The Independent's EDGE

November 1999

Making a Difference *By FMI Senior Vice President Michael Sansolo*

Mark Twain once said, "The reports of my death are exaggerated." Many independent operators know exactly how he felt.

As the supermarket industry moves through a wave of consolidation and the largest of companies get bigger and more powerful, once again industry pundits are writing the obituary of the independent sector. It's true that the industry's largest companies today control an ever-increasing share of sales. It's also true that many of these operators are getting better and better at all aspects of the industry — from logistics to merchandising — which means competition will only grow tougher over the near future.

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Pending Wage Increase to Include Estate Tax Relief

A big concern for the independent operator this year has been the looming threat of another increase in the minimum wage. The food industry, which offers the community a large number of entry-level jobs, suffered negative impacts from the last wage hike. Another increase would raise a business' costs and could force owners to reduce employment opportunities. According to the Bureau of Labor Statistics, job growth slowed dramatically due to the last increase (see graph on page 3).

Going into an election year, the issue seems to be unavoidable. Republican lawmakers are trying to soften the blow to small businesses by providing a 2-to-1 ratio of tax offsets. In the House, bipartisan legislation (H.R. 3081) was introduced in October that would increase the minimum wage by $1.00 over three years (effective April 1, 2000) and provide nearly $35 billion in tax breaks. FMI and Americans Against Unfair Family Taxation (AAUFT), a coalition we helped form, have been working with members for months to ensure estate tax relief was included in the mix of tax offsets. The legislation would eliminate the five percent surtax on large estates, reduce the top rate from 55 percent to 53 percent, and change the credit to a true exemption. This means that estates above the exemption (currently $650,000 and increasing to $1 million) would be taxed at the beginning of the estate tax rate table (18 percent). The legislation, among other things would also repeal the special occupational tax (SOT), which requires all food retailers selling alcohol to pay an annual tax of $250 per location.

In the Senate, lawmakers chose the Bankruptcy Reform Act (S. 625) as the vehicle for wage debate. Senators approved (54 to 44) the Republican amendment, offered by Sen. Pete Domenici (R-NM), to raise the wage $1.00 over three years. It would also provide about $18.4 billion in tax relief. In order to get the Republican measure approved, estate tax relief was not included in the tax offsets. The Senate tabled (50 to 48) the Democratic plan, offered by Sen. Edward Kennedy (D-MA), that would have raised the minimum wage $1.00 over two years, while providing $9.5 billion in tax cuts.

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Making a Difference,
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The death notices, however, are vastly premature, especially for retailers who carefully carve out a market niche and fill it with satisfied customers. A well-run independent, with strong support from a wholesaler, can and will compete. The question is how.

Traditionally, independents have used a number of strengths to stand out in the market. They have closer links to their shoppers and communities, simply because they live in the markets they serve. But in many ways the issues surrounding local marketing are more powerful today than ever.

Consumers today are more diverse and not just racially or ethnically. Value means many different things to many different consumers. Lower income shoppers might see price as the greatest form of value, while upper income shoppers might look for service or convenience instead.

We get a clear glimpse of this from the marketplace. Trade journals are routinely filled with articles about upscale stores and their new array of services and, in truth, many of these stores are doing very well. But the strongest growth segment is actually in the price impact arena and the stores serving the vast portion of the American marketplace that continues to struggle economically.

The diversity doesn't end there. Today we have older shoppers who tell us clearly that they like their supermarkets and are comfortable with the kind of shopping experience they have used throughout the years. Likewise, we have younger shoppers who aren't sold on the traditional store or the traditional shopping patterns. Some groups like today's larger stores and the convenience of one-stop shopping; others like smaller, more intimate stores.

We even have shoppers who clearly tie their health concerns to their shopping as evidenced by both the growth of natural food operators and the increase of health related items in supermarkets of all kinds.

The key is to find a difference, to spotlight that difference and to build a relationship with consumers that makes them want to come to your store and pass by all the others along the way. And don't forget to make that vision absolutely clear to your employees. After all, they are the people truly interacting with the consumer. If they don't understand the messages, they can't possibly deliver on it.

Is this an impossible task? Not really. Think of many of the great independent retailers around the country and you can instantly name what makes them special and what makes them stand out from the crowd. In fact, think of any great retail operation in any field. It's the difference that makes them a destination.

This isn't said to lightly dismiss the changing structure of the industry and the power of the largest companies. FMI membership includes the biggest and the smallest of operators and our goal is to help arm all of them for the days ahead. One of the most significant points in the current Action Plan of the FMI board is a research project examining the changing structure of the industry, with an eye on how it may change. It should provide a powerful tool to all players in the industry to understand how each might chart a path to growth in the future.

