ESO No. 20

A CASE STUDY:

MANAGEMENT--MANATEE FOOD CENTER MEAT DEPARTMENT

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The Manatee Food Center is an independent food store owned and managed by the surviving member of an original partnership. The store is located on the outskirts of a town of about 16,000 people, which is the trading center for an area with a population of about 60,000.

John Cox, the owner, is 60 years of age, has been associated with the meat business all his life, and has been an active retailer for about 25 years. The original store at the present site was a frozen food locker/retail store combination. Originally, the emphasis was on the slaughter/locker combination with the killing facility located at the rear of the store.

As the area nearby was developed for housing, conflicts arose between residents and the store manager. After the partner passed away seven years ago, the locker plant which had been increasingly under-utilized was phased out. This move, coupled with increasingly tougher inspection standards, finished off any slaughter activity about one year ago.

The owner's present interest is to continue to upgrade the business as a supermarket. He has been very concerned with maintaining or increasing his share of the market.

The present store has about 7,000 square feet of selling area. The most recent expansion was made last year when the interior of the store was expanded and the area formerly used for slaughter operations was remodeled to provide work space for the meat department and back room space for the store. The structure has been remodeled and added to several times over the years. The interior arrangement and appearance is a distinct improvement over that of recent years.

Store sales in 1968 were $1,650,000; $1,660,000 in 1969; and $925,000 for the first half of 1970. Net profits for the comparable periods were $8,800, $3,700, and $3,300. Figures for the third quarter of 1970 indicate sales at an annual rate of $1,940,000, and profits at an annual rate of $24,000.

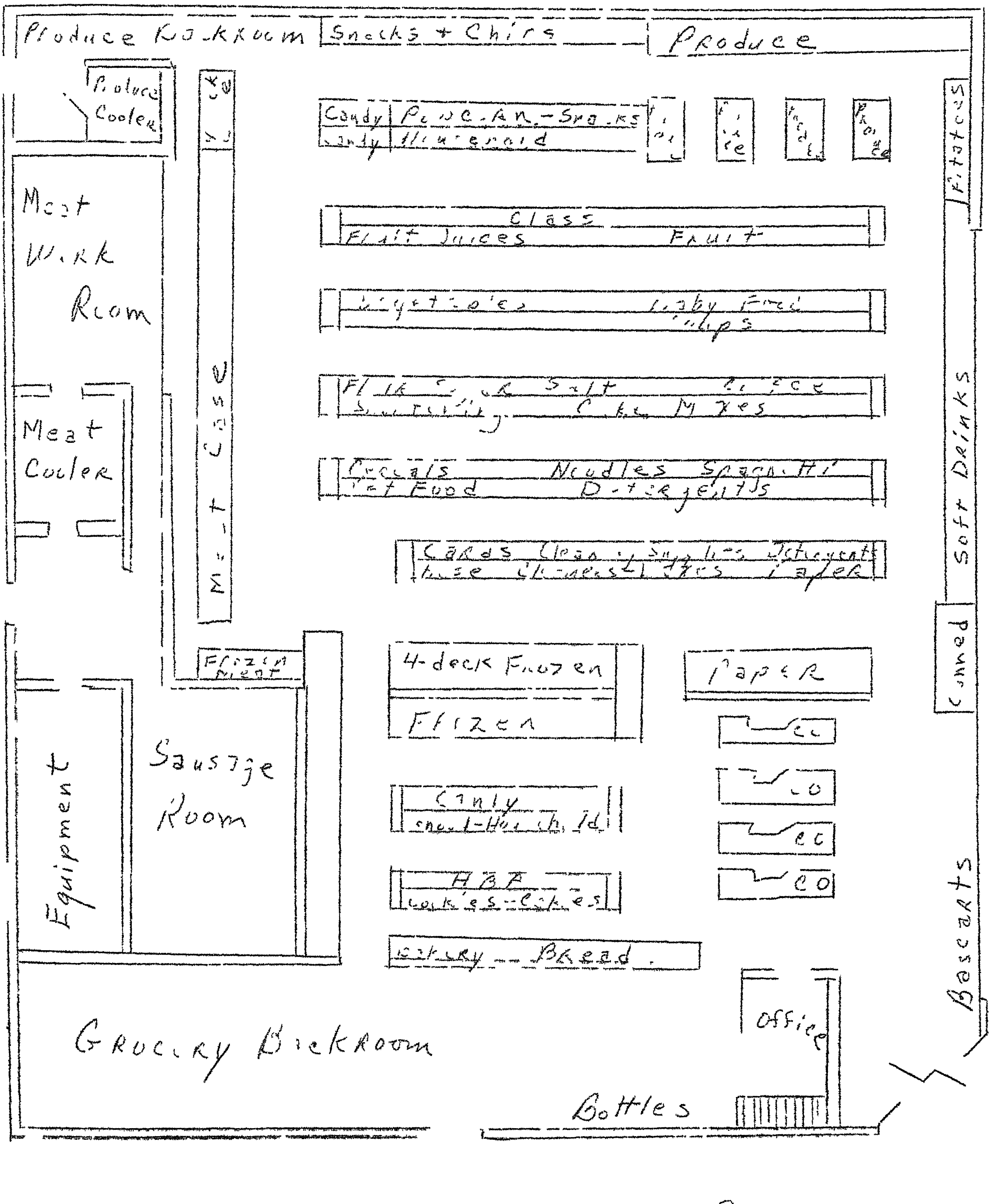
As of July, 1970, balance sheet information indicated that total assets were $288,000, of which $97,000 were current assets. Current assets listed were cash--$7,400, accounts receivable--$8,200, merchandise inventory--$80,700, and inventory supplies--$1,200.

