The Role of the Food Distribution Industry
in Institutional and Service Foods

A Supermarket's Answer to the Challenge

Background

Supermarkets General Corporation is a diversified retailing organization with operations in the states of Massachusetts, New Hampshire, Connecticut, New York, New Jersey, Delaware, Pennsylvania and Maryland. Operations include department stores and specialty shops, supermarkets, drug stores, gas stations, fast food restaurants, home improvement centers, convenience stores, a discount store, liquor stores and a variety of transportation and distribution facilities that support the various retailing companies. The company, founded in 1958, is now approaching $800,000,000 in annual sales. The rapid growth of the corporation and its relative success are in part attributable to a series of strategies that were developed prior to entry into any given segment of the marketplace.

Earlier this year, your program director, Burt DeVries, and I were talking over breakfast in Dayton, Ohio, and the conversation turned to one particular strategy - specifically, the way we were entering the fast food service industry. The facts and concepts that we discussed that morning and our present strategy will take the next few minutes, and then I will be happy to respond to any questions that the group may have.

Our Initial Look at the Industry

In 1967, we concluded that the fastest growing segment of the consumer services market was the limited menu, or fast food type of establishment. It was readily apparent that in this segment chains were experiencing the most rapid growth. In addition, consumer acceptance of this type of service was well established. Further, the under-25 age group which particularly favors this type of restaurant would equal fully half the population in the early 1970's. The final point of real significance was that the dollars spent for food away from home represented the fastest growing segment of the market for food.

All of these factors, plus others, led us to the conclusion that offensively an exciting retailing market was clearly rapidly developing, and defensively it would be highly desirable to capture some of the dollar sales that were turning away from home preparation of family meals.

Specific Plans for Entry

Identity - The consumer acceptance of the chains in this business led us to conclude that identification with our planned retailing name would be important. Our withdrawal from a retailer-owned cooperative caused us to reshape our retailing image and to rename our retail units. Lippincott & Margulies worked with us in establishing this new identity. To quote from "Sense 62", their private publication, "Although deeply involved in supermarket retailing SGC's in-store diversification via non-food items and departments made this no longer just a 'grocery business.' Growth in drugs, gasoline and softgoods was gaining impetus, placing the company in many spheres of
Lippincotte & Margulies conceived and executed a unique total identity concept that united the diversified retailing activities of the company under one name. It is called PATHMARK. "As a name, it signified the path to quality, the mark of value."

The name was broad enough to include the fast food entry that we conceived. The style and performance that the consumers in our market had grown to expect in other company operations were built into the service strategy of our fast food entry. The customer would find in the Pathmark Hut quality and value. We, in turn, would have a chain-like appearance on the day our first unit opened. This name was further reinforced by a unique building design.

Locations - While we had confidence in the business and a very real interest in entering, it was also quite clear that the rapid growth of this industry segment was causing a proliferation of units in a way that would ultimately cause individual chain units and perhaps whole chains to fail. We, therefore, spent the time to develop a site location strategy that would keep us in a favorable competitive position in the face of any foreseeable development.

Operations - The planned menu featured the popular items, plus additional variety which we felt (and now know) would help to differentiate us in this competitive market. The items are: A) hamburgers; B) cheeseburgers; C) 3-D or double-deck hamburgers with cheese, lettuce, onions, etc.; D) chicken in five portions for consumption on premises or take home; E) roast beef in two forms, either sandwich or dinner; F) a fish item consisting of a shrimp patty in tempura sauce; G) natural French-fried potatoes; H) fried pie dessert; and I) drinks, including soft drinks, milk shakes, coffee and hot chocolate. All food preparation is done on the premises.

Status - We now have one prototype unit operating as a test of concept and operational controls. In addition, we have acquired three units of a different type and are refining those operations. Moderate expansion is planned for the near future. Our attitude is clearly one of cautious continued development.

One final point, although not directly related to our entry, relates to franchising. To the degree that no mention might leave room for speculation, I must say we have elected not to franchise in any of our retailing ventures to this point.

SUMMARY

The company's broad interest in retailing led to an investigation of the fast food service industry. The trends that were developing and had developed made it attractive to consider entering. The factors of identity, location strategy, merchandising and operations were analyzed and resolved. The dual path of developing a prototype entry internally and a small acquisition was chosen and executed. At this time, we are planning continued development of these entries.

EDITOR'S NOTE:

The discussion following the papers brought forth these issues:

1. Evaluation of rate of return on investment as a management criterion.
2. Problem of making long range planning viable.
3. How to stem the high failure rate in the food service industry?
4. How to gain balance between full and part time employees in food service?
5. Legal issues in franchising.