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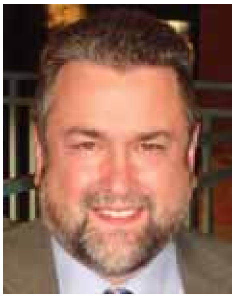

Risks Of Direct Importing

Like the age of the paperless society, the age in which large retailers handle all their own produce imports is always just upon us, yet never quite begins.

Most who have attempted such projects, notably Supervalu, found the projects floundered on a fundamental dilemma: Direct importing puts a retailer into a business that is not its forté. Whether the issue is forecasting volume requirements a season in advance or knowing how to maximize returns on poor quality arrivals, importing involves a whole roster of skill sets not typically found among retail executives.

Beyond these special skills, importing always places a buyer in a quandry: If a retailer attempts to import all of its needs of any produce item, it has little choice but to purchase far in advance, and estimates of product volume requirements made weeks, months or a season in advance of actual need, by their nature, would be far less accurate than estimates of product volume requirements made to allow purchase, often overnight, from a U.S.-based importer.

These inaccurate estimates would mean the retailer always would be long or short on product, either necessitating cuffing product in terminal markets often at a big loss or buying in product to cover shorts, often paying premiums to do so.

On the other hand, if a retailer elects to purchase only a portion of its needs for a particular imported product, another dynamic takes place. First, even if savings are there, it is hard for the savings to be significant if a retailer is only importing a small percentage of its needs. Second, the importers providing the rest of the product start to think their days are numbered as a supplier, so they begin to take better care of other customers.

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Those retailers who have done substantial work in global procurement, such as Wal-Mart, learn soon enough what every vendor could tell them: It is not easy being a supplier.

Large retailers have enormous discretion. It doesn't matter what "good delivery standards" require, what grade standards may delineate, even what a retailer's own specifications demand. If a large chain retailer doesn't like the way a load of produce smells, it is rejected. Vendors, always anxious to placate a customer, take the product back and it is no longer the retailer's problem. If, however, a retailer is purchasing product down in Argentina, it owns the product, and rejections in Albuquerque are a problem for the importing program.

In fact, the biggest risk for retailers of a direct import program is a hidden one: The temptation to not put the consumer first. Effective merchandising, marketing and procurement decisions are those done with the consumer foremost in mind. With a direct import program, though, retail executives suddenly have a conflict of interest, as they already own the produce. If, for example, cantaloupes are particularly sweet and should be prominently displayed one particular week, that decision could be influenced by the need to move a big inventory position on some honeydew.

Very often, direct importing leads to a subtle degradation of standards. Product that would be rejected if supplied by a third party is accepted because the retailer already owns it. Sometimes this happens as a result of explicit decisions; more often it is a subtle, but predictable, psychological phenomenon. If the inspector at a distribution center rejects product from an outside vendor, the vendor is unlikely to make a fuss and, even if he does, nobody will care as rejecting the product costs the retailer nothing. In contrast, if product from global procurement is rejected, executives there may well make a big fuss because rejecting the loads will cost the retailer a lot of money. Even if corporate executives back up the inspector 100 percent of the time, many an inspector will ask what the upside is in having to fight those kinds of battles — far easier to just wave the produce through.

Very few senior executives at retail organizations have any real experience with produce. The top people at supermarket chains have typically risen from grocery or front-end, and, more recently, from accounting or from other forms of retail such as department stores. This detachment from produce often leads management to misinterpret the P&Ls that their produce operations produce. Very often, they perceive procurement as some kind of independent profit center.

To achieve optimal results, a produce retailer has to integrate procurement with merchandising and marketing. For an executive to look at a P&L and salivate at the prospect of buying a few percentage points cheaper, is more a testament to that executive's limited ability to understand how to maximize produce profits than it is a serious pool of money to go after. In reality, the strictures of what is necessary to delight consumers — the best product available, not being out of stock, merchandised to highlight the products that will produce the best experience for consumers — requires a different perspective.

Of course, it is a free country, and retailers can import directly if they choose to do so. But the focus on such an initiative is not only a distraction from delighting the consumer, it creates short-term incentives to disappoint the consumer. Only a rigorous focus on consumer satisfaction is a path to sustainable prosperity. **pb**