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OPPORTUNITIES FOR FROZEN FOOD LOCKER OPERATORS

*Opportunities for growth and
expansion exist for many
locker operators*

This manual discusses opportunities
and suggestions for growth in:

- Freezer Provisioning
- Institutional Trade
- Specialty Meats
- Central Packaging

OPPORTUNITIES FOR FROZEN FOOD LOCKER OPERATORS

R. E. Schneidau
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The decline in the number of locker plants in the United States from 11,600 in 1951 to about 9,000 in 1960 has been a prime cause of concern and pessimistic talk in the locker business. (There are now about 370 of these firms in Indiana.) Yet at the same time the number of freezer provisioning firms grew from very few to over 900 in 1960. ^{1/} The almost fivefold increase in the use of home freezers since 1950 has undoubtedly contributed to the decline in locker plant numbers, but total cause cannot be attributed to this one factor. Resistance to change and the inability to plan and adjust the operation to changing economic conditions were important factors in the failure of many firms.

Even though number of firms has been declining, dollar sales by the locker industry have steadily increased. Larger operators performing more services is the result. Sales of meat and other frozen foods by the locker industry totalled about \$275 million in 1954 while in 1959 they were \$550 million or an increase of 100 percent. The freezer provisioning and locker industry served about one out of every seven families in the U.S. in 1960--6.5 million patrons--and this market is growing.

This publication is intended: (1) to point out a few of the existing and potential opportunities available to the locker operator, and (2) to caution the operator that without the application of sound management and managerial practices the road to success will be bumpy if it leads there at all.

OPPORTUNITIES IN FREEZER PROVISIONING

The number of home freezers in use increased from about 500,000 in 1946 to 11.3 million at the start of 1960, almost entirely a post-war industry. About 23 percent of all electrically wired homes in the United States had freezers in 1961. ^{2/}

Annual sales of home freezers in recent years have been nearly one-third that of electric refrigerators, more than 60 percent of room air conditioners, and about one-third above annual sales of home dishwashers. In 1962 the retail value of home freezers sold was \$289 million. ^{3/} Of all net zero storage space in frozen food lockers and home freezers (213 million cubic feet) in 1960, home freezers accounted for about 75 percent of total space. This is why many operators are taking out lockers and finding alternative product and service lines. Freezer provisioning is one of these. Space vacated by lockers makes ideal frozen food storage facilities for holding all types and brands of frozen meats, produce, and fruits for sale to this large market of freezer owners.

A continuing and growing market for the services of the freezer provisioner is likely. Just to keep the same proportion of home freezers to families in this country means an expanding market of about 1.7 percent per year--the population growth rate. Estimates for 1975 put the population of the United States at about 225 million. In

^{1/} Wilkins, P.C., and B.D. Miner. Frozen Food Locker and Freezer Provisioning Industry, 1960, Farmer Cooperative Service, Marketing Research Report 545, USDA, June 1962.

^{2/} Electrical Merchandising Week, Annual Statistical and Marketing Issue, Vol. 93, No. 4, January 1961.

^{3/} Extracted from Electrical Merchandising Week, McGraw-Hill, New York, New York, January 1963.

addition there is every likelihood that this market will grow even faster. As our society becomes more affluent (disposable personal income continues to increase), and people value their leisure time more highly, the sale of convenient home freezers to an ever-expanding market exists.

Per capita disposable income in the United States for 1962 in terms of prices existing in 1947-49 had increased by 24 percent. Per capita disposable income (deflated by the consumer price index to a base 1947-49 = 100) in Indiana in 1962 was \$1,556 compared with \$1,395 in 1950. As income increases, both the quantity and quality of food consumed increases, but the quality of foods consumed rises relatively faster than the quantity. A USDA study showed that a 10 percent increase in income per person (non-farm) results in an average increase of 2 percent in the value of food consumed at home. ^{4/} The shift in type of food consumed as incomes rise is from potatoes and cereal products to increased consumption of higher priced meats, fruits and vegetables--products handled by the freezer provisioning industry.

