

Associated Wholesale Grocers

Michael Boland and David Barton

Arthur Capper Cooperative Center
Case Study Series No. 04-02

Associated Wholesale Grocers (AWG) is the second largest independent retailer-owned wholesaler of grocery products in the United States. It owns seven distribution centers and operates in 21 states as shown in Figure 1. AWG is headquartered in Kansas City, Kansas.

History of the Company

AWG's history dates back to 1924 when a group of 20 independent grocers met for the first time to discuss the advantages of combining their buying and advertising power. Competition was fierce with national chains dominating the grocery scene. Independents struggled to compete, and a cooperative effort was viewed as the only way in which to gain market strength.

The cooperative's organization was a success and in March, 1926, Articles of Incorporation were filed and Associated Grocers of Kansas City (AG) formally began. It was not until the late 1950's that the real benefit of being an AWG member was realized. This came about as the result of a new pricing structure. AWG adopted a pricing system that enabled retailers to buy groceries at a price that would enable them to compete with the chains.

In 1976, AWG's purchased 20 Kroger stores and sold these stores to its members. The development of the Price Chopper/Price Mart and Country Mart concepts and the rollouts of Always Save and Best Choice house brands gave retailers the tools necessary to satisfy a price conscious public. These discount concepts and alternatives to national brands were an immediate success.

AWG growth continued through acquisitions in the 1980s and 1990s. AWG members bought 40 Food Barn stores and 29 Homeland stores, and the former Homeland warehouse in Oklahoma City. Valu Merchandisers, AWG's wholly-owned subsidiary supplying health and beauty care products and general merchandise, came on line offering a selection of more than 12,000 items from its 219,000 square foot facility in Fort Scott, Kansas.

Store development continued with the Sun Fresh and Apple Market concepts gaining acceptance as consumer demand for variety in perishables increased. The Best Choice Save-A-Label program was introduced, with over 3,000 charitable organizations participating. With a product line of more than 1,589 items, AWG house brand sales topped \$374 million in 1996. Sales for 2004 are anticipated to be in excess of \$5 billion. It acquired food distribution centers from the bankrupt Fleming companies and have added new stores in recent years which has increased its sales. AWG also operates more than 30 of its own Falley's and Food 4 Less stores in Kansas and Missouri, as well as 45 Homeland stores throughout Oklahoma.

Mission and Objectives

The mission of AWG is "to ensure the success of our member retailers and provide opportunities for our employees. This will be accomplished by satisfying the customers', and our member retailers', needs for quality supermarket merchandise and superior support services. We will do this with high quality employees whose mission is to provide the lowest possible cost of goods in order to ensure our members profitability, competitiveness, and continued growth."

Governance

AWG is owned by 472 stockholders whose primary business function is the purveying of food for human consumption. These stockholders represent approximately 1,300 retail operations. Each stockholder is required to purchase 15 shares of stock. AWG is governed by a 15 member board of directors who have been elected to three-year terms. There is only one board committee, a finance committee charged with reviewing and approving member loans and leases. The capital stock consists of 12,000 shares of Class A common stock with a par value of \$100 per share with 5,820 shares issued and 150,000 shares of Class B common stock with a par value of \$100 per share and 9,226 shares issued. Each member has one vote. Class B stock has no voting rights associated with it.

Equity Management

Patronage refunds are comprised of a cash and non-cash portion. The cash portion must be at least 20% of the total patronage in any year. The Board has the discretion to make the non-cash portion of patronage qualified or non-qualified. Patronage Refund Certificates are issued to patrons for the non-cash portion. AWG pays dividends (minimum of four percent and a maximum of eight percent) on these certificates with the oldest patronage being revolved first in any given year. They are currently on a seven year revolving fund program.

Financial Data

Table 1 contains an abbreviated balance sheet and Table 2 presents an abbreviated income statement for 1999 to 2003. Table 3 presents the distribution of income to members. Promotional allowances provided by manufacturers are passed directly through to members.

