

Independent Operator Insights Into Wholesaler Relations and Services

The Peck Fellowship Year Two Report 2008

FOOD MARKETING INSTITUTE

Independent Operator Insights into Wholesaler Relations and Services

The Peck Fellowship Year Two Report — 2008

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\$50 Retailer/Wholesaler Members
\$75 Associate Members
\$95 Nonmembers

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Food Marketing Institute (FMI) conducts programs in public affairs, food safety, research, education and industry relations 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 and 14,000 pharmacies. Their combined annual sales volume of \$680 billion represents 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 more than 50 countries. FMI's associate members include the supplier partners of its retail and wholesale members.

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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 consists of three parts. Although subject to change, these are:

- Year 1 — Past and Present Landscape
- Year 2 — Independent Operator Insights into Wholesaler Relations and Services
- Year 3 — Generation Y: Food Shopping Attitudes and Behaviors

This report provides an in-depth look into the wholesaler-independent relationship based on an online survey with independent operators throughout the country. The overarching goal of the study was to understand the challenges confronting independents as they affect relationships with their food wholesalers. Specifically, the study collected the following information:

- Profile of independent food retailers.
- Wholesaler and retailer relationship.
- Independent food retailers' views of the future.
- Use of services provided by wholesalers and satisfaction with such services.
- Resource allocation.
- Transportation issues.
- Overall satisfaction with their wholesalers.

Methodology

The survey consisted of 47 questions, some of which were contemporized versions of those asked of independent food retailers as part of the FDI report, "Strategies 2005: Vision for the Wholesale-Supplied System." The survey was administered via an Internet-based data collection tool and distributed to FMI member and nonmember independent operators across the United States. Survey respondents were informed that their replies were both anonymous and confidential. The survey was live from February 1, 2008 until April 15, 2008 and a total of 142 surveys were completed. Survey participants were mostly owners and/or CEOs.

In addition to the survey data, the report includes findings from:

- *The Food Retailing Industry Speaks 2008*
- *U.S. Grocery Shopper Trends 2008*
- *Annual Financial Review 2008*

An In-Depth Look at Independent Food Retailers

Independent operators often are lumped into one category, simply because of the number of stores operated. While not necessarily inaccurate, it is important to note that independents make up the most varied group of retail operations in terms of formats, size, specialties, locations, store design and clientele. And wholesalers have the challenging task of meeting these varied needs in an efficient and profitable manner. Despite these differences, there are many similarities as well, making an analysis of independent retailer insights into wholesaler relations and services a valuable exercise.

Definition of Independent Operators

Many definitions are used to describe independent food retailers. Some use the number of stores operated, though that number varies from up to 10 to 50 and at times even 100. Others judge based on whether companies are primarily wholesaler-supplied or self-distributed. But when asking food retailers directly in FMI's *The Food Retailing Industry Speaks 2007*, the truth seems to be somewhere in the middle. Companies with as many as 200 stores entered themselves as independent operators, while some 10-store operators consider themselves chains. Perhaps this is key to the complexity of the independent operator segment.

For the purpose of this survey, questionnaires were sent to companies with up to 100 stores, although the majority of respondents operate up to a dozen stores. Nearly all respondents are family-owned (66 percent) or privately-owned (27 percent) companies. More than three-quarters of independents that participated in the study are located in the Midwest and South.

	Companies %
Northeast	12
Midwest	53
South	25
West	9

Store Format

Close to 60 percent of respondents operate conventional supermarkets. In addition, about 28 percent run limited assortment stores and 11 percent operate super/combo stores.

	Companies %
Conventional Supermarket	59
Limited Assortment Store	28
Super/Combination Store	11
Target Market Focused	2

Sales

Reaching beyond the survey data, FMI's *The Food Retailing Industry Speaks 2008* shows that independent operators make up both the lowest and highest sales per store per week. This is a perfect reflection of the great variety that independents bring to the marketplace. However, as the majority operates conventional supermarkets, the sales for independents do tend to be lower than the average for regional and national chains.

	Weekly Sales per Store 2006 Median in \$	Weekly Sales per Store 2007 Median in \$
All Speaks Respondents	390,703	382,226
1 Store	269,774	288,362
2-10	229,200	218,531
11-30	358,595	399,660
31-100	385,446	403,105
101-500	390,703	402,669
More than 500	362,818	379,519

Fiscal year 2007 marks the third consecutive year that the food industry has recorded sales gain increases, but this time in a market with high food inflation. In 2007, the median sales gain was 4.6 percent, according to the *Speaks* study. The range in performance was significant. While the year prior larger companies far outpaced smaller ones both in sales growth and net profit, large chains did not dominate the overall industry performance despite excellent sales results. With a median of 5.2 percent, they actually increased sales less than companies operating between 31 and 100 stores with a median of 7.4 percent. With annualized inflation for food-at-home at 4.2 percent, the industry sales increase was almost completely offset by the rising cost of food. This is a huge drop from last year, when the industry posted a multi-year high real sales gain of 3.6 percent.

