



The Retail Food Industry Center  
Advancing Knowledge About Processing,  
Distribution, Sales, and Food Service

# TRFIC NEWSLETTER

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## TRFIC SEMINAR

### Conventional and Natural Foods, an Uneasy Market Marriage

Given current trends, "natural foods" will comprise nearly 10 percent of the total retail foods market by 2008, or more than \$60 billion in retail sales. Production and distribution problems, however, complicate the marketing picture.

This is the conclusion of Nessa Richman, a policy analyst at the Henry A. Wallace Institute for Alternative Agriculture in Green Belt, MD. Ms. Richman was in the Twin Cities on April 21st to address a joint TRFIC seminar and Twin Cities Agricultural Issues Round Table. She reported that retail sales of natural foods grew from 15 percent to 25 percent each year between 1990 and 1997, and industry analysts expect this growth to continue for the next five to ten years. Annual increases in mass-market foods were only three to five percent for the same period.

The rapid growth in natural-foods sales means that they now affect the entire U.S. food system, from production to retailing. No longer of interest only to a negligible group of consumers, mainstream shoppers are increasingly demanding natural foods, and conventional-food marketers are responding. However, a national survey of agricultural producers and food manufacturers, distributors, and retailers conducted by Ms. Richman at the Wallace Institute revealed several difficulties that could prevent this market from reaching its full potential.

Three major themes emerged from her study:

- Lack of universally accepted standards for defining and producing natural foods.
- Significant differences in the way conventional-food firms and natural-food companies view the market and conduct business.
- Lack of understanding by both conventional and natural-food companies of how best to market or price natural foods.

Large numbers of survey participants at all stages of production are seriously concerned about the lack of standards defining natural foods and the uncertainty about what future standards will be. This is especially true of agricultural producers, and, not surprisingly, it troubles a larger proportion of natural-foods producers than it does their counterparts in

conventional foods.

The lack of integration between the markets for natural and conventional foods is another serious problem. In the experience of many producers of conventional foods and almost as many distributors and retailers, insufficient demand for natural foods seriously impedes development of the market for them. At the same time, insufficient supply of natural food products is a major problem for conventional retailers, and conventional manufacturers have difficulty in finding natural-food inputs. Mechanisms that allow participants in one market to find and establish profitable relationships in the other do not exist, Ms. Richman stated. Institutional barriers are a complicating factor. For example, the industry standard of 108-car trains to carry grain is much

too large for organic grain shipments.

The pricing and marketing of natural foods is difficult. Few producers, manufacturers, and retailers of conventional foods are pleased with their experiences in newspaper or other direct advertising. A majority of the conventional retailers who have diversified and expanded their offerings are dissatisfied with the results, in part because natural foods distributors cannot do many things that are expected of distributors, such as category management. On the other hand, the few conventional retailers who have hired special staff for natural foods or expanded the scale of their natural-food operations (rather than just the number of products) tend to be content with the results.

Ms. Richman concluded by arguing (1) that the natural-foods market deserves the same support as the conventional market with regard to standards and regulations, and (2) that mechanisms must be developed to make it easier for participants in each industry to find each other. She urged listeners to insist that the USDA gather more market information on natural foods, and to work for the establishment of trade organizations to create standards, guidelines, and resources for the market.

For more information on natural foods, visit the Wallace Institute's Web site at: [www.hawiaa.org](http://www.hawiaa.org). ■



Nessa Richman



Jean D. Kinsey

## DIRECTOR'S NOTEBOOK

by Jean D. Kinsey

### A Bumper Crop of Knowledgeable People

Knowledgeable people and new knowledge are the two most important products that a university can offer society. The Retail Food Industry Center is in the business of producing both of these. With our Supermarket Panel and our Consumer Survey of Shopping Habits we are learning how the behavior of consumers and grocers intersect at the retail store. In numerous other research projects, we have learned about slotting fees, wage rates, technology adoption, and e-commerce. New knowledge is being produced.

