



Meat Supplier Opportunities in Food Service

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Most small meat processors would like to expand their sales volume. However, steady consolidation of the US retail grocery industry toward dominant supermarket firms, has made it increasingly difficult for smaller-scale processors to compete in retail supply channels. Some smaller manufacturers cannot supply the volume required by these larger retailers. Others cannot supply products with broad national appeal or sufficient marketing support. Small-scale processors may also be unable to provide the sophisticated packaging, traceback record systems, and financial incentives expected by their retail grocery customers.

The substantial growth in away-from-home consumption in the US, however, may provide a new competitive opportunity for small, specialized food processors. The level of away-from-home household food expenditures reached a record of 47.4% of total food expenditures in the US at year-end 2001, nearly equaling retailing grocers as a market channel for reaching consumers.

Our study employs a survey of restaurants to determine their preferences for food services and the implications for small meat processors seeking to establish a market niche and expand their volume. The focus is on small meat processors concentrated in the San Antonio, Austin, and Houston regions of Texas. These businesses averaged \$2.1 million in sales and a 29% return on assets in 1999. They typically purchase large quantities of boxed beef and pork for further processing and portioning.

Restaurant Supply Environment

Early in this study we met with Texas restaurant owners and staff to better understand how they sought their meat suppliers. Each restaurant is largely unique, reflecting its ownership, manage-

ment, customers, location, cuisine, and price range. Still, common interests and concerns emerged repeatedly. The following quotes illustrate the common procurement factors:

- An owner of 70 restaurants: "I do not like to talk price unless I know what I want. Samples can be an ongoing need. [Suppliers can] expect to keep being asked. Once the product is accepted, do not let it change. A lot of private label products [custom made for us with our name] work for us."
- A buyer for a four-restaurant chain: "We ask first about quality. If that is not there, forget it. Next is price. Finally, if they [the meat supplier] pass all that, we ask them to send us 20 pounds of meat. After they have met our specs for around six weeks or so they have earned the right to regularly bid for our business. We never go on first impressions. We demand performance and consistency over time."
- An owner of a single restaurant: "I expect them to know their business as well as I know mine. #1: I want to know the specs [specifications] of the product and see if they meet my requirements. #2: I want to know about the availability of the product. #3: I want to know the price. #4: If they pass all of this, I want to see a sample of the product."
- A franchisee owner in a large chain: "If a local processor made a unique product that was regionally recognized and he got me on his side, then he would have a better chance of getting the corporate headquarters to listen. Headquarters has to approve all items, including regional ones."

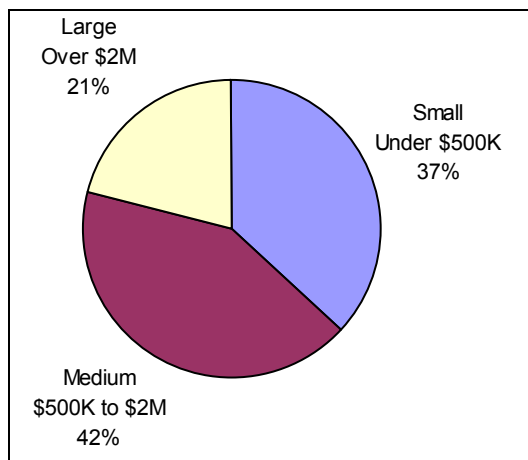


Figure 1. Average restaurant location sales per year.

Restaurant Profiles

We visited numerous restaurants to develop and pretest a survey on how their purchasing habits could influence food service sales. The final survey was mailed to 1,649 restaurants in Texas and Louisiana. One hundred ninety-one responded, for a response rate of 11.6%.

The cuisine served by these restaurants included: Mexican, 26%; American, 19%; steak houses, 11%; southern/country, 10%; Asian, 7%; and Italian, 6%; The Other category (21%) consisted mainly of French, continental, Cajun, seafood, deli, sandwiches, and bagels. The restaurant respondents based their cuisine identity on a particular image sought by their restaurant. For example, American restaurants and steak houses could both serve steak, although steak would highlight the menu of a steak house.

Figure 1 presents average annual store sales per restaurant. Thirty-seven percent had annual sales below \$500,000 per location. They were largely independent and family-owned. Another 42% had annual sales between \$500,000 and \$2,000,000 per location. Franchised quick-service restaurants comprised most of this group. Finally, 21% of participants averaged annual sales over \$2,000,000 per location. This group included large casual dining and larger white tablecloth establishments.

In many cases, annual store sales differ greatly from total company sales because of multiple retail stores. On average, participating companies operated 38 restaurants with a range from 1 to 2,204.

Table 1. Importance of meat source attributes.

