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Neil Doppelt

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MARKETING INFORMATION: THREE SQUARES A DAY REQUIRED FOR THE FOOD INDUSTRY

by Neil Doppelt

Arthur Andersen & Co.

THE FOOD industry markets its products in a big way:

- The nation's food bill was approximately \$94.4 billion in 1971.
- An estimated 220,000 separate items were available, in grocery stores somewhere, to satisfy customers' appetites.
- Food manufacturers spend about \$1 billion annually to bring their products to consumers' attention through advertising in newspapers, magazines, and network and spot television.
- An estimated 625,000 sales calls per week were made to supermarkets in 1971.

These massive numbers provide only the outlines of the food industry's complex and costly marketing

effort. Because of the magnitude of its marketing activity, the industry is often viewed as representing "the state of the art" in the critical areas of marketing technology and marketing information systems development. How else, one reasons, could the millions and billions be allocated and controlled with any confidence? While this assumption holds true for some industry leaders, many other firms are just starting the process of upgrading their skills in the management of marketing resources.

In the following sections of this article some of the food industry's problems, practices, and opportunities will be explored. The techniques now in use (some of which have evolved through two or three passes at systems development) can

provide valuable direction to companies within the industry as well as other manufacturers and their advisers.

Inside the pressure cooker

The structure of the food industry includes three traditional distribution levels: manufacturer, wholesaler, and retailer. Over the years these channels of distribution have become pliable in order to accommodate varying market conditions. Large chain operations had bypassed wholesalers, but many wholesalers have reappeared as suppliers to chain outlets by demonstrating cost advantages for certain products. Specialized products such as frozen foods, ethnic foods, and "health" foods have generated cor-

EXHIBIT I

Grocery Store Sales - 1971

	NUMBER OF STORES (000)	% OF TOTAL	\$ SALES (BILLIONS)	% OF TOTAL
Large Supermarkets (\$2,000,000 per year +)	10.4	5.1%	\$35.6	37.6%
Medium Supermarkets (\$500,000-2,000,000)	28.5	13.9	36.8	39.0
Small Supermarkets (\$150,000-500,000)	33.7	16.4	12.0	12.7
Small Stores (under \$150,000 per year)	132.3	64.6	10.0	10.7
TOTALS	204.9	100.0%	\$94.4	100.0%

responding specialized wholesaling operations. Groups of independent retailers have organized formally and informally to create their own wholesaling operations, again in response to cost pressures. As a result of these kinds of adjustments the distribution lines crisscross.

At the retail level, however, the slow trend toward volume concentration continues. Statistics from *Progressive Grocer* magazine's most recent Industry Survey* are summarized in Exhibit 1, above. The thousands of retail outlets and their complex supply lines represent a continuing challenge for food manufacturers and distributors. An understanding of trends and problems at the retail level is essential to the formulation of sound marketing policies.

Viewed from a distance, the marketing process for a food manufacturer looks simple. He must provide a product that is competitive in price and quality, encourage

a variety of direct and indirect customers to buy it, insure that his distribution system keeps stock available at the retail shelf, and keep a careful eye on costs. Since everybody has to eat, the product should attain a reasonable market share and generate satisfactory contribution dollars to profit and overhead. This image of a relaxed, smoothly operating industry is almost exactly opposite to the real situation. Food manufacturers are being squeezed by a number of environmental trends as illustrated by the following statistics:

- The profitability of chain grocery stores, as measured by net profit as a percentage of sales, now stands at a tiny 0.9 per cent (1971).

Result: Manufacturers are under continuing price pressure, and any item that offers some promise of a little extra margin for the supermarket moves to the top of the "approved to buy" list.

- The net population growth of the United States has slowed to just under 1 per cent per year (1971). Zero Population Growth may be around the corner.

Result: A long history of growth through domestic population increase is ending for the food industry.

- Supermarkets seem to be reaching a plateau in terms of the variety of items they carry. After rising rapidly from 3,000 in 1946, the average item count is increasing at about 100 per year, and the average large store now carries about 7,900 items.

Result: Any new food product, package size, or non-food item will probably have to displace something else in order to appear on retail shelves.

