PRODUCE MERCHANDISING IN A RETAILER COOPERATIVE

Thesis for the Degree of M. A. MICHIGAN STATE COLLEGE Benjamin R. Bucell 1954 This is to certify that the

thesis entitled

Produce Merchandising In A Retailer Cooperative

presented by

Benjamin R. Bucell

has been accepted towards fulfillment of the requirements for

Master of Artslegree in Food Distribution

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Date_____August 16, 1954

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PRODUCE MERCHANDISING IN A

RETAILER COOPERATIVE

By

Benjamin R. Bucell

A THESIS

Submitted to the School of Graduate Studies of Michigan State College of Agriculture and Applied Science in partial fulfillment of the requirements for the degree of

MASTER OF ARTS

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Department of General Business

Curriculum in Food Distribution

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AN ABSTRACT

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F. G. Brand

Approved

Produce merchandising probably requires higher managerial skill than any other department in the retail store. Because of the perishability of the commodities handled, it becomes especially urgent to organize the work efficiently. Centralized responsibility is, therefore, necessary to synchronize and coordinate the ordering, storing, displaying, and selling activities in a produce department.

Balanced procurement can be obtained by featuring at least 25 to 30 of the more than 100 commodities available during the year. Seasonal items are generally featured to attract more shoppers into the store, thus increasing the total volume of store sales. Large quantities of different produce items can be easily sold by balanced sales of the five basic commodity groups comprised of bananas, bunch and root vegetables, citrus fruits, other fruits, and potatoes.

Careful planning and arrangement of the receiving room for storing merchandise will save time, labor, and spoilage due to rough handling and lack of rotation. Available refrigeration facilities should provide the proper air, moisture, and temperature to maintain the top quality of fresh fruits and vegetables. Reserve backroom and cooler stock should be kept at a minimum. Unnecessary markdown and better prices result when freshness and quality of merchandise is retained through careful receiving and storing practices. Displays are planned to attract attention as well as to sell fresh, topquality, properly prepared produce. There are generally four types of bulk and prepackaged displays built to promote the sale of fresh produce.

"Selective" displays are used for soft, fragile and highly perishable items. Merchandise that is simply rolled onto a display table is known as a "jumbled" display. "Pyramid" displays require a great deal of valuable time in arrangement to create a "show" effect. Rack items are usually at a "uniform" display height.

Several merchandising practices employed by produce managers to stimulate increased sales of fresh fruits and vegetables are "related item" selling, pricing all produce by weight, and selling non-produce items with produce.

Management records are used by produce managers for control purposes a guide to more profits. The records kept should be relatively simple and inexpensive and should supply information on sales, costs, and profits.

The higher profit margins yielded by specialty items compensate for the more difficult handling and preparation required for merchandising them. Individual specialty items may constitute less than one percent of total produce sales, but, nevertheless, displaying them can contribute over five percent of sales during the height of the season. Surveys made in eastern cities reveal that balance, among produce items, can be achieved by featuring less than 30 of the 125 commercially marketed fruits and vegetables. These 30 items account for more than 90 percent of the consumer's dollar spent on fresh produce.

Produce sales as a percent of store sales, for a cross-section of supermarkets throughout the country, range from 11 to 14 percent. Determining the sales per square foot of a produce department will reveal whether the department is bearing its share of the store expenses in proportion to the space occupied and also whether the selling area is being utilized for maximum sales.

Dollar sales per man hour are used by managers to compare the relative efficiency of labor in the various departments. Estimates of sales per man hour may vary substantially, due in part to differences in considering buyer's, supervisor's, or store personnel's help when computing these figures. A high turnover rate of produce, preferably four to six times weekly, is desirable if the inventory is kept large enough to provide stock to last through the given time period.

Three types of losses found in a produce department are visible losses from decay and spoilage, unseen losses due to weight shrinkage, and errors in weighing or counting, pilferage, cash register errors, and markdowns. Losses reported by retailers from visible decay and spoilage average three percent; the unseen losses for a year's operation average two percent and markdown losses for year's operation should not be more than one percent.

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CHAPTER I

INTRODUCTION

The most interesting and, in many ways, the most noteworthy large-scale development in the food field in recent years has been the increase in dollar sales of grocery chains. Corporate grocery chains in 1953 did 12.5 billion dollars worth of business or 36 percent of all food sales through retail outlets, as compared to 37 percent of all food sales in 1933 of less than 5 billion dollars.¹

In order to meet the competitive threat of corporate chains, independent retailers have formed voluntary and cooperative organizations. A voluntary group is a wholesalersponsored organization in which the wholesaler takes the initiative in bringing about a closer merchandising affiliation with a group of retailers, while the cooperative organization is one in which independent retailers own and operate a wholesaling enterprise on a cooperative basis. The objective in both types of organization is basically the same; that is, to integrate the wholesaling and retailing functions more closely

Dipman, C. W. and Robert W. Mueller. "How Grocery Sales Were Divided in 1953." <u>Progressive Grocer</u>. 33:3, March, 1953, p. 46.

and to provide the independent grocer with the advantages of large-scale buying and wholesaling operations.²

Objectives

There are relatively few retailer-owned produce cooperatives in the food trade and the best available trade information indicates that there are not more than a dozen in operation today. The principal reasons for this small number has been generally due to inefficient management and internal disagreement among the members of such organizations.

Since these cooperatives are rather rare, and because of the writer's interest in retail produce operations, the objective of this study was to discover the merchandising practices employed by a produce cooperative and its member stores.

The reasons for selecting Grand Rapids Produce, Incorporated, as the example of a cooperative to be studied are: (1) that it has operated successfully for nearly 20 years; and (2) they are testing a merchandising plan which has recently begun. No detailed evaluation of the merchandising plan was attempted because of the short time it has been in effect. In this study the produce operation of two of the seven member stores now using the merchandising plan are compared with two member stores not in the program.

²Hoffman, A. C. Large-scale organization in the food industries. Temporary National Committee. 76th Congress, 3d Session. Washington, D. C., Monograph Number 35, 1940, p. 9.

Procedures

<u>Selection of stores</u>. The limited time available for collection of field data made it necessary to select a minimum number of representative stores included in the membership of the Grand Rapids Produce, Incorporated. In order to indicate the effectiveness of the merchandising plan developed by the cooperative, two of the stores were selected from the group of seven stores operating under the plan, while the other two in the sample were not participating in that project. Since all four stores have a quite similar type of clientele, it seemed desirable to include stores of different sales volume.

One of the two member stores participating in the produce merchandising plan is of medium size, while the other is a large supermarket comparable in size with the supermarket studied that is not in the plan. The fourth store is the smallest in weekly sales. The produce merchandising practices in these four representative member stores generally have used accepted standards for successful produce departments throughout the grocery industry.

Sources of data. Information was obtained from the cooperative organization and the four member stores during the period from January to June, 1954. Data were obtained by interviews, personal observation, and from store records. Interviews were held with (1) the manager and other personnel at the cooperative warehouse, (2) the produce supervisor and personnel of the company operating two of the seven stores in

the merchandising plan, (3) the owner-managers of the two member stores not in the cooperative merchandising plan, and (4) the produce managers and clerks in all four stores. Further information was obtained from a variety of secondary sources including books, state and federal research bulletins, trade publications, and magazine articles that are cited in the text.

Sequence of presentation. In order to understand more fully the reasons for the produce merchandising methods used at the store level, it is necessary to know how the commodities are bought, handled, and distributed by the cooperative warehouse. The sequence of presentation in this study, therefore, begins with the organization of the cooperative group, followed by a description of the produce operations at the warehouse level. The four stores included in the study are then described briefly, followed by a discussion of the produce personnel, facilities, and operating methods in each The basic principles of successful retail produce store. merchandising are presented in the closing chapter of the study, together with a discussion of several standards by which the efficiency of the produce department can be meas-The body of the text is followed by the summary and ured. list of references cited.

CHAPTER II

CORPORATE AND FINANCIAL STRUCTURE

Organization History

Events leading to its organization. In 1936, Produce Department, Incorporated was organized by a number of independent grocers in western Michigan so they could compete more effectively with the national chains in their produce The national chains had a decided advantage due business. to large scale purchases and the nature of their buying organization. Retail prices in the chain store supermarkets, therefore, were lower over-all than in independent stores. The cooperative group was formed to permit large volume buying on a collective basis. The name of the organization was changed from Produce Department, Incorporated, to Grand Rapids Produce, Incorporated, in March, 1954, because people transacting business with the cooperative were confused at not finding the name of a person, city, or town before or after the name Produce Department, Incorporated. Another reason is to adapt their corporate structure as fully as possible to future changes in legislation affecting cooperatives of this type.

<u>Corporate structure and financial plan</u>. The Grand Rapids Produce, Incorporated, is a cooperative corporation for profit organized under Michigan Act Number 327, Public Acts, 1931, as amended. Only member stores may purchase from the cooperative. At the time of its organization in 1936, independent grocers wishing to become members purchased one \$50 share of stock for each store owned. Shares of stock are non-transferable and redeemable only at face value.

To handle the increased volume of business, the Board of Directors in 1945 issued enough additional stock to permit each member store to purchase three more shares at \$50 each. The proceeds of the sale of this stock were used to finance construction of the present warehouse.

The reserves set aside for future emergencies or contingencies are based on the volume of sales and net profits over the years. Since 1945, the annual amounts added to the reserves has varied from one-tenth of one percent to one-half of one percent of the yearly net profit. The directors may use money from the reserve fund for patronage rebates, but only in the form of stock dividends. A reserve surplus fund of \$130,000 in June, 1954, brought the book value to \$148 per share. The par value of all stock outstanding in June, 1954, representing the entire investment of member stores, was \$63,000. <u>Membership</u>. New members may join the group if they meet the qualifications of a retail outlet, post \$200 for the purchase of, and as a deposit for, four shares of stock, and if approved by the Board of Directors. Members are extended credit for one week, and one or more shares of the member's stocks may be repossessed by the cooperative in payment for unpaid purchases. There are no restrictions on the size or type of grocery store an owner has when applying for membership. Upon leaving the group, members turn in their four shares of stock redeemable at face value.

Net profits of the cooperative, after deductions for depreciation and reserve, are returned to the members as patronage rebates or dividends. Patronage rebates are declared yearly by the Board of Directors at the meeting held at the end of the fiscal year on March 31st. During the past ten years these patronage rebates have amounted to one-half to one and one-half percent of the stockholders' yearly purchases. This is often a sizable amount and tends to encourage stockholders to purchase their needs from the cooperative.

Grand Rapids Produce, Incorporated, serves more than 300 stores distributed through western Michigan as shown in Figure I. The most distant store, in Petoskey, is 200 miles from Grand Rapids. It is unprofitable to serve stores beyond the trade area shown in Figure I because of competition from closer sources of supply in Detroit, Flint, and Bay City.



LOOSE LEAF OUTLINE MAP

HADE IN U.S.A

RAND MONALLY

<u>Trade affiliations</u>. Grand Rapids Produce, Incorporated, is a member of the United Fresh Fruit and Vegetable Association and participates in its United Merchandising Institute. The Service Wholesale Division of the Association offers competent consulting assistance to its members on such management problems as procurement, labor relations, warehouse and store layout, facilities, and operating costs.

The United Fresh Fruit and Vegetable Association, with headquarters in Washington, D. C., is one of several trade associations that keep a close check on federal and state legislation and regulations affecting the produce industry. The legal staff of the Association is available for consultation on legal phases of employer-union controversies.

The United Merchandising Institute offers, on request and free of charge, a one-week merchandising school or clinic for the merchandiser-salesmen of member firms. Members also receive periodical newsletters, bulletins, and other current trade information.

Another valuable Institute service is a one-day basic and a one-day advanced training school in produce merchandising for the produce personnel of the customers of its member firms, or the member stores of a cooperative group having membership in the Institute. These training schools are jointly financed by the United States Department of Agriculture, the Institute, and the member firms who participate. The produce clerks who attend receive information and practice in buying, receiving, handling, preparation of produce for display, prepackaging, care of the produce rack, promotional merchandising, and other phases of retail store produce operations.

The annual membership fee in the Association amounts to \$450 for Grand Rapids Produce, Incorporated.

CHAPTER III

PRODUCE OPERATION AT THE WAREHOUSE

Organization

<u>Personnel</u>. The manager of the cooperative and another buyer order from \$75,000 to \$80,000 of produce weekly in carlot, less-than-carlot, trucklot, and less-than-trucklot quantities. In addition, one of the four merchandiser-salesmen (a "second buyer") buys an average of \$12,000 of produce weekly from local farmers who deliver at the warehouse every afternoon. There are six office women who handle billing, correspondence, and bookkeeping. The warehouse personnel consist of a day and a night foreman and 17 employees. Of this number, seven work during the day and the remaining ten at night. Of the day crew, six also deliver to stores within the city in addition to their warehouse duties.

Facilities. Office equipment consists of four adding machines, one billing machine, two calculators, three comptometers, eight telephones, three typewriters, one mimeograph machine, and a postage stamp meter. The perishability of produce emphasizes the time factor as an extremely important consideration in purchasing. Since market prices fluctuate from hour to hour, the company relies solely upon the telephone as the quickest means of communication and does not use teletype equipment.

