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

TRFIC NEWSLETTER

University of Minnesota

Vol. 6 No. 2 Fall 2000

TRFIC SEMINAR

The Promise of Food Biotechnology: *There's a Great Dawn Breaking If We Can Just Get Through the Night*

“It costs \$200 for a routine Hepatitis B vaccination in the U.S. — a cost that is prohibitive in the developing world. Biotechnologists are working on a banana that delivers the vaccine orally for about 10 cents a dose.”



Austin Sullivan

The potential to deliver medicine through food is only one of the expected benefits from new biotechnology methods Austin Sullivan addressed in a TRFIC seminar last May 11 at the Earle Brown Center on the St. Paul Campus of the University of Minnesota. As Senior Vice President of Corporate Relations for General Mills, Inc., and Chairman of a Biotechnology Task Force for the Grocery Manufacturers of America, he is optimistic about the future development of new foods, especially “extra-healthy” foods that will let us live better as well as longer.

He anticipates that a Great Dawn from new applications of genetic science and food technology will eventually overcome the night of consumer anxiety and mistrust, especially in parts of Europe. For instance, modern genetic engineering can eliminate long delays inherent in traditional cross-breeding of plants. That method takes as much as 10 generations to perfect desired traits; such as better nutrition, taste, or tolerance for cold Minnesota winters.

Consumers must feel comfortable with this new technology and, above all, they must believe it is safe before they willingly eat genetically modified foods. The National Academy of Sciences report in May of 2000 gave it a clean bill of health, which is some comfort, since almost 70 percent of the foods in the average supermarket and restaurant already contain genetically modified ingredients. This is because corn and soy-based oils are used in so many foods they are almost impossible to avoid, and the best estimates say 37 percent of the corn crops and 57 percent of soy beans are genetically modified.

A recent survey of American consumers showed that 47 percent felt negatively towards GM foods, with much of the negative feeling coming from fear of the unknown. After receiving information and

education, a second survey showed that only 22 percent felt negatively — which leads us to the question of why Europeans are so skeptical. Do they know something we do not?

The explanation lies in the way European countries regulate food safety, and a historic mistrust of government bodies. A survey of food industry leaders on both sides of the Atlantic found that almost two-thirds of U.S. food industry leaders had confidence in government agencies' ability to effectively regulate biotechnology. On the eastern side of the Atlantic, only one-fifth of food leaders felt the same way. Europeans are still smarting from the mad-cow disaster, where it is widely believed that government agencies acted too slowly and not in favor of human health. The combination of mistrust of government agencies, well-organized and vocal protest groups, and a sympathetic press has created an atmosphere of fear and rejection for genetically modified foods in the European Community. Mr. Sullivan concluded by saying that the food industry strategy includes education and building public confidence.

For more information about this topic see the TRFIC Web Site: <http://trfic.umn.edu> and click on Newsletters — Spring 2000 and Food Industry Links — IFIC and others.

The Retail Food Industry Center 2000-2001 Seminar Series

September 28, 2000

BACK TO THE FUTURE:

CHANGES SHAPING THE RETAIL INDUSTRY

- Culver “Cub” Davis, Retired Co-Founder and President, Cub Foods
 - Stuart Friedell, Founder & Senior Advisor, Crystal Farms
 - Jack Hooley, Retired Co-Founder & President, Cub Foods
- Earle Brown Center - Room 42 - 2:00 to 4:30 P.M.

March 16, 2001

NEW CHANNELS HANG TOGETHER

- Willard Bishop, Willard Bishop Consulting, Ltd.
- Earle Brown Center - Room 42 - 2:00 to 4:30 P.M.

May 3, 2001

CROWNING THE CUSTOMER

- Feagal Quinn, Chief Executive Superquinn, Dublin, Ireland
- Earle Brown Center - Room 155 - 2:00 to 4:30 P.M.

DIRECTOR'S NOTEBOOK by Jean D. Kinsey

About half of consumers' annual \$900 billion expenditures for food and beverages are made for ready-to-eat food sold in the food service sector. After increasing steadily for decades, that figure leveled off during the 1990s



Jean D. Kinsey

and is now on the rise again. Today, the food service sector is growing relative to the grocery sector, and food service within grocery stores is taking up more floor space than ever. All this reminds us that the retail food industry is not just retail food stores, but stores plus food service establishments, both commercial and institutional.

TRFIC is launching a major study of the food service sector, including its supply chain and consumer demand. Having established the Supermarket Panel and several other studies that shed light on how the grocery industry operates, we are now ready to look at operations, competitiveness, and productivity on the food service side.

