



Markets in Transition: Cash & Carrys and Ethnic Grocers

Approximately 500 full-line Cash & Carrys with revenue in excess of \$20 million operate in the USA. A thousand small, specialty Cash & Carrys also exist. They wholesale to a market of approximately 100,000 independent grocers with combined revenues of more than \$125 billion.

Cash & Carry Industry

The Cash & Carry market, the Independent Grocers, is best appreciated within the context of the overall grocery market which is not addressed in this study. Readers who may not be familiar with the grocery industry, or who seek additional nuance, are referred to *Grocery Industry: Origins, Culture, Practices* – a White Paper commissioned by SAIC.

The overall industry may be somewhat arbitrarily thought of as three distinct segments: (1) Wal*Mart; (2) Supermarket Chains; and, (3) Independents. Wal*Mart's \$240 billion revenue includes \$85 billion of grocery sales. Sales in the Supermarket Chain segment total \$410 billion, of which roughly \$324 is made-up of groceries. The following two quotes from *Grocery Industry: Origins, Culture, Practices* sum up independents and their primary needs:

“The Commerce Department[†] reports approximately 10,000 companies operate small grocery chains (of less than 50 stores), single unit stores, and convenience stores. An additional 90,000 operate below the “radar screen” of most industry surveys. Growth has averaged 4% (twice supermarket chain growth rates) with the ethnic sub-segment experiencing double digit growth. The segment is underreported in most surveys. It is characterized by scrappy small business owners who make-up with hard work what they lack in technology, scale and business practices.

[†] The Commerce Department reports the above segments in two categories: ‘Conventional Grocery’ and ‘Other.’ See Table 1. Table 2 shows the composition of firms included in Conventional Grocery.

“Access to product is a problem for small neighborhood grocers. They have insufficient volume to buy from full line distributors and have difficulty passing on the cost of food service to their customers. Many use Cash & Carry distribution

USA Retail Industry

Segment	Sales (\$ billions)	Firms (000)
Conventional Grocery	430	110
Drug Stores	84	48
Home Centers	116	70
Eating & Drinking	230	430
General Merchandise	285	36
Apparel & Accessory	108	146
Furniture/Appliances	125	113
Automotive	521	103
Gasoline Service	142	100
Other	220	311
Total	2,261	1,467

Source: Commerce Department

Table 1

“Conventional” Grocery Industry

Supermarket & Grocery Store Chains

# of firms	stores in chain	total stores	-- sales (\$ millions) --		share (%)
			grocery	total	
1,104	2 - 3	2,560	14,333	14,345	3.6
585	4 - 10	3,398	25,680	31,292	7.7
196	11 - 50	4,065	42,719	44,700	11.1
78	51 - 200	7,841	87,700	111,234	27.5
26	201+	16,939	159,117	202,494	50.1
1,989	-----	34,803	329,549	404,065	100

Single Unit Supermarkets

# of firms	revenue (\$ millions)	total stores	store sales (\$ millions)	total sales (\$ millions)	share (%)
1,716	3 - 5	1,716	4.0	6,864	28.6
1,010	5 - 10	1,010	7.5	7,575	31.5
335	10 +	335	13.5	4,522	18.8
6,430	-----	6,430	26.5	24,014	100

Convenience Stores

# of firms	stores in chain	total stores	total sales (\$ millions)	share (%)
625	4 - 10	4,115	5,489	7.4
560	11 - 50	12,239	15,147	20.4
113	51 - 200	10,553	13,262	17.9
56	201+	42,738	39,296	53.0
1,617	-----	70,306	74,113	100

Sources: Chain Store Guide; Market Scope, Progressive Grocer; Supermarket News

Table 2

centers as their primary suppliers. Gross margins of such centers range from 9 to 15 percent, but their cost of goods may be as much as 10% higher than costs paid by the largest distributors. Small merchants thus pay 5 to 15 percent more than supermarkets and have the inconvenience of traveling to a Cash & Carry for supplies. They also miss out on most of the promotion funds brands make available to supermarkets.[‡]

[‡] *In a good year, supermarket chains may earn \$6 billion on sales of \$400 billion – despite receiving more than \$60 billion of promotion funding from brands for circulars, local ads, and in-store displays. Independent grocers receive less than \$1 billion of these funds.*

Supermarket chains lost share to Wal*Mart and Independents during the past decade ~ a trend expected to continue with Wal*Mart extending its reach to higher income consumers and Independent growth driven by burgeoning ethnic population. See Figure A.

The independent market grew 4% per year over the past decade (twice the rate of Supermarket Chain growth).¹ The ethnic segment of the market has been growing at more than 10% per year.² Ferocious competition between Wal*Mart and Supermarket Chains is expected to continue creating opportunity for independents by further weakening chains.

