INTERNAL ORGANIZATION AND MANAGEMENT OF FRESH PRODUCE MARKETING IN RETAIL SUPERMARKET CHAINS: IMPLICATIONS FOR MARKETING SPECIALTY PRODUCE

by

Bobby G. Beamer

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APPROVED:

Warren P. Preston, Chairman

Leonard A. Shabman

Anya M. McGuirk

Daniel B. Taylor

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Blacksburg, Virginia

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(ABSTRACT)

The purpose of this research is to describe the management of the fresh produce marketing system in retail supermarket chains and to assess the marketing opportunities for specialty produce therein. Results provide new growers with knowledge of the retail industry necessary to establish good relationships with retailers.

A selective sample of 17 retail supermarket chains in the Virginia area were identified for inclusion in the study. Face-to-face interviews were conducted with the person most responsible for produce merchandising within each chain. Interviewees were asked to discuss management positions and operations and produce procurement and merchandising practices.

Results of the interviews provided for a generalization of management structures within supermarket chains. Distribution of strategic responsibilities within the different structures are described. Product movement is found to be the primary criterion used to measure the success of a produce item. Firm image is found to be important in explaining a firm's space allocation and other merchandising decisions. Full service supermarket chains carry the greatest variety of produce, but may be less likely to work with small growers. A core of 40 specialty items are carried by two-thirds of the chains in the study. Items that can be grown in Virginia are identified.

Results suggest that marketing niches exist for innovative growers who are willing to place special emphasis on high quality and service to retailers. Most direct relationships between growers and retailers are initiated by growers. An algorithm for produce market identification is presented.

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CHAPTER 1. Introduction

1.1 Problem Setting

As consumers have become increasingly concerned over the relationship between diet and health, supermarkets have responded by placing more emphasis on low calorie, low fat foods. As a result, the fresh produce department is competing with the meat department as the most important section of the store. Nationally, produce was second only to fresh red meat in the sales of perishable items in 1988 ("Produce"). Produce departments have grown with respect to total store volume, up from 7.6 percent in 1970 to 9 percent in 1988, and average gross margins have grown from 28 percent in the early 1960s to 32.4 percent in 1986 (Linsen). Annual produce sales have increased almost one billion dollars every year since 1984, when sales were 23.1 billion dollars, to 1988, when sales were 26.8 billion dollars.

In the 1990 *Trends* survey conducted by the Food Marketing Institute (FMI), 98 percent of supermarket shoppers surveyed rated quality produce, or fruits and vegetables, as a very or somewhat important factor when deciding where to shop. As the produce section has grown in importance, retail supermarkets have attempted to attract more business by offering expanded produce lines. Large stores may stock as many as 300 to 400 produce items, compared to 50 to

100 items a decate ago (Linsen). In the attempt to attract customers, retailers are cultivating an image of variety and completeness by offering more low-volume specialty items than ever before. While all produce departments must offer the requisite staple items, most supermarkets now offer low-volume items to enhance the store's image. The specialty section may be six feet of shelf space set aside specifically for testing new items, or it may be an integrated part of an expansive produce section where several varieties of lettuce are only a few feet away from star fruit and local, private-label apple cider.

How do such diverse items from different sources all find their way to the produce section of the local supermarket? McLaughlin (p. 422) concluded that control over produce shelf space lies almost entirely with the retailer. While "retail food distributors also own and manage shelf space and merchandising rights with respect to grocery products, in that area their control is tempered considerably by national brand consumer franchises...There is little doubt about where the balance of power lies in the produce system: it lies with retailers. Their strength can rarely be compromised by strategic counter moves of produce suppliers." This suggests that produce suppliers must understand and operate within the framework established by retailers.

Little is known, however, about the management and decision making processes of retail supermarket chains with respect to produce marketing systems. Suppliers need a deeper understanding of the operations of retailers in terms of their positions, needs, and standard operating procedures. Currently, only larger, better managed produce shippers have an understanding of retail firm types, internal organization, or merchandising strategies (McLaughlin). Much research into the structure of food industries has "treated the firm as a black box" connecting market structure with performance (Rogers and Caswell). Such research sheds little light on the decision making process that determines which fresh produce items will penetrate the retail market and receive shelf space and provides no insight for producers wishing to enter the market.

A better understanding of the management and decision making structure of retail supermarket chains has important implications for the marketing of fresh produce. Before producers can discover what criteria must be met to obtain shelf space, it is important to know how those criteria are established and at what level of management those decisions are made. This improved understanding will facilitate the formation of better producer-retailer relationships, which are essential in the fresh produce industry.

Traditionally, feasibility studies advising growers on fruit and vegetable production opportunities based recommendations on production costs, budget data, and potential markets represented by population and per capita consumption (e.g. Coastal Plains Regional Commission). Virtually no consideration was given to the needs of the institutions involved in marketing the produce. More recent research into the structure of fresh produce marketing has centered on analysis of the established distribution system and marketing channels. Stegelin, et al identified marketing "windows" that can be filled by producers wishing to produce fruits and vegetables for the fresh market. Because of seasonal production patterns, retailers in a certain region may be unable or unwilling to obtain certain fresh produce items because of limited availability or very high prices. The seasonal variation in traditional produce regions creates market windows that are opportunities for local producers to provide these scarce items.

Finding opportunities for farmers to diversify and supplement their incomes has become increasingly important within Virginia in recent years. In January 1987, the report *Serious Challenges and Extraordinary Potential - The Future of Agriculture, Forestry, and Rural Communities in Virginia* was presented to the governor of Virginia. The report was the result of a study designed to examine the current and anticipated future problems confronted by the agricultural and rural sectors of the state. One recommendation arising from the study was to identify alternative crops that can be successfully produced within Virginia and marketed successfully in the eastern United States. With the new emphasis on variety in the produce section, Virginia growers may find production opportunities in the specialty item category, rather than filling the marketing windows left open by the established marketing channels.

1.2 Objectives

Once the decision to produce specialty items is made, the problem of market penetration remains. To establish new relationships between growers and retailers, the black box described by Rogers and Caswell must be opened. The purpose of this research is to describe the management of the fresh produce marketing system in retail supermarket chains and to assess the opportunities for the marketing of fresh specialty vegetables within the limitations of the system. Specifically, the objectives of this paper are:

1. to develop a general model describing the organizational structure of the fresh produce marketing system of retail supermarket chains;
2. to describe the strategies and operations of the different levels of management within the framework of the model;
3. to describe the factors that determine shelf space allocation within produce sections; and
4. to establish criteria that producers of specialty items need to meet in order to penetrate the market.

1.3 Research Procedures

Rogers and Caswell (1988, p. 3) argue that "Research on the post-farm food distribution system requires more tools than are commonly found in the economist's neoclassical toolkit." Both neo-classical microeconomics and industrial organization are criticized as being incomplete in dealing with the food distribution system. The authors contend that analysis of the system must include case studies and research into the strategic management of the firm. Rogers and Caswell discuss strategic management at the corporate level and the impact it has on the larger characteristics of the firm in general. The argument for case studies and management research is equally valid when considering the organization and the strategic management of a smaller section within a firm. Therefore, the primary mode of investigation for this research will be a case study of retail supermarket chains operating in the Virginia area.

The available literature on intrafirm management of retail supermarket chains is limited. Research in the area of marketing opportunities for produce growers (Runyan, et al) provides a starting point for model development by describing criteria required by wholesale-retail buyers. Next, the importance of specialty produce items as alternative crops will be developed within the context of the marketing opportunities study. Research on the internal management structure of retail supermarket chains (Capps; McLaughlin) combined with some preliminary investigation will provide a working model to describe the hierarchy of management and areas of responsibility for strategic planning and operations within the firm. This model will serve as the basis for a survey of retail supermarket chains within the Virginia area. The results of the survey will then be used to modify the model to provide a more complete and accurate description of the management and decision making structure within the firms.

1.3.1 Research on Marketing Opportunities

As producers search for alternative agricultural enterprises to diversify or augment their income, many consider fresh fruit and vegetable production as a viable option. In a study to identify marketing opportunities and requirements for small farm vegetable growers in Southwestern and Southeastern Virginia, Runyan, et al (1986), went beyond the analysis of price signals that indicate market windows and considered both the production possibilities and the barriers faced by producers when marketing their produce. They found that, although most Virginia growers felt local retail chain markets were closed to Virginia vegetable producers, retail store buyers identified over 20 items that they purchased locally and were interested in local produce when it was available in the qualities and at least partially in the quantities they required.

McLaughlin (p. 333) described a dichotomy that retail firms typically face when buying fresh produce as being "a dominant core of large, stable suppliers (that) coexists with a competitive fringe of smaller, less stable firms." Small, local producers would be analogous to the fringe firms described above. McLaughlin describes several barriers to entry that limit the ability of the fringe suppliers to acquire greater market share:

1. large shippers enjoy absolute unit cost advantages over fringe rivals as a result of adoption of superior and costly technology;
2. large shippers enjoy benefits of extensive geographic communication networks;
3. large shippers may enjoy product differentiation among retail buyers, although not necessarily with consumers;
4. smaller fringe suppliers are limited by geographical barriers;
5. informal continuing arrangements (relationships between buyers and shippers) are prevalent over written contracts and tend to be stronger with large shippers.

Some of the above factors would be barriers to Virginia producers wishing to enter the fresh produce market although some of the advantageous for Virginia producers. Certainly, small producers would not enjoy the economies of scale described in numbers 1 and 2 above. However, Virginia producers might be differentiated in a positive manner to overcome barrier 3. Research has shown that, for some items, consumers prefer local produce (Eastwood, et al). Also, because of the Virginia producer's proximity to a large population base, geographical barriers may not be a major problem. The most important of McLaughlin's barriers to the entry of small, local producers into the fresh produce market would be the prevalence of informal arrangements between suppliers and buyers. Preliminary discussions with produce merchandisers suggests that informal, working relationships are vital to retail procurement of fresh produce. When a producer or shipper has a record of consistently meeting the retailers needs, the buyer may forgo a lower price on a comparable product to avoid the uncertainty associated with a new supplier.

Runyan, et al, identified the following problems that can hinder the development of a good relationship between buyers and producers:

1. lack of consistent quality
2. uneven sizing and grading
3. product is frequently too mature
4. lack of advance notice of product availability
5. whether or not the field heat has been adequately removed
6. lack of grower organizations among local growers.

While the above criteria are important for producers, this information alone will not insure that their product will reach the retail stores′ produce bins. These criteria represent necessary, but not sufficient, conditions for producers to establish a relationship with buyers. To establish the sufficient conditions, an understanding of the internal management and decision making structure of the retail supermarket chain is needed.

1.3.2 Specialty Items as Alternative Crops

Within produce sections, items may be classified somewhere along a spectrum between specialty and staple according to sales volume. Staple items are the high-volume standard produce items that play a major role in the American diet. Staple items include apples, bananas, broccoli, cabbage, celery, grapefruit, variety greens, Iceberg lettuce, mushrooms, oranges, yellow onions, potatoes, and tomatoes. Specialty items, on the other hand, are more market specific. What is a specialty in one area could be a staple in another depending on the clientele. Other items, such as asparagus, fall somewhere between staple and specialty. Intermediate items are not consumed in as large a quantity as the staple items, but are more widely recognized and consumed than specialty items. Occasionally, an item will move from the specialty class to the intermediate class as it gains popularity. The success of the Kiwifruit is a good example (Woodson and Houston). Opportunities may exist for local farmers to penetrate the fresh produce market other than filling the marketing windows left open by the established marketing channels. With the new emphasis on variety in the produce section, small producers might find production opportunities in the specialty item category.

Because of the market-specific nature of specialty items, a strict definition is difficult to establish. Specialty items are generally carried in lower volumes, may be relatively new within a given market area, and are provided to convey an image of variety and completeness to the produce section. The United States Department of Agriculture (USDA) reports prices and movement for about 70 items that might be considered specialties. Some, such as kiwifruit, mangoes, and specialty lettuce varieties are reported in their own categories. Other items are grouped together under one of six headings: greens (including chicoria, kale, and kohlrabi); herbs (including basil, chives, horseradish, and watercress); tropical fruits and vegetables (including breadfruit, dasheen, and yucca); oriental vegetables (including bean sprouts, bok choy, and daikon); other vegetables (including alfalfa sprouts, celeriac, Jerusalem artichoke, and tomatillos); and miscellaneous citrus (including kumquats, mandarins, and uglifruit). Different sources consider different products as specialty produce items (McClure). For this study, the list of specialty items described by Imming (1983) will be used.

Another category of specialty products that may hold market potential is organics. Over the last several years, consumers have expressed a high level of concern over the presence of pesticides in fresh produce. In the annual *Trends* study, 80 percent of consumers rated pesticide residues as a "serious" health hazard (FMI). There has also been an increased interest by producers in reducing the application of chemicals to food products for both safety and financial reasons. These supply and demand factors suggest that the amount of organic produce marketed should increase in the future. One barrier to the growth of the organic produce industry has been the lack of quality standards to insure the integrity of organic goods; however, legislation is currently under consideration at both the state and federal levels that would define organic produce and set standards for the certification of products to carry an "organic" label.

Determination of which specialty items can be produced in Virginia is beyond the scope of this research. However, once the decision to produce such items has been made, the problem of market penetration remains. Virginia producers may more easily penetrate the specialty produce market than the market for staple produce items for several reasons. Specialty items are usually required in smaller volumes by the retailers than are the staple items. For this reason, small, local producers or producer groups should be able to meet retailers' quantity requirements. Because such items are typically low-volume and may not be offered at all stores within a chain, in-store promotion may be used for specialties, rather than promotion in newspapers and fliers. Retailers may not view year-round availability of specialty items as necessary and so may be more willing to stock items only when available locally. Because many specialty items are new, established marketing relationships may not have developed. Also, some retailers might appreciate the positive image that could be promoted by carrying locally grown produce.

1.4 Organization of the Study

The remainder of the study proceeds as follows. Chapter 2 develops a management framework for retail supermarkets within which responsibilities for decision making and shelf space allocation can be analyzed. Working hypotheses are outlined with respect to the objectives of the study. In Chapter 3, research methods and sample selection are described.

Chapters 4, 5 and 6 report the results of the study. In Chapter 4, the findings on firm organizational structure and management responsibilities are illustrated. Chapter 5 provides a discussion of the marketing of specialty produce and the factors firms consider when allocating shelf space. Chapter 6 outlines criteria for producer delivery to warehouses and stores and describes the criteria for good producer-retailer relationships.

Chapter 7 summarizes the findings of the research and offers suggestions for helping producers meet criteria to establish better relationships with retailers. Further research needs are indicated as well.

Chapter 2. Framework for Analysis

The purpose of this chapter is to establish the framework within which this research project will be conducted. The first section uses a literature review and results of preliminary interviews to develop a generalized organizational model that serves as a hypothesis for objective 1. The second section presents speculation on the interaction of the parts of the model from the first section. These models of the distribution of responsibilities serve as the hypotheses relevant to objective 2. Hypotheses on the process of shelf space allocation are developed in the third section. Again drawing on preliminary interviews, the fourth section establishes hypotheses relating to the delivery requirements of retail firms.

2.1 Management Structure of Supermarket Chains

This section develops a generalized model to serve as a hypothesis on the organizational structure of management positions relevant to the marketing of fresh produce. The works of Capps and McLaughlin serve as the primary bases for the model. Two preliminary interviews were conducted with the produce merchandiser of a large supermarket chain during the processes of problem definition and interview planning. These interviews provide valuable insights into the relationships among management positions of importance to the model development.

2.1.1 Previous Research

A. Capps

While little is known about the organization and management of fresh produce marketing systems within retail supermarket chains, limited work has been done to describe the general management structure of supermarket chains. Capps (1988) conducted a study to identify the decision-making roles of the various levels of management in retail food firms. Attention was focused on: (1) identifying the range of responsibility for each level of management, and (2) identifying the degree of involvement for each level of management (p. 34). Responsibility and involvement were described as follows: "The responsibility classification defines the degree of authority the manager had in the decision-making process concerning a specific area. The involvement classification indicates the amount of direct involvement by a manager in a particular management decision."

To account for differences in the organizational structure of different firms, Capps developed a general organizational hierarchy containing the following elements: (1) the chief executive officer (CEO), which included all upper management levels; (2) the merchandiser, which represented buyers, merchandisers, and other positions responsible for merchandising activities; (3) the store manager; and (4) the departmental manager.

Capps (p. 31) discussed, in general, the role of each level of management:

> "The chief executive officer (CEO) is responsible for setting the goals and objectives of the company. This responsibility involves the development of firm profitability goals, the management of capital allocation, the development of firm image, and the design of firm operating strategies...To cultivate firm image, standards are set for customer service, product quality, product mix, display methods, advertising, and employee appearance...The merchandiser is generally concerned with store layout, product mix, pricing decisions, advertising and promotion, methods of processing and packaging perishable products, inventory control (warehouse), and profitability...The store manager is

responsible for in-store personnel management, general operations, merchandising, and profitability...The departmental manager is responsible for the general operations of his/her department. These responsibilities include labor scheduling and the training of departmental employees in operations such as stocking, display of items, and procedures for customer service. Other responsibilities include supervising the stocking and display of merchandise, control of shrink through proper ordering (especially in perishables) and prevention of pilferage as well as general merchandising."

Capps summarized the responsibilities of the levels of management in a matrix. Table 1 is a subset of his matrix, emphasizing those responsibilities related to the marketing of fresh produce. This matrix illustrates that the chief executive officer tends to have a high level of responsibility for firm activities with low levels of involvement. This suggests that upper management levels are more involved with strategic planning than implementation. Conversely, department managers have lower levels of responsibility with higher levels of involvement, suggesting limited responsibility for strategic planning and more responsibility for operations. The middle levels, merchandisers and store managers, also follow this tendency.

