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Supply-chain management | Shrink rapped

America's food retailers should wage a tougher war on waste

WALK into almost any big supermarket in America and you will find a cornucopia of food. The mountains of fresh produce on display are a testament to shoppers' desire for choice and freshness—and retailers' desire to relieve them of their dollars. But behind the mouth-watering offerings lies a distasteful reality: billions of dollars' worth of food is dumped each year because of retailers' inefficiency.

It is difficult to gauge quite how much waste—known as "shrink" in the industry's jargon—there is. Oliver Wyman, a consulting firm, puts the figure at 8-10% of total "perishable" goods in America. The Food Marketing Institute, an industry body, says such sales totalled $196 billion in 2006. That means food worth nearly $20 billion was dumped by retailers. In a report published on May 14th, the United Nations estimated that retailers and consumers in America throw away food worth $48 billion each year, and called upon governments everywhere to halve food wastage by 2025.

With food prices soaring and consumers tightening their belts, supermarkets' margins are under pressure. On May 13th Wal-Mart, America's biggest retailer, said its first-quarter sales rose by 10%, to $94 billion, but only after it slashed grocery prices by up to 30%. Its boss gave warning of harsher times ahead. Many retailers will need to cut costs, and tackling shrink seems a good way to do so.

Yet some firms are coy about the issue: Whole Foods, with sales of $6.6 billion and a reputation for fresh food, says its figures on waste are "proprietary". Others point out that not all food is dumped. Kroger, a retailer based in Ohio with sales of $70 billion, gives 3,600 tons of fresh food a year to food banks.

Laudable though this is, it raises the question of why so much food is going to waste in the first place. After all, American supermarket chains have spent the past ten years or so installing inventory-management software, cold-storage systems and other supply-chain paraphernalia. Yet their shrink rates are still twice as big as those of European retailers.

One reason for this is structural, reckons Leigh Sparks of Stirling University in Britain. Food in America travels farther, increasing the risk it will rot in transit. Another reason is that American firms are less adept at capturing and using customer data to predict demand. And many American store managers believe high shrinkage is inevitable, given their enthusiasm for huge displays and the widest possible range of produce. "This feeds a vicious circle of more and more choice," says Matthew Isotta of Oliver Wyman. And it can backfire if displays disguise rotten food or too much choice overwhelms customers.

A few firms have made a concerted effort to reduce shrink. One is Stop & Shop/Giant-Landover, a retailer with sales of $17 billion owned by Holland's Ahold. Launched in 2006, its initiative stressed that making its supply-chain leaner would enable the chain to offer customers the freshest possible products. This helped win over internal sceptics. "It really was a huge culture-shift for our people," says José Alvarez, the firm's boss.

Stop & Shop looked across its entire fresh-food supply chain and reduced everything from the size of suppliers' boxes to the number of products on display, which fell by almost a fifth. Last year the chain cut shrink by almost a third, saving over $50m and eliminating 36,000 tons of rotten food, while improving customer satisfaction. Other retailers would do well to follow Stop & Shop's example—or watch as shrink takes an even bigger chunk out of their profits. ■

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