CPBIS

Sloan 2004 Annual Conference

Wal-Mart versus the Grocery Stores
Managing the Chain

Jean Kinsey
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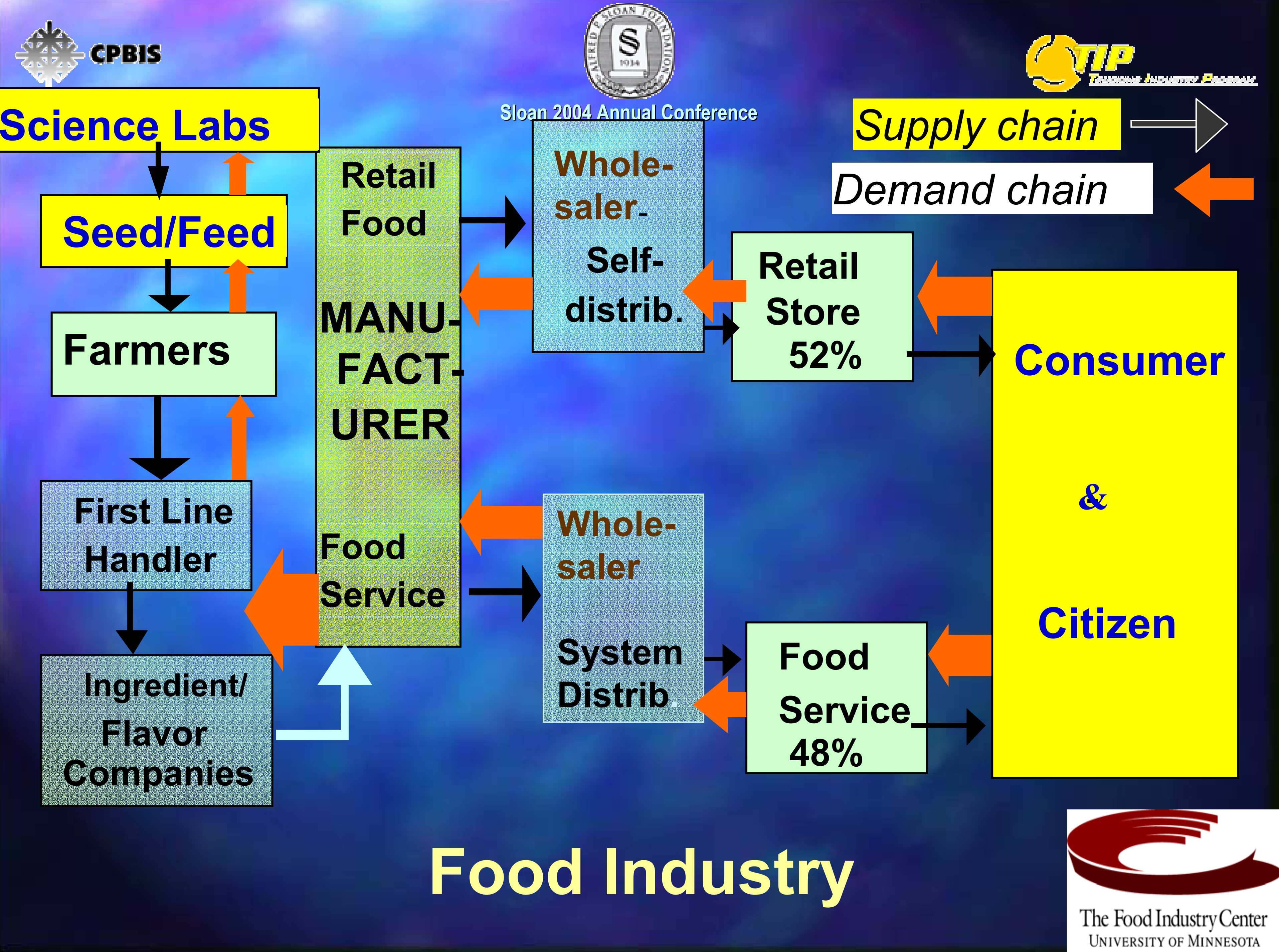
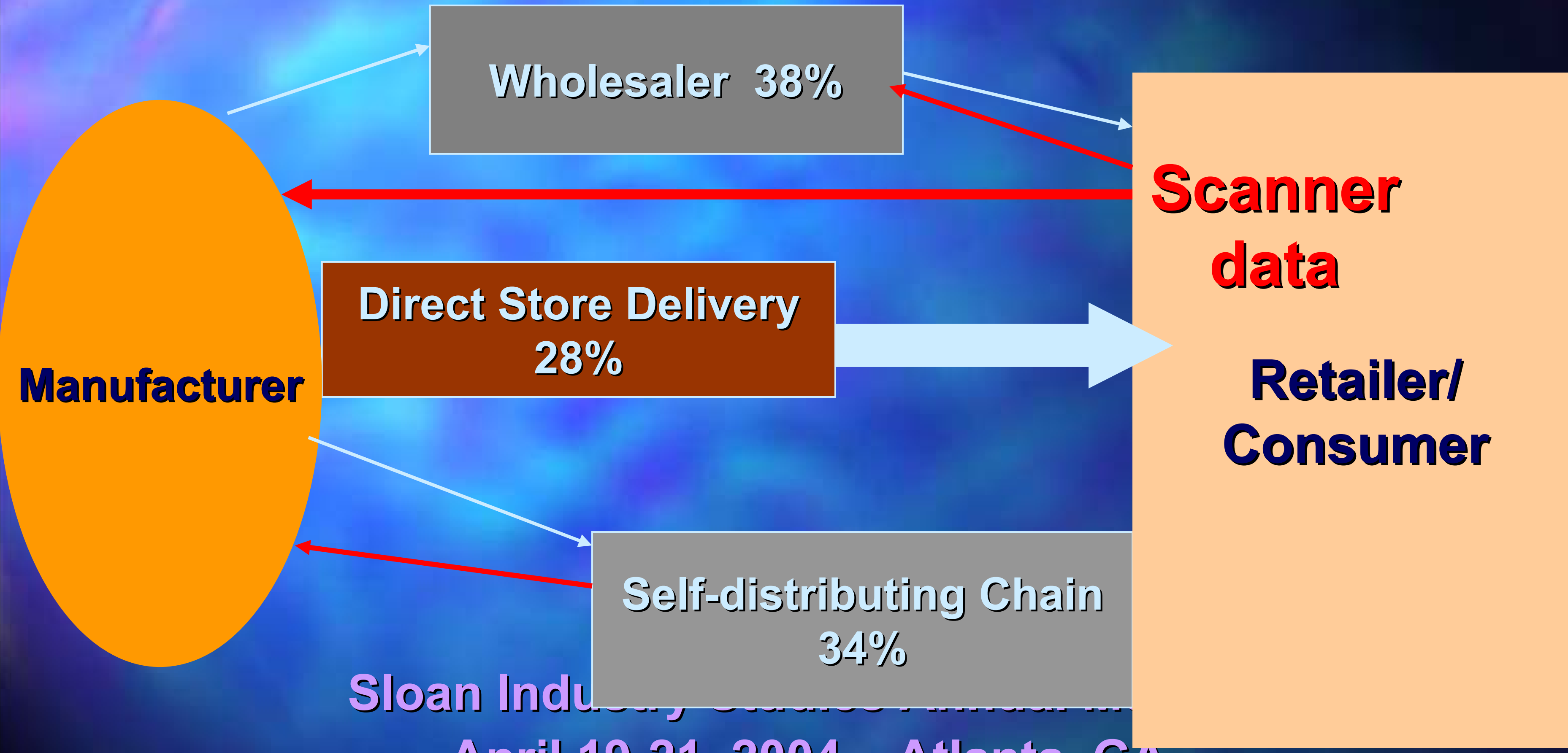
University of Minnesota

