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Food Wholesaling

Food wholesalers, along with manufacturers, retailers, and restaurateurs, accounted for 9.8 percent of U.S. gross national product (GNP) in 1988. Of food system employees, 7 percent worked in wholesaling last year.

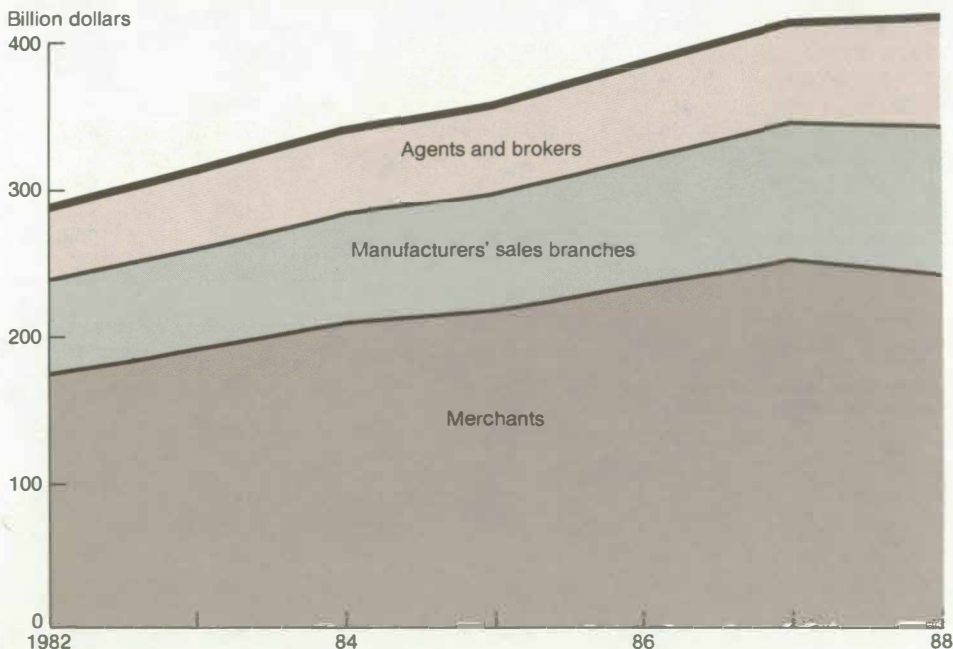
There is considerable diversity within this less visible member of the food marketing system. Wholesalers purchase, assemble, transport, store, and distribute groceries and grocery products. They serve retailers, institutions, businesses, industrial and commercial users, and as with wholesale clubs, they serve consumers. Merchants who buy and sell groceries directly account for most sales. However, sales branches of various grocery manufacturers, as well as agents and brokers who buy and sell food items on commission, are also important members of the industry.

In 1988, overall growth in the wholesaling sector slowed. Sales volume equaled \$417 billion, less than a 1-percent increase from 1987, the smallest rise during 1982-88 (*figure 1*). This small increase primarily reflects slower growth in the number of independent supermarkets, the primary customers of wholesalers.

The structure of food wholesaling has been affected by increased mergers and industry concentration. As the average grocery store has evolved, the industry has become more innovative and adaptable. Larger-than-average supermarkets are becoming more popular, and wholesale clubs—firms that sell groceries and nonfood items directly to member customers at wholesale prices—continue to grow.



Figure 1. Sales by Food Wholesalers Reached \$417 Billion in 1988¹



¹Includes nonfood sales, exports, and sales among these groups, such as brokers selling to merchants.
Source: *Food Marketing Review*, 1988, ERS, USDA, in process.
Contact Walter Epps (202) 786-1866.

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Aggregate Concentration

The wholesale food industry is highly concentrated. Large firms control most assets. About 16 percent of the industry's nearly 25,000 corporate distributors that filed tax returns in 1986 owned 88 percent of the assets, a share that has been gradually increasing since 1980. Of all these corporate firms, 39 percent had less than \$100,000 in assets

and only 16 percent had over \$1 million (*table 1*). Corporations accounted for 93 percent of wholesale food sales in 1982, the most recent year for which data are available. Individual proprietorships, partnerships, and cooperatives made up the remainder.

