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purchasing powers

Briefing

helping restaurateurs adapt to a changing marketplace

strength in numbers

As restaurateurs around the country strive to lower costs, all segments of the industry are seeking to leverage buying power. Some independents are banding together in co-ops/buying groups; small, multi-concept companies are consolidating purchasing; mid-sized companies are outsourcing to purchasing groups; and large chains like Subway and DineEquity (IHOP/Applebee's) have created their own purchasing co-ops to serve franchise and company-owned stores (with DineEquity projecting an annual savings of 3-5%). Some strategies:

Outsourcing purchasing. Gary Foreman, senior vp, Rock Bottom Restaurants, a chain of 140 casual dining restaurants headquartered in Louisville, CO, says, "We recognized that the only way to get better pricing on high volume items from our purveyors was to increase our purchasing volume." Gary says they signed on with SpenDifference, a strategic outsource purchasing company, created last summer by two Rock Bottom purchasing veterans who realized that there weren't options for mid-size operators – between $10 and 120 million in spend. Maryanne Lewis, ceo and president, SpenDifference, explains, "We're working with companies that have restaurants scattered around the country, like Rock Bottom and Spaghetti Warehouse, with similar buying needs. We can help solve their distribution challenges and cut costs by consolidating volume, vendors, and deliveries." SpenDifference has product experts who provide the kind of specialized expertise that mid-size chains usually can't afford on staff. "Our experts get into every detail of a client's supply chain – from examining distributor programs, raw material contracts, product yields and selection, and production costs to packaging and overhead/profit to insure clients are getting the best price. Plus, we do line-by-line auditing of all invoices." SpenDifference's fees are based on a percentage of spend and are fully transparent to their customers; Maryanne reports overall savings range from 3 to 12%; with some items as high as 30%. By outsourcing purchasing, clients have not only been able to lower costs, but also save on general and administrative costs as the result of being able to downsize their in-house purchasing departments.

Consolidating purchasing. Union Square Hospitality Group, New York, NY, an independent restaurant group, has hired a purchasing director to develop and manage a preferred vendor list for the common items that each of the group's 10 restaurants and catering operation used to order separately (e.g., paper goods, cleaning supplies, linen, and water). "Now we are benefitting from economies of scale on these 'non emotional' items, i.e., non-food products," explains Jeff Amoscato, purchasing and systems operations manager. (Jeff advises looking at this category, saying it's surprising how many items fall into it.) "While we're committed to having our restaurants be as hand-crafted as possible, there's no reason to leave money on the table. So far we're seeing savings of 7½%." Jeff says he's transitioning to the food side slowly. "We've consolidated our liquid dairy purchases and are looking at other items that offer the best buying power without sacrificing quality. Aside from the cost savings, one of biggest benefits of consolidating purchasing is that our relationships with vendors are stronger. We've become partners – they're really working for us, and we no longer are just leaving messages on their answering machines."

Forming a buying group. Some independents have been able to reduce costs by banding together. For example, group purchasing is the mission of the 42-member Dine Originals Columbus (originally part of the now-disbanded Dine Originals, a national organization of independent restaurants with regional chapters). "We started with one supplier who gives us a discount based on our combined spend," explains Kamal Boulos, owner of The Refectory, Columbus, OH. He says that 10 members were already buying from the same produce vendor and, as a result, the group was able to negotiate special "national account" pricing. "We agreed to three different pricing

purchasing practices

"A few years ago, we hired a new purchasing agent – with an MBA – but no restaurant background. We saw the fact that she has no real attachment to the business as a positive because we've had some who were too empathetic. She looks at our needs from an objective, not artistic, perspective and makes us stop to think about the implications of our decisions. Purchasing is a numbers game, and the pennies add up. We invested in teaching her how products are used, and the payoff is that we've been able to lower our cost of goods by a percentage point."

Dan Sachs, owner, Bin 36 Restaurant Group, Chicago, IL

"Knowing as much as possible about the principle part of our menu – seafood – puts us in a position of strength. If the reason suppliers tell us they can't get something doesn't make sense or when something comes in not as it should be, we know. Our menu changes daily, so understanding the market is essential. Regarding sustainability, deep product knowledge means we can be more than bandwagon jumpers and work toward real change."

