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Opportunities in the Irish Foodservice Sector for Small Manufacturers

The National Food Centre

RESEARCH & TRAINING FOR THE FOOD INDUSTRY

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OPPORTUNITIES IN THE IRISH FOODSERVICE SECTOR FOR SMALL MANUFACTURERS

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SUMMARY

The foodservice sector offers significant opportunities for some small-scale food manufacturers. This research provides information to help them exploit this opportunity through a survey of 100 food buyers in the hotel sub-sector.

Foodservice is a diverse sector. In the hotel sub-sector, the main individual responsible for supplier selection and routine buying is the head chef. Depending on ownership status, others, including owners, managers and accountants/cost controllers, may influence the selection of suppliers.

To the hotel sector, the most important dimensions of customer service are condition of goods on arrival and product quality. However, importance varies by product type with frequency of delivery being of particular importance for short shelf-life products but of lesser significance for long shelf-life products. Small food manufacturers satisfy hotel buyers' requirements very well in some areas, for example in product quality and delivery of correct quantities; however there is considerable scope for improvement in other areas, including price and range/assortment of products.

The main route to market in the hotel sector is wholesale delivery for the majority of food products purchased. An exception is dry goods for which cash & carry is more important. The retailer is important in meat supplies.

Food buyers in the hotel sector predicted best opportunities in the fruit and vegetables, seafood and meat categories. However, variation in predicted opportunities exists by hotel grade.

Small food manufacturers targeting the foodservice sector should become familiar with the different requirements within sub-sectors, such as the hotel sub-sector. They should identify the individuals responsible for purchasing decisions and recognise that these vary by ownership structure. When developing their customer service strategy, they need to consider the nature of their product as well as customer requirements. They also need to consider how they will get their product to the customer. If they use a wholesaler, they must consider its quality and its ability to effectively represent the manufacturer's products. Finally, when developing new products and assessing market potential, they need to consider that, while significant opportunities exist within the hotel market, these vary by grade.

INTRODUCTION

The barriers to entry in the retail sector highlight the importance of identifying and investigating alternative markets for small food manufacturers. The Irish foodservice sector may offer significant opportunities for some small food manufacturers. It was estimated to have a value of €1.4bn at caterers' purchase prices in 2001, having grown at estimated rates of at least 17% per annum in the previous three years (Bord Bia, 2001). While growth has since reduced to single figures, the market remains buoyant with considerable growth potential existing before values comparable to those in the UK and US are reached. However, small food manufacturers need further information and assistance to convert this opportunity into reality for their own businesses.

OBJECTIVES

The central purpose of this research was to:

- examine purchasing procedures;
- identify customer service and supplier requirements; and
- identify opportunities for small food manufacturers

in the Irish foodservice industry, with particular emphasis on the hotel sector.

METHODS

Nine in-depth interviews were conducted, seven in different segments of the foodservice sector and two with small food manufacturers. The method used was an unstructured personal interview. One of the features that emerged from these interviews was that an analysis of the entire foodservice sector was beyond the scope of the project and that any attempt to do so would miss the wide variation in needs and requirements that exists at sub-sector level. Consequently it was decided to focus on one sub-sector, namely the hotel market. A structured questionnaire was administered by personal interview to the main food buyers in 100 hotels throughout Ireland. A quota sampling technique was used so that the hotel sample reflected the national hotel population in terms of grade status, ownership structure, and size (as measured by number of hotel rooms). The main issues addressed in the questionnaire were company details, purchasing decisions, service/delivery requirements, customer service attribute rating and conjoint analysis[1].

MAIN FINDINGS

Varying requirements

The literature, for example Eastham *et al.* (2001), identifies a blurring of boundaries between the foodservice and grocery retail sectors for consumers, with many retailers for example offering a 'take-away' service. However, differences in customer requirements still exist, particularly in terms of purchasing and ordering processes so that small food manufacturers cannot offer the same marketing mix to both sectors and expect to succeed.