We are also producing knowledgeable people. At the beginning of this academic year, we are proud to announce that five graduate students whose research has been funded, in part, by the Center have earned advanced degrees and commenced new careers. These students studied in three different departments and, thus, represent the multidisciplinary approach this Center takes to studying the retail food industry.

**Andrea Carlson**, Ph.D., is a 1999 Graduate of the Department of Applied Economics. Thesis: *Determinants of Children's Health in the United States*. She also conducted a study on *Who Eats What, When and Where*. Employment: Center for Disease Control, Atlanta, Ga. Dr. Ben Senauer supervised her dissertation. Andi worked for me and, thus, for the Center for four years while she completed her classes and dissertation. She was my right-hand person. She helped me teach classes and prepare reports and, she conducted a major research study that identified where consumers purchase different types of food. We learned that, in spite of the fact that almost half of food dollars are spent in food-service places, over 70 percent of the volume of food still comes from grocery stores.

Two of our graduates were National Needs Fellows in the Department of Applied Economics. National Needs Fellowships are provided by the United States Department of Agriculture to foster the study of marketing issues related to food and agricultural industries. TRFIC supplemented these fellowships to facilitate the collection of data for these students' dissertations. Both worked with Dr. Robert King:

**William Chambers**, Pd.D., 1999 Graduate, Department of Applied Economics. Thesis: *Changes in the Structure of the US Food System: Evidence from the Dry Bean Industry*. Awards: National

Needs Fellowship. Employment: USDA, Field Crops Branch, Washington, DC. Bill participated in several Center workshops, seminars, and site visits. He represented us at FMI's annual convention in Chicago and was a faithful and enthusiastic supporter of our programs. His unique approach to studying changes in structure and business practices allowed him to understand the industry intimately.

**Nancy Havar**, Ph.D., 1999 Graduate, Department of Applied Economics. Thesis: *An Analysis of Firm Performance in the US Craft Brewing Industry*. Awards: National Needs Fellowship. Employment: Deloitte and Touche, L.L.P. Studying a small and relatively new part of the food and beverage industry, Nancy collected data in a survey of micro breweries. Her persistence and insight paid off in a study of their growth and popularity, and helped to land her a great job.

**JoAnn Peck**, Ph.D., 1999 Graduate, Department of Marketing and Logistics Management, Carlson School of Management. Thesis: *Extracting Haptic Properties: Individual Characteristics and Stimulus Characteristics*. Employment: Assistant Professor, University of Wisconsin - Madison. JoAnn worked with Dr. Terry Childers. She and her work were featured in our last newsletter. She studied how different types of consumers use "touch" to learn about the characteristics of products they purchase by observing grocery store customers purchase fresh produce. She has just begun her own academic career in Wisconsin.

**Lynn Szybist**, M.S., is a 1999 graduate in the Food Science and Nutrition Department. Research Paper: *Current Practices and Regulations Regarding Open Dating of Food Products*. Employment: McKee Foods Co. in Tennessee. Lynn worked with Dr. Ted Labuza. Like her advisor, she is an ambitious researcher who searched through numerous sources to compile information on all the open-dating codes. She also went door-to-door to interview people about how they store food in their refrigerators. Lynn's excellent work has paid off in at least three important ways. (1) She won the 1999 William Applebaum Memorial Scholarship Award for Outstanding M.S. Non-Thesis Research through the Food Distribution Research Society. (2) She has landed a nice job. (3) Her work is published in a TRFIC working paper which is described on the next page and is available on our Web site.

As they say in agriculture, this is a bumper crop. Our congratulations to each of these graduates. ■

## Highlights of 1999 Working Papers

### Open Dating

In "Current Practices and Regulations Regarding Open Dating of Food Products," (WP 99-01) Ted Labuza and Lynn Szybist present some historical background for the open dating regulations, and illustrate how confusing the current system is to both consumers and retail food workers. A uniform nationwide system would best serve the interests of consumers, producers and retailers, they argue. A lengthy appendix includes all state regulations on open dates as of September 1998.

