inbound logistics

Foodservice Logistics Brings Value to the Table

Hungry for efficiency and cost savings, foodservice companies and restaurants are acquiring a taste for supply chain management.

by Amy Roach Partridge

When at their favorite restaurant, most diners probably don't think about the complex logistics and supply chain maneuvers that must occur to bring their meal to the table. But behind the plate is a dynamic and intricate supply chain that links farmers and growers, food purveyors, restaurant supply vendors, distributors, purchasing co-ops, transportation and logistics providers, and restaurants. And depending on the size, geography, and menu diversity of the eatery or restaurant chain, that supply chain can function in vastly different ways.

When the foodservice supply chain works well, the end result is a satisfied consumer who will bring both repeat business and profits to the restaurant and its myriad trading partners. But when the supply chain goes awry, everything from food safety to supply continuity, cost management, and consumer pleasure is compromised.

With so much at stake—and in an economy where enticing consumers to dine out is difficult—it is not surprising that the restaurant industry is becoming more focused on improving supply chain operations. The area has been overlooked in many restaurants and foodservice companies for far too long, says David Parsley, senior vice president of supply chain management for Brinker International Inc., which owns, operates, and franchises more than 1,500 restaurants under the Chili's Grill & Bar and Maggiano's Little Italy brands.

Elevating Logistics

"The foodservice business doesn't always hold the supply chain in the same regard as other industries," Parsley says, explaining that many restaurants still focus narrowly on procurement, missing opportunities to optimize operations at all points throughout the supply chain.

"Purchasing is only part of the equation," he adds. "The restaurant supply chain includes all the links—from raw commodities through processing—until goods reach the restaurant and are handed to the guest. Every one of those links represents an opportunity for improvement."

The challenge for Brinker—which logs nearly $1 billion in spend annually for food, beverages, and equipment—is managing the supply chain to meet its specifications and expectations for quality and consistency.

"We need to ensure that products are available in our restaurants when they are needed, and in the proper condition," Parsley explains. "For fresh products, we need to know if the cold chain has been maintained properly. Were frozen products kept frozen throughout transit? Did the bread arrive fresh and in good condition?

"And we need to do all that in the face of constantly shifting menu mixes, promotions, and limited-time offers, which takes an incredible amount of coordination, collaboration, and communication," he notes.

Despite the difficulty, restaurant companies are increasingly beginning to understand the impact and value that supply chain management can bring. They don't really have much choice, Parsley notes.

"Restaurant chains can't easily grow anymore by building hundreds of new locations," he says. "Instead they have to manage their supply chains in a way that brings bottom-line profitability.

"Brinker's investment in supply chain strategy is producing returns that don't compromise quality, food safety, or supply continuity," Parsley adds. "At the same time, it enhances the guest experience and our margins."

To help boost that type of supply chain effectiveness across the entire restaurant industry—which accounts for some $600 billion in annual sales and is one of the largest private-sector employers in the nation—the National Restaurant Association (NRA) is launching a Supply Chain Management Executive Study Group, which Parsley is chairing. The group, which will hold its first meeting in May 2012, will facilitate dialog and best practices exchange around key issues such as rising commodity and wholesale food prices, ingredient sourcing, and product traceability.

"Bringing restaurant companies together to share best practices, benchmarking, and supply chain strategies will help elevate supply chain management for the whole industry," Parsley says.

A Fresh Look

One restaurant company working hard to elevate its supply chain is Del Taco, a 525-location Mexican quick-service restaurant chain. Janet D. Erickson, Del Taco's executive vice president of supply chain, shares Parsley's passion for spreading the supply chain gospel and will act as vice chair of the new NRA group. Erickson knows firsthand the importance of managing logistics in the restaurant business.

"I was the entire Del Taco supply chain department for many years," Erickson jokes. Today, three other employees help her manage the department's $175-million spend, and the group is working on optimizing that spend to benefit the business and its customers.

"We tightly manage our direct spend on items we deliver to the stores, such as food and packaging, and goods that support the core business," Erickson explains. "And we are continuing to refine processes to manage indirect supplies such as equipment; maintenance, repair, and operations supplies; and technology."

The company—whose menu includes Mexican food such as tacos, burritos, quesadillas, and nachos, as well as American staples such as hamburgers, fries, and milkshakes—serves nearly three million customers each week through a network of four third-party distribution centers. Its increased focus on supply chain management is helping Del Taco face a number of unique logistics challenges.

The chain's large concentration of West Coast locations makes it difficult to maintain equal food costs across the system as it expands into the Midwest and East Coast. "We are working closely with suppliers and distributors to transport our food more cost-effectively to the Midwest and East Coast markets," Erickson explains.