Christine Keff, chef/owner, Flying Fish, Seattle, WA

"To avoid cutting costs in ways that impact customers, we started looking under every stone – including packaging – which people typically don't consider as a way to save every penny. We bid out contracts coming due and incorporated a request for a locked annual price on delivery – some couldn't do it, but many would. There are great opportunities now to negotiate with vendors. Bottom line: don't be afraid to ask – you never know what kind of pressure they are under to reduce inventory."

Don Vlcek, vp purchasing, Marco's Pizza, headquarters, Toledo, OH

strength in numbers (cont'd)

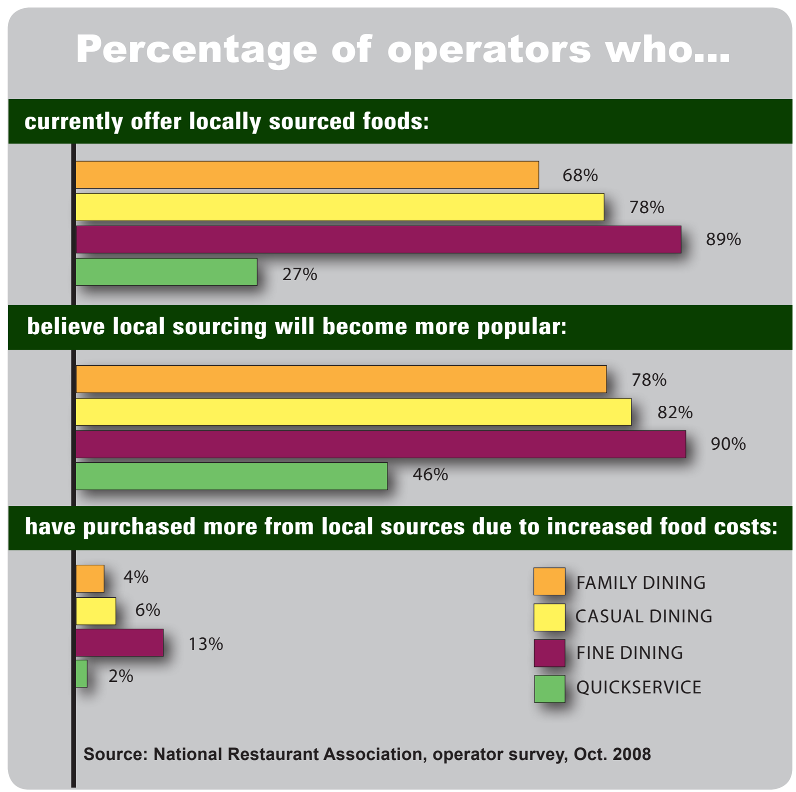
levels, based aggregated on spending of $225,000, 250,000, or 275,000 per quarter. Not only did prices go down, but the purveyor dropped the fuel surcharges, and we each instantly saved about $200/month." Kamal agrees with Jeff that it's key to focus co-op buying on "non-emotional" items. "Next we're going to look at items like fire-suppression systems, payroll services, and insurance providers," he says. Another group, Sarasota-Manatee Originals, also a former chapter of the national Dine Originals group, has tried to organize a purchasing co-op, but without success. "We're just too diverse. People buy differently – some get deliveries every day, some weekly. We couldn't make it work," explains Michael Klauber, proprietor, Michael's on East, Sarasota, FL. However, he says, because many of the 50 members buy from the same broadliner and linen companies, the group was able to negotiate marketing rebate dollars that account for 80% of the group's annual advertising campaign.

Buying through a co-op purchasing company. John Davie, founder and ceo of the 11-year-old Dining Alliance, a for-profit company with over $500 million in buying power, says that a lot of people have tried to start buying groups in the past. "They've been very successful in other industries, but they didn't work in restaurants, mainly because chefs had the perception that buying as part of a group meant buying inferior product that was bought in bulk and warehoused – which is simply not true." Currently, Dining Alliance has over 1,800 members – mostly independents and chains – with chapters in eight major markets. There are core programs for produce, credit card processing, insurance, trash removal, etc., that are available nationally. There are no membership fees – Dining Alliance is paid a percentage of savings. As the company expands, John meets with restaurateurs in potential markets to get vendor leads. "When selecting vendors, we never sacrifice quality or service – we'd always rather pay a little more." John says clients are saving 10-15% on price, and some tell him they are even upgrading in quality.

