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# Not All Independents Fade Away, Some Become Chains

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The declining sales share of independent retailers doesn't mean that all of them were driven out of business—many have prospered. Nevertheless, few independents ever open a second supermarket, and only a handful become chains. Those that do expand must pass through several recognizable stages in the growth process from a single store to a large chain operating in several parts of the country.

Only 15 percent of supermarket firms operate more than one store, fewer than 3 percent are chains (operate 11 or more stores), and less than one-half of 1 percent are large enough to operate multiple warehouses. Impediments to growth include the difficulty of finding able store managers, organizational problems in running a diversified operation that requires thousands of new decisions every day, difficulty predicting changes in consumer demands, the dominance of established firms, and limitations on mergers.

### The Single-Store Independent

Wholesalers will help new grocers find stores, arrange financing, set up accounting procedures, arrange for the retailers to handle a line of private label products, determine stocking and pricing, institute management procedures, and train employees. Once the stores are open, the wholesaler will provide information about competitors' prices and regularly send a representative to the stores to offer management advice. Wholesalers will also maintain the retailers' accounting records, provide periodic financial reports, and prepare their taxes.

Grocers usually join a group of other independents served by a wholesaler to gain economies in advertising and to achieve greater consumer recognition. This usually requires that the stores use a common logo and brand of private label products. They often maintain similar store features as well. Each group, with the advice or assistance of their whoesaler, prepares a weekly newspaper ad featuring price specials that all members are required to honor. The firms are free to price other products independently.

New firms usually depend heavily upon the wholesaler for merchandise and help in managing the store. Wholesalers encourage this so they can increase efficiency in warehousing, transportation, and management services. Over time, some retailers decide to handle more of their own management decisions. The degree of autonomy exercised by independents varies widely.

### Adding Another Store

Only about 900 of the Nation's 6,900 independent supermarket firms operate more than one store. Grocers who add a second store must hire a manager and can no longer directly oversee day-to-day operations. Finding the proper manager is difficult, and many independents fail in this growth step. An owner who is able to find a good entrepreneurial-type person who can operate a store with little guidance may sometime find it is difficult to give the manager sufficient freedom. If a manager is hired who requires day-to-day direction, the owner must find a way to tell the manager how to perform the many required tasks. Large chains have manuals of standard operating procedures that cover virtually every facet of operation—an independent must find a substitute for the manual.

### Opening a Buying Office

Usually a supermarket firm must operate 5 to 10 stores before it is feasible to open a buying office. About 350 independents and 100 small chains operate buying offices. A buying office allows retailers to make many of their own deals directly with manufacturers. This allows them to take advantage of manufacturers' trade allowances and promotional deals that wholesalers might choose to ignore. Some retailers rent space in public warehouses for deal merchandise, but they continue to receive most of their merchandise from an affiliated wholesaler. Special arrangements are made for the wholesaler to handle products not normally stocked.

Many firms with 5 to 10 supermarkets are large enough to leave their advertising groups. Firms usually introduce some private label products with their own brand or affiliate with a private label wholesaler that does not sell to other retailers in the area, that is, one that sells to small chains rather than to independents.

Independents that operate buying offices perform many of the services provided smaller independents by affiliated whole-

**Number of Supermarket Firms, By Size**

| Firm size | | Number of supermarket firms[1] |
|---|---|---|
| Single store independents | | 6,000 |
| Multistore independents | | 900 |
| Without a buying office | 550 | |
| With a buying office | 350 | |
| Chains (11 or more stores) | | 200 |
| With a buying office | 100 | |
| With one warehouse or distribution center[2] | 70 | |
| With two or more warehouses or distribution centers[3] | 30 | |
| Total | | 7,100 |

[1]Estimated by the author based upon data from (1), (2), and (3).
[2]A distribution center is a complex that includes administrative offices and one or more warehouses handling dry groceries and other products.
[3]On average, each firm operates about 5.25 warehouses or distribution centers.

salers. The retailers usually assume responsibility for most in-store activities, such as merchandising, pricing, employee management, and accounting. By the time firms reach chain status, they usually assume a large degree of autonomy and responsibility for all business decisions, including arranging for new store locations and business financing.

### Operating a Warehouse

A supermarket firm with 25 to 40 stores (depending on store size) in the same or nearby markets usually can efficiently operate its own warehouse. About 70 supermarket chains operate one warehouse or distribution center in the United States. By operating their own warehouses, retailers can tailor buying, storage, and delivery operations totally to their own specific needs. These firms have reached full integrated chain status and have a large amount of freedom to set their own course of action.

