

Jim's Park and Shop LLC: Wholesale indecision

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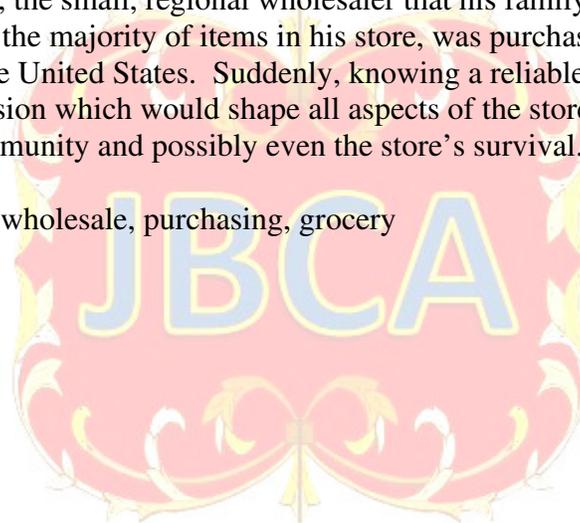
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ABSTRACT

In 2019, Jim purchased Park and Shop, an independent grocery store in Olean, New York from his family with his sights set on keeping a community-based grocery store alive. Shortly after purchasing the store, the small, regional wholesaler that his family had worked with since 1977 and which supplied the majority of items in his store, was purchased by one of the largest grocery wholesalers in the United States. Suddenly, knowing a reliable supplier was in place changed to a critical decision which would shape all aspects of the store's marketing, his relationship with the community and possibly even the store's survival.

Keywords: supply chain, wholesale, purchasing, grocery



INTRODUCTION

Jim sat in his office, exhausted from the day's work he had put in at his newly purchased grocery store, Park and Shop. The decision to own one of the few remaining Park and Shop stores had been taxing for Jim, but he was not ready to let another independent grocery store, especially another Park and Shop, cease to exist. An "independent store" is one that has fewer than four outlets under simultaneous operation (Cho & Volpe, 2017). Nationally, small independent grocery stores, as a percentage of all retail grocery stores, have declined in recent years. In the period between 2005 and 2015, the total number of grocery stores in the United States increased by 7 percent. While chain stores increased in number during this period, the growth of independent stores was stagnant. The result was a decrease in the share of independent stores in 41 percent of all U.S. counties (Cho & Volpe). His family's chain of Park and Shops were no exception. In recent years, several have been sold to national retail chains, including Dollar General. Jim felt strongly that independent grocery stores have an important role to play in a community, beyond the products they offer for sale.

The store Jim bought is in Olean, New York, a small city in Western New York with a population of approximately 14,000, approximately 24% of which are classified as living in poverty and almost 16% over the age of 65. (United States Census Bureau, 2021c). Jim was no stranger to this store, or this city. He grew up as part of both, watching his grandfather, his father, and his uncles run several Park and Shop locations over his lifetime. Part of the reason Jim decided to purchase the store was because of his connections to the community. He knew he had a reliable wholesaler in Olean Wholesale Group ("OWG") that could help supply his new store. He knew many of the people who worked there.

Shortly after purchasing the store, OWG, the small, regional wholesaler which Jim's family had worked with since 1977, was acquired by the largest wholesaler in the country – C&S Wholesalers ("C&S"). According to the C&S website, C&S has over 100,000 product offerings, and supplies customers of all sizes, including independent grocers, chain stores, military bases and institutions (C&S Wholesale, 2022). C&S was eager to have Jim sign long-term contracts to ensure the store stayed under contract with C&S. Simultaneously, Jim was being approached by another grocery wholesaler – United Natural Foods, Inc. ("UNFI"), which was similar in size to C&S, but had a very different business model and different product offerings than C&S. UNFI's website describes the company as offering 250,000 products including natural, organic, conventional and specialty selections (United Natural Foods, Inc., 2022). Jim now faced a decision as to which of two wholesalers to sign a contract with as the store's main supplier.

These contracts were not small issues, either – each contract lasted five years with heavy penalties for cutting ties early. Whichever wholesaler Jim chose had to provide approximately 60% of the products on Jim's shelves, and these two wholesalers had considerably different product offerings, logistical considerations and support services to offer him.

In addition, the decision was complicated by community repercussions. With much at stake, and limited time to make a choice, Jim found himself in a situation of wholesale indecision.

THE GROCERY WHOLESALING INDUSTRY

Retailers rely on wholesalers as a middleman between their business and the large companies that supply their stores. Wholesalers distribute perishables, dry goods and many of

the non-food grocery products found on shelves (Ross, 2020). For Jim, this was, of course, the majority of the products in his store.

