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The Future of the Food Industry Forum: Strategic Insights

"Benefits Based Value Chain"

The issues and challenges confronting the food industry, and what it will take to be successful in the future was explored at a Forum arranged by TFIC. A cross-section of 30 food industry leaders representing major food companies and organization met June 2nd and 3rd at the University of Minnesota's MacNamara Alumni Center. Discussion was moderated by Jon Seltzer and each topic was introduced by an expert with the Center.

Feedback from participants included the following comments. "This was an eye opener for me." "It is helpful and healthy to get perspective on other parts of the supply chain." "What I heard the last two days makes me believe there is hope." And from Dale Riley of Kowalski's, Chair of the Center's Board of Advisors, "The Forum brought together retailers, restaurateurs, wholesalers, processors and grocery manufacturers that provided both new information and enough time for discussion."

A central issue that emerged from the forum is how to compete effectively in the face of a decade of focusing on the "value chain." Lead by Wal-Mart, value-chain management has resulted in massive gains in efficiency and lower prices for consumers. It has reshaped the competitive landscape and resulted in razor thin margins and competitors scrambling for a means of differentiating themselves on dimensions other than price. This Forum discussions lead to a new concept we have coined a "Benefits-Based Value Chain."

A **Benefit-Based Food Chain** reflects the next evolution in competitive strategy. The basic principle involves a better understanding of the market place, the dimensions of consumer attitudes and needs, and the positioning of products and services to meet those needs. Examples of how this could be done are exhibited by a handful of retailers, such as Ukrops, Wegmans, Lunds, Byerlys and Kowolski's which have created meaningful "brands" for themselves in the minds of consumers. As a result they operate on a different plane than the price-based competition. Recognizing Americans pay less for food as a percent of income than any other country in the world, it stands to reason that if the food products, retail stores, and restaurant menus deliver benefits to consumers, sales and profit margins of firms could grow. Food delivers

"The Forum provided a dynamic, timely discussion of pressing industry issues with excellent representation from a cross-section of food companies and industry experts. It was a great opportunity to share ideas. I look forward to the next forum!" Brian Numainville—Nash Finch Co.

a multiplicity of life enhancing benefits. In addition to nourishment, food is a means of enjoyment, entertainment, medication, and an expression of love and friendship. Food experiences that deliver these benefits, result in significant value delivered to consumers.

Although the topics covered in the forum were fairly comprehensive, covering the industry's functional disciplines, the discussion consistently focused on the need to identify ways to benefit consumers and drive value in the industry. This tended to be an underlying theme whether the topic at hand was blurring of channels, new technologies, ethics, or information management. But perhaps this should not be surprising since identifying a value added business proposition really reflects the core mission of any organization. A strong connection between value and ethics was expressed.

An organization earns and retains its integrity as it delivers higher value to consumers. As it treats employees with respect and creates upwardly mobile career ladders, the economic and social structure of a company and the community is strengthened.

Participating Organizations

Cargill
ConAgra Foods, Inc.
Corporate Resource
Food Marketing Institute
Gold'n Plump, Inc.
H. Brooks & Company
Jennie-O Foods
Johnson & Johnson
Kowalski's Woodbury
MN Agri-Growth Council
Nash Finch Co.
Parasole Restaurant Holdings, Inc.
Retek
SUPERVALU
UFCW Local 789
Ukrop's Super Markets, Inc.
University of Minnesota
USDA, ERS
Willard Bishop Consulting, Ltd

Upcoming Events

Program Leadership Board Meeting

September 26-27
McNamara Alumni Center

Board of Advisors Meeting

October 10-11, 2002
McNamara Alumni Center

2002-2003 Seminar Series

October 29, 2002

Simon Foster

Simon Delivers

McNamara Alumni Center

CO-DIRECTORS' NOTEBOOK

"Educating Leaders for Tomorrow's Food Industry"

Our vision for The Food Industry Center is that it will help the University of Minnesota create the "gold standard" for educating students of all ages to be the leaders of tomorrow with specific knowledge about the food industry. Graduates bring their considerable skills in science, technology, economics, finance, management and marketing to their employers, but they will also have been introduced to how the food industry works, how it serves both producers and consumers, and how it is growing more global in its interactions.

