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Prognostications for the Future

Banquet Address

Food 70's

Review of Company history
and projection into the
future.

Mr. Clem Kreckler
President, Tom Boy, Inc.
St. Louis, Missouri

● Good evening ladies and gentlemen. I especially want to thank Dr. Hoecker for the opportunity to speak with you this evening. As you know I am pinch hitting or substituting for my friend and competitor Mr. Ed Schnuck. His firm just having purchased 25 of the Bettendarff supermarkets here in St. Louis, is proof of how optimistic he is about the future of the supermarket industry. Ed has had a fantastic growth in developing not only supermarkets but also operating new discount centers. The drive of enthusiasm and sound judgment in investments have made the Schnuck organization a prize example of proper management control. I would have been very interested to hear what he had to say myself. I am sorry that I do not have his speech to read for you this evening because Ed Schnuck is one of the finest speakers that you could ever hear. He is an extremely learned man and a very successful man not only in his family ventures but also in his business ventures.

Ed's talk was to be prognostications for the future. Now, I had to look the word up to find out what it meant so that just goes to show you how much smarter he is. I am sure that Ed Schnuck, no more than I, believes in reading crystal balls or predicting future events that we are not sure are to come to be. However, in order to maintain or increase our position in the market today, management must constantly keep abreast of the trends of market conditions and forecast the long range goals of their individual corporations.

You might think that my talk tonight would be different than that of Mr. Schnuck, but it is not true.

Schnuck's being a chain operation gets two chances at the profit, one at the warehouse level and one at the retail level. Whereas the independent wholesaler must make the profits on the first try. Other than that, organizationally and retail management wise, the organizations are basically the same. Consequently, in order for an independent wholesaler to be a success, he can only make half the mistakes that the chain operation makes.

Now, in order to explain to you what we feel the future will be, I would like to take just a few minutes and tell you about the Tom Boy organization. Through the years of the growth of our company and extending them into the future is a pretty good pattern of what we feel will happen in the future.

As Jim has mentioned to you the Tom Boy organization is many, many years old. My grandfather started our business in 1896. He was a small line wholesaler along with 85 other wholesalers in the St. Louis area at that time. He had 1100 retail accounts and he had sales of one million two hundred and fifty thousand dollars in 1929. That was a pretty good size wholesaler in those days. My father came into the business in 1929. He could see that the trend was to the cooperative type wholesaling, since the early AG organization was making great strides in the St. Louis area. Realizing the problems with a cooperative type business versus an independently owned wholesale warehouse, he designed the Tom Boy organization that we are basically today.

In 1931 my father asked the retailers that we were servicing to join under one name and one advertising program in order to cut our overall operation costs at that time. We had 385 retailers in 1931. The wholesale sales record in 1931 was 3 million dollars, so we went from 1100 retailers to 385 and increased sales from a million two hundred thousand to three million, doubling the sales. This was proof that the voluntary wholesaler was the right pattern for him to go into.

In 1939 my father along with Mr. Hyde, Mr. Fleming, and several prominent men in the wholesale grocery business started cost plus selling. With this new cost plus program, and also the deletion of some of the smaller retailers who were not cooperating on the advertising program, the sales in 1939 with 249 retailers, had jumped to 7 million dollars a year.

In 1941 our organization introduced a central buying program, when in those days each retailer bought his own meat directly from the packer. At the end of 1941 our sales had gone to 10 million and our stores had dropped to 225.

In 1966 my father retired. He willed the business in a sense to my brothers and myself and turned over a business that was doing 34 million dollars a year with 140 retail accounts.

Last year, 1969, the Tom Boy organization serviced 96 retailers with annual sales of 40 million dollars. This year at the rate that we are presently selling groceries we expect to have 91 retailers and 42 million in sales. The pattern of our company is basically the pattern of not only Tom Boy but also other independents and chain operations. There are fewer retail outlets with larger volume. We operate today a 190,000 square foot warehouse, far smaller than our local competitors. But we do this with ease due to modern material handling equipment, a delivery cart system, and the finest warehouse crew available. Management is the key to success both at the retail level and especially at the wholesale level.

We have another distinction that we feel in our industry and that is that Tom Boy must operate at a profit. This is very important not only for the Kreckler family, but it is very important for the Tom Boy organization. We believe that with the services that we can offer as a wholesaler we should be allowed to make a good return on our

investment.

