

# Trends in Food Distribution

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*The authors present a very detailed and all-inclusive report on the shifting frontiers of food distribution, focusing on the challenges facing the food store operator and the wholesale food distributor during the decade of the Seventies.*

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Food distribution as performed by retail stores, eating places, and wholesalers underwent diverse changes in the past decade. Some of the trends that started in the late fifties and early sixties were: (1) Food retailers built more and bigger stores. (2) Promotional techniques of food retailers expanded first with stamps, followed by games, now discounting. (3) Per capita, 10 percent more meals were eaten away-from-home. (4) More variety and forms of food became available, and (5) Wholesalers increasingly specialized more by retail market type rather than by commodity line.

The growth of fast food establishments selling low cost food for on or off-premise consumption is offering increased competition to food stores. As a response to this competition food stores are now offering more ready to eat foods for on- and off-premise consumption. Snack bars and delicatessen departments have been added and/or expanded by food stores to provide food for both on- and off-premise consumption. Frozen dinners and other prepared dinners offered by retailers have made the convenience and cost of food preparation at home more competitive with fast food establishments.

The housewife or working wife whose time is limited can serve a frozen dinner for \$0.50 to \$0.75 per person. A meal can be purchased from a fast food establishment for \$0.55 to \$1.00 although this is not the meal that would be prepared at home. The average cost per meal served at home costs \$0.37 to \$0.59 per person for food ingredients.<sup>1</sup> In order to increase the families' standard of living, many women have joined the labor force to provide additional income. If she were not working she would have more time to prepare meals. Therefore, in her choice of how to prepare meals for the family; she now considers both time and monetary cost. The basic alternatives are: (1) buy food at fast food establishments; (2) buy convenience foods, or the raw materials and make it from scratch. The increased value placed on her time enhances eating-out as a more attractive alternative than in the past.

An estimated 40 to 50 percent of all food may be eaten

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away-from-home (food ready for immediate consumption consisting of meals and snacks served for on- and off-premise consumption) by 1975.<sup>2</sup> While such estimates may be true of value, actual physical volume will be less. In 1970, about 20 percent of the quantity of food moved through the away-from-home market. However, sales growth for eating places has been growing at a greater rate than food stores since 1963, meaning the share of volume sold in eating places will increase. This increase in volume of food in the away-from-home market will increase in spite of price increases which have been greater for eating places than for food stores.

Sales, market shares, margins, and profits are some of the indicators which may be used to study developing trends of food stores; eating places; and wholesalers; and their ability to compete for the food dollar. This analysis does not examine other important factors such as managerial ability or unique resources which affect performance.

## FOOD STORES

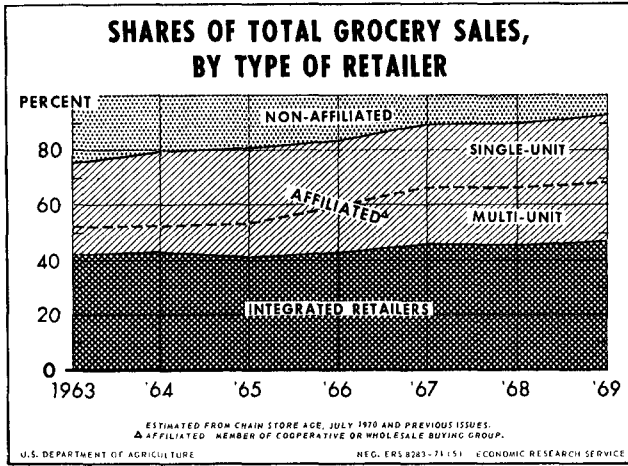
### Sales Growth

Food stores may be classed into three types based on their primary supplier. Integrated chains perform their own wholesale buying and distributing of merchandise for resale. Affiliated retailers are members of either voluntary merchandising groups or cooperative buying groups. Voluntary group retailers contract for merchandise and services from the sponsoring wholesale organization. Cooperative retailers must own stock in the cooperative wholesale firm that provides the retailers with merchandise and services. Independent retailers do not belong to a merchandising or buying group but buy merchandise from any number of wholesalers.

