

**The Foodservice Industry:
A Profile and Examination
Of Eastern Foodservice Distributors***

by

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Abstract

The foodservice industry has grown rapidly over the past two decades and represents a major market for agricultural producers. The expansion of the foodservice industry has precipitated changes in the organization and structure of the industry and its distribution chain. The central link of particular interest to suppliers is the foodservice distributor industry. In addition to describing the organizational and structural components of the foodservice industry, this research describes the function of the foodservice distributors and analyzes key

characteristics of distributors located throughout the eastern United States.

Introduction

Over the past three decades, the most profound transformation in food consumption and marketing has been the growing prominence of foodservice. The term refers to the preparation and serving of food away from home and encompasses a broad assortment of service options, from white table cloth fine dining restaurants, to office vending machines. This industry has experienced substantial growth over a relatively short period of time. While just ten years ago, foodservice generated record

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sales of \$82 billion, the sales volume for 1988 was almost \$210 billion. Presently, about 42 percent of the total U.S. adult population eat out at least once every day (Mayer, 1988).

Problem Statement

The expanding influence of the foodservice industry is particularly important to food suppliers and marketers. Among the major agricultural product categories, foodservice uses more than 40 percent of all meat, 55 percent of all lettuce, 60 percent of all butter, 65 percent of all potatoes and 70 percent of all fish (Mayer, 1988). Consumers now spend almost 46 percent of each food dollar on food away from home, and this share is expected to reach 50 percent by the mid-1990s.

Especially in Maine, a considerable portion of agricultural producers continue to overlook the potential in foodservice marketing simply because it is unfamiliar. To move in this direction requires an understanding of the foodservice industry's structure and channels of distribution. This gives suppliers the necessary knowledge to analyze how their products can be effectively presented, promoted and distributed to foodservice operators.

Objectives and Procedures

The purpose of this study is to describe central aspects from the full scope of foodservice marketing. These descriptions concentrate on the industry segments, growth patterns, and characteristics of the specialized intermediaries in the distribution process. This type of overview gives private and public decision makers, researchers and others involved in food marketing the information needed to evaluate use of their resources in the foodservice industry. Since the intent is to benefit specifically Maine food industries, the study is limited to eastern regions, Maine's nearest marketing area.

The study is organized around three objectives:

1. To define the organizational and structural components of the industry and document current and projected growth patterns.
2. To outline the channels of distribution and examine information on the foodservice distribution industry as the major intermediary in the chain.
3. To analyze descriptive characteristics of 2,262 foodservice distributors located

through the eastern United States, emphasizing differences in the types of distribution firms, sales volume, number of customers and product lines.

These objectives are accomplished through a comprehensive literature review of major industry trade journals and demographic studies. Data obtained from *The Handbook of Foodservice Distribution*, compiled by the staff of *Institutional Distribution*, are specifically used to meet objective three.

Growth in Foodservice and Influencing Factors

Growth in the foodservice industry was instigated by substantial changes in demographics and consumer tastes and preferences (Van Dress, 1980; Schmelzer, 1981; The Food Institute, 1987). Without a doubt, the most influential growth factor during the 60s and 70s was the influx of women into the work force. Female labor force participation had the effect of substantially increasing real household income and placing greater time constraints on home meal preparation (Van Dress, 1982; Schmelzer, 1981; The Food Institute, 1987). These two factors induced substitution of eating out for home prepared meals, especially among two income households. To illustrate this point, consumer studies have found that double income families eat out more often and tend to spend more per person on food away from home, in comparison to families in which only one spouse is employed (Van Dress, 1982; Food Institute, 1987; McCracken, 1988).

In response to various components of increasing demand for food away from home, the industry has become remarkably diverse. Each industry segment reflects variations in consumer demand for convenience, quality and variety. At the most general level, foodservice is separated into the commercial sector and the institutional sector. Of the 642,810 operations located throughout the United States, 24 percent are classified as institutional and the remaining are commercial units (*Restaurants and Institutions*, 1988).

The distinction between sectors was originally based on the notion that commercial units are for-profit operations whereas institutional foodservices were viewed as service rendering operations that catered to captive consumer groups. In recent years, however, these differences have become less prominent. With increased competition between sectors as a result of consumer mobility and expansion of

commercial outlets, institutional operations have become far more professional and profit oriented.

The two sectors are further broken down into segments. Table 1 gives a three-year span comparison of sales volume and market share for the total industry and the most commonly defined segments.

The sales estimates show that every segment recorded nominal sales increases over this period while market shares have remained fairly constant. The commercial sector presently accounts for almost 72 percent of all sales. The largest segment in terms of both number of units and sales volume is full service. This segment generates 32 percent of total sales and also contains the widest variety of establishments, from fine dining to theme and family restaurants. Fast food, also called "limited menu," is second largest and continues to increase its share of foodservice sales.

