and wild game	0	20,220
Poultry	25,000	406,000
Potato products	1,000	25,745
Milk products <u>2/</u>	1,000	5,245
Prepared dishes and dinners	0	16,890
Other <u>3/</u>	1,000	3,520
Total	47,100	616,515

1/ Including fruit juices, but excluding potato products listed separately.

2/ Excluding ice cream.

3/ Chiefly frozen pasta and bakery products.

Source: (15).

of which 55 percent had frozen food sections. Over 99 percent of Germany's 86,000 self-service foodstores sell frozen foods and most retailers are increasing the number and variety of items in their frozen food assortments.

Prospects for increases in sales of frozen foods and other fully or partly prepared dishes to restaurants, factory canteens, and other food service establishments are viewed by the German food industry as exceptionally bright. The rapidly growing institutional market purchased only 29 percent of all frozen foods sold in 1966; this increased to 39 percent in 1970, when retail sales rose only 6 percent and institutional sales jumped 20 percent. Tight labor markets and rising wages of food-service workers are encouraging owners of restaurants and other food-service businesses to buy frozen and other processed foods as a means of slowing the upward trend in their operating costs. Finally, the industry hopes that its research and development, advertising, and promotional activities will increase sales and profits in the years ahead.

Fresh, Low-Calorie, and Health Foods

Although the German food trade correctly refers to the present period as the "Konserven Zeitalter" (Processed Foods Era) (34), almost all of the food industry executives interviewed in this study also stressed that rising consumer demand for convenience is by no means the only important demand factor influencing retailers' assortment and sales policies. According to these

executives, the typical German consumer probably is more health-conscious, and more knowledgeable about foods and nutrition than ever before. He has long had a strong preference for "farm fresh" products. This preference not only affects sales of a wide range of fresh foods but also tends to slow the growth of sales of processed foods. An example of the importance major food retailers are giving to this preference is the emphasis, mentioned earlier, they are giving to perishable products in the assortments and sales of the new neighborhood superettes being built throughout Germany.

Another important food consumption trend mentioned by most food industry executives is the rising popularity of low-calorie foods, especially among the younger generation of Germans, who apparently are more weight-conscious than their parents. Finally, many Germans seem to be firmly convinced that "health (naturally grown) food" products are worth the higher prices that must be paid for them compared with prices of other foods. In September 1968, Germany had 1,621 "Reformhäuser" (health food, or reform, houses) whose 1967 sales were nearly 6 percent of total retail food sales (26). There may now be more than 2,000 of these shops plus "Reformhaus" sections in some supermarkets and department stores (34). In 1970, the consumer cooperatives added an assortment of Co-op health foods under their own "Gesunde Kost" label (21), and a large retailer cooperative began selling a smaller assortment of its private label health foods (19). Although it is impossible to predict the sales potential of these foods, there is no doubt that health foods are an important part of the German food market.

Brand Competition

The growth of large food retailing organizations intensifies competition between manufacturer and retailer (private) brands. Private label products capture a larger share of the retail market for brand goods as large food retailers use their own brands as key instruments of their marketing strategy. Food manufacturers, therefore, come under increasing pressure from major retailers to supply private label products. German developments in marketing manufacturer and private brands are generally in line with these basic international trends, although the marketing strategies of the major food retailers differ widely in their emphasis on private brand merchandising.

An executive of a regional food chain interviewed in this study said that private brands were 42 percent of the chain's 1970 sales and that this share soon will be 50 percent. Another regional chain executive estimated his firm's private brand sales at 30 to 40 percent of gross sales. Almost 29 percent of the consumer cooperatives' 1970 sales were Co-op brands, including many items produced in Co-op factories. ^{48/} Germany's largest voluntary chain reported

^{48/} Consumer cooperatives in 1970 owned and operated 30 factories producing a wide range of food and other consumer products (24). In addition, GEG is a part-owner, along with the consumer cooperatives in Belgium, Netherlands, France, and Italy, of the EURO-COOP biscuit (cookies, wafers, and the like) factory in Utrecht, Holland, and the new EURO-COOP chocolate and sugar products plant in Dortmund, Germany. No other food retailing organization in Germany manufactures more than a minute fraction of the processed foods it sells.

that it was selling 540 private label articles on December 31, 1970, compared with 445 only 1 year earlier (13). In contrast, officers of other large German food retailing organizations estimated that in most companies private label sales were only 5 to 7 percent of total sales in 1970. 49/

Nearly all of the food industry executives interviewed predicted that the market shares of retailer label food products will increase slowly in the years ahead. The main reasons for this expectation are the rising intensity of competition in German food retailing and the special role that private label merchandising plays in this struggle among the giants. 50/ Another possible reason is that inflation, especially rising wages, is increasing advertising and promotion costs in Germany, as in America, faster than basic raw material and food product prices (9). If this is true, price spreads between nationally advertised and retailer brand products can be expected to widen and to stimulate sales of retailer label goods. Finally, while no one can predict the market share of retailer brands in the German retail food market in the decade ahead, it may come close to 25 percent, with wide variations among major retailers and among types of manufactured foods.