- Government activity in the areas of price levels and profit margins (Phase II), quality and in-



NEIL DOPPELT is a manager in the Administrative Services Division of Arthur Andersen & Co. in Chicago. Formerly he was a senior marketing analyst with Esso International, Inc. Mr. Doppelt received a B.S. in chemical engineering

from the Massachusetts Institute of Technology and an M.S. in industrial administration from Carnegie-Mellon Graduate School of Industrial Administration. His articles have appeared in several professional journals.

*This Survey is an excellent source of industry information; most of the statistics in this article are drawn from current or historical Survey issues.

The average item count is rising at about 100 a year; about 7,900 items are stocked.

redient regulation, and marketing practices has accelerated sharply.

Results: Some of the basic marketing assumptions and marketing policies of the industry are being successfully challenged and changed.

This list of problems is a formidable one for any industry. Those firms with the most successful marketing innovations stand a good chance of maintaining volume and profit growth; those companies that move more slowly may see their horizons contract rather than expand.

Many segments of the food processing industry have begun to approach the limits of cost reduction within the manufacturing function, and are struggling to keep distribution costs from rising. Again, the marketing function, or more specifically the cost-effectiveness of marketing activities, offers opportunities for profit improvement. Leverage exists to reduce the growth rate of marketing costs by making current spending levels go farther.

Data by the bushel

No marketing manager within a food manufacturing or distribution company should complain about the lack of data. He is surrounded by willing suppliers, each of whom has a price. The industry helps to support several peripheral industries whose primary function is to collect and report detailed statistics on product movement, market share, consumer buying habits, competitive prices, and media audiences—to list the main categories. The Government is also generous (and the price is right) with data on population, average price levels, spending trends, and economic activity. Within his own organization, the marketing manager can obtain

reams of detailed sales statistics, and often cost and profitability data as well. In the case of these latter figures, he may have to settle for less than he needs.

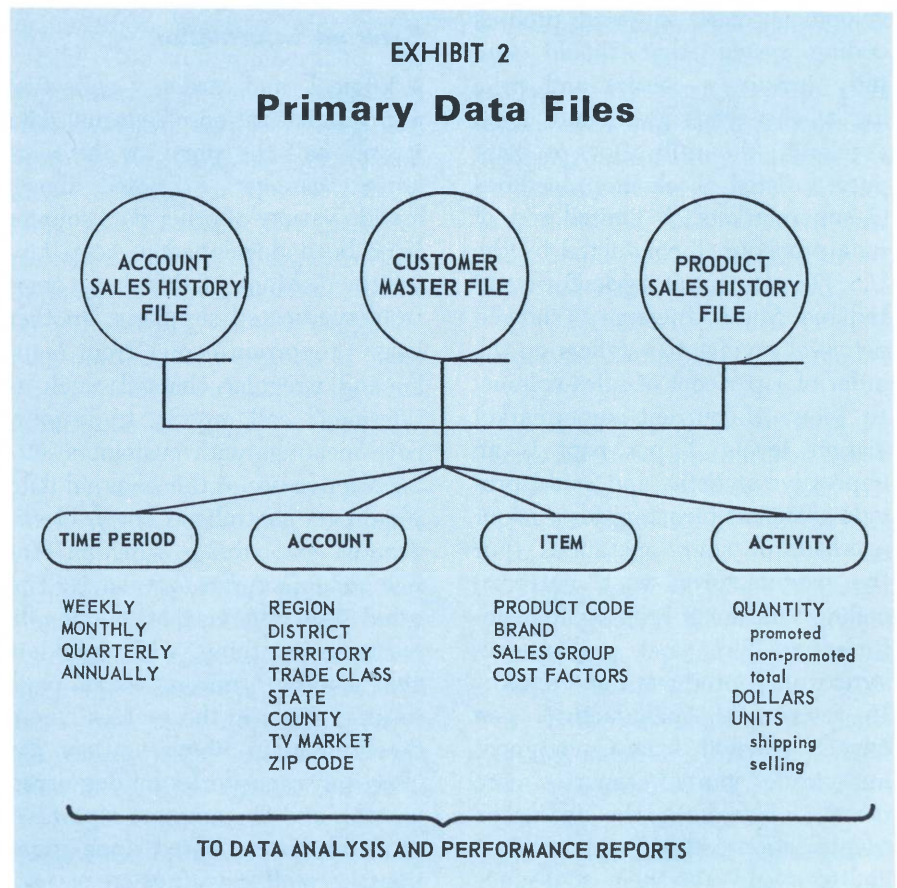
All too often, however, these sources combine to produce a glut of raw, unsummarized data that immobilizes management activity. For example, food industry customer lists often run into the thousands and sometimes tens of thousands. Analysis of the sales pie cut six ways for ten thousand customers is a hopeless task.

