FUTURE ENVIRONMENT OF FOOD MARKETING FROM THE INDUSTRY VIEW

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When your Program Chairperson, Marjorie Merchant, asked me to participate in your Conference today, I will be frank to admit that my first reaction was: I wish I knew exactly what the future environment of food marketing will be! But there are some evident trends -- and that is what I will share with you today.

Many people believe that food marketing -- particularly on the distribution end -- is a simple process. You decide to sell a certain product...you buy it...you put it in your store...and that's it.

Technically you might say that is it. But actually, ours is one of the most complicated businesses around. Not only are there many steps involved in bringing food to the supermarket, but most of what we sell depends on Mother Nature.

First, we are dealing with products which either are perishable and must be disposed of in a short period, such as meats or produce, or we are dealing with products which depend on a growing season, such as canned fruits and vegetables. Last summer most grocers were out, or virtually out, of some key canned goods such as peaches or fruit cocktail. And there's no way to call up a factory and tell them to put on an extra shift to pick up the slack. You wait for the next year's harvest and hope that the weather is good.

When beef consumption outstrips production, it takes at least two years to build up the herds to meet the demand. And even then, there's no assurance that the farmer won't decide to go out of business or to switch to grain crops because they are bringing a better yield. It takes even longer -- 3 or 4 years -- to bring a dairy cow to full production.

When you throw in a few things like paper shortages, economics controls, and truck strikes, once again the seemingly simple process of offering foods for sale to consumers becomes a challenging, and for the past couple of years, often frustrating task.

I might hasten to add here that it is also one of the most essential and to my mind, one of the most exciting businesses in the world.

These factors all are part of the world climate in which we live today. As we move into tomorrow, all these factors will intensify. Frankly, the era of agricultural amplitude in the U.S. appears to have come to an end.

We in the United States have through the years been merchants of abundance. Mass merchandising and mass distribution to sell the products of mass production. Produce and sell it cheaply and throw away any that was left over. We always had farm surpluses to fall back on. How to use them up was more of a problem than how to get them.

Now our needs -- and the needs of the rest of the world -- are growing, and our production has not yet taken up the slack. We do not have as much of these farm products today as we would like, and we probably will not have in the near future.

Today we are learning to marshal rather than dissipate our assets. We are learning a new concept -- that of merchandising to shortages.

Considerable influence is being exerted on U.S. supplies by the world-wide need for food. American agricultural products are a valuable asset in world trade. We need certain products which other countries have -- the oil which is essential for an industrial civilization, the copper, the magnesium, the zinc... and these countries need our grains and our other food products.

As other nations become more affluent and look beyond their own boundaries for their agricultural needs, the U.S. with its tremendous agricultural production capacity finds itself with a growing world market at the same time its domestic needs also are growing.

But world trade goes beyond a mere producer-customer relationship. U.S. agriculture must respond to specific government needs and interests with regard to balance of trade and balance of payments. It represents a powerful trade-off potential, not only for the other products which we need in our country but also for diplomatic advantages. Food then becomes a political asset in international relations.

Unfortunately, if agricultural exports are a necessary part of good foreign policy or if we must make the trade-off of agricultural products for fuel and other products, it may increase prices at home unless production can be increased sufficiently to supply all needs.

What I am trying to say is that this is not a simple picture. It's not black and white. Many people have called for an outright ban on sales of wheat, beef, or other agricultural products to foreign countries. This is not necessarily the best -- or even a possible -- solution to the food supply and price problem.

However, the public should know these facts. It we need to obtain essential products from other countries, we may have to trade for what the world wants. But we deserve to know the whys.

To repeat -- remember that the worldwide demand for food is coming at a time when we in the U.S. also are increasing our needs. And at a time when supplies have not kept up with demand.

We have had two poor crop years. As I mentioned, grocers last summer ran out of many key canned goods a couple of months before the new crop came in. We stand a good chance of having the same thing happen this year, although not as severely as last year. In other words, you should be able to buy just about every item, but perhaps not in the size or brand you prefer. This is a new idea to all of us -- whether as consumers or as merchants. As recently as three years ago, such a situation would have seemed impossible in the food retailing industry. You as consumers have made many adjustments to this situation, and so have we. We share a common frustration and irritation, but thanks to some fine educational efforts on the part of the media and of government agencies, we are beginning to understand and accept it.

What we are facing today is a situation which can recur and recur again. We don't have surpluses to fall back on. What happens, for example, if we have a poor crop again this year? We in food retailing may have to make further drastic changes in our business and certainly you will have to make further adjustments in your living patterns. You already have done some of this. Take beef.

