

Sysco - Filling the Route, Protecting the Margin

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Decision scope: U.S. Foodservice local-customer growth and operating resources

Case convention: This is an author-created decision exercise. Sysco's disclosures and results are historical; the assignment, alternatives and role are hypothetical. No private meeting or management instruction is represented.

The decision

In October 2024, Sysco faced a familiar distribution question in an unusually visible form: where should the next increment of attention and operating capacity go? The company wanted to grow its local customer business, while keeping a large delivery network productive and improving profitability.

The latest quarter showed why those objectives could not be treated as the same thing. For the 13 weeks ended 28 September, total U.S. Foodservice case volume increased 2.7% from the prior-year quarter, but local case volume rose only 0.2%. U.S. gross profit increased 2.3%, while gross margin declined 43 basis points to 19.1%. U.S. operating income declined 3.5% to \$908 million. Sysco attributed the segment result to higher volumes offset by margin pressure from mix shift and selling investments. [S2], "First Quarter Fiscal Year 2025 Results" and "U.S. Foodservice Operations," pp. 2-3.

For this exercise, assume you are advising Sysco's U.S. Foodservice leadership at the close of 29 October 2024. Your task is to recommend how to allocate incremental FY2025 commercial and operating resources among local customer growth, service and delivery capacity, distribution productivity, or a staged combination. Sysco has not disclosed a single fixed-dollar budget for this exercise; do not invent one as company fact.

Should Sysco put more resources behind acquiring and serving local independent customers? Should it improve the productivity and consistency of the network first? Or should it expand in selected markets and wait for evidence before committing more broadly?

Use only information available by the cutoff. Recommend a course, explain the strongest case against it, and identify what management should measure before the next resource decision.

A distribution business with several kinds of customers

Sysco distributes food and related products to restaurants, healthcare and educational facilities, lodging businesses and other foodservice customers. Its assortment spans fresh, frozen and dry food, produce, meats, seafood, beverages, paper and disposables, and restaurant equipment. The company describes prompt, accurate delivery, competitive pricing, customer service and a full array of products and services as important to customers. Some locations receive daily deliveries or short-notice special orders. [S1], Item 1, “Customers and Products,” pp. 2-3.

The company serves customers through U.S. Foodservice, International Foodservice and other operations. In FY2024, U.S. Foodservice accounted for 70.2% of Sysco’s \$78.844 billion in sales. It generated \$3.673 billion in segment operating income, equivalent to 6.6% of U.S. Foodservice sales. For comparison, Sysco’s consolidated operating margin was 4.0%. [S1], Item 7, segment tables and percentage-of-sales table, pp. 30-31.

Sysco distinguishes local and national U.S. customers in its operating measures. Local customers are primarily independent “street” customers without long-term contracts and locally managed chains. National customers are multi-unit businesses managed centrally and requiring national coverage. Sysco says local business allows more favorable pricing and higher gross margins. National customers can negotiate across businesses, reducing gross-profit potential, but their larger drops reduce Sysco’s cost per case. [S1], Item 7, “Key Performance Indicators,” pp. 26-27.

These averages do not reveal which individual account is most profitable. A delivery to a small restaurant may use similar scheduling and handling resources as a larger order, while several nearby smaller orders could also make a route more productive. Sysco does not publish account-level delivery costs, stop-level route density or the incremental profit from a new local customer.

A growth plan already in motion

Sysco’s “Recipe for Growth” transformation includes five stated pillars: Digital; Products and Solutions; Supply Chain; Customer Teams; and Future Horizons. In its FY2024 Form 10-K, the company described personalized digital tools, customer-focused merchandising, a more productive supply chain and additional sales colleagues supported by data. It said cost-out and efficiency improvements would help fund growth. [S1], Item 7, “Strategy,” p. 29.

At its May 2024 Investor Day, Sysco described a three-year growth algorithm centered in part on local case growth and on combining broadline and specialty sales teams through “Total Team Selling.” Management said the approach could help customers access a wider range of products and services. These are stated plans, not proof of future results. [S3], Investor Day release, 22 May 2024.

The prior fiscal year offered evidence of growth, but also a modest local result. In FY2024, total U.S. case volume increased 3.1%; local case volume increased 1.1%. Local case growth in the fourth quarter was 0.7%. Sysco also reported continued market-share gains despite negative year-over-year restaurant foot traffic. [S1], Item 7, “Sales and Gross Profit Trends,” pp. 27-28.

The Q1 FY2025 local result was weaker than the total U.S. figure. Product-cost inflation was 2.2% at the total enterprise level. Sysco said higher volumes supported gross profit, while selling investments and mix shift pressured U.S. margins. [S2], p. 2. The public results do not show which local accounts were won, how much volume those customers contributed, or whether specific sales investments caused the quarter’s performance.

Scale, service and competitive alternatives

Sysco's FY2024 10-K describes a competitive landscape that includes broadline and specialty distributors, local and regional distributors, wholesale and retail outlets, club and cash-and-carry stores, grocery stores and online sellers. Customers often buy from several channels at once; Sysco says switching costs are very low and customers can change suppliers quickly. [S1], Item 1, "Competition," p. 5.

US Foods, another large U.S. distributor, reported 5.2% total case-volume growth and 5.7% independent-restaurant case-volume growth in its fiscal Q2 2024. It also said higher volume raised distribution expense, while routing efficiency, lower turnover and process standardization supported productivity. [S5], Q2 FY2024 release, 8 August 2024. Its fiscal quarter differs from Sysco's Q1 FY2025; these figures are context, not a like-for-like ranking.

