

IS THE AMERICAN SUPERMARKET REALLY SUPER?

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## IS THE AMERICAN SUPERMARKET REALLY SUPER?

The American supermarket is often held up as a success story -- as an example of American ingenuity. On the other hand, it is often criticized as a monopolistic or insensitive institution which has grown too big to serve individual consumer needs. Clearly the supermarket is a very unique institution and very American in origin. But how well does it serve us as individual consumers? What might we realistically expect from the food distribution industry?

While the following list is not exhaustive, it probably includes the most important kinds of performance we as a society should be able to expect from the food retailing industry.

1. Economy-efficiency. Since food meets the most basic needs of all people the availability of economy options must be considered an important criterion of food industry performance.
2. Convenience-variety. Convenience is important because the modern food shopper budgets her time with an intensity perhaps equally as fierce as that with which she budgets her money. As more of the food preparation moves into the factory and out of the kitchen, the food distribution system must bear the burden of distributing a much greater variety of food items.
3. Service. Both the supermarket and the typical food shopper prefer to keep most food shopping activities in a highly stereotyped but efficient routine. Even so, the customer needs personal service and assistance in cases involving shopping decisions and particularly in cases involving unsatisfactory products or purchases.
4. Fairness. As American shoppers we deserve to find the supermarket operating with highly developed standards of fairness. Weights and measures and prices should be accurate. Communications about specials should be ethical and honest. Basic information about food buying should be disclosed -- prices, dating of perishables, information about nutrition or ingredients.
5. Sanitation and cleanliness. Since the supermarket deals with food handling, we would expect standards of cleanliness much more developed than might be appropriate in other business.
6. Availability to all consumers. If these standards of food distribution industry performance are important they must be important to all groups -- including high income, low income, new and old communities.

If we look at the food industry with these expectations in mind perhaps doing comparisons with other American industries as well as with food industry activity in other countries, we should be able to evaluate the strengths of our system as well as identify its weaknesses. Before going down the list, it might be useful to have a general picture of just how the American supermarket actually works.

#### How The American Supermarket Works

The most striking feature about food retailing in this country is the presence of large high volume stores. Although the supermarket came into existence in the early 1930s, it represented only about one fourth of the food business by 1948. During the last twenty five years Americans have come to depend much more upon the automobile, have moved to new suburban communities and have found that the supermarket is very well adjusted to this mobile suburban life style. Now Americans buy about three fourths of their grocery purchases in supermarkets.

Some of these supermarkets are owned by an individual operator while others are a part of a huge chain of supermarkets. The independently owned supermarket usually gets specialized services and assistance from some larger organization at the wholesale level. The consumer may not notice too much difference between the independent supermarkets and the chain stores, but the difference is significant and worth understanding. It turns out that the big food chains tend to own more of their manufacturing and distribution facilities and tend much more toward private label products (products bearing the chain store brand), than is the case with the independently owned supermarkets. On the other hand, the independently owned stores tend to specialize much more in offering a variety of advertised and nationally promoted products. These smaller stores are much quicker in offering new products than the larger organizations.

The reason for this difference in behavior grows from the organization and structure of this industry. The early food chains found that they could buy cheaper in large lots. They also found that once consumer confidence was established that they could sell food products under their own labels. When they entered food manufacturing they set up a manufacturing and distribution system entirely compatible and designed for efficiency and cost reduction. The result was that their products could be sold cheaper. This arrangement is fairly well understood by consumers. Consumers expect private label products to be of standard quality and cheaper in price than the national brands with which they compete.

How do the small stores compete with these economic advantages of the larger organizations? The smaller independent operations can be much more flexible and respond to preferences in their local community. Since they're family owned they tend to adjust to the community much more than the chain operation which are centrally controlled. This means that products are chosen to fit ethnic and other local considerations. The independent supermarkets are much more receptive to new and exciting products coming from

food manufacturers. Their greater variety of products, the presence of more exciting and pre-sold products tend to make them a more exciting place to shop. Although their prices tend to be higher, these competitive attributes have enabled them to survive and grow in competition with the lower prices of larger organizations.

The dependence of the large chains on private label products make them reluctant to adopt new products coming into the system. They make less money on the national brand products and their presence tends to erode volume from the private label products on which they make highest returns. These larger organizations tend to adopt new products only after they have become a competitive necessity due to the extensive promotion from the manufacturer or their adoption in the market by smaller organizations.

You will find some private label products in the independent stores usually arranged and purchased by the group wholesaler with which the store is affiliated. The system that produces this line of products however is inferior to the system operated by the large chains. Wholesale groups own very little manufacturing facilities. Usually cost levels are higher. For these reasons the small stores offer private label products only to the extent that they are a competitive necessity because they make less money on them than they make on national brands. While these independent stores comprise about half the national food business they do something like ten percent of the private label business.

