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RESEARCH NEEDS FOR THE RETAIL FOOD INDUSTRY

by

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Examines current retail food industry needs and develops priorities.

The year 1972 brings to the retail food business the most serious challenges we have faced in the past 10-15 years. These challenges are particularly significant for those of us who are engaged in physical research. While the objectives of increased tonnage and larger share of market have been sparked by intense price competition which has resulted in drastically reduced margins; recent contract settlements, the need for response to consumer needs and interests and increasing government involvement have leveraged our cost of doing business to an all time high. The net effect is that many major chains are operating in the red; some faced with the serious question of whether they can survive.

The challenge for the physical researcher is to avoid contributing further to this problem and to find ways to overcome it.

The question we must answer is - how can we maintain volume and reduce costs without sacrificing those very factors which have given us increased traffic?

In the course of studying the background of our progress in food distribution research and in reviewing the list of speakers and topics listed on this year's agenda, I have come to some conclusions that I would like to share with you.

Before doing this, though, I would like to stress beyond any possibility of misunderstanding that I am speaking as an individuala fellow researcher, if I may,..... and not as a spokesman for either The Kroger Co.

or the retail segment of the food distribution industry.

Let me first review with you some of the hard facts about the economics of food retailing. Next, we will review some of the reasons why we find ourselves in this dilemma and why, to some extent, food distribution researchers have contributed to the problem and finally take a look at some alternative solutions.

As has been reported in trade and financial publications, many food retailers are currently fighting for their continued existence. SMI reported that in 1971 retail food chains operated at an after tax profit of .8 of one percent...hardly a profit rate that can be considered excessive. Yet, it is a very real possibility, and I don't think any of us yet appreciate how real this is, that the combined reports of the industry could at the end of 1972 show us operating if not in the red, very near to it.

According to figures reported in the June 1972 issue of Supermarketing Magazine, there were some 40,000 fewer supermarkets and grocery stores in operation in 1971 than were reported operating in 1963, and 1972 will show a significant increase in store closings. Several major chains have reported reduced earnings or loss situations.

This economic depression is caused by a combination of rapidly rising costs in all segments of the business, a battle for tonnage generated by lower prices, a recognition and attempt to meet the increasing demands of the consumer, pressures by the administration and elected officials to make the food business answer for inflation and response by government agencies to control prices, margins and profits while demanding higher sanitation, safety and health standards. The press has done a good job of telling the

public what the food industry is not doing. Unfortunately, the food industry has done a lousy job of telling what we are doing.

Let's look at some of these factors in more detail. First, food store costs. More than 60% of food store costs are tied up in store labor costs, so let's limit our focus to the labor cost problem.

Store labor costs are increasing for several reasons. First, contract settlements, even with wage controls, are at a very high level; secondly, the battle for the sales dollar has resulted in increased levels of service and longer operating hours which in turn call for more premium and overtime; third, the use of specialty service departments has built in higher fixed labor costs.

Shouldn't one of the principle areas of our concern as food industry researchers be higher productivity to offset these costs?

As you look back on our productivity results, SMI reports that during the past ten years we have had a 41% increase in supermarket sales per man hour. But let me ask you, does it take any more labor to sell a pound of bacon at 99¢ than it did at 79¢? Sales per manhour has to be adjusted to the inflationary factor of rising prices. When you discount this figure by the 32.8% rise in food prices that occurred during this same ten year period, you come up with an 8.2% productivity increase. Compare that to the 56% increase in supermarket employee wage costs and I believe you can begin to see why we have some of the problems we have today. Let me review with you a brief sketch of labor utilization in our industry:

I think we have to look at how we employ our people in our stores. Although the store is a sales outlet, very few of our store employees are concerned with the business of persuading customers to buy. Most of them are engaged in manual work. We unload our trucks by hand, we cut open our cases by hand, we manually price our merchandise, we stock it and display it by hand. We cut meat with saws and butcher's

knives. It's only in recent years that we have had even semi-automatic wrapping machines and computing scales. Our cashiers handle every piece of merchandise and ring every item by hand. We load our customers' orders in bags by hand, and in many cases we hand carry her grocery bag to her car. Our systems of material handling, refrigeration and sanitation are at best fragmentary and in no event are they coordinated into an efficient, smooth-flowing entity.

