Nonfoods Distribution: A Special Consideration

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The spectacular growth of nonfoods in the past several years is one of the important developments facing the food industry. The approach that individual operators take in dealing with the phenomenon will largely determine their success or failure. Much of that success or failure will depend on the physical distribution system in nonfoods. And there are a number of options available.

The conventional supermarket or convenience store may turn nonfoods over to a service jobber, or, if the chain is expanding the operation significantly, it may want to warehouse the merchandise centrally and deliver it to stores along with food. The larger superstores have additional options. They are big enough to order direct from the manufacturer with drop shipments to individual stores. Or, if they feel they lack expertise in what may be a new merchandise area for them, they can lease out the department, much as department stores and other general merchandise chains do in some specialty areas. They can also combine the basic options into a hybrid system.

The choice of a nonfoods distribution system thus depends on a number of factors: buying expertise, volume, depth of selections, total distribution capacity. But if the decision is to purchase and warehouse nonfoods centrally, the food operator should be aware of what is involved. Nonfoods is a special consideration.

The difference in warehousing between nonfoods and dry groceries, for example, is so great that it would be disastrous simply to extend the grocery operation to the new merchandise categories. You can't handle coffee pots the way you handle cans of coffee.

Groceries are picked and shipped mainly in cases; in nonfoods, loose goods are a major part of the store order. Groceries are stored in pallet loads on the floor, in pallet racks or in drive-in racks; in nonfoods, many of the stock keeping units are stored in bins, shelf racks, or flow racks. In groceries, goods are handled mainly on pallets by fork truck or other devices for moving unit loads; in nonfoods, tote boxes and many cases move by conveyor. Groceries consist mostly of staple items; in nonfoods, there is a lot of promotional and seasonal merchandise. In groceries, security is a minor consideration; in nonfoods, there are more high-ticket and pilfer-prone items to safeguard. Groceries may turn as often as 25 to 30 times a year at the warehouse; nonfoods hardly reaches half that turnover rate.

It should be obvious that layout, storage and handling systems, order picking, shipping, equipment, fixtures, labor content--indeed, the entire distribution function--is radically different in nonfoods. That calls for a different kind of warehouse with different concepts of engineering and design. Those who have not yet gone deeply into nonfoods may not have the kind of separate operation it requires. If a chain plans to expand, it should also commit itself to the special facility that can achieve the efficiency that chains aim for in groceries. If there
is already a separate nonfoods facility, it might be profitable to reexamine the operation to be sure it is as productive as possible.

That productivity should not be measured in direct comparison with groceries or other merchandise areas such as frozen food or produce. Staple grocery categories, for example, may have a selection rate of 180 cases per hour with a warehouse put-through rate of perhaps 110 cases per man-hour. In seasonal nonfoods, which frequently represents a large percentage of the full case output, it is possible to get 300 cases per man-hour consistently because the orders are batch picked for forced distributions to the store. On the other hand, we have recorded an average picking rate as low as 69 cases per hour for the least active full case items in nonfoods. And this was a very large and efficient operation of a major supermarket chain.

Now, when it gets to loose merchandise, where the quest for efficiency presents a different challenge, there is no comparison at all with groceries.

But there are a number of ways to improve nonfoods productivity. Loose merchandise, for example, lends itself to central price marking since the container must be opened at the warehouse in any case. And we concluded from a recent study that considerable savings are possible--35 to 40% less than the time required for this function at the store level--if all merchandise is price marked during or immediately after selection.

Staple loose goods should be segregated by sales volume. About 10% of the items may account for nearly 50% of the volume, and productivity can be raised sharply by assigning these fast movers to a flow rack area.

Our engineers have not as yet been able to develop hard and fast guidelines for economical picking of an item from a flow racks vis a vis another storage device. There are many variables involved here. Is there a one shift operation where picker interference becomes a factor, or is this minimized with a two- or three-shift operation? What are the policies regarding full versus split merchandise? What kind of shelf allocation is there in the store and what size is the back room? What is the frequency of deliveries?

Each case is different. With one company, we developed a computer model that allowed us to run a simulation measuring selection and replenishment labor, equipment and space cost. In that case, flow rack handling was economically justified for about 16% of a total of 14,000 items.

In spite of this difficulty, let me quickly give you some general productivity guidelines for loose nonfoods merchandise.

1. If you sell over 30 cases of loose merchandise per week containing 24 units per case or less and over 25 containing over 24 units or more, you have a viable candidate for a flow rack. Your net productivity improvement should average about 20%.

2. Design the system with a capacity of no less than one day for the replenishment cycle time. This will mean multiple lanes for a certain percentage of items.

3. With price marking upon selection, a proper work station should produce a minimum of 120 lines per hour in a gravity flow rack and 80 - 100 lines in bins and shelf racks.

4. After extensive research, we have concluded that the lowest cost system features price marking upon receipt for the entire shipment at a conveyorized work station. We have found no automatic or semi-automatic equipment available (except case cutters) that is adaptable to the many conditions that must be met. Manual price marking, with conveyor in-feed and take-away offers
average productivity of about 1,500 units per hour with a put-through capacity of about 1,000 units per hour.

