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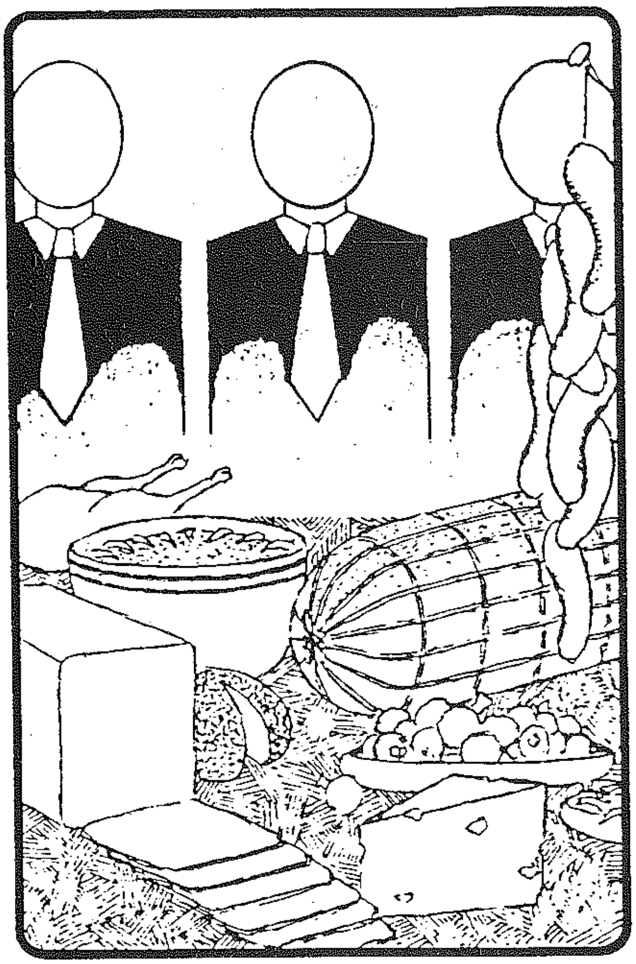
Strategic Directions in Supermarket Deli/Prepared Foods



by

John W. Allen
Food Industry Institute
Michigan State University

Edward W. McLaughlin
Food Management Program
Cornell University

Thomas R. Pierson
Food Industry Institute
Michigan State University

Department of Agricultural Economics
Cornell University Agricultural Experiment Station
New York State College of Agriculture and Life Sciences
A Statutory College of the State University
Cornell University, Ithaca, New York 14853

STRATEGIC DIRECTIONS IN SUPERMARKET
DELI/PREPARED FOODS*

ABSTRACT

This report analyzes future directions in deli/prepared foods operations. The study shows that the majority of today's operators are presiding over growing and profitable deli/prepared food businesses and most are convinced that future prospects are bright, providing a number of daunting challenges can be overcome. These challenges are associated with the growing breadth of deli/prepared foods in individual supermarkets as well as the expansion of deli/prepared foods into virtually every supermarket across the industry. These changes are increasing operational complexity, heightening labor and training problems, as well as creating major challenges of achieving uniformly high levels of food quality and safety.

The overall purpose of this project was to contribute to generating progressive change in deli/prepared foods operations. These changes should in turn expand the scope and profitability of the industry as it continues to evolve in a setting of increasing consumer desires for ever-higher quality and more convenient foods. The specific research objectives of the project were to identify emerging initiatives and management perceptions of supermarket and deli/prepared foods executives on a variety of factors with respect to the challenges, opportunities and likely directions of change.

The research consisted of three distinct but interrelated parts: 1) Review of existing research, 2) In-depth and comprehensive field interviews conducted with deli/prepared foods operators in supermarket and wholesale firms, and 3) An industry-wide mail survey to gain an understanding of how extensively held were the perceptions of change of the executives interviewed. The response rate from 198 independent and chain supermarket firms was nearly 50 percent of all operators and it is estimated that they represent over 70 percent of U.S. grocery sales.

The results of the three phase methodology reveal the deli/prepared foods department as one of the most dynamic in the food industry. The report provides in-depth discussion of thirteen major strategic challenges confronting the deli/prepared foods area. Furthermore, actionable responses and perspectives are presented for each set of challenges.

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*The authors would like to thank Professors Gene A. German and Ralph D. Christy for their helpful review of this report.

STRATEGIC DIRECTIONS IN SUPERMARKET DELI/PREPARED FOODS

EXECUTIVE OVERVIEW

The growth and profit potential of the deli/prepared foods phenomenon has sparked the imagination and enthusiasm of executives in supermarketing, wholesaling and manufacturing firms. Foods of superior quality, ultimate convenience, offered in attractive displays with the option of personal service or the speed of grab-and-go are key characteristics that attract consumer purchases in ever-increasing numbers.

Deli/Prepared Foods Are Consumer Driven

Deli/prepared foods respond to the fast-paced lifestyles of many consumers. Commitment of women in greater numbers to challenging jobs and careers, and families electing to spend time on activities in the home or community are competing with traditional meal preparation and eating occasions, creating a vacuum into which deli/prepared foods fit. Moreover, with so many families in the mode of microwave cooking, deli/prepared foods allow for meals in minutes. And so simplified is microwave preparation that virtually all household members are becoming capable of satisfying mealtime needs. Finally, deli/prepared foods are responsive to consumers who decide on impulse when to eat, what to eat and how much to purchase from a burgeoning variety of appealing foods.

Supermarketers and Wholesalers in the Lead

Supermarketers and wholesalers are no less enthused. Deli/prepared foods departments for the majority of stores today are vital in establishing distinct competitive points of difference to attract and keep customers in an intensely competitive retail setting. Wholesalers are developing programs that assist supermarketers in this endeavor. Thus, today most food stores have deli/prepared foods sections. Even the most price-oriented stores have delis as an essential element of their food offerings. In virtually all firms, the design of deli/prepared foods sections receives more intensive planning than any other department because operators realize that overall store character and ambiance is shaped by appealing deli/prepared foods departments. Moreover, executives frequently report deli sales growth at twice the rate of over all store sales growth and contributions to profit significantly greater than deli/prepared foods' contribution to store sales.

Changing Roles for Manufacturers

Food manufacturers, both large and small, are strategizing to expand their participation in the growth of deli/prepared foods. Traditional deli suppliers are enhancing their products and modifying their lines in response to changing preferences, especially with foods that meet consumers' interests in health and higher quality. Retailers and wholesalers, as well, welcome products and attendant services which result in streamlined food preparation and merchandising. Food manufacturers whose core product lines are sold in grocery sections--many experiencing low rates of growth and low profit margins--are especially eager to develop fresh prepared products for deli/prepared foods departments as well as other refrigerated sections. Indeed, a major development in the industry is a greater recognition of ways deli operators, distributors and manufacturers can develop higher levels of cooperation to better satisfy mutual needs. Such collaboration relates not only to products, but also to initiatives such as employee training, merchandising programs and methods of addressing the special challenges of distributing deli/prepared foods to ensure quality and safety at acceptable costs.

A New and Different Business

This study reveals that the full potential of the deli/prepared foods phenomenon can be realized only if supermarketers, wholesalers, and suppliers address a number of challenges. Basic to this is the realization that deli/prepared foods is a **new** and **different** kind of business which requires major adjustments in operations, merchandising and promotion. New approaches to planning, staffing and managing, as well as establishing new or improved methods of distribution and handling to ensure product quality and safety are essential. This report addresses thirteen key challenges confronting supermarket and wholesale executives and suggests management responses.

For instance, many retail organizations have not adequately supported deli supervisors and associates with the stature, compensation and training sufficient to best cope with the complexities of deli/prepared foods operations. Observations of delis across the industry revealed that at times the quality of foods in display cases is variable and sometimes fails to fulfill the promise of home-cooked or restaurant-quality foods. "Labor" in its broadest context constitutes the most important challenge perceived by supermarket operators: the difficulty of obtaining and retaining qualified staff; the problems--indeed risks-- of ensuring safety of food products; and the challenge of providing effective employee training programs. This study reports on efforts by supermarketers and wholesalers who are responding in creative and positive ways to these and other challenges. In some instances, they are creating new positions such as Vice President of Food Service, reflecting the changing nature of the business; and within many firms salaries and pay scales are improving and effective training programs are being developed.

Merchandising is a term that has taken on new meaning when applied to supermarket deli/prepared foods. This reality requires an important shift in merchandising compared with conventional supermarket methods to heighten sales. The report cites examples of what is being accomplished by successful operators to enhance sales of deli/prepared foods. These leading-edge retailers have discovered advantages that supermarket deli/prepared foods have over restaurant take-out foods; especially the heavy flow of shoppers who can be reached by innovative in-store merchandising. However, they acknowledge that restaurant operations in some ways are much simpler in terms of display and shelf-life requirements. The point being, these supermarket operators are analyzing the strategic differences and opportunities compared with restaurant take-out foods.

Looking Ahead

This research reveals that deli/prepared foods has captured the attention and imagination of food executives as no other department in recent times. Clearly the industry is embarking upon a course of innovation and action leading to vast changes over the next several years. The very image and role of the supermarket is in transition. However, this by no means insures ultimate long-term success since deli/prepared foods departments are complex and enormously difficult to manage. Thus, successful organizations will be led by executives who are committed to addressing numerous and daunting challenges. Issues of cost, consistent quality and distribution will challenge even the best organizations in achieving long-term success in this highly dynamic arena.

Organization of the Report

This report is comprised of eight sections. In each section major strategic challenges confronting deli/prepared foods operators are identified and actionable responses as well as perspectives are provided. Section I, **Introduction and the Research Approach,** explains the reasons for the project. It describes the nature of the research, including the industry operators who participated in the research. Section II, **The Changing Role and Importance of Deli/Prepared Foods**, discusses the current and likely future status of the department. **Managing the Product Mix**, Section III, provides an overview of the major deli/prepared food product categories with operators' views of the future. In Section IV, **Merchandising: Enhancing Sales of Deli/Prepared Foods**, the focus shifts to the overall department, from the creation of ambiance to the practices and activities that combine to define department operations. **Deli/Prepared Foods: Sourcing, Preparation and Distribution** are analyzed in Section V. **Managing and Staffing Deli/Prepared Foods** are key considerations which are discussed in Section VI. Section VII, **Suppliers and the Deli/Prepared Foods Industry**, addresses the changing role of manufacturers and distributors as they become more collaborative in achieving profitable growth of this category. A **Summary of Strategic Challenges** is set forth in Section VIII enabling readers to focus upon important ways organizations in the industry must respond to achieve continued successful growth of deli/prepared foods.

Readers seeking in-depth descriptions of the deli industry, as well as insights on operating practices, are encouraged to read the following research report: "The Economics of the Supermarket Delicatessen" by Edward W. McLaughlin, Gene A. German and Michael P. Uetz, A.E. Res. 86-23, Department of Agricultural Economics, Cornell University, Ithaca, New York, 1986.

ACKNOWLEDGEMENTS

A study of this kind is totally dependent upon a high level of participation and cooperation from industry operators. Executives, often several, from **19 supermarket and wholesale companies** were interviewed in depth; in many instances sharing their creative thoughts for a full day. These companies are listed on page 7 of the report. Additionally **198 firms** responded to the nine page mail questionnaire. In all cases we could not have asked for a greater spirit of cooperation and sharing. To each of these companies and to the individuals involved, we extend our sincerest thanks.

The names and addresses for the mail survey were provided by **Mr. Buck Jones, Jonessco Enterprises.** This authority in deli operations maintains a complete list of supermarket and wholesale deli operators. We are indebted to him for his generous assistance in this regard.

Assisting in the mail survey and the statistical analyses of results we acknowledge the highly professional services of the **Cornell Institute for Social and Economic Research.**

For their skill and dedication in the preparation of the manuscript, as well as for their constructive suggestions, we extend our gratitude to **Mrs. Lois Pierson** and **Mrs. Beryl Watters.**

We greatly appreciate the opportunity extended by **Ms. Jeanne von Zastrow** of the **Food Marketing Institute, Mr. Wayne Breckenridge** of the **National American Wholesale Grocers Association** and **Mr. Howard Solganik, Howard Solganik and Associates** for providing a forum for the initial presentation and industry response to the research at the 1989 Deli/Bakery/Prepared Foods Conference.

The authors wish to thank the sponsors of this study, Geo. A. Hormel & Co. and Land O'Lakes Inc. From the outset of the project Hormel and Land O'Lakes executives emphasized the importance of conducting an independent and objective analysis illuminating issues which supermarket companies ought to consider as they develop strategies for their deli/prepared food operations. We appreciate the high level of support and the confidence these executives placed in us in the conduct of this research project.

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Section I

INTRODUCTION AND THE RESEARCH APPROACH

This report analyzes future directions in deli/prepared foods operations. Most of today's operators are presiding over growing and profitable deli/prepared foods businesses and most are convinced that future prospects are bright...**if** only a number of daunting challenges can be overcome. These challenges are associated with the growing breadth of deli/prepared foods in individual supermarkets as well as the expansion of deli/prepared foods into virtually every supermarket across the industry. These changes are increasing operational complexity, heightening labor and training problems, as well as creating major challenges of achieving uniformly high levels of food quality and safety.

This project was conceived because these and other issues require the best possible strategic thinking of deli/prepared foods operators. Geo. A. Hormel & Co. and Land O'Lakes Inc. have sponsored this research in response to this need. The central objective of the research was to gather and report on the collective wisdom of executives who are deeply engaged in managing and developing deli/prepared foods businesses. It follows, therefore, that this research and report does not deal with the narrower focus of how to operate a contemporary deli; rather, it elaborates on the winning strategies that deli/prepared foods operators and suppliers can develop for profitable future deli/prepared foods growth.

Responding to Challenges

The need for deli/prepared foods executives to devote greater time and thought to the challenges confronting the industry is perhaps best appreciated through insights gained from the mail survey to which 198 deli operators responded. Deli/prepared foods operators were asked to consider the importance of the challenges or issues they face by ranking them, as well as listing additional challenges they perceive. Table 1 below shows the challenges and rankings.

Two key issues are perceived by operators to be of equal importance: **obtaining and retaining effective staff** in deli/prepared foods operations, and **insuring the safety of products.** While this is no revelation to most readers, the intensity of response (4.89/5.00) is impressive. That is, nearly every operator regards these issues as "extremely" or "very" important.

The challenge of training personnel followed, which relates closely to the challenge of insuring the safety of food products, since effective training is key to any food safety program. Furthermore, with respect to training, as the industry is learning, only those who are well trained will become motivated and predisposed toward "careers" rather than short-term "jobs".

Table 1 **CHALLENGES/ISSUES FACED BY DELI OPERATIONS TODAY**

Challenges/Issues	Rank	Mean Responses*
Obtain and retain qualified staff	1	4.89
Insure safety of food products	1	4.89
Provide employee training programs	3	4.65
Understand consumer needs	4	4.62
Insure consistency across stores	5	4.40
Stay ahead of the competition	5	4.40
Stay abreast of new developments	7	4.36
Deli development given budget constraints	8	4.05
Compete for scarce company resources	9	3.22

*Responses on a scale of 5 (extremely important) to 1 (not very important)
Source: Cornell/Michigan State Survey, 1989.

Issues of product **consistency**, achieving **competitiveness** and **staying abreast** of developments with regard to deli/prepared foods operations follow in importance. Again, these are viewpoints expressed with a high degree of intensity. When considering the magnitude of the task of remaining competitive not only with other supermarkets, but also with the food service industry in responding to consumers' wants and needs, the concern of this industry seems well placed.

When asked to volunteer additional challenges and issues respondents provided the following:

- Managing labor costs
- Merchandising to neighborhoods
- Achieving high quality foods
- Packaging improvements
- Health and nutrition
- Profitability and cost control
- Equitable pay for deli staff

Consumers: Driving Force of the Deli/Prepared Foods Phenomenon

What deli/prepared foods departments are, and what they can become, is best understood if one goes beyond physical terms--products, personnel, display cases, layout, etc. Rather, the industry will come closer to realizing its potential if managed in ways that are inspired by a greater understanding of how shoppers relate to deli/prepared foods departments. The following questions should be asked: Who shops the department and why? How are its products used? Where are they consumed and in what form? To whom are the products served? What is of greatest interest and concern to consumers? And why is it that fewer than one-third of shoppers regularly patronize supermarket deli/prepared foods departments?

Deli/prepared foods departments need to be understood in terms of how they relate to the attitudes, expectations and lifestyles of consumers. Thus, it is instructive to consider what is causing consumers to change, and consequently how their preferences for shopping and food are changing. Clearly, food buying and consumption behaviors are shaped by demographic factors such as aging of the population, changing family size and household composition as well as shifting employment and income patterns. Increasingly, consumers driven by mounting time pressures associated with ever busier lifestyles are modifying their purchasing and consuming behaviors toward greater convenience. This long-term trend has been greatly accelerated by widespread ownership of microwave ovens. The Wall Street Journal reports household microwave ownership at 75 to 80 percent and that it is the favorite appliance of the 1980s in terms of "making life a lot better."[1]

These kinds of societal changes have led in turn to four important dimensions of changing consumer preferences, as well as directions of response by market-oriented food organizations.

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1 Wall Street Journal, "The American Way of Buying," September 19, 1989, page B1.

Convenience

As mentioned above convenience is a crucially important factor among virtually all involved in food product development and marketing. Convenience is often viewed only in the context of preparation time reductions. However, in a broader sense, convenience is consumer satisfaction with respect to having food that is wanted, when it is wanted, with minimum effort in meal planning, shopping/purchasing, in-home handling, preparation, consumption and cleanup.

Quality

The quality of most food products is rising. It is also apparent that individual judgements of quality differ greatly. Preferences for foods vary from person to person, and even for the same individual quality standards may change with circumstances. Thus, quality serves as an all-encompassing concept relating to one or more of the following factors: appearance, consistency, freshness, nutrition and safety, taste and understanding.

Variety and Excitement

Growth strategies of food marketers focus increasingly on variety and excitement for shopper appeal. Food processors are proliferating products with new and different tastes and flavors. Retail store decor and merchandising approaches are emphasizing more interesting and pleasurable shopping experiences, and personal services have been added in many departments. The strategy is to capture sales and market share by appealing to consumers who are more open to change based upon greater travel, a growing sense of ethnicity, higher levels of education, and a growing diversity of restaurant food experiences. Consumer interest in these new directions is based upon factors such as appearance, taste, understanding, a sense of adventure and desires for distinctive and exotic experiences.

Nutrition, Safety and Health

Food marketers recognize this as an era of growing consumer concern and awareness of nutrition, food safety, diet and health linkages. What was once thought by many to be a fad has become a series of on-going complex and important issues that are virtually certain to be building in the 1990s. As scientific and medical evidence increases concerning the influence of diet on health, many people want to understand how they can respond.

Likewise, thought leaders in the food system, from agricultural producers to processors, wholesalers and retailers, are seeking ways to respond.

Description of the Research

The purpose and specific objectives of the research, as well as research methods including participants of the comprehensive field interviews and an overview description of the mail survey respondents, are provided in this section.

Purpose and Objectives of the Project

The overall purpose of this project was to contribute to generating progressive change in deli/prepared foods operations. These changes should in turn expand the scope and profitability of the industry as it continues to evolve in a setting of increasing consumer desires for ever-higher quality and more convenient foods.

The specific research objectives of the project were to identify emerging initiatives and management perceptions of supermarket and deli/prepared foods executives on each of the following factors with respect to the challenges, opportunities and likely directions of change:

- Size, rate of growth, profitability and overall importance of deli/prepared foods operations to the organization.

- Issues of labor and training.

- Buyer/seller relations: supermarketers' perceptions of leading suppliers' practices and philosophies; how to achieve win-win partnerships.

- Food preparation: in-store commissaries and central kitchens, manufacturers, and the need for improved distribution systems to maintain the cold chain of sanitary and rapid delivery.

- Changing product mix requirements and initiatives: meats, cheeses, salads, desserts, BBQ ribs and chicken, sandwiches, prepared entrees (hot and chilled), pizza, gourmet cheese, soup and salad bars, etc.

- Advertising, promotions and merchandising practices: the role of manufacturers' brands, in-store sampling, couponing, and meal preparation demonstrations.

- Physical layout of the department and presentation of products: location, equipment and facilities, display approaches, and product packaging.

- Safety and wholesomeness issues: consumer information regarding proper handling, governmental regulations, industry-wide as well as firm and store-level training.

- Food quality and pricing relative to other supermarket foods such as frozens, shelf stable, fresh meats and produce, as well as other shopping alternatives such as fast foods, restaurants and convenience stores.

