FOOD RETAILING 1974: ARE YOU IN TUNE?

Proceedings of the Twelfth Annual Food Distribution Conference
March 26-27, 1974

Department of Agricultural Economics & Rural Sociology
Ohio Cooperative Extension Service
The Ohio State University
FORWARD

The Twelfth Annual Food Distribution Conference, "Food Retailing 1974: Are You In Tune?" was a joint effort on the part of many people. These proceedings include only the presentations made at the morning general sessions. Not included are the popular luncheon "mini" addresses, the numerous outstanding workshop sessions, the banquet presentation and the closing general session.

This conference has been sponsored since its inception by the Department of Agricultural Economics and Rural Sociology, The Ohio Cooperative Extension Service, The Ohio State University in cooperation with the entire food trade. Without the cooperation of numerous individuals from the food trade in the planning, promotion and participation in the conference, it is unlikely that the conference would have achieved its current high stature throughout the food trade. Deep appreciation is expressed to all who have contributed so generously of their time and energy.

Special acknowledgement is made to Mr. Ed Watkins, Extension Economist, Food Distribution for his assistance and role in making the conference a success. Also, special gratitude is expressed to Mrs. Roberta Riddle for her secretarial assistance throughout the arrangements and the execution of the conference and for her secretarial support in the preparation of this publication.

The Thirteenth Annual Food Distribution Conference will be held April 1-2, 1975, at the Fawcett Center for Tomorrow on the Ohio State University campus, Columbus, Ohio. Jot down the date on your calendar and make plans to attend.

For information concerning the conference or for any suggestions as to how the conference can be more useful to you, or for suggestions concerning possible speakers, resource persons, topics, etc. please contact:

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INTRODUCTION

George Caster
Stop-N-Shop Supermarkets

Good morning. My name is George Caster from Stop-N-Shop Supermarkets in Cleveland. I am pleased to be your chairman for this first general session of the Twelfth Ohio Food Distribution Conference. While attending these sessions for the first time last year, I came away with much more than I expected. If you are here for the first time, you will find this facility both adequate and comfortable. The speakers will be interesting and informative. The work sessions are down-to-earth and offer good opportunity for two-way communication on subjects important to the operation of your business. Now, if you came for a two day rest from your daily chores, like I did last year, you will certainly have the chance to get it and socialize with your counterparts in the food industry. But, I challenge you to open your minds and listen to the experienced speakers assembled here and take back home some new tools to help you cope with our ever changing business. We have heard that word change mentioned for the last 25 years in our industry, but in 1974 I really think we are going to have to believe it. Prior to last year, the only time we heard the word shortage was every time the temperature got near 30 degrees in Orlando, Florida. Now, the only thing that seems to be in abundant supply is that orange crop from Florida. At this time, I would like to introduce Dr. David H. Boyne, Chairman of the Agricultural Economics and Rural Sociology Department here at Ohio State University, who has an opening message for this conference, Dr. Boyne.
WELCOME

David H. Boyne
The Ohio State University

Thank you very much, George. This is the first day of classes for Spring Quarter 1974 at Ohio State University, so it seems very appropriate that I might welcome this class to a course here at Ohio State, the course is entitled "Food Retailing 1974: Are You in Tune?" Your course coordinators, perhaps we should call this a mini-course, your course coordinators, Dr. Vern Vandemark and Mr. Ed Watkins, have followed one of the recommended practices and that is to prepare a detailed syllabus, and they've even distributed this to you in this form and in a previously mimeographed form so that you might know in advance what some of the topics are that are going to be covered. Now, those of you who have examined the syllabus realize that there is a combination of guest speakers from a broad range of subject matter backgrounds. Many of you here are actually engaged in various aspects of the food industry and are interested and willing to share some of your experiences and knowledge with the rest of us. I would predict a most enjoyable and productive mini course these next two days, but as George intimated, if it is to be productive for you, you are going to have to be alert in the general sessions; you're going to have to make wise selections from the number of alternatives that are available to you in the workshop portions of the program and then, of course, dig in and really participate in that two-way flow
George referred to, which is a key part of those workshop sessions and some other aspects of the program as well.

It is a pleasure to welcome you for this mini course and it is a pleasure for us in the Cooperative Extension Service and the Department of Agricultural Economics and Rural Sociology to sponsor and conduct a conference in conjunction with you and with the food trade generally. Since it is the first day of classes, let me reflect for just a moment on the topic of enrollment. This quarter we anticipate that we will enroll in the neighborhood of 42,000 students here on the campus. Last autumn, our enrollment was right at 46,000 which was, give or take a few students, just about the same level as we had the previous autumn. Now, you're going to hear more about university enrollment levels in the next few years. I am sure you're already aware that a couple of state-assisted universities in Ohio this year had rather sizeable decreases in enrollment. We here at Ohio State are pleased that our enrollment has stabilized. But, one of the reasons that enrollments are going to be in the news and are going to be of concern to those of us here at the University is that they will be decreasing. In general, I would suggest to the citizen that we are going to reach a peak in potential college-age population near the end of the 1970's and there is actually going to be an absolute decrease in the early 1980's. We already know what that number of students is going to be, in large part, because they are already here.

However, there are some variables that we don't know, such as what proportion of those who are in the college-age group will go on to college. We've been seeing a rather marked upward trend in the proportion of young
people going on to college. That has also dampened somewhat in the last three, four, or maybe five years. This is a national phenomenon, but we're hopeful here at Ohio State that we will be able to retain enrollment at about the level where we are now. We believe that our programs, the quality of our instruction (and we are putting increased emphasis on the quality of our instruction) will indeed warrant your confidence and the confidence of your sons, daughters and associates who will come to Ohio State in a variety of programs at the undergraduate and graduate levels.

I might comment for just a moment with respect to the College of Agriculture and Home Economics. This last fall, we had, in the college, a 15 percent increase in enrollment. Last year we had an increase in the neighborhood of 12 percent. Within the department itself (and here I want to switch from enrollment to course credit hours taught), we're experiencing about a 50 percent increase in course credit hours taught during the last four years. Now, it may sound as though I am talking in numbers, but the number of credits is important to us because resources are allocated within the university on the basis of work load. However, I would submit that an even more important factor from your standpoint, and from the standpoint of agribusiness generally, is that more students are taking more courses in marketing, personnel management, and finance. We think that even a larger number of students in the college would benefit from additional courses in the agribusiness/marketing management area. I'll relate that to what we see as the job market situation today. We have a very strong job market for students to have a core, or package of courses in the agribusiness/management area.
This year we do not have anywhere near enough graduates to meet what we know to be the number of jobs available. Also, I think all of the evidence suggests that this job market is going to continue. I would hope that if you have sons, daughters or college associates who may be interested in degree programs that you would put them in touch with us. We'd like to be able to explore with them some of the opportunities in detail, and it may be a program in Agricultural Economics, Rural Sociology or some other program in the College or in the University, but we'd welcome the opportunity to visit with them.

Let me hit very quickly a couple of other points that may be of interest to you. One of the things that the University has developed and started this past summer is the Ohio State University evening program opportunity. We have greatly expanded the number of courses offered in the evening from five to ten o'clock. We have, at the present time, several degree programs that can be earned solely by taking courses in the evening. But, across the campus, whether or not you can take a full program, there are many opportunities for taking courses at night. I think this makes a great deal of sense from the standpoint of utilization of our physical plant, since we're now utilizing classrooms and laboratory facilities in the evening that we weren't using previously. I think that's good management. But, more than that, and most importantly, a number of students in the greater Columbus area and a number of students coming in from a hundred miles or so can take a three credit hour course from 7 to 10 at night. You can afford to drive in 100 miles once a week in order to do something like this. So, I
think this offers some advantages for a number of students who may be interested in completing undergraduate degrees or going on for graduate work.

Lastly, let me simply mention very quickly a new program in our Agricultural Economics and Rural Sociology Department. We now have a Masters degree program in agribusiness management. It is structured somewhat, but focuses on those individuals who are interested in going into the broad agribusiness area at the end of the Masters degree program. It is more or less a terminal program. Courses in accounting, management, finance, managerial economics, marketing, personnel, etc. are the types of courses that are emphasized in this program, together with an intern experience. We are in the process of working out these intern experiences and we may well be in touch with a number of you to see if you would be interested in having a Masters degree student work with you while studying a particular problem that you may have for a period of four to six months. If any of you are interested in more information on this, let me know or get in touch with Ed Watkins, Vern Vandemark or any of the other faculty members here and they can provide information or steer you in the right direction.

Well, Mr. Chairman, those are just a few points I thought might be of interest to this group. We are genuinely pleased to be able to work with you in sponsoring this Twelfth Annual Food Distribution Conference. We are pleased to have you here and if we can do anything at all to help make this more productive and more effective for you, please let me know. Thank you.
THE FOOD INDUSTRY 1974--WHERE IS IT AND WHERE IS IT GOING?

Clarence G. "Clancy" Adamy
National Association of Food Chains

Thank you and good morning, ladies and gentlemen. First, I want to thank the Planning Committee for a real big favor to me. I would normally feel compelled to talk about wage and price controls, or energy problems, or consumers or other such issues, but because they are so well covered today, I can go to a most interesting subject, "Where Are We and Where Are We Going to Go in Food Retailing in 1974?"

I think where we are is where rational men will put us in response to this environment. This is indeed a responsive industry and our role is that of responding to the change in the socio-economic environment in which we are placed. And that is really what I want to talk to you about and that is why I want to start back in, oh, say the late 40's--1945 or 1946. At that time men, material and money were returning from World War II, and the concept of the supermarket was waiting to be born. As you remember, the socio-economic change at that time was the huge move to the suburbs. We in the food industry followed them there; we responded to this need and we built big stores, the so-called supermarkets. The food industry embarked upon a period of what can be called by economists, a non-price competitive period. The big stores, the wide aisles, the good lighting, check cashing, parking--
gillion things--became vitally important in the mix of why Mrs. Consumer chose a given store.

Now, when I say non-price competition, let's not get absolute. There never has been, there never will be, a time when price was not a part of the value equation. But, it was not the most important part in those years and our industry responded well to those needs of that newly affluent society that we saw come upon the scene in the late 40's and continuing up until 1966. It was in October of 1966 that the food price index jumped by 4.8 percent to herald the arrival of massive inflation in our country. The industry changed immediately as this socio-economic impact changed the character of our society, of our environment, of our country and certainly of our marketing opportunities. It was almost overnight that we went from non-price to price competition as the major factor. For example, the Burgoyne Index, in the period before 1966, listed price as the fourth, fifth, and sixth most important issue as to why our customers chose the store. But, on that fateful day in October of 1966, there was no longer any doubt, price was the most important reason for the customer's choice of a store, and it has so remained every day since then.

Like any truly responsive industry, however, there has been a great deal of planning done. This did not come as a total surprise to everyone in the industry. As you know, we were indeed fortunate on the West Coast. Our friends at Lucky Stores had developed the so-called every-day-low-pricing policy others had, but they were certainly a dramatic leader in it. In the summer of 1966, they installed it in a series of stores in Phoenix,
Arizona. By the time of the outbreak of inflation, they were able to run and push hard in changing the character of their company from a high/low pricing policy, to an every-day-low-price policy and to a mammoth commitment to direct price competition. Not surprisingly, like the flu bug that attacks across the world simultaneously, this "bug" had attacked across the world. It wasn't long until other firms such as Jewell came out with a miracle pricing program. Our friend the Stop and Shop organization in Boston also came out with their mini-pricing program. And, there were other efforts to do the same thing, to move basically into the everyday pricing arena, to move from non-price to price competition. There was a rapid move by our industry during the period between 1966 and 1970 to change to fit the times, and this, of course, characterized our industry at that time.

Now, there were certain rational changes that this move had to follow and rational people made rational decisions. As was foreseeable, we moved toward larger stores. Economies of scale were readily visible and there was a rapid and relatively universal move toward larger stores. The second very real factor in that period of time, of course, was diversification. There was a great tendency, as you competed more fiercely in price, to compete more fiercely in price in the most needed items, the high, fast movers, the most socially acceptable items. Therefore, they were rapidly pushed down to a non-net return position. So, diversification is the only rational answer as you add more items that permit you the opportunity to maintain your gross, and therefore your net, and an acceptable posture.
So, these changes occurred and brought us to our position today. I think there is one more overwhelming fact that will dominate the scene here, and I propose to you that the change of 1966, the response to inflation change, will continue for the foreseeable future. I think that the Clark Simon study on the so-called "super" stores is a very clear indication of this, of what's going to happen. We will continue to have bigger stores. I am much more impressed with the Clark Simon work, talking in terms of 35,000 to 50,000 square foot stores and the merchandising of the so-called routine purchase, than I am with those who would have me believe that like Europe we will go dramatically to the "hyper" store. Hell, we've had hyper stores in the United States for 50 years and those socio-economic conditions that merit them.

When I was a kid on the West Coast and went to visit Grandma in Portland, Oregon, the big visitor's sight was to go to a Fred Myers Store, which was basically a 120,000 square foot store, which combined the attributes of a variety, a drug, and a grocery store under one big roof.

What is a hyper market? Certainly there is a dramatic input in our new entries from Jewell in the last few months into these huge stores. There wasn't quite that response when Lucky began larger stores across the country or when Fred Myers went with his stores. But, what is a hyper Marche? It's the same deal. In Europe their average store is still less than 1,000 feet, and as they went to mass merchandising the obvious leap was to very big stores which filled a great need in their differential in their price structure and in the convenience, variety and service they could provide their customers.
This is dramatic and I am very much aware that a hyper store in Mar­sailles is selling $985,000 worth of merchandise a week. It’s not going to come to the United States. Why? The differential isn’t there. During the period when we moved from the old 800 square foot store up to an average of somewhere around 20,000 square foot stores, the differential was evaporating. Now, when you go out to buy a really hyper Marche, you’re competing against a very viable opponent, and as they move to 30,000 to 50,000 feet the differ­ential will be even less sharply defined. Sure, there is room in this country for some hyper markets. There are some; there will be some more. It will not be universal, however. I propose that rational men will act rationally to meet the problem of intensive price competition. They will have bigger stores to achieve economies of scale within the area in which they make the most money. They will diversify, generally along the lines of the recent purchase philosophies expressed by Clark Simon in that report.

Let me now get to the next issue that I want to bring to your attention. Overlying us now in the immediate future is a very dramatic challenge which, again, will take rational men with rational responses. In 1962, according to the Cornell Report, we were spending 52 percent of our gross margin on total labor costs. In 1973, according to the same report, we spent 65 percent of our gross income on labor costs. Our friends the economists would cer­tainly classify that as labor intensivity. I would propose that it is probably excessive labor intensivity. What is the rational response to excessive labor intensivity? Capital intensivity. And, I propose to you that the most dramatic factor that will change the food industry in the period ahead, other
than the continuing forces of inflation, is the necessity to move from labor to capital intensity. We are a lucky industry in that the technological advances that are possible are here and on the horizon. They are totally practical. You will hear throughout the course of this conference a good deal of conversation about the electronic front end and its co-commitment to the universal product code. The first commercial product will be sold and accepted by a customer that is a food retailer in June of 1974. It is here but it will be developed slowly. It will not come overnight like a thunderstorm; it will come slowly. People will buy them one store at a time, I assure you. There are two very real reasons for this— they cost a great deal and they take a lot of change in management. People have to reshuffle themselves and their companies. It will come quite slowly but it will come.

Behind that, the productivity council has listed some 87 technological advances that they foresee in the next decade. One of the more dramatic of those that I think will have to come is the advent of truly automated warehouses. I grant you that with the building of the Giant Warehouse at Landover, Maryland, eleven of the semi-automatic warehouses have now been constructed and there has been a transition. This will continue not only in numbers of so-called automatic warehouses, but in sophistication. The only double system that has both an automation of the input and the output of the warehouse is in Wooster, Massachusetts; and that system will go. We at NAFC, as you probably know, believe that in order to do this most effectively there has to be some move toward at least standardization of wholesale carton size. To this end, we have employed the A. D. Little Company and
have turned the project over to an all-industry committee for them to supervise. As you remember, modularization of grocery cartons has already come to Sweden and to Switzerland. Our friends at Migros already report that some 55 percent of their wholesale cartons are now modulated. It's a very hopeful sign. Go back the other way with me. Several years ago we had a study made by the A. C. Nielson Company. They went out and measured every box in the Melrose Park Warehouse of Jewel Tea for us. They came back and reported 5,865 different sizes and shapes of boxes. Now, I grant you, the engineers at the various companies who automate warehouses are indeed inspired individuals, but that number almost defies human knowledge—5,865. What's wrong with 500 or 50 or some other number? If we can indeed move toward modularization or move toward even standardization and have a more rational number of sizes and shapes of boxes, we can indeed automate, we can indeed reduce or perhaps eliminate in-transit and handling damage, which could be a great thing. But the potentialities are really shakey.

I think the next great technological advance will be in the area of central meat cutting. I, like most people, really can't see why we don't jump some steps and go to frozen meat as our friend Walter Churchill has done so competently. I don't know; we don't seem to do that. From studies such as the one Dr. Shaw and Dr. Christenson just completed in October, we are aware of the fact that there is a dramatic move in this direction. We have moved totally, as an industry, from the smallest company to the largest company, toward at least primal or sub-primal systems. There are two warehouses and a just completed plant with two more under construction,
that will be dramatic new moves into central cutting of retail cuts. How successful they will be, of course, remains to be seen. But, if suffices for me to say to you that under the impact of economic necessity, rational men again move rationally, they respond to the need of the market and the need of the market is to come to central meat cutting.

