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THE NEW ENGLAND RETAIL GROCERY INDUSTRY

Paul E. Cournoyer

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On the research project of which this report is one product,

"Private Investment, Public Policy, and the Transformation of Older Regions: An Analysis of the New England Economy"

A research team of economists, planners, and industrial relations and management specialists has completed a twenty-two month study of the New England economy. Case studies, historical research and statistical analysis of several new microdata sets were used in combination to learn about the development since the 1950s of twelve specific (3-digit) industries in the region, representing both the old (e.g. apparel) and the new (e.g. computers), both manufacturing (e.g. aircraft engines) and services (e.g. hospitals).

Additional working papers were written on plant closings and the impact on workers, on differences in labor market structure between "old" and "new" American cities, and on the various methodologies employed in the case studies themselves.

A synthesis of the case studies is also available. Like the latter, this synthesis/overview is organized around five themes: the historical development of the industry, nationally and in New England; the record (since the late 1950s) of private investment and disinvestment in the industry in New England; major changes in technology which have affected or facilitated industry expansions, contractions or relocations of private capital; the impacts of these transformations on the region's labor force (and especially on workers in these particular industries); and the ways in which government (especially at the national level) has promoted or retarded these developments. The synthesis is accompanied by a statistical overview of macroeconomic changes in the New England region--changes in the growth and mix of all of the area's industries--since the end of World War II. This provides a context within which the case studies may be given some perspective.

The principal investigator was Prof. Bennett Harrison of the M.I.T. Department of Urban Studies and Planning. His faculty colleagues included Prof. Barry A. Bluestone, Director of the Social Welfare Research Institute of Boston College; and Prof. Thomas A. Barocci, Industrial Relations Section, Sloan School of Management, M.I.T. They and a team of twenty undergraduate and graduate MIT and BC students conducted the research over the period March, 1978 - Jan., 1980, based at the Harvard-MIT Joint Center for Urban Studies.

The project was co-sponsored by the U.S. Economic Development Administration, the Employment and Training Administration of the U.S. Department of Labor, and the Center for the Study of Metropolitan Problems in the National Institute of Mental Health.

to be added later:

list of project reports and from whom they can be ordered (either NTIS, the Joint Center, or the Sloan School Working Paper Series)

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I would first like to thank Professor Thomas Barocci for his direction and support throughout this project. He was responsible for my initial involvement in this study and has given me considerable help in all aspects of this report. Professor Bennett Harrison has been an invaluable resource and as such has provided numerous comments on the structure and content of this report. I would like to thank Ms. Christine LeCain for editing this report in its entirety as well as keeping me company in the library for what turned out to be many hours.

Lastly, I would like to thank Milton Segel, executive director, Massachusetts Food Association, for introducing me to many grocery executives in the New England states and for providing me with an overview of this industry in the initial stages of my research.

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CHAPTER I

INTRODUCTION

This case study of the New England grocery industry is one of twelve industry studies conducted by the New England Economy Project under the auspices of the Harvard/M.I.T. Joint Center for Urban Studies. The major areas of inquiry in the project as a whole include the historical development of each industry, market structure, technology and innovations, government regulations and legislation, employment, and finally an industry forecast. This grocery industry study places particular emphasis on market structure and employment.

Topics included in the market structure section of this paper are concentration, competition, integration, merger, investment, diversification, location, pricing, and price discrimination. The information is based on interviews I conducted with a number of New England grocery chain executives, industry spokesmen and academic experts on the grocery retail industry (see Appendix for the interview guide used for this purpose). Utilizing longitudinal data on the work histories of a large number of Social Security-covered people working in New England at some time between 1957 and 1975, the employment section analyzes labor force behavior in the New England grocery industry.

Description of the grocery industry

Grocery stores (SIC541), as defined by the Standard Industrial Classification, are primarily engaged in the retail sale of all sorts of canned food and dry goods, either packaged or in bulk, such as tea, coffee, spices, sugar, and flour, fresh fruits, and vegetables and frequently smoked and prepared meats, fish and poultry. They are commonly known as supermarkets, food stores and delicatessens.

The grocery or retail food business is the largest retail industry in the United States, with over $180 billion in annual sales. It is characterized by large variations in store size as measured by sales volume. The three categories of grocery stores as defined by sales volume include supermarkets, superettes, and a variety of convenience or small stores. Supermarkets are defined as those grocery stores with annual sales exceeding one million dollars. These stores are typified by large 30,000 to 40,000 square foot markets such as Stop and Shop, Purity Supreme, and Star Markets. Superettes, the second category of grocery stores, have annual sales between $500,000 and $1,000,000 and tend to be owned by small independents. Convenience stores or small stores are characterized by annual sales of less than $500,000, typically averaging around $300,000. In New England, some of the more popular convenience stores are Store 24, Seven-eleven, Cumberland Farms, Lil Peach (which is franchised by Purity Supreme) and White Hen Pantry (owned by Jewel Inc.). Convenience stores generally stock a relatively small number of necessity items, and try to locate close to the customer. In 1979, the number of convenience stores (32,500) in the U.S. was rapidly approaching the number of supermarkets (33,400). The share of total U.S. grocery sales controlled by convenience stores has been steadily increasing. In the last fifteen years or so, the market share of this segment of the industry has more than quadrupled (Table 1).

Large variation exists in sales volume/firm size, location, employment levels, profit margins and pricing policies in each of the three categories of grocery stores. In addition, firms' ownership or affiliation must be taken into consideration when analyzing the grocery industry, as this may affect geographic concentration, price competition and vertical integration. The first major category of ownership includes grocery chains which are defined by the Census Bureau as firms operating 11 or more stores.

Through the 1960's, chain stores have been steadily increasing their share of total sales. It appears that chain stores in the U.S. were picking up sales volume lost by independent grocery stores over this period of time. However, since the 1970's, there appears to have been a leveling off of the share of sales volume accounted for by chains. In fact, in 1970, chains accounted for approximately 48 percent of sales, and in 1978 the percentage was approximately the same.[1] In addition to this leveling off of market share, chain store earnings after taxes have been declining over the past decade. In 1970, chain store earnings after taxes as a percent of net worth averaged 9.1 percent, but only 8.6 percent in 1976.[2]

The second major category of grocery store affiliation or ownership

1. Progressive Grocer, April 1978, p. 55.

2. Progressive Grocer, April 1976, p. 110.

Table 1

Market Share of Convenience Stores, 1965-1979

Year	Percent Share of U.S. Grocery Sales
1965	1.1
1969	2.5
1970	2.7
1971	3.1
1972	3.5
1973	3.8
1974	4.1
1975	4.3
1976	4.8
1977	5.4
1978	5.9
1979	6.3

SOURCE: The Ninth Annual Report of the Convenience Store Industry, Sept./Oct. 1979, p. 28.

is the independent store. Independents operate fewer than the 11 stores necessary to be defined as a chain. Independents generally have an advantage over chain grocery stores in their ability to make decisions at the "local level." Managers of independent stores often argue that they are more aware of the neighborhood in which they operate and of their customers' needs, as well as more involved in the community, than are chain stores. Independent store managers generally cite as their major troubles high labor costs, government regulations, general and energy expenses, profit margins, inflation, crime and taxes. Independents typically operate small stores and superettes which account for 90 percent of the total number of independent stores. These smaller independent stores, however, account for only 39 percent of total independent sales in the U.S. Conversely, though, the number of independent supermarkets account for only 10 percent of the number of total independent stores, while they account for greater than 61 percent of the total sales volume of all independent stores (Table 2).

In the recent past, independent stores have continued to lose their percentage share of total sales. In 1930, independent stores comprised 68 percent of total grocery sales, while today their sales represent only 48 percent of the total. Competition from chains and prosperous independents which have become chains is the primary reason for this decline. It is expected that the ratio of chain/independent sales will remain at its present 50/50 level.

The last two major categories of grocery stores include cooperative retailers and voluntary group retailers. Cooperative retailers are generally independents who are stock holder members of cooperation wholesale

Table 2

Sales and Number of Stores

U. S. 1976

	No. of Stores	% of Total Stores	$ Sale Millions	% of Total Sales
ALL STORES	183,700	100.0%	153,100	100.0%
SUPERMARKETS	32,700	17.8	114,750	75.0%
Chain	18,750	10.2	69,610	45.5%
Independent	13,950	7.6	45,140	29.5%
SUPERETTES	12,000	6.5	9,730	6.4%
Chain	1,200	0.7	1,080	0.7%
Independent	10,800	5.8	8,650	5.7%
SMALL STORES	111,600	60.8	21,200	13.8%
Chain	1,600	0.9	650	0.4%
Independent	110,000	59.9	20,550	13.4%

SOURCE: Progressive Grocer April 1976, p. 75.

buying groups such as Certified Grocers or Associated Grocers. Voluntary group retailers, the last category of store affiliation, belong to voluntary merchandizing groups sponsored by wholesalers and operate under a common name such as IGA.

When describing the New England grocery industry, it is imperative to note the magnitude of employment of this industry. During the 1959-1976 period, the grocery industry in N.E. as a whole employed 92,000 workers on average. This industry is the region's second largest employer surpassed only by the hospital industry. At a national level, the grocery industry is surpassed only by the department store industry in employment.

The size and the mild growth of employment in this industry in N.E. over the last 20 years may lead one to believe that the existing firms merely expand at the same mild growth rate or a few new firms enter the market each year. This is hardly the case; there is a continuous battle over market share by the existing firms. Each grocer is constantly looking for ways to increase market share. The competition is so fierce that many large chains have lost ground to the more aggressive independents in the last twenty years. In fact, twelve A&P supermarkets in New England closed their doors in the early Spring of 1978 only to be reopened by independents who successfully turned the stores around. The very competitive New England grocery industry has witnessed the building of two supermarkets side by side on more than one occasion. If a grocer feels he can win over the customers of his competitors, he will move in right across the street in a never-ending battle to gain market share. In addition, the growing number of convenience stores as well as fast food restaurants have given the grocery industry even more competition. The grocery industry in New England is considered to have the most competitive atmosphere in the country.

Methodology of this study

The New England Economy Project examined the historical forces that shaped the region's economic transformation and the ways workers and government reacted to structural changes.

In order to accomplish this task, the project used the case study method of inquiry. In particular, twelve industries representing growing, declining, and stable industries from both the manufacturing and non-manufacturing sectors were examined.

The Project selected the industries to be investigated by a variety of methods. First, regression trend lines of industry's employment were tracked from 1959-1976 to examine for growth, decline, and stability. In addition, the cyclical nature of each industry was analyzed for the high or low amplitude of these trends. Other selection criteria included absolute employment size within N.E. and the share of N.E. employment in each industry relative to the U.S. These last two criteria supplied us with information on the magnitude of regional industry as well as the relative concentration of the industry in New England respectively.

Of the twelve industries selected, the grocery industry was chosen because it proved to be the second largest employer in N.E. and represented a service industry experiencing growth.

The information reported on in this N.E. grocery study was obtained from interviews with executives of chain and independent supermarkets, convenience stores and representatives of grocery retail associations. In addition, Professor Gordon Bloom of MIT and Professor Joel Dirlam of the University of Rhode Island, two well known experts on the grocery industry, were interviewed.

Additional information was obtained from trade publications, journal articles and books written about the grocery industry.

One data source that was used extensively for the study was the Social Security Longitudinal Employee-Employer Data (LEED) 1 percent sample of people working in New England between 1957 and 1975. These data allowed analysis of employment, wage rates and mobility experienced by the grocery workers in New England.

Chapter II deals with the origins and the historical development of the supermarket industry. Following this historical perspective is a comparison of the employment trends in the grocery industry both nationally and regionally. The data source used in this analysis is the U.S Census Bureau's County Business Patterns. In addition, two related industries, SIC 20 (food and kindred products manufacturing) and SIC 505 (farm products and raw materials) are examined. This chapter also analyzes population and personal income trends both regionally and nationally. In addition, wage comparisons are made geographically and across industries. Surprisingly these wages are very much in line with national averages, contrary to regional businessmen's perception of relatively high grocery industry wages in the N.E. area. These data are drawn from a variety of U.S. government wage surveys.

Chapter III presents a description of the market structure of the grocery industry in New England. The highly competitive nature of the industry and the relatively large number of strong independent grocers is discussed. Other topics in this chapter include vertical and horizontal integration as well as mergers, investment and diversification. The final concerns of this chapter are pricing behavior, price discrimination, location, and marketing.

Chapter IV examines the numerous technological improvements and innovations that have occurred within the last twenty years. Particular emphasis is placed on scanning, electronic cash registers and automated warehousing. An energy saving process called re-claimed heat and cry-O-vac food packaging is also discussed.

Chapter V presents a very detailed description of the histories of the industry's workers. The LEED data provide a dynamic analysis of the N.E. grocery industry's labor force for the years 1957-1975. Demographic variables such as age, race, and sex are considered. In addition, Dun and Bradstreet employment data, which are gathered by its credit rating service, are analyzed. This chapter concludes with a discussion of trade unionism in the industry.

Chapter VI provides a description of legislative and government regulations which have impacted the N.E. grocery industry. The Robinson-Patman Act, the recent National Consumer Cooperative Bank Act and the Farmer to Consumer Bill as well as the old Blue Laws are discussed. This chapter also forecasts the likely impact of a Bottle Bill on the grocery industry.

Chapter VII provides an industry forecast for the 1980's as well as a summary and conclusion to the whole study.

CHAPTER II

HISTORICAL DEVELOPMENT, ANALYSIS OF NEW ENGLAND VS. U.S. TRENDS

Historical Development of the Grocery Industry

As in other parts of the country, the majority of New England grocery firms began as small family-owned enterprises. In New England, A & P, Elm Farm, Almac's, First National, Stop and Shop, Purity Supreme, Cumberland Farms and Star Markets are some of the better known grocery stores that started as family operations serving different ethnic populations in the region.

Prior to the advent of supermarkets in the 1930's, a shopper would enter a store and give a grocery clerk a list of desired groceries. The clerk would then go in the back room and fill the customer's order.

During this period, consumers were also forced to go to different shops such as butcher shops for meat, bakeries for bread, and vegetable stands. As more and more people, especially women, became employed on more or less standard schedule for long hours, taking the time for such labor-intensive shopping became more difficult, and for some households impossible. Coupled with rising wages, these trends made self service operations more profitable for retailers.[1] As one store after another converted to self-service, other (especially small) grocers were forced to do so in order to remain competitive. Clarence Sanders is credited with opening the first self-service market, called the Piggly Wiggly, in

1. For similar developments in the retail department store industry, see Barry Bluestone, et al., The Retail Department Store Industry in New England (Cambridge, Mass.: Harvard/MIT Joint Center for Urban Studies, Dec. 1979).

1912 in Memphis, Tennessee. This conversion to more capital (space) intensive methods, letting the customer do more of the work, paved the way for the subsequent development of the supermarket in the 1930's.

Michael Cullen is generally believed to be the inventor of the supermarket in 1930, although some people give this credit to Henry Ford, the automobile manufacturer.[2] Many of the Ford plants were equipped with commissaries as early as 1920. Ford, who was accustomed to assembly line operations, designed very efficient company stores.

> A traveling check system was used at the Highland Park store as early as March, 1920 and soon was installed in other stores. Under this system, each customer who entered the store was handed a serial-numbered three-part ticket, or sales check. One portion of the ticket was used to record grocery and meat purchases, another was used for clothing and shoes and the third part provided space for listing drugs and sundries. The customer carried the check with him while selecting his purchases, and the clerks recorded items and prices on the appropriate portions of the check. After selecting what he wanted, the customer took both purchases and the check to a check out cashier at the end of the store. The cashier totaled the bill, received payment, receipted the check and then returned it to the customer. The receipted check then served as an exit visa to allow the customer out of the store.[3]

In any event, King Kullen stores were advertised as the great price wrecker. The Depression is credited for the quick acceptance of these large grocery stores, as consumers flocked to any merchant who could save them money. Stores such as Big Bear, Giant Tiger, and Great Leopard soon followed Cullen's success as these so-called "animal" stores became widespread.

These supermarkets of the early thirties are more in line with what are now called warehouse stores. They generally were refurbished mills or old warehouses where the groceries were either stocked on pallets or placed on inexpensive shelving. According to an industry spokesman,

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2. Stanley Hollander, Henry Ford: Inventor of the Supermarket? Bureau of Business and Economic Research, Michigan State University, 1960.

3. Ibid., pp. 15-16.

grocers realized the great drawing power of these early supermarkets. The owners rented space or had concessions on the peripherals for "other mercantilists such as shoes and shoe repair, home applicances, etc." These early supermarkets initiated the idea used by most shopping malls today. That is, they had a variety of stores within a store to take advantage of the drawing power of the supermarkets. In Lowell, Massachusetts, during the early Thirties, a closed textile mill was refurbished and concession space was rented. This meager start was, in fact, the birth of what was later to be a leading chain in New England: Elm Farm Stores.

Self-service supermarkets became the way of the grocery industry. In the years immediately before World War II, product and brand variety increased and the supermarkets began to offer more customer services as dairy, meat, produce and grocery personnel became more accessible to the consumer. The independents saw the advantage of these self-service supermarkets and were the first to adapt, whereas the chains were slower to take heed but eventually began closing their less efficient small stores.

If Henry Ford is not to be credited with the invention of the supermarket, he certainly is partially responsible for its phenomenal growth, as automobiles facilitated more and more trips to shopping centers by their ability to carry large quantities of groceries. In fact, some in the industry consider refrigeration and the widespread use of automobiles to be the major impetus to the large supermarkets as we know them today.

In most respects, the New England grocery industry is characteristic of the grocery industry nation-wide. Market structure, energy and transportation costs are, however, different in New England. Grocers in this region are quick to point out the importance of independent stores here. Stop and Shop,the largest grocer in New England in terms of sales volume ($968,240,000), still had only 10.3 percent of the regional market share in 1978.[4] Because of the relative importance of independent grocers, the New England region tends to be very competitive and is often considered to be overstored. (However, in a personal interview, one grocery executive stated that: "There are definitely more grocery stores than necessary to service the public, but it's always one too many of the other guy's store.")

Common concerns of New England grocers are the high energy and transportation costs associated with doing business in this region. The fact that much of the food produced in this country is distant from New England, coupled with the fact that many of the non-food products are also manufactured outside of New England, tends to explain the high transportation cost component of the retail food dollar. One grocery executive colorfully stated: "I'll tell you what's different about this industry in New England -- We're at the ass-end of the food chain."[5] Referring to a copy of Progressive Grocer, one grocery executive stated that warehousing and local transportation costs represent 2.1 percent of retail food chains' operating costs in the Northeast as compared with 1.4 percent in the South, 1.5 percent in the West and 1.8 percent of

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4. Griffin Report of Food Marketing,vol. 13, no. 5, June 1978, p. 32.

5. According to the Massachusetts Department of Agriculture, about 30,000 farms have gone out of business in Massachusetts since World War II. At that time, 35,000 functioning farms stood on two million acres. Now, there are only about 5,000 farms left, operating some half a million acres of farmland, most of it in dairy production.

sales in the Midwest. High costs are partially due to trucking regulation. For example, presently one-half the trucks are empty. Eliminating this backhauling regulation would save on transportation costs. Some grocers are hoping for the deregulation of trucking so they can take advantage of backhauling. An example of backhauling would be driving a trailer truck full of groceries up to Maine and returning with a full truck of Maine potatoes. Presently, half of the trucks are empty on their return trip because current regulation prohibits backhauling.