What is food service? Institutions like dormitories, nursing homes, prisons, and the military make up less than 10 percent of this sector. The rest is classified as commercial food service. The new North American Industrial Classification includes: restaurants; limited-service restaurants (including quick service/fast food); cafeterias; snack and nonalcoholic bars (coffees, ice cream, etc.); food service contractors (i.e., Aramark/Marriott); caterers; mobile food services; and drinking places (bars, nightclubs).

Not only is this a very diverse group of retailers, but the supply chains for these retailers are more varied and almost totally separate from those serving grocery stores. Fortunately, we have some new graduate students joining us this fall who bring considerable knowledge and interest to this project of mapping the food service industry. We look forward to an exciting time of learning and discovery as we turn a serious academic eye, to one of our favorite topics — eating and drinking places.

The Sloan Industry Centers

The Alfred P. Sloan Foundation is now funding fifteen industry study centers, each dedicated to examining the dynamics of that industry, and working closely with its leaders. There are many changes and opportunities in today's marketplace, and the Sloan Centers are a powerful resource for boosting competitiveness in that global arena.

Industries currently being studied by Sloan Centers and their academic homes are: financial services (Wharton at U PA), motor vehicles, pharmaceuticals, airlines, and overall industrial performance (MIT), trucking (U MI), semiconductors (UC-Berkeley), information storage (UC-San Diego), retail food (U MN), textile/apparel and managed care (Harvard), steel (U Pittsburgh / Carnegie Mellon), powder metallurgy (Worcester PI), and construction industries (U TX-Austin).

The Retail Food Industry Center is the ninth Sloan Industry Study Center to be established and the first in the Midwest. TRFIC conducts research projects that evaluate the drivers of change, competitive behavior, and trends in consumers' food choices - both at grocery stores and food service establishments. The Center draws faculties and students from the Department of Applied Economics, the Department of Food Science and Nutrition, and the Carlson School of Management to bring new insights to the industry. For more information, please visit our web site <http://trfic.umn.edu>

Announcement

Our Director, Jean Kinsey, has been elected President of the American Agricultural Economics Association for a three-year term. She was also named a Fellow at the Association's summer 2000 meeting. This is the largest national association of economists dedicated to studying the economics of food and agricultural firms, consumer demand, international and community economic development, and environmental policies.

Dale Riley to Chair Board of Advisors

We are happy to announce that Dale Riley, Chief Operating Officer of Kowolski's, has agreed to chair our Board of Advisors. His unsurpassed leadership and knowledge of the industry will be a real asset to all of us. Our next board meeting is scheduled for October 24 at the Minneapolis Convention Center during the Productivity Conference sponsored by Food Distributors International. Welcome Dale!

Going for Gold: Building Winning Food Marketing and Sales Strategies

"Solid, comprehensive presentation, and a number of provocative thoughts. I benefited a lot from the interactive discussions."

"It's great to hear from professionals who have worked in the real agri-food world."

These are typical comments from attendees at TRFIC's fourth Food Marketing workshop, held on June 26 & 27 at the Earle Brown Center, St. Paul Campus, University of Minnesota. We also teamed up with the Food Marketing Program at Western Michigan University to offer this workshop in Kalamazoo. Focused on the needs of small- and medium-sized food marketers who want to design successful marketing programs for new products, the session received high praise from food scientists, advertising agency executives, vice presidents of larger firms, consultants, and academics from all over the country. Among the workshop highlights...

Joe Gambucci of International Resources, Inc., shared case studies of successful food product introductions and examples of less successful programs. By identifying the factors that contributed to success and failure, participants learned how to improve their own marketing programs.

Lori Simzek, manager of Sensory Services/Consumer Research at R-TECH Laboratories, a business unit of Land O'Lakes, discussed the benefits of systematically testing consumers' response to products. By understanding available options and how to work with professionals to maximize research value, participants gained new insights, enhancing the likelihood of new product success.

Dr. Ron Larson, one of the food marketing faculty at Western Michigan University, summarized many marketing research findings, including his studies on regional food consumption patterns, price promotion planning, and discount coupon effectiveness. By combining the practical principles illustrated in the case studies

with the research findings, participants gained a better understanding of how to develop a successful marketing plan for food products.

The "Going for Gold" workshop has been tentatively scheduled for July 23-24, 2001, in St. Paul, and August 13-14, 2001, in Kalamazoo. Anyone needing more information about this program can contact Mavis Sievert at (612) 624-7019, msievert@dept.agecon.umn.edu, or check our website at <http://trfic.umn.edu>.