Food store gross sales (including non-food items) increased by 31 percent during the last decade in constant dollars and by 65 percent in current dollars. The price of food at-home increased 26 percent, compared with the 30 percent increase for all non-food items in the consumer price index.

The market share by types of food store has changed dramatically in recent years. In 1963 the market shares were as follows: integrated chains accounted for about four-tenths, affiliated retailers accounted for about a third, and independent non-affiliated retailers accounted for about a fourth. In 1969, the integrated chains and affiliated retailers accounted for about the same market share

slightly less than one-half each. Independent non-affiliated retailers' market share declined to less than one-tenth of food store sales (figure 1).



Food stores are not expected to sit idly by while the food dollar goes to eating places. By 1975, it is expected that nearly 7/8 of all supermarkets will have a take out fast food department and/or snack bar on the premise. A recent chronology of the distinctive features of new supermarkets shows the most often mentioned feature was the delicatessen. Once entering the semi-prepared and prepared food market via the delicatessen it is a short step to on-premise or take out fast foods.

**Convenience Stores:** One small, but increasingly important segment of the food store market is the convenience store. These are small, compact, self-service stores with store sales of \$200,000 per year or less. These stores can be supplied by all three types of suppliers.

Convenience stores have increased sales seven times since 1960 and now account for 3 percent of all grocery stores sales (\$2.6 billion in 1970).<sup>4</sup> This growth has taken place at a time when most new supermarkets have been growing in size and number of items carried. Convenience stores have competed with the larger supermarkets by offering longer hours, closer location, faster check-out, and a broad range of products—though limited in brands and sizes. For convenience store customers making small purchases, these advantages outweigh the higher prices charged.

**Costs and Margins**

In 1967, the gross margin of food stores was more than a fifth of sales (figure 2). Operating expenses accounted for most of the margin. Labor was the largest operating expense accounting for 40 percent of the margin. Capital cost accounted for 13 percent. Other operating costs such as advertising, utilities, supplies, taxes, etc. amounted to 35 percent while profits amounted to 12 percent of the margin.

Labor cost is accounting for an increasing proportion of food stores sales. Store payroll as a percent of sales increased slightly in 1970 to 8.02.<sup>5</sup> Hourly wages for retail food store employees increased by more than half in the last decade. The wage increase from 1969 to 1970 was over 6 percent.

**Legal form of organization:** Corporate food stores which do over 66 percent of sales of all food stores had a larger margin (21.4 percent in 1967) than partnerships and proprietorships (table 1). The larger margin is a reflection of vertically integrated marketing functions of wholesaling and in some instances food manufacturing. Proprietorships had the lowest margin.

Depreciation, taxes, and rents were about the same for the three legal forms of organization. Interest, though relatively small, was twice as much for proprietorships and partnerships as for corporations.

Corporate food stores had higher labor costs than proprietorships and partnerships. Corporate food stores' labor cost was about a tenth of sales while proprietorships and partnerships were about one-half that of corporate food stores. Lower non-corporate labor costs are due to unpaid operators and family labor, and lower wage scales for hired workers.

Corporate stores' profits averaged 1.5 percent per dollar of sales. Profit rates of corporate firms are associated with size of business. Data by asset size indicates that the larger firms (over \$50 million) enjoy a profit rate 7 times that of smaller firms (under \$100,000, table 2).

Most of the variation in labor cost and profit by legal form of organization (not considering volume) is caused by the way income for operators and family labor is allocated by non-corporate firms. Proprietorships and partnerships show a higher profit per dollar of sales, because this includes a return on operator labor and management. In contrast, profits of corporations are returns only to capital. However, the combination of labor and profit ranged from 10.2 (proprietorships) to 11.4 (partnerships) percent of sales for the three legal types, with corporations in the middle.

Food stores showed a mixed pattern for most costs with respect to firm size (table 2). Operating expenses as a percent of sales were generally lower for medium size firms (\$101,000 to \$5 million in assets) than for larger firms (over \$5 million in assets). However, advertising and fringe benefits' costs increased with firm size. Compensation of officers declined with size of firm from 3.4 percent for small firms to 0.1 percent for larger firms.

