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The Retail Food Industry Center
Advancing Knowledge About Processing,
Distribution, Sales, and Food Service

TRFIC NEWSLETTER

University of Minnesota

Vol. 4 No. 1 Spring 1998

Six Great Educational Opportunities for Spring

ApEc 1250: Principles of Accounting Emphasis on food distribution and retailing.

This course covers important accounting principles, using case studies from the food industry to illustrate key concepts. It will be taught by Dr. Ward Nefstead, an experienced Applied Economics professor, and Jon Seltzer, a former food industry executive with more than 20 years of experience. Offered through University College, **Mondays, 4 to 8 p.m.**, March 30 through June 13, St. Paul Campus, University of Minnesota, **4 credits**. Call Joan Scully at (612) 626-9707 for registration information.

Going for Gold! Building Winning Food Marketing & Sales Strategies

Experienced marketers as well as new entrepreneurs can use this popular program to improve their product introductions and marketing plans. Lori Mastrian, Joe Gambucci, and Ron Larson will review marketing, advertising, sales, research, merchandising, pricing, and management issues. Case studies will illustrate how the principles being presented can help boost product-success rates. The next **two-day** "Going for Gold!" short course will be offered **June 2-3**, Earle Brown Center, St. Paul Campus, University of Minnesota. Call Mavis Sievert at (612) 625-7019 for more information.



Lori Mastrian, Joe Gambucci and Ron Larson

Supermarket Decision Making with Financial Data

Supermarket assistant managers and department managers with little or no financial training will learn about financial statements and how to use the information to make decisions in a computerized

management simulation. Spreadsheet templates will be used by teams to make inventory, labor, cash management, capital, and promotional decisions. Wholesalers, brokers, and suppliers who work with supermarket managers will also find this two-day program very useful. **Offered twice: April 21-22 and May 12 and 19**, Earle Brown Center, St. Paul Campus, University of Minnesota. Call Mavis Sievert at (612) 625-7019 for more information.

Managing the Total Store: A Leadership Course

For store managers, district managers, management trainees, and future store managers, this course focuses on the management and personal leadership skills needed to motivate employees. The **five-day program** is offered by the **Food Marketing Institute** and The Retail Food Industry Center. The course will be taught at Riverwood Conference Center near the Twin Cities, **June 21-25**. For more information, call Faith Murrell at Food Marketing Institute: (202) 429-8460.

Nutraceuticals, Functional Foods, and Dietary Supplements

This short course is presented by the American Association of Cereal Chemists (AACC) and will be held in Minneapolis on **April 1-3**. Dr. Ted Labuza of the Department of Food Science and Nutrition at the University of Minnesota and a member of the TRFIC Steering Committee, is one of the course directors. For more information about the program, call the AACC short course coordinator at (612) 454-7250.

ApEc 3300: Agricultural and Food Sales

This **three-credit undergraduate course** examines the professional selling process for agricultural and food products. It will be offered **Spring Quarter March 30-June 13**, on the St. Paul Campus. The course will meet Monday, Wednesday, and Friday each week from 12:20 to 1:10 p.m. For more information, call Dr. Ward Nefstead at (612) 625-7228. ●



Jean D. Kinsey

DIRECTOR'S NOTEBOOK

Building Human Capital

One goal of the Alfred P. Sloan Foundation in providing funding for this academic research center was to develop a cadre of scholars who would study the retail food industry, using the best science and technology possible, and contribute to its intellectual strength in the future. Students who study this industry as they work toward advanced degrees will move to other academic institutions or to businesses where they will use what they have learned about the retail food industry. They will teach more students, conduct new research, and help make important corporate decisions.

In economics, we call this building human capital. Building a stock of knowledge that will compound over and over again is one of the distinguishing features of research conducted in an academic department, as opposed to research conducted by consulting firms for individual clients. In an academic department, each student's research comes with the expertise and advice of a professor. Working together to find useful answers to practical questions, they

expand the knowledge available to industry players, knowledge that will grow and multiply over time.

In this issue, we are featuring two students who have participated in Center research products. Amy Fishman and Sara Ashman exemplify the involvement of graduate students and the interdisciplinary work of TRFIC. Watch future newsletters for stories about our students and faculty.