Of substantial importance to all meat handlers and processors is the favorable climate for growth brought about by ever-increasing per capita meat consumption. Total per capita pork, beef, veal and lamb consumption has increased from 142 pounds in 1940 to almost 164 pounds in 1962. While per capita consumption of veal and lamb has been tending downward, and pork remaining about constant, per capita beef consumption rose about 34 pounds per capita, or 62 percent (Table 1).

Several other significant changes in our society are important to planning by the frozen food business operator. Not to be

overlooked is the fact that more than one-fourth of our working labor force consists of married women. This represents over 23 million women who must return home and, in most cases, prepare the evening meal (Table 2).

Table 1. Per capita meat consumption in the U. S. for selected years. a/

Year	Beef	Veal	Lamb	Pork	Total
1940	54.9	7.4	6.6	73.5	142.4
1945	59.4	11.9	7.3	66.6	145.2
1950	63.4	8.0	4.0	69.2	144.6
1955	82.0	9.4	4.6	66.8	162.8
1960	85.2	6.2	4.8	65.2	161.4
1962	89.1	5.5	5.2	63.9	163.7

a/ Extracted from Livestock and Meat Statistics, 1962, AMS, ERS, USDA. Washington 25, D.C., July 1963, p. 289.

Table 2. Employment status, by marital status and sex, March 1963. a/

Marital Status & Sex	No. (000)	%
Total workers	67,148	100.0
<u>Male</u>		
Total (married & single)	43,962	65.5
<u>Female</u>		
Total (married & single)	23,186	34.5
Single	5,218	7.8
Married	17,968	26.7

a/ Source: Perrella, Vera C. "Marital and Family Characteristics of Workers," Monthly Labor Review, U. S. Department of Labor, February 1964, p. 2.

A recent study by the U. S. Department of Agriculture of one day's meals for a family of four shows the cost and time involved through purchase of partially or com-

^{4/} Rockwell, G.R., Jr. Income and Household Size: Their Effects on Food Consumption, Marketing Research Report No. 340, AMS, USDA, June 1959, p. IV.

pletely prepared foods as compared with home-prepared meals. The cost at 1953 prices is \$2.80 more for ready-to-serve meals and 90 cents more for partially prepared meals. However, the saving in time for the ready-to-serve meals over the home-prepared meals is 3.9 hours, and 2.4 hours for partially prepared meals (Table 3).

Table 3. Cost and hours required for preparation of one day's meals for a family of four. a/

Type of meal	Approx. cost, 1953 prices	Hours required to prepare
Home-prepared	\$4.90	5.5
Partially prepared	5.80	3.1
Ready-to-serve	6.70	1.6

a/ Source: How American Buying Habits Change, U. S. Department of Labor, Washington 25, D.C., p. 105.

The substantial increase of women in the working force appears correlated with the increased demand for time-saving convenience foods. Convenience foods cover a wide list of items, but basically they include foods that have undergone (prior to retailing) some preparation ordinarily done in the home. A study performed in 1959-1960 by the USDA showed that for each \$100 spent in grocery stores for food, \$14.03 was spent for convenience foods--a considerable fraction of the food dollar. 5/

Frozen fruits and vegetables represent a convenient, time-saving, and handy form of product which may still yield the satisfaction, to the homemaker, of having prepared a "home-cooked meal."

Striking increases in consumption of frozen fruits and vegetables indicate a relatively expanding market. From 1956 to 1962 per capita consumption of frozen, concentrated citrus juices rose by 1 pound. This figure represents concentrated weight. In comparison, per capita consumption of canned and chilled citrus juices declined by 0.7 pounds. Even more striking is the rapid rise in consumption of frozen vegetables during this period. Per capita consumption of frozen vegetables went from 7.3 pounds in 1956 to 11.6 pounds in 1962-- a 4.3-pound per capita increase! This compares favorably with an increase of but 2.1 pounds in per capita canned vegetable consumption for the same period (Table 4).