The highest median gain was reported by companies operating between 31 and 100 stores, which outperformed all other retailers with a median sales growth rate of 7.4 percent. The increase posted by independent operators with up to 10 stores was much lower (4.6 percent), yet still ahead of inflation and ahead of companies operating between 11 and 30 stores (3.7 percent). Independents were the most likely to post real sales losses as well.

	2006-2007 Sales Growth						
	Overall Weighted* %	Overall Unweighted %	1-10 Stores %	11-30 Stores %	31-100 Stores %	101-500 Stores %	500+ Stores %
25 th Percentile	0.8	1.0	1.1	0.7	4.2	1.0	-2.8
Median	4.6	4.5	4.6	3.7	7.4	3.2	5.2
75 th Percentile	6.8	7.2	7.0	6.3	17.1	7.6	10.9
Lowest	-20.1	-20.1	-8.8	-15.6	-8.8	-3.3	-20.9
Highest	24.9	24.9	8.9	17.9	19.3	19.5	24.9

* Since responding companies vary from one-store operators to national chains, the sales gains should be weighted by the size of the company, measured in 2006 retail sales, to accurately reflect the total market. The unweighted figure shows the market gain if size is not taken into account.

Productivity Ratios: The Industry Versus Independents

FMI's *Speaks* also probes into various productivity ratios. Independents have slightly higher labor and benefits costs than the industry as a whole. Combined with lower average weekly sales, their sales per labor hour averages \$122.38 compared with \$138.90 across company sizes. They also tend to carry fewer SKUs than the industry on average as the majority runs conventional supermarkets rather than super/combination stores. But they do show a higher number of SKUs per square foot and a higher number of transactions per checkout. *Speaks 2008* provides breakouts for one-store operators, 2-10, 11-30 and 31 to 100 outlets as well.

Median	The Industry	Independents
2007 Weekly Sales per Store	\$390,703	\$235,663
Sales Growth 2006-2007	4.6%	3.9%
Identical Store Sales Growth 2006-2007	4.2%	3.8%
Sales per Labor Hour	\$138.90	\$122.38
Labor Expense as a Percentage of Sales	10.4%	11.4%
Benefits Expense as a Percentage of Sales	3.5%	3.7%
Number of Transactions per Week	13,888	13,677
Transactions by Checkout	1,185	1,301
Sales per Checkout	\$32,007	31,981
Transaction Size	\$28.88	\$25.09
Number of Items (SKUs)	45,000	38,000
Private Label as a Percentage of Total SKUs	8.1%	6.3%
Private Label Sales as a Percentage of Gross Sales	14.0%	8.2%
Total Store Size in Square Feet	47,500	30,816
Weekly Sales by Square Foot	\$8.01	\$9.09
Selling Area per Store in Square Feet	32,000	24,112
Weekly Sales by Square Foot of Selling Area	\$11.21	\$11.69

SKUs per Square Foot	1.7	1.9
Percentage Selling Space of Total Store Space	74%	78%
Annual Shrink — Overall	2.3%	2.3%
Annual Store-Level Inventory Turns — Overall	15.6	16.8
Weekly Price Changes	2,000	1,066
Out-of-Stock Rate	3.0%	3.0%
Cases Stocked per Hour	49	50
Net Profit Before Taxes and Extraordinary Items as Percentage of Sales	2.1%	1.8%

Note: Figures in the table are medians unless otherwise noted.

Future Outlook

The reality of economic strains began to surface in 2007 and have since grown to become the number one issue on the retailer radar. Bordering an economic recession, the current environment is tough for both retailers and consumers. Supermarkets are dealing with increased cost of doing business including rising interchange fees, health care costs, fuel charges and minimum wage increases, while faced with changing consumer shopper patterns at the same time. The net effect for food retailers varies as it highly depends on factors such as location, format and, above all, positioning.

Categories Leveraged for Differentiation and Competitiveness

Independents identified produce and meat as the most important categories to remain competitive over the next five years at 9.6 and 9.5 on the 10-point scale, respectively. Dairy and deli close out the top four with scores of 8.5 and 8.3, respectively. GM/HBC and services such as photo development, banks and kiosks are the least important to them in gaining a competitive advantage. These services are often widely available in super/combination stores, supercenters and even nonfood formats.

Remaining Competitive in the Next Five Years Importance of Initiatives	Scale 1-10
Produce	9.6
Meat (Fresh and Packaged)	9.5
Dairy	8.5
Deli	8.3
Dry Grocery Food	8.0
Frozen	8.0
Bakery and Baked Goods	7.6
Prepared Food/Meal Solutions	7.6
Dry Grocery Nonfood (includes Tobacco)	6.8
Health and Beauty and General Merchandise	6.0
Services (e.g. Photo, Banking, Kiosks, Dry Cleaning)	6.0

Strategies to Remain Competitive in the Next Five Years

Moving from categories to broader business strategies, providing the freshest perishables (produce, meat, dairy and deli) is identified as the main competitive strategy for independents. The meat department especially offers a great opportunity for differentiation and competitive advantage over chain stores. Independents also focus on offering pleasant, up to date facilities and a customized product assortment based on superior knowledge of the local needs.

