

PERFORMANCE OBJECTIVES IN FOOD RETAILING

by

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Develops a system for management by objectives and applies the system to the retail food industry.

Objectives of This Paper

Our objectives in presenting this paper are twofold: (1) to define the system of management by objectives as it applies to food retailing and (2) to identify the requirements and illustrate the application of performance objectives to food retailing.

The concept of management by objectives is certainly not new and has been used effectively for years in some industries. It is being used in retail food firms to some degree but, in our opinion, it is not being used as extensively or as effectively as possible. It is our intention to not only provide a workable definition of the system of management by objectives for the retail food firm, but to illustrate how the system can be applied to improve performance at the retail level.

The System of Management By Objectives

General Definition¹

The Metropolitan Life Insurance Company defines management by objectives as follows, "Management by objectives describes the management process whereby all work is organized in terms of achieving specified conditions (results) by set times. Implicit in the process is the requirement that the specified conditions contribute to achieving the broader objectives of the organization."

Odiorne puts it slightly differently "The system of management by objectives can be described as a process whereby the superior and subordinate managers of an organization jointly identify its common goals, define each individual's major areas of responsibility in terms of the results expected of him, and use these measures as guides for operating the unit and assessing the contribution of each of its members." (1) Odiorne further points out that the system of management by objectives is especially applicable to professional and managerial employees but can also cover many staff and technical positions as well as hourly workers.

Thus, it is clear that the system of management by objectives requires that the company or corporation define its overall objectives before objectives can be established for individuals. Once this is accomplished, it is then possible to identify the contribution expected from each member of the organization in terms of results or specified conditions. The food retailing firm should establish long-run objectives stated in terms of profit or return on investment as well as the responsibilities of the firm to customers, employees and the community at large. These long-run objectives must then be translated into short-run objectives for each store and department in the organization and, subsequently to each individual in the organization.

The system of management by objectives is predicated upon five basic principles.

1. If you don't have a goal then any road will get you there.

2. You can't measure results without some prior expectations against which to judge them.
3. People in an organization can't perform with maximum effectiveness if they are unaware of the goals sought, the purposes of their work, or how well they are doing in relation to those goals.
4. Effective motivation and development depend upon manager and subordinate having an understanding of major areas of activity and responsibility and what conditions will exist if results are to be considered satisfactory on all counts.
5. In the absence of such standards no amount of generalized motivation can produce satisfactory results. Clear standards themselves have strong motivating effects.

In a nutshell this is what the system of management by objectives is all about. In the remainder of the paper we will deal with the need for management by objectives in food retailing, the requirements of good objectives, the types of objectives and examples of each and, finally, the application of performance objectives to food retailing.²

The Need for Management by Objectives in Food Retailing

The Managerial Environment

Understanding the managerial environment in food retailing is important in assessing the need for a system of management by objectives. First of all, there are the organizational aspects which consist of the formal and informal relationships among employees and managers. In food retailing, because of joint or shared responsibilities and the nature of the business, staff-line relationships are often not well defined and, consequently, responsibility, authority and accountability are not always clear. The situation is further complicated by the lack of well defined objectives for the company, stores and departments so that members of the management team have different concepts of their job responsibilities in terms of major functions and expected results. Instead of a team effort directed toward the

achievement of mutually understood objectives for each department and store which are consistent with overall company objectives, there may be conflict and frustration. In effect, there is simply no meaningful system to communicate and control desired results in the organization.

Another characteristic of food retailing which sometimes interferes with effective performance is the technical requirement of certain jobs. This is particularly true in the case of meat and produce managers, supervisors and staff specialists. Unless expected results can be defined in terms that everyone in the organization can understand, there may be little or no communication between those responsible for the perishables departments and other members of the team, especially the store managers.

Perhaps the most important aspect of the managerial environment in the retail food store which makes the definition of objectives essential is the current economic situation. The competitive situation is creating greater pressures for maintaining or increasing sales and holding the line on payroll costs while at the same time extending hours of operation and attempting to maintain store conditions and level of service to the customer. In addition, pressures are created by more local, state and government regulations dealing with health and safety including more stringent sanitation requirements as well as additional consumer information such as unit pricing and open dating. All of these factors combined with retail price and margin controls creates a real "pressure cooker" environment for those responsible for operating retail food stores. The system of management by objectives can be effective in helping to deal with these pressures more successfully.