- Convenience issues: responding to escalating consumer desires for efficiency in purchasing and preparation of foods; deli/prepared foods department location, (front end, separate cash registers, drive-thrus etc.); product mix and packaging changes; availability of product information for shoppers.

Research Methodology

The research consisted of three distinct but interrelated parts:

- Review of existing research, industry trade publications, consulting and newsletter publications.

- In-depth and comprehensive field interviews conducted with innovative deli/prepared foods operators in supermarket and wholesale firms. The firms interviewed also represent a geographic and size cross section of deli/prepared foods operators. Multi-level interviews were conducted with each organization, where possible, beginning with headquarter executives including vice presidents of merchandising, as well as senior deli/prepared foods executives, and including field supervisory and store-level deli/prepared foods management. The following companies were interviewed:

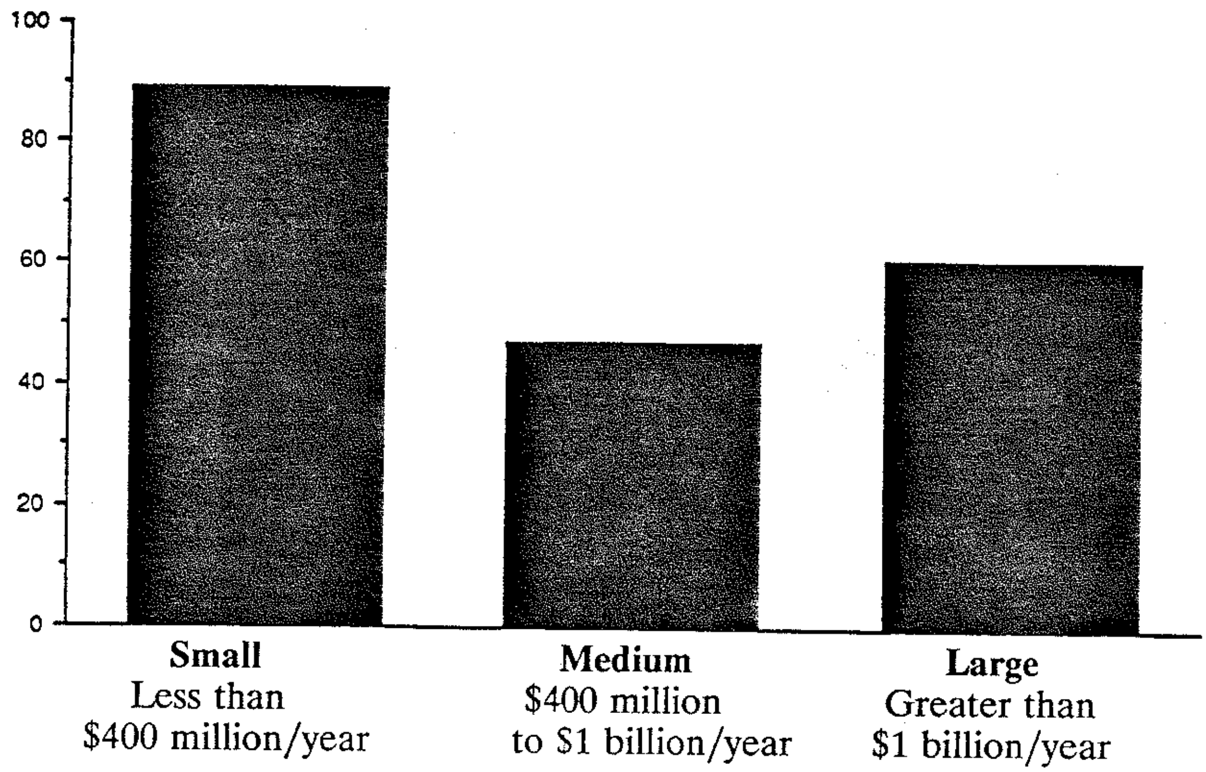
-- H.E. Butt Grocery Co.	San Antonio, Texas
-- Byerly's, Inc.	Edina, Minnesota
-- Dominick's Finer Foods	Northlake, Illinois
-- Gelson's Markets	Encino, California
-- Giant Food Inc.	Landover, Maryland
-- The Grand Union Co.	Wayne, New Jersey
-- Hannaford Bros. Co.	Scarborough, Maine
-- King Soopers, Inc.	Denver, Colorado
-- The Kroger Co.	Cincinnati, Ohio
-- Larry's Markets, Inc.	Seattle, Washington
-- Publix Super Markets, Inc.	Lakeland, Florida
-- Roche Bros. Supermarkets, Inc.	Needham, Massachusetts
-- Schnucks Markets, Inc.	Bridgeton, Missouri
-- Super Valu Stores, Inc.	Minneapolis, Minnesota
-- Stop & Shop Companies, Inc.	North Quincy, Massachusetts
-- Tianguis (Vons Companies, Inc.)	El Monte, California
-- The Vons Companies, Inc.	El Monte, California
-- Wakefern Food Corp.	Elizabeth, New Jersey
-- Wegmans Food Markets, Inc.	Rochester, New York

- An industry-wide mail survey (see Appendix) was conducted in conjunction with the in-depth field interviews to gain an understanding of how extensively held are the perceptions of change of the executives interviewed. This survey information served to reinforce and validate the trends, issues, challenges and suggestions that are the central thrust of the project. Virtually all chain organizations and wholesalers servicing independent operators (approximately four hundred firms) were contacted with a mail questionnaire. The response rate from 198 firms was nearly 50 percent of all operators and it is estimated that they represent over 70 percent of U.S. grocery sales. Fifty-four percent of respondents were chains; and 46 percent were wholesalers. Responding firms were of varying size, one-store firms to the largest chains and wholesale organizations. See Figure 1. The survey respondents are representative with respect to regions of the country as is shown in Figure 2. On average, 78 percent of the respondents' stores have deli/prepared foods departments. This compares with 65 percent of supermarkets with delis as reported in

Supermarket Business' 7th Annual Deli Review[2] and 57 percent of supermarkets with delis in 1985 as indicated in the 1986 Cornell deli study.[3]

The characteristics of executives responding are as follows: About 80 percent had supermarket experience before becoming associated with deli/prepared foods, approximately 5 percent had food service experience, and about 13 percent indicated "other" experience. Eighty percent of the respondents were men. The average number of years employed in the firm was about 13; with a range of 5 to 20 years (inter quartile range), and, on average, respondents had almost 6 years experience in their current positions.

Figure 1 **NUMBER OF RESPONDING FIRMS BY SALES**



Source: Cornell/Michigan State Survey, 1989.

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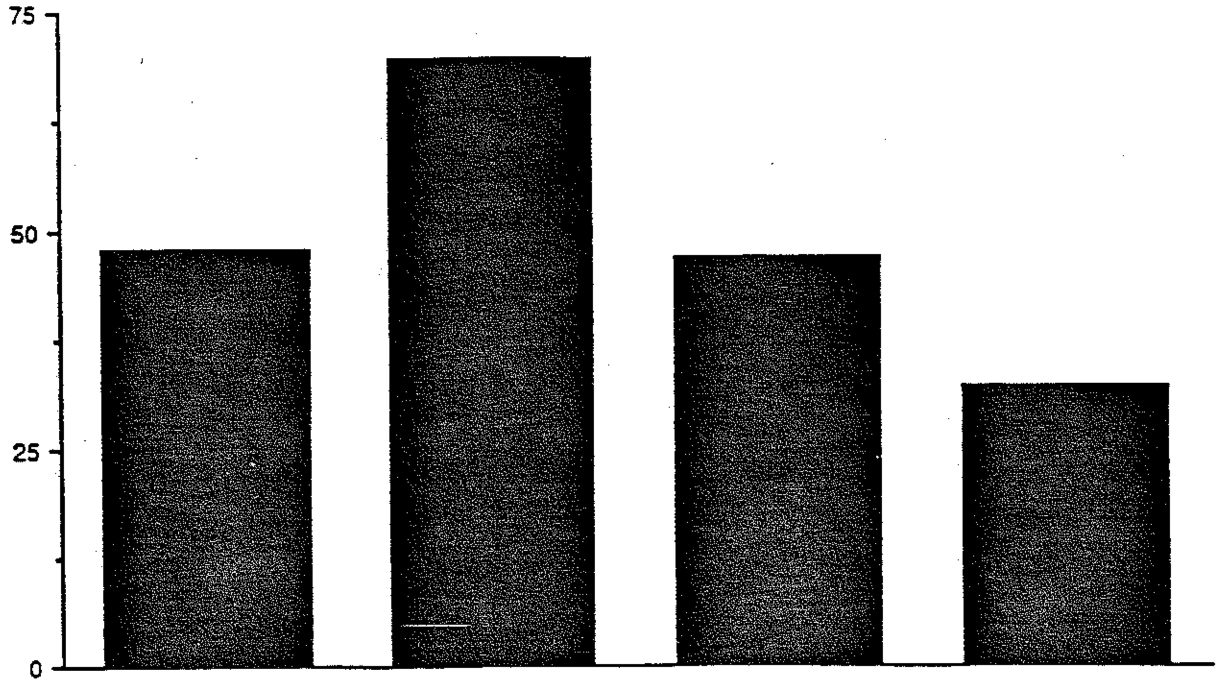
[2] Supermarket Business, "Service Deli Review", March 1989, p. 1A.

[3] McLaughlin, E.W., German, G.A., Uetz, M.P., "The Economics of the Supermarket Delicatessen", A.E. Res. 86-23, Department of Agricultural Economics, Cornell University, Ithaca, New York, p.6.

Figure 2 **NUMBER OF RESPONDING FIRMS BY REGION**



Source: Cornell/Michigan State Survey, 1989.

Respondents' responsibilities were predominantly deli or deli/bakery, 85 percent. The respondents' positions and their areas of responsibility are shown in Tables 2 and 3.

Table 2 **RESPONDENTS' POSITIONS**

Title	Number
President	6
Vice President	23
Director	86
Buyer/Merchandiser	55
Supervisor/Specialist	22
Store Manager	6
Total	198

Source: Cornell/Michigan State Survey, 1989.

Table 3 RESPONDENTS' RESPONSIBILITIES

Responsibilities		Number
All Foods		9
Deli		79
Deli/Bakery		90
Food Service		9
Meat		5
Perishables		6
	Total	198

Source: Cornell/Michigan State Survey, 1989.

In summary, this is a report of the deli/prepared foods business with an emphasis on the newest dimension--fresh prepared foods. The study has taken this approach because it is the fresh prepared foods category that most operators have emphasized when asked to express their views with respect to major changes taking place in the industry, as well as their greatest management challenges. **The intense interest among many leading deli/prepared foods operators in the challenges and opportunities of the fresh prepared foods phenomenon is an important overall finding of this research.**

Section II

THE CHANGING ROLE AND IMPORTANCE OF DELI/PREPARED FOODS

What is a deli/prepared foods department? And what is it possible to become? This study suggests that it is useful to think of deli/prepared foods as a **concept** with enormous possibilities for growth and transformation. The concept needs to be clearly understood by operators, but equally important, by executives managing the overall organization: those responsible for strategic directions and the allocation of company resources. This is important since in many companies the nature and extent of change in deli/prepared foods departments' size, complexity, configuration, and decor is in a rapid state of flux. There is no other department in the supermarket experiencing such dynamic and substantive change. This is particularly true as new stores are opened and others remodeled, each with a new approach to deli/prepared foods.

Deli/Prepared Foods Defined by Concept

The term "deli" conjures up images among consumers and business operators which vary with the experience and background of the individual. Those who have experienced one of the great delis in Europe have picturesque and vivid impressions. New Yorkers, as well as consumers in other urban centers, would likely describe their images of delis by the strong aromas of kosher dill pickles, thick sandwiches of thinly sliced corned beef on dark rye bread. The boisterous deli clerk, perhaps the owner or a family member, across the service counter might offer unsolicited, but nevertheless congenial, comments with respect to displays of smoked salmon as well as loaves of meat and cheeses for slicing. There might be a few tables or a counter to sit at and eat. Specialty mustards, sauces and baked goods crowd in on the small, free-standing store. And always there would be some indication of personalization in the transaction. There is nothing subtle about this picture of the mythical, highly ethnic, bustling, crowded and exciting celebration of foods sold in the deli. This is the basic, original deli concept in the minds of some consumers.

Yet other shoppers, perhaps in smaller cities and towns where the first deli experiences were in supermarkets, conjure a less robust scene. Nevertheless, the essential elements of the basic deli concept prevail. Their descriptions might include the places in supermarkets where ready-to-eat foods are available--foods such as fried chicken, a range of cold salads and, of course, the basic meats and cheeses sliced to order. While pickles and corned beef sandwiches might be available, their presence is not as dominant as in the traditional--some would say authentic--neighborhood delis.

Regions of the country have rapidly adopted versions of the original concept over the last decade. This has resulted in consumers and operators defining delis with their own viewpoints and innovations as they strive to join the parade, but in distinctive and differentiated ways. Thus, delis have evolved over time, resulting in enormous product and image diversity. In this environment a tight definition of the deli remains elusive.

However, some attributes exist nearly universally that help describe supermarket deli/prepared foods departments:

- Shoppers invariably encounter service display cases in highly defined sections of stores (front, back, corners) with clerks on hand to respond to shoppers' orders. Thus, personalized service is a major characteristic, although a few exist--indeed prosper--without service. Increasingly shoppers also encounter self-service cases close by displaying packaged products similar or identical to items displayed in service cases.

- Slicing meats, cheeses and salads are basic to virtually all departments. Meats and cheeses often are available shaved or presliced, but these products are always visible in loaves to be sliced on request. These products are nearly always positioned as the highest quality available in the store, and prices generally reflect this premium quality.

- Increasingly, deli/prepared foods departments carry at least a limited assortment of fresh prepared foods (hot, cold or both) such as fried chicken, barbecued ribs and casserole types of dishes. In the most ambitious departments numerous entrees are available, comparable to foods sold in cafeterias, quick service restaurants and perhaps some white tablecloth restaurants. Indeed, such stores might operate restaurants adjacent to the department.

- In some delis, but not all, foods might carry "signature labels" unique to the firm. The signature labels designate such items as special salads, entrees, soups, and even specialty frozen and canned items. Again, the point of differentiation is the image of premium quality, and this is key.

- In many departments, other foods and beverages are merchandised in ways that enable and encourage shoppers to quickly assemble complementary items for complete eating occasions. Indeed, in most stores, more cross merchandising occurs in the "deli/prepared foods area" than in any other department.

Thus, personalized service, premium quality image, appetite appeal, and the convenience of fully prepared meals or meal components are fundamental characteristics of the deli/prepared foods concept.

Deli/Prepared Foods Defined by Competition

The role of the deli/prepared foods department perhaps comes into sharper focus when the strategic question is raised regarding its **competitive positioning.** All enterprises must compete for success. It may be useful to consider the department's primary competition as food bought in less convenient forms within the supermarket itself; for instance, the potatoes, onions, mayonnaise and spices for potato salad. And clearly, foods from local quick service restaurants and other mid-range food outlets offering basic fresh prepared foods for consumption in homes, automobiles or on foot are competition. It may be that other supermarket deli/prepared foods departments located in the same trading area are much less competitive than food service outlets. Again, the consumer appeals of high quality, maximum convenience, variety and excitement, as well as assurance of nutrition and safety--all at price points that are acceptable in a supermarket setting--must be achieved if the department is to attract sufficient customers to prosper vis-a-vis competitors. Thus, the role of a deli/prepared foods department should be thoughtfully determined in terms of **shopper alternatives for food purchases**. Compounding the challenge of competition is the possibility that each category within the department may have a different set of competitive factors of the kind cited above that determine appropriate responses to attract shoppers. For instance, sliced meats and cheeses may be directly competitive with the store's self-service luncheon and processed meat section, the neighborhood sandwich shop, office building cafeteria, or a nearby convenience store. Thus, subtleties of the competitive aspects of deli/prepared foods categories may lead operators to more finely hone the particular roles the department can and should play in any given supermarket.

Yet, the deli/prepared foods department cannot determine its position in total isolation from the mission of the store. Basic store and department merchandising approaches must be at least compatible, and if possible, synergistic. This is another complexity which makes deli/prepared foods departments exceedingly difficult to manage; but also suggests that when managed effectively they can be highly successful and profitable.

It follows that supermarketers can and should define deli/prepared foods within their own particular setting. It might well be determined that not all stores should have them; that some stores should limit the concept to the basics of sliced meats, cheeses and salads. Beyond this, each store should judiciously move along the continuum of product category extension.

Unique Operating Complexities

The difficulty of operating deli/prepared foods departments might be best understood when one considers comparative operating methods of competing food service organizations, especially quick service restaurants (QSRs). Most QSRs have developed concepts which have been systemized and then replicated across broad geographic areas in a manner whereby food is served with consistency and uniformity. McDonalds, Wendys, KFC come quickly to mind. The limited menus of QSRs, while in flux and gradually expanding, generally are modest in comparison to supermarket deli/prepared foods departments.

Consider, by contrast, the operational challenge of a full-blown supermarket deli/prepared foods department: the broad product array of dozens of meats and cheeses; often hundreds of salad recipes to choose among, with as many as 50 on display at any given time; and the wide selection of hot and cold entrees. There are other major dimensions of complexity when operations also include soup and salad bars, pizza and sandwich programs, soft-serve ice cream and frozen yogurt, etc. Many of these product categories involve different preparation, handling, display and packaging requirements. As one operator expressed the challenge, "We are trying to do things in the deli that have never been done before in the food business." Moreover, products must be on display during most hours of store operation; and no department can succeed unless this is accomplished with excellent visual appeal and under sanitary conditions. Clearly, the number and scope of these challenges do not confront QSRs.

Other special challenges confronted by supermarket deli/prepared foods departments include:

- Supermarkets have extraordinarily high levels of traffic representing wide ranges of demographic and lifestyle groups. Deli/prepared foods departments have the difficult task of striking a balance in meeting the disparate wants and needs of shoppers in terms of item preferences, seasonings, portion sizes, prices, etc.

- Foods purchased from deli/prepared food departments during normal grocery shopping trips often may need to endure physical handling that risks a diminishment of quality, taste and appearance; and perhaps increases the risk of spoilage. Consider the length of time involved in some shopping trips; transportation in warm automobiles, delays in getting these fragile products under refrigeration in the home, and extended time periods before preparing and consuming these foods. Restaurant take-away foods are subject to many of these potential problems, but rarely to the same degree. Foods purchased, for example, at QSRs or delivered from restaurants are much more likely to be consumed soon after the transaction.

- It seems improbable to many consumers that fresh prepared foods of restaurant or home-cooked quality can possibly be purchased in supermarkets. Supermarkets, which increasingly are proving to be excellent sources for high quality foods, still labor under the image in the minds of many shoppers as places for purchasing traditional grocery products; that is, food ingredients, not prepared foods.

- One executive, who understands the complexity of deli/prepared foods made an instructive comment: "Beware of the one or few deli successes you encounter in this study. What can be accomplished in one store may not be duplicated and managed across a large chain, much less an entire industry." This advice appears to be sound. In some instances a talented and dedicated individual can succeed where others cannot; and in certain instances the particular demographics and lifestyle characteristics of shoppers in a given trading area permit success of certain merchandising approaches that will not necessarily work in other areas.

Deli/Prepared Foods Affect Overall Store Images

While it is debated whether deli/prepared foods is the leading department that most directly affects shoppers' decisions to patronize a given supermarket, most executives interviewed for this study concur that it has the potential to substantially impact the overall image of the store. This is true despite the fact that the majority of shoppers do not regularly purchase food from the department. Indeed, where deli/prepared foods sell well above the average of about 5 percent, operators believe the store image can be altered from that of a grocery store selling mainly food ingredients in cans, bags and frozen packages at low prices, to a marketplace selling food, convenient meals and fresh products, along with conventional products at acceptable values. When strong deli/prepared foods departments are teamed with strong service seafood and meats, fresh produce and bakery departments, positive **food** images are the synergistic result.

Size, Scope and Growth of Deli/Prepared Foods Departments

In order to better understand the substantial role deli/prepared foods departments have come to play in supermarket operations, the following information on size and scope of deli/prepared foods departments across the industry is useful. With respect to the percentage of customers who shop the department, respondents to the mail survey report a range of 15 to 30 percent (inter quartile range) and an average of about 24 percent of sales transactions involve deli purchases. Interviews with leading operators suggest many do not regularly track this important statistic.