This is one of the fundamental problems of our industry. In a technological age where we have achieved a system sophistication adequate to send a rocket to the moon, the supermarket industry is mucking along doing by hand simple and rudimentary tasks which seem to be almost ready-made for mechanical and electronic assistance.

This predicament is assuming great proportions. Store labor is not only expensive and scarce, but it is becoming more expensive and more scarce each day. I am not over-stating the case when I say that the security of our employees depends upon our ability to increase our productivity, with the help of mechanical and electronic equipment and systems which do not exist today.

There is another point here. Our industry is a growing, fascinating, highly competitive, maturing industry. It represents great opportunity and stability of employment for many men and women. We want to eliminate the physical work and increase those factors of job growth and stability. We don't want our employees to be pushers and pullers and lifters. We want them to sell merchandise, increase our service to our customers and display our products better.

One of the sad things about this sketch of the supermarket is that this is not a new description. In fact, the words used here were delivered to equipment manufacturers at the first NAFC Clinic on food distribution in 1968. With the exception of the work being done on the Universal Product Code, instore salvage handling, and some central breaking of beef, almost no inroads have been made toward solving these problems.

Equally disappointing is the lack of any significant progress in the area of employee training. While such new techniques as programmed instruction and cassette driven audio/visual tape units have been developed and made available to the industry, there is little evidence that we have transformed "The How To Do It" presentation into significant changes in terminal behavior.

Employee turnover is still a major problem for the retail food operators. It is not uncommon for us to have a turnover equal to or in excess of 50% of our employment level. Obviously, this doesn't mean that 50% of our employees leave each year. However, it does reflect the high level of part-time employment that we have and the turnover associated with employees going to and from school. We do have a more highly educated employee group than ever before, but this may be working to our disadvantage as far as retention is concerned.

But as the educational level of our employees has increased, it has brought with it new challenges to physical researchers. The educated employee will not be satisfied with work that is only a means of livelihood. He will rebel against performance standards or goals that are handed down from top management that involve him only after the fact, and which he feels stifle his initiative and creativity. He will demand, and is entitled to, a voice in the work of the researcher. He will also demand that his job be interesting and challenging and that if he is going to be evaluated on results that they be objective and not subjective opinion. If the physical researcher or the industrial engineer in our industry does not satisfy these needs, the employee will find an industry that he thinks does.

The experienced physical researcher has learned that finding a better method, designing improved equipment, creating a new system or developing a new concept is really the easiest part of the task. Having it accepted by the employee or manager who must make it work is the difficult part. This means we have the responsibility for selling and teaching others. The key question here is: How well are we doing; what progress is being made?

If you think we compare favorably, look at the methods we use to train new employees or managers. We still cling to the old craft or apprenticeship system to train meat cutters. It is very costly, it leads to boredom and it creates employee turnover.

Other supermarket training is little better; most employees and managers learn by osmosis and emulation, which means apprenticeship, whether we call it that or not. Even if we could afford the luxury of archaic training, the new educated employee would reject it. It is inevitable that drastic changes in training must occur to provide the employee with understanding, insight and meaning, as well as a challenge in his job. We need to look at training techniques used in the military. Something is wrong when we can teach a man to fly a jet faster than we teach a man to break a carcass of beef.

We cannot talk about people and physical research without also taking into consideration what the social scientists have to offer.

The physical researcher who devotes his entire attention to technological development is doomed to failure.

Social science has proven that creativity, ingenuity and imagination--basic tools of the physical researcher--are not the property of a gifted few; these qualities are widely spread throughout the population. Any physical researcher who fails to take advantage of these resources in the people in his organization is missing the boat. We must learn how this can best be done and then do it.