IV.--FOOD MANUFACTURING

Food, beverage, and feed manufacturing is a big, dynamic industry in Germany and an important segment of the nation's expanding industrial sector. Counting only factories employing 10 or more people, Germany had 5,269 food processing plants in January 1971 (table 9). 51/ They employed nearly 478,000 workers, including owners, and reported 1970 sales of 57,139 million DM (about \$15,612 million at 1970 exchange rates). Thus, in January 1971, the

49/ Private brands were an estimated 10.6 percent of all articles stocked by U.S. food chains in 1970, compared with 7.6 percent in 1967 (49).

50/ Private brands offer the large retailer several advantages: (1) They reinforce a retailer's pricing, advertising, and other marketing activities in creating among consumers a specific store image that effectively differentiates the company's stores from those of its competitors and also creates the idea that its stores are good places in which to shop. Executives of leading German food retailing organizations interviewed in this study stressed this advantage; (2) By selling both manufacturer and lower-priced retailer brands, stores attract price-conscious consumers and customers not so price sensitive. As a result, sales are higher; (3) Private brands permit retailers to handle a smaller number of different brands and, thereby, to increase store and warehouse efficiency; and (4) Private brands enhance the large retailer's bargaining power with manufacturers, especially processors who are not large enough to market national brands.

51/ By the end of May 1971, the number of plants was down to 5,245--a net loss of 24 plants in only 5 months (7). In Germany, the food industry includes animal feed and alcoholic beverage factories. It does not include handwerk shops (retail bakeries, pastry shops, and butcher shops), which sell most of their production at retail.

Table 9.--Food, beverage, and feed factories: Number and employment, January 1966 and 1971, and sales, 1965 and 1970, by type of factory, West Germany

Type of factory	Factories		Workers		Sales	
	1/66	1/71	1/66	1/71	1965	1970
	-- Number --		-- Thous. --		-- Million DM --	
Grain milling	218	181	13.7	10.8	2,781	2,430
Other grain products	151	128	20.8	19.1	1,477	1,736
Potato drying, starch	38	54	6.5	8.4	453	762
Bread <u>1/</u>	338	293	25.1	28.1	1,084	1,472
Sugar refining	72	64	13.1	11.8	2,095	2,176
Sugar products	412	343	70.9	68.9	3,678	4,855
Fruit, vegetable processing :	460	377	25.2	26.7	1,648	2,214
Milk and cheese	1,606	1,058	41.9	42.1	6,290	8,302
Other dairy products	83	79	11.7	11.1	1,519	1,974
Vegetable oils, margarine ..:	56	51	17.0	15.0	2,787	2,822
Meat and meat products <u>1/</u> ..:	337	344	37.6	42.3	3,873	5,114
Fish and fish products	177	144	13.6	13.1	684	872
Coffee and tea	168	101	19.2	16.7	3,039	3,696
Misc. food products	146	144	7.7	11.6	631	1,156
Nonalcoholic beverages	459	444	26.3	30.2	1,205	1,921
Food subtotal	4,721	3,805	350.3	356.0	33,244	41,501
Beer and malt	939	870	92.8	87.7	6,066	7,883
Other alcoholic beverages ..:	437	332	22.1	19.8	3,293	3,855
Animal feeds and tallow	232	262	12.5	14.1	2,885	3,900
Total	6,329	5,269	477.7	477.6	45,488	57,139
	----- Percent -----					
Percentage of all industry ..:	10.7	9.4	5.7	5.6	12.1	10.8

1/ Excluding handwerk shops, employment, and sales.

Source: (7).

German food industry accounted for 9.4 percent of all German industrial plants employing at least 10 people and 5.6 percent of the 8.6 million industrial workers. Food factory sales in 1970 were about 10.8 percent of the nation's industrial output. 52/

Most German food, beverage, and feed factories, like those in most European countries, are small, family enterprises. Many have been owned for years by successive generations of the same family. In September 1968, only 1,140 of the 11,188 plants counted in the industrial census employed 100 or more workers (table 10). Only 133 employed 500 or more. By reason of their size, tradition, and other factors, most of these enterprises are strongly oriented to production for local and regional markets. In 1970, German food manufacturers exported only 3.1 percent of their output (7), whereas 19.3 percent of Germany's total industrial production was exported.

