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Leveraging Purchasing Power

Strategic Solutions for Supply Programs

By McCall Mastroianni

One of the most common problems restaurateurs encounter when growing from their first location to multiple stores is that they don't have the skeletal system in place to support additional locations. The supply programs that served a restaurant company well when they first opened can often create problems for their growth goals in the future. Lee Plotkin and his company, L.P. Enterprises, Inc., help growth-minded Georgia restaurants and clients nationwide maintain their quality, service levels, pricing and brand integrity as they grow.

Hiring a director of purchasing is not a cost-effective measure for many growing restaurant companies. By outsourcing these duties, restaurants become armed with a customized purchasing program that can be in place and running smoothly within six to eight months. This solution is ideal for start-ups and firms that are in growth mode or who desire professional expertise without the associated full-time salary expenses.

"I get a great deal of enjoyment from working with small-growth chains," says Plotkin. "Structuring programs for them is like creating a new way for them to do business and I am proud to construct a foundation for these emerging brands to reach their maximum potential when it comes to cost-saving purchasing measures," he adds.

Many of Plotkin's clients previously relied on a good supplier representative to ensure orders were placed and delivered on time. While these factors are all important to the ongoing day-to-day operations of a restaurant, there is no foundation put into place for consistent value. Growth chains often don't look at their supply plan closely and this is where Plotkin's strategic skills come into play. The key is to customize the primary supplier program to fit the restaurants needs. A broad-line distributor such as SYSCO or U.S. Foodservice carries a wide array of products that cover many categories from meat and produce to chemicals and soft drinks. While this type of distributor may be ideal for concepts that have quality levels that match all the products these broad-liners have in stock, many restaurants rely on companies who only deal in one category, such as produce or seafood.

Since distributors make their profit by having more cases on a delivery truck, restaurateurs that use more of their products are more lucrative customers. Consequently, they get the best prices.

For restaurant companies whose specific needs are best met by dedicated meat, produce, seafood and small wares, L.P. Enterprises would structure a cost-plus program with separate suppliers for category items and use the broad-line distributor for regular groceries and paper products. It still becomes a win-win situation; distributors have a commitment in place and the restaurants have lower delivered costs.

A cost-plus program is one where the markup or margin that the distributor will be charging the restaurant company is negotiated, providing one of the checks and balances for the program. The delivered cost is defined as the landed cost to the distributor plus the approved markup. These types of programs are auditable, and putting them in place enables the restaurant company to feel comfortable using one supplier for an item such as produce rather than bidding out weekly with three different produce companies. This program pricing must be benchmarked, assuring competitiveness and appropriate checks and balances should be in place to ensure contract compliance.


Lee Plotkin, LP Enterprises, Inc.

Plotkin begins strategizing with the customization process, which entails getting the restaurateur to define what their needs are from a quality and service standpoint and then tailoring programs to fit those needs.

As part of a chef-driven restaurant company that did not originally have any programs in place for food and nonfood products, Fifth Group chefs formed their own relationships and purchased from suppliers they believed best suited their needs. Because the company's restaurants are different in nature, they do not utilize exactly the same products but they all share similar categories like meat, produce, liquid and solid dairy, paper disposables and small wares.

"I understood that Fifth Group would better embrace dedicated produce and meat programs from discussions with the partners, so an overall program with one dedicated supplier might not fit their needs as well," explains Plotkin. "It is also necessary to get the buy-in from the individual chefs to ultimately make these programs successful and illicit a good feeling about them among the restaurant staff."

After gathering all related usage information and extensively bidding with dedicated suppliers, Plotkin was able to show partner Robby Kukler of the Fifth Group the impact of using one dedicated supplier in each category. Plotkin's approach included consolidating volume with one primary supplier for necessities like meat, produce, chemical programs and contract lighting.

"We were able to demonstrate a strong savings potential by creating cost-plus primary supplier programs," explains Plotkin. "Even partnering with Fifth Group's chosen suppliers can impact the company's bottom line over the course of the year if there is a commitment to buy in place."

Plotkin's job is to guide his client through the process and help them customize realistic programs to fit their exact needs, making sure the contracts are in their best interest. In addition, he helped in the startup and implementation (transition) of these programs. In turn, these restaurants become more valuable customers to the suppliers because they know they can now rely on the restaurant company's business.

"As we've grown, leveraging our purchasing power has been the most important result of these supply programs," says Kukler. "We have more to offer a purveyor now that we are committing all Fifth Group units to buy from one company. We receive a lower margin and the supplier is guaranteed a certain amount of sales. It really is a win-win for both ends."

Here to Serve Restaurants, another top Atlanta restaurant company and one of Plotkin's newer clients, has eight outlets and operated in a similar manner as Fifth Group Restaurants before Plotkin's services. Plotkin's worked with Chef Peter Kaiser of Twist to further define the quality levels in each category before tabulating the results and reviewing with Here to Serve Restaurant executives.

Plotkin must also define his customers' delivery needs. For example, does the company need to have a supplier sales representative in the restaurants taking the orders or are they comfortable with placing orders via the internet, fax or phone? How many deliveries are needed per week? Do the restaurants have limited storage space that would require more deliveries? These factors can further influence and reduce costs for restaurateurs.

"Not only do we receive better pricing but Plotkin's services also alleviate time that would be spent on the bidding process and dealing with a larger number of purveyors, deliveries and invoices," says Kukler. "With everyone's time and energy used to process an invoice, it costs us about $25 per statement. Limiting the number of companies we use creates a great deal of efficiency in addition to the cost savings."

The next step is the qualification process, which is especially important if a company wants to move beyond their immediate area. While some suppliers are nationwide or have partnerships with other suppliers across the country, some are regional and assistance from a consultant such as Plotkin is necessary to create cost plus programs that can be audited in order for restaurants to participate. So they can make informed decisions, Plotkin ensures his clients have a clear understanding of suppliers that can help them grow.

Plotkin suggests restaurateurs ask the following questions of their distributors:

1. Are they able to support the company in other areas of the state or even nationwide with other distribution centers or affiliated sister companies?
2. Do they have computer systems in place to send out contract pricing, manufacturer deals and your defined margins to other distributors in their network? Will those agreed upon margins translate to other areas?
3. Can the distribution network produce volume reports that tie in all of your purchases, no matter where you are located? Can those distribution houses be audited?

Selecting a food distributor that best fits the restaurant company's needs is critical to the overall success of the business. Restaurants deserve to have an account executive from their distributor who understands their specific needs and has the authority to affect change where necessary.

"The wave of the future is to work towards creating partnerships with the right supplier and putting in place the appropriate checks and balances and price controls," says Plotkin. "Creating win-win relationships in this manner can result in lower overall costs and help set the foundation for growth."

Plotkin will be sharing his expertise with attendees at the 2007 North American Association of Food Equipment Manufacturers (NAFEM) Show at the Georgia World Congress Center in Atlanta on October 12. During this time, he will speak about the aforementioned supplier programs and setting the foundation for successful growth, in addition to providing a template for how restaurants can sell their growth potential and develop strategic plans with supply partners to address future growth.

For more information on L.P. Enterprises, Inc. or to enlist a set of expert eyes on your restaurant company's bottom line, visit www.leeplotkin.com or call (214) 328-3530. ■