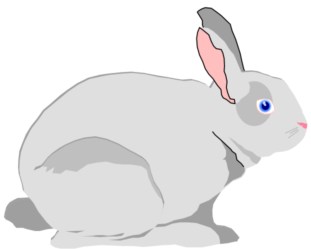
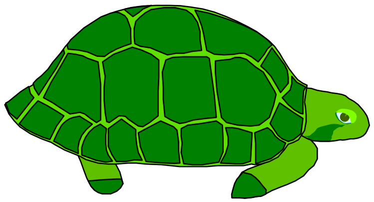
Retail Food Distribution:

The Race to Efficiency





Jean Kinsey, Director, The Retail Food Industry Center, Professor Applied Economics Dept.

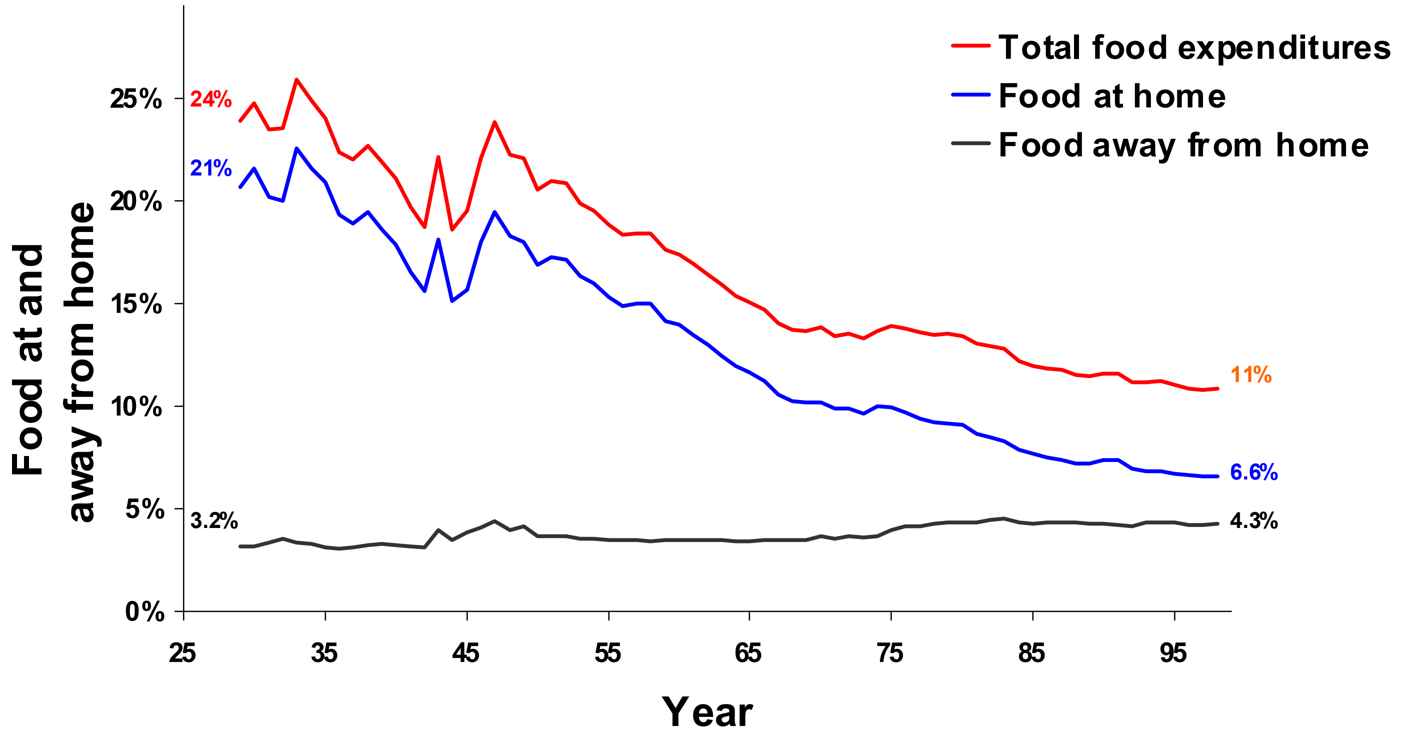
IIFET 2000, Oregon State University

DRIVERS OF CHANGE

- Consumer preferences
- New Retail Competition
- Electronic/Information Technology

HIERARCHY OF CONSUMER PREFERENCES

Total food expenditures and food eaten at and away from home as a percent of Disposable Personal Income (1929 to 1998)



