## Pick-Quick PANTRY

# A MODHE DRSCGNHD IO ALIOW A DARKY STORE <br> TO COMDENE IN TODAY'S MARKCHYAME 

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## Pick-Quick PANTRY

A MODEL DESIGNED TO ALLOW A DAIRY STORE to Compete in today's marketplace

By

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Approved by:

Edward M. Barnett, Advisor

To

Our wives, for their understanding devotion and constaint help, with all our love.

This thesis is the result of an investigation into the small dairy processing industry. The foundation has been supplied by examining the general problems of the industry through a study of a specific firm.

This paper is an enlargement of an earlier study made by the authors in December, 1952, referred to in the body of this paper as "Operation Opportunity." It was through this vehicle that the inspiration to explore the problem in depth was conceived.

It has been admitted by industry leaders and confirmed by statistical evidence that the future outlook for the small dairy processor in the field of retailing is questionable. It is the purpose of the authors to develop an awareness in the minds of management of the drastic environmental changes going on about them, and the role they must assume if they wish to be successful.

This study serves a dual purpose. It is, first and foremost, a report of an actual model that was set up and tested using the techniques and methods outlined in the study. Secondly, it serves as a critical analysis of a typical firm in the industry, its past, present, and future prospects.

The study has one basic limitation. It is hoped that the readers will not become so engrossed with the mechanics and techniques of processing milk products that the real purpose of the paper will be lost. The problem being dealt with is one of marketing and application of sound business principles,--not milk bottling.

This study was not accomplished easily, or without difficulty. There were many who participated in one function or another who should be recognized as primary contributors to this effort.

Special appreciation is expressed to Dr. E. M. Barnet, Director of the Food Marketing Program, and to Harry E. Thompson for their inspiration and faith in our ability to solve this challenging problem. We also extend our thanks to Dr. E. A. Brand, and the members of the Mass Marketing Program at Michigan State University, who supplied us with many helpful suggestions, comments, and on several occasions their physical support as well.

Much of the technical information regarding the milk processing data and plant study was furnished by Dr . T. I. Heddrick, Mr. A. L. Rippin, and Dr. Glynn Mcbride of the Michigan State University Dairy and Food Science Department. Their assistance in this project was invaluable.

Several ladies also played a major part in the production of this study. Mrs. Janice Cooper and Mrs. Edie Starr, our typists, and Mrs. Jane Bacus, our artist, contributed in excess of their primary obligation.

The Central Advertising Company of Lansing was also responsible for supplying technical assistance and advice in the sign development program, far beyond business considerations.

This study would not have appeared at all were it not for the substantial contribution of the Scott Paper Company, The H. J. Heinz Company and The Kroger Company. Their confidence and financial backing made it possible.

Final acknowledgment and appreciation is extended to our wives; Sonnie Barnum, Carol Byrd, Mary Lee Jones, and Mary Wright. The hundreds of man hours spent in this project could not have been accomplished had it not been for the encouragement and understanding of these people and their realization of the potential contribution of this study.
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## Industry Problem Analysis

Objectives

Small dairy processors are disappearing from the national market place at an alarming rate. The objective of this paper is to answer some of the questions as to why this amazing decrease, and more important to attempt to change the retailing concept from a dairy store to a modern convenience store by establishing a workable model of operations.

## The Problem Area

## Total Implications

This paper is concerned with the dairy industry, and more specifically with the small local dairy processor. It is felt, however, that the overriding implications described can be transmitted to the small business community of almost any industry. Small business has always been a strong socio-economic force in our democratic environment, and, contrary to the position of many, can and

should remain so.

Two generalizations seem to be popular in explaining the decline of the small dairy processor; "the rapidly changing market place" and "economies of scale." No doubt these are vital factors in the decline, but all too often they are used as excuses to cover up the reality. It is the position of the writers that "the rapidly changing market place* can be an advantage rather than a disadvantage, and that "economies of scale" is unwarranted since all scales have economies.

## Statistical Evidence

Cold statistics are the best indicator of the dairy industries position. ${ }^{l}$ In 1958 there was a total of 5,817 fluid milk plants in operation in the United States, a $13 \%$ decrease from 1954. ${ }^{2}$ The American Dairy Association estimates that at the present rate there will be $22 \%$ fewer fluid milk plants in 1967.3 Indications and projection of
$1_{\text {For }}$ a complete statistical breakdown of dairy facts in Michigan, see Glen McBride, Structural Changes in Michigan's Dairy Industry and Their Implication, Department of Agricultural Economics, Michigan State University, East Lansing, April, l962, p. 3. For a detailed national statistical review see Dairy Statistics through 1960, U.S. Department of Agriculture.

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${ }^{3}$ Ibid.. p. 2.


the type stem from such statistics as those below on the state of Michigan.

Exhibit 1. Total number of fluid milk firms and type of ownership, Michigan.

| Type of Ownership | 1950 |  | 1960 |  |
| :--- | ---: | :---: | :---: | :---: |
|  | Total <br> Number | Percentage <br> of Total | Total <br> Numler | Percentage <br> of Total |
| Single Plant | 542 | 96.4 | 241 | 89.6 |
| Cooperative | 11 | 2.0 | 13 | 4.8 |
| Multi-Plant | 6 | 1.1 | 5 | 1.9 |
| Other | 3 | 0.5 | 10 | 3.7 |
| Total | 562 | 100.0 | 269 | 100.0 |

Source: Glen McBride, Structural Changes in Michigan's Dairy Industry and Their Implication, Department of Agricultural Economics, Michigan State University, East Lansing, April, 1962, p. 3.

As indicated in Exhibit 1, the decrease in the number of single plant operators from 1954 to 1960 was approximately 55\%.

In correlation with the significant drop in the number of single plant firms, the percentage of the total amount of milk received by firms in this grouping also dropped significantly from $65 \%$ to about $54 \%$ as is indicated in Exhibit 24

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4 Ibid.. p. 3.
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Exhibit 2. Arnount of milk received by fluid milk firms and type of ownership, Michigan.

|  | 1950 |  |  |  |
| :--- | ---: | :---: | :---: | :---: | :---: |
| Type of Ownership | Total <br> Received | Percentage <br> of Total | Milk <br> Received | Percentage <br> of Total |
| Single Plant | $1,793.7$ | 64.7 | 1.782 .7 | 54.5 |
| Cooperative | 357.1 | 9.3 | 654.6 | 20.0 |
| Multi-Plant | 711.4 | 25.7 | 806.0 | 24.6 |
| Other | 8.2 | 0.3 | 29.9 | 0.9 |
| Total | $2,770.4$ | 100.0 | 3.273 .2 | 100.0 |

Source: Glen McBride, Structural Changes in Michigan's Dairy Industry and Their Implication, Department of Agricultural Economics, Michigan State University, East Lansing, April, l962, p. 3.

In order to show that these trends are not limited to Michigan alone, Dr. E. F. Baumer of The Ohio State University points out some interesting statistics from that state. 5 During the past ten years thate has been a 14.1 per cent decrease in total processing plants. The greatest decrease, as indicated in Exhibit 3, occurred among plants which were processing less than 800,000 pounds of milk per month. If past patterns continue, the state of Ohio can expect a reduction in plant number of approximately $75 \%$
$5_{\text {Elmer F. Baumer, " Some Economics of Bargaining }}$ between Producers and Handlers of Dairy Products," The Department of Agriculture Economics and Rural Sociology. The Ohio State University.
before an equilibrium point is reached. By 1972 a 30 per cent reduction is expected.

Exhibit 3. Number of milk plants and percentage change by monthly volume handled, Ohio 1952-1962.

| Year | Plant Size |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Less <br> than | $\begin{gathered} 30,000 \\ \text { to } \end{gathered}$ | $\begin{gathered} 120,000 \\ \text { to } \end{gathered}$ | $\begin{gathered} 450,000 \\ \text { to } \end{gathered}$ | Over |  |
|  | 30,000 | 120,000 | 45,000 | 800,000 | 800,000 | Total |
|  | lb./mo. | lbs./mo. | lbs./mo. | lbs./mo. | lbs./mo. |  |
| 1952 | 71 | 158 | 171 | 70 | 124 | 594 |
| 1962 | 22 | 38 | 109 | 36 | 145 | 350 |
| \% <br> Change | -69.0\% | -75.9\% | -36.3\% | -48.6\% | +16.9\% | -41.4\% |

Many factors have contributed to the trends indicated by Exhibits 1, 2, and 3. Dr. Baumer points out those which seem most important.

1. New and lower cost transportation facilities.
2. Our improved highway system.
3. Less stringent local health regulations.
4. The ever-increasing sale of milk through chain stores.
5. New innovations in processing and packaging resulting in significant savings to larger firms. There is little doubt of the validity of these five factors. The contention of the writers', however, is that they need not have such a devastating effect on the small processor in
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the future as they have had in the past.
One further statistic should be added at this point.

Total consumption of fluid whole milk was up only $1 \%$ from 1961 to $1962^{6}$ while population growth was increasing at a rate of $1.7 \%{ }^{7}$ These figures can lead to only one conclusion, per capita milk consumption is decreasing. President Kennedy has verified this position with the following statement:

Last year (1961) we consumed . . . about 125 billion pounds of dairy products. But in the year before, we consumed between 2 and 3 billion pounds more . . . (while milk production) increased $1-1 / 2$ per cent . . . milk consumption decreased 2-1/2 per cent. 8

Future Outlook

The American Dairy Association has unequivocally
stated that, "If current trends continue without change through the mid-1960's dairy processors, like the rest of the industry, will be fewer in number with greater volume per plant. 9

Predictions on the future are qualified by a number of assumptions in addition to the indications of the statistics

[^0]above. The assumptions in this case are as follows:

1. Present levels of price support remain in effect.
2. Technological advances will continue in the industry.
3. The country will continue on a schedule of economic growth.
4. The small processor will remain unaware of his actual competitive position and advantage.
5. The small processor will remain unaware of his total cost position.

It should be noted that the five assumptions above along with the previously mentioned "rapidly changing market place" and "economies of scale" are not only indications of the future, but are also the causes of the past.

## The Area of Concern

This paper deals primarily with the last two assumptions above. Concern has been generated based on the obvious conclusion that the decline in dairy processing plants is due to loss of the small local processor. Extinction is not far in the future if an effort is not made to counteract the economic forces which are presently taking their toll. The reader is no doubt thinking that it is usually the small operator who travels the road to liquidation, merger, or acquisition, and that small dairy companies are
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no exception. The writers are the first to agree with this deduction, and are in favor of merger and acquisition, and sometimes liquidation. The problem, however, arises not from the action itself, but from the circumstances that initiate the action. Usually, merger, acquisition, and liquidation take place out of economic necessity rather than out of social desire on the part of the owner or owners. The balance of the thesis attempts to describe the establishment of a convenience store operation, which is one alternative action for avoiding this negative economic position.

## Dairy Stores ${ }^{10}$

Since very little research has been done on the dairy store this section has been developed from information gained from interviews, observation, with owners and operators of these establishments.

Developed as additional outlets for dairy products, the dairy store ranges in size anywhere from 500 to 1600 square feet of selling space. The smallest of these outlets usually sell only dairy products, with the larger adding grocery items, housewares, and occasionally some soft goods.
${ }^{10}$ The basic data and history found in this section has been provided by another presentation of Dr. Baumer, "Are Dairy Stores the Answer for Independents," Department of Agricultural Economics and Rural Sociology, The Ohio state University, Columbus, Ohio.

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For the most part, these stores are located in residential areas and are owned outright or franchiesed out by the dairy firm.

## Market Characteristics

The last decade has seen many changes take place in the market place which have influenced the distribution of dairy products.

Many local independents who had previously relied on home delivery felt the squeeze of sales and profits as the means of distribution declined. Dr. Baumer has stated, "These sales trends vary from market to market, but evidence points to the fact that while more than 80 per cent of all milk sales were home delivered in 1945، many markets have experienced almost a complete reversal of the store-home delivery share of sales. ${ }^{11}$

The supermarket thus emerged as the dominant distribution of milk to the ultimate consumer. This emergence presented two major problems for the small processor: (1) supermarkets tended to rely on one or two large suppliers, and (2) supermarkets began lowering prices on milk as a customer draw.

As the supermarket became dominant, the small

11
Ibid., p. 2.
independent retailer began to fade away. Most of those who have weathered the storm have affiliated with large, central buying voluntaries or co-operatives.

These trends, needless to say, are working to the disadvantage of the small processor.

## Dairy Store Characteristics

With the wide variance in types of dairy stores which are in existence today, it would be naive to attempt to characterize these stores in absolutes. The following, therefore, are meant to be general rules of thumb for the reader.

In most cases store hours are longer than those of the conventional supermarkets, and are open almost every day of the year. Cost figures are in the range of $\$ 12,000$ to $\$ 18,000$ per store. ${ }^{12}$ Dollar volume is generally between $\$ 8,000$ and $\$ 16,000$ per month. Each store is run by a manager who can be aided by one or two full or part-time helpers. Compensation to manager varies with each organization. Many are on a flat salary, while others are on a commission basis. One Michigan chain, for example, pays its managers eight per cent of gross sales. Fluid milk sales are between 200 gallons to 400 gallons per day. ${ }^{13}$

13 Ibid.


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Many dairy stores have now added grocery items to further diversify their product line. Many problems have evolved from this in that management is usually not familiar with grocery operation.

The dairy store has been a significant factor in the life of the small processor. Successes have been many in comparison to failures, but the market place continues to become more competitive. Weaknesses inherent in the dairy store are now becoming evident, where they once were covered by high sales and profits. A discussion of these inherent weaknesses follows in the next section.

## Specific Firm Problem Analysis

## The Test Company

Many of the writers' conclusions and theories were catalyzed by the findings of a study done on the "Michigan Dairy Company"14 a small Michigan dairy processor. "Michigan Dairy Company" operates five company-owned retail outlets specializing in dairy products. The outlets are very small in size ranging from 200 to 1,500 square feet of selling space. Fifteen other non-company owned small retail stores are also serviced. Although the quality of the dairy

[^1]products is good, the primary drawing point is low price. The five corporate controlled dairy stores are typical of many across the country in many ways:

1. They were established simply as additional outlets for the processor's milk and related dairy products.
2. They were established by people who had little if any knowledge of retailing, therefore, had none of the basic rules of retailing built in.
3. They sold dairy products almost entirely on the bases of price.
4. They were managed at all levels of unqualified personnel.
5. Grocery products were added with little knowledge or concern for balanced selling.
6. Locations were chosen with no statistical rationale. Even though sales had been declining since 1961 , these dairy stores continued to make a profit. It was not until the first quarter of 1963 that the red ink splashed across the page. Inefficient as they were, these outlets had had regularly high sales and good profits until 1961. The limitations of the dairy store which have aided in its downfall are the very things we are trying to overcome by attempting to establish a convenience store philosophy. The five primary internal limitations were mentioned earlier
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under the establishment of the dairy store. The external forces leading to decline were as follows:
7. The dairy store lost its significant price advantage as chain stores began to lower their milk prices.
8. A large segment of the market was turning to new total convenience store outlets.
9. Regular customers were not being supplemented by new ones due to poor advertising techniques.
10. Glass milk containers were becoming increasingly less popular as cartoned milk was reduced in price.
11. With the loss of the regular milk customer, the stores had no other competitive advantages on which to work.
"Michigan Dairy Company" has been in business since the early $1900^{\prime}$ s, and has made a profit every year. This in itself is quite an accomplishment. Sales in the last two years, however, have been declining at a rate exceeding $8 \%$, although the ledger showed black ink in both 1961 and 1962.

## Management

By working with the management and personnel of "Michigan Dairy Company" and through interviews with other dairy processors who admittedly were faced with similarly declining sales and profits, we were able to uncover five
common problems prominent in management.

1. Defensism and defeatism had replaced initiative and innovation.
2. There was little knowledge of proper accounting and costing procedures.
3. Management control over employees and operations was lacking.
4. Management was completely unfamiliar with retailing techniques.
5. Probably most significant of all was management's inability to understand and reluctance to act on their advantages as small dairy processors and distributors.

## Problem Summary

Section I has attempted to acquaint the reader with some of the problems facing the small dairy processor of today. One of the industry's greatest problems has been the decline in number of individual retail outlets through which the small processor could sell his products. Because of this phenomena, the company-owned dairy store found its way into the market place to partially stem the tide of declining sales and profits. Recently, however, the limitations of the dairy store have been evidenced as a new form of retail
outlet begins to dominate the scene.
Section I has been primarily negative in nature.
The balance of the thesis, however, is a positive alternative approach to greater total sales and profits. This positive alternative is based on changing the retailing concept from a dairy store to a modern convenience store.

Before any action can be taken by the small processor he must first become totally aware of his actual competitive position and advantages, and become more familiar with his total cost structure.

PROPOSED SOLUTIONS AND STUDY METHODOLOGY

## Statement of Suggested Solution

With the above as a background into the problems of the small dairy producer, let us now state specifically how we propose to solve these problems.

Change the retailing concept from a dairy store to a modern drive-in convenience food store.

Since the limited product mix makes the dairy operator extremely vulnerable to price cutting by the supermarkets, we propose that a completely revised retailing concept be tested--that of the drive-in convenience store. We suggest that this test be undertaken initially in one store, and then enlarged to include all of the Michigan Dairy Company stores in Lansing, Michigan. We suggest utilizing a systems approach in the establishment of the test store so that the entire wholesale and retail system is working in harmony toward the new goals. We suggest that adequate pretest sales audits be obtained, and that the test be run at least six months and preferably nine months before any final conclusions are drawn. We firmly believe that one of
the basic underlying causes of the dairy industry's problem is a corporate myopia by the dairy operators that does not allow them to see that their business is retailing as well as dairy manufacturing. This myopia makes it imperative that the programs tested in the model store be complete, clear, and easy to maintain. The inexperience of the operators will not allow us to leave any area uncovered or demand very much initiative and creativity from the future operators.

## Scope of the Study

This study will be limited to include our suggestions for a model that the dairy industry might follow. However, these suggestions must be examined within the confines of the local marketing area, and while we believe the principles to be sound and based on available documentary evidence, the specific procedures will differ as the market differs from area to area.

Other limiting factors were available time and money with which to effect the change. Since we were not able to apply all of our time to the project, some areas were not as completely studied as they might have been. Where this is applicable it will be noted in the report. The problem of money was also a handicap since we were not financing the study and had to use restraint in some of
our more ambitious projects in order that the resulting expenditures would not raise our costs to an unreasonable figure.

Another limiting factor was the unavailability of qualified employees to run the operation. This demanded a simplification in many areas, but particularly in the accounting areas where the present accountant was neither qualified nor willing to institute any of our suggested changes.

We faced many of the same problems that others would face in the areas of limited product availability and media mix. These limitations were somewhat restricting, but not nearly as bad as they might have been.

Finally, the study was further limited by the physical size of the store that could not be changed. The store contained only 702 square feet of selling area, with an additional 100 square feet walk-in milk cooler, and an 80 square foot back room with four doors entering into it. There was also a 270 square foot open shed attached to the rear for empty bottle storage and a 450 square foot basement for the heater, compressors and washroom facilities.

Since we have previously examined the recent history of the small dairy industry, let us now examine how the small drive-in convenience food store has grown and prospered in our retail economy.

In the supermarket industry of today are many kinds of small stores. It is our aim in this section to study the development of one of these types of stores. Because the naming of these types of stores is not always uniform, it is not enough for us to say that we will explore the growth and methods of operation of the drive-in stores, but that we define a drive-in grocery store as a predominantly suburban store, under 4,000 square feet in size, featuring quick, full-line grocery shopping for the motoring public. In this definition, we do not include small-sized urban walk-in supermarkets, old-line service stores, or stores offering only specialty products such as milk, farm products or snacks and beverages. The stores we will seek to describe are a new phenomenon in the dynamic food industry. They have prospered because they meet a consumer need; a need born out of the fantastic success of the supermarket method of merchandising. It is ironic that out of the very success of the supermarket should develop weaknesses that allow competition to become stronger. But we proceed too quickly, for we must first see where and how this new method of food marketing came into being. To do this adequately, it was necessary to do extensive research in trade journals, since this subject is too new to be included in books and local conditions did not allow personal interviews. Personal
knowledge has also been included where applicable.

## History of Drive-in Convenience Stores

At the same time that supermarkets were developing in the thirties, the availability of automotive transportation brought into being small roadside stands. These stands sold predominantly ice and beer, but as the economy improved they added snacks and then food lines. These stores had their greatest growth in the southern states, and particularly in the southwest where oil money and great distances provided the means and the need for automobiles. ${ }^{1}$

During the second world war, drive-ins were hurt by gasoline rationing, and so they showed little growth until the early 1950's when the embryo of our modern-day drive-in food mart began to develop. Since the southwest was still Ideal for this type of store, they began to collect around the major population centers until by 1955 there were several hundred stores. ${ }^{2}$ By this time, at least four good-sized chains were in operation in Texas alone! ${ }^{3}$ From this point on, they spread to other areas of the south in rapid succession.

[^2]Their main requirements were, plenty of people to sell (major population centers), and a warm climate. With these criteria, they moved quickly into Florida and Southern California. In early 1957, two groups, Speedee Marts and Min-it Market, both moved into the Los Angeles area and gave out predictions that they would have several hundred stores there in a very few years. ${ }^{4}$ By August, 1959, a survey done by Progressive Grocer showed that there were 2,410 drive-in supermarkets in the United States. 5 Almost half of these were in Texas, according to another survey by Super Market Merchandising in November, 1956. ${ }^{6}$ The drive-ins then began an expansion program into the northern states, and as would be expected they went first into the areas of high suburban population in Chicago, New York, Philadelphia and Washington. By 1960, "7-Eleven" stores had opened 60 stores in Washington, D.C., Baltimore, Maryland, area and were planning another 60 for the Philadelphia area. Convenience Food Mart opened in Chicago and promised 2,000 stores in every state of the

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country by 1965. 7 Minit Markets opened in Northern New Jersey and were so successful that Lewis Milkovics, Progressive Grocer Editor, stated that drive-in's had now been "proven successful in virtually every place they have been opened." 8 By now, an idea that was born in the southwest during the depression had matured to become a nationwide complex of stores selling approximately one-half billion dollars worth of grocery products a year! Quite a record for small stores that were supposed to be dying!:

How Drive-ins Fill Consumer Needs and Wants

Because supermarkets have become fully integrated one-stop food centers offering great variety and selection of products, the average store size is in the neighborhood of 20,000 square feet. Since a store of this size takes many customers to support it, it must also have a large parking lot to handle their cars. Now let's take the problem confronting Mrs. Consumer as she tries to buy a quart of milk, a loaf of bread, a package of cigarettes and a bottle of quinine water for some guests that are dropping by that night. Where can she go on the way home from shopping for

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& \text {.i: : } \\
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clothes, with three tired and rungry children that are in no mood to trudge around for fifteen minutes in a 20,000 square foot supermarket? The answer, of course, is the drive-in right on her way home. She can leave the children in the car and see them at all times, quickly pick out her products in the limited area of the store, and check-out in the time it would have taken her just to get them dressed, out of the car, guided across the mammoth parking lot and into the large supermarket. It is no wonder the stores are growing. So what if she pays two cents more for each of her four items; her time is more valuable to her than this minor additional cost. So again we see that she is willing to spend much more to receive convenience and to save her time. The first generalization we can make concerning the reason the drive-ins exist is that they exist to complement supermarkets in an area in which the supermarket cannot compete; ${ }^{9}$ i.e., convenience purchase of small orders. Another way they seek to complement supermarkets is by being open when the supermarket is closed. For example, most drive-ins today are open from seven o'clock in the morning, until eleven o'clock at night, seven days a week. A study of their traffic movement shows that they do the vast majority of the volume when the supermarkets are closed. ${ }^{10}$ This leads us

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\begin{aligned}
& 9^{9 n} \text { Drive-In, Quick-Shop, . . .n op. cit. } \\
& { }^{10} \text { Ibid. }
\end{aligned}
$$

tc another generalization about drive-ins; that they exist primarily because of their location. The importance of this factor cannot be overstressed. Min-it Markets in Los Angeles has set the following criteria for their stores to use in location analysis. ${ }^{11}$

1. Store must be near large concentration of dwellings (at least 500 families).
2. Store should be located just off the main artery, on a good "going home" street.
3. Aerial photography and traffic counts should be used to accurately predict the best locations. Location is vital to a drive-in, because they attract the "buying dollar" not the "shopping dollar."12 If this is true, the store's location must place it where a large volume of customers are going to see it and pull in for something they might have forgotten or will need before their next trip to the supermarket. This means that the entire store must give the impression of being able to serve the customer needs better, and one vital area in the field is appearance.