The number of corporations filing tax returns fluctuated widely between 1980 and 1986. Over 27,000 firms filed in

1981, the peak year, while fewer than 23,000 filed in 1982 (*table 2*). Small distributors accounted for most of the volatility in numbers, reflecting wide swings in the entry and exit of small firms. Between 1980 and 1986, the number of firms with assets worth less than \$100,000 ranged from 33 to 44 percent of the industry's total number of firms.

Table 1. In 1986, Large Wholesale Food Firms Owned Most of the Assets

Value of owned assets in thousands of dollars ¹	Number of firms	Percent of all firms	Percent of all assets	Cumulative percentage of firms	Cumulative percentage of assets
Up to \$100	9,606	38.5	0.1	38.5	0.1
\$100 to \$249	5,281	21.2	2.7	59.7	2.8
\$250 to \$499	3,647	14.6	4.0	74.3	6.8
\$500 to \$999	2,372	9.5	5.0	83.8	11.8
\$1,000 to \$4,999	3,249	13.1	19.7	96.9	31.5
\$5,000 to \$9,999	411	1.6	8.5	98.5	40.0
\$10,000 to \$24,999	220	0.9	9.7	99.4	49.7
\$25,000 to \$49,999	76	0.3	7.6	99.7	57.3
\$50,000 to \$99,999	29	0.1	6.0	99.8	63.3
\$100,000 to \$249,999	25	0.1	9.8	99.9	73.1
\$250,000 or more	17	0.1	26.9	100.0	100.0
Total	24,933	100.0	100.0		

¹Based on 1986 income tax returns.

Source: *Food Marketing Review*, 1988.
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Table 2. The Number of Small Wholesale Firms Has Changed From Year to Year¹

Year	Total number of wholesale food firms	Firms with less than \$100,000 of assets	
		Number	Percent of total
1980	24,299	9,146	37.6
1981	27,149	11,774	43.3
1982	22,698	7,486	32.9
1983	24,066	8,890	36.9
1984	23,089	8,271	35.8
1985	24,808	10,901	43.9
1986	24,933	9,606	38.5

¹Based on corporate tax returns for the year.

Source: *Food Marketing Review*, 1988.
Contact: Walter Epps (202) 786-1866.

