

**WHOLESALE FOOD DISTRIBUTION CHANGES--  
CAUSES AND EFFECTS--  
REFLECTING INDUSTRY CHANGES AND CONSUMER VALUES**

Chairperson: Dr. Charles R. Handy, Food Distribution Research, USDA

**Wholesale Distribution Changes  
Causes and Effects**

by

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**Objectives**

1. Summarize current situation
2. Discuss influences on food wholesaling
3. Identify management issues
4. Suggest needed applied research

**Situation**

Hard statistical data are difficult to acquire. Census data have shown little change in total number of wholesalers over the past ten years in spite of observed consolidation. Dr. Charles Handy, ERS, USDA is currently trying to develop a descriptive data base that is consistent with industry usage. Dr. Don DiSpirito is working on a similar project at NAWGA. At the present we have industry surveys to rely on.

Ryan Mathews reported in *Grocery Marketing* that the ten largest wholesalers account for 44 percent of the \$75 billion industry in fiscal 1985/86 compared to 19 percent of a \$50 billion industry ten years ago. The consolidation is likely to continue. Grocery Marketing data revealed less than 400 wholesalers today compared to more than 1,400 just ten years ago. A linear projection would result in a negative number in the near future if applied to these data. The nearly 72 percent decline in number of warehouses experienced in the last ten years would suggest about 100 survivors in the next ten years if that rate is repeated. Even at an average rate of 7.2 percent per year as was experienced during the past ten years the number would be reduced to about 200 wholesalers. Should this be of concern? During a recent management conference, Mr. Jeffery Hallet, President of Trend Response Analysis Company (TRAC) said, "All these mergers are like dinosaurs making love . . . there is a lot of sound and fury but no results." Perhaps his general

observation applies to food wholesaling also. There is plenty of research material suggested in any event.

Mike DeFabis has predicted there would only be ten wholesale companies left by the year 2000. Most would take exception with that forecast. However, a speaker at an Ohio State University food conference in the 1960s was not taken seriously either when he predicted 400 or fewer wholesalers by the end of the 1980s. Unfortunately, neither his name nor a copy of his remarks could be found to share in this paper.

One should remember the proclamation of the Methodist Bishop in the early 1900s who said that all major inventions had been made and he especially attacked the notion that man could fly. His name was Wright. It is a good thing that his two sons, Orville and Wilbur, had other views.

*Progressive Grocer* provides data regarding sales distribution of wholesalers (see Tables 1-3).

These data are consistent with the information reported by *Grocery Marketing*. They may even be from the same source but that was not ascertained.

Voluntary and cooperative wholesalers supply 88.4 percent of independent supermarket sales. They also provide 20.9 percent of chain supermarket sales.

The current situation seems to indicate clearly that wholesaler consolidation has taken place and that it is just as pronounced as among food stores. The following table provides data that demonstrate some of these changes.

From 1970 to 1980 the total number of stores declined by 20 percent and sales increased by 150 percent. The number of stores decreased by 20 percent from 1975 to 1985 and sales increased by 104 percent. In contrast, the convenience store industry has experienced an increase in stores from 25,000 to 45,000 and an increase in sales (excluding gas) from \$6.2 billion to \$45.4 billion. The

NACS 1986 State Of The Convenience Store Industry report showed 61,000 stores and \$54.2 billion sales with \$18.2 billion in gas. Clearly there are segments within food retailing that are masked by aggregate trends.

### Influences on Food Wholesaling

It is impossible to list all influences and in fact this author readily admits to not knowing all of them. A partial list with a brief explanation is presented in the hope that it will stimulate the readers to add their own ideas.

### Consumer Influences

1. Much has been written about the changing demographics:

America is aging.  
Working women represent the majority.  
Family size is decreasing.  
Educational levels and income are increasing.