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\begin{aligned}
& { }^{11} \text { Milkovics, "Min-It Market Drive-In, . . ." op. cit. } \\
& 12^{\text {n Drive-In, Quick-Shop, }} \text {. } \dot{M}^{n} \text { op. cit.; Lewis } \\
& \text { Milkovics, "Convenient Food Markets } 2000 \text { Drive-Ins Goal by } \\
& \text { 1965, " Progressive Grocer, December, } 1959 .
\end{aligned}
$$

## Appearance

The ultimate in ease of shopping would be not to have to leave your car, but the next best way is to park next to a small store with no doors, make your selection and pay for it. As we discussed before, this is how drive-ins began in warm climates, but this is not feasible in cold climates. Therefore, the drive-ins must give the impression of the same ease of shopping by having its front side be the long side of the building, and having it glassed in, rather than walled. Perhaps the main benefits of an arrangement of this nature is the advertising value of showing how easy it is to shop the store. The constant exposure that the customer is presented with as she drives past these stores on her many trips around town, acts as a catalysis to her memory and can say to her "have you forgotten anything you will need tonight?n Very few people can resist this type of reminder. So now that the store has caught her attention with its appearance and attractive sign, it must make it easy for her to get in, too. Most stores of this kind now provide parking for between ten and twenty cars. Remember, she doesn't want to walk a quarter-mile across a huge lot to get to the store. ${ }^{13}$ Convenience is the key. ${ }^{13 n}$ Drive-In, Quick-Shop, . . ." op. cit.; Lewis Milkovics, "Drive-Ins Gain Popularity in Northern States," Progressive Grocer, July, 1958, p. 70+.

Now that we have determined the over-all exterior appearance of the store and parking area, we must state several advantages that accrue to the multi-unit operator. If a group, owned or franchised, can present a uniform appearance of its member stores, all stores benefit from the multiplier effect that this repetition has on the advertising of these stores. ${ }^{14}$ If a customer knows that she can shop in any one of many stores and always find the same products in the same place, she will be more likely to shop there. A personal experience of one of our team might illustrate this statement. "My wife needed a few items as we were returning from Lansing last week, and I suggested we stop in a store directly on our way home, but unknown to my wife. She refused, and was willing to go out of her way to go to a store where she knew the location of the products rather than have to hunt for them in the new store. A drive-in that showed her the products, visually, even before she got in the store, that allowed her to park near it, and that offered fast check out, would undoubtedly have been acceptable to my wife." Women like to feel "at home" in a store, and if all the stores of a chain are identical, once she knows one, she knows them all. 15 No supermarket can approach

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15 \text { "Speedee Marts Squeeze, . . ." op. cit. }
$$

the standardization possible in a small drive-in mart. This image that the drive-in operator can build gives him many advantages that heretofore were only available to the chains. ${ }^{16}$ Such things as building type, sign, exterior layout, color and lighting all combine to work powerfully in enhancing the image the customer has of the store, but other areas are even more important.

Four areas are mentioned by almost every drive-in operator as main contributors to his success. They are cleanliness, courtesy, service, and friendliness. Since many housewives associate small stores with old-line, dark, dirty stores that they might have known in their youth, the drive-in operator must stress cleanliness and lighting to give the whole store a bright, clean look. ${ }^{17}$ Courtesy, service and friendliness are a direct responsibility of the persons running the store and probably determine to a large extent the success or failure of a store. In a small store the manager can get to know a large percentage of his customers since they will probably be coming in more often for smaller purchases, he will be checking them out, and there will be fewer customers per week than in a supermarket.

$$
\begin{aligned}
& { }^{16} \text { Milkovics, }{ }^{n} \text { Convenient Food, . . ." op. cit. } \\
& { }^{17} \text { Milkovics, "Min-It Market Drive-In, . . ." op. cit. }
\end{aligned}
$$

Because of the frienships formed, one drive-in operator claimed that $20 \%$ of $h$ is volume came from people doing their primary weekly shopping in his store! ${ }^{18}$ An excellent illustration of the potential value of courtesy, service and friendliness.

## Personnel

Now we must know how many people it takes to run a drive-in. As expected, there is no hard and fast rule, but most operators run on 1-2 full-time employees, and 1-3 parttime employees. ${ }^{19}$ The pay varies from $\$ 480$ a month to about $\$ 600$ per month with a portion of almost all salaries coming from profit sharing. ${ }^{20}$ This provides the carrot in front of the horse to get him to want to work harder, not be pushed into working harder.

Size

Drive-ins are like supermarkets. There are large drive-ins and small drive-ins. However, we can say that they vary in selling space from 1,000 scquare feet to 3,000

square feet, ${ }^{21}$ and that perhaps the most popular size to date is the store $60^{\prime}$ by $40^{\prime}$, with a 200 square foot rackroom, leaving 2,200 square feet of selling space. ${ }^{22}$ They are generally free standing units with the main exception being U-Tot'm Stores who seek to build a small "centerette" of six small convenience stores to attract the customers. Their "centerettes" have a grocery, a laundry, barber shop, beautician, shoe repair and liquor store. What more could you want: They are housed in a long narrow building with parking for 30 cars directly in front of the stores. To date they have been very successful and have paid out in five years. ${ }^{23}$

## Products Sold

Now that we know the size of the store, we must examine what is inside. Most stores sell a complete, though limited variety, of grocery lines. They sell pre-packaged produce, but their biggest problem is with their meats.

One universal feeling among drive-in operators is that they must sell national brands, and only the fastest moving items in a product line. If two brands of napkins do $60 \%$ of the
$2^{1}$ Ibid.
22 nspeedee Marts Squeeze, . . ." op. cit.
${ }^{23 n}$ The Truth, . . .n op. cit.
market and they are of different price and quality, the operator will only stock those two. Except for certain items, like beer and cigarettes, only the fastest moving items in the various price ranges are stocked. This is a must since the turnover in an average drive-in grocery department is only 14 turns a year versus the 21 turns a year average of the supermarket operator. However, adding the dairy and bakery departments, the turnover increases to 25 turns a year. 24

The number of items stocked varies from 1,800 items ${ }^{25}$ to 3,100 items, ${ }^{26}$ with a mean of around 2,500 items per store. This is to be compared with the over 6,000 items in an average supermarket. 27 One chain of stores studied showed that almost one-half of all of the stores' dollar volume came from only five categories; Cigarettes, 14\%; Milk, 10\%; Bread, 8\%; Beverages, 7\%; Ice Cream, 5\%. 28 This helps explain why the dry grocery sections are only turning over 14 times a year. Another study gives the

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Brown, op. cit.
${ }^{25}$ Milkovics, ${ }^{\prime}$ A Report on Drive-Ins, . . ." op. cit.
${ }^{26}$ Milkovics, ${ }^{\text {m}}$ Min-It Market Drive-Ins, . . ." op. cit.
${ }^{27}$ Lewis Milkovics, "Min-It Market Drive-In Stores Expanding in California," Part II, Progressive Grocer, November, 1958, p. 64+.
28Milkovics, "Drive-Ins Gain, . . ." op. cit.
following break-down of the sales dollar: Grocery and Produce, 60\%; Dairy, 27\%; Frozen Food, 11\%; Miscellaneous, 2\%. 29 One thing is universal, though; drive-ins have almost no back room storage space, which means that they have little money tied up in dead inventory and need regular deliveries often. ${ }^{30}$ The drive-ins also rely heavily on rack jobbers and salesmen to provide stocking and inventory assistance. This materially cuts down their need for store personnel to stock and maintain the shelf stock. For those interested in a complete drive-in stock inventory suggestions, see this footnoted reference. 31

Drive-ins rarely sell fresh meats. If they do the meat is pre-packaged by another operator, ${ }^{32}$ or by a fullsized store also owned by the drive-in's owner. ${ }^{33}$ The most common practice is to sell frozen meats, and one operator has even set up his own meat freezing plant. ${ }^{34}$ Frozen meat has many disadvantages, such as appearance, cost, and

[^5]flavor, but it will do in a pinch if nothing else is available and it is easy to handle and store. Breakthroughs in the methods of meat storage may soon provide the driveins with meat of comparable cost and quality as is now available to the supermarket operator. Until then, most operators feel they can get along without fresh meats. ${ }^{35}$

## Pricing

If there is one area that shows the greatest variance among drive-in operators today, it is in the area of pricing. Many operators claim that they are completely competitive with chain store prices; ${ }^{36}$ others claim that they are competitive on known price items, ${ }^{37}$ and still others claim that price is not why consumers shop their stores so they are not forced to compete with the chains. 38 It is our opinion that the store that is competitive where it has to be, such as milk and bread, and in areas where the mark-up is good, need not compete with the supermarkets in the rest of the store. Five to ten cents more cost is immaterial to a shopper when her time is saved. Also, very

35 Brown, op. cit.

36Milkovics, "Convenient Food, . . ." op. cit.
${ }^{37}$ Milkovics, "Min-It Market Drive-Ins, . . ." op. cit. ${ }^{38}{ }^{n}$ Drive-In, Quick-Shop, . . ." op. cit.
few drive-ins use advertising extensively that allows price comparison. If they do advertise, it is introductory adver. tising or image building advertising stressing aconvenience, not price. 39

## Sales

Now we begin to get to the pay-off part of the report. What can an operator expect in sales in a drive-in? Most estimates range from $\$ 2,000$ per week to $\$ 6,000$ per week, with the mean being approximately $\$ 4,000$ per week. ${ }^{40}$ One study showed that in nine stores examined, the break-even point was $\$ 3,500$ and four stores were grossing under that figure, and five stores grossing above it. One generalization can be made. Whatever the specific break-even point is determined to be, sales beyond that point increase profits at an increasing rate, and expenses increase at a declining rate. Thus a store with a break-even point of $\$ 3,500$ might net out $\$ 200$ profit on $\$ 4,000$ sales, but $\$ 600$ profit on $\$ 4,500$ sales. Thus sales volume is even more critical than in a large supermarket, because it is relatively easier to increase your sales from $\$ 4,000$ per

39nsmall Units in Comeback in Guise of Bantams," Food Topics, January, 1961, p. 16+.

Brown, op. cit.
week to $\$ 4,500$ per week than it is to increase your sales from $\$ 40,000$ per week to $\$ 45,000$ per week. For with the average drive-in handling 4,000 customers per week with an average purchase of $\$ 1.00$ per trip, if he can increase her purchases $\$ .12$ per trip or get 500 new customers, he will have gotten the needed increase; while the supermarket operator with 8,000 customers a week with an average purchase of $\$ 5.00$ a trip, must either increase her purchases $\$ .63$ a trip or get 1,000 new customers.

## Profits

Sales are a wonderful thing to have, but all of your effort is wasted if profits are not forthcoming. This is one area in which drive-ins really shine. Again, it is difficult to give exact figures, but gross profit percentage figures range from $21 \%^{41}$ to $29 \% .^{42}$ Since it is management's policy concerning competitive pricing that to a great extent determines the mark-up, an average figure is not as relevant in this case. Management is interested in dollar profit, so if they have lower profit mark-up they expect faster turnover, and with higher profit mark-up they can live with a slower turnover. One generalization can be made:

Ibid.
42 nsmall Units, . . ." op. cit.
mark-ups are generally higher in drive-ins than they are in supermarkets. Our opinion is that drive-in operators can be significantly higher in their grocery, meat and produce department, but should be in line on milk and kread.

Where drive-ins can really murder the chains is if they can keep their expenses low, and thus end up with a very high net profit. As mentioned before, net profits increase very rapidly after the break-even point, so some operators are averaging $9.1 \%$ net profit before taxes: ${ }^{43}$ A far cry from the chain stores $2 \%$. Let us now look at what it costs to open the average drive-in.

## Investment Needed

For the average drive-in, $60^{\prime}$ by $40^{\prime}$, selling 2,500 items, the cost needed to open a new store can be estimated as follows: 44

|  | Average |  | High |
| :---: | :---: | :---: | :---: |
| Inventory Stock | \$ 6,000 | to | \$ 8,000 |
| Equipment and Sign | 9,000 | to | 25,000 |
| Land and Building | 35,000 | to | 45,000 |
| Estimated Total: | \$50,000 | to | \$78,000 |

Using the average figures of $\$ 4,000$ per week sales, with a net profit of $6 \%$ before taxes, and average investment

[^6]44 Ibid.: "Drive-In, Quick-Shop, . . ." op. cit.
of $\$ 50,000$, an operator realizes a $25 \%$ return on his investment the first year. This percentage will increase rapidly as sales increase, and one operator, Convenience Foods, Incorporated, of Chicago, claims a $103 \%$ return on investment for its stores! ${ }^{45}$ Quite an accomplishment.

## Types of Organization

Since the high cost of many fixed expenses would put the independent in a less favorable position, many groups have been formed to reduce these costs. Three types are: (1) corporate chain, (2) franchised stores, and (3) wholesale affiliate. The corporate chain offers quantity buying of merchandise and equipment, bargaining power for union, leasing, and credit negotiations, and many economics in advertising, management and bookkeeping control. They offer major benefits in price buying if they have at least 15 stores, and then another price break at 50 stores. Above that number, there appears to be no benefit in price buying. 46 The franchised store group offers the same advantages of chain store operation with the added benefit of private ownership of stores. For their services, they must charge a fee that averages about $2 \%$ of sales. Convenient Food

$$
\begin{aligned}
& 45 \text { Milkovics, "Convenient Food, . . ." op. cit. } \\
& { }^{46} \text { Brown, op. cit. }
\end{aligned}
$$

Marts in Chicago offer the following services for their franchised stores:

| Supervision | Merchandising |
| :--- | :--- |
| Cost Accounting | Bookkeeping |
| Volume Buying | Monthly Financial Statement |
| Personnel Training | Inventories |
| Banking | Competitive Price Checks |
| Auditing | Business Analysis |
| Tax Returns | Promotion |

With these types of services offered, a franchised arrangement would be very desirable for some individuals. 47 The Wholesale affiliate can have the same benefits as a franchised operator, but has the facilities of a warehouse at his disposal. Generally, wholesalers do not offer the same degree of control or services that a franchised operator offers. The present trends today appear to be in the direction of franchised stores or chain expansions.

## Future Prospects and Conclusions

Several years ago, as drive-in markets began their expansion northward, it was predicted that they would sweep the country and every mom and pop store would be put out of business over night. Almost every chain or franchised operator predicted growth corresponding to the "2000 stores by $1965^{\prime \prime}$ prediction of Convenient Foods, Incorporated. 48

## 47

Milkovics, "Convenient Food, . . ." op. cit.
${ }^{48}$ Milkovics, "A Report on Drive-Ins, . . ." op. cit.

Several factors have combined to slow down the immediate disappearance of mom and pop stores. The prime reasons are that the old stores are fully depreciated and cost little to operate, and the operators of those stores are often willing to operate on less return than the owner of a rew store would be willing to do. His needs might not be as great and he perhaps is in semi-retirement. Also, his customers are friendly with him and are in the habit of shopping at his store. All these factors have limited the drive-in's growth. 49

We believe another factor limiting the drive-ins' rapid growth is a misunderstanding by prospective owners concerning the reasons customers shop these stores. If you enter the drive-in business believing that all you need is a small-sized supermarket, you will probably not succeed. The key to success seems to be the establishing of a strong image of convenience in the consumer's mind. This is not done simply with small size or by saying it in your advertisements, but must encompass every operation in the store. Even successful drive-in operators do not seem to fully grasp the market of the drive-ins, as shown by the quotation from the President of Speedee Markets, Henry A. Boney, "I ${ }^{49}$ Brown, op. cit.
would do some serious thinking about opening a small, complete store in direct competition to a super." 50 If all the other conditions are right, this might be a perfect place'.

Supermarket operators don't view drive-ins as any threat to their business, but how can they answer this: In Dallas, where 7 -Eleven Stores are doing $\$ 10$ million a year in sales, do they really think that all this business comes from mom and pop stores? ${ }^{51}$ We doubt it. Supermarkets are more threatened by an invasion by drive-in stores for the many reasons stated above. Why then don't supermarket operators enter this field? Primarily because it is an entirely new method of operation that is unknown to them. If we were a supermarket chain operator, we would seriously consider opening a chain of drive-ins under a different name, but serviced by our operation staff. In this way, we would appeal to both shopping methods, quick stop or complete shopping. For, if we were in this business, we would not have to force our present stores to stay open later, or any other methods that supermarket operators are using to fight this competition. ${ }^{52}$ In fact, if we made more profit in the smaller stores, we might want to limit our

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\begin{aligned}
& 50 \text { " Small Units, . . ." op. cit. } \\
& 51_{\text {" The Truth, }} \text {. . ." op. cit. } \\
& { }^{52} \text { Ibid. }
\end{aligned}
$$

big store hours to cut costs and allow the customers more time to shop our drive-ins.

Three other areas must be mentioned that work against the growth of the drive-ins. They are high costs through inefficient operation or too few stores to effect the economy of buying, over storing of drive-ins (a problem in the southwest), and Sunday Blue Laws limiting the purchases legal on Sunday. All of these factors must be considered by the prospective drive-in operator before rushing into the business. However, if he adequately surveys his market, studies the factors needed to operate a successful drive-in and has adequate financial backing, he has an excellent opportunity to do well in a very rewarding area of food retailing. The one fact he must keep in mind is that drive-ins exist to satisfy the consumers' need for convenience. If he remembers this, he would never say, as an unnamed supermarket executive is quoted in Super Market Merchandising, "What do we need with bantams? Super markets are getting so close together, there will be one on every corner!" 53

Approach to the Study

With this, then, as a background for the drive-in movement in the United States today, we can begin to look 53

Ibid.
at the model we propose testing for Michigan Dairy Company. In examining the problems that exist, utilizing a systems approach, we will cover the following areas in this order. Chapter III will examine the problems and suggested model for store, plant and warehouse location. Since this study was not able to determine its own locations, the principles that should be considered will be stressed in this chapter. Chapter IV is concerned with consumer image development for the model store, including all areas that bear on the problem. The merchandising methodology that we suggest be implemented is covered in Chapter $V$ and is a critical area for the success of the model. Chapter VI is an analysis of the financial management problems and our solutions of them. All areas concerned with personnel management are covered in Chapter VII. It was in this area that we had the least control and most difficult problems.

A short summary and conclusion are then given in Chapter VIII. A Comprehensive bibliography completes our study and is found following Chapter VIII. To facilitate more rapid reading of the report, the more detailed exhibits have been grouped together in the Appendix, which appears immediately following the Bibliography.

## CHAPTER III

## LOCATION ANALYSIS

## Plant Location

The decision to add a short section on plant location to this paper was based on the conclusion that many small dairy processors are finding that present locations and facilities are rapidly becoming obsolete. Few small processors are aware of the theories of spatial economies which play so heavily on the total profit picture of the firm. A change in plant location is costly in terms of both time and money, and is not by any means recommended unless management feels that the benefits of the long run will bring greater sales, profits, and lower total operation costs. This section is obviously designed for the most progressive management who think in terms of tomorrow as well as today.

A brief example of the theory of spatial economies should help clarify the picture. The test company, "Michigan Dairy Company" has had its plant and office facilities in the same location for approximately thirty years. This is in itself certainly not bad. However, this land has now
become a very valuable piece of property for a retail outlet. The increase in the value of the land has done nothirg to increase the value of the plant. In other words, has done nothing to increase the value added by manufacturing. Offers to buy the land have proven that the dollars gained from the sale of this property would be twice the cost of building a new modern plant on land that would increase the value added by manufacturing. This would also provide money for new retail locations.

Specifically then, the dollars gained from the sale of one location would equal the dollar expenditure needed for one new plant and three new retail outlets.

Since the science of plant location is quite precise and lengthy in nature, it is the purpose of this section to merely touch on some of the most important considerations in this area.

Because small dairy processors usually distribute products directly to retail outlets, it is imperative that distribution costs be included in our analysis of plant location.

Management has long been aware of the potential for greater efficiency and cost savings that exist in the area of physical distribution. However, it has been only in recent years that businessmen have expressed an increasing interest
in the integrated viewpoint which would recognize the interrelationships of marketing with the physical supply furictions, transportation and storage. ${ }^{1}$

Unfortunately, however, very few scientific advances can be claimed in the determination of where new distribution facilities should be built. Too often decisions are reached with little regard for the sound economic principles that are so highly prized in literally every phase of the retail industry.

Expansion and relocation have been necessitated because of shifting markets, increasing freight costs, the need for new labor supply, the desire to operate in cost communities, and the requirements for new straight-line production facilities. ${ }^{2}$

In terms of geography, it is not generally realized that the total cost factors involved can be regionally variable. The area of total cost includes product, inbound and outbound freight, wage, rates, fuel, power, gas, water, local and state taxes, and even workmen's compensation and insurance rates. It is an unavoidable fact, therefore, that geographic location becomes as important to the distributor

[^7]of goods as sound management, modern plant structure, and astute merchandising policies. ${ }^{3}$

A production and distribution facility can no longer be located by intuition or on the bases of insufficient data or analysis. The vital issue, therefore, that faces any organization dealing with the production and distribution of a product or products is -- WHERE?

On the bases of this assumption, it is evident that a definite plan based on analysis, and sound business principles must be followed. The first step for any individual calculating a production point is to cast out any personal prejudices and honestly determine the point on the bases of professional measuring devices.

It must be remembered that a facility built today must continue to operate with the same optimum efficiencies in the future. Thus, it is advisable that a chronological plan of growth be prepared for any company wishing to undertake a venture of this type.

## Sources of Information

The following sources are available for a more detailed explanation of plant location.

$$
{ }^{3} \text { Ibid., p. } 8 .
$$

1. Donald J. Bowersox, "An Analytical Approach to Warehouse Location," Handling and Shipping, February, 1962, p. 17.
2. Melvin L. Greenhut, Plant Location in Theory and Practice, University of North Caroline Press, Chapel Hill, 1956.
3. Walter Isard, Location and Space Economics, Technology Press, 1956.
4. A. Losch, The Economics of Location, Yale University Press, New Haven, Conn., 1954.
5. Smykay, Bowersox and Mossman, Physical Distribution Management, Macmillan Company, New York, 1961, pp. 116-228.
6. Leonard Yaseen, Plant Location, American Research Council, New York, 1956.

Cost Comparisons

In order to arrive at an accurate valuation of the various factors involved, it is advisable for the individual investigating to chart existing costs in relation to the cost Of a new distribution center. A suggested guide for comparison follows: ${ }^{4}$
${ }^{4}$ Ibid., see p. 10 for a similar guide.
"DIRECT \& INDIRECT
TRANSPORTATION COSTS
Inbound products . . . $\$$
Outbound products
Inventory . . . . . . $\$$

TOTAL
\$

## LABOR

| Direct productive | $\cdot$ | $\$$ |
| :---: | :---: | :---: | :---: |
| Non-productive • | $\cdot$ | $S$ |
| TOTAL |  | $\$$ |

## OVERHEAD

> Rent or carrying costs, excluding taxes . . . \$
> Real estate taxes . . \$
> Personal property and other locally assessed taxes . . . . . . . \$
> Fuel for heating purposes only . . . . \$

TOTAL
\$

UTILITIES
Power . . . . . . . . \$
Gas . . . . . . . . . \$
Water • . . . . . . . \$
Sewage disposal, etc . \$
TOTAL \$
STATE FACTORS
State taxes . . . . . \$
Workmen's compensation and other insurance . \$

TOTAL
\$
MIS CELLANEOUS
Other costs inherent or peculiar to your present location . . \$

Similar cost guides should be drawn up for both existing and proposed locations so as to elicit the most complete cost comparison.

## Transfer Costs

The feasibility of a new plant for the small dairy processor is heavily contingent on the effects of transfer costs. Although only one of a number of considerations in dairy plant location transfer costs are a dominant category, and since transfer cost can be measured quantitatively, they are an excellent starting point for location consideration. The calculation of purchase points and quantities shipped, retail outlets and volumes sold, and weight loss or gain in production is imperati ve in analyzing both established and prospective dairy plants. The point of minimum total transfer costs will force the new location towards the least cost center.