B. McLaughlin

McLaughlin provided an overview of the produce marketing system within the United States (Figure 1). This model illustrates the flow of all fresh produce from its sources, both producers and imports, to the ultimate consumers. However, within this model, all produce passes through shippers and wholesalers. No consideration is given to produce sold directly from producers to retail firms, which is the focus of this study. For the remainder of this study, intermediate handlers of produce between the grower and retailer will be referred to as either shippers or handlers. Shippers are those firms that buy direct from producers for sale to retailers or wholesalers. Shippers are typically located close to the growers and handle only one type or class of product. Wholesalers buy produce from a variety of producers and shippers to meet all of the produce needs of retailers and other outlets.

In his investigation of vertical coordination in the produce procurement system, McLaughlin (p. 166) discussed the functions of buying and merchandising fresh produce:

"In the majority of firms the closely related buying and merchandising functions are carried out by different individuals. The buyers' chief responsibilities revolve around the logistics and purchase

Table 1. Matrix of Management Responsibiities

Key:
CEO = chief executive officer
STM = store manager

MER = merchandiser
DPM = department manager

LR = level of responsibility

LI = level of involvement

Level of responsibility or involvement:

H = high
M = medium
L = low

	Management Level							
	CEO		MER		STM		DPM	
Responsibility	LR	LI	LR	LI	LR	LI	LR	LI
Equipment								
(1) purchase decision	H	L	H	H	L	L	L	L
(2) merchandising decision	H	L	H	H	L	L	L	L
Inventory								
(1) product mix	H	H	H	H	M	M	M	M
(2) display	M	L	H	M	H	M	H	H
(3) processing & packaging	M	L	H	M	M	L	L	H
(4) ordering	L	L	H	H	H	H	H	H
(5) shrink	L	L	H	H	H	H	H	H
(6) price integrity	H	L	H	L	H	H	H	H
Merchandising								
(1) pricing	H	H	H	H	L	M	L	L
(2) advertising	H	L	H	H	L	L	L	L
Develope Image	H	L	L	H	L	H	L	H
Customer Service	H	L	L	H	L	H	L	H
Sales Objectives	H	L	M	H	L	H	L	H

Source: Capps, pp. 32-33.

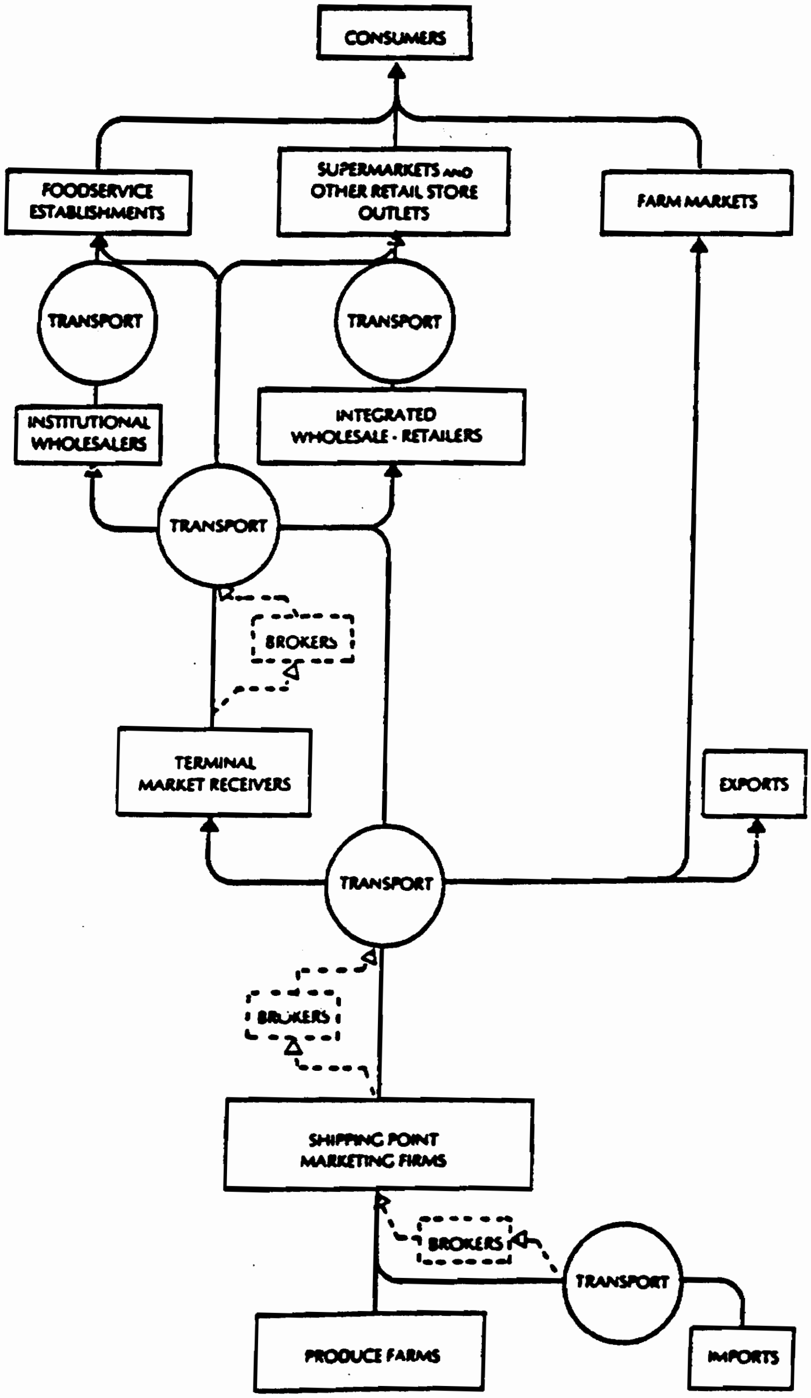

Figure 1. U.S. fresh fruit and vegetable marketing system

Source: McLaughlin, p. 84.

negotiation of produce procurement: actual buying, determination of supply sources and transportation arrangements. Merchandisers, on the other hand, are more closely connected to store-level decisions: extent of variety, display area planograms, whether commodities are sold in bulk form or packages, which items -- fresh and non-fresh -- are to be handled, and proper use of point-of- purchase materials. Merchandisers are occupied conducting store visits, while their buying colleagues are occupied with product prices, availability at supply points and inventory levels at headquarters. Buyers may report through purchasing or distribution channels while merchandisers may report to executives responsible principally for merchandising."

McLaughlin also distinguished between advertising and merchandising. He defined advertising as the "ways by which retailers attempt to transmit information to, and influence the purchasing decisions of shoppers through the use of broadcast media." Merchandising, on the other hand, is defined as the "techniques by which retail buyers and merchandisers manipulate prices, commodity selection, space allocation and in-store advertising in attempts to create desired company image and shopper behavior." After making this distinction, he then listed the "essential criteria for the promotion of fresh produce in the order of importance: quality; price; availability; heavily-used, power items (staples); seasonality; and competitor ads." These criteria show why specialty items are not usually advertised.

2.1.2 Preliminary Findings

During the development of this research project, the produce merchandising manager for a large supermarket chain was interviewed. The primary purpose of this interview was to gain insights into the practical operations of produce marketing that would aid in the refinement of the research problem. A second interview was conducted to assist in the development of the interview process used in the research. These two interviews provided practical explanations of marketing operations and structure described below.

The chain represented in the preliminary interviews has its own buying system with buying offices located in the major produce growing areas such as California, Florida, and Washington state. The produce merchandising manager contacts the buying offices to find out what items and varieties are available. The buyers and the merchandiser then work with growers and shippers to move the produce to the distribution center. Direct store delivery of some produce is possible if guidelines are met. Prices of the produce are set by the merchandiser at the warehouse based on costs. Promotional programs and store layouts are determined at this level also. The produce merchandiser informs individual stores about what items are available and what products are being promoted. The stores then place orders based on their individual needs. The individual stores are charged for the merchandise with a cushion to allow for spoilage. Prices at all stores are determined by the merchandiser for a one-week period, running from Wednesday through Tuesday. The percentage of store space allocated to produce and the general store layout is determined for all stores at the corporate level. The same general schematic layout is used in every store in the chain. Subject to certain guidelines, however, store managers and departmental managers within the stores have some freedom to adjust the space allocation within the department.

2.1.3 A Working Model

Combining the findings of Capps and McLaughlin with the findings from the preliminary interviews provides a generalized organizational model of the management structure for a retail supermarket chain, with emphasis on the divisions related to produce (Figure 2). Because of the great amount of variation between the organizational structures of different firms, especially with respect to job titles, the chart is divided into four management levels that correspond with the hierarchy established by Capps.

Level I, the corporate level, is composed of all upper management positions. This level consists of chairmen, presidents, chief executive officers, senior vice presidents, vice presidents, and executive secretary/treasurers. Level II is that of procurement and distribution management. There is a great deal of variation in job titles at this level. Different job titles found at Level II include supervisor of produce, director of produce, produce buyer, director of produce sales, produce merchandiser, director of purchasing, manager of sales, manager of pricing, director of loss prevention, and director of retail operations. Level III, the store level, has one major management

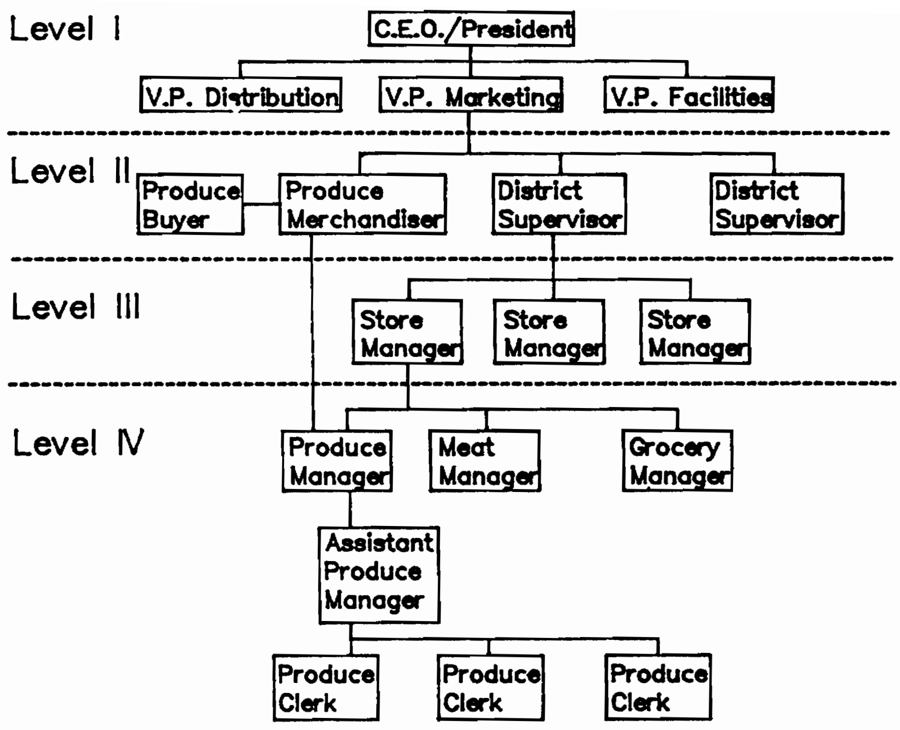

Figure 2. A generalized organizational chart for a retail supermarket chain

position, store manager. Level IV includes the positions of produce manager, assistant produce managers, and produce clerks.

Level I has primary authority for strategic planning for the firm. This level establishes criteria for store image, customer service, store layout, store locations, and management organization. Level I is also usually responsible for such operations as real estate purchases, site development, equipment purchases, and other major capital investments.

The primary functions performed at Level II are purchasing of goods, distribution to retail stores, and coordination of merchandising and promotional activities. At this level, strategies are developed for the allocation of shelf space within departments and in-store merchandising. Operations include purchasing of goods by field buyers, transportation to a distribution center, allocation to individual retail stores, setting of retail prices, and promotion of goods through the media.

The store manager at Level III is primarily responsible for the coordination and management of all departments within an individual store. Store managers have a high level of responsibility for planning product display, ordering (inventory control), adjusting space allocations (within guidelines established as levels I and II), and insuring price integrity. The store manager has a high level of involvement with the operations of ordering, image maintenance, and customer service. Store managers, working with the produce managers, may establish relationships with producers for direct store delivery (within guidelines established from levels I and II).

At Level IV, the strategies of the higher levels are actually realized; therefore, this level is primarily responsible for implementation of daily operations. The departmental managers are responsible for product display, ordering, shrink, and price integrity. The department manager may adjust shelf space within guidelines established at higher levels. Clerks are concerned with stocking, packaging, and customer service.

The generalized terminology used to describe management activities may have very different meanings at different levels. For example, when considering "product mix", the chief executive officer and vice-presidents may plan departmental allocation and layouts for entire stores. On the other hand, a produce manager planning product mix is concerned with variety and display of the fresh fruits and vegetables within the department. Also, the size of the firm may affect the distinction between the management levels. For example, within smaller firms, the functions performed by Levels I and II may be combined into one level with only a few different job titles performing a wide range of functions.

2.2. *Distribution of Management Responsibilities*

As illustrated in Table 1, Levels I and II are primarily responsible for the development of strategies for the firm, while Levels III and IV are primarily responsible for implementing these strategies. The upper levels establish policies and general goals for the firm, and the lower levels use whatever tactics the policies allow for them to meet the goals. Figure 3 illustrates how responsibilities vary from level to level within the firm. In general, most strategic decisions and plans are made at Level I. At each lower level, there exists some freedom for planning marketing strategies. However, the amount of freedom at each lower level is bounded by the decisions and guidelines from the levels above. Within some smaller firms with only three management levels, the sides of the strategies and operations triangles might be considered as almost vertical, with few restrictions from above and most strategic planning taking place at the store level (Figure 4). On the other hand, within some larger firms, stricter guidelines may be set at higher levels to insure uniformity among all stores. This type of management would effectively eliminate the freedom for strategic planning at the lower levels (Figure 5).

In any of the management schemes described above, there exists a management position with ultimate responsibility for the performance of a particular department or geographical region. For this study, this position will be called the division leader. The person in this position would be the primary recipient of strategies and policies passed down from the higher management levels. The division leader has primary authority for developing and implementing programs within the division based on the goals of the firm. The division leader would be the ultimate recipient of

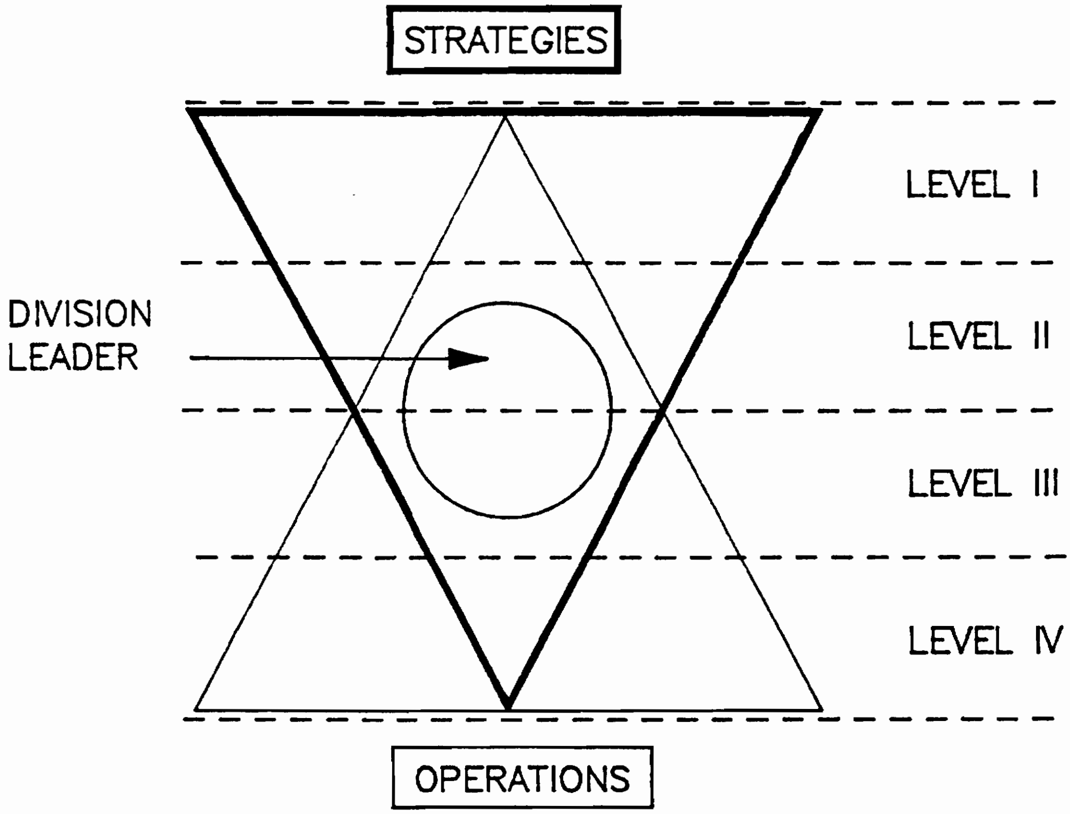

Figure 3. General model for distribution of management responsibilities among management levels of a retail supermarket chain

