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AN ANALYSIS OF OVERHEAD EXPENSES OF FOOD RETAILERS AT HEADQUARTERS, WAREHOUSE, AND STORE LEVELS

by
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Overhead costs comprise a significant portion of the total costs of operating a food retailing firm. How these costs are influenced by firm and store size, number of items handled, and other relevant factors needs to be determined. This study analyzed costs of buying and merchandising, data processing, advertising and promotions, and general administration for dry grocery, dairy, and frozen food items in supermarkets. Occupancy, inventory, and supervisory labor costs also were analyzed at the warehouse and store levels. Costs were related to store and firm size, number of items handled, levels of warehouse mechanization, turnover rates, weekly sales per item, ordering intervals, vendor prices and interest rates.

Large firms had lower unit costs, as expected. Costs also were found to be relatively sensitive to number of items handled, weekly sales per item, and number of store deliveries per week.

The findings illustrate potential benefits from increased vertical coordination between manufacturers and retailers and increased vertical control within integrated retail firms. The findings also help to explain some economies of firm size found in food retailing.