Table 1. Abbreviated Balance Sheet for Associated Wholesale Grocers, Inc. for 1999 to 2003

	(\$ in millions)				
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Receivables	\$110.3	\$93.4	\$89.7	\$99.6	\$116.7
Inventory	150.7	141.7	143.2	164.3	261.4
Furniture, Fixtures, and Equipment	138.6	118.4	118.5	126.1	182.1
Total Assets	526.4	525.1	545.4	581.5	721.1
Accounts Payable	208.6	176.7	146.7	160.3	219.4
Long Term Debt	22.3	44.1	55.1	62.5	203.5
Total Liabilities	352.7	358.3	383.7	432.2	561.6
Patronage Certificates	134.7	130.4	128.9	115.5	121.1
Demand Deposits	7.6	6.6	6.1	6.3	6.7
Class A, Class B stock	31.4	29.9	26.6	27.6	31.7
Total Members Investments/Equities	\$173.7	\$166.8	\$161.7	\$149.3	\$159.4

Table 2. Abbreviated Income Statement for Associated Wholesale Grocers, Inc. for 1999 to 2003
(\$ in millions)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Net Sales	\$3,370.40	\$3,267.40	\$3,097.00	\$3,139.00	\$3,720.50
Operating Income	70.4	64.6	57.7	55.7	64.6
Net Income	64.6	45.6	53.2	52.5	57.2
Weeks	52	53	52	52	52

Table 3. Distribution of Income to Members, 1999 to 2003
(\$ in millions)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Dividend Interest	\$9	\$10	\$9	\$6	\$6
Promotional Allowances	\$168	\$152	\$144	\$156	\$189
Year-End Patronage	\$65	\$47	\$55	\$56	\$62
Total Distribution to Members	\$242	\$209	\$208	\$218	\$257

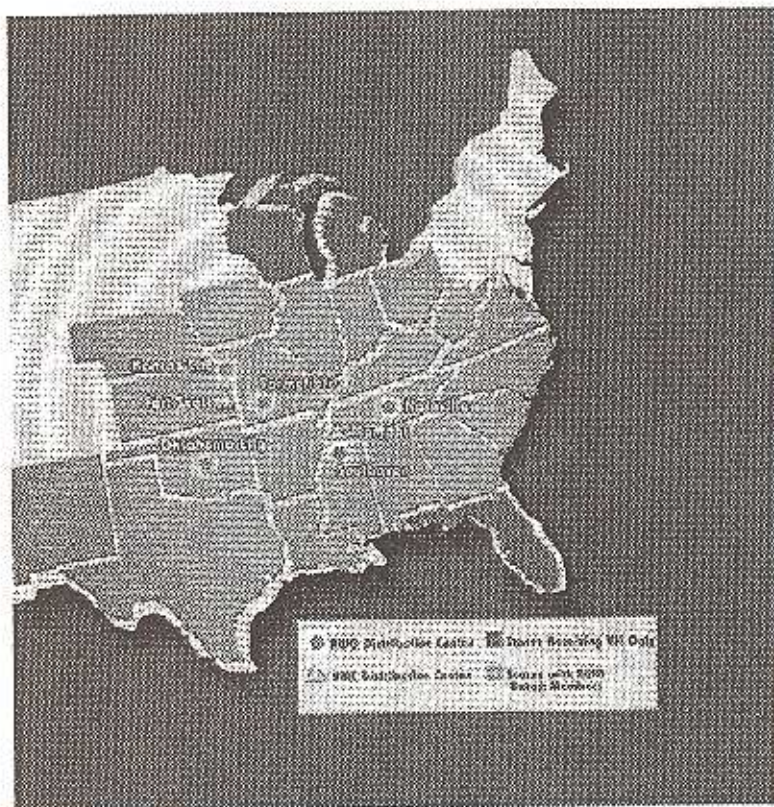


Figure 1. Associated Wholesale Grocers Distribution Centers and Trade territory

Michael Boland and David Barton

Michael Boland is an associate professor of agricultural economics and associate director of the Arthur Capper Cooperative Center at Kansas State University. David Barton is a professor of agricultural economics and director of the Arthur Capper Cooperative Center at Kansas State University.

Arthur Capper Cooperative Center Case Study Series No. 04-02



**Department of Agricultural Economics
Kansas State University, Manhattan, KS 66506-4011**

Publications and public meetings by the Department of Agricultural Economics are available and open to the public regardless of race, sex, national origin, disability, religion, age, sexual orientation, or other non-merit reasons.