Opportunities and Needs for Personal Computers in the Food Industry

by

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I'm delighted to be a part of this group discussing the impact of personal computers in the food industry. My topic is "Opportunities and Needs for Personal Computers in the Food Industry." I'm here because NAWGA is deeply involved in personal computer services for members. So, I will try to cover the topic this morning by telling you about NAWGA.

I'll tell you why NAWGA got involved in the personal computer area and that will really answer the need half of my topic obligations. Then I'll tell you how we got involved and mention some of the specific systems and benefits to the people that we serve. That will cover the other part of my assigned topic. Finally, I'd like to speculate a little bit on opportunities in the future.

NAWGA got involved in the personal computer service area because our members asked for help. A little over two years ago the personal computer revolution was well under way. The hardware was easily available and cheap; wholesalers and retailers bought a lot of them. They discovered quickly that software available off the shelf in computer stores would not really do the job for them. That's where NAWGA came in. We tried to fill the gap by finding the needed software and making it available to our members.

At the same that the PC was discovered in the distribution center, we heard from our members that their retail customers were turning to them for assistance. These people wanted software that would work in the retail store and there was very little available.

The software being used in the distribution center at that time came from unusual sources. Here is an example. The shift supervisor on the shipping dock of one of our members had been trying to get a report out of the company mainframe for several months. He mentioned it at home and his son, who had a PC in his bedroom, surprised him in a few days with a program which did exactly what he was looking for. He borrowed his son's computer and took it to the dock and demonstrated it and management was smart enough to buy a PC that the people on the shipping dock could use. It was the first of many in that organization.

Now I'd like to tell you how we got involved. There was an FDRS meeting at the University of Maryland at the time the PC fever hit the industry. Dick Brown was there with me and we met Vaughn Roller. Vaughn was preparing at that time to conduct a PC training meeting in Boston with Bill Lesser of Cornell University. We recognized immediately that these were two potentially valuable resource people for NAWGA, so Dick attended their meeting and got his PC indoctrination. Vaughn had produced some PC software and we arranged to make it available to our membership. That helped us to decide that our function was to become a clearinghouse for software applications.

Then Dick Brown went shopping for software. He talked with members. He talked with independent retailers. He talked with consultants. He talked with software houses. He learned the sources of software that was pertinent and really useful to our membership. We than arranged to make it available.

In addition to telling our membership about the software available, Dick established personal computer briefings where he demonstrated various hardware and the available software to members. We've held a dozen of these briefings in the past two years. We also discovered opportunities in many other scheduled seminars to incorporate one or two presentations built around a personal computer application. We featured the PC in our convention and production conference. Later this month we will hold the first industry computer conference. We'll have 10 general assemblies and 80 workshops and 100 exhibits. The PC will be discussed and demonstrated along with other computer considerations.

We feel that our services helped our members to take advantage of the opportunity provided by the micro-computer a little faster than would otherwise have been the case.

One of the first concerns we had to face was the history of mainframe usage by members. They had been conditioned to factoring obsolescence of the hardware and the software into their return on investment calculations. With the micro, because of the low cost of both hardware and software, the payoff period is very short. In most cases the investment is recovered in six months or less. As an example, one of the systems that NAWGA made available was SLAM. That stands for Store Labor, Advertising, and Merchandising Program. The package cost is $895 including the Lotus 1-2-3 electronic spread sheet.

One three-store operator in Illinois installed the system and maintained that the operation measured a $150,000 return to the bottom line within eleven months. The micro imposed a discipline on the operation which was credited with a lot of the gain. The PC allowed them to evaluate advertising and to project gross profit more effectively, and to schedule labor. That's pretty dramatic and it's not the kind of return you can project. But it indicates what a revolution the personal computer has represented in our industry.

A second major development has been managing direct store delivery with the micro. A program that costs between $1000 and $2000 will save that much in a matter of weeks. We have reports that after installing the micro program, stores discovered as much as half of DSD items were mispriced. Of the mispricing, 60 percent was by the managers and 40 percent by store personnel.

Another package we distribute will be discussed by Vaughn Roller. It is his own shelf allocation model. Before the micro came out, one of our members had developed a similar model to run on a mainframe and paid $100,000 to get it running. Vaughn's system is available for just over $10,000.

A fourth category of micro usage that has been really helpful to our members is the vehicle and material handling equipment maintenance system controls. Since they were not priority, many companies just never got them on the mainframe. Now the micro software is available and inexpensive and doing a real job.

I think most of you know Johnny Johnson and his synergistic management company. They have produced a financial business planning model for grocery wholesalers, foodservice distributors and independent store operators. We were privileged to play some part in the development of this package. It's a package that permits a wide variety of "what if" games after the pro forma for the next year's business has been

developed. The pro forma includes cash control, P & L and balance sheet information, and the "what-if" games permit adjusting days of payables, days of receivables, choices to buy or not buy equipment, changes in inventory turns, and a myriad of other factors that affect business. And the CEO can play the games alone without starting rumors.

Once again, the comparison of the PC with the mainframe is very dramatic. One member had a program which would do the same type of business planning on its mainframe. The cost to this business was in six figures and the PC software is available now for less than $2000.

