



Stepped Approach to Accessing Broader Public Sector Foodservice

Prepared for: Ontario Independent Meat Processors

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Introduction

The structure and nature of the foodservice sector leads to many meat processors finding it a more challenging market to supply than retail. Broader Public Sector can be the most challenging area of foodservice to supply. The material contained in this report describes the reasons for differences between retail and foodservice (and private versus public sector foodservice). It also describes how processors can increase their likelihood of success.

Understanding the structure and nature of the Broader Public Sector Foodservice (BPSFS), and knowing the cause of challenges that suppliers face if seeking to supply the market, enables processors to more effectively determine whether they are suited to supplying BPSFS; and, if so, how they can successfully and effectively secure the market opportunities that exist for Ontario proteins. This report provides guidance for suppliers wishing to explore the potential of BPSFS as a market for their products, expand their BPSFS market share, or improve the performance of current operations.

Throughout the document, pilots are mentioned as an avenue that suppliers can use to cost effectively test their suitability and long-term desire for supplying BPSFS. Information was gathered through research and a series of pilot projects developed in conjunction with members of Ontario Independent Meat Processors, the Greenbelt Fund, foodservice distributors and operators serving BPSFS. Appendix A lists the products identified as having greatest opportunity in BPSFS. Appendix B graphically presents the structure of the pilots developed to supply identified market opportunities.

The following sections have been arranged to provide a roadmap that can assist Ontario processors to secure new BPSFS markets or to improve current performance. They begin by describing the overall nature and structure of BPSFS. The material then details specific factors and insights that processors should know before embarking on the journey towards supplying, or expanding supply to, BPSFS markets. The material ends with a reality check: the challenges that suppliers can face when seeking to supply BPSFS. The final section also suggests potential solutions to these challenges. In taking this approach, the report materials reflect the following steps:

1. Familiarize yourself with the foodservice industry:
 - a. Define the area of foodservice which appeals to your business, and why
2. Identify the area of BPSFS that you would be interested in supplying:
 - a. Define capabilities required to supply desired area(s) of BPSFS
3. Learn about BPSFS operators and their needs/demands/challenges:
 - a. What value could you as a supplier offer versus their current arrangements?
4. Identify what type of products you could supply:
 - a. Develop general specifications, potential volumes, program, pricing
5. Develop a relationship with chosen operators:
 - a. Ensure that you are connecting with the most appropriate individual
6. Obtain their agreement on products they want to test:
 - a. In which markets, why and how
 - b. Jointly refine specifications, expectations, timelines, monitoring arrangements
7. Develop effective supply arrangement:
 - a. Establish effective distribution system, pricing, roles, responsibilities, timelines
 - b. Creating feedback loop(s) and monitoring process to enable continual improvement

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1 Ontario's Broader Public Sector Foodservice

1.1 Scope and Scale

Broader Public Sector Foodservice (BPSFS) is found in a variety of government operated or funded venues including: healthcare facilities (hospitals and long-term care facilities); educational institutions (high schools, colleges and universities); government operated attractions (e.g., the Niagara Parks Commission, Exhibition Place, Upper Canada Village); child care facilities; hostels; and correctional facilities.

Specific data is not available on the scale of the BPSFS market in Ontario and must be estimated using publicly available data. The Canadian Restaurant & Foodservices Association publishes data on the size of the total Canadian and Ontario foodservice industries. Exhibit 1 shows the size of the total Ontario foodservice industry relative to that of Canada for 2010¹.

Exhibit 1

Total 2010 Foodservice Industry Sales – Canada and Ontario

	Canada		Ontario
	\$ millions	\$ millions	% of Canada
Total Foodservice (2010)	\$ 61,002	\$ 22,500	36.9%

Source: CRFA

fsSTRATEGY publishes the annual Canadian Institutional Foodservice Market Report on the size of the institutional foodservice industry. Sections of the institutional foodservice industry, identified above as being BPS foodservices, with the exception of government operated attractions, are dimensioned in the fsSTRATEGY report for Canada.

Exhibit 2 takes the 2011 national values from the 2012 Canadian Institutional Foodservice Market Report and applies the ratio of total Ontario foodservice sales to total Canadian foodservice industry sales to estimate the approximate size of the BPSFS in Ontario. The exhibit also shows the estimated extent of contracting by sub-sector and the growth percentage for sub-sector sales for Canada for 2011 over 2010.

¹ Most recent data available.

