

Five Seismic Shifts Shaping The Deli Industry

*How can retailers organize their
procurement and operate a successful supply chain?*

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It is tempting to say that changes in the industry have transformed the role of the buyer of deli and other perishable foods, but a more accurate assessment is that a profoundly new situation has altered the role of every player in the supply chain. And if the job of a buyer has changed, it is no more so than the job of the seller has changed. How any individual retailer or vendor deals with the new supply chain realities will play a big role in the success each organization will enjoy in the years to come.

There are five earthquakes that have transformed procurement and are continuing to shape the new supply chain reality:

1. Consolidation

Not all that long ago, the big talk in the industry was fear of the "fax auction" where, as fax machines became commonplace, every vendor started faxing over offers every morning. It seemed like a race to the bottom for price. All of a sudden, without any work, buyers would have access to every vendor's price every day.

With the development of e-mail and various electronic procurement systems, the sharing of information has made for an even more competitive environment. But, for large chains, the fluctuation in day-to-day price by

vendors, or even the offer of special deals, is mostly irrelevant because nobody is sitting around with enough excess product to allow the sudden shifting of vendors.

This creates a dynamic not often noted. Although it is presumed that larger chains with more substantial buying power can buy for less, this is not always true. In many cases, larger chains are so constrained in their choice of vendors and so need to plan procurement in advance that they are unable to take advantage of fluctuation in supply and demand. In addition, large chains account for such a large portion of each vendor's business that the vendors often cannot sustain unprofitable business to these customers. In effect, the buying organization has to consider supplier maintenance and development in its purchasing. What good would it do Wal-Mart, for example, if it continually bankrupts its vendors and has to constantly scramble to find new ones?

Consolidation has created the need for operators to make sure that vendors have predictable sales at a sustainable price so they can insure adequate supplies and minimize out-of-stocks.

2. Micro-Marketing

It is said that for every action there

is a reaction, and the action of retail consolidation — particularly as such consolidation has been undertaken with the explicit goal of reducing costs through centralized procurement, higher volume private label production runs, greater leverage with suppliers, etc. — is likely, if not counteracted in some way, to lead to a national chain of boring uniformity, unresponsive to the regional, ethnic and demographic differences and thus

Olson Communications, Inc., Chicago, IL, did a deli customer survey that disclosed 67 percent of surveyed shoppers pick their shopping location depending upon the quality of ready-to-eat items in the deli.

