Organizational Structures and Strategic Management of Produce Marketing in Retail Supermarkets

Bobby G. Beamer
Warren P. Preston

A conceptual framework is developed to describe the internal organization of produce marketing management within retail supermarket chains. The framework is applied to the analysis of a selective sample of 17 supermarket chains operating primarily in the southern mid-Atlantic region. Based on results of interviews with key management personnel, generalized models of the hierarchy of management and scope of responsibility for strategic planning relevant to the fresh produce section are constructed. Implications are drawn for strategic and operational control of the produce section. © 1993 John Wiley & Sons, Inc.

INTRODUCTION

Supermarkets have responded to consumer health concerns by placing more emphasis on low calorie, low fat foods. As a result, the fresh produce department has become an increasingly important section of the store. Produce departments have grown about 15% with respect to total store sales volume and average gross margins over the last 20 years. Annual produce sales have increased from $23.1 billion in 1984 to $26.8 billion in 1988.[1] In 1990, the Food Marketing Institute reported that 98% of supermarket shoppers rated quality fruits and vegetables as an important factor when deciding where to shop.[2]

As the produce section has grown in importance, retail supermarkets have

Bobby G. Beamer is a Graduate Fellow in the Department of Agricultural Economics at Purdue University.

Warren P. Preston is an Assistant Professor at Virginia Polytechnic Institute and State University.

Agribusiness, Vol. 9, No. 2, 103–117 (1993)

CCC 0742-4477/93/020103-15

attempted to attract more business by offering expanded produce lines. Large stores may stock as many as 300 to 400 produce items, compared to 50 to 100 items a decade ago.[1] However, retailers are operating in an increasingly volatile market as well. In recent years, two widely publicized food safety scares (Alar used on apples and cyanide found in imported grapes) buffeted the industry. The increasing complexity of the produce market heightens the importance of understanding how retail firms manage and control the produce section.

OBJECTIVES

Very little work has been done to examine the role of the management structure in retail produce management. McLaughlin concluded that control over produce shelf space, unlike that of grocery products with national consumer franchises, lies almost entirely with the retailer.[3] Capps has described the general responsibilities of management positions in the retail food distribution industry.[4] The current research extends these earlier works by attempting to determine how alternative management structures influence strategic decision making within the produce department. Specific objectives are: (1) to develop models that describe observed organizational structures of fresh produce management within retail supermarket chains; and (2) to derive implications from the models for firm strategic control of the produce section.

RESEARCH DEVELOPMENT

The modern retail supermarket industry is an extremely rivalrous business. Because of this, management personnel are reluctant to discuss firm strategies and operations with an unknown individual from outside the firm. Personal interviews allow for the development of relationships that facilitate discussion of sensitive issues and provide the interviewer with the opportunity to pursue unanticipated subjects relative to the research problem.[5] The purpose and objectives defined for this research suggested the need for an interactive dialogue between the firm representative and the researcher. Thus, data obtained are qualitative in nature.

The Chain Store Guide—1990 Directory of Supermarket, Grocery and Convenience Store Chains[6] was used to identify potential participants for the study. Selection of face-to-face interviews as the method of data collection imposed time and budgetary constraints limiting the sample size. Therefore, the firms included in this study constitute a nonprobability sample rather than a random sample. An attempt was made to capture as much of the market share as possible within the region of interest, while including firms of varying size, location, management style, and organization. However, caution should be applied in generalizing the results due to the lack of randomization.

As a result, industry personnel from 17 different supermarket chains operating in the Virginia, North Carolina, and Washington, DC areas were interviewed between April 26 and May 31, 1990. The 17 people interviewed included two vice presidents, seven directors of produce, and eight produce merchandisers. The firms represented over 1500 stores. Within the area of interest, five metropolitan statistical areas (MSAs) were identified to determine the level of coverage (Table I). Chains included in the study control between 50 and 85% of the stores and account for 67 to 90% of the total sales within these MSAs.[7]

Table I. Market Shares of Sample Chains in Metropolitan Statistical Areas (MSA) within the Study Region.