Exhibit 2 Estimated BPSFS - Ontario

	2011 Canada \$000s			2011 Ontario Estimate (\$ 000s)				% Change	
	Self-op	Contract	Total	Self-op	Contract	Total	% of Total	% Contracted	Over 2010
Healthcare									
Retirement Homes	\$ 740,022	\$ 175,280	\$ 915,302	\$ 272,948	\$ 64,650	\$ 337,598	19.7%	19.1%	6.4%
Long Term Care	1,009,180	318,689	1,327,869	372,224	117,545	489,769	28.6%	24.0%	1.2%
Hospitals	<u>1,017,962</u>	<u>263,030</u>	<u>1,280,992</u>	<u>375,463</u>	<u>97,016</u>	<u>472,479</u>	<u>27.6%</u>	<u>20.5%</u>	<u>3.6%</u>
Total Healthcare	2,767,163	756,999	3,524,163	1,020,636	279,210	1,299,846	75.9%	21.5%	3.4%
Corrections									
Provincial	\$ 63,437	\$ 31,144	\$ 94,582	\$ 23,398	\$ 11,487	\$ 34,885	2.0%	32.9%	1.7%
Business Dining									
Public Sector	\$ 6,751	\$ 57,849	\$ 64,599	\$ 2,490	\$ 21,337	\$ 23,827	1.4%	89.6%	11.1%
Education									
High Schools	\$ 70,447	\$ 172,754	\$ 243,202	\$ 25,984	\$ 63,718	\$ 89,702	5.2%	71.0%	-13.2%
Colleges	31,035	128,663	159,697	11,447	47,456	58,903	3.4%	80.6%	5.7%
Universities	<u>167,198</u>	<u>390,128</u>	<u>557,325</u>	<u>61,669</u>	<u>143,894</u>	<u>205,563</u>	<u>12.0%</u>	<u>70.0%</u>	<u>4.1%</u>
Total Education	268,679	691,545	960,224	99,099	255,068	354,168	20.7%	72.0%	-0.5%
Total ON BPS				\$ 1,145,623	\$ 567,103	\$ 1,712,726	100.0%	n/a	n/a

Source: 2012 Canadian Institutional Foodservice Market Report, fs STRATEGY

The total BPSFS market in Ontario is estimated to be \$1.7 billion, of which 76% is in healthcare and 20.7% is in educational institutions. Healthcare foodservice sales grew by 3.4% in 2011 over 2010 and educational institutional foodservice sales declined by 0.5%, primarily due to declining sales in the high school sector, where the Ontario government has significantly restricted the sales of less healthy foods. Healthcare foodservices are largely self-operated, whereas educational institution foodservices are largely contracted, with the exception of larger universities.

1.2 Use of Protein Products

Many BPSFS operations prepare and serve food based on cycle menus. The use of cycle menus reduces the monotony of eating at the same venue on a regular basis and fosters balanced nutrition. Cycle lengths typically vary all the way from one week (e.g., hospitals) to four weeks (e.g., long-term care facilities). Government operated attractions, where visit frequency is only periodic, use primarily static menus (i.e., menus that do not change from day to day, with the exception of daily specials). Educational facilities typically use a combination of cycle and static menus, as they need to satisfy both residential and day student dining requirements.

BPSFS operations use protein products in their cycle menus at frequencies based on the consumer preferences for various species. Research conducted as part of this study examined these frequencies on BPSFS menus. Beef and chicken occur on such menus approximately five to seven times per week, pork and turkey approximately two to three times per week, and veal and lamb monthly to once per week. Additional seasonal demand for turkey also occurs at Thanksgiving and Christmas.

Foodservice in some public institutions (e.g., hospitals, long-term care facilities, correctional facilities and hostels) are either paid for or subsidized by government. Foodservice in other institutions is provided to users with relatively low spending capacity (e.g., schools, colleges, universities and child care facilities). Because of this, BPSFS tends to utilize less expensive protein formats, as funding and spending capacity create cost limitations. Exceptions to this include public attractions, which tend to sell food items at market price, and catering in some institutions (e.g., colleges and universities), which also tends to be sold at market price. [Public attractions comprise venues such as Niagara Parks Commission operated restaurants.] Foodservice in public attractions is a relatively small part of the overall market

and catering tends to approximate 10% of sales in colleges, universities and attractions – again, a relatively small share of the market.

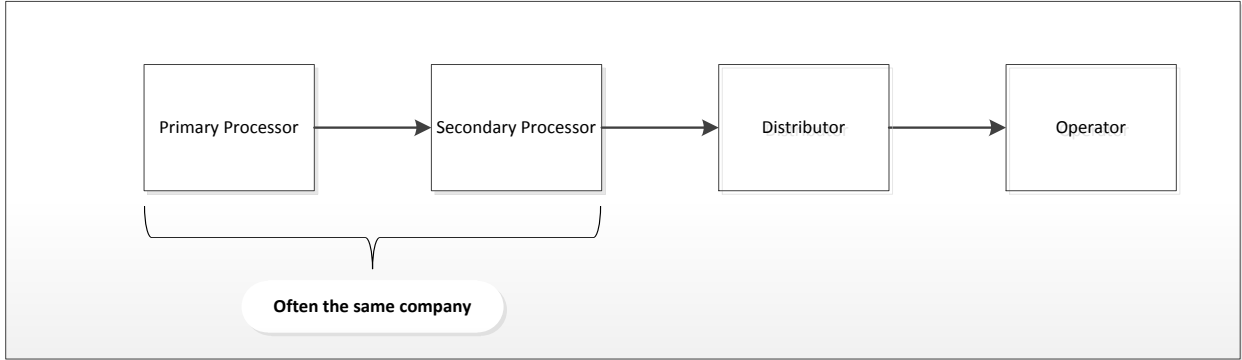
Research conducted in connection with this project indicated that BPSFS tends to use portioned proteins, value-added proteins and, to a slightly lesser extent, prepared entrees, as opposed to primal cuts. Reasons for this include: low labour budgets; inability to afford, and lack of, skilled culinary professionals; need for product consistency; and food safety considerations.