Service is one of the major products sold by the locker operator. Service is necessary to provide satisfaction to many customers. The practice of stocking home freezers appears particularly well suited to the locker operation. This is an ideal outlet for large volumes of processed portion-controlled, custom-packaged beef and pork otherwise merchandised to a diminishing clientele of locker patrons. It offers potential growth resulting in more efficient use of labor and facilities and lower per unit costs.

Changes in the Rural Market

Though the farm clientele is still a good market for freezer provisioners, real growth potential exists mainly with urban and non-farm families. The Bureau of Census reports that in the United States in 1959, 55.8 percent of United States farms had home freezers. The percentage was even higher in the East North Central States (Table 5). This compares with an average of under 23 percent for all homes in the United States. Of course, such figures do not reveal an ever-growing but small farm market exist-

5/ Hays, H.H., and Dunham, D.F. Convenience Foods in the Grocery Basket, Marketing Bulletin No. 22, ERS, USDA, September 1962, p. 4.

Table 4. Per capita consumption of frozen and canned fruits, vegetables and juices, for 1956 and 1962. a/

Item description	Per capita consumption (lb.)	
	1956	1962
<u>Frozen Fruits and Juices</u>		
Total	8.8	9.7
Citrus juices b/	4.9	5.9
Strawberries	1.5	1.5
<u>Canned and Chilled Fruits and Juices</u>		
Total canned & chilled fruits	21.8	23.3
Total canned & chilled juices	14.2	15.1
Canned & chilled citrus juices	8.1	7.4
<u>Frozen Vegetables</u>		
Total	7.3	11.6
Potato products	1.2	3.9
Peas	1.5	1.8
<u>Canned Vegetables</u>		
Total	43.9	46.0
Tomatoes	4.6	4.6
Peas	4.9	4.2

a/ Extracted from Supplements for 1958 and 1962 to Consumption of Food in the United States 1909-52, ERS, USDA, Washington, 25, D.C., September 1959 and October 1963.

b/ Weight of concentrate.

ing because of a decline in farm slaughtered livestock.

Table 5. Percent of farm families reported having home freezers, 1959. a/

Area	Percent
Indiana	69.5
Ohio	64.3
Illinois	69.9
Michigan	64.3
Wisconsin	66.3
East North Central Region	67.0
United States	55.8

a/ Source: Extracted from U.S. Census of Agriculture 1959, Department of Commerce, Bureau of Census, Vol. II.

Management Planning Guides for Freezer Provisioning

For the operator planning to enter or expand his freezer provisioning business, the following management guides should be helpful:

- (1) Provide a credit service with freezer provisioning. Make financing for large freezer orders readily available at the plant. Credit risks will be assumed at a local bank or reputable finance company. They are, in most cases, happy for the business since it is most likely to be a continuing and constant source of customers. It may be possible to arrange for preferential short-term

rates under this type of situation. In a study of merchandising practices of 21 freezer provisioning firms by the Farmer Cooperative Service, it was found that two-thirds of the firms offered customers the benefits of installment account credit. The other one-third offered open account only. Consumer credit was one of the most important factors in the successful operation of these 21 firms. ^{6/}

(2) Use a date file to stimulate re-orders. Maintain a card file of customers listing name, address, date, quantity, quality and kind of food sold as well as number of children and adults in the family. Make an estimate of the length of time the frozen food supply will last. Each week telephone calls should be made to customers who are running low on freezer provisions in an attempt to make a re-sale. Invite customers to the plant to observe the cutting and packaging of their meats.

(3) Merchandise "free" services. The locker operator or freezer provisioner, in addition to merchandising frozen food, is differentiating his product largely by merchandising service. Frozen food may be bought at the local supermarket--service many times cannot. The locker operator or freezer provisioner who does not offer "free" delivery service is missing one of his greatest opportunities to build business volume. Beside offering an excellent advertising opportunity to your customer's neighbors, it provides an opportunity to make a quick assessment of your customer's freezer stock and offers the possibility of an additional sale.