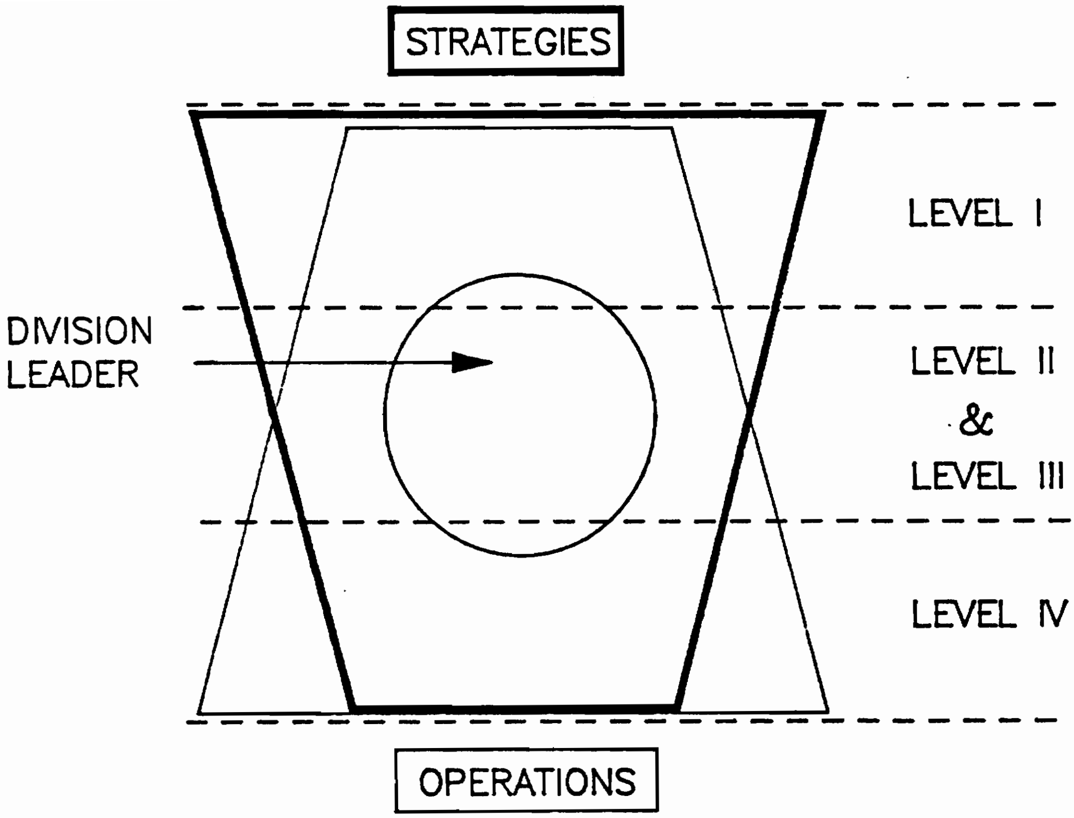

Figure 4. Distribution of management responsibilities for a small retail supermarket chain with few restrictions

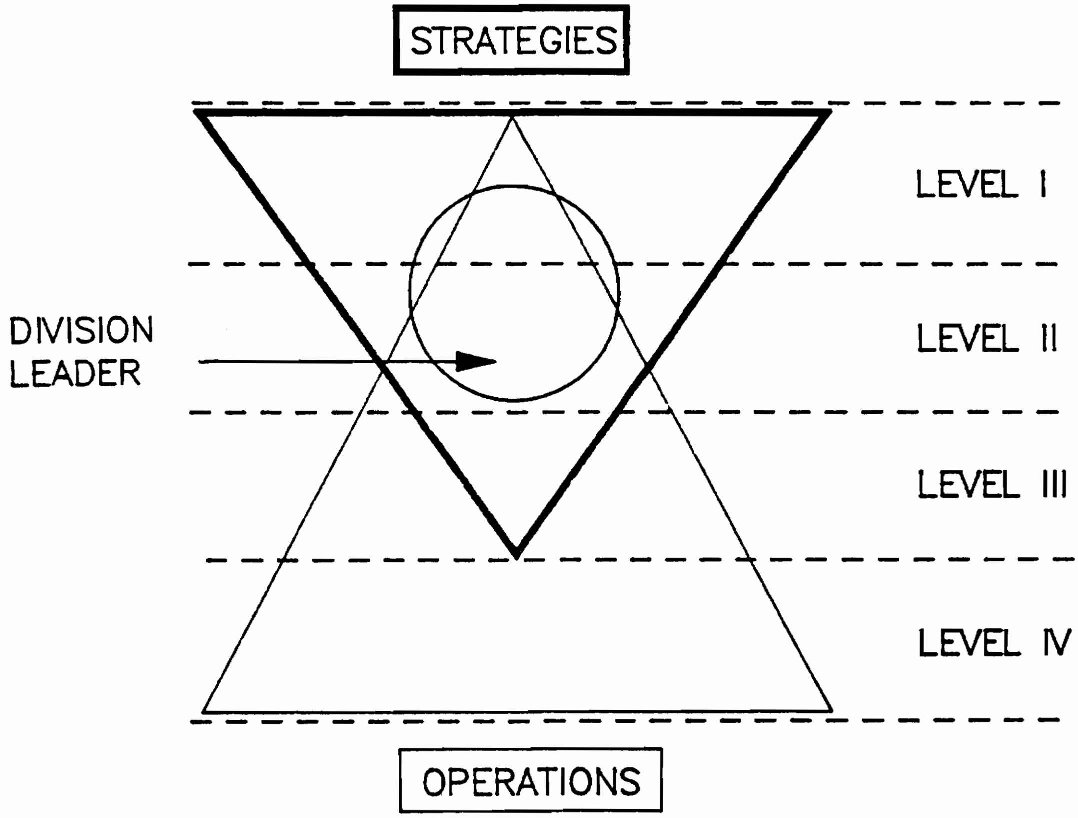

Figure 5. Distribution of management responsibilities for a retail supermarket chain with rigid restrictions

suggestions and feed back from the levels below. In larger firms, the division leader for the produce department would most likely be the produce merchandiser or director, while in smaller firms, this responsibility might lie with the store manager or the produce manager.

2.3. Criteria for Shelf Space Allocation

Whether considering either the division leader or the management structure as a whole, some implicit or explicit criteria are used to determine how shelf space will be allocated. These criteria can be classified under one of two categories: rules of thumb or formal programs. Rules of thumb are informal judgements based on the decision makers' perception of the department's success. Criteria used to rate the success of an item may include measures of profitability such as gross margin (selling price - costs of goods sold), records of volume sold, or a knowledge of customers' tastes and preferences.

As the competition for shelf space within the supermarket has increased, retailers have started to rely on more formal methods of allocating shelf space. Computer programs, such as Direct Product Profit (DPP), provide more detailed information for the planner to consider. DPP is a system for analyzing the net contributions to overhead and profit for individual units of a product. The program starts with gross margin, then adds other revenues associated with the products, such as manufacturer deals, promotions, prompt payment discounts, and backhaul revenues. The DPP then subtracts direct product costs associated with handling at the warehouse, through transportation, and in the store, to determine the final Direct Product Profit. When combined with sales volume information for the item, this information then becomes a powerful decision tool with many applications in the decision making process (Boyle). Many firms are starting to adopt programs where DPP is only one part of an overall integrated computer system that controls data on all aspects of the operation including price verification, space management, labor scheduling, and payroll (Tanner).

2.4. Retailer Conditions for Market Entry

As retailers become increasingly advanced in their allocation of shelf space, their expectations of products and services from producers and shippers are sure to rise. Producers interested in penetrating the market for fresh produce will benefit from a better understanding of the operations of the retailer. Preliminary investigation suggests that producers face two potential paths to market entry, each with their own criteria. Producers may sell to the firm at the wholesale level or they may deliver directly to individual stores. For this study, requirements for delivery to an independent wholesaler are assumed to be the same as the requirements for delivery to a warehouse operated by a retail chain. Because only retail firms are included in this study, all references to warehouses refer to those operated by retail firms.

Runyan described some conditions for market entry that producers must meet to enter the wholesale market. In addition to overcoming the objections to local producers described in Section 1.3.1, producers must consider several other factors. Wholesalers will accept mixed loads of products if the items meet quantity and quality standards, and their arrival is anticipated. Producers should use containers that are adaptable to pallet handling. Also, since buyers prefer to deal with as few sellers as possible, producers would probably find the formation of grower cooperatives or associations beneficial at the wholesale level.

Many supermarket chains allow for direct store delivery when certain criteria have been met. While very little information is available on what these criteria are, there is no reason to believe that they would differ greatly from the wholesale level except in quantity. Retailers would still require high quality and delivery as anticipated.

After the producers understand what the retailers' expectations are in the way of operating procedures, they could also benefit from an understanding of the retailers' perceptions of different specialty products. In many cases, producers may need to contact the chains in their area to determine what items are in demand. Retailers should know what ethnic groups are in their market area, as well as what items are being requested by consumers. Producers should also determine if there are any items that the retailers will not carry and avoid those items.

Chapter 3 Interview Procedures and Sample Characteristics

Among the many factors that can influence the acceptability of fresh produce to retailers, the internal management structures of retail supermarket chains has been selected for detailed analysis. Within this structure, decisions are made about what items will be allocated shelf space and what sources will be used to obtain those items. Therefore, an understanding of these positions and the factors that influence their decisions would be essential to anyone wishing to conduct business with retail firms. This chapter describes the methods and procedures used to investigate the management structure and marketing operations of retail supermarket chains. Section 3.1 describes the selection of the firms to be included in the sample. Section 3.2 describes the rationale behind the selection of an interview process. The final section describes some demographic characteristics of the firms interviewed.

3.1. Sample Selection

Virginia fruit and vegetable growers have a geographic marketing advantage relative to many areas of the nation because of their close proximity to the large population centers around Washington, D.C., Richmond and Norfolk. Also, Virginia producers are located within one day's drive of 60 percent of the U.S. population (Futures Study). However, producers may not be familiar with the marketing practices of the retailers within their area. While direct marketing to 8onsumers is a feasible option for some producers, commercial production of fresh fruits and vegetables typically requires commercial outlets provided by retail supermarkets. In the metropolitan statistical areas (MSAs) within the region of the study, single unit supermarkets rarely accounted for more than 5 percent of total market share (Chain Store Guide). Therefore, only multiple unit supermarket chains were included in this study.

The Chain Store Guide--1990 Directory of Supermarket, Grocery and Convenience Store Chains served as a source for identifying potential participants in the study. An attempt was made to include all chains operating within Virginia's major metropolitan areas, and several chains operating in other regions of the state. Selection of face-to-face interviews as the method of data collection, as described in the next section, imposed time and budgetary constraints limiting the sample size. Therefore, the firms included in this study constitute a selective sample rather than a random sample. An attempt was made to capture as much of the market share as possible within the region of interest, while including firms of varying size, location, management style, and organization.

An initial list of 25 chains was prepared as potential participants. Of these, five were eliminated from the sample because of scheduling constraints. The initial contact person within each firm was determined from the Chain Store Guide or by a telephone call to the public relations department of the firm. Because the produce division leader, described in section 2.2, would necessarily be most familiar with all positions and operations associated with produce marketing, an attempt was made to identify and contact the person in this position within each firm. Each contact person received a letter requesting an interview and a description of the research project (Appendix A). Within a week of receiving the letters, the person was contacted by telephone so that any questions or concerns by the firm could be addressed. Next, an appointment with the produce division leader, or a representative, was arranged. Of the 20 chains contacted, one had been acquired by another chain in the sample, one was unable to arrange a meeting time, and one declined to participate. As a result, industry personnel from 17 different supermarket chains were interviewed between April 26 and May 31, 1990. The 17 people interviewed included two vice presidents, seven directors of produce, five produce merchandisers, and three produce merchandisers with other responsibilities within the firm.

3.2. Interview Development

The modern retail supermarket industry is an extremely rivalrous business. Because of this, management personnel are reluctant to discuss firm strategies and operations with an unknown individual from outside the firm. Personal interviews allow for the development of relationships that facilitate discussion of sensitive issues, and provide the interviewer with the opportunity to pursue unanticipated subjects relative to the research problem (Dean, et al). The purpose and objectives defined for this research suggested the need for an interactive dialogue between the firm representative and the researcher. Thus, data obtained in this manner are qualitative in nature.

To lend consistency to the interviews, a general outline was developed (Appendix B). This outline served more as a reminder to include all subjects of interest rather than as a strict format. Interviews were started with inquiries about the management structure of the firm. This discussion included a description of the management positions involved in produce marketing through all levels of the firm and their responsibilities and interactions. Next, the interview focused on the movement of produce through firm facilities to the produce department in individual stores. Respondents were asked to describe the requirements for both warehouse and direct store delivery of fresh produce, as well as ordering and shipping procedures between the warehouse and the stores. Descriptions of merchandising practices were elicited with special attention on methods of allocating shelf space. The only structured part of the interview was the completion of check-off lists of specialty fruits and vegetables offered by the firm (Appendix C). Completion of these lists was followed by a discussion of experiences with the items. The interview was designed to last no longer than 45 to 50 minutes to maximize participation.

3.3. Sample Demographics

The Chain Store Guide--1990 Directory of Supermarket, Grocery and Convenience Store Chains is the primary source for all demographic information listed in this section. All data on chain size and sales are company estimates for 1989, supplied to Business Guides, Inc. by the chains. Some regional sales data for divisions of national chains were estimated on the assumption that average sales for all stores would be the same across regions. The seventeen firms interviewed represented over 1500 stores operating in fifteen states and the District of Columbia (Table 2).

The supermarkets in the study are classified by the number of stores within the chain for comparison with the size distribution for United States totals (Table 3). In the U.S., about 84 percent of supermarket chains operate fewer than ten stores. However, firms with ten or fewer stores account for only 20 percent of the total store numbers. The eighty largest chains control over 60 percent of the chain supermarkets in the nation.

The size distribution of firms included in this research is somewhat different. Only 35 percent of the chains in the sample operate ten or fewer stores, accounting for 2.5 percent of the total stores. Over 50 percent of the firms in the sample operate more than 50 stores. These nine firms accounte for about 95 percent of the total stores within the sample. For this study, chains operating less than 10 stores are referred to as small, chains operating 100 or more stores are referred as large, and those in between are referred to as medium in size.

Table 2. Supermarket Chains Participating in the Study.

Chain	Headquarters	No. of Stores	Areas of Operation
Acme Markets of Tazewell, Va.	North Tazewell, VA	8	VA, WV
Camellia Food Stores Co-op	Norfolk, VA	62	VA
Deskins Super Markets, Inc.	North Tazewell, VA	7	VA, WV
Driver Corporation	Harrisonburg, VA	3	VA
Farm Fresh	Norfolk, VA	64	NC, VA
Food Fair of N.C. Inc.	Winston-Salem, NC	9	NC
Food Lion, Inc.	Salisbury, NC	601	DE, FL, GA, MD, NC, SC, TN, VA
Giant Food Inc.	Landover, MD	145	DC, MD, VA
Harris-Teeter, Inc.	Charlotte, NC	128	NC, SC, TN, VA
The Kroger Co.	Roanoke, VA	116	KY, NC, OH, TN, VA, WV
Lowe's Food Stores, Inc.	Winston-Salem, NC	110	NC, TN, VA
Magruder, Inc.	Rockville, MD	13	MD, VA
Safeway Stores, Inc.	Landover, MD	154	DC, MD, VA
Wade's Foods, Inc.	Christiansburg, VA	6	VA
Wayne's Supermarkets	Charlotte, NC	6	NC
Winn-Dixie Charlotte	Charlotte, NC	107	NC, SC, TN
Ukrop's Super Markets, Inc.	Richmond, VA	19	VA

Source: *Chain Store Guide.*

Table 3. Distribution of Supermarket Chains by Company Size.

	Number of Chains		Number of Stores	
Size	U.S.	Study	U.S.	Study
2 & 3 Store Companies	892 *(51.4)**	1 *(5.9)*	2,094 *(7.9)*	3 *(0.2)*
4 - 10 Store Companies	567 *(32.7)*	5 *(29.4)*	3,314 *(12.4)*	36 *(2.3)*
11 - 50 Store Companies	197 *(11.4)*	2 *(11.7)*	4,289 *(16.1)*	32 *(2.1)*
51 - 200 Store Companies	63 *(3.6)*	8 *(47.1)*	6,055 *(22.7)*	865 *(56.3)*
51 - 100	n.a.	3 *(17.7)*	n.a.	215 *(14.0)*
101 - 200**	n.a.	5 *(29.4)*	n.a.	650 *(42.3)*
201 + Store Companies	17 *(0.9)*	1 *(5.9)*	10,925 *(40.9)*	601 *(39.1)*
Totals	1736	17	26,667	1537

n.a. = not available

*Numbers in parentheses denote percentages.

**Three firms included in this catagory were actually regional divisions of larger companies. For the purpose of demographic reporting, they are treated as independent firms.

Source: *Chain Store Guide.*

Firms also are classified according to dollar volume of sales (Table 4). The sales figures include all sales by a company as reported in their most recent annual report or as estimated by the company for the Chain Store Guide. Unfortunately, some figures include sales from convenience stores operated by the chain. In the United States, supermarket chains with over 50 stores account for over 70 percent of sales. The same distribution of firms within the sample cannot be developed because no total sales information is available for the market area within which the sample firms operate. Some comparison can by made by considering the distribution within the sample only. Chains operating over 50 stores account for almost 95 percent of total sales of firms in the study.

A more useful evaluation of the study sample can be made by considering the amount of the total market share captured by the study within the region of interest. Although this information is not available for the region as a whole, the market shares are reported for individual chains operating in five metropolitan statistical areas (MSAs) within the study region (Table 5). Chains included in the study control between 50 and 85 percent of the stores and account for 67 to 90 percent of the total sales within these MSAs. This suggests that the sample captures most of the market share within the region of interest.

Table 4. Distribution of Supermarket Chains by Dollar Volume of Sales

	U.S.	Study Sample	
Size	Percent of U.S. Market	Percent of U.S. Market	Percent of Study Sample
2 & 3 Store Companies	4.0	< 0.01	0.14
4 - 10 Store Companies	8.1	.11	1.82
11 - 50 Store Companies	14.0	.19	3.20
51 - 200 Store Companies	28.6	3.87	66.93
51 - 100	n.a.	.59	10.21
101 - 201*	n.a.	3.28	56.72
200 + Store Companies	45.3	1.61	27.91
Total	100	5.78	100
Total Sales:	$236,741,618,000	$13,669,094,000	

n.a. = not available

*Three firms included in this catagory were actually regional divisions of larger companies. For the purpose of demographic reporting, they are treated as independent firms. Regional sales for these divisions were estimated using national totals and assuming average sales for all stores.

Source: *Chain Store Guide.*

Table 5. Market Shares of Sample Chains in Metropolitan Statistical Areas within the Study Region.

MSA	% of Stores	% of Sales
Richmond-Petersburg, VA	50	67
Charlotte-Gastonia-Rock Hill, NC-SC	69	72
Norfolk-Virginia Beach-Newport News, VA	82	82
Washington, DC-MD-VA	71	83
Greensboro-Winston-Salem-High Point, NC	85	90

Source: *Chain Store Guide*. See Appendix D for more detail.