The remaining segments within both the commercial and institutional sectors are classified in terms of their locations within host settings that are not primarily foodservice operations. The smaller commercial segments exhibit slight losses in market share with one exception; the convenience store and supermarket deli segment shows a steady increase in its share of sales over the three-year period.

The institutional sector accounts for approximately 29 percent of sales. Outside of the transportation segment, which primarily includes airline foodservice, market shares have declined slightly since 1985. Generally, these segments are more sensitive to demographic and government subsidy changes. For example, the number of children enrolled in primary schools, number of elderly entering nursing homes, the number of military enlistees, and government funding/subsidy levels for school lunch programs and hospital stays all clearly influence the performance of different institutional segments.

Real growth rates offer a better indication of the types of changes that have occurred over the past several years. These are itemized in Table 2.

In 1988, total foodservice sales are estimated to reflect a growth rate of 1.9 percent, which is the eighth consecutive year of real growth (*Restaurants and Institutions*, Jan. 1988). However, the declining rate indicates that this is mature industry. In this stage, demand is typically stable, but competition between seg-

ments is intense due to the increasing number of firms vying for shares in industry dollars. Considerable variations in growth patterns shown in Table 2 suggest this trend and also indicate the advantages held by certain segments.

The growth rates of the two major segments are relatively strong. Full service exhibits the greatest amount of fluctuation over the time period. This may be due to the wide variety of dining establishments categorized in this segment. Although the real increase in fast food sales has declined considerably after the 85-86 growth surge, this is another segment that is expected to remain healthy as a result of the increasing demand for take-out food.

Growth rates among the smaller commercial segments indicate that increases in real sales within the Hotel/Motel category have been negligible and that Recreation also displays modest growth. In comparison, the Convenience Store/Deli segment, which competes for the same food dollar as the Fast Food segment, shows the most impressive gains (*Restaurants & Institutions*, 1987; *Convenience Store News*, 1988). Although the two establishments serve different consumer segments, both capitalize on the location factor. Specifically, teenagers account for a substantial share of foodservice spending in this setting while typical supermarket deli consumers are adults within the affluent younger middle age groups who are concerned with quality as well as convenience (*Restaurants and Institutions*, 1987; McLaughlin, German, Uetz, 1986).

In the institutional sector, segment growth rates are all under 2 percent, but they have remained fairly constant during this period. Slight gains in 1988 are primarily a result of projected increases in civilian employment, nursing home stays, college enrollment, and overall menuing changes intended to compete with the commercial segments (*Restaurants and Institutions*, 1988).

The descriptive information in this section gives a picture of the character and diversity of foodservice that has evolved over the course of the industry's growth and present maturity. However, the relatively rapid expansion that occurred throughout the past thirty years not only precipitated changes in the organization and structure of the industry, but also altered the composition of the distribution chain. Suppliers can make optimal use of the specialized marketing intermediaries by understanding the current structure of the channeling process.

Table 1

Actual Foodservice Sales and Market Shares,

By Segment: 1985 & 1988

	1985 Sales/Share		1988 Sales/Share*	
	<i>(Sales in billions)</i>			
Segment:				
<i>Commercial Sales:</i>				
Full Service	\$55.07	32.2%	\$67.56	32.7%
Fast Food	\$49.94	29.2%	\$62.22	30.1%
Hotels & Motels	\$7.19	4.2%	\$8.11	3.9%
Recreation	\$2.22	1.3%	\$2.55	1.2%
Convenience Stores/Supermarket Deli	\$3.38	2.0%	\$4.69	2.3%
Other Retail ¹	<u>\$2.35</u>	<u>1.4%</u>	<u>\$2.00</u>	<u>1.3%</u>
TOTAL COMMERCIAL:	\$120.13	70.3%	\$147.81	71.5%
<i>Institutional Sales:</i>				
Business/Industry	\$12.31	7.2%	\$14.64	7.1%
Schools	\$11.85	6.9%	\$14.10	6.8%
Hospitals	\$8.99	5.3%	\$9.92	4.8%
Colleges/Universities	\$5.94	3.5%	\$6.71	3.2%
Military	\$4.13	2.4%	\$4.75	2.3%
Nursing Homes	\$3.52	2.1%	\$4.19	2.0%
Transportation	\$2.39	1.4%	\$2.81	1.4%
All Other Foodservice ²	<u>\$1.64</u>	<u>0.9%</u>	<u>\$1.87</u>	<u>0.9%</u>
TOTAL INSTITUTIONAL:	\$50.77	29.7%	\$58.99	28.5%
TOTAL FOODSERVICE MARKET:	\$170.90		\$206.80	