I am going to stop now because you could go on forever. I think the next most important change that will come to our industry in the very near future is the so-called automatic cash transfer systems. We've got an awful lot of work to do on this, fellows, and it's going to be a very demanding task for us because, unfortunately, the banks got ahead of us. They are developing the cash transfer system based on their economics, their needs, and their wants. On the other hand, in order to be a truly successful system, it must encompass the needs, wants and methodologies of the users. Now, when you are talking cash transfer, we are the largest user. So, obviously, we've got to get deeply involved in how this structure goes. If I have "left you a little bit," let me say that a cash transfer system is merely a method by which a customer walks into your store, gives forth some form of identification (It could well be a plastic card much like a current credit card,) which is placed in an electronic reader that immediately rings into the customer's bank and ascertains that the lady does indeed have the amount of that transaction and then automatically transfers it from her account to your account. If this transaction could eliminate even one-half of the check cashing that we undertake on behalf of the United States, the gain in
economics to you is unbelievable. The potential increase in throughput of cash, the potential increase in ability to control is unbelievable. There is going to be, this fall in Pittsfield, Massachusetts, a total community-wide test of the most current of these systems. Whether it will work or not, I am the last one to testify, but I am excited by the experiment. Good people are making truly reasonable efforts in that direction. We, as an industry, will be deeply involved in the Pittsfield experiment and every experiment beyond that, because the cash transfer systems are a vital factor of economic gain for us, as well as a service improvement for our customers.

Again, there is a great necessity for the industry to move from excessive labor intensity more toward capital intensity, while at the same time meeting the historic obligations of our industry—to serve our customers. Well, I hope I’ve done it for you. But, when you consider where we are and where we are going to go, I think that you first have to get a handle on the environment and I have proposed to you that the two most important environmental factors that impact change in your life today are, first, the existence, and the likely continued existence, of massive inflation in our nation. And, secondly, an abnormally rapid movement to excessive labor intensity, requiring corrective action. Now, if that be so, then I propose to you to remember that our industry is required by its very structural nature to respond to social needs—what people need and want. So, we’ll do that, but we’ll also do that which rational men do.

We are not, for example, going to jump up overnight and go to electronic front end; that would be irrational. We’ll make a rational, deliberate, evolutionary
move toward the adoption and successful utilization of new technology. Oh, we'll stumble here and there; some "bugs" will be so big we'll think we're crazy, but we'll make a rational move. Therefore, my idea of where we are is where we belong; my idea of where we are going is where we are supposed to go.

Now, let me end this in just two minutes so as to keep us on our time schedule and give us a little more time for questions. I would like to speak now with a little more confidence for you and a little bit better outlook. I personally am very optimistic about the price outlook and the potentiality of producing food in 1974. I really can't talk about inflation in the remainder of the economy, because there are so many factors that are beyond my knowledge, that I don't really have any chance to observe in my job. The retreat from paper money by most of the people of the world into various and sundry commodities has had a dramatic impact across the total economies of the world. No if's; the run up in gold; the run up in silver; the movements in tin, mercury and magnesium; to say nothing of the movements in corn, soybeans, wheat and the coarse grains of the United States have caused great anxiety in our industry. There is power in that last category of food price in the United States, which is so heavily dependent upon our basic crops, the grain crops. Some 1800 products in our stores are grain based. On all of our protein products, the principal input—some 70 to 80 percent of the cost input is grain. Change the grain market and you change our world. I am very much aware of what has happened to the field crops and the canned vegetables. I am very much aware of last night's freeze in Ohio
and the peaches look awfully bad here; apricots in California look bad; but I am still very optimistic that if the grain crop comes in as we see it, as the government sees it, and as all of us pray for, we will have a massive change in the level of inflation in our country, at least a stabilizing and hopefully even a downturn.

Why am I so confident? Again, man is rational, all men are rational, including the farmers. These are abnormally high prices. Three dollar corn. Oh, it touched below there this morning, but it's $3 corn. It's $6 wheat; it's $6 soybeans. It was only less than two years ago that in Congress we argued with Senator Talmage and his able committee on the question of the new target bill. And Herman wanted to put in $1.38 corn as the basic target. A great many of us conservative, retroactive men argued fiercely with Herman on that $1.38. Come off it, Doc, you've put a floor where a ceiling belongs. There had been only twice in history that corn had been above $1.38. I grant you, the last two years make me look less intelligent in that argumentation, but this is a high price. I propose there won't be a lawn left between the Allegheny Mountains and the Rockies. All of those beautiful driveways will get plowed up; there never has been such a time. Sure, there's a lot of foolish talk about fertilizers and fuel, but I'll buy it. Bill Simon, so far, has been great. Agriculture has gotten all the fuel it needs. With the lifting of the embargo, with the commitment of the government it will continue, I really believe it will. Sure we'll run short on fertilizer. We're about 5 percent short on a 10 percent increase in level of demand. We've got a lot more than we had last year, but not as much as we want,
but that doesn't spell disaster.

If the planning and expectations, as announced in the last two weeks by the Department of Agriculture are achieved in the April/May period, a weather disaster as massive as we had in the 1930's would still leave us with the largest crop in the history of the United States. The odds are high on our side. You know the expectation is for 6.7 billion bushels of corn against the 5.6 billion bushels we had last year. Whether that comes or not, it isn't necessary; we will have an increase in supply.

Two-thirds of our crop has historically been shipped abroad. Sure, we have had an increase in domestic demand; it will continue to increase. We will create more jobs this year; we will have a strong economy in the United States. But, it's the two-thirds of our product that is shipped abroad that makes the level of demand that created the crisis of 1972 and 1973. I would remind you that looking at demand from abroad, the first and least important factor is that our historic pattern of sale was 5 to 6 billion dollars worth of grain a year. The last three years we've sold 8, 13 and 19 billion dollars worth of grain. I propose to you that that is irrational. It's the kind of thing I want to happen to me when I go on a sales program, only it never does.

Secondly, last year we sold 19 billion dollars worth of product following two major devaluations—a 30 percent price differential. The recovery of the dollar is not absolute, but for all intents and purposes that 30 percent differential does not exist.
The third point is that we sell well over half of our total sales to Western Europe and Japan. In 1974, these two areas of the world will spend 51 billion more dollars for petroleum than they spent in 1973. Put crudely, they sure as hell aren't going to spend it for soybeans! Finally, we had disastrous inflation in 1973; we had an absolute decline in real income by the people of the United States. But our friends and customers in Western Europe and Japan had a greater decline in real income by the people of their nations. The buoyance of their demand levels cannot increase. What have I said to you? Supply must go up, demand cannot increase. I don't have any idea how much increase in supply we will have over last year or how much less demand we will have. It isn't important; we'll have more supply and less demand. I am very hopeful; as I say to the newspapers, I am confident of the fourth quarter; I am hopeful of the third quarter; when I get to June I am just wishing. Thank you very much.
Thank you. I'm kind of new to this business of addressing members of the industry that we've supposedly been controlling for the past few years. I find it quite a challenge to follow behind Mr. Adamy. I would like to focus a little on the last part of his speech, on his optimism for grain.

I think that the whole concern with grain and its impact upon our economy is rather instructive, because it really ties us to the past. As many of you can recall, grain has been the concern of kings since the days of the Pharaohs. We don't seem to have gotten much beyond that point today—the idea of surpluses and shortages in grain, and their impact on our economy. I appreciate Mr. Adamy's optimism and I hope that what he predicts comes to pass; we will all be better off for it.

I was asked to talk about the future of wage and price controls. I find that a very difficult subject to get hold of. There seem to be a lot of uncertainties and each day that passes makes the speculation on the future of wage and price controls a little different. Some people would say that if we took a count in the Congress today, we would find that wage and price controls would end on the 30th of April. I am sure some of you have seen the Wall Street Journal article which alludes to that effect. Suffice it to say
that there are a number of views and interests on this matter and each of these views and interests is working its way through our grand legislative process. Today, I propose to present to you some of the administration's views on the matter and perhaps contrast them with some of the alternatives. The administration's views on controls were set forth by Dr. Dunlap in his testimony before the Senate Banking Committee on the 6th of February, and I would like to briefly review some of those.

His presentation was cast in the context of the historical perspective in which we found ourselves in 1973 and offered an assessment of how well controls had fared during that year. Some of you have had direct experience with it. Briefly, 1973 was described as a year of surprises and it is against that that the Economic Stabilization Program must be evaluated. Some of the salient points of those surprises have already been alluded to by Mr. Adamy. Most of you will agree that the rapid inflation which we experienced in 1973 was largely unforeseen by economic forecasters and analyzers in the early part of the year. It sort of took us by surprise.

Another factor was the worldwide scope of that inflation. This is something that controls in any domestic economy would find it very difficult to deal with. That worldwide scope of inflation reflected surging demand in some primary materials; namely, grain and others. The impact of devaluation has already been alluded to by Mr. Adamy and most of you are familiar with that. Another interesting fact about inflation in 1973 was that two-thirds of that inflation was in food and energy.
And, finally, I would like to say something about controls in 1973 in terms of their focus. The focus of controls in 1973 was two pronged. On one hand, there were the efforts that we had to constrain inflation through mandatory wage and price controls. Most of you have direct experience with those efforts. On the other hand, there was a considerable effort within the administration to mute the future inflation, to mute future inflation through measures designed to increase supply and capacity, and I shall talk a little more about those measures later.

Walter Heller cast 1973 as "a year of infamy" in inflation forecasting. It was a year in which economists were caught with their parameters down, to use his words. One of the significant results of that year's experience has been a careful re-examination by the Council of Economic Advisors and the Department of Agriculture of the technical and administrative arrangements that we have incident to making agricultural forecasts. Hopefully, out of that we will improve our ability to anticipate future production and demand. Certainly, the optimism that Mr. Adamy presented to you earlier reflects a forecast as to what production is going to be, barring Acts of God and what have you. I hope he is right.

Now, the detailed evidence corroborating the first four elements of Dr. Dunlap's views of 1973 was laid out very carefully in his testimony. I am sure some of you have had opportunities to see that, and I don't intend to dwell on it. If you have any questions about it, we can address them later.
I would like to make a comment about the two-pronged nature of the stabilization effort. The stabilization effort to most of you has been reflected in Schedule T's and reports, quarterly reports to the Cost of Living Council on your mark-ups and margins and perhaps has seemed somewhat of a continual nuisance. There was, however, another major aspect to that effort, and that was those efforts that were taken by the council and the government to enhance supply and capacity in the economy, and thereby reduce inflationary pressures. I might mention some of these actions that were taken last year.

One such action that we are all very familiar with was the elimination of set-aside acreage in grains. Another one was the reduction of import restrictions on commodities that were obviously in short supply. It's fantastic that when you have tremendous demand pressures on things like dairy products and so on that at the same time we have fairly substantial import restrictions. One of the clear ways to deal with some of these shortages is to import more butter, more cheese, more non-fat dry milk. Another item that was tackled in 1973 was a review of the U. S. Department of Agriculture marketing orders and agreements, which affect pricing arrangements on a number of commodities. Another was petitions made to the Federal Trade Commission to permit back-haul of food products. Again, you have very interesting arrangements which directly affect the efficiency with which institutions deal with certain kinds of economic problems and some of these have been tackled head-on. It is with this backdrop that we might take a look at what the results of controls have been.
Rather than talk about results across the board, let's focus on the food sector. In food, it has been a mixed bag. We found our 1973 experience with restricting mark-ups and profits could do very little to constrain inflation which was primarily attributable to events in the primary sector; namely, agriculture and agricultural products, which were not controlled at any point. The overwhelming cause of the 14.5 percent increase in consumer food prices in 1973 was a 36 percent increase in agricultural prices at the farm level. The share of the retail food dollar going to the farmer in 1973 jumped from 40 to 45 or 46 percent. Income of farm proprietors rose 33 percent compared with the 12 percent rise for total national income. If one were to examine the $18 billion rise in consumer food expenditures last year, approximately two-thirds of it went directly to the farm sector. The bulk of the $6 billion increase that went to food processors and distributors was used almost exclusively to cover higher costs associated with things like packaging, transportation and wage settlements. Well, what does that all add up to? Obviously, in the food sector, our control effort in 1973 was dealing with a relatively small part of the problem, and there is only so much fat you can squeeze out of that part. Nevertheless, we did make a serious effort to do that, and to delay, to put off, to postpone the pass-through of those rapidly rising raw commodity prices. A number of economic studies have been conducted to determine whether or not we had any real impact.

One of them, the Wharten study, suggests that if it were not for the stabilization program, wages would have increased by roughly 1.3 percent above what they did, and prices roughly one percent above what they did.
It is against that small impact, you might say, that one might want to assess the relevance or effectiveness of the control program.

What about its impact? Some people have charged that controls have caused tremendous disruption and dislocation and have actually made inflation worse than it would have been if there were no controls. In our view, the exact truth of these allegations is somewhat in between. We're very much aware that the operation of specific kinds of control measures indeed may have some bad effects. For example, the profit margin limitation that we have in our controls may induce temporary withholding on the part of certain products because of the operation of that particular rule. Domestic price constraints, which controls amount to, may induce a stimulation of exports. People in the fertilizer industry, who were first exempted from controls, argued that because controls were keeping down their domestic price, they were exporting all of their fertilizer outside of the country, so we had to do something about it. It turned out that that was the reason for decontrolling the fertilizer industry, one of the first to be decontrolled.

Another kind of effect that might happen from our controls program, that has happened, is the discontinuance of certain low margin items, especially when controls preclude price increases that are greater than the cost of those items. Now, many people have argued that it is impossible for firms to ship their mix of products at will because they have the grand consumer out there to contend with. Well, the fact of the matter is, when you have severe shortages in a particular line across the board and the only thing the consumer can buy is that relatively high margin item, the choices are very limited.
Another effect that some of you are very aware of, and it's been rather
dramatic, is the discontinuance of production on certain items that are
associated with freezes; namely, the plowing into the ground of chickens and
the slaughtering of sows. So, it is clear that there have been some effects.
The council, during this period of time, has taken a posture of investigating
each one of these distortions as they came up to determine the extent to which
they were attributable to the controls program and to take whatever corrective
action would be required. The action taken to decontrol fertilizers is an
example of that. Similarly, the American feed manufacturing was decontrolled
for similar reasons. It would be unfair to say that all of the shortages that
we experienced last year were the result of a stabilization program that had
been in effect for a little under three years, when capacity decisions in
industries are a long time in the making, reflect long run plans and so on.
Much of those shortages would have to be attributable to those long run in­
vestment decisions.

In any event, we learned a few lessons from 1973 with regard to con­
trols. And, I think some of these lessons bear repeating. The first, and I
think the most important, is the typical economic goals of government--full
employment, price stability and economic growth--really are not fully con­sistent and this point has really been driven home to us in the past year.
Secondly, monetary and fiscal policies, along with our international trade
policies, have to be consistent with a stabilization program, if that stabil­
ization program is to have any effect. If you place price controls on certain
commodities and let all of these commodities enter into the international
market, because you have price controls, you certainly have some problems. Obviously, we had other reasons for not getting into the morass of export controls and we've gained much by not doing that. The point is that those things are interrelated. The other lesson that we learned is that wage and price controls at their best are very limited, special purpose tools. They tend to wear out as people get used to them and find ways to get around them. Perhaps some of our distortions are created by the very fact of learning how to operate in an environment of controls.

Another point that bears repeating is that stabilization and a stabilization program is full of contradictions, and it is very difficult for people when they talk about this particular subject to balance these contradictions. On the one hand, they can have some effect. Many people like to contrast the extremes of controls. Controls are no good, they can't do anything. Or, controls are the panacea and we've got to have them if we're really going to fight price inflation. The truth, as with so many things, lies somewhere in between. We've learned a lot of little things about how not to do it in the future, assuming that there might be a future. This brings me to the point that I think most of you are interested in--what are the alternatives for the future? Well, as the administration saw the matter, in Dr. Dunlap's early testimony, the legislative alternatives that confronted us were fairly simple, fairly straightforward. It must be remembered that these alternatives are being presented in a very interesting time of the year. Most of our economists would predict that the first half of this year we are going to experience a considerable amount of inflationary pressure, especially in the food sector,
but that pressure should slacken in the latter half of the year, as Mr. Adamy has pointed out. With this much in mind, if you had a complete de-control on the 30th of April, one would expect that there would be some price bulge after that, as firms out there groped around and tried to recover some of those profit margins, that have been allegedly, and I think actually, squeezed by the controls program. The legislative alternatives as we saw them were as follows:

1. You could extend the act, simply as it was, for 8 months or so. The administration's posture was that that was not a good course to take, because if that were the option that was really seriously under consideration, the Congress being what it was would probably make a lot of amendments to that act and before it got through it would look like a Christmas tree, with a bauble for every special interest that had any axe to grind in this business. We were opposed to that particular option.

2. The second option was to give the President the authority to invoke controls, mandatory controls, at any time that inflation or conditions might have warranted. We were also opposed to that particular option. We viewed that option as being highly inflationary. As long as standby authority exists, there would be a tendency on the part of business in a world of uncertainty, never knowing what is going to happen, to try to get their prices way up there before the government imposes a freeze on them or something like that. We were opposed to that.

3. The third alternative was a Wage and Price Review Board. This alternative was suggested by Mr. Burns and a number of labor leaders and it
would amount to another federal review board that would conduct hearings and
investigate matters that bore on inflation and so on. It would be somewhat
semi-judicial and in our view probably somewhat ineffective.

