The Past and Present Landscape of Food Wholesaling

The Peck Fellowship Year One Report
2007

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FOOD MARKETING INSTITUTE

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2007 — The Peck Fellowship Year One Report

The Past and Current Landscape of Food Wholesaling

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Food Marketing Institute (FMI) conducts programs in research, education, industry relations and public affairs on behalf of its 1,500 member companies — food retailers and wholesalers — in the United States and around the world. FMI's U.S. members operate approximately 26,000 retail food stores with a combined annual sales volume of $680 billion — three-quarters of all retail food store sales in the United States. FMI's retail membership is composed of large multi-store chains, regional firms and independent supermarkets. Its international membership includes 200 companies from 50 countries.

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Introduction

FMI was awarded the Gerald E. Peck Fellowship in 2006 and partnered with the Food Marketing department of Saint Joseph's University to conduct a three-year research project regarding food wholesaling. This research project will consist of three parts. Although subject to change, these currently are:

- Year 1 — Past and Present Landscape
- Year 2 — The Future for Food Wholesaling
- Year 3 — Tools for Growth for Food Distributors

This report depicts the past and present landscape and details the results of two major research efforts:

- A comprehensive literature and data review to get a better picture of the evolution/revolution affecting food wholesaling.
- In-depth interviews with leaders in food wholesaling.

Acknowledgements

I am particularly thankful to the executives in the food wholesaling industry noted in Appendix A for their contributions to year one of this project. Their knowledge and insights into the business were only matched by their passion. Several planned 45 minute interviews ran over two hours as animated executives communicated their commitment to insuring that their customers not only survived but also flourished.

Finally, I want to extend a special thank you to my graduate assistant, Dave Drayton, for his pursuit of secondary data from a variety of sources, several of which no longer exist. With the help of Pat Weaver and Sonia Bennett of the Campbell Library at Saint Joseph's University, Dave was able to track down the relevant resources used in preparation of this report.

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A Look Back at the Shopper, the Retailer and the Wholesaler

Any reflection on the last 20 years in the food industry would need to include a number of key areas, including the shopper, the retailer and the wholesaler. Changes in all three areas helped shape the current state of food wholesaling. A multitude of demographic and societal changes caused significant changes among shoppers' wants and needs. The ever-increasing competition in food retailing has resulted in further channel blurring and completely different market dynamics, affecting the middle-man in many ways. Wholesalers, themselves, have changed as well, with advances in technology, efficiency and increased integration in the supply chain.

The Shopper and the Marketplace

As demographic and lifestyle changes sweep the country, numerous emerging population trends are shaping the context for wholesale and retail strategies. Changes such as the increasingly diverse population, the greater number of singles, working women and smaller households have resulted in significant shifts in the wants and needs of the shopper. For one, these changes are placing tremendous pressure on time, creating an increasing need for fast and convenient food. At the same time, shoppers make a clear connection between what they eat and their overall health. Eating at home has become a greater priority. These societal changes have resulted in a demand for greater convenience, higher quality, more variety and better nutrition — all while maintaining a focus on price. In addition, the impact of terrorism, mad cow disease and avian flu have had a major influence on the popularity of organic food and the renewed call for country of origin labeling and traceability.

In 2007, shoppers made many subtle and profound changes to their shopping and food consumption habits. One example of changing consumer behaviors comes in the number of trips shoppers make each week. According to FMI's *U.S. Grocery Shopper Trends 2007,* shoppers make 1.9 trips to the grocery store, the first time this average has dropped below twice a week, albeit barely. The number to the primary store also dropped to an average of 1.4 trips a week. Over the past three years, the number of people making frequent trips in a week (four-plus times) has declined and the number of people shopping only once a week or even once every two weeks has increased. Rising energy prices and the increasing market share of supercenters and warehouse clubs are possible explanations. Reflecting the desire for shopping optimization, some consumers appear to be moving to a "dual-primary store strategy." In this scenario, shoppers have one store for fresh foods and another for center store items.

Unchanged from 2006, shoppers estimate spending $93.20 on groceries in an average week. A significant portion (76 percent) is spent at the primary store, although much of this depends on the format. Shoppers at traditional supermarkets or super/combination stores spend more than average at $95.70 and spend a greater portion at their primary store (80 percent).

Shoppers choose their primary store based on many factors. Rising gas prices are making low prices and saving greater priorities. Budget-conscious shoppers look for bargains every way they can, while higher-income shoppers try to eat out less and cook more. When shoppers list the one overriding factor in store choice, price dominates all others. But when assigning importance to various store attributes, high-quality produce, store cleanliness and high-quality meats are the top three most important factors.

Related to the health and wellness movement is an increasing consumer interest in organic, natural, clean and sustaining foods. Organic foods have enjoyed double-digit growth for over a decade. In 2006, more than 5,000 new organic products were introduced — the greatest number since 2000. More recently, e-coli and pet food contamination issues have raised concerns about food safety with particular focus on source traceability.

Food Retailing Dynamics

In retailing, the battle of the formats continues, with supercenters taking up an increasing share of the market at the expense of traditional supermarkets. The supercenter penetration among younger shoppers is much higher than that of the general population, which may lead to an even greater market share for the big box stores[1] in the years to come. The combined Generations X and Y make up more than 140 million people. Additionally, drug stores, dollar stores and other nontraditional formats are expanding the number of food items available. The result is that supermarkets are loosing some of fill-in trips that they traditionally captured.

Supermarket industry sales in the 21st century have grown from $398.2 billion in 2001 to $499.5 billion in 2006. This represents an average annual growth rate of 5.1 percent. However, during this time period there were three dramatic changes.

1. First, independent supermarket sales dropped 39.4 percent from $72.0 billion in 2001 to $43.6 billion in 2006. The average annual decrease is much lower at 7.9 percent. This represents a decrease in their share of the business from 18.1 percent to 8.7 percent. Similarly, in terms of store count, independent supermarkets had 11,157 stores in 2001. By 2006, the number of stores decreased to 8,211, representing a 26.4

[1] Food Marketing Institute, *U.S. Grocery Shopper Trends 2007.*

percent decrease in stores over a five year period.[2] It is important to note that mergers and buy-outs may move companies from the independent supermarket category to the chain category, moving sales and store counts accordingly. Additionally, natural/organic stores were introduced as a new category in 2006, which may also account for part of the shift in sales and store count.

2. During this same timeframe, supercenters grew 216 percent from $39.2 billion in 2001 to $124.0 billion in 2006, representing an annual growth rate of 43.2 percent. Their market share increased to 24.8 percent, from 9.8 percent, also nearly doubling their store count during this time. The following four tables provide more detail. The definitions used in the tables are:
   - Supermarkets: Any food outlet doing more than $2 million in annual sales
   - Chain supermarkets: Company operating 11 or more food stores
   - Independent supermarkets: Company operating 10 or fewer stores
   - Limited assortment stores: Stores carrying fewer than 1,500 SKUs
   - Cash & Carry: Stores operating a low price/service format
   - Supercenters: Stores combining a full assortment of general merchandise and food

	Supermarket Industry Sales ($ Millions)					
	2001	2002	2003	2004	2005	2006
Supermarkets	**398,200**	**411,800**	**432,794**	**457,414**	**478,912**	**499,505**
Chain Supermarkets	326,200	340,500	362,449	386,356	433,145	455,871
Independent Supermarkets	72,000	71,300	70,345	71,058	45,761	43,634
Supermarkets	**398,200**	**411,800**	**432,794**	**457,414**	**478,912**	**499,505**
Conventional	340,000	350,100	335,347	346,107	350,774	345,459
Limited Assortment	9,100	13,000	16,742	19,310	19,342	10,441
Cash & Carry/Whse	9,500	2,900	4,681	2,608	2,559	2,428
Military Commissary	3,600	3,700	4,848	4,104	3,996	4,126
Supercenter	39,200	45,800	71,176	85,285	102,241	124,041
Natural/Gourmet Foods	N/A	NA	N/A	N/A	N/A	13,008

	Supermarket Industry Sales (Percentage of Total)					
	2001	2002	2003	2004	2005	2006
Supermarkets	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Chain Supermarkets	81.9	82.7	83.7	84.5	90.4	91.3
Independent Supermarkets	18.1	17.3	16.3	15.5	9.6	8.7
Supermarkets	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Conventional	85.4	85.0	77.5	75.7	73.2	69.2
Limited Assortment	2.3	3.2	3.9	4.2	4.0	2.1
Cash & Carry/Whse	2.4	0.7	1.1	0.6	0.5	0.5
Military Commissary	0.9	0.9	1.1	0.9	0.8	0.8
Supercenter	9.8	11.1	16.4	18.6	21.4	24.8
Natural/Gourmet Foods	N/A	N/A	N/A	N/A	N/A	2.6

[2] Progressive Grocer, *Annual Reports 2001 to 2007*.

	Supermarket Industry in Number of Stores					
	2001	2002	2003	2004	2005	2006
Supermarkets	**32,265**	**32,981**	**33,841**	**34,252**	**34,052**	**34,019**
Chain Supermarkets	21,108	21,560	22,196	22,453	25,890	25,808
Independent Supermarkets	11,157	11,421	11,645	11,799	8,162	8,211
Supermarkets	**32,265**	**32,981**	**33,841**	**34,252**	**34,052**	**34,019**
Conventional	27,900	28,157	28,165	28,155	27,057	27,006
Limited Assortment	2,000	2,500	2,950	3,326	3,394	2,283
Cash & Carry/Whse	800	535	602	421	436	442
Military Commissary	196	182	188	184	173	172
Supercenter	1,555	1,789	1,936	2,175	2,462	2,758
Natural/Gourmet Foods	N/A	N/A	N/A	N/A	N/A	1,358

	Supermarket Industry Stores (Percentage of Total)					
	2001	2002	2003	2004	2005	2006
Supermarkets	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Chain Supermarkets	65.4	65.4	65.6	65.6	76.0	75.9
Independent Supermarkets	34.6	34.6	34.4	34.4	24.0	24.1
Supermarkets	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Conventional	86.4	85.4	83.2	82.2	81.0	79.4
Limited Assortment	6.1	7.6	8.7	9.7	10.0	6.7
Cash & Carry/Whse	2.4	1.6	1.8	1.2	1.3	1.3
Military Commissary	0.6	0.6	0.6	0.5	0.1	0.5
Supercenter	4.7	5.4	5.7	6.3	7.2	8.1
Natural/Gourmet Foods	N/A	N/A	N/A	N/A	N/A	4.0

JPMorgan estimates that Wal-Mart sold $106 billion worth of supermarket items through its supercenter division, and another $25 billion at its Sam's Club warehouse club stores. This gives Wal-Mart nearly twice the sales of supermarket items than Kroger, the largest traditional supermarket operator in the U.S.. In fact, today, four of the top 10 food retailers (Wal-Mart, Sam's Club, Costco and Target) are not traditional supermarket operators. At the same time, several large chains (Ahold, Winn-Dixie and A&P) lost significant market share in 2006, dealing with divestitures and bankruptcy.