Furthermore, our exploratory interviews revealed that requirements differ by sub-sector within the foodservice sector and that small food manufacturers cannot offer the same marketing mix to these individual sub-sectors. Given the current fragmented nature of the foodservice sector and the diverse range of differentiated outlets, this variation is not surprising.

Evolution of the foodservice sector

The fragmented nature of the foodservice sector means that, on the whole, purchasing practices are decentralised. However, some commentators predict that as the presence of groups/chains increases, purchasing practices will become more centralised with new and more rigorous supply chain disciplines imposed. More central purchasing and a rationalised supply base will emerge with group operators making buying decisions from a central office and moving away from many local suppliers to a few national suppliers. The Food Agency Co-operation Council (2001) proposes that as buying centralises, suppliers will need to acknowledge the interaction of category buyers and group chefs working in cross-functional teams. These teams will particularly

1 Conjoint analysis attempts to ascertain how buyers trade off conflicting criteria in making purchasing decisions and is based on the assumption that consumers evaluate a product/service/idea by combining the separate amounts of value provided by each attribute (Hair *et al.*, 1998).

influence the 'new task'[2] situation, above all with regard to decisions on new suppliers. Thus, developing existing relationships and building new ones, recognising these interfaces, is critical.

The buying process in the hotel sector

Buyer behaviour theory proposes that the buying process is influenced by the 'buyclass' or buying situation. For the purpose of this research, two particular tasks were of significance - supplier selection (representing a 'new task' situation) and routine purchasing (representing a 'rebuy' situation).

Supplier selection

In hotels, the head chef has the dominant influence on supplier selection, regardless of whether the hotel is independently owned or part of a group/chain (see Table 1). However, his/her influence is less in the group/chain hotels. Furthermore, while owners and general managers are important decision makers in the independent hotel sector, they have no role in the group/chain hotels. By contrast, the survey reported that the purchasing manager and accountant/cost controller are more important in the supplier selection process in group/chain hotels, suggesting that commercial/financial criteria are more transparent in group/chain hotels.

Suppliers must also be aware of the role of influencers in the buying process. This research found that more than one individual contributed to the supplier selection process in more than 80% of hotels. Despite this, the role of the chef was critical even in situations where the chef was not the main individual responsible for supplier selection.

The sources of information used by hotel buyers when making supplier selection decisions are shown in Figure 1. The findings support the importance of sales representation at the interface with the buyer. Word of mouth was also found to be a critical source of information used by those with buying responsibilities in the hotel sector, with exhibitions and trade shows important as well.

2 Three categories of buyclass or buying situations are identified in the literature: 'new task', 'modified rebuy' and 'straight rebuy'.

Table 1: Individuals in hotels who are mainly responsible for supplier selection; data are % of hotels

JOB TITLE	All hotels (N=100)	Independently owned hotels (N=84)	Hotels part of group/chain (N=16)
Head chef	60	64	38
Sous-chef	3	2	6
General manager	8	10	0
Assistant general manager	4	5	0
Owner	10	12	0
Purchasing manager	7	2	31
Food and beverage manager	0	0	0
Cost controller/accountant	3	1	12
Other	5	4	12
TOTAL	**100**	**100**	**100**