MSA	% of Stores	% of Sales
Richmond-Petersburg, VA	50	67
Charlotte-Gastonia-Rock Hill, NC-SC	69	72
Norfolk-Virginia Beach-Newport News, VA	82	82
Washington, DC-MD-VA	71	83
Greensboro-Winston-Salem-High Point, NC	85	90

HYPOTHESES

Previous research on the internal management structure of retail supermarket chains was combined with preliminary investigation data to provide a working model to describe the hierarchy of management and areas of responsibility for strategic planning relevant to the produce section within the firm. This model served as the hypothesis for the ensuing investigation. The model consists of two basic parts: (a) an organizational chart depicting the management positions important to produce management, and (b) the distribution of strategic management authority through the different management levels.

Capps' study of management decision-making roles in retail food firms provides a starting point for the development of the structural model. To account for differences in the organizational structure of various firms, Capps developed a general organizational hierarchy containing the following elements: (a) the chief executive officer (CEO), (b) the merchandiser, (c) the store manager, and (d) the departmental manager. McLaughlin's investigation of vertical coordination in the produce procurement system provides more information on management structure specific to the produce department, which was especially helpful in delineating the closely related functions of buying and merchandising. The model developed below synthesizes Capps' work on general internal management of retail food firms with McLaughlin's broader study of the organization of the produce sector.[3]

After conducting a preliminary interview with a produce merchandising manager, interview results were combined with the findings of Capps and McLaughlin to construct a generalized organizational model of the management structure for a retail supermarket chain, with emphasis on the divisions related to produce (Fig. 1). Because of the great amount of variation between the organizational structures of different firms, especially with respect to job titles, the chart is divided into four management levels that correspond with the hierarchy established by Capps. Level I, the corporate level, is composed of all upper management positions. Level II is that of procurement and distribution management. Level III, the store level, has one major management position, store manager. Level IV includes the departmental positions of produce manager, assistant produce managers, and produce clerks.

Level I has primary authority for strategic planning for the firm. This level establishes criteria for store image, customer service, store layout, store locations, and management organization. Level I is also usually responsible for such

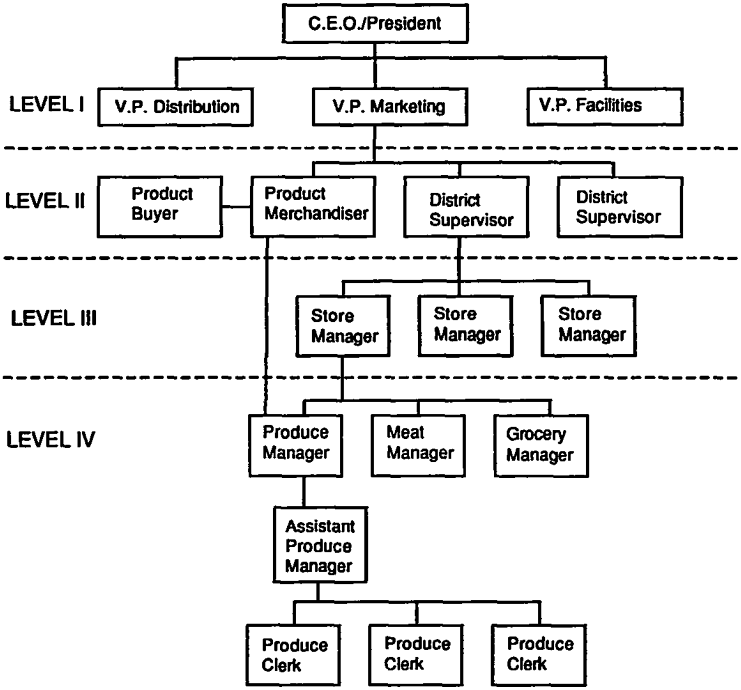

Figure 1. A Generalized Organizational Chart for a Retail Supermarket Chain.

operations as real estate purchases, site development, equipment purchases, and other major capital investments.

The primary functions performed at Level II are purchasing of goods, distribution to retail stores, and coordination of merchandising and promotional activities. At this level, strategies are developed for the allocation of shelf space within departments and in-store merchandising. Operations include purchasing of goods by field buyers, transportation to a distribution center, allocation to individual retail stores, setting of retail prices, and promotion of goods through the media.

The store manager at Level III is primarily responsible for the coordination and management of all departments within an individual store. Store managers have a high level of responsibility for planning product display, ordering (inventory control), adjusting space allocations (within guidelines established as Levels I and II), and insuring price integrity. The store manager has a high level of involvement with the operations of ordering, image maintenance, and customer service.