Learning from the Pros

Students and faculty are also learning directly from people in the industry. In February 1998, more than 25 of us visited the Pillsbury Company's Consumer Information Center to learn about how consumer comments are used to improve products and sales. Another 35 students and faculty participated in a workshop presented by executives from Pillsbury's Green Giant division who discussed the business strategies they used to transform a stagnant vegetable business into a profitable venture.

The public seminar presented by Jeff Noddle, executive vice president and chief operating officer for wholesale foods at SUPERVALU, Inc., attracted more than 55 people from inside and outside the University. This is yet another example of how we learn from industry. Watch for announcements of future seminars. ●

New Government Food Regulations

The Federal Government made several important regulatory decisions during the fourth quarter that will have significant impact on the food industry:

(1) The U.S. Department of Agriculture (USDA) proposed a formal definition for organic products, foods produced without the use of synthetic fertilizers and pesticides. Some groups, arguing that irradiated and genetically engineered products could be labeled as organic under the new definition, have objected. The proposed regulation also addresses the production, handling, and labeling of organic agricultural products and defines the certification process for organic producers. In a related development, the Environmental Protection Agency has published a brochure, suggesting that con-

sumers who are concerned about pesticides should consider eating organically-grown food.

(2) The Food and Drug Administration (FDA) announced the development of a system to increase seafood safety. The system, Hazard Analysis and Critical Control Point or HACCP, is designed to identify potential hazards that could make food unsafe to eat.

(3) The FDA also approved irradiation for pathogen control in meat products. Although some consumer groups have objected, major food industry trade associations (e.g., Food Marketing Institute, National Restaurant Association, Food Distributors International, Grocery Manufacturer Association) applauded this decision as a positive step toward improving the safety of our food supply. ●

Highlights of Working Papers

Home Meal Replacements: A Marketing Perspective

Ron Larson

Fully or partially prepared foods appear to satisfy three "shortages" for contemporary consumers: lack of time, lack of skill, and lack of desire to prepare food. Despite the perceptions of many food retailers that home meal replacement (HMR) offers major opportunities for sales growth, a recent financial review of the foodservice operations at 10 large supermarket chains found that the average store's prepared-food operation was losing money.

The financial review identified three important areas in which supermarkets need to improve: product shrink, employee training, and promotion. All three

are linked with the design and marketing of the HMR concept. To increase the profitability of their HMR programs, supermarkets and restaurants need to address the seven key "Ps" of HMR marketing: positioning, product, package, place, price, promotion, and people. This paper reviews these seven marketing issues and summarizes the lessons learned by early HMR providers. ●

To Obtain Working Papers

As soon as Working Papers are printed, they may be ordered for \$22.50 per copy. Ninety days after Working Papers are in print, they will be available on our Web Site [<http://rhetoric.agri.umn.edu/~trfic/>] and can be downloaded in pdf (Acrobat) format and printed at no cost. To obtain an order blank for all working papers or to be notified when new ones are published, contact Mavis Sievert at 612-625-7019.

CALENDAR ALERT

John Block, president of Food Distributors International, will speak at a luncheon on May 5 at the Sheraton Minneapolis Metrodome Hotel (1330 Industrial Blvd, just South of 35W). His topic is: "The Changing Landscape in Today's Food Distribution Sector." This seminar is cosponsored by the Twin Cities Agricultural Round Table and The Retail Food Industry Center. For reservations, call Mavis Sievert at (612) 625-7019 by May 1. Tickets are \$20 per person, payable at the door. "No-shows" and late cancellations will be billed.

New Findings by our Master's Students

Convenience Stores: How Efficient?

By analyzing the responses to a survey of operators who run about 40 percent of the convenience stores in Minnesota, Sara Ashman and Dr. Robert King have been learning about the operating procedures and business practices of this segment of the retail food business. Among their findings:

- Only 17 percent use bar code scanners.
- Orders are almost always assembled with written forms, sent to suppliers by telephone, and paid for by check.
- Rural stores tend to have higher inside sales per labor hour, while urban stores have higher outside (gasoline) sales per labor hour.
- Chains that have adopted technological, organizational, and managerial practices considered important for implementing the ECR initiative have higher sales per square foot of inside and outside selling area.



Sara Ashman

Sara is currently working on a doctorate in the Department of Applied Economics and hopes to work with a private firm in the retail food industry.