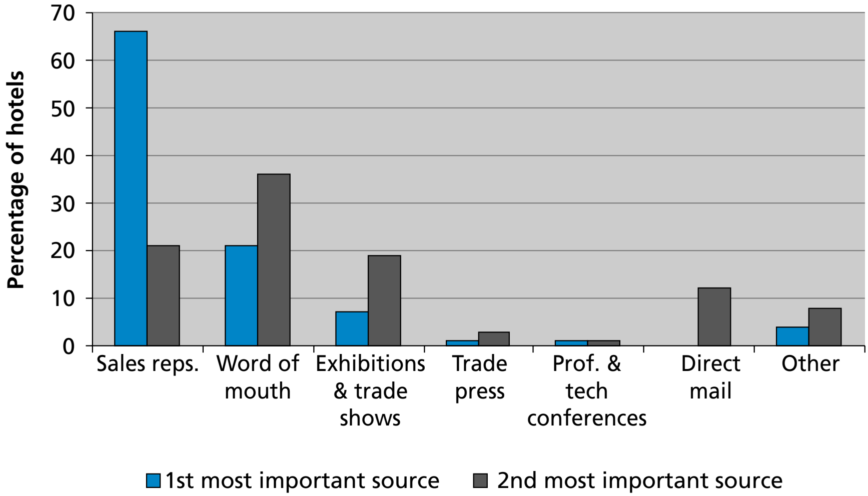

Figure 1: Most important sources of information used by a sample of 100 hotels to identify new suppliers

Routine buying

The head chef is also the main individual responsible for routine buying in hotels. Unlike the supplier selection decision, routine buying is more specialised. Rarely does the decision-making process extend beyond one individual (Table 2). This is because the routine nature of the activity means that there is less complexity and risk when compared with a new task situation, which is surrounded by more uncertainty.

Table 2: Number of individuals concerned with buying decisions in 'New Task' and 'Rebuy' situations in a sample of 100 hotels

	'NEW TASK' (% of hotels)	'REBUY' (% of hotels)
One individual only	17	73
Two individuals only	80	21
Three individuals only	3	6

Ordering practices in the hotel sector are considerably less advanced when compared with grocery. The most frequent methods used by hotel food buyers to place orders are the telephone and fax, with EDI of limited importance (see Figure 2). This reflects the lack of centralised purchasing and supports the view that sophisticated supply chain disciplines are being adopted slowly and have not yet reached the levels of the retail sector. In terms of e-procurement, Bord Bia (2001) identifies 'a high degree of technophobia' in the foodservice sector, especially on the part of the chef. However, in the medium to long-term, they suggest it is difficult to believe that professional foodservice operators will not recognise the benefits of e-procurement systems and embrace their use.

Customer service requirements

The importance of two customer service dimensions, condition of goods on arrival and product quality, are shown in Table 3.

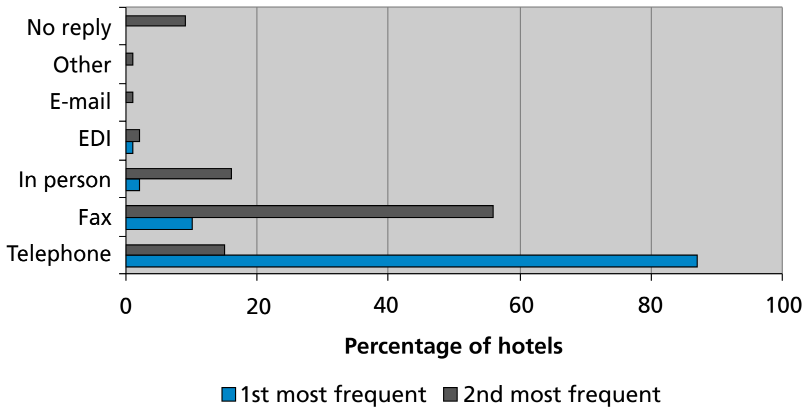

Figure 2: Most frequent methods used by hotel food buyers to place orders in a sample of 100 hotels

Four constituents of customer service were investigated in more depth, namely, price, on-time deliveries, frequency of deliveries and the ability to perform emergency deliveries[3]. The scores for relative importance from this analysis suggest that customer service requirements vary by product (see Table 4). Small food manufacturers of short shelf-life products need to emphasise frequency of deliveries and the ability to provide a daily delivery service. Surprisingly, suppliers should place least emphasis on price. However, in the case of long shelf-life products, relatively similar emphasis needs to be placed on all four attributes examined in the conjoint analysis.