At Level IV, the strategies of the higher levels are actually realized; therefore, this level is primarily responsible for implementation of daily operations. The departmental managers are responsible for product display, ordering, shrink, and price integrity. The department manager may adjust shelf space within guidelines established at higher levels. Clerks are concerned with stocking, packaging, and customer service.

Levels I and II are primarily responsible for the development of strategies for the firm, while Levels III and IV are primarily responsible for implementing these strategies. The upper levels establish policies and general goals for the firm, and the lower levels use whatever tactics the policies allow for them to meet the goals. Figure 2 illustrates the degree of responsibility for strategic management (the inverted triangle) and firm operations (the normal triangle) at the different management levels. The width of the triangle is intended as an indication of the degree of responsibility resting within the particular management level. In general, most strategic decisions and plans are made at Level I. At each lower level, there exists some freedom for planning marketing strategies. However, the amount of freedom at each lower level is bounded by the decisions and guidelines from the levels above. Conversely, responsibility for carrying out firm operations increases from upper management to the lower management levels.

The above description of management levels serves as a basis for generalizing the different structures found within the various firms in the study. The organizational chart in Figure 1 and the depiction of authority distribution in Figure 2 serve as hypotheses against which the study sample will be compared.

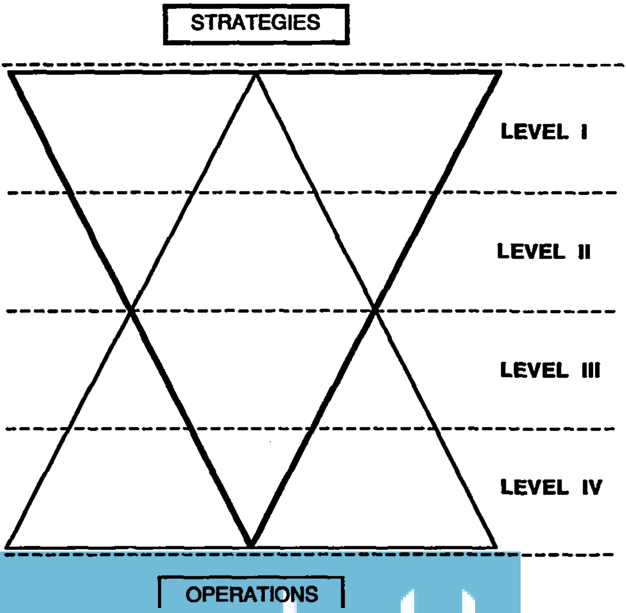

Figure 2. General Model for Distribution of Strategic Management Authority through the Management Levels of a Retail Supermarket Chain.

RESULTS

Management Levels

While the general position descriptions obtained through interviews with industry personnel tend to conform to those responsibilities outlined above, the survey results allow for a more detailed description of each level. Further discussion of management responsibilities with respect to the produce department is necessary to clarify interactions and authority between positions. Management structure and positions will also have implications for the rigidity of firm control.

Level I

Level I is typically referred to as the "corporate level" of the firm. With respect to produce merchandising, the corporate level contains no specialized positions. In other words, for this study, a director of perishables, who also has responsibilities for meats and other perishable items, would be included in Level I while a director of produce would be listed under Level II. Level II positions may then be seen as the product specialists within upper management. Level I includes the president, vice presidents, directors, and other positions that establish general policies and goals for the entire firm. One of the primary functions of Level I personnel is to determine the company image, which will be a major influence on all other decisions within the firm. Other important decisions made in Level I with respect to produce marketing include the position and size of produce department in store layout, pricing policies, and at times, product lines to carry.

Level II

Level II contains the greatest variety of positions directly involved with produce marketing, subject to firm size and organizational structure. Large firms may employ produce directors, produce merchandisers, warehouse supply managers, district merchandisers, several produce buyers, and a number of other positions.

The produce merchandiser bears primary responsibility for the performance of the firms produce department within most chains. The merchandiser's major responsibilities include developing a strategy for produce merchandising consistent with the overall firm image, determining the layout of the produce section within the overall layout of the store, interpreting produce market information received from buyers, and coordinating buyer activities based on firm needs. Merchandising activities performed include development of schematic plans for produce departments, development of marketing plans indicating mandatory and optional items, development of newspaper advertisements, pricing of all produce, distribution of point-of-purchase display materials, and establishment of criteria for quality assurance. This position has direct responsibility for the marketing of produce in all stores and the overall profit structure of the produce division of the firm.