The chains also may open their own bakery and milk bottling plants, since these manufacturing activities are economical at relatively small scales. The chains may still buy some products from a private label wholesaler but usually rely mostly upon their own private brands.

### Operating Multiple Warehouses

Only 30 supermarket chains operate two or more warehouses or distribution centers in the United States. Most large food chains seek to expand into additional markets, although no chain operates in all parts of the United States. Safeway, the Nation's largest chain, operates about 1,900 stores in 27 States and the District of Columbia. These stores are served by 21 distribution centers. Kroger, the Nation's second largest chain, operates about 1,200 stores in 22 States, served by 16 distribution centers.

When supermarket firms enter new markets, they need efficient wholesale support and an effective promotional program to attract customers. A new independent meets these needs by affiliating with a wholesaler. However, a chain does not want to become a member of an affiliated wholesale group, because it wants to use its own operating procedures, store characteristics, and private brands.

Chains usually expand as much as possible from an existing warehouse before entering more distant markets. When chains enter such markets, they usually will do so only on a large enough scale (about 5 to 10 stores) to gain significant advertising economies. In addition, they prefer to enter on a large enough scale (about 25 to 40 stores) so that they can also operate a warehouse efficiently.

Chains that enter markets without their own warehouse support usually acquire a few stores, open a buying office, use an affiliated wholesaler for product storage and delivery on a contract basis, and expand until a warehouse is feasible. When firms plan to enter a market with their own warehouse support, they usually acquire a chain that already has a warehouse in the area, then remodel the acquired stores, and initiate a strong promotional program. The acquisition route often is preferred by chains, because it is quicker and usually less expensive, and it eliminates a major competitor from the market. The Federal Trade Commission attempts to prevent mergers that reduce competition, and this has deterred expansion of large chains in the past.

### Decline of a Firm

There appears to be one additional stage in the life of some food chains—decline. Aging stores, warehouses, and operating practices often become obsolete. If chains do not modernize or discard their obsolete facilities and procedures, they begin to incur significant losses in some operations. Eventually these losses can offset the profits earned in other parts of a firm. At this point the situation can be critical, because several stores need assistance at the same time and the reduced profits limit the firms' capacity to raise the money either internally or from lending institutions. If the firms' suppliers sense a serious financial problem and demand immediate payment for merchandise, the retailers, caught in a cash-flow squeeze, may be forced to file for protection under the bankruptcy laws.

Several chains, including A&P, H.C. Bohack, Food Fair, First National, and Allied, encountered financial problems that forced them to sell large numbers of stores during the 1970's.

Store size and characteristics, customer services, and promotional practices continue to change in food retailing. Some firms become complacent once they have reached a measure of success, and this makes them vulnerable to more aggressive firms that are trying new competitive ideas. Competitive behavior varies among markets, and chains must adapt their operations accordingly.

Large organizations often encounter bureaucratic inefficiencies, and food chains are no exception. By standardizing their store characteristics and operating practices across markets, large chains take some decisionmaking authority away from their local managers, who are in a position to see changes taking place in their markets. Greater authority is given to headquarters managers, who are not in a position to observe competitive behavior in the local markets. Thus, centralized decisionmaking, which large multimarket chains usually prefer, may set in motion forces that contribute to the chains' eventual decline. This, in turn, provides an opportunity for many independents and small chains to acquire stores and enter the industry or grow larger. ■