Analysis of the individual part-worth utility scores from the conjoint analysis can help food manufacturers to decide where to allocate resources in seeking to improve utility for their hotel food buyers. For example, a manufacturer of a short shelf-life product offering a service mix of the lowest possible utility score (2.2823[4]) would achieve the biggest increase in utility from changing a single service attribute by changing his service mix to provide 100% on-time deliveries

3 The conjoint analysis technique limits the number of attributes that may be investigated at any one time.

4 Calculation for typical price +5%, 90% on time deliveries, once weekly deliveries, no ability to perform emergency deliveries: 5.5163+(-1.2980)+(-0.2671)+ (-0.8496)+(-0.8193)=2.2823

(as opposed to 90% on-time deliveries). This would increase utility by 69%. Equivalent improvements in utility from changing to provide the highest level (from the lowest level) on emergency deliveries, price and on-time deliveries are 56%, 38% and 29% respectively. However, such improvements in utility need to be considered in the context of associated increases in costs.

Table 3: Importance of customer service criteria scored by hotel buyers in a sample of 100 hotels.

Rank	Attribute	Mean importance score[3]
1	Condition of goods on arrival	6.91
2	Product quality	6.91
3	Correct quantities delivered	6.75
4	Competitive prices	6.68
5	Efficient invoicing and handling of orders and queries	6.64
6	Advanced notification of supply problems	6.63
7	On-time delivery performance	6.60
8	Delivery at a time which suits the hotel	6.52
9	Frequency of deliveries	6.42
10	Ability to perform emergency deliveries	6.35
11	Broad range/assortment of products	6.11
12	Business enhancing services	5.61
13	Innovative products	5.61
14	Supplier is locally based	5.29

3 On a scale of 1 to 7, where 1 represents unimportant and 7 represents vitally important. The Wilcoxon Signed Rank Test found there is significantly more importance attached to the condition of goods on arrival and product quality than all other specified attributes

Table 4: Scores for relative importance and utility of four constituents of customer service by hotel buyers in a sample of 99 hotels

		SHORT SHELF-LIFE		LONG SHELF-LIFE	
Attribute	Level	Utility	Relative importance (%)	Utility	Relative importance (%)
Price (linear	Typical price –5%	-0.4327		-0.6515	
less)	Typical price	-0.8653	18.49	-1.3030	26.55
	Typical price +5%	-1.2980		-1.9545	
On-time	100% on-time	0.4063		0.3816	
deliveries	95% on-time	-0.1392	18.81	-0.2346	20.63
	90% on-time	-0.2671		-0.1470	
Frequency	Daily	0.7160		0.1930	
of deliveries	3 times weekly	0.1336	34.44	0.0954	25.20
	Once weekly	-0.8496		-0.2884	
Ability to	Within 2 hours	0.4568		0.4119	
perform	Within 4 hours	0.3625	28.27	0.2806	27.62
emergency	No ability	-0.8193		-0.6925	
deliveries					

Short Shelf-life: Constant = 5.5163 Pearson's R = 0.994 Kendall's tau = 0.833
Long Shelf-life: Constant = 6.2076 Pearson's R = 0.995 Kendall's tau = 1.000

Perceived customer service performance

The hotel survey found that small food manufacturers are perceived to perform significantly better than their best alternative supplier on four of the thirteen listed customer service attributes: delivery of correct quantities; product quality; ability to perform emergency deliveries; and on-time delivery performance (see Table 5). They are perceived to perform significantly worse on four other attributes: competitive prices; broad range/assortment of products; innovative products; and business enhancing services. Given the relative importance that hotel food buyers attach to the different criteria, small food manufacturers are more likely to lose business because of their under-performance on price. However, 'better variety of products/new products' was found to be one of the motives used for listing new suppliers, suggesting a greater than indicated importance of a broad range/assortment of products. This suggests that small food manufacturers need to concentrate their resources on improving the prices and the range of products they offer, as a means of competing effectively with alternative suppliers. Prices need to be competitive but additional value is created using other aspects of the service mix. Although business enhancing services are ranked second last in importance to the hotel food buyer, Bord Bia (2001) suggests that help and advice are likely to be important parts of any future marketing package on the part of suppliers, as chefs are operating under extreme pressure. As small food manufacturers are currently perceived to perform significantly worse than their best alternative supplier on this criterion, they may have to invest more on this in the future.