The other positions at Level II vary greatly from firm to firm. Most firms employ their own produce buyers that would fit into this level. Supply managers would most likely be found in a firm that has buying offices located in different parts of the country, away from the central warehouse. The function of the supply manager is to order sufficient quantities of produce through the buyers to meet retail demand. District managers or merchandisers are only found in larger firms where the span of control would be too wide for the head merchandiser to maintain effective contact with the field specialists. One firm also employed a trainer at this level to train all new produce managers.

Level III

Level III includes the field specialists and the store managers. Whereas store managers are responsible for the operations of the different departments within the store, field specialists are responsible for several produce departments within a certain region. Both positions are responsible for the supervision of departmental activities. Field specialists function like area supervisors for produce, monitoring the progress and presentation of produce departments at the store level. The specialists act as expert source people for the produce managers, providing direction and ensuring that programs are carried out properly. Viewed in this manner, the field specialists have very few strategic responsibilities. They act as operational positions to aid communication between levels. The store manager, on the other hand, is responsible for all operations within the store. The manager coordinates activities between departments and monitors the success of all departments. If the manager observes the produce department failing in any way, he/she may call in the produce field specialist for assistance.

Level IV

Level IV consists entirely of the produce departments within individual stores. The positions within the departments include the head produce manager, assistant managers, and clerks, depending on the total sales volume of the department. In most firms, especially larger ones, the strategic options left open to the produce manager are very limited. Produce managers may vary the amount of space allocated to particular items, within certain limits, based on the product movement for that particular store. At times, produce managers may also set up special displays based on the local clientele, again within limitations specified by upper management levels. Within a few chains, produce managers may have more freedom to select different items and to allocate shelf space based on their knowledge of local clientele. Within these firms, less emphasis may be placed on consistency between firms and more on meeting local needs. Of course, produce managers in all firms are responsible for the day-to-day management of the goods and personnel within their department.

One produce director explained that, with respect to the produce manager in the store, the "store manager is his day to day contact, the field merchandiser [specialist] is the once a week contact, produce merchandiser is the once a month contact, and the director of produce operations is [in direct contact] once or twice per year." Usually then, individuals in the upper management positions are concerned with the formulation of broad strategies across all product and geographical divisions, while individuals in the lower management positions are concerned with the interpretation and implementation of these strategies for increasingly specific products and areas.

Classification of Firms by Organizational Structure

Results of the interviews were used to develop variations of the generalize model of management structure illustrated in Figure 1. These models are distinguished by two key criteria: method of produce warehousing and mode of structural organization. Eight of the firms operate their own private warehouses, while the other nine obtain fresh produce from wholesale distributors. Those firms without centralized warehousing of produce may or may not operate centralized warehouses for other goods. One firm that handles fresh produce through a central warehouse also has a separate warehouse exclusively for the purchase of locally grown produce; however, only a small amount of its total produce is moved through this warehouse and only during certain times of the year. Firms with centralized warehousing of produce usually handle 90% or more of their produce through the central warehouse, with the only exceptions being highly perishable items or other items delivered directly to the stores.

The second criterion for classifying firms is their mode of structural organization. The classifications used here are organic and mechanical as developed by Burns and Stalker.[8] The mechanical and organic models of organization typically are applied to industrial firms, but apply equally well here. A strict hierarchical structure of control characterizes the mechanical model, in which instructions and decisions issued by superiors govern operations and working behavior. The organic model is characterized by a network structure of control with authority based on expertise. The distinction between the management levels described above become less distinct as individuals perform functions from different levels. These two models are considered as extremes along a continuum rather than discrete classifications. Thirteen firms in the sample fit the mechanical model of organization, while the remaining four tend toward the organic model.

The two criteria described above provide a means for classifying the 17 firms in the interview sample into three general categories: Self-Warehousing, Non-Warehousing-Mechanical, and Non-Warehousing-Organic. Self-Warehousing refers to the firms who move their fresh produce through a central, firm-operated warehousing facility. All such firms within the sample utilized the mechanical organizational structures. The other two classifications refer to firms that do not operate their own warehouses and are distinguished based on their organizational structure.