Structural Developments

Germany's leading food industry executives say that German food manufacturing is in the midst of a long period of fundamental change in industry organization, operation, and orientation. The direction and causes of this evolution are basically the same as in food manufacturing in other European countries and North America.

Liquidations, acquisitions, and mergers continue to reduce numbers of factories and companies. From 1960 to 1968, Germany experienced a net loss of at least 2,012 food factories, or 252 annually (table 10). There was a decrease of 2,161 plants employing fewer than 50 workers, which was only partly offset by an increase of 149 larger plants.

The rate of decrease in factory numbers may now be higher than it was in the early 1960's. The number of food factories employing 10 or more workers fell by 1,060 from 6,329 on January 1, 1966, to 5,269 only 5 years later (table 9). In 1970 alone, there was a net decrease of 246 factories (7) and if plants employing fewer than 10 workers are considered, the German food industry may now be losing a factory a day. As in the past, most of the disappearances involve factories employing fewer than 50 workers, plus a few plants employing 50 to 99 workers. Only larger plants are becoming more numerous. By the end of 1980, Germany may have fewer than 7,000 food, beverage, and feed factories.

As in other countries, advances in food processing technology and changes in the structures of agriculture, food distribution, and consumer demand are increasing economies of scale in German food manufacturing, including

52/ In addition to these factories, Germany had an estimated 5,100 smaller food processing plants. They employed about 20,000 people, or nearly 4 per factory. Their 1970 sales may have been close to 3 billion DM. That is, at the beginning of 1971, the overall dimensions of the German food industry, excluding handwerk shops, was on the order of 10,400 plants employing nearly 500,000 people and producing about \$16.4 billion of food, beverages, and feed in 1970.

Table 10.--Food, beverage, and feed factories: Number and employment, by size of plant, West Germany, September 30, 1960 and 1968

Number of factory workers <u>1/</u>	Factories		Workers <u>1/</u>	
	9/30/60	9/30/68	9/30/60	9/30/68
	----- Number -----		----- Thousand -----	
1 - 9	7,674	5,713	28.5	22.3
10 - 49	3,524	3,324	82.0	78.1
50 - 99	976	1,008	67.2	70.4
100 - 199	564	621	79.4	86.6
200 - 499	335	386	100.1	118.3
500 and over	<u>126</u>	<u>133</u>	<u>114.6</u>	<u>131.2</u>
Total	13,200	11,188	471.8	506.9

1/ Including owners and managers.

Note on statistics: The 1960 and 1968 data are not fully comparable. The 1960 data exclude factories and workers in the Saarland and West Berlin but the 1968 figures include them. Thus, the actual decline in plant numbers was greater than these statistics indicate.

Source: (61).

procurement and marketing, as well as in factory production. Increasing competition in processed food markets also is stimulating food manufacturers to increase efficiency through adoption of new technology, much of which requires larger factories and companies.

Rising consumer incomes give consumers more freedom to buy selectively. Supermarkets enhance this freedom and greatly intensify competition among products and manufacturers (ch. III). In rapidly growing economies, market power continues to shift slowly from producers and manufacturers toward large food retailing organizations as they gain more control over retail markets. 53/ As a result, both consumers and food retailers are increasing their demands on food manufacturers to: improve product qualities, standardization, and packaging; develop new products; expand product assortments; and deliver the large volumes of goods required by mass merchandising firms. In Germany and

53/ Like retailers in other countries, German food retailers argue that increasing concentration in food manufacturing is a prime cause of the same structural trend in food distribution. Executives of many food manufacturing companies argue that the cause-effect relationship is exactly the reverse. Actually, these cause-effect relationships are mutual. In addition, the structural changes in both industry segments are influenced by other economic, social, political, and technical forces.

other countries with expanding economies, advertising, promotion, research and development, and other marketing costs also are rising as the basic orientation of the food industry continues to turn from its historical emphasis on production to priority on marketing.