While some food wholesalers specialize in wholesaling a particular type of food product (e.g. seafood, meat or fresh produce), wholesaler distributors in the grocery wholesaling industry supply buyers with a wide variety of largely standardized products. In industry terms, these wholesalers are known as broadline wholesale distributors (Ross, 2020).

In 2020, UNFI and C&S were two of the largest players in this industry. C&S Wholesalers had 12% market share and \$27.3 billion in sales in 2020. UNFI had 10.5% market share with \$23.9 billion in sales (Ross, 2020).

In addition to selling products to supermarkets and grocery stores, grocery wholesalers can provide a wide range of support services which can be critical to the operations, especially of smaller, independent grocery chains. Jim didn't see a tangible differentiation between the two suppliers in this area; there was no real reason that either supplier could sway his decision solely based on this category.

Nonetheless, there were some points of differentiation Jim had to examine while making his decision. Some of those points comparing C&S and UNFI are as indicated in the appendix.

JIM'S STORE

Jim's store is situated in a prime location in Olean, very close to the city hospital and next to one of the higher-income neighborhoods in the area. Olean and the surrounding areas have a fairly low household income. In Cattaraugus County, where these towns and cities are situated, the average median income falls below the New York State average. According to the 2020 Census, the median household income in New York State fell at \$71,117. In Cattaraugus County over the same period, the median household income fell at \$50,700 — over \$15,000 less than the median for the state (United States Census Bureau, 2021b).

While Jim's store is in Olean, New York, it is important to note the situational demographic of the neighboring village of Allegany, New York. Allegany has a population of approximately 7,324 people (United States Census Bureau, 2021a) and has a high concentration of young people from the months of August to December and January to May, because it is home to a small liberal arts university called St. Bonaventure University. In addition to owning the store, Jim is a faculty member at the university and leader of several mission-based initiatives that support local and global communities. Jim's store is roughly three miles from the St. Bonaventure campus and approximately four miles from the village of Allegany.

While Jim knew Olean was not a high-income city, he never really viewed customers based on their income or zip code. He viewed customers and potential customers as part of his local community. When customers walk into the Park and Shop, Jim knows and regularly greets many customers — from the neighborhood businessman to the local English professor, to the elderly woman who lives alone. The Park and Shop is the place in Olean where everyone knows your name. Over time, it has become more than a grocery store.

One shopper said years ago, he used to frequent the store, but stopped going because he didn't feel the experience was as welcoming or high quality as it had previously been. He instead began frequenting chain grocers. But that changed when the former customer found out Jim had taken over the store. As someone familiar with Jim, his work ethic, and his commitment to his community, the lapsed shopper decided to give Park and Shop another chance. He stepped into the store after Jim took it over and realized that the community atmosphere had re-entered a

building that had previously felt so familiar to him. Because everyone knew his name, he became a loyal Park and Shop customer once again.

Jim brought his mission-focused approach to the culture and atmosphere of his store. The store entrance posts daily announcements ranging from specials of the day to vaccination opportunities, and updates on mission-based projects he was leading through his affiliation to the university. He also prominently featured how he defined his goals in running Park and Shop.

For Jim, owning and operating the store was never entirely about the money. “If we break even and keep 40 people in Olean employed, that’s a win,” he said.

STORE’S CHALLENGES

When Jim acquired Park and Shop, the circumstances looked bleak. He was told by many – including the previous owners, his own family – he would fail in owning the business and making it profitable. His store had been experiencing increasing competition and decreasing sales over the years leading up to his ownership.

In the five-year period before Jim purchased the store in 2019, sales had declined by over a third in nominal dollars and by about 40% in real terms (inflation adjusted).

The decline in sales can be attributed to many factors, one of which is the competitive landscape in Olean and Allegany. Despite being a relatively small population, Olean and Allegany had several competing grocery options including an Aldi, a BJ’s Wholesale Club, a Tops Supermarket, a Walmart Supercenter and several discount and dollar-format stores.

It is also home to Ried’s Food Barn, another independent grocery store located 1.3 miles from Jim’s store, on the other end of the city of Olean. Jim was certain that Ried’s would be staying with C&S. C&S now owns the building that Ried’s operates from.

If Jim stayed with C&S, and there were opportunities or challenges with the new supplier, the competitive playing field would remain level for his store and Ried’s. If he switched to UNFI, no matter what, the playing field would change, in no small part due to the new mix of products he would be carrying. The question became – was it better to be on the level playing field, where if C&S turned bad, everyone was facing the same issues, or to branch out to UNFI, which would put Jim in a completely different risk pool?