Firm size will be considered as well when comparing the categories of firms. As discussed by Marion,[9] any operator with fewer than 11 stores is typically classified as an independent; however, *The Chain Store Guide* requires that the firm operate only three or more stores for classification as a chain. The latter standard was used in sample selection for this research. For the remainder of this article, firms operating from 3 to 11 stores will be referred to as "small" chains. The remaining chains will be classified according to the number of stores and their level of annual sales. Chains with fewer than 100 stores and less than one billion dollars in sales will be referred to as "medium" while the remainder will be considered "large." Table II provides a complete breakdown of the 17 firms by category and size classification.

Self-Warehousing Firms

Self-Warehousing firms in the study tended to be large, with all but two of the eight operating over 100 stores. These firms handle virtually all goods sold at the

Table II. Distribution of Chains in Study by Category and Size.

Categories	Chain Size Large	Medium	Small	Total
Self-Warehousing	6	2	0	8
Non-Warehousing				
Mechanical Structure	0	3	2	5
Organic Structure	0	0	4	4
Totals	6	5	6	17

retail level through one or more chain-owned warehouses. Typically, the merchandising departments for all Self-Warehousing firms are divided along product lines, such as produce, meats, and groceries, while retail operations are divided along geographical lines into management districts.

As firms grow, managers find themselves directing the activities of increasing numbers of individuals. To maintain an effective ratio between managers and their subordinates, additional layers of management must be added. This type of growth explains the variation in management structures of the Self-Warehousing supermarket chains within the study. Only the largest firms employed produce directors. While most firms in this category used field specialists between the produce merchandiser and the produce managers within the stores, the larger chains also included district managers as an additional layer of management. Another variation in management structure utilized by two Self-Warehousing firms in the study was the merging of all buying operations into one division. In this situation, the produce buyers are not under the direct control of the produce functional division. Buyers for Self-Warehousing firms are directly responsible for tracking markets, making contacts with suppliers, securing sufficient supplies and qualities of produce, and negotiating deliveries. The buyers may operate from the central warehouse or they may be located in major production areas throughout the country. Figure 3 illustrates a typical structure for a Self-Warehousing firm.

Non-Warehousing Firms

Non-Warehousing firms are typically of medium or small size with nine firms from the study falling into this category. They range in size from less than 10 stores in the chain to almost 90. These chains do not operate their own centralized warehouse for produce distribution. All of their produce is purchased through a wholesale distributor or direct from producers. Not all Non-Warehousing firms will employ their own buyers. If they do, their responsibilities are different from those of the buyers in Self-Warehousing. Buyers for Non-Warehousing firms have less responsibilities for actual produce procurement. Because the wholesale distributor that supplies the firm employs their own buyers, the buyer for the chain is more concerned with monitoring market trends and tracking information concerning variety, quality, size availability, and seasonal availability. The merchandiser then uses this information to make recommendations to

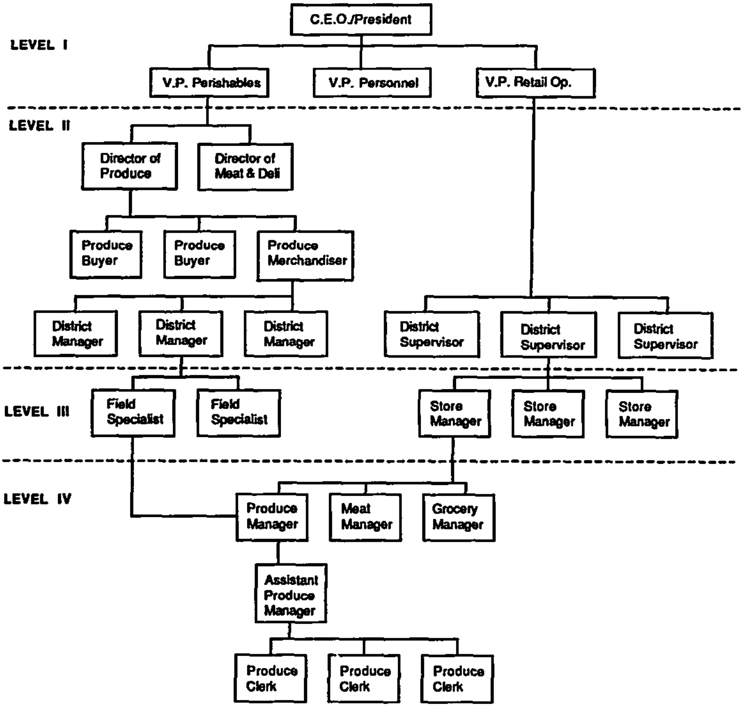

Figure 3. Generalized Organizational Chart for a Self-Warehousing Retail Supermarket Chain.

both the produce managers and the wholesaler. Non-Warehousing firms may or may not use field specialists depending on the size of the chain.