Source: *Restaurants & Institutions*, January 1987, January 1988

*Estimates

¹Includes Department and Drugstore Establishments

²Primarily social clubs, prisons and recreation camps

Table 2

Real Growth Rates, by Segment: 1985-1988

<i>Commercial</i>	1985-86	1986-87*	1987-88*
Full Service	+1.9%	+4.7%	+2.4%
Fast Food	+6.8%	+1.9%	+2.0%
Hotels & Motels	+0.4%	-0.9%	+0.5%
Recreation	-0.4%	+1.2%	+1.1%
Convenience Stores/ Supermarket Delis	+5.8%	+9.5%	+7.0%
Other Retail	-1.0%	+1.4%	+0.8%
TOTAL COMMERCIAL:	+3.8%	+3.2%	+2.2%
<i>Institutional</i>			
Business & Industry	+2.0%	+1.1%	+1.8%
Schools	+2.0%	+2.1%	+1.8%
Hospitals	-3.0%	+0.5%	+0.3%
Colleges/Universities	-0.3%	+0.1%	+0.4%
Military	+1.1%	+0.4%	+0.3%
Nursing Homes	+1.7%	+1.9%	+2.1%
Transportation	+2.3%	+0.7%	+0.2%
All Other Foodservice	+0.3%	+0.7%	+0.2%
TOTAL INSTITUTIONAL:	+0.9%	+1.1%	+1.2%
TOTAL FOODSERVICE:	+3.0%	+2.5%	+1.9%

*Estimates

Source: *Restaurants & Institutions*; January 1987, January 1988

**Channels of Distribution
In the Foodservice Industry**

Foodservice marketing basically differs from retail in terms of the roles and functions of the intermediaries involved in the distribution chain. The alternatives, as outlined in Figure 1, do show some similarities to grocery retail marketing; the traditional role of the broker is straightforward in most all industries and these agents take on the same activities in foodservice marketing (Manchester, 1988). However, a significant market penetration can only be achieved through linkage with the distributors. These are the specialist who emerged as the foodservice industry grew to more than half the market for independent food and grocery wholesalers (Civin, 1988). They assume the essential functions of buying, consolidating, warehousing, and delivering product specifically for the foodservice operators.

Sales in the foodservice distribution industry in 1988 are estimated to be \$93.5 billion. Food alone generated \$86.8 billion, an increase of \$2 billion from 1987 sales. Overall, the industry has kept equal pace with the growth and evolution of foodservice. During its infancy in the middle 1960s, foodservice distribution consisted of many small firms that handled a single product line such as frozen products, produce, or meats. As a result of growth, mergers, and acquisitions, broad line distributors are now prevalent throughout the industry. These are firms that carry the full range of product lines from grocery and meats to equipment and supplies (*Institutional Distribution*, 1988).

Although a significant number of firms known as system specialists cater specifically to a particular segment of foodservice such as fast food, airlines, or white tablecloth operations, most distributors service a variety of both institutional and commercial accounts. Annual surveys conducted by *Institutional Distribution* also demonstrate that most firms have a customer mix that represents the full range of foodservice segments, as illustrated by the data in Table 3.

Distributor sales to each segment generally conform to the foodservice market shares held by these segments. Full menu and fast food accounts generate the highest sales volume and each of the smaller commercial and institutional segments constitute from 3 to 9 percent of sales. A comparison of these data to previous survey results also indicates the growing sales contribution of the supermarket deli and convenience

store accounts, the fastest growing foodservice segments.

Table 3
**Distributor Sales
To Selected Foodservice Segments**

<u>Market Segment</u>	<u>Percent of Sales</u>
Full-menu Restaurants	24.6%
Limited-menu Restaurants	18.2%
Hotels/Motels	8.7%
Health care	8.7%
Schools	7.5%
Supermarket Deli/Bakery	6.2%
Separate Drinking Places	5.9%
Convenience Stores	5.0%
College/Universities	4.1%
Contract Feeders	3.4%
Others	7.7%
TOTAL:	100.0%

Source: *Institutional Distribution*, January 1989

Table 4
**Sales and Nominal Growth Rates
Of the Five Largest Chain Distributors**

<u>Distributor</u>	<u>1987 Foodservice Sales</u> \$MM	<u>Annual Growth 1982-87</u> (nominal)
Sysco	\$3,700	25%
Kraft	\$2,600	34%
CFS Continental	\$2,500	19%
PYA/Monarch	\$2,000	16%
Rykoff/Sexton	\$1,200	28%
TOTAL:	\$12,000	21%

