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CURRENT AND EMERGING ISSUES IN FOOD MARKETING AND DISTRIBUTION

(By S. Kent Christensen, Vice President and Agricultural Counsel, National Association of Food Chains)

I am pleased to have been asked to appear on this panel to discuss some of the current and emerging issues in food marketing and distribution—particularly in the retail sector.

As many of you may be aware, with the exception of selected individual firms, the retail sector of the food industry has not been very healthy over the last decade as indicated by various profit measures. Starting in about 1965, at which time profits were around 1.41 cents per dollar of sales, and 12.55 cents per dollar of net worth, profits have trended downward almost continuously to a low of 0.49 cents per dollar of sales and 5.63 percent return on net worth in 1972–73. There was some slight recovery in 1974–75, but again this year many firms are having serious profit problems.

I mention these figures not to plead "poor mouth", but rather because they are symptomatic of some basic changes facing the retail sector which in turn suggest the kinds of economic pressures that will mold the nature of this business for several years ahead.

One basic change has been the very dramatic reduction in the birth rate—down from an average of about 4 children per household in the late 1960's and early 1970 to less than two children per household this year. Thus, the expansion rate in food sales enjoyed year after year since World War II due to population growth has been cut in half. Second, at about the same time, the transfer of fast moving nonfood sales items from drug and department stores to food stores has slowed materially, thus curtailing another facet of expansion. Last, a lessening of consumer demand due to curtailed real income has had an adverse effect on sales, as consumers have actually reduced purchases and/or shifted to lower cost products.

Thus in a broad general sense, the postwar supermarket growth industry, now comes face to face with a rather static expansion curve. Individual firms choosing to follow a growth policy are going to have to do so to a substantial degree by taking sales away from other retail food firms in contrast with the past several years where growth was possible to all concerned.

As the name of the game is volume, in keeping down unit costs in the supermarket industry, no firm is going to give up sales without a severe struggle. Thus it becomes rather apparent that the firms in an already intensely competitive industry will face an even greater intensive struggle for survival.

At the same time sales growth has been leveling off, unit cost inputs have been rising rapidly—thus putting pressure on profits from another angle.

With the sales growth-route limited as a potential source of relief—at the same time cost pressures intensify—either one of two results or both are evident: (1) chain store margins must increase on a dollar and cents basis, and/or productivity improvements must be achieved. I suspect we shall see some of each, but I want to talk specifically about productivity changes.

As many of you are aware—improvements in productivity at the retail level have been minimal for several years. The change to self-service was the last major breakthrough.

There are, however, many potential cost savings to be achieved if various institutional barriers can be eliminated or minimized. Such barriers include many resulting from Government regulation; many are tied to restrictive labor practices; while some are imposed by consumer pressures. We have made very little progress in shortcutting these barriers— by *we* I include we the food chains, we the Government legislators and executive branch employees and we the consumers.

I have given this dilemma much thought over the last couple years and seriously have concluded that much of the problem lies in the area of misguided priorities by those concerned about rising food costs. By this I refer to the constant concern about profit levels as a factor affecting farmers' and consumers' prices.

I would not attempt to dissuade anyone from continuing their careful review of industry profits. But, I would suggest that this miotic view keeps those who are sincerely seeking relief from food price increases from looking at the only real potential for relief—i.e. improved productivity. Consumer leaders, and legislative and executive branch leaders who continue whipping the profit horse, are in fact doing a gross disservice to their constituents because they are concentrating their attention on a "dry hole" and in doing so missing a potential opportunity for helping to bring about positive results.

Food chains retain roughly 22 cents of each dollar spent by consumers. About 1 cent of this goes for profit—while 21 cents is paid out in costs for labor, rent, packaging, promotions, etc. About 68 percent of the 22 cents goes for labor—including fringe benefits.

Unfortunately the current socio-political-economic environment makes it near impossible for the food distribution sector on its own to make any real headway in increasing productivity. About the only force which can bring about productivity reform is intelligent consumer action.

In my remaining time I would like to outline very briefly some specific areas of potential reform.

BACKHAUL

Backhaul remains a problem as there remains a considerable degree of uncertainty under what conditions a manufacturer may offer a discount to retailers desiring to pick up merchandise on a backhaul program without being charged with violation of the Robinson-Putman Act.

UPC AND ELECTRONIC SCANNING

The installation of electronic front-end scanning systems continues at a slow pace. The latest count is about 100 individual stores across the Nation. The main deterrents to faster adoption are: (1) the heavy initial investment in a capital-short industry; and (2) the controversy over the price-marking of individual packages. Hopefully a shelf price-marking system satisfactory to consumers can be developed which will make acceptable elimination of price-marking individual packaging. Roughly 25–30 percent of the cost saving potential of this innovation is in not having to price-mark. Because of the tremendous potential saving—both direct and indirect—it is hoped this program will not be diluted by premature legislation.

CENTRAL BREAKING OF BEEF CARCASSES AND RETAIL CUTTING AND PACKAGING OF MEAT

Much of the industry (perhaps 40 percent) has shifted to programs involving the breaking of beef carcasses at a central location and the shipping of vacuum packaged primal cuts to stores for retail cutting and packaging. The breaking is done by both packagers and retail owned central meat plants. The national union headquarters has now generally accepted this innovation, but several locals are still holding out after about 8 years. It would appear firms in the industry will continue moving into this program.

Of even greater interest is the central cutting and packaging of retail cuts. Such a program has been around for several years on a semi-experimental basis, but at least two important firms have recently gone into this program in a major way. There yet remains many problems to be overcome but the potential savings suggest ways will be found to do so.

The perfection of this innovation, no doubt, could be speeded up materially were the industry "free" to clearly experiment.

In summary, I would say that there are no doubt many, many innovations and practices (both technological and management) which would surface if the social climate were right. I sincerely believe we are closer to a productivity reform climate than ever before. But only strong consumer support—marshalled by consumer leaders can make the reform fully fruitful vs. a temporary abortive program.