In this evolution of German food manufacturing, most of the important economic advantages lie with large factories (100 and more workers) and companies. Many small food manufacturers already suffer the important disadvantage of being too small to produce and deliver the large quantities of a product required by one of Germany's major retailing organizations. 54/ As German food retailing becomes more concentrated in fewer large organizations, many more small food manufacturers will have increasing difficulty selling their products. 55/ Few small companies can profitably employ the staffs of professionally trained executives and other skilled personnel who are increasingly necessary for developing, producing, and marketing the growing volumes and varieties of sophisticated food products demanded by increasingly affluent, discriminating German consumers. 56/

Leading German food industry executives interviewed in this study estimated that structural change in food manufacturing already has evolved so far that not more than 10 large, multiplant companies produce about 75 percent of total German outputs of manufactured foods. 57/ One company alone reportedly accounts for half of all German frozen food production. Most of these companies appear to be multinational in ownership, management, and operation. They include the world's two largest food manufacturing corporations. One of these is nominally Swiss and the other is a British-Dutch conglomerate. Other large multinational food corporations in Germany are nominally American. One food industry executive interviewed in this study estimated that foreign-owned factories produce 48 percent of the total output of Germany's food processing industry. Most of these plants are managed by German executives. Several of the "Big Ten" appear to be German firms in all important respects; GEG (federation of consumer cooperatives) with its 30 factories producing 723 million DM of processed foods in 1970 surely is one (24).

54/ A serious problem that large food retailing companies often encounter in buying a processed food product, such as a private label article, from more than one manufacturer, is maintenance of the uniformity of product quality demanded by consumers.

55/ One German business analyst writing about these trends recently quipped: "Bread for the big ones--death for the little ones." (Freely translated from (11).

56/ This demand also is, in part, created by the advertising and other consumer persuasion efforts of modern food processors. In fact, consumer persuasion (demand creation) becomes increasingly important and costly for manufacturers in affluent, growing economies because (1) consumers have an ever-growing array of products from which to choose and (2) differences among processed foods in their basic life-sustaining qualities diminish, while differences in taste, aroma, flavor, convenience, and other features more amenable to the art of persuasion increase.

57/ The authors believe that this estimate refers only to relatively complex food products and excludes meat packing, milk bottling, egg packing, and other similarly limited food-processing operations.

In addition to these huge companies, 50 to 70 food manufacturing firms are estimated to have sufficient size to distribute their products nationally. Some of these companies are also foreign-owned but probably most are German corporations. The Deutscher Raiffeisenverband (German Federation of Farmer Cooperatives) probably is one of this group. 58/ Thus, it appears that even now a high percentage of German food processing is in the hands of only 80 companies.

Other Developments

Food manufacturing in Germany presents the slightly confusing appearance of a declining industry and a rapidly growing, progressive industrial complex. Numbers of food factories are declining both absolutely and as a percentage of all German industrial plants--from 10.7 percent in January 1966 to 9.4 percent only 5 years later. Food factories are expected to continue to diminish more rapidly than other types of plants.

Employment in food manufacturing also now appears to be declining slowly, both in actual numbers of workers and as a percentage of all German industrial workers. From January 1966 to January 1971, food factory employment dropped slightly from 5.7 to 5.6 percent of total industrial employment. Food manufacturers' sales, although increasing rapidly in absolute amounts, are rising less rapidly than total industrial sales. From 1965 to 1970, food factory sales in Germany dropped from 12.1 to 10.8 percent of all factory sales (7).

On the other hand, it would be a serious mistake to conclude from the foregoing that German food manufacturing is a declining industry that will not be able to compete effectively with foreign food manufacturers. From 1962 to 1970, Germany's food, beverage, and feed factories increased their output almost 38 percent, or 4.1 percent a year. More importantly, perhaps, productivity per man-hour rose even more--41 percent in the 8-year period, or 4.4 percent annually. 59/

58/ The degree of involvement of the Deutscher Raiffeisenverband in food manufacturing cannot be determined with certainty from its annual reports. It operates a number of milk-processing, meat-packing, wine-marketing, and egg-packing plants. Furthermore, the approximately 15,000 local societies now market nearly half of all commodities sold by German farmers, compared with 39 percent in 1959. The cooperatives also are important suppliers of farm credit and marketers of farm equipment and supplies to farmers (14). Like other producing and marketing organizations in Germany, rural cooperatives are in the midst of a period of rapid structural change. From the end of 1963 to the end of 1969, the number of local societies declined, mainly through mergers, from 21,651 to 16,454 and the number of regional associations was reduced from 13 to 12. On the other hand, the growth in volumes of goods marketed for and to farmers caused the Raiffeisenverband to expand its regional marketing centers, some of which are processing plants, from 83 to 87.

59/ Although these growth rates are high by international standards, they are modest in relation to the average for all German industry. From 1962 to 1970, total industrial production in Germany increased 5.8 percent a year and production per man-hour rose 5.9 percent annually (64).