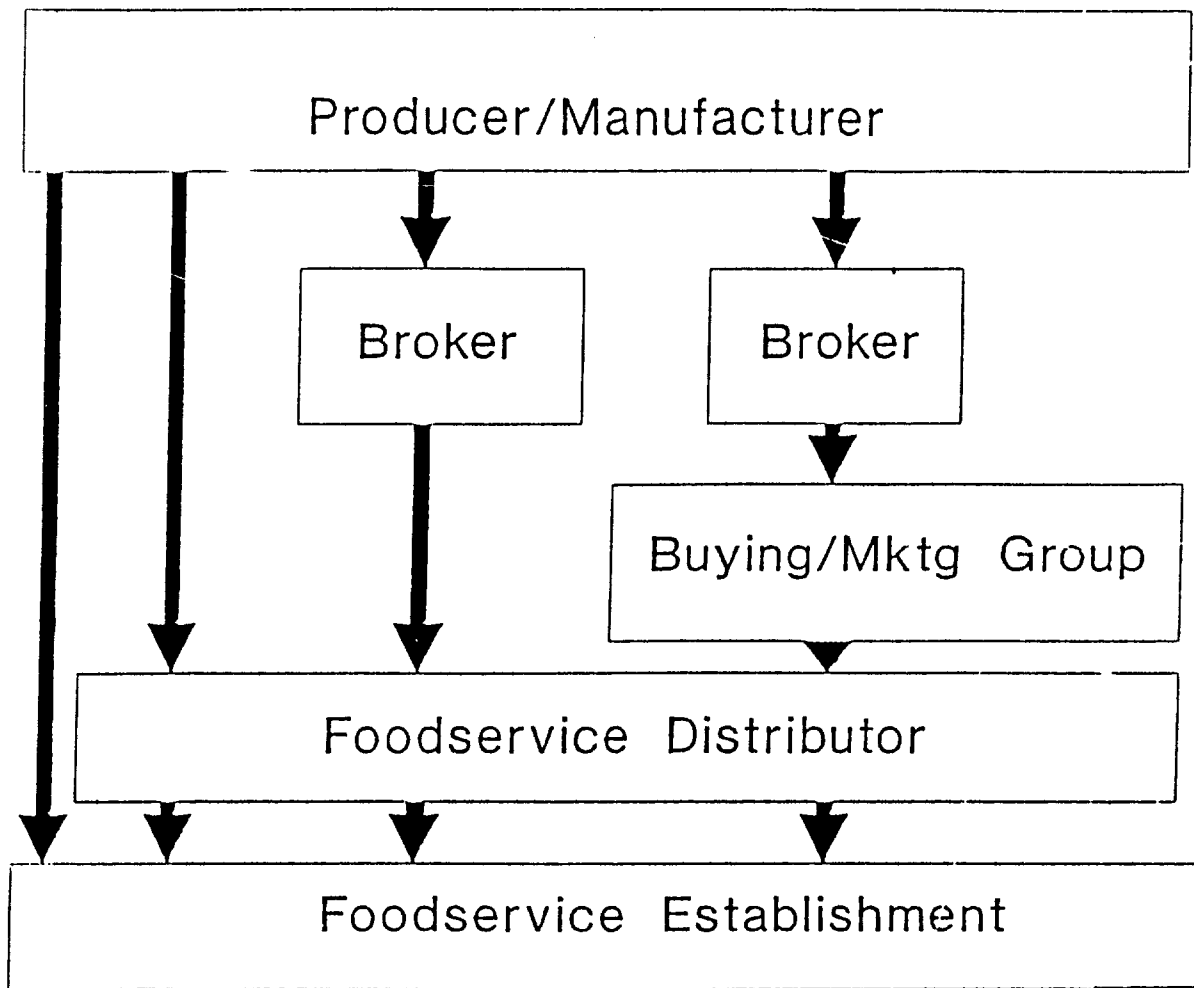
Source: Technomic Consultants, 1988

Structure of the Industry

The different types of firms within the industry are typically classified into three groups. These are: 1) the chains, also called the multi-branch distributors; 2) distributors who are members of a buying/marketing group, and;

Figure 1

Channeling Alternatives in Foodservice Marketing



3) independents who are not affiliated with any central buying organization.

The principle trend throughout the past ten years has been the development of corporate giants (*Institutional Distribution*, 1988). These are the multi-branch or chain broad line distributors that have national coverage. The remarkable growth of these firms, especially over the past five years, is primarily a result of acquisitions. The effects of these activities are demonstrated in Table 4, which contains the sales estimates of the five largest distributors and their nominal growth rates over the period 1982-87.