## Gathering Information

Since our new location must meet the demands of production and distribution to retail outlets, choosing a site on the value of only one would be naive. The following method of choosing a distribution center does not take into consideration production costs that may shift the point to
an even more advantageous total cost position. Using the principles of Donald J. Bowersox, ${ }^{5}$ we will now construct an example that will demonstrate how to choose a location that will allow all stores to receive prompt shipment, vital since we are working with a perishable product, at the lowest possible delivery cost. The procedure is as follows:

1. Assume we have four dairy stores to be converted into convenience stores and we are to build one new store. These stores will be represented as A, B, C, and D.
2. On a map of the trading area, mark the location of these stores.
3. Place a piece of transparent plastic over the map and draw vertical and horizontal lines similar to those on the sample grid. Care should be taken so that the crossing lines are close enough together so as to give a degree of point accuracy, yet not so close together so as to induce unnecessary complexities. Vertical and horizontal delineations should all be equal.
4. Number the $Y$ axis (vertical) and $X$ axis (horizontal) equally.
${ }^{5}$ See D. J. Bowersox, "An Analytic Approach to Warehouse Location," Handling and Shipping, Feb., 1962, pp. 17-20.
5. Calculate each store's location on the grid (i.e., (AY 10, AW 20).
6. Since dairy processors use private trucking, Volume is the number of trucks annually to each store. (Small processors will usually send the same number of trucks to each store, but for the sake of showing variances in deliveries, we will use the Bowersox figures). ${ }^{6}$
7. Determine total number of minutes it takes each truckload to reach each store from the assumed plant site (WX 50, WY 50).

We now have all the necessary information to apply the formula:

$$
\begin{aligned}
& \sum_{i=1}^{n} \frac{\text { Xifi }}{M i} \\
& W Y=\frac{\sum_{\sum}^{n} \frac{\text { Yifi }}{M i}}{\sum_{i} \sum_{i} \frac{f i}{M i}}
\end{aligned}
$$

This formula picks the point on the $X$ axis and $Y$ axis where delivery costs will be lowest. When the values of both are combined the result is the total least cost point.

[^8]

| Convenience | n facts and calculations |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\stackrel{2}{\text { Grid }}$ | $\begin{gathered} 3 \\ \text { Grid } \end{gathered}$ | 4 | 5 | 6 |
| Store | Location | Location | Annual | Delivery |  |
| Code | Value | Value | Trucks | Time | Distance |
| (i) | (X) | (Y) | (f) | (t) | (d) |
| A | 20 | 10 | 56 | 146 | 50 |
| B | 30 | 20 | 78 | 100 | 36 |
| C | 40 | 30 | 120 | 60 | 23 |
| D | 25 | 40 | 48 | 85 | 27 |
| E | 10 | 25 | 81 | 170 | 47 |



The symbol interpretations:
$\mathrm{W}=$ The initially assumed distribution point.
A-E $=$ Convenience store location.
$\mathbf{f}=$ Number of trucks to each store per year.
$\mathrm{t}=$ Time in minutes between W and each store.
d $=$ Distance from $W$ to each store.
$M=$ Speed at which each truck moves from $W$ to each store expressed in miles per minute or Distance divided by Time. (d/t).

Working the Problem

As has previously been mentioned this technique requires the use of an assumed distribution point. (WX 50, WY 50).

Since we have chosen an assumed point of distribution
(W) we are using a trial and error system to reach a point where the difference between the last two sets of values is zero or within an accepted plus or minus tolerance, three miles, for example.

II. WX $=\frac{\frac{X_{A} f_{A}}{M_{A}}+\frac{X_{B}{ }^{f} B}{M_{B}}+\frac{X_{C}{ }^{f} C}{M_{C}}+\frac{X_{D}{ }^{f} D}{M_{D}}+\frac{X_{E}{ }^{f} E}{M_{E}}}{\frac{f_{A}}{M_{A}}+\frac{f_{B}}{M_{B}}+\frac{f_{C}}{M_{C}}+\frac{f_{D}}{M_{D}}+\frac{f_{E}}{M_{E}}}$
III. WX $=\frac{\frac{20(56)}{.34}+\frac{30(78)}{.36}+\frac{40(120)}{.38}+\frac{25(48)}{.32}+\frac{10(81)}{.28}}{\frac{56}{34}+\frac{78}{.36}+\frac{120}{.38}+\frac{.48}{.32}+\frac{81}{.28}}$
IV. $W X=\frac{29090}{1137}$
V. $W X=25.67$ (26)
VI. $\quad W Y=\frac{28695}{1137}$
VII. $\quad W Y=25.94(26)$

This first computation shows the distribution point to be located at X 25.67 and $Y 25.44$ on the grid. The difference between the assumed point WX 50 and WY 50 and our new points of X 25.67 and $Y 25.94$ does not fall within the tolerance limit. Therefore, the formula must be worked at least once more. The optimum location point will be reached when the difference between the formula answer and the formula value is three (the tolerance) or below.
Initial assumed values WX 50 WY 50

New Values (lst computation) WX 26 WX 26
Difference WX 24 WY 24

Therefore, the formula must be worked again with
WK 25.67 and WY 25.94 as assumed values.

This formula takes into consideration only trucks outbound from the processing plant, but may be worked in a similar method from the points of milk production. Following this the two points can be averaged, considering any cost differential, to reach the least cost point of inbound and outbound shipments.

No mathematical technique can make the final location decision. It can, however, make the analysts job much easier by narrowing the probable area. The specific site location can be chosen from within the area delineated by the calculation.

## Summary

We have now outlined some of the basic considerations in choosing a new plant site for the small local dairy processor. In conclusion, a plant location check list is supplied for management. Field analysis considerations have been eliminated on the basis that small processors would remain within the same geographic area.

## PLANT LOCATION CHECK LIST ${ }^{7}$

I. Plant Analysis
A. Distribution Analysis
${ }^{7}$ For a more extensive check list, see E. W. Smykay, Management (New York: The Macmillan Company, 1961), pp. 172-175.

1. Distribution System Analysis
a. Current Production Points
b. Current Retail Locations
2. Long Term Expansion Plans and Policies
3. Primary Transfer Requirements
4. Modes of Transportation Capable of Satisfying Transfer Demands
a. Raw Material Movement
b. Finished Product Movement
B. Production Analysis
5. Raw Material Requirements
a. Present Point of Purchase
b. Quantity Purchased
C. Alternate Purchase Points
6. General Charactersitics of Production Process
a. Special Factors Dependent upon Location
7. Labor Requirements
a. Number of Skilled and Unskilled
b. Power and Utility Requirements
C. Market Analysis
8. Geographical Location of Major Market Segments
9. Competition Analysis
a. Production Locations
b. Major Markets Serviced and Relative Strength in each
D. Managerial Location Preferences
E. Location Specifications for New Plant
10. Distribution Requirements
11. Production Requirements
12. Market Requirements
13. Managerial Preferences
F. Cost Analysis at Present Manufacturing Location
14. Transportation
15. Production
II. Area Analysis
A. Community Analysis
16. General Description of Community(s)
17. Population and Growth Patterns
18. Industrial Climate
a. Existing Industry
b. Local Laws
c. Labor Situation
d. Community Attitude
19. Supporting Facilities and Services
a. Transportation Facilities
b. Utilities
c. Municipal Services
B. Site Analysis
20. Geographical Considerations
a. Size
b. Soil Content
c. Drainage
21. Utility Availability
22. Availability of Required Transportation Facilities
23. Costs
a. Procurement
b. Landscaping, etc.
24. Selection of a Site(s) based upon Location Specifications
III. Final Location Selection
A. Proposed Costs at Alternative Sites
25. Continuing Production and Distribution Costs
26. Initial Establishment Costs
B. Comparative Analysis of Proposed Costs with Costs Experienced at Current Location
C. Final Selection of New Location Based Upon LeastCost Comparison

## Store Location

This section is based on the theory that many
progressive dairy processors who would consider transforming old dairy stores into convenience stores will also be
interested in establishing new modern outlets for their products.

## General Considerations

In $1960,62 \%$ of the new supermarkets opened were below their forecasted sales volumes for that year, $44 \%$ of which were more than $10 \%$ below their forecasted level. 8 There can be little doubt that a poor job of forecasting was done in many of these cases.

Convenience store locations cannot by any means be measured with the same rationale as that of the supermarkets. Many lessons can be learned, however, from the tendency of supermarket operators to saturate a market with stores.

The first basic rule for building a single convenience store or for establishing a network of them, is that of proper location analysis. The word convenience itself indicates that to be successful the location must be at an optimum accessibility point to the greatest number of potential customers. In this sense a dichotomy exists between supermarket operators and convenience store operators. Supermarkets are not dependent, although it admittedly helps, on having the most convenient location. Other advantages of

[^9]the supermarket outweigh the disadvantage of size which many times prevents these stores from being located at the point of optimum convenience. The convenience store, on the other hand, thrives on its ability to take advantage of smallness and secure the most advantageous position of optimum accessibility to the greatest number of potential customers.

## The Saturation Effect

We must realize that a particular market area can be saturated with convenience outlets just as easily as it can be saturated with supermarkets. However, this does not necessarily mean that a saturation of one equals a saturation of the other. Both types of outlets can and do operate complementary to each other in many market areas.

If the convenience outlets within an area are not gaining a proper return on their investment, it is a fairly valid assumption that the area has reached the point of saturation. Saturation often comes about because many operators tend to underestimate their competition. It is not sound judgment to enter a particular trading area on the bases that competition is not very capable. The point here is that five individual operators cannot each get $25 \%$ of the dollars available. The potential dollar is usually relatively constant in established trading areas. On this
bases the addition of each new store merely decreases the amount of sales for each by the percentage the new store adds to the total. A rather simple arithmetic formula helps to to clarify this position:

$$
\begin{aligned}
\mathrm{K}= & \text { Total potential dollars available in the trading } \\
& \text { area. } \\
\mathbf{V}= & \text { Variable number of retail outlets in the area } \\
\mathbf{S}= & \% \text { of potential sales dollars to each outlet }
\end{aligned}
$$

Example \#l

$$
\begin{aligned}
& s=\frac{K}{V} \\
& S=\frac{100}{4} \\
& S=25
\end{aligned}
$$

Example \# 2 - With one new outlet added

$$
\begin{aligned}
& S=\frac{100}{5} \\
& S=20 \%
\end{aligned}
$$

The formula obviously is based on the assumption that all outlets will be equal in physical and emotional drawing power. Granted, this is never the case, but the formula holds true nevertheless on the basis that no outlet will lose $100 \%$ of its percentage share of the trading area. The point remains that in an established trading area the dollar potential seldom increases any significant amount. Therefore, if the breakeven point of four outlets requires
a sales volume equal to $25 \%$ of the total, the addition of one more store will put all stores in a rather precarious financial position. Four points should be remembered when reviewing a trading area:

1. Determine the total dollar convenience store potential a. Calculate the average dollar expenditures made in the particular socio-economic trading area being studied.
b. Multiply the average expenditure by the number of families in the trading area affected.

This figure will not be entirely accurate because a well located convenience store will draw many customers who do not live within the trading area but pass the store regularly. The figure will be a reasonable approximation, however. A much more accurate means of calculation is the traffic count method using a destination analysis.
2. Count number of competitive outlets.
3. Determine land costs.
4. Estimate an approximate breakeven point.

The Customer

Before proceeding to an evaluation of specific store sites, we should once again establish just who the convenience
store customer is. We must remember that very few people patronizing a particular outlet to do the weekly shopping. Three people in the family actually use this type of outlet regularly.

Mother, will shop regularly for items she has forgotten on her regular trip to the supermarket, plus replenishing her supply of bread and milk. She is not interested in fighting the large supermarket parking lot, and taking a lot of time in a 20,000 square foot store.

When mother does not feel like going to the store herself, she sends one of the children to pick up an item or two. When Junior is there, incidentally, he usually picks up something for himself. Women and children will be primarily daytime customers.

Father usually gets the assignment of picking up milk and other assorted items on his way home from work. Merchandising principals must also cater to men. In a customer survey of the dairy store which ultimately became the model this paper is based upon, it was found that out of all adult shoppers $50 \%$ were male, $50 \%$ female.

All three family members shop at this type of retail Outlet for two basic reasons:

1. It is quick and easy.
2. It satisfied their merchandise needs.

Now that we have determined who shops in our store, and why they shop there, we can do a better job of evaluating specific store sites.

## Evaluating Store Sites

Major considerations in this evaluation are: ${ }^{9}$

1. Accessibility
2. Population
3. Competition

Although we have talked about accessibility earlier under General Considerations we will now study the specific effects. It is very difficult to establish accurate quantitative measurements of accessibility. "A site that has good accessibility is one that can be easily reached by customers and employees." ${ }^{10}$ of course, to get the most out of accessibility you must be more accessible than competition.

One of the elements of accessibility is road surface conditions. Roads pitted with pot holes, or continuously ice covered in winter are examples of unfavorable conditions.

One element that can be measured quantitatively is
${ }^{9}$ Many of the recommendations in these areas are based On analysis of Saul B. Cohen and William Applebaum, "Evaluating Store Sites and Determining Store Rents," Store Location and Development Studies, Clark University, Worcester, Mass., USA, Jan., 1961, p. 61.

10 Ibid.
time-distance. An unfavorable ratio between time-distance to the ultimate destination route usually means disaster for the convenience store.

Traffic flow is a measurement that must be made before a particular site is chosen. Traffic should be measured in terms of numbers, velocity, peak periods, and destination. Traffic flow must fit the following specifications if it is to be advantageous to a convenience store site.

1. Traffic must be equivalent to a main artery.
2. Traffic must be traveling at a rate of speed that would allow pulling from the highway on impulse.
3. Traffic cannot be so heavy as to hinder pulling from the street or highway.
4. The majority of vehicles should have an ultimate destination point of not more than 30 minutes. (Distance for the potential automobile customer is irrelevant if the other positive factors are present.) Convenience stores can do much to maximize their effectiveness if traffic flow is carefully analyzed. Father on his way home from work, for instance, will stop if it is easy for him to do so. If it is not, he will stop at some other outlet or not stop at all. For this reason it is most advantageous to locate on the "going home side of the street." Another source of traffic other than work traffic
is school traffic, particularly that from grade schools. Mothers frequently pick up their children when school is out. This is also only a few hours before dinner time so if she needs something, she will not hesitate to stop if it is easy for her. Many other advantages come from locating near schools, not the least of which is that families are usually younger, larger, and more conducive to buying convenience and snack items. The dairy processor will be the first to realize that these families also consume high amounts of milk and are looking for a low price.

Pilferage is always a problem, however, where there is heavy child traffic. This problem can easily be solved with properly trained employees, and proper merchandising and layout techniques. (The present model store, for instance, has a high rate of,traffic from children, and the Pilferage rate is near zero.

The obvious advantage of choosing a site that is
visible from all directions is of distinct importance.
Corner locations tend to maximize store visibility. The longer the store is viewable to the potential customer, the greater the chance of his stopping.

Population of the trading area around the proposed site is of vital significance to the store's success. Convenience stores should usually be directly accessible to
from 400 to 500 families. Market potential can be measured with a great deal of accuracy if population number, composition, density, growth, income, expenditures and buying habits are taken irto consideration. Such information can usually be obtained from the Chamber of Commerce or City Planning Agencies. One of the most important criteria here is whether or not the proposed location is in the path of projected growth movements.
"Competition is the aggregate of all retailing facilities which together share the total market potential. Thus, the competition of a retail enterprise comprises all retail facilities which sell the same type of products."ll The product of convenience store is not milk, bread or canned vegetables, but the store itself. And this is the product we are trying to sell to the public. With this as a criteria, it is evident that convenience stores are not in competition with supermarkets in that they offer two completely different types of services. In evaluating the number and quality of competition that would affect a specific location, it should be done on the basis of those stores selling the same goods and services as the new store would have. An overlay map of competitive outlets and their drawing areas can be of great value in evaluating a site.

[^10]The number of sites that might be used by competition in the future should also be noted.

## Sources of Information

We have now outlined the various considerations that should be made when considering a trading area and a specific site. There are numerous sources of information that can be of aid to the location analysis. ${ }^{12}$

1. Retail Sales figures published by the U.S. Department of Commerce.
2. "Survey of Buying Power," Sales Management, Published yearly by Sales Management Magazine in May or June.
3. U.S. Department of Labor-Bureau of Labor Statistics.
4. City Planning Guides - usually run on twenty year forecasts by City, State and Regional Planning Commissions.
5. Bureau of Census.
6. State and city Police Departments - for traffic information and aerial photographs.

Operating Considerations

Operating considerations must also be analyzed in site evaluation simply because they are directly related to

12A more complete list of sources can be found in
"New Frontiers in Store Location," Supermarket Merchandiser, Feb. 1963, p. 110.
profit potential. Some of the most important considerations are as follows: (1) Labor, (2) Distance from plant, (3) Taxation, (4) Regulations affecting store hours. Factors which determine real estate costs whether or not it is owned or rented are as follows: "(1) Land and building costs; (2) debt service charges; (3) operating costs such as real estate taxes, insurance repairs and maintenance; (4) and last but not least negotiation." 13


The Model Location

The location of the model store is not ideal, but it does meet many of the location requirements. For the sake of expediency and financial restrictions, we accepted the location of an already established "Michigan Dairy Company" store instead of choosing the site on which a new store would be built.

The positive location factors of the model store are:

1. It is easily accessible to approximately 2,500 families.
2. It is located on a corner.
3. It is located near complementary retail facilities.
4. There is very little competition (convenience store).

13
Ibid., p. 91.
5. The trading area is economically stable, and contains many young families.
6. The time distance ratio to primary arteries is excellent.

The location disadvantages are as follows:

1. It is not on the "going home side of the street."
2. The secondary street crossing the main artery dead-ends.
3. Visibility is below average.


Summary

Choosing a proper location for a convenience store is without a doubt the most important step in building a profitable operation. Management cannot afford to treat the subject of location lightly. Thorough quantitative as well as qualitative measuring techniques should be used. Whether or not a particular organization has the personnel qualified to make such a thorough location analysis must be the honest decision of management. Management should be familiar with the organizations and people in its area who are trained in location analysis, and be willing to invest in their services.

Cohen and Applebaum supply the author's conclusions.

The profit potential of a store site must be related to return on capital investment. This investment comprises equity in land and building, if
any, in store equipment and merchandise, plus any back-up merchandise and facilities that may be needed to service the store.

Return on investment involves short- and long-range considerations, and a choice of methods for calculating return usually figured on a pretax basis. To pioneer too soon or too large in a newly developing area may not be a wise investment. If a store at a given site is not likely to achieve its full sales and profit potentials until several years after opening, perhaps another location should be found where a satisfactory return on investment can be achieved sooner. In the latter case the earnings, as they become available, can be promptly reinvested.

From the presentation which has just been made, it follows that a store site evaluation is really not complete without a detailed analysis covering estimated sales, operating expenses, profits from sales, capital investment requirements, and return on investment. 14

14 Saul B. Cohen and William Applebaum, ${ }^{n}$ Evaluating Store Sites and Determining Store Rents," Store Location and Development Studies, Clark University, Worcester, Mass., USA. Jan., 1961, p. 91.

## CHAPTER IV

DEVELOPING A CONSUMER IMAGE

## Philosophy of Consumer Image Development

A corporate image is the spontaneous image that your store invokes in the minds of its various publics. This image is present whether or not you desire it to be, or build it. It is a stereotyped oversimplification of your total company policies and actions as they appear to be to all the various people exposed to all your different messages. Because it is an emotional feeling rather than a logical fact, it is very hard to change once it is established.l Therefore, it is very much to your benefit to promote the image you would like to have, rather than change an unfavorable image. Since the building of a corporate image is so very important, it would be advisable to use the services of professionals, if at all possible. ${ }^{2}$ In Our case, however, the severe limitations that had to be

[^11]placed on expenditures eliminated this possibility. Since the small dairy industry will prokably have the same monetary limitations, we will now elaborate fust what we did and why. Not so that the industry can copy our approach directly, but so that the basic principles can be established that will provide a do-it-yourself image kit.

A corporate image is made up of many parts that appeal to the various publics that affect the operation of the business. In this study we will try to describe a model that can be used to develop a strong consumer image, since this is more consistent with the retail side of the business. Developing a complete corporate philosophy to influence all of our publics (i.e., stockholders and the financial community, employees, distributors, suppliers, the community in general and government in particular) will be left to the corporation. ${ }^{3}$ This does not mean that it is not important for our future growth; only that it will not be covered in this report.

Why do we need this strong, co-ordinated consumer
image? Because your customers do judge a book by its cover. The symbols your store uses to describe itself are as important as the actual facts concerning your operation. 4

[^12]It is a proven fact that the more you know about a company, the more you like that company. Having good policies is not enough. In a survey of 48 cities in the U.S.A., it was determined that the companies who actively worked on building their image in the community were far better than those who did little or nothing to build their image. ${ }^{5}$ The easiest way to build this strong, co-ordinated image is to make your store unique. You simply cannot be all things to all people. You must segment your market and decide who you want to sell, and then build a program that will make your store unique in their eyes. Being unique is almost as important as picking the "right" image for your stores. For if you develop an undifferentiated image you will not inspire much loyalty among your customers. The greater the similarity that exists between your stores and your competition, the less loyalty you will be able to develop among your customers. Loyalty is paramount in generating profits, because the expense of getting new customers must be spread over many repurchase trips, or the costs will outrun the revenue received. Thus you must develop a clear, distinct image in the consumer's mind so that she thinks of your store when she is thinking of the services you offer.

[^13]As a small retail operator, how can we best determine who we want to sell? We must first examine what business we are in and who uses the majority of our services. As previously described, we have chosen to put Michigan Dairy Company in the drive-in convenience food store business. Since our model store in East Lansing already has a well developed milk and dairy foods image, this will change our typical customer slightly. We will have, therefore, two basic customers shopping our store: (l) customers who regularly shop (three times a week) for milk and dairy foods; and (2) customers who infrequently shop (once a week or less) for convenience goods and fill-in orders. In this respect we are fortunate, because our steady milk customers give us a strong base upon which to add the new convenience customers. The degree to which we can drastically change the store and still hold their business will determine to a large extent the success of our model. Now that we know who we must sell, let us examine how we should best approach these two groups.

Since the milk customers are already going out of their way to buy milk in relatively heavy, hard-to-manage bottles that demand a deposit and must be returned, we have to deduce that they are being drawn to the store almost exclusively by price. This fact was demonstrably shown when
the supermarkets dropped their milk prices to \$.37, our normal price, and we lost half of our milk business in one week. As soon as we reduced our price to \$.35, and reestablished our two cent differential, the business immediately returned. Therefore, we can generalize that our milk price is critical in holding our milk customers and almost nothing else is of any great importance.

The approach that we must take to bring in the convenience store buyer is diametrically opposite of the milk buyer. The convenience customer is concerned with being able to quickly pick up a wide variety of grocery products and particularly impulse purchases and party snacks. This customer demands that you be open every day late into the evening and have a wide selection of well-known brands in the most popular sizes with which she can supplement her regular grocery purchases. It is this customer who is the most demanding, and to whom our image development is most difficult. Now that we know who we must sell, and what she is looking for, let us specifically describe the methods we have used in developing our consumer image in the model store. Since a consumer image is made up of the aggregate of many different parts that bear on the determination of that image, we must examine each part in order that none are overlooked. Since store location is one of the initial
determinants of your image, it will be covered first.

## Specifics of Consumer Image Development

## Store Location

To appeal to both types of customers that we have previously defined, the stores must be located on, or just off of, major "going-home" routes. They must be near large concentrations of household residences and provide particularly easy entrance and exit. They should be located on the "going-home" side of the street, and probably on the corner for easy entry, exit and recognition. The location should immediately say to the customer, "This is a very easy and convenient place for me to shop. I wonder what kind of products it sells?n Location can work to create a favorable store image whether there is one store or several, but the multiplier factor that sets in when several stores are well placed in an area, greatly aids your consumer image. Since we are dealing with an individual store as our model, we cannot immediately take advantage of this multiplier effect, but perhaps this will work for us in the future. We were fortunate in that our model was located on a good going home street, but it was not on the going home side of the street. This disadvantage is more than made up for by its excellent
location on a corner with over 2,500 homes located within five minutes driving time, and only one major supermarket and no convenience stores within a mile. Since almost all of these residences are located on the same side of the street as our store, the availability of walk-in trade is of greater importance than the "going-home" side of the street, and so our location must be considered to be a very good one-one that certainly aids our consumer image of convenience. The store is set back along the side of the corner lot that maximizes its impact on the shopper as she heads home, and the parking is well paved and ample. Approximately ten cars can easily park in the lot, and three different entrances aid traffic flow.