Remaining Competitive in the Next Five Years Importance of Initiatives	Scale 1-10
Providing the Freshest Perishables	9.5
Offering Pleasant, Up-to-Date Facilities	8.5
Offering Customized Product Assortments Based on Superior Knowledge of Local Needs	7.8
Offering Low Prices in Your Trading Area	7.2
Providing Better Private Label Products	7.2
Providing Meal Solutions at Your Store	6.9
Community Health and Wellness Involvement	6.6
Joining a Group of Retailers Under a Common Banner	5.4
Divesting Stores to Other Retailers	3.5

Steps Taken to Deal With High Food Inflation

In July 2008, the consumer price index stands at 6.0 percent, with food-at-home even higher at 7.1 percent. As of August 2008, the U.S. Department of Agriculture (USDA) is expecting food prices to increase by between 5 and 6 percent this year, the biggest rise in two decades and at least a percentage point higher than projected just a month ago. They expect a similar increase next year. Depending on the store image, positioning and audience, companies are taking different measures to respond to this inflationary environment.

- 71 percent of independents are seeking further efficiencies within their own companies.
- 63 percent are considering merchandising and SKU management changes.
- 49 percent are looking for further efficiencies in the supply chain.

Many companies are dealing with a generation of store managers who have never had to manage in inflationary times and staff education will be imperative. Such training along with cost control, merchandising and SKU management could be areas in which wholesalers can help provide guidance to their independents.

Independent Views on Economic Impact on Sales and Profits

The marketplace saw significant increases in food inflation over the past year and early part of 2008. In combination with increased spending on gas at the pump, home heating and cooling, credit woes and the housing market slump, consumers' discretionary income is under severe pressure. While this economy favors food-at-home and shoppers have indeed increased their number of home-cooked meals over eating out, shoppers are also reducing their trip frequency and trading down, substituting and eliminating inside the store in an attempt to lower their grocery spending. The current environment may boost grocery sales —

although for many retailers food inflation nearly or completely offset sales increases — but retailers are much more skeptical about its impact on net profit levels.

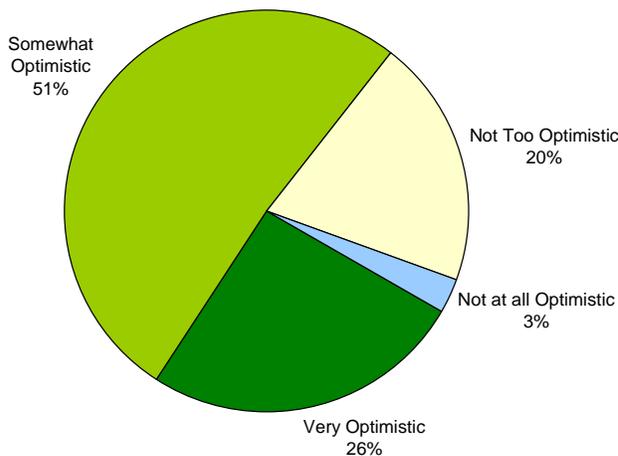
Measured in July of 2008, about one-third of independents believe that the current economic climate has a positive effect on sales. Only 12 percent believe it will have a positive effect on their net profits. In fact, 66 percent believe the collective effect of the economy is hurting net profits and 37 percent say the recessionary climate is negatively affecting sales.¹

	Effect of Economic Climate on Sales	Effect of Economic Climate on Net Profits
	%	%
Very Positively	6	6
Somewhat Positively	29	6
Not Much of an Impact	29	23
Somewhat Negatively	34	63
Very Negatively	3	3

Profitability Outlook Among Independents

While three-quarters of independents are either somewhat or very optimistic about their profitability outlook for 2008, they are slightly less optimistic than the industry as a whole. Optimism is also down compared with the prior year.¹

How Optimistic Are you About Your Company's Overall Profitability in 2008 Versus 2007?



Store Development Plans

A little more than half of independents (53 percent) expect to expand the number of stores they operate over the next five years. A much lower 28 percent expect they will be involved in a merger or acquisition (either buying or selling) in the next five years.