Chapter 4. Management Structures and Responsibilities

This chapter presents generalized management structures with respect to produce marketing for the supermarket chains included in the study. The descriptions of management structures provided by interviewees allowed for the expansion of the general model presented in Figure 2. The 17 firms interviewed for this study exhibited differing management organizational structures, each with unique features. The task of generalization was especially difficult because of the variety of titles given to similar positions. Nonetheless, by concentrating on the management functions performed by people in the different positions and the attributes of the firm as a whole, some useful generalizations can be developed to characterize the differing management structures. Once the firms are classified, the distribution of responsibilities for strategic planning within the different types of firms is discussed.

4.1. Management Structure Generalization

Development of generalized classifications of management structures will provide a language for making further generalizations about the produce marketing practices of firms. Interview results and information from the *Chain Store Guide* suggest three characteristics upon which to distinguish firms: warehousing, functions of positions, and organizational form. The criteria described below can be used to place each of the firms into one of two major categories, each containing two sub-categories.

4.1.1. Criteria for Classification

The primary criterion chosen for categorizing firms is the method of warehousing produce. Eight of the firms operate their own private warehouses, while the other nine obtain fresh produce from wholesale distributors. Those firms without centralized warehousing of produce may or may not operate centralized warehouses for other goods. One firm that handles fresh produce through a central warehouse also has a separate warehouse exclusively for the purchase of locally grown produce; however, only a small amount of its total produce is moved through this warehouse and only during certain times of the year. Firms with centralized warehousing of produce usually handle 90 percent or more of their produce through the central warehouse, with the only exceptions being highly perishable items or other items delivered directly to the stores.

Another criterion for distinguishing between firm organizations is the range of responsibilities for individual positions within a firm. Positions within a firm may be described as being function-dependent or personnel-dependent. Most firms interviewed have function-dependent positions where the job description is developed by the firm, and a person is hired to fill this position based on the individual's ability to perform the required functions. For example, an individual would be hired as the produce merchandiser to perform all necessary functions associated with the merchandising of produce, as determined by the needs of the firm. Consequently, this person would perform only functions associated with produce merchandising.

On the other hand, four firms within the interview sample contained personnel-dependent positions. In these situations, one person may perform two or more unique job functions, depending on that individual's qualifications and abilities. For example, the manager of one particular store may serve as produce manager for that store and produce director for the entire chain. The position is personnel-dependent because, if this store manager retired, the next person hired to manage the store would not necessarily take over the produce merchandising responsibilities. These might be passed to someone more qualified within the firm. Also, not all retail stores of this type will have separate managers for each department. One manager may be in charge of all perishables while another is in charge of dry goods.

Firms with personnel-dependent positions within the study were all small, each with less than ten stores in the chain. Because of the small size, and typically small volume, these firms maintain a less formal organizational structure than larger firms. The distinction between the management levels described in Chapter 2 become less distinct as individuals perform functions from different levels. Some small firms, however, have chosen more formal organizational structures. Two small firms within the study utilize function-dependent positions.

The final criterion for distinguishing between firms is the form of the organizational structure. Two distinctions are the multidivisional form (M-form) and the unitary form (U-form) structures (Norton and Pittman). The U-form has an internal structure that is departmentalized along functional lines. Such a firm may have individual departments for merchandising, retail operations, and personnel management. A U-form firm maintains a management hierarchy from top to bottom and grows by adding positions and layers of management (Williamson). The M-form is characterized by a large central management body responsible for strategic planning and policy setting and several relatively autonomous divisions divided along functional, product, or geographical lines (Chandler). In supermarket chains, M-form firms are typically organized into geographical divisions. Within the study sample, only four firms were characterized by M-form corporate structures. The other firms all used the U-form of management structure.

Although there is a great deal of professional debate about the profitability of the different forms of organizational structure (Norton and Pittman, Harris), addressing this issue is outside the realm of this study. Here, the form distinctions are used solely as a basis for distinguishing between firms. The influence of these structures on management strategies and decision making will be discussed in section 4.2. It should be noted that for each of the M-form firms, only one regional division is included in the study.

4.1.2. Generalized Organizational Structures

The three criteria described above provide a means for classifying the seventeen firms in the interview sample into two general organizational structures, each containing two subdivisions. The two major structural forms will be designated as Self-Warehousing or Non-Warehousing, referring only to the chain's method of handling fresh produce.

A. Self-Warehousing

Self-Warehousing firms handle virtually all goods sold at the retail level through one or more chain-owned warehouses. All but two of the eight Self-Warehousing firms within this study operated over 100 stores. Typically, the merchandising departments for all Self- Warehousing firms are divided along product lines, such as produce, meats, and groceries, while retail operations are divided along geographical lines into management districts. Within the Self-Warehousing category exists two sub-categories based on the structural form of the organization. Five Self-Warehousing firms from the sample were organized in U-form structure. The U-form organizations are headed by a president or chief executive officer with direct lines of authority to all divisions of the firm (Figure 6).

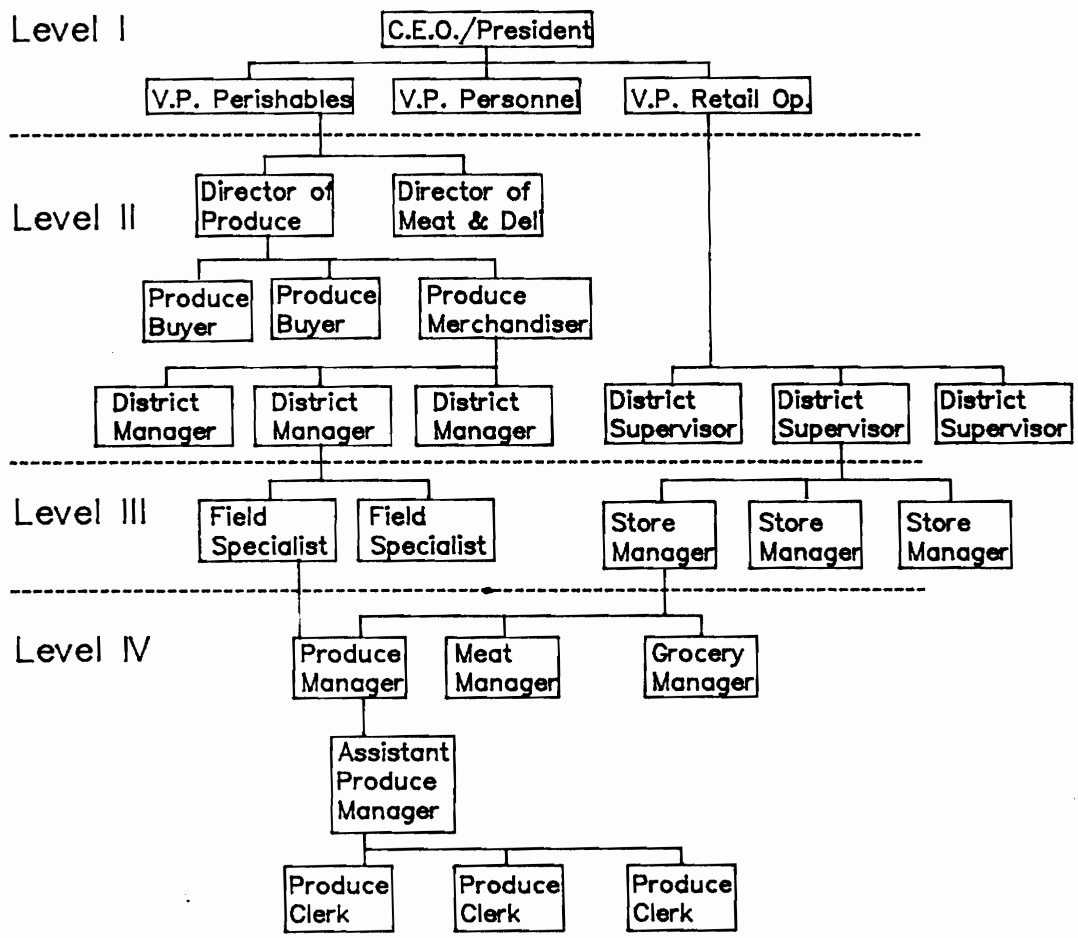

Figure 6. Generalized organizational chart for a Self-Warehousing retail supermarket chain with U-form management structure

At this point, some discussion of the position titles encountered in the study should prove instructive. The Division Leader with respect to produce marketing, as described in Section 2.2, was targeted as the preferred position to interview. As a result, persons interviewed ranged in title from vice president in charge of produce, to director of produce purchasing and merchandising, to produce buyer. For the sake of clarity, only three terms will be used based on the functions performed by the person. Produce director refers to the position that supervises all operations relating to produce marketing within the firm including buying and merchandising. This is an optional position that is absent in smaller firms. Produce merchandiser refers to the position that sets prices, develops promotional programs, and carries out other merchandising functions. In the absence of a produce director, the merchandiser may also supervise the buyers. The produce buyers are responsible for tracking markets and obtaining produce for the firm.

Most firms start out with a U-form structure. As the firm grows, however, managers may find that the span of control is too wide at different positions. Span of control refers to the number of subordinates that are directly supervised by one manager. If the span of control becomes too wide, the manager cannot maintain effective communication with all subordinates (Gibson, et al). As the firm grows, more layers of management are added to limit the span of control.

Growth through augmentation described in the last paragraph explains the variability found within the management structures of the Self-Warehousing supermarket chains within the study. Only the largest firms employed produce directors. While most firms in this category used field specialists between the produce merchandiser and the produce managers within the stores, the larger chains also included district managers as an additional layer of management. Another variation in management structure utilized by two Self-Warehousing firms in the study was the merging of all buying operations into one division. In this situation, the produce buyers are not under the direct control of the produce functional division.

When a firm reaches a certain size, it may choose to reorganize and adopt an M-form structure. Three Self-Warehousing firms were regional divisions of national firms organized in an M-form structure. The other five were U-form in structure. At the top of the regional division of an M-form organization is a regional vice president who receives goals and policies from the national headquarters (Figure 7). M-form organizations are characterized by narrower spans of control and fewer management layers, although this will vary with firm size. Larger U-Form chains are characterized by more upper management positions or wider spans of control in Levels I and II than M-form chains. However, little difference exists between these forms at Levels III and IV. Variation among positions within stores is based on store size and volume, rather than the form of management structure of the firm.

B. Non-Warehousing

Non-Warehousing firms are typically of medium or small size with nine firms from the study falling into this category. They range in size from less than 10 stores in the chain to almost 90. These chains do not operate their own centralized warehouse for produce distribution. All of their produce is purchased through a wholesale distributor or direct from producers. Not all Non-Warehousing firms will employ their own buyers. If they do, their responsibilities are different from those of the buyers in Self-Warehousing. Non-Warehousing buyers are more involved with tracking markets and processing information than with the actual buying function of Self-Warehousing buyers. Non-Warehousing firms may or may not use field specialists depending on the size of the chain.

Non-Warehousing chains can be divided into two sub-categories based on the type of positions. Five firms in the study contained only function-determined management positions (Figure 8). In these firms, the four management levels are easily distinguished. Figure 8 also illustrates the relationship of the independent wholesale distributor to the Non-Warehousing firm. The wholesale distributor employs its own buyers to procure produce. The produce merchandiser for the retail firm informs the wholesaler of the type of products that the chain wishes to sell. The distributor works to meet the retailer's needs as best as possible and provides the merchandiser with a list of available items and wholesale prices. The merchandiser then chooses the items that fit the marketing strategy of the firm and sets the prices at the retail level. This information is passed along

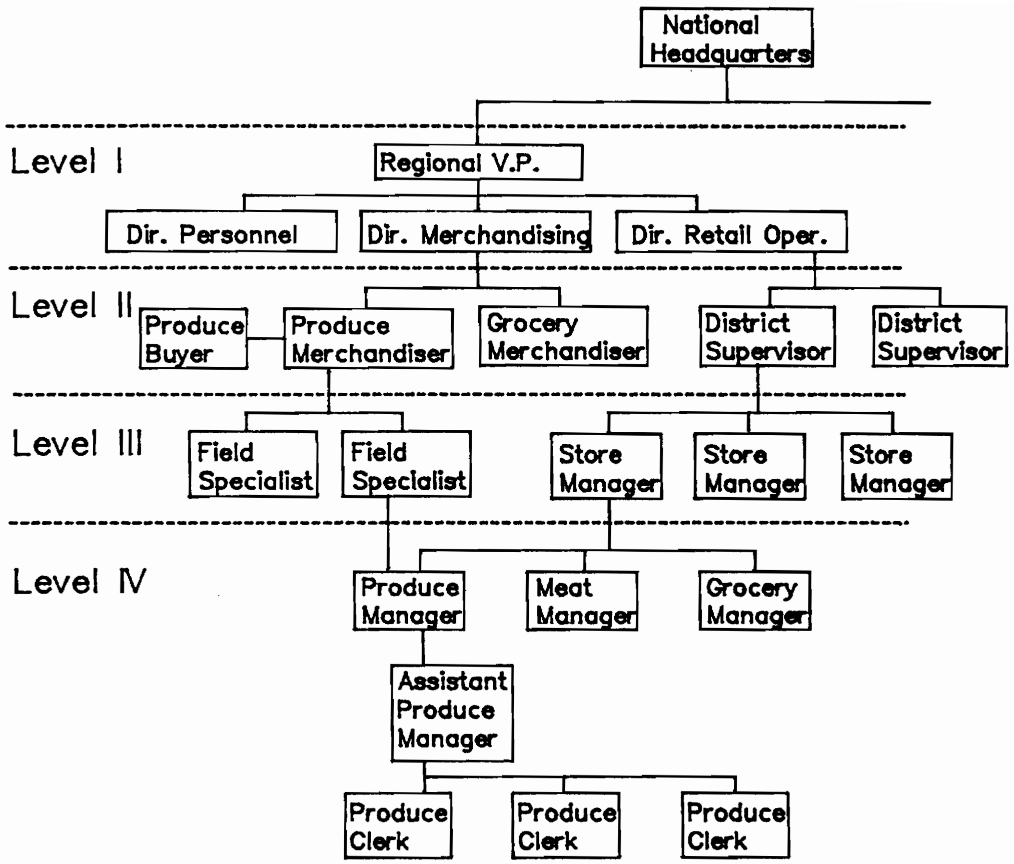

Figure 7. Generalized organizational chart for a Self-Warehousing retail supermarket chain with M-form management structure

to the individual stores. The produce manager in each store then places orders directly to the wholesale distributor for the items needed at that particular store. Delivery frequency may vary from three to six times per week depending on the firms involved. The wholesaler in turn provides the merchandiser with information on what items are ordered by the retail stores to monitor each store's product movement.

The other sub-category of Non-Warehousing firms consists of those with personnel-dependent positions. They are characterized by a much less formal management structure. Management levels may be much less distinct and management hierarchy less rigid than in other organizational structures (Figure 9). Four firms within this study fit this category and all operated less than 10 stores per chain. Not all management personnel in these firms perform multiple position duties, but each of the chains in this catagory employ at least one position of this type in the produce division. Also, Level IV will not be identical for all stores. For example, not every store will have its own produce manager.

4.2. Responsibilities for Strategies and Operations

General position descriptions obtained through interviews with industry personnel tend to conform to those responsibilities outlined in the model in section 2.1.3. However, some variation from firm to firm did occur with respect to the management structures described above. Therefore, further discussion of management responsibilities with respect to the produce department helps to identify the characteristics of the division leader for produce marketing in the different types of firms. Management structure and positions will also have implications for the rigidity of firm control.