Cheap grain for feeds through the years led all of us to expect beef to be low-priced. But when surplus grain supplies in the U.S. disappeared at the same time that other costs were escalating...and when other feed sources for animals such as Peruvian anchovies used in fishmeal feed disappeared...the price of beef shot up almost overnight. Consumers reacted. Overall beef sales dropped. Consumption patterns were changed. People are not eating the same today. They're eating more ground beef and fewer steaks. They're also eating more cheese and eggs, and last year per-capita consumption of milk went up for the first time in two decades.

There have been many disruptions in normal marketing patterns during the past year. Consumer boycotts. The summer withholding action by farmers. There was literally <u>no</u> beef coming through normal marketing channels during this period.

The trucker strikes again caused a major upheaval. And any action which causes a disruption in normal marketing patterns for food results in unsettled prices for farmers, retailers and consumers. We're still not back to normal. Frankly, I'm not sure any more that there is such a thing as status quo. But once again, this is the atmosphere in which we live and in which we will for a long time to come.

We already are seeing more emphasis on increasing agricultural production. The problem cannot be solved on a short-term basis, but we are beginning. I have great confidence in the ability of the entire American system to resolve its problems and to learn to live in this new era, but it will not be an overnight matter. We have a long way to go. As we move into this new kind of world, consumers are exerting more and more influence at every level.

The consumer we are serving today and in the near tomorrow is younger and more casual, more affluent and educated, more active and involved with activities outside the home. She is more flexible and mobile, and at the same time, more sophisticated and aware.

This means, then, that our stores, our products, and our merchandising plans must be prepared with a view toward satisfying the expectations not only of shoppers but also of a government which has found itself increasingly in the position of being expected to assure and insure that all their expectations are met by the retailer.

So during the next several years we retailers will find ourselves in an atmosphere where we must be concerned about shortages of product... about quality...whether it does the job nutritionally...whether we have supplied all the information needed by the consumer to make a wise shopping choice...and whether the product contributes to waste, pollution or contamination.

This greater awareness and response is held in a broader context which carries various identifications, such as "Corporate Responsibility." Corporate Responsibility, as we view it at Kroger, is a necessary part of doing business for a modern company -- both an ooportunity and an obligation to the public we serve. It represents the role of the corporation in a changing society. It is recognition and responsiveness to the developing needs, wants and rights of that society. It also, I might add, is sound business practice.

Never before have so many factors <u>outside</u> business had such an impact <u>inside</u> business. A company operating in today's world must listen with an open mind, respond with purposeful action, and communicate -- two ways -- with consumers. This is just as much a part of good, effective marketing today as providing quality products at reasonable prices or clean, attractive stores.

I'm not trying to sound noble or to hold us up as perfect. Far from it. But the important point is that we are trying. Realistically, our first obligation will always be to run our own affairs properly and profitably. The greatest service we can offer to consumers is the best product at the lowest price possible. A company cannot trade poor economic performance for good deeds, or it may not be in business very long.

Secondly, we must respond directly to consumer and public needs. This isn't easy. Sometimes we pick up the trend and roll with it. At other times, the pulse is feeble or erratic, and it is hard to gauge what action to take. There are many different drummers in the public arena and there are many different tunes.

We in business have to develop a good antenna to pick up the signals and transmit those signals into actions which reflect the ever-changing demands of society on business. We at Kroger firmly believe in the consumer's right to have more information about the foods she buys. We have taken many voluntary steps in this area and will take more. But we are finding that we have to evaluate what is really meaningful to consumers and balance that against the cost.

For example, we have tested unit pricing in three cities and to date have been unable to justify its cost in relation to the service it provides for our shoppers. Somebody has to pay that cost. This does not mean that we do not believe that our shoppers should have this information. I'm not saying that we will not be unit pricing in more areas. Our tests are continuing and systems being refined, and it is very likely that we will eventually begin this service company-wide.

But right now we are convinced that total consumer good is better served by information services such as freshness, nutrition, and product content. Incidentally, the tests we did of these programs were the main factor in turning us on and convincing us that this was the right and the necessary thing to do.

For example, the food industry traditionally feared open dating, citing all kinds of losses, such as people reaching to the back of the case to take the latest date instead of removing the product in the proper rotation so that fresh product was always available. Had this and similar predictions proved out, the picture might have been different. Such a service would have contributed to food losses necessitating increases in price...and that would not have benefited anybody.

But when we tested open dating in two Ohio cities (Hamilton and Middletown) in cooperation with the U.S. Department of Agriculture, we found this was not the case. We actually found there were not only advantages for the consumer but also for the grocer by assisting him in proper rotation of product.