Cash & Carrys evolved from wholesale distribution warehouses that serviced grocery stores in the late 19th and early 20th centuries. With the post WWII population shift to the suburbs in the 1950's, early grocery stores began the transformation into modern supermarkets. As the transformation unfolded, supermarket chains consolidated 70-85% of their purchases through their own warehouses (often 500,000 or more square feet in size) or negotiated supply chain agreements with large wholesale distributors such as SuperValue and Fleming. Small regional distributors left behind by the transformation turned their attention to the needs of independents which often meant expanding their Cash & Carry operations. While Cash & Carrys come in various "flavors," typical operating characteristics include:

- operating hours are from 3:00 am to 4:00 pm; 8,000 - 10,000 SKU's;³
- 100,000-150,000 square feet of rough warehouse space;
- minimal amenities, minimal automation;

¹ Source: Commerce Department.

² Sources: Commerce Department; *Grow With America: Ethnic Marketing & Merchandising*, Coca Cola Retailing Research Council.

³ "SKU" (Stock Keeping Unit) is a unique item. A 12oz bottle of Hunt's Hickory BBQ sauce is one item or SKU. The 16oz bottle is a different SKU. Most SKUs have a bar code that uniquely identifies the item. Modern supermarkets carry 30,000-50,000 SKU's.

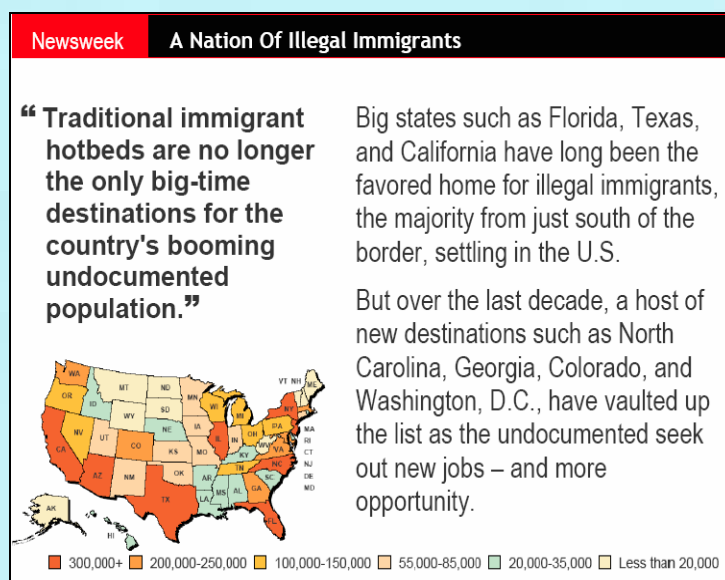


Figure A

- legacy business practices;⁴
- a dolly, rather than a grocery cart, is used to select and pull items;
- each sale typically ranges from several hundred to several thousand dollars;
- purchases are usually in cash, with merchants using the C&C as a bank to dispose of excess cash;
- weekly revolving credit is typically offered to select customers;
- some Centers offer delivery service;
- many offer certain types of banking and financial service.

Usually located in older industrial sections of urban areas, and often close to railroad sidings, Cash & Carrys are rarely noticed by consumers. C&C wholesalers represent the primary distribution node in the independent grocer's supply chain. These operations exist in every major metropolitan area in the US. A typical city (such as Washington DC, Philadelphia, or Baltimore) rarely has more than two or three Cash & Carrys. Products are sold in cases and "superpacks"⁵. Approximately 700-1,000 independent grocers arrive in family vans and pickups three times a week at a typical Cash & Carry to select cases of merchandise for their stores. They pay at an industrial version of a supermarket checkout lane. As few as 200 independent grocers may account for 85% of a center's revenue with the other 15% of the revenue distributed among corner grocers, restaurants and various institutional customers. Descriptions of the various types of Cash & Carrys – and the methodologies, intake data, and tools used to conduct the study are available to Teton Sands subscribers.

Most Cash & Carrys demonstrated an ability to adjust as the market changed over the past 60 years. The current generation of owners (second and third generation owners are common) faces new challenges. Many lack the entrepreneurial fire of the original founders with which to tackle today's challenges of meeting the special needs of ethnic grocers, adopting modern business practices, and achieving economies of scale.

- ***Ethnic products*** – despite the "ethnic" label, mainstream products such as Kleenex, Pepsi, and Hunt's ketchup make-up half or more of a typical ethnic grocer's sales. Most full line Cash and Carrys depend on such products for the bulk of their sales and miss out on sales of goat heads, stock fish, and cola beans. Intelligently sourcing "exotic" products has proven to be a challenge for many supermarkets that at most carry a short list of semi-anglicized products in their Hispanic section with little regard for distinctions between Mexican, Brazilian, Columbian, and Spanish preferences.