That's important in an aggregate sense. But in the trenches, street to street, store to store — where the industry really lives — the key remains finding a way to stand out to the shopper. ✯

Pending Wage Increase to Include Estate Tax Relief
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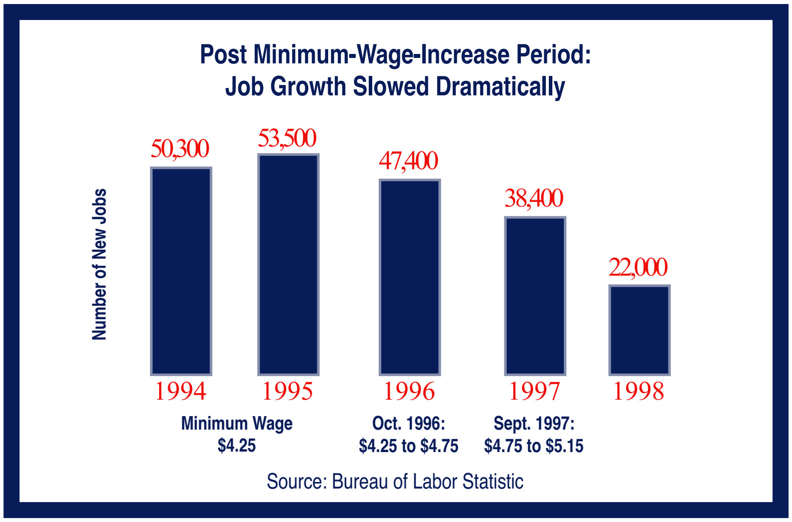
H.R. 3081 did not see floor activity this year. In the Senate, the Bankruptcy Reform Act was pulled from the floor prior to adjournment. A cloture vote on the measure has been scheduled for January 24. Many issues need to be resolved before minimum wage legislation is enacted, including the level of tax relief provided.

Since September, when President Clinton vetoed the tax-cut package containing total repeal of the estate tax, FMI and AAUFT have been engaged in efforts to keep estate tax repeal "front and center" as a tax issue.

In addition, FMI is developing 40 personal "profiles" of the owners of supermarket companies that are family held, in an effort to make the community connection with decision makers and editorial boards at the federal, state and local levels as to the onerous effect of the estate tax. ☆

Grocery Store Employment Growth 1994 to 1998



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What's Happening on the Hill

Electronic Benefits Transfer (EBT) — On November 19, under unanimous consent, the Senate passed the Electronic Benefit Transfer Interoperabilty and Portability Act of 1999 (S. 1733). The legislation would ensure that electronic food stamp benefits are redeemable in any state in the country. Although the House did not pass its version of the bill before adjourning, House support is strong. FMI will push to have the bill completed when Congress returns in January.

Taxes — Congress approved legislation (H.R. 1180) that extends the Work Opportunities Tax Credit and the Welfare-to-Work credit for two and a half years through December 31, 2001, the longest extension the program has ever seen. The bill, The Ticket to Work and Work Incentives Improvement Act of 1999, also extends the tax exclusion for employer-provided educational experience for undergraduate level courses through December 31, 2001. In addition, the measure extends through 2001, the Generalized System of Preferences, which allows the president to reduce duties on products made in developing nations.

Dairy — House and Senate leaders agreed to extend the Northeast Interstate Dairy Compact (NEIDC) through September 2001. The agreement does not create a Southern compact. Midwestern Senators, led by Herb Kohl (D-WI), had threatened to hold up passage of the omnibus spending package, which contained the contentious dairy bill (H.R. 3428), but gave up their efforts late November 19. The measure also implements Option 1-A, instead of market order price reform, and creates a five year pilot program for forward contracting on all classes of milk, except Class I milk.

Health Care — The House passed legislation (H.R. 2723), introduced by Reps. Charles Norwood (R-GA) and John Dingell (D-MI), that would allow lawsuits in state court against employers who sponsor health plans. FMI and several of its members had been lobbying against the measure for several months. It was alarming that the bill passed with such high margins (275 to 151).

The Senate passed the Republican-sponsored Patients' Bill of Rights Plus Act in July. It does not include language to expand liability against businesses. A House-Senate conference committee will meet next year to work through the differences in the two bills. The conference committee is dominated by members who favor the Senate approach on this issue.

The health care debate is a top Campaign 2000 issue. FMI will work to include the Senate language in the final measure when the House-Senate conference committee meets on the issue next year.

FAIR Act — On October 14, the Committee on Education and the Workforce favorably reported the Fair Access to Indemnity and Reimbursement Act (FAIR). The legislation would allow small companies (under 100 employees and worth less than $7 million) to recover attorney fees and costs when the company proves to be innocent of charges brought by either the National Labor Relations Board or the Occupational Safety and Health Administration.

Next Issue

The December Issue of *The Independent's Edge* will focus on technology, including Y2K preparations and FMI's MARKETECHNICS 2000 show. Don't miss out on tomorrow's ideas today.

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For more information, contact Ernie Monschein (202) 452-8444

Editor: Kellie Duhr • 202-220-0634 • E-mail: kduhr@fmi.org •