### Food Retailing on the Net

Two recent papers examine a large number of e-commerce retail- food offerings. Greg Heim and K.K. Sinha develop a framework for classifying e-commerce Web sites, the services being offered, and the market being targeted. "Design and Delivery of Electronic Services: Implications for Customer Value in Electronic Food Retailing" (WP 99-06) offers a guide for designing appropriate e-commerce Web sites. In "Catalog Specialty Food Buyers' Computer Usage and Purchasing Activity: a Case Study" (WP 99-03), Greg White compares people who buy food from catalogs with those who buy it on the Web. Both groups are well-educated, have relatively high incomes, and are frequent specialty-food buyers, but those who use the Web tend to be younger.

### Charting Wage Trends

Two papers analyze changes in the wages of grocery store employees over the last ten to fifteen years. Robert Johansson, Jay Coggins, and Ben Senauer find that where unions are generally stronger, non-union grocery store workers receive higher wages, though not so much more as unionized grocery workers. Their paper is "Union Density Effects in the Supermarket Industry" (WP 99-05).

In "The Grocery Stores' Wage Distribution: A Semi-parametric Analysis of The Role of Retailing And Labor Market Institutions," (WP 99-04) John Budd and Brian McCall find that neither changes in technology nor increases in the use of part-time employees had much effect on wages. Declining levels of unionization resulted in lower wages for all but those at the lowest levels, while the static minimum wage during the 1980s affected only those at the very bottom of the distribution.

### Who Do You Trust?

In The Grocery Retailing Sector in Germany: ECR Activities in Comparison to the USA (WP 99-02), Nikolaos Katsaras and Günter Schamel examine Germany's slow adoption of ECR. The major cause of this slowness is lack of trust between retailers and suppliers, due to both cultural factors and German market conditions.

*As soon as working papers are printed, they may be ordered for \$22.50 per copy. Abstracts are available immediately on our Web site, [trfic.umn.edu](http://trfic.umn.edu). Ninety days after working papers are in print, they will be available in their entirety on our Web site, and can be downloaded in pdf (Acrobat) format at no cost. To obtain an order blank, contact Mavis Sievert at 612-625-7019. ■*

## Making House Calls (Part One)

# Peapod Takes Grocery Shopping On-Line

E-commerce in food is growing rapidly and is expected to reach anywhere between 3 and 20 percent of the grocery market over the next several years. To get an on-site view of on-line food shopping, several members of TRFIC recently visited one of the oldest surviving firms in the business. Peapod began delivering groceries in 1990, in suburban Chicago, and now operates in several metropolitan areas around the country.

In July, Jean Kinsey, Paul Wolfson, Rob King, Sara Ashman, and Greg Heim met with Bob Goodale, our host and member of Peapod's Board of Directors; Russ Ruby, Vice President for Sales and Marketing; and Bob Zeigler, Director of Chicago Operations at Peapod's corporate headquarters in Skokie, Ill.

They told us that in each of Peapod's markets, an alliance with a chain has allowed for rapid market penetration. Unfortunately, the alliances have meant picking and packing groceries from retail stores, not a profitable way to deliver groceries. So Peapod is now turning to distribution centers, i.e., centralized warehouses, where they pack and ship the orders. This strategy raises its own logistical challenges, such as management and, often, ownership of inventory, and routing efficiencies related to serving a large area from a single location rather than from many local stores.

Peapod is in three distinct types of business: delivering groceries, developing and licensing software, and creating an audience. The third task is pretty much what television stations do, except that Peapod knows much more about each of its customers. Peapod does not and will not sell this information. Instead it arranges with advertisers to display their on-line ads to customers that they identify as likely to be interested in the advertisers' products. Consumers can click on the ad to include the item in their order. This is convenient for customers, who need not navigate to the

Web page that displays the product, and for the advertiser, who pays Peapod based on how often the ad is used for purchases.

