Food Business: Oldest but Most Dynamic
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Economic View

By Philip S. Brown

IN 1929 less than 19 per cent of personal spending was for groceries, milk and other foods consumed at home. Many people at that time, predicted that, as incomes increased, proportionately less would be spent for food and other "basic necessities"; more would go for "luxuries."

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As it turned out, one of the "luxuries" was better cuts of beef, more eggs, poultry and fruits. Another was foods ready to cook, or warm; dressed poultry, precooked hams, fresh frozen vegetables, canned pureed baby foods and bakery goods. In recent years, about 23 per cent of people's spending was for foods to be eaten at home.. This increase has occurred despite the fact that very little food is delivered any more to one's house.

Food prices have risen a bit more than the prices of other goods and services, but this is not an important factor in the relative increase in food bills. The principal reason is that individuals are eating, on the average, 100 more eggs a year, 12 pounds more chicken, 25 pounds more beef and 3 pounds more cheese than in 1929. At the same time, they are buying fewer potatoes, less corn and wheat flour and less oatmeal. Also, they are letting manufacturers do more kitchen work by buying more canned and frozen foods, more ready-to-serve breakfast cereals, more "ready mixes" for cakes and cookies and more instant coffee.

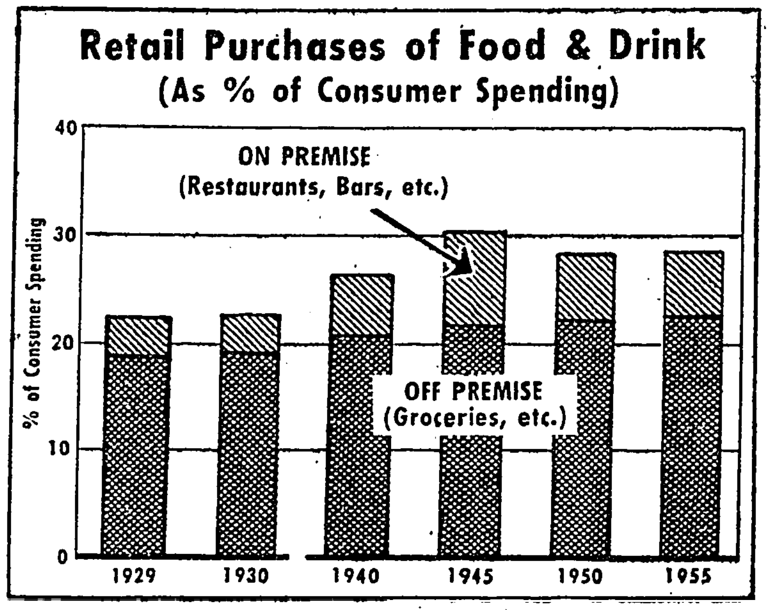
Innovations

THIS indulgence in expensive foods, together with the increase in suburban population, has contributed to the remarkable changes that have taken place in the grocery business in the past 25 years. Self-service, the really great innovation, occurred in 1916 with the opening of a "Piggly Wiggly-Wopsy Flopsy" store in Memphis, where Tom Good, an owner of Good Bros. in Washington, was associated with Clarence Saunders, another early pioneer. However, the rapid spread of self-service stores came later and the first super-markets, in the 1930s. The really big expansion came after World War II.

Washington was among the first cities to have supermarkets. Likewise, it was one of the first to have self-service meat departments, an even more recent development.

The great increase in food sales has brought large profits to some, but there have been many casualties. In 1954, there were 350 fewer food stores of all kinds in the Washington area than in 1948, even though food sales were 50 per cent greater. In the past two years, there was a further decline of about 200, despite the building of new stores. In 1951, there were 350 DGS stores; now there are 225. Even so, most grocery stores in the area are small, as indicated by the following classification shown in The Washington Post's "Retail Grocery Guide" for 1956:

1444 stores have one cash register; 89 have two; 57 have three; 36 have four, and 153 have more than four.



Small Stores Lose

No longer is the grocery business one that any hard-working man with a little savings can enter on a proprietary basis with much chance of success. A typical new supermarket of 12,000 to 14,000 square feet requires an investment of over $500,000. A store of this size stocks 4000 or more different grocery items, plus many different kinds of produce, meats and nonfoods. One Washington housewife reports that she recently counted 132 kinds and sizes of cookies and cracker packages in a store she patronizes. Large inventories require careful pricing and watchful control of expenses. Gross margins are less than 20 per cent on most items and net operating profits only 1 or 2 per cent of sales.

The gross margins of food chains in the country as a whole was 17.8 per cent of sales in 1955; expenses, 16.7 per cent. This left an operating gain of 1.4 per cent. Cash discounts and other earnings brought the average net gain to 2.6 per cent before income taxes. Since the number of "stockturns" is high (15.6 in 1955), and sales are large relative to investment, a small variation in net gain per dollar of sales may result in a big variation in return on the owner's investment. Advertising, it is interesting to note, amounted to 1.14 per cent of sales of chain stores, equal to 7 per cent of store expenses.

To Lure and Hold

FOOD chains are no longer gaining, relative to independents. Many of the latter operate large stores that compete successfully with the best of the chain-store supermarkets. The key to success is still to lure and hold customers. Price competition isn't enough. Consequently, there is a constant search for "something extra"—trading stamps, discounts based on cash register sales, an offer-a-week (of encyclopedias), etc.

In the District, it is unlawful to sell merchandise with a promise of gift held out as a consideration, either at the time of purchase or in the future. Consequently, trading stamps and many other special inducements cannot be used. On the whole, even the big stores like this law, even though in many cities the larger ones have gained at the expense of the small ones. The difficulty is that when a lot of stores use trading stamps, the stamps lose their "pull" but their expense continues.