Current liabilities were accounts payable--$46,000; current notes payable--$10,500; tax accrued payroll, payroll taxes, federal income, other taxes, and items--$11,500; for a total of $68,000. Total liabilities were $123,300.

The store layout is illustrated on the following page. In the normal shopping pattern with the customer coming across the front of the store, shopping produce and approaching the meat department she is first exposed to an eight foot multideck case. Proceeding along the meat case, the major items displayed were in this order and priced as follows:

John's Weiners (12 oz.)	$ .73
John's Weiners (16 oz.)	.79
John's Frankfurters (16 oz.)	.79
Liverwurst	.89
4 Brands of Weiners (24 oz.)	1.39
4 Brands of Weiners (16 oz.)	.89
4 Brands of Weiners (12 oz.)	.69
John's Luncheon Meat	.69
Chunk Balogna	.69
Prepackaged Deli Items	
Beans	.49
Ham Salad	.59
Cheese Salad	.89
Jello	.45
Potatoes	.49
Cole Slaw	.45
English-Cut Roast	.93
Chuck Arm Roast	.89
Center-Cut Chuck Roast	.75
Boiling Beef	.59
Shank Meat	.59
Beef Stew	.89
Boneless Top Round	1.09
Boneless Rump	1.09
Cube Steak	1.45
Round Steak	.99
Ground Round	.89
Sirloin	1.39
T-Bone	1.65
Club Steak	1.99
Ground Chuck	.89
Ground Beef	.73
Hamburger (3 lb.)	1.77
Pork Liver	.40
Beef Liver	.56

Scale: 1" = 16'



Parking

Sausage	$ .99
Brown-N-Serve Sausage (8 oz.)	.79
Smoked Sausage (12 oz.)	.99
Sausage Patties	1.09
Sausage (1 lb.)	.89
Sausage (2 lb.)	1.71
Beef Hearts	not priced
Beef Tongue	.59
Little Pig Sausage	.74
Fresh Pork Sausage	.79
Pigs Feet	.61
Spare Ribs	.79
Fresh Side Pork (sliced)	.85
Pork Steak	.85
Pork Loin End	.89
Pork Shoulder	.65
Pork Chop - Loin End	1.23
Pork Chop - First Cut	.89
Chicken Livers	.79
Chicken Breast	.69
Chicken (cut up)	.45
Chicken (whole)	.41
Link Sausage	.85
Bacon (piece)	.75
Bacon--4 Brands	.99
2 Brands	.89
1 Brand	.99
1 Brand	.79
1 Brand	.77
Smoked Chops	1.39
Canadian Bacon	.97
Smoked Jowel	.75
Smoked Ham	.79
Canned Luncheon Beef (3 lb.)	2.29
Canned Hams (4 lb.)	3.69
Canned Hams (1 lb. 14 oz.)	2.39
Canned Hams (5 lb.)	4.99

Items in Frozen Meat Case

- Chopped Sirloin Steak
- Turkey
- Lard

Glenn Holcomb, the meat manager, felt the relatively new setup was far superior to the old layout. The work area was easier to keep clean, the cooler was more accessible, and there was ample room in the work area. When asked his labor factor (percent of meat department sales), he was defensive, saying it would be about 6.5 percent, except for those two men employed in the sausage room.