Informal supply chains of small importers/distributors, many specializing in as few as 10-20 products, have sprung-up to supply ethnic grocers with authentic "homeland" products. The supply chain is plagued by under-capitalization, insufficient scale (to fill-up a container, for example), outdated business practices (such as manual inventory control and cash transactions), and supply disruptions (a container of yams ruined because they were incorrectly fumigated at Customs, for example). Full line Cash & Carrys are gradually using their advantages of scale to add ethnic products as they learn more about the needs of their ethnic customer's stores.

⁴ The terms "*legacy business practices*" and "*legacy warehouse practices*" refer to the old way of doing things. Many old, often quaint, historical practices have been retained by the industry. Although most Cash & Carrys now scan products in the checkout lane, very few have computerized inventory tracking. Almost none automatically reorder.

⁵ A "*Superpack*" is a shrink wrapped package of items for merchants who wish to buy less than a full case. For example, a case of canned corn may have 24 cans; a superpack, 6 cans.

- **Business practices** – Cash & Carrys lag supermarkets, distributors, and food manufacturers in business practices and technology. Most use bar code scanning to check-out customers, but little other automation. Inventory control, receiving, tender reconciliation, and trend analysis⁶ are largely manual. History and tradition are part of the reason why.⁷

The unique characteristics of Cash & Carrys are also part of the reason. Although referred to as “Warehouses,” Cash & Carrys are organized internally more as supermarkets than as distribution warehouses.⁸ Despite the similarity to supermarkets, numerous practices are unique.⁹ Products are sold by case and superpack. One trip credit (merchants pay balances due when they first arrive) is frequently extended to merchants – such merchants pay-off balances at the service window, often with cash and checks from cash registers in their stores, before proceeding to product aisles. Tax collection regulations at the wholesale level, especially on tobacco products, vary from state to state. There is also a need to integrate store management systems in key customers’ stores with the Cash & Carry’s management system.

Supermarket systems offered by such vendors as NCR, IBM, and Fitju lack needed Cash & Carry software function features. The relatively small number of Cash & Carrys (approximately 1,500 are large enough to justify the cost of a supermarket-like system) makes the segment an unlikely candidate for capital to develop third-party Cash & Carry specific enterprise software. Development costs are beyond the capacity of any single Cash & Carry. As a result, business practices are expected to improve slowly absent a new dynamic.

- **Scale** – consolidation of wholesale grocery distributors and supermarket chains has significantly increased the scale needed to achieve minimum critical mass. Twenty years ago, for example, a full line regional wholesale distributor to supermarkets could get by with as little as \$500 million in revenue: today, the needed number is more like \$6-7 billion.

Effect of Integration on Immigrant Food Purchase Behavior		
Newly Arrived	Newly Established	Firmly Established
Foreign born	Foreign born	Foreign and U.S. born
Low to moderate income	Moderate income	Moderate to high income
Resident under 10 years	Resident 10–20 years	Resident 20+ years
Native language dominant	Native language dominant or preferred	Bilingual or English preferred
Preferences	Preferences	Preferences
Fresh ingredients	Fresh & packaged ingredients	Packaged & fresh ingredients
Traditional homemaker	Some convenience orientation	Convenience oriented
Ethnic brands	Ethnic & national brands	National & ethnic brands
Frequent shopping	Shopping 1–2 times a week	Shopping once a week
Neighborhood and chain	Chain and neighborhood	Chain

Table 3

⁶ Information about these practices is available in the following White Papers published by Field Marketing Inc.: *Realtime Supermarket Reporting & Control*, *Customer Relationship Management*, *Best Practice Deal Management*, and *Check Management*. Reporting techniques and how the techniques are used to improve performance are available in two documents published by National Neighborhood Grocers Association: *More Sales & Profits* and *Hunter or Hunted*.

⁷ *Grocery Industry: Origins, Culture, Practices* commissioned by SAIC traces the emergence and development of landmark technology and business practices throughout the grocery industry – including early NCR cash registers, Charlie Fitzmorris’ transformation of supermarket logistics, bar code scanning, evolution of store management systems, and Wal*Mart’s pioneering RFID initiative.

⁸ Products are grouped by “supermarket category” rather than by velocity because customers “walk the aisles” to select merchandise. That is, cases of canned carrots are located with other canned vegetables (so they can be easily found by customers) rather than randomly placed to minimize the distance a forklift truck must travel to store and retrieve the cases.

⁹ *Interactive Practice Guide*, jointly developed by Cash & Carry America and National Neighborhood Grocers Association includes a compendium of best practices for Cash & Carrys.

Similarly, a Cash & Carry with \$40-100 million in revenue lacks the purchasing power to negotiate advantageous terms or allowances from full line distributors. At \$1 billion in revenue, a Cash & Carry has leverage with distributors, can negotiate with manufacturers for promotion allowances, and qualifies for private label exclusivity.