According to JP Morgan, the 2006 sales of supermarket items in billions of dollars is as follows:

1. Wal-Mart Supercenters & Neighborhood Markets 106.4
2. Kroger 66.1
3. Safeway 34.7
4. Costco 33.0
5. SuperValu 28.0
6. Wal-Mart (Sam's Club) 24.8
7. Publix 21.7

8. Delhaize 19.2
9. Target Stores 19.0
10. Ahold 17.9
11. Meijer 12.8
12. HEButt 11.2
13. Albertson's LLC 8.0
14. Winn-Dixie 7.2
15. A&P 6.9

Shifts in market share over the past five years among these players are as follows.

	Market Share in U.S. in Sales of Supermarket Items (%)					
	2001	2002	2003	2004	2005	2006
Wal-Mart Supercenters & Neighborhood Markets	9.8	11.1	11.7	13.0	14.2	15.3
Kroger	9.2	9.0	8.9	9.3	9.3	9.5
Safeway	6.0	6.1	5.3	5.2	5.2	5.0
Costco	3.2	4.1	4.3	4.3	4.2	4.7
SuperValu	1.8	1.7	1.7	1.7	1.7	4.0
Wal-Mart (Sam's Club)	3.2	3.3	3.4	3.0	3.6	3.6
Publix	2.8	2.8	2.8	3.1	3.2	3.1
Delhaize	2.8	2.6	2.6	2.6	2.6	2.8
Target Stores	N/A	N/A	N/A	N/A	2.4	2.7
Ahold	4.4	4.6	4.5	4.5	3.5	2.6
Meijer	0.7	0.9	1.1	2.0	1.9	1.8
HEButt	1.3	1.9	1.8	1.7	1.6	1.6
Albertson's LLC	N/A	N/A	N/A	N/A	N/A	1.1
Winn-Dixie	2.4	2.2	1.9	1.8	1.5	1.0
Great Atlantic & Pacific	1.6	1.5	1.2	1.2	1.1	1.0
Albertson's, Inc.	7.0	6.6	5.8	6.6	6.4	N/A

3. According to TDLinx, a division of Nielsen, the market share of the top five supermarket chains (Wal-Mart, Kroger, Albertsons, Safeway, and Ahold) almost doubled from 1995 (26.3 percent) to 2005 (49.7 percent). In addition to supercenters, the last 10 years have witnessed an explosion of alternative food shopping channels. While the number of supermarkets has remained relatively unchanged from 1996 to 2006, the following channels have grown dramatically in the number of outlets, according to AC Nielsen.

	1996	2006	Change
Warehouse Clubs	775	1,119	44%
Supercenters	708	2,758	290%
Dollar Stores	5,458	19,358	255%
Mass Merchandisers	11,648	6,502	-44%
Supermarkets	30,900	30,656	-1%
Drug	41,964	38,616	-8%
Convenience	112,910	145,119	29%

The above statistics do not include the rapid growth of fresh formats and limited assortment food retailers, predicted to grow at expected compound annual sales growth rates of 15.9 percent and 15.8 percent, respectively, between 2005 and 2010.

In summary, the dynamics in food retailing represent a framework to understand some of the consequent changes in the food wholesale world during this same time. While the analysis takes into account past and present happenings, it does not address the impending arrival of Tesco, the possible growth of the Internet as a shopping source, nor the potential for Target to emerge as a major player in U.S. food retailing. If any or all of these develop as expected, more pressure will be placed on traditional food retailers and the wholesalers that serve them.

Food Wholesaler Dynamics

The past 20 years included much consolation, mergers and bankruptcies among food wholesalers. With the possible exception of food brokers, no member of the channel has experienced more change than the general line or broadline distributors. Within the past five years the two largest broadline wholesalers ceased to exist in their traditional formats. First, Fleming Companies, Inc. (“Fleming”) went out of business, and more recently SUPERVALU INC (“SUPERVALU”) has made extensive forays into the retailing channel, becoming the third largest operator of traditional supermarkets. Today, C&S Wholesale Grocers, which primarily focuses on procurement and distribution services, is second only to McLane in terms of wholesale grocery sales.

The New England market epitomizes the changing nature of the broadline wholesalers. Twenty years ago, scores of wholesalers were scattered throughout the six New England states. Consider some of these former major players that are no longer in business: Springfield Sugar, New England Grocery Supply, Roger Williams, Wetterau Foods, Allied Grocers, James Ferrera & Sons, Falk & White, Milliken Tomlinson, French & Bean, Brockton Wholesale and AG of Worcester, to name a few. New England now mirrors the rest of the United States with a few large wholesalers dominating the market. The broadline wholesaler evolved from a purveyor of goods and supplies to a supplier of goods and supplemental services such as marketing, finance, human resource, data processing/analysis, business planning and real estate.

According to Chain Store Guide[3], the top 10 self-distributing chains, led by Wal-Mart, now own and supply over 60 percent of U.S. food retailers. The remaining 40 percent is supplied by grocery wholesale distributors. The Chain Store Guide classifies grocery wholesalers as follows:

- *Non-sponsoring wholesalers* — function purely as a product supplier and do not offer additional services to customers.
- *Voluntary group wholesalers* — offer additional services to the retailers that join the organization. These services include group purchasing, store banner programs, private label sourcing, and employee benefit programs.

[3] Chain Store Guide, *Directory of Wholesale Grocers, May 2007.*

- *Cooperative wholesalers* — owned by the retail companies that they serve. These cooperatives allow member retailers to benefit from the increased purchasing power and cost savings of a larger group.
- *Cash and carry wholesalers* — provide local retailers a physical location to order and take delivery of their merchandise, often serving retailers that are too small to be serviced by other wholesalers.

Total food wholesale industry sales (supermarket, grocery and convenience store) grew from $134.5 billion in 2001 to $190.1 billion in 2006, slightly more than a 40 percent growth rate, or an average annual growth rate of 8.2 percent. During this same time, the total number of food wholesalers grew from 1,521 to 1,950, representing a growth rate of 28.2 percent or an average annual growth rate of 5.6 percent.

In 2006, non-sponsoring wholesalers represented 81.7 percent of total wholesalers with 40 percent of total industry sales ($76 billion). Voluntary group wholesalers represented 6.9 percent of total wholesalers with 40 percent of sales ($76 billion). Cooperative wholesalers are the third largest group at 2.5 percent and 16 percent of sales ($30 billion). Lastly, cash and carry wholesalers represented 8.9 percent of total wholesalers with 4 percent of total industry sales ($7.6 billion).

Sales of top 15 Wholesale Grocers (Excluding Fleming) in $ Billion								
Type	Company	2001	2002	2003	2004	2005	2006	Change 01-06
VW	McLane, Inc.	12.1	11.3	11.0	18.7	19.2	20.5	69%
NSW	C&S Wholesale Grocers, Inc.	8.5	9.8	11.1	13.6	15.2	18.5	118%
VW	SuperValu, Inc.	11.4	9.3	10.5	9.0	9.2	9.4	-18%
CO	Wakefern Food Corp.	5.9	4.9	5.2	7.1	7.2	7.5	27%
CO	Topco Associates LLC	3.2	3.2	4.1	4.5	5.0	5.5	72%
NSW	Core-Mark Holding Co.	3.4	3.5	3.6	4.2	4.9	5.3	56%
CO	Associated Wholesale Grocers, Inc.	3.1	3.1	3.7	4.6	4.9	5.1	65%
NSW	Eby-Brown Company	3.2	3.5	3.7	3.7	4.1	4.3	34%
VW	Nash Finch Company	3.1	3.1	3.0	3.1	3.8	4.0	29%
NSW	The H.T. Hackney Co.	2.3	2.4	3.1	3.1	3.3	3.6	57%
CO	Unified Western Grocers, Inc.	2.9	2.8	2.8	3.0	2.8	2.9	0%
VW	Roundy's, Inc.	3.0	2.7	3.3	2.6	2.5	2.7	-10%
NSW	United Natural Foods, Inc.	0.8	0.9	1.1	1.5	1.8	2.2	175%
CO	Associated Wholesalers, Inc.	0.9	0.9	1.0	1.0	1.0	2.1	133%
NSW	Tree of Life, Inc.	0.8	1.2	1.3	1.5	1.1	1.8	125%
	Total Top 15	64.6	62.6	68.5	81.2	86.0	95.4	48%
	Total Industry (SM,Grocery, CStore)	134.5	131.1	129.2	141.4	154.5	190.1	41%
	Fleming	13.3	13.2	N/A	N/A	N/A	N/A	N/A
	Top 15 SOM of Total Industry	48%	48%	53%	57%	56%	50%	

Sales of top 15 Wholesale Grocers (Including Fleming) in $ Billion								
Type	Company	2001	2002	2003	2004	2005	2006	Change 01-06
VW	Fleming	13.3	13.2	N/A	N/A	N/A	N/A	N/A
VW	McLane, Inc.	12.1	11.3	11.0	18.7	19.2	20.5	69%
NSW	C&S Wholesale Grocers, Inc.	8.5	9.8	11.1	13.6	15.2	18.5	118%
VW	SuperValu, Inc.	11.4	9.3	10.5	9.0	9.2	9.4	-18%
CO	Wakefern Food Corp.	5.9	4.9	5.2	7.1	7.2	7.5	27%
CO	Topco Associates LLC	3.2	3.2	4.1	4.5	5.0	5.5	72%
NSW	Core-Mark Holding Co.	3.4	3.5	3.6	4.2	4.9	5.3	56%
CO	Associated Wholesale Grocers, Inc.	3.1	3.1	3.7	4.6	4.9	5.1	65%
NSW	Eby-Brown Company	3.2	3.5	3.7	3.7	4.1	4.3	34%
VW	Nash Finch Company	3.1	3.1	3.0	3.1	3.8	4.0	29%
NSW	The H.T. Hackney Co.	2.3	2.4	3.1	3.1	3.3	3.6	57%
CO	Unified Western Grocers, Inc.	2.9	2.8	2.8	3.0	2.8	2.9	0%
VW	Roundy's, Inc.	3.0	2.7	3.3	2.6	2.5	2.7	-10%
NSW	United Natural Foods, Inc.	0.8	0.9	1.1	1.5	1.8	2.2	175%
CO	Associated Wholesalers, Inc.	0.9	0.9	1.0	1.0	1.0	2.1	133%
	Total Top 15	76.2	73.7	66.2	78.7	83.9	91.5	20%
	Total Industry (SM,Grocery, CStore)	134.5	131.1	129.2	141.4	154.5	190.1	41%
	Top 15 SOM of Total Industry	57%	56%	51%	56%	54%	48%	

A review of the last five years by the type of grocery wholesaler highlights the changes taking place in grocery wholesaling. While total food wholesale industry sales (supermarket, grocery and convenience store) grew 40 percent from 2001 to 2006, non-sponsoring food wholesalers grew a much lower 33 percent, for an annual growth rate of 7 percent.[4] The number of voluntary food wholesalers actually declined by 11 percent, while the highest growth was measured in cooperative food wholesaling. The number of grocery cooperative wholesalers grew from 32 in 2001 to 48 in 2006, representing a 50 percent increase or 10 percent annual growth rate.