Differences in population growth in New England and the U.S. will also have a direct effect on the region's grocery industry. While the Sunbelt states are experiencing tremendous population growth, New England's population has remained relatively stable. In 1970, population for the six states was 11,848,000, increasing by only 2.8 percent to 12,187,000 in 1975. Total United States population increased from 203,306,000 in 1970 to 213,032,000 in 1975, a 4.7 percent increase. Regional differences in population growth are even more dramatic. The South experienced an 8.3 percent increase in population during the five year period. The West, however, has experienced the fastest rate of growth, with population of 34,838,000 in 1970 and 37,899,000 in 1975, an increase of 8.7 percent.[6] Future projections indicate that between 1980 and 1990, total U.S. population will increase approximately 9.6 percent. Population in the South is projected to increase by 12.4 percent, in the West by 14.2 percent and in New England by only 8.7 percent.[7] Since

6. U.S Department of Commerce, Bureau of the Census, Population Estimates and Projections, Series P-25, no. 735.

7. Ibid.

New England will experience less than a one percent increase in population annually, one would anticipate grocery industry sales in real terms to remain relatively stable in New England and to grow relatively fast in other sections of the country.

Differences in the growth of personal income exist between New England and other parts of the country; these, too, will have an impact on the grocery industry. Increases in personal income allow consumers to purchase more than just the necessity items, thus enabling grocers to sell higher quality meats and groceries as well as luxury items such as cosmetics and health aids. Again, New England is not keeping pace with the rest of the country, with regional personal income increasing by less than the national average since 1950 (320 percent in New England between 1950 and 1973, compared with 356 percent for the U.S. as a whole). On the other hand, the Pacific states experienced a 450 percent increase in personal income over the same time period, while the Mountain States experienced a phenomenal 470 percent increase in personal income.[8] Population and personal income growth in New England are running far behind national averages and as a consequence inhibit the growth of the grocery industry here.

The N.E. grocery industry has experienced modest employment growth over the last two decades. In 1965, this region employed nearly 83,000 full- and part-time workers; by 1975 it employed about 104,400 workers. This regional employment growth rate of 26 percent is, however, less than the national average for the industry, which was 37 percent over

8. U.S. Department of Commerce, Bureau of the Census, Statistical Abstract, 1978, p. 448.

the same period. Almost 1.2 million workers were employed nationally in 1965, growing to almost 1.6 million by 1975 (see Table III, in which retail grocers are compared with the other segments of the "food industry").

Although the N.E. grocery industry employment is growing at a slower rate than the nation, the distribution of employment within each state has remained relatively constant over the last twenty years. Massachusetts' share of total N.E. grocery employment is approximately 50 percent. Connecticut, Maine, New Hampshire, Rhode Island and Vermont have 25%, 7.5%, 6.5%, 7.0% and 3.0% respectively.

To fully understand what has been happening to the grocery industry in N.E. it is important to understand the employment of related industries. In particular, consider the agricultural and processing sector (SIC20: Food and Kindred Products), which includes processing meat products, dairy products, canned, cured and frozen foods, grain mill products, beverages and miscellaneous, and SIC540: Wholesale Farm Products, which includes cotton, grain, livestock, farm products and raw materials.

Employment trends in SIC20 demonstrate a worsening of employment conditions relative to the grocery industry both nationally and in N.E. Food and kindred products production suffered an employment loss of growth of -6.0% nationwide and a negative growth of 21.4% in N. E. during the period 1965-75. Note the relative decline over time in New England's share of national food production. This trend is already increasing food costs in N.E. as more food has to be transported into the region.

Even more severe is the contrast of employment growth in SIC504 (Wholesale Farm Products and Raw Materials). Nationally, employment experienced a 19% growth rate in the 1965-75 time period, while N.E. suffered a

Table 3

Employment in the "Food Industry" (SIC 541, 20, 21, 401, 413, 504): U.S. and the New England States, 1965, 1970, 1975

	541	20	505 (SIC 515 in 1975)	42	47	504(514-75)
1965						
U.S.	1,152,762	1,545,154	103,859	903,427	82,663	520,690
N.E.	82,921	71,047	2,540	48,621	3,165	32,446
Conn.	20,360	12,304	1,231	11,472	504	6,663
Me.	6,233	9,724	19	3,724	167	3,923
Ma.	42,856	37,873	1,165	25,354	2,179	16,851
N.H.	5,097	2,685	32	2,271	35	1,766
R.I.	5,778	5,874	--	4,229	202	2,448
Vt.	2,597	2,587	93	1,571	78	795
1970						
U.S.	1,401,571	1,595,472	110,275	1,049,737	107,222	560,274
N.E.	95,565	70,980	1,181	55,003	4,552	34,843
Conn.	25,111	13,311	258	13,660	1,202	7,170
Me.	7,740	11,199	--	3,974	withheld	4,146
Ma.	47,047	36,861	781	27,758	3,350	17,886
N.H.	6,286	2,528	--	2,919	withheld	2,374
R.I.	6,064	5,176	--	4,566	withheld	2,522
Vt.	3,317	1,905	142	2,126	withheld	745
1975						
U.S.	1,579,521	1,452,444	123,580	1,039,800	135,729	560,048
N.E.	104,398	55,817	1,032	45,955	7,502	34,957
Conn.	26,372	9,676	393	12,302	2,977	7,581
Me.	5000-9999*	9,644	60	3,362	185	3,870
Ma.	51,485	27,958	483	23,103	3,766	18,577
N.H.	8,122	2,608	--	2,337	144	1,782
R.I.	6,828	3,780	--	2,823	295	2,267
Vt.	3,851	2,151	96	2,028	135	880

*Assumed 7740 as in 1970.

NOTE: Employment numbers give the number on the payroll at one point in time. Therefore, part-timers are included.

SOURCE: County Business Patterns, U.S. Census

60% decline in employment in the processing/storage wholesaling sector. Not only are we producing less food; we are also processing and stockpiling less (as indicated by employment in those activities). The growing dependence of the region on continually imported food from outside makes this the highest-cost area in the U.S.

Employers in the various segments of the food industry often complain of high wage costs in N.E. as the cause of the employment decline. This perception of relatively high N.E. wages is difficult to prove for the grocery industry because wage information is not as detailed in non-manufacturing as would be desirable. The Bureau of Labor Statistics does, however, publish union wages and hours on a periodic basis.[9] In 1975, the cities in New England which were surveyed (Boston, Providence, R.I. and Springfield, Mass.) were very much in line with national averages on union wages for grocery clerks and journeymen meat cutters. In fact, none of the N.E. cities appeared in either the ten highest paying cities or the ten lowest paying cities for either of these two occupations.

In 1975, the national average weekly earnings in food manufacturing (SIC20) were $175.00 while Connecticut, Massachusetts and Rhode Island's weekly average wages were $201, $181, and $182, respectively. These three states account for 76 percent of the food manufacturing in N.E. The three remaining states (Maine, New Hampshire and Vermont) have weekly wages considerably below the national average of $175. Their respective weekly wages were $125, $129, and $170.[10] The weighted average for the

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9. U.S. Bureau of Labor Statistics, Union Wages and Hours: Grocery Stores, July 1975, bulletin, p. 6.

10. Ibid., p. 7.

region is exactly equal to the national average wage, $175/wk, for SIC-20. In sum, it would be difficult to blame the decline of employment in the food industry in N.E. on excessively high wage demands.

CHAPTER III

MARKET STRUCTURE

When asked what was different about the grocery industry in New England, the respondents without exception talked about the competitive nature of industry. This section presents grocery executives' opinions on this matter as well as data to substantiate the existence of this competition. In addition, vertical integration, investment, and merger activities of the New England grocery industry will be discussed. The final concerns of this chapter are pricing behavior, price discrimination, location and marketing.

Over the last 20 years, the grocery industry four-firm concentration ratio -- the market share held by the four largest firms -- has generally been increasing for metropolitan areas. However, of the twelve largest S.M.S.A.s in the U.S., the Boston S.M.S.A. four-firm concentration ratio was 56.2 percent in 1954, dropping to 40.9 percent by 1973(see Table 4).

In New England, Stop and Shop had 8.4 percent of the market share in 1977, rising to 10.4 percent in 1978. First National increased its market share from 6.7 percent to 6.9 percent and A&P and Star Market increased from 3.5 percent to 4.2 percent and 3.2 percent to 4.0 percent respectively.[1] Overall, the four-firm concentration ratio went from 21.7 percent to 25.6 percent in the year 1977-1978 time period in New England. In some regions of the country, one firm may have as much as 25 percent of the market share, whereas in New England, Stop and Shop, the dominant firm, has a market share of only 10.4 percent.

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1. Griffin Report vol. 13, no. 5, June 1978, p. 32.

Table 4

Concentration Ratios and Number of Stores
of Four Largest Grocery Firms in 12 Largest
SMSA's 1954, 1967, 1973

Cities	1972 Population in Millions	Four-Firm Market Shares 1954	1967	1973	Number of Stores 1973
New York	10.0	41.1	33.0	28.7	1,033
Los Angeles	7.0	29.6	28.5	33.0	292
Chicago	7.1	49.0	53.6	57.9	101
Philadelphia	4.9	52.6	59.8	58.0	463
Detroit	4.5	38.5	49.4	53.2	229
Boston	3.4	56.2	47.4	40.9	116
Washington	3.0	56.0	70.3	79.0	414
San Francisco	3.2	27.1	40.4	46.4	216
Newark	2.1	52.8	42.5	N.A.	125
Dallas	2.5	53.1	41.9	64.3	165
St. Louis	2.4	34.6	39.3	N.A.	171
Pittsburgh	2.4	45.0	45.0	50.6	229
TOTAL	52.4				

SOURCE: Walter Adams, The Structure of American Industry, (New York: MacMillan, 1971), p. 49.

The strength of the independents, of course, is the reason for the low concentration ratio. Because small businesses or independents have the greatest insecurity and instability and can be shut off from credit, it is counter-intuitive that independents should be so strong. Independents do not have the same access to capital as large supermarket chains, which are able to expand through the same channels as independents, but also have the option of obtaining capital funding through retained earnings or financing.

One reason for the strength of the independent in N.E. is that most of the independents are truly independent, whereas in other parts of the country there is a much stronger tendency for independents to form cooperatives. This autonomy allows New England independents to run their stores with more flexibility and to be more competitive than firms in a cooperative, which must buy from only one wholesaler. One example, given to me by an independent grocery executive, of an independent exercising flexibility, involved making a quick decision. At 10 a.m., two days before Thanksgiving, an independent grocer was offered an extremely good price on frozen turkeys. The independent had to respond by two o'clock if he wanted the deal. This independent was able to make a few calculations and call his stores to see how frozen turkey was selling. The decision to buy was made and a handsome profit resulted. The independent stated that a chain manager could never respond fast enough since he would have to call his regional supervisor, who would have to get authority from regional headquarters. All this would take too long to take advantage of this situation.

Another reason for the strength of the independent grocer in New England is the heterogeneous ethnic mix. Independents are much better able to service ethnic groups than large chains who tend to carry only one or a few basic product lines. For example, in Uphams Corner, Boston, there are three distinct ethnic groups, necessitating three different grocery stores to cater to the needs of their respective ethnic clienteles. In addition, people in the local trade have stated, "New Englanders tend to be much more discriminating shoppers and as a consequence desire higher quality products not offered in a chain supermarket."

An additional reason for the low four-firm concentration ratio which relates to the relative success of independents in this area is the fact that when the large chains close their less profitable stores, independents are often able to reopen the store and be highly successful. This prevents the top four firms from increasing their concentration ratio. In fact, in 1966-67, when the Elm Farm Chain closed its forty stores, most were sold to independents. Similarly, many of the 69 stores that A&P closed in 1978 have now been taken over by independents. The same is true for many of the First National closed stores (for the national trend, see Table 5).

The large number of independents makes for a very competitive atmosphere in the New England grocery industry. One example of how strong some independents are in New England is represented by how much respect the large chains have for their independent competitors. Upon acquiring several stores from a strong independent, one chain I interviewed required that the purchase agreement also have the proviso that this independent not open in New England for ten years. Interestingly, at the

Table 5

Grocery Closings and Reopenings in the U.S., 1975

Supermarkets	
Closings	3,000
Reopening	900
Independents	783
Chains	117
New Construction	1,080
Convenience Stores	
New Construction	2,300

SOURCE: *Progressive Grocer*, April 1976, p. 131.

conclusion of the ten years, this independent reopened under another name and again is making a profit.

Other evidence of this competition is indicated by the relatively low net profit experienced by grocers in New England. The lowest ratio in the country of net profits before taxes to sales was the 1.6 percent in New England. All other regions averaged above two percent, with the Southwest having the largest ratio of profits to sales: 2.8 percent (Table 6).

The fact that the four firm concentration ratio is below average for New England and the Boston S.M.S.A., coupled with the below average profit margin, indicates a relatively small degree of monopoly power in the New England grocery industry. There appears to be a much more competitive structure for this industry in New England than in other parts of the country. Table 7 displays the relationship between concentration ratios and profit margins. The relative market share is the ratio of the firm's market share to the four firm concentration ratio. The Boston S.M.S.A. CR_4=40 percent would have a profit as percent of sales of at most 2.71% whereas other metropolitan areas would have 3.33% in the CR_4=50%, 3.56 in the CR_4=60% and 3.62 in the CR_4=70%. This information all substantiates what grocery executives in New England believe: that the most aggressive competition in the grocery industry is here in New England.

Vertical Integration, Investment and Mergers

The retail grocery industry is the last step in the food chain; therefore only backward and horizontal integration will be examined. In N.E. as elsewhere in the U.S., many chains have moved in the direction of integrating backwards. Bakeries, milk production plants and meat

Table 6

1975 Operating Profiles - Independent Stores

	Margin =	(Wages +	All Other Expenses) =	Net Profit (Before Taxes)
By Store Size (in annual dollar sales)				
500,000 to 1,000,000	18.4%	8.4%	7.0%	3.0%
1,000,000 to 2,000,000	18.5	8.4	7.6	2.5
2,000,000 to 4,000,000	19.2	8.4	8.7	2.1
Over 4,000,000	19.0	8.5	8.2	2.3
By Geographic Location				
New England	18.5	8.1	8.8	1.6
Middle Atlantic	18.6	8.3	8.3	2.0
West Central	19.2	8.6	8.3	2.3
East Central	18.2	7.9	8.0	2.3
Pacific	20.2	9.6	8.0	2.6
Southeast	18.0	8.0	7.3	2.7
Southwest	18.2	7.5	7.9	2.8

NOTE: "Margin" = sales revenues minus cost of goods sold.

SOURCE: Progressive Grocer, April 1976, p. 128.

Table 7

Average Relationships Between Industry Concentration, Firm Market Shares, and Average Profits: 1976

Relative Firm Market Share	40 Percent		50 Percent		60 Percent		70 Percent	
	Index of Grocery Price	Profits as % of Sales	Index of Grocery Price	Profits as % of Sales	Index of Grocery Price	Profits as % of Sales	Index of Grocery Price	Profits as % of Sales
10%	100.0	0.37	101.0	0.99	102.0	1.22	105.3	1.28
25%	100.8	1.15	101.8	1.77	103.7	2.00	106.1	2.06
40%	102.4	1.93	103.4	2.55	105.4	2.78	107.7	2.84
55%	103.6	2.71	104.5	3.33	106.5	3.56	108.9	3.62

SOURCE: Bruce Marion, et al., The Profit and Price Performance of Leading Food Chains (Washington, D.C.: U.S. Government Printing Office, 1977), p.3.

distribution centers are now part of a large number of major chains. In fact, according to the Wall Street Journal,[2] when Tengelmann, a German concern, bought the controlling share (45%) of A&P in 1978, it was not for the grocery retail but rather for canned milk and the coffee-roasting plants. Stop and Shop has its own meat cutting and distribution centers in Marlboro, Massachusetts. Jewel Incorporated, a conglomerate of which Star Markets is a division, has its own ice cream plant, potato chip factory, dairy and bakery. One grocery executive stated that a trend of the future would be for grocery chains to move in the direction of doing more and more of their own manufacturing, thus continuing the trend of integrating backwards. Voluntary and cooperative groups nationally have not gone into food manufacturing to the same extent as the major chains. In fact, the only areas that voluntary and cooperations have vertically integrated, and these only to a limited degree, are milk and coffee-roasting.

Perhaps the most interesting development in terms of integration has been the horizontal integration taking place in the grocery industry. Stop and Shop has gone into Bradless, a department store, Perkins Tobacco, and Medi-Mart drug stores. Jewel Incorporated owns Star Markets, Osco Drug, White Hen convenience stores and Brighams Restaurants, and at one time owned Turnstyle clothing. Grocery executives feel that expanding into other retail trade is an investment hedge. One executive told me, "Nobody (in this business) likes putting all their eggs in one basket.

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2. Wall Street Journal, Wed. Sept. 26, 1979, page 7.

Another advantage to having non-food retail merchandise is the fact that it realizes a higher profit margin than in the grocery industry. Some chains are introducing fast food counters in their grocery stores in an attempt to get some of their losses back from the fast food industry. In fact, many of these snack bars or food counters are positioned in the rear of the grocery stores, in order to entice the customers to pick up a few extra items. Beer and wine licenses are also a big draw in certain New England states. Also, expanding into other retail industries such as drugs enables the grocery divisions to take advantage of this in-house supply from their sister divisions and receive their limited assortment of drugs at a somewhat reduced price. Some additional advantages of being a division of a conglomerate would include centralized expertise in areas such as legal advice and real estate location, as well as capital funding from conglomerate headquarters.

Perhaps one of this study's more surprising findings is the relationship between the wholesaler and retailer. Many people believe wholesalers merely supply the retailers with groceries. This is far from the case in the grocery industry where wholesalers supply not only groceries but also a wide range of services. These services include advertising arrangements, store redesign, location studies, inventory control, equipment servicing. Indeed, in many instances the wholesalers serve as the banker for many retail grocery firms. In short, the wholesalers like to feel that they can supply the retailer with just about anything short of managing the store. In fact, some wholesalers have gone that far by integrating forward. That is, a few wholesalers have actually acquired some of their customers' (retailers) supermarkets.

Another interesting twist involves a major chain fulfilling the role of a wholesaler and supplying their retail competition or an independent with groceries as well as other services. This arrangement is being trial tested by a major New England chain and, if successful, may be the wave of the future. One complication of having chains service independents is that the independent must use order forms and have computerization methods which conform to the chain's method of ordering groceries. In addition, this chain further imitates a wholesaler by supplying any service such as accounting, payroll, maintenance, remodeling, construction and real estate desired by the independent. In any event, this is another example of a supplier servicing a competitor.

In terms of supply, another interesting finding was the fact that A&P, an international chain, was being supplied by a major New England wholesaler with its own private label products. In the early 1970's, A&P decided it was more advantageous to ship its private label (Ann Page) grocery products to the wholesaler's warehouse and then receive both its private label and manufacturer's label through the wholesaler. It appears that retail and wholesale factions of the grocery industry are becoming interwoven and that both retailers and wholesalers are feeling out each other's turf to a certain degree.

Location

Food retail stores naturally locate where they can attract a large volume of shoppers. In the 1940's, before the advent of at least one auto per home, grocery stores were located in the most dense population concentrations, e.g., in central cities' downtown areas and in town squares. The grocery stores were smaller and more dispersed throughout populated areas serving foot traffic within walking distance of the customers' homes. During this period, it was not uncommon to see two or three small A&P stores within a one mile radius of one another.