Meat attribute	Restaurant size ^a		
	Small	Medium	Large
Importance score			
Buying highest quality	32%	30%	50%
Buying at lowest cost	20%	18%	10%
Freshness	16%	14%	12%
Product consistency	13%	19%	19%
Reliability of delivery service	9%	9%	7%
Convenient ordering/billing	5%	4%	1%
Convenience in preparation	4%	3%	1%
Other	1%	3%	0%

^a Small: 0 to \$500,000 annual sales; medium: \$500,000 to \$2,000,000 annual sales; large: above \$2,000,000 annual sales.

Meat Procurement Preferences

Survey participants allocated 100 percentage points across the following meat procurement attributes to reflect the strength of their preferences: buying at lowest cost; buying highest quality; reliability of delivery service; convenience in ordering and billing; convenience in preparation; product consistency; and freshness.

Restaurants with larger sales volumes, especially in the \$2 million and above class per year, had markedly different preferences than smaller restaurants. Table 1 shows the percentage importance of various food supplier characteristics by size class of restaurant. All size classes view high quality as the most important product characteristic. However, high quality is 50% of the importance score for the largest restaurants compared to only 32% for smaller ones.¹

Small restaurant buyers on average ranked lowest cost second in importance with a weighting of

1. *These findings were statistically confirmed when we ran a quantitative analysis using a regression of "percent of purchasing explained by quality" against dummy variables representing the different size categories of restaurants based on average sales and other variables such as seating capacity, type of cuisine served, average dinner ticket price, etc.*

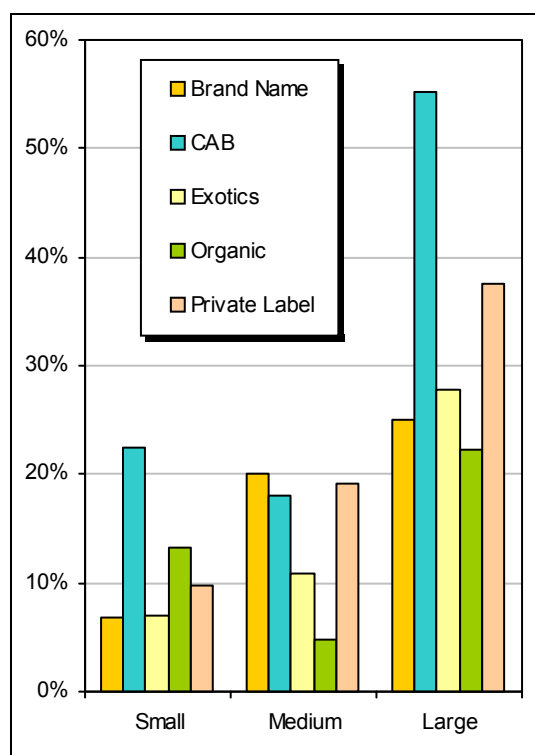


Figure 2. Small, medium, and large restaurants differ in the percent using brand names on menus as well as the use of CAB, exotic, organic, and private label meats.

20%. However, the two larger-sized restaurant groups both ranked product consistency as second in importance.

In contrast to small and medium restaurants, the large size group did not place cost in their top three areas of importance. Smaller restaurants also ranked ease of billing and ease of food preparation higher in importance than did the larger size classes. Clearly larger and smaller restaurants represent different markets to the supplier.

Unique Purchasing Patterns

Restaurant purchasing can also vary by product identity and/or label. Figure 2 shows the percentage of small, medium, and large restaurants using various products.² As is evident, a higher percentage of large restaurants have food manufacturer brand names on their menus (brand name), purchase Certified Angus Beef (CAB), sell meat from exotic spe-

cies (exotics), and sell certified organic items (organic). Many small meat manufacturers can provide at least some of these products. Larger restaurants are also more likely to work directly with food manufacturers in order to develop private label products—those manufactured and labeled for use by a single restaurant company. Thirty-seven percent of large restaurants had done so, versus only 10% of smaller restaurants.

For restaurants, private label products reflect unique specifications such as cut of meat, manufacturer's recipe, preparation instructions, package type, and exterior case size. For manufacturers, a restaurant private label can create a unique supplier-customer relationship and broaden the range of menu choices offered to restaurants. Price comparisons to other branded items thus become more difficult, allowing a profit opportunity for the manufacturer.

Conclusion

Most of our surveyed food service buyers were unaccustomed to obtaining supplies directly from a smaller-scale meat manufacturer. Thus challenges certainly exist for such processors entering the commercial food service market. To meet these challenges successfully, prospective meat suppliers must, in all customer categories, focus on high food quality. Once this is assured, several other important characteristics such as consistency, cost, and product freshness will determine sales success.

For More Information

- Siebert, J.W., Nayga, R.M., Kim, S., and Tropp, D. (2001). *Expanding the food service sales of small meat processors* (Final Report). Washington, DC: United States Department of Agriculture.
- Siebert, J.W., Nayga, R.M., Thelen, G.C., and Kuker, D. (2000). Enhancing the financial performance of small meat processors. *International Food and Agribusiness Management Review*, 3, 269-280.

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2. Statistical analysis indicated significant differences among the three restaurant sizes regarding all five of these attributes.

