



# Perry's Ice Cream Distribution Strategy and Strategic Alliances: The 800-Pound Gorilla

## Case

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## Abstract

Perry's Ice Cream is a manufacturer and distributor of ice cream. They also offer distribution services to other frozen food products (such as pizza), including national brands. They offer the benefit of direct store delivery (DSD), a valuable perk for frozen consumer goods. They are approached by a national brand of ice cream that is a direct competitor. They must decide whether or not to distribute a competitor's product, and if so, what method of strategic alliance is optimal.

## Case Learning Outcomes

The purpose of this case is to enable students to do the following:

- 1. Understand the strategic importance of distribution in the marketing mix;
- 2. Understand the importance of strategic alliances in distribution systems;
- 3. Appreciate the strength of using distribution channels as a value chain;
- 4. Analyze pros and cons of competitive strategic alliances;
- 5. Examine specific distribution channel types, functions and decisions;
- 6. Assess the profitability of alternative distribution strategies.

## Introduction

Perry's Ice Cream is a privately held, fourth generation family business headquartered outside of Buffalo, NY. Perry's was founded in 1918 when H. Morton Perry, a broom maker, purchased a small dairy in Akron, NY, which is a small village between Rochester and Buffalo, NY. The dairy operated as a home delivery and wholesale business until 1932, when Morton began supplying small batches of ice cream to the local school. Morton Perry knew that to grow his company, he would need to expand distribution. In 1936, he acquired the Frontier Ice Cream Company and established a Buffalo office which was staffed by a clerk and three driver salesmen. This acquisition allowed him to supply Buffalo customers, greatly expanding his customer base.

Today, Perry's is one of the two largest ice cream manufacturing plants in New York State, producing 500 different items totaling over 12 million gallons per year. The company sells to over 35 countries around the world primarily within the United States and Latin America, generating sales in excess of \$100 million. The Perry's brand ([Figure 1](#)) includes several product lines including premium ice cream, custard, reduced fat and sugar ice cream, yogurt, sherbet, and sorbet in package and serving sizes ranging from novelties, pints, 48 fluid ounce family size packages, 1 gallon containers, and 3 gallon ice cream tubs.

## Figure 1: Perry's Ice Cream



Source: Perry's Ice Cream. Used with permission.

The diverse range of products serves an equally diverse business-to-business customer base. Customers served include ice cream stands, independent grocery and convenience stores, hospitals, K-12 schools, colleges and universities, and distributors and wholesalers throughout Northeast United States school districts.

The brand's success can be seen in their core market. At the year ending 2016, according to A.C. Nielsen, Perry's had an overall 26% market share in its grocery class of trade in its core market, which was 2.6 times greater than the next branded competitor.

## The Three Legged Stool Strategy for Growth

Perry's president and CEO, Robert Denning, describes the company's business model as a "three legged stool," with company growth and profitability resting on three factors: the Perry's brand, ice cream produced for other brands (referred to in this case as custom pack) and revenues generated from strategic distribution partnerships and alliances. Two of the legs of this stool are relatively new ventures for the company. Perry's produced their first custom pack ice cream for regional grocery chains in 1986. Perry's entered into their first major ice cream distribution partnership in 1994 with Nestlé, and over the past decades has formed strategic alliances with other frozen food products, ranging from frozen pizza, pretzels, and peas. "Companies often form strategic channel alliances that enable them to use another manufacturer's already-established channel. Alliances are used most often when the creation of marketing channel relationships may be too expensive and time consuming" (Lamb, Hair, & McDaniel, 2017, p. 237) These strategic alliance partnerships allowed Perry's to further leverage their distribution assets, while the partnering companies are able to get their products to market without having to invest in, manage, or allocate resources to this part of their marketing mix.

Even though custom pack and distribution alliances are a relatively recent chapter in the company's 100 year

history, the company projects revenues over the next three to five years and beyond based on each of these legs of the stool accounting for one third of overall company revenues.

