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The Political Climate for Food Distribution In The 1970's

Food 70's

Inflation for the first half
of the decade, technological
revolution in food retailing
the second half

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As I understand the program for this evening, ladies and gentleman, I am to talk a little bit, try to get a little of background into the subject and then we'll have some questions and answers--at least have some questions and maybe some answers.

In talking about the politics of the food industry, I would like to get a little perspective into it by starting back a little bit.

I am sure that all of you recognize that up to about 1950 or the early '50's, the politics of the food industry were mostly concerned with consumption and consumption problems. Now this is indeed natural as the nature of the industry has changed over time and consumption has become the big problem. This is in keeping with the revolution of the market structure itself. With that backdrop, a dramatic change of the politics beset us. Let's look ahead a little to what will happen in the next decade.

I propose that in the first part of this decade the politics will be covered by the inputs of inflation. Now being a naturally optimistic soul, I believe that even inflation will eventually end and the last half of the decade will be marked by the politics brought on by the next technological revolution which I see ahead.

So, let's talk about this. Talking about inflation as the causitive factor of the politics that beset us I do not ignore the boycotts that we spoke of nor do I ignore the very real facts of consumerism which we constantly hear talked about. But, I wonder how much of a consumer issue we would have if there were three years of stable prices. It would seem to me that during this last decade there has been a direct corollary and a proper one between the problems of inflation and the problems of consumerism.

Now, let's go back to 1966 for the first of the so-called impasses. As you will recall, it was in August of that year that we had a six percent increase in food prices. When that boom fell on the poor housewife in the United States,

she reacted with a great deal of vigor.

Now, in telling this story it is proper to remember that it was an election year. The Republicans, for example, had organized a campaign they called "Operation Supermarket" which was an attempt by them to dramatize the problems of continued inflation. In terms of food prices this was a very proper political activity but, when coupled with the boycotts in Pheonix and Denver, it started quite a hubbub and it did become very difficult.

If you remember, during that election year every person running for office, either friend or foe, Democrat or Republican, good or bad, talked about food prices so that we think that there were nearly and not more than 10,000 ladies involved in the boycott of 1966; but there is no way to minimize the impact of that boycotting activity. It changed a great many things for us. Out of the proper and understandable frustration and resentment over price increases came the first activist period. From that day to this, almost without interruption, we have continued to have this type of activity. "If you haven't anything else better to do, let's go out and boycott," seems to be the motto of our times and so each turn of the inflation wheel has brought a new set of boycotting, a new set of consumer activity. I presume that for the next four or five years, while inflation continues its present course we should anticipate continuation of this kind of public activity which will be matched on Capitol Hill by a great flood of bills to try to correct some of these problems.

Now let's pursue my subject a little further here on inflation. On January 1 we will have at least a half of the surtax and maybe a repeal of the surtax. On January 1, we will have a direct and deserved, of course, but nevertheless direct increase in social security taxes. So that the least you can expect on January 1, 1970 is a \$12 billion input into the disposable cash available to our people. It could be as much as \$16 billion if the current surtax is repealed. It is impossible to say, in spite of the honest, continued efforts of the Government to halt inflation, that there is any real prospect of deflation; or, if we look at it another way, in our own industry, at supply and demand, there is little hope of other than a continuation of inflation.

Now, as all of us know, we have been pretty fortunate in beating the game. If we start with the 1949 period, we are talking about a 34 percent increase in food prices against a 46 percent increase in all prices. This has generally been true under any such period of time and I expect it will continue to be true that our prices will increase at about 75 percent of all other prices. But, that is of no consolation because we remain and will remain the most visible expenditure of all American families. We are the only cash expenditure. The average American family sits down the first of the month and Mommy and Daddy take out the checkbook and write up all the bills for house, car, department stores, and other major expenditures. At the same time, they then have to take some cash and spend it for their food bill.

During this ball game I and others deluded ourselves with hope in talking about the bargain that food is and talking about the percentage of disposable income spent for food. You will remember we had a program called "Only 19." We could have only 16.5 this year if we cared to except that it doesn't ring true to the housewife. In fact, she responded with a great deal of vigor--she said, "You're a liar!" Because 16.5 may be a balanced statistic in an economics classroom but not where she lives because given 16.5 of her disposable income, the cash she has on hand is like 75, 80 or 85 percent of her disposable income. When we have a five or six percent increase in food prices that comes right out of the most important things in her life--an extra trip to the hairdressers, buying some new stockings or having coffee with the girls.

Another vitally important factor of a modern life is that we will remain as we are--the most visible expenditure and despite the fact that we are the most anti-inflationary factor in the entire spectrum of the economy we will continue to be the example used to highlight the difficulties that people face because of inflation.