An additional benefit to us is a laundry located next to our lot at the rear, which provided an added reason for the customer to shop our store. Laundries and convenience drive-in food stores make a very fine combination.

## Store Sign

Now that the customer sees our store, the next thing that comes to mind is "What is being sold in the store?" To learn this she turns to the store sign. Here is the first chance you have to visually interpret your image to your customer. Since first impressions are often as far as some
people will ever get, you must begin to make your store unique through the sign you develop. Most cities today have some sort of convenience outlets in them, and you must make your store appear different from the normal and, therefore, more memorable. If, when a customer needs to purchase a few items, your store is the one that first comes to mind, you will get her business. It has been proven that people tend to "humanize" companies. ${ }^{6}$ The refore, if your sign allows them to draw easily associated descriptions about your company you will be off to a good start. Since we are already talking about graphics, it might be well to mention that of prime importance is that you portray the same image everywhere. In our model we chose an Early American theme because all of our convenience and dairy store competition, and all of the supermarkets, had chosen a modern decor. We simply could not have been unique had we also gone the same route, and so we chose the exact opposite. In Exhibit 5, you can see how we interpreted an Early American feeling into the design of the entire sign. An old-fashioned lantern was built to rotate so that we could create interest and also remind the customer of our most prominent feature, milk. The lantern is internally lit at night and visually shows the

[^14]Exhibit \# 4. Exterior view before change.


Exhibit \# 5. Exterior view after change
customer that the store is open for business. We felt that this design was so striking that we have picked up the lantern symbol as our trade-mark and have even incorporated it in our selling slogan, "Look for the lantern -- save time and money." The next impression you will make will be with your name.

## Store Name

Names can be of four basic types. ${ }^{7}$

1. Descriptive.
2. Personal or Corporate.
3. Initials.
4. Fabricated or coined.

To give quick identification and strong recall,
descriptive names have proven to be the most successful for the drive-in convenience food store. Such names as 7-11, Quick-Check, Speedy Mart and Minit Markets have been used in every area of the country. In Lansing, Michigan, there are two convenience store operators, Min-a-Mart and Quality Dairy. To differentiate our store from our Competition, we felt that we wanted a descriptive name that was well adapted to use with the Early American decor. This

[^15]meant that the name had to be warm and rustic but still tell our convenience story. Since we had decided to use the sign as our trademark, the name also had to have the following characteristics: ${ }^{8}$

1. Memorability.
2. Recognition.
3. Appropriateness.
4. Uniqueness.

To achieve these ends we chose the name "Pick Quick PANTRY." As you can see from Exhibit 6, the word Pantry was played up on our sign to increase the recognition and memorability. We felt that "pantry" fit well into our Early American motif and emphasized the grocery additions that had been made within the store. The "Pick - Quick" was believed to be well suited since "Pickwick Papers" by Dickens carries much of the same flavor as Early Americana. It was also felt the Pick-Quick implied convenience shopping while not becoming too closely assoclated with the name our competition had established, Min-a-Mart. To give a balance between hig quality and low price, the name was rendered in modified Old English type on two of the four panels, and the current half gallon milk price was placed on the opposite

[^16]two faces. With the sign rotating, the customer would be shown a simple, attractively rendered sign, with the name and decor implying quality, and the price of milk establishing that this quality is available at a low price. We felt that our customers had to be convinced that our milk and dairy foods were the highest quality possible, because our price, and the former store appearance, worked against this quality image. We were fully aware that a high quality image builds a high price image in the consumer's mind, and we have, therefore, attempted to build a balanced image. ${ }^{9}$ Follow-up surveys should be able to ascertain how successful we have been. We feel that this new name answers all the requirements for a good trademark; memorability, recognition, appropriateness, and uniqueness. Many other names would have been just as satisfactory and could have been chosen for our model, but this one just worked out well for us. To be even more sure that the chosen name said what you desired, at least a small pilot study should be run. By asking customers what comes to mind when they read certain names, it is possible to quickly weed out the undesirable names and arrive at a satisfactory one -one that tells the story you want told, clearly and memorably.

[^17]To be considered a convenience store, you must be open hours when the supermarkets are closed. In many areas this means 7 A.M. to 11 P.M. It was our experience that in our location, the stores did very little business until midmorning and did quite a lot of business at closing. Therefore, we recommended opening at 8 A.M. as usual but closing at 11 P.M. Since this added additional costs, we felt that it should be watched to see if it paid for itself. A cutoff volume was set at $\$ 10.00$ between 9 P.M. and ll P.M. and the results were checked for the first several weeks. Only on the first night was the volume even close to our breakeven point, and it climbed steadily as the test continued. (The reader is referred to the financial section for the detailed figures.) The store hours were prominently displayed on lighted strip signs running the full length and across the front of the building. There seems to be no question that store hours are a very important contributor to our model's "convenience" image.

## Store Layout

While the specifics of the store layout will be described in detail in the next chapter, it must be briefly discussed because of the effect it has on the image
determination. Since we are dealing with a dairy store converted to a convenience food store, we have two major store layout problems; (1) we must facilitate quick and easy milk purchases for our old customers who are accustomed to being waited on by a clerk who would get their milk order for them; and (2) we must provide full store shopping for all customers to allow for impulse purchases and ease of shopping for pick-up purchases. If we accomplish these ends, we greatly increase our image of convenience in our customers' minds, and we will keep our present customers happy with the new store.

To accomplish this, we installed an honor system bottle return at the entrance door, forced the customer through the entire store to the self-service milk cooler in the rear, and then brought her to a new checkout counter at the exit door. By placing our ice cream and frozen food freezers in the center of the store, the entering customer can see the entire store at one glance and quickly and easily pick out the products she needs. Since she sees the whole product mix and physically walks within two feet of every product, her opportunity for impulse purchasing is greatly improved. By leaving her empty milk and soft drink bottles at the entrance and giving her small new carts to carry her purchases, we have made it much easier for her to
shop, and in this way increase our image of convenience in her eyes.

The new store layout has another benefit.
Convenience store customers, as well as our present milk customers, are now visually showed that we sell a complete line of grocery products. A customer does not want to waste her time going into a store to pick up a few items only to find that the store does not sell even the most common item. If this happens once, you will have lost a customer forever. After only one trip through the model store, the customer will know that she can be assured of finding all the items she might need to pick up at the "Pick-Quick PANTRY."

The question of whether or not the present customers would dislike self-service milk came up for great discussion. It was our position that the increased speed of purchase would more than make up for the added effort on the customer's part. We have been proven completely justified in this belief, as customer after customer comments on how much easier and quicker the store is to shop. This is particularly true around the lunch and dinner rush periods, when the customers used to be lined up five and six deep waiting for the service milk, and now they can serve themselves through three self-service doors and only have to wait for Checkout. Every moment we can save of our customer's time
increases her opinion of the convenience of our model stores and increases her willingness to shop there often.

## Product-Pricing Mix

Although it is true that the convenience store shopper represents the "buying" dollar, not the "shopping" dollar, there are certain products that she expects you to be competitive on. These demand items we have defined as being milk, regular white bread, coffee, sugar, cigarettes, candy and magazines. On these items we believe that we should be in line with the prevailing chain prices in our local area. Since milk is our featured product, we will attempt to remain $\$ .02$ under chain prices at all times. Barring a price war, this is not much of a problem, due to the supermarket's heavy reliance on the expensive-toproduce paper carton instead of glass bottles for the milk packaging. We have found that we are able to average approximately $25 \%$ mark-up on the rest of our grocery line and not be too far out of line with the prevailing supermarket prices. These prices, along with ten specials that we run every two weeks, provide us with a favorable product-price mix that satisfies our regular milk customers as well as our new convenience store shoppers. Several customers mentioned that with all of the changes and improvements,
they expected our prices to go up, but that actually our prices have come down.

With this kind of acceptance we felt that a proper product-price mix had been achieved that would help to build a favorable consumer image.

## Store Decor

As is apparent from Exhibits \#4, \#7, \#9, \#11 and \#13 the original store boasted of no distinctive decor whatsoever. It was simply an old-fashioned service milk store that had been dragged, kicking and screaming, into some semblance of modernity through the addition of new grocery shelving down the center of the store. This shelving effectively blocked off $70 \%$ of the store from easy customer purchasing and forced the customer immediately to the milk counter to unload her bottles. The excessive use of hand-made signs, inside and outside the store, was the only visual tool employed to provide memorability and distinctiveness to the store. To overcome these problems, we transformed the inside of the store into a small Early American Shop, complete with barrels for display and our own indoor creamery built into the rear wall. As you can see, in Exhibits \#5, \#8, \#10, \#l2, and \#l4 the effect was striking. Tied into the outside sign and strip lettering, the interior wrought-iron


Exhibit \# 8. Interior view after change.



Exhibit \# 12. Interior view after change.


Exhibit \# 13.


Exhibit \# 14.

railing and light, display barrels, product identifying signs, and "The Creamery," provide a coordinated, memorable image to the consumer. As we mentioned before, what decor you choose is not as important as being consistent in the use of that decor in everything you do. The results speak for themselves.

## Personnel Attitudes and Appearance

Small stores traditionally have depended upon the friendliness of their clerks to give their stores a warm, friendly image. The modern convenience store is no exception. With only two clerks regularly working the store, they can build up valuable relations with the customers who shop the store. This relationship guides the customer to the belief that the store is her store, and that she has confidence in the products that are sold there because of the confidence she has in the clerks that serve her. This personal relationship is so important that it should not be left to chance, but should be explained to all of the employees. If they are correctly taught, they will be much better able to answer customer questions concerning the inability of the store to stock every item a supermarket stocks, and they will be able to increase impulse and tiein purchases by product suggestions. If the employees

complain about management's policies to the customers, the customers will begin to lose faith in the store and her business will soon be lost. Therefore, the building of good employee morale and attitudes is vital to a good store image. With a large proportion of our model store's volume in dairy foods, the employee's appearance is vitally important. The customer must believe that the dairy foods she is purchasing are equal in quality to any others, or else a monetary savings, no matter how great, will not induce her to buy our products. The personification of your attitude on cleanliness is visually demonstrated to your customers every time the clerk checks her out. Therefore, the clerk's personal cleanliness becomes your plant's cleanliness and if it is not satisfactory, will work against you in building a favorable consumer image.

To help build a favorable image, our clerks are required to wash their hands thoroughly, with special emphasis on their nails, before starting work. We have also rented attractive smocks that present a neat and tidy appearance. The smocks are also valuable for improved recall when more than one store is building the same image. It is imperative that the smocks be regularly laundered, and so we have hired a local laundry to handle them. The smocks have been met with great enthusiasm by the clerks, since they

reduce wear and tear on their personal clothing. Many other areas of the store also help build this image of cleanliness, and are taken up next.

## Cleanliness and Orderliness

Equally as important as having your store employees be neat and clean, is having a store that appears to be spotless. In this regard, the words "appears to be" are very significant. Our senses often fool us. A store that is actually not as clean as another can appear to be even more clean. This is true because cleanliness is made up of other factors such as orderliness, an uncluttered look, simple lines and good lighting. The Early American decor we have chosen works against us in this regard. It can be a "fussy" decor, that is not simple and uncluttered looking, and which could tend to make the store look disheveled. Because of this, we took great pains to assure that the Early American decor be interpreted as simply as possible, and we modified the type faces on all of our signs to be clear and clean looking. We then eliminated all in-store promotional material, except on our small "specialn signs, and through the use of long stretches of shelving, wide aisles and a feeling of spaciousness achieved by putting the frozen food box in the center of the store, attempted to
build into our model a simple, uncluttered, Early American appearance. The results are shown in Exhibit \#l5.

After the store has been built to be clean and simple in appearance, the job is only partially done. The employees must keep the shelves neat and dusted. The products must be faced front, right on the front edge of the shelf but not over it, or back a half an inch, and be constantly dusted to remain clean. Management must not assume that the clerks know how to do this job, but must spend time and effort training them to do the job correctly, and then follow up and check to see if it is being done regularly. Only in this way can the precious image of cleanliness attach itself to your store.

Next, management must arrange to have a competent floor maintenance service come in weekly to wax and buff the floors. The money spent on floor care is some of the best spent money in the store, and can be thought of as an insurance policy--insurance against losing customers who think your store is not clean. Regular dry mopping by the help will then keep your floors looking attractive all of the time.

Finally, lighting must be the right color, intensity, and location to best show off your clean, neat store. While it is possible to overlight a store, it is not generally the major problem. Since lighting equipment is expensive to buy
and operate, many operators tend to skimp in this important area. Since faulty lighting can undo all of your hard work and planning, it is paramount that it be located by a professional who knows how to give you the most light for your money.

Today, it is not as important to mention the color temperature of your lights since almost all retail establishments use daylight cool fluorescents, but it is an important detail. Incandescent lights, and some fluorescent tubes, provide a warm colored light that turns clean white into dirty white. This does not help your image at all. However, there are times when you must use incandescent lights. Spotlights come only in incandescent, and if they are needed, they must be used with a warmer colored bulb than your fluorescents. In our model this provided little problem, for we wanted little touches of warmth around the store, and so we spotted lanterns with incandescent bulbs on "The Creamery" and also at the entrance. The warm pools of light that the new spotlights threw on our display barrels served to highlight them from the rest of the store. For this reason, the two types of lights worked better for our model than they would in a store that was entirely modern in decor.

As a final touch, we placed fluorescent tubes on the
two posts that ran up the long side wall, built wooden shelves around them connecting the grocery shelving running along the wall, and bent opaque white plastic around the backs of the shelves to provide back lighting for our glassed jellies, jams, pickles, syrup, etc. The highlights thus added a spark to the whole grocery department and have caused much favorable comment. Yes, lighting is important to help build your image of cleanliness, and this image will reward you for your care and attention many times over.

## Advertising

To make a success of advertising, one must be prepared to stick like a barnacle on a boat's bottom. He should know before he begins it that he must spend money--lots of it. Somebody must tell him that he cannot hope to reap results commensurate with his expenditure early in the game. 10

## John Wanamaker

Now that the store personality has been shaped, you must tell your customers about it in the most consistently clear and efficient way possible. The image shown in your store must be interpreted visually into your advertising so that when a customer sees your advertisement she immediately knows whose advertisement it is. By using consistent visual
10 Bristol, op. cit.
reminders, you multiply the effect of your advertising messages no matter where they appear. Since our image is primarily built by visual techniques, media that allow us to use sight will be of prime importance to us. With only one store, we are limited in what media we can profitably afford to use. Television, radio and outdoor are eliminated immediately because of cost (see financial section on budget allocation for advertisement). In East Lansing, there are three local newspapers who serve our marketing area: the State Journal, a daily paper distributed throughout the entire Lansing metropolitan area; The State News, a paper printed five days a week by Michigan State University students and reaching 25,000 students and several thousand more faculty; The Towne Courier, a new weekly paper reaching every East Lansing home through regular subscription or free "East Lansing Shopper." It is also possible to circularize the local homes through either a hand delivered or mailed circular. For our model we chose the following media mix.

For the store's grand opening:

1. 3,000 home-delivered four-page pamphlet introducing the store.
2. A full-page ad in the Towne Courier and East Lansing Shopper.

Followed by weekly ads of 30 column inches in the Towne Courier for four straight weeks.

For the regular schedule:

1. 2,500 monthly home-delivered circulars.
2. Bi-weekly insertions of 30 column inches in the Towne Courier and East Lansing Shopper.

This schedule allowed us a continuing advertising program of sufficient strength that we could be fairly well assured of good advertising impact without being overshadowed by our competition. As of the present, we are the only food advertisers in the Towne Courier and thus can dominate this media. Our ad is of sufficient size (40\% of a full page) to provide good reader impact and will not be lost or buried by other larger ads on the page. See Exhibit \#l6 for reprints of the actual opening month's advertisements.

As you can see in the advertisements and also in the introductory circular, Exhibits \#16 and \#l7, we attempted to infuse our advertisements with the same Early American feel that we had in the store. We also wanted to show visually that we were more than a dairy store now, that we were a complete, full-line, convenience store.

Every advertising message must describe to the customer the Unique Selling Proposition (USP) that your store offers them. Our USP used to be ${ }^{\text {n Buy our low priced }}$ milk." It is now, "Shop completely and conveniently while you

Exhibit \#16. Opening month's advertisements.


Exhibit \#l6 (Cont.) Opening month's advertisements.


3 columns wide

5 columns wide


save on milk and grocery products." We are stressing fullline shopping, price, and then convenience in our introductory advertisements to show the customer how we have changed and to induce her to shop our store just once. The store will then have to sell itself to get and keep her regular business. The monthly circulars and biweekly newspaper ads will only have to be reminders to her if she was satisfied with the store when she shopped it.

We stress our other attributes in our advertising; such things as our hours, store location, name and identifying sign are all played up so that our customer knows where to go, when and why. To facilitate easy placement of our newspaper advertisement, we devised a work sheet, shown in Exhibit \#l8, that only had to be filled out and mailed to the newspaper and they would do the rest.

Before we discuss in-store promotion, let us make this final comment. Advertising is built on getting maximum impact for your money. Therefore, inasmuch as it is possible, any major store change should be made and co-ordinated so that your advertising breaks as quickly as possible after your remodeling is finished so that you can get the maximum impact among your consumers. If small changes are put in piecemeal, your opportunity to attract attention will be dissipated. As you can see in Exhibit \#l6, the impact of

Exhibit \#l8. Towne Courier advertising worksheet.
From: Pick-Quick PANTRY, 1201 E. Grand River, E. Lansing, Mich.
To: Towne Courier
Due Date: Friday before Advertisement date. Ad Appear on: Wednesday $\qquad$ .

All Ads 30 column inches.

1. Format Desired: (check one)


Type B
Vertical, with 10 Product Boxes, map \& hours.

For Format A \& B: Fill in Product Name, Size, Reg. Price, and Special Price.
1.
2. Open Every Day 8 A.M. to 11 P.M. 3.
4.
5.
6. 7.
8. Map Insert
9.
10.
11.
12.


五

Type C
Horizontal, with Map \&
Hours, but No product Boxes.


5 columns wide
Type D
Vertical, with Map \& Hours but No Product Boxes


3 columns wide

Exhibit \#l8 (Cont.) Towne Courier advertising worksheet.

```
For Format C & D:
    Fill in Copy for Center of Ad.
    To be Set in Caslon Antique Type.
```

$\qquad$
$\qquad$
$\qquad$
$\qquad$

Insert in small type at bottom of the Advertisement:
"Prices good until $\qquad$ -
Date
Quantity rights reserved."
our new store opening even got us free publicity. The writeup and picture, placed on the Editorial Page of the local paper, was a big help in getting new customers aware of our store. This kind of free advertising was only made available to us because we made the store remodeling look so much bigger than it actually was. A major store change affords you the best chance you will ever get to pull customers into your store. Use it for all it is worth:

## In-store Promotion

To create consumer interest and knowledge about our expanded product lines, in-store promotional pieces were added to our marketing mix. This took the following form: (1) three barrels cut in half and put on wroughtiron legs spotted around the store, (2) new promotional shelf spotters to point out our "specials" to our customers. See Exhibits \#19 and \#20. Through the use of attractive specials, we hope to constantly remind our shoppers of something they might have forgotten they need and in this way increase our sales per customer. We used the same Early American theme in designing our promotional pieces and believe them to be rather unique. Not only do they contribute toward building our price image, they also reinforce our store decor. We feel that it is imperative

Exhibit \# 19 Display barrels.


Exhibit \# 21 Hunor system bottle return.
that some type of in-store promotion be carried out to increase your chances of selling impulse purchases and to reinforce a low price image.

Another way that in-store promotion can build your consumer image is through specially designed packages for your own brands of merchandise. In Exhibit \#22, you see examples of ice cream cartons, egg cartons, cottage cheese cartons, milk bottle tops and bread wrappers that were designed to serve as reminder advertisements on products of frequent use. Our price image would also be helped, because the products carrying our name are all at least competitively priced with the chain stores. The additional exposure we gained through the use of this medium greatly multiplies our advertising effectiveness and serve as silent salesmen in our customers' kitchens.

In conclusion, let me say again that you must first decide who you want to sell, and what it takes to sell them. Then you must examine all the eleven areas listed previously to make sure that you have used every conceivable impression maker to uniquely portray the same desired image. When you have done this to the best of your ability, you can be assured that your consumer image is not suffering from lack Of attention. This is probably more than your competition can say.

Exhihit " 22 . Private Larel Packages


## CHAPTER V

## MERCHANDISING METHODOLOGY

## Philosophy of Selling

"Sales results," according to Wroe Alderson, nare the functions of organized marketing effort (supply) applied to market opportunity (demand)." He further states, "The functionalist or ecological approach to competition begins with the assumption that every firm must seek and find a function in order to maintain itself in the market place. Each firm competes by making the most of its individuality and its special character. ${ }^{1}$ In other words, the firm should constantly seek and utilize some competitive advantage over rival operators.

Basically, the operation of a convenience type food store is simple. After the decision of what market to serve has been made, the next operation involves the assembly of innumerable varieties of wanted foods and related items from wide geographical areas. These products are then offered in $\frac{\text { Action }}{\text { P. } 355 \text {. Wroe Alderson, }} \begin{aligned} & \text { Marketing Behavior and Executive } \\ & \text { (Homewood, Ill.: }\end{aligned}$
the quantities required at the place, time and price desired, in competition with others.

The success of the convenience store lies in creating a sufficient gross margin to cover the operating expense and provide a residual of net profit. More precisely, success depends upon getting all of the people concerned with the operation to effectively carry it on with these goals in mind.

Thus, the key factors of a successful operation are gross margins and operating expense. Profitable gross margins depend not only on purchasing goods at the lowest available price, but also upon providing the proper merchandise mix and displaying the goods in such a way as to induce maximum sales. In addition, they depend upon the procurement of merchandise at the time it is required, in the proper quantities and varieties, on the right terms and then the selling of these items at attractive prices.

The selling price of all products offered is also
affected by the operating expense burden that each item should bear. This amount of operating expense depends upon the efficient use of men and resources in carrying the marketing burden. In order to allocate these expenses effectively, the distinction between expenses which are independent of sales volume, and those which vary with
volume is imperative.
The selling philosophy of the convenience store operation should be the result of integration of all of the aforementioned factors. Of course, the degree of importance of each factor will vary from location to location. However, the mixing of these factors should be made with the company's profit goals in mind. In most cases, the selling strategy of this type firm should not be to maximize margins on individual items or even to make a profit on each item sold: Nor should the strategy be simply to maximize dollar gross margins on all sales transactions. Instead, the overall strategy of a convenience store should be to maximize net return on the total operation over a period of years.

## Application to the Dairy Stores

No doubt one of the largest competitive advantages of the drive-in convenience store operation is what the name suggests--convenience. One of the most important factors which contributes to this convenience is location. Inasmuch as the store chosen for our model was already operating as a dairy store offering dairy products as well as a limited line of dry groceries for sale, our study did not permit the important function of store site location. However, this did not present a problem since the test model
store is conveniently located in accordance with many of the criteria presented in this study.

Our study did allow us the opportunity of dealing with other important factors which play such a vital role in the philosophy of selling of today's convenience stores. Our findings and recommendations are as follows.

## Brand Selection and Limitations

A balanced selection of items that fills the needs and wishes of the consumers is a must for a successful operation. Due to the limited amount of selling area in our test store, we were faced with the problem of limiting the products offered. We would be among the first to admit that this is a very difficult task which cannot be solved on a permanent basis. Instead, the solution is a constant evaluation of customers' needs and wants and the neverending readjustment of the product mix offered for sale. Our approach to this problem started with the evaluation of sales of the different product groups carried in most supermarkets today. Using some of the published reports, plus our knowledge of the local supermarkets as guides, we determined what product groups would most effectively fulfill the needs of the majority of the convenience
shoppers. ${ }^{2}$ After this decision, we then analyzed the movement of items within the product groups selected.

Our analysis of these product groups showed that a small percentage of the items in each product category accounted for the majority of sales.