1.3 Supply Chain

When compared to the retail grocery supply chain, the foodservice supply chain is vastly different. In retail grocery, producers and processors sell directly to retail grocery chains that provide distribution to their stores through their own distribution centres. There are very few independent grocery stores and distributors left in the Canadian market.

Conversely, just below 50% of Canadian foodservice establishments are independent operators. Moreover, there are significantly more foodservice establishments than retail grocery establishments in Canada. As a result, the foodservice supply chain requires foodservice distributors to effectively meet the needs of the many establishments. Food producers and processors sell to foodservice distributors that operate large warehouses holding 5,000 to 12,000 products or stock keeping units (“SKUs”). In turn, the distributors sell and deliver these food products to the restaurants. Chains and large institutional caterers will contract directly with food producers and processors for products and make separate arrangements with distributors to deliver to their locations. Hospitals, long-term care facilities and universities that operate their own foodservices often use purchasing services to consolidate their demand and gain the advantages of chain purchasing power. BPSFS generally falls into one of these two scenarios – institutional caterers or self-operation entities, using buying groups. Independent restaurants (which include some BPS attraction foodservices) rely directly on foodservice distributors to procure and deliver products.

Exhibit 3
Example of a Basic Supply Chain Flow Chart



2 Foodservice Operators

2.1 Types of Operators by Sub-Sector

BPSFS establishments are operated in two ways: by foodservices staff employed by the institution; or by contract foodservice management operators (e.g., Aramark Canada, Compass Group Canada, Sodexo Canada, Dana Hospitality, etc.). The extent of penetration by the contract foodservice operators varies by BPS sub-sector:

- **Healthcare.** As shown in Exhibit 2, this sub-sector is only about 22% contracted nationally. Many hospitals operate their own foodservices and purchase through buying cooperatives (e.g., St. Joseph's Healthcare Buying Group, Health Pro, etc.). Similarly, many long-term care facilities operate their own foodservices and use the services of a buying group such as Complete Purchasing, On Track or Food Buy, all divisions of the large contract catering firms.
- **Schools.** With the exception of parts of the Toronto District School Board and a few other Boards, the majority of high school foodservices in Ontario are contracted.
- **Colleges and Universities.** With the exception of several large universities (i.e., Western, McMaster, Guelph, part of the University of Toronto and Windsor), the majority of college and university foodservices are contracted.
- **Corrections.** All Ontario correctional foodservices are operated at each site by government staff. However, the Ministry of Community Safety and Correctional Services has developed a food production and assembly centre at Maplehurst Detention Centre that prepares food² and pre-assembled lunch and dinner trays for 50% of Ontario correctional facilities. The Centre is operated by Compass Group Canada under contract with the Ministry. Compass procures all of its food supplies through its own purchasing department. Procurement of food for everything other than food prepared in the food production centre is coordinated by Ontario Supply and Services ("OSS"), an agency of the Provincial Government. OSS adheres to interprovincial and international trade agreements and, as such, cannot favour local products unless price and quality are equal.
- **Child Care Facilities.** Some municipalities operate child care facilities and have their own foodservice personnel; however, most child care is provided by private agencies. In Toronto, some of the municipal child care facilities prepare their own food on site and some receive their meals from a private sector caterer.
- **Hostels.** The majority of hostels operate their own foodservices. Foodservice needs vary dramatically according to clientele type.
- **Public Attractions.** The Niagara Parks Commission operates its own foodservices due to the scale of its business. Many smaller government attractions use contractors to provide foodservices.

2.2 Selling to Foodservice Operators

As has been previously mentioned, the majority of BPS foodservices are operated by contract caterers or by institution-paid staff using buying groups. Each of these groups contracts with certain distributors to carry their specified products. Sysco and GFS have a significant market share in this regard. As a result, the most effective approach to selling to the BPSFS market is to approach the foodservice

² Using cook chill and cook freeze technologies.

operators and buying groups to determine new product opportunities and needs. Once an opportunity or need is identified that the producer or processor has demonstrated that it can successfully meet, the foodservice operator or buying group can approach its distributor and request that it carry the product. This approach is known as “pulling” the product through the supply chain (as opposed to the supplier attempting to get a listing with a distributor who then would sell to operators, which is known as “pushing” the product through the supply chain).

As part of the research conducted in this study, opportunities for sales to BPSFS by Ontario protein producers and processors were, in order of declining operator interest:

- premium menu items;
- standard menu items;
- local food items; and
- catering items.