The 120 by 160 foot warehouse was completed in 1947 at a cost of \$250,000. A wet room, or box, with 1,800 square feet of floor space and a capacity of three carlots, occupies part of the rear of the warehouse. The temperature is held at 35° F. with a relative humidity of 100 percent. Next to this is a dry room, or box, of 1,800 square feet in area which is used for citrus fruits and other items, such as dates and figs, that require a relative humidity of 100 percent and a temperature of 43° F. Common storage is available in the basement for dried fruits, nuts, and potatoes and for general storage. A single-track railroad siding allows four cars on the siding with four more cars held ready for switching after cars are unloaded.

Two fork-lift trucks, costing \$4,000 each, reduce manual labor in warehouse operations. Short trips throughout the warehouse require charging the fork-lift batteries every night. A "Floorveyor," manufactured by the Rapid Standard Company at a cost of \$4,000 and used here for the first time, has 90 feet of movable track with 133 feet of reversible belt. There are also six four-wheel hand-pulled flat trucks to place incoming receipts into storage rooms.

Approximately 80 feet of the warehouse loading platform is divided into eight stalls for incoming trucklot receipts. The remaining 40 feet of this platform are used for less-thantrucklot receipts and deliveries by local growers. Incoming produce arrives during the day only because the truck stalls are used at night for loading trucks for store deliveries. The cooperative owns six trucks for local deliveries in Grand Rapids. Deliveries beyond city limits are made in eight leased semi-trailers. One advantage of leasing semitrailers is the avoidance of high maintenance and repair costs of the tractors. Another advantage is the convenience and flexibility of renting additional equipment when needed.

Operating Methods

<u>Procurement</u>. Merchandise is bought through local and distant brokers, direct from shippers or local farmers, and from on-the-ground buyers who travel from area to area as the seasons advance.

Daily market news information is obtained primarily by daily direct telephone contact with reputable brokers and shippers. Additional information regarding available supplies, appearance, quality, and weather is received from California by Airgram from Carlot Distributing Company. The Chicago Fruit and Vegetable Reporter and the daily reports received from the United States Department of Agriculture Market News Service supply further information.

Quality standards are maintained by specifying federal grades, whenever possible, or rejecting all receipts that do not meet the desired standards of quality.

Purchases are based upon past experience and current orders for the different commodities handled in order to assure a continuous incoming supply to match the demand of member stores. Incoming receipts are listed on cards in a file designating the commodity, date of arrival, price quoted, and quantity ordered.

The daily warehouse inventory is taken at 5:00 a.m. by one of the buyers after all delivery trucks have been dispatched. This inventory helps the buyer to adjust his order accordingly. For example, if it takes seven days for a carlot of lettuce to arrive from California, a two-day supply of lettuce is kept on hand. Should the inventory reveal only an one-day supply of lettuce and the incoming receipt card for lettuce indicates a two-day period before arrival, the buyer can immediately locate an one-day supply to fill store orders until the carlot of lettuce arrives.

Unless an item is in short supply, all merchandise is bought on an "approval arrival" and a "price arrival" basis. If the price has risen greatly from the quotation received at the time the order was placed, or quality is poorer than indicated earlier, the entire shipment can be rejected.

Frequent early morning trips to the nearby Grand Rapids Wholesale Farmers' Market are made by the two buyers to check on the market situation locally. Information obtained in this way aids in buying from distant brokers and shippers. A weekly trip, on Wednesday, to the Chicago market also acts as a guide in buying that day and for the next few days. <u>Receiving</u>. The condition and quality of all incoming merchandise is checked by either the manager or the other buyer. Billings are compared with incoming receipt cards for earlier price quotations and quantity. The "second buyer" is responsible for all commodities bought from local growers. Prices for local afternoon deliveries are determined by the manager on the basis of market quotations that morning.

Handling. All merchandise received is code dated whenever possible for identification and rotation purposes. Shrinkage and spoilage losses at the warehouse through this system have been kept down to one-tenth of one percent of sales, or approximately \$500 per month.

Unloading of carlots and trucklots is expedited by palletizing all skid loads and having a fork-lift truck place commodities in either dry or wet storage. The "floorveyor" is another mechanical aid used in unloading cars and trucks quickly with a minimum of handling. With the "floorveyor" in position behind the open doors, produce packages are unloaded from cars and trucks onto the conveyor belt. At the end of the belt, four-wheel trucks carry the merchandise the remaining distance into the dry or wet rooms.

When there is no stock of some item already on hand, the incoming merchandise needed for that night's store deliveries is left on the warehouse floor rather than being placed in storage.

Distributing. Produce distribution begins about 5:00 p.m. when the fork-lift driver checks the recapitulated master order form. Merchandise for that night's deliveries is placed on both sides of the "floorveyor" in the same sequence as listed on the order form. Loading starts about 6:00 p.m., beginning with orders from the most distant stores. Trucks leave throughout the night to arrive at stores at a scheduled time, usually before the store opens for business.

Five men are needed to load each store order. One man calls out the items needed from the order form. Two order pickers, one working on each side of the "floorveyor", locate those items on the floor and place them on the moving belt. Two men at the end of the conveyor belt, which extends into the truck, then complete the loading. This mechanical loader greatly increases the labor efficiency of the loading crew by saving steps and reducing fatigue.

Deliveries are made Monday through Saturday. Member stores are divided into ten truck routes, or runs, and receive either one, two, or three store deliveries a week. Only stores in Grand Rapids receive a daily delivery. Each of the ten truck runs involves store deliveries in several cities.

The tourist trade causes some seasonal problems. For example, during the summer, vacationers on Beaver Island make three deliveries a week necessary. Merchandise is left at the Charlevoix dock to be ferried across to Beaver Island. Weekly winter deliveries are costly, since they are small, but the summer sales volume makes this a profitable business for the year as a whole.

Two situations make it difficult to keep store deliveries on schedule. Deliveries are sometimes delayed because a store owner is not there when the truck arrives. Many members cooperate by leaving a key so the truck driver can put the produce in the store or in an enclosed area back of the store. Stormy weather is another factor that often delays deliveries.

Merchandising and selling. There are four merchandisersalesmen at the warehouse that telephone and take orders from members whether or not they are in the merchandising plan. These merchandisers or telephone salesmen also aid in building large displays with descriptive material received from the produce trade. During National Apple Week the Michigan State and Washington State Apple Commissions furnish colorful display material. The California Fruit Growers Exchange and the Florida Citrus Commission also furnish window banners, recipes, talking signs, and posters to promote sales of their commodities.

Emphasis is placed on building larger displays of items carrying a higher margin rather than the advertised leaders. Loss leaders require less merchandising effort because the price is a sufficient incentive for maximum sales. Recommended arrangements of rack displays, location of floor displays, size and number of units to prepackage are typical
suggestions by the salesmen to the member produce managers when visiting the stores.

Before they begin their work, the four merchandisersalesmen check the daily 5:00 a.m. inventory plus the incoming receipt cards. They can thus tell how many units of each commodity can be sold that day. During the day a record of all items sold over the telephone is placed on an order form, and at 4:00 p.m. the order forms are consolidated onto a master order form and given to the night foreman. He can then begin loading operations. Past experience acts as a guide in estimating the units that city stores will order after 4:00 p.m.

At scheduled times the four merchandiser-salesmen begin calling stores in Atwood, Boyne City, Petoskey, and others on the "Far North" run. Phone calling begins at 1:30 p.m. in order to begin calling stores in Grand Rapids by 4:00 p.m. City calls are usually completed by 6:00 p.m. Orders received during the day are delivered before the store opens the following morning.

Members prefer speaking to salesmen rather than mailing in their order form. Information supplied to members regarding condition, price, and quality builds good will and helps to realize maximum sales and profits. For example, such information might be that three tomatoes packaged in Indiana are a better buy today than the previous purchase of four tomatoes packaged at Detroit. Hot weather in May of this year caused strawberries to lose their "bloom," or color. Later, heavy rainfalls in June caused the strawberries to be sandy and unprofitable to handle.

The salesmen develop considerable skill in adjusting supply and demand by suggesting additional items than those ordered by a member, or allocating scarce commodities by scaling down individual orders. These efforts to balance the available supply with current demand, and to realize the largest total sales without overloading individual stores, are further aided by the fact that the buyers keep the salesmen informed of any developing shortages in inventories or expected receipts.

From January, 1943, to August, 1953, member stores were quoted prices and paid three to five percent of sales as a transportation charge. Members objected strongly to this practice, which in many instances did not cover delivery costs to distant stores. In August, 1953, the three to five percent transportation charge was eliminated but is now included in the price quoted by salesmen.

Store orders taken over the telephone are unit priced and prepared in triplicate. Two copies go to the office and the third to the night foremen. One office copy is sent to the stores when they are billed for the week's purchases and the other copy is kept on file for reference as a permanent record of the store's purchases. After the store's order has

been filled, the night foreman's copy is given to the driver to be left with the delivered merchandise.

Produce managers at member stores can then compare the daily order forms for that week with the weekly statement and attached duplicate copies received from the office. Discrepancies between daily order forms left with delivered merchandise and duplicate copies from the office are settled as quickly as possible. The usual procedure is for produce managers to let the salesmen know, the next time he is called, if there was a shortage or overage and if the price quoted over the telephone was different than that placed on the order form.

Prices quoted members are set by the manager and reported to the telephone merchandiser-salesmen after considering market demand, prices, and supply. Produce is priced in cents per unit rather than a certain fixed percentage above cost with a margin sufficient to cover operating expenses.

The reason is that Grand Rapids Produce, Incorporated, finds it easier to keep retail prices more uniform in the member stores this way than by using a flat percentage markup. Table 1 illustrates how this plan works. For example, if the cost of lettuce to the warehouse were to rise from \$3.50 to \$5.00 per crate, (line 1 to line 2) a fixed ten percent markup would change the cost to the retailer from \$3.85 to \$5.50, an increase of \$1.65. Under the method used by the cooperative, the markup in cents per crate is increased less than proportionately to the rise in cost to the warehouse.

This is done to reduce consumer resistance to steep price increases. In the example given, the markup in cents was 50 cents per crate when the cost was \$3.50, or 14 percent (line 1). This can be compared with a markup of 25 cents when the cost was \$5.00 (line 2), or five percent, an increase of only \$1.25. By accepting a \$1.25 markup compared to the \$1.65 markup earlier, the cooperative seeks to keep consumer purchases of the commodity more uniform in volume.

Similarly, if the cost to the cooperative falls to \$3.00 per crate (line 3), it becomes possible to recover this previous loss in markup by using a markup of 70 cents a crate, or 23 1/3 percent, which would offset the earlier 40 cents loss and still yield the "normal" markup of ten percent or 30 cents.

TABLE 1

WHOLESALE PRICING OF LETTUCE ON A CENTS BASIS TO STABILIZE RETAIL PRICE FLUCTUATIONS

Line	\$ Cost-per package	Priced at 10%	Priced in cents
(1)	3.50	3.85	4.00
(2)	5.00	5.50	5.25
(3)	3.00	3.30	3.70

Three price zones have been established to provide more convenient and equitable transportation charges among the stores. Zone one is within Grand Rapids, zone two up to 60 miles from the warehouse, and zone three over 60 miles. <u>Retail pricing</u>. Until October, 1948, members in the group received a weekly bulletin on Fridays suggesting retail prices to charge the following week. A daily suggested retail price list was also sent with deliveries showing markup percentages received if the list was adhered to. This proved unsatisfactory because competing stores would get access to the list and adjust their prices accordingly. Another reason for discontinuing this service was that retailers receiving two orders a week were not able to change prices to their advantage. If a price change took effect after the first delivery, the retailers could do nothing until they received their next order.

At present the cooperative sends a weekly bulletin to stores showing several items to feature in their produce department for the week. The items are accompanied with a suggested retail price and the markup percentage at that price. Prompt deliveries of these weekly feature items, and satisfactory adjustment and allowances, are services offered members by the cooperative.

Merchandising plan. In 1953 the cooperative manager felt that if certain services were offered to member stores, through a produce merchandising agreement, it would be of mutual benefit. The first such agreement was verbally made in October, 1953, with a member who operates seven stores in Grand Rapids. A written agreement was originally proposed for 120 days, but both parties decided it was too long a

time to be bound by an agreement that might prove to be impractical from the start.

The primary purpose was to test the plan. If the agreement led to more successful produce operations in these stores, the cooperative could induce other members to adopt the program. As the success of the program became more evident, it was hoped that most of the members would actively participate. The more specific objectives of this merchandising agreement are:

- To help evaluate the facilities and operating methods of the member store and thus indicate ways to increase the net profits of its produce department.
- 2. To increase the efficiency of both the cooperative and the member store through centralized buying of all produce and more accurate estimates of produce requirements in the immediate future.
- 3. To increase or stabilize turnover rate through deliveries of fresher produce.
- 4. To reduce costs at the warehouse level through larger volume and more accurately forecast sales estimates.
- 5. To permit member stores to compete more effectively with corporate chains.

Provisions of the agreement: The cooperative assumes the following seven obligations as its part of the agreement.

- "1. Supply you with a variety of fresh fruits and vegetables in the best quality available.
 - 2. Make available a competent staff of merchandisers who will assist you with produce department records, promotional plans, displays, preparation, and general care of merchandise.
 - 3. Furnish you with suggested retail prices which if followed properly will allow you to operate your produce department at a profit and at the same time be competitive.
 - 4. Supply you with weekly gross profit figures which are based on suggested retail selling prices.
 - 5. Offer you a choice of three week-end special or feature items which will have advertising and merchandising appeal as well as offer a genuine value to your customers.
 - 6. Make services available to you which will include display ideas, bulletins, materials for promotions, point-of-sale material, record forms and a planned weekly produce merchandising program.
 - 7. Furnish you with continuous 'in the store' training for your produce personnel in the preparation, display, care, and packaging of fresh fruits and vegetables."

