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The Role of Food Distribution

in Serving the Needs of All of the People

Distribution Systems for the Poor - Progress & Prospects

Food 70's

Presents the issue, "So the poor pay more for food?" Discusses some economic reasons for higher prices and lists three approaches for problem solution

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● The heading given to this section, "Serving the Needs of All of the People" implies that not all of our society is well-served by the existing food distribution system. This may cause some to ask - who is not? One would quickly conclude, without any additional information, that if there are people who are not well-served it must be some minority or disadvantaged groups, since most persons seem to be quite adequately served.

Actually, before there is any judgement made concerning the question, it may be helpful to establish a definition of what is meant by the term "well-served." The only meaningful definition for comparative purposes would seem to be one that is stated in terms of value received by the consumer. Value to the food shopper is something that has been investigated in a number of research inquiries, leading us to believe that it is a concept we know something about.

In a very simplistic sense, it refers to the satisfaction received from the purchase and consumption of a complex set of desired goods and service, relative to the price paid. Note the specification of desired goods and services. Goods and/or services received as a part of a total package purchased that are not desired, may or may not yield any consumer satisfaction. I shall return to this point later on.

Some of the important considerations making up the total value received by food shoppers are -

Prices paid - including the availability of advertised price-specials.

Quality of products - primarily perishable products.

Customer convenience services - check cashing carry-out service, in-store assistance, check-out service, credit, etc.

Store atmosphere - cleanliness and appearance of store and employees, courtesy and friendliness of employees, and other factors contributing to general pleasantness of the shopping trip.

Convenience of store location - including consideration of both the number and size of stores conveniently accessible.

Selection and variety of products

Comparing the manner in which low-income consumers are served relative to consumers in other areas then, requires a comparison of the experiences of the two groups of consumers with respect to this set of values. Some of the comparisons have already been made, most notably by the much publicized price-comparison studies. Certainly inner-city residents do not pay less for their food than consumers in other areas. To the contrary, to the extent that they purchase a greater proportion of their food needs in small neighborhood stores, they are almost certain to pay higher prices than non-low-income consumers. Although there is no convincing evidence of systematic price discrimination by chain stores against low-income consumers, it does appear that there have been instances where

chain stores in low-income areas too have charged higher prices in low-income areas than their counterparts in other areas, 1/

Watts district of Los Angeles, North Philadelphia, New York City and Roxbury-Boston, all found large supermarkets to be very scarce in inner-city areas, while small,

TABLE 1
SIZE DISTRIBUTION OF GROCERY STORES, U.S. AND
ROXBURY-DORCHESTER AREA - BOSTON, MASSACHUSETTS, 1968

SIZE OF STORE 1/	U.S. 2/		ROXBURY-DORCHESTER	
	Percent of Total Stores	Percent of Total Sales	Percent of Total Stores	Percent of Total Sales
SUPERMARKETS	15.8	74.0	9.6	56.5
SUPERETTES	13.1	12.7	23.9	22.5
SMALL STORES	71.1	13.3	67.5	20.9

1/ Supermarkets are defined as any food store with annual sales of \$500,000 or more. Superettes are food stores with annual sales between \$150,000 and \$500,000. Small stores have annual sales of \$150,000 or less.

2/ Source: "36th Annual Report of the Grocery Industry," Progressive Grocer, New York, April 1969.

With respect to quality of perishable products, availability of advertised specials, appearance, condition and atmosphere of stores, and customer convenience services, even when the differences found have been small, the low-income consumer has consistently received less than consumers in other areas.

Convenience of store location and selection and variety of products available is primarily a function of the structure of a given market - that is, the number of stores and their respective sizes. In food retailing the relevant question is how many stores and how many square feet of food store shopping area is conveniently accessible to the average shopper. Low-income areas vary considerably on this question. Studies done in the

neighborhood stores abound. Another low-income area of approximately 40,000 people with which was, at last report, served by only one supermarket, and in that case, few small stores too. On the other hand, some cities like Washington have an abundance of supermarkets.

