



As Retail Morphs Into Foodservice, Procurement Agents Will Have New Hurdles

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There are very few things for which we have more than 100 years of good data. One of the rarities is the government's records on consumer household expenditures on food — where measurements have been taken for more than a century. Particularly enlightening are expenditures on food to be consumed outside the home versus food to be consumed inside the home.

No data set is perfect, and there are problems with the data. For example, supermarket deli sales are generally counted as a grocery expenditure. Some might argue that deli sales are more similar to restaurant takeout, which should count as a food-outside-the-home expenditure. Also, though retailers may salivate at the prospect of seizing “share of stomach” by way of claiming back some of these food sales for consumption outside the home, they will never be able to touch a great portion of food consumed at institutions such as colleges and universities, day care centers, hospitals, nursing homes, etc.

Yet the trends are dramatic and clear: For as long as records can show, the movement is toward increasing percentage of expenditures for food to be consumed outside the home (such as dining in restaurants), and a declining percentage of money spent on food to be consumed at home (such as food purchased in the local grocery store).

In recent years, these lines crossed, whereby more money is spent on food consumed outside the home than spent on food consumed in the home. Of course, we are speaking about dollars, not volume of food, because much of the expenditure in restaurants and other venues is for preparation, atmosphere, service etc. The volume of food still heavily favors food sold at supermarkets and other retail venues rather than restaurants etc.

But retail is changing to become more like foodservice. Read the “Research Perspectives” and “Comments & Analysis” in this issue on pages 20 and 21, and you can see a discussion of how online vendors are going beyond mere delivery of bulk produce and are really selling ready-to-cook meal solutions.

The distinctive difference between retail and foodservice has always been that retailers sell a broad selection and let consumers decide what they want to buy, while restaurants edit the selection before they make it available to consumers.

The difference is substantial. A honeydew melon grower can call

any supermarket and know that chain will carry honeydew melons. The only question is whether he can persuade the chain to buy his own honeydew melons.

This scenario is different with restaurants. Most foodservice orders are for very few commodities — potatoes, tomatoes, onions, lettuce, etc. Our honeydew melon grower has to persuade restaurant chains that they ought to include honeydew melons on their menus.

This has long been a challenge for produce shippers. Few have expertise in culinary creation and menu development. Commodity margins make it tough to invest in these areas. Also, the nature of produce creates short-term orientation, because many marketers don't own what they sell.

One way the largest retail and foodservice operations evolved in the same way is that previously both groups seemed poised to engage with vendors to demand a more value-based supply chain. Now, the relationship has veered away from such a detailed engagement. Instead, operators are looking to procure based on an arbitrary checklist in which “sustainable” (whatever that actually means) is a box that gets checked off before a vendor is approved.

There is a great disconnect in foodservice today as the chefs who design menus are typically passionate about infusing their supply chain with “other” values. But the actual procurement agents, constrained by financial, liability and food-safety concerns, are less likely to base procurement decisions on an abstract set of values.

Yet restaurant chains, with prominent brands, run grave reputational risk every time they buy fresh produce. Virtually no savings on food costs can compensate for a bad news story about mistreated workers in the growing field. Making things worse, the complexity of these issues is likely to be lost in any news story.

So the produce industry confronts a great dilemma: The industry's growth is likely to come from the foodservice sector, yet few vendors are well equipped to market effectively to increase demand in this sector. The big restaurant chains want more than produce. They want a guarantee against reputational loss and the chance to drive value decisions through their procurement. Yet they wrestle with how to make all this happen and inevitably choose to make marks on a checklist.

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