Cost of goods sold and labor cost accounted for about 88 percent of sales in 1963-67. Many chains are integrating into wholesaling and food processing in an attempt to hold down the cost of goods sold. Because of price pressure due to chain integration, other food stores are joining cooperative or voluntary wholesaling groups to reduce their cost of goods sold. In some areas, cooperative or voluntary groups are fast becoming the only source of supply for independent food retailers.

**Eating Places <sup>6/</sup>**

Eating places are a heterogenous group of food service operations. Style of service ranges from a self-service automat to restaurants with waitress service and entertainment. This variety is the outgrowth of two motivational needs. One is to obtain wholesome food at a economy

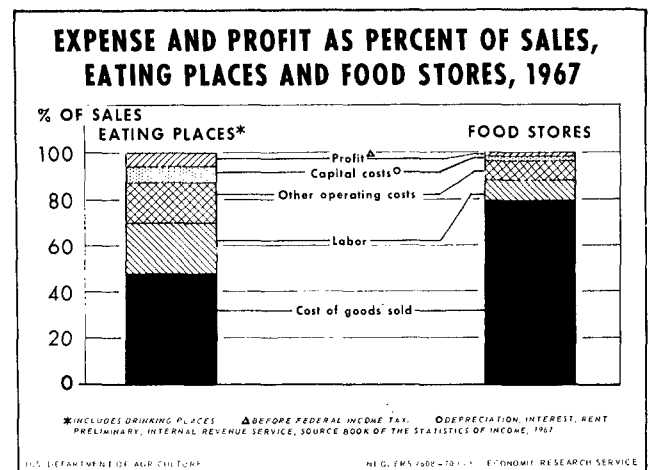


Table 1.—Food Stores: Operating expenses, cost of goods sold, and profit as a share of sales, by legal form of organization, 1963-67