In the company's phone center, calls come in nationwide from all of Peapod's grocery markets to about 20 customer service representatives. Each one is authorized to make any adjustments necessary to satisfy the customer.

At the company's distribution center—an older building several miles from headquarters—inventory is delivered and stacked on shelves just as if it were a grocery store. Unlike a grocery store, however, items are arranged to minimize the time it takes a Peapod employee to fill an order. To increase efficiency further, the number of SKUs is less than half of that available in a typical Jewel store.

In offices on the second floor, we saw demonstrations of the software used to plan routes for the following day's deliveries. Routing for most of Peapod's markets are plotted right here. We accompanied Dan Olson as he made deliveries to three households. One of the most interesting things we noticed was the excitement that the delivery man's arrival inspired in children, both in the home receiving the delivery and playing on the block. The customers with whom we spoke emphasized their satisfaction with the service.

Since last February, the Twin-Cities has had its own Internet grocer, Simple Simon, based in New Hope, MN. We will write about them in our next issue. As this issue of the newsletter was going to press, Priceline.com, an Internet service that allows shoppers to name their own price and then looks for a vendor who will match it, announced that it will expand its services to include groceries as of November 1. This latest trend in the retail food industry will be interesting to watch. These firms can be visited on the web: Peapod at [www.peapod.com](http://www.peapod.com), Simple Simon at [www.simondelivers.com](http://www.simondelivers.com), and Priceline.com at [www.priceline.com](http://www.priceline.com). ■



## DID YOU KNOW?

### Some Facts on What's Going Down

- Midwesterners between the ages of 13 and 65 eat an average of 0.56 pounds of milk products per person daily, more than the daily average intake of 0.51 pounds of meat, poultry, and fish. Although larger by weight, consumption of milk products contributes less than half as many calories: 224 vs. 458.
- We are a pretty sober lot on average, having an alcoholic beverage approximately once per week. Instead, we quench our thirst with slightly more than two servings daily of soft drinks and other non-alcoholic beverages, and approximately twice a week we treat ourselves to some fruit juice.
- For reasons of taste or economy, fish is not a favorite in this part of the country. The average adult Midwesterner has fish only about twice a month.
- The average Midwesterner in this age group eats some beef approximately once every four days, frankfurters or sausage approximately once every three days, and white meat (pork or poultry) about every other day.
- Three cheers for "hot dish." Our favorite way of eating meat is in casseroles, as measured by either weight or calories: about a sixth of a pound or more than 100 calories per day on average. Lagging far behind by weight and almost as far when measured in calories, our next choices are cuts of beef and poultry, and sandwich meats.
- We eat what we grow. The largest source of calories—about a third of daily intake—is from grains, including breads, cereals, crackers, cookies, cakes and pies, and pasta and rice.
- Long live pop. We drink non-alcoholic beverages more than twice a day, consuming two to three times as many calories this way than we get from beef, and almost as much as we get from all milk products.

- We aren't much into nuts and berries. We eat berries only a little more than once every two weeks (on average), and nuts and seeds about as often. Meat and potatoes are much more popular, with nearly two helpings a day of meat in some form, and potatoes more than four times per week.

Source: Calculations by Brian Dietz from raw data gathered for the study *What We Eat in America*, 1994-96, USDA.

### Managing the Total Store: A Leadership Course

TRFIC and FMI jointly offered Managing the Total Store for the second time this summer. The course was held at the Riverwood Conference Center near Montecello, MN. Captivated by beautiful scenery and stimulated by exciting class activities, 28 international students became better leaders during the week of August 8. Look for an announcement of next year's offerings by FMI and TRFIC.

Please add me to the Center's Mailing List for:

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