THE CHANGING PATTERNS OF MEAT DISTRIBUTION

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It is easy to criticize our present system of meat distribution. Likewise it is easy to spell out some idealistic system. But either approach has little meaning to those of you who must be alert to making adjustments appropriate to those changing patterns of meat distribution which will lie somewhere between the two extremes. To anticipate the emerging structure and how you can best adapt to competitive change is essentially the task at hand. At best the picutre is confusing because each retailing organization finds itself confronted with vastly differing circumstances.

By far the most significant change in meat distribution that has occurred in our lifetime has been the prepackaging of self-service meats. It is this development that is having a continuing influence on distribution patterns designed to service the particular needs of this development. Changing needs are dictated also by organizational structure changes that have taken place in the retailing business over the years. A retailing organization concentrated in a dense population-high labor cost area faces quite a different problem than one with lower labor costs scattered over a wide geographic area.

Basically the retailer is a merchant. His special sphere of competence lies in catering to the consumer. To the extent possible he is interested in bringing product in the back door and sending it out the front with the least possible involvement in handling and processing. He performs only those production jobs which for technical or consumer demand reasons cannot be passed along to someone else at reasonable cost. To date this has been largely the case with fresh meats. Even so the struggle to shed this job continues as it will for many years to come but today, in its state of transition, the meat distribution job has so many dimensions that it almost defies description.

At best the present meat distribution system can be described as a weird conglomerate of carcass distribution by packers and specialized distributors to both stores and retailer and distributor owned warehouses grudgingly giving away to primals and sub-primals again at both retail and wholesale level with some frozen product and a smattering of central cutting by both processors and retailers thrown in. Superimposed on this is a growing delicatessen and fast-food operation.

Fresh pork is commonly distributed to stores in the form of boxed primal cuts but beef is far less standardized. Consequently, beef finds itself at the center of the changing scene. A recent survey reveals that better than half the supermarkets receive some meat in carcass form, 88 percent receive some beef in primals and 57 percent receive some in sub-primal form. Even so the bulk of the tonnage still goes out in carcass

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1/ Talk delivered before the annual meeting of the Cooperative Food Distributors of America at Boston, Massachusetts on April 27, 1971.

form. Of course, most processed meat is received in cartoned consumer packages sometimes prepriced. Poultry has moved very rapidly in this direction in recent years. If this is confusing to you then you get the picture.

Eventually the consumer will see a more uniform, reliable product in the market but in the meantime the consumer continues to be faced with a confusing, unstandardized product and retailing service resulting from the changing structure. Decisions as to directions individual firm takes are determined by continuing considerations of balancing costs on the one hand and consumer acceptance on the other with perhaps a little bit of personal prejudice thrown in all along the line. In the meantime investment in any one clear cut system remains, at best, precarious. Continuing change is about the only certainty.

While I have indicated the conglomerate of arrangements now working side by side I think it important to keep in mind what appears to be a very rapid move toward retailer-owned meat distribution centers and the consolidation and closing down of many old, small, local packer-owned branch houses. As of today the most common pattern is to move product directly from packing plants or distributor owned warehouses to individual retail stores. Only about a fifth of the chains have their own meat distribution centers today but a large number are now under construction and many others are being planned. In fact any retailing organization today not giving consideration to the establishment of some form of meat distribution center is the exception....is somewhat out of step with the rest of the industry.

A recent survey of 62 retailing organizations reported in the February National Provisioner revealed that 21 percent had centers operating, 11 percent had centers under construction and 42 percent had centers planned. Only 10 percent reported no plans for a center. The remaining 16 percent were uncertain or said a center would come later. The number one problem is not so much the question of the need for retailer owned centers as it is one of what kind of center to build. In fact it is doubt on this issue that has delayed decision for so long. There is nothing quite so burdensome as new, modern, obsolete facilities. Even so the retailing industry seems to have made up its collective mind to move and the centers that are being built are designed in many instances for maximum flexibility. With the construction of each new center we will see an increasing cost pressure placed on the common practice of direct store-door delivery and this will expedite the retailers decision on what to do about his meat operation.

I think it is fairly certain that the system which eventually will prove optimal for any particular retailer or group will not necessarily be the best for others. Appropriate developments will depend on a multitude of factors ranging from existing investment in retail and wholesale facilities, local wage rates and labor availability, rising delivery costs, technological developments in meat preservation, sanitation requirements resulting from new inspection laws and consumer acceptance to name but a few of the key considerations. At the same time knowing the right move to make at the right time can do much to establish significant competitive advantage. Contrarily, a wrong move or no move at all can quickly put a man out of business.

