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THE PRESENT AND FUTURE OPPORTUNITIES OF H&BA/GM

by

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Thank you very much, Clancy, for that fine introduction, and let me also say thanks to Doug Richardson and to Dr. Cain for having invited me to be with you today. I am assuming that this is the first time that an individual who is a specialist in the non-foods department (general merchandise and health and beauty aids) has had the opportunity of participating in this meeting. Let me congratulate the planning committee for making this decision and to also, once again, extend my most sincere appreciation for being the individual that was asked to be with you today.

While it may not be necessary, I felt that at the offset of my talk, I should briefly familiarize you with General Merchandise Distributors Council, as I am sure that many of you in the audience have never heard of our trade association. We are relatively new by trade association standards...particularly when compared to many of the associations that are represented here today...we have only been around for about 12 years, but during that time we have enjoyed dynamic growth which has somewhat paralleled the growth of the industry we serve. We are a national trade association of the general merchandise/non-foods departments, divisions and subsidiaries of wholesale grocers, both voluntaries and cooperatives. We have 105 wholesale distributor members and over 525 associate manufacturer members, all of which are, of course, health and beauty aids or general merchandise manufacturing companies.

You know, as incredible as it may seem, I am still often asked the ques-

tion, "Is general merchandise pulling its own weight?" While I am certain that a case could have been made over the past decade on either side of the ledger...but today...and increasingly in the future... general merchandise and health and beauty aids departments are absolutely pulling their own weight...and then some!!! Along with that question I am still sometimes asked...much to my amazement..."If general merchandise is really necessary?" I am, of course, very prejudiced on this subject, but I am sure all industry experts, certainly including all of you in this room, would agree that today, and continuing into the future, general merchandise is not only necessary, it is imperative. It is the way of the future. In fact, strategic planning for both retailer and wholesaler profit improvement must give top priority to H&BA/GM products...where every \$1 increase in sales generates as much profit as a sales increase of \$9.52 in the rest of the store.

You know general merchandise has been around to some extent for a long time. It was first discovered in the late 1930's although the success in those early years was very limited because of store space and because the general growth and acceptance of the supermarket industry itself. Throughout the 50's and 60's health and beauty aid products became well established in the supermarkets, and in the early 1970's supermarkets again discovered general merchandise. Six years ago, the economy was in the midst of another recession. Supermarket profits began to diminish, although store sizes continued to grow with more space being available for general merchandise and

health and beauty aids products. At this point, accelerated growth in both GM and H&BA really started. Stores recognized their need for additional profits, and the one-stop shopping desire on behalf of the consumer was beginning to grow very fast.

To give you a brief review of the last 20 years of food store sales and the share of it enjoyed by health and beauty aids and general merchandise, let me mention that in 1960 food store sales were \$52 billion, while H&BA was enjoying only \$650 million of that amount and general merchandise was accounting for just barely \$450 million of the total.

In 1970 food store sales grew to approximately \$90 billion, and at the same time, health and beauty aids picked up to \$3 billion in annual sales with general merchandise coming on fast at \$2.2 billion. In 1980, supermarket sales reached \$210.5 billion, while health and beauty aids grew to \$9.3 billion, followed by general merchandise sales of \$7.8 billion. Percentages generally show a much greater impact: during the 20 year period from 1960 to 1980, total food store sales increased a healthy 304%, H&BA sales increased an outstanding 1,330%, and general merchandise a whopping 1,630%. It would be interesting to note that during the past 20 years...speaking in terms of total department sales as a percentage of total store sales...only the soft drink category has increased at a faster pace than health and beauty aids and general merchandise.

Grocery store sales increased by 20 billion in 1981...which accounted for approximately a 9% gain. This gain was below the rate of recent years as inflation began to ease. Unfortunately, hardly anyone expects a significant improvement in real growth this year. By an overwhelming margin...according to a recent survey by "Progressive Grocer" magazine...food executives think they will be cutting up a pie of the

same overall size, which means gains can come only from cutting into and cutting down the competitor's share. Opinions from these same executives about food retailing profitability for the coming year are exactly what they were a year ago...mostly pessimistic.