As you gather from what I am saying, I do not expect there to be any direct stoppage of inflation sooner than the next three or four years. I hope, like you, that the rate of inflation declines each of these years. But, until inflation is back down to the one or two percent that we seemed to live with in the long period from 1945 to 1965, I think we will continue to have this kind of trouble and a great number of bills on the Hill.

Now on to an even more important and interesting subject. By the middle of the century we should be in the throes of a technological revolution, the most important one this industry has ever had and that's hard to say for this industry which is so very kinetic. We have a series of developments on the horizon I think will come to fruit within about five years that should really change the future of the industry.

Let's just talk about three or four of these this evening even though there are a great many more. One of the most important ones is the advent of automatic warehousing. The first automatic or semi-automatic warehouse has been built by the Kroger Co. in St. Louis. The second of these is being built by the Rapistan Co. for the Kroger Co. in Nashville. Sure, they have more bugs than we can find in a house in the summertime but, nevertheless, I do believe that these will be ironed out. I believe that within the next four or five years the Pickmaster system will really work with its dramatic impact on the economics of our business.

I think the second and even more dramatic example is the advent of the electronic front-end. The first of these devices manufactured by Inventory Management Systems is an electronic front-end which has a manual input device. But IMS does have the second factor--an on line in store computer which is now being installed in a Fox Market owned by Food Fair in Los Angeles. I was privileged to visit the research center of the RCA Company. They are very hopeful

of installing their first device which does include an electronic scanner, the second part of the system, by next September. IBM has been testing recently a device in this arena and it would be silly not to presume that our friends at NCR will not be very far behind. I must admit I think they're behind now but I think they will come along pretty soon. So out of all these developments, I do think that in probably the next five years, the electronic front-end will be a reality and universally available if not universally installed. The other two developments, which I can see that add to this little picture and are quite manifold of all of these developments, is having centralized meat cutting programs that are going forward so rapidly. A member of NAFC has told me that he believes that within the next five years there will be no full carcasses of beef shipped in this country. They will all at least be shipped in sub primal cuts. It is hard to foresee the development of the technology in freezing practices, but I believe and I think most of my colleagues believe that cutting retail prices would come with the sale of frozen meat based on some technology. However you set it, the movement of the manufacturing operation, which is meat cutting, out of the store into some kind of a centralized factory setting will be generally accepted, I think, in this century and within the next five years.

Finally, the utilization of a computer for management information systems I think will come to pass. Now whether or not our own COSMOS system works is of little importance. The sophisticated management information system will come into being within the next five years. It is inevitable. Maybe it will be in the form that we are seeing as COSMOS. Maybe not. The important thing is that it will come.

Now you add these up and you really have a mammoth technological revolution. You couple with that the revolution that has occurred in the last five years -- the revolution of management. When I came into this industry ten years ago, this was indeed a entre leader industry. Truly great men whom you and I enjoyed a great deal but, they were the old arbitrators. They were a genius type of a role. They were merchant princes but, they were basically experienced intuitive people.

In the last five years we have moved rapidly to professional management. Being one of the last industries to do it we have, therefore, done it with more speed. Professional management has demanded of the industry and of its companies much more exactness, a much greater commitment to leadership skills and its sophisticated ways. These have brought about this technological revolution. In turn, the technological revolution that I have outlined tonight will bring about an even further change in the character and nature of our leadership and, it will indeed, be a dramatic change.

Now, without dwelling on it, because I think this is all for the good, I believe this is reducing our cost of operation and will maintain a constant decline in the percentage of disposable income spent for food. It will maintain us as the most consistently anti-inflationary factor in the economy and, therefore, basically a consumer benefit. At the same time, with the increased level of

sophistication and with the increased level of investment, there must be some decline in the "ease of entry." I still expect we will remain one of the industries with the greatest "ease of entry" of any industry in America, but less than we have known in the past.

I do believe that there may even be some concentration--more than we have had in the past. Again, I believe we will remain one of the least concentrated industries the world has ever known---but nevertheless with some increase.

I do expect that the politics of the latter half of the 70's will be wrapped up in great discussions about this revolution and the changes it brought. In my mind, at least, it is comparable to the period of the 1930's with the advent of the supermarkets and the food chains and the great debates that ensued from there.

The revolution will change the character and structure of the industry and I propose to you this: It is highly likely that this new technology that all of us see on the horizon, at least I see on the horizon, will again bring about such a debate. I anticipate that if I stick around for about ten years I will spend five years talking about prices--what makes them and why--and five years talking about technology--why it did come and what's it going to do. That is what I see for the politics of the next decade.