However, the contribution of department sales to overall store sales averages about 5 percent, with a range of 3.5 to 5.4 percent (inter quartile range). Other studies reviewed underscore the importance of deli/prepared foods departments. **Supermarket Business**, for instance, reports national sales approaching $10 billion with annual sales growth at about 20 percent; weekly store volumes over $9,000; sales per transaction of $3.50; and store profit contributions at over 14 percent.[4]

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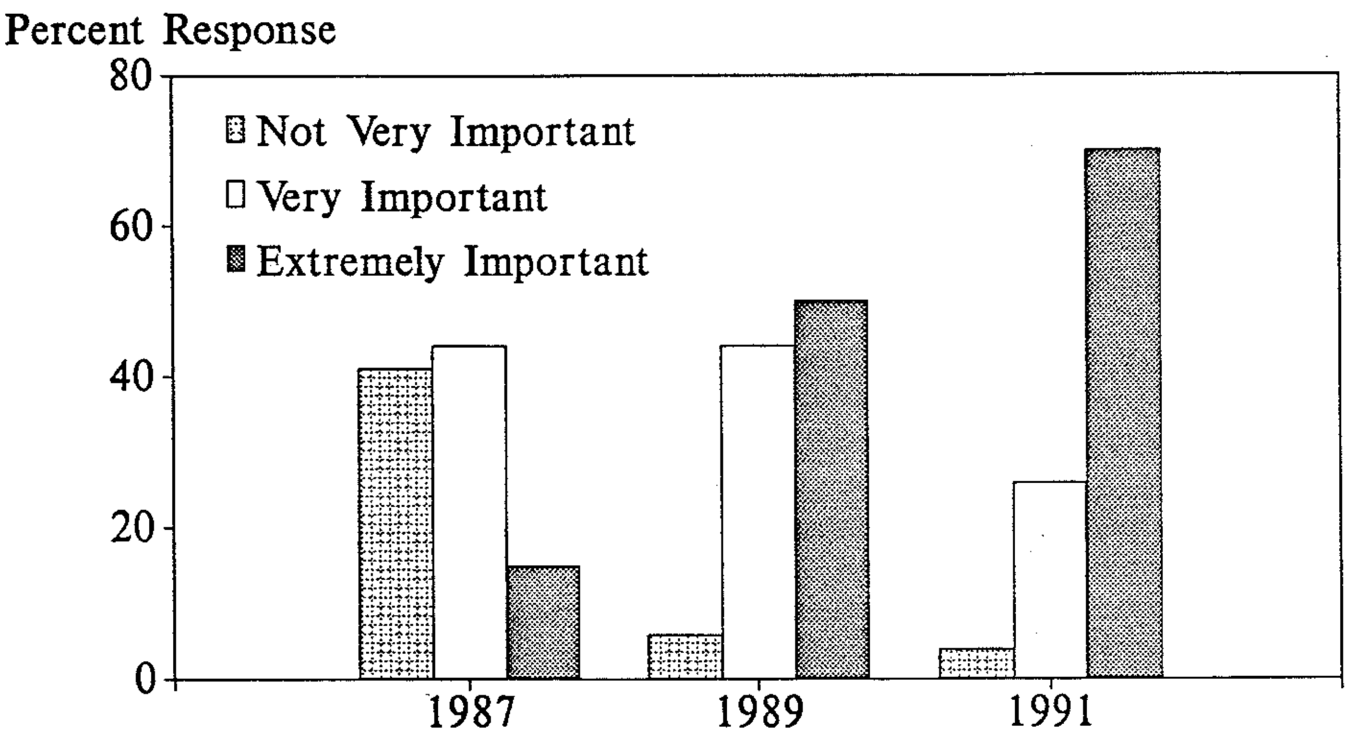
[4] Supermarket Business, "Service Deli Review", March 1989, pp. 1A-4A.

The operator survey provides insights with respect to the growing importance of deli/prepared foods departments as is shown in Figure 3.

Figure 3 **IMPORTANCE OF DELI/PREPARED FOODS DEPARTMENTS**



Source: Cornell/Michigan State Survey, 1989.

In 1987 only 15 percent of respondents considered the department "extremely important"; but in 1989, close to half did. Furthermore, an impressive 70 percent of respondents expect deli/prepared foods departments to be "extremely important" by the year 1991. While the department is clearly gaining in stature within organizations, 52 percent of operators indicate that obtaining needed resources in competition with other departments of the firm is a significant challenge.

Survey averages, however insightful, do not convey the entire story. The full potential of deli/prepared foods departments was best observed from intensive field interviews with deli/prepared foods executives of many leading edge firms. The following selected viewpoints from these interviews provide valuable insights:

- The director of a small firm with a few stores reported sales in deli/prepared foods and restaurants of 14 percent. This exceeded produce at 12 percent. The deli/prepared foods business of this company is growing at a much faster rate than overall store sales, and its stores have earned an image vastly different from that of conventional supermarkets; that is, the stores are viewed by shoppers as "food markets" rather than merely "grocery stores".

- One of the supermarket industry's largest chains, which invests substantially in consumer attitude research, discovered that just over 50 percent of its customers elect to shop its stores because of the positive image of the deli/prepared foods departments; this, despite the fact that fewer than 30 percent of its customers regularly shop the department. Its analyses of consumer demographics causes this company to project a continuation of the deli/prepared foods appeal to customers. **Thus, the company is projecting sales growth at a rate twice that of overall store growth.** Deli/prepared foods operators in the firm who have witnessed the growth of sales over the past 15 years report the following sequence of top management attitudes: At first, their view of the department was reflected by the comment, "Don't bother us with delis. They're only 2 percent of our business, and 98 percent of our problems." The first meaningful phase of acceptance occurred when operators were challenged to develop sufficient sales to cover labor costs, which they gradually did. Finally, corporate management became genuinely enthusiastic about delis when they earned sufficient profits to cover all operating costs, as well as contributing importantly to overhead.

  What gives operators of this company a strong sense of optimism is that deli/prepared foods now has achieved the status throughout the entire organization as one of the most significant contributors to corporate profits in relation to sales. Nevertheless, operators of this firm are concerned that management does not fully recognize the need to allocate financial and strategic resources for the company to cope with the complex challenges involved in further expanding the growth and profitability of the deli/prepared foods business.

- A regional chain with a strong program at about 6 percent of sales reports that deli/prepared foods are now the "number one shopper draw"; that it is the "primary department of change"; and with the expansion of fresh prepared foods, sales will "rise much faster than overall stores sales".

- The deli/prepared foods director of another regional chain believes that his departments may soon replace produce as being first in the traffic flow.

- One of the top ten supermarket chains reports that deli/prepared foods has become the single most important way of differentiating its company.

The Future Role of Deli/Prepared Foods

Although definitions of deli/prepared foods vary, sales across the industry are in the range of 3.5 to 5.4 percent. One regional chain currently averages 5 percent in deli/prepared foods overall; but its newest and largest stores do 6 to 7 percent. The expectation for these new stores is to achieve 10 percent within the next three years.

Might an economic recession diminish this optimistic outlook? Some industry executives believe so. It is a more common opinion, however, especially among operators who are currently at the leading edge of the deli/prepared foods phenomenon, that consumers' wants and needs have **permanently shifted** to lifestyles that will require increasing convenience of eating occasions. These consumer desires can only be met with convenient shopping, as well as ease of food preparation and serving. Surely, under the pressure of less affluence, product mixes and deli/prepared foods operations would likely adjust to include lower priced foods; and it might be that the more upscale items would appeal to an even smaller group of consumers. But it is the general sense of the industry that the essential patterns of food purchases will continue to evolve along the present course.

STRATEGIC CHALLENGES: ROLE OF DELI/PREPARED FOODS

Challenge: Adjust Deli/Prepared Foods Operations in Response to Changing Shoppers and Competitors

It should be borne in mind that continued successful growth of deli/prepared foods is not automatically assured. Just as other food categories have experienced declines following periods of rapid growth--such as certain frozen entrees and dinners--so might deli/prepared foods suffer as a result of mediocre performance across the majority of stores. It therefore is critically important that most shoppers, most of the time, have satisfactory experiences when shopping for and consuming deli/prepared foods; and that their overall expectations be met. Only in this way will the current deli/prepared foods phenomenon continue its impressive growth.

Responses and Perspectives

- Supermarket deli/prepared foods has evolved in an atmosphere influenced principally by the grocery business. Operators as well as suppliers must realize that deli/prepared foods is significantly different from most other supermarket operations. An individual or a team should be established in the organization with sufficient authority to champion this new business.

- The deli/prepared foods concept must evolve over time in response to knowledge of changing consumers. Retailers should continually track and monitor changing shopper behaviors and preferences through store sales information, experimentation with new products and services, and observation of other retailers' experiences. Other sources of shopper/customer information can be gained from trade publications, conferences, as well as research reports and professional services.

- Universal Product Code (UPC) scanner data is an excellent means of obtaining useful information on shopping behavior in deli/prepared foods departments. With UPC codes identifying each deli/prepared food item it is feasible to obtain the following kinds of information: volumes of item purchases by time of day, day of week and season of the year; response of shoppers to given prices as well as merchandising/advertising/promotion programs; comparisons with other stores in the same organization and with companies across the industry. Other creative applications of UPC data will result from dedicated efforts by expert staffs working with deli operators who collaborate in the task of gaining greater insight into how shoppers respond to products and programs offered by deli/prepared foods departments. Applications of UPC scanner data will become increasingly important, if not essential, as department offerings become more complex and extensive; and as the potential for increasing gains and reducing losses with this technology become more apparent in this department characterized by highly perishable and costly products. Moreover, certain operational benefits can result; for example, more effective labor scheduling, and more rapid and efficient checkout of shoppers.

- Competitive analyses should be conducted on a continuing basis in recognition of the fact that increasingly deli/prepared foods operations are in competition with food service outlets, especially quick service restaurants. Operators should attend food service conferences and trade shows. They should also read food service trade publications and newsletters. Just as executives regularly visit competitors' stores for ideas, food service establishments should be analyzed, not only in local markets, but in other regions and other nations.

- Pursue systematic approaches to the development and analyses of new layouts, equipment, product lines, merchandising concepts and customer services.

- Food processors must provide products and services that truly respond to the new needs of deli/prepared foods operators and consumers. Conversely, retailers should be affirmative in exploring ways to build partnerships with manufacturers toward the goal of better serving shoppers through more effective deli/prepared foods operations.

Section III

MANAGING THE PRODUCT MIX

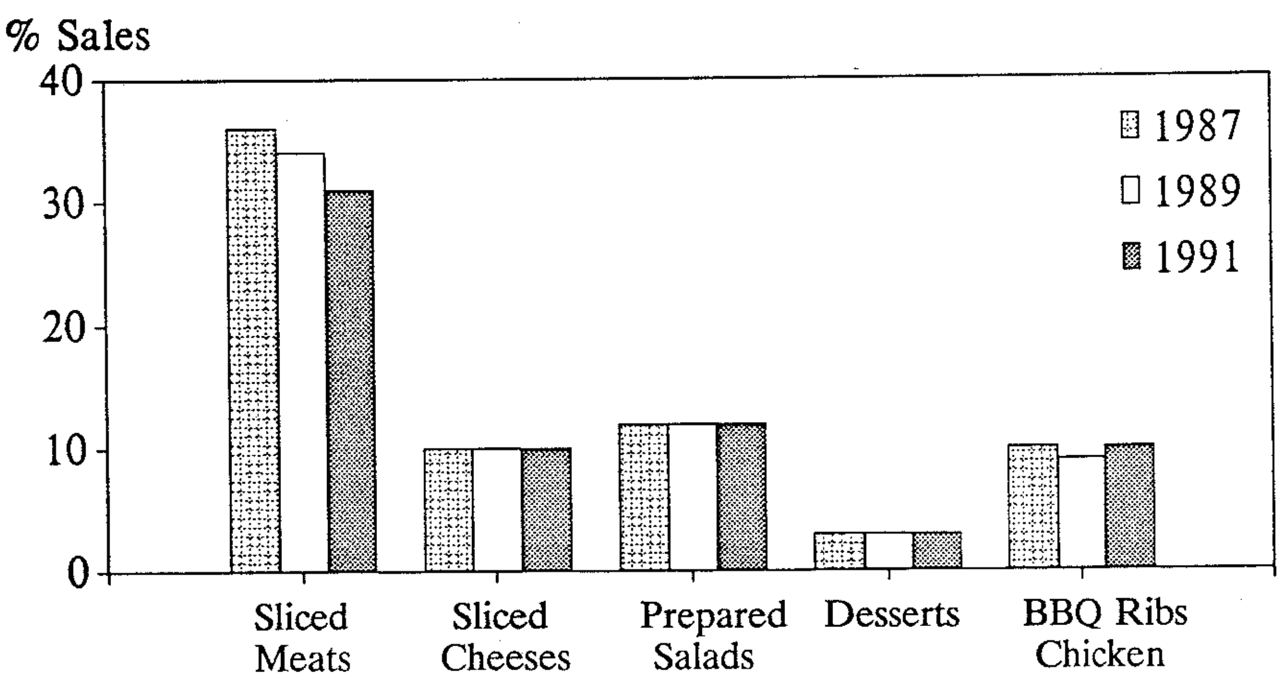
A critically important factor in every aspect of business is product mix; and the deli/prepared foods business is no exception. Indeed, it can be argued that the wide range of categories and products with highly diverse handling and preparation requirements ranks deli/prepared foods as the most challenging of all departments in the supermarket with respect to achieving an optimum product mix. This is the strongly held opinion of most managers encountered in this study.

Section III provides an overview of major deli/prepared foods product categories emphasizing recent developments. In addition, industry perspectives on likely future directions for each category are presented.

Deli/Prepared Foods Product Mix Overview

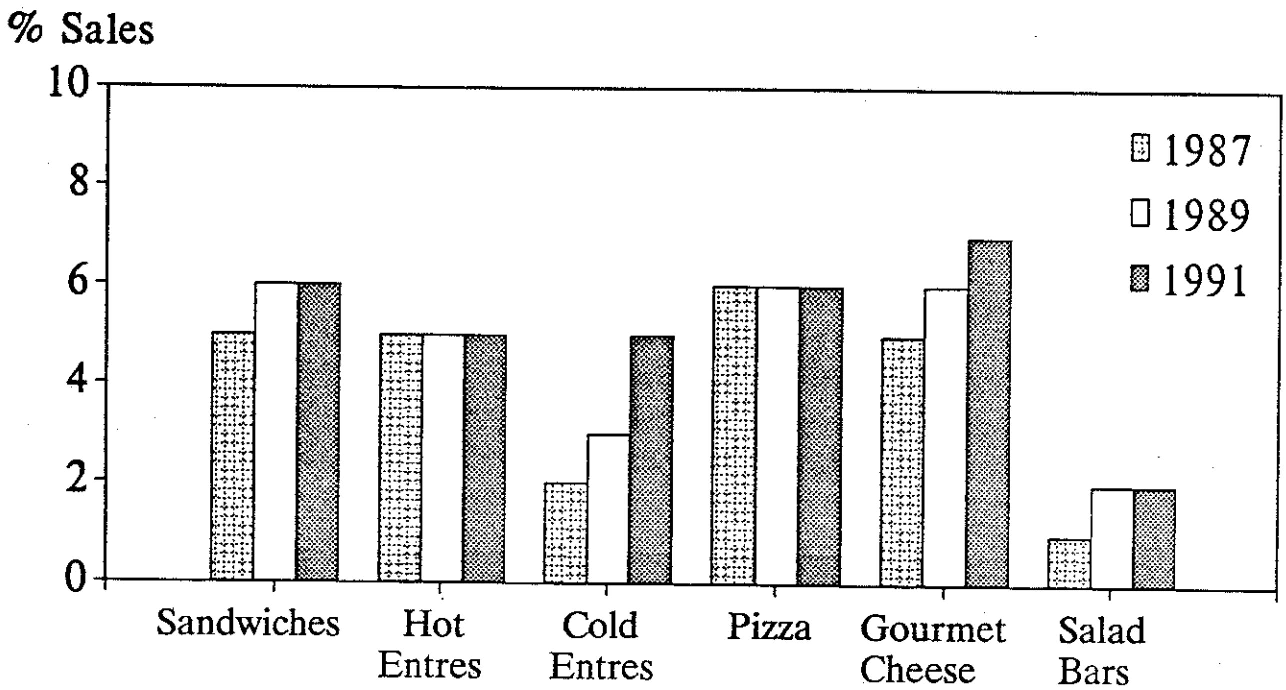
The percentage of sales accounted for by the major product categories is shown in Figures 4 and 5, and Table 4. Respondents indicated percentages of sales for 1987, 1989, and projections for 1991.

Figure 4 **DELI/PREPARED FOODS PRODUCT MIX**



Source: Cornell/Michigan State Survey, 1989.

Figure 5 DELI/PREPARED FOODS PRODUCT MIX



Source: Cornell/Michigan State Survey, 1989.

Table 4 DELI/PREPARED FOODS PRODUCT MIX: 1987 & 1989 WITH PROJECTIONS TO 1991

	Average Percentages			Percent Change
Category	1987	1989	1991	1987-1991
Sliced Meats	36.2	33.6	30.6	- 15
Sliced Cheeses	10.2	10.2	9.7	- 5
Prepared Salads	11.7	11.6	11.8	+ 1
Desserts	2.7	2.7	2.6	- 4
BBQ Ribs, Chicken	9.8	9.4	9.6	- 2
Sandwiches	5.1	6.2	6.3	+ 24
Hot Entrees	4.7	5.4	5.3	+ 13
Cold Entrees	1.9	3.0	5.2	+ 174
Pizza	5.6	5.8	6.0	+ 7
Gourmet Cheese	5.4	6.1	6.7	+ 24
Salad Bars	1.4	1.8	2.2	+ 57
Other	5.3	4.2	4.0	- 24

Source: Cornell/Michigan State Survey, 1989.

The information is most appropriately used in the framework of general directions and magnitudes rather than as precise certainties. It should also be understood that there are substantial differences among operators which do not show up in the aggregated information.

Sliced Meats and Cheeses

Sliced meats constitute far and away the largest category of deli/prepared foods products. Average estimated 1989 sales were just over 33 percent for the 198 companies responding to the mail survey, and ranged from 25 to 41 percent (inter quartile range) of overall deli/prepared food sales. However, most operators project sliced meats declining as a portion of department sales; from about 41 percent of sales, as reported in the 1986 Cornell Study, to slightly over 36 percent in 1987, and slightly over 30 percent by 1991. Even though these percentages are declining, most operators report sliced meat tonnage as being steady at the present time.

Sliced cheeses were about 10 percent of deli/prepared food sales in 1989; and ranged from 5 to 14 percent (inter quartile range). Most operators foresee sliced cheeses as remaining a steady portion of deli sales over the 1987 to 1991 period.

Industry Perspectives on Sliced Meats and Cheeses

- Most operators report that higher quality slicing meats, such as whole muscle varieties and premium quality brands, are increasing in popularity while products perceived to be lesser quality are in decline.

- Meats and cheeses that are perceived as having strong nutritional attributes are growing rapidly in sales. These include products that are positioned as being lower in sodium, fat, calories and cholesterol, such as lighter cheeses and slicing meats, as well as whole muscle poultry meats. Most operators report that while these products were slow to become established, they are now important contributors to departmental sales.

- Most operators believe there remain additional opportunities for higher quality and nutritionally superior products to offset expected continuing declines of traditional products. Several stressed the opportunity for more exciting and quality oriented "old world"/European style products and merchandising, such as seen in some of the best European food shops.

- In-store slicing and vacuum packaging is conducted by many retailers. One retailer indicated that 40 percent of his deli sliced meats and cheeses sales are now sold packaged with an in-store vacuum packaging system. Recently, however, supermarketers have taken a cautious approach to in-store vacuum packaging because of safety and regulatory concerns. In this regard, the National Association of Food and Drug Officials has developed a set of guidelines for in-store modified atmosphere packaging.[5]

- Many companies offering pre-shaved and wafer-cut meats and cheeses attribute higher sales to these merchandising approaches; however, some operators believe this practice has a negative effect on quality.

Prepared Salads and Desserts

Prepared salads averaged nearly 12 percent of 1989 deli/prepared foods sales. Respondents reported sales ranging from 6 to 15 percent (inter quartile range); and a significant number of operators reported sales as high as 20 percent. Reported and estimated sales for 1987 and 1991, respectively, indicate a stable portion of prepared salads in the departments; thus, in most organizations, growth of salad sales is rising at the same rate as overall deli/prepared food sales, about twice as fast as the rest of the store.