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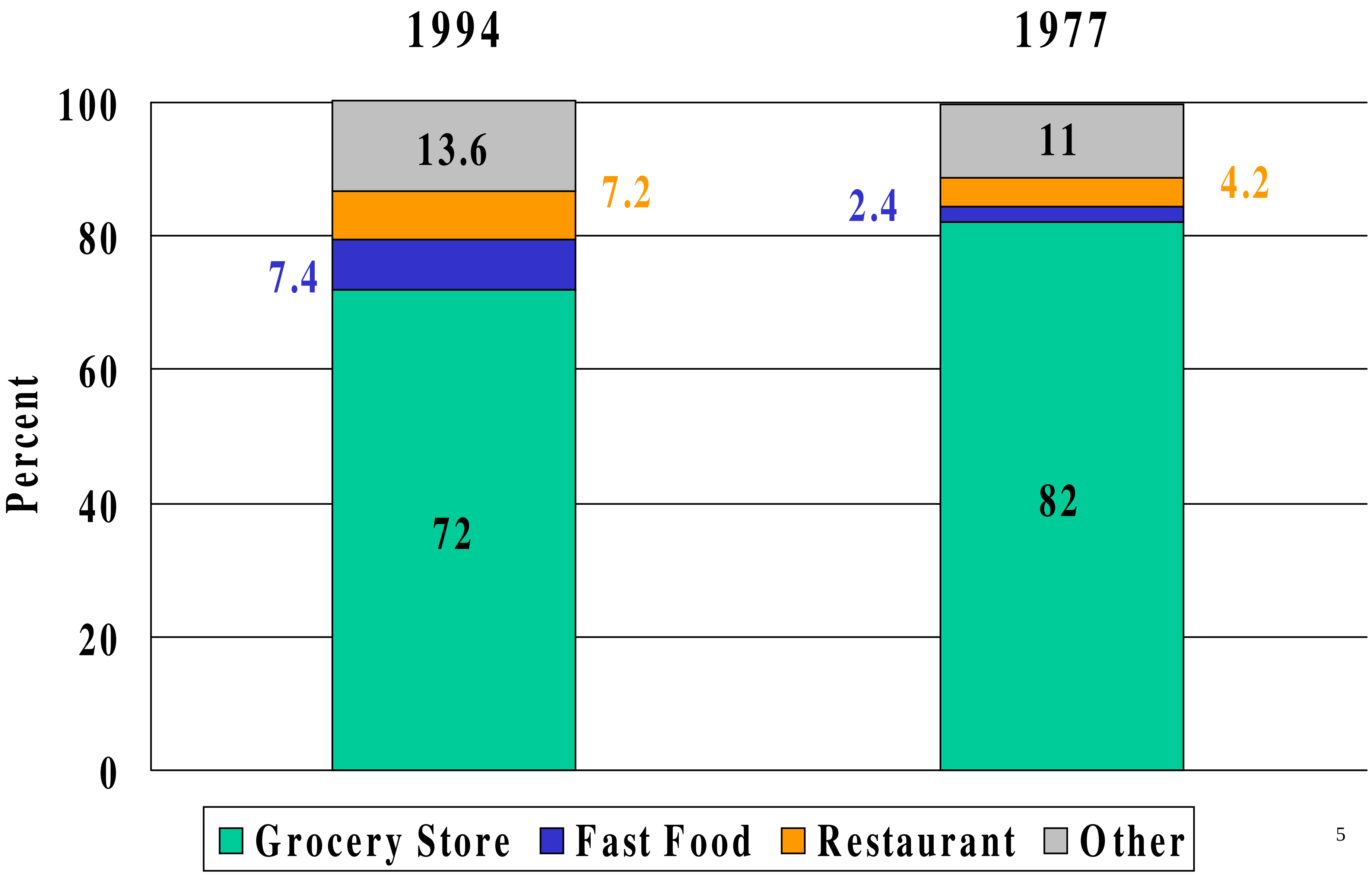
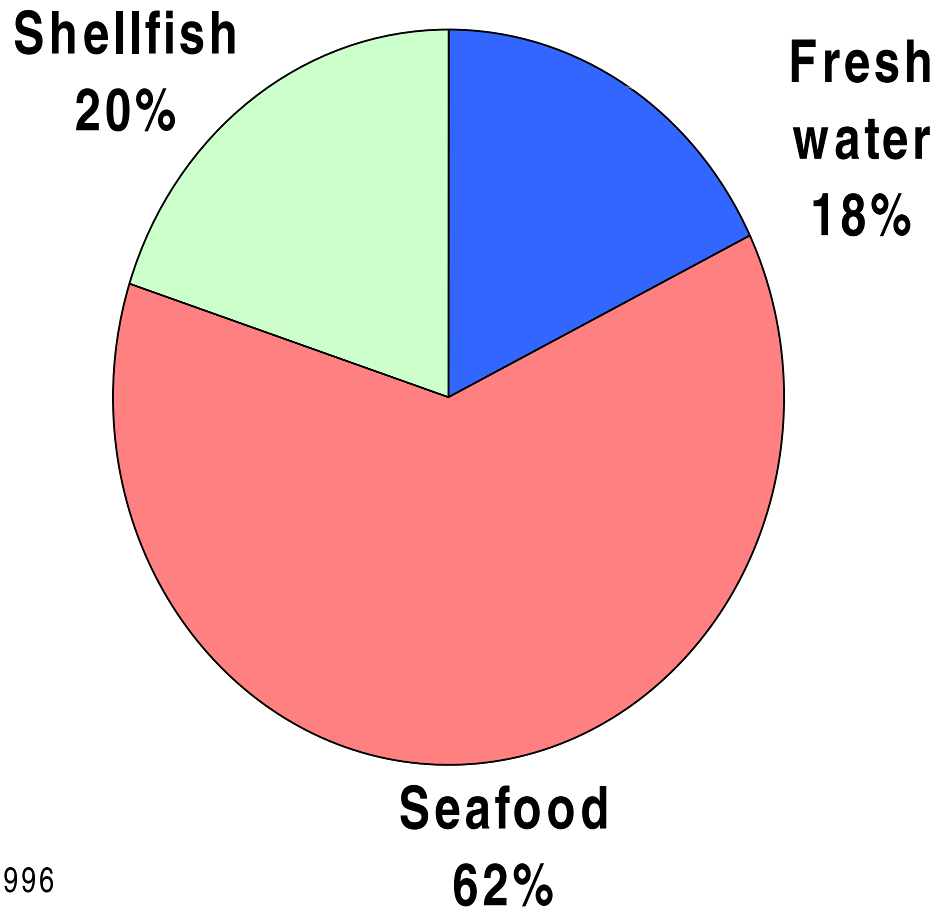
Retail Food Source

By Grams of Food Eaten

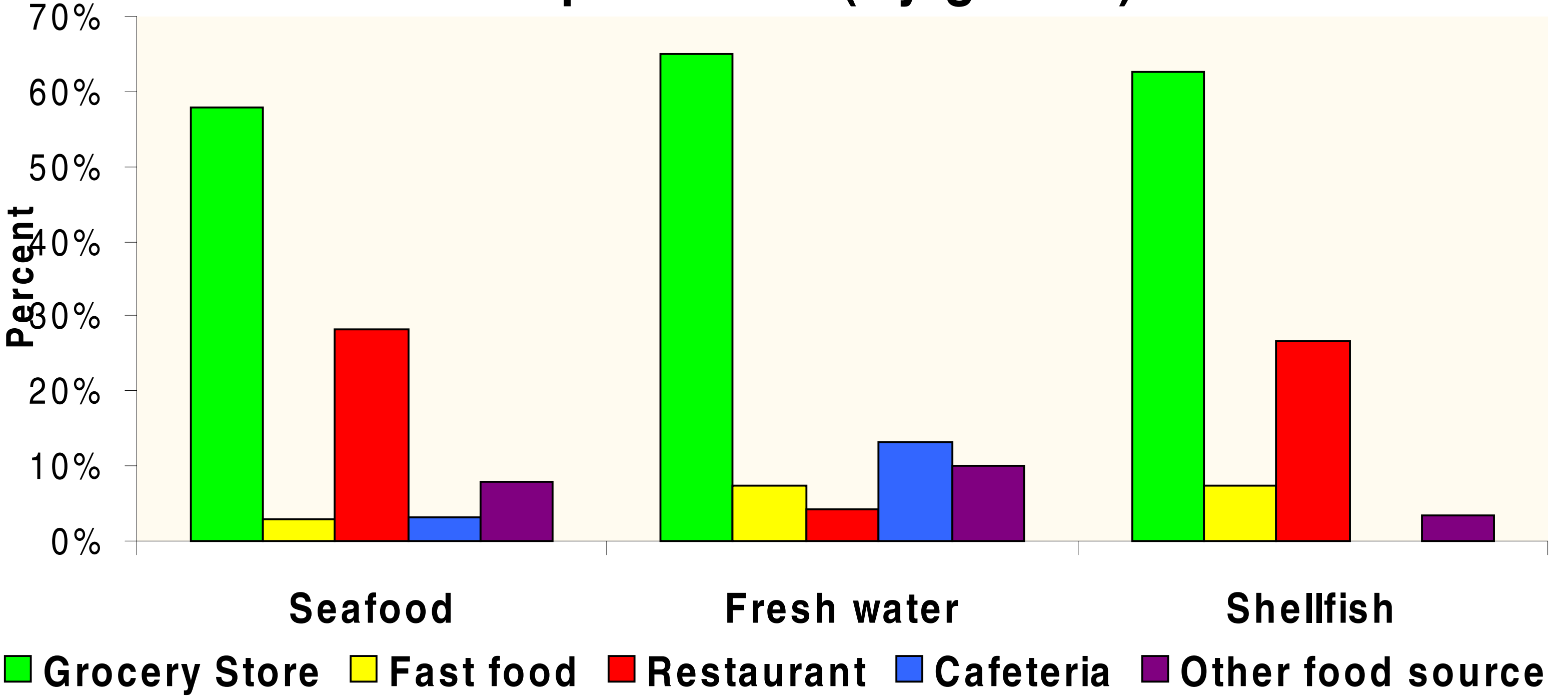


Percent of Fish and Seafood Purchased by Type by CSFII Respondents (by grams)