Key issues that are important to foodservice operators of which producers and processors need to be aware include:

- **Availability of local products through distributors.** As has been mentioned, this is changing but our experience says that operators are still frustrated by the inability to get distributors to carry the selection of local products they want for BPSFS, especially in the education sector (universities and, in some cases, colleges and high schools) where demand for local products is the highest.
- **Providing products in the operator’s preferred portion size.** BPSFS operator portion size requirements vary by market served. Portions for healthcare and child care services are typically smaller than those for higher education facilities. This is driven by the age of their clientele. It is not uncommon for operators to want some products in several portion sizes.
- **Competitive price.** While many operators want local food products to meet the demands of their clients and customers, they are not in a position to pay premium prices for such products, unless they are to be used in foodservice operations where customers pay for their meals and the items can be positioned as premium local products. BPSFS operators whose meals are funded by government cannot purchase products at a premium price as they are responsible for using public money as efficiently as possible. In these cases, local products must be priced at or below the non-local alternatives.
- **Inspection level.** Large contract caterers and national distributors that dominate the BPSFS market have historically insisted on proteins from federally inspected plants. This is motivated by the perception that federal inspection represents the highest level of food safety, a requirement on which they have insisted to protect themselves in terms of liability, should a food safety event occur. Where provincially inspected products have been accepted, it is usually because either a foodservice operator has insisted on the distributor carrying the product and agreed to assume any legal liability should a food safety incident occur; or a product is only to be carried for local use because there is no other reliable source for that product. Nevertheless, there is a great reluctance to carry provincially inspected products.
- **High fill rates.** Foodservice operators expect that when they contract with a supplier to provide a product, the supplier will be able to provide sufficient quantities on an ongoing basis. In building the products into their menus, they must be able to deliver to the consumers to whom they have promised these products.

- **Interest in portioned, value-added and prepared products.** Due to the ongoing lack of skilled personnel and tight labour markets, operators are generally interested in products that can save them labour, improve consistency and ensure food safety.
- **Interest in healthier eating.** There is a growing contingent of consumers who are interested in healthier eating. Nevertheless, when consumers dine out, they also like to treat themselves. Comfort foods such as burgers, French fries and similar less healthy products are still in high demand in foodservice establishments. Operators realize they must offer healthy options and let consumers make the choice as to whether or not to eat healthily. Having said this, in some sectors of BPSFS, healthy eating is being mandated (i.e., the Ontario Ministry of Education’s PPM 150 Guidelines for healthier school cafeteria menus, healthy eating policies in some hospitals). Healthcare establishments have stringent nutritional requirements for reduced sodium, fat and calories in their foods. Food growers and processors need to carefully research the nature and extent of healthy eating issues within each sector of BPSFS that they wish to target.

2.3 Programs

Competition between operators and the different operational formats has shrunk the operating margins of contract caterers. Out of necessity, this has led to foodservice operators needing to earn part of their profit through supplier rebates. The only source of income a buying group has, other than a nominal fee it charges to operators for their services, is supplier rebates – commonly contributed by larger processors. This has led to operators’ procurement departments being seen as a profit centre. As such, there is a tendency to contract for products on a national basis to consolidate large volumes which can generate such rebates. This goes against using local products with relatively low volumes. For operators relying on supplier rebates for their financial viability, the market opportunity for local products may lie in niche products that are in particular demand among consumers and/or those overseeing the establishments in which the foodservice is located.

2.4 Typical Business Structures

2.4.1 Contract Caterers

The major contract caterers have central purchasing departments at their head office locations that negotiate contracts with suppliers. High volume products are typically tendered annually. Individual foodservice operations managed by the contract caterers are required to buy from a “managed order guide” that specifies the products which have been contracted. Introduction of local foods can sometimes be exploited by attempting to create pilot projects as tests to explore consumer acceptance and gain a track record. From there successful products might be considered for permanent use through the caterer’s regular product review process. Regardless, the process of getting a new product listed is somewhat lengthy and onerous but, if successful, can result in substantial volumes.

For local foods, the best contact to start with is the Director of Sustainability. However, that person may refer the seller to the Purchasing department and a particular category manager.

2.4.2 Self-Operated Foodservices

Over 75% of healthcare establishments in Ontario have foodservices that are managed by in-house personnel. Many of them purchase through buying co-ops (e.g., St. Joseph’s Healthcare Co-op in Brantford) or private sector buying groups such as Complete Purchasing, On-Track Services and

FoodBuy. The latter three are divisions of the three major contract caterers. In these cases, category managers must be approached.

Having said this, it is possible to approach individual hospitals and long-term centres and explore their interest in local foods. Some of them may be prepared to buy outside of the buying group programs and some may be willing to actually promote local products that they have sourced to their buying groups. St. Joseph's Healthcare Buying Group has implemented a number of local products. The Queensway Carlton Hospital in Ottawa has recently arranged Healthcare Food Services to produce two soups and a pasta sauce using local produce.

The best contact in a self-operated institution is the Director of Foodservices or Director of Food & Nutrition Services.

3 BPSFS Market Opportunities

The market opportunities for Ontario meat are undoubtedly increasing. This section of the report begins by identifying the market opportunities found to exist within the BPSFS. It then describes the relative importance of price versus other attributes, factors that result in BPSFS distributors and operators making specific purchasing decisions, and the resulting approaches that suppliers can use to securing market opportunities.

3.1 Overview

The largest market opportunity (by volume) for Ontario proteins is for chicken, the preferred format being portion packs and value-added products. Opportunities exist for pork in the same formats, though to a considerably lesser degree volume wise. The greatest opportunities for beef and turkey are burgers, followed in the case of beef by cooked entrees. In veal and lamb, the greatest opportunities also lie in portion packs and value-added products, though the potential volumes are considerably less – particularly compared to chicken, beef and pork.