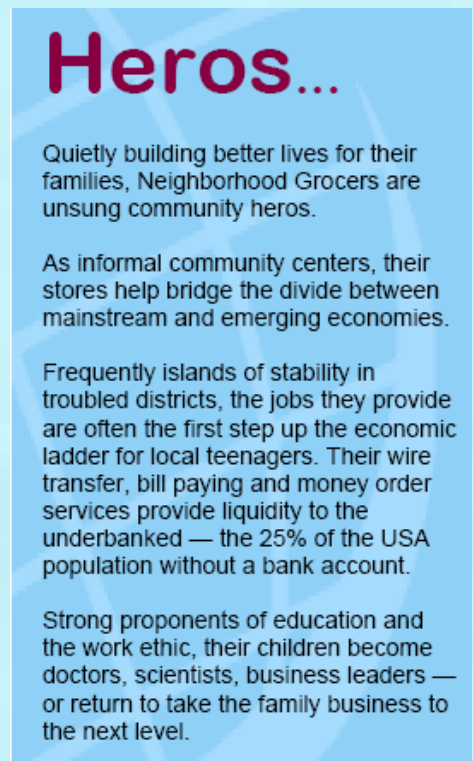
Full line Cash & Carrys with less than \$100 million in revenue contract with a single full-line distributor to consolidate as much of their total purchases as possible (typically 70-85%) from a single source. Contracts are often cost-plus with the Cash & Carry paying a fixed percentage above the distributor's cost-of-goods. Transparency is a problem. Determining whether the allowances distributors receive from manufacturers are reflected in "cost," for example, is a contentious issue over which Cash & Carrys have little leverage.

There is no shortage of suppliers. In most areas of the USA, Cash & Carrys have a choice of several regional and national distributors. Most are multi-billion dollar enterprises with 50 years or more of operating experience. Most deliver within 12-36 hours after receiving an order. Terms are typically 10-20 days and are strictly enforced. Several national distributors are publicly traded. Many smaller Cash & Carrys, however, lack the infrastructure (electronic ordering and reconciliation, for example) needed to purchase from efficient high volume distributors and must patronize less efficient (more expensive) local distributors.

Larger Cash & Carrys strike direct purchase relationships with smaller manufacturers in addition to their primary supply contract. Some dabble in remainders, diverting, cross docking, and redistribution to improve margins. Few systematically approach or professionally manage such activities.

Cash & Carry seasonal trends are similar to supermarket trends. Sales peak from Thanksgiving through New Years (30-40% of annual sales during the 4th quarter is typical) and remain relatively constant the remainder of the year. Mondays and Fridays are the two busiest mornings as merchants stock-up and replenish before and after weekends.

Cash & Carrys and their customers, independent grocers, are subject to numerous laws and regulations including: price integrity, weights & measures integrity, product labeling, sanitation, workplace safety, tax compliance, welfare (food stamps and WIC) product compliance, product dating, age restricted products. Though complex,¹⁰ and frequently circumvented, most regulations



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Figure B

¹⁰ In Maryland, for example, a Cash & Carry must collect sales tax (even to resellers) on purchases of less than \$200. To recapture the tax, a reseller must apply to the State with the following unintended consequence. Cash & Carrys typically operate a "cage" where tobacco and other high value products are sold (to reduce theft). Patrons pay for purchases before leaving the cage and completing other transactions. If a patron buys \$150 of cigarettes, tax is collected; then, if the patron goes on to buy an additional \$120 worth of products, tax is collected on those items at the second checkout. Since the \$270 total of the two purchases exceeds \$200, the patron may go to the Cash & Carry's service desk and obtain an immediate tax refund instead of submitting receipts to the State.

Acts triggered by 911 (Bio-terrorism Act and 2002 Farm Bill, for example) have product tracking provisions, and draconian penalties, with which the industry is widely unaware. (A survey conducted in 2004 by SPINTL revealed that fewer than 10% of the respondents were aware of the Bills: half of these had no plans to comply). Complying with the Bills is an onerous burden for merchants without sophisticated inventory systems.

are well understood by the industry. Enforcement is more rigorous for large operators than for small. Cash & Carrys are, as are other industry operators, subjected to increasing levels of surveillance and standards as they grow.

Cash & Carry Customers

The Cash & Carry customer – the independent grocer – typically operates in retail footprints of no more than 7,000 sq. ft. in urban areas. The \$2.3 million in revenue generated by a 3,500 square foot West African store in Landover, Maryland is not atypical.

Despite having little access to modern business practices or technology, independent grocery operations have several characteristics envied by supermarket chains:

- high margins;
- loyal customer base;
- customers who see the store as a social center not just as a place to buy groceries;
- customers who eat nearly every meal at home; and,
- customers who shop at the local grocer an average of over 3 times per week.



Most Cash & Carry customers – small independent grocery stores – serve communities with ethnic populations. These small stores are best understood by developing an appreciation for the shoppers, especially ethnic shoppers, who patronize the stores.