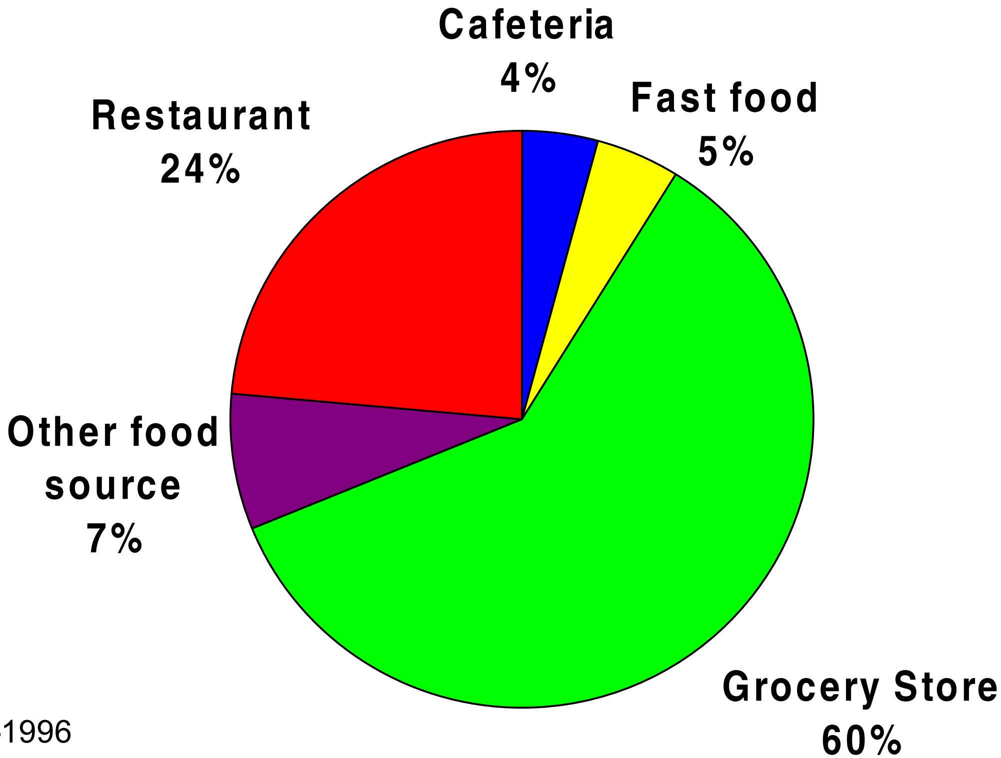
Source: CSFII, 1994-1996

Percentage of Fish/Seafood Purchased at Various Retail Food Outlets by CSFII Respondents (by grams)



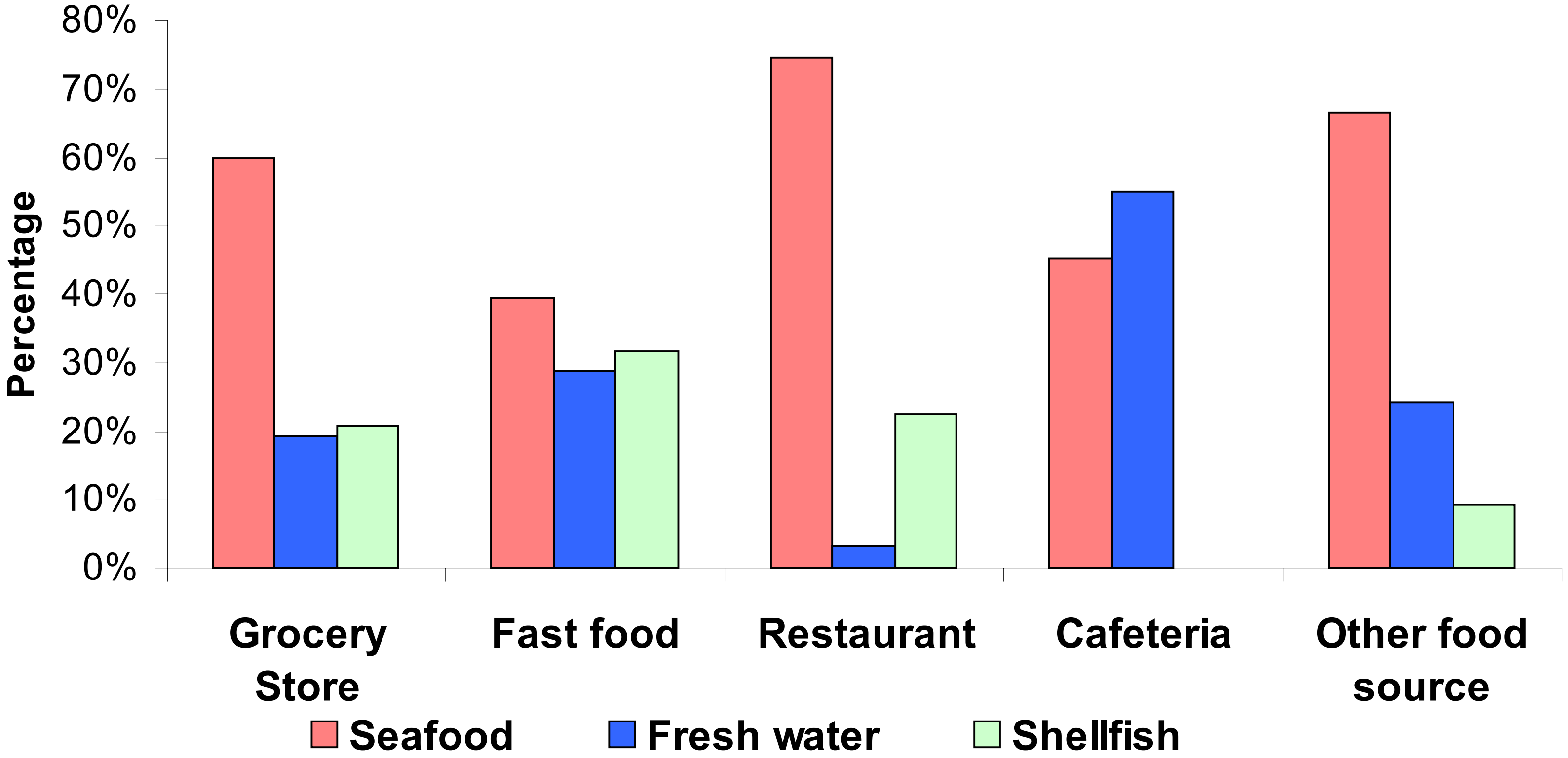
Source: CSFII, 1994-1996

Distribution of Retail Food Outlets for Fish/Seafood Purchased by CSFII Respondents (by grams)