During the first five years of the century the top 15 food wholesale grocers account for 50 percent of all food wholesale sales. This level of concentration is similar to that of the top 5 retailers noted earlier. Further, the top 15 food wholesalers grew 47.6 percent, which is more than the average growth measured from 2001 to 2006. Of note is the relatively recent movement of United Natural Foods, Inc. and Tree of Life, Inc. into the top 15 food wholesalers. The above numbers exclude Fleming's sales in 2001 and 2002. Adding Fleming back into the top 15 changes 2001 sales to $76.2 billion and reduces the average annual growth rate to 4 percent. Clearly, the bulk of Fleming's business did not move to the top 15 food wholesalers.

[4] Chain Store Guide, *Directory of Wholesale Grocers 2002 to 2007.*

Of the top 15 wholesale grocers, voluntary distributors (McLane, SUPERVALU, Nash Finch and Roundy's) represent $36.6 billion in 2006 sales, which is 19 percent of total industry sales. These four voluntary wholesalers represent almost half of the total sales of all voluntary wholesalers. Overall, they had annual sales growth of 4.8 percent. McLane, Inc., in particular, did well with annual growth of 13.8 percent.

The following tables provide an in-depth view of the sales of the top voluntary wholesale grocers.[5]

Sales of top 4 Voluntary Wholesale Grocers (Excluding Fleming) in $ Billion								
Type	Company	2001	2002	2003	2004	2005	2006	Change 01-06
VW	McLane, Inc.	12.1	11.3	11.0	18.7	19.2	20.5	69%
VW	SuperValu, Inc.	11.4	9.3	10.5	9.0	9.2	9.4	-18%
VW	Nash Finch Company	3.1	3.1	3.0	3.1	3.8	4.0	29%
VW	Roundy's, Inc.	3.0	2.7	3.3	2.6	2.5	2.7	-10%
	Total Top 4 VW	29.6	26.4	27.8	33.4	34.7	36.6	24%
	Total Top 15 Excluding Fleming	64.6	62.6	68.5	81.2	86.0	95.4	48%
	Total Industry	134.5	131.1	129.2	141.4	154.5	190.1	41%
	Fleming	13.3	13.2	N/A	N/A	N/A	N/A	N/A
	Top 4 VW SOM of Total Top 15	46%	42%	41%	41%	40%	38%	-16%
	Top 4 VW SOM of Total Industry	22%	20%	22%	24%	22%	19%	-13%

Sales of top 5 Voluntary Wholesale Grocers (Including Fleming) in $ Billion								
Type	Company	2001	2002	2003	2004	2005	2006	Change 01-06
VW	Fleming	13.3	13.2	N/A	N/A	N/A	N/A	N/A
VW	McLane, Inc.	12.1	11.3	11.0	18.7	19.2	20.5	69%
VW	SuperValu, Inc.	11.4	9.3	10.5	9.0	9.2	9.4	-18%
VW	Nash Finch Company	3.1	3.1	3.0	3.1	3.8	4.0	29%
VW	Roundy's, Inc.	3.0	2.7	3.3	2.6	2.5	2.7	-10%
	Total Top 5 VW	42.9	39.6	27.8	33.4	34.7	36.6	-15%
	Total Top 15	77.5	75.2	68.5	81.2	86	95.4	23%
	Total Industry	134.5	131.1	129.2	141.4	154.5	190.1	41%
	Top 5 VW SOM of Total Top 15	55%	53%	41%	41%	40%	38%	-31%
	Top 5 VW SOM of Total Industry	32%	30%	22%	24%	22%	19%	-40%

Among the top 15 wholesale grocers, non-sponsoring wholesalers (C&S, Core-Mark, Eby-Brown, H.T. Hackney, United Natural Foods and Tree of Life) represent $35.7 billion in 2006 sales or 19 percent of the total industry sales. The top six non-sponsoring wholesalers represented close to half of total voluntary wholesaler sales. Overall, these top six non-sponsoring wholesalers nearly doubled their sales, resulting in annual sales growth of 17.6 percent. Unlike the mixed sales growth of their voluntary wholesaler counterparts, all six non-sponsoring wholesalers enjoyed double digit growth during the period.[5]

[5] Chain Store Guide, *Directory of Wholesale Grocers 2002 to 2007*.

Sales of top 6 Non-Sponsoring Wholesale Grocers in $ Billion								
Type	Company	2001	2002	2003	2004	2005	2006	Change 01-06
NSW	C&S Wholesale Grocers, Inc.	8.5	9.8	11.1	13.6	15.2	18.5	118%
NSW	Core-Mark Holding Co.	3.4	3.5	3.6	4.2	4.9	5.3	56%
NSW	Eby-Brown Company	3.2	3.5	3.7	3.7	4.1	4.3	34%
NSW	The H.T. Hackney Co.	2.3	2.4	3.1	3.1	3.3	3.6	57%
NSW	United Natural Foods, Inc.	0.8	0.9	1.1	1.5	1.8	2.2	175%
NSW	Tree of Life, Inc.	0.8	1.2	1.3	1.5	1.1	1.8	125%
	Total Top 6 NSW	19.0	21.3	23.9	27.6	30.4	35.7	88%
	Total Top 15 Excluding Fleming	64.6	62.6	68.5	81.2	86.0	95.4	48%
	Total Industry	134.5	131.1	129.2	141.4	154.5	190.1	41%
	Top 6 NSW SOM of Top 15	29%	34%	35%	34%	35%	37%	27%
	Top 6 NSW SOM of Industry	14%	16%	18%	20%	20%	19%	33%

The dominance of a few wholesalers is even more apparent at the cooperative wholesaler level. Among the top 15 wholesale grocers, cooperative wholesalers (Wakefern, Topco, Associated Wholesale Grocers, Unified Western Grocers and Associated Wholesalers) represent $23.1 billion in 2006 sales or 12 percent of the total industry sales. The top five cooperative wholesalers represent more than three-quarters of the total cooperative wholesaler sales volume. The top 5 cooperative wholesalers had an annual sales growth of 8.8 percent from 2001 to 2006.[5]

Sales of top 5 Cooperative Wholesale Grocers in S Billion								
Type	Company	2001	2002	2003	2004	2005	2006	Change 01-06
CO	Wakefern Food Corp.	5.9	4.9	5.2	7.1	7.2	7.5	27%
CO	Topco Associates LLC	3.2	3.2	4.1	4.5	5.0	5.5	72%
CO	Associated Wholesale Grocers, Inc.	3.1	3.1	3.7	4.6	4.9	5.1	65%
CO	Unified Western Grocers, Inc.	2.9	2.8	2.8	3.0	2.8	2.9	0%
CO	Associated Wholesalers, Inc.	0.9	0.9	1.0	1.0	1.0	2.1	133%
	Total Top 5 CO	16.0	14.9	16.8	20.2	20.9	23.1	44%
	Total Top 15*	64.6	62.6	68.5	81.2	86.0	95.4	48%
	Total Industry	134.5	131.1	129.2	141.4	154.5	190.1	41%
	Top 5 CO SOM of Top 15	25%	24%	25%	25%	24%	24%	-2%
	Top 5 CO SOM of Industry	12%	11%	13%	14%	14%	12%	2%

What the numbers do not adequately capture is the mood in food wholesaling. *Strategies 2005*, published in 1998 by Food Distributors International, predicted that the number of U.S. broadline food wholesalers would shrink to a dozen players with a national or multi-regional reach by 2010.

Early in 2007, Minyard Food Stores announced an agreement with Associated Wholesale Grocers, Kansas City, to outsource its warehouse and distribution functions. At about the same time, Target announced that its perishable distribution center, scheduled to open in Lake City, Florida in late 2008, will be operated and staffed by SUPERVALU, with Target responsible for all capital investments. In May, Western Grocers announced plans to acquire Associated Grocers of Seattle. Once the deal is concluded, the new entity will represent more than $4 billion in annual sales.

The Minneapolis/St. Paul Business Journal described Nash Finch CEO Alec Covington's game plan using this quote, "…throw the company's weight back into the core business of distributing foods to independent grocers and small regional chains…. [What] We need to focus on is servicing independent and smaller regional chains. That's the void."

Finally, according to a poll sponsored in part by the National-American Wholesale Grocers Association, "51 percent of top-level wholesale grocery executives predicted that their companies would be involved in some sort of merger activity to acquire other businesses or be acquired/merged within the next five years."[6]

It appears that consolidation at this level will continue at a pace equivalent to consolidation at the retail level.

[6] Chain Store Guide, Directory of Wholesale Grocers, 2007

Predictions Score Card

In 1998, Food Distributors International retained A.T. Kearney to develop a vision for the wholesale-supplied system through the middle of the first decade of the 21st century. The study (*Strategies 2005: Vision for the Wholesale-Supplied System*) concluded that "as we move toward 2005, the grocery industry will experience dramatic, fundamental changes in the way it does business." As part of this study, key food wholesaling executives commented on the predictions that were a part of the articulated vision. Please see appendix A for a list of the participating executives and appendix B for the survey.

Below is a summary of the feedback to each prediction regarding the state of wholesaling in 2005. Given the diversity and passion of the responses, verbatim comments are included in appendix C.

1. **Consumer choices will proliferate, both in product and shopping location.**
   Food executives agree that the prediction about the proliferation of choice in terms of products and shopping locations was right on target and foresee this trend continuing to evolve. They believe convenience, and to some extent, price, are becoming the primary drivers of consumer food shopping behaviors.

   This proliferation of consumer choice, driven by cultural diversity, population demographics (i.e. baby boomers retiring, eating out behavior among generations X and Y, single parent households, etc), and the emergence of progressive retailers, will challenge the supply chain to be more adaptive and efficient. One respondent noted that foods from quick service restaurants (QSR) and convenience stores have become the eating mainstay for younger consumers. Many agree that the current food retail leadership is not tuned in to the younger generation and change is needed.

2. **Technology advances and marketplace opportunities will lead manufacturers to develop more new products than ever before, including many breakthrough products that will create new categories and aisles in stores.**
   Most respondents agree that while thousands of new products have been introduced each year, the consumer has seen few breakthrough products. Instead, manufacturers have focused on line extensions, in the form of more flavors, varieties and package sizes, with little technological innovation and enhanced consumer value. Some diet trends, such as Atkins and South Beach, crowded the shelves for a year or two, but in the end, lacked staying power.