The financial value of cooked entrees to Ontario's protein industry is less than portion cuts and value-added for two important reasons. The first is that the potential demand is less. The second is that they contain a relatively smaller volume of meat per serving (e.g. beef pot pie). While primal cuts offer another opportunity, particularly for beef and lamb, the potential volume is less due to them only being suited intermittently to special event catering in the BPSFS.

3.2 Relationship Between Market and Format

Due to the potential of food safety incidents occurring anywhere where raw and cooked food products are located on the same premises and such incidents being particularly dangerous for people with suppressed immune systems, the demand for uncooked meat of any kind is low in hospitals and long-term health care facilities. For the same reasons, along with the need to cost effectively offer variety while catering to differing requirements, the highest demand in hospitals and long-term health care is for fully cooked portions which are kept frozen until required.

The demand for portioned and value-added products, in all establishments (not just hospitals and health care), is being driven by the increasing cost of labour and the lack of skilled kitchen staff. For example, a foodservice operator employing 250 people is likely to have no more than six people (2.4%) who are trained chefs. Demand is also being driven by the need to reduce food waste, the disposal of which is becoming increasingly costly. Sourcing frozen portioned proteins (raw or value added) assists operators to reduce this burden. Due to extended shelf-life and ease of handling, distributors also increasingly prefer to handle frozen portioned products. It is more likely that the size of package will differ [e.g. 2kg vs. 10kg], versus the portion size [e.g. 90gm raw or cooked chicken breast, versus a 3.2 ounce burger that could be beef or turkey, and either low fat/sodium vs. regular fat/sodium].

3.3 Pricing vs. Quality

The balance that exists between price and quality will differ by a number of factors including: the product itself; the format in which it is being sold; the meal occasion where it will be consumed; and the means used to communicate quality and the location. Greatest interest in protein products differentiated by 'product of Ontario' is those that can be positioned as premium items. For standard

and specialty items, the greatest interest is in beef and chicken, though turkey was consistently raised as an opportunity.

That said, realizing the greatest opportunities relies on any product (regardless of the market) being competitively priced and of equal or better quality compared to alternatives. Quality from an operator's and distributor's perspective will be defined by an exacting set of specifications. These specifications will differ according to the particular market for which they are being sought. Hospitals, schools and long-term health care facilities desire products containing lower levels of fat and sodium compared to restaurants and universities. Due to budgeting constraints, the former group of establishments are likely to place greater onus on price than restaurants or universities, though price will be a factor in all purchasing decisions. Serving a more discerning clientele (some of whom likely enjoy above average levels of disposable income) will lead to certain restaurants (i.e., higher end restaurants in public attractions) and universities placing greater onus on quality and other attributes than price – and reflecting this in their menu offerings. It is in these operations that the opportunities exist for premium or specialty items and higher value Ontario proteins such as lamb and veal primarily; however, the potential volumes are relatively low.

A quality mark, something that signifies a guaranteed level of quality or the existence of a specific attribute, can help suppliers take some of the onus away from price. It can help create market 'pull' which, as mentioned earlier, appears to be the only reasonable and sustainable solution for increasing the share of Ontario proteins in the BPSFS. Respondents stated that a quality mark, which would provide a sense of authenticity about the product being from Ontario, would be a valuable means of dispelling the current myth that Ontario proteins are 'nothing special'. Applying the identifier to packaging would enable products to be easily recognized, thereby differentiating them in the market. It could also be used as an effective marketing tool.

Operators and distributors stated that establishing an umbrella program, such as Homegrown Ontario, for promoting and identifying Ontario proteins across species would be a valuable approach to increasing the long-term market opportunities. Creating a clearly identifiable point of differentiation could also increase the perceived value of Ontario proteins. To be truly effective over the long term, respondents suggested that the program should be monitored to ensure processors abide by clearly defined standards. Due to the fact that the difficulty of differentiating by provenance is more complex for products containing multiple ingredients, a marketing program of this type would be more effective for promoting primary and portioned cuts, and primary processed products, versus further-processed products such as entrees (e.g. meat pies). Ontario Finest Meat Competition Award Winning Products and Ontario Heritage Meat would be possible identifiers for award winning or 'premium' further processed products.

3.4 Securing Opportunities

Pilot projects are often the most effective way to capture market opportunities. The focus of the pilot is to minimize distributors' and operators' concerns about sourcing regional products, by encouraging them to 'dip their toe' into the concept of sourcing new products without the vendor having to go through an extensive and often costly approval process.

The first step in the piloting process is for a supplier to approach an operator and ask if there is a particular product that they would like to offer to customers, though are currently unable to source for whatever reason. Such a product would address a new business opportunity (e.g., growing interest in local foods) or a particular business challenge (e.g., insufficient skilled staff). If an initial meeting is

successful, potential vendors will be asked to produce products meeting certain specifications. If the samples meet potential customers' expectations and specifications, the vendor could be asked to supply chosen outlets, likely through a distributor with whom the operator has an established relationship.

Piloting a step-by-step approach, rather than advocating a massive change to how industry operates, often increases operators' and distributors' willingness to source new products. It also offers a way for new vendors to cost effectively prove the quality of their Ontario products, exhibit their manufacturing and service capabilities, and communicate the food safety standards by which leading processors abide, regardless of their level of inspection. Our recent experience has indicated that operators may be willing to accept provincially inspected products such as whole muscle beef, pork, lamb and veal. However, there is still a reluctance to accept provincially inspected ground beef products (e.g., burgers) and chicken.