Increased reliance on automobile travel and a movement of the population to the suburb resulted in the evolution of shopping centers. Shopping centers typically included a department store, supermarket, drug store, bank, bakery and a restaurant. For those owners who could afford it, New England grocers have been most amenable to moving next door to a department store in order to take advantage of each other's drawing power. In fact, the concept of discount department stores originated in New England, with firms such as Kings, Zayre's and Mammoth Mart. As these discount department stores underwent rapid expansion in the suburbs, so did supermarkets. For the latter, the move to the suburbs meant not only the necessity of following the market but also a plus in terms of cost savings realized from their ability to exploit economies of scale, an ability made possible by the availability of ample parking space which previously had been too costly at their old inner city locations. In the early sixties, about half of the new stores opened in this country were in shopping centers. By the seventies, over 80 percent of the supermarkets opened were located in shopping centers. It should be noted, however, that total new store openings in all locations began declining in the early sixties, reflecting excess retail capacity or "overstoring." A typical suburban supermarket will have drawing power or market diameter of three to seven miles, whereas a warehouse store will have drawing power of 10 to 15 miles. As in most other industries where individual firms perceive the possibility of achieving scale economies, here, too, the process of each producer chasing after his own profit has led to the creation of chronic excess capacity for the industry as a whole.

Many chains and independents do a combination of buying and renting supermarket space. Typical rental agreements range from leases of one to five years, including a minimal base rental plus a percentage of sales. However, there has been a movement to longer leases (10 years) with built-in tax escalator clauses. One chain executive I interviewed stated that one independent grocer "is more in the real estate than in the grocery business." The independent to whom this referred buys grocery stores and then rents them to his competitors.

The major chains now have access to operation research departments in house which do market studies for location as well as store design. One example of designing a new location includes considering how much freezer space is necessary for the northern New England states, given that the truck deliveries are less frequent. Today, when a grocery retailer opens a warehouse store the competitors must follow suit or risk the chance of losing market share. In New England, Purity Supreme was the first to open a warehouse store. It was very surprising to hear Purity's competitors praise this company's "innovative management" for introducing and succeeding with the warehouse store. One would not expect such admiration in this fiercely competitive industry. This type of merchandising was very successful and, as a consequence, First National was prompted to open Three Edwards warehouse. Likewise, Stop and Shop converted three of its grocery warehouses into economy warehouse stores.

Pricing

An independent grocery executive told me:

> Thirty years ago, anybody could make a buck in this industry. The independents made regular price checks on A&P groceries and charged their customers accordingly. We knew A&P didn't want to lose money so we charged what "grandma" charged and kept our stores a little cleaner and offered more service to our customers.

Before the late 1950's, A&P was the price setter or leader for the grocery industry. The independents priced at whatever A&P was charging to remain competitive and tried to offer more customer services with the local touch to win their share of the market. Many grocers today would gladly welcome the old days of "follow the leader pricing."

A&P was accused of price discrimination because of its strong monopsony buying power. At one time, A&P bought the entire Idaho and Maine potato crop, and set the price for the potato market in the United States. Whether in fact A&P was justly convicted is still debatable.[3] In any event, First National became the new price setter for New England followed by Stop and Shop according to an industry spokesman. In the 1960s Stop and Shop introduced "mini-pricing" which essentially ended price setting by the major chains. Today, chains and independents all run differently advertized "specials" in hopes of drawing customers to their stores. In effect, what happens is that one firm will have lower meat prices one week, due to "specials," and rely on the produce, grocery, dairy, and bakery to maintain their profits with the higher volume of customers. In another week, this store will concentrate its specials in certain departments and only a relatively few specials in meat. As a

3. Morris Adelman, A&P: a study in cost price behavior and public policy, Cambridge, Harvard University Press, 1959.

consequence, a fully cost-conscious grocery shopper could travel the local circuit of grocers for each of the store specials and save a considerable sum on the purchase of groceries. However, with the price of gas and the amount of time involved, very few shoppers are sufficiently price sensitive to engage in such store "hopping."

It is not uncommon to see a chain with four or five different prices on the same brand of milk in stores less than five miles apart. The reason for this is the fierce competition. Grocers today are constantly watching their competitors' pricing. In retrospect, one grocer felt that A&P was large enough to essentially dictate a fair price to the food manufacturers and thereby give the American public a fair deal on their food shopping. Today, manufacturers don't face the monopsony power of A&P and consequently are able to set price, constrained only by competition from other producers.

Retail pricing in the food industry is generally set by markups over invoice costs. These markups vary according to item, usually inversely with quantity and turnover. That is, smaller packages/cans generally have a higher markup than the large size of the same item. Also, the high turnover items carry the lowest markup price. One grocer stated that until recently some grocers were buying a case of beer and still marking it up, say, one dollar, failing to realize that with inflation their percentage of markup had declined over time. This unsophisticated management and complacency is the cause of many small grocery retailers going out of business. The grocery industry today is too sophisticated for such rule of thumb decision making. One convenience store chain now has the capability, with computers, to know how much profit is made in each of its stores by department on a weekly basis.

Finally, a well known fact is that a private label item (i.e., a manufactured product with a private firm's label) has a lower markup than manufactured label. Milk is commonly sold under the grocery firm's name instead of the manufacturer's, at a reduced price. "No-name" or generic food items were first introduced by the innovative Star Markets. The generic food items have lower prices, but usually lower quality as well.[4]

The Council on Wage and Price Stability and the Federal Trade Commission feel that increased costs of raw materials, as well as increased operation cost in food processing, have contributed to the rising price of food.[5] However, many people believe that one of the primary reasons for this food inflation is that retail grocers are price discriminating and charging higher prices wherever possible.

Certainly, there can be no doubt that, in the 1970's, the Consumer Price Index (CPI) for food has increased rapidly in the United States. In the years 1973-74, for example, the CPI for all items increased by 11 percent. In the same 1973-74 period, the CPI food and beverage index increased by 13.8 percent (Table 8). By the fall of 1978, retail food

4. One grocery executive felt the term "generic" had been opposed by the grocery industry because the quality of the product does differ, unlike the drug industry. Generic foods are not new to the grocery industry, e.g. grades of canned vegetables (standard, fancy, and extra fancy) have been around for years. Many people feel they are saving labeling costs when in effect they are buying lower quality.

5. Robert A. Dobkin, "Food Prices: What's UP?" Food Marketing Institute, Washington, D.C., p. 1.

Table 8

Consumer Price Index for Urban Earners and Clerical Workers, United States: 1967-1978

	All Items		Food and Beverages	
Year	Index	Percent Change	Index	Percent Change
1967	100.0	--	100.0	--
1968	104.2	4.2	103.6	3.6
1969	109.8	5.4	108.8	5.0
1970	116.3	5.9	114.7	5.4
1971	121.3	4.3	118.3	3.1
1972	125.3	3.3	123.2	4.1
1973	133.1	6.2	139.5	13.2
1974	147.7	11.0	158.7	13.8
1975	161.2	9.1	172.1	8.4
1976	170.5	5.8	177.4	3.1
1977	181.5	6.5	188.0	6.0
Sept. 1978	199.1	9.7	210.1	11.8

SOURCE: Monthly Labor Review, December 1978, p. 105.

and beverage prices were some 210% above their 1967 levels.

As a result of these increases in food prices, there have been consumer boycotts, farmer protests, and federal investigations. Farmers and ranchers are claiming they can barely make a living. Retail grocers quickly point out their low profit margins, and wholesalers point to the number of their wholesale competitors who have gone out of business. It is clear that everyone is pointing the finger at the other guy. The Department of Agriculture attributes the major portion of the price increases to farmers (30.8) and labor (32.1) (Table 9). Packaging and transportation contributed 8.7% and 5.4% respectively. The remaining profit, taxes, depreciation, rent, advertising, repairs and interest are all below five percent each.

Price Discrimination

Price discrimination is defined as the practice of selling the same product or service at different prices in different markets. Firms engage in price discrimination in an attempt to capture a greater share of the consumer surplus and thereby increase profits. To engage in profitable price discrimination a firm must have some market power, be able to sort buyers, and finally, prevent the resale of its goods or services. All three conditions must be satisfied for profitable price discrimination to take place. One serious economic problem of price discrimination is that it causes a redistribution of income toward the discriminator and away from his customer and may lead to the inefficient allocation of resources as well.[6] A brief analysis of the existence of price discrimination in

6. F. M. Scherer, Industrial Pricing: Theory and Evidence, (Chicago: Rand McNally Inc. 1970), p. 125.

Table 9

Average Costs of Doing Business in Retail Groceries

Labor	32.1
Farmers	30.8
Packaging	8.7
Transportation	5.4
Other*	8.4
Profits Before Federal Income Tax	4.6
State and Local Business Taxes	2.7
Depreciation	2.0
Rent	1.8
Advertising	1.4
Repairs, Bad Debt, Contributions	1.1
Interest	.9
TOTAL	100.0

*"Other" expenses include fuel, utilities, insurance, pilferage.

SOURCE: Robert A. Dobkin, "Food Prices: What's UP?", Food Marketing Institute, Washington, D.C. p. 3.

the grocery industry is the subject of this section.

Price discrimination can exist in a variety of forms in any industry. A common outcry of independent grocery retailers is that certain large chains are demanding price cuts from those food manufacturers over which they exert monopsony power. Another form of price discrimination which has received much attention in recent years is that alleged to occur between retail grocery firms and their customers. It is this latter form of price discrimination that is the focus of this section. The allegations that grocery retailers are discriminating in price-specific geographic regions, such as inner city and resort areas, will be examined.

During the late 1960's many federal agencies were attempting to discover the causes of social unrest in the riot-torn cities. One charge made at this time was that the retail grocery industry was price discriminating against low-income city residents. The sentiment on this issue can be summarized by the following quotation:

> The problem was illustrated recently when allegations were made that Safeway stores was guilty of price discrimination against the economically disadvantaged in Washington D. C....a second supermarket chain which operates stores in suburban and inner city Washington area was reported by the National Broadcasting Company to discriminate against the poor in its pricing policy.[7]

To begin to determine whether firms in the retail grocery industry have discriminated against low income inner city residents, it is necessary to examine whether the conditions for profitable price discrimination have been met. One necessary condition for profitable price discrimination is that the firm must have market power. The barriers to entry are stronger in the inner city because land costs are higher and

7. United States Congress, House Committee on Government Operations, Consumer Problems of the Poor: Supermarket Operations in Low Income Areas and the Federal Response, Hearing before a House Subcommittee on Government Operations, G.P.O. November 1967.

availability of land often requires piecing together parcels of land at extraordinary high costs. Also less than minimally efficient size stores are the consequence of this high land costs. The dearth of "special" or other forms of price cutting in the inner city compared with the suburbs is further evidence of lack of competition in the inner city.

The second criterion for profitable price discrimination is that a firm must be able to categorize buyers. In the grocery industry, customers may be sorted or categorized geographically. Low income residents tend to have limited mobility for two reasons: 1) this group is less likely to have automobile transportation available due to income constraints, and 2) public transportation for long distances for the purpose of grocery shopping -- where it is even available -- is generally inconvenient and consequently is not used with any frequency. Because low income inner city residents lack mobility, they are in a sense a captive market and may be segregated from suburban high income supermarket customers.

A final condition which must be met for profitable price discrimination is the prevention of arbitrage. This condition is not very applicable to the grocery industry as it is unlikely that suburban shoppers will buy at lower retail prices and travel to the inner city to resell these groceries.

Firms within the grocery industry do have market power, are able to separate buyers and can prevent resale of their goods. Consequently, the three conditions for profitable price discrimination against low income inner city residents is satisfied. Whether indeed price discrimination takes place is inconclusive, as evidenced by the numerous pricing studies which suffer from many limitations and poor research design. It is clear, however, that there are other factors involved, as well. For example, inner city neighborhoods do seem to have inefficiently-sized supermarkets. Moreover, average prices are highest in small independent stores and these tend to be disproportionately located in the inner city. All of these factors account to some extent for the higher prices paid by inner city grocery shoppers.[8]

Allegations exist that grocery retailers price discriminate against resort area food shoppers. These allegations have received less attention than those pertaining to inner city price discrimination, perhaps due to the relatively higher income level of resort area shoppers.

The conditions that must exist for profitable price discrimination are met for food retailers located in resort areas. The reason these conditions are satisfied in resort areas, however, differs from the reasons causing these conditions to be met in the inner city. Typically, the volume of business conducted in retail grocery stores in a resort area increases dramatically during the areas's vacation season and then drops during off-season periods due to the limited number of year-round residents and shoppers. To quote one chain store executive, "The days of opening a store for three months are over." A minimum volume of year-round business is necessary to warrant the existence of a supermarket. The number of food retailers in resort areas is consequently more a function of the volume of business conducted during off-peak season, than that conducted during peack seasons. Typically, the lower number

8. National Commission on Food Marketing, "Special Studies in Food Marketing, Technical Study No. 10", G.P.O., 1968 pp.121-144.

of supermarkets located in resort areas is insufficient to serve the vacationers without customer overcrowding taking place. This need to maintain a minimum off-season demand by resort area food retailers tends to act as a barrier to entry, thus allowing existing grocery retailers to obtain some degree of market power.

A second condition for profitable price discrimination is the ability of the retail grocers located in resort areas to sort buyers. As in the case of inner city price discrimination, customers of grocery stores are sorted geographically. Typically resort areas span fairly large geographic areas (e.g. Cape Cod). Thus, residents of these areas must travel significant distances to get to regions with a more competitive market structure and consequently lower prices. Traveling substantial distances to make major purchases at lower prices will probably occur but it is unlikely to happen for grocery shopping which involves purchasing necessary goods with some frequency. Vacationers residing temporarily in the resort area are also constrained by distance, as well as by the fact that they are unfamiliar with the area. In addition, vacationers may have a more frivolous attitude toward grocery shopping, preferring leisure time to price comparison shopping for groceries. All of the factors mentioned tend to segregate or sort grocery shoppers in resort areas, and in a sense, make them a captive market. This situation acts to increase the market power of the retail grocers.

The prevention of arbitrage is the last condition which must be met for profitable discrimination. As is the case in the inner city, it is unlikely that vacationers will purchase large quantities of groceries outside the resort area and attempt to resell those goods. For example, it is doubtful that shoppers will purchase groceries in suburban areas of Massachusetts and travel to Cape Cod to resell these goods.

Cape Cod serves as an example in examining the evidence on price discrimination against resort area residents. The Griffin Report on Food Marketing conducted a pricing study in July 1978 of five supermarket chains having stores in Hyannis (on the Cape) and in towns in Southeastern Massachusetts.[9] The study priced approximately four dozen items which sold in stores in both locations. The results of the study indicated that customers shopping in Hyannis were paying 9.1 percent more for these items than customers shopping in the same stores in Southeastern Massachusetts.

Grocers participating in the survey attributed the price discrepancy to the peculiar competitive challenges of the Norwood (S.E. Massachusetts) area and the additional transportation cost to the Cape. In response to the grocers' explanation, the Griffin report stated:

> Although there are many in the food trade who have vacationed on Cape Cod and are aware of the price spread between Greater Boston units and Cape units of the same chains, there has been general agreement, in a sense, that certain advantages were being taken of the thousands of vacationers who came to the Crooked Arm since they do not have lots of options regarding food shopping.[10]

The Griffin Report is subject to many of the same limitations as the price surveys previously mentioned in examining the evidence of inner city price discrimination. Specifically, the limitations are that the survey was conducted at one point in time and consequently the

9. The Griffin Report on Food Marketing, vol. 14, no.4, April 1979, p. 11.

10. Ibid., p. 10.

results may be a random occurrence; the number of items is relatively small and may not be representative of the universe of grocery goods; and finally, the sample size is also small. Improvement in the study would address each of the limitations but would also substantially increase the cost of the survey. In the instances where price discrimination has been alleged to occur, higher costs have been cited by grocers as the reason for higher prices. In any event a very costly, well-designed survey would be necessary to produce the evidence necessary for a conclusive case of price discrimination.

Advertising/Marketing

Food retailing is one of the most competitive industries in the U.S. In attempts to increase market share, grocers utilize a wide variety of marketing techniques. Coupons, trading stamps, continuities (e.g., dishes, pans, towels, encyclopedias) have been used by merchants in the United States since the mid-1800's. Prior to 1900, the Sperry and Hutchinson Company (S & H Green Stamps) sold stamps to New England retailers who in turn gave them to their customers to encourage cash purchases. Stamps became very popular in the 1950's and by the early sixties over $750 million of trading stamps were purchased. During the early 1960's (trading stamps heyday), it is estimated that greater than 83 percent of all American families were saving and redeeming trading stamps. The advantage of trading stamps and continuities is the newly formed allegiance between an individual retailer and the shoppers. Trading stamp companies and those companies who deal in continuities will generally only sell to one particular retail establishment in a given geographic area. Consequently, shoppers who desire the stamps or continuities must shop at this one specific retail establishment until at least one book of stamps has been filled or until a place setting for four has been completed. Thus, an allegiance is formed between the retailers and the shoppers for some period of time. S & H Green Stamps is considered the largest trading stamp company and is privately held, whereas Top Value Enterprise Inc., the second largest, was founded in 1955 by a group of major food chains including Stop and Shop of New England.

Newspaper coupons, continuities and trading stamps are considered to be fad advertising by grocery executives. When trading stamps became the rage, most grocers were obligated to join in order to stay competitive. In the late seventies, there has been a move away from coupons, trading stamps, and continuities as grocers attempt a no frills approach to advertising instead of lower prices. Grocers complained that coupons tied up their cash for six to eight weeks before they could collect from manufacturers. In fact, in an attempt to discourage coupons some grocers now advertise with statements such as "No Coupon Delays at our checkouts."

Most grocery advertising is done by local newspaper ads and store windows. Only recently has T.V. become a popular mode for local retailers. Two New England firms are currently in court over misrepresentation for making market basket comparisons between supermarkets and warehouse pricing on T.V. commercials. Despite the rising popularity of T.V., radio continues to remain a main source of grocery advertising.

Large chains as well as small independents are still heavily print oriented, but television has proven to be a very efficient means of communication for the grocery industry. A&P led all supermarket chains in television advertising in 1976.[11] This firm directed its advertising at loyal long-term customers, new customers (especially young ones) and finally at their 90,000 employees. The costs of television advertising are prohibitive to the small local grocer who must rely on newspaper ads. This may not be such a terrible disadvantage however, as newspaper ads may be cut out by the customer and used to make price comparisons with the competing local grocers.

A big attraction of grocery supermarkets is the full service or check cashing amenity. In fact, today many people use supermarkets very much like a banking facility. EFT or electronic funds transfer now allows grocers to have bank verification of funds available for check cashing purposes. This will allow more full service groceries as EFT will greatly reduce the number of bad checks as well as checker or labor time spent verifying or getting approval from the grocery supervisor.

From a marketing perspective, perhaps one of the most remarkable aspects of the grocery industry is the convenience store. Convenience store sales have gone from 2.5 percent of the total U.S. grocery sales in 1969 to 6.3 percent in 1979. This tremendous growth has come about because many supermarket executives have realized the demand for a small retail or convenience store to fill consumers' needs. Changing new consumer demands include the desire to shop after and before regular supermarket hours, geographic convenience, Sunday openings, and in general less time waiting for cashier checkout. These are conveniences for which consumers seem to be willing to pay a premium.