Members who wish to enter into the agreement are requested to observe the seven rules listed below as part of their agreement. Strict adherence is necessary to have a mutually successful merchandising agreement.

- "1. Purchase 100 percent of your fresh fruit and vegetable requirements through Produce Department, Incorporated.
 - 2. Accept and follow the suggested retail prices as offered by Produce Department, Incorporated.

- 3. Make full time produce personnel responsible for the operation of the produce department in your store.
- 4. Furnish Produce Department, Incorporated, with the required information and records as needed.
- 5. Supply the proper equipment and display space needed for the produce department in your store.
- 6. Follow suggested 'tie-in' and 'promotional items' as offered to you by Produce Department, Incorporated.
- 7. Place your order by phone or mail as pre-determined. This order will be based on an inventory of your display and cooler stocks."

Five basic commodity groups: As part of its obligation under point two, the cooperative analyzes the store order form weekly. All items carried on the order form have been broken down into the following five basic groups of commodities, as shown in Table 2. Members participating in the agreement receive information showing if the items ordered in the five basic commodity groups are or are not at the level expected monthly, as shown in Table 3. While it is apparent that the relative importance of the basic commodity groups varies somewhat according to the season of the year, the cooperative manager, nevertheless, recognizes the value of using this sales distribution as a guide in the merchandising program.

Commodities ordered daily in each basic group are totaled weekly for control purposes at the member store. Items in each basic group carry different markup percentages. By featuring items in all the basic groups, the produce manager will have a reasonably well-balanced produce department that

FIVE BASIC COMMODITY GROUPS

GROUP I

Other Fruits (Cont) Vegetables (Cont)

CITRUS FRUITS

GROUP II

GROUP III

OTHER FRUITS

Avacados

Apples Cantaloupe

Melons

Grapes Pears

Plums

BANANAS

Tangerines Tangelos Oranges - Florida Oranges - California Grapefruit Lemons Limes Peaches Pineapple Persimmons Pomegranates Apricots Cranberries Cherries Cocoanuts Dates

GROUP IV

VEGETABLES

Broccoli Beans - Green & Wax Brussell Sprouts Beets Celery - All kinds Cabbage Carrots Cauliflower Cucumbers Endive Egg Plant Escarole Lettuce

Mushrooms Onions - All kinds Peppers Parsnips Radishes Rutabagas Romaine Spinach Squash - All kinds Salads - All kinds Turnips Tomatoes Vegetable Oyster Watercress Rhubarb Chives Corn Garlic Dill Weed Parsley Peas

GROUP V

POTATOES

Yams Potatoes - All kinds

DISTRIBUTION PATTERN

Showing Produce Sales Trends by Months - Percent of Each Group to Total Produce Sales

A Reasonably Well-Balanced Produce Distribution Ratio Will Produce the Following Percentage Trends Approximately

Month	Citrus Fruits	Bananas	Other Fruits	Bunch and Root Vegetables	Potatoes	All Produce Month's Avg.
January	26%	10%	11%	41%	12%	100%
February	26	11	10	¥0	13	100
March	25	10	11	42	12	100
April	23	9	15	41	12	100
May	20	9	20	40	11	100
June	15	10	26	38	11	100
July	14	9	31	34	12	100
A ugust	15	9	36	32	8	100
September	15	10	31	36	8	100
October	18	11	23	37	11	100
November	21	11	20	40	8	100
December	26	9	16	¥0	9	100
Year's Average Breakdown	20%	10%	21%	38%	11%	100%

contributes to profitable operation and provides customers with a wide choice of items.

The five basic groups are used as a tool for control purposes on the ordering done by the produce manager. Having weekly information on sales in basic groups that are below monthly averages helps prepare for more efficient ordering in succeeding weeks.

Table 4 shows the approximate markup percentages for each basic group and illustrates how the store operator can compute his probable average gross margin.

Retail pricing: A daily suggested retail price list accompanies store deliveries. Prices on all items are determined on an over-all basis of 25 to 30 percent gross margin. This margin has been found, in efficiently operated retail produce departments, to produce a profitable operation. It should be noted that this is a gross margin and includes all fixed and operating expenses, spoilage, and other costs as well as the net profit.

Prices charged to the stores that participate in this agreement are five percent lower than charged to other members. Knowledge of the store's weekly dollar ordering helps the two produce buyers at the warehouse in making carlot and trucklot purchases. Lower prices are possible because each truck's delivery tonnage is higher, thus lowering the cost per hundredweight for produce deliveries. Since member stores are independently owned, they have the right to lower or raise prices that are suggested.

FORMULA FOR PROFIT PLANNING

(Where Approximately 25% Gross Margin* is Desired)

Ard % Pro If Your Sales of Di	e About of Total oduce Sa stributi	ThisYou Can SuggestlesThese Margins ofIonProfit by Groups
Citrus Fruits Group Banana Group Other Fruits Group Vegetable Group Potato Group	21% 11% 20% 40% 8%	23% (or 21 x 23 = 483) 4.83% 24% (or 11 x 24 = 264) 2.64% 20% (or 20 x 20 = 400) 4.00% 31% (or 40 x 31 =1240)12.40% 15% (or 8 x 15 = 120) 1.20%
Total	100%	Gross Margin on Selling Price Will Be 25.07%

*Note: To raise margin average, raise each group slightly and "Test figure" it until desired average is obtained. To lower, reverse by lowering group markups. Remember, all produce in any one group does not necessarily have to be priced at the same profit margin percentage. Instead, use average margin of profit methods. The more fragile, must-move-it types of produce are priced with an on-the-easy-side margin of profit to speed the sales and turnover. Returns and allowances: Member store operators inspect and have the authority to reject delivered merchandise not up to quality standards. The merchandiser-salesman handling the store's account is informed of this, together with noted overages and shortages in delivery.

Quite often the produce managers at the member stores are asked to keep the merchandise if it can be reconditioned for sale by trimming or packaging, and an adjustment is made for any losses.

Inventory: A physical inventory is taken near the close of business on Saturday at the stores participating in this program. Items on hand are placed on the order form and converted to a unit basis. For example, twenty-four heads of lettuce were listed as one-half crate on the order form.

Weekly records are kept for stores in the merchandising plan. The week's operation is analyzed and shows the dollar sales for each of the five basic groups, the markup percentages for each basic group, and the percent each basic group contributed to total sales. The dollar sales are used to determine the operating margin and the percent of loss. The loss shown is only as a total dollar and a percent figure of total produce losses for the week and not the loss sustained in each basic group.

The percent of sales represented by each basic group is important because it is so closely related to advertising and planning. The percentage distribution of sales for the week ending May 22, 1954, in the seven stores thus far participating in this merchandising program, is shown in Table 5.

Records are kept for daily store orders on a cost and retail price basis. This simple record form permits each store operator to check his weekly produce business, as shown in Table 6. Such records provide a quick summary of weekly purchases, potential sales, actual sales, and net gain or losses.

Weekly promotional meeting: A weekly meeting for the produce managers of member stores is held at a convenient day and hour for stores taking part in the plan. The purpose is to review the previous week's sales records, noting its strong and weak points. Errors in merchandising practices and store operations and the prospective weather conditions are discussed. Trade information is supplied by the cooperative manager concerning incoming merchandise as to condition, flavor, size, packaging, quality, etc. Some time is also devoted to an open discussion of the merits and shortcomings of the merchandising plan to date as a guide to future improvement.

Items to advertise and merchandise for the following week are decided upon by group agreement. Stress is placed on items that can be priced attractively and have a seasonal appeal. Newspaper advertising space will highlight one item and feature one or two other items. Any one item is "highlighted" because homemakers rarely recall more than one such

SALES DISTRIBUTION BY GROUPS OF ITEMS, IN SEVEN STORES FOR WEEK ENDING MAY 22, 1954*

Sales
Produce
c Of
Percent

	(q) I #	#2	#3	+ //	#5 (a)	#6	#7
POTA TOES	13.75	18.77	15.9 8	15.10	13.89	20.15	9.46
CITRUS	11.74	11.52	11.31	13.43	12.51	11.42	13.83
BANANAS	9.21	10.40	12.99	12.26	10.82	14 . 06	7.23
OTHER FRUIT	26.41	27.12	20.97	22.32	24.05	19.87	33.07
GREEN VEGETABLES	38.91	32.19	38.75	36.89	38.73	34.50	36.41
TOTAL	100,00	100.00	100.00	100.00	100.00	100.00	100.00

(a) Store #3 in this study.

(b) Store #4 in this study.

*Source: From company records.

SALES DISTRIBUTION BY GROUPS OF ITEMS, IN SEVEN STORES FOR WEEK ENDING MAY 22, 1954*

Sales
Produce
ercent of

	(q) l #	#2	#3	+ 7 #	#5 (a)	#6	#7
PO TA TOES	13.75	18.77	15.9 8	15.10	13.89	20.15	9,46
CI TRUS	11.74	11.52	11.31	13.43	12.51	11.42	13.83
BANANAS	9.21	10.40	12.99	12.26	10.82	14.06	7.23
OTHER FRUIT	26.41	27.12	20.97	22.32	24.05	19.87	33.07
GREEN VEGETABLES	38.91	32.19	38.75	36.89	38.73	34.50	36.41
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00

(a) Store #3 in this study.

(b) Store #4 in this study.

*Source: From company records.

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EXAMPLE OF WEEKLY SUMMARY OF PRODUCE DEPARTMENT OPERATIONS

Merchandise	Priced at Cost	Priced at Retail
Beginning Inventory	\$ 1,000	\$ 1, 500
Purchases	850	1,200
For Sale	\$ 1, 850	\$ 2,700
Ending Inventory	<u> </u>	900
Potential Sales	\$ 1,160	\$ 2,600
Cash Register Sales		2,570
Plus or Minus		- \$ 30*

*Indicates shrinkage, spoilage, and pilferage losses.

produce item. Advertising many produce items results in using space that may otherwise be used more profitably for a grocery or meat item.

Controls: Occasionally, local growers approach operators of member stores for direct sales. Stores in the plan are requested to refer such growers to the warehouse. Accurate analysis of produce operation by the cooperative is not possible unless sales are centrally controlled.

Produce managers are requested to take a daily inventory prior to ordering because knowledge of merchandise on hand eliminates guesswork in ordering. Careful ordering permits a quicker turnover, thus reducing shrinkage and spoilage losses. Daily inventories deter unethical produce managers from rejecting a Monday delivery of an item and calling the warehouse on Wednesday and saying the item arrived that morning. Code dating incoming merchandise for rotation purposes is another practice requested of stores in the plan.

Stores in the merchandising plan receive a weekly record of the percent of sales each basic group contributed to the produce sales for that week. These percentages can be computed with such data in Table 3, to show if the sales in each basic group are above or below the expected average for the month.

CHAPTER IV

PRODUCE OPERATION AT THE STORES

Description of the Four Stores Studied Table 7 describes, in summary form, the four stores studied in regard to nine characteristics. Comments drawn form personal observations and published sources are included in the text following which summarizes the operation of the four stores surveyed, also referred to as S-1, 2, 3, and 4. The produce department layout and procedures are described covering such points as personnel, facilities, and operating methods.

<u>Store layouts</u>. No store layout plan has yet been devised that meets the wide variety of situations now found in the retail grocery business. Even the so-called "standard" plans must frequently be adapted to particular situations. The following quotation illustrates a widely held viewpoint.

"In choosing a location consideration should be given to the route and method of bringing produce from the receiving and storage rooms. Store tests point to these approximations: Produce department area--about one-fifth of total floor space; for \$1,000 a week sales a rack 36 feet long and three 4' x 8' display tables are suggested as a basis for consideration. It takes at least one foot of rack space per item, and a stock of 50 items is common. Merchants doing sales of \$1,000 a week should allow for a preparation room with around 150 square feet of floor space. A walk-in cooler, a stationary tub with ample drain boards, a trimming table, a large can for waste, and a floor drain should be provided.

DESCRIPTION OF THE FOUR STORES STUDIED

Factors compared	Store 1	Store 2
Location	Three miles northeast of city center.	Three and a half miles southeast of city center.
Neighborhood competition	Large supermarket, 2 small independents.	Three large supermarkets, 3 independents.
Clientele and type of neigh- borhood.	Factory, office, and professional people. Chiefly homeowners under 40 years old. Residential neighbor- hood. Some transients.	Factory and professional people. Chiefly home- owners under 40 years old. Residential neighborhood. Some transients.
Store area (square feet)	Total 4,000 G 3,000, 75% M 600, 15% P 400, 10%	Total 6,000 G 3,600, 60% M 1,320, 22% P 1,080, 18%
Parking space	6,000 square feet 36 cars 167 square feet per car.	40,000 square feet 150 carscommunity shopping center. 267 square feet per car.
Weekly store sales.	\$6,5006,900 G\$4,4004,600, 69% M\$1,5001,700, 23% P\$ 500 600, 8%	\$40,00045,000 G\$24,00027,000, 60% M\$12,00013,500, 30% P\$ 4,000 4,500, 10%
Check-out cashiers	l full-time l part-time	3 full-time 1 part-time
Credit and	No credit	No credit.
detivelà	Free delivery on Fridays only.	Daily delivery. Service charge 25¢.
Trading stamps	Yes	Yes
Trade Affiliations	Associated Grocers. Grand Rapids Whole- sale Grocery Company	Grand Rapids Wholesale Grocery Company.