Distribution channels

Table 6 highlights the prominence of the wholesaler/distributor for nine out of the ten product categories examined (the exception being dry goods). For dry goods, the most popular channel of distribution is through the cash and carry. In the meat category, the retailer was found to be an important route to the hotel market. It is likely that the importance of the retailer to the meat category is because hotels are keeping with the tradition of using local butchers, with whom they can build up relationships, and be guaranteed of quality, traceability and meat of Irish origin.

Table 5: Performance of small food manufacturers relative to their best alternative supplier as perceived by hotel buyers

Importance rank	Attribute	Performance of small food manufacturers[4]	Performance of best alt. supplier[5]	Sig.
1	Condition of goods on arrival	6.66	6.51	
2	Product quality	6.58	6.20	**
3	Correct quantities delivered	6.63	6.19	**
4	Competitive prices	5.81	6.46	**
5	Efficient invoicing and handling of orders and queries	6.20	6.40	
6	Advanced notification of supply problems	6.05	5.89	
7	On-time delivery performance	6.27	6.18	
8	Delivery at a time which suits the hotel	6.34	6.14	
9	Frequency of deliveries	6.38	6.05	*
10	Ability to perform emergency deliveries	6.36	5.50	**
11	Broad range/assortment of products	5.38	6.55	**
12	Business enhancing services	5.08	6.10	**
13	Innovative products	5.13	6.20	**

* indicates a significant difference at the 0.05 level in a 2-tailed test

** indicates a significant difference at the 0.01 level in a 2-tailed test

4 On a scale of 1 to 7, where 1 = very poor performance and 7 = excellent performance.

5 In more than 70% of cases, the best alternative supplier is a wholesaler, for the others it is a large food manufacturer.

Table 6: Channels of distribution in the hotel sector; data are % of hotels in a sample of 100

	Wholesaler/ distributor	Cash & Carry	Retailer	Direct from manufacturer	Importer	Other
Meat	53	0	50	11	0	0
Poultry	74	1	17	13	0	0
Seafood	69	0	17	17	0	2
Fruit & vegetable	76	2	20	6	4	2
Speciality cheeses	55	9	9	6	2	3
General dairy	62	2	9	28	0	3
Pre-prepared desserts	37	2	3	9	1	1
Speciality breads	37	1	5	13	2	3
Sliced bread	61	0	12	23	1	
Dry goods	39	62	2	0	0	0

Note: The rows above do not sum to 100 as multiple responses were allowed.

Market opportunities

Figure 3 shows the projected opportunities for growth for small food manufacturers in the hotel sector, as identified by respondents *within their own businesses*. Some product categories display limited opportunities for growth, including dry goods, sliced bread, general dairy, speciality cheeses and poultry, with more than 50% of respondents predicting no growth within their businesses in these categories. However, some growth opportunities are predicted across all categories, with the highest number of hotels predicting growth in the meat, seafood, and fruit and vegetable categories.

