

The retail food chain witnesses agreed that there was a cost associated with carrying each product item. The Committee noted that one chain was successful carrying only 4700 product items on its shelves whereas the majority of chains carried 8000 product items.

D. *Private Brands*

Evidence before the Committee indicated that private brands offered savings to the consumer for physical product and package which were identical to national brands. In the case of graded products such as fruits, the consumer's choice was simplified even further. However, the food chains appeared to be as cautious concerning the addition of private brands as they were with the addition of national brands, even though private brands frequently provided them with a higher gross margin. The binding constraint was not source of supply but consumer acceptance and turnover of private brands. Most chains indicated that they would like to expand their private brand programs.

IV OPERATIONS

Despite rising costs in every area of their business, most food chains have made significant gains in productivity. The two most frequently used measures of productivity were sales per square foot and sales per man hour. The most significant rise in cost has been the cost of the food itself and the next most significant have been labour and rent.

Operating costs in the retail food chains, particularly labour costs should be placed in their proper perspective. At the retail level, wages accounted for about 10 per cent of the food dollar whereas product costs accounted for 80 per cent of the food dollar. Hence, increases in labour costs had a much smaller impact than product costs although the latter involved a wage component as well, at the production, processing and distribution levels. Nevertheless, wages at the retail level have gone up substantially in recent years. However, between one-third and one-half of the wage increases were offset by gains in productivity.

As of December 1972, the Farm Price index stood at 127 whereas the Food at Home index stood at 137. While a crude indicator, the difference may have been accounted for by depressed farm prices which were only beginning to revive and by increased operating costs. While the index of labour costs has shown signs of rising at an increasing rate, not all retail labour contracts have been renegotiated in 1973 and the magnitude of recent

increases has not begun to account for the sudden surge of food prices.

There were significant increases in rents and taxes, particularly municipal taxes.

The profits of the food chains were in line with other retailers and other industrial categories such as manufacturing. The main profit measure for comparison with other industries was return on assets.¹ The Committee recognized the need for food retailers to generate adequate profits for reinvestment in more efficient facilities and for maintenance of capital supplies.

V CONSUMER INTERESTS

Most large food chains claimed that the consumer dictated product items and pricing, provided the chain could make a profit on the item in the long run. The chains claimed that consumers and active competition exerted downward pressure on prices. They rejected suggestions that heavy expenditures on advertising and promotion induced the consumer to purchase goods which she would not otherwise have sought and which were unnecessary or uneconomical.

With the exception of Loblaws and A&P, all chains offered the assistance of unit pricing. The value of unit pricing in the consumer decision process was not fully known but the majority of chains have been willing to experiment with the practice. Some chains have developed special consumer education programs, manifestos, and assigned special officers to the area of consumer interests.

In the matter of site location, the chains claimed to execute careful research in order to assess consumer demand prior to building or leasing a new outlet. With customers abandoning free-standing, smaller stores in favour of larger stores located in shopping centres, site selection has been an important activity.

VI RECOMMENDATIONS

The recommendations arising from the First Report of the Committee have been mentioned. The most significant of the first report recommendations was to establish the Food Prices Review Board with the purposes of (a) monitoring food prices regularly, (b) determining which price rises require investigation, and (c) recommending action to government. Considering the evidence which led to the first report and the testimony of the retail food chains, the Committee makes the following recommendations:

¹ Measures such as per cent of sales ignore the peculiar nature of food retailing and measures such as return on equity are complicated by the varying capital structures of the corporations.