Sysco's own annual filing describes routing optimization, fleet utilization and fuel surcharges as tools for managing outbound delivery fuel. Fuel costs for outbound deliveries represented about 0.5% of sales in FY2024. [S1], Item 7A, "Fuel Price Risk," p. 54. Fuel is only one delivery cost. The filing does not quantify route-level labor, warehouse handling, stop time or the cost of adding capacity to a specific market.

Exhibit 1. Operating performance at the decision date

Reported year-over-year change unless otherwise noted.

Measure	FY2024	Q1 FY2025
U.S. Foodservice total case volume	+3.1%	+2.7%
U.S. Foodservice local case volume	+1.1%	+0.2%
U.S. Foodservice gross profit	-	+2.3%, to \$2.7bn
U.S. Foodservice gross margin	-	-43 bps, to 19.1%
U.S. Foodservice operating income	-	-3.5%, to \$908m
Sysco consolidated sales	\$78.844bn	+4.4%, to \$20.5bn

Sources: [S1], Item 7, pp. 27-32; [S2], "First Quarter Fiscal Year 2025 Results" and "U.S. Foodservice Operations," pp. 2-3. FY2024 case-volume figures include Sysco's stated business scope and acquisition effects; the company reported Edward Don's Q4 contribution to U.S. case volumes. Q1 volume and profit changes are company-reported comparisons with the prior-year quarter. A dash indicates that the exhibit does not present a comparable full-year figure.

Exhibit 2. The economics Sysco says differ by customer type

Local customers	National customers
More favorable pricing, according to management	Negotiated pricing across multiple businesses
Higher gross margins, according to management	Lower gross-profit potential, according to management
Primarily independent restaurants and locally managed chains	Multi-unit accounts with centralized management
No long-term contract for many independent street customers	Larger drops, which reduce Sysco's cost per case

Source: [S1], Item 7, "Key Performance Indicators," pp. 26-27. This is management's directional description. Sysco does not disclose the relative delivered contribution margin or cost-to-serve for the two customer groups.

Exhibit 3. Selected FY2024 financial context

USD billions, except percentages.

Measure	Sysco consolidated	U.S. Foodservice
Sales	\$78.844	\$55.339
Operating income	\$3.202	\$3.673
Operating income as % of sales	4.0%	6.6%
FY2024 cash from operations	\$2.989	-
FY2024 free cash flow	\$2.2	-
FY2024 net cash capital expenditures	\$0.753	-

Source: [S1], Item 7, pp. 30-31 and 43-44. Segment income excludes Global Support Center costs in the segment table; consolidated operating income includes them. Free cash flow is a non-GAAP measure defined as cash from operations less purchases of plant and equipment, including proceeds from asset sales in the company's reconciliation. FY2024 capital expenditure is not a local-growth budget. Sysco expected FY2025 capital expenditures of approximately 1.0% of sales; this was management's forecast at the cutoff. [S1], p. 44.

Alternatives to consider

1. Accelerate local customer growth

Expand customer-facing sales capacity and service support for independent restaurants and local chains. Use Total Team Selling to bring specialty products and expertise into more customer conversations. This path may capture customers with more favorable pricing and higher gross margins. The risk is that sales hiring, promotions, small drops or service-intensive accounts add expense before enough profitable volume accumulates. A weak return could also reflect customer demand rather than the sales effort itself.

2. Prioritize delivery and distribution productivity

Direct incremental resources toward route planning, fleet utilization, warehouse processes, labor stability and service consistency. Improved cost per case could support profitability across the customer base and make future growth easier to serve. The risk is that delaying customer-facing capacity gives competitors room to win local accounts and weakens a strategic priority while demand is still available.

3. Stage growth and productivity investments by market

Expand in selected markets where local demand, route capacity and service performance appear to support profitable growth. Set measurable review gates before extending the approach to more markets. This can limit broad exposure while generating evidence, but pilots may be slow, difficult to compare, or confounded by local demand, customer mix, acquisition effects and salesforce selection.

Assignment

Prepare a two-page recommendation memo for U.S. Foodservice leadership. Choose an alternative or define a combination. Explain how it fits Sysco's stated strategy, what trade-off it accepts, and how it would affect customers and operating teams. Identify the evidence that should be collected, the measures that would trigger expansion or revision, and the strongest argument against your recommendation.

Do not treat local gross margin as delivered contribution profit. Separate reported facts from assumptions. If you quantify an investment or expected outcome, label every unreported input as a classroom assumption; Sysco has not disclosed a fixed budget or local-account return data for this exercise.

Sources and conventions

S1. Sysco Corporation, [Form 10-K for the fiscal year ended June 29, 2024](#), filed August 28, 2024; accession 0000096021-24-000128. Printed-page locators are given above.

S2. Sysco Corporation, [Q1 FY2025 results release](#), October 29, 2024. Quarter ended September 28, 2024; comparisons are to the prior-year quarter.

S3. Sysco Corporation, [2024 Investor Day release](#), May 22, 2024.

S4. US Foods Holding Corp., [Form 10-K for FY2023](#), filed April 2, 2024; accession 0001665918-24-000014.

S5. US Foods Holding Corp., [Q2 FY2024 results release](#), August 8, 2024. Different fiscal quarter than Sysco's Q1 FY2025.