Desserts averaged somewhat over 2 percent in 1989; and ranged from less than 1 to about 3 percent of department sales. Since a large number of operators reported no dessert sales, it is important to note that 1989 sales among those companies offering desserts were nearly 4 percent of deli sales.

Industry Perspectives on Prepared Salads and Desserts

- Often refrigerated dessert items, such as mousses and some gelatin dishes, are merchandised along with salads since preparation, handling and display requirements are similar.

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[5] Supermarket News, "Vacuum Pack Guidelines Get Preliminary Approval", July 7, 1989, page 51.

- In addition to purchasing from local and national suppliers many operators make at least some salads and desserts in-store. Many hold strong opinions that store level preparation enables them to achieve a combination of at least some of the following factors: economy, product freshness, high quality, the absence of preservatives, or product distinctiveness.

- Generally the more exotic or distinctive salads and desserts are made at store level, whereas the traditional and often higher volume products, are more likely to be purchased from outside suppliers. The in-store-made products tend to be among the department's "signature" products, those products intended to give departments and stores a special, differentiated appeal relative to competing stores.

- In-store-made salads are often prepared without preservatives, as is sometimes the case with local supplier and commissary-made salads. Many operators believe it important to offer at least some salads prepared without preservatives, and to have some salads that are promoted as being "made fresh today". Thus, variety, preservatives and freshness are key merchandising factors for salad programs.

- Effectively merchandised salad programs are clearly an integral part of contemporary supermarket deli/prepared foods operations. As one executive commented, "If you don't have a strong salad program, you don't have a deli program."

BBQ Ribs and Chicken

BBQ ribs and chicken accounted for nearly 10 percent of department sales in 1989, with 60 percent of all operators reporting sales ranging from 2 to 15 percent. Without doubt, fried and roasted chicken, which are mainly sold hot, are the most prominent entrees in the department. As is the case with salads, BBQ ribs and chicken are increasing in sales along with impressive overall department sales, but they are a stable portion of department sales. Operators projected 1991 sales to remain at about 10 percent of overall department sales.

Industry Perspectives on BBQ Ribs and Chicken

- Most operators interviewed express the importance, indeed the absolute requirement, of a **hot** chicken program. Indeed, in many instances chicken may be the only product sold hot. In contrast, however, a few operators indicate preferences for cold chicken programs. This difference of opinion suggests that in terms of success, specific program attributes are often less important than is the organizational commitment given a program. As one operator commented, "We had a hot chicken program which wasn't executed very well, and was not very successful. We switched to a cold program, got our people involved, and did it right. It is far more successful than our original hot program."

- Roasted chickens are becoming a growing part of department offerings as increasing health concerns among many consumers raise questions about fried foods.

Sandwich Programs

Operators reported sandwich sales at slightly over 6 percent of department sales in 1989, up from about 5 percent in 1987. This suggests that custom and prepackaged sandwich sales have experienced substantial growth over the period. In 1989, 87 percent of all operators reported sandwich sales ranging from 1 to 12 percent of sales. This wide range of sales suggests there may be potential for many operators to expand sandwich programs; however, the industry on average does not project a continuation of the large 20 percent increases of 1987 to 1989 over the next two years.

Industry Perspectives on Sandwich Programs

- Sandwiches are one of the great traditional deli items. Some supermarket deli/prepared foods departments operate highly successful custom and prepackaged sandwich programs, and are planning on major expansions. Yet many operators seem to be overlooking this potential.

- Self-service sandwich bars have been suggested by a number of executives as having potential. Sanitation issues loom large with self-service sandwich bars, as is the case with salad bars. However, self-service sandwich buffets which are so common to hotel and caterer banquet operations might be successfully modified and adopted by supermarketers, as well.

Hot and Cold Entrees

The entree business has received more industry interest and press coverage over the past few years than any other supermarket category. Many in the industry see entrees as a vital component of burgeoning fresh prepared foods, a key business of the future as indicated by growth rates cited below. However, others view fresh entrees as something of a dilemma because of low sales rates. The following data suggest each of these conflicting viewpoints is at least partly correct.

Hot entree sales in 1989 averaged somewhat over 5 percent; and for nearly two-thirds of all operators they ranged from less than 1 to 10 percent of deli/prepared foods sales. Most operators view this category's future as paralleling overall department sales through 1991, even though sales from 1987 to 1989 outpaced overall department sales. Thus, some slowing of the hot entree category is projected.

Cold entree sales show a very different picture. Though the category is relatively small, averaging 3 percent of deli/prepared foods sales in 1989, its reported growth is dramatic. From 1987 to 1989, cold entrees outpaced overall department sales by 50 percent; and operators are projecting growth to 1991 exceeding department sales by nearly 75 percent. Clearly, cold entrees is the fastest growing category in the department. Of the nearly 200 operators participating in the survey, 67 report having cold entree sales in 1987. This number grew by nearly 70 percent to 113 firms in 1989. A majority of these operators report cold entree sales ranging from less than 1 to 5 percent, while a few report cold entree sales as high as 15 percent of department sales.

Industry Perspectives on Hot and Cold Entree Programs

- Although cold entree programs are growing much faster than hot, a number of leading retailers with well established and successful hot entree programs are committed to them and will maintain them into the foreseeable future. Some operators point to the success of hot programs, especially for lunch hour business. A number believe that hot and cold programs are highly complementary. A third group views cold entree programs as having the greatest potential; and as the data indicate, growth of cold entrees is in fact very strong. Among the reasons given by those who favor cold entrees are the following:

-- Cold entrees provide longer shelf-life with better quality.

-- Cold entree displays generally have more eye appeal. However, some operators argue that certain individual products such as chicken and lasagna look far more attractive when displayed hot.

-- Longer shelf-life of cold entrees results in lower loss rates.

- The cold entree business began a number of years ago with a flurry of relatively high-priced, upscale or gourmet and often exotic menu items. Generally, such programs have not achieved acceptable sales volumes or profit levels. Many of these products have been modified and the category repositioned as "real food with a flair" or the kinds of foods with which customers are more accustomed. These traditional foods are prepared and merchandised with an appetizing flair or a bit of excitement that generally would not be done at home. Popular ethnic foods also are sold as "real food with a flair". One executive described the phenomenon as follows: "Our upscale offerings didn't work, so we redesigned our entree mix. But its not downscaling food quality. Rather, it's making our items mainstream eating".

- Another marketing approach for building the category is suggested in the following executive's comment: "As is so often the case in retailing, building a category requires giving shoppers choices. In this case, choices not only of menu items, but also of menu sophistication: relatively plain food such as macaroni and cheese; other traditional foods such as meat loaf with a special "roadhouse mustard sauce"; and perhaps a few gourmet items, such as Beef Wellington." Shoppers will respond to foods differently on different occasions. But, offering alternative levels of menu sophistication at alternative pricing points has stimulated sales of cold entrees for a number of retailers who are breaking new ground in merchandising this category.

- Although some retailers believe that major manufacturers will ultimately succeed in marketing cold entree programs, most retailers interviewed believe that manufacturers' programs to date have failed to meet necessary quality standards and acceptable price points.

- The trend in all foods, including deli/prepared foods, is toward those with healthier images. Hot and cold entrees can be used by deli operators to expand and highlight healthier deli products.

- Most operators report that it takes considerable time and persistence to nurture entree programs to the point of acceptable sales and profitability. Some of the most successful firms with this category report they only recently have become profitable.

- Other executives express feelings of impatience and frustration at the slow pace of developing viable entree programs. Some see the need for entree programs from manufacturers that will produce quick, if not immediate, results. However, as one retailer said, "You can get yogurt programs, smokehouse programs or pizza programs that will put you in business overnight; but there are no fully tested turnkey fresh entree programs you can simply plug in to your own operation. Retailers and suppliers are writing the rules for this new and challenging business as we go along. We're making progress, but at a slow pace."

- In a few leading organizations entree and fresh prepared foods operations are increasingly being recognized as different from traditional deli operations. In some instances separate departments with separate buying, preparation and control systems have been established.

- The new business of entrees and other fresh prepared foods requires the melding of the traditional supermarket business approach with the restaurant business plus new ways of thinking and operating. The resulting approach to effectively manage fresh prepared foods, however, is more difficult than either traditional supermarket or food service businesses. Nevertheless, fresh prepared foods hold tremendous potential. As one executive noted, "Prepared foods are the most important and fastest growing category in the store."

Pizza Programs

Deli/prepared foods pizza programs average nearly 6 percent of department sales. The data in Table 4 show growth from 1987 to 1991 at a modest 7 percent above overall deli growth. About 78 percent of operators reported pizza sales in the range from 1 to 10 percent of department sales, but a few reported sales of 20 percent, and even higher.

Industry Perspectives on Pizza Programs

- Both hot and cold in-store pizza programs are very successful for most retailers; and companies which currently lead with strong programs expect pizza to continue its rapid growth. Retailers with modest programs may be missing important growth and profit potential.

- One executive commented, "I've got so much faith in the limitless growth of pizzas, we are introducing a **breakfast** pizza!"

- In-store pizza making is reported to be an excellent means to generate shopper interest, demonstrate supermarket food preparation skills, as well as to communicate "freshness" in the department.

Gourmet Cheese

Gourmet cheese currently averages about 6 percent of overall department sales. Nearly 75 percent of operators reported gourmet cheese sales ranging from 1 to 10 percent; and operators expect substantial growth in this category. Their projections of 1991 sales at nearly 7 percent of the department outpaces overall 1987 to 1991 sales growth by 24 percent.

Industry Perspectives on Gourmet Cheese Programs

- Success of this category speaks to the strength of shopper desires for high quality products, coupled with the excitement and variety of new tastes and flavors. In virtually all stores there are many lower-priced cheese alternatives. Rapidly rising sales of gourmet cheeses reinforces the reality that "many shoppers will pay more when products deliver".

- Most operators employ both service and self-service selling approaches for gourmet cheese. In some instances clerks perform the cutting and wrapping in-store; however, the cutting and packaging may be performed by distributors or at commissaries for self-service sales.

Salad Bars and Soup Bars

Salad bar sales were reported to average nearly 2 percent of deli/prepared foods sales in 1989. However, this figure included many departments which do not operate salad bars. Of deli/prepared food operations with salad bars, average sales were slightly over 4 percent, and generally ranged from 1 to 10 percent of department sales. Many salad bars are managed by produce departments and therefore are not reported in these figures. However, salad bars operated by deli/prepared foods management reported increases in sales at over 50 percent above overall deli sales.

Soup bars also appear to be a growing category, although survey respondents were not asked to provide quantitative information. To capture maximum shopper interest, both salad and soup bars require variety rotation, as well as constant in-store attention to achieve and maintain high sanitary standards and strong appetite appeal.

Catering and Party Platter Programs

A number of leading retailers envision substantial prospects for growth in the catering business. For these operators catering is said to be a logical evolution of their activities in fresh prepared foods; especially party trays, holiday and seasonal meal preparation such as Thanksgiving and Christmas dinners, picnic lunches, tailgate parties, etc. The most common initiative associated with catering is party platters. Retailers active in this arena speak in terms of strong shopper interest, especially during holiday periods, with sales limited only by retailers' capacities to produce sufficient high quality product.

Other Deli/Prepared Foods Categories

The range of categories merchandised in the deli/prepared foods department is large and expanding. In addition to the twelve product categories discussed above, the following products are frequently sold:

- Frozen Yogurt & Soft-Serve Ice Cream
- Oven-Ready Fresh Meats
- Specialty Snacks, Crackers & Chips
- Fresh Pasta & Sauces
- Soft Drinks, Juices & Fresh Coffee
- Kosher Meats & Smoked Fish
- Sushi
- Bulk Cheese
- Specialty Ground Coffee & Coffee Beans

The broad array of products that constitute deli/prepared foods in some stores may be interpreted by some as a lack of mission or clear strategy. However, in most instances this expanding array of products suggests a marketing orientation: an openness to change and a seeking of opportunities which are only to be found through measured experimentation.

STRATEGIC CHALLENGES: PRODUCT MIX

Challenge: Achieve a More Healthful and Nutritious Image for Deli/Prepared Foods

Consumer concerns for nutritious and healthful foods is a major and continuing direction of change across the food industry. Deli/prepared foods operators and suppliers must respond affirmatively, and in the opinion of many operators, there are opportunities for department growth if appropriate responses are initiated. The 1986 Cornell University study of deli operations revealed that consumers over the age of 55 represented the segment that shopped delis least often. This was due primarily to their nutritional concerns and lack of knowledge of deli product ingredients. Attracting these shoppers to the deli is especially important given their per capita disposable income, which is far above average among U.S. consumers.

Responses and Perspectives

- Improving the nutrition and healthfulness image of deli/prepared foods requires action on two fronts:

- -- The nutritional profile of traditional deli foods such as meats, cheeses, salads and fried foods must be improved wherever possible. The merit of this suggestion is reflected in the rapidly growing sales of reduced salt, fat, calorie and cholesterol types of products, as well as the growth of roasted chickens in place of fried.

- -- Retailers' decision criteria for new deli/prepared foods products such as hot and cold entrees, pizza, salad and soup bars, etc. must take into account the nutrition and health dimension if they are to succeed.

- Retailers and suppliers must communicate factual nutritional information on products and suggested meal combinations. Programs developed with health organizations which permit distinctive signage and labeling are highly effective according to some operators.

- Deli/prepared foods staffs must understand and be able to provide accurate nutrient information about products and programs.

- Retailers and suppliers must endeavor to get on the "consumer's side" of this issue, by demonstrated responses to nutritional and health concerns.

<u>Challenge: Expand Sales of Fresh Prepared Foods</u>

Most fresh prepared foods programs, such as hot and cold entrees, have not yet achieved acceptable sales or profit levels; however, a number of programs are clearly successful and are expanding. It is vitally important to the supermarket industry that broad-based success be achieved with this category. Fresh prepared foods are the most important battleground on which future supermarket retailer and supplier efforts will be made to win share of consumers' stomachs.

<u>Responses and Perspectives</u>

- Fresh prepared foods is a **new business** requiring new approaches to preparation, packaging, distribution, display and promotion. Several factors appear to be essential at store level.

-- Quality must be high. This does not necessarily imply gourmet, but it does mean taste which is consistent over time and comparable to homemade or restaurant foods.

-- The displays and sales approaches must be visually attractive, exciting as well as convenient. This suggests the need for both service and self-service programs, and location of departments which facilitate rapid shopping and fast checkout. Efforts to innovate with such approaches as separate prepared food checkouts and drive-thru facilities, already being considered by some operators, need to be accelerated.

-- Menus should offer an appropriately priced and balanced mix of relatively plain foods, traditional foods with flair or excitement and more sophisticated gourmet or exotic foods targeted to the clientele of specific stores. Fresh prepared foods will appeal to a broad cross section of consumers. However, it should be borne in mind that the shopping public is highly segmented, and fresh prepared food merchandising must respond accordingly.

Section IV

MERCHANDISING: ENHANCING SALES OF DELI/PREPARED FOODS

The previous section, Managing the Product Mix, discussed the key product categories that constitute deli/prepared foods. This section focuses on merchandising perspectives and practices in the context of developing sales and profits of the overall deli/prepared foods department.

This discussion of merchandising encompasses a wide range of strategic and tactical decisions, as well as the many activities carried out in the process of stimulating and promoting sales of deli/prepared foods. It includes decisions concerning the location, layout, design, decor and display techniques used in the department; in essence, the entire range of factors that combine to create the atmosphere of the department. Merchandising also addresses decisions and activities relating to customer service levels, choices of product availability, product quality levels, the breadth and depth of variety choices, as well as decisions and activities relating to pricing and promotion.

Deli/Prepared Foods: Key to Store Image

As indicated earlier in this report, deli/prepared foods is increasingly viewed by merchants and shoppers alike as a leading department. It often sets the tone for stores in terms of convenience, quality, variety and excitement. In fact, many senior retail executives view deli/prepared foods as a signature department, one in which true differentiation from competing stores is achieved. At the same time they stress the point that the distinctive atmosphere of the department must be consistent with the store's overall positioning, which, of course, is at the very heart of the merchandising function.

Today's deli/prepared foods merchandising may be the most dynamic of any department, and the rate of change in deli/prepared foods merchandising is more rapid than in any other food department. From store to store, even at times within the same company, the range of deli/prepared foods merchandising varies more than merchandising in other departments.

Location, Layout and Design

As deli/prepared foods departments have become more important in terms of their shopper drawing power, many retailers locate them more prominently in the traffic flow, often earlier in the shopping pattern. Emphasis on up-front locations, including center islands, for substantial visual impact and shopping convenience is increasing.

A number of retailers interviewed see the need for alternate store entrances for more rapid shopper access to the deli/prepared foods department. Another approach to convenient access is deli drive-thru windows which are being experimented with by a small number of supermarket operators. In Europe many deli/prepared foods departments are located immediately adjacant to store entrances and in front of the checkouts. This physical positioning creates powerful fresh images upon entering the stores; and it offers compelling convenience of location as well as fast, separate checkout transactions. In this regard, one thing is certain, shopper convenience is a driving force for change. Convenience of deli/prepared foods access and speed of purchase will be a continuing direction of change.

Another component of merchandising, layout and design, varies tremendously from store to store--from long and linear to boutique in appearance--but in almost all cases space devoted to deli/prepared foods is increasing. Most deli/prepared foods departments possess multiple service areas often integrated with self-service displays nearby.

Many operators indicate that the deli is a focal point in planning for new and remodeled stores, and yet it is frequently the last department for which plans are finalized before construction commitments are made, in an effort to incorporate the very latest available equipment and merchandising concepts. Across the industry the term "prototype store" is often heard, indicating the first of a new generation of store design and layout that will be replicated by a particular company as new stores are built. But, the word "prototype" doesn't truly apply to deli/prepared foods since the "latest thinking" is inevitably changed, often for the very next new or remodeled store. To quote one executive, "Today, delis are getting the kind of creative attention produce departments were given six or seven years ago."

Shopping Environment

As a leading department, deli/prepared foods is increasingly being called upon to help create the store's shopping atmosphere of high convenience, top quality foods, freshness and excitement. The conspicuous demonstration of in-store food preparation and the conduct of kitchen tasks is an important aspect of conveying a strong food image. In many stores these are genuine food preparation activities, not performed merely for show. Many operators refer to this process as "theater". Authentic kitchen activities, while creating theater, add to the celebration of food and communicate to shoppers that supermarketers are in fact food experts; experts at handling and preparing fresh, highly perishable, fully prepared, excellent quality foods.

The role and image of chef/cook can be valuable in communicating perceptions of freshness and quality to shoppers. But how far should the concept of theater go? In this regard, one executive commented on the concept of "stage" and "backstage"; that theater takes place on the stage while many necessary but unseen activities are occurring backstage. The point is that there are kitchen activities which when viewed by shoppers create a positive image. However, there are certain production activities that are best performed in the back room or in an appropriate production facility, as they do not convey an appealing food image. With respect to how much in-store activity is required to create a sense of theater, one operator expressed the view that "adequate flair and freshness can be demonstrated with a minimum of expense when attention is focused on a few select activities". BBQ chickens and ribs prepared on an attractive rotisserie was cited as one example. Fresh pizza and sandwich programs were other examples mentioned.

Another means of enhancing images of supermarketers as food preparation experts is by offering in-store restaurants or casual dining facilities. Even though some supermarketers have had restaurants and snack bars for many years, the synergistic linkage of these activities with fresh prepared or take-out foods can be substantial. When shoppers associate enjoyable restaurant and casual dining experiences with supermarkets, their perceptions of them as food handlers and preparers is enhanced. Thus, the supermarket becomes regarded not only as the place to purchase food ingredients to be prepared at home, but also as the place for purchases of high quality, fully prepared foods for take-out or for consumption in the store. In-store dining or snacking also can be an effective form of sampling products and building take-out deli/prepared food sales. The benefits of in-store dining and snacking facilities may be substantially greater than their dollar volume of sales.

High Quality, Of Course...But How High?

Virtually all operators believe that high quality is a key attribute of deli/prepared foods. But what is meant by quality with respect to deli/prepared foods? Quality must be considered within the framework of value. Value, from a shopper's perspective, can be thought of in terms of benefits received in comparison to what is paid, or how well a particular product will satisfy his/her set of objectives vis-a-vis the price. Deli/prepared foods operators must carefully balance quality considerations with value considerations for their particular customers. At times, buyers/merchandisers trade off some product quality attributes when the value is viewed as exceptionally good for their customers.