For example, upon analyzing the movement of canned and dried soups in the Middle West, we found that canned soups accounted for 90.8 per cent of the total soup sales. Sixty-two per cent of the canned soup sales were contributed by 32 per cent of the canned soups offered for sale. Dried soups accounted for 9.2 per cent of the total sales and 85 per cent of these sales were made by 43 per cent of the total dried soups offered for sale. ${ }^{3}$

After analyzing the movement and determining the items in each product group that we should stock, we focused our attention on brand selection. The fact that the test store is located in a trading area where the population is

[^18]highly transient is a limiting factor. This limitation made it necessary to restrict our brand selection to those brands which are nationally advertised and have consumer acceptance. In order to determine which national brands to carry, we visited many of the supermarkets located in the same area. We were able to determine which items were most accepted by visiting these stores and asking the person responsible for the store ordering or the stock clerk responsible for the stocking of the products in question. We were also able to gain valuable information from a consumer analysis survey of buying habits. This report was made available by one of the larger metropolitan newspapers in the area. ${ }^{4}$ Other valuable information was gained from wholesale grocers in Lansing and Detroit, Michigan.

No matter how many sources of information we had and used in making these decisions, we were unable to fix a difinite number of items or brands to handle. However, the fact that a constant and vigilant eye is being kept on the product mix in the operational store should tend to alleviate many of the mistakes made in the original product mix decision. (For itemized listing of original product mix, see Appendix.) Indeed, the products must prove themselves worthy of the valuable space allocated to

[^19]them or be replaced. This process is a continuous one, and sales as well as customer requests are being recorded and used as guides for decision making.

## Purchasing and Distribution <br> Rack Jobbers and Vendors

In order to insure completeness of line, it was necessary to utilize many vendors and rack jobbers. However, in all cases, each vendor salesman was informed of his specific space allocations and, in most cases, the items which we would purchase from his firm.

Due to the nature of business of the health and beauty aids, magazines, potato chip vendors, and the houseware and hardware rack jobbers, we limited their operations to space allocations and inventory levels only (refer to Appendix). Inasmuch as the items they service are guarantee sale items, this should force maximum utilization of space allocated.

The policy of payment by the company for all goods and services provided was also discussed with a responsible representative of each vendor firm. The understanding of this function was necessary before the first purchase was made. In most cases, we were able to shift from the cash payment for goods by the store upon receipt to a thirty (30) day billing. This allowed payment to be made by the
main office and also allowed the store clerks to utilize valuable time gained in this shift.

## The Advantages of Using Rack

Jobbers and Vendors

Items such as bread, soft drinks, cookies, potato chips, magazines, pet food, and so forth, require specialized knowledge for buying and servicing. Availability, delivery time, sources of supply, terms, quantity units, and so forth, are different from the grocery trade. The buying pattern is also different. Therefore, the utilization of this personnel is a must in the test model. The advantages that come from using rack jobbers and vendors are many. The following are some of the most outstanding advantages:

1. Specialists do the buying and selecting of assortments.
2. Merchandising knowledge and experience are available, and the rack jobber and vendors understand the buying patterns, seasonal factors, and obsolescence.
3. Inventory control is the responsibility of the rack jobbers, so no investment in warehouse inventory is required.
4. Stocking is the responsibility of the rack jobber, and very little store labor is required.
5. Quality control is handled by specialists.

All of the above-mentioned services are utilized by the test model. However, since the rack jobbers and vendors operate through driver-salesmen, the operation is only as good as the supervision and control exercised by the store management. Therefore, it is imperative that good supervision exist in this area at all times. In the case of our model, we have carried out the supervision, but future plans call for this function to be performed by the Retail Operations Manager.

## Other Sources

One of the paramount problems faced by a convenience store operator is that of being able to obtain the goods he offers for sale at a price that will allow him to make a profit and still be competitive. The reason for this problem is found in the small volume of business that the convenience store does in comparison with that of the larger supermarkets. The large volume of business done by the supermarkets allow them the privilege of quantity discounts. The volume of the convenience store does not allow the purchasing of goods in large enough quantities to take advantage of the discounts offered by most wholesalers.

However, a closer look at the services being offered by the voluntary wholesaler with whom we do business did afford us an opportunity to overcome part of this problem.

The charges placed on groceries by our wholesaler are computed according to dollar purchases. Using manufacturers' base cost of items as a starting point, the charge for purchases up to $\$ 10,000$ is 2.6 per cent of the amount of purchase. The charge for purchases amounting to more than $\$ 10,000$ is 1.75 per cent of the amount purchased. In addition to these charges, we also pay a minimum fee of $\$ 11.30$ weekly. This fee must be paid weekly regardless of purchases. The cost of freight is also the responsibility of the purchaser and in our case, it amounts to $29 \%$ per CWT.

Applying these charges to a $\$ 3,000$ order that weighs 15,000 pounds, the calculations would be as follows:

| \$3,000 | (Amount purchased) | 15,000 | (Pounds) |
| :---: | :---: | :---: | :---: |
| 2.6\% | (Charges for purchases) | 29¢ | (Per CWT) |
| \$78.00 | (Handling charge) | \$43.50 | (Freight charges) |

Sum of Charges
Minimum weekly fee $\$ 11.30$
Handling fee 78.00
Freight charges 43.50

TOTAL CHARGES $\$ 132.80$ or $4.4 \%$ of purchases

## Private Lakel Bread

To offset the high percentage charge placed on grocery purchases by our wholesaler, we decided to participate in the Private Label Bread Program offered by the same grocery wholesaler.

The bread is baked by a large national bakery and is delivered direct to the store by the bakery on a daily guaranteed sale basis. The delivery price of the bread is the regular wholesale price less 20 per cent. Payment for the bread is made to the wholesaler on a weekly basis.

The extra return on private label bread not only offsets the comparatively high percentage charge paid on groceries but also allows a better competitive position on bakery goods.

Procedure and Inventory Control

Since the model store is one of five stores operated by this dairy store group, purchasing of groceries from the voluntary wholesaler is done on a combined basis. This function is presently being performed by one of the plant dairy employees on a weekly basis. However, future plans call for the performance of this task by the Retail Operations Manager. ${ }^{5}$ Until this position is filled, the purchasing will

[^20]continue to be done as in the past. However, in order to simplify the ordering procedure and inventory control, we felt it necessary to construct an order book which lists all of the authorized items, base cost, suggested retail price, per cent of mark up, case pack, and the wholesaler's code number for each of the authorized items. Due to the procedure used in procuring an order from all of the stores, we also felt it necessary to design an order form to simplify this process (see Appendix). Under this method, the ordering is routine and proceeds as follows. On Monday of each week the order for each store is listed in the column headed up by that particular store number. Since the need for each item by store is usually small, the store needs are listed by units. After all of the stores have been visited, the needs for each item are summed up and placed against the inventory on hand in the warehouse. If the warehouse inventory is not large enough to fill all of the individual store orders, the unit needed column is utilized (refer to Appendix). The figures in this column are then compared with the case pack of the particular items in question. If the units needed and the case pack of a particular item are approximately the same, a case is then ordered. However, if only two units of an item are needed and the variety in question is packed forty-eight, the needs are usually recorded
and used for reference on the next order. Since the stocking of the stores is performed by the same person, he is in a good position to use his judgment in such cases.

Not only does this order form perform the function of ordering, it also serves as an inventory control. Under the wholesaler's present terms, a minimum weekly fee must be paid regardless of the order. Therefore, these conditions permit the ordering of smaller quantities and allow the inventory of stock to be held at minimum.

## Placing the Order

After the order has been determined using the code numbers from the order book as a guide, the order is then placed on the wholesaler's order book and sent by mail to the wholesaler's warehouse along with a signed blank check. The order is then collected by the wholesaler and charges are computed. The signed blank check is then filled out and deposited, and the order is shipped. If there are any discrepancies in the shipped order, allowances are made for them the following week and credit is given accordingly.

The order book is utilized again the following week when the shipment ordered is received. At that time, the person in charge of the warehouse checks the received goods against the order book. The prices paid for the goods are
also checked against the order book. If any differences are noted, the prices are then checked against the wholesaler's order book. If price advances or declines are listed for the item in question in the wholesaler's order book, a notation is made in the company's order book.

The successful utilization of this order book calls for its constant updating. However, the resulting uniformity in product mix, the easy ordering procedures it permits, and the easy access to product information more than offset the trouble required to keep it up-to-date.

## Distribution of Goods From Warehouse

The delivery of goods from the warehouse in the test model was made by the same truck that delivered the milk and dairy products. When the order for the store was received by the company warehouse, it was then collected. Since the order book lists the products by product groups and code numbers, the same pattern is utilized in the placement of goods in the warehouse. The goods are listed numerically by consecutive code numbers and the warehouse is set up according to this plan (refer to Appendix.) For example, if eight units of Smuckers Apple Butter are needed, the warehouse picker looks for the identification code 00012 on the warehouse shelf insted of the variety in question. This
method permits easy location plus saving time for each item picked. When an out-of-stock cordition exists on a particular item, the slot remains vacant. However, since the warehousing of most items is on a unit basis, this method does not present any problems.

After the order is collected and price marked, a record of transfer is made. The order is then placed on milk bottle dollies and loaded on a truck. This truck is equipped with a hydraulic lift and is capable of loading the goods and the milk bottle dollies without manual lifting. When the truck arrives at the store, the hydraulic lift places the goods ordered, still contained on dollies, in the backroom of the store. When stocking time arrives, the dollies are rolled to the specific product group location on the shelf and unloaded.

## Inventory Control and Space Allocation

Due to the limited amount of space in the test store, inventory control is a must. One method used to control the inventory on the shelves is the use of shallow shelving, and the maximum use of the distance between each shelf. By utilizing shallow shelves, we were able to limit the amount of each item and at the same time, fulfill the needs of the customers during a week's period. The shelving
used in the test store is as follows:

From the bottom up:

Shelf Number 1 - 15-1/2 inches deep
Shelf Number $2-15-1 / 2$ inches deep
Shelf Number 3 - 14-1/2 inches deep
Shelf Number $4-12-1 / 2$ inches deep
Shelf Number $5-10-1 / 2$ inches deep.
The allocation of space on the shelves was made according to the size, shape, and expected movement of the items. For example, due to the size of soap powders, toilet tissue, and dried dog food, they were placed on the bottom shelves. On the other hand, items such as bar soap and spices were placed on the more shallow shelves. When placing these items in such a manner, the amount needed to supply expected weekly sales was kept in mind, and the problems of overstocking on some items and understocking on others were minimized. The present shelf allocation on many items may be the same in the future but as buying patterns change, the shelf allocations will also have to change.

In addition to the inventory policy set forth in the operating store, a control was also put into effect in the warehouse. This control was discussed under purchasing.

The vendors were informed as to the amount of inventory they could stock in the store and in most cases, this inventory
was limited by the space allocated.

## Lines Handled

Due to the limited amount of items offered for sale and in order to gain as much uniformity in the specific departments as possible under these conditions, we limited the specific brands and sizes to as few as possible. Examples of this can be found in our canned vegetable line, canned soup line, baby food line, and frozen food line (refer to Appendix). However, if the sales of other brands were higher than the items that were uniform with the specific departments, some duplication of items became necessary. This was the exception rather than the rule though and in most cases, we were successful in creating an appearance of togetherness in most of the departments. This allowed a better chance for customer attention to the specific đepartments.

Private Label vs. National Brands

Probably the most important reason for our choosing national brand merchandise, with the exception of bakery goods, was due to location. The aforementioned high transient population and the insurance against bad quality given by most nationally advertised brands were paramount considerations.

Presold merchandise has a power of self-movement. that the convenience store needs. This preselling of merchandise involves the technique of mass motivating consumers through the science of advertising.

For this reason, it is important that the convenience store operator understand the role of the modern manufacturer as motivator in the mass movement of merchandise.

With highly efficient production machinery spilling out goods on one hand, and the needs of a prosperous and growing population on the other, the manufacturer cannot depend upon the efforts of the individual retail store alone to mass motivate the entire consumer body into buying his product. The national manufacturer must insure mass movement of his products at the retail level with the machinery of mass motivation. The manufacturer not only makes the product, but he makes the product wanted.

The manufacturer appeals to the appetite of the consumer directly through all of the facilities of advertising. Through magazines, newspapers, radio, and television, thousands of buying messages are being sent to millions of People every minute of the day: Thus a powerful vacuum is created at the consumer end of the marketing pipeline. In most cases, the product is wanted before it leaves the production line.

Therefore, even though many private label brands were available and in many cases the gross margins obtainable were higher, we decided to take advantage of the pre-established desire for the nationally advertised products rather than face the risk of having to establish acceptance of merchandise when the quality might be in doubt.

The case of company manufactured products appears to represent a different situation (refer to Appendix). The store used in our test model was already serving as an outlet for dairy products and other items such as eggs prior to the inception of the model store idea. This afforded the established acceptance of these items and, therefore, the outstanding problems so inherent in many private label brands were not encountered.

## Pricing Policy

One of the most powerful motivating factors in drawing consumers to a convenience type store is price. With this factor in mind, we have attempted to establish a price image in the minds of our consumers that is both fair and reasonable. Although the average mark up on our product mix is close to 25 per cent, little emphasis should be placed on this, because many items that return a profit of 6 per cent, turn over at the rate of four to five times per week, whereas
many of the items that carry a mark up of 35 per cent only turn over once per month.

The product mix of our store is made up of three categories. These categories with the per cent of gross sales ade as follows:

$$
\begin{array}{lr}
\text { Company Manufactured Products } & 63 \% \\
\text { Perishables } & 8 \% \\
\text { Groceries } & \frac{29 \%}{} \\
& 100 \%
\end{array}
$$

The primary emphasis of our low price-creating advertising is placed on dairy items, as well as a few grocery items which the consumer purchases every week. Among the grocery items are sugar, coffee, butter, dog food, baby food, canned milk, soap powder, margarine, and soup. The margins on these items are usually kept as low as possible and many times, these items are marked at cost. However, the main emphasis of our advertising is placed on our milk prices. We constantly advertise the lowest price milk in town. In addition, we usually supplement our advertising with grocery items that are reduced to cost. We usually choose items with high profit margins. In this way, we can emphasize overall product coverage and at the same time, create additional traffic in the store.

Another important consideration in pricing is that of
promotional allowances. When a promotional allowance is announced by a manufacturer and the merchants in the same area reflect this allowance, we also take advantage of it if the item is considered a traffic puller or one which the consumer uses to compare prices. On some of the slower turnover items, we take advantage of any price reduction. Since the size of our store does not permit much promotional activity, we generally limit our displays to the three barrels used for display dumps in the front of the store.

If an item is being promoted that is consistent with our product mix, we are not adverse to promoting the item. However, if the item does not blend into our product mix, we do not participate in the promotion, regardless of the reduction in price. We see no benefit in promoting every item that comes along.

## In-Store Product Location

Once the consumer is in the model store, she is led throughout every area of the store. This task was accomplished by fixture arrangement, merchandise placement, lighting, and the different color schemes used in identifying the product sections (see Exhibit \#15). The old clerk service aisles have been replaced with customer circulation aisles which
allow the customer plenty of room in which to shop.
The concept of using high volume items to pull
customers through the store is also utilized. For example, the dairy and bakery departments are among the last places the customer visits.

In addition, we have removed the largest obstacle that confronted the customer in the old dairy store--empty bottles. Prior to the change, the customer was so loaded down with empty milk bottles on her journey to the dairy cooler, she had no room for extra purchases. Now the customer is relieved of her bottles as soon as she enters the store. This problem was solved by placing an empty rack for returned bottles in the front of the store (see Exhibit \#2l). Now the customer is free to purchase anything she desires.

Related items are located together in the model
store. Examples of this type of selling are obvious when one examines the soft drink section and the snack section in the front of the store as these departments have been integrated in an effort to produce maximum sales.

## Summary

In this chapter we have developed the methods that we employed in our model store to give the product mix an
optimum balance of dairy and convenience goods. It is our desire to give the customer more reasons to shop the store, and thereby eincourage larger sales per customer, as well as increasing the total customer count. We discussed our philosophy that favored using rack jobbers and vendors, and national brand merchandise except for dairy products and bread. We then examined the mechanics of ordering, stocking, and pricing those products and gave specific examples of how we organized these functions, in our model. It is in this area that the average dairy store manager is woefully deficient. It is hoped that this chapter has shed some light on this most critical area.

FINANCIAL MANAGEMENT AND PLANNING

## Headquarters Level

Philosophy of Management
"From a managerial point of view, the firm is engaged in integrated production (creation of utility) to serve, most profitably, an area of market opportunity. ${ }^{1}$ A firm, therefore, finds justification in its existence by meeting the needs and wants of its customers, who are its life blood and principal source of revenue. ${ }^{2}$ In order to accomplish the objectives of the firm, it must provide for adequate Einancial planning and management. ${ }^{3}$ Financial planning, basically, is aimed at the profitable allocation of resources--
${ }^{1}$ Thomas A. Staudt, "Business Management as a Total System of Action and the Role of Marketing," Managerial Marketing: Perspectives and Viewpoints (Homewood, Ill.: Richard D. Irvin, Inc., 1962), p. 198.
${ }^{2}$ Robert W. Johnson, Financial Management (Boston: Allyn and Bacon, Inc., 1961), p. 4.
${ }^{3}$ Statistical Abstracts of the United States, 83 rd edition (Washington, D.C.: U.S. Government Printing Office), 1962.
material, labor, and capital. ${ }^{4}$ This section will examine how resources should be allocated in the retail operations of a small dairy manufacturer-retailer.

This segment of business is in an unfavorable position, due to its size of operations. First, the firm is usually too large for a single manager to control the entire operation. Secondly, it is too small to attract trained personnel with the skills necessary to carry out the accounting, retailing and manufacturing functions. The lack of sophistication in planning and management methods is a primary reason for the limited success of these firms. The growing number of failures and mergers of such businesses adds further evidence that a lack of marketing ability coupled with inadequate financial planning and control often supply the one-two punch that knocks the firm out of the market. 5

It is not our intention to suggest that just because
a firm is small it is inefficient. There are many exceptions to the rule; bigness, on the other hand, does not always indicate efficiency. It can generally be said, however, that the large firm, with more resources, is in a better

[^21]${ }^{5}$ Statistical Abstracts of the United States, 83 rd edition, op.cit.
position to know its costs. A method of cost examination used by many firms is a marketing audit. This is a valuable tool in many respects. Its most important use is that it allows the firm to know not only the extent of its costs, but their nature and where they are incurred. ${ }^{6}$

This lack of knowledge of costs was brought out very clearly in our investigations. One of the most common problems contributing to cost ignorance, was the absence of the right type of financial reports and data. A quarterly consolidated Balance Sheet and Profit and Loss Statement was used by the company studied. Retail, wholesale distribution and manufacturing information was lumped together. Even the land, equipment, insurance and taxes, etc. were stated as single entires. It was impossible under these circumstances, to determine from where profits and losses were emenating. It would have been impossible to plan under this handicap. Formulating a pricing policy without full knowledge Of costs is sheer folly, yet this was being done. The lack Of cost information is not as acute when a strong market Condition exists, and competition is mild. If the market breaks into a strong competitive situation (and this has come about) the manager is unaware of the point where profits
${ }^{6}$ Charles H. Sevin, How Manufacturers reduce their Distribution Costs, Economic Series No. 72 (Washington, D-C.: U.S. Government Printing Office).
disappear and losses begin to take place. The small operator, many times, goes below this point in an attempt to maintain "The lowest prices in town." It is this same individual that usually forces competition to lower their prices in order to stay competitive. The larger, more efficient firms are able to go much lower than their small competitor before profits are dissipated. Economies of scale, giving lower unit costs, offers the large firm protection that cannot be counted on by the small firm. The net effect of this suicidal price competition is that the small operator puts himself right out of business. If epitaphs were written for businesses, many would read, "He had the lowest prices in town."

Mathematics in business decision-making is another tool that aids the manager in charting the course of the firm. ${ }^{7}$ The era of snap judgment, seat of the pants type decision making has come to a close. The small operator has been slow to accept a more scientific approach to business decisions. Although there are many complicated techniques utilizing mathematics, the small firm can adapt a variety OE simple techinques that may be used in his particular company to aid in sounder planning. 8
${ }^{7}$ Robert Schlafer, Probability and Statistics for Business Decisions (New York: McGraw-Hill Book Co.. Inc.,

8 Ibid.

One of the most used and abused tools of business management is the break-even analysis. ${ }^{9}$ It goes without saying that the firm that has some idea of its profit position is better off than one that has little or no cost information. A caution should be mentioned with respect to planning with a break-even analysis, however. First, a firm does not have one break-even point, but rather a series of points along a cost and revenue curve. When a break-even analysis is made, it is important to note that it will be valid only at one stage of capacity, or within a short range of production. Second, using a break-even chart as a target, or sales goal is also not a realistic practice either. The firm is not in business to break-even, but to make a profit.

Before a company makes expenditures for expansion, or for other purposes, it should be certain that a fair return on the capital used is obtainable. Unfortunately, many small operators do not feel that working capital, or retained earnings have a cost. There very definitely is a cost of lost opportunity if the money is not employed as profitably as is possible. ${ }^{10}$ If the small firm were to make
${ }^{9}$ Clayton W. Anderson, "Break-Even Analysis and Variable Budgeting," Administrative Control and Executive Action, (Columbus, Ohio: Charles E. Merril Books, Inc., 1961), PP. 628-644.
${ }^{10}$ Richard H. Leftwich, The Price System and Resource Al 1 ocation (New York: Holt, Rinehart and Winston, 1962), p. 183.
this test, it might be the case that the capital resources are actually earning less than a fair rate of return. Investment in a more profitable field would be the most logical course of action. If, however, the owners and investors in the firm are not primarily concerned with maximizing or optimizing profits, then they should at least be aware that less than maximum profits (greatest return on investment) are being obtained.

## Marketing Mix

A mix is defined as two or more interacting elements. A marketing mix concept is made up of a particular combination of factors that can be systematically analyzed and altered. Simply stated, this deals with what commodities and services the firm is going to offer its customers. Before a productservice mix is established, the customer-prospect mix must be determined. This refers to the selection of customers, and the segment of the market they represent. The particular segment that the firm is going to cultivate most intensively, is dependent on several factors: (1) the extent that the segment is being neglected at the present; (2) the special qualifications that the firm possesses to serve them, and (3) the taste of the business owners.

In order to tie the two mixes together (Exhibit 23),

Exhibit \# 23. Interaction of customer prospect mix and product service mix.

## Customer - Prospect Mix



Can be segmented by: Common needs, Geography, Dollar volume, Seasonal, or many other factors.

Marketing Sub Mix


HORIZONTALLY - Marketing plan for products for the market place.
VERTICALLY - Total sales plan for all products, Adv., Promo., Merch., etc.
MARKET SUB-MIX - Will apply to customers in a particular segment. Not all products will be used by all customers.
the right promotional mix must be composed. This mix consists of a large battery of devices which might be employed to induce customers to trade with a particular firm. The same devices are involved whether one is thinking of inducing altogehter new customers to trade, or of shifting customers from competitors within the segment. These devices have already been discussed.

As previously stated, the model being set up is for a convenience type market. Since the store size is quite small, we were limited to the number of items that could be stocked. The actual products, pricing and retail theory have already been given. It is our purpose here to point out that an approximation of the type of goods, and in what quantities they will be sold, is necessary in making budgets, sales Eorecasts, and other planning data.

The long range objective of financial planning is to formulate a plan that will provide that enough revenue is generated to cover the cost of doing business, plus leave enough in profits to satisfy earning objectives. It will be up to the business owners, when building new stores or adapting old ones, to be in the right location with the right size store, offering the right products at the right price.

Transfer Pricing and Plant Analysis

Sometime after beginning the implementation of recommendations made in our original study, ${ }^{l l}$ we needed to know the manufacturing cost of the 25 or more items produced by the company. This information was important for several reasons: (1) to compare cost and price data OE competition; (2) to determine gross margin dollars from sales, in order to make sales forecasts and budgets; (3) to determine at what point we could lower price and still be making a profit.

This information was not available. No cost studies had been made in the past that would tell us whether transfer (wholesale) prices were above, or below, actual cost Of manufacture, or at what capacity the plant was operating. Since intelligent planning could not be accomplished without this information, we made the analysis ourselves. Some interesting information and experience was Gained from this additional research, even though our Primary study was retailing. Exhibit 24 represents our Eindings. (Note: Mr. A. L. Rippen, of the Food Science Department at Michigan State, and Dr. Heddrick, of the MSU Dairy plant provided technical assistance in this study). ${ }^{11}$ operation Opportunity, op. cit.

Exhibit 24. Manufacturing cost analysis (Feb., 1963).

