LP Enterprises, Inc.
Hospitality Purchasing Consulting Since 2001

Produce Contracting

This is the time of year when the major crops have already been harvested, and produce companies are working with the farmers on contracting. Produce companies are essentially committing to acres of key crops and by doing so can lock in pricing with those farms for an extended period of time.

Some of the more stable crops are locked in for a one year period (with escalator clauses in the event of an "Act of God"). Others, like avocados (where the market is more volatile) are typically locked in for a much shorter period such as month to month.

Lettuce, tomatoes, potatoes, onions, lemons and limes are all examples of key high volume items that have been contracted by restaurant companies. I always let my clients know that this is a different style of buying, so that they can make the decision regarding comfort level. I would recommend that restaurateurs who have never entered into a produce or meat contract consider the following:

- The primary purpose of contracting or "hedging" is to protect your profit. This is where you are able to realize a set price for that particular commodity and are always able to make the same profit margin throughout the year without having to raise your menu price. If restaurateurs are only looking for cost savings, then this may not be the strategy that will be the most comfortable one.

- We're all aware that market pricing will move up and down throughout the year. By contracting, you are essentially locking in on the price of that commodity at a certain level. It's fair to say there will be times when the market price is higher than your contracted price, and also times when it will be lower. However, the restaurateur can walk away knowing that profit margin is covered and no menu price adjustments are necessary for that item.

- There are also "high/low" contracts for lettuce ... where there is a ceiling price and a base market price set for that commodity, and the restaurateur enjoys knowing that his price can fluctuate between those points. However, there is a ceiling price protection for large market swings.

- How can you tell if the contract price is worthwhile? Ask your primary produce supplier to run a volume report for the preceding year with average price per case. My rule of thumb here is if the new contract price is at the same level or a lower price than the previous year, that may be worthwhile considering.

None of us have a crystal ball when it comes to the commodity market. And, there are certainly some years where the market has performed better than contracts. However, if you find a need for price protection from market fluctuations and have a comfort level for setting prices that make sense for you (walking away with the knowledge that you are covered), then produce contracting may be worth considering.

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Bottom line: work with the experts at your dedicated produce company to look at the strategies and come up with different pricing scenarios to consider. Let us know if we can help with any questions, or assist you in any way through this process.

Please note: L.P. Enterprises, Inc. makes no warranties on pricing contracts issued by dedicated produce companies.

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