Store 4

والمراجع المراجع والمراجع	عه هين مترمن من عارف من مترمين مير 20 مد جارفين بن من مي
Three-quarters of a mile southeast of city center.	Two miles east of city center.
Three medium size independents.	Two large supermarkets, 3 small independents.
Office workers. Single persons and young couples. Apartment house neighborhood. Few homeowners. Few transients.	Factory, office, and professional people. Chiefly homeowners over 35 years old. Residential and shopping area. Few transients.
Total 6,000 G 3,600, 60% M 1,400, 23% P 1,000, 17%	Total 9,600 G 6,500, 68% M 1,200, 12% P 1,900, 20%
4,000 square feet 17 cars 235 square feet per car.	Lot A 6,000 square feet Lot B 4,800 square feet Total 34 cars 318 square feet per car.
\$20,00025,000 G\$13,70017,700, 67% M\$ 3,800 4,300, 19% P\$ 2,500 3,000, 12%	\$33,00038,000 G\$20,50024,500, 62% M\$ 8,000 8,500, 24% P 4,500 5,000, 14%
3 full-time	5 full-time
Credit to charitable organ- izations. Daily cab delivery. Store pays 75ϕ of fare with minimum purchase of \$10.	Same as Store 3
Yes	Yes
Same as Store 2	Same as Store 2

The produce rack should be in a prominent place, such as near the entrance. It is desirable to have produce adjacent to the meat department. This location offers two advantages: It permits pedestrians to see the produce department from outside the store; it enables housewives to complete their meal-planning once the basic meat item has been purchased. A rear location for the produce department can also be made prominent by use of a large illuminated sign.¹¹

Others prefer a location at the front of the store despite the greater distance from the backroom, as illustrated by the following quotation.

"The opinion that the Produce Department should be located in the front part of the market is held by nearly every recognized store engineer. The experts are also agreed that the Produce Department should enjoy at least one outside display window. A front-of-the-store spot is the best location of all for the Produce Department if you have a choice, since produce is one of your most lucrative lines."²

The layout of the four stores included in this study are shown to approximate scale in Figure II.

¹The Progressive Grocer. <u>How To Make Money Selling Fresh</u> Fruits and Vegetables. New York: The Butterick Company, Incorporated. 1949, pp. 103-04.

²Hoppe, John L. and Gilbert Palen. <u>Your Self-Service</u> <u>Store</u>. Saint Louis: Meat Merchandising, Incorporated. 1947, pp. 68-69.

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S-1



- C Cooler
- G Groceries
- M Meats
- P Produce Preparation Area
- R Receiving Door
- S Produce Scale
- T Table Produce Displays







Store I - Operational Procedures

<u>Number of Personnel</u>. One produce clerk does all the work in the department, working 52 hours in a $5\frac{1}{2}$ -day week. The wage rate for this job is \$70 to \$80 weekly.

Work performed by personnel. The produce clerk spends about 75 percent of his time in the produce department and the remainder in the grocery department.

The produce clerk has never attended any formal produce training school. Employment was solely on the basis of past experience. A few instructions, but no training, are given by the store owner-manager. Plans have been made to attend this year's one-day basic produce training school at the warehouse.

It is possible to introduce some degree of self-training into this operation. Trade publications and instruction manuals are available for training produce clerks in up-to-date efficient techniques of merchandising fresh fruits and vegetables.

Backroom facilities. The backroom area is 10 by 10 feet. The equipment consists of one bascart for wheeling out trimmed produce, a durable galvanized sink, a 10 by 10 foot walk-in cooler with an eight foot ceiling for dairy and produce items, a sprinkling can and trimming knives. Prepackaging supplies were limited to window bags for onions and cellophane sheets for fruits.

• : ĸ . . <u>In-store facilities</u>. The produce department is located on the left side of the store and adjacent to the meat department which extends across the back of the store, as shown in Figure I. The equipment consists of a 10 foot refrigerated case, a 6 by 12 foot display table, a 5 by 5 foot rack for onions and potatoes, and a scale.

Procurement. The merchandiser-salesman at the warehouse calls daily between 4:00 and 5:00 P.M. At present, 80 to 95 percent of all commodities are ordered from the cooperative warehouse. Other sources are commission houses, local growers, and truckers. Several growers, who are steady customers, supply the store each year with seasonal items, such as asparagus, rhubarb, strawberries, et cetera, usually below prevailing wholesale market prices. All purchasing is based upon comparisons of price and quality available from the various sellers. No immediate plans have been made to buy 100 percent from the warehouse.

Prepackaged carrots, celery hearts, and radishes are ordered regularly, but prepacked spinach and tomatoes only occasionally. Such items offer uniformity and quality control and a savings on material and labor expenses. Many additional items are now prepackaged by shippers or terminal receivers in polyethelene bags; for example, apples, beets, carrots, celery hearts, cranberries, mushrooms, onions, oranges, parsnips, potatoes, radishes, salad mix, spinach, and turnips. Since the produce manager devotes one-fourth of his time to groceries,

it will be advantageous for him to order as many as available of the prepackaged items previously listed. Studies conducted recently indicate the benefits to the customer and retailer when buying prepackaged items. Some of the most important factors contributing to the demand for packaged items were shown that appeared in recent surveys by the Du Pont company.

"Prepackaged items 'are cleaner and sanitary--no dust or flies to worry about,' 'it's more convenient to pick up than to pick out,' 'quality and freshness are protected,' 'easier to store in the refrigerator,' 'pre-washed, trimmed, and graded produce saves kitchen labor,' 'I can choose just the amount I want to spend-the price is on the package.'"

"Other Du Pont surveys disclose these retailer reactions: 'no chance of water dripping on shoppers' clothes and soiling hands or gloves,' 'prepackaging eliminates the danger of fallen leaves and the possibility of law suits,' 'store traffic is speeded-up at both display and check out,' 'attractive displays encourage impulse buying,' 'more produce items can be displayed at one time to take advantage of peak selling hours,' 'elimination of the constant trimming process makes for greater labor efficiency,' 'the spoilage rate is practically nil.'"³

The produce manager has complete responsibility for buying. Customer preferences, past experience and judgement are the guides used in ordering. Suggestions by the merchandisersalesman are occasionally accepted if accompanied by information as to displaying, merchandising, and pricing the suggested item.

Another check on ordering is the daily inventory taken about 4:00 P.M. Since orders are delivered daily from buying

³Jack Isbell. "Polyethelene and Prepackaging." <u>Pre Pack</u> <u>Age</u>. 7:5, January, 1954, pp. 12-13.

sources, an attempt is made to have only enough merchandise to avoid any loss of sales. Frequently the store owner-manager will spot-check the department and suggest items to order.

Receiving and handling. Deliveries from the cooperative arrive before 8:00 A.M., more than half the time, but before noon at the latest. Merchandise is inspected and checked with the billing for condition, count or weight and grade or quality. Prices quoted over the phone are compared with billed prices. The seller is informed that morning of any overages, shortages, or pricing errors so that necessary adjustments can be made promptly. Items not placed on the rack immediately are stored in the cooler. No code dating is used, since merchandise delivered that day is out of the cooler before the next day's delivery. If merchandise is on hand, it is placed on top of fresh incoming merchandise and sold first.

<u>Merchandising</u>. The produce clerk does all the display planning, and the displays are as attractive and colorful as the somewhat limited variety of items permits. The display plans are made mentally, considering supplies on hand and incoming merchandise. Nearly all produce is sold from bulk displays--the customers say they are wary of pre-packaged items because of the inferior quality such merchandise bought in this store in the past.

Pre-packaging studies urge grocers to "wrap only top quality merchandise."

"Any operator undertaking a pre-packaging program must be absolutely certain of the efficiency of his quality controls--in buying--in handling--in packaging-in display and in training of his produce personnel. If there is any one key phrase or slogan which sums up the secret of successful produce prepackaging it is this. 'Quality Produce in Every Package, Everyday.'"

In addition to the services rendered members by the cooperative, as described in Chapter III, the merchandisersalesmen offer suggestions when making periodic checks on in-store operations. During his bi-monthly visit, the merchandiser-saleman from the cooperative checks prices to see if they are competitive and return a fair profit, points out different merchandising methods used successfully elsewhere, suggests display locations, and passes on general trade information.

Because of reluctance by customers as well as the produce clerk, little effort is made to offer many of the items in the five basic groups. Avocados, eggplant, and mushrooms are specialty items carried occasionally. Lack of customer information as to home care and preparation discourages specialty sales. June, 1954, was the first time bibb lettuce had ever been displayed in the store. Very little merchandising effort is made to increase the movement of produce handled.

⁴George E. Kline. "Tests in Sixty Stores Prove Prepackaging Lifts Produce Sales, Margins, Profits." <u>The Progressive</u> <u>Grocer</u>. 33:7, July, 1954, p. 42.

No attempt is made to place related items together on the produce rack since it is felt that this manner of display does not tend to increase sales in a small produce department such as this.

Observation at this store indicates a good opportunity to increase total produce sales by giving greater attention to a better balanced variety of items. The success of such an effort will depend largely on the initiative of the produce clerk in telling his customers how to keep and use the less familiar products and encouraging them to ask questions about the produce offered.

All produce carried overnight is reconditioned the following morning. Items are rotated by being pulled forward and placing fresh merchandise in the back. During the summer, rack sprinkling is done every half hour. Displays are replenished as needed, and damaged produce is removed as any spoilage occurs.

Merchandise is left on the refrigerated rack overnight, heavily sprinkled, and covered with pre-soaked burlap bags. Hard and soft perishable fruits remain on the display tables, although most fruits need refrigeration. On Saturdays all merchandise is taken off the rack and produce expected to be salable on Monday is stored in the cooler in bushel baskets and crates. Soft and hard perishable fruits are also stored in the cooler. All other merchandise is left on the rack or tables. Merchandise that will not carry over the week-end is reduced about one-third at about 3:00 P.M. The amount on hand and customer traffic anticipated until closing time will determine if another 20 percent price reduction will be made at 5:00 P.M. Merchandise near the 6:00 P.M. closing time is sold for whatever price can be obtained.

Pricing of merchandise bought outside of the cooperative is discussed by the produce clerk and the store ownermanager. Prices are often determined by checking newspaper advertisements, hearing customer complaints of higher prices, and considering the general over-all condition of the merchandise. Occasionally the merchandiser-salesman is asked to suggest a price, especially on an item handled for the first time.

The "Price-O-Mat," a pre-computed table that tells the markup received in dollar and cents, and in percent when selling merchandise by container or weight at different prices, is a convenient pricing aid. It is more convenient to do multiple pricing $(3/25\phi, 4/29\phi)$ by use of the tables. Slide-rule calculating devices are also available and speed the pricing operation.

As a member of Associated Grocers, the store pays \$5.00 weekly for the group newspaper advertisement carried in Thursday's <u>Grand Rapids Press</u>. The store also advertises in the <u>Shopper's Review</u> at a cost of \$33.43 bi-weekly. The mailman delivers this paper on a mail carrier route to 1,500 readers within a one-mile radius. This short newsletter features articles

on child care, household hints, shopping news of best buys, et cetera, in addition to featured store items offered for sale at that time.

There are four triangular wooden frames placed near the curb with painted signs on each telling of sale items. This has proved successful the past four years in attracting attention from passing local and transient cars. During favorable weather a 6 by 3 foot table displays bushel baskets of seasonal fruits on the sidewalk. Watermelons are sold cold and by the piece for extra profit. An occasional window banner is placed on the window, but seldom are posters, recipes, talking signs, or others used. Price cards are hand painted in crayon.

A microphone-loudspeaker system for phonograph and radio music now in the store has never been used to "talk up" sales of produce. This medium offers an opportunity to avoid heavy markdown losses.

<u>Sales and cost data</u>. The pricing goal is to obtain an average margin of 25 to 30 percent to maintain a profitable operation. This is difficult to do in view of the limited volume of specialty items handled.

No record is kept of shrinkage and spoilage losses. Markdowns are usually one-third at the first price reduction, 20 percent on the second price cut, and whatever can be salvaged thereafter. Neither a weekly nor a monthly inventory is taken to determine shrinkage and spoilage dollar losses. Sales records and cost of sales are kept in a softcover notebook by the week. The owner-manager seeks only to obtain a certain dollar profit above the cost of purchases. If this figure is not reached, prices are re-adjusted promptly. It is evident that this owner-manager lacks the records from which several of the basic management ratios discussed in Chapter V can be determined.

Store II - Operational Procedures

<u>Number of personnel</u>. Produce personnel consists of a produce manager working 55 hours, in a five-day week, and a part-time clerk working 20 to 25 hours weekly. The produce manager's job pays \$85 to \$95 per week and the part-time clerk earns 90 cents an hour.

Work performed. Approximately two-thirds of the produce manager's time is spent in backroom preparation for displays. His remaining time is devoted to arranging and maintaining displays, ordering, some prepackaging, and waiting on customers. The part-time clerk operates the front check-out register in addition to daily duties of replenishing the table and rack displays, stocking two frozen food cases, straightening and checking displays for demand. Formal training of any kind has never been received by the produce manager, whose hiring was based on prior experience. He instructs part-time clerks on the importance of greeting and waiting on customers, correct weighing, display maintenance, prepackaging, and proper trimming procedures. Backroom facilities. The produce department is located to the left of the sidewalk entrance up against the front window, as shown in Figure II. Customers using this entrance will usually buy their produce before shopping at the meat department which is along the wall to the left of the produce rack. Customers entering from the rear parking lot entrance must walk the store length to shop for produce.