Potential Advantages of Management by Objectives

The primary effects or advantages of using management by objectives in the food retailing firm are realized in tangible results such as increased sales, improved gross margin, lower costs and improved profit. But improvements in tangible results are usually due to secondary variables which are more intangible and include such things as

quality, service, housekeeping, and improved morale. In other words, by defining the results or conditions that are expected in the day-to-day operations of the store, the efforts of everyone in the organization can be directed towards common objectives which are more likely to be reached because of effective communications and control. Conflicts can be avoided and "slippage" in the entire management process can be reduced when there is a common understanding of what is expected. The system of management by objectives provides the means for increasing the returns to the management process in food retailing.

Types and Requirements of Objectives

General Requirements and Rules for Preparing Objectives

Before preparing objectives it is first necessary to identify the major areas of activity and responsibility for each individual. For example, the major areas of responsibility for a produce manager might be ordering merchandise, control of inventory, conditioning and packaging, stocking and policing displays, quality control, housekeeping, scheduling labor, ordering and controlling supplies and customer service. Objectives should then be prepared to indicate what conditions will exist during and at the end of the period if the results are to be considered satisfactory or, in other words if the responsibility has been fulfilled. By defining not only the major areas of responsibility but also the results expected, true accountability can be brought into the management process.

There are several rules or guidelines which should be followed in preparing objectives for retail food firms.

1. Quantify objectives whenever possible with acceptable variances. Whenever an objective can be stated in measurable terms such as dollars, percentage, number of customers, turnover rate etc. it is easier to determine whether or not the objective has actually been met. In many cases an objective may be stated as an acceptable range. For example, a temperature of from 32 to 35 degrees Fahrenheit may be considered

satisfactory in terms of protecting the quality of meat in a display case. Likewise, a gross margin of from 28 to 30 percent may be considered satisfactory in a produce department.

2. Prepare verbal descriptions of ideal conditions and of permissible variations when numerical measurement is not possible. It is not always possible to state objectives in measurable terms, especially for activities such as housekeeping. In such cases it is important to prepare verbal descriptions of the conditions that will be considered acceptable so that it can be determined by observation whether or not the desired end result has been achieved. For example, a housekeeping objective for the display floor could read "The floor is free of empty containers, equipment not in use, broken or spilled packages or other litter which may be unsightly or constitute a hazard to customers and employees." A verbal description such as this is observable but the final determination must by necessity involve a judgment. Whenever judgment is involved there must be general agreement among those concerned on what is reasonable in a particular situation. At least a verbal description provides a basis for judgment which would not otherwise be available.

3. Objectives should be realistic and attainable under the existing conditions and resources available. Imposing unrealistic or conflicting objectives upon individuals in an organization will only lead to a frustration and may, in fact, lead to behavior that is contrary to the achievement of the overall company objectives. For example, setting a gross margin objective that is not attainable under existing pricing and product mix conditions or setting a customer service objective that is not consistent with the labor expense objective are not recommended methods for encouraging performance that contributes to the achievement of company objectives.

4. If time is an important consideration it should be stated in the objective. If an objective or desired result is to be achieved by a specified time it should be indicated. For example, if restocking is to be completed by a certain time of the day or day of the week it should be indicated so that everyone will know when the result is to be achieved.

5. Objectives should be stated in writing. It has been demonstrated many times that instructions or information passed through word of mouth tend to become garbled. Therefore, writing objectives so that everyone gets the same message is extremely important in implementing a system of management by objectives. For most people this is a difficult task but it is an essential requirement.

6. Objectives should be results-oriented and stated positively. A good objective should state the end result expected and not dwell upon methods or procedures. Objectives should also be stated positively because it is better to state what is right and desirable and not what is wrong or undesirable.

7. Avoid vague, indefinite words. Avoid words like satisfactory, proper, and adequate unless they are defined. Everyone should know what results are expected to be satisfactory, proper and adequate and one of the purposes of objectives is to define what conditions will exist when these terms apply.

8. Whenever possible, involve those who share the responsibility for performance in setting objectives. This process is sometimes referred to as goal setting or participatory management and is an important guideline. First of all, if those who must meet the objectives are involved in setting them they are more likely to achieve the objectives. Also, there is less chance that the objectives will be unrealistic if everyone concerned participates in establishing them.