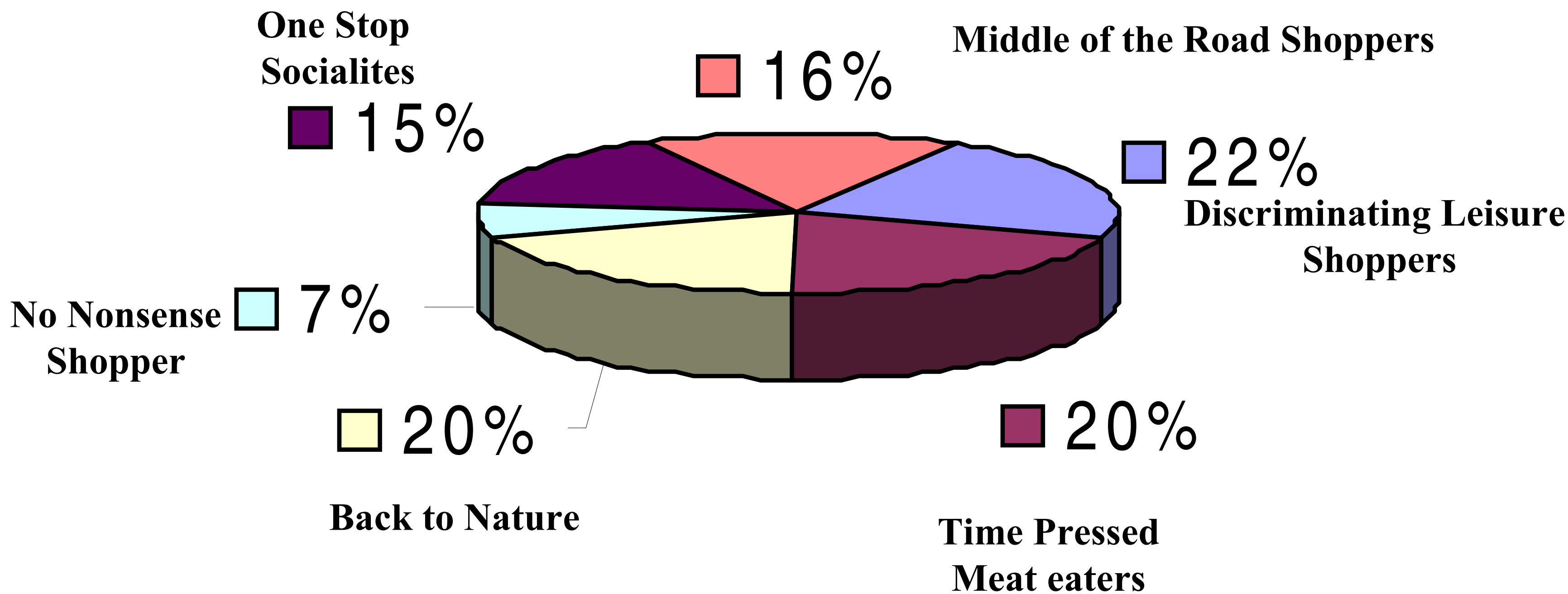
Source: CSFII, 1994-1996

Retail Food Outlets' Mix of Fish/Seafood Sold to CSFII Respondents (by grams)



