

Cooperative buying for

Mass Merchandising

by retail grocery firms

Three major developments in the retail grocery business have affected suppliers, marketing channels, agencies, and consumers.

The first development—mass merchandising, selling at relatively low margins and rapid turnover—disrupted prevailing customs and trade channels, and decreased the earning power of capital invested in the established system of food distribution.

The second development—the economic growth of companies successful in mass merchandising—shifted the power in the food industry from the manufacturers of national brands to the multi-unit retail food firms.

The third development is cooperative buying by single-unit and small chain retail food firms to compete with large grocery chains.

A concentration of 68% of all grocery store sales into supermarkets, which number only 10% of all retail grocery stores, appears to reflect a customer preference for large stores with more varieties and brands of merchandise under one roof, relatively lower prices, and services offered by the seller. Recently the Federal Trade Commission stated that food retailing has rapidly become big business since 1929. Stores selling over \$1,000 a day represented 4% of all grocery store sales in 1929 and approximately 70% of all grocery sales in 1958.

The Federal Trade Commission reported also that the 27 leading food chains included in its 1959 study increased their share of all grocery store sales by 25% between 1948 and 1958. Much of that 25% increase—about double the average for all grocery stores—resulted from more outlets; opening new stores, purchasing existing stores and by mergers.

Bargaining Position

Competition among suppliers for the business of large retail stores gives many buyers price and trading advantages not

available to their smaller competitors. Those buying advantages are among the more important reasons why retail store operators push for rapid product turnover, high sales volume, and low inventories.

Retailing costs of labor and advertising, once regarded as variable costs, have moved close to the fixed-cost category. Sales volume must be considered the principal variable in determining unit costs of retailing food.

The structures of price and service competition in the retail food industry have forced operators of small-and-medium-size corporate chains to group action for economic survival.

Group Action

Group action among competing retailers—designed mainly for cooperative buying of merchandise for resale—has branched out into cooperative advertising and the provision of special managerial services.

Two types of organizations for group action among retailers have developed: retailer-owned and operated associations, organized to concentrate the individual buying power of the member stores into one buying organization; and the wholesaler-sponsored voluntary retail group, organized by a wholesale firm with retail affiliates under contract to buy merchandise from the sponsor. Such contracts minimize the selling costs of the sponsor and concentrate a wholesale volume sufficiently large to enable the sponsor to bargain effectively with suppliers.

Most independent retail grocers recognize four handicaps in competing with integrated corporate retail grocery chains: 1, the concentrated buying power arising from the chain's larger retail sales volume; 2, the spread of advertising costs; 3, the accessibility of the retail units of a chain to marketing information; 4, access to regional or national capital markets.

Retailer-owned cooperatives and

wholesaler-sponsored buying groups are often at a competitive disadvantage in merchandise procurement compared to corporate chains because of purchasing procedures rather than because of a lack of volume. The volumes of most buying groups—cooperatives and voluntaries—are ample to influence the position of suppliers provided specifications attached to the order are of a type to reduce selling and handling costs.

Cooperative advertising by retailer-owned and sponsored-groups ranks slightly below warehousing in the amount of use by the retailer-owned affiliated stores. Many of the larger independents and smaller chains, buying through group arrangements, do their own advertising because of the different pricing policies of the members of the same association.

Marketing information is important to all retail food stores to enable them to meet the immediate pricing situation within the trade area; to know the competitive merchandising practices of the other retail stores in the immediate vicinity; and, to know the availability and conditions of supply of merchandise.

The competitively permissible structure of retail prices is a critical problem for independent retail stores, particularly

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Imported French

Parasite of Walnut Aphid

established in California

Imported from France in 1959, a tiny wasp—*Trioxys pallidus* Haliday—a natural parasitic enemy of the walnut aphid—*Chromaphis juglandicola* (Kaltenbach)—has become established, at least locally, in California.

The wasp was found attacking the walnut aphid in southern France and parasitized aphids were sent to California insectaries for propagation.