4. The fourth alternative, and the one we presented, was an agency
to deal with the fundamental longer term inflationary conditions that existed.
We saw that agency as doing a number of things and most of you are familiar
with what they are:

(a) monitor those decontrol commitments that we already have

(b) review the cost and inflationary nature of other federal programs
    and where appropriate take action to reduce the inflationary impact
    of some of these programs

(c) work with labor and management throughout our economy to improve
    the structure of bargaining

Now, some of these things we will be able to do anyway, with or with­
out mandatory control authority. Another thing that this agency would do
would be to review capacity throughout our economy and to make recommenda­
tions as to where we ought to be looking toward increasing capacity in the
future. Of course, one option that was not mentioned in the February 6 testi­
mony, was the option of just letting it die as it lay. That option has recently
come into vogue and is widely discussed. Most of you are familiar with
developments since we presented our program and our position; you’ve seen
the papers. Last week Senators Johnson, Sparkman and Tower introduced a
set of amendments to the administration bill which embodied this fourth
alternative and those amendments involved some significant and major changes
from that administration bill. The important changes were:

(1) a simple extension of basic wage and price authority for six months

(2) a directive to the President to continue the process of orderly
sector by sector decontrol, securing commitments wherever necessary

(3) a provision for continuing controls beyond six months under con-
ditions of serious inflation in the economy as a whole or in a
particular sector

The kind of rationale that lies behind this is interesting. If everyone
is concerned about this supposed bubble that’s to burst on April 30, and
people realize that after the third quarter things should be better, then it
makes a great deal of difference how you get from the 30th of April to the
third quarter. One way to do it is to get decontrol commitments that amount,
in effect, to agreements on the part of certain industries not to inc­ease prices
for a certain period of time. The commitments that we obtained in the can-
ing industry are an example of this kind of thing, wherein you would hold
prices and rely on the new crop, so to speak, to keep the pricing down.

Well, in today's Wall Street Journal I note that this Johnston Bill, at least
in their estimation, is likely to expire. Apparently, there have been some
shifts and bolts on the matter.

That brings us to an interesting question. If that is not the bill, where
do we go from here? The article in the Journal comments on the strategy.
(apparently, it knows more about the strategy than I do). I certainly don't
know that much about it. One thing is clear, that the number of types of
activities that were undertaken by the administration under the Economic
Stabilization Program were not of a mandatory nature, and those activities can be continued by government without necessarily having a mandatory control legislation. Currently Dr. Dunlap is chairing a committee of retail and management representatives which is examining various long run problems within the retail industry. This business of looking at the structure of the labor and management bargaining apparatus is something that can be done without mandatory controls. The business of looking at the activities of other governmental agencies that contribute to inflation is something that can be done without mandatory controls. What exactly will happen between now and the 30th of April is anybody's guess, and sometimes I feel that the last guy you ought to ask about what's going to happen is the guy who is involved in the doing. With that much in mind, I would say that your guess concerning the future of controls is about as good as mine. Thank you.
CONSUMER—FOOD INDUSTRY CONCERNS AND PROGRAMS

Frank McLaughlin
Office of Consumer Affairs

Ladies and gentlemen, thank you very much. Clancy has told you that we are all rational men. I'm sure it's a good thing every once in awhile to hear that the people in Washington are rational, too. Reggie has indicated to you that his guess is as good as yours, and I am supposed to give you some insights into concerns and programs of the consumer and the food industry. I think it is presumptuous of anyone from Washington or otherwise to stand here and attempt to predict the future. First of all, we don't have the hindsight of historians and we do suffer from what Ed Watkins, I believe, referred to as "Potomac myopia"—we do tend to see things in terms of the latest headline in the Washington Post. And, it does do us a little bit of good every once in awhile to remind ourselves, as Clancy reminded himself this morning, that we can look a little silly as we look back at ourselves.

I recall that in the winter of 1969, I was at a conference at a Washington hotel. It was a conference of people in the business publication field and the prime speaker was Arthur Burns. Guess what the topic was? Wage and Price Controls: 1969-1970. Of course, they all wanted to know if the administration was going to impose wage and price controls. Now, Arthur Burns has a habit of taking questions in a formal, ritualistic way and he
always repeats the question twice—wage and price controls, wage and price controls. He started off by cataloging all the times that wage and price controls had been imposed and he related the historical incidents connected with them. He came up with the conclusion that we would not see wage and price controls in the absence of an international conflagration, and I have thought of that many, many times as Phase I, II, III and IV went by. It does help us to remind ourselves that we can make mistakes.

Well, this morning, I thought I would share with you some of the concerns that we in the Office of Consumer Affairs see as existing between the consumer and the food industry. First of all, both share a concern in the fact that consumerism, as a movement, is represented by very disorganized and very disparate groups at the national, state and city levels. The groups are poorly organized, poorly funded and vie among themselves for the attention of the press and other media. This is a problem not only for the groups themselves, but it's a problem for the food industry. In my judgment, the food industry needs to have a well-organized, respected and responsible consumer movement.

Another problem is that in the United States there is little precedent for business and consumers or consumer leaders and government to get together and talk about problems in a constructive dialogue. You know, in Europe it is not unusual at all for a University such as this one to get together with business, consumers and government and review major consumer/producer issues of the day. We don't do that in the United States. Business holds its meetings. Consumer groups hold their meetings and usually the
government is a guest at both of them. But the consumers, the producers and the retailers really don’t talk to one another.

Clancy brought you back to October, 1966 as a very key period as we look at inflation. That time was also the month of enactment of the Fair Packaging and Labeling Act. In the late sixties we saw a whole host of consumer legislation enacted at the federal level—Truth in Packaging and Labeling, Meat Inspection, Poultry Inspection, Truth in Lending, Interstate Land Sales—a great profusion of legislation to protect the consumer, at least that was the billing. What happened? Well, consumers, government, industry (industry is represented by individual government liaison men and trade associations) all came to agreement on what consumerism meant and the tacit agreement, in my judgment, remains a major concern of the day. They all agreed on the equation that consumerism equals more regulation. Well, if that were so, then, and now, what need had consumers, producers and suppliers to talk to one another? All they needed to do was to decide on what their strategy was in dealing with the government—the regulator.

It is very unfortunate that they came to that agreement, because we still live with the effects of it. In fact, from that agreement there came a strategy—a strategy that ended up eating the strategists. One could not attend a trade association meeting or virtually any business sponsored meeting in the late sixties without hearing the cry, "We've got to stop the march, the on-rush, the flood, the encroachment of federal legislation into the traditional areas of state and local legislative responsibility under the constitution." Whatever happened to that pride? Do you hear it anymore?
No. But that was the cry back then and the corollary of it was, "We've got to counter the arguments of people like Ralph Nader who favor some more federal legislation."

The people who were making that argument back in the late sixties have now come about 180° and they find themselves talking not about the federal legislative push in the consumer field, but rather they share in a common concern about state and local activities. Now, the cry goes something like this, "Did you hear what California did?" or Maryland, or Florida or the state of Ohio? "Did you hear what the City Council did or the state government?" And, what is happening is that the food industry, particularly, is coalescing around the point that perhaps federal legislation is the answer to having to live with a profusion of different pieces of state and local regulation.

And, in the seventies, more and more businessmen, particularly in the food industry, are sounding more and more like Ralph Nader of the late sixties. How did we get from there to here? We came down that path without a plan; we still don't have a plan. We look at the various pieces of legislation that have been adopted on behalf of the consumer and the thing that business and lawyers representing business are zeroing in on is the preemption clause. What we've seen in the last 5 or 6 years is a resurgence of confidence in state and local government. If you look at the polls which rate people's confidence in government, I think you will see a rise in the confidence in state and local governments and a goodly part of that rise has to be traced to activity by state and local legislators on behalf of the consumer.
You may not agree where they came out, but the public obviously believes that the old story of special interest control of state and local legislatures is going by the boards. Now, in order to conduct business in interstate commerce, we have a coalescence of agreement around the point that perhaps the states, after having acted on behalf of the consumer, should now be preempted. Well, we are going to be hearing more and more about this question of preemption, and it seems to me that the food industry is right in the thick of it and will have to decide philosophically and practically just how much of the traditional areas of state and local responsibility are to be retained and how state, local and federal governments can work together on behalf of the consumer in cooperation with the food industry.

Another concern that is obvious to us in Washington, but perhaps not so obvious to people outside of Washington, is the great clamor about the Consumer Protection Agency Bill. You're probably thinking, "What, another bill?" Well, the fact of the matter is that with the exception of the Product Safety Bill and with the possible exception of an amendment on the Alaskan Pipeline Bill, there has been virtually no new consumer legislation out of Washington in the last 5 or 6 years. But, there is a bill before the Congress, which Ralph Nader calls the most important piece of consumer legislation ever. It would create a new agency which has no substantive regulatory powers. It wouldn't grant licenses; it wouldn't promote exemptions or extensions; it would not regulate. But, what it would do is provide a little bit of balancing of the advocacy for the consumer, on behalf of the consumer, before government agencies and before the Congress. This is a bill which
is greatly opposed by business, particularly business represented in Washington. And, this is curious, curious to me, because there are at least two points about the legislation that nobody in business has even talked about. Business certainly looks at this great clamor of voices and says, "Gee, if we could only discern someone who is in charge, if we could only pick out a voice and say 'that's a responsible voice, let's do business with them; let's talk with them'." But, there is a great clatter of voices.

One of the effects of the enactment of the Consumer Protection Agency Bill probably would be that this great chorus of voices would immediately turn to the Consumer Protection Agency and try, by virtue of argument, logic, or what have you to convince the agency, its advocate, of its own point of view. You would have a natural clustering, a natural development of a more rational voice and point of view on behalf of consumers. Another effect would be that as the Agency took positions—and some of those positions came into the federal judiciary system—federal judges would do what they have always done with the decisions of federal administrators; that is to say, they would accord them the doctrine of administrative expertise, which in turn would make it more necessary for consumer groups and consumer advocates from Ralph Nader on up and down to try to convince the CPA beforehand that their position was the logical position. But the CPA Bill has been before the Congress for 5 or 6 years. It has been passed by both houses of Congress in different Congresses. It has been the subject of intense lobbying, and business will continue to fight to the end opposing the Consumer Protection Agency all the way. And yet, Mrs. Knauer, my boss, the head of the Office
of Consumer Affairs, which is a small office created by Executive Order, told the National Press Club last week that it would be ludicrous to assume that a few people in an office created by an executive order could give the consumer the kind of representation, in Washington, that the consumer should have. Therefore, Mrs. Knauer urged speedy action by the Congress in creation of the agency. I think it is clear that business and consumers share the concern that there has been a lack of planning on the part of both groups to develop substitutes for more regulation. We seem to have a supine resignation to the inevitability of more and more regulation.

Now, to combat this idea, the Office of Consumer Affairs--small office though it is--finds itself in some very unusual positions. For example, it hasn't been too long ago when a trade association was urging a government agency to prohibit, to prohibit all of its members from going ahead with a competitive labeling program until each and every one of its members could go ahead; that is, prohibit the competition until everybody can go ahead. We took the position that the companies that had been smart enough, had enough foresight to look into this labeling area and develop the data and run the labels, should be permitted to have the advantage. So, we had the ludicrous position where the consumers on one side were asking for competition and business on the other side was asking for regulation. Well, strike one for competition. We won.

We also found ourselves in a position of asking meat packers why they could not improve the packaging for bacon. We got a lot of explanations about how the modified packages would not be able to be accommodated on
the packing machinery, etc. We then got a half dozen examples and mock-ups and a report and we turned around to the meat packers and said, "O.K., here it is; they've solved your problems." The trade association took the position that what we were asking for was unreasonable and perhaps the only thing that could be done would be to enact some government regulation in the deep and distant future. We went to individual members of the trade association, presented them with the facts and a funny thing happened. Competition solved the problem overnight. But, the tag of the story is that competition solved the problem so quickly that the trade association found itself in the position of saying to its members, "Well, look, this window business may get out of hand. Perhaps we ought to put a regulation together and ask the government to go ahead and enact a regulation with a floor and a ceiling on the kind of window that might come into the package."

The Office of Consumer Affairs has worked closely with food retailers on unit pricing. We have been opposed much of the way by food processors and yet, as Clancy Adamy said, from October, 1966 onward pricing has been the preeminent issue in the mind of the consumer coming through the door of the store. But from the beginning to the current situation, we have had great opposition on the part of processors and grocery manufacturers to the concept of unit pricing.

Consumers are greatly concerned about what front end automation is going to do with pricing. They are concerned with the possibility of the individual price mark being dropped from the container and substituted with just shelf pricing and the automatic scanning equipment. We are working
with Clancy to allay those fears of consumers. I think that Clancy and other people in the food chains are really showing other industries the way in which they can show consumers that it is possible to sit down with those rational people that Clancy was talking about and get answers, and allay fears, and work out a program that is in the common interests of the food industry and the consumer.

In general, I think that there has been a failure on the part of business and government to keep pace with the rising level of education of the average consumer. It won't do much good to take out ads pointing out to consumers that all food additives are safe when the consumer listening to the 24-hour a day radio station hears two or three reports about a medical meeting in San Francisco that calls into question the safety of a great number of food additives. The informal method of education will counter the advertising message. Consumers want to know more and they will know more about food quality. They will want, and eventually they will receive, and probably from the private brand labeler first, drained weight labeling. They will demand more and better unit pricing. The people who put unit pricing into their advertising, newspaper lines, will receive support from the consumer. The individual that treats the consumer in a rational way like people in the food chains are beginning to treat the consumer, will profit greatly.

We see some very hopeful signs in an accommodation between the consumer interests, the producer interests and retailers. We see a broadening of the base of federal rule making. Everyone can agree with the concept, the abstract principle, that some federal administrator cannot be omniscient,
that he should base his decision on the broadest possible input from the
various sectors affected by his rule. Well, there has been a quiet revolution
in rule making at the federal level. Federal administrators are now operating
in a goldfish bowl; they look at the file of comments coming in on regulations
of FDA, FTC and other regulators. The public is really beginning to have a
major impact on the decisions of these administrators. We see, as I have
indicated, a resurgence of action and confidence in the actions of state and
local government on behalf of consumers, but this is going to have to be
rationalized in the growing debate over preemption. We have seen firms
like Giant Foods prove to consumers and to very, very outspoken consumer
advocates that the food industry, particularly the chains, can sit down with
the consumer advocate, can exchange views. As one food industry executive
puts it, "If they're right; let's listen to them. If they're wrong; let's prove
they're wrong. If possible, let's join with them in pursuing our common
interests." Under the leadership of men like Clancy Adamy, NAFC has
undertaken a series of meetings with consumer leaders. These meetings
are already showing benefits; they are already having pay-off. I think that
these meetings and other factors are producing a growing sophistication on
the part of consumers and consumer leaders. I think that the food industry,
food retailers in particular, since they are on the point of confrontation be-
tween consumers and industry, will show the imagination, leadership and
creativity to dampen the very acrimonious debate that we have seen in the
past and I am very hopeful about the future and about the responsiveness of
the food industry. Thank you very much.
MR. HARLAN BIGLOW: There is one question I would like to ask Dr. Brown. I have asked myself and other people hundreds of times why is it that the experience of the government on price control on perishable products during the 1940's is a matter of Congressional record, but was not used and followed instead of trying the same thing over again 40 years later with the same disastrous results?

MR. BROWN: You know, that's a very difficult question to answer. Government has a knack for repeating its mistakes.

MR. L. S. HEEMSTRA: I have a question for you, Clancy. Can we in the food industry create efficiencies without a great deal of added capital? Are there areas where we could improve?

MR. ADAMY: Oh, certainly, Tiny. But, the big moves ahead are high capital moves--the ones that are exciting the industry. There is no question that just through systems, methodology, organization and structure which would be non-capital areas, there is an immense arena for improvement of systems. For example, working out with the government a reevaluation of some of the marketing orders could make an immense change in our pattern of life. Working out new reporting structures on available supply and levels

*Discussion and questions to panel of morning speakers.*
of demand would help both of us a great deal—no capital investment. Of course, it’s obvious in the labor arena—in any city in my knowledge we pay 14 cents a minute for a meat cutter, but by his contract demands, he has the right to do all the clean-up work. Now, I suspect that I could get a very good boy to get that place really clean for $4.00 an hour. So, I think there is great inefficiency in these kinds of structures.

MR. SAM RAY: This question is for Clancy. I’d like you to comment on the human element in the business in the face of electronic checkout and automated warehousing, especially at the store manager level. What do you see in the future there?

MR. ADAMY: I see this as a very favorable factor. I think that you will add a tremendous amount of dignity and posture to the people in the store in that you give a much more meaningful job, to say the person at the checkstand, than we have in the past. It will be dramatically true, I believe, at the store manager level. As you know, we have carefully instructed, all of us—you and I and everybody else— instructed the people working on the front end to talk in terms of what we call "hard savings"—only give us that report on where we make money by avoiding or eliminating something we have done in the past. In the "soft savings" area—things we have never done before—there are just dramatic opportunities. Remember, this electronic front end is going to pick up sales per item per store instantaneously and maintain them continuously. You know, reorder structures, inventory control—that store manager is now going to be a store manager. In the next 10 years I would think that you would see our store managers make a dramatic move from the structured posture of
the past, that we had needed and wanted in the smaller stores, into a position of independent management—much comparable to that now held by the department store manager. In fact, I think our friend Ray Wolf in Toronto has done this in several of his larger stores and reports very favorable results on his earnings ledger. I believe that both time and the need direct us in that direction, plus, I think the fact that the necessity to develop man as men is going to make this opportunity very real and early results look good.