Types of Objectives in Food Retailing

1. Long-run, company objectives - Each company should have overall objectives that extend more than one year and which indicate financial expectations as well as obligations to customers, employees and the community at large. Long-run objectives should include sales, net profit, return on investment, share of market, employee benefits, civic obligations and the intentions of the company with respect to goods and services provided to the customer. With respect to the latter most companies establish general policies which must be translated into specific objectives at the operational level.

2. Short-run operating objectives - The translation of overall company objectives and policies into short-run store operating objectives is vital to the system of management by objectives. The remainder of this paper will deal with short-run operating objectives which specify the conditions and results that are to be achieved at the store level on a day-to-day, week-to-week, quarter-to-quarter and annual basis.

a. Financial objectives - In order for the company to achieve its overall financial objectives, each store must make a contribution. This contribution is identified through an annual budgeting process whereby sales, gross margin, controllable expense, and contribution to profit objectives are established for each department and, based upon an estimated overhead expense, a net profit objective is established for the total store. In addition to the annual objectives, some objectives are normally established on a departmental and store basis for shorter periods of time ranging from weekly to quarterly. Most retailers use some form of budgeting to establish at least some short-run financial objectives.

b. Merchandising objectives - A second type of objective which is referred to as a secondary or key variable objective is directly related to the achievement of financial objectives. In food retailing firms secondary or key variable objectives are those that define the competitive strategy or merchandising mix. We will refer to this type of objective as a merchandising objective.

Previous research provides a useful conceptual framework for identifying the kinds of merchandising objectives that need to be developed. This research indicates that consumers select particular food stores because of the satisfaction received from three basic types of values provided by food retailing firms. First, there are convenience values which include such factors as location and physical layout of the store and the services provided. The second type of value includes those factors associated with products and include quality and variety in relation to selling prices. The third type of value includes those factors associated with how the business is operated and includes personnel relationships, physical

Table 1. Merchandising Strategy Decisions and Conditions

Merchandising Strategy Decisions	Examples of Merchandising Conditions Requiring Definition
Product quality or condition	Uniformity; general appearance
Product quality control	Rotation; temperature; level of display; turnover
Selection of merchandise	Items available; quantity on display
Packaging and unitization	Sizes available; materials used
Display methods	Space allocation; product location, merchandise grouping
Price identification	Position of tags and price marks; accuracy, price changes
Promotion and advertising	Advertised items; general use
Customer service and convenience	Courtesy; requests and complaints; checkout; condition of shopping area; consumer information
Employee appearance	Wearing apparel; personal hygiene
Housekeeping and maintenance	Equipment; floors; parking area

and aesthetic features, ethical behavior and reputation, and methods of salesmanship. (2)

It is extremely important that the competitive strategy of the firm be defined in terms that are clear and understandable to everyone in the organization in order that the desired strategy can be executed at store level. The system of management by objectives can be very helpful in achieving desired merchandising conditions (value to the customer) on a day-to-day basis in retail food firms. Table 1 is a recommended list of merchandising strategy decisions and associated activities for which objectives should be developed.

Following are examples of merchandising objectives for each of the basic merchandising strategy decisions.³

Product quality or condition - "Trim on all beef steaks and roasts is a minimum of $\frac{1}{4}$ inch and a maximum of $\frac{1}{2}$ inch of finish around the entire cut."

Product quality control - "The return air temperature in the frozen food cases is zero degrees Fahrenheit or below except when on the defrost cycle." "All fresh hamburger is ground on the same day that it is displayed for sale as indicated by the code date."

Selection of merchandise - "At least ninety-five percent of authorized and available bakery items are on display."

Packaging and unitization - "All fresh meat items are packaged in plastic trays."

Display methods - "There are at least two facings of every item displayed in the grocery department."

Price identification - "Each health and beauty aid item must be priced with a pressure-sensitive label indicating the regular and discount price."

Promotional and advertising - "Advertised items are available at all times with correct and legible price marks or signs."

Customer service and convenience - "Customers with complaints or requests are conducted personally to the appropriate department manager or store manager." "No more than three persons, including the customer being serviced, are in line at any regular checkstand."