Under the circumstances the best we can do is identify some of the more significant developments in the making but you will have to judge their appropriateness to your individual positions. While I will treat each development separately none of them truly are independent and in no respect do I mean to imply that they are alternatives.

Primals and Block Ready Meats: One of the most conspicuous developments has been the distribution of primals or block ready meats. In one sense this move can be regarded as a transition stage to some form of central cutting but it is a transition stage that will be with us long enough to fully absorb through normal depreciation most new investments in plant and equipment. In other words there is likely to be little risk in new investment at either store or warehouse level designed to handle primals.

In the early stages primals were prepared from carcass meat in packer, distributor and a few retailer owned warehouses but with technological developments in packaging, refrigeration and sanitation this function appears to be slowly moving back to the packer level. The economies involved are far better realized at the packing plant. As beef slaughter has moved westward the savings primals offer in transportation become more significant. Likewise sanitation and shrinkage in transit has continued to favor primals fabricated at shipping point. I think it is significant that three-fourths of the existing retail meat distribution centers provide for fabrication while only a fourth of those planned call for fabrication. This is a sign of the trend.

The advantages of primals to the retailer in terms of supplying an improved and better balanced product mix to individual store requirements, in terms of labor skills and equipment required, in terms of quality uniformity and in terms of renderings disposal need no elaboration. If anything most of you are aware of more advantages than perhaps truly exist. One of the impediments to a more general acceptance of primals is that many of the economies involved cannot be realized without complete conversion. Many retailers who have tried primals on a limited scale have been hard put to justify any economies in the move for this reason. So long as any appreciable volume of carcass meat is handled major changes in facilities, equipment and labor skills cannot be made.

Whenever processing costs are transferred from the retail store to either the distribution center or packer some downward adjustment can be anticipated in retail margins. Because cost savings cannot be fully realized in only a partial shift to primals retailers tend to retain normal margins leaving inadequate incentive to suppliers. Even when cost benefits are realized by the retailer he is reluctant with rising costs to reduce the traditionally low margins on meat and this in turn has significantly retarded the transition to primals. In view of this force it is somewhat surprising that primals have become as popular as they have.

<u>Direct Store-door Deliveries</u>: Many meat packers report to me that although they continue to operate distribution centers they continue to make the bulk of their deliveries direct from plant to individual stores. A recent study by the American Meat Institute reported that deliveries of meat to chain stores with less than eleven units averaged 23 deliveries per week with tonnage averaging 575 pounds per delivery. A little better than half (54 percent) of these deliveries were under 300 pounds. For chains with more than ten stores deliveries averaged 30 per week with an average tonnage of 660 pounds. Again 53 percent of the deliveries were under 300 pounds.

As you must well recognize there is a substantial cost associated with such a frequent and small volume delivery system. Aside from transportation and handling costs associated with frequent and small deliveries there are many hidden and unmeasurable costs borne by the retailer in terms of lost quality control, congestion, pilferage and work interruption. I do not know a single chain executive who likes the system....who does not recognize the problems associated with it in terms of both inventory and merchandising control. Suppliers too recognize the inefficiency of small deliveries and often institute minimal delivery policies which are violated because of competitive pressures almost as fast as they are instituted.

The main reason this arachic and costly system persists is that the supplier is willing to do the job at a loss in order to impose his influence on the retailer....to get the retailer to do those things he would not normally do in response to consumer dictates. Many suppliers who do not like store-door delivery are forced to it to meet competition. In any attempts to break away from the system the retailer becomes far more sensitive to measurable costs than to those that are hidden. This is particularly true as we move down the chain of command from top executives to individual store management and accounts for much of the difference of opinion existing within the retail organization hierarchy.

<u>Distribution Centers</u>: As I have already indicated, retailer owned distribution centers appear to be the nucleus of the emerging meat handling system. But because of the economies involved there will be continuing pressure to transfer more and more of the prepreparation in all its various forms back to the slaughter point. Perhaps ultimately the retailer owned distribution center will be little more than an assembly point. But in the meantime retail distribution centers that come into being will do some fabrication and it is this requirement that is the big unknown today. While the fabrication of primals has already started to move back to the packer there are growing signs that much of the cutting and packaging now done in individual retail stores will be pushing back to the distribution center. Also clouding the picture is the question of frozen and processed meats which is another can of worms I'll save for later.

