

2.15: Structural Organization of Retailers

Learning Objectives

- Match a retailer with its structural organization based on its classification.

Think about a can of soup. It's a common item, but its path to a consumer's pantry is long and involved.

The can of soup's journey begins at a manufacturing facility, where it is produced, packaged, placed on a pallet, and warehoused. Once it is ordered by a retailer, it will be shipped to a distribution center, where it will be bundled with other items to be trucked to an individual store.

Before we can send it to an individual store, however, we should figure out what type of store will sell the soup. Will the soup be sold at a grocery store? At a mass merchandiser like Target? At a club store like Sam's Club? At a convenience, drug, or discount store?

All of these retailer formats may stock soup in their inventory, and each format uses different strategies, objectives, and resources to sell items to consumers.

One way to categorize retailers is by their ownership structure. There are five primary ownership types within the retail industry:

1. Corporate chain
2. Independent
3. Wholesaler
4. Franchise
5. Co-op

There is a sixth structure, authorized dealerships, but they are not generally present in food retailing. Instead, they are more frequently seen in home or durable goods, e.g. Hunter-Douglas, Pella Windows, Harley-Davidson, and so on. We will concentrate on items 1–5.

1. Corporate chain



Although a national grocery chain, Kroger operates some stores under different names.

Corporate chains generally have multiple stores, central ownership, and consistent standards for execution. Some national chains have multiple regional banners under which they operate their stores.

For example, The Kroger Company operates Kroger stores, but it also operates under different names in different states: Dillons Food Stores (Kansas), Fred Meyer (Oregon, Washington, Idaho, and Alaska), Fry's Food & Drug (Arizona), King Sooper (Colorado), Ralph's (Southern California), Roundy's (Wisconsin and Illinois) and many others. Despite acquisition by The Kroger Company and later standardization, these stores have retained their names to maintain a connection with their history and local communities.

Corporate chains benefit from operating on a large scale, which allows them to standardize their operations in buying, advertising, and promoting.



Corporate chains can be national or regional. Publix is a good example of a regional grocery chain in the Southeast.

Because of this standardization, they typically offer lower prices than independents do, although that ability is fully dependent upon their individual strategies. National chains with which you might be familiar include Wal-Mart, Kroger, and Albertson's. Examples of prominent regional chains are include H-E-B in Texas, Publix in the Southeast, specifically Florida and Georgia, and Meijer in the Midwest.

2. Independent store

As the name implies, independent stores are independently owned and operated. Owners may have multiple stores and operate similarly, but they do not benefit from the significant scale. Because of their size, independent stores buy product through wholesalers, which apply an upcharge (typically 6%) for warehousing and handling product. This means that independent stores are buying their goods at slightly higher costs than corporate chains get with direct buying. Thus, independent stores are not generally able to compete with lower prices. Instead, they may market themselves as "local," advertising their place in the community and customizing their product assortment to reflect local tastes, brands, or customs.

3. Wholesaler



Wholesalers are part of the supply chain, primarily focused on the logistics required to deliver to independent.

As noted above, wholesalers are product distributors focused primarily on supply chain and logistics. However, some wholesalers also own stores and/or license their store brands to independent stores as part of franchise agreements. Those agreements often include clauses saying that the wholesaler will be the exclusive supplier of the independent store. SuperValu Inc. is a prime example of this type of agreement, as they have corporate stores and serve franchised stores under several names, including Cub and Shoppers.

Wholesalers purchase product directly from manufacturers and growers. They re-sell this product to independent grocers, adding an upcharge for warehousing and shipping. Typically, the upcharge is 6%. Wholesalers may also coordinate some advertising and promotion for their customers in an effort to encourage more purchases by independent stores. However, wholesalers are far less efficient than corporate chains because they cannot set pricing or require participation.

4. Franchise

To the consumer, a franchise may look like a corporate chain, as the marketing and available products is usually consistent between franchise stores. The key difference is that while corporate chains are centrally owned, franchise stores are owned by individual business owners who have contracted with a larger company. In exchange for paying a royalty fee for the larger company's trademark, training fees, and a percentage of sales, a franchise owner can run a store under a larger company's brand, thus tapping into that company's customer base. This model is particularly common for large restaurant companies—for example, most Subway and McDonald's stores are franchises. Convenience stores often also follow this model. Popular convenience store franchises include 7-Eleven and Casey's General Store.

5. Co-op

Co-ops occur when several independent retailers join together to consolidate their purchases. This increases their buying power and might result in lower costs from manufacturers and growers. Typically, each member of the co-op has an equal voting right, regardless of the number of stores they own or the size of their business. Co-op members may also work together to purchase advertising and store infrastructure like shelving or software. Wakefern, which operates Shop-Rite stores in New Jersey, is a notable co-op.

Some exceptions to the above ownership structure exist. For example, the IGA, formerly the Independent Grocers Alliance, blurs many of the above distinctions. Like a wholesaler, IGA provides a logistical network to support distribution and the supply chain to independently owned franchise stores under the IGA brand.

Regardless of whether a retailer is a corporate chain, independent store, wholesaler, franchisee, or co-op, the important thing to know is that the ownership structure creates real opportunities and real constraints on the store, affecting how it competes. For example, corporate chains have scale, which allows them to standardize their operations and offer lower prices. However, they do not typically have the same level of service or connection to the local community that independent grocers enjoy. And, co-ops, while working together to reduce their Cost of Goods (COGs) have agreements that give each business a single vote, so members of the co-op with multiple stores are under-represented, reducing their influence and flexibility.

In the next section, we'll evaluate how specific retailers go to market.

? Practice Questions

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