The backroom work area, adjacent to the parking lot entrance at the back of the store, is only eight feet square. There is a galvanized sink and a makeshift trimming table. Incoming merchandise and produce prepared for display is stored in an 8 by 8 foot cooler. This size cooler is adequate and a more favorable size than a 6 by 6 foot cooler which is the absolute minimum for stores doing weekly produce of over \$1,000.⁵

The backroom equipment consists of a band stamp and pad, cellophane, pliofilm and polyethelene bags for prepackaging, sprinkling can, stapler, tape machine, twistems, and trimming knives. Merchandise for display is placed in a bascart and wheeled the entire store distance to the selling area. If the produce department were located at or near the rear of the store, it would save much time and effort in handling the merchandise between the backroom or cooler and the display rack.

⁵McRay Refrigerator Company. <u>Store Planning</u>. Kendallville, Indiana, 1949, p. 20.
In-store facilities. The refrigerated rack in the produce department, as shown in Figure II, is 32 feet long and three feet wide; four 6 by 3 foot bins are usually kept iced all year for items requiring refrigeration, while the remaining eight feet are used for non-refrigerated produce. Compartments below the rack are used only in winter to hold produce for refilling the rack and display tables. Winter compartment temperatures are ideal storage temperatures reading between $30^{\circ} - 36^{\circ}$ F. as against temperatures of $60^{\circ} - 85^{\circ}$ F. in the summer months. During warmer weather, approximately 20 bags of crushed ice are used weekly for the ice-bed rack at \$1.20 per fifty pound bag. The amount of ice used in this 24 foot rack compares favorably with the report that in cool weather stores require about 50 pounds of ice per week for each running foot of display.⁶ Onions and potatoes are displayed on the rack near the wall and also on a 4 by 4 foot table near the meat department's refrigerated case.

<u>Procurement</u>. On May 5, 1954, this store became one of four units in a local company and all produce is now obtained from the cooperative warehouse under its merchandising plan. A merchandiser-salesman phones about 5:00 P.M. to take the next day's order and gives pertinent market information.

⁶The Progressive Grocer. <u>How To Make Money Selling</u> <u>Fresh Fruits and Vegetables</u>. New York: The Butterick Company, Incorporated, 1949, p. 40.

Before the merger, about 20 to 30 percent of the produce was ordered from the cooperative. This consisted mostly of cello packed carrots, citrus fruits, onions, potatoes, and non-food items, such as plant food, rosebushes, et cetera. The bulk of merchandise was bought by the produce manager from three commission houses located at the farmers' wholesale market. The daily 5:30 A.M. trip to the market in the store truck finds him back at the store by 7:00 A.M. Prices and quality received prime consideration in buying from these sources.

Buying directly at the market had several advantages over buying from the cooperative. It was possible to "shop around" and secure the best quality available for the price paid. A second advantage was that merchandise was at the store early in the morning to permit preparations for displaying a full rack for early shoppers. All merchandise bought at commission houses was personally inspected, item by item, which was not feasible at the cooperative warehouse because of the large volume handled. Direct store purchases could also be made cheaper for home-grown seasonal items. Under the merchandising plan, all purchases must go through the warehouse.

The produce manager has full responsibility for ordering, with few suggestions made by the store manager. Ordering from the cooperative is done after spot-checking merchandise on hand before the merchandiser-salesman calls. The condition,

prior week's sales mentally recalled, price, quality, weather, and the day of the week the order will arrive is also considered. Beets, carrots, celery hearts, and radishes are purchased throughout the year as much as possible.

No written records were kept on purchases or of any special promotions. If adequate records of promotional sales were kept, they could be used in ordering and planning over 100 items that are available seasonally. Information recorded on the amount ordered, losses, retail price, sales, and weather conditions that affected sales during a promotion will aid in merchandising future seasonal promotions about the same time each year.

All basic seasonal and year-round items are carried if the price and quality represent a good value. Popular variety or specialty items are carried, such as brussels sprouts, eggplant, kale, mushrooms, parsnips, rutabagas, and turnips. Less frequently used items, such as artichokes, celery cabbage, okra, salsify, and watercress, are handled occasionally.

Receiving and handling. Before the merger, the produce manager bought and delivered personally inspected merchandise from the commission houses by 7:00 A.M. He unloaded the truck alone and prepared for the day's business. Invoices were received the following day and checked with a note on prices quoted. The weekly statement was then checked with daily invoices before making payment. At present, daily invoices are checked with prices quoted when orders are given. The same

procedure is followed as for daily invoices before remitting payment for the week's purchases.

Produce now arrives from the cooperative between 7 and 10 A.M. Items that will be displayed that morning are not stored in the cooler. There is hardly any rotation problem for green vegetables. No code dating is necessary, since daily ordering results in almost a daily turnover. Merchandise requiring storage is placed to the left side of the cooler while merchandise already on hand is moved to the right to be used first. The turnover rate at this store coincides closely to the merchandising efficiency of the stores surveyed in Washington, D. C. It was found that the average daily rate of turnover in stores doing over \$3,000 weekly sales of produce amounted to about 50 percent, or approximately one turnover of fruits and vegetables every two days.⁷

<u>Merchandising</u>. The produce manager's experience permits him to plan his rack and table display without drawing a display pattern on paper. This practice is contrary to the general thinking of produce merchandisers and supervisors of Super Market Institute. Opinions are in accord that by putting the detailed display plan on paper everyone knows where

⁷Shull, S. C. and David Burns. Turnover of fresh fruits and vegetables in retail stores. University of Maryland Extension Service, College Park. Miscellaneous Extension Publication Number 12, October, 1951, p. 21.

everything goes, and the produce manager has an effective means of direction which will save time, eliminate confusion, and help promote a more efficient display building operation.⁸

Related items, such as broccoli, brussels sprouts, cauliflower, celery, green peppers, lettuce, and radishes, are placed together. Grouping related items presents the advantage of suggesting combinations, such as lettuce and tomatoes This aids the homemaker in her preparation of the for salads. thousand or more meals yearly and helps one item sell a relat-Table displays are set up on Monday for that week. ed item. Bulk displays with or without prepackaged units are favored, especially fruits, such as apples, grapefruit, and oranges. Bibb and leaf lettuce, green and wax beans, and peas are prepackaged because they have found that prepackaging these items increased the rate and volume of sales. Weather permitting, two 5 by 3 foot tables are placed outside against the window with bushel baskets of seasonal fruits. strawberries. and watermelons. Displays are brought in about 2:00 P.M. since there is no awning.

During the day rack items are sprinkled as often as necessary by the part-time clerk. Care is taken to sprinkle lightly to avoid melting the bed of ice. Items on the table and rack display are checked frequently to see if they are in salable condition, rearranged, and replenished when needed.

⁸"Effective Display." Produce Handbook. Proceedings of the SMI Regional Managers Meetings. Part II. <u>Super Market</u> <u>Institute</u>. p. 2.

During the warmer months, items are placed in bascarts at night and wheeled into the produce and meat coolers. They are then covered with wet aprons. Fresh merchandise is trimmed and placed on the rack the following morning after noting the quantity left from the night before. Bascart merchandise is reconditioned and dipped in cold water to freshen its appearance. The same procedure is followed during colder months on alternate days. When items are left on the rack, they are covered with a thin layer of crushed ice. Over this is placed a pre-dipped cheesecloth topped by a plastic sheet. Whenever a plastic or rubberized sheet or cover is used, it is very important to allow some air circulation to permit the respiration heat released by the produce to escape, otherwise spoilage losses may become serious.

All merchandise not expected to remain in good condition over the week-end is sold by mid-afternoon on Saturday. Several customers with large families are a steady outlet for this surplus merchandise because they will buy large quantities at 30 to 35 percent below regular retail price. Everything not stored over the week-end is sold at whatever price can be obtained. Procedure for week-end care is to place rack items in bascarts, cover with wet cheesecloth and plastic sheets, and wheel bascarts into the walk-in cooler. Perishable fruits are also placed in the cooler while other items are left in the store.

Before adopting the present merchandising plan, retail prices were set by the produce manager to obtain the following margins on sales: green vegetables, 30 to 40 percent; citrus fruits, 25 percent; and potatoes, 7 to 12 percent. Bananas have always been supplied by the cooperative and sold at the price suggested. The prices suggested under the merchandising plan are followed 95 percent of the time. Slight deviations arise when some form of grading is practiced. The produce manager has the authority and responsibility to lower or raise a suggested price felt to represent a poor or better-than-average buy for customers; for example, heads of cauliflower are seldom the same size throughout a crate. Larger heads are then priced 10 to 15 cents above the suggested price, whereas medium and smaller sized heads are sold as suggested or five to ten cents lower. Multiple pricing, in odd numbered units or weights, is used consistently. It is believed that customers are attracted by the sound of these numbers. The usual reason given is that it is not so easy for customers to mentally divide the price by the weight in order to compare the price per pound with like prices in other stores.

The prime selling aid is through personal customer contact by the produce personnel. New items arriving in season are mentioned with suggestions for use. Hesitant customers will usually buy after being asked to look and examine the condition and quality of merchandise displayed. This

technique is stressed on Saturday afternoons. Little descriptive material is received or used in the department. Price tags and signs are hand printed on squares of white cardboard. "Reduced for Quick Sales," or "Fresh Surplus Merchandise," tags are not used. Such merchandise shows the retail price crossed out and the reduced price placed underneath. Reducing the price is an important factor in quality control. Whether it is old merchandise or produce received that day, if it is inferior it should be reduced and placed in a spot apart from the original displays. The mixing of top quality and inferior merchandise will hurt a produce department's business quicker than any other single factor.⁹

Postcards listing four grocery, two or three meat, and one produce special are sent weekly on a mail carrier route within a one mile radius. This advertising is used to suplement the regular Thursday newspaper advertising by the group of stores to which Store 2 belongs. In addition to the advertising expenditures mentioned above, independent grocers can avail themselves of various types of advertising media to help sell more merchandise. Such media would include use of car cards, handbills, menu circulars, movie trailers and slides, outdoor posters and painted bulletins,

⁹ Quality Control." Produce Handbook. Proceedings of the Regional Managers Meetings. Part I. <u>Super Market Insti-</u> <u>tute</u>. p. 14.

souvenirs and premiums, and the telephone directory.¹⁰ Grocery advertising, by reader-interest surveys, shows the effectiveness of using advertising appeals that: (1) give a factual description of a product's advantages, or the advantages of trading at the store, and list price; (2) employ such features as recipes, menus, and serving suggestions; and (3) inject human interest and appeal to the reader's emotions.¹¹

Sales and cost data. In the past, obtaining a 25 to 29 percent margin on sales in the department was the objective of the produce manager. Today, the pricing structure is designed to obtain an average margin on sales of 29 percent or better. No shrinkage or spoilage loss records in dollars or percentages have been kept. Such information, since the merger, is being supplied weekly by the cooperative. Markdowns have followed a general policy of 50 percent off the retail price providing such merchandise sold represents a value to the shopper.

No control figures are kept for losses suffered during the weekly operation, although inventories before entering the merchandise plan were taken bi-weekly. Under the plan,

¹⁰Miller, N. A. and Harvey W. Huegy. Establishing and operating a grocery store. Bureau of Foreign and Domestic Commerce, United States Department of Commerce. Washington, D. C. 1946, p. 183.

^{11&}lt;sub>Ibid.</sub> p. 186.

inventories are now taken weekly to determine dollar and percentage losses. Cost and sales figures prior to the plan were kept in a notebook because it was desired to know only of gross and net profits for the month's operation.

Store III - Operational Procedures

<u>Number of personnel</u>. There are three employees in the produce department--the manager, a full-time and a part-time clerk. Wages and hours of work are as follows: produce manager, \$85 to \$95 per five-day 54-hour week; full-time clerk, \$65 for the same work week; and the part-time clerk is paid 80 cents an hour, averaging 15 to 20 hours weekly.

Work performed by personnel. Approximately three-fourths of the produce manager's time is spent in the store answering customer's questions, building, planning, and replenishing displays, prepackaging, weighing, and maintaining a clean, neat department. The remaining time is spent ordering merchandise and checking backroom and cooler items. The fulltime clerk spends his time in the backroom trimming, preparing, and reconditioning merchandise for display. Some time is also devoted to handling bottle refunds and relieving during lunch hours. Work performed by the part-time clerk consists of prepackaging, replenishing displays, and general departmental work. The produce manager is the only one who has attended the one-day advance course held at the warehouse. He trains the clerks on proper rotation, uniform height of displays, trimming, and stresses the necessity for doing things in the order of their importance in the departmental operations.

Backroom facilities. The backroom for produce handling is 15 by 15 feet in area. The equipment includes an 8 by 3 foot metal sink with hose attachment, garbage disposal unit, a scale on a 5 by 5 foot work table and an 8 by 10 foot walkin cooler with a 10 foot ceiling. One-third of the cooler is used for butter, cheese, and eggs. Dairy items, such as butter and cheese, have a tendency to absorb produce odors, but this condition does not develop due to daily ordering of this merchandise.

In addition to four bascarts, a box opener, and trimming knives, the smaller equipment includes some prepackaging equipment. They are band stamps and pads, descriptive stamps for grades and varieties of apples and potatoes, gum tape machine, cellophane and pliofilm bags, and a stapler. A microphone can be used from the backroom to talk over the loudspeaker system in the store.

