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Strategies for Working With Your Foodservice Distributors

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Strategies for Working With Your Foodservice Distributors

By Les Lent, Lee Plotkin, Jim McGovern and Sam Silvio

There are few businesses in which strategic purchasing is as critical as a restaurant. You fight for every penny on the bottom line. The inventory is often highly perishable, and guest demand for any item can fluctuate. In addition, most restaurants require a broad range of products to operate their businesses and fulfill their menus. Particularly independent restaurant and small chains that stake their reputations on fresh, high-quality, and often specialty items, rely on vendors who can fill orders in a timely and consistent manner and at the best cost possible. At the heart of this issue is your relationship with distributors. Are you better off working with one broad-line distributor to ensure the best cost and delivery? Is selecting a prime vendor for most items and cherry-picking specialty items the way to go, as was espoused in Chef Training in the July 2006 issue? Or, will buying from multiple vendors for the best price and product in different categories reap the best results? The answer may depend on your concept and menu. Nevertheless, we posed that question to a broad-line distributor, a restaurant purchasing consultant, and two restaurant general managers for their views on the subject. The following are their opinions. What do you think?

diligence before making a major change. With all the challenges restaurant operators face, having a great relationship with vendors allows them to focus on the business of running the business.

Restaurants Must Have Purchasing Controls

by Lee Plotkin, Restaurant Purchasing Consultant

If I were to come up with positives for cherry-picking and spot buying, I would say that they can help obtain the lowest prices on a weekly or monthly basis. There may be a strong belief among some operators that bidding out weekly to ensure that the lowest price is realized for their quality specifications is time well spent. There may also be a certain comfort level in seeing that reflected on paper, and that suppliers will be able to truly get them deeper discounts because those suppliers know that their prices are watched closely.

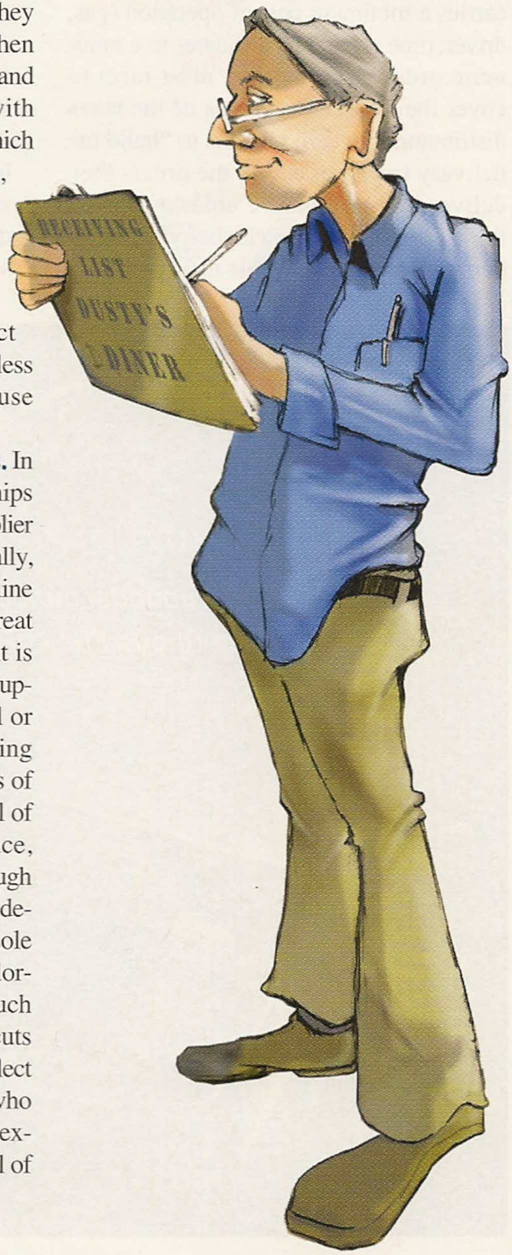
I know about this form of buying quite well. In a former life, while working for a hotel chain that will go unnamed, our regional produce, liquid dairy, meat and seafood purchases were bought on the market, bid out each week, and the lowest bid would win the business for that respective product or products. We were able to override the system in the event of continuing quality issues, as the lowest price did not always equate to meeting our quality specifications.

