



AgEcon SEARCH

RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.

Health Foods— Finding Their Way Onto Supermarket Shelves

Judy Brown
(202) 447-6364

rights are not subject to the restrictions imposed by the Cooperative Exemption. Cooperatives wishing to expand their transportation activities or offer new transportation services are most likely to file applications for appropriate authority with the ICC. At this time nearly 99 percent of all such applications are being approved.

Other Provisions

The 1980 Act made substantial additions to the list of exempt commodities—commodities not affected by ICC economic regulations. These exemptions were previously restricted to unprocessed agricultural commodities and certain seafood and poultry products. Used shipping pallets and used empty shipping containers (including van containers) have also been exempted, which is of special importance to food distributors. This exemption will permit shippers to more freely negotiate the return of such equipment for re-use and substantial savings in distribution costs could result.

The 1980 Act has removed restrictions on intercorporate hauling for compensation among members of a corporate family provided all participating subsidiaries are wholly owned by the parent corporation. Although the 100-percent ownership rule restricts the number of potential participants, by early April 1981, more than 500 filings covering nearly 6,000 subsidiaries had been received by the ICC. Intercorporate hauling offers added efficiency through an ability to adjust rapidly to changing distribution needs.

Regulated motor carriers can now pickup or deliver a trailer moving in trailer-on-flat-car (TOFC) service at any point on the route of the rail carrier, provided the motor carrier is authorized to serve both the starting and destination points of the shipment. Previously motor carriers were not necessarily permitted to serve all points along a given route. As a result, only a relative few carriers could pick up or deliver at railroad TOFC terminals. This new provision should increase the number of motor carriers offering service at TOFC terminals, thus enhancing both the competitive environment and the available efficiency of different modes of TOFC service. ■

Consumer demand for health foods—foods with minimal processing and that are chemical and additive free—is leading the food industry to emphasize nutrition.

As a result, more and more supermarkets are adding health food departments to their operations. Safeway, the Nation's largest supermarket chain, plans to add health food departments to 200 stores this year, and one food industry researcher predicts that "the food bywords of the next 10 to 15 years will be nutrition and safety" and that these concerns will have major impacts on the future of the food industry.

The health food industry has grown from 1,000 stores with \$140 million in sales in 1970 to 6,600 stores with over \$1.6 billion in sales in 1979, according to a Frost and Sullivan report and a survey conducted by the industry publication *Whole Foods*. A typical health food store stocks a complete assortment of natural and organic foods which include grains, nuts, teas, herbs, oils, and other items which are sold either in bulk or in packages.

In a USDA 1980 survey, "Consumer's Food Related Behavior, Attitudes and Motives," researchers found that 26 percent of the 1,353 consumers surveyed in a national random sample shop in health food stores. In another 1980 national family food study conducted by Yankelovich, Skelly and White—an independent national research firm—1 out of 3 of the 1,221 respondents had purchased natural food. The same research firm found that 68 percent of the respondents say that natural foods are healthier than processed foods, and 26 percent strongly agreed that supermarkets should offer a larger, more varied selection of natural foods. USDA's 1980 survey found that 30 percent of the respondents who shop in health food stores did so because they could not find the products elsewhere.

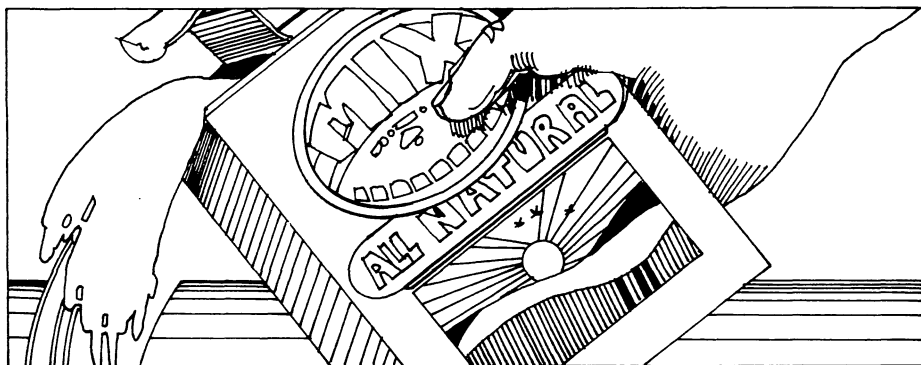
Who are these health food buyers? According to USDA researchers, most of the health food buyers who shop at least once a week are in the age groups of 25-34 and 50-64, college educated, with above average household incomes. A market research firm estimates that health foods will continue to be popular among the younger generation and those currently buying health foods. Food retailers are trying to attract these health food shoppers plus those who may be interested in buying natural foods but who are reluctant to shop in health food stores.