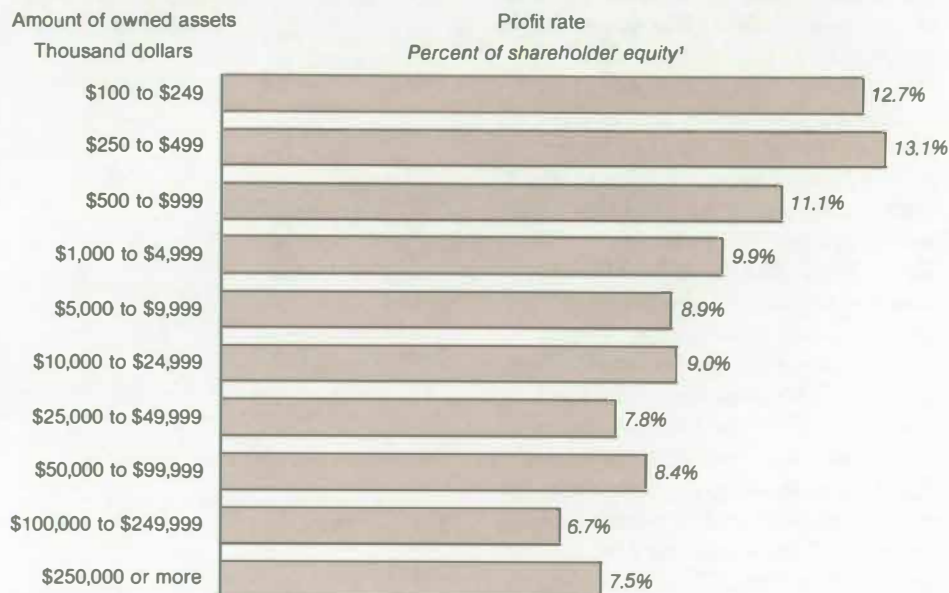
Industry Profits

Although food wholesaling remains highly concentrated and large operations control most of the industry's assets, small firms seem to enjoy higher average profits than large firms (*figure 2*). Between 1980 and 1987, profit rates (firms' net income divided by shareholder equity) of businesses with less than \$1 million worth of assets rarely fell below those of larger firms. These differences persisted even after allowing for variations among firms in their financial structure and level of capitalization. The phenomenon also suggests that there may be favorable growth possibilities for small firms.

But the higher rates often seen among such firms may simply reflect the greater risk involved in running a smaller company. In fact, small businesses often have a higher incidence of losses as a group. For example, in 1986, the wholesaling industry saw 40 percent of its firms with less than \$1 million in assets report losses. The industry-wide average was 21 percent.

According to ERS analyses, entry, exit, and failure rates also tend to be greater among smaller firms than larger ones. Much of this may be due to the lower capitalization and limited resources that many small firms must deal with.

Figure 2. During 1980-87, Small Wholesalers Reported Higher Profit Rates Than Their Large Counterparts



¹1980-87 weighted average.

Source: *Food Marketing Review*, 1988.
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Mergers

In 1988, mergers set new records for the value of assets acquired and the size of the firms involved. The number of mergers, however, fell by 16 from 1987's record high of 71 (*table 3*).

Fleming Companies, Inc., of Oklahoma City became the clear leader among distributors to retail foodstores with its purchase of the \$3-billion-volume Malone and Hyde, Inc. Fleming's acquisition of the Memphis-based wholesaler was the largest merger ever in the wholesale sector. Also in 1988, the Penn Traffic Company, a firm involved in wholesale and retail food, bought P and C Food Markets, Inc., a \$1-billion-volume wholesale and retail firm located in Syracuse, New York. Executives of the Peter J. Schmitt Company bought the firm—headquartered in West Seneca, New York—from its parent, Loblaw Companies, Ltd., Toronto. Super Rite Foods of Harrisburg, Pennsylvania, and B. Green and Company of Baltimore, Maryland—both \$600-million-volume distributors—were acquired by their respective managements and outside investors. These five transactions involved general-line wholesalers—firms that handle a broad range of dry groceries, health and beauty aids, and household products—with combined sales of \$6.3 billion.

Table 3. Mergers Have Increased in Recent Years

Year	Acquisitions		
	By food wholesalers ¹	By other firms ²	Total
	<i>Number</i>		
1982	36	2	38
1983	34	4	38
1984	33	4	37
1985	61	3	64
1986	52	13	65
1987	44	27	71
1988 ³	40	15	55

¹Assets acquired by U.S. food wholesaling firms.

²Food wholesaling assets acquired by nonfood wholesalers and other firms. ³Preliminary.

Source: *Food Marketing Review*, 1988.
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Several transactions involving slightly smaller businesses, those with sales ranging from \$100 million to \$500 million, were also completed last year. For example, Wetterau, Inc., of Hazelwood, Missouri, bought Roger Williams Foods, Inc., of Cumberland, Rhode Island, a firm with \$425 million in sales.

Already the top-ranked foodservice distributor, Sysco Corporation, headquartered in Houston, added \$2.5 billion

to its sales volume in 1988 by acquiring CFS Continental, Inc., the third-ranked foodservice operator, located in Rolling Meadows, Illinois. Philip Morris Companies—the food conglomerate headquartered in New York City—bought Kraft, Inc., along with its \$2.8-billion-volume subsidiary, Kraft Foodservice. The \$5.3 billion combined sales of CFS Continental and Kraft Foodservice made these acquisitions historic highs for foodservice distribution mergers.