Because of this problem, data processing equipment is almost mandatory for companies in the industry. EDP-based information systems allow data collection at the most detailed level while providing manipulative capability to summarize, average, and aggregate the data into information for management purposes. The detail is al-

ways there, in the computer, for those instances when customer-by-customer or item-by-item information is required. Under normal circumstances, however, these reports are too voluminous to be usable.

A number of larger companies in the industry have elected to maintain their data files on a completely "disaggregated" basis; that is, with complete flexibility to retrieve and rearrange the detail according to management requirements. Exhibit 2, below, shows the key data files in such a system. The three primary files—account sales history, customer master, and product sales history—serve the production, accounting, and distribution functions as well as billing, order entry, and, of course, marketing.

A significant event in the food industry's management of data is



Retail Movement: Grocery and Non-Food Items*

Weekly unit sales	No. of items	% to total
Less than 4	1605	32.5%
4-6	966	19.6
7-12	1029	20.8
13-24	749	15.2
25-48	345	7.0
49-96	173	3.5
97 and over	70	1.4
TOTAL	4937	100.0%
Up to 1 case	4349 items	88.1%

*SOURCE: *Progressive Grocer*, November 1970 study of 7 A&P stores over a 13-week period. Average weekly sales: about \$60,000.

on the horizon. The industry, including distributors and manufacturers, is proceeding with the development of a universal product coding system that should simplify inventory control and pricing at the retail level, and could accelerate the utilization of computer-assisted checkout procedures in supermarkets. A limited test of such procedures, conducted by the U.S. Department of Agriculture and Indiana State University, showed potential savings to retailers on the order of 1 per cent of sales volume. In view of current supermarket margin levels, 1 per cent is an impressive statistic, and could provide sufficient incentive for a major overhaul of store operations. For the manufacturer, such universal coding will mean revising item information files, and perhaps restructuring product line reports. In return, the manufacturer can expect to benefit from Government and trade journal reports more closely aligned to the industry's identification codes. Better product coding could also help to reduce

pipeline inventory levels at all stages in the distribution process.

External information

Logical and orderly collection and summarization of internal data is only half the story for the marketing manager. As noted above, a wide variety of other data sources have been developed to keep him informed. Much of this data comes from syndicated suppliers; another large proportion comes from regular and irregular channels such as salesmen's call reports, trade journals, meetings with customers, etc.

Effective use of this external data requires a centralized entry, classification, and storage function that few manufacturers yet have. The usual situation is that everybody receives something, with considerable overlap, routing, and page turning. Even in those cases where firms maintain libraries, they are often only repositories for dog-eared journals and Government reports. A retrieval system based upon identification and classification of ran-

dom input can produce highly informative compilations of data.

For example, recent trends in the retailing end of the food business point toward some important shifts in the makeup of retail outlets. "Convenience stores," which offer long shopping hours seven days a week and handle about half the usual number of items, have grown rapidly. According to *Progressive Grocer* magazine, these stores have successfully resisted the trend toward fewer outlets by increasing their numbers fivefold in ten years. Convenience stores now account for an estimated 3 per cent of total industry grocery sales. Add to this piece of information another *Progressive Grocer* article, a year earlier, which reports on weekly unit sales of groceries and non-foods in A&P supermarkets: only 12 per cent of these items moved as much as a case of 24 units each week, as shown in Exhibit 3, on the left. An additional input to this picture might come from internal sources, as shown in Exhibit 4, on page 21. Here, marketing managers learn about the distribution costs and eventual contribution margins of various classes of trade. (The data is illustrative only.) Based on these facts, an examination of distribution patterns and possible marketing strategy changes could prove to be both timely and profitable. Possible alternatives include:

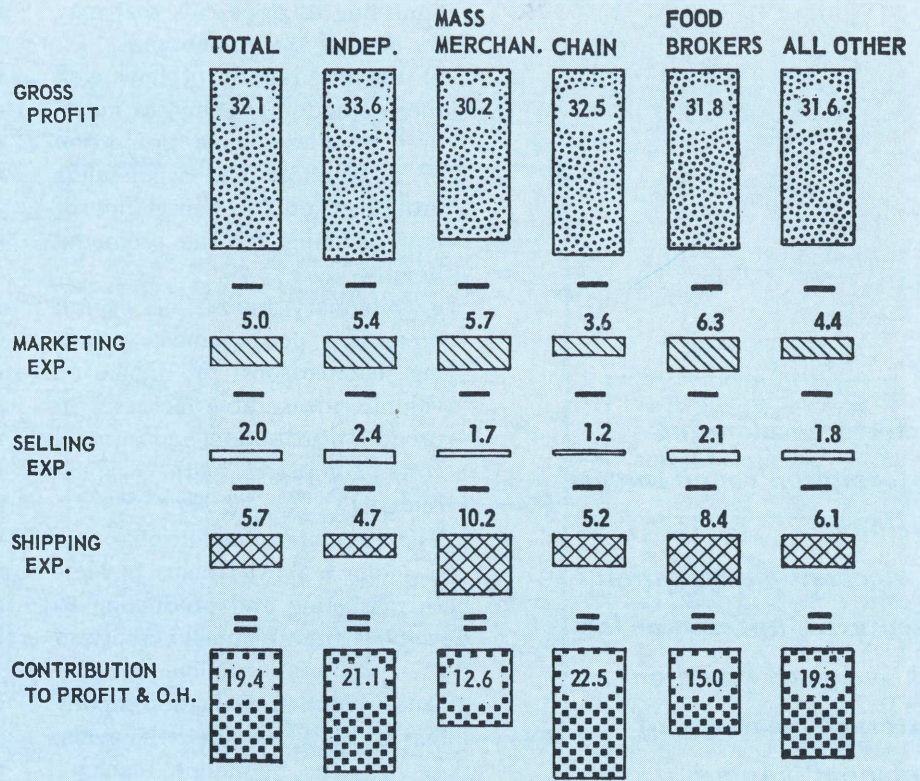
- Investigation of just why so many items turn so slowly in supermarket inventories; the average supermarket turns its stock about once a month.
- Experimentation with revised minimum order sizes to various channels of trade, considering the "half-case" customer who might be better served through a wholesaler or food broker.
- Placing special emphasis on the service needs of convenience stores, as well as on developing specific marketing plans for achieving more volume in this rapidly growing segment.

The point to this example is that

EXHIBIT 4

**Estimated Profit
Contribution by
Trade Class
first half 1972**

(illustrative data only)



an effective classification and retrieval system for external data—a “market intelligence” segment of a total marketing information system—should surface combinations of facts such as these for management attention. Without an organized approach to handling these inputs, the marketing manager is forced to rely on his own memory and chance to bring useful information into focus. Market intelligence should occupy a highly visible, centralized position within corporate staff organizations. Some companies have moved to utilize computer-based indexing systems, such as Key Word In Context (KWIC), to facilitate rapid sorting and retrieval. The availability of syndicated data may also trigger realignment of sales territory boundaries to conform to established trading areas or television markets, so that direct comparisons with external statistics are more easily accomplished.

Planning and control

The most important reason for

amassing data and converting it into useful information is to enable marketing managers to prepare plans and monitor performance against those plans.

Like God and motherhood, the importance of planning and control is not arguable; it is very easy, however, for many managers to put these activities at the bottom of their priority lists. The planning process is difficult—it requires commitment and quantification. In the food industry, the marketing-planning process really consists of many small plans within an overall framework.

1. *Trade and consumer promotions*, for example, are commonly used to encourage retailers to stock specific items, and to provide consumers with incentive to buy them. Many food companies carry out dozens of different promotions each year, offering a variety of case allowances, cooperative advertising allowances, free goods, coupons, price-off packages, and premiums. Food manufacturers are spending an estimated \$500 million annually

on these kinds of promotions, broadly classified as “merchandising allowances.”