Another frequently voiced perspective suggests that deli/prepared foods quality should be the best quality available in the store. And in cases where similar products are sold in other departments--slicing meats and cheeses, for example--the deli/prepared foods department may differentiate itself in terms of superior quality. On the other hand, for products, such as fresh prepared foods for which there may not be close substitutes elsewhere in the store, the quality issue is more difficult to resolve. Clearly, there is not a single best determination; however, some guidelines to narrow the range of responses are useful. First, the quality of fresh prepared foods--taste, texture, appetite appeal and appearance--should be demonstrably better than supermarket shelf stable and frozen, entrees and dinners. If this is not the case, then the program is not likely to be in the long-term best interest of consumers or the deli/prepared foods department. Note that this guideline is not meant to be critical of shelf stable or frozen products; however, if consumers' perceptions of fresh prepared foods are higher than their perceptions of shelf stable or frozen foods, then the reality of fresh prepared foods should in fact meet these perceptions and expectations. This guideline sets a lower limit for fresh prepared food quality, but what about the upper bound? Many operators suggest that fresh prepared foods must be comparable in quality to "home prepared" or "restaurant" quality foods. Of course, in response to the issue of whose home cooking or what restaurant is being considered, the answer is the kinds of home cooking or kinds of restaurants these customers would patronize for the food in question.

Another important quality issue relates to shopper perceptions of the nutrition and healthfulness of deli/prepared foods. A number of leading operators wishing to expand the range of shoppers patronizing their departments are adding foods with more healthful images. This includes traditional deli/prepared foods products that are lower in fat, calories, cholesterol and sodium, along with lines of fresh prepared foods meeting various health and nutrition guidelines. Yet many operators emphasize that not only must deli/prepared foods include more healthful products, but that these healthier products must be more effectively communicated to consumers to overcome existing negative perceptions of deli/prepared foods. For many departments the addition of salad bars and fresh pasta sections have helped build more positive images. The establishment of a more "healthful food" image for deli/prepared foods, along with maintaining freshness and safety standards, is vital in terms of the department's long-term ability to expand its shopper base.

Service: A Base for Successful "Grab and Go"

The balancing of service and self-service merchandising is an important consideration in deli/prepared food departments. As the name implies, service delis are the primary means of achieving essential personal contact with shoppers. A number of reasons for strong success of the service approach are as follows:

- Service cases display and promote the images of freshness, quality and food usage ideas.

- Customer service offers a source of information on selection, handling, preparation, and many other questions shoppers have concerning unfamiliar products.

- In-store "kitchen" activities often associated with service counters help establish strong "food expert" images.

Virtually all operators interviewed indicate a commitment to service departments, but many indicate strong desires to build incremental sales and broaden their shopper base by means of attractive, effectively communicated and promoted self-service, "grab and go" sections.

Some operators express the view that there are synergistic effects associated with the combination of service and self-service sections; that shoppers are initially attracted to deli/prepared foods at service counters, but after satisfaction with product performance they graduate for convenience reasons to "grab and go" offerings. The concept is that excellent service builds self-service sales. As food consultant, Howard Solganik states, "Self-service is critical in offering a total service program for today's shoppers. People in a hurry want to grab and go".

Breadth and Depth of Selection

Variety of product choice is another crucial ingredient for deli success. Breadth and depth of selection, as well as choices that change over time, clearly help to build and maintain excitement in the deli/prepared foods department. Of course, the challenge is to do this in an image-enhancing, sales-building manner, while remaining cost effective. A number of executives indicate that for maximum excitement and shopper draw, selection must go beyond displays of the heavy and moderate selling items by exploring the limits of shopper interests with new and exciting products. Even though such light selling items may not draw shoppers to deli/prepared foods, they tend to spark shopper interest and encourage experimentation.

Rotation of selection is an important means of achieving a strong variety image to sustain shoppers' interest in deli/prepared foods departments. The concept is to rotate the light to moderate selling items while continuing to offer the most popular sellers. Salad bars, soup bars, prepared salads, as well as hot and cold entrees, are candidates for rotation programs. A number of operators suggest that up to 50 percent of some product categories should be considered for rotation as many as 8 or 10 times per year. One operator also varies the location of the standard items in the display case as a means of achieving an ever varying and interesting appearance.

Pricing and Promotion

Pricing and promotion are crucial aspects of overall deli/prepared foods merchandising programs. Survey respondents were asked, "How many items do you typically feature in weekly ads?" Respondents on average feature about 9 items. They also report the following: 10 percent feature 3 or fewer items; 40 percent feature 4 to 6 items; 35 percent feature 7 to 12 items, and only 15 percent feature more than 12 items.

When asked how many of these featured items are advertised at reduced prices, the average response was nearly 88 percent. Thus, reduced prices play very important roles in advertising. Another issue in advertising is whether a few really "hot" prices create a more effective shopper draw than a larger number of modestly discounted prices. Some executives believe this to be the case since deli/prepared foods shoppers tend to be less price sensitive and may not respond unless promotional prices are substantially different from regular prices.

A pricing issue of growing importance is the need for general guidelines for fresh prepared foods. A number of executives suggest the following: If a given restaurant item sells for $3 and ingredients for the item for in-home preparation as purchased in a supermarket sell for $1; then when sold in the supermarket as a fresh prepared food item, it should sell in the range of $2. While there are exceptions to this generalization, it is clear that most shoppers expect to pay less for fresh prepared foods from supermarkets than they would pay in restaurants.

In terms of the overall promotional effort, many operators believe that the roles of deli/prepared foods sales clerks in stimulating sales are greatly underestimated. They note, "Deli purchases are mostly impulse and deli staff must create the interest". When discussing the complexity of deli operations one executive notes that, "Half the reason for our advertising and promotion is to energize employees. When employees get focused on a featured product during a promotion, they really move it out". This comment highlights the importance of deli/prepared foods personnel.

Other important merchandising activities include point-of-purchase materials, recipes and product usage cards, as well as sampling. Although sampling is presumably a nearly universal activity, a number of executives interviewed suggest that not nearly enough sampling is actually accomplished. In many situations it is the kind of activity that becomes overlooked due to the almost constant time pressures on sales clerks. A number of operators believe that sampling methods and techniques must somehow be simplified and integrated into standard operating procedures. As one executive states, "Sampling must be made a part of the system, not simply carried out when time permits".

STRATEGIC CHALLENGES: MERCHANDISING

Challenge: Attracting More Shoppers to the Deli

To ensure long-term growth and continued success of deli/prepared foods, a larger percentage of shoppers must be attracted to make purchases in the department. Survey respondents indicate that on average 24 percent of their shoppers' check-out transactions include purchases from the deli. In spite of overall deli/prepared foods growth and its rising contributions to store profitability, low shopper patronage is viewed as a persistent problem. This is by no means a new issue, indicating the difficulty of the challenge.

Responses and Perspectives

- Increasing deli shopper patronage is an enormously broad challenge, one that clearly should respond to virtually all merchandising improvements; however, focus on the fundamental factors driving today's consumer food behavior may be most useful:

  -- Emphasize **convenience.** Operators should not assume that shoppers fully comprehend the "meals-in-minutes" kind of convenience offered by deli/prepared foods departments. The concept of convenience must be continuously and agressively communicated. Ideas for creating even more convenient deli/prepared foods departments:
  * Experiment with modular, flexible service and self-service kiosks at different locations in stores at different hours of the day and different days of the week.

  -- Continue to build the reality and image of **quality.** Operators should be cautious of products that may jeopardize this vital aspect of deli/prepared foods success. It should be recognized that quality is a dynamic factor, and however defined, will necessarily be improved over time.

  -- Focus on **variety and excitement**; the kinds of product offerings and services that stimulate shopper appeal on a store-by-store basis. Ideas to consider:
  * Whenever possible, anchor store-wide promotional events and themes in the deli/prepared foods department.
  * Sponsor "deli-specific sweepstakes". Require shoppers to pick up tickets in the department.

* Promote special foods associated with holidays.
* Visually exciting food displays are perhaps the most important single way of attracting sales. Therefore maximum attention to displays is essential.
* Creatively use coupons to stimulate trial.
* There is a need to make display equipment work effectively for shoppers, as well as for sales clerks. Most conventional deli display cases are too high and broad to be totally "shopper-friendly". They, in effect, discourage sampling since shoppers are often reluctant to request samples of clerks when it is obviously physically difficult to do so. Yet, product sampling is generally acknowledged as being vitally important.

-- Expand **healthful and nutritious** deli/prepared foods offerings to include more foods which create this powerful image builder.
   * Consider appointing one person to champion healthful/nutritious products.

• Implement the **marketing approach** to increase deli/prepared foods shopping. Fundamentally the marketing approach suggests the following steps:

-- Know and understand customers' wants, needs and perceptions for each store.

-- Develop and position products and services to match customers' wants, needs and perceptions on a store-by-store basis.

-- Communicate positive product and service responses to targeted customers.

• Some general reasons why shoppers patronize delis are known: perceptions of high quality, convenience and excitement. But when responding to the challenge of attracting new customers it may be even more important to identify and understand **specific reasons** why shoppers **do not purchase** deli/prepared foods. This is in fact the first step of the marketing approach. With this kind of understanding, actionable strategies for product and service improvements, as well as associated communication and promotion programs, can be developed and tested.

- Operators should continuously track deli/prepared foods shopper patronage on a store-by-store basis. Over time this information should be correlated with efforts to increase deli shopping patronage to better determine what works under a given set of circumstances.

Challenge: Increase Shopper Understanding of Self-Service Deli/Prepared Foods

Even though much attention is being focused on the development of convenient "grab and go" sections, a key challenge remains; how to effectively communicate to shoppers that the quality of packaged products is equivalent to products in the service case. Operators have made the following suggestions in response to this challenge:

Responses and Perspectives

- Location of self-service displays must help build shopper confidence in product freshness and quality, as well as provide for convenience of purchase. In terms of communicating product quality, many executives believe that locations adjacent to or very near service counters are best.

- Packaging, display equipment and techniques, must build excitement while avoiding manufactured, mass-produced or mass-marketed appearances. This can be a daunting challenge in that packaging is needed which protects the product, projects a desirable and consistent image and is convenient in terms of storage, handling, preparation and consumption. Some types of packaging which appear "high tech" conflict with the desired images of fresh-made product. For instance, many industry observers find that sous vide packaging is visually unacceptable for consumer presentation, despite the often outstanding quality of the product.

- Ways must be found to convey needed information to shoppers which in essence substitutes for that given by clerks at service counters, perhaps including ingredient and nutrition information, handling and preparation instructions, as well as serving suggestions.

- Video units and/or self-service sampling should be considered for use in communicating and demonstrating freshness and quality of packaged items sold in grab and go sections.

Section V

DELI/PREPARED FOODS: SOURCES, PREPARATION AND DISTRIBUTION

Product sourcing, preparation and distribution are increasingly important considerations as deli/prepared food sales and roles in supermarkets expand. As deli/prepared food products and operations change, so too must suppliers and distribution channels adjust. This section focuses attention on the issues of product sourcing, preparation alternatives and distribution channel changes for all deli/prepared foods, and with emphasis on the special needs of fresh prepared foods.

Deli/Prepared Foods Distribution Channels

Prior to focusing attention on the fresh prepared foods category, deli/prepared foods will be discussed with respect to deli operators' rankings of the importance of supplier distribution channels as shown in Table 5.

Table 5 IMPORTANCE OF DISTRIBUTION CHANNELS

Distribution Channel	Percentage of Respondents Ranking Most Important
Brokers	22
Distributors	31
Local Suppliers	18
National Manufacturers	29

Source: Cornell/Michigan State Survey, 1989.

It appears that each of these distribution channels plays important roles, with distributors and manufacturers being somewhat more prominent than the broker and local supplier channels. Furthermore, Table 6 indicates that as operating firms get larger, the importance of the distributor channel diminishes while that of national manufacturers increases.

Table 6 **IMPORTANCE OF DISTRIBUTION CHANNELS AS FIRM SIZE INCREASES**

	Percentage of Respondents Ranking Each as Most Important			
Size*	Brokers	Distributors	Local Suppliers	National Manufacturers
Small	16	38	22	24
Medium	29	31	13	27
Large	24	21	19	36

*See definitions in Figure 1, Section I
Source: Cornell/Michigan State Survey, 1989.

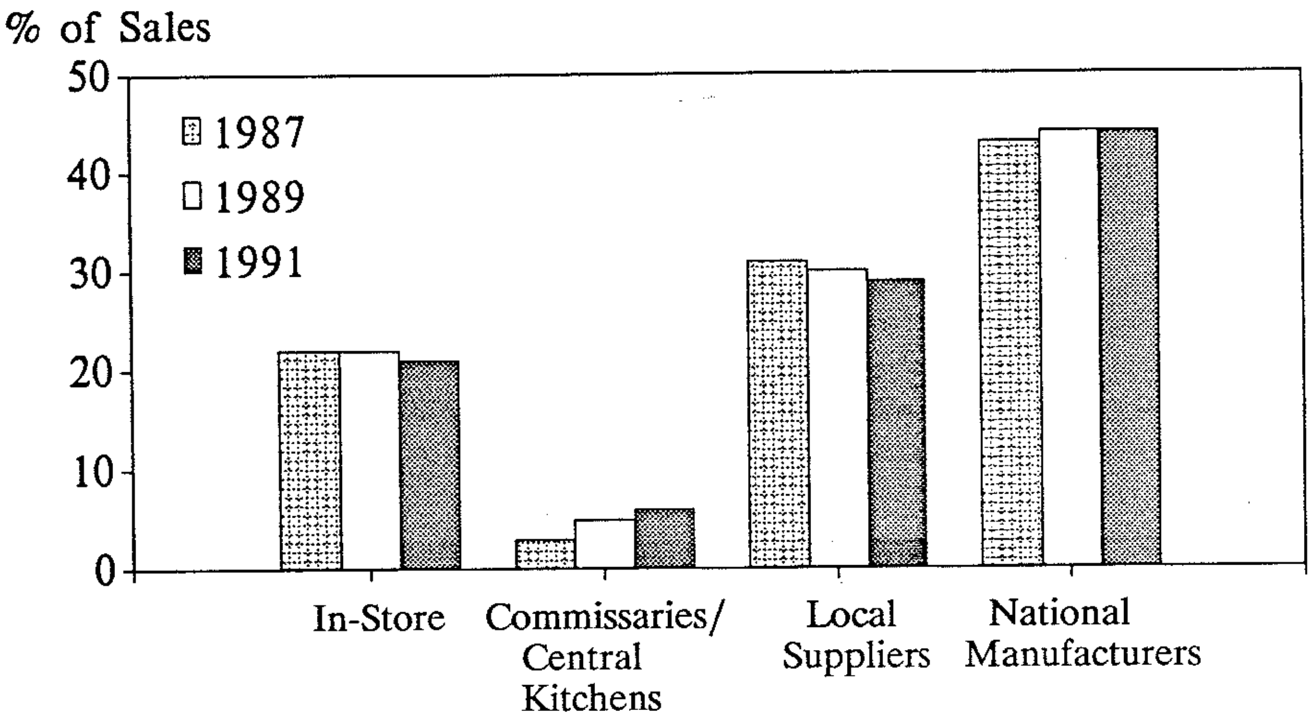
Sources of Deli/Prepared Foods Product Sales

The survey of operators provides deli/prepared foods product sales by sources of preparation for 1987 and 1989 with projections to 1991 as is shown in Figure 6.

In-Store Prepared Products

In-store preparation presently constitutes an average of about 22 percent of deli/prepared foods sales across the industry. Respondents report in-store preparation ranging from 5 to 25 percent (inter quartile range) of department sales, while 10 percent report no in-store preparation, and 14 percent of respondents attribute 50 percent or more of their deli/prepared foods sales to products prepared in-store. It should be noted that on average respondents do not envision near-term growth of in-store preparation. Indeed, a 1 percent decline is indicated, and interviews revealed that many retailers would like to find methods which would result in less in-store preparation. But achieving this goal remains a challenge.

Figure 6 **PRODUCT SALES BY SOURCES OF PREPARATION**



Source: Cornell/Michigan State Survey, 1989.

Products Prepared in Commissaries and Central Kitchens

As is shown in Figure 6, in 1989 respondents on average procured 5 percent of deli/prepared foods from commissaries or central kitchens. More importantly, operators with commissaries or central kitchens on average prepared 30 percent of their total deli/prepared foods sales in those facilities; however, it should be noted that only 14 percent of respondents operate commissaries or central kitchens.

Figure 6 also shows a growing portion of deli/prepared foods sales coming from central kitchens and commissaries--from 3 percent in 1987 to 6 percent projected for 1991. This finding confirms both survey and field interview results suggesting a growing interest among a significant number of deli operators in commissaries and central kitchens. In fact, when those without commissaries or central kitchens were asked, "Are you considering a commissary or central kitchen within the next two or three years?", slightly over 15 percent indicated they were. Thus, those with commissaries or central kitchens, plus those considering one in the near future, constitute nearly 30 percent of survey respondents.

Products from Local Suppliers and National Manufacturers

In 1989 deli/prepared foods sales from local suppliers and national manufacturers averaged 30 and 44 percent, respectively. Similarly, respondents reported deli/prepared foods sales ranging from 10 to 35 percent from local suppliers, and 20 to 67 percent from national manufacturers (inter quartile ranges). In the case of both local suppliers and national manufacturers there are no clear directions of future change other than significant overall deli/prepared foods growth as discussed earlier. That is, operators have not seen in recent years, and do not foresee in the future, significant changes in deli/prepared foods sales which will strongly affect the proportionate roles of these suppliers.

Fresh Prepared Foods: Good News, But Major Challenges

Increasingly the deli/prepared foods department is the focal point of the supermarket industry's thrust into fresh prepared foods. Shoppers purchase fresh prepared foods primarily for the rapidly growing take-out market and, to a lesser degree, for snacks or meals consumed in stores. It is evident that the fresh prepared food market represents a "good news/bad news" situation. The good news is the sizeable growth opportunities these products afford by virtue of customers' changing lifestyles and rising incomes, coupled with the availability of microwave technology. The bad news is the extraordinary difficulty of developing successful fresh prepared foods programs. As many food industry executives and observers have noted, fresh prepared foods is in fact a **new business** requiring new approaches, practices and philosophies. It is a new business for suppliers and manufacturers, as well as for wholesalers and retailers, and even for many restauranteurs. Furthermore, the sales of fresh prepared foods is blurring the traditional distinctions between supermarkets and restaurants, as fresh prepared foods from supermarkets and take-out foods from restaurants are often targeted at the very same customers.

These types of comparisons with the restaurant industry are frequently mentioned by deli/prepared foods operators, especially those on the leading edge of the supermarket fresh prepared foods business. Some of these operators have previous food service experience and they clearly see important relationships between supermarket fresh prepared foods and the traditional food service business; although, most hasten to add that supermarket fresh prepared foods is significantly more demanding than traditional restaurant operations.

In the arena of fresh prepared foods, supermarket operators face the challenge of balancing the following factors in a highly competitive climate:

- The necessity of maintaining **safety and wholesomeness standards** of these highly perishable products over long operating hours and across many stores. Virtually all respondents--99.5 percent--indicate the issue of food safety is "very" or "extremely important".

- The need to achieve and maintain **consistent high quality** of fresh foods, once again over long time periods and in many instances across several stores. Over 90 percent indicate this challenge as being "very" or "extremely important".

- The desirability of presenting a **strong customer service program** in the context of shoppers' expectations of convenient, high quality, exciting and healthful foods.

- The need to meet each of the above **labor intensive requirements** in a setting where employment and training are major problems.

The extreme difficulty of balancing these factors is driving the industry to search for ways to best prepare, distribute and merchandise fresh prepared foods. At this point in time only a few retailers have identified to their own satisfaction truly long-term, workable approaches; and even these approaches are generally rejected by others in the industry as being too expensive, too risky or only feasible for small organizations. Thus, at present there are no broadly accepted formulas for success which address the supermarket fresh prepared foods business. As an industry executive pointed out, "There are no silver bullet solutions or turnkey approaches for supermarket fresh prepared foods. This is a new and very tough business." But operators in thousands of supermarkets across the country continue to implement new products and programs, as well as refine practices and programs already working with some degree of success.