The dynamic nature of German food manufacturing also is evident in its proven capacity to alter its mix of products to meet changing market demand. From 1965 to 1970, the production of many traditional products such as flour, margarine, canned fruits, pastry products, and pork decreased, remained almost unchanged, or increased only slightly. But production of some other products increased sharply, as the tabulation below indicates (in 1,000 metric tons) (7):

	<u>1965</u>	<u>1970</u>
Prepared soups	70	91
Potato chips	3	12
Canned vegetables	229	319
Frozen foods	362	617
Fruit juices and drinks	421	827
Salad and cooking oils	1,618	2,103
Processed meat products	314	410
Cheese	222	315

Currently, German food manufacturers are developing and marketing an estimated 1,400 to 1,500 new products annually. Admittedly, few of these articles are truly new products. Aside from a few huge, multiplant international companies operating in Germany, probably only a handful of German food manufacturers have the research and development staffs necessary for new product development. Many smaller companies, however, are capable of profitably producing and marketing a variety of "me-too" products. In fact, executives of leading food retailing and manufacturing companies interviewed in this study emphatically declared that successful introduction of a new food product by any domestic or foreign manufacturer would be followed in a few months by the appearance in foodstores of a nearly identical article produced by a German manufacturer. In other words, the German food processing industry, although still highly fragmented, has enough medium-sized and large companies to participate effectively in modern product competition with potential foreign producers.

Another important development in German food manufacturing and marketing is the steady decline in recent years in manufacturers' use of resale price maintenance (RPM). ^{60/} In 1962, RPM, known as "Preisbindung" (price binding) in Germany, was applied by 312 German food manufacturers to 8,381 products (54). The number of "fair-traded" food products reached a record high of 8,838 in 1963 and the number of companies using RPM reached its historical high of 337 at the end of 1964. By the end of 1970, only 179 German food manufacturers were "fair trading" 4,918 products.

Many of these manufacturers apparently shifted to the less rigid policy of suggested prices, known in Germany as "Preisempfehlung." In 1962, suggested retail prices were issued by 184 companies on 2,647 products. Eight years later, 612 firms were issuing recommended retail prices on 12,210 food products.

The reasons for these shifts in manufacturers' pricing policies are partly political but mainly economic and structural. In the early 1960's, the German Government stepped up enforcement of its regulations that place the

^{60/} Germany is one of the few industrial nations in which RPM remains legal.

burden of policing and enforcing "fair trade" prices on manufacturers. Many firms found this burden too costly and abandoned RPM.

More importantly, in the early 1960's, the rapid growth of large retailing organizations, discount houses, Verbrauchermärkte, and self-service-department stores sharply reduced the advantages of RPM to manufacturers. RPM not only became more difficult to enforce but it also encouraged food retailers to promote sales of their private brands. In a few years, according to most of the food industry executives interviewed in this study, the growing market power of the big food retailing organizations will force German food manufacturers to abandon RPM. ^{61/} Some executives also expressed doubts that use of manufacturers' suggested retail prices will continue to expand as in the past. The reason for this is simple. The large retailing organizations strongly prefer the greater pricing flexibility they have when manufacturers make no effort to influence retail food prices and retailers' pricing strategies. Moreover, as the market shares of these big food retailers rise, the probability that they can have their way with manufacturers on this matter also increases.

V.--SIGNIFICANCE FOR THE UNITED STATES

The dynamic German food market offers U.S. food manufacturers both opportunities for expanding sales of their products in Germany and significant challenges. U.S. suppliers of agricultural commodities used by German food manufacturers also face somewhat similar marketing opportunities and challenges arising from the continuing revolution in German food marketing.

Some Export Opportunities

Although the Germans have long had more than enough good food, their food expenditures are rising about 2 percent annually in real terms (ch. II). German consumer outlays for factory-processed foods are expanding about 4 to 5 percent a year. Supermarket inventories continue to rise as mass retailers offer increasingly affluent German consumers a greater selection of higher quality foods. Consumption of some convenience foods continues to rise at above-average rates. These products include:

Frozen foods	Prepared main dishes and
Pet foods	meals (canned and frozen)
Baby foods	Fruit juices and drinks

^{61/} On the other hand, an executive of a large food manufacturing company expressed doubts that his firm will abandon RPM. However, he admitted that structural developments in German food retailing are forcing his company to set "fair trade" prices low enough to discourage retailers from strongly promoting their competitive private brands.