¹ Food Marketing Institute, *Annual Financial Review 2008*

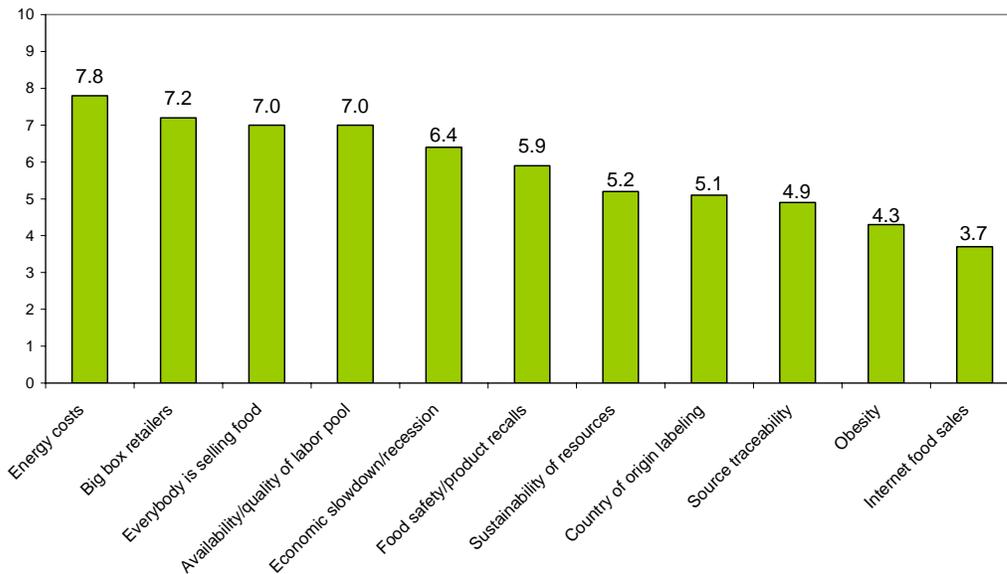
Manufacturer Support

While answers range from none to dozens, manufacturer promotional funds represent a median of 2 percent of independent total sales. More than four in 10 independents (44 percent) expect the funds to go down by 2010, whereas a small one-third (31 percent) think they will remain about the same.

Greatest Perceived Threats Over the Next Five Years

Energy, competition, labor and the economy top the list of threats identified by independents for the next five years. The economy, which has deteriorated since the beginning of the year, would likely be higher if the survey were repeated later in 2008. Labor has been and continues to be a great concern. With unemployment at low levels for many years, it has been difficult to hire and retain quality employees. Additionally, salary and benefit expenses make up a much larger percentage of total sales for independents than the overall industry.

**Future Threats as Perceived by Independent Operators,
Scale 1-10, Where 10 Is the Greatest Threat**



Technology

In 2008, 57 percent of independents provide some mode of Internet solution. This percentage is expected to increase to 77 percent of which 31 percent expect to have websites with product ordering capabilities for pickup or delivery.

Internet Solutions	Today %	Within 2 Years %
Have Website	57	77
<ul style="list-style-type: none"> ▪ Website to Promote Store and Provide Information to Consumers (But No Ordering) ▪ Website to Allow Consumers to Order at Least Some Products Online (For Pickup or Delivery) 	45	47
	12	31

The Independent/Wholesaler Relationship

The past decade saw much consolidation, mergers and bankruptcies among food wholesalers. For example, 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 has made extensive forays into the retailing channel, becoming the third largest operator of traditional supermarkets. Despite all the changes in the wholesale segment, the independent/wholesaler relationship averages almost 20 years. High service levels, a good private label program and low prices are the top attributes that independents use to pick their primary wholesaler.

Wholesaler History

While independents may use two or more different wholesalers, they consider their grocery supplier their primary wholesaler 97 percent of the time. A handful of niche retailers mostly rely on wholesalers focusing on specialty foods including organic dry grocery. Independents work with an average of two wholesalers, with 48 percent having only one.

	Companies %
One Wholesaler	48
Two Wholesalers	24
Three or More Wholesalers	29

Primary Wholesaler	Companies %
Grocery	97
Specialty Food (Including Organic Dry Grocery)	2
Other	1

The working relationships between the primary wholesalers and respondents range from less than one year to as long as 70 years. The average relationship has been in place for 19 years.

Primary Wholesaler	Companies %
Five Years or Less	29
6-13 Years	22
14-30 Years	30
More than 30 Years	29

Four in 10 primary wholesalers are voluntary group wholesalers and a little more than one-third are cooperative wholesalers.

	Companies %
Voluntary Group Wholesaler	40
Cooperative Wholesaler	36
Nonsponsoring Wholesaler	24

