

CHANGING STRUCTURE OF FOOD DISTRIBUTION

(Food Processing, Distribution, Retailing)

Moderator: R. Handy, USDA-ERS, Washington, D.C.

The Structure of the Food Service Sector:

The Sysco Experience

by

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Good afternoon! It's not only a pleasure to be here, but I believe it's important to be here as well. The food service industry has seen many changes and opportunities in recent years. And because of that, it's critical that we communicate openly in forums such as this.

Today, all over America, people will eat millions of meals that are not prepared at home. They'll eat in five-star restaurants, cafeterias, mess halls, and quick-serve restaurants. They'll eat on airplanes and in prison dining halls. They'll eat in hospitals and convalescent homes, at company snack bars and sporting event concession stands. And whether their meals are special events in themselves or simply basic nourishment, the food service distributor will play a very important role--bridging the gap between the food producer and the consumer.

As business and industry go, food service distribution is a newcomer. It's still in its formative years with a promising future. And Sysco is positioned to share in that future!

As consumers we spent more than \$190 billion for food prepared away from home in 1986. And we will spend even more in the future. Over the next five years, food service industry sales are expected to grow by nearly 3 percent annually, as consumers continue to direct more and more of their dollars to food prepared away from home. Some projections

for 1990 indicate that nearly 50 percent of food dollars will be spent on meals prepared outside the home.

Providing food, supplies, equipment and consulting services to those who prepare these meals is the business of food service distribution.

Distribution is simple, yet it's complex. It's competitive and diverse. One thing is certain--the business of distribution is dynamic and continually evolving to meet a broad range of customer needs. These words--competitive, dynamic and evolving--all describe this country's 85 billion dollar national food service distribution world--the distributor's total market opportunity.

As an industry, food service distribution is not easily defined, primarily because there are so many and diverse distributors, and there are so many different approaches by the approximately 3,500 food service distributors throughout the nation. In the United States, the top ten food service distributors are full-line, broad market, generalist companies delivering product to customers in a wide geographical area.

In addition to the generalists, there are food service distributor specialists. These companies may sell to limited-menu, multi-unit

chains like pizza restaurants or delis and restrict the number of products they handle. Or they may specialize in one product line to many market segments like a supplies and equipment distributor or a produce distributor.

Variations on these themes are numerous and account for tremendous diversity. Yet together they represent a massive vibrant industry which satisfies the need for an ongoing dependable supply of food and related products, so critical to the success of any food service operation.

The food service distribution industry is currently undergoing a classic consolidation. Acquisitions by the top five generalists are decreasing the number of distributors in the marketplace. This consolidation also decreases the number of members in co-op purchasing groups.

Sysco has played its part in this consolidation process. Sysco, which reported revenues in excess of \$4 billion in our fiscal year which ended July 2, 1988, agreed to acquire CFS/Continental, the nation's third largest food service distributor on June 6, 1988. This acquisition creates an organization that will market and distribute to customers throughout the entire contiguous 48 states with projected sales of nearly \$7 billion in 1989. Today, there are only five organizations providing food service distribution in our country which have annual sales volumes in excess of \$1 billion. Although more than twice the size of our leading competitors, Sysco's estimated market share is only 7 percent. The top 50 distributors currently account for only 18 percent of the market.

Now I would like to discuss our procurement program and why we market our Sysco brand.

We are very proud of the group of professional quality assurance, merchandising and marketing staff members that we have assembled. They are among the best in the industry and they are dedicated professionals who add to the profitability of Sysco corporation. In 1981 Sysco made a major commitment to the development of a program for product procurement and marketing. At that time our staff resources and, therefore, our ability to develop profitable programs were limited. In the spring and early summer of 1981 an organization called Compton Foods Association was formed. This organization was created to provide real strength to Sysco procurement.

Prior to the founding of Compton Foods in 1981, the Sysco management team had wrestled with a dilemma. All of our major competitors were in the manufacturing business. Most of their efforts centered around the marketing of their manufactured products which, of course, offered them opportunities for profit from both distribution and manufacturing.

