PRODUCTIVITY FOR THE FUTURE: RETAILING

by

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Discusses the impact of the superstore, employee motivation, technological innovation and system standardization on productivity in food retailing.

For our industry, the direction and timing of this conference is most appropriate. We especially need a renewed call for thought and dedication to productivity improvement now; since times are deceptively easy. I say this because, despite the fact that the hounds of inflation tear at us, at one limb and then at another, at this moment we are reporting excellent profit results to our stockholders. This, I contend is illusory only. It is a fragile balance because our rising costs of doing business on the one hand and on the other, inflation based inventory profits and the failure of our accounting systems to adequately provide for the wasting of the dollar equivalents of our assets. But, even this is only transitory. Inflation will indeed get to our jugular of costs and consumer resistance and times will be worse again...of that we may be sure! Indeed, inflation and even recession will eventually pass, and still then the verities will be verities...productivity improvement is the single most essential prerequisite for growth and profit--for the very existence of our trade as we know it now.

The issue is how we can, with our fixed investments and management skills bring this industry into a posture similar to that of the 30's and 40's. It was then that the retail wheel turned and the supermarket was born. I would even settle for a recapture of the rate of productivity improvement of the 50's and 60's when supermarketing was breast fed by the suburbs and weaned by growing consumer prosperity. It was during these periods that our essential mission -- reducing wholesale quantities to retail quantities at ever lower costs, was being fulfilled. As food becomes a larger share of disposable income, we must again find ways to reduce the cost of our operations.

As I look into the future there are three basic dimensions that I would put to it:

The first is the promise inherent in increased scale as represented by the super store, or its grandest expression - the Hypermarche. I do not intend to forecast the percentage of our business that will go in this direction or the ultimate savings across the system. Indeed, I wonder in many ways whether this is a turn of the wheel or simply another notch. I do know it is not the single answer, and diversity of size and location will continue to characterize our industry. There are marketing reasons why our industry is looking in this direction, but behind them there is the basic premise or enabler of "scale" savings. Labor, overheads, and the costs of consumer services are spread by unit size. The profit model of the ever-larger store is perhaps too volume sensitive, with square foot volume the major component of the cost formula. In a real sense this is not system change or innovation! It does, however, position the operator to take better advantage of the capital investment that goes with automated checkouts and other labor saving...
devices as well as the system improvements that industrial engineers have long held out to us if specialization of function could be developed. We may look forward to its continuing growth.

The second area, the one that I, personally, feel offers the most elusive and yet the largest of the "carrots at the ends of our stick" to improved productivity, is employee motivation. By any industrial engineering standards, the productivity of our people is tremendously low. The reasons or excuses for it are legion...few fixed work positions; little functional integrity due to the essentially random arrival of our customers; the time lapse between inputs and outputs; and the make-work issues such as unstable delivery schedules; the rapid and uneven cycling of merchandising inputs and policies; and the almost self-destructive vagaries of management decisions. If only we could cut and price in the backroom on the production conveyor; if only the warehouse could ship in the same order as the shelves; if only we could order properly! "If only" stands between us and the ideal standards!

Our problem, however, is not to find a new work sample technique or industrial engineering routine. Nor is the frontier the physical science that will blast rockets to some black hole in space. The real frontier is closer to home. It is rather motivation and human resource management. We must learn to bring our people along with us, to create the kinds of satisfaction and interest which lead to a self-generated, higher output. In the 1972 Hearings of the Joint Economic Committee of Congress on the American Productivity the deterioration of output per man hour was pointed out and positioned:

"Studies evaluated by the Commission provide disturbing evidence that increasingly in the United States, attitudes toward work, work-quality, workplace conditions, organization structure, and other environmental, psychological, and social factors have profoundly affected and will continue to profoundly affect work performed in the United States."

Name the answer what you will, industrial democracy or participative management, it is the sharing of the decision base and, importantly, the rewards of success that are the new imperatives that will characterize our stores of tomorrow.

Whether it leads to productivity bargaining between management and labor or employee stock ownership trusts (ESOT's) discussed at Congressional pension hearings, I do not know! But it is clear to me, at least, that the store of tomorrow will have solved the problem of the "peripheral employee".

By the way, that term has been used to describe the temporary service employees whose primary interests and primary identifications are with causes and for goals outside of and often inimical to the place where they earn their living. They are just passing through! It describes for me not only the part-timer who works for us only to pay his way through college or to stay out of mother's hair, but it also describes the general run of our employees. The objectives and health of our business have just not been accepted by most of today's workers as the foundation of their desired way of life. Until this is so, we cannot expect to get the most effort and dedication from them.

The voluntary enlistment of our workers in the productivity army will be the newest and perhaps major element in the competitive strategies that have until now focused on price, variety and advertising slogans. In the future retail store, it will make not just for lower costs in accomplishing the conventional functions, but it will first make possible the successful realization of technical and system changes. Secondly, it will breed a vast variety of acceptable approaches and retail expressions on a
store-by-store, chain-by-chain basis. The future will be parti-colored and flexible to an extent now barely conceived of.