While most companies budget an overall spending level for promotions, a much smaller number take the necessary next step to plan and monitor individual promotional campaigns. Promotion planning can be considered as another module in a marketing information system, and should include the following data and information inputs:

- a) A forecast of normal demand for the anticipated promotion period.
- b) A forecast or estimate of increased demand that will result from the promotional activity.
- c) An estimate of volume decreases, as compared to normal volume, that will take place after the promotion has been run (to account for pipeline fill during the promotion).
- d) Estimates of the extra packaging, handling, and sales literature costs that will be incurred for the promotion.
- e) A calculation of the required breakeven volume to recover all

additional costs (including the reduction of normal per unit revenue due to price cuts that may be part of the promotion).

f) Regular reports of how well the promotion is going, as measured by sales volume, proportion of distributors and wholesalers ordering, and the penetration of new accounts for the promoted item.

g) Summary reports on overall promotion performance, including comparisons to breakeven volume, measurable increases in product distribution, and internal costs compared with original budgets.

The promotion monitoring process (item f above) helps to alert both marketing and production to deviations from planned activity so that appropriate action can be taken. Promotion evaluation reports (item g above) complete the cycle; they help the marketing manager do a better job of planning future promotional campaigns.

2. *The effective utilization of salesforce personnel* can be one of the biggest potential payoffs of planning. Food manufacturers usually divide their field sales forces into "direct" and "indirect" groups. "Direct" calls are selling efforts focused on chain store buying offices, wholesalers, and other locations where buying decisions can be influenced. "Indirect" calls are made at the retail level, where the manufacturer's representative arranges shelf stock (and attempts to obtain better locations or more shelf space), helps the store manager prepare orders to his warehouse, and installs or replaces promotional displays. Considering the hiring, training, and maintenance costs of individual salesmen, food manufacturers are constantly seeking ways to make more effective use of their resources in this area. Routing schedules for indirect calls and simplified call reporting procedures are now common in the larger companies. Call reports, of course, supplement other information sources with data on competitive activ-

ity, inventory levels, and price changes at the retail level. Call reports with special "flash" sections are used to solicit observations of specific market conditions on an as-needed basis. One month, the need may be for shelf-facing information, while later in the year the section may be used to record price levels or new product information.

These scheduling and report techniques help direct the activity of individual salesmen, but they do not address the fundamental planning and budgeting question: How many salesmen are required, and why? Again, the marketing manager must combine information from a variety of sources in order to properly plan overall salesforce manning levels. This process is illustrated in Exhibit 5, on page 23.

The end result is the assignment of call frequencies to groups of accounts, and numbers of salesmen to specific territories to make those calls. Note that the key indicator of account classification is potential volume, not historical volume. These two indicators must be balanced, of course, so that regular accounts are not neglected in an attempt to crack other accounts.