Sales per week for the past six weeks have varied from $8,570 to $10,600, and are actually a little below last year for the same period. Sales for the past six months indicate about the same range in differences from week to week.

Late last winter, John Cox had called in the wholesale store supervisor, a consultant, and his produce and meat department managers and indicated that shrink (shortages) was out of hand. He asked for suggestions. At this time, meat department gross margins were varying from 14.15 percent to 23.43 percent over a period of several recent weeks.

The supervisor, Joel Keen, intimated that he thought it quite likely that security was lax (some might be going out the back door), as total store gross was extremely low and labor was poorly utilized.

The meat department manager indicated that he thought the front end was fouling up the meat department. However, at the same time, both produce and groceries were also low in gross margins.

The consultant asked what controls were being used. The owner answered, "We take weekly inventories in meat and produce." A question was also raised about target gross margins for the meat department, as well as labor costs. The meat manager replied that he considered 22 to 24 percent satisfactory. The consultant was visibly disturbed by both the reply and the average of recent weeks, which turned out to be 18.09 percent.

A question was also raised about how the sales plan for the meat department was developed. The store owner said that two of the biggest competitors in the area had started to run all-week specials, which appeared Monday evenings, and he met their offers.

Back in the meat department, the manager was asked about how he picked his specials and how he compensated for their impact on gross. His reply went something like this, "I am on about a four-week cycle. My biggest attractions are hamburg, chicken, round steak, and weiners. I know what the results will be from past experience."

He was asked if the store owner provided an estimated store sales figure for him when they talked about planned promotions. He shook his head.

Later, the store manager was asked if meat department labor was adjusted from week to week in anticipation of changes in sales volume. He said they had not considered this.

The supervisor and the consultant agreed that there were too many hours in the meat department. The previous week a total of 439 hours in the meat department had 76 hours of overtime. The recommendations to the store manager were:

-- Check and enforce security
-- Run checks on accuracy with front-end personnel
-- Raise hourly rates and eliminate overtime
-- Reduce inventory
-- Develop and use operating ratios such as sales per man hour
-- Develop a sales plan with the meat department manager and stick to it
-- Set a target gross and institute controls so that it would be achieved
-- Schedule labor and eliminate overtime

Several months later he was considerably happier. Gross margins were ranging from 18.34 percent to 24.77 percent (past four weeks). He still had 56 hours of overtime in the meat department. The previous week indicated a labor expense of $869.00 for 409 hours of labor. He had worked 56 hours for $171.00 and his assistant had worked 46 hours for $143.54. Inventory for that week was $7,995. Sales were $10,170. Gross margin for the week was 24.77 percent.

The specials and promotion items for the past week were:

Pork Roast	$ .45	(usually $.65)
Pork Steak	.49	(usually $.85)
Tenderloin	1.79	(usually $1.99)
Top Round	1.19	
Bottom Round	1.09	
John's Sausage Rolls	.69	
John's Breakfast Sausage	.79	
John's Ring Balogna	.69	
John's Liver Pudding	.69	

The meat manager indicated that he thought his labor factor was about 9 1/2 percent, but could be 6-7 percent without the sausage room operation. He was again asked what his sales plan was. He answered as follows:

Chicken -- once a month (break even on cost or +1¢)
Ham -- 56¢ cut, 59¢ halves once a month (all hams were cut-center slices sold for 99¢; make 10-14 percent on sale items)
Ground Beef -- not run as special
Hamburger -- 55¢ to 59¢ once a month
John's Weiners -- 69¢ (sausage room product)

When asked why John's Weiners rather than a packer brand, he said he sold 600-800 pounds when on special in place of the usual 60 pounds. A packer brand might go to 200 pounds. He also indicated that bacon was footballed in the area, but was not effective as a promotion item for this store.

Two weeks ago the meat department specials had been as follows:

Round Steak	$ .99
Swiss Steak	.89
Ground Round	.89

Sales for that week were $10,606. Gross margin was 26.42 percent.

The store owner indicated that he had not brought himself to raise the hourly rate or eliminate overtime, but that they were making a little money. The last store report indicated a 3.04 percent return on sales.

