The Food Industry Center
UNIVERSITY OF MINNESOTA

TFIC NEWSLETTER

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TFIC Annual Board Meeting


Dale Riley

The Food Industry Center's Board of Advisors met on October 31, 2001, for their Annual Meeting at the new McNamara Alumni Center at the University of Minnesota. With the leadership of our Board Chair, Dale Riley, COO of Kowalski's Companies, the board held a strategic discussion about our structure, funding, and communications. After a private meeting, the Board was joined by the Center's Steering Committee for a discussion about adding value to our highly successful Supermarket Panel and other research projects. Dr. Robert King and Duane Martin, President, IGA, spoke about the usefulness of the Panel information and new products that can be added to make it even more exciting. Being able to tie employee and consumer satisfaction to store performance would be extremely valuable; we are finding ways to make that link. Strategic issues for the Panel are growing the number of participants (which is happening this year) and finding additional sources of revenue.

Interaction of the food industry with the rest of society (science, government policy, and globalization) was the subject of the second half of the meeting. Preparing future leaders for the food industry involves education about a broad set of topics from biotechnology to nutrition, food safety, finance, economics, and law. The Center is uniquely positioned to capture the resources of the whole University of Minnesota in this endeavor. Board member, Dr. Ray Goldberg, spoke to us about the importance of a broad education for future leaders; and former Steering Committee member, Dr. Frank Busta spoke about issues related to food security in the wake of terrorism events. He was recently quoted in the New York Times as saying "The supermarket is an open target. It could be tampered with so easily, it's unnerving." (NYT, B4, 10/28/01) However, he reminded us that preparing for potential food terrorism involves due diligence and following many of the safety and employment protocols already in place — just do them with more rigor and vigilance.

BOA Speaker


David Hughes

David Hughes, Sainsbury Professor of Agribusiness and Food Marketing, Imperial College at Wye, University of London, and TFIC Board member, spoke at the Board dinner, which was held the evening before the Board meeting. He enlightened and entertained us with tales of consumer shopping behavior and how important it is for retailers to meet the needs of the consumer. Always witty and engaging, David shared a sense of the direction of the retail food industry. In the U.K. a diversified retail food market continues, even with the entry of Wal-Mart and the dominance of 2-3 large chains.

Upcoming Events
2001-2002 Seminar Series

February 28, 2002
Allen Hickok
Sr Research Analyst - Restaurants
U.S. Bancorp Piper Jaffray
McNamara Alumni Center

April 18, 2002
Rick Brindle
V.P. eSales, Nabisco Biscuit and Snacks
Kraft Foods, U.S.A.
McNamara Alumni Center

June 2–3, 2002
Forum on the Future of the Food Industry
The Center will hold a 2-day dialogue on future trends in the food industry with a select group of invited academic and business participants
McNamara Alumni Center

June 16–20,2002
FMI/TFIC
Managing The Total Store: Leadership Course
Earle Brown Center, St. Paul Campus

Co-Directors' Notebook


Jean D. Kinsey


Ben Senauer

The average American household spends 10.1 percent of their disposable (after tax) income on food and beverage. That is less than average households in any other country in the world. In most low-income countries like India or the Philippines over half of income is used to purchase food. The Co-Directors of TFIC have studied, written and spoken about food expenditures by households in various venues around the world. It is a topic of curiosity to many audiences, including those who make public policy and are concerned about hunger and food security. That is, the old fashioned type of food security, meaning having a large enough food supply for a given population. (The new use of the term "food security" refers to a food supply that is safe from terrorist acts.)

The percent of personal or household income spent on food is used as a measure of the affordability of food and a predictor of general economic development, especially in poor countries. As incomes rise a smaller percent of income is spent on food and other necessities. This spurs economic development because it frees up money to be spent on other goods and services like transportation, housing, and health care. Therefore, income is a key factor in determining not only the ability to purchase food, but also in macro economic development. Another factor is the cost of food in a particular country.

The low percent of income we spend on food in the U.S. is due to a combination of high income and relatively low food prices. The per capita amount spent on food (in dollar equivalents) is actually more in the United Kingdom, France, Italy, and Greece. This is indicative of higher food costs in those countries. The United States has developed an extremely efficient agricultural system, as well as an efficient food processing and distribution channel, which lowers food costs to both producers and consumers.

Before we become too complacent or smug about our favorable food expenditure ratio we should look at that same ratio for households in various income groups in the U.S. Averages hide as much as they reveal and the average of 10.1 percent of income falls to 8.7 percent when U.S. household income rises to more than $70,000 a year. However, the percent spent on food increases to 34.2 percent, when income is between $5,000 and $10,000 per year. The very poorest households spend over 100 percent of their income on food. They can do this because they receive food stamps or other welfare payments or their reported income is low because of business losses.