Sloan Industry Studies Annual Meeting
April 19-21, 2004 – Atlanta, GA

The Food Industry Center
University of Minnesota



Food Industry



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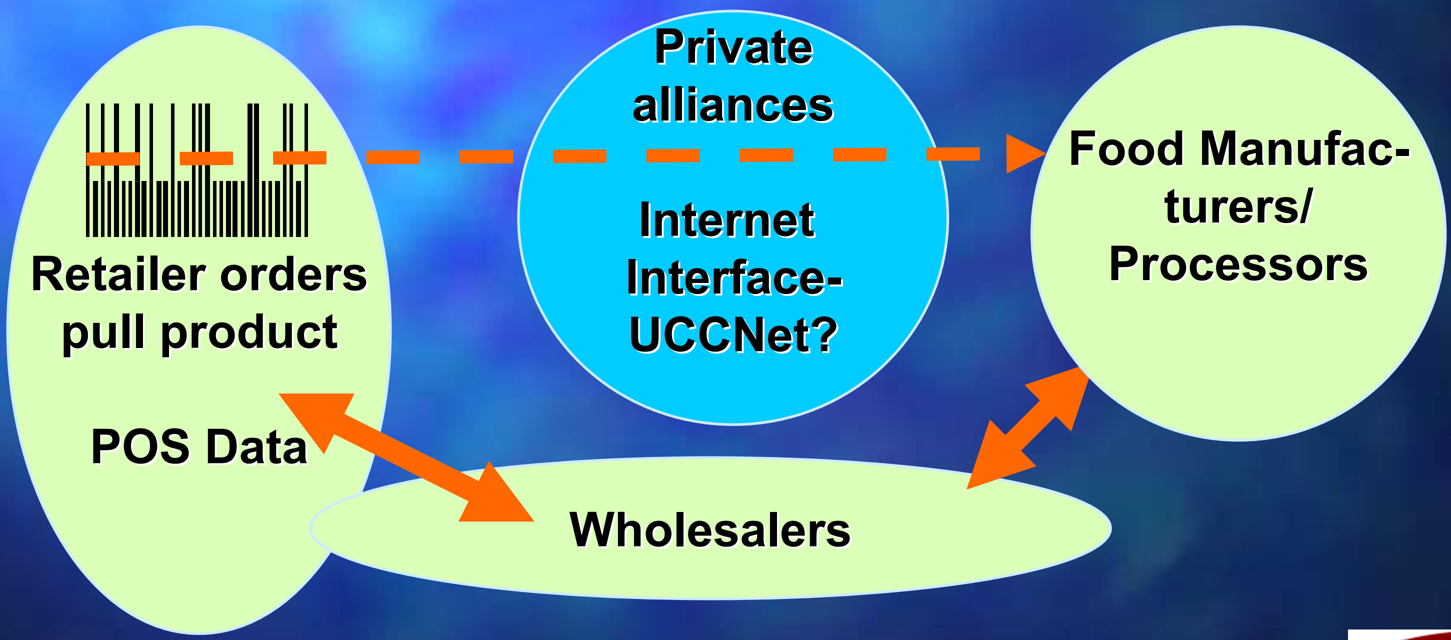
Cost Comparisons

Measure	Wholesaler	Self-Distributor
1997 & 2000	(Percent of Sales at inventory costs)	
Labor	2.46 to 2.40	1.56 to 1.70
Total Operating	3.60 to 3.81	2.28 to 2.70
1997:		
Operating Cost/Case	$.47	$.29
Cases selected/hr.	155	194

FDS, FMI:1997& 2000 Distribution Center Benchmark Report

Information Technology Demands COORDINATION/COMPATABILITY
Supermarkets in General