Employee appearance - "All employees are wearing nametags."

Housekeeping and maintenance - "The sales area floor is swept daily and washed at least twice each week." "All bone cans in the meat department are equipped with plastic liners."

c. Problem solving objectives - Problem solving objectives specify the results of action required to correct problems or attain improvements necessary for the achievement of routine financial or merchandising objectives. Problem solving objectives are important for progressive growth, by providing challenges to people in the organization they help move companies off "dead-center."

Unlike financial and merchandising objectives, problem solving objectives are temporary and change frequently, depending upon the timetable for completing them. The following are examples of problem solving objectives.

"To increase inventory turnover in the grocery department from 12 to 15 times during the current year."

"Based upon retail bill-out, to reduce shrinkage in the produce department from 8% to 5% by the end of the quarter."

A problem solving objective should indicate the present situation (what is) as well as the desired result (what should be). Once a problem solving objective is stated, sub-objectives should be developed which describe the results of specific actions necessary to solve the problem. The following examples illustrate a problem solving objective and sub-objectives.

Problem solving objective - "To increase gross margin in the meat department from 20% to 22% by the end of the quarter."

Sub-objectives -

1. "Weekly inventory carryover is no more than 15% of weekly unit sales on all items."

2. "Rewraps are less than 3% of total packages produced."

3. "The display cases are inspected at least 3 times weekly to make certain that trim standards are met."

4. "Beef cuts account for 40% and pork cuts for 20% of available display space."

5. "Retail price checks are made at least 3 times weekly and indicate 99% accuracy."

6. "A cutting test on beef and pork loins meets standard yield within 1%."

d. Personal growth and innovative objectives - In order to provide for the development of people to their full potential and to realize competitive leadership, personal growth and innovative objectives should be formulated for every company.

A personal growth objective indicates a level of skill or competence to be achieved such as a productivity objective for a checkout operator or meat wrapper, or it may indicate the completion of an educational program. For example, a personal growth objective may be stated as follows: "To complete successfully three of the Cornell correspondence courses in Food Distribution by the end of the year."

Innovative objectives should indicate the testing of ideas or development of new or improved methods. They are more general than other types of objectives because the end result is not predictable. For example, innovative objectives might be as follows; "To develop and test an improved method for cashing checks", or, "To determine the feasibility of installing a computerized checkout system."

Applications of Management by Objectives in Food Retailing

Personnel Performance Appraisal

The primary use of objectives is in evaluating the level of achievement of people in the organization. This requires feedback of information necessary for each individual to determine how well he is doing. If objectives are not achieved then it must be determined whether or not it was because of inadequate performance by those responsible for achieving the objectives or whether conditions beyond the control of those responsible were at fault. In either case, the cause of the failure to achieve the objective must be identified so that corrective action can be taken or the objectives can be revised if necessary.

1. Operating personnel - One of the difficulties in applying the system of management by objectives to the evaluation of operating personnel is the fact that some objectives, especially financial objectives, may be joint or shared and the responsibility cannot be placed entirely upon the store manager or department manager. For example, sales and gross margin objectives are not completely controllable by store managers and department managers but are shared with supervisory and staff personnel who make buying and pricing decisions as well as with top management whose policy decisions are involved. Therefore, it is important to establish ranges of acceptability based upon the degree of control exercised by those responsible for achieving objectives.

Performance objectives are often used as the basis for incentive or profit-sharing plans for operating personnel. These plans are usually based upon financial objectives as indicated by Table 2 which summarizes a survey of nine retailing companies for which information was available. These nine plans are probably typical of those found throughout the country in food retailing companies. Four of the programs are based primarily upon annual net profit in each individual store while the other companies base their plans upon some combination of sales, gross margin, controllable expenses and related objectives. Instead of using actual dollar or percentage figures some companies award points depending upon the level of achieve-

ments for each component in the plan. The point system enables them to weigh each component based upon the degree of control exercised by store level personnel.

Only two companies require the achievement of merchandising objectives as a condition of eligibility for the incentive program. These companies recognize that attaining financial objectives depends upon controlling the day-to-day merchandising program.

Thus, the greatest problems in using performance objectives to evaluate operating level managers are those of achieving equity based upon a realistic assessment of the degree of control over financial objectives and an effective means for describing and measuring day-to-day merchandising conditions.