MR. JIM AYERS: I have two questions for Mr. McLaughlin. First of all, I'd like to refer to your comments on the bacon package—you did, in fact, accomplish getting a method of looking at the major portion of a slice of bacon. Many packers have disguised this window. My question to you is do you have any field studies that show that the majority of consumers really look at this thing?

MR. McLAUGHLIN: Finally, the American Meat Institute petitioned the Department of Agriculture for a rule, as you probably know, and I think that the rule, as far as the final effective date, probably isn't a year old. I think that we should have a report on this question and I think that it's one of the things that the Department of Agriculture, at the insistence of our office or some other office, will be developing figures on. But, we took the position that we did not want one or two packers to go ahead and make the change by themselves, even though they were willing to do it because we thought the consumer would come in and look at 6 or 7 different brands and rapidly pick over the brand that did have a window that allowed a
visualization of the fat/lean ratio and rapidly pick up the relatively lean meat within that brand or brands. Then, he would be left with the choice of a more fatty and more apparent remainder within the brand that had made the change vs the other brands which he could not see or visualize, but at least he wouldn't be sure that he would be getting the fattier selection when he picked from that brand; and conversely, you would end up with a situation where the guy who tried to do something for the consumer would end up with getting it in the neck. We didn't want that. We urged for action by the entire industry so that wouldn't happen and eventually that is what took place.

MR. AYERS: My other question concerns nutritional labeling. I wonder if your agency foresees that this will become mandatory on all food products?

MR. MC LAUGHLIN: No, I don't see that becoming mandatory on all food products. I think that as a nation we obviously haven't spent enough time in educating our youth or educating ourselves on good nutrition. And yet, at the same time, I think that we've probably all gone through a great profusion of publicity, advertising and promotion by government and otherwise about the benefits of nutritional labeling. I don't think the Food and Drug Administration or the Federal Trade Commission or any other government agency could prove that consumers have asked for the kind of nutritional labeling that they are going to get. The impetus for the nutritional labeling which the consumer is going to get came from the White House Conference on Food, Nutrition and Health which was a consortium of producers, consumers,
experts in nutrition and what have you; it was a highly select group. They made the recommendation that the Food and Drug Administration, and perhaps even the Department of Agriculture or the Federal Trade Commission, will eventually adopt. But, I think that there is a real question--certainly the question has already been put in the form of a suit--there is a real question as to whether consumers are going to buy a trade-off which brings them nutritional labeling but which also brings them the substitution of the synthetic, the food additive, the less expensive ingredient. You know, or maybe are not aware of the fact, that there has been a suit in which a public interest group has challenged the Food and Drug Administration on the position that if you prove (if a producer or packer proves) that his product is the nutritional equivalent of the traditional product that it simulates or imitates, that that packer or producer need no longer call his product imitation or sub-standard. I think that we are going to hear a lot more about that end of it and I don't regard the issue as settled in any way. But, to answer your question, I don't believe that the government either can or should mandate nutritional labeling. First of all, it isn't there. It isn't there under the Food and Drug Act and I don't believe that the Department of Agriculture has that authority either, although they might question that. As to whether laws should be enacted, I think that what we are going to have to do is go through a period of digestion and a period of consumer education before we could even begin to talk about making such a requirement mandatory.

MR. MICHAEL DAVIS: I'd like to bring up a prediction that Clancy made several weeks ago in San Diego about the consumer boycott in the
spring of 1974. Will this come to pass?

MR. ADAMY: Mike, I sure don't remember making any prediction of a consumer boycott in the spring of 1974, and if I did, I would refute it here. I don't think there will be an organized consumer boycott in 1974. I think that you have had an increasingly high level of consumer resistance to price and that this will continue throughout the period until there is a dramatic break or change in the economic climate. As you know, the consumers came to the market with resistance of meaningful levels in August of 1973. Then, as prices came down in the fall of 1973, they tended to relax and they seemed as though they were going to come back in the market for meat. With the rapid run-up of meat prices in January, they reexerted themselves and have continued now in a high level of resistance. The figures I used in San Diego, Mike, which pertained to this was that most retailers have suffered a decline in tonnage and I used that as proof of the existence of this level of resistance. I said that basically we had about a 10 percent increase in sales last year, with about a 16.3 rate of inflation, which would measure out to a decline in tonnage that the consumer bought. And, perhaps even more important than that, in the framework of what customers do buy, although they buy less, they have also dramatically changed the pattern of their buying and they've bought much more carefully. So, this level of consumer resistance does remain very effective. In fact, Mike, let me remind you that I think I said then, and have said publicly several times since, that I am amazed at the fact that the organized effort for consumer boycott in April, 1973 failed miserably, had no impact that we could find on the market at all. The August
consumer resistance which was so effective and had the dramatic impact of driving down the market—the beef market went down to almost 30 percent in the course of a month—seemed to have no leadership. There is no evidence whatsoever of any correlation of that campaign, and this continuing effort seems without leadership; there is no evidence of an organized consumer movement in it. But, there is a very high level of consumer resistance—somehow we have found that magic point because the consumer is changing his buying patterns, reducing his total buying and is being a very tough customer.

MR. KENNETH ARPS: Reggie made the comment that the government has a habit of repeating its own mistakes and I am concerned that the Consumer Protection Agency seems to be a repetition of a mistake in building something that is coming on with the guise of being an advisory commission on behalf of the consumer but which ultimately is going to have some sort of power. There has to be some ability to enforce its wants or thinking and I wonder if we're not building something even bigger that's going to be with us longer than the price controls?

MR. MC LAUGHLIN: First of all, there isn't any precedent for this kind of agency. You know, Congress, from the Continental Congress on down, started off enacting statutes that were complete within their boundaries. That is to say, the laws required very little, if any, interpretation by government administrators. They didn't know what a bureaucrat was back then. And, the same thing has happened with consumer protection statutes. The Congress started off enacting laws—food laws, meat inspection laws, product
safety laws—which were virtually complete within the boundaries of the legislation. For example, you might have a flammable fabrics act such as the one enacted in 1954 which had even the method of calculating whether a product was flammable, whether a textile was flammable or not flammable. Well, the experience of the Congress was, again, that the moment that you get such a statute enacted; it's outdated. For example, with the Flammable Fabrics Act of 1954, before the ink was dry everyone concluded that virtually every textile on the market complied with the test that was written into the statute. The tendency, then, on the part of Congress was to draw a broader and broader outline of legislation delegating to government administrators the responsibility for filling it in. This is the trend we have today, with most of the legislation in Washington not taking place on Capitol Hill, but in the pages of the Federal Register, as government administrators take these broad pieces of legislation and fill them in. Therefore, it becomes more and more important that we figure out ways and procedures to allow the public to have an impact on those major decisions that are made in the dull, very difficult reading of the Federal Register itself. If we don't figure out ways to do that, government will become more distant from the people. As to the precedents for this kind of agency, well, first of all, the Congress created independent agencies and regulatory agencies and now it already has the Government Accounting Office, of course, but there really isn't any precedent for the creation of an agency which doesn't have any substantiative program responsibility or regulatory powers. You talked about having some way for the agency to enforce its demands. Well, there just isn't. There
isn't any authority in the agency to enforce a demand. What there is is provisions which would allow the agency to survey the public need and determine whether or not in any given proceeding, whether it be a food standard established by FDA, or a Price Commission proceeding, or a Federal Trade Commission advertising regulatory program, whether the public interest was sufficiently protected in the action by the agency and if it was not, to intervene and enter into the proceedings and file a brief or a petition to argue the point. Really what the agency is about--it's about competition; it's about competition in Washington; it's about competition for the attention of government administrators and competition to gain the attention of committee-men on Capitol Hill. Will the experiment work? I don't know.

I know that the Congress does seem to be determined to establish what would be the first statutory agency, which might, in fact, grow into a department dedicated to advocating the interests of the consumer. There has been a lot of misinformation spread around about this bill. I sense it in every business audience that I talk to. Practically speaking, I guess what the legislation means is this: you know, time was when much of the legislation in Washington was written in legal offices (and excuse me, Clancy) even in trade associations around town rather than in the Halls of Congress.

But, we don't have that situation any more. I think that we have a much more representative government than we have had in the past and yet more and more of these decisions of government administrators are getting further and further away from the people. Now, Congress is simply playing with the idea that perhaps one way to address this is to create what is essentially a
special interest block with the sole function of trying to balance the representation and to address the interests of the consumer, for it really doesn't make any difference what the political philosophy is. I have heard some very, very conservative senators say, "Well, what about the consumer side of this; who represents the consumers?" I think that business should spend a little bit less time worrying about the competition that the agency might give them or lobbying some government administrator and spend more time in trying to work out ways whereby the legislation would make the consumer movement more rational. For example, no one has thought of writing into the legislation the necessity to work, or to file a petition, or to make a move on the basis of rational priorities. No one seems to have considered that at all. There is just this frantic attempt to block the legislation, as there has been over the last five years.

In summary, all I can say is that I have written regulations for two government agencies--the Federal Trade Commission and the Food and Drug Administration--and when I started out in 1962, one could look at the file of comments and carry on from there. Of course, you know that most government administrators are working under a piece of legislation that says they shall enact a rule on the basis of the record. Well, almost without exception, the record back in 1962 was devoid of any comments from the public.

Clancy talked about the marketing orders of the Department of Agriculture--these have a tremendous impact on the consumer, and, for the most part, he is not even aware that these decisions are made. He is not
aware that there is a Tomato Marketing Committee made up of Florida producers. He is not aware that some obscure notice in the Federal Register is going to increase dramatically the price of tomatoes next week or next month. He is simply not aware of it. One of the reasons why he is not aware of it is that the Department of Agriculture usually only allows five days for comment.

But, my experience has been that there is a great need to try to involve the public in the creation of rules that vitally affect it, but the tendency in Congress has been to delegate more and more rule making powers to the federal agencies. Now, the Congress is trying to address that need, that lack.

You may feel that this is the wrong way to address it. I've worked in two regulatory agencies and I think that something should be done. We've tried to do some things ourselves. For example, we got the Federal Register Committee to start putting out at least a summary of what is enclosed in the Federal Register—the highlights section. We got them to do that. In our office we publish a digest of important consumer items that appear in the Federal Register. It's our Consumer Register, but we only have a circulation of about 60,000. We've got to come up with techniques that make government more responsive to the consumer, the taxpayer, the voter. And, this is an attempt at it.

MR. ADAMY: Just a small rebuttal. I would agree with Frank that there is a need to approach the problem of institutionalizing the consumer movement in government. There are 17 ways to skin any cat; I think they've found the worst one. I think there is a need to stop this stupidity of the
Congress, creating legislative power in regulatory agencies; they are neither competent nor representative. I think they've found the worst way to solve it.

Frank's allegation that no suggestions have been made—why, hell, there is something over 100 amendments running around town. But, our little friend Bella Abson has the best answer to those. As you know, about two weeks ago on a Saturday a couple of fellows named Rosenthal and Hollowfield met somewhere and agreed upon a bill, working out their own sweet little compromise. And, that's what we face now in the CPA is this compromise that these two men in some dark room worked out. Then, Bella Abson picks up a big sheaf of papers and swears that she has 150 amendments. "And, if you let one of those S.O.B. businessmen have one amendment that would provide for due process and the proper recognition of the rights of individuals, I'll throw every one of these in." And so, our friends in the committee are being blackmailed into a very improper series of decisions without due consideration in a rush toward a bill which is mostly motivated by highly political gains or goals of the individuals concerned.

I do consider it a very bad bill. I agree with Frank entirely that there are very real problems, that there should be an institutionalization of the consumer movement. I think it could be well done, I think there is indeed a need to restore to Congress the powers of Congress, that the rule making authority in the agencies is self-defeating and dangerous. I think, though, that a bill that gives unlimited right of subpoena, a bill that is unrestricted in its intervention in cases, one that could delay a
case, for example, is not good. Let's say you were to get a citation from the Federal Trade Commission and you were to prove your total innocence. This agency could, then, of its own volition, without anything in the case at all, go into court and drag it out for another five or six years and another two to three million of your dollars, just by the ability to harass. And, no one should have the ability to create by harassment. That's the whole essence of due process—that any citizen can get justice, can get satisfaction, can get conclusion at a rational point. This bill is intended to defeat that and, therefore, I think it is a bad bill. I hope sincerely that we dirty, old, stinking lobbyists can think up some tricky way to keep it from happening. I think that if we do we will have served our people, our country, and our times very well indeed, and I will proudly so claim.

MR. MC LAUGHLIN: I don't have a memory that goes back in Washington as long as Clancy's but it goes back at least five years. Five years ago, I went to a number of industries and suggested that business get behind a relatively non-controversial bill (in my mind) that was introduced by Congresswoman Flo Dwire. The bill would have done nothing more than statutorize the existing Office of Consumer Affairs, but they laughed at me. Business had no philosophy, no strategy other than to wait for a crisis. Well, they've got a crisis now and it's simply because business, even when rational voices within the industry get up and say, "Well, you know, that is not a bad compromise; let's buy that." They're hooted down; they're laughed at; they're ridiculed. This is what happened to Motorola several years ago when, again, by comparison with the legislation that's being discussed
today, legislation that at that time was relatively non-controversial, business didn't want anything to do with it. You talk about the 100 amendments, those amendments only have one purpose. The purpose is to kill the bill entirely. As far as the provisions of the bill are concerned, we could discuss them all day long (and I think I know them pretty well), but I don't think that would serve any purpose. I think that given the organs of information that business has available to it, people outside of Washington, business outside of Washington, will never hear the truth about that legislation. They haven't heard it from the beginning.

MR. HARLAN BIGLOW: This is not a question, but I think it would be of interest to Mr. McLaughlin and the rest of the people here. This is what happened recently in Cleveland in regard to prepackaging. I have been promoting prepackaging at the retail level for years and years, if it's done honestly (and I think this thinking is vindicated because every year they have a percentage showing that more food is prepackaged). In Cleveland recently, one of the Councilmen who has been quite active in the last year or two took a complaint about the packaging of meats. It seems you could see the top and you couldn't see the bottom of the meat in the package. Well, the idea caught on right away with a big following and so the city passed an ordinance but they mentioned the wrong kind of material in it, so they had to do it over again but it passed unanimously, and the newspapers carried big items about it. But, that's just for the City of Cleveland—not for the 34 suburbs outside of the City of Cleveland. George can verify me in that and so can Leo Mintz. Since December 1, they have had to package meat
so that you can see the underside of it. Now, the reason for that was because some of the dishonest packers put two pork chops on top and a little one on the bottom or didn’t show the fat on the bottom. If a chain organization has some stores in Cleveland and some out of Cleveland, you can see through the bottom of the meat packages in Cleveland but you can’t see through the bottom of them out of Cleveland. But, this instance shows the power of the consumer, especially when a politician gets hold of a question. When Betty Furness came to Cleveland some months ago, she criticized prepackaging of fruits and vegetables. She didn’t know what she was talking about because honest prepackaging is the finest way to protect the consumer and still make a better net for the wholesaler. However, it’s the person putting the small beans on the bottom or the great big potato on the bottom that has caused consumer unhappiness with this. A statement like hers is harmful and it damaged the reputation of prepackaging for a lot of people. Any person who has prepackaging will open it up and sell you two; you don’t have to buy six oranges or eight oranges or 4 lemons. They’re very glad to open up the packages so you can buy one or two. As I remember, the remark was that the poor person couldn’t buy six or eight; they had to get a package and she said it wasn’t right.

MR. ROBERT ATWOOD: This is a question for Mr. McLaughlin. Most people around Ohio, or most housewives anyway, know that the price of a loaf of bread today is up about 40 percent over that of a year ago. My question is why would Secretary Schultz appear on TV and tell the public that a half cent increase would be more than enough as far as the baker, the
grocer, etc. are concerned, when bread has gone up four times in the last four months and the day he was on TV it went up 5 cents in our market?

MR. MC LAUGHLIN: I wouldn't have any idea why Secretary Schultz made that statement, but I feel that when he gets wedged at the same table with Mrs. Knauer that you may have a very strong ally.

MR. GEORGE CASTER: Reggie, the Schedule II that you mentioned that we had so much frustration in preparing, I assume that we can all throw those away if the control act is allowed to expire April 30. My question is—is that true, or do you anticipate that there will be an attempt to maintain this control of the retailer after this act expires?

MR. BROWN: I would not think so. The problem that we have is one of demarkation, if you will. Presumably, those retailers that are under controls are supposed to be under them until the date that they are decontrolled. But, the kinds of reports which would indicate that they were complying with the regulations are never filed until after the fact. Now, I don't know what provisions will be made for clean-up—assuming that there will be a clear demarkation on some particular date. Those quarterly reports, for example, are due 45 days after the end of the quarter. I would guess that some provision will have to be made to take care of this. It is not our intention to forget about compliance with the rules simply because we are approaching the 30th, because there are overlap problems.

MR. ADAMY: George, let me add this. Gentlemen, don't forget that in OPA and OPS some two and three years after the act, cases were successfully prosecuted against people for failing to abide by the rules of time. So, despite
the fact that I am even more confident than Reggie that we will be out on
May 1, for crying out loud, don't goof up in these last few days. Keep your
reports up; keep your records up; do it right until the day it's over because
they can come back on you for a long time. Don't relax.