(4) Price specials are usually more important to home freezer owners, and unless the price special is adequately advertised it will likely fail. It has been demonstrated that advertisements carrying information of price specials can significantly boost sales not only of advertised meats, but other meats as well. In a Purdue study, Baker and Farris found that sales of ground beef, broilers, pork butts, fish, beef steaks, frankfurters, and chuck roasts, could be greatly influenced by price and/or advertising. Sales only slightly influenced by price or advertising included bacon and short loins. Sales affected by price or advertising other cuts were ham roasts, center sliced ham, pork loins, veal and bologna.

The National Association of Food Chains gives some hints about price specials noteworthy of space here. The price for a featured meat item is selected to create "a good value." The most important aspect of a good value is its relative price. "A meat item is a good value if its price is low relative to that (a) of other cuts of meat, (b) last paid for it by consumers, or (c) currently charged for it by competitors." ^{7/} It has also been found more advantageous to make a larger price cut on one item than smaller cuts on several items because the price cut is then more apparent to consumers. Price cuts made when the product is scarce will probably be more effective than when it is plentiful.

Lastly, it has been demonstrated for certain food products that using different types of promotions together (advertising, price reductions and special displays) results

^{6/} Miner, Bert D., Merchandising Practices for Freezer Provisioners, Marketing Research Report No. 455, Farmer Cooperative Service, USDA, Washington, D.C., June 1, 1961.

^{7/} Economic Effects of Price Specials for Meat, National Association of Food Chains, 1025 Connecticut Avenue, N.W., Washington 6, D.C. January 2, 1959, p. 3.

in sales greater than the sum of the gains associated with these three methods used separately. 8/

Advertising, price specials and other promotions can be effective tools for creating and maintaining business volume and business image. However, advertising policy should be carefully evaluated and checked to see that it is accomplishing these objectives.

For most locker operators modification for freezer provisioning is minor. Mostly, changes must be made in the way the business is conducted--the way the records are maintained and perhaps some employee retraining.

OPPORTUNITIES IN THE INSTITUTIONAL TRADE

In the North Central region in 1960, 25 percent of the meat and poultry sold by locker and freezer provisioner operators went to institutional outlets such as restaurants, hospitals and schools. Restaurants and drive-ins need personal specialized service given their trade so that they may continually serve their clientele in a consistent manner. These services include portion-controlled meats, special orders and fast service.

Rapidly rising labor costs are increasing the demand for more highly finished and processed foods. The need for a flexible and quickly responding organization to supply these needs is paramount to successfully serving these customers. A drive-in operator may have need for 1,000 No. 4 hamburger patties in six hours. Though it is true that locker operators may be able to operate more efficiently without this type of

problem, one of the reasons they are able to secure such business is because larger, more complex and less flexible organizations find it difficult to give this kind of service, especially when their plants are not located in close proximity to the restaurant customers. Of course, never to be overlooked is the personal business relationship that develops between the locker operator, wholesaler, and restaurant operator.

Americans are spending more and more of their money eating out. "The total market value of all food handled by eating places in 1959 was \$17 billion out of the \$69 billion total for the market value of all food consumed by U.S. civilians (excluding retail taxes and tips). 9/ This is about 25 percent of the total value of food consumed. In 1909 estimates placed this figure at 3 percent. Most indications point to continued increases in such expenditures by consumers.

Those factors of our affluent society which affect the rate of growth of the home freezer provisioning business are applicable to the hotel and restaurant trade. Not only is this market growing with the increase in population, but it is growing at a faster rate, hence, offering opportunities to the locker operator ready to put his sales and management skills to work.

Here again, few changes in plant and equipment would be necessary to accommodate this growing market. Mostly changes must come in management and operating procedures. Of course, as volume grows, plant and equipment changes become necessary.

OPPORTUNITIES IN SPECIALTY MEATS

There is a growing opportunity for locker operators to expand into the manufacture and sale of sausage and luncheon meats.