   In the fresh section, executives noted some innovation in natural and organic products. The center of the store has seen the most innovation in terms of household tasks such as cleaning, laundry, and storage (Swiffer, Dryel and GladWare); soft goods; housewares; and the dollar aisle.

3. **Channels will also proliferate with consumer direct, supercenters and category-killer stores making significant gains.**
   Food executives agree that consumer direct food shopping did not move as quickly as predicted. However, Generation Y will accelerate its growth and will be more prevalent in heavily populated areas. Participants agree that while online ordering works well for products such as books and maybe even dry grocery, they sense that shoppers still want to feel, touch and self-select fresh foods. Despite the slow growth to date, food executives do expect online ordering to play a role in the future as retailers improve their web sites and distribution functions and shoppers continue to build their online purchasing behavior.

   Respondents do not agree with the notion that category killers made major inroads. Initial growth came from effective use of technology and intimate knowledge of their shoppers. Now, with so many retailers offering a variety of products, finding growth and financial viability is difficult.

   Not surprisingly, everyone agrees that supercenters gained tremendous presence and will continue to grow in number, penetration and impact on the retail food market.

4. **Wholesaler consolidation will continue, leading to fewer, bigger players.**
   The numbers presented earlier in this report certainly underscore the notion of fewer and bigger players. Respondents expect this trend to hold strong going forward. They see consolidation efforts in several areas:
   a. the shift from voluntaries to retail owned coops
   b. the sale of voluntaries to other wholesalers and/or chains
   c. the sale/merger of coops to other coops

   The consolidation of voluntary wholesalers is predicated on the significant capital requirements needed to invest in retailer programs. For publicly held companies, this situation is exacerbated by the need to address existing shareholder and Wall Street demands. On the other hand, coops restrict the sale of member stores and the coop revenue streams back to the retailer.

   Finally, while the challenges confronting food wholesalers are formidable, smaller wholesalers will have an opportunity for growth if larger wholesalers loose touch. Remember the words of Charles Darwin, "In the struggle for survival, the fittest win out at the expense of their rivals *because they succeed in adapting themselves best to their environment.*"

5. **Distribution centers will be consolidated and more efficient handling techniques will be implemented.**
   Several respondents pointed at Wal-Mart as the model for efficiency and integration and added that the more traditional food supply chain is not yet a highly integrated model, although improvements are being made. It may be that consolidation has slowed industry responsiveness. The industry remains dependent on the number and size of stores and shelf management control, rather than consumer demand.

Some of the interesting innovations by traditional food wholesalers include a greater level of cross-docking and fluid versus standing warehouses. In this model slow movers are only stocked in one place, while fast movers are stocked in smaller warehouses closer to distribution points. This results in full trucks and lower costs for transportation.

6. **Dedicated logistics providers will emerge, focusing on efficient, low-cost product movement.**
   Most respondents felt that with the exception of the major players (SUPERVALU and C&S) this did not happen to a great extent. The rationale for why this prediction failed to materialize ranged from "the industry is too married to the old channels" to "…could not perform this service with an appropriate return considering the cost of transportation and the nature of the competitive market."

   A couple of areas where success has been realized include HBC and the natural/organic areas. For example, United National Foods is the supplier of Whole Foods/Wild Oats.

7. **Improvements in information technology and Internet applications will create *synchronized transparency*, or the ability of retailers, wholesalers, and manufacturers to simultaneously view product information from all parts of the supply chain.**
   This prediction yielded a unanimous response: this should have happened but it hasn't. Many reasons are given for failure in this area. Some believe advancements got bogged down due to the sheer complexity of the challenge. Others blame the lack of commitment and some believe that the vendors, distributors, retailers and even trade associations' system preferences continue to pull the standard apart. The recommended solution is the development of standards that are mandated by the broad coalition of the food industry.

   Technology integration seems to be a reality for a few large partners and not the industry as a whole. Especially not for small manufacturers, retailers, and distributors. Similarly, there is a strong belief that independent retailers will be the last to benefit from data synchronization resulting in smaller independent retailers remaining information technology-deprived.

8. **Even among the diverse independent retail sector, information technology will become more prevalent and accessible.**
   The consensus among interview participants is that although independent retailers have closed some of the information gaps between themselves and the larger chains, a significant gap still exists. Although wholesalers have contributed significantly to retail technology development, the absence of third party standardization puts the smaller independent retailer (1-10 stores) at a competitive disadvantage.

9. **Funds will move more efficiently in the grocery supply chain of 2005 as banks and financial institutions automate many cash transactions.**
   Overall, there is agreement with this prediction of greater efficiency. However, the issue of the negative impact on cash flow, costs associated with maintaining a "cashless" operation, and the financial institution fees related to funds flow have had a negative impact on the bottom line.

Challenges/Opportunities Going Forward

Wholesaler executives also addressed a number of issues identified as pertinent to the future viability of food wholesaling. Following is a summary of their feedback. Verbatim responses can be found in appendix C.

1. **What impact will the continued consolidation at the manufacturer, wholesaler, and retailer level have on the wholesaling function?**
   Executives agree that the continued consolidation at the manufacturer level has and will continue to bring more efficiency to the supply chain. Brands and products are consolidated at pick up locations making transportation more efficient. Administratively, the consolidation removes costs due to fewer invoices, vendors, purchase orders and contact points for both merchandising and supply chain planning. In addition, manufacturing consolidation makes policy decisions a function of costs versus sales considerations. At the same time, wholesaling consolidation will contribute to channel blurring as many grow their businesses by acquiring retail outlets.

   As retailers consolidate, wholesaling will be impacted in areas where independents do not maintain market share. Retailing consolidation will increase the competition between wholesalers. The net effect is that consolidation at retail will make it more difficult for voluntary wholesalers to continue to grow. Additionally, an increasing need for differentiation among independents will require wholesalers to carry new and different products to fulfill the niche demands.

2. **Specifically, how can wholesalers add value to the other channel members?**
   Respondents offered a variety of suggestions, categorized below.

   <u>a. Add Value to Both Retailers and Manufacturers:</u>
   This includes services such as providing information on consumer and retail behavior, aggregate orders (flow through), creating store tags, communicating performance options and verification, maintaining food quality integrity, executing recalls in a timely manner, providing category management marketing strategy, and collaborating on business plans to support manufacturer and retailer partners.

   <u>b. Add Value to Retailers:</u>
   Respondents point to three options when adding value to retailers:
   i. C&S model — present the lowest cost of goods to the retailer with no bells and whistles.

   ii. SUPERVALU model (blended) — increase the contribution from retailing from less than half to more than half.

   iii. Full service model — offer specialty and mainline products to retailer customer such as system management, accounting, pricing, category management, branding, merchandising with full integration with retailer), technology enhancements, marketing studies, real estate assessment/development, financing and insurance.

Wholesalers need to engage in best practice sharing with their retailers. Use access to size and scale to positively affect the following: cost of goods, cost of services, access to services, and access to information, training, sourcing and advertising. Provide assistance with strategic planning, specifically as it relates to new stores, new formats, remodels and market share growth.

The challenge for wholesalers is to supply smaller orders of unique products in a cost efficient manner. Wholesalers must find ways to add value to the process or risk being bypassed, as retailers go directly to the source for unique products.

c. Add Value to Manufacturers:

Wholesalers provide manufacturers with an efficient, effective point of contact, representing multiple retailers and locations for promotion and merchandising needs (a virtual chain). In addition, they offer efficient communications and delivery of new items, promotional and pricing information, product recalls and nutritional information. Finally, they provide for collaborative supply chain planning, resulting in efficient production scheduling for promotional events, reduced inventory throughout supply chain, higher in stock condition resulting in higher sales and more effective freight management.

Wholesalers can provide access to a group of independent retailers that are hard for manufacturers to reach. Since supercenters are more concerned with SKU rationalization and traditional food retailers carry more food SKUs, wholesalers allow manufacturers more freedom to experiment with new items.

3. Growth of the Hispanic Market

The feeling is that the growth of the Hispanic community will have a very positive impact for food wholesalers. The underlying perception is that chains cannot adapt as quickly as independents. Executives recognize that Hispanic and Latino growth is significant, and further, that this market is segmented by age, economics, geography and generation. It is not a single homogeneous market.

There is consensus that to be successful, food marketers need to understand the respective cultures, not just items, selection and prices. It is about the knowledge of the customer and developing customer intimacy. It is inappropriate to compare California with New York because of the vast differences in ethnic backgrounds of the Latino population. Another emerging cultural group are Muslims, who also have specific and unique food choices. The key to success for all members of the food channel are to better understand the food shopping and consumption patterns of these varied consumers and engage in consumer education.

Wholesalers need to develop a strategy to compete in the game of demographic marketing. Success will come by employing people who really understand the specialty consumer and avoid simply adding “Tex Mex” products. Look at the success in this area of HEB, Fiesta Markets, Provinzano and Basha’s. Some executives point out that the best go-to-market strategy for food wholesalers is to use a combination of a third party provider (cross-dock) plus some key items in the warehouse.

4. **Growth of Organics**

Organics continue to gain importance and distributors support the rising demand by expanding their product offerings and/or cross-dock programs. Retailers and wholesalers are expanding organic private label offerings to fill this niche. Consumer and retailer education is a must, both on product selection available and the considerations for buying organic products in general. The broader healthy living niche can also be supported by the distributor in a number of ways, including pharmacy and nutrition programs.

It is perceived that manufacturers are moving more slowly on this because they do not see the necessary volume to cover incremental costs. Many also see organic products as a subset of the larger health and wellness issue. Natural/organic private label reverses the traditional orientation of order of entry, namely, CPG to store/private label.

Respondents also point at a need for standardization — what is natural, what is organic? Retailers will likely play a key role in defining these categories in concert with the government, dietitians and nutritionists. Over the next five years, retailers will likely invest more in consumer health and wellness education, and wholesalers need to follow suit.

5. **Data Synchronization**

Respondents perceive that data synchronization is being driven by the larger companies. However, the future is as murky as the past. Everyone acknowledges the need, but progress has been slow. The consensus is that this is a critical initiative with the opportunity to generate huge economic benefits.

6. **Empty Miles**

All agree that this is a significant problem given rising energy costs. With an increased demand for fresh products, independents ask for more frequent deliveries, often not filling the truck to capacity. Self-distributing chains, servicing larger stores, tend to ship at less-than-load much less often.

Backhaul and cross-docking are terrific opportunities to reduce empty miles for distributors and DSD manufacturers to reduce costs and improve service. Respondents point out that adequate compensation is often the issue. Others offered suggestions regarding return policies. Cost savings could be achieved by negotiating for no returns, but include it in the price instead.