Item

Total Manufacture Wholesale Units \& Distrib. or Trans- Profit Produced Milk
Homo. 1/2 gallon
Vit. D Milk
$1 / 2$ gallon 5166
Skim 1/2 gallon 7426
Multi Vit.
$1 / 2$ gallon 1705
Cottage Cheese
1 pound 355

Cottage Cheeze

30 oz.
364
Reg. Quarts 1139
Vit. D Quarts 1459
Butter Milk Quarts 346
Chocolate Quarts 342
Chocolate Pints 146
Coffee Cream 1/2 Pint 279
Half \& Half Quart 162
Half \& Half Pint 679
Whipping Cream
1/2 Pint 1100
Sour Cream 12 oz. 381

## Ice Cream

| Pints | 252 | 26.8 | 18.0 | $(22)$ |
| :--- | ---: | :---: | :---: | ---: |
| l/2 Gallons | 1571 | 57.0 | 50.0 | $(110)$ |
| Gallons | 2036 | 100.9 | 85.0 | $(344)$ |
|  |  | Net Ice Cream | $\$(476)$ |  |
|  |  |  |  |  |
|  |  | Net Plant Profit |  |  |
|  |  | Or Loss | $\$(260)$ |  |

This study covers $95 \%$ of total plant production.

We readily admit that the plant survey was not carried out with the exacting standards usually taken into account by experts in this field. ${ }^{12}$ For planning purposes, the figures were within acceptable tolerances. The plant owner felt that the costs as shown were too high, and did not accurately reflect the true costs. This is understandable, since they clearly show a net manufacturing loss for the month of February, 1963 (the month used). Nevertheless, we believed the figures to be representative of the actual for three reasons: (1) the company owner had no figures to indicate that ours were incorrect; (2) the plant was being operated at approximately $28 \%$ of capacity, with the employees being paid their full week's wages while actually working about 30 hours; (3) the company showed an over-all loss in the first quarter Profit and Loss Statement, the first net operating loss in many years.

Exhibit \#24 showed that many commodities were being transferred or wholesaled at, or below actual cost. The majority of product sent to the company's retail outlets were being sold at an over-all company profit, but merchandise going to wholesale accounts represented a net non-recoverable
${ }^{2}$ W. H. Blanchard, Glynn McBride, and A. L. Rippen, A Cost Analysis of Fluid Milk Packaging Operations, East Lansing, Michigan State University, Department of Agricultural Economics and Food Science, 42 pages.
loss (about 40 per cent of milk sales are to wholesale accounts).

We had to make arbitrary allocations of many of the fixed/variable and direct/indirect expenses since no individual break-down was being made.

On the basis of these findings, we recommended a long-range plan to decrease plant costs, increase efficiency, raise prices to a more reasonable level, and to place increased emphasis on developing the wholesale accounts. It should be noted that a 10 per cent price increase across the board on all company products would still allow them to be sold at competitive prices, or below national brands and local competition in the area.

Retail Financial Analysis

## Sales Analysis

Our initial study into the retail operations of the
Michigan Dairy Company began in December of 1962, culminating in February of $1963 .^{13}$ We selected a typical store of the five store chain. It was believed that a thorough depth study of one store would be more beneficial to us than a

13 Barnus, Byrd, Jones and Wright, Operation Opportunity (A study in Dairy Retail Operations), East Lansing, Michigan, Jan., 1963, 82 pages.
general analysis of the entire retailing system. We did find it necessary to pay visits to each of the other stores, from time to time, to cross-check findings in the model. The majority of the time, was however, spent in the base store.

Before making any plans or recommendations, it was necessary to check out any and all historical data regarding the store and its past operational results, specifically sales. We used a period of two years' sales figures for the examination. Comparisons of raw figures were not revealing in themselves, and did not indicate a clear trend. By plotting these figures graphically, we were able to detect a slight downward trend, but due to seasonal and cyclical fluctuations, the exact nature of the decrease could not be determined. In order to smooth the fluctuations, we used a four-month moving average, from which a trend line could be computed and drawn. The result was an 8 per cent yearly decrease, or a total of 16 per cent decrease over the two year period. This figure, in and of itself, was not significant. If, however, the decrease was compared to a $4-\sigma^{14}$ per cent yearly increase in grocery type retailing, the net growth loss was right at 25 per cent over the two edition, op. cit. ${ }^{14}$ Statistical Abstracts of the United States, 83 rd
year period, and still decreasing (Exhibit \#25).
The significant variables that had resulted in the rapid loss of sales and profits were identified. Discounting the internal difficulties of the firm contributing to the decrease, the major external factors were (1) increased competition from outside the county and state, and (2) dairy stores were forced to lower prices due to a sharp decrease in the retail price of dairy products in the local supermarkets; this was caused by increased competition within that industry (we do not consider the dairy-convenience store operation a primary competitor to supermarket stores). The per cent of milk and dairy products sales in supermarkets is about $5-8$ per cent of total sales. In the small dairy convenience stores, this runs from 60-90 per cent of total sales. It is not difficult to see the effect Of dropping milk prices on profit. While the two types Of stores are not primary competitors, the elastic nature Of milk prices is such that a firm that retains a higher than market price for this commodity will experience a sharp decrease in volume.

## Break-Even Analysis

A cost of capital improvements was drawn up before Committing funds to the remodel and redesign of the store.
change) •
(before model
les trend
296T-T96T


Increased advertising, supervision and wages (longer store hours) had to be considered as well. Exhibit \#26 shows the nature of cost and revenue that could be expected from the expansion and remodel. Many of the expenditures, such as a store sign, cash register (with totaling capability), frozen food freezer, etc., were items of improvements that should have been purchased in the past, but were included in the total cost of the improvement package.

The new break-even figure was found to be $\$ 6,200$ each month in sales, or roughtly $\$ 208$ daily. This is a slight increase over the previous figure of $\$ 186$ each day, before improvements. Sales and profits figures were based on the amount of gross profit that could be expected at varying levels of monthly sales $\$ 5,500, \$ 7,500$ and $\$ 9,500$. The ratio of revenue was based on predicting the type, and amount Of merchandise that would be sold at the different levels, and the average mark-up of the product mix. It was our belief that at a low sales volume $(\$ 5,500)$, a high per cent Of sales would be milk products. As more customer traffic and increased sales per customer were obtained, more nondairy items would be sold. Exhibit \#27.

One point about the store break-even chart is significant. Although costs are broken into fixed and Variable categories, the nature of variable expenses is
Exhiblt \#26. Pick-Quick PANTRY monthly break-even analysis.


Exhibit \#27. "Pick-Quick PANTRY" projected profit and loss statement (monthly).

| Item |  | (1) | \% |  | (2) | \% |  | (3) | \% |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Manufacturing | \$ | 4015 | 73 | \$ | 5250 | 70 | \$ | 5985 | 63 |
| Perishable |  | 550 | 10 |  | 750 | 10 |  | 760 | 8 |
| Grocery |  | 935 | 17 |  | 1500 | 20 |  | 2755 | 29 |
| Total Sales |  | 5500 | 100 | S | 7500 | 100 | S | 9500 | 100 |
| Gross Profit: |  |  |  |  |  |  |  |  |  |
| Manufacturing | \$ | 465 | 13 | \$ | 585 | 13 | \$ | 706 | 13 |
| Perishable |  | 99 | 18 |  | 135 | 18 |  | 137 | 18 |
| Grocery |  | 168 | 18 |  | 300 | 18 |  | 551 | 20 |
| Total Gross Profit | S | - 776 | 14.1 | \$ | 1095 | 14 | S | 1466 | 16.0 |

Variable Expense:

| Wages | \$ | 450 | \$ 450 | $\$ 50$ |
| :--- | ---: | ---: | ---: | ---: |
| Supplies | 25 | 35 |  | 50 |

Repairs \& Maintenance
121212
Adv. \& Promo.
Administrative
Misc.
Total Variable
$50 \quad .9 \quad 75 \quad 1.0 \quad 95 \quad 1.0$

Fixed Expense:

| Utilities | $\$ 100$ | $\$$ | 100 | $\$$ |
| :--- | ---: | ---: | ---: | ---: |
| Insurance | 10 | 10 | 100 |  |
| 10 |  |  |  |  |




Net Profit
S (124)
$\$ \quad 160 \quad 2.0 \$ 496 \quad 5.2$
such that they really represent semi-fixed expenses. This is because the only real variable is the wage expense. Wage increases and sales are not in a linear relationship. It takes the same amount of help to operate the store at $\$ 5,500$ a month as it does at $\$ 7,500$. Wage levels will, therefore, rise in a stair-step fashion.

In the month before opening the revised model store, milk, perishable, and grocery per cent to total sales were in the following ratio: $77.5,3.5$ and 19.0 respectively. The first month's results for the same product break-out was 65, 6.0 and 29.0. At the $\$ 7,500$ level our grocery per cent was $50 \%$ higher than anticipated, perishable $4 \%$ lower, and milk products $5 \%$ lower than forecasted in the store budget analysis. Profit wise, this is a net addition to gross margin dollars since the grocery category carries a higher than average mark-up. At sales of $\$ 9,500$ a month or more, grocery and perishable sales will run well over $40 \%$ of total sales.

Exhibit \#28 shows graphically the ratio of milk and grocery-perishable sales to total sales (weekly). This exhibit also shows that grocery-perishable volume remains fairly constant in spite of drops in milk sales. This proves that people are now coming into the store for other than milk purchases. While this was partially true before,

Exhibit \#28. Pick-Quick PANTRY sales.

the improved product mix has given people more reason to come into the store, where before the variety of goods was limited, poorly stocked and poorly merchandised. Retailers often confuse the mark-up of an item with its profitability. While it is true that a greater amount of non-dairy items is being sought, it is not our desire to decrease the emphasis on dairy products. This commodity group has a low gross profit, but its turnover rate is the fastest in the store. Where the milk products will turn about five times a week, many grocery items will turn but once a week or even once a month. Dairy products still account for over half of the actual gross dollars, regarldess of the level of sales projected. We recognize that turnover is equally as important a consideration as mark-up in a store's making a profit for the company.

## The Sales Forecast

At the end of May, 1963 (four weeks after the remodeled store opened) a $24 \%$ increase in sales for the first five months of operations in 1963 was recorded. Exhibit \#29 shows monthly sales, and trend line. On the basis of past information and least squares method, a June, 1963, foreCast was computed. Since the mean period of the trend line analysis was March, 1963 (before completed remodel) the June

Exhibit \#29. Pick-Quick PANTRY sales trend.
(Jan. 1, 1963 - June 30, 1963)


Jan Feb Mar Apr May June July
figure is a conservative estimate. It represents a slight drop over the preceding month (opening month) of about $\$ 200$.

Several factors indicate that the sales trend will remain strong: (1) New store sign--there previously was no store identification of any kind; (2) extended hours for shopping; (3) improved product mix and better merchandising and stocking methods; (4) increased summer demand for picnic and snack items; (5) strong initial advertising program, introducing new customers to the store should carry over; (6) continued re-inforcing ads covering three of the four weeks in the month; (7) the lack of suitable locations for competition within the area should keep external influences to a minimum.

A traditional sales drop in June of from $\$ 500-\$ 800$ in the test store, due to school let-out, is not expected to be quite as severe as in the past. Sales should remain fairly constant during the summer months with a minimum loss of volume.

A strong advertising program in the fall is expected to introduce new arrivals in the area to the store, plus re-inforce regular and occasional customers.

On the basis of known information, we expect monthly sales to peak for the year in November, 1963, at about $\$ 8,500$. This represents a gain of roughly $50 \%$ over the month before
opening. A forecast for 1964 is not possible at this time. This is due to the absence of sales results for the entire summer. It is not known how far sales will dip, or what the recovery level will be at the end of September when school is in full swing. The best time for making the 1964 forecast will be at the end of October, 1963.

One final point should be brought out with respect to sales forecasting. Where there is a lack of historical data, and significant variables from which to make accurate forecasts, the best known information available must be used. The important factor in this section is that it is a necessity that sales goals be made and plans be formulated and executed to accomplish these goals.

## Summary

The objective of this half of Chapter VI has been to show the basic elements of financial planning in retailing operations. We have endeavored to outline the types of things that management should be doing. The pitfalls that the firm may fall into, if inadequately prepared to cope with everyday situations.

The experienced executive will be quick to notice that certain financial areas have been omitted. Cash flows, capitalization, working capital, long and short term borrowing
problems have not been covered. We do not discount these issues as being unimportant, but, the main emphasis of this section has been the allocation, rather than procurement of resources.

## Store Records and Control

Financial planning at the headquarters level has been discussed, with emphasis on the responsibilities of top management. This planning is relatively worthless unless backed up at the store level. Store employees have certain functions that must be carried out with regard to providing data for planning and safeguarding cash and profits.

Cash Register

The use of an automatic totaling cash register to a supermarket chain manager is taken for granted. Yet, it is surprising how many small business firms do not use them. This was the situation in our Michigan Dairy Company study. None of the five retail outlets of the firm had these registers. With this thought in mind, it was felt that a few words on this subject would be beneficial in pointing out the advantages of this important control.

Although a register is normally thought of as an instrument for the safeguarding of cash, it, nevertheless,
has two other functions: (1) records and control; (2) customer satisfaction and convenience. The type of register we suggest is one with four department keys: (1) Company manufactured products; (2) other perishables, (3) dry goods; (4) tax, if applicable.

Examples of the record and control function of the register are as follows:

1. Accurate record of daily sales by departmental breakdown.
2. Automatic totaling of orders, thus increasing efficiency and decreasing the possibility of mistakes.
3. It insures that each item purchased by the customer will be rung up.
4. It gives an accurate record of sales tax collected for the state.
5. It will give the company sufficient information to chart sales trends in commodity groups.
6. Merchandise shrink and cash shortages can be more easily detected and pinpointed. Aids inventory control.
7. Gives a count of customers for each day's business. Customer satisfaction and convenience is accomplished by these features of the register.
8. When an automatic register is used, the customer is more confident that the order has been computed correctly.
9. The automatic is quicker, thus the image of convenience and service is brought out by this additional service.
10. Many customers like to check the register tape themselves, when they get home. Being able to issue a receipt of purchase will further increase the confidence of the customer toward the store.
11. The register tape is useful in case of refunds. If the customer brings back spoiled products, the register tape will indicate the date, and type of commodities bought, thus saving money by ferreting out unjust demands for refunds.
12. In case the customer feels that she has been shortchanged, the machine has the capability of being checked quickly, thus satisfying the customer regardless of whether the error is in her favor or not.

## Records

Once the firm has decided to use the automatic register, over the old fashioned "ding-a-ling" type, there are several records that should be used in conjunction with
the register: (1) a weekly sales and cash report; (2) daily refund and error form; (3) a record of cash overages and shortages.

Exhibit \#30 shows a form that could be used for a store with one register. Since most of the dairy-convenience stores we are dealing with in our study sell more than just dairy items, it is necessary to have more than one departmental key. The departmental adjustment portion of the work sheet looks very complicated and foreboding, but in reality it is very simple. It is quite important that any register errors be noted so that an accurate record of what is being sold can be maintained. The company has the option of having the sheet filled out by store or office personnel. If it is desired that the office complete the form at the end of the week, it will still be necessary for the store employees to note register readings, cash and check totals, etc. Where the form is completed is a matter of choice. Valid arguments could be offered for each option.

A record that facilitates filling out the cash report is the refund and error statement, Exhibit 31. It is a daily adjustment form and is self-explanatory. The third form, cash overage and shortage, is a control form. It is useful in tracing frequent shortages to the person responsible, thus giving the company a basis for
Exhibit \#30. Weekly sales and cash report, page 1.
STORE NUMBER
WEEK ENDING
REGISTER NUMBER

| ENTRIES MON | TUES | ETC | TOTALS |
| :---: | :---: | :---: | :---: |
| 1. Reading (end) |  |  |  |
| 2. Reading (begin) |  |  |  |
| 3. Total Gross Sales |  |  |  |
| 4. Minus refunds and over-rings |  |  |  |
| 5. Net Sales |  |  |  |
| 6. Special change added |  |  |  |
| 7. Register cash |  |  |  |
| 8. |  |  |  |
| 9. Total to account for |  |  |  |
| 10. Cash in register |  |  |  |
| 11. Checks |  |  |  |
| 12. Bottle refunds |  |  |  |
| 13. Merchandise coupons |  |  |  |
| 14. Other coupens |  |  |  |
| 15. Company issued coupons |  |  |  |
| 16. -- |  |  |  |
| 17. -- |  |  |  |
| 18. Total accounted for |  |  | -1 |
| 19. over |  |  |  |
| 20. short |  |  |  |

Add all figures down daily, at the store, all cross totaling should be done at the Main Office.
Exhibit \#30 (Cont.) Weekly sales and cash report, page 2.


$$
\begin{aligned}
& \text { Add all figures down and across to get totals for the week, this is to be done in } \\
& \text { the office. }
\end{aligned}
$$

Exhibit \# 31. Weekly sales and cash report. Refund and error sheet.

STORE NUMBER
REGISTER $\qquad$
DATE $\qquad$ WEEK ENDING $\qquad$

| DAIRY TOTAL |  |  |
| :--- | :--- | :---: |
| PERISHABLE REF. REASON |  |  |

TOTAL PERISHABLE
DRY GOODS REF.
REASON
TOTAL DRY GOODS
TAX REF.

Total Bottle ref. $\qquad$ TOTAL TAX

TOTAL REFUNDS
(To be filled out daily on a separate form)
Transpose totals to appropriate lines on page 1 \& 2 of cash report.

DEPARTMENTAL ERRORS

+ DAIRY - + PERISH - + DRY GROC - + TAX -
corrective action, and retraining, if required.
One point cannot be over-emphasized. Every time a new employee comes in on a shift, the register must be checked over to that employee. Whether the register is completely cleared for each new shift is optional. A daily balancing of cash is required, regardless of how the shifts are handled.

In addition to records, each company should examine its cash and check handling procedures to be sure the safest, most efficient method is being utilized. This refers to how the company arranges to have money brought into the store, where it is kept overnight, and the transfer of receipts to the main office or bank.

Cash is not the only thing in the store having value to be accounted for. The merchandise is valuable as well. The following section will deal with the problem of pilferage and how the model was set up with maximum protection in mind.

## Pilferage Control

In a store the size of the model, one might think that there would be very little that could be done to insure internal security. We felt that it was especially important that pilferage control measures be built into the store itself. Since the store would have only one employee operating
the unit at one time, busy periods would find her checking out customers. It would be impossible to maintain security unless the store had an optimum set-up. The following is a list of measures taken:

1. The self-service milk cooler made it possible to move the register next to the "out" door. An iron railing was placed between the "in" and "out" door, thus requiring the customers to pass by the checkout as the only exit from the store.
2. All merchandise was situated in a position such that after the customer checked out, there was no possibility of their picking up anything between the checkout and the door.
3. The high grocery shelves that formerly ran down the center of the store, blocking employee vision to the back aisle, were pushed back to the wall and replaced by low frozen food cases. This permitted complete store surveillance from the checkout counter.
4. No major stocking, except milk, is required of the store employee. This assures that the employee will not be preoccupied when customers are in the store.
5. In order to let the employee know when customers entered the store while she was stocking the selfservice milk case, a red light was installed that

flashed when the "in" door opened. This insured that the clerk could be back onto the sales floor quickly.
6. Limits were placed on the amount of cash to be carried in the register to decrease loss in case of hold-ups.
7. The telephone was re-installed immediately behind the check-out counter, so that the girl could be near the register, and the telephone at all times.
8. A policy of rigidly adhering to posted store hours was made. The reason for this policy is obvious.
9. All high cost items such as health and beauty aids and cigarettes, were located adjacent to the checkout.

Vendor Control

Customers are not the only source of loss. Vendors must also be properly checked and monitored. Careless managers sometimes take the view that since a vendor is in business to service the store, he is above reproach. Stores have been forced into bankruptcy by this careless attitude.

Our study indicates that the model will have increased vendor activity as a result of (1) higher sales volume,
(2) improved product mix, much of which is handled by vendors.

It really makes little difference what the volume and nature of the store's business is. A standard procedure for checking and paying vendors should be set up. The good way to prevent a number of malpractices by vendors is to use a store stamp as a validating identifier. Each ticket when presented should be completely filled out. The employee will then stamp, sign, and date both copies, if a charge. It is also our recommendation that where a vendor charge account can be set up for the store, increased protection is obtained. It not only helps to deter collusion between an employee and a vendor, but decreases the need for large sums of cash in the register, over and above the normal amount required to do business.

It should also be said that checking the company milk driver is a necessity, as well as outsiders. Although the driver may be honest, loose controls on company products might prove to encourage pilferage in the company distribution channels. The procedures outlined are designed to remove any conditions that might encourage an employee or a vendor to be dishonest. We simply do not believe that they should have to be put in a position where a decision must be made. In order to remedy this, as best we could, the conditions that brought about the temptations have been removed or neutralized. This will apply to cash transactions and
register operations as well.

## Inventory Control

The reader may wonder why the problem of inventory controls have not been dealt with in length, as have some other common problems in retailing. The reason is, primarily, that the inventory question is not a key issue to the small firm.

The previous statement should be qualified by saying that operating policies have been designed to eliminate the necessity of constant struggle with this area.

Below are listed a number of policies and procedures that allow us to make this statement:

1. Shelf space is set up on a strict movement basis, with constant reallocating being carried on to take advantage of changing consumer desires and seasonal patterns.
2. No space is built into the backroom for storage of overstock (except soft drinks and empties).
3. All merchandise sent to the store from the company distribution center goes directly to the shelf.
4. Rack job merchandise and company manufactured products represent the major dollar inventory investment. These items are quick turnover, high volume commodities
that receive frequent service and attention.
5. Vendors are designated space, position on the shelf and the amount to leave each week or day.
6. Vendors are not allowed to leave overstock (except soft drinks).
7. The warehouse is operated on a principle of distribution, rather than storage.
8. Over ninety per cent of the weekly warehouse order coming from the wholesaler is sent directly to the stores. By designing the distribution system in this manner, only part cases and advertised specials remain in the warehouse on a regular basis.
9. The Retail Operations Manager (discussed in the following chapter) is personally responsible for ordering and monitoring shelf stock conditions and movement. He makes out both the store and warehouse orders. Control is concentrated at one point, rather than many.

The small convenience retailer need not suffer the disadvantages of being large and diversified, as is the case of the large supermarket. This type of store must keep several weeks' stock in the backroom and on the store shelf. The convenience store has the advantage of rapid turnover in the vast majority of its inventory. These two

# characteristics allow the small store to capitalize on this type of flexibility and control. 

## Summary

In this section, attention has been focused on policies and procedures at store level. The nature of headquarters directives and the degree to which they are carried out often spell the difference between success or failure.

Central management must be aware of the opportunities that $c a n$ be afforded by built-in control systems. Unless this awareness is present, these systems cannot be set up and monitored. A lack of sophistication on the part of management with respect to control has been found to be the rule rather than the exception. The various planning tools and control procedures examined in this chapter are not considered to be a panacea, or by any means exhaustive. The firm that accepts these suggestions as a guide will, however, enhance its probability for success in the future. How the system will be monitored and the role of the employee will be covered in the following chapter.

## PERSONNEL MANAGEMENT

## Introduction

It has been brought out many times that businesses have experienced less than desirable results because the employees did not know what was expected of them, or what they could expect from the company. It will be the objective of this chapter to point out some of the things that will improve this deficiency in management.

## Retail Operations Manager

It has been our purpose to illustrate that the dairy-convenience store chain requires full-time management with knowledge and experience in this area. While it is conceded that the small dairy-manufacturer-retailer knows the milk trade, he nevertheless is not an expert in full line grocery retailing and merchandising. We feel that it is imperative that this portion of the business be put into the hands of a specialist. It is not unusual to find this job is delegated to an unqualified person whose primary job is something other than retailing, and who lacks the
fundamental knowledge required to do the proper job.

## Functions

In order to fill the supervision deficiency in the Michigan Dairy Company, we set up a position known as the Retail Operations Manager. The management of the company felt that it might be too expensive to hire someone with the qualifications needed to fill the position that will be outlined. It was our argument that it would be even more expensive not to. The increase in sales in the test store have more than substantiated this fact. If the unit is turned over to people with experience in the field, and who follow the basic principles of retailing, the position will pay for itself and provide management with a good return on the investment. We readily admit that a small five store chain with modest sales would be hard pressed to support this position indefinitely at present levels, but it is our contention that management must adopt a long-run view building towards achieving maximum potential in the present stores plus building new business with additional units. This ambitious objective will never be reached unless the company has the foresight to invest in competent management now, in order to build for the future.