Source: CSFII, 1994-1996

Six Types of Shoppers -TRFIC 1999



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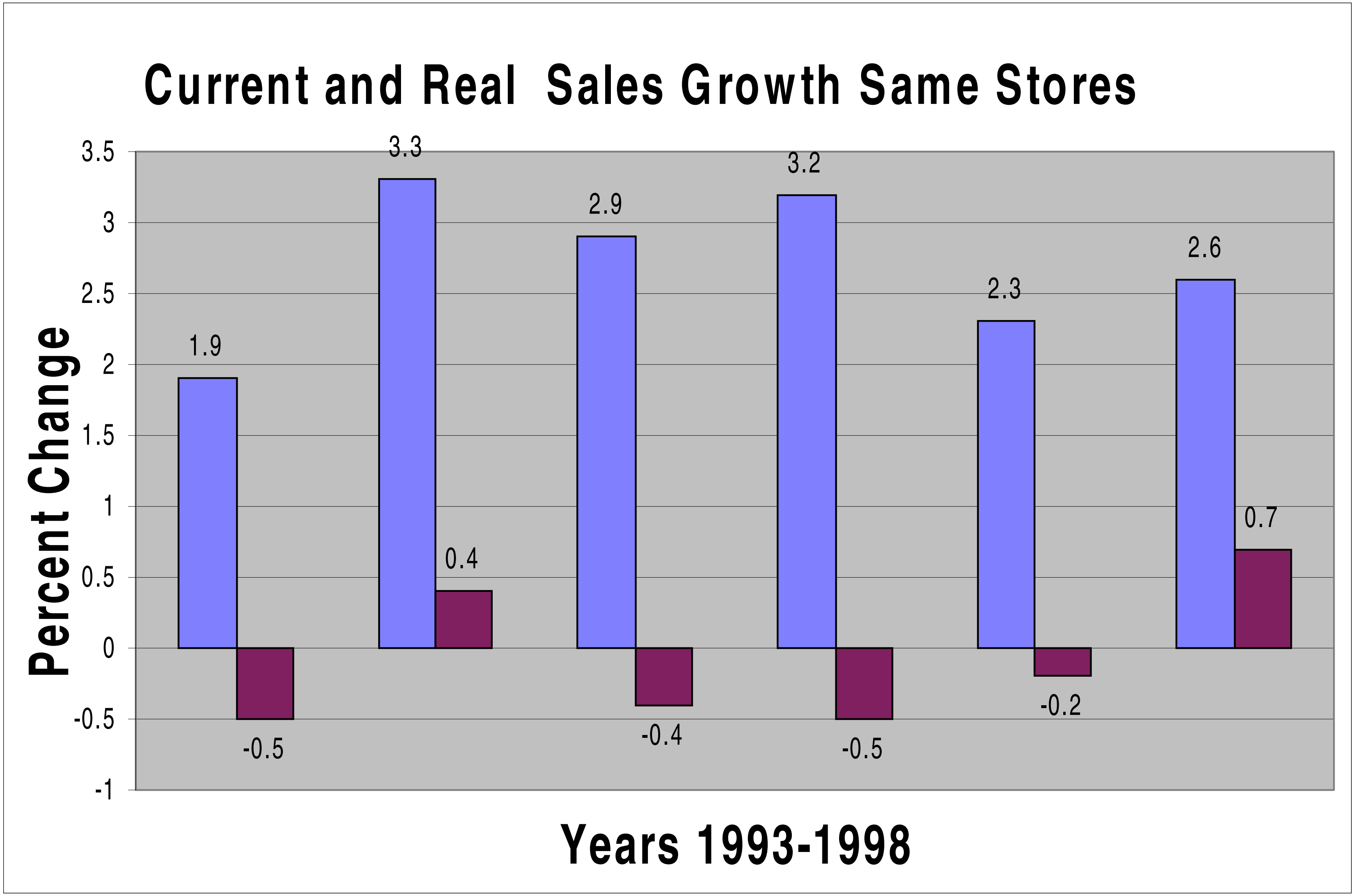
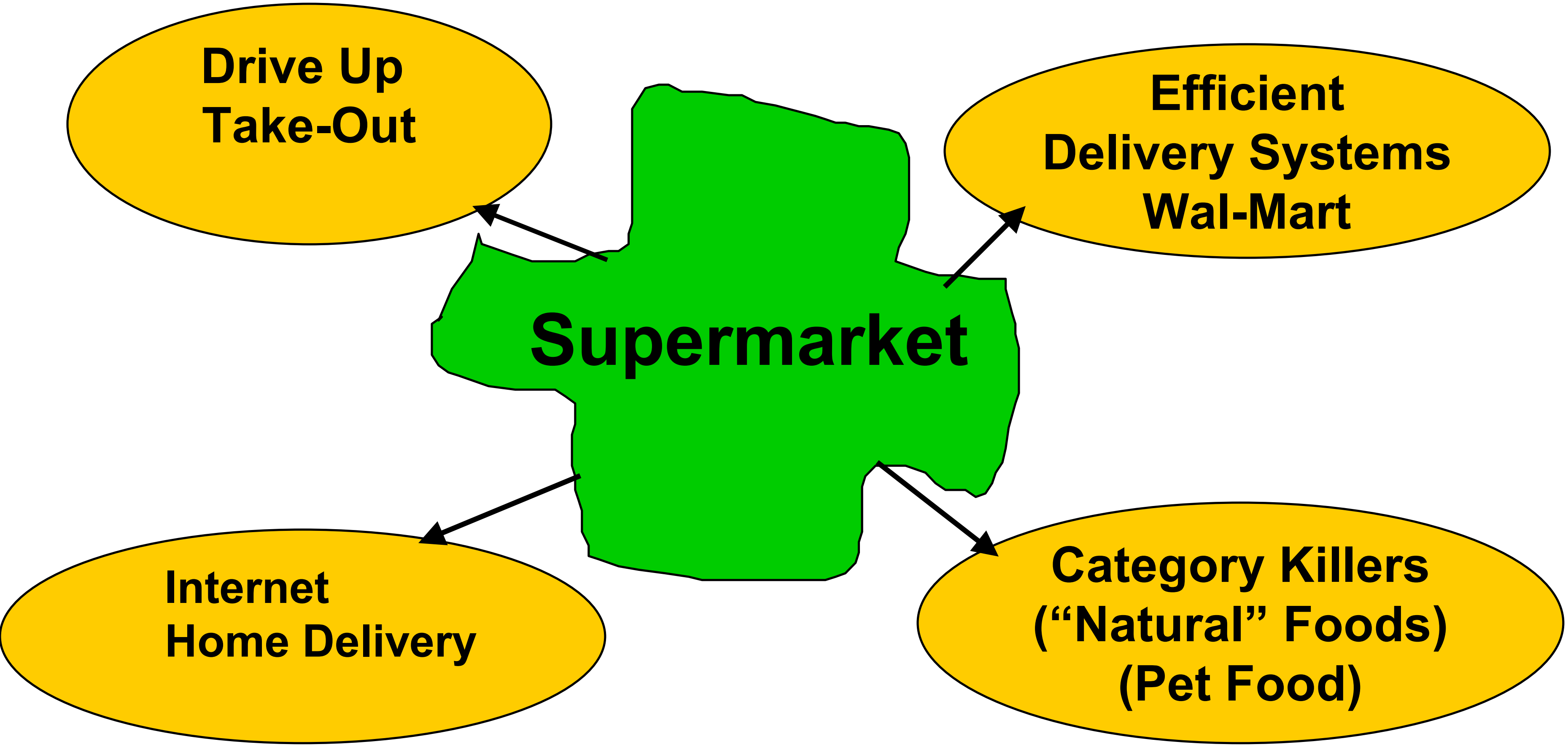
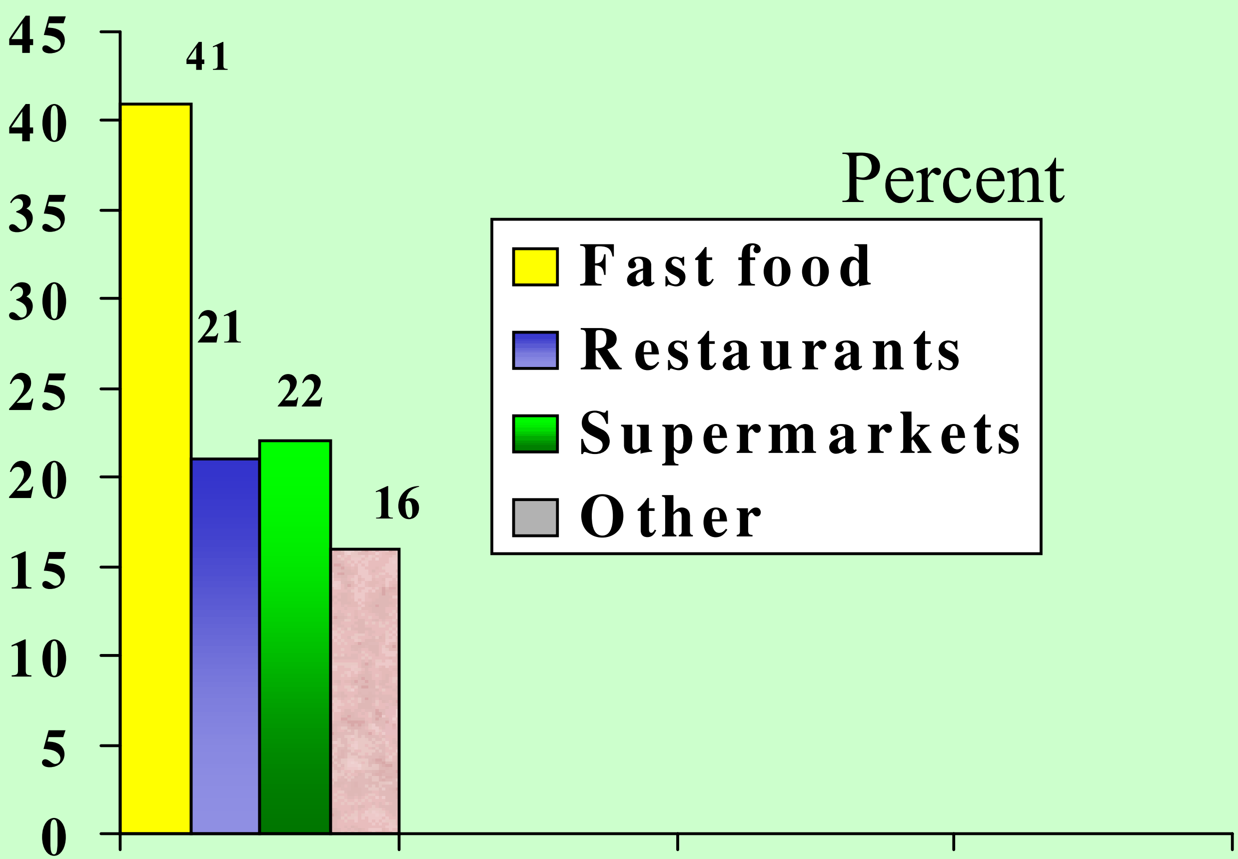


The Retail Food Industry Center

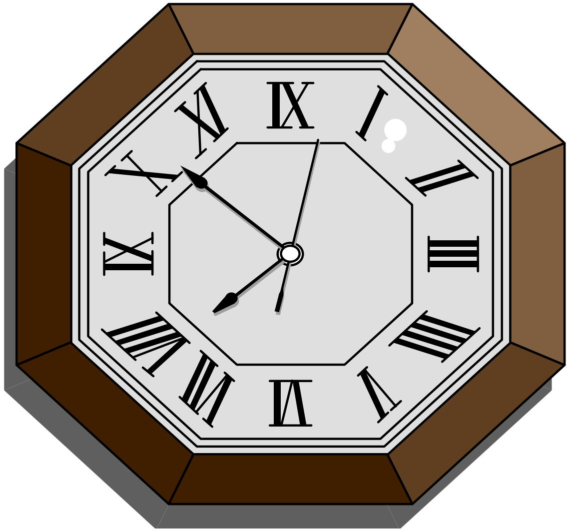
NEW COMPETITION



Where do consumers buy take-out food?