Opportunities also are favorable for expanding U.S. winter-season exports of such fresh fruits and vegetables as radishes, celery, iceberg lettuce, oranges, and grapefruit. Sales of citrus juices, soft drinks, prepared soups, and so-called health (naturally grown) and diet foods are rising. Finally, sales of food products designed for tourists (mainly campers) and for the rapidly expanding hotel, restaurant, and institutional trade have great potential. 62/

Some Export Challenges

Most of the marketing conditions and problems involved in expanding U.S. food product exports to Germany are rapidly becoming basically like the marketing environment and problems confronting food manufacturers in the American market. This means that the basic strategies and techniques of successful marketing of processed foods are becoming essentially the same in the two countries. That is, the "marketing mix" that a U.S. food manufacturer is now using successfully in marketing his product in North America is rapidly becoming likely to prove profitable in Germany (and Europe). 63/ However, some elements of German food marketing are sufficiently different to require some modifications of American marketing practices in Germany. These differences center on the growing concentration of market power among a small number of German food retailing and manufacturing companies, other developments in market organization, costs and limitations on advertising and promotion in Germany, and the impact of the European Community (EC) Common Agricultural Policy on prices of "third country" products in the EC.

Market Organization

By 1980 or earlier, German food distribution seems destined, as explained in chapter III, to be dominated by a few large organizations. Purchases of imported foods may become even more highly concentrated. Imports needed by German retailers, with a combined market share of 65 to 70 percent, may be purchased by the buyers of about 18, or fewer, large firms and buying groups. Although an even higher level of market concentration in retailing already

62/ An American market analyst has predicted strikingly similar changes in U.S. food buying patterns in the 1970's: "We can forecast with confidence an increase in consumption of snack foods, soft drinks, diet foods, confectionery products, all kinds of beverages, convenience foods, and nationality foods... An increase in leisure, sports, and travel...will require food products specially developed...(for) these modes of living...Our affluent population will demand 'fancy' or gourmet food products (52). Studies in other European countries indicate that economic growth is responsible for basically similar changes in food consumption patterns (45, 46, 47).

63/ "Marketing mix" is a trade term that covers the many elements of a company's total marketing effort, including the product or product line, prices, quality, flavor, packaging, methods of distribution and selling, and advertising, sales, and promotion activities. The number of possible marketing mixes is enormous.

prevails in Sweden and is developing in Denmark, Belgium, and the Netherlands (45, 47), it is far higher than in North American food retailing. Because of their growing market power, the leading German retailing organizations, like their North American counterparts, are increasingly able to raise and enforce their demands on both foreign and domestic suppliers on such key variables as product quality, prices, packaging, deliveries, and promotion allowances.

International Buying Groups

Another development with potentially great significance for U.S. food exporters is the growth of international associations of European food retailers. Most of the European national organizations of voluntary chains, retailer cooperatives, corporate food and department store chains, and consumer cooperatives are members of international associations. ^{64/} Although most of these organizations limit their operations to those of a trade association, some of them are experimenting with joint purchasing of products for their members. ^{65/} Whether these attempts to enhance the national retail buying groups' market power against European and U.S. food manufacturers will succeed is debatable. An officer of an international association of retailer cooperatives expressed to the authors his satisfaction with recent joint-purchasing operations. Some of these were purchases of U.S. food products packed under the international association's own label. In contrast, another executive of an international food manufacturer flatly declared that no international buying group can obtain better terms than any that the national member associations now regularly receive, because each national association is large enough to command the most favorable terms that manufacturers can afford to offer.

Irrespective of the direct economic impacts, if any, of these international associations on international trade, they now have the power to affect food manufacturers through an elaborate network of exchanges of information. This information, disseminated to association members by telex,

^{64/} Three worldwide retail associations with headquarters in Europe are the International Association of Department and Variety Stores, the International Association of Chain Stores, and the International Association of Food Distribution. In addition to these general associations, there are many that group certain types of retailers into international federations. The 28 consumer cooperative federations of 18 countries have their international buying association known as Inter-Coop, established in January 1971. The many national Spar voluntary chains are members of Spar International. Other voluntary chains are similarly federated. The European Association of Food Distributors (EUFODA) is an international association of independent wholesalers, some of whom also are members of voluntary chains. EUROGROUP and EUACO are international associations of national retailer cooperative organizations.

^{65/} The Nordisk Andelsforbund, the buying association for 5 Scandinavian consumer cooperative federations with buying offices in several countries, including an office in San Francisco, has many years of experience in international purchasing for its members and for consumer cooperatives in Austria, Germany, the Netherlands, Belgium, and Switzerland.

airgrams, and international meetings, includes the specifics of the terms of trade offered to or received by each member from a manufacturer, including prices, quantities, promotion allowances, other discounts, delivery and payment schedules, and so on. In other words, within a day or two all of the important details of a manufacturer's offer or sale to any association member is known to the executives of all other members. In a few more days, the information may be common knowledge in the European food trade.

