

Retailers' Produce and Vegetable Supply Management: Two Tales in One City

Kurt Christensen, MBA
kurt.christensen1@gmail.com

Zhaohui Wu, Ph.D.
wuz@bus.oregonstate.edu

College of Business
Oregon State University
Corvallis, OR 97331-2603

Learning Objectives

Produce retailers face challenges in produce and vegetable purchasing every day. The products are perishable mandating fast inventory turns. As more customers demand natural and organic produce and vegetable products, in recent years traditional retailers, both national chains and local grocery stores, face competition from niche natural food stores and Farmer's Market. The growing demand of social and environmental sustainability creates both opportunity and challenges for retailers and changing how they manage logistics/inventory, supply relationship, product branding and pricing decisions.

The objective of this teaching case is to illustrate such challenges and opportunities in retail produce and vegetable supply management. In this case, we investigated the produce/vegetable department of two grocery retailers: Richey's Market, a family-owned local grocery store in a college town in Oregon and Fred- Meyers, a subsidiary of Krogers, a large national chain. We compare and contrast the different supply management practices in these two companies. First we illustrate the purchasing processes and how supply manager interact with suppliers, distributor/wholesalers. Then, we analyzed the different organizational structure that determines the decision processes, decision autonomy and performance implications. Lastly, we engage the students in a discussion of the challenges each company face and the opportunities in the natural foods sector for local, regional and national grocery players.

Key word: good supply chain, supply management, produce and vegetables, teaching case

Background

Produce and vegetable retailers face challenges in produce and vegetable purchasing every day. The products they sell are perishable mandating rapid inventory turns. Many items require special handling, storage and frequent inspections to reassess quality and safety. Many customers now expect and demand more choices such as natural and organic produce and vegetable products. In addition, traditional retailers face increasing competition from niche natural food stores such as Whole Foods, local co-ops, Farmer's Markets and Community Supported Agriculture (CSA) to innovate and meet the demands of changing demographics. The growing demand for social and environmental sustainability creates both opportunities and challenges for retailers. This trend mandates changes in how they manage logistics/inventory, supply relationship, product branding, store management and pricing decisions.

In this case, the produce and vegetable management of two grocery stores will be examined in order to illustrate these challenges. One is Richey's Market and the other is Fred Meyer. Both stores are located in Corvallis, Oregon.

Corvallis is a college town with a population of 54,880. The median household income is \$44,999 which is close to the Oregon average of \$50,169. The median resident is 27.0 years of age compared to the state median of 36.3 years. Males comprise 49.8% of the population and females total 50.2%. There is a significant student population at Oregon State University totaling 20,320 which varies seasonally throughout the year. Given its location, Corvallis has a high level of college-educated population.

The Fred Meyer store is located in close proximity to the university and a significant portion of student housing. They tend to attract students shoppers in addition to local residents. Richey is located 1.7 miles further away from the university and student residential area, and focuses on serving local residents. Its customers are middle-age and elder locals who have been loyal shoppers for years.

Fred Meyer is a regional multi-department store which is a subsidiary to the Kroger Co., one of the largest retail food companies in the U.S. measured by total annual sales. Its modern, full service, two story, medium sized grocery store also sells electronics, clothing, toys and miscellaneous durable goods. The store spent \$3.8M on renovation in 2005. The furnishings are modern, the lighting is designed for specific areas to enhance the displayed products. High tech equipment such as motion sensing lighting for frozen food display racks is used (See Figure 1). Aisle width is average for a modern grocery store and allows two carts to easily pass each other. The look is both modern, clean and upbeat. Signs are posted on every aisle identifying the types of products located there. In addition to the grocery section, there are clothing, shoes, home furnishings, electronics, jewelry, toy and sporting goods departments. Fred Meyer became part of Kroger (thekrogerco.com) in 1998. Kroger has 15 brands including Fred Meyer.

Figure 1 about here

The Corvallis store of Fred Meyer has a high number of student shoppers. Large packaged quantity products such as 10lb bags of potatoes are not as desirable. Instead 2lb bags or individual produce are preferred by student shoppers. All produce is visually inspected each day and trimmed as needed.