This five-year period spans the wave of acquisitions that culminated between 1985-87 (*Institutional Distribution*, 1989). As further illustration of the acquisition environment of the industry, Sysco, the largest chain corporation, purchased CFS Continental, formerly the third largest distributor, in early 1988. This gives Sysco an estimated sales volume of \$6.9 billion for 1988 (Technomic Consultants, 1988).

Also classified in the chain category next to the giant corporations are the secondary chains who serve markets located in regional areas. White Swan, for example, is a broad line distributor headquartered in Texas that serves the southwest and south central regions through six locations. Others classified as chain distributors include those specializing in a narrow range of product lines with either national or regional coverage. Instantwhip Foods, Inc. distributes nationally through 39 locations, but each firm specializes in dairy products and carries only one or two other product lines.

The second type of firm is the distributor who is a member of a buying and marketing organization. These groups are cooperative alliances formed with the initial purpose of increasing the buying power of member firms who are typically the larger broad line distributors. Products are supplied under a controlled label and offer a means of distinguishing member products in the market (*Institutional Distribution*, 1988). Buying and marketing groups have also become instrumental in assisting members with sales and management training and product line development. Most employ staff who merchandise member services to foodservice chain organizations (*Institutional Distribution*, 1988). Currently there are eleven such groups representing 1,084 distributors. Membership and sales volumes for 1988 are itemized for each group in Table 5.

Table 5

Total Number of Members
And 1987 Sales Volume
For each Buying and Marketing Group

<u>Group Name</u>	<u>Member Sales</u> (Millions)	<u>1988 Membership</u>
Comsource	\$5,914.2	133
F.A.B.	\$2,906.4	65
Code	\$2,683.0	99
Nugget	\$2,500.0	160
Federated	\$2,365.0	115
Pocahontas	\$1,706.0	99
All Kitchens	\$1,587.0	110
Allied Buying Corp.	\$935.0	53
Plee-zing/Lil Brave	\$815.0	162
Bonded	\$786.0	36
SEFA/ Supply & Equip.*	<u>\$780.0</u>	<u>36</u>
TOTAL:	\$22,977.6	1084

*Exclusively handles equipment and supplies

Source: *Institutional Distribution*, February 1989

The third type of distributor represents the core of the industry and is certainly the most diverse. These are the independent firms that have no ties with buying organizations or outside corporations. The group includes major broad line distributors, such as Gordon Foodservice, which ranked seventh largest nationwide in terms of sales volume. But most often, they tend to be small specialists that handle a particular product line, such as grocery or produce. The longevity of these firms in an industry characterized by mergers and acquisition during the past decade is attributed to their expertise, quality of their products, flexibility, and individualized service to their customers (*Institutional Distribution*, 1988, 1989).

The major feature distinguishing foodservice distribution is that unlike retail food markets, it is not dominated by industry giants. The impressive sales of the corporate chains is estimated to account for only about 22 percent of the entire market. Even the largest 75 distributors together do not hold more than a 30 percent share of total sales (*Institutional Distribution*, 1988, 1989). Since most operators still fractionate their purchases, small firms will

continue to have substantial marketing opportunities (Civin, 1988).

Furthermore, branches of the major corporate organizations exercise considerable autonomy in their buying decisions. Among firms that are members of the buying and marketing groups, no more than 1/3 of their products are procured under the controlled label (*Institutional Distribution*, 1988, 1989). Among both corporate giant chains and buying group members, the private label does not hold a dominant position in the firm's product lines (*Institutional Distribution*, 1989).

These industry characteristics point out that all distributor types are potentially accessible to suppliers. More important, it is necessary to develop marketing channels with a fairly large number of distributors in order to penetrate effectively the foodservice market (Civin, 1988).

Foodservice Distributor Analysis: Methodology

The purpose of this section is to provide greater detail on the structure of the distribution industry through an analysis of secondary data of over 2,000 firms located east of the Mississippi, the area having the greatest marketing potential for Maine food products. The study points out general descriptive characteristics and variations in the types of product lines handled by different firms.

The secondary data used for the analysis was obtained from the *1988 Handbook of Foodservice Distribution* published by *Institutional Distribution*, one of the major trade publication groups covering the foodservice distribution industry. The handbook contains a listing of firms organized by location, MSA and by product lines. Information on each firm includes address, telephone number, list of subsidiaries, division, branches, names of personnel in key positions of the company, annual sales volume, marketing size, size of sales force, number of foodservice customers, product lines and name of buying and marketing group affiliation, if any. Listings are revised and updated for each annual publication.

Distributors from all 50 states and the District of Columbia are included, with several important exceptions. First, since the handbook is generally intended for manufacturer representatives and food brokers, firms serving narrow specialized markets are not included. These tend to be small wholesalers who handle a single

product line, such as fresh meat or produce. They typically buy local and sell to both grocery wholesalers, retailers and foodservice units within the local area.