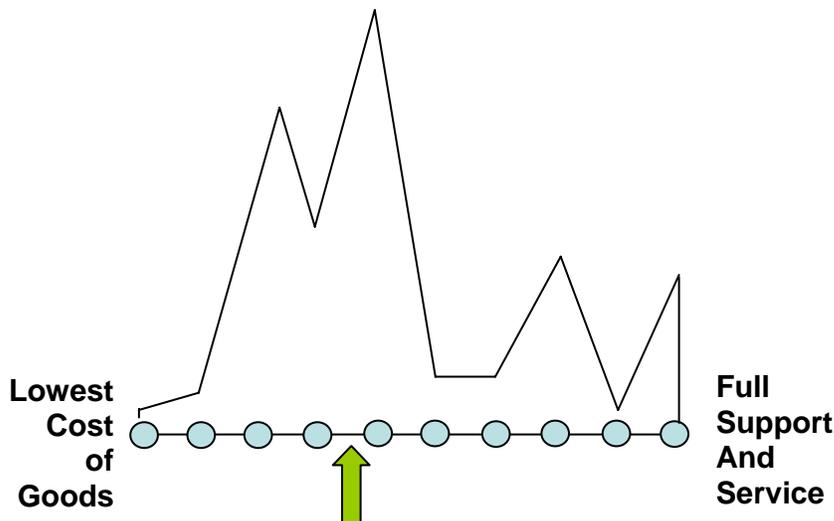
Perceptions of the Primary Wholesaler

Thinking about their primary wholesaler, 45 percent of retailers characterized their business model as customer-oriented (focused primarily on building a strong relationship with the retailer as the customer) versus 28 percent who believe it is primarily price-oriented. An almost equal percentage classifies their primary wholesaler as being product-oriented, focused on sourcing the best products available.

My Primary Wholesaler Is Mostly...	Companies %
Customer-Oriented (Focused Primarily on Building a Strong Relationship With the Customer)	45
Price-Oriented (Focused Primarily on Securing the Lowest Cost of Goods)	28
Product-Oriented (Focused Primarily on Sourcing the Best Products Available)	27

Reasons for Using Primary Wholesaler Over Other Choices

Using a bar with extremes on either end (lowest cost of goods to full support and services), independents indicated what is most important to them in the wholesaler selection process.



Independents are leaning slightly more towards the lowest cost of goods side, reflected in the figure above. Given the current economy and retailers desire to cut costs wherever possible, this is perhaps not surprising. Yet with responses across the scale, it is clear that independents are seeking the right combination of value and service. One independent explained: “We’ve learned to live without a lot of frills from our wholesaler. If they offered more, surely we would use more. However, if it increased COGs, we’d prefer to manage many of these extras on our own. But if our wholesaler offered à la carte ‘fee for service’ programs, we’d likely take advantage of them if they had proven performers on staff.”

Even though most independents have done business with the same wholesaler for many years, respondents identified four clear areas of importance for using their primary wholesaler over other companies. Asked to identify the top three reasons, best service emerged on top at 51 percent of the votes. Other important criteria include the private label program, pricing and services provided. In the current economy, private label will likely continue to grow in importance. In FMI’s *Annual Financial Review 2008*, nearly all independents indicated they plan to grow their private label SKUs and increase their emphasis on store brand through marketing and merchandising tactics.

Reasons For Using Primary Wholesaler	Top Reason %
Best Service in My Geographic Area (On-Time Delivery, Complete Orders...)	51
Strong Private Label Program	47
Best Price and Discounts in My Geographic Area	45
Most Comprehensive Services in My Geographic Area (Advertising, Training...)	45
Opportunity to Grow Business	31
Other Affiliation Dictates Choice (e.g. Part of Cooperative or Other Agreement)	22
Only Choice in My Geographic Area	14
Other (Please Specify)	13
Opportunity to Grow Business by Acquiring New Stores	8
Strong GM/HBC and Specialty Foods Program	6

Recommending the Primary Wholesaler

As an expression of general satisfaction, 60 percent of respondents say they would “absolutely” recommend their primary wholesaler to other independents. One-third would recommend them, but with certain reservations. One retailer commented: “My wholesaler does an okay job, but I hope they start to show that they want my business more. There are times I feel they don’t care at all about stores like mine. I’ve heard this many times from other small retailers.” Others commented that they feel their wholesalers “don’t care about them” or just service them “as an after-thought having many corporate stores as their primary responsibility and concern.” While this kind of feedback emerged several times throughout the survey, the general satisfaction is certainly not unfavorable with six in 10 willing to absolutely recommend their wholesalers.

Recommend Primary Wholesaler?	Companies %
Yes - absolutely	60
Yes - with reservations	34
No - would not	6

There is also little doubt that their primary wholesaler will be in business five years from now. Fully 99 percent of respondents believe their wholesaler will survive and thrive in the current competitive environment. Nine in 10 expect to continue to do business with their current primary wholesaler. Only 9 percent believe there is a chance they may switch.

Continuing Doing Business in Five Years?	Companies %
Yes	91
No	9

Insights Into Wholesaler-Provided Services

With wholesalers ranging from product-focused to price-oriented to customer-centric, independents have a variety of choices based on their internal needs. Especially customer-focused wholesalers tend to provide a range of services for their independents including advertising support, marketing and communications consulting, financial and IT support, market research and site location advice, and so on. Some of the most highly used and rated programs include product recall information, category management, product marketing and order management.

