

STRATEGIES FOR FOOD DISTRIBUTION AND MARKETING FIRMS IN TOMORROW'S FOOD MARKET PLACE

by

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The general consensus of the group was that there was no undue power in the food distribution system and that the industry in general was performing well. There has been ample competition at the various stages in the system. The industry has been consumer oriented, i.e., individual firms on their own accord, have attempted to design products and services in accordance to consumer demand as they have perceived it. Those firms that have not done this or have erred in their perception of consumer demands have had limited success or fallen by the wayside.

Power was defined as the ability to affect the actions of others (firms or individuals) or to affect prices. Using this as evaluation criteria, the system has been and is performing well in general. There have been some exceptions, e.g., predatory practices by an occasional firm, but there are governmental checks for such activity.

The key to good market performance and competition is market entry. Entry into retailing has been easy. Independents through affiliation with good suppliers and grocery groups, have been able to compete effectively with large corporate chains. It is important that this characteristic (relatively easy entry into the market) be maintained at each stage of the system. Affiliated independents, however, have been gaining

market share at the expense of nonaffiliated independents. This is not viewed as a problem but as natural evolution in this business.

The group believes it is in the best interest of consumers and the nation to maintain the present system, recognizing that the system isn't perfect, that competition may not be as keen in some markets as it should be and that imperfections arise from time-to-time. The market system, however, is self-regulating because of the market entry feature. Given this ability, it is recommended that the system be left to its own devices to correct itself within the legal framework governing competition and performance. Any major modifications imposed on the system would reduce performance rather than increase it. Consequently, the strategy for food distribution and marketing firms in tomorrow's marketplace should be fine tuning the present system and improving the firms within it through the entrepreneurship within the group.

Several areas were identified that need attention and perhaps some fine tuning.

1. Productivity. The number one problem in the industry has been the slow rate of increase or some cases of absolute decline in productivity in the food distribution system. The

reasons for this are not understood at this time. However, it would be safe to say it is associated with all of the major factors--management, labor, and capital. The industry and individual firms need to concentrate on solving this problem. It will take an industry-wide effort and should involve institutions outside the system as well. Some members of the group believe that "over-storing" is a major factor in the productivity problem.

2. Information. The system has the ability to generate enormous amounts of useful information through electronic scanning and data processing equipment but is grossly under-utilizing the technology and the information. This information should be utilized throughout the system for improving the system itself.
3. Physical Distribution. A significant amount of the productivity problems are related to elements in the industry physical distribution system. These include direct store deliveries, some types of packaging, inefficient handling systems (in some cases), and inventory management in the system.

These are problems which can be handled by fine tuning the present system.

Other Sectors in the Food System

The consensus of group opinion was that the rate of increase in away-from-home eating would decline and that over-storing may become a problem in the future. Productivity in the fast food sector has been quite good. Food manufacturing and processing was observed to be more concentrated than other sectors but entry is still feasible throughout the industry.

Productivity and performance in the agricultural sector has been excellent and was not viewed as a problem. Consumer demand is transmitted through the system to farmers in an acceptable manner.

The group was somewhat confused on conglomerates. No conclusion was reached on what effect this form of business organization has on industry performance. Also, long run effects were not foreseen. This is an area that needs more study.

Finally, advertising was briefly discussed. In general, it was believed that most advertising in the system was informative and useful. Some believed the persuasive effects were overrated. Food manufacturers and fast food groups spent the largest share of gross revenues on advertising and promotion.