The second group of omissions consists of distributors owned by manufacturers that handle only the manufacturer's products. Similarly, the operator chain distributors are not listed unless the firm also services outside customers. For example, the Domino's branches, which exclusively service the Domino's chain units, and Distron, a Burger King distributor, are not listed. Finally, since this study focuses on food marketing, distributors who do not handle food lines are omitted from this analysis.

Another major limitation in using this data set relates to the method used for reporting sales volume and number of customers among all of the major and many of the secondary multi-branch distributors. This information is not available for each branch location, but is generally reported under the listing of the headquarters office. As a result, there are no sales or customer figures for any of the eastern chain branches with headquarters in the West, such as the Sysco and Rykoff-Sexton branches.

Furthermore, the sales volume in a particular region gives an inaccurate picture of activity if a headquarters office of a major chain distributor is located in that region. As one example, Kraft is the second largest distributor with sales of over 2.6 billion and CFS Continental Inc. is the third largest with sales of 2.5 billion. Since both chains are headquartered in Illinois, regional sales and customers reported for the East North Central appear two to three times as high as any of the other regions. As a result, regional sales and customer comparisons were not conducted.

Given these qualifications, the analysis is based on data recorded for 2,262 distributors located east of the Mississippi. The study concentrates on sales, customers and product line characteristics of these particular firms.

Analysis

Table 6 details basic descriptive information on all firms included in the study. This gives a general overview of the concentration of different types of distributors, variations in sales, customers, and product lines.

Table 6

**Aggregate Information on Distributors
Located in Eastern U.S.**

Distributors Located in Each Region

	Percent	Number
New England	10.9%	246
Mid-Atlantic	27.5%	623
South Atlantic	25.3%	570
East South Central	8.2%	187
East North Central	<u>28.1%</u>	<u>636</u>
TOTAL:	100.0%	2,262

Type of Firm

Chain Distributors	22.6%	1159
Buying Group Members	26.2%	592
Independents	<u>51.2%</u>	<u>511</u>
Reporting Firms:	100.0%	2,262

Sales

Mean	\$18,604,418.40
Median	\$5,000,000.00
Standard Deviation	\$119,059,853.40
Maximum	\$2,600,000,000.00
Minimum	\$12,000.00
Reporting Firms:	1733

Number of Customers

Mean	1,002.7
Median	400.0
Standard Deviation	3,939.5
Maximum	100,000.0
Minimum	3.0
Reporting Firms:	1830

Number of Product Lines

Mean	4.9
Median	5.0
Standard Deviation	2.8
Maximum	10.0
Minimum	1.0
Reporting Firms:	1830

*Percent of Firms
Carrying a Particular Product Line*

Grocery	72.3%
Frozen	71.2%
Produce	34.3%
Dairy	56.2%
Provisions	34.9%
Poultry	42.3%
Fresh & Frozen Meat	38.0%
Fresh & Frozen Fish	15.5%
Frozen Meat Only	23.3%
Frozen Fish Only	37.6%
Fresh Meat Only	2.3%
Fresh Fish Only	2.9%

Number of Reporting Firms: 2,262

The regional distribution of firms shows that over three-quarters are located within three of the five regions. The East North Central contains the largest number of distributors, followed by the Mid-Atlantic and South Atlantic. Another 11 percent are located in the six-state New England area while only 8 percent are found in the East South Central region. This concentration is fairly consistent with the share of food away from home spending generated in each region. Specifically, foodservice sales are highest within the South Atlantic (18.9% share) and East North Central (16.7%), and lowest within the East South Central (4.4%).

A second characteristic refers to the types of firms located throughout the east. These include chains, which refers to distributors having five or more branch locations, the buying and marketing group members, and the independents. The most distinctive feature is that independents dominate the group, with 51 percent of the classifications. A total of 529 buying group members account for another 26 percent. Since there are 1,084 members altogether, it is evident that over half of these firms are located in the eastern United States. The remaining 23 percent of distributors included in this study are classified as chain organizations.

Sales are extremely variable, as indicated by the standard deviation and the spread between the minimum and maximum. Kraft Foodservice Group records the highest sales volume in the Eastern United States and a Florida firm specializing in carbonated beverages and dry groceries is the smallest. Variability is also evident in the customer data. The

number of customers ranges from a low of 3, given by a manufacturer/distributor in New Jersey, to a high of 100,000, reported by Wholesale Club in Indiana and CFS Continental in Illinois, which is now owned by Sysco.