In 2002, 31% of the U.S. population was Hispanic, Asian American, or African American.¹¹ By 2010, the three groups are projected to represent 40% of the American marketplace: by 2040, 50%. In 2002, they were responsible for 37% of all supermarket sales. On an annual basis:

- The largest U.S. ethnic group, the Hispanic market, spends \$54.4 billion.
- The rapidly growing African American market generates more than \$51.5 billion.
- The fastest-growing U.S. ethnic group, the Asian American market, spends \$25.3 billion.

Statistics on food purchasing and preparation illuminate why ethnic markets are attractive. Ethnic consumers:

- eat at home more often – four to five nights a week;
- prefer to cook from scratch and use fresh ingredients;
- have market baskets 20% larger than those of non-ethnic consumers;
- shop more often – two to three times per week; and,
- shop longer – 40 to 60 minutes per trip.

In actuality, demographics and consumer behavior are more convoluted than the above statistics suggest. Two opposing factors cloud the picture:

Enforcement has not yet extended beyond larger companies. As enforcement reaches down to the Cash & Carry and small merchant level, owners will have additional incentive to sell their companies or seek help from product suppliers with system solutions. See White Paper *Government and Industry Initiatives: Implications for Independent Grocery Industry* by SPI Consulting International, Inc.

¹¹ U.S. Census Bureau: Table 2: Selected Age Groups for the Population by Race and Hispanic Origin for the United States: July 2003.

- **Integration** works to reduce the market for ethnic food¹² below straight-line demographic trends.
- **Underreporting** of ethnic populations understates ethnic food market trends.

Additional factors further complicate the situation. None of the three segments mentioned above is homogenous. Geographic and national preferences exist among Mexican, Caribbean, Brazilian, Columbian, and Argentine populations. In many respects the term “Asian American” is a misnomer. Differences are strongly pronounced among Thai, Korean, Chinese, and Japanese populations. Substantial West African, Philippine, East European, Middle East, and Indian communities, each with their own preferences, also exist.



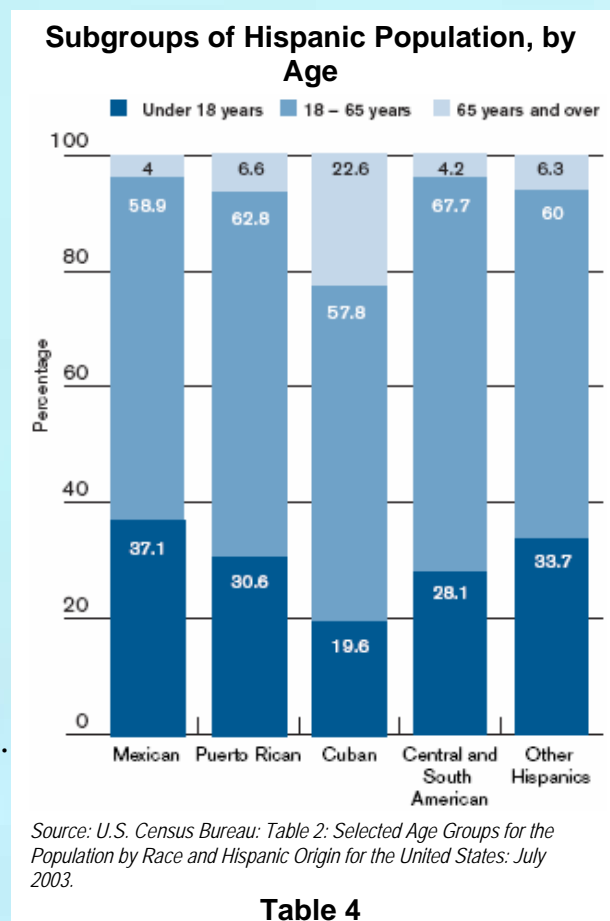
Cash & Carry customers – small independent grocery stores – lean toward “Newly Arrived,” and “Newly Established” ethnic consumers. See Table 3. Supermarket chains, perhaps uncomfortable with such exotica as goat heads, tend to aim at the “Firmly Established” when targeting ethnic consumers. As [Mike Broomfield](#), former Director and COO of Giant Foods, explains “Ethnic markets are being taken seriously by all supermarket chains. Most now have separate ethnic sections which ethnic shoppers visit, but only cherry pick. The supermarket mind set is: if rice is cheap, offer it as an ethnic service. Ethnic shoppers are too smart for this. They’re more comfortable shopping and supporting their own established markets, regardless of price.”

Compounding a marketer’s challenge is the fact that population percentages in each of the three stages of integration vary widely by ethnicity. Differences are driven by immigration trends and family size which are reflected in age profiles. Among Hispanics for example, the average age of Cubans is 44; of Mexicans, 25. See Table 4.

Geographic distribution of ethnic populations differs from common perceptions. Half the states with the fastest growing Hispanic populations, for example, are outside the South – with Minnesota, Nebraska, and Tennessee experiencing triple digit growth. See Table 5. The dispersion is expected to continue.

