A RETAIL CASE STUDY:
MANAGEMENT OF PRODUCE DEPARTMENT

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12/70
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PRODUCE DEPARTMENT MANAGEMENT

The Manatee Food Center is located on the outskirts of a city of 16,000 which is the trading area for an area of almost 60,000 people. The average family income in the area is about $7,500, compared with the state and national average of about $9,400. The produce department has neither a strong image nor a weak one among customers of the store. There are six competing stores in town represented by two national chains, a regional chain, an affiliated independent with two stores, and a rather new independent located not far from this case store. The regional chain is the pace setter in the market with weekly sales of $70,000. This chain has an excellent reputation for a quality produce program both in the trade and among customers.

John Cox, the store owner and manager, feels that recent remodeling of the store has enabled him to hold his position in the market, but is not happy with the profitability of the produce department.

Store sales are now currently about $37,000 per week, with about 7,000 feet of selling area. Volume has increased slowly over the years, although tonnage or quantity of food sold has not changed appreciably.

The store has not been a profitable operation for the past year until the last quarter, when John became concerned over slowly rising volume and slowly diminishing profits. The results for the most recent thirteen-week period indicates that on store sales of $433,500; produce sales were $31,300, producing a gross profit of $4,400.

The produce department is located on the store perimeter with a 12 foot display of potatoes, a 36 foot produce case, and four 4 foot by 6 foot display tables, as indicated in the sketch on the following page. The produce department is located early in the customer shopping pattern, after the soft drink display which is at the front of the store.

The recent remodeling had included a produce back room which provided, for the first time, adequate work space, with work stations, packaging material, and equipment.
Produce Department Layout

Order of Items
Produce Case

Oranges 6/49
Lemons 98¢ doz.
Grapefruit 6/49¢
Lemons-Limes 5/35¢
Pineapple 49¢
Lemons 3/29
Plums 29¢
Apples P.D. 6/49
Pears 5/49
Plums Peaches
Grapes 49¢/lb.
Apples P.D. 5/49
Apples 4/49
Sweet Corn 5/49
Tomatoes 16¢/lb.
Cabbage 15¢/lb.
Tomatoes 3/39
Corn Sliced 45¢
Shelled Limas 59¢/lb.
Celery, Kale, Salad 39¢
Green Squash 19¢
Peppers 5¢
Sliced Butternut Squash 39¢
Green Onions 3/24
Celery 45¢
Kohlrabies Red 2/19
Cucumbers 3/24
Honey Dew 79¢
Cabbage 21.39
Leekette 59¢
Garlic 23¢

Grocery Gondola - Class

Customer Flow
From Store Entrance

Special
Red & White Onions

Special
Oranges

Special
Bananas

Apples 3/49¢
Red Calhoun
Gala
Granny
Jonathan
Gale

Customer Flow
To Produce
Refrigerated Produce Case

Potato Display

Produce Department Layout - October 1
The store is open seven days a week from 9 a.m. to 9 p.m. The produce manager has one full-time woman to work in the department. In a recent week he reported 51 hours for $91.00 (eleven hours of overtime). His assistant had 42 hours. His pay check was $68.00.

The produce specials this week were as follows: cantaloupe, 39¢ (35¢); grapes, 29¢ (26¢); cider, 89¢ (79¢); lemons, 2/10¢ (42¢ a dozen); onions, 3/29¢ (20¢); carrots, 10¢ ($3.65); apples with coupon, 4#/39¢ and $5.00 purchase (35¢). Specials last week were as follows: bananas, 10¢; 113 California oranges, 69¢ a dozen; onions, 2/37¢; jams and sweet potatoes, 10¢; potatoes, 10¢/49¢. Figures in parentheses represent cost.

Jim Rickey, the produce manager, indicated the specials last week had this impact on sales.