In-store facilities. The 20 foot refrigerated produce rack is along the left wall of the store with its right end adjacent to the meat department which occupies the rear of the store, as shown in Figure II. A 10 by 10 foot platform rack for potatoes is at the end of the rack that leads to the backroom. Opposite the left end of the rack is a 3 by 3 foot "close-out" table for surplus merchandise. The weighing scale

in the store is placed on a table facing the meat case. Display tables are of two types; the conventional table and step-up table. One 4 by 4 foot table is used principally for displaying taped bananas, soft, perishable fruits, and tomatoes. Another table, 8 by 4 feet is used for hard fruits and non-food items. One step-up table has three graduated The lowest section is 25 inches from the floor, sections. graduated to the last section, which is 33 inches high. Another step-up table consists of five graduated sections which fit together to give the appearance of one long, graduated table. Step-up tables permit arranging massive display with a minimum of produce. Another advantage of step-up tables is that practically no time is lost in tearing down one display and building another. The front or back sections can be removed to serve as smaller display tables where needed.

<u>Procurement</u>. All produce is bought from the cooperative warehouse, as specified in the merchandising plan, with the exception of Easter lilies, gladiolas, and potatoes. Prepackaged potatoes are contracted from a local grower, carrying the grower's brand, from September until May. This results in more uniformity in quality and price. An experiment is to be tried shortly in buying local corn that is picked early in the morning, iced in five dozen units, and delivered to the store by 8:00 A.M.

During the latter part of the afternoon the produce manager takes a quick inventory of all merchandise on hand. He

estimates his needs for the next day and lists them on the order form. This is referred to when the merchandiser-salesman calls between 5:00 and 6:00 P.M. News of incoming items is passed along by the merchandiser-salesman with further information of general interest. Care is exercised to avoid ordering more of the promotional items already at the previous week's promotional meeting.

Anticipated customer traffic, double stamps on Wednesday, price, seasonal items, the shopping habits of the customers, and the weather are given considerable thought when ordering. The produce supervisor of the company that operates stores 3 and 4 will often check at the cooperative warehouse in the late afternoon on the condition and quality of merchandise to be delivered that night. He has the authority and responsibility to call the produce manager and explain why items ordered have been canceled, increased, or reduced. If he is doubtful about the merchandise examined, either buyer at the cooperative is called to check and discuss the merchandise in question.

No produce is featured unless the quality is up to accepted standards. Price is a secondary consideration. The store policy is to have balance and variety in the department, balance for a profitable operation and variety for customer convenience. Home-grown commodities are requested when ordering because of customer demand, but not unless the keeping quality is equal to that grown elsewhere.

Receiving and handling. Overnight merchandise has already been reconditioned and trimmed for the rack before the customary truck delivery at 8:30 A.M. This merchandise is ready to place on top of the fresh refill. The invoice is checked item by item. It is also compared with the order form used the previous day to check if the correct items, number, and size of packages were delivered.

If the delivery order is large, a grocery clerk is borrowed for an hour or two to help unload the produce. Rack items are immediately brought out into the store and prepared for display by the produce manager. He will frequently check on the handling of the merchandise being unloaded. The produce is handled carefully, and merchandise that will not be trimmed or prepared for sale within the hour is code dated and placed in the walk-in cooler. Proper cooler rotation of surplus merchandise is achieved by placing it on top of incoming supplies.

<u>Merchandising</u>. A weekly diagrammed rack plan was prepared by the produce supervisor of this local company during March. This plan indicated the amount of space and locations of items to be displayed. Such a plan lacked flexibility and proved to be unsuccessful.

Many items listed were not available, and space was not alloted for new items arriving at the warehouse or store. The produce manager now notes incoming merchandise and mentally plans the layout of the rack display. The main fault

of this plan is that quite often an item or two is overlooked. This requires moving and shifting rack items to permit inclusion of the forgotten item. Related items are placed together, such as broccoli, cauliflower, rutabagas, and turnips, to increase the movement of such items as experienced over the past months.

In addition to the regular weekly promotional meeting of the seven produce managers and the supervisor, special promotional displays are frequently discussed with the supervisor. These displays are placed in the store's "hot spot," generally near the meat department aisle where customer traffic is heaviest. One featured item is displayed on a 6 by 4 foot table in the aisle at the store entrance with a smaller display of the same item in the department.

Rack sprinkling is done hourly in addition to continually rearranging items misplaced by customers. Only quality merchandise is left on display; otherwise it is removed, packaged, or trayed for sale at the "close-out" table. All bulk displays are rotated every day by prepackaging what is left of the bulk display. The rapid turnover of prepackaged units at this store makes daily rotation possible, thus practically eliminating spoilage losses. Displays are stacked higher than usual on Wednesdays and week-ends to save time in constantly replenishing bulk and prepackaged displays.

Rack items that are not packaged are heavily sprinkled at night. The entire rack is covered with dry burlap bags.

It is felt that wet bags are not necessary since the refrigeration will circulate freely to retain the proper temperature.

Since fresh fruits and vegetables are approximately 90 percent water by weight, shrinkage and decrease in weight of the produce is due to water losses. The importance of proper humidity must be recognized to stop dehydration. Merchandise left on the rack overnight must be able to maintain a temperature from 32° to 45° F. and a relative humidity of 85 to 90 percent.¹² Covering merchandise with wet cloth or burlap overnight is one recommended way to retain the water content of produce.

Soft fruits and other commodities that are ripening quickly are placed on flat, metal trays and put in the walkin cooler to retard ripening. Everything else is left on display.

Enough merchandise is trimmed Saturday afternoon to avoid losing sales and to assure the last customer of as good a selection as the first shopper. Adhering to this is difficult since there is a tendency to let the produce sell down, not knowing exactly how many more shoppers will be in the store before closing. Any merchandise not to be kept over the week-end is reduced 25 percent at 5:00 P.M. A second

¹²Pillar, Ray. <u>A Guide To Better Handling And More Effi</u>-<u>cient Merchandising of Fresh Fruits and Vegetables</u>. Washington: National League of Wholesale Fresh Fruit and Vegetable Distributors, 1948, p. 11.

price reduction of 25 percent depends on the amount on hand and number of shoppers in the store. Personal selling and use of the microphone has proven to be quite successful in reducing markdown losses. Such merchandise not sold close to closing time is sold at whatever price can be obtained. No daily written record is kept of losses from markdowns. When such records are kept, merchants can analyze their loss conditions intelligently, try to minimize them and anticipate the extent of losses in the future by applying the proper correctives.¹³

The cooperative merchandising plan includes sending a suggested price list for the beginning of the week, for Wednesday's double stamps, and for the week-end advertised items in the local newspapers. Outside of the advertised prices, the suggested price list is used by the produce manager as a yardstick when grading merchandise. Cauliflower can be priced only ten cents above or below the suggested price. The store policy is also to grade lettuce four cents above or below the suggested price. Green peppers are the third item that is graded. The grading practiced has not caused any of the problems described below.

"Majority of companies do not permit produce managers to grade merchandise--must sell at established price except that down grading is permitted. Otherwise too hard to control and to maintain company merchandising policies. A few

¹³The Progressive Grocer. <u>How to Make Money Selling Fresh</u> <u>Fruits and Vegetables</u>. New York: The Butterick Company, Incorporated, 1949, p. 37.

companies permit grading by produce manager on the theory that customers will grade if store doesn't. Grading, however, requires intensive managerial and supervisory control and is limited by some companies to those items where variation is extensive--not permitted on items like citrus. Sale by the pound was suggested as a means of avoiding grading and giving customers a better 'break.'"¹⁴

The cost of merchandise is unknown to the produce manager unless he asks the merchandiser-salesman. This causes some questioning of the prices suggested, especially if they are not competitive with other stores. There are several reasons for this. First, operational data is prepared by experienced personnel at the cooperative office, thus permitting the produce manager to devote his time exclusively to the store operations. Second, the standard order form used by all members when ordering from the cooperative warehouse does not show the cost of merchandise. Third, the produce manager has been informed of the pricing policy in the merchandising plan.

Multiple pricing is encouraged whenever possible, although the produce manager has the authority to decrease or increase the unit of sale. An example of this would be grapefruit of exceptional quality suggested at three for twenty-five cents and changed to five for forty-nine cents. This tends to increase the volume of sales and profit simultaneously.

¹⁴National Association of Food Chains. <u>Merchandising</u> <u>And Operating Problems On Produce</u>. Chicago: February, 1952, p. 23.

Unitizing the sales of produce by prepackaging or traying helps to move larger volumes when prices go over certain levels. Low price impressions are gained by placing five Delicious apples on a cardboard tray and weighing them at the suggested price per pound. The weighed price is tagged on the tray, together with the number of units, instead of the weighed price together with the price per pound. Customers have been observed not to buy items highly priced by the pound but to overlook that fact when the same item is trayed and priced by the unit.

A display table of bulk and prepackaged merchandise near the entrance aisle is used to persuade hesitant customers to buy. Customers who are uncertain will have had a chance to think about buying the displayed item by the time they reach the produce department. A smaller display of the same item gives them the opportunity to buy the merchandise displayed at the store entrance. Display arrangements are changed two or three times during the week for variety in color contrast, to rotate merchandise, and to give customers an impression of greater freshness.

Talking signs, wall posters, window banners, and other descriptive material is used throughout the department and store to stimulate produce sales. All items are price tagged with stickers, marked with indelible pencil, or marked on the package used. This saves valuable time by not having customers ask the price of items. Tie-in displays, such as a biscuit mix or baked shortcakes with strawberries, are frequently built. Apartment house shoppers make several small purchases a day. Therefore, prepackaging of apples, citrus fruits, corn, onions, and yams are placed in different sized units and experimented with until the most acceptable purchase unit is discovered.

The rack display is changed daily, and experience has shown that the center of the rack is excellent for impulse sales. The location of basic items that shoppers are apt to have on their list, such as cabbage, carrots, celery, and lettuce, are changed constantly so that shoppers become exposed to all items while looking for them. Displays are kept full because they show customers that fresh merchandise is continually brought out from backroom supplies. Full displays have sales appeal and help to increase sales by catering to the late shoppers.

Reconditioned or surplus merchandise is value priced, prepackaged, and placed in the walk-in cooler until 4:00 P.M. Customer shopping is heaviest at that hour and all produce placed on the "close-out" table then will be sold quickly. This company policy prevents merchandise, which detracts from the fresh quality produce displayed, being left out during the slower shopping hours.

A bonus plan provides an incentive to the produce manager to continually do a better job. Bonuses are paid three times a year, based on the net profit of the department. Company

figures reveal that the produce manager at this store has been paid \$100 to \$150 for each four-month period over the past several years.

Sales and cost data. The pricing formula of the merchandising plan will permit the store to realize 25 to 30 percent gross margin. This is an accepted profitable operation for a produce department. Markdowns on inferior quality and week-end merchandise are not recorded but it is priced to move quickly. A 25 percent reduction is tried first, followed by a second 25 percent reduction. Losses from markdowns, shrinkage, and spoilage are reported to be three to six percent under the plan. Any weekly operational loss above this percentage range indicates that merchandise was improperly handled and corrected. Inventories are taken weekly on the order form and sent to the warehouse office for tabulation and analysis. No rate of turnover is computed because of daily deliveries and careful ordering results in a satisfactory turnover for merchandise handled.

Store 4 - Operational Procedures

<u>Number of personnel</u>. The personnel in the produce department consists of five persons--the manager, two fulltime and two part-time clerks. Wages and hours of work are as follows: produce manager, \$85 to \$95 for a five-day 54hour week; one full-time male clerk, \$75 for the same work week; the second full-time employee is a female clerk, paid

\$1.25 per hour for a 45-hour week; two full-time clerks earning 75 cents an hour, each averaging 18 hours weekly.

Work performed by personnel. The produce manager devotes practically all of his time to building, rearranging and replenishing displays, and ordering the required merchandise. The full-time male clerk prepares and trims all produce for displays or prepackaging. Prepackaging, the better part of the day, is the work performed by the full-time female clerk. Both part-time clerks handle the routine departmental work of general cleaning, unloading the produce delivery truck, taking care of bottle refunds, et cetera.

Because of the length of time with the company, the female clerk has been present to attend the one-day basic training course held at the warehouse every year. The produce manager has attended both the one-day basic and the advanced course. All other employees receive in-store training by the produce manager on the proper care given perishable and semi-perishable merchandise.

Backroom facilities. The backroom work space occupies an area 25 by 20 feet. Equipment includes a sewer garbage disposal unit, 6 by 3 foot metal sink with hose attachment, an 8 by 10 foot walk-in cooler, two scales on a 10 by 4 foot work table, four bascarts, and trimming knives. Prepackaging equipment consists of stamps and pads and small gummed stickers for pricing merchandise, a heat sealer and "tape-lok" machine, rubber bands, and twistems, which are strips of

paper with wire inlay to act as a band and give space for marking unitized sales of celery, lettuce, et cetera. Other pieces of equipment used are staplers, a perforator to punch holes to permit gases to escape through cellophane, pliofilm and polyethelene bags, cellophane sheets, funnels, baskets, tills, and trays. This store also has a microphone system which can be used from the backroom,

In-store facilities. The facilities and location of the forty-two foot refrigerated produce rack in this store is similar to Store 3, as shown in Figure II. A 15 by 15 foot platform rack for potatoes is at the left end of the rack close to the store entrance. Near the center of the display tables are a weighing scale and a "close-out" table. Display tables include two of the conventional and four of the step-up type used in Store 3. Step-up, or "stair-step," display stands are so arranged that the bulk of merchandise is easily accessible to customers from both sides because of their width and height. Packaged items are easily arranged in single layer rows, thus eliminating the necessity of stacking packages one on top of the other which bruises the bottom layer of merchandise. In addition to tables for display purposes. two 6 by 3 foot portable refrigerated cases feature apples and citrus fruits in bulk and prepackaged displays.

