Banquet Speaker

One Man's Perspective

by

Grant Gentry
Chief Executive Officer
Food Fair, Inc.
Miami, Florida

It is a very pleasant experience for me to be with you tonight, here in South Florida where I have lived and worked for the past six years. It is my understanding that the Food Distribution Research Society seeks ways to make our industry more productive and more efficient. Having spent almost thirty years in that same pursuit, I am pleased to give you my observations and perspective. Before I do so, I would like first to lay a brief foundation for my opinions and conclusions.

For example, let me state that in my opinion, the seven wonders of the world cannot compare with the everyday miracle of food distribution in our society today. Even those of us involved in the process often take for granted the tens of thousands of items available on the shelves of our supermarkets . . . products which are fresh or packaged, as appropriate . . . available in unlimited quantity . . . but most importantly, products which are sold at prices which are affordable to all. As we all know, it takes an incredible amount of coordination and effort from the farmer and manufacturer to bring the product to the consumer who also seems to take this miracle for granted. So much for things we all know about.

In response to the request of some who have followed my career and are interested in my reminiscences and perspective, I will use this occasion to comment on my experiences and the changing scene in our industry. Also, at the risk of appearing foolish, I will venture some opinions as to what we can expect to encounter in the retail food industry in the years to come.

If I have any singular impression of the food distribution industry, it is one of constant change. When I joined Jewel Companies in Chicago in 1957, A&P was the dominant chain in that city as it was in most cities east of the Mississippi. Frankly, most of us at Jewel during that period never envisioned the dramatic changes which were to take place in the decades to come.

A&P, unwilling to leave the security of their smaller urban stores, refused, early on, to join in the "flight to the suburbs." Because of this, Jewel, along with dozens of regional firms throughout the country grew into major "players" in the marketplace. By stubbornly continuing to feature private label, A&P also missed the increase in sales and traffic that was generated by regional chains which chose to feature name brand merchandise.

As a consequence of these events, Jewel and many other regional chains in major cities throughout the country gradually displaced A&P as the major supermarket operator and, more importantly, in the hearts of the consumer who obviously wanted to shop in larger, more modern stores with more emphasis on service and product selection. Another factor which contributed to this metamorphosis in the marketplace was the difference in the composition of management at A&P and in the regional chains. For the most part, A&P supervision and executives were older men who had advanced in each position by tenure and experience rather than education and training. At the risk of perhaps overstating and oversimplifying, regional chains were filled with dynamic, highly motivated younger supervisors and executives who were not only willing but anxious to experiment with new concepts and approaches to store layout, merchandising and products. A&P did not have these kinds of people.

Gradually at first, and then more quickly, A&P lost significant market position in most areas in which it did business. This is a dramatic example of what can happen to a company if it fails to heed the changes which are taking place in the marketplace and to understand what consumers want and have a right to expect in their shopping experiences.

Other changes also took place during the sixties and seventies in our industry which had to be understood and evaluated. The trading stamp phenomena dominated that affluent period. Of the top fifteen chains, Jewel was alone in its determination to avoid this costly promotional device which is almost addictive to the retailer and to the customer. In order to offset the impact of stamps, Jewel developed supermarket games, thus successfully avoiding the lottery laws which, up to that time, had prevented their use. This gave Jewel the flexibility of getting in and out of promotions as they wished, rather than having to saddle the business with the continuing cost of trading stamps which ranged between 1-1/2 to 2 percent of sales.

Another change which took place in the retail food industry involves the misconception most of us entertained in the sixties that general merchandise operations create traffic for food operations. We now know it to be quite the opposite. Allied Supermarkets probably paid the greatest price for this misconception by committing itself to follow K-Mart wherever they went and opening an adjoining supermarket. By the time Allied finally realized their mistake, it was too late and they were forced into bankruptcy.

Notwithstanding Allied's experience, most of us continued to be fascinated with general merchandise. Many chains--Jewel, Stop & Shop, Food Fair and others--began their own general merchandise operations intended to generate traffic for their supermarket operations. Disaster followed disaster as supermarket operators learned "the hard way" to disassociate their food operations from general merchandise. Food merchandisers who were used to buying and then selling an entire carload of Campbell's Soup learned to their dismay that a carload of dresses had to be treated very differently. Attempts by chains to create common or central buying functions for food and general merchandise were, for the most part, a catastrophe.

On the other hand, most of our attempts to combine supermarkets and drug stores were very successful; thus one-stop shopping evolved and was accepted by the consumer. This was true, in spite of the internal squabbles which developed as the drug store and supermarket operators combined and fought for dominance within the store. In spite of ourselves, the combination drug and food store evolved and is today an accepted concept within the industry.

The seventies found the supermarket industry somewhat fat and sassy and, as a consequence, quite vulnerable to the intense price competition which was to develop--led by Jewel with its then daring and innovative Miracle Price program. Based on the theory that increased volume will result from significantly reduced prices, Jewel pioneered its price program into financial success and significantly increased its market share. This was to serve as the prototype for price discount programs employed throughout our industry for the next twelve to fifteen years.