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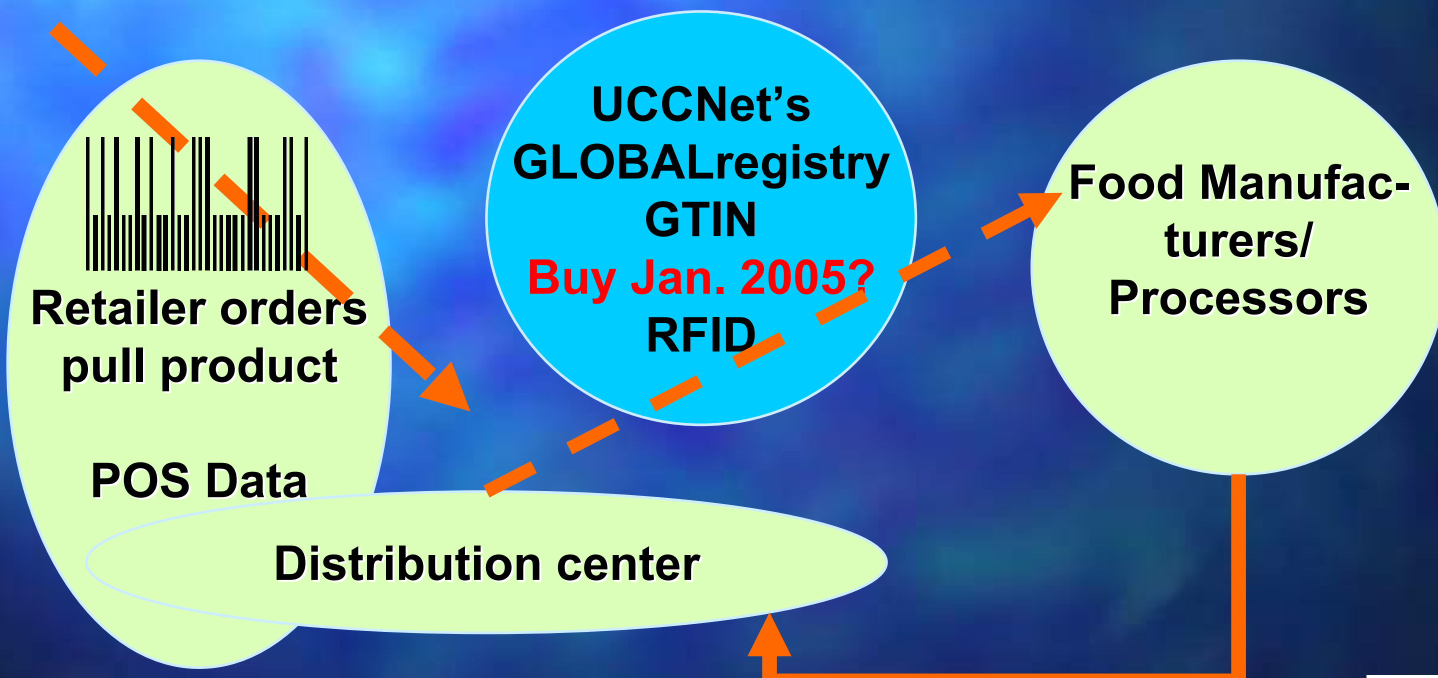
Information Technology Demands COORDINATION/COMPATABILITY
Wal-Mart Model



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Wal-Mart Negotiations - Pricing