Product line information shows that out of the ten itemized food lines, just over half carry five lines or less and the remaining handle six or more. More than 70 percent carry grocery or frozen products, the two most common lines. The meat and fish groups are further broken down into categories specifying those carrying fresh versus frozen forms. These details indicate that fresh meat and fresh fish products are least typical. Quite possibly, these items may represent the specialty areas of small localized wholesalers who were not included in the distributor handbook.

In addition to these basic characteristics, selected comparisons point out regional differences in the concentrations of the three types of distributors, and both regional and firm differences in the kinds of product lines handled. In the first comparison, Table 7 shows variations in the types of firms located within each eastern region.

Table 7

Distribution of Firms
Throughout Five Eastern Regions

<i>TYPE:</i>	Chains	Members	Independent
New England	9.0%	8.4%	12.9%
Mid Atlantic	15.9%	20.9%	36.1%
South Atlantic	37.2%	28.7%	18.1%
East South Central	11.4%	11.7%	5.2%
East North Central	<u>26.6%</u>	<u>30.2%</u>	<u>27.7%</u>
	100.0%	100.0%	100.0%
TOTAL:	511	592	1159

The percentages indicate that chains tend to be heavily concentrated in the South Atlantic region, particularly in comparison to the independent firms. Member distributors also have a high concentration in the South Atlantic, but are more evenly dispersed between both the South Atlantic and East North Central. Independents are least common in the East South Central, suggesting there is little incentive

for growth of smaller, more specialized distributors in this area. The prevalence of independents in the Mid-Atlantic region is consistent with reports that the New York metropolitan area, which generates almost 5 percent of total foodservice sales, represents a highly fragmented market in the distribution industry (*Restaurants and Institutions*, 1988; *Institutional Distribution*, 1988).

The second regional comparison indicates some differences in the types of products carried by distributors in each locale. The entire range of food product lines is itemized on a regional basis in Table 8. The information indicates that firms located in the East South Central regions are more likely to handle both grocery and frozen products in comparison to those in other regions, especially in New England. Lines in the frozen fish only and frozen meat only categories are also carried more often by the East South Central firms. Since this region has the fewest distribution locations, these results suggest that firms in the South Central area are inclined to handle a greater number and variety of product lines. This is consistent with the finding that independents, who tend to be specialists, are least likely to be found in this region.

Dairy lines are particularly common among the South Atlantic and New England firms. New England distributors also have a comparatively higher incidence of handling provisions, fresh meat only, and both fresh and frozen fish. Interestingly, they are notably low in carrying only fresh fish. Since fishing is a major industry in many areas of this region, the low proportion of distributors handling fresh fish indicates that local fresh fish wholesalers may be prevalent, but have not been classified as foodservice distributors.

A second product line comparison, listed in Table 9, shows variations in the product lines handled by the three types of firms. One of the most distinctive differences illustrated in this comparison is that member firms are more likely to handle almost every product line. The provision category is one exception, in which chains have a very slight edge. These results point out that member firms tend to be broad line distributors who carry a wider variety of product lines. Since one of the functions of the buying groups is to help members develop new product lines, firms wishing to expand their lines may be especially motivated to join.

Although the giant chains are all broad line distributors, a substantial number of firms

Table 8
Percent of Distributors in Each Region Carrying Specific Product Lines

<i>Region</i>	Grocery	Frozen	Produce	Dairy	Provisions	Poultry	Fresh & Frozen Meat	Fresh & Frozen Fish	Frozen Meat Only	Frozen Fish Only	Fresh Meat Only	Fresh Fish Only	Number of Firms
	<i>(% carrying product line)</i>												
New England	67.89	69.11	31.30	59.35	39.84	37.80	37.40	17.07	15.85	31.30	3.25	1.22	246
Mid Atlantic	72.55	70.63	29.21	57.78	38.52	43.34	33.71	15.89	21.83	33.87	3.21	3.05	623
S. Atlantic	73.86	70.35	37.54	60.00	32.98	45.44	42.81	16.67	22.81	38.60	1.23	3.68	570
E.S. Central	78.07	74.87	48.66	51.34	32.09	49.20	39.04	10.16	34.76	47.59	1.07	4.28	187
E.N. Central	70.75	72.33	33.18	51.57	27.36	52.92	37.74	14.94	24.84	39.78	2.20	2.20	636

Table 9
Variations in Product Lines, By Type of Distributor

<i>Type of Firm</i>	<i>(% carrying product line)</i>											
	Grocery	Frozen	Produce	Dairy	Provisions	Poultry	Fresh & Frozen Meat	Fresh & Frozen Fish	Frozen Meat Only	Frozen Fish Only	Fresh Meat Only	Fresh Fish Only
INDEPENDENTS	62.59	65.04	24.37	50.54	31.34	33.97	32.16	14.67	18.03	25.91	3.44	3.53
MEMBERS	94.09	84.29	52.87	68.75	37.84	52.20	50.00	18.75	29.73	56.76	1.01	1.69
CHAINS	68.55	69.61	34.10	54.24	38.87	48.23	36.75	13.60	27.03	40.28	1.24	2.83

included in this grouping are product specialists. As a result, comparisons suggest that chains rank below members in terms of the variety of product lines carried. However, their product lines appear to be more varied than those of the independents.

