

Supermarkets CAN Cut Costs

The long-range forecast of retail food prices reads one way—higher. But up and down the marketing chain, there's much that can be done to check the rate of increase.

Supermarkets are a case in point. If they found the means to shave their operating expenses, some of the savings could be passed on to the consumer.

Where it goes. Of each dollar consumers spent in a typical supermarket for food in 1973, about 17 cents went to the operator to cover costs and profits for retailing. The costs—amounting to 16 cents of this—were divided about equally between fixed overhead, such as buildings and equipment, and variable expenses to handle the products, such as labor, packaging, and advertising and promotion. The remaining cent of the retail margin was profit.

According to ERS economists, there are ways for stores to cut both their fixed and variable unit costs.

Fixed costs per unit of product can be lowered by increasing the sales volume. Total rent is the same for a store no matter how many items are sold—but as sales increase, the rent cost per item drops.

Overhead costs per unit of product can also be scaled down through better use of space. For example, we're used to seeing meat and frozen food in open or well-type cases, which display few products in relation to

the size of the case. But fixed costs per unit of product displayed are lower for multideck refrigeration—freezer cases which extend vertically up to 6 feet high and provide more display area.

How well a store is using its available space can be measured by looking at store sales per square foot of selling area. If stores with 12,000 square feet of selling area selling \$4.50 worth of products per square foot were able to up their sales to \$5.75, they could reduce store costs by nearly 2 percent of sales, which could then mean lower prices for shoppers.

Some disadvantages. But, the ERS economists caution, there are drawbacks to larger volumes. If consumer demand remains the same, some supermarkets and small stores would have to call it quits for lack of business. Then shoppers would have to pay the additional cost of traveling to stores farther away.

Of the variable store costs, the big three are "receiving" goods at the store, "shelving" (including price marking), and "checkout." These areas for cutting store costs have received less attention than increasing sales volume, although they all offer potential for cost reduction.

"Palletization" is a labor-saving way of unloading goods from the delivery truck at the retail store.

Boxes arrive from the manufacturer or wholesaler already loaded on wooded pallets or platforms. The entire pallet can be moved by forklift from the truck directly to the store's loading dock.

In the short run, this method may raise investment costs, since older stores may not have docking facilities. Also, items ordered in small quantities from wholesalers are often not palletized and must be unloaded by hand. But in the long run, handling can be speeded up and labor costs trimmed.

Shelving the pallet. Pallets also offer pluses when it comes to shelving. For fast-selling items such as mayonnaise, mass merchandising techniques may be the best alternative. Instead of unpacking a pallet and placing the items on store shelves, the whole pallet is moved onto the floor and used as a large display. This practice reduces labor that would have been used in shelving. However, it pays off only in stores that handle large volumes, and for products that sell quickly.

Supermarkets may be using electronic checkout counters in the near future. Instead of ringing up the price of an item on the cash register, the checker simply moves the

product—which has been specially coded by the manufacturer—across a scanner that automatically records the price. Prices don't actually appear on each item, only on the grocery shelf. Labor is saved at the price-marking and checkout stages.

Electronics cost. A major drawback to the use of electronic checkout equipment is its high initial cost. Also, if consumer complaints about the lack of prices on each item force stores to mark items individually, the cost savings would be much less.

The meat department also offers opportunities for labor cost reduction. Presently, a number of meat processing chores, such as cutting larger pieces of meat into retail cuts, are done at the retail store. But the job could probably be done more efficiently at the slaughterhouse or wholesale level. The meat could then be delivered to the store in fresh or frozen form.

These changes might create problems for consumers and store employees, however. There has been some initial resistance to frozen meat by consumers, who are accustomed to buying fresh meat and may not know how to judge the quality of frozen meat. And if meat processing is moved from the retailer to other levels, some of the store's meat cutters may face job relocation or even job loss.

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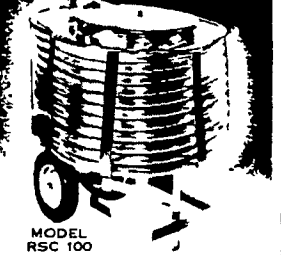
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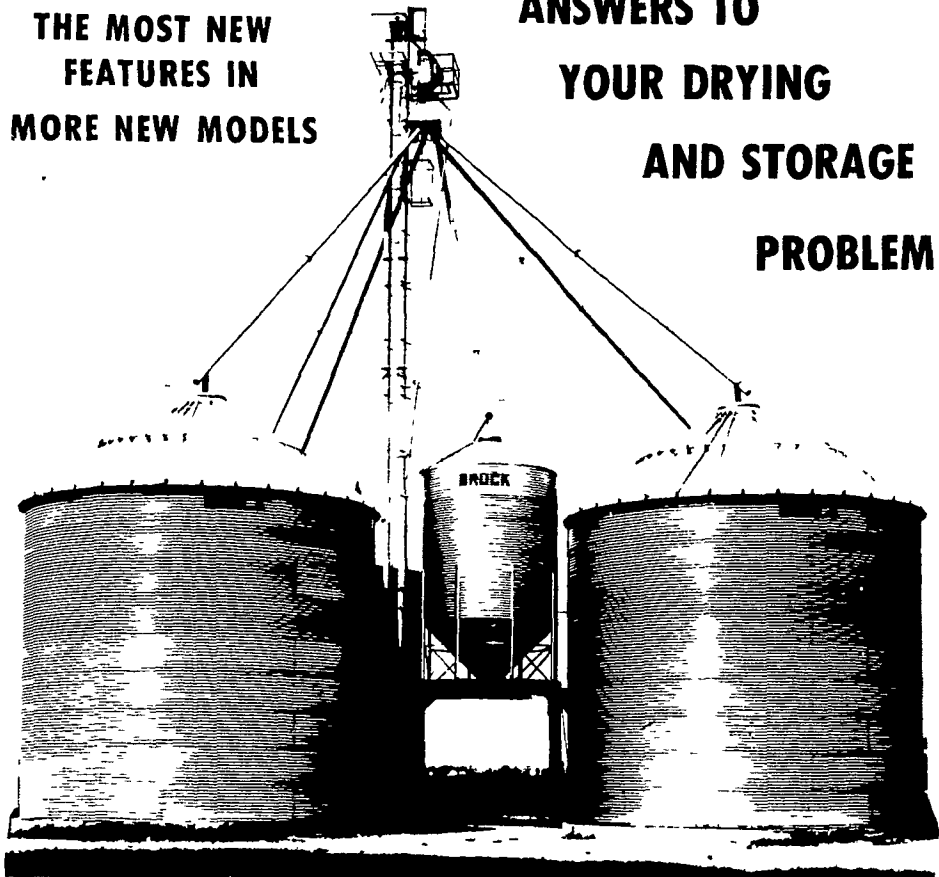
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