



## The Flowers Independent Distributor Model

Flowers Foods is a leading producer of bakery products. Because fresh packaged bakery products have a limited shelf life, are fragile, and generate high retail turnover, it is a common practice in the baking industry to deliver direct to retail and foodservice outlets, known as direct-store-delivery (DSD).

As in other industries where it is advantageous to deliver product directly to stores, manufacturers and distributors often work in close partnership, but each with their own incentives and motivations. DSD networks can take different forms, and Flowers' bakery subsidiaries use a common model similar to other franchise system: The distribution network is segmented into geographic territories, and the exclusive distribution rights to sell certain products within a given territory is sold to unaffiliated, independent individuals and corporations.

Since 1984, a significant portion of Flowers' products have been sold to and delivered by a DSD network made up of independent distributor territories. Today, Flowers' DSD network is made up of approximately 5,760 territories. Flowers' bakeries have sold the majority of these territories to approximately 5,200 independent distributors (IDs) who have the exclusive right to sell and distribute certain Flowers products within a defined geographic territory.

IDs are focused on realizing the full sales potential within their territories. As such, they control and direct their independent businesses, including:

- Developing relationships with key customer contacts,
- Determining and ordering the appropriate products and quantities for their customers,
- Working with key customer representatives to obtain displays to drive their sales,
- Identifying and engaging potential new customers,
- Acquiring a delivery vehicle and other equipment needed for the business,
- Scheduling store visits to deliver product and service the store,
- Hiring employees, if needed,
- Engaging advisors, such as attorneys and accountants,
- Complying with applicable laws, regulations, and service standards, and
- Handling all other day-to-day responsibilities of a business owner.

Because IDs own their own territories, they are highly motivated to increase their sales through outstanding service and merchandising. IDs have the opportunity to earn a return on their investment in two ways. First, they can generate additional revenue by increasing sales and controlling expenses.

Second, because a secondary market for territories exists, the ID can realize the incremental equity value by selling all or a portion of their territories as they grow sales.

The ID model is not unique to Flowers Foods. Many of Flowers' competitors in the baking business, other food businesses, and other types of business engage in similar business models. Flowers believes the ID model is a win-win where IDs, their customers, and the company benefit from the entrepreneurial incentive the model creates.

## **FREQUENTLY ASKED QUESTIONS & ANSWERS**

### *Regarding what an Independent Distributor does*

**Q: What is an "ID"?**

**A:** ID stands for "independent distributor." Flowers' direct-store-distribution (DSD) network is made up of IDs who have purchased the exclusive right to sell and distribute specific branded Flowers products within a defined geographic area or areas.

This right can be modified only with the consent of the ID, via a partial purchase or sale of distribution rights.

As independent contractors, IDs control how their distributorship is run--when to operate consistent with customer needs, the order in which customers are serviced, how to nurture customer relationships, whether to hire employees, etc.

Flowers believes the ID system is a win-win where IDs, their customers, and the company benefit from the entrepreneurial incentive the model creates.

**Q: How does an ID pay for a territory?**

**A:** Purchasing a territory and the equipment necessary service a territory is a significant investment. The investment required for the territory is often in the range of \$100,000. The ID also must purchase a delivery vehicle, invest in a computer and communications equipment, and pay for all other expenses related to setting up a business. When an ID purchases a territory, either from Flowers directly or on the secondary market, the ID can pay cash, or seek financing from a variety of sources, including a subsidiary of Flowers.

**Q: How does the ID benefit financially?**

**A:** IDs build value in their territories ownership in two ways:

1. IDs generate additional revenue by increasing their sales and controlling expenses. The more IDs grow sales, the larger their income.
2. IDs build equity in their business. Their equity position grows as they increase branded sales so that when an ID chooses to sell the business, the value of the territory is greater than when the ID

purchased the territory. IDs may also value their distributorship at a higher multiple than Flowers typically uses.

The ID holds the exclusive right to sell and distribute certain Flowers products within a defined geographic footprint, and there is value in those distribution rights. Generally speaking, a territory increases in value as the sales of branded product increase. IDs may sell their distribution rights, subject to certain limited exceptions set forth in the distribution agreement. Over the history of Flowers' ID program, many IDs have realized significant value from the sale of their territories.

**Q: Can an ID own more than one territory?**

**A:** Many IDs own multiple territories and employ their own employees. For example, there is an ID in the New Hampshire/Vermont area who currently owns seven territories. All IDs in Massachusetts own at least three territories. One distributor in Southern California owns five.

We expect that more IDs will choose to own multiple territories to benefit from the opportunities provided by Flowers' ID model.

**Q: Must an ID service their territory personally?**

**A:** Many IDs choose not to service their territories personally and instead hire employees to assist or service their customers on either a part- or full-time basis. As an independent contractor, it is the responsibility of the ID to find and pay for a replacement. If an ID is unable to service their territory, Flowers may arrange for service at the ID's expense to protect the reputation of its brands and business.

**Q: Who are the ID's customers?**

**A:** The ID's customers range from large mass merchandisers and quick-service restaurants to small family-owned convenience stores and restaurants.

**Q: How do IDs deliver and sell products?**

**A:** IDs or their employees order products from Flowers and then pick up their ordered products at Flowers' warehouses in a delivery vehicle of their choosing. This is often a standard delivery truck, but some IDs utilize a pickup truck and trailer.

**Q: What is the difference between a "prospective distributor" and an ID, or "independent distributor?"**

**A:** "Prospective distributors" (i.e. those interested in purchasing a franchise distributorship from a Flowers bakery) are retained through a third-party staffing firm on a limited basis, generally no more than 90 days, to learn the fundamentals and best practices of the baking business.

There are instances where prospective distributors are engaged for greater than 90 days, for example, in new markets where it's necessary to build sales to a viable and profitable level. Prospective distributors do not have an equity interest in a territory. Once the prospective distributor purchases a distributorship, they become an ID and gain control over the manner and means of managing the distributorship.

There are also many instances where an existing ID sells his distributorship directly to a new or other existing distributor. In these cases, the prospective buyer is not engaged by Flowers but rather learns fundamentals and best practices directly from the selling ID.

**Q: Are IDs required to wear uniforms?**

**A:** Flowers does not require IDs to wear a uniform. A retail or foodservice customer may require a logo for identification and security purposes. In such cases, this is a customer requirement – not a Flowers requirement.

**Q: Do IDs have accountants?**

**A:** Like other independent businesses, many IDs choose to retain accountants of their own choosing.

**Q: Do IDs advertise?**

**A:** IDs independently determine whether or not to advertise their business, and many do.

**Q: Can IDs carry other brands of products?**

**A:** IDs may carry non-competitive products.