<u>Procurement</u>. Merchandise is ordered from the cooperative warehouse in the same manner as described for Store 3. The large produce business at Store 4 necessitates ordering all staple merchandise, such as apples, citrus fruits, onions, and potatoes, on Tuesday to handle the double stamp day shoppers on Wednesday and on Thursday for the heavy week-end sales. This schedule saves unloading time which can be devoted to handling and preparing perishable merchandise, such as berries, green vegetables, and soft fruits, the rest of the delivery week. The type of customers requires ordering all items available at the cooperative warehouse, even though prices are 10 to 20 cents above the seasonal averages. Items of this kind are cut down to the smallest possible delivery unit in order to feature the item but to reduce the loss if the price is prohibitive.

<u>Receiving and handling</u>. Essentially the same procedure is followed for receiving and handling merchandise as described for Store 3, since both Store 3 and Store 4 are operated by the same company.

Merchandising. The diagrammed rack plan prepared by the produce manager also proved unsuccessful in this store after a month's trial for the same reason mentioned in Store 3-lack of flexibility. The regular weekly promotional meeting is attended by the produce manager, in addition to discussing and planning displays within the store with the produce supervisor. Dislocated and stumble displays are used effectively to return extra sales on Wednesdays and on the week-end. A dislocated display is a display usually placed away from the produce department. Such displays are at the end of gondolas

leading to fast moving merchandise, such as baby food, coffee, or soap powder. "Stumble" displays are usually quick-turnover displays of a featured item placed in the center of the first aisle after entering the store. Displays of this type are largely for impulse sales because customers cannot help but stumble upon them as they shop the store.

About 90 percent of the produce sales in this department are prepackaged and unitized. Funnels are used to expedite packaging beet greens, green and wax beans, head and leaf lettuce, onions, parsley, peas, and potatoes, whereas fruits such as apples, grapes, grapefruit, lemons, oranges, peaches, and plums are packaged without using funnels. Head lettuce is unitized by wrapping it in cellophane, sealing, and pricing with gummed labels. Lettuce can also be unitized as asparagus, celery, and green onions by use of twistems or rubber bands to prevent leaves from breaking. Price marking the stem ends with indelible pencil or the twistem band results in a unit that is easy to select from an accessible display.

Rack items are sprinkled hourly and the constantly handled merchandise is rearranged. Inferior quality merchandise is removed from the rack and placed in pliofilm bags or trayed and priced for quick sale at the "close-out" table. Displays are replenished as needed and checked periodically for quality to assure shoppers of fresh quality produce.

Highly perishable items, such as leaf lettuce, mushrooms, and prepackaged produce, are removed from the rack and berries are taken from the display tables and placed in the refrigerated compartments below the display rack at closing time. If time permits, burlap bags are soaked prior to closing time and placed over the remaining rack merchandise. Usually, however, the rack produce is sprinkled, covered with burlap bags, and sprinkled again. The overnight care of covering the produce rack with wet burlap instead of dry burlap, as described for Store 3, is a matter that is left entirely to the discretion of the produce managers.

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Past experience has shown that the hours from 4:30 to 6:00 P.M. are as busy as any during the day; therefore, no price reductions are made on merchandise not to be kept over the week-end until thirty minutes before closing time. Markdowns are minimized by repeated use of the microphone, beginning at 5:00 P.M. Surplus merchandise is reduced one-third at 5:30 P.M. and a second price reduction is usually made fifteen minutes later by selling merchandise at two for the retail price of one. Occasionally, surplus merchandise is sold, after Saturday's closing hour, to a neighborhood restaurant for a satisfactory price. As was pointed out for Store 3, no written records are kept of markdown losses, which makes it impossible to determine the reason for the losses and to minimize them.

The suggested price list that is sent daily under the merchandising plan is followed closely, although grading by the produce manager is practiced whenever possible. Multiple pricing, especially of prepackaged citrus fruits, encourages larger unit sales and facilitates rotation of merchandise handled. All produce is marked with indelible pencil, stamped, price tagged, or priced when prepackaged to eliminate customer waiting to have items weighed and bagged. No code date is used on prepackaged merchandise because daily ordering results in an almost daily turnover. Prepackaging is also done in a range of sizes to suit the needs of different customers.

Rack and table displays are changed daily. Full displays are kept attractive throughout the day and week with good quality fruits and vegetables to stimulate customer purchases. An important effect of a large display is to attract the attention of all customers in the store and to induce a larger proportion of all customers to purchase, and thus boost total store sales.¹⁵

Talking signs and picturesque advertising material furnished by the cooperative are used throughout the department for the selling theme each week. Regularly, the weekly produce feature is mentioned during spot announcements over the

¹⁵Hinkle, W. B., Jr., Merchandising fresh fruits and vegetables in retail stores. Part II. Practices affecting sales and spoilage. Cornell University Agricultural Experiment Station, College Station, Bull. A. E. 819, 1952. p. 10.

local radio and television stations. Newspaper advertisements appear in the local papers on Tuesdays and Thursdays. Trade journals and magazines circulate among the seven company-owned stores to aid personnel in keeping abreast with trends in the grocery store field, although circulating copies rarely reach the produce manager.

Prepackaged items are purchased whenever possible because no labor cost is involved at the store and because of the longer keeping quality and the eye-catching appeal of the packaging used. The public address, or loudspeaker system in the store is used throughout the day to "talk up" specials during the week, particularly when the store is filled with shoppers. Records show that a bonus of \$150 to \$200 is paid the produce manager at this store every four months.

Sales and cost data. The same records are kept for this department as are kept for Store 3. No record is kept of markdown losses. The first price reduction is one-third, followed by approximately another 20 percent as the second price reduction. Selling surplus merchandise to the restaurants in wholesale amounts helps to reduce week-end markdown losses. Inventories are taken weekly for tabulation and analysis, although no turnover records are computed because of daily deliveries.

CHAPTER V

STANDARDS AND BASIC PRINCIPLES IN MERCHANDISING

Basic Principles of Produce Merchandising Fruits and vegetables are usually the smallest proportion of total sales but, nevertheless, are important because they yield more than a satisfactory profit margin. Retailers are aware of this, but with so many details requiring attention in over-all store management insufficient time is generally devoted to the operation of the produce department. The following information is presented as a guide in handling the produce department as a profitable store operation. It is recognized that individual differences in stores exist and, therefore, the material will not cover all situations.

<u>Centralized responsibility</u>. Next to meat handling, produce merchandising probably requires higher managerial skill than any other department in the retail store. As the size of the produce department and the number of clerks increase, it becomes especially urgent to organize the work efficiently. Managerial responsibility for the department should be centered in one person. In some retail food stores the store manager assumes direct control of all departments, delegating routine responsibilities to a head clerk in each department. In other instances the store manager assumes over-all responsibility, but grants practically full operating authority and responsibility to the department managers. Both systems can be efficient, but all employees in each department must know "who is boss."

Because of the perishability of the commodities handled, a produce manager must have a sense of urgency toward his work and recognize and coordinate his ordering, storing, displaying, and selling activities. Centralized responsibility is necessary in order to fully synchronize these phases of the produce department operation.

<u>Balanced procurement</u>. A produce manager can normally obtain over 100 fresh fruits and vegetables during a year's time, but often has difficulty in determining what items to feature because of differences in customers' desires and in seasonal and quality changes. The solution to this problem can be found in balanced procurement.

"In fresh fruit and vegetable merchandising 'balance' means buying and selling produce of the kinds and in the proportions the public wants, so that the business is in equilibrium with the demand. It also means that no group of fresh fruits or vegetables is neglected in favor of any other group."1

Seasonal items are generally featured to attract more shoppers into the store, thus increasing the total volume of store sales. Large quantities of different produce items can

¹The Progressive Grocer. <u>How to Make Money Selling</u> <u>Fresh Fruits and Vegetables</u>. New York: The Butterick Company, Incorporated, 1949, p. 47.

be easily sold by balanced sales of the five basic commodity groups, as shown in Table 3. If any group drops substantially below its expected percentages of total produce sales, corrective action can be taken to boost the sales of items in that group up to the desired percentage. Balanced merchandising requires keeping adequate records, similar to those kept for the stores in the cooperative merchandising plan described in this study.

Receiving and storing. Available refrigeration facilities should provide the proper air, moisture, and temperature to maintain the top quality of fresh fruits and vegetables. Since produce is primarily sold on appearance, it cannot be treated like staple groceries in the backroom. Spoilage losses at the store can be reduced if merchandise is spot-checked upon arrival. Fresh produce should be checked for count, correct billing, crushed or bruised merchandise, damaged packages, and proper containers.² Several samples should be opened when checking.

The storage backroom and walk-in cooler should be close to the preparation area to avoid unnecessary handling of incoming merchandise. Careful planning and arrangement of the receiving room for storing merchandise will save time, labor, and spoilage due to rough handling and lack of rotation.

²Anon. "Quality Control." Produce Handbook. Proceedings of the SMI Regional Managers Meetings. Part I. <u>Super</u> <u>Market Institute</u>. p. 11

Code dating crates in the absence of daily deliveries will aid their movement in correct order. Produce received should be placed in the cooler at once because tests have shown that produce left outside the cooler for about two or three hours, in hot weather, loses more of its "bloom," or color, than in five or six days inside the cooler.³

Reserve backroom and cooler stock should be kept to a minimum. Basket merchandise should be pyramided, while crated produce should be stacked on the flat side rather than on the bulge. The walk-in cooler can be divided and arranged to accomodate "wet" produce, such as celery and lettuce, and "dry" items, such as apples and citrus. A smaller but adequately sized cooler is preferred to a larger cooler because a larger than necessary cooler tempts the person ordering to fill up space in lieu of handling fresh supplies daily. Burlap bags of onions and potatoes should be stored to allow circulation of air. Unnecessary markdown and better prices result when the freshness and quality of merchandise is retained through careful receiving and storing practices.

<u>Effective displays</u>. Displays are planned to attract attention as well as to sell fresh, top-quality, properly prepared produce. Bulk and prepackaged displays accomplish this by utilizing promotional material from grower and shipper organizations. Large variety and quantity are evident

³Loc. cit.

when at least 30 items are offered. Display planning includes such factors as advertised and seasonal items, availability of merchandise, price, quality, and strategic space allocation for fast and slow moving merchandise. For maximum sales with a minimum of attention, one must consider the following 12 principles of effective display arrangement.

- 1. Cleanliness--clean fixtures, surroundings, and merchandise for sale.
- Freshness--buy only quality produce having freshness and "bloom."
- Color contrast--alternate green items with other colors whenever possible.
- 4. Ease of shopping--make it easier for both short and tall customers by using ribbon displays.
- 5. Uniform height--no "hills" to hide items in adjacent "valleys."
- 6. Proper space allocation--give each item the amount of space its sales warrant and space the big sellers out on the rack so that the customer is exposed to the other items between them.⁴
- 7. Variety--customers will often go out of their way to shop the store that consistently carries all the varieties of produce they want.

⁴Higgins, R. A. and George N. Motts. Fruit and vegetable merchandising manual. Cooperative Extension Service, Michigan State College, p. 23.

- Group related items--help the customer to quickly find the items she wants. It may also suggest items to be used together.
- 9. Planned location of items--spot advertised and special items where they are most likely to catch the customer's attention.
- 10. Mass displays--give volume appearance by dummying up the display if there isn't plenty of merchandise for the customer to choose from.
- 11. Clean, readable price tags--an effective selling display with properly priced merchandise helps the customer make up her mind.
- 12. Consistency of display--be set up as early as possible in the morning. Maintain full displays attractively and appealingly for the first, as well as the last, customer.⁵

Types of display: Soft, fragile, and highly perishable items such as avocados, cherries, pears, and tomatoes may be trayed and built into a "selective" display. Items which are particularly susceptible to handling bruises are placed on a table, one layer deep, so that the customer can view each item without even picking it up. It has been found that, when replacing a trayed item not desired, the customer will

⁵Anon. "Effective Display." Produce Handbook. Proceedings of the SMI Regional Managers Meetings. Part II. <u>Super Market Institute.</u> p. 2

almost invariably put the item back in the same place rather than pile it on others. Losses are thus minimized.⁶

Merchandise that is simply rolled onto a display table is known as a "jumbled" display. This differs from the selective display in that an individual unit may be picked up and it will not disturb the display or leave a portion of the display vacant.

"Pyramid" displays require a great deal of valuable time in arrangement and often reduce sales because some customers hesitate to disturb the "show" effect.

Refrigerated items are usually placed at a "uniform" display height because items are placed in rows side by side to form horizontal ribbons on the rack. Rack items are usually several layers deep with butt or stem ends usually facing in the same direction to give a more effective color contrast.

<u>Up-to-date merchandising practices</u>. Constantly striving to "sell out" every commodity at closing time tends to hold down losses and keep profits high. Successful merchandising attempts this by making it easy and convenient for customers to purchase through up-to-date merchandising practices, such as "related item" selling. The secret of related item sales

⁶Andrews, R. J. Retailer training in the merchandising of fresh fruits and vegetables. United States Department of Agriculture. Production and Marketing Administration, Washington, D. C. 1949, p. 7.

is to sell an idea, just one idea, to customers.⁷ It may be a holiday picnic, an Easter egg coloring contest, spring cleaning, or canning season. After the idea is determined, the feature item is selected and displayed in a mass selling arrangement. Finally, a few related items may be displayed nearby merely to remind customers about related items needed in connection with the main or central idea suggested. Quite often the convenience of being reminded about related items, which are occasionally overlooked, is appreciated.