While everyone recognizes that attempts are being made to address this issue; there is a certain level of frustration in the speed of achieving a solution. The sentiment is that the economics that generate the problem will ultimately drive the solution. In 2003, FMI and the Grocery Manufacturers Association (GMA) partnered to develop guidelines for developing programs that improve relationships relative to freight management. This publication is called the “Manufacturer & Distributor Customer Pick-Up/Backhaul Fairness Statement” and is available for free on the FMI website (www.fmi.org/gr/backhaul.pdf).

7. **Digital Economy**

Consensus is that Internet shopping offers the opportunity for distribution alternatives to the traditional route from the vendor to the warehouse to the store to the consumer. Creative alternatives could take significant costs out of the system, especially in urbanized areas. Costs of running brick and mortar operations today are very high; and virtual stores may be viable system alternatives.

In addition, it is believed that technology investments will need to be carefully scrutinized for a very rapid payback. The digital introductions will make most other technology obsolete in a much faster time frame than wholesalers have typically amortized technology investments. There will be a need to continually reinvest in new technology in order to stay competitive.

8. **Wal-Mart Effect**

Wal-Mart has certainly been a major influence in the last 20 years and is viewed as good merchant with excellent technology and distribution disciplines. It has forced competitors to re-orient their strategies away from a strictly “item and price” mentality. Ultimately, the retailers that will be successful in competing with supercenters will be those that optimize the uniqueness of their opportunity. True differentiation equals survival.

Although supercenters overall continue to pick up market share, not all shoppers want the big box experience. Therefore, retailers and wholesalers need to develop appropriate alternatives. FMI’s U*.S. Grocery Shopper Trends 2007* found that many customers are shopping two, three and even four times per week. These frequent shoppers prefer traditional food retailers because it is easy to get in and out of the store. Additionally, many shoppers have more than one store they frequent. An increasing number of shoppers have one store for perishables and one for dry grocery items. Across the country, independent operators and regional chains have found effective ways to compete with Wal-Mart in their trading areas, especially by emphasizing fresh products.

9. **Channel Blurring**

The consensus is that channel blurring is reducing the market share for traditional food retailers. Whether the food destination is Walgreen's or McDonalds, the net effect is a reduced share of stomach.

While the consumer's desire for convenience is the driving force behind channel blurring, consumers have different expectations relative to alternative channels. They do not expect CVS or even Wal-Mart to have all food items on their list in stock. Yet, they expect the full range of products in stock at food retailers. Respondents pointed out the opportunity these alternative channels could offer to traditional wholesalers.

Channel blurring and channel specific formats will continue. Yet, the proliferation of products and services makes it hard, if not impossible to be all things to all consumers. The key to success is for the food retailer to stay consistent with its mission, core competencies and values. Choosing a consumer niche, and distributors to support that niche, will be the winning formula.

10. **Self-Distribution by Food Retailers**

Respondents recognize that self-distributing is a necessary, but difficult task once a company exceeds a certain number of stores. Most retailers recognize that distribution is a separate and distinct function from retailing. The skills, capabilities, systems, structures, culture and processes to be excellent at supply chain operations are not those necessary to operate retail storefronts. With relatively few exceptions, it is almost impossible to build and maintain two vastly different "resource" structures within the same umbrella organization. Scale is the most important element required.

11. **How should industry associations help remove obstacles for better supply chain integration?**

There is agreement that food trade associations should provide leadership on key industry initiatives. Specifically, it is perceived that trade associations can/should play the following three roles:

a. Provide an effective message to legislators that recognizes/respects the contributions of food wholesalers.
b. Facilitate the solution of cross-channel problems, e.g., RFID, ECR, data synchronization, credit/debit card fees, unsaleables and empty miles.
c. Provide access to resources that represent forward or innovative thinking which can be used to educate the food trade on key issues.

The education theme is a recurring one. Wholesale executives believe that as an objective third party, trade associations are best positioned to provide independents with a range of education. Specifically, associations have access to a wealth of learning that can be shared in the form of "best practices." Finally, they believe that the associations are critical to creating and maintaining a culture of trust across the food channel.

Conclusions

Changes in the population and shopping habits will continue to transform both the food retailing and food wholesaling environments. The food arena is more dynamic and exciting than ever before. Many retailers, manufacturers and distributors have developed multiple areas of marketing superiority. The supercenter model is based on one factor (low price) and superior use of technology, efficient distribution and retailing techniques. Retailers have discovered competition can be out flanked with value added strategies of organics, food service, catering, fresh perishables, and the addition of products and services tailored to a specific ethnic community.

The service retailer model requires superiority in multiple categories. Niche operators vary from natural/organic to upscale and international products. Distributors servicing these kinds of retailers find themselves pulled in many different directions to meet the needs of their customers. Yet, distributors must tailor their services by customer. Cross-dock programs and customer specific product sourcing programs are critical to support the dynamic business requirements of today's food retailers.

Although not in total agreement, the food wholesaling leaders recognize that there is much work left to be done. *Strategies 2005* highlighted several visions, some of which leaders believe have happened. However, the consensus is that several of the key issues, including development of breakthrough products, emergence of dedicated logistics providers, key technology advancements and synchronized transparency, did not occur to the extent predicted or necessary. Likewise, in identifying challenges going forward, executives agree that the challenges represent significant opportunities for food wholesalers to add real value to other members of the channel.

When thinking of the issues confronting food wholesalers, perhaps Michael Sansolo, FMI's former Senior Vice President, said it best, "There isn't a single consumer who cares about data accuracy or synchronization, unsaleables or backhaul. But our ability to fix these issues and remove barriers to inefficiency can make us ever more effective in the store."

Despite the changing environment there is a tremendous opportunity for food wholesalers:

1. Wholesalers provide manufacturers with a vehicle to test new products and give retailers the variety needed to differentiate from price impact players
2. Large retailers are recognizing the need to localize the offering which requires a different logistical configuration.
3. The consumer continues to evolve, requiring market savvy channel members.
4. Wholesalers can assist independent retailers in their efforts to develop/maintain a sense of community. Success will come to those wholesalers that develop a positive point of differentiation for their respective target markets.

Appendix A

List of food industry executives who participated in the in-depth interviews

Mark Batenic — Chairman, President & CEO
IGA USA

J.H. Campbell Jr. — President & CEO
Associated Grocers, Inc. (LA)

Boyd L. George — Chairman & CEO
Alex Lee, Inc.

Janel Haugarth — Executive Vice President, Retail & Wholesale Supply Chain
SUPERVALU, INC.

Donal Horgan — Managing Director
Musgraves, Ireland

Dean Janeway — President & COO
Wakefern Food Corporation

Shane R. Maue — Area Director
IGA

J. Christopher Michael — President & CEO
Associated Wholesalers, Inc.

Richard A. Parkinson — President & CEO
Associated Food Stores, Inc.

Alfred A. Plamann — President & CEO
Unified Western Grocers, Inc.

Joseph Sheridan — Vice President
Wakefern Food Corporation

Appendix B

Questionnaire used with food industry executive to gain input on the current landscape.

1. In your estimation, were the predictions/conclusions regarding wholesaling 2005 accurate? Why/why not? A summary of the predictions can be found below.

   - Consumer choices will proliferate, both in product and shopping location.
   - Technology advances and marketplace opportunities will lead manufacturers to develop more new products than ever before, including many breakthrough products that will create new categories and aisles in stores.
   - Channels will also proliferate with consumer direct, supercenters and category-killer stores making significant gains.
   - Wholesaler consolidation will continue, leading to fewer, bigger players.
   - Distribution centers will be consolidated and more efficient handling techniques implemented.
   - Dedicated logistics providers will emerge, focusing on efficient, low-cost product movement.
   - Improvements in information technology and Internet applications will create *synchronized transparency*, or the ability of retailers, wholesalers, and manufacturers to simultaneously view product information from all parts of the supply chain.
   - Even among the diverse independent retail sector, information technology will become more prevalent and accessible.
   - Funds will also move more efficiently in the grocery supply chain of 2005 as banks and financial institutions automate many cash transactions.

The result will be a highly integrated supply chain that is efficient and responsive to customer needs. In 2005, retailers will demand several things from their supply chain partners: competitive prices on replenishment items, marketing expertise and a broad selection of discretionary items, and delivery performance and consumer insight on convenience items. They will also need significant support in information technology to maintain competitive parity.

In 2005, manufactures, for their part, will seek low-cost yet effective presence in all major channels, better information transparency on consumer behavior, reliable handling and product safety, and seamless execution of product launches and promotions at the store level.

2. What impact will the continued consolidation at the manufacturer, wholesaler, and retailer level have on the wholesaling function?

3. Specifically, how can wholesalers add value to the other channel members?

4. Please discuss the following issues as they relate to food wholesaling:
    a. Growth of the Hispanic market
    b. Growth of organics
    c. Data synchronization
    d. Empty miles
    e. Digital economy
    f. Wal-Mart effect
    g. Channel Blurring
    h. Self-distribution by food retailers

5. Any other issues/topics/opportunities/obstacles you deem relevant to the future of food wholesaling?

6. How should industry associations help remove obstacles for better supply chain integration?

Appendix C

Below are the verbatim responses to the in-depth interviews with food wholesaling executives.

Consumer choices will proliferate, both in product and shopping location.

- "Absolutely consumers have more choices than ever. Even though supermarket outlets have declined, they are still the preferred choice for groceries. However, convenience and price are now becoming the primary drivers."
- "Consumer choice and the need to understand, respond to, and anticipate what each retail location customers want, will be the key to success is going forward and is one of the biggest drivers of priority setting now and in the next few years. As consumer choices become more proliferated; driven by cultural diversity, population demographics (i.e. baby boomers, X and Y generation, single parent households), and progressive retailers continue to respond to these group's diverse wants and needs, the supply chain will be challenged to be more adaptive and efficient."
- "Accurate to a point, other venues, particularly restaurants are the eating mainstay for younger consumers who eat out frequently. Current food retail leadership is not tune with the younger generation.

Technology advances and marketplace opportunities will lead manufacturers to develop more new products than ever before, including many breakthrough products that will create new categories and aisles in stores.

- "More new products introduced, but not necessarily more breakthrough products as measured by the consumer. There has been a proliferation of line extensions."
- "More product flavors and varieties introduced, but very little technological innovation resulting in real innovative products."
- "We have seen lots of line extensions and package changes – little true innovation."
- "Little has been introduced in the way of breakthrough products. In 2006, there were 35,000 new SKU's, however, most were line extensions. Very little real innovation in the grocery and fresh sections, but a lot of brand proliferation, especially in low carb, South Beach, etc. – fads. Center of Store has seen the most innovation, especially household products."
- "Biggest changes occurred in produce, fruit and vegetables with the introduction of natural and organic. Originally, organics were placed in separate aisles, now they are being integrated. Other significant additions: household tasks – cleaning, laundry, and storage (Swiffer, Fabreze, Dryel, GladWare); soft goods; house wares; and 99 cents category."