Wholesale clubs also consolidated through mergers and acquisitions in 1988. Price Saver's Wholesale Club—the Kroger Company's 16-unit wholesale club headquartered in Cincinnati—was acquired by a management group. Makro Self Service Wholesale merged with K mart Corporation of Troy, Michigan. The Price Company, located in San Diego, bought Alfred M. Lewis, Inc., of Riverside, California. Lewis is a general-line, cash and carry firm with sales of \$337 million. Altogether, these transactions involved firms with sales totaling \$1 billion.

But mergers were not the only activity shrinking the number of wholesale clubs. In mid-1988, the American Wholesale Club of Richardson, Texas, sought bankruptcy protection, further lowering the number of such firms.

General-Line Wholesalers

Sales of the top 20 general-line wholesalers reached new highs in 1987 (table 4) and growth continued strong in 1988, reflecting innovation and adaptability among market leaders. A major force behind these changes is the growth of big retail foodstores. Superwarehouse stores—units encompassing at least 40,000 square feet—lead the trend toward larger retail outlets, but hypermarkets—stores covering at least 100,000 square feet—have also been successful. These larger-than-average supermarkets bring both opportunities and problems to large general-line wholesalers.

Several leading wholesale firms already service hypermarkets. Fleming Companies supply a Carrefour hypermarket in Philadelphia. Malone and Hyde service a Wal-Mart Supercenter in Washington, Missouri. A Bigg's store in Cincinnati, the first foreign-owned hypermarket in the United States, is principally supplied by Super Valu Stores, Inc.

Other large store openings are imminent. Super Valu will open its first wholly-owned variation of a hypermarket this year. That store will combine features of the company's Cub superwarehouse foodstores with its Shopko general-merchandise stores. A store in Cuyahoga Falls, Ohio, is the first of three planned units. Wal-Mart Stores, Inc., headquartered in Bentonville, Arkansas, is the leading domestic hypermarket operator, with three stores already in operation and one slated to open

early in 1989. All are likely to be served by one or more of the largest wholesale distributors.

With the growth of hypermarkets, distributors face a variety of new problems in managing warehouses and transportation. For example, large retail stores are likely to require seven-day-a-week, round-the-clock delivery since many turn stock over rapidly and have limited back-

room space. They also tend to restock more at night and on weekends.

Because they have little storage space, hypermarkets need deliveries within 12 to 24 hours of ordering an item. This affects suppliers by radically reducing their lead time and scheduling flexibility. Further, wholesale warehouses would need to operate on Sundays and holidays to meet retailers' restocking requirements.

Table 4. Sales of the Top 20 General-Line Wholesalers Hit New Highs in 1987

Firm ¹	1986		1987	
	Rank	Sales	Rank	Sales
		<i>Million dollars</i>		<i>Million dollars</i>
Super Valu Stores, Inc.	1	9,065 ²	1	9,371
Fleming Companies, Inc.	2	7,095	2	8,608
Wetterau, Inc.	3	3,292	3	4,155
Wakefern Food Corp.	6	2,550	4	3,900
Scrivner, Inc.	4	2,752	5	3,100
Malone and Hyde, Inc.	5	2,700	6	2,900
Nash Finch Co.	9	1,577 ²	7	1,943
Certified Grocers	8	1,663	8	1,806
Gateway Foods, Inc.	12	1,400	9	1,750
Roundy's, Inc.	7	1,850	10	1,739
Associated Wholesale Grocers (K.C.)	10	1,573	11	1,730
Spartan Stores, Inc.	13	1,345	12	1,579
Super Food Services, Inc.	11	1,422	13	1,583
McLane Company, Inc.	14	1,300	14	1,500
Peter J. Schmitt Co.	na	981	15	1,065
Richfood, Inc.	16	892	16	1,000
P and C Food Markets, Inc.	na	952	17	993
Associated Grocers, Inc.	15	906	18	950
Twin County Grocers, Inc.	17	890	19	920
Springfield Sugar and Products Co.	18	850	20	904

na = not available. ¹Firms serving primarily supermarkets and retail foodstores. ²Revised.

Source: *Food Marketing Review*, 1988.
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This could require distributors to renegotiate labor contracts that provide premium holiday and weekend pay. In addition, distributors will likely have to invest more in data processing and trucks and trailers to keep pace with customer needs.