Recent immigrants retain preferences for “homeland” brands – some of which are listed in Table 7. In addition certain brands considered mainstream in the U.S. are strong internationally with brand loyalty among immigrants. See Table 6.

Evolving nuances of culture, language, and demographics present significant obstacles for mainstream supermarket chains and manufacturers. Few have cracked the code. Small



¹² Immigrant behavior evolves toward average consumer patterns as immigrants integrate into America’s melting pot. See Table 3.

ethnic grocers (the customers of Cash & Carrys), however, are a practical way to reach ethnic consumers. Ethnic grocers don't need to crack the code. They *live* the space, acting as "cultural translators" between other community members and Cash & Carrys. See Figure B. They are leaders, trusted advisors, and trend setters in the ethnic communities they serve. *Heroes: Realization of the American Dream* published by NNGA is the story of a day in the life of a typical ethnic grocer.

Independent grocers, the patrons of Cash & Carrys, work on 30-35% gross margins as opposed to 25-30% gross margins at supermarket chains. Ethnic stores obtain margins as high as 50% on specialty and imported products. Sales per square foot are typically higher than those in chain supermarkets. With the lower operating costs enjoyed by owner operators, pretax earnings are often in the 5-10% range, compared to 2-4% for chains. Most independents have little automation. More than half do not scan products at checkout. Inventory shrinkage, product selection, and stock outages are constant problems. As a result of these difficulties, successful operators often elect to keep things simple by focusing exclusively on hard work and by selling only grocery products.

Lack of reliable access to products at competitive prices is a problem for small grocers. Large distributors are reluctant to sell to stores that buy less than \$10,000 per delivery, leaving small operators with unattractive choices. Club Stores¹³ (such as Sam's Club) are one option, but

Strong International Brand Recognition		
Colgate	Palmolive	Nestlé
Kellogg's	Unilever	Coca-Cola
		Procter & Gamble
		Gillette
		General Mills
		Kraft