Richey's Market, on the contrary, is a small, family owned grocery and deli. The Dad (Jack Richey) and one of his brothers Herman Richey were from Oklahoma and came to Oregon in the late 1940's. Shortly thereafter, two additional brothers came to Oregon to assist in the business. They opened the first Richey's Market store in 1962 in downtown Corvallis. The next

store opened in Albany, Oregon a logging and paper mill town, about 15 miles east of Corvallis shortly thereafter. The current store was built around 1963. It is located in a single story, older, leased building with multiple long aisles and a tile floor (Figure 2). Old style florescent lighting is located throughout the store. In the next 10 years opened one more store in Corvallis and two more in neighboring city of Albany. The family-owned business became a corporation in 1970. Since the 1970's, the three stores in Albany were sold. Two stores in Corvallis were sold or closed as time went by. The Albany stores always had some labor issues. All three locations were leased and the cost of running all the machinery made it difficult to make a profit. Machinery such as coolers, compactors, is very expensive and had to be purchased by Richey's which created a large financial burden.

Figure 2 about here

The Remaining Richey's store carries a high percentage of generically branded merchandise on the shelves along with a few name brand items. The store has the look of a traditional grocery of the 1980s (Figure 3). The produce department consists of a long single tier wall display, a similar aisle display and a couple of small center islands. The produce aisles are a combination of both wet and dry racks. The produce department has several dedicated areas. One section consists of a refrigerated, multitier rack used for juice and bagged salads and dressings. Another area is a long multitier rack for conventional produce. In the center of the department are three dry racks for conventional produce and fruit. The south wall consists of a special section used only for organic fruits and vegetables.

Product sourcing and store management

Fred Meyers. The corporate buyers of Fred Meyer in Cincinnati set the price for produce. All large contracts for produce occur at Cincinnati with orders place via computer systems. The Portland Fred Meyer distribution center sources its local produce and vegetables from many companies including Organically Grown Company (OGC) (organicgrown.com). OGC is the largest wholesaler of organic produce in the Pacific Northwest with offices in Eugene and Portland, OR and Kent, WA. It is located in Eugene Oregon and began as a co-op for Oregon farmers in the southern Willamette valley. This provided an outlet for local products such as apples, berries and corn to be distributed to large and small retail grocery stores.

Regional offices of Fred Meyer have the freedom to independently make decisions regarding ads and promotions. Fred Meyer develops regional ads. The buyers and the produce

VP at the distribution center in Clackamas, a suburb of Portland, Oregon, determine the selection of produce available. Seasonality determines most of the specials. Coordination between each individual Fred Meyer store regarding purchasing is almost non-existent.

The Fred Meyer produce manager at the Corvallis store, Marty Strawn, has the flexibility to cut prices when products are close to the expiration date. Automatic price reduction comes from a weekly list generated at the corporate offices. If Marty buys long (purchases larger quantities than usual), customers familiar with the regular price will realize there is a price reduction. For example, if there are a few extra cases of asparagus, the produce manager can lower the price 50 cents more, and mark down from \$3.5 to \$3 per pound. Special tags and reducing tags are used to attract customer attention and promote the discount. Some of the pricing tags are automatically set by corporate but the local manager can also use those same tags to discount perishable products. If the store has more produce than they think they can normally sell, the produce manager can overwrite the corp. price list and discount the item.

Corporate gives guidelines on product placement within the produce department but local stores can vary the location depending on local needs. For example, Marty places all organic produce in a special section to avoid customer confusion by placing organic products next to traditional ones. Local managers are allowed to place order quantities at the store level. Marty monitors the weather and for example if rain is about to damage the remaining cherry crop he will order extra quantities of cherries that have already been harvested.

The Fred Meyer in Corvallis sells the highest volume of organic produce and vegetables compared with other stores in Oregon. There are about 100 organic items available from the Clackamas distribution center. Marty is also able to order approximately 58 different items from OGC in Eugene if those items are not available from the Portland Fred Meyer Distribution center. To keep abreast of the latest news in the produce business, Marty uses *The Packer* magazine, the website (thepacker.com) and watches the “farm report” (on RFD TV) as well as the television show “cacountry.tv” sponsored by the California Farm Bureau Federation and their magazine publication *California Country Magazine*.