The store is open seven days a week from 9 a.m. to 9 p.m.

There are six supermarkets which can be considered competitors of this store. Two of them are relatively new and have not been well accepted. The other four and this store were rated in a customer survey. This store is identified as store E in the survey. (See pages 9, 10, and 11 for survey)

The grade of beef carried was a low choice. The meat manager was asked if he had ever tried a top choice. "Never in this store," he replied. The owner backed him, saying that most of the customers were very price conscious. They were used to an even lower grade. Even after it was pointed out that much of the area close to them was the choice part of the community, that there was not a store in town (according to the customer survey) that had a really strong meat image, they were still quite strong in their opinion that their customers would not go for a better grade of beef.

The department inventory, sales, gross margin are available by Monday evening (usually), for the previous week in the office of the department managers. No labor factor is calculated for them, nor is any other operating ratio provided them.

The meat department manager is proud of their reputation of offering a high degree of customer contact. It is a friendly store. He says they don't need a call bell in the meat department. They are there when they are needed.

The meat department orders beef from two suppliers, and pork from two others. They also get processed meat products from an additional four packers, including two specialty houses.

John Cox is especially proud of their own processed sausage products, labeled "John's." At the present time he is not receptive to the idea of analyzing the costs and returns of this sausage operation.

For the last thirteen week period, sales were $486,245. Supplies for this period were $5,009, labor costs were $34,220. Gross profit by departments were as follows: groceries, 16.2%; meat, 20.9%; produce, 19.4%; frozen food, 17.2%; total store, 17.9%. Wage factors were as follows: groceries, 5.5%; meat, 11.25%; produce, 7.1%; frozen food, 2.8%; total store, 7.0%. The wage factor was 0.7% lower than the previous quarter.

A consumer survey of the trading area indicated the following information in abbreviated form:

Store A, as identified in the data tables, is a free standing, 11,000 square foot national chain store with adequate parking at a downtown location. This store has recently been remodeled, and is quite attractive inside. It would be considered a profitable operation. Sales volume is estimated at $28,000.

Store B is one of a regional chain and is the largest (15,000 square feet) and highest volume store in the area. The store is located in a shopping center, fairly accessible to the entire market, although access and parking are not the most desirable during rush hours and weekends. Management is generally considered to be excellent, and the store is certainly profitable. This is the leader for this community. Sales volume is estimated at $65,000.

Store C is an independent, putting a tremendous volume of business through a small, 5,000 foot congested neighborhood store with very limited parking. They also now operate one of the new stores in the area about two miles out of town. Sales volume is estimated at $28,000.

Store D is a national chain (13,000 square feet) adjacent to downtown with fairly good access and adequate parking. The store is operating considerably below its sales potential, and would be considered a borderline or below store from a profitability standpoint. Sales volume is estimated at $29,000.

Store E is the store described in this case study.

The two new stores are each doing less than $20,000 per week, and are not involved in the survey results. The market itself has an average household income of about $7,500 (state average is $9,400). The rate of growth of the population is below state average.

Responses to the first two questions are summarized in Table 1. Store A's meat and produce departments are not rated especially strong when measured by where customers usually shop. Store B's meat department has a similar rating by customers--not as well accepted as the balance of the store. Their produce department, however, is especially strong when measured by where customers shop. Store C's reception is fairly uniform except on produce where it is less popular. Store D's produce department is usually shopped by fewer customers than the rest of the store's departments. Store E has a fairly uniform rating. The "all others" group includes smaller stores and stores on the fringes of the market area (there is a total of 15 other stores). There are indications that some customers are shopping some of these stores for meat.

Responses to question three (what considerations are important to you in selecting a food store?) are summarized in Table 2. This question was an open end one where the respondents came up with their own answers. These answers were then grouped to allow tabulation. Most responses fell into four general areas: (1) having to do with the store itself, (2) concerning employees and service, (3) relating to prices and advertising and (4) relating to items and products. Store cleanliness ranks number one in importance, followed by employee friendliness, courtesy, helpfulness, and politeness. Individual stores, however, received quite different rankings. For instance, Store A and Store B's customers ranked cleanliness as number one. Store E's customers, however, ranked this as number five. The number one rating for Store C's customers was lower prices. <u>This, in effect, is a measure of the image of these stores</u>. Store E's customers accept lower standards on cleanliness, but if Store E hopes to compete for Store A or Store B's customers, perhaps higher standards are needed on neatness and cleanliness. Store C has a low price image, but rates less high than some others in the area of fresh produce quality and availability of brand names. Store D has virtually no price image, either as having competitive prices or lower prices. Similar comparisons can be made for other areas of consideration.