During the last six months of 1959 more than 12,000 parasites were reared in the insectaries and released on aphid infested English walnut trees in Contra Costa, Lake, Los Angeles, Orange, Riverside, Santa Barbara, San Benito, San Bernardino, San Diego, Tulare and Ventura counties.

Within three weeks after each parasite colonization was made, parasitized—mummified—aphids were found at most locations. The size of each colonization ranged from less than 100 up to 1,200 parasites. Relatively small numbers of parasites apparently are satisfactory for preliminary establishment. However, the wasp from France passes the cold winter

months as a larva in diapause—rest period—and permanent establishment would depend on the satisfactory emergence of the diapause individuals in the spring of 1960.

The colonizations made in 1959 were in untreated orchards or on backyard trees to avoid any detrimental effect insecticide treatments might have on the establishment of the parasitic wasp.

On April 12, 1960, adult parasites were collected—for the first time after the diapause—on trees at Rancho Santa Fe in San Diego County. Other cases of establishment were found within two weeks at Tustin, Orange County, Yucaipa, San Bernardino County, and at Kelseyville, Lake County. Therefore, the aphid parasite from France is considered established locally in southern and northern California.

Mass production of the parasite is continuing in the insectaries at Riverside and Albany. Potted English walnut seedlings, three months old, are grown in greenhouses and later infested with aphids and parasites. The seedlings, with the aphids

and the wasps, are grown in insectary cages at about 70°F using 10 hours of daylight. From June 1959 to June 1960 more than 52,000 parasites were reared and colonized in California. Releases will continue until colonizations have been completed in all major walnut-growing areas of California.

The parasite of the walnut aphid is less than 1/8" long and is closely related to *Trioxys utilis* Muesbeck, a recently imported and highly successful parasite of the spotted alfalfa aphid. The two species look so much alike that there is some question as to whether they represent a single species containing two biological races. However, the wasps attack distinctly different host aphids living in different environments. The parasite of the spotted alfalfa aphid lives near the ground in alfalfa and attacks the spotted alfalfa aphid and its relatives, while the parasite of the walnut aphid lives in trees and attacks only the walnut aphid in that environment. The parasite of the walnut aphid has been successfully reared also

Concluded on next page

the smaller stores which must adjust prices and services to local competitive conditions.

The timeliness of price information is especially crucial to competing retail firms unless, through produce or service differentiation, they are able to make prices a secondary consideration in the minds of their customers. While timeliness is not a prime factor concerning information regarding marketing services, its acquisition and proper dissemination are vital.

Buying specialists with retailer-owned associations and wholesaler-sponsors perform most of the necessary supply functions for the affiliated retail stores. However, reliance on group action for procurement of perishable produce is less frequent than for dry groceries. This is attributable in part to the availability and wide distribution of daily terminal

and shipping point market news reports and to the effectiveness of conventional type buying services of the produce wholesalers.

Current trade estimates indicate that from \$400,000 to \$600,000—depending on the location—are required to open a supermarket capable of handling sales of \$30,000 to \$35,000 weekly. Experienced operators usually find outside capital necessary. A wider capital market is open to firms that are widely known, have established earnings records, and have their retail outlets distributed throughout a region or nationally.

The small single-unit store operator is frequently handicapped because of prospective investors' appraisals of the risk of investing in a single-unit retail grocery store that must face immediate or future competition from powerful multi-unit firms.

Cooperative and voluntary buying groups have tended to equalize the competitive buying powers of affiliated retail stores and of chains. However, a group-action solution of the buying and assembly problems has not reduced the problems incident to servicing many small, retail-store accounts. As a consequence, some cooperatives and voluntaries are setting up membership requirements that discourage small inefficient firms from joining their organizations, and in some cases the membership requirements are sufficiently rigid to cause affiliated stores to drop their memberships. Such actions by groups of independent retailers emphasize the intensity of the competitive struggle to lower merchandise costs in the retail grocery business and the difficult position of small independent stores.

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