Operators will insist on the right to inspect plants and obtain copies of recent food safety audits by qualified independent inspectors. Distributors are less receptive to provincially inspected products; however, recent experience indicates that they will consider them if an operator insists on the distributors carrying the product. Experience also shows that operators and distributors may be more willing to source provincially inspected meat if the processor has HACCP certification. The assumption being that having documented process helps reduce the likelihood of a food safety incident occurring.

The challenge is that an audit is a specific point in time and not a representative document of ongoing operational processes. Further, the level of knowledge of those reading the audits causes concern.

4 Foodservice Distributors

4.1 Types of Distributors

Once you have determined the market which you wish to supply and have initial agreement from an operator to test your products through a pilot or launch on a larger scale, you will need to determine the most appropriate avenue for delivering your product to market. There are several types of distributors in the foodservice industry:

- Closed distributors – distributors that are the dedicated distributors for one or a few chains (e.g., Martin Brower distributes for McDonald’s Restaurants)
- Broadline distributors – large scale distributors that service a wide variety of chains and independent foodservice establishments and carry a large range of products (i.e., 10,000 to 12,000 SKUs – food, paper supplies, sanitation supplies, equipment and smallwares). Broadline distributors can be divided into two types:
 - National – there are only two national distributors – Sysco and Gordon Food Services (“GFS”) and they have a significant market share
 - Regional – e.g., Flanagan, Summit, Tanis, Stewart, etc. Ontario is fortunate enough to have a number of regional distributors³
- Specialty Distributors – e.g., produce, meat, some dairies
- Direct Store Delivery – processors that use their own fleet to deliver to foodservice establishments – e.g., some dairies
- Cash and Carry – warehouses where foodservice operators can pick up food items (e.g., some broadline distributor warehouses, Costco).

Virtually all BPSFS operations use broadline distributors for the following reasons: price; minimization of number of deliveries and invoices; efficiency; and reliability. Large contract caterers use only broadline distributors. The national distributors have a significant share of contract caterer volume.

4.2 Dynamics of the Presence of the Distributor

The presence of the foodservice distributor in the foodservice supply chain creates several dynamics:

- Due to consolidation of distributors over the past 10 years, there are a limited number of distributors in some markets. Although there are regional distributors in Ontario, Sysco and GFS dominate the market.
- Food producers and processors can experience challenges in obtaining listings due to space limitations in distributor warehouses. To become listed, products have to displace other products through higher velocities⁴.

For these reasons, broadline distributors can be seen as a pinch point in the foodservice supply chain. Nevertheless, without the distributors, the efficiency of the foodservice supply chain would be severely compromised. Moreover, the large consolidated distributors are an important part of the safety of our foodservice supply chain, due to excellence in cold chain management and the imposition of strict specifications on producers and processors. Specifically, large scale foodservice distributors have

³ Western and eastern provinces have very few regional distributors.

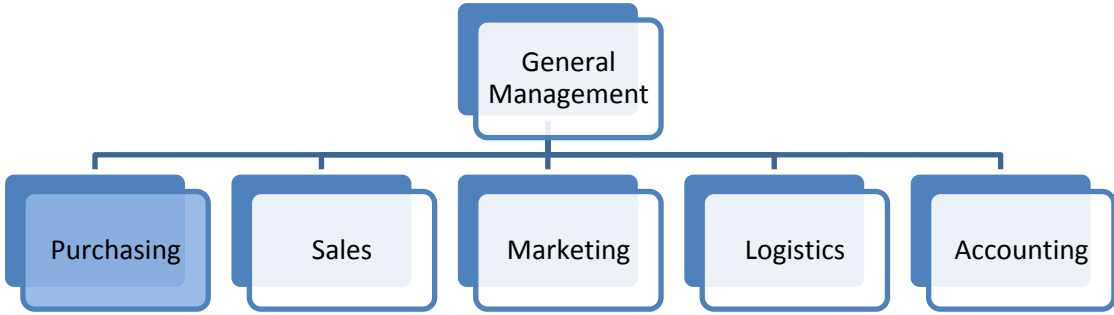
⁴ Velocity means volume of sales.

perfected the ability to keep frozen and refrigerated products at safe temperatures throughout the receiving, storage, picking and delivery process due to the use of technology and excellent facilities. Moreover, large scale distributors have strict requirements in terms of producer and processor delivery to their warehouses – timing, conditions and packaging integrity – which ensure safe food.

4.3 Structure of Foodservice Distributors

Exhibit 3 demonstrates the structure of a typical foodservice distribution company.

Exhibit 4
Typical Structure of a Foodservice Distributor



While the above hierarchy exists, food producers and processors generally deal only with Purchasing. For efficiency, distributors want one “voice” to service suppliers. That one person is responsible for all aspects of service to suppliers throughout the distributor’s organization. Purchasing has various category managers and category buyers. These people make decisions about what to list in consultation with sales managers and representatives. Suppliers are generally assigned to a buyer and manager according to the specific products they sell.

Food producers and processors should identify the category manager(s) and buyer(s) who are responsible for their products and develop a strong working relationship with them.

