The Food Industry: Critical Business Issues

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FILC

- Portland State University School of Business
  **Food Industry Leadership Center**
  - Industry-supported resource for food industry
  - Specializing in logistics, marketing, international
  - Business graduates with “major” in Food Industry Mgt.
  - Executive education:
    - October 24: Connections 2000 Conference
    - [Www.foodleadership.pdx.edu](http://www.foodleadership.pdx.edu)
Panelists

- Pam Lund, Lynn Wilson: Momenta LLC
- Herb Aschkenazy: CEO Oregon Freeze Dry
- Jay Bornstein: CEO Bornstein Seafood
- Harry Forsberg: Director of Sales, Acosta Brokers
- Craig Smith: President, CSA Environmental Consultants
Food Industry Components

Grower/Fisherman
Processor
Wholesaler
Retailer
Consumer
The $472B Food Retail Industry

- $472 Billion U.S. industry sales
- 30,000 stores
- 13,000 stores responsible for 56% of industry; most of those are chain stores
- 62% sales through chain supermarkets
## Food Store Sales by Format

### Grocery Store Sales

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ Sales Billions</td>
<td>% of Total</td>
<td>$ Sales Billions</td>
<td>% Change</td>
<td></td>
</tr>
<tr>
<td>All Grocery Stores</td>
<td>351.0</td>
<td>100.0</td>
<td>472.7</td>
<td>100.0</td>
<td>34.7</td>
</tr>
<tr>
<td>Supermarkets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>($2,000,000 + )</td>
<td>257.6</td>
<td>73.4</td>
<td>365.4</td>
<td>77.3</td>
<td>41.8</td>
</tr>
<tr>
<td>Chain Supermarkets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>175.6</td>
<td>50.0</td>
<td>292.0</td>
<td>61.8</td>
<td>66.3</td>
</tr>
<tr>
<td>Independent Supermarkets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>82.0</td>
<td>23.4</td>
<td>73.4</td>
<td>15.5</td>
<td>-10.5</td>
</tr>
</tbody>
</table>

**Source:** Progressive Grocer

**Notes:**
* Excludes sales of gasoline
** Supermarket items only

*Key Industry Facts – Prepared by FMI Information Service*
## Number of Stores is Contracting

<table>
<thead>
<tr>
<th></th>
<th>1989 Number</th>
<th>1989 % of Total</th>
<th>1999 Number</th>
<th>1999 % of Total</th>
<th>1989 - 1999 % Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Grocery Stores</td>
<td>147,000</td>
<td>100.0</td>
<td>127,000</td>
<td>100.0</td>
<td>-13.6</td>
</tr>
<tr>
<td>Chain Supermarkets</td>
<td>16,980</td>
<td>11.5</td>
<td>20,300</td>
<td>16.0</td>
<td>19.6</td>
</tr>
<tr>
<td>Independent Supermarkets</td>
<td>13,770</td>
<td>9.4</td>
<td>11,200</td>
<td>8.8</td>
<td>-18.7</td>
</tr>
<tr>
<td>Other Stores (Under $2,000,000)</td>
<td>59,250</td>
<td>40.3</td>
<td>37,200</td>
<td>29.3</td>
<td>-37.2</td>
</tr>
<tr>
<td>Convenience Stores</td>
<td>57,000</td>
<td>38.8</td>
<td>57,500</td>
<td>45.3</td>
<td>.88</td>
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<tr>
<td>Wholesale Club Stores</td>
<td>n/a</td>
<td>n/a</td>
<td>800</td>
<td>0.6</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Source: Progressive Grocer
Consolidation Contributing to Fewer Stores

- Market share of top 5 supermarket companies
  - 1980: 26.5%
  - 1990: 28.7%
  - 1995: 26.3%
  - 1999: 37.3%
- Top 50 chains are 60% of all sales
Retailer Key Operations Issues

- Private label sales expansion
- Category management implementation
- Improved merchandising coordination with suppliers
- Decreased inventories
Retailer Forecast of Major Problems

- Recruitment and retention
- Competition from non-grocery channels
- Use of business-to-business Internet tools
- Consolidation of suppliers and competitors
- Systems to capitalize on more consumer data
Supplier Concerns about Customer Relationships

- Pressure for services (often labor intensive)
- Electronic commerce
- Central buying
- Private label focus; difficult to compete
- Category management implementation
A Period of Wrenching Change

- 2-5 year changes will form lasting impact on industry
- Future is less predictable, particularly with technology and international effects
Meta-Issues in Food Industry
Supply Chain

- In a consolidated, Web-driven retail world, how will partners in the supply chain interact and also remain viable?
Image

- Can the food industry (grower, processor, retailer) improve its image among its constituent consumers? Many consumers do not know or care about how food is produced or where. Why is image important?
Environmental

- Environmental issues play a larger role in the food industry. European countries are more focused on these issues. How will environmental issues and opportunities play out among growers, processors, retailers?
Workforce

- Food is the largest employer in many economies, and has the most difficult time attracting and retaining key workers. How can the people issues be improved in the industry?