Below is a list of primary responsibilities the Retail Operations Manager must handle:

1. Store ordering.
2. Warehouse ordering.
3. Price marking of items at the warehouse (central marking of all grocery, non-rack jobbed items).
4. Select each store order on the appropriate day and arrange for delivery.
5. Stocking, rotating and shelf maintenance.
6. Co-ordinations of rack jobbers, inventories, prices.
7. Advertising--choosing specials, set up advertising, both circular and newspaper, and arrange for delivery and distribution (circulars).
8. Employees--hiring, training, supervision, relations.
9. Act as a liason between stores and plant, stock levels, movement of company products, check for possible fill-in orders for all merchandise.
10. Work closely with the stores in handling customer relations, competition problems.
11. Make up a weekly newsletter listing specials, suggesting in-store merchandising tips, informing employees of changes and additions to policies, procedures, prices and products (new and discontinued).
12. Maintenance of store records, movement figures, new trends in convenience foods, planning.
13. New stores--after a new location is acquired and the store is built the ROM* will be responsible for getting the store into operation.
14. He will formulate new policies, procedures and have complete authority to run the retail outlets. It goes without saying that someone with the experience and ability to accomplish these tasks will not come cheaply. It is our belief that if the small dairy-manufacturer-retailer wants to say in the retail business, he must take some positive steps to insure that he will be able to accomplish this objective. One point should be made in respect to the duties of the ROM. When the business reaches a satisfactory point in sales, we recommend that the more repetitive jobs, such as stocking, receiving and stamping merchandise, and filling and delivering orders be turned over to a part-time employee who can be trained to do this portion of the job. While these are important functions, we feel that the ROM can best be utilized in a planning and supervision function, rather than being tied to the more routine and relatively less critical jobs. It cannot be over-emphasized that the ultimate success of the retail

[^22]function will depend on the type of individual that is given the responsibility of retail operations.

## Store Personnel

In retailing, attitudes of the employee toward the employer (company), the job being done, and individual's contribution to company goals and objectives are important to consider. Surveys reveal that opportunity to advance, to be creative, to use initiative, and to learn, are prime employee motivators. It is equally important for employees to know what their duties are, and what is required of them. In too many instances, employees have been hired with little or no training and indoctrination as to their duties, no idea as to the organization channels, or possible changes to be made in the future that will affect their hours, wages or location of employment. It would be much too lengthy to try to outline the necessary points that should be covered in hiring and indoctrination, but it should be pointed out that a clear statement of company policies, procedures, etc. be made at the time of hiring and during the early phases of training. It is much better to clear up potential trouble points at the beginning, than it is after an employee has become a part of the organization. A great deal of friction can be removed if questions can be resolved before they become
major problems. In too many cases an employee is unhappy and causes others to become discontented. There is a reluctance to get rid of the person causing the disharmony. We further believe that the idea that a person is indispensible and cannot easily be replaced is pure fantasy. A machine cannot run very long with worn out parts. Sooner or later it will break down and cause more delay and expense than if preventive maintenance had been taken when the difficulty was first discovered.

## Duties

The Pick-Quick PANTRY store (the model) was a new concept in operations for the company. We used the present company personnel in this store. Since there were new jobs and responsibilities in running the store, it was necessary to list the base duties of employees. This list is not all inclusive, but it attempts to point out the major functions. As the store progresses, new jobs will become apparent, not only to the employee, but to the ROM, that will need to be done in order to keep the operation running smoothly and efficiently.
l. The primary duty of all employees will be to give the customer quick, courteous, and efficient service, indicating that his or her business is appreciated.
2. To act as a public relations man with friends, neighbors, and relatives, encouraging them to patronize the store. Remember, if the store has no customers, the employee will lose her job.
3. They should perform sales functions, as well as a checkout function, informing customers of the expanded product mix, new items, specials, convenient store hours, and attractive-easy to shop layout and time saving services.
4. Work with the ROM on merchandising and ordering problems. This will include noting frequent requests for items, observing stock conditicns and informing the ROM of frequent out of stocks or changes in movement. Shelf allocation adjustments can be made quickly and easily if recognized by the store personnel.
5. Ring up all sales correctly.
6. Follow all company policies and procedures such as vendor checking, record keeping, etc.
7. Cash checks in strict accordance with company mandates.

Each firm should examine his area and market and decide on specific limits and rules for cashing checks. This is an area that can cause high unrecoverable losses in a hurry if strict procedures
are not outlined and carried out.
8. Control expenses-bags, utilities, laundry, etc.
9. Inform the ROM of immediate or future maintenance that may be required.
10. Present suggestions and ideas that you (the employee) feel will increase store sales and profits, or that offer an opportunity to save expenses.

Hours

In an earlier section, we indicated that the con-venience-retail business requires longer, more convenient shopping hours. It is recognized that there will be an incremental increase in expense; however, the additional or Arginal revenue to be obtained in excess of cost, will Mre than cover the insignificant rise in costs.

It should also be emphasized that the 9-ll p.m. bus二iness is, for the most part, plus business, due to the nature of the items being purchased at this time, e.g., cigarettes, milk, bread, etc. Once the sales on these commodities are lost, they can never be regained. Customers in the market for these goods will purchase them in a different store, rather than waiting until the next day to acquire them. To date, the test model has proven this to be a reality. In some instances 9-11 p.m. trade has
accounted for twenty-five per cent of the total daily business, especially on week-ends. We readily admit that, as people become aware of the extended hours for shopping, there will be a certain number that will prolong their shopping trip until a later, more convenient time. The sharp rise in sales do not indicate that there has been a mass shift in shopping time, but an actual number of new customers gained as a result of the total improvement package.

A work schedule was made for the model that we felt would allow the most efficient utilization of time, and at the same time provide maximum service to the customer. $Z^{\text {ºw }}$ employees formerly worked seven hours each, (8 a.m. P.m.) with a one hour overlap between them.

In order to accommodate the additional two hours in the evening, the total time of each employee was extended to seven hours and forty-five minutes, but with no overlap. seven of the total increased store hours were, therefore, partially offset by doing away with the overlap. In order to facilitate cash register change-over so as not to interrupt customer service, two cash register pans were installed. The departure of operation from the other stores required that some provision be made to insure that the new system of store operations would proceed as smoothly as possible. This not only included regular store employees
who worked at the model store, but for relief people as well. The remedy for this situation was to program the work for each shift, enumerating each job and indicating when it should be accomplished. Exhibit \#32 shows the actual program set up for the model store.

## Wages

Wage control is important in assuring continued profitable operation. We have indicated that this expense will generally be a semi-fixed, rather than variable expense. There are certain steps that can be taken to make sure the firm is not incurring non-productive wage expense. One of the things done in the model store was to eliminate long Verlaps of incoming and outgoing employees. We were able t $P$ do this due to the decreased requirement of store employees to carry out major stocking. The Retail Operations Manager, driver-vendors, and the company milk driver will be responsible for stocking more than ninety-five per cent of the items sold. This leaves only a small amount of products to be handled by the store employees, e.g., cigarettes, candy, maganines, etc. Each company should examine its work schedules to determine if all the wage expenses being incurred are necessary for the most profitable operation. Additional hours that produce no increase in sales or profits should be deleted.

Exhibit \#32. Pick-Quick PANTRY programmed duties by shift.

| TIME | DUTIES |
| :---: | :---: |
| 7:45-8:00 | 1. Set up register |
|  | a) count money |
|  | b) Change date |
|  | c) zero customer count |
|  | d) change tape |
| 8:00-8:30 | 1. Turn on lights |
|  | a) inside |
|  | b) display |
|  | c) sign rotating, no light on unless dark |
|  | 2. Milk inventory and call in |
| $8: 30-9: 00$ | 1. Dust mop sales floor |
|  | 2. check milk case - full |
|  | 3. check empty bottles - empty |
|  | 4. dust shelves and straighten racks |
| $\theta: 00-10: 00$ | 1. Fill up cigarettes |
|  | 2. Check soft drinks |
|  | 3. Put up any new magazines |
|  | a) Pull old copies and place in the back in a box |
|  | 4. Check bottle returns |
| 10:00-12:00 | Fill milk rack for noon traffic |
| 12:00-1:00 | Check milk and empties |
| 1:00-3:30 | 1. Milk |
|  | 2. Empties |
|  | 3. Count money a nd check out |
| BEFORE | AVES, SHE MUST EMPTY THE |
|  | ETURN RACK |



The question of how much to pay store employees is a difficult one. It is extremely hard to generalize on this subject since market conditions, and employment situations, and availability vary drastically. Each firm must examine its own particular trading area. It must be remembered, however, that high quality help cannot be secured for low wages. Conversely, it cannot be said that just because high wages are paid, the employees will do a better than average job. The amount, and quality of work that will be received from the employee will directly depend on two factors; (1) the individual himself; (2) the quality of the supervision, training, and working environment. It is not necessary to belabor this point.

Bonus Plans

As stated above, each market condition and company wil differ from the next; however, a word should be said regarding employee incentive plans. It is the company's prerogative to decide if one is desirable or necessary.

A basic desire of employees is to feel useful. A worker is usually willing, and anxious to be productive, efficient, and loyal if she feels that the employer is interested in her, is watching her efforts to improve and is willing to reward her for her efforts.

Where a tangible reward is obtainable, over and above salary, the employee is given the motivation to work for it. The purpose of the sample bonus plan suggested offers the employee an incentive to put forth more than a minimum effort to accomplish the job. The more the employee benefits, the more profit the company makes. It should be pointed out that an incentive plan that offers little or no reward opportunities, will not produce the desired results-increased sales and profits.

The main emphasis of the dairy-convenience store is the high quality milk products. The customer usually comes into the store primarily to purchase these products. The $\theta^{m p l o y e e}$ has done little or nothing to create the demand r influence the sale of these products. It is for this saason that we believe company manufactured products be excluded from the bonus plan. The customer is going to purachase them anyway. Instead, we suggest that bonus be paid on sales of non-company manufactured products. This is the product group we are seeking to expand. In order that store personnel receive bonus, they will be required to put forth some effort. Increased sales on non-dairy items will be profitable to the company as well as the employee. The schedule below was one used for the model store.

| $1 \%$ | $\$ 100-199$ |
| :--- | :--- |
| $2 \%$ | $\$ 200-299$ |$\quad$| After $\$ 500$, a flat $5 \%$ will be |  |
| :--- | :--- |
| $3 \%$ | $\$ 300-399$ | | paid on designated items (over |
| :--- |
| this amount). |

The results from one month's operation of the model show that bonus now being paid on the new schedule is greater than the flat, single percentage bonus on total sales, as was formerly the case. The amount of bonus to be paid and the percentage of sales will have to be determined by each firm by examining the nature of marginal revenue derived from the commodities on which the bonus is computed. The Fatio of profit distribution in the model plan is 5:1, that is, for every one dollar in additional profits paid to the employee, the company receives five dollars.

## Customer Relations

In addition to the regular duties of store employees, we believe that they should serve a feed-back function. With 'His thought in mind, we instituted a form to be kept at store level to record (1) customer suggestions and complaints, and (2) requests for new items.

What the customer thinks of the store and how it is
being run is quite important to the success of the store operation. Management is not always available to answer questions or handle complaints. Many times it never hears about these things until sales have deteriorated. We believe that a record of customer comments should be recorded, and answered, so that when recurring situations on the same problem or opportunity arises, corrective steps can have been taken.

This is also true of requests for new items. Customer needs and wants change frequently. It is not hard for a store to lose potential sales if it is not carrying the type of merchandise the customer needs. If frequent requests are made for an item, management should decide if the product pr line fits into the product mix. If it is felt to be weded, the company should seriously consider adding it to the present line. There will be many times, however, that the product does not fit and will have to be excluded. The least management can do is to examine the product potential rather than taking it on, or leaving it out with little or no thought to long range objectives. The feedback principle is extremely important in retailing, and should not be sold short. It is an effective tool that serves the retailer, as well as the customer.

## Summary

In recent years, much ado has been made of the computer and the area of automation. The role of the individual has been overshadowed by these innovations to the point where he has been forced to take a lesser position. In retailing, however, the most important resource the firm has is its people.

The aim of this chapter has been to highlight the importance of the individual at each level of the firm's operation - top management, supervision, and store personnel. The ultimate success of the firm will depend on how well each individual performs the tasks he is assigned. We amend this statement to the effect that the firm must know what are the important jobs to be performed and who is qualified to do them. We have also stressed the interdependence of each level and how it $f$ its into the total scheme. Each should contribute to optimize results in a particular facet of the business.

## CHAPTER VIII

## SUMMARY AND CONCLUSION

This paper was conceived as an attempt to give the small dairy store operator one method of becoming more profitable in his retail outlet. Our approach has been to change the retail dairy store into a complete convenience drivein store, and to inject into this new marketing approach the analysis and control procedures developed by the supermarket industry. To thoroughly cover the subject, we first studied some of the more advanced methods of plant and store location. We conclude that both qualitative and quantitative methods must be utilized, and that estimated sales, expenses, profits and return on investment must be the basis of all location studies. The Corporate Image was then examined, and we described how we determined who should be sold, and what it takes to sell them. It was in this chapter that we began to describe the changes made in the Pick-Quick PANTRY model store. We have given the reader an actual model to follow, so that he can relate his specific problems to our model solutions and know that these suggestions are not "Blue-sky" hypothesizing, but have actually been put to
test in an operating store.

While the mechanics of corporate image development is the same for almost any retail establishment, the specific merchandising methodology employed is what determines to whom the store will appeal. We discussed the policies and control procedures we employed to give the model store a dairyconvenience orientation with improved profits and return on investment. To know what our profit picture really was, it was necessary to analyze the financial controls at both the headquarters level and the store level. Since our model store was notably weak in the area, we devised new control procedures and used them to guide the development of our model.

Finally, we examined the critical area of personnel management. In studying management's approach to their supervisors and store employees, we developed sample job specifications and duties for our model store. Without sound professional management, all else will fail. It is our purpose to stress the programming of these jobs so that a minimum level can be attained by the least experienced individuals. Naturally, the operation that can attract, train, and motivate its employees to produce above this minimum level, will be even more successful.

In conclusion, we remind the reader that the model
presented is useful only to illustrate the various principles discussed. While it has been an immediate success, the long-run success of this, or any, business will be the degree to which management constantly and consistently reviews its current status in all of the above areas, and modifies its policies and procedures to take the new competitive situations into account. It is this constant feedback, analysis and change that determines the winner in today's marketplace. There is no question that the market is available for a well run dairy-convenience store. All that is needed is a man with a plan. This we have tried to provide.

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## APPENDIX

Authorized Vendor Space

## Description

I. Housewares and Hardware Section
II. Health and Beauty Aids
III. Bakery Department

Company A $20 \%$ of total dept. space
Company B $20 \%$ of total dept. space
Company C $20 \%$ of total dept. space
Private
Label $35 \%$ of total dept. space
Archway
Cookie
Company $5 \%$ of total dept. space
IV. Magazine Section
V. Tobacco and Miscellaneous Section

Cigarettes (carton sales) $50 \%$ of total dept. space
Cigars (five pack sales) 5\% of total dept. space
Smoking tobacco 5\% of total dept. space
Candy and gum $40 \%$ of total dept. space
VI. Individual Cigarette Sales
VII. Snack Items, Potato Chips and Snacks Frito Lay $70 \%$ of total dept. space Adams Potato Chips 30\% of total dept. space

Space of Section in Linear Feet

9' shelf space 44.5 sq. ft. peg board space

32' shelf space
6 sq. ft. peg board space

40' shelf space

24' shelf space
4' section
5 shelves
20' shelf space

2' long
6 shelves merchandiser
22' shelf space

# Other Authorized Items 

Authorized Soft Drinks

## Six Pack

Individual Sales


Authorized Packaged Meat Items

## Item <br> Retail Price

Skinless Franks
1 pound
\$ . 65
Leona Bologna, round \& square 8 ounces . 39
Leona Bologna, round \& square 1 pound . 69
Honey Loaf 8 ounces . 59
Old Hickory Loaf
Ham and Cheese Loaf
Meat and Cheese Loaf
Cooked Salami Loaf
Old Fashion Loaf
Party Assortment Loaf
Roasty-Links Skinless Sausage 10 ounces
1 pound . 79
Polish Skinless Sausage
Bacon
Boiled Ham
Dried Beef
Canadian Bacon
Braunschweiger
8 ounces . 59
8 ounces . 59
8 ounces . 49
8 ounces . 49
8 ounces . 49
1 pound .89

1 pound . 69
6 ounces .69
3 ounces . 39
6 ounces .75
.79

Company Manufactured Products
Description
Plain Homogenized Milk
Vitamin D Milk
Multivitamin Milk
Skimmed Milk
Regular Milk
Homogenized Milk
Buttermilk
Chocolate Milk
Cream
Half and Half
Shipping Cream
Cream
Chocolate Milk
Half and Half
Cottage Cheese
Cottage Cheese
Whipping Cream
Sour Cream
Orange Juice
Flavor Drink
Orange Drink
Orange Drink
Ice Cream
Regular
Regular
Regular
Regular
Sherbet
Sherbet
Size
One-half gallon
Retail Price
One-half gallon$\$ .35$36
One-half gallon ..... 37
One-half gallon ..... 27
Quart ..... 20
Quart ..... 21
Quart ..... 19
Quart ..... 26
Quart ..... 95
Quart .....  51
Quart ..... 1.19
One-half pint ..... 25
Pint ..... 15
Pint ..... 26
30 ounces ..... 39
Number One .....  21
One-half pint ..... 33
Pint .....  39
One-half gallon ..... 59
One-half gallon ..... 29
Quart ..... 18
Pint ..... 10
Gallon ..... 96
One-half gallon ..... 59
Quart ..... 49
Pint ..... 25
One-half gallon ..... 59
Pint ..... 25
Others
Butter 1 pound ..... 73
Grade A Eggs
Brown Giant Ice Cream
Popsicle
Malt
Dozen ..... 54
Bar ..... 05
Bar ..... 05
Cup ..... 10

PRODUCT ADDITIONS OR

| Store Number |  |  |  |  |
| :--- | :--- | :--- | :--- | :--- |
| 1 | 2 | 3 | 4 | 5 | Total \(\begin{aligned} \& Warehouse Units Case \begin{array}{l}Code <br>

Inventory Needed Pack\end{array} No.\end{aligned}\)
\% $\%$ arkup

26\%
34\%

$26 \%$
$23 \%$

$28 \%$
$28 \%$
$28 \%$
$29 \%$
$30 \%$
$25 \%$
$24 \%$
$24 \%$
$18 \%$


- $\begin{array}{lll}\text { PICKLES } & & \\ \text { Aunt Jane Polish } \\ \text { Iceberg Dills } 26 \text { oz. } & 3.45 & .39 \\ \text { Aunt Jane Kosher Dills } & & \\ \text { l6 oz. } & 2.30 & .29 \\ \text { Aunt Jane Hamb. Dill } & & \\ \begin{array}{l}\text { Slices } 16 \text { oz. } \\ \text { Heinz Sweet Gherkins } \\ \text { ll oz. }\end{array} & 2.40 & .27 \\ \text { RELISH } & 3.77 & .41\end{array}$


## Heinz Hamburger



กั へั
2.50
2.50
2.50 z India $11-1 / 4 \mathrm{oz} . \quad 2.50$
OLIVES
$\cdot$ ZO Z UMOIYL OṬIEW \#10 Mario Salad 6 oz.

CONDIMENTS
 Heinz Hot Ketchup 12 Heinz Chili Sauce 12 Heinz Brown Mustart

6 oz. Heinz Yellow Mustard
6 oz .

PRODUCT ADDITIONS

| Base Retail | $\%$ | Store Number |  |  |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
|  | 1 | 2 | 3 | 4 | 5 | Total Warehouse Units Case Code |



## Item Description DRESSINGS






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SAUCES

Open Pit B.B.Q. 18 oz . Heinz "57" Sauce 8 oz. Heinz Worch Sauce 5-1/2 oz.

McIlhenny Tobasco
Sauce 2 oz .
French Sour Cream
Sauce $1-3 / 8 \mathrm{oz}$.
French Brown Gravy
1 oz .
French Cheese Sauce
$1-3 / 8 \mathrm{oz}$.

PRODUCT ADDITIONS
OR CHANGES
Cases
Ord.

| Item Description | Base | Retail | \% | Store | Number |  |  |  | Case | Code |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Cost | Price | Markup | 12 | 345 | Total | Inventory | Needed | Pack | No. |
| HEINZ VINEGAR |  |  |  |  |  |  |  |  |  |  |
| Cider Qt. | 3.30 | . 35 | 21\% |  |  |  |  |  | 12 | 07936 |
| White Qt. | 2.56 | . 29 | 27\% |  |  |  |  |  | 12 | 07948 |
| APPLE SAUCE |  |  |  |  |  |  |  |  |  |  |
| Motts-Glass 25 oz . | 2.75 | . 31 | 26\% |  |  |  |  |  | 12 | 08214 |
| Motts-Glass 300 | 3.80 | $\begin{aligned} & 2 / \\ & .43 \end{aligned}$ | 26\% |  |  |  |  |  | 24 | 08220 |
| CRANBERRY SAUCE |  |  |  |  |  |  |  |  |  |  |
| CANNED FRUIT |  |  |  |  |  |  |  |  |  |  |
| Del Monte Fruit |  |  |  |  |  |  |  |  |  |  |
| Cocktail 303 | 4.57 | . 25 | 24\% |  |  |  |  |  | 24 | 08720 |
| Del Monte Cling Peach |  |  |  |  |  |  |  |  |  |  |
| Halves 303 | 4.32 | $\begin{array}{r} 2 / \\ .47 \end{array}$ | 23\% |  |  |  |  |  | 24 | 09000 |
| Del Monte Cling Peaches 2/ |  |  |  |  |  |  |  |  |  |  |
| Sliced 303 | 4.32 | . 47 | 23\% |  |  |  |  |  | 24 | 09010 |
| Del Monte Elberta |  |  |  |  |  |  |  |  |  |  |
| Peaches Halves 303 | 4.53 | . 25 | 25\% |  |  |  |  |  | 24 | 09120 |
| Del Monte Pear Halves |  |  |  |  |  |  |  |  |  | 09208 |
| Del Monte Pineapple - 2/ |  |  |  |  |  |  |  |  |  |  |
| Sliced -Flt | 7.30 | . 39 | 22\% |  |  |  |  |  | 48 | 09420 |
| Del Monte Pineapple - |  |  |  |  |  |  |  |  |  |  |
| Crushed - Flt | 6.50 | .19 | 28\% |  |  |  |  |  | 48 | 09580 |
| PRODUCT ADDITIONS OR CHANGES |  |  |  |  |  |  |  |  |  |  | 11760

11790

11820 11840 | 0 | 0 |
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| 0 | 0 |
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| -1 | -1 |

 Units Case
 Warehouse Units Inventory Needed

| Base Cost | Retail <br> Price | \% Markup |
| :---: | :---: | :---: |
| 2.86 | . 33 | 28\% |
| 3.01 | . 35 | 28\% |
| 3.01 | . 35 | 28\% |
| 3.70 | . 41 | 25\% |
| 2.90 | . 33 | 27\% |
| 3.62 | . 39 | 23\% |
| 3.03 | . 33 | 25\% |
| 3.88 | . 43 | 25\% |
| 2.70 | .19 | 40\% |
| 2.70 | . 19 | 40\% |
| 4.30 | . 47 | 24\% |
| 3.90 | . 23 | 29\% |
| 4.85 | . 27 | 25\% |

Item Description
THANK YOU PIE FILLER

PRODUCT ADDITIONS
OR CHANGES
pase
seses

| Store Number |  |  |  |  |
| :--- | :--- | :--- | :--- | :--- |
| 1 | 2 | 3 | 4 | 5 | Total \(\begin{aligned} \& Warehouse Units Case Code <br>

\& Inventory Needed Pack No.\end{aligned}\)


Item Description
CANNED VEGETABLES


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17944
17950
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18110
18220
18410


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Base Retail
Cost Price
Hash 15 oz .
Dinty Moore Beef
Stew 24 oz .
Hormel Spam 12 oz . Hormel Vienna Sausage
4 oz.