Introduction

The survey identified several service areas, and within those, specific programs available to independents. Program offers vary by wholesaler, and secondly, availability is reported by independents and may not reflect actual offerings. One retailer commented: “It’s possible that our wholesaler offers some of the things that we marked as not offered, but if they do, we don’t know about it which is a weakness in their communications with members.” Next, retailers that use wholesaler-provided services rated the programs on a scale 1 to 5, where

- 1: very dissatisfied
- 2: somewhat dissatisfied
- 3: neither dissatisfied, nor satisfied
- 4: somewhat satisfied
- 5: very satisfied

Advertising Services

Among all advertising services offered, independents are the most likely to use their wholesalers’ print advertising program. More than six in 10 independents use this service, compared with 34 percent who say it is provided, but they do not take advantage of it. Print advertising programs are not only the most used but also the most highly rated at 3.9 on a five-point scale, where five is very satisfied.

Banner programs are also used by more than half of independents. Electronic media production is offered much less frequently than the other services. Similarly, there is very little availability and usage of wholesaler-provided media buying services.

Advertising Services	Wholesaler Doesn't Offer %	Wholesaler Does Offer, But We Don't Use %	Use My Wholesaler's Program %		Satisfaction Score on Scale 1-5 %
Print Advertising	4	34	62	⇒	3.9
Banner/Store Concept Programs	13	34	53	⇒	3.5
Electronic Media Production (TV and Radio)	48	33	19	⇒	2.9
Media Buying	51	33	16	⇒	3.2

Marketing Consulting

Wholesaler-provided marketing services are clearly popular among independents, both in terms of usage and satisfaction. Category management strategies are the most widely used at 71 percent of independents, with an average satisfaction score of 3.5 on the 5-point scale. This service is not offered for 10 percent and the remaining 19 percent handle category management in-house or outsource this function elsewhere. Closely behind is help with competitive pricing, used by 70 percent and rated at 3.4. Assistance in assortment strategies and merchandising are also highly used by two-thirds of respondents. Wholesalers receive okay marks on each of these services. One independent added: “One of the things we are totally lacking in is help in merchandising perishables. Our wholesaler is also a retailer; my guess is they have merchandising help in their retail stores.”

Only loyalty (frequent shopper) programs and Website design services lag behind in availability and usage. Web design is the only one to score below 3.0 in satisfaction.

Marketing Consulting And Services	Wholesaler Doesn't Offer %	Wholesaler Does Offer, But We Don't Use %	Use My Wholesaler's Program %		Satisfaction Score on Scale 1-5 %
Category Management Strategy (“How to Set”)	10	19	71	⇒	3.5
Competitive Pricing Services	10	19	70	⇒	3.4
Assortment Strategy	10	24	66	⇒	3.5
Merchandising Strategy (“How to Promote”)	11	17	66	⇒	3.6
Center Store Strategy (“What and How”)	15	32	53	⇒	3.6
Loyalty Programs	34	47	19	⇒	3.5
Web Design	54	40	15	⇒	2.7

Product Marketing

Without exception, product marketing services are both widely available and highly used. Each of the services is used by around two-thirds of the independent retailers with satisfaction levels in the 3.5 to 3.7 range. In the current economy, price optimization and efficient merchandising will be key to growing both sales and profits. Many have expressed plans to emphasize private label offerings, run more price and quantity-based specials and increase space productivity. One independent said: “Private label needs to go to a much higher level. We need to admire and emulate Safeway for its “O” Organic and “Eating Right” labels. Those brands make Safeway a more unique shopping experience. Also Trader Joes has taken its product line to a higher lever. Many of their stores do more business than large super/combination stores. We need our wholesaler’s help in doing private label better, much better.”

Product Marketing	Wholesaler Doesn't Offer %	Wholesaler Does Offer, But We Don't Use %	Use My Wholesaler's Program %		Satisfaction Score on Scale 1-5 %
Price Formulation	3	29	68	⇒	3.5
Pricing Administration	4	29	67	⇒	3.6
Planogramming	11	26	63	⇒	3.7

Communication Services

Along with product marketing services, communication services are among the most widely used offerings starting at 60 percent and up. It must be noted that these are also the most frequently offered services. Higher usage was associated with higher satisfaction levels, ranging from 3.8 to 4.2. No less than 94 percent of independents rely on their wholesalers to pass along product recall information. Wholesalers are performing well in this area with the highest satisfaction score of all services at 4.2 on the 5-point scale. On the subject of wholesaler-independent communications, one independent added: “Marketing assistance and other information are very important. But as store management, we do not have enough time to take advantage of many of these services. If there are some useful research reports on the website or in newsletters, we always like to hear them.”

Communication Services	Wholesaler Doesn't Offer %	Wholesaler Does Offer, But We Don't Use %	Use My Wholesaler's Program %		Satisfaction Score on Scale 1-5 %
Product Recall Information	2	4	94	⇒	4.2
Timely Contact With Account Executive	13	10	77	⇒	3.9
Industry News Updates	23	18	60	⇒	3.8

Information Technology Support

The use of information technology support services ranged from 41 percent for intranet to 60 percent for system integration consulting. Satisfaction levels are average, ranging from 3.3 to 3.5.