<table>
<thead>
<tr>
<th></th>
<th>Regular Price</th>
<th>Usual Volume</th>
<th>Special Price</th>
<th>Special Weekly Volume</th>
<th>Special Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bananas</td>
<td>15¢</td>
<td>35bx</td>
<td>10¢</td>
<td>75bx</td>
<td>10¢</td>
</tr>
<tr>
<td>113 California oranges</td>
<td>89¢</td>
<td>3bx</td>
<td>69¢</td>
<td>10</td>
<td>67¢</td>
</tr>
<tr>
<td>2# onions</td>
<td>39¢</td>
<td>4</td>
<td>29¢</td>
<td>10</td>
<td>28¢</td>
</tr>
<tr>
<td>Yams &amp; Sweet Potatoes</td>
<td>15¢</td>
<td>2</td>
<td>10¢</td>
<td>6</td>
<td>9¢</td>
</tr>
<tr>
<td>Potatoes, 10#</td>
<td>65¢</td>
<td>150ea</td>
<td>47¢</td>
<td>400</td>
<td>47¢</td>
</tr>
</tbody>
</table>

It was pointed out that with this sort of an advertising program, items sold almost at cost could account for up to 30 percent of the department's sales. Questions were raised about how the department could be merchandised to provide a desired gross margin. Jim Rickey said that they usually went with the supplier's pricing program. The objective of this program is to provide a 33 percent margin. However, last week Kroger had special bananas and yams at 10¢, and these were added to the special's features. Jim stated that this happened quite often.

John was asked about this practice. His response went something like this, "Well, bananas are a big volume item. If we don't special when competitors do, I'm afraid we lose bananas' sales, and this in turn hurts total store sales."

Over the past thirteen weeks, sales of produce had averaged $2,400 per week, yielding a gross margin of 19.4%. Jim just couldn't come up with a rational reason why gross margins were 19.4% when 33% was planned. He stated that he considers a shrink factor of 4% satisfactory, but this still left almost 10% unaccounted for. He felt he had little reconditioning of display to do, and judged the physical shrink to be acceptable. The department wage factor the past thirteen weeks was 7.1%. 
Jim places orders with the independent supplier for delivery Monday, Wednesday, and Friday. They can also arrange for fill-in orders if necessary, since the supplier is located within 40 miles. Most produce items are purchased from this supplier, although they do buy local produce in season from farmers in the area. The store is located in an area where there are a number of commercial growers of sweet corn and other vegetable crops, as well as apples. The store’s cooperative house does not have a produce program.

Jim was asked whether he planned for in-store promotion items, other than the advertised specials. These would likely be high volume items that would be placed in the hot spots of the traffic pattern. He said they hadn’t really planned displays with this in mind.

Six consecutive weeks last summer indicated the following department performance. This information is the only performance information provided to the department manager.

<table>
<thead>
<tr>
<th></th>
<th>Inventory</th>
<th>Sales</th>
<th>Gross $</th>
<th>Gross %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Week 1</td>
<td>$585</td>
<td>$2855</td>
<td>$441</td>
<td>15.5%</td>
</tr>
<tr>
<td>2</td>
<td>$600</td>
<td>$2754</td>
<td>$562</td>
<td>20.4%</td>
</tr>
<tr>
<td>3</td>
<td>$653</td>
<td>$3019</td>
<td>$608</td>
<td>20.1%</td>
</tr>
<tr>
<td>4</td>
<td>$723</td>
<td>$2956</td>
<td>$537</td>
<td>18.1%</td>
</tr>
<tr>
<td>5</td>
<td>$505</td>
<td>$3267</td>
<td>$588</td>
<td>18.0%</td>
</tr>
<tr>
<td>6</td>
<td>$355</td>
<td>$2879</td>
<td>$599</td>
<td>20.8%</td>
</tr>
</tbody>
</table>

Since the midsummer period, Jim has considered store promotions and for the last five weeks the gross has been more consistent and has averaged 22.5%. He stated that although they have reduced the frequency of added unplanned specials they are still used. Average sales for this latter period were about $1922. During this period, produce gross margins had a range weekly of 20.7% to 24.98%.

Inventory is taken in the department each week. Like the meat department manager, he feels that mistakes are made at the front end, affecting his gross. Grocery margins are also low. The gross margin of the total store has improved markedly in the last quarter. Net for this last thirteen week period indicated a return of 3.07% on sales compared with 0.10% the previous quarter.
I. If you were the store manager, what changes would you institute to improve the produce department program? Consideration might well be given to

1. Establishing department goals
2. Development of useful operating ratios
3. Sales planning
4. Reports to store office
5. Reports from store office to produce manager
6. Merchandising
7. Incentive programs
8. Quality product
9. Pricing policy
10. Advertising policy