As a result of this test, we voluntarily decided to enter one of the broadest open dating programs in the country, covering some 1900 of our own manufactured products and all packaged fresh meats and fresh fruits and vegetables. In other words, virtually every perishable and semi-perishable product in our stores is now open-dated.

Similarly, our cooperation with the Food and Drug Administration in testing nutritional labeling to assist them in developing guidelines convinced us that greater consumer awareness and knowledge about the nutritional content of foods also is essential if the decline in quality of the American diet is to be reversed. We made up our minds to begin this program on a voluntary basis long before it was announced that certain items would be obligatory. We are proceeding with this commitment -- and plan to include 50 products on a voluntary basis this year in addition to the 250 which are required. To assist us in accomplishing and implementing nutritional labeling, we have opened a new nutritional laboratory in Cincinnati.

We are adding other information to our labels, too. For example, as standard-of-identity product labels are changed, we are voluntarily adding ingredient labeling.

At the store level, we tell shoppers the fat percentage in each variety of ground beef -- and we guarantee that when the shopper buys ground round, she gets ground round.

We began primal cut labeling of meats last year...and if our equipment manufacturers come through, this program will be company-wide very shortly. (We had hoped to implement this program throughout the company a year ago but ran into some supply problems with equipment and also had to make some adjustments to comply with revisions in the NLMB program.)

These are constructive steps to help consumers. There will be more of this in the future as all of us key more closely to the needs of the consumer. Our own progress, we believe, depends on meeting those needs more directly and imaginatively.

On the labels today, you also may see a couple of forerunners of tomorrow. We are starting to include metric weight as well as pound weight on our labels. We also are marking products with a bar symbol -- the Universal Product Code -- which will eventually identify virtually every grocery product in the nation.

The UPC offers many potential aids to make food shopping more efficient and effective, such as inventory control, billing, or merchandising. But perhaps its best known intended use is the electronic scanner checkstand.

Kroger tested the first complete scanner system in the U.S. last year in one of our Cincinnati stores. The results were interesting. The primary purpose of this test was to find out whether the laboratory models could function in an everyday store atmosphere and to gauge customer reaction to the various aspects of the new system. Here's what we found.

Shoppers and cashiers both liked it. Sales rose faster in this store than in the control stores with which it was compared. Overall customer impressions of Kroger improved significantly -- they ranked the store higher on every point as well as faster checkout.

Accuracy improved. In a shopping study covering 5,750 items in the test store and 4,317 items in the control store, frequency of errors dropped 75%. Over seven million items were scanned by the machines without a misread. (In cases where an error did occur, it was the result of mis-labeling, an error in the memory file, or a misring of a manual entry.)

There was customer resistance to the removal of individaul price marking on grocery items which also was tested. So initial installations probably will be made with regular individual item pricing as at present. While cost savings would be effected and accuracy improved if manual changes did not have to be made on individual items every week, we do feel that some better method must be found to satisfy the consumer's price information needs before this would be practicable. (Incidentally, scanner checkstands are not yet available for installation. The first prototypes are expected late this year. We do plan further tests but have not made any commitments for a specific type. The ones we tested in Cincinnati were laboratory models and were nver intended to remain in commercial use.) But we do believe that perhaps the most important business actions today are in the area of DISCLOSURE.

The public increasingly wants to know more about the products they buy, shareowners want to know more about the company in which they hold shares, employees demand better communication from management, the media wants to know more about everything from the fat percentage in hamburger to the mark-up on prescription drugs. Government reports have mushroomed in their quest for new and broader data on business.

With this new and sometimes confusing bombardment of information, business must decide how this will impact on the public and consider the continuing need to communicate freely and candidly in explaining itself. Business must consider that any action it takes, heretofore thought to be a private matter solely revealed within the corporation, may be publicly disclosed and debated by the media and politicians. In this area it is a new ball game!

Another challenging social trend which will be an even stronger part of tomorrow's food marketing environment is what Arthur White of the Yankelovich Organization calls "The Galloping Psychology of Entitlement." He defines this as the psychological process whereby a person's want or desires become converted into a set of presumed rights. In our business, a good example is the transition from "I hope this milk is fresh" to "I have a right to know if the milk is fresh." Hence, open dating rather than code dating.

This matter of entitlement is a part of the total process of rising expectations. The consumer movement is a particular consequence of this new attitude. It has been said about consumerism that "more than any other social movement today, consumerism has in abundance the four pre-requisites any social movement needs for success -- public support, vigorous leadership, available mechanisms for implementation, and access to the media."