Organizations everywhere are placing a much greater emphasis on identifying and developing employees who have a vision and breadth of experience to make things happen, find solutions, and drive results. As educators we believe that it is not only possible to create an effective degree-based program to develop cross-functional leaders, we also believe the University of Minnesota is in a unique position to do this well. The Food Industry Center is positioned between the Departments of Applied Economics and Food Science and Nutrition in the College of Agriculture, Food and Environmental Sciences and the Carlson School of Management with participation from other units at the University. We are a



cross functional Center working with great faculty from many corners of the campus.

The focus will be on 1.) recruiting top students, 2.) refining the curriculum to achieve a balanced, cross-disciplinary education, and 3.) creating strong relationships with practitioners in the industry for guidance, internships, and mentoring of students. To build strong relationships with industry we are creating a new *Program Leadership Board*. We are in the process of recruiting charter members for this Board right now. Members will come from throughout the food distribution chain, i.e., manufacturers, wholesalers, retailers and foodservice.

Firms who have members on the *Program Leadership Board* will have access to top candidates for job openings and internships. They will play an integral role in shaping an innovative program, and have a chance to leverage their skills and "give-back" to the academic world.

Serving on the Board will truly be a win/win/win situation for the individual, the students, and the food industry. We are very excited about this development and look forward to working with the members of this Board. Dennis Degeneffe, TFIC's Marketing Coordinator, will coordinate this Board's activities. If you are interested in being a charter member contact ddegeneffe@consumer-centric.com.

The Future of the Food Industry Forum: Session Briefs

An Industry Re-Inventing Itself ... Yet Again

Presenters: Willard Bishop, Bishop Consulting and Professor Jean Kinsey

During the 1990s the food industry focused on Value Chain Economics, with the largest competitors realizing major cost savings and efficiency gains. The remainder are finding it increasingly difficult to survive. Traditional supermarkets are losing market share, and the structure of the industry has profoundly changed. It is clear future growth depends on participants finding ways to deliver unique value to consumers on dimensions other than price. To do this the industry must develop a better understanding of the consumer. Emerging needs involve the aging population, ethnic diversity, changing household make-up and impeding social issues such as obesity and diabetes reaching epidemic proportions. These areas reflect opportunities to engage consumers on dimensions that may hold considerable growth and profit potential. The industry is reinventing itself again.

Managing Consumer and Workforce Diversity – Creating Relevance for the Consumer

Presenters: Professor Jean Kinsey and Dennis Degeneffe

A recent study conducted by General Mills demonstrated consumers can be divided into seven segments:

Mainstream Nurturing Cooks, Healthy Traditional Cooks, Healthful Explorers, Weary Providers, Food On Demand, Mobile Munchers and Traditional Recipients. These segments reflect the values and attitudes consumers have toward food acquisition, preparation and consumption. By segmenting consumers competitors can define targets and deliver benefits to create meaningful points of difference versus competition.

Presenter: Professor Avner Ben-Ner

Relative to other industries the food industry has a higher proportion of younger/ethnic and unskilled workers. From a social standpoint this is both good and bad. The industry provides a high number of entry-level jobs, but unfortunately has not developed career paths as well as other industries have. From a business standpoint this diversity presents several challenges – such as a need for training, consideration of cultural differences (in motivation, expectations and goals), and language competency. Forum discussion focused on the need for the industry to invest more in its labor force. The rationale is through better trained employees, higher levels can deliver more value and service to consumers.

The Power of Branding – Creating Equity in Uniqueness

Presenter: Professor Akshay Rao

The primary role of branding is to solve problems through providing services and benefits. Once it is recognized the unique value a business can deliver, an investment in building a brand will provide a means of creating equity with consumers. This equity in turn enables businesses to price accordingly, resulting in higher profitability – so a better measure of success may be a return on investment versus market share.