The communication that food retailers conduct with consumers is quite interesting and confusing. Advertisements in newspapers, radio or television all put heavy emphasis on the point that this particular store is the most economical alternative. While other topics are frequently mentioned the emphasis of almost every ad is on food prices and each is trying to make the point that their prices are lowest. Temporarily low "special prices" are often used to illustrate this point in the ads. Virtually every competing organization has price specials accompanying the general message of low prices. Despite all this communication, the price level in one supermarket is very much the same as the next. It is true that the independent supermarkets will have a slightly higher price level than the stores of the largest chains. This difference is in the magnitude of approximately one percent. Some food discount operations may have a price level as much as two or three percent lower than supermarkets of the largest chains. But this whole range of price levels is surprisingly close together and the most usual thing to find is competing supermarkets having a price level almost identical. The accounting of costs and returns in supermarket operations is highly sophisticated. This does not leave room for any competitor to get out of line from costs by as much as a half percent.

To note that the price level from one supermarket to the next is about the same does not mean that the consuming public is deprived of the opportunity to choose economy alternatives in their food purchases. The choice between private label and national brands offers a much wider range of economy. Studies comparing prices of national brands and private labels indicate that private labels were on the average twenty percent lower in price than the

national brands with which they competed. It is this choice, most available in the supermarkets of the largest chains, which offers the food consumer a wide range of relatively economical food products.

### Supermarket Strengths and Weaknesses

If we look at the results of this unique structure and curious merchandising behavior, we can identify the strengths and weaknesses of the American supermarket. In terms of efficiency, the cost of the wholesaling and retailing functions cost the American food consumer about twenty percent of retail value. We get some impression of efficiency in food distribution by observing that most other consumer products have wholesaling and retailing costs of at least thirty percent or half again as high as those for food. There are many factors that contribute to this relative efficiency in the distribution of food. Compared with other consumer products which require much more time, consideration and debate associated with the purchase transaction, food buying is highly routinized and enables huge volumes to be handled by a relatively small staff of people.

The organization of our society has a major influence on the way food retailing is conducted. Our population is dispersed into suburban communities which have tremendous access to the automobile and enough space to enable supermarket construction and operation. This allows concentrating a large number of consumers in one spot for a high volume operation. In England, for example, only fifty percent of the households have access to an automobile and vast sections of the population live in very urban communities. Under these conditions the supermarket arrangement does not work because space is not available for the large parking lot and the cars are not available to the population. It is quite natural that the major part of their food distribution in those urban areas is through smaller shops with a smaller volume of business going to walk in trade.

If we look at the variety and convenience provided by the American supermarket the results are quite spectacular. Some parts of the system specialize in providing standard products at economy prices while other parts of the system specialize in the more exciting products that our affluent population finds of value. The wide range of choice would have little meaning in a society oriented primarily around the working class population and income distribution. It is particularly appropriate for our middleclass society which is enjoying a real income approximately twice that which it had a generation ago. When real income (after taxes and inflation) doubles in the space of a generation we do not want to consume twice as much of the subsistence products our mother used. Instead we want a set of different products and in the case of food this means a greater emphasis on convenience. We're asking the system to be experimentive and provide a range of choices from which we can identify the types of products most useful. The vast shelf space and product choice made available within the American supermarket certainly accommodates this special need of our society.

If we look at personal service we get a very different picture. The

standard and availability of personal service has declined rapidly in the American food distribution system. Wages paid to workers in food distribution is much higher in our supermarket system than is the case in England or other countries, particularly where small shops are important. It is not too surprising that the standard of personal service is much less and that machines have tended to replace persons in the large stores we have developed. The lack of personal service is a fault in our system and we have not yet found a satisfactory way to compensate for this loss.

The question of fairness is a very complex one. A sophisticated and elaborate analysis of the industry's operations indicates a fairly clean and competitive nature of industry behavior. The structure is not monopolistic and trade secrets are most difficult in the relatively open nature of business transactions. Such an observation, however, may be of little use or relevance to the average consumer. From the consumers point of view, the industry contains large massive impersonal organizations and a general inaccessibility to the consumer. This general frustration is further influenced by communications which purport differences in price levels which do not exist. This leads to a general atmosphere of mistrust. Relations are further strained, of course, when causes external to the food distribution system mean rapid price rises. Probably the most sensible response to this general mistrust and concern about fairness has been the programs which provide disclosure of basic information such as unit pricing, open code dating, nutritional labeling, etc. While relatively few consumers actively use these information programs, a very large proportion of consumers find this information a general assurance of good will and fair dealings on the part of the food industry.

