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# PRODUCTIVITY FOR THE FUTURE: LOGISTICS

by

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Discusses the need for cooperation between all segments of the logistic system of the food delivery system.

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We seem to be in an age of crises. Salmonella, mycotoxins, pesticides, fertilizer, boxcars, branch line abandonment, and fuel or energy, all have now been superseded by inflation. In making inquiries about the status of petroleum I find that gasoline and diesel fuel are available for a price. In fact petroleum storage tanks are overflowing. Yet no one I talked to was willing to give any assurance of a dependable supply of fuel. Dependability is the key. What we have is not just higher costs, the big impact is likely to be from management decision designed to assure service. These can take the form of higher inventories to prevent out of stocks, private carriage to assure transportation, standby power for refrigerated storage or other essential services.

The food industry has always been a responsible one. The supermarket was built on dependability and reliability. Merchandisers are seldom satisfied with anything less than zero stockouts. Many of the efficiencies gained in recent years have been through faster turnovers gained by pushing inventories back toward processors and depending on rapid deliveries to maintain supplies. This trust and cooperation among elements of the industry, however, began to develop some complications long before the fuel crisis hit.

The railroads which were becoming a sort of backup system in the long haul transport of perishable foods began to look at their business the same way as other industries. They began to examine their product lines and discovered they could save money by cutting out unprofitable categories. In their calculations perishable foods, piggyback service, livestock and other food related services were frequently unprofitable. These services required special equipment and unusual protective services, special fast schedules, and had very high claims losses. Therefore, these "unprofitable" services drew less capital and were allowed to decline. To fill the void many private companies have established private trucking fleets or leased rail equipment. Generally such actions have not reduced costs but have provided some assurance of service. The Midwest grain elevators who leased "rent a train" did so largely to assure car availability. This private or leased and dedicated equipment usually returns empty due to difficulties in obtaining backhaul or to regulatory limits.

In the case of utilities we have industrial users cut off from natural gas, or of power during brown-outs. Auxiliary power back-up facilities can be expensive especially if not fully utilized.

The breakdown in dependability takes many forms and has a special impact on international trade. Producers are less

capable of delivery, additional barriers to trade are created, and higher risks.

Another area where we attempt to develop efficiency is through standardization. Standard size containers, pallets, transport equipment, and uniformity of nomenclature helps reduce inventories and improves cube use in trucks and storage. Generally voluntary industry efforts have been helpful to productivity although we may be building some future problems. These voluntary standards get written into state, federal and international law. Establishment of international standards is a long involved political process that is not easily changed and could build in barriers to technological change, whereas voluntary standards can be changed when economics dictates. Not all standards create efficiencies or are intended to. We have developed a number of standards--human and food safety, nutrition and pollution which tend to create negative cost savings.

What is needed to generate efficiency in food distribution?

First experience has shown that we develop production and marketing efficiency best during periods of stable income and markets. However this seems beyond food industry control.

Second, we need training. We have researched and developed many efficient methods and procedures that are not being utilized, mostly through lack of training and attention. The present concern over developing improved distribution systems will not result in much improvement unless the individual parts of the system are efficient. Systems improvements require detailed knowledge of the operating parts and must be built on sound and efficient operation of these various parts.

Our third area of need is to examine some of our food systems. One system we are questioning today is the production of food in highly specialized and distant growing areas. Are such production areas

most efficient when we consider all the costs including long haul transport costs and associated losses? Can we depend on all parts of such systems? Can we afford to continue to build condominiums on those truck gardeners farms near Eastern cities? Another question is-- how efficient is it to have duplicate food systems, such as canned vegetables, frozen vegetables, fresh vegetables, freeze dried vegetables, etc.? What are the costs and losses and energy requirement of each system? Can we afford to proliferate products in light of higher product introduction costs? For example, one of our problems today is with pesticides. We have trouble getting manufacturers to go through the costly procedures to get a product accepted by various regulating agencies and then marketed. We have some new proven pesticides but have no firms willing to introduce and market them.

Another system to examine is vendor delivery. The time is ripe for efforts to get pooled or consolidated deliveries. Studies have shown that 65 percent of delivery costs can be saved. Obviously, Federal Trade Regulations must be considered.

Alternative food sources need to be examined. A truly international food marketing system is developing. One reason is that some international delivery systems are more efficient than our domestic ones. How come we can deliver iceberg lettuce to Stockholm, Sweden, often in better condition than to New York or Boston?

Why not let the high quality U.S. food go where the market will pay for it and support our higher labor and other costs? In turn let us actively seek food for our Eastern population centers from underdeveloped nations with access to Atlantic trade routes and which need the foreign exchange.

In conclusion, I feel the real danger in this age of crises is fragmentation of our food industry into segments,

each fighting the other. The extreme resistance of our society to higher prices, or technological change, has created some unusual tactics. A labor union strikes usually to obtain improved wages or working conditions. Usually this is a pretty straight forward position. However, some labor unions, like most industries, can't strike. Air traffic controllers in Chicago have a slow down based on "safety" needs that seems aimed largely at increased wages or improved working conditions. Some individuals have suggested the petroleum shortage was a "managed crisis" to gain acceptance of higher prices. Similar possible actions can be envisioned for power companies and other utilities under governmental price regulation; the grain industry, the meat industry, truck drivers, rail and air carriers.

The food industry has been generally responsible. We have had some farm level withholding, such as dumping milk or killing calves. However, think of the market power that frustrated industry elements could generate by shutting down retail stores, warehouses, or other vital food services. Is this the way we will adjust to an uncertain future, or will we work together to rebuild the trust and acceptance that the food trade once had from the American housewife?