Internet Shopping



- 1-5% of the market
- Saves time?
- Not profitable
- Much promise of growth
- A “must do” for retailers

Internet Shopping

$10 bil now -> $85 bil

Peapod - 100,000 members

- 70% online sales of groceries

1999 - $73.1 mil revenue and $28.5 mil losses

Losses : 1996: 34% of revenue of $ 27.6 mil

1997: 23% of revenue of $56.9 mil

1998: 31% of revenue of $69.3 mil

1999: 39% of revenue of $73.1 mil

12/2000: estimated cash balance of -$17.8 mil

April - 51% of stock purchased by Ahold, USA.

Internet Shopping : B2C Problems

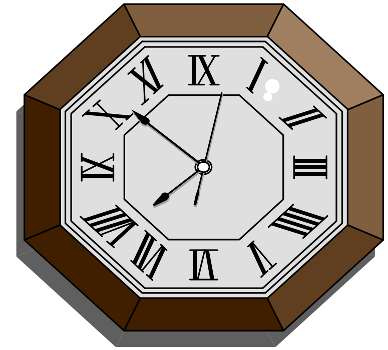
Lack of Volume buying

Picking costs too high (charges are 60% of delivery cost)

Size and density of market too small

Delivery imperfect, consumers not home; unforgiving;

Sinha & Heim examined how the processes matched the products being sold



Internet Shopping

Peapod

Streamline

WebVan

Netgrocer

Simple Simon

Price-line

B2C e-commerce

Ahold

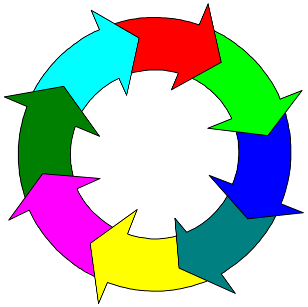
Tesco Direct

Wal-Mart

Albertsons

The Wal-Mart Effects

- Lower prices driven by lower costs
- Retail driven orders-new relationship to suppliers



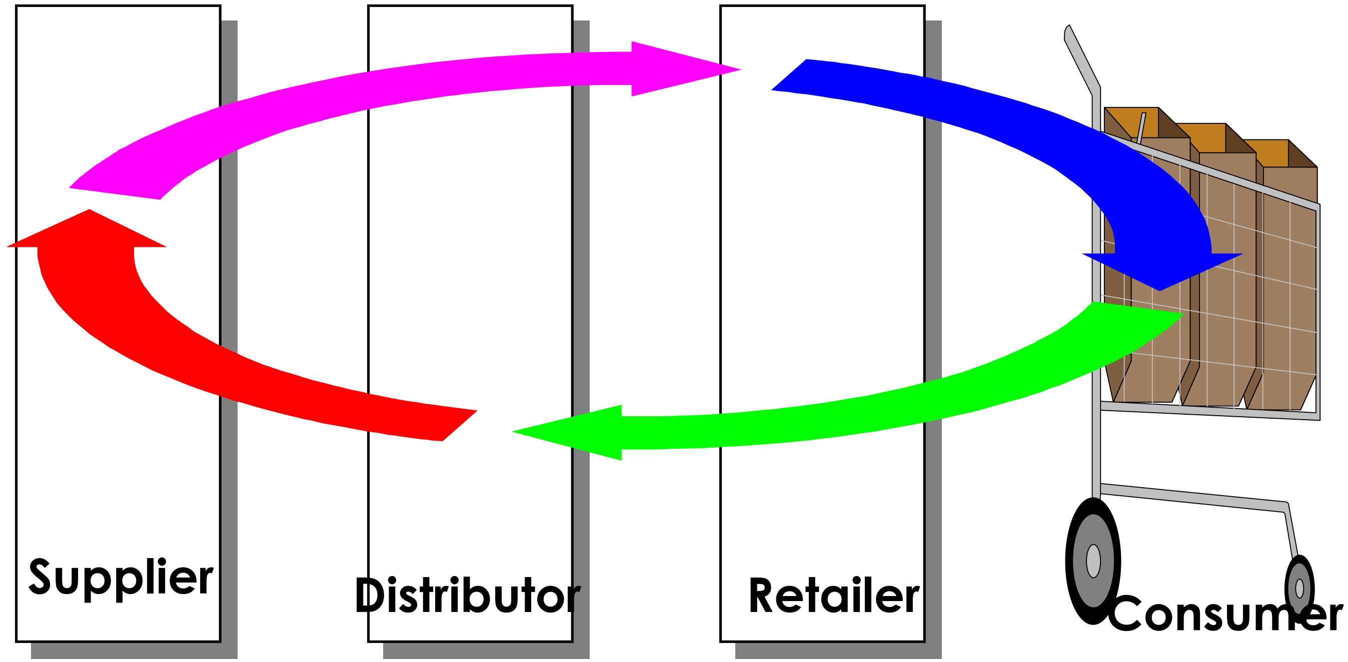
- BwithB e-commerce
- Information systems drive distribution

ECR

To Integrate the food distribution system like Wal-Mart had integrated its procurement and distribution system