As an alternative to retailer owned distribution centers there has been some talk about the possible development of publicly owned or joint venture distribution centers controlled by suppliers. While much can be said for such an arrangement, particularly compared with the conglomerate present day system, the problems of finance as well as legal questions, seem to preclude such an arrangement. It nevertheless remains a possibility in those regions where retailers may be slow in developing their own centers and as packer owned branch houses are closed. In sizing up the picture I think it must be recognized that inventory control and distribution to stores falls more within the competencies of retailers than either suppliers or independent distributors. Operating out of central retailer-owned warehouses some efficiencies can be gained in combining deliveries with other products. Retailers who establish their own centers may also gain a notch in their buying power by having a wider range of choice among suppliers....by providing suppliers a more attractive central market.

If joint-venture meat distribution centers are feasible to suppliers, it would appear that they would be even more practical for joint retailer ownership. I recall talking with you several years ago about the need for mergers and consolidations of some of your warehousing functions in order to strengthen your competitive position. While the marriage of existing distribution centers is loaded with all kinds of difficulties ranging from personalities to the balancing of equities the problem is greatly simplified when you are starting from scratch. The establishment of retailer-owned, joint-venture meat distribution centers could indeed provide a stepping stone to eventual consolidation. In view of the many small, inefficient, overlapping grocery distribution centers now being subsidized by cooperative food retailers it would seem reasonable that any plans for the development of a retailer owned meat distribution center should include joint-venture consideration. In many instances this may prove, costwise, to be the only practical approach. In another respect it offers the cooperatively owned organizations an opportunity to establish competitive advantage over the corporate chain which would face considerable legal problems in attempting a counter-move.

Central Cutting: The many advantages of central cutting have been recognized for a long time and with increasing costs and the shortage of skilled butchers the idea is rapidly gaining appeal. The problem of consumer resistance seems more and more to be a figment of the retailer's convenient rationalization. The limited number of retailer-owned meat distribution centers has probably been a far more significant retardant than consumer resistance. After all the consumer too has an interest in cost, product uniformity, quality control, sanitation and all those things that go with central cutting. While the housewife still likes her association with the friendly butcher she will probably be willing to forego this pleasure in the interest of the alternative advantages awaiting her.

While by no means common there are increasing reports of successful experience with limited central cutting and packaging. Improved temperature control methods and sanitation seem to have brought central cutting within practical reach but the time factor involved still makes it necessary for central cutting to be under the control of the retailer. While prediction is always hazardous it would appear that the need for this retailer control will continue for many years.

As with any new development there will be resistance from many sources. In the process labor unions will probably get more blame than they deserve. They are the traditional whipping boys for resistance to change. In addition the retailer's reluctance to reduce traditional margins will be an impediment. Inappropriately designed and equipped warehouses will be another factor. But the growing pressures of cost and the increasing harassment of the individual retailer by growing meat inspection requirements will be sufficient to force more and more meat cutting to a central point. Again retailers with appropriately designed meat distribution centers will be in a position to make the transition with the least pain.

Frozen Meat: The future of frozen meat is far less certain than the future of central cutting. Experiences with frozen meat to date have been anything but spectacular. Several meat packers have dropped a bundle in their efforts to establish a retail market for frozen meats. No one really knows whether or not to blame technology, the consumer or the retailer. The costly distribution and handling requirements of frozen meat are no doubt factors. Even so it remains within the realm of possibility that frozen meat products will eventually become common. While I find it hard to become enthusiastic about the potential I do know that some retailers are making allowance for this eventuality in the design of meat distribution centers they are now building. They regard the added structural investment as a kind of insurance premium should conversion prove necessary. One chain store executive recently told me that he was putting an extra $30,000 in the foundations of his new meat warehouse in case he had to make the unlikely conversion to the handling of frozen meat.

In general I think it can be said that frozen meat better serves the characteristics of the consumer of tomorrow than of today. Many of the plus-factors of frozen meat are not now apparent to the consumer because she holds to traditional methods of preparation and regards frozen meat only as a device for preservation. She does not associate frozen meat with quality. The same person who will not buy frozen meat will buy fresh meat then take it home and freeze it. Other than quality, price comparison between frozen and fresh meat appears to be a major impediment to acceptance. It doesn't make much sense to freeze, package and distribute fat and bone but it may well be necessary to make it price competitive in a consumer mind that thinks cents per pound rather than cents per portion or serving. In the meantime frozen meat, except for some specialties, will find the bulk of its market in the institutional trade.