Now on top of rising costs, limited technological breakthrough in methods and systems, and the continuing cost of employee turnover and training we find that we are building into our operations more and more expenses that result from either increased awareness of the potential health and safety problems, political pressures, or the need for more consumer services. Let me list a few of these.

Although the use of Government food stamps is well known and we want food stamp business, few realize that they increase the

cost of doing business. Food stamps are not like cash. Each one has to be hand cancelled and sorted. Some banks impose a service charge for handling them. They are not good for the purchase of some items but are for others. Store employees must remember these differences or risk the chance of a government investigation. The new OSHA standards require maintenance of daily logs and details of housekeeping performance. Health inspectors impose new requirements for store sanitation and cleanliness. The office of Price Control requires reams of records covering pricing practices for each of the thousands of items carried. All of these factors add to areas of responsibility for store managers and add to the cost of doing business.

Don't misunderstand me. We need these improvements and the industry supports them. But they don't come free. Every time we add a new requirement we add to the cost of doing business and this is where I believe the researcher has contributed to our dilemma.

In addition to the legislated requirements already mentioned, there is continued pressure for other consumer benefits. Open dating, unit pricing, nutritional labeling and legislation prohibiting non-returnable containers are some of these. When we are asked to participate in research to measure the effectiveness of such programs, I think our conclusions and recommendations must consider the total impact on our business. To make a recommendation for any new program and imply that it will cost little or nothing is both naive and irresponsible. In fact, when asked we must start telling the housewife, the government agency, and the elected official that not only will new requirements and programs cost more money, but they will probably add to food costs. Then, let the officials weigh the alternatives and decide which is more important, maintaining low food prices or adding more service. The automobile industry found out years ago that they can't be all things to all people. That's why we have everything from Chevrolet Vegas to customer built Cadillacs...but again, not at the same price.

When I looked at the program and the topics of discussion for this meeting, I

had to ask myself how many of the topics listed represented a concern for reducing the cost of operation as compared to those that would add to the cost of operation. All of us know that when it comes to application we often find that our cost estimates were too low and our savings projections too high.

Particularly in the area of university based research we need to challenge our methods of data collection and review. We must be sure that the graduate student who is in transit toward his degree does not assume that his dissertation is an end in itself. The ultimate test of his research must be how well it works when solutions and recommendations are applied and not how well his dissertation reads at the faculty committee review session.

We must continue to seek ways to take advantage of the creativeness and open mindedness that the university-oriented researcher has and then combine this with the hard facts of real time operations so as to produce truly lower operating costs.

So where does all of this lead us? . . . I would like to leave with you several thoughts and recommendations:

1. First, there is a real need for research to find ways to reduce the cost of doing business. This need has never been greater. Likewise, the management audience has never been more receptive to ideas and solutions to cost problems. We must work together...the universities, government agencies, private foundations and food distribution companies...to find solutions to these problems. We must have a more open sharing in the design of this research and in dissemination of the results.

2. Second, the researcher has an obligation to point out that any new system that introduces new areas of concern to the operator will add to his costs. Special interest groups must be aware that they may be trading an intangible benefit for a probable increase in food prices.

3. We must carefully examine our training and motivational techniques. The researcher must find ways to bring together the employer, the employee and the union to

enrich the job experience while increasing productivity and reducing costs and turnover. We can no longer afford to bypass the employee as an input source in considering alternative solutions.

4. We have an obligation to tell the consumer what we are doing and how it effects food prices. No one expects to buy a Cadillac at Vega prices. Neither should the customer be led to believe that she can have more bag boys and carryouts; newer, larger stores with more specialty departments; returnable bottles, unit pricing, open dating, food stamps, nutritional labeling, bulk

produce, custom cut meats, FDA clean and OSHA safe stores while expecting lower prices and higher dividends from her food industry stocks. We must take the lead in changing her image of the food retailer from one of disrespect and disfavor to one where she recognizes the many values and services she receives for her food dollar.

That's our challenge and we must meet it head on. I am pleased to have been given the chance to share these thoughts with you and look forward to the chance to work with you toward the solution of these problems.