2. The application of technology to everyday lives has affected and will continue to affect life styles. Among these changes are:

- Demassification of markets and more "niche" marketing.
- Europeanization of consumers.
- Quality of life has become more important than mere quantity of life.
- Microwaves have replaced conventional cooking to a large degree in many households.
- Personal computers are expanding the information explosion into the home.
- A premium is being placed on time especially among dual income families.

3. Brand and store loyalty are generally recognized as decreasing. Yet 69 percent of all consumers usually or always shop at

**Table 1.**

Sales by Wholesaler Type, 1985

	<u>SALES</u> (\$ bils)
Voluntary	\$ 48.2
Co-ops	\$ 24.3
Unaffil. + Others	<u>\$ 2.2</u>
Total	\$ 74.7

SOURCE: *Progressive Grocer*. 53rd Annual Report of The Grocery Industry, April, 1986.

**Table 2**

Supermarket Sales by Wholesaler Type, 1985

	<u>Independents</u>		<u>Chain</u>		<u>Total</u>	
	Bils \$	%	Bils \$	%	Bils \$	%
Voluntary	38.14	57.7	20.69	14.4	59.58	28.4
Co-ops	20.29	30.7	9.34	6.5	30.00	14.3
Unaffil. + Others	3.83	5.8	1.44	1.0	5.45	2.6
Chain	<u>3.83</u>	<u>5.8</u>	<u>112.23</u>	<u>78.1</u>	<u>114.76</u>	<u>54.7</u>
Totals	66.09	100.0	143.70	100.0	208.79	100.0

SOURCE: *Progressive Grocer*, 53rd Annual Report of The Grocery Industry, April, 1986.

Table 3

Selected U.S. Food Retailing Trends, 1970-1985

	1985		1980		1975		1970	
	#/\$	%	#/\$	%	#/\$	%	#/\$	%
<b># SUPERMARKETS*</b>								
Chain	17,220	8.6	18,400	11.0	18,980	9.9	20,400	9.8
Independent	13,285	11.2	16,500	9.9	12,730	6.6	17,900	8.6
TOTAL	30,505	19.8	34,900	20.9	31,710	16.5	38,300	18.4
<b>SALES SUPERMARKETS</b>								
Chain	143,705	49.2	102,830	46.6	64,240	44.9	39,350	44.5
Independent	66,115	22.6	67,870	30.7	39,450	27.5	27,315	30.9
TOTAL	209,820	71.8	170,700	77.3	103,690	72.4	66,665	75.4
<b># SMALL STORES</b>								
Chain	400	0.3	300	0.2	2,300	1.2	13,800	6.6
Independent	77,695	50.4	96,100	57.5	120,000	62.6	156,200	75.0
TOTAL	78,095	50.7	96,400	57.7	122,300	63.8	170,000	81.6
<b>SALES SMALL STORE</b>								
Chain	750	0.2	285	0.1	900	0.6	2,725	3.1
Independent	61,220	21.0	37,415	17.0	21,500	15.0	19,025	21.5
TOTAL	61,970	21.2	37,700	17.1	22,400	15.6	21,750	24.6
<b># C-STORES</b>								
	45,400	29.5	35,800	21.4	25,000	13.0	N/A	
<b>SALES C-STORES</b>								
	20,410	7.0	12,400	5.6	6,200	4.3	N/A	
<b>TOTAL #</b>								
	154,000	100.0	167,100	100.0	191,810	100.0	208,300	100.0
<b>TOTAL SALES</b>								
	292,200	100.0	220,800	100.0	143,250	100.0	88,415	100.0

\* 1986 Supermarket = \$2,000,000 annual sales vs. \$1,000,000 for other years.

SOURCE: *Progressive Grocer*, Annual Reports, 1986, 1981, 1976, 1971.

one store according to a *Progressive Grocer* study.