The study of the Roxbury-Dorchester section of Boston was a part of a larger study conducted in 1969, which will be discussed more thoroughly later on. Out of 209 grocery stores found operating there, only 18, or approximately nine percent, had annual sales of \$500,000 or more. Though small in number, supermarkets accounted for more than half of the total sales for all stores, as seen in Table 1. Comparing Roxbury-Dorchester with the U.S. as a whole, it may be noted that the proportion of supermarkets among all stores is nearly twice as large for the U.S. as for Roxbury-Dorchester. Looking at the breakdown in total sales, nearly three-fourths of all grocery store sales for the U.S. are made in supermarkets compared with 56.5 percent in Roxbury-Dorchester. Consequently, although supermarkets do not account for as large a proportion

1/For an extensive listing of these studies, see: Marion, Donald R., "Operating Problems of Marketing Firms in Low-Income Areas - Food Retailing Case," Amherst, Mass.; University of Massachusetts, Department of Agriculture and Food Economics, June 1970, 36pp (mimeograph)

of sales in Roxbury-Dorchester as for the U.S. as a whole, individually they are relatively more important.

Superettes make up nearly twice as large a percentage of all stores in Roxbury as in the U.S. as a whole, and in both instances, account for approximately a proportional share of total sales. As might be expected, small stores account for a much larger proportion of total sales in Roxbury-Dorchester than in the U.S.

Summing up the discussion to this point, it seems apparent that low-income consumers receive less value per food dollar spent, than do consumers in other areas. One word of caution about this conclusion, however. There really is not much information currently available on the wants and preferences of low-income consumers. Hence, any conclusions drawn about the value they receive in food shopping must be based upon our understanding of the wants and preferences of the non-low-income, primarily white consumers, and as a result, may be less than totally accurate.

Assuming that the general conclusion is correct, however, the next questions are why does this situation exist and what can be done to remedy it? Some observers have hastened to the conclusion that retailers in low-income areas have taken advantage of the situation to exploit consumers there. Another possible explanation is that competition is so sluggish as to permit inefficient business performance without exploitation; or is it that there are added operating costs in inner-city areas that force prices upward, and simultaneously discourage competition?

The exploitation thesis does not seem consistent with observed changes in the inner-city market structure.

Exploitation suggests monopoly or super-normal profits, which would tend to attract new entrants into the market, increasing competition there. Such is not the case; in fact, businesses are gradually withdrawing from these areas. More logically consistent is the explanation involving differences in operating costs.

Based largely upon this hypothesis, a study was planned to examine the performance of low-income area stores relative to stores in other areas. If inner-city retailers were truly exploitive, the results would be reflected in their operating data. Likewise, operating data might be expected to cast some light on the gradual decline of food retailing in those areas.

The study encompassed the Office of Economic Opportunity defined poverty areas of five New England Standard Metropolitan Statistical Areas, including Boston, Massachusetts. All firms operating supermarkets in the five areas were contacted and solicited for 1968 operating data from their low-income area stores and from matching stores in other areas. Data were obtained for 36 supermarkets of multi-store organizations - 20 in low-income areas and 16 in non-low-income areas. Table 2 contains descriptive information for the stores included in the study.

Before proceeding with a summary of the findings, it would be well to recognize some limitations to the study. Although all supermarket firms operating in the

TABLE 2
DESCRIPTIVE INFORMATION FOR 36 LOW-INCOME AND NON-LOW-INCOME
AREA SUPERMARKETS STUDIES, NEW ENGLAND, 1968

	NON-LOW-INCOME AREA STORES	LOW-INCOME AREA STORES
NUMBER OF STORES	16	20
AVERAGE WEEKLY SALES	\$63,177	\$40,524
AVERAGE SIZE OF SELLING AREA (SQ.FT.)	13,200	11,245
AVERAGE AGE OF FACILITY (YRS.)	12.4	10.6

areas studies were contacted, not all of them chose to participate, introducing the possibility of non-representativeness of the results. In addition, the study may be geographically biased. Finally, inter-firm differences in accounting systems made the measurement of some elements of operating performance difficult or impossible. In spite of these limitations, it is believed that the results of the study are indicative of the differences in operating performance between stores in low-income and non-low-income areas, and the sources of major differences.

FINDINGS OF THE STUDY

The limited scope of this paper does not permit a detailed discussion of the study findings. Instead, data has been selected to illustrate some of the most important differences in the operating performance of low-income and non-low-

income area food stores.

Low-income area stores are divided into two groups - those in predominantly white areas and those in predominantly black areas - to permit identification of observed differences between the two areas. Data for all stores in each group were formed into composites or weighted averages, using dollar sales of the respective stores as weights.