With consolidation in the industry, competitors either need to increase their level of marketing sophistication or jeopardize survival. Branding is perhaps better evolved in the Restaurant Sector, where it exists on levels beyond physical products and involves the experience (i.e. atmosphere) and esoteric benefits (e.g. taste adventure). The trick is to anticipate consumer needs and stand for something before competitors do it.

Bio-Terrorism and Food Security – Averting a Potential Industry Crisis

Presenter: Professor Emeritus Frank Busta, Food Science and Nutrition

Bio-terrorism: it is “not a question of will it happen, but when and where it will happen, and we need to prepare for it”. Still it is virtually impossible to control all possible risks; rather the industry and organizations need to concentrate on the higher risk problems. The real economic risk of an attack is not so much the result of the incident itself, but a possible ensuing loss of consumer confidence. If we are not prepared, this risk could be enormous. In spite of the complexity of the issue, and the conflicting priorities of running a business, we need to identify our biggest individual vulnerabilities.

New Food Technologies – Enablers with Limitations

Presenter: Professor Ted Labuza

A paradoxical relationship between a technology rich industry and a technology adverse public exists in the U.S. Technological capabilities (e.g. irradiation, high pressure, low temperature, etc.) have been available for years. Due to limited food technology knowledge, consumer use/acceptance of these capabilities is limited. Focusing on consumer communication about technology and its benefits could deliver value to the consumer.

When these technologies are used, frequent handling processes in the chain of distribution leads to a loss of benefits and produces cross-contamination. The industry's dependence on unskilled labor is potentially a limiting factor in its ability to deliver safer food to the consumer. By making the channel and food safer both the industry and consumer benefit.

Presenter: Professor K.K. Sinha

By developing a “sense and respond” paradigm food companies can answer consumer needs versus the traditional “make and sell” manufacturer mind set. A process of systematically identifying and understanding the relationship between products (defined as a bundle

of physical goods and its resulting experience) and processes (defined as a configuration of technologies to deliver benefits to the consumer) can be used to stimulate innovation.

Productivity and Competition – How We Got Here

Presenter: Professor Ben Senauer

Productivity gains are an important contributor to American welfare and competitiveness. Because of competitive pressure, rapid gains in efficiency are passed on to the consumer in the form of lower prices. Six industries account for most of the productivity gains. Half of the

gains in the retail food industry are due specifically to Wal-Mart, leading to the industry's consolidation (a response to the need to generate enough mass to offset pricing pressure). The top 5 food retail chains now have a combined market share of 39%! Given its market position Wal-Mart is a major force in influencing many levels of the supply chain.

Some supermarkets are doing a good job in competing on a different plane. Companies, such as Ukrops, are cultivating a family owned, ethically responsible image to consumers. Using consumer input to build (and position) stores helps identify ways of not having to compete head to head with Wal-Mart in the future.

Presenter: Professor Rob King

Efficient consumer response and recent efforts around e-commerce are enhancing relationships with consumers around loyalty card programs, self-scanning and on-line shopping. Benefits of the supply chain transformation include better data for management decisions, lower inventory levels and fewer stock outs, more efficient logistics, and better capacity utilization. However, this comes with some costs, specifically the cost of the technology itself, investment in training, and changes in organizational structure.

Ethics and Social Responsibility – Need for Bilateral Communication

Presenter: Professor Ben Senauer

Demand for ethically related food characteristics has dramatically increased, including:

- Health and Safety
- Animal Welfare
- Environmental Concerns
- Labor Practices
- Fair Trade

Ethical food consumption has become an expression of personal values and lifestyle. People are not only concerned with the product but also the process. Since the food system is becoming more complex, maintaining consumer trust is becoming increasingly important. A bilateral communication process is needed whereby manufacturers give more information about the production process and in turn become more informed about consumer needs and their ethical concerns.