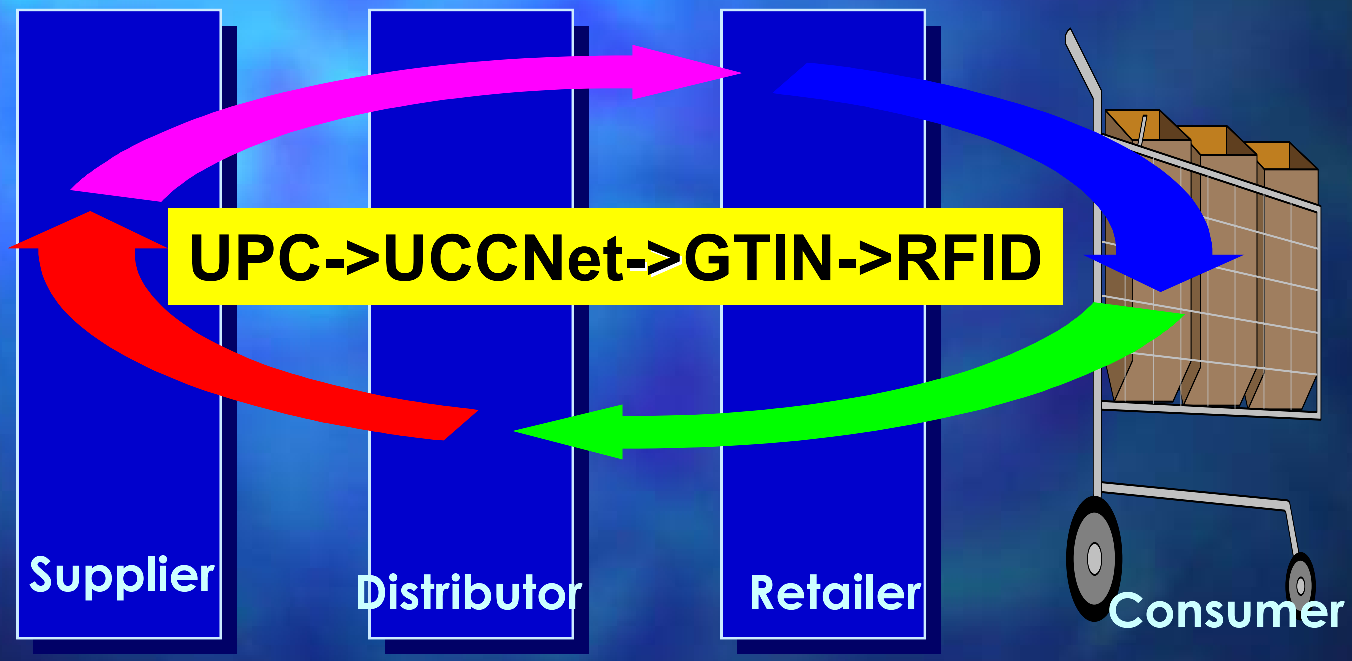
- Manufacturer Price per item = $2.00
- Manufacturer promotion dollars = $.50

- Wal-mart: $2.00 - .50 = $1.50 (COGS)
  - ✓ Mark up 20% and charge $1.80 to consumer

- Other supermarket: $2.00 (COGS)
  - ✓ $.50 to use elsewhere (promotion?)
  - ✓ Mark up 30% and charge $2.60 to consumer