## The DSD Distribution Model

Perry's success and growth has come not only from producing high quality ice cream products, but from strategic decisions it has made along the way involving the use of their distribution assets. Perry's delivers products to market using its highly developed distribution system and assets. These include:

- 45 trucks ([Figure 2](#)) maintained at -18 degrees Fahrenheit and an Over the Road fleet of 20 tractors and 40 trailers, a portion of which are used to supply the company's central distribution hubs in outlying markets.
- 50 drivers covering routes throughout Upstate New York State, Pennsylvania, Ohio, as well as portions of West Virginia, Indiana, and Kentucky
- 40,000 square feet of frozen warehouse space at their manufacturing facility
- 40,000 square feet of additional leased frozen warehouse space located outside of Buffalo, New York.
- A frozen warehouse which holds over 1 million gallons of ice cream.

Figure 2: Perry's Ice Cream Distribution Truck



Source: Perry's Ice Cream. Used with permission.

These assets are required to support the direct store delivery (DSD) model of distribution the brand uses in its core markets of New York and Pennsylvania.

The Grocery Manufacturing Association defines DSD as follows: "In DSD, products are delivered directly to the store and merchandised by consumer products manufacturers" (GMA, 2008).

DSD also plays a major role in store execution. It is an opportunity to standardize and improve execution at the shelf. Knowledgeable representatives of suppliers of DSD products are in stores multiple times a week merchandising products. The labor contribution from DSD suppliers represents 25% of total store labor in the North American market.

For stores, DSD is a commitment by suppliers to deliver to shoppers what is needed, when it is needed on an individual store basis. For retailers, DSD unleashes an unparalleled opportunity to drive growth, power innovation, and improve cash flow. Together, as a trading partner network, DSD is the path to deliver a unique shopper experience. In the face of changing lifestyles and rising demands of today's shopper, it is the most effective supply chain design to deliver what customers want at the shelf where it counts most. It also forms the basis of a true collaborative relationship between the retailer and the supplier.

When you think growth, think DSD. In today's retail environment, with an increasing number of product choices ([Figure 3](#)) and the inherent difficulty in managing store-specific assortments, DSD offers a unique opportunity for a retailer to power growth. This growth takes five forms:

- Increase in volume at the store which translates to more sales
- Improvement in margin on products sold
- Acceleration in working capital
- Improved trade effectiveness of promotional activities
- Capabilities to better shape shopper experience to build shopper loyalty

In short, DSD drives an improved balance sheet for the retailer; and a better shopper experience for the customer (GMA, 2008).

### Figure 3: Grocery Fridge Stocked with Perry's Ice Cream



Source: Author.

While this model is expensive to operate from Perry's standpoint, the company has stood by this delivery strategy for many reasons. First, it ensures the quality of the product that consumers pick up off of the shelf. When ice cream thaws and refreezes, the quality of the product deteriorates. By delivering the product using

a DSD model, the product is handled almost exclusively by Perry's employees. Second, the model fosters relationships between the brand and retailers, enhancing the customer service levels the brand can provide to retailers. Third, having an infrastructure of frozen food trucks, established routes and drivers that deliver to the majority of retail and food service outlets in a region gives the brand an incredibly valuable, hard to duplicate asset—a path to market for frozen food brands. By partnering with other frozen food companies (ranging from frozen pizza to frozen peas) to deliver their products to the same retail outlets where Perry's already stops, Perry's is able to leverage these assets and offset the cost of this model.

In addition to Perry's own fleet of trucks and drivers, Perry's has agreements with several major distributors, who bring the Perry's brand to market in areas in which Perry's does not support DSD routes (see maps in Appendix 1 and 2).

In summary, having a system of highly efficient distribution assets and a diverse base of customers is a key strength of the company. This combination also makes the company a highly attractive potential partner to other frozen product brands trying to get their products to market.

As Perry's distribution assets and expertise grew, the brand became the “go-to” place if you wanted to efficiently & effectively get your frozen food products to market in the Perry's Market region (see maps). Some in the industry referred to this privately held business as The 800 Pound Gorilla of distribution in their market area. Over the years, numerous brands have approached Denning about forming strategic alliances. Forming partnerships and bringing non-competing products to market was an extremely effective business model to leverage the company's asset base and enhance overall profitability.

