

# Back to "Supply & Demand"

By  
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As an economist, I have been the target of untold numbers of jokes over the years. Most, I suppose are justified. Some are better than others. One of my favorites: "My wife says I became an economist because I didn't have enough personality to become an accountant." Let's be honest: economists have not had an impressive track record with many of their forecasts. But as another economics wag put it: "Hey, predicting is difficult, especially of the future." It is true that economists see the world as a function of their own unique training. We have been taught, for example, that the laws of supply and demand are practically inviolate, that they provide the framework in which the economic condition of man should be understood.

Using supply and demand factors to explain and interpret economic and business phenomenon in the real world is often of great help. Indeed, it is for this reason that business managers routinely refer to their businesses being shaped and buffeted by these sometimes unpredictable forces. Supply and demand form, not just

the bases for understanding how certain business situations develop, but can also be important in planning for likely future scenarios. The evolution of fresh prepared foods is a case in point.

First, consider demand. In recent years, consumers have changed their traditional patterns of procurement, preparation and consumption of foods as a function of changing lifestyles. It's no secret that people are busy; life's pace has become nearly frantic for many. Over 75% of American women now work. We simply don't have the time to perform the traditional tasks that occupied us a generation ago. We are fast approaching an era when a home meal preparer may never cook a meal from basic ingredients. "Homemade" is replaced by "home assembled," as the supermarket is the newest destination for prepared foods. The evidence is mounting:

- Nearly one-half of adults cook fewer meals at home that they did two years ago.
- Nearly two-thirds of Americans have no idea of what they are going to eat two hours prior to mealtime.
- The average shopping trip has been reduced to about 20 minutes -- yet how to make choices in this short time when last year alone, 20,000 new food products were introduced to US supermarkets?
- In 1996, over 53 percent of consumer food expenditures were for food purchased in retail stores, the rest being spent in foodservice outlets.
- Virtually all growth in consumer food expenditures

over the next 10 years has been forecast to come from foodservice activities.

Industry structural shifts, increasing consolidation and exciting new advances in technology is the other half, the supply-side. Increased competition to the entire grocery industry continues to intensify from alternative formats like mass merchandising, discount drug stores and category killers. Again, some indicators:

- A Wal-mart supercenter is typically 150,000 square feet, 40,000 of which are dedicated to food and grocery products, including prepared foods.
- Wal-mart has opened 338 supercenters since 1990, 272 of which have opened in the past three years.
- Boston Market has plans to have 3,000 stores open nationwide by the year 2000. Some of these new units will be in a new organizational configuration with Harry's

in a Hurry, a grab-and-go hybrid convenience store-deli specializing in high quality foods.

- Walgreen's, the nation's largest drug store chain, is re-installing fresh dairy cases and sit-down lunch counters in its

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*Supply and demand factors can help explain economic and business phenomenon.*

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newest prototype stores.

- A Cornell retail executive survey shows that, as processing and packaging technology continue to improve, more of the preparation of HMR type foods will take place outside the retail store environment. Food safety concerns and consistent quality are driving these shifts.

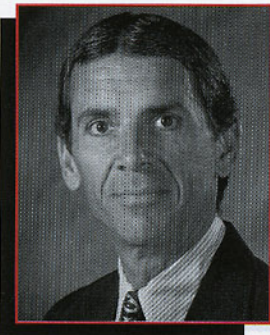
Demographic projections are nearly unanimous in predicting that more women will remain in the educational system for longer periods of time, earning more graduate and professional degrees. These women will naturally seek to practice their chosen profession in places largely outside the home, resulting in an even greater number of two income earning households than today.

Similarly, new technological advances in food microbiology, bio-engineered products, food processing, packaging and delivery systems will continue to march forward. With such improvements certain, we have no choice but to conclude that the offerings of fresh prepared foods will in a very short time but of higher quality, come in more convenient forms and be more widely available.

No sooner do supply and demand meet to establish an equilibrium condition, than the underlying forces once again shift, while the industry scrambles to find a new equilibrium. No one ever said predicting the future of the food business was easy.

So it's easy to demonstrate that supply and demand can be quite useful in sorting out the various factors influencing the development of a new product or service. But, they can also provide glimpses of what to expect in the future.

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