Store proliferation will continue to intensify competition. The store saturation problem is not likely to ease in the face of only moderate increases in population. Sometime in the 1980's, say most industry experts, the number of convenience stores will reach 40,000, compared to about 32,000 today. Limited assortment stores will expand from fewer than 1,000 to more than 5,000. Projections call for 40,000 supermarkets, which is 20% above the present total. Furthermore, the superstore concept is expected to play an even more dominant role. All this adds up to more stores and more square footage per capita, which is certainly not what the doctor ordered.

To sum up the critical issues... labor, energy, supplies, and all other operating costs are headed in one direction (and that is up)...no turnaround is in sight. All sorts of labor and energy saving devices will be brought into play in an effort to boost productivity, but expected gains seem to be based more on hope than on recent experience. As if these internal challenges are not enough, supermarket retailers are facing the prospect of operating in an intensified competitive environment, vying for the attention of what amounts to be fewer shoppers on a per store basis.

These are truly sobering predictions, but when you stop to think about it, adjusting to the unacceptable and even prospering with it has long been the history of the supermarket industry. I frankly believe it is one of our greatest strengths. We are, after all, a business that was born of adversity...the result of the Great Depression of the 30's...and I believe one that will prosper in the economic conditions of the 1980's.

Fortunately, today very few people in our industry question the merits of general merchandise. These departments have evolved into diversified and professionally merchandised departments that provide both the convenience the supermarket shopper has come to expect and the profits the retailer so desperately needs. I should, however, hasten to point out that the general merchandise department (granted, a highly profitable one) is still just one of the many departments essential to a successful supermarket operation. All of us at GMDC continually keep in mind this concept that general merchandise is only one department contributing to the overall profit profile of a modern supermarket. Looking at it from another way, the GM and H&BA departments will be helping to enhance the image of the supermarket as a multi-faceted outlet offering to consumers a total store concept.

You know, after many years of learning to live with inflation, and to some extent even depending on it, it would now appear that our industry faces the prospect of learning to live without inflation, and I think we will find that to be every bit as difficult. While we have been enjoying a period recently of declining interest rates, the outlook for the future is, nonetheless, for single digit price increases but double digit interest rates, along with extremely high federal deficits. That's a tough combination to handle and management is understandably edgy.

I guess, perhaps the most critical of all issues facing our industry, is to make shopping in supermarkets more appealing to customers than other ways of spending their money in optional types of retail outlets. Put another way, the main challenge to the supermarket industry in the 1980's is to get more sales and profits from existing traffic...now how can this be done?

Cost Cutting?...Putting the brakes on costs will continue to be an element

for survival, but it is not a cure in itself.

More Productivity?...Better employee motivation?...Theoretically, this is an area which should offer some hope; however, and realistically, it is probably not a trend that retailers or any other kind of business should bank on.

Raise prices?...This would surely help margins but would even more surely erode sales in today's highly competitive marketplace.

Increase traffic?...This is much easier said than done. Although with remodeled or larger selling areas, along with increased advertising and improved merchandising, this could be an important factor.

What have we then?...Our goal... Let's make that our formula for survival is to increase sales and margins without raising prices or substantially raising costs, and without necessarily increasing traffic. Well, how can this be accomplished? As I am sure you have guessed by now, I feel the key lies in increased space allocation for general merchandise and health and beauty aid products. It is the real way to increase profit lost by sagging margins.

More attractive presentation of general merchandise products will become a merchandising hallmark in the 80's. This will include handsome decor, more signs, valances, special lighting, improved wall treatment, more use of glass shelving, vivid colors, mirrored surfaces, and dramatic illustrations.

To emphasize the point of the growing importance of sales of general merchandise and health and beauty aids in the supermarket, let me talk briefly about the health and beauty aids department. Did you realize that according to a recent A. C. Nielsen study, that the supermarket retailer does the biggest share of the total health and beauty aids business in the country? Do you realize this figure is currently beyond

50% of the annual total? Did you realize that health and beauty aid sales have reached over 9 billion annually in grocery stores, and that individual store's H&BA sales should be at least 4% of the total store volume? Gross profit ranges of 25% to 32% are common, and, did you realize that H&BA is the number one contributor to a food store's net profit? According to a recent "Progressive Grocer" study, the average was almost 28% of a total store's net profit, and let me remind you that this is derived from only around 4% of the total store volume.