Looking back, I know that those were the tools that we were provided with, and it was what we knew. We spent an inordinate amount of time every week compiling the bids and making sure that we were in compliance with those buying practices. The questions that we pose now: Is this truly the best way to get the lowest prices, or is it just an illusion of that? What is the "best practice" for my establishment that will allow our operation to establish a comfort level that we're being competitively priced for our quality specifications, so that my time as an operator can be focused on where it needs to be? Are we willing to allow the distributor to make a "fair profit," not inordinate, so that it becomes a win-win relationship and we become a higher-priority customer? Which form of buying will actually help set the foundation for our company's growth?

The facts of the matter are that cherry-picking or spot buying programs are usually handled by distributors as "street accounts," which their representatives can adjust pricing up or down depending on the competitive market. The representatives are paid on commission and markups or margins will need to be higher with "no commitment" buying to accommodate that. Most of the time the distributor cannot guarantee your volume to their manufacturers, so they are unable to plan accordingly and take advantage of volume discounts, which would bring the price down further. Another concern faced by weekly bid customers is that during product shortages, the product may be assigned instead to the "regular" customers to make sure that they are covered. This occurred last year when the hurricanes hit full force in Florida, and Texas was having its own issues with crops. I can recall that café tomatoes, which are highly coveted for their use in salsa, were in high demand due to their usually lower cost. When the storms hit, the prices went up dramatically, but I can recall that one produce company made sure that its contract customers had product on hand and the less frequent customers were forced to use higher-priced alternatives.

Sole and prime vendor relationships. In these types of vendor buying relationships the restaurant chooses to use a select supplier for all or most of their purchases. Typically, they are characterized by a good broad-line distribution partner and handled by a great service representative. That component is usually an important factor in whether a supplier could be considered to handle all or most of your purchases. The determining factor really has to do with the dynamics of the concept. Are you really able to get all of your products (groceries, meat, produce, seafood, chemicals, soft drinks, etc.) through a single source to meet your quality and delivery frequency needs? If so, then the sole supplier relationship may be worth exploring. If quality and delivery needs are such that higher-end and specialty types of cuts are needed, then it may make sense to select meat, produce and/or seafood vendors who are able to better serve your needs, and explore the prime vendor relationship for all of the other purchases.

As a restaurateur, I want it known that if I am going to give that distributor all of my business in these areas … I want to agree to the markups they will be charging me.



Restaurants must have proper controls in place for these types of programs to be effective. There is the opportunity to reach an agreement with that distributor on the level of markup/margin you will be charged going forward. As a restaurateur, I want it known that if I am going to give that distributor all of my business in these areas … I want to agree to the markups they will be charging me. Audits can then be conducted periodically to confirm that the contract terms are in compliance. Audits can be conducted by your CFO, or a professional consultant with purchasing expertise may also be of benefit to understand the intricacies here.

For the distributor, each delivery stop carries a minimum cost of operation (gas, driver, time spent). That equates to a minimum order size that they must meet to cover their costs. Since one of the ways distributors can earn profit is to "build the delivery truck" or add to the orders they deliver, they should be able to pass on those efficiencies of the higher-volume orders to the customer. This may very well enable them to lower prices and still be able to operate profitably, making this a win-win situation for buyer and seller. Most restaurants are now faced with gas surcharges levied on each invoice to offset the high fuel costs. Many larger restaurant companies know that reducing those deliveries can greatly reduce the effect of those higher fuel costs.