8/ Havas, N., and V.D. Grubbs. Combining Kinds of Retailer Promotions, ERS-65, ERS, USDA, Washington, D.C., September 1962.

9/ Burk, Marguerite C., Trends and Patterns in U.S. Food Consumption, Ag. Handbook No. 214, ERS, USDA, Washington, 25, D.C., June 1961, p. 78.

Some revival of consumer interest in sausage and luncheon meats not obtainable at most supermarkets appears to have occurred in recent years. Supermarkets that have installed specialty meats and delicatessen counters have in general experienced varied success. Departments actively promoting these products operate with margins of 30 percent. Good operations run 4 percent of sales. In addition, USDA figures of sausage and luncheon meats production indicate substantial growth.

The 1955 Household Food Consumption Survey indicated that luncheon meats, made largely from pork and beef, represented about 12 percent of all meat used. The characteristics of certain classes of luncheon meats make them ideal "convenience foods" for working homemakers. The market for such types of luncheon meats would appear to be growing. Data from this same survey for one week in the spring of 1955 showed that 65.9 percent of low income families were using luncheon meats while 79.2 percent of medium income families were using them.

Though there are significant economies of scale in sausage manufacture, the specialty producer does not generally have to compete on a strict cost basis which is more generally the case with such products as bologna, pickle loaf, minced luncheon meat, etc. His profits are derived from the production of a specialty product he alone produces and perhaps formulates. The successful appeal appears to be in offering a specially prepared, high quality product not generally available in the supermarket meat case. In a specific Indiana case, a Wayne County locker operator who had made sausage and luncheon meat off and on, averaging less than 100 pounds per week, was stimulated into significantly increasing production and product line. At weekly volume levels of about 500 pounds, the majority of supply moves within a few days. Product specifications call only for high quality materials. Profit margin over material cost exceeds 100 percent.

Such items that are not readily available in the supermarket case can find use, in large quantities, by women's groups, family gatherings, and men's organizations seeking "other than the ordinary" food displays. Wholesaling through retail stores and other meat markets offers potential for significantly increasing volume. However, as one successful operator points out, the specialty sausage product can be the "drawing card" for getting people to your plant. "If you are considering wholesaling, first compare business lost at your plant by what you gain through increased volume by wholesaling."

Operational Hints on Sausage and Luncheon Meats

1) Larger volume reduces per unit costs.

As with most productive processes, the volume of product handled bears directly on the cost per unit of product produced. Given a fixed amount of plant and equipment, the greater the volume the lower the per unit fixed cost of production. Production should continue to that point where cost of the last additional unit produced equals the price received for it, and this is at or beyond that volume where constant returns per unit are observed. This is usually at an input level where average cost per unit is rising, not where it is minimum. It should also be remembered that large equipment takes proportionately less power than smaller equipment and its initial cost is proportionately less.

2) Greatest savings can be made through the wise use of labor.

As far as saving money in the sausage operation, it is usually through lower labor costs that cost reduction is achieved. This can be accomplished through lower wage rates or increased labor efficiency. A Virginia study revealed that the most efficient firm in the use of labor was approximately twice as efficient as the least efficient firm in the sausage kitchen.

3) It is generally a good rule to produce a quality product. An item of caution is appropriate here. Stale trimmings purchased "cheap" may prove to be the undoing of the sausage operation. The odor may be salted away, but quality is affected. One such act may take months from which to recover. Sausage products are liked for their taste and odor, but generally in moderate amounts!

4) A good sausage maker can be trained in the plant. There probably is little need for a full-time sausage maker in most locker plants. Even so, he can be trained in the plant. The plant operator may want to learn to make sausage products or luncheon meats using existing equipment. Excellent professional technical help may be secured from any of the better seasoning manufacturers. Start with a basic formula and add to it a few original ideas. Remember to check local and state food and health laws. Shelf life is one of the greatest problems in the sausage business. A product may not deteriorate on the store shelf, but if it only lasts a day in the consumer refrigerator, sales will skyrocket--down.