Organic Foods On—And Off—the Shelf

Amy Fishman worked with Dr. Marla Reicks and Patricia Splett of the Department of Food Science and Nutrition to examine the effects of point-of-purchase shelf labeling for organic foods. They analyzed sales changes between test and control stores and consumer attitudes in stores with different types and amounts of signage calling attention to the organic foods.

The study included two types of supermarket—up-scale and discount warehouses—14 different products in various food categories, and two levels of signage. Control stores in each store category had no point-of-purchase signage. In addition, researchers surveyed customers about their interest in



Amy Fishman

organic foods and their intention to buy. Gains in sales associated with point-of-purchase signs varied widely—as high as 2,260 percent for deli bread.

Amy presented the results of the study at the Society for Nutrition Education's annual international conference in Montreal last summer. The results are also summarized in TRFIC Working Paper 97-03, which may be obtained from the TRFIC office. Amy plans to become a registered dietitian. ●

New Research

Another research project has been funded by the Center: "Analysis of Time-Temperature Indicator Effectiveness in Improving the Quality Delivered in the Retail Food Distribution System" by Dr. Ted Labuza, Department of Food Science and Nutrition, College of Agricultural, Food, and Environmental Sciences. Dr. Labuza is a leading world expert on food toxicology and temperature control. The Center is privileged to have him working with us and serving on our steering committee.

DID YOU KNOW?

Food Industry News by the Numbers

- A Food Marketing Institute (FMI) survey of 148 supermarket companies found that net profit after taxes and extraordinary items averaged 1.08 percent of sales in 1996-97. This was down from 1.20 in the 1995-96 Annual Financial Review survey.
- A *Food Industry Report* analysis of 30 major food manufacturers found that profits as a percent of sales averaged 6.43 percent in 1996/Fiscal 1997. This was down from 7.13 percent during the previous year.
- The FMI's 1996-1997 *Operating Results of Independent Supermarkets* report compared the performance of four retail formats: conventional supermarkets, super stores, superettes, and natural food stores. Super stores had the highest sales per labor hour (\$98.29) and the highest gross margin per labor hour (\$20.60). Natural food stores had the lowest sales per labor hour (\$60.19), and superettes had the lowest gross margin per labor hour (\$15.04). Natural food stores had the highest gross margin (35.7%) and the highest weekly sales per square foot of selling area (\$15.95). Super stores had the lowest gross margin (22.4%), and superettes had the lowest weekly sales per square foot of selling area (\$5.12).
- *Food-Industry Report* also shows employment by the 30 food manufacturers was up slightly from last year to 2.02 million people. This was still lower than the 2.12 million employee peak of three years ago. Sales per employee rose 3 percent to \$211,295, while profit per employee fell nearly 7 percent to \$13,585.
- According to *Food Industry Report*, manufacturing costs (raw materials, energy inputs, etc.) at the 25 top food and beverage manufacturers, represented 54.20 percent of sales revenue in 1996 (up from 53.93 percent in 1995) and marketing costs represented 27.18 percent of sales revenue (up from 26.88 percent).
- Pre-tax net profit as a percentage of sales fell in 1996 for both wholesale grocers and foodservice distributors, according to a survey by Food Distributors International (FDI). Net profits before tax was 1.2 percent of sales for both industry segments. In 1995, it was 1.3 percent for wholesale grocers and 2.2 percent for foodservice distributors.
- Inventory turnover increased in 1996 for wholesale grocers and foodservice distributors. The FDI survey found wholesale grocer inventory turned 15.5 times, equaling 1993 levels, and foodservice distributor inventory turned 15.2 times, the highest rate since 1989.
- Merger activity in the food industry hit a record high during 1997. According to The Food Institute, 734 food-related mergers and acquisitions occurred last year, up from 538 in 1996 and 10 more than the previous record level in 1986.

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The Retail Food Industry Center

University of Minnesota
 Applied Economics Department
 317 Classroom Office Building
 1994 Buford Avenue
 St. Paul, MN 55108-6040

Jean D. Kinsey, Director
 612-625-2744

Mavis A. Sievert, Exec. Secretary
 612-625-7019

Fax: 612-625-2729

Web Site: <http://rhetoric.agri.umn.edu/~trfic>