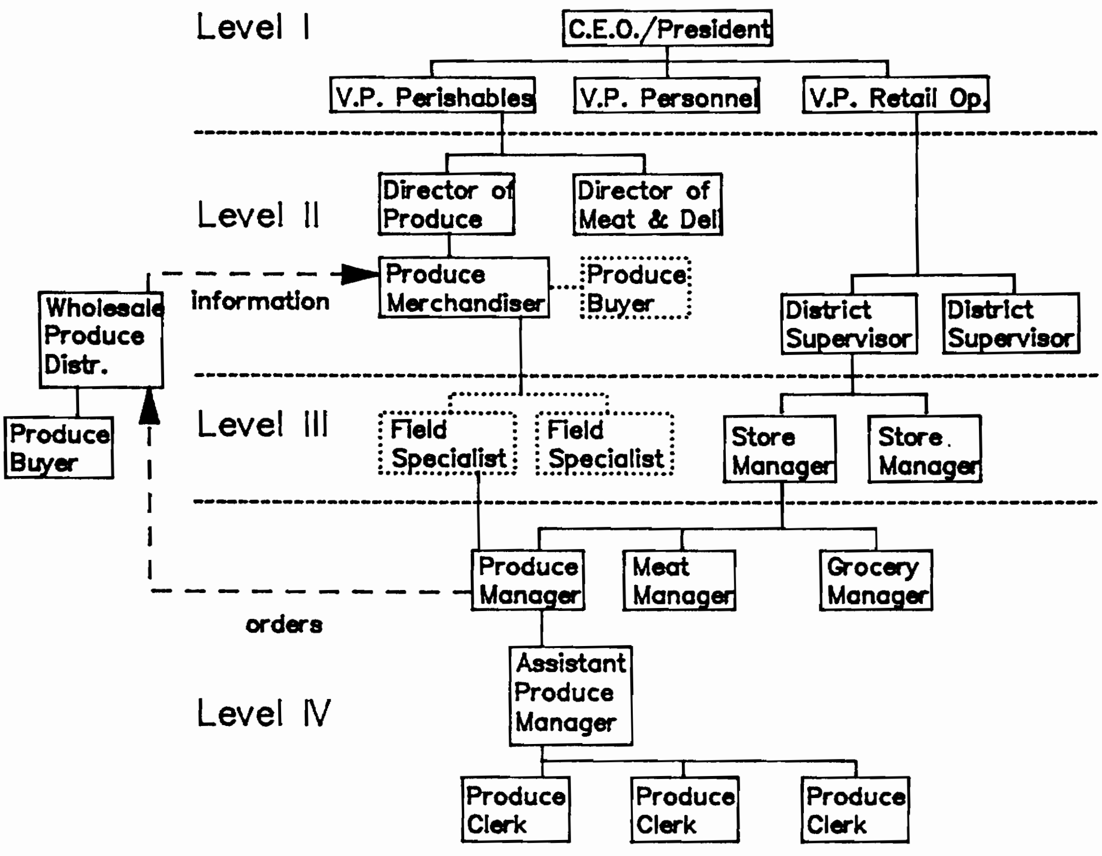

Figure 8. Generalized organizational chart for a Non-Warehousing retail supermarket chain with function-dependent positions

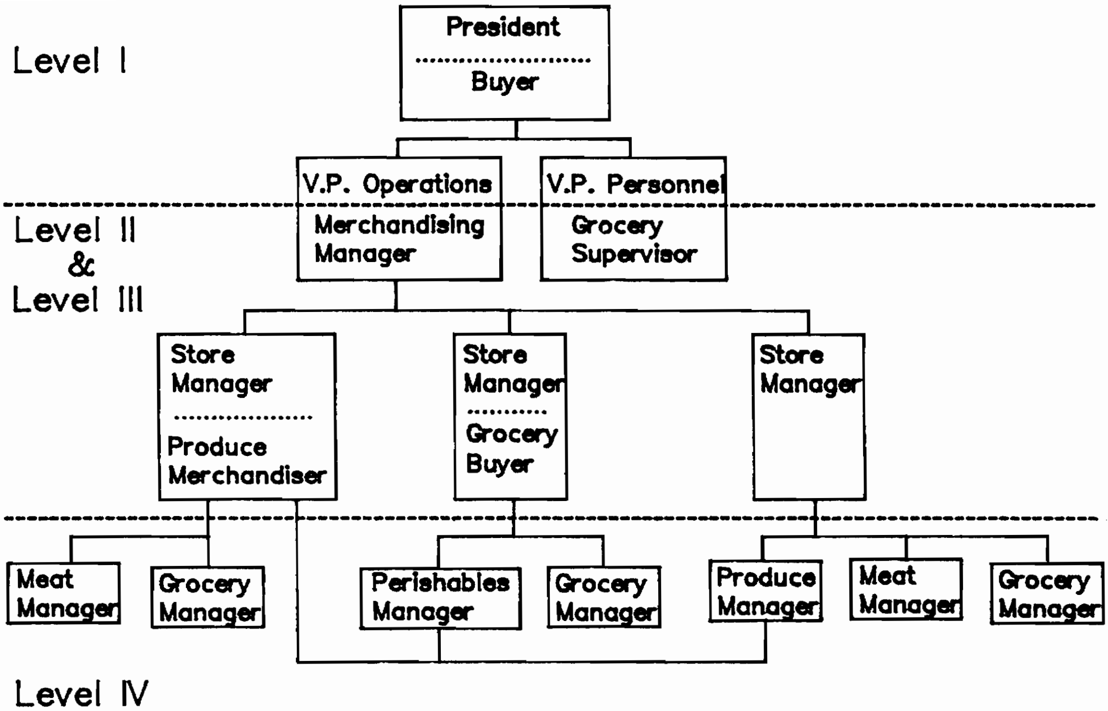

Figure 9. Generalized organizational chart for a Non-Warehousing retail supermarket chain with personnel-dependent positions

4.2.1. Positions and Responsibilities

Results of the interviews require some clarification of the definition of management levels provided in Chapter 2. Level I is typically referred to as the "corporate level" of the firm. With respect to produce merchandising, the corporate level contains no specialized positions. In other words, for this study, a director of perishables, who also has responsibilities for meats and other perishable items, would be included in Level I while a director of produce would be listed under Level II. Level II positions may then be seen as the product specialists within upper management.

Level III is expanded to include not only store managers, but also field specialists. Whereas store managers are responsible for the operations of the different departments within the store, field specialists are responsible for several produce departments within a certain region. Both positions are responsible for the supervision of departmental activities. Level IV remains basically unchanged and contains the various personnel that would be expected in a produce department. The number of positions at this level, however, can be expected to vary with store size.

A. Level I

Level I includes the president, vice presidents, directors and other positions that establish general policies and goals for the entire firm. In a Self-Warehousing, M-form chain, these functions may be carried out primarily at the national headquarters, with upper management at the regional office responsible for adapting policies for regional characteristics. One of the primary functions of Level I personnel is to determine the company image, which will be a major influence on all other decisions within the firm. Impact of firm image on management decisions will be discussed in detail in Section 5.1.1. Other important decisions made in Level I with respect to produce marketing include the position and size of produce department in store layout, pricing policies, and at times, product lines to carry.

B. Level II

Level II contains the greatest variety of positions directly involved with produce marketing, subject to firm size and organizational structure. Large firms may employ produce directors, produce merchandisers, warehouse supply managers, district merchandisers, several produce buyers, and a number of other positions.

The functions performed by the produce merchandiser identify this position as the division leader for produce marketing for most chains, the exception being in the presence of a produce director as noted previously. The merchandiser's major responsibilities include developing a strategy for produce merchandising consistent with the overall firm image, determining the layout of the produce section within the overall layout of the store, interpreting produce market information received from buyers, and coordinating buyer activities based on firm needs. Merchandising activities performed include development of schematic plans for produce departments, development of marketing plans indicating mandatory and optional items, development of newspaper advertisements, pricing of all produce, distribution of point-of- purchase display materials, and establishment of criteria for quality assurance. This position has direct responsibility for the marketing of produce in all stores and the overall profit structure of the produce division of the firm.

The function of the produce buyer varies greatly depending on whether the firm uses centralized produce warehousing. Buyers for Self-Warehousing firms are directly responsible for tracking markets, making contacts with suppliers, securing sufficient supplies and qualities of produce, and negotiating deliveries. The buyers may operate from the central warehouse or they may be located in major production areas throughout the country. Buyers for Non-Warehousing firms have less responsibilities for actual produce procurement. Because the wholesale distributor that supplies the firm employs their own buyers, the buyer for the chain is more concerned with monitoring market trends and tracking information concerning variety, quality, size availability, and seasonal availability. The merchandiser then uses this information to make recommendations to both the produce managers and the wholesaler.

The other positions at Level II vary greatly from firm to firm. Supply managers would most likely be found in a firm that has buying offices located in different parts of the country, away from the central warehouse. The function of the supply manager is to order sufficient quantities of produce through the buyers to meet retail demand. District managers or merchandisers are only found in larger firms where the span of control would be too wide for the head merchandiser to maintain effective contact with the field specialists. One firm also employed a trainer at this level to train all new produce managers.

C. Level III

Level III includes the field specialists and the store managers. Field specialists function like area supervisors for produce, monitoring the progress and presentation of produce departments at the store level. The specialists act as expert source people for the produce managers, providing direction and ensuring that programs are carried out properly. Viewed in this manner, the field specialists have very few strategic responsibilities. They are operational positions to aid communication between levels. The store manager, on the other hand, is responsible for all operations within the store. The manager coordinates activities between departments and monitors the success of all departments. If the manager observes the produce department failing in any way, he/she may call in the produce field specialist for assistance.

D. Level IV

Level IV consists entirely of the produce departments within individual stores. The positions within the departments include the head produce manager, assistant managers, and clerks, depending on the total sales volume of the department. In most firms, especially larger, Self-Warehousing firms, the strategic options left open to the produce manager are very small. Produce managers may vary the amount of space allocated to particular items, within certain limits, based on the product movement for that particular store. At times, produce managers may also set up special displays based on the local clientele, again within limitations specified by upper management levels. Within Non-Warehousing firms, produce managers may have more freedom to select different items and to allocate shelf space based on their knowledge of local clientele. Within these firms, less emphasis may be placed on consistency between firms and more on meeting local needs. Of course, produce managers in all firms are responsible for the day-to-day management of the goods and personnel within their department.

One produce director explained that, with respect to the produce manager in the store, the "store manager is his day to day contact, the field merchandiser [specialist] is the once a week contact, produce merchandiser is the once a month contact, and the director of produce operations is [in direct contact] once or twice per year." Usually then, individuals in the upper management positions are concerned with the formulation of broad strategies across all product and geographical divisions, while individuals in the lower management positions are concerned with the interpretation and implementation of these strategies for increasingly specific products and areas.

4.2.2. Distribution of Responsibilities

In Section 2.2, several different possibilities for the distribution of management responsibilities were illustrated. These illustrations (Figures 3, 4, and 5) served as hypotheses regarding the distribution of management responsibilities for strategic planning and retailing operations. Results of the interviews suggest a relationship between the type of management structure used by the firm and the distribution of management responsibilities between levels of management.

Self-Warehousing firms are best described by the management distribution illustrated in Figure 4, where no freedom is allowed for strategic planning at Level IV, except for some modification. These firms tend to stress uniformity of stores. "If you can find a product in one of our stores, you should be able to find it in all of our stores" was the attitude typical of merchandisers of these firms. To insure this uniformity, upper management levels must necessarily establish strict guidelines regarding which items are carried. The only real latitude available to the produce managers within the individual stores is the amount of space allocated to a particular item. Even this flexibility, however, is usually bounded by minimum and maximum standards established at upper management levels. Because there is some amount of freedom at the department level, Figure 10 is a better representation of strategic management responsibility distribution. Self-Warehousing firms were also more likely to use planograms, standardized layouts for all stores, or computer programs to allocate shelf space within the stores, although such programs are yet used infrequently in produce departments.

Non-Warehousing firms with function-dependent positions are best characterized by Figure 3, where flexibility for strategic management decreased gradually through all levels. Within this framework, produce department managers have more direct control over shelf space allocation. Part of this extra freedom results from the role of the wholesale distributor in the marketing process. Because produce managers order from the warehouse, merchandisers may choose to offer managers lists of options along with a required list of staple items to carry. The list of options allows the produce manager to choose the mix of products that best suits the local clientele. One manager of a small, Non-Warehousing firm conferred with the produce managers from each store when developing the general guidelines for all stores within the chain, and then worked with each one individually to develop marketing plans for each particular store. Such planning approaches would be virtually infeasible within a much larger chain, although feedback usually occurs in all firms, regardless of size.

Interview results suggest that the distribution of management responsibilities within Non-Warehousing firms with personnel-dependent positions is best characterized by Figure 5, where freedom for strategic management declined very little through the levels. The overlapping of responsibilities within positions necessarily blurs the distinction between the management levels. Since the same individual may be responsible for functions normally performed by positions in different management levels, fewer limitations from higher management levels may be imposed. On a more practical level this translates into more freedom for all levels. Less rigid lines of

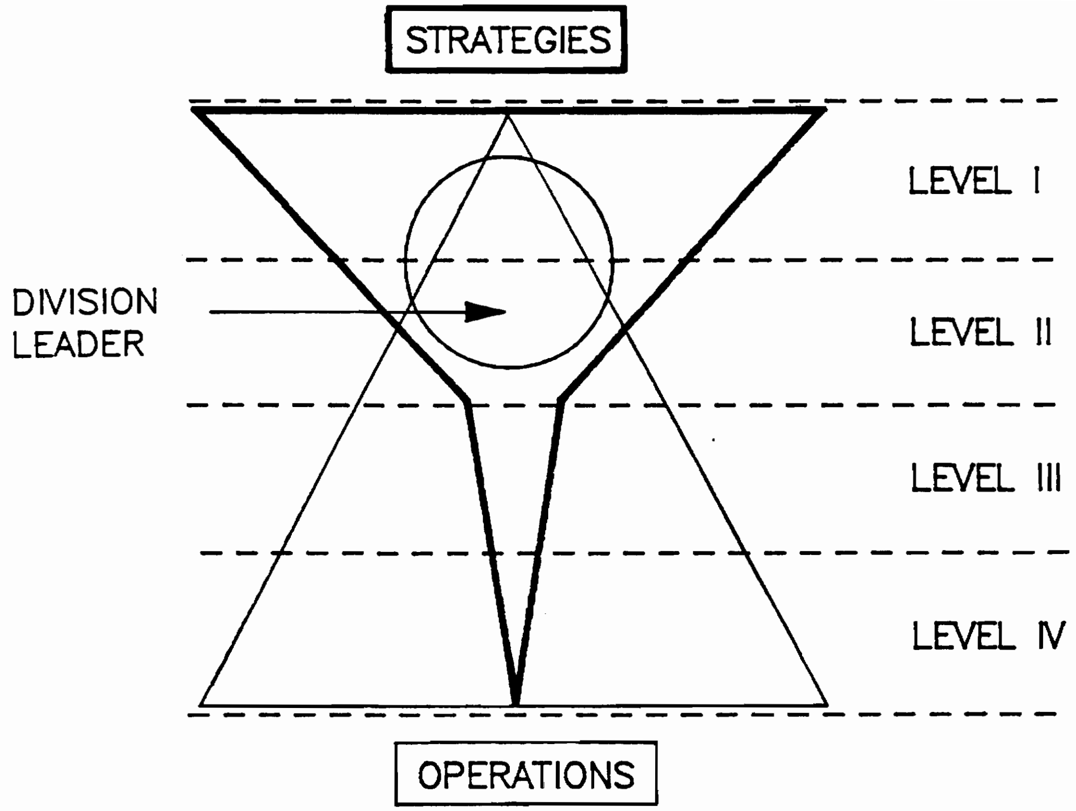

Figure 10. Distribution of management responsibilities for Self-Warehousing retail supermarket chains.

communication provide for interaction between management levels that might seldom occur in more structured organizations. Such firms in the study were more likely to accept delivery of produce from local growers, although three of the four still preferred the consistency provided by dealing with one wholesale firm.

Chapter 5. Produce Department Variety

Information obtained through interviews illustrate the management and market factors that have stimulated supermarkets to allocate shelf space to a greater variety of items within the produce department. Goals established by upper management levels govern the allocation of shelf space as lower management levels attempt to meet these goals. Management factors, and market factors including supply and demand, will be discussed. Where appropriate, factors influencing shelf space allocation relating to the different types of firm management structures will be described. Firm procedures for introducing new items, as well as experiences and opinions on particular specialty items, will be discussed.

5.1. Factors Influencing Shelf Space Allocation

Many factors influence a firm's decision to offer an item for sale. Some factors, such as supply and quality available, are outside the control of the firm. Other factors within the firm's control, such as image, can affect the firm's response to factors within the market place. The market factors influencing the produce industry include more than price and quantity considerations, and interview results suggest an art rather than a science as the predominant approach to managing these factors.

5.1.1. Firm Image

Most supermarket chains try to project the image that their stores offer the best of quality and the best prices. These characteristics, however, may be incompatible. Economic theory suggests that the price for those products with the more desirable characteristics or the "better quality" would be bid up in the market place. As a result, "better" goods should cost more. This is a reasonable description of the market for fresh produce, as well as other food categories. Most retail supermarket chains, after stripping away the commercial rhetoric, have chosen either quality or price as the primary influence on marketing activities.

Two major categories of firm image are "full service" versus "price conscious." Full service chains attempt to project an image of variety and completeness to the consumer by touting extensive product lines, high quality standards, and special customer service. Produce merchandisers for these firms insist that they buy only the highest grades regardless of price. Price conscious chains extol low prices and frequently offer generic products, limited variety, and limited services. These firms tend to carry fewer specialty items than the other chains. While attempting to offer more variety and high quality, they often compromise to keep prices down.

Merchandisers for five firms in the sample stressed that they are full service supermarkets that sell only the highest quality produce. Four of these are Self-Warehousing chains while one is not. Merchandisers for these firms stressed the importance of quality characteristics above all else when selecting produce. One merchandiser indicated that an average of 10 percent of all produce delivered to their warehouse was rejected because it did not meet company standards. Another merchandiser stated that his firm purchases only the top U.S. grade standards and would do without rather than sell lower quality. Other traits of the full service supermarket image are variety and completeness. Each merchandiser was asked to check off the items that they carried from a list of

83 specialty fruits and vegetables. The average for all 17 firms was just over 44 items. The average number of specialty items from the five full service chains was over 67, while the average for all other chains was fewer than 33 items. "We carry everything" was the typical attitude of the merchandiser for the full service chains.

Of the other twelve chains, at least three compete for a share of the full service market in at least some of their stores. Only one of the 17 interviewees specifically claimed to have a "meat-and-potatoes" type market. The other eight chains fall somewhere between full service and strictly price conscious. These firms tend to carry only the most popular specialty items. They will offer different varieties and high grades of produce, but only when it can be obtained at a "reasonable" price. Determination of the trade-offs between price and quality is the responsibility of the produce director or merchandiser.

Another factor closely related to firm image is uniformity among stores. Different firms allow for different amounts of variation from one store to the next. Most firms within the sample indicated a desire for uniformity among all stores within the chain. Usually this is achieved through a marketing plan or departmental layout developed in the upper management levels. These plans allow individual stores varying levels of flexibility. The greatest amount of uniformity was found in the full service chains. While some freedom might still be allowed with respect to total volume of an item carried, merchandisers at most full service firms felt that "if one store carries it, all stores do." Part of the full service image is the ability of the consumer to find the same items in the same location in any of the chain's stores. Another factor influencing uniformity is the geographical area over which the chain operates. Chains operating over diverse geographical areas may have a difficult time meeting local consumers' needs and maintaining strict uniformity. On the other hand, the merchandiser for one of the medium-sized, Non-Warehousing firms pointed out that all of their stores were located within a 15 mile radius, and so while flexibility was allowed, little was needed.

5.1.2. Quality and Supply Factors

Of the many factors that influence the success of a produce department, quality is probably the most important (Imming, McLaughlin). When discussing sources of produce, all merchandisers in the study stressed the importance of consistent quality. The quality concerns of merchandisers are not limited to the size and maturity of the product in question, but also includes proper grading and length of shelf life. Most merchandisers, especially those with large firms, expressed concern over the ability of local producers to meet their quality requirements in these respects. Merchandisers feel that small, local producers do an inadequate job of grading their product. Merchandisers emphasized the need for boxes packed with only one size of produce.