The source and preparation point alternatives are: in-store preparation, commissaries or central kitchens, products supplied by local processors and national manufacturers. Virtually all retailers interviewed, in fact, use a combination of these sources and preparation points for fresh prepared foods. However, with limited exceptions, fresh prepared food programs are in their infancy. Few operators are totally satisfied with their product offerings regardless of sources or preparation points. The following comments by operators summarize the benefits and limitations of the alternative sources and preparation points:

<u>In-Store Preparation Programs</u>

Benefits Cited:

- Distribution problems are minimized.
- Product freshness is easier to achieve.
- Foods can be produced and merchandised without preservatives more easily.
- In-store kitchen activities communicate a strong freshness image to shoppers.
- Institutional food distributors can provide needed products and services because they are food service oriented.
- Chefs/cooks can choose from substantial numbers of approved recipes to tailor a store's offerings to its particular clientele.
- High quality scratch ingredients can be used in small batches to achieve foods comparable to home-cooked/restaurant quality.
- The use of component food products--partially completed items to be combined or finished in stores--may resolve a number of problems that typify in-store preparation. Among the anticipated advantages of component products are:
  - -- Reductions in labor hours.
  - -- Reductions in labor skills required.
  - -- Greater product consistency.
  - -- Retention of fresh appearance and flavor.
  - -- Longer shelf lives can be achieved compared with processor, manufacturer or commissary products.
  - -- Safer than in-store scratch prepared products.
  - -- Provide for a wide range of consistent variety and flavor alternatives.

Limitations Cited:

- Cost effectiveness cannot be assumed in all instances.
- Maintaining the consistency of quality across many stores is difficult.

- Assuring the safety of in-store practices and products is a major problem.
- Relatively high costs of in-store kitchen space and equipment.
- Some frozen products which are then merchandised in thawed form may pose problems with respect to flavor, appearance, and possibly safety.

Commissary and Central Kitchen Programs

Benefits Cited:

- Reduction of in-store costs and consistency problems associated with in-store preparation.
- Some retailers believe commissaries can produce high quality foods if job shop, small batch methods are maintained.
- It is more feasible to produce and distribute foods without preservatives because of close proximity.

Limitations Cited:

- A number of retailers with commissaries indicate that limited volume and consequent cost pressures over time will erode the concept of high quality kitchen food as ways to reduce costs are sought.
- A number of existing commissaries function more as historical remnants of an earlier supermarket food manufacturing era or as alternative sources of "manufactured quality" foods rather than as kitchen operations to replace in-store preparation. These commissaries are producing such items as luncheon meats, roast beef and salad items.
- Several retailers with commissaries indicate that they are not achieving expected reductions of in-store labor. This is particularly important since the goal of using commissary labor to substitute for in-store labor is a major factor encouraging retailers to consider establishing commissaries.

Local Processor Programs

Benefits Cited:

- Local suppliers may achieve high quality "fresh" prepared foods. This benefit would apply as well to local satellite plants of major manufacturers.

- Local suppliers are perceived to be flexible and innovative in terms of tailoring recipes, packaging and distribution requirements. It is possible this perception is related to what is often the small size of local processing relative to larger supermarket chain customers.
- Local suppliers inherently have fewer distance-related distribution problems.

Limitations Cited:

- Local suppliers often lack the financial resources and marketing "know-how" to support new products.
- Local suppliers may lack requisite resources and sophistication to achieve product safety and consistency.
- Local suppliers may not be able to meet the volume requirements of larger supermarket organizations.

National Manufacturer Programs

Benefits Cited:

- Effective communication to shoppers with respect to a fundamentally new category.
- Consistency across stores and even national markets, yet with regional/local tailoring possible.
- Certain retailers are eagerly awaiting the introduction of fresh prepared foods programs from major manufacturers. These operators cite R&D and marketing expertise as key needs for the creation of viable fresh prepared food programs and they envision major manufacturers as being capable of providing these resources.

Limitations Cited:

- Relatively few retailers interviewed in this study expect major manufacturers to succeed in providing needed fresh prepared foods programs in the near future.
- The lack of success of manufacturers' fresh prepared foods programs to date causes retailers concern over major manufacturers' willingness to change their traditional approaches to doing business.
- While some previously frozen and thawed prepared food products may meet retailers' as well as consumers' needs,

these products must be carefully selected in light of the following issues:

-- How do previously frozen and "slacked out" products compare with "frozen until used" products, or compared with the quality of truly fresh products?

-- How do consumers perceive frozen, "slacked out" products when they are informed of the practice?

- The highly perishable nature of fresh prepared foods places new demands on distribution systems; however, conventional manufacturer-wholesaler-retailer distribution systems are not fully effective in meeting these demands.

STRATEGIC CHALLENGES: SOURCING, PREPARATION AND DISTRIBUTION

Challenge: Assure Safety and Wholesomeness of Fresh Prepared Foods

To consumers, as well as to executives, managers and employees throughout the food industry, few issues are more important than the safety and wholesomeness of food. The food industry to date has been responsive in meeting this ever-present need; however in this increasingly affluent and informed society concerns for food safety are escalating. Moreover, the development of highly perishable, fresh prepared foods clearly underscores the importance of devoting attention to food safety.

Responses and Perspectives

The following suggested responses and perspectives are strategic in nature, and may serve as useful guidelines toward which individual operators, as well as the food industry at large, must strive. Clearly, these guidelines do not substitute either for detailed policies and manuals developed and used throughout the food industry in the quest for safe food-handling practices; or for a number of recent efforts in the development of safe policies and practices for the cooked-chilled foods category.

- There needs to be continuous updating and development of safety standards and practices through joint efforts across the food industry, including the leading trade associations and governmental regulatory agencies. Support for these efforts must come from industry, as well as public sources. Affirmative responses to address potential problems must be initiated before crises occur.

- Individual companies preparing or handling fresh prepared foods need to establish effective comprehensive policies, procedures and practices for the implementation of sound safety programs.

- Comprehensive safe food handling courses must be included in deli/prepared foods training programs. Several companies report the success of such programs. Furthermore, implementation of safe handling practices, as well as achieving continued employee understanding of food safety factors, should be incorporated into departmental task analyses and control systems. Finally, monitoring of food safety and safe handling practices must be an ongoing and integral part of deli/prepared foods management and supervision practices.

- Encourage the use and further development of various "indicator technologies" such as: time and temperature indicators; microwave cooking "doneness" indicators; and bacteria level indicators.

- Self-service foods merchandised in bulk, unpackaged forms pose special challenges in terms of potential customer tampering and unsanitary customer practices. Some operators have moved in the direction of establishing virtually full-time supervision for salad bars, soup bars, food buffets, etc. The industry should give this practice serious consideration, as well as other measures to ensure appropriate safeguards for these kinds of products.

- It is logical that to a greater degree than in other departments, deli/prepared foods operators have a greater self interest in educating shoppers in the safe handling of fresh prepared foods. The following are but a few examples of ways operators are conveying safe food handling information: instructions on packages, signage and video at the display; flyers provided with purchases; information in advertisements as part of "help in the kitchen" kinds of messages; and suggestions from clerks at deli/prepared foods counters.

Challenge: Achieve Consistent, High Quality Fresh Prepared Foods

The achievement and maintenance of consistent, high quality fresh prepared foods ranks with safety as the most important stated challenge across the industry. Driving consumers' preferences toward fresh prepared foods are the perceptions that fresh prepared foods are superior to other supermarket foods, and that they are comparable to the quality of restaurant and homemade foods.

Responses and Perspectives

- Although product safety and consistent quality may be viewed as two different issues, they are in fact closely related: Food safety problems are clearly quality problems. Indeed, as an operator said, "Very often a serious **quality** problem exists long before a **safety** problem occurs." (It should be noted, however that botulism, an often deadly safety problem, may not be detected by a diminishment of eating quality.) Largely because of this interrelationship between safety and quality, industry responses to the challenge of consistent quality closely parallel those of product safety.

- Companies preparing or handling fresh prepared foods need to establish comprehensive policies, procedures, practices, standards and specifications for quality and consistency maintenance programs. Training programs should reflect these policies.

- Production and handling specifications and quality standard monitoring systems ought to be incorporated into departmental task analyses and control systems to insure absolute compliance.

- Encourage the use and further development of technologies such as: time and temperature indicators; microwave cooking "doneness" indicators; and bacteria level indicators.

- Deli operators also should encourage proper handling and preparation procedures among their customers because customer mishandling or improper preparation can destroy otherwise excellent quality food. Among approaches for accomplishing this are the following: handling and preparation instructions on packages, informative flyers with purchases, handling and preparation information in advertisements as part of "help in the kitchen" messages, handling and preparation suggestions from clerks at deli service counters.

Challenge: Achieve an Effective Balance of Fresh Prepared Foods Preparation and Sourcing

Establishing fresh prepared food programs for a given operation is a difficult process. What products will be included? Should products be made in-store or at commissaries? Or should they be purchased from local processors or national manufacturers? How extensive should the line be? The difficulty of these questions is that there are so many unknowns: How might the products sell? How large will shrink be? etc.

Difficult or not, preparation and sourcing decisions must be made. Increasing demand for fresh prepared foods is a reality. For some operators it is now a profitable business; but for others, it has yet to achieve satisfactory levels of profitability. Nevertheless, in those instances where operators are highly involved in building the category, they are making progress toward achieving viable businesses. This situation may be analogous to the introduction of UPC scanning. The early scanning adopters confronted many difficulties; yet they learned, prospered and ultimately gained competitive advantages over companies that waited for simple turnkey solutions that never came.

Responses and Perspectives

- Analyses must be conducted relating to the **kinds** of fresh prepared foods programs offered, as well as **where** and **how** they are produced. In the face of many unknowns, the best estimates must be made, including careful analyses of in-store and in-house capabilities, costs and the ability to produce and deliver products of needed quality. The dilemma is that as fresh prepared foods grow and change, results of the analyses will also change. Thus, **flexibility of programs, methods** and **facilities** are likely to be important factors.

- The point has been made that turnkey fresh prepared food programs do not exist and that operators currently are using different combinations of fresh prepared food sources and preparation approaches. Operators should not expect to find simple solutions, nor single-source programs.

Challenge: Improve the Distribution System for Fresh Prepared Foods

Fresh prepared foods require rapid and dependable refrigerated distribution. Many supplier firms have endeavored to create their own direct store delivery (DSD) systems at enormous costs. Clearly, as fresh prepared foods and other food products requiring rapid and consistent refrigerated distribution expand, individual supplier DSD systems become increasingly cumbersome because of the inefficiencies of excessive store deliveries. This issue has not received the attention it deserves.

Responses and Perspectives

- Refrigerated distribution systems must either be: modified from existing systems to accommodate the more demanding requirements of fresh prepared foods; or created anew. Transit depots and various "cross dock" operations are being experimented with by many fresh prepared foods companies in Europe. One such firm has recently established a similar operation in the U.S. Some traditional U.S. companies are developing these kinds of systems as well.

- Improved distribution may require a systems-wide response. A systems approach involving manufacturing, distribution, wholesaling and retailing organizations perhaps should be initiated to strengthen this vital infrastructural component of the fresh prepared foods phenomenon. Perhaps a task force involving representatives from trade associations such as the International Dairy/Deli Association, Food Marketing Institute, National American Wholesale Grocers Association, National Grocers Association, Grocery Manufacturers Association, National Food Processors Association, the Chilled Foods Association, and others is needed to respond to this challenge. Higher levels of investment will need to be made in personnel and resources to accomplish this task, either on a systems-wide or individual firm basis. As deli/prepared foods operations change from company to company, and even store to store; and as locations, regions and customers change, so too should fresh prepared food programs adjust in response to these changes.

Section VI

MANAGING AND STAFFING DELI/PREPARED FOODS

The "people" factor in deli/prepared foods operations is the linchpin determinant of success. If employees within organizations are not carefully selected, if they are not properly trained, if they lack motivation and are ill-supervised, deli/prepared foods operations are certain to fall short of achieving success. The fact is that mediocre performance of many departments threatens the promising potential which many envision. Industry observers cite several reasons for their concern:

- Deli/prepared foods departments are not always maintained in clean and sanitary conditions.

- Foods in some departments lack "freshness" appeal; and may not be of superior eating quality.

- Service provided by employees may not be as friendly, informative or as positive as shoppers expect.

On the other hand, truly profitable deli/prepared foods operations generally attribute their success to effective staffing and management. One deli director said, "With outstanding deli personnel, we can make any program work!" However, even the most successful operators expressed the view that the "people factor" is the most demanding challenge confronting them.

Yet, many operators indicate that the importance of people to their operations is not fully understood by top executives in their organizations. A commonly heard phrase is, "Management does not understand the complexity of the deli business". And because of this organizations often fail to make the necessary commitment of attention and resources to staffing and management needs. Appropriate strategic directions are not forthcoming. One executive said, "My management's view of the deli is positive, but broad and vague".

The Role of People in Deli/Prepared Foods Operations

There are a number of key ways the human factor in deli/prepared foods operations looms as a crucial issue. A look at the most important of these is useful. Deli/prepared foods operations, other than bakeries, are the most labor-intensive of the major departments in the supermarket.

Respondents to the survey report labor as a percentage of sales ranging from 16 to 25 percent (inter quartile range); with an overall average of 21 percent, which is much greater than the overall store labor factor. The supermarket industry, as most service industries, is experiencing growing problems in attracting and retaining employees. Indeed, virtually all respondents believe that obtaining qualified staff is "very important" or "extremely important". This is an overwhelming declaration of a strongly held perception. This is one of two top-ranked challenges identified by survey respondents.

It is also important to note that part-time labor to total labor constitutes the majority of labor hours, about 65 percent; with a range of 55 to 75 percent (inter quantile range). Part-time employees dominate generally because of lower basic hourly rates, lower benefit costs and greater flexibility of scheduling. But some companies with a more balanced mix of full- and part-time labor have experienced greater overall deli/prepared foods profitability. They cite the advantages of having personnel with greater maturity and commitment, kitchen preparation knowledge, attendance reliability and more effective selling skills. On the other hand, one large firm in a metropolitan market reports it is forced to shift to more full-time employees because of the growing shortage of qualified part-time candidates.

Field interviews provided a number of other insights into pressing people-related challenges:

- Deli/prepared foods employees and managers traditionally have lagged behind most, if not all, store personnel in rates of pay as well as stature and prestige in the organization. Typically, advancement in supermarket organizations is said to be slower from deli/prepared foods departments. Without doubt, many companies are in the process of rectifying this situation; yet few have totally compensated for lost ground in these regards. Indeed, in only a few firms are deli/prepared foods managers paid on a par with other key department managers.

- Levels of employee turnover are said to be higher than in other key departments as a result of the above-mentioned factors, but especially because of the inability of new hires to cope with the enormity and complexity of so many typical assignments.

- Most deli/prepared foods store managers and headquarter level directors voiced the hope that their top executives would become more understanding of the reality that deli/prepared foods operations are inherently extremely complex and demanding, and are becoming more so. Some companies have created new positions with more stature giving greater recognition to deli/prepared foods. Greater stature allows individuals to champion programs which can effectively meet the many challenges. A few firms have separated food service activities from traditional deli functions. This underscores the continuing question of how best to organize for optimum operations of deli/prepared foods departments. One major company which recently appointed a new Corporate Director of Delis witnessed a substantial boost in morale throughout the deli/prepared foods departments because, "one of their own" was elevated to this key position.

- With respect to part-time employees, it is observed that cooks/chefs/food preparers tend to be full-time; and that counter sales personnel tend to be part-time. It may be that this poses a barrier to growing professionalism of the sales function.

The complexity of deli/prepared foods operations, as well as the significant difficulties in operations as discussed above, provides an explanation of why respondents in the study rank the challenge of "providing training" as third in importance, following "obtaining qualified staff" and "insuring the safety of food products". Indeed, almost all respondents report employee training programs as "very important" or "extremely important".

This sentiment was a major theme of the in-depth field interviews. As one executive put it: "Training for the deli is perhaps the most complex training task for a contemporary supermarket organization. The learning curve of new hires is incredibly steep." Several deli operators express the view that top executives of their firms are not fully aware of this reality, because their business grounding is mainly in the dry grocery department, the nature of which is greatly different from the deli/prepared foods business.

It should be noted that no respondents volunteered knowledge of any truly **comprehensive** manufacturer-sponsored training programs in the deli/prepared foods area. Supermarketers generally view training provided by suppliers/manufacturers as lacking the breadth to cover total deli/prepared foods operations. In many instances such training programs are said to be too narrowly focused on the products and services of particular suppliers. Even programs that deal extremely well with one category of the department may not be appropriate for all retail operators. On the other hand, a leading bakery services company was cited by several operators as offering a training program which is regarded as effective because of its competent and comprehensive approach.

STRATEGIC CHALLENGES: MANAGING AND STAFFING

Challenge: Attracting and Retaining Qualified Staff

The importance of this challenge was echoed repeatedly throughout the research in both interviews and the mail survey. It is clear that affirmative responses are already underway among the most successful companies; but immediate and effective responses are essential for all firms. To this there is no argument, but how to cope with this challenge is perplexing to executives across the industry--especially so because of the fact that deli/prepared foods "food service" activities differ in kind from the more conventional activities of supermarketing.

Responses and Perspectives

- Many deli/prepared foods activities involve kitchen and food production tasks along with the functions of displaying, selling and other traditional activities. Some companies are responding by training personnel to perform these food service functions. Other firms are seeking out persons with prior food service experience for store-level activities as well as for supervisory and executive positions. At store level, the industry appears to favor hiring personnel trained in food preparation and production, but not necessarily highly skilled chefs. The hiring of chefs has tended to be emphasized among those organizations desiring an up-market or gourmet image. But this approach does not appear to be mainstream.

  Organizations differ in their approaches, but higher level food production employees such as cooks and chefs tend to supervise kitchen activities, while the overall department is managed by employees who have moved up from more traditional supermarket deli ranks. At least one highly successful company strongly prefers to have food service employees acquire all of the necessary skills to manage the department. As was noted above, the term "food service" in management titles is no longer uncommon, even at senior management positions of the company. Indeed, several firms have recently named Directors or Vice Presidents of Food Service who have had extensive restaurant experience. This is in recognition of the substantial differences in the requisite skills and orientations for strategizing and operating deli/prepared foods departments compared with traditional food retailing and grocery products marketing. However, some of the most successful deli prepared foods operators have cautioned that, while food service experience is important, deli operations are very different from restaurants. For this reason new hires must be trained to deal with the unique aspects of supermarket deli/prepared foods operations.

Food production and chef personnel are attracted to supermarket deli/prepared foods operations where efforts are made to create supermarket compensation and working conditions more attractive than many restaurants are able to offer. The inherent differences between restaurants and deli/prepared foods settings can work to the advantage of the supermarket industry if concerted efforts are made. Successful supermarket operators in this regard report the following advantages: competitive or superior salaries and benefits, more amenable day-time working hours, fewer peaks and valleys in the work load, pleasant communications with shoppers and, in general, more amenities in the work setting.

- Full-time/part-time employee ratio policies require re-examination. The 2 to 1 part-time to full-time relationship that characterizes the industry should be considered in terms of the tradeoffs of lower cost and greater scheduling flexibility of part-time employees with the benefits of employing people who are full-time. The greater potential of attracting full-time people with better work skills, more enthusiasm and greater maturity on the job has encouraged some firms to strive for a 50/50 mix. Hard and fast generalizations do not apply; but firms with a more balanced approach to the full-time/part-time equation offer convincing anecdotal evidence of greater success. Asked why this is the case, one response was as follows: "We need talented and caring people to offer our customers friendly service and consistent high quality products. Deli teams dominated by youngsters don't get the job done!"

- Targeting areas of the population not typically engaged in the deli labor force should be considered carefully. Mothers and retirees, for example, may be willing to take on part-time work, thus increasing deli labor scheduling flexibility; and at the same time, these individuals may well possess considerable interest and perhaps expertise in food preparation techniques. Recent surveys show that many newly retired workers do not come forth and apply for job openings since they do not believe employers would condsider them. McDonalds, for example, has reported overall retention rates of 80-85 percent for older workers attracted to its "McMasters" program, an initiative to utilize the skills of workers 55 years of age and older.

Challenge: Training and Developing Employees to Effectively Operate and Manage

The need for training is ranked by the industry as among the top three challenges, and is recognized as being very difficult to achieve.

Responses and Perspectives

- Training must be accessible to virtually all employees. Thus programs designed for store-level personnel need to be local in nature. For suppliers who are interested in participating in training programs for retailers, the local requirement poses a special challenge. For this reason centralized programs to "train the trainer" may be most appropriate.