In addition to exchanges of specific trade information, the international associations of food retailers are means of exchanges of information on such intangible matters as the business reputation of a manufacturer. For example, an officer of a large German food chain said that evaluations of American food manufacturers provided by the U.S. member of Inter-filia greatly influence his decisions on purchases from U.S. companies. ^{66/} In short, the information systems developed by the international associations of food retailers may have significant impacts on the reputations, sales, strategies, and operations of all food manufacturers doing business with Europe's major food retailing organizations.

Marketing Management

Recent developments in marketing methods and management in Germany are increasing the marketing challenges to U.S. exporters. The expanding retailing enterprises are leaders in the adoption of self-service retailing and modern management and merchandising methods. They are the principal owners and builders of Germany's new supermarkets, self-service department stores, shopping centers, and warehouses. They are expertly managed by professionally trained executives supported by skilled staffs. Their approach to marketing and business differs sharply from the old European, leisurely, almost amateurish way of doing business. Germany's modern food retailers, like their U.S. counterparts, are aggressively consumer oriented. Competition among them is intense. ^{67/} Accordingly, successful merchandising of U.S. food products to German consumers through these modern retailers requires the same marketing expertise needed in the United States.

Advertising and Promotion

In comparison with advertising in the United States, food product advertising in Germany is more expensive, less extensive, and more concentrated in newspapers, handbills, magazines, and joint retailer-manufacturer promotions.

^{66/} The 9 Inter-filia members are large corporate food chains in 8 countries. Inter-filia's joint buying operations are now limited, but there is much exchange of data on products, market conditions, and companies within Inter-filia. The U.S. member is the third largest food chain in North America.

^{67/} Basically similar statements can be made about Germany's largest modern food manufacturers, U.S. food exporters' principal competitors in the German retail food market.

Commercial advertising is banned from German radio, even though advertisers can reach thousands of families in the densely populated western region of West Germany through Radio Luxembourg.

Advertising on German TV reportedly is limited to 20 minutes daily in four 5-minute blocks. The demand for TV advertising greatly exceeds this limited time. As a result, the publicly owned TV network can require advertisers to make annual commitments for advertising many months in advance of telecasting. German magazine advertising rates reportedly are high in terms of costs per 1,000 potential readers. 68/ A possible contributing factor is the reported refusal of the postal service to handle magazines with an advertising content exceeding 50 percent of the total space. 69/

German food retailers rely heavily on newspaper and handbill advertising. Only a few large food manufacturers advertise a small number of products nationally. 70/ Most manufacturers devote large shares of their advertising and promotion budgets to joint retailer-manufacturer promotions sponsored and controlled by the major food retailing organizations. In return for assurances of adequate shelf space in the retailers' stores, manufacturers pay most of the costs of these "joint" promotions and also give the big retailers a variety of discounts and rebates on purchases during the promotion period. One business analyst has reported that a special promotion of one product in the stores of a large German retailer cooperative or voluntary chain may cost the manufacturer 70,000 DM to 150,000 DM (\$19,126 to \$40,984) in promotion allowances in addition to price discounts on the retailers' purchases (11). These promotion allowances and merchandise discounts can be demanded by the major food retailers because they are in a strong market position relative to

68/ A minimal advertising effort designed merely to "show the face" of a product to the German public on TV and in magazines costs at least 1 million DM (about \$273,000), according to one food manufacturing company executive. A more extensive national advertising campaign using a greater variety of media may cost 10 million DM or more. To introduce a new food product to German consumers may cost 5 million DM for advertising over a 2-year period.

69/ In addition, by custom and regulation, advertising in Germany must not make direct comparisons of competing products and the use of superlatives in advertisements is discouraged. For example, a claim that a product is "the best" is not allowed because this is a direct, and often unprovable, comparison with all similar products.

70/ Total 1969 German advertising expenditures were about \$2,421 million, or nearly 1.5 percent of GNP (data supplied by Heumann, Ogilvy and Mather, GmbH, Frankfurt). This sum was spent as follows: Newspapers, 33.7 percent; handbills, 32.3 percent; magazines, 19.5 percent; TV and Radio Luxembourg, 10.3 percent; and all other, 4.3 percent. In contrast, 1970 U.S. advertising expenditures of \$20,838 million were 2.1 percent of GNP and were spent for: Newspapers, 25.7 percent; TV-radio, 20.7 percent; direct mail, 13.2 percent; magazines, 8.5 percent; store posters, 4.4 percent; and all other, 27.5 percent (1).