11. Broadcasting, April 25, 1977, p. 12.

Many grocery chains have invested in convenience stores, and some operate them on a franchise basis. One of the reasons chains find franchising successful is that it permits family-operated stores which require little outside help. This eliminates such typical grocery industry problems as employee pilferage and awkward scheduling. Convenience stores typically are open from 7 a.m. to 11 p. m., although there is now a trend to 24 hour service.

In spite of these advantages to franchising, only 20 percent of the convenience stores are franchised nationally. A grocery chain executive whose company franchises 67 convenience stores was of the opinion that government legal regulations make it more and more difficult to franchise. In addition, he felt that many upper middle-income Americans prefer to own their own businesses.

One grocery executive gave me a reasonably convincing explanation of why convenience stores were doing so well when most Ma and Pa stores were closing. His theory was that Ma and Pa businesses are not as sophisticated as today's convenience stores. Many convenience stores have a computer inventory on all items in the store and are able to determine which items are fast movers and will offer the highest profit margins. A Ma and Pa store often bought too much of one item on a deal, ignoring the cost of slow turnover. Convenience stores, particularly those that are franchised, receive information from the parent company or franchiser on which items to market as well as on the average earnings of each item.

The most popular items include cigarettes, dairy and bakery, and alcoholic beverages where legal. Since it appears that fast food restaurants take a share of the grocery industry, convenience stores are striking back by offering hot coffee and sandwiches. Similarly, as gasoline stations take on more and more attributes of a convenience store, i.e. selling cigarettes, milk and soda, the method of retaliation is selling automotive items and gasoline.

Unlike the rest of the grocery industry, the convenience store industry views New England as a source of potential growth as most other areas of the U.S. have been saturated with convenience stores.[12] The Southern and Sunbelt States' expanding economies have been more conducive to convenience stores than the stable N.E. economy. It is easier to introduce a new type of marketing in a growth area and thus convenience stores 'caught on' quickly in these expanding areas of the country. Another possible reason for the relatively slow entry of convenience stores into the New England areas is that the population is more concentrated and thus tends to be better serviced by larger supermarkets. In addition, the infrastructure tends to be sprawling in these fast growing states and thus convenience stores are more necessary as a time saving device. One reason for the expected growth in convenience stores in New England is the projected dominance of females (and in particular married females) participating in the labor force in the 1980's. The N. E. service economy provides many female dominated occupations. Picking up a few items in a convenience store is much easier and quicker for a working mother than roaming around a huge supermarket.

Another aspect of marketing is the fact that the variety of items

12. The 9th Annual Report of the Convenience Store Industry, Sept./Oct. 1979, p. 28.

in the grocery store has grossly expanded in the post WWII era. In fact, 75 percent of all the items on the grocery shelf today were not in existence ten years ago. It is hard to believe that not too long ago there existed only one type of canned dog food. It is not uncommon today to see one whole side of a supermarket aisle devoted exclusively to pet food.

One should realize also that as certain sections of a grocery store expand, other sections must contract in a relative sense. One characteristic example of a section contracting is the canned vegetable. Once, canned vegetables filled both sides of an aisle, whereas today it is difficult to find even the canned vegetable section. The expansion of the frozen vegetable industry as well as the availability and resurgence of consumer demand for fresh vegetables is the cause of this contraction.

Moreover the increase of apparently unrelated higher-profit items such as health and beauty aids and non-foods has a direct impact on the canned vegetable manufacturers. As shelf space becomes scarce, it is the smaller manufacturers of canned vegetables that are hurt because it is their product which is usually removed in the space crunch. The larger nationally advertised brands then become more visible as the smaller firms are forced out.

CHAPTER IV

TECHNOLOGY AND INNOVATION

Innovation and Technology

The labor component of the grocery industry is presently receiving considerable attention for a number of reasons. First, employee pilferage has reached epidemic proportions and is viewed as more serious a problem than customer shoplifting. Secondly, the grocery industry is extremely vulnerable to strikes because of its dependence on customer loyalty. The nature of the industry is such that if a customer must shop elsewhere due to a strike, there is a strong probability that the customer could be lost to a competitor forever. Finally, labor costs now represent in excess of 30 percent of operating expenses (see Table 9). As a result, the grocery industry is constantly on the lookout for new technology or labor saving devices.

One labor saving device of great interest to management is the universal product code in combination with laser scanning. On just about all grocery items carried in a store now, one sees a block of straight lines about one inch square with six to ten digits at the bottom. This square is the universal product code that will be optically scanned at checkout by a laser beam. Upon recognition a beeping noise indicates that the computer has identified the item and has transmitted its price. The item's price then registers on the electronic cash register. As this technology is perfected, it will enable grocers to save the labor costs associated with marking the items. Further, the labor expense necessary to order stock will be lessened since inventory is automatically recorded.

The major problem with this technological improvement is that the existing U.S. Food and Drug Administration (FDA) regulations mandate that grocers mark all grocery items in the store, with some exceptions that include milk and cigarettes. Consumer advocacy groups oppose the universal code and laser scan because they feel that if the price is not on the item, then shoppers will not be able to make price comparisons and, they allege, grocers could abuse the system and intentionally program their computer to overcharge. Although some grocers in New England have adopted scanning, the majority of them are waiting to see if the manadatory pricing law will be amended before making the investment of approximately $150,000 for a machine capable of handling a typical ten lane supermarket. To date, according to an industry spokesperson, there are only 600 or so supermarkets using scanners. Many executives believe that "sweetheart ringing" (under-ringing or under-charging a friend or relative) by store employees will be curtailed as the beep will not occur and will allow a manager who is suspicious to be able to better catch a "sweetheart" cashier.

One innovation that has been fairly widespread in the grocery industry is the electronic cash register. These registers are connected to a minicomputer in each store and can confer an advantage over conventional cash registers in that they provide up-to-the-minute bookkeeping. Instead of tallying all the registers at the end of the day, the minicomputer maintains a running count. Another labor saving device now in use in some stores is the automatic meat wrapper with price per pound and label automatically printed on a sticker at weighing. Digital scales are now located at the check-out counter, thus saving the produce department from having to weigh and mark produce prices. Computers have also been introduced as an energy saving device as well as a labor saving device, e.g. in a type of refrigeration system called reclaimed heat. As the cold air flows towards the floor it is reclaimed by being vacuumed up or reclaimed and used again. A computer is used for regulating the refrigeration system. During off-peak hours of energy utilization, when costs are lowest, the computer is programmed to permit the freezers to drop the temperature lower than normal. This subsequently reduces the amount of energy necessary to refrigerate during peak-load hours and thereby saves on energy costs. Another energy saving device is heat that is generated by the compressors, which is reclaimed to heat the store. This use of computers and reclaimed heat is widespread throughout the industry and considered a major cost and energy saving system.

Automatic warehouses are slowly being introduced into the industry. A major firm in Connecticut now has an automated warehouse servicing seventy-two stores. A computerized order is submitted by each store, and a four-tiered conveyor belt system sends the requested items to the proper slot where Teamsters load waiting trailer trucks. The speed of the conveyor belt can be regulated according to demand and possibly Teamster union regulations. One slot may have two trucks loading but stickers with odd or even numbers identify each item for the appropriate truck. To avoid confusion, the left side of the slot will always load even numbers and the right odd numbers. When the next store's order comes down, the even number which was (say) eight, jumps to 14 to alert the Teamster that this grocery item is to go to a different store.

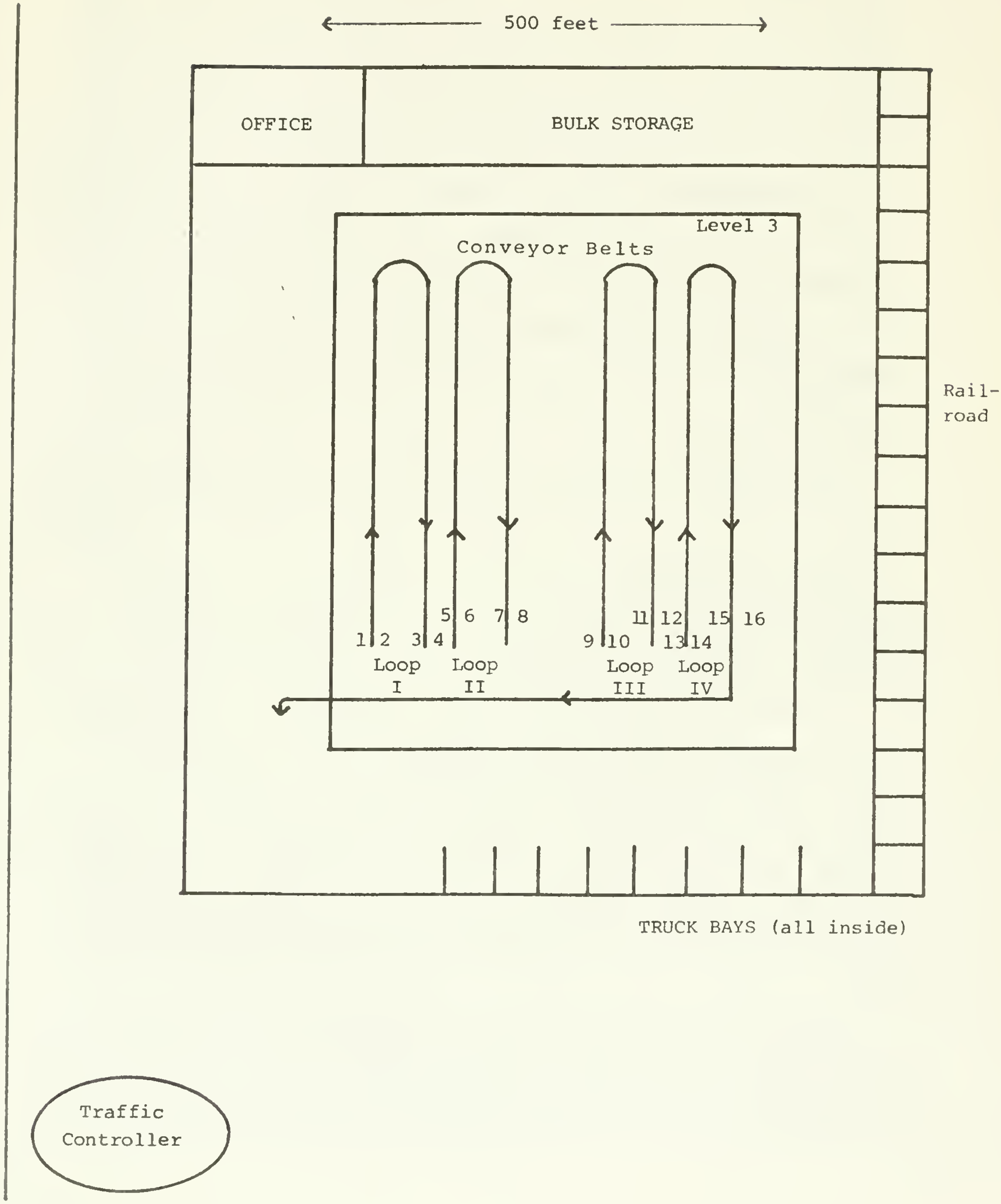
Automated warehousing is a major technological innovation, which is being closely watched by the industry. To date, only one of the major firms has made the capital investment for an automated warehouse. This particular facility (now ten years old) is strategically located at the intersection of two interstate highways and adjacent to a railroad track. The system is built on three levels having four loops on the top two levels and storage on the first level. Each loop consists of two conveyor belts running in opposite directions, but having a connector curve which allows for continual flow up one aisle and down the other. This enables two "selectors" or Teamster warehouse workers to select from two aisles or from four sides (Fig. 1). As the product comes in from the vendor and manufacturer (either rail or truck), it is placed on the first level below where it will eventually be stacked for access by the selectors. In brief, a computerized grocery order is placed by each store. The computer prints out on labels the store identification number, the item slot number and abbreviated description of size, quantity, and the date. These labels or stickers have an adhesive back which permits the selectors to walk along the conveyor belt picking out the items on the labeled stickers and placing them on the conveyor belt. The conveyor belt empties into shoots which have controlled speed rollers. Teamsters at the other end then load the trailer trucks.

The industry is not only watching automated warehouses very carefully; some firms are contracting feasibility studies to find if the rate of return is there for investment purposes. Most have found the return on investment is not there now but will be in the near future.

Innovations in meat packaging include both the boxed-beef and cryo-vac packaging. Not too long ago, meat cutters would receive a whole

Figure 1

GROCERY WAREHOUSE



carcass to butcher. Presently, many firms are receiving boxed-beef which has already been cut at the meat distribution centers. Having a meat specialist with the proper equipment at the meat distribution centers saves the butchers at the store-level valuable time. Also, cry-o-vac packaging essentially hermetically seals or vaccum packs the meat, which keeps meat much fresher for longer periods of time. For those supermarkets which have their own in-house bakery, the innovation of pre-frozen dough also saves much labor time. Making dough from scratch is considered to be too time consuming for a baker to waste his talents on. Pre-frozen dough consequently allows the bakers to spend all their time making pastries.

All of the new technology mentioned thus far is in operation to some degree in N.E. and will have different impacts on the grocery industry as it develops. Supermarket chains, which generally own or lease their warehouses, will be immediate beneficiaries of automated warehouses. In particular, automated warehouses will greatly reduce the wage bill. The N.E. independent grocers, who do not own warehouses but rather purchase goods from wholesalers who do own warehouses, will be secondarily impacted. That is, wholesalers who adopt automated warehousing will pass most of the labor costs savings along to the independents. Wholesalers must do this to remain competitive, otherwise the case of a supermarket chain selling groceries to independents will become a more common practice.

Optical scanning combined with the utilization of the universal pricing code will have tremendous savings on the wage bill. In addition, the secondary impact on the industry will be a further deskilling of the labor force. Presently, the most experienced and most highly paid stock clerks do the ordering of the groceries. Scanning will do away with the need of the experienced stock clerk who knows how fast each item sells. These experienced and relatively high wage and generally older clerks could now be replaced by younger, less expensive clerks who would only stock shelves. Ordering, inventory, and bookkeeping would now be totally computerized. Also, the secondary level of management, the assistant manager, dairy, meat and produce head could be replaced by relatively inexperienced, young workers. The manager would be the only skilled job required in the supermarket. The widespread use of scanning would remove any doubt that the grocery industry is a secondary labor market industry. Low wages, lack of career ladders, and a high turnover labor force characteristic of the industry would be exacerbated.

Similarly, the boxed beef and cry-o-vac meat packaging will have the same effect on the meat cutting occupation. The economies of scale will be less of a demand for a qualified butcher at the store level. A strong demand for a lower-wage "meat cutter" would ensue.

It is difficult to say which faction of the grocery industry will benefit the most from the new technology. Because of the competitive nature of the industry, it is clear that the wholesalers and independents aren't going to let the supermarket chains get too big a jump on the new technology. The chains do generally have an easier time accessing credit, and therefore would be more apt to enter the new technology at a faster rate. The independents and wholesalers, however, will be in close pursuit. The one type of grocer who could be seriously impacted by this new technology, and in particular by scanning, is the independent superette owner for whom investment in optical scanning would be prohibitively expensive. These smaller, less efficient, superettes could be a thing of the past if the new technology is widely adopted. Essentially, the grocery industry would become bimodal; have only large supermarkets and convenience stores.

CHAPTER V

EMPLOYMENT AND TRADE UNIONISM

Longitudinal Analysis of the Grocery Industry's Labor Force

The labor force study that follows entails a micro-economic analysis of interfirm, interindustry, and interregional worker mobility using the Social Security Administration's 1 percent sample Longitudinal Employee-Employer Data (LEED) file covering the period 1957-1975.

The national 1 percent LEED file contains approximately 1.5 million records, each record comprising the complete (1957-1975) Social Security work history of an individual. This large sample of worker's records is drawn from the quarterly reports submitted to S.S.A. by employers. The work history for each individual includes data on sex, race, and age and for each year the state, county, industry of employment and quarterly wages for each social security covered job.

The data on quarterly earnings permits an analysis of wage mobility within a single employer, single industry, or across any of the job mobility patterns.

The LEED file is not without its shortcomings, however, and these limit the potential scope of analysis. The most important shortcoming involves coverage within the data set. In years when a worker is not in covered employment (i.e., not paying F.I.C.A.), it is not possible to directly ascertain whether he or she has taken a non-covered public or private sector job, is unemployed or out of the labor force.

A second shortcoming concerns the paucity of demographic data. Because the data are drawn from employer records, the only personal employee information is taken from the forms filled out at the time an individual first enrolls in the Social Security system. This covers age, race, and sex. We have no direct knowledge of education, specific training, occupation, marital status, or class background, and therefore cannot produce a sociologically richer analysis of mobility.

Employment

One must remember that LEED considers a person to be employed if he or she worked at any time during the year. The result is that these employment figures overestimate a point-in-time count such as that conducted by the County Business Patterns. This is important because in the grocery industry, high turnover in the labor force causes the LEED and County Business Patterns estimates to differ substantially.

Employment in the grocery industry in New England over the past twenty years has grown at approximately the same rate as total employment in the region. In 1957, New England employment in the grocery industry was 120,800. By 1975 it had increased by 38 percent to a level of 167,000. The region as a whole also experienced a 38% increase in total employment with 4,086,000 workers employed in all industries in 1957 compared with 5,656,000 workers in 1975.

Employment characteristics of the grocery industry, however, differ substantially from the characteristics of most other New England industries. Given the opportunity for extensive use of part-time workers in this industry, it was expected that there would be a disproportionate number of both very young and very old workers.

For the last twenty years, the grocery industry has had greater than

30 percent of its employees in the age category 16-19 years old. The region on average, however, has had in the order of only 10 percent of its employees in this age group (see Table 10). However, the grocery industry had only 1.9 percent of its workers in the 65 and over age category on average, compared with 4.5 percent of the region's employment in this age category. In general, then, the grocery industry employs a considerably <u>smaller</u> percentage of older workers than in most industries. In fact, only 31 percent of the grocery workers are over 35 years old compared to 53 percent in all industries in New England. The grocery industry employs only 5% of its workers in the age bracket (55-64) whereas for the region as a whole, this cohort represents 11.9 percent of all workers, more than double the representation in the grocery industry.

Some reasons which may possibly account for the low numbers of mature workers in the grocery industry are: the lack of internal career ladders, the relatively low wage level (to be discussed momentarily) and the probability of strenuous work. In fact, in a typical supermarket, there are only a limited number of managerial or quasi-managerial positions. For example, there is the store manager, whose position is a strictly managerial function, whereas the assistant grocery manager, and the dairy, meat and produce heads do both physical labor and perform limited managerial functions. The positions of meat cutter and possibly bookkeeper are the only other skilled positions in a typical supermarket.

