The Food Industry: Critical Business Issues

IIFET 2000

Corvallis, OR

Microbehavior and Macroresults

IIFET 2000

OREGON STATE UNIVERSITY

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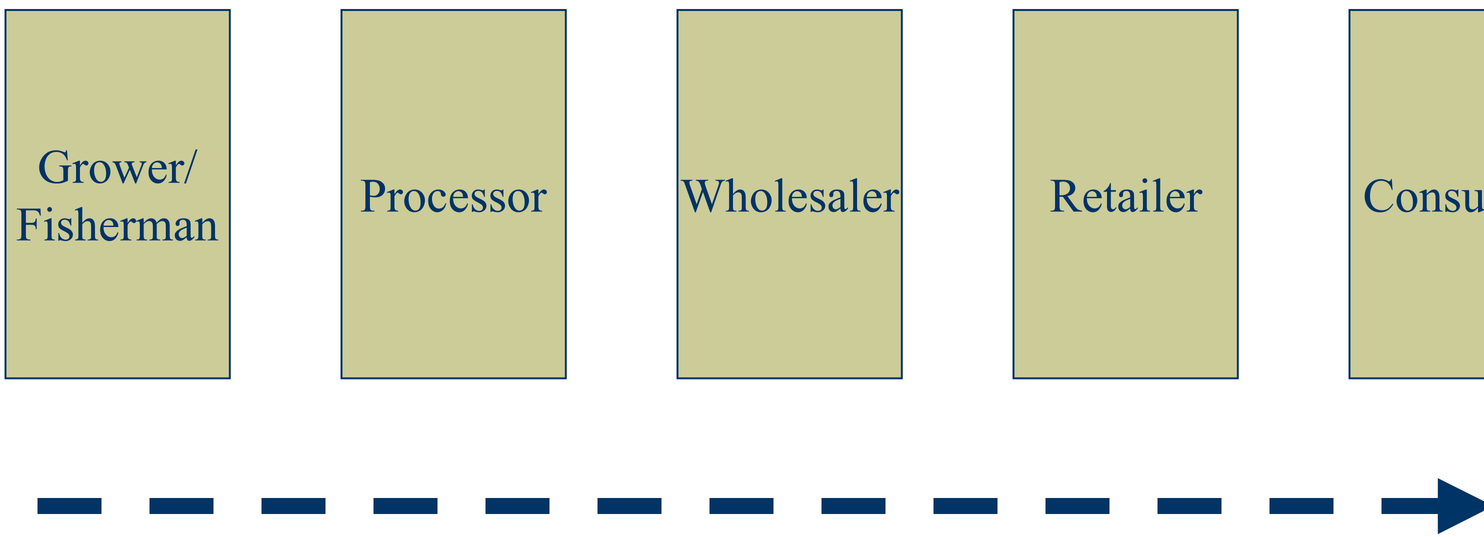
FILC

- Portland State University School of Business
  Food Industry Leadership Center
  - Industry-supported resource for food industry
  - Specializing in logistics, marketing, international
  - Business graduates with “major” in Food Industry Mgt.
  - Executive education:
    - October 24: Connections 2000 Conference
    - February 2001: Today’s Managers, Tomorrow’s Leaders. Weeklong intensive program.
    - ***Www.foodleadership.pdx.edu***

Panelists

- Pam Lund, Lynn Wilson: Momenta LLC
- Herb Aschkenazy: CEO Oregon Freeze Dry
- Jay Bornstein: CEO Bornstein Seafood
- Harry Forsberg: Director of Sales, Acosta Brokers
- Craig Smith: President, CSA Environmental Consultants

Food Industry Components



The $472B Food Retail Industry

- $472 Billion U.S. industry sales
- 30,000 stores
- 13,000 stores responsible for 56% of industry; most of those are chain stores
- 62% sales through chain supermarkets

Food Store Sales by Format

Grocery Store Sales

	1989	1989	1999	1999	1989 - 1999
	$ Sales Billions		% of Total	$ Sales Billions	% Change
All Grocery Stores	351.0	100.0	472.7	100.0	34.7
Supermarkets ($2,000,000 +)	257.6	73.4	365.4	77.3	41.8
Chain Supermarkets	175.6	50.0	292.0	61.8	66.3
Independent Supermarkets	82.0	23.4	73.4	15.5	-10.5

Source: Progressive Grocer
Notes:
* Excludes sales of gasoline
** Supermarket items only

Key Industry Facts – Prepared by FMI Information Service

Number of Stores is Contracting

	1989 Number	1989 % of Total	1999 Number	1999 % of Total	1989 - 1999 % Change
All Grocery Stores	147,000	100.0	127,000	100.0	-13.6
Chain Supermarkets	16,980	11.5	20,300	16.0	19.6
Independent Supermarkets	13,770	9.4	11,200	8.8	-18.7
Other Stores (Under $2,000,000)	59,250	40.3	37,200	29.3	-37.2
Convenience Stores	57,000	38.8	57,500	45.3	.88
Wholesale Club Stores	n/a	n/a	800	0.6	n/a

Source: Progressive Grocer

Consolidation Contributing to Fewer Stores

- Market share of top 5 supermarket companies
  - 1980: 26.5%
  - 1990: 28.7%
  - 1995: 26.3%
  - 1999: 37.3%
- Top 50 chains are 60% of all sales
- Top chains: Kroger, Albertsons, Safeway, Ahold, Wal-mart, Delhaize/Food Lion, A&P/Tengelmann.

Retailer Key Operations Issues

- Private label sales expansion
- Category management implementation
- Improved merchandising coordination with suppliers
- Decreased inventories

Retailer Forecast of Major Problems

- Recruitment and retention
- Competition from non-grocery channels
- Use of business-to-business Internet tools
- Consolidation of suppliers and competitors
- Systems to capitalize on more consumer data

Supplier Concerns about Customer Relationships

- Pressure for services (often labor intensive)
- Electronic commerce
- Central buying
- Private label focus; difficult to compete
- Category management implementation

A Period of Wrenching Change

- 2-5 year changes will form lasting impact on industry
- Future is less predictable, particularly with technology and international effects

Meta-Issues in Food Industry

Supply Chain

- In a consolidated, Web-driven retail world, how will partners in the supply chain interact and also remain viable?

Image

- Can the food industry (grower, processor, retailer) improve its image among its constituent consumers? Many consumers do not know or care about how food is produced or where. Why is image important?

Environmental

- Environmental issues play a larger role in the food industry. European countries are more focused on these issues. How will environmental issues and opportunities play out among growers, processors, retailers?

Workforce

- Food is the largest employer in many economies, and has the most difficult time attracting and retaining key workers. How can the people issues be improved in the industry?