"I've wanted to pool buying with other independents for years, and when Dining Alliance came to town I signed up," says Kevin Joyce, DiRonNA member and owner, The Carlton, Pittsburgh, PA. "While I still work with individual purveyors for some items, 50%+ of my purchases go through Dining Alliance." Kevin adds he's seeing dramatic savings on such items as linen, paper goods, coffee, and soft drinks, his food costs have dropped two-plus points, plus he's getting manufacturers' rebates as part of a Dining Alliance program. Kevin underscores the importance of bringing chefs on board. He explains, "It's challenging to change long-term supplier relationships, and you have to help your chefs get used to the idea of new vendors." Steve DiFilippo, proprietor, Davio's and Avila, Boston, MA, agrees. "It's a bit of a blind order for our chefs – they're used to meeting with a couple of different vendors in person," Steve says. "However, now we're buying the same top quality and saving 10-15%, and the chefs don't have to worry about how much we're paying for chicken – all that work is done for them." Steve adds he feels secure knowing that his food costs won't go up because of the contracts Dining Alliance has with its vendors. ■

going local

The momentum toward more local sourcing across the restaurant spectrum is undeniable – as are the incentives. Restaurateurs cite local products' superior freshness (and, therefore, taste and nutrition); the satisfaction of supporting businesses in their communities; the reduction of long-distance transportation costs along with carbon footprints; the quality assurance that comes from knowing the origin of products; the powerful connection that can result with both producers and customers; and, as many say, "It's the right thing to do." That sentiment taps into other factors, notably the important role that local sourcing plays toward a goal of sustainability and even geo-politically. Long-time advocate and founder of White Dog Cafe, Philadelphia, PA, Judy Wicks cites the urgency of "building regional self-reliance in the food chain as we face the uncertainties of climate change and rising oil prices." Another vulnerability, she says, is that when societies have little control over their food supply and growing practices, the result is unhealthy food and an unhealthy population.



There's also no question that local sourcing requires more effort and a commitment to work through its particular challenges. Because buying locally means dealing with specialized and smaller suppliers, operators can find themselves making many more calls for products, dealing with more deliveries, etc. Even those with the proximity and time to buy directly from farmers' markets share the challenges of finding products consistently and in sufficient quantities, and they must also work around the accounting issues of paying cash and getting receipts. **More distributors seem to be willing to handle the logistics of local sourcing – either via restaurant requests for specific vendors or through their own legwork finding local producers – which makes buying locally more feasible for many restaurants.** Ann Karlen, exec. dir., White Dog Community Enterprises/Fair Food, says, "Distributors are definitely feeling the pressure because more of their customers are asking for local products. Some progressive business people in the distribution business have responded, and many are trying, but it's not easy for them – distribution is all about logistics. But it's only by asking that things will change. I say, let them know you want it. It will be a reaction to a need and an opportunity."

Prices for local products are often higher – although most restaurateurs agree that when superior quality and transportation savings are factored in, increased costs aren't a major deterrent. Sometimes just getting started is the hurdle. Happily, there's a lot of activity on both sides of the restaurant-farmer connection, and an increasing number of organizations, agricultural groups, and networks are facilitating those relationships. (Visit Briefing online/resources for some ideas.) Just the same, says Deborah Kane, vp, Food & Farms, Ecotrust, "Some restaurateurs tell me they are hesitant to start because they know they can't go all the way – convert completely to local sourcing. I tell them that we all have our inherent inconsistencies, and everyone has to make decisions that are right for them. But it's important to just try. Start with one menu item – then you're on the path." Melissa Kogut, exec. dir., Chefs Collaborative, agrees. **"To get past the 'I can't do it all, so I can't do anything' sentiment, we encourage chefs to take steps, and when they've mastered one, to move on to another. Perhaps start by incorporating some products on the menu that are seasonally available from local farms – that's a relatively easy step."**

Even baby steps have a big impact when they are taken by multi-unit restaurant companies, such as Denver-based Chipotle, with more than 800 units, and the 200+ unit Noodles & Co., based in Broomfield, CO. Both are deeply committed to local sourcing and are exploring what works for them, starting with produce items. Like all chains, they have the added challenge of trying to do this consistently, safely, on a large enough scale – and in the context of standardized recipes.