General-line distributors have also diversified their customer base. A prime example is Spartan Stores, Inc. While previously focusing on retail supermarkets, Spartan now actually serves three distinct groups: retail supermarkets, convenience stores through its recently acquired L and L Jiroch subsidiary, and small operators through its United Wholesale Grocery subsidiary.

Other broad-line distributors are offering more services. For example, when a \$200-million-volume Massachusetts distributor, James Ferrera and Sons, lost a customer that accounted for one-fifth of its volume, the firm broadened its customer base and expanded its services. Within 3 years, it recouped and posted a 5-percent growth rate, while operating essentially within the same geographic boundaries.

A series of small-scale experiments graphically illustrate the industry's responsiveness. A few wholesalers have aligned themselves with electronic order-delivery services, where people order their groceries using personal computers. With this system, customers pay an initial fee for the software and a monthly service charge. They may then call up a grocery menu on their screens and place orders directly. Fleming Companies is the primary wholesaler for one such West Coast electronic delivery food

retailer. In the Minneapolis-St. Paul area, a similar system lists groceries on televisions tuned to a cable channel. Customers place orders by touch-tone telephone, and the Nash Finch Company delivers directly to their door.

Foodservice Distributors

Foodservice distributors cater to restaurants, fast-food outlets, airlines, institutions, and other providers of away-from-home eating by supplying food, equipment, and related services. Supported by umbrella distributing and marketing groups, sales of independent foodservice firms continue to grow and compare favorably with their manufacturer-distributor counterparts (*table 5*).

Table 5. Foodservice Distributors Continue To Grow

Firm	Sales	
	1987	1988
	<i>Million dollars</i>	
Sysco Corp.	3,700	5,300
Kraft Foodservice	2,600	2,800
PYA Monarch, Inc.	2,000	2,300
CFS Continental, Inc.	2,500	1,800
Rykoff-Sexton, Inc.	1,200	1,300
White Swan, Inc.	530	650
Food Service of America	515	611
Gordon Food Service, Inc.	510	560
Biggers Brothers, Inc.	320	357
Shamrock Food Co.	330	350
Total	14,205	16,028

Source: *Food Marketing Review*, 1988.
Contact: Walter Epps (202) 786-1866.

These groups are composed of independent member firms that band together to obtain economies of scale in purchasing, distributing, and advertising that they cannot obtain individually. Manufacturer-distributors, such as Kraft, Inc., are integrated, maintaining their own sales force, advertising, distribution, and marketing programs.

Foodservice distributor groups are expanding their equipment and supply offerings. For example, one large group, Nugget Distributors, provides equipment, supply purchasing, and marketing programs for members and nonmembers. Underscoring their shift in interest, distributor groups characteristically organize separate nonfood marketing divisions.

Some distributors have expanded existing services, such as forward warehousing and consolidation of mixed truckloads. Others employ centralized distributor programs for equipment and supplies, storing a range of nonfood items for redistribution to members. Yet others take title to goods, passing along savings from quantity purchases to members.

As membership has declined because of mergers within the industry, distributor groups have aggressively recruited new foodservice firms to market under their private product labels. Consequently, large independent foodservice distributor groups continue to grow.

Wholesale Clubs

Wholesale clubs date from the mid-1970's, when the Price Company began selling food, appliances, hardware, office supplies, and similar products to individuals and small businesses at prices slightly above wholesale. Leading wholesale clubs continue to enlarge the boundaries of club markets, services, and products. In 1988, business customers accounted for 60 to 70 percent of all club sales.

Expanding aggressively, Sam's Wholesale Club has opened record numbers of establishments and posted record sales, owning 100 warehouses in 1988 with an estimated \$4.0 billion in sales (table 6). In 2 years, Sam's doubled its number of warehouses and its sales by building and buying new outlets. In 1987, the firm bought the 21-unit Super Saver Wholesale Warehouse Club, and in 1988, purchased three Price Saver's Wholesale units.