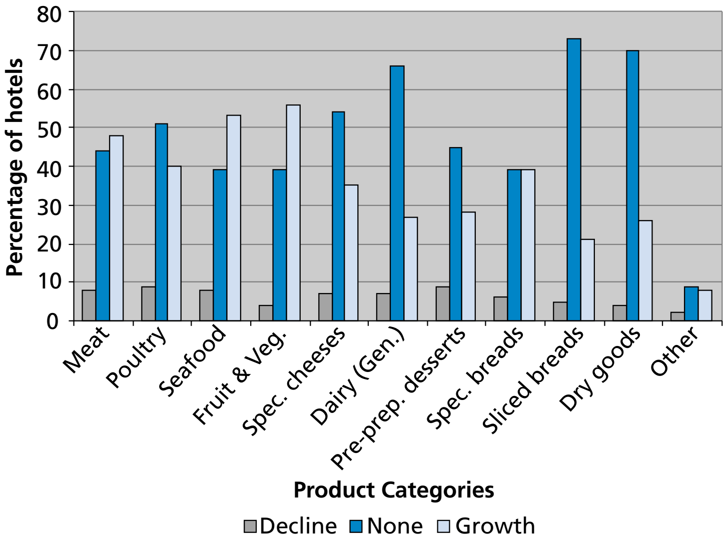

Figure 3: Projected opportunities for growth for small food manufacturers supplying into the hotel sector as identified by hotel buyers in a sample of 100 hotels

There is some variation in the predicted opportunities by grade of hotel. For example, for speciality cheeses, most growth is predicted in 4-star and 3-star hotels. Surprisingly, for pre-prepared desserts, the most growth is predicted in 4-star hotels, together with 1-star hotels. Most growth for speciality breads is projected in 4-star hotels. Drawing attention to findings from the literature, the Tourism Research Centre (1998) envisaged an increase in the demand for various breads for use as a starter. The findings from the hotel study indicate that this trend is predicted to continue, with food purchasers anticipating opportunities for speciality breads in some hotel grades, and fruit and vegetables across the entire hotel sector.

RECOMMENDATIONS FOR SMALL FOOD MANUFACTURERS

The recommendations for small food manufacturers arising from this research are:

i. Small food manufacturers need to recognise that the foodservice market, while providing opportunities, requires investment of time and effort before entry to achieve success. The grocery and foodservice markets are quite distinct in a number of respects, one of the most significant of which is their purchasing procedures. Furthermore, distinct sub-sectors exist within the foodservice market and may require different strategies.

ii. Small food manufacturers need to be aware of, monitor, and consider the impact of the changes that are occurring in the ownership structure, and hence purchasing procedures and level of adoption of supply chain management techniques throughout the hotel sector. Whilst this study suggests that such changes are taking place slowly, in the medium to long-term they should expect changes which may have significant impacts on their business.

iii. When targeting their marketing efforts, small food manufacturers need to acknowledge that it is the specific individual, or individuals, who is the target, not the abstract organisation. They need to target their marketing activities at the head chef in the hotel sector. They should also consider the influence of the purchasing manager in group/chain hotels and the owner in the case of independently-owned hotels.

iv. They should concentrate on the use of sales representatives and word of mouth as a means of information transmission.

v. Small food manufacturers need to develop their customer service strategies by considering the nature of their product as well as customer requirements. The relative importance of different service attributes varies between short and long shelf-life products and suppliers need to be aware of this feature of buyer behaviour.

vi. Small food manufacturers need to improve prices. They are performing significantly worse than their best alternative supplier on this criterion.

vii. Condition of goods on arrival, product quality, and correct quantities delivered are the three attributes ranked highest in importance by hotel food buyers. Improving performance in these areas may increase the costs of switching suppliers for hotel food buyers.

viii. Wholesalers are an important route to market within the hotel sector. Small food manufacturers should consider using them to reach a larger target market in a more cost-effective way. However, careful consideration needs to be given to the quality of the wholesaler and its ability to make effective representation for the manufacturer's products.

ix. Overall the greatest opportunities are reported in the fruit and vegetables, seafood and meat categories. However, when developing new products and assessing market potential, small food manufacturers need to be aware that product opportunities vary by hotel grade status, for example speciality breads and cheeses need to be targeted at the higher grade hotels (4-star and 3-star).

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