## CANNED FISH


TOMATO PRODUCTS
PRODUCT ADDITIONS
OR CHANGES

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\frac{\text { Store }}{} \text { Number }- \text { Total }
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Code
No．
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$23 \%$
$23 \%$
$23 \%$
$24 \%$
$22 \%$

$16 \%$
$16 \%$
$16 \%$
DRY SPAGHETTI－
MACARONI－NOODLES


[^24]PRODUCT ADDITIONS
OR CHANGES
Cases
Ord.
Warehouse Units Case Code
Inventory Needed Pack No.
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Item Description
Base Retail
Cost Price
PRODUCT ADDITIONS
OR CHANGES

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\end{array} \\
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\dot{m} & \dot{m} & \dot{m} & \dot{m} & \dot{m}
\end{array} \\
& \begin{array}{l}
\text { Cont. } \\
\text { STRAINED FOOD- } \\
\end{array}
\end{aligned}
$$

Cases
Ord.

Item Description
GERBER JR. FOOD -
Cont.
Vegetables \& Bacon
$7-3 / 4$ oz.
Vegetables \& Chickens
$7-3 / 4$ oz.
GERBER STRAINED MEAT
Chicken 3-1/2 oz.
Beef 3-1/2 oz.
Egg Yolk 3-1/2 oz.
GERBER DRY CEREAL
Mixed 8 oz.
Hi Protein 8 oz.
Oatmeal 8 oz.
SIMILAC
Liquid - Regular -
l3 oz. Iron - 13 oz.
Liquid - Iron
GERBER JUICE
Apple 4 oz.
Orange 4 oz.
PRODUCT ADDITIONS
OR CHANGES

$$
\begin{aligned}
& \text { Garlic } 2-i / 2 \mathrm{oz} . \\
& \text { Onion } 2-1 / 8 \mathrm{oz} .
\end{aligned}
$$

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\begin{aligned}
& \text { Base Retail } \\
& \text { Cost Price }
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33 \%
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& 26 \% \\
& 26 \%
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Warehouse Units Case Code
Inventory Needed Pack No．

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PRODUCT ADDITIONS

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$\stackrel{1}{2}$
MISCELLANEOUS SPICES

$$
\text { Accent } 1-7 / 8 \mathrm{oz}
$$

MEAT TENDERIZER
Adolph－Seasoned
$3-1 / 2$ oz．
Adolph－Plain 4－1／2
CHILE POWDER
Mexene 1 oz．
OR CHANGES
Cases
Ord.

| Store | Number |  |  |  |
| :--- | :--- | :--- | :--- | :--- |
| 1 | 2 | 3 | 4 | 5 | Total Warehouse Units Case Code $\begin{aligned} & \text { Inventory Needed Pack No. }\end{aligned}$


| $\begin{array}{r} Q_{1}^{3} \\ \text { x } \\ \hline \end{array}$ | $\begin{array}{ll} \text { de } \\ \underset{\sim}{n} \\ \text { N } \end{array}$ | $\stackrel{\downarrow}{\stackrel{\downarrow}{\sim}}$ | $\begin{aligned} & \text { ơ } \\ & \stackrel{1}{N} \end{aligned}$ | $\begin{aligned} & \stackrel{\circ}{n} \\ & \sim \end{aligned}$ | $\stackrel{\underset{7}{7}}{\square}$ | $\begin{array}{ll} \infty \\ \infty \\ \text { - } \\ \text { - } \\ \hline 1 \end{array}$ | $\stackrel{\text { ® }}{\underset{N}{N}}$ | $\begin{aligned} & \text { Һo } \\ & \text { M } \end{aligned}$ | ¢0 -1 | - |
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| $\begin{array}{ll} \text { H } & 0 \\ \text { ro } & U \\ + & \ddots \\ 0 & -H \\ 4 & 0 \end{array}$ | $\stackrel{\sim}{N} \stackrel{10}{\square}$ | $\stackrel{1}{\sim}$ | $\stackrel{N}{N}^{n}$ | $a$ $\square$ | $0$ | $\begin{aligned} & n \\ & m \\ & n \end{aligned}$ | $m$ $!$ | $\stackrel{9}{\sim}$ | $\stackrel{m}{m}$ | $\stackrel{\sim}{m}$ |
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Cases
Code
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\hline 1 & 2 & 3 & 4 & 5
\end{array} \text { Total } \begin{aligned}
& \text { Warehouse Units Case } \\
& \text { Inventory Needed Pack }
\end{aligned}
$$

-pxo
sased


Item Description


Cases
Ord.

| $\begin{array}{ll} 0 \\ \\ 0 & 0 \\ 0 & 0 \\ \hline \end{array}$ | $\begin{aligned} & \text { O } \\ & \text { o } \\ & 0 \\ & \mathrm{~N} \\ & \mathrm{M} \end{aligned}$ | O <br> O <br> O <br> N <br> m | $\begin{aligned} & \stackrel{\rightharpoonup}{+} \\ & \underset{\sim}{N} \\ & \end{aligned}$ | $\begin{aligned} & \stackrel{+}{n} \\ & \underset{\sim}{N} \end{aligned}$ |  | O - + m | O $\sim$ $\sim$ $\sim$ $\sim$ | $\begin{aligned} & \stackrel{\circ}{+} \\ & \underset{\infty}{\infty} \\ & \underset{\sim}{N} \end{aligned}$ | O -1 O m m | $\begin{aligned} & \text { O} \\ & \underset{\sim}{\circ} \\ & \text { M } \end{aligned}$ | $\begin{aligned} & N \\ & 0 \\ & 1 \\ & n \\ & n \\ & n \end{aligned}$ | $\begin{aligned} & 0 \\ & -1 \\ & \stackrel{1}{n} \\ & m \end{aligned}$ | $\sim$ $\sim$ $\infty$ $m$ $m$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| $\begin{array}{ll} 0 & \times \\ 0 & U \\ 0 \\ 0 \\ 0 & 0 \end{array}$ | $\stackrel{+}{\sim}$ |  |  | $\stackrel{+}{\sim}$ |  |  |  | $\xrightarrow{\sim}$ |  | $\stackrel{+}{\sim}$ | $\stackrel{\rightharpoonup}{\sim}$ | $\stackrel{+}{\sim}$ | $\stackrel{+}{\sim}$ |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

- 

$\begin{array}{clc}\text { Base } & \text { Retail } \quad \% \\ \text { Cost Price Markup }\end{array}$ ( $x$
0

$7 \%$
$7 \%$
$6 \%$
$6 \%$

$\stackrel{1}{\square} \stackrel{9}{\square}$
$\stackrel{n}{\sim} \quad \underset{0}{\square}$
$\begin{array}{lll}\stackrel{n}{\sim} & 0 & 0 \\ \cdots & 0 & \square\end{array}$


$\begin{array}{lll}\cdots & 0 & 0 \\ 0 & m & N \\ \dot{\sim} & 0 & \infty\end{array}$ $\begin{array}{ccc}N & 0 & \stackrel{1}{\sim} \\ \dot{\sim} & \infty & \dot{\sim} \\ & \dot{N} & \dot{\sigma}\end{array}$

Item Description


COCOA \& HOT CHOCOLATE
Hershey Cocoa l Lb.
Nestle Quik Choc. 1 Lb.

$$
\begin{aligned}
& \text { Lipton Black Tea Bags } \\
& 16 \text { Ct. } \\
& \text { Lipton Black Tea Bags } \\
& 48 \text { Ct. } \\
& \text { Tenderleaf Instant } \\
& \text { Tea } 3 / 4 \mathrm{oz} .
\end{aligned}
$$

PRODUCT ADDITIONS
OR CHANGES

Cases
Ord.


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\begin{array}{llllllll}
n & -1 & n & n & n & n & n & n \\
- & n & n & n & \stackrel{n}{N} & \stackrel{n}{N} & n
\end{array}
$$

$$
\stackrel{n}{n} \quad \stackrel{\infty}{n} \stackrel{n}{n} \stackrel{n}{n} \cdot \stackrel{\infty}{m} \stackrel{n}{n}
$$

Item Description

Item Description

$$
\begin{aligned}
& \text { CEREALS } \\
& \text { Kellogg Corn Flakes } \\
& 8 \text { oz. } \\
& \text { Kellogg Rice Krispies } \\
& 5-1 / 2 \text { oz. } \\
& \text { Kellogg Sugar Flakes } \\
& \text { lo oz. } \\
& \text { Kellogg Snack Pak } \\
& \text { 5-l/2 oz. } \\
& \text { Kellogg Special K } \\
& \text { 6-l/2 oz. } \\
& \text { General Mills Cherrios } \\
& 7 \text { oz. } \\
& \text { General Mills Wheaties } \\
& \text { 8 oz. } \\
& \text { Quaker Quick Oats } 180 z . \\
& \text { CoRN MEAL } \\
& \text { Quaker White } 24 \text { oz. } \\
& \text { Kenl Ration Canned \#l } \\
& \text { Vet Liver Canned } 16 \text { oz. } \\
& \text { Vets \# l Canned } \\
& \text { Gaines Meal-Dry } 2 \text { Lb. } \\
& \text { Gravy Train - Dry } 5 \text { Lb. } \\
& \text { PRoDUCT CHANGES } \\
& \text { OR ADDITIONS }
\end{aligned}
$$



$$
24 \%
$$

Cases
Ord


| Cases |
| :---: |
| ord. |

Code
$\stackrel{\circ}{8}$



Warehouse Units Case
Inventory Needed Pack
N
N
$\omega \underset{-}{\infty}$
$\stackrel{+}{N}$
ホ $\underset{\sim}{\text { N }} \underset{\sim}{\boldsymbol{N}}$
$\underset{\sim}{\infty}$
$\underset{\sim}{\sim}$ Total

|  |  | Store |  | Number |
| :--- | :--- | :--- | :--- | :--- |
| 1 | 2 | 3 | 4 | 5 |

\%
Markup
Base Retail
Cost Price
25\%
$30 \%$
$18 \%$
$27 \%$
$18 \%$
$17 \%$
$28 \%$
$31 \%$
24\%


Item Description

> LIQUID FABRIC
Sta Puf Rinse Qt. AMMONIA
Peep Qt.
CLOTHES BLEACHES

$$
\begin{aligned}
& \text { CLOTHES BLEACHES } \\
& \text { Clorox } 1 / 2 \text { Gal. } \\
& \text { Clorox Qt. } \\
& \text { Purex Beads o Bleach } \\
& 18 \mathrm{oz} .
\end{aligned}
$$

CLEANERS
Spic N Span - All
Purpose Reg.
Drano Pour Top - Drain
Cleaner l2 oz.
Sani Flush Liquid
Bowl Cleaner Pt.
CLEANSER POWDER
Ajax Super White Reg.
POT CLEANERS
Chore Girl IO's
SOS - REG.
PRODUCT ADDITIONS
OR CHANGES
Cases
Ord．

| $\begin{array}{ll}0 & 0 \\ 0 & 0 \\ 0 & \chi \\ 0 & \end{array}$ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  | $\stackrel{\square}{7}$ | $\infty$ | N | $1 \sim$ | $\infty$ | － | $\bigcirc$ | ${ }_{-}$ | m | $\stackrel{+}{+}$ | ㄴ | $\infty$ | O | － |
|  | 6 | $\cdots$ | m | $\downarrow$ |  |  |  | $\xrightarrow{-1}$ | － | － | － | の | $\xrightarrow{-1}$ | N |
|  | n | $\bigcirc$ | $\omega$ | $\bullet$ |  | 6 | N |  | N | N | N | N | $\infty$ | $\infty$ |
|  | $\downarrow$ | $\downarrow$ | $\downarrow$ | $\stackrel{+}{ }$ | ¢ | ＋ | $\downarrow$ | ＋ | ＋ | ＋ | ＋ | ＊ | ＋ | ${ }_{\square}$ |
| 0 炎 | N | N | N | N | N | N | $N$ | N | N | N | N | か | $\downarrow$ |  |
| 00 | $\xrightarrow{\sim}$ | $\xrightarrow{\sim}$ | $\xrightarrow{-}$ |  |  |  | $\xrightarrow{\sim}$ | $\xrightarrow{\sim}$ | $\xrightarrow{\sim}$ | $\xrightarrow{\sim}$ | $\xrightarrow{\sim}$ | $\sim$ | $\sim$ | $\stackrel{+}{\sim}$ |
| $\bigcirc$ | $\cdots$ | $\cdots$ | $\sim$ | $\sim$ |  | $\cdots$ | － | － | － | $\xrightarrow{\sim}$ | － | $\sim$ | N | N |

Cases

| Store | Number |  |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| 1 | 2 | 3 | 4 | 5 | Total | Warehouse Unit Case Code |
| :--- |
| Inventory Needed Pack No. |

$\begin{array}{lc}\text { Base Retail } & \% \\ \text { Cost Price Markup }\end{array}$
Item Description

## MATCHES - Cont.

$1.45^{10 / .10}$
$4.20^{2 / .25}$

$40 \%$
$33 \%$
n
n
 51090
51270 51420
51690 51970 52040 $\circ$
$\bigcirc$
-
N
N N
N

| 0 | $\bigcirc$ |
| :---: | :---: |
| $\bigcirc$ | r |
| N | N |
| $\infty$ | $\infty$ |
| + | $\otimes$ |
| + | $\bigcirc$ |
| N | $\cdots$ |


ホ $\underset{\sim}{\infty}$
$\underset{\sim}{\sim} \quad \underset{\sim}{\infty} \quad \underset{\sim}{\infty} \quad \underset{\sim}{\infty}$ +
Cases
Ord.

| Store | Number |  |  |
| :--- | :--- | :--- | :--- |
| 1 | 2 | 3 | 4 | 5 Total | Warehouse Units Case Code |
| :--- |
| Inventory Needed Pack No. |

\%
Markup
Base Retail
Cost Price
Item Description
PAPER GOODS - Cont.
Cut Rite Plastic Wrap
$\begin{array}{ll}5.56 & .31 \\ 6.30 & .35 \\ 3.60 & .25\end{array}$
Reyn. Alum Wrap 12"
Wide 25 Ft.
Betty Brite Shelf Paper
$13 \times 36$

PRODUCT ADDITIONS
OR CHANGES

Cases
Ord.



Cases
Ord．

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## 0ててて9

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24
Item Description
CHOC．SYRUP \＆FUDGE
Continued
Hershey Milk Choc．
Fudge 16 oz．
ICE CREAM CONES
Mother Goose Home Pack
STRAWS
Sweetheart Home Pack
7.20
3.47
1.98
$\stackrel{n}{\sim}$
$\stackrel{N}{n} \quad \stackrel{n}{N} \quad \stackrel{n}{n} \stackrel{n}{n} \quad \stackrel{m}{n} \quad \stackrel{m}{m}$

VEGETABLES
FROZEN FOOD AND DAIRY
Birds Eye cut green beans 9 oz ．
Kqeq əK⿴囗十丌 spxịq
beans 10 oz ．
Birds Eye
10 oz．
Birds Eye

PRODUCT ADDITIONS
OR CHANGES

| $\begin{aligned} & 0 \\ & \substack{0 \\ \underset{y}{2} \\ \hline} \end{aligned}$ | ฌొ | ®0 | － | － － | ํ かำ n in | $\stackrel{\text { ơ }}{\sim}$ | $\stackrel{\text { ®o }}{\sim}$ | ฌั |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| $\chi 0$ | N | m | N | m | mmm | N | N | N |

Item Description
STEAKS AND SEAFOOD

PRODUCT ADDITIONS OR CHANGES

| $\bigcirc$ | N |
| :---: | :---: |
| 6 | N |
| $\cdots$ | m |
| － | $\pm$ |
| $\infty$ | $\infty$ |


| $\downarrow$ | $\bigcirc$ | － | $\infty$ | $\stackrel{+}{*}$ | $\infty$ | $\bigcirc$ | $N$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| $\bigcirc$ | 6 | N | N | N | $\sim$ |  |  |
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| か | ＋ | が | ＋ | ＋ | ＋ | ＋ | ＋ |
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| N | N | $\sim \sim$ | $\sim$ | N | N | N | N |
| $-1$ | $\cdots$ | $\cdots-1$ | － | $\checkmark$ | $\square$ | －1 | $\cdots$ |

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E

| Store | Number |  |  |  |
| :--- | :--- | :--- | :--- | :--- |
| 1 | 2 | 3 | 4 | 5 | \％

Markup


Item Description

$$
\begin{aligned}
& \text { FRUIT PIES } \\
& \text { Pet Ritz Apple Pies } \\
& 22 \text { oz. } \\
& \text { Pet Ritz Cherry Pies } \\
& 22 \text { oz. } \\
& \text { Pet Ritz Peach Pies } \\
& 22 \text { oz. } \\
& \text { WAFFLES } \\
& \text { Aunt Jemima Waffles } \\
& 9 \text { oz. } \\
& \text { PEPPERIDGE FARM PRODUCTS }
\end{aligned}
$$


$\square$ $\stackrel{\sigma}{\square} \stackrel{\sigma}{\square} \stackrel{\sigma}{\square}$

1.87
1.87
1.87 1.87
3.60
$31 \%$
$31 \%$
$31 \%$
$\stackrel{\sim}{\sim}$
$\stackrel{\sim}{\square} \stackrel{n}{\square} \stackrel{n}{\square}$
$\stackrel{n}{+}$

$$
3.60 \quad .39
$$

7.10
7.10
7.10
7.10

Apple Turnovers 11 oz．
Blueberry Turnovers
$\quad 11$ oz．
Lemon Turnovers 11 oz．
Raspberry Turnovers
$\quad 11$ oz．
SARA LEE PRODUCTS
Banana Cake $15-1 / 2 \mathrm{oz}$.
Cream Cheese Cake
Large 19 oz．
Chocolate Brownies
13 oz．
13 oz．
Coffee
Coffee Cake Large 13 oz．

PRODUCT ADDITIONS
OR CHANGES
Cases
Ord.
$\begin{array}{lc}\text { Base Retail } & \% \\ \text { Cost Price Markup }\end{array}$

Item Description

## FROZEN FRUIT

$27 \%$
$24 \%$
$\stackrel{+}{+}$ $27 \%$
$39 \%$
$28 \%$
$29 \%$
$32 \%$
$3 / 19$
.19
.23
.41
.99
$\stackrel{-1}{7} \quad \stackrel{9}{\square}$
5.38
4.44
$\begin{array}{rr}11.52 & .33 \\ 5.00 & .17 \\ 4.20 & .25\end{array}$
4.20
.52
1.55
$\begin{array}{ccc}\circ & 0 & N \\ \dot{N} & \dot{n} & \dot{\sigma}\end{array}$

.25 Mraft Grated American -zo 乙 əzəə૫จ xə7sт̣ueゝ Kraft Grated Parmesan

Cannister Cheese
1-1/2 oz.
Kraft Cheexe Whiz
Plain 8 oz .
Kraft Velveeta Package
Cheese 2 Lb.
PRODUCT ADDITIONS
OR CHANGES

Cases
Ord.


| Base <br> Cost Price <br> Retail | $\%$ <br> Markup |  |
| :---: | :---: | :---: |
|  |  |  |
| 2.82 | .33 | $29 \%$ |
|  |  |  |
|  |  |  |
| 9.45 | .39 | $19 \%$ |
| 7.05 | .31 | $25 \%$ |

Item Description
REFRIGERATED BISCUITS
\& ROLLS - Cont.
Pillsbury Butterflake
Rolls 8 oz.
Rolls 8 oz.
MARGARINE

[^25]

Sa USE OMY


[^0]:    ${ }^{6}$ For Your Information, American Dairy Association, February 20, 1963.
    ${ }^{7}$ Demographic Yearbook, 1962.
    $8_{J}$. F. Kennedy, Speech at Milk and Nutrition Conference, Washington, D.C., January, 1962 (unpublished).
    ${ }^{9}$ For Your Information, op. cit., April, 1963, p. 6.

[^1]:    14 Fictitious name.

[^2]:    l"Drive-In, Quick-Shop Stores Showing Growth," Progressive Grocer, August, 1956, p. 204+.
    ${ }^{2}$ Lewis Milkovics, ${ }^{\text {nA }}$ Report on Drive-In Food Markets, ${ }^{n}$ Progressive Grocer, January, 1960, p. 73+.
    $3^{3}$ Drive-In, Quick-Shop, . . ." op. cit.

[^3]:    ${ }^{4}$ Lewis Milkovics, "Min-It Market Drive-In Stores Expanding in California," Progressive Grocer, October, 1958, p. 54+; "Speedee Marts Squeeze Supermarket Lines into 2,200 Sq. Foot Selling Area," Progressive Grocer, February, 1958, p. $172+$.

    $$
    { }^{5} \text { Milkovics, }{ }^{n} \text { A Report on Drive-In, . . ." op. cit. }
    $$

    ${ }^{6}{ }^{n}$ The Truth about Bantams, Drive-Ins, Etc.," Super Market Merchandising, November, 1959, pp. 44-66.

[^4]:    ${ }^{7}$ Milkovics, ${ }^{\text {A }}$ Report on Drive-In, . . ." op. cit.
    ${ }^{8}$ Lewis Milkovics, ${ }^{\text {K Minit Market Makes Hit with New }}$ Jersey Shoppers," Progressive Grocer, January 1961, p. 61.

[^5]:    ${ }^{29}$ Milkovics, ${ }^{\text {n Min-It Market Makes Hit, . . ." op. cit. }}$ ${ }^{30}$ "Speedee Marts Squeeze, . . .n op. cit. 31

    Lewis Milkovics, "What It Takes to Stock a New Drive-In Market," Progressive Grocer, February, 1960, p. 68+. 32

    Milkovics, "Drive-Ins Gain, . . ." op. cit. ${ }^{33}$ Milkovics, "A Report on Drive-Ins, . . ." op. cit. 34nThe Truth, . . .n op. cit.

[^6]:    ${ }^{43}$ Milkovics, "Min-It Market Drive-Ins, . . ." op. cit.

[^7]:    ${ }^{1}$ Leonard C. Yareen, Plant Location (New York: American Research Council, 1956), p. 7.
    ${ }^{2}$ Ibid.

[^8]:    6
    ${ }^{6}$ Ibid.

[^9]:    ${ }^{8 n}$ Facts About Supermarkets in 1961," Super Market $8_{n}$ Facts About Supermarkets in
    Merchandising, February, 1962, p. 61.

[^10]:    11
    Ibid., p. 71.

[^11]:    ${ }^{1}$ L. H. Briston, Jr., Developing the Corporate Image (New York: C. Scribner and Sons, 1960).
    ${ }^{2}$ "Art of Building A Corporate Identity," Public Relations Journal, 19:16-20, January, 1962.

[^12]:    ${ }^{3}$ Bristol, op. cit.
    ${ }^{4}$ nart of Building, . . . ${ }^{n}$ op. cit.

[^13]:    ${ }^{5}$ Bristol, op. cit.

[^14]:    ${ }^{6}{ }^{n}$ Basic Dimensions of the Corporate Image," Journal of Marketing, 25:47-51, October, 1961.

[^15]:    ${ }^{7}$ W. P. Marguiles, "How to Select a New Corporate Name," Public Relations Journal, 19:12, Feb., 1962.

[^16]:    ${ }^{8}$ Lippincott and Marguiles, "Visual Schitzophrenia, ${ }^{n}$ Management Methods, 18:49-51, Aug., 1960.

[^17]:    ${ }^{9}$ "Latest Fad Among the Brass," Business Week, March 28, 1959, p. 103+.

[^18]:    ${ }^{2}$ As a guide for determining which product groups to handle, we referred to the following sources: The Super Value Study, Sales and Margins By Product Groups, pp. l-16, Progressive Grocer, New York, 1957; The Dillon Study - Sales and Margins in Each of 530 Product Groups, Progressive Grocer, New York, May, 1960; Sales and Gross Margin Productivity Report, Chain Store Age, New York, July, 1962.
    ${ }^{3}$ The Detroit Free Press, "Consumer Analysis Survey of Buying Habits," Detroit, Michigan, 1952.

[^19]:    4nCanned, Dry Soups: Sales Performance in the Midwest," Chain Store Age, New York, 1962, p. 292.

[^20]:    ${ }^{5}$ A full description of this position will be outlined in a later chapter.

[^21]:    ${ }^{4}$ Robert Ferber and P. J. Verdoorn, Research Methods in Economics and Business (New York: The Macmillan Company, 1962). pp. 486-547.

[^22]:    *Retail Operations Manager.

[^23]:    POTATOES
    Pillsbury Inst. Mashed
    l8's
    Pillsbury Inst. Hash
    Brown $18^{\prime} s$
    Butterfield Shoestring
    $2-1 / 2$ oz.
    PRODUCT ADDITIONS
    OR CHANGES

[^24]:    PRODUCT ADDITIONS

[^25]:    Fleischman's Corn
    Oil 1 Lb .

