

# Convenience Store Distribution

Options For Fresh Produce

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**NACS**<sup>®</sup>

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## Fresh Demand

Nearly half of all consumers (48%) say that convenience stores are a place where they can buy fresh produce, a 5-point jump from just a year earlier<sup>1</sup>. Retailers also are stocking more fresh product.

Almost three in four NACS members (73%) say that they sell fresh produce<sup>1</sup>.



## Overview

Convenience stores draw their roots back to the corner ice shop in the late 1920s, expanding to the corner store that stayed open late for consumers to buy basic necessities such as bread, eggs and milk after grocery stores were closed.

By the late 1960s, the amount of 24-hour convenience stores increased to meet the needs of a population that was working late night or early morning shifts. While the industry changed significantly over the decades, up until the 1990s, the distribution model for convenience stores was delivery as infrequent as once every two weeks.

Today, weekly deliveries are the norm for most convenience stores. This model works for many stores, especially those with a big focus on selling popular packaged items. After all, the top 50 SKUs represent less than 1% of all of the SKUs in the convenience channel but account for roughly a third of all sales.

<sup>1</sup> Sept. 2017 NACS consumer survey

Depending on their resources and business model, convenience stores in the United States have very different distribution models to get products to their stores—and these models affect how they obtain fresh product. Further complicating the issue, many chains have grown through a combination of acquisitions and the building of new stores, making it tougher to implement a one-size-fits-all approach across all stores within a company.

In addition to the 154,000-plus convenience stores in the U.S., there are tens of thousands of corner stores and bodegas. These corner stores are really very small grocers. They range in size from 800 to 2,000 square feet and don't sell fuel—while the average convenience store is typically 2,500 to 5,000 square feet and sells fuel. A recent estimate suggests that there are 4,000 bodegas in New York City alone. In Philadelphia, the Food Trust works with more than 600 of these stores as part of its Healthy Corner Stores Initiative.

For traditional grocery stores, fresh produce is delivered via pallets that are dropped off at a loading dock. That system keeps costs down and because of the high volume purchased, new product can be dropped off

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**Demand is pushing the sales of more fresh items and putting pressure on new distribution options. As fresh items grow in popularity, retailers often need more frequent distribution.**

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regularly and cost effectively. Meanwhile, for convenience stores, the distribution of fresh produce can be a challenge. Minimum delivery requirements or delivery fees are often cost-prohibitive for smaller retailers. Or, product may be offered in quantities too large or additional fees are assessed to cover the cost of splitting cases.

There are other distribution issues besides cost and frequency of delivery: ensuring freshness, food safety and correct storage temperature throughout the entire delivery cycle. Refrigeration equipment and skills required to manage fresh product may also impact shelf life.

Determining the proper distribution plan and partnering with the right distributor can help address these challenges.

## Distribution Options for Produce

### Cash And Carry

The term cash and carry applies to when retailers purchase product from other retail outlets, whether club stores (Costco, Jetro, etc.), mass merchandisers (Walmart, etc.), or supermarkets. For small businesses seeking fresh produce, it is often the dominant method of obtaining product.

Single-store owners dominate the convenience store industry: 63% of all convenience stores are single-store operators (97,500-plus locations). These stores, along with corner stores, are more likely than any other group to consider cash and carry. Cash and carry for fruits and vegetables may present some opportunities for lower costs because there are no minimum orders and pack sizes are smaller. In addition, it allows retailers to informally adjust quantities without developing build-tos and anticipating demand several days out. It also helps manage waste due to smaller orders. However, this method of acting as your own distributor to obtain product is time consuming and takes the operator away



**Corner stores are the most likely to use cash and carry.**

from the store for an extended period of time. It also can lead to inconsistent quality, as well as possible out of stocks and missed sales opportunities because the retailer is dependent upon another retailer's inventory (i.e., a big-box retailer's inventory in most cases).