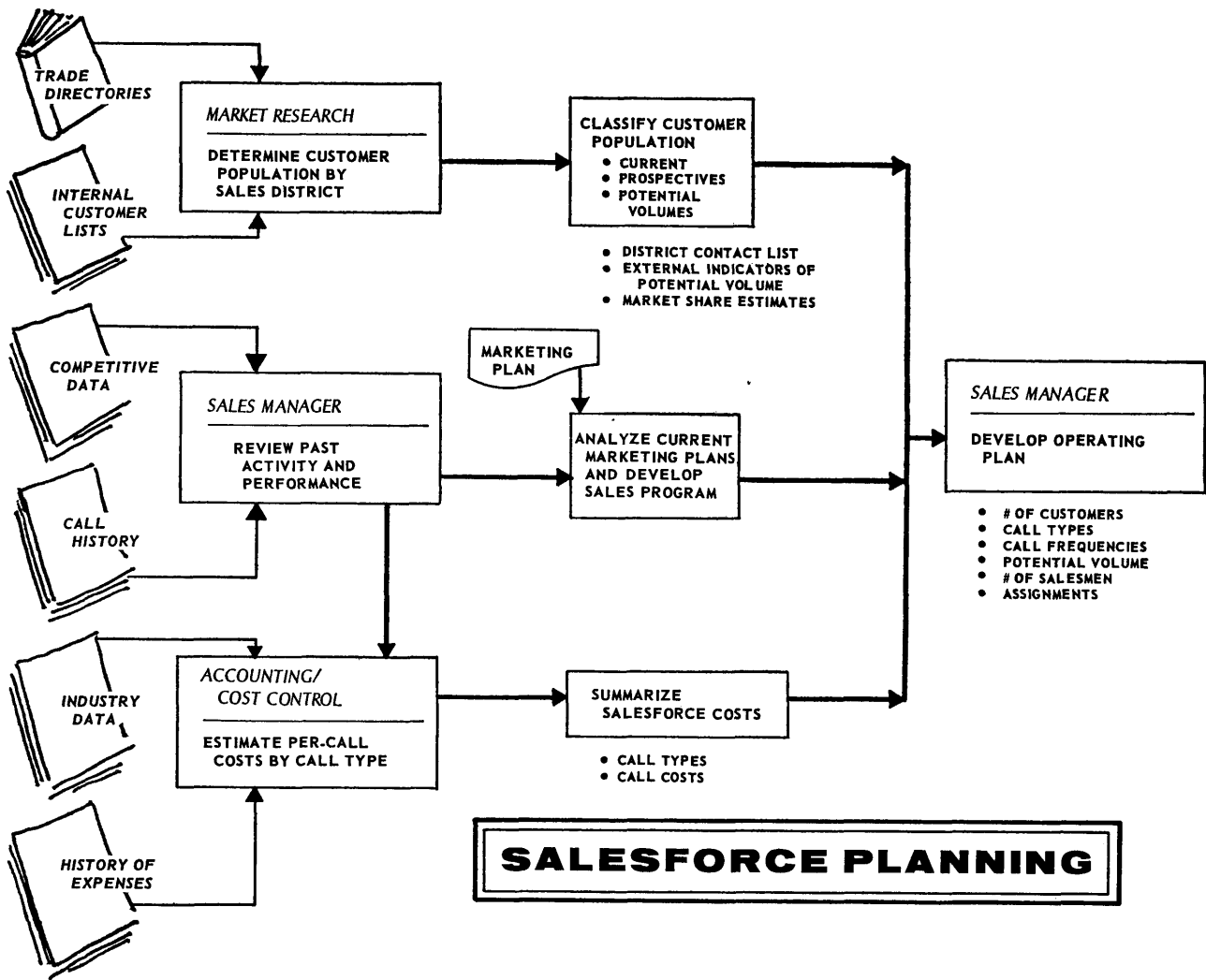
This analysis sequence may reveal that many calls are made on accounts that cannot be expected to provide any significant order volume. These tend to be the smaller, independent stores and supermarkets. When reasonable estimates of account potential for these smaller outlets yield low volumes, some other service technique should be considered. One alternative for indirect calls on smaller stores utilizes separate salesmen entirely. These "contract" salesmen may offer cost savings versus in-house salesmen, particularly for food manufacturers with limited product lines, or low distribution in certain parts of the country.

Once the output of a planning sub-system can be accurately visualized, the information requirements to support plan development are also defined. In the salesforce planning example above, for in-

Salesforce planning information requirements include:

- ***Account classification measures, updated at least once a year, based on external measures of potential volume.***
- ***Call frequency reports for sales territories.***
- ***New customer or new prospect lists obtained from external sources.***
- ***Cost estimates for hiring, firing, maintaining salesmen in the field.***
- ***Historical sales volumes (and profitability) for key accounts.***

EXHIBIT 5



stance, information requirements include:

- Account classification measures, updated at least once a year, based on external measures of potential volume.
- Call frequency reports for sales territories.
- New customer or new prospect lists obtained from external sources.
- Cost estimates for hiring, firing, maintaining salesmen in the field.
- Historical sales volumes (and profitability) for key accounts.

This is the way marketing information systems are developed: key outputs define required information inputs, which in turn define basic data files. In a well-designed information system the plans themselves become information input to other

functional areas (such as finance and manufacturing) to aid decision-making processes throughout the organization.

Those companies that have been successful in supporting their costly marketing efforts with user-oriented information systems have concentrated on the output first. The complete design of a planning subsystem thus spells out the sources for all information, and (equally important) the responsibilities, timing, and formats for the development of regular annual and project plans. Control reports tied directly to the level of detail contained in the plans round out the plan/monitor/re-plan cycle.

Better information systems

The examples cited in the sections above are only a few of the

steps being taken by industry leaders to improve their marketing operations. The internal pressures for cost control and the dynamic competitive activity of the food industry have convinced many marketing managers that improved information systems such as these are well worth the investments that they require. A reasonable rule-of-thumb guide to the "dollar stretching" value of a comprehensive marketing information system is 10 per cent of the annual marketing budget.

Just as an army travels on its stomach, the food industry moves forward on marketing information. Given both the need and the initiative to strengthen information systems within the marketing function, food manufacturers of all sizes can reap substantial benefits from the end product.