In our company, we are attempting to listen. We are doing considerably more consumer research than ever before. We have also organized a Consumer Advisory Council of women from several states who provide their ideas and concerns directly to top management as well as providing a listening post for us in various communities. We have a Corporate Responsibility Committee of our Board of Directors to help formalize our attention to this subject and assure its consideration at the highest levels within the corporation. This is the kind of thing we believe will increasingly be an expected part of food marketing tomorrow.

What else will be part of the food marketing environment tomorrow? I really do not see in the immediate future any drastic changes in the supermarket...although we may see experiments with other types of food shopping -- the warehouse store, or the pushbutton-order type of installation, for example. I do see more variety, more convenience, more pleasant shopping, more helpful merchandising keyed directly to consumer needs.

In other words, for the next several years, we will see the development of more of the larger food markets such as our own superstores. Not only does this enable the grocer to better meet the needs of more consumers, but it is an economic necessity in an era when grocers could go out of business if they had to depend entirely on food -- or food would have to be priced a lot higher than it is.

These stores, which range from 25,000 to 42,000 square feet in size compared to 15,000 just a few years ago, enable us to meet consumer needs for quality, variety, personal contact, friendliness, and service.

One of their key qualities, however, is that they enhance our ability to offer the right prices on the everyday needs...the potatoes, the pork chops, the canned corn...while enabling us to stay in business and pay for things like nutritional labeling. The secret is what we call "mix." Because superstores are larger and carry a much higher volume of traffic, it is possible to merchandise a broader variety of goods.

This means that more products on which a better return can be realized are moving past the checkstand -- such as general merchandise or private brand products. In other words, items such as general merchandise -- the pots and pans and the greeting cards -- will in effect be subsidizing lower prices on everyday food items.

It may be hard for you as consumers to realize -- just as it is for my own wife -- but the past two years have been probably the lowest profit years for the supermarket industry. Believe it or not, the higher price on the supermarket shelf very often still has been insufficient to cover the grocer's increased wholesale costs and expenses.

Recently we announced our results for the First Quarter of 1974. A quick perusal left one with the impression that profits went sky-high. It's true they were up from last year's first quarter, but look at last year, when we earned less than 4/10's of a penny on each dollar of sales...and that included the earnings of our drug store chain, our manufacturing operation and our trading stamp company, so it's pretty evident that we weren't making it on food. Yet this is the period when boycott groups were being formed and calls for rollbacks in food prices were issued. To put it in perspective, this year's earnings, while up from last year, are well under two years ago despite higher sales. This is typical of the entire supermarket industry. (People these days tend to reject the statement that food in the U.S. still is a bargain, but considered relatively, it actually is true. Particularly when compared to the rest of the world.)

One of the benefits of the travails of the past two years, however, has been the tightening and strengthening of our abilities to cope with problems...and to continue to make progress in such areas as we have been discussing today despite those problems. A few years back, for example, a grocer presented with even a few of the everyday problems we have today would have scrubbed all plans to install such a consumer service as open dating. Today we consider this a part of doing business and once a decision is made, we carry it through.

This, then, is how I view the future environment of food marketing from the industry view:

First, we will continue to live with shortages of varying severity. Foods, energy, paper. Our food shopping patterns ten years from now may be completely different than they are today. Grocers will have to be flexible enough to provide what is available...to give shoppers an acceptable alternative -- such as, for example, last year's timely introduction of textured soy protein to help stretch meat dollars without sacrificing protein.

Consumers too will have to adjust. We will have to learn to accept substitutes...to concentrate on the total nutritive needs of our families and to be less wasteful...to get full value from the foods we buy.

Second, in our planning we will have to consider the total world needs for food. International considerations -- diplomatic, commercial, or humanitarian -- can and will affect our agricultural supplies here in the United States. We may have to accept some trade-offs to obtain what we want from these other countries.

Third, there will continue to be more and more disclosure by business... more information to assist consumers in making wise shopping choices. This will be accompanied by more direct educational efforts by business, by government and through the educational system from kindergarten through college.

Fourth, the basic supermarket system will continue to best serve the needs of the consuming public, and it will not change its form drastically. However, we will see more consumer shopping aids in the stores, more methods to help make her shopping trip more pleasant and to save her time, more one-stop shopping convenience because of the wider variety available.

In short, tomorrow's food marketing world may require some adjustments on all our parts...some reordering of priorities and of attitudes... an open mind and a willing response to new ideas. It will not differ too much on the surface from today's supermarkets, but it will be a better kind of food shopping in a better environment.

I'm looking forward to it. I believe we all will benefit.