Managing the Total Store: Leadership Course

For the third time in as many years, The Retail Food Industry Center and the Food Marketing Institute (FMI) offered the leadership course, Managing the Total Store, at the Riverwood Conference Center in Monticello, Minnesota. "Our goal is to provide programs that will strengthen the skills and performance of individuals employed in the supermarket industry," said Kim Roberts, Manager of Education Services for FMI. More than thirty Supermarket professionals participated in this five-day executive course (August 6-10) that addressed critical workforce management issues of importance to today's retail industry. Participants came from more than twenty different companies in the United States and Canada. O'Neill McDonald, Senior Vice-President, SUPERVALU, gave the keynote address, drawing on his extensive experience at Kroger and SUPERVALU to highlight the importance of integrity in leadership. "Dramatic changes in the marketplace require equally dramatic changes in the way supermarket managers lead their associates, delegate responsibility, and best utilize their time," said Wendy Kennedy, Director of Training and Development, Save Mart Supermarkets, one of the speakers at the Conference. As in past years, the course combined the experience of industry experts, noted speakers, and, most importantly, the participant themselves, to address such issues as personal and staff productivity within a dynamic marketplace; finding, recruiting, and motivating a

quality workforce; and improving management skills in undefined situations. One participant summed it up: "I have learned so much about working with people, and I will put my lessons to work not only in my own store but share my experience with my peers." Plans are well underway for next year's session, to be scheduled in the summer or early fall.

From Paper To Plastic By 2002: Retailers' Perspective on Electronic Benefit Transfer Systems for Food Stamps

by Ana R. Quiñones and Jean Kinsey

ABSTRACT

The Food Stamp Program (FSP) is working under the deadline of October 1, 2002, to convert the current system of paper coupons to an electronic transfer system of benefits, known as EBT. But in spite of the rapidly approaching deadline, issues surrounding the transition from paper to plastic are still problematic for retailers. National interoperability of EBT, as well as fees involved with EBT operation, are still points of contention. Anecdotal evidence from retailers also points to kinks in the institutional operation of EBT. Inadequate capacity of the electronic network system and phone lines during peak times after food stamp benefits are issued each month creates a host of problems for consumers and retailers using EBT. Retailers recommend that the time for releasing funds to recipients be spread out over the month rather than being concentrated in a few days. This could alleviate costly peak-load problems.

Working papers are available for \$22.50 from TRFIC. Order from Mavis Sievert, University of Minnesota, Applied Economics Department, 317 Classroom Office Building, 1994 Buford Avenue, St. Paul, MN 55108. Please make check payable to the University of Minnesota.



Ana R. Quiñones

DID YOU KNOW?

• **The Top Four . . .**

- Food Store Chains by annual grocery sales: Kroger, Wal-Mart, Albertsons, Safeway
- Food Manufacturing Companies by annual food and beverage sales: Nestle, Phillip Morris/Kraft, Unilever, Pepsico
- Restaurant Chains by annual sales: McDonald's, Tricon Global Restaurants, Inc. (KFC, Pizza Hut and Taco Bell), Diageo (Burger King and Hagan-Dazs) and Wendy's Int'l
- Wholesale companies to grocery stores: SUPERVALU, Fleming, McLane, Wakefern Food Co.

(The Food Institute: Food Industry Review, 1999)

- **Per capita food expenditures** in the U.S. in 1998 were \$2,190 per year for food from all sources. This translates into a food budget of \$365 per month for a household with 2 persons. (USDA Food Review, 23:1, 2000)

- **The median average sale in a supermarket** is \$19.22 (The Food Institute: Food Industry Review, 1999)
- **The median average check in a restaurant** where the average check per person is over \$15.00 is \$14.75 for food and \$.25 for beverage. In a restaurant where the average check per person is under \$10, the median average food tab is \$6.00 for food and \$2.00 for beverage. (The Food Institute: Food Industry Review, 1999)
- **The Internet penetrated 30%** of households in less than 10 years. This is faster than any other new technology. For example, it took 25 years for radio and television to penetrate into 30% of U.S. households. (W. Michael Cox, Fed. Reserve Bank of Dallas) Nielson's Homescan shows that last year 64% of households used the Internet in the past year and of those, 31% used it every day. Half of all Internet users purchased some products online and 13% purchased groceries or drugs. (Supermarket News 48:19, 5/8/2000)

- **Consumers most likely to shop online** are affluent (33% have incomes between \$60,000-\$100,000); white collar (71%); have 4 years of college(38%); and are female (65%). (Supermarket News 48:19, 5/8/2000)
- **Two online grocery companies** act as concierge services, delivering not only groceries but dry cleaning, photo developing, postage, flowers, etc. They are ShopLink.com and Streamline.com.
- **Alphabet Quiz:** See how many of these acronyms in the food industry you can identify: ECR, CPFR, EDI, XML, ABC, SBT (Answers below)

Answers to alphabet quiz:

Efficient Consumer Response;
Collaborative Planning, Forecasting,
and Replenishment; Electronic Data
Interchange; Extensible Markup
Language; Activity Based Costing;
Scan Based Trading

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