Almost everyone interviewed also stressed the need for pre-cooling of produce to remove field heat. Because fresh fruits and vegetables continue to respire after harvest, the sooner the temperature of the produce is reduced and held at the lowest safe temperature, the longer the shelf life expectancy (Nonnecke). This is a horticultural fact that fresh produce retailers have learned through experience. While local producers may be able to supply a fresher product to the retailers, if the field heat has not been properly removed and the product has not been shipped under refrigerated conditions, then the local produce may actually have a shorter shelf life than a similar product shipped from across the country. Retailers feel that local producers are either unable or unwilling to adopt the technology necessary to perform this vital function.

Another important factor influencing which items are found in the produce department at any given time of year is seasonality. Most retailers indicated that their produce racks are changed four to six times per year because of seasonal variation in the availability of items. Because of improved handling and transportation techniques, the availability of most staple items has been extended to almost a year-round basis for most parts of the United States. Some items, however, are still available only during certain times of the year, and the season can have a large effect on the price and quality of the available items. This suggests that local producers might find opportunities to extend the season of specialty and intermediate produce items.

5.1.3. Measures of Success

Computer programs such as Direct Product Profitability (DPP) are gaining popularity among supermarket chains (Tanner). These programs are used to determine the most profitable allocation of shelf space based on returns to overhead as described in Section 2.3. However, such programs have limited penetration into the produce section. Of the individuals in the interview sample, only three acknowledged that their chains used formal computer programs for shelf space allocation. One of these used DPP while the other two used programs developed by their companies. In each of these firms, the use of these programs in the produce department was limited. One merchandiser stated that they used the programs as another source of information, not as a strict format to follow. He stated that "Many produce items would not be carried if their profitability was the only consideration used in space allocation. Programs cannot account for the perception of variety achieved by a wide range of items." He further indicated that the main use of the program was with value added products that require in-store processing. The programs help to track and compare the labor costs of the different items.

Most merchandisers seem skeptical of the usefulness of such programs in the produce department. Most thought that the use of programs as strict planning guidelines would not have much appeal to store level management. Successful produce management was described as being based on "instinct and experience." Another merchandiser explained that "We feel that it is much more beneficial to know your clientele, what their needs are, rather than have someone at the corporate office designing a planogram for the whole country and not providing the flexibility to deviate from that to give the consumers what they are looking for."

By far, the most common criterion used for allocating shelf space in the produce department was product movement. Merchandisers typically set prices based on their costs and some percent margin. Therefore, more space is allocated to those items that sell in the most volume, with only small consideration given to the actual contribution to overall profit. The decision to continue to carry a product may be based almost entirely on the percentage sold because merchandisers know how much they need to sell to make a profit. Therefore, merchandisers are using movement as a proxy for profitability. Firm image also comes into play again at this point. A store may carry small volumes of specialty items, selling them at or near cost, just to meet the firm's image goals. If the product sells a certain volume, the store will carry the item regardless of contribution to firm profits. Perishability is another factor that interacts with movement to determine space allocation. The more perishable items will receive less space.

5.2. Introduction of New Items

As the produce section has grown, many new items have been introduced. Not all new items will work in all markets, therefore, retailers must have some method of testing a new item. Most firms, especially those characterized as full service, indicated that they will carry items at a consumer's request. The primary source of motivation for carrying new items, however, seems to be from the supply side. New items must perform satisfactorily with respect to the criteria for shelf space allocation described above.

5.2.1. Testing New Items

Few firms have formal methods for testing a new produce item or a new variety of an existing item. Merchandisers from 10 firms in the study sample indicated that they would try anything new on the market. These 10 included the five self-proclaimed full service chains, as well as two other Self- Warehousing firms and three Non-Warehousing firms that all tended towards full service.

Most merchandisers indicated that they were sensitive to consumers' requests. The informal policy of some large full service chains require that any item requested by a customer be carried if available. For the most part, however, variety in the produce section seems to be supply driven. Most merchandisers indicated that shippers would inform them about new products that are available, and often supply point-of-purchase display materials and extra produce for in-store sampling. Merchandisers also obtain information about new varieties and new items through trade publications and industry meetings.

Firms use a wide variety of tactics when introducing new items. While some only provide a list of available items to their stores, most merchandisers indicated that they force-distribute new items to each store or a set of stores. One merchandiser accompanies the distribution of a new item with four weeks of advertising. Another merchandiser only advertises the product if it shows promise based on reorders. Introduction of a new item is also frequently accompanied by special point-of-purchase information, such as recipes and descriptions, or in-store sampling. One merchandiser felt that some chains fall short in providing consumers with information about new items. He stated that "People want to try new things. They'll buy it once, but if they don't use it properly, they're not going to like it and they won't make repeat purchases." This chain included recipes for new items in their weekly newspaper inserts. One merchandiser indicated that before the chain carries a new item, he wants to see it, taste it, and check prices and availability. Next, the new item is placed in the stores for a week before any promotion is started to give store personnel time to learn about it.

Several merchandisers indicated that new items are only tested for longevity. They will carry a new item for as long as the sales volume is high. If sales remain strong, they will carry the item for its total available season. If sales are weak, they may drop the item during the current season and try it the next season that it becomes available. Consumer feedback can be important in this type of test. Consumers sometimes complain when an item is discontinued. Often, consumers inquire about the availability of an item that they purchased the previous year in a particular season. Such feedback encourages retailers to carry the item again. However, if no customers notice that the item is gone, the likelihood of carrying the item again is reduced. In this trial and error approach to test marketing, one merchandiser described a failure as an item that must be force-distributed at the end of the test just to get the merchandise out of the warehouse.

5.2.2. General Decision Chain

A general decision chain for the introduction of new items can be described, given the source of motivation to carry the item. First the case of consumer requests will be considered. Consumers may indicate their interest in a particular item at either Levels II, III, or IV depending on the size of the firm and the availability of employees in each level to consumers. The most common first contact would be through the produce manager or the store manager, although some merchandisers indicated that they have been contacted directly by consumers. While some full service firms may introduce a new item based on only one request, most firms require several requests to initiate action.

Information is passed from the level at which an initial request is made, through the management structure to the produce merchandiser. The merchandiser first must determine whether the new item is compatible with the firm image. In some cases, the firm may have a policy restricting certain items. Next, the merchandiser determines if there is sufficient expressed demand to justify introducing the product. If apparent demand is sufficient according to firm standards, the next step is to determine the availability of the product. If sufficient quality and quantity can be obtained, the new item is distributed to a store or number of stores, based on the merchandiser's perception of the product's appeal.

The second scenario is when shippers promote new items. In this case, the shipper contacts the produce buyer or merchandiser with information about a new product. The merchandiser considers the firm image and market demographic characteristics, as well as the quality of the product and the reputation of the shipper. Shipper support, such as point-of-purchase displays, enhances the willingness of merchandisers to introduce new products. If all of these criteria are met, the product is then distributed as above.

In either of the above scenarios, the decision to continue the product is the same. Merchandisers monitor product movement to determine how long to carry the product. If movement drops below some predetermined threshold level, the merchandiser may drop the product, at least for the current season. If consumers complain, the product may be restocked or offered during the next available season for another test. If consumers do not notice the item is gone, the merchandiser may be less inclined to offer the item again. The item may also be discontinued if the quality standards drop below those required by the merchandiser.

5.3. Specialties on the Market

Merchandisers were surveyed to determine which specialty items they have tried and which they will continue to carry. One type of specialty produce considered in this study is organic produce. Most merchandisers volunteered opinions and experiences involving the marketing of organic produce. Due to the amount of interest in this area, a special section will be devoted to its discussion here, separate from the other specialty items. Also, many merchandisers offered opinions on the demand for and supply of specialty produce which warrant inclusion in this section.

5.3.1. Specialty Items Offered

During each interview, the produce merchandiser was presented with two lists, one of specialty fruits and one of specialty vegetables, and asked to indicate which items the chain carried (Appendix C). If the chain had carried the item within the past year but would not continue the item in the future, the merchandiser was to mark the circle in the column headed "past year". If the chain had carried the item, and would continue to carry it when available, the second column headed "next year" was to be marked. Some merchandisers only marked those items that they intended to continue. One merchandiser for a Non-warehousing firm with personnel-dependent positions had not carried any specialty items from the lists. This firm will not be considered when reporting results below.

To analyze the results of this survey, specialty fruits (Table 6) and specialty vegetables (Table 7) were ranked according to the number of firms offering the items. This ranking suggests that a core of "common" specialty items exists in the current market. Forty of the specialty items listed are carried by over two-thirds of the supermarket chains within the study area. Merchandisers indicated that this list is incomplete. For example, one merchandiser stated that the chain carried 12 different varieties of peppers. Other common specialty items may have been omitted from this list, although a complete listing is impossible, as indicated in Chapter 1.

While many specialty items are either tropical or sub-tropical in nature, 40 items from the lists were identified as being compatible with some production region within the Virginia area (McDaniels). Which of these items could be produced to a commercially acceptable quality is unclear. These 40 items were ranked according to the number of chains carrying the items and the number of stores within these chains (Table 8). Although not all stores within a chain carry all specialty items, an assumption made here is that the more stores within the chain, the greater the potential market. The top 20 items from Table 8 are carried by all five of the full service firms in the sample. Full service firms control over 40 percent of the of the stores and account for almost 60 percent of the total sales of firms in the study sample. Combining these facts with the tendency of full service supermarket chains to require uniformity among stores suggests that full service chains may be receptive to the top items that can be grown in Virginia.

5.3.2. Experiences with Organics

Of the 17 firms included in this study, eight indicated that they had offered organic produce for sale in some of their stores during the past year. Of the eight firms that carried organics, three have plans to discontinue them, two have plans to continue on an irregular basis with no regular section in the produce department dedicated to organic produce, and three firms experienced at least limited success and have plans to continue to carry organics on a regular basis. Of these eight firms,

Table 6. Specialty Fruits Ranked by Number of Chains

Rank	Items	No. of Chains
1	Apricot, Avocado, Coconut, Kiwifruit,Nectarine	16
2	Pomegranate	15
3	Apple Pear, Mango	14
4	Fig, Persimmon, Plantain	13
5	Carambola, Granadilla, Papaya, Prickly Pear, Ugli Fruit, Kumquat	12
6	Mandarin	11
7	Guava, Quince	10
8	Cherimoya, Lady Apple	9
9	Feijoas	8
10	Lychee, Star Apple	7
11	Boysenberry, Sapote	6
12	Crab Apple, Loquat	5
13	Breadfruit, Organic Fruits, Tamarind	4
14	Dewberry, Pawpaw	3
15	Mangosteen, Plumcot	2
16	Akee	0

Source: Interviews with Retail Supermarket Chains and the *Chain Store Guide*.

Table 7. Specialty Vegetables Ranked by Number of Chains

Rank	Items	No. of Chains
1	Alfalfa Sprouts, Bean Sprouts, Gourds	16
2	Ginger Root, Snow Peas, Tofu	15
3	Bok Choy	14
4	Spaghetti Squash	13
5	Celeriac, Coriander, Horseradish Root,Jicama Nappa, Sunflower Seeds, Water Chestnut	12
6	Bamboo Shoots, Chard, Chayote, Daikon, Fennel, Kohlrabi, Tomatillo	11
7	Yucca Root	10
8	Jerusalem Artichoke, Sugar Cane, Taro Root	9
9	Cactus Leaves, Enoki Mushrooms	8
10	Rappini, Salsify, Winter Melon	7
11	Bitter Melon, Soybean	6
12	Chinese Long Bean, Sorrel	5
13	Fiddlehead, Organic Vegetables	4
14	Chervil, Truffle, Vegetable Marrow	3
15	Topepo	1
16	Burdock, Celtuce, Verdolaga	0

Source: Interviews with Retail Supermarket Chains

Table 8. Specialty Fruits and Vegetables with Production Potential in the Virginia Area by Populartiy Ranking

Item	Ranking by Chains	No. of Chains	No. of Stores
Alfalfa Sprouts	1	16	1531
Bean Sprouts	1	16	1531
Gourds, Ornamental	1	16	1531
Kiwifruit	1	16	1531
Nectarine	1	16	1531
Snow Peas	2	15	1524
Tofu (Soybean Curd)	2	15	1524
Apple Pear	3	14	1521
Bok Choy	3	14	1521
Spaghetti Squash	4	13	1515
Fig	4	13	1390
Persimmon	4	13	920
Celeriac	5	12	1506
Coriander	5	12	1506
Nappa	5	12	1506
Prickly Pear	5	12	1506
Horseradish Root	5	12	908
Sunflower Seeds	5	12	786
Fennel	6	11	905
Kohlrabi	6	11	895
Daikon	6	11	895
Bamboo Shoots	6	11	833
Chard (Swiss Chard)	6	11	807
Quince	7	10	798
Jerusalem Artichoke	8	9	824
Sugar Cane	8	9	779
Winter Melon	10	7	1101
Salsify	10	7	727
Boysenberry	11	6	641
Soybean	11	6	576
Sorrel	12	5	556
Crab Apple	12	5	357
Organic Fruits	13	4	287
Organic Vegetables	13	4	287
Dewberry	14	3	323
Chervil	14	3	312
Vegetable Marrow	14	3	307
Plumcot	15	2	261
Burdock	16	0	
Celtuce	16	0	

Source: Interviews with Retail Supermarket Chains six would be considered as full service chains, while the other two were more price conscious in image. Six of the firms Self-Warehoused all of their produce, while the other two did not.

The three firms that tried and subsequently dropped lines of organic produce are Self-Warehousing and operate primarily in large urban areas. One firm allocated 12 feet of shelf space to organic produce in each of eight different stores over a period of two and a half months. The produce director for the chain estimated that they sold only about 25 percent of the stock offered. Another of the chains carried several items in two stores for six months but reported little product movement. Each of these firms wrapped their organic produce and labelled it with stickers to differentiate it from other produce items. They also used point of purchase displays and newspapers advertisements. However, none of the three experienced sufficient movement to justify continuation of the organic section. Other concerns expressed by these firms included problems with consistency, high prices, and lack of a national standard for certification.

Two firms in the study stated that they have carried organic produce and will continue to do so from time to time, but they do not maintain a consistent organic section. One of the firms is Self-Warehousing, the other is not. One stresses a full service image, while the other is more price conscious. Both of these firms operate in the same large metropolitan area. One of the firms indicated that the only reason that they carry any organic produce is because of an official within the firm that is "adamant about organics." This situation indicates how the management structure can influence the allocation of shelf space. The reason for the minimal interest organics at the other firm is not clear. The merchandiser indicated that the chain had also carried some organic items, but made no attempt to sell the items as such. One of the primary problems experienced by these firms with organic produce has been successfully differentiating the products from the other produce, not only for the customers, but also for the cashiers.

Of the firms that have been successful with organics, one is Self-Warehousing, the other two are not, and all three tend toward the full service image. In all three cases, customer demand was the primary motivating factor to carry organic produce. The smallest of the three firms has been carrying organics in three stores after receiving four or five requests last year in one store. The merchandiser asserted that, while the firm is only breaking even on the organic items carried, they are happy with the product movement. Another chain was contacted by a customer network consisting of 25 to 30 families in one region who were interested in purchasing organics. The merchandiser for this firm indicated that certification had been a problem, but the past year had been the best one yet for information about the produce.

The third chain in this group had been offering organic produce for four months in 13 stores believed to be the best potential markets. While one of the markets was the largest produce market within the state, they had experienced greater success in a smaller city where they were "the only game in town." In the future, the chain intends to allow every store to order organics. The primary problem this chain has experienced with organic produce is meeting quality standards. They indicated that 85 percent of all organic produce delivered to their warehouse was rejected, with 70 percent rejected because of insect infestations such as aphids. The merchandiser also expressed some concern over the necessity of wrapping organic produce in cellophane wrap and foam trays that are associated with environmental degradation. This causes a conflict for consumers interested in organics, since studies have shown that one of the primary motivations for purchasing organic produce is environmental concerns (Jolly).

5.3.3. Merchandiser Response to Specialty Items

Several merchandisers offered opinions and observations on the prospects for expanded supplies of specialty items grown by local producers. The opinions ranged from somewhat optimistic to extremely pessimistic. One merchandiser felt that "some local growers could produce a lot of the variety items not being produced [in the area] right now....It's like anything else, the closer you can produce something, the less the freight charges." Several merchandisers pointed out that the top 30 produce items account for 70 to 80 percent of total produce sold. The greater product mix provided by specialties is used to increase sales or improve image. One merchandiser stated that the improved variety improves the store image and encourages the consumer to buy more produce, even if they do not purchase the specialty items. This suggests that the volume of specialty items carried by the chains is very small.

One merchandiser suggested that "instead of looking at the smaller commodities like specialty type items, [growers] probably need to look at some of the volume items that there just isn't enough of." One such item that was mentioned by two merchandisers was asparagus. These items would fall somewhere between specialty and staple items. They are items that could potentially be sold throughout the year, but are unavailable at certain times. Other merchandisers felt that sufficient opportunities existed in the production of staple crops for Virginia producers. They did not see specialty items as providing enough volume to justify their production. These merchandisers considered the main problem with local growers to be a lack of understanding of retailer needs. These individuals felt that Virginia producers could compete in fresh produce markets locally in certain seasons, if they are willing to adopt higher quality standards and better handling procedures.

Chapter 6. Firm Produce Procurement

During the interviews, information was gathered to determine the primary channels whereby fresh produce enters the retail chain. In all firms within the study, produce is either warehoused or delivered directly to the stores by producers. In this chapter, the advantages and disadvantages of each of these approaches will be discussed with implications for new produce suppliers. The next section compares warehousing requirements with those of direct store delivery while the last section presents merchandisers' general concerns about securing supplies from local growers.

6.1. Warehousing vs. Direct Store Delivery

Each firm in the study purchased some part of their fresh produce through a central warehouse, whether owned by the retail chain or an independent wholesale distributor. Also, firms can be categorized into one of three groups based on their use of direct store delivery. Two firms use direct store delivery extensively. Three firms allow no direct deliveries to their stores at all. The other twelve firms use a limited amount of direct store delivery within certain guidelines.