Willard Bishop
Opening Speaker



Frank Busta
Dinner Speaker

VISIT OUR NEW WEBSITE [HTTP://FOODINDUSTRYCENTER.UMN.EDU](http://FOODINDUSTRYCENTER.UMN.EDU)
PowerPoint Presentations from the Forum are online!

DID YOU KNOW?

• **BIG Business.** Wal-Mart is number one on the 2002 list of Fortune's 500; it is the largest company in the world! It is the first or second largest food retailer in the U.S. (depending on how food sales are reported) and the 14th largest in Europe. It is the only U.S. food retailer to make major inroads in Europe where it operates in England (as Asda) and in Germany. Sixty-nine percent of its European sales are for food. Thirty-five percent of its U.S. sales are for food. (Fortune, 4/15/02, www.planetretail.net, Progressive Grover 4/2000)

• **Customer Theft?** Restaurants around the country loose as much as 3 to 4 percent of their earnings to theft by customers. The most commonly stolen items are glasses, silverware, and logo ashtrays. Having the waiter grind pepper on your salad helps prevent the theft of pepper shakers. (New York Times, 2/27/2002)

• **The New Frozen Dinner!** Frozen foods are coming into their own with better taste and convenience for dinner. Sales of frozed dinners were up 7.5 percent in 2001 while restaurant meals were down 3 percent. This is attributed to the lower price and time cost of eaten frozen dinners compared to restaurant meals. The average cost of a frozen dinner is \$2.95; average spending

at a fast food place is \$4.32 and at a casual dining restaurant it is \$11.72. In addition, one doesn't need to make an extra stop between the office and home at the end of the day in order to obtain dinner from the freezer. (New York Times, 2/23/2002)

• **Employee Turnover Costly!** Employee turnover in retail food stores and restaurants can run over 100 percent per year. It costs an employer between \$5000 and \$10,000 every time an employee leaves and another one has to be hired and trained. This is one reason Kroger is testing a new electronic test for job applicants. The test helps predict those that will likely be more loyal to the company. (Supermarket News, 1/28/02)

• **Women and the Internet.** Women outnumber men as Internet shoppers, 51% are women. (Pew Internet and American Life Project, Washington D.C.)

• **Behavior lags Attitudes.** ACNeilson studies found that it takes nine months for consumer attitudes measured by University of Michigan's Consumer Sentiment Index to be reflected in the purchasing behavior of food, health and beauty aids. (www.supermarketnews.com)

• **Aging and Food Consumption.** The effects of an aging population on food consumption

shows that per capita food expenditures will decline by 1 percent for food-away-from-home and increase over 2 percent for food at home. This will put the brakes on the long term trend towards spending and ever increasing portion of the U.S. household food dollar on food-away-from-home. Aging of the population also predicts an increase in the consumption of fruits and vegetables (each up 3.7%), and fish and pork (each up 3.1%). Food categories that will loose popularity with the elderly are fried potatoes (down 5.8%), cheese (down 2.7%), and sugar (down 1.6%). (FoodReview, USDA, ERS, Spring, 2002)

Vocabulary Check - What is it?

1. Acrylamide
2. Capsicum
3. Sulphoraphane
4. Obese

1. Potent cancer-causing agent present in high-carbohydrate food when cooked at high temperatures, e.g. French fries.
 2. The genus of pepper plants that helps to neutralize cancer-causing substances in the gut. A new bioengineered broccoli has 100 times the amount of this chemical than ordinary broccoli.
 3. A chemical in broccoli that helps to neutralize cancer-causing substances in the gut.
 4. A person whose body mass index is greater than 30.

For publication or event notices, please sign up on our website at <http://foodindustrycenter.umn.edu>.

TFIC RESEARCH REPORTS AVAILABLE FOR PURCHASE:

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|----------------------------------------------------------------------------------------------------------|---------|
| 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 | |



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