In addition, because many of Del Taco's key ingredients are proprietary formulations, the company can't simply contract with food manufacturers located closer to the DCs serving its Midwest and East Coast stores. "Having manufacturers produce proprietary product in the small quantities we need for those few stores is just too cost-prohibitive," she notes.

Cost considerations are especially crucial for Del Taco today because many of its menu items rely on ingredients whose prices have soared recently. "We use a lot of ground beef, cheese, and other dairy products, and the costs for those commodities have gone up recently," Erickson says. "These products cost more now at origin, and the transportation costs have increased as well. We can't negotiate away these kinds of macro, external environment issues. Instead, we have to figure out ways to better manage the costs."

While Del Taco is still hashing out the best way to tackle these issues, Erickson's ability to address supply chain challenges is getting a boost from a new procurement system the company is currently implementing. Historically, Del Taco received an electronic feed from its third-party distribution network that provided only basic information such as pricing data and the number of cases moved in a particular week.

"The new system will give us the ability to examine our spend, more effectively manage the procurement cycle, and provide visibility and consistency across the supply chain department," says Erickson.

Biting Into Visibility

The increased need for supply chain visibility is one of today's top trends among restaurant companies, notes Todd Bernitt, general manager for C.H. Robinson Worldwide Inc., a third-party logistics provider that offers transportation, sourcing, and technology solutions to the foodservice industry.

"Historically, there hasn't been a lot of visibility in restaurant supply chains," Bernitt explains. "But restaurant companies really need visibility to what is happening with their partner suppliers, growers, DCs, and during transportation so they can make educated supply chain decisions."

Visibility is also crucial in helping restaurant chains manage and control essential elements of their total landed costs—especially given the volatile nature of food and fuel prices.

"Restaurant chains need to better understand how volatility increases commodity costs and total landed costs," Bernitt says. "For example, the transportation costs for shipping beef from Omaha to New England may be higher than the commodity costs. But unless restaurant chains have visibility to that information, how do they know if they are paying the right freight costs, or if they have the right origin point for their commodities?"

This type of visibility may be common in some industries, but it is a top priority for restaurant supply chains. Brinker is currently in the midst of improving supply chain visibility through a technology implementation that will grant the company "a better understanding of inventory at the restaurant, distributor, and supplier levels, as well as access to closer to real-time data within the supply chain," Parsley says.

The software will also give Brinker visibility into its actual product usage, which means the company can craft more effective procurement strategies. And the increase of reliable data will boost the company's overall supply chain performance as well, Parsley notes.

"We will have visibility into our third-party DCs and will be able to see what products are being shipped; if they are being shipped at the agreed-upon price; and if they are from authorized suppliers," says Parsley. "By having the visibility we want, we'll gain tighter control over those processes, which enhances food safety and quality, and everything else we strive to do."

The logistics challenge for restaurants such as Chili's is always having the right menu mix on hand to serve shifting customer expectations.

Cooking Up Creative Solutions

Not surprisingly, the economy is driving this increased embrace of visibility technologies and supply chain management expertise within the restaurant business. With consumer spending down, competition to get diners in the door is intense, and rising commodity and fuel prices have cast a spotlight on reducing costs and increasing margins wherever possible.

"The whole industry is faced with margin suppression and cost containment. Facing those challenges starts with understanding the necessary and added costs in every leg of the supply chain," says Pat Brown, director of transportation for UFPC, the purchasing and supply chain management organization for Yum! Brands Inc., owner of the KFC, Pizza Hut, and Taco Bell chains.

Louisville, Ky.-based UFPC—which negotiates the procurement of food, packaging, non-food, and equipment items for more than 20,000 restaurants in the Yum! Brands empire—is charged with securing the best cost for purchase, distribution, and delivery of supplies to Yum! restaurants.

"We have to ensure that Yum!-specified food and packaging moving through the supply chain is the right item from the right place at the right price—and that the price makes it all the way to the back door of the store," Brown explains. To help accomplish its mission, UFPC has embraced the practice of redistribution, a strategy gaining favor among restaurant supply chains in these tough economic times.

Redistribution helps foodservice distributors and purchasing co-ops such as UFPC cut costs by avoiding the need to purchase goods in expensive less-than-truckload (LTL) quantities, explains Tom Varga, vice president of business development for Consolidated Distribution Corporation (CDC), a leading foodservice redistributor and UFPC's redistribution provider.