The three firms that allow no direct store delivery are all Self-Warehousing firms with a great deal of emphasis on uniformity among stores. Produce merchandisers at these firms indicated that a main concern with direct delivery is the loss of control over quality. With direct delivery, the produce manager at the store is responsible for judging quality of the product. A large firm with direct store delivery would have many different people making judgements about quality characteristics of the produce sold in the stores. The chain would then have a hard time maintaining uniformity among stores. While the loss of control is a major concern to all merchandisers, some have established strict guidelines to allow for direct delivery. The firms that do not use direct store delivery are also unlikely to deal with small, local producers. Merchandisers at these firms stress that they only deal with producers that can supply sufficient quantity to service all of their stores through the warehouse. The only way smaller growers could participate in such markets would be through cooperatives or other joint marketing arrangements.

The two firms using direct store delivery extensively are Non-Warehousing. One of the firms contains personnel-dependent positions and encourages produce managers to purchase from local producers during the local production season when possible. The other firm has agreements with several producers that grow exclusively for the chain. These items are usually delivered directly to the store, although some items are occasionally moved through the warehouse.

Of the remaining firms, basically two types of direct store delivery are used. The first type involves fresh items that are too perishable or otherwise not compatible with warehouse processing. Two firms described using this direct store delivery for highly perishable items such as mushrooms. The merchandiser at one of these firms indicated that the firm's use of direct store delivery is diminishing, and will be limited to only highly perishable items in the future. Problems cited with direct store delivery include the inconsistency of having different managers making decisions on quality and the congestion of tying up the back door with many deliveries from different small producers. This firm has established a separate warehouse for accepting deliveries from local producers. To facilitate smaller producers, this warehouse has no minimum quantity restrictions.

The second type of direct store delivery is one in which a producer makes a formal agreement with the retail chain to service one store or a group of stores in a certain area. Such agreements are usually long term in nature, continuing over a period of years. The relationships are usually initiated by the growers. When a produce or store manager is contacted by a grower with interest in supplying significant amounts of produce to the store or a group of stores, the information is passed on to the produce merchandiser. The merchandiser then contacts the grower to evaluate his/her ability to meet the requirements of the chain. These requirements may include assurance that produce is locally grown and that it will be of acceptable quality and of sufficient quantity. If the grower meets the requirements, a formal agreement is established. The agreement may be a list of items that the grower is authorized to bring to the stores, or it may be a larger contract, including provisions for commodity guarantees, contact persons, and grower insurance.

Besides the two general types described above, chains vary greatly in their approach to direct store delivery. The merchandiser at one chain indicated that, if a store runs out of an item, the produce manager is authorized to purchase it locally if the product meets the chain's quality standards. While some chains allow such independent actions by individual produce managers, most merchandisers prefer that a producer serve several chains in a given area. "We would definately like to have geographical areas served by one person that we know would have the integrity and the quality to meet our needs" was a typical response. The merchandiser for another chain explained that he encourages the growers that contact him to go through a wholesale distributor if they have sufficient quantity. This allows the chain to get the product to every store more easily. The wholesaler, however, will not deal with growers that are too small to provide minimally sufficient quantities.

Merchandisers of Self-Warehousing firms discussed requirements for warehouse delivery. These requirements presumably hold for warehouses operated by wholesale distributors as well. Merchandisers stressed that the field heat must be removed from produce as soon as possible after harvest to extend shelf life. The produce then must be graded and packed to strict standards so that the buyers know what they are getting. The produce must be packed in containers that can be handled by pallet. All packages should be marked clearly with the grower's name. To establish a good relationship with the retailer, the grower must provide accurate harvest information and be prepared to stand behind the product. These findings are consistent with the conditions for market entry found by Runyan, et al described in Section 1.3.1.

6.2. Retailer Perceptions of Local Growers

Most of the merchandisers interviewed are interested in dealing with local growers, but hold reservations about the ability of local growers to meet the needs of the retail market. Most merchandisers are concerned about the ability or willingness of local producers to invest in technology necessary to remove field heat and extend the shelf life of produce. Most merchandisers also expressed concern over the packing and grading reputation of local growers. One merchandiser described what he called a "processing mentality" among growers in certain regions: "Why should I [the grower] go to the trouble of merchandising my product in a certain box, with a certain characteristic, when for a dollar and a half less, I can take it to the processor. That's the mentality that they pack under and they wonder why they don't have good acceptance" at the fresh retail market.

Several merchandisers believe that the local growers do a very poor job of marketing what they grow. There is also a great deal of concern about the growers' lack of understanding of the retail system. One merchandiser suggested that "producers need to follow their product all the way through the system to understand retailers' needs." Another stated "Another important thing for people to think about is that dealing with produce is not just putting it in the ground, harvesting it, and putting it on a truck. It's important that (growers) try to remember that they need to think of it as being their product from the time it starts as the seed to the time it gets to the consumer's plate. I say that because there are a lot of farmers that I have dealt with over the years who have excellent product. However, when it comes to harvesting, packaging, shipping, icing and doing all the finer points to get the product into our back door at its maximum quality, they lose sight of it." Another merchandiser felt that producers "grow a lot better than they pack." This statement means that the local producers are capable of producing fresh fruits and vegetables of commercial quality, but lack the commitment to process and package the produce in a commercially acceptable manner.

Comments such as those above suggest that another barrier to entry that local producers must overcome is the perception held by merchandisers and buyers. The only way to improve the image of local producers is to establish good, long-term relationships with retailers. This is especially hard for new producers to accomplish because of what one merchandiser termed "the loyalty factor." This term relates to the loyalty that exists between a buyer or merchandiser and a producer or shipper who have been working together for a long time. One retailer described a long-term relationship this way: "We have dealt with a number of growers that have our business, and, even at a cheaper price, it's going to be hard to pry us away from them because of their consistent size, color, packing and delivery. If we call them up and say that we're short and need another truck load, they'll have it here for us this afternoon. Those are the kind of consistencies that it takes a long time to develop with produce retailers." The existence of such relationships shows the need for new producers to get to know the market. Rather than compete with existing relationships, producers need to identify commodities having inconsistent supplies or poorly established supply relationships.

Chapter 7. Conclusions and Recommendations

Preceding chapters described the management structure of retail supermarket chains with respect to produce marketing and the impact that management personnel and their strategic actions have on shelf space allocation decisions. The practices of warehousing and direct store delivery of fresh produce were described. This chapter summarizes the procedures and findings of the research. The findings are used to develop an algorithm for producers attempting to establish relationships with appropriate retail supermarket chains. Other recommendations and research needs are presented as well.

7.1 Summary of Procedures

Increases in volume and variety of produce marketed through retail supermarket chains has attracted the attention of agricultural producers interested in diversifying or augmenting their operations. Unlike many feasibility studies, this research has been centered on analysis of the primary marketing institution for fresh produce, namely supermarkets, rather than the production possibilities.

The purpose of the study was to describe the management of produce within retail supermarket chains and assess marketing opportunities within the framework of the system. Firms were classified according to their management structures and strategic operations to generalize their approaches to shelf space allocation and produce procurement.

After initial research, the face-to-face interview was selected as the most appropriate method of investigation. Seventeen retail supermarket chains were chosen as a selective sample to be included in the study. The division leader for produce within each firm was interviewed in the spring of 1990.

7.2 Management Structures and Distribution of Responsibility

Based on interviews and other industry information, the 17 supermarket chains in the sample were classified into two general types of management structures based on warehousing practices for fresh produce. Self-Warehousing firms process the majority of the produce for retail stores through a warehouse owned and operated by the chain. This category is subdivided based on the organizational form of the firm as either Unitary form or Multidivisional form chains. Non-Warehousing firms procure most of their produce through independent wholesale distributors and can be subdivided based on the range of functions performed by individual management positions.

Among the firms in the study, type of management structure is closely related to distribution of management responsibilities, particularly those relating to strategic planning. Self-Warehousing firms are characterized by rigid management structures that allow minimal strategic planning at the lower levels. Non-Warehousing firms with function-dependent positions are characterized by a limited distribution of strategic responsibilities throughout the firm.

Although bounded by the decisions from higher levels, individuals in positions at lower levels have some room for strategic planning. Finally, Non-Warehousing firms with personnel-dependent positions have a less rigid management structure because of the overlapping of the management levels. Greater flexibility of strategic planning is available at all levels, as well as a greater involvement with operations.

The distribution of responsibilities for strategic management within the firm affects the opportunities for growers to penetrate the market. Firms with rigid control over strategic management within the upper levels necessarily limit the ability of persons in lower level positions to develop relationships with producers. At the same time, a single decision by one person in upper management can have direct impacts on the choices of positions directly below. An illustration is the firm that carries organic produce simply because one person in upper management wants it.

By grouping the firms into the above categories, characteristics of interest can be discussed with respect to groups of firms rather than on a case-by-case basis. For example, all large chains in the sample (those with 100 or more stores) are Self-Warehousing firms while all Non-Warehousing firms with personnel-dependent positions were small chains operating 10 or fewer stores. All but one of the Self-Warehousing firms present a full service image. Three of the four Non-Warehousing firms with personnel-dependent positions promote a price conscious image. Firms in the medium size class and intermediate image category are less easily generalized.

7.3 Shelf Space Allocation and Product Procurement

The above classifications provide a basis for generalization of the firms in terms of their actions and strategies. Firm image was found to be of particular importance for describing firm actions related to shelf space allocation and product procurement. Full service firms offer a greater variety of produce than the other firms in the sample. Most full service supermarket chains, because of their emphasis on uniformity among stores, allow the least amount of freedom at the store level for shelf space allocation and used the least amount of direct store delivery.

Firms that use direct store delivery are more likely to deal with small producers. Firms that require all produce to pass through their warehouse have greater volume requirements which may prove prohibitive to small producers. While full service chains carry a greater volume of specialty items, they are also less likely to work with small producers. Could a producer of specialty products produce enough to supply an entire full service chain? While some retailers feel that specialty items are not carried in sufficient quantities to justify new producer entry, a core of specialty products seems to have developed among firms of varying sizes and organizational structures. Some growers willing to place special emphasis on quality, handling, and packaging may be able to supply several retailers with select specialty produce items.

7.4. Conclusions

The management structures, methods of shelf space allocation, and procedures for fresh produce procurement developed in this study lead to several conclusions relating to the ability of small producers to successfully penetrate the retail fresh produce market. These conclusions and further research needs are described in this section.

7.4.1. The Potential of Specialty Crops

A primary goal of this research was to determine the retail marketing opportunities for producers of specialty produce items. Retailers' reactions to specialty items varied greatly. While some felt that specialty items are not needed in sufficient volume to support new commercial production, others felt that niche markets exist that could be filled by local producers. Over 20 specialty items that can be grown in the Virginia area are carried by nearly 70 percent of the firms in the study. The list presented during the interviews was described as incomplete by several merchandisers. This suggests that innovative growers should be able to identify still more potential crops. Further research could benefit producers by identifying specialty and intermediate type crops that can be commercially produced in Virginia.

Organic produce was considered as one type of specialty item and prompted interesting merchandiser reactions. The anecdotal information provided by merchandisers raises some interesting questions that could serve as the basis for further research. Firms that were successful with organic produce ranged in size from 8 stores to 128 stores, and the firms that were unsuccessful with organics varied in size from 19 stores to 154 stores. Therefore, size does not seem to be an important factor in determining a firm's success with organic produce. All firms claim to have used similar merchandising techniques, including newspaper advertisements, point-of-purchase displays, and product differentiation with wrapping and stickers. The major difference that can be observed between those firms that were successful and those that were not is in the location of the successful markets. All of the stores that had been dissatisfied with the performance of organic produce operated in major metropolitan areas. The other chains found success in smaller urban areas. This suggests that established markets for organic produce may already exist in major population centers. Consumers who have been purchasing organic produce from traditional sources may be unwilling to switch to large supermarkets just because they now offer some organic items. On the other hand, in markets where no organics have been available, supermarket chains may find success filling the unmet need. Further research is needed to determine if this is in fact the case.

7.4.2. One Approach to Market Entry

The results of this study confirm the conditions for market entry described by Runyan, et al: consistent quality, even sizing and grading, proper product maturity, anticipated arrivals, removal of field heat, and grower organizations. Runyan suggested that meeting these requirements would help the development of informal relationships common to the fresh produce industry. McLaughlin considered these relationships to be major barriers to entry for new producers. Merchandisers in the interviews also stressed the importance of good relationships, stating that new producers would have a hard time penetrating the market because of the "loyalty factor" between established growers and buyers. One merchandiser related the following anecdote as an illustration of the development of a loyal relationship between a producer and a retailer:

> "A couple of years ago, we were contacted by a guy from Georgia that grows Vidalia onions, which are Georgia's very hot commodity. We went to work with this guy because in the past we had a lot of problems with quality and consistency. The first year, he shipped his onions in his own boxes with his own label. They were of very good quality, clean, dry, and of a good size. The next year when Vidalia onion season came around, there was no doubt in our minds where we were going. The second year was even better. This year, when the Vidalia onions get ready, we are going to buy from nobody but him, even to the point that, if on a given day, we do not have any Vidalia onions to ship to our stores, we won't ship."

Several merchandisers stressed the importance of identifying the producer on the package. This suggests that the producer has confidence in the quality of the product. The above story also illustrates the importance of producer initiative when starting a relationship, as well as the importance of providing a high quality product that meets retailer requirements.

The relationships described above reflect important economic principles. The goal of the supermarket chain in obtaining produce is to provide a consistent supply of goods to consumers throughout the year. Chains invest time and resources to locate suppliers capable of meeting their needs. Once a relationship is established with a supplier, this location cost becomes fixed and may be considered as spread out over the duration of the relationship. Also, an established relationship with a supplier protects the retailer from the uncertainty faced when dealing with a variety of unknown suppliers. These economic considerations help to explain why one retailer stated that he would not break from established suppliers, even if goods were provided at a lower price.

Growers looking for a marketing niche would need to make initial contact with retailers since most direct grower-retailer relationships have been initiated by producers. Although most firms are hesitant about forming new relationships and have stringent requirements that must be met by producers, this is an avenue for market entry that should not be overlooked. However, many individuals new to the produce industry may not know how to proceed. The factors influencing retail produce marketing developed in this study can be combined to form an algorithm for new market entrants (Figure 11). This algorithm is very general, and many of the operations might occur simultaneously in practice.

The starting point for the marketing procedure is the description of the product to be marketed. The prospective grower should determine which fresh produce items and what quantities can be produced given his/her particular climate, soil, labor, and other production resources. Next, the grower should become familiar with consumer trends and retail market conditions to determine which of the possible items may have the best possibility for acceptance by retailers.

After preparing specific information about the products to be marketed, the grower is ready to contact retail firms. If the selected items are new to the market area and fall into the specialty category, full service firms will probably be more receptive. Actual contact with firms may be made at Level I, II, or III. While contacts made at the store level should reach the division leader, direct contact with the produce merchandiser should bring quicker results.

If the firm is interested in the items offered, several possibilities exist. If the firm is Self-Warehousing for produce, sufficient quantities for all stores may be required. If the chain is Non-Warehousing, the merchandiser may prefer that the producer operate through a wholesale distributor. If the producer lacks sufficient quantity for the wholesaler, direct store delivery may be an option. Direct store delivery may also be an option if the producer lacks sufficient quantity to supply all of the stores in a Self-Warehousing chain.

Cooperative marketing arrangements with other producers may be advantagous in several situations. Cooperative action would reduce the cost to individual producers of conducting the market search. After starting a market search, the individual producer may find that cooperation is necessary to meet quantity requirements needed to establish relationships. Marketing cooperatives can provide physical facilities that enable small producers to meet packing and cooling requirements. Institutions other than grower cooperatives might also provide valuable support to small growers. In Virginia, the proposed Farmer's Market Network would provide packing and grading facilities that the growers may not be able to support individually. The Virginia's Finest program should help to reduce the marketing costs faced by small producers through improved communication of quality standards to the retailers.