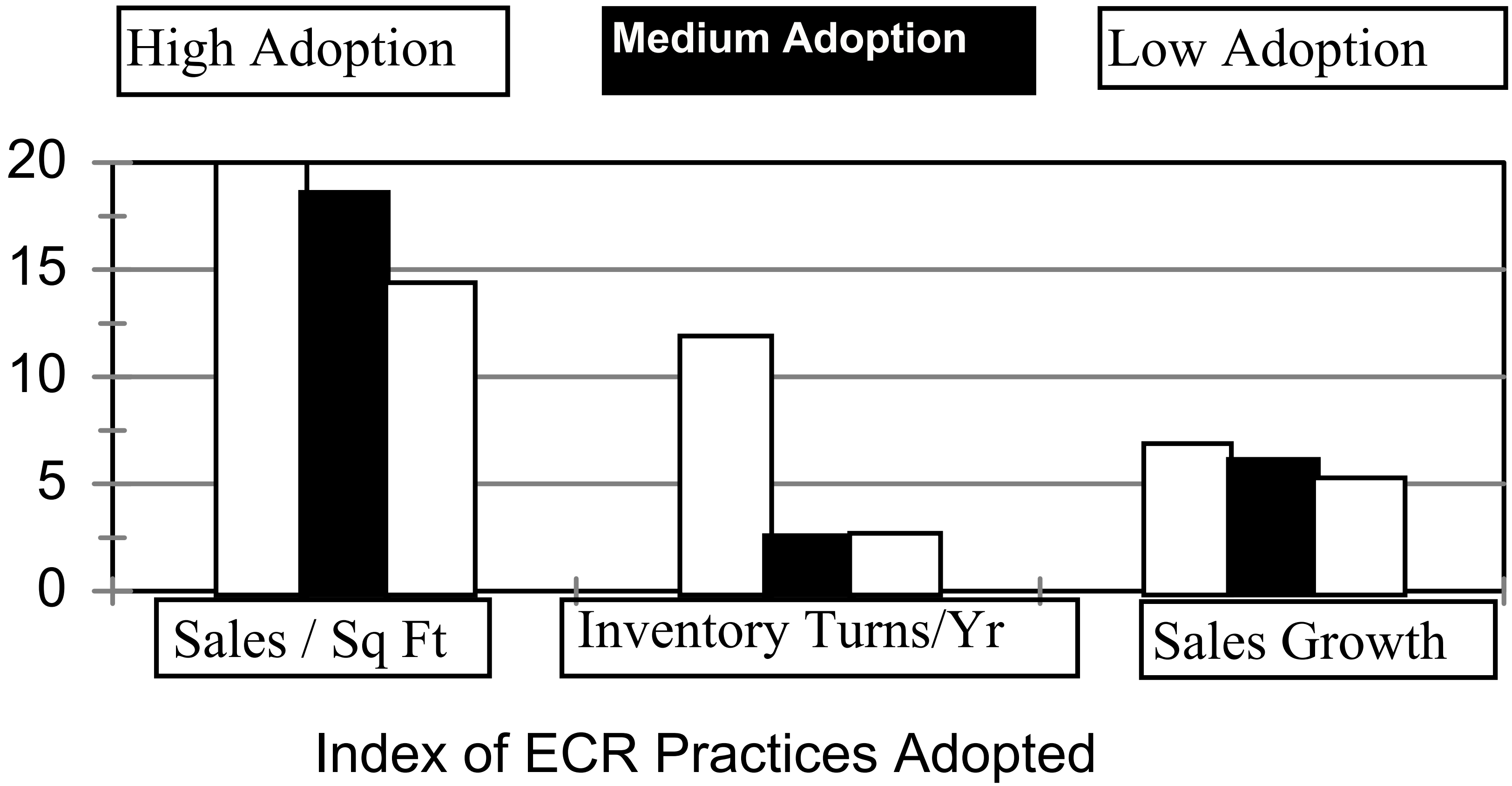
The ECR Vision

Timely, accurate, paperless information flow



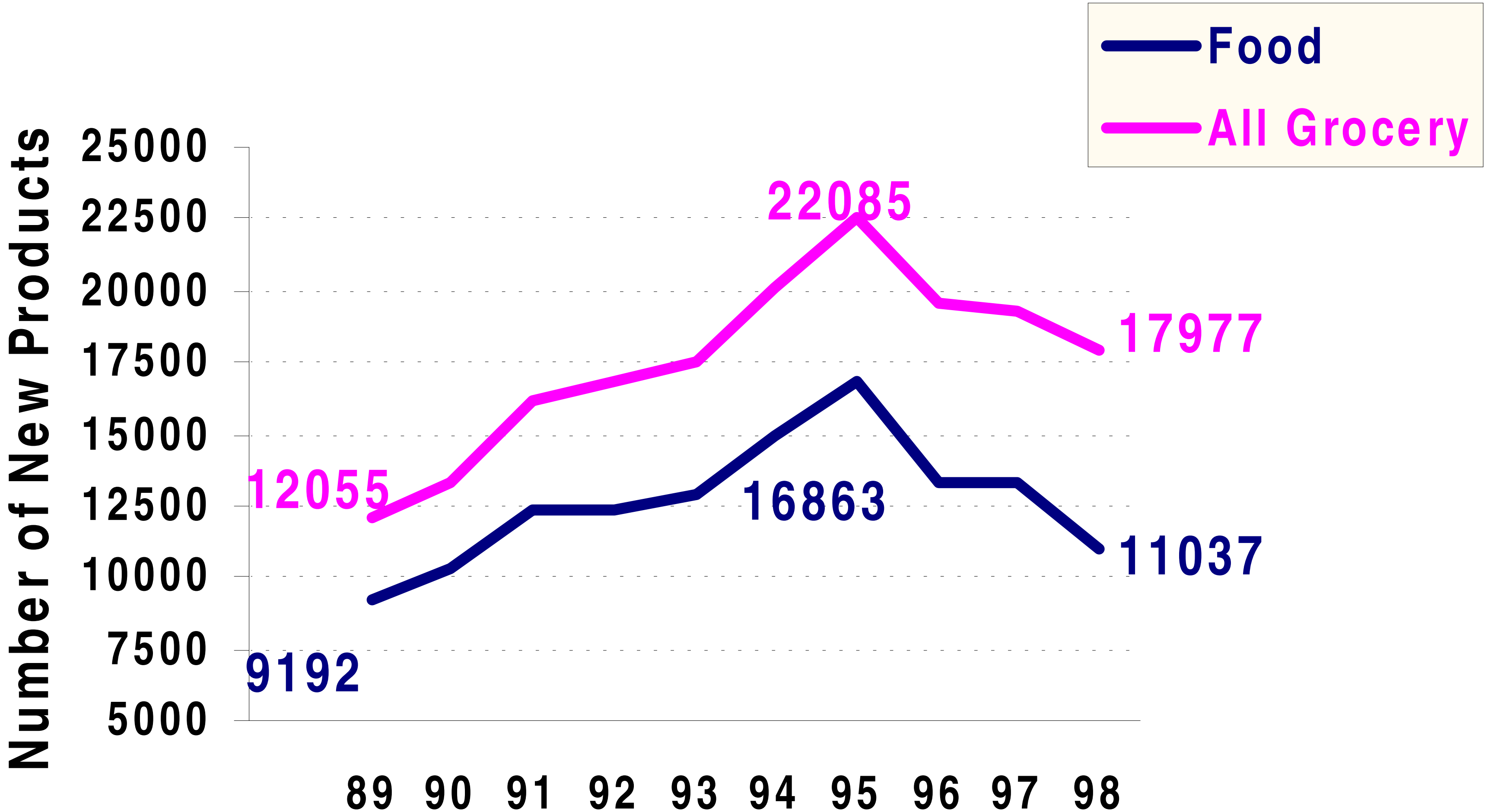
Smooth, continuous flow of product matched to consumption