This is not the most desirable system for overall merchandising flexibility, and we do not recommend it. But it is the most efficient. Our studies have determined that price marking at replenishment is the most costly and we now recommend price marking upon selection. Our company is working with vendors to develop specialized label dispensers and portable guided work stations. This should improve productivity in the labor intensive activity that is so far the largest factor in the nonfoods operation.

To sum up, it may require a new look at your warehousing operation to get the kind of productivity that is possible with nonfoods. And it may require some modest expenditure. One of our clients—a major regional chain in the Southwest—recently upgraded its nonfoods operation at a cost of $150,000. And the resulting efficiency and productivity more than made up for the cost in less than two years.

Another client expects a 1½ year pay back on that portion of the investment which directly relates to productivity improvements. Those who have not yet given nonfoods its special due can achieve similar benefits.

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CONSUMER FOOD COOPERATIVES: FROM HERE TO WHERE

by

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The past few years have witnessed an explosion in the numbers of consumer cooperatives in the U.S.—especially food cooperatives. Many were developed through O.E.O. funded and other similar programs. Many more have been developed by small groups of consumers concerned with finding a means of combating high and rising prices, and/or gaining control over a part of the economic system that serves them.

The rising popularity of consumer co-ops, together with the need to improve the food delivery system serving some consumers, makes the question of the role and potential for consumer food cooperatives a very interesting one to consider. This paper addresses that question, drawing primarily from a recently completed case study of two low-income area, consumer cooperative food stores, supplemented by pertinent information from other sources.

Background to the Study

The case study was based upon interview information obtained in 1972 from consumers, store managers, and Boards of Directors of the two co-ops, plus analysis of financial operating data and minutes of Board meetings. Both stores were located in low-income areas of New York City. One, which will be referred to as the Alpha Co-op, was
located in the lower-east side of Manhattan in a racially integrated area including substantial numbers of Jewish, Black, and Puerto Rican families. Apartment units predominated the area, mostly cooperative, owned by the United Housing Foundation.

The second co-op was located in the Bronx, in an area dominated by high-rise, low-income apartments. Seventy-five percent of the residents were non-white--30 percent receiving public assistance.

Both stores were started in response to a need for improved food retailing services in the respective neighborhoods, and both were partially financed by the sale of membership shares in the communities. The membership shares sold by Alpha represented a greater part of its financial needs, however, than was the case for Zeta. This is an important reflection of differences in initial community support, as well as having a significant bearing upon the financial condition that each co-op began with. Residents of the Alpha area were "hooked" on the cooperative idea through their experiences with the housing co-op, while those in the Zeta neighborhood had had no previous experience with or knowledge of cooperatives.

Findings

Management and the Board of Directors

A comparison of the Boards of Directors and store management for the two co-ops reveals some interesting and important differences. The Zeta Board was plagued by indifference and poor attendance of its members from the beginning. (Only 25 percent of the Board attended the average meeting.) Expansion of the Board and election of new members failed to improve the situation. Only one member of the Board had any previous business experience, and none had had prior experience in the food business or with cooperatives. Reports and information (e.g., financial reports, etc.) important to Board actions were frequently missing and a major part of most Board meetings was devoted to matters internal to Board itself, rather than to the operation of the store. In general, the Zeta Board could be described as disorganized, poorly informed, and at least partially apathetic.

By contrast, the Alpha Board exhibited a great deal of stability and self-discipline. Meetings were well-attended (averaging 75 percent), officers and working committees were well-prepared, and matters of concern to the business and the membership were the dominant feature of each meeting. No doubt a major part of the differences in the functioning of the two boards could be explained by differences in the backgrounds and experience of the members. Most Alpha Board members had had prior experience both in business operations and with cooperatives, prior to their involvement on the Alpha Board.

Management differences between the two stores were somewhat analogous to the differences found between the Boards of Directors. The manager that opened the Alpha store was still managing it 16 years later. He was a business school graduate with several years of experience with other cooperatives before joining Alpha. Board meeting minutes indicate that he attended regularly and his reports and other contributions suggest a high degree of competency. He was solidly supported by both the Board and members.

Zeta had had three managers in less than three years. The first two at least, both hired from the neighborhood, were not equal to the task. The incidence of crime in and around the store and the generally poor conditions of the store resulted in deterring shoppers and discouraging the membership.

Consumer Reactions

Approximately one hundred and fifty consumers were interviewed--divided nearly equally between the two
neighborhoods. Shoppers at both stores overwhelmingly cited "convenience" as the primary reason for shopping in those stores (84 percent of Zeta shoppers and 79 percent of Alpha shoppers); "quality of merchandise" was offered as the second most important reason. "Belief in co-ops" was the third ranked reason by Zeta shoppers, but was ranked fifth and last by Alpha shoppers, together with "attractiveness of the store". Evidently Alpha shoppers did not see a distinction between the co-op and other food stores, while Zeta shoppers did. Zeta shoppers were much more critical of their store, however, than were Alpha shoppers. Zeta shoppers showed concern over "high prices" "under-stocked" conditions, "poor management", and "long checkout lines", in that order. At Alpha, the only major concern seemed to be "long checkout lines" (mentioned by 81 percent of the interviewees). Accordingly, consumers in the Zeta neighborhood indicated that they shopped at other stores for "lower prices" and a "wider selection to choose from". Shoppers from the Alpha neighborhood said they shopped in other stores for "faster service" and for "sale items".