| Item                              | 1963 | 1964 | 1965 | 1966 | 1967 | Average | Percent |  |  |  |  |  |  |
|-----------------------------------|------|------|------|------|------|---------|---------|--|--|--|--|--|--|
|                                   |      |      |      |      |      |         |         |  |  |  |  |  |  |
| <b>Corporations</b>               |      |      |      |      |      |         |         |  |  |  |  |  |  |
| Operating expenses                |      |      |      |      |      |         |         |  |  |  |  |  |  |
| Depreciation                      | 1.0  | 1.0  | 1.0  | 1.0  | 1.0  | 1.0     |         |  |  |  |  |  |  |
| Advertising                       | 1.3  | 1.3  | 1.3  | 1.3  | 1.3  | 1.2     |         |  |  |  |  |  |  |
| Taxes                             | 1.1  | 1.0  | 1.0  | 1.0  | 1.0  | 1.0     |         |  |  |  |  |  |  |
| Rents                             | 1.5  | 1.5  | 1.5  | 1.5  | 1.5  | 1.5     |         |  |  |  |  |  |  |
| Interest                          | .1   | .1   | .2   | .2   | .2   | .2      |         |  |  |  |  |  |  |
| Repairs & bad debts               | .4   | .4   | .4   | .4   | .4   | .4      |         |  |  |  |  |  |  |
| Labor (est.)                      | 10.0 | 9.6  | 9.8  | 9.7  | 9.7  | 9.7     |         |  |  |  |  |  |  |
| Other costs                       | 4.2  | 4.9  | 4.4  | 5.0  | 4.9  | 4.8     |         |  |  |  |  |  |  |
| Cost of goods sold                | 78.9 | 78.5 | 78.8 | 78.5 | 78.6 | 78.6    |         |  |  |  |  |  |  |
| Net profit or loss (before taxes) | 1.5  | 1.7  | 1.6  | 1.4  | 1.5  | 1.5     |         |  |  |  |  |  |  |
| <b>Proprietorships</b>            |      |      |      |      |      |         |         |  |  |  |  |  |  |
| Operating expenses                |      |      |      |      |      |         |         |  |  |  |  |  |  |
| Depreciation                      | 1.1  | 1.1  | 1.1  | 1.1  | 1.1  | 1.1     |         |  |  |  |  |  |  |
| Taxes                             | 1.1  | 1.2  | 1.2  | 1.3  | 1.4  | 1.2     |         |  |  |  |  |  |  |
| Rents                             | 1.1  | 1.2  | 1.2  | 1.1  | 1.1  | 1.1     |         |  |  |  |  |  |  |
| Interest                          | .2   | .3   | .3   | .3   | .3   | .3      |         |  |  |  |  |  |  |
| Repairs & bad debts               | .5   | .5   | .5   | .5   | .5   | .5      |         |  |  |  |  |  |  |
| Labor (est.)                      | 4.9  | 5.4  | 5.2  | 5.2  | 5.5  | 5.3     |         |  |  |  |  |  |  |
| Other costs                       | 4.6  | 4.6  | 4.7  | 3.7  | 4.4  | 4.3     |         |  |  |  |  |  |  |
| Cost of goods sold                | 81.8 | 80.7 | 80.9 | 81.8 | 81.0 | 81.3    |         |  |  |  |  |  |  |
| Net profit or loss (before taxes) | 4.7  | 5.0  | 4.9  | 5.0  | 4.7  | 4.9     |         |  |  |  |  |  |  |
| <b>Partnerships</b>               |      |      |      |      |      |         |         |  |  |  |  |  |  |
| Operating expenses                |      |      |      |      |      |         |         |  |  |  |  |  |  |
| Depreciation                      | 1.0  | 1.0  | .9   | .9   | .9   | .9      |         |  |  |  |  |  |  |
| Taxes                             | 1.1  | 1.2  | 1.2  | 1.3  | 1.2  | 1.2     |         |  |  |  |  |  |  |
| Rents                             | .8   | .9   | .9   | .8   | 1.0  | .9      |         |  |  |  |  |  |  |
| Interest                          | .2   | .2   | .2   | .2   | .2   | .2      |         |  |  |  |  |  |  |
| Repairs & bad debts               | .4   | .4   | .4   | .4   | .4   | .4      |         |  |  |  |  |  |  |
| Labor (est.)                      | 5.8  | 6.2  | 6.3  | 6.2  | 6.2  | 6.2     |         |  |  |  |  |  |  |
| Other costs                       | 5.2  | 5.6  | 5.7  | 5.3  | 5.4  | 5.4     |         |  |  |  |  |  |  |
| Cost of goods sold                | 80.7 | 79.3 | 79.2 | 79.8 | 79.2 | 79.6    |         |  |  |  |  |  |  |
| Net profit or loss (before taxes) | 4.8  | 5.2  | 5.2  | 5.1  | 5.5  | 5.2     |         |  |  |  |  |  |  |

Compiled from: Source Book of the Statistics of Income, Internal Revenue Service

Table 2—Corporate food stores: Operating expenses, cost of sales, and profit as a share of sales, by asset size of firm, 1963-67 average

| Item                               | Asset size of firm |                     |                        |                          |                             |                   |
|------------------------------------|--------------------|---------------------|------------------------|--------------------------|-----------------------------|-------------------|
|                                    | All firms          | \$100,000 and under | \$101,000 to \$500,000 | \$501,000 to \$5 million | \$5 million to \$50 million | Over \$50 million |
| Percent                            |                    |                     |                        |                          |                             |                   |
| <b>Operating expenses</b>          |                    |                     |                        |                          |                             |                   |
| Interest                           | .2                 | .2                  | .2                     | .2                       | .2                          | .1                |
| Repairs, bad debts & contributions | .4                 | .4                  | .4                     | .4                       | .5                          | .3                |
| Rent                               | 1.5                | 1.9                 | 1.4                    | 1.5                      | 1.8                         | 1.4               |
| Taxes                              | 1.0                | 1.3                 | .9                     | .9                       | 1.0                         | 1.0               |
| Depreciation                       | 1.0                | 1.0                 | .8                     | .8                       | 1.1                         | 1.1               |
| Advertising                        | 1.3                | .9                  | 1.2                    | 1.3                      | 1.2                         | 1.4               |
| Fringe benefits                    | .4                 | .1                  | .2                     | .3                       | .4                          | .6                |
| Compensation of officers           | .6                 | 3.4                 | 1.3                    | .6                       | .3                          | .1                |
| Other <sup>1/</sup>                | 13.4               | 12.9                | 12.3                   | 12.8                     | 14.1                        | 14.1              |
| <b>Cost of goods sold</b>          | 78.6               | 77.6                | 80.1                   | 80.0                     | 77.8                        | 77.9              |
| <b>Profit (before taxes)</b>       | 1.6                | .3                  | 1.2                    | 1.2                      | 1.6                         | 2.0               |