Much of the employment in the grocery industry is of a part-time nature. Specific data on part-time vs. full-time employment are unavailable. However, data on employment broken down by the following three

Table 10

Distribution of Employment of Young and Old Workers in SIC 541 Compared to All Industry Average: New England, 1957-1975

Year	SIC 541	All Industry Average	SIC 541	All Industry Average
	16-19 Years Old		65 Years or over	
1957	32.4	9.5	2.3	5.9
1958	32.7	9.2	1.8	5.7
1959	34.5	9.9	1.6	5.4
1960	35.9	10.6	2.0	5.3
1961	36.8	10.2	1.7	5.4
1962	34.6	10.3	1.6	5.4
1963	32.4	10.3	1.6	5.2
1964	33.1	10.9	1.7	5.0
1965	33.4	12.0	1.9	4.8
1966	35.0	12.3	1.9	4.6
1967	34.3	11.7	1.7	4.4
1968	36.0	12.0	2.0	4.3
1969	37.7	12.5	1.9	4.0
1970	40.4	12.1	2.0	4.3
1971	37.9	12.6	2.0	4.0
1972	37.5	12.7	1.9	3.8
1973	36.8	13.1	2.0	3.6
1974	36.3	13.4	1.8	3.4
1975	34.9	12.1	2.0	3.5

SOURCE: LEED, tabulations extracted by Alan Matthews and Barry Bluestone, Social Welfare Research Institute, Boston College.

job categories do exist in LEED: only job, major job, and not a major job. The "only job" category represents those workers who were employed only in the grocery industry during the year. "Major job" category means the grocery industry was the worker's source of greatest earnings during the year, although workers in this category were also employed by other industries. Finally, the "not major job" category is comprised of those workers who earned more income from other industries but moonlighted in the grocery industry. Over the 19 years of the LEED series, on average, 55% of those who ever worked in the grocery industry in New England worked only in that industry -- when they worked. Another 18% received the majority of their earnings from this SIC, when they worked. Finally, 27 percent on average did not receive the majority of their earnings from this SIC. This last category -- "not major job" -- is the only unambiguous one. This is the group of workers who are clearly "moonlighting" on a part-time or part-year basis in the grocery industry. Interestingly enough, the percentage in each of these job categories has not changed substantially in the last three decades.

Table 10a indicates that the mix of employees has also not changed substantially by sex and age with the exception of the 20-24 year age grouping in the not major job category, e.g. "moonlighters." In the 1960's 47 percent of the 20-24 year old males were in the "not major job" category compared with 37 percent of males in this age category in the 1970's. Females in the same age bracket experienced a reverse trend as only 31 percent were in the "not major job" category in the 1960's and rose to 41 percent in the 1970's. One could infer that young women aged 20-24 have increased their share of moonlighting, displacing young

Table 10a

Age Distribution of Workers by Category of Job: 1960

	Only Job		Major Job		Not Major Job		Total	
	Male	Female	Male	Female	Male	Female	Male	Female
16	84.0%	76.1%	9.8%	4.7%	6.0%	19.0%	100.0%	100.0%
16-19	45.9	51.3	22.7	22.3	31.3	26.2	100.0	100.0
20-24	26.3	47.2	26.5	21.7	47.0	31.0	100.0	100.0
25-34	42.5	65.9	20.7	12.8	36.7	21.1	100.0	100.0
35-44	61.9	71.8	11.6	12.9	26.3	15.2	100.0	100.0
45-44	68.9	76.6	9.3	10.3	21.7	12.0	100.0	100.0
55-64	78.2	80.5	6.9	7.3	14.8	12.1	100.0	100.0
65+	83.3	91.0	3.7	7.1	12.9	1.7	100.0	100.0

Age Distribution of Workers by Category of Job: 1970

	Only Job		Major Job		Not Major Job		Total	
	Male	Female	Male	Female	Male	Female	Male	Female
16	71.7%	80.5%	11.3%	8.3%	16.9%	11.1%	100.0%	100.0%
16-19	48.8	51.0	21.2	21.8	29.8	27.0	100.0	100.0
20-24	40.1	40.1	23.2	18.7	36.6	41.1	100.0	100.0
25-34	46.2	69.5	16.3	10.6	37.4	19.7	100.0	100.0
35-44	62.6	75.9	12.6	11.0	24.8	13.0	100.0	100.0
45-54	79.4	83.1	6.8	6.9	13.7	9.9	100.0	100.0
55-64	85.5	86.3	6.0	7.2	8.4	6.4	100.0	100.0
65+	85.3	95.3	5.4	4.6	9.1	0.0	100.0	100.0

SOURCE: LEED

males who used to moonlight in this industry.

In fact, the percent of males employed in this industry has gone from 72 percent in 1957 to only 56% in 1975 (Table 11). The number of females employed in this industry has experienced phenomenal growth, increasing over 150% in 19 years. The share of women participating in this SIC has increased from 27.5 percent in 1957 to 43.4 percent in 1975. In comparison, the region as a whole had over 10 percent more females working in all industries in 1957 than the grocery industry and approximately the same percentage (43%) in 1975. Female employment has had a surprisingly stable percentage -- between 38 and 43% -- over the 19 years for the region as a whole. What accounted for this rapid catch up of females in the grocery industry may be attributed to the fact that twenty years ago, male stock clerks were often called upon to ring registers. Presently, the registers are almost exclusively run by women. The most probable reason for this is that in the past annual real wages in the grocery industry had typically been below the N.E. average. Beginning in 1967 through 1970 real grocery wages declined even further below average real wages for all industries. Male workers in this industry were most likely to find more gainful employment in other industries and consequently exited from this industry. The remaining males in the grocery industry were needed to do the more strenuous tasks of unloading trucks, etc. Consequently, a shortgage of available males to run the registers was created. My interviews indicated that this shortage seems to have been eliminated by hiring young women to perform this task.

Analysis of five year interval data for 1960, 1965, 1970, 1975 by age and sex will provide some indication of the shifts in employment in

Table 11

Distribution of Employment by Sex and Age Category (Grocery Industry + All N.E. Industry Average)

	1960 SIC 541				1965 SIC 541				1970 SIC 541				1975 SIC 541			
	Male	%	Female	%	Male	%	Female	%	Male	%	Female	%	Male	%	Female	%
16	11	1.2			12	1.1	2	.3	21	1.9	4	.56	17	1.7	10	1.3
-19	337	38.2	123	30.8	367	35.6	151	28.9	480	43.5	251	35.3	346	36.6	236	32.5
-24	122	13.8	46	11.5	194	18.8	81	15.5	173	13.7	110	15.4	220	23.2	171	23.5
-34	148	16.7	56	14.0	168	16.3	67	12.8	179	16.2	83	11.6	137	14.4	91	12.5
-44	118	13.3	97	24.3	121	11.7	102	19.5	88	7.9	109	15.3	74	7.8	85	11.7
-54	80	9.0	46	11.5	87	8.4	84	16.0	81	7.3	101	14.2	65	6.8	89	12.2
-64	47	5.3	25	6.2	56	5.4	30	5.7	51	4.6	44	6.1	58	6.1	37	5.1
+	19	2.1	6	1.5	25	2.4	5	.9	28	2.5	8	1.1	28	2.9	6	.8
TAL	882	69.0	399	31.0	1,030	66.0	522	34.0	1,101	60.0	710	40.0	945	57.0	725	43.0

	1960 All N.E. Industry Average				1965 All N.E. Industry Average				1970 All N.E. Industry Average				1975 All N.E. Industry Average			
	Male	%	Female	%	Male	%	Female	%	Male	%	Female	%	Male	%	Female	%
16	20	.7	15	.9	16	.5	11	.6	32	1.0	8	.3	32	1.0	17	.6
-19	245	9.3	207	12.4	325	11.3	229	12.8	328	10.6	308	11.4	339	10.6	346	14.0
-24	293	11.2	218	13.1	394	13.8	264	14.8	456	14.7	381	17.5	495	15.4	448	18.2
-34	577	22.0	255	15.3	619	21.6	256	14.3	704	27.8	338	15.6	821	25.6	515	20.9
-44	563	21.5	348	20.9	536	18.7	322	18.1	547	17.7	340	15.7	554	17.3	363	19.7
-54	481	18.4	341	20.5	504	17.6	375	21.1	511	16.5	422	19.4	466	14.6	394	16.0
-64	275	10.5	211	12.6	324	11.3	237	13.3	372	12.0	278	12.8	380	11.8	290	11.8
+	158	6.0	67	4.0	136	4.7	84	4.7	136	4.4	90	.4.1	112	3.5	84	3.4
TAL	2,612	61.0	1,662	39.0	2,854	61.0	1,778	39.0	3,086	59.0	2,165	41.0	3,199	57.0	2,457	43.0

URCE: LEED (see Table 10)

this industry. Teenagers have been a major portion of SIC 541 employment for at least as far back as 1960 at which time teenage boys accounted for 38.2 percent of total male employment and teenage girls accounted for 30.8 percent of total female employment in SIC 541. This is in sharp contrast to the average for all New England industries of 9.3 percent of total male employment in the age cohort 16-19 and only 12.4 percent of the females in this same age bracket. These percentages have been reasonably constant over the twenty year period. It is interesting to note that the greatest relative gains in employment for females have been in the 20-24 year old age bracket. Their employment has gone from 11.5 percent of total female employment in 1960 to 15.5 percent in 1965, to 23.5 percent in 1975. In contrast, there has been a substantial decline of women aged 33-44 employed in the grocery industry. Over the same time period, the percentage of total females employed in this cohort has gone from 24.3 percent in 1960 to 11.7 percent in 1975. A similar but not quite so dramatic decline has occurred for males. In the same 35-44 age category, male participation in the grocery industry has declined from 13.3 percent to 7.8 percent from 1960 to 1975 (see Table 11).

Analysis of the racial composition of employment in the grocery industry indicates that, in New England, at least, traditionally it has been white and remains so today. Throughout the 1950's and the early 1960's only 2 percent of total employment in this industry was non-white, compared with 3.5% for the region (see Table 12). For a variety of reasons such as the passage of the Civil Rights Act (Chapter VII), shortages of young men because of Vietnam, and the Kennedy/Johnson Boom (3.4% unemployment rate), a tripling of the percentage of non-whites between the years

Table 12

Distribution of Employment by Race

	SIC 541		All New England Industry Average	
Year	White	Non-White	White	Non-White
1957	97.9%	2.7%	97.4%	2.5%
1958	98.4	1.5	97.1	2.9
1959	98.2	1.7	96.3	3.6
1960	98.5	1.4	96.3	3.6
1961	98.6	1.3	96.3	3.6
1962	97.9	2.0	96.0	3.9
1963	97.8	2.1	95.8	4.2
1964	96.0	3.9	95.5	4.5
1965	94.7	5.2	94.4	5.5
1966	92.9	7.0	93.7	6.2
1967	92.9	7.0	93.4	6.5
1968	91.8	8.1	93.4	6.5
1969	93.0	7.0	92.8	7.1
1970	92.4	7.5	92.5	7.4
1971	92.1	7.8	92.6	7.3
1972	92.0	7.9	91.9	8.0
1973	93.3	6.6	91.2	8.7
1974	94.0	5.9	91.2	8.7
1975	93.7	6.2	91.4	8.5

SOURCE: LEED (See Table 10)

1964 to 1968 occurred in SIC451. The 8.1% high of non-white employment in the grocery industry fell off to 6.2% in 1975. The percentage of non-white employed in all (Social Security-covered) industry in New England did not experience as dramatic a change, but rather has seen a gradual increase from 4.2% in 1963 to 8.6% in 1975.

Information on worker mobility into (and from) different industries is also available and is presented in Table 13. The reference year for this data is 1973 and workers are tracked leaving the grocery industry in that year and appearing in other industries in 1974. The most mobile category of workers are those 25 years of age or less. Of the total 48,200 male grocery workers who exited from the industry, 34,000 or 70.5 percent were less than 25 years old. Similarly, the 39,800 female grocery workers changing industries in the 1973-1974 period, 25,000 or 62.8 percent were from this age group. Labor economists have for some time postulated that young workers are the least attached to their jobs. Very few industries, however, will experience this phenomenal degree of turnover or exit of workers from their industry. Table 13 shows clearly how the rate of exit declines with age.

Short-Run Worker Mobility by Industry: Workers Leaving the Grocery Industry

The focus of this section will be an analysis of where grocery workers find employment once they leave the grocery industry. The 1973-74 time period is used for this analysis because more workers left the industry during this economic downturn than any other business trough since the late 1950's. Of the 186,200 workers in the New England grocery industry in 1973, 98,200 remained in the grocery industry in 1974, and approximately 88,000 workers left. Of those leaving, 600 left the industry to work in

Table 13

Number of Workers Leaving the Grocery Industry
1973 to 1974 by Age Cohort in 00's

	Males			%	Females			%
	1973	1974		Exit	1973	1974		Exit
Less than 25	631	291	340	70.5	461	211	250	62.8
25-34	161	95	66	13.6	111	50	61	15.3
45-54	170	124	46	9.5	194	123	71	17.8
55 and over	89	59	30	6.2	45	29	16	4.0
TOTAL	1051	569	482	100	811	413	398	100

SOURCE: LEED

the grocery industry outside the N.E. region, 15,500 workers didn't appear in covered employment or joined the military, while the remaing 71,900 gained employment in different industries within the region. The greatest number of workers who left (32,300 or 48.6%) moved to wholesale and other retail trade. Manufacturing employed 16,500 of the ex-grocery workers in 1974. The majority or 11,600 of these workers were male while only 4,900 were female. The remaining major destination of the workers is Services which employed 9,700 workers (see Table 14).

New Entrants to the Grocery Industry

Total New England employment in the grocery industry amounted to 186,200 workers in 1973. Of this total, 119,200 workers had already been in this industry in 1972 and remained there in 1973. The remaining 67,000 workers or 36.0% of the total 1973 employment entered the grocery industry between 1972 and 1973. Of the 67,000 entering, 37,800 entered the grocery industry from other N.E. industries; the remainder entered from a variety of sources. These sources include 6,000 workers who were already employed in the grocery industry outside N.E. in 1972 and moved into the N.E. grocery industry in 1973. Twenty thousand had never before been in covered employment, while the remainder entered from the military.

Analysis of the N.E. workers entering from other industries indicates that the majority of workers (18,400) were employed previously in wholesale and retail trade while only 6,400 entered from manufacturing. This is not surprising because the wage differential is great between the grocery industry and manufacturing. The health service industry is worth mention because it was the only non-wholesale-retail trade industry which

Table 14

Distribution of Workers Leaving the Grocery Industry By Industry into Which They Move: New England 1973-1974

	Male	Percent	Female	Percent	Total	Percent
Manufacturing	11,600	32.9	4,900	15.9	16,500	24.9
Transportation, Communication Utilities	1,300	3.7	600	1.9	1,900	2.9
Wholesale & Retail Trade	15,900	45.0	16,300	52.8	32,200	48.6
Fire Insurance & Real Estate	1,200	3.4	2,600	8.4	3,800	5.7
Services	3,900	11.0	5,800	18.8	9,700	14,6
Public Administration	1,400	4.0	700	2.3	2,100	3.2
TOTAL	35,300	100.0	30,900	100.0	66,200	100.0

SOURCE: LEED

supplied the grocery industry with any sizable number of workers. This industry alone supplied 2,500 workers in the one year time frame.

It appears that the majority of the grocery workers enter from and exit to low wage jobs. This further reflects the lack of skill and training required in this industry.

The age-sex composition of workers entering the N.E. grocery industry is very similar to those workers who leave the grocery industry. Of the 109,200 workers under twenty-five employed in the grocery industry in 1973, only 57,900 were working in the industry in 1972. As a result, 51,000 or 76.7% of the total new entrants (67,000) were under twenty-five years of age. The distribution for both male and females was approximately the same for all age groups (see Table 15).

Examination of the industries that grocery workers are supplied from and supplied to indicates that there is a shuffling of workers among the low paid, high turnover, secondary labor market jobs. That movement of grocery workers is concentrated in the under twenty-five age category further indicates the lack of internal career ladders or the presence of target earners.

Origin and Destination Studies: Long-Run Mobility

In an "origin" study we trace the future employment and earnings history of workers who begin the period in a given 3-digit SIC industry. For example, we can trace up through 1975 the employment histories of workers who were employed in the retail grocery industry in 1957.

In the "destination" studies, we do just the opposite. We trace the past employment histories of those workers who are employed in a given

Table 15

Distribution of Entrants by Age and Sex
1972-1973

	MALE				FEMALE				TOTAL			
	1972	1973	Absolute Change	%	1972	1973	Absolute Change	%	1972	1973	Absolute Change	%
Less than 25	34,000	63,100	29,100	77.6	23,900	46,100	22,200	75.2	57,900	109,200	51,300	76.6
25-34	11,900	16,100	4,200	11.2	7,500	11,100	3,600	12.2	19,400	27,200	7,800	11.6
45-54	14,400	17,000	2,600	6.9	16,000	19,400	3,400	11.5	30,400	36,400	6,000	8.9
over 55	7,300	8,900	1,600	4.2	4,200	4,500	300	1.0	11,500	13,400	1,900	2.8
TOTAL	67,600	105,100	37,500	100.0	51,600	81,100	29,500	100.0	119,200	186,200	67,000	100.00

SOURCE: LEED

3-digit SIC industry in a terminal year, say 1973. Here we are interested in where that labor force comes from. This is particularly useful for the study of industries that are growing.

For the grocery industry the reference year of the destination study was 1973. This year was chosen because it was one of the most recent and one of the years of highest employment in the N.E. grocery industry for which we had data, and therefore better identified the most up-to-date trends of workers moving into the industry.

Analysis of the time series data on new entrants into the grocery industry presented in Table 16 indicates that 37% of all new entrants have been recruited from the never-in-covered-employment group. This means that the grocery industry was the first covered job held by 37% of all workers entering this industry. Approximately 50% of all new entrants were recruited from other industries while the remaining 13% worked in the grocery industry at one point in time but did not work in the previous year. Examining entrants by sex verifies the fact that women are not a new element in the grocery industry. Since 1957, women have represented about 40% of all entrants to the grocery industry.