Financial Operating Performance

The preceding discussion has made it clear which cooperative succeeded and which one failed; from an economic point of view. However, the degree of success or failure can only be assessed by examining the relevant financial data for the two co-ops, presented in Table 1. Several important differences between the two stores are very evident. The extremely low volume of sales achieved by Zeta would expectedly create difficulty in meeting overhead expenses. This is evident in the 3.7 percent difference in total expenses less labor expense, between the two stores, a reflection of the effect of spreading relatively constant fixed expenses over differing volumes of sales. An additional problem appears in the differing gross margins. The lower gross margin earned by Zeta could result from a lower overall price structure, greater inventory shrinkage (pilferage, spoilage, etc.), a less profitable product mix, or more likely, some combination of the three. Whatever the cause, the net effect was that Zeta had lower margins from which to pay higher expenses. Sustaining an average operating loss of 4.8 percent, it is not difficult to understand why the Zeta Co-op was considered a failure.

Conclusions

How can the differences in the performance of the Alpha and Zeta Co-ops be explained, and what lessons can be learned from the analysis? Undoubtedly a major part of the explanation of the different operating experiences can be attributed to differences in the locations of the two stores. The Zeta Co-op was situated in the heart of an inner-city ghetto. Operating problems attending such locations have been detailed in previous studies.1/ The Alpha Co-op, on the other hand, was situated in a marginally low-income area, where the business environment was far more favorable.

Furthermore, the inherently difficult management problem faced by co-operatives2/ was more difficult for the Zeta Co-op because of the lack of

| Table 1. Average Operating Performance Summary, Alpha and Zeta Co-operatives, N.Y.C., Mid-1970 to Mid-1972. |
|---------------------------------------------------|-------------------|
| **Alpha** | **Zeta** |
| Annual Sales | $997,250 | $283,950 |
| Gross Margin (% of Sales) | 20.6 | 18.3 |
| Payroll Expense | 11.0 | 12.0 |
| Total Operating Expense (% of Sales) | 18.5 | 23.2 |
| Net Earnings (% of Sales) | 2.4 | -4.8 |

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experienced, qualified, and interested persons from which a Board of Directors and store management might be drawn.

Finally, the Zeta Cooperative was inadequately supported by the community, both in patronage and in initial financing. Of course the community could not be expected to support a poorly operated store; however, the business might not have deteriorated as it did, had it been supported from the beginning. Certainly a stronger financial position at the beginning would have provided relief for the problem of limited inventory.

From Here to Where?

The preceding analysis casts serious doubt about future prospects for consumer cooperative food stores in inner-city low-income areas. In addition, consumer cooperatives have commonly been less efficient, operationally, than other businesses. As a result, in highly competitive situations-usually the case in food retailing-consumer co-ops would be severely handicapped.

There are, however, at least two types of situations that are favorable for consumer co-op food stores. One is in areas that are under-served by other firms, but where the environment is not hostile to business. The second is in areas where the belief in cooperatives is strong. To date, such areas have occurred primarily where certain ethnic groups are dominant-especially Scandinavian-and in some academic communities.

Suggesting such limits to the future growth of consumer co-op food stores does not portray a very bright picture. For cooperative food buying clubs, however, the picture is quite different. In fact, much of the recent growth of consumer cooperatives has been in the form of buying clubs. Operated primarily on a pre-order basis, and using mostly volunteer labor, buying clubs are able to avoid many of the problems that plague cooperative stores. At the same time, by focusing on a limited selection of relatively large-volume, high-margin items, buying clubs do enable small groups of consumers to make some savings in their food budgets by eliminating some of the functions normally provided by the retailer. Ultimately, if buying clubs should become sufficiently widespread to affect the margins of retail food stores, they might tend to force an increase in the prices of products not available through the buying club.

In the final analysis, the future of consumer food cooperatives is largely dependent upon the extent to which the spirit and philosophy of cooperation is accepted by society at large. At the moment, it appears to be trending upward. Will it be sustained? Only time has a definite answer.

Footnotes

1/ See U.S. Department of Agriculture, Food Retailing in Cleveland, Ohio, Metropolitan Area.-- With Emphasis on the Inner City, Economic Research Service, MRR 976 (Washington: Government Printing Office, October 1972), or Donald R. Marion, Food Retailing in Low Income Areas: An Economic Analysis, Cooperative Extension Service, University of Massachusetts, Publication No. 100 (Amherst, Massachusetts, June 1974).

2/ In many respects, the operation of a consumer cooperative is analogous to management by committee, but in addition, most consumer co-ops are troubled by internal conflict, a part of which was well identified and discussed in, Robert Briscoe, Traders and Idealists: A Study of the Dilemmas of Consumer Cooperatives, (Unpublished PhD. Dissertation, Harvard University, 1971).