CDC purchases food and other restaurant supplies in truckload (TL) quantities from a variety of manufacturers, then stores the goods in its warehouses in Chicago, Atlanta, and Dallas. UFPC and CDC's other customers can then order multiple manufacturers' products from CDC in whatever quantities they need—instead of in the bulk minimums most manufacturers require.

Next, orders are received from third-party distributors, and CDC ships TL quantities of the various goods UFPC has purchased on Yum! Brands' behalf, then transports them back to the DCs. The goods—and the savings that come from TL shipments—will eventually make their way to the Yum! Brands restaurants.

"Redistribution is a necessary piece of the modern foodservice supply chain," Varga says. "It helps companies move products from the supplier to the restaurant's DC at the lowest landed cost, which is passed on to the restaurant." A harsh economy and fuel cost volatility has helped to increase the popularity of redistribution services, Varga notes.

For its part, UFPC has been working with CDC since the mid-1990s, but has ramped up its redistribution activities over the past decade as part of concerted efforts to drive costs out of the Yum! Brands supply chain. UFPC purchases dry and frozen goods, packaging, and chemicals through CDC, and has experienced "significant growth in the volume we move through redistribution," Brown says.

"Redistribution has helped us eliminate or minimize the volume of expensive LTL freight we move," he explains. "And the win for the Yum! Brands distributors is that instead of getting 18 or 20 small LTL orders going to many different DCs, they can go to one place to purchase an aggregated order. Also, because we are ordering efficient quantities of each item, they can turn their inventory much faster."

Enticing Consumers with LTOs

The industry's increased focus on supply chain management and the need to adopt new strategies to cope with a challenging economy is playing out against a landscape already made difficult by the nature of the notoriously competitive restaurant business.

The NRA counts some 906,000 restaurants nationwide, with new dining destinations popping up all the time. In order to lure consumers through their doors, restaurants frequently rely on promotions and limited-time offers, which can have far-reaching supply chain implications.

"Consumers have a lot of options when it comes to dining out, so limited-time offers (LTOs) are a common way for restaurant chains to drive traffic and excitement," explains C.H. Robinson's Bernitt. "But restaurants have to carefully manage the inventory and logistics of those offerings. If an LTO is on the menu and the consumer is coming in to order it, they'd better have that item available."

In addition, restaurants have to be careful not to overpromise or overpromote an LTO – and end up paying the price.

The Del Taco restaurant chain focuses on superior supply chain management to help serve three million customers weekly through a network of four third-party distribution centers.

"Restaurants don't want to offset the additional receipts and higher turn they get from extra consumers coming in for an LTO by incurring cost increases from expedited transportation costs, having to quickly purchase more inventory, or dump extra inventory if they miscalculate how popular a promotion will be," Bernitt notes.

Also, restaurants must be smart about exactly what items they feature as promotions or LTOs. While it may be obvious that a strawberry salad is not a good winter promotion, it might also not make sense as a summer LTO if strawberry prices are higher than normal or if weather conditions have resulted in a poor strawberry crop.

"We have to be smart about selecting what products to feature on our menus," says Parsley of Brinker. "Supply chains need to work more collaboratively with marketing and culinary departments in deciding when to emphasize a product on the menu.

"It's all about adjusting the menu mix to take advantage of shifts in commodities that bring the value you want to your guests, but allow you to manage margins cost-effectively," he notes.

Supply Chain on the Menu

"We work closely with marketing when they are considering adding or subtracting items from the menu," adds Del Taco's Erickson. "We need to make sure that the supply chain can adjust, that we can get the necessary goods to the restaurants in time to support menu changes, and that we don't have too much or too little inventory.

"We want to be as nimble as we can to reduce the amount of obsolete inventory at the end of a promotion or a menu item, and to make sure we are forecasting accurately when we feature a new menu item," she says.

In addition, restaurant companies often need to adjust their menu mix to respond to consumer demand shifts. Given diet, allergy, and seasonal trends, certain foods fall in and out of favor with consumers. As restaurants change their offerings to reflect those trends, they must also be prepared to make changes to the supply chain.

When the Atkins diet was prevalent in the 1990s, for example, Brinker developed a low-carb menu for its Chili's chain. Today, Chili's boasts a "guiltless grill" section reflecting lower-calorie and lower saturated fat options, and Maggiano's features a gluten-free menu.

"Our culinary team works with our marketing teams and brands to keep current on what we need to be sensitive to," Parsley notes. "But the size and breadth of the Brinker brands require careful consideration to find menu items that we can both source and execute, and replicate in more than 1,500 restaurants."

Whether your next meal out comes from the drive-through, a casual dining chain, or an upscale restaurant, everything on your plate is the purposeful result of a complex combination of planning, development, procurement, and supply chain management. ■