Unfortunately, price will not always do the job it (as A&P discovered) the retail facility is not large enough to achieve a satisfactory mix of product to produce a gross margin that is sufficient to justify the program in the first place. The failure of the famous or infamous WEO program by A&P can be attributed to this simple fact. The CUB warehouse store is a by-product of this premise. CUB stores are large and the product line is extensive. Their typical checkout transaction is 2-1/2 times the industry average, and their inventory turns are almost 3 times industry average. Unlike some of the more successful store operators such as Skaggs, Albertsons, Heartland, etc., which devote as much as 40 to 50 percent of their space to general merchandise, CUB is primarily and very simply a very large supermarket.

Coincidental with the growth of the large supermarket and combination store, we have watched with interest and fascination the growth of the convenience store over the past thirty years. Many of us were convinced that this type of operation would never survive either severe price competition or an economic recession. Time has now proved that that is not true, and that a well located convenience store can survive almost anything short of an atomic bomb except, perhaps, too many stores built too close to each other.

Perhaps the greatest continuing threat to our retail food industry is the "away from home" or, more particularly, the fast food industry whose increasing percentage of food consumption is awesome to those of us in supermarkets. Can it be that eating at home will become passè or obsolete? Obviously this trend has become intensified by the increase in the number of working-away-from-home women which has increased steadily since World War II.

As I indicated earlier, the only thing that is really certain in the food distribution industry is change. Many of the companies which were leaders as little as twenty years ago are gone or significantly less viable than before--A&P, Food Fair, W. T. Grant, etc. This has all been caused by intense competition and the fact that the consumer is the ultimate judge of who or what is successful. The ingenuity and creativity which leads to success is simply another way of stating that the competitive process ensures the survival of the fittest. Once great companies have often failed to remember that our system is designed to serve the consumer. To forget this fact is to court failure or at best mediocrity.

Perhaps this is the point to answer a question which has been asked by some--Why, after leaving A&P in 1977 and having served less than three years as its president, was I able to lead Food Fair successfully out of bankruptcy to financial success? The answer is really quite simple--I learn from my experiences. At A&P, I was a bit like General Patton trying to fight General Robert E. Lee's war. Up to that time, I had spent by corporate life with Jewel--I had experienced nothing but growth, unlimited funds; we were three-deep in executive talent. At A&P, the challenge was different; the theme there was to constrict and withdraw; everything was out of date--the facilities, the systems and the people.

Unlike Kroger, which was faced with the same challenge in the seventies and which closed their Minnesota, Wisconsin and Chicago divisions and successfully redeployed assets and strengthened their remaining operations, A&P chose (before I came on board) to close unprofitable stores everywhere, thus having to spread overhead, distribution and other fixed costs over fewer stores.

This major error made A&P's recovery far more difficult and further reinforced the truth of Gentry's second law which, simply stated, is that the degree of care and caution brought to bear in corporate decisions is often inversely related to the amount of dollars involved. Obviously, I did not follow this course of action at Food Fair and, for that and other reasons, we became the then largest company ever to emerge from Chapter XI.

What does all of this mean? It simply

indicates, in my opinion, that our industry will continue to evolve in its attempt to meet the needs and expectations of the consumer--which is itself, always changing. Will the consumer want to shop in huge 250,000-300,000 square foot hypermarkets with everything that the mind can conceive available to the shopper? Will the 50,000-75,000 square foot type of super-store so dominate markets that there will be little or no hope for the traditional supermarket to exist?

The answer to these questions may be a qualified yes, assuming, however, that the superstores are built in the right place, operated in the right way, priced as competitively as is possible and that their competitors do a poor job in some or all of these areas. We have all watched with amazement from time to time, as retailers with smaller, less modern stores have been able to compete with larger, newer stores. Why? Because they find ways to satisfy their customers' needs and expectations.

In 1979, I became Chairman and Chief Executive Officer of Food Fair which was then in the throes of Chapter XI. A Fortune 500 company, Food Fair was then a company with 32,000 employees, 450 supermarkets and annual sales of $3 billion. It did not go bankrupt simply because it didn't have enough cash to pay its bills--it did so because it had lost the confidence of the consumer. In the final analysis, businesses succeed not because of their inherent values, but because they have found ways to meet consumers' desires and needs. Certainly, the tremendously large capital investment and high overhead costs of the retail food industry will require high sales volume per square foot in order to achieve profitability. This will, indeed, make it more difficult for the smaller operator to succeed--but not impossible.

Summing up then, it would appear to me that the larger, combination type store will dominate the retail industry in the years to come. Well located and well operated superstores will be successful and will make it more difficult, but not impossible, for the traditional supermarket operators to exist and maintain profitability. However, there will always be pockets of opportunity for well run supermarket operators who can achieve productivity on their own, or by association with wholesalers and who merit customer loyalty by offering unusual services and benefits.

The only thing that is really certain in the food distribution industry in the future is that there will be much change in consumer desires and expectations. To meet this change, our industry must adapt and evolve. There will be winners and losers. Obviously, those who succeed will have found the way to satisfy their customers' wants. The fittest will survive . . . and others will not.