<sup>1/</sup> Includes labor.

Source: Internal Revenue Service, Source Book of the Statistics of Income.

price. This market is represented by fast food establishments which offers fast service, limited menu and lower prices than traditional table service restaurants. The second motivation is to seek entertainment, a new environment, the feeling of importance, as well as food. This is typified by supper clubs, and exotic restaurants where the price of food is not reason for selecting this type of eating place.

In a marketing environment where the decision has been made to appeal to one motive or the other, differences in the rate of sales growth, costs, and profits are observed. To analyze the performance of eating places a brief look at sales performance, margins, and profits will be undertaken.

### **Sales Growth**

Gross sales of eating places including non-foods in current dollars grew by \$12 billion between 1960 and 1970 (table 3) or at a compounded rate of over five percent per year. Eating places showed very moderate growth from 1960 to 1963, but rapid growth from 1963 to 1968 and slow growth from 1968 to 1970.

Real growth of eating places from 1960 to 1970 was equal to that of food stores (1.7 percent per year). However, from 1963 to 1969 eating place sales outpaced food store sales. Much of the growth of eating place sales was due to rapid expansion of franchised fast food units. In relation to population growth, food stores real sales had a steady growth rate of about 50 percent faster.<sup>7</sup> In contrast, eating places, since 1963 grew at a rate double that of population.

Sales of eating places are more responsive to income changes than are retail food store sales. A period of rising real income is associated with real growth in eating place sales. A period of economic decline or slow growth in income means that most of the sales growth will be in the form of price increases. Most of the increase for 1969 to 1970 for eating places was apparently due to price increases and not higher traffic count.

In the late sixties corporations had started to exert a profound influence on eating places. Corporate sales increased at a faster rate during the period 1963 to 1967 than proprietorships and partnerships.<sup>8</sup> Proprietorships continued to be the most important in terms of sales share, but corporations replaced partnerships as the second most important form of organization. The growth of corporate sales has been accelerated by the growth in fast food franchises. Many of the faster growing franchises required capital investments of over \$100,000. This large investment requirement favored the corporation because of the ability to raise capital and for limited liability protection for owners.

### **Margins**

Eating places had a gross margin of 52 percent of sales in 1963-67 but this varies by type of establishment. Restaurant and supper clubs have margins of about 60 percent of sales, while cafeteria and other self-service range close to 50 percent.

The term "cost of goods sold" as used in this article includes cost of food for resale and other purchases such as packaging, supplies, etc. Thus, the food cost to sales ratio would give a margin of about 4 percentage points higher if only the cost of food is considered.<sup>9</sup>

*Composition of Gross Margin:* Labor cost accounts for slightly over 40 percent of the gross margin for eating places.<sup>10</sup> This cost will continue to be an important aspect of eating place margins as a result of recent increases in the minimum wage. Wage rates paid in eat-

ing places have been close to the minimum wage.

Capital cost is the second largest cost item for eating places (14.5 percent of gross margin). Rent is the largest capital cost accounting for over half of all capital cost. Depreciation accounts for more than a third of capital cost with interest accounting for the remainder. Other operating expenses account for less than a third of eating places gross margins (including advertising, utilities, supplies, business taxes, repairs, and bad debts).

### **Profits**

Eating places have been relatively profitable in recent years (1963 to 1967, latest available data). Profit rates (not considering volume) vary by type of legal organization and by size of firms (table 4).

Eating places' profits before taxes as a percent of sales was highest for partnerships and lowest for corporations. Undoubtedly, part of the high profit rate of both partnerships and proprietorships is due to the accounting practice of some firms not charging for work performed by the owners and their families.