Although the achievement of financial and merchandising objectives at store level is the responsibility of managerial personnel, all employees should be involved in the management by objectives process. Hourly employees should be trained, supervised and evaluated on the basis of merchandising objectives; and, individual objectives should be established whenever possible. For example, productivity objectives in terms of cases stocked or packages produced per hour or other types of objectives such as the control of shortages by cashiers can be very helpful in improving results and evaluating performance of hourly personnel more objectively.

2. Non-operating personnel - Supervisory and staff personnel in the food retailing company share in the responsibility for achieving operating level objectives but it is very difficult to define the extent of accountability. Problem solving and innovative objectives such as those previously described are more appropriate for supervisory and staff personnel depending upon their particular area of responsibility. For example, a personnel director may have an objective of reducing employee turnover during a particular period, a training specialist may have objectives relating to the improved skills of people in the organization while line supervisors might be responsible for solving merchandising problems at store level.

Table 2. Performance Objectives Included in Incentive or Profit-Sharing Programs in Nine Food Retailing Companies*

Company	Performance Objectives							
	Sales	Gross Margin	Cont. Expenses	Net Profit	Payroll \$ or %	Sales Per Man Hour	Shrinkage	Store Conditions
A				X				X
B				X		X	X	
C	X	X	X					
D				X				
E				X				
F	X	X	X					
G	X	X			X			
H	X	X	X					
I	X				X			X

*In four of the companies only store managers were eligible; store managers and department managers were eligible in two companies, all store employees were eligible in two companies, and one company included store managers and supervisors.

Store Condition Evaluation Based Upon Merchandising Objectives

As mentioned previously it is critical to the success of the retailing organization to provide satisfactory value to the customer on a day-to-day basis. In many cases the merchandising strategy is not well defined so that there is no effective communication or control at the operating level and between the operating and supervisory levels. Well defined merchandising objectives are necessary in bringing about better control of day-to-day merchandising at store level and should be included in personnel performance appraisal.

Several years ago one company tested an incentive program based upon merchandising objectives and found that the ability of store and department managers to achieve desired merchandising conditions was directly related to controllable profit. This company also offered an incentive program based

solely upon financial factors but found that the merchandising objectives program led to an improvement in the store conditions necessary for the contribution to overhead and profit expected from each store. (3)

Labor Scheduling

Objectives provide the basis for efficient scheduling of in-store labor in terms of; (1) individual and group productivity standards such as cases or packages per hour; (2) time requirements for completing fixed functions such as writing orders, housekeeping and price changes, and; (3) time requirements for meeting variable merchandising functions such as checkout service and operating the service departments.

Company Growth and Job Enrichment

The orderly growth of companies and of individuals is greatly enhanced by the use

of performance objectives. Financial and merchandising objectives provide the means for identifying and controlling day-to-day success on a continuing basis. Problem solving, personal growth and innovative objectives help individuals and companies to grow in a progressive way and to achieve competitive leadership. These objectives are especially effective in providing job enrichment, especially for those with routine job assignments.

Summary

We have attempted to establish the need for a system of management by objectives in food retailing. The lack of well defined objectives is the basic cause of many communication and control problems in the industry. Increased pressure for sales and expense control makes it imperative to involve everyone in the organization in making the greatest possible contribution towards common objectives.

The following steps should be followed in implementing the system of management by objectives in the retail food firm.

1. Identify the common objectives of the entire organization.
2. Determine the areas of responsibility for each member of the management team.
3. Set objectives for each individual with target dates for their achievement. Include financial, merchan-

- dising, problem solving, personal growth and innovative objectives.
4. Compare actual performance with objectives.
5. If objectives are not met, determine the reason or reasons why and take corrective action or change the objectives.

There is great potential benefit to be derived from the application of the system of management by objectives to food retailing. We have really only begun to analyze the possibilities and we hope that this paper will motivate some of you to do additional research that will point the way to improving food distribution through new and more effective applications of management by objectives.

¹Management by objectives is sometimes referred to as management by results, management by accountability or management by exception.

²The terms objectives, goals and standards are considered to be synonymous in this paper.

³The examples are for illustrative purposes only. Each company should develop its own objectives.

Literature Cited

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