Noodles & Co. works through regional suppliers that bring in locally and regionally raised produce, when available, that's consistent with its quality standards. "Working with our suppliers, the first thing we consider when looking at products is food safety, then quality, pricing, and availability that would let us deliver to our locations on a consistent basis," explains Dawn Voss, chief administrative officer overseeing culinary and supply. And they are constantly on the lookout for opportunities. "We review all our products all the time," says Dawn. "For example, now we're looking at milk to see if we can source it at a local level in our communities." The local level can also dictate what products Noodles & Co. sources in some areas. "We listen all the time to guests – different things are critical in each community. We want to connect and serve what's important to them." In Portland, OR, locations, Noodles & Co. utilizes organic lettuce from local produce houses because organic, fresh produce is an important value in that community. In other regions, they might not have the same level of interest – or the resources. In every location, Dawn underscores the importance of making it easy and seamless for managers. "If they are worried about what's coming in the back door, they can't be focused on guests."

Noodles & Co. may have become decentralized in some areas of purchasing, but Dawn credits much of the success of their initial efforts to the fact that they are very centralized in their beliefs about why it's important. "Trying to secure produce from as local a source as possible is very consistent with our company values, so we do it as often as we can. We're doing the right thing for our customers and our communities – and we talk about it all the time with our managers and with each other," she says.

local knowledge

• BE AS FLEXIBLE AS POSSIBLE. Buying locally is much easier for those restaurants whose menus change but regardless, requires adaptability. Have alternatives in mind if acts of nature or logistical snafus mean that what you ordered doesn't come in and/or if something is unexpectedly available.

• WORK AROUND SEASONALITY ISSUES. Some restaurants only source core local ingredients that are available all year, such as dairy and meat; some source local products at peak season only. Others create special farm-to-table menus depending on what's available, offer sporadic items as specials, or put them in salad bars. Still others, like L'Etoile, Madison, WI, have strategies for preserving local crops at the height at their season – vacuum sealing then freezing tomato sauce and strawberries, as well as canning, pickling, and de-hydrating products – to be used throughout the year.

• RECEIVE AND HANDLE LOCAL PRODUCTS APPROPRIATELY. "Reducing the time from farmer to table means that produce is more fresh and nutritious – flavors are at their peak," explains Dawn Voss, chief administrative officer overseeing culinary and supply. Noodles & Co. So it doesn't make sense to keep produce in the cooler, serve it days later, or prep way ahead of time, she cautions. "Take care to prepare, cook, and serve to order, if possible."

• DEFINE WHAT LOCAL MEANS TO YOU. White Dog Cafe defines "local" as having products grown/produced by an identifiable source (i.e., it is possible to trace the product back to a particular farm/farmer), and coming from within a 200-mile radius or your state. It's important to come up with your own definition and to then make sure all the people with whom you work – including your distributors – understand that definition. That said, it's not always possible to operate within defined parameters. "We try to look at it from an inside/out perspective," says Joe Gordon, vp, supply chain, Noodles & Co. "When some items are out of season, we look regionally. The goal is to have our produce safely come from suppliers as close as possible to the product."

• PUT A FACE ON THE FOOD. "It's all about food with a story that remains intact," says Deborah Kane, vp, Food & Farms, Ecotrust. It's ideal if products come with their farm or company name so you can merchandise them accurately and effectively. "But even if you've had to default to products from outside your region, if you know something about them, you still have an opportunity," she says. "Better a story about farmers in another state than none at all!"

going local (cont'd)

Even on a much smaller scale, it takes communication and a commitment to all the links in the chain. "It's a learning process on both sides," says Deborah. Organizations like Ecotrust are working with farmers to help them become more competitive – to understand and meet the needs of the growing number of restaurants who want to do business with them. **"Increasingly, growers realize the ease with which chefs have made a phone call and gotten the same product today and tomorrow. Ultimately, it's not an unreasonable expectation, and this feedback is being shared with the grower/farmer community.** As the direct market grows and becomes more profitable, it will be a matter of course."