The third area in my arbitrary division of the thrust towards increased productivity is that promised by technological innovation and system standardization. The two, closely related, will have major impact on the retailer of tomorrow.

In process already is the UPC and automated checkout. I believe that the testing now coming on stream will confirm major savings in a hard cost sense, as the Ad Hoc Committee termed it, of $30,000 to $35,000 per year in a $60,000 store. Going from the sophisticated to the mundane, one of the major remaining problems is to develop the ideal checkstand configuration which will release the ring-up speed developed and carry it through the whole checkout process. Where is the bypass laydown point? How best position the bagger? How and where cash should be taken? What is the ideal ring-bag configuration? Perhaps an automatic bagger will be developed. Perhaps someone will even develop a pilferage protection device so that what comes to the checkout gets "cashed" out rather than carried out. I have great hopes that the amount of talent which is being directed here will do much to guarantee, perhaps even improve on, the hard savings' estimates. Even more important, UPC and the presence of computers at store level offer additional potential systems innovations which the industry committees have grouped together under the term "soft savings", but not attempted to quantify. What models will be developed for ordering, people management, merchandising management, all of which will grow from the information captured at the checkout, only time will tell! Implicit, I am told, in any successful standardization or technological effort is the prerequisite that it be flexible enough to be all-embracing. UPC is such a development and its success will be that individual companies will find it possible to express themselves in very many ways depending upon their interests.

I suspect one of the most important characteristics of the soft savings developments will not be centralization of information and of control, the first thing that comes to mind; but rather a dissemination of control to the least common denominator, the individual store and its management team. It is best used to enhance the power of the local store manager, equalizing in many ways his relationship to the central office and more important, making it possible to tailor his store to the local consumer, not just to the corporate directives. I put my bet on this kind of decentralization as against centralization.

There is growing discussion and interest in another concept of major potential—the possibility of secondary package modularization—the selection of standard sizes for shipping containers that allow different size cartons to mesh one to the other to build a solid unit load. The Congressional Committee report on productivity referred to before estimated efficiency losses of up to 25% due to nonstandardization of pallets and carton sizes. At the same time the consumer activists are asking for more standardization and less waste in retail packaging. The need for productivity and this consumer concern seem to be coming together and to top it off, metrification is around the corner.

Just last week a pilot study financed by NAFC was published by Arthur D. Little. It is the first pass at the problems and benefits of modularizing the secondary package. Perhaps it is the first of a series of future studies that could lead to the creation of an interindustry Ad Hoc Committee to move the idea forward. The study points to major cost savings through reduction of damage, increased speed of warehouse selection and better utilization of space, especially in transportation. Without such standardization and a reduction in the

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number of case sizes handled, the automated warehouse, which promised so much, will never reach its full potential. It also strikes me that standardization of the secondary container is a reasonable first step to the redesign of the primary package (the consumer size). If it is not done now, providing a variety of cubes within which such redesigned packages must be fit, the potential distribution cost savings of secondary package modularization will be lost, perhaps forever.

At the store, modularization in combination with UPC offers additional great promise. If the industry can determine a limited range of modular sizes for the wholesale package, it is completely possible that, since the product need not be price marked at the store, we will be able to carry the modular secondary package directly to the shelf and load it like a cassette cartridge in a car stereo. Perhaps our suppliers will make available 3 different size cartridges of the same item...a 19-unit package for the small store; a 45-unit cartridge for the large store; a 500-unit pack for a wing display. No longer need our clerks handle the individual can in the pack-out process. Damage and labor cost would be reduced to the absolute minimum. I suspect it would also reduce the cost of packaging material and dramatically impact inventory levels. It is also conceivable that with universally accepted modules determined, transportation vehicle dimensions could be fixed for full cube utilization. The ultimate or master module is a unit load represented by a freight car or a trailer. The case and the Van must be thought of together, and the module chosen must harmonize with both.

More study is necessary, especially to determine the costs and benefits to the manufacturer—but the work done so far indicates conclusively to me at least that it is worth our continuing with all the energy we can muster.

Many other developments now in progress will affect the future: central meat cutting; the search for improved bacterial washes; the concept of utility warehousing or better, joint warehousing by suppliers to allow for direct store delivery and reduced inventory reserves in the system; the "fresh from the West" train and the reexamination of the rail system and hopefully its liberation from artificial blocks to efficiency; the rapid advance of Electronic fund transfer--these and other developments will appear on the scene. I suggest that the next 10 years will see a rapid growth in the number of such innovations and the speed with which they are disseminated through the system. That there is a Productivity Commission, that there is a Productivity Council at NAFC and SMI, that there has been the unifying and didactic industry experience of UPC, that the colleges and universities are beginning to recognize the potential and receptiveness of our industry—the fact that these mechanisms for innovation are beginning to be felt in our business, offers our greatest hope that the store of tomorrow will indeed be able to answer the need to increase output.

This will be an exciting 10 years, of cooperation and of individual achievement. I personally look forward to sharing it with you all.