These five examples are typical of the 58 packages available now through NAWGA. They make the point that the PC has and will make systems available to operators that could not afford them before; that PCs function in areas difficult for the mainframe; that PCs are so cheap that obsolescence is not a concern; and that PCs are portable.

There is another area of opportunity that has developed because of microcomputer technology. This is in applications that benefit the total industry. Frequently these involve electronic communication. The one that is most exciting is UCS on a microcomputer. UCS is the Uniform Communications Standard. It has been in use for a few years by the larger and more sophisticated manufacturers, wholesalers and chains and brokers. NAWGA was involved in the development of this program from the beginning. We were thrilled that it was successful, but we were very concerned that the cost of getting onto the system was prohibitive and would keep smaller operators outside. The earliest people on the system spent a quarter of a million dollars and more recently, with experience in the industry, newcomers have been able to get onto the system for as little as $100,000.

By adapting the programming to the microcomputer, we are able to offer today a complete system for $5000-$7500. The $5000 buys a complete and stand alone software system that handles all of the transmission requirements. The other $2500 is to interface the micro with the company mainframe if that is desirable. This low price should make it possible for every operator, wholesaler or manufacturer or broker to take advantage of the UCS system in the industry. We have proven it will work with seven pilots that involved five manufacturers, three wholesalers, and two brokers. Now a chain is going on the system.

Another industry benefit to come out of micro technology is the computerized backhaul clearinghouse. Distributors use a micro to enter their orders or availability of their trucks into the General Electric master computer database. Then, the micro can request the system to tell where available trucks can be matched with full loads or less than truck loads. A pilot has been operating in Chicago since March and a new one is being started right now in the southwest.

Another industry opportunity comes out of a concern that we have shared with Sy Trieb for some time. That is the broad scale availability of scanning to smaller stores. One of the problems is that the cost to the wholesaler for hosting systems in retail stores is very high. There is enough experience in the field now to indicate that it takes at least 20 stores for a wholesaler to break even as a host supporting scanning in retail stores. There are many small wholesalers who do not have 20 customers who are interested in scanning immediately or who do not have the cash or the know-how to get into hosting.

So NAWGA is currently talking with computer bureaus, communications companies and software vendors to see whether we can interest them in providing host support on a third-party basis. If the economics of this idea work out, it will

open a new opportunity to smaller retailers which is currently not available because of the cost barrier.

Another opportunity for the industry has been demonstrated by the Procter & Gamble Company. They have picked up on the total systems discussions of the last quarter century and the direct product profitability studies of the last couple of decades, and combined them with the technology of the microcomputer. They have available today a microcomputer software system that will do direct product cost analysis. One chain that used it shifted its slow moving items to a local wholesaler. This program will help to cost the handling of product from the moment it comes off the production line through the distributor's warehouse into the store and out the front of the store in the hands of the consumer. This obviously is a highly sophisticated microcomputer application and it is being made available to the industry at no cost.

Another opportunity that we have explored through microcomputer technology is the measurement of productivity. NAWGA has measured productivity in the warehouse for 25 years. I was personally involved for 10 years before that. In the beginning it was done with a sharp pencil and a slide rule and then we put it on the mainframe. Then the obsolescence factor hit us and we had to reprogram it completely for another mainframe. Now with Vaughn Roller's help, we have it on a microcomputer. This will permit an individual operator to enter the data and get a complete evaluation within minutes from his/her own microcomputer. What it won't do is compare one company with industry averages or with like companies in other parts of the country or any factors outside the immediate company. We will, therefore, program the micros to communicate with our own mainframe. At the same time a company is developing a report for itself about itself, it can feed the data into our computer and we will return a report instantly on how that company's data stacks up with that of the industry.

We also have a transportation or delivery productivity analysis which has been converted to the micro.

We have also finalized a new cost comparison or office productivity analysis on the micro. This is one of the last areas to come under the scrutiny of management looking for ways to understand cost and measure cost and control cost. It was really the advent of the microcomputer that made it possible.

Finally, I'd like to mention an area that is a little different--application of the microcomputer. It is interactive training which ties micros together with video projection equipment including laser disks. We can show video on the computer and tie it into a programmed instruction system so that a student can run through a complete training exercise in one place at one time at his/her own pace. This new technology is one of the things that we are going to include in NAWGA's new training center.

My last objective this morning is to take a quick look at the future. Only 6 percent of the retail stores in the country now have scanning. That number will grow, but will never represent a majority of stores. There are other computer applications built into retail store equipment. But the opportunities haven't really been tapped. We project that an average store will have three microcomputers with hardware and software; that means a five billion dollar market.

In the distribution center, we envision twenty microcomputers in a typical operation. That includes word processing and replacing dumb terminals with personal computer work stations. For 5000 distribution centers, that's another billion and a half dollar market.

The purpose of mentioning these dollar figures is to suggest that the opportunity will be recognized by vendors who will be developing equipment and software for the industry at a rapid pace that will help to expand the opportunities mentioned this morning.

Thank you.