MR. HOWARD MEASE: Mine is a comment and also a question to
Mr. McLaughlin. Our Sparkle Markets were one of the leaders in our area
to use unit pricing. Our observation, after it had been in effect for awhile,
was that Mrs. Consumer wasn't too much interested in it. In fact, the com-
ments seemed to be that we were telling her that the only criteria for value
was the price per pound or cents per ounce. Would you have any comment
on that?

MR. MC LAUGHLIN: Well, my comment would be that—as has been
indicated earlier—that the thing that gets people into the store is the price.
As far as the studies that have been done on unit pricing are concerned, many
of them suggest that the consumer does not even understand unit pricing, but
the number of people who understand it are growing. As to the utility of unit
pricing as a means of promoting price competition, you know, it's beyond
argument. Quite obviously it does. And, whether you personally feel that
it is a waste or a problem to have unit pricing, I believe that there will be
growing demand for it and even unit pricing in your food ads. I think it's
obvious. As far as food quality is concerned there is great debate over
regulations that would tell the consumer more and more about quality. In my
judgment, the food standards that have been established in the quality arena
over the year have not been, to say the least, exemplary. I think that the
standards for food quality for the most part represent very poor compromises, which in large part are attributable to the fact that the proceedings that produced the quality standards were battlegrounds for warring economic interests, which eventually came up with the lowest common denominator compromise and that's what is written into the standard. But, the consumer has always been told that, "Yes, government and industry believe that the consumer should make a rational comparison, and that government and industry should facilitate this rational comparison." On the other hand, when people start talking about drained weight labeling, coding of semi-perishables, or information in the grade labeling field, well, you know, that is the quickest way to produce a consensus of opposition against it. The consumer knows very little about food quality but the consumer is going to demand to know more and more.

This gets us into the point that Clancy was talking about here before—legislation and regulation. Generally, the interest of the nation in consumerism is not because of the organization of consumerism, institutional consumerism, it is in spite of it. These groups are weak and disparate. The lobbying on a consumer piece of legislation, whether it's the CPA bill, or a warranty bill or what have you, as far as the lobbying on the consumer side, it's ridiculous; it's laughable. They don't even know what committee is considering the bill. They don't have any impact; and yet, Ralph Nader did teach an enduring economic lesson to American businessmen in the late sixties. The lesson was—consumerism sells newspapers and consumerism will sell more newspapers tomorrow. And, an elected official, despite the fact that he is not being pressured by a strong organized consumer movement, senses this; he knows it;
he puts his neck on the line every election day just like the guy who is trying to get you to buy a newspaper. They both know that the public—more affluent, better educated in terms of formal and informal education—is going to be making more and more subtle demands on the businessman, on the elected official. So, it is not because of but in spite of the weak organizational aspect of consumerism that these things are being brought about. It's really a grass roots movement. Clancy talked about the lack of leadership in boycotts; he's absolutely right. These things are grass roots and that's why they are so difficult to predict.

MR. ADAMY: On that same question, though, on the matter of unit pricing, there was another bill for mandatory unit pricing introduced by Senators Moss and Hart, as an amendment to an important bill, within the last two weeks. If the cost be low and if the problem be that great (and I hope those two are facts), it would serve our common purpose if we could do it as much as possible voluntarily; because I still have a great fear in my heart that if we don't do unit pricing voluntarily we may indeed face a mandatory rule and then we will have stipulations that will be hard to live with—printing, printing size, colors and all kinds of little harrassing events put into a mandatory rule. And so, if it is not an overwhelming problem, I do urge that you do help us out by trying to carry on a voluntary program. Actually, I think the only reason we don't have a mandatory unit pricing today is because it was done voluntarily. I certainly think, however, that it remains an issue. I recognize that it is discouraging—you put it in and the customers don't seem to pay any attention to it; they don't seem to get
any value out of it. It is a nuisance to put in, but the problem hasn't gone away.

MR. MC LAUGHLIN: There is a footnote to that. Back in 1969, Clancy came to us and said that he didn't like some of the unit pricing bills that were before Congress; he didn't like some of the provisions. We looked at the provisions he was talking about; we agreed with him and we wrote some legislation that was introduced, and virtually every unit pricing bill that has been before the Congress since that time has been a mirror image of the bill that we wrote back then. But, we made the point that unit pricing could become a competitive device and that business ought to have the opportunity to show the consumer that it can come up with answers to consumer needs and facilitate consumer purchasing through a competitive device rather than by legislation. But, you know, let's be honest; let's be candid. Whether it's unit pricing, already enacted by about half a dozen states, or any other issue, the overriding issue that you face on these things is that even though legislation can be sloughed off or the Congress blows hot and cold on it and the legislation is not enacted, the states are very active, the city councils are very active. That's a tougher nut to crack. Business increasingly has to face the question—should we wait for half a dozen more states to enact a piece of legislation, or should we become a proponent of a piece of federal legislation? That's a pretty tough choice and the only way to get around that is to start building into your thinking about government some kind of rational substitution for regulation. I must say, I have been in Washington since 1962, and I don't know of any company, any trade association, or any
other group representing the interests of business that spends an hour a day trying to develop rational substitutes for existing regulation. I have written many, many regulations that appear in the Code and I don't know of anything in the Constitution, or any statute that says that any one of those regulations is imperishable, that it has to stay there, that it is written in stone with tongues of fire, and yet, it has been my impression, my experience that business, particularly business represented in Washington, has a supine resignation to the inevitability of more, and more, and more regulation. We are trying to promote competition as a substitute for regulation, and for the most part, we get very little assistance from business.

COMMENT FROM THE AUDIENCE: Frank, if our customers would give us an inkling that they would be interested enough in unit pricing to come into our stores and look at it, we would probably all rush to be first to put it in. At this time, we have no evidence at all that we wouldn't be doing anything except spending a lot of effort and money without gaining any advantage. Is the situation in Washington different than it is here?

MR. MC LAUGHLIN: No, but there have been studies done on this. The Grocery Manufacturer's Association has, I believe, done three studies. Are you familiar with any of those? GMA has done studies and others have done them, too. These studies show that consumers want unit pricing, but they also show that even in areas where unit pricing has been innovated, most of the people don't understand it.

MR. HARRY LAREMORE: I have a question for Mr. McLaughlin. I'm one of those blundering association executives from Toledo, Ohio. But, I do
agree wholeheartedly that the interest in most of the consumer legislation stems from the politicians and the newspapers. However, I take exception to the statement that you just made that consumers want unit pricing. We may, as Clarence said, be faced with that down the road, depending upon the amount of pressure, especially by the newspapers; but I don't think that the average consumer understands or wants unit pricing. I talk to a lot of women's groups. If you talk to 150 gals, and you say how many of you believe in unit pricing or use unit pricing, you'll see a show of maybe three, four or five hands. Unfortunately, the newspapers don't tell the consumers that the other 144 women are going to help pay for something that they don't really need or often don't use.

MR. MC LAUGHLIN: To simultaneously maintain the position that most people make a decision as to a store on the basis of price, and yet maintain the position that a person is not interested in a more rational basis of comparing prices, is an ability which I don't possess with you. It makes no sense to me whatsoever.

MR. ED WATKINS: I am impelled to my feet at this point, I think. I guess that as we talk with consumers, we are finding that unit pricing by itself creates as much confusion as it offers help. Now, let me give you a couple of examples. If consumers are just looking at unit pricing, their decision can turn out to be other than for their best interests, because there are tremendous differences in pack and in quality of products. Unit pricing does not recognize this and it takes a high degree of sophistication on the part of the buyer to differentiate between different packs, which will give you an entirely different base for comparisons of differences in quality.
Now, if we follow this very far, we lead them down the path to choosing the lowest quality product on the market.

MR. MC LAUGHLIN: My reaction to that is that I've heard it a thousand times and it always sounds like Catch 22 to me. On the one hand, we can both agree that rational comparisons and rational value judgments should be made. But then, when we begin talking about the elements of rational comparison and rational judgment—for example, percentage labeling in the area of diluted fruit juice drinks, when we talk about drained weight labeling, when we talk about grade labeling, when we talk about unit pricing—when we talk about any of the elements of value comparison, the answer is, "Well, if you gave the consumer any one of these things, he would overemphasize it and therefore we are justified in presenting none of these points." That sounds like Catch 22 to me.

MR. WALTER CHURCHILL: I have a question for Clancy and Frank both on this unit pricing. Aren't there some alternatives that we can use that make more sense than unit pricing? Clancy, you made the comment about trying to standardize packaging and some of these other things for more efficiency. I think that as far as the consumer is concerned that in the long run if she can save money, she doesn't care about all the hocus-pocus that goes along with it. I think that there is a certain limit on what dating will do and all that. Isn't there a better solution than unit pricing, such as approaching some of these things that you talked about like getting things uniform so that they could be handled better? Why can't we just put more pressure in this area? Do you understand what I mean?
MR. MC LAUGHLIN: I understand what you mean. In October of 1966, Congress enacted a statute which was going to cure that. The statute authorized the Secretary of Commerce to sit down with the people who process and pack potato chips and help them reduce the number of sizes of different packages of potato chips, soap, and you name it—thousands of commodities that appear in a supermarket. All I can say is that the Act has been on the books for eight years and the various Secretaries have been sitting down with those processors and very little has happened. I've seen a good many press releases that talked about the benefits of only having 27 different sizes of soap flakes and detergents. But, I wonder if it has had a great deal of practical significance.

MR. ADAMY: Frank, I can't respond to that, but there have been some 75-80 industry-wide agreements reached under that proviso and there is a lot of standardization that has gone forward. Although, remember, Walter, when I was talking before about standardization, I was talking about wholesale cartons specifically. I would adopt the philosophy of random contents to achieve a wholesale carton standardization, because I think there is some need in marketing for some freedom to package more widely in the retail package. I think that if there is consumer value, then we should not rule it out. But, I think there is an intelligent effort going forward under the legislation that Frank is talking about to try one industry at a time. So, it is taking a long time to get up to this 75-80 that we're up to now—to get agreements. There is a slow, but sure movement to recognize the whole problem and to come up with a standard effort.
MR. WALTER CHURCHILL: What about the metric system?

MR. ADAMY: It will have a great effect, Walter, because so many of these problems come from the fact that you have dollars in tenths and weights in 16ths. If you're going to have that confusion, then you're going to have stupid people like me in trouble. I suppose smart people don't have those troubles, but we dummies do. When you go to the metric system, then it's weights in tenths and dollars in tenths. You have a much easier mathematical calculation, and it will improve our system immensely. But, remember, Walter, that is a long time away. If the Congress gets off its duff and passes the metric proviso this year, it will provide for a ten year input period which we have to have—just think of the textbooks—it will take at least ten years to change the textbooks and allow the kids to go through the system of school and catch up with the new metric system. So, you have to have the ten year period. It isn't an immediate answer, but it is one.

Now, one more problem to throw into this discussion. Don't forget that if you standardize to weight, then you have unstandardized to volume. You know, the canning industry has a series of standardized can sizes—202, etc.—so we have a form of volumetric standardization. But, by so doing, each time you change the product, you dramatically change the weight scale, because the density of different products or different methods of pack—whether you add syrup, water or mustard sauce—changes the density of it. This is one of the other difficulties of standardization. The most hopeful thing on the scene to eliminate a large part of this argument, and I don't suppose you will eliminate it totally, is the metric system. I am more hopeful about that than anything else.
MR. MC LAUGHLIN: Lest there be any doubt about it, I don't favor any legislation that would mandate the sizing of packages. There is an experiment along that line in Soviet Russia where you can get any size so long as it's one in their large department store. I don't believe that the government should be in that business, because invariably the problems of writing regulations present more dislocation.

COMMENT FROM THE AUDIENCE: I'd like to make a comment on your views on regulation. You know, there is a lot of talk about rational behavior, each individual pursuing rationally their own self interest. It is not necessarily so that each individual or group of individuals pursuing rationally their own best interests would end us up in a situation where we are all better off. In fact, one of the big problems we've had with inflation over the past three years was precisely that--each individual pursuing their own rational self interest brought us to the brink of the worst inflation in history. One of the things you've got to do is tackle the psychology of inflation. And, sometimes the only way you can do that sort of thing is through some sort of mandate or mandatory regulation. So, regulation isn't entirely bad.

MR. MC LAUGHLIN: Regulation is not entirely bad, but unless you want to paper the walls with a code of federal regulation, you'd better figure out some way at some point in time to substitute competition for that regulation. There is an unstated law in Congress that once something appears in that little red book--The Code of Federal Regulations--that it is there forever. I'm simply trying to make the point that it need not be so; it need not be so.
This morning, our opening session is entitled "What Is News?" A panel of authorities from the news media discuss some do's and don'ts concerning the identification, preparation and distribution of publicity about you, your business and the food industry. And, you know, from hearing the sessions yesterday, reading the papers and books that are being published, listening to radio and watching TV, I can't help but think about this little thing I heard recently. This fellow said, "Good Lord sends me troubles and I got to work 'em out, but when I peer around I find there is trouble all about. And when I see my troubles, I just look up and grin, to think of all the troubles that I ain't in." This is sometimes like this food industry of ours. Well, today I think we are very fortunate to have three well known newspeople from this area who will each spend a little time giving us some do's and don'ts about publicity and news items; then, we would like to get into a question period.

The first gentleman that I would like to introduce is Mr. Richard Tracy who is the Public Service Director of the Columbus Citizen Journal. Mr. Tracy was born in London, Ohio; grew up there and graduated from the London Public Schools. After his graduation from high school, he took full time employment with London newspapers--the Madison Press and the Madison Democrat. He
has spent most of his life within the newspaper industry being the Sports Editor, Assistant Sports Editor and covering all other phases of the news. He has a very good background in newspapers. He has been with the Columbus Citizen Journal since 1948. He started as a copy writer with the Journal then went to the Lima News as Sports Editor for a year and a half. Later, in 1950, he returned to the Columbus Citizen Journal as Public Service Editor and has held that position ever since.
WHAT IS NEWS?

Richard T. Tracy
Columbus Citizen Journal

Thank you, Leo. Before we get going, I thought maybe it would be a good idea to discuss who puts out newspapers and what a newspaper is, so that there is a background for understanding what's going to get in that newspaper. To start off with, the Society of Professional Journalists, Sigma Delta Chi, has recently adopted a program and explanation of what they feel journalists are and I would like to touch on a few of the points they made.

First, they stated, "We believe in public enlightenment as the forerunner of justice and in our constitutional role to seek the truth as a part of the public's right to know." Now, you've heard a lot about the public's right to know recently and maybe you agree, maybe you don't; but some phases of it naturally aren't going to satisfy everybody. There is, however, a certain responsibility in relation to this and that is the fact that the public's right to know of events of public importance and interest is the overriding mission of the mass media. The purpose of distributing news and enlightened opinion is to serve the general welfare. Journalists who use their professional status as representatives of the public for selfish or other unworthy motives violate a high trust.

Now, I think if you get to know newspaper or journalism media people—that takes in the electronics as well as the printed press—you'll find out that all of them have this responsibility in mind. Naturally, being human beings we
don't always override some of our private interests.

Freedom of the press is another thing you hear constantly. And that, again, takes in all the media. And, this freedom of the press is to be guarded as an inalienable right of people in a free society. It carries with it the freedom and the responsibility to discuss, question and challenge actions and utterances of our government and of our public and private institutions. Journalists uphold the right to speak unpopular opinions and the privilege to agree with the majority.

Now, in order to do these things, they set out specific objectives, ethics and statements of fair play. Just to touch on a few of them...truth is the ultimate goal. Objectivity in reporting the news is another goal which serves as the mark of an experienced professional. It is a standard of performance toward which we strive, and we honor those who achieve it. There is no excuse for inaccuracies or lack of thoroughness. Newspaper headlines should be fully warranted by the contents of the article they accompany. Photographs and telecasts should give an accurate picture of an event and not highlight a minor incident out of context. The same thing goes with reporting statements of various officials; they shouldn't be out of context. Sound practice for a journalist is to make clear distinction between news reports and expressions of opinion. Now, that's easy enough done on the printed page you would think, but it still occasionally is misused in that I can take our newspaper any morning and read a story without ever seeing a by-line and know who wrote it because I happen to know the staff members and their thinking. So, no matter how hard they try, I think anything
that is reported as news is reported in relation to that person's primary
interests and sometimes reflects his thinking along that line. There isn't
anything that isn't relative to you as a person. You want news in the paper.
Primarily, you want good news about anything that you have connections with,
so naturally anything that you try to get into the paper primarily is going to be
something flattering or at least good about you. However, there is always
a chance that a personal view is going to get into a story whether it's written
or reported verbally.

As far as ethics are concerned, a journalist must be free of obligation to
any interest, other than the public's right to know the truth. Gifts, favors,
free travel, special treatment or privileges can compromise the integrity of
journalists and their employers. Nothing of value should be accepted.
Secondary employment, political involvement, holding public office and service
in community organizations should be avoided if it compromises the integrity
of journalists and their employers. Journalists and their employers conduct
their personal lives in a manner which protects them from conflict of interest,
real or apparent. Their responsibility to the public is paramount. That is
the nature of their profession. And, so-called news communications from
private sources should not be published or broadcast without substantiation
of their claims to news value. So, you see, it is a very responsible situation
that a newspaper person or a news media person finds himself in when he
deals with news reports to the public.

Then, there is another section which they put out regarding fair play.
Under this rule, the journalist will at all times show respect for the dignity,
privacy, rights and well being of people encountered in the course of gathering and presenting the news. The news media should not communicate unofficial charges affecting the reputation or moral character of someone without giving the accused a chance to reply. To me, this is the most abused of all fair or unfair practices.