The ECR Vision => CPFR

Timely, accurate, paperless information flow



Smooth, continuous flow of product matched to consumption

Barriers to Full Adoption of GTIN -Manufacturers

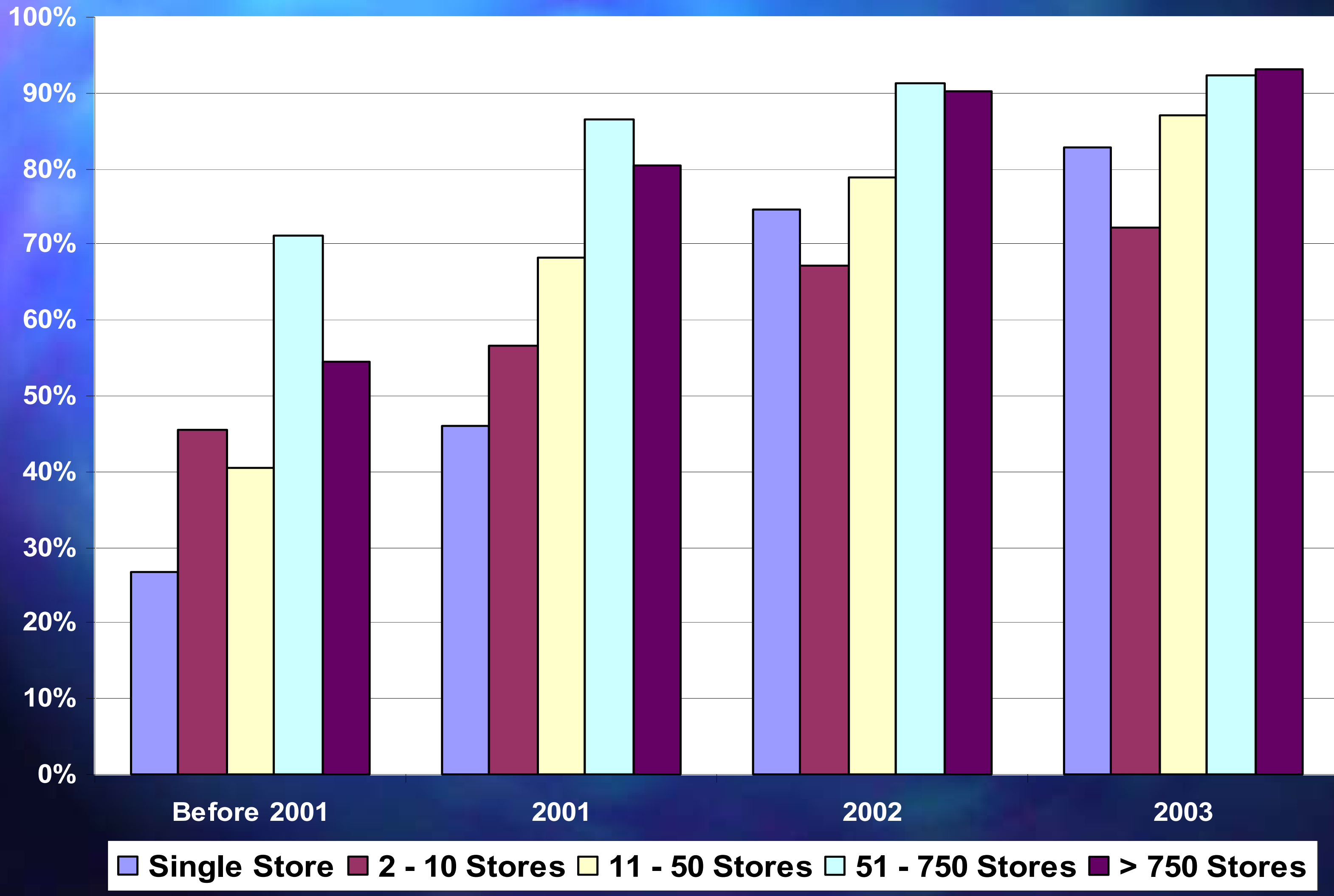
- 34% - Data cleaning
- 21% - No business need
- 7% - Resource Limitations
- 14% - Retailing lacking demand
- 7% - IT industry readiness

Source: FORUM 5:6 2003

Barriers to Full Adoption of IT Retailers

- No perceived business need
- Lack of resources – money and human capital
- Lack of trust in data integrity and sharing
- Multiple small companies – no economies of scale