Information Technology Support	Wholesaler Doesn't Offer %	Wholesaler Does Offer, But We Don't Use %	Use My Wholesaler's Program %		Satisfaction Score on Scale 1-5 %
System Integration Consulting	15	25	60	⇒	3.5
Internet	17	38	45	⇒	3.5
Intranet	19	41	41	⇒	3.3

Education and Training

While available to 60 percent to 70 percent of all independents, education and training are not frequently used services. At only 34 percent, departmental training is used the most frequently with a satisfaction score of 3.7. However, the industry is currently dealing with the highest food inflation in two decades and many store managers have never run a store in these circumstances. With quickly changing shopping patterns among consumers, behaviors in impulse sales and meal solutions are vastly different from just one year ago. Store manager and departmental manager training on how to build traffic and grow sales and profits in an inflationary environment could be of great help to independents. Likewise, taking into consideration that the availability/quality of the labor pool was identified as one of the top threats to independent food retailers, these little used resources represent another opportunity to strengthen the wholesaler/retailer relationship.

Education and Training	Wholesaler Doesn't Offer %	Wholesaler Does Offer, But We Don't Use %	Use My Wholesaler's Program %		Satisfaction Score on Scale 1-5 %
Departmental Training	30	37	34	⇒	3.7
General Employee and Manager Training	32	40	28	⇒	3.6
Specialized Education	38	38	24	⇒	3.9
Functional Training	37	42	21	⇒	3.9

Financial Services

While usage falls far behind some of the other programs, financial services are very highly rated in satisfaction. Accounting services such as bookkeeping and rebilling received the highest level of use at just over one-quarter of respondents. But at 4.4 on the 5-point scale it is the most highly rated wholesaler-offered service. Contrary to some of the other low-usage categories, financial services are broadly available among wholesalers.

Financial Services	Wholesaler Doesn't Offer %	Wholesaler Does Offer, But We Don't Use %	Use My Wholesaler's Program %		Satisfaction Score on Scale 1-5 %
Accounting Services (Bookkeeping, Rebilling)	16	57	27	⇒	4.4
Insurance Coordination	27	51	21	⇒	4.1
Selling Stores to Its Customers	21	62	17	⇒	2.8
Equipment Financing	28	59	14	⇒	3.7
Lease Financing	32	58	10	⇒	3.8

Store Development and Market Research

Six in 10 independents take advantage of their wholesalers' market research and store planning/engineering expertise. These services are also rated at 3.6 and 3.7, respectively. Site development and interior design are used by four in 10 independents and also received above average ratings. Independent retailers are in agreement that their futures are heavily dependent upon their fresh offerings (produce, meat, dairy, and deli) and the presentation of up-to-date, easy to shop facilities. Each of these areas represents an opportunity for additional wholesaler/retailer collaboration.

Store Development	Wholesaler Doesn't Offer %	Wholesaler Does Offer, But We Don't Use %	Use My Wholesaler's Program %		Satisfaction Score on Scale 1-5 %
Market Research	10	33	57	⇒	3.6
Store Planning and Engineering	8	35	57	⇒	3.7
Interior Design and Décor Support	10	43	48	⇒	3.7
Site Development	14	43	43	⇒	3.7
Consumer Research	30	33	37	⇒	3.3

Order Management Services

Every year, FMI's *Annual Financial Review* study demonstrates the importance of proper inventory management. Inventory levels and supply chain management have been top priorities for many retailers and the advancements in a more efficient system are clearly paying off in increased return on assets ratios. In 2007, small retailers outperformed the industry with an increase in return on assets to 6.74, compared with 5.85 for the industry as a whole.

Following product recall information, handheld order entry programs are the second most widely used wholesaler-provided services. Offered by all wholesalers, 91 percent of independents take advantage of this service along with a high 4.1 satisfaction score. Computer assisted ordering is also widely offered, but used by about half of retailers.

Inventory management services are available to about 60 percent of retailers, yet used by only 21 percent.

Order Management	Wholesaler Doesn't Offer %	Wholesaler Does Offer, But We Don't Use %	Use My Wholesaler's Program %		Satisfaction Score on Scale 1-5 %
Handheld Order Entry	0	9	91	⇒	4.1
Computer Assisted Ordering	30	16	54	⇒	4.0
Inventory Management	38	41	21	⇒	4.0

General Review of Services

A number of wholesaler-provided services are underutilized and this presents a significant opportunity for wholesalers to enhance their relationships with independent food retailers. In the current economic environment, all members of the supply chain, but especially retailers, are looking to find ways to operate more efficiently and cut costs. The following programs are used by less than 50 percent of respondents, but available to at least 50 percent of independents:

- electronic media production
- loyalty programs
- insurance coordination
- lease financing
- equipment financing
- accounting services
- internet and intranet technology support
- site development
- interior design and décor
- general employee and manager training
- functional training
- departmental training
- specialized education
- inventory management

Media buying and website design are available to just below one-half of retailers, but could be of future interest as well. About 80 percent of independent indicated earlier in the survey that they plan to have some kind of internet presence within two years, up from 57 percent today.