### References

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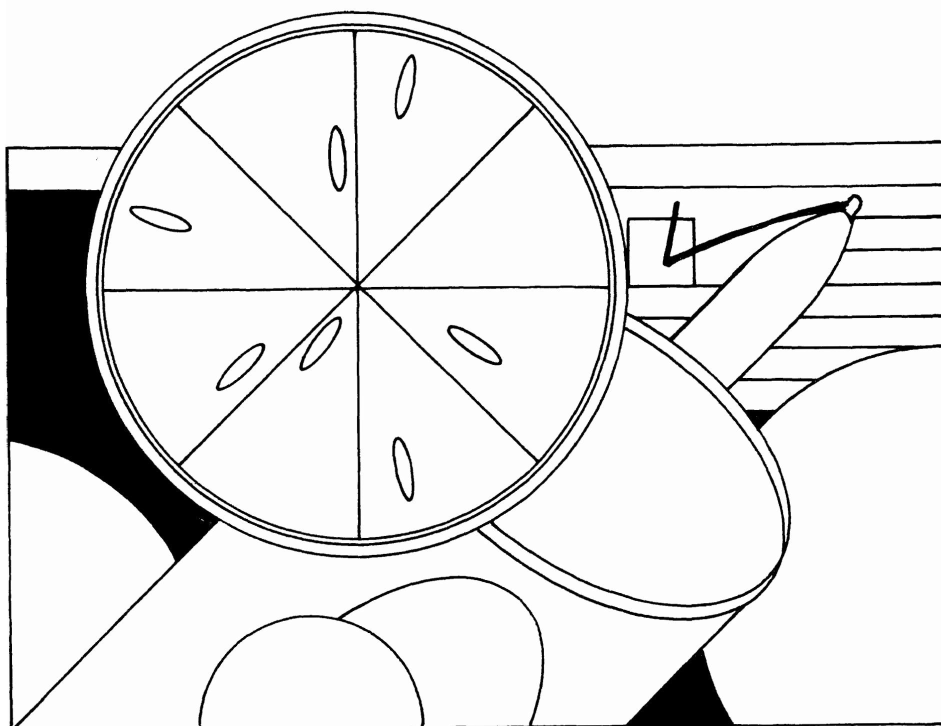
# USDA Actions

## Food Safety and Quality



**Revised Grade Standards for Orange Juice**

USDA is proposing to revise the grade standards to allow for a sweeter-tasting orange juice.

The industry now has the capability to produce a sweeter-tasting frozen concentrated orange juice without increasing the sugar content. However, this new product, 'reduced acid frozen concentrated orange juice,' isn't covered by U.S. standards. Therefore, USDA developed and is proposing a voluntary U.S. grade standard for this product.

If this proposal is adopted, there will be eight orange juice standards—each covering a different type. The seven existing orange juice standards cover canned, frozen concentrated, concentrated for manufacturing, canned concentrated, dehydrated, pasteurized and orange juice from concentrate.

Under the proposal, USDA would raise the maximum sugar to acid ratio in concentrated orange juice for manufacturing from 20:1 to 24:1. This would allow more flexibility in blending juices to produce the finished product. Most concentrated orange juice for manufacturing is used to produce other forms of orange juice.

USDA is also proposing to eliminate alternate grade names, such as U.S. Fancy or U.S. Grade A, from each of the standards in favor of single-letter grades names like U.S. Grade A.

**USDA Revises Grade Standards for Olives**

USDA has revised the Federal grade standards for canned ripe olives to make their labeling uniform throughout the industry and to comply with California's Agricultural and Health Safety Code. The California olive industry produces the entire U.S. crop of olives.

Federal grade standards will provide for seven sizes of canned whole and pitted ripe olives: small, medium, large, extra large, jumbo, colossal and super colossal. The proposal would also provide minimum drained weight requirements.

Acceptance of federal grades and the use of federal grading services is voluntary and is paid for by the user. Some segments of the ripe olive processing industry customarily used five sizes for retail sales while other segments used nine sizes. Representatives of the ripe olive industry have now agreed on using seven sizes.

To determine the proper restructuring for the seven sizes and minimum drained weight requirements, USDA and the olive processors did studies on olive size and drained weight. Results of these studies are incorporated in the final action.

USDA's Agricultural Marketing Service develops grade standards and provides official grading services for many food products.

**USDA Revises Grade Standards for Grapefruit Juice**

On Sept. 17, the U.S. Department of Agriculture revised the grade standards for grapefruit juice so more flavorful juice from mature grapefruit is used in higher grades of the product.

The revised standards respond to the request of the citrus industry to be allowed to process more mature fruit to provide the best-tasting juice in the higher grades.

The standards will permit more variance in the color of grapefruit juice, but will retain color as a quality factor. Juice from very mature fruit lacks the vivid color found in less mature fruit.

The Florida Citrus Processors Association first asked USDA to revise the grade standards in 1977.

Under the revised standards, duel grade names, which use both words and letters—such as U.S. Grade A or U.S. Fancy—will be eliminated in favor of single-letter grade names, such as U.S. Grade A.

The final rule combines the separate grapefruit juice standards—grapefruit juice, dehydrated grapefruit juice, concentrated grapefruit juice for manufacturing, frozen concentrated grapefruit juice—into one.