Increased adoption of Internet - Retail



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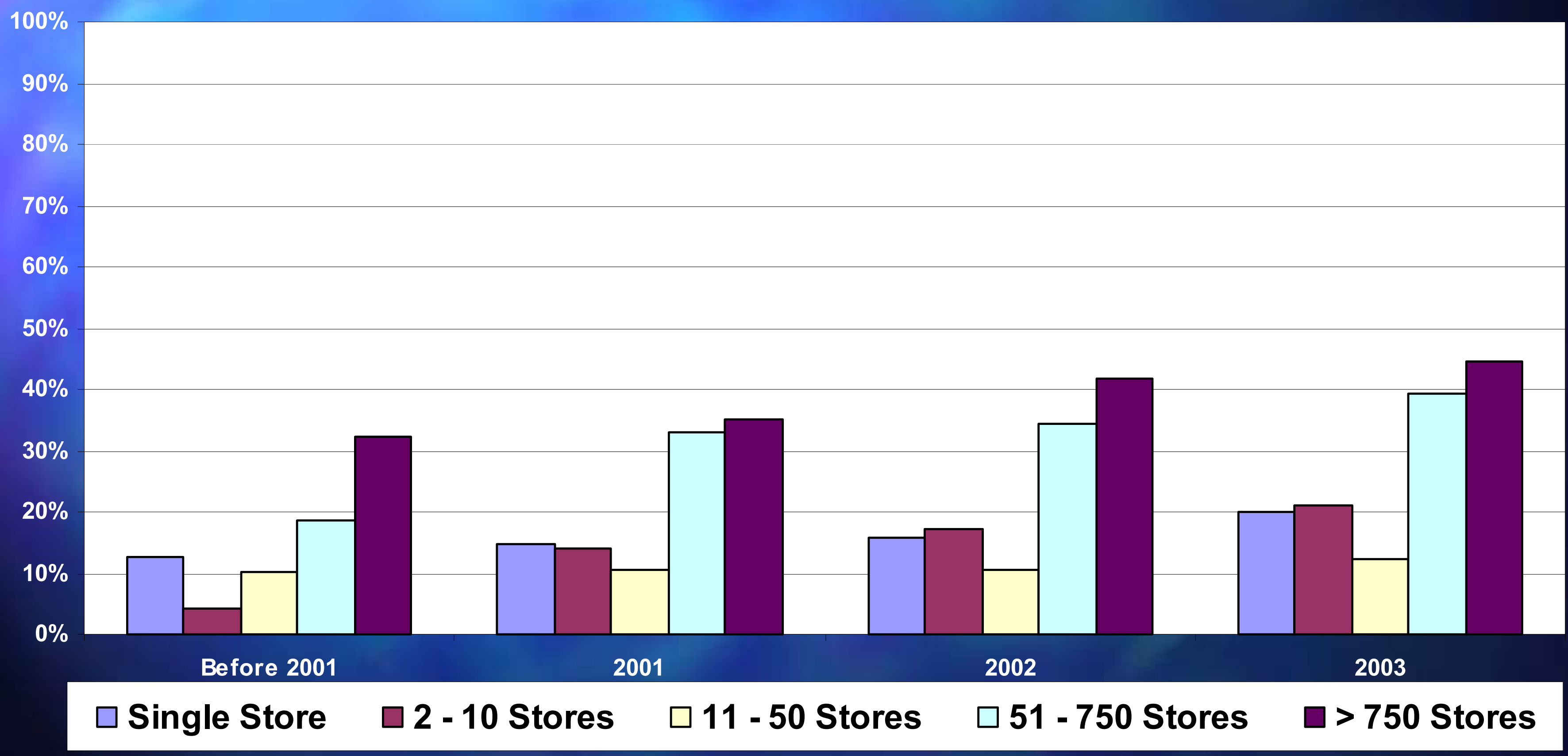
Vendor Managed Inventory