Channels will also proliferate with consumer direct, supercenters, and category-killer stores making significant gains.

- "Consumer direct food shopping did not move as quickly as predicted. However Gen Y will accelerate its growth. Future will see more 'non brick and mortar' solutions."
- "Consumer directs has been slow to make gains from initial market penetration by the early adapters. Category Killer stores are also finding growth difficult as other retail channels offer consumers major portions of the category killer's offering making

financial viability difficult. Supercenters have gained tremendous presence and will continue to add locations."

- "Consumer direct works best in heavily populated areas. Works well for hard goods. People still want to feel, touch, and smell food. Supercenters are still growing in number and penetration. Category killers, like PetSmart, despite their predicted demise are still here. Dollar stores beginning to show some weakening, due to greater consumer mobility and the fact that nothing is a dollar any more.
- "This prediction was fairly accurate. While category killers have used technology to grow, their success has come from developing a sense of customer intimacy."

Wholesaler consolidation will continue, leading to fewer, bigger players.

- "Yes, retail-owned coops have difficulty obtaining equity capital and are consolidating out of necessity. Related synergies contribute to this trend that will continue."
- "It will become survival of the fittest. However smaller wholesalers have an opportunity for growth as larger wholesalers lose touch."
- "Yes, there will be fewer, bigger players with the continued shift from voluntary to coop. Services as part of product costs seem to be acceptable, especially as dividends are returned to the coop member. Coop revenue stream back to retailers. Capital needs of voluntaries make it more difficult to invest in retailer programs. Voluntaries will sell to other wholesalers or to chains in the next ten years. Coops restrict sale of member stores. If it weren't for the coops where would be the independent retailer be? Some smaller coops still struggling, but many are now billion dollar operations and are a force for the independent retailer. I perceive difficulty with wholesaler acquisition of retailers. Where are the best returns for capital – retail or wholesale? The need exists to address shareholder and Wall Street demands. At the end of the day, coops satisfying members, voluntaries satisfying WS."

Distribution centers will be consolidated and more efficient handling techniques implemented.

- "Wal-Mart is a model for this."
- "Bigger is not always better. Sub-distribution is becoming more prevalent. Freeways are becoming moving warehouses. i.e., fluid versus standing warehouses. In this model slow movers are only stocked in one place; while fast movers are stocked in smaller warehouses closer to distribution points. This results in full trucks and lower cost of transportation."
- "We are not a highly integrated supply chain that is responsive to customer needs. New innovative retail business models have been more responsive to the consumer than the industry supply chain. The industry seems to be better followers than leaders. Whole Foods model was rewarded for responding to the consumer demand for organic and healthy food. What followed were many imitators. Retailer leaders are more depending on private label, self sourcing and food preparation than ever before. It may be that consolidation has slowed industry responsiveness. The industry remains dependent on number and size of stores and shelf management control rather than consumer demand."

Dedicated logistics providers will emerge, focusing on efficient, low-cost product movement.

- "This has not happened to any great extent. The industry is too married to the old channels."
- "This has not developed to the level expected except for SUPERVALU and C&S — both with third party distributors. For example, Trader Joe's owns the warehouse but someone else runs it, same as Target Food (owned by Target, operated by SUPERVALU)."
- "This has occurred in the natural/organic areas, e.g. United National Foods is the supplier of Whole Foods/Wild Oats. HBC is another area in which this has occurred."
- "Wholesalers need to do what they have always done more efficiently at the same time and become facilitators (using aggregators, cross-docking, flow through). Create a mechanism for the most efficient and effective way to get product on the shelf or directly to the consumer."
- "These types of providers did emerge, although their ability to penetrate large portions of the business where wholesalers typically operate did not occur. They could not perform this service with an appropriate return considering the cost of transportation and what the competitive market is."

Improvements in information technology and Internet applications will create *synchronized transparency*, or the ability of retailers, wholesalers, and manufacturers to simultaneously view product information from all parts of the supply chain.

- "This should have happened but hasn't."
- "This is more talk than action thus far, great goal, just not there."
- "The prediction of *synchronized transparency* to enable better communication, while attempted, largely bogged down due to the sheer complexity of the challenge."
- "Slow to happen. This needs to move much faster in the next few years."
- "First accomplished at the large chains; last to benefit will be independent retailer who may or may not get it depending on cost. Result: smaller independent retailers are information technology deprived."
- "This needs to happen. The challenge is that not all vendors believe in it (same situation as what happened with ECR, stuck with 2 or 3 systems in their warehouse, same for self-distributed chains). The same situation happened with synchronized transparency, namely, EDI 85% of all transactions with only a 30% match on invoices. Investigation revealed this was not simply vendor error. However, EDI may have created more expense (research mismatches) than it has saved. Until commitment across the channel it will be an expense."
- "Information technology and synchronized transparency are far from a reality. Vendors, distributors, retailers and even trade associations' system preferences continue to pull the standard apart. We need standards that are mandated by the broad coalition of the food industry for this to be a reality. The technology integration seems to be a reality for few large chosen partners and not the industry as a whole especially not for small manufacturers, retailers and distributors."

Even among the diverse independent retail sector, information technology will become more prevalent and accessible.

- "Ten years ago the independent sector was 15 years behind the integrated retailers (Safeway, Kroger, etc.). Today the gap is more like 4 to 5 years. Wholesalers have contributed significantly to retail technology development."
- "We need to keep pace with technology. The absence of third party standardization, puts the smaller independent retailer (1, 3, 7 stores) at a competitive disadvantage."

Funds will also move more efficiently in the grocery supply chain of 2005 as banks and financial institutions automate many cash transactions.

- "Cash flow management – yes; promotional funds – not necessarily."
- "This has happened but there still exists the need to lower the cost of usage."
- "Yes, but has had a negative impact on cash flow, plus the cost associated with maintaining a "cashless" operation."
- "Greater efficiency but costs of funds flow are very high (percent of bottom line is very high regardless of type of retailer). Fortunately, this is currently being addressed at several levels."
- "Mostly a consumer driven focus the past few years as credit and debit cards were prevalent. Not much if any change on the wholesale side."

Part 2 — Challenges/Opportunities Going Forward

What impact will the continued consolidation at the manufacturer, wholesaler, and retailer level have on the wholesaling function?

- "Manufacturer consolidation requires a larger wholesaler blip to show up on the manufacturer's radar screen. A solution is for wholesalers to participate in a buying consortium to raise profile. Another solution is to become the consumer expert for the both manufacturers and retailers."
- "Distributors will be required to service a larger marketing area, a more diverse customer base (each customer is tailoring their brand), and provide cross-dock services to achieve efficient distribution. In effect wholesalers will need to offer chain-like infrastructure to independent retailers and small chains to be responsive and effective."
- "Continued consolidation at manufacturer level has and will continue to bring more efficiency to the supply chain as brands and products are consolidated at pick up locations making transportation more efficient. Administratively, the consolidation removes costs due to fewer invoices, vendors, PO's, and contact points for both merchandising and supply chain planning. As retail consolidates, wholesaling will be impacted in areas where independents do not maintain market share and will lead to further rationalization of distribution centers and possibly wholesalers. However, independents are making strong comebacks in areas where market rationalization has occurred and will create new opportunities for savvy supply chain service providers."
- "Manufacturing consolidation makes policy decisions a function of costs v. sales considerations. Expected synergies result in expected savings which often have a detrimental impact on the brands. Drive to take out costs followed by drive to grow

the top line (now absent resources to do so). Wholesaling consolidation will contribute to channel blurring as wholesalers are forced to become (acquire) retailers to sustain growth. Retailing consolidation will increase the competition between independent retailers served by a particular wholesaler and retailers acquired by wholesaler. Sometimes consolidation is capital driven versus philosophically driven. Independents will be looking for new sources of supply."

- "The issue of consolidation's impact is a function of public versus private ownership. Public ownership will suffer, having lost their way attempting to compete on price with Wal-Mart. This will result in more debt and pressure to meet quarterly Wall Street expectations, lost customer focus and identity. Private ownership focuses on satisfy self and lenders; result more nimble. In the long run who is going to take care of the customer?"
- "Manufacturer consolidation does not necessarily result in greater leverage. However, provides the opportunity for more integrated promotions. Consolidation at retail will make it more difficult for voluntary wholesalers to continue to grow."

Specifically, how can wholesalers add value to the other channel members?

<u>Adding Value to Both Retailers and Manufacturers:</u>

- "In general, provide information on consumer and retail behavior, communicate performance options and verification, maintain food quality integrity, execute recalls in a timely manner, provide category management marketing strategy, collaborate on business plans to support manufacturer and retailer partners."
- "Aggregate orders (flow through); send one order to the manufacturer. Create store tags. Become a facilitator for the manufacturer as well as the retailer."

<u>Adding Value to Retailers:</u>

- "Three options: 1. C&S model – goal to present the lowest cost of goods to retailer, no bells & whistles. 2. SUPERVALU model (blended) – switch from 25% contribution from retailing to 75% contribution. 3. Full service model – offer specialty and mainline products, provide retail support (system management, pricing, category management – full integration with retailer) marketing studies, real estate, insurance, etc. (60% contribution from wholesale coop, balance from these other services)."
- "Smaller retailers could not source product at a reasonable cost without a wholesaler. Provide a la carte services as needed. Collect manufacturing moneys due to retailers."
- "Engage in best practice sharing. Use access to size and scale to positively affect the following: cost of goods, cost of services, access to services, and access to information, training, sourcing, and advertising. Provide assistance with strategic planning, specifically as it relates to new stores, new formats, remodels, and market share growth."
- "Provide goods, services, and knowledge (consumer & distribution best practices – back door). Find sites, get financing, do customer projections, build the store (if desired), help in every aspect of store development (marketing, branding, merchandising, etc.). Offer a lifetime contract."

- “Become a resource center for the independents that take care of the key business needs (marketing, promotion, advertising, accounting, technology, etc.).”
- “Negotiate on their behalf and aggregate their volume. Provide the opportunity to get all of their products on one or two deliveries. Utilize the value of a banner or ad group.”
- “The wholesaling industry has undergone a paradigm shift in the last 20 years with the need for increased efficiency, better consumer understanding, passage of Sarbanes-Oxley, and a shift for supplier responsibilities for replenishment. Independent retailers need to differentiate themselves. One method is by offering unique products. Wholesalers have a difficult challenge to increase their role when supplying smaller orders of unique products in a cost efficient manner. Wholesalers must find a way to add value to the process or be bypassed as retailers go directly to the source for unique products.”