It would be interesting to me to note that if you add the profit contribution of the general merchandise products, along with H&BA, it is not uncommon for the combined department to account for between 40% and 45% of the total store's net profit...and that's from a base of only 7% to 9% of total sales.

I wonder if you have ever stopped to think about what makes the general merchandise and health and beauty aids departments unique. That is, unique from a competitive standpoint. Well, the fact is that health and beauty aids and general merchandise products are the only major categories where food stores compete directly with other classes of trade, such as drug stores, variety stores, discount stores, hardware stores, and department stores. It is unfortunate, and I believe it happens too often, that many people in our industry fail to recognize that important point. I do not really believe that general merchandise and health and beauty aid products can be measured in the same terms as grocery items. It is truly a different business with its competitive base being so much broader, crossing all channels of mass market distribution. Product turns, tonnage, ROI, are not always the best measurement for general merchandise and health and beauty aid products. I feel the only true base of comparison is net profit contribution. The bottom line, so they say, really tells it all.

In 1981, the average supermarket had a gross profit of 18.6%, with expenses of 17.4%, resulting in a pre-tax net of 1.2%. In comparison, the health and beauty aids department averaged 27.6% gross, with 12.5% expenses for a pre-tax net profit contribution of 15.1%. The general merchandise category even looked better with a gross profit of 34.4%, expenses of 12.7%, for a pre-tax net profit contribution of 21.7%.

One additional comparison of note is return on investment in people. Your GM and H&BA products give a net profit per man hour of \$34.61, while the total store gives a net profit per man hour of only \$2.76.

To analyze the tremendous change in product offerings that have been made during the past decade, and that will be made in the future decade, regarding general merchandise and health and beauty aids products in the supermarket is almost inconceivable. Some of the significant products that were introduced in the supermarket channel of distribution during the last decade were: Automotive products, cosmetics, barbecue and lawn and garden products, domestics and wearing apparel, craft and indoor gardening products, disposables, small electrics, sporting goods, toys and prescription drugs.

In the 1980's we are going to see a continual growth in all of these areas, but particularly strong are going to be the departments of cosmetics, automotive accessories, sporting goods, toys, prescription drugs, and the not before mentioned area of greeting cards. We will definitely see an accelerated growth in energy savings items, fragrances, costume jewelry, photo finishing, men's toiletries, over the counter drugs, contraceptives, disposable razors, reducing aids, glassware, microwave accessories, kitchen gadgets, ovenware, books, office supplies, and nutritional products.

Despite the many obvious advantages of the expansion of general merchandise and health and beauty aids categories,

our department still suffers from the problem of lack of due recognition, often stemming from a lack of knowledge at the retail and wholesale level. Because of this fact, coupled with the growth of items in other departments, general merchandise has in many areas been facing a cut back in space allocation during recent months. While we, of course, feel that this is a temporary situation, GMDC has nonetheless devoted a great deal of time during this year to help to better educate the wholesalers and retailers on the continued growth and importance of non-foods products. We have done this through an increased number of training seminars, and through a great deal of participation at state and national retailer meetings. We also put a high emphasis on cooperating with all trade press publications in the educational area. We have also recently increased our efforts in developing materials for our distributor members to use for their own employee and retailer training. Finally, we are making every attempt to position our association to be of help and service to other industry trade associations such as FMI, NAWGA, NGA, NFBA, etc., at their meetings or, hopefully, as a source of information.

In addition to directing a substantial amount of our energies towards wholesaler and retailer educations, GMDC also places a very high importance

upon continual development of good communications between our wholesale distributor and manufacturer members. In fact, the nucleus of our semi-annual marketing conferences is an interface format that we refer to as controlled casual conferences, whereby four consecutive days senior manufacturer and senior general merchandise wholesale distributor executives interface with one another on a pre-scheduled, ten-minute interval basis, and for eight-hour days.

In closing, let me again express how much of a pleasure it has been for me to have the opportunity of being with you and to assure you that GMDC does not foresee or endorse a senseless proliferation of general merchandise in a retail outlet that has traditionally been, and should remain, food oriented. But by the same token, we must remember that the modern supermarket is a multi-faceted outlet, whose management must offer a total store concept to its customers by developing a general merchandise philosophy that will generate essential profit dollars.

Thank you very much. It has been a pleasure being with you.