A total of 109,200 workers under the age of 25 were employed in the grocery industry in New England in 1973. Analysis of the number of years of experience in this industry indicates the following; 46% of this age cohort have had one or less years of experience in this industry, 23% had 2 or less years of experience, and finally, 12% have had three or less years experience. In other words, 90,300, or over 80% of all workers in this age group have had three or less years experience. It should be noted, however, that many of the workers under 25 have not had time for

Table 16

DISTRIBUTION OF NEW ENTRANTS TO THE NEW ENGLAND GROCERY INDUSTRY IN 1973, BY PREVIOUS EXPERIENCE

Previous experience	Never in Covered Employment Before	Worked in some other SIC	Worked in groceries prior to 1972	Total	%
1 year	20,000	40,300	6,700	67,000	35.9
2 years	12,900	17,200	5,300	35,400	19.0
3 years	7,200	9,400	4,200	20,800	11.1
4 years	5,100	6,200	1,900	13,200	7.0
5 years	4,000	6,200	1,700	11,900	6.3
6 years	2,400	2,500	1,300	6.200	3.3
7 years	1,500	1,800	300	3,600	1.9
8 years	800	2,200	200	3,200	1.7
9 years	1,200	2,000	400	2,200	1.9
10 years	500	800	900	2,800	1.1
11 years	300	1,500	1,000	1,600	1.5
12 years	600	700	300	1,300	.8
13 years	300	800	200	800	.7
14 years	300	300	200	1,500	.4
15 years	500	600	400	900	.8
16 years	200	700	0	10,200	.4
17 years	10,200	0	0	0	5.4
Total	68,000	92,200	25,000	186,200	100.%
%	36.5	50.5	13.4	100%	

SOURCE: LEED

3 years of experience since approximately 40% of the total employment is 16-19 years old. In addition, their low experience rating may be a result of the high turnover of young workers. Older workers (35 - 54 years old), on the other hand, show only 36% of the cohort with three or less years experience. This finding supports the vast literature on stability of workers wich contends that young workers are unclear as to their attachment to the labor force while older workers are more stable, tend to be married and consequently have a much stronger attachment to the labor force. Sex doesn't appear to be a strong factor influencing job attachment as 79% of the men in the under 25 age category have less than three years experience, while females in this age grouping have 86% with less than three years experience. As can be seen from Table 17, approximately the same percentages of each sex come into the grocery industry from all three employment status categories; never-in-covered-employment, employed in a different industry, and re-entrant to the grocery industry. Specifically, 48% of the male entrants under the age of twenty-five have never been in covered employment, while approximately 43% of the under twenty-five females entered the grocery industry from the same category. Likewise, 45% of these young males entered from employment in other industries compared to approximately 51% of the young females. Finally, about 5% of each sex were re-entrants to the grocery industry. This low recidivism rate of 5% for the workers under twenty-five suggests that young entrants to the labor market tend to use grocery jobs once (or for a few years), while older people "dip in" sporadically, presumably when they need money. In addition, there appears to be a group of older workers which more or less "permanently"

Table 17

DESTINATION STUDY 1973

Males under 25 Years Old

Experience	Not Ever in Covered Employment	Other SIC Only	This SIC Before	Row Total	Chart Total
1 year	11,300	16,200	1,600	29,100	46%
2 years	7,100	4,700	1,100	12,900	20%
3 years	4,200	3,600	500	8,300	13%
4 years	2,900	1,700	200	4,800	7%
5 years	2,600	1,500	0	4,100	6%
6 years	1,200	400	0	1,600	2%
7 years	800	300	0	1,100	1%
8 years	300	400	0	700	1%
9 years	500	0	0	500	1%
Col. Total	30,900	28,800	3,400	63,100	
Percent	48%	45%	5.39%	100%	

Females under 25 Years Old

Experience	Not Ever in Covered Employment	Other SIC Only	This SIC Before	Row Total	Chart Total
1 year	8,100	12,900	1,200	22,200	48%
2 years	5,500	6,400	1,100	13,000	28%
3 years	2,600	2,000	200	4,800	10%
4 years	1,900	1,500	100	3,500	7%
5 years	900	600	0	1,500	3%
6 years	400	200	0	600	1%
7 years	200	0	0	200	.4%
8 years	100	0	0	100	.2%
9 years	200	0	0	200	.4%
Col. Total	19,900	23,600	2,600	46,100	
Percent	43%	51%	5%	100%	

SOURCE: LEED

stays in the industry.

What we have called an origin study amounts to selecting a reference year and observing what happens to workers who exit the industry from the origin year until 1975. The reference year 1969 was chosen because this was the largest employment year and therefore better enabled us to track workers leaving the grocery industry. It is interesting to note that of the 188,600 workers in the grocery industry in New England in 1969, only 30,200 or 16% had not exited from this industry by 1975. Over the five years from 1969-1975, 13,800 or 10% of the grocery workers on average left the industry and never appeared again in covered employment, 67% of the grocery workers on average left the grocery industry to enter employment in other industries in New England, while 19,400 had left the grocery industry between 1969 and 1975 but had reentered by 1975 (see Table 18). This as well as the fact that only 16% remained in the industry for five consecutive years since 1969 gives overwhelming evidence that workers have a weak attachment to this industry. Examining the exits by sex only indicates that approximately 60% of the exits were males and 40% were females, which is expected since the industry is composed roughly of 60% males and 40% females.

Again, because the age cohort less than twenty-five accounts for approximately 56% of the exits from the industry we will concentrate on this group. As indicated in Table 19 only 1.4% of the young males never show up in covered employment again while females had 8% not appearing in covered employment. Young males tend to go into other industries with slightly greater frequency than the females, 80% versus 76% respectively, and similarly, young males had 18.4% of their exits reappearing in the grocery industry as did 15.6% of the females.

Table 18

ORIGIN STUDY OF WORKERS EMPLOYED IN THE GROCERY INDUSTRY IN 1969 TRACKED THROUGH 1975.

in 00's

Experience	Never in Covered Employment Again	Other SIC Only	This SIC Before	Row Total	Chart Total
1 year	53	618	106	777	41%
2 years	36	234	40	310	16%
3 years	31	124	28	183	9%
4 years	19	83	16	118	6%
5 years	28	118	4	150	7%
6 years	21	25	0	46	2%
7 years	0	0	302	302	16%
Total	188	1,202	496	1,886	-
% Chart Total	9.9%	63.72	26.3%	100%	100%

SOURCE: LEED

Table 19

ORIGIN STUDY OF WORKERS UNDER 25
EMPLOYED IN THE GROCERY INDUSTRY IN 1969
TRACKED THROUGH 1975

in 00's

Males Less Than 25 Years Old

Experience	Not Ever In Covered Employment Again	Other SIC Only	This SIC Before	Row Total	Chart Total
1 year	2	299	38	339	48.8
2 years	2	109	18	129	18.6
3 years	0	64	10	74	10.6
4 years	1	36	7	44	6.3
5 years	3	36	2	41	5.9
6 years	2	11	0	13	1.8
7 years	0	0	53	53	7.6
Col. Total	10	555	128	693	
Percent	1.4	80.0	18.4	100.0	100.0

Females Less than 25 Years Old

Experience	Not Ever In Covered Employment Again	Other SIC Only	This SIC Before	Row Total	Chart Total
1 year	12	162	23	197	53.1
2 years	4	55	12	71	19.1
3 years	6	28	7	41	11.0
4 years	3	23	3	29	7.8
5 years	4	11	0	15	4.0
6 years	1	4	0	5	1.3
7 years	0	0	13	13	3.5
Co. Total	30	283	58	371	
Percent	8.0	76.2	15.6	100.0	

SOURCE: LEED

Earnings

Workers in the grocery industry have had traditionally lower earnings than workers employed in other industries in New England. Over the period covered by LEED (1957 to 1975), earnings in the grocery industry have been 70% of the average earnings in all New England industries (see Table 20 and Fig. 2). It can be argued that many of the positions in a supermarket are low wage as well as having many of the characteristics of secondary labor market jobs. Dual labor market economists have theorized that the labor markets are segmented into a primary and a secondary sector.[1] The primary sector[2] offers jobs with upward mobility, relatively high wages, and stable employment whereas the secondary sector is characterized by few or no opportunities for advancement, high turnover and low wages. For young workers the grocery industry could very well be viewed as secondary labor market in character. This contention is supported by the fact that in 1975, 80 to 85% of the workers under the age of twenty-five received less than $2,500 annual earnings.

It should be noted, however, that although the grocery industry has low relative earnings, one must also remember that many of the young workers only work part-time and also tend to quit with greater frequency than older workers. In fact, in 1975, the 35-54 age cohort had "only"

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1. Peter Doeringer and Michael Piore. Internal Labor Markets and Manpower Analysis. D. C. Heath and Co.: Lexington, Mass. 1971.

2. Primary sector - contains better paying, steady, and preferred jobs. Those employed in this sector possess job security, advancement opportunities, established working conditions, whether union or not, employment relationships governed by a more or less explicit system of industrial jurisprudence. Work in the primary sector is associated with an established position in the economy. Workers here tend to identify with institutions, the company for which they work, their union, their craft or other occupation.

Table 20

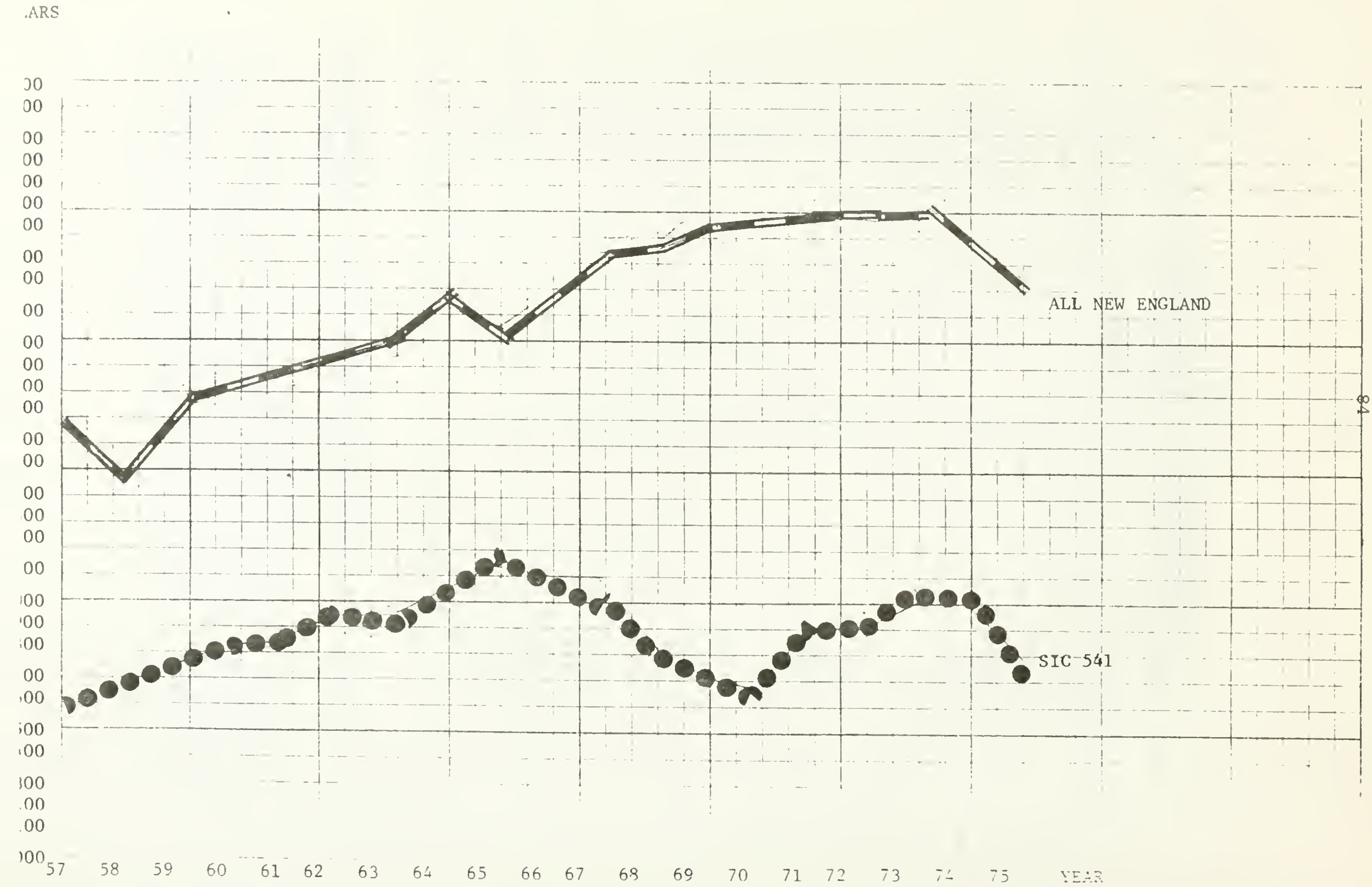
COMPARISON OF REAL ANNUAL EARNING:
ALL NEW ENGLAND INDUSTRY AVERAGE VS. RETAIL GROCERY

Year	All New England Average	Retail Grocery / All New England	Retail Grocery
1957	$3,595	72.0	$2,591
1958	3,469	76.0	2,649
1959	3,700	73.3	2,715
1960	3,752	74.7	2,805
1961	3,832	74.1	2,840
1962	3,907	75.4	2,949
1963	3,980	74.1	2,950
1964	4,128	73.2	3,023
1965	4,053	77.5	3,143
1966	4,191	74.1	3,107
1967	4,320	71.8	3,105
1968	4,357	66.4	2,894
1969	4,411	62.6	2,765
1970	4,449	60.8	2,706
1971	4,466	66.4	2,967
1972	4,448	66.5	2,959
1973	4,516	68.2	3,084
1974	4,388	70.0	3,074
1975	4,227	67.5	2,855

SOURCE: LEED

Note: Earnings were deflated by the Boston Consumer Price Index (1967=100).

FIGURE 2
MEAN WAGES PAID BY PRIMARY EMPLOYERS: ALL NEW ENGLAND VS. SIC 541



46% of their workers earning less than $2,500 (see Table 21). Although these percentages are higher for older workers, one should view these aggregate figures with caution. This is primarily because of the part-time influence and the fact that many older workers hold more than one job.

To get a clearer picture of earnings in the grocery industry and to reduce the influence of part-time work, dual job holders and tenuous attachment to an industry, it is necessary to examine only those grocery workers who received the majority of their earnings from this industry and only those workers who had only <u>one</u> employer in the grocery industry. These workers could then be compared to a regional all-industry average earnings category composed of workers assigned to the industry where they earned the majority of their wages. As can be seen in Table 22, workers in the age bracket less than 25 years on average make only 84% as much as young workers in all other industries in New England. Workers aged 25-34 earn an average 91% as much as the regional average. This, however, has varied from a low of 83% in 1972 to a high of 98% just two years later in 1974 for this group of workers. The age cohort which does the worst relative to other industries is the 35-54 age cohort. This, no doubt, is due to the lack of internal career ladders. Since the late 1960's, there was a period of six consecutive years where this cohort's earnings amounted to only 74% of the regional average for all industries. Concurrent with this earnings drop was an exodus of male employees from the industry. In 1968, males comprised 64% of the grocery industry, and by 1973 they were only 56%. Earnings for the over 55 age category were 96% of other industries' average. In fact, in the early 1960's (1961-

Table 21

NEW ENGLAND GROCERY WORKER'S
REAL EARNINGS DISTRIBUTION BY AGE
1975

Annual Earnings	less than 25	%	25-34	%	35-54	%	55+	%
less than $250	243	24.3	36	15.7	23	7.3	15	11.6
250-500	166	16.6	17	7.4	11	3.5	5	3.8
500-1000	188	18.8	29	12.7	25	7.9	10	7.7
1000-1500	134	13.4	21	9.2	24	7.6	12	9.3
1500-2000	80	8.0	18	7.8	21	6.7	8	6.2
2000-2500	54	5.4	7	3.0	21	6.7	9	6.9
2500-3000	36	3.6	9	2.9	17	5.4	7	5.4
3000-4000	43	4.3	10	4.3	35	11.1	16	12.4
4000-5000	22	2.2	11	4.8	16	5.1	6	4.6
5000-6000	11	1.1	17	7.4	25	7.9	7	5.4
6000-8000	16	1.6	25	10.9	41	13.0	17	13.1
8000-10K	7	.7	19	8.3	32	10.2	11	8.5
10K-12K	0		4	1.7	9	2.8	0	0
12K-15K	0		4	1.7	6	1.5	3	2.3
15K+	0		1	.4	7	2.2	3	2.3
Col. Total	1000		228		313		129	
Chart %	59.88		13.65		18.74		7.72	

SOURCE: LEED

Note: Earnings were deflated by the Boston Consumer Price Index (1967=100).

Table 22

Average Yearly Earnings by Age: 1957-1975

	Less than 25			Age 25-34			Age 35-54			Age 55 and over		
	Grocery	All N.E. Industry	SIC 541 / All N.E. Industry	Grocery	All N.E. Industry	SIC 541 / All N.E. Industry	Grocery	All N.E. Industry	SIC 541 / All N.E. Industry	Grocery	All N.E. Industry	SIC 541 / All Industry
1957	1,251	1,633	.76	3,457	3,784	.91	3,851	4,382	.87	3,558	3,834	.92
1958	1,333	1,540	.86	3.242	3,682	.88	4,250	4,244	1.00	3,485	3,757	.92
1959	1,229	1,641	.74	3,503	3,906	.89	4,494	4,570	.98	3,877	3,018	.95
1960	1,346	1,617	.83	3,724	4,201	.88	4,427	4,684	.94	3,868	3,958	.97
1961	1,343	1,718	.78	4,024	4,137	.97	4,194	4,809	.87	4,134	4,018	1.02
1962	1,486	1,695	.87	4,155	4,357	.95	4,497	4,934	.91	4,499	4,045	1.11
1963	1,614	1,755	.91	4,002	4,360	.91	4,397	5,039	.87	4,432	4,197	1.05
1964	1,577	1,846	.85	4,399	4,584	.95	4,601	5,260	.87	4,715	4,321	1.11
1965	1,574	1,834	.85	4,487	4,651	.96	4,624	5,233	.88	4,927	4,279	1.15
1966	1,503	1,860	.80	4,789	4,829	.98	4,646	5,415	.85	4,792	4,657	1.02
1967	1,518	1,874	.81	4,525	4,955	.91	4,764	5,677	.83	4,718	4,660	1.01
1968	1,405	1,864	.75	4,444	4,820	.92	4,308	5,864	.73	4,673	4,780	.97
1969	1,300	1,880	.70	4,253	4,786	.88	4,348	6,046	.71	4,430	4,938	.89
1970	1,403	1,902	.73	4,109	4,911	.83	4,400	6,076	.72	3,830	4,918	.77
1971	1,620	1,755	.92	4,302	4,946	.86	4,750	6,129	.77	4,659	5,080	.91
1972	1,605	1,742	.92	4,115	4,929	.83	4,620	6,246	.73	5,003	4,999	1.008
1973	1,716	1,759	.97	4,323	5,124	.84	4,948	6,390	.77	4,393	5,131	.85
1974	1,585	1,704	.93	4,764	4,856	.98	4,243	6,450	.81	4,045	4,839	.83
1975	1,515	1,658	.91	4,248	4,617	.92	4,948	6,011	.82	4,182	4,940	.84

SOURCE: LEED

1967), this age cohort actually fared better than the all-industry average. This could possibly be explained by the fact that the grocery industry employs relatively few workers in this age category and the relatively few could possibly work more hours than the average 55 plus worker in other industries.

Earnings in the grocery industry have more or less continued to drop relative to average earnings in all New England industries. The ratio for males is in the order of 68% of average New England earnings for males, whereas earnings for females have been about 77% of the female New England average (see Table 23). One might jump to the conclusion that females fare better than males in the grocery industry. This is true only when one compares males to males and females to females. When female earnings, however, are compared to male earnings within the grocery industry, there exists a strong disparity. Over the study period, the highest ratio of female to male earnings was in 1968; this still represented only 68% (see Table 24). It may appear there is evidence of sex discrimination; however, it should be noted that many of the positions filled by women in this industry are of a part-time nature. Thus a strict comparison of earnings across all workers does not control for this fact.