At Sysco we are, and always have been, dedicated to our customers. Sysco was concerned that were we to pursue manufacturing and food processing opportunities we would lose our focus on our primary business. The Compton Foods program was undertaken to develop total quality and consistency as well as to properly price and market the products under our Sysco label, now our Sysco brand.

The first project undertaken by the fledgling organization was the management of the Sysco frozen potato program. French fried potatoes is a large category and, therefore, an important one to many of our customers.

The program's inception (under the old Sysco label program managed by our manufacturers) in 1977 began with three million pounds of product; for the first fiscal year of 1981 under Compton we achieve 8MM pounds of product. In the coming fiscal year we are projecting slightly over 120MM pounds of product. We believe that this growth demonstrates the effectiveness of proper management and development of a branded program. Today, Sysco brand potatoes are the leading new brand of potatoes in the food service market.

Between 1981 and 1987 Compton operated as a separate operating company with a number of office locations. In 1987 Sysco had the opportunity to acquire a new building in Houston, Texas on a very favorable basis and with sufficient space to house all of our Sysco personnel. At that time it was decided to move the entire procurement organization and the corporate offices and integrate them into our corporate programs. This step was a natural evolution of growth and development of Sysco brand programs.

Not only do we now have the advantage of having our key staff under one roof to foster better communication, but we were able to eliminate some duplication of efforts and to reduce the total staff in our procurement area by 20 percent.

Today approximately one-third of all the products marketed by Sysco companies are mar-

keted under Sysco brand. Slightly less than half of all products marketed by Sysco companies are part of procurement managed programs. This includes not only Sysco brand, but a number of nationally branded programs such as volume incentive and growth programs with selected major national brands.

Our Sysco quality assurance department has responsibilities from establishing standards to monitoring quality. The latter is what we think is the more important item. Sysco quality assurance operates with complete autonomy of action.

While our commitment to quality assurance staffing is significant, our approach is still Sysco conservative. Wherever possible part-time contract personnel are used for plant work. We find a retired USDA person or plant quality assurance manager to be both highly qualified and highly motivated. Sysco enjoys the benefit of their experience as well as the economy of this approach.

Whether product evaluation takes place in our own labs or on site in food processing plants, our quality assurance group is constantly striving for the consistency and quality for which our various labels or Sysco brand has become known.

The labeling concept is applied to numerous products. The consistent use of the Sysco logo at a 45 degree slant repeated across the band has become the leading Sysco food service brand in America.

As we move into the future, Sysco will continually introduce new programs and products while further enhancing the market penetration of existing products.

Sysco Supreme Fry-on is such a product that is now two years old. This premium frying oil competes in a position no other distributor private label has ever attempted. Dramatic results with Sysco's health oriented long distance frying oil have been notable. Today this is the number one brand of premium frying oil sold by Sysco.

No other category epitomizes the success more than does Sysco poultry. As mentioned earlier, only about one-third of Sysco's sales are Sysco brand products. In the large and growing poultry products category, over 75 percent of total Sysco sales are under Sysco brands. Today, Sysco sells over 85MM pounds of Sysco brand turkey, chicken and other poultry products.

Sysco also has a custom product--Imperial cleaned and cored lettuce. The product is already trimmed, cored, and specially packed so as to offer our customers real value. The Sysco produce program began in 1983. At that time produce was sold by several Sysco companies but constituted less than 1 percent of Sysco sales. Today produce is approaching 5 percent of Sysco food service sales. And we are this nation's largest purchaser of produce.

Sysco imports started in May of 1983. At that time we were able to bring in a qualified, experienced, international manager. Since then we have built a staff of professionals around him.

Today Sysco imports products from some 29 countries, a total of 350 products, and redistributes through two European redistribution centers and two U.S. centers. The European redistribution centers allow Sysco companies to bring container loads directly to their dock with multiple products. As an alternative they can pull in straight container loads of product or pull product through our Baltimore, Maryland, in-transit warehouse.

Today, over two thousand containers of product a year are sold through this program.

Whether it's red meat, produce, canned goods, or frozen desserts, chemical products or patés, it is our goal to position Sysco as the leading source to the food service industry.