Production costs are typically about 20 percent of final food costs; and are called the "farm value" of food. This percent varies by type of food depending on how highly processed or perishable the food is. The farm value for meats and dairy products is around 28 percent, for poultry around 41 percent, for cereals around 5 percent, and for fresh vegetables, 19 percent. The farm value falls as a percent of the retail price as consumers' demand more highly processed foods, fresh foods from distant places, and foods ready-to-eat.

Marketing costs have risen as a percent of retail food prices. The "marketing bill" as defined by the United State Department of Agriculture is the difference between the farm value of domestically produced foods and the final cost to the consumer. Marketing costs rose 3.5 times faster than the farm value between 1990 and 1999. At 38 percent, labor is the largest portion of the cost of food rising 56 percent during the 1990s.

Over half of the 14 million food industry workers in 1999 were in foodservice. Retail food stores employed 3.5 million or about one-fourth of all food industry workers. About 12 percent of food industry employees worked in food processing and about 7 percent in food wholesaling. As consumers delegate more and more of the basic preparation of food to others in the food chain, labor costs can be expected to rise as a portion of the total food cost.

Managing the Total Store: Leadership Course

Managing the Total Store: Leadership Course
Earle Brown Center, St. Paul Campus
June 16-20, 2002

Reduce turnover in your operation by improving your leadership and management skills. This week-long course will help managers become more effective leaders. In partnership with the University of Minnesota, FMI offers a highly-interactive format that covers issues such as leadership, time management, motivation, communication, diversity, and much more! While designed as a complement to Managing the Total Store: Operations Course, this course is also effective on a freestanding basis.

Who should attend: store managers, assistant managers, owners/operators, general managers, district/divisional managers, and high-potential performers.

Registration Fee: $1,695 FMI members (includes lodging and some meals); $2,495 non-members (includes lodging and some meals)

Staff Coordinator: Kim Roberts – kroberts@fmi.org

Supermarket Energy Study

Energy, electricity and gas, is the third largest operating expense item for most supermarkets. Exceeded by cost-of-goods-sold and labor, energy costs are often cited as a critical expense area for retailers to control. This, plus roller coaster energy prices in California last year, provided the basis for the Supermarket Panel to initiate a "supplemental study" on energy.

Now in its third full year, the Super Market Panel collects information on the same set of stores at store level once a year, gathering information on facilities, operations, management practices, and financial performance. Conducted earlier in 2001, the Supermarket Panel found that stores in ownership groups with more than sixty stores were far ahead of other stores in adopting energy efficient lighting and refrigeration management programs. The Energy Survey confirmed this in more detail. Almost without exception the larger the company a store is part of the more energy management practices the store can be expected to adopt. The table below shows the percent of stores in each group size that had adopted 8 different energy practices.

Energy Management Practices by Group Size Categories, 2001

	Singles	2-10	11-30	31-60	61+
Number of Observations	6,343	5,346	3,584	2,268	13,722
Percent having adopted each energy practice:					
T-8 lighting	42	45	58	29	55
Other energy efficient lighting	65	61	53	63	69
Outdoor high pressure sodium lighting	53	54	32	40	49
Refrigeration improvement	34	25	45	62	88
Heat recovery from HVAC	33	57	84	100	93
Heat recovery from refrigeration	66	73	58	83	76
EMS* to control HVAC*	17	30	28	38	16
Load shedding	69	64	65	63	92

*EMS – Energy Management System *HVAC – Heating, Ventilation & Air Conditioning

Reliability — Over the past year 86% of the respondents reported being without power for more that 60 minutes, and 25% were without power for more than 5 hours. Region and format appear to be factors in store's energy management practices. Stores in the mid-west, where power reliability has been greater than on either coast, tend to have less on-site generation capacity. Looking at on-site generation by format, 80% of upscale and food drug combos can operate for more than 60 minutes without access to outside sources of electricity. In comparison, only 55% of warehouse stores and 38% of conventional stores can operate for more than 60 minutes on their own.

Green Energy — Almost 10 % of the respondents indicated that they would be willing to pay a 5% premium for Green or renewable energy. More than three times that many, 34%, said they would not and just under 60% did not know.

Survey Procedure — Questionnaires were sent to 590 supermarket managers who had responded to the 2001 Supermarket Panel Survey. The overall response rate was 45%. Professor Rob King directed this project and was assisted by Jon Seltzer and Bill Poppert, President, Technology North, an independent energy management service provider.

Highlights of 2002 Working Papers

A Segmentation Analysis of U.S. Grocery Store Shoppers (01-08)

Sandeep Mangaraj and Ben Senauer used cluster analysis to conduct a segmentation analysis of U.S. supermarket shoppers, using data from the Food Marketing Institute's 2000 consumer trends survey.