Corporations had the lowest profit rate per dollar of sales. However, corporate eating places made after tax profits as a percent of net worth 1 to 2 percentage points higher than the prevailing prime interest rate. Profit as a percent of net worth increased each year from 1963 to 1967.

Corporate profit data indicate that the largest firms (over \$1 million in assets) are more profitable than smaller firms.<sup>11</sup> Corporate firms' before tax profits as a percent of sales averaged only 0.1 percent for firms with less than \$50,000 in assets. Before tax profits as a percent of sales of firms with over one million dollars in assets averaged 3.6 percent.

## **FOOD WHOLESALERS**

### **Sales Growth**

All food wholesaler's sales in current dollars increased by 60 percent from 1958 to 1967. The increase in constant dollars was 52 percent. Grocery wholesalers had the greatest increase, 84 percent in current dollars while specialty wholesalers sales' increased 48 percent for the same time period.

Grocery wholesalers have increased sales in the face of continuing and constant competitive pressure from integrated chains. Wholesalers have responded to this competitive pressure by adopting changes which would provide the non-integrated food retailer with products and services at a cost that would permit them to be competitive with the integrated retailer. Many wholesalers organized voluntary groups of retailers who contract for merchandise and services from the wholesaler. Other wholesalers not forming voluntary groups increased their sales to eating places to compensate for lost food store sales.

Affiliated grocery wholesalers now account for sales about equal to that of food stores performing their own wholesaling function, and the sales growth of affiliated grocery wholesalers and their retailers is increasing at a faster pace than integrated food stores.

Affiliated grocery wholesalers have grown both in total sales and number of establishments. Affiliated grocery wholesalers had sales per establishment five times that for non-affiliated grocery wholesalers in 1967. The number of affiliated grocery wholesale establishments increased by more than a third from 1958 to 1967 to a total of 907 firms. The growth of affiliated grocery wholesalers has been due to the active recruiting of retailers by offering them similar services and competitive advantages available

to the integrated retailer.

### Gross Margins

Gross margins and operating expenses as a percent of sales vary by type of wholesaler. Grocery wholesalers have the lowest gross margin. Fresh fruit and vegetable wholesalers have the highest gross margins as a percent of sales due to their relatively higher operating expenses for refrigeration and loss of products due to spoilage. Also, other specialty wholesalers had a higher gross margin than general-line grocery.

Traditional grocery wholesalers (non-affiliated) have higher operating expenses as a percent of sales than affiliated grocery wholesalers (voluntary and cooperative). The non-affiliated grocery wholesalers have not achieved some competitive advantages through economies of scale, primarily because they serve smaller volume retailers. If they offered similar services as the affiliated grocery wholesalers to their retailers this would increase the cost even more.

The affiliated grocery wholesalers tend to serve larger volume retailers and offer a larger line of products than the non-affiliated wholesalers. For this reason, affiliated wholesalers have been able to obtain buying economies and a reduction in delivery cost due to economies of scale and supply more of the retailers total purchases. In addition, affiliated grocery wholesalers offer retailers varied and vital services of merchandise management, promotion planning, managerial assistance, and electronic data processing facilities for accounting and management control.

The cooperative grocery wholesalers have lower operating costs than the voluntary wholesalers.<sup>12</sup> The cooperative wholesalers tend to serve only food stores, while voluntary wholesalers have increased sales to eating places. Food stores take a larger quantity per delivery and, therefore, result in lower delivery costs than for eating places.

Cooperative wholesalers have about two and one-half times the sales per establishment as the voluntary wholesalers.

Labor was the food wholesalers' largest operating cost accounting for slightly less than half of the gross margin in 1967.<sup>13</sup> Business taxes were the second major cost. Depreciation and rent, because of large capital requirements, followed in order of importance.

### Profits of Corporate Food Wholesalers

Although market volume changed during the 1960's, profit ratios as a percent of sales showed little change. Food wholesaler profits between 1958 and 1967 (latest data available) averaged slightly less than 1 percent of sales and more than 11 percent of net worth. Profit ratios for wholesalers, as with food stores and eating places, varied by asset size (table 5).