all but a handful of large food manufacturers, because other advertising and promotion costs are high, and because the retailers offer manufacturers something of high value, namely store shelf space. 71/

Finally, because of the structural and other features of German food marketing described above, all of the food manufacturing executives interviewed in this study give high priority to direct merchandising of their products to Germany's leading food distribution organizations. Accordingly, they have their own sales and marketing staffs or have arranged to utilize the services of the merchandising division of a manufacturer of complementary products. For example, the sales staff of the German subsidiary of a U.S. breakfast foods manufacturer also sells a well-known U.S. brand of canned soups and an equally well-known U.S. brand of rice products. Manufacturers' salesmen call frequently on the major retailers' chief buyers, but they spend far more of their time working in retail stores with store managers and clerks to assure proper handling and display of products. Although this form of merchandising is expensive, the food industry executives obviously consider it the best strategy in terms of sales and profits. 72/

Price Problems

U.S. agricultural exports of \$696 million to Germany in 1970 suggest that the prices of many U.S. food products and basic agricultural commodities are competitive in the German market. The prices of many other products, however, are too high to permit substantial sales volumes. Executives of all the leading German food retailing organizations interviewed in this study repeatedly emphasized that high prices are the primary obstacle to expansion of their purchases of many U.S. food products. These executives generally expressed high praise for the quality of most U.S. merchandise and for the marketing techniques and services of U.S. food manufacturers and exporters. Nevertheless, these marketing advantages often do not offset the big obstacle of prices substantially above those of similar products available from German and other sources.

Three factors are, or have been, mainly responsible for this serious price problem. Of these, one now (1971) may be nearing a satisfactory solution. Until recently, prices of all U.S. merchandise in Germany (and some other countries) were artificially inflated in terms of the German mark because of an unrealistic overvaluation of the U.S. dollar (or undervaluation of the mark). As a result of the recent international negotiations that changed the relative values of many national currencies, prices of all U.S. goods in terms of

71/ One manufacturer's comment on this situation was: "Whoever does not participate in sales promotions flies off the (store) shelf." (Freely translated by the authors from (11).

72/ One executive emphasized this point by declaring that some U.S. firms have purchased German food manufacturing companies primarily to acquire their sales staffs and secondarily to get their processing plants. For small companies unable to finance a large sales staff, the best alternative strategy may be production and marketing of products under major retailers' labels.

foreign currencies are now lower in many export markets. These changes in exchange rates are expected to promote larger exports of U.S. agricultural products other than those subject to the EC Common Agricultural Policy and system of variable levies.

The second factor affecting the prices of some, but not all, U.S. products, is high U.S. production, marketing, and transportation costs. The many possible solutions to this complex cost-price problem are not discussed in this report, but the authors are confident that farmers, food processors, and other exporters, as well as economists, understand the nature of the problem and its solution.

The third, and perhaps the most important, factor adversely affecting prices of U.S. food and agricultural products in Germany is the high tariffs imposed by the European Community on many items. Of particular importance and concern are the highly protectionist variable import levies on all products subject to the EC Common Agricultural Policy. Leading German food retailers repeatedly declared during interviews that high EC tariffs and other trade barriers continue to be a major obstacle to expansion of their purchases of a wide range of U.S. food products. The policy implication of this situation is that the United States must continue to negotiate with the EC and other major trading partners for reductions in barriers to international trade.

Emerging Gaps in the Market Supply

Despite the export problems discussed above, most of the leading German food retailers interviewed in this study assured the authors that U.S. food manufacturers have many excellent opportunities to expand their sales in Germany. Although the retailers generally were not able to name specific U.S. products with high export potential, they insisted that rising family incomes in Germany continue to create many new gaps in the expanding German retail food market. The problem, according to the retailers, is to discover these gaps as soon as, or preferably even before, they develop. Furthermore, they said, the solution to this problem is continuing, intensive analysis of the German food market followed by appropriate marketing action designed to take full advantage of the intelligence obtained through this research. Some of the executives spoke about the need for market research in much the same manner as an American market analyst, addressing the U.S. food trade: "I am convinced that we must...learn more of the consumer's expectations, satisfactions, and needs in the future. By closely examining the economic and social conditions forecast for our future consumer we will learn more of what he will require in food products to satisfy his mode of living" (52).

As noted earlier in this report, Germany's modern food retailers are expanding the number and variety of foods and nonfoods they offer consumers. They are also replacing an even greater number of existing articles with new products in their continuing effort to increase sales and profits. Like North American food retailers, they are looking for new products that meet the growing German consumer demand for health, convenience, quality, and variety at reasonable prices and that also contribute to the retailers' basic growth and profit objectives.

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