The Fred Meyer store tries to make good use of inventory surplus. On Monday, Wednesday and Friday the local Food Share comes by the store and takes surplus or out of date produce. Whatever cannot be served to people at the Food Share is thrown out or received in poor condition loaded back into the delivery truck to be returned to the distribution center for

disposal. There is a pilot food composting program in Portland but the local Corvallis store does not yet participate in this. Cardboard is compacted and recycled.

Richey's Market. Richey's does well selling conventional produce. Richey's carries very little organic produce. Its main customers are composed of local residents who have families and are loyal shoppers. They tend to be middle aged or older and do not have a high demand for Organic products. The organic products come from the produce distributors Unified Grocers and United Salad in Portland. Most of the organic products come from California. There are some seasonal local organics such as rhubarb and squashes which are sold in the store. A few things during the winter time such as grapes do come from foreign countries such as Honduras.

Unified Grocers Inc. (uwgrocers.com) has brands such as Western Family, Special Value, Golden Crème, Springfield, Natural Directions Organic and now IGA. The company was founded in the early part of the 20th century when independent retail grocers in three West Coast cities decided to improve the efficiency of their businesses by combining their resources and forming purchasing cooperatives. In 1999, Certified Grocers merged with United Grocers to create Unified Western Grocers, a \$3 billion wholesale grocery cooperative that was based in Los Angeles. In September 2007, Unified Western Grocers acquired Associated Grocers, a Seattle-based cooperative with annual sales to retailers of approximately \$1 billion. Shortly after the transaction was completed, the company shortened its name to Unified Grocers. UG recently formed a partnership with IGA (a grocery store chain), the world's largest voluntary supermarket network, and carry a wide variety of IGA brand products.

United Salad (unitedsalad.com) was founded in 1940 in Portland Oregon. By 1960, United Salad Co. had become a full-line wholesaler to the local produce trade and sold all varieties of fruit, vegetables, herbs, along with specialty and processed produce. In 1985, United Salad Co. purchased Duck Delivery Produce, Inc. to meet the needs of the food service industry. The company carries a full line of organic fruits and vegetables for foodservice and retail operations. It also carries many different lines of grocery items, from fresh dairy to frozen products. The company has more than 1,000 customers and a fleet of over 100 refrigerated trucks. Its warehouses are located in Wapato and Sumner, Washington and in Portland and Bend, Oregon.

Tony Richey, the produce manager is the son of Jack Richey and the nephew of Herman Richey the brothers who started the business. Tony places an order with the United Salad (Portland warehouse) who makes delivery the next day. He can get deliveries 5 days a week and therefore only places small orders for just what he needs. Tony orders small amounts frequently and the store has a rapid turnover of products. Rotten material is placed in the dumpster. Boxes of trimmings or poor quality products are placed out back. About half a dozen farmers come by every day and pick up the trimmings and very low quality product for animal feed. Lower quality yet edible items are discounted and sold to customers at the store.

The product price is set by the warehouse. If Richey's runs a special on an item, the warehouse will knock a couple of dollars off the price of each case. Pricing in the store is set by Tony. This way he can adjust his price to according to inventory and quality. He tries to get around a 30-32% margin while national chains in town try to get around a 45% margin. Tony has a section in the produce area for "distressed" priced items that are nearing the end of their shelf life. They display a large "reduced" sign to show customers what is on clearance. Usually the distressed products fly off the stand very quickly as shoppers see them as bargains. Large stores often contract with farms for their entire crop which reduces their costs but Tony is still able to compete. Unified Grocers out of CA (Portland warehouse) and United Salad are grocery outlets which serve small independent grocers, not the large chain stores. Richey's profit margin is about 10 percent less than that of Fred Meyers.

Richey's is famous for its high quality produce and vegetable products. This is one reason why the store has a loyal customer base. Besides purchasing from United Salad and Unified Grocers, Richey's uses half a dozen local produce growers including limited production from one of their own farms (growing rhubarb and squash) during the harvest season. For instance, Apples come from Monmouth in the fall, a rural town 25 miles north of Corvallis. One major local supplier is Dennison Farms (www.denisonfarms.com), a 20-acre farm located just north of Corvallis. Tom Dennison is the largest organic grower in the area. For 30 years he has been raising produce and selling to consumers and retailers. He sells to vendors at the farmers market and to the organic warehouse in Eugene. Another supplier is Green Gables outside of Philomath, OR (less than 10 miles away), who provides strawberries when they are in season. Andersons near Corvallis also supplies blueberries. There are two different suppliers of corn from late July until the first frost. Lastly, there are some "back yard" growers that supply small quantities such

as 50 lbs of zucchini. If the price is right and the quality is high enough Tony buys from them when they stop by.