- The cost of training is an important factor given the large number of employees involved as well as the high rates of employee turnover for most firms. Thus, cost per employee for training is a significant issue. Innovative exploration is needed to develop training programs at realistic costs without compromising learning effectiveness. Use of interactive computers as well as video technology may be appropriate.

- Programs need to be broadly based and flexible so that students can select training units which are appropriate to their companies as well as to their specific training needs at particular times. For instance, training needs differ with respect to methods of merchandising fresh prepared foods, hot versus chilled, for example; or self-service versus service foods.

- It is important for everyone to acquire basic information and knowledge of the following topics: customer service, safe food handling, personal hygiene, food preparation, merchandising and food presentation, and equipment operations.

- Training programs and methods should encourage employees to think as managers. Employees handling highly perishable foods must be motivated and capable of making numerous judgements in the normal course of their work. Training, when applied appropriately, is a signal to people that management values their important contributions. Thus effective training can be motivational and can become a central part of the effort to retain employees.

- Training should be continuous and it should commence as soon as possible. One successful company reported that all new employees in deli/prepared foods receive formal classroom training in food handling and safety within 30 days of starting work.

- Training ought not to be viewed as only an outside, formally organized activity, something separate from day-to-day operations. Indeed, all employees should be encouraged to be trainers. Some companies consciously view the chef/cook as a key in this training philosophy and the individual who brings the "food service" mentality to the department. Thus, employees ought to be selected for their capacity to develop the professional skills as trainer/teacher/coach.

Challenge: Managing Labor Costs and Achieving Higher Levels of Productivity

A common theme from the interviews with leading retailers was the need to cope with the complexity of the deli/prepared foods department. As one executive expressed it, "We must bring order from the chaos on the labor front". Although deli/prepared foods activities are capable of specialization and structure, the continuing expansion of product variety and selection as well as the pressure of limited storage, production and selling space, inevitably results in situations whereby employees are faced with several competing tasks during peak business hours. These situations were often described by operators as chaotic. While the situation may not be capable of total resolution, given the very nature of the deli/prepared foods business, a number of firms are making progress in addressing this special challenge.

Responses and Perspectives

- An important perspective is how the firm develops and fosters its own conception of "productivity". It should be realized that in many, if not most, instances employees will place higher priority on the production tasks of deli operations than on serving shoppers and initiating the less tangible customer service activities that have the potential for sparking sales. This is the case because the possibility of a few missed sales are less tangible and less apparent to supervisors who can readily identify and criticize employees for inadequate performance of production tasks. A broad definition of productivity, incorporating the notion of improved levels of shopper service and satisfaction, is vital.

- Deli/prepared foods tasks are being analyzed by some leading organizations based upon the application of industrial time and motion studies. Reportedly, these efforts are promising, at least among two of the firms interviewed; and it may well be that other companies throughout the industry are seeking and implementing positive programs along these lines. In both instances professional analysts study the actual patterns of activities taking place in the departments. Ultimately optimal methods of performing tasks are determined and appropriate amounts of labor to accomplish the tasks are allocated. The Director of Deli assist those on the firing line by providing the needed time and best techniques to accomplish assigned tasks at a reasonable pace. Rather than being threatened, employees view the process as a benefit to them. Management throughout our organization finally understands the full complexity and need for labor time in the deli. This results in trust and enthusiasm for the analysis since employees recognize that they genuinely benefit from the results".

These kinds of programs can assist organizations to balance the need of reducing costs wherever possible, but not at the expense of diminishing profitable deli/prepared foods activities. The point is, that deli/prepared foods operations have become so complex as to defy intuitive and ad hoc solutions in order to achieve optimal balances and tradeoffs.

- Operators should explore the application of pay-for-performance compensation rather than only salary or hourly payment. In recent years a number of leading department stores have switched either to: total commission pay approaches or combinations of straight pay plus commission for sales clerks. Companies such as Bloomingdales, Nordstrom's, Jordan Marsh and Marshall Field are enthusiastic over the results. The objective is to increase sales by improved service to shoppers. Commission systems are demonstrating that sales people will become more attentive and service-minded when properly trained and motivated. Customer surveys demonstrate greater satisfaction, and unions have been accepting when made part of the planning. Another form of incentives that could be explored are bonuses paid for excellence in overall deli/prepared foods department performance, where a team approach is encouraged.

  Individuals should be measured and rewarded against specific tasks over which they have control. Where it is possible to increase extraordinary performance, management ought to consider bonus systems, or at least some form of special recognition. Difficult as it may be to construct a commission or bonus system, it is likely that Universal Product Code scanning systems and related computer technologies are making such approaches increasingly feasible.

Section VII

SUPPLIERS AND THE DELI/PREPARED FOODS INDUSTRY

Deli/prepared foods operations, much as bakery, produce and meats, are more creations of retailers' initiatives and strategies than they are of manufacturers'. Retailers have led the deli/prepared foods phenomenon. This is not to say that meats, cheeses and many prepared salads--all from suppliers--are of small consequence, quite the contrary. On average, manufacturers' products account for about two-thirds of deli/prepared foods sales.

Retailers make it clear that they could not function without manufacturers' products; yet, for the most part, manufacturers' brands are displayed with only occasional emphasis, and then often limited to the few brands with excellent franchises in given markets. Some retailers elect to have virtually no brand identification in their display cases. In this sense suppliers play vital, but nonetheless supporting roles, in providing the "commodities" or ingredients which retailers present to shoppers in final form in their distinctively stylized delis. In this manner deli/prepared foods have become one of the key "signature" departments for retailers, the means to differentiate their appeal to shoppers from competing firms. Thus, despite their indispensable roles, manufacturers have low brand profiles especially in comparison with the branding activities of grocery suppliers. Manufacturers' presence, however limited, is reflected in point-of-purchase signage and materials to merchandise products of the deli itself; yet often these activities are constrained when retailers adopt policies against suppliers' point-of-purchase materials, as is increasingly the case. However, so great have become the challenges confronting retailers and wholesalers in developing deli/prepared foods that it appears certain there will be a number of ways suppliers can and should collaborate with retailers.

This section on the roles of suppliers in deli/prepared foods operations deals first with traditional products--meats, cheeses and salads--followed by discussions of how supermarkets' initiatives with fresh prepared foods, and those of manufacturers', may be approached in ways that result in mutually beneficial solutions.

Traditional Deli Products and Buyer/Seller Dynamics

In analyzing the current situation of deli operations and projecting future trends and issues, it is helpful to first consider the role of suppliers with respect to traditional products prior to discussing the new dimension, fresh prepared foods. The reason for this is that suppliers have played a much less important role in the category of fresh prepared foods, and by contrast are well established in categories such as meats, cheeses and salads.

Preferred Suppliers

It is important to understand the fundamental attributes or characteristics of suppliers which wholesalers and retailers believe are most important as a starting point in exploring ways by which greater collaboration can be achieved in profitably growing the business. Operators were asked to respond to questions in this regard in the mail survey. They reported in a clear and decisive way. Above all else, they look to suppliers for excellence in product, service and integrity of performance, as is shown in Table 7. These themes are reflected in the top six attributes of preferred suppliers: reliability, quality, tailored programs, flexible promotions, reputation and innovation. The mean responses of over 4.00 for each of these attributes are indications of the strength of views held by the industry in these regards, especially with respect to reliability and quality.

Table 7 ATTRIBUTES OF PREFERRED SUPPLIERS

Attributes	Rank	Mean Responses*
Reliable	1	4.77
Offers Best Quality	2	4.62
Tailor Programs to Needs	3	4.56
Regular, Flexible Promotions	4	4.33
Good Trade Record	5	4.31
Innovative	6	4.19
Advertises to Customers	7	3.37
Slotting, Entry Fees	8	2.87
Low Cost/Price Producer	9	2.61

*Responses on a scale of 5 (extremely important) to 1 (not very important).
Source: Cornell/Michigan State Survey, 1989.

It is important to note those attributes which deli/prepared foods wholesalers and retailers rank lowest, and substantially so, as one can see by the low mean responses. The trade seems less concerned with suppliers' advertising of their products to consumers, which may be a measure of retailers' indifference toward manufacturers' brands. The deli trade also does not view as important such selling enticements as "slotting fees", or at least is less willing to admit it. Moreover, supplier status as low cost/price producer was ranked last, which may be surprising. However, it might be reasoned that this price-related factor, so vitally important in all buyer/seller relationships is in fact important, but that responses to the survey indicate that beyond assumed competitive prices, other business-building supplier attributes are of even greater importance.

Vendor Support

A logical question arises with respect to the specific ways by which vendors of deli/prepared foods support wholesalers and retailers in developing the category. Thus, operators were asked to express their views in the mail survey with respect to vendor support currently available to them as well as support needed most as they look to the future. Table 8 lists in order of importance the types and availability of vendor support to deli/prepared foods operators.

It is interesting to note that four out of the top five support services are characterized by in-store activities designed to stimulate immediate sales. For example, demonstrations spark impulse sales with the most direct of all shopper appeals; point-of-sale materials follow with direct product messages to shoppers in the deli; co-op advertising is conducted in the hope of capturing shoppers' attention as they read the store's ads, especially among price-sensitive shoppers; merchandising techniques assist sales personnel on effective ways to sell shoppers in the deli; and, training materials are available to instruct employees for immediate, as well as long-term, sales.

By contrast, those vendor-sponsored services which, for the most part, have the potential of expanding sales beyond the short-term are available to a somewhat lesser degree, at least according to perceptions of this significant cross section of operators. Thus, such vendor services as training seminars, new product development, business reviews, tours of plants, consumer research, trips to deli conferences, and sponsored industry forums are perceived by operators to be less available. Nevertheless, availability of these types of support ranges from a modest 41 percent to a respectable 81 percent.

Table 8 **VENDOR SUPPORT**

Type of Support	Percent Reporting Support Available
Demonstrations/Sampling	99
Point-of-Sale Materials	98
Co-op Ad Funds	92
Merchandising Techniques	87
Training Materials	85
Training Seminars	81
New Product Development	77
Periodic Business Reviews	77
Recipe/Usage Cards	72
Tours of Manufacturing Plants	69
Consumer Research	61
Trips to Deli/Food Conferences	42
Sponsor Industry Forums	41

Source: Cornell/Michigan State Survey, 1989.

To take the topic a step further, Table 9 shows the kinds of vendor support deli/prepared foods operators want increased or maintained. Generally, the services which are currently available to the highest percentages of operators are also the ones which they want increased, with the exception of point-of-purchase materials. This is not surprising as increasingly retailers prefer to use their own signage and point-of-purchase materials in stores where distinctive and consistent decor is sought. It should be noted that recipe and product usage information, which ranks relatively low, 9 of 13, should be increased according to 77 percent of deli/prepared foods operators. Other services that should be increased relative to their present availability are consumer research and trips to deli/prepared foods conferences.

Table 9 **VENDOR SUPPORT**

Type of Support	Percent Wanting Level Increased	Percent Wanting Level Maintained
Demonstrations/Sampling	85	14
Co-op Ad Funds	80	15
Merchandising Techniques	79	17
Training Materials	77	18
Recipe/Usage Cards	77	17
Training Seminars	74	19
New Product Development	68	28
Consumer Research	67	28
Point-of-Sale Materials	58	30
Trips to Deli/Food Conferences	53	28
Periodic Business Reviews	51	38
Sponsor Industry Forums	39	36
Tours of Manufacturing Plants	28	44

Source: Cornell/Michigan State Survey, 1989.

New Item Selection

When deli/prepared foods operators select new items from suppliers a number of factors are taken into account. Operators' rankings of factors influencing new item selections are summarized in Table 10. It should come as no surprise that in deli/prepared foods operations where consistent quality looms as a dominant success factor, deli operators rated product quality as by far the most important selection criterion, followed by shelf life and vendor reputation to round out the top three factors; all three being quality-related factors. To further underscore the industry's intense view with respect to the need for high quality of new products, the mean response of 4.87/5.00 is the result of virtually all respondents indicating it is "extremely important" or very important".

Table 10 **FACTORS INFLUENCING NEW ITEM SELECTION**

Factors	Rank	Mean Responses*
Product Quality	1	4.87
Shelf Life	2	4.14
Vendor Reputation	3	4.10
Gross Margin	4	4.07
Introductory Trade Promotion	5	3.82
Product Uniqueness	6	3.81
Consumer Ads, Promotions	7	3.52
Competition Carrying Item	8	3.07
DPP Analysis	9	2.89
Slotting, Entry Fees	10	2.69
Retail Price	11	2.58
Consumer Coupons	12	2.48

*Responses on a scale of 5 (extremely important) to 1 (not very important).
Source: Cornell/Michigan State Survey, 1989.

It is also noteworthy that price-related factors were ranked low: slotting fees ranked 10 of 12; and retail price, 11 of 12. Slotting fees are generally much less prevalent in the deli business than in the dry grocery trade; and so, as expected, slotting fees are ranked as being relatively low in importance. Apparently operators believe consumers will pay reasonable premiums over standard foods so long as high levels of quality are provided.

That an analytical tool such as Direct Product Profit (DPP) analysis is ranked so low, 9 of 12, may be cause for some concern. Operators throughout the study described the department as complex and difficult to operate. Certainly DPP and related computer/scanning tools have the potential to respond to this challenge; yet, DPP is not viewed as important according to the study results. This concern, however, is not to suggest that these tools should become substitutes for reasoned merchandising judgement and creativity.

Fresh Prepared Foods and Buyer/Seller Dynamics

Fresh prepared foods constitute a progression of convenience foods in addition to the traditional deli meats, cheeses and salads. The expansion goes well beyond the most conventional items of fried chicken, BBQ ribs and standard dishes, such as baked beans, macaroni and cheese, etc. Deli/prepared foods operators prepare many of these foods at store level and to a lesser extent in their own central commissaries or kitchens. They also purchase products, mostly frozen, from local or major food processors. Moreover, as was explained in Section V, most operators do not envision prominent roles for manufacturers as sources of fresh prepared foods in the near future. However, when asked whether they would consider alternatives to in-store food production, most expressed strong interest in evaluating such programs. But, they also indicated skepticism concerning the likely quality of most manufacturer produced products. Because of the apparent lack of success to date of the relatively few initiatives of suppliers to market truly fresh branded prepared foods, most operators are not predisposed to the concept of strong manufacturer participation in the fresh prepared foods phenomenon. Yet, the majority of deli/prepared foods operators repeatedly underscored the problems associated with in-store preparation; and several recent trade press articles stress the need for manufacturers' participation to solve retailers' in-store food production problems. On balance, few operators initiated suggestions for substantial manufacturer involvement. This ought not to be interpreted as opposition on the part of deli/prepared foods operators to proposals that may come from manufacturers in the future; and it is logical to expect that interest will intensify when and if manufacturer programs begin to achieve success in the marketplace.

Having said this, it should be noted that there are groups of deli/prepared foods operators--each relatively small--with polar viewpoints in this regard: one group essentially discounts virtually any role for manufacturers in developing the fresh prepared food category; and another segment believes it must have assistance from manufacturers. One leading operator, from the latter group, believes there is a logical role for one of the industry's largest food manufacturers which he believes possesses the "Marketing clout and R&D resources to create a major presence in the fresh prepared foods category". Another retailer is so committed to the eventuality of a strong presence of manufacturers' branded and packaged products that space has been designated (now being used temporarily for other products) in newer stores for these yet-to-be determined fresh prepared foods.

Food manufacturers increasingly are eager to find ways to participate even more than currently with products and services that meet the wants and needs of supermarket operators and ultimate consumers of deli/prepared foods. Yet, many whose experiences are mainly in the development and marketing of consumer branded products are ambivalent with respect to agressively pursuing products and programs targeted for deli/prepared foods operators where manufacturers' brands are often discouraged. These companies resist the perceived risk of becoming mired in low-margin, "commodity" businesses. Some manufacturers, therefore, are developing branded, packaged fresh prepared foods for display in grab and go deli sections, as well as other refrigerated sections of supermarkets. The success of these initiatives to date has been mixed, at best. However, a number of these products currently are in test market. It seems likely that lessons from early initiatives by several food manufacturers will serve as the basis for successful future ventures. On the other hand, other manufacturers have committed their resources to new self-stable or frozen foods because they perceive these avenues as more accommodating to the application of their food processing and brand management resources and expertise.

Role of Brands in Deli/Prepared Foods

As fresh prepared foods operations continue to develop, the industry may reconsider the roles brands can play in merchandising deli/prepared foods. In this regard it may be useful to consider at least the following approaches.

Limited Brand Presence. In this instance operators display products with minimal brand presence. Deli/prepared foods departments and store names communicate to shoppers the product, service, design, and other key factors of the deli/prepared foods offerings and positionings. It would be difficult to find departments totally free of brand identification, at least on meats and cheeses, but some retailers strive toward the goal of minimizing brand presence. This involves having no point-of-purchase signage identified with suppliers, plain loaves of meats and cheeses, with relatively few wrappers on products which designate suppliers' brands. Retailers strive to have the store image serve as the "brand", with the implication that products sold are backed by the reputation of the store. Reasons for this approach are that deli/prepared foods operators believe that manufacturers' brands do not provide for retailer differentiation and may not convey the concept of freshness to shoppers.

"Signature" Brands. Some deli operators use their company names on products they produce--some at central kitchens and some at store level--while maintaining low profiles of manufacturers' brands. Products sold both "bulk" as well as prepackaged may carry a signature brand of the organization. The names may or may not be identical to the store's name; in any event they are being used as exclusive "signature" brands. For example, Byerly's lends its name; A & P's brand is Convenient Cuisine; H.E. Butt's program is Classic Cuisine; and Giant Food's programs are Gourmet-to-Go and Step Savers. In these instances, retailers are applying some of the principles of brand marketing in recognition of the inherent role brands can play in communicating to shoppers the merits of products.

Combinations of Branded and Unbranded Programs. Most retailers achieve a mix of unbranded, signature and selected manufacturer brands. Examples are displays of store-made, local and national salad producers' products merchandised mainly in bulk unbranded form, but sometimes with labels and brands. It may be that well-known and respected local processors' brands may have certain advantages over some major, mass-marketed national brands, at least initially. This is because of the "small is beautiful" mindset and the image many shoppers have of small firms being better able to produce foods that are fresher and which come closer to homemade or restaurant quality. However, there is also an undeniable appeal for a major retailer to work with relatively small-sized or local suppliers. The retailer is apt to be that vendor's largest and most important customer; and is able to influence terms and programs.

One major retailer described the need to emphasize manufacturers' brands to help introduce and promote new items such as low sodium and low calorie versions of standard products; but once these new products or categories are established this retailer places less emphasis on the brands.

The need exists for branding, even in the fresh prepared foods category, in order to communicate value, consistency and quality as much as for any other food category. However, alternatives must be sought to conventional branding methods to avoid the image of highly processed foods which are associated with "huge plants where food is processed in large vats, pipes and conveyor lines to be stored and ultimately shipped thousands of miles". Appropriate brand names, appealing packages, and display cases that allow for merchandising effectiveness are all central to the goal of successfully applying brand marketing to fresh prepared foods. Finally, it is instructive to report the comment of one of the most successful deli/prepared foods operators who said, "We use brands only when they have the highest quality image".

STRATEGIC CHALLENGES: ROLES OF SUPPLIERS

Challenge: Deli/Prepared Foods Operators and Suppliers Must Work Together for Mutual Advantages

It should be to the mutual advantage of deli/prepared foods operators and suppliers to seek innovative and collaborative ways to profitably expand deli/prepared foods operations and more fully utilize each other's capabilities. Indeed, one operator commented, "Ultimately, it is consumers who will drive both retailers and manufacturers to fundamentally different businesses. Both had better begin to experiment with new programs and improved distribution systems, as well as different kinds of products, if they are to be in business ten years from now".

Responses and Perspectives

- Many times deli/prepared foods operators are confronted by production challenges at the store level where logic would seem to call for manufacturers' participation. For instance, retailers at times can barely keep up with meat and cheese party platter orders. Questions: Should manufacturers invest in nearby plants to perform this service, perhaps providing each of several retail customers with distinctive products according to their respective specifications? And why not approach sandwich programs in the same way, rather than be content with retailers struggling with inefficient production systems in congested backrooms?

- If manufacturers cannot make complete dishes for deli/prepared foods operators, then perhaps they can prepare component parts for simplified and safer assembly in stores. These and other new ways for retailers and suppliers to join forces must be explored for deli/prepared foods to achieve its full potential.