The news media must also guard against invading a person's right to privacy. The media should not pander to morbid curiosity about details of vice and crime. That's another one that gets misused quite a bit.

It is the duty of news media to make prompt and complete correction of their errors. Journalists should be accountable to the public for their reports and the public should be encouraged to voice its grievances against the media. Open dialogue with our readers, viewers and listeners should be fostered.

These statements are those that were promulgated by the people who are in the business of disseminating news, so basically, newspeople do have a sense of responsibility and they have high ideals to which they try to adhere.

Regarding newspapers themselves, they are a little different media than these two gentlemen on either side of me represent. Frankly, I think we have the best. But then, they have a right to their opinion. One reason I say a newspaper is really the ultimate is that it is printed; it is something that lasts. Hugh can show you a picture that flashes on the screen; he can explain what it is and then it's gone. Dave can report it on the air, you hear it, and if you happen to be listening to someone else who is talking to you, you miss half of it. But, as long as it is printed, you can always pick it up at any time of the day and read what it says, provided you want to read. Half the people, I feel,
don't read what is in front of them. I am in the public service area, and the questions we get daily indicate very clearly that people don't read what is there in front of them, regardless of how much attention is put into it. But a newspaper, to me, is a mirror to society; it's a record of events; it's the history of the times; it is an advisor toward decisions of public interest; and it is a reporter of the actions of the day. The news covers the unusual activities in all these various categories. And, as you might wonder sometimes, why is all the bad news as you call it, or seem to think it is anyway, on the front page and very seldom do you see the good things about the public? Primarily, news is the exceptional event; it's the exception to the rule more than anything else, and that's what makes it the news.

Regardless of what some theologians will tell you, I personally feel that the people of this world are primarily good. And, therefore, the bad things they do are the things that make the news. Any time you turn around, in any community, you find more good people than you find bad, so I think that bears out my opinion.

Now, they said for us to speak a little bit on the do's and don'ts when you want publicity or news. First, I would tell you not to expect too much in the length of a story. When I started working, newsprint was $22.00 a ton. Today it is about $239.00 a ton. So, naturally, they are not going to use that space unless it warrants use. There again, of course, being human beings this is subject to opinion. I mean the News Editor decides whether the story is worth a big play and you might not agree with him. However, he is the guy who makes the judgments, so that's the way it has to go.
Don't expect every release that you send to the business page or to the food page editor or just general interest news to be printed, because the day's events sometimes dictate what gets in and what doesn't. Above all, don't use pressure to get an item used. The quickest way in the world to get something into a wastebasket is to say, "Well, I run a page ad every so often so I think you ought to run this." They'll look at you and smile and as soon as you walk away, your story is in the wastebasket and that's the end of it. This is because they are very jealous of their ability to judge news and they're going to judge it regardless of what you or anybody else is paying toward the upkeep of the newspaper. So, those are things that I can say don't do.

On the other side of the coin, be reasonably certain that the item that you want printed is newsworthy. I mean that it has something to do with the greater number of people rather than a privileged few.

Now, of course, on business pages where it's advancements, promotions of various kinds or expansions, naturally those affect fewer people than the vast majority but in the overall picture it is to help the whole public. So, don't throw them away just because you need to be reasonably certain. Be factual and concise in any item that you submit. In other words, be accurate in the figures you give and don't use a lot of extra words to get it on paper. Then, cooperate with the newspapers on any news story. I know if something bad happened in one of your plants or stores, or if you're a wholesale distributor or a trucking outfit and something bad happened such as someone in your firm running over a person or a truck driver killing someone, naturally
you don't like to have any reflection against your business. But, on the other hand, that story is going to be printed, so if you cooperate and give accurate information and volunteer what should be relevant to that story, you are going to get a better shake than if you try to evade anything when the reporter calls you.

Those are the only suggestions I have to help you get better newspaper space. In conclusion, I would like to say that you should remember that the newspaper staff is the ultimate judge of the newsworthiness of the item. Undue pressure will bring rejection, rather than acceptance and although objectivity is a prime aim in news reporting, it sometimes is misused. In general, the news media present the fairest reports they can. Thank you.
INTRODUCTION

Leo K. Mintz
Grocer's Spotlight

The second man on our panel is Hugh DeMoss, News Director of WLW-C and Anchor Man of the daily DeMoss Report which is aired at 6:00 p.m. and 11:00 p.m. He has reported on the events and activities affecting daily life in Central Ohio since 1957. Under Hugh's leadership the TV 4 News Department has won many awards and a great deal of recognition for outstanding broadcasting journalism and the Columbus Chapter of the National Academy of Television Arts & Sciences has presented two of its coveted local Emmy Awards to WLW-C News. One was for overall journalistic accomplishments and one was to Hugh DeMoss for his individual ability as a newscaster.

DeMoss is a native of Covington, Kentucky, and was a graduate of the Holmes High School there where he decided to direct his education toward a career in broadcast journalism. He graduated from the University of Cincinnati and prior to joining the AVCO Broadcasting and WLW-C he got a lot of experience on the staff of WCPO in Cincinnati. He was chosen to become the News Director of WLW-C only months after joining the staff as a reporter and photographer in January of 1957.
WHAT IS NEWS?

Hugh DeMoss
WLW-C TV

Thank you, Leo.

Let me go to do's and don'ts first. First of all, don't invite the 11:00 p.m. newscaster to be on a panel at 8:15 a.m., particularly if he has any clout as to what goes on the air. Did you hear me, Vern? The letter I have here from Vern says, "What an ungodly hour!" I can hear you say it but it was then or never.

My first point concerns free TV time. Let me be specific about this. The television stations in Columbus provide millions of dollars worth of free air time and facilities to non-profit organizations each year. Broadcasters need not grant time to any particular group. There is no law which says stations must devote a fixed amount of air time to community organizations. However, most stations pride themselves on being alert to community needs and on their record of service in the public interest.

Now, what should you do first when thinking of using TV? Become familiar with the Columbus television market by watching it. Study local programs and announcements to learn what is being done here. Consider your message. What do you want to say? Why do you wish people to hear it? What should you say? Who should hear it--men, women, or children? Contact the Community Services Director or the Public Service Director or
the News Director of the TV station and if time is available for your organiza-

tion, he will handle your request for time or refer it to the appropriate person

or department. Panel or group discussions, demonstrations, interviews,

one-time documentaries or a series of presentations are types of available

formats. You should contact the station a month or two in advance of the time

you wish your program aired. For example, you should call six months ahead

for a series or documentary. For segments of programs such as interviews,

demonstrations or similar presentations which are inserted into a regularly

scheduled program, call three or four weeks in advance of air time.

Call two or three weeks in advance for a "plug." These are announce-

ments by on-air personalities on their own programs.

In the area of news, feature items or short newsworthy items are used

regularly in newscasts. The News Director determines whether your story

qualifies as news. If he can see possibilities in the release, he may contact

you for additional information. He may want to film an interview with your

representative or to film the event itself. Supply him with information two or

three days in advance and if you send a picture with your release, make it a

35mm transparency, rather than a black and white print. TV News is in color

now, folks. And, make it horizontal. Television works on a 3 x 4 basis and

we can't use vertical pictures.

In the editorial area, statements are prepared by the station presenting

the management's viewpoint on matters of public importance. The individual

to contact there would be the Editorial Director of the station.
Public service announcements are scheduled between or within programs throughout the day, and there are some guidelines in this area. The PSA should be 10, 20 and 60 seconds in length; 30 and 40 second spots are used less frequently. Most public service announcements are sound on film or slides with copy to be read by an off-camera announcer. The film must be 16mm with a sound speed of 24 frames per second and only in color. Slides must be, again, 35mm color transparencies that are horizontal and matched to the copy to be read by the announcer. A minimum of one slide is required for each 10 seconds of copy. And if you wish your slides or film returned, please say so or they probably will be discarded.

Now, let’s go to your general appearance, if you’re lucky enough to get on television. If a representative of your organization should appear on camera, remember that a man should wear a colored or off-white shirt; don’t wear white because it tends to draw attention away from your face. Plain ties and suits in the medium color range are best. A woman should wear clothes in the medium color range, avoiding very dark or very light colors. She should avoid patterns that are too bright or too busy, and should not wear shiny fabrics such as satin or lamé. Do not wear jingling or sparkling jewelry or sequins as they draw attention away from the face.

Again, if you’re lucky enough to get on the air for an interview, do not depend only on wit and charm; use props and pictures or slides and other devices to hold visual interest while you make your point. Make an outline of what you want to cover. Indicate on it when the appropriate visuals are to be used. Make extra copies for the interviewer and his director. Send
your organization's most articulate spokesman; the audience will be impressed
by enthusiasm and knowledgeability and not by titles. Again, remember that
television is a visual medium. The sound is important, but unless the tele-
cast is visually interesting, it will not hold your audience. Television is a
mass media; somewhere in the neighborhood of 98 percent of the population
has one or more television sets, and about 50 percent or more of the homes
with sets have color TV. The average viewer watches several hours a day
but watches only that which will interest him. If you would reach these
viewers, your presentation must attract and hold their attention. And, con-
sidering the size of the audience and the impact of television on it, your TV
use deserves your best efforts. About 97 percent of the people go to bed with
their wives or husbands every night; 3 percent of them do not, and that 3
percent is the 3 percent we are interested in. It is probably a sad commentary
with regard to news coverage, but nonetheless, I could come on the air every
night and say, "Annie Murphy did find her cat," and how many nights would
you watch? But, when I say that Annie Murphy did not find her cat and I show
you pictures of people looking for it in sewers, holes, etc., etc., looking for
her cat is of interest to you. Basically, I think what we are talking about is
that women, wampum and wrongdoing make up the news, and that's the area
we cover.
I'm going to start with the do's and don'ts, also.

Don't send all this garbage to News Directors; we never read it. It said to submit a personal biographical sketch and I just read that on the way down here this morning on Route 71 and about caused a traffic accident. That's why that's all he knows about me. That's all I want him to know anyway.

Very simply, though, I have been News Director at WBNS for about two years. I came here from Buffalo, New York, having worked in Hughes media for two years. To me, radio news is probably the most simplified, but the most fun from the standpoint of deadlines. I learned from a guy whom I didn't like very much but he did teach me a lot. He always wanted me to be there on time and that didn't quite set right.

Radio news in any given market is almost in direct inverse ratio to the population of the market, and that is referring specifically to local news. I would hate to mention any food distributor and then slight another one, but, for example, in a small town every person that's important to this particular distribution center knows about it. They know of it, know what goes on there, etc. So, just about anything that you feel is newsworthy in a market that size will make the air because everybody knows everybody else. But, if you come to a larger town like Columbus, Ohio (which I would consider a medium
market), then you're getting to the point where the exclusivity affects what the audience is going to get, due to time limitations and the mass of the audience you're speaking to. The simplest illustration that I can use is the fact that if Mary Snurd of Adrian, Michigan, falls down and breaks her arm, it's on the air because everybody knows Mary Snurd. If Mary falls down and gets run over by a truck in Columbus, Ohio, that's news; it's on the air!

Nobody knows Mary Snurd except her family and her friends—she just has less friends in the big city. It's a sad thing to say, but that's the way it turns out.

You've got 3.5 minutes an hour on radio in the large market. In the morning during rush hour we have a total of 7 minutes to get our message across. When you're potentially talking to a million people, you must be very exclusive about what you're putting in that 7 minutes or you're going to turn a lot of them off.

So, you've got to decide just which things are important. Your news is very valuable to you. No matter what you send out, it's very important; you'd like to hear it on the air. Then, you have to think how important it really is to the public. Can you, for a minute, transcend your feelings on it and say, "If I were the average Joe riding down the street, would this be interesting to me; would I want to hear about this?" Just because at one particular store the price of beef went down 50 cents last week, that's not necessarily news. It's great, but that's why we have spot ads. Buy one. But, don't send it in for our newscasts and expect us to put it in there.

Vern's letter said, "Why is bad news seemingly so much more newsworthy than good news?" When Spiro Agnew was doing his thing against the media, I recall Walter Cronkite being asked a similar question. He stated, "The things
that you are asking me to put on in the way of good news are the norms in our society." For example, this was the time of student rioting, and you expect 27,000 kids to go to class every day at Ohio State University. When 1,200 of them don't, it's news. So, if you look at your own releases in that way—and thank God it is that way, too—you will save a lot of time and energy.

The stuff we put on, according to Walter Cronkite, is the abnormal and when you get right down to it, you're talking about the abnormals in our society when it comes to news. This is what people want to hear. They expect all this other stuff; they expect the sun to rise tomorrow morning; they expect everybody to make it to work safely; they expect that there is no war; they expect peace; they expect honesty in government. So, think about all the things we are putting on. In many ways they are always the abnormal, and thank God it is that way. My goodness, five people made it to this thing this morning; let's get it on as a bulletin. That's what would happen if you reversed this system of what's news. So, from the standpoint of good news and bad news, those are my feelings on it.

From the identification, preparation and distribution of publicity standpoint, spell the guy's name right if you are going to send it to somebody. People have two things they want to worry about in their lives. One of them is their name. I don't know why that is, but if you send it to a person's predecessor or somebody in another station with your call letters, sometimes it just gets that No. 13 file chuck. It's like getting stuff at home—your wife hands you three letters which say, "Occupant." It's much the same thing when you get mail in a newsroom. You get it about this high and the majority
of it comes from people who are trying to save our ecology by not wasting paper, but most of it is wasted paper. And, it's a waste of 10 cents now, too, when you think of your P & L on that bottom line. So, be exclusive about what you send, because we are going to be exclusive about what we put on the air. The less we get from you, the more apt we are to open it. If we get a release a day, after a while it's just going into the garbage. We just haven't got time to get into all the mail. I'm saying we in general; I hope I'm not slighting any of my other panelists here.

As far as radio news and television news are concerned, write it that way because there are a lot of lazy editors out there. Some of them will just pick it up and read it the way it is. Make it short; there are time limitations. Don't give us a three pager if you can get it done in a half page. If it will run 35 seconds, beautiful! If that's all you want done in the way of public service, in the way of news. You can give us the three pages and we will search it through all over the place and get out of it what, according to the radio audience and what we have had in the way of experience, is newsworthy.

I don't really have too much more to add because of time limitations. I see all of the people who invited us here looking at their watches and doing strange things, so I will turn it back over to the man who invited us.
MR. MINTZ: Officially, we have five minutes, but I'm going to make it ten, so we will limit it to a few questions. I want to thank the panelists for giving us the background on each of their mediums and explaining some of the technicalities and the do's and don'ts and when I open up the questions, if there is anybody who wants to ask them anything in particular with reference to what they have all spoken about, fine. When you do, stand up, state your name and company and please speak loudly because we don't have any mikes out there. But, first, I would like to open the questioning with a few remarks.

One of the things that they did not get into, but which I think is very important, is that although we as an industry many times will blame radio, TV and newspapers because of what we call bad publicity or because of the lack of publicity, I think a lot of times we are our own worst enemies because we don't give them the right information. Now, if a news story comes out and newspeople call chain headquarters, wholesale grocers, or retailers for their side of it (because we are busy people), too many times we say, "No comment." Or, we may say, "I don't have time," and so they do the best they can with what they have. Then, when we read it or see it on TV, it isn't what we want to see or hear. And, just within the last week (and I'd like to make a few

*Question and answer session of Messrs. Tracy, DeMoss and Marcett.*
quotes here), I listened to a talk by Tom Barnum who is President of Kitchens of Sara Lee, and in his talk he said, among other things, "How much American consumers will understand about world food needs and world-wide agricultural economic pressures affecting food prices depends upon how much they are told and how well they are told. The food industry today has an education challenge. We've communicated well enough before; it's time to start again. We can't criticize newspapers for misinformation; we have to make the facts available first." I think in the same day's mail, I received a speech from Donald Perkins who is Chairman of the Board of Jewel Stores of Chicago. And among the many things he said, "...food retailers have not fared as well as manufacturers. Net profits after taxes for 30 major food chains have declined from a high of 1.3 percent in 1964 to approximately .7 percent estimated for 1973." Perhaps one way to put food retailing profits in perspective is to point out that in 1973 of Fortune's top 50 merchandising firms--Sears, Roebuck, the largest retailer, had sales of almost $11 billion and profits of $622 million. That same Fortune issue listed 20 food retailers, and these happened to be the top 20 chains in the United States, and the combined profitability of these retailers was only $250 million, or approximately 40 percent of Sears. Although the combined sales of the 20 retailers was $37 billion or 3 times that of Sears, yet there are no articles in the newspapers about government yelling about monopoly by Sears, or excess profits or price gouging, and I think this is partly our industry's fault.

Also, in a talk given by the Chairman of Gino's last week, he mentioned among many other things, profiteering on three quarters of one percent to one
percent of sales after taxes. In other words, his question is how can there be profiteering on that kind of ratio? He says, "We have taken a beating from the news media who seem determined to make us villains in the eyes of the American consumer." So, that brings us to a real problem—the problem of educating the public. And, this is the gist of what I really wanted to lead into; that is, not to blame these people or the medium that they represent, but the fact that we ourselves have neglected to be informants and to educate our customers. So, when you see things like the headline out of yesterday's Cleveland Plain Dealer which said, "Gouging Charged, Food Price Checks Are Urged," don't necessarily blame the newspaper. In Advertising Age this week—"Food Industry Structure to be Focus of FTC Probe" was one of the headlines. The FTC had claims that studies have indicated that Americans overpay at least 2.6 billion dollars annually for food. And that sounds like a heck of a lot of money but when you figure it out, it's 1.75 percent. Now, there is no reason why anyone should be overcharged that either, but it's not the big figure that they're talking about. "Living in 1982 May Take $30,000"—out of a Chicago newspaper. So, with all this, I think that we are now open for questions except for one other thing. In the morning Citizen—I guess it was Monday—there was an article by David Drake, who I guess is the TV-Radio Editor, announcing a new program. I don't know how many of you people have seen this, but I'd like to read just a small portion of it.