Table 3 contains selected operating performance data for 16 non-low-income area supermarkets, which formed the basis for comparison with supermarkets in low-income areas. Subsequent tables show the performance of low-income area stores as a percentage of the average for the stores in this group.

TABLE 3
SELECTED AVERAGE OPERATING PERFORMANCE DATA
FOR 16 NON-LOW-INCOME AREA SUPERMARKETS
NEW ENGLAND, 1968 ^{1/}

TOTAL ANNUAL SALES	\$3,285,430
INVENTORY SHRINKAGE (% GROC. SALES)	.43
TOTAL GROSS MARGIN	17.57
LABOR EXPENSE	8.54
SECURITY EXPENSE	.19
BAD CHECK EXPENSE	.05
TOTAL EXPENSES	16.25
NET OPERATING PROFIT - B/T	1.32
AVERAGE CUSTOMER PURCHASE (\$)	7.43
SALES PER SQUARE FOOT SELLING AREA (\$)	5.23
SALES PER MAN HOUR (\$)	37.28

^{1/} Data for each store were weighted in proportion to its sales as a percent of total sales for the group.

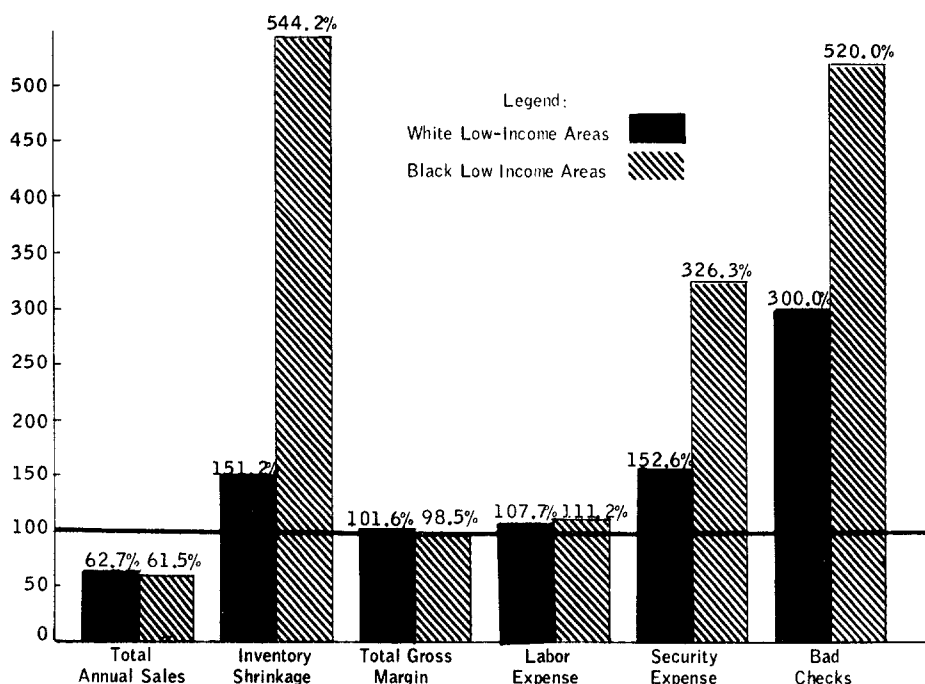
SALES - As shown in Table 4, total annual sales for the low-income area stores studied were lower by approximately one-third than the sales of stores in other areas. These stores in predominantly black neighborhoods had slightly lower average sales than those in white low-income areas. There are probably a number of factors responsible for this situation. In the first place, low-income means lower than average per capita expenditures for food. Second, many of the low-income area stores are situated in old and deteriorating neighborhoods where urban renewal and other similar projects have temporarily, at least, eliminated large tracts of residential area. Finally, in some of the low-income area studies that have been done there is evidence of substantial amounts of shopping done outside of the area by the residents of some inner-city areas.

INVENTORY SHRINKAGE - Inventory shrinkage, as indicated in Table 4, was very markedly higher in low-income area stores, most notably those in predominantly black neighborhoods, where such losses were more than five times larger than in non-low-income area stores.