Another merchandising practice widely used by produce managers throughout the country is pricing all produce by weight. The following five reasons for adopting this method of pricing are: (1) weight pricing is fairer to customers who want a small unit because wide variations in size among unit-priced produce items penalizes the buyer who cannot use any more than a small size unit; (2) weight pricing is fairer to late-in-the-day shoppers since items are well picked over with only the midgets left; (3) waste is reduced by weight pricing because buyers gain nothing price-wise by picking out the larger units and there are fewer throw-aways; (4) time is saved by building the displays when large and small units can be placed together; and (5) produce sales can be

⁷Kuhn, H. <u>What Every Clerk Should Know</u>. Chicago: National Association of Retail Grocers, 1951, p. 61.
estimated in advance more easily by establishing the markup on the unit weight for each delivery.⁸

Cross-merchandising, or selling non-produce items with produce items, is a method of getting the customer to buy something in addition to what she has on her shopping list. A long-profit item that a customer does not have on her shopping list is selected as the non-produce item. The display of the non-produce item must be large and attractively displayed. The list of such useable items is endless, but a few of the non-produce, high profit items are corn holders with corn, potato peelers with potatoes, hand orange squeezers with citrus fruits, and plastic or wooden salad bowls and dishes.⁹

Use of adequate management records. The kind and number of control figures to keep depends upon the individual operation. In order to discover the profitability of operating his department, it is necessary that the produce manager institute some form of controls as a guide to more profits. The records should supply information on sales, costs, and profits. The records kept for control purposes should be relatively simple and inexpensive and not more complex or costlier than locating or controlling the losses.

⁸Pool, J. G., Jr. "Profit Tip: Price All Produce By Its Weight." <u>The Grocer's Digest</u>. May, 1952. pp. 10-11.

⁹Anon. "Merchandising Related Items." Produce Handbook. Proceedings of the SMI Regional Managers Meetings. Part II. <u>Super Market Institute</u>. p. 28.

Keeping records can be an expense not justified if too elaborate a system is installed which causes inefficiency in utilizing office machines and personnel.

"Three things to take into account in setting up either financial or stock control:

- 1. Will this particular system provide the information desired?
- 2. How much will it cost to operate?
- 3. Does it justify extra expenditures for the benefits derived?"10

"Yardsticks" for the Produce Department

Variety of items. Many retailers have overlooked the importance of promoting specialty items. While it is true that individual specialty items may constitute less than one percent of total produce sales, nevertheless, displaying them can contribute over five percent of sales during the height of the season.¹¹ The higher profit margins yielded by specialty items compensate for the more difficult handling and preparation. A generous variety of high quality merchandise is often the difference between keeping regular customers or losing their purchases of produce and other household needs. Even casual observations in successful produce departments indicate that it takes 20 or more different items to provide

¹⁰Pillar, R. <u>A Guide to Better Handling and More Effi</u>-<u>cient Merchandising of Fresh Fruits and Vegetables</u>. Washington: National League of Wholesale Fresh Fruit and Vegetable Distributors, 1948, p. 36.

¹¹McGaha, M. "Stock More--and Sell More." <u>The Grocer's</u> <u>Digest</u>. July, 1952. p.12

a reasonably satisfactory variety to attract customers and to maintain a well-balanced department.

Balance among items. A satisfactory balance in the produce department provides the kinds of fruits and vegetables that customers look for and the convenient quantities they prefer to use. A good balance among the various items helps to meet competition because higher margins on some items can offset lower margins on others. Variety items also increase the opportunity for impulse sales. Several studies have shown the proportion of total produce sales represented by the individual commodities.¹² Data are also available on the comparative sales of various groups of commodities, and from such studies pricing tables have been devised to assist a produce manager to secure a desired over-all gross margin in his department.¹³ The pricing formula adopted in the cooperative merchandising plan is intended to keep the sales of individual items as close to the customers' preferences as possible.

Surveys made in eastern cities reveal that less than 30 of the 125 commercially marketed fruits and vegetables

¹²The Progressive Grocer. <u>How to Make Money Selling</u> <u>Fresh Fruits and Vegetables</u>. New York: The Butterick Company, Incorporated, 1949, pp. 52-55

¹³McGaha, M. <u>Ibid</u>. p. 13.

account for more than 90 percent of the consumer's dollar spent on fresh produce.¹⁴

Percent of stores sales. Grocery store operators are continuously seeking a cut-and-dried answer as to the amount of space that should be allocated to the selling departments and the best distribution of total sales among the departments. Since no one satisfactory answer has been found for all situations, the Super Market Institute has prepared questionaires the past five years to discover the sales percentages for the selling departments. The 1953 survey included 300 companies operating 3.955 stores. The findings are used by member stores as a basis of comparison with their own departmental sales percentages.

Produce sales, as a percent of store sales for the members participating in the survey, ranged from 11 to 14 percent in 1953. These percentages were obtained from companies throughout the country having annual sales of one to over forty million dollars. Produce sales in the East North Central region averaged 12 percent of store sales.¹⁵

¹⁴Rasmussen, M. P. Consumer purchases of fresh fruits

at retail. Cornell University Agricultural Experiment Sta-tion, College Station Bull. 851, 1949, p. 9. Rasmussen, M. P. Consumer purchases of fresh vege-tables at retail. Cornell University Agricultural Experi-ment Station, College Station Bull. 849, 1948, p. 14.

¹⁵The Fifth Annual Report. <u>Super Market Institute</u>. 1953, p. 9.

In a Syracuse, New York, study covering 180 owner-operated food stores with total weekly sales of \$2,000 or more, it was found that produce sales ranged from nine to eighteen percent. These percentages were based on average weekly sales of fruits and vegetables from \$67 to \$694 respectively.¹⁶ Small volume stores, such as Store 1 in this study, can compare similar surveys to evaluate their present produce sales.

There are no statistics covering all stores throughout the country but various surveys show that produce sales equal to 15 to 25 percent of total store volume are readily attainable by alert, efficient merchants.¹⁷

Sales per square foot. It is generally accepted in the trade that the proportion of the total store business to be expected from the produce department should be at least the same proportion as its percentage of floor space in the store. This can be achieved because a smaller produce department will, because of the higher markup on produce, as compared to markups on groceries and meats, provide for more than its share of dollar profits for the smaller space occupied than will groceries or meats. Determining the sales per square foot of a produce department will reveal if the department is bearing its share of the store expenses in proportion to the

¹⁶Hinkle, W. B., Jr. Store characteristics and produce operations. Cornell University Agricultural Experiment Station. College Station Bull. A. E. 818, May, 1952, p. 35.

¹⁷The Progressive Grocer. <u>How to Make Money Selling</u> <u>Fresh Fruits and Vegetables</u>. New York: The Butterick Company, Incorporated, 1949, p. 175.

space occupied and also if the selling area is being utilized for maximum sales.

The Syracuse study showed that produce sales per square foot of sales area in the stores with weekly sales of \$15,000 or more were \$2.59 and \$1.61 for stores doing less than \$7,500 weekly.¹⁸

<u>Sales per man hour</u>. Dollar sales per man hour are used by managers to compare the relative efficiency of labor in the various departments. Estimates of sales per man hour vary substantially, due in part to differences in the elements considered, such as buyer's, supervisor's, or store personnel's help when computing such figures. Since bases for computation vary somewhat, figures are not always comparable; however, 17 companies at a produce clinic reported dollar sales per man hour ranging from \$15 to \$22.¹⁹ Hinkle reports that stores doing over \$15,000 weekly averaged \$9.81 in sales per man hour and stores with weekly sales of less than \$7,500 averaged \$5.2⁴.²⁰ The backroom area is not included in these produce department sales per square foot.

<u>Turnover rate</u>. The turnover rate is the number of times that an inventory of goods is sold during a stated time.

¹⁸Hinkle, W. B., Jr. <u>Ibid</u>. p. 14.

¹⁹National Association of Food Chains. <u>Merchandising</u> and <u>Operating Problems on Produce</u>. February, 1952, p. 10.
²⁰Hinkle, W. B., Jr. <u>Ibid</u>. p. 18.

Since produce is perishable, a higher turnover rate is desirable. An efficient produce manager should know his daily or weekly turnover rate. The advantages of a high turnover are: (1) that the customers handle produce less frequently; (2) variations in temperature and humidity, that are responsible for shrinkage and spoilage losses, are reduced; and (3) customers are assured of freshness. A high turnover rate is desirable, but the inventory should be large enough to provide a stock to last through the given time period.

The turnover rate for produce is influenced by such factors as bulk versus prepackaged displays, day of the week, perishability and seasonal versus year-round items. A survey made of stores in Baltimore showed that fresh fruits and vegetables were turned over once in four days. The average daily turnover rate was 43 percent on Monday, increasing to 51 percent on Friday, and to 64 percent on Saturday.²¹ Although no records on turnover rate have been kept by the four stores in this study, the turnover rate of four to six time weekly because of daily deliveries can be considered favorable.

<u>Spoilage and other losses</u>. There are three types of losses in a produce department: (1) visible losses from decay and spoilage, (2) unseen losses due to weight shrinkage,

²¹Shull, S. C. and David Burns. Turnover of fresh fruits and vegetables in retail stores. University of Maryland Extension Service, College Park. Miscellaneous Extension Publication Number 12, October, 1951, p. 31.

errors in weighing or counting, pilferage, and cash register errors, and (3) markdowns.²² Losses from decay and shrinkage are to be expected in produce operations. Several factors that influence the percentage of loss are directly related to merchandising practices that are, or are not, observed by the produce manager. Among them would be overbuying, the care given merchandise in receiving and handling, preparation, turnover rate, and the quality of merchandise handled.

Losses reported by retailers vary widely, ranging from one-half of one percent to such extremes as 20 percent. Losses from visible decay and spoilage in efficient, wellequipped produce departments average around three percent, compared to the national average of close to six percent. Other profitable operations disclose two percent as the average unseen losses for a year's operation. A satisfactory yearly average for markdown losses should not be more than one percent.²³

²³The Progressive Grocer. <u>Ibid</u>. p. 174.

²²The Progressive Grocer. <u>How to Make Money Selling</u> <u>Fresh Fruits and Vegetables</u>. New York: The Butterick Company, Incorporated, 1949, p. 38.

SUMMARY

The Grand Rapids Produce, Incorporated, was organized by independent grocers in 1936 to secure the savings resulting from large-scale produce purchasing. The organization is a cooperative corporation for profit incorporated under Michigan P.A. 327 of 1931. Members now buy four shares of stock at \$50 each for each store unit operated, and these shares also serve as a credit deposit toward payment of delinquent accounts. Present membership includes over 300 independent grocers located in western Michigan from Petoskey, on the north, to the southwestern part of the state south of Kalamazoo. The cooperative is a member of the United Fresh Fruit and Vegetable Association and receives the services of the United Merchandising Institute, the produce training organization operated by the Association.

The personnel at the cooperative consists of two buyers, four merchandiser-salesmen, six office women, and 17 employees in the warehouse. Office equipment consists of adding machines, calculators, typewriters, and telephones. No teletype equipment is used because it is too slow a means of communications when buying. Carlots and trucklots of merchandise are code dated and stored in dry or wet coolers. Deliveries to stores in Grand Rapids are made in companyowned trucks and to other stores in leased semi-trailers. Members' orders are usually taken over the phone by the merchandiser-salesmen who relay pertinent information regarding condition, price, and quality of commodities at the warehouse. A retail merchandising plan has been tested for the past nine months with a member operating seven stores in Grand Rapids and the results to date have been mutually satisfactory.

Four stores were surveyed in this study: a small and a large store not under the merchandising plan; and a medium and a large store that are in the program. Personnel in the produce department numbered one person in the small store to five persons in the largest store. All stores have adequate walk-in cooler facilities; three use mechanically refrigerated produce racks and the other an ice-bed rack. Receiving doors are near the preparation and storage area in three stores. The selling areas in three stores are located adjacent to the meat department in the rear, as compared to one in front of the store.

All four stores buy from 85 to nearly 100 percent of their produce over the phone from the cooperative; other sources are commission houses, the local wholesale public market, and truckers. Deliveries are checked by all stores for condition, size, and number of units. Merchandise is not code dated because of daily deliveries. Adequate records of operations are kept by the two stores in the plan, although none of the four stores record markdown and spoilage losses.

Among the commonly accepted standards in the retail food industry for a successful produce department are the following:

- 1. For variety feature at least 25 to 30 items.
- 2. A balanced operation in which the various commodities handled are in proportion to customers' preferences.
- 3. A satisfactory percent of store sales of 11 to 14 percent, although sales may range from 10 to 25 percent.
- 4. A percent of store sales from produce which equals, or exceeds, the percent of floor space occupied by the produce department.
- 5. Sales per square foot ranging from \$1.61 to \$2.50 per square foot.
- 6. Sales per man hour of five to ten dollars in stores with weekly sales of less than \$7,500 to \$15,000 and \$15 to \$22 in stores with sales of over \$15,000.
- 7. A favorable turnover of four to six times weekly can be obtained with careful ordering or daily deliveries.
- 8. Spoilage losses based on profitable operations averaging three to six percent.
- 9. Average markdown losses for the year of not over one percent.
- 10. Unseen losses for a year's operation averaging under two percent.

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