The better way to build repeat patronage, many merchants believe, is the hard way—to improve service and develop a "store personality." Chain stores, like others, are doing just this.

Some have developed outstanding meat departments; others have stressed fresh produce or bakery goods. One chain in particular has always gone in heavily for its own private brands, believing that it could achieve price advantages and induce habitual patronage this way.

The DGS Set-up

THE DGS stores, on the other hand rely on national brands, except in the case of coffee, tea and a few other items. This is dictated in part by limited shelf space, which permits many stores to stock only about 2000 grocery items and 1000 other meat, frozen-food, produce and non-food items.

The DGS set-up is interesting. Regular members must invest $2500 and pay dues, which take care of advertising, warehousing, delivery and some counseling—but not accounting services, such as some of the voluntary groups in the Midwest provide. Associate members use the warehouse but do their own advertising.

The wholesale department of DGS is a veritable cash and carry supermarket for retailers and is available to non-members who buy by the case or half case. It is used by about 1500 retailers, some of them 40 or 50 miles distant.

Federal Super Markets is another type of cooperative group, with 10 self-service stores.

Washington also has three wholesale-sponsored groups—Capital Food Stores, IGA and Garden Food Stores — with about 185 stores. Another wholesale-sponsored group, Red-and-White Stores, is in the formative stage here.

Among the independent supermarkets are Sanitary Food, Jumbo Food, Posins and Coral Hills.

Approximately 280 stores are operated in this area by Safeway, Giant, A. & P., Acme, Food Fair Super Markets of Washington, Food Town, and Food Lane.

The four Army and Air Force commissaries have grown over the years to where they do nearly $13 million of business annually.

Other Types

LARIMER'S and Magruder's, two of the oldest and best known of the independents continue to provide delivery service. In the case of Magruder's, telephone orders make up 30 per cent of sales and sales to charge-account customers are large. Both stores offer a huge variety of foods—some 10,000 or so items in regular stock—and a good deal of personal service to shoppers.

The Rochdale and Greenbelt Co-ops have developed very loyal clienteles. Many customers have come to know the manager or head of the meat department of the store they patronize and to rely upon his advice.

Stopping for a free cup of coffee or to chat with one's friends lessens a bit the strain of marketing.

Already non-food items account for 5 to 10 per cent of sales in a great many supermarkets. Many of these items provide a higher markup, but many take up a lot of space—especially electric appliances and other hard goods that A&P and some other stores are now displaying.

One wonders how far this trend to non-food items will go. Already, more of some "health and beauty aids" are sold in food stores than in drug stores. Will food stores become huge general stores? Will "one-stop shopping" appeal to housewives, or will they rebel at being distracted and having to walk so far when they are food shopping? Will shopping centers resort more and more to restrictive covenants to protect other tenants or lessors?

More Change Likely

THESE are a few of the controversial issues. All one can say for certain is that with so much experimenting, a lot more change in food distribution is in prospect.

Food stores in the Washington area do over $500 million of business a year, accounting for nearly a quarter of all retail sales. They employ over 16,000 persons. But, unfortunately, there is no up-to-date statistical reporting of the sales of local grocery and other food stores. There is no way of detecting variations in the direction or total spending for food.

Similarly, there is very little city-wide reporting of sales by other important catagories of stores. Department-store sales are the only up-to-date indicator available and these constitute only 10 per cent of sales in the metropolitan area. Moreover, it is not possible to adjust these sales adequately for seasonal and other variations. New-car registrations are available monthly, but these are even less typical of retail trade generally. Consequently, it is very difficult to assess retail trade on an area basis.

Restaurant Business

THE restaurant business is even more important than that of grocery stores, in a sense. Restaurants and drinking places employ more people and their business is probably subject to greater variations in spending. Here, also, there is no reporting.

In this field, many small operators still manage profitably with modest investments. But, many are having a hard time. The larger enterprises are growing rapidly and accounting for a larger fraction of the total business. For example, Hot Shoppes, Inc., had sales of $28 million in 1956, of which about three-quarters were in the Washington area, and this firm expects sales of $35 million in 1957.

This organization prepares about 1 million meals a week in its restaurants, in Government and industrial cafeterias and for serving on airplanes. Its annual purchases include 500 tons of sea food, 10,000 tons of vegetables, 10 million eggs, 30,000 turkeys and 120 boxcars of Idaho potatoes. It serves 27.5 million cups of coffee and nearly 3 million milkshakes a year.

The scale of operations of Government Services, Inc., is nearly as large in the Washington area. It runs most of the Government cafeterias and has 1800 employees, 60 per cent of whom work full-time. In 1956, it served 27 million meals in cafeterias and 9 million at snack bars. The average price of hot meals was probably between 50 and 55 cents.

This private nonprofit corporation is unique. Its contract with the Government Services Administration provides for a franchise fee of 1½ per cent of gross revenue, in lieu of rent. In addition, it pays for electricity, steam and other utilities that it uses, and makes substantial welfare donations.

Eat-and-Run Spots

MANY small cafeterias and restaurants have been hard pressed in recent years by the increasing competition of large, low-priced establishments. Food costs average about 40 per cent of sales, considerably higher than in the prewar period, restaurant men say.

The difference between the wholesale and retail price is small in the case of many small restaurants—so small that many owners simply buy at retail, like any housewife.

However, the small restaurant that serves good food and is conveniently located can still make money. Also, there is still a place for the small eat-and-run, counter-type place. "A hamburger and draw one" is lunch for thousands of people.