Interestingly, total or overall gross margins were quite similar among the three groups of stores, in spite of the rather substantial differences in inventory shrinkage. There are several possible explanations, including differences in the product-mix sold in the three groups of stores, differences in the rate of mark-downs for special sales, coupon redemptions, etc., and differences in basic price structures.

LABOR EXPENSE - Labor expense was found to be 7-11 percent higher in low-income area stores than in other stores (Table 4). Undoubtedly a part of this difference is a reflection of greater labor productivity in high volume stores. It is almost certain that a part of the difference can also be attributed to serving more customers per hundred dollars sales in inner-city stores, as will be shown later. another possible explanation is the efficiency of the work force itself. Maintaining an effective work force has been a serious problem for many inner-city stores. Many of the better employees refuse to work in stores where they feel their personal well-being is threatened. As a result, for

TABLE 4
OPERATING PERFORMANCE DATA FOR 35 LOW-INCOME AND
NON-LOW-INCOME SUPERMARKETS, NEW ENGLAND, 1968



the past several years, inner-city firms have been more dependent upon the indigenous labor force. Trained, productive workers are difficult to find and turnover has been a serious problem.

BAD CHECK AND SECURITY EXPENSE - Bad check losses and security expenses were both found to be substantially higher in low-income areas than in other areas, and once again, the problems were most acute in stores operated in predominantly black neighborhoods (Table 4). Furthermore, the observed operating ratios are probably conservative statements of the actual problem, since both represent only the direct, out-of-pocket costs. Not included are such considerations as time spent in legal proceedings, the cost of protective devices, and so forth. These items are normally included in overhead expense and prorated to all stores in proportion to sales.

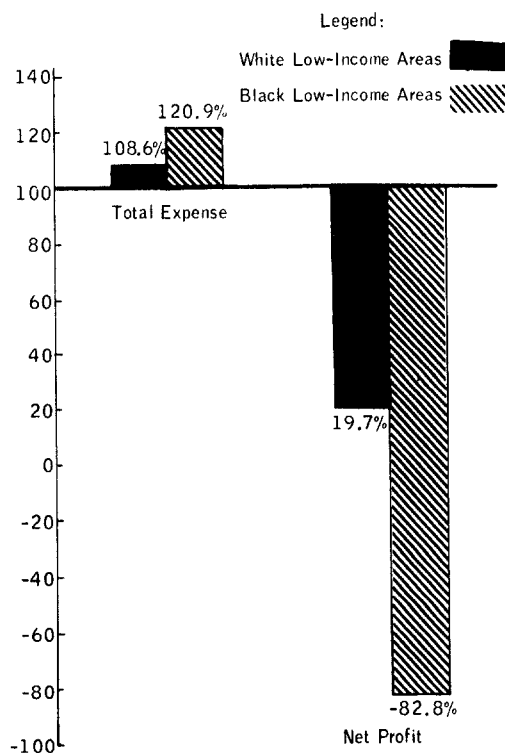
TOTAL EXPENSES AND NET PROFIT - As indicated in Table 5, total expenses for inner-city stores were higher and net profits sharply lower, than for the comparative stores in other areas. In

fact, the average net profit for the black neighborhood group of stores was negative by an amount equal to over 80 percent of the average (positive) net profit of non-low-income area stores. In other words, per dollar of sales, it required slightly over 80 percent of the average net profit for a non-low-income area store to offset the average loss of a store in a predominantly black, low-income area.

OTHER OPERATING RATIOS - Table 6 shows the comparative results for three other commonly used operating ratios - Average Sale Per Customer, Sales Per Square Foot of Selling Area and Sales Per Man Hour. Consistent with most of the earlier comparisons, low-income area stores in predominantly black areas experienced the most severe disadvantages. These ratios undoubtedly reflect a major part of the reason for differences in the level of some operating expenses.

INSURANCE - Another problem of many inner-city firms, but one that is not reflected in operating data is that of securing and retaining adequate insurance protection. It is not reflected as a difference in expenses since most chains are given a uniform rate for all stores.

TABLE 5
OPERATING PERFORMANCE DATA FOR 35 LOW-INCOME
AND NON-LOW-INCOME SUPERMARKETS
NEW ENGLAND, 1968



OTHER PROBLEMS - A number of other operating problems were observed to exist in low-income area operations, compared to stores in other areas. Service by outside suppliers is more difficult to obtain, sales fluctuate sharply in response to the distribution of public assistance payments, check cashing poses a problem, and there is an ever-present threat of physical violence with resulting damage to the physical plant and/or personal injury to employees.

