

White Paper



Retailers Must Not Take It Cool

Looking Beyond legal compliance at Country-of-Origin Labeling

Shveta Arora, Mahabaleshwar Bhat, Amith Shenoy

Retailers must not regard the mandatory Country-of-Origin Labeling (COOL) - which enables consumers to know where a food product comes from - solely from the point of view of legal compliance. That indicates a myopic outlook, for COOL has the potential to influence consumer demand, which in turn can impact product merchandizing and supply chain decisions.

The Country-of-Origin Labeling (COOL) mandate was enacted through the 2002 Farm Bill. Two Interim Final Rules were passed later - for fish and shellfish in 2004 and for the remaining covered commodities, including produce, meat, poultry, lamb, etc., in 2008. The Final Rule was released by the United States Department of Agriculture (USDA) on January 16, 2009. Enacted to promote food safety by identifying a food product's geographic traceability, COOL can have widespread repercussions in terms of changes in consumer behavior and costs to suppliers and retailers. Buyers may prefer locally grown food, deeming it fresher, safer and superior, thus fortifying its demand. In this paper, we analyze COOL's impact on grocery retailers and debate whether retailers need to look beyond legal compliance and watch out for any changes in consumer buying habits that may result.

However, before we do that, let us take a quick look at what COOL entails. The law on mandatory Country-of-Origin Labeling requires retailers to display the country-of-origin information on store shelves for a list of 'covered commodities'. These include products of beef, lamb, pork, fish, perishable agricultural commodities, peanuts, chicken, goat meat, ginseng, pecans, and macadamia nuts. The law excludes 'Processed Foods' which include the above commodities. The ruling provides sufficient flexibility in terms of types of signage that can be used to display the information e.g., Price look-up (PLU) sticker, label, twist-tie, band, etc. The law further mandates retailers and suppliers to maintain records about the country-of-origin information for at least one year from the transaction date.

COOL - Legal Compliance

With the Final Rule now in effect, USDA is making investments to train state cooperator employees, develop automated review tracking systems, and conduct retailer audits. Hence, legal compliance has gained top priority.

The bulk of the burden of providing COOL labels for store shelves has been passed onto the suppliers - either in terms of displaying the information on existing labels/stickers or even printing the information on shelf-ready cases. For record-keeping requirements, retailers have mandated their suppliers to provide the information on the Bill of Lading document which can then be archived.

Retailers are required to intervene only for some items, such as:

- Bulk items which are too small to accommodate a sticker (e.g. French beans)
- Items produced at the store (e.g. meat cuts)

For these items, the retailers need to train store associates on assigning/printing a correct label with supplier-provided COOL information. For store-produced items, scale systems must be modified to print labels with COOL information.

Retailers who have implemented or are in the process of implementing e-commerce need to provide their customers with COOL information at the time of delivery. One of the options recommended is to print the information on the customer's receipt.

While the legal compliance requires few changes, a trip to the neighborhood grocery store reveals inconsistencies and incompleteness in COOL's implementation. Not all covered commodities have been labeled as yet and some stores are resorting to manual record-keeping and labeling practices.

Can COOL Influence Consumer Buying?

Let us examine what led to this legal mandate in the first place to help us answer the question on COOL influencing consumer behavior.

The main driver for the law has been consumer interest in knowing from where a food product originates. Today, the food industry is a truly global one - food is grown in one country, processed in another and bought by consumers in a third. With diseases such as mad cow disease, salmonella outbreaks and E coli emerging and spreading in recent years, food safety and quality have become issues of serious concern. Thus, many consumers want to know from where the food they are buying comes in order to gain an assurance that the product is safe and good in quality. According to a survey (Source - National Farmers Union - www.nfu.org), 85% of American consumers want this kind of labeling and 74% of these consumers support the idea of the US Congress mandating the program. Another driver for the law is that the United States trades with around 57 other countries, making this information's visibility even more critical.