A more meaningful analysis of earnings is to look at the earnings of workers who have worked all four quarters or workers which show the greatest stability in the industry. For young males under twenty-five who worked all four quarters, there is a relative improvement in earnings when compared to the same age group for the all N.E. male average earnings. These young, stable male workers' earnings are approximately 75% of the all N.E. average, compared to only 67% of the all N.E. average for males

Table 23

Ratio of Grocery Earning to All New England Average by Sex

	Males			Females		
Year	Retail Grocery	All Industry Average	Ratio	Retail Grocery	All Industry Average	Ratio
1957	3,076	4,559	.67	1,522	2,050	.74
1958	3,114	4,310	.72	1,643	2,076	.79
1959	3,174	4,650	.68	1,619	2,150	.75
1960	3,431	4,778	.71	1.627	2.139	.76
1961	3,444	4,872	.70	1,688	2,188	.77
1962	3,507	4,939	.71	1,882	2,233	.84
1963	3,538	5,052	.70	1,891	2,250	.84
1964	3,581	5,188	.69	1,993	2,386	.83
1965	3,837	5,113	.75	1,976	2,352	.84
1966	3,838	5,350	.71	1,968	2,388	.82
1967	3,784	5,541	.68	2,045	2,494	.81
1968	3,503	5,646	.62	1,996	2,506	.79
1969	3,495	5,678	.61	1,824	2,566	.71
1970	3,394	5,780	.58	1,826	2,553	.71
1971	3,806	5,796	.65	1,879	2,569	.73
1972	3,875	5,770	.67	1,878	2,599	.72
1973	4,016	5,926	.67	1,991	2,563	.77
1974	3,886	5,772	.67	1,953	2,527	.77
1975	3,687	5,540	.66	1,816	2,519	.72
		Av. Ratio = 67.7			Av. Ratio = 77.4	

SOURCE: LEED

Table 24

Ratio of Female to Male Earnings in the Grocery Industry

Year	Females in Grocery	Males in Grocery	Ratio
1957	1,522	3,076	.49
1958	1,643	3,114	.52
1959	1,619	3,174	.51
1960	1,627	3,431	.47
1961	1,688	3,444	.49
1962	1,882	3,507	.53
1963	1,891	3,538	.55
1964	1,993	3,581	.55
1965	1,976	3,837	.51
1966	1,968	3,838	.51
1967	2,045	3,784	.54
1968	1,996	3,503	.56
1969	1,824	3,495	.52
1970	1,826	3,394	.53
1971	1,879	3,806	.49
1972	1,878	3,875	.48
1973	1,991	4,016	.49
1974	1,953	3,886	.50
1975	1,816	3,697	.49

Av. Ratio = .51

SOURCE: LEED

working in the grocery industry at any time during the year. The position of females under twenty-five, on the other hand, is not improved when looking at workers who were employed all four quarters. This ratio is approximately the same (77%) as the overall female grocery workers' earnings compared to the all N.E. female average earnings (see Table 24). However, when comparing both male and female young grocery workers, who worked all four quarters, we see on average females earn approximately 80% of the males' annual earnings (see Table 25). This is a great improvement over the ratio of overall female grocery earnings to overall male grocery earnings or 50%. What one may conclude from this is that within the grocery industry certain age/sex groups fare better than others with respect to earnings, but because of the part-time nature of the industry, it is difficult to attribute this to sex discrimination.

Dun and Bradstreet Data

The Dun and Bradstreet Corporation gathers data on establishments for credit rating purposes. These data include the year of firm's birth, location, net worth, number of employees, sales, SIC code and type of ownership. Since employment growth within the grocery industry may be determined by certain categories of firms, depending on certain characteristics such as age, size, and ownership, the Dun and Bradstreet data will be utilized to examine which type of firms are experiencing employment growth or decline. For our analysis, these data are available for three time periods : 1969-1972, 1972-1974, 1974-1976. Since Dun and Bradstreet has continually expanded its coverage, the sample size has also increased. It is for this reason that each of these three time periods should be thought of as a discrete panel study not as

Table 25

Comparison of Sexes Working All Four Quarters

Year	Females less than Age 25 GROCERY	Males less than Age 25 GROCERY	Ratio
1957	2,184	2,514	.86
1958	2,134	2,328	.91
1959	2,446	2,634	.92
1960	2,166	2,582	.83
1961	2,266	2,655	.85
1962	2,368	2,761	.85
1963	2,407	2,958	.81
1964	2,273	3,042	.74
1965	2,540	3,193	.79
1966	2,407	3,148	.76
1967	2,541	2,901	.87
1968	2,450	2,927	,83
1969	2,200	3,028	.72
1970	2,027	2,690	.75
1971	1,919	3,145	.61
1972	2,141	3,109	.68
1973	2,289	3,553	.64
1974	2,198	3,144	.69
1975	2,138	2,833	.75

Av. ratio = .78

seven years of continuous data on a fixed set of firms. In addition to age, size and ownership, the data allow the measurements of gross flows of births and inmigration, as well as deaths and outmigrations. Also, employment expansion and contractions in establishments that don't move are available.

The employment data indicate that in the 1969-1972 period, employment growth or net change occurred primarily in the firms which employed 100-500 employees or the relatively large supermarkets (28,000 to 32,000 square feet). Similarly, in the same time frame 1969-1972, the ownership category indicated that the headquarters/branch group (i.e. corporations) was experiencing the most growth (see Table 26). A headquarter/branch establishment is either a headquarter or a branch plant/office/outlet of a multi-plant corporation. A branch is physically separated from a "headquarters," but is wholly owned by the firm and seldom has its own name. This group is what we would consider a grocery chain or an independent grocer who owned more than one store. It should be noted that there is a definitional distinction between Dun and Bradstreet's definition of an independent and the Census definition of an independent. The Dun and Bradstreet defines an independent establishment as a firm that operates at only one address; whereas the Census Bureau's definition is an owner of less than eleven stores.

In the 1972-1974 time period, the headquarter/branch or the supermarket chains and multi-store independents were continuing their employment expansion as was the size category which employed 100-500 workers (see Table 27.) The ownership category "independent" (a firm that operates at only one address) experienced a slight decline. The single store

Table 26

1969-1972 Components of Employment Change

New England Supermarkets

Age	1969 Total	Net Change	Births and In-Migration	Deaths and Out-Migration	Expansion	Contractions
0-4	7,883.0	27.8	50.9	-34.5	18.3	- 6.9
5-8	4,718.0	-14.8	.1	-28.7	21.8	- 8.0
9-12	5,067.0	-13.4	.0	-20.7	18.3	-11.8
13+	17,177.0	0.0	.0	-15.2	20.5	- 6.9
TOTALS	34,845.0	2.4	11.6	-22.1	19.8	- 6.9

Size	1969 Total	Net Change	Births and In-Migration	Deaths and Out-Migration	Expansion	Contractions
0-20	20,102.0	22.3	19.4	-24.1	31.7	- 4.6
21-50	8,885,0	22.1	28.4	-15.5	14.8	- 5.7
51-100	5,835.0	11.2	34.9	-12.1	6.9	-18.4
101-500	2,844,0	39.2	70.2	-30.8	7.5	- 7.6
501+	3,230.0	-21.7	0.0	-21.7	0	0
TOTALS	40,896.0	18.4	25.6	-20.8	20.3	- 6.6

Ownership	1969 Total	Net Change	Births and In-Migration	Deaths and Out-Migration	Expansion	Contractions
INDEP	28,830.0	9.1	13.3	-19.9	22.0	- 6.3
HD/BR	8,847.0	75.2	74.1	-13.2	20.5	- 6.1
PAR/SUB	3,219.0	-54.6	1.8	-49.4	4.4	-11.4
TOTALS	40,896.0	18.4	25.6	-20.8	20.3	- 6.6

SOURCE: Produced by David Birch, MIT

Table 27

1972-1974 Components of Employment Change
by Age Employment and Ownership

New England Supermarkets

Age	1972 Totals	Net Change	Births and In-Migration	Deaths and Out-Migration	Expansion	Contractions
0-4	7,538.0	23.0	36.3	-18.7	10.8	- 5.4
5-8	5,260.0	-7.1	0	-11.3	9.4	- 5.2
9-12	4,395.0	-7.0	0	- 9.5	8.6	- 6.1
13+	19,918.0	-5.8	0	- 9.9	9.5	- 5.4
TOTALS	37,012.0	-3.9	7.4	-11.8	9.6	- 5.4

Employment	1972 Totals	Net Change	Births and In-Migration	Deaths and Out-Migration	Expansion	Contractions
0-20	24,753.0	2.1	9.3	-14.9	11.2	- 3.5
21-50	11,417.0	18.1	18.2	-10.0	14.3	- 4.3
51-100	8,641.0	1.5	8.3	- 4.1	3.6	- 6.4
101-500	5,063.0	17.1	20.4	- 2.6	9.8	-10.5
501+	600.0	0.0	0	0	0	0
TOTALS	50,474.0	7.1	12.2	-10.5	10.3	- 4.8

Ownership	1972 Totals	Net Change	Births and In-Migration	Deaths and Out-Migration	Expansion	Contractions
INDEP	31,537.0	-0.4	8.7	-12.8	8.1	- 4.5
HD/BR	16,824.0	21.6	20.1	- 6.9	13.8	- 5.4
PAR/SUB	2,113.0	4.5	0.0	- 6.0	15.9	- 5.3
TOTALS	50,537.0	7.1	12.2	-10.5	10.3	- 4.8

SOURCE: Produced by David Birch, MIT

owners have been experiencing a decline because they don't share the economies of scale of the multi-store owners. As seen in Table 27, the deaths and outmigrations outnumber the births and inmigration in this ownership category.

In the 1974-1976 period, the one store independent continued to decline and the headquarter/branch ownership continued its employment expansion. The size category 101-500 employees suffered a mild decline in this time period (see Table 28).

Overall, the Dun and Bradstreet data indicate that the ownership category headquarters/branch, which includes supermarkets, chains and multi-store independents is where the growth in the grocery industry is taking place. The one store owner appears to be disappearing as the industry continues its "shake out" of the less efficient stores.[3]

Trade Unionism

Unions have historically never been very strong in the grocery industry in New England. According to an industry spokesman, the metropolitan areas of N.E. are approximately 30 percent unionized in the grocery industry, whereas the West Coast's metropolitan areas are virtually 100 percent unionized. Of the states in New England, Rhode Island has the greatest percentage of grocery stores unionized. It is not clear why Rhode Island has a stronger union influence, but some grocers believe

3. I have not said anything in the text about the third ownership category in Tables 26-28: "Par/sub," which refers to parent conglomerates and their subsidiary businesses. In this industry, especially, D&B's category here is ambiguous. Moreover, it is very small, accounting for only 3-7% of total New England employment.

Table 28

Components of Employment Change
New England Supermarkets, 1974-1976

Age	1974 Total	Net Change	Births and In-Migration	Deaths and Out-Migration	Expansions	Contractions
0-4	7,348.0	26.5	35.9	-18.7	14.1	-4.7
5-8	6,288.0	-9.9	0	-16.5	9.6	-3.0
9-12	4,083.0	-9.9	0	-16.3	12.1	
13+	20,543.0	-9.1	0	-13.0	7.4	-3.9
TOTALS	38,262.0	-2.5	6.9	-15.0	9.5	-3.9

Size	1974 Total	Net Change	Births and In-Migration	Deaths and Out-Migration	Expansions	Contractions
0-20	25,133.0	-4.3	8.5	-20.3	10.8	-3.3
21-50	12,582.0	6.4	18.0	-15.9	8.8	-4.6
51-100	10,913.0	2.7	19.6	-15.4	3.4	-4.9
101-500	5,620.0	-7.6	15.4	-15.2	2.6	-10.4
501+	1,200.0	-8.3	0	0	0	-8.3
TOTALS	55,448.0	-0.9	13.3	-17.4	7.8	-4.7

Ownership	Total	Net Change	Births and In-Migration	Deaths and Out-Migration	Expansions	Contractions
INDEP	32,997.0	-5.0	7.4	-15.8	7.6	-4.2
HQ/BR	20,018.0	5.3	24.2	-20.3	7.3	-5.9
PAR/SUB	2,433.0	3.2	4.5	-14.9	15.7	-2.1
TOTALS	55,448.0	-.9	13.3	-17.4	7.8	-4.7

SOURCE: Produced by David Birch, MIT

that historically the textile mills of R.I. had this community acceptance and support of unions transferred to the grocery industry and eased the organizing of grocery unions.

One possibility for why the region as a whole has not been able to unionize is the relatively high number of independent grocers. Since labor costs are in excess of 30 percent of the operating cost of a store, one can realize how vehement an independent grocer would be to allowing the formation of a union. Since major chains are the firms that tend to be unionized and they as a rule do not dominate in New England, this may help explain why unions tend to be less prevalent in this area.

Although many of the independents are not unionized, a good deal of these grocers pay union wages or better. One executive of a non-union firm felt that the big advantage of a non-unionized store is in not having the labor restrictions imposed by many collective bargaining agreements. For example, in the event of a snow storm, an independent can call his employees and tell them not to come in and not pay them whereas some union contracts have a guarantee of a minimum of four hours pay if scheduled to work. Regionally, New England had only three percent of the stores unionized by meat cutters. Nationally, 20 percent of the stores have clerks unionized, and 25 percent of the stores employ unionized meat cutters. The only other area of the country which has fewer overall unionized stores than New England is the Southwest. On the other hand, the Pacific States regionally have 51 percent of the stores unionized by clerks and 62 percent of the stores unionized by the meat cutters (see Table 29).

As of June 5-6, 1979, one will not refer to the International Union

Table 29

Distribution of Regional Unionization of Retail Clerks and Meat Cutters

	Retail Clerks	Meat Cutters
Pacific	51	62
Mid Atlantic	34	35
West Central	22	32
East Central	11	14
New England	3	6
Southeast	3	3
Southwest	3	5
National	20	25

SOURCE: Progressive Grocer, April 1977, p. 101

of Retail Clerks (730,000 members) or the Meat Cutters and Butcher Workmen Union (500,000 members) but rather to the newly merged United Food and Commercial Workers International Union or UFCI.[4] The UFCI is the largest affiliate in the AFL-CIO with 1,230,000 members followed by the American Federation of State County and Municipal employees (which is the second largest AFL-CIO affiliate with a membership in excess of one million workers). One should note that the unaffiliated Teamsters and Auto Workers are both larger than the UFCI. This merger of the two grocery unions could mean a further shift in the balance of power in the AFL-CIO away from the traditionally dominating building trades and industrial unions to more service-oriented industries. The public employees (AFSCME) and UFCI are expected to try to unionize the future growth service industries. The former president of the Retail Clerks International Union, William Wynn, will head the newly merged CFUI and has stated that the highest priority will be to organize the rather weakly unionized retail food industry. In fact, Wynn has stated that New England retail food industry is a prime target for future organizing and expects to organize a minimum of 100,000 potential UFCI workers in New England alone. He plans to do this by utilizing the relative strength of the former meat cutters in New England.

The major concerns on upcoming collective bargaining contracts are similar to those in the past and include wages, cost of living increases, and fringe benefit packages. In addition, given the unstable economy

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4. It should be noted that International Union of Retail Clerks includes department store as well as grocery workers.

and the recent bankruptcy and closing of many stores, union negotiators are more conscious of job security issues and consequently will be looking for protection in the form of severance pay and temporary continuation of health care plans. In general, unions prefer to have one full-time worker employed as opposed to two part-time workers because full-time average better hourly wages and are more apt to be long-term union members. When part-timers (7.0% of the industry) are employed, however, unions typically negotiate vacation pay, pensions and health care for this group.

Several advances have been made in the area of collective bargaining for the grocery industry. Union leaders are now talking to board chairmen of grocery chains. This was unheard of a few years ago. Union locals are currently inviting sister locals from other jurisdictions to attend their negotiation talks in an effort to standardize job descriptions across areas (and to provide financial support to the local in case of a strike). In some areas of the country with concentrated, highly populated markets, "master agreements" have been negotiated. In New England, however, the grocery industry has generally watched the outcome of the Stop and Shop collective bargaining agreement and has for the most part followed suit. Many grocery executives in New England that have union shops wish it would spread to the non-union grocers so they will not be at a cost disadvantage. They have stated that the non-union grocers are "killing" us.

One recent labor/management phenomenon is the Joint Labor Management Committee. Expected decreases in productivity, forecast by the Cost of Living Council, led to the establishment of the Joint Labor

Management Committee. Composed of a voluntary group of major grocery chains, meat cutter's union representatives, retail clerks union and teamsters, this committee was established to help solve collective bargaining problems resulting from technological improvements. The Joint Committee facilitates collective bargaining by sharing information on wages settlements, and technological change. In particular, this Joint Committee has focused on scanning, automated check out and automated warehousing. It is generally believed to be an advancement in labor management relations.

Members of the Joint Labor/Management Committee include chief executives of major grocery chains and the presidents of the three unions. In addition, a steering committee composed of staff officials from the unions and labor relations vice presidents of the major companies was established to do support work. The Steering Committee meets once a month whereas the Joint Labor/Management Committee meets quarterly.

One of the accomplishments of the Joint Labor/Management Committee includes a more workable health and safety standard (which OSHA has accepted). Another more recent development of the Committee is a funded research study which will examine the potential danger of polyvinyl chloride used in meat wrapping. In addition, the Committee is funding a study of the costs of health and pension plans under collectively bargained benefit plans.

The activities of the Committee have been readily accepted by the Committee's labor representatives because it has acted on a number of industry problems affecting workers. Company representatives on the other hand do not share this same satisfaction. They say that a persistent problem has been to reduce the upward pressure on wages. It should be noted that if this upward pressure on wages exists in the grocery industry, it is relatively less severe than in most other industries. As we saw earlier, the LEED data indicate a falling of wages in the grocery industry vis-a-vis other industries. In addition, company representatives have striven for regionalization of bargaining in hopes that it will allow greater stability and thereby lower the pressure on wages.[5] There, however, has been very little success on this issue.

5. James Driscoll. Three Cases of Union-Management Problem Solving, U.S. Dept. of Labor (contract J-9-D-0047), 1979.

CHAPTER VI

GOVERNMENT LEGISLATION AND REGULATION

Government

The grocery industry is affected, as are most major industries, by numerous federal, state and local regulations. These regulations affect the industry's dealings with suppliers, labor and finally consumers themselves. Existing legislation which affects the grocery industry's daily operations will be discussed first, as will potential legislation relevant to this industry.

Perhaps the most significant piece of legislation affecting the retail grocery industry is the Robinson-Patman Act which was passed in 1936. This Act was designed to curtail the monopsony power exerted by A & P over its suppliers. Prior to the passage of this Act, A & P argued that because of the large quantity it purchased, it should receive a lower unit price from suppliers. The effect of the Robinson-Patman Act was to outlaw quantity discounts i.e., to forbid sellers from price discriminating against small buyers in favor of large buyers. This legislation increased competition in the grocery industry by allowing independents to purchase supplies at the same price as chains, thus reducing one competitive advantage of chain stores.

Regulations and legislation which affect some of the industry's relations with labor include OSHA (Occupational Safety and Health Act) and the Council on Wage and Price Stability. Most New England grocery executives I interviewed believe that government inspections by health department and OSHA officials are worthwhile. One complaint voiced by many was that at times there have been two or three inspectors from different agencies "running around the store." Another grocery executive stated that OSHA requirements were for the most part worthwhile but a few were ridiculous. He cited one case where OSHA required a fence around any drop-off over four feet. He explained that in most instances, a loading dock has a drop-off in excess of four feet. The idea of a fence here would limit the workers' access to trucks backed up in order to load and unload and consequently would require a moveable fence.

Problems may occur in the grocery industry as a result of the Council on Wage and Price Stability voluntary wage/price guidelines. If the unions ignore these guidelines increased government intervention in the industry's activities may result. In the Fall of 1979, President Jimmy Carter, with the help of anti-inflation aide Alfred Kahn, publicly attacked the retail grocery industry as a major contributor to the national problem of inflation. This allegation was met head on by industry spokesmen, who apparently convinced the Carter administration within 24 hours that the retail grocery industry was not responsible for the high cost of food.