As a contract purchasing agent in the restaurant industry it has been my experience that committing to a prime vendor or sole supplier relationship for a fair agreed-upon markup or margin would reduce annual prices. Some facts of supplier relationships:

- ✓ Suppliers that price you weekly or monthly to be on spot-buying programs can come in lower from time to time but they typically cannot continue to do so for an extended period and remain profitable. Anyone can come in the back door and undercharge to achieve new business; however most companies cannot sustain that. Keep in mind that the difference would have to be made up somewhere to achieve profitability.
- ✓ By entering into a sole or prime vendor agreement, the customer becomes more important in the distributor's eyes, which can equate to better delivery windows and hotshot turnaround times.
- ✓ Suppliers are better able to plan accordingly on forecasting inventory needs, and should be able to pass on those efficiencies in lower cost of goods.
- ✓ When product shortages in the marketplace occur, the regular contract customers are generally covered first before the spot buyers (where there is no guarantee to them of actually getting that business).
- ✓ It has been my experience that when regular shortages do occur on high-priority items, it becomes the supplier's responsibility to search the market for an alternative for their regular contract customers.
- ✓ A great benefit of the sole and/or prime supplier relationship is the reduction of time and expense in the cycle of buying. By consolidating your vendors and eliminating additional deliveries from multiple suppliers the reduction of time spent checking prices weekly, checking

When I consider whether to use an exclusive or primary vendor, the term "jack of all trades and master of none" often comes to mind.

in multiple deliveries and ultimately cutting multiple checks will affect your bottom line positively. These areas are quite often intangibles that may not be factored into the cost of operation.

Proper controls by the restaurateur. Having a very good distributor most likely means that you have a great supplier's representative handling your account. That person has most likely built their credibility with your organization by being available when they are most needed and having a strong sense of urgency to the situations that can arise. However, it would be important to understand that the success of a solid primary supplier program depends on making sure that the appropriate controls/checks and balances are put in place on the restaurant end. Those responsibilities are best not placed on the shoulders of the supplier representative, who is ultimately paid by the distributor.

Before entering into a sole or prime vendor relationship:

✓ Benchmark some of your high-volume and some of your lower-volume items to make sure that all areas are being checked for prices being in line.

✓ Review your quality levels. Does the quality level of all or part of the distributor's inventory match well with your quality needs?

✓ Consider whether you will need a distributor's representative at your facility taking weekly orders. If you would be comfortable faxing orders or placing orders online you may be able to reduce your cost of goods further. Eliminating the order taker in your restaurant eliminates "cost" from your distributor's end that can be passed on to you with lower markups. Many, if not all, of the larger chains function in this manner. It would not eliminate the representative who visits on occasion to address concerns, or runs out needed products.

✓ Does your establishment have the storage available to receive fewer deliveries? If so, reducing weekly deliveries on a prime or sole vendor program can reduce your distributor's cost and be reflected in your delivered price as well.

✓ Make sure that audit privileges are included into any sole or prime vendor agreement that you review. This will serve as the compliance check for you ... whereas the distributor will be required to produce manufacturer invoices and freight documents on selected items periodically that can be traced to your actual invoice cost.

✓ Clearly understand how your distributor defines cost.

✓ Understand if there are additional charges incurred for splitting cases or for stocking proprietary products on your behalf.

✓ Lastly, either party should be able to walk away from the relationship whole if the relationship no longer fits your distribution needs with an appropriate "escape" clause with written notice, for any reason.

In the Long Run, Prime Vendors Can Save Money, but Specialty Vendors Can Be Especially Helpful to New Operators

by Sam Silvio,
Independent Restaurant General Manager

When I consider whether to use an exclusive or primary vendor, the term "jack of all trades and master of none" often comes to mind. Although the large houses (broad-line distributors) provide you with a one-stop shop, with the convenience of placing one order with one representative, and minimal deliveries, all of these positives can turn into negatives in certain cases. When you only have a relationship with one vendor, your choices of product and flexibility regarding delivery times and quantities purchased may be limited. Your representative may have a broad knowledge of many products, but lack depth of knowledge of product lines, such as beef, special produce, oils, vinegars and spices. The knowledgeable representative from a specialty vendor can be invaluable to a start-up operator, especially in the fine dining category. In all fairness, the big houses do have specialists in these fields, but rarely do you see them consistently. Even then, many times their knowledge doesn't compare favorably to many of the smaller specialized distributors who may have had the business in their family for generations.

Another issue I have with broad-line vendors is that they often do not break cases. You may need to order a whole case of something that it could take you a year to use. Many smaller vendors will break cases