CHANGES NEEDED IN THE ORGANIZATION OF RETAIL FOOD FIRMS TO MEET CHALLENGES AHEAD

by
William Applebaum
Harvard Business School

The Food Retailing Industry's Publics

The food industry exists because there are consumers with purchasing power who want what the stores offer for sale. Without consumers with purchasing power there would be no food stores. Stores need goods to sell. Without suppliers of products there would be nothing to sell, and no stores. People are needed to operate stores; without workers there would be no stores.

From this we must conclude that the retail food industry can exist only if there are consumers with purchasing power, suppliers of products, and workers. We might also assume that mutual understanding and harmony between these elements are essential to an efficient system of food distribution.

Idealism and Realism in Dealing with the Publics

An idealist might provide a frequently expounded formula as the guideline for organizing a food retailing firm to deal with its publics under all conditions. The formula is the Golden Rule.

Unfortunately, this formula, while devoutly to be wished, is not realistic - mainly because man demonstrates a propensity for greed, and his rational behavior is frequently faulted by fear and pride. Society recognizes this. Hence, society creates government to protect life and property and to regulate a wide variety of man's behaviors.

There are many activists among farmers, manufacturers, workers, consumers, political scientists, economists and people in government who want to make our so-called free enterprise system work better. What is not always made clear is who would benefit from the efforts of the different activists groups and how their efforts would improve the total free enterprise system. Nor, is there general agreement on how to go about improving the system.

In our national capitol and in the state capitols, and locally, there are activists busy trying to gain benefits or advantages for specific groups, or they are working to induce or restrain government action that might favor one or another group. Some of these activists are highly skilled and highly paid professionals, commonly identified as lobbyists. Recent revelations, which still continue to come in, indicate that some government officials are not immune to accepting gratuities in exchange for favors. The payoff scandal disclosures have stimulated a new rash of intra-company ethics codes. The value of ethics codes, other than lip-service, depends on enforcement. It is therefore especially significant that Clarance Adamy, in his parting remarks at the last NAFC annual conference, urged the industry leaders to devote more time to public affairs.

Some Pertinent Historical Notes

Shortly after World War II, Sidney R. Rabb became president of the Super Market Institute. At that time there was something of an untouchable division between the leading food retailing associations, each with its sympathetic trade journal. Sidney Rabb prevailed that SMI should open its doors at the annual meetings to the entire industry press. Thanks to that event all food trade associations now have open doors to the industry press, and the press has shed its outmoded parochial habits.

In June 1948 SMI issued a publication entitled Forging Ahead Together in Food Distribution, "containing formal papers and informal discussions developed at (then) recent Super Market Institute conventions, in an exchange of views between producers, manufacturers and super market operators on a number of vital problems in food distribution." Recently Supermarket News (10/11/76) reported that the New Jersey Food Council held a trade relations seminar on six topics:

1. Reducing Damaged Merchandise
2. Coordinating Direct Delivery
3. Improving Supplier-Broker-Retailer Communications
4. More Effective Couponing
5. Promotional Programs
6. Delivering the Message to the Consumer and Getting a Message Back

If there is a record of what was said at the recent New Jersey Food Council seminar, it might be constructive to compare this with the record published by SMI in June 1948. It might reveal the progress that has been made since 1948, but also what continues to be problem areas in supplier-retailer relations.

Whether working people are termed workers, labor or employees, their role in the business firm is indispensible. The better the workers do their work, the better for all concerned. Sometimes things that have been said long ago may be more meaningful and useful than updated pronouncements on a subject. So I quote from what E. E. Hargrave, then Secretary of the Jewel Companies, said in May 1948, as published in the Proceedings of the SMI Convention:

> "Since the philosophy of the business is more lastingly expressed by people in it, its people are essentially the basic cornerstone of good public relations. They must be not only the nice folks who enjoy good wages and working conditions, with the chance to progress, but they must understand the overall objectives of the business and be willing to use their best efforts through cooperation and teamwork to accomplish these objectives. Good employee relations...are a pre-requisite to good public relations."

At the SMI Midwinter Executive Conference in January 1975, Frank E. Fitzsimmons, General President, International Brotherhood of Teamsters, said:

> "Many of you are aware that in Europe labor representatives sit on the Board of Directors of corporations and companies. Such a quasipartnership between the forces of production exists in W. Germany and Sweden, for example. The premise is gaining popularity in other European countries, either through the collective bargaining process or by national legislation, and I am truly intrigued by this development...I am mature enough to realize that such a development is still several years down the road in the United States of America."

Those attending the SMI conference in January 1975 were not encouraged by Mr. Fitzsimmon's expectations "several years down the road."

The Emergence of the Food Marketing Institute

The emergence of the Food Marketing Institute, with its statements of philosophy and objectives, is a welcome achievement. One is moved by the statement: "Food Marketing Institute is dedicated to the principles of free enterprise, vigorous competition, and the economic health of the entire food industry. In keeping with these principles, the organization functions in four general areas: research, education, public information, and government relations."