Moreover, consumers may establish a possible link between COOL and the product's nutritional value. Aside from believing that a domestic product is of better quality, consumers may consider imported food to have less nutritional value due to the larger distances the food has to travel before reaching the shelf. Proponents of local farming are trying to educate consumers that, on an average, food must travel 1500 miles before it lands on the American plate. The fewer the number of food miles a product travels, the fresher it is and, therefore, provides more nutritional value. Thus, the COOL label can be used by consumers as a proxy to the number of food miles traveled. Apart from this, consumers may simply want to support the domestic farming and livestock industry. Or they may, for reasons of sustainability or human rights, choose to buy or boycott food products originating from a specific country. The COOL label can affect the buying patterns of all such consumers.

The history of mandatory food labeling has several examples of how it has impacted consumer buying. Food labels have rarely been unnoticed. Nutritional labeling was introduced in 1994 through the National Labeling and Education Act (NLEA). Its impact can be seen in USDA's Diet and Health Knowledge survey (1994-1996), which reported that 65% adults use the nutritional label. A Food Marketing Institute (FMI) study from 1999 reported that 59% of consumers changed their purchases because of the nutritional label. A similar impact is visible in the lesserknown labeling mandate for 'Dolphin-Safe' tuna. Consumers signaled their concern for dolphin deaths in the late 1980s by boycotting tuna caught through the traditional method, which endangered dolphins. They opted for 'Dolphin-Safe' tuna in spite of a price premium.

Looking Beyond Legal Compliance

The likelihood of consumers changing buying habits may not be applicable to all buyers. There may emerge a segment of consumers who value domestic food products more as a result of COOL. Retailers can consider creating separate sections in the store focusing on domestic products - similar to what is seen today for natural and organic foods - to cater to this segment.

However, irrespective of the impact on consumer demand, the cost of covered commodities is likely to increase due to the mandatory labeling. Retailers may incur costs in the record-keeping and operational changes required throughout the supply chain to maintain the segregation of products from different origins. This increase in cost may eventually be passed onto the consumer.

To offset the rise, merchandisers must look for alternative supply sources. Imported products may be cheaper because suppliers outside of the US may not incur the same costs. These sources of supply can cater to label-indifferent customers. For label-conscious customers, a specialized set of suppliers may emerge who exclusively supply domestic products. The cost of segregation may not be high for them because they will source US products only.

What Should Grocery Retailers Do?

The current focus for retailers is to comply with the legal mandate and make the necessary process and system changes. We recommend that retailers deploy checkpoints in their process to determine the consumer impact, if any, from COOL. A retailer's ability to quickly respond to the impact can create competitive differentiation and bestow an advantage on the retailer.

Tracking COOL information through point-of-sale (POS) to assess buying impact is not possible given the current technology constraints. To overcome this, we recommend that retailers analyze sales data from two or more comparable stores where the same product is sourced from two different origins. If this scenario does not readily exist, the same can be force-fitted to facilitate the analysis. The outcome of this analysis can throw light on how customers are reacting to COOL information.

Conclusion

The impact of COOL, if any, may be slow to emerge. However, to regard COOL as irrelevant for consumers is shortsighted thinking on the retailer's part. Never before have we witnessed such heightened concern in consumers for food safety, quality and nutritional value. COOL may become significant to consumers for these very reasons. Retailers must be prepared to take on this challenge.

About the Authors

Shveta Arora - Group Engagement Manager

Shveta is responsible for managing key strategic relationships for the Retail and CPG practice at Infosys. She has over 13 years of consulting experience specializing across the value chain of food and beverage industry. In her role she is responsible for the complete management of client relationships and building new business / IT solutions to meet the needs of the industry.

Mahabaleshwar Bhat - Business Manager

Mahabaleshwar Bhat is responsible for managing the relationship of a large grocery client within the Retail and CPG practice at Infosys. He has been with Infosys for over 11 years. He has managed many large programs in the merchandising and Master Data Management business domain. In his current role he is responsible for developing and delivering IT and business solutions based on client's need.

Amith Shenoy - Project Manager

Amith has been with Infosys for over 7 years in Retail, Distribution and CPG. His specialization is in the Master Data Management and global data synchronization area. He is currently leading a large supply chain integration project for a client in the United States of America.



For more information, contact askus@infosys.com

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