Table 6

Hispanic Population Growth: Top 10 States 1990-2002

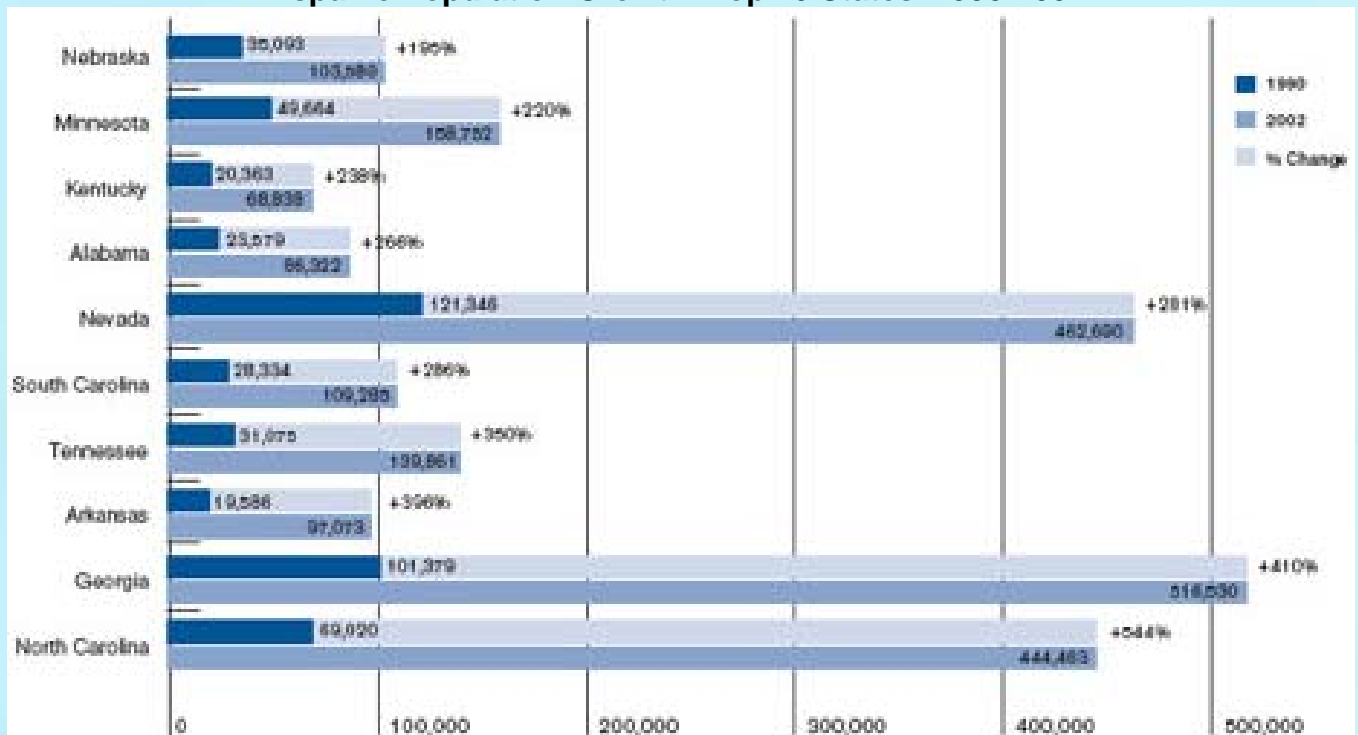


Table 5

¹³ "Club Stores" are warehouse stores, open to the general public, that charge an annual membership fee. Some have multi-tier pricing and privileges. For example Sams' Club (a division of Wal*Mart) might charge a minimum \$25 annual fee. A member who pays a fee of \$100, however, receives lower prices and additional privileges such as credit.

prices are high for wholesale and selection may not match small operators' needs. Food Service firms¹⁴, such as Sysco and Kraft, are another option, but prices are generally higher than retail.

Many ethnic groups are under-banked and conduct financial transactions in person. See Table 8. Small grocery stores provide such services and tend to offer more when exposed to technology that integrates the management of such "virtual" product with physical products.

Despite filling a specific niche and providing a critical service, most Cash & Carry's satisfy only a portion of their merchant customers' needs. Out-of-stocks are frequent because few C&Cs use the business practice of perpetual inventory (See *Perpetual Inventory*, Figure C). Deals offered by brands (manufacturers) to supermarket chains do not reach C&C customers. Legacy warehouse practices⁴ cause goods to appear on different shelves from week to week, complicating a merchant's task of selecting merchandise. (How would shoppers react if supermarkets rearranged their shelves every week?) Warehouses are invariably dark and dirty. Foul bathrooms cause complaints.

Many Cash & Carry's fail to establish relationships with ethnic stores and ethnic manufacturers to serve the need for ethnic products – and instead focus on mainstream products.

As a result, a typical Cash & Carry succeeds in capturing only 10-15% of its customers' business. Independent grocers inefficiently divide their purchases among two or more C&Cs, a Club Store, specialty wholesalers, and numerous direct delivery operators such as UTZ and Goya.¹⁵ Supermarkets, in contrast, consolidate 70-85% of their purchases through their warehouse or primary distributor – hinting at the opportunities that exist for Cash & Carry's to more fully serve their customers.

Equally important, independent grocers are developing new needs. Interest in modern store management systems with perpetual inventory, shopper analysis, promotional money from manufacturers, and electronic ordering has steadily increased over the past decade as independent grocers become more computer literate and more aware of modern business practices. Still, fewer than half scan at checkout, almost none have perpetual inventory, and 2,400 baud POTs is the only ubiquitous communications medium.

The decision makers about such topics are the small store owners who also make decisions about which products to stock and where to buy them. Owners are accessible in that they

Strong Ethnic Brands		
Hispanic	Asian American	African American
Badia	Ajinomoto	Allens
Bimbo	Bin Bin	Bull Dog
Bustelo	FOCO	Bush's Best
Cacique	Food Island	Colonial
Doña María	God of Fortune	Country Post
Faraón	Golden Phoenix	Far West Meats
Gamesa	Hinoichi	Franco American
Ganzito	Homal	Glory Foods
Goya	House Foods	Grace
Guerrero	Huy Fong Foods	Hoffy
Herdez	Indo Mie	Homepride
Iberia	Kewpie	Jiffy
Jarritos	Kian Guan	La Fe
Juanitas	Kikkoman	Louisiana
Jumex	Kirin Ichiban	Luck's
Knorr	Meiji	Old Bay
La Cena	Mitsukan	Success
La Costeña	Nestlé	Sunbeam
Maggi	Nong Shim	Sylvia's Soul Food
Maseca	S&B Curry	Taystee
Nestlé	UCC	Texas Pete
Pilon	Vitamalt	Tropical
Productos Maya	Yamamotoyama	Uncle Ben's
Tampico		Uncle Lou's
Vitarroz		White Lily

Table 7

¹⁴ "Food service firms" typically deliver to restaurants, delis, and convenience stores. Many of the products they deliver are packaged inappropriately for grocery stores. Restaurants, for example, buy large, industrial size containers of spices, ingredients, and dishwasher soap.

¹⁵ *Heros: Realization of the American Dream* published by National Neighborhood Grocers Association, describes a day in the life of Nikki – a typical ethnic independent grocer.

visit 2-3 times per week to pick-up product. Language and culture are not barriers. Like most owners, they will discuss ways of improving their businesses at length with business people they respect.

Opportunities for Cash & Carrys

Cash & Carrys have multiple opportunities to grow revenue and profit with performance improvements. Sources of net income growth include: operating cost reductions, revenue increases, and margin improvement.