The matter of sanitation and cleanliness in food distribution will likely get more attention in the future than it has in the past. The American supermarket which concentrates high volumes of trade through one point is certainly amenable to more careful sanitary surveillance than a system which has smaller volumes distributed through many points. More and better equipment can be made available and more scientific and controlled surveillance programs are feasible. It is my observation that the American supermarket has higher standards of sanitation and cleanliness than one might find anywhere else in the world but it is not too surprising to find isolated cases which need attention.

The desire to see high quality food distribution services available to all demographic groups in society identifies unique strengths and weaknesses of the American supermarket system. If you look at American society compared particularly with other western nations, it is distinguished by the presence of a very large middleclass component. European societies tend to have a small middleclass with more of the population in working class subsistence conditions on the one hand and more of the population in upper strata on the other hand. The presence of the large middle class in American society makes it possible for a stereotyped marketing service to reach a vast segment of society. The supermarket does this.

On the other hand, it is equally apparent that the supermarket does not fit the compact urban conditions in which many low income people find themselves.

The supermarket requires space for parking lots and an auto borne customer which can travel enough distance to concentrate a large volume of purchases at one point. Various efforts have been made to adapt the supermarket to the urban setting -- none of which in my view have been very successful. In fact it might be a superior alternative to develop small shops that would fit the needs of low income urban areas rather than trying to adapt supermarkets. It seems much less of a problem that the supermarket is ill suited for the small segment of our population in the highest social strata.

#### Food Distribution Alternatives

Many people who have been discontent with the American supermarket have looked for alternative systems which might work better. One alternative which has received considerable attention is the consumer cooperative arrangement which has been quite successful in some European countries. The success stories associated with the consumers cooperative idea usually involve the following conditions. A coalition of usually working class consumers have formed a cooperative and developed food distribution facilities which attract high business volume. As a result of high volume these cooperative arrangements have costs lower than the undeveloped and lower volume operations with which they compete. These cooperatives gain the advantages of buying in large volumes and translate those savings along with the savings from lower operating costs back to the consumers on the proration of patronage. This results in a tangible saving which coop patrons enjoy as well as other advantages. In general the consumer's cooperative had handled the consumer communication and the fairness and honesty matters much more satisfactorily than proprietary business. Both these advantages of the consumers cooperative are real and substantial.

Others have been not only frustrated with the large impersonal supermarket but with the array of standardized and processed products which it sells. Some of these people long for a simpler distribution system which puts the consumer in closer proximity with the producer. This is particularly attractive for those consumers with a special interest in organic foods or other attributes of the food product which can be defined only through the process of production and no other scientifically measured characteristic. Some modern consumers demonstrate a willingness to drive great distances to patronize food distribution operations of this type.

What is the future outlook for these food distribution alternatives? In both cases they face very great difficulties because the standard of food distribution services is set by a stereotyped American supermarket system which enjoys fantastic volume and therefore efficiency. Where the consumer cooperative has been successful in Europe it has competed with low volume and very specialized food distribution operations. It would be very difficult for a consumer cooperative operation to enjoy advantages of high volume relative to the proprietary supermarket here. Where consumer cooperatives are successful in this country they usually represent a fairly unique clientele and a fairly small percentage of food sales in the community. The most attractive opportunity for consumer cooperative organization would

seem to me to lie in the compact urban areas where the conventional stereotyped supermarket system works least well. The problem here is that most residents in these communities see themselves as transients and are unwilling to take a long term view of their community and their association with it which would make investment and working in a cooperative structure feasible.

The small shops emphasizing producer-consumer contact again confronts a high competitive service standard from a well developed and efficient American supermarket. Where this system is a satisfactory and happy accommodation to conditions in other countries, there seems little likelihood that it will be very useful here unless demand for food products of a special type increases very dramatically.

### Summary

Through the diffusion of education and the application of science the American society has evolved into a predominantly middleclass structure. These people live in suburban settings and drive automobiles. The American supermarket is a highly specialized and developed institution oriented to suit those needs and conditions. Major problems with the American supermarket include generally poor communication with the consumer, and its lack of adaptability to urban compact communities. Despite these problems it sets a standard of food distribution services so high that alternative systems have great difficulty getting established and attracting clientele. Some of the consumer protection programs such as unit pricing, open code dating and nutritional labeling seem to have the potential of improving consumer communication through the disclosure of basic factual information. Experimentation with arrangements for providing a reasonable standard of food distribution service to low income, compact urban communities leads to a less optimistic outlook.