<u>Adding Value to Manufacturers:</u>

- “Since supercenters are more concerned with SKU rationalization and since traditional food retailers carry more food SKUs, wholesalers allow manufacturers more freedom to experiment with new items.”
- "Providing efficient, effective point of contact representing multiple retailers and locations for promotion and merchandising needs (a virtual chain). Providing efficient communications and delivery of new items, promotional and pricing information, product recalls, and nutritional information, etc. through wholesaler’s networks, staff, and systems/processes. Offer collaborative supply chain planning resulting in efficient production scheduling for promotional events; reduced inventory throughout supply chain; higher in stock condition resulting in higher sales; and effective freight management.”
- “Wholesaler generated consumer data bases provide more timely feedback to manufacturers than available from syndicated data providers, which typically lag the market by several months.”
- “Provide access to a group of independent retailers that is hard for manufacturers to reach. Typically manufacturers make a greater ROI on independent retailers due to the wider coverage of products by independents as a point of differentiation. However, independents need to commit to cases to earn these promotional dollars. The days of “buy-ins” are gone, need to commit to display and feature pricing.”

Growth of the Hispanic market

- “This market is segmented by age, economics, geography and generation. It is not a single homogeneous market place. To date, the healthy eating desires of Hispanics have not been adequately addressed by the marketplace.”
- “Hispanic and Latino growth is significant. Distributors will support those customers by stocking specific lines of products or through cross dock programs. Increase retailer and manufacturer understanding of ethnic consumer via education and behavioral data.”
- “This will have a very positive impact for food wholesalers. Chains cannot adapt as quickly as the independents. This is best accomplished by a combination of warehouse and cross-dock, using a specialty wholesaler.”

- "Need to understand variety issues and find an efficient way to service this growing market. Perishable products will be particularly important to handle and source correctly."
- "Need to recognize over 20 different cultures. Need to understand the respective cultures, not just items, selection, and prices. It's about the knowledge of the customer, developing customer intimacy. It is inappropriate to compare California with New York. California is primarily a Mexican market, while New York represents a Latino salad bowl. Emerging culture is Muslim. The key is to respect the culture! Not necessary to dedicate the entire store to the particular culture, simply show them that you care. Not ready to develop dedicated ethnic stores however sections of the store to be dedicated to these consumers."
- "Hispanic influence is dramatic in some areas. Need to develop a strategy to compete in the game of demographic marketing. Success will come by employing people who really understand the specialty consumer, to avoid simply adding "TexMex" products. Look at the success in this area of HEB, Fiesta, Provinzano, and Bashes. Best go-to-market strategy for a food wholesaler is to use a combination of a third party provider (cross-dock), plus some key items in the warehouse, versus dedicating a wing in the warehouse."
- "This represents the single largest opportunity for our system. In fact we that we recently purchased a local Hispanic distributor after spending five years trying to figure out how to source product and satisfy this consumer."

Growth of the Organics

- "Growth has been phenomenal: Not counting meat and produce, we have added 2,500 frozen, chilled and dry grocery SKUs sourced by a specialty distributor."
- "Organics continue significant growth and distributors will again support those customers by expanding their product offering or cross dock programs. Private label continues to be expanded to fill this niche. Consumer and retailer education is a must. The broader healthy living niche can also be supported by the distributor in a number of ways, including pharmacy and nutrition programs."
- "To date, organics have not had as dramatic an effect as that of the Hispanic market growth. However, we need to carry to satisfy existing demand. We cross dock a lot of natural & organic products."
- "Manufacturers are moving slowly on this because they do not see the necessary scale (volume) to cover incremental costs. Retailers and wholesalers are moving more quickly. Issue is health & wellness, organics is a subset of this issue. Natural/organic private label reverses the traditional orientation of order of entry, namely, CPG to store/private label. Need for some common standardization – what is natural, what is organic? Retailer will play a key role in defining these categories; will not be done by the government. Retailers employ dietitians, nutritionists and educate the consumer."
- "This area will continue to expand and grow. There will be multiple product introductions and iterations as manufacturers experiment with new products in this area. It will be important to have freshness standards upheld as well as proper storage and shipments of organic produce through the cold chain."

- “Need to recognize the latent demand for natural and organic products. Plus need to recognize the theater necessary to romance these products. Probably will not carry the breadth of offerings found in a Whole Foods or Wild Oats. Need to communicate the range of natural and organic products currently carried in the independent grocer. Third party provider (cross dock) plus some key items in the warehouse v. a wing in the warehouse. Specialty wholesalers may be better served from a cost perspective to deliver to the full line wholesaler who will redistribute product.”
- “Another important consideration if you are going to do nothing more than remain competitive. We are increasing the breadth of our perishables to react and sourcing all products relating to center store that are applicable.”
- “The key to success depends on the ability of wholesalers to communicate/educate the consumer, store and warehouse personnel.”

Data Synchronization

- “Data synchronization is being driven by the larger organization. If it becomes a broad industry reality it may be through an organization like GS1/PCATS or with the help of FMI/NACS.”
- “Future is a murky as the past. Everyone acknowledges the need but progress has been slow. Need to educate the respective employees relative to the need for accuracy.”
- “The speed of change, need to control costs, and the importance of reliable common data for suppliers, wholesalers and retailers will drive this to be a critical priority.”
- “It is still very limited in terms of applications. Economic benefit is not yet obvious to all parties.”
- “It is more complicated than necessary. We need to standardize the hardware, software, and data set and move on.”
- “This is a critical initiative with the opportunity to generate huge economic benefits. It, however, seems high centered on unique and differing implementation efforts.”
- “Technology is old school.”

Empty Miles

- “This is a major problem, not using the air space in the trailers; not a vendor consideration. Costs passed onto wholesaler as well as self-distributing chains. Attempts are being made to address this issue. Transportation allowances eroded dramatically without any adjustments – no adequate compensation for returns, unsaleables, etc.”
- “This is a significant problem given the cost of energy. Industry leadership needed to correct this major inefficiency. A terrific opportunity exists to create a market to reduce empty miles. Cross dock opportunities can be an effective tool for distributors and DSD manufacturers to reduce cost and improve service.”
- “Energy and general transportation costs will drive this initiative. Trailers on the road with unused capacity are a cost the supply chain can no longer afford to bear.”
- “Unsaleables are part of the problem – a function of manufacturer cost cutting. Regarding recalls and back haul – adequate compensation is the issue.”

- "Greatest opportunity is outbound (DC to store). If independents want three deliveries per week, they need to fill the truck. Chains do not ship less than full trucks. Returns - negotiate with vendor (like chains) for no returns, put it into the price."
- "There exists a need to maximize return runs, e.g., Laurel Grocers 70% of return trucks carry full product. Also, need to consider drop and consolidation (HSB containers, pallets, etc.)."
- "Increased fuel costs and driver shortages have aggravated this condition. And the problem is that it will ultimately be dealt with at the local level. This takes away the efficacy of any industry wide standards. Pure economics will ultimately drive the solutions."

Digital Economy

- "Internet shopping offers the opportunity for distribution alternatives other than the traditional route (from vendor to warehouse to store back door to shelf to consumer's cart to home). Creative alternatives other than UPS option could take significant costs out of the system. There exists the opportunity for greater impact in urbanized areas. Costs of bricks and mortar today is very high; digital is becoming a viable system alternative."
- "The IPOD effect could happen, but more likely the use of new technologies will focus on reducing the time spent on shopping or dinning, such as order by phone, customer specific selling over the web or kiosk, etc."
- "It will not be as great an impact as it has and will be on non-food retailers. For food retailers, Internet ordering and store pickup will be a greater option. There will be only a minor impact on wholesalers."
- "Technology investments will need to be carefully scrutinized for a very rapid payback as the digital introductions will make most other technology obsolete in a much faster time frame than wholesalers have typically amortized their technology investments. There will be a need to continually reinvest in new technology to stay competitive. Who will have the capital? They will be one of the survivors."
- "A huge opportunity exists, particularly if we let wholesaler assist in internet shopping by addressing issues of speed and flexibility."
- "Wholesaler's strength is food knowledge and distribution. Use technology to grow market. If you have the ability to sell via the internet, do it. Internet is a great way to reach younger shoppers. However, don't forget the socialization aspect of shopping, especially as it relates to older Americans. Opportunity if we figure out the customer service part of the equation."
- "Wholesalers need to figure out how to supply a fulfillment warehouse that takes care of digital orders, for example, Talbots."

Wal-Mart Effect

- "Wal-Mart has greater impact on certain commodities and on price-driven retailers. Offer variety of products that Wal-Mart cannot effectively sell. Labor issues, impact on local businesses, public image, etc. are becoming more problematic for the giant."
- "The Wal-Mart effect will continue especially now that the giant is wobbling. That is, they can use their size to cripple a market as they are now doing with flat panel televisions. Correspondingly, they may be reacting rather that executing. Vendors

continue to cave into Wal-Mart's demands, and the shear number of stores continues to create over-stored markets."

- "It will continue to be a part of retail, although a slowdown in new square footage as they will need to begin to re-invest in existing facilities. They will continue to adapt and must be watched."
- "What Wal-Mart carries is only about 30% of what a traditional supermarket offers. Strongest fundamentally and financially will survive. True differentiation equals survival."
- "Wal-Mart viewed as good merchant and excellent with technology and distribution. Only concern is as a possible predator. It appears that there is selective application and enforcement of current anti-trust legislation. If business is a game than there needs to be rules and the rules need to be enforced."
- "Wal-Mart continues to be a viable alternative channel. However, not all consumers want to shop at Wal-Mart for food, therefore, wholesalers need to develop the appropriate alternatives. The IGA/Coca Cola study found that many customers are shopping two, three and even four times per week. These frequent shoppers preferred traditional food retailer because it was easy to get in and out of the store."
- "Wal-Mart has certainly been an influence in the last ten years. It has forced competitors to re-orient their strategies away from strictly a price-item mentality. Those competitors of Wal-Mart that ultimately will be successful will be those that optimize the uniqueness of their opportunity and less and less get drawn into trying to compete head to head with the behemoths of the world."
- "The effect of Wal-Mart is on-going. However, going forward, the Internet and retailers like Target, due to their customer focus will become greater threats to traditional food retailers."

Channel Blurring

- "Flow thru and retail technology investments all relate to channel blurring. Toys "R" Us began by offering diapers, next baby food; Home Depot is adding C-Stores in parking lots; Target started with hard goods and soft goods, first offered HBC, now a variety of foods. Service stations will be offering full line food offerings. However, channel blurring not limited to distribution channels. Ethnic and socio-demographic blurring is happening as well. Recognize that blurring will continue. Challenge to wholesalers is to figure out how to make money on it."
- "Channel blurring and channel specific formats will continue, however the proliferation of products and services makes it continuing more difficult to be all things to all consumers. Choosing a consumer niche and distributors to support that niche will continue to be the winning formula."
- "Channel blurring reduces the market share for traditional food retailer. Whether the food destination is Walgreen's or McDonalds, the net effect is a reduced share of stomach."
- "Channel blurring will continue to be a part of retail and will continue at greater pace. Consumers' lack of time continues to play a major role in people's lives. Convenience will be a key driver of retail consumer decisions."