### *Retailer Influences*

1. A preoccupation with finding "the magic format" continues. As a result, store format definitions are very cloudy. Many still merchandise for their mothers instead of for today's consumer.
2. Competition has increased and the survivors continue to run "a tight ship." Independents and chains may share a wholesaler. There is even competition among independents and wholesaler owned stores.
3. "Niche marketing" has become more than an industry buzzword.
4. Wholesaler support may be the difference between survivors and non-survivors. Large retailers are even buying direct with the aid of their wholesaler in some cases.
5. Retail food stores may become recognized as Consumer Support Centers if there is an acceptance of the idea that traditional food stores are readily in a broader based business.
6. Programs and sources that are consistent with this broader concept will likely continue to grow. Examples include:
  - Specialty Departments
  - Video Centers
  - Books and Cards
  - Floral
  - Fast Photo
  - Dry Cleaners
  - Shoe Repair
  - Post Office
  - ATMs
  - Microwave Frozen Sections
  - Pharmacy and Medical. A physician or dental office may find all the traffic attractive as competition in these professions continues to develop.
  - Food fast as one wholesale executive called it recently to compete with restaurants.

- Day care centers may even be incorporated.
- Home delivery may return as dual income households are short of time. Several frozen programs appear to be working in selected areas.

7. One stop shopping may expand to "one stop living support centers" where populations warrant.
8. Remodeling, upgrading, and new store development will require more market intelligence and careful planning.
9. Applying technology to create integrated management information systems (MIS) is embryonic at this stage.
  - Practical use of Scanner Data
  - Space Management
  - Advertising Evaluation. (Behavior Scan applications for example)
  - Perishable Department Management
  - Margin Management
  - Simulation
10. Growth of delis to capture lost sales to eating out customers may create a specialty wholesale need for food service operations. This could create new methods of interfacing wholesale competitors to avoid duplication of effort and expanding scope of managerial expertise.
11. Financial support for expansion of independents. This will further enhance wholesaler consolidation because of FASB 13. Only large firms can carry contingent liabilities on their balance sheets and still maintain acceptable financial ratios.
12. Specialty retailing by and for store types, ethnic groups, and demographic "pockets" also appears to be growing.

### *Wholesaling Influences*

1. Specialty wholesalers are filling gaps in the structure. This creates opportunities for smaller groups.

2. Food service continues to be a growth segment.
3. Cash-N-Carry warehouses may have new opportunities with the tremendous growth of small outlets. The entrepreneurial spirit has been ignited.
4. Wholesale clubs such as Sam's may limit Cash-N-Carry growth. They also have a wide appeal and the long-run impact is still uncertain.
5. Cash rich wholesale companies are vulnerable candidates for acquisition. This explains part of what has been observed.
6. There is "a grow now and train later attitude." Capital is being channeled into facilities, not people. This will create a future void and need for "crisis training."
7. A surplus of experienced executives whose recent salaries have made them uncompetitive in the market place.
8. Full line wholesalers will be required to carry a greater variety to meet a wider range of retailer needs.
9. Data processing will continue to advance to the point where computer to computer communication will be expanded and possibly linked to automatic reordering in the near future. Also the application of UDS has helped many wholesaler's reduce the cost of ordering from those manufacturers who are a part of the system.
10. Transportation is becoming more generic; that is, the transportation function is no longer relegated only to the individual wholesalers' need. They may indeed carry product to competitors' distribution centers or for backhaul. In some cases they may even serve the same retailers.
11. Automation versus labor continues to be an issue. Achieving improvements in productivity is as needed today as ever. There may even be a spin-off of sub-warehouse groups to serve specialty areas. This could be tied into service versus non-service programs such as deli, general merchandise, and HBA, just to name a couple.
12. Crisis management programs will take on a greater significance in the years ahead. This not only refers to such crucial issues as product recalls but also disaster planning. The insurance situation today highlights the significance and importance of such programs. Also the vulnerability of large companies makes crisis management planning a very viable opportunity for most wholesalers.
13. Security and loss prevention has increased in importance. This is more than just catch them and kill them; it involves the whole area of alcohol and substance abuse for which a new program has been developed by NAWGA. It also includes reducing workman's compensation which has become an extremely large cost. One company (Comprehensive Health Management), for example, has developed a program to serve wholesalers and other businesses that have been proven to reduce workman's comp cost by a minimum of 25 percent. Damage and theft control programs will require continuous scrutiny.
14. The need for a wider variety of products to meet today's market has already been identified. At the same time inventory management and control to utilize capital better will also be required. Expansion of programs such as "just in time" systems, as well as computer based inventory management analysis, will make the buying function become increasingly technical. The danger is trying to marry the technical requirements of buying with the art of merchandising. The buyer who will meet these requirements will be a very integral part of the wholesale operation, even more so than today.
15. Store development and engineering departments, including market analysis will grow in importance. Helping retailers capitalize on their potential "niche" will require considerable expertise that most independents will not have.