**Retailers often use wholesale grocery outlets to obtain fresh produce.**

It also leads to issues with food origination and recall tracking. If the original cartons are tossed after product is displayed, there's no way to track where the produce came from and if/when it's included in a recall. Additionally, there's no formal extension of insurance or liability coverage through this method. Another problem is that, in most cases, store owners do not have specialized vehicles to transport product. The cold chain can be temporarily disrupted and affect the freshness—or create potential food safety issues when products are stored and delivered in a car trunk as opposed to a temperature-controlled delivery truck.

Further, if a store were to purchase and resell harmful product, the cost of a lawsuit and civil penalty could be millions of dollars. Allegations of gouging may be raised at retailers who are selling produce at what appears to be a significant markup, even if the higher price is because it cost more to purchase the product from another retailer, as opposed to purchasing it at a wholesale price.

There are other potential downsides. Package sizes sold at club and big-box stores may be greater than those needed for the convenience channel. Unless the product is repackaged, there may be a disconnect between package size and the typical convenience store offer of immediate consumption. Other hidden costs are wear and tear on the vehicle and time away from the store—meaning that there is less time for merchandising and marketing, hiring and training staff and customer relations.



**Jobbers may serve accounts by distributing produce from a produce market.**

**With multiple deliveries per week (or per day), stores have to effectively manage operations.**

**Direct Store Delivery**

With direct store delivery (DSD), a manufacturer delivers product to the store via its own truck. For convenience stores, this often occurs for soda, beer, snacks and bakery items. Some stores also may have a dairy vendor.

**Produce Wholesalers/Foodservice Distributors**

Direct store delivery by produce specialists has the potential to grow in the produce sector as retailers begin to sell more product. Traditional produce wholesalers that require larger drop sizes may begin to support retailers who require more frequent deliveries because their sales are growing. Also, produce wholesalers may work with more local jobbers who deliver produce much like snack or drink vendors. As fresh sales increase, this can be a suitable distribution model for perishable items because delivery dates can be more flexible.

For some retailers, delivery of fresh produce can be provided by the same distributor that provides other fresh items—like dairy or flowers. Or the reverse may also be true, with a larger produce wholesaler being able to provide other perishable items. And for those with a heavy foodservice program that already requires fresh produce, the foodservice provider may be able to also provide additional fresh product for resale.

Delivery trucks often create congestion on the parking lot or take up valuable spaces. Frequent deliveries require thoughtful planning so that trucks do not compete for customer parking or for employee time to help with packing out items.

Some larger retailers may try to manage DSD by having these deliveries come to a central distribution center, which is known as self distribution from a distribution center. From there, deliveries are coordinated to stores multiple times per week. The advantage is that total deliveries per store can be reduced, sometimes by as much as 50%. However, some states have laws that prohibit or limit this type of delivery and instead guarantee the rights of local bottlers, etc., to directly deliver products to stores.

In addition to providing DSD, distributors often provide value-added category management services, including overseeing pricing and promotions, shelf inventory management, store ordering, in-store merchandising and in-store forecasting.

## Wholesale Distributor

The delivery frequency of a wholesale distributor is typically once or maybe twice a week, based on geography, competition and equipment—all which affect the weekly volume of sales at a store.



**Wholesale distribution trucks are temperature controlled and compartmentalized to keep products at appropriate temperatures.**

While not every DSD can be eliminated by using a wholesale distributor (beer, soda and salty snacks are often separate DSD deliveries by brand), as much as 25% of all deliveries could be consolidated with a grocery wholesaler, which is also referred to as a broadline distributor. These distributors also can offer market intelligence on an area to a greater extent than the disparate DSD vendors.

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**A wholesaler can best ensure the integrity of the cold chain moving through each stage of the supply chain to a greater degree than other methods.**

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Distributors also have temperature-controlled facilities and fleets that are compartmentalized to store and distribute products at all appropriate temperatures, whether frozen, cold or ambient (room) temperature. There's no direct increase in cost to purchase product through them when they are already delivering other products such as cigarettes and candy. Most convenience distributors have produce sources and can supply product at the time of delivery. Especially for independent operators, this type of distributor is critical to gaining access to fresh items and ensure consistent delivery. Several wholesale distributors are much more focused on their fresh programs than they were a few years ago. There are more than a dozen regional and national wholesale distributors serving the convenience store industry. The largest distributors serving the convenience store channel are McLane (44,600 mass, grocery, drug, convenience stores, quick-serve restaurants, casual and fine dining), Core-Mark International (46,000 stores) and Eby-Brown (22,000 stores). Some of these companies have specialized programs to offer equipment or merchandising solutions.