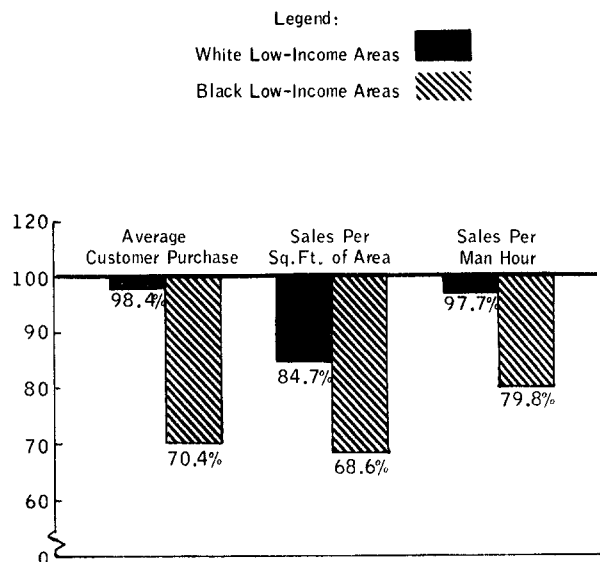
In general, the problems are rooted in crime and violence, and low-volume per store. Crime and violence create an environment generally hostile to business. Low volume per store leads to inefficient use of some resources, particularly since many low-income area stores were built to accommodate larger volumes of business.

It seems apparent that the relatively poor operating performance of low-income area food stores is at least a major contributing factor to the problem of the relatively lower value received by food shoppers in those areas, the next question is what can be done to correct the situation. (Hopefully society in general has

accepted a commitment to remedy existing conditions as soon as possible.)

willing to pay the price of socially responsible behavior by business firms, but instead, has preferred to patronize

TABLE 6
OPERATING PERFORMANCE DATA FOR 35 LOW-INCOME
AND NON-LOW-INCOME SUPERMARKETS
NEW ENGLAND, 1968



Before discussing possible solutions, two observations are in order. First, it is quite apparent that the "untampered" functioning of the market system will not solve the problems of the inner-city; some form of public assistance programs cannot be avoided if the problems are to be solved, except in the very long run. Second, some judgement needs to be made about the social-economic framework within which improvements are to be sought. It is a personal belief that the free-enterprise, market system is the most effective and efficient system available for services, with the public sector supplying direction, regulation and supplementary services as needed. Such beliefs do not suggest socially responsible actions on the part of private business as the primary solution to inner-city problems. As long as business firms take most of their cues from the market system in response to the profit motive, there may be a penalty, rather than a reward, associated with acting in a socially responsible manner. In the past, there have not been significant economic rewards associated with this type of action, mostly because it is very difficult to build social consciousness into the price system. It may also be that society as a whole has not been

firms who offered the lowest price for a given product. Whatever the case, unless all firms in an industry act in similar manner, any who do devote substantial resources toward social concerns, would find their profit performance adversely affected. This would pose no problem unless profits should decline to an unacceptable level, as viewed by present and prospective stockholders. Should that occur, pressure would develop within the firm to eliminate costs that do not make a positive contribution to the profit performance most likely including efforts toward solving urban problems of the poor.

Furthermore, inner-city problems are basically the responsibility of all of society, not simply the problems of business firms, nor of the residents of inner-city areas. Consequently, realistic solutions would seem to be those which permit all of society to share in the problem solving.

Thus far, little net progress, if any, has been made in improving the performance of the food distribution system as it serves low-income families. As we consider possible programs for dealing effectively with these problems, it is important to

consider the time period required for the programs to become effective. Of primary concern must be the provision of adequate service to inner-city residents to insure that they receive as much for their food dollar as consumers in other areas.

There are essentially three ways of attacking the problems of low-income consumers -

1) Direct assistance to consumers. Programs in this category may be employed to neutralize some of the disadvantage suffered by consumers residing in low-income areas. Such programs are mostly limited to some form of subsidy, to, in effect, permit them to pay higher prices without having to personally bear the additional cost.