We are presently adding a 50 thousand square foot addition to our warehouse to handle more 40" by 48" pallets. Our original warehouse was designed for a 40" by 32" pallet years ago. This new addition is really not for our grocery line, but is for additional non-food lines which we feel we must have today. We presently have a complete line of health and beauty aids which we put in our warehouse approximately two years ago. With proper management and more efficient and faster material handling equipment we feel that we can do 70 million from our present location with additional facilities for frozen foods and produce.

We recently acquired a large tract of land for just this type of expansion. We have looked at other warehouse facilities and found that we are better off with the central location that we are in. We had less building and operational problems by staying where we presently are today.

Reviewing the past and forecasting the future, I would say, we will see fewer retail outlets as the trend has been in the past years. We feel that our independent stores will range in size from 10,000 to 25,000 square feet. This versus the trend of the chain operations from 18,000 to 40,000 to 50,000 to 75,000 and who knows how many thousands of square feet per store.

The problem we are facing in the future will be adequate management at both the wholesale and the retail level. Also we must work to make our retail units profit centers as well as food distribution centers. In the past Tom Boy and other voluntary wholesale grocers have not franchised or gone into corporate owned stores. We find today that we must go into corporate owned stores and we must do financing with independent retailers. As you gentlemen are well aware from the last few days of seeing pictures of new equipment needed to run a successful retail outlet, you must realize the extremely high cost of developing such a retail store. Today with the interest rates the way they are and the cost of putting a retail unit together, we find that we cannot get individual retailers with enough equity to carry such loans. So as a wholesaler we must help them finance their stores.

Our future will not be in corporate owned stores. Some organizations believe in a 52% ownership retaining this so that they can have for themselves the location for the future. We believe that if we put a retail store together for an independent that he will be able to make a profit, there should be no reason that we should lose this retailer to any of our competitive wholesalers.

The guidance of the wholesalers today is much greater than it was years ago. We have for our retailers, as many of the other wholesalers also have a retail accounting system that offers payroll, taxes, and the complete central billing system at a warehouse level. Management training is becoming very important at the wholesale level. Store design is and has always been an important issue as far as we're concerned. Inventory control and competitive pricing at retail are certainly the two top services the wholesaler must have for his retailers in tomorrow's business competition.

Tomorrow you will discuss consumerism in your program - "the consumer's right and the industry's responsibility" Or as the older generation sometimes puts it, the problem of pleasing the war babies, the people that are 22 to 32 years old. To hear some of the people talk today you would swear that there was only one war, the Second World War. Everyone is a war baby. We've had so many wars it is impossible not to be a war baby. But we have a much larger younger generation coming up. A generation that is going to be much harder to please because they are highly educated people and they demand better service and better quality products. The hippies which presently have been getting all of the play in the newspapers represent less than 1% of the total population and will not determine the future of this country nor any nation. Today's consumer as I said is higher educated and demands better service and quality goods. We must supply the generation ahead with these services and products. We must design more attractive stores. Stores that will efficiently allow the consumer to compare prices, make her selections and check out of the store with little delay must be designed.

To do these things we will depend heavily on retail cost cutting equipment such as the automatic check-out which you saw today. I understand that unfortunately you did not get to see the RCA program and I hope that

maybe next year you will, because it is a beautiful piece of machinery. We lean very heavily on our computer system and feel that the future will tie our computer centers up with our retail stores to give them better operating figures which they so badly need. We presently supply 50 of our retailers with what we call a personalized order form. The order form is prepared on our computer for each individual store giving him his year to date movement of each item he purchases from the warehouse. The average weekly sales in units and we can, through a program we have, forecast his reorder cycle.

Our job as we see it in the 70's will be to find top management at both central and retail levels that can foresee the future changes in our industry and implement the right decisions to please our most important assets, our consumers. ●

EDITOR'S NOTE:

A lively discussion followed Mr. Kreckler's excellent talk. The following is the editor's interpretation of the issues which were discussed. The listing is also chronological.

1. The problem of getting independent retailers to remodel.
2. The Tom Boy group collects information from conventions and meetings and transfers it to their retailers.
3. The trend is toward fewer and larger stores in the future.
4. Independents with good managers have an advantage over the chains - that's ownership. The customers know this, especially in colored areas.
5. Young women of today don't enjoy the shopping experience as did women in the past.
6. Some independents will be going into processing.
7. Midwest stores in the future must be near homes and factories, due to lack of mass transit system.
8. Somehow incentives must be put into labor controls, the seniority system makes it difficult to advance a promising young man.
9. The problem of establishing colored owned stores in colored neighborhoods was discussed in detail and Mr. Kreckler outlined Tom Boy's successful solution to the problem.