- Suppliers must be more responsive to deli/prepared foods operators' needs. If suppliers expect to play expanded roles in deli/prepared foods operations, they must analyze whether their existing products and services meet the current and emerging needs of the department. Most suppliers will need to change in significant ways. Some will want to consider new ventures that perhaps require satellite plants with small batch processing methods, different packaging, faster and more effective distribution systems, and new ways to advertise and promote their products.

- Deli operators must be more affirmative in encouraging manufacturers to become key players in the deli/prepared foods phenomenon. Just as there are many ways manufacturers need to become more responsive with respect to the requirements of deli/prepared foods operations, so too must operators be responsive to manufacturers' needs. They must recognize that brand marketing is important to manufacturers.

- Collaborative business-building relationships should be strengthened. Some operators encourage suppliers to collaborate with them in developing programs resulting in profitable growth of the category. For instance, active involvement of manufacturers' senior sales and marketing executives in one productive business review resulted in a number of merchandising initiatives and a more effective utilization of the retailer's UPC scanning data, which the deli/prepared foods operator had limited time to analyze. Another form of merchandising support sought by this operator was greater use of ad coupons and price specials, similar to the approach of grocery product merchandising. Sales increases have resulted, with both the operator and the manufacturer benefitting from the application of more aggressive forms of couponing and sales promotions. While this deli/prepared foods manager by no means strives for exclusive or radically different buyer/seller relationships, he does believe that a greater "partnership" approach is positive and can take place only when information is shared.

Section VIII

SUMMARY OF STRATEGIC CHALLENGES

This study of deli/prepared foods was conceived for the purpose of contributing to the strategic thinking of executives whose firms and organizations participate in the deli/prepared foods business. The following challenges serve to highlight content and structure of the report.

Central to the process of formulating strategic initiatives to achieve progressive development of deli/prepared foods is the need to respond to the following critical challenges emanating from this research:

Challenge: Adjust Deli/Prepared Foods Operations in Response to Changing Shoppers and Competitors

It should be borne in mind that continued successful growth of deli/prepared foods is not automatically assured. Just as other food categories have experienced declines following periods of rapid growth so might deli/prepared foods suffer as a result of mediocre performance across the majority of stores. It therefore is critically important that most shoppers, most of the time, have satisfactory experiences when shopping for and consuming deli/prepared foods; and that their overall expectations be met. Only in this way will the current deli/prepared foods phenomenon continue its impressive growth. Suggested responses to this challenge are presented on page 19.

Challenge: Achieve a More Healthful and Nutritious Image for Deli/Prepared Foods

Consumer concerns for nutritious and healthful foods is a major and continuing direction of change across the food industry. Deli/prepared foods operators and suppliers must respond affirmatively, and in the opinion of many operators, there are opportunities for department growth if appropriate responses are initiated. Suggested responses to this challenge are presented on page 34.

Challenge: Expand Sales of Fresh Prepared Foods

Most fresh prepared foods programs, such as hot and cold entrees, have not yet achieved acceptable sales or profit levels; however, a number of programs are clearly successful and expanding. It is vitally important to the supermarket industry that broad-based success be achieved with this category. Fresh prepared foods are the most important battleground on which future supermarket retailer and supplier efforts will be made to win share of consumers' stomachs. Suggested responses to this challenge are presented on page 35.

Challenge: Attracting More Shoppers to the Deli

To ensure long-term growth and continued success of deli/prepared foods, a larger percentage of shoppers must be attracted to make purchases in the department. Survey respondents indicate that on average 24 percent of their shoppers' check-out transactions include purchases from the deli. In spite of overall deli/prepared foods growth and its rising contributions to store profitability, low shopper patronage is viewed as an important and persistent problem. Suggested responses to this challenge are presented on page 43.

Challenge: Increase Shopper Understanding of Self-Service Deli/Prepared Foods

Even though much attention is being focused on the development of convenient "grab and go" sections, a key challenge remains; how to effectively communicate to shoppers that the quality of packaged products is equivalent to products in the service case. Suggested responses to this challenge are presented on page 46.

Challenge: Assure Safety and Wholesomeness of Fresh Prepared Foods

To consumers, as well as to executives, managers and employees throughout the food industry, few issues are more important than the safety and wholesomeness of food. The food industry to date has been responsive in meeting this ever-present need; however in this increasingly affluent and informed society concerns for food safety are escalating. Moreover, the development of highly perishable, fresh prepared foods clearly underscores the importance of devoting attention to food safety. Suggested responses to this challenge are presented on page 57.

Challenge: Achieve Consistent, High Quality Fresh Prepared Foods

The achievement and maintenance of consistent, high quality fresh prepared foods ranks with safety as the most important stated challenge across the industry. Driving consumers' preferences toward fresh prepared foods are the perceptions that fresh prepared foods are superior to other supermarket foods, and that they are comparable to the quality of restaurant and homemade foods. Suggested responses to this challenge are presented on page 59.

Challenge: Achieve an Effective Balance of Fresh Prepared Foods Preparation and Sourcing

Establishing fresh prepared food programs for a given operation is a difficult process. What products will be included? Should products be made in-store or at commissaries? Or should they be purchased from local processors or national manufacturers? How extensive should the line be? The difficulty of these questions is that there are so many unknowns: How might the products sell? How large will shrink be, and so forth? These are difficult questions. Difficult or not, preparation and sourcing decisions must be made. Suggested responses to this challenge are presented on page 60.

Challenge: Improve the Distribution System for Fresh Prepared Foods

Fresh prepared foods require rapid and dependable refrigerated distribution. Many supplier firms have endeavored to create their own direct store delivery (DSD) systems at enormous costs. Clearly, as fresh prepared foods and other food products requiring rapid and consistent refrigerated distribution expand, individual supplier DSD systems become increasingly cumbersome because of the inefficiencies of excessive store deliveries. Suggested responses to this challenge are presented on page 61.

Challenge: Attracting and Retaining Qualified Staff

The importance of this challenge was echoed repeatedly throughout the research in both interviews and the mail survey. It is clear that positive responses are already underway among the most successful companies; but immediate and effective responses are essential for all firms. To this there is no argument, but how to cope with this challenge is perplexing to executives across the industry, especially so because of the fact that deli/prepared foods "food service" activities differ in kind from the more conventional activities of supermarketing. Suggested responses to this challenge are presented on page 66.

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Challenge: Training and Developing Employees to Effectively Operate and Manage

The "people" factor in deli/prepared foods operations is the linchpin determinant of success. If employees within organizations are not carefully selected, if they are not properly trained, if they lack motivation and are ill-supervised, deli/prepared foods operations are certain to fall short of achieving success. The need for training is ranked by the industry as among the top three challenges, and is recognized as being very difficult to achieve. Suggested responses to this challenge are presented on page 68.

Challenge: Managing Labor Costs and Achieving Higher Levels of Productivity

A common theme from the interviews with leading retailers was the need to cope with the complexity of the deli/prepared foods department. As one executive expressed it, "We must bring order from the chaos on the labor front". Although deli/prepared foods activities are capable of specialization and structure, the continuing expansion of product variety and selection as well as the pressure of limited storage, production and selling space, inevitably results in situations whereby employees are faced with several competing tasks during peak business hours. These situations were often described by operators as chaotic. While the situation may not be capable of total resolution, given the very nature of the deli/prepared foods business, a number of firms are making progress in addressing this special challenge. Suggested responses to this challenge are presented on page 70.

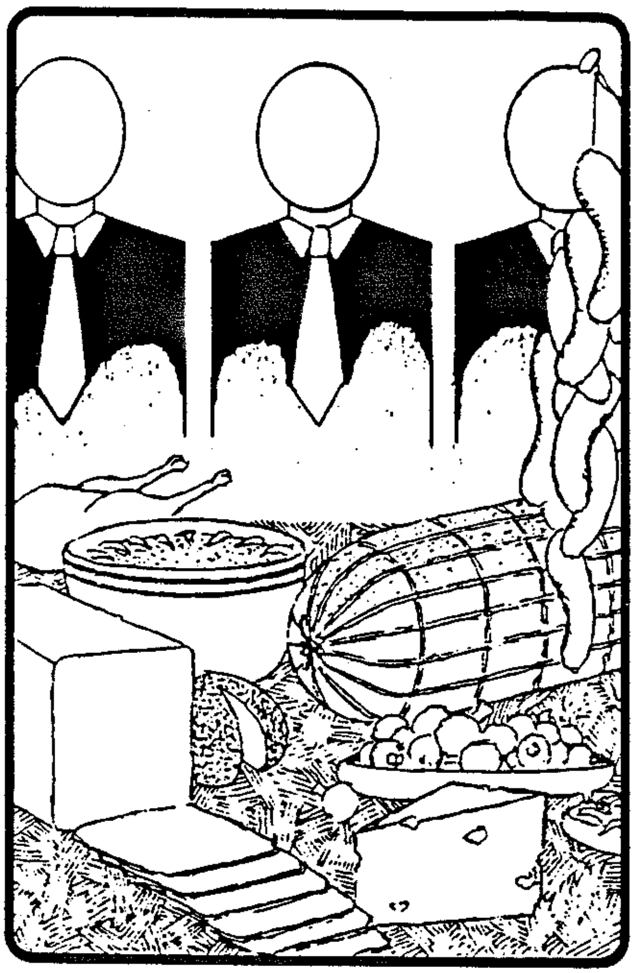
Challenge: Deli/Prepared Foods Operators and Suppliers Must Work Together for Mutual Advantages

It should be to the mutual advantage of deli/prepared foods operators and suppliers to seek innovative and collaborative ways to profitably expand deli/prepared foods operations and more fully utilize each other's capabilities. Indeed, one operator commented, "Ultimately, it is consumers who will drive both retailers and manufacturers to fundamentally different businesses. Both had better begin to experiment with new programs and improved distribution systems, as well as different kinds of products if they are to be in business ten years from now". Suggested responses to this challenge are presented on page 82.

APPENDIX

DELI/PREPARED FOODS QUESTIONNAIRE

DELI / PREPARED FOODS: EXECUTIVE SURVEY



The purpose of this study is to identify directions for progressive change in the deli industry.

Conducted by Cornell University and Michigan State University.

Sponsored by the Hormel and Land O'Lakes companies.

Please use actual data or your best estimate in answering the following questions.

1) How many supermarkets are in your organization? __________ SUPERMARKETS

2) How many of these supermarkets have delis? ________ SUPERMARKETS WITH DELIS

3) Do you have a commissary or central kitchen?

   1 NO   2 YES → **SKIP TO QUESTION 5**

4) Are you considering a commissary or central kitchen within the next two to three years?

   1 NO   2 YES

5) What percent of your store customers shop in the deli? ________ PERCENT

6) What is the percent contribution to overall store sales of your company's typical deli? ________ PERCENT

7) What percent of your store deli labor are part-time hires? ________ PERCENT

8) What is the labor/sales percentage in your company's typical deli? ________ PERCENT

Importance of the Deli Operation:

9) In your opinion, how did/does your company view the deli operation relative to all other departments two years ago, today, and in the near future?

How important is your deli department relative to other departments?
(Please circle appropriate responses.)

YEAR	***Extremely Important***	***Very Important***	***Not Sure***	***Somewhat Important***	***Not Very Important***	***Did Not Have Deli This Year***
1987	5	4	3	2	1	0
1989	5	4	3	2	1	0
1991	5	4	3	2	1	0

Product Mix:

10) Please estimate the percentage of your company's total deli sales for each of the following categories two years ago, today, and in the near future. (Indicate items ***not sold*** in a given year by ***writing "0"*** on the appropriate blank. If categories are not listed, please ***write them*** in so that your yearly totals equal 100%.)

CATEGORY	*1987*	*1989*	*1991*
NO DELI OPERATION THIS YEAR	____	____	____
SLICED CHEESE	____%	____%	____%
GOURMET CHEESE	____%	____%	____%
SLICED MEATS	____%	____%	____%
SANDWICHES	____%	____%	____%
HOT ENTREES	____%	____%	____%
BBQ RIBS, CHICKEN, ETC.	____%	____%	____%
COLD ENTREES	____%	____%	____%
PREPARED SALADS	____%	____%	____%
SALAD BAR	____%	____%	____%
DESSERTS	____%	____%	____%
PIZZA	____%	____%	____%
OTHER (Please Specify.)			
____________	____%	____%	____%
____________	____%	____%	____%
TOTAL:	*100 %*	*100 %*	*100 %*

Hot or Chilled Foods:

11) How do you prefer to sell the following items? ***(Please put a check on the blanks provided.)***

	NOT SOLD	*HOT*	*CHILLED*
ENTREES	____	____	____
MEATS, CHICKEN, FISH	____	____	____
PIZZA	____	____	____
OTHER (Please Specify.)			
____________	____	____	____
____________	____	____	____

Distribution Channels:

12) Please rank the importance of the following kinds of suppliers to your deli business (1 = Least Important through 4 = Most Important).

	RANK
BROKERS	_______
DISTRIBUTORS	_______
LOCAL SUPPLIERS	_______
NATIONAL MANUFACTURERS	_______

13) Please estimate the percentage of your ***total deli sales*** from each of the following sources two years ago, today, and in the near future. (Please write in the percentages in the blanks provided, ***write "0"*** if no deli sales came from this source in a given year. Your totals should equal 100%)

SOURCE	***1987***	***1989***	***1991***
NO DELI OPERATION THIS YEAR	________	________	________
In-store Preparation	________%	________%	________%
Own Commissary/Central Kitchen	________%	________%	________%
Local Supplier	________%	________%	________%
National Manufacturers	________%	________%	________%
TOTAL:	*100 %*	*100 %*	*100 %*

Features:

14) How many deli items do you typically feature in weekly ads? _________ ITEMS

15) How many of these items are advertised at reduced prices? _________ ITEMS

Vendor Support:

16) Below are types of vendor support which deli managers consider important to grow the business. First indicate whether these types of support are currently available to your operation by entering ***"YES"*** or ***"NO"*** in the first column. Then circle the appropriate number in the remaining columns to indicate whether they should be increased (or made available), maintained at the current level, or, are not needed for your operation.

What do you feel about these types of support?
(Please circle appropriate responses.)

	Currently AVAILABLE? (Yes/No)	***INCREASED or Should be Made Available***	***MAINTAINED At Same Level***	***DON'T NEED***
Point-of-sale Materials	______	3	2	1
Recipe/Usage Cards ...	______	3	2	1
Co-op Ad Funds	______	3	2	1
Demonstrations/ Sampling	______	3	2	1
Training Seminars	______	3	2	1
Training Materials (Written, Video)	______	3	2	1
Sponsoring Tours of Manufacturing Plant	______	3	2	1
Sponsoring Trips to Deli/Food Conferences	______	3	2	1
Sponsoring Industry Forums	______	3	2	1
Consumer Research	______	3	2	1
New Product Development	______	3	2	1
Merchandising Techniques	______	3	2	1
Periodic Business Reviews	______	3	2	1

New Item Selection:

17) Below are factors which deli managers consider important in selecting NEW items for their operation. Please indicate the extent to which each item is important to you by circling the appropriate number.

How important is this factor in your selection of* NEW *items for your deli operation?
(Please circle appropriate responses.)

	Extremely Important	***Very Important***	***Not Sure***	***Somewhat Important***	***Not Very Important***
a. Vendor Reputation	5	4	3	2	1
b. Slotting/Entry Funds ...	5	4	3	2	1
c. Introductory Trade Promotion	5	4	3	2	1
d. Product Quality (Taste, Consistency, etc.)	5	4	3	2	1
e. Product Uniqueness	5	4	3	2	1
f. Shelf Life	5	4	3	2	1
g. Suggested Retail Price..	5	4	3	2	1
h. Gross Margin	5	4	3	2	1
i. Competition Carrying Item	5	4	3	2	1
j. Consumer Coupons	5	4	3	2	1
k. Regular Consumer Ads and Promotions	5	4	3	2	1
l. DPP Analysis	5	4	3	2	1
m. OTHER (Please Specify.)					
________________	5	4	3	2	1
________________	5	4	3	2	1

Preferred Suppliers:

18) Which of the following describes the attributes of your preferred suppliers? Please indicate the importance of the following by circling the appropriate responses.

How important is this attribute?
(Please circle appropriate responses.)

	Extremely Important	*Very Important*	*Not Sure*	*Somewhat Important*	*Not Very Important*
a. Innovative products and services	5	4	3	2	1
b. Willing to tailor program to our needs..	5	4	3	2	1
c. Good track record with our company	5	4	3	2	1
d. Offers slotting/ entry funds	5	4	3	2	1
e. Low price producer ...	5	4	3	2	1
f. Advertises to customers	5	4	3	2	1
g. Reliable	5	4	3	2	1
h. Offers best quality ..	5	4	3	2	1
i. Offers regular and flexible promotions ..	5	4	3	2	1
j. OTHER (Please Specify.)					
________________	5	4	3	2	1
________________	5	4	3	2	1

Challenges:

19) Listed below are some of the more significant challenges or issues faced by deli operations today. Please indicate how important they are to you by circling the appropriate response.

How important is this challenge or issue?
(Please circle appropriate responses.)

	Extremely Important	*Very Important*	*Not Sure*	*Somewhat Important*	*Not Very Important*
Obtaining and retaining qualified staff	5	4	3	2	1
Providing employee training programs	5	4	3	2	1
Staying abreast of new developments — products, services, and new systems	5	4	3	2	1
Staying ahead of the competition	5	4	3	2	1
Developing and implementing new programs given budget constraints	5	4	3	2	1
Competing with other departments for scarce resources in the company ..	5	4	3	2	1
Understanding consumer needs..	5	4	3	2	1
Insuring consistency across stores	5	4	3	2	1
Insuring safety of food products	5	4	3	2	1
OTHER (Please Specify.)					
________________	5	4	3	2	1
________________	5	4	3	2	1
________________	5	4	3	2	1

About You:

20) What is your present job title?

_______________________________________ JOB TITLE

21) How many years have you been an employee of your company?

____________ YEARS

22) How long have you been in your current position?

____________ YEARS

23) What was your background before becoming involved in your company's deli operation?

1 SUPERMARKET
2 FOOD SERVICE
3 OTHER (Please Specify.) ____

24) Your age: __________ YEARS OLD

25) Are you:

1 FEMALE 2 MALE

If you would like a copy of the survey results or wish to participate in the drawing to attend the F.M.I. deli conference, please fill in the following: ***(This page will be separated from the questionnaire to insure anonymity of your responses.)***

NAME ____

TITLE ____

COMPANY ____

STREET ADDRESS ____

CITY ______________________ STATE __________ ZIP __________

If you have any questions regarding the study or this questionnaire please contact:

John W. Allen
Food Industry Institute
Michigan State University
517-353-6381

Edward W. McLaughlin
Food Management Program
Cornell University
607-255-3169

Thomas R. Pierson
Food Industry Institute
Michigan State University
517-353-3974

Thank you for your cooperation. Please return your completed questionnaire in the enclosed postage paid envelope.

Other Agricultural Economics Research Publications

No. 89-26	Annotated Bibliography of Generic Commodity Promotion Research	Susan Hurst Olan Forker
No. 90-1	Quarterly Northeast Farmland Values, 1985 Through 1989	Loren W. Tauer
No. 90-2	A User's Guide to NEMPIS: National Economic Milk Policy Impact Simulator	Harry M. Kaiser
No. 90-3	1990 Budget Guide, Estimated Prices for Crop Operating Inputs and Capital Investment Items	Darwin P. Snyder
No. 90-4	Whey Powder and Whey Protein Concentrate Production Technology Costs and Profitability	Susan Hurst Richard Aplin David Barbano
No. 90-5	Potential Effect of Decoupling on the U.S. Rice Industry	Satoko Watanabe B. F. Stanton Lois S. Willett
No. 90-6	Determination of Butter/Powder Plant Manufacturing Costs Utilizing an Economic Engineering Approach	Mark W. Stephenson Andrew M. Novakovic
No. 90-7	Field Crop Enterprise Budget Update, 1990 Cost and Return Projections and Grower Worksheets, New York State	Darwin P. Snyder
No. 90-8	An Economic Analysis of Freshwater Finfish Aquaculture in the Mid-Atlantic States	Minot Weld Wayne Knoblauch Joe Regenstein
No. 90-9	Agricultural Risk Modeling Using Mathematical Programming	Richard N. Boisvert Bruce McCarl
No. 90-10	Organic Field Crop Production, A Review of the Economic Literature	Wayne A. Knoblauch Rebecca Brown Martin Braster
No. 90-11	Dairy Farm Management Business Summary, New York, 1989	Stuart F. Smith Wayne A. Knoblauch Linda D. Putnam