Several such programs are already in existence, meaning that the necessary machinery already exists for operating them. Necessary modifications or revisions could be made with relative ease. Possible programs in this category include -

- food stamp plan and commodity distribution programs

- income maintenance and welfare programs

- consumer education programs - this area represents a particularly important need, since it is a lack of consumer information that represents one of the most serious departures of our present market system from that set forth in traditional economic models. It also represents an area where industry can make a particularly significant contribution because of its proximity to, and frequent contacts with, consumers.

2) Business environment programs. As mentioned earlier, the present environment of most inner-city areas is basically hostile to business conduct. Crime and violence control programs must receive a very high - if not top - priority. It is very doubtful if we can be at all successful in revitalizing the food distribution business, or any other business, until the threat of crime and violence is reduced. In the study discussed earlier all eleven (11) of the chains interviewed expressed a preference for low-income area locations if there was no violence. All agreed that no amount of profit would change their thinking, with replies such as - "You

can't measure the value of your life and health in dollars."

Another substantial obstacle to the development of new, inner-city businesses is that of extraordinarily high land costs, largely occasioned by the high cost of site preparation. On this front, public assistance could be employed in site preparation to make land available to prospective new businesses at costs comparable to other locations.

3) Investment inducement programs. There are numerous possibilities of this nature, many of which have been discussed in some detail by others, and so will only be briefly mentioned here. They include -

- Investment tax credit for new investment in low-income areas. (Robert F. Kennedy developed a detailed plan for a program of this kind in a book written before his death.)

- Governmental program to underwrite or guarantee adequate insurance protection to inner-city businesses.

- Low-interest rate loans - these are presently available to minority businesses, but should also be available to established white businesses.

- Subsidized training programs for persons from low-income communities. A recent Harvard Business Review article proposed building a small bonus into the repayment plan for such programs, to provide industry with an incentive to participate in them. Such an idea has considerable merit.

- Promotion of minority business - these programs have considerable appeal for several reasons - They provide a measure of justice and equity of business opportunity and at the same time, a means of uplifting minority communities through a demonstration of opportunity in business, and for reducing a source of racial concern and unrest. In addition, minority business is probably less likely to be inflicted with crime and violence losses, particularly those rooted in racial conflict.

On the other hand, minority business development is not without its problems. Business and managerial talent is seriously lacking among minority groups and most minority businesses need assistance with financing. There may

also be attitudinal and motivational deficiencies among some minority businessmen.

Many public and private agencies are actively promoting and assisting in the development of minority business. Sources of funding are apparently quite readily available. Managerial advisement and technical assistance is badly needed and represents a very significant opportunity for industry and educational institutions to lend a hand. Those who do become involved, however, should be prepared for disappointments and slow rates of progress.

Certainly this not an exhaustive listing of public program possibilities- the extent of such possibilities is probably limited only by the limits of one's imagination. Quite obviously, no single program can solve the problems with which we are concerned, but rather, the optimum solution no doubt consists of some combination of program mentioned and/or others not mentioned.

One of the greatest needs for effectively dealing with the problems at hand is a strong commitment from the federal government to provide leadership, coordination, and direction for corrective action programs. For example, with reference to consumer education, industry may be better able to carry out such a program than any other agency or institution. Industry efforts could be made substantially more effective, however, if such program could be developed, tested, and distributed by an appropriate government or public agency.

Although everything discussed up to this point has been negative with respect to inner-city business conditions, there are some positive factors. Most inner-city markets are currently under-served and represent considerable potential for marketing firms. Furthermore, most low-income families - both black and white - have been very good customers in the past, especially for food merchants. They enjoy spending what money they have to spend, are pleasant to deal with, and easy to please. If ways can be found to reduce racial tension, crime and violence, there is no reason that this situation could not exist again. Likewise if the effective approaches to training and motivation could be found, the huge unemployed and underemployed labor force in these areas would become a sizable attraction

instead of the problem it now represents. Finally, there are some instances where minority business appears to have been successfully established. Not only does this contribute to a general increase in business activity in the community, but it also provides an economic uplift for some and an inspirational uplift for many others.

On the whole, the present marketing situation in inner-cities must be viewed as quite dismal. There can be no question but that poverty and racial difficulties are largely at the root of the marketing problems found there, and they will not be quickly eliminated. In the meantime, inner-city residents need services, jobs, and an opportunity to become full and equal members of the business world and of society in general. This is the challenge waiting for all with the courage and inclination to accept it. ●