- "If it affects your customer it affects the wholesaler. It is a function of the type of competing retailer and product set. Many non-food retailers do not carry the depth of assortment (amount of featured product) with the intent of switching or providing rain checks. Internet shopping stores provides for an opportunity to compete with non-food retailing channels by providing one stop shopping."
- "Drug chains appear to be selling grocery to attract customers versus sell volume. Limited amounts of promoted items, e.g., paper towels. Food offerings are used to bring customer in to sell pharmaceutical products and to cover overhead."
- "Channel blurring has had a negative impact on food wholesalers. Less volume to food retailer reduces profitability. Convenience is the driving force. Consumers have different expectations relative to alternative channels. They do not expect CVS or even Wal-Mart to be in stock all the time. Consumers expect food retailers to be in-stock on all items all of the time. Why don't food wholesalers pursue these alternative channels? It is not a part of our mind-set."
- "This is significant as it applies to the grocery industry and a continued diminution of the traditional grocery store sales. The counter strategy would be the absorption of services into the grocery industry heretofore not traditional or standard. Examples would include fuel islands, pharmacies, sit-down eating sections, etc."
- "Channel blurring will continue to happen. The key to success is for the food retailer to stay consistent with its mission, core competencies, and values."

Self-distribution by Food Retailers

- "Most retailers recognize that distribution is a separate and distinct function from retailing. Generally, it requires a lot more bricks and mortar to justify self-distribution. Some retailers realize the availability of resources (capital and human resources) could be better utilized at retail versus wholesale."
- "Self distribution by food retailers is really no longer a viably option given the SKU proliferation. It is very difficult for one chain to be self-supportive, especially given the growing retail capital and resource requirements. The same is true for distributors who will need to rely on other distributors to support a diverse retail customer base. Collaboration is necessary to achieve efficiency and superior customer support."
- "Upon reaching a certain size there is pressure to self-distribute."
- "This will make sense for retailers with critical mass in geography. Freight costs will make long hauls economically unproductive. Product proliferation, consumer driven SKU variety will all work against self distribution."
- "This can only be done with scale. Some movement or desire to self-distribution is a function of satisfaction with current wholesaler. Hybrid – retailer buys the facility but someone else runs it, e.g., Trader Joe's & Target. One advantage, avoids the worker pension issue."
- "Can't do both. Either become the best logistics provider to supply independents or become a retailer. If the money is gone on the buy then a wholesaler makes money on markup. If a chain is already running its own distribution and is good at it then continue. However, if a chain is not running its own distribution and it becomes a distraction or potential to do so, then don't do it. The money is made at retail, not at wholesale any longer. If a retailer can find a good supplier capable of meeting its needs stay with it. Focus on the front door versus the back door. Look at the front

door and let the wholesaler take care of your back door. Make money on the sale not on the buy."

- "Not nearly the viable option it once was. Economies of scale have driven the ability to be successful in procurement and distribution to much higher thresholds than most retail entities can attain. In fact companies like Minyards in Texas recently moved away from self-distribution to utilizing an outside warehousing company, AWG of Kansas City. They cited the reason to give up procurement and distribution in favor of concentrating their resources on retail applications."
- "Generally this is not efficient, particularly for smaller independents (exception via consolidation/acquisition)."
- "The expertise required for delivering efficient logistics and supply chain services has been better developed and managed by "wholesalers" and the expertise to create effective merchandising and run outstanding stores has (naturally) remained with the retailer/operator. Since the battle for the customer takes place on the retail front, retailers should devote their resources (people and cash) towards that, and rely on wholesaler/distributor "partners" to do a good job of efficiently managing the supply side. This is the present and the future for most wholesalers."
- "The growth of the mega wholesaler has come about in part due to their powerful ability to control purchasing dollars and their ability to move inside margin from the retailer's pocket to the wholesaler's pocket. When supermarket executives outsource these core components of the business, it is very difficult to take them back down the road due to the huge capital requirements to do so, therefore, in many ways this is a one way street with no return."
- "The skills, capabilities, systems, structure, culture and processes to be excellent at supply chain operations are not those necessary to operate retail storefronts. With relatively few exceptions, it is almost impossible to build and maintain two vastly different "resource" structures within the same umbrella organization. Scale is one of the elements required, but there are many more. Wal-Mart, for all its size and capability, really isn't an excellent storefront operator. Target is. Wal-Mart is, however, an excellent supply chain operator. Both chains are trying to become what the other is excellent at without losing their existing advantage. This is tough to do."
- "Many food retailers do not have the scale necessary to sustain both capabilities. Hence the rationale for supply chain operators or "wholesalers." Further, given the impact of Wal-Mart on food retailing, it behooves retail executives to focus on the area they really can sustain an advantage in: retail operations, merchandising, and local marketing.
- "Scale is mandatory. Scale supports technology, which helps drive efficiency. Scale supports infrastructure, which helps support customer service, which helps sustain volume. Scale allows for rewarding and retaining top talent. Eventually, US food retail will join the rest of the world in requiring a global supply chain structure. Large scale wholesale operations are the most likely to develop these in advance, driven by the need to develop and sustain operating margins."

How should industry associations help remove obstacles for better supply chain integration?

- “Trade association should focus industry initiatives. By creating a forum where industry partners can select one or two strategic issues that can be debated and analyzed to determine a common industry solution. By channeling the industry’s leaders to commit resources to the solution the trade association can add real value for all its members and the industry. For me those issues are “empty miles”, and “food standards”. Forward thinking and real dialog on these issues will maintain the integrity and effectiveness of the world’s best food distribution network.”
- “Continue to focus on topics related to legislative issues and manufacturer issues where one voice is more powerful than several individual voices.”
- “Three roles: Effective message to legislators that recognizes/respects the contributions of members. Access to talent capable of looking ahead and educating the trade. Issues across the channels that need to be solved. Associations can facilitate the solution of these problems – part way with ECR, limited progress on unsaleables, limited progress on empty miles.”
- “Self-interest is a dominant force. Trade associations need to work together, e.g., reclamation. Need to develop a common platform to deal with issues like this. Need to demonstrate to the public that recalled foods can be quickly and efficiently removed from the food supply chain. Trade associations are good with lobbying efforts. However they are less effective in dealing with the difficult operational issues given their ties to the CPG manufacturers for funding.”
- “As an independent, objective third party, educate independent retailer as to the real cost of doing business today.”
- “By teaching best practices, the associations can leverage up the shared learning that will move the industry forward.”
- “Create a culture of trust.”
- “Create interaction/communication between independent retailers and provide the training function for independent retailers.”

Other FMI Logistics Resources

2008 Supply Chain Conference
Explores the latest trends in logistics, technology and its applications, supply chain collaboration, transportation efficiencies, leadership and management skills. This annual conference, co-located with the Grocery Manufacturers Association's IS/LD Conference, is designed for senior-level distribution executives. Collaboration case studies and opportunities are a key feature, while informal discussion groups provide an opportunity to discuss ideas and challenges with peers. To learn more about this conference, email distribution@fmi.org

2008 ProductivityPlus Conference
Focused on logistics challenges and opportunities within retail/wholesale distribution, this conference offers tactical and strategic sessions focused on delivering solutions to present and future business challenges. Case studies and themed roundtable interactive discussions provide opportunities to share experiences and ideas with other food distribution executives. Pre-scheduled meetings with key trading partners provide a more comprehensive, efficient and effective venue for all attendees. For more information, go to www.fmi.org

Blueprint for Effective Inbound Freight Management
Defines best practices for inbound freight management for retailer, manufacturer and carrier partners and provides suggestions for improving communication, planning and problem-solving. A joint group, representing FMI and GMA, identified learnings that helped improve the efficiency and effectiveness of inbound freight management. Defining and implementing these recommended practices through case study findings resulted in a preferred process that enhances on-time shipment and delivery, dock capacity, warehouse staffing, cost management and in-stock store product availability. For more information, contact Pat Shinko at pshinko@fmi.org.

Supply Chain Management
Provides some detail and conclusions drawn from an initiative among Hannaford Bros. Co., Quaker Oats and the University of Southern Maine to investigate collaboration in the supply chain from the perspective of food retailers and manufacturers. This white paper summarizes some of the key issues and findings discovered during the investigation and highlights areas that need additional study. To obtain a copy of the whitepaper, contact Pat Shinko at pshinko@fmi.org.

Manufacturer & Distributor Customer Pick-Up/Backhaul Fairness Statement
Provides recommendations for opening up and improving communication between trading partners on the issue of CPU/Backhaul allowances. The work undertaken was focused on tactical solutions to improve current backhaul programs. The statement recommends that trading partners form a joint team to manage backhaul, bringing together their experts in logistics and transportation, sales, category management and procurement to help ensure that backhaul discussions are not limited to rate information but are elevated to transportation capabilities and to meet the needs of all parties and consumer demand. The statement recommends that performance measures be established that all parties should meet so that everyone benefits. To obtain a copy of the fairness statement, contact
Pat Shinko at pshinko@fmi.org.

FMI Research and Benchmarking Resources

FMI is the premier source for market intelligence on the food retailing industry. Retailers, wholesalers, manufacturers, consultants and government officials are just some of the readers benefiting from FMI's comprehensive research materials on a wide variety of topics. The reports offer useful insights into the realities of the marketplace as well as the minds of the consumer and provide the tools to make solid business decisions that ultimately help grow profitability, manage risk and achieve competitive advantages.

Annual Reports:

- U.S. Grocery Shopper Trends BESTSELLER
  Shopper attitudes and behaviors as they impact and relate to the grocery store

- The Food Retailing Industry Speaks BESTSELLER
  Comprehensive annual review of the food retailing industry

- Annual Financial Review
  Key financial ratios and trends for benchmarking performance

- The Power of Meat
  An in-depth look at meat through the shoppers' eyes

- Supermarket Pharmacy Trends
  Key pharmacy trends including financial, staffing and operational statistics

- Facts About Store Development
  Trends in new store construction, remodels and closures

- Security and Loss Prevention Study
  Benchmarks for security and loss prevention programs in U.S. supermarkets

- Management Compensation Study for Retailers and Wholesalers
  Compensation and benefits statistics for more than 50 key management positions

- Shopping for Health
  A practical understanding of how health and nutritional concerns influence grocery purchases

- Customer and Employee Customer Accident Study
  Benchmarks for public liability and workers compensation claims in the supermarket industry
- Distribution Center Benchmarking
  Comprehensive overview and benchmarks of operating a food distribution center