Marketing Managers and Sales Managers have the voice of the customers and understand what customers are looking for. Seeking such information from them can be helpful, but traditionally, they rely on the Category Managers to seek out the products customers have requested.

In the case of Distributor private label products, the distributor’s head office marketing department plays a key role in developing lines of various qualities and price points to meet varying customer needs. They would be the logical contacts for producers or processors targeting private label opportunities.

4.4 What Drives Purchasing Decisions?

Key information that your category managers and buyers need to make purchasing decisions include:

- Specifications on your product
- At which categories of foodservice operators are your product(s) targeted?
 - Having operators who are already interested in sourcing your product(s) is a valuable asset when negotiating with a distributor.
- How the product can be used by and help the foodservice operator
- Shelf life
- Nutritional data on your products
- Value-added services you provide – products support, point of sale merchandising materials, etc.

As these are also factors that foodservice operators consider, foodservice distributors will key in on them.

Minimum requirements to obtain listings may include:

- Signed service agreement (e.g., products, payment terms, minimum fill rates to be achieved, product guarantees, if the product(s) do not sell, what agreement is in place for you to take the product back, etc.)
- Hold harmless agreement (i.e., agreement to indemnify the distributor for all claims regarding product deficiencies, food borne illness, etc.)
- Best before dates where applicable
- Federal inspection (as opposed to provincial) may be required
- HACCP certification

Performance is assessed by product movement and margin within each category. Food producers and processors need to be aware that their products will be continually assessed against competing brands. A major category review is generally conducted annually by distributors. Food suppliers should determine when their category is planned for review and when they should organize an annual presentation to the distributor on their product performance, new features and plans for the coming year.

The two national distributors tend to establish contracts on a national basis with suppliers. However, in response to the growing demand for local products in some foodservice operator sectors, national distributors are developing systems and strategies to carry more local products.

4.5 Programs

Distributors may seek program money (also known as “inside money”) from processors to support marketing and service to their foodservice customers. Program money requirements vary from category to category but, if they are requested, they generally amount to a few percentage points of the distributor’s selling price. Programs may take the form of price discounts or rebates.

Examples of programs include:

- Truckload allowances – price discounts on volume
- Payment discounts – price discounts for payment within a specified time period (e.g. 14 days)
- Contributions to the distributor’s cooperative marketing fund

Because of these programs, the Procurement function of the distributor is a profit centre. As one might expect, purchasing motivations are influenced by the willingness of producers and processors to participate in such programs.

4.6 Distributor Private Label Products

Distributor private label (“DPL”) products have been developed by a number of the large broadline distributors in order to improve their margins and reduce the number of brands of products or SKUs that they offer.

While DPL products may appear to be a challenge to food suppliers, they may also be an opportunity. Production of DPL products for distributors will likely come with tighter margins for the processor; however, because of the promotion of such products by distributors, they could represent significant volume.

5 BPSFS Related Challenges

As mentioned in previous sections, BPSFS is structured and operates differently to the retail sector and non-public sector foodservice. This results in challenges that suppliers will often have to overcome before they can secure market opportunities. This section describes the types of challenges that suppliers to BPSFS may face. As knowing the 'why a situation exists' can help suppliers develop an appropriate solution, this section also describes the reasons behind challenges associated with supplying BPSFS.

5.1 Overall

Many of the challenges associated with supplying BPSFS stem from the operational and strategic disconnects that exist between participants operating at different levels of the value chain. This has led to value chain participants being unable to communicate effectively and together develop solutions to challenges associated with supplying Ontario proteins to BPSFS. While operators often express an interest in sourcing and marketing Ontario proteins, this interest does not translate into added sales.

Historically, distributors pose the greatest challenge to processors seeking to supply BPSFS. This is not because distributors are purposely difficult and unwilling to source new products. Commonly, the reasons lie in a small number of factors. The most common factor is that the costs and risks associated with sourcing and handling small volumes often lead distributors to not take it upon themselves to proactively attempt to 'push' regional products through the system. Another common cause of distributors' posing a challenge to budding suppliers relates to the attitudes and approaches that they have traditionally adopted to manage risks associated with food safety and quality. The primary approach that distributors (and operators to a large degree) have adopted to manage risk relate to quality and food safety, resulting in many sourcing only federally inspected proteins except on rare occasions.

5.2 Product Approval Process

The product approval process employed by most distributors and operators (larger businesses in particular) is arduous. It can take up to a year of painstaking testing, verifications and audits before a product is listed by a large distributor. If products fail to meet distributors' or operators' sales expectations, the approval process forces suppliers to invest in a process that may bring no financial benefit. The primary reason for the approval process is that operators place exacting demands on the services provided by distributors and the products sourced. While the ability to supply the entire potential market will rest on processors' products being fully approved, the process and risk of investing in these procedures can be considerably lessened by implementing a pilot to test the product on a limited basis. Described in an earlier section, pilots can sometimes be developed without suppliers having to venture into a lengthy product approval process. Once in a market, mandated changes to food composition [such as low sodium and fat for hospitals, long-term care and schools] can present added challenges, particularly to suppliers of further processed products.