Summary

This analysis further confirms the diversity of foodservice distribution. The extreme variations in sales volumes, number of customers and variety of product lines handled in the five eastern regions and by the different types of distributors indicates the complexity of the total industry.

Comparisons across regions uncovered interesting differences. Distributors are most prevalent in the East North Central and Mid Atlantic where foodservice spending is relatively high. Of all the eastern regions, spending for food away from home is lowest in the East South Central. Correspondingly, the fewest number of distributors are found in this region. The low foodservice sales volume coupled with the tendency for these firms to carry a wider variety of product, suggests there is little incentive or opportunity for specialists in the East South Central.

In addition, several distinctive characteristics emerged in comparing the types of distributors. First, independents clearly prevail in the industry, particularly in the highly fragmented Mid Atlantic region. Although they tend to focus on a limited number of product lines, they are not necessarily concentrated in any one line.

Since secondary and giant chains were classified as one group, the characteristics appear to be as diverse as those of the independents. However, the maximum values of both the sales volumes and customer numbers correspond to the major chain distributors.

The characteristics of the buying and marketing group firms seem to be the most homogeneous. The wide variety of products handled by these firms points out that they tend to be broad line distributors. Consistent with their reported intent, the buying/marketing groups may offer a distinct cost advantage in procuring product and may be instrumental in helping distributors evolve into or maintain broad line status.

Conclusions and Recommendations

Foodservice embodies an essential consideration in overall marketing and positioning strategies of food industry suppliers. As a major user of agricultural products, the expanding market power of this industry represents substantial influence on food marketing. Almost half of each dollar spent on food now goes to foodservice. Demographic studies point out that projected increases in the number of affluent middle-aged consumers ensures a healthy demand for food away from home throughout at least the next fifteen years.

In spite of the growing importance of this industry, many agricultural producers are unfamiliar with foodservice and its distribution channels. As a result, these suppliers are not taking advantage of marketing opportunities in this industry. In response to this problem, the intent of this research is to give an overview of the industry structure, current economic situation and its distribution system.

Foodservice is a highly segmented industry. Its diversity represents adaptations to different components of consumer demand. This is an important consideration for food suppliers because it indicates variations in product needs. For example, fast food operators are not likely to demand the same types of products as hospital foodservice operators. Similarly, growing segments, such as the Supermarket Deli and Convenience Store groups, present opportunities for differentiating commodities by matching the product with the particular needs of the operators within the segment. This points out that differences in product use and handling need to be monitored. Foodservice shows and industry trade publications are two ways of identifying and tracking trends in the industry.

In all segments of foodservice, potential food suppliers must also be aware of the operator's need for portion control and value added products, such as pre-cut celery, carrots and broccoli. These are key product attributes that distinguish the types of goods marketed to foodservice from those going to retail.

In addition to familiarity with the foodservice industry, it is essential to understand the role and functions of the distributors. Although broad line distributors have become more prevalent during the past ten years, most foodservice operators do not purchase from a single source. This leaves marketing openings for a variety of distributors to flourish, from broad

line chain corporations, to single product line independent specialist.

The product line information on the distributors offers direction for pursuing foodservice marketing. For example, member firms appear more likely than the other two types to handle produce. Produce marketers could identify and target these distributors, as well as those located in the East South Central region where about half of the firms carry produce. Similarly, 53 percent of the distributors in the East North Central carry poultry, indicating marketing opportunities for a poultry processor. Since the buying group members are also more likely to handle poultry, it may be advantageous to approach member distributors located in the East North Central region.

More important, the distributor profile stressed that markets are fragmented, and that purchasing is not heavily centralized. As a result, both small and large suppliers can gain entry into the channels. A small producer could target a single distributor, whereas a larger supplier could work with several firms. Agricultural producers and other food suppliers might also benefit from exploring the possibility of joint ventures with counterparts in other regions to offer year round supplies to distributors.

There remains a clear need for a better understanding of and continued vigilance on the distribution channel. This includes information on the quantities and values of specific food items used in the industry. Moreover, all levels of food marketing have much to gain from increased knowledge of desirable product improvements, packaging trends and new product development, as needed by the distributors, foodservice operators and consumers themselves.

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