At the end of last year, Sam's sales were about even with the Price Company's, the historical industry leader. Price reported sales in 1988 of \$4.1 billion in 42 warehouse units. These two leaders, along with Seattle-based Costco Wholesale Club and Denver's PACE Membership Warehouse, accounted for 82 percent of 1988's estimated \$13.8 billion in sales by wholesale clubs. BJ's Wholesale Club of Natick, Massachusetts, the

Warehouse Club of Skokie, Illinois, and the Indianapolis-based Wholesale Club were, at best, only marginally profitable.

Costco appears to have successfully differentiated itself by offering a greater selection of perishables like fresh meat and seafood, at seven locations. This firm has also installed pharmacies in 17

of its 49 stores, and has experimented with a no-member-fee retail store. With its expanded line of perishables, the firm hopes to attract foodservice customers, who constitute a large and growing segment of club sales. Over the past 2 years, Costco's sales have grown faster than other clubs', a likely reflection of its success at pinpointing customer needs.

Future plans by the major wholesale clubs point to unabated growth. Costco plans to add a dozen outlets this year, a threefold increase from 1988. Wholesale Club expects to add five warehouses. Pace has 8 units planned for 1989, and Sam's anticipates as many as 25 new openings. Among the smaller wholesale clubs, Makro's long range plan is to open 20 new units, according to its parent firm, K mart.

As these plans suggest, initial fears of market saturation have proven to be unfounded. It now appears that profitable warehouses can be operated with fewer than the 400,000 customers first thought necessary. So the potential market is larger than initially estimated. Further, existing outlets have demonstrated that customer and product diversity can be accommodated, while maintaining high inventory turnover, minimizing working capital, and maintaining or boosting earnings.

Table 6. Wholesale Clubs Expanded Outlets and Sales in 1988

Firm	Number of stores	Sales Million dollars
Price Company	42	4,053
Sam's Wholesale Club	100	4,000
Costco Wholesale Club	49	1,989
PACE Membership Warehouse	37	1,250
BJ's Wholesale Club	22	800
Price Saver's Wholesale Club	16	610
Wholesale Club	18	380
Warehouse Club	12	249
Club Wholesale	6	105
Buyer's Club	5	80
Others	20	310
Total	327	13,826

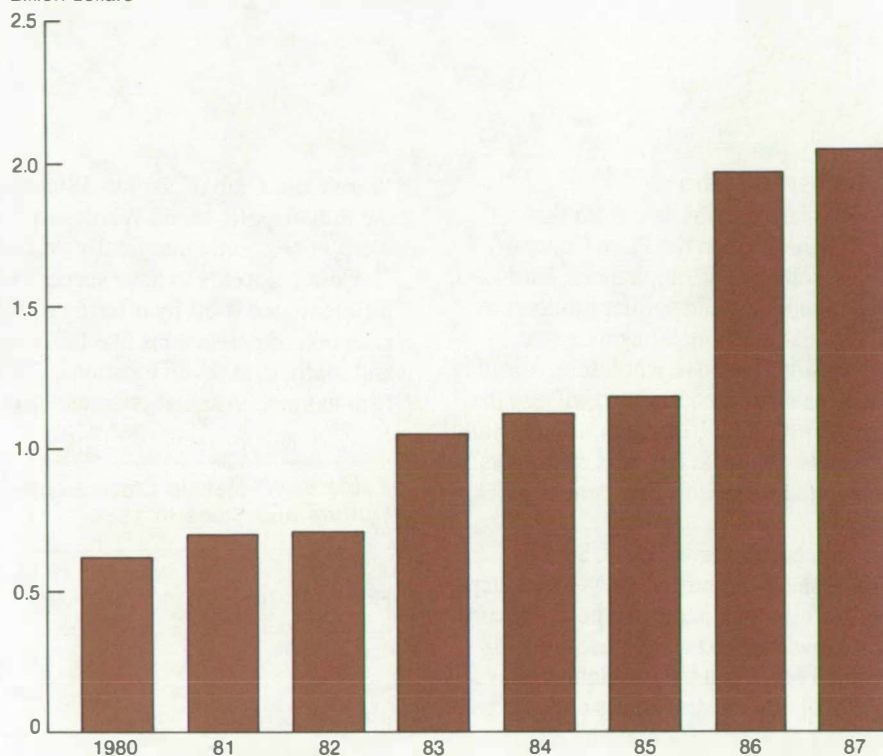
Source: *Food Marketing Review*, 1988.
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Food Wholesaling. . . At a Glance