Branding: As fresh meat becomes more uniform in both quality and standardized cuts it will increasingly lend itself to branding. And, of course, the increased use of primals and the gradual development of central cutting make branding a greater reality.

Many retailers have built their business around the meat counter. It is one meaningful way they can differentiate from their competitors. As more and more packer branded product comes into the market, retailers visualize the loss of this appeal. But with central cutting, packaging and quality control private label branding comes within reasonable reach of the retailer. The potential branded meats offers the retailer for holding onto a major means of differentiation gives further support for the establishment of retailer-owned distribution centers. And I might add that this is not inconsistent with joint-venture distribution systems where branding can be done at any desired specification level by the participants involved.

Fast-Food Service: There is an almost endless number of forces having impact on changes in meat distribution but in summing up we should not ignore the role of the fast-food eating establishment. Such establishments are taking an increasing share of all meat shipments and retailers are beginning to recognize fast-food establishments as an entirely new kind of competitor.

Far too commonly we regard fast-food eating establishments as modified restaurants. This is and has been a mistake of the first order. We forget that the appeals which have made these places popular with the public come from the supermarket, not the restaurant....drive-in self service, speed, convenience, economy, impersonal but attractive atmosphere. In fact it is to the advantage of the fast-food service establishment to divorce itself in the public mind from the traditional high cost service restaurant. And in many respects they have beaten the retailer at his own game. The fast-food industry can best be described as a system designed by geniuses to be operated by idiots....a system that substitutes low cost, non-unionized labor for high salaried, temperamental chefs...a system that extracts money from the customer in a continuous flow of nickels and dimes rather than in the supermarket shock treatment form of paper dollars and paychecks....and make no mistake about it for it is a system that has an ever growing appeal to the teenager, the time sensitive salesman and the working housewife.

Gradually recognizing the increasingly direct competition from fast-food establishments and the familiar modus operandi, food retailers are beginning to react and the initial reaction is the typical one of direct emulation....by building free-standing fast-food establishments....by putting in special check-outs or fast-food drive-up windows and in some cases building sit-down restaurants within the store.

As of today, the retailer still enjoys a distinct advantage over the fast-food establishment in the area of procurement. Will some form of marriage bring this advantage to the fast-food service field? Many questions can be raised concerning the compatability of this marriage. Is the management capability of the food retailer consistent with the requirements for the successful operation of eating establishments? Are there unique "people problems" among supermarkets and suppliers that make breaking into the fast-food business slow, cumbersome and unimaginative? Most certainly you don't beat competition by emulation. You beat it by doing a better job. What kind of management thinking and personnel training is needed? Will eating establishments owned by food retailers be subject to the public suspect that integrated establishments are a dumping ground for distressed merchandise? Experience to date at least would indicate that poor quality control by a few bad actors may prove to be a stumbling block to an otherwise happy marriage.

Whatever marriage takes place I think we will see a changing role of the supplier. Moving from counter-service to self-service altered the whole structure of the supply industry and the services it rendered the retailer. I believe the same thing will happen as the food industry moves increasingly into the area of fast-food service. Whether or not retailers become involved in fast-food service the development will have a major impact on the structure of our meat distribution system. It is a major force to be considered in any future planning.

Very briefly I have tried to hit the high spots in what changing meat distribution patterns mean to cooperative retailers. In general they are changes resulting from a growing recognition of the inefficiencies associated with the cumbersome and costly process of direct delivery by many suppliers, of the growing need for more product uniformity, sanitation and quality control, of the increasing costs of store meat cutting and of the need for greater merchandising and profit control over the retail meat department. What you do in reaction to the changing patterns is a little like the man who finds his wife alone with his best friend. What he does depends to a very great extent on what has gone on before. In your business you cannot afford to be the first to try the new anymore than you can afford to be the last to lay the old aside.

Today we are beginning to see significant changes in the way meat is distributed and now that they are beginning to take form we can expect those changes to accelerate rapidly. If today you are not planning some major alterations in your meat handling programs, you must be planning an early retirement.