"You often go to the grocery store and come out again with more than you had intended to buy. Were you hypnotized by the vast variety of merchandise, drawn magnetically to the displays, pulled up and down the aisles? Well,
that's what those in the supermarket business want to happen. CBS correspondent Sylvia Chase sees nothing wrong with supermarkets trying to sell their products, but she thinks shoppers should be supplied with enough information so they can plan a defensive strategy. She is the producer of "Supermarkets" one of three segments on Magazine—an hour show to be shown on an afternoon in April. Anyway, the gist of this thing is that they are going to have a show dealing with supermarkets in which she—this Sylvia Chase—is going to help the women of America put up their defenses when they go shopping. She takes issue with the fact that supermarkets merchandise their meat departments in the rear of the store so the poor customer has to go through all this merchandise and buy unneeded things to get to the meat department. She takes issue with the fact that when they merchandise as most supermarkets merchandise, for instance, they'll have an aisle of turnover items like soap, etc., and the facing aisle has some high profit items. She accuses supermarkets of giving consumers cheap food prices but charging them very high prices for the non-foods, health and beauty aids, etc. But the point is, there will be three one-hour segments to talk to the American consumer, to put up her defenses to shop the supermarkets. Now, with that for an introduction, why don't we have our first question?

QUESTION: What about rumors that get started and are picked up by the news media and after coming out in print cause a great many problems for the food industry?

MR. MARCETT: I will recall one in particular regarding the food shortage "rumor" as you call it. If I recall correctly, during that truckers' strike I
placed a call to one of the food chain distributors and got that so-called rumor verbatim. Then, I called another one—and these weren't the little ones, these were the "biggies"—and I got the same so-called rumor. I put it on the air and then fed it to the wire services where it, in turn, made several places. I don't think that the generalization of rumors can be used in any one given point. I know of no journalist that I have ever met who will put a rumor on the air without substantiating it. Sure, things start in the way of rumors, and we have all played that silly game of Pass It On; we know what happens when it gets somewhere. So, a journalist will go to the unbelievable efforts sometimes (and I know both of my fellow journalists up here will back me up on this). They will spend two days sometimes tracking down what some people would call rumors. They are going to substantiate it before you even hear of it. And when you do hear of it, you can pretty much bet your boots that it's going to be truth. On the case you mentioned, sir, did you call the newspapers in Cleveland or the radio and television stations then? No, well, here it is March and you're just now raising the question. Well, this is just what we're saying, if you see something that you think is wrong, incorrect or inaccurate, call then, not two months later. And this is the point as far as all of you are concerned. I think you guys would do well to find out which is the most popular radio station for news in your particular market and listen to that radio station. I'm sure you've got people who could pay attention to the news at five minutes before the hour or 25 minutes after the hour, and listen to it. And, if there is something that you hear that is wrong, or inaccurate, then call the radio station; tell them.
There is such a thing as the fairness doctrine—an edict put out by the Federal Communications Commission that says that regardless of how subjective we may be about a story, we have to be objective about it, as objective as we possibly can. But, we have to put on all sides of controversial issues. We are more than willing to listen to you and more than willing to give you the air time, particularly in the instances where we're wrong.

MR. MINTZ: In defense of these gentlemen, I've had numerous occasions in Cleveland where radio and TV people have called and said we're going to do a program. Who can we talk to? So, I've given them the names of people; or they've called and said we can't get anyone to participate; could you help? And so, as I mentioned earlier, when people from the food industry are given the opportunity, many of them will not take advantage of it.

We have time for maybe two questions.

MR. MARCETT: I would like to add just one other thing. There is only one food distribution chain that has ever sent my News Department anything in the way of "Who's Who," "Where Can We Get Them," and "Don't bother talking to this guy because he's not authorized to say anything." You know, we keep those kinds of things in a file and when the time comes that we need facts, we have some definite person to contact. So, if one of your meat market people decides to go rattling off and doesn't know what he's talking about, according to management's eyes, well, you have to worry about that later because we didn't have anybody else at your company to call; we didn't know anybody else. So, when some of you go back, look at the markets around Ohio where you would like your message sent and send out something to help your
news media get the correct information. You know, "if we have any news, or there is anything that you need help with, call us here; this is our PR person." It would help considerably.

MR. DEMOSS: There is one other thing I would like to add here, and I learned this from a former colleague of Mr. Tracy. It’s called a defensive news release. If your organization is planning something, make sure you initiate a defensive news release and that it is given to everyone who might get a call from a reporter who gets a leak about what your organization is planning. Therefore, you make sure that everybody is saying the same thing about whatever it is you’re planning. The person being interviewed, then, has the information available to him and he says what the President of your organization would say, even if he is the guy who sweeps the floor. But, be prepared.

MR. MINTZ: If there are no other questions, I would like to thank the panel for participating and for passing along some of this information. I would just like to close by saying that sometimes I think we act like the little kid who hears a noise in the dark, pulls the cover over his head and says, "Gee, whatever it is, I hope it goes away." And, I think that it is time that we started to speak up. Thank you.
THE FRONT END REVOLUTION

John F. Hayes
Distribution Codes, Inc.

Thank you, Leo. I want to thank the organizers of this conference for giving me the opportunity to speak here today, and I want to start out by saying that this is my first visit to Ohio State University. In proper preparation for this visit during the last few days, I carefully studied all the news media and one thing stood out to me very clearly about this university—it does not hold any records in the current streaking craze. I didn't know whether to be disappointed about that or not, but if anyone is listening, there is always time.

I'm going to talk this morning about the front end revolution. And I should correct a misapprehension right at the beginning on this. The front end revolution is not really a revolution. It's indeed not a rebellion; it's not a revolution; it's just change. And, I'm here this morning to help you manage that change. The universal product code and the automated checkstand represent a voluntary industry standardization program. And, I think it's important to stress that while the federal government takes a lot of interest in what we're doing, it is not being mandated. For example, tomorrow I'll be spending time at the National Bureau of Standards discussing how the universal product code in the grocery industry can be extended into other areas of retailing, such as the general merchandise industry—drug stores, department stores and so on. The fact is that this coding system is a voluntary industry
standardization program which goes back many, many years. The universal coding system itself goes back 40 years or more as a concept, although it has only more recently come into prominence because of the relationship between it and the automated checkstand and the possibility of productivity improvements in grocery retailing. Those, separately, depend on cash registers which are point of sale terminals that have been around for a few years. So, these are really the first point we should talk about.

The automated point of sale equipment. And, indeed, as a matter of fact, this particular area of the country has a place in history in this respect. If you went into a Kroger store in Cincinnati, the one in Kenwood Heights, Ohio, as a matter of fact, about a year ago you would have seen a series of check lanes installed in that store which looked something like this (slide). They looked very similar to the regular check lanes. There were some minor differences. You can't see this too well in these slides, but the cash register itself looked a little different. It seemed to have fewer keys on it and there was something called a scanner (which the checkout girl here is standing in front of) which was able to scan a machine readable symbol on the products. Now, this was more than a year ago that Kroger was experimenting with this equipment that was developed by the RCA Company and is now being sold by Sperry-Univac. This was the first fully automated checkstand equipment, using a coding system and a machine readable symbol. In fact, an example of this equipment has been donated to the Smithsonian Museum for permanent display in Washington; it's that historic. And, it started in this particular form not very far from this city.
Today, you will find that IBM, as well as Sperry-Univac, is selling automated checkstand equipment. The IBM equipment looks a little different than the Sperry-Univac, but basically it operates in a very similar fashion. In addition to IBM and Sperry-Univac, there are between 7 and 9 other manufacturers of automated checkstand equipment. All of them, I anticipate, will be demonstrating their equipment at the Super Market Institute meeting in Dallas in early May. And, those who are interested in following this side of the program I think will want to take advantage of that meeting to go and see some of that equipment that will be in the exhibit hall. And, certainly retailers who want to follow this process, this whole program, would be well advised to do that.

In previous years, the regular electronic checkstands have been demonstrated. And, I think that the Sperry-Univac, which was the RCA equipment, was demonstrated about a year ago. The equipment companies are now looking at about a possible $3 billion market for their automated checkstand equipment in grocery stores, and there are now a lot of entrants into the profession.

Included in the manufacturers of automated checkstand equipment you have National Cash Register which is not only offering an automated checkstand of the regular type but a scanner which they are expecting to deliver in the early part of the next calendar year. You also have the Singer Company who already makes point of sale terminals which function as cash registers for department stores; and you have the Sweda Division of the Litton Company, some smaller companies such as MSI and even some companies which are in the scanner business only who will be demonstrating in Dallas.
This slide shows the IBM equipment, and some of you may have seen this. I think it's important to recognize that this is the scanner which is reading the machine readable symbol off the package that the checkstand girl is holding. We'll get into why this particular model has an advantage for the store in a moment when we talk about the economic benefits. In addition to the capabilities of the electronic checkstand with scanning, of course, is the capacity to print out a cash register tape which contains a good deal more information than the cash register tape that customers get at present. The IBM system, for example, prints out a cash register tape with something like 22 characters on it. Indeed, it can say on the cash register tape "Kellogg's Corn Flakes, 12 oz., 47 cents" or whatever is required. And, it can print it all out on the tape a good deal faster than it can be printed at present because it is all automatic and is driven by the computer. Consequently, I think we will see that as a standard for the industry in the equipment that will be offered over the next few months. Also, don't forget the first deliveries of this equipment are promised for the middle of this calendar year, and will continue on through the end of this year, so you'll be seeing stores installed with this equipment on a production basis from about July of this calendar year onward. In other words, the so-called revolution is not tomorrow, it's pretty well here and now and by the end of this year you will probably see something like between 20 and 100 stores installed with this equipment and that number will multiply by many times during the next calendar year as the other equipment companies offering this equipment start deliveries in January, 1975.
So, what's all this about and how does it relate to the universal product code? And, why is it important to the retailer? Let's get some definitions out of the way first. The universal product code number is a unique item identifier; that's all it is. It has ten digits. Now, there are certain qualifications to that that I'll indicate to you later on, but basically it has ten digits, which are made up of the five digit manufacturer identifying number and the five digit item identifying number. For example, Heinz 14 oz. tomato ketchup is something that I'm quite familiar with. The Heinz manufacturer number is 13000 and the item number is (this is not the actual item number for ketchup but it will do for illustration) 53321. This would completely identify Heinz 14 oz. tomato ketchup in every store where that product appeared; it would be used for all purposes—for ordering, for measuring movement across the checkstand, for inventory control, etc. Starting out from the manufacturer end, the same number is maintained all the way through the distributive process, right through to the consumer. And, that's how all the other benefits can occur.

For example, I was in the warehouse the other day and just took a few photographs—you can see I took them because they are not very good—and here you see the universal product code number already in use; it's already being used by major manufacturers. If you'll go into your warehouses, you'll see a number of shipping cases already marked in this fashion. Here is a Campbell-Swanson shipping case. Their number is 51000 and the item number is 02431. These are marked on the shipping cases as well as on the product so that the identification can be maintained right from the manufacturer all the way through the checkstand. It is that identification, then, that permits all
the other benefits of automation, since there is never any confusion between any products. Each product has a separate identification number. The UPC number covers all products. It is not a date code. It doesn't include any information about where the product was made or anything of that kind, it's simply an identification number. As a matter of fact, and this is a rather helpful point, it was designed so that it would permit adoption of the present codes for item numbers. Many, many manufacturers are using their present item codes as part of the universal product code number. The manufacturer number goes up front, the five digits that the company is allocated as the manufacturer, and then they use their existing item number. If this item number is only 4 digits, they turn it into five digits with the addition of a 0, and that becomes the universal product code number which is then used for that item for all time, through all channels of distribution.

For this reason, it permits the lowest cost industry implementation. There was no need for manufacturers to develop new numbering systems. And, since the manufacturers bear the cost of printing the machine readable symbol on the packages so as to permit automation at the checkstand, this seemed a fair arrangement. And, indeed, the whole history of the development of the universal product code includes checks and balances, trade-offs if you like, at each stage of the program. But, the manufacturers have to bear the cost of printing the machine readable symbol so they got a break on the coding system. Currently, retailers and wholesalers use a coding system to identify each of the products that is delivered to them, and they will be required to change that to obtain the full benefits of this system. But, then,
the full benefits are quite serious for them as you will see in a moment, quite
advantageous for them, so I think they will be willing to do that. Indeed,
many of them have already done so.

Now, let's talk for a moment about the universal product code symbol.
We have been talking up to now about the code number or the identification.
The symbol, however, is the universal product code number in machine readable
form. It can be printed and it's essential for scanning. Now, why do you need
it for scanning? Well, here is a virtually unreadable diagram of the way the
system operates at the checkstand.

By using this system, the computer operates the cash register rather
than the checkout girl so that she can be bagging in the meantime, hence,
the productivity gains. Meantime, the computer also can capture the infor-
mation on the product movement that has taken place across the checkstand
and store it for inventory control, for reordering, for all the purposes that are
required to run a retail store and a warehouse from the retail and wholesale
point of view. So, that's the purpose of a machine readable symbol on the
product.

Why do we only have one symbol? Well, if we didn't, here is what
would happen. Either one of two alternatives would be required to operate--
either there would be many symbols on one item because each automated
checkstand equipment would operate with its own symbol--RCA would have one
symbol (a bullseye type symbol, for example); IBM would operate maybe with
a square symbol; someone else would have a bar code, etc., and each manu-
facturer of a can of soup would be required to do one of two things--put on all
the symbols that his customers used or he would have to multiply his inventory by many times to keep stocks of product with the different symbols. Both of these are frightening in their cost and when the costs were examined, certainly we decided that this was not the way the industry should go. We had to have a standard industry symbol. In other words, we had to standardize the same way the light plug was standardized so that you could go into any store and buy a light plug. And, you would know that when you got it home that it would fit into all the sockets that you had in your home. In the same way, we had to standardize the grocery industry and I think it may turn out to be the standard for all retailing, as a matter of fact.

Incidentally, the symbol that was selected as the standard for the industry is technically feasible and was proven technically feasible by an organization in this very city—the Battelle Memorial Institute, who did literally hundreds of thousands of scans with various symbols that were proposed and proved that this method was technically feasible.

The symbol that was selected can be scanned omnidirectionally. What does that mean? Any way you pass the package across the checkstand the machine will read the symbol. It doesn’t have to be positioned in a particular angle or direction to be scanned. The scanner is omnidirectional and there is a particular reason for that in that this relates to the printing process which I will mention in a moment. The symbol that was selected more than meets the error detection requirements of the industry. The error is not expected to be more than one in ten thousand at the scanner, which I think is appropriate for the industry. Further, because it’s a bar code, it’s wonderful for general
merchandise. The symbol is flexible and has many possible formats and this is important for the use of the symbol for other industries, other types of retailing, and to deal with other things that the symbol may be used for, such as coupons.

Now, because it's a bar code it takes advantage of the directional effect in printing. This is quite important. One of the first symbols that was suggested was a bullseye type symbol--some of you may have seen it--which was used on the products that were scanned by the original RCA equipment in the Kroger Store in Cincinnati. That is very difficult to print. On the printing of packages in the food industry or any industry a bar code is required for accurate printing to the tolerances of 3 or 4 thousandths of an inch that are required for the scanner to read them accurately. And, therefore, a bar code was developed and this takes advantage of the fact that in the various printing processes the ink spread is different across the press than with the press and consequently this can be controlled only with the use of a bar code. Because it's easy to print, it facilitates in-store printing, too. Don't forget that between 10 and 30 percent of the items that cross the checkstand are meat or produce which are weighed and marked in-store and you require an in-store printer for that, just as they are currently weighed and labeled in-store. And, the companies that are responsible for the manufacture of checkstand and backroom weighing machines are busy developing printers which will not only print the human readable label but will also print the universal product code number in machine readable form.
It is not patented yet--the symbol--anybody can use it. We decided from the beginning that it should be in the public domain and indeed we can't stop other countries from using it either, it is public. It is available for all industry to use so that they can all obtain the productivity improvements. For all these reasons, it allows for early implementation. Here is an engineering drawing of the symbol. As the laser beam travels across that at any angle, it can read the numbers from the bars and spaces. The numbers are written in human readable form underneath. The machine readable symbol also includes a number system character which identifies grocery products. It also includes guard bars which enable the scanner to find the symbol, since you must bear in mind that the scanner is searching the whole package trying to find this symbol, and then it has to read it correctly. The symbol also includes a modular check digit which enables the scanner to calculate the missing number and insert it properly so that it can find the right number in the computer's data files, if one of the bars is a little off and doesn't give it a proper read. Basically, the symbol is about 1.469 inches long by about 1.020 inches high. It is also variable in size, since we knew there are a lot of different sized packages. You can go down to 80 percent of that size or up to about two times that size, depending upon the printing process and the size of the package. I'll be showing you some examples of that later.