The largest firms (over \$1 million) had the highest profit rates, averaging about 1 percent of sales and close to 12 percent of net worth. The medium size wholesaler (\$100,000) did about as well as the large size. However, the small wholesalers' (under \$100,000) profit ratios averaged less than 0.5 percent of sales and only 3 percent of net worth.

Returns on net worth of small wholesalers which account for one-half of all corporate wholesalers averaged less than half of the prime interest rate (6-8 percent). Economic theory for perfect competition would indicate that over time there should be an exodus of small wholesalers. On the contrary, such a mass liquidation has not occurred. The number of small corporate wholesalers has remained constant in recent years even though they account for only 7 percent of corporate sales.

### Future Trends

In the 1970's, food marketing firms will be influenced by the recent wave of consumerism. Legislation may be

**Table 5—Corporate food wholesalers' profits before taxes as a percent of sales and net worth, by asset size of firm, 1958-67**

| Years                              | Asset size of firm |                 |                          |                  |
|------------------------------------|--------------------|-----------------|--------------------------|------------------|
|                                    | All firms          | Under \$100,000 | \$100,000 to \$1 million | Over \$1 million |
| Profits as percentage of sales     |                    |                 |                          |                  |
| 1958                               | 0.9                | 0.1             | 0.8                      | 1.1              |
| 1959                               | 0.9                | 0.3             | 0.8                      | 1.1              |
| 1960                               | 0.9                | *               | 0.9                      | 1.1              |
| 1961                               | 1.0                | 0.1             | 0.9                      | 1.2              |
| 1962                               | 1.0                | 0.4             | 0.8                      | 1.1              |
| 1963                               | 0.7                | 0.1             | 1.0                      | 0.7              |
| 1964                               | 0.9                | 0.4             | 0.9                      | 1.0              |
| 1965                               | 1.0                | 0.3             | 1.2                      | 0.9              |
| 1966                               | 1.0                | 0.4             | 1.1                      | 1.0              |
| 1967                               | 1.0                | *               | 1.1                      | 1.0              |
| Average                            | 0.9                | 0.2             | 1.0                      | 1.0              |
| Profits as percentage of net worth |                    |                 |                          |                  |
| 1958                               | 10.0               | 1.9             | 7.6                      | 10.1             |
| 1959                               | 9.4                | 3.5             | 8.5                      | 10.6             |
| 1960                               | 8.6                | -3.1            | 8.4                      | 9.9              |
| 1961                               | 11.1               | 1.0             | 10.8                     | 12.2             |
| 1962                               | NA                 | NA              | NA                       | NA               |
| 1963                               | 9.5                | 2.7             | 12.2                     | 8.2              |
| 1964                               | 12.2               | 10.5            | 11.4                     | 12.9             |
| 1965                               | 13.3               | 5.1             | 15.1                     | 12.8             |
| 1966                               | 13.8               | 7.3             | 15.2                     | 13.4             |
| 1967                               | 12.0               | -1.2            | 10.8                     | 13.3             |
| Average                            | 11.1               | 3.1             | 11.1                     | 11.5             |

\*Less than 0.1 percent

Compiled from: *Source Book of the Statistics of Income*, Internal Revenue Service, 1958 through 1967 (latest available data).

enacted to implement "truth in advertising", "unit pricing", "open code dating", "nutritional labeling", and other regulations governing promotional techniques. In the meantime, some firms are adopting some of the above services. Firms are adopting these services to promote and develop greater customer loyalty. Additional research is needed to determine the cost of these practices and the consumer demand for them.

Discount pricing can be expected to spread in the early 1970's. However, as discounting becomes a common practice in the food retailing industry, other merchandising techniques may be used to differentiate between firms. Additional research is needed to indicate the affect of discount pricing on current price levels or the rate of price increase which has characterized the retail food prices the past few years.

Two major areas of competition are shaping up for food retailers. Food store operators are preparing for more competition between affiliated and integrated retailers. Affiliated retailers have been able to gain many of the competitive advantages enjoyed by the integrated retailers making the food store market more competitive. As a result, the market share held by non-affiliated retailers will be greatly diminished.