Marketing Nutrition

Initially, the supermarket industry got on the nutrition bandwagon by offering health-related food items. This was in response to a growing concern among consumers over the necessity and possible dangers of food additives and preservatives in food products. In 1978, one-fourth of the items introduced in the supermarkets were promoted as health related. For the past year, General Mills has been selling one of its leading brand breakfast cereals without artificial coloring in California as a consumer test. Due to the positive response from consumers this cereal is now being sold nationally with no artificial coloring. One national survey indicated that almost 50 percent of consumers surveyed will accept a less appetizing appearance in exchange for a ban on artificial colors.

Supermarkets across the country are trying different techniques to lure health food and nutrition-minded customers to their stores. An increasing number of products labeled "natural" are appearing on their shelves. *Consumer Reports* estimated in 1980 that 7 percent of all processed food products are now labeled natural. Some supermarkets are promoting nutrition information programs, while others are selling foods traditionally sold only in health food stores.

The supermarket firms selling the traditional health food items use various methods to promote and display these foods. Some supermarkets locate health foods in separate sections with special sales people, and others integrate the health foods into the



regular grocery aisles. The stores integrating health food items are combining them with specialty foods such as gourmet and diet products, or placing them in the same section as the baking items to communicate a "getting back to basics" image.

A rapidly expanding trend is the development of health food centers within supermarkets. *Natural Food Merchandiser* magazine estimated in 1980 that approximately 300 supermarkets had health food centers. Supermarket health food centers typically carry the same brands found in health food stores and use many of the same wholesalers as the health food industry for their selection of vitamins, herbs, dairy products, cosmetics, and groceries.

The 30-percent average gross margin (markup over cost of goods sold) on health foods—compared to about 20 percent for regular supermarket items—make health food centers very attractive to supermarket chains. According to *Natural Food Merchandiser* magazine, average supermarket annual sales per square foot are less than \$400, but can reach as high as \$1,000 for the same area in a health food department. A supermarket chain spokesperson estimates that 35-40 percent of the profits of a health food department come from the sales of vitamins, which generate 2.5 times more profit per unit than any other average household and beauty aid item.

West Coast Models

Most supermarket health food centers are based in the West; however, others are springing up in such areas as Washington, D.C., New York, Dallas, and Minneapolis.

One supermarket chain aggressively marketing health foods in the northeastern region of the United States is Wegmans (\$300 million total annual sales) located in Rochester, N.Y.

Fred Meyer Stores, a \$1 billion total sales chain in Oregon and Washington State, is a pioneer in supermarket sales of health foods. The chain has special health food departments in 33 of its 66 locations. Northern California's leader in supermarket health food is Raley's, with annual sales of \$350 million. Raley's has had health food centers for 3 years, and 36 of their stores heavily promote health foods in these centers. While the centers average 1,000 square feet, the largest takes up 3,000 square feet. The centers are usually located in the middle front of the store near the checkout stand.

Raley's serves as a model to Safeway and other supermarket chains. Safeway, with \$15 billion in annual sales, had 92 health food centers as of March 1981 and plans to open over 200 additional centers by the end of the year. Currently, most of the units are located in the West, but others will open elsewhere.

Safeway opened its first health food department in 1980. The departments average 800 to 1,000 square feet and stock up to 3,000 items usually sold in health food stores. Health foods are selling well enough to generate 12 turns a year—the number of times a product is restocked by a supermarket. Average annual turnaround for regular grocery store items is 18 to 20. A spokesperson for Safeway says that the real importance of the health food units is to keep the

business of the senior citizen population and to gain and build the loyalty of the younger generation.

Other supermarket firms are beginning to add health food centers to stay competitive. Future plans for health food centers in supermarkets may entail private labels and generic health foods. The impact these centers will have on the health food industry remains to be seen. One view is that as supermarkets provide convenience and buy in large volumes enabling them to offer lower prices, they will take customers away from the traditional health food stores. The health food industry could become an integral part of the grocery industry, as have other specialty industries, such as bakeries and delicatessens. This development could create more customers for the health food industry by exposing more people to health foods. ■

References

- Natural Food Merchandiser. Feb. 1980, p. 8 and Sept. 1980, p. 10.
- "Safeway, Other Chains Plan Health Food Units." *Natural Food Merchandiser*. March 1980, p. 1.
- "Health Food Sections Appear in 300 Supers." *Natural Food Merchandiser*. Nov. 1980, p. 1.
- "Conflicting Nutrition Advice Bewilders U.S. Consumers." *N.Y. Times*. Wed. June 11, 1980.
- Speech given in Los Angeles by Peter Magowan, Chief Executive Officer of Safeway.
- "Whole Foods Second Annual Report on the Industry." *Whole Foods*. July 1979, p. 24.
- "Health Food and Natural Vitamins Market." Frost & Sullivan, Inc. January 1979.
- "Consumers Food Related Behavior, Attitudes, and Motives—Fourth Phase." ESS, USDA. 1980.
- "Nutrition vs. Inflation—The Battle of the 80's." Second Woman Day—Food Marketing Institute—Family Food Study. Yankelovich, Skelly and White. 1980.