Significantly, FMI also states, "When necessary, it must be prepared to challenge its own membership on conditions which need change...and in all its activities and actions the interests of the customer will be given first consideration."

FMI states among its public affairs objectives, "Effectively present the views of the membership to (a) government and (b) our various publics (customers, producers, suppliers, employees, educators, the media, etc.) based on thorough research and using the best educational approaches." The list of research and educational objectives is impressive, indeed. Especially encouraging is the objective to "conduct total systems research aimed at defining and clarifying inefficiencies in grocery distribution in order to enable further improvements." This should gladden the hearts of the members of the Food Distribution Research Society.

The emergence of FMI with its painfully hammered out statements of philosophy and objectives does not come too soon. The industry must take a hard look at itself and ask some very hard questions as to what are the views of the membership, "based on thorough research and using the best educational approaches," which should be presented to the government and the industry's various publics. The same goes for first defining and then activating, with adequate financial and human resources, "total systems research...in grocery distribution...to enable further improvements." None of this will happen in a hurry. Yet,happen it must.

Troubles and Prospects of the Food Distribution Industry

During the last three or four years the food retailing industry has been hit by an avalanche of problems, resulting in a marked diminution in return on investment. The effects have been widely felt in the industry, but unevenly. And, much sadness and confusion has been recorded in Chapters X and XI.

An alarming number of food retailing firms with bygone records of conspicuous performances have fallen by the wayside. An even larger number of publically held supermarket chains have abandoned major metropolitan markets, as well as many more other market areas, by selling and closing stores and warehouses which were bleeding the firms.

There has been a reshuffling of store ownership in the process, as the pieces are picked up by other chains, independents and wholesalers. Also, firms that have withdrawn from some market areas have added stores by acquisition in other areas. The attrition, discontinuances, realignment and confusion in the food distribution industry are by no means over.

The predicament of the food retailing industry is a consequence of external and internal forces. It is no secret that the industry has been hit by inflationary costs of labor, energy, construction, equipment, insurance, inventory and capital. The industry must deal with these costs as an ongoing way of life, and it will. Other industries have essentially the same problem.

It is a mistake to generalize that the food retailing industry is in trouble. What has happened is that a number of food retailing firms generated troubles internally. The managements in these firms overshot the limits of their capabilities to manage successfully. They expanded faster than their human and financial resources could handle effectively. Severe growing pains turned into chronic ailments. A number of large metropolitan markets became overstored, and the focus on trying to increase market share as a rescue sacrificed needed margins to cover operating expenses.

In this competitive war, there have been casualties, retreats and maneuvers to regroup. Larger store facilities are installed and austerity stores are improvised on the food retailing battlefield. In the heat of battle, bizarre merchandising tactics are introduced, the effect of which is to baffle the public.

I am deeply chagrined at the myopic, economically unsound merchandising stunts, such as the double and triple money redemption on manufacturers' coupons. Such merchandising stunts may be a refuge for desperate, sterile merchandisers bent on capturing a fleeting sales increase. Emotionally charged competitors follow suit. Together they shake the public's confidence in the integrity of the industry. A proprietary consumer survey, recently conducted in a large metropolis where this kind of coupon merchandising went wild, shows that the vast majority of the interviewed public is aware that there are no free lunches, and that the retailers must raise prices to make up their losses on coupons. Many leading grocery manufacturers are happily fueling the coupon fires.

Consumers, pinched by inflation, concerned about health, safety and the environment, want more honest value for their money. They want a better environment for themselves and for their children. They want more information about products. They want to be heard and to communicate. And, we are all consumers.

Leaders in the food retailing industry, belatedly, readily admit that the industry does not have a proud record in dealing with consumerism. These leaders are also becoming aware that it is not enough just to listen to consumers; there must also be follow through. Nobody doubts that the government must heed the voice of consumerism.

Unfortunately consumers have not been told the industry's story. For much too long it was the current wisdom of the industry's trade associations to shout that food in the United States is cheaper than anywhere else in the world. This message has fallen on deaf ears, yet the refrain is still being repeated. On the other hand, the USDA, to appease the farmers, has shouted that the farmer gets a too small and shrinking share of the food dollar which the consumer spends.

I am hoping that the FMI will bring about an industry-wide strong and enduring effort to tell the public and its elected representatives in government what the facts are. It must be told that food retailing is labor intensive at the store level. The technological innovations and improvements which have come into use in the distribution process in recent years have thus far failed to reverse the increasing labor cost, which accounts for nearly two-thirds of the firm's total operating costs. At best, the technological improvements have only dampened the trend in rising other costs.

It is doubtful that the food retailing industry will be able in the years ahead to reduce the trend of increasing labor cost as a percentage of sales. Thus, unless an unforseeable breakthrough emerges in retailing technology, retail gross margins in food distribution will inevitably increase. These increases will have to be passed on to the consumer, otherwise firm after firm will go bankrupt.