Another law which has caused mixed feelings for the grocery retailers in New England is the Blue Laws. Originally the Blue Laws were written to forbid Sunday retail openings on the Lord's Day. However, this law has been rewritten to allow stores that have less than seven employees or those stores that have not been subject to unit pricing laws to remain open on Sunday. This revision infuriated some of the supermarket retailers who subsequently were successful in having the law repealed totally in New Hampshire and partially in other New England states. The Blue

Laws are being challenged county by county in Vermont. Presently, the counties of Windsor, Caledonia, Windham, and Bennington have succeeded in having the Blue Laws repealed on the grounds that the law is discriminatory and therefore unconstitutional.[1] As a result, the southern half of Vermont has repealed the law and the nine northern counties remain to challenge it.

In addition, most of the New England states that have not repealed the Blue Laws are making exceptions to it. In Massachusetts, retailers are allowed to remain open all the Sundays in December before Christmas in order to ease the shopping rush.

On the other hand, some grocery executives agree with government regulations requiring Sunday closing or Blue Laws. Studies have been done which indicate that no more food is sold in a seven day period than in a six day period. Grocers feel that in the absence of Blue Laws the sales volume is spread out over a longer period of time and consequently more costly. The same logic applies to longer store hours; however, many firms have been forced to stay open longer hours to be competitive. Exceptions to this sentiment are held by grocery retailers located at the Massachusetts-New Hampshire border. Sunday openings by New Hampshire retailers and the existence of lower tax New Hampshire Liquor stores has caused difficulties for Massachusetts grocery retailers, although recently the state of Massachusetts has threatened to arrest people who travel to New Hampshire to avoid Massachusetts state liquor taxes.

Other areas of government involvement which may affect the grocery industry are legislation on the use of scanning, food labeling and returnable bottles. Consumer advocacy groups have in the past supported laws which now will forbid grocers from achieving maximum savings on scanning and the use of the universal price code. As indicated earlier, existing legislation now requires grocers to price each individual item so that consumers can make price comparisons. Consumer groups have lobbied against legislation to alter this practice, fearing that grocers will program overcharges into the grocery bill. In addition to scanning, future FDA regulations on food safety and labeling by content priority may affect the packaging of the product and consequently marketing and warehousing of these products.

Perhaps the most controversial government legislation which directly affects the grocery industry in New England these days is the Bottle Bill. A Bottle Bill requires a deposit on bottles and cans which is refunded when they are returned to the store. Such legislation is strongly supported by environmentalists. Maine and Vermont are two New England states that have already passed such bills. In general, the controversy lies between environment concerns and the possible detrimental effects on employment particularly in glass and can manufacturing, the inconvenience of returning bottles and cans and the alleged retail price increase.

A Massachusetts Bottle Bill impact study conducted by the Federal Reserve Bank of Boston concluded that the proposed law is not intrinsically detrimental to employment in that state.[2] In addition, it was concluded that retail prices may actually decline. This study, however,

2. Richard W. Kopcke, "The Economic Effects of Requiring Deposits on Beverage Containers." New England Economic Indicators, March 1976.

found thatbetween 400 and 1,000 additional full-time workers would be needed in grocery stores, supermarkets and liquor outlets. It is exactly findings such as this that have caused the grocery industry to be vehemently opposed to the Bottle Bill. The grocery industry has fought passage of Bottle Bills (especially in Massachusetts) because of the added cost involved in this activity and the health ramifications of leaving unwashed bottles in the backroom of grocery stores. The Retail Food Trade Associations have been the lobby group for grocers opposing these Bills at the state levels.

Two recent pieces of federal legislation which primarily affect the consumers and their purchasing of food products have been the National Consumer Cooperative Bank Act of 1978 and the Farm-to-Consumer Bill.

The National Consumer Cooperative Bank Act mandates the creation of a cooperative bank established to lend 3 billion dollars to non-profit cooperatives in hope of developing these enterprises. This amount may seem small at a national scale but one must remember this $3 billion will be able to leverage approximately ten to twenty times this amount. This money will affect the grocery industry because nonprofit food co-ops are eligible to receive funding from this Act.

Because of continued high unemployment and high inflation, and the disproportionate effect this type of an economy has on the poor, unemployed and people on fixed incomes, the Congress felt that worker cooperatives would be one way to help alleviate these problems. The purpose of the Act is as follows:

> The Congress finds that user-owned cooperatives are a proven method for broadening ownership and control of the economic organizations

increasing the number of market participants, narrowing price spreads, raising the quality of goods and services available to their membership and building bridges between producers and consumers and their members and patrons.[3]

Worker cooperatives are not a new phenomenon in the United States. In fact, the Knights of Labor established many worker cooperatives, including fifty-one grocery stores in the mid-1880's.[4] Because the National Consumer Cooperative Bank seems unconventional and new, the established financial community views this whole arrangement with suspicion. Another problem which will have to be overcome to insure the success of the Coop Bank will be the confusion over who qualifies as a cooperative under this Act. As it stands, it is difficult to identify what groups are eligible to participate.

Another recent piece of legislation is the Direct Farm to Consumer Bill. This bill provides $1.5 million to facilitate so-called farmers' markets, in which farmers bring their produce directly to consumers in urban and suburban areas. Because of the negligible amount appropriated, it is questionable how much of an impact this bill will have.

Government regulation and legislation is viewed very differently by grocers throughout New England. The majority view is that private industry is over-regulated and as a result the grocery industry runs less efficiently than it might. Other grocers view the regulation as necessary and only inconvenient for the less than reputable grocer.

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3. Public Law 95-351, 95th Congress-National Consumer Cooperative Bank Act--approved Aug. 20, 1978.

4. Steven Dawson, "Worker Cooperatives and the National Consumer Cooperative Bank Act," copyright 1979; Industrial Cooperative Association, Inc.

Many grocery executives readily admitted not seeking advice or aid from government agencies and refused to get involved with government programs because of perceived bureaucratic red tape. Most executives, however, did state that they took advantage of job credits such as flat $500 sweetners offered by the government to hire from the unemployment rolls. These job credits are typically awarded through State Divisions of Commerce and Development or Employment and Training Agencies.

Another type of windfall from the government consisted of certain tax incentive programs designed to attract businesses into depressed areas in the N.E. States. Some grocers admitted to taking advantage of the tax break, but also stated that the tax incentive had little to do with the location decision and was viewed as essentially windfall savings.

Contrary to most grocery executives' negative opinions on government agencies, one grocery executive was very supportive. In fact, both state and federal agencies facilitated a move of his company's headquarters and helped finance a huge warehouse. The State Division of Commerce and Development was helpful in seeking a new location and the U.S. Economic Development Administration helped with the financing through guaranteed government loans. This executive felt many businesses would be surprised at how helpful government can be if they only bothered to inquire.

In summary, the grocery industry in New England has a long history of being regulated by government. The ancient Blue Laws and the Robinson-Patman Act of the late 1930's were some of the initial controls placed on the grocery industry by the government. More recently, controls by

OSHA, the Council on Price and Wage Stability and the Federal Drug Administration's labeling and pricing requirements have further constrained this industry. In addition, Bottle Bills are being passed in certain New England states despite the vehement opposition of the grocery industry.

The grocery industry does not feel threatened by the recent passage of the Consumer Coop Bank Bill or the Farmer to Consumer Bill, but this is due to the relatively small impact these bills will have on the New England grocery industry. Although these various laws have had little impact thus far, most grocery executives feel there will be more and more government constraints placed on them in the years ahead.

Chapter VII

GROCERY INDUSTRY OUTLOOK AND SUMMARY

The Grocery Industry Outlook

Many grocery executives interviewed believe that the major problem in the grocery industry in the future will be the ability to maintain productivity increases. This concern is based on the fact that productivity in real terms has remained approximately constant since the early 1970s. Many of the technological improvements such as scanning and the universal price codes, back hauling, automated warehouses, and central meat distribution centers are expected to help increase productivity; however, the industry executives remain fearful that this will not be enough. In addition, the relatively low wages, more part-timers, and the high turnover of the workforce in this industry will undoubtedly hinder future productivity gains.

Another concern of the grocery executives is the increased competition from the fast food industry. In 1977, twenty-five percent of all food was eaten away from the home. The share of food eaten away from home is expected to rise because of the projected increase in the female labor force participation rate. The participation rate for females in 1970 was 43% and by 1985 it is expected to rise to approximately 51 percent. As females enter the labor force in greater numbers, time-saving devices such as eating away from home should become more popular.

Finally, grocery executives expect keener competition, more government regulation, and stronger consumer advocacy pressure to adversely affect the future of the grocery industry.

Gordon Bloom, a well-known food industry authority, predicts new channels of food distribution. In particular, he expects new technology as well as the need to increase profit margins to be a strong enough impetus to have warehouse-to-customer food delivery. At present there is only one type of system which allows for the automated selection of individual cans in the warehouse. Also, a robot has been developed which can recognize cans and packages by its usual label. This area of warehousing must be automated as it would be economically unfeasible to have a clerk filling individual orders. Bloom's scenario for the future entails consumers watching T.V. for grocery specials, telephoning their order into the warehouse, automatically selected at the warehouse, and a robot placing the items into containers for home delivery. A few obvious problems that will have to be ironed out include some type of credit fund to insure payment upon delivery, and the loss of sales due to impulse buying, particularly on end displays in the supermarkets. Rising energy costs are also expected to play an adverse role in the future well-being of the grocery industry. The cost of energy is often times more costly than the rent paid on an average supermarket. Energy will also indirectly affect transportation costs, which have always been higher in New England because of our distance from food sources.

In additions to Bloom's forecast,[1] Bellinger, Stanley and Allen[2] conducted a national survey of 200 food retailing executives, trade

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1. Gordon F. Bloom, "Future of the Retail Food Industry: Another View," Journal of Retailing, Vol. 54, No. 4, (Winter 1978) pp. 3-14.

2. Danny N. Bellinger, Thomas J. Stanley and John W. Allen, "Food Retailing in the 1980's: Problems and Prospects," Journal of Retailing, Vol. 53, No. 3, (Fall 1977) pp. 59-70.

association officials, academicians, and government officials. This survey inquired about the grocery retail professional's opinion on expected events of the upcoming decade. Twenty-two questions dealing with tomorrow's food retailing environment were asked in Likert form. In addition, two essay-type questions were asked of the respondents. The first asked "What will be the most important problems facing the food retailing industry in the 1980's?" and the second asked "What will be the most important changes in the food retailing industry in the 1980's?"

The findings indicated that only 34 percent of the respondents felt that rising costs could be passed on to consumers. Respondents were evenly split on the question of families spending higher percentages of their income in supermarkets. In addition, 42 percent disagreed that consumer activists will be less influential, while 58 percent either agreed or were uncertain on this issue. Sixty-seven percent felt that store location would become more important to the consumers in the next decade. Ironically, both growth in convenience stores as well as large supermarkets is expected. A strong majority (77 percent) disagreed with the statement that major food chains would be forced to break up into smaller companies. In addition, 74 percent of the respondents felt that consumer legislation would have a serious impact on the retail grocery industry.

Most of the grocery professionals (88 percent) expected competition to become even more fierce in the next decade, and 45 percent believed that unions would be the major reason for bankruptcies in the grocery industry. The majority of the respondents (91 percent) felt the cost of energy would increase throughout the 1980's.

In response to the question of major problems facing the industry, the respondents expected productivity, energy, and competition to be the major concerns. High cost of capital, unions demands, consumerism, and quality personnel were also considered to be concerns of the upcoming decade.

As far as changes in the retail grocery industry were concerned, automated techniques such as universal pricing code and electronic funds transfer were felt to be the wave of the future.

The New England grocery executives felt the 1980's would be more competitive than the last decade. Most of the major chains had an optimistic view of gaining a larger market share and felt that the region wouldn't be totally saturated until 1990. Contrary to this general trend is the rumor that the A&P may get out of New England all together.

The convenience store industry is considered to be a growth sector in N.E. and the shake out of the small Ma and Pa stores is expected to continue. Multi-store independents are expected to continue their success in this region. Some of the executives felt the warehouse store has seen its day and forecast that the large full-service supermarkets is where the limited future growth would take place. Most of the grocery executives felt their growth would occur by stealing the competition's customers as opposed to a general economic expansion of the industry in the region. Because of the small expected growth of the industry, diversification into department stores and clothing stores is expected to continue.

Summary

The grocery industry in New England has grown from the small Ma and Pa stores of the 1940's to the full-service supermarkets providing luncheonette, bakery, florist shop, liquor store, and check cashing services. The ten lane optical scanner and the mini-computers have replaced the back-of-the-bag calculations of the earlier grocery stores.

Supermarkets followed the suburban spread of the 1950's with each grocer striving to locate his store in the new shopping center. The once dominant A&P remained in the urban settings too long with its small stores. As a result, the independents were allowed to get their foothold in the expanding market of the shopping centers. The drawing power of the department stores and banks coupled with supermarkets proved to make these new shopping centers very successful.

This instant success led to a growing number of shopping centers and a growing competition within the grocery industry. In addition to this increasing competition in the New England area, the grocery industry is faced with a number of problems.

Energy and transportation costs to New England are the highest in the country. The loss in the number of farms in the region as well as the decline in the amount of food being processed in the area has also contributed to the high cost of food in New England.

The very competitive nature of the industry has forced some chains to integrate backwards. Meat cutting facilities are now being centrally located to benefit from economies of scale. In addition, some chains are purchasing products from their parent company in order to take advantage of certain price reductions. Chains have also begun to play the role of wholesaler to some independents. Again the competition is fierce at any level within the grocery industry. Some chains and independents have expanded into the convenience store industry to take advantage of the less price sensitive customers.

Unions are another problem from the independent grocers' perspective. Independents fear unions as they perceive a loss of flexibility in managing their stores. Convenience stores are even more fearful as the unusual hours of store operation could be costly in a union contract with overtime and shift differential provisions. The level of unionization in the New England grocery industry is low relative to other parts of the country. However, the newly merged United Food and Commercial Workers International has promised major union organizing drives in this region. It should be noted that great success has not occurred to date. The young/high turnover labor force of the grocery industry has been very difficult to organize outside of the chain supermarkets.

Perhaps the greatest problem facing the grocery industry today is the lack of productivity gains. If the law on pricing is upheld (i.e., price removal is not allowed), it is doubtful that optical scanners will increase productivity to any great extent. To prevent a loss in profit, the grocery industry is vehemently fighting the proposed Bottle Bills.

At a personal level, perhaps the most surprising finding of this study is the unusual camaraderie among these very competitive businessmen in the grocery industry. Each grocer had a certain amount of admiration and respect for his competitors. They liked nothing better than to beat each other at merchandizing, but the admiration of the more innovative grocer was always present throughout the interviews that I conducted.

Appendix

ENTERPRISE INTERVIEW GUIDE

1) How long has your company been serving this area; what geographic area do you cover?

2) Why did your firm decide to do business in this part of the country (i.e., New England, Massachusetts, etc.)? What factors make it pay for you to remain in this location? (Note: write your own name at the top of "CARD A" and ask the person to fill it out at his/her convenience--not now--and mail it back to you.)

3) Who owns the parent company? Can you talk about the legal (or corporate) history of this establishment? For instance, are you owned by some larger national company? If so, when did the acquisition take place? Or is the present enterprise the result of some previous merger or (say) Chapter XI reorganization? From the point of view of the profit picture in this enterprise, what do you see as the main advantage of being a part of the (X company) system? Are there any disadvantages?

4) Has the way you sell changed significantly in the past 20 years? (marketing of special products, greater use of advertising, less reliance on coupons, etc.)

5) Have there been technological improvements in the way your sales are made? (more self-service, new cash registers, scanning, meat cutting machinery, etc.)

6) Have the types of items sold changed significantly? (greater variety in product line, increased sales of non-food items, etc.)

7) Since you started operations at this site, have you ever significantly expanded your facilities here or elsewhere? (expansion of existing stores and/or expanding the number of stores?) When? Why did you undertake the expansion? Was overcrowding a problem? Did you buy or lease the stores and/or capital equipment?

8) How did you finance the expansion? Was the government involved in any way? (e.g., by giving a procurement contract or by subsidizing the cost of expanding.)

9) Can you tell me anything about why the expansion is taking place there rather than somewhere else?

10) If you have stores in the city and in suburban areas, which is more profitable and why? Is transportation or parking a problem?

11) Has it ever been necessary to significantly phase out any of your facilities here, or sell off old equipment which was not then replaced? When? What made it necessary? (e.g., loss of markets, higher costs of doing business, parent company or home office decision.) Was the government involved in any way, directly or indirectly? (e.g., loss of government contracts, government providing contracts or subsidies to company plants located elsewhere, regulations that worsened the profit picture here?)

12) About how often do you replace, overhaul, or do major maintenance work on your principal pieces of capital equipment? Do you do this work yourselves or do you purchase such service from outside? (If a branch of a multi-plant firm: Does the home office provide the replacement capital or the maintenance service?)

13) What has been your sales performance over (say) the last twenty years (or since the enterprise started doing business at this location)? Can you give us data on this which we will, of course, keep in strict confidence? Who have been your principal customers over this period (industrial buyers, wholesalers, shoppers, tourists, etc.)? Do you sell to the (federal, state, or local) government? If so, how important a customer is the government?

14) Who are your major competitors? Does this vary depending on the store location? Do you consider Fast Food as a serious threat to your business? Also, are your profits eroded by the introduction of frozen food? Are large discount groceries affecting your business? (food warehousing?)

15) At the present time, about how many people do you employ per store? How many are part-time? How has your employment changed with peak loads? Do part-timers receive the same wage and fringe benefits as the full time?

16) How has your payroll grown or declined over (say) the last twenty years? Can you give us any data on this which we will, of course, keep in strict confidence. (If she/he won't release payroll data which we would then compare with the employment data to determine changing labor intensity, then ask: Can you give me an estimate of the proportion of your sales dollar that goes to wages, salaries, and fringes, for the past year and for a few other dates, e.g., 1965, 1971?)

17) What proportion of your workforce, if any, is covered by a collective bargaining agreement? Would it be possible for me to have a copy of the current contract? (If not unionized, ask for any current wage and benefit procedures manual, if any, or at least a wage and salary schedule.) Have you experienced any special problems in obtaining labor around here? Are you satisfied with your labor-management relations? (e.g., what has been your experience with strikes, layoffs, job actions, etc.) (Note: write your own name

at the top of "CARD B" and ask the person to fill it out at his/her convenience--not now--and mail it back to you.)

18) Does the Union (wages) affect your competitive position? Does your non-union status affect the availability of labor to your firm?

19) Who are your major suppliers--wholesalers? Are they a cooperative or voluntary affiliation? What services do they provide for you? (supplies, accounting, computer services, advertising.)

20) Has unionization (Teamsters) of wholesalers ever interfered with your receiving goods?

21) Are your suppliers a competitive advantage or disadvantage? (i.e., can you buy goods as cheaply as chains can?)

22) Have you ever applied for or received any tax or other business incentives from local, state, or the federal government?

23) Are there any particular federal regulatory or (say) tariff provisions which have had any especially important impact on your operations? Were they favorable or unfavorable?

24) What industry groups or trade associations represent your interests with federal or state government? In what ways, if any, do you actively participate? (If this is a branch plant, ask whether managers from this plant itself participate, or whether the home office takes care or it.)

25) In closing, what do you feel the local/state/or federal government could be doing to enhance your idnustry's profitability?

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