Inventory control is the lowest hanging fruit. Cash & Carrys typically carry more than 20 days of inventory.¹⁶ By comparison, Safeway (which does not have store-level perpetual inventory) has 17 days of inventory; Wal*Mart (which does have store-level perpetual inventory) has 7 days. Given that Cash & Carrys receive deliveries 2-3 times per week from primary suppliers, 8-10 days of inventory would be a practical level if perpetual inventory were used.

Reducing inventory levels from 20 days to 10 days in a \$40 million Cash & Carry frees-up \$1 million of cash with corresponding decreases in interest expense. It also reduces shrink approximately 40% (50% reductions are typical); and, increases sales to top-tier customers by 6.5% (over a five year period) by reducing sales lost to stock-outs.

Capturing more of customers' wallets is a way of increasing revenue with minimal marketing risk. The mainstream supermarket industry "wallet-share" norm for primary suppliers is 70-85%. Cash & Carrys average 10-15%. Despite certain obstacles to achieving mainstream industry wallet-share norms, there is room for improvement.

Helping key customers increase sales, while maintaining wallet-share, is another major growth opportunity. Sales in a small ethnic store in Landover, Maryland, for example, increased from \$1.2 million to \$2.3 million within one year after inventory control and category management were introduced. (Most of the new business came from existing customers who switched purchases away from the \$35 million Giant Foods supermarket across the street.) Such assistance also builds customer loyalty and tends to increase wallet-share. Analytics data and digitally deliverable financial products such as bill paying and money orders are additional opportunities for revenue growth.

Merchant communities are largely aware of Cash & Carrys and other suppliers.

Established Cash & Carrys have normally captured at least some wallet-share from most potential customers in their market area. Few opportunities therefore exist to increase revenue by expanding the customer base.

Perpetual Inventory

The term "*Perpetual Inventory*" refers to the business practice of using a computer to track how much inventory is on-hand.

Most people outside the grocery industry are surprised when they discover modern grocery chains such as Kroger do not keep perpetual inventory in their stores (although, Kroger does in its warehouses). As a result, chains have no way of knowing what's "on the shelf" unless they do a physical count. Wal*Mart's use of perpetual inventory in its stores gives it a major competitive advantage which it exploits to devastating effect.

Most computer systems that do perpetual inventory use "non-realtime" perpetual inventory which means that a computer tracks what is sold during the day (and what is delivered) and then periodically (usually at end of day) computes how many items are in stock. More advanced systems, such as the ones used by Wall Street trading firms, use *realtime* perpetual inventory which keeps a running total of what's in stock.

Figure C

Financial Services Important to Ethnic Customers			
Money Transfers	Utility Payments	Cable Payments	Calling Cards
Money Orders	Payday Loans	Check Cashing	Postage
		License Tags	Income Tax Preparation

Table 8

¹⁶ A \$300 million Cash & Carry in California, for example, averaged 22 days of inventory over a five year period (audited). A \$40 million Cash & Carry in Maryland averaged 23 days of inventory (unaudited).

Numerous opportunities for increasing margins exist. Private label products priced less than comparable branded products are available from numerous sources. Access to such labels requires adhering to certain quality and image criteria that are beyond the ability of most single-location Cash & Carrys to guarantee.¹⁷ Volume discounts and special promotions based on consolidated buying – unavailable to single unit operations – are available to larger operators. Direct sourcing of ethnic products, bypassing logistics chain labyrinths, presents especially attractive opportunities for margin improvement. Opportunities for margin improvement through mergers and acquisitions therefore exist. One of the sources surveyed during the study has plans for an industry consolidation of significant scale. Except for several isolated instances of ad hoc acquisitions, no other sources contacted during the survey had acquisition plans.

Traditional Cash & Carrys have been unable to attain an appreciable share of the test marketing and promotional funds available from Consumer Product Goods companies (“CPGs”). A multi-location Cash & Carry with professional management controls and efficacy reporting would be better positioned to channel such funds to its customers. Benefits include customer loyalty (greater wallet-share) to the Cash & Carry channeling the funds and additional sales as a consequence of customers increasing their promotional activities.

Despite numerous attempts to do so, ethnic consumer markets in the U.S. have not been cracked by mainstream marketing models – including supermarkets, CPGs, internet, radio, cable, and TV. The first organizations to supply effective solutions will earn rewards reserved for first movers in fashionable markets. A properly organized Cash & Carry chain would potentially have many of the needed attributes that are missing in mainstream models.

The Teton Sands Group is seasoned C-level managers with partner-level “big-six” experience. We bring ideas, perspective, and best practices from numerous industries to your business.

Our Sales Strategy Practice focuses on helping sellers thrive in a flatter world of hypercompetitive markets where: brand allegiance is virtually nonexistent; buyers are a click away from price and feature information; great products earn low margins; and, competition is global.

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¹⁷ *Everyone Buys Private Label*, Teton Sands, 2006 and *The Power of Private Label: 2005*, ACNielsen, 2005 describe demographic and category trends.