In the meantime, it's going to take a village – lots of them. "To make this work, co-operation is vital," says Melissa. Restaurants must bend a little, and producers must address their expectations, she advises. She underscores the power of commitment to everyone's success – including growers and farmers with whom restaurants do business. "That's the kind of thinking that makes the local system work."

The spirit and advantages of working together applies to restaurants as well. "Our advice is that restaurants work in partnership, not alone," says Deborah. "Put together a coalition – seek out other restaurants that might buy from local farmers who can meet your needs. It's really a community effort." ■

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power buying – working with prime vendors

The economy is forcing many restaurateurs to review their purchasing strategies and supplier relationships. While ongoing bidding has become commonplace because operators tend to believe it yields better prices, provides flexibility on products, and keeps vendors on their toes, Bill Marvin, Restaurant Doctor, says the opposite is true: **"Engaging in ongoing competitive bidding practices to get the lowest prices actually leads to higher food costs, not lower."** Lee Plotkin, president, L.P. Enterprises, Inc., agrees, "You may get a lower price on some items because the rep wants to get your business, but in the long run you'll pay more for other items to compensate. And, because you're buying a small amount from a lot of vendors, you won't have any leverage when it comes to getting products or service." Bottom line, they maintain, a "prime vendor" relationship (a single vendor from whom you make more than the majority of your purchases – usually 80%+) creates incentives and efficiencies for vendors that get passed along to restaurants. And becoming more important to a vendor creates a mutually beneficial partnership. Suppliers become more responsive, which can mean better delivery windows and quick turnarounds. If shortages occur, a prime vendor will usually search the market for an alternative.

> *"Work with your suppliers – ask what you need to do for them so they can do a better job for you. It should be a mutually beneficial relationship – and it's more effective for them to keep a good customer happy than to replace a dissatisfied one."*
>
> *Lee Plotkin, president, L.P. Enterprises, Inc.*

The savings are substantial and quick. "Every time I've moved a client to a prime vendor, his food costs have dropped by 10% overnight, and no one has ever looked back," explains Bill. "The basic truth is, the less it costs the supplier to service your account, i.e., the more he can fill his truck, the lower your cost." He says using a prime vendor streamlines the otherwise inordinate amount of time spent compiling and evaluating bids, dealing with salespeople, managing multiple vendors, and receiving lots of small deliveries – which is a distraction from high-return activities, such as training and developing people and caring for customers. Lee adds that there are other tangible savings operators don't always think of, including cutting checks. "One client says that with everything factored in, it costs him $15 to cut a check, and he was writing 1,500 checks to vendors a year. That's $22,500 in check-writing costs that has been reduced dramatically," says Lee. "The same client also estimated that he saved $14,000 annually in staff time ordering and receiving deliveries." It's also possible to further reduce costs if you can place orders online.

Getting started with a prime vendor. Lee recommends putting together a list of the 10-15 items you buy the most of and the 10-15 ones you buy the least. Send them out to several prime vendors for bids and compare their prices to what you're currently paying. He says it's important that audit privileges are part of the agreement – it's where checks and balances come into play for this type of relationship. Your prime vendor should be required to produce manufacturer invoices and freight documents on items you periodically select that can be traced to your actual invoice cost. Also, make sure you understand if there are additional charges – for splitting cases or stocking proprietary items that only your restaurant uses.

Working with a prime vendor for cost-plus pricing: If you purchase enough with one vendor, Lee suggests negotiating a cost-plus pricing agreement (a specific markup over the supplier's cost). "If you're spending over $4,500/week with your prime vendor, be proactive and request a meeting with your rep's manager – someone in authority – and ask for a cost-plus pricing agreement, locking in a specific markup." (The rep, he says, may be hesitant to recommend cost-plus pricing, as it might negatively impact his/her commission.) It's important to remember, Lee says, that for the duration of the contract a primary cost-plus supplier cannot deviate from the cost-plus markups that are agreed upon. Market prices will fluctuate, but the markup remains the same and can't be changed without mutual agreement. **"In my experience, a cost-plus agreement will yield lower overall costs on an annual basis and assure the operator that they have a good relationship in place,"** says Lee. "If you've had a cost-plus agreement in place for awhile, I think now is a great time to revisit the relationship. Ask your vendor for a volume report, comparing when you began with them and where you are now. If your business has grown and the markup has remained the same since day one, it's time to discuss reducing it." ■