Jim knew that the store itself needed updating, and that he needed to rethink how he approached the store and how he used the space in the store if he was going to survive.

SMALL TOWN COMPLICATIONS

When C&S acquired Olean Wholesale group, on paper, they were acquiring a regionally based wholesaler which supplied a collective group of 270 independent grocery stores and convenience stores in New York, Pennsylvania, and Ohio (Ross, 2020).

From Jim’s perspective, C&S was acquiring a group of employees that he knew very well — after all, he had grown up with many of them. Word on the street was that C&S would most likely keep some of the top OWG top executives, who knew the area, the market and the people, but would be eliminating 80% of employees that were part of OWG. Many of the people that worked at OWG were his childhood friends, neighbors, trusted colleagues and friends.

Jim was not sure if proceeding with C&S would be viewed as a sign of loyalty to those who kept their job or as a slap in the face to his community and friends inside OWG who lost their jobs. And, he wondered, if it was seen that way, how much did the business stand to lose as

word of mouth traveled? He wondered if his emotions were clouding his decisions, or whether he should even factor this acquisition reality into his decision?

DIFFERENTIATING FROM COMPETITION

Jim knew that to survive and thrive, he needed to find a way to set himself apart from these competitors and give consumers reasons to shop at his store, beyond price.

Jim experimented with products ranging from alligator jerky to CBD and a variety of meats smoked on the premises. He had great faith that with excellent service and the right line of products, this community-based store could survive and maybe even succeed.

He struggled with whether his consumers in the Olean market were ready for the more organic profile that UNFI brought, but also needed to consider the university population in neighboring Allegany, which might readily embrace more organic alternatives.

From looking at industry trends, Jim knew buying and eating organic had become important to many consumers in the past several years.

Jim had to make a decision about the direction he believed his chunk of the market was headed in – without a crystal ball.

It seemed like wherever Jim turned, he could read about more and more consumers eating organics. According to some research he read online, more than two-thirds of American consumers purchased organic food at least once in the past 30 days. The same study said that only 25 percent never purchase any. (Statista Research Department, 2022).

Jim began to think about the decision at hand even harder. He wondered, “Could C&S compete with UNFI’s expansive organic and health-conscious product lines? Could C&S adapt if I decided to align myself with organics in the future?”

Jim couldn’t predict what Olean and Allegany sentiments would be if his product line shifted towards more organics. He wasn’t overly concerned about the price of organics – consumers had told him they would be more willing to pay more for his goods because they wanted to support a local business that was convenient for them. He wondered, and quite honestly worried, about the potential reaction from his older customers if he moved towards more organics.

So, what to do?

At the end of the day, Jim had a great deal to consider. He had to look at community factors, logistical factors, and trends within the industry, all while managing a grocery store and remaining relevant to his current and future customer bases.

As he sat at his desk, mulling over his pros and cons list for what seemed like the thousandth time, he pressed his hands against his temples in frustration.

Looking for an outside opinion, he picked up the phone and called his trusted advisor – you.

Knowing all you know about Jim, the wholesalers, the store, his consumers, and the situation, what would you tell Jim? Would you go with C&S, or would you choose to pivot and use UNFI instead?

APPENDIX

Table 1

	C&S	UNFI
Company Website	https://www.cswg.com/	https://www.unfi.com/
Product lines	More traditional product lines, including value brand private label lines. See sample descriptions below.	More natural, organic product line and specialty offerings. See sample descriptions below.
Examples of Private Brand Lines available	Best Yet, Exceptional Value (C&S Wholesale Grocers, Inc., 2022)	Essential Everyday, Woodcock, Wild Harvest (United Natural Foods, Inc., 2022)
Distance to warehouse supplying Jim's store	Dubois, PA to Olean, NY - approximately 92 miles	Harrisburg, PA to Olean, NY - approximately 203 miles
Customer focus	Primarily Chains	Primarily Independents
Sample customer base	Large chains such as A&P, Pathmark, SuperFresh, Grand Union, Shaw's, Safeway, Big Y, Giant Foods and many more (C&S Wholesale, n.d.).	Whole Foods Markets is UNFI's largest customer. Other stores include Stop & Shop, Giant Food, Hannaford, Wegmans, Kroger (Redman, 2021).
Overall level of prices and initial investment	Comparable	Comparable

<p>Support and access to data</p>	<p>C&S predominantly works with larger chains who have their own people to look at sales data, create ads, etc. This is something Jim relied upon OWG to help with and wasn't sure if C&S would be willing or able to do for them.</p>	<p>UNFI had great data on case movement and support for ads. UNFI shared an incredible amount of data that would be available to Park and Shop in an impressive two-hour presentation.</p>
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