

Distribution Changes Needed

By
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On the first day of Marketing 101, we tell our students that "marketing starts with the market," that is, with satisfying consumers. The problem is that before satisfying consumers' wants and needs, marketers have to figure out just what those wants and needs are that they are supposed to satisfy, especially when the needs change so rapidly! Thus, food companies, particularly suppliers, spend considerable time and market research dollars trying to determine consumers' needs. But this is tricky business. Consumer research results are often ambiguous and subject to differing interpretation, except in one area: fresh foods.

One hardly needs market research exercises to answer one of the most vital questions regarding consumer food preferences: What tastes best, fresh or processed food? Here the results are completely unambiguous. Consumers are virtually unanimous in voicing their preferences for fresh foods. Numerous surveys reveal that consumers perceive fresh food as more attractive, colorful, healthful, fun and better tasting. Indeed, this is a rare example of a consumer preference upon which most marketers agree; the divergence in opinion only begins when companies attempt to execute strategies to satisfy this overwhelming preference for fresh taste: how to deliver it.

Currently, food industry executives virtually worldwide are immersed in evaluating the distribution alternatives available to answer this question. Basic to the answer was first the understanding that fresh foods cannot be prepared and delivered in the same way in which the United States won its reputation as the world leader in distributing dry groceries: that is, with one central, national manufacturing location and large-scale, rapid, over-the-road trailer transport to wholesale/retail outlets. The U.S. may continue to set the world standard for the efficient distribution of grocery cartons, but such efficiency misses the point for fresh food, particularly prepared foods. When Europeans and Asians visit the U.S., they are quick to remind us that, yes, we enjoy impressive logistics system efficiencies for manufactured products, but our fresh food tastes like the same cardboard boxes in which it is regrettably shipped! American food companies have received the wake-up call: there is now a widespread recognition that fresh prepared foods is a fundamentally different business that requires special approaches and different distribution systems.

Four alternatives have surfaced for the preparation and distribution of fresh prepared foods. Virtually all retailers and wholesalers rely on one or a combination of these distribution methods to source their products. Following are the major challenges cited by practitioners when discussing these principal distribution methods:

In-store preparation. Benefits include minimized distribution problems, easier to achieve product freshness, lower levels of preservatives, and in-store kitchen activities communi-

cate freshness to shoppers. However, cost effectiveness cannot be assumed in all instances, maintaining consistency of quality across stores is difficult, and assuring safety of in-store practices and products is a major problem, as are the relatively high costs of in-store kitchen space and equipment.

Commissary/central kitchens. Benefits include the reduction of in-store costs and problems associated with in-store preparation; perhaps higher quality is achieved due to small batch jobs and minimal preservatives. However, expected reductions of in-store labor are not generally realized; existing

commissaries tend to replace manufacturer activities, not in-store activities.

Local processors. Benefits include quality without sacrificing efficiency; packaging and

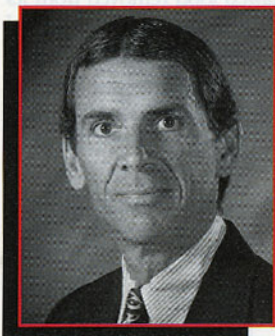
recipes can be tailored to local stores, and transportation problems are minimized. Limitations are local processors often lack financial resources and marketing "know-how"; technical knowledge may be lacking, and volume requirements of large retailers may be difficult to meet.

National manufacturers. Benefits include effective communication to shoppers with respect to a growing category and new products; consistency across stores and even national markets; reliable food safety, quality control, innovativeness and perhaps greatest distribution efficiencies. Limitations are often a lack of willingness of national suppliers to tailor programs and products to local tastes and preferences, manufacturers' requisites for quality consistency, and large volumes often are inconsistent with retailers' growing preferences for frequent deliveries of smaller quantities.

The new expansion of fresh prepared foods and home meal replacement programs by supermarket companies has cast the above distribution options under new light. Historically, the supermarket industry has only rarely integrated its operations backward into food manufacturing. However, conversations with many of the leading fresh foods producers today reveal that supermarket retailers are being forced into the preparation arena, essentially against their will. Most of the leading fresh prepared foods programs in today's supermarkets rely importantly, in a few extreme cases almost exclusively, on in-store preparation. It's the only way, many explain, they can achieve the quality and taste that their consumers demand and, increasingly, are willing to pay more for.

Some accept such retail forays into food production and preparation as the inevitable consequence of industry change. But I am not convinced. Indeed, I am nervous about retailers' ability to attract and retain the qualified personnel necessary for in-store preparation and about the needed consumer education, quality assurance, consistency and food safety across stores. These factors are essential for continued industry growth. I am awaiting the day when national suppliers can once again provide these important attributes—these are, after all, the attributes of a brand. Then retailers will be able to return to the functions they perform best: distribution and customer service.

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