The second area of competition is a result of shifts in consumer preference for more eating out especially for the economy minded. The competition will be between food stores and fast food units. The gauntlet has been thrown with some fast food places direct appeal of "... why cook?"

Delicatessens, bake shops, and snack bars have provided food stores with an entry into convenience and prepared fast foods; thus, providing supermarkets with the necessary experience and knowledge of merchandising practices used by the fast food establishments. Supermarkets have the additional advantage they can utilize their existing distribution channels.

Eating places, especially large chains or franchise organizations, can be expected to counter-attack the competition of food stores in their market by intensifying product line, advertising, and environmental upgrading of their

facilities. Some food wholesalers and eating places will push for one-shop wholesaling whether performed by existing wholesalers under contract or by an internal commissary system. As a chain of eating places increases volume, as well as concentration of outlets in a market, the commissary alternative is more viable to existing channels of wholesale distribution. Remaining wholesalers would need to expand their product line and offer more services, similar to what affiliated wholesalers have done for food stores, to hold their business.

Food wholesalers will continue to specialize either in food store market or in the eating place market for the immediate future. However, by the early 1970's one should see many large wholesalers moving to serve both markets. Management will become more adept at serving variable volume buyers with varying price policies and service packages, enabling the wholesaler to serve both markets efficiently.

Margins can be expected to increase for both food stores and eating places because of the continuing impact of labor cost and higher minimum wages. Wholesale margins can be expected to stabilize in the early seventies because of the increasing size of wholesalers attaining available economies of scale. In the late seventies, wholesalers can be expected to increase margins due to cumulative cost increases for labor and services and the shifting of retail functions (portion controlled for eating places and meat cutting for retail stores) back to the wholesaler and processor. Food stores will require more supporting services from their wholesalers. Independent eating places are expected to require similar services.

The addition of consumer related services, such as unit pricing and nutritional labeling, may increase margins. Nutritional labeling cost should not vary much from present printing costs. Unit pricing may have higher maintenance cost compared to start up cost than many of the other proposed consumer services and may slightly increase margins. Further research as to the demand for and cost of providing consumer related services is necessary at this time to fully determine each service's benefits to consumers.

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#### SELECTED REFERENCES

- <sup>1/</sup> **Family Economic Review**, ARS 62-5 USDA, Wash., D.C., Jun 1970, p. 13. The range was from low-cost plan to the liberal plan for family of four with school children.
- <sup>2/</sup> **Modern Packaging Encyclopedia**, 1970, p 11.
- <sup>3/</sup> *Ibid.*
- <sup>4/</sup> **Progressive Grocer**, April 1971, pp. 98-101.
- <sup>5/</sup> Brown, Earl, et. al., **Operating Results of Food Chains 1967-70**, New York State College of Agriculture, Cornell University, Ithaca, New York, 1971, p. 20.
- <sup>6/</sup> Includes data for drinking places selling food. Sales of eating places are 4 times greater than drinking places. In terms of the volume of food movement it is 8 to 1. Restaurants, lunch rooms, caterers account for 3/4 of eating places sales with refreshment places and cafeterias accounting for the rest of eating place sales.
- <sup>7/</sup> Annual rate of population growth was 1.2 percent per year.
- <sup>8/</sup> **IRS Source Book of the Statistics of Income.**
- <sup>9/</sup> Van Dress, Michael G. and William H. Freund, **The Food Service Industry: Its Structure and Characteristics**, 1966, MED-ERS-USDA, Stat. Bul. No. 416, June 1966, Washington, D.C.
- <sup>10/</sup> Crawford, Terry L. and Leland W. Southard, "Comparison of Cost Structures of Food Stores and Eating and Drinking Places," **Marketing and Transportation Situation**, MTS-178, August 1970, MED-ERS-USDA.
- <sup>11/</sup> *Ibid.*, p. 26.
- <sup>12/</sup> Southard, L. W. and T. L. Crawford, MTS-181, op. cit.
- <sup>13/</sup> *Ibid.*