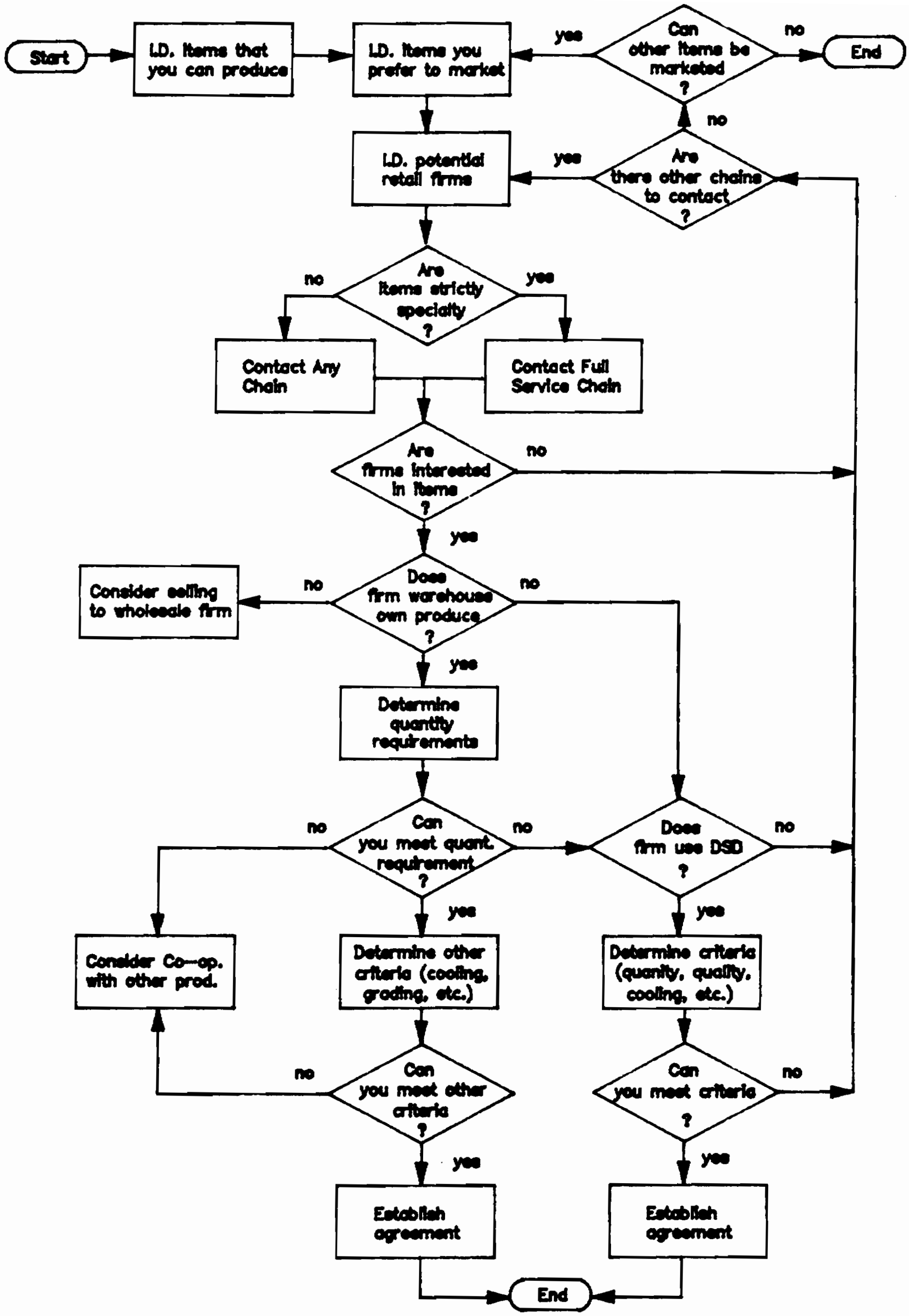

Figure 11. An algorithm for initiating relationships with retail supermarket chains

If the grower is able to meet all of the retailers criteria for either warehouse or direct store delivery, formal agreements on quantity, quality, and delivery will be developed. If the producer does not meet the criteria, other firms and/or other produce items should be considered. Once an agreement is established, the producer may need to repeat the procedure to locate other firms if the potential supply exceeds the needs of a single firm. On the other hand, a very small producer may prefer to establish a good reputation for quality and dependability by serving a small number of stores within one chain before expanding.

The algorithm described here is intended as a general guide rather than a rigid procedure to be followed strictly. It is provided to show the relationships of many of the important marketing factors developed by this research. More detailed investigations into several areas, such as specialty crop production and specific retailer requirements, could provide information for developing this framework into an actual program for new market entrants.

7.4.3. Communication and Education

During interviews, produce merchandisers persistently expressed doubts about the willingness of small, local produce growers to adopt practices conducive to the establishment of relationships. Although small producers lack the economies of scale that enable large producers to invest in equipment and facilities, several institutions may provide small firms with the support needed to establish market relationships.

The marketing support provided by these institutions, however, may be coming at the wrong end of the production process. Traditionally fruit and vegetable growers, like many persons involved with agricultural production, view their role primarily as commodity producers. The primary emphasis is placed on securing a good product, while marketing is viewed as strictly a post harvest activity. One merchandiser related the story of a new producer who grew several acres of Daikon, a large, hot Japanese radish. The producer was very disappointed after harvesting the crop and discovering that no one was interested in buying it. Such a problem would not have happened if the grower had invested some time doing marketing research before he invested time and money producing the crop. Unfortunately, many producers still follow this approach to production of fresh fruits and vegetables.

To be successful, producers of either specialty or staple produce must rethink their approach to agricultural production. Growers must first get to know their customers, the produce buyers, and understand their needs. The innovative grower will then learn to produce what the buyer needs, rather than attempting to find a buyer for whatever has been grown. Today's grower must make a commitment to merchandising the product to the retail market. Such merchandising activities should include providing a graded product with the field heat removed in a container that lists the producer's name and can be handled by pallet. The producer must also be ready to stand behind the product by insuring quality satisfaction, as well as providing support for merchandising activities at the retail level, such as point of display materials and extra product for in-store sampling. Additional research is needed to identify improved communication techniques to overcome the information barrier between retailers and growers. Improved education of growers with respect to retailers' needs should help to facilitate improved relations between small local growers and retail supermarket chains.

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Appendix A. Initial Contact Mailing

COLLEGE OF AGRICULTURE AND LIFE SCIENCES

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

Blacksburg, Virginia 24061-0401

DEPARTMENT OF AGRICULTURAL ECONOMICS (703) 231-6301

Date

Name
Title
Company Name
Address

Dear Name:

The produce section may be the most important, most rapidly growing department within today's supermarkets. In the Food Marketing Institute's 1988 study *Trends: Consumer Attitudes and the Supermarket*, 98 percent of shoppers surveyed rated quality fruits and vegetables as a very or somewhat important factor when deciding where to shop. Retailers have responded by offering extended fresh produce lines containing many specialty items.

As production opportunities in crops such as peanuts and tobacco have declined, more and more Virginia farmers are interested in producing fresh fruits and vegetables. Retailers could benefit from this increased supply of local fresh produce for their shelves. However, many farmers do not have an adequate understanding of the retail supermarket system and so may not be well positioned to meet the needs of today's merchandisers.

To allow Virginia farmers to better serve the retail food industry, Virginia Tech is conducting a study to describe the management structure and marketing processes of produce merchandising in retail supermarket chains. Company Name is one of several firms chosen from those operating in the Virginia area to participate in this study. A more detailed description of the study is enclosed. To meet the objectives of this study, I would like to interview you or someone equally familiar with the produce marketing system within your firm. The actual interview should take no longer than one hour. All information will be strictly confidential and all results will be reported in summary form only. A report of the study results will be made available to all participants.

I hope that Company Name will participate in this study benefiting both the retail sector and Virginia farmers. I will be calling you within the next week to answer any questions that you might have regarding the study and to discuss the scheduling of a personal interview.

I appreciate your cooperation and support in this endeavor.

Sincerely,

Bobby G. Beamer
Research Assistant

enclosure

Rural Economic Analysis Program

college of agriculture & life sciences at virginia tech

RESEARCH PROSPECTUS

INTERNAL ORGANIZATION AND MANAGEMENT OF FRESH PRODUCE MARKETING IN RETAIL SUPERMARKET CHAINS: IMPLICATIONS FOR MARKETING SPECIALTY PRODUCE

The produce section is rapidly becoming the most important department within retail supermarkets. In the Food Marketing Institute's 1988 survey *Trends: Consumer Attitudes and the Supermarket*, 98 percent of shoppers surveyed rated quality produce, fruits and vegetables as a very or somewhat important factor when deciding where to shop. Supermarkets have responded by offering extended lines of 300 to 400 fresh produce items. Today's shopper may find staple items such as lettuce or bananas only inches from star fruit, bok choy, or locally produced apple cider. But how do such diverse items from different sources all find their way to the produce section of the local supermarket?

Unlike many other departments within the modern supermarket, control over produce shelf space lies almost entirely with the retailer. Produce has few national brand consumer franchises such as those that exist within the grocery section. Therefore, almost all produce merchandising decisions are internal to supermarket management. But who within this management structure determines which items are to be offered in a particular store, and what criteria are used to allocate this increasingly important shelf space?

Farmers can better serve the needs of the fresh produce retail market if they better understand the operations of retail stores. By improving farmers' knowledge of buyer-supplier relationships and retail shelf space allocation, both they and the retailers will benefit from more efficient marketing practices.

The objectives of the research are:

1. to develop a general model describing the organizational structure of the fresh produce marketing system of retail supermarket chains;
2. to describe the strategies and operations of the different levels of management within the framework of the model;
3. to describe the criteria used by decision makers to determine how shelf space is allocated within produce sections;
4. to establish criteria that producers of specialty items would need to meet in order to penetrate the retail market; and
5. to obtain buyer opinions on different potential specialty items.

To meet the above objectives, interviews with industry personnel will be necessary. Job descriptions for different positions within the firms, such as produce buyer, produce merchandiser, store manager, and produce manager, will be helpful in establishing an organizational chart and determining responsibilities. All information will be kept strictly confidential and results will be reported in summary form only. A report of the study results will be made available to all participants.

Appendix B. Interview Outline

I. ORGANIZATIONAL STRUCTURE

A. Positions

1. Department and Store Level Positions
2. Upper Management Level Positions

B. Responsibilities, Interactions

1. Responsibilities for Strategic Planning
2. Responsibilities for Operations
3. Interactions with Other Positions

II. PRODUCE PROCUREMENT

A. Warehouse Operations

1. Self-Warehousing vs. Wholesalers
2. Receiving and Shipping Operations
3. Delivery Requirements

B. Direct Store Delivery (DSD)

1. Extent of DSD
2. Requirements for DSD
3. Establishing Relationships

III. MERCHANDISING

A. Shelf Space Allocation

1. Use of Computer Programs
2. Measures of Profit
3. Other Criteria for Shelf Space Allocation

B. Other Merchandising Activities

1. Pricing
2. Advertising
3. Special Store Level Activities

IV. SPECIALTY ITEMS OFFERED

A. Items Offered

1. Specialty Fruits

2. Specialty Vegetables

3. Role of Specialty Items in Produce Department

B. New Item Introduction

1. Motivation for Offering New Items

2. Procedures for Introduction of New Items

3. Criteria for Testing New Items

C. Experiences with Organic Produce

Appendix C. Check-Off Lists of Specialty Items

List 1: Specialty fruits offered for sale

Past Year	Next Year	Item
O	O	Akee (Seso Vegetal)
O	O	Apple Pear (Japanese Pear, Asian Pear, Pear-Apple, Chalea, Oriental Pear, Shalea)
O	O	Apricot
O	O	Avocado
O	O	Boysenberry
O	O	Breadfruit
O	O	Carambola
O	O	Cherimoya
O	O	Coconut
O	O	Crab Apple
O	O	Dewberry
O	O	Feijoas
O	O	Fig
O	O	Granadilla (Passion Fruit)
O	O	Guava
O	O	Kiwifruit (Chinese Gooseberry)
O	O	Kumquat
O	O	Lady Apple
O	O	Loquat

Past Year	Next Year	Item
O	O	Lychee
O	O	Mandarin
O	O	Mango
O	O	Mangosteen
O	O	Nectarine
O	O	Organic Fruits (any fruits differentiated as organic)
O	O	Papaya
O	O	Pawpaw (Papaw)
O	O	Persimmon
O	O	Plantain
O	O	Plumcot
O	O	Pomegranate
O	O	Prickly Pear (Cactus Pear, Indian Fig, Barberry Fig, Tuna)
O	O	Quince
O	O	Sapote (Mexican Custard Apple, Custard Apple)
O	O	Star Apple
O	O	Tamarind
O	O	Ugli Fruit

List 2: Specialty vegetables offered for sale

Past Year	Next Year	Item
O	O	Alfalfa Sprouts
O	O	Bamboo Shoots
O	O	Bean Sprouts
O	O	Bitter Melon (Balsam Pear)
O	O	Bok Choy (Chinese Chard, White Mustard Cabbage)
O	O	Burdock
O	O	Cactus Leaves (Nopales)
O	O	Cardoon
O	O	Celeriac (Celery Root, Celery Knob, Turnip Root Celery)
O	O	Celtuce
O	O	Chard (Swiss Chard)
O	O	Chayote (Vegetable Pear, Chayote Squash, Mirliton)
O	O	Chervil
O	O	Chinese Long Bean (Dow Kwok)
O	O	Coriander (Cilantro, Chinese Parsley, Mexican Parsley)
O	O	Daikon (Japanese White Radish)
O	O	Enoki Mushroom
O	O	Fennel (Anise, Finocchio)
O	O	Fiddlehead (Fiddlehead Fern)
O	O	Ginger Root
O	O	Gourds, Ornamental
O	O	Horseradish Root (German Mustard)
O	O	Jerusalem Artichoke (Sunchoke)
O	O	Jicama

Past Year	Next Year	Item
O	O	Kohlrabi (Kale Turnip)
O	O	Nappa (Napa, Sui Choy, Chow Choy, Won Bok)
O	O	Organic Vegetables (any vegetables that were differentiated as organic)
O	O	Rappini (Rape, Rapa)
O	O	Salsify (Oyster Plant)
O	O	Snow Peas (Sugar Peas, China Peas)
O	O	Sorrel
O	O	Soybean
O	O	Spaghetti Squash (Cucuzzi, Calabash, Suzza Melon)
O	O	Sugar Cane
O	O	Sunflower Seeds
O	O	Tamarillo (Cyphomandro)
O	O	Taro Root (Dasheen)
O	O	Tofu (Soybean Curd)
O	O	Tomatillo (Ground Tomato, Husk Tomato)
O	O	Topepo
O	O	Truffle (White Truffle)
O	O	Vegetable Marrow (Chinese Squash, Marrow Squash)
O	O	Verdolaga (Purslanem, Fatweed)
O	O	Water Chestnut (Chinese Water Chestnut, Waternut)
O	O	Winter Melon
O	O	Yucca Root (Manioc, Cassava, Casava)

Appendix D. Supermarket Retail Market Share

Charlotte-Gastonia-Rock Hill, NC-SC MSA

Company Name	City	State	# Stores	% Market
Food Lion, Inc.	Salisbury	NC	60	33.6
Harris-Teeter, Inc.	Charlotte	NC	31	19.1
Winn-Dixie Charlotte	Charlotte	NC	27	17.1
Bi-Lo, Inc.	Mauldin	SC	17	10.6
A & P	Matthews	NC	13	9.3
Community Cash Stores Co.	Spartanburg	SC	4	2.0
Wayne's Supermarkets	Charlotte	NC	6	1.3
Park 'N Shop, Inc.	Charlotte	NC	2	1.3
Giant Genie, Inc.	Charlotte	NC	3	1.1
Lowe's Food Stores, Inc.	Winston-Salem	NC	3	0.7
Jones Bros. & Grocers, Inc.	Mount Holly	NC	3	0.7
Hoyle's Grocery	Lincolnton	NC	3	0.4
Ingles Markets, Inc.	Black Mountain	NC	1	0.4
Single Unit Supers			11	2.4
Totals			184	100.0%

Greensboro-Winston-Salem-High Point, NC MSA

Company Name	City	State	# Stores	% Market
Food Lion, Inc.	Salisbury	NC	52	37.7
Winn-Dixie Charlotte	Charlotte	NC	17	14.5
Harris-Teeter, Inc.	Charlotte	NC	15	12.0
The Kroger Co.	Roanoke	VA	10	9.2
Food Fair of N.C., Inc.	Winston-Salem	NC	9	8.3
Lowe's Food Stores, Inc.	Winston-Salem	NC	25	7.9
Mt. Tabor Food Market, Inc.	Winston-Salem	NC	3	2.3
Maner's Food Rite Supermarkets	Greensboro	NC	4	1.3
Cloverleaf Supermarkets, Inc.	Jamestown	NC	2	1.1
Ingles Markets, Inc.	Black Mountain	NC	2	1.1
A & P	Matthews	NC	1	0.9
Byrd's Food Stores, Inc.	Burlington	NC	1	0.5
Bonnie Be-Lo Markets, Inc.	Norfolk	VA	1	0.5
Single Unit Supers			9	2.7
Totals			151	100.0%

Norfolk-Virginia Beach-Newport News, VA MSA

Company Name	City	State	# Stores	% Market
Farm Fresh, Inc.	Norfolk	VA	51	43.4
Food Lion, Inc.	Salisbury	NC	44	25.3
A & P	Richmond	VA	22	16.2
Bonnie Be-Lo Markets, Inc.	Norfolk	VA	33	12.2
Safeway Stores, Inc.	Landover	MD	1	1.1
Single Unit Supers			6	1.8
Totals			157	100.0%

Richmond-Petersburg, VA MSA

Company Name	City	State	# Stores	% Market
Ukrop's Super Markets, Inc.	Richmond	VA	16	26.6
Safeway Stores, Inc.	Landover	MD	15	23.8
A & P	Richmond	VA	10	10.7
Food Lion, Inc.	Salisbury	NC	11	9.2
Winn-Dixie Raliegh	Raliegh	NC	8	7.8
Farm Fresh, Inc.	Norfolk	VA	6	7.4
Chuck's Super Markets	Mechanicsville	VA	9	5.9
Lukhard's Markets, Inc.	Richmond Heights	VA	2	1.2
Hines Food Center	Colonial Heights	VA	2	1.1
Siegel's Super Markets	Richmond	VA	1	0.5
Single Unit Supers			16	5.8
Totals			98	100.0%

Washington, DC-MD-VA MSA

Company Name	City	State	# Stores	% Market
Giant Food Inc.	Landover	MD	79	46.9
Safeway Stores, Inc.	Landover	MD	91	31.6
Magruder, Inc.	Rockville	MD	11	4.8
Jumbo Food Stores, Inc.	Landover	MD	10	4.2
A & P	Baltimore	MD	16	3.8
Food-A-Rama Stores, Inc.	Randallstown	MD	9	3.0
Weis Markets, Inc.	Sunbury	PA	6	1.7
Acme Markets, Inc.	Malvern	PA	1	0.4
Giant Food Stores, Inc.	Carlisle	PA	1	0.4
Jay's Markets, Inc.	York	PA	2	0.4
George's Foodland, Inc.	Eldersburg	MD	2	0.2
Shaydac Stores	Gainsville	VA	1	0.1
Single Unit Supers			27	2.5
Total			256	100.0%

Source: *Chain Store Guide*

VITA

Bobby G. Beamer was born April 6, 1962 in Hillsville, Virginia. In 1980 he graduated from Carroll County High School. The following year he attended Virginia Polytechnic Institute and State University in Blacksburg, Virginia. Bobby received his B. S. degree in Agricultural Education there in 1984. He then taught vocational agriculture in a public high school for over two years. He returned to Blacksburg in 1987 and subsequently entered the Master's program in the Department of Agricultural Economics at Virginia Tech. Bobby completed his Master's degree in August of 1990.

Bobby G. Beamer