5.3 Price / Margin Pressure

Many processors do not view BPSFS as a profitable and/or inviting market because of what is termed the 'book-end effect'. They are being pressured financially from both sides of their business. Producers often expect higher prices due to assumptions that premiums can be gained from selling to local and

regional markets. Customers/consumers often say that they will pay higher prices for local proteins; in reality most will not pay extra for Ontario meat. In certain circumstances, premiums can be captured from local markets, though they are the exception rather than the norm. Where opportunities do exist, they rely on suppliers' and distributors' ability to offer distinct verifiable attributes and guarantee that the meat is from Ontario. The processes and procedures required to guarantee attributes and provenance creates added costs for processors and distributors. This leads to margin pressure. The additional work required for segregating and tracking specific products of limited volumes also leads to large scale distributors often viewing local and regional proteins as a frustrating distraction. Where processors can succeed is through supplying operators through smaller scale distributors, who may view Ontario proteins as an opportunity to secure competitive advantage. As described earlier, distributors' reliance on national programs from which they can gain a volume rebate is another factor that discourages larger businesses from sourcing local and regional protein.

5.4 Federal vs. Provincial Inspection

A lack of understanding exists among many distributors and operators, in terms of the difference between federally versus provincially inspected meat. Many automatically assume that federally inspected meats are of higher quality and safety. This assumption has largely been borne from a lack of effective communication occurring between processors, distributors and operators. In reality, there is not a black or white difference between the quality and safety of the two levels of inspection, yet the assumptions that surround current inspection have created a barrier with which many suppliers of Ontario proteins have to contend.

The primary concern that distributors and operators have towards sourcing provincially inspected product is that they will be exposed to a greater risk of litigation if a food safety incident occurs - the primary challenge being posed to them and their insurers being: "Why did you not take every precaution to verify the safety of your products?" Developing close constructive relationships with operators and distributors, implementing HACCP practices, and conducting pilot programs, are three important avenues that provincially inspected processors can use to address distributors' and operators' possible misgivings about not being federally inspected.

5.5 Species vs. Product

Commodity organizations often focus on individual species. Customers' (distributors and operators) focus is on purchasing a bundle of products according to their attributes and functionality. To raise the overall profile of Ontario proteins, promotion programs must reflect that operator and consumer choice revolves around product and meal occasion, and is less about individual species. This is because operators primarily purchase products according to their suitability for cost effectively servicing a target market. Promotions that focus on one species are unlikely to have the same impact on increasing sales.

A program like Homegrown Ontario encompassing all Ontario proteins would create a unique point of difference, likely resulting in greater influence upon operator and consumer purchasing behavior. With the correct governance structure, such a program could well lead to operators and customers placing fewer onuses on price. It could also lead to fewer onuses being placed on whether the product is provincially or federally inspected. This would increase the overall market opportunities for Ontario proteins.

5.6 Trade Agreements

Interprovincial and international trade agreements are a barrier to efforts focused on increasing the BPSFS market share of Ontario protein. For example, if Ontario Shared Services (which purchases on behalf of Ontario government institutions) introduced a policy that stipulated preference for Ontario proteins, the Province of Ontario would at some point be subject to litigation. It could also be found liable for infringing upon international WTO agreements.

5.7 Definition of Ontario Protein

The current definition of Ontario protein can act as a barrier to increasing market share. The larger the operation (whether producer, processor, distributor, and, to a lesser extent, operator), the more difficult it will be for them to accurately verify that animals or products meet current definitions of Ontario 100% of the time. This is particularly the case for species such as beef, where livestock are commonly born and/or raised in another province prior to being finished and/or slaughtered in Ontario.

Lamb is another example where the current definition of Ontario impacts the ability of processors and their value chain partners to economically benefit from increased consumer interest in local and regional food. Ontario's lamb population is insufficient to meet market demand and establish a recognizable market presence of any scale. This situation could be rectified if lamb that was purchased from other provinces or from the US at a few weeks of age, then finished in feedlots for most of its life before being processed in Ontario, could be identified as 'product of Ontario'.

5.8 Lack of Resources

Securing and retaining foodservice markets (particularly in BPSFS) can be a time consuming and expensive process. This can limit the opportunities available to small and medium sized processors who do not possess the resources required to engage personnel with the necessary skills and experience, or invest in the processes required to secure markets and be listed by a distributor. An umbrella brand, like Homegrown Ontario, coordinated by an industry body or group of likeminded processors, could greatly assist small and medium processors to capture BPSFS markets. It would establish a united voice and greater recognition among customers and consumers alike, thereby harnessing the opportunities that clearly exist. It would also provide enterprises with the marketing support and lines of communication which have historically limited smaller businesses from accessing the BPSFS market.

A third party can be also be a valuable resource for developing business relationship between processors, distributors and operators. This could be in the form of a government extension service or consultancy. One example of a third party organization supporting food chain efficiency is Heart of England Fine Foods, UK. This initiative provides research, analysis, business learning and supply chain best practices to small to medium sized food enterprises. The HEFF objectives are to spearhead the sharing of information along the chain, to champion positive trading relationships, and to develop and test improvement techniques ([HEFF website, 2012](#)).

There are multiple roles for any third party facilitator involved with value chain development. In addition to teaching specific business skills and refereeing relationships, they must develop internal change agents and leadership capabilities to ensure that learnings and opportunities move beyond the short term pilot and are applied to the entire business for long term benefit.