Let's consider for a moment the economic benefits. What does this really mean to retailers, to those in the distribution business. Well, the benefits are expected to be, and indeed have been, proved to be quite considerable in number. They include information, inventory control, improved
ordering and reordering, less out of stock, improved checkstand productivity, misring reduction and shrink reduction. The figures which have been calculated of the specific benefits in dollar terms only relate to the improved checkstand productivity and the misring reduction, which could be calculated with some care, particularly based on the Kroger experience in Cincinnati. Now, you have to bear in mind in all this that one of the important factors in the calculation of costs and benefits is that the costs of applying the machine readable symbol, which represents the universal product code on packages, average out at 33 cents a thousand if a manufacturer does it. If a retailer does it, the average cost may be at least $5.00 a thousand. Why that big difference? Well, the manufacturer is doing it on a mass production basis; he is preprinting the labels; they're being placed on the packages on the production line. If it is being done in the backroom of the retail store, it is a hand job and is obviously slower and more costly. It is difficult, for example, to do more than a thousand packages an hour which is one of the more important constituents of the $5.00 cost. The interest, therefore, is in source marking, marking by the manufacturer, of the packages and this we have been able to achieve to quite a considerable extent. Thus, this fact is assumed in the costs and benefits that have been calculated. Here are the economic conclusions:

The store-level hard savings are significant in the large supermarket and can justify investment in equipment, if 50 to 75 percent source marking can be achieved quickly. The soft savings, these are the things other than the checkstand productivity and the misring reduction, appear to about equal
hard savings and thus improve the long term benefit. Further, there is no economic justification for symbol marking on the bottom of cans, glass, plastic containers or milk cartons. Why does that fit into the economic conclusions? That's in for the very simple reason that total industry costs and benefits were used in calculating all the figures. The manufacturer costs for source marking were included, as I have indicated, and consequently, it was found that the manufacturer costs for marking on the natural bottom of cans, glass and plastic containers, and milk cartons were so serious that they wiped out the retailer savings. However, if marking was undertaken on the label or in the package graphics of those items, the benefits were very considerable. The macroeconomic results show the industry will probably save between $50 million and $200 million per year by the mid-1970's. These are savings which can be obtained by the start of next calendar year, as the systems start to get installed. And, in fact, one of the obvious concerns that takes place in the industry is that each month's delay in implementing the universal product code program can be costing the grocery industry as a whole $100 million a month in savings that they are not getting through delay in installing the program. That's simply based on the $50 to $200 million savings estimates.

What does that mean in more specific terms? It means that in a $60,000 a week store, for example, which may have 7 checkout lanes, you can go down to about 5 checkout lanes. And that could well double after tax profit in that store. That's a pretty interesting kind of savings it seems to me and one that would be well worth changing your internal product identification systems to obtain.
How is the program being administered? I think we will just spend a moment on that one. The egg in the center of that with the yellow blobs in it represents the Board of Governors of the Uniform Grocery Product Code Council, which is a council containing manufacturers, retailers and other members of the grocery industry. This council manages the universal product code. It includes representatives of Super Market Institute, the National Association of Food Chains, the National Association of Retail Grocers of the United States, the Grocery Manufacturers of America, etc. Even representatives of the Business and Equipment Manufacturers' Association and the printers have representatives on the council. So, all groups are represented in the Uniform Grocery Product Code Council, to manage and control the universal product code.

Now, the Uniform Grocery Product Code Council which was formed about two years ago has no administrative staff. There is a simple technical advisory committee which is the main technical advisory body, but no administrative staff. The major effort to implement the grocery universal product code is likely to be concentrated in the two years 1973--1975, and that is why, coincidentally, that I am on a two year leave of absence. It is during that period that I am helping the grocery industry implement the universal product code. Then, the council wanted membership records maintained, members' questions answered, manufacturer's numbers issued and controlled. It was clearly an impossible situation if too many manufacturers got the same manufacturer number, that certainly would wreck the whole program. Manuals have to be distributed, telling people how to print the universal product code symbol.
They have to be updated. Liaison work needs to be performed. Distribution Bank provides these and other functions under contract with the Uniform Grocery Product Code Council, which is why I work out of Distribution Number Bank in Washington, D. C. Now, I put this slide in just to tell you that we changed the name of Distribution Number Bank to Distribution Codes, Inc., effective February 1 this year. The reason for that was that it didn't matter very much when Distribution Number Bank and the universal product code was a relatively small thing which didn't have much impact on many people, but as it became much better known and Distribution Number Bank was shortened to DNB, we started getting rather rude letters from Dunn and Bradstreet and their lawyers, so consequently, we thought that discretion was the better part of valor in that case, so we changed the name to Distribution Codes, Inc.

Now, we have to recognize that the primary method of implementing the universal product code in the grocery industry is through membership in the Uniform Grocery Product Code Council. This is how you obtain a manufacturer number; this is how you obtain the information to print the universal product code symbol, how you obtain the information to get all the benefits from the program. Membership currently stands at about 1000 members. This doesn't sound like a great deal, since the census figures indicate that there may be 8,000 or 9,000 suppliers, for example, to the retail grocery industry. However, when you recognize that the sales of those members, in manufacturer dollars, are something like $60 billion and the retail grocery industry has retail sales of only about $100 billion, you allow for the fact that anything
between 10 and 30 percent of the dollar volume across the checkstand is meat and produce, which is marked in-store; you see that the current membership represents around 90 percent of the companies which have volumes that can be source marked. In other words, the current membership of the Uniform Grocery Product Code Council is sufficient, if they marked all their products, to mark around 90 percent of the items in a grocery store with a symbol.

Now, the next question is--are they, in fact, doing this? Well, I did a survey last fall which showed by the middle of June, 1974, 80 percent plan to start marking shipping cases with the universal product code. Well, we know that that is already happening. I just showed you some photographs of that. More than two-thirds plan to start marking packages with symbols by June 30, 1974, and more than half will have completed conversion of their internal systems to five digit item numbers by the middle of this year. Additionally, 97 percent said that they have already appointed a UPC coordinator in the company to direct UPC activities. And, that, I submit, ladies and gentlemen, is quite a heavyweight program of implementation of the universal product code and its related benefits among the companies involved, which, as I have indicated, represent about $60 billion worth of sales. This is what those companies are doing.

Who should apply for membership in the Uniform Grocery Product Code Council? Any manufacturer who sells goods which are sold in grocery stores or who wants to sell through grocery stores. And, any retailer who didn't support the retailer fund raising drive can join. (The retailers contributed about a million dollars a couple of years ago to fund all the experimental and
research work that was necessary to, for example, select the symbol and to get the whole program off the ground, and that money is also funding my time at present.) Any retailer who has private label products may need a manufacturer number for those to get the full benefits from the system, otherwise he can't put a machine readable symbol on them.

How do you apply for membership? Well, you can give me a card or you can write to Distribution Codes, Inc. in Washington, D. C. The current membership fees are likely only to run through the charter membership period which will end in December of this calendar year. What do members receive? Well, the prime thing they get is information. They do get manufacturer numbers, of course. They do get a technical backup service and other services. They get a whole lot of information which includes the manuals, the newsletter, all the information they need to implement the universal product code, including answers to letter and telephone queries. When I am in the office, I spend about 70 percent of my time answering telephone questions on how to implement the universal product code.

How about those who are not manufacturers or retailers? Well, we have what we call the $50 subscription list for these, which gives them everything except the manufacturer number. And, again, the cost of this is expected to increase. It is being subsidized by the retailers and manufacturers at present.

Let's take a look at some of the packages that you will find in retail stores today with universal product code symbols on them. I keep this slide because this was the first package that turned up in stores with a symbol on it.
It is on the bottom. It happens to be a Safeway private label. It is disputed as to whether Safeway is the No. 1 or No. 2 chain, but it has been one of the leaders in the implementation of the universal product code.

Well, here is a melange of products that we received at Distribution Codes, Inc. a week or two ago that people just sent us out of the kindness of their hearts, packages that they have just printed and they are rather proud of, which contain a universal product code symbol.

Let's look at some of them in a little more detail. Here is a General Foods package--Stove Top Stuffing Mix. General Foods' manufacturer number is 43000. The item number is 28570 and you can see the symbol quite clearly on the bottom of the package where it is supposed to be for productivity at the checkstand. You will also notice the other little thing. Beside the symbol is what is known as the printability gauge. That is a procedure which is used to enable the symbol to be printed without the printer having to stand there with a micrometer measuring the bars in the symbol to the nearest thousandth of an inch. It's an eyeball test and was, again, developed by the Battelle Memorial Institute here in Columbus to permit production printing of a machine readable symbol. And, it works.

Here are some Green Giant packages with a close-up of the symbol on this particular can. This illustrates a quite important point, which could be subtitled, "It's an ill wind that blows nobody any good." The fact is that the federal government introduced some legislation in connection with nutritional labeling, indicating that if certain ingredients were in a food product, then a nutritional label was required on that product. And many companies took this
opportunity to incorporate a nutritional label on all their food products as a result. Green Giant was one of those companies. Since they were changing their plates, their printing plates for labels, to incorporate a nutritional label, they said why don't we only make one change in the label and print the universal product code symbol at the same time, and so they did. And, there it is, along with the nutritional information which is on all their new labels now. There are a number of Green Giant cans in stores at present with symbols on them.

Here are some Armour products with the symbol on the side because it's a can, of course. And, you don't have to mark cans on the bottom.

Here's a Kellogg's Corn Flakes package. It is an interesting one so let's take a close look at this. The symbol is in the top righthand corner, as you can see and it is, in fact, the zero suppression form of the symbol. That's a six digit form of the symbol which is formed from the ten digit universal product code by an algorithm which has about six different forms and which permits a smaller symbol to be printed where that's required. There is a glue flap on the split flap bottom of the corn flakes package. It was, therefore, difficult for them to print a full size symbol and so they went to the zero suppression form. It is an excellent use, I think, of that particular form of the symbol that was designed for that package. I will have to put this this way because the symbol is, in fact, about sideways; it's over on the right-hand side there, as you can see.

Here is Hawaiian Punch with the symbol down there on the right side. Here is a Gaylord cereal. The symbol is on the natural bottom of that package. Here is a Red Owl private label hamburger pizza. You will notice that in the
case of frozen foods and very narrow packages—the bacon and the pizza, etc.—
the symbol is on the back which really becomes the natural bottom of the
package at the checkstand.

Here is another General Foods package. This is a Gaines Pet Food
package with the symbol up on the top. Here is a Maxwell House Instant
Coffee—all these packages I should point out can be found in stores at present.
Here is a General Mills package. You can see the printability gauge there
and also this is interesting because it is what is called a truncated symbol.
They had a little difficulty getting the whole symbol on there and they sliced
a bit off the top. It reduces the directionality somewhat at the checkstand
but not a great deal, and it was a good solution of a tricky problem there in
printing. Here are some Heinz Baby Food packages—both Gerber and Heinz
have incorporated the symbol with nutritional labeling and those packages
are hitting the stores at the present time. Here is another Safeway private
label. This is just to show that you can print the symbol larger than nominal
size on a milk carton by flexographic methods. This is about 1.7 times
nominal size.

Here is another interesting type of package. It is a Kroger private label
potato chip package, which is plastic, as you can see. They have used the
existing dark blue and printed over the white ink which is laid down first on
the package. However, in endeavoring to scan it, we did find that the white
needs to be a little more opaque because the scanner was able to see the
potato chips through the whiting and got a little indigestion. Kroger is correct-
ing that in their future packages.
Here is a lithographed can which is to show that the symbol can be printed on a lithographed can in the regular fashion. It is on the side of that can, of course. Oh, here is an interesting one because a number of cigarette companies are members of the Uniform Grocery Product Code Council and are putting the symbol on their cartons. Here is the first one. It's a Reynolds package and this was the first one we saw. All the other cigarette companies are now following this example. This is on the panel of the cigarette carton containing the Surgeon General's warning.

Now, I want to spend a moment explaining that you can expect to see about 50,000 items marked with symbols by the end of this year in retail stores, which gives you some idea of the pace of the program; and, the readiness of manufacturer source marking for the automated checkstands as they start to be installed in numbers. I should mention some of the trickier points that I often get asked about. For instance, what do you do about random weight items? What do you about drug items, etc., because there is a drug code? That's all done through the format of the symbol. The compatibility with other coding systems is achieved that way.

Here is a close-up of a particular symbol and you will remember that I pointed out that in addition to the ten digit number there is a number system character. It's 0 for grocery products, and this one is up on the lefthand side. So, really you've got an 11 digit code and because you can use the number system character to define classes of products or types of symbols that are going to appear, then you have, in fact, a family of coding systems, and that is the way that compatibility is achieved. Here is the technical way of showing
the regular symbol on the package that we have just seen.

In the case of drug items, we all know the Food & Drug Administration Code and these products are taken care of by the number system 3. The computer now goes into another section of the memory file looking for the drug items and the code format for the drug industry has several different types of formats. This is only one of them. This is really a 442 type format. We have been looking at a 55 and that is all accommodated in the symbol, because the number system character 3 up front tells the computer what to look for and what the succeeding numbers mean and you obtain compatibility that way.

For coupons, O.K., you can do that, too. Why not put a symbol on coupons? If you scan them at the checkstand, then you don't have to count them in the backroom. And, at the same time, the manufacturer who issues the coupons can get some information from that scanning at the checkstand. Here we are beginning to see some of the additional benefits of the total program. The number system 5 is used for that. The 5 up front means it's a coupon, so the computer doesn't go looking for a regular manufacturer number and item number, and then just charge the customer 47 cents for the package of corn flakes; it knows it's a coupon and goes looking for something entirely different which tells it that it is a 7 cent coupon off a particular package of something.

Incidentally, right off the end of the spectrum we have a Version E which has the number system 9 and can go up to 30 characters. It is to be used for general merchandise to accommodate the coding system not yet
developed for general merchandise by the general retailing industry. As I have indicated, this Version E, which is the six digit form that is formed from the 10 digits, is exploded up to 10 digits by the scanner so that the computer still looks for the 10 digit number.

O. K., so what's the challenge for you here today as retailers and suppliers to the industry? Well, I think the challenge is to manage change properly, to convert to the universal product code and obtain the benefits that it offers. For retailers, I would certainly recommend that you examine more than one system for automation. I would certainly recommend that you do not invest in a system, including scanners, which cannot be updated, whatever the size of your store. We may well see equipment coming forward which is a good deal cheaper than that offered currently by IBM, which has traditionally always been at the top end of the price scale. I hope there is nobody recording this from the FTC. The fact is that much cheaper prices, as we can expect, will be quoted by other people and we may see systems which are appropriate for stores doing less than $60,000 a week, maybe even down to those still doing $5,000 a week, in due course as the equipment gets cheaper. And, of course, retailers, you should also learn about the universal product code and join the Uniform Grocery Product Code Council so that you obtain all the information you need on a continuing basis to implement it and obtain its benefits.

For manufacturers, you should learn about the universal product code, join the product code council, and start source marking, just as the leaders in the industry are already doing.
I want to thank you for your attention this morning and I will be happy to answer any questions.

QUESTION: Will retailers continue to price mark individual items in the store after installing automated checkstands?

MR. HAYES: The answer is that I don't know and I don't think they know. Price marking of individual items can be continued under automation; it can be discontinued under automation. The two alternatives are still present. The retailer still obtains perfectly satisfactory benefits without discontinuing price marking. Now, I want to add in parentheses here that I think there is some confusion on this point. And, I've certainly been asked a number of questions that indicate people just don't understand that price marking per se is not automatically and directly connected with the universal product code and automation of the checkstand. Sure, that gives you the opportunity to find other ways, as a retailer, of communicating price to the customer, which is the right way around of treating the problem, it seems to me. A retailer does want to communicate price of an article to a customer, because he's not going to buy it otherwise. That's pretty self evident, I think. Now, whether that means marking on the item or marking in some other fashion, is still to be determined, by experiment with the customer because different ways, I'm sure, will be tried. For example, I can take you into a store in Chicago right now which has no price markings on about 700 items in the store. Seven hundred items are not price marked in that Chicago store. And, their business is going up; the customers apparently love it. But, I didn't explain the whole thing when I said that. Of course, they are communicating price of the item to the customer.
They don't happen to be stamping it on each item; that's all. This is a Jewel store not far from Midway Airport in Chicago and they have the product arranged in enormous baskets with a price so large that you just can't miss it attached on the outside of each basket. And, customers seem quite happy with that. Incidentally, of course, under the automated checkstand system, as I've indicated, if you do experiment with systems of that kind, you will expect to have a cash register tape which provides automatic checking potentiality to the customer. They can go through the tape and identify every item from the tape because it is all written out on the tape, and that is something which is new and I think of considerable benefit to the customer. So, I expect benefits for the customer with automation, too.

QUESTION: What about marking items in-store?

MR. HAYES: I have been referring to source marking as being defined as marking of the symbol by the manufacturer at the time the article is manufactured, not when it's delivered to the store. Now, if the store wants to mark anything in-store, which they will do on meat and produce, for example, then the procedure that is being developed there is for the makers of scales, who already have printing equipment attached to those scales, to upgrade that printing equipment to include the printing of symbols as well. Now, obviously, that printer can then print other items in the store if they don't happen to have been source marked before they were delivered to the store.

QUESTION: What about marking of other perishables?

MR. HAYES: A very large number of your local bakers and so on are, in fact, members of the Uniform Grocery Product Code Council and have all
the information to proceed to source mark. I've seen a number of bread wrappers and local dairy products which are already being marked. Now, as a retailer, I think you would want to encourage suppliers such as these to join the Council and to obtain all the information they need to mark a symbol on their product at the time of manufacture.

Thank you.