5) Consumers consider reputation a paramount factor in store selection. Lastly, test the product in the plant, and in the home. Then actively promote and merchandise the new product. Build a reputation, the greatest factor used by housewives in their store selection for meats.

Merchandising Sausage Products

Merchandising the sausage product is more difficult than its production. What product is demanded in the area either existing or latent? What are the seasonal demands? How much should be produced? At what price and through what outlets should

the product be sold? "Usually it is better to produce a few items and do an efficient job than to manufacture a larger number of items. Larger numbers of items mean smaller batches and more clean-up. It means more items to stock and sell and possibly smaller, more costly deliveries".
10/ Give the customer adequate time for selection. One study found that about one-half the housewives interviewed shopped at only one store for their meat.

Sausage and table-ready meats can and do have great attraction as impulse items. Make them exciting! Locate them with the more common fresh meat items. Most makers have not touched on the multitude of sizes, shapes, varieties and colors that can help sell products. Use imagination! Locate sausage, table-ready meat and cheese together--they are complements. Remember, many people have not eaten many types of sausage. In-store samples and demonstrations are economical and effective ways to introduce a new line and boost sales.

CENTRAL MEAT PACKAGING

Central meat packaging for retailers may be a service that locker operators may advantageously perform.

The meat department of retail food stores represents about one-fourth of total food store sales. Handling and overhead costs in the meat department average approximately one-third of total store expense. At present, most supermarkets are processing fresh meat at each individual store into retail cuts that are weighed, priced, and packaged ready for sale for self-service refrigerated display cases.

In an attempt to lower the cost of processing and packaging fresh meats, several operators have been experimenting with central packaging and distribution of meats. This involves cutting, packaging, and pricing fresh meats at a central location for distribution to retail stores, eliminating the need for much labor and large investments in meat processing equipment at individual outlets. Studies have shown that, managed properly, central packaging can reduce costs significantly to the retail operator.

Situations exist in which it might be advantageous for a locker operator to contract with several retail stores to do their meat purchasing, cutting, weighing, and packaging where such a situation is beneficial to both parties. Much or all of the needed equipment is presently available with little or no capital expenditure necessary for the retailer. Again, though the potential may exist, past failures may be traced to managerial laxity and the failure to keep adequate records--the key to a successful central meat operation. Considerable analysis and planning would be necessary prior to embarking on such a venture. 11/

THE MANAGEMENT FACTOR

The management factor has been mentioned several times as the guiding hand that keeps a business going. Besides supervising the physical operations of the plant on a day-to-day basis, the good manager spends time analyzing past performance and planning future business activity (sales acti-

vities, financial activities and production activities). Past performance cannot be measured simply by looking at cash on hand. Records must be maintained and kept current. Keeping and using adequate records is usually the one major element separating the successful from the below-average operator.

Records alone may not be a very useful tool in analyzing your operation if they cover too broad a base. Locker operators should break down their income, their costs and expenses on a departmental function, or stage of operation basis. 12/ Without such a breakdown little can be done in assessing the profitability of critical operations and/or isolating causes of trouble. Profit contribution of individual functions or stages must be known if correct management emphasis is to be applied.

Records should be kept at least on a monthly basis so that trouble spots can be quickly spotted and corrected.

In a business so rapidly changing, including declining numbers and profit margins, analysis of current business performance as well as future planning is a necessity for survival. Without these detailed accounts, planning the future course of the business is an even more difficult task. The general economic trends cited in these few pages coupled with your accounting records should help toward that end.

11/ For a detailed analysis of central meat processing see: Volz, M.D., and J.A. Marsden, Centralized Processing of Fresh Meat for Retail Stores, Marketing Research Report No. 628, AMS, USDA, Washington 25, D.C., October, 1963.

12/ For a detailed discussion see: Dickens, R.L., Management Accounting for Frozen Food Locker and Related Plants, Ag. Handbook 220, Farmer Cooperative Service, USDA, Washington, D.C., October 1961.