## Management Issues

Managing the modern wholesale facility has never been more complicated but the requirements of the future may be more demanding. Group 7, a management consulting group, identified four major trends affecting management's ability to meet the challenge of today and tomorrow. They are:

1. Population Diversity
2. Technological Confusion
3. Information Overload
4. Values Vacuum

Group 7 further suggested four critical actions that must be taken to manage effectively under these conditions.

1. *Adopt Flexible Structure.* The manager must be closer to both markets and the work team.
2. *Define the Driving Force.* That will form the basis for all company actions and strengths. To operate in tomorrow's market place the successful organization will replace its broad mission statement with a well defined declaration of intention or driving force.
3. *Declare a value set.* Policy and procedures, although important, are not the core of the organization; values are far more central and are implicit in every management policy.
4. *Create a personal model of company values for the work team.*

Group 7 feels very strongly about these issues which are based upon nearly two years of their research. As a consequence, they have even developed a futures' audit system to help managements determine their readiness for tomorrow.

In addition to these items it appears some of the specific things that managements are going to have to address are the training

needs mentioned earlier. Once the acquisition and merger mania subsides, attention will need to be focused on maximum utilization of the acquired facilities. Undoubtedly this will create some shaky transition points. In addition, labor will continue to be an issue. To achieve the productivity required, more automation will be discussed and many alternative techniques to traditional materials handling will have to be developed. Automation, robotics, and refined materials handling techniques will all require increased attention.

## Applied Research Needs

There are numerous research implications identified by the preceding. A few of the areas that the industry needs help with are presented for consideration.

1. Combining high touch with high tech has not been seriously addressed by any management effort. Management and marketing researchers need to look at practical applications of doing so. Merely doing things because they are "humanistic" is not sufficient in itself to justify these expenditures either. Unlocking the entrepreneurial spirit of employees will require new approaches to organization and communication.
2. A careful evaluation of alternative techniques in physical distribution and materials handling, such as the use of carousels, mezzanine, automated order selecting systems, all need careful attention.
3. Determining alternative transportation modes is also vital. Can loads be mixed and still maintain high labor productivity when serving small stores, for example? What combination of trucks and services best serve a variety of retail needs?
4. Management organization will be critical as these companies continue to grow. How does one achieve the local "feel" of the market while maintaining controls from headquarters when a company has several different divisions in different states?

5. More effectively consolidating delivery systems appears to be an issue that is still alive.
6. Development of effective management information systems for every level of management in distribution and at retail is also needed. As the customer service center concept at the retail level is expanded to the retail support center concept for wholesale food distributors, effective communication becomes more important and more challenging.
7. Developing data based systems and an electronic transfer of information to aid both retailers and wholesalers.
8. Impact of the 1986 tax reform on resource allocation and management. The tax reform act could have the most significant impact on allocation of resources and how we manage those resources than anything that has happened in the last fifty years or longer.

In this brief presentation an attempt has been made to stimulate thinking on a few of the critical issues associated with food wholesaling. It is sincerely hoped that this objective has been achieved.