I am also hoping that FMI will challenge its own membership on conditions which need change. FMI can play a major role in improving the industry's public relations in the only sound way in which public relations can be improved, namely, by helping the industry do a better all-round job.

I am hopeful, because I believe that there is emerging more social consciousness among business leaders. They are coming around to recognize that the maximization of profit should be tied to the welfare of the consumer, to the protection of the environment and to job satisfaction for employees.

Furthermore, I strongly believe that the food retailing industry can look forward with confidence that it will continue to serve the public well, and better. Although population growth and suburban expansion will be slowed, the growth will not stop. Perhaps another 20 million people will be added to the U.S. population in the decade ahead. The continuing shift to consumption of food away from home will not minimize the need for retail food stores. Americans will continue to eat essentially the same types of food as they do now and in approximately the same quantity per capita.

The cost of energy and of petroleum products and derivatives of petroleum, especially fertilizers, will not come cheap. Developing countries with raw materials coveted by the industrially developed countries will pool their efforts to get higher prices. This will contribute to higher food prices for the consumer.

Real per capita income in the United States will increase. Consumer needs and wants will remain strong. Some new products, services and other inducements will also emerge. People will want to get what they can out of life, especially good food. Their wants will be met by those who will have superior means for satisfying them, and prudence in managing operations, especially expansion, which will be far more risky than in the past.

Changes in Organization to Meet Challenges

With the continuing technological improvements and the resultant rapid rate of obsolescence of facilities, cash flow is needed to maintain strong physical capabilities that can compete. Replacement costs become increasingly greater. Thus, managing a firm's finances is among its very top priorities.

A business must also set aside regularly substantial sums for the obsolescence of its human resources in the form of retirement pensions and other fringe benefits which now amount to as much as 30 percent of the payroll, and will increase. A business has to make a profit and grow for one other very important reason; to attract and hold competent, ambitious and creative key employees, by providing them opportunities to advance.

When all these conditions and requirements are met, and the business has a healthy cash flow, opportunities have to be found for employing this cash flow with the expectation that the stockholders will also benefit fairly from this. The government watches and restrains business practices and takes a healthy cut of the profit cake. The owners or stockholders can get a return on their investments only after these other priority requirements are met.

Variations in the organization and management of a retailing firm are dictated by the size of the enterprise, the types of goods it sells, the services it renders, and by the geographic extent of its activities. Differences in the organization and management of a firm are also related to the firm's age and traditions and to the imprints of charismatic leaders.

The growth of an enterprise is the major compelling force to make organizational changes. In a large business, such changes commonly called "reorganization," usually occur in step-like sequence rather than as a steady continuum. Action by competitors, changes in technology and major innovations by the enterprise itself bring about the need for these step-like reorganizations. The faster the growth, the more frequent the reorganization.

Parkinson's Law helps explain bureaucracy. It states that once a department or unit of some kind is set up, the man in charge proceeds to enlarge his little empire, to create more paper work and more meetings. This keeps on proliferating. Perhaps Parkinson's Law is due for some revision, to incorporate also the role of the computer in a bureaucracy.

A sideline on the management of a business is the Peter Principle, which holds that jobs outgrow men as a company grows. The capabilities of most men reach their peak and then fall short as the job continues to become bigger. Chief executives are not exempt from the Peter Principle.

Managing people in a business organization requires skill and understanding of human behavior. Managers must also solve problems and make rational decisions. The decision-maker frequently has neither all the facts nor values on which to base decisions. The broad crucial decisions are made at the top. They are transmitted to lower echelons. These make more detailed decisions on the basis of values and policies that are formulated at the top.

There is no such thing as the best form of organization and best style of management. There are a number of theories about organization and management, but no unified theory. The organization structure of a firm has to be tailor-made to its needs, especially its size and geography. It has to be revamped periodically to meet new needs. To some extent organization is tailored to the personalities and abilities of the available human resources in a firm. The notion of putting the right man in the right job is probably never fully achieved in a business organization. Any organization that accomplishes satisfactorily desired objectives, and preserves the health of the firm as well as of the individuals involved, is a good organization.

While it is now generally agreed that the future growth of the food retailing industry will not be spectacular, and while we can expect that the ends of Chapters X and XI have not been written, nonetheless each firm should assess its own future prospects in relation to its capabilities and limitations. There will continue to be far more successful firms than failures. The events of recent years have clearly demonstrated that yesterday's success is no permanent security. No firm should continue to live with mistakes, and there is no profit in trying to whip dead horses. The focus should be on excellence, on ROI, on the longer range health of the firm. Rate of growth should be secondary.

In the executive office of many business firms one sees on the walls plaques with a picture of Abraham Lincoln and an inscription of one of Lincoln's wise statements of over a century ago, which says:

"If we could just know where we are, and whither we are tending, we could then better judge what to do, and how to do it."