## Distribution Alliances: A Historical Industry Perspective

Strategic alliances in the ice cream industry for competing products did not have a smooth history.

In the 1980s, Perry's (and the entire ice cream industry) watched the David and Goliath lawsuit story of Ben & Jerry's versus Häagen-Dazs unfold. At the time, Ben & Jerry's was a small ice cream start-up company. Ben & Jerry's alleged that Pillsbury, owner of the Häagen-Dazs brand, was trying to force their (independent) distributors to remove Ben & Jerry's from their trucks, or lose their rights to distribute Häagen-Dazs (UPI, 1987). Ben & Jerry's launched their now famous “What's the Doughboy Afraid Of?” campaign through a grassroots effort which gained them national media attention and a settlement agreement with Pillsbury. As part of the campaign, Ben & Jerry's printed the slogan “What's the Doughboy Afraid Of?” on their ice cream packaging (Figure 4), instructed customers to call an 800 number for the “Doughboy Hotline,” and provided a Doughboy Kit to everyone who called including a bumper sticker and protest letters addressed to the Federal Trade Commission and the chairman of the Pillsbury board.

### Figure 4: “What's the Doughboy Afraid Of?” Sign



Source: Ben & Jerry's (2016).

Pillsbury eventually settled the lawsuit in 1985 with an agreement to “refrain from policies and actions that coerced distributors not to carry Ben & Jerry’s products.”

## Decision Time: Keep Your Friends Close and Strategic Partners Even Closer!

In the relationships Perry’s formed, the benefits of partnering for both brands seemed clear, making partnership a proverbial “win–win” situation. All of the distribution agreements to this point in the company’s history involved products that complemented the Perry’s brand, and enhanced the company’s assets and bottom line.

Recently, Perry’s was approached by a national ice cream brand, asking Perry’s to distribute ice cream products that compete directly with their own line of products in their own distribution network. Specifically, the proposal was to deliver and place their products to supermarkets and convenient stores right alongside the Perry’s branded products. This national brand did not have distribution in the core markets where Perry’s is sold, but had struck agreements with several major retailers in the region where Perry’s enjoyed dominant market share. The brand is a national brand, with deep pockets to spend on advertising their products and aggressively promoting them with deep price discounting. In addition, the national brand has proposed two alternative methods of compensating Perry’s for bringing their products to market.

Denning sent an email to his executive team summarizing the alternatives presented to them. He asked them to consider them carefully. A meeting was planned to discuss the best course of action for Perry’s. The summary he shared with the team included the following proposed alternatives:

### Proposal 1: Working On Margin

Perry’s, as distributor, will purchase the product from the national brand for \$3.00 per family size (48-56 ounce package). Perry’s would mark up the product by \$1 (approximately 33%) on their cost and sell it to local retailers for \$4.00. The retailer will set a retail price of \$5.99 giving them a retail markup of roughly 33% when the product is not on promotion.

In this arrangement, however, the national brand and Perry’s would both be asked to adjust their prices when

the retailer wants to put the product on sale. The national brand is proposing that, when the retailer puts the product on sale, the national brand and Perry's both lower their price.

For example, throughout the year, the retailer plans to put the product on sale at \$3.99, lowering their retail price by \$2.00. When the product is on sale, they will demand a price from Perry's as their distributor of \$2.80, or \$1.20 reduction in price per unit. The national brand will lower their price to Perry's by \$.84 per unit and Perry's will lower their price to the retailer by \$.36.

Specifically, when the product is on sale for \$3.99:

- National brand will sell to Perry's for \$2.16 per unit
- Perry's will sell to the Retailer for \$2.80 per unit
- The retailer will sell to consumers for \$3.99
- When the product is on sale, Perry's will be making \$.64 per unit.

### Proposal 2: Working On Drayage

Perry's as distributor is paid a guaranteed fee to handle warehousing and distribution. The national brand is offering Perry's .80 cents for every unit delivered, every day. In this arrangement, the national brand would work directly with the retailers in setting selling price to retailers, and negotiating adjusted prices and reduced margins when the retailer puts the product on promotion and would not ask Perry's to adjust their prices or margins. Perry's would make \$.80 on every unit they deliver, every day.