The biggest disadvantage to using a consolidated distributor is the potential for less frequent deliveries, unless there is sufficient sales volume to justify more frequent delivery.

Minimum order requirements will vary by distributor, as well as the cost per delivery. Multiple deliveries per week are available from most distributors and the determination of total deliveries is normally based on the store volume and route availability.

## Self-Distribution

For larger companies with dozens or hundreds of stores, self-distribution is likely the best option. Self-distribution allows retailers to take advantage of promotional and warehouse allowances that are not available from grocery wholesalers.

Convenience stores that use self-distribution include Sheetz (540-plus stores), Wawa (740-plus stores), Kwik Trip (520-plus stores) and QuikTrip (740 stores). In some instances, self-distribution can also work for companies that have as few as 70 stores, such as with Family Express in Indiana. Wesco, with more than 50 stores in Michigan, buys direct from suppliers and has items shipped to its distribution center.

## Other Options

There are other potential options available to retailers, depending upon their foodservice offer and proximity to farms.

### Buying Groups

Buying groups can be an option for smaller operators to work with a coalition of other stores to obtain some of the same volume discounts obtained by larger stores through group purchases. There are several large buying group companies, in addition to other buying groups that serve specific ethnic groups or oil company brands. These buying groups negotiate deals with direct store delivery (DSD) vendors, as well as grocery wholesalers and consumer package goods manufacturers on behalf of their customers. Operators typically place these orders through the buying group and product is delivered to the stores by DSD vendors or by their grocery wholesaler. Also, cost-plus distributors can provide an effective way to leverage better pricing. If the distributor buys in the best bracket because of the consolidated volume of their center, then the customer benefits from that.

### Specialty/Restaurant Distribution

Some stores that are heavy into foodservice look to restaurant distributors. Examples include Nice N Easy Grocery Shoppes (New York, now part of CST Brands) and Rutter's (Pennsylvania). In both cases, they source ingredients to prepare food onsite as opposed to receiving items premade elsewhere.

### Local Farmers

Local farmers also can provide produce. While most produce items are seasonal, different growing seasons can allow retailers to have a fresh produce program that extends from May through October, and even longer in some areas of California and the Southeast. While there is significant interest in local produce, retailers must be careful to only source product from farmers that comply with all Good Agricultural Practices guidelines and employ proper food-safety practices from the field to the store.



## Local Roots

On weekends some stores host farmers' markets. In some cases, local farmers may be able to bring their own displays to a lot.

# Summary

As consumer demand and sales for fresh product at convenience stores continues to grow, NACS and the United Fresh Produce Association will continue to bring together retailers, suppliers and distributors to create resources to help retailers source, merchandise and market fresh items to help provide access and grow sales in convenience stores.

**Other resources developed by NACS can be found at [convenience.org/refresh](https://convenience.org/refresh).**



NACS advances the role of convenience stores as positive economic, social and philanthropic contributors to the communities they serve. The U.S. convenience store industry, with more than 154,000 stores nationwide selling fuel, food and merchandise, serves 160 million customers daily—half of the U.S. population—and has sales that are 10.8% of total U.S. retail and foodservice sales. NACS has 2,100 retailer and 1,750 supplier members from more than 50 countries.

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Founded in 1904, the United Fresh Produce Association brings together companies across every segment of the fresh produce supply chain, including growers, shippers, fresh cut processors, wholesalers, distributors, retailers, foodservice operators, industry suppliers and allied associations. We empower industry leaders to shape sound government policy. We deliver the resources and expertise companies need to succeed in managing complex business and technical issues. We provide the training and development individuals need to advance their careers in produce. Through these endeavors, we unite our industry with a common purpose – to build long-term value for our members and grow produce consumption.

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