ECR Adoption and Performance

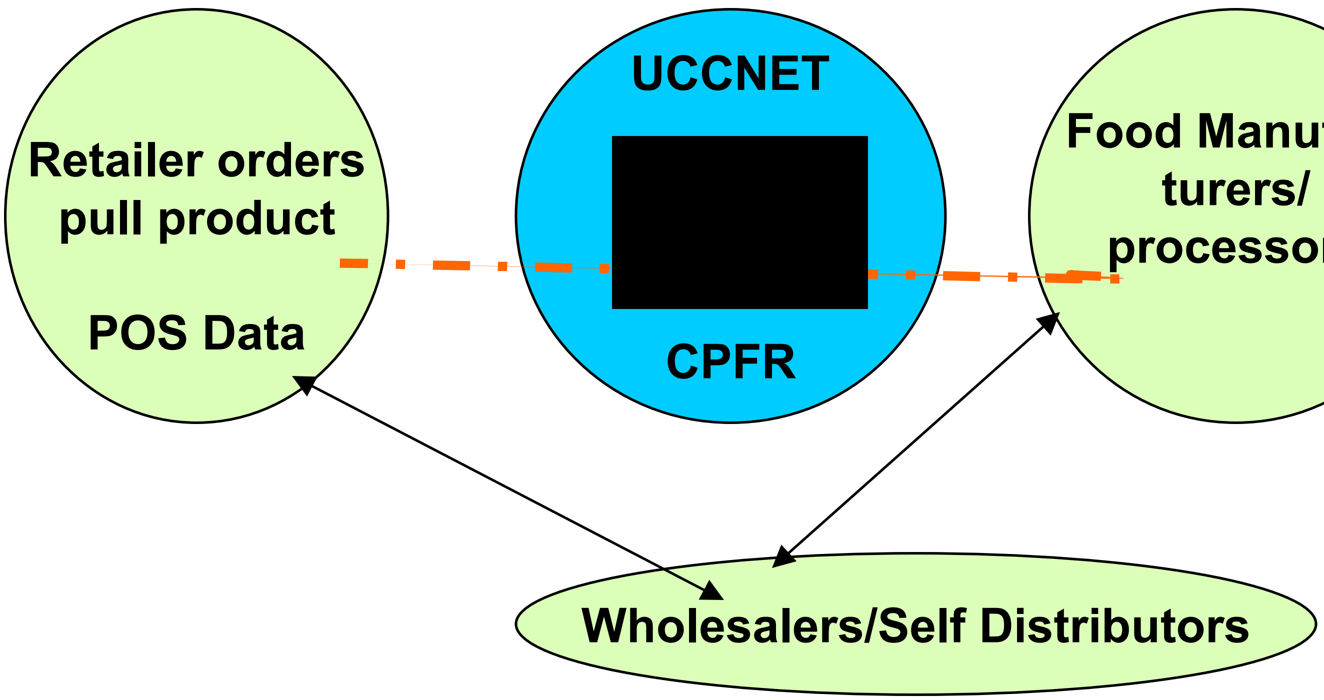


Source: The Supermarket Panel, 1998 data, The Retail Food Industry Center, University of Minnesota

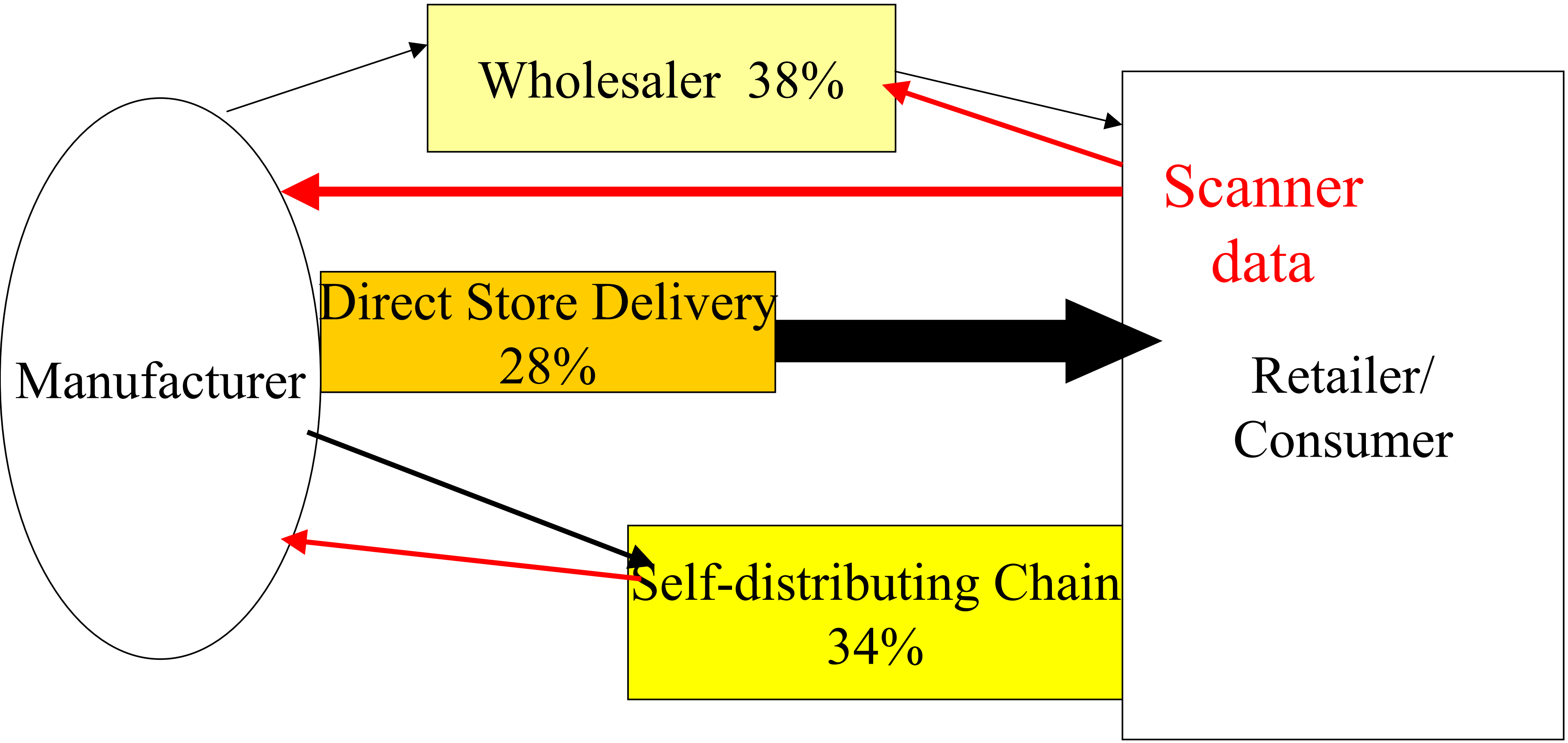
New Products Annually



NEW PARTNERSHIPS:
B2B e-commerce



New Way to do Business



GROCERY DISTRIBUTION PERFORMANCE - 1997

Measure	Wholesaler	Self-Distributer
Operating Cost per Case	$ .47	$ .29
Cost as a percent of Sales	2.71%	1.72%
Throughput (cases/hour)	70	78
Cases Selected/hour	155	194

FDS, FMI:1997 Distribution Center Benchmark Report

GROCERY DISTRIBUTION
Expenses - 1997

Measure	Wholesaler	Self-Distributer
(Percent of Sales at inventory costs)		
Labor	2.46	1.56
Non-Labor	3.60	2.28
Supplies	.28	.09
Utilities	.16	.09
Inventory Adjustment	.11	.03

FDS, FMI:1997 Distribution Center Benchmark Report

Top 4/5 Retail Food Store Companies, U.S.

1930	1990	1999
1. A&P	1. Kroger	1. Kroger
2. American	2. American Stores	2. Wal-Mart
3. Kroger	3. Safeway	3. Albertson's
4. Safeway	4. Winn- Dixie	4. Safeway
5. National Tea		
Percent of Total Sales:		
17	16	34

Source: Mayo, Food Institute Report
Wal-Mart is all Supercenter sales

University of Minnesota
The Retail Food Industry Center

Retail Food Store Concentration of Stores and Sales -1997 U.S.

Type of Store	Number	% Store	% Sales
Supermarkets	30,300	24.1	76.6
Chains	18,955	15.1	60.0
Independents	11,345	9.0	16.6
Convenience	56,000	44.4	6.3
Wholesale Clubs	730	0.6	4.7
Other	38,970	30.9	12.4
Total	126,000	100%	100%

FMI Report1998

RETAIL FOOD SUPERMARKET