

Hello Everyone,

*Food, glorious food!
Don't care what it looks like --
Burned!
Underdone!
Crude!
Don't care what the cook's like.*

Lyrics from the Broadway musical, *Oliver*

—
In case you haven't guessed, we are sticking with food as our theme for today.

And the bigger picture may be this...the *Just-In-Time* delivery model is undergoing a rapid reassessment. Food just happens to be where it is manifesting first.

I hope you find today's missive... uhhhh... satisfying? :>)

Signed, Your Thinks-Of-Army-Chow-when-I-Hear-That-Song,
Financial Advisor,

Greg

KKOB 10.02.2020 Pandemic Pallets

Bob: So, Greg, apparently your Monday topic talking about food prices sparked some listener feedback. So, that means you want to follow-up on the subject again today.
Right?

Greg: Right. Bob, everyone had a story about rising prices. The comments weren't only about food, but also about lumber, copper, and even car parts. Anyway, from the feedback I got, not many in your audience believe the inflation rate is 1.3%.

But since I started on the food topic, let's stay there and talk about how the industry is coping with a plethora of challenges since the Covid thing hit.

And to set this up..Bob, are you familiar with the concept of *Just-In-Time* deliveries?

Bob: Well, sure. The practice has been around a long time. The idea is to increase efficiency by receiving your inventory "*just-in-time*" to put it on the shelf. That saves on warehousing and storage costs. And saving money there gives you an advantage over someone storing a bunch of stuff they might never use.

Greg: Exactly. Well, when Covid hit, that *Just-In-Time* model was suddenly stressed. And not just with toilet paper and hand sanitizer. People started stockpiling canned goods...and beans...and rice...and frozen pizzas...and, and, and...

Suddenly, Costco, Sam's, Wal-Mart, Target, Smiths, Albertson's, and others were scrambling to fill holes on shelves. And that *Just-In-Time* model wasn't responsive enough.

Well, those grocery store executives didn't become successful by ignoring reality.

Thus, when they heard about the possibility of a second Covid wave hitting this fall, they decided to adjust early.

And, thankfully, the good folks at the Wall Street Journal have given us some insight into what they are doing. The theme of their story was "pandemic pallets".

In short, the big players are stockpiling pallets of hams, turkeys, canned goods, soft drinks, herbal teas, cold remedies, cleaning supplies etc. They obviously don't want to get caught without product again.

Bob: So, they are going back to the old models of having inventory in warehouses. And it makes perfect sense. The world changed, so they are changing with it.

But I'll tell you, the name "pandemic pallet" isn't exactly encouraging.

Greg: Yes, you do have to wonder who came up with that one. Still, great companies adapt. And America has a lot of great companies.

So now, let's connect their new reality to our real-life in the store.

Remember how on Monday we said food prices were rising faster than the overall inflation rate?

Well, it's as you said, those "pandemic pallets" will require storage space...which translates to warehousing costs and inventory fees. Which also means, all those expenses the *Just-In-Time* model cut are now back.

And, Bob, how do you think those warehouse and inventory costs will be managed? My guess is they will be passed on to us as we shop.

Bob: I can see that. And I can also see how a new lockdown could lead to an increase in online food ordering and delivery.

And to carry that thought forward, that could be done more efficiently from a plain-Jane warehouse, too. So, you would need additional warehouse space for that, too.

Greg: That is a great point. And you are not alone in that analysis. The E-commerce grocery business is growing fast. And, yes, that product doesn't have to come from some nicely appointed Whole Foods store. That head of lettuce can come right out of a huge box and into a little box headed for your house.

And with restaurant dining down so much, many people feel justified in paying more for nicer food delivered to their door. Thus, grocers have even more justification (and cover) for raising prices.

Bob: So, basically this is a good-news-bad-news report. On the one hand, the food industry is much better prepared for Covid this time around. On the other hand, that preparedness costs money. And those costs will be passed on to us.

Greg: That's my take. Oh, and to take it one step further, if more money will be spent on grocery store food, then less money will be spent somewhere else. But that is a subject for another day.

Bob: Good report as usual. Very helpful. How do people reach you?

Greg: My number is 250-3754. Or, go to my website at zanettifinancial.com.

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