Foreign investment in the domestic wholesale food industry is comparatively small. Collectively, foreigners invested \$2 billion in wholesale food firms in 1987, or about 5 percent of the value of assets of wholesale food corporations filing income tax returns. One of the five leading distributors, Scrivner, Inc., is owned by Haniel Cie of West Germany. A Canadian firm, Provigo, Inc., owns an East Coast and a West Coast distributor. Carrefour, a French firm, holds an interest in the Costco Wholesale Club.

Foreign Investment in Food Wholesaling

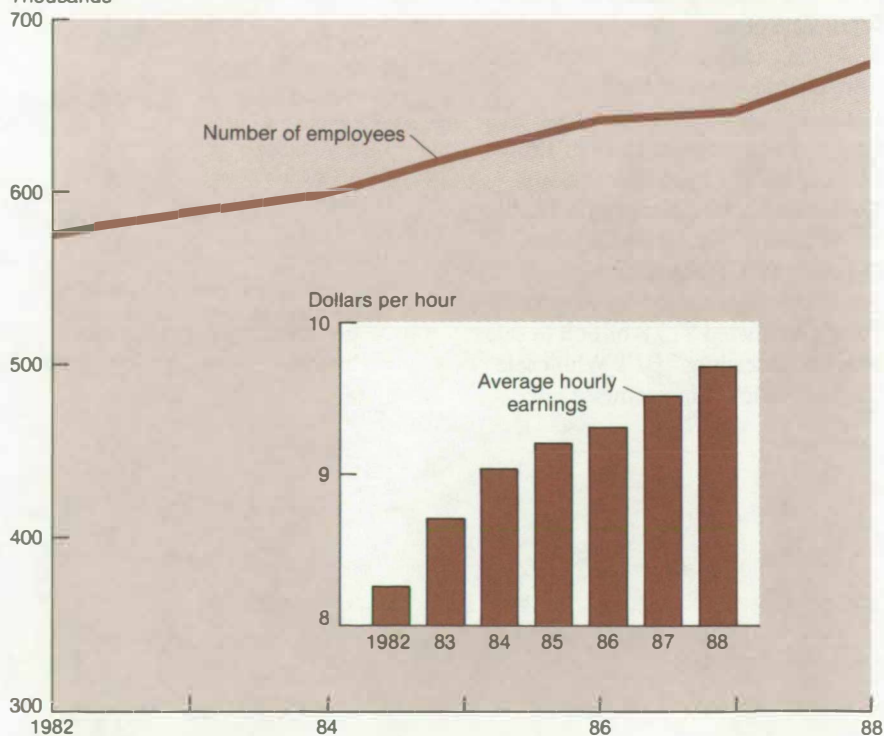
Direct investment
Billion dollars



The 674,000-strong workforce in food wholesaling receives higher wages than workers in food retailing, foodservice, or food manufacturing. The 1988 average hourly earnings of wholesale food workers was \$9.71, twice the rate of workers in eating and drinking places and one-third higher than the rate paid to grocery store employees. Only the \$9.10 hourly earnings of processing employees approached wages at the wholesale level. Average earnings of wholesale workers reflect the influence of comparatively high wage rates of warehouse employees and truckers, two groups more likely to be unionized than others, particularly in large firms. A mid-1970's survey of specialty wholesalers found that 8 in 10 firms with sales of \$10 million or more had unionized warehouse employees, but only 1 in 4 smaller distributors reported union membership.

Employment and Wages

Thousands



Source: Food Marketing Review, 1988.
Contact: Walter Epps (202) 786-1866.