Table 3 summarizes responses relating to price. This information also has some correlation with responses in Table 2. <u>Forty percent of the customers surveyed in the market give no priority to low prices and compare no item prices</u>. Store B has the highest percent of customers placing no priority on low prices. Only 11 percent of the customers of Store E, on the other hand, place no priority on low prices. In this table, the sample of individual store customers making item price comparisons is too small to be reliable. The total market figure does give some indication of groups of items on which customers are comparing price.

Table 1

	Store A		Store B		Store C		Store D		Store E	
	No.	%	No.	%	No.	%	No.	%	No.	%
Where did you last shop for food?	29	11	68	25	58	22	30	11	35	13
Where do you usually shop for food?	42	13	87	26	69	21	45	14	39	12
Where do you usually shop for meat?	26	10	60	23	59	22	36	14	35	13
Where do you usually shop for fresh fruits & vegetables?	25	10	87	33	42	16	33	12	31	12

Table 2

What considerations are important to you in selecting a food store?

	Store A No.	Store B No.	Store C No.	Store D No.	Store E No.
Store--Cleanliness and neatness	9	33	15	5	7
Arrangement, wide aisles, well marked sections, easy to shop good lighting, pleasant atmosphere	1	13	4	2	3
Convenient location	6	13	7	2	9
Familiar with store, habit	5	2	2	4	1
Parking & carryout convenience		4			2
Well stocked, attractive displays	5	7	1	1	1
Employees--Courteous, pleasant, friendly, helpful, polite	7	20	17	8	12
Quick checkout		3	1	2	1
Honesty & fair dealing	1	1		1	1
Prices, Advertising Promotion --Attractive competitive prices	2	9	11	1	3
Lower prices	2	6	23	1	9
Bargains available		2	1		3
Stamps given		1			1
No stamps				7	
Products--Meat quality and freshness	6	9	14	12	8
Self Service		1	1	1	
Service					
Lower meat prices			2		2
Fresh produce quality	3	14	7	8	4
Brand names available	3	6		1	2
Wide Variety of products	3	22	7	2	2
Good quality merchandise	1	5	6	2	4
Other--No Sunday hours, friend, Stockholder, etc.		2	4		4

A high number within a column indicates a favorable image.

Table 3

Some homemakers place a high priority on low prices. On which items do you commonly compare prices?	Store A		Store B		Store C		Store D		Store F	
	No.	%	No.	%	No.	%	No.	%	No.	%
None	15	52	38	53	15	26	9	30	4	11
Watches ads, price conscious	1	4	8	14	5	18	3	13	2	11
Meat-many selections			2		6		1		2	
Ground Meat			3		3		3		1	
Steak	1		3		7		3		3	
Roast	1		2		2		1		1	
Ham					4		1		2	
Bacon, Sausage, chops	1		3		3		2		3	
Chicken			1				3		10	
Canned fruits & vegetables	3		5		8		5		5	
Salad Dressing			2		4		1			
Baby Food			1		3		1			
Coffee	1		6		6		3		6	
Fruit Juice	1		1						2	
Shortening			3		5				2	
Cereals	1				2		1		3	
Sugar	1		3		6		2		2	
Toliet tissue & paper	1		2		2					
Bread	1		1		1		2			
Flour	2		2		4		1		2	
Detergents	3		6		7		2		2	
Fresh Produce	2		2		1		1		1	
Milk	1		2		1					
Butter & oleomargarine	1		2		1					
Eggs			3		1		1			
Other - weiners, peanut butter, beverages, pizza, cake mixes, chips, soup, pie filling			3		5		1		3	

40% of the total indicated they seldom or never compared prices.

I. Assume that you are the store owner, what action would you take to improve the performance of the meat department? If you need help in organizing your thoughts, consider the following outline:

1. Layout, Facilities
2. Merchandising
3. Pricing
4. Product Mix and Quality
5. Employee Training
6. Reports required from and given to the meat department manager

II. Assume you are the department manager working in this situation.
1. What would you recommend to the owner to improve meat's contribution to the total store?
2. What actions would you take on your own to improve performance?