The three key types of supermarket shopper segments identified are: 1) time-pressed convenience seekers, 2) sophisticates, 3) and middle Americans. In order to cater to a particular consumer niche, a store had better fulfill the store preferences of that segment. Time-pressed convenience seekers, 37 percent of the sample, put a premium on features such as childcare, gas pumps, and online shopping. They are likely to be younger, urban with lower or moderate incomes, and have the greatest number of children six years old or younger. Quality and services are important to the sophisticates, 28 percent of the sample. This group is middle-aged, better educated, with higher incomes than average. Middle Americans, 35 percent, are attracted by pricing/value factors such as frequent shopper programs, sales, and private label brands. They want stores that are active in the community. Demographically they are in the middle with the highest proportion of high school graduates.

John Woodhouse Seminar Speaker TFIC, November 13, 2001


John Woodhouse

John Woodhouse, retired President and CEO of Sysco, the largest foodservice distributor in the U.S., praised our food system as the best in the world, providing American consumers with all the food they can eat for less than 11 percent of the personal disposable income, on average.

Speaking at our fall public seminar he outlined some major differences between the channels used to distribute food to retail food stores and foodservice establishments. Sysco carries over 300,000 different types of products to meet the needs of chefs in in over 790,000 foodservice establishments. Food service operators do not run their own distribution companies, and price and brand of food is less important than in grocery sales. Food service is not designed to be the most efficient way for consumers to obtain food. Service and convenience are key ingredients to success in foodservice. The common denominator in all foodservice is to separate consumers from the tasks of cooking and cleaning up dishes.

Take-out food is increasing for both retail food and foodservice places. Forty- to fifty-percent of revenue in quick-service restaurants is now from take-out sales. Two-thirds of the growth in total consumer food sales is coming from sales at food service establishments. Woodhouse advises that if retail food stores are to compete for consumers' food dollars, they will need to pay higher salaries to management and stop treating foodservice as a sideshow.

TRFIC RESEARCH REPORTS AVAILABLE FOR PURCHASE:

Supermarket Panel Annual Report	$95.00
Working Papers, as listed on Website	$22.50

Contact Mavis Sievert - 612-625-7019 or msievert@apec.umn.edu

DID YOU KNOW?

• **Food Aid.** Private food aid groups such as Second Harvest serve more hungry people annually than the food stamp program. Almost 18 million people used federal food stamps in 2001 (down from 21 million in 1997) while more than 23 million used private food aid. Two-thirds of those seeking private help were already receiving food stamps. Forty percent of those using private food aid were in working families. (Becker, NYT, 11/14/01)

• **Your father's prunes?** Dried plums formerly known as prunes realized an increase in sales of 5.5% in 2000. The new name and image was approved by the FDA over a year ago, after sales of prunes had declined 3.7% in the prior year. (www.supermarketnews.com 9/10/01)

• **Surplus retail space?** In the last decade the retail industry added 3 sq. ft. of new store space for every person in the U.S. This 20% growth rate was double the growth rate of the population. Since 1996 operating profit margins fell every year in retail stores to a minus 0.17% in 2000. (Berner, Businessweek, 12/10/01)

• **Eating more at home?** The number of meals prepared at home rose in 2000 by 0.1% according to data released in NPD's 16th Annual Report on Eating Habits in America. The per capita meals eaten in a restaurant fell from 66 in 1999 to 64 in 2000. Take-out meals also fell from 73 to 70. It looks like frozen meals available in the supermarket are replacing some of the food eaten away from home. Perhaps Home Meal Replacement is a concept whose time has arrived? (NPD Group, Inc. Report can be purchased for $20,000 at www.npdfoodworld.com/foodServlet?nextpage=rr_abstracts18.html)

• **Finger food?** "Pay by Touch" is being tested in Fresno, CA at a McDonald's. Customers who sign up for the program purchase food with a simple touch of their finger. This finger identification replaces the credit card, charging the purchase to their credit card account . New biometric technology is faster than checks or credit cards and more secure than cash. Privacy issues are being raise by some consumer groups. (Steinberg, Fesno Bee, 1/4/02)

• **Productivity Explained?** The 2.5% average annual increase in productivity (1995-2000) is largely explained by productivity in 6 sectors – retail and wholesale trade, securities, semiconductors, computer manufacturing and telecommunications. Retail and wholesale trade contributed over 30% of overall productivity acceleration, with labor productivity growth of 6.3% per year in retail. Gains were spurred on by "The Wal-Mart Effect" according to The McKinsey Quarterly. Information technology was necessary, but not sufficient. Using the technology to improve management and redesign core business processes made the difference between productivity winners and losers. (www.mckinseyquarterly.com/)

• **E-coli in the lettuce?** When growing plants are exposed to fertilizer or water that is contaminated with E-coli 0157:H7 (usually from manure), the contaminant can enter through the roots and be harbored inside the plant. You can not wash it off! Scientists at Rutgers have shown this to be true with lettuce. They acknowledge that the laboratory experiment used much higher doses of E-coli 0157:H7 that would likely be found in nature. (Nature News Service: www.nature.com/nsu/02101/02101-10.html)

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