Similarly, site development and interior design/décor services provided by wholesalers may be in demand, given that more than half of independents plan on acquiring or building new stores within the next five years. The same holds true for financial services, none of which are used by more than one in four independent retailers.

For those services used by at least half of respondents, there are some opportunities for improvement. Only five of the highly used services achieved satisfaction scores of 3.9 or above, with 4.0 being somewhat satisfied. These included the following:

- print ads
- product recalls
- timely contact with account manager
- handheld order entry
- computer assisted ordering

In fact, product recalls and handheld order entry set the gold standard for wholesaler supplied services, scoring a 4.2 and 4.1 on the satisfaction scale and used by 94 percent and 91 percent of respondents, respectively. Other highly used services should benchmark the success of these services to improve retailer satisfaction among important wholesaler services.

Budget Allocation Among Services

Even though a wide variety of services is offered, budget limitations cause independents to pick and choose among available programs. Currently, independents spent about one-quarter of their total services budget on marketing and communications. Transportation is second at 16.3 percent and financial and IT services take up 12.7 percent and 10.5 percent.

When presented with the scenario of no budget limitations and services being priced separately but fairly, retailers would spend a greater amount on advertising and communications; marketing services and consulting; and store development. Independents would much like to reduce the percentage allocated to transportation and financial services.

Share as a Percentage of Total Expenses on Services	Actual %	Ideal %
Advertising and Communications	24.7	28.7
Transportation	16.3	9.1
Financial	12.7	10.8
Information Technology Support	10.5	10.3
Human Resources and Training	9.9	13.8
Marketing Services and Consulting	9.5	17.5
Product Marketing	5.8	7.7
Order Management	5.7	6.4
Store Development	5.5	10.7

One retailer added the following: “Generally we have an excellent wholesaler, but most the issues involve what I perceive to be high fees. They pass along an excellent cost of goods, but have a VERY HIGH fee structure that encourages us to make a lower margin because they present the invoice cost as very low. If you're not careful to add their fees to the retail, you end up nowhere near your margin goals. Fees range from 5 percent to 30 percent on individual products, not even counting the freight, which we pay separately to our independent hauler. Aside from the fees and the preference for better clarity, I believe they are one of the few excellent wholesalers out there and one of the few that will still be around with Walmart five years from now.”

Similarly, another retailer said: “It would be extremely helpful and a labor cost cutter to have pricing on invoices that includes freight.”

Transportation

A closer look at the transportation services shows that independents aren’t necessarily dissatisfied with the services provided in this area, but simply prefer to spend less in lieu of other services such as marketing, research and advertising.

On a scale 1 to 5, where five is completely satisfied, independents rated the number of deliveries per week at 4.3, closely followed by 4.1 for the delivery schedule. Load quality, the amount of damage and mispicks/shorts/outs lag well behind and could be areas of improved performance for wholesalers. Independents are less than satisfied with the fuel surcharges and freight charges. Energy prices are increasing costs throughout the supply chain with energy and motor fuel accounting for the highest major category increases in CPI. According to the Energy Information Administration, crude oil increased 61 percent between December 2006 and December 2007. The cost of a gallon of gasoline increased by 40 percent over this same time period. The impact of energy on shoppers’ disposable income and retailer margins is likely here to stay and may cause some drastic changes over the years to come. One independent commented: “Ten years ago I said that the day will come when for economic reasons we will buy from the closest wholesaler due to the price of fuel. As that happens and it may be starting, you will see a shuffling of stores among wholesalers.”

Transportation Satisfaction	Average Score Scale 1-5
Deliveries Per Week	4.3
Delivery Schedule	4.1
Communications	3.6
Driver Assistance Unloading	3.4
Load Quality/Damage	3.3
Mispicks/Shorts/Outs	3.1
Freight Charges	2.5
Fuel Surcharges	2.3

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 70 key management positions
- Shopping for Health
A practical understanding of how health and nutritional concerns influence grocery purchases
- Customer and Employee Accident Study
Benchmarks for public liability and workers' compensation claims in the supermarket industry
- Distribution Center Benchmarks
Comprehensive overview and benchmarks for operating a food distribution center
- Transportation Benchmarks
Key benchmarks for food retailer and wholesaler transportation and fleet management

Miscellaneous Recent Studies

- Food Retailing Technology Benchmarks 2008
Overview of the use and expansion of technology in U.S. supermarkets
- The Past and Present Landscape of Food Wholesaling 2007
Overview of food distributors in the United States
- El Mercado 2005
In-depth study of U.S. Hispanic grocery shopping preferences and attitudes

Free Resources

- Food Retailer Contributions to Consumer Health and Wellness 2008
- Running on Fumes 2008
- Improving Supply Chain Practices for Open-Dated Products 2008
- A Comprehensive Guide to Retail Out-of-Stock Reduction in the Fast-Moving Consumer Goods Industry 2007
- Sustainability and Recycling in the Food Industry 2007
- 2016 Future Value Chain
- 2006 Unsaleables Benchmark Report
- 2006 Synchronization Report

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