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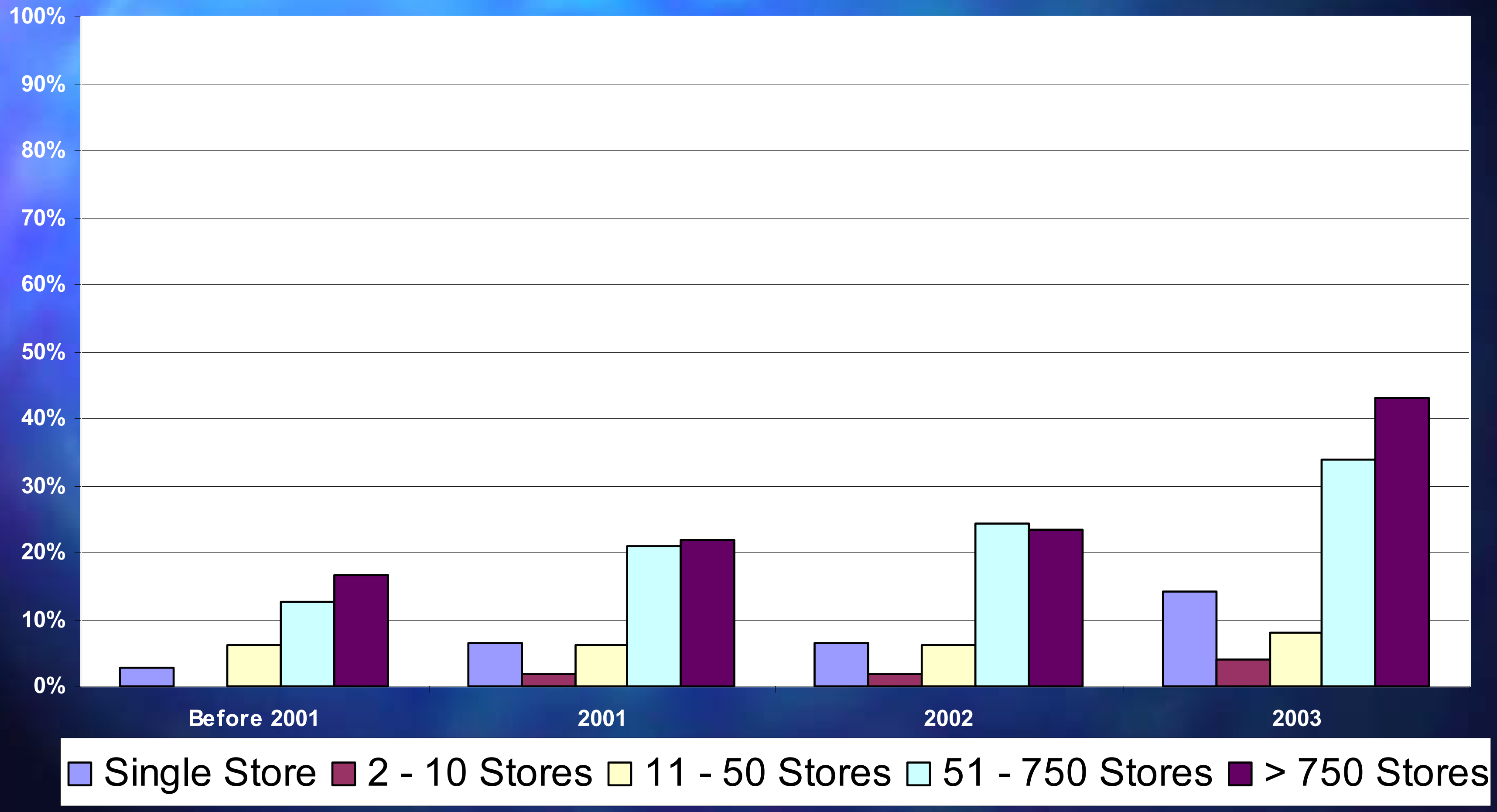
Scanning for Automatic Refill



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TIP Trucking Industry Program

Top 5 U.S. Supermarket Chains: '02-03

1 Wal-Mart Supercenters + Sam's Clubs	$126.7 B
2.Kroger	$52.1 B
3. Costco Wholesale Corp.	$38.0 B
4. Albertsons	$35.7 B
5. Safeway	$35.0

CR5 (1930) = 17, CR5 (2003) = 50

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Top 10 International Supermarket Chains:

Company	Country	2001 Net Sales	% Sales that is grocery
1. Wal*Mart	USA	$218 B	40
2.Carrefour	France	62 B	70
3. Ahold	Nethl.	60 B	92
4. Kroger	USA	50 B	91
5. Metro	Gm/Swiss	44 B	50
6. Albertsons	USA	38 B	90
7. Kmart	USA	35 B	37
8. Safeway	USA	34 B	92
9. Costco	USA	34 B	41
10. Tesco	UK	34 B	90

Source: Food Institute Report 6/17/02

Where is this taking the industry?

- Bifurcation:
  - ✓ Fast, efficient, cheap, global,
    - Large chains, standardized products, food safety, food (bio)security (new), IT savy, monopsony power?
    - Industrialization of retailing and the food sector
    - Impact on supply chain organization
  - ✓ Local/regional, fresh, natural, healthy, upscale, unique
    - Independents, small chains, store=brand, destination shops, not competing on price.