Denning simplified the comparison using the chart in [Figure 5](#), which he shared with his Board of Directors.

Figure 5: Profit Comparison of "On Margin" and "Drayage" Methods

	<u>ON MARGIN METHOD</u>		<u>DRAYAGE METHOD</u>	
	Regular Pricing	Promotional Pricing	Regular Pricing	Promotional Pricing
Retail Price	\$ 5.99	\$ 3.99	\$ 5.99	TBD*
Cost to Retailer	\$ 4.00	\$ 2.80	\$ 4.00	TBD*
Cost to Perry's	\$ 3.00	\$ 2.16	\$ 3.20	TBD*
Retailer Profit	\$ 1.99	\$ 1.19	\$ 1.99	TBD*
Perry's Profit	\$ 1.00	\$ 0.64	\$ 0.80	\$ 0.80

\* The retailer cost and margin will be determined by negotiation between national brand and retailer

When Denning brought these opportunities to his executive staff, there was considerable debate and disagreement over whether or not they should enter into an agreement with a competing national brand. The eventual decision to recommend these partnerships to the Perry's Board of Directors came down to Denning's analysis of the pros and cons of the partnership. Even though Perry's has been entrenched in their market areas since 1918, and has the leading market share (Appendix 3), the decision to put this product on the back of their delivery trucks must be weighed carefully.

Denning had made some notes to himself on each member's perspective during their meeting. He reviewed

them as he sat in his office, weighing the input of three of his trusted executive staff. In the back of his mind he wondered what other benefits and risks might come from carrying his competitor's product on his trucks.

Bill, Chief Financial Officer of Perry's, was most concerned about mitigating risk. He was quick to point out that by going with drayage they not only create revenue from currently unused capacity on their trucks, they gain certainty. Bill's logic is based on the fact that in this case what Perry's is selling is their expertise in logistics and distribution, so why not take the alternative that is directly linked to this expertise and avoid any revenue risk.

Linda, Chief Operating Officer, sees the alternatives a different way. She understood Bill's point about reducing uncertainty, but she simply didn't think it was a big enough risk to sacrifice the potential for a greater profit margin. Working on margin made the most sense to her because the company will earn healthy margins at regular pricing, which is the least they can do if they are distributing the competitor's product! Besides, it seemed like good strategy to share in a competitor's product because some consumers may be purchasing the national brand instead of Perry's.

This is when Mitch, who is in charge of business development, stepped in during the meeting. Mitch said that Bill and Linda are both crazy. Why in the world should Perry's help their competitors get products on their shelves? Mitch points out that the strategy that Perry's uses is the best way to get the freshest product on the shelves for their customers. This may be a point of differentiation in the eyes of consumers. Sure, they don't know how each brand gets to the shelf, but if they see that Perry's always seems to have a great selection and assortment of flavors that are always fresh whereas the national brands are sometimes frosty, freezer burned and damaged or battered, that might make a difference. Besides, there are plenty of non-competing products that want to use our distribution system.

Denning knew it was his decision to make. He considered a few questions as he contemplated the alternatives.

## Discussion Questions

- 1. What do you see as the potential pros of collaborating/partnering with this national brand?
- 2. What are the potential cons?
- 3. What does Perry's have to gain? Lose?
- 4. What additional information do you think could help make your decision?
- 5. Would you recommend that Perry's carry the competitors' products? Why or why not?
- 6. What method would you recommend they use, on margin or drayage, and why?

## Authors' Note

Information contained in this case was provided by Robert Denning, President and CEO of Perry's Ice Cream Company, the company website and reports, and former employees of Perry's Ice Cream. Perry's is a privately held family business. The numbers related to margin throughout the case have been fictionalized for the privacy of the company. However, the decision process faced by the company remains the same. The authors would also like to acknowledge the efforts and contributions of Donald J. Mitchell, MBA Student at St. Bonaventure University.

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