Tony orders many products from the salesmen at the Portland warehouses. Salesmen from the wholesalers usually make contact over the phone. Occasionally they make a visit to the Richey's store. If a load of produce comes in either damaged or substandard, Tony culls through the substandard product to determine if any of it can be salvaged, used as animal feed or thrown away. Tony then calls the distributor and reports the problem. The distributor delivers replacement produce the very next day.

Flexibility in placing orders is entirely up to Tony. He carries as much of the seasonal products as possible. If running 8 items in an ad, he can get a couple of dollars off per case. Loss or leader items are those products that are sold below cost to bring customers in. Loss or leader items are not normally used in the ads.

Because Tony orders these products from the local suppliers, hot weather and wet weather causes problems with local seasonal items. Tony keeps an eye on the weather and talks to local growers. He relies on his experience and past knowledge to estimate what fruits and vegetables are coming in season. Like Marty Strawn at Fred Meyer, Tony uses *The Packer* in order to understand availability and quality of produce items throughout the year. Trade newspapers also keep him informed of what is going on in the produce industry. Salesmen are even more in touch with what is going on locally in the industry and they let Tony know about some of the products as they become available. Local growers stop by the market a week or two in advance and let Tony know what products they will have and when those products will be ready for delivery.

For both Richey's and Fred Meyer, the end of the growing season for local, domestic and international produce is a constant source of problems. Produce shipped towards the end of the season or after weather damage may be sub-par. The damage may not be visible so fruits and vegetables must be opened up to look at the core or pit. Inspections occur at both the distribution center and at the store. A USDA representative must certify the produce bad or good when disputes between the distribution center and the grower/supplier occur. This can be expensive so often questionable produce is sold to a third party that sorts and resells the produce in good condition.

End of an Era?

In recent years, several factors have forced the Richey' owner to decide to close the last store in Corvallis. As a family business, no one in the fourth generation plans to take over the business. As family members such as Tony near retirement age, it is difficult to manage the stores day-in and day-out work load. In the meantime, Richey's is facing fierce competition from national grocers, farmer's market and CSA who also supplies high-quality produce and vegetables. Specifically, besides Fred Meyer and Richey's, there are also three Safeway stores, one Albertson store, Winco, two local co-ops stores, a Farmer's market and several CSA services.

These stores all compete for higher income and younger customers who are attracted to the product quality but also want one-stop shopping and broad product choices. In 2009 and 2010, Trade Joe and Market of Choice entered the Corvallis market. Market of Choice is a local health food grocer chain founded in Eugene, Oregon (marketofchoice.com). While the City encouraged Richey's to build a new store in south side of the city, which is an underserved area without a grocery store, the family turned down the proposal because the capital investment is so high that it would take at least four years to recover the initial capital investment. Tony Richey has been offered a job at the new Market of Choice store in the produce section of the Corvallis store.

Fred Meyer also feels the competition is heating up. While the store was renovated several years ago and is doing well in competition with the national chains in town, the entry of Market of Choice imposes a direct threat to its relatively upscale produce and vegetable positioning. At the same time, Fred Meyer Corporate is streamlining produce and vegetable merchandising operations and decision processes. Since 2000, large companies such as Fred Meyer have become highly computerized. Individual, regional and companywide costs are highly scrutinized and monitored. Bottom line profits are becoming a key factor in many of the day to day decisions and operations. This may reduce the decision autonomy of store managers like Marty Strawn down the road.

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Discussion question assignment

1. Compare and contrast the sourcing practices of Richey's and Fred Meyer.
2. How are the supply chains for produce and vegetable of these two companies different?
3. If Riche's owner decides to keep the business going, what should he possibly do to stay competitive? How could he differentiate the company from the competitors?
4. How could Fred Meyer's differentiate itself from the new competitors such as Market of Choice?

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Figure 1 Fred Meyer Store's Produce and Vegetable Section



Figure 2 Richey's Store and Produce/Vegetable Section