Non-Warehousing chains are further distinguished by their mode of organizational structure. Five firms in the study conformed more closely with the mechanical model (Fig. 4). In these firms, the four management levels are easily distinguished. Figure 4 also illustrates the relationship of the independent wholesale distributor to the Non-Warehousing firm. The wholesale distributor employs its own buyers to procure produce. The produce merchandiser for the retail firm informs the wholesaler of the type of products that the chain wishes to sell. The distributor works to meet the retailer's needs as best as possible and provides the merchandiser with a list of available items and wholesale prices. The merchandiser then chooses the items that fit the marketing strategy of the firm and sets the prices at the retail level. This information is passed along to the individual stores. The produce manager in each store then places orders directly to the wholesale distributor for the items needed at that particular store. Delivery frequency may vary from three to six times per week depending on the firms involved. The wholesaler in turn provides the merchandiser with information on what items are ordered by the retail stores to monitor each store's product movement.

The other category of Non-Warehousing firms consists of those with more

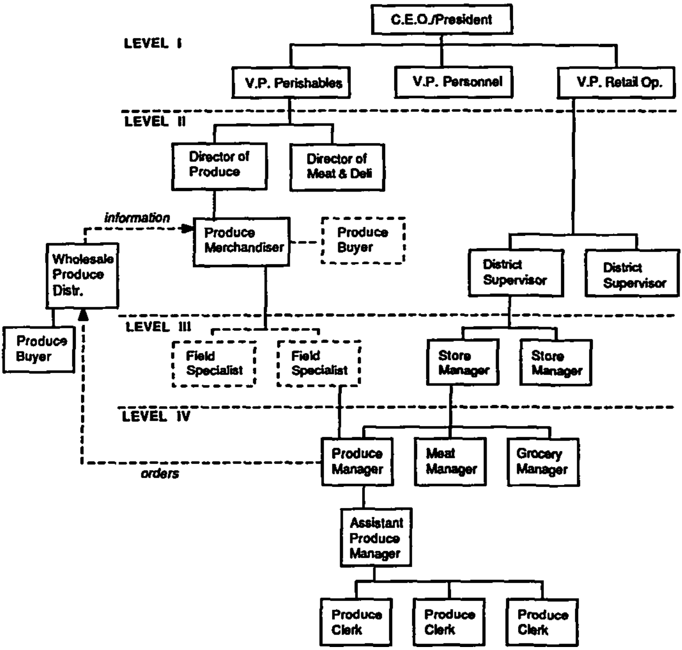

Figure 4. Generalized Organizational Chart for a Non-Warehousing Retail Supermarket Chain with Mechanical Structure.

organic organizational structures. Management levels may be much less distinct and management hierarchy less rigid than in other organizational structures (Fig. 5). Four firms within this study fit this category and all operated less than 10 stores per chain. One distinct feature of this type of firm is the existence of personnel that perform the duties of several distinct positions. For example, the

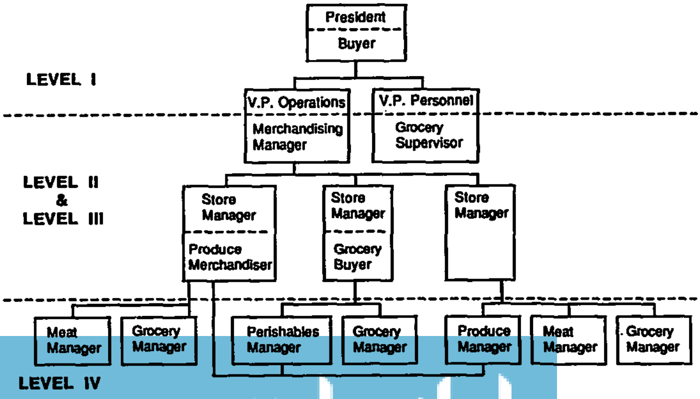

Figure 5. Generalized Organizational Chart for a Non-Warehousing Retail Supermarket Chain with Organic Structure.

manager of one store may serve as the produce manager for the entire chain based on that persons expertise. Also, Level IV may not be identical for all stores. For example, not every store will have its own produce manager.

Distribution of Strategic Management Authority

Results of the interviews suggest a relationship between the type of management structure used by the firm and the distribution of strategic management authority between levels of management. Self-Warehousing firms are best described by the management distribution illustrated in Figure 6, where very little freedom exists for strategic planning at Level IV (represented by the narrowness of the "triangle"). These firms tend to stress uniformity among stores. "If you can find a product in one of our stores, you should be able to find it in all of our stores" was the attitude typical of merchandisers for these firms. To insure this uniformity, upper management levels must necessarily establish strict guidelines regarding which items are carried. The only real latitude available to the produce managers within the individual stores is the amount of space allocated to a particular item. Even this flexibility, however, is usually bounded by minimum and maximum standards established at upper management levels. Self-Warehousing firms were also more likely to use planograms, standardized layouts for all stores, or computer programs to allocate shelf space within the stores, although such programs are as yet used infrequently in produce departments.

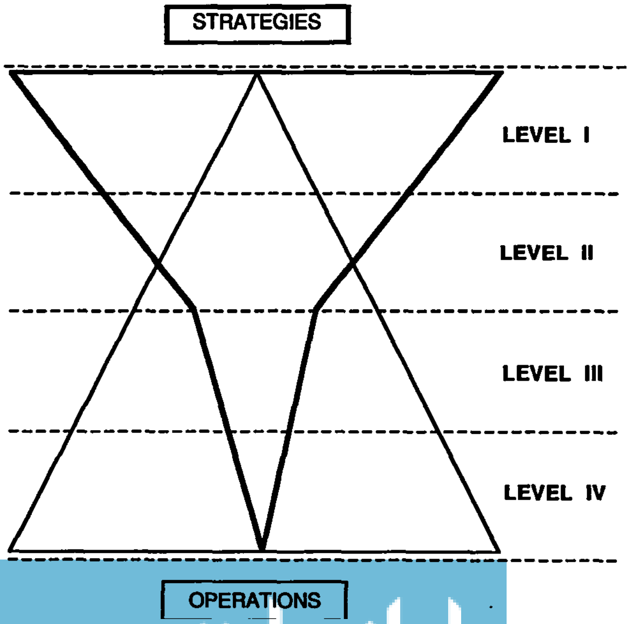

Figure 6. Distribution of Strategic Management Authority for Self-Warehousing Retail Supermarket Chains.

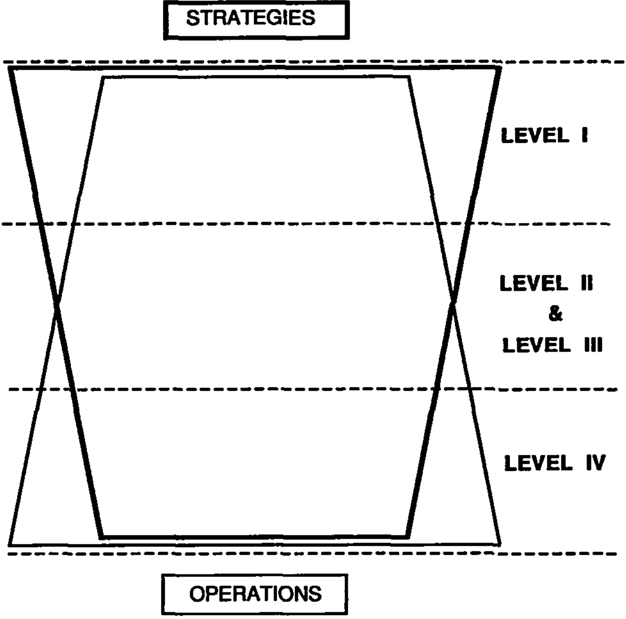

Figure 7. Distribution of Strategic Management Authority for a Non-Warehousing Retail Supermarket Chain with Organic Structure.

Non-Warehousing firms with mechanical structures are best characterized by Figure 2, where flexibility for strategic management decreased gradually through all levels. Within this framework, produce department managers have more direct control over shelf space allocation. Part of this extra freedom results from the role of the wholesale distributor in the marketing process. Because produce managers order from the warehouse, merchandisers may choose to offer managers lists of options along with a required list of staple items to carry. The list of options allows the produce manager to choose the mix of products that best suits the local clientele. One manager of a small, Non-Warehousing firm conferred with the produce managers from each store when developing the general guidelines for all stores within the chain, and then worked with each one individually to develop marketing plans for each particular store. Such planning approaches would be virtually infeasible within much larger chains.

Interview results suggest that the distribution of management responsibilities within Non-Warehousing firms with organic structures are best characterized by Figure 7, where freedom of strategic management declines very little through each level (the responsibility triangle has become a trapezoid). The overlapping of responsibilities within positions necessarily blurs the distinction between the management levels. Since the same individual may be responsible for functions normally performed by positions in different management levels, fewer limitations from higher management levels may be imposed. From a more practical standpoint, this translates into more freedom for all levels. Less rigid lines of communication provide for interaction between management levels that might seldom occur in more structured organizations. Such firms in the study were more likely to accept delivery of produce from local growers, although three of the four still preferred the consistency provided by dealing with one wholesale firm.

SUMMARY AND CONCLUSIONS

Based on interviews and other industry information, 17 supermarket chains operating in the southern mid-Atlantic region were classified into two general types of management structures based on warehousing practices for fresh produce. Self-Warehousing firms process the majority of the produce for retail stores through a warehouse owned and operated by the chain. Non-Warehousing firms procure most of their produce through independent wholesale distributors and can be further classified as utilizing mechanical or organic management structures.

Among the firms in the study, the type of management structure is related closely to distribution of management responsibilities, particularly those relating to strategic planning. Self-Warehousing firms are characterized by rigid management structures that allow minimal strategic planning at the lower levels. Non-Warehousing firms with mechanical structures are characterized by a limited distribution of strategic responsibilities throughout the firm. Although bounded by the decisions from higher levels, individuals in positions at lower levels have some room for strategic planning. Finally, Non-Warehousing firms with organic structures have greater flexibility for strategic planning at all levels, as well as a greater involvement with operations.

What implications do these management structures hold for the performance of the retail marketing of fresh produce by the firms? While no attempt is made to measure success or to quantify a firm's performance, each framework can be discussed in terms of its comparative strengths and weaknesses. For example, the large size and the centralized distribution of Self-Warehousing firms may give them more bargaining power when dealing with produce shippers and distributors.

Firms of the Self-Warehousing type have been found to place a great deal of emphasis on developing a full-service firm image.[10] Such firms strive for completeness of offerings within the produce department as well as uniformity between stores. When combined with the rigidity of the mechanical structure, the result is forced distribution of a wide variety of produce to all stores. This practice entails both advantages and drawbacks. If all items are displayed and managed appropriately, the produce section will have a wide range of appeal to a diverse group of consumers. However, the vertical distance between the primary authority for strategic decision making and the produce department can be great. Because of this distance, individual produce managers may believe that upper management is out of touch with the local market for a particular store. If the produce manager does not believe that an item will sell, it may never reach the display racks, resulting in excess waste.

Non-Warehousing firms with mechanical structures can make use of the wholesaler's market power for procuring produce. This gives the firm access to a wide variety of produce without the cost of handling all items. Individual produce managers have the opportunity to customize their departments to match more closely local demand relative to most Self-Warehousing firms. Such customization requires, however, that upper management be willing to yield a certain amount of control and sacrifice store uniformity. This may become increasingly difficult as medium-size firms grow.

The smaller firms in the study that were characterized by the Non-Warehousing, organic frameworks tend to be niche operators, especially within the larger markets. Because of their close-knit, flexible management structures, such firms may be able to respond more quickly to changes in consumer demands. This may allow these smaller chains to experience some first mover benefits when consumers express interest in new items or groups of items such as organic or specialty produce items. Conversely, the size of these firms may limit their access to some sources of supply.

Future research efforts could extend the analysis presented herein by linking financial